

India

ADD (no change)

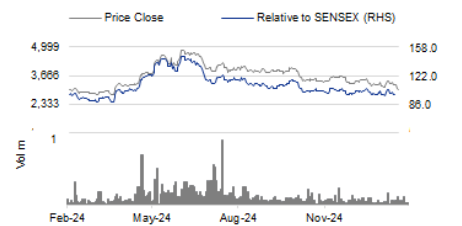
Consensus ratings*: Buy 6 Hold 2 Sell 2

Current price:	Rs3,061
Target price:	Rs3,773
Previous target:	Rs4,668
Up/downside:	23.3%
InCred Research / Consensus:	-3.0%
Reuters:	SCHE.BO
Bloomberg:	SCHFL IN
Market cap:	US\$5,468m Rs478,485m
Average daily turnover:	US\$2.8m Rs247.2m
Current shares o/s:	156.3m
Free float:	25.9%

*Source: Bloomberg

Key changes in this note

- Sales cut by ~1-2% for CY25F-26F.
- EBITDA cut by ~1% for CY25F-26F.
- EPS cut by ~1-2% for CY25F-26F.



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	(10.6)	(14.6)	5.8
Relative (%)	(5.8)	(5.7)	6.7

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

Research Analyst(s)



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Schaeffler India Ltd

Sustains double-digit sales momentum

- 4QCY24 EPS growing by 29% yoy to Rs18, aided by strong momentum in industrial/export sales and higher other income, is impressive.
- Management gave guidance of sustaining the double-digit sales momentum & also its focus on cutting imports and improving fixed asset turn to drive RoCE.
- Schaeffler India is our preferred stock in the bearing sector but considering demand blues, we have cut target P/E, leading to Rs3,773 TP. Retain ADD.

Strong sales momentum continues in the Dec 2024 quarter

Schaeffler India's Dec 2024 quarter EBITDA grew by 14% yoy but was flat qoq at Rs3.7bn, in line with Bloomberg consensus estimate. Strong industrial segment's growth of 35% yoy and export growth of 23% yoy is impressive. But an 8% yoy dip in the automotive technologies division's sales disappointed (Fig. 2). The EBITDA margin is flattish (-9bp qoq) at 17.3%. Due to higher other income (+159% yoy) and lower interest costs (-19% yoy), EPS growth was 28% yoy at Rs18.

Management conference-call highlights

Management indicated that export growth recovery will sustain, aided by war fears easing in the European region, which accounts for 60% of its exports. However, the weakness in the aftermarket business is due to structural penetration by OEMs into the segment and working capital challenges at dealer-end. Management gave guidance of a lower capex of Rs4bn for CY25F, as it will focus on improving the capital turnover from last three years' aggressive capex of Rs15bn. The company plans to reduce imports, from 24% of its sales currently, to 20% in the medium term.

Marginally trim our estimates

Building in the slowdown in the automotive division's sales momentum and weak guidance at the recent SIAM (Society of Indian Automobile Manufacturers) conclave, we trim our sales estimates by ~1-2% for CY25F-26F. However, improving export momentum and localization should help in expanding the EBITDA margin by 30bp to 18.7% in CY27F. Our EPS estimates stand trimmed by ~1-2% for CY25F-26F.

Forward P/E valuation eases below the 10-year mean level

The sharp correction in mid-cap stocks has impacted Schaeffler India's stock price in recent months, leading to its forward P/E valuation easing below the 10-year mean level (Fig. 8). Taking into account the easing demand momentum for the large automotive division (accounting for half of its sales), we trim target P/E close to the mean level at 45x one-year forward EPS, leading to a lower target price of Rs3,773 (Rs4,668 earlier). We maintain our ADD rating on Schaeffler India as its new products to increase the content per vehicle. The key downside risk is volatility in export growth because of geopolitical tensions.

