Sharekhan by BNP PARIBAS

Powered by the Sharekhan 3R Research Philosophy

Schaeffler India Ltd

Focus on consistency

Automobiles	Sharekhan code: SCHAEFFLER

Reco/View: Buy ↔	CMP: Rs. 3,413	Price Target: Rs. 3,928 ↑

↑ Upgrade ↔ Maintain ↓ Downgrade

3R MATRIX	+	=	-
Right Sector (RS)	✓		
Right Quality (RQ)	✓		
Right Valuation (RV)		✓	

+ Positive = Neutral – Negative

What has changed in 3R MATRIX

	Old		New
RS		↔	
RQ		↔	
RV		↔	

ESG Disclosure Score NEW

ESG RISK RATING Updated Aug 08, 2023	14.76

Low Risk

NEGL	LOW	MED	HIGH	SEVERE
0-10	10-20	20-30	30-40	40+

Source: Morningstar

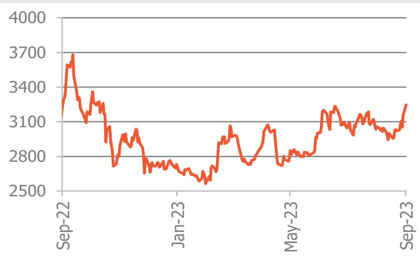
Company details

Market cap:	Rs. 53,346 cr
52-week high/low:	Rs. 3,968/2,554
NSE volume: (No of shares)	1,08,671
BSE code:	505790
NSE code:	SCHAEFFLER
Free float: (No of shares)	4.0 cr

Shareholding (%)

Promoters	74.1
FII	4.0
DII	15.9
Others	6.0

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	11.1	12.1	13.5	11.8
Relative to Sensex	10.3	7.4	3.2	1.3

Sharekhan Research, Bloomberg

Summary

- We reiterate our Buy rating on Schaeffler India (Schaeffler) with a revised PT of Rs 3928 in expectation of sustenance in domestic demand success in high-value EV business, increase in localization and traction in after market segment.
- Domestic demand is steady; exports are expected to follow macro trends and improve gradually.
- The wind energy segment has started showing early sign of green shoots.
- Acquisition of KRSV would help it in strengthening its presence in after market space.

Schaeffler continues to strengthen its business model via its strategic initiatives, localization, and relocation strategy in the overall group. While the domestic market has been offering steady growth opportunities, we believe that Schaeffler can counter temporary headwinds in overseas markets. Along with ICs and railway business, SIL has been increasing its proficiency in the EV business and has guided that the EV business would offer it an opportunity to improve its content per vehicle compared to the available content per vehicle in IC space. Along with organic growth strategy, Schaeffler has now opted inorganic growth path also. Schaeffler India has recently decided to acquire e-commerce platform KRSV Innovative Auto Solutions Private Limited (KRSV) to expand its growth potential in aftermarket segment. Schaeffler is acquiring KRSV at a valuation of 1.8x its FY23 sales. This appears to be a strategic move to enhance its after-market presence as it has already been an established player in the aftermarket (physical segment) and is now looking for an opportunity to strengthen its position via an online platform. While KRSV has been a strong player in the southern market, Schaeffler aims to expand its reach on a pan India basis. Online platforms have 2% penetration in after market segment and is expected to grow to 10% by 2030. Considering that acquiring an established online platform would be advantageous for Schaeffler. In FY23, aftermarket constituted 9% of the Schaeffler's topline. Going forward, we believe that though its export revenue would grow gradually in line with the demand trend in overseas markets, Schaeffler would maintain traction in domestic markets. Schaeffler maintained its capex program and looks for an increased level of localization in the coming years. We maintain our Buy rating on the stock with a revised PT of Rs 3928.

