

India

ADD (no change)

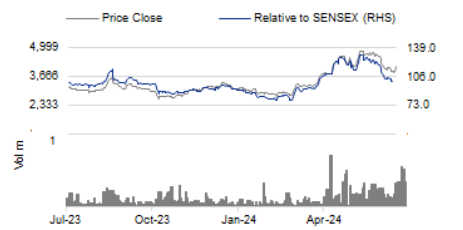
Consensus ratings*: Buy 6 Hold 3 Sell 1

Current price:	Rs4,126
Target price:	Rs4,668 ▲
Previous target:	Rs3,395
Up/downside:	13.1%
InCred Research / Consensus:	32.3%
Reuters:	
Bloomberg:	SCHFL IN
Market cap:	US\$8,882m Rs644,956m
Average daily turnover:	US\$8.2m Rs598.3m
Current shares o/s:	156.3m
Free float:	25.9%

*Source: Bloomberg

Key changes in this note

- Sales raised by 3-4% for CY24F-25F.
- EBITDA raised by 2-3% for CY24F-25F.
- PAT raised by ~1% for CY24F-25F.



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	(11.3)	25.3	30.1
Relative (%)	(13.6)	16.2	7.7

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

Sales growth recovery is impressive

- 2QCY24 EBITDA growth of 10% yoy and 14% qoq beat our/Bloomberg consensus estimates, driven by sales recovery to post mid-teen growth.
- Export growth recovery and the double-digit growth in aftermarket sales in 2Q helped in raising our CY24F-25F EPS by ~1%.
- Forward valuation eases to +1SD above the 10-year mean. Retain ADD rating on the stock, rolling forward the target price with the target P/E raised to 58x.

Returns to mid-teen sales growth in 2QCY24

The Jun 2024 quarter sales of Schaeffler India rose by 15% yoy, after a tepid mid-single digit growth in the last few quarters. However, the EBITDA margin continued to remain under pressure, declining by 85bp yoy to 17.9%, due to rising raw material and employee costs. EBITDA beat Bloomberg consensus estimate by 5%. However, lower other income (-20% yoy) and higher interest cost (+90% yoy and qoq), restricted PAT growth to just 3% yoy to Rs2.45bn. Working capital needs remains elevated in 1H, thereby impacting FCF.

Management conference-call highlights

Sales growth recovery has been driven by the automotive aftermarket, exports and the industrial segment. Management indicates the recovery in exports was due to some normalization of European demand and Asia sales drive initiative. However, it remains cautious about the outlook as the geopolitical tensions prevail. The long travel time for exports and the new receivables policy led to higher working capital days in 1HCY24. Sales to railways form just 6% of its total sales now and the company plans to tap the freight train component opportunity soon. EV axle system supply to start from the end of this calendar year.

EBITDA upgrade by around 3% for CY24F-25F

The sustained improvement in sales growth in the last two quarters and the momentum across divisions gives us confidence to upgrade our CY24F-25F sales estimates by 3-4%. However, rising commodity costs and easing gross margin in 1H led us to cut the EBITDA margin by around 20bp for CY24F-25F, resulting in the EBITDA upgrade being limited to 2-3%. The lower other income trend and higher interest costs in 1H limit our PAT upgrade to just around 1%.

Valuation eases from its peak; maintain ADD rating

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. We raise our target P/E to 60x one-year forward to reflect the improving sales momentum and electric vehicle or EV parts sales wins, leading to a higher target price of Rs4,668 (Rs3,395 earlier). We maintain our ADD rating on the stock. Key downside risk is volatility in export sales because of geopolitical tensions.

Financial Summary

	Dec-21A	Dec-22A	Dec-23F	Dec-24F	Dec-25F
Revenue (Rsm)	55,605	68,674	72,261	81,574	92,702
Operating EBITDA (Rsm)	9,715	12,944	13,268	15,401	17,594
Net Profit (Rsm)	6,291	8,792	9,210	10,434	11,813
Core EPS (Rs)	40.2	55.5	58.7	66.8	75.6
Core EPS Growth	116.2%	38.0%	5.7%	13.7%	13.2%
FD Core P/E (x)	102.52	74.30	70.29	61.81	54.60
DPS (Rs)	16.0	24.0	24.0	30.0	33.0
Dividend Yield	0.39%	0.58%	0.58%	0.73%	0.80%
EV/EBITDA (x)	64.93	48.63	47.42	40.62	35.40
P/FCFE (x)	1,372.25	538.45	144.60	94.30	102.70
Net Gearing	(38.7%)	(36.3%)	(33.0%)	(36.0%)	(36.5%)
P/BV (x)	17.65	15.05	13.42	11.99	10.67
ROE	18.5%	21.9%	20.2%	20.5%	20.7%
% Change In Core EPS Estimates					
InCred Research/Consensus EPS (x)					

