MANAGEMENT DISCUSSION AND ANALYSIS

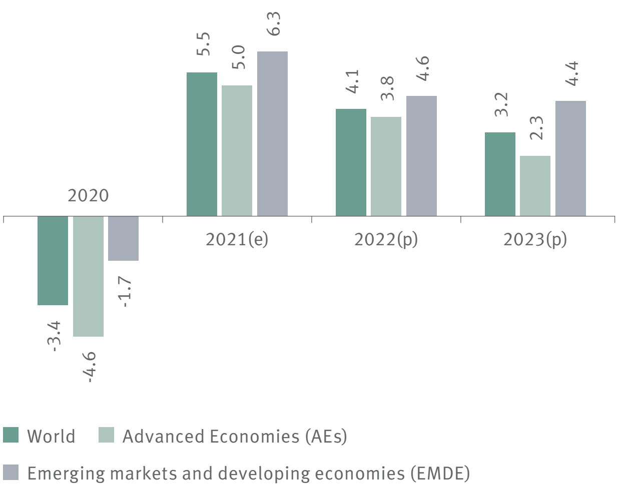
Economic overview

Global

In 2021, the global economy is estimated to have grown 5.5%, the strongest post-recession recovery in 80 years[1]. The growth is mainly attributed to the surge in demand following relaxation in COVID-19 related restrictions in many countries. Despite the spread of the new Omicron variant, the pandemic had limited impact on the economy given the robust policy support provided by governments, restricted nature of lockdowns and substantial vaccination coverage for majority of the population in most advanced economies and many emerging markets and developing economies (EMDEs).

The Global Consumer Confidence Index[2] shows that globally, consumer sentiment remained strong throughout the year, reaching an all-time-high of 115 points (a figure above 100 is considered positive) in Q3. Although there were regional divergences, overall, confidence was driven by consumers' optimism towards personal finances, job prospects and spending. Concerns around health, job security and the health of the economy, were less intense than before. However, the recurring waves of the pandemic and rising prices did weigh in on consumer sentiment. To control inflation, many central banks tightened monetary policy, which impacted spending growth.

Global GDP forecast
(in %)



(e)- estimate, (p)-projections
Source: Global Economic Prospects, World Bank Group, January 2022

Outlook

Given the situation, the world output is expected to grow by 4.1% in 2022 and 3.2% in 2023, according to January 2022 'Global Economic Prospects' report by the World Bank. However, the conference board forecasts that the global GDP will grow by 3.9% in 2022 and beyond this, the board expects a slower growth trend with an average growth of 2.5% between 2022 and 2026. During this period[3], EMDEs are expected to contribute ~70% to the growth rate while advanced economies would contribute ~30%. Investment, especially in advanced economies, is expected to contribute substantially to global growth.

Potential challenges to global growth include higher financing cost and inflation risks driven by rebounding demand and supply chain disruptions. In addition, escalation of the Russia-Ukraine crisis could adversely impact the global economy with supply shock and rise in fuel prices. As far as COVID-19 is concerned, with many countries declaring their intention to treat it as endemic, and the world being better prepared with the lessons from surviving the disruptions over the last two years, the economic impact as of now seems to be limited.

Source: Global Economic Prospects, World Bank Group - January 2022

[1] https://openknowledge.worldbank.org/bitstream/handle/10986/36519/9781464817601.pdf
[2] https://www.conference-board.org/topics/global-consumer-confidence
[3] https://www.conference-board.org/topics/global-economic-outlook/press/global-economic-outlook-2022

India

In FY22, India's GDP is estimated to grow by 8.3%, supported by the resumption of contact intensive services and ongoing monetary and fiscal policy support. The stronger recovery is also attributed to a fast-paced vaccination drive, enhanced mobility, and increased consumer confidence. Moreover, Government of India's focus on exports and investments is also likely to support the economic recovery. Sector-specific measures such as the Production Linked Incentive (PLI) scheme to drive domestic manufacturing, credit guarantee scheme for MSMEs, and increased spending on infrastructure are expected to be beneficial in driving long-term economic growth.

Given the government's focus on agriculture and allied sectors and a good monsoon, the agricultural sector is expected to grow at 3.9% in FY22[4]. Manufacturing and construction are estimated to report double digit growth because of a favourable base. The auto component industry, which contributes around 2.3% of India's national GDP, is likely to grow by 10-15% in FY22[5], with increased value-addition to meet regulatory compliance, fast recovery in exports, and traction in the domestic automotive aftermarket. The services sector, which accounts for more than half of the economy, is estimated to grow by 8.2% in FY22[6].

