

"SKF India Limited Q1 FY-15 Earnings Conference Call"

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COMMUNICATIONS, SKF INDIA

MANAGEMENT: Mr. SHISHIR JOSHIPURA – MANAGING DIRECTOR,

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Moderator:

Ladies and gentlemen good day and welcome to the SKF India Limited Q1 Results for 2015 Earnings 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 '*' and then '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Vijay Chaudhury. Thank you and over to Mr. Vijay Chaudhury.

Vijay Chaudhury:

Good morning everyone. I would like to introduce the SKF Management who are joining us on the call today. Mr. Shishir Joshipura, Managing Director for SKF Indian Limited along with Chandramowli Srinivasan, Director for Finance for SKF India Limited. I will now hand over the conference to our managing director Mr. Shishir Joshipura who will discuss the highlights of the Q1 results briefly over to you sir.

Shishir Joshipura:

Hello good morning and welcome to a very happy and hot day here in Pune and even equally hotter one in Mumbai I am sure. So the first quarter results are out, the board declared day before in this meeting and we have seen that the quarter compared to the same quarter last year has been more or less on the same lines, whereas compared to the previous quarter we have, there has been some dip in the top line but we have recovered all the loss ground on the bottom line which was the concern for everybody in the December quarter. Economy remained what it was, we are all hoping that things will change soon and rather than going on a monolog I would hand it over to you guys and try to answer your questions so over to you.

Moderator:

Sir should we open the floor for the Q&A session?

Shishir Joshipura:

Yes, please.

Moderator:

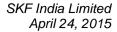
Thank you very much. Ladies and gentlemen we will now begin with the question and answer session. The first question is from the line of Raghu Nandan from Quant Capital. Please go ahead.

Raghu Nandan:

Thank you sir, thank you very much sir for the opportunity. Sir for the quarter in the revenues which are the segments which have been doing well within industrial and how are you seeing the various segments in the auto segment and directionally going forward how are you looking at the outlook for these segments sir?

Shishir Joshipura:

I can tell you that last quarter we saw a very good traction from renewable energy we saw good traction from off highway vehicles and also a very large variety of industrial OEMs in material handling and in machine tools, machinery makers so that was broadly the spectrum at which we saw good traction coming in we also saw that commercial vehicles specially the heavy ones, medium and heavy ones did well. On the other hand tractors went South, deep South two wheelers flattened out as a segment no growth at all, virtually no growth, cars in positive territory that should broadly sum up for you, I hope I answered your question.





Chandramowli Srinivasan: Railways was down, yes.

Shishir Joshipura: And Railways was down as well.

Raghu Nandan: So how are you looking at the outlook sir like directionally speaking?

Shishir Joshipura: I think it's not for me to predict what other industries will do, it's for them to answer. But

broadly speaking what we are witnessing here is right now is that there seems to be some kind of a drop from those segments which are more based out of rural economy the two wheelers and the tractors, LCVs, whereas there seems to be some kind of return of demand on the infrastructure side say in renewable power of highway vehicles so the indication continues in the same way then we are looking at a story of where infrastructure development should start to pick some pace, we expect that Railways will come back strongly because now that the March is over and the government squeeze should hopefully be over, so some of the public

sectors pending should also go up so that is the broad outlook.

Raghu Nandan: And how are you looking at Railways as an opportunity sir last time we qualified on some

orders on the freight side. So how would that pan out?

Shishir Joshipura: So that space and acquisition will begin in second half of the year. It will begin in the second

half of the year and we also have demand now from our DSO which is premier railway technology organization that they would like us to confirm that we will submit a plan for localization of everything that is being imported today and sold to them so we are working on

that plan.

Raghu Nandan: Would you be able to give any indication on how big it could be or whether it is very small in

the initial phase?

Shishir Joshipura: So the way it works is that, railway has a policy by which they will give 5% of the contract in

continue year one 15% in year two and then you become player at level playing field so it

should be third year from now so we are right now supplying the 5% part as I would call it.

Raghu Nandan: Okay. And if I understand correctly it was a 500 crores kind off a revenue industry right sir?

Shishir Joshipura: Yes, the freight corridor, there are many-many ifs and buts to that but having said that broadly

that's a right number and it depends on how fast Railways carries on with the dedicated freight corridor project. How fast they want to implement the safety enhancement program, they need to decide on what will be the freight carrying capacity per excel on the DFC will it remain what it is now or they would like, because the track is laid for higher capacity but if they go for a higher capacity decision then they have to build new wagons. So some of these things are

still up in the air but we are right broadly speaking that is where the demand is.

Raghu Nandan: And sir how has been the revenue mix in the quarter industrial auto export?



Chandramowli Srinivasan: Auto has been roughly about 43% of sales not much change from where we were in 2014.

Exports has been 8% of sales which is again at the same level as 2014 and industrial at 49% so

almost you can say all of them have been at the same level as calendar year 2014.

Raghu Nandan: And the replacements were?

Chandramowli Srinivasan: So the replacement market is included in the auto 43 replacement is one third of that. And in

industrial 49 roughly replacement market stoke end users is about 50% of that.

Raghu Nandan: Okay. And sir like yesterday in the AGM you had indicated about innovation, services, energy

efficient solution and being closer to customer, some of the main points of your strategy and just wanted to better understand like the services, solution factory is still a small portion of

revenues for us, but how is it globally sir, is it a bigger share of revenues globally?

