

Schaeffler India Ltd

Progressing Towards Emerging Mobility Technologies



Automotive
Technologies

Automotive
Aftermarket



Industrial

ACCUMULATE

Schaeffler Limited

Company Background

Schaeffler India Limited (SCHAEFFLER) was incorporated in 1962 and is engaged in the development, manufacturing and distribution of high-precision roller and ball bearings, engine systems and transmission components, chassis applications, clutch systems and related machine building manufacturing activities. The Company operates through three segments: Automotive, Industrial and Automotive Aftermarket.

The Automotive segment is a pioneer in developing and manufacturing technological solutions for passenger cars and commercial vehicles, and tractors. The Industrial segment offers a portfolio of bearing solutions, ranging from high-speed and high-precision bearings with small diameters to large-size bearings. It focusses on smart products and connecting components for a wide sectorial range. The Company's manufacturing units are located in the State of Gujarat at Vadodara and Savli, in the State of Maharashtra at Talegoan (Pune) and in the State of Tamilnadu at Hosur. It has 8 Sales Offices and 2 R&D facilities across India.

Outlook and Valuation

The Company has managed to improve its performance in the last few quarters aided by recovery in automotive and industrial segment. We continue to remain positive on Schaeffler India due to consistent performance, EV push, rising export, increasing localization, positive outlook on the domestic PV segment, traction in the railway business, and strong presence in the aftermarket segment to drive growth momentum going forward. Hence, we believe Schaeffler India Limited is well placed to capitalize on these opportunities. Going ahead, **we expect the company's revenue to grow at a CAGR of ~13% over CY23-CY26E**. Hence, We recommend Schaeffler India Limited with a target price of Rs 3,696 based on CY26E EPS of Rs 85.08, and a forward PE valuation multiple of 43.45x. **Hence, we recommend ACCUMULATE rating for the long term.**

Financial Snapshot

Particulars (In Rs. Mn.)	CY23	CY24E	CY25E	CY26E	CAGR % (CY23 to CY26E)
Net Sales	72,261.30	80,932.66	91,453.90	1,04,257.45	13.00%
Expenses	58,993.70	65,909.81	74,295.18	84,550.55	
EBITDA	13,267.60	15,022.84	17,158.72	19,706.90	14.10%
EBITDA Margin	18.36%	18.56%	18.76%	18.90%	
PAT	9,090.30	9,828.06	11,382.80	13,272.46	13.45%
Diluted EPS (Rs)	58.27	63.00	72.97	85.08	

Source: Company, ACMIIL Retail Research

Company at glance

- Schaeffler's precision products are key to reducing fuel consumption and emissions.
- Diversified Portfolio: Automotive, Industrial and Automotive Aftermarket Segments Catering to Esteemed OEM & Retail Clients.
- Strength in innovation by cutting-edge sustainable mobility solutions to the world.
- Strong parentage with Schaeffler Group AG, leveraging on product range and robust technology.
- Long-standing client relationships helps them to maximize the share of customer's wallet.



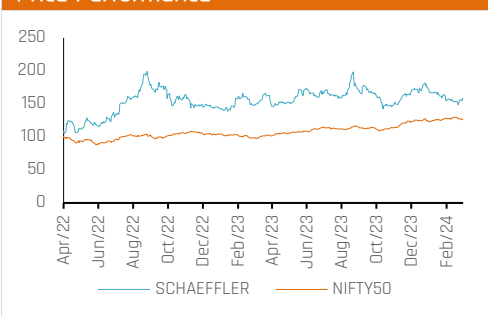
Key Data

DATE	21.03.2024
Reco Price	2,900-2,920
Target	3,696
Sector	Auto & Industrial Components
BSE Code	505790
NSE Code	SCHAEFFLER
Diluted EPS (CY2023)	58.27
Face Value (Rs.)	2.00
Market Cap (Mn)	4,53,468.20
52-week High/Low (Rs)	3,719.20/2,616.05

Shareholding pattern (December 2023)

	%
Promoters	74.13
DII's	15.68
FII's	4.36
Public	5.83
Total	100.00

Price Performance



Rebase to 100

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Business Segments

Schaeffler India Limited (SCHAEFFLER) is one of the India's biggest original equipment manufacturers (OEMs) and bring reliable offerings and solutions across all the three segments of Industrial, Automotive Technologies, and Automotive Aftermarket. It caters to wide range of sectors includes Cements, Power transmission, Mining, Wind, Agriculture & Industrial Automation etc. Schaeffler India is actively engaged in innovating and shaping the global pace of change with innovative technologies, products, and services for CO2-efficient drives, electric mobility, Industry 4.0, digitalization, and renewable energy. The company is a reliable partner for making motion and mobility more efficient & resilient.

