

# “SKF India Limited Q1 FY17-18 Results Conference Call”

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**Moderator:** Good day ladies and gentlemen and welcome to SKF India Limited Q1 FY18 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 that this conference is being recorded. I would now like to hand the conference over to Ms. Bibhabaree Biswal. Thank you and over to you ma’am.

**Bibhabaree Biswal:** Good morning everyone. Thank you for joining the call today. With us we have Mr. Shishir Joshipura – Managing Director, SKF India Limited and Mr. Chandramowli Srinivasan – Director, Finance from SKF India Limited who will be joining in a short while. I will now hand over the phone to Mr. Shishir Joshipura to share the brief updates of the Quarter 1 results with you. Over to you sir.

**Shishir Joshipura:** Good morning and thank you very much for being on the call ladies and gentlemen. I'm very happy to welcome you to this call. As I said in my statement this was a quarter which in many ways was very similar to what happened in the Jan-March quarter. The Jan-March quarter started and recovery note at the back of the demonetization move that happened in November, so the first part of the quarter was in the recovery phase. Here in this quarter I'm happy to share that the demonetization has completely got taken care of and business was back to normal days. And of course towards the June as the GST implementation become a reality and people understood that, I think it impacted but a short-term business impact because obviously it meant the people had to reassess their own positions of inventory, cash, business models and that led to a situation that at least in the last 10 days of June we saw significant drop in business activity, distribution networks, even customers, people who are closing down, people who are updating their systems, they were not in-warding goods, many-many dimension's to it. So in that sense the sales effect and impact was very-very pronounced in the last 10 days of June. We expect that as we go forward the one nation one tax will actually aid the business with the temporary 30-day period of challenges of system switchover, new business models and dimensions, registration etc. but it will move forward. I would now hand it over to you guys and we are happy to answer any questions that you may have.

**Moderator:** Thank you very much sir. Ladies and gentlemen, we will now begin with the question and answer session. We have the first question from the line of Nishit Jalan from Quarter Securities. Please go ahead.

**Nishit Jalan:** I have two questions, firstly like you mentioned there was all lot of disruption prior to GST and aftermarket is a significant proportion of your business. So can you highlight what was the kind of revenue decline you saw in the aftermarket segment which impacted your revenues in this quarter?

**Shishir Joshipura:** I would say that if you look at quarter in three months then April and May were the months where we were really building up good growth volumes. But what happened in June almost neutralized that growth volume to a large extent, so just 10-15 days of no activity actually took care of the first two months of good work that was happening. It was on the distribution business

especially more on automotive and little less on industrial for obvious reasons. The halt in the activity was absolutely pronounced. But as I see this was a temporary thing, it was a market phenomenon not that SKF only was impacted by this, it was a market phenomenon where everything came to a halt. And once everybody settled in which is what it appears to be now I think from now onwards we will start to see, so it took those 40 days of period for people to get used to the new regime and speculations and clarifications.

**Nishit Jalan:** Just to put it in other way, would your overall revenues have grown in like 8% to 10% kind of a range had there been no issues related to GST while we have seen only 2% growth in the revenues, would that be in the 8% to 10% kind of range had we not seen any disruption?

**Shishir Joshipura:** While it will still be a speculation but yes if things would have remained normal and things would have just continued the trajectory what your surmise is right.

**Nishit Jalan:** In this quarter we have seen a significant improvement in gross margin, so almost 200 bps on a QoQ basis and this gross margin that we are seeing is like highest in many years. Is there any specific reason why we have seen such sequential improvement in gross margin?

**Shishir Joshipura:** I think you are referring to material consumption.

**Nishit Jalan:** Yes so RM2 sales have come down to 61.4% to 59.4%.

**Chandramouli Srinivasan:** Basically, in this quarter our manufactured goods sale as a proportion of total sales went up to 59%, the same quarter last year was only 55%. So traded goods as a proportion of total sales came down from 45% to 41% and obviously you know the traded goods consumption of RM is much higher of course, so that's the main reason.

