"SKF India Limited Q3 2018-2019 Results Conference Call"

February 11, 2019

MANAGEMENT: **MR. MANISH BHATNAGAR – MANAGING DIRECTOR, SKF INDIA**
MR. CHANDRAMOWLI SRINIVASAN – DIRECTOR (FINANCE), SKF INDIA
MS. MALLIKA APTE – HEAD COUNTRY COMMUNICATIONS, SKF INDIA

Moderator: Good morning ladies and gentlemen, welcome to the SKF India Limited Results Conference Call for Q3 2018-2019. 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 the operator by pressing '*' then '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Ms. Mallika Apte – Head Country Communications. Thank you and over to you ma'am.

Mallika Apte: Thank you. Good morning everyone. Thank you for joining the earnings call for SKF India today. Because we have Mr. Manish Bhatnagar, who is the Managing Director of SKF India and Mr. Chandramowli Srinivasan – Director (Finance) for SKF India.

Before I begin I would like to mention a short cautionary statement. Some of the statements made in today's earnings call may be forward-looking in nature. Such forward-looking statements are subject to risks and uncertainties which could cause actual results to differ from those anticipated. Such statements are based on management beliefs as well as the assumptions made by and on the information currently available to the management. Audience is cautioned to not to place undue reliance in these forward-looking statements and make any investment decision based on those. The purpose of today's earnings call is to purely educate and bring awareness about the company's fundamental business and the financial quarter under review.

I would now handover the conference to Mr. Manish Bhatnagar, who would discuss the highlights of this quarter results for SKF India. Thank you, over to you Manish.

Manish Bhatnagar: Thank you Mallika and good morning everyone. We declared our Q3 results on Friday and you have seen the press release but I will repeat it here for your convenience. Net sales for the third quarter ended December 31st, 2018 amounted to Rs. 767 crores as compared to Rs. 700 crores for the third quarter of the previous year which was the growth of 9.6%. Profit after tax for the same quarter came in at Rs. 88.5 crores compared to 86.2 in the same quarter in the previous year, registering a growth of 2.7%. So we had a good decent financial performance in this quarter despite significant headwinds on both the automotive side and slowing industrial output. However we deliver these results by focusing on our engineering skills, our design competence and really continuing to work with customers on our digitalization efforts as well as executing on the commercial front. So with these I will close my opening comments and we are happy to talk more about these and any other topics you may have on this call.

Moderator: Thank you. Ladies and gentleman, we will now begin the question and answer session. The first question is from the line of Sandeep Tulsian from JM Financial. Please go ahead.

Sandeep Tulsian: My first question is pertaining to the segmental breakup that you provide every quarter. If you could give that for automotive, industrial and also the breakup within those segments between OEM, four-wheeler, two-wheeler, wing-drill based and so on and so forth?

Chandramowli Srinivasan: Our automotive business this quarter was about 40% of total sales, exports which is primarily automotive 6% of total sales and industrial is about 54% of total sales. Within the automotive about 70% is from OEM business and about 30% is from aftermarket business whereas in the industrial it was almost equal between distribution business and the OE business.

Sandeep Tulsian: And within the OEM how much was the breakup between four-wheeler sent two wheelers?

Chandramowli Srinivasan: I would say about 45% for wheelers and 55% two wheelers.

Sandeep Tulsian: But it appears that the auto aftermarket has seen some correction from the earlier run rate what one was doing, would you want to highlight what are the key reasons for the same?

Chandramowli Srinivasan: It's around the same level; more or less it's the average of the first three quarters. When I say first three quarters I mean Jan to September first three quarters.

Sandeep Tulsian: Would you want to comment on the new bearings, the HUB3 bearings which were expected to start production from January onwards, what kind of volume off-take are we seeing? How is it likely to ramp up? What kind of value contribution can we see from these bearings over the next one or two years' perspective?

Manish Bhatnagar: The HUB3 line I guess that's what you are referring to Sandeep.

Sandeep Tulsian: Yes.