A) Automotive Technologies:

It develops and manufactures customer solutions for conventional internal combustion engines and hybrid and fully electric drives. Products includes hybrid and Electrified drive systems, Chassis systems, Transmission systems for Tractors, 2 wheelers, Commercial and Passenger vehicles, etc.

B) Industrial:

This division offers a wide portfolio of bearing solutions, ranging from high-speed and high-precision bearings with small diameters to large-size bearings. The Company focusses on smart products and on connecting components for a wide sectorial range. Its products include Maintenance services, Mechatronics, Digital services, rolling and plain bearings, etc and it caters to railways, industrial automation, power transmission, etc.

C) Automotive Aftermarket:

This segment provides solutions to global spare parts business and delivers repair solutions in original-equipment quality. Products include Replacement parts for Transmission, Engine components, intelligent solutions for repair and service points. The company also caters to Repair garages, Retail Market, Fleet Workshop, etc.

Company's Segment wise Product Offerings

A) Automotive OEM:

- Chassis components and systems
- Clutches and transmission systems
- Engine components and precision products
- Drives for hybrid and Electric Vehicles (EVs)



B) Industrial:

- Rolling and plain bearings
- Linear guidance system
- Maintenance products
- Maintenance services
- Mechatronics
- Digital services



C) Automotive Aftermarket Replacement parts for:

- Transmission
- Engine components
- Chassis components
- Intelligent solutions for Repair and service points via platforms such as REPERT



Industries Catered

Cements	Power transmission	Mining	Wind	Agriculture	Automobile	Railways	Renewable Energy	Industrial Automation

Source: Company, ACMIIL Retail Research

Investment Rationale

Positive medium term outlook with ample growth opportunity across automotive segments

The passenger segment, both for two-wheelers and four-wheelers, is expected to remain strong, as the preference for personal transport rises. Rural demand is expected to improve on positive sentiments. We expect sequential improvement in M&HCV sales to continue, driven by the rise in e-commerce, agriculture, infrastructure, and mining activities. We expect M&HCVs to outpace other automobile segments in the medium term, followed by growth in the tractor, PV, and 2W segments. Moreover, exports provide a huge growth potential, given India's cost-effective manufacturing, being geographically closer to key markets of Middle East and Europe.

Expanding Horizons for future growth: Schaeffler India's Growth Strategy in the Railway Segment

The railway segment contributes 4-5% to the topline. Schaeffler India has been strongly present in the metro-rail segment and provided bearings, traction motors as well as sub-assemblies. The company is looking to expand its capacities for railway-related supplies. Currently, it has been importing some of the components from Europe. However, going forward, it plans to localize them in India due to visibility of volumes. The introduction of Vande Bharat trains and new locomotives with government's objective for Multimodal Logistics corridors would augur well for Schaeffler's railway segment.

Strong growth with support from parent company Schaeffler Group AG

Schaeffler India's parent company (Schaeffler Group AG) has identified it as a manufacturing base for supply to Asia-Pacific region. This provides a huge growth potential for the company in the long run. With access to e-mobility technology through its parent company, Schaeffler India is developing technology for two-wheelers, working jointly with the parent company. By leveraging its extensive research and development (R&D) capabilities, Schaeffler Group AG can facilitate the transfer of advanced technologies and expertise to Schaeffler India. This technology transfer enables Schaeffler India to enhance its manufacturing processes, product offerings, and overall competitiveness in the Indian market. It also plays a pivotal role in supporting its Indian subsidiary through technology collaboration and innovation.

Future Expansion: Diversified Product Portfolio Targeting New Growth Segments across Industries

Schaeffler India have expanded their horizons and entered new growth areas including robotics, construction equipment, escalators, elevators, forklifts, food and beverages, defence, aerospace, and mineral processing. Schaeffler India have strengthened their leadership position by beating the industry's average growth with a significant margin. The Company's strategic focus on product diversification and expanding their transmission segment, based on gap analysis and purchase behaviour, has aided the growth. The new products where the company offers an extensive range of lubrication products, from automatic lubricators through to lubricant monitoring systems, wiper blades for the UJ cross, shock absorbers and dampers, especially in the commercial vehicle segment, have been receiving excellent reviews and gaining traction in the previously untapped semi-urban areas.

