Management Discussion and Analysis

1. Economic Overview

1.1 Global

The year 2023 started with what appeared as bleak prospects for the global economy, with expectations of recession in the developed world following the war, creating inflationary pressures and subsequent monetary tightening by global central banks. While the political situation in the Middle East and market upheavals in China should have further exacerbated the situation, the global economy remained comparatively stable and continued to surprise on the upside. As against the expected growth estimate of 2.9% at the beginning of the year, the economy unexpectedly grew by 3.1% during the year. Inflationary pressures abated slightly, in most regions, thanks to the easing of supply-side pressures and restrictive monetary policy. The IMF projected global headline inflation rate is expected to decrease to 5.8% in 2024 and 4.4% in 2025, with the forecast for 2025 revised down. This has led to analysts and economists adopting a more optimistic stance and being assured of a soft landing, largely due to resilience in the United States and several large emerging markets and developing economies.

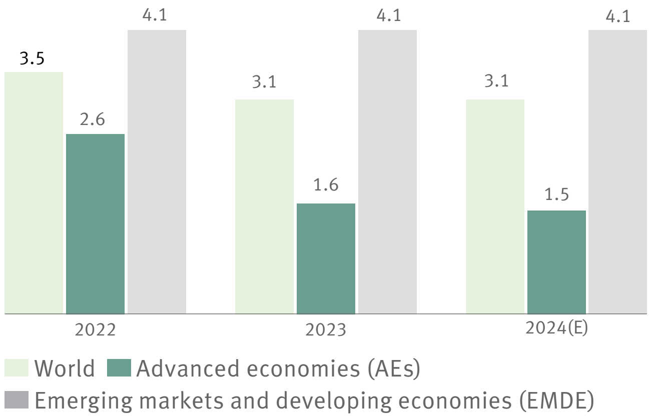
The Global Consumer Confidence Index for December 2023 stood at 47.7, with a 0.5 units gain from the previous month. With a score of 64.3, India sits at the top of this index, signifying the growth momentum and optimism.

Outlook

With a reduced risk of recession, the IMF is expecting the global economy to grow by 3.2% in 2024. The outlook is better than what was anticipated a few months back. Advanced economies are expected to see growth decline slightly in 2024 before rising in 2025, with a recovery in the euro area from low growth in 2023 and a moderation of growth in the United States. Emerging market and developing economies are expected to experience stable growth through 2024 and 2025, with regional differences. There is still room for positive surprises in the global economy, but caution remains on a few persistent risks.

Potential challenges to global growth reducing the pace of the economy include sticky inflation and geopolitical uncertainties, including the Red Sea crisis, where freight and insurance premiums have gone up significantly and shipment volume has reduced.

Global GDP forecast (in %)



(e)- estimate, Source: World Economic Outlook, January 2024

1.2 India Overview

India continues its strong growth trajectory. As per the advanced estimates released by NSO (National Statistical Organisation), the Indian economy is expected to grow by 7.3% for fiscal 2024. RBI also raised the growth estimate from the earlier 6.5% to 7% for the same period.

The retail inflation in India for 2023 is projected at 5.4%, while CPI inflation has remained above RBI's target of 4% for 50 consecutive months. For FY24, the monetary policy committee has kept the CPI inflation forecast unchanged at 5.4%. It expects inflation to gradually come down in FY25. Throughout 2023, India's manufacturing PMI remained above 50, signalling an expanding output, with the PMI hitting 56 in November.

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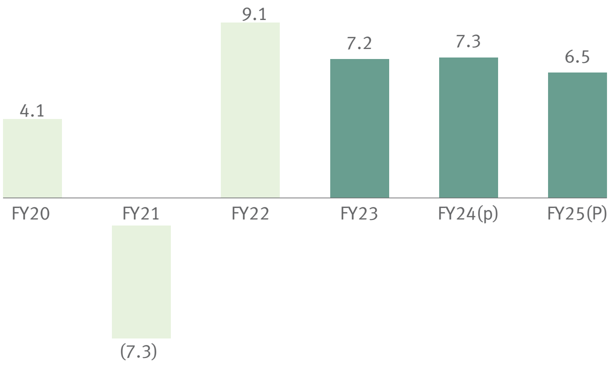
The agricultural sector is expected to grow at 1.8% in FY24. Manufacturing is expected to grow at 6.5, and construction is expected to register a double-digit growth of 10.7%, even on a strong base. The auto component industry, which contributes around 2.3% of India's national GDP, is likely to grow by 6-9% in FY24, 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 7.7% in FY24.