Manish Bhatnagar: That HUB3 line will start production in March and head into full production in April. The line in Pune has the capacity of about 350,000 bearings a year. As it stands right now we think with some debottlenecking that capacity could increase to about 500,000 per year. It is approximately about Rs. 1000 per bearings so its capacities about at full utilization about 500 million per year. So right now the channel is completely booked so we have customers who placed orders and that channel is completely booked and as and when we need more capacity in the next year or so we may look at adding more channels.

Sandeep Tulsian: My next question is on the gross margin side, we saw bit of contraction if we compare the numbers to last year third quarter or even with the first half of the current financial year, what are the key reasons if you can just clarify that? It's not a mix that you are saying on the aftermarket side, probably, so something on the input cost side if there is some pressure or there is a lag of pass trough of cost anything that you can highlight over there.

Chandramowli Srinivasan: In this quarter as you can see the automotive sales as a percentage of total sales came down which meant that our credit portion of sales went up and it was 45% of the total sales compared to 37% of the sales same quarter last year. That is one of the big reason for the change in the margin percentage if you. Obviously with the credit the cost of goods sold much higher because the entire thing comes in cost of goods sold.

Sandeep Tulsian: Is there any impact of FOREX since a fair bit of our raw material cost are on imported basis?

Chandramowli Srinivasan: We actually had a FOREX gain this quarter of 70 million compared to 11 million FOREX gain in the same quarter last year and that's basically because the rupee to some extent appreciated compared to where it was end of September.

Sandeep Tulsian: So that's part of the other income?

Chandramowli Srinivasan: Yeah.

Moderator: The next question is from the line of Nishit Jalan from Kotak Securities. Please go ahead.

Nishit Jalan: If I look at your industrial segment, our top line in the segment seems to have grown like almost 20% on a YOY basis. So just wanted to get your sense as to which segments are doing well and how much of this is sustainable in the next few quarters, how were you looking at this business?

Manish Bhatnagar: The industrial segment as Mowli said it's been a good quarter for the industrial segment, 54% as compared to automotive 46%. We have multiple bearings as a product goes into almost every industry that you can think of. So it's a fairly widespread list of customers and verticals of sub-segments. The two that you're most familiar with that we've discussed in previous earnings calls are railways and energy. But outside of that we are also a big supplier to the heavy industry segment, in that heavy industry when I say heavy industry I mean basically equipment linked to construction. The things like off-highway vehicles, things like the cement industry and as you know construction has been booming in this country for the last few quarters, linked to infrastructure spending by the government. So that heavy industry segment has grown significantly for us in Q3. Railways the one that you know very well, we have always had a poor presence on the freight side and that freight side is now picking up for us. We were always strong on the passenger and the locomotive side but we are seeing good traction now on the freight side and that had a good contribution to our numbers. Energy again a segment you know well, wind has had a good quarter with stabilization of demand and prices, so we are certainly well prepared to meet that demand. And the other couple of segments worth mentioning for us at least are the metal segment and by metal I mean steel, copper and I include mining in that which has been a mixed bag frankly. A little bit not as good as we thought as it would be and the last one what we call drives; these are basically motors, pumps, compressors. That has also had a good growth in Q3. So in summary I would say the growth led mainly by heavy industry, pickups in railways and wind and bringing up the tail end would be metals and drives.

Nishit Jalan: Just in addition to that, we are setting up a capacity, we are spending about Rs.1-1.5 billion annually. Any segment on the industrial side where we are looking to set up capacity or the segment will still remain more or less traded in that sense?

Manish Bhatnagar: We are looking at localization plan for India and you are right for now industrial is about 30-70, 30% credit, 70% manufacture. We are in the process of making the localization plan see how much can we localize in India. That plan is not yet final but we hope sometime in this year to finalize that plan and start building CAPEX to meet that plan.

Nishit Jalan: So the current CAPEX which you have outlined is primarily expand capacity in the auto side, is it?

Manish Bhatnagar: Correct.

Chandramowli Srinivasan: Just correcting that what Manish said its 30-70 on the other side. 30 manufacture, 70 traded.

