

“SKF India Limited Q4 2018-19 Results Conference Call”

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Management: Mr. Manish Bhatnagar- Managing Director, SKF India Ltd.

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Moderator: Good Day Ladies and Gentlemen and welcome to the Q4 2018-19 earnings call of SKF India Limited. 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 Ms. Mallika Apte, Head Country Communications, SKF India Limited. Thank you and over to you.

Mallika Apte: Thank you. Good Morning everyone. Thank you for joining the call today. We have with us Mr. Manish Bhatnagar – Managing Director of SKF India and Mr. Chandramowli Srinivasan – the Director (Finance) for SKF India.

Before I begin, I would like to mention a short cautionary statement, some of the statements made in today's earnings call may be forward-looking in nature. Such forward-looking statements are subject to risks and uncertainty which could cause actual results to differ from those anticipated. Such statements are based on management belief as well as assumptions made by and on the information currently available to the management. Audience is cautioned not to place undue reliance on these forward-looking statements while making any investment decisions.

The purpose for today's earnings call is purely to educate and bring awareness about the company's fundamental business and the financial quarter under review. I will now hand over conference to Mr. Manish Bhatnagar who will discuss the highlights of this quarter's results. Thank you, over to you, Manish.

Manish Bhatnagar: Thank you Mallika for the opening statement. Welcome to everyone on the call. My name is Manish Bhatnagar – Managing Director of SKF India and I have with me in the room, Mr. Chandramowli Srinivasan our Director Finance. You have seen the results we declared yesterday, certainly a strong performance for the year which certainly is testament to the diversification of our business. We are very well diversified between the automotive sector and the industrial sector, so we are able to hedge one slowdown versus the other. I will not give you details of the results, you have seen all those, and we will jump straight into questions and try and answer those to the best of our abilities.

Moderator: Thank you very much. We will now begin the question and answer session. The first question is from the line of Harses Kampani from JM Financial. Please go ahead.

Harses Kampani: Sir, my first question is will you be able to provide the breakup between the auto industry exports and the sub-segments?

Chandramowli Srinivasan: For the quarter, automotive was about 43% of our total sales, exports was about 5% of our total sales and as you know that is primarily automotive, so if you take them both together then it is 48% automotive and the balance 52% came from industrial.

Harses Kampani: Sir, the respective growth rates?

Chandramowli Srinivasan: In Automotive, we grew by about 5.6% mainly led by aftermarket. The OEM segment of automotive was flat compared to the same quarter last year and in Industrial we grew by about 13.5%.

Harses Kampani: Sir, also could you give the sub-segment breakup of each of the segments between four wheelers and two wheelers?

Chandramowli Srinivasan: In Industrial, we are almost equal between aftermarket and OEMs. Slightly higher aftermarket of 27% out of the 52% came from aftermarket and OE was about 25%. In the 43% of the automotive segment, aftermarket was 15% and the balance 28% was OE. Within the OE, it was about 14% of four wheelers and 14% of two wheelers, more or less same.

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

Mukesh Saraf: On the industrial side, you have grown slightly more on the replacement or you have grown probably similar, so could you give some sense on the various end markets like usually you give the breakup for heavy industry, Railways, Energy and those kind, and some kind of color on each of?

Chandramowli Srinivasan: Railways grew by about 25% this quarter compared to the same quarter last year. Energy mainly renewable energy that grew by about 45%. Most of the others grew in higher single digit kind of numbers.

Mukesh Saraf: Anything specific on wind? And are you seeing some more pickup there because I think you had started to see some kind of a pickup, but you had said that probably next year you will see better growth so is there some more color that you have on that now?

Chandramowli Srinivasan: Well, it is looking quite okay now when compared of course. But remember that we come off from a very, very low base of the first half last year and when

I say first half I mean January to June last year was extremely low and then it started to pick up a little bit from July and that is just continuing this year so compared to the same first half of last year, we will look quite okay on the Wind side this year. What is helping is a little bit the tariff and the auctions have gone up a little bit, but more than that I think it is also that some of our players in India who are producing here are exporting and that is also helping us because we of course feed them when they produce, does not matter whether it gets installed in India or somewhere else abroad.

Mukesh Saraf: On the auto OEMs, you said that you are expecting to see some market share go up especially on the four wheeler side as you have some OEM wins, so some more sense on that, how is that progressing?

Chandramowli Srinivasan: We are doing reasonably well on the car side where we are doing better than the industry right now in the fourth quarter of the fiscal. On the others, we are more or less, it all depends on which players we are in, which platforms, which vehicles are doing well etc., so as an industry of course automotive is not doing well, so auto OE is therefore pretty flat for us as of now, but we are working on whatever we can in terms of improving market share even given that the volume, the total market size is coming down temporarily we hope, the openings will pick up soon after the elections maybe everybody is keeping their fingers crossed for that.

