

Accumulate

Key Data

DATE	24/03/2023
Reco Price	2,750-2,780
Target	3,523
Sector	Auto & Industrial Component
BSE Code	505790
NSE Code	SCHAEFFLER
EPS (CY22)	56.25
Face Value (Rs.)	2.00
Market Cap (Cr)	43,304.71
52-week High/Low (Rs)	3,968.75 /1,761.00

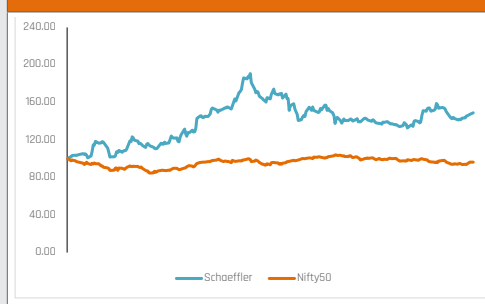
Source : NSE, BSE

Shareholding pattern (Dec-2022)

	%
Promoters	74.13
DII's	15.04
FII's	4.81
Public	6.02
Total	100.00

Source : NSE, BSE

Price Performance



Rebase to 100

Schaeffler India Limited

Company Background

Schaeffler India Limited (SCHAEFFLER) 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, several meters wide. It focusses on smart products and on connecting components for a wide sectorial range.

The Automotive Aftermarket segment is focused on the spare parts business and delivers repair solutions of original-equipment quality.

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.

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 ~16.04% over CY22-CY25E**. Hence, We recommend Schaeffler India Limited with a target price of Rs 3,523 based on CY25E EPS of Rs 113.66; it's available at lower end range of last 3 years PE of 31x. **Hence, we recommend ACCUMULATE rating for the long term.**

Financial Snapshot

Particulars	CY20	CY21	CY22	CY23E	CY24E	CY25E
Net Sales	3,761.84	5,560.51	6,867.42	8,234.04	10,037.29	12,451.26
EBITDA	536.82	972.77	1,294.39	1,601.52	1,997.42	2,496.48
EBITDA Margin	14.27%	17.49%	18.85%	19.45%	19.90%	20.05%
PAT	290.97	629.12	879.21	1,110.29	1,402.70	1,773.16
PAT Margin	7.73%	11.31%	12.80%	13.48%	13.97%	14.24%
EPS (Rs)	18.62	40.25	56.25	71.17	89.92	113.66
Debt to Equity Ratio	0.02	0.02	0.01	0.01	0.01	0.00
ROE (%)	9.27%	17.22%	20.51%	20.58%	20.63%	20.69%

Source : Company, ACMIIL Research

Company Business And Products

Schaeffler India Limited 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. Currently, company is having four plants and 11 sales offices, has a significant presence in India. It caters to wide range of sectors includes Cements, Power transmission, Mining's. Wind, Agriculture & Industrial Automation etc.s.

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 energies, 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, etc. for Tractors, Commercial and Passenger vehicles.
- 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 that are several meters wide. Co. 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, 2 wheelers, 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, etc. Intelligent solutions for Repair and service points, etc. It 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



Investment Rationale

Demand picking up in the automotive and industrial sector

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. Auto component exports are expected to grow from \$15 billion to \$80 billion by FY2027.

Increased localisation would expand profitability and reduce import dependency

Schaeffler India has revised its capex upward for CY2022-CY2024 to Rs. 1,500 crore from its earlier plan of Rs. 1,000- Rs. 1,200 crore. This increase in capex indicates that the company is increasing localisation, which would improve its profitability on shift of opex (outsourcing) to capex. The Company is focusing on localization to reduce import dependency for their source of raw materials to avoid supply chain management risk.

Growing opportunities with railway

The railway segment contributes 4-5% to the topline. Schaeffler India has been strongly present in the metro 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 localise them in India due to visibility of volumes. The introduction of Vande Bharat trains would augur well for Schaeffler's railway segment as content per vehicle rises on the introduction of new locomotives on the adoption of advanced technologies.