**Nishit Jalan:** 45% was in last quarter you are saying?

**Chandramouli Srinivasan:** Was in the same quarter last year

**Nishit Jalan:** But sequentially also we have seen a significant improvement in gross margin, right, 200 bps?

**Chandramouli Srinivasan:** Sequentially I don't think it has changed so much.

**Nishit Jalan:** It has changed from 61.4% RM2 sales has come down to 59.4%.

**Shishir Joshipura:** I think what is important is as I said many times in the past also....

**Chandramouli Srinivasan:** Has come down from 64.1 to 62.5 but the excise duty on sales you go to net it off against the sales topline, if you do that then that's what it shows.

**Shishir Joshipura:** So numbers being one but I think what is important is and I have talked about it many times, it's a continuous process. There is no magic wand that in one quarter I can swing something unless

something very extraordinary special happens. But it's a continuous process that we keep working on as....

- A. We have said in the past also localization as a lever.
- B. Continuously source material in more and more competitive way.
- C. Develop products and push for product lines where we are able to get better realizations and then what you start to see over a period of time is a mixture of all these actions.

There could be pricing actions at times; there could be cost cut actions at times depends at the cycle at which we are. But what you see is actually the end result, so I wouldn't just look for a number and say 'okay that did you cut your material cost'. I would probably say it's a mix bag of all the actions put together.

**Nishit Jalan:** Basically I'm just surprised because if you see as you have highlighted, the auto segment is something which got more impacted because of this GST an industrial is less impacted and for you industrial is more traded. But still you have seen an increase in the manufactured goods, so can you highlight which all the segments where you have started more in-house manufacturing rather than sourcing from your parent entities?

**Chandramouli Srinivasan:** The auto OE went up quite a bit for us, in both cars trucks and tractors and two wheelers.

**Shishir Joshipura:** I think what your observation is very correct, the auto industry did not do so well. But we have made some moves in terms of offering of our technology, our product lines to the automotive OEMs and that has actually led to this performance. So even where there is a big negative decline in the commercial vehicles, we were actually growing 2 digit positive in that segment. I would say that a lot of actions that we took enabled us to override of the crest that happened or the trust that got built on the automotive vehicle side. But we were able to do better because of the positions that we built through our solutions.

**Moderator:** The next question is from the line of Punit Gulati from HSBC. Please go ahead.

**Punit Gulati:** Can you give more color on what segment of end users grew for you and by how much, you gave a similar color last quarter as well?

**Chandramouli Srinivasan:** I think this is a question that many people will ask so I can tell it one for all on various things. One is you all are always interested in cut of sales between different parts, so in the current quarter our manufactured sales have already said was 59% of our total sales and credit was 41 so that's one cut. The other cut is on automotive, automotive remained at 40% for us and export was 10% which was primarily auto, so you have to take both together in automotive was 50% and industrial was 50%. Within that 40% our vehicle aftermarket was 11% which is a decline from 13%-14% which we normally are and that is the effect of the last month actually. Within industrial this aftermarket was 23% out of the total 50, so again then the industrial OE was higher than the industrial aftermarket, so I think I have given you a cut of all that.

**Punit Gulati:** And lastly the user segment, last time you indicated car, truck, tractor?

**Chandramouli Srinivasan:** Cars was compared to the same quarter last year, cars was much higher for us. Cars, we grew by about 27% compared to the same quarter last year and truck we grew by about 12% even though the industry went down by 45% compared to the same quarter last year, tractors we grew by 15%, two wheelers we grew by about 12%.

**Punit Gulati:** And industrial OEMs, distribution aftermarket?

**Chandramouli Srinivasan:** Railways were the good growth area for us, the one segment which actually where we fell a lot in line with the industry was renewable energy because there is lot of turmoil in the market right now. If we see rates of renewable energy, power etc coming down, so that's the one area where we fell a lot but that's in line with the industry.

**Punit Gulati:** Are you feeling some price pressures there or is the demand just vanished there?

**Chandramouli Srinivasan:** Demand because you must have read that solar given down the rates of power a lot now even now wind is on auction based. So the entire pricing has changed and therefore even those who had entered into pricing agreements with electricity boards etc. they are all now renegeing on those contracts. So right now nobody knows where the next wind orders are going to come from that kind of....

**Punit Gulati:** So on your equipment side what kind of pricing pressure have you witnessed?

**Shishir Joshipura:** No, there is no pricing pressure. In wind segment, yes but there is no volume there. So it's not about reducing prices because there is no volume at all.