- **Acquiring KRSV to expand its reach in the aftermarket:** Schaeffler India has decided to acquire 100% stake in KRSV Innovative Auto (KRSV)Solutions at an equity value of Rs142.4 cr KRSV has reported revenue of Rs 77.7cr in FY23 with a gross margin of 6% (with negative EBIDTA margin). This implies an KRSV's valuation at 1.8x FY23 sales. KRSV engaged in B2B e-commerce spare parts solutions to the Indian automotive aftermarket workshops. KRSV caters to over 7000 workshops via it's app Koovers DMS. Koovers offers 1.8 mn SKUs and caters to both retail and institutional customers. The transaction is expected to be completed by 3QCY23. The platform will continue to operate via Koovers brand and operate as a wholly owned subsidiary of Schaeffler India. Schaeffler strategically targets to tap the automotive aftermarket segment via (1) it's already established physical distribution network and (2) now through e-commerce platform.
- **Market penetration would expand:** Schaeffler believes that acquiring KRSV is strategic and would help it enhance scalability in its aftermarket business. Further digitization would help Schaeffler in increasing market penetration and extending its reach in relatively leaser quantum of time. Management assumes that Its online platform would benefit from synergy with its physical aftermarket network due to expansion in product bandwidth and would help Schaeffler to play big steps in the overall aftermarket ecosystem. Going forward, Schaeffler would have to invest in technology upgradation and logistics as it has been planning for a pan-Indian presence.
- **Looking for pan India expansion of e-platform:** In FY23, the market segment delivered a revenue of Rs 593.6 cr and constituted 9% to its topline. While KRSV currently operates in southern states, Schaeffler plans to extend KRSV's services on a pan-India basis via its own distribution and leveraging digitization. Currently, e commerce platform has 2% penetration in the automotive aftermarket and is expected the penetration to reach 10% by 2030E. With this acquisition and its ongoing efforts to expand its product portfolio and reach, the management aims to double its aftermarket revenue in the medium term. Koovers platform carries spare parts for most OEMs across segments-electrical parts, suspension & braking, filters, engine & drive train, transmission, body parts & mirrors, and other accessories required for the car. Schaeffler plans to invest in revamping the platform to develop the pan-India rollout and strengthen the logistics network.

Our Call

Valuation – Maintain Buy with revised PT of Rs.3928: We remain structurally positive on Schaeffler India due to its strategic focus on localization, export business and new order wins. Along with that, the company has been strategically expanding its distribution network and product portfolio to leverage its brand equity in the aftermarket. We believe that acquiring KRSV would further help it build up a strong online platform in the automotive aftermarket space. Despite headwinds in export markets in the near term, we believe Schaeffler Group's relocation strategy would continue to benefit Schaeffler India due to structural fit. Further, a well-diversified revenue stream on geographically reduces a risk of sharp fall in case of bottlenecks in any individual destination. The wind energy segment contributes ~20% to its industrial revenue and has been facing challenges due to a slowdown in the European region, led by geopolitical issues. However, the management has started witnessing improvement in wind energy sector (from Q2Cy23). The company would benefit from ongoing localization, strategic expansion in export market and strong footprint in the market segment. The successful entry into system solution supply to EVs would enhance earning potential on volume ramp-up and localization. With the introduction of earning estimates for CY25, we maintain our Buy rating on the stock with a revised PT of Rs 3928.

Key Risks

A weakening global outlook and uncertainties can disrupt the supply chain and increase costs, affecting our future estimates.

Valuation (Standalone) Rs cr

Particulars	CY21	CY22	CY23E	CY24E	CY25E
Net Sales	5561	6867	7847	9120	10610
Growth (%)	47.8	23.5	14.3	16.2	16.3
EBIDTA	972	1294	1491	1797	2175
OPM (%)	17.5	18.8	19.0	19.7	20.5
Recurring PAT	629	879	977	1183	1445
Growth (%)	116.2	39.8	11.1	21.1	22.1
EPS (Rs)	40.3	56.3	62.5	75.7	92.4
PE (x)	84.8	60.7	54.6	45.1	36.9
P/BV (x)	17.0	14.6	12.4	10.9	9.4
EV/EBIDTA (x)	40.3	29.2	24.9	19.8	16.0
RoE (%)	18.4	21.8	21.3	22.4	23.5
RoCE (%)	18.6	21.9	21.4	22.5	23.5

