

India

October 25, 2024 - 6:50 PM

ADD (no change)

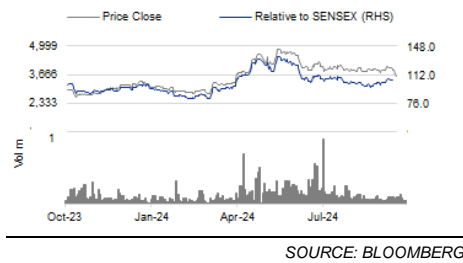
Consensus ratings*: Buy 5 Hold 2 Sell 3

Current price:	Rs3,604
Target price:	Rs4,668
Previous target:	Rs4,668
Up/downside:	29.5%
InCred Research / Consensus:	12.1%
Reuters:	SCHE.BO
Bloomberg:	SCHFL IN
Market cap:	US\$6,700m Rs563,365m
Average daily turnover:	US\$8.3m Rs702.0m
Current shares o/s:	156.3m
Free float:	25.9%

*Source: Bloomberg

Key financial forecast

	Dec-23F	Dec-24F	Dec-25F
Net Profit (Rsm)	9,210	10,434	11,813
Core EPS (Rs)	58.70	66.76	75.58
Core EPS Growth	5.7%	13.7%	13.2%
FD Core P/E	61.40	53.99	47.69
Recurring ROE	20.2%	20.5%	20.7%
P/BV (x)	11.72	10.47	9.32
DPS (Rs)	24.00	30.00	33.00
Dividend Yield	0.67%	0.83%	0.92%



Price performance	1M	3M	12M
Absolute (%)	(7.8)	(10.8)	20.9
Relative (%)	(0.7)	(8.7)	(2.9)

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

Weak exports led to 3Q EBITDA miss

- 3QCY24 EBITDA growth of 8% yoy missed the Bloomberg consensus estimate by 5% due to poor sales mix.
- Weak exports and aftermarket performance led to flat qoq sales growth, but it was up 14% with a yoy beat of ~1% to the Bloomberg consensus estimate.
- Retain CY24F estimates, where we build in 4Q EBITDA growth of 19% yoy. With the valuation near +1SD of the 10-year mean, we retain our ADD rating.

Muted EPS growth resulted in missing Bloomberg estimate by 8%

- Schaeffler India's 3QCY24 revenue rose by 14% yoy but was flat qoq, leading to a marginal beat of 1% vs. the Bloomberg or BB consensus estimate.
- EBITDA saw a 5% miss vs. the BB consensus estimate for the quarter, up 8% yoy but down 2% qoq, due to weak performance of the aftermarket and export divisions.
- Higher staff costs (+22% yoy) and other expenses (+15% yoy) led to the EBITDA margin contraction of 94bp yoy and 44bp qoq, a 100bp miss vs. the BB estimate.
- The 30% yoy growth in depreciation and lower other income (-11% yoy) led to slower PAT growth of 2% yoy and a 4% decline qoq.
- Despite elevated working capital (20% of sales) needs, the company delivered positive FCF of Rs1bn, after two consecutive quarters of negative FCF.

Management conference-call highlights

- Automotive production volume saw muted growth due to the high inventory level (80 days) and weak demand in the passenger car segment, and the commercial vehicle volume continuing its declining trend. The mining sector also remained subdued due to heavy rainfall; however, it was positive for the tractor segment.
- Export business declined by 15% mainly due to the weak macroeconomic environment in Europe, and management shifting its focus to America, China and Asian countries.
- During the quarter, revenue growth was mainly driven by automotive technology and bearing segments, while exports and the aftermarket business remained subdued.
- Won orders for double clutch systems in the commercial vehicle space and a few in the passenger vehicle space. In the aftermarket segment, management continued its focus on portfolio expansion. Won orders for cylindrical roller bearings meant for the off-road segment, & spherical roller bearings and adapter sleeves for the raw material segment.
- For 9MFY24, the capex stood at Rs2bn, up 32% yoy, which, management believes, is on the higher side and hence, gave guidance of lower capex for the next calendar year.
- The Hosur greenfield project is on track and it will start operations early next year, initially at the component level, primarily for transmission applications (clutches).

Valuation eases from its peak; maintain ADD rating

- We maintain our CY25F-27F estimates as the positive FCF in 3QCY24 gives us confidence on Schaeffler India's long-term prospects.
- The sharp correction in Schaeffler India's stock price in recent months eased its one-year forward P/E valuation to +1SD above the 10-year mean and P/BV to +2SD.
- As management increases its focus on working capital management and improvement of free cash flow generation, we maintain our ADD rating on the stock.