**Punit Gulati:** And lastly some color on distribution side and other industrial OEMs if you can give some broad numbers for growth?

**Shishir Joshipura:** On industrial OEMs I said railway grew a lot for us. railway was a big growth area for us by almost 12% we grew compared to the same quarter last year, off highway we grew by about 8%, general industrial OEs grew by about 9% and distribution fell and energy we fell those are the two segments which were affected for different reasons that we have mentioned.

**Punit Gulati:** If you can give more color on how your Indian distribution center is faring, is it seeing more traction, has that impacted the pickup on the industrial side at all?

**Shishir Joshipura:** Two things there IDC by the very definition it means that the cycle times of the customers are cut dramatically. So that is one big change that we see very clearly for our customers. The second one is about cost because earlier to meet urgent delivery needs we would be air freighting the deliveries and customer wouldn't care whether we air freight or sea freight, they will pay the same price. So it does make us more cost competitive. Those are the two very clear acts that we see, now the GST being rolled out we have already started the process. We will start to see it even at accelerated pace is to start consolidating our existing distribution centers in the country to a lower number so that would also then in mid-term help us to rationalize the inventory and to reduce our cost.

- Punit Gulati:** But are customers experiencing these things, have they appreciated it as of now?
- Shishir Joshipura:** Yes lot of them. They are absolutely delighted that we can do this for them now because we have now made it possible for them to actually have one-week planning cycle which is amazing in today's times.
- Punit Gulati:** Has business returned to normal post GST or still slow for you?
- Shishir Joshipura:** It is getting there. It is building back but for the distribution business it's really fell out because there are so many rules and regulations that needed to be understood by everybody clearly. I think that is now past, way behind us and it's beginning to build back.
- Punit Gulati:** If you can give more color on your CAPEX plans for next three years, you said you will double the CAPEX, so where are you intending?
- Shishir Joshipura:** There is no change in that position. It's still remains there.
- Punit Gulati:** Any specific product lines that you want to highlight?
- Shishir Joshipura:** No, we will let you know as and when we start to expand particular product lines. It's a fairly broad base thing so it's not that we are bringing in some new product line and that is happened. It is also about I think we are now beginning to near a position in several of our product lines where we are close to 90%-95% of our capacity, so obviously we need to build of course which are those capabilities as well. So this is going to be capacity expansion in true sense in the sense that we will have to be doing more of what we are already doing. A, B as Mouli was earlier mentioning for example in commercial vehicles we have started to see a double-digit growth and the industry is -45. So when industry returns to normal we will go further up so we will have to build those capabilities right now.
- Punit Gulati:** Even in the cars you're doing quite well, so is it a result of the new Hub3 bearing?
- Shishir Joshipura:** The Hub3 results are still not there, they will start coming from this quarter.
- Punit Gulati:** So what really changed in the car side?
- Shishir Joshipura:** Hub3 is a one product; there are many other product lines that we sell. We have had some other successes with couple of big OEMs on their successful product lines so that is what is pushing the volumes up.
- Moderator:** The next question is from the line of Basudeb Banerjee from Antique Finance. Please go ahead.
- Basudeb Banerjee:** Just to carry on as in the last question you said that CAPEX plans are on and running at 90% kind of utilization. So any thought process similar to the recent deal like which Timken did to add on to the capacity with **(Inaudible) 17.10?**

**Shishir Joshipura:** We did evaluate the opportunity when it was available and finally we reached the conclusion that maybe for us for different reasons where we are today in the Indian market it probably didn't make sense for us to go in with the acquisition and probably it made more sense for us to actually add to our capacities and that's what we will be doing.

**Basudeb Banerjee:** So you will be more focusing on organics through your internal accruals process?

**Shishir Joshipura:** I'm not saying that. I'm saying that for that particular opportunity it make sense for us to go to stay organic.

**Basudeb Banerjee:** But you are open for acquisition for capacity and addition per se or you will focus on in-house capacity addition?

**Shishir Joshipura:** We will bring in in-house enough capacity because we are very confident that we can do that in very quick time. You all know I have already said in the past that we don't have to buy any piece of land to make that happen, so that is a big advantage.

