



# ALPHA

**07 OCT 2022**

## Schaeffler India Ltd – Strong Group

Market Data	
CMP	Rs. 3325
Date	07-Oct-22
Target Price	Rs. 3960
Upside Potential	19.00%
52 Week High/Low	3970/1415
Market Cap	Large Cap
NSE Code	SCHAEFFLER
Sector	Auto Components
Rating	Buy

Schaeffler India Ltd. (SIL), erstwhile FAG Bearings, with four plants and 11 sales offices, has a significant presence in India with three widely known product brands – FAG, INA, and LuK. SIL produces a wide range of ball bearings, cylindrical roller bearings, 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 train, 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 to this, 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.





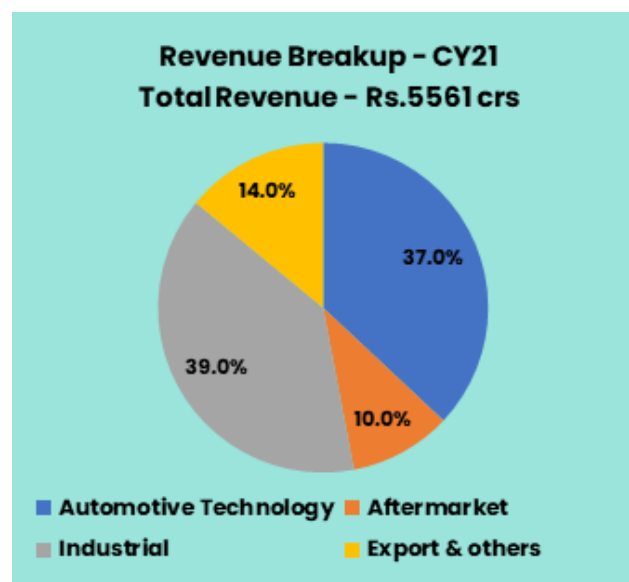
**Products & Services:** The company's products comes under three divisions.  
**Automotive Technologies** – The products under this segment are Chassis components and systems, Clutches and transmission systems, Engine components and precision products and Drives for hybrid and Electric Vehicles (EVs).

**Engineering and R&D Services** – The products under this segment are Rolling and plain bearings, Linear guidance system, Maintenance products, Maintenance services, Mechatronics and Digital services.

**Automotive Aftermarket** – The products under this segment are Transmission, Engine components and Chassis components.

SHP	Jun - 22 (%)	Mar - 22 (%)	Change
Promoters	74.13	74.13	0.00
FPI	4.94	5.05	-0.11
DII	15.51	15.39	0.12
Public & Others	5.42	5.43	-0.01
Pledged	0.00	0.00	0.00

**Subsidiaries:** As on Dec 31, 2021 (CY21), the Company has no material subsidiary.





## Key Rationale

- **Strong Parentage** – SIL is part of the German Schaeffler Group. The Schaeffler Group has a strong research and development (R&D) DNA. In CY2019, the group filed 2,400 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 Asia-Pacific region. This provides a huge growth potential for the company. SIL is a debt-free company with strong return ratio profile.
- **Key Focus** – SIL continues to focus on increasing its market coverage through new launches, expansion of new product range, and improvement in service levels. The company's performance has improved, aided by improved mix and sustained countermeasures. SIL continues to win new contracts in both automotive and industrial businesses. Key wins during the quarter include MHCV and LV clutches for transmission solutions in commercial vehicles (CVs) and wheel bearings for the passenger vehicle (PV) segment. The company increased its product coverage by introduction of wipers and business wins for the EAD/Timing Kit in PV segment. Moreover, the company has been approved for PLI scheme in the component champion incentive scheme. The theme of PLI scheme matches with SIL's product portfolio and focus. Mobility business and focus on technology are the company's key focus areas.
- **Q2CY22** – The company reported revenues of Rs.1749 crs, up 12% QoQ, 42% YoY in Q2CY22. The growth was strong on all the segments with Automotive technology revenues reported a growth of 40% YoY and 11% QoQ, Aftermarket with 54% YoY and 20% QoQ, Industrials with 34% YoY and 9% QoQ and Exports & others with 62% YoY and 13% QoQ. EBITDA for the quarter posted a strong growth of 56% YoY at Rs.322 crs and the PAT for the same period grown 77% YoY at Rs.226 crs on account of a low base in the Jun'21 quarter.
- **Financial Performance** – The company generated a Revenue and PAT CAGR of 25% and 26% over the period of 5 years (CY17-21). The company has a strong balance sheet with literally zero debt and a cash and equivalents of Rs.1340crs. The company is a cash generating machine and it is expected to generate a strong FCF of Rs.1,200 crs over the next three years.