Outlook

The IMF expects the Indian economy to grow by 6.5% in FY25 following resilience in domestic demand. S&P Global Ratings expects India will remain the fastest-growing major economy for the next three years, putting it on track to become the world's third-largest economy by 2030, overtaking Japan and Germany.

India's GDP trend (%)



(e)- estimate, (p)- projections

Source: Global Economic Prospects by World Bank, Jan 2024

2. Industry Overview

2.1 Automotive sector review

Global automobile sales are estimated to have increased by ~10% to 90.1 million units in 2023 as chip and semiconductor shortages started easing in the second half of the year. In 2024, the growth is expected to slow to 2.4% to 92.2 million units, however, India and China will continue to outperform the market. India's growing income levels, lack of effective public transport options, and government's support for E-mobility have led to increasing demand for mobility.

The auto sector is one of the key pillars of Indian industry, contributing about 7.5% to our GDP and about 49% to manufacturing GDP. It also employs close to 4 crore people directly and indirectly. 2023 has been a bumper year in terms of car sales and growth, with the industry expecting sales of 4.22 million units by the end of the calendar year, an 8% increase over the previous year.[1]

Automotive market trends and outlook

Embracing green technology

Action in the EV space picked up during the year, registering a 50% growth including, 2-W, 3-W and PVs and CVs. The e-bus segment is expected to do well in 2024 on the back of the PM E-bus Seva scheme which intends to introduce 10,000 electric buses in 169 eligible cities through public-private partnerships.

[1] https://www.kedglobal.com/automobiles/newsView/ked202311270009

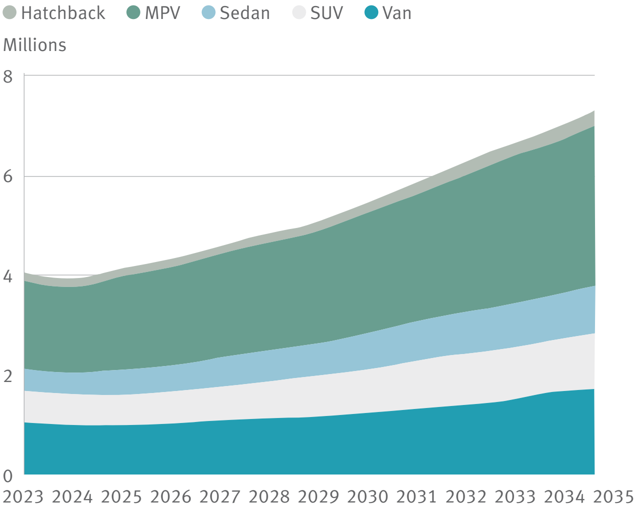
ICRA expects the vehicle volume growth to moderate next year due to the high base and waning of pent-up demand.

Vehicle Type	Expected growth rate	
	FY2023-24	FY2024-25
Passenger vehicle	6-9%	3-6%
Commercial vehicle	2-4%	(4-7%)
Two wheelers	8-11%	7-10%
Three wheelers	46-49%	10-13%

Changing vehicle mix in India

According to S&P Global Mobility, total automobile sales in India will grow to 6.1 million units in 2030 from 4.4 million in 2022, supported by India's economic growth and investment in the national highway network.

