

India

July 27, 2023 - 11:27 PM

**ADD** (no change)

Consensus ratings\*: Buy 4 Hold 3 Sell 1

Current price:	Rs3,085
Target price:	Rs3,538
Previous target:	Rs3,538
Up/downside:	14.7%
InCred Research / Consensus:	9.6%
Reuters:	
Bloomberg:	SCHFL IN
Market cap:	US\$6,640m
	Rs482,150m
Average daily turnover:	US\$4.6m
	Rs330.8m
Current shares o/s:	156.3m
Free float:	25.9%

\*Source: Bloomberg

**Key financial forecast**

	Dec-23F	Dec-24F
Net Profit (Rsm)	10,117	11,951
Core EPS (Rs)	64.73	76.46
Core EPS Growth	16.6%	18.1%
FD Core P/E	47.66	40.35
Recurring ROE	22.1%	22.9%
P/BV (x)	9.92	8.68
DPS (Rs)	28.00	32.00
Dividend Yield	0.91%	1.04%



SOURCE: BLOOMBERG

Price performance	1M	3M	12M
Absolute (%)	0.4	10.1	23.2
Relative (%)	(3.1)	1.5	5.7

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

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# Schaeffler India Ltd

## EV parts order wins continue; 2Q impressive

- Jun 2023 quarter EPS growth is 8% qoq & 11% yoy at Rs15.2, 8% above our estimate, driven by higher other income while the EBITDA is in line.
- Growth in the automotive aftermarket and industrial division is impressive while export growth is weak. 1HFY24 EPS formed 45% of CY23F EPS.
- New EV parts order wins expanding to 2Ws is impressive. Retain ADD rating as new capacity expansion to drive sales as well as import substitution.

### Jun 2023 quarter results show a healthy FCF

- Jun 2023 quarter net sales growth eased to 4.6% yoy on a high base, in line with our estimate. High growth in the automobile aftermarket (24%) is impressive, driven by channel penetration and product expansion.
- The EBITDA growth at 6% yoy to Rs3.4bn is 1% above our estimate, as qoq higher raw material cost was overcome by tight cost control. Lower depreciation and higher other income led to an 8% beat in PAT at Rs2.4bn.
- Net working capital marginally increased to 19.2% of sales. FCF generation is healthy at Rs1.1bn.

### Management conference-call highlights

- The additional production space of 10,000 sq.m at its Savli plant and investments in the Hosur greenfield plant are to cater to demand for spherical roller bearings, spherical rollers, and support the expansion of heat treatment facilities. The expansion of production capacity is to cater to sectors like wind energy, heavy industries, and railways.
- The company has allocated a capex of Rs5.5bn for CY23, of which Rs2.5bn has been incurred in 1HCY23 for capacity expansion initiatives.
- The company is actively driving localization efforts, aiming at 80% localization in the coming years vs. 76% currently.
- ICE-specific risk is 40% of sales for the company, as these components go into engine parts. The new electric vehicle or EV parts programs for cars and two-wheelers are aimed at reducing this risk in the medium term.
- Export growth weakness is due to the slowdown in Europe and the US markets, which account for 50% of its exports, while Asia is still on the growth profile.

### Reiterate ADD rating for its mean P/E valuation

- To meet our CY23F estimate, the company must post a 22% rise in EPS over its 1HCY23 achievement which, we feel, is achievable, as the new capacity comes on stream. We maintain our estimates and our target price. The stock trades at below seven-year mean P/E level and provides comfort for our ADD rating on it.