Shishir Joshipura: No, so service by itself because the companies see the product doesn't ever come anyway near

in value terms. What it does it opens up door for us to sell our product in a better way so that is the big part, it keeps us closer to customer, it allows us to be much more closely interactive with the, it allows us to see in advance their need so that helps to plan inventory and availability for product lines and that is what enhances our sales because in many times especially in these industries, end user industries like say steel or paper or machine tools people who use a lot of machine tools, production facility there one of the key requirements is also that they need to have the part when they need it, it's a very clear requirement for them they want to avoid breakdowns because they have production facility so they would like to improve reliability so solution factory enables all that stuff for us. But then the sale of the part and that we do not capture as part of services that still remains as a revenue for the parts, it's not revenue for services but I can tell you that we have clearly seen that everywhere we have

them has increased.

Raghu Nandan: Just on some of the line items. Other expenses and depreciation has been higher and other

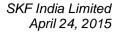
income has also been higher in this quarter any one off there sir? Other income any FOREX

gone with this kind of proposal our closeness to customers increase, our share of business with

gains?

Chandramowli Srinivasan: Yes, so on the other expenses there is nothing major deprecation yes it has gone up about 18

million is the impact of the use of the new of depreciation rates because of the new companies act 2013. However this is likely to be offset in the subsequent three quarters so on a full year basis we see our depreciation charge not at all changing compared to the previous depreciation rates, only in the first quarter it has gone up so it will actually come down a little bit in the subsequent quarters on the existing block of assets. On the other income that has gone up a lot because FOREX gain is included now in this line earlier it used to be a smaller figure and it used to be a part of our other operating income. But as per the requirements of the companies act disclosure requirements it's required to be reported under the line other income having said that we firmly believe that it is almost as operational as anything else for us because this is all FOREX gain on our trading account so since 50% of our sales are imported goods we have





learned to live with FOREX gains and losses as part of our business model so in that sense it is operational however from a reporting point of view it does come under line other income.

Raghu Nandan: So it was earlier part of other operating income?

Chandramowli Srinivasan: It was a very small figure in the past so it was part of other operating income in the past. Now

of course everything have been restated previous years' figures have been restated as well but the extra impact this quarter compared to say the same quarter last year is 125 million gain.

Raghu Nandan: Okay, so this quarter how much was figure sir?

Chandramowli Srinivasan: 140 million.

Raghu Nandan: So last year it was a gain of?

Chandramowli Srinivasan: 15 million.

Raghu Nandan: Which was part of other operating income?

Chandramowli Srinivasan: That is right. But now which is reclassified also as other income.

Moderator: Thank you. The next question is from the line of Laxmi Narayan from Catamaran. Please go

head.

Laxmi Narayan: Thanks for taking the question. I had couple of question, if I just go through your global annual

report it talks about the promise which the aerospace industry in India in particular offers some kind of opportunity right and we have secured an agreement with HAL for almost 55 million order for three years right. Now would you structure is it done by the, does the listed company

benefit by anyway in this transaction?

Shishir Joshipura: Hi Laxmi, no we don't benefit at all from that because that is a direct contract between the

produce and HAL.

Laxmi Narayan: Got it and there is another business which talked about major contract for around 72 slewing

bearings for ship-to-shore cranes is that listed or it is in the unlisted?

Shishir Joshipura: Yes, that is our contract.

Laxmi Narayan: That is an industrial business right?

Shishir Joshipura: Yes.

Laxmi Narayan: And how may customers we have gained in the calendar year 2014 new customers?

Shishir Joshipura: I won't have that number off hand here but I will send it to you Laxmi if you want.

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Laxmi Narayan:

Got it. And there is one observation in the annual report which called about supplier audit and there are significant deviations in India and it's amongst the highest if you look at your Europe, US, China any particular reasons why there are deviations in the supplier audit or is it just more kind of hygiene things which some of the suppliers in India didn't make up, the reason why I am asking this question is that, if I just go back to your global presentation sometimes in September 2014, etc., it talks about India as a large supplier location for the global SKF right. And this also mean a lot to just understand about how supplier base in India in general shaping up.

Shishir Joshipura:

So we had problems with our supplier base in terms of their ability to meet the demand both in terms of quantity terms as well as we began to see some policy problems at their end and it was becoming difficult because we were not willing to accept anything other than what we wanted because there is a procedure by which we could actually say okay this we except but with deviation and we took a stand saying no we will not, you have to supply what we want. And coupled with some liquidity type test that was generally prevalent in the market these supplier faced lot of problems in terms of their ability to showcase their capability and manage their capacity as well. But we didn't say only this, what we did was we said okay fine you can't do it is one part what I want is another part and we need to find a way to bridge this gap so we launched a very ambitious program with them Vikas Saath Saath along with CII Center of Excellence and I am very happy to report to you that what started out just to give one example what started out in the month of January 14 where in that one month alone we lost over 1000 hours of production in Pune factory. We have bought it down to zero by end of December so that has been the very-very focused worked that you have done with these guys. And with this also we reduced a lot of their cost, etc., so it has been a, yes there as a problem to start with but I am sure that next year in the same report we will read that India supplier base is fine.