Content per vehicle would double in EVs

Schaeffler has won a new system order in e-mobility segment. It is a 3-in-one e-axle system, which comprises an electric motor, gear box, and electronic parts. While the gear box and motor would be an in-house design, the company would outsource the Power electronic parts from its business partners. The company believes the EV business would be much superior to the ICs (Internal Combustion) business, as it indicates that content per vehicle would double on shift in the business from ICs to EVs. The Company is also working for developing customized system application for EVs with OEMs.

New initiatives to increase market share

The Company is focusing on introducing new products in the industrial and automotive aftermarkets by bringing in localization and boosting its market share. It has launched the lubricant business under True Value brand, which is receiving positive feedback. The company intends to launch more products in the segment.

Inline growth with the parent company Schaeffler Group AG

Schaeffler India's parent company 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.

Expansion in new growth verticals to give an edge

Schaeffler India have expanded their horizons and entered new growth verticals, including robotics, construction equipment, escalators, elevators, forklifts, food and beverages, defence, aerospace, and mineral processing.

Diversified product portfolio catering to wide range of industries

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.

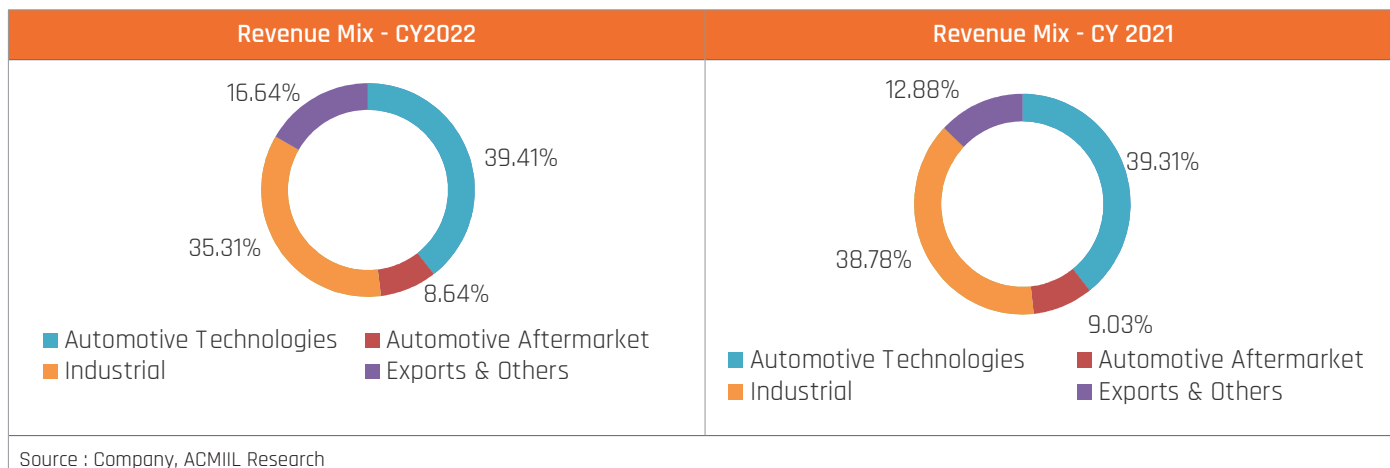
Industry tailwinds to drive growth

Post the implementation of BS-VI emission norms, Schaeffler India is witnessing increased content per vehicle in the petrol PV segment while in the industrial OEM segment, the company is witnessing strong growth from the railways segment. The railway division's business is driven by introduction of new products and supplies to metro railways. Besides the OEM segment, aftermarket is also poised for healthy growth, driven by new product introductions.

Growth traction remain intact

Indian Government continuous focus on 'Make in India,' 'Atma-Nirbhar,' and PLI programmes, Schaeffler India is well positioned to benefit from these programmes. The company's strategies to increase content per vehicle through product innovation and launches, while identifying new business divisions in the industrial sector, are likely to keep growth traction intact.

