

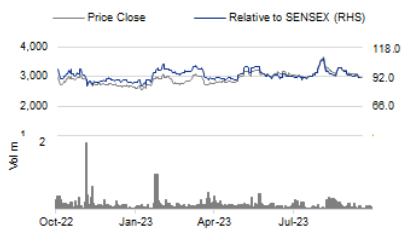
India

ADD (no change)

Consensus ratings*:	Buy 3	Hold 4	Sell 2
Current price:	Rs2,860		
Target price:	Rs3,350		
Previous target:	Rs3,538		
Up/downside:	17.1%		
InCred Research / Consensus:	11.4%		
Reuters:			
Bloomberg:	SCHFL IN		
Market cap:	US\$6,156m		
	Rs447,021m		
Average daily turnover:	US\$4.2m		
	Rs308.5m		
Current shares o/s:	156.3m		
Free float:	25.9%		
*Source: Bloomberg			

Key changes in this note

- Sales cut by 4-5% for CY23F-24F.
- EBITDA cut by 5-6% for CY23F-24F.
- PAT cut by 5-7% for CY23F-24F.



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	(13.7)	(7.0)	4.5
Relative (%)	(11.4)	(3.5)	(1.0)

Major shareholders	% held
Promoter	74.1
Kotak Mutual Fund	3.4
SBI Mutual Fund	2.2

Analyst(s)**Pramod AMTHE**

T (91) 22 4161 1541
E pramod.amthe@incredcapital.com

Ravi GUPTA

T (91) 02241611552
E ravi.gupta@incredcapital.com

Schaeffler India Ltd**Weak exports lead to 3Q EBITDA miss**

- 3QCY23 EPS dip of 2% qoq was below our/Bloomberg consensus estimates due to exports falling 21% yoy. 9M EPS formed 68% of our full-year estimate.
- Building in weakness in exports and slow industrial division's growth, we cut sales estimates, leading to a 5-7% cut in our EPS estimates for CY23-24F.
- The stock valuation easing to a seven-year mean level of 36x forward P/E provides comfort. We retain ADD rating on it as new order wins to drive growth.

Tepid sales growth continues for the third successive quarter

3QCY23 EBITDA of Schaeffler India was flattish qoq and rose by just 7% yoy to Rs3.4bn, 12% below our estimate and 5% below Bloomberg consensus estimate. Tepid sales growth of ~5% yoy for three successive quarters is a cause of concern, leading to a major miss in our EBITDA estimate. The subdued sales growth is due to a 21% yoy dip in exports and slow growth in the sales to automotive OEMs. The weaker product mix led to a 30bp qoq EBITDA margin contraction to 18.4%. PAT rose by 8% yoy to Rs2.3bn, aided by a 33% rise in other income.

Management conference-call highlights

Management highlighted the improvement in sales growth of the industrial division to 13% yoy, driven by the aftermarket and railway businesses while wind energy business seems to be returning to the growth path. The sharp dip in exports to Europe and China hit overall exports, despite the growth in other geographies and new product exports. Management expects the export recovery to be gradual. Management reiterated its Rs15bn capex for CY23F-25F to meet capacity and new product local manufacturing requirements. New order wins for the quarter comprised gear shaft order for hybrid cars, HD clutches for trucks and taper roller bearings for the wind energy sector.

We cut EBITDA estimates by 5-6% for CY23F-24F

The tepid sales growth in recent quarters seems to be sticky and may take time to accelerate from new initiatives undertaken, thereby leading to a 4-5% cut in our sales estimates for CY23-24F. Considering the weaker product revenue from lower exports, we trim our EBITDA estimates by around 20-30bp, leading to a 5-6% cut in CY23F-24F EBITDA. Incorporating a higher capex and other income, we cut our EPS estimates by 5-7% for CY23F-24F.

Easing valuation provides comfort; reiterate ADD rating

The stock price weakness in recent months led to the forward P/E valuation easing to close to a seven-year mean level of 36x. With the medium-term growth opportunity intact and reassured by new order wins and capex to support the same, we reiterate our ADD rating on Schaeffler India. We cut our target price to Rs3,350, from Rs3,538 earlier, to reflect the EPS cut and a lower target P/E multiple of 42x. Downside risk: Prolonged export weakness impacting the company's profitability adversely.