Mukesh Saraf: Right, actually that is the reason I was asking, you know the outlook is quite weak for the four wheeler OEMs especially and given that you are expecting to gain some market share, do you think you can continue to post a positive growth on the four wheeler OEMs side despite the market being kind of flat?

Chandramowli Srinivasan: Well, that would be of course a challenge I mean because if the market continues to remain flat then it is difficult to post big growth. What is helping us now is the fact that we are diversified across different parts within the four wheelers between cars and trucks and tractors and two wheelers from the two wheeler side, also our auto aftermarket is doing quite okay for now, so auto continues to be a bit of a challenge given the macroeconomics of the auto industry today. Industrial is however doing reasonably well for us.

Mukesh Saraf: Just the last thing on pricing, I think last time you had mentioned that in April probably some more pricing discussions would happen for the contracts that typically are just once a year kind of a discussion, so any progress there, have we seen some price hikes that we have got for the year FY '20?

Chandramowli Srinivasan: Too early for that. Yes, generally those price discussions start in April, but they get concluded quite some time during the year.

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

Nishit Jalan: Sir, I have couple of questions, firstly we talked about in the last quarter that we are going to start the Hub-3 production from March or April, just wanted to understand that whether we have started and is it because of that we are seeing somewhat better performance in PVs compared to the industry growth?

Manish Bhatnagar: The Hub-3 line indeed has started production as we said on the last call, it is still not full capacity, but we have begun our production, we have a plan for May, we have a plan for June, but those volumes are really still small, not to impact our share. So the share gains or the volume that Mowli talked about is not because of Hub-3, it is because everything else that we have done.

Nishit Jalan: Sir, if I understand correctly, your Hub-3 capacity was about 500,000 bearings and at about Rs. 1000 a bearing, the revenue potential is close to 50 crores, is that correct?

Manish Bhatnagar: The capacity of the line is about 350,000 and with de-bottlenecking, we could get to about 500,000, you are correct and the price per bearing is also correct, so between 35 and 50.

Nishit Jalan: Sir, my second question is on Railways, I think do you see that the end market is growing at that pace as well or is it because that we had expanded into the freight segment and that has started kicking in because throughout the year, you have grown at a very healthy double digit in this segment and just wanted to understand what is your outlook on that segment?

Manish Bhatnagar: Railways, for us continues to be a bright spark, we mentioned freight on the last call and that continues to be a big focus for us. As you probably recall, Nishit, we do not have a great share in the freight business, that has changed over the last couple of quarters. So a lot of our growth is coming from freight. On passenger and locomotives, we already had a good share and we are sustaining that. What we are also doing in addition to entering the newer freight markets on our current other segments, we are now entering into new services and new products, so for example condition monitoring or more technologically driven solutions, that is what is helping us grow in those other markets.

Nishit Jalan: Sir, my last question is on CAPEX, you had talked about 100 to 150 crores kind of CAPEX this year, so just wanted to understand whether you are scaling it down because the autos has kind of slowed down or you are going ahead with that and which are the key segments that you are focusing when you are expanding capacity?

Chandramowli Srinivasan: The CAPEX plans are still more or less on line with what we have planned earlier, the timing could be a little bit deferred by a couple of months- three months depending on how we see the auto industry progressing immediately; however, one line is already under installation now and one more line is on order and will come during this year. So in that sense we are not scaling back completely, but there could be a bit of deferral of timing depending on how we see the market progressing, so right now the whole objective is to be nimble as far as this comes to ordering for CAPEX. We are changing our overall say slightly medium to longer term outlook on what we need.

Nishit Jalan: So what kind of CAPEX should we look at for the next couple of years in that sense?

Chandramowli Srinivasan: We have said something in the range of 150 crores per annum kind of range.

Manish Bhatnagar: I think to add to Mowli's comment, I do not think the number will change, the timing might change by couple of quarters depending on how automotive picks up.

Nishit Jalan: Any CAPEX we are incurring on the industrial side as well to kind of increase localization because given the kind of growth we are seeing in some of the segments, does it make sense to start local production instead of importing it from your sister concerns globally?

Manish Bhatnagar: No, absolutely it does. And I think we also mentioned in the last call or the call before that, we have a pretty extensive localization footprint plan in progress. We still have not finalized on what exactly, what channels or what lines etc., but we hope to get that done fairly quickly but of course it will not happen overnight, this is a phased approach. The one channel that Mowli did talk about getting installed right now for example is geared towards industrial localization.

Nishit Jalan: Sir, you had talked about price increases discussion going on with some OEMs, but recently we have seen that steel prices have kind of come off and that is a big part of your RM cost, so do we actually need price increases in

that sense or basically it would be the other way round that we need to maybe pass on some of the cost benefits to the OEs in that sense?

Chandramowli Srinivasan: Price negotiations are always a matter of negotiation, there is no fixed formula around it. Of course, material cost has a big impact on the way, it also depends on where the previous price increase whenever which was settled, at what price of steel that was settled at, so it is a bit premature to say what will happen with price negotiations.

