

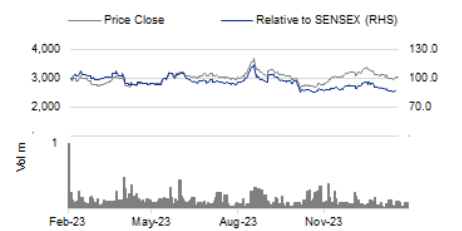
India

ADD (no change)

Consensus ratings*:	Buy 3	Hold 4	Sell 2
Current price:	Rs3,012		
Target price:	Rs3,395 ▲		
Previous target:	Rs3,350		
Up/downside:	12.7%		
InCred Research / Consensus:	14.7%		
Reuters:	SCHE.BO		
Bloomberg:	SCHFL IN		
Market cap:	US\$5,671m	Rs470,763m	
Average daily turnover:	US\$3.6m	Rs299.9m	
Current shares o/s:	156.3m		
Free float:	25.9%		
<small>*Source: Bloomberg</small>			

Key changes in this note

- Sales cut by 6-7% for CY24F-25F.
- EBITDA cut by 13% for CY24F-25F.
- PAT cut by 11% for CY24F-25F.



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	(7.9)	9.3	2.7
Relative (%)	(9.5)	(1.3)	(14.3)

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

Research Analyst(s)



Pramod AMTHE
 T (91) 22 4161 1541
 E pramod.amthe@incredresearch.com

Ravi GUPTA
 T (91) 02241611552
 E ravi.gupta@incredresearch.com

Schaeffler India Ltd

Exports hopefully nearing their bottom

- 4QCY23 EPS declined by 7% yoy to Rs13.7, missing our/Bloomberg consensus estimates, as exports dipped by 5% qoq to touch a new low.
- We cut our EPS estimates by 11%, driven by a 6% cut in sales and a 120bp EBITDA margin reduction, for FY24F-26F.
- Domestic growth momentum and opportunity provide comfort. Exports may be nearing their bottom. Roll forward our P/E-based TP to Rs3,395. Retain ADD.

Sales weakness continues to prolong in Dec 2023 quarter

The Dec 2023 quarter EBITDA of Schaeffler India dipped by 6% yoy and 5% qoq to Rs3.2bn, in line with Bloomberg or BB consensus estimate, but a 13% miss to our estimate. Flattish sales growth qoq, but higher other expenses impacting margins disappoint. PAT dipped by 7% yoy and qoq to Rs2.16bn, missing our estimate of 18% growth and BB consensus estimate of 5% growth. Working capital requirement continued to ease from its peak of Jun 2023 to settle at Rs12bn.

Management conference-call highlights

Considering the good order wins in the electric two-wheeler or E2W components space, the company is evaluating to add more component offerings in this space. Exports are hopefully bottoming out as the troubled European market, accounting for 20% of its total exports, has collapsed, while the rest of the markets are on the growth path. Some slowdown witnessed in the industrial division was due to the forthcoming general elections in India. The budget for the railway sector is helpful, as the company's strong presence in electrification and axle bearings will help in benefitting from the new schemes. The wind power segment continues to improve. Capex is on course to touch Rs5bn in CY23-25F.

We cut EBITDA estimates by 13% for CY24F-25F

The tepid sales growth in recent quarters, mainly due to the export business, is likely to sustain and may take time to accelerate from the new initiatives undertaken, thereby leading to a 6-7% cut in our sales estimates for CY24F-25F. Considering the weak product revenue from lower exports, we trim our EBITDA estimates by around 116-136bp, leading to a 13% cut in CY24F/25F EBITDA each. Incorporating a higher capex and other income, we cut our EPS estimates by 11% for CY24F-25F.

