"SKF India Limited Q2FY15 Earnings Conference Call"

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Moderator: Ladies and gentlemen good day and welcome to the SKF India Limited Q2FY15 Earnings Conference Call. As a remainder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the opening remark concludes. Should you need assistance during the conference call, please signal an operator by pressing '*' then '0' on your touchtone phone. Please not that this conference is being recorded. I now hand the conference over to Mr. Vijay Chaudhury – Head of communications, SKF India. Thank you and over to you Mr. Chaudhury.

Vijay Chaudhury: Good afternoon everyone. I will like to introduce the SKF management for joining us on the call today. With us we have today Mr. Shishir Joshipura - Managing Director for SKF India Limited along with Mr. Chandramowli Srinivasan who is the Finance Director for SKF India Limited. I will now handover the conference to our Managing Director, Mr. Joshipura who will discuss the highlights of Q12015 results for the company. Over to you sir.

Shishir Joshipura: Hello, good afternoon everyone. So the quarter that just ended we saw an economic activity which in some segments was beginning to show sign of revival but in some others it went in different direction. So it has been a mixed bag**,** so the net movement was almost sideways. I am sorry if you have little bit of background noise because I am calling you from a hospital, so please pardon the background noise. So moving on, we saw more or less flattish kind of stuff in fact little negative on the overall industry segments and our three particular reasons that led to our performance on the topline we are okay but on the bottom-line as you would have seen there has been not such healthy growth and the reason for that has been that we are facing three issues in the last quarter we faced. One was the price mix, the mix of the product that we sold was not very favorable, more loaded in favor of industrial compared to automotive. We had an issue of foreign exchange which moved very adversely and third was we took a decision to liquidate some of our inventories that we have built up in quarter one and that led to a lower operation for our factories and these three combined factors led to the performance that is in front of you. I will be open to any questions as well as my team and will be happy to answer that, thank you very much.

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

Raghu Nandan: Firstly can you please share the revenue mix, also our revenue growth seems to lack that of peers. Have we lost any market share and if you can throw some light on which segments are doing well or worse for us that would be helpful.

Chandramowli Srinivasan: Yes, so I will talk about the figures first. So our automotive sales this quarter was 41% of our total sales, exports was 8% of total sales. I say that in the same breadth because exports are primarily automotive. So, if you add the two together, then including exports which are predominantly automotive 49% of our turnover came from automotive and 51% came from industrial. The same figures in the previous quarter that means the immediately preceding quarter was 43% automotive, 8% exports and 49% industrial and if I take into Q2 2014, one year back, then it was 44% automotive, 9% exports and 47% industrial. So that reflects the change in the mix between automotive which is primarily all manufactured goods and industrial which is predominantly traded but there is some part of manufactured as well there but predominantly traded. Shishir, maybe you might want to takeover.

Shishir Joshipura: So I believe that we have no grounds to surmise that there is any loss of market share per se. The segments that we serve versus the segments that we are strong in and the segments that grew is a different story and I think that has been the one reflection in a big way. There is also some minor movement but I do not think they are the substantial one in terms of how the mix has moved between the automotive guys you know two wheelers was almost flattish growth during the quarter but the cars grew well, but we are not so strong in cars yet, we are now working, we have some contract that we are working up on but those will happen in the coming quarter. So certainly I see while there was a growth but it was not robust enough, it is still very small numbers.

On the railway side where we are reasonably strong, for one reason or other, the railways buying has been deferred, we have contracts as we go and only towards the month of June we have started to see some movements in railways, so we will see that going forward in the next half of the year we will see stronger growth in railways segment as well. We have done very strong performances as far as industrial OEM segment is concerned. We have made some good inroads with these OEMS. I have talked about it even in the previous calls that we have worked very closely with some of the guys like in construction of highway, CNC tools and some results are visible to us now in that segment and as this segment start to do well I am sure that we will be better.

Renewable energy has also done very well for us, this quarter compared to the same quarter last year our renewable energy sales have gone up by 70% and given the fact that renewable energy as a segment hardly grew. This is a significant gain for us.

Raghu Nandan: How big is railway segment for us and also in the aftermarket is there any slow down or postponement of demand which is also impacting us?

Shishir Joshipura: Could you please repeat your question?

Raghu Nandan: Firstly how big is railways for us?

Chandramowli Srinivasan: Railways is about 6.5% for us right now.

Raghu Nandan: And how much was it this quarter, sir?

Chandramowli Srinivasan: This quarter only I am saying.

Raghu Nandan: Okay and sir in aftermarket has there been any slow down or postponement of demand or slow growth which is also impacting us?

Shishir Joshipura: I think it has some arrangements still we see metals mine, we are finding a little bit of quality movement on metal especially is lot negative that steel and copper and it is not aluminum and we have seen lot of negative movement in that segment, so yes you are right, there has been a slowdown in the activities in both segments which are large end user consuming segments for us.

Raghu Nandan: Okay and sir like within the other income does it include any FOREX gains, last quarter I remember we had substantial gains there?

Chandramowli Srinivasan: That is right. So last quarter we had substantial gain. This quarter we actually have a small FOREX loss. So, the swing between FOREX gain to FOREX loss is to the magnitude of 200 million. I think we had 140 million of gain last quarter. We have 60-65 million of loss this quarter. So that is one of the reason that between Q1 and Q2 our result on the bottom line have swung the way it has.

