



SCHAEFFLER

Schaeffler India Limited

14th NOVEMBER, 2022



India's Best Performing and Most Customer Centric PMS

Schaeffler India Limited (SIL), previously known as Fag bearings), having four plants & 11 sales offices, has a significant presence in India with three major widely known product brands – FAG, INA, and LUK. SIL manufactures a wide range of ball bearings, cylindrical roller bearings, deep groove balls, spherical roller bearings, and wheel bearings sold under the brand name FAG. In addition, the company manufactures engine and transmission components for front accessory drive systems, chain drive systems, valve trains, shift systems, and a range of needle roller bearings and elements under the brand.

Investment rationale

Expanding market coverage– SIL continues to focus on increasing its market coverage through new launches, expansion of new product range, and improvement in service levels. As a result, the company's performance has improved, backed by a better mix and sustained countermeasures.

High growth prospects– SIL would benefit from industrial and automobile aftermarket segments, strong growth traction in export markets, and better opportunities for the bearings business. The company focuses on introducing new products in the industrial and automotive aftermarkets by bringing in localization and increasing its market share.

Company to benefit from electrification and hybridization trend: The Company is likely to be a key beneficiary of the electrification and hybridization trend for the domestic business, as India is expected to witness faster growth in electric and hybrid vehicles as we advance.

MNC company with a solid technological parentage and robust balance SIL is part of the German Schaeffler Group. The Schaeffler Group has intense research and development (R&D). In CY2019, the group filed 2,400 patents, making it the 2nd most innovative company in Germany. The company has established strong relationships with global OEMs worldwide. SIL would benefit from its strong parentage and is expected to receive new businesses.

Capex Plan: The CAPEX strategy remains intact at 4.8% of sales in Q3CY2022

Valuation & Outlook

At CMP of Rs 2948 SIL trades at a P/E multiple of 73.3(x) to its CY21 EBIDTA. SIL has consistently outperformed the industry's growth rate, led by its technological edge and established relationships with leading OEMs and clients in India and globally. After a muted performance led by the COVID lockdown, the company's performance has improved steadily, backed by a solid recovery in the automotive and industrial segments. Exports continue to do well and contribute ~16% to revenue in Q3CY2022. We expect a robust performance by the company as we advance, led by normalization of economic activity, improvement in content per vehicle and launch of new products in the aftermarket segment. In addition, the company is likely to benefit from Europe plus one crisis.

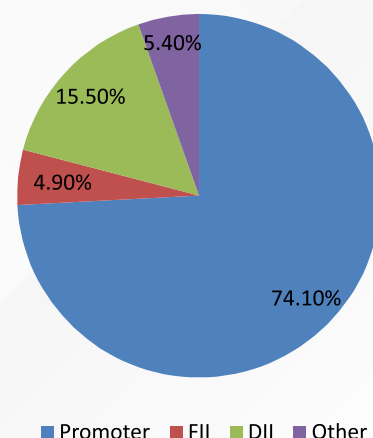
Company Update

Rating Matrix & Stock Info

CMP	Rs.2925
52 week H/L	Rs.3969/1418
Face value	Rs.2
Market Cap.	Rs.460822 Mn
BSE	505790
NSE	SCHAEFFLER
Routers	SCHE.BO
Bloomberg	SCHFL.IN
Sector	Auto Ancillary

Shareholding Pattern (%)

Particular	Sep 22
Promoters	74.1%
FII	4.9%
DII	15.5%
Others	5.4%



Financials in Mn

Particulars	CY18	CY19	CY20	CY21
Revenue	45620	43610	37620	55610
EBIDTA	7400	6350	5370	9730
EBITDA Margin (%)	16%	15%	14%	17%
PAT	4200	3680	2910	6290
NPM (%)	9.2%	8.4%	7.7%	11%
ROE (%)	15.5%	12.4%	9.3%	17.2%
EPS (Rs)	26.9	23.5	18.6	40.2
P/E (x)	109.6	125.4	158.5	73.3

