

SCHAEFFLER INDIA

RESULT UPDATE



KEY DATA

Rating	BUY
Sector relative	Outperformer
Price (INR)	3,473
12 month price target (INR)	4,395
52 Week High/Low	4,951/2,823
Market cap (INR bn/USD bn)	543/6.4
Free float (%)	25.9
Avg. daily value traded (INR mn)	215.9

SHAREHOLDING PATTERN

	Mar-25	Dec-24	Sep-24
Promoter	74.13%	74.13%	74.13%
FII	4.49%	4.72%	5.14%
DII	16.30%	15.60%	15.17%
Pledge	0%	0%	0%

FINANCIALS

(INR mn)

Year to March	CY24A	CY25E	CY26E	CY27E
Revenue	82,324	94,186	1,07,224	1,22,108
EBITDA	14,454	17,865	20,353	22,212
Adjusted profit	9,352	11,626	13,375	14,831
Diluted EPS (INR)	59.8	74.4	85.6	94.9
EPS growth (%)	3.2	24.3	15.0	10.9
RoAE (%)	18.4	20.5	20.6	19.3
P/E (x)	57.8	46.5	40.4	36.5
EV/EBITDA (x)	73.9	59.6	52.0	47.0
Dividend yield (%)	0.6	0.6	0.6	0

Exports revive; margins improve

Schaeffler India (SCHFL) posted strong Q1CY25 numbers. Revenue grew 16% YoY helped by both domestic and export markets. EBITDA margin inched up 46bp YoY/73bp QoQ to 18.1%. With moderation in capex, the company continues to generate strong cash flows (INR2.3bn in Q1CY25). SCHFL plans to sweat out its recently added capacity and efficiently manage its working capital.

Revival in the demand environment coupled with strong product launches shall help SCHFL further consolidate its leadership position. With margins showing signs of improvement and higher localisation, SCHFL has its growth story cut out. Maintain 'BUY' with a revised TP of INR4,395 (earlier INR4,279), valuing the stock at 50x on Q1CY27E.

Domestic improves; solid cash generation

SCHFL posted revenue growth 16% YoY—led by demand from wind, raw materials and construction equipment. Exports stole the show with 20% YoY growth on the back of expansion to newer geographies. Automotive technologies grew 7% YoY due to cyclicity. Meanwhile, softer employee expenses assisted margins during the quarter. FCF soared to INR2.3bn owing to capex moderation. Post pan-India expansion, Koovers reported a negative EBITDA margin of 13.2% on a top line of INR646mn during the quarter (Q1CY24: INR 246mn). Higher depreciation and interest expense from the Hosur plant restrict PAT growth at 14.5% YoY.

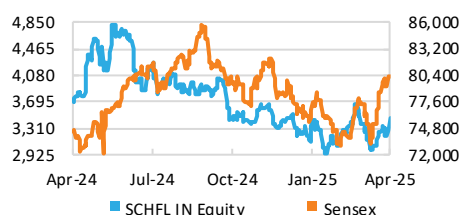
Product launches and business-wins assist

SCHFL is committed to adding new products every quarter. Notables: i) Automotive: Business win in CVs for one-way clutch systems and heavy duty clutches. ii) Vehicle lifetime solutions: Business wins for FEAD/Timing kit/ TRBs in PVs and volume wins for wipers and center joint support. iii) Bearings and Industrial: Business-wins for DGBBs, TRBs and CRBs in the Railway segment, new business-win for condition monitoring in the industrial automation segment, and business-wins for CRBs in the Raw Material segment and for linear ball bearings in the TW segment.

Koovers, Hosur plant and exports: Key variables to monitor

The company has been expanding footprint and establishing connections for Koovers. Higher acceptance by customers and their stickiness is helping SCHFL focus on margins. Local manufacturing of the innovative and customer-focused products further aids margin expansion. With an eye on the Asian and American markets, focus on localisation and favourable cost structure help SCHFL gain orders from across the globe. Localisation for the quarter stood at 76% (up from 67%); the company aims to inch it up to 80% in the medium term.