Moderator: Thank you. The next question is from the line of Priya Ranjan from Antique Stock Broking. Please go ahead.

Priya Ranjan: First on the traded goods share for this quarter and for full year?

Chandramowli Srinivasan: For this quarter, traded goods was about 44% of sales and manufactured goods was 56% of sales compared to Calendar Year 2018, full-year was 42 and 58 and if you take the same quarter last year, it was 38% traded and 62% manufacture. So traded proportion has increased this quarter compared to the same quarter last year and that is a clear reflection of the fact that industrial has grown faster than automotive.

Priya Ranjan: That is also reflected in say gross margin compression?

Chandramowli Srinivasan: That is right.

Priya Ranjan: In terms on the new generation of bearing and since some of the OEMs have started launching the BS VI vehicles, so how do we see the content increase or say the new generation of bearing adoption plus on the truck side, we were also thinking of say increasing the wheel hub kind of product, so any sense or any color on what industry or the OEMs are thinking on that?

Manish Bhatnagar: A big part of our bearings consumption in the automotive sector is in the transmission or wheel, and that has no impact on BS VI norms, so to that extent we are BS IV, BS VI agnostic as far as the consumption of bearings is concerned. Of course, if those norms change the consumption of vehicles, the production of vehicles that volume impact us, but not the per vehicle bearing consumption.

Priya Ranjan: On this truck side, I mean we will have bearing adoption, any thinking on that because now the axle load norms has also changed plus there might be some reduction in probably fuel economy, so for the total cost of ownership of vehicle particularly on the freight truck side, people might go for higher truck?

Chandramowli Srinivasan: There the truck manufacturers are slowly coming around to going for this better technology product, the one that lasts 300,000 kilometers etc. that we have, the sealed and greased for life kind of solution. The adoption rate is still a little bit slow because of the fact that the industry is in a bit of a slowdown and obviously this new technology does increase the cost of the vehicle though it will reduce the total cost of ownership over a period of time. But it has started to move now, but still I would not say in great big volumes, but it has started to move.

Priya Ranjan: What will be the Railways percentage and your total industrial business, roughly ?

Chandramowli Srinivasan: Railways is about 7% of our total sales including auto. So out of the 52 on industrial, 7% is Railways.... so it is about 14% of the Industrial itself.

Priya Ranjan: If you can give some color on the, you have given the segment wise breakup for the quarter, so if you can throw some light on the full-year, I mean how it has been for FY '19 full-year between industrial, autos, and within sub-segments as well?

Chandramowli Srinivasan: You mean '18 and '19, I am sorry but I do not have those figures ready because we measure more on calendar year basis.

Priya Ranjan: Any sense on the industrial side, this across the board I mean all the industrial segment players are growing slightly better, I mean auto is definitely weak, so do you see that this growth continuity might remain for say for next four to five quarters or how do you look at the market for industrial?

Manish Bhatnagar: I do not know if we have the crystal ball to gaze, four to five quarters out, that is in today's scenario that is just too long an outlook, but certainly I can give you some sense in the next couple of quarters and correlate that to what we have seen in the last couple of quarters. We are a very diversified business even in the industrial sector. We talk of Railways, we talk of heavy industry, also textiles, energy, Drives, metals etc. and none of them is very small, very large, so it is very well diversified. Broadly on the industrial side over the past couple of quarters, we have seen the heavy industry segments do quite well which is obvious because they are linked to infrastructure projects, so it is construction, mining, etc. and we think that will continue for the next couple of quarters certainly after the elections get over it only become more speed. On the Railways we already spoke about. On the other segments, we are seeing marginal slowdown, but nothing material to talk about, so at least where I see from this perspective today, I do not see it slowing down

significantly, Mowli talked about a 13% growth in industrial, it could come down to maybe 10 to 11, but I do not think it will go below that.

Moderator: Thank you. The next question is from the line of Bharat Sheth from Quest Investments. Please go ahead. `

Bharat Sheth: Sir, first time we have seen aftermarket has degrown, so what is your sales going ahead, what was the, any finger you can point, what was the major course for this degrowth?

Chandramowli Srinivasan: Where did you get that degrowth from, I said the vehicle aftermarket has grown by 17%.

Bharat Sheth: In Q4, we degrew by 5.6, I understand you said in your opening remarks.

Chandramowli Srinivasan: We grew, the auto totally grew by 5.6 aided mainly by the aftermarket which grew by 17%.

Bharat Sheth: How do we see this because aftermarket is evolving post GST and are we getting better sense in the aftermarket?

Manish Bhatnagar: A lot of our aftermarket is really what we need to do internally. There is certainly the "market growth" and then there is- " how much share can we grow ahead of the market growth". So unlike OEMs which is linked mainly to production by the OEMs, the aftermarket growth are driven by efficiency and reach that we can do internally, so one of the growth that Mowli talked about is 17% growth linked to all the efforts that we have been putting into growing that business; whether it is adding more distribution networks, reaching out to more retailers, adding more promotions, or just creating better awareness of our products in the aftermarket.