Committed towards greener future and Sustainable solution

The Company is committed to sustainable technology and its goal is to enhance the efficiency of Internal Combustion Engines (ICE), while also providing hybrid and electric drivetrain solutions for the automotive industry. On the Industrial front, it offer refurbishment services and cutting-edge digital solutions for machine health monitoring, which extend product lifecycle and durability. Hence, we believe that Company is well-positioned to take advantage of emerging sustainable energy opportunities and are eager to continue contributing to providing sustainable solutions to critical challenges. SCHAEFFLER is integrating sustainable practices that enhances corporate reputation and attractiveness which is bolstering long-term financial viability. Furthermore, this commitment to sustainability fosters innovation, driving the development of eco-friendly bearing solutions that align with market demand and contribute to a healthier environment, thus ensuring long-term competitiveness and growth.

Robust future for company with the future adoption of EV Buses in state public transportation

The announcement by Union Transport Minister Shri Nitin Gadkari to replace 800,000 diesel buses with electric counterparts presents a remarkable opportunity for the bearing industry. As industrial bearing manufacturers gear up to meet the demands of this transition, there's a significant potential for growth and innovation within the sector. Adapting to the evolving landscape of public transportation not only opens new avenues for innovation but also positions bearing manufacturers favorably in the expanding market for electric vehicles. This strategic move aligns perfectly with the industry's focus on environmental sustainability and technological advancement, paving the way for the development of specialized bearings tailored to the unique requirements of electric vehicles. By seizing this opportunity, bearing manufacturer like SCHAEFFLER can play a crucial role in supporting the government's vision for a cleaner, greener future while driving growth and prosperity within the industry.

Scrappage policy will boost demand for CVs

Government approved vehicle scrappage policy was launched in Aug'21 to replace old vehicles with modern and new vehicles on Indian roads. According to the new policy, commercial vehicles aged >15 years and passenger vehicles aged >20 years will have to be mandatorily scrapped if they do not pass the fitness and emission tests. The policy does not treat a vehicle as scrap just because of its age, but considers other factors such as quality of brakes, engine performance and others. The objective is to phase out old cars, reduce urban pollution levels and stimulate automotive sales. Additionally, the vehicle scrappage policy is also said to be a part of a larger stimulus package majorly requested by OEMs to stir their demand.

Promising Fame III Policy boosting opportunities for the Indian EV Industry

The Fame III (Faster Adoption and Manufacturing of Electric Vehicles) policy is set to significantly benefit the Indian EV industry. With a focus on promoting electric mobility, the policy will drive demand for electric vehicle (EV) components, encouraging innovation in specialized solutions tailored to EV drivetrains. Additionally, the emphasis on domestic manufacturing presents an opportunity for Indian automotive component companies to expand production and localize manufacturing, capitalizing on incentives under Fame III.

This expansion not only supports the growth of the domestic manufacturing ecosystem but also opens up export opportunities for Indian automotive components manufacturers in the global market for electric vehicle components. India's EV ecosystem is thriving due to the support it gets from government initiatives, increasing sector investments, and widespread adoption by organizations.

Capex lead growth plan going ahead

Schaeffler India has invested Rs.1,500 Cr for next 3 years in capital expenditure (Capex), primarily aimed at enhancing capacities for exports and supporting the expansion of their domestic automotive and industrial businesses. The company has established a robust Capex framework, facilitating efficient and judicious resource allocation. This framework enables ongoing investment in the business and facilitates prompt action on emerging opportunities. The Capex plans encompass capacity expansion, localization efforts, and investments in new products. Specifically, the breakdown of Capex includes allocations for infrastructure, plant construction, localization initiatives, capacity enhancement, development of new products, and process improvements.

Future Growth strategies to increase content per vehicle through product innovation and launches supportive with government policies

The company is experiencing consistent growth momentum supported by the Indian Government's continuous focus on initiatives such as 'Make in India,' 'Atma-Nirbhar,' and PLI (Production Linked Incentive) programs. Schaeffler India, being well-positioned to benefit from these programs leveraging its strategies to increase content per vehicle through product innovation and new launches. Additionally, by identifying new business divisions in the industrial sector, the company will further solidify its growth trajectory. Further, the combination of government initiatives and Schaeffler India's strategic initiatives to enhance content per vehicle and explore new business divisions in the industrial sector will likely sustain and bolster the company's growth traction in the market.