PRICE PERFORMANCE



Financials

Year to March	Q1CY25	Q1CY24	% Change	Q4CY24	% Change
Net Revenue	21,744	18,731	16.1	21,361	1.8
EBITDA	3,928	3,299	19.1	3,704	6.1
Adjusted Profit	2,516	2,197	14.5	2,373	6.0
Diluted EPS (INR)	16.1	14.1	14.5	15.2	6.0

Financial Statements

Income Statement (INR mn)

Year to December	CY24A	CY25E	CY26E	CY27E
Total operating income	82,324	94,186	1,07,224	1,22,108
Gross profit	30,755	36,544	41,710	47,500
Employee costs	5,422	5,964	6,560	7,216
Other expenses	10,879	12,715	14,797	18,072
EBITDA	14,454	17,865	20,353	22,212
Depreciation	2,816	3,306	3,543	3,565
Less: Interest expense	44	44	44	44
Add: Other income	1,183	1,301	1,432	1,575
Profit before tax	12,778	15,817	18,198	20,178
Prov for tax	3,465	4,192	4,822	5,347
Less: Other adjustment	0	0	0	0
Reported profit	9,312	11,626	13,375	14,831
Less: Excp.item (net)	(40)	0	0	0
Adjusted profit	9,352	11,626	13,375	14,831
Diluted shares o/s	156	156	156	156
Adjusted diluted EPS	60	74	86	95
DPS (INR)	22.4	22.4	22.4	0
Tax rate (%)	27.1	26.5	26.5	26.5

Important Ratios (%)

Year to December	CY24A	CY25E	CY26E	CY27E
Automotive (% of rev)	60.5	57.7	52.9	44.7
Industrials (% of rev)	22.9	26.2	32.2	42.7
Gross margin (%)	37.4	38.8	38.9	38.9
EBITDA margin (%)	17.6	19.0	19.0	18.2
Net profit margin (%)	11.4	12.3	12.5	12.1
Revenue Growth (% YoY)	13.5	14.4	13.8	13.9
EBITDA growth (% YoY)	9.4	23.6	13.9	9.1
Adj. profit growth (%)	3.2	24.3	15.0	10.9

Assumptions (%)

Year to December	CY24A	CY25E	CY26E	CY27E
GDP (YoY %)	7.0	7.0	7.0	7.0
Repo rate (%)	4.3	4.3	4.3	4.3
USD/INR (average)	76.0	76.0	76.0	76.0
2W OEM (% YoY)	5.0	5.0	5.0	5.0
4W OEM (% YoY)	9.0	9.0	9.0	0
Auto Aftermkt (% YoY)	14.0	14.0	14.0	14.0
CV OEM (% YoY)	12.0	12.0	12.0	12.0
Industrials (% YoY)	31.0	32.2	47.3	72.8
Railways (% YoY)	11.0	11.0	11.0	11.0

Valuation Metrics

Year to December	CY24A	CY25E	CY26E	CY27E
Diluted P/E (x)	57.8	46.5	40.4	36.5
Price/BV (x)	10.1	9.0	7.8	6.4
EV/EBITDA (x)	73.9	59.6	52.0	47.0
Dividend yield (%)	0.6	0.6	0.6	0

Source: Company and Nuvama estimates

Balance Sheet (INR mn)

Year to December	CY24A	CY25E	CY26E	CY27E
Share capital	313	313	313	313
Reserves	53,032	59,943	69,223	84,053
Shareholders funds	53,344	60,256	69,535	84,366
Minority interest	0	0	0	0
Borrowings	555	555	555	555
Trade payables	11,281	16,728	19,040	21,895
Other liabs & prov	3,028	3,239	3,239	3,239
Total liabilities	68,618	81,188	92,779	1,10,465
Net block	17,204	16,398	15,355	12,025
Intangible assets	1,513	1,513	1,513	1,513
Capital WIP	4,491	4,491	4,491	4,491
Total fixed assets	23,208	22,402	21,359	18,029
Non current inv	0	0	0	0
Cash/cash equivalent	13,499	17,333	24,241	38,385
Sundry debtors	12,929	16,257	18,801	21,745
Loans & advances	193	193	193	193
Other assets	18,789	25,003	28,186	32,113
Total assets	68,618	81,188	92,779	1,10,465

Free Cash Flow (INR mn)

Year to December	CY24A	CY25E	CY26E	CY27E
Reported profit	9,312	11,626	13,375	14,831
Add: Depreciation	2,816	3,306	3,543	3,565
Interest (net of tax)	29	29	29	29
Others	2,587	(2,589)	(2,849)	(3,135)
Less: Changes in WC	(3,203)	(4,094)	(3,360)	(2,442)
Operating cash flow	11,540	8,278	10,739	12,848
Less: Capex	(7,440)	(2,500)	(2,500)	(235)
Free cash flow	4,100	5,778	8,239	12,613