Bharat Sheth: What state we are I mean there is a room for growing much better way than what we have done?

Manish Bhatnagar: Absolutely, the aftermarket growth and the aftermarket shares, you cannot link to OEM production. There is a link but there is a big time gap between OEMs and aftermarket. The aftermarket gains that we will get both on the industrial side and on the automotive side. Let's not forget the industrial aftermarket also, which is actually much larger than the automotive aftermarket linked to what we can do better as a company.

Bharat Sheth: Sir, can you give any reason for improvement in EBITDA margin, is it because higher growth in industrial Q4?

Chandramowli Srinivasan: Yes, it is a mix of lot of different things. Pricing improvement definitely compared to the same quarter last year we have had. Of course, material costs have also gone up, but how well we have managed our sales price mix relative to our cost, volumes have actually slightly come down compared to the immediate preceding quarter, but compared to the same quarter last year we are still okay. So it is basically managing our cost and price structure, sales mix structure, etc. and of course all the time coming out with products and solutions that meet the customers demand more than what they were used to before, it is a lot of those things.

Bharat Sheth: Sir, Railways on the freight side you said that now we are looking and the way DFC which is expected to some part I mean by next year and then going ahead in couple of years, so how we look at this freight market and what exactly we are doing to gain the market share?

Manish Bhatnagar: In freight, there are two drivers to growth, one is of course existing freight market and the replacement wagons where we typically did not have a great share and we are changing that now with the wins we have had in the last couple of quarters to increasing our share in the replacement market. What you are talking of is the DFC or the new wagon market, that is still a couple of years away, we are talking to all the players in that space on the DFC segment and we also hope to get similar wins in that market when that starts opening up for new bids.

Bharat Sheth: In that scenario, how do we expect our couple of year, I mean our railway contribution of industrial which is around 14%, do we expect that to grow in faster pace?

Manish Bhatnagar: Railways today is growing, just to give you some benchmark, Mowli gave these numbers in the beginning, industrial grew by 13% and Railways grew by 25%. Because Railways is about twice the industrial growth and I think that trajectory will continue.

Bharat Sheth: Are we doing I mean with multi-axle trucks coming, do we see content of bearing per truck going up will increase?

Chandramowli Srinivasan: More than the content in numbers, it will go up in technology, so the seal for life kind of bearings will improve we think with those kind of trucks, because there it is really a question of the truck owner being able to run the

trucks for as long as possible on the road and not have it broken down or sent for repair. So in that sense he will try to make the most out of the truck and therefore, he will be willing to pay a higher price for the truck as a whole and therefore for all the component that go into it because he wants to run it more.

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

Akshay Bohr: First question is on the exports and looks like exports have declined both in the quarter and on an annual basis, any color you could provide as to what is the most sustainable number here and if the auto OE growth underperforms for the year, is there a possibility that you could export more from India?

Chandramowli Srinivasan: Our exports are primarily linked to automotive in the developed market, so obviously there has been a slowdown in Europe as well in automotive and that shows in our export numbers. Also sequentially or compared to year-on-year, the growth is a bit much lower actually, it is a degrowth actually as you rightly say and that is because in the previous year we also got some spot orders and some support production orders that some of our other factories were having capacity constraint, so that is not the case anymore. However, what we are now doing is also diversifying into new products, completely new products from India for the export market, one of them is the housings that we have started to manufacture in India, which are much more cost competitive than the rest of the world within the SKF world, and therefore we are getting good orders from there. But automotive continues to remain the main product line for which exports do happen and that is very closely dependent on what happens in Europe, so with a slowdown in Europe exports are bit low on that front, but it has never been a major part of our total sales anyway, so it hovers between 7% to 8%. This quarter has come down a bit to 5%, but I think it will go up a little bit from here, but not too much and until the new products take off in a even bigger way and that will happen slowly as our products get more acceptance in the market.

Akshay Bohr: In terms of as Manish was talking to the press about 2020 growth both in terms of sales and profitability, the numbers that you are talking about is upwards of 20%, I wanted to understand what is the strategy behind getting to those kind of numbers and what is driving those numbers meaningfully ahead of what we have done in the last couple of years?

Manish Bhatnagar: Certainly, Akshay, those are aspirational numbers and we are inching towards that. The growth strategy is the same, that does not change quarter

to quarter, and I will mention it again a couple of things important to us. One is someone brought the topic earlier about localization on the industrial side, and I keep making this point on a number of analyst meetings, investor meetings, and these conference calls that although we are seen as an automotive components company, we really are not, so 55% ballpark of our business is linked to industrial and sometimes we tend to forget that because our legacy is automotive components and that is how we are classified. So a lot of our growth is going to come from the industrial side. It is already happening over the last few years and that will continue to grow and this is in line with SKF globally, so nothing different here, so we will chase growth on the industrial side and if we need to chase growth on the industrial side, we will need to localize a lot more on the industrial side, I answered that questions sometime earlier, so that is one.