SUVs to reach half of Indian Auto sales



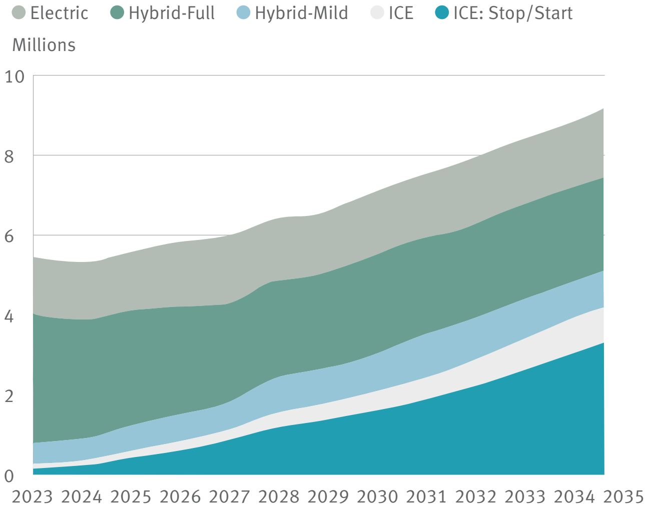
Data compiled June 19, 2023.
Data includes cars and light commercial vehicles <6 metric tons.
Source: S&P Global Mobility.

The Indian market has transitioned from a small car market to an SUV-dominated market. The luxury car segment registered nearly double-digit growth in 2023 and is expected to maintain the momentum in 2024. Small car sales lagged with the share of entry-level PVs reducing from 14% in 2018-19 to 4% recently. SUVs share has now reached close to 42% and is expected to breach that figure in the next year.

	2015	2023
SUV	16%	42%
Hatchback	41%	29%
Sedan	24%	13%
MPV	13%	12%
Van	6%	4%

Source: S&P Global

India's changing vehicle mix



Data compiled June 19, 2023.
ICE = internal combustion engine.
Data includes cars and light commercial vehicles <6 metric tons.
Source: S&P Global Mobility.

Within a short to medium time horizon, India will continue to use and adopt a range of power technologies for vehicles. In a vast country characterised by diverse needs and preferences, internal combustion engines (ICEs), compressed natural gas, electricity, hydrogen, flex fuels, bio-fuels and hybrid – all technologies will continue to co-exist.

Within the space, the Economic Survey of 2023 forecasted a remarkable 49% CAGR for India's domestic EV market between 2022 and 2030. This trajectory is anticipated to yield a predicted annual sales volume of nearly 10 million units by 2030.

Increasing value

The average price of a car has more than doubled in India over the past decade to ₹1,150,000(about $14,000) from ₹450,000 (about $ 5,500). This shows immense opportunity for the OEM sector as it reflects customer's willingness to pay for utility, safety and security.

Challenges

A slowdown in rural demand, rising interest rates, supply bottlenecks and lack of EV charging infrastructure are some of the challenges faced by the industry.

2.2 Industrial sector review

For FY23-24, the construction sector is expected to exhibit robust double-digit growth at 10.7%. The government expects the manufacturing industry to expand by 6.5%, a significant improvement over 1.3% in the previous year. The mining and quarrying sector is expected to increase by 8.1% in FY24. From April 2023 to November 2023, the IIP growth stood at 6.4%, up from 5.6% in the corresponding period last year, all pointing towards a good performance by the industrial sector. The interim budget for FY25 has put the government Capex figure at a strong ₹11 trillion, showing the impetus for infrastructure investments will continue.

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.

Policy measures for the Auto and Industrial sectors

PLI Scheme

The Indian government increased the Production Linked Incentive (PLI) Scheme for auto and auto components by one year in January 2024, with total indicative incentives amounting to ₹25,938 crore. For FY 2024-25, the ₹3,500 crore has been earmarked for this incentive.

Support to e-Mobility

The government reiterated support for e-mobility by declaring support for bringing more e-buses on the road for public transport through a payment security mechanism. The government also announced and improved the charging infrastructure to meet the emission targets.

FAME (Faster Adoption and Manufacturing of Electric Vehicles) II Subsidy

FAME was first introduced in April 2015, and phase II was launched in April 2019. It aimed to give impetus to the purchase of electric and hybrid vehicles by providing financial support and thus making them more affordable. The allocation under FAME II for FY 2024-25 is ₹2,671 crore. Rollout of the new subsidy scheme will be a key for providing impetus to the EV sector.

