

Date: 15th June,2022

National Stock Exchange of India Limited, "Exchange Plaza" 5 th Floor, Plot No. C-1, G Block, Bandra Kurla Complex, Bandra (East), Mumbai – 400051 NSE Scrip Code – SKFINDIA	BSE Limited, Phiroze Jeejeebhoy Towers, Dalal Street, Mumbai - 400001 BSE Scrip Code -500472
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Dear Sirs/Madam,

Sub: TRANSCRIPT Of ANALYST/INSTITUTIONAL INVESTOR MEETINGS ON JUNE 9, 2022

Reference: Intimation Dated 8th June,2022 & Intimation dated 11th June, 2022 for Audio Link

Pursuant to Clause 15(a) of Schedule III, Part A, Para A read with Regulation 30 (2) and Regulation 30 (6) of SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 (as amended from time to time) (“SEBI LODR”), please find enclosed herewith transcript of Investor Conference organized by Motilal Oswal Financial Services Limited on 9th June 2022 at Mumbai.

Transcript will also be available on website of the Company.

The above is for your information and record. You are hereby requested to disseminate the same on your respective websites.

Thanking you,

Yours faithfully,
SKF India Limited

Ranjan Kumar
Company Secretary & Compliance Officer

SKF India Limited

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Motilal Oswal Ideation Conference**Transcript document***Pointes to be noted:*

- *We are considering Mr Manish Bhatnagar as Speaker 1, the lady as Speaker 2 and others as Speaker 3 as their voices are not clear enough. Besides, several speakers have not introduced themselves, so have marked all those as Speaker 3.*
- *At times, speakers' voices sound similar and even the transcription software could not differentiate between the speakers, so we have tried to do it manually as much as possible.*
- *Also, the speakers are having conversations while having tea/coffee/lunch, at such instances the audio is not clear. Besides, there are lots of disturbances, echoes, and background noises at times, so we have tried to modify that as per the understanding.*

Speaker 1

Thank you, sir. Thank you.

Speaker 2

My colleague will join. So we've been holding SKF for a long time. I run the last check.

Speaker 2

I don't think so we have met. Have we?

Speaker 1

No, I don't think so.

Speaker 3

with your permission, can we record?

Speaker 1

They are recording

Speaker 3

That's good to hear.

Consider the Script from here onwards

Speaker 2

Just that, I would say just from a perspective of the differential that we find it's always been cases that our credit proportion is much higher and industrial is essentially going through this, whereas others have export opportunities also. And, in terms of the growth, there have been certain, I would say, a small differential which we see in late. So, if you could just start with what's your outlook on the business? Maybe from the auto industry and within auto two-wheeler versus the EV disruption. So maybe this is what broadly we want to cover as the discussion progresses.

Speaker 3

Maybe I can add a slightly broader question because when I look at a ten-year outcome for our company, it's a high single-digit course company. So, I'm not looking for a guidance. But how should we as a shareholder, think about it? Because I keep hearing that Capex is also going to be, let's say, in the range of 100 crore, So if you can help us think around that, it should be okay.

Motilal Oswal Ideation Conference**Speaker 1**

And you're right, we won't give any forward guidance. Yes, but let me start with your question. So certainly, our business is approximately half industrial, half automotive, and that is likely to change going forward because globally we are 70% industrial, and 30% automotive. So, logic says that over time we will gravitate towards our global mix. So, we have three factories in India, and our automotive lines are almost fully localized - 95% manufactured locally. So high degree of localization. On the industrial side, 35% is sourced locally and 65% imported. Now, why is that the case? Because industrial has a very large assortment unlike automotive. In automotive, when you run a line, you can spit out 10 million bearings a year, on one line. And we don't need to change anything there because the volumes are like that. On the industrial. The batch sizes are much smaller sometimes, so unless you consolidate volumes across countries or you have a large scale within the country, it always makes sense, at least for us. And I want competition here, at least for us to be able to source from factories where we have scale. Over time, as our scale improves, or we can consolidate volumes in the region, we will also start looking at what more can be localized in India. But having said that, our goal is to localize as much as possible, on the industrial side also.

Speaker 2

When you say localized, unfortunately, most of the industrial comes as a traded profession and that's probably coming from Ahmedabad.

Speaker 1

No, that's not true. Our lines, we have three factories, Bangalore, Haridwar and Pune. Haridwar factory is mainly automotive. But Bangalore and Pune also produce industrial. Ahmedabad is set up for the large size bearings. Sometimes we get caught in this discussion that why is it that Ahmedabad and why is it not Pune or why is it Pune and not Ahmedabad, but it all depends only on the size of the bearing. So, Ahmedabad has been set up for large size bearings, bearings as large as a room. For example, for wind turbines. We don't have that capability in Pune and Bangalore. So, I get asked all the time, where will you invest? Will you invest in CAPEX in Ahmedabad or Pune Bangalore? And my response always has been consistent. It depends on where the growth is coming from because the capabilities are different in the factories. If the wind business grows, even if we want to, we can't make those bearings in Pune, we have to make them in Ahmedabad. But if the electric motor business grows, we have to make it in Pune.

Speaker 2

So, for the group level, it is driven by the size of the bearing.

Speaker 1

Yes. Because there are certain competencies which are linked to size, even in terms of sourcing, of material, competencies, which has been set up, etc. So, Ahmedabad unit is for large size bearings, very small and medium and small are in Bangalore and in Pune.

Speaker 2

Right. So, what could drive the industrial manufacturing growth, I'm saying from an application point of view, what could drive our industrial manufacturing and therefore localization? Which industries are we sure of?

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Speaker 1

Industrial, as you well know, covers a full range of industries. The big ones are Railways and wind. Then there are a whole lot of other industries. There is heavy industry, which includes steel, cement, construction equipment, textiles, F and B, Electrical Motors, and a whole lot of industries. In general, it's really difficult to pinpoint which sector will drive growth. But at least our experience in the last two to three years has been, its mainly infrastructure, steel, cement, and construction equipment. That's clearly driving the growth for manufacturing and therefore also price, and therefore the growth being driven by these industries, which means our sourcing has actually increased from Pune and Bangalore versus in Ahmedabad. And that's the point I was making here.

Speaker 2

Sure. And that would lead to further localization also.

Speaker 1

Absolutely, because when those factories cater to both automotive and industrial, and as we have higher demand from industrial, you will have to localize more and more because frankly, sometimes it is very difficult to import on a sustainable basis because customers also need quick delivery. You cannot have bearings being made in Italy.

Speaker 2

That looks like exports opportunity for us.

Speaker 1

It's a philosophical discussion. So unlike, let's say competition that you mentioned, SKF has always believed globally to be as close to customers as possible. So, exports have never been our focus. We don't have people going out and choosing export opportunities. Unless and until it is the consolidation of volume to build and launch new manufacturing in India, Malaysia or wherever it might be, we don't have sales teams out there chasing new opportunities.

Speaker 2

Especially in the industrial engineering space. What we have seen is certain geographies become much more cost-effective and therefore they have a natural advantage from economics point of view, like Cummins has got low-cost power engines.

Speaker 1

Well, I don't know. It also depends on the material content. You have to understand that steel is about 50% plus of a bearing. The labour component actually not that much. So, from the cost competitive standpoints, I want to go to automotive. Automotive is basically four segments, 2 wheelers, passenger, commercial, and agricultural factors. About half our automotive business is 2 wheelers, and the rest is kind divided between the other three. The 2-wheeler has always been a strong growth market for us, both aftermarket and VSM and we don't see any signs of that changing anytime in the future.



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Speaker 3

If anything, our aftermarket business will be doing more and much better going forward.

Speaker 1

You can just say automotive is half or 50%, in that two-wheelers are approximately half in that broadly.

Speaker 1

Aftermarket is about 80%. So, two-wheeler is our strength.

Speaker 3

Okay. Because bearings are more specialized in EV and this is, two-wheeler, so is it dependent on two-wheeler or something?

Speaker 1

I think you can have an equally large business in passenger and commercial, etc. Also, it's just that traditionally our legacy, at least in India, has been very strong partnerships with large two-wheeler manufacturers. So, for example the Bajaj, etc. We have been working closely with them for decades now. In passenger vehicles we don't have a great share, and largely because the passenger vehicle market in India is driven by Japanese and Korean manufacturers. And most decisions on bearings, therefore, are also made in those mother countries. Most Korean and Japanese bearing manufacturers are niche and pretty small. But they have a big play in those manufacturers. On commercial vehicle segment where there are large Indian players, we also have a very large share. But I think in terms of volume, the commercial volume is, nowhere closer to two-wheeler as we have so much on the road.

Speaker 1

The OEM decline certainly affects us. Now it depends on who you talk to. They'll tell you if the decline is a blip or a trend. My view is that it's not a trend. My view is it's a short-term issue and we will bounce back. On the aftermarket side it is something that we have pushed very hard in the last one year. I think I mentioned this in the past also with a lot of people. We really see a big opportunity in the aftermarket because the aftermarket is a space where we traditionally have not focused a lot. We have a very small share in the VSM and we're talking of low single digits. It's not like a 30% share. And so, an opportunity for growth is much more. And why it's important is because the margins actually are higher enough.

Speaker 3

But this is again dominated by the local players.

Speaker 1

Do you know, the aftermarket is dominated by availability and price? And I hate saying this. It really doesn't matter what brand it is, and I wish it was better, but it's not. So therefore, in the aftermarket, the key drivers are availability and price. If you walk into a garage with your scooter, you really want to get that scooter fixed and drive away. You won't stand and say I want SKF. He will see what's in his shop, he fixes it and therefore the driver there is availability and reach everybody. So therefore, we have done a lot of effort in the last one year to really get into a large distribution model for aftermarket, which we have never tried before. And this means in the past our model has been distribution. Let's sell to distributors and then they will sell it more. Being a push model, we now want to get into a pull model



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but pull not so much for consumers because you and I really don't care. But pull from mechanics and pull from retailers. That's the change we've have had.

Speaker 2 (17:15)

I was just saying this number on our revenue side from our worksheet. So the numbers may be approximation of best. So, 2014, this aftermarket auto was 13 and a half and today it is already 16.8 or 17 % of revenue?

Speaker 1

okay

Speaker 2 (17:35)

So, we have seen that increase. And same is in industrial aftermarket. Are we're doing something similar?

Speaker 1 (17:43)

The only difference is what drives growth in industrial is different from automotive. In automotive, it's a question of availability and pricing. In industrial, it is not that because industrial guys know what bearing is in the machine and they won't take a chance because they don't want the machine to stop working. In fact, we had an interesting case and I'm not going to name the company. But you can guess, they're the largest multinational F & B manufacturing company. They have a plant in North India where they make dairy products. And they had a situation where something happened to their machines and the bearings failed. And they were wanted to get SKF bearing because they used it before. And they went out. They couldn't find SKF bearings. So, they went out and they bought a bearing that they thought was SKF, but it was counterfeit. Someone sold them an SKF bearing. And the interesting thing is they paid a 45% premium for a counterfeit brand. So, in industrial issues different. They want to pay the premium, but they want the genuine product. So, in industrial we focus on how can we make sure that our bearings are available at those OEMs when they need it?