Revenue Mix



Growth drivers for the automotive sector

Vehicle scrappage policy

The automobile scrappage policy was approved by the Government of India in August 2021. The policy will help boost the auto sector as old and unfit vehicles are replaced by more efficient new vehicles. The policy implementation will begin with heavy commercial vehicles, which will be subjected to mandatory fitness testing from April 1, 2023. All other vehicles will be tested from June 1, 2024.

Adoption of EVs

The government has extended the Faster Adoption and Manufacturing of Electric and Hybrid Vehicles (FAME-II) scheme till 2024. To accelerate EV transition, the government has authorized a PLI scheme for the automotive sector in September 2021. The government is promoting the use of public transport in urban areas, and increase usage of EVs to encourage clean and green technology. Moreover, the battery swapping policy is also likely to push EV sales in India.

PLI scheme

The Government of India announced the PLI scheme spanning 14 major sectors of the economy with a total outlay of ₹ 3 trillion to improve India's manufacturing sector, encourage job creation, import reduction, and export growth. The scheme is expected to draw a CAPEX of ₹ ~4 trillion and has a potential for incremental revenues of ₹ 35-40 trillion from reduced net imports over the next five years.

Growth drivers for the industrial sector

Push towards cleaner technologies

The Government's thrust on climate change and transition towards clean energy offer long-term growth opportunities for the Indian industrial sector. Initiatives for targeting net zero emissions by 2070.

Gati Shakti NMP

The PM Gati Shakti National Master Plan will bring a major boost to the industrial sector and unleash the potential of India's manufacturing competitiveness through its seven growth engines - road transport, railways, airports, mass transport, waterways and logistic infrastructure.

Vande Bharat trains

The Union Budget 2022-23 announced that 400, next-generation energy-efficient Vande Bharat trains to deliver a superior and safe riding experience for passengers which will be developed and manufactured over the next three years.

Financial Performance

Particular (Rs Cr.)	CY20	CY21	CY22	CY23E	CY24E	CY25E
Net Sales	3,761.84	5,560.51	6,867.42	8,234.04	10,037.29	12,451.26
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EBITDA Margin	14.27%	17.49%	18.85%	19.45%	19.90%	20.05%
Depreciation	193.97	197.11	206.46	226.44	250.93	280.15
EBIT	342.85	775.66	1,087.93	1,375.08	1,746.49	2,216.32
Interest	5.94	4.90	3.55	4.03	4.22	4.48
Add: Other Income/(exceptional item)	60.30	72.38	92.66	115.28	135.50	161.87
PBT	397.21	843.14	1,177.04	1,486.33	1,877.78	2,373.71
Tax	106.24	214.02	297.83	376.04	475.08	600.55
Tax Rate	26.75%	25.38%	25.30%	25.30%	25.30%	25.30%
PAT	290.97	629.12	879.21	1,110.29	1,402.70	1,773.16
PAT Margin	7.73%	11.31%	12.80%	13.48%	13.97%	14.24%
EPS (Rs)	18.62	40.25	56.25	71.17	89.92	113.66
Share Capital	31.26	31.26	31.26	31.26	31.26	31.26
Reserves & Surplus	3,109.03	3,622.41	4,254.64	5,364.93	6,767.62	8,540.78
Networth	3,140.29	3,653.67	4,285.90	5,396.19	6,798.88	8,572.04
Book Value Per Share	201.30	234.21	274.74	345.91	435.83	549.49
Total Debt	65.09	60.70	57.38	51.33	45.16	42.46
Debt to Equity Ratio	0.02	0.02	0.01	0.01	0.01	0.00
ROE (%)	9.27%	17.22%	20.51%	20.58%	20.63%	20.69%
Source : Company, ACMIIL Research						

Risks and concerns

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

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