Easing valuation provides comfort; reiterate ADD rating

Strong domestic growth across key sectors and the government's push to infrastructure and railway sectors will help Schaeffler India to win new orders and therefore we reiterate our ADD rating on the stock. We cut our target price on it to Rs3,395 (from Rs3,350 earlier) to reflect the EPS cut and a higher target P/E multiple of 46x, from 42x earlier. 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	72,509	78,671	89,676
Operating EBITDA (Rsm)	9,715	12,944	13,211	14,733	16,884
Net Profit (Rsm)	6,291	8,792	9,083	9,876	11,215
Core EPS (Rs)	40.2	55.5	57.9	63.2	71.8
Core EPS Growth	116.2%	38.0%	4.2%	9.1%	13.6%
FD Core P/E (x)	74.83	54.23	52.03	47.67	41.98
DPS (Rs)	16.0	24.0	24.0	32.0	36.0
Dividend Yield	0.53%	0.80%	0.80%	1.06%	1.20%
EV/EBITDA (x)	47.00	35.17	34.43	30.63	26.62
P/FCFE (x)	406.85	225.36	83.69	54.94	62.61
Net Gearing	(38.7%)	(36.3%)	(33.0%)	(36.8%)	(36.5%)
P/BV (x)	12.88	10.98	9.80	8.89	8.05
ROE	18.5%	21.9%	19.9%	19.6%	20.1%
% Change In Core EPS Estimates					
InCred Research/Consensus EPS (x)					

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Exports hopefully nearing their bottom

Management conference-call highlights ►

- **Financial performance:** The EBITDA margin for the quarter was down by 90bp due to a slowdown in export business.
- **Export business:** Revenue from export business fell by 20% yoy during the quarter as the European and US markets witnessed slow growth. Management is hopeful of the export business bottoming out and start witnessing an uptick in growth from 1QCY24F. Management plans to tap emerging markets like Vietnam, Thailand and Indonesia to win new orders, as it has some free capacity.
- **Industrial segment:** Most of the sub-segments in the industrial division witnessed double-digit growth, except the tractor and off-road segment, which is at its lowest point due to the forthcoming general elections. Management believes the tractor market will revive soon, led by the government's push to the infrastructure sector.
- **Automotive business:** Business growth was driven by both its sub-segments - power transmission and engine applications. The company is witnessing strong traction in clutches and some markets trying to adopt dual clutches where Schaeffler India remains the leader. Plans to launch new products in the commercial vehicle segment.
- **Capex:** The capex plan remains unchanged going ahead, and a large part of the capex is likely to be in the industrial segment as management is keen to improve localization in it and as for the remaining capex, the company will incur it in the automotive division, especially in the electric vehicle space, as it plans to develop new products in this space. Management stated that the company's upcoming Savli plant in Gujarat will mainly cater to the renewable energy and railway sectors, and the Hosur plant in Tamil Nadu plant will commence production in 1QCY25F.
- **Wind equipment business:** The business witnessed a growth of 11% yoy during the quarter, mainly driven by domestic demand (which contributes 20%) while the remaining 80% of the business, which is from the European market, declined due to the delay in customers' projects.
- **Railway business:** The key drivers of the railway business are the 100% electrification plan of the Indian Railways and Vande Bharat train initiatives.

Figure 1: Results comparison

Y/E Dec (Rs m)	4QCY23	4QCY22	yoy % chg	3QCY23	qoq % chg	CY23	CY 22	yoy % chg	Comments for the quarter
Total Revenue	18,746	17,564	6.7%	18,291	2.5%	72,509	68,674	5.6%	6% below our estimate.
Net Raw Materials Consumed	11,779	11,067	6.4%	11,229	4.9%	6,626	7,917	(16.3%)	117bp below our estimate.
Other Expenses	2,580	2,216	16.4%	2,458	5.0%	9,650	8,901	8.4%	5% below our estimate.
Personnel Costs	1,146	1,091	5.0%	1,185	(3.3%)	4,620	4,306	7.3%	
Total Expenditure	15,505	14,375	7.9%	14,871	4.3%	20,895	21,124	(1.1%)	
EBITDA	3,241	3,190	1.6%	3,420	(5.2%)	51,614	47,550	8.5%	12.7% below our estimate.
Depreciation	604	517	16.9%	539	12.1%	2,230	2,065	8.0%	
EBIT	2,637	2,673	(1.3%)	2,881	(8.5%)	49,384	45,486	8.6%	
Interest Paid	10	9	21.2%	8	22.6%	43	36	20.3%	
Non-operating Income	302	232	30.4%	308	(1.9%)	1,246	777	60.3%	
Extraordinary Items	(47)								
Profit Before Tax	2,975	2,896	2.8%	3,180	(6.4%)	50,633	46,377	9.2%	
Less: Total Tax	785	742	5.8%	808	(2.8%)	3,148	2,978	5.7%	520bp above our estimate.
Profit After Tax	2,190	2,154	1.7%	2,373	(7.7%)	47,486	43,398	9.4%	17.2% below our estimate.
Profit After Tax Excl. extraordinary items	2,156	2,154	0.1%	2,373	(9.2%)	9,036	8,680	4.1%	
Reported EPS-Diluted (Rs.)	14.0	13.8	1.7%	15.2	(7.7%)	303.8	277.7	9.4%	
Proforma EPS Diluted (Rs.)	13.8	13.8	0.1%	15.2	(9.2%)	57.8	55.5	4.1%	