Nishit Jalan: The rupee has depreciated significantly over the last couple of quarters and we import a significant chunk of our revenues. So have we passed that on to the customers in terms of price increases and else the part of a mess on the gross margin or deterioration of gross margin is because of that that we are yet to take a price increase on that front, how were you thinking about that?

Chandramowli Srinivasan: Price increases are always taken over a period of time and short term changes in currency are not immediately passed on in terms of price increases because one has to see a more sustained trend. You saw the rupee depreciating very sharply for some time and then it started to rebound, so price increases are generally more once a year kind of phenomena unless there are very sustained structural changes in the currency that happened during the year. And I don't think yet the rupee has been in a very structural change because it's gone down and gone up again now.

Nishit Jalan: To put it another way if rupee stays at 70-71 have we passed on that impact or that price increase is need to be taken to take care of rupee at 70-71?

Chandramowli Srinivasan: We won't necessarily go into that much detail but yes these are things that we generally look at whenever we do our pricing decisions. And as I said currency is one of the things, there are other factors to be considered as well in pricing.

Moderator: The next question is from the line of Mukesh Saraf from Spark Capital. Please go ahead.

Mukesh Saraf: First question is on your industrial side itself. If I look at the breakup between the two on the OEM, replacement; we see that the replacement segment has now been growing double-digit for the last four quarters and OEM **Inaudible (14.42)** quarter of growth after like 4-5 quarters of decline. So could you give some color on has replacement now has the base now caught up and hence we will probably not see that kind of growth and OE now growth will kind of continue to be strong, does replacement always kind of growth come ahead of the OE growth, some more color on these two segments within industrial?

Manish Bhatnagar: Let me take the question into two parts, OE and aftermarket. On the OE side yes it's been not a great performance in last few quarters, mainly because two of our large verticals wind and railways and you will know the story there specially on the wind, energy in general. We are seeing that pickup happening, we saw the pickup happening in Q3 and we certainly see as similar positive story for the rest of 2019. Railways as I mentioned briefly on the previous question we are seeing approvals now coming our way on the freight side that will start picking up. So industrial only segment in general we expect to show an uptake in demand therefore our growth rates throughout 2019. On the aftermarket side, I don't anticipate any decline in our growth rates there. If anything aftermarket growth rates correlate very closely to OE growth. There is normally a lag of about a quarter or two. So yes for the first two quarters of maybe 2019 growth may be the same as what you've seen so far but in the second half of 2019 we may start seeing some uptake in growth in OE.

Mukesh Saraf: Secondly is on the general raw material cost trends. A lot of your peers and lot of the other auto industrial segments we're hearing that the commodity cost can be a tailwind from here on. What is your view on the same on your gross margins and how can that play out in the future?

Chandramowli Srinivasan: It was rising pretty regularly throughout 2018. But the pace of rise in prices as you say has reduced a little bit. It's very difficult and very early to predict how it will be in 2019. But let's say that we are more or less in control in terms of what cost versus price kind of metrics.

Mukesh Saraf: Basically after the December quarter like in this first month of January or now in February we have not yet started seeing some softening in commodity cost for us?

Chandramowli Srinivasan: Very minor, not much.

Mukesh Saraf: On the railway side you said that you have started seeing freight side pickup for us now. So this would be the regular wagons on the freight side and any update on the DFC wagons at all is Indian railways looking to start kind of manufacturing those and what could be the timelines there?

Manish Bhatnagar: So this is right now for the regular wagons, so freight is about 40% of the total **Inaudible (18.11)** is for the bearings industries about 40% of the total market. Initially we had had low share here, so right now the approvals we've seen are for the regular wagons. On the DFC side we have not seen that good projection so far.

Moderator: The next question is from the line of Vinod Chari from Dolat Capital. Please go ahead.

Vinod Chari: My first question is on automotive industry, you said that gross margins were down because your entire mix has been down. We have also been hearing about production cut from the auto industry. Do you think we are in for a cyclical down cycle and then when do you see the turnaround happening if at all?

