

“SKF India Limited Q3 FY17-18 Results Conference Call”

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Moderator: Ladies and gentlemen, good day and welcome to SKF India Limited Q3 FY17-18 Results Conference Call. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing * then 0 on your touchtone phone. Please note this conference is being recorded. I now hand the conference over to Ms. Bibhabaree Biswal of SKF India Limited. Thank you and over to you, ma'am.

Bibhabaree Biswal: Good morning, everyone and thank you for joining the call today. We have with us Mr. Shishir Joshipura – Managing Director and Country Head, SKF India and Mr. Chandramowli Srinivasan – Director Finance from SKF India. I will now hand over the phone to Mr. Shishir Joshipura to share a brief update of Q3 results with you. Over to you sir.

Shishir Joshipura: Good morning and welcome everybody. Thank you for making time to join this call. We are going to talk about our performance for the quarter ending December 2017 and this was a very interesting quarter because this was the first quarter after the GST changeover was absorbed by the business and we could clearly see some positive development across several sectors even at several remains challenged. And that is setting task or some interesting times going ahead for Indian economy and business. I would hand over to you guys to speak your clarifications, questions, comments and then we can take it from there. Thank you so much.

Moderator: Thank you. Ladies and gentlemen, we will now begin the question and answer session. We have the first question from the line of Basudev B from Ambit Capital. Please go ahead.

Basudev B: So one thing if I see the longer run for almost last 2-3 years now, your revenue growth trajectory has remained still in the mid to high single digit percentage levels whereas on the other side if I see your margin has moved up all the way from 10%-11% now to record levels of 17% plus and bulk of that has been driven by gross margin improvement. So almost what 600 basis points of gross margin improvement so that has taken bulk of your margin up. So operating leverage other expense to sales largely has remained static. So there are few quarters here and there where trading and manufacture mix is volatile and that is why your gross margin moves up or down, but if one see structurally, your raw material sales have improved from 63 odd percent down to 56%-57%. So if you can subjectively highlight what kind of initiatives you have taken or structural mix changes and where to see this improvement down the line?

Shishir Joshipura: Thank you for the question, Basudev. Very good observation. So I will let Mowli give the numbers, but before he does that, we have and as I said this before as well that we embarked on a strategy where we said we will not chase growth for the sake of growth, but we will chase profitable growth and we will drive actions to actually create a profit driver in our business because we tell that there was potential for us to take several steps starting with generation, introduction of new products, managing our costs better, leveraging our structure that we have organized business in a more profitable manner. Even take a call to reduce our exposure to

some of the segments where the margins were not so good and of course we have also seen improved utilization in our factories. So number of factors on costs, on sales, on product mix, on driving strategic mix, on creating innovation and new products which have higher value and that allow us to capture higher value. So there is a mix of all permitting us to be where we are today. I would let Mowli answer the question on topline. I think there is a clarification that is called for this quarter.

Chandramowli Srinivasan: So, we have reported net of excise duty. Comparable basis, we have said sales has grown by 5.4% compared to the same quarter last year. However, that still hides one more fact which of course we cannot quantify exactly, and we cannot report it as such and that is that previously our traded goods and especially when it comes to traded goods most of it is imported goods. Our topline also included CV duty on those goods and it also was therefore reflected in our cost of purchases. So the customs duty that we paid on imports was not only the basic duty, but also all CV duty, etc., and we passed it on to the customer, but in the form of selling price which was higher and pass on benefit. So that is also now under GST era that is no longer reflected in the topline. There is no change in the bottom-line but is not reflected either in topline nor in cost of purchases. Therefore, if I adjust for that also, then this quarter sales is actually 9.5% better than the same quarter last year.

Basudev B: And sir with regards to this gross margin improvement initiatives which we have taken, so how to see that in next 3-4 years with Gen Next bearings coming in, so further mix improving, so what is the scope from that angle?

Shishir Joshipura: Basudev, we are not changing our strategy. What we embarked upon seems to be working and it is yielding good results. It is keeping our stakeholders happy, our customers happy. So I think we do not see a broad level change in strategy to a) drive innovation and let innovation lead the growth and when we say innovation, we are talking about creating higher value for our customers as well as capturing part of it back for us. So that is the broad outline of strategy and of course continued focus on costs and we will continue to work on the strategy. If a change is called for as we go forward, we will look at it and as of now, I do not have.