Renewable Energy

India aims to achieve a 500 GW renewable energy target before 2030. As of Dec 2023, Renewable energy sources, including large hydropower, have a combined installed capacity of 180.79 GW. In the interim budget presented in February 2024, the Finance Minister announced that the government will support about one crore households under the rooftop solarisation scheme by providing them with up to 300 units of free electricity per month.

Strong government Capex continues

The recent Interim Budget proposes ₹11 trillion as Capex for FY 2024-25 to shore up demand and consumption in the economy.

Record allocation to Railways

The Railways have got a record allocation of ₹2.55 lakh crore in the Budget.

Green Hydrogen

The Interim Budget for 2024-25 allocated ₹600 crore for the National Green Hydrogen Mission, compared to the previous year's budget of ₹297 crore.

3. 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 the Automotive Aftermarket and Industrial distribution markets. Our client-centric strategy, emphasis on innovation, and superior distribution network enables us to grow and create value for our stakeholders. We have a balanced business portfolio, with sales evenly distributed across the automotive and industrial categories.

3.1 SCOT analysis

Strength	• Strong pedigree with decades of expertise, a powerful ecosystem, and diversified capabilities • Customer centric approach with a scalable, agile and strong business model • A culture of innovation that allows to provide superior products while gaining a competitive advantage • A diverse range of products across automotive and industrial business segments • Skilled team with extensive industry experience
Challenges	• Preparing workforce to take on tomorrow's mobility • Rapid changes in the technology landscape

Management Discussion and Analysis

Opportunity	• Realise the full potential of our three business divisions 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 • 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
Threats	• Geo-political tensions • Prolonged stress in the macro economy, automotive and industrial sectors • Unforeseen and sudden currency volatility and raw material prices

3.2 Operational performance review

3.2.1 Automotive Technologies segment

Our Automotive Technologies segment achieved significant growth despite the uncertainties in the automotive sector. Our consistent focus on innovation paid dividends as our product portfolio helped us drive growth. During the year, we achieved a breakthrough nomination in the area of future mobility with one of India's leading OEMs. We also won business order wins in the area of hybridisation with OEM customers and wheel bearings for fully electrified car platforms. Our trajectory of business wins in CVs for double-clutch systems, in PVs for needle bearings, DGBBs, and light vehicle clutch systems continued during CY 2023.

In terms of operational performance, we ramped up major projects in engine components and shift systems, which will help us play an important role in meeting the upcoming Real Driving Emission (RDE) requirements with increased reliability for our customers.

3.2.2 Automotive Aftermarket segment

The Automotive Aftermarket business recorded a strong growth of 14.8% during the year. Business wins for FEAD/ Timing kit, TRBs in the PV segment as well as new product launches of wipers and lubricants helped deliver on our performance. Our focus on product expansion and strengthening our network continued.

2023 was also a milestone year for us, as we completed the acquisition of KRSV Innovative Auto Solutions Private Limited ("Koovers"), a Bengaluru-based private limited company offering spare parts solutions to Indian aftermarket workshops via a B2B e-commerce platform. This acquisition will be a key enabler for the aftermarket ecosystem, including distribution partners and help to play an important role in the fast-growing and evolving aftermarket digital landscape.