Stock Performance (%)	3m	6m.	1 Yr
Schaeffler	-0.7%	42.2%	83.3%
Nifty50	3.9%	13.5%	2.6%

Company overview

Schaeffler India Limited (SIL), previously known as Fag bearings), having four plants & 11 sales offices, has a major presence in India with three major widely known product brands – FAG, INA, and LuK. SIL manufactures a wide range of ball bearings, cylindrical roller bearings, deep groove balls, spherical roller bearings, and wheel bearings sold under the brand name FAG. The company manufactures engine and transmission components for front accessory drive systems, chain drive systems, valve trains, shift systems, & a range of needle roller bearings and elements under the brand. The company also produces clutch systems and dual-mass flywheels for passenger cars. In addition to this, SIL has dedicated engineering and R&D support based in India to augment its product teams. SIL also has one of the largest aftermarket networks serving industrial and automotive markets. SIL derives 47% of its revenue from the automotive segment, 42% from the industrial segment, and 11% revenue from exports. Geographical distribution includes the company derives 89% revenue from domestic and 11% from overseas.

	Automotive Technologies	Industrial	Automotive Aftermarket
Products	- Chassis components and systems - Clutches and transmission systems - Engine components and precision products - Drives for hybrid and Electric Vehicles (EVs)	- Rolling and plain bearings - Linear guidance system - Maintenance products - Maintenance services - Mechatronics - Digital services	- Replacement parts for - Transmission - Engine components - Chassis components - Intelligent solutions for - Repair and service points via platforms such as REPPERT
Segments catered to	- Commercial vehicles - Passenger vehicles - Tractors	- Railways - Wind energy - Industrial automation (machine tools, textile) - Two-wheelers - Tractors - Off-highway - Raw materials - Power transmission - Industrial distribution	- Repair garages - Fleet workshops - Multi-brand garages - Retail markets
Applications			- Passenger cars Outstanding competence in systems and services - Heavy commercial vehicles Repair solutions for extended service life - Light commercial vehicles Intelligent solutions for light commercial vehicles - Tractors Dependable solutions for tractors
Our expertise and experience	Making vehicles cleaner and leaner through technology Schaeffler precision products are key to reducing fuel consumption and emissions.	Precise. Reliable. Connected. This division offers a wide portfolio of bearing solutions, ranging from high-speed and high-precision bearings with small diameters, to large-size bearings that are several meters wide. Increasingly, the focus here is on smart products and on connecting components. Additionally, industrial business also offers a wide ranging maintenance services products and industry 4.0 solutions.	Delivering best-in-class service This division delivers innovative repair solutions in original-equipment quality. We offer comprehensive services to garages by conducting practical training seminars to enhance competency within the repair network.

Our business segments are integrated and we often have common customers across them. While Industrial and Automotive technologies offer a wide range of products to customers, the Automotive Aftermarket business is largely focused on expanding our market reach and penetration through a wider range of products and services. The businesses complement one another, and help maximise opportunities.

In this scenario, we have adopted an external reporting system wherein a part of our revenues from both the businesses is clubbed under 'mobility components and related solutions'. Revenues generated from providing services across the three segments are reflected in the 'others' segment.

Comprehensive Investment rationale

Expanding market coverage: SIL continues to focus on expanding its market coverage through new launches, expansion of new product range, and improvement in service levels. The company's performance has improved, backed by a better mix and sustained countermeasures. SIL continues to win new orders in both automotive and industrial businesses. Key wins during the quarter include double clutch systems for the CV segment and needle bearing for the PV segment. The company has increased its product coverage by newly launched products – centre joint support. Mobility business and focus on technology are the company's key focus areas.



High growth prospects: SIL would benefit from industrial and automobile aftermarket segments, strong growth traction in export markets, and better opportunities for the bearings business. The company focuses on introducing new products in the industrial and automotive aftermarkets by bringing in localization and increasing its market share. SIL will be the key beneficiary of this trend, as it focuses on increasing content per vehicle. In addition, in the industrial OEM segment, the company is witnessing strong growth in the railway segment by introducing new products and supplies to Metro Rail projects.