Raghu Nandan: And this loss gets booked in the other expenses?

Chandramowli Srinivasan: That is right.

Raghu Nandan: And sir like RM to sales is higher on a Y-o-Y and Q-o-Q basis, that is mainly because of adverse mix more towards industrial, would that be the case, sir?

Chandramowli Srinivasan: More towards industrial which therefore also means more towards traded. So our traded to total sales ratio has gone up from 40% in the same quarter last year. This quarter it is 43%.

Raghu Nandan: Are we seeing any benefit of fall in steel prices, I assume that is one of the main raw materials for us?

Chandramowli Srinivasan: So we are seeing some improvement on the raw material cost on that front, yes.

Raghu Nandan: I mean, would it be fully booked in the current quarter or would it come in the…?

Chandramowli Srinivasan: Some more would come in the next quarter as well.

Raghu Nandan: Other expenses have gone lower Y-o-Y and Q-o-Q and even depreciation on a Q-o-Q basis has reduced from 16 crores to 14 crores. Can you just throw some light on the same sir, thanks?

Chandramowli Srinivasan: So the other expense is actually, as I said before it includes FOREX loss of 6 crores this quarter, not there last quarter. In spite of that, it has come down mainly because of lot of cost cutting exercises that we have undertaken, so that is a good thing that we did, you could say. The depreciation has gone down basically because of the adoption of the new rates of depreciation, so quite some assets got fully depreciated end of first quarter itself. Therefore there is no depreciation charge for them in this quarter. So what you see now in this quarter is likely to sustain for the next two quarters, barring whatever little additions that we may do on that some depreciation might come.

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

Lakshmi Narayan: I have two questions, one on the railway side. Just to understand over the next 5 years if you roll forward to say 2020, how large railway can potentially become as a percentage of our turnover, what the kind of potential is that exist on traded that is the first question. Second on the commercial vehicles and cars and two wheelers, are there any other further opportunity of increasing the amount of bearing that was actually going in, for example when there are various changes in terms of ABS or any other norm changes, does it actually increase the amount of bearing that actually go into either manufacturing of a commercial vehicle or a car or a two wheeler. So these are the two questions I have.

Shishir Joshipura: So Lakshmi, taking on the first part of question, so big growth in railways is expected to come from three dimensions. One is what happens to the freight carriage. So we all know the government continues to committed to DFC and yes we understand that DFC will be reality sooner than later. So if the DFC starts to payout that is a big gain on the freight side. Now I am talking from the railways perspective. So obviously there will be a lot more demand in terms of carriages and the goods carrying capacity and trains and engines and so on. That is one, the second is the focus on safety, improving the safety of the trains, as there on especially passenger trains, as well as goods trains but more so on passenger trains where the focus on safety would mean that a lot more condition monitoring has to happen for trains rolling stocks as they run compared to none that is happening today. So that is a second opportunity. The third one will come although 2020 seems a little dreamy for that, but will come from the high speed train. As we go to higher speed obviously we need a completely different technology to manage. In fact, just now just about a month ago we had a whole day session with RDSO in Lucknow and we were showcasing them that there is no train, no high speed train in the world which does not have a SKF bearing and they were astonished to see that fact because irrespective of the speeds from 180 to 360 or 400 whatever km/hr everywhere there is an SKF bearing to present a solution. So that is one dimension. The second is of course as you know I have said in the past also that so far SKF India Limited was not playing in the freight market at all but now it has installation of the TBU capacity for which we had the first order from railways which will get delivered in second half of the year. We will be in a position to start serving the big segment of the freight requirement. Currently Indian market is about 60% freight and 40% others and we are 0% and 60%. So that is where we will start to have a gain over a period of time. So I am sure that by the time if we look at 20:20 or as in we are looking at a 30%:40% share coming SKF way.

Lakshmi Narayan: So the overall market goes to around 1000 crores on freight right, that is the number you mentioned right, earlier?

Shishir Joshipura: Sorry come again.

Lakshmi Narayan: The total market potential for freight alone in India for bearings, how large is it, marketwise?

Shishir Joshipura: Right now it is 600 crores.

Lakshmi Narayan: On the trade and non-trade?

Shishir Joshipura: On the trade, non-trade is 400.

Lakshmi Narayan: So it is around 600 and 200.

Shishir Joshipura: Yes, 600:400 and then it is likely to change because this is all existing market. So as the DFC comes up and the high speed train in fact I mean it is completely different ball game then.

Lakshmi Narayan: How do you go about localizing it because I remember I think in Q4 call you mentioned about localization and you said that it is still there is some **(0:15:17) (Inaudible)** you mentioned?

Shishir Joshipura: The important news is that Indian railways if you want to be a supplier to them, without any restrictions in terms of every time go through a long approval cycle on that, then only once you have to have what is called an AAR approval, Association of American Railroads, that is the standard for all the railways applications and our Ahmedabad factory is moving towards getting AAR approval. So it should happen in next quarter, so we will be the only AAR approved facility in this part of the world. So that will make life very easy for us in terms of a very quick localization for railway which currently can take anything between 3-5 years.

Lakshmi Narayan: In the next 3-4 years you intend to localize all the bearing that are going into railways. Am I right?