The other one is that we need to grow ahead of market, just because the market is growing at 5%, I do not think we are content with growing at 5%, we need to grow at 8% or 9%, so our growth rates have to be linked to share gains and that comes not just from more production, but also how we can reach more efficiently. The aftermarket is an important play for us both on the auto side, but more so on the industrial side, and the industrial aftermarket play is linked to utilizations of capacity. So as you have seen recently cement plants are working at 80% to 85% plus utilizations and then plants run more, they will have more breakdowns and need more maintenance, and therefore the aftermarket bearings on the industrial side become much more important and then it is a function of how we can reach there more efficiently. Those are couple of thoughts that I can share with you around strategy, and I will again stress that it will be driven by industrial and that is where we are focusing a lot of our efforts and time on.

Akshay Bohr:

On the aftermarket growth looks very strong as compared to about your peers reported recently, is this more to do with share gains or we should say this is more of stocking and destocking in the channel that would have impacted on this?

Chandramowli Srinivasan:

I do not think there is any stocking-destocking effect now, I mean that was say immediately after GST, now it is quite enough time since GST has happened and gone, I think these are really being linked to whatever Manish has said about what we are doing efforts on the aftermarket both automotive and industrial. Automotive, we have also come out with good set of new products, new kits etc., so in addition we also got new offerings to the market as well, so it is a continuous thing to improve on the aftermarket.

Akshay Bohr: Just somebody asked about Hub-3 before, will it be fair to say that in the next couple of years you would get that 50 crores of incremental from auto OE, timing could be here and there, but is it fair to say that now the 50 crores of Hub-3...?

Chandramowli Srinivasan: I think Akshay it is fair to say, the channel will be fully utilized in the next couple of years.

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

Prachi Kodikal: Sir, post GST you had talked about an initiative where you were looking to consolidate your warehouses and expected that to bring in quite a bit of operational efficiencies, could you tell us how that is shaping up and maybe a few numbers as to how that has helped us in terms of savings?

Chandramowli Srinivasan: Earlier, pre-GST we had something like 13 warehouses and five direct delivery hubs. Now, we are down to one consolidated big warehouse and six remote stock locations which are mainly for just-in-time deliveries to OEMs, so clearly we have cut down on the number of stocking points. Of course this brings savings in operational efficiency etc., but more importantly the big warehouse that we have got now post GST is also able to keep in stock imported products on a planned basis so that we are able to cater to our customers for industrial products much faster than we would have been able to before when generally the ordering happen after we got an order from the customer, so wherever lead times was very important for the end customer, we would not be competitive to be able to supply that in time that issue has been taken care of now with the warehouse in India.

Prachi Kodikal: But in terms of numbers or inventory or any other side how would have that helped us?

Chandramowli Srinivasan: Well, inventories would obviously go up because earlier those inventories were sitting in warehouse outside the country in Singapore or in Europe or something like that, but availability has definitely improved because we have a warehouse now in India, so as a combined thing, we would have clearly helped to grow our market share especially in industrial bearings where availability is very important.

Prachi Kodikal: Another question is are there any other areas we are looking at from where maybe you could squeeze out some cost or operational efficiencies that could come in the business?

- Manish Bhatnagar:** That is all the time, that is what Mowli and I paid for, that is our job.
- Prachi Kodikal:** It would helpful if you could give us some examples?
- Chandramowli Srinivasan:** We have done a lot of savings on energy, we have done a lot of savings on material yield. When I say material yield I mean the process scrap that happens inside the factory. In improving the input quality of material that we get from our suppliers that helps us to reduce the cycle time that it takes to produce bearings in the factory. These are some of the really big ticket items that I can say we have done in terms of reduction of cost and operational efficiencies.
- Moderator:** Thank you. The next question is from the line of Raghunandan from Emkay Global. Please go ahead.
- Raghunandan:** Thank you for the opportunity and congratulations on a good set of numbers. Sir, my first question was broadly what would be the share of procurement from SKF Technologies?
- Chandramowli Srinivasan:** On the traded goods about 25% now would come from SKF Technologies.
- Raghunandan:** Sir, our market share in the domestic market was around 27% to 28% last year, how has that trended?
- Manish Bhatnagar:** It is always tough to give an exact number on market shares because these are not tracked so diligently by anyone. What we can give you an estimate is that have we gained share, lost share, or kept share. Now, across sectors and I think Mowli mentioned in the beginning, our revenue growth has been higher than the industry growth, so we have gained share. Now, whether we have gone from 27 or 27.2 or 27.5 or 28, it is tough to say, but we have gained share in a lot of sectors we operate in.
- Raghunandan:** How are you seeing the competition from like the MNC peers who have been traditionally your competitors and also the Japanese peers?
- Manish Bhatnagar:** I think our competitors are MNC peers, our competitors are Asian companies some of those you mentioned and our competitors are Indian companies, it is a combination of many companies and we fight tooth and nail against all of them at many customers, so when you say we have gained shared in a number of sectors, we have gained share at the expense of competition.