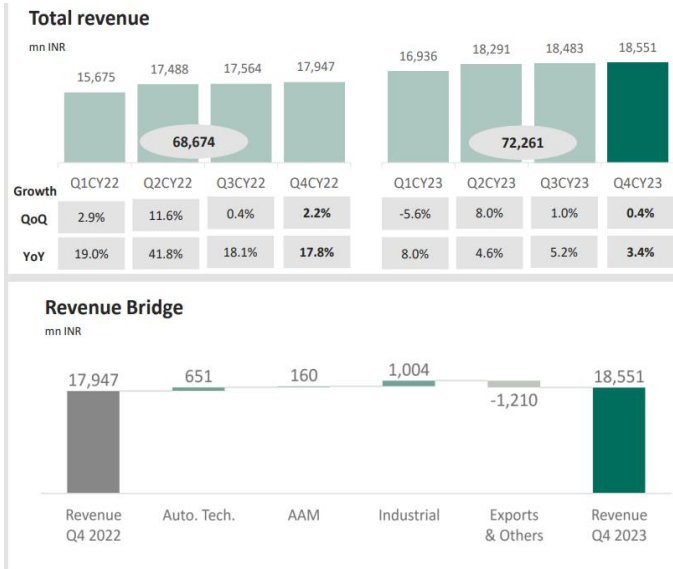
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 2: Division-wise performance

Segmental Analysis (Rs m)	4QCY23	4QCY22	yoy % chg	3QCY23	qoq % chg	CY23	CY22	yoy % chg
Automotive Technologies	7,657	7,005	9.3%	7,729	(0.9%)	30,254	27,065	15.4%
Automotive Aftermarket	2,045	1,691	21.0%	1,678	21.9%	7,035	5,936	20.9%
Industrial	6,929	5,925	16.9%	6,845	1.2%	25,389	24,247	(0.9%)
Exports & Others	2,114	3,325	(36.4%)	2,232	(5.2%)	9,778	11,427	5.0%
Total	18,746	17,947	4.5%	18,483	1.4%	72,456	68,674	8.2%
Sales Mix (%)	4QCY23	4QCY22	yoy bp chg	3QCY23	qoq bp chg	CY23	CY22	yoy bp chg
Automotive Technologies (%)	41%	39%	181.0	42%	(97.0)	42%	39%	234.4
Automotive Aftermarket (%)	11%	9%	149.0	9%	183.4	10%	9%	106.6
Industrial (%)	37%	33%	395.0	37%	(7.1)	35%	35%	(26.6)
Exports & Others (%)	11%	19%	(724.9)	12%	(79.4)	13%	17%	(314.4)

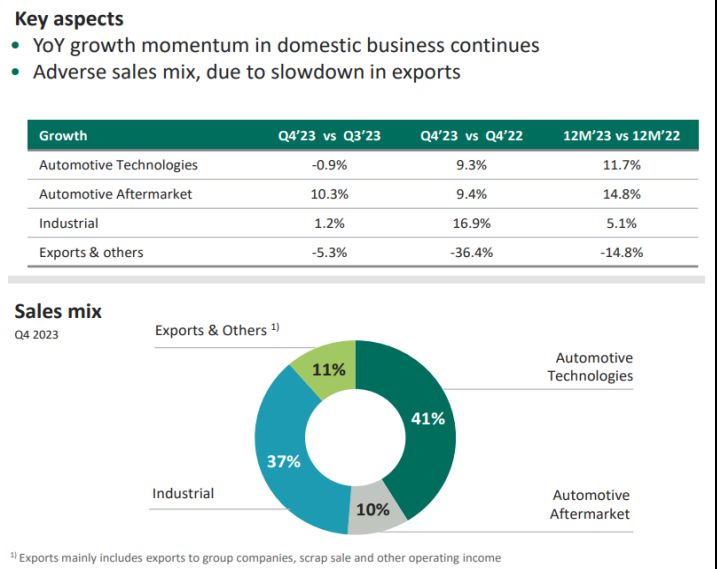
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 3: Quarterly revenue performance