Shishir Joshipura: That is substantial. No, I would not pick up statement like that because somebody will catch me four years down the line or whatever. But yes substantial portion of bearings we will localized.

Lakshmi Narayan: Okay and other question on increasing of enough number of bearings or that going to…

Shishir Joshipura: Coming on to car side, so if cars go electric way, again it is a bad news for us. Then number of bearings will go down obviously, then the engines just go away right, like gasoline engine is much more **(Inaudible) 0:16:42**, but on the wheel side, on the wheel and application everything will remain irrespective of electrical or petroleum driven car. So that is one. Two is if and when electric car happens, so Reva in India today and Tesla in United States both run on SKF bearing, so we just have to wait for these assets.

Lakshmi Narayan: I mean there are some safety things that are coming up right, like say antilock braking system, it is getting mandatory and so many other things.

Shishir Joshipura: That is on the car side. So that is more relevant to car, the electric versus gasoline engine business. On the two wheeler side, there is a proposal to move to ABS system for vehicles above 125 cc. The jury is still out in terms of when will it become applicable because we do not know that yet. The current notification reads 2017 but we do not know because there is still lot of what I would say dialogues going on between the OEMs and the governments as what is the right date and what is the right track etc. But if the ABS does come around then it will change the strength of bearings that they use rather than the number of bearings. So number of bearings will not change, but obviously the bearings will become centralized bearings.

Lakshmi Narayan: Which means that there will be a realization increase also that comes in?

Shishir Joshipura: That is correct.

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

Punit Gulati: First of all can you give us a sense of how big is the railways as a segment for you within the industrial portfolio.

Chandramowli Srinivasan: It is about 6.5% of the total sales I said, for example if I take this quarter alone.

Punit Gulati: 6.5% of total, the full sales, right, almost 6 million sales?

Chandramowli Srinivasan: Yes.

Punit Gulati: Okay and secondly there was some capacity addition happening on the passenger car front. When is that likely to get capitalized or commissioned?

Chandramowli Srinivasan: So Punit that is one where I was mentioning about the three bearings and that is a project underway and also we will go on full scale commercial production end of next year.

Punit Gulati: End of next year, so December 2016, last quarter?

Chandramowli Srinivasan: Yes.

Punit Gulati: Okay and can you also give us some sense of whether the mix between the OEM and aftermarket has changed at all in this quarter versus last quarter?

Chandramowli Srinivasan: OEM is about 54%.

Punit Gulati: If you can give a breakup between the auto and industry it will be great.

Chandramowli Srinivasan: It is equal between both of them and it was 53% immediate preceding quarter. So not too much change.

Shishir Joshipura: Punit just a supplementary answer to that question. We have seen a higher movement on the OEM side compared to the aftermarket side and the industrial side specially where you have seen the growth coming in the OEM segment and it is a much higher clip compared to the growth that we are witnessing in the distribution side. But obviously distribution businesses are more steady state, so they do not have those spectacular growth and one of the three reason that Mowli was mentioning that here is a side that we have really seen some very good success in the renewable energy front, so there it has happened like that. But on the automotive side if it is the other way round that we have been, our OEM business is not done so well, so obviously tractors and two wheelers segments where we were very strong have not done well. So there I cannot say the same story as I can say in industrial.

Punit Gulati: But has the aftermarket shown any sign of improvement there or is it also equally bad as OEM?

Shishir Joshipura: I think after market on the industrial side we will begin to see, we are expecting to see some positive changes as we go forwards, may be a quarter down the line on the automotive side it is there.

Moderator: Thank you. The next question from the line of Basudev Banerjee from Antique Finance. Please go ahead.

Basudev Banerjee: As you said that broadly your traded mix has increased almost 300 basis points year-on-year and if I see your raw material to sales moving up by 250 basis points year on year. So where is the equation if one tries to understand that how much of these 250 bps raw material drop is because of the traded mix and how much is because of other factors?

Shishir Joshipura: I did not get your question.

Basudev Banerjee: As you said you traded goods to overall sales has moved up from 40% to 43% year-on-year and in the same timeframe, your gross margin has dropped 250 basis points compared to last year. So how much of this 250 bps drop in raw material can be assigned to this traded goods mix change**?**

Chandramowli Srinivasan: It is almost directly proportional to it. Some improvement on the raw material for the manufacturing side. On the traded good side, it is more or less directly linear proportional.

Basudev Banerjee: So the whole adversity in gross margins can be assigned to the increase in traded goods mix?

Chandramowli Srinivasan: That is right.

Basudev Banerjee: As you said that there has been volatility with the FOREX terms, so there was a FOREX loss this quarter. So how to look at that from a currency perspective. Which all currency is the Euro, rupee or what?

Chandramowli Srinivasan: Mainly Euro Rupee for us.

Basudev Banerjee: So broadly you gained in revenue terms and in terms of FOREX hedging it came as a loss.

Chandramowli Srinivasan: I would not say hedging, we do not do hedging but yes, it is the difference between the rate at which we book the invoice and the rate at the time we actually pay the invoice.

Basudev Banerjee: As you said that presently 41% of your sales is from auto and out of autos as you said almost 54% is OEM and so one can broadly say 23%-24% is auto OEM. So at present juncture, what is the breakup between two wheelers?

Chandramowli Srinivasan: Sorry I dint get you.

Basudev Banerjee: See the 41% of your revenue, overall revenue is from domestic auto and 54% of that is OE?