Schaeffler Optimistic about India's Interim Budget: Aligned with Company Vision for Growth

SCHAEFFLER is positive about the Interim Budget 2024-2025 presented by the Honorable Finance Minister. The government's emphasis on sustainability, infrastructure development, digitalisation, and promotion of AatmaNirbhar Bharat (self-reliant India) closely aligns with Company's vision and strategies. The Management is confident that these measures will stimulate the growth of the Indian economy and create numerous opportunities for businesses. As a leading player in the automotive and industrial sectors, the Company is encouraged by the government's efforts to boost domestic manufacturing. Further, the PLI scheme enables the development of economies of scale and a reliable supply chain for advanced automotive technology products. It also addresses cost-related issues throughout the value chain, thereby giving SCHAEFFLER a competitive advantage and boosting export opportunities.

Localization remains a key strategic imperative for SCHAEFFLER

The company's focus on localization has proven beneficial in reducing its business risk and increasing operational flexibility. With India aspiring to become a regional manufacturing hub, the company's four plants are well-positioned to cater to growing customer demands, aligning with strategic priorities. The company continues to remain focused on investments in India, considering the unique competitive advantages offered by the government's push towards manufacturing in India, which bodes well for the company in the long term. Further, Company's clear and consistent strategic priorities enable them to achieve strong and sustainable performance. It has also invested in new technologies, added capacity, and focused on building customer trust. Moreover, it plans to increase localization, achieve Schaeffler Group's decarbonization targets by CY40, and accelerate the adoption of green technologies. Hence, we are optimistic for Schaeffler that localization will translate into a higher growth trajectory going forward.

Industry Overview

A) Indian Automotive Component Overview

The Indian automotive component industry is a vital part of the country's auto sector, supplying a wide range of parts domestically and globally. Known for its cost competitiveness and manufacturing prowess, it adapts swiftly to market shifts and regulations. With investments in EV technology and government support through initiatives like 'Make in India', the industry is poised for continued growth, playing a key role in shaping India's automotive future and economic development.

India's auto component industry is an important sector driving macroeconomic growth and employment. The industry comprises players of all sizes, from large corporations to micro entities, spread across clusters throughout the country. By 2026, the automobile component sector will contribute 5-7% of India's GDP. India's auto components industry's market share has significantly expanded, led by increasing demand for automobiles by the growing middle class and exports globally. Due to the remarkable growth in demand for Indian auto components, several Indian and international players have entered the industry.

India's auto component industry is broadly classified into organised and unorganised sectors. While the unorganised sector consists of low-valued items and mostly serves the aftermarket category, the organised sector serves OEMs and includes high-value precision instruments. The Government has reaffirmed its commitment towards EVs and its mission for 30% electric mobility by 2030. Budget announced customs duty exemption on the import of capital goods and machinery required for the manufacture of lithium-ion batteries that typically power EVs.

B) Indian Bearing Overview

The Indian bearing industry plays a pivotal role in supporting various sectors of the economy, including automotive, industrial machinery, railways, and aerospace. With a strong manufacturing base and technological capabilities, Indian bearing manufacturers have positioned themselves as key players in both domestic and global markets. The industry encompasses a wide range of products, including ball bearings, roller bearings, taper roller bearings, and spherical bearings, catering to diverse applications and requirements across industries. In recent years, the Indian bearing industry has witnessed significant growth driven by factors such as increasing industrialization, infrastructure development, and automotive production. Moreover, the government's initiatives such as "Make in India" and focus on improving manufacturing competitiveness have further bolstered the industry's growth prospects. This growth trajectory has also been supported by advancements in technology, automation, and digitalization, enabling Indian bearing manufacturers to enhance product quality, efficiency, and innovation. The growth of the market depends on several factors, such as the increase in focus on automation, the increasing demand for bearings from heavy industries, and the increasing production of electric vehicles.