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Sales growth recovery is impressive

Management conference-call highlights➤

- **Automotive sector's performance:** 2W and 3W sectors witnessed positive demand led by both domestic and exports markets, coupled with higher EV component sales. In 2QCY24, the passenger vehicle or PV segment saw a growth of 6.8% yoy led by sports utility vehicles or SUVs, rural market penetration and stable fuel prices. The commercial vehicle or CV sector's volume declined by 5.1%, moderated by sluggishness in the FMCG and retail sectors. The recovery in tractor demand was led by good monsoon.
- **Automotive technologies segment:** The company won business in the CV segment for double clutch systems, FEAD drive systems and HD valve bridge and in PVs it won business for hydraulic lash adjuster. Segment revenue grew by 12% yoy driven by a 6% of volume growth and faster growth in content value, rising market share led by new launches and tailwinds from the automotive segment.
- **Vehicle lifetime solutions segment:** Volume wins for the newly launched steering and suspension product won business for FEAD/ timing kit, wipers and lubrications. Going ahead, management aims to focus on portfolio expansion and market penetration through range extension.
- **Bearings and industrial solutions segment:** The company won new business in the 2W segment for bearing applications in EVs and additionally order wins for deep groove ball bearings, taper, cylindrical and needle roller bearings in the off-road segment. Also, it won business in the industrial segment for cylindrical roller bearings.
- **Inter-company exports & others segment:** Segment revenue grew by 15% yoy led by stabilization of the economy in Europe as the inventory level is easing there and also improved demand in the Southeast Asia region. Going ahead, management will remain cautiously optimistic on the export front due to the ongoing geopolitical situation. Management's endeavour is to maintain export contribution in the range of 10-15% of total revenue.
- **Railway business:** Revenue from the railway business grew by 15-17% yoy during the quarter, with the business currently contributing ~5-6% to total revenue. A large part of the business is localized.
- **Financial performance:** The EBITDA margin for the quarter contracted by 40bp yoy due to the business mix and qoq it sustained due to volume gains and continued focus on cost management. EBITDA for the quarter grew by 10% yoy mainly led by gross margin, which was partially offset by higher employee costs (company gave salary hikes and bonus in Apr 2024 and did new hiring for its Salvi and Hosur plants) and other expenses.
- **Working capital and capex:** In 2QCY24, the free cash flow was Rs-135m due to capex and elevated working capital requirement (inventory level elevated to 25 days which is the above normal level, likely to ease in 3QCY24F), but it improved on a qoq basis as it was Rs-256m in 1QCY24. Going ahead, the company plans to improve it. Capex framework of Rs15bn for three years remains on track in the areas of new plant & building, backward integration by localization, which eventually will help in improving the margins, and capacity improvement in finished goods.
- **KRSV Innovative Auto Solutions Private Limited:** Revenue for the quarter stood at Rs353m, with -9.2% EBITDA margin. Management believes the business will take three years to achieve breakeven.

Figure 1: Results comparison

Y/E Dec (Rs m)	2QCY24	2QCY23	yoy % chg	1QCY24	qoq % chg	1HCY24	1HCY23	yoy % chg	Comments for the quarter
Total revenue	21,068	18,291	15.2%	18,731	12.5%	39,800	35,228	13.0%	7% above Bloomberg estimate.
Net raw materials consumed	13,122	11,229	16.9%	11,640	12.7%	24,762	21,597	14.7%	
Other expenses	2,706	2,458	10.1%	2,527	7.1%	5,233	4,741	10.4%	
Personnel costs	1,477	1,185	24.7%	1,266	16.7%	2,743	2,325	18.0%	
Total expenditure	17,305	14,871	16.4%	15,433	12.1%	32,738	28,662	14.2%	
EBITDA	3,763	3,420	10.0%	3,299	14.1%	7,062	6,566	7.6%	5% above Bloomberg estimate.
EBITDA margin	18%	19%	-84	18%	25	18%	19%	-90	31bp below Bloomberg estimate.
Depreciation	677	539	25.5%	625	8.3%	1,301	1,064	22.3%	
EBIT	3,087	2,881	7.1%	2,674	15.4%	5,761	5,502	4.7%	
Interest paid	16	8	89.3%	8	89.3%	24	16	48.2%	
Non-operating income	248	308	(19.6%)	311	(20.5%)	559	635	(11.9%)	
Extraordinary item									
Profit before tax	3,318	3,180	4.3%	2,977	11.5%	6,295	6,121	2.9%	
Less: Total tax	864	808	7.0%	780	10.8%	1,644	1,555	5.7%	
Profit after tax	2,455	2,373	3.4%	2,197	11.7%	4,652	4,566	1.9%	In line with Bloomberg estimate.
Profit after tax excl. extraordinary items	2,455	2,373	3.4%	2,197	11.7%	4,652	4,566	1.9%	
Reported EPS-diluted (Rs.)	15.7	15.2	3.4%	14.1	11.7%	29.8	29.2	1.9%	
Proforma EPS diluted (Rs.)	15.7	15.2	3.4%	14.1	11.7%	29.8	29.2	1.9%	