Chandramowli Srinivasan: No, I said 54% was the total OE within our total sales, industrial OEs.

Basudev Banerjee: That is even within autos also OE is 54%, so ballpark one can assume say around 25% of your revenue is auto OE?

Chandramowli Srinivasan: Yes, 27% is auto OE.

Moderator: Sorry to interrupt sir, we lost his line actually. Till the time he comes back in the queue we will to our next question which is from the line of Kunal Bhatia from Dalal & Broacha. Please go ahead.

Kunal Bhatia: Just in continuation with the earlier question also, sir within auto if you could give us a breakup how is it four wheelers or two wheelers, tractors and CV?

Chandramowli Srinivasan: So 27% is the total auto OE of the total sale, within that two wheelers is about 15% and 4 wheelers is about 12%.

Kunal Bhatia: How much would be, and the remaining is tractors? How much would be CVs?

Chandramowli Srinivasan: Four wheelers includes tractors, sorry it is car, trucks, tractors. So when I said 12%, when I said four wheelers I meant cars trucks and tractors.

Kunal Bhatia: Out of 27, okay this you are talking on the overall basis, 15 and 12 of the overall sales, okay. Sir my next question was you mentioned you had a 140 million gain in Q1 or last year Q2?

Chandramowli Srinivasan: No, Q1 this year and the last year Q2 was 11-12 million gain.

Kunal Bhatia: And sir in terms of your currency, could you give us some sense of what was your exchange rate for this quarter because you have mentioned that there was a negative impact because of FOREX, so if you could explain that a bit more?

Chandramowli Srinivasan: So when we started the year first of January the exchange rate of the Euro was somewhere around 81 and then in the end of 1st quarter it dropped to about 69, so that is how we have got a huge FOREX gain in the first quarter and the second quarter it has been hovering more in the range of 72.

Kunal Bhatia: And Euro would be the major?

Chandramowli Srinivasan: Yes, our major exposure is in Euro, yes.

Kunal Bhatia: And sir what part of your raw materials would be imported?

Chandramowli Srinivasan: Raw materials is only about 18% but traded goods is all imported basically a lot of it is imported, though of course part of it is 55%-65% is imported in INR, so we do not have a FOREX gestimate.

Kunal Bhatia: Lastly was on railways, you mentioned that this time 6.5% of sales was from railway, just wanted to get a sense how much was it in Q1 and same thing last year same quarter?

Chandramowli Srinivasan: So Q1 was about 3.5% and last year same quarter was around 6.3%.

Kunal Bhatia: How do you see this railway as a percentage of sales say 3-4 years down the line?

Chandramowli Srinivasan: Well, we believe that this will grow but I am not sure that it will change in the overall percentage too much because we expect that all segments will grow. So going forward over a longer period of time, yes there could be a few points' incremental points in the total mix that might be coming from railways but it really would depend on how the other segments grow as well.

Kunal Bhatia: In case of industrial, you mentioned that this time there was a weak product mix which impacted a bit of margins but are you seeing any change coming on the industrial side as well, where in you would be having a better realization higher margin products going forward?

Chandramowli Srinivasan: Industrial is looking somewhat better for us right now compared to automotive at least in the second quarter, I would not say it is so much because the industrial market has grown, I think we have done a lot of good steps to take market share, so while the IIP numbers are not looking great, our industrial sales actually has grown by 10% compared to the same quarter last year. So we have done a lot of good things to take market share in all the segments that we play in. Basically it is traded goods so, to that extent the margins will be traded goods margin for that.

Moderator: Thank you. The next question is from the line of Deep Shah from SBI Capital. Please go ahead.

Deep Shah: Yes, sir thanks for the opportunity, couple of questions, sir first is do we executed any strategically low margin orders if I remember correctly till end of the first quarter we had some orders which we were executing which is of lower margins and second is on the CAPEX plan, what are our CAPEX plans for CY15?

Chandramowli Srinivasan: No, we did not have the kind of strategically low margins business as we had in the first quarter. So nothing like that in the second quarter. On CAPEX we are continuing to evaluate as the time goes as to where we need to spend, obviously we are going to spend on that Hub three product line which is right now in the closing stages of being approved signed off and getting ordered but as she said the revenues from that will start to come in more towards the end of last quarter of 2016 calendar year.

Deep Shah: Do we have any product pipelines specifically for order segments going forward?

Shishir Joshipura: Yes, we are working on several of them and across the segment. So there are solutions that we are working with for two years especially is mentioning lot of, so one thing is this ABS which will start to play out next year, that will be an important segment. But also now increasingly the vehicle manufacturers want to use the bearing for many sensing applications, to sense the speed, get an ABS signal or a fuel economy signal. So those are the signal that can come on to a bearing sensoring so that is one dimension that we change. We are also seeing a lot of movement on the truck segment where as I had said in the last time the first 500 trucks from Tata Motors will roll out this quarter. There is some delay because of some line changes that was required in Tata Motor's plant. For the new hub unit solution that we have given which is fit for life, that you will never grease it again. So once you fit it, it is fit for life and then forgot about it and that is what will enable them to really go up and truly on the mileage warranty which they are expanding now because this will be wheel bearing that is fit for life. We do not touch it ever. So that is another set of solution. We are also working with tractors and also on the **PN 31.55** side of solutions to enhance shock transmission at a higher efficiency because tractor is one area where efficiency has not played much of a role but now they are beginning to come into play. So that is another, so there are solutions for truck, there are solutions for tractors and there are solutions for **(Inaudible) 32.11** and hub grease for car.