Speaker 3

So is it okay to say it's our failure.

Speaker 1 (19:20)

Absolutely. Last year we have launched an eShop. So today our distributors serve about 10,000 pin codes out of the 20,000 in the country. The other 10,000 that are not being served. And how do we make sure that the other 10,000 pin codes also get service? So eshop is one initiative towards that. They can go online, and they can order a bearing and get shipped in a certain period of time. It's a number of things, but to your point, distribution has to increase over time. It has to know the reason. But it is highly marginal industrial.

Speaker 3 (20:20)

So, industrial isn't it easier.....

Speaker 1 (20:24)

10,000 pin codes. It is that one plant in Faizabad in UP because there's one customer there. How do we service that one customer? Because in Lucknow we have got a cover.



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Speaker 2 ([20:49](#))

I mean auto aftermarket, how it is the unorganized activity?

Speaker 1 ([20:52](#))

Unorganized? I don't know the latest numbers, but I think one in four bearings sold in the country is unorganized. And by that, I mean both. Brands import from Eastern Europe or China, as well as counterfeit. It's one in four. I think that number, I think is going down. I have no data to prove it to back it up.

Speaker 2

If I were to move back to your opening statement.

Speaker 1

It's linked to two parts. One part is the natural organic growth in the industry. We do expect industrial markets to grow faster than automotive markets. That's the organic growth. The other one is that we also have focus a lot more on industrial now, and maybe you don't see the movement in our numbers here, but our industrial percentages are inching up slowly. Maybe little by little is going up, because industrial is, frankly, where the margins are. Automotive is such a different business. When you go to international market, it's a big part of the business. It also keeps the factories on. We need that. It's optional, fixed, awesome stuff. But in the long term, we need to get to the industrial business. Now, when the long term will be, I don't know.

Speaker 3

So, like you said, you expect the industry to grow faster. But then there is the other way, which is, is there a gap that we need to introduce more products?

Speaker 1

It's not more products. It's more localization. I think we have the full portfolio. Today we import from around the world. That needs to change. The reason I explained on to sell your industrial customer, you can't promise them ten weeks ago. We need to promise them a reasonable time so it's more localization.

Speaker 2 ([23:35](#))

There are two paths to address. So, you mentioned that industrial market growth is higher.

Speaker 1 ([23:41](#))

And second is us. What we need to do differently, which is things like localization and localization, by the way, is not just on what we make. Also, what we source. So, when we source steel, for example, how much steel can be localized? It's also components.

Speaker 3

But what are we doing to achieve this?

Speaker 1

It starts with steel source. 50% plus of our cost is steel. And bearing steel is by the way, extreme high-quality steel. It takes a lot of hard work to qualify a steel, unlike, let's say, a car body steel. But it takes

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a lot of hard work to approve a local steel supplier. We need metallurgy, chemistry, manufacturing, quality, EHS, a number of things. Now, you might think India, as we are the second largest steel producer in the country, in the world, but not many Steel mills in the country, even today, are capable of producing such quality. So, it really starts at that level. You cannot localize anything. We can't make bearings here. We can, of course, if you're importing steel from China or Europe, it's not the same. So in the last two years, we have gone up from, I think five steel mills to seven or eight steel mills. They're locally approved steels. And then the next stages, components, they're fairly simple. There are two rings. It's got balls and it's got a cage. Four components making it simple. So even if you get the steel localized, you have converters who can take that steel and convert to those components to meet the quality we need. The bearings are high precision instruments.

Speaker 3

By converting machining

Speaker 1

Everything to convert to take a steel bar or take a steel Rod, make it into a highly engineered product. The ring that we have here is an effective, for example, the balls we put into our bearings, the balls are classified eight microns, nine microns, ten microns. And the Micron is a thousand of a millimetre. So that is the difference in who can make balls consistently. Eight, nine and ten. It's that what we do.

Speaker 2

And this initiative that you said first is on the material itself and then making more vendors. This has happened 2 years back.

Speaker 1 ([26:51](#))

No, it's an ongoing thing. It's picked up speed a lot more in the last couple of years because we see the volume also increasing. India also increases in industrial manufacturing. To your point earlier, we know we cannot gain share and cannot grow unless we have stronger localization. So, it's picked up speed a lot more in last few years.

Speaker 2

So, when you say steel, likes of Tata steel and all they are not making the bearing styles. Are they alloys or stainless steel?

Speaker 1

Tata steel does not make, which is I think is surprising.

Speaker 3

If I were to maybe connect two questions and just trying to understand - the perception in the market is that we are not doing enough capex, is it because the area in which we want to grow is largely vendor dependent? Because not necessarily that we need to do, which largely follows an assembly model versus somebody else who wants to do everything in house. So maybe there is a big difference in the philosophy. Is that the reason why our numbers and capex are not high in future also?

Speaker 1

High compared to what?

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Speaker 3

Let's say my analysis put out, we may do a 100-150 crore kind of capex compared to Timken and Schaeffler. This is relatively much lower number and if I look at some of our depreciation, which is 61 crores.

Speaker 2

It's about 300 and 400 for Schaeffler.

Speaker 1 ([28:52](#))

Schaeffler is a business of three companies. What used to be FAG bearings is a like to like comparison. Schaeffler is a basis of three companies for a bearing company? We mistake Schaeffler for a bearing company. It is not. It's an automotive sub-assembly and sub-components company. So, I don't know the bearings capital numbers. But irrespective of that, the speed of proportion is that do we need to invest more or less? I think we will invest whatever we need to, to grow in this country. The 150 crore number that I normally talk about, it's not a number that we are tied to. There's nothing preventing us from doing 300. Or we could drop to 50. But we have no philosophical debate. No, we are neither an insourcing company nor an outsourcing company. It's only linked to where the growth is coming from. So, for example, we have just won a very large order from a very large CV in the country for a very specialized vendor. And we have put up a full line only for that manufacturer in a matter of five months. So, it depends where the growth is coming from. But we are not in the business of adding assembly lines in anticipation of growth.

Speaker 3 ([30:24](#))

But for sure. You said if we localize more, they will get more business.

Speaker 1

But it's a little bit of chicken and egg. You can localize more and get more business, or do you get more business or localize? See, the problem is that in automotive you can make a small bearing for this size and make 10 million bearings in a year. That's the capacity of the line. You start the line on January 1. Nothing needs to be done. The line on December 31, the 10 million bearing gets churned out. It's very good absorption, very good running, very good effort, etc. And industrial, we're talking of 5000. So the effort needed to change the channels and make them more flexible is much more for sure. If you localize more, it's better for everyone. But we will not localize unless you also have some scale. It doesn't have to be fully occupied. We need to have some scale. We can't be running at a line at 10% and saying in the hope we fill up the buyers 90% through customers coming, there will be some scale.

Speaker 3

So, we need to target segment by segment?

Speaker 1

Absolutely. This is really automotive. This is a segment by segment because that will also decide where we invest.

Speaker 2 ([31:55](#))

Now, I was reading somewhere, bearing per vehicle hasn't changed despite the EV disruption. Is that the same thing also?

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Speaker 1 ([32:05](#))

Well, no. I think the question that I answered earlier on was will the value change, the number of bearings might change.

Speaker 3

So, in EV, how do we understand ourselves? So, one thing is very clear to us that value doesn't change. But do we need to do more products which are specialized in how do we intend to gain market share? What are the costs?

Speaker 1

So EV need different specifications for variants. So, for example, EVs need their high-speed bearings, low noise bearings, and insulated bearings. So, in some cases even the material might change. You want to replace steel balls with ceramic balls, you may want to increase or reduce your noise, improve your friction, etc. So, a lot of things are going on now. We have a 200-member engineering team at our engineering center and we have a team dedicated there to developing products for the EV markets for India and abroad. And SKF globally has very strong connections with EV manufacturers, including the largest one of them all. So, we have the technology, we have the capability. We are waiting for EV to finally emerge for a long time, to finally emerge and not keep catching fire.

Speaker 3

(Speaker is asking some question, not clear)

Speaker 1

But it's a very small market. We're talking of, I think less than 2%. No, that's there. And today the EV manufacturers in the country, frankly, do not even need the quality of bearings that we can provide.

Speaker 2

They don't in case of hub bearing, is this already coming in the base?

Speaker 1

Absolutely. So, hub- both in passenger and in commercial, in both segments, hub is the norm globally and hub will soon, unlike EV, which will take a long time to get developed, hub is already mainstream. Now, it's not 100% fleet coverage, but it's fairly high. So, both on passenger and on commercial.

Speaker 3

It's already there.

Speaker 1

Absolutely.

Speaker 2

On EV side, we should be getting a great market share.

Speaker 1

EV, we don't have a grid. We don't have grid share, in any case, hub or non-hub.

Motilal Oswal Ideation Conference**Speaker 2**

There is this big expectation which has been created I think by one of the competitors only. Maybe this is that the government is putting out 90,000 order and this is rail is an important segment for us. There was an expectation for K class as well.

Speaker 1 ([36:00](#))

So I don't know what item you're referring to, but by wagons you mean freight wagons.

Speaker 2

Yes

Speaker 1

So, here's the facts, which I think you can read the papers too. We have 300,000 freight wagons in the country. Total population of freight wagons in the country is 300,000. The government has recently announced the total manufacturing capacity in the country is 30,000. The government has recently put out a tender over a period of time. And now in that the first contracts were ordered. But this is not new. This is not new news to anyone because freight wagons have been the focus of the government for some years now. So, it began a few years ago with the dedicated freight corridors. They are now finally taking shape after so much time. And to go back to your K plus bearings, the K class bearings are the higher load bearings which are meant for those wagons running on the DFC. So, I think freight wagons is not a new story. It's an old story. I have to wait and see. But it's been emerging for a long time now. I have to wait and see at what point it will become a reality. But with the DFCs, for example, actually start full operation today, the freight wagons run on the same lines, passenger wagons, and they get last priority. Therefore, it's strange to me that the country like India versus 70% of our freight traffic goes by road. It should be 70% away. So, if that's the objective, I think it's a great story going forward. That will only happen if the DFC is going. You cannot have freight wagons building up that volume on regular track to share with passenger items.

Speaker 3

Okay. If DFC has to take shape and let's say in next five years. But in value term, can we expect our real business to be significantly better than today? I'm not asking for any guide.

Speaker 1

Absolutely. Sure. Well, train business also has four components. There's freight, there's passenger, there's locomotives and there is metro. Okay. Now in that passenger wagons, I think is kind of how many more wagons you have that let's figure out. Locomotives is also kind of okay. So, I would say freight and Metro, but between the two, clearly freight is recorded. But also, don't forget there's also very large aftermarket in the rails. Although we said passenger wagons will not have any new bills, the amount we run, we will have you keep having a large aftermarket business. So real business is driven by freight. I agree with you. It's also driven a lot by the aftermarket.