Figure 1: Growth continues in the domestic business, up 11.5% yoy

Growth	Q3'24 vs Q2'24	Q3'24 vs Q3'23	9M'24 vs 9M'23
Automotive Technologies	0.8%	10.7%	10.4%
Vehicle Lifetime Solutions	-2.3%	6.9%	5.5%
Bearings and Industrial Solutions	5.0%	13.0%	15.2%
Intercompany Exports & others	-14.6%	17.1%	7.5%

SOURCES: INCRED RESEARCH, COMPANY REPORTS

Figure 1: Quarterly results comparison

Consolidated quarterly analysis									
Y/E Dec (Rs m)	3QCY24	3QCY23	yoy % chg	2QCY24	qoq % chg	9M CY24	9M CY23	yoy % chg	Comments for the quarter
Total Revenue	21,164	18,536	14.2%	21,068	0.5%	60,963	53,764	13.4%	In line with the Bloomberg estimate.
Less:									
Net Raw Materials Consumed	13,225	11,653	13.5%	13,122	0.8%	37,987	33,249	14.2%	
Other Expenses	2,846	2,329	22.2%	2,706	5.2%	8,080	7,070	14.3%	
Personnel Costs	1,405	1,150	22.1%	1,477	(4.9%)	4,147	3,475	19.4%	
Total Expenditure	17,476	15,132	15.5%	17,305	1.0%	50,214	43,794	14.7%	
EBITDA	3,688	3,404	8.3%	3,763	(2.0%)	10,750	9,970	7.8%	5% below the Bloomberg estimate.
EBITDA margin	17.4%	18.4%	(94)	17.9%	(44)	17.6%	18.5%	(91)	105bp below the Bloomberg estimate.
Depreciation	733	562	30.4%	677	8.4%	2,034	1,626	25.1%	
EBIT	2,955	2,842	4.0%	3,087	(4.3%)	8,715	8,344	4.4%	
Interest Paid	11	16	(33.8%)	16	(33.3%)	35	32	7.7%	
Non-operating Income	276	309	(10.7%)	248	11.3%	835	944	(11.5%)	
Extraordinary Expenses	0	0		0		0	0		
Profit Before Tax	3,220	3,135	2.7%	3,318	(3.0%)	9,515	9,255	2.8%	
Less: Total Tax	856	807	6.0%	864	(0.9%)	2,500	2,362	5.8%	
Profit After Tax	2,364	2,328	1.6%	2,455	(3.7%)	7,016	6,893	1.8%	8.2% below the Bloomberg estimate.
Profit After Tax Excl. Extraordinary Items	2,364	2,328	1.6%	2,455	(3.7%)	7,016	6,893	1.8%	
Reported EPS-Diluted (Rs.)	15.1	14.9	1.6%	15.7	(3.7%)	44.9	44.1	1.8%	
Proforma EPS Diluted (Rs.)	15.1	14.9	1.6%	15.7	(3.7%)	44.9	44.1	1.8%	