Manish Bhatnagar: I cannot speak for the auto industry. That's a question you will have to ask them. I can give you kind of my perspective or our perspective on how it impacts us. Certainly passenger vehicle sales have been down for more than a few months now. What we hear from the industry is that a lot of this downturn was because of fuel cost, insurance cost and also lack new models being launched there. On the commercial vehicle side on the other hand we have not seen a decline in either sales or our supply to that segment. If anything we expect commercial vehicles to maintain the same growth if not pick up a little bit in the first half as you look at infrastructure spending by the government ahead of the elections. About half of the commercial vehicle sales at least on the truck side is linked to construction tippers and as long as construction does well those tippers will continue to do well and therefore our supply there would continue to record growth. On the two wheeler side there are some safety norms coming into play from April onwards with the new ABS norms. So we are seeing some caution on the two wheeler manufacturing side. But again the people that we have spoken to see that as a temporary flip and they expect the two wheeler sales also to bounce back in the first half of the year. So in summary passenger vehicles maybe a little down, two wheelers steady for now, commercial vehicles no slow-down.

Vinod Chari: The second question I had was in relating to what you said on the industrial side that good part of the industrial side was driven by heavy engineering, construction demand, equipment related to construction. Now one of this leading compressor manufacturer was saying that on the construction site they are seeing some kind of a slowdown because many of these contractors are facing a liquidity crunch. Have you experienced anything of that sort?

Manish Bhatnagar: Not yet. We have not faced. We've faced some slowdown in demand and off-take on the commercial vehicle side but again remember commercial vehicles, construction is aftermarket. The other half is long-distance haulage and just variable load-pickups. So we are seeing liquidity crunch more on the second part of the market haulage and loads, on the construction tipper side not so much. So we have not seen that slowdown.

Moderator: The next question is from the line of Sandeep Tulsian from JM Financial. Please go ahead.

Sandeep Tulsian: I had a couple of follow-up questions. First one is on the railway side; you mentioned that freight now will become qualified to bid for the whole quantity. So how will it work, so earlier understanding was that the order was split between L1 and L2 in 60:40 ratio with SKF also now qualified, how will the new split work on the freight side?

Manish Bhatnagar: So what's happened on the railway side is they have changed a bit of norms in terms of now they approve vendors. Sandeep if you recall in the past, we had to go through field trials followed by development trials followed by regular supply. The railways have changed the sourcing norms I believe it was November last year when they have done away with those developmental trials with one caveat that the sourcing party has to decide whether they still need to go in for these trials or not. In the past it is to be a mandate. The sourcing party for example the wagon builder could not decide on their own. You had to go through all these developmental trials for typically 12 to 15 months before you could start supplying to them. That has now changed, so wagon builder can now decide even though a party may not have fulfilled the trials based on experience etc. So the sourcing parties, the wagon builders now have a lot more leeway a lot more freedom in terms of who they want to source from.

Sandeep Tulsian: What you're trying to suggest is there is no set rule now that it will be 60:40 or maybe 40:30:30 between three players. There is no governing guideline how much quantity will be allocated any player?

Manish Bhatnagar: Let me put it this way. There are two different issues here. The first issue was around the approval process which was the trial process, first feel trials etc. and then developmental trials. That process has now gone away. The sourcing party can decide what process to follow. So that's the freedom they have. On the other question around whether it's split into three parties or two parties L1-L2. There is not complete clarity there. So in the absence of that for now I have to assume that the old rules still hold but we are yet to get full clarity on this since it's only been two months since the new rule came about.

Sandeep Tulsian: Second thing was on the new engines under BS-VI norms, how does this impact the overall bearing content per vehicle, both in volume as well as value terms if you could give us some sense over there?

Chandramowli Srinivasan: The BS-VI norms are mainly emission linked, so those really have no impact in terms of a number of the bearings being used in an engine.

Sandeep Tulsian: Just an update on the locomotive manufacturing factories, we have seen some production pickup over there in terms of what they are guiding for the volume rollout from these two factories in Bihar. If you could just give us an update how this is likely to pan out for SKF from a 4 to 5 years perspective?