**Figure 1: Jun 2023 quarter results comparison**

YE Dec (Rs m)	2QCY23	2QCY22	yoy % chg	1QCY23	qoq % chg	1HCY23	1HCY22	yoy % chg
<b>Total Revenue</b>	<b>18,291</b>	<b>17,488</b>	<b>4.6%</b>	<b>16,936</b>	<b>8.0%</b>	<b>35,228</b>	<b>33,163</b>	<b>6.2%</b>
Less:								
Net Raw Material consumed	11,229	10,992	2.2%	10,367	8.3%	21,597	20,515	5.3%
Other Expenses	2,458	2,190	12.2%	2,283	7.6%	4,741	4,214	12.5%
Personnel	1,185	1,089	8.7%	1,140	3.9%	2,325	2,133	9.0%
<b>Total Expenditure</b>	<b>14,871</b>	<b>14,271</b>	<b>4.2%</b>	<b>13,790</b>	<b>7.8%</b>	<b>28,662</b>	<b>26,861</b>	<b>6.7%</b>
<b>EBIDTA</b>	<b>3,420</b>	<b>3,217</b>	<b>6.3%</b>	<b>3,146</b>	<b>8.7%</b>	<b>6,566</b>	<b>6,302</b>	<b>4.2%</b>
Less: Depreciation	539	513	5.2%	525	2.8%	1,064	1,018	4.5%
<b>EBIT</b>	<b>2,881</b>	<b>2,705</b>	<b>6.5%</b>	<b>2,621</b>	<b>9.9%</b>	<b>5,502</b>	<b>5,284</b>	<b>4.1%</b>
Less: Interest paid	8	9	(9.7%)	8	5.0%	16	18	(7.3%)
Non-operating Income	308	162	90.1%	327	(5.8%)	635	363	75.1%
<b>Profit Before Tax</b>	<b>3,180</b>	<b>3,007</b>	<b>5.8%</b>	<b>2,940</b>	<b>8.2%</b>	<b>6,121</b>	<b>5,779</b>	<b>5.9%</b>
<b>Profit Before Tax Excl. extra-ordinaries</b>	<b>3,180</b>	<b>2,857</b>	<b>11.3%</b>	<b>2,940</b>	<b>8.2%</b>	<b>6,121</b>	<b>5,629</b>	<b>8.7%</b>
Less: Total Tax	808	750	7.7%	748	8.0%	1,555	1,450	7.2%
<b>Profit After Tax</b>	<b>2,373</b>	<b>2,258</b>	<b>5.1%</b>	<b>2,193</b>	<b>8.2%</b>	<b>4,566</b>	<b>4,329</b>	<b>5.5%</b>
<b>Reported PAT</b>	<b>2,373</b>	<b>2,258</b>	<b>5.1%</b>	<b>2,193</b>	<b>8.2%</b>	<b>4,566</b>	<b>4,329</b>	<b>5.5%</b>
<b>Profit After Tax Excl. extra-ordinaries</b>	<b>2,376</b>	<b>2,145</b>	<b>10.8%</b>	<b>2,193</b>	<b>8.3%</b>	<b>4,566</b>	<b>4,216</b>	<b>8.3%</b>
Diluted Shares Outstanding (mn)	156	156		156		156	156	
<b>Reported EPS-Diluted (Rs.)</b>	<b>15.2</b>	<b>14.4</b>	<b>5.1%</b>	<b>14.0</b>	<b>8.2%</b>	<b>29.2</b>	<b>27.7</b>	<b>5.5%</b>
<b>Proforma EPS Diluted (Rs.)</b>	<b>15.2</b>	<b>13.7</b>	<b>10.8%</b>	<b>14.0</b>	<b>8.3%</b>	<b>29.2</b>	<b>27.0</b>	<b>8.3%</b>

SOURCE: INCRED RESEARCH, COMPANY REPORTS

## EV parts order wins continue; 2Q impressive

**Figure 2: Segmental sales trend analysis - export growth weakness is an area of concern**

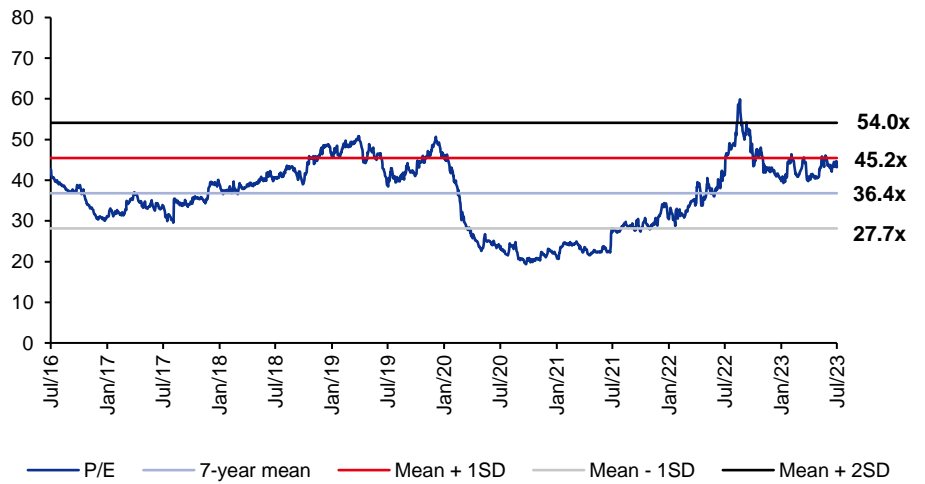
Segmental Analysis (Rs m)	2QCY23	2QCY22	yoy % chg	1QCY23	qoq % chg	1HCY23	1HCY22	yoy % chg
Automotive Technologies	7,492	6,795	10.3%	7,377	1.6%	14,869	12,889	15.4%
Automotive Aftermarket	1,848	1,493	23.8%	1,464	26.2%	3,312	2,739	20.9%
Industrial	6,800	6,406	6.1%	5,359	26.9%	12,159	12,263	(0.9%)
Exports & Others	2,800	2,795	0.2%	2,736	2.3%	5,536	5,272	5.0%
<b>Total</b>	<b>18,940</b>	<b>17,488</b>	<b>8.3%</b>	<b>16,936</b>	<b>11.8%</b>	<b>35,876</b>	<b>33,163</b>	<b>8.2%</b>