Laxmi Narayan:

Got it. And also there is something which we keep hearing that lot of multinational companies want to really improve the quality of supplier in general around, now as you say compared to the last two years and so on. So you are seeing number one, are you saying that the quality of supplier as well as the qualities processes which SKF wants to have on suppliers are also coming in?

Shishir Joshipura:

Yes. So the key issue is, if this is about change management these guys and that is not in any organization for with multinational or a local supplier anybody change management is difficult and I am very happy to say that after we have demonstrated that it is possible to do what we are saying they have risen to the occasion and they have all, without exception they have all implemented the modification that was required because qualities also a perception and the perception of India quality versus a German quality is not same. Same part is viewed very differently in India and Germany and we are very clear for us it only one standard we are not willing to have two standards.

Laxmi Narayan:

Got it. And exports is around 8% may I know what products are getting export and which are the markets we export to because SKF sometime back you mentioned you always want to have



a strong local presence and various countries will also have the same mandate so where do we actually export?

Shishir Joshipura: We export mainly to European car makers mostly in Germany and Sweden. That is where we

the car and auto, not only car, car and truck makers so that is where we sell our products to.

We also export some amount to the same companies but for their operations in say South

America and a very small part that is we are beginning to focus now is the aftermarket in North

America.

Laxmi Narayan: Is it the hub bearing units type of thing you actually export predominantly?

Shishir Joshipura: Yes, products are different but it's mostly taper roll bearings.

Laxmi Narayan: Got it. And how does it compete with other locations because in Indonesia you have set up a

bearing center in China you have multiple center so how does Indian export compete with the

other Chinese or how it is decided?

Shishir Joshipura: I think we are reasonably on a level playing field you can always pick or chose 4 or 5% point

here or there but fundamentally it is same because.

Laxmi Narayan: Is it that internally it is based on cost or something that you compete with the China SKF and

Indonesia SKF?

Chandramowli Srinivasan: Some of these types are such that we are the only producer for these types now globally.

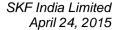
Laxmi Narayan: Got it, and just one last thing. There has been lot of organization restructuring at SKF global

level right. So do one look at it from the Indian going concern perspective?

Chandramowli Srinivasan: Yes, there are changes at the global level and some restructuring in India as well but nothing

that is earth shaking not from a structuring point of view. We have just decided that we would like to, we were earlier having a different view of the industrial market one from the OEM perspective and another one from the end user perspective which is the distribution end. But we were just decided that we want to run it as one unit so that is the broad decision that has been taken. At global level it also means that some of the other business that we acquired like GBC, PEER and Kaydon they all get bunched up under one group but that doesn't impact us at all in India we are not affected party and listed entity certainly now. And, but what has happened is that this has allowed us to do some of the thing that we have been wanting to do to create a more customer centric organization and create an organization much nearer to the customer, we have decided to work on little different structure and matrix for much more empowerment out in the front rather than at the back. And so on, so I only believe that this will

make us move with higher speed and closer to customer.



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Laxmi Narayan: One last question, what are the other new industries we are talking about for example SKF is a

dominant supplier to lot of coal fired plants across the world. So is the power sector one of the

sectors which will be a large amount of revenue would come from for Indian.

Shishir Joshipura: Well the way it works is you are right, so we have several solutions to offer to the energy

segment both for renewable and coal fired and as an when India starts to build the new coal capacity of course we will get involved already we are involved with many of them and as

capacity starts to build that augers well for us.

Moderator: Thank you. The next question is from the line of Puneet Gulati from HSBC. Please go ahead.

Puneet Gulati: Thank you so much, well most of the questions are answered but I still have a few. Number

one is, in terms of your traded products portfolio how much would be Euro denominated and

when you do contracts with your customers is it in Euro terms or is it Rupee terms?

Shishir Joshipura: Puneet our contract with our customers by and large is in rupee terms unless a very special

product which has very extended delivery beyond six months to eight months then it gets indexed to the Euro rate. That's to answer one question and as Mouli has said in the past a significant amount of our imports which we get out of Singapore is denominated in rupees so

we don't take the risk on the foreign exchange side it is the external entity that takes the risk.

Puneet Gulati: Right. Secondly your other expenses also seem to be little higher this side is it possible to get a

sense of what exactly would be the breakup between if one were to call it fixed other expense

and the variable other expenses.

Chandramowli Srinivasan: Actually the only really big item of increase in that if you compare it to the same quarter last

year is the change in excise duty on the closing stock and opening stock difference, that is the only thing otherwise rest of the expenses are almost exactly in line about 80 million is the

differential impact of excise duty change on opening and closing stock that is al.

Moderator: Thank you. The next question is from the line of Sandip Tulsiyan from JM Financial. Please go

ahead.

Sandip Tulsiyan: Sir I have one question regarding one of the board meeting approvals for AGM where there

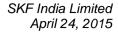
were some transactions between SKF Asia Pacific the Singapore based related group company and SKF India, just wanted more clarity on this does this open some new and is this a new kind of an agreement between the Singapore entity and India regarding some imports and

exports transactions or is it just a business as usual and this thing has been renewed after.