Manish Bhatnagar: So, locomotive is a strength for us unlike let's say freight in the past locomotives is a strength for SKF. We are clearly the number one player here, both in terms of traction motors, bearings and in drives. So we are continuing to see strong demand, two factories you mentioned and the others we have seen strong demand for our bearings on both traction motors and drives and we expect that to continue to 2019.

Sandeep Tulsian: Any guidance so that you can give how these two new factories, how much can they contribute to incremental volumes?

Manish Bhatnagar: We don't want to give the guidance right now.

Moderator: The next question is from the line of Prachi Kodikal from Bay Capital. Please go ahead.

Nikunj Doshi: This is Nikunj Doshi here from Bay Capital. Just wanted to get update on the service model of the revenue, how is it doing, what kind of pickup are you seeing, what is the growth expected out there?

Manish Bhatnagar: On the service side we have multiple business models that are in place. Everything from simple maintenance contracts which could be labor contracts in a very simple structure going up to term contracts where we sign a contract for a certain longer period of time all the way up to performance-based contracts where we commit and work with customers on outcomes and then our payments are linked with to those outcomes there. Let me tell you from simple labor contracts to long-term contracts to common contracts then, on the lower end of the service contract as you can imagine there is strong demand and we do really well there. I mentioned in my opening comments about moving to digitalization and lot of that is linked to the high end performance contract or outcome base contracts. That's clearly the future where we see is going. That's the future where our customers want us to go. So we are now building in infrastructure both on the offering side and on the delivery side of creating demand and fulfilling the demand on those outcome-based performance contracts. I mean as an example today we have about ballpark figure about 10 to 15 million of assets in the industry, various classes of assets, in SKF we cover about 150,000 of those assets, either through remote monitoring or off-line monitoring. So to tell you the potential for expansion of that remains there and certainly that's the future we are preparing ourselves for.

Nikunj Doshi: In terms of percentage of revenue is it significant as of today or it's insignificant as of today?

Manish Bhatnagar: Performance based is a very small number right now only because we are exploring with customers. It's partly education and partly understanding of what performance truly means because performance could mean different things to different parties. So right now we're in education stage but the next year or couple of years we see it picking up significantly.

Moderator: The next question is from the line of Vipul Shah, an individual investor. Please go ahead.

Vipul Shah: Can you give railway and wind segment revenue as a percentage of turnover in this quarter and what was the same last year?

Chandramowli Srinivasan: Renewable this quarter was about 5% of our total sales, railways was about 7% of our total sales. The same thing in the last year same quarter was 1% and 6%.

Vipul Shah: What is the share of traded products in the overall revenue figure as a percentage?

Manish Bhatnagar: This quarter was 45% traded products.

Moderator: The next question is from the line of Nishit Jalan from Kotak Securities. Please go ahead.

Nishit Jalan: In previous quarter used to highlight about what's the revenue growth you are seeing in different automotive segments, if you can just talk a little bit about that?

Chandramowli Srinivasan: Our auto OE segment in the same quarter compared to the same quarter last year almost flat, slightly changed, Auto aftermarket grew by 6% and our two-wheeler grew by about 13%. So when I say auto OE segment almost flat that was I mean the four- wheelers.

Participant: After market you said its 6%

Chandramowli Srinivasan: After market grew by 6%.

Moderator: The next question is from the line of Akshay Bor from Premji Invest. Please go ahead.

Akshay Bor: First one on the automotive OE side, how has the share been in CY18 and what's your expectation for automotive OE share in CY19; just your expectation based on how much of contract wins or lose you had in the last one year or so?

Chandramowli Srinivasan: Can you repeat the first part of your question?

Akshay Bor: I want to understand just what is your automotive OE share, what's happening there both in CY18 and then what is your expectation for FY19 as a whole, just based on how much of wins and losses you have had?

Manish Bhatnagar: Akshay, our OE share in the automotive would be mid-single digits and we expect to inch up a couple of points in 2019.

Akshay Bor: That's based on some order wins you have had in specific?