Sales Mix (%)	2QCY23	2QCY22	yoy bp chg	1QCY23	qoq bp chg	1HCY23	1HCY22	yoy bp chg
Automotive Technologies (%)	42.8	38.9	398.3	42.2	65.4	41.4	38.9	257.9
Automotive Aftermarket (%)	10.6	8.5	203.3	8.4	219.5	9.2	8.3	97.3
Industrial (%)	35.9	36.6	(72.8)	30.6	526.3	33.9	37.0	(308.6)
Exports & Others (%)	14.8	16.0	(119.6)	15.6	(86.3)	15.4	15.9	(46.6)

SOURCE: INCRED RESEARCH, COMPANY REPORTS

**Figure 3: Forward P/E is comfortably below the seven-year mean level**



SOURCE: INCRED RESEARCH, COMPANY REPORTS

**Profit & Loss**

(Rs mn)	Dec-21A	Dec-22F	Dec-23F	Dec-24F
<b>Total Net Revenues</b>	<b>55,605</b>	<b>68,674</b>	<b>78,604</b>	<b>90,362</b>
<b>Gross Profit</b>	<b>20,981</b>	<b>26,151</b>	<b>30,263</b>	<b>35,060</b>
<b>Operating EBITDA</b>	<b>9,715</b>	<b>12,944</b>	<b>15,328</b>	<b>18,072</b>
Depreciation And Amortisation	(1,971)	(2,065)	(2,618)	(3,089)
<b>Operating EBIT</b>	<b>7,744</b>	<b>10,879</b>	<b>12,710</b>	<b>14,984</b>
Financial Income/(Expense)	(37)	(36)	(40)	(35)
Pretax Income/(Loss) from Assoc.				
Non-Operating Income/(Expense)	724	777	875	1,050
<b>Profit Before Tax (pre-EI)</b>	<b>8,431</b>	<b>11,621</b>	<b>13,545</b>	<b>15,999</b>
Exceptional Items		150		
<b>Pre-tax Profit</b>	<b>8,431</b>	<b>11,770</b>	<b>13,545</b>	<b>15,999</b>
Taxation	(2,140)	(2,978)	(3,427)	(4,048)
Exceptional Income - post-tax				
<b>Profit After Tax</b>	<b>6,291</b>	<b>8,792</b>	<b>10,117</b>	<b>11,951</b>
Minority Interests				
Preferred Dividends				
FX Gain/(Loss) - post tax				
Other Adjustments - post-tax				
<b>Net Profit</b>	<b>6,291</b>	<b>8,792</b>	<b>10,117</b>	<b>11,951</b>
Recurring Net Profit	6,291	8,680	10,117	11,951
<b>Fully Diluted Recurring Net Profit</b>	<b>6,291</b>	<b>8,680</b>	<b>10,117</b>	<b>11,951</b>

**Balance Sheet**

(Rs mn)	Dec-21A	Dec-22F	Dec-23F	Dec-24F
Total Cash And Equivalents	14,157	15,545	18,260	22,098
Total Debtors	8,463	10,324	11,629	13,369
Inventories	10,865	12,434	13,998	15,844
Total Other Current Assets	133			
<b>Total Current Assets</b>	<b>33,617</b>	<b>38,303</b>	<b>43,887</b>	<b>51,311</b>
Fixed Assets	11,577	14,064	15,952	17,463
Total Investments				
Intangible Assets	12	6	6	6
Total Other Non-Current Assets	3,756	4,895	5,553	6,326
<b>Total Non-current Assets</b>	<b>15,345</b>	<b>18,964</b>	<b>21,511</b>	<b>23,795</b>
Short-term Debt				
Current Portion of Long-Term Debt				
Total Creditors	9,329	11,117	12,921	15,102
Other Current Liabilities	3,097	3,291	3,876	4,456
<b>Total Current Liabilities</b>	<b>12,426</b>	<b>14,408</b>	<b>16,798</b>	<b>19,558</b>
Total Long-term Debt				
Hybrid Debt - Debt Component				
Total Other Non-Current Liabilities				
<b>Total Non-current Liabilities</b>				
Total Provisions				
<b>Total Liabilities</b>	<b>12,426</b>	<b>14,408</b>	<b>16,798</b>	<b>19,558</b>
Shareholders Equity	36,537	42,859	48,600	55,549
Minority Interests				
<b>Total Equity</b>	<b>36,537</b>	<b>42,859</b>	<b>48,600</b>	<b>55,549</b>