Financial Summary

	Dec-23A	Dec-24A	Dec-25F	Dec-26F	Dec-27F
Revenue (Rsm)	72,261	80,763	91,622	103,826	114,423
Operating EBITDA (Rsm)	13,268	14,678	17,216	19,509	21,500
Net Profit (Rsm)	9,210	9,777	11,270	12,792	14,055
Core EPS (Rs)	58.7	62.5	72.1	81.8	89.9
Core EPS Growth	5.7%	6.6%	15.3%	13.5%	9.9%
FD Core P/E (x)	52.15	48.94	42.46	37.40	34.04
DPS (Rs)	24.0	28.0	33.0	38.0	38.0
Dividend Yield	0.78%	0.91%	1.08%	1.24%	1.24%
EV/EBITDA (x)	34.87	31.68	26.69	23.33	20.97
P/FCFE (x)	107.28	387.85	51.27	54.60	56.40
Net Gearing	(33.0%)	(25.3%)	(32.0%)	(35.3%)	(37.2%)
P/BV (x)	9.96	8.97	8.05	7.22	6.43
ROE	20.2%	19.3%	20.0%	20.3%	20.0%
% Change In Core EPS Estimates					
InCred Research/Consensus EPS (x)					

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Sustains double-digit sales momentum

Management conference-call highlights >

- **Automotive segment:** The two-wheeler or 2W segment saw growth from both domestic and export markets, coupled with higher electric vehicle or EV sales. The passenger vehicle or PV segment continued to witness growth on the back of sports utility vehicles or SUVs and reports of launches in the EV space. The commercial vehicle or CV segment saw demand pick-up on the revival of mining, infrastructure and logistics activities. The tractor segment was hit in 1HCY24 but growth recovery is seen in the second half, which is a positive development.
- **Industrial segment:** Growth in steel (6.6% yoy), coal (7.4% yoy), and electricity generation indicated a rebound in industrial activity. Management stated that it is witnessing strong demand from off-road vehicle, industrial automation, and railway segments, coupled with the expansion of Arcanol grease & lubricants business in the Indian market.
- **Capex:** In 4QCY24, the company incurred a capex of Rs1.55bn, with the full-year target at Rs6.91bn. Management gave guidance of capex moderation in CY25F by 10-20%, lower than the past four-year average of Rs5bn per year. The capex will be mainly on machinery, and production capacity expansion.
- **Localization:** Currently, the company has achieved 76% localization, and is targeting 80% in the medium term. E-axle localization efforts are underway, awaiting OEMs to launch their products.
- **Working capital requirement:** This got reduced from 19.8% (9MCY24) to 19% in 4QCY24, and management's endeavour is to focus on cash flow improvement.
- **International business & exports:** Export revenue saw a 11% growth yoy but it was below the peak level. 60% of the company's exports are to Europe, and the rest to the US, Southeast Asia, and China. Management's endeavour is to achieve Rs3bn revenue per quarter from exports, provided the geopolitical conditions improve.
- **EV/automotive businesses:** EV-related developments include products like e-axles, battery management systems, thermal management modules, power electronics, and sensors (NOx, temperature, and diagnostic sensors). Expansion into electric two-wheeler and three-wheeler components is underway.
- **New product launches:** Timing kits, wipers, front-end auxiliary drives, and lubricants, with an aim to expand into BS VI-compliant aftermarket products.
- **Aftermarket business:** Revenue declined due to the demand shifting to OEM service centres and liquidity problems in the market. Going ahead, management aims to focus on BS VI product expansion.
- **Wind energy & railway sectors:** The wind energy sector contributes 15-20% to the industrial solutions segment's revenue. Railway business saw decent growth, with new product approvals and the government's continued investments.