Manish Bhatnagar: Yes, so order wins across the OE space that have already happened in Q1 which our production will start in 2019 or wins that we are expecting in 2019.

Akshay Bor: Just on the pricing front on industrial end markets, keeping the strong volume growth; is there a room for price increases, has that already happened, what's your expectation on pricing front?

Manish Bhatnagar: So we have taken pricing increases in a few verticals where we are not bound by long-term contracts but some industrial verticals where we are bound by long-term contracts those pricing discussions, pricing improvement happens typically once a year. The some that have not happen will typically kick off in the April to May timeframe this year.

Moderator: The next question is from the line of Poonam Sanghvi from Progressive Shares. Please go ahead.

Shraddha: Shraddha here. My first question is like what measures have a taken to derisk your business model dependency on bearing segments?

Manish Bhatnagar: I am trying to understand your question.

Shraddha: Your measures towards de-risking your business model, now the dependency is basically into bearing segments….

Manish Bhatnagar: We are a bearings company so to that extent the business model is tightly linked to bearings.

Shraddha: Like any other segments like seals, lubricants and that sort of… linear motion products, something like that?

Chandramowli Srinivasan: They are all still part of our offering but they are still a small portion of our total sales portfolio so I don't think we are going to increase in such a big way that we can say that we can derisk ourselves.

Shraddha: Second question is do you have any long-term contracts with any companies like five years or so?

Manish Bhatnagar: Our typical contracts are for a year which then get renewed every year based on a mutual discussion and that's the time when we discuss any material changes in raw material cost etc. as I responded in the previous question where we take price corrections as needed. So although our understanding with customers is that we are their partners for a long number of years, it's not just 1 or 2 years. Typically these relationships go for 5 to 10 years but our contracts specifically are for a year and then they are renewed every year based on the situations at that time.

Shraddha: Can you name such companies where you have long-term contract like 5 to 10 years?

Chandramowli Srinivasan: We typically do not because these are confidential contracts so typically, we do not name companies here.

Moderator: The next question is from the line of Pritesh Chheda from Lucky Investment Managers. Please go ahead.

Pritesh Chheda: In your traded to manufactured this composition the CAPEX that you do at about 150 crore odd per annum, how will this composition change every year or over the next three years and when you do that what is the incremental gross margin that you earn on bringing the traded business to manufacturing business or manufactured goods?

Chandramowli Srinivasan: So firstly, CAPEX has not been in the range of 150 crore for the last few years. It has been much more muted than that obviously because the demand has been the way it has been. Going forward right now we are in the process of some expansion as well as in the process of evaluating other expansions as the market develops and the kind of CAPEX that you are talking about is possible in the next couple of years. In terms of margin development, it will really depend on the mix of sales to which customer it happens, what are the products, what profitability etc. so it's difficult to put the margin number estimate to the CAPEX. We evaluate each CAPEX proposal separately and if it makes business sense that's when we commit ourselves to the CAPEX. Coming to moving some of the stages to manufacture that as Manish said in the response to the previous question, we are in the process of evaluating whether there is a business scale for localizing some of the products that today we are importing and selling. Those plans are going on right now; we are in process of evaluating market demand to see when that it makes economical sense to put up manufacturing capacity for that year.

Pritesh Chheda: What would be your nine-month growth in industrial sand nine-month growth in auto and if you could share that output?

Chandramowli Srinivasan: I have got more readily available the full calendar year growth and in auto we do by 14.5% this calendar year 18 over calendar year 17 and in industrial we grew by 14%.

Pritesh Chheda: Incrementally where are the green shoots or where are the positive signs that you see within the two and within industrial if any specific area where you want to comment in terms of positive growth optic?

Manish Bhatnagar: I think on the automotive side we expect subdued demand on the passenger vehicles side for sure. The indications for the last three months if those continue as they do, we expect subdued demand for the first three months at least as longer we got to see. On the two-wheeler side, on commercial vehicles side we expect to maintain the same growth rate as we have done last year. On the industrial side we certainly expect an uptick on the construction linked sales so heavy industry for us off-highway vehicles, cement etc. leading up to the elections. After the elections we could see a slowdown in infrastructure spending so those growth rates might start tapering down.