MNC company with strong technological parentage and robust balance sheet: SIL is part of the German Schaeffler Group. The Schaeffler Group has strong research and development (R&D). The group filed 2,400 patents, making it Germany's second most innovative company. The company has established strong relationships with global OEMs worldwide. SIL would benefit from its strong parentage and is expected to receive new businesses as we advance. Moreover, SIL's parent has identified it as a manufacturing base for supply to the Asia-Pacific region. This provides a huge growth opportunity for the company. SIL is a debt-free company with a strong return ratio profile.

Capex plan: The CAPEX strategy remains at 4.8% of sales in Q3CY2022. During Q3 FY22, the CAPEX stood at INR 1005 million. In 9 Months, the company incurred a capital expenditure of Rs3160 million against Rs1360 million.

This CAPEX would ensure that they consistently deploy capital judiciously.

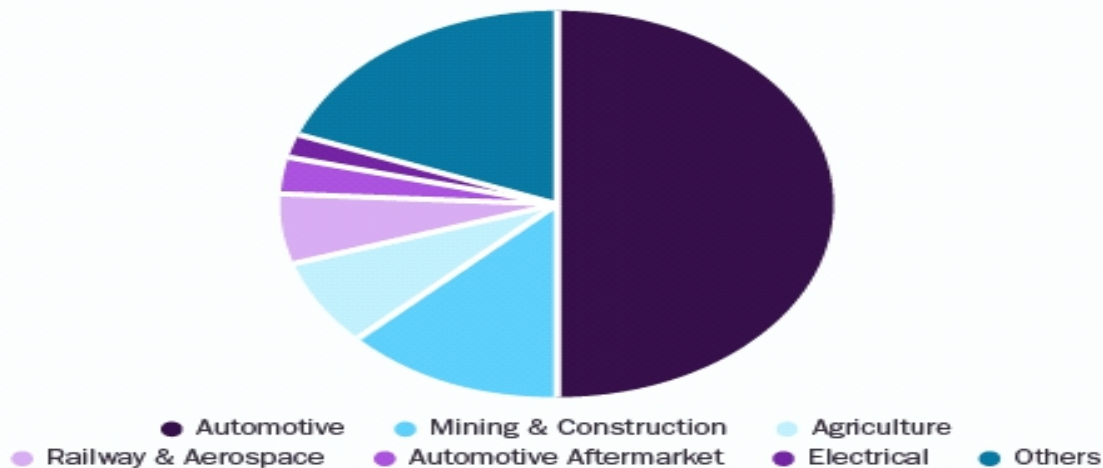
Company to benefit from electrification and hybridization trend: The Company is likely to be the main beneficiary of the electrification and hybridization trend for the domestic business, as India is expected to witness faster growth in electric and hybrid vehicles going forward. The company expects electrification to be in the high single digits, while hybridization is expected to be 25-35% by 2030. The company has a strong product portfolio and is well-placed to benefit from this trend. Internal combustion engine (ICE) technology is expected to remain the main driver for the industry going forward. The company will continue to benefit from its existing product portfolio. Since all hybrids will also have an ICE, there will be continuous improvement in the technology of internal combustion engines, which will drive content per car for the company, given its technological edge over peers and established relationships with OEMs. Moreover, the company has exposure to all the key markets, viz. North America, Europe, China, and India. The company is well-positioned to benefit from the electrification trend in the mass markets of these geographies. In addition, management expects the two-wheeler (2W) and three-wheeler (3W) markets to witness faster electrification compared to other segments.