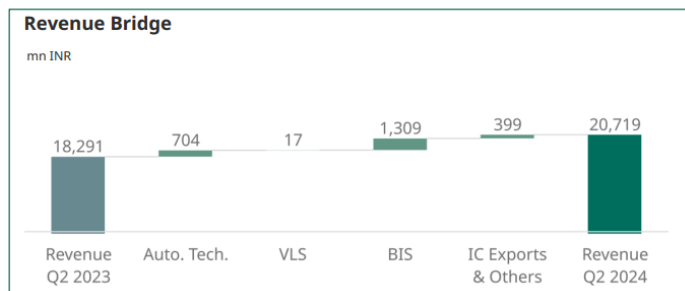
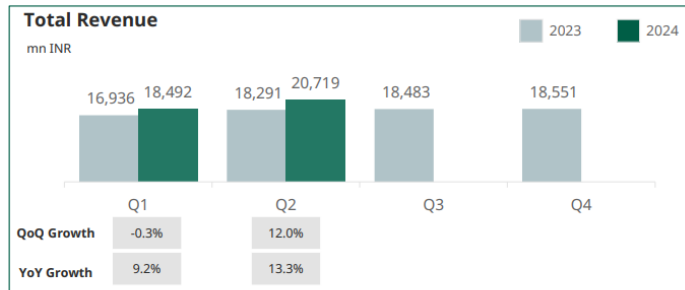
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 2: Division-wise performance

Segmental analysis (Rs m)	2QCY24	2QCY23	yoy % chg	1QCY24	qoq % chg	1HCY24	1HCY23	yoy % chg
Automotive technologies	6,837	6,155	11.1%	6,524	4.8%	13,361	12,116	(6.0%)
Automotive aftermarket	2,186	1,848	18.3%	1,845	18.5%	4,031	3,312	20.9%
Industrial	8,988	7,592	18.4%	7,833	14.7%	16,821	14,367	17.2%
Exports & Others	3,057	2,696	13.4%	2,529	20.9%	5,587	5,432	3.0%
Total	21,068	18,291	15.2%	18,731	12.5%	39,800	35,228	6.2%
Sales Mix (%)	2QCY24	2QCY23	yoy bp chg	1QCY24	qoq bp chg	1HCY24	1HCY23	yoy bp chg
Automotive technologies (%)	32%	34%	(119.8)	35%	(237.8)	34%	34%	(82.3)
Automotive aftermarket (%)	10%	10%	27.3	10%	52.6	10%	9%	72.6
Industrial (%)	43%	42%	115.4	42%	84.4	42%	41%	148.1
Exports & Others (%)	15%	15%	(22.9)	14%	100.7	14%	15%	(138.4)

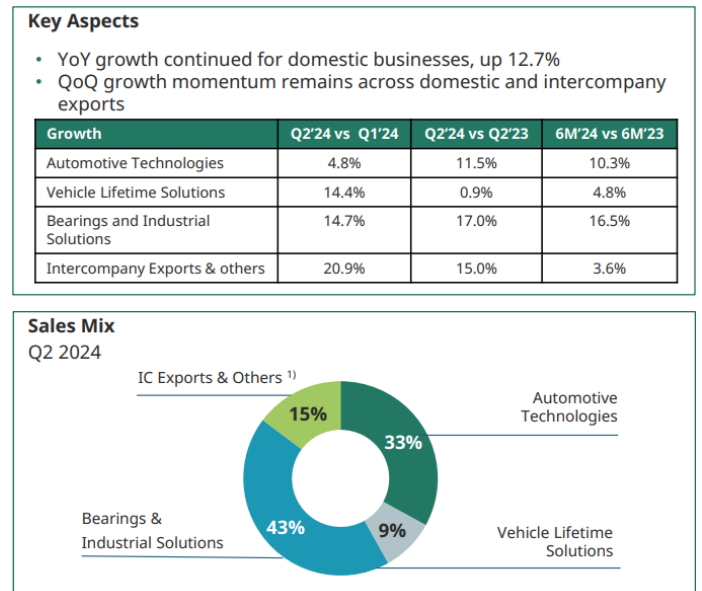
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 3: Quarterly revenue performance