Figure 1: Quarterly results comparison for the standalone entity

Y/E Dec (Rs m)	4QCY24	4QCY23	yoy % chg	3QCY24	qoq % chg	CY24	CY23	yoy % chg	Comments for the quarter
Total Revenue	21,361	18,746	14.0%	21,164	0.9%	80,763	72,261	11.8%	In line with Bloomberg estimate.
Net Raw Materials Consumed	13,583	11,779	15.3%	13,225	2.7%	50,105	44,786	11.9%	
Other Expenses	2,800	2,580	8.5%	2,846	(1.6%)	10,754	9,624	11.7%	
Personnel Costs	1,275	1,146	11.3%	1,405	(9.3%)	5,226	4,583	14.0%	
Total Expenditure	17,657	15,505	13.9%	17,476	1.0%	66,085	58,994	12.0%	
EBIDTA	3,704	3,241	14.3%	3,688	0.4%	14,678	13,268	10.6%	1% above Bloomberg estimate.
EBIDTA margin	17%	17%	5	17%	-9	18%	18%	-19	26bp below Bloomberg estimate.
Depreciation	781	604	29.3%	733	6.6%	2,688	2,191	22.7%	
EBIT	2,923	2,637	10.8%	2,955	(1.1%)	11,991	11,077	8.2%	
Interest paid	9	10	(15.5%)	11	(17.9%)	35	42	(15.8%)	
Non-operating Income	781	302	158.7%	276	183.4%	1,219	1,249	(2.4%)	
Extraordinary item		(47)							
Profit Before Tax	3,695	2,975	24.2%	3,220	14.8%	13,175	12,331	6.8%	
Less: Total Tax	889	785	13.3%	856	3.9%	3,398	3,121	8.9%	
Profit After Tax	2,806	2,190	28.1%	2,364	18.7%	9,777	9,210	6.1%	16% above Bloomberg estimate.
Profit After Tax Excl. Extraordinary Items	2,806	2,156	30.2%	2,364	18.7%	9,777	9,163	6.7%	
Reported EPS-Diluted (Rs.)	18.0	14.0	28.1%	15.1	18.7%	62.5	58.9	6.1%	
Proforma EPS Diluted (Rs.)	18.0	13.8	30.2%	15.1	18.7%	62.5	58.6	6.7%	

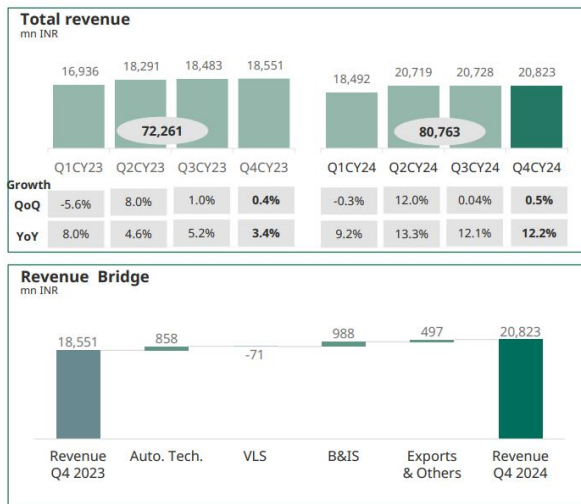
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 2: Division-wise performance for the consolidated entity

Segmental Analysis (Rs m)	4QCY24	4QCY23	yoy % chg	3QCY24	qoq % chg	CY24	CY23	yoy % chg
Automotive Technologies	7,083	7,657	(7.5%)	6,889	2.8%	27,333	27,501	(0.6%)
Automotive Aftermarket	2,318	2,045	13.3%	2,229	4.0%	8,578	7,035	21.9%
Industrial	9,363	6,929	35.1%	9,433	(0.7%)	35,617	28,141	26.6%
Exports & Others	2,597	2,114	22.8%	2,612	(0.6%)	10,796	9,778	10.4%
Total	21,361	18,746	14.0%	21,164	0.9%	82,324	72,456	13.6%
Sales Mix (%)	4QCY24	4QCY23	yoy bp chg	3QCY24	qoq bp chg	CY24	CY23	yoy bp chg
Automotive Technologies (%)	33%	41%	(768.6)	33%	60.7	33%	38%	(475.4)
Automotive Aftermarket (%)	11%	11%	(6.1)	11%	31.7	10%	10%	71.0
Industrial (%)	44%	37%	686.9	45%	(73.9)	43%	39%	442.5
Exports & Others (%)	12%	11%	87.8	12%	(18.6)	13%	13%	(38.2)