**Basudeb Banerjee:** Somebody asked also in the initial question that gross margin has been at a record level. So with the similar kind of product piece where in the replacement market being weak and on the other side OEMs being steady where you have made good progress in the OEM segment, so how to look at that where OEM mix is improving and margins are improving per se? And second thing is post GST now GST is already there how are you seeing progress in the aftermarket where lot of unorganized segments are there?

**Shishir Joshipura:** On the aftermarket part, we are seeing now very clearly GST will call for people to be registered. So it will put a lot of pressure on people who are doing business in what I would call is unregistered way which is good for us because that takes away some of the funny advantages not in real term which they were enjoying outside the gambit of the law. But now being law compliant I think those crutches are taken away from them, so in that sense value positive for us. We also see that the distribution businesses are getting back because just that the activity halted on account changes that were required in everybody's system, in the processes and also in understanding incapability and cash management. So all these things I think people have aligned themselves, it cannot be done overnight. So they have taken months to do so and we see them coming back.

**Basudeb Banerjee:** How to look at the gross margin improvement trajectory where it's like an all-time high level this quarter, so other than the traded mix coming down anything like structural change happening in your pricing or product mix per se?

**Shishir Joshipura:** As I said I think earlier also if I could just do one thing and margins would change I think all the CEOs would do that. We will have to do this on multiple fronts so we have to manage our costs better, we have to manage your prices better, we have to manage our mix better, we have pushed innovation in a big way, we have to see how we can deliver higher value products to our customers and we also in turn capture some of that value back for us. So what you see is a result

of an effort of all that, it is not just—I mean you guys will recollect if I'm not wrong 2 quarters ago we have had another high quarter of margin and I said the same thing that this is a journey, there is no one quarter of magic but this is something that we need to continue on our path and build gradually over a period of time so that it remains sustainable.

**Basudeb Banerjee:** Last question is if you can break up your railway revenue and how much was freight and how much was passenger railway?

**Shishir Joshipura:** Actually in the railway revenues that you see because freight as you know is the tender based business. So railway had delayed the tender this time so this has just come now. It's now on the verge of evaluation, so there is no significant freight numbers in that. There is some but not significant.

**Basudeb Banerjee:** Passenger quantum this quarter will be?

**Shishir Joshipura:** I don't know what you meant by that?

**Basudeb Banerjee:** Our total railway revenue was how much this quarter?

**Chandramouli Srinivasan:** We don't give them but I can tell you as a percentage of the turnover is probably about 9% this quarter.

**Shishir Joshipura:** As you can see it is building back.

**Basudeb Banerjee:** And it grew by around 12%?

**Chandramouli Srinivasan:** Yes correct.

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

**Sandeep Tulsian:** My first question is regarding the new contracts or the new bearings that we will start delivering in this year onwards, so can you let us know which are those product lines as you mentioned Hub3 will start in this quarter, any other bearings that you plan to introduce and start selling in this year?

**Shishir Joshipura:** We have several other lines. As I just mentioned you for commercial vehicles where we already introduced, so as the volumes come back to that industry we will see that growth happen because right now the numbers that you see are at the back of 45% decline in commercial vehicles even then, so when they return to their normal volumes obviously the corresponding growth will come back. So there are lot of solutions on the pinion side that we have given, transmission side for the commercial vehicles, you saw this. We have given not Hub3, but another kind of hub solution for a leading manufacturer for their top end line, for their goods carrier which is their highest selling product line. So you will see lot of these things happening out there, we have also created solutions now for Steel Mill, for their caster rolling lines which will start to roll. So on industrial side as well you will probably see the freight TBU business coming back towards the end of this



next quarter. So that is another change that we will see in the business profile. We are also continuously now working with several two-wheeler guys to see how we can enhance the value for them for bearing part just from the current function to may be do little bit of sensitization at the back of ABS and the new norms. So there are several of these in the pipeline and on all fronts, so it's industrial, automotive and we remain confident that we will find proper solutions to make that happen. We are also working on a new solution for material handling segment which we hope will really work out as the quarter ends.

**Sandeep Tulsian:** So possibly this two wheelers and material handling is a bit distant but CV and Hub3 and all should start from near term future?