Chandramowli Srinivasan: And the other thing also I would like to mention is especially to analysts that please do not look at quarter-to-quarter numbers, they are affected by mix changes, by lot of different factors. A yearly trend is a better trend for you to look at us as our performance.

Basudev B: And one thing like this quarter, most of the ancillary supplies have benefited from the huge growth in the commercial vehicle space. So new revenue growth of 9% adjusted for that import duty as you said, still looks under lower side. Was that because of specific as you said that you are not chasing growth, but profitable growth one should look at in that way or how to look at that?

Chandramowli Srinivasan: Well, I would say that we keep saying that our automotive business is only 50% of our total business. So, commercial vehicle is within that, again a small portion of the total. So, we are not a player of only automotive and not a player of only commercial vehicles. Industrial is also

a big part, 50% of our market is industrial and there, wind energy for example which contributed in the past about 6% of our total sales was down to 1% of our sales this quarter because there have been no turbines built in this country for the last about 6 months, I think, right Shishir. So wind energy completely tanked for us and that was around 6% of our sales in a weak quarter and that was down to 1%. So that is also one of the reasons why you do not see that the topline growth is only reflective of what happening in the automotive one. Having said that, I can tell you that in the truck industry for example, the medium and heavy commercial vehicle industry this quarter grew by about 20% compared to the same quarter last year, but we grew by 46%. So your observation is correct that we have benefited not only by the industry growth in commercial vehicles, but also by our own actions which have helped us to increase market share in the commercial vehicles.

Basudev B: So this spots like wind energy, they were the dampers for overall revenue growth, not looking...

Chandramowli Srinivasan: That is right, correct.

Basudev B: I hope somebody else will definitely ask for the segmental growth breakup, so I do not want to extend.

Chandramowli Srinivasan: I can give you the segmental breakup of sales. Already, I can give that now.

Basudev B: Breakup and segmental growth as you say every quarter.

Moderator: Thank you. We have the next question from the line of Chirag Shah from ICICI Direct. Please go ahead.

Chirag Shah: So my question pertains to the wind energy given we have the size of that segment for us has shrink to 1% and given the way auctions have happened and today only the media article suggests that the key 3 tenders have also opened up. So do you think that this market will claw back to its previous levels in next year or probably the FY20?

Shishir Joshipura: I think what is important is that yes, it has gone through almost a 12 months of zero production kind of levels for wind turbine. These auctions that have happened actually show a part now for the 18 months period as to what kind of capacity to build. If all these projects are built, then we are back to where we were in terms of growth of the industry and I think there is also likelihood that there will be some kind of consolidation that will take place between the turbine makers because obviously these numbers are very unless you have fixed scale, difficult to manage. So interesting time, but I would say that if they are able to build and that is the question I say, if they are able to build these capacities that have been awarded, then sure we are looking at something very positive, but on an 18-month horizon, not now.

Chirag Shah: And sir what would be the kind of margins that we have to take a knock off because the pricing will come under pressure given the kind of tariffs that are discovered at these auctions, I believe the whole value chain take some knock on the pricing level, right?

- Shishir Joshipura:** Yes and no asking what is going to happen is because as it is extremely competitive industry and got too much of room to move margins and save your prices and things like that. So there the challenge is going to be to knock with innovation and solutions, where you cut cost. So you can cut your cost, you can always afford to reducing price is not going to solve the problem.
- Chirag Shah:** And sir apart from the wind segment, which are the segments in the industrial segment look brighter for the next 2-3 years kind of timeframe?
- Shishir Joshipura:** I do not know 3-4 years, but as of now we are clearly seeing mining and construction of highway vehicle, material handling, railways. These are the strong ones as we speak and the producers, we can look at steel which is doing extremely well. Cement is just about beginning to pick up, still maybe one more quarter and we will know for sure. But in terms of new capacity creation, I do not see much capacity being created around steel, cement, these core sectors yet.
- Chirag Shah:** And sir in terms of your overall EBITDA margin, this quarter was kind of a blow out of quarter. So can this margin sustain given steel prices are significant uptrend and how fast can we pass on these prices to our customers?
- Shishir Joshipura:** I think Mowli mentioned to you that do not just digress on our last quarter's number, although all of you would like to do. Look at more as a yearly trend which is of course healthy as well. You are right that we have seen price hike which we are already beginning to see and that will be a cost pressure, but we remain confident that over a period of time, we will be able to because we have no capacity to absorb this cost increases which are universal. So I think what is the universal cost increase, that is something that we can always get back from our customers.
- Chirag Shah:** Sir, my last question pertains to that our post implementation of GST, so are you seeing any positive rub off that given you gaining market share from the unorganized side of the business?
- Shishir Joshipura:** It is actually too early to say because there is inventory there is stock and the markets have own speed to react but we do hope that this new regime which is very positive.
- Moderator:** Thank you. We have the next question from the line of Nishit Jalan from Kotak Securities. Please go ahead.
- Nishit Jalan:** Sir, my first question pertains to for example other than bearings you have different components, different other businesses like lubrication, greasing and housing and all for industrial applications. Just wanted to understand, how have these segments grown in the last one year or so and is it because that these segments have grown much faster and the profitability in this segment is higher that has helped your gross margin?
- Shishir Joshipura:** Well, actually speaking no because lubrication is separate company for the group, so there case sales doesn't come here. It is a separately unlisted entity for the group, but what we are dealing to now drive forward and is to integrate these offerings to customers because we are finding