Source: Company; Sharekhan estimates

Entering BtoB e-commerce space

Acquisition of Koovers, a B-to-B e-commerce platform, will enable Schaeffler India to double its aftermarket sales by 2030. Koovers is a Bengaluru-based company with a projected sales turnover of INR 77 crores in 2023 and has been growing at a CAGR of 112% over the last three years. The acquisition would be fully funded by Schaeffler India's cash generation. Koovers will continue to operate under its brand name within the Schaeffler India Limited entity. The acquisition will strengthen Schaeffler India's position in the Indian automotive aftermarket space and provide access to market intelligence and big data. The Acquisition is seen as complementary to the traditional business model.

Focus on in-house manufacturing

The company continuously focuses on localization to reduce the trading mix in its overall revenue. The localization rate has reached to 76%. Given that the company has been continue with its ongoing capex program the trading mix is expected to come down to 20% gradually. We believe the rise in in-house manufacturing would improve its business potential, quality control and profitability.

New business won continue

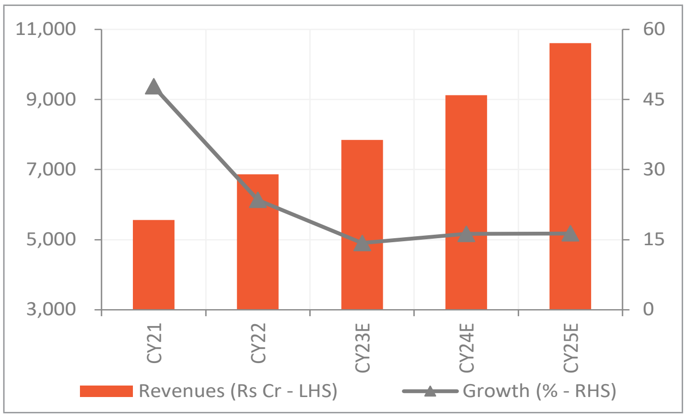
The company has been consistently receiving orders in most of its operating segments. Recently In the automotive segment, the company has won orders for (1) wheel bearings in the PV segment, (2) LV clutch systems in the CV segment, (3) HD clutch systems in the MHCV segment. Similarly in the automotive aftermarket, the company has introduced Tru Power two-wheeler batteries in the aftermarket. The batteries would be manufactured by its manufacturing partners and Schaeffler would sell it as traded items to enhance its product offerings. In Industrial segment Schaeffler has won new orders for (1) liner motion guides and ultra-precision drives (2) bearings in the electric two-wheeler segment, and (3) bearings and axel box housing for railway applications.

Exports: steady growth driver

While the company has been facing headwinds in the export revenue due to macro headwinds, the company is continuously focussing on the relocation program and building potential to drive its export performance on the revival of a cycle, given it has been a beneficiary of shift in production in its overall group from overseas markets to India. The company has continued with the investment required to build production expertise for export volumes. In CY2022, exports contributed16.6% and management foresee export contribution to reach to 20% in the coming years. However, in the immediate near-term, export revenue trends are expected to follow the market trends in the overseas market.