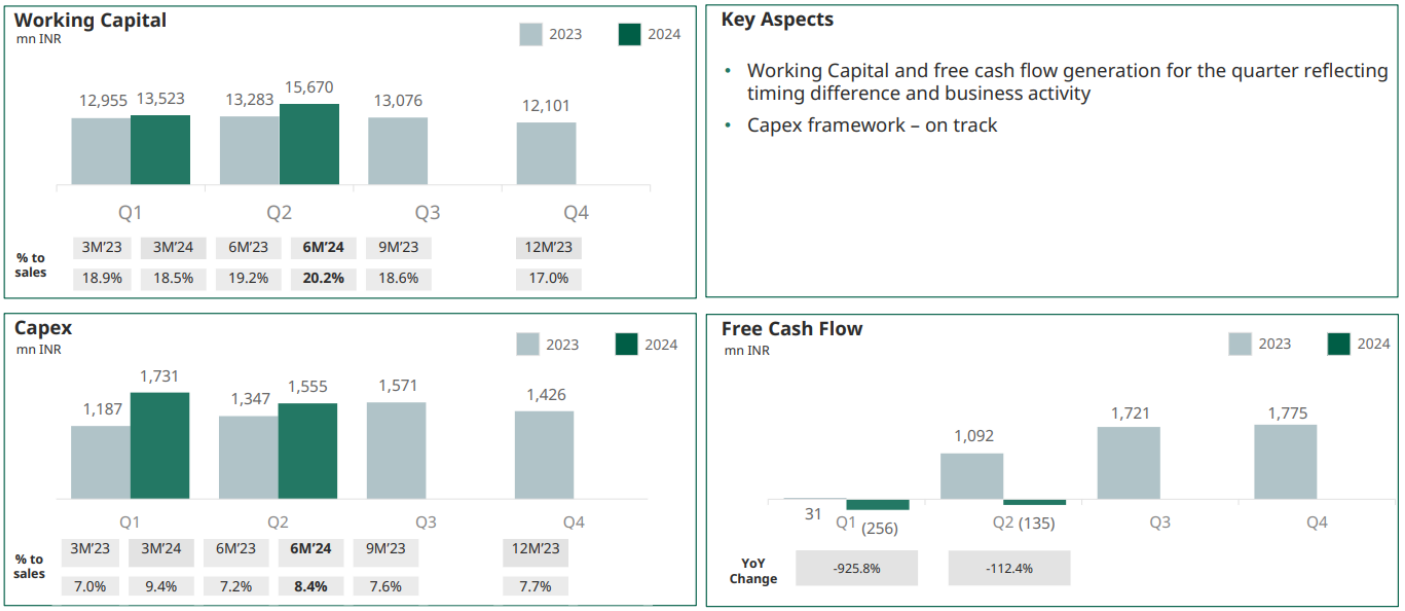
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 4: Sales mix and segment-wise performance



SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 5: Working capital, capex trend



SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 6: Earnings estimates revision summary

(Rs m)	CY24F		CY25F	
	Old	New	Old	New
Revenue	78,671	81,574	89,676	92,702
% change		3.7%		3.4%
EBITDA	14,233	14,613	16,666	17,067
% change		2.7%		2.4%
EBITDA margin	18.1%	17.9%	18.6%	18.4%
bp change		-18		-17
PAT	9,771	9,850	11,356	11,497
% change		0.8%		1.2%
EPS (Rs)	63	63	73	74
% change		0.8%		1.2%