Shishir Joshipura: No, this business as usual as you know that almost about 60% of what we import and sell in

India comes from our Singapore warehouse and the balance 40% roughly comes directly from the factories. Essentially Singapore access a warehouse for all fast moving items which are sold in Asia so all the fast moving items which we need from an imports points of view we get

from Singapore and the others which are slightly more longer lead time and made to very





specific customer specifications are bought from direct factories. The only reason, so it's absolutely business as usual there is nothing different about it. The only reason it comes up for an approval by the shareholders in the general meeting because it crosses the threshold limit of 10% which is now required 10% of turnover transactions above that related party transactions need to be also approved by the shareholders that is the only reason it comes up otherwise it is absolutely business as usual.

Sandip Tulsiyan:

Okay. And the reason it has crossed the threshold is have we started.

Chandramowli Srinivasan: No, it has always been at that level the new companies act is the first time it has come up that it needs a shareholder approval it's nothing new.

Moderator:

Thank you. The next question is from the line of Basudeb Banerjee from Antique Stock Broking. Please go ahead.

Basudeb Banerjee:

Thanks sir. Most of my questions has been answered just on the way of looking at the revenue on a year on year basis you said it's broadly flattish but just looking from a sequential perspective where truck volumes this quarter has been pretty much fine and you are saying that the industrials and renewal segments have been fine. So where this disconnect of almost 5% contraction in revenue on a sequential basis is it just because of tractors or there has been some loss in market share or something else?

Shishir Joshipura:

No, on a sequential basis even our industrial markets actually was lower this quarter compared to the immediate preceding quarter so it's not just the automotive market tractors of course came down, trucks came down. Basically we had a very-very strong last quarter last year so compared to that it has come down a little bit, but otherwise automotive of course both trucks and tractors are down in line with the industry, cars has been flattish, vehicle after market generally the first quarter is not our strongest quarter the fourth quarter is normally the strongest quarter so that was down a little bit. The two wheeler market has been flat and as I said the industrial market we had good sale in the last quarter especially in the industrial aftermarket so it's that kind of thing. Exports actually grew by about 32% this quarter compared to the previous quarter sequentially.

Basudeb Banerjee:

And if I look at your gross margin has improved by almost 100 basis points this quarter so any specific reason behind that or traded goods makes us come down slightly or anything like that.

Shishir Joshipura:

No, if you remember, if you are talking sequential I assume. So if you remember the last quarter results when we explain, we explain that it had a onetime charge of about almost 100 million on account of increase in cost of gratuity because of the discount rate having moved sharply downwards therefore the present value of the future liability had gone up. So that was a sort of a one off event last quarter so that is not there now and we are back to even.

Basudeb Banerjee:

No, sir at a raw material level, gross margin level.



Shishir Joshipura: Okay there, yes partially the Euro depreciating that has helped a little bit, the price levels have

improved a little bit, material cost in the domestic market has come down a little bit so it's

influence of all those.

Basudeb Banerjee: And one thing sir like as you said industrial is contributing around 49% what percentage of

that will be traded presently and how much of the traded is sourced from Ahmedabad as of

now?

Shishir Joshipura: Roughly about 85% of our industrial is traded. And within that I wouldn't have exactly the

split of how much is Ahmedabad but Ahmedabad is still not a very big figure though it is

improving it is increasing all the time.

Basudeb Banerjee: So 15-20% will be?

Shishir Joshipura: Honestly I wouldn't have the exact figures with me right now but in that range yes.

Moderator: Thank you. The next question is from the line of Ashutosh Tiwari from Equirus Securities.

Please go ahead.

Ashutosh Tiwari: Sir you mentioned that railway RDS has asked you to submit some localization plan, so

currently when you are supplying the bearings to railway are they imported right now or you

manufacture in India only and how would this impact basically going there?

Chandramowli Srinivasan: No. So there is a mix of bearings some we make in India already, some we will be making as I

have talked in the past also to an earlier answer it was a freight class bearings that we will be making in India starting second half of this year. But there are still some which are imported and in connection with that so what I am trying to say is that Railways is pushing for make in India they are not, so they are asking saying show us the plan by which everything will be made in India, now it may not be possible make everything in India but we are working on it

and a lot more railway bearings will get localized to India.

Ashutosh Tiwari: So currently what proportion of our supplies are being imported to railway.

Chandramowli Srinivasan: Quite a lot, right now based on what we supply almost more than two third is imported.

Ashutosh Tiwari: So can this impact us basically if they are asking for localization and other players probably?

Chandramowli Srinivasan: No, we are importing and selling because nobody makes it in India so that is not a problem.

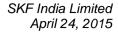
Ashutosh Tiwari: Okay. And sir about the mining presently we are seeing more traction over there because of

this coal allocation and also ramp up plan of coal India so how much contribution for us comes

from mining side and what potential we see?

Chandramowli Srinivasan: Right now mining is at the stage where of course the licenses have been given and lease have

been allocated so the next level of activity because you probably know mining operates on a





contract basis so they have to go ahead and contract with the companies that will actually do the digging and bring in the fleet of vehicles and equipment's and all the stuff and that they start operating so, it's a cycle which has a play to its own and that we have to increase in backhoe loaders and the 20 and 40 tonners two popular models that all these off-highway vehicle companies make. So, once that goes into play then obviously... it has already seen some uptake but just to given an idea so from a number of 5 they have gone to 10 but the number that was before the slump came was operating around 30-35 so still away from where it is but it is showing an increasing trend.