that there are lot of opportunities that one could create around what we call as driving rotating equipment performance program where we are saying rather than just buying and fitting a component from say a bearing, we can actually go and work with the customer to say we shall improve the performance of the shaft and what this actually mean is that, it can mean different things to different people. For some, it could mean that we will increase the meantime between failure, for some it could mean that we will predict the failure, for some it could mean that we will avoid a breakdown, for some it could mean we will increase the efficiency of the shaft. So different solutions for different people, but that is the program where obviously the technology that we have, so SKF India has been doing condition monitoring and services we can collaborate with companies are lubrication and seals to actually position ourselves in a very unique way because none of our competition can do that. But in our numbers that you see, no such inference can be drawn the way you are thinking about it

Nishit Jalan: Okay. But sir as you are providing the complete solutions, is it something that the benefit of that is in some ways coming to the listed entity?

Shishir Joshipura: It will. That is a new thing that is turning out, still early days. Performance contracting is a little long drawn affair, but it will be something that sure will and nearest to our customers. The proof of concept that we are running today are already showing us result so that we can actually go ahead and increase scale, our own products to customers to take this kind of approach.

Nishit Jalan: Okay. And sir my second question is if you can share the revenue growth numbers that you normally share across different segments?

Chandramowli Srinivasan: Yeah, rather than revenue growth, first I will give you the split of the sales for the quarter itself. So out of our total sales, 10% is exports, 41% is automotive and 49% is industrial. Within the 41% of automotive, our aftermarket is roughly one third of that and the balance is OEMs and within the OEM, you could say it is almost equally divided between two-wheelers and four-wheelers. And when I say four-wheelers, I mean cars, trucks and tractors. On the industrial side, roughly half of our turnover is OEM, industrial OEM and other half is industrial aftermarket roughly.

Nishit Jalan: Sir possible to share YoY numbers as well on this?

Chandramowli Srinivasan: YoY, so far cars, we grew by about 1%; trucks, we grew by about 46%; tractors, we grew by about 12%. Vehicle aftermarket, we grew by about 22%. Of course, that comes on the back of very poor December last year due to demonetization. Two-wheeler and volume electrical, we grew by about 16% and total industrial, we fell by 6%. But that was mainly because of energy segment.

Nishit Jalan: One last question is for Mr. Shishir. Sir, if we look at, there is lot of talk going on electric vehicles, just wanted to understand that on the bearing side, a lot of content of bearing also goes in the engine and transmission side. So just wanted to understand your thoughts on the

passenger vehicles specifically. How do you see the content of bearings in terms of value changing for a like-to-like vehicle from a IC to electric vehicle?

Shishir Joshipura: Very good question. In a critical as today's technology stands because SKF is also the whole supplier to Tesla. So I am talking with knowledge, not just on speculation. What happens is obviously because the number of moving parts go down, we see a clear number reduction for bearings that goes without saying and the number reduction is significant, that is the one. However, because the bearings that are required are of very different kind for electric vehicle, the value of bearings per car is almost correlate. So in rupee terms, nothing changes. Number of bearing terms it changes. So that is how it is.

Nishit Jalan: So if you can throw slightly more details as to why the value does not change as to, does not need to very high content of say aluminium or?