Financial Summary	Dec-21A	Dec-22A	Dec-23F	Dec-24F	Dec-25F
Revenue (Rsm)	55,605	68,674	73,911	84,047	96,841
Operating EBITDA (Rsm)	9,715	12,944	13,932	16,305	19,078
Net Profit (Rsm)	6,291	8,792	9,567	10,967	12,773
Core EPS (Rs)	40.2	55.5	61.2	70.2	81.7
Core EPS Growth	116.2%	38.0%	10.2%	14.6%	16.5%
FD Core P/E (x)	71.05	51.50	46.72	40.76	35.00
DPS (Rs)	16.0	24.0	28.0	32.0	36.0
Dividend Yield	0.56%	0.84%	0.98%	1.12%	1.26%
EV/EBITDA (x)	44.55	33.33	30.80	26.21	22.22
P/FCFE (x)	386.33	214.00	66.17	66.76	50.08
Net Gearing	(38.7%)	(36.3%)	(37.4%)	(36.5%)	(37.7%)
P/BV (x)	12.23	10.43	9.30	8.28	7.31
ROE	18.5%	21.9%	21.0%	21.5%	22.2%
% Change In Core EPS Estimates			(4.89%)	(6.57%)	
InCred Research/Consensus EPS (x)					

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Weak exports lead to 3Q EBITDA miss

Management conference-call highlights ►

- Revenue growth for the quarter was tepid at 5.2% yoy, as strong domestic growth across sub-segments was impacted by a 21% fall in exports.
- Management indicated that exports were subdued for the quarter due to weakness in Europe and China markets and they may recover in the next one year. Region-wise contribution stands at 47% from Europe, 30% from Asia, 10% from China and 10% from USA.
- Targeting double-digit growth in exports, electric vehicle or EV components, aftermarket and new order wins. The aftermarket segment witnessed a 100% localization.
- EBIT grew by 6.4% yoy mainly due to the gross margin growth on the back of input cost stability, despite an adverse revenue mix.
- During the quarter, the company incurred a capex of Rs1.6bn. Management plans to incur a capex of Rs15bn in the next three years. The capex is planned to cater to organic growth of the company's divisions and localization of trading parts.
- On the automotive front, all the sub-segments witnessed growth, except the two-wheeler segment. The company expects its two-wheeler parts segment to bounce back led by the ongoing festive season sales.
- The company has sent samples of EV components to its customers, and they are under evaluation.
- Going ahead, the company will be focusing on the mining/ raw material sectors, figuring out the products to cater to the domestic market.
- The railway segment grew 12% yoy, the distribution segment grew 15% yoy and the wind energy segment grew 7% yoy.
- Industrial plants' capacity utilization level stood at 85% and the two automotive plants at Pune and Hosur are close at 80% capacity utilization.

Figure 1: Quarterly analysis

Y/E Dec (Rs m)	3QCY23	3QCY22	yoy % chg	2QCY23	qoq % chg	9MCY23	9MCY22	yoy % chg
Total Revenue	18,536	17,564	5.5%	18,291	1.3%	53,764	50,728	6.0%
Less:								
Net raw materials consumed	11,653	11,067	5.3%	11,229	3.8%	33,249	31,582	5.3%
Other expenses	2,329	2,216	5.1%	2,458	(5.2%)	7,070	6,430	9.9%
Personnel costs	1,150	1,091	5.4%	1,185	(2.9%)	3,475	3,224	7.8%
Total expenditure	15,132	14,375	5.3%	14,871	1.8%	43,794	41,236	6.2%
EBITDA	3,404	3,190	6.7%	3,420	(0.5%)	9,970	9,492	5.0%
Less: Depreciation	562	517	8.7%	539	4.2%	1,626	1,535	5.9%
EBIT	2,842	2,673	6.3%	2,881	(1.4%)	8,344	7,957	4.9%
Less: Interest paid	16	9	88.2%	8	90.5%	32	26	23.7%
Non-operating income	309	232	33.3%	308	0.3%	944	594	58.8%
Extraordinary income								
Extraordinary expenses	0	0		0		0	(150)	
Profit before tax	3,135	2,896	8.3%	3,180	(1.4%)	9,255	8,675	6.7%
Profit before tax excl. extraordinary items	3,135	2,896	8.3%	3,180	(1.4%)	9,255	8,525	8.6%
Less: Total tax	807	742	8.8%	808	(0.1%)	2,362	2,192	7.7%
Profit after tax	2,328	2,154	8.1%	2,373	(1.9%)	6,893	6,482	6.3%
Minority Interest								
Associate cos' share								
Reported PAT	2,328	2,154	8.1%	2,373	(1.9%)	6,893	6,482	6.3%
Profit after tax excl. extraordinary items	2,328	2,154	8.1%	2,373	(1.9%)	6,893	6,370	8.2%
Diluted shares outstanding (m)	156	156		156		156	156	
Reported EPS-diluted (Rs.)	14.9	13.8	8.1%	15.2	(1.9%)	44.1	41.5	6.3%
Proforma EPS diluted (Rs.)	14.9	13.8	8.1%	15.2	(1.9%)	44.1	40.8	8.2%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 2: Schaeffler India's sales mix