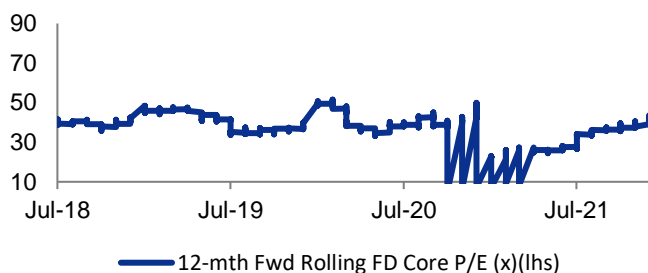
**Cash Flow**

(Rs mn)	Dec-21A	Dec-22F	Dec-23F	Dec-24F
EBITDA	9,715	12,944	15,328	18,072
Cash Flow from Invt. & Assoc.	(1,284)	(1,174)	(1,783)	(2,074)
Change In Working Capital	(3,280)	(2,459)	(1,138)	(1,599)
(Incr)/Decr in Total Provisions				
Other Non-Cash (Income)/Expense	1,971	2,065	2,618	3,089
Other Operating Cashflow	(617)	(771)	(875)	(1,050)
Net Interest (Paid)/Received	(37)	(36)	(40)	(35)
Tax Paid	(1,895)	(3,136)	(3,427)	(4,048)
<b>Cashflow From Operations</b>	<b>4,573</b>	<b>7,434</b>	<b>10,683</b>	<b>12,355</b>
Capex	(1,826)	(4,788)	(4,507)	(4,600)
Disposals Of FAs/subsidiaries		594		
Acq. Of Subsidiaries/Investments	(2,127)	(1,678)		
Other Investing Cashflow	537	526	875	1,050
<b>Cash Flow From Investing</b>	<b>(3,416)</b>	<b>(5,345)</b>	<b>(3,632)</b>	<b>(3,550)</b>
Debt Raised/(repaid)				
Proceeds From Issue Of Shares				
Shares Repurchased				
Dividends Paid	2,108	2,070	1,660	4,455
Preferred Dividends				
Other Financing Cashflow	(3)	(5)	40	35
<b>Cash Flow From Financing</b>	<b>2,105</b>	<b>2,065</b>	<b>1,700</b>	<b>4,490</b>
Total Cash Generated	3,262	4,154	8,751	13,295
<b>Free Cashflow To Equity</b>	<b>1,157</b>	<b>2,089</b>	<b>7,051</b>	<b>8,805</b>
<b>Free Cashflow To Firm</b>	<b>1,194</b>	<b>2,124</b>	<b>7,091</b>	<b>8,840</b>

**Key Ratios**

	Dec-21A	Dec-22F	Dec-23F	Dec-24F
Revenue Growth	47.8%	23.5%	14.5%	15.0%
Operating EBITDA Growth	81.2%	33.2%	18.4%	17.9%
Operating EBITDA Margin	17.5%	18.8%	19.5%	20.0%
Net Cash Per Share (Rs)	90.57	99.46	116.82	141.38
BVPS (Rs)	233.75	274.20	310.93	355.39
Gross Interest Cover	211.02	306.46	317.74	428.11
Effective Tax Rate	25.4%	25.3%	25.3%	25.3%
Net Dividend Payout Ratio	39.8%	43.4%	43.3%	41.9%
Accounts Receivables Days	50.48	49.93	50.97	50.49
Inventory Days	94.88	99.99	99.79	98.48
Accounts Payables Days	(89.69)	(87.75)	(90.75)	(92.48)
ROIC (%)	34.6%	39.8%	41.9%	44.8%
ROCE (%)	22.8%	27.4%	27.8%	28.8%
Return On Average Assets	14.0%	16.3%	16.6%	17.1%

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



**Key Drivers**

	Dec-21A	Dec-22F	Dec-23F	Dec-24F
Segmental Revenue	N/A	N/A	N/A	N/A
Automotive	26,879	33,001	37,765	43,691
Industrial	21,566	24,247	28,255	31,318
Exports	7,160	11,427	12,585	15,353
Total Revenue	55,605	68,674	78,604	90,362
yoy growth (%)	N/A	N/A	N/A	N/A
Automotive	49.9	22.8	14.4	15.7
Industrial	39.1	12.4	16.5	10.8
Exports	70.9	59.6	10.1	22.0

SOURCE: INCRED RESEARCH, COMPANY REPORTS

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