Ashutosh Tiwari: And we supply basically in this mining segment from loaders, dumpers, and dodgers we

supply for the OEMs or more supplies to replacement for the mining company?

Chandramowli Srinivasan: Both.

Moderator: Thank you. The next question is from the line of Vaibhav Dave from Motilal Oswal Securities.

Please go ahead.

Vaibhav Dave: I just had one question from my side. So going forward can we expect any CAPEX coming in

in any businesses?

Shishir Joshipura: Yes.

Vaibhav Dave: So what will be the amount for the next two years how much do we expect?

Shishir Joshipura: Our last year Mowli correct me if I am wrong we were about 30 crores expenses last year.

Chandramowli Srinivasan: 40 crores.

Shishir Joshipura: 40 crores and as I have said in the past also that for us there is no CAPEX requirement for

either the land or the building. So two major costs are taken out on the CAPEX budget so we only have to put up machinery and we plan to spend similar even higher level this year

compared to what we did in last year.

Vaibhav Dave: Okay. And that would be for which segment like the auto or industrial?

Shishir Joshipura: Not all, but most of our CAPEX would be focused on automotive.

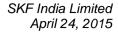
Vaibhav Dave: Okay. And in terms of the exports how big is the market that you all can actually capture so is

it a very small nascent market or there is lot of competition?

Shishir Joshipura: No, all of that you said is true but the same time it is also in exports our products are such that

if I go to an OEM which is where the volumes come from then OEM has to agree for that part

to be manufactured in India. And that's the longest process.





Vaibhav Dave: But are we looking in those lines because at the end if you get aligned in exports as that can be

a big scale up that can happen.

Shishir Joshipura: Some scale up will happen but as I was telling to an earlier answer as well, our global policy is

make locally for local markets and SKF is present in many countries and especially those countries where there are big opportunities of this large operations so rest with specific case for us to make it as Mowli was mentioning earlier either because we are the only game in town in terms of people who make that product line or we really have a huge cost advantage over

somebody else and that would prompt the action to be driven.

Vaibhav Dave: Okay, and I am sure any revenue guidance for this year?

Shishir Joshipura: No we don't issue any guidance.

Moderator: Thank you. The next question is from the line of Pritesh Chheda from Emkay Global. Please

go ahead.

Pritesh Chheda: Sir some clarification from initially answers that you gave. Sir on the currency side you said

that the imports that we do and the export that we do is rupee denominated which means that we do not have either any tailwind or any headwind on account of currency appreciation,

depreciation.

Chandramowli Srinivasan: No, I don't think we said that so let me clarify.

Shishir Joshipura: Mowli let me clarify because I made that statement. I said we import from Singapore and also

in addition to importing goods from our other factories globally. What we import from Singapore is largely denominated in rupees, there is no statement on the export side. Mowli

you can clarify now.

Chandramowli Srinivasan: Yes, so on the export side we export in hard currency that is not in rupees. On the imports as

Shishir said the Singapore imports which is about 60% of our imports that is in INR, the rest of the imports are predominantly Euro dominated not so much dollar dominated predominantly

Euro dominated. Have I answered your question sir?

Pritesh Chheda: Yes. I will just clarify on this the entire exports is largely Euro denominated?

Chandramowli Srinivasan: Correct.

Pritesh Chheda: And on the import side about 40% is Euro denominated.

Chandramowli Srinivasan: Correct, predominantly Euro dominated.

Pritesh Chheda: Plus whatever is on account of the royalty payments which also should be Euro right?

Chandramowli Srinivasan: No, the royalty is calculated on the Indian sales value so that is rupee liability.



Pritesh Chheda: Okay, again that is rupee payment.

Chandramowli Srinivasan: That is just converted into whatever currency on the day of exchange so we carry no FOREX

risk on the royalty cost.

Pritesh Chheda: Okay. And second what is our FX management policy considering how do we book forward?

Shishir Joshipura: We do not do any forward we leave it on open account.

Pritesh Chheda: So the occurrence of an FX say in the other operating income is outcome of?

Chandramowli Srinivasan: Is an outcome of the difference between the rate at which an invoice is booked when we buy

and the rate at which we pay when we pay.

Pritesh Chheda: Because it is open.

Chandramowli Srinivasan: Because it is open correct.

Pritesh Chheda: Okay. Second what is the utilization levels currently in the operations?

Chandramowli Srinivasan: We can roughly pump up at least another 15 to 20% more from our existing facilities I mean

this is on an average figure I am giving, some product lines may be different but on an average

we have about 15 to 20% more that we can produce.

Pritesh Chheda: Okay, and last I wanted to check on the outlook side your comments on the industrial sides

showing some traction in few areas was your comments for the quarter number right?

Shishir Joshipura: That is correct.

Pritesh Chheda: Do you see a case where probably this is a year where industrials might grow faster than Auto?

Shishir Joshipura: As is said I wish I had a crystal ball to see.

Pritesh Chheda: But your fair guess?

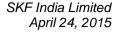
Shishir Joshipura: It's a fair guess.

Pritesh Chheda: Okay, and the derivation of that fair guess is that industrials have larger element of trading

component?

Shishir Joshipura: That is right.

Pritesh Chheda: Where the margins are slightly lower.