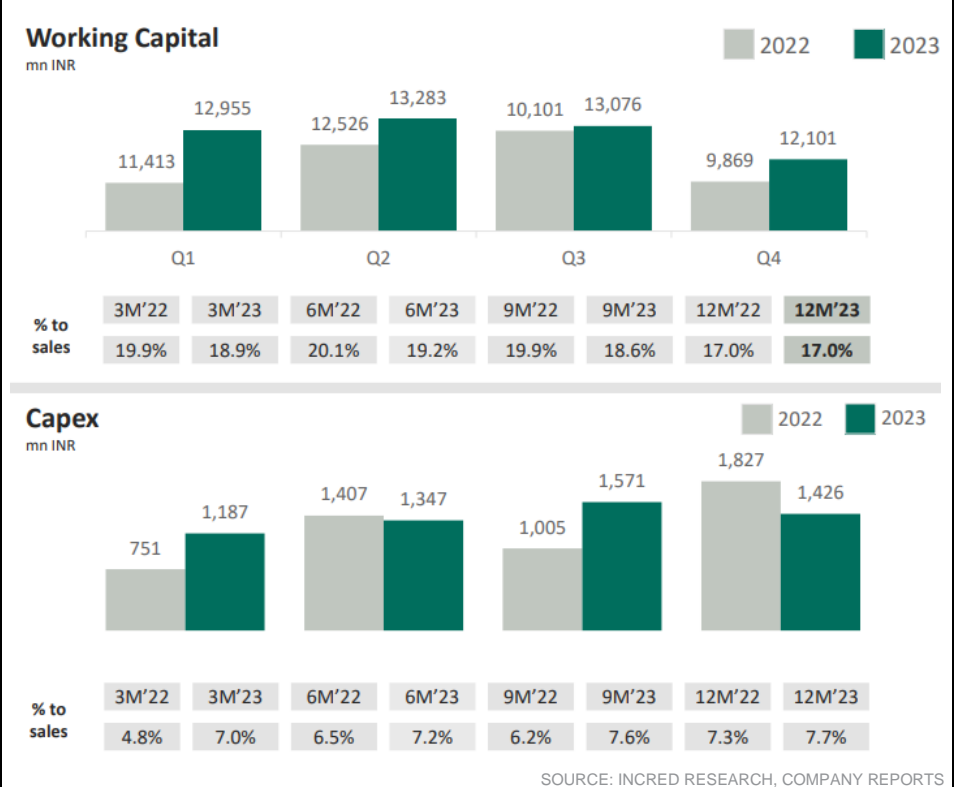
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 4: Sales mix and segment-wise performance



SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 5: Schaeffler India's working capital and capex trend



SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 6: Earnings estimates revision summary

(Rs m)	CY24F		CY25F	
	Old	New	Old	New
Revenue	84,047	78,671	96,841	89,676
% change		-6.4%		-7.4%
EBITDA	16,305	14,192	19,078	16,622
% change		-13.0%		-12.9%
EBITDA margin	19.4%	18.0%	19.7%	18.5%
bp change		-136		-116
PAT	10,967	9,737	12,773	11,320
% change		-11.2%		-11.4%
EPS (Rs)	70	62	82	72
% change		-11.3%		-11.4%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 7: Valuation table

	one-year forward
EPS (Rs.) (1-year forward)	73.8
P/E (x)	46.0
Target price (Rs)	3,395

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 8: One-year forward P/E valuation at mean +1SD level