Speaker 3

And this business, again, like you broadly said, industrial is more profitable business compared to auto. So this should also be forming part of a good margin.

Speaker 1

Absolutely.



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Speaker 2 ([39:45](#))

For program of the rotating equipment performance improvement, what is the kind of revenue expectation that you have? Let's say next 3 years.

Speaker 1 ([39:53](#))

Our goal is about 20% in the next three to four years. That's about 6 or 7%.

Speaker 3 ([40:02](#))

That itself could have margin.

Speaker 1 ([40:05](#))

Absolutely.

Speaker 2([40:06](#))

And the other thing about the royalty structure, what is the current and how it is going to shape us?

Speaker 1 ([40:16](#))

Yeah, I know exactly. There's no change around the structure.

Speaker 3 ([40:25](#))

And in many MNCs we have seen consolidating especially everybody likes to give that example of Schaeffler. So, I think in our past discussion there was also openness. So, is there any thought process on that?

Speaker 1 ([40:43](#))

Nothing was that the factory should not be seen as an unlisted entity in India. It should be seen as the source factory for large size variants that supplies to SK facilities around the world. It happens to be in India. It could well be in Italy. It could well be Malaysia. It is not meant for India. It just happens to be located in India. But it doesn't serve the Indian market only it's a facility set up to make large size variants around the world.

Speaker 3

And one last thing, these structural savings that we have initiated in the last three or four years, which is reflecting in our margin performance. Those savings should largely be sustained, right? Is that the way we should think about?

Speaker 1

That would be, I hope so.

Speaker 1

And I keep saying this to everyone that we sometimes get so caught up in listed or unlisted. It is one factory making only large size bearings. And unlike the shafts in the kits with those facts, those companies are waiting for India.



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Speaker 2 ([42:12](#))

So just one last thing, really. Last thing. It is on that parent's presentation I was seeing, they talked about these magnetic bearings. Yes, if at all. And it's very long thing. But where will it come? Listed versus unlisted.

Speaker 1 ([42:33](#))

It again goes back to the size of the bearing. So I don't know where it will come. Honestly, it depends. Again, if the bearing is as large as the zoom, even if we want to, we cannot make it in Pune and Bangalore.

Speaker 3

But theoretically, we will be the entity listed in the market and value is always captured.

Speaker 1

It's the factory only makes it sells to us and we sell it. So we capture a lot of value here. Thank you very much.

Speaker 1 ([44:14](#))

Hi, how are you?

Speaker 3 ([44:19](#))

Maybe I resume.

Speaker 1 ([44:25](#))

Thank you. I have stopped carrying business cards, so forgive me. Thank you. All right. Sorry. How come you had an update? Thanks so much.

Speaker 3 ([45:13](#))

We just wanted to hear an update outlook amid very challenging times.

Speaker 1 ([45:19](#))

Sure.

Speaker 3 ([45:19](#))

I mean, there's hope on the demand side. Just want to hear you on both your verticals maybe areas, wind and all that, and then just also on the margins and all. But the parents have been wanting you to become more local.

Speaker 1 ([45:34](#))

Sure. It's been a very interesting last couple of years, and you cover so many more questions. We had covid issue, and now there's inflation, commodity price increase and the learnings all of us have had in the last three years. Our business is, as you know, it's industrial and automotive and in that it's giving me directional numbers. About half of OEM and aftermarket in general, our growth rates have been very good. We've been resilient. We've got some structural changes; margins are looking good. And you've seen the numbers already. The big challenge for us going forward is around, I would say two. One is inflation, which impacts us directly and indirectly. Of course, if demand starts to slow down, it impacts things that people buy, which in turn impacts, someone like supplies to those things that people buy. And that's indirect, and direct is just the inflation and freight. Steel, as you know, is more than half of the cost. And steel prices have now seemed to stabilize a little bit. But the last twelve months has been the same. And I've said this very publicly. We need something about it and then freight both international and domestic.

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Speaker 3

So, I think these are the challenges we have got. It is not less internal challenges, but it's more external challenges. Then how do we kind of figure that out?

Speaker 1

Sure. So, I'll give you examples. We focused on localisation a lot more. And localization is not just about making more bearings locally, it's also about sourcing more locally. And for us, we are sourcing steel because unless you localize steel, you cannot localize bearings. And bearing steel is very high-quality steel. It is not the steel that is used to make cars. It's very high-quality steel. And therefore, even though India is the second largest steel producer in the world, we don't have a lot of steel companies making bearing steel. So, we work very hard with steel Mills and steel companies to make sure we get good quality bearing steel in the country. So that localization is about steel. Next, is localization around components that are made of steel. The value changes that steel needs to become a component, which then gets assembled into a bearing. Those component converters have to be extremely technologically savvy and efficient. Bearing dimensions are in microns, not even millimetre. It's microns the balls that go into a bearing. They're that tightly engineered. And it's not very easy, as you can imagine, to have vendors who can differentiate between eight and ten microns as they seem the same. So that is not good. Talking of changes, that's on the sourcing side, now on the market side, I'll give you one example. So, aftermarket is margin intensive, and we're looking at increasing our aftermarket business a lot more. We think we have opportunity to grow the aftermarket business, and that needs a lot more focus, whether in terms of making sure we have the right product for the aftermarket, making sure we have the right distribution for the aftermarket, or making sure we have the right people in our teams to focus on the aftermarket.

Speaker 3 ([50:26](#))

Which is in this context. I mean, you've been undertaking this journey on the rep range. How is it performing so far versus expectation? What does it mean in terms of any incremental growth or marginal?

Speaker 1 ([50:40](#))

Yeah. So, rep is rotating equipment performance, and the whole intent there is to convert capital for a customer. So, it works really well in some industries. It works very poorly in some industries. Where it works very well is if your cost of failure is much more than the cost of replacement, as you can imagine. So, it would not work well in an automotive, because why would you want to know when bearing would fail? When the bearing does fail, you stop, go to the nearest mechanic and change it. But it will work really well in offshore wind turbine, in the bearing placed there. It will take you two months to have someone climb up, get the bearing down, take it back, et cetera, et cetera. The cost of failure is much more in a wind turbine than the cost of replacement, unlike a two-wheeler. So, it works very well in those industries. And that's where we are focusing on. So, things like steel Mills, you can't have a steel mill go down steel. Think of a bucket as big as this one. It's called a converter. Molten or steel or what do you call Slack, is poured there and then you add some additives there, you put some carbon, et cetera, to do some properties and then you pretty much take that bucket and shake it like this. It's called a converter. So, you're converting that slack into steel that you can use. Now, how do you think that bucket shakes? No one's holding it to shake the bucket, right. Now, if that bearing fails, that converter stops working. TATA Steel will have to call SKF and say, Oops, my bearing has failed. We have to send someone from Jamshedpur, if you are lucky, or Calcutta or Bengaluru or wherever. The guy will go there, shut down the plant, take the bearing out. And these are not bearings that are made in stock. Okay, we order the bearing, it will come again, install it. TATA Steel will have a loss of one crore a day just for the one day. They have lost six crores. So, in theory, I could have sold them a REP contract for five point 99 and they would still make money. And that's where it's important to focus REP on industries where, like I said, where the cost of failure is more than the cost of replacement. Steel, cement, wind and the Railways. In railways, the cost of failure is the cost of human life. If a train derailed, is that's a

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human life cost. So that's what we are focusing on, our rep programs. And that's to give you some context, the rep programs today are about five to 6%.

Speaker 3 ([54:36](#))

Challenges. You mentioned inflation and impact on the demand. Otherwise, the sense is that whether it is auto, where things are emerging from a very low cycle, and then in the core industrial itself, things like steel, lot of capex happening. So I can understand that fear. But just any more color, you want to add on both the demand from auto and from the industrial and then maybe just touch a bit on your new product range for EV. And how that's on automotive again?

Speaker 1 ([55:08](#))

Automotive, I have to break it down into four segments. It's not just 1 segment - it's two wheelers, passenger, commercial and agricultural. All four behave very differently. Two-Wheeler demand is saturated in the rural centers. It's very high, but a lot of it is due to monsoons, and that demand has been steady for many, many years. Take out the even of the ups and downs. I don't see any challenge there.

Speaker 3 ([55:49](#))

So if we go to the next vertical in the two wheel space, and it's a big part for you, courtesy the shift towards the EV, how does that play out?

Speaker 1 ([55:59](#))

Well, if the EV two wheelers stop catching fire, they will sell more.

Speaker 3 ([56:05](#))

Are you positioned there as well?

Speaker 1 ([56:08](#))

Number one, it's a very small part of the market. It makes a lot more news than it should. It's less than 2%. India makes like 20 millions for a year, approximately. But that's not to say it won't become big. The spirit of a question is that how big will it become? It can become whatever it becomes. We have a play in electric vehicles, in two wheelers, passenger, commercial, public transport, et cetera. We have a play everywhere. And because we are a global company outside of India, China, for example, 95% of two wheelers are electric and we are a big player in China, Europe, et cetera. So, we have a play, and we have the technology. To keep it simple, the wheels still need bearings. That doesn't change on the drivetrain of the engine. The number of bearings will go down, but the type of bearing will change. And these typically become more expensive because suddenly we move to a low noise, high speed, insulated bearings, for example, you might replace the steel balls with ceramic balls. And these are very high-quality ceramics. So, the price of those bearings become much more. So, content wise, the number of bearings goes down, the value remains by and large.

Speaker 3 ([58:21](#))

So you're saying basically the product range is there globally, it's accepted within China or European market, and therefore in India, if they were to sort of further accelerate.

Speaker 1 ([58:29](#))

There's no question it will accelerate. Absolutely. The adoption of electric vehicles typically follows at least what's following in India right now. The first off, the mark were 3 wheelers. If you go to most small towns. I was there about two weeks ago in Haridwar. These are all electric three wheelers, and that's true in most towns in India. So most three wheelers have gone to electric. The second is intracity buses.

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You see it in Pune, but you see a lot of intracity buses moving to electric, then two-wheeler vehicles, then passenger and last commercial only because of the distance. And that's an option I think we'll see here also. There's no question of capability and competency. It is the Bajaj the Heroes. The right question is are you in bed with them because we are already in bed with them on their traditional IC engines. So when Bajaj launches electric two wheeler they will naturally partner with someone that they know. It's too small right now and we have the capability, we have the factories, we have the funds. None of the electric vehicles made in India need those high-quality bearings. What they need right now are the same bearings they use right now. Tweak slightly which we can do locally. But to be truly cutting-edge electric vehicles when they get to when they say if Tesla launches, that's a game changer. But TATA Nexon, with some differences. But they don't have ceramic in that as of now, none of them need ceramic.