India's COP26 commitments

At the recently concluded 26th session of the Conference of the Parties (COP 26) at Glasgow,UK, India pledged to become a 'net zero' carbon emitter by 2070. It also announced enhanced targets for renewable energy deployment and reduction in carbon emissions by 2030. These commitments include:

50%
power to come from renewables

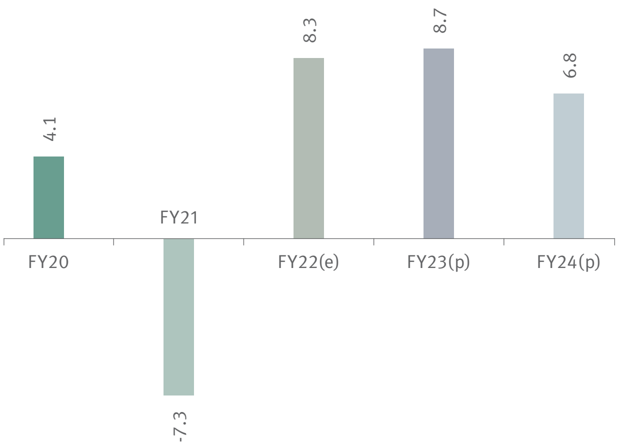
500 GW
Reach 500 GW of installed renewable energy capacity

45%
Reduce carbon intensity by 45%

1 billion tonnes
Reduce projected total carbon emissions by 1 billion tonnes

The above commitments are expected to result in a significant push for renewable energy, be it in terms of hydro, nuclear, solar capacity addition, or focus on cleaner energy to reduce vehicular pollution, thus paving the way for a green economy.

India's GDP trend
(%)



(e)- estimate, (p)- projections
Source: Global Economic Prospects by World Bank, Jan 2022

Outlook

According to World Bank, Asian Development Bank and International Monetary Fund projections, India will be the fastest growing major economy in the world during 2021-24. The World Bank forecasts India's GDP growth to be 8.7% in FY23 and 6.8% in FY24. The growth will be driven by widespread vaccine coverage, easing regulations, long-term benefits of supply-side fiscal policies along with rapid export growth and the increased capital spending.

The supply-side reforms include deregulation of numerous sectors, simplification of processes, removal of legacy issues like retrospective taxation, privatisation, the PLI schemes and others. In Budget FY23, the government announced a larger capex outlay; up by 35.4% from ₹ 5.54 lakh crore in FY22 to ₹ 7.5 lakh crore in FY23, which is expected to have a multiplier effect in reviving the economy. With all these macro-economic stability indicators, India is well-placed to take on the challenges and sustain strong growth in the year ahead.

[4] https://www.indiabudget.gov.in/economicsurvey/doc/echapter.pdf
[5] https://www.acma.in/about-us.php
[6] https://pib.gov.in/PressReleasePage.aspx?PRID=1793829

Industry Overview

Automotive sector review

The year 2021 was better than 2020 for the automotive sector as sales increased across categories, including personal vehicles, commercial vehicles, two- and three-wheelers, and tractors, reaching close to pre-COVID levels on the back of pent-up demand. Notwithstanding the demand surge, the automotive sector faced stagnation towards the second half of the year due to the worldwide semiconductor shortage and increase in steel prices.

Even before the pandemic, the sector had been struggling with declining sales as a result of the economic slowdown. The auto component industry, in turn, faced headwinds. However, in the first half of FY22, the auto component industry witnessed a remarkable turn-around, registering a 65% growth as a result of demand from, growing exports as well as steady growth in the automotive aftermarket.

Outlook

Having witnessed a positive 2021, the Indian automobile sector is heading into 2022 with an optimistic outlook in its pursuit of pre-pandemic level sales volume. With the demand for PVs remaining buoyant, many automobile manufacturers are eagerly investing in new technologies, particularly in the electric mobility space. The coming year is expected to see significant growth in electric vehicles both in the four- and two-wheeler categories.

The automotive sector in India is likely to face challenges from the global semiconductor shortage and increase in raw material costs. In addition, emphasis on the implementation of CAFE-II norms and BSVI phase II from 2022 in order to reduce vehicular emissions, could impact sales. However, Corporate Average Fuel Economy (CAFE) norms, embedded in BSVI emission regulations, in the long term, will drive automotive companies to manufacture more fuel-efficient and low-emission vehicles.

Auto sales trend (in units)

Categories	2021	2020	Change (%)
Passenger vehicles (PVs)*	30,82,421	24,35,118	26.6
Commercial vehicles (CVs)**	6,77,119	5,05,189	34.0
3-wheelers	2,63,373	2,60,412	1.1
2-wheelers	1,44,69,514	1,42,68,643	1.4
Agriculture tractors	9,03,724	8,02,670	12.6

*Except BMW, Mercedes and Volvo auto data
**except for Daimler and Scania data and JBM Auto data available between April and June only

Source:
PVs, CVs, 2- and 3-wheelers: SIAM- https://www.siam.in/pressrelease-details.aspx?mpgid=48&pgidtrail=50&pid=498,
Agriculture Tractors: TMA- https://www.tmaindia.in/consolidated-monthly-reports-2021.php

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 authorised a PLI scheme for the automotive sector in September 2021. As per the Union Budget 2022-21, the government is to promote 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[8] 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. It also has the potential to employ over 3 million people in India.