Segmental analysis (Rs m)	3QCY23	3QCY22	yoy % chg	2QCY23	qoq % chg	9MCY23	9MCY22	yoy % chg
Automotive	10,500	8,676	21.0%	9,340	12.4%	18,181	15,628	16.3%
Industrial (including bearings for two-wheelers and tractors)	7,900	6,059	30.4%	6,800	16.2%	12,159	12,263	(0.9%)
Exports (largely industrial)	3,000	2,829	6.0%	2,800	7.1%	5,536	5,272	5.0%
Total	18,536	17,564	5.5%	18,291	1.3%	35,228	33,163	6.2%

Sales mix (%)	3QCY23	3QCY22	yoy bp chg	2QCY23	qoq bp chg	9MCY23	9MCY22	yoy bp chg
Automotive (%)	56.6	49.4	725	51.1	559	51.6	47.1	448
Industrial (including bearings for two-wheelers and tractors) (%)	42.6	34.5	813	37.2	544	34.5	37.0	-246
Exports (largely industrial) (%)	16.2	16.1	8	15.3	88	15.7	15.9	-18

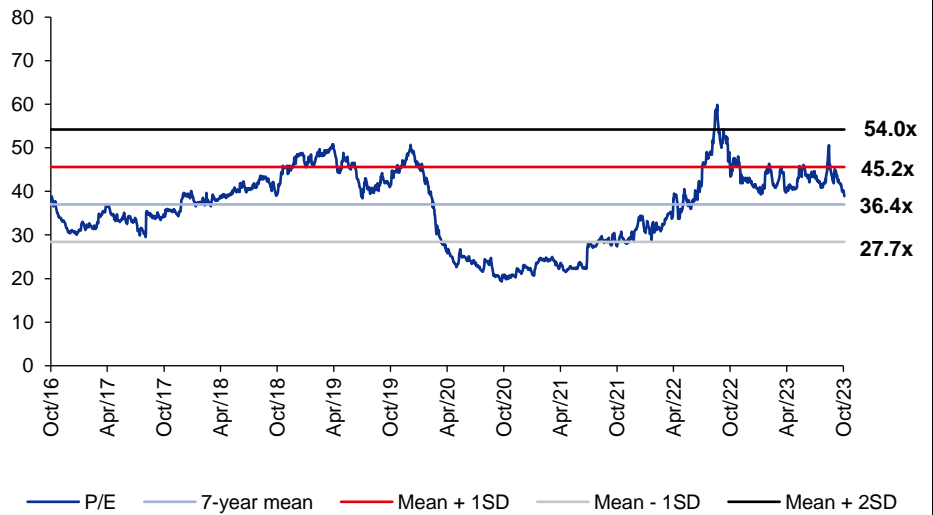
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 3: Earnings revision table

(Rs m)	Old Estimates		New Estimates			Change CY24F
	CY23F	CY24F	CY23F	CY24F	CY24F	
Revenue	77,600	87,439	73,911	84,047	-5%	-4%
EBITDA	14,899	17,138	13,932	16,305	-6%	-5%
PAT	10,059	11,738	9,567	10,967	-5%	-7%