1) Automotive Bearings

The India Automotive Bearing Market is projected to grow at a CAGR of around 7.0% during the forecast period, i.e., 2023-28. The market growth is predominantly driven by the flourishing automotive production, sales, and modification of vehicles, the varying goals to reduce the vehicle's carbon footprint, and alterations to make it lighter. Besides, the requirement for lightweight & durable bearings for automotive, along with the increasing preference for personal mobility, has further elongated the bearings industry ventures.

Moreover, the governmental policies like 'Make in India' and 'Aatmanirbhar Bharat,' with the goals of strengthening the manufacturing industry domestically, with supportive policies & regulations to smooth manufacturing process are the other driving factors behind the expansion of the sector, further contributing in enhancing the India Automotive Bearing Market size. With the expansion of domestic manufacturers, the market in India is propelling exponentially. Additionally, the rising demand for automotive electrification and technological advancement in vehicles has raised the variety of applications of bearings in automobiles, further extending the industry.

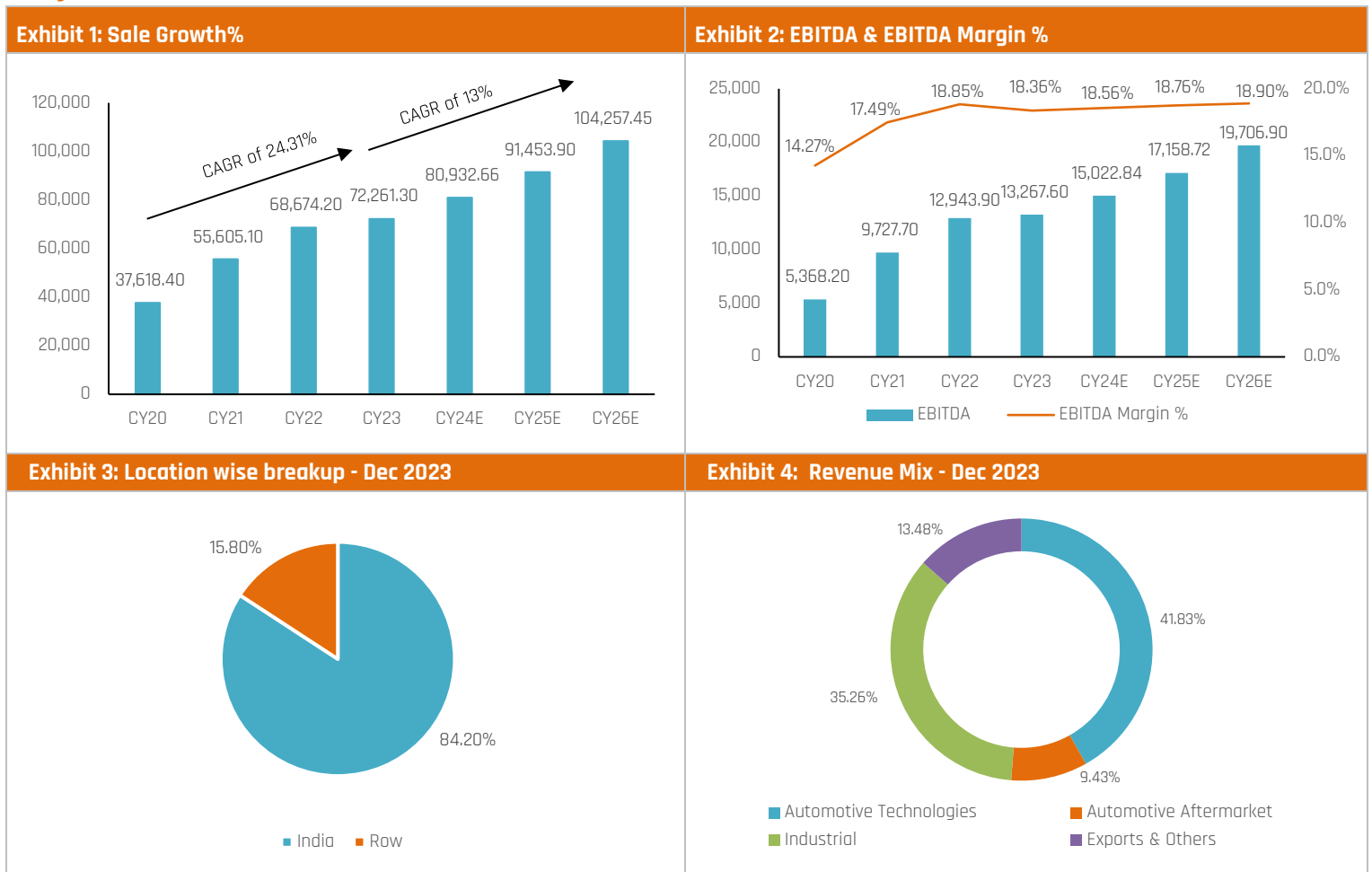
2) Industrial Bearings

The Indian industrial bearing market has experienced significant growth over the years, driven by factors such as increasing industrialization, infrastructure development, and expansion of key sectors like automotive, railways, power transmission and manufacturing. With a vast and diverse industrial base, India offers ample opportunities for bearing manufacturers to cater to the needs of different industries and applications. Industrial bearing sector in India plays a vital role in supporting the country's industrial growth and infrastructure development. With its robust manufacturing base, technological capabilities, and focus on quality and innovation, the Indian industrial bearing industry is well-positioned to meet the evolving needs of diverse industries and contribute to the nation's economic progress.

Additional Key Industry Growth Drivers

- The Indian Auto Component market size is forecast to increase by USD 115.79 Bn, at a CAGR of 25.7% from 2023 and 2028.
- Three major economic railway corridor programs will be implemented: energy, mineral, cement corridors, port connectivity corridors and high traffic density corridors, as identified under the PM Gati Shakti initiative for enhanced multi-modal connectivity, aiming to boost logistics efficiency and reduce costs.