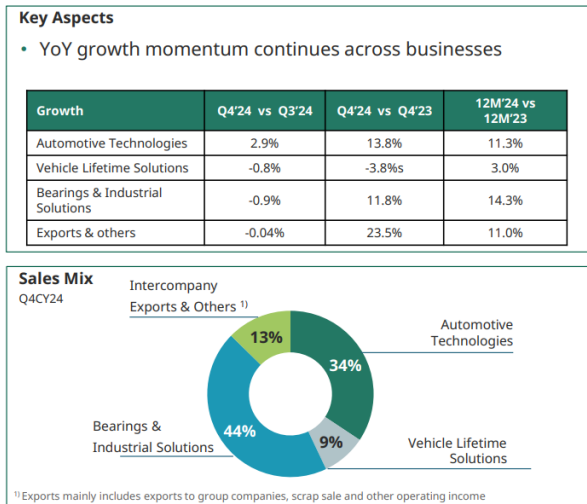
SOURCE: INCRED RESEARCH, COMPANY REPORTS

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: Working capital and capex trends

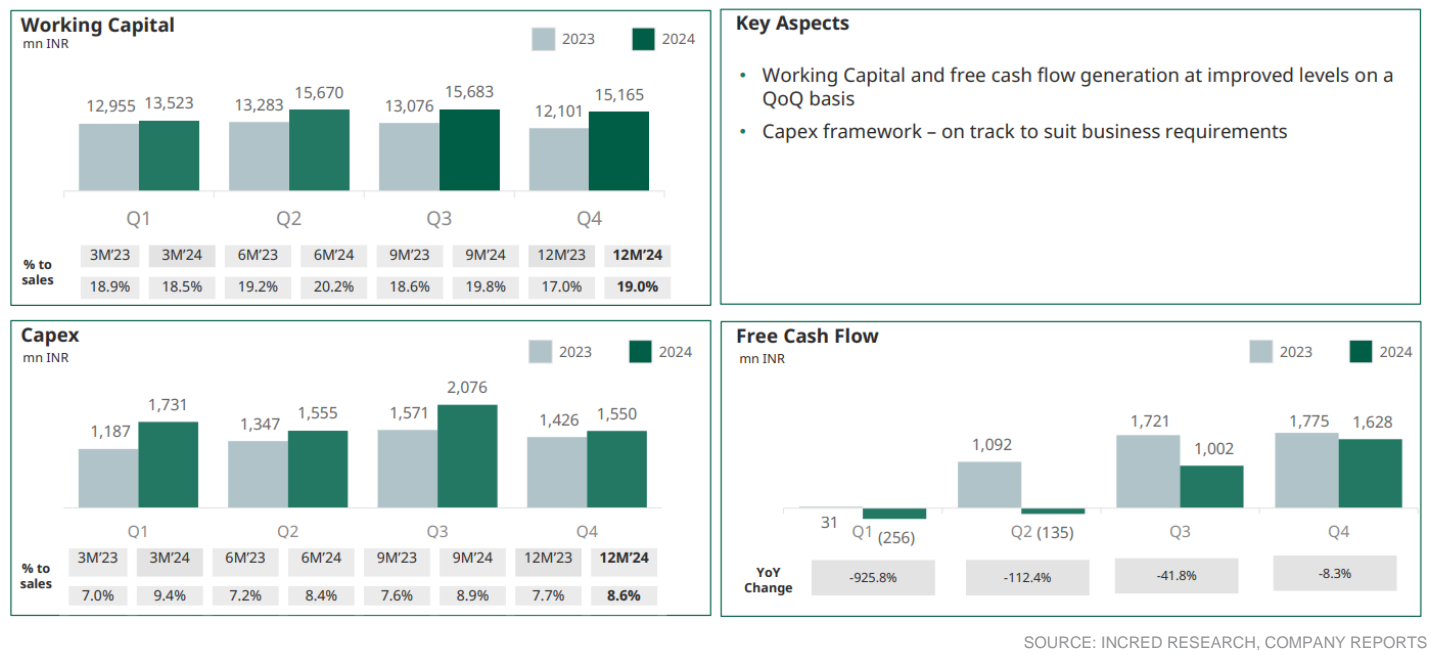


Figure 6: Earnings estimates revision summary

(Rs m)	CY25F		CY26F	
	Old	New	Old	New
Revenue	92,702	91,622	1,05,714	1,03,826
% change		-1.2%		-1.8%
EBITDA	17,067	16,921	19,363	19,218
% change		-0.9%		-0.7%
EBITDA margin	18.4%	18.5%	18.3%	18.5%
bp change		6		19