Shishir Joshipura: No, it is because the bearings that you use because EVs have a high electric current leakage possibility and you want to isolate the whole car from that from the wheel end so you need to create ceramic ball-bearing which are expensive.

Nishit Jalan: Completely ceramic?

Shishir Joshipura: Yeah, they are no longer steel bearing, they are ceramic bearing

Moderator: Thank you. We have a next question from the line of Ujwal Shah from Quest Investment Advisors. Please go ahead.

Ujwal Shah: Can you just give some outlook on the railway business, how we have grown this quarter and the market size opportunity that will get especially on the freight side going forward. Current what share do we cater to and going forward....

Chandramowli Srinivasan: I will give you the number. So, railway this quarter grew by about 19% this quarter compared to the same quarter last year.

Ujwal Shah: And this is totally passenger side as of now right sir?

Shishir Joshipura: More or less.

Chandramowli Srinivasan: Yeah, little bit of it, yes.

Shishir Joshipura: So on the freight side, we expect that two things have happened. One, Indian railways has decided to buy the basic freight bearing differently. What I mean by differently is earlier there used to be a single tender contract for both new wagons as well as maintenance requirement. And on single tender, we used to decide everything. Now, they have decided with the wagon builders will buy their own bearings and railways will only focus on what I would call their maintenance requirement. So that is probably split half-an-half. So that is one change. The second is continuing with their policy on approvals. So in 2019, SKF will be able to participate

we will be able to actually bid for the whole quantity of bearings that railways want to buy. Today, we are restricted to 10% only. So 2019 onwards we will see a possibility of full participation in the entire tender quantity that is number one. The next is about the change of bearing itself. So we also see an initial movement now as I said in the past as well to move to what you call A Class Bearing. So A Class bearings has higher weight, higher tonnage ratio because these are higher performance bearings. They have bought out the first initial lot eventually when the DFC, etc., comes out to play, all bearings should shift logically to K class, that only time will be able to tell. But when that shift, there is no part one, part two classification problem there because everybody is on the same platform and therefore we expect that we will be able to have fairly on those bearings. That is how you look at freight side of business. There is also going to be a lot of opportunity created by Indian Railways on the safety side of operations. So like they have now decided to go for LHB coaches on the passenger side which augurs well for us because we are majority share supplier on LHB coaches, but we do not supply anything on the conventional coaches. So now that is to only LHB coaches, so that augurs well for us.

Ujwal Shah: So sir, if you can just give an idea what market in terms of size are we catering to and after all this developments now because the market would be there for us to cater to?

Shishir Joshipura: I would rate roughly 60% of the market and passenger side is locomotive is 40%. So we were essentially playing in 40, not in 60.

Ujwal Shah: And also in 40, not on the conventional side much sir?

Shishir Joshipura: Yeah, but I am saying at least we not winning those but on the freight side, we are not offering at all.

Ujwal Shah: So freight would be what size sir?

Shishir Joshipura: Freight is of the 600 crores.

Moderator: Thank you. We have the next question from the line of Janaki Raman from Franklin Templeton. Please go ahead.

Janaki Raman: You said from 2019, your addressable market in the railways goes up significantly, why do you expect that to happen?

Shishir Joshipura: Because the market is already there, so I am not talking about creation of a new market, the market is already there because they are verifying those kind of bearings for the freight applications but we did not have an offering qualifying for that market, but we now have; however, the way the process goes is in 2019 we become what is called as part I supplier and it is a time bound process. And when we become a part I supplier, we can actually go and bid for the entire quantity, not that we will get the entire quantity but we can bid for the entire quantity. Today whatever I do, I will only be allowed to have a maximum of 10% of the tender quantity that they want to buy. That is the interpretation we need to have. For example, if they

have to buy 100 bearings today, see, whatever maybe in the price or performance, I cannot be awarded more than 10 bearings, whatever may happen. But tomorrow from 2019, I can bid for 100, I can theoretically get 100 that may not happen, but I can get at least 30%-25%-40% of that quantity, that is how it will be.

Janaki Raman: Right. The size of the bearings opportunity from railways, both wagons and the passenger load cost put together how much would that be?

Chandramowli Srinivasan: Yeah, so roughly it is about 1000 crores today, 60% is freight and 40% is passenger coaches and locomotives.

Janaki Raman: And for SKF, what will be the annual size of the railway business?

Chandramowli Srinivasan: About 190 crores.