Speaker 3 ([01:01:48](#))

And then commit to the other vehicles. It doesn't demand. You touched on the two.

Speaker 1 ([01:01:53](#))

Commercial vehicles have been plagued by issues which are even pre-covid. If you recall we changed all our axle load norms for commercial vehicles which itself killed demand for two years because now if I can legally load the vehicle by 20% more and the industry goes by 10% a year, I've killed up two years ago. So now it's bouncing back slowly, and they go with all the freight traffic. So now the combined axle load norm changed the freight traffic. So pretty much commercial for three years now has been stagnant or worse. Tata Motors is now seeing a pickup. The only silver lining in commercial is the last mile because of Ecommerce, which by the way are mostly electric. Those last mile, those Ace trucks or whatever they're called carrying amazon packages, the last mile delivery that's picked up now. But I think it's still about a year ago for pickup in the market. Passenger vehicles is an interesting story. Passenger vehicles always grow off new model launches. So, passenger vehicle demand is linked entirely to how many new models can be launched. Unlike let's say commercial, people want to go and buy the newest model. We are seeing a lot more launches. We've had a good monsoon. Both the tractors have been very good the last few years.

Speaker 3 ([01:04:04](#))

This was auto category in the replacement segment. There was a trend that Chinese imports were kind of withering away. Is that continuing or how's the pressure.

Speaker 1 ([01:04:15](#))

These are sounds the people like to make. I think it's impossible for anyone to claim that we can replace the Chinese supply chain overnight. That supply chain, that quality has been built up over decades. And it's a misnomer to think that Chinese imports are bad quality because Chinese make poor quality and world class quality. You decide what you want to buy. So no, I don't see Chinese imports coming down. I see companies relooking their supply chains by adding one or more supply. But there is no way that you can replace Chinese supply chain anywhere in the world. Whether it's the US or Southeast Asia or Japan or India, overnight nowhere. The journey towards Atmanirbhar plan and Make in India plan will take time, but I think it's a good start. But maybe in five years' time, if you have the conversation, we can say yes, it's changed. Not right now.

Speaker 3 ([01:05:25](#))

On the Railways part, I mean, we started from a low market share and the government seems to be willing to spend quite a bit, etcetera. DFC, the Metro and Vande Bharat trains. How you sort of see the traction there?



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Speaker 1 ([01:05:40](#))

We have a low market share in freight. We had a very high market share in passenger and in local trains. And that's changing now because we have now launched localized bearings for the freight market. You mentioned DFC. Now the new government contracts on freight, Wagons is also now getting played. So, freight will be the next big battle for the railroad. Passenger segments are almost stagnant. It will be Freight and Metro. These bearings we are making now localized to other entities.

Speaker 3 ([01:06:40](#))

There's a new class of bearings - K class.

Speaker 1 ([01:06:42](#))

Not yet. K plus bearings is meant for high load wagons. We haven't yet seen those high load wagons deployed in the country fully. We're only doing pilots right now and very well accepted there. But the true test is when the DFC gets fully operational. But so far, it's not.

Speaker 3 ([01:07:12](#))

But I'm sure the real reasons be testing your product.

Speaker 1 ([01:07:16](#))

I thought the question was how big is the volume right now? Small. Right now.

Speaker 3 ([01:07:22](#))

The incumbents is where you have to gain market share from. The other global names were supplying,

Speaker 1 ([01:07:32](#))

Not in K class. There's no one supplying K Plus, right. It's an E class. There's no point putting a K class bearing the regular freight. You can do it, but it makes no sense. Why would you pay more? We don't need it. They are meant for high loads. For today's loads EClass will suffice. No, I don't know the numbers off hand, frankly. I haven't done a lot of research on that. All I can say is that actually, we have about 300,000 freight licenses in the country right now running all over the country. The DFCs, the last numbers I read was about 10% to 12% of those wagons would become DFC, let's say about 40,000. Again, giving you a ballpark number. Industrial, it's a whole lot of industries. Growth for us has been driven by infrastructure, linked industries, cement, steel, construction equipment and consumer facing industries. And those industries are actually going quite well. We're talking of strong double-digit growth in all industries and I think that growth rate will continue. In fact, if anything, industry will grow faster than automotive.

Speaker 1 ([01:09:44](#))

In the long term automotive sales. So ideally it should be more like 60, 40, 70, 30 is a global number. Yeah.

Speaker 3 ([01:09:57](#))

In that context, your attempt to be sourcing more locally. There's a number I have heard maybe 10-15 percent more in terms of local made versus what you're trading now.

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Speaker 1 (01:10:08)

Well, automotive is almost 95% localised. Industrial is about 35% localised. And that's the number we have to increase. Whether it's 35 goes to 45, 50, 60, we don't know. It really depends on demand and where it comes from. But our intent clearly is to improve localization from 35 to as high as possible.

Speaker 3 (01:10:45)

It's a function of demand. For that the capability is in place.

Speaker 1 (01:10:51)

Not the capacity. We need to invest to build more capacity. That will happen through our system.

Speaker 3 (01:11:01)

SKF technology will happen in the depends on the barrier.

Speaker 1 ([01:11:07](#))

The SKF technology is not an industrial manufacturing facility. It is only a facility to make large size bearing. We cannot make that converter big bearing or wind bearing in a Pune factory even if we want to. Likewise, if the demand comes from electrical motors, those small bearings, we can't make it in Ahmedabad, they are very different factories. We make industrial bearings in Pune, in Bangalore, in Ahmedabad, but depends on the size. So, it depends where the demand comes from. If the demand comes from wind, then we'll have to make it in Ahmedabad and if the demand comes from electric motors, we have to make it in Pune.

Speaker 3

This transfer pricing thing for the trade during covid we have seen. But apart from that, there will be no changes in terms of sourcing pricing. Typically, they go by the transfer pricing guide like study conducted every year by the company and all companies. It's not like specific to any industry. We do not share. But definitely we are driving a margin for the traded products as well, which is generally lower because the risk with respect to trade products are sitting with the manufacturing entity under the transfer pricing compared to something which manufactured one question similar on the reverse, let's say there is a higher growth. So, in that case, do you have to forgo some margin?

Speaker 1 ([01:13:33](#))

It is a margin which is calculated based on the comparable companies at a global level. Right. So typically, if there is a higher profit that you make at a local entity level, then that has to be passed on to the manufacturing company. And if you make a loss, then the manufacturing company, because based on the transfer pricing study, but I would say it is less than what you make when you make.

Speaker 3 ([01:14:18](#))

Product, what you manufacture. And you had this huge pressure on the raw material, but you will be passing on some of it? Isn't it okay to assume that margins will get better than where we are at an aggregate?

Speaker 1 ([01:14:41](#))

That's a question not just of transfer, but it's also a question of how much price increases can be passed on. It's more than that. How much leverage do we have with customers to pass on the price increases and how much can we absorb? How much should we absorb? Absolutely. This one question, at what threshold point do you have to follow? Margins are available to companies, what are the margins we have to go and sold independently in the market? What is the margin that they based on? The risk which says manufactured companies versus company which is trading. That's how the margin allocation happens. So that's why it's very difficult to give you a number.

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Speaker 3 ([01:16:03](#))

But the company will not suggest a level which you aspire to be at on a more steady state basis.

Speaker 1 ([01:16:50](#))

No, we are not a shampoo company. We launch a new, improved shampoo. But this is more about how efficiently we run our operations. There are only so many steel companies in India. Right now it's a question of what leverage do we have with those an example, the steel companies. Are we able to increase prices with those companies? Are we able to sell more rep contracts to those companies? Are we able to go deeper into those companies? Are we able to manage their roll shops in a more efficient way? It's all about how we operate more efficiently with our customers and that's how we gain. This is not about industrial companies are not about switching bearings from quarter one to quarter. They cannot. So, it is all about how do we service them better? How do we improve their efficiency? The example I always give is that when the guy wakes up in the morning, his task for the day is how few bearing he can buy from SKF. When our guy wakes up in the morning, his task is how many more bearings he can sell. If we can align those interests together, that's called operating motivation. And I think in industrial especially, I'm very proud to say that across segments. And part of it is our localization efforts. Part of it is the reach of our people. Covid has been a good game changer for us. We have been able to change the way we go to market because of covid restrictions.

Speaker 3 ([01:19:22](#))

Is there an aspiration for this export business to become?

Speaker 1 ([01:19:26](#))

We have a philosophical difference with some other companies. We don't set up capacity in India for exports. We will supply locally to companies who will export from India. So all the wind gearbox manufacturers they export from India. But we are supplying locally. What they do is their problem. But we are not in the business of exporting bearings directly to other companies or countries unless it's opportunistic.

Speaker 3 ([01:19:56](#))

And this is one area. Otherwise, we are seeing continuously good traction. The wind.

Speaker 1 ([01:20:01](#))

Yeah, we are seeing good traction. We are seeing an upgrade from 2 megawatts to 4 megawatts. We're also seeing movement of manufacturing sites from China, Eastern Europe to India.

Speaker 3

Any comments on the working capital.

Speaker 1 ([01:20:59](#))

We had to invest on inventory to make sure we reduce tax for our customers. But now as we are kind of getting into this year there's a lot more focus on inventory. I think we have very junior analysts on the call asking questions that they can search for. We don't need to spend time on the calls. This is a good conversation. Yeah. I am only answering questions on the numbers in front of you. We do the maximum to spend an hour, hour and a half at least once in a year. Sometimes we use like this platform. I don't want to get into a quarterly call where the analyst comes in and he's checking the box, filling up the Excel sheet once in a year with some sort of qualitative aspect on segment and all this. Perfectly fine. So, we do this. We do independently. We're always happy to have a strategic long-term cash but not that kind of stuff. Then you said 90 days obviously to reduce downtime and then pay for them.

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Speaker 1 ([01:22:42](#))

And in that process, we also want a bit more. So, do we deploy dedicated power? No, it depends on the contract. Some contracts it makes sense for us to do that. In some contracts we can just double check our existing salespeople. But then we have to really reduce the downtime. Then obviously we have to have that particular product in the backup and then try to no, not get silly or we do advice predictive preventive. So, we can have sensors on the bearings which will then warn hey, listen, this bearing is nearing end of life in your next scheduled downtime which is two Sundays from now. Order the bearing today. The bearing comes the next Sunday morning, 10:00 when the factory is shut down for maintenance. Take the bearing out, put the bearing in and off.

Speaker 3 ([01:23:48](#))

Just one last question which is in the marketplace in terms of the competitor dynamics, is it steady state situation with the other known competitors? Is it worsening on the margins?

Speaker 2 ([01:24:00](#))

Anything? Any comments? Worst much compared to them. No.

Speaker 3 ([01:24:03](#))

Worst thing in terms of the competitive intensity from some new players or the existing players getting more aggressive on prices.