PAT	11,497	11,314	13,019	12,865
% change		-1.6%		-1.2%
EPS (Rs)	74	72	83	82
% change		-1.6%		-1.2%

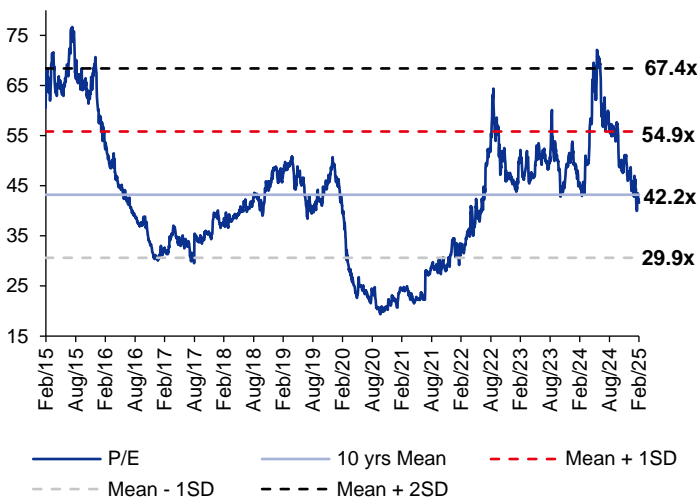
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 7: Target price valuation table

One-year forward EPS (Rs)	83.8
P/E (x)	45.0
Target price (Rs)	3,773

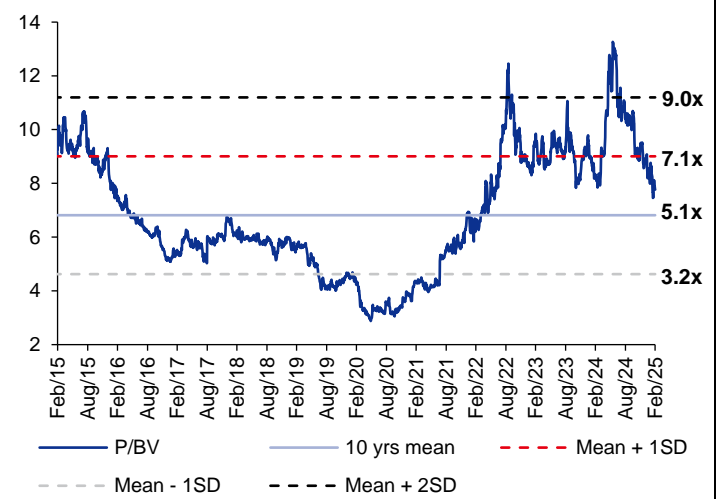
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 8: One-year forward P/E valuation eases to below 10-year mean level