Shishir Joshipura: Yes, but again to clarify the question was do we believe that our business ratios will change in

any significant directions. I don't know.

Pritesh Chheda: Okay.

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

ahead.

Mukesh Saraf: Thank you for taking my question. Sir first thing is, in your accounts you mentioned about

your, in the revenue breakup you mentioned that out of the industrials business, now about half of that is after-market and half is OEM and I think last year entirely you were broadly mentioning it to be two-third, one-third that is two-third towards the aftermarket and one third toward the OEM. So has that been a significant shift now the two-third, one-third have become

50-50?

Shishir Joshipura: No, it has not actually shifted but the only thing was the organization was that two-third that

we mentioned as the aftermarket there was a fair bit of amount which was industrial OEs as well but that was just under the organization of the aftermarket so when we now have the new reorganization where we have a split between aftermarket and OEMs broadly then the figure is

really half of it. I was the same even last time actually.

Mukesh Saraf: Okay, so it is just a way now you are reporting it rather than having any issues on your margins

or anything like that.

Shishir Joshipura: Correct.

Mukesh Saraf: And sir in the last quarter that is the fourth quarter of CY14 you had mentioned that you had

entered into some businesses which were actually very strategic in nature but which might have gotten you lower margins because they were strategic and you wanted to get in to those lines. Are they done with or even in this year this first quarter you have done some business of

that sort.

Chandramowli Srinivasan: Some of that carried forward into this quarter but now they are done with.

Mukesh Saraf: Okay, so would that have been one of the reasons why your gross margins are still not come to

the level of first three quarters of last year?

Shishir Joshipura: Partially yes.

Mukesh Saraf: So broadly once this is done we can probably at least assume or expect gross margins to

improve back to those first three quarter levels.

Shishir Joshipura: Yes it depends entirely on the mix of sales that happens in the quarter, etc., so yes.

Mukesh Saraf: Sure sir, the mix yes but if I look at the other elements like.



Shishir Joshipura: As I said some of those strategically lower price orders so that is over now.

Moderator: Thank you. The next question is from the line of Shraddha Sheth from Edelweiss. Please go

ahead.

Shraddha Sheth: Hello sir. Sir wanted to know any other segments where you are seeing faster pickup with the

new government at the center emphasizing on localization. As you highlighted Railways is one of the segments so any such areas where you are seeing much faster push from the government

to scale up localization?

Shishir Joshipura: I think defense is a segment where they are pushing very hard but defense projects take time so

it's a complexity of the project but that is one more area where they are pushing very hard on

Make in India.

Shraddha Sheth: Sir so any meaningful segments where we could see our target of localization faster than what

we could have originally anticipated?

Shishir Joshipura: No, not from a policy perspective, policy driven or directive driven from customer end would

only be where government can direct so which will be public sector which is Railways in this case as I mentioned and defense in a little midterm kind of basis. Other than that I don't think there is any directive driven change, what has to then happen is only market what I would call

as market dynamics related change and that is something that we still have to witness.

Shraddha Sheth: And sir hence what is our target for localization for our company probably next five years

down the line, next 10 years down the line?

Shishir Joshipura: Shraddha I am unfortunately not able to put a target out like that as 80% of my sales come

from local products that is not the way we are willing to look at it. What we are saying is if there is a business case to localize anything we will, now traditionally if it's an automotive product it quickly gets localized because the volumes for everything is on the higher side there is no need for you to worry about volumes whereas on industrial side because it is very specific very custom build, volumes may take time and then the equations have to kick in in

terms of if there is a business case. So whenever there is a business case we will make it in

India.

Moderator: Thank you. The next question is from the line of Chinmay Gandre from Dalal & Broacha.

Please go ahead.

Chinmay Gandre: Good morning sir. Sir you mentioned initially that Railways did not do well in the current

quarter any specific reason?

Shishir Joshipura: They just reeled in all expenses. It generally coincides with the last quarter of the fiscal year

for the government because budget start to run out by then so.



Chinmay Gandre:

Okay. And basically last year you said basically Railways have done quite well so just wanted to understand and now also we are saying that Railways should do well so let say Railways grew at x% over last three to five years and now we are expecting them to grow say at X+Y% going ahead, this is basically because of the focus on by the government on modernization and can you throw a bit light on that?

Shishir Joshipura:

Railways requirement is broadly in four parts and so one is what happens with the locomotives the engines and stuff like that, second one is what happened with passenger coaches, third is what happens with freight coaches, and last but not the least is the metro segment which is still very small and up and coming so very-very small metro and on the other three within themselves there is what I would call as the new requirement so there is a new locomotive or a new coach and then there is a requirement for replacement because in Railways case there are mandatory replacements. So today also Railways lot of their requirement is based on mandatory replacement and not so much on new built. So as they start to modernize obviously the new build has to go up. And if the new build goes ups then that will be added and as I was mentioning earlier the DFC decision is taken that they will go for higher freight carrying capacity because the tracks are already laid for that, then that will obviously give rise to completely new set of trains.

Chinmay Gandre:

So when last year Railways did quite well for us. So the new build kind of orders increase for us, just wanted to say like on ground are we seeing these things materialize into orders for us?

Shishir Joshipura:

It should but it hasn't yet. The government has just talked about it but they need to do it.