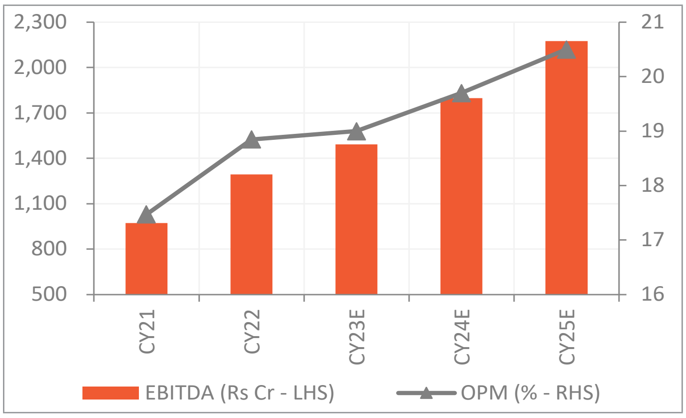
Financials in charts

Revenue and Growth Trend



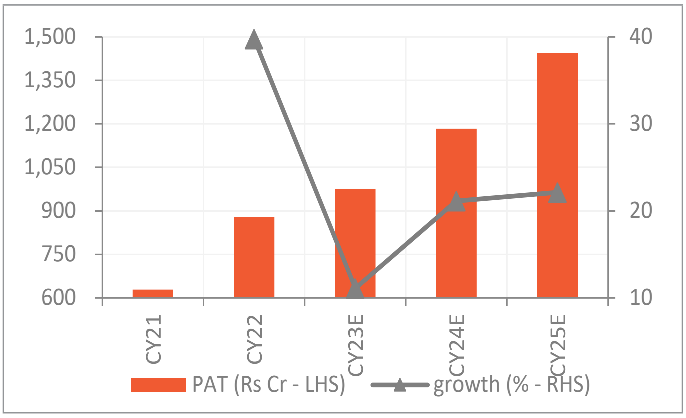
Source: Company, Sharekhan Research

EBITDA and OPM Trend



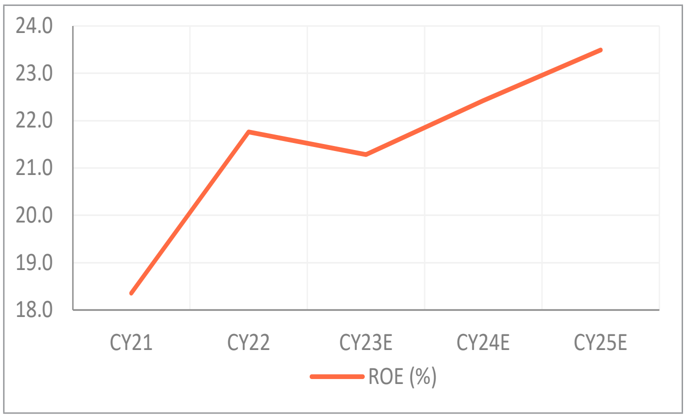
Source: Company, Sharekhan Research

PAT and growth Trend



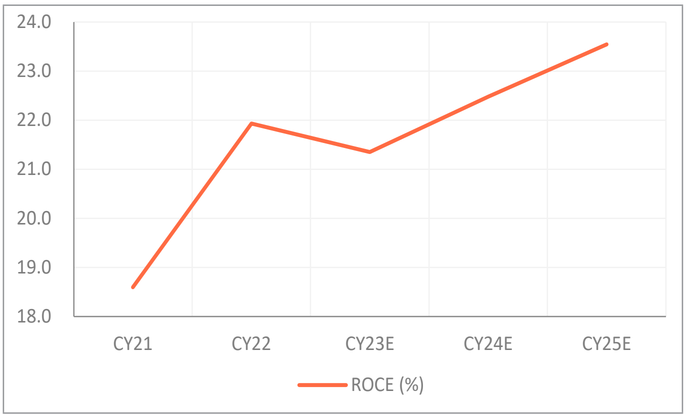
Source: Company, Sharekhan Research

ROE trend



Source: Company, Sharekhan Research

ROCE trend



Source: Company, Sharekhan Research

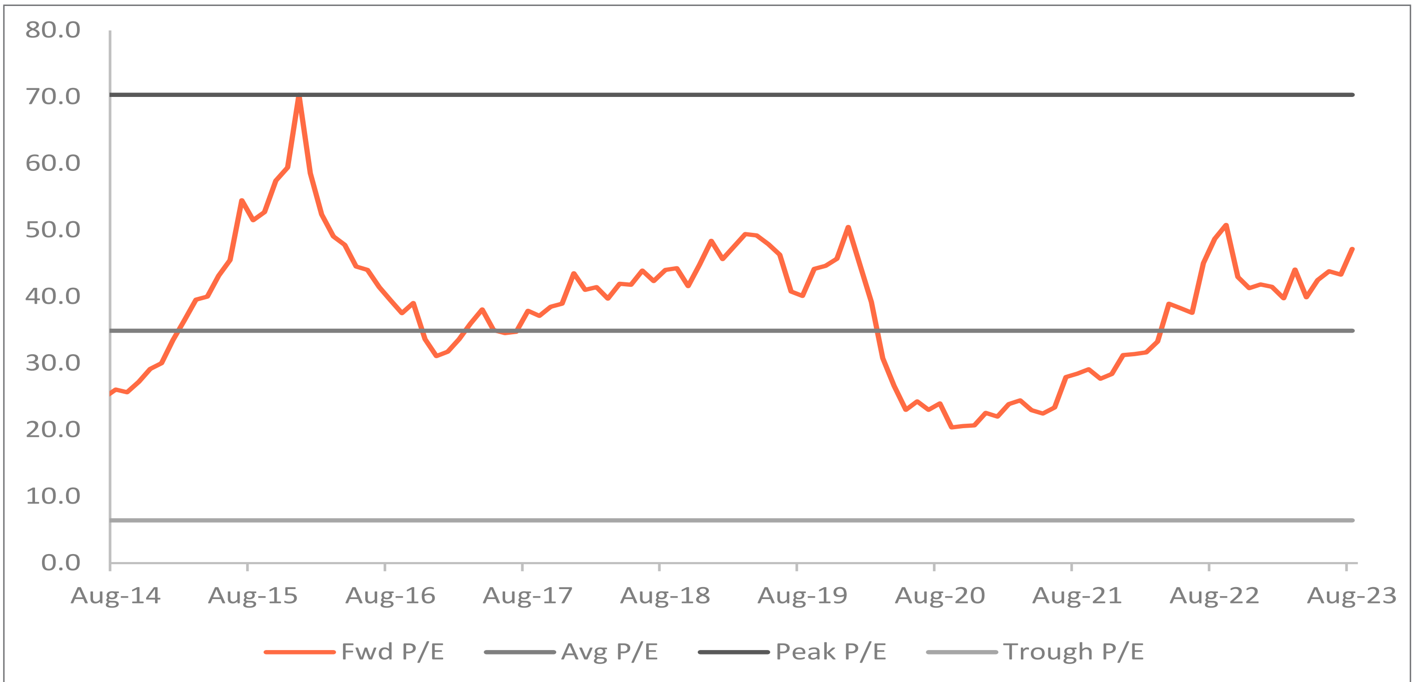
Outlook and Valuation

■ **Sector Outlook – 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 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 increased e-commerce, agriculture, infrastructure, and mining activities. We expect a multi-year upcycle in the CV segment, driven by improved economic activities and better financing availability. We believe strong traction in PV segment to continue on the rise in urbanization and replacement demand. Further, the two- wheeler segment is expected to recover on recovery in the rural part Moreover, exports provide a huge growth potential, given India's cost-effective manufacturing. An introduction of the PLI scheme and china plus one and Europe plus one theme would augur well for industrial production growth in India.

■ **Company Outlook – MNC with strong technological parentage and robust balance sheet:** SIL is part of Germany's Schaeffler Group. The Schaeffler Group has a strong research and development (R&D) DNA. In CY2021, the group filed 1,784 patents, making it the second-most innovative company in Germany. The company has established strong relationships with global OEMs worldwide. SIL would benefit from its strong parentage and is expected to receive new businesses going forward. Moreover, SIL's parent has identified it as a manufacturing base for supply to the Asia-Pacific region. This provides a huge growth potential for the company. SIL is a debt-free company with strong return-ratio profile. We remain positive on the company's growth prospects.