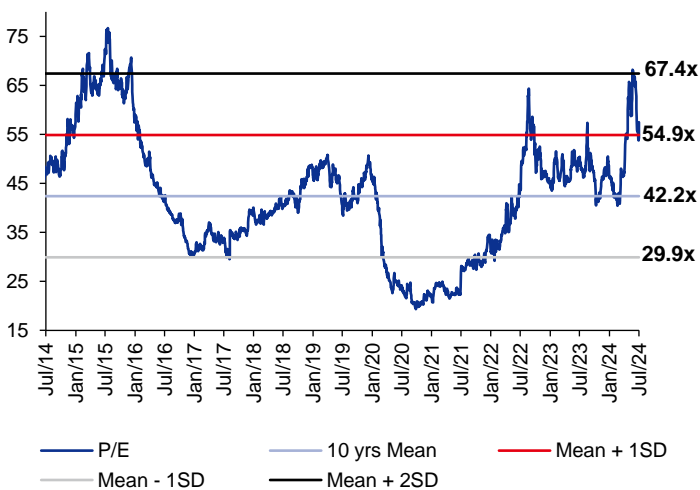
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 7: Valuation table

	1 year forward
EPS (Rs.) (1-year forward)	77.8
P/E(x)	60.0
Target price (Rs)	4,668

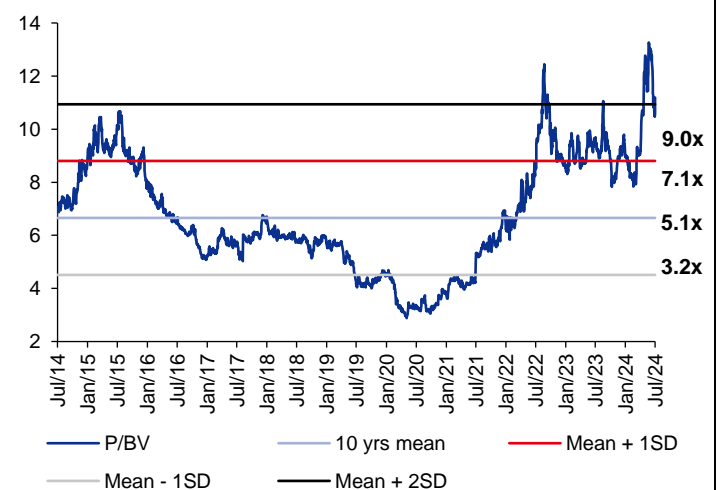
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 8: One-year forward P/E valuation eases to +1SD



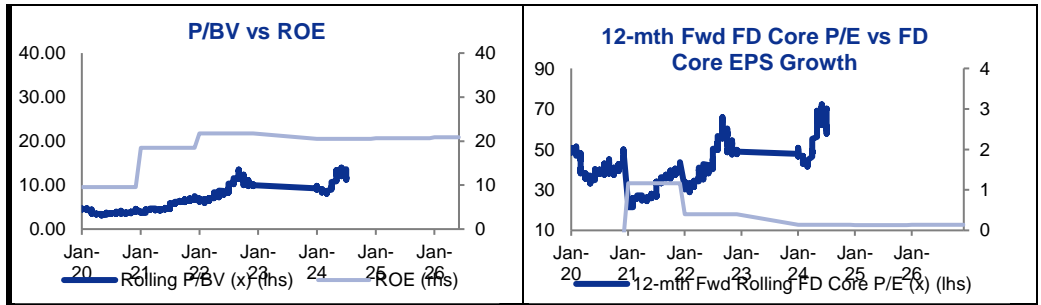
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 9: P/BV valuation also eases to +2SD



SOURCE: INCRED RESEARCH, COMPANY REPORTS

BY THE NUMBERS



Profit & Loss

(Rs mn)	Dec-21A	Dec-22A	Dec-23F	Dec-24F	Dec-25F
Total Net Revenues	55,605	68,674	72,261	81,574	92,702
Gross Profit	20,981	26,151	27,475	31,016	35,247
Operating EBITDA	9,715	12,944	13,268	15,401	17,594
Depreciation And Amortisation	(1,971)	(2,065)	(2,191)	(2,770)	(3,288)
Operating EBIT	7,744	10,879	11,077	12,631	14,307
Financial Income/(Expense)	(37)	(36)	(42)	(35)	(30)
Pretax Income/(Loss) from Assoc.					
Non-Operating Income/(Expense)	724	777	1,249	1,374	1,539
Profit Before Tax (pre-EI)	8,431	11,621	12,284	13,969	15,815
Exceptional Items		150	47		
Pre-tax Profit	8,431	11,770	12,331	13,969	15,815
Taxation	(2,140)	(2,978)	(3,121)	(3,535)	(4,002)
Exceptional Income - post-tax					
Profit After Tax	6,291	8,792	9,210	10,434	11,813
Minority Interests					
Preferred Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
Net Profit	6,291	8,792	9,210	10,434	11,813
Recurring Net Profit	6,291	8,680	9,175	10,434	11,813
Fully Diluted Recurring Net Profit	6,291	8,680	9,175	10,434	11,813