Key Ratios

Year to December	CY24A	CY25E	CY26E	CY27E
RoE (%)	18.4	20.5	20.6	19.3
RoCE (%)	25.0	27.7	27.9	26.1
Inventory days	99	113	125	127
Receivable days	52	57	60	61
Payable days	77	89	100	100
Working cap (% sales)	21.1	22.8	23.2	23.7
Gross debt/equity (x)	1.0	0.9	0.8	0.7
Net debt/equity (x)	(24.3)	(27.8)	(34.1)	(44.8)
Interest coverage (x)	266.9	333.9	385.5	427.7

Valuation Drivers

Year to December	CY24A	CY25E	CY26E	CY27E
EPS growth (%)	3.2	24.3	15.0	10.9
RoE (%)	18.4	20.5	20.6	19.3
EBITDA growth (%)	9.4	23.6	13.9	9.1
Payout ratio (%)	37.6	30.1	26.2	0

Q1CY25 conference call highlights

Introduction

- Pretty good quarter in terms of top line
- A strong EBITDA on standalone level
- PAT margin of 12.6%
- Growth momentum—favourable business mix
- Managing capex spending
- FCF in Q1FY25: INR2.37bn
- The prudent focus on working capital and capex spending has helped the company.
- Export: star performer for the quarter.
- Vehicle lifetime solutions: cyclically best performing in Q1.
- Focus on improving the utilisation of capacity- cost management measures.
- Koovers: Pan India: Stickiness of customers: Do have pressures on margins. The company wants to deliver numbers. The work has to be done for margins.

Exports

- Particular geographies that have done better: Asia Pacific and new countries in Europe order book is more short term.
- Flattish growth in the existing geographies.
- Expect to sustain the export levels.

Automotive technologies

- E-axle production has started and localisations has started with machines being brought in a phased manner. The customer has launched the product.
- The company expects the demand to pick up.
- Quantum of the order is USD300mn over the lifetime of the product
- Outlook for automobile: single-digit and demand pressure. However, the company aspires to stay ahead of the industry growth—what differentiates us is the offerings.
- Company shifting from ICE: battery and hybrid; the company is offering products for hybrid technology. The company is localising some products.
- The company is in talks with customers for further requirement.

Bearings and industrial solutions

- Some uptick in the business:
 - renewable sector (wind energy) which uses gear box manufacturers
 - Construction equipment: Driven by infrastructure focus by the government.
 - Raw material sector has done well.

- Power transmission: 6% growth witnessed.
- Railways segment new orders: presence is reasonably good in passenger vehicle and locomotives and metro. Freight: The company has a lot of scope to grow.

Capex

- Capex will be moderated slightly. INR5bn has been the average capex for the last few years; this should go down by 10–20% going ahead.
- Capex activity has been slowed because the company: INR17bn/18bn in the last three years. Fifth plant will be up and running in H2CY25. Shoolagiri. Hence, the company expects to reap the benefits of new additional capacity.

Miscellaneous

- Global company: workforce cut: Indian entity has not seen any impact. It shall draw their focus on cost optimisation.
- Tariffs: Anybody's guess, but the company is well positioned to cater to additional demands
- All the localisation is being focused: SCHFL localisation levels 67–68% earlier; now: 76%. The company is bringing in the lines from European markets.
- Shift from global plants to other countries. Beneficiaries would be Vietnam, China and India.
- The company has the plans to either new plants or bring in older machineries from across the globe.
- Vitesco: Manufacturing plant in India. With the global acquisition, Vitesco remains a different entity. Leveraging the powerful competence: electronic, sensors and software capabilities. This shall enhance the customer offerings. Both companies operate at an arm's length. Ensure that both teams work together. Predominant business is in ICE.
- ICE engines: 50 Euros per vehicle, but hybrid (EV and ICE will be higher than 50 Euros.
- Japanese OEM: Patronise ICE engines. All the Japanese Hybrid launches have Schaeffler products.
- Capex: INR800mn for CY25E; auto bearings: 17% of bearings.
- Outlook for industrial bearings for CY25E: better than industrial index growth
- Wind coming back very strongly.