**Shishir Joshipura:** Yes everything could happen this quarter, so I'm not taking that away. But as you know there is industrial environment out there, we have two months to go. But definitely those are the actions that we will take as I have said in the past, innovation is a big lever for us that we want to keep leveraging to reach more customers with better solutions and in turn also hope for a better performance.

**Sandeep Tulsian:** You mentioned that your CAPEX will now significantly improve, annually whatever 50 crores kind of CAPEX you used to do, should scale up to maybe 100 crores so double ideally annually. So will this gross margin profile keep on improving because in this quarter as we saw it was more manufactured so gross margins, so over a 2-3 year period how should we see? Should these numbers keep on improving from the levels at which they are right now or it should normalize going forward?

**Shishir Joshipura:** Sandeep a year ago the same question was put to me and I said if only I could tell you the future, you can never look at what's happening. What we can tell you is what we are doing well this look like things that will develop positively but nobody can predict time. As Mouli was saying that now we are facing a huge headwind in the wind business, not only us, the industry itself is going through a very-very challenging and tough time. If you had asked them in the last March, they said we are all time high, there is no problem in the future and just three months down the line the bottom has..... So in that sense what we are attempting to do is as I said as a strategy we want to continuously build on innovation therefore deliver higher value. If I deliver higher value I am also sure that we can capture part of it backwards.

**Sandeep Tulsian:** What is the employee additions planned for this year because you are building up capacity now based on the current employee strength that you have?

**Shishir Joshipura:** Maybe our employee addition will happen in a different dimension. In the sense that we are looking at not creating more and more of same kind of skill levels and sets but we are looking at how do we align ourselves to the emerging need of 4.0 shop, floor etc., how do we get remote diagnostics in place. So maybe very different kind of people we will get on to our team. We've already started that process as compared to what we have been doing in past. I am not saying that we will not need any of those. But we will continuously find productivity gains on that end, automate for better and then create new kinds of business roles and profiles for employees who

can bring in such thinking and very-very new leading-edge kind of from the surrounding technology areas, not from the main bearing technology alone which should also help us then to deliver much better values to our customers on our rotary equipment performance program.

**Sandeep Tulsian:** From the annual report, this was just an observation that out of the fee that is paid to the parent company in form of admin fee, although royalty and trademark numbers seem to be constant as a percentage of sales, this number has been declining over the last 2 years, so what should one make out of it?

**Chandramouli Srinivasan:** I don't know which admin fee you're talking about because we don't pay any admin fee.

**Sandeep Tulsian:** Under related party transactions, we report a number called admin fee which is paid to the parent company. So this number has been coming off although royalty and trademark numbers have been constant.

**Chandramouli Srinivasan:** I don't know if you have gone back many years or few 3-4 years back to find that admin fee because yes, in the past we used to pay a share of the common resources globally across the world who are employed in one country but who work for more just that one country so that was the model that we used earlier to charge all those common resources. We have now stopped that completely because parent company in most countries has gone to an entrepreneurship model of transfer pricing. So they take all the profits of that country and the local country just becomes a contract manufacturer to a parent company. Obviously, this cannot work in countries like India, so here India, China, few countries we are all licensed manufacturers, so we pay royalty and trademark fee. Therefore, you will find that royalty and trademark fee since 2012 is higher than what it was pre-2012. But admin fee has completely gone away.

**Sandeep Tulsian:** Just small number still appearing.

**Chandramouli Srinivasan:** Those are very small numbers on trading, etc. must be something. But not the main service fee that we used to pay.

**Shishir Joshipura:** What happens is sometimes when we send our people for global leadership training program or things like that then obviously I have to pay for it. It's not for free. But then the way it works is that one because the agency that imparts training can't deal with 55 agencies, so they will bill one SKF entity local and then they will charge it back to us that the way.

**Chandramouli Srinivasan:** So basically we paid 3% of sales as royalty and 2% of sales as trademark fee only on what we manufacture and not on traded goods. So roughly it amounts to 2.5% of total sales considering that we have 50% traded and 50% manufacture roughly.

**Sandeep Tulsian:** On the GST lastly, you mentioned that there was some impact in the last 10 days of June, so was there any spillover impact that you saw in July or things are back to normal?