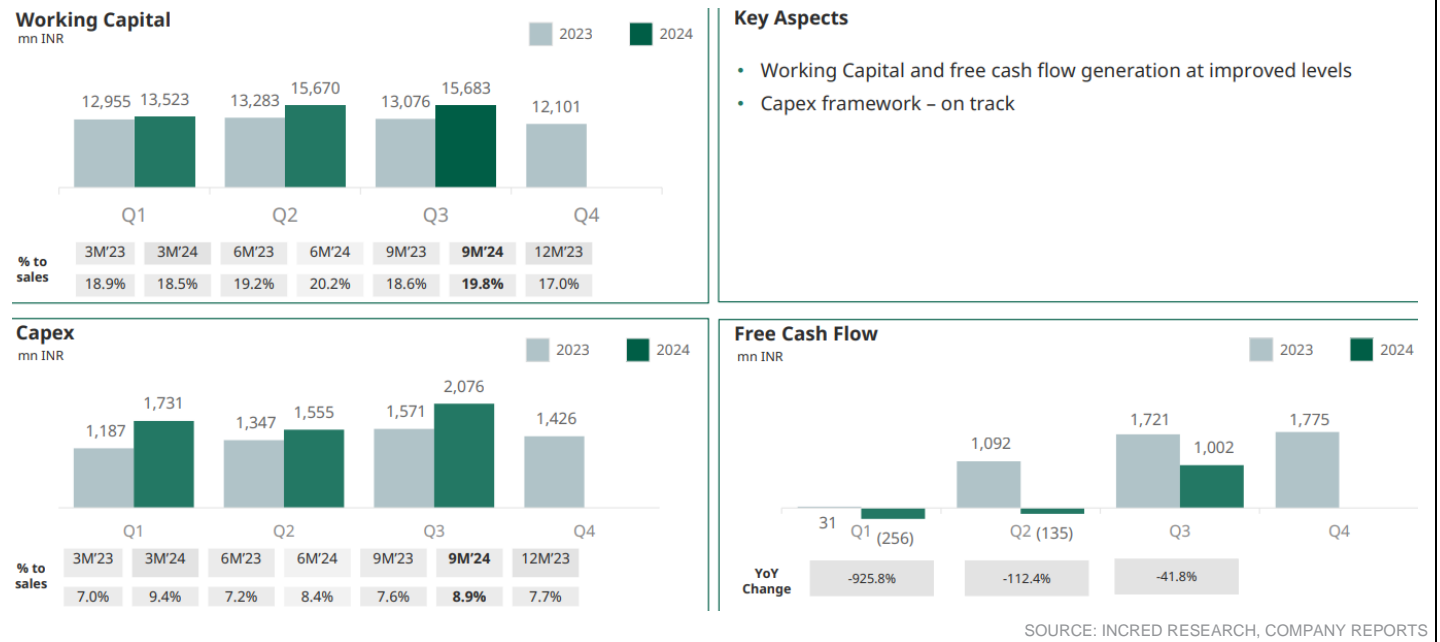
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 2: Segment-wise performance

Segmental Analysis (Rs m)	3QCY24	3QCY23	yoy % chg	2QCY24	qoq % chg	9M CY24	9M CY23	yoy % chg
Automotive Technologies	6,889	7,729	(10.9%)	6,837	0.8%	20,250	19,845	(6.0%)
Automotive Aftermarket	2,229	1,678	32.9%	2,186	2.0%	6,260	4,990	20.9%
Industrial	9,433	6,845	37.8%	8,988	5.0%	26,254	21,212	17.2%
Exports & Others	2,612	2,232	17.1%	3,057	(14.6%)	8,199	7,664	3.0%
Total	21,164	18,483	14.5%	21,068	0.5%	60,963	53,711	6.2%
Sales Mix (%)	3QCY24	3QCY23	yoy bp chg	2QCY24	qoq bp chg	9M CY24	9M CY23	yoy bp chg
Automotive Technologies (%)	33%	42%	(926.3)	32%	9.9	33%	37%	(373.0)
Automotive Aftermarket (%)	11%	9%	145.6	10%	15.6	10%	9%	97.8
Industrial (%)	45%	37%	753.7	43%	191.2	43%	39%	357.2
Exports & Others (%)	12%	12%	27.0	15%	(216.7)	13%	14%	(82.0)

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 3: Working capital and capex trend



SOURCE: INCRED RESEARCH, COMPANY REPORTS

Profit & Loss

(Rs mn)	Dec-22A	Dec-23F	Dec-24F	Dec-25F
Total Net Revenues	68,674	72,261	81,574	92,702
Gross Profit	26,151	27,475	31,016	35,247
Operating EBITDA	12,944	13,268	15,401	17,594
Depreciation And Amortisation	(2,065)	(2,191)	(2,770)	(3,288)
Operating EBIT	10,879	11,077	12,631	14,307
Financial Income/(Expense)	(36)	(42)	(35)	(30)
Pretax Income/(Loss) from Assoc.				
Non-Operating Income/(Expense)	777	1,249	1,374	1,539
Profit Before Tax (pre-EI)	11,621	12,284	13,969	15,815
Exceptional Items	150	47		
Pre-tax Profit	11,770	12,331	13,969	15,815
Taxation	(2,978)	(3,121)	(3,535)	(4,002)
Exceptional Income - post-tax				
Profit After Tax	8,792	9,210	10,434	11,813
Minority Interests				
Preferred Dividends				
FX Gain/(Loss) - post tax				
Other Adjustments - post-tax				
Net Profit	8,792	9,210	10,434	11,813
Recurring Net Profit	8,680	9,175	10,434	11,813
Fully Diluted Recurring Net Profit	8,680	9,175	10,434	11,813