India's response to semiconductor shortage
The worldwide semiconductor shortage, which began in 2020 and progressively worsened, has been a challenge for the Indian automobile industry. To help navigate the challenge, the Government of India announced a PLI scheme of ₹ 76,000 crore in December 2021 for the manufacture of semiconductor goods.

Industrial sector review

The Index of Industrial Production (IIP) has seen positive movement, with all core sectors barring coal, crude oil and petroleum refinery products breaching pre-COVID levels. India's industrial sector, which was marred by disruptions due to the pandemic, grew by 22.9%[7] in the first half of FY22 as compared to the corresponding period in FY21. The growth for the complete fiscal year is pegged at 11.8%. A gradual unlocking of the economy, PLI schemes for various sectors, along with policy support such as emergency credit line guarantee to micro, small, and medium enterprises (MSMEs) are aiding the pace of recovery.

Outlook

The government's consistent efforts in terms of structural, fiscal and infrastructural reforms together with the demand revival augur well for industrial growth. The PLI scheme will aid in keeping investments flowing to scale up industries and provide a major boost to infrastructure. Moreover, the growth is expected to accelerate with improvements in the overall business sentiment on the back of continued measures to reduce transaction costs and improve ease of doing business.

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, introduction of Sovereign Green Bonds for green infrastructure and requirements with regards to renewable energy consumption would aid the growth potential.

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 our passengers. This will be developed and manufactured over the next three years.

[7] https://www.indiabudget.gov.in/economicsurvey/doc/eschapter/echap08.pdf
[8] https://www.icra.in/Media/OpenMedia?Key=9698b7ef-0a8c-4720-8b48-79e947fbb05e

Business overview

Schaeffler India offers a diverse range of products and services in three business segments: Automotive, Industrial and Automotive Aftermarket. In addition, we provide training to key garage influencer groups and hold fleet workshops for automotive aftermarket and industrial distribution markets. Our client-centric strategy, emphasis on innovation, and superior distribution network enable us to maintain our market leadership in these segments. Our sales are evenly distributed across the automotive and industrial categories, and we are expanding our exports in high-potential regions.

SCOT analysis

Strength	Challenges	Opportunity	Threats
– Strong pedigree with decades of expertise, a powerful ecosystem, and diversified capabilities – A scalable, agile and strong business model – A culture of innovation that allows us to provide superior products while maintaining our competitive edge – A diverse range of products across automotive and industrial business segments – Skilled team with extensive industry experience	– Rapid changes in the technology landscape – Scaling up of digitalisation capabilities	– Realise the full potential of our three business segments to drive top-line growth – Optimise our R&D capabilities to offer distinct, game-changing solutions for both local and global markets – Embrace digitalisation across all functions – Massive potential to grow products catering to EVs and other technologically advanced product segments – Potential to move up the value chain, from providing products to providing systems and end-to-end solutions	– Prolonged stress in the macro economy, automotive and industrial sectors – Unforeseen and sudden volatility in currency and input costs

Operational performance review

In 2021, we recorded strong performance both in terms of revenue and profitability across all business segments despite various challenges, including high input cost, semiconductor shortage and supply chain disruptions.

Our cautious outlook, cost-cutting measures along with investments in market opportunities contributed to our growth. In addition, our balanced business portfolio helped us sustain the growth momentum.

Automotive segment

Our Automotive segment registered significant growth despite the challenges faced by the automotive sector in the country owing to rising steel prices and the chip shortage. Our diverse product portfolio along with our proactive countermeasures like prudent cost management and focus on improving productivity helped us drive growth.

In 2021, we won significant order book in the PV, CV and tractor segments for clutch and transmission solutions as well as wheel bearings. Additionally, we came across long-term business opportunities in the chassis and engine segment for key relevant products.

Automotive aftermarket segment

This segment also witnessed robust performance in 2021. During the year, we expanded our product range in this segment to include radio coolant for sub-zero temperature markets, universal cross joint, push type clutch for CVs, among others.
In addition, we launched shock absorbers that helped us diversify our portfolio. This also has the potential to drive our growth in the Automotive Aftermarket segment.

Industrial segment

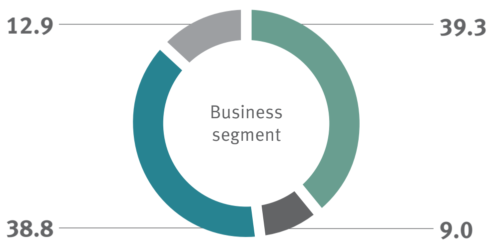
Around 39% of our overall revenue in 2021 was contributed by this segment. We provide different types of industrial bearings, catering to various sectors such as steel, mining, railway, construction, and wind energy, among others.