### Margins - CY21

Gross	38%
EBITDA	17%
PAT	11%

**Ratios - CY21**

ROE	17%
ROCE	23%
Div. Yield	0.49%
PE Ratio	83.00
Face Value	2.00
EPS	Rs. 40.25

**Industry Analysis**

The Indian auto-components industry has experienced healthy growth over the last few years. The auto-components industry expanded by a CAGR of 3.28% from FY16 to FY20 to reach US\$ 45.90 billion in FY21. India's auto component sector recorded its highest-ever revenue of Rs. 4.2 trillion (US\$ 52.59 billion) in FY 2021-22, growing by 23% as a result of good aftermarket and export results. Imports of auto parts increased by 33% in FY 2021-22, exports increased by 43% over the same time, said ACMA. The industry is expected to reach US\$ 200 billion by FY26. The auto-components industry accounts for 7.1% of India's Gross Domestic Product (GDP) and employs as many as 5 million people directly and indirectly. According to Crisil, as electrification rises, the auto component sector may expect 9-11% of its revenue to come from EV (Electric Vehicle) parts by 2027. Revenue for electric vehicle components is expected to expand at a compound annual growth rate of almost 76%, from Rs. 4,300 crore (US\$ 538.37 million) last fiscal year to Rs. 72,500 crore (US\$ 9.07 billion) in fiscal 2027.

**Growth Drivers**

In February 2022, the government has received investment proposals worth Rs. 45,016 crore (US\$ 6.04 billion) from 20 automotive companies under the PLI Auto scheme. This scheme is expected to create an incremental output of Rs. 2,31,500 crore (US\$ 31.08 billion).

India has a competitive advantage in auto components categories such as shafts, bearings and fasteners due to large number of players. This factor is likely to result into higher exports in coming years.

The Government of India encourages foreign investment in the auto components sector and has allowed 100% foreign direct investment (FDI) under the automatic route.



## Peer Analysis

**Competitors:** SKF India.

The company is compared with the closest listed competitor SKF India which is a subsidiary of AB SKF (Swedish Company) like Schaeffler India from Schaeffler group (Germany). In terms of financial performance Schaeffler is way ahead of SKF India and thereby trading at a premium valuation.

Company	CMP	Mcap.	5 Yr Sales CAGR	5 Yr PAT CAGR	P/E	EPS
Schaeffler India	3325	51970	25.00%	26.00%	83	40.25
SKF India	4749	23409	7.00%	10.00%	59	79.92

## Outlook

The company's management has given a positive outlook, as the company expects volumes to recover going forward. Management sees CY2022 to be a strong year (HICY22 reported robust numbers already) and expects its businesses to perform well this year, driven by an expected normalization of economic activity and recovery in rural demand. The company has a robust order book outlook, led by strong customer engagement. Management expects sustained operational performance across its plants and normal capacity utilization. However, management highlighted headwinds due to geopolitical situations and increasing inflation. The company is likely to be a key beneficiary of electrification and hybridization trend for the domestic business, as India is expected to witness faster growth in electric and hybrid vehicles going forward. The company expects electrification growth to be in high single digits by 2030, while hybridization is expected to be at 25-35%. The company has a strong product portfolio and is well placed to benefit from the electrification and hybridization trend in the mass markets.



## Valuation

We expect SIL to benefit from industrial and automobile aftermarkets, strong growth traction in railways and export segments, and better prospects for the bearings business amid stricter norms. We are positive on the automobile sector and expect the industry to post double-digit growth in FY2023. Hence, we recommend a BUY rating in the stock with the target price (TP) of Rs.3960, 55x CY23E EPS.

## Risks

- **Slowdown Risk** - Delayed approval from industrial customers and late launches by automotive players can impact the growth of the company.
- **Covid related Risk** - Growth momentum might get derailed if the any new wave of COVID-19 hits as severely as the second wave.
- **Technological Risk** - Adverse impact of EV transition will be witnessed by the engine components (piston, engine valves, fuel injection systems, etc.) and drive transmission parts. However, the company produces Hybrid, EV Power drives and the R&D team is working on new products.

Source – Tickertape, Company's Website, BSE Website.

Thanks & Regards

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