Janaki Raman: Right. And in the opening remarks, I think your CEO mentioned about GST, how interesting the times are, so how have GST changed the business environment for you especially in the aftermarket?

Chandramowli Srinivasan: Well, initially GST was a disruptor, as you can imagine, everybody was struggling to cope up with the new regime and there was lot of uncertainty, there was pre buying in June, there was delayed buying in June, all sorts of things happened. And since then the first quarter say that is July to September, I would still say people were struggling to cope up with return filing and all those things. Now we see more or less business has stabilized on the GST front as far as business is concerned. There are still issues with filing of returns, but that is the finance man's problem not the business man's problem. So it is improving. I mean it has come back to, I mean the disruption part of GST is over, it is too early for us to remark or say that because of GST, life has changed for us positively that we see less competition from the unorganized sector, it is too early to say that.

Janaki Raman: Right. And from an aftermarket demand perspective, especially the industrial side, are you seeing the demand environment growing better now?

Shishir Joshipura: We clearly see development as I was mentioned earlier that, steel is very positive. We are also seeing cement beginning to climb back and we are seeing mining operations. So we do see clear signs of increased production and that to me means higher business for us.

Janaki Raman: Right. And lastly what would be the capacity utilization of your factories now?

Chandramowli Srinivasan: Now, all our factories are running 24/7 more or less, so you can say that there is hardly any flat capacity left.

Janaki Raman: Right. So which leads to the question that what is the outlook or the plan on CAPEX and capacity addition?

Chandramowli Srinivasan: Yeah. So we are already in the process of adding capacity and in the process of evaluating how much more capacity, spending we need to plan in the immediate future. The capacity expansion projects have already started. They are all brownfield, no greenfield. We just need to add machines in our shop floor.

Moderator: Thank you sir. We have a next question from the line of Puneet from HSBC. Please go ahead.

Puneet: First of all, just wanted to check, did I hear it right when you said the car market for you grew by 1%?

Chandramowli Srinivasan: No, the share of power in our total sales dropped from 6% to 1%.

Puneet: No, that is for wind, but the passenger car side?

Chandramowli Srinivasan: For car, sorry. Yeah, car grew for us by 1% this quarter, yes.

Puneet: But why 1%, you were adding new product site, hub 3 and those kind of products, if you can give more light here?

Chandramowli Srinivasan: So on the full year basis, we grew by 12%. The hub 3 actually is yet to take off, it will start in the next quarter actually and that is not because of our issues, but customer has some issues with design and therefore he is sort of changing the spec of the design because he had some initial failures with what somebody else supplied to him of the product. So it has been postponed by couple of months.

Puneet: Yeah, so that is what I want to understand here because I remember in Q4 FY17, Q1 FY18 you were growing 30%-27% every year and now this quarter you grew 1%. So is there some change in market share or some different products or is it like you have reached a stable run rate with your current portfolio?

Chandramowli Srinivasan: Yes, we have reached the stable portfolio with the current rate. That is why the full year grew by 12% but for the quarter, it was 1% yeah.

Puneet: Basically your next leg of growth will only come when your hub 3 launches?

Chandramowli Srinivasan: In a way yeah.

Puneet: And how much would that be as a part of your overall portfolio?

Shishir Joshipura: I am saying that the way to look at it is, as we start to ramp up because the car volume because it is now OEM dependent, but this time because of the delay we expect the ramp up will be fast in one quarters' time, not more than 2. Definitely, we will be at full scale production on hub 3 as well.

Puneet: Okay and how much can it potentially add to the revenue?