■ **Valuation – Maintain Buy with revised PT of Rs.3,928:** We remain structurally positive on Schaeffler India due to its strategic focus on localization, export business and new order wins. Along with that, the company has been strategically expanding its distribution network and product portfolio to leverage its brand equity in the aftermarket and we believe that the acquisition of KRSV would further help it in building up a strong online platform in the automotive aftermarket space. Despite headwinds in export markets in the near term, we believe Schaeffler Group's relocation strategy would continue to benefit Scheffler India due to structural fit. Further, a well-diversified revenue stream on geographically reduces the risk of a sharp fall in case of a bottlenecks in any individual destination. The wind energy segment contributes ~20% to its industrial revenue and has been facing challenges due to a slowdown in the European region, led by geopolitical issues. However, the management has started witnessing improvement in the wind energy sector (from Q2Cy23). The company would benefit from ongoing localization, strategic expansion in the export market and a strong footprint in after market segment. The successful entry into system solution supply to EVs would enhance earning potential on volume ramp-up and localization. With the introduction of earning estimates for CY25, we maintain our Buy rating on the stock with a revised PT of Rs 3,928.

One-year forward P/E (x) band



Source: Sharekhan Research

About the company

Schaeffler (erstwhile FAG Bearings), with four plants and 11 sales offices, has a significant presence in India with three major widely known product brands – FAG, INA, and LuK. SIL produces a wide range of ball bearings, cylindrical roller bearings, deep groove balls, spherical roller bearings, and wheel bearings sold under the brand name of FAG. The company manufactures engine and transmission components for front accessory drive systems, chain drive systems, valve trains, shift systems, and a range of needle roller bearings and elements under the brand INA. SIL also produces clutch systems and dual mass flywheels for passenger cars, LCVs, heavy commercial vehicles, and tractors, which are sold under the brand of LuK. In addition, SIL has dedicated engineering and R&D support based in India to augment its product teams. SIL also has one of the largest aftermarket networks serving industrial and automotive markets.

Investment theme

Schaeffler is among the largest automotive and industrial suppliers, with a strong parentage of the Schaeffler Group. The company is present in India for the past 50 years and has established strong relationships with leading OEMs in India and globally. Having strong manufacturing capabilities and R&D, SIL's parent company has identified it as a manufacturing base for supply to the Asia-Pacific region. This provides a strong opportunity to the company to expand its export business. With the Indian Government focussing on 'Make in India,' 'Atma-Nirbhar,' and PLI programmes, SIL 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 will likely keep growth traction intact. The company's strong technological parentage and established relationships with global OEM clients would continue to provide growth opportunities. We remain positive on SIL and expect strong earnings growth, driven by revenue growth and margin expansion.

Key Risks

- Delayed approval from industrial customers and late launches by automotive players can impact growth.
- Pricing pressures from automotive OEM clients can impact profitability.
- Weakening global outlook and uncertainties can disrupt the supply chain and increase costs, affecting our future estimates.

Additional Data

Key management personnel

Ms. ERANTI V SUMITHASRI	Chairperson
Harsha Kadam	Managing Director & CEO
Satish Patel	ED & CFO
Ashish Tiwari	Company Secretary

Source: Company

Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	Schaeffler Schweinfurt Beteiligungs GmBH	27.3
2	Schaeffler Buehl Verwaltungs GmBH	20.6
3	Schaeffler Verwaltungsholding Sechs GmBH	15.0
4	Industriewerk Schaeffler INA-Ingenieurdienst GmbH	11.3
5	Kotak Mahindra Asset Management Co Ltd/India	3.6
6	SBI Funds Management Ltd	2.7
7	UTI Asset Management Co Ltd	1.3
8	Axis Asset Management Co Ltd/India	1.3
9	Canara Robeco Asset Management Co Ltd/India	0.8
10	Vanguard Group Inc/The	0.8