Industry overview

The passenger segment, both for 2-wheelers and 4-wheelers, is expected to remain strong after COVID, as a preference for personal transport has increased. Rural demand is expected to recover, given positive rural sentiments. We hope sequential improvement in M&HCV sales to continue, led by a rise in e-commerce, agriculture, infrastructure, and mining activities. We expect a multi-year upcycle in the Commercial vehicle segment, driven by improved economic activities, a low-interest rate regime, and better financing availability. We expect Medium & Heavy commercial vehicles to outpace other automobile segments in the medium term, followed by growth in the tractor, PV, and 2W segments. Moreover, exports provide a considerable growth potential, given India's cost-effective manufacturing, being geographically closer to key markets of the Middle East and Europe, and being the second-largest producer of critical raw material – steel. Auto component exports are expected to grow from \$15 billion to \$80 billion by FY2027.

The global bearing market was valued at \$ 106.96 billion in 2021 and is expected to grow at (a CAGR) of 9.1% from 2022 to 2030. Bearings are used in every kind of equipment or machinery, from automobile parts, farm equipment, & household appliances to defence and aerospace equipment. This will help to drive the market shortly. There has been a rising demand for bearings with lower maintenance requirements, higher efficiency, and longer service life. Moreover, a rise in demand for specialized bearing solutions that meet diverse industry-specific requirements and challenges is expected to bring growth to the market. E.g. the increasing application of high-capacity products in wind turbines is expected to catapult the demand. Wind turbines utilize these products to improve turbine performance and reliability, increase energy production, & reduce lubricant consumption.

Global Bearing Market
share, by application, 2021 (%)



With the closing of Nord Stream 1 in Russia, Europe's gas crisis has worsened and is slowly starting to take a permanent shape since Russia has shut down the supply without intimating a date for reopening. Consequently, there are fears about the European economy and other countries.

Industries like forging, casting, bearing and chemicals consume high power. Europe has a power shortage due to scarce natural gas for coming times, so those industries that require high power may have to close down in Europe go to a power-efficient and labour-cost-efficient country like India. In Europe, nearly 22% power supply has been reduced to industries. Schaeffler India is expected to benefit from this Europe plus one crisis. Management believes that the Indian firm would be exposed to more export opportunities as a result of the energy crisis in Europe. Unlike the EU, India does not experience an energy crisis.

Key Risk & Concerns

- Delayed approval from industrial customers and delayed launches by automotive players can impact growth.
- Pricing pressures from automotive OEM clients can impact profitability.
- Weakening global outlook & uncertainties can disrupt the supply chain and increase costs.

Q3CY22 result analysis:

The company reported strong results in Q3CY22. Revenue from operation grew by 18.1% YoY and 0.4%QoQ to Rs 17560 mn. Despite the various challenges faced by the company during the quarter, it recorded robust growth due to its balanced portfolio mix between the auto and industrial sectors. The increase in revenue on a YoY basis was majorly owing to the auto tech space. The company sales mix remains robust, with automotive, Industrial and exports contributing 49.4%,34.5% and 16.1%.EBITDA margin expanded 40 bps however declined by 20 bps QoQ to 18.2% in Q3CY22. EBITDA margin expanded YoY basis backed by volume gains and improved business mix. However, on a QoQ basis, there was contraction due to higher commodity inflation which was partially offset by cost control measures. Adj PAT grew by 26.1% YoY and 2.2% QoQ to Rs 2150 mn, and PAT margin stood at 12.3% with an expansion of 80 bps YoY and 20bps QoQ.

INR Mn	Q3CY22	Q3CY21	Q2CY22	Q-o-Q	Y-o-Y
Net Revenue	17560	14880	17490	0.4%	18.1%
EBITDA	3190	2640	3220	20.6%	-0.9%
EBITDA margin %	18.2%	17.8%	18.4%	-20bps	40bps
AdjPAT	2150	1710	2110	2.2%	26.1%
PAT margin %	12.3%	11.5%	12.1%	20bps	80bps

Source: Company Research

Key Con-call takeaways

Business highlights

- The revenue mix for Q3 FY22 was 41% automotive technologies, 34% industrials, 16% exports & others and 9% from the automotive aftermarket.
- In Q3 FY22, the QoQ growth in sales was 0.9% in the automotive aftermarket, 1.3% in exports & others, 5.5% in automotive technologies and a de-growth of 5.4% in the industrial segment.
- Working capital was Rs1,2930 mn and working capital as a % of sales stood at 19.9% for 9MCY22. This was marginally higher on account of increased inventory.