Speaker 1 ([01:24:10](#))

I don't want to give you a philosophical answer, but I think my response to this is - I really think the competition we have is SKF last year and SKF for this year. I really want us to be able to go deep into customers. This is a question that I'm going to ask to be able to have a better relationship with the customer today than what we had yesterday or day before. That's our competition. I know we invented bearing. So really, I don't care too much about what other people are doing. I'm not going to be giving you an answer, but I really believe in that.

(no one spoke for 10 minutes)

Speaker 1 ([01:36:34](#))

But they have a well-defined arrangement. That's relevant to me. What's more important is why do we have that? Right? It just happens to be in Ahmedabad. It could have been anywhere. Why is that important? Because our factories are designed by capability, not by location of them. You would never have asked a question that how come you have a manufacturing facility, right? Because we get asked a question all the time. Because it happens to be in the same job. But it is a factory set up for a very specific type of bearing. It's a large size bearing which is as big as these wind turbines. Those bearings, when they go on a highway, those are huge. So even if you wanted to make it in Pune, we could not because of different capability. Likewise, if the demand for industrial bearings is coming from electric Motors, even if we wanted to make those bearings in Ahmedabad, we could not have. So, it's purely set up based on capability. It supplies bearings to all around the world. So, it is not to be confused with an SKF India or fully owned or nothing. It's basically a sourcing factory for SKF factories in the world and it happens to be with us. What are the ones it takes from there, like SKF would take from there? That's why it's set up there. But it is going. I want to clarify to you that of all the industrial bearings that we sell. I don't think more than 25% comes from that. The rest comes from either Pune or Bengaluru

Speaker 1 ([01:40:00](#))

The transfer price is solely dependent on comparable company that we look at. Right. So, there's a transfer pricing study which every company who is doing a transaction, they could do a transfer pricing study. So now depending on how the overall economics performing or that sector is performing, there will be a set of margins which will be calculated from that. And based on that, that margin will be applied

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to the transfer pricing transaction. So, it's not necessarily that last year it was 10% depending on how the industry is performing. Right. So that if the industry is performing good, overall margins will be good. And actually, the transfer pricing margin, if the overall industry is not doing so well, anything which is manufactured by anything which we buy as a finished product from any other sister company. Okay.

Speaker 3 ([01:41:27](#))

But does it have to be from a sister company or other brands?

Speaker 1 ([01:41:28](#))

A company trying to understand the economics of manufacturing versus not trading. EBITDA reported as a whole. Right. I understand.

Speaker 3 ([01:41:56](#))

How do you figure out the trading margins?

Speaker 1 ([01:41:59](#))

Typically, the way you need to understand margins is that whenever you are buying a traded product in a third-party transaction, there is a lot of risk which manufacturing entities is taking. Whereas when we are manufacturing locally, we are taking a lot of business risk. Right. So typically, in a transfer pricing arrangement, the margins solely depend on what kind of risk that you are taking. Now, when you're selling a traded product, the risk which is being taken by SKF India is lower. So naturally the margins would be lower, whereas when you are manufacturing the product, you are taking a bigger risk. With respect to market risk and all of that, that's where you make a higher margin typically. Okay. So SKF India manufactures, what types of bearings? All of them are ball bearings mostly? No, we make bearings. Ball bearings is one type of bearing. Okay. You can also make roller bearings. So, bearings typically very simply put, have four components. There is the inner ring and outer ring. Very simple. Between those two, we put either balls or rollers. And the balls basically mean it's a spherical ball. Rollers could take different shapes. They could be tapered cylindrical, et cetera, et cetera. Either balls or rollers. And then we put a gauge to make sure the balls or rollers stay in place. Simply put, these four components. So we do ball bearings with those balls or we do roller bearings of various types.

Speaker 3 ([01:43:55](#))

Ok we can figure out.

Speaker 1 ([01:43:56](#))

What the automotive versus about half our business and the others are passenger commercial and agriculture. But do you guys cover the automotive sector or industrial sector? In terms of your coverage, I want to spend a few minutes talking about what are you guys hearing from industrial companies? Because we hear our view, we know what's going on, but you have a much better view across the sector. So, what are you guys hearing which is apart from the headlines on inflation and commodity, I guess, are you seeing private capital?

Speaker 3

So, there are certain components where we are seeing substantial tickets and there are certain aspects where they seem to throw down. So, there is significant push from the government side and we are seeing lot of traction on the infrastructure side. Anything that is supported by either agencies, central government or central PSU is seeing very good tracking. There's no slowdown of any projects as a whole. The real issue lies with the state government. The state government projects are actually way behind schedule. There are significant cost overruns, and we are seeing cancellations as well. In exchange, in terms of private sector, capex is good.

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Speaker 3 ([01:46:45](#))

But my guess is that not good news for you because solar is doing better. Economics working out better for solar.

Speaker 1 ([01:47:08](#))

But in general, you're saying so infrastructure linked capex but more funding related. State government is lagging behind. I mean the issues that are plaguing the States earlier continue to break them today as well. There's no improvement except a few States in some pockets somewhere they've improved, but more or less they have not improved as much as a whole as a bunch. Even if you see some of the progressive states where we've seen traction that was happening in. Road is doing very well.

Speaker 3 ([01:48:14](#))

Fertilizer, oil, everything is getting there.

Speaker 1 ([01:48:16](#))

Sweet. I think this is the first year when central government Capex might start getting cut. On the bright side, hopefully with the growing investment plan.

Speaker 3 ([01:48:28](#))

Government getting more and more active on.

Speaker 1 (01:48:30)

PLI, defense, electronic manufacturing, mobile phones, electronics, textiles, they are only not realizing all of these segments and I think they are treating it as open ended. I think it's picking up in the IT led cities like Bengaluru, Pune, Hyderabad but I don't know whether that's the case.

Speaker 3 (01:49:57)

that probably was the best of the spike that we saw. While IT companies have booked for the next three to four quarters, but the rate of growth is unclear.

Speaker 1 (01:50:16)

Everything the same. We are seeing infrastructure. Anything linked to infrastructure has been a strong account for us cement or construction equipment, et cetera. Also, consumer facing industry, F & B, etc. Wind has own challenges, and the Railways is in pockets doing well. So, freight we think will do very well next few years to come. The Metro is really very small right now. It's not a big business. Passenger wagons new builds are not really happening, but there's a large aftermarket business. Sometimes you forget how large that business is. It's actually equal to, if not larger than the new business. Of course. Imagine the stock versus global aftermarket is a huge business, but very similarly. Yes, well on passenger wagons. Well, let me rephrase that. So, Railways went on passenger. They went for this big switch from the old wagons to the new LHP wagons that is ongoing. Most of it has happened already, but that's a replacement. The new bills are happening in ways we really want to. The government wants to see a big push towards freight traffic moving to the Railways. So, in India, about 70% of our freight movement happens via road, which is not the case in most other countries. It's a reverse 70% rate. The problem is that we today share the same tracks for freight and for passenger, which means freight will always take the back seat. Passengers will get top priority. The DFCs are supposed to remove that, but DFCs have been timed. We now have kind of corridor. We now have, I think, two corridors kind of are a little bit operational, the northwest and the northeast, I think operational in terms of freight moving on the corridors. But that's where I think when that finally kicks off really well.

Speaker 3 (01:54:00)

Your industrial, apart from railway and wind, what kind of industries across the board like more process industries?

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Speaker 1

No, it's everything. I mean, I mentioned a few - gear boxes, Motors, drives, textiles, FNB, cement, steel, chemical, sugar. Anything which has any rotating equipment, either in their process or as part of what needs to run the factory. You will always have a bearing in that. The size of the bearing, the value of the bearing, the importance of the bearing is much more if it's in the process. So, if you're running a mine, for example, those conveyors cannot stop. So, you will need to have variants because the importance of variance is much more there, the value is much more versus if it's a motor running up front, it's lesser there, but pretty much every factory would have bearings. And mining is actually very large, and we have very large applications also in mining, because mining and material handling, they both go together for very large. So, the growth that we saw last year, it's still okay in the sense. It's probably on lower rates.

Speaker 3 ([01:56:20](#))

Does the industrial segment look more robust? It always helps compared to all the things about PLI and all that we.

Speaker 1 ([01:56:28](#))

Due to disruption in the last three or four years, industrial growth have been far better than the automotive. And this is certainly true for us. Also, I think for the market, I think that trajectory will continue today. We are at about 50-50 automotive and industrial. Globally, we are at 70 for industrial. And I have no question in my mind that over time, how much time that will be, I don't know. We will gravitate towards that same mix of. And we're only seeing that if you look at the numbers the last four or five years. You will see industrial business becoming more than automotive business. It's moving by one point every year, whatever numbers might be. But that growth rate is certainly better and it's good for us because that's certainly a better margin business. Automotive is not a good margin business and we are seeing that growth happening across in industry. There are of course, cycles and there of course, yields. But in general, the industry is far better. Industrial is linked to private. When I say industrial, you just look at infrastructure industries, you look at cement, steel and construction equipment. The more roads that get built or the more airports that get built, you will have more production of steel, construction.

Speaker 2

Automotive OEMs is not linked to industry because automotive OEMs don't switch bearings every quarter.

Speaker 1

Of course, they don't. If you look into a car, that bearing will stay in that car for the life of the car. A new model gets launched whenever it happens. Then, of course, we all bid for new bids. The automotive growths are driven by increase in market share in the aftermarket, because that's not defined by price. That's defined by availability, reach and prices. When your two-wheeler fails, you don't walk into a mechanic and say, give me SKF. He says my two-wheeler is making a noise. And the mechanic, they will replace with whatever bearing he has in his shop that time. So that's where the game will come from. The automotive aftermarket in the short term, of course, long term OEM also new builds, new models, et cetera. We have to bid for those projects.

Speaker 1 ([02:00:45](#))

EVs need less bearings, right? But the quality of bearing, the engineering of the bearing, the material of the bearing, all those changes. So, in EV, for example, you would need much higher speed, much lower noise, and much better insulation on the wheels. Nothing changes. You still need four wheels in a car and two wheels in a two-wheeler. Those bearings remain on the drive frame, the engine, et cetera. Number of days will go down because the engineering has changed. But the kind of bearing that will now go into those same spaces will change. So, for example, you may now need to replace the steel balls with ceramic balls. And that ceramic is very high quality, of course, as you imagine, and very, very

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few manufacturers in the world can make that high quality ceramic. So that's one example. And likewise, you will need to get better variant coverage and everything else in those bearings. So while the number of bearings might go down, the type of bearing, the quality of the engineering goes up significantly and the price per bearing goes up. So net, net it becomes.

Speaker 1 ([02:02:34](#))

The value of two-wheeler doesn't change.

Speaker 3 ([02:02:46](#))

So globally, how is it turning for SKF?