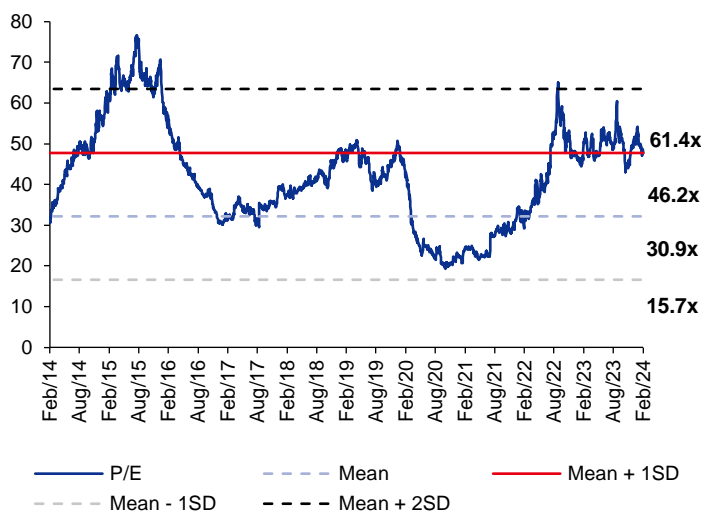
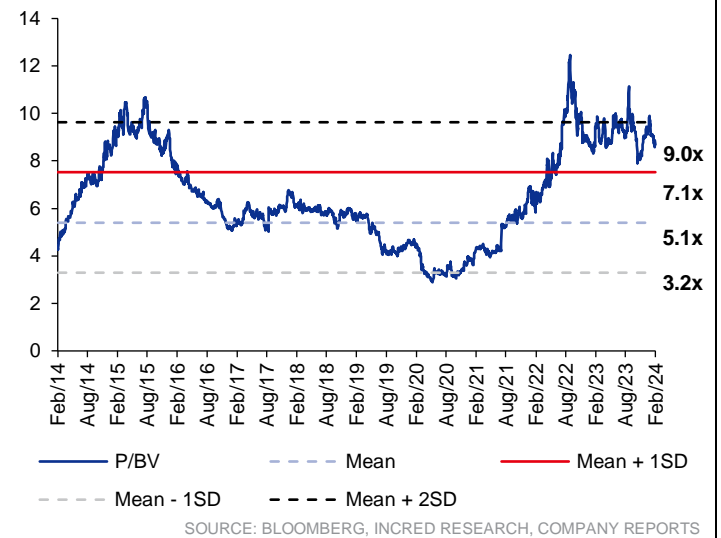
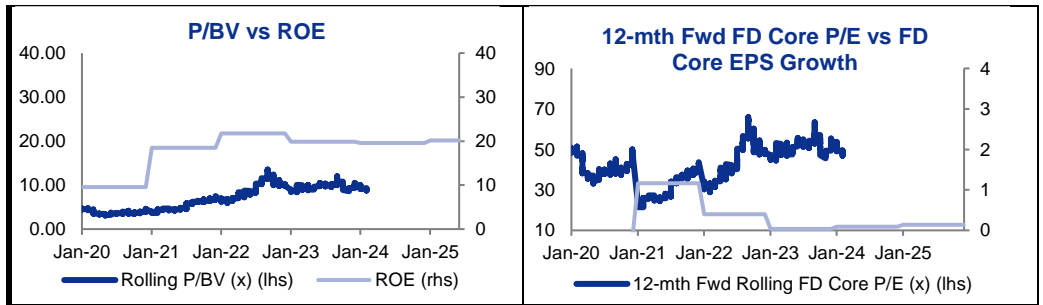


Figure 9: P/BV valuation trend



BY THE NUMBERS



Profit & Loss

(Rs mn)	Dec-21A	Dec-22A	Dec-23F	Dec-24F	Dec-25F
Total Net Revenues	55,605	68,674	72,509	78,671	89,676
Gross Profit	20,981	26,151	27,481	29,816	33,987
Operating EBITDA	9,715	12,944	13,211	14,733	16,884
Depreciation And Amortisation	(1,971)	(2,065)	(2,230)	(2,770)	(3,288)
Operating EBIT	7,744	10,879	10,981	11,963	13,597
Financial Income/(Expense)	(37)	(36)	(43)	(35)	(30)
Pretax Income/(Loss) from Assoc.					
Non-Operating Income/(Expense)	724	777	1,246	1,370	1,534
Profit Before Tax (pre-EI)	8,431	11,621	12,184	13,298	15,101
Exceptional Items		150	47		
Pre-tax Profit	8,431	11,770	12,231	13,298	15,101
Taxation	(2,140)	(2,978)	(3,148)	(3,422)	(3,886)
Exceptional Income - post-tax					
Profit After Tax	6,291	8,792	9,083	9,876	11,215
Minority Interests					
Preferred Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
Net Profit	6,291	8,792	9,083	9,876	11,215
Recurring Net Profit	6,291	8,680	9,048	9,876	11,215
Fully Diluted Recurring Net Profit	6,291	8,680	9,048	9,876	11,215

