

India

December 08, 2023 - 9:10 AM

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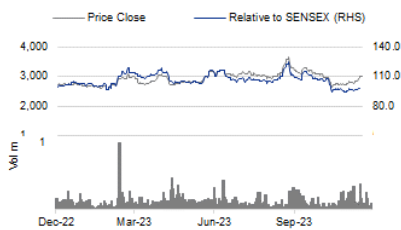
Consensus ratings*: Buy 3 Hold 4 Sell 2

Current price:	Rs3,027
Target price:	Rs3,350
Previous target:	Rs3,350
Up/downside:	10.7%
InCred Research / Consensus:	10.0%
Reuters:	SCHE.BO
Bloomberg:	SCHFL IN
Market cap:	US\$5,676m Rs473,139m
Average daily turnover:	US\$3.9m Rs328.0m
Current shares o/s:	156.3m
Free float:	25.9%

*Source: Bloomberg

Key financial forecast

	Dec-23F	Dec-24F	Dec-25F
Net Profit (Rsm)	9,567	10,967	12,773
Core EPS (Rs)	61.21	70.16	81.72
Core EPS Growth	10.2%	14.6%	16.5%
FD Core P/E	49.45	43.14	37.04
Recurring ROE	21.0%	21.5%	22.2%
P/BV (x)	9.85	8.76	7.74
DPS (Rs)	28.00	32.00	36.00
Dividend Yield	0.92%	1.06%	1.19%



SOURCE: BLOOMBERG

Price performance	1M	3M	12M
Absolute (%)	9.6	(15.3)	9.3
Relative (%)	2.5	(18.9)	(1.6)

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

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Schaeffler India Ltd

Plant visit provides capex benefit visibility

- Our visit to the company's Vadodara unit, catering to its large industrial division, impressed us on its capability to meet process/2W industries' needs.
- With 30% of its upcoming capex incurred on this plant, the company is setting up 10 additional production lines for manufacturing industrial bearings.
- As regards weak export growth, the forward P/E valuation has eased to a 7-year mean level. Retain ADD rating as strong new order wins to drive growth.

Schaeffler India's Savli plant in Vadodara

- The Vadodara plant, spread over 33,400 sq ft, catering to the needs of the industrial products division, contributes ~35% to total sales. Considering the strong demand, the plant is operating at 100% of its capacity, working three shifts for six days a week.
- Management gave guidance of incurring Rs5bn capex for this plant over the next one year vs. the company's total planned capex of Rs15bn. For additional capacity, a building has been built to install 10 production lines for all existing types of bearings vs. the current set-up comprising 17 production lines.

Segment-wise outlook

- In the wind power segment, the largest size bearing production capability is 920cm diameter. For requirement of any bearing above this size, the company imports them from its parent's Romania plant. Management stated that once the company gets sizeable orders, it will start production at the Vadodara plant. In India, bearings of above 2 metres in size are witnessing strong demand from the wind power segment.
- To grab the opportunity in the alternative fuels space, the company plans to produce fuel cells which convert hydrogen into electricity. However, it is facing challenges from insufficient experience in mechatronics, which it plans to address via acquisitions.

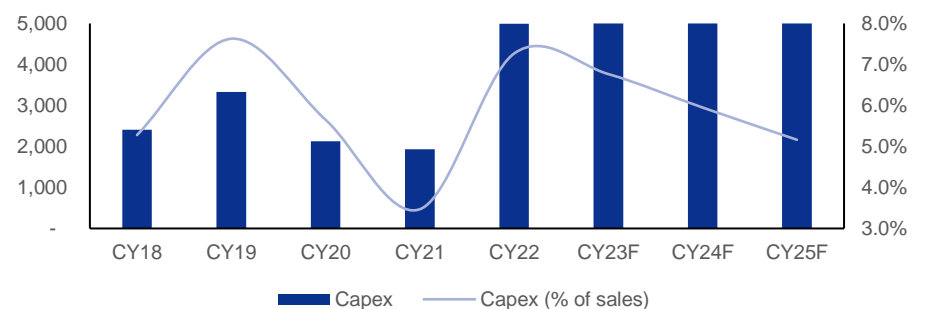
Structure of the plant

- Segment 1: In this segment, the company manufactures 320-920cm diameter bearings that are mainly used in industries like steel, paper, railway and wind energy. The total production capacity is ~30,000 bearings per annum. The company utilizes 20% of the total production floor of the plant with two production lines.
- Segment 2: This segment manufactures medium-size bearings of 120-170 cm diameter to cater to markets like industrial gearboxes, lifters, off-road vehicles and wind energy. The total production capacity is 1m units per annum, with eight lines of production that occupy 30% of the total production floor.
- Segment 3: This segment focuses on the production of bearings for the two-wheeler or 2W industry in sizes of 26-62cm diameter, with the capability to produce one bearing in every 1.5 seconds. Annual capacity is ~60m units. These bearings' durability is around five years. The two-wheeler segment accounts for ~50% of the industry segment.