Exhibit 1: Financial snapshot (INR mn)

Financial snapshot - (Consolidated)						
Year to December	Q1CY25	Q1CY24	% change	Q4CY24	% change	CY25E
Revenues	21,744	18,731	16.1	21,361	1.8	94,186
Raw material	13,479	11,640	15.8	13,583	(0.8)	57,642
Staff costs	1,347	1,266	6.4	1,275	5.7	5,964
Others	2,989	2,527	18.3	2,800	6.8	12,715
Total expenditure	17,816	15,433	15.4	17,657	0.9	76,321
EBITDA	3,928	3,299	19.1	3,704	6.1	17,865
Depreciation	831	625	33.0	781	6.4	3,306
EBIT	3,097	2,674	15.8	2,923	6.0	14,560
Less: Interest Expense	16	8	85.7	9	79.3	44
Add: Other income	336	311	7.7	348	(3.6)	1,301
Add: Exceptional items	-	-		-		-
Profit Before Tax	3,417	2,977	14.8	3,262	4.8	15,817
Less: Provision for Tax	901	780	15.6	889	1.3	4,192
Reported Profit	2,516	2,197	14.5	2,373	6.0	11,626
Adjusted Profit	2,516	2,197	14.5	2,373	6.0	11,626
No. of Diluted shares outstanding (mn)	156	156		156		156
Adjusted Diluted EPS	16	14	14.5	15	6.0	74
P/E (x)						46.5
EV/EBITDA (x)						29
RoE(%)						20.5
As % of net revenues						
Raw material	62.0	62.1		63.6		61.2
Staff expenses	6.2	6.8		6.0		6.3
Other expenses	13.7	13.5		13.1		13.5
EBITDA	18.1	17.6	0.46	17.3	0.73	19.0
Net profit	11.6	11.7		11.1		12.3

Source: Company, Nuvama Research

Exhibit 2: Segmental details

Segmental revenue	Q4CY24	Q4CY23	% change	Q3CY24	% change2
Mobility					
Automotive Technologies (earlier Auto Tech)	7,082	6,220	14	6,889	2.80
Vehicle lifetime solutions (earlier automotive aftermarket)	2,317	2,045	13.3	2,229	3.9
Bearings and Industrial solutions (Earlier Industrial)	4,999	4,975	0.5	5,362	(6.8)
Intercompany Exports and others (export and others)	1,617	1,512	7.0	1,710	(5.4)
Others					
Bearings and Industrial solutions	4,364	3,392	28.67	4,071	7.21
Intercompany Exports and others	980	603	62.6	902	8.6
Total	21,359	18,746		21,163	

Source: Company, Nuvama Research

Company Description

Schaeffler India is part of the Schaeffler Group of Germany, a leading global supplier in bearings with revenues of EUR12.6bn (as of CY20). Over the past seven decades, the Group has received over 26,000 patent registrations and is one of the most innovation-led organisations in the world. Schaeffler Germany, holds 74.1% stake in the company. With effect from 2018, INA Bearings India Private Limited and LuK India Private Limited merged with Schaeffler India Limited (erstwhile FAG Bearings India Limited). The objective of the merger was to consolidate the Group's India businesses and optimise the potential of the merged entity. In India, Schaeffler India is the second largest player with market share of ~17% and ~45% in overall bearings industry and roller bearings segment, respectively.

The company offers diversified complementary products across segments, which cater to a large and varied set of consumers. In addition, it is focused on a wide range of services suite and maintenance products. The company has a strong footprint with a total capacity of 438mn pieces versus 81mn pieces in 2015.

The company makes a wide range of products in automotive engine, chassis and transmission solutions and offers a range of aftermarket repair solutions. Within Industrial, Schaeffler has 40,000+ products in its catalogue to cater to 40+ segments, which serve the local market well. Within automotive aftermarket, Schaeffler India has a strong reach of 26,000+ garages and mechanics.

Investment Theme

With demand improving across auto OEMs, Schaeffler with 70% plus revenue from auto OEMs, is likely to see higher traction. The company continues to focus on innovation with R&D at 2% of overall sales and capex at INR10bn over the next three years versus INR10bn earlier. Target remains to increase content per vehicle by 30% across product segments engine, transmission and chassis, which they have been on track to the extent of 70%.

SCHFL is well poised as a play on mobility with rising localisation. Hence we expect 15% sales CAGR and 19% EBIDTA CAGR over CY21-23. This will lead to a strong 216bps ROCE expansion over CY21-23 to 26.7% in CY23.

Key Risks

Delay in recovery in key segments with SCHFL being heavy on auto (>65% of sales) and being OEM nature (two-thirds) of their automotive sales, had a deep cyclical impact. Furthermore, suppressed industrial activity (low utilisation and infra spend) would impact their industrial sales. However, with the uptick in automotive sales it is well placed to capture the OEM uptick.