Speaker 1 ([02:02:49](#))

Well, 95% of two wheelers in China are a big, big player in that business. In Europe there's a huge push towards electrification of both global market of passenger and commercial. I would not know for sure. I don't handle Europe. All I know is that we are present with all the large manufacturers. And remember in all these countries the people who make electric vehicles are not niche players. They're the legacy players and they already have a relationship with SKF. So, take an India example. When Bajaj launches an electric two-Wheeler, who are they most likely to work with? Someone like us who's already the biggest market share. We have a relationship with them already, as long as we have the technology, there's a higher chance we'll get share of the EV space.

Speaker 1 ([02:04:28](#))

Locally means local subsidiaries of multinationals. So, when the vehicles don't catch fire, it really depends.

Speaker 1

Well in an ideal world it should get transferred. It really depends on a couple of things. How big is the leverage you have with the customer? And second, how is your contract structure? For most automotive contracts, the contracts are structured linked to the serial. It's a straightforward passage and it's well defined. And that's the way automotive industry works. Serial prices go by X, goes up by X, here goes down by Y, goes on by Y. So automotive is very well defined, et cetera.

Industrial is a bit more non-standardized. So there unlike an automotive where it's an automatic pass through or pass down, industrial have to go customer by customer. And so, this is the increase. Let's negotiate for existing orders. Absolutely. That depends on the power you have. If I have a 1% share with them, good discussion will get more. It depends on the leverage you have the customer. And much of our margin improvement that you are seeing has come from the past few of the trends. No way we can absorb a 36% increase in steel prices when steel is 50% of our cost. If we don't pass it on, you won't be sitting here. It has to. It's simple mathematics. And when you have more and more vehicles on the road, you will certainly only have a larger aftermarket business. So as an example, let's take two wheelers. We make 20 million. If you take the average life of a two-Wheeler as 15 years, which means at any point in time you would have 300,000,00 two wheelers on the road. Assuming they come back for a bearing change once every three years. You would have 100 million bearings coming back to mechanics every year. The population keeps on increasing. You will have the aftermarket. Size will come in large and larger. But more than the market size increases, it's our share in that market which we have to choose. When I told you earlier, our share in the aftermarket is low, means as compared to the OEM. That's where the options for us. And that's defined by availability and pricing. Mainly in the automotive market.

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Speaker 3

On the industrial side. On the railway side, we were about to crack the freight market. So where are we at that stage?

Speaker 1 ([02:10:04](#))

The capacity of freight wagons in the country is 30,000 years and the tender comes for 90,000 wagons. So, let's say a three-year contract. So, there we have a play with all those options, but it's really no different from automotive. There was some approval that we were supposed to get from. There are no more approvals needed. So that regulatory stuff has been sorted out. Okay. Now it's a question of working with customers on the back end. Make sure we get in. Yeah. That is at the level of business. I could be wrong by a few months, but I think about the last nine to twelve months ago. Or I could be off by four months. Right. Let's say last year. And now there are no more approvals required for this freight. And you are already approved for the bearing that are required for passenger wagons as well as for locals. Yes. So that's the regular position that approved for passenger E Class, for local Motors and for metro. The only thing left in our portfolio was the K class for the freight. And again, K class are for the high load. They are applicable only for the DLC, not particularly the exports for us.

Speaker 3

So, over the next two years, where do you see this? Growing and export

Speaker 1

Exports is not the focus for us. This is a more philosophical discussion around. Unlike other players in the bearing space, we want to focus on the domestic market. We don't have sales team chasing export business. Okay. We use exports to fill in our manufacturing lines when we have some slack. So the 9%, I only look, it could be eight, could be seven. But it's more a filler. It's not business. You want to change that? Well, we have actually enough space in all our factories. If you come to our Pune campus, which is less than half is built up, that's not a constraint. We can always add more capacity. Well, at this point that will continue. But again, it depends on how the market grows. Thank you.

Speaker 1 ([02:15:33](#))

Quick question for you. Are you seeing a bear market or not much yet?

Speaker 2

I wouldn't call it bear market yet. We'll define it as a constant correction. Constant. It will go down because what will happen is the only solution to inflation globally has been demand on demise. And that is where now people came down from 7.8 to 7.675, we'll go down to six. All of a sudden, one shot. That is where we'll see the risk.

Speaker 1

Okay. Take care. I get it. Thank you. Last meeting of the day. Yeah.

Speaker 1 ([02:18:54](#))

Hello. Hi, how are you?

Speaker 1 ([02:19:33](#))

Of course, every industry goes to cycles, but that's a regular ups and downs. Nothing that I can pinpoint to right now. That this segment has a trend of a slowdown. I'm not seeing that right now.

Speaker 3([02:23:56](#))

After this quarter, we were not able to talk. Yeah.

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Speaker 1 ([02:25:43](#))

In terms of industrial offering, bearing is requiring anything that needs. Right. There is an automotive sector. And then anything which is outside of automotive. For example, a company might be producing F&B products, or it could be a textile industry, or it could be a sealant industry or a steel industry. They all require manufacturing machine. Right. In the manufacturing machine, mostly they will need things to move from one place to another. When we say industry, pretty much all industries which are into manufacturing typically requires everything clocked together, whether it is textiles or whether it is steel, cement, ring, all of them. Wherever there are moving parts, it will go by the second party.

Speaker 3

How much we are manufacturing in industrial, within the company, and how much we are taking from the system concern whether or outside.

Speaker 1

So again, if you look at ballpark. Right. Our automotive share, almost 90% to 95% is manufactured in India, whereas industry around 70% is important. This important doesn't improve the technology. So, I would say anything, which is technology, whatever sales happens. Right. You need to understand. So typically, the bearing comes in all sizes. So, bearing in an Ahmedabad factory could be as big as this one. Right. So predominantly the bearings which are manufactured, require a different level of technology. Right. So that's why those bearings are manufactured. So again, you need to understand from automotive perspective, whenever we expand capacity, we work with our players and understand what the requirements are, what the group potential is. We develop product along with them and based on which we expand capacity whereas in the industrial sector there are very large assortments, so it is not possible to easily expand. We have to understand the volumes because we should have enough volumes. We don't want our channels to remain idle. That's where the focus is always to kind of understanding what the demand is going to be for a particular time.

Speaker 3

The quantities are less in an automotive you can make one type of bearing and you can send 20 million of that right?

Speaker 1 ([02:30:21](#))

So, running a channel is very easy because it's a small size bearing, it runs continuously, the applications are different, right? So, because the applications are different there are different continuous change in the channel, right? Like say if a customer requires 5000. It still takes time, as that's where before we invest, we have to understand what the market potential is because every channel can make a certain size of bearing. A channel cannot make all types of bearing because the bearing size varies so we have to look at that but definitely the focus is on localization because it gives us better margins as well. It's very difficult to say that we have a target as we are continuously looking at the market and looking at the potential that the market has. India if you say compared to China the potential for the industrial product is much lesser. So, it's not easy to make a big investment and then if the channel is running at 20% capacity, then the cost of manufacturing will go up significantly and it will not be viable so we have to look at that aspect before we say okay, we can invest right? But definitely from a business standpoint wherever we see opportunity we are making so that's where you see our Capex fund has also gone up from last year. Again, what it would be in the following year is difficult to predict but one of the things from an organization perspective is that we want to be close to our customers, we want to address the lead times that it takes for customers and that can only happen when you manufacture so the objective is that, but it has to make business sense the business visibility.

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Speaker 1 ([02:32:45](#))

So, I cannot say okay this much I need to have a fair comfort. We can have this fair capacity but there has to be a reasonable capacity to absorb a decent amount of fixed costs and then apart from that, the other important aspect is that industrial dealings require components which is primarily not all grades so we have to utilize the components. So, it is not just that I go and set up the channel. There has to be vendors who should be, who are in a program, who are in that situation. We're able to supply that rate even at the supplier level, we have to fix the component supplies and then only we can go to it. So, in terms of end-to-end localization, you touched upon the right point into whatever we are manufacturing here.

As to what will be our localization in the component level, stream level - I don't have the number. We have increased our suppliers from five to six suppliers. Now I think we've increased by two or three because there is a lot of engineering work. Right. Not all suppliers can supply the quality of steel. Bearings require very high quality of steel. So not all suppliers can supply that very, very easily. A lot of steel, even big players like Tata Steel and all that are not making that grade of steel that is required. So that is a journey. There is a constant effort from an SKF perspective, given that global supply chain constraints, the lead times have increased. The mandate that we have, we want to localize as much as possible, but it has to make business sense and we have to fix the entire supply chain, not just go and set up a channel, but there is a long process. Right. Like in terms of when you're trying to localize the steel, you need to look at the quality of the steel that vendor goes through. Lot of testing and validation because we cannot compromise. That's where especially in the industrial space, it takes time to do these.

Speaker 3

If I want to do, say, Spherical, cylindrical or taper, do we require separate capacity or we can do it on the same?

Speaker 1 ([02:36:07](#))

No, it depends. The technology gives a very clear answer. But typically, every channel has a size limitation and not every channel is making all types. So, a channel might be making a ball bearing. So, it all depends on that. So, one is to look at what are the kind of bearings that we can make in a particular type of channel versus what is the demand that exists in the market and whether it would keep my channel sufficiently utilized for me to go and set up that channel. Right. The other important thing is that our product 50% of the cost is steel. And whether you get steel in India or whether you get it outside of India, there is no significant cost efficiency. The cost efficiency is only coming in terms of labor. Right. Where you are, 50% of the cost is steel. There's a significant cost benefit of setting a manufacturing facility, but it's relatively small. If you enter the channel, mostly it's automated. So, it's not that I need hundreds of people to run a channel. Right. A channel could run with 5 or 6 people.

Speaker 3

Which are the key segments where you see the growth is happening.

Speaker 1 ([02:38:10](#))

Right. Now across industry, I would say the growth is happening across all sectors. It's difficult to say that this segment is good. But all our businesses are good. How much will be the cost of all recently only that's why government put a curb because everybody was just trying to make maximum amount of money that they can. So that has had an impact on our margin. Our deal costs substantially gone up.

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Speaker 1 ([02:40:49](#))

So, it might also be helping the top line because of the steel inflation. So, it may not be completely passing on top line, especially in the last quarter. We have taken a significant price increase where you see that our profitability in the last quarter increased substantially compared to last quarter.

Speaker 1

Definitely on the top line. If you look at the growth percentages, the base was also low.

Speaker 2 ([02:42:12](#))

My apologies for that. Thank you once again for meeting us. I think the idea is just to get an update on the business and lot of moving parts and so on, no pun intended. And how do you see the company navigating that? And obviously the inflationary environment. We were just talking about how you've taken some price increases and your margins have become nicely. So, I think if you could just comment on the overall sort of demand environment and then how do you see profitability and this is a good start and then we can maybe move to new products.