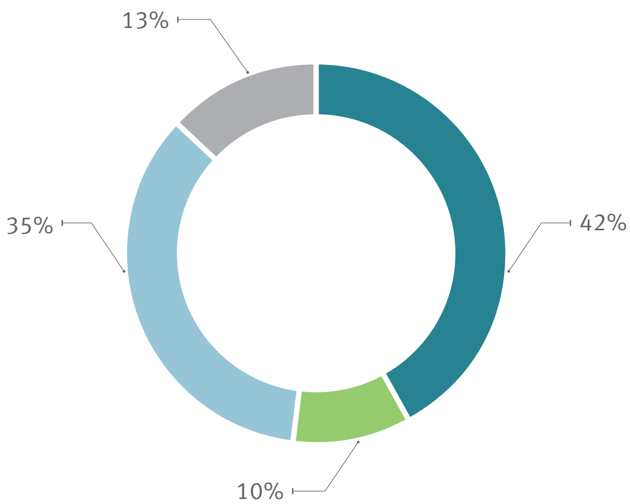
3.3.3 Industrial segment

The Industrial business, contributing to 35% of the revenues, achieved a growth of 5.1% y-o-y. This was on the back of our continued trajectory of business wins, forays into newer areas of complimentary products and maintenance solutions. Strong growth in our mobility sectors aided performance for the year. We also saw a revival in our key sectors which were impacted during the first half of 2023. We could deliver better performance with our focus on continuous growth despite the challenging external environment. We also significantly strengthened our position in services business offerings by introducing technologically advanced products and solutions.

3.3 Financial performance review

Revenue mix (%): 2023

Business segment	(%)
Automotive	42
Automotive Aftermarket	10
Industrial	35
Exports	13



(₹ in million)

Particulars	2023	2022	Change (%)
Net Revenue	72,261	68,674	5%
EBITDA[1]	13,528	13,076	3%
Less: Depreciation/ Amortisation	2,191	2,065	6%
Less: Finance cost	42	36	16%
Add: Interest income	989	645	53%
Profit before exceptional items and tax	12,284	11,620	6%
(Less)/Add : Exceptional items	(47)	150	131%
Provision for tax	3,147	2,978	6%
Profit after tax	9,090	8,792	3%

[1]Earnings before Interest, Tax, Depreciation and Amortisation

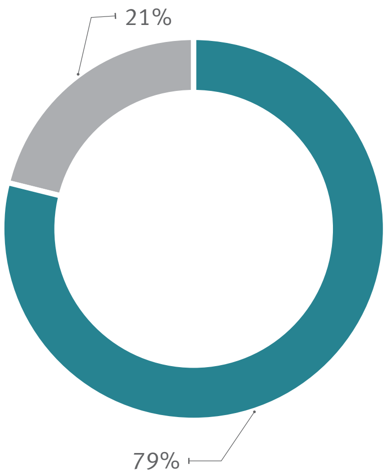
3.3.1 Revenue

(₹ in million)

Particulars	2023	2022	Change (%)
Net revenue	72,261	68,674	5%
Mobility component and related solutions	56,868	53,877	6%
Others	15,393	14,797	4%

Revenue mix (%): 2023

	2023
Mobility component and related solutions	79
Others	21



3.3.2 Profitability

(₹ in million)

Particulars	2023	2022	Change (%)
EBITDA[1]	13,528	13,076	3%
Less: Depreciation/ Amortisation	2,191	2,065	6%
Less: Finance cost	42	36	16%
Add: Interest income	989	646	53%
Profit before exceptional items and tax	12,284	11,620	6%

3.3.3 Taxes

(₹ in million)

Particulars	2023	2022	Change (%)
Provision for tax	3,147	2,978	6%

3.3.4 Profit after tax

(₹ in million)

Particulars	2023	2022	Change (%)
Profit after tax	9,090	8,792	3%

3.3.5 Cashflow

(₹ in million)

Particulars	2023	2022
EBITDA[1]	13,528	13,076
Income tax	(2,973)	(3,136)
Change in working capital and others	(1,555)	(1,841)
Capital expenditure[2]	(5,189)	(4,788)
Interest income[2]	809	457
Free cash flow	4,620	3,768

[1] Earnings before Interest, Tax, Depreciation and Amortisation.
[2] Figures are net

4. Business outlook

The performance for 2023 speaks of our strength and adaptability despite the global headwinds. Our domestic business continued to deliver in 2023 backed by the trajectory of business wins across our sectors. Our continued focus on the efficient utilisation of resources and productivity measures helped in sustaining the quality of our earnings. Strong performance on operating metrics and trajectory of investments continued as planned.

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.

5. Internal control systems

In In parallel to the risk management system, Schaeffler India has a system of internal controls over financial reporting (IFC), which ensures 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.

6. 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.