Source: Bloomberg

Understanding the Sharekhan 3R Matrix

Right Sector	
Positive	Strong industry fundamentals (favorable demand-supply scenario, consistent industry growth), increasing investments, higher entry barrier, and favorable government policies
Neutral	Stagnancy in the industry growth due to macro factors and lower incremental investments by Government/private companies
Negative	Unable to recover from low in the stable economic environment, adverse government policies affecting the business fundamentals and global challenges (currency headwinds and unfavorable policies implemented by global industrial institutions) and any significant increase in commodity prices affecting profitability.
Right Quality	
Positive	Sector leader, Strong management bandwidth, Strong financial track-record, Healthy Balance sheet/cash flows, differentiated product/service portfolio and Good corporate governance.
Neutral	Macro slowdown affecting near term growth profile, Untoward events such as natural calamities resulting in near term uncertainty, Company specific events such as factory shutdown, lack of positive triggers/events in near term, raw material price movement turning unfavourable
Negative	Weakening growth trend led by led by external/internal factors, reshuffling of key management personal, questionable corporate governance, high commodity prices/ weak realisation environment resulting in margin pressure and detoriating balance sheet
Right Valuation	
Positive	Strong earnings growth expectation and improving return ratios but valuations are trading at discount to industry leaders/historical average multiples, Expansion in valuation multiple due to expected outperformance amongst its peers and Industry up-cycle with conducive business environment.
Neutral	Trading at par to historical valuations and having limited scope of expansion in valuation multiples.
Negative	Trading at premium valuations but earnings outlook are weak; Emergence of roadblocks such as corporate governance issue, adverse government policies and bleak global macro environment etc warranting for lower than historical valuation multiple.

Source: Sharekhan Research

Sharekhan

by BNP PARIBAS

DISCLAIMER

This information/document has been prepared by Sharekhan Ltd. (SHAREKHAN) and is intended for use only by the person or entity to which it is addressed to. This Document may contain confidential and/or privileged material and is not for any type of circulation and any review, retransmission, or any other use is strictly prohibited. This information/ document is subject to changes without prior notice.

Recommendation in reports based on technical and derivatives analysis is based on studying charts of a stock's price movement, trading volume, outstanding positions, as opposed to focusing on a company's fundamentals and as such, may not match with a report on a company's fundamentals. However, this would only apply for information/document focused on technical and derivatives research and shall not apply to reports/documents/ information focused on fundamental research.

This information/document does not constitute an offer to sell or solicitation for the purchase or sale of any financial instrument or as an official confirmation of any transaction. Though disseminated to all customers who are due to receive the same, not all customers may receive this report at the same time. SHAREKHAN will not treat recipients as customers by virtue of their receiving this information/report.

The information contained herein is obtained from publicly available data or other sources believed to be reliable and SHAREKHAN has not independently verified the accuracy and completeness of the said data and hence it should not be relied upon as such. While we would endeavour to update the information herein on reasonable basis, SHAREKHAN, its subsidiaries and associated companies, their directors and employees ("SHAREKHAN and affiliates") are under no obligation to update or keep the information current. Also, there may be regulatory, compliance, or other reasons that may prevent SHAREKHAN and affiliates from doing so. This document is prepared for assistance only and is not intended to be and must not alone be taken as the basis for an investment decision. Recipients of this report should also be aware that past performance is not necessarily a guide to future performance and value of investments can go down as well. The user assumes the entire risk of any use made of this information. Each recipient of this document should make such investigations as it deems necessary to arrive at an independent evaluation of an investment in the securities of companies referred to in this document (including the merits and risks involved) and should consult its own advisors to determine the merits and risks of such an investment. The investment discussed or views expressed may not be suitable for all investors. We do not undertake to advise you as to any change of our views. Affiliates of Sharekhan may have issued other recommendations/ reports that are inconsistent with and reach different conclusions from the information presented in this recommendations/report.

This information/recommendation/report is not directed or intended for distribution to, or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject SHAREKHAN and affiliates to any registration or licensing requirement within such jurisdiction. The securities described herein may or may not be eligible for sale in all jurisdictions or to certain category of investors. Persons in whose possession this document may come are required to inform themselves of and to observe such restriction.