Chinmay Gandre:

And secondly sir in the Annual Report your purchases from SKF Technology is roughly 83 crores so broadly if I understand it would be primarily related to wind right and some would be towards MHE right?

Shishir Joshipura:

Material handing Railways as I mentioned earlier.

Chinmay Gandre:

Okay, Railways also is so strong.

Shishir Joshipura:

Lot of our aftermarket bearing for cement and paper and all.

Chinmay Gandre:

From SKF Technology I am saying.

Shishir Joshipura:

Yes, so they make bearing Railways is sourced.

Chinmay Gandre:

So do SKF Technology makes CRB and SRB?

Shishir Joshipura:

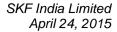
Yes, that's what they make.

Chinmay Gandre:

And just one clarification do we manufacture in the listed entity the wheel hub bearings?

Shishir Joshipura:

Yes.





Moderator: Thank you. The next question is from the line of Raghu Nandan from Quant Capital. Please go

ahead.

Raghu Nandan: Thank you sir for taking my question again. Sir on the market share how has the moment been

sir?

Shishir Joshipura: We haven't seen any shifts at all. Still we don't have the data yet do not have the data yet for

the first quarter ending because the data gets shared somewhere middle of May so we will know it then but as of now I have no reason to believe that there has been any perceptible

shifts in market share.

Raghu Nandan: But how was that for last year sir for 2014?

Shishir Joshipura: Remained unchanged for us.

Raghu Nandan: So we would be around 28% if I remember correctly.

Chandramowli Srinivasan: That is correct.

Raghu Nandan: And sir strategically lower price orders were mainly in which segment sir?

Shishir Joshipura: There were couple on wind and I had one or two for Railways.

Chandramowli Srinivasan: Mainly in the industrial market yes.

Moderator: Thank you. The next question is from the line of Krishna Kumar from Sundaram Mutual Fund.

Please go ahead.

Krishna Kumar: On the Railways side you talked about the four segments that you are looking at so are we

present in all the segments or is there only few segments that we look at on the Railways

business?

Shishir Joshipura: We were not present in the freight car business at all, but as I was mentioning that we now

have the first contract so we will start moving to that segment from second half of the year.

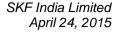
Krishna Kumar: And the other ones in terms of coaches and metros.

Shishir Joshipura: There we are very much present.

Krishna Kumar: And what were your market share sir in the existing rail businesses?

Shishir Joshipura: I have said earlier that almost 60% of Railways business today in India is freight car business

where we were not present. Off the rest 40% we are almost 60% share.





Krishna Kumar: Okay. And in terms of two wheeler bearings are you seeing incremental competition from

players like FAG in the market place?

Shishir Joshipura: FAG no, it's a very competitive segment that I would agree but I don't see any increase

competition from FAG that is not visible.

Krishna Kumar: Okay. Do you share some color on margin profiles of the trading business vis-à-vis the

manufactured business?

Chandramowli Srinivasan: No we do not give out different margins of course trading margin will be lower than the

manufacturing margin because they have to comply with Transfer Pricing Principles so.

Krishna Kumar: But ROC basis would we make the same kind of return ratio?

Shishir Joshipura: No, it's a limited risk distribution margin so obviously we don't have the capital employed for

trading business so obviously the margin will be lower for that.

Krishna Kumar: Fine. And in terms of the exports how do you see the traction in terms of pipeline, in terms of

projects that you are working on? Is there good traction that you are seeing there?

Shishir Joshipura: Export market, it's two parts one is what we sell to OEMs and that very much depends on how

those OEMs do and you can appreciate that we are not a significant portion of those OEMs in terms of their overall outlay then don't, we have to depend on what volumes happen but we are present with all the leading guys like Volkswagen, Scania, Volvo so we are not, so in that sense we are in good company. Having said that there is also the aftermarket segment which we are trying to now make some inroads into this year onwards into another states. So first

year we will see how it develops.

Moderator: Thank you. The next question is from the line of Bhupendra Tiwary from ICICI Securities.

Please go ahead.

Bhupendra Tiwary: Actually my first question is on the services business so actually we interacted with one of our

competitor who has a good service portfolio and who is actually looking into expand so was talking about that SKF is also into spindle repairs services if I am not wrong. So does it come

into SKF India or SKF Technology part?

Shishir Joshipura: SKF India.

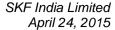
Bhupendra Tiwary: And just wanted to get a sense how are we planning in terms of services business going ahead

or will it be a very minimal also may be three to five years down the line.

Shishir Joshipura: So as I was saying the value that gets associated with service revenues directly is low but what

happens is when I go for spindle repair there is a high amount of precision bearing requirement now that is not counted as service revenue by us, it's product the revenue. So that is one,

number two is we are very focused on expanding this business as I have said in the past and





earlier answer also the solution factory concept that we have got, we now have two and we will be inaugurating in this summer one more in Jamshedpur and we are still evaluating whether we should have one more in South of India.

Bhupendra Tiwary: Any new services line that may be we will try and bring it from the parent's portfolio?

Shishir Joshipura: We are evaluating whether we look at remote monitoring, case is very-very strong in that

globally and we have just commissioned our first proto in India and we are watching the

results and then see how we can get it.

Bhupendra Tiwary: Okay. And sir my second question would be in terms of competition so are we facing some

kind of price competition from FAG overall just wanted to get a sense because that is the kind

of feeling that we got from one or two of your competitor.