Moderator: Thank you. The next question is from the line of Aman Ved from India Nivesh Securities. Please go ahead.

Aman Ved: I have two questions. One is regarding you talked about that there was growth of around 10% in industrial segment. So this implies there was a marginal slowdown or degrowth in auto segments and you pointed out that in two wheelers there was almost flat growth and you are not so much present in especially the cars, but on the CV segment side there was some growth in the industry, so is there any reason that why we did not get benefit of that? And the second question in the last con-call you talked about that you can get an idea of the market share in May. So can you give some highlights?

Chandramowli Srinivasan: Sorry, you asked a lot of things, so you will have to break that question down a little bit please?

Aman Ved: The first question is you talked about the…

Chandramowli Srinivasan: The automotive actually for this quarter was 4% lower than same quarter last year.

Aman Ved: Any reason for that because yes, two wheeler was stagnant and you were not present so much in car but CV saw some decent growth in the industry.

Chandramowli Srinivasan: So CVs grew for us a little bit but then the overall mix that is still a small portion and the growth is basically coming on a very low base and within that one of the players actually grew very strong with whom we do not have that much stronger position, we are more strong with Tata Motors which did not show that kind of growth as the industry did overall. The LCV industry is still not doing well. So it is only the medium and heavy commercials that grew and there we also have grown but that I said, if we take only truck in the total part of our total portfolio it is only about 2%-3% of the total sales, so it is too small to show on the full numbers.

Aman Ved: And the second question was in the last con-call you talked about you can get an idea about the market share in May, so can you give a highlight about the current market share situation?

Chandramowli Srinivasan: The market share of the total including imports and domestically manufactured is generally available only once a year, so that our market share continues to remain in the range of around between 27%-28%.

Aman Ved: And is it the same position of last year you said it was almost same?

Chandramowli Srinivasan: Yes, it does not change too much. I mean between some places it has changed but our own position has remained more or less the same.

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

Ashutosh Tiwari: Sir you mentioned that more and more automotive OEMs will shift probably go towards sensors and the bearings, will SKF have any advantage over there with its peers or how it will benefit us, if that moves, is it only to the extent of pricing that will improve or will also market share gains?

Shishir Joshipura: We are not the only game in town when comes to sensor bearings, but we are a good game in town and so not everybody especially the lower end players will definitely not have this sensor as technology. So some of the local players will have difficulty to meet the demand plus we have the experience of having it done so many times, there is so many of other OEMs, the leading OEMs abroad, so that should also come into play because they know what they are capable of when they introduced those parts in India we obviously have an advantage over the local mix but there are peers of ours who also have similar technology.

Ashutosh Tiwari: Okay and second question is that you mentioned that industrial segment has grown by 10%, so you also mention that renewable are grown by 70% and apart from these renewals which are the other segments where you are seeing very strong growth over last year?

Chandramowli Srinivasan: So off-highway grew for us by about 13%. Railways grew for us by about 6% this quarter compared to the same quarter last year and general industrial OEs grew by about 11%.

Ashutosh Tiwari: And there was some slowdown in steel you mentioned, the decline over there?

Shishir Joshipura: That is correct. The steel, the metal making industry is going through a tough time as you all know they are experiencing problems on account of those steel prices and import threats and stuff, so they are under tremendous pressure right now but other than that, so there is one segment which is really under pressure.

Ashutosh Tiwari: But are you seeing any traction in terms of mining because mining activities are gradually increasing, so are you seeing any traction on that side or you expect more things to come from there?

Shishir Joshipura: Most of the mining that is coming back is still in public sector not in private sector, that is number one. Number two is even in public sector I think these allocations that have happened recently, these coal mine allocations in the government, etc., there I think we are looking at still three quarter, four quarter period by which mines will start to function normally. Obviously for that to happen some of the purchase we will have to start much ahead of that in terms of when they would like to start their metal **(Inaudible) 0:37:41** systems and tests because they have not been used for long time. But we do see a movement happening in because now prior to that you need to do all the digging equipment, so we see the cycle begin, that is the way I will put it. It is not full scale yet but it has begun.

Ashutosh Tiwari: Okay, so you mentioned off-highway segment you said same 17% growth, so…?

Shishir Joshipura: 13%.

Ashutosh Tiwari: 13%, so over there also there it is mainly the equipments like which can also use in mining I mean slightly bigger size, so you are seeing only in those equipments or you are seeing mining equipments also some pickup?

Shishir Joshipura: So when we say mining as an application there are two ends of mine, okay. There is the off-highway vehicles that are put to use in mining and then there is whole other machinery system of mining which is the pumps and the conveying systems and belts and pulleys of conveyors, so as I was saying as the mine starts to open back, not a new mine, but as a mine starts to open back, it is a sequence of operations that it is undergoing because the equipment has been lying there for a long time, but the first equipment that you want to start moving is your digging equipment. The equipment that are used for excavation, so that is where we start to see some activity now and we are in dialogue with customer which is leading us to believe that yes the next stage and next stage will also happen, they have plan for it and they are very confident it will happen. Okay on private segment in mining there is not much movement yet and to some extent the off-highway is also used in road buildings, so some movement has started to happen there as well.