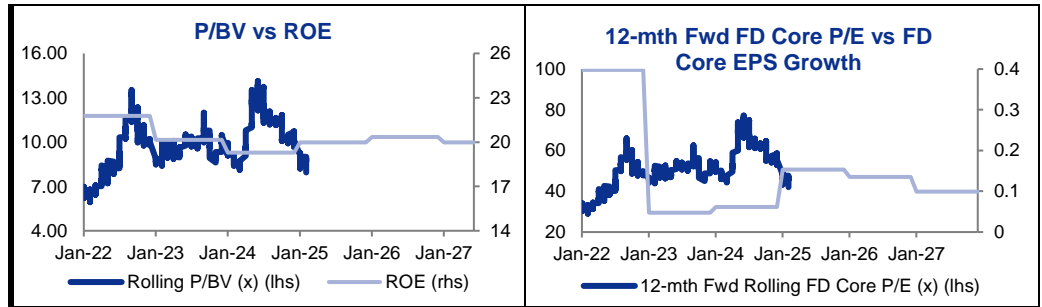
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 9: P/BV valuation also eases close to 10-year mean level



SOURCE: INCRED RESEARCH, COMPANY REPORTS

BY THE NUMBERS



Profit & Loss

(Rs mn)	Dec-23A	Dec-24A	Dec-25F	Dec-26F	Dec-27F
Total Net Revenues	72,261	80,763	91,622	103,826	114,423
Gross Profit	27,475	30,658	34,780	39,413	43,436
Operating EBITDA	13,268	14,678	17,216	19,509	21,500
Depreciation And Amortisation	(2,191)	(2,688)	(3,365)	(3,770)	(4,242)
Operating EBIT	11,077	11,991	13,851	15,739	17,258
Financial Income/(Expense)	(42)	(35)	(30)	(30)	(30)
Pretax Income/(Loss) from Assoc.					
Non-Operating Income/(Expense)	1,249	1,219	1,366	1,529	1,713
Profit Before Tax (pre-EI)	12,284	13,175	15,186	17,238	18,941
Exceptional Items	47				
Pre-tax Profit	12,331	13,175	15,186	17,238	18,941
Taxation	(3,121)	(3,398)	(3,917)	(4,446)	(4,885)
Exceptional Income - post-tax					
Profit After Tax	9,210	9,777	11,270	12,792	14,055
Minority Interests					
Preferred Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
Net Profit	9,210	9,777	11,270	12,792	14,055
Recurring Net Profit	9,175	9,777	11,270	12,792	14,055
Fully Diluted Recurring Net Profit	9,175	9,777	11,270	12,792	14,055

Cash Flow

(Rs mn)	Dec-23A	Dec-24A	Dec-25F	Dec-26F	Dec-27F
EBITDA	13,268	14,678	17,216	19,509	21,500
Cash Flow from Invt. & Assoc.					
Change In Working Capital	232	(2,818)	(2,627)	(1,270)	(2,601)
(Incr)/Decr in Total Provisions					
Other Non-Cash (Income)/Expense					
Other Operating Cashflow	(1,249)	(1,219)	(1,366)	(1,529)	(1,713)
Net Interest (Paid)/Received	(42)	(35)	(30)	(30)	(30)
Tax Paid	(3,121)	(3,398)	(3,917)	(4,446)	(4,885)
Cashflow From Operations	9,088	7,208	9,276	12,234	12,271
Capex	(5,877)	(7,193)	(1,309)	(5,000)	(5,500)
Disposals Of FAs/subsidiaries					
Acq. Of Subsidiaries/investments					
Other Investing Cashflow	1,249	1,219	1,366	1,529	1,713
Cash Flow From Investing	(4,628)	(5,974)	57	(3,471)	(3,787)
Debt Raised/(repaid)					
Proceeds From Issue Of Shares					
Shares Repurchased					
Dividends Paid	(3,751)	(4,377)	(5,158)	(5,940)	(5,940)
Preferred Dividends					
Other Financing Cashflow	42	35	30	30	30
Cash Flow From Financing	(3,710)	(4,341)	(5,128)	(5,910)	(5,910)
Total Cash Generated	751	(3,108)	4,205	2,854	2,574
Free Cashflow To Equity	4,460	1,234	9,333	8,763	8,484
Free Cashflow To Firm	4,502	1,269	9,363	8,793	8,514