Raghunandan: Coming to the quarter, Mowli Sir, was there any impact of FOREX in the quarter?

Chandramowli Srinivasan: We had a FOREX gain this quarter of 67 million.

Raghunandan: This sits in other income?

Chandramowli Srinivasan: That is right.

Raghunandan: Sir, for the quarter can you share how much was the fall in auto OEM and exports, also if you can give some color on the segment wise- cars, tractors, trucks, how have they trended?

Chandramowli Srinivasan: For auto OEMs we were absolutely flat compared to the same quarter last year. Exports we were down rather much by about 25%. Aftermarket auto we grew by 17%. In terms of, I think I gave at the start the number that out of the total sales, 43% of the sales were auto of which aftermarket is 15, so the balance 28 is OEM and that 28 would be more or less equally split between four wheelers and two wheelers.

Raghunandan: Any color on segment wise cars, tractors, trucks?

Chandramowli Srinivasan: Trucks and tractors we sort of club them together. Then cars and trucks and tractors is more or less equal 50:50?

Raghunandan: Sir, any reason for the reduction in trade payables even in absolute terms, credit hours have come down in FY '19 versus FY '18?

Chandramowli Srinivasan: There is no real particular reason for that.

Moderator: Thank you. The next question is from the line of Shyam Sundar Sriram from Sundaram Mutual Fund. Please go ahead.

Shyam Sundar Sriram: Sir, you spoke about the industrial aftermarket has been pretty much holding up, have we increased the product range there that has led to this consistent performance in the industrial aftermarket, you also alluded to introducing the new kits in the auto aftermarket is that a similar thing in the industrial aftermarket as well?

Manish Bhatnagar: The industrial aftermarket is not so much new products, because the aftermarket is linked to what was already installed there, so if you take out a certain bearing with ours or competition and replace it with a similar bearing.

The key to growth and the key to share gain there is to have availability of the replacement bearing as and when they need it, so Mowli talked about our warehouse in Chakan in Pune which is able to predict demand a lot better, so we do not lose that sale opportunity when it happens, when that line in the cement plant breaks down, they cannot wait for someone to order and then ship out and then mount the bearing. It needs to be available very quickly at a very short notice, so it is not adding more products, it is more efficiently delivering the same product that we have had to those customers on the industrial side.

The other change that we are driving is for the industrial guys especially, we have what we call Rotating Equipment Performance. We have spoken about this in the past, which is about ensuring that all their rotating equipment performs as per their expectations. No one wants unplanned downtime. We run six plants in SKF and we all like planned downtimes when we take those maintenance hits and we replace parts as needed. Rotating equipment performance solutions are geared towards that, when we are able to do work with customers to ensure to reduce, minimize or even eliminate sometimes-all unplanned downtime, which is all linked to availability and diagnosis and prediction etc.

Shyam Sundar Sriram: These are like service contracts and what would be our revenue mix from these kind of service contracts which are based on more SLA basis?

Manish Bhatnagar: These are a combination of service contracts and performance contracts on the industrial side. Service contracts are fairly straight forward. We provide service for a certain fee and we decide the fee upfront for a year for example or multi-year contracts and we deliver that service and we get paid. Performance contracts are a little different, they are based on outcomes, so the performance contract could be for uptime guarantees, could be for availability, reliability etc., and those are based on outcomes there. Today, our entire services portfolio including service contracts and performance contracts is about 7% to 8%, we are growing rapidly, so that is where we expect much of our business to come from in the future. In the press release of our earnings, we talked about working very closely with customers to deliver solutions backed by technology and that is what I was referring to in that release, these are REP technology solutions.

Shyam Sundar Sriram: Sir, on the automotive OE side if we look at the production numbers both on the two wheelers as well as on the passenger vehicle side on the YOY basis, there has been a decline, how have we managed to deliver flat volumes, is

this because of new products or getting nominated on newer platforms, if you can please comment on that?

Chandramowli Srinivasan: Mix of both, new products, new platforms, some of the platforms we are serving has done not so badly compared to the other, but it is also new products for sure, I mean we have talked about in the past the pinion units for the trucks, we have spoken about matched TRBs etc., so it is a mix of all these actually that has helped us to as you right say outperform the market slightly and that has been flat even though the market itself has come down.

Shyam Sundar Sriram: Sir, what is our utilization levels currently across the auto and the industrial lines?