Energy renewables certainly we are seeing an uptick across the industry we are seeing demand picking up, we are seeing utilization picking up so that will help us to drive growths in those segments. The other segment we are seeing the pickup, those small for us right now is Defence. With the whole Make In India campaign that certainly had a perceivable impact on manufacturing in India for the Defence industry and we got a strong relationship they are, we are getting a strong player globally in that and we see that picking up here. The ones that I am little cautious about is around the metal space, metals and mining. We have got traction and, in a few segments but by and large that metals and mining segment is a drag across the industry for us and finally on motors, pumps, compressors what we call drives that is linked in a lot of ways to the uptake or demand pickup in industries because those motors get used almost everywhere. So in general the general industry picks up drives will pick up. I expect the first half should be steady, the second half we should see a pickup in that segment also.

Pritesh Chheda: In general industry?

Manish Bhatnagar: In general industry.

Pritesh Chheda: Just clarifying when you said subdued demand for PV are you indicating at flattishness or you are actually indicating a decline?

Manish Bhatnagar: Flattish for passenger vehicles.

Moderator: The next question is from the line of Akshay Bor from Premji Invest. Please go ahead.

Akshay Bor: One more question on your localization of industrial comments; I know this will be in a very initial stages but if this comes true this will come through the SKF Technology entity or the SKF India entity and the second part of that question is have you already thought about which end market is this going to come for or that's not; is this more; because the volumes are kicking in those end markets or what's the reason, prime reason for that?

Manish Bhatnagar: I will answer the second one first Akshay. We are in the process of doing a very detailed market mapping exercise because these decisions are not made in a haste so we're mapping every single industrial market, mapping the possible growth rates, our outlook, where we can gain shares because bearings is very wide assortment of products in our business now. So one has got to have a fairly good robust understanding of where we expect demand to come from. In a midst of that we will decide where to invest and when to invest, so you are right. Its initial stages right now but our intent certainly is to increase localization for the industrial range sooner than later. On your first question, we have not yet made a decision on how we would route that investment.

Moderator: The next question is from the line of Saurav Ginodoa from Stewart & Mackertich. Please go ahead.

Saurav Ginodoa: I missed the breakup of OEM and replacement within auto and my second question would be with respect to, what kind of opportunity do you see in the electric vehicle side?

Chandramowli srinivasan: As I gave the breakup earlier, I said 70% of our auto sales this quarter were on the OE side and 30% on the aftermarket.

Manish Bhatnagar: On electrification answer the way we see electrification driving forward in India and we are already seeing electrification picking up speed in a three-wheeler segment. So it will start with three-wheeler we have seen that we then expect to move towards two-wheelers and buses and that within the buses segment, inter-city buses. So three-wheelers, two-wheelers and intercity buses and then expanding much later into intra-city or long distance travel or passenger vehicles. So, on the first couple of segments where we are seeing traction, we are working closely with players who are either planning to launch new models in that space or already launched those models. We will have a vast global business unit focused on EVs and we are leveraging technology and engineering of that business unit to make sure we are already for this revolution when it happens in India.

Saurav Ginodoa: Will the bearing component per electric auto component will increase or the value proposition in an electric car will also increase?

Manish Bhatnagar: The number of bearings per vehicle will come down if they go with electric crowd that's for sure. The value of the total number of bearings in electric vehicle may or may not change depending on what we offer. So that we are still exploring in terms of what form it will finally take but the number of bearings certainly will go down, value TPT.

Moderator: As there are no further questions, I now had the conference over to Ms. Mallika Apte for her closing comments.

Mallika Apte: Thank you. I thank you all on behalf of SKF India for joining us today in this earnings call. Should you have any further questions please reach out to me via email mallika.apte@skf.com. This is also mentioned in the invitation that was shared with you. Thank you and have a great day ahead.

Moderator: Thank you. Ladies and gentlemen on behalf of SKF India Limited that concludes today's conference. Thank you for joining us and you may now disconnect your lines.