Ashutosh Tiwari: Last question is on the FOREX loss, I mean you guys have 65 million of FOREX loss in the current quarter, so what exactly is the reason behind that, I mean, how this whole thing of this FOREX loss come into picture?

Chandramowli Srinivasan: So as I said two things, one the Euro INR moved a little bit back from 69-72 this quarter, that is one. The second thing is FOREX loss is only dependent on the rate at which when you buy the material it is a spot rate on that day. It is that rate that you used to book your purchases and by the time you have actually paid the rates may be slightly up or down. If it is up then we incur FOREX loss, if it is down we incur FOREX gain, so it is really I mean you could say it is another way of saying, it is an adjustment to the cost of buying, so either way, but it is just reported as a FOREX loss separately**.**

Ashutosh Tiwari: So we do not hedge it, we just keep it open?

Chandramowli Srinivasan: That is right, we will not hedge it.

Ashutosh Tiwari: So if now Euro depreciated again probably there will be some FOREX gain in the next quarter?

Chandramowli Srinivasan: Possible.

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

Punit Gulati: Just wanted to understand a bit more on the railway side. Is that a higher margin business or lower margin business versus your existing portfolio?

Chandramowli Srinivasan: It is generally a slightly better margin business.

Punit Gulati: Even from the listed company perspective or from the SKF perspective?

Chandramowli Srinivasan: Even from the listed company perspective.

Punit Gulati: So the trading margins are more there.

Chandramowli Srinivasan: Yes.

Punit Gulati: You were giving some breakup between two wheeler and four wheeler segment, I missed that out, can you please share that again?

Chandramowli Srinivasan: Yes, so I said that of the total sales automotive OEM is 27% in which roughly 15% is two wheeler and 12% is all four wheelers put together, when I say four wheelers there I mean cars, trucks and tractors.

Punit Gulati: Okay, is it possible to get the breakup of that 41% between two wheeler and four wheeler?

Chandramowli Srinivasan: 41% is total automotive, where 27% is OE and 14% is aftermarket.

Punit Gulati: So within the auto, how much?

Chandramowli Srinivasan: So out of the 27 I said two wheelers 15 and 12 with all the other three put together.

Punit Gulati: And in the aftermarket segment what would be the break up?

Chandramowli Srinivasan: Aftermarket is a little bit more to say how much is two wheeler aftermarket, how much is four wheeler aftermarket. Generally out of the 14, I would probably say it is about…

Shishir Joshipura: It is guess Mowli, because there is lot of common parts.

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

Raghu Nandan: Can you throw some light on; you said there was some liquidation of inventory which affected our margins. Can you please explain that?

Chandramowli Srinivasan: So what we mean is that as we have said the sales of the manufactured goods this quarter was lower than the same sales in the same quarter last year. On top of the fact that the sales was lower we also had production which was even slightly lower than that because we had built up some inventory at the end of first quarter in anticipation that the first quarter which generally is a strong quarter because it is a last quarter for Indian companies. So we have built up some inventory that would happen there because of and then the sales did not, the economy did not pick up that way, etc. So we deliberately ran our factory slow this quarter so that by the end of quarter two whatever excess inventory we were carrying we wanted to sort of bring that down and come back to a normal level of inventory.

Raghu Nandan: How much was the impact sir, if you can share?

Chandramowli Srinivasan: The impact of what?

Raghu Nandan: This excess inventory?

Chandramowli Srinivasan: Well, production was lower than the previous quarter by about 10%?

Raghu Nandan: When you said four wheeler OEM is 12% and to a specific question you said CVs or Trucks would be around 3%, so the remaining 9 percent would be passenger vehicles and tractors?

Chandramowli Srinivasan: That is right.

Raghu Nandan: So how would that be sir?

Chandramowli Srinivasan: I do not have the numbers of the top of my head, I will have to sort of…

Raghu Nandan: Sure sir and sir how much was the replacement last year sir?

Chandramowli Srinivasan: Which replacement, auto?

Raghu Nandan: No, overall replacement sir? Like current year was, 46% last year.

Chandramowli Srinivasan: Current year was about 40% and last year was also about 38%. 38% last year and 39% this year.

Raghu Nandan: That is the share of replacement in overall revenues.

Chandramowli Srinivasan: Yes.

Raghu Nandan: You said that was 54 and 46 right?

Chandramowli Srinivasan: Now there is also exports right?

Raghu Nandan: Okay I understood. So last year it was 38 and this year it was 39.

Chandramowli Srinivasan: Yes.

Raghu Nandan: And sir like traded goods, this quarter was 43, how much was it in first quarter sir?

Chandramowli Srinivasan: First quarter of this year?

Raghu Nandan: Yes sir.

Chandramowli Srinivasan: 41%.

Raghu Nandan: Okay and lastly sir do feel that margins have bottomed out and we should see an improvement or a recovery rather going ahead?

Chandramowli Srinivasan: You do not give out guidance on margins or anything going forward actually.

Moderator: Thank you. The next question is from the line of Pankaj Tibrewal from Kotak Mutual Fund. Please go ahead.

Pankaj Tibrewal: On the cash flow generation can you help us understand how has been the cash generation because when I look at it from a December quarter perspective seems that working capital because led by payable has gone up on a net NWC basis, can you help us understand the working capital cycle and the cash generation in the first 6 months?