- Shishir Joshipura:** This is a moving target because now we have got another contract and then there is another two discussions taking place. So I think but what we have to understand is that overall for us, Mowli correct me if I am wrong. Overall, our car share, not our share in car market, but car share into our pie is 5%. And the way we have distributed even if we had some maybe, it will be add 1% or 2% points to that pie because from 5 to 7 is a decent travel in terms of this 1.5 times. That is what I expect.
- Puneet:** You also had a service offering. What percentage of revenue is that now contributing?
- Shishir Joshipura:** Services is enabler for us in a sense of course it does on revenue a decent margin for us, but by itself it is not a big business yet. As I was mentioning earlier, in the new offering that we are talking about as rotating equipment performance program, there very clearly we will see a change happening because there we are talking of much higher value creation and therefore high value capture. In that part of the business service, condition monitoring, integration of platforms, that is something that will talk about it as the year goes by. We currently have some proof of concept on those.
- Puneet:** This is for the industrial portfolio?
- Shishir Joshipura:** Industrial portfolio, yes.
- Puneet:** Any way to quantify what percentage of revenue would services be?
- Shishir Joshipura:** As I said, more than that. Yeah, it is not a significant portion. But what is important is to for us to understand that it enables sale of our product and that is a big one which we have to look at.
- Chandramowli Srinivasan:** So the way the accounting has done, most of it gets accounted for a sale of product, so you will not see sale of services as a big part.
- Puneet:** Lastly, if you can comment a bit more on what you are experiencing on the distribution side. We hear there was some liquidity related issues earlier. Has that been sorted out or still persists?
- Chandramowli Srinivasan:** Most of it has been sorted out, yes.
- Puneet:** And how much would your distribution revenue have grown this quarter?
- Chandramowli Srinivasan:** Vehicle aftermarket grew by 22% this quarter.
- Puneet:** And on the industrial side?
- Chandramowli Srinivasan:** Industrial was more steady. Industrial does not change too much. As I said, the vehicle aftermarket was compared to a very weak December last year because of demonetization.
- Puneet:** So you said industrial OEM declined by 6%, so aftermarket would be...

Chandramowli Srinivasan: Industrial total declined by 6%.

Shishir Joshipura: One second, we should clarify that decline is mostly led by what happens to the wind energy sector.

Chandramowli Srinivasan: Yeah, we said that already.

Puneet: Yeah. And how much is traded goods as a percentage of your revenue now?

Chandramowli Srinivasan: About 37% came from traded this quarter.

Moderator: Thank you sir. We have the next question from the line of Ajit Motwani from Bharti AXA Life Insurance. Please go ahead.

Ajit Motwani: Sir, just on aftermarket. You said that there is as of now you don't see a big change in the shift from unorganized market to organized, what about imports from China or any other neighboring countries. Are those slowing down which is benefiting the local Indian manufacture?

Chandramowli Srinivasan: I think it is too early to see any significant change in this because of GST, no. I mean the data itself is difficult to pull, correlate and all that. But we haven't seen too much of shift. Having said that, our vehicle aftermarket is growing well, I cannot attribute it entirely to the fact that something else has come down but we are also doing lot of stuff from our side. But it is too early to draw any conclusions as far as effect of GST on unorganized or imports, imports is concerned.

Ajit Motwani: So this 22% actually came on a lower base, for the 9 month how much would be the growth in vehicle aftermarkets?

Chandramowli Srinivasan: I don't have it readily available. You carry on, I will come back.

Ajit Motwani: The new vehicles that are getting launched in calendar year 2018 or fiscal 2019, has that number gone up for us, let us say if you were there at 2 newer platforms last year, has that number will go up for this because of this?

Shishir Joshipura: You are absolutely correct. So we are now present, we have gone a very important contract for major commercial vehicle manufacturer which will put us from a virtual 0% share to a near 100% share on the application. So we are really looking at some of these quick changes that would happen as we move forward. Not and as these platforms are 18 months kind of a horizon, they are not necessarily on a 5-6 month horizon. But on a 18-month horizon, what you are saying is correct we are now present on more new platforms than we were.

Ajit Motwani: But that is for commercial vehicles, right?

Shishir Joshipura: No, cars also. Also motorcycles.

Chandramowli Srinivasan: On the vehicle aftermarket the previous question that was asked, so our H2 that is what the Q2 and Q3 compared to the first two quarters I am talking calendar year now, it has grown by about 13.5%. So the trend is on the increasing side. The quarter from April to June obviously was a dampener because of the fact that the GST was coming, people were destocking etc. So comparisons are not possible because of changes that have happened like this.

Moderator: Thank you, sir. We have next question from the line of Navin Matta from Bajaj Allianz. Please go ahead.

Navin Matta: Just couple of questions. On the industrial side in the aftermarket, can you just help us understand what kind of growth are we seeing there?

Chandramowli Srinivasan: That has been roughly more steady, but we see a definite improving trend in that. So in this quarter for example, if I take sequentially over the immediate previous quarter, it grew by about 10%. I am comparing it to the immediate preceding quarter because the immediate preceding quarter was the one which was GST disruption related if I may call it that. The quarter before that was also GST. So I mean this year really it has been difficult to make comparisons which period to which period because there are lot of these factors that have caused destocking, restocking, all those kinds of things, but the trend is definitely on the improving side. That is what I wanted to say, is 10% better than the immediate previous quarter.