Key Business wins

- In the automotive technologies vertical, the company procured key wins in the CV (commercial vehicles) segment for the double clutch system. Additionally, the company had business wins for needle bearings and light vehicle clutch systems in the PV (passenger vehicle) segment
- In the automotive aftermarket vertical, the company continued to expand their market coverage for shock absorbers, lubricants and wipers. They witnessed volume wins for their newly launched products and set up their mobile training centre.
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Other

- Company believe that the headwinds faced by them on the global market front along with inflation would continue to persist in the coming quarters.
- In September 2022, SIL launched REPPERT, which is self-contained with all the training modules and hands on training that is given by expert engineers in the field. They plan to cover ~9,000kilometres across the country addressing 1,100 garages for 81 days.

Source : Company financials & result conference call

Peer Comparison

Particulars (Rs in Mn.)	Schaeffler India Limited	Bosch Limited	SKF Limited
CMP (as on 14-11-2022)	2925	16808	4906
Revenue	55610	117820	36660
EBIDTA	9730	14570	5560
PAT	6290	12170	3950
Margins			
EBITDA Margin%	17%	12%	15%
PAT Margin%	11.3%	10.3%	10.7%
Return Ratios			
ROE (%)	17.2	11.8%	22.9%
ROCE (%)	25%	15%	31%
Leverage			
Debt- Equity (x)	0.0	0.0	0.0
Valuation			
EPS	40.2	413	79.9
P/E	73.3	40.1	61.5

*Financials are as on FY22

*Schaeffler India follow Calendar year

Income Statement

Y/E March (Rs Mn)	CY18	CY19	CY20	CY21
Revenues	45620	43610	37620	55610
Total operating Expense	38210	37260	32250	45880
EBITDA	7400	6350	5370	9730
Other Income	480	630	600	720
Depreciation	1480	1590	1940	1970
Interest	80	40	60	50
PBT	6320	5340	3970	8430
Tax	2120	1660	1060	2140
Rate (%)	34.0%	31%	27%	25.0%
PAT	4200	3680	2910	6290

Source: Company Financials

Balance Sheet

Y/E March (Rs Mn)	CY18	CY19	CY20	CY21
Sources of Funds				
Share Capital	310	310	310	310
Reserves & Surplus	26750	29310	31090	36220
Net Worth	27060	29620	31400	36530
Long term debt	580	0	650	610
Other Liabilities & Provisions	10040	6830	9580	11820
Capital Employed	37670	36450	41630	48960
Application of Funds				
Fixed Asset	7310	8950	10060	10700
Capital WIP	1620	1660	1600	890
Investment	0	0	0	0
Other Asset	28750	25840	29970	37370
Total Assets	37670	36450	41630	48960

Cash Flow Statement

Y/E March (Rs Mn)	CY18	CY19	CY20	CY21
Cash Flow from operating Activity	2380	5100	6490	4650
Cash Flow from Investing Activity	-1840	-3660	-4320	-3420
Cash Flow from Financing Activity	-520	-1710	-1220	-1270
Net Cash Flow	20	-270	950	-40
Add Op Balance	1410	1430	1160	2110
Closing Balance	1430	1160	2110	2070

Key Ratios

Y/E March (Rs Mn)	CY18	CY19	CY20	CY21
Per share (Rs)				
EPS	26.9	23.5	18.6	40.2
Valuation (x)				
P/E	109.6	125.4	158.5	73.3
Return Ratios (%)				
EBIDTA Margin	16%	15%	14%	17%
PAT Margin	9.2%	8.4%	7.7%	11%
ROE	15.5%	12.4%	9.3%	17.2%
ROCE	27%	19%	13%	25%
Leverage Ratio (%)				
Total D/E	0.0	0.0	0.0	0.0
Turnover Ratios				
Receivable Days	60	53	67	56
Inventory Days	116	96	112	115
Payable days	100	66	120	98