Balance Sheet

(Rs mn)	Dec-22A	Dec-23F	Dec-24F	Dec-25F
Total Cash And Equivalents	15,545	15,857	19,381	22,042
Total Debtors	10,324	10,556	12,515	14,477
Inventories	12,434	13,156	14,303	16,255
Total Other Current Assets	37			
Total Current Assets	38,340	39,569	46,200	52,773
Fixed Assets	14,064	17,711	18,033	20,045
Total Investments				
Intangible Assets	6	1,609	1,609	1,609
Total Other Non-Current Assets	4,858	3,777	5,613	6,345
Total Non-current Assets	18,927	23,097	25,255	27,999
Short-term Debt				
Current Portion of Long-Term Debt				
Total Creditors	11,117	10,551	13,633	15,747
Other Current Liabilities	3,291	4,060	4,023	4,572
Total Current Liabilities	14,408	14,612	17,656	20,318
Total Long-term Debt				
Hybrid Debt - Debt Component				
Total Other Non-Current Liabilities				
Total Non-current Liabilities				
Total Provisions				
Total Liabilities	14,408	14,612	17,656	20,318
Shareholders Equity	42,859	48,054	53,799	60,454
Minority Interests				
Total Equity	42,859	48,054	53,799	60,454

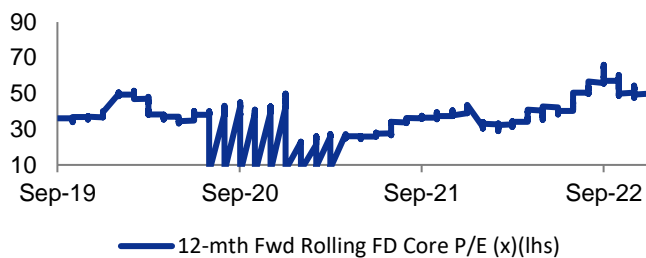
Cash Flow

(Rs mn)	Dec-22A	Dec-23F	Dec-24F	Dec-25F
EBITDA	12,944	13,268	15,401	17,594
Cash Flow from Invt. & Assoc.				
Change In Working Capital	(2,459)	232	(1,899)	(1,982)
(Incr)/Decr in Total Provisions				
Other Non-Cash (Income)/Expense				
Other Operating Cashflow	(771)	(1,249)	(1,374)	(1,539)
Net Interest (Paid)/Received	(36)	(42)	(35)	(30)
Tax Paid	(3,136)	(3,121)	(3,535)	(4,002)
Cashflow From Operations	6,543	9,088	8,558	10,042
Capex	(4,788)	(5,877)	(3,092)	(5,300)
Disposals Of FAs/subsidiaries	594			
Acq. Of Subsidiaries/Investments	(1,678)			
Other Investing Cashflow	526	1,249	1,374	1,539
Cash Flow From Investing	(5,345)	(4,628)	(1,719)	(3,761)
Debt Raised/(repaid)				
Proceeds From Issue Of Shares				
Shares Repurchased				
Dividends Paid	(2,501)	(3,751)	(4,689)	(5,158)
Preferred Dividends				
Other Financing Cashflow	(5)	42	35	30
Cash Flow From Financing	(2,505)	(3,710)	(4,654)	(5,128)
Total Cash Generated	(1,308)	751	2,185	1,152
Free Cashflow To Equity	1,198	4,460	6,839	6,280
Free Cashflow To Firm	1,233	4,502	6,874	6,310

Key Ratios

	Dec-22A	Dec-23F	Dec-24F	Dec-25F
Revenue Growth	23.5%	5.2%	12.9%	13.6%
Operating EBITDA Growth	33.2%	2.5%	16.1%	14.2%
Operating EBITDA Margin	18.8%	18.4%	18.9%	19.0%
Net Cash Per Share (Rs)	99.46	101.45	123.99	141.02
BVPS (Rs)	274.20	307.44	344.19	386.77
Gross Interest Cover	306.46	265.63	360.87	476.89
Effective Tax Rate	25.3%	25.3%	25.3%	25.3%
Net Dividend Payout Ratio	43.4%	40.9%	44.9%	43.7%
Accounts Receivables Days	49.93	52.73	51.62	53.14
Inventory Days	99.99	104.28	99.12	97.06
Accounts Payables Days	(87.75)	(88.30)	(87.30)	(93.32)
ROIC (%)	39.8%	34.4%	36.7%	37.2%
ROCE (%)	27.4%	24.4%	24.8%	25.0%
Return On Average Assets	16.3%	15.4%	15.6%	15.6%

12-mth Fwd Rolling FD Core P/E (x)