The analyst certifies that the analyst might have dealt or traded directly or indirectly in securities of the company and that all the views expressed in this document accurately reflect his or her personal views about the subject company or companies and its or their securities and do not necessarily reflect those of SHAREKHAN. The analyst and SHAREKHAN further certifies that either he or his relatives or Sharekhan associates might have direct or indirect financial interest or might have actual or beneficial ownership of 1% or more in the securities of the company at the end of the month immediately preceding the date of publication of the research report. The analyst and SHAREKHAN encourages independence in research report/ material preparation and strives to minimize conflict in preparation of research report. The analyst and SHAREKHAN does not have any material conflict of interest or has not served as officer, director or employee or engaged in market making activity of the company. The analyst and SHAREKHAN has not been a part of the team which has managed or co-managed the public offerings of the company, and no part of the analyst's compensation was, is or will be, directly or indirectly related to specific recommendations or views expressed in this document. Sharekhan Ltd or its associates or analysts have not received any compensation for investment banking, merchant banking, brokerage services or any compensation or other benefits from the subject company or from third party in the past twelve months in connection with the research report.

Either SHAREKHAN or its affiliates or its directors or employees / representatives / clients or their relatives may have position(s), make market, act as principal or engage in transactions of purchase or sell of securities, from time to time or may be materially interested in any of the securities or related securities referred to in this report and they may have used the information set forth herein before publication. SHAREKHAN may from time to time solicit from, or perform investment banking, or other services for, any company mentioned herein. Without limiting any of the foregoing, in no event shall SHAREKHAN, any of its affiliates or any third party involved in, or related to, computing or compiling the information have any liability for any damages of any kind.

Forward-looking statements (if any) are provided to allow potential investors the opportunity to understand management's beliefs and opinions in respect of the future so that they may use such beliefs and opinions as one factor in evaluating an investment. These statements are not a guarantee of future performance and undue reliance should not be placed on them. Such forward-looking statements necessarily involve known and unknown risks and uncertainties, which may cause actual performance and financial results in future periods to differ materially from any projections of future performance or result expressed or implied by such forward-looking statements. Sharekhan/its affiliates undertakes no obligation to update forward-looking statements if circumstances or management's estimates or opinions should change except as required by applicable securities laws. The reader/investors are cautioned not to place undue reliance on forward-looking statements and use their independent judgement before taking any investment decision.

Investment in securities market are subject to market risks, read all the related documents carefully before investing. The securities quoted are for illustration only and are not recommendatory. Registration granted by SEBI, and certification from NISM in no way guarantee performance of the intermediary or provide any assurance of returns to investors.

Client should read the Risk Disclosure Document issued by SEBI & relevant exchanges and the T&C on www.sharekhan.com

---

Registration and Contact Details: Name of Research Analyst - Sharekhan Limited, Research Analyst Regn No.: INH000006183. CIN): - U99999MH1995PLC087498. Registered Office: The Ruby, 18th Floor, 29 Senapati Bapat Marg, Dadar (West), Mumbai – 400 028, Maharashtra, INDIA. Tel: 022-6115000.

Correspondence/Administrative Office: Gigaplex IT Park, Unit No 1001, 10th Floor, Building No.9, TTC Industrial Area, Digha, Airoli-West, Navi Mumbai – 400 708. Tel: 022 61169000 / 61150000, Fax No. 61169699.

Other registrations of Sharekhan Ltd.: SEBI Regn. Nos.: BSE / NSE / MSEI (CASH / F&O / CD) / MCX - Commodity: INZ000171337; DP: NSDL/CDSL-IN-DP-365-2018; PMS: INP000005786; Mutual Fund: ARN 20669.

Compliance Officer: Ms. Binkle Oza; Tel: 022-62263303; email id: complianceofficer@sharekhan.com

For any complaints/grievance, email us at igc@sharekhan.com or you may even call Customer Service desk on - 022- 41523200/022 - 33054600