SOURCE: INCRED RESEARCH, COMPANY REPORTS

BY THE NUMBERS...cont'd

Balance Sheet					
(Rs mn)	Dec-23A	Dec-24A	Dec-25F	Dec-26F	Dec-27F
Total Cash And Equivalents	15,857	13,500	19,041	23,394	27,651
Total Debtors	10,556	12,929	14,308	15,645	16,928
Inventories	13,156	14,696	16,065	18,205	20,377
Total Other Current Assets					
Total Current Assets	39,569	41,126	49,414	57,244	64,956
Fixed Assets	17,711	22,674	20,618	21,848	23,105
Total Investments					
Intangible Assets	1,609	1,513	1,513	1,513	1,513
Total Other Non-Current Assets	3,777	3,517	6,236	7,038	7,735
Total Non-current Assets	23,097	27,704	28,366	30,399	32,353
Short-term Debt					
Current Portion of Long-Term Debt					
Total Creditors	10,551	11,281	13,806	16,214	17,242
Other Current Liabilities	4,060	4,204	4,518	5,120	5,643
Total Current Liabilities	14,612	15,485	18,324	21,334	22,885
Total Long-term Debt					
Hybrid Debt - Debt Component					
Total Other Non-Current Liabilities					
Total Non-current Liabilities					
Total Provisions					
Total Liabilities	14,612	15,485	18,324	21,334	22,885
Shareholders Equity	48,054	53,344	59,456	66,309	74,425
Minority Interests					
Total Equity	48,054	53,344	59,456	66,309	74,425

Key Ratios					
	Dec-23A	Dec-24A	Dec-25F	Dec-26F	Dec-27F
Revenue Growth	5.2%	11.8%	13.4%	13.3%	10.2%
Operating EBITDA Growth	2.5%	10.6%	17.3%	13.3%	10.2%
Operating EBITDA Margin	18.4%	18.2%	18.8%	18.8%	18.8%
Net Cash Per Share (Rs)	101.45	86.37	121.82	149.67	176.91
BVPS (Rs)	307.44	341.29	380.39	424.23	476.15
Gross Interest Cover	265.63	341.61	461.69	524.63	575.25
Effective Tax Rate	25.3%	25.8%	25.8%	25.8%	25.8%
Net Dividend Payout Ratio	40.9%	44.8%	45.8%	46.4%	42.3%
Accounts Receivables Days	52.73	53.07	54.25	52.65	51.95
Inventory Days	104.28	101.45	98.77	97.10	99.19
Accounts Payables Days	(88.30)	(79.52)	(80.55)	(85.05)	(86.01)
ROIC (%)	34.4%	30.1%	34.3%	36.7%	36.9%
ROCE (%)	24.4%	23.7%	24.6%	25.0%	24.5%
Return On Average Assets	15.4%	14.9%	15.4%	15.5%	15.2%

Key Drivers					
	Dec-23A	Dec-24A	Dec-25F	Dec-26F	Dec-27F
Segmental Revenue	N/A	N/A	N/A	N/A	N/A
Automotive	37,291	38,057	42,943	(13)	17,939
Industrial	25,478	31,911	35,724	(23)	15,525
Exports	9,740	10,796	12,955	231	3,959
Total Revenue	72,509	80,763	91,622	N/A	37,618
yoy growth (%)	N/A	N/A	N/A	N/A	N/A
Automotive	13.0	2.1	12.8	1.1	N/A
Industrial	5.1	25.2	12.0	1.1	N/A
Exports	(14.8)	10.8	20.0	1.3	3,450.6

SOURCE: INCRED RESEARCH, COMPANY REPORTS

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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.