Chandramowli Srinivasan: So most of our factories are primarily automotive factories though we do utilize some part of the production which is similar, same products for industrial also, so I would not be able to say it is automotive factory or it may be automotive. We have maybe about 15% spare capacity today because of the fact that the volumes of the automotive market has slowed down. We had come to a situation where we were completely running flat out a few quarters back that has now changed because the automotive market has slowed down, so today we have some spare capacity of about 15% to 16% in our factories.

Shyam Sundar Sriram: Sir, broadly in terms of your internal KPIs, how you measure yourself and benchmark yourself from the company performance, broadly speaking?

Chandramowli Srinivasan: We have various parameters, manufacturing units have their own set of KPIs, sales units have their own set of KPIs. As a common measure across the company, we measure ourselves on one single parameter if you ask, it is what we call our Total Value Added or the TVA concept where we have to be better than the cost of capital with the premium added to it in terms of our earnings and there we are continuously positive and growing.

Shyam Sundar Sriram: Sir, one last question, the inventory levels have increased on a year-on-year basis, is it because of the industrial finished goods inventory that we are maintaining to keep up supply, you alluded to that, just confirming that?

Chandramowli Srinivasan: Yes, that is right, that is partly because of what we have for industrial which as you can see has grown quite well for us. It is also because of that growth that even our "goods in transit" part of inventory goes up because industrial goods are mainly imported and now that we import directly from the manufacturing unit, it is sea freight unlike earlier Singapore which was much

closer and therefore at times we were sea freighting or air freighting. But the lead time has increased because of importing directly, full container loads from the manufacturing unit, so goods in transit have also increased so that led to the inventory absolute number going up a bit.

Moderator: Thank you. The next question is from the line of Geetanjali Kedia from S P Tulsian Investment Advisors. Please go ahead.

Geetanjali Kedia: Three to four independent Directors have resigned in April to make way for the new Board and even the CFO had exited a while ago, could you share the thinking behind a revamp in the senior managing team and you do not really get to see the reasons mentioned as making way for fresh Board thinking, so what was the thought process behind this that the independent Board is being revamped at the company?

Manish Bhatnagar: Geetanjali, I will answer your question with a couple of facts correction and then more general. CFO has not left a while ago, the CFO is the guy on the call answering questions. Mowli has been a valuable asset to the company for many, many years, Mowli I believe over three decades or close to three decades and he is still here.

Mowli has expressed a desire long time ago, I joined the company nine months ago and I remember Mowli told me, look Manish I have spent a lot of time at SKF and I have other interests and I want to do something more and we appreciated that, I was able to convince Mowli to stay back for as long as I needed him, so this is a planned transition. We have been searching for a new CFO, we also announced the new CFO last night, so Mowli will stay on for about couple of months more to help with the transition, so the CFO, Mowli, going away and the new person Anurag coming in is all planned, this is just a fact correction on the CFO.

On the Directors also, I think you saw the reason the Directors gave, a couple of them had personal reasons and couple of them had talked of fresh thinking and that to me is an ongoing process. I joined SKF nine months ago for a similar reason to bring fresh thinking to SKF. We have Anurag joining now in a planned transition from Mowli to bring fresh thinking to SKF and likewise with the Board as we get into newer markets, newer services, newer technologies, newer aspirations. It is an ongoing process of rejuvenation, so there is not a surprise there and not anything unexpected.

Geetanjali Kedia: This is only because it is not very usual that you get to see three independent Directors and the Chairman tendering resignation at the same time, so if you just to ally fears on corporate governance especially because this is an MNC?

Manish Bhatnagar: I think it is a fair comment and a fair observation and we had the Board meeting yesterday where we bid farewell to the existing Directors. The Chairman of course, Rakesh Makhija has a new role, so he is now Chairman of Axis Bank, so that from his perspective will take a lot of this time and he preferred to step down. The three independent Directors, one of them Hema, stepped down in April and the other two stepped down in May, so there was not really together, there was a timing gap between the two.

Geetanjali Kedia: Secondly, on the industrial bit I understand Railways and cement is where the company is very positive on, how is steel looking as a sector to the company and how is the order in terms of steel sector demand?

Manish Bhatnagar: Well, I want to clarify, I gave cement as an example, it was not that cement is doing well, so industrial sector and industrial by its very definition has a number of sectors in it. Since you joined late, let me just make the comment again, we are very, very well diversified in the industrial sector. None of our sectors is more than 10% of total business, so it helps us to offset one against the other, so you mentioned steel it is doing well for us, metals in general is doing well both ferrous and non-ferrous, all infrastructure-linked industries whether it is construction, off-highway equipment or whether it is cement or mining is doing well for us. Railways we talked about. The Energy segment is doing exceptionally well. We also have a presence in the Textile business, we have a presence in Defense, we have a presence in what we call drives which is pumps and motors and gearboxes. As you probably know that entire drive segment is a good barometer for industrial activity, so small motors specifically do very well, they are are a good indicator for how the general industry will follow, that is doing well for us, so cement was just an example, but I think in general we grew 13% industrial, some sectors more than 13%, some sectors less but all going well for us.