Chandramowli Srinivasan: Competition is always there so the intensity changes from time to time and that is just a fact of

life.

Bhupendra Tiwary: That is right, I just wanted to stress on the price cutting if its' happening on that and may be in

terms of expanding market share is it done or its' just one of case that we might would have

heard?

Shishir Joshipura: I don't want to comment on what they want to do but as Mowli said price competition is a

daily thing.

Moderator: Thank you. The next question is from the line of Apurva Kumar from Jefferies. Please go

ahead.

Apurva Kumar: Just one clarification first, on the auto's part what is the break up between OEM and

replacement demand?

Chandramowli Srinivasan: Roughly two-third is OEM and one third is after market within automotive.

Apurva Kumar: Okay. And sir there is this news that GST is going to start some time April 2016, I just wanted

to understand do you see any impact of that on the replacement market for bearings market in

India.

Shishir Joshipura: No we don't see I think what will only happen mainly is that the complex structure that we

presently have or having many distribution centers around the country in order to cater to local billing requirements of everybody that will come down and it will become a much more borderless market across India. Across the different states of India, so in that sense it should

help the total market that is all.

Apurva Kumar: Okay, but no specific benefit for the organized market at least in the bearing market?

Shishir Joshipura: No, we don't see anything too much in that respect.



Moderator: Thank you. The next question is from the line of Hemang Kapasi from Canara Robeco Asset

Management. Please go ahead.

Hemang Kapasi: It's regarding exports actually. Since Euro has depreciated quite sharply against various

currencies including INR and most of our exports are in Euro zone or Euro denominated currency, is our competitive I would like to put it, is India still competitive in terms of

exporting to Europe that is the basic question.

Shishir Joshipura: Yes we still are from a cost point of view we are still reasonably competitive, plus as I said

some of the types that we export to Europe are those types where we are the only manufacture of those types so in that sense as long as there is a demand for those types abroad we will

continue to be able to export.

Hemang Kapasi: Just to add on to that do we get orders from a parent, it's a linkage through the parent or it's a

direct OEM?

Shishir Joshipura: No, the sales always happens through an SKF company in the country where the customer is

so the customer pacing is always the local company in that country just as we are the local

facing for the for the imported bearings business here in India.

Moderator: Thank you. The next question is from the line of Karthik Mehta from Sushil Finance. Please go

ahead.

Karthik Mehta: Thanks for the opportunity sir. Sir what could be the renewable energy contribution in our

overall revenue?

Shishir Joshipura: In the first quarter it's about 6% of the total revenue.

Karthik Mehta: And is it kind of annualized or it could be even better?

Chandramowli Srinivasan: Well that depends, little bit industry has tended to be seasonal or cyclical over a period of time

so we have to wait and watch whether this will sort of remain at this level. The first quarter of last year also it was 5% and then it tapered off a little bit towards later half of the year so this

does follow a little bit of seasonality/cyclicality both.

Karthik Mehta: And sir what is our market share in the renewable energy? Any idea?

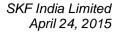
Chandramowli Srinivasan: Shishir I wouldn't be able to comment on that.

Shishir Joshipura: Of course it depends on how many turbines each maker of technology make. We are present

today with 68% of the assortment.

Karthik Mehta: Okay, now sir just wanted to know what could be the overall industry-wide unorganized

bearing makers' market size right now?





Shishir Joshipura: You mean the _____ 54.59?

Karthik Mehta: No, for the entire bearing industry? The unorganized markers market size, or their market

share.

Shishir Joshipura: About 10%.

Karthik Mehta: Okay, so 90% is organized makers.

Shishir Joshipura: Yes.

Karthik Mehta: And has this ratio moved at a reasonable pace in the last couple of years or is it more or less

static?

Shishir Joshipura: No, it's more or less at the same level.

Karthik Mehta: In the industrial OEM which are the major pockets where you see there is some traction or

your servicing and filling some positivity?

Shishir Joshipura: Material handling of highway vehicle.

Karthik Mehta: Okay, you consider them all together in industrial OEM only.

Shishir Joshipura: Yes.

Karthik Mehta: Okay. And sir one clarification from your comment you said that no Indian company is making

Railways bearings in India so even that American competitor is not making the bearings in

India for Railways, they are also importing?

Shishir Joshipura: No, they make a freight bearing which is what we are going to make.

Karthik Mehta: Yes, freight bearing right.

Shishir Joshipura: No.

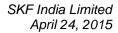
Karthik Mehta: And you mentioned that 60% of the Railways business is freight and 40% is like coaches and

locomotives or metro right. So out of that 40%, 60% is your market share?

Shishir Joshipura: Yes.

Moderator: Thank you. Ladies and gentlemen due to time constraints that was our last question. I would

now like to hand the floor over to Mr. Vijay Chaudhury for closing comments.





Vijay Chaudhury: Thank you. On behalf of SKF India Limited I would like to thank you all for joining us today

in this conference call. Should you have any further question for the management kindly drop

me an email at vijay.chaudhury@SKF.com. Have a great day ahead.

Shishir Joshipura: Thank you. Bye-bye.

Moderator: Thank you. On behalf of SKF India Limited that concludes this conference. Thank you for

joining us and you may now disconnect your lines.