**Shishir Joshipura:** Things are getting back to normal. Even June was only 10 days but July was almost the whole month, so it's only towards the last 10 days we started to build back. As I said that there have

been 40 days of disturbance of different kind, some companies bounce back some took longer time. Some distributors were better off some were not. So, I think they are now beginning to settle down and we are seeing a gradual build back. So, may be by the end of quarter the business should return to normal.

**Moderator:** Thank you. The next question is from the line of Udit Pukharia from Catamaran. Please go ahead.

**Udit Pukharia:** Sir, I wanted to understand like in terms of the total amount of capital expenditure that you will be doing for next two years to three years and the second question is like you mentioned like you have now set-up an IDC center, right which is lower cost because now you are primarily doing shipping compare to airfreight earlier. So, will your trading margins be improved or that will be passed on to your parent entity only?

**Chandramouli Srinivasan:** No, our thoughts will improve that is definitely that was without saying. And the transfer pricing mechanism it does not matter with them whether we have inventory in India or not. I think that is independent of that so, obviously we are allowed to charge on our cost. Earlier we did not have the inventory on our hand now we have.

**Udit Pukharia:** The quantum of capital expenditure that you plan to do in next two years to three years like the total amount like in the range of Rs. 100 crores to Rs. 200 crores....

**Chandramouli Srinivasan:** So, what I had said was that over the next three years period we expect doubling of our CAPEX over the three-year time frame compare to the previous three years. It has been roughly of the order of Rs. 50 crores a year, so yes, we can take it in that direction.

**Moderator:** Thank you. The next question is from the line of Ajit Motwani from Bharti AXA Life Insurance. Please go ahead.

**Ajit Motwani:** Just wanted to understand the rate of GST for auto replacement and industrial replacement. Have they come down for the organized players? Also, taking into consideration the input credit?

**Chandramouli Srinivasan:** No, I mean I do not know what you mean by auto replacement, we have concern with our main product which is bearing. For us rate is more or less neutral. We are at 18% GST and we were at 12.5% excise plus roughly 5.5% VAT or CST.

**Shishir Joshipura:** It is more or less 18%.

**Chandramouli Srinivasan:** It is at the same level for us. Difference state had different VAT rates but by in large it is closely....

**Ajit Motwani:** Yes, so bearings the differential of state VAT you are saying net direct taxes are same for you?

**Chandramouli Srinivasan:** More or less same.

**Moderator:** Thank you. The next question is from the line of Nikunj Doshi from Bay Capital. Please go ahead.

**Nikunj Doshi:** Hi, this is Nikunj Doshi from Bay Capital. Just wanted to understand you mentioned you have grown faster than the industry on auto bearings. So, just wanted to understand whether you replaced imports or you replaced other bearings manufacturers?

**Chandramouli Srinivasan:** I think we did replace other guys because we went in with a different solution and that meant that the existing solution which was in use got replaced by a new kind of product line and solution from our end and none of them were imported they were all domestic.

**Shishir Joshipura:** We have never imported anything auto, OE?

**Chandramouli Srinivasan:** No, he is saying what you replace was imported.

**Shishir Joshipura:** That is what I am saying, so we never imported in the past and sold to auto, OE. We have never replaced our own imports. No, no competition also no imports. I think they are all domestic products.

**Chandramouli Srinivasan:** And to some extent as Shishir mentioned earlier that it is also a factor of which models of which customers of us did well and we were present on some of them, etc. that also makes some difference.

**Moderator:** Thank you. Next question is from the line of Shraddha Sheth from Edelweiss Capital. Please go ahead.

**Shraddha Sheth:** Sir, just one question, on this CAPEX, I wanted to understand this CAPEX that we are doubling from the last three years run rate this will majorly towards the automotive side or also on the industrial side while I understand industrial very small portion is yet being manufactured at our company. But are the utilizations running full even in that side?

**Shishir Joshipura:** So, basically our products are common between automotive and industrial, to the extent we sell in industrial, it is not so much of specialized only industrial except there are one or two very small niche product lines which are sold almost entirely in industrial. So, we will be adding some CAPEX in increasing the capacity for those also. But otherwise it is mainly for let us say as of now automotive where either new products will come in or our existing capacity are getting close to being fully loaded therefore, we need to add general capacity as well.