Speaker 1 ([02:43:28](#))

Is that for me or who else? There's always some cyclical up and down but that's true in any environment. I cannot point towards the trend that we are seeing but we can't outlier for too long. There is a long winter coming pretty much everywhere in the world. But I have no crystal ball. All I can say is as I said today, demand inflation continues to be a problem affecting us directly and indirectly, indirectly through consumers buying less and therefore people making less and therefore buying less credits from us. We are seeing some flattening of those price increase now, but we're not seeing any withdrawal of those price increases and I think they're here to stay for some time. There is a question of how better we absorb those price increases. Either we pass them on, or we manage our cost better, we optimize whatever we need to do. But that's kind of certainly a concern for us. In summary, demand is not so much of a concern. Inflation on the steel side, commodity side certainly a concern for us. so far, we manage that really well.

Speaker 1 ([02:45:07](#))

But there's a limit to how much we can pass on.

Speaker 3

And within the overall demand how are you seeing things? Because we would hope that the industrial side will be picking up a little bit faster and within auto of course there's a lot of different parts because EVs are doing well, PV is doing okay, 2 wheelers are not so well. That's the overall observation that we have. But if you could maybe just break that up a little bit between aftermarket OEM segments and customer wise segment prices?

Speaker 1

Yeah. So, you're right. All the details are correct. On the aftermarket - well, one thing is of course how is the market? That's one way to look at. But more importantly for us, how are we doing in that market and are we losing share or gaining share? It doesn't matter if the market is growing at 2% or 8%, but I'll be growing at more than or less than the market rate. On the OEM side, two-Wheeler remains our strong part and why it's important, even though we are seeing a temporary slow down here. And why it's important is that despite all the buzz you hear around electrification of two wheelers, this is a small business right now but in the next few years the two-Wheeler electrification will be led by the legacy.

Motilal Oswal Ideation Conference**Speaker 1** ([02:46:53](#))

So, it is important to recognize that is our strength. So, I'm quite happy with our relationships in the 2 wheelers space. I think we want to be in the space and doing well and more importantly we are getting into partnerships with all the legacy techs because two wheelers are so big for us. It is so big for us because 60 years ago when we entered India, we partnered very well with those players at the time developing their own tools which is why with Bajaj we have a strong partnership. We are seeing a repeat of that happening now on the electrification side. So that's 2 wheelers. Passenger segment we are not strong at all. We never have been. I think we've made a decision before, but we can live with it, it's okay. On commercial again, we are very strong and on tractors we remain okay. But it's not a big space for us that's on the OE side. Aftermarket is where we think we have a lot of potential to grow. We are low digits or high single digits on the aftermarket share and that's where we want to grow. Therefore, there is no reason why we can't be mid 20s in the aftermarket space and the aftermarket market share growth, whatever the market is growing by 8% or 9%.

Speaker 1 ([02:48:33](#))

If we want to double our share, we have to grow at much more than the market growth rate. And that's driven by availability, reach, pricing, product, etc. We're working on all those things. We can talk about all that in a few minutes.

Speaker 1

None of the industrial segments is more than 8% of our business. So, we are fairly well diversified. Something goes down, something comes up, etc. But on the whole, industrials are growing faster than automotive. In one quarter, Railways, wind pick up, Motors and FNB might pick up, etc. But in general, although industrial automotive mix for us in India is 50-50, globally, it's 70-30 in favour of industrial. And over time we will gravitate towards that mix. And I think it's already happening. Now. We're increasing by one and a half points every year. But over the next, whatever time period it takes, we will gravitate towards that. And that's important for us because industrial certainly is growing faster. It's a better margin business. We have superior strength there. It's a better margin, of course. That's true.

Speaker 3

Because of the traded element, the investment business profits.

Speaker 1

That's a specific dynamic of what we do here. In general like to like.

Speaker 1 ([02:50:14](#))

Industrials has a better margin business than automotive.

Speaker 3

But not in India.

Speaker 1

In India, absolutely. It will only become better to localize more. Automotive is a low simulation.

Speaker 3

I thought, with the aftermarket put together because of the difference.

Speaker 1

Automotive is a business. It's a legacy business for us. That's how we were set up in the country and we needed to put the factories in terms of a fixed cost.

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Speaker 3

And I know this question has been asked a lot, the obsession with EV, and I know it will take time and so on. But as we move along the journey, we obviously want to get sort of incremental feedback from the company in terms of how you geared up, because obviously there's a lot of uncertainty in the beginning. And as time goes by, you will get a great degree of certainty in terms of the growth and the content and so on and so forth. So, if you would like to comment a little bit on that, in terms of how disruptive can that be? I know it will take time. There'll still a lot of legacy.

Speaker 3 ([02:51:35](#))

There'll be big aftermarket industrial, is there, and so on.

Speaker 1

Sure, by disruptive, you mean for us in the bearing space or just market in general for you in the bearing space? Not at all. And I can talk about us here, SKF, and not in general bearings. Our strength in automotive is the VSM. 80% of what we sell is in the VSM. In the EV, the number of bearings will go down. But although the number of bearings will go down, the quality and the type of bearing will change. We will now move from a low speed to a high speed there. A high noise to a low noise there. So those price per bearings also go up. I don't expect it to go down for any bearings, including us. Now it depends on who has the technology to be able to make those new engineered products. Because now, for example, if you need to suddenly replace the steels balls in a bearing with ceramic balls, I mean, who has the sourcing capability, who has the global connections, who has the technology to be able to source the ceramic bearing?

Speaker 1 ([02:53:23](#))

And it's not ceramic of the teacups. This is very high-quality ceramic. Do we have tie-ups with suppliers who can make that ceramic? Do we have converters who can take that ceramic and convert to a ball where the dimensions are in microns, not millimetres? Do we have a supplier who can make a nine Micron ball and a ten Micron ball? Not just one or two, but 10 million of these, it can't be 9.5 microns. So that's what we'll in electrification. So, I don't think it's as receptive for someone like us because this is not new for us globally. China has 95%. Most of Europe is now moving towards electric passenger vehicles, whereas in the US and we have the relationships, we know what works there. So, we're waiting for the market in India to pick up speed and we haven't yet invested in electrification.

Speaker 3

How was the China experience?

Speaker 1

Yeah, I don't have specifically, but all I know is that we have a good market share in China with 2 wheelers. And because 95% of that is after 2 wheelers, I have to presume we are very strong in that, but I don't have any insights on the channel.

Speaker 3 ([02:54:51](#))

And is it fair to say that because of how things will change a little bit, industrial will pick up a little bit over a period of time? That two years from now or three years from now, is it fair to say that profitability will trend upwards because mix will sort of improve?

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Speaker 1

You don't have to go two years out. You can compare the last two years. You can even look at history in the future and it is trending, and that uptrend will keep going. The slope of the uptrend becomes sharper or not. It depends on how fast they grow. But that's already happened and that's driven by mix.

Speaker 3

You pointed out about 80% of bearing from the OEM side. But you guys don't do all those things.

Speaker 1

We do. We're not zero in that. But that's not our business.

Speaker 3

We have been in past talking a lot about. But now you're saying that we are kind of given up on the passenger side.

Speaker 1

No, I didn't say that. I said it's not a focus yet. But I said I don't give it up. I said we can live with it.

Speaker 1 ([02:56:18](#))

But live with it means that we have a share in the PV business, and we can live it. Our intent is not to grow the business. Since the last year, industrial for everybody has grown like anything. I think it's important to also dissect numbers that you see what is called industrial in Schaeffler may be different from what we call industrial. And then I'll let you figure out the differences. That's one. Second, it's a number of things. Leave that aside. I'll just comment on SKF. Now it is about 7% of our automotive business. It's not a big business and we are partners of choice, suppliers of choice to all manufacturers. That's kind of where our strength is. And I don't know if it doubles after market.

Speaker 2

Last time that we met you said that there is another similar industrial aftermarket. When we last met, you said 30% penetration of the bearing will be from aftermarket.

Speaker 1 ([02:58:38](#))

What I may have said is one in four variants sold in the country or counterfeit, which is true in general for automotive or industrial. And I don't think that's going to change ever. That's just the market. The comment I may have made is that in industrial people do not know they are buying counterfeit. They think they're buying genuine SKF. In many cases they are paying a higher price because they think they're buying SKF at a premium. In automotive, they know they are buying counterfeit and they're paying a lower price. But this one in four. Will it be true in industrial as well? Yes. When you need a bearing and you go out and you call and you can't find SKF for Schaeffler or Timken, you will call your friend. Are there any leapfrogs in technology to stem this? Because we've been shared with us for a long time and this issue of spurious products has also been for a long time.

Speaker 1 ([03:00:04](#))

Exactly. Okay. It has to start with education. That's wrong phrase. Let me give an example. We have a large F&B player, a large multinational player whose name you can guess. They make dairy. They have a factory in North India somewhere in Punjab. They wanted to change a bearing but for some reason the local SKF distributor there did not have the bearing in stock. So the purchasing guy in the factory called his *Mama* somewhere. They bought a 'genuine' SKF rating at a 45% premium and they put it in the line. It worked for four days and they're scrambling and then they call us. What is wrong with you guys? Use SKF bearing. Let's fill in four days. This is bad quality. That's crazy but shouldn't happen. So we send an engineer to the factory, we take the bearing out and we show them this is not genuine.

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Speaker 1 ([03:01:36](#))

So, the point is that people are forced to buy what they think are genuine. They're not buying counterfeit unless we know it's a counterfeit bank. That's our failure that we did not have a bearing in stock at the time. Therefore, in a way the guy was forced to go and buy something else. So, it's all about how we ensure bearings are available where they need to be used at the right time. It's not a bad change. I'm just surprised all the changes technology has the ability to sort of individually mark out items digitally and so on and so forth. It's a slow burn constantly. They are assuming they don't know one in four has come to fit you. And I know this, but there's no way to check with new technology that once I buy a product and I scan it and I can figure out that this product, why will they even do that? Because you just assume they don't know you. And I know one in four is counterfeit. That purchasing guy in that factory in Punjab, he did not know that.

Speaker 1 ([03:02:54](#))

If someone tells him, look, I have SKF packaging, why would he think it's counterfeit. When you go buy a Coke bottle from a store, you don't scan the Coke. Now Coke might know one in four coke is counterfeit but you don't know that you're not checking every bottle same way. So therefore, the education becomes important. But even more important becomes making sure that we have availability of genuine Coke bottles where you are drinking Coke.

So, is that a fair comment? No. Our distribution coverage, and we have the best coverage in the country is about 10,000 pin codes. They are still half the country which does not have a distribution coverage. Now you could argue there are some really obscure villages somewhere of course given all that, but there's still a lot more that needs to happen. So, one is improving coverage across the country. But more importantly, even in those 10,000 pin-codes, how do we prevent stock ups and that's ongoing.

Speaker 1 ([03:04:37](#))

It's a slow burn. Yeah, it will take time but that's something we need to do every day. It won't happen overnight. We need to digitize. We need to have a delivery. So, for example, we launched an Eshop on January 1 last year with a committed delivery time of 48 hours. So, wherever you are in the country, in those 10,000 pin-codes we service, if you go online and place an order, you will get a genuine SKF.