Moderator: Thank you. The next question is from the line of Viral Shah from Enam Holdings. Please go ahead.

Viral Shah: Sir, I had one question on the passenger vehicle side, some of the OEMs have announced that they plan to exit the diesel portfolio, so firstly how does that impact SKF in anyway?

- Manish Bhatnagar:** Yes, Maruti has announced that they want to exit diesel completely. In response to a previous question I said most of our passenger vehicle sale is going to transmission, so not the engine so to that extent we are not impacted by the switchover from diesel to petrol. What will impact us though is if the overall industry sales go down, so if all the diesel shortfall or diesel cutback is not picked up in petrol and the number of vehicles sold start going down that will impact us, but not the switchover specifically.
- Viral Shah:** If I have to look at it in another way, what would be content supplied per car for a petrol vehicle versus diesel, would there be some numbers to that?
- Manish Bhatnagar:** It is the same number for diesel or petrol. It does not change.
- Moderator:** Thank you. The next question is from the line of Mukesh Saraf from Spark Capital. Please go ahead.
- Mukesh Saraf:** Sir, on the traded goods from SKF Technologies, you had mentioned 35% of your overall traded goods come from SKF Technologies?
- Chandramowli Srinivasan:** Correct.
- Mukesh Saraf:** What was this last year, Sir, if you could just give that number?
- Chandramowli Srinivasan:** I do not have the number exactly, but it has been growing, so I would assume it was somewhere between 15 and 20 last year.
- Mukesh Saraf:** Is it right to assume that this is primarily the Wind and Railways only or any other of your industrial segment also you get from SKF Technologies?
- Chandramowli Srinivasan:** Some of the other industrial segments also like the larger size of highway and excavators and both on the aftermarket and on the OEMs. Also now Defense, but Defense is still small. Primarily big is Railways and Wind, yes, but then there are other general industries also especially wherever large bearings are required.
- Mukesh Saraf:** Given your outlook on Wind and Railways is quite strong and general industrial itself, what kind of utilizations are we running at in SKF Technologies and is there more CAPEX that is going to come there or are you going to kind of resort to just trading from your other countries rather than from SKF Technologies, any sense on that?

Chandramowli Srinivasan: I do not want to get into the utilization numbers of the unlisted entity, that is not right, but I can just say that they are growing, they are improving their utilization all the time because as they are supplying to us for industries that are doing well here. When it comes to sourcing from them versus sourcing from foreign, it is very clear they can make it here, clearly we will source it from here so that is the obvious answer.

Mukesh Saraf: Broadly, in terms of cost efficiency it is better that we source from here than imported if the same bearing is available here as well as there?

Chandramowli Srinivasan: Generally by and large, yes, it cuts down on the entire freight and duty, so yes, clearly.

Mukesh Saraf: That would also mean that our pricing for the customer will also be lower that way, so it helps in market share?

Manish Bhatnagar: This is not linked to A because our cost is so much therefore we supply you at so much price, it was linked to everything and between that.

Moderator: Thank you. The next question is from the line of Bharat Sheth from Quest Investments. Please go ahead.

Bharat Sheth: Sir, when you said that earlier I mean inventory has gone up because of we are storing to bring the more efficiency and improve supply time to the industrial side, earlier we were importing from Singapore and now we are importing a full container, do we get some kind of a benefit also in the pricing?

Chandramowli Srinivasan: The pricing is actually transfer pricing principle base, so really we do not get so much on the pricing side. It does not matter whether we buy from Singapore or whether we buy from Europe, pricing is agnostic to that. What is clearly a benefit is the fact that instead of getting small container loads from Singapore and the goods having to move all the way from Europe down to the southern hemisphere to Singapore and then come back to us, we clearly cut down on the freight especially when we get full container loads by sea from Europe.

Bharat Sheth: Sir, second on this auto aftermarket, within that aftermarket can you give some color, how much is the two wheeler and how much is the four wheeler and where do we see more traction?

Chandramowli Srinivasan: We do not have the numbers exactly of that, but I can say that traditionally we have been stronger on the two-wheeler portfolio of the vehicle aftermarket

and now we are consciously working on improving the four-wheeler part of the aftermarket.

Bharat Sheth: We are getting more traction on four wheelers with this kind of efficiency that we want to bring?

Chandramowli Srinivasan: Yes.

Bharat Sheth: Do we think over a period, this aftermarket share can go up, which is roughly around within auto it is around 15%?

Chandramowli Srinivasan: The intention is clearly to grow the vehicle aftermarket, yes.

Manish Bhatnagar: I do want to clarify this 15% is not the share in the market, this is a share for the SKF.

Moderator: Thank you. Ladies and Gentlemen, that was the last question. I now hand the conference over to Ms. Mallika Apte for closing comments.

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

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.

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