Cash Flow

(Rs mn)	Dec-21A	Dec-22A	Dec-23F	Dec-24F	Dec-25F
EBITDA	9,715	12,944	13,268	15,401	17,594
Cash Flow from Invt. & Assoc.					
Change In Working Capital	(3,280)	(2,459)	232	(1,899)	(1,982)
(Incr)/Decr in Total Provisions					
Other Non-Cash (Income)/Expense					
Other Operating Cashflow	(617)	(771)	(1,249)	(1,374)	(1,539)
Net Interest (Paid)/Received	(37)	(36)	(42)	(35)	(30)
Tax Paid	(1,895)	(3,136)	(3,121)	(3,535)	(4,002)
Cashflow From Operations	3,886	6,543	9,088	8,558	10,042
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	1,249	1,374	1,539
Cash Flow From Investing	(3,416)	(5,345)	(4,628)	(1,719)	(3,761)
Debt Raised/(repaid)					
Proceeds From Issue Of Shares					
Shares Repurchased					
Dividends Paid	(1,188)	(2,501)	(3,751)	(4,689)	(5,158)
Preferred Dividends					
Other Financing Cashflow	(3)	(5)	42	35	30
Cash Flow From Financing	(1,191)	(2,505)	(3,710)	(4,654)	(5,128)
Total Cash Generated	(721)	(1,308)	751	2,185	1,152
Free Cashflow To Equity	470	1,198	4,460	6,839	6,280
Free Cashflow To Firm	507	1,233	4,502	6,874	6,310

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	19,381	22,042
Total Debtors	8,463	10,324	10,556	12,515	14,477
Inventories	10,865	12,434	13,156	14,303	16,255
Total Other Current Assets	133	37			
Total Current Assets	33,617	38,340	39,569	46,200	52,773
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	5,613	6,345
Total Non-current Assets	15,345	18,927	23,097	25,255	27,999
Short-term Debt					
Current Portion of Long-Term Debt					
Total Creditors	9,329	11,117	10,551	13,633	15,747
Other Current Liabilities	3,097	3,291	4,060	4,023	4,572
Total Current Liabilities	12,426	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	12,426	14,408	14,612	17,656	20,318
Shareholders Equity	36,537	42,859	48,054	53,799	60,454
Minority Interests					
Total Equity	36,537	42,859	48,054	53,799	60,454

Key Ratios					
	Dec-21A	Dec-22A	Dec-23F	Dec-24F	Dec-25F
Revenue Growth	47.8%	23.5%	5.2%	12.9%	13.6%
Operating EBITDA Growth	81.2%	33.2%	2.5%	16.1%	14.2%
Operating EBITDA Margin	17.5%	18.8%	18.4%	18.9%	19.0%
Net Cash Per Share (Rs)	90.57	99.46	101.45	123.99	141.02
BVPS (Rs)	233.75	274.20	307.44	344.19	386.77
Gross Interest Cover	211.02	306.46	265.63	360.87	476.89
Effective Tax Rate	25.4%	25.3%	25.3%	25.3%	25.3%
Net Dividend Payout Ratio	39.8%	43.4%	40.9%	44.9%	43.7%
Accounts Receivables Days	50.48	49.93	52.73	51.62	53.14
Inventory Days	94.88	99.99	104.28	99.12	97.06
Accounts Payables Days	(89.69)	(87.75)	(88.30)	(87.30)	(93.32)
ROIC (%)	34.6%	39.8%	34.4%	36.7%	37.2%
ROCE (%)	22.8%	27.4%	24.4%	24.8%	25.0%
Return On Average Assets	14.0%	16.3%	15.4%	15.6%	15.6%

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	39,363	44,665
Industrial	21,566	24,247	25,478	32,429	36,788
Exports	7,160	11,427	9,740	9,782	11,249
Total Revenue	55,605	68,674	72,509	81,574	92,702
yoy growth (%)	N/A	N/A	N/A	N/A	N/A
Automotive	49.9	22.8	13.0	5.6	13.5
Industrial	39.1	12.4	5.1	27.3	13.4
Exports	70.9	59.6	(14.8)	0.4	15.0

SOURCE: INCRED RESEARCH, COMPANY REPORTS

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