And one thing I will just ask specific size of bearing. No size is different from the type you confuse 612 inches you mentioned and then you mentioned type. One is size and one is type. The channels or lines are set up by sizes, not by type in the same size range. The problem comes in the channel in the sites.

Speaker 1 ([03:06:22](#))

So, there's some flexibility within the size of the bearing but you cannot make a wind bearing which is like of the size of this room or a motor bearing. It's not that simple but it can be done. I think what's firing for us are the infrastructure segments. So, cement, steel, construction equipment, mining, material handling. That's firing for us because we are seeing a lot of Capex in those things. Railways is not seeing a lot of capital, so far, we are only hearing about freight. I mean we are not seeing those great developments. You had no slowdown there in the last two and a half years in Steel, cement, construction etc.

Speaker 2

You also now I believe have a regional responsibility. So, does that change things in any way? And the fact that China has gone through its own supply chain issues. For China big supply outside of China and is this just going to be a business which is I wouldn't say a filler business but is this a concerted big opportunity or is it philosophically?

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Speaker 1 ([03:08:16](#))

SKF has always believed it being local and we may have a different philosophy. That's okay. We don't have sales teams out there scouting for new business. If someone in Brazil wants some bearings and we have some spare capacity, so we make friendship with you, then you sell to your customers. So, we don't sell to any customer from it.

The only thing I'll say is that I have a regional role on industrial. If we need to localize more, we need to have scale, unlike an automotive factory. An automotive manufacturing line can turn out 10 million bearings a year of the same type. Industrial sizes are 5000 bearings, 10,000 bearings, 100,000 bearings. So, there we cannot put up a line unless you have scale. So, then we would say, okay, let's look at the demand in Australia, Malaysia, et cetera, Indonesia, India. And if that scale means setting up a factory in India, China, Malaysia or someplace, we will do that. But that's again, a manufacturing decision. It's not an export. Sales aftermarket has been growing. We are growing big time.

Speaker 1 ([03:09:58](#))

In Automotive, we need to increase share. And we have now just launched the last six to eight months of brand-new distribution model, really based on efficiency model, because till now it was a distributor model. We set distributors and they would do whatever they wanted. We need to take control of a channel that's a quality need to make all the time. Where is the balance between you can drop prices by 10% and maybe gain 8% market share or you can increase 10% loss, but that's a balance you make all the time. But certainly, we don't want to be the bottom feeder because that's the reason we want to keep talking prices. At some point, other people will catch it. We are happy to send you a single digit market share with the aspiration to automobile off the market, because that's one business where we have the lowest market share amongst all our segments. Typically, we are late teens or early 20s in most of our segments.

Speaker 2

Just if you could remind me, I know a very rudimentary question, but with an auto, what is the contribution aftermarket? I'm giving you directional numbers and the aftermarket profitability in industrial, and auto would be similar.

Speaker 1 ([03:12:02](#))

It would be much higher. Let's take Tata Steel as an example. When Tata Steel sets up a new production line, they will be working with manufacturers who supply within these lines. So, we would work with those people. So, when they supply a new Smelting line, to make it, you work with them and then you work with Tata Steel on the aftermarket business. So, once it's installed, and then who will maintain that? What happens when it needs to come back for maintenance or when it pays? Even that means hand holding. So for the OEMs, we would work with their suppliers. So, once we come to a fixed operation, then it's like consumables. Every consumable means it's consumed on a regular basis. But these are bearings that sometimes can afford to fail. If it fails, it will cause loss of growth per day.

Speaker 2

Any comment on the competitive landscape, if anything has changed segment wise or any other observation that you have that you're seeing people less aggressive, more aggressive, gaining share, new product introductions, however you'd like to define, maybe it's common to you.

Speaker 1 ([03:14:52](#))

Competition in the bearing space falls in three or four categories. One is the large global multinational, and that's basically three of us. And we have our strengths, we have our weaknesses in various segments, and you know all the details. Then there are the local regional competitors, not globally. These could be Chinese companies or Japanese companies or Korean companies who are basically

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attached to OEMs in their home countries and who move with them. The reason we can live with a poor share in the PV space is because most PV manufacturers are tied up with component manufacturers in their home country. I don't want to waste my time and effort working with Suzuki in Japan or Hyundai in Korea. It's not worth my time right now. So, we let that be. Then there are the local comparisons. In our case in India, people like NBC, et cetera, they do a fine job, they make good products. In terms of what has changed, I think what has changed is that those regional competitors, those Chinese, Korean, Japanese competitors, are really having a tough time and nothing to do with the local issues with geopolitics and trade, et cetera.

Speaker 1 ([03:16:32](#))

In general, we don't see them being able to scale up outside of their established relationship. It was okay for them to come into India when Hyundai was expanding, but beyond that, expansion is challenging. So, there's tremendous growth rates riding their wave of expansion. And then we all said, oh my God, what's happening here? We're using share, et cetera, et cetera. But now when Hyundai is kind of wherever they are or like Kia now is expanding, they have a good share there, but they're not able to go beyond that. And they tried really hard. Why? I don't know. That's one thing that has changed. On the other hand, Indian manufacturers, are expanding beyond India. In contrast, they're really able to expand well into some specific segments, specific countries outside India and do a fine job. I suppose you get this question of actually not scaling up. So just curious about how you would think about them and more curious about any weaknesses because I think of the good stuff, and we need stuff to talk about.

Speaker 1 ([03:18:12](#))

But if you have anything that you feel that they're not so good at, I cannot comment on that at all. Even forget the weaknesses. But in general, same answer they supply to us.

Speaker 2

Let me ask you differently. What share do they have with you?

Speaker 1

There's information that we share with them. I cannot comment on the share with us or the weaknesses or strengths, et cetera. Is it possible to commit? Who's the other besides them? Is it globally? Is it two or three supplies, multiple suppliers? Again, I'll just push a little bit a desire over a period of time to consolidate in this category the number of supplies. In general, I think it's tough for the answer. Honestly. Components we would like to consolidate simply because we need a certain scale for them to be able to invest if technology changes happen very rapidly. Let's take an example in the future, ceramic bearings we spoke about that. I don't want to have ten ceramic bearings. Maybe I would have two because that is so specific. It is so Capex intensive. We need to have large, two or three players who partner with us, make the right investments in technology and manufacturing to be able to meet our customers.

Speaker 1 ([03:20:30](#))

But in others we are okay with the larger bits as long as they have reasonable scale, and reasonable investments. You're okay with that? But here's what I will tell you and this is public information. Harsha supplies to many SKF entities across the world. But that's not a function on the confidence. It's a function on the reach and the network and how long they've been in the business. That's a very bad comparison for obvious reasons. I'm just saying steady state business don't compare to convert rates and all that internally for them we look at show me 2020. That's a good comparison. So, I was a steady state three year. Just going back, a little bit in terms of raw material increases and the pass on thereof, is that considering how prices are moved up, is that more or less done? Because now pretty much most, except for probably energy has levelled off and to some extent steel has come down. So does that mean not at all. Not yet. We're talking to them. Not yet but go ahead.

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Speaker 2 ([03:22:53](#))

So, does that mean that you've passed on pretty much everything that you needed to? Is it now incremental new movement in price?

Speaker 1

We still have scope to pass on more increases and I think it's an ongoing thing and we may have passed on maybe 60 - 70% and I'm giving you a ballpark number, but I think there's still scope to pass on more. We obviously can't pass on the full 100% that will never happen. But there's still some scope possible. I'm assuming it is an inflationary environment and customers are receptive. This is not an unusual request. Everybody is asking question of negotiation back and forth. It depends how much pricing power you have. Sure. It depends on that. But in general customers are assessed. I would agree with that. Sure. It's a slightly long-term question. If you look at it for five, six years, if not longer, where can this profitability, which is sort of TCC percent, where can that be five years from now? Let's assume that industrial is early 20s profit margin and automotive is high single efficient. Therefore, now it's only a question of when and how fast that mix changes.

Speaker 1 ([03:24:52](#))

If industrial delay is 50%, that becomes 70% - 30%. There's a point of time when we did face this here. Globally, we've not done it recently. But the margin there is far lower than what you would find in India. Right. So, the reason I asked that, I mean for five years from now, we used to be very far from where the markets are. But that market is obviously gone to a much lower margin level despite having much more industrial. So, I'm not sure whether we get there, but why is that Indian profitability is so much higher than what you see outside of cost? Is the gross margin compatible? I haven't done the research, but I would think it would be the employee cost and the energy and all of that. I don't know the exact number, but I would have to assume it will be comparable. I didn't know whether the gross budget and longer term over a five, six-year period every year gross is going to vary. And we've particularly seen it in the last four or five years that we've had sort of all over the place because of the amount.

Speaker 2 ([03:26:15](#))

But is it fair to say that if we get back to a normalized GDP growth of 600% in real terms and normal terms and you should typically grow 3% more than that because you'll gain share, you'll have the industry grow a little bit faster and you obviously do all the stuff it should sort of help out? Is that a fair is a 15 -16% growth number over a five-year period? Is that something which is your comment on the higher side, low side or something which is accurate?

Speaker 1

I would actually say some of those and that's the bare minimum. SKF globally has made a statement they want to double their business by 2030 and therefore they're looking at an 8% growth between now and 2030. Now, I have to presume at the bare minimum, we have to be double that. Just given the way we are. That's the bar right now of 16%. That's the lowest number we need to hit. Most likely will be above that. Sure. The aftermarket seems to be an area, both industrial and auto where you can turbocharge the growth and the balance will depend on the market. The growth will come from industrial OEM and I think automotive aftermarket industrial aftermarket we are fairly well penetrated now. It's a question of when and it's a slow burn.

Speaker 3 ([03:28:16](#))

We'll get this.



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Speaker 1 ([03:28:16](#))

The industrial aftermarket shares similar to the OEM share. Industrial aftermarket pretty much follows industrial only. We know where it goes, right. Because we know what to do there. Now in automotive, we don't know what to do to be able to get sold. That's the difference every year and that kind of broadly non-maintenance capital.

Speaker 2

At what point do you have to do a green fee?

Speaker 1

I don't know the exact number, but anecdotally not for the next five, six years simply because we have enough. And more land available around in the factories. 140 acres. Wow. Of that, 70 acres is the Pune factory because someone had the foresight to buy that land in early 50s. It's not the middle of Pune. It's worth a lot of money. All right. Wrap up here. Okay, good. Thank you very much.

Speaker 2

I think we should always give thanks to SKF. We've been long time shareholders and it's been an incredibly rewarding experience and we had 9% for a long time below that.

Speaker 2 ([03:30:56](#))

And every once in a while, sometimes now I get tempted to sell this business evaluation and it has never been a rewarding experience to sell this, but it really is remarkable how well the company has done under many different managements. Take care, bye.

END