Key Drivers

	Dec-22A	Dec-23F	Dec-24F	Dec-25F
Segmental Revenue	N/A	N/A	N/A	N/A
Automotive	33,001	37,291	39,363	44,665
Industrial	24,247	25,478	32,429	36,788
Exports	11,427	9,740	9,782	11,249
Total Revenue	68,674	72,509	81,574	92,702
yoy growth (%)	N/A	N/A	N/A	N/A
Automotive	22.8	13.0	5.6	13.5
Industrial	12.4	5.1	27.3	13.4
Exports	59.6	(14.8)	0.4	15.0

SOURCE: INCRED RESEARCH, COMPANY REPORTS

DISCLAIMER

This report (including the views and opinions expressed therein, and the information comprised therein) has been prepared by Incred Research Services Private Ltd. (formerly known as Earnest Innovation Partners Private Limited) (hereinafter referred to as "IRSPL"). IRSPL is registered with SEBI as a Research Analyst vide Registration No. INH000011024. Pursuant to a trademark agreement, IRSPL has adopted "Incred Equities" as its trademark for use in this report.

The term "IRSPL" shall, unless the context otherwise requires, mean IRSPL and its affiliates, subsidiaries and related companies. This report is not directed or intended for distribution to or use by any person or entity resident in a state, country or any jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject IRSPL and its affiliates/group companies to registration or licensing requirements within such jurisdictions.

This report is being supplied to you strictly on the basis that it will remain confidential. No part of this report may be (i) copied, photocopied, duplicated, stored or reproduced in any form by any means; or (ii) redistributed or passed on, directly or indirectly, to any other person in whole or in part, for any purpose without the prior written consent of IRSPL.

The information contained in this report is prepared from data believed to be correct and reliable at the time of issue of this report.

IRSPL is not required to issue regular reports on the subject matter of this report at any frequency and it may cease to do so or change the periodicity of reports at any time. IRSPL is not under any obligation to update this report in the event of a material change to the information contained in this report. IRSPL has not any and will not accept any, obligation to (i) check or ensure that the contents of this report remain current, reliable or relevant; (ii) ensure that the content of this report constitutes all the information a prospective investor may require; (iii) ensure the adequacy, accuracy, completeness, reliability or fairness of any views, opinions and information, and accordingly, IRSPL and its affiliates/group companies (and their respective directors, associates, connected persons and/or employees) shall not be liable in any manner whatsoever for any consequences (including but not limited to any direct, indirect or consequential losses, loss of profits and damages) of any reliance thereon or usage thereof.

Unless otherwise specified, this report is based upon reasonable sources. Such sources will, unless otherwise specified, for market data, be market data and prices available from the main stock exchange or market where the relevant security is listed, or, where appropriate, any other market. Information on the accounts and business of company(ies) will generally be based on published statements of the company(ies), information disseminated by regulatory information services, other publicly available information and information resulting from our research. While every effort is made to ensure that statements of facts made in this report are accurate, all estimates, projections, forecasts, expressions of opinion and other subjective judgments contained in this report are based on assumptions considered to be reasonable as of the date of the document in which they are contained and must not be construed as a representation that the matters referred to therein will occur. Past performance is not a reliable indicator of future performance. The value of investments may go down as well as up and those investing may, depending on the investments in question, lose more than the initial investment. No report shall constitute an offer or an invitation by or on behalf of IRSPL and its affiliates/group companies to any person to buy or sell any investments.

The opinions expressed are based on information which is believed to be accurate and complete and obtained through reliable public or other non-confidential sources at the time made (information barriers and other arrangements may be established, where necessary, to prevent conflicts of interests arising. However, the analyst(s) may receive compensation that is based on his/their coverage of company(ies) in the performance of his/their duties or the performance of his/their recommendations. In reviewing this report, an investor should be aware that any or all of the foregoing, among other things, may give rise to real or potential conflicts of interest. Additional information is, subject to the duties of confidentiality, available on request. The report is not a "prospectus" as defined under Indian Law, including the Companies Act, 2013, and is not, and shall not be, approved by, or filed or registered with, any Indian regulator, including any Registrar of Companies in India, SEBI, any Indian stock exchange, or the Reserve Bank of India. No offer, or invitation to offer, or solicitation of subscription with respect to any such securities listed or proposed to be listed in India is being made, or intended to be made, to the public, or to any member or section of the public in India, through or pursuant to this report.

The research analysts, strategists or economists principally responsible for the preparation of this research report are segregated from the other activities of IRSPL. Information barriers and other arrangements have been established, as required, to prevent any conflicts of interests.