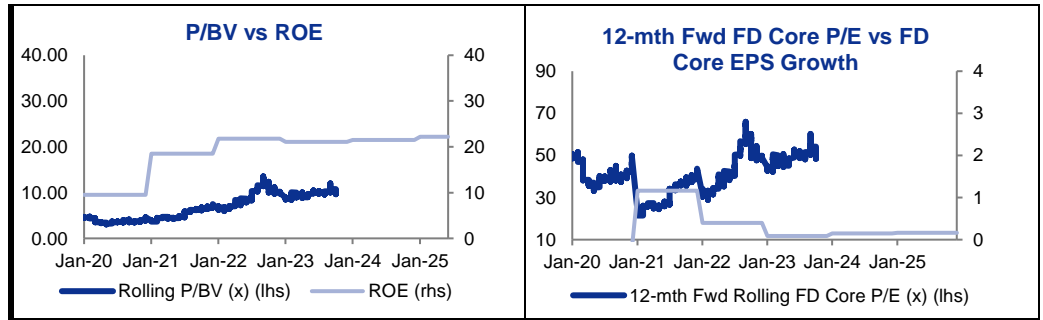
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 4: P/E trend



SOURCE: INCRED RESEARCH, COMPANY REPORTS

BY THE NUMBERS



Profit & Loss

(Rs mn)	Dec-21A	Dec-22A	Dec-23F	Dec-24F	Dec-25F
Total Net Revenues	55,605	68,674	73,911	84,047	96,841
Gross Profit	20,981	26,151	28,197	32,274	37,284
Operating EBITDA	9,715	12,944	13,932	16,305	19,078
Depreciation And Amortisation	(1,971)	(2,065)	(2,279)	(2,908)	(3,426)
Operating EBIT	7,744	10,879	11,653	13,397	15,652
Financial Income/(Expense)	(37)	(36)	(45)	(35)	(30)
Pretax Income/(Loss) from Assoc.					
Non-Operating Income/(Expense)	724	777	1,200	1,320	1,478
Profit Before Tax (pre-EI)	8,431	11,621	12,808	14,682	17,100
Exceptional Items		150			
Pre-tax Profit	8,431	11,770	12,808	14,682	17,100
Taxation	(2,140)	(2,978)	(3,241)	(3,715)	(4,327)
Exceptional Income - post-tax					
Profit After Tax	6,291	8,792	9,567	10,967	12,773
Minority Interests					
Preferred Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
Net Profit	6,291	8,792	9,567	10,967	12,773
Recurring Net Profit	6,291	8,680	9,567	10,967	12,773
Fully Diluted Recurring Net Profit	6,291	8,680	9,567	10,967	12,773

Cash Flow

(Rs mn)	Dec-21A	Dec-22A	Dec-23F	Dec-24F	Dec-25F
EBITDA	9,715	12,944	13,932	16,305	19,078
Cash Flow from Invt. & Assoc.	(1,284)	(1,174)	(1,124)	(1,623)	(1,978)
Change In Working Capital	(3,280)	(2,459)	(340)	(1,345)	(1,943)
(Incr)/Decr in Total Provisions					
Other Non-Cash (Income)/Expense	1,971	2,065	2,279	2,908	3,426
Other Operating Cashflow	(617)	(771)	(1,200)	(1,320)	(1,478)
Net Interest (Paid)/Received	(37)	(36)	(45)	(35)	(30)
Tax Paid	(1,895)	(3,136)	(3,241)	(3,715)	(4,327)
Cashflow From Operations	4,573	7,434	10,262	11,176	12,748
Capex	(1,826)	(4,788)	(4,707)	(5,800)	(5,300)
Disposals Of FAs/subsidiaries		594			
Acq. Of Subsidiaries/investments	(2,127)	(1,678)			
Other Investing Cashflow	537	526	1,200	1,320	1,478
Cash Flow From Investing	(3,416)	(5,345)	(3,507)	(4,480)	(3,822)
Debt Raised/(repaid)					
Proceeds From Issue Of Shares					
Shares Repurchased					
Dividends Paid	2,108	2,070	1,660	4,174	5,973
Preferred Dividends					
Other Financing Cashflow	(3)	(5)	45	35	30
Cash Flow From Financing	2,105	2,065	1,705	4,209	6,003
Total Cash Generated	3,262	4,154	8,461	10,905	14,930
Free Cashflow To Equity	1,157	2,089	6,755	6,696	8,926
Free Cashflow To Firm	1,194	2,124	6,800	6,731	8,956