Chandramowli Srinivasan: Yes, it has been I would say steady on cash flow generation; working capital has gone up compared to December. December was a bit of an abnormal situation because our payables had run up too high and not because we did not want to pay but because the RBI had changed certain regulations when it came to import payment on third party payments. There were some restrictions which RBI had put in, so we were not able to remit out money, especially on our group company payables, which we all remitted during the first quarter of this year. So that is the reason payables have come down now compared to what it was end of December. I would say now is the right level, December was abnormally high, as it turned out it was good for us that it was high by the time we actually paid it in Q1 the Euro had dropped a lot, so we have made a lot of FOREX gain on that.

Pankaj Tibrewal: As you speak today inclusive of the advances given to Ahmedabad, has the repayment started and what is the cash balance?

Chandramowli Srinivasan: So now the balance due from them is 210 crores, they were to pay 20 crores this year back to us, they already paid debt back for the year already and now the next three installments are due in 16, 17, and 18.

Pankaj Tibrewal: And the total cash balance plus investment?

Chandramowli Srinivasan: That is there in the advertisement if I am not mistaken.

Pankaj Tibrewal: 570 crores it is showing.

Chandramowli Srinivasan: That is right.

Pankaj Tibrewal: And plus 200 crores will be the loss right?

Chandramowli Srinivasan: Yes.

Pankaj Tibrewal: And the last question, in terms of the after replacement on the replacement market did it see any growth or was there a degrowth because mathematically when I calculate it looks like it is a degrowth. So can you help us understand on the aftermarket types on the auto, was there a growth or a degrowth?

Chandramowli Srinivasan: No, on the auto there was a small degrowth, 2%.

Pankaj Tibrewal: On the replacement side?

Chandramowli Srinivasan: That is right. And in the industrial we have actually grown a little bit.

Pankaj Tibrewal: So when was this as a management you saw last where the auto replacement de-grew for you apart from 2008, 2009 which was a blip?

Chandramowli Srinivasan: I mean this is two, one quarter does not sort of do anything, I mean this depends on so many factors. There are schemes we run, sometimes schemes are run in one quarter, then it runs in some other quarter, buy the end of the year, I am sure in the auto aftermarket we would have made up whatever in this quarter whatever we would have lost. I mean, there is not too much can be read into it from a demand point of view this is quite there.

Pankaj Tibrewal: I am slightly worried that demand is one thing, I mean, is this loss of market share which is happening in the replacement side, which worries me more?

Chandramowli Srinivasan: No I would not say that at all.

Pankaj Tibrewal: So you are pretty sure on that, that on the replacement market we have not lost market share?

Chandramowli Srinivasan: No, not all.

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

Shraddha Seth: Sir just 2-3 questions. Just wanted to understand if we see the auto OE growth of each of the segments we typically tend to even underperform what the OEM growth is, so I guess some of it is also a conscious decision we were taking to scale down the two wheeler in our mix. So at what stage do we see that the mapping of the industry growth with our OE sales, I mean at what stage does it stop underperforming the OE growth?

Shishir Joshipura: So Shraddha, while Mowli will give you the numbers, let me tell you that we have no plans to unwind anymore from any segments. We have done what we have to do. So from here onwards we will only bill back our share, so we had to do, we had to make some hard decisions which we made them and we will move forward well by building our share with our customers. We have been pretty confident and you will start to see that, so your question is very valid. That is number one, number two is especially when it comes to car OEMs the people with whom we were very strong, unfortunately their cars have not done well. So Ford withdrew Figo, Tata we know what happened to Indica and so we were very strong with these guys and they have not done well. Mahindra also we have some very interesting contracts now with them which we have won recently which would see a good performance going forward.

Shraddha Seth: Fair enough and sir even two wheelers you would say the same thing, I mean we are incrementally seeing new contracts and the older….?

Shishir Joshipura: Yes two wheelers you can see exactly the same story, yes.

Shraddha Seth: And sir on the localization stages just wanted to understand we continue seeing the traded is growing faster than our manufactured even in the industrial side, I mean I understand there is a homologation period. But I guess we have been in this for last 4-5 years now. So when do we see the benefit of that in the manufactured part?

Chandramowli Srinivasan: Shraddha, the localization is mainly when it comes to industrial is in the Ahmedabad factory which will continue to be part of the traded portfolio for us because it is in the other legal entity. So it is localization, but it is still part of traded.

Shraddha Seth: So you would say we have been scaling up well in that Ahmedabad factory?

Chandramowli Srinivasan: Yes and it will be even better in the second half of this year. But it will continue to figure in traded.

Shraddha Seth: So we are seeing the benefit in the industrial sales affect because of that?

Chandramowli Srinivasan: Yes.

Shraddha Seth: And sir lastly on the export side, last call we have mentioned we have made some inroads even in the PV side in the North American markets, so are we seeing slow down only in the export side or are we seeing some diversification helping us?

Shishir Joshipura: So on the export size, I think we see those markets that are slightly slower than what we anticipated them to be. The rate at which we see the scope and the contract that are with us and the realty has not matched. So there has a been a bit of a lag in terms of the pickup in those markets, of course we all know what's happening to European markets and stuff and they are not doing very well right now. So that is how export is **(Inaudible) (0:52:43)** to them. Mowli, you want to add?