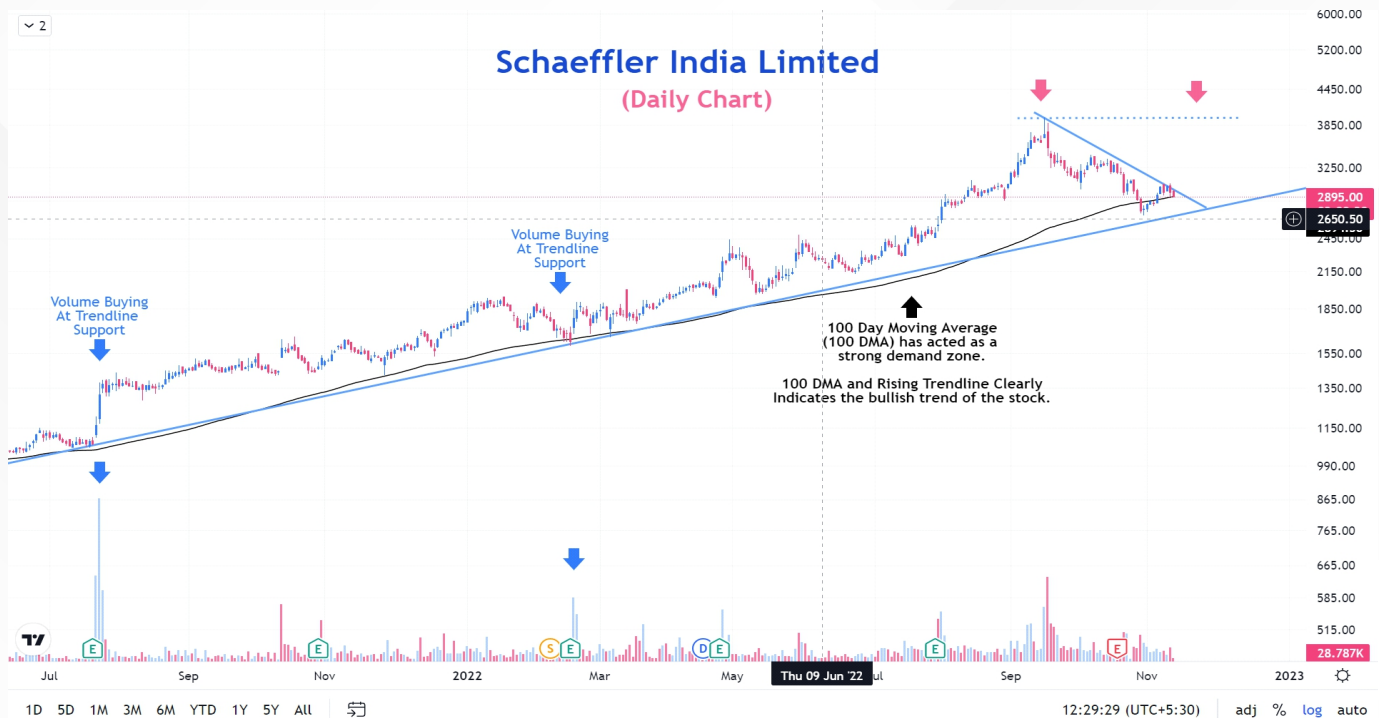
Source: Company Financials

Technical Outlook

Schaeffler India is bullish on a larger timeframe technically and it has been continuously bouncing back from the rising trendline, which is also backed by 100 DMA, making it a strong demand zone.

Currently, Schaeffler India is near the demand zone. Any breakout from the flag will take Schaeffler India to its previous high of 3960. Once it takes out its all-time high, doors open to 4500 and 5000 levels

On the lower side, 2600 shall act as a major support which, if taken down, will add selling pressure to this counter.



**This research has been done by the
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India's Best Performing and Most Customer Centric PMS



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