Cash Flow

(Rs mn)	Dec-21A	Dec-22A	Dec-23F	Dec-24F	Dec-25F
EBITDA	9,715	12,944	13,211	14,733	16,884
Cash Flow from Invt. & Assoc.	(1,284)	(1,174)	(980)	(1,435)	(1,783)
Change In Working Capital	(3,280)	(2,459)	232	(951)	(1,654)
(Incr)/Decr in Total Provisions					
Other Non-Cash (Income)/Expense	1,971	2,065	2,230	2,770	3,288
Other Operating Cashflow	(617)	(771)	(1,246)	(1,370)	(1,534)
Net Interest (Paid)/Received	(37)	(36)	(43)	(35)	(30)
Tax Paid	(1,895)	(3,136)	(3,148)	(3,422)	(3,886)
Cashflow From Operations	4,573	7,434	10,257	10,290	11,284
Capex	(1,826)	(4,788)	(5,877)	(3,092)	(5,300)
Disposals Of FAs/subsidiaries		594			
Acq. Of Subsidiaries/investments	(2,127)	(1,678)			
Other Investing Cashflow	537	526	1,246	1,370	1,534
Cash Flow From Investing	(3,416)	(5,345)	(4,632)	(1,722)	(3,766)
Debt Raised/(repaid)					
Proceeds From Issue Of Shares					
Shares Repurchased					
Dividends Paid	2,108	2,070	1,660	3,663	7,334
Preferred Dividends					
Other Financing Cashflow	(3)	(5)	43	35	30
Cash Flow From Financing	2,105	2,065	1,703	3,698	7,364
Total Cash Generated	3,262	4,154	7,329	12,266	14,882
Free Cashflow To Equity	1,157	2,089	5,625	8,568	7,519
Free Cashflow To Firm	1,194	2,124	5,668	8,603	7,549

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	15,857	19,458	21,380
Total Debtors	8,463	10,324	10,556	11,639	13,267
Inventories	10,865	12,434	13,156	13,794	15,724
Total Other Current Assets	133	37			
Total Current Assets	33,617	38,340	39,569	44,891	50,371
Fixed Assets	11,577	14,064	17,711	18,033	20,045
Total Investments					
Intangible Assets	12	6	1,609	1,609	1,609
Total Other Non-Current Assets	3,756	4,858	3,777	5,422	6,146
Total Non-current Assets	15,345	18,927	23,097	25,064	27,800
Short-term Debt					
Current Portion of Long-Term Debt					
Total Creditors	9,329	11,117	10,551	13,148	15,233
Other Current Liabilities	3,097	3,291	4,060	3,880	4,422
Total Current Liabilities	12,426	14,408	14,612	17,027	19,655
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	14,612	17,027	19,655
Shareholders Equity	36,537	42,859	48,054	52,928	58,516
Minority Interests					
Total Equity	36,537	42,859	48,054	52,928	58,516

Key Ratios

	Dec-21A	Dec-22A	Dec-23F	Dec-24F	Dec-25F
Revenue Growth	47.8%	23.5%	5.6%	8.5%	14.0%
Operating EBITDA Growth	81.2%	33.2%	2.1%	11.5%	14.6%
Operating EBITDA Margin	17.5%	18.8%	18.2%	18.7%	18.8%
Net Cash Per Share (Rs)	90.57	99.46	101.45	124.49	136.78
BVPS (Rs)	233.75	274.20	307.44	338.62	374.37
Gross Interest Cover	211.02	306.46	257.16	341.81	453.22
Effective Tax Rate	25.4%	25.3%	25.7%	25.7%	25.7%
Net Dividend Payout Ratio	39.8%	43.4%	41.5%	50.6%	50.2%
Accounts Receivables Days	50.48	49.93	52.55	51.49	50.69
Inventory Days	94.88	99.99	103.72	100.68	96.74
Accounts Payables Days	(89.69)	(87.75)	(87.82)	(88.53)	(93.01)
ROIC (%)	34.6%	39.8%	34.1%	35.7%	36.6%
ROCE (%)	22.8%	27.4%	24.2%	23.7%	24.4%
Return On Average Assets	14.0%	16.3%	15.1%	14.9%	15.2%

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	37,291	38,363	43,757
Industrial	21,566	24,247	25,478	30,869	35,065
Exports	7,160	11,427	9,740	9,438	10,854
Total Revenue	55,605	68,674	72,509	78,671	89,676
yoy growth (%)	N/A	N/A	N/A	N/A	N/A
Automotive	49.9	22.8	13.0	2.9	14.1
Industrial	39.1	12.4	5.1	21.2	13.6
Exports	70.9	59.6	(14.8)	(3.1)	15.0

SOURCE: INCRED RESEARCH, COMPANY REPORTS

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any other material conflict of interest at the time of publication of the research report or at the time of public appearance	NO	NO
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