**Shraddha Sheth:** Sir, so industrial side majorly whatever CAPEX still will be happening will be in SKF Technologies only or I mean how will the CAPEX will be working?

**Shishir Joshipura:** So, Shraddha the industrial bearings is a little different than automotive. Like in automotive bearings will run in tens of thousands and hundreds of thousands and millions and stuff like that depending on the application. The industrial applications are not like that they are very discrete, they are very customized, so there are a lot of SKF factories in the world who may have that

capacity. It is just that we are now discovering that potential in India (A), (B) we are able to serve a bigger and growing market with those. So, I do not have to really worry about the investments per se for growing the industrial business because as Mouli was mentioned most of it is imported for us. However, having said that as the volumes grow then there could be a case for localization. And that localization very clearly depends on where the bearings, what I would call as the skill lies, so if it is large industrial bearings it lies outside the listed entity, it lies in SKF Technologies so that is where they will be made and we localize it out of say Ahmedabad factory of ours. Now, if it is in Ahmedabad and we localize it the advantage that I was earlier mentioning from IDC will already happen because now they are shorter lead times, the import duties go away that mix is more competitive, we are doing new freight part and all that stuff. So, that kind of dynamics will definitely play out.

**Moderator:** Thank you. Next question is from the line of Basudeb Banerjee from Antique Finance. Please go ahead.

**Basudeb Banerjee:** So, continuing with the earlier question, so in a nutshell will it be right to assume that as you said that you cannot pull on the magic wand and chase the margin at one-go. But definitely, on a structural basis margins have been improving and making new highs one quarter or the other and with your GenNext car bearings still to come in your portfolio. So, will it be right to assume this kind of gross margin is sustainable in nature?

**Chandramouli Srinivasan:** Well, we are definitely working towards that.

**Shishir Joshipura:** That is what we get paid for to make that happen. ‘

**Basudeb Banerjee:** No, basically the margin generally has been tremendous from the levels of 12% - 11% to 13.5% - 14% over last three years. So, with no support from volume growth per se?

**Chandramouli Srinivasan:** I am just drilling back to couple of years ago where we said that we have by design rationalize some of our portfolio because we did not want to just chase growth for the sake of it unless it made sense. So, that the cost competitive action that we have taken. And we did take our heads down to create higher value products, took some of the challenges on the cost to make it very possible for our customers to apply our products into their products with their OEMs or use it as end use and we have strived to make that happen. And I think, as I was saying earlier on the comments also, if the culmination of all these actions coming together that is helping us to get to where we have got.

**Basudeb Banerjee:** And sir, what was the quantum of sourcing from Ahmedabad plant this quarter within that 41% traded?

**Chandramouli Srinivasan:** It could be about between 20% and 25% of that.

**Basudeb Banerjee:** 25% of trade was from Ahmedabad.

**Chandramouli Srinivasan:** 20% to 25%.

**Basudeb Banerjee:** And this quantum was somewhere around 10% - 15% a year back?

**Chandramouli Srinivasan:** Yes, it actually depends on which parts of the industrial segments are growing, so clearly for example if it is wind energy, if it is off-highway to some extent, railways to some extent. So, wherever the products are made in Ahmedabad, obviously we will source from there. So, it is really a mix of what part of the industry...

**Basudeb Banerjee:** Yes. But wind was in a bad shape you said in the call earlier.

**Chandramouli Srinivasan:** Railways was better this quarter. So, mix of both.

**Moderator:** Thank you. As now questions from the participants, I would now like to hand the conference over to Ms. Biswal for her closing comments.

**Bibhabaree Biswal:** Thank you very much all of you for participating in today's call. In case, you have any further questions, you can write to me at [bibhabaree.biswal@skf.com](mailto:bibhabaree.biswal@skf.com). Have a great day. Thank you.

**Shishir Joshipura:** Thank you.

**Chandramouli Srinivasan:** Thank you.

**Moderator:** Thank you very much, members of the management. Ladies and gentlemen, on behalf of SKF India Limited, that concludes this conference. Thank you for joining us and you may now disconnect your lines.