Chandramowli Srinivasan: No, that is right.

Shraddha Seth: Okay fair enough. So we might see this as muted segment only going forward.

Chandramowli Srinivasan: Yes.

Moderator: Thank you. The next question is from Lakshmi Narayan from Catamaran. Please go ahead.

Lakshmi Narayan: Sir the industrial which is around 51% of our revenues and you mentioned that it is predominantly traded and you mentioned also that the total trading number is around 45%. So is it right to say that the ratio of traded in industrial is 45/51.

Chandramowli Srinivasan: That is right, it is about 85% yes.

Lakshmi Narayan: That if I take 45 and you mentioned there is something which is an INR import and which is essentially the Ahmedabad stuff right?

Chandramowli Srinivasan: No INR import is what we import from Singapore. Ahmedabad is of course local INR only but even what we import from Singapore, we basically import from either Singapore or directly from the factories in Europe and US. So what we import from Singapore which is about 55%-60$ of our total imports that is in INR.

Lakshmi Narayan: And you also mention that renewable energy did very well for us and the REGEN contract which you have won that will be serviced from the Ahmedabad factory right?

Chandramowli Srinivasan: Yes.

Lakshmi Narayan: So when you mentioned that in renewable you have done well, it means that it is a traded part, I am not wrong?

Chandramowli Srinivasan: Yes.

Lakshmi Narayan: Got it and over a period of time how much of trading you think would happen from locally made and locally traded, how much it is now for us?

Chandramowli Srinivasan: Percentage?

Lakshmi Narayan: Locally made, locally traded?

Chandramowli Srinivasan: Yes, I do not have it off the top of my head. But it is still heavily import-oriented. It is picking up, the local part, the local component because of Ahmedabad is growing.

Lakshmi Narayan: And what is the utilization of that because that was dedicated to wind energy if I am not wrong?

Chandramowli Srinivasan: So the utilization of that factory is still on the lower side but it is improving all the time.

Lakshmi Narayan: Got it and I understand that we inaugurated solution factory in Jharkhand right? So can you just tell me more about that, is it for industrial, for refurbishing, what exactly it is and the part of the listed entity or not the **(Inaudible) 55.41** entity.

Shishir Joshipura: Okay, so it is part of listed entity, it is in Jamshedpur and of course it was inaugurated by the MD of Tata Steel, Mr. Narendran. It is a very important concept from SKF which allows us to bring our solutions and knowledge space much closer to customer, so it will have refurbishment, it will have repairing, it will have training, it will have industrial seals being made on the spot and it can expand in many dimensions, so in Pune factory for example we even do the railway bearing, refurbishing. So depending on the development that takes place within the industrial area surrounding the solution factory it could actually become a very important source for two things, one of course it generates its own revenue in terms of repairing and refurbishing and service like that but more important to that is our solution factory becomes the engagement tool between the customer and SKF to identify the problem areas and find solutions and the solutions can come in the form of product lines in terms of assemblies of several product lines in terms of refurbishment, in replacement in many forms. So we strongly believe that the solution factory is a very strong platform for us to create service availability closer to customer, put them at the center of everything, and then drive those based on what they want.

Lakshmi Narayan: One last thing, if I look at your global margins in terms of industrial and automotive, the industrial margins are almost like more than 200x of the automotive at an operating level right, you have also mentioned earlier that, at the start of the call that the business mix change towards the industry has pulled the margin down a lot. Now I am just trying to understand is it Indian market structure is not remunerative for industrial or is it that because we are trading, we are actually lower in margin with respect to all.

Chandramowli Srinivasan: Yes, I would say it is a wrong comment to say that the mix change more towards industrial pulled the margins down, I would say the mix change more towards traded pulled the average margin down coupled with the fact that, the factories did not run, as much as they would normally run because we had to cut back on the inventory. So these are the two main reasons.

Lakshmi Narayan: So if I adjust for trading the industrial margins in India are almost like 2.5 times of the automotive margins, right?

Chandramowli Srinivasan: In India it is not quite that bigger gap, we make reasonable money on automotive as well unlike in the global.

Lakshmi Narayan: Alright and there is some business called specialty business which is there in the global which is Kaydon and other things, now is there a potential for that in India and if so will the listed company benefit from that?

Chandramowli Srinivasan: No, those are the businesses that you acquire like Kaydon, you rightly said it is linked. So they are not part of our portfolio as of now.

Lakshmi Narayan: And will it be logically coming under the listed entity or how is that?

Chandramowli Srinivasan: No, I do not think. They are completely different because their market positioning is different, they are not in the same positioning as the SKF, so PEER and GBC and Kaydon are different brands who play at different price points in the market. SKF is completely distinct from that. Globally also it is a completely distinct client. There is no mixing between the two.

Moderator: Thank you. Ladies and gentlemen that was the last question. I would now like to hand the floor over to Mr. Vijay Chaudhury for closing comments.

Vijay Chaudhury: Thank you. On behalf of SKF India Limited I would like to thank you all for joining us today in this conference call. Should you have any further questions, you have my coordinates, feel free to drop me an email at vijay.chaudhury@skf.com. Have a great day ahead.

Moderator: Thank you. On behalf of SKF India Limited that concludes this conference. Thank you for joining and you may now disconnect the lines.