- The interim budget for fiscal year 2024-25 allocates Rs 2.55 lakh crore to the Indian Railways, promising significant benefits. This enhanced amount will come handy for buying modern Vande Bharat trains, laying new tracks, doubling lines on existing routes, and deploying automated train safety tech-Kavach across the national transporter.
- The rapid expansion of the middle class and urbanization are driving the need for urban transformation, with Metro Rail and NaMo Bharat acting as catalysts. Support will be focused on expanding these systems in large cities, with an emphasis on transit-oriented development. To improve passenger safety, convenience, and comfort, 40,000 normal rail bogies will be upgraded to Vande Bharat standards.
- The capital expenditure outlay, which has tripled in the last four years boosting economic growth and employment, will rise by 11.1% to Rs. 11,11,111 crore for FY2024-25. This enhanced outlay amounts to 3.4% of the GDP. This implies the private sector will have to step in if the growth momentum has to be maintained.
- The Indian Government is placing significant emphasis on improving the country's road network, constructing dedicated freight corridors, implementing technology-driven warehousing, and establishing multimodal logistics parks to ride on the opportunity.

Story in Charts (Values in Mn.)



Source: Company, ACMIIL Retail Research

Financial Statements

Standalone Profit & Loss Statement:

Particular (Rs Mn.)	CY20	CY21	CY22	CY23	CY24E	CY25E	CY26E
Net Sales	37,618.40	55,605.10	68,674.20	72,261.30	80,932.66	91,453.90	1,04,257.45
Expenses	32,250.20	45,877.40	55,730.30	58,993.70	65,909.81	74,295.18	84,550.55
EBITDA	5,368.20	9,727.70	12,943.90	13,267.60	15,022.84	17,158.72	19,706.90
EBITDA Margin %	14.27%	17.49%	18.85%	18.36%	18.56%	18.76%	18.90%
Depreciation	1939.70	1971.10	2064.60	2190.90	3049.14	3129.39	3177.41
Interest	52.40	36.70	35.50	41.70	42.00	44.00	45.00
Other Income/(exceptional item)*	603.00	723.80	920.60	1,201.90	1,225.00	1,252.70	1,283.20
PBT	3,979.10	8,443.70	11,764.40	12,236.90	13,156.70	15,238.03	17,767.69
Tax	1,062.40	2,140.20	2,978.30	3,146.60	3,328.65	3,855.22	4,495.23
PAT	2,916.70	6,303.50	8,786.10	9,090.30	9,828.06	11,382.80	13,272.46
Diluted EPS (Rs)	18.70	40.41	56.32	58.27	63.00	72.97	85.08

*Other Income includes exceptional items.

Source: Company, ACMIL Retail Research

Risks and concerns:

- Any slowdown in automobile industry might adversely impact the scale of operations and profitability margins of the company.
- Economic slowdown worry due to global recession and geopolitical tensions.
- GDP slowdown in Indian economy may hamper industrial as well as automotive growth.

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