Forex fluctuation: Schaeffler India buys traded goods from group company (Schaeffler Tech AG, Germany). As a result, INR depreciation against EUR may negatively impact margin on these EUR denominated imports. Imports constitute 29% of net sales.

Royalty rate increase: Currently, royalty, trademark and service fees as a percentage of overall sales stand at 2%. Any increase in the same could pose a risk.

Additional Data

Management

Chairman	Avinash Gandhi
Managing Director & CEO	Harsha Kadam
Chairperson	Eranti V. Sumithasri
Director - Finance and CFO	Satish Patel
Auditor	Walker Chandiok & Co

Holdings – Top 10*

% Holding		% Holding	
Kotak Mahindra	3.24	UTI	1.03
SBI Mutual Fund	2.79	Vanguard	1.01
Fundrock	1.96	Nippon Life	0.82
Axis AMC	1.47	Canara Rubeko	0.71
DSP Inv	1.43	ICICI Prudentia	0.67

*Latest public data

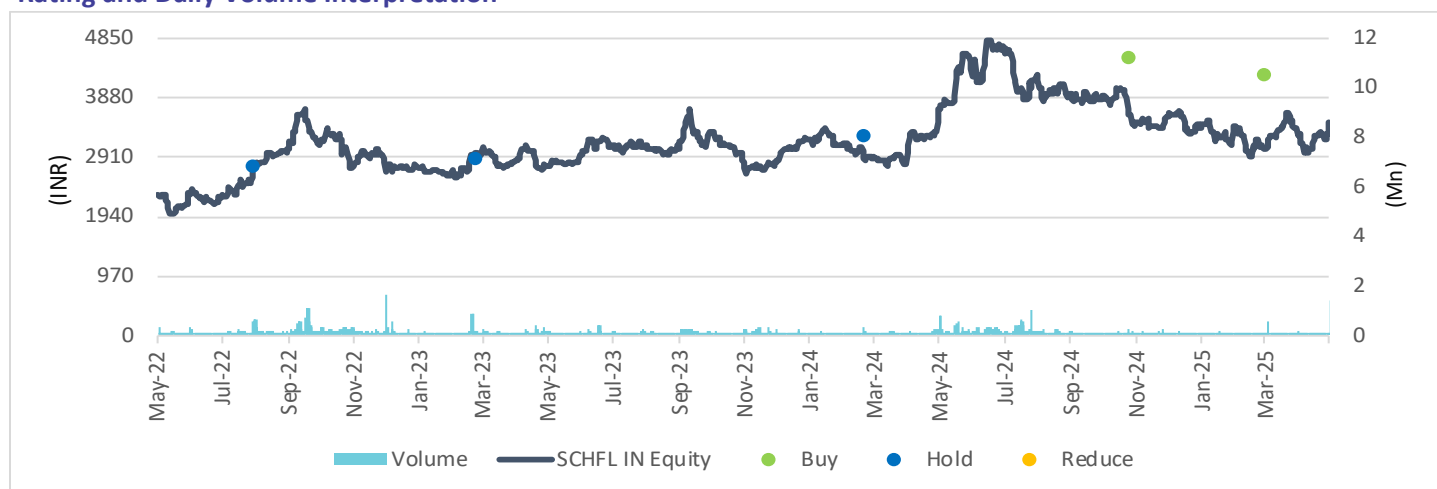
Recent Company Research

Date	Title	Price	Reco
28-Feb-25	Good quarter; exports picking up; <i>Result Update</i>	3,077	Buy
24-Oct-24	'BANYAN SERIES' Schaeffler India (SCHFL ; <i>Result Update</i>	3,883	Buy
24-Jul-24	Revival on track; exports gaining steam; <i>Result Update</i>	4,126	Hold

Recent Sector Research

Date	Name of Co./Sector	Title
17-Mar-25	DOMS	Growth by design: Innovation a key tool; <i>Company Update</i>
03-Mar-25	Balkrishna Industries	Outlook muted; share gains to endure; <i>Visit Note</i>
13-Feb-25	RHI Magnesita India	Margin recovery delayed; <i>Result Update</i>

Rating and Daily Volume Interpretation



Source: Bloomberg, Nuvama research

Rating Rationale & Distribution: Nuvama Research

Rating	Expected absolute returns over 12 months	Rating Distribution
Buy	15%	209
Hold	<15% and >-5%	59
Reduce	<-5%	34

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