Exports and R&D

- Exports to account for 15% of total sales of the Savli plant. Management stated that the European market has not witnessed any recovery while the American market saw a gradual recovery.

Figure 1: Capex trend and future guidance (Rs m)



SOURCES: INCRED RESEARCH, COMPANY REPORTS

Figure 1: Areas where the company is hopeful of growth

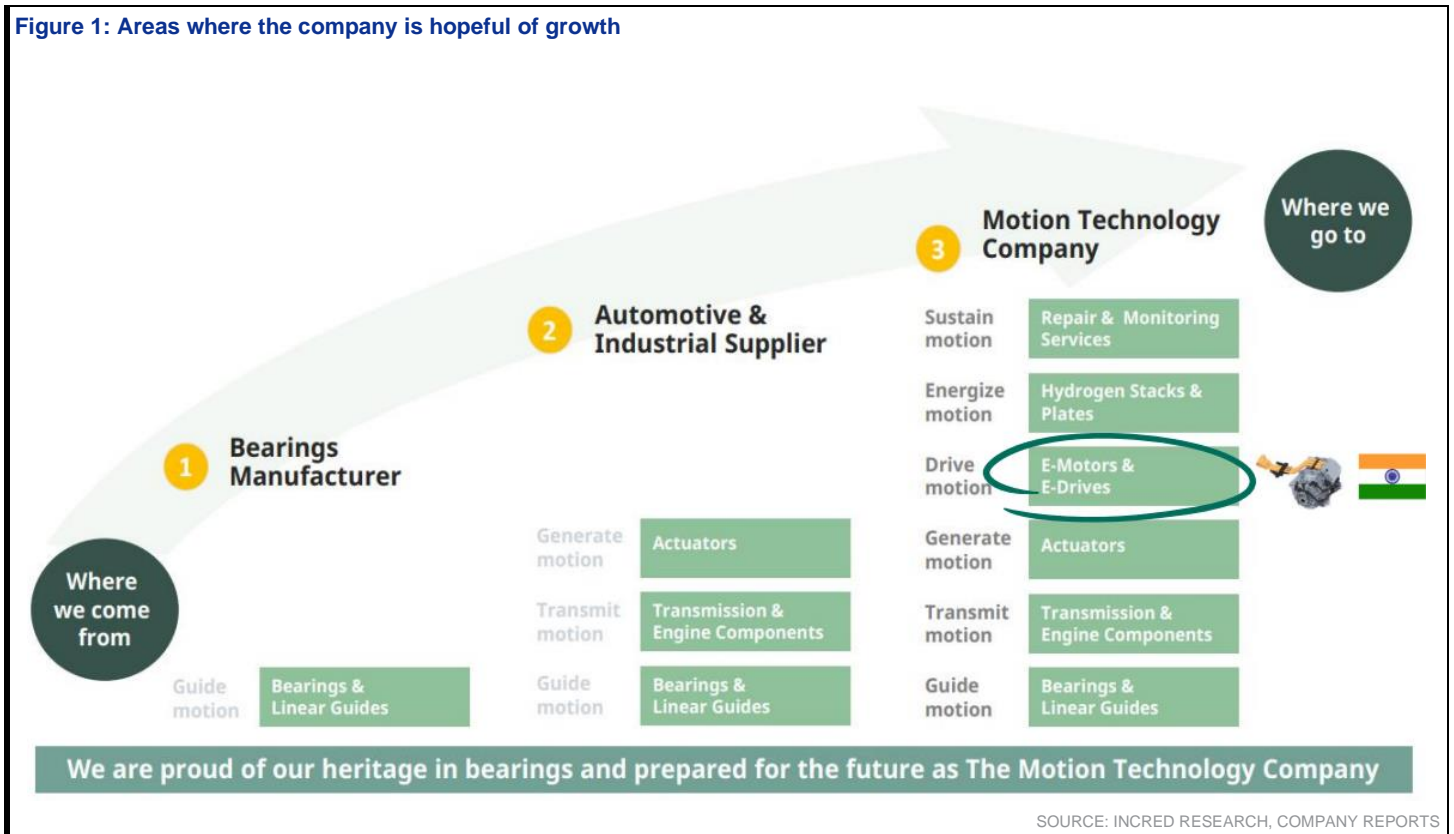
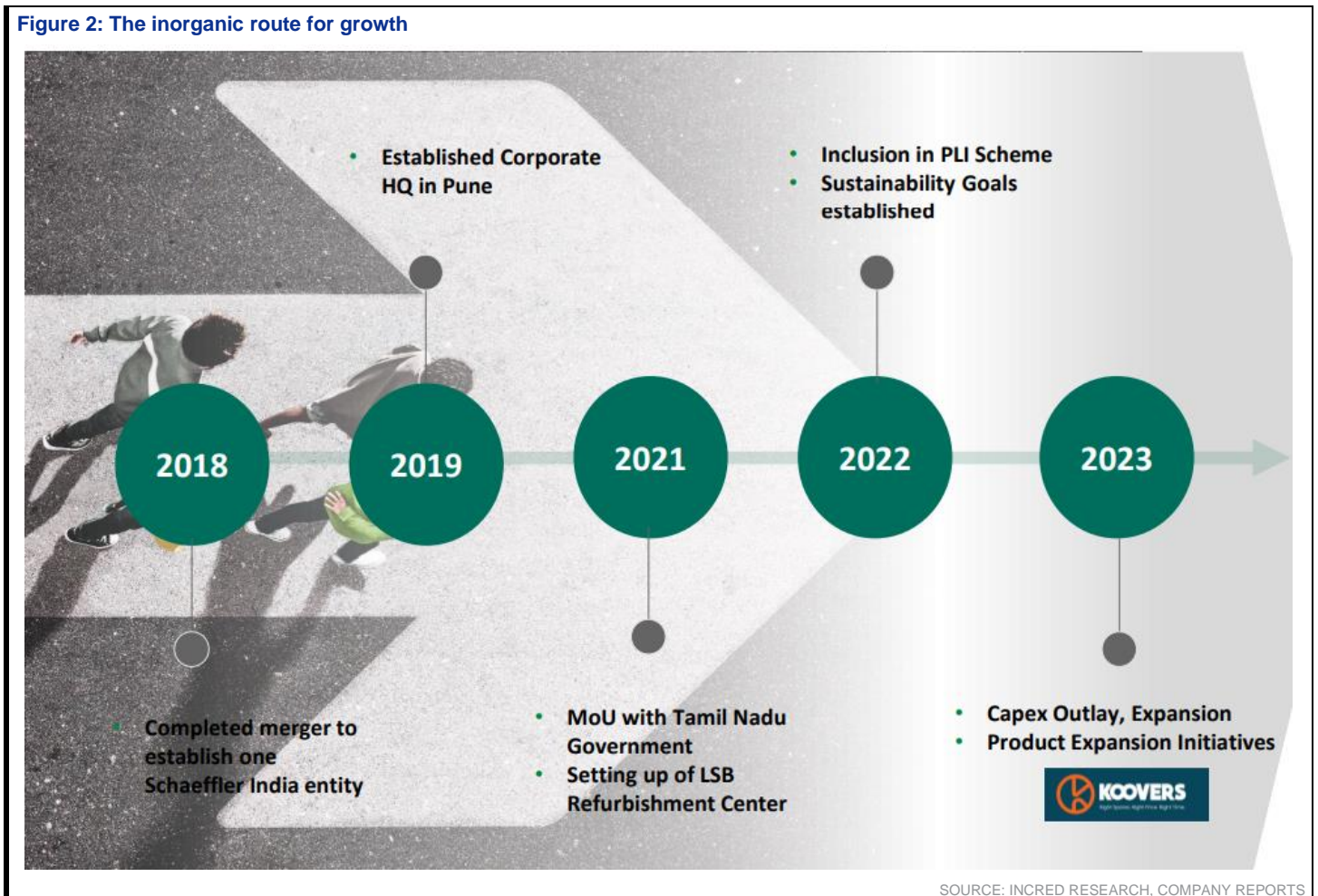


Figure 2: The inorganic route for growth



Profit & Loss

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

Balance Sheet

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

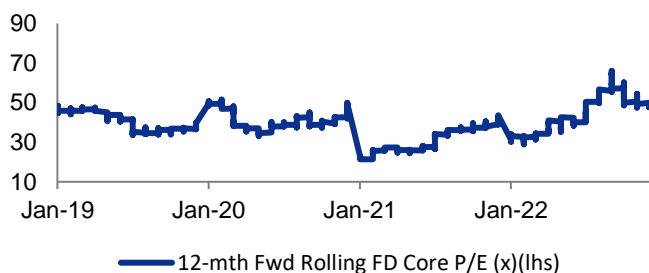
Cash Flow

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

Key Ratios

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

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	37,283	42,949	50,464
Industrial	24,247	26,447	29,898	33,496
Exports	11,427	10,182	11,200	12,880
Total Revenue	68,674	73,911	84,047	96,841
yoy growth (%)	N/A	N/A	N/A	N/A
Automotive	22.8	13.0	15.2	17.5
Industrial	12.4	9.1	13.1	12.0
Exports	59.6	(10.9)	10.0	15.0

SOURCE: INCRED RESEARCH, COMPANY REPORTS

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