The research analysts, strategists or economists principally responsible for the preparation of this research report are segregated from the other activities of IRSPL. Information barriers and other arrangements have been established, as required, to prevent any conflicts of interests.

IRSPL may have issued other reports (based on technical analysis, event specific, short-term views, etc.) that are inconsistent with and reach a different conclusion from the information presented in this report.

Holding of Analysts/Relatives of Analysts, IRSPL and Associates of IRSPL in the covered securities, as on the date of publishing of this report

Research Analyst or his/her relative(s) or InCred Research Services Private Limited or our associate may have any financial interest in the subject company.

Research Analyst or his/her relatives or InCred Research Services Limited or our associates may have actual or beneficial ownership of 1% or more securities of the subject company(ies) at the end of the month immediately preceding the date of publication of the Research Report.

Research Analyst or his/her relative or InCred Research Services Private Limited or our associate entities may have any other material conflict of interest at the time of publication of the Research Report.

In the past 12 months, IRSPL or any of its associates may have:

- a) Received any compensation/other benefits from the subject company,
- b) Managed or co-managed public offering of securities for the subject company,
- c) Received compensation for investment banking or merchant banking or brokerage services from the subject company,
- d) Received compensation for products or services other than investment banking or merchant banking or brokerage services from the subject company

We or our associates may have received compensation or other benefits from the subject company(ies) or third party in connection with the research report.

Research Analyst may have served as director, officer, or employee in the subject company.

We or our research analyst may engage in market-making activity of the subject company.

Analyst declaration

- The analyst responsible for the production of this report hereby certifies that the views expressed herein accurately and exclusively reflect his or her personal views and opinions about any and all of the issuers or securities analysed in this report and were prepared independently and autonomously in an unbiased manner.
- No part of the compensation of the analyst(s) was, is, or will be directly or indirectly related to the inclusion of specific recommendations(s) or view(s) in this report or based on any specific investment banking transaction.
- The analyst(s) has(have) not had any serious disciplinary action taken against him/her(them).
- The analyst, strategist, or economist does not have any material conflict of interest at the time of publication of this report.
- The analyst(s) has(have) received compensation based upon various factors, including quality, accuracy and value of research, overall firm performance, client feedback and competitive factors.

IRSPL and/or its affiliates and/or its Directors/employees may own or have positions in securities of the company(ies) covered in this report or any securities related thereto and may from time to time add to or dispose of, or may be materially interested in, any such securities.

IRSPL and/or its affiliates and/or its Directors/employees may do and seek to do business with the company(ies) covered in this research report and may from time to time (a) buy/sell the securities covered in this report, from time to time and/or (b) act as market maker or have assumed an underwriting commitment in securities of such company(ies), and/or (c) may sell them to or buy them from customers on a principal basis and/or (d) may also perform or seek to perform significant investment banking, advisory, underwriting or placement services for or relating to such company(ies) and/or (e) solicit such investment, advisory or other services from any entity mentioned in this report and/or (f) act as a lender/borrower to such company and may earn brokerage or other compensation. However, Analysts are forbidden to acquire, on their own account or hold securities (physical or uncertificated, including derivatives) of companies in respect of which they are compiling and producing financial recommendations or in the result of which they play a key part.

Recommendation Framework

Stock Ratings

Definition:

- Add** The stock's total return is expected to exceed 10% over the next 12 months.
- Hold** The stock's total return is expected to be between 0% and positive 10% over the next 12 months.
- Reduce** The stock's total return is expected to fall below 0% or more over the next 12 months.

The total expected return of a stock is defined as the sum of the: (i) percentage difference between the target price and the current price and (ii) the forward net dividend yields of the stock. Stock price targets have an investment horizon of 12 months.

Sector Ratings

Definition:

- Overweight** An Overweight rating means stocks in the sector have, on a market cap-weighted basis, a positive absolute recommendation.
- Neutral** A Neutral rating means stocks in the sector have, on a market cap-weighted basis, a neutral absolute recommendation.
- Underweight** An Underweight rating means stocks in the sector have, on a market cap-weighted basis, a negative absolute recommendation.

Country Ratings

Definition:

- Overweight** An Overweight rating means investors should be positioned with an above-market weight in this country relative to benchmark.
- Neutral** A Neutral rating means investors should be positioned with a neutral weight in this country relative to benchmark.
- Underweight** An Underweight rating means investors should be positioned with a below-market weight in this country relative to benchmark.