In 2021, we won significant orders for Sealed Spherical Roller Bearings for the material handling segment in the domestic market. In the overseas markets, we received order for Track Roller Bearings for the metal segment.

Financial performance review

We witnessed strong financial performance in 2021, with a whopping 48% growth in net revenue compared to 2020 as a result of our business resilience and agility in managing the challenges of a dynamic external environment. All our business segments performed well, with both the Automotive and Automotive Aftermarket segments registering ~50% growth in revenue. The Industrial segment witnessed a revenue growth of ~39% and our export revenue grew by ~70% y-o-y.

Revenue mix: 2021
(%)



- Automotive Technology
- Automotive Aftermarket
- Industrial
- Exports

Revenue mix: 2021
(%)

- Mobility component and related solutions
- Others

₹ 10,000 million
Investment over next three years

(₹ in million)

Particulars	2021	2020	Change (%)
Net revenue	55,605	37,619	48
EBITDA*	9,950	5,402	84
Less: Depreciation/Amortisation	1,971	1,940	2
Less: Finance cost	37	53	(30)
Add: Interest income	489	563	(13)
Profit before tax	8,431	3,972	112
Provision for tax	2,140	1,062	102
Profit after tax	6,291	2,910	116

Revenue

(₹ in million)

Particulars	2021	2020	Change (%)
Net revenue	55,605	37,619	48
Mobility component and related solutions	43,850	30,064	46
Others	11,755	7,555	56

Profitability

(₹ in million)

Particulars	2021	2020	Change (%)
EBITDA*	9,950	5,402	84
Less: Depreciation/Amortisation	1,971	1,940	2
Less: Finance cost	37	53	(30)
Add: Interest income	489	563	(13)
Profit before tax	8,431	3,972	112

Taxes

(₹ in million)

Particulars	2021	2020	Change (%)
Provision for tax	2,140	1,062	102

Profit after tax

(₹ in million)

Particulars	2021	2020	Change (%)
Profit after tax	6,291	2,910	116

Cashflow

(₹ in million)

Particulars	2021	2020
EBITDA*	9,950	5,402
Income tax	(1,895)	(1,384)
Change in working capital and others	(3,408)	2,475
Capital expenditure**	(1,826)	(2,377)
Interest income**	456	456
Free cash flow	3,277	4,572

*Earnings before Interest, Tax, Depreciation and Amortisation
**Figures are net

Business outlook

The year 2021 has been a record year for Schaeffler India in terms of business performance. We won a healthy order book in all the business segments, which is bound to help us sustain our growth momentum for 2022 and beyond. Various government initiatives to boost the automotive and manufacturing sectors will also enable faster growth for the Company. In 2021, we made considerable progress on our five-year plan – 'Roadmap 2025' – which we have outlined in this Report (please read the details on page 06). Going forward, we will continue to focus on our strategic objectives while dealing with market challenges to achieve the targets we have set for ourselves. We are also fully committed to achieving our sustainability goals (please read the details on page 52) through our well-defined ESG strategy.

Internal control systems

In parallel to the risk management system, Schaeffler India has a system of internal controls over financial reporting (IFC), which ensure the accuracy of the accounting system and the related financial reporting. The internal control system provides for well-documented policies and procedures that are aligned with Schaeffler Group standards and processes. It adheres to local statutory requirements for orderly and efficient conduct of business, safeguarding of assets, the detection and prevention of frauds and errors, adequacy and completeness of accounting records and timely preparation of reliable financial information. The efficacy of the internal checks and control systems are validated by internal auditors.

Our IFC is conceptually based on the regulatory framework, as applicable. The controls defined in the framework are applied at all levels – entity level, process level and IT systems level.

Each year-end, the management assesses the appropriateness and effectiveness of the IFC in place. To this end, we use a standardised methodology to identify the processes relevant to IFC, define the required controls and document them in accordance with uniform requirements. This is then followed up with a review of the defined controls, which is performed using a risk-based approach. The process controls are self-evaluated and are audited by the internal and statutory auditors. Wherever control weaknesses exist, actions to eliminate them are defined and monitored regularly to overcome them.

Cautionary statement

Statement made in the Management Discussion and Analysis describing the Company's objectives, projections, estimates, expectations may be 'forward looking statements' within the meaning of applicable securities laws and regulations. Actual results could differ from those expressed or implied. Important factors that could make a difference to the Company's operations include economic conditions affecting demand supply and price conditions in the domestic and overseas markets in which the Company operates, changes in the government regulations, tax laws, other statutes and other incidental factors.