Navin Matta: And can you give some broad color as to what is the mix within the industrial aftermarket, which are the big segments in terms of user industries?

Chandramowli Srinivasan: So we cater to a very wide range of industries, but the big ones are typically steel, cement, food and beverages, textile, material handling, mining, construction.

Shishir Joshipura: It is a very evenly spread business even though the very nature of aftermarket because this is more maintenance needs.

Navin Matta: With BSVI coming up in the next couple of years, how do you see the bearing content change across the mix...

Chandramowli Srinivasan: So content will no change, the number of bearings will remain same because of that change. But obviously then the focus will be on lower friction, higher reliability kind of product lines and we are already beginning to see the signs from some of the manufacturers who otherwise would have never gone for, some of our provisions have started to already offer those solutions for their product lines beginning 2019.

Moderator: Thank you sir. We have the next question from the line of Mukesh Saraf from Spark Capital. Please go ahead.

Mukesh Saraf: Just one question, you had mentioned that traded goods are 37% of revenues, so I think if you see manufactured itself, last year it was about 55% odd, so this year we are saying is 63%. So

is there any specific reason why manufacturing has gone up, have you started localizing some products or is it more technical because you don't include the duties in your industrial revenue?

Chandramowli Srinivasan: That second part of your question is yes, it is a small part. Yes, the answer is yes to some extent in that percentage would have changed because of that. So it is also because of the fact that in this quarter obviously automotive was very strong and automotive is almost entirely manufactured.

Mukesh Saraf: So even YTD, you think it won't be at these high levels manufacturing?

Chandramowli Srinivasan: So YTD is 39% traded and 61% manufactured. But again that 39% would probably bump up by a little bit if I were to add the duty's part into the topline.

Moderator: Thank you. We have a next question from the line of Ajit Motwani from Bharti AXA Life Insurance. Please go ahead.

Ajit Motwani: Yeah. On the capacities, you said you are running 24/7 pretty much full utilization but you also said that the capacities are being debottlenecked, so what sort of timelines we can look forward to in terms of addition and also the absolute number of CAPEX, if you can give for this fiscal and next?

Shishir Joshipura: Two things are happening. One, we said we are seeing that the demand, it is not that it has grown every quarter very steadily, it has suddenly grown up in some segments. So there has been rapid rise in demand for some applications, also some of the products that we introduced have met with success, more than what we anticipated. So those are two reasons. So they are already beginning to build capacities for some of these lines and as we speak to you Mowli will probably back me up to say that, we are still as we speak we are casting even the next phase of our, when I say next phase that is in this year as to what is additional investment that we need to quickly plan for because the capacity imbalance can otherwise create a problem for us in the market space. While that is being planned, I think you will see a lot of capacity additions that will take place during the year and as we go forward.

Ajit Motwani: So as I said first the quantum in terms of how much the capacity can go up and the timeline in the sense, the question really is if the underlying growth does continue in double digit. As you said the underlying was about 9.5%. So do we have reasonable capacities to get into that kind of a growth or...?

Shishir Joshipura: Yeah. Very correct. So we have done that exercise and we don't have a problem this year in the sense that our factories will be able to cater to what we are projecting now as our plan. So that will happen. But obviously for next year, we will have to build capacity and that is plan under way right now.

Ajit Motwani: Next year when you say fiscal or calendar?

Shishir Joshipura: Next calendar.

Ajit Motwani: And the absolute amount of CAPEX, Mr. Mowli?

Chandramowli Srinivasan: Now, we are still working on that. I do not want to give out any numbers now, but we have already indicated that over the next 3-year cycle, we will invest definitely much more than what we have been investing so far. So it will all be out of internal accruals.

Moderator: Thank you sir. Ladies and gentlemen, that was the last question. I now hand the conference over to Ms. Bibhabaree Biswal for closing comments. Over to you, ma'am.

Bibhabaree Biswal: Thank you for joining the call today. In case you have any questions, please feel free write to me bibhabareebiswal@SKF.com. Thank you.

Moderator: Thank you ma'am. Ladies and gentlemen on behalf of SKF India Limited that concludes this conference call. Thank you for joining us. You may now disconnect your lines.