SOURCE: INCRED RESEARCH, COMPANY REPORTS

BY THE NUMBERS...cont'd

Balance Sheet					
(Rs mn)	Dec-21A	Dec-22A	Dec-23F	Dec-24F	Dec-25F
Total Cash And Equivalents	14,157	15,545	17,969	19,698	23,027
Total Debtors	8,463	10,324	10,935	12,434	14,327
Inventories	10,865	12,434	13,162	14,737	16,980
Total Other Current Assets	133	37	37	37	37
Total Current Assets	33,617	38,340	42,103	46,907	54,372
Fixed Assets	11,577	14,064	16,491	19,382	21,256
Total Investments					
Intangible Assets	12	6	6	6	6
Total Other Non-Current Assets	3,756	4,858	5,244	5,911	6,752
Total Non-current Assets	15,345	18,927	21,741	25,299	28,014
Short-term Debt					
Current Portion of Long-Term Debt					
Total Creditors	9,329	11,117	12,150	14,046	16,450
Other Current Liabilities	3,097	3,291	3,645	4,145	4,776
Total Current Liabilities	12,426	14,408	15,795	18,191	21,225
Total Long-term Debt					
Hybrid Debt - Debt Component					
Total Other Non-Current Liabilities					
Total Non-current Liabilities					
Total Provisions					
Total Liabilities	12,426	14,408	15,795	18,191	21,225
Shareholders Equity	36,537	42,859	48,050	54,015	61,161
Minority Interests					
Total Equity	36,537	42,859	48,050	54,015	61,161

Key Ratios					
	Dec-21A	Dec-22A	Dec-23F	Dec-24F	Dec-25F
Revenue Growth	47.8%	23.5%	7.6%	13.7%	15.2%
Operating EBITDA Growth	81.2%	33.2%	7.6%	17.0%	17.0%
Operating EBITDA Margin	17.5%	18.8%	18.9%	19.4%	19.7%
Net Cash Per Share (Rs)	90.57	99.46	114.96	126.02	147.33
BVPS (Rs)	233.75	274.20	307.41	345.58	391.30
Gross Interest Cover	211.02	306.46	258.95	382.77	521.72
Effective Tax Rate	25.4%	25.3%	25.3%	25.3%	25.3%
Net Dividend Payout Ratio	39.8%	43.4%	45.7%	45.6%	44.1%
Accounts Receivables Days	50.48	49.93	52.49	50.74	50.43
Inventory Days	94.88	99.99	102.18	98.35	97.19
Accounts Payables Days	(89.69)	(87.75)	(92.89)	(92.34)	(93.45)
ROIC (%)	34.6%	39.8%	38.7%	39.0%	41.0%
ROCE (%)	22.8%	27.4%	25.6%	26.3%	27.2%
Return On Average Assets	14.0%	16.3%	15.9%	16.2%	16.6%

Key Drivers					
	Dec-21A	Dec-22A	Dec-23F	Dec-24F	Dec-25F
Segmental Revenue	N/A	N/A	N/A	N/A	N/A
Automotive	26,879	33,001	37,283	42,949	50,464
Industrial	21,566	24,247	26,447	29,898	33,496
Exports	7,160	11,427	10,182	11,200	12,880
Total Revenue	55,605	68,674	73,911	84,047	96,841
yoy growth (%)	N/A	N/A	N/A	N/A	N/A
Automotive	49.9	22.8	13.0	15.2	17.5
Industrial	39.1	12.4	9.1	13.1	12.0
Exports	70.9	59.6	(10.9)	10.0	15.0

SOURCE: INCRED RESEARCH, COMPANY REPORTS

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