



“SKF India Limited Q2 FY-16 Earnings Conference Call”

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MANAGEMENT: **MR. SHISHIR JOSHIPURA – MANAGING DIRECTOR, SKF
INDIA LIMITED**
**MR. CHANDRAMOWLI SRINIVASAN – FINANCE (DIRECTOR),
SKF INDIA LIMITED**
**MR. VIJAY CHAUDHURY – HEAD (COMMUNICATIONS), SKF
INDIA LIMITED**
**MS. GULESTAN KOLAH – BUSINESS CONTROLLER,
INDUSTRIAL MARKET SALES, SKF INDIA LIMITED**

Moderator: Ladies and gentlemen good day and welcome to the SKF India Limited Q2FY16 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 presentation concludes. Should you need assistance during the conference call please signal an operator by pressing ‘*’ then zero on your touchtone phone. Please note 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 you Mr. Chaudhury.

Vijay Chaudhury: Good morning everyone and I would like to introduce the SKF management to our Earnings Conference Call today. Mr. Shishir Joshipura – Managing Director for SKF India limited along with Mr. Chandramowli Srinivasan – Director for Finance, SKF India Limited. I will now handover the conference to our Managing Director Mr. Joshipura who will discuss the highlight of our quarterly results for SKF India. Over to you sir.

Shishir Joshipura: Good afternoon. As a I said this quarter saw almost an unaltered scenario from the previous quarter in terms of persisting liquidity crunch in the market across the segment as one of the fairly depressed demand across significant construction, wind, industrial side, even on the two wheelers, tractors across the segments there were some bright spots but generally wide spread depressed demand. The expectations that we all had from economy of fast recovery as opposed to the experience which is currently on the ground I think there is still some gap to be bridged and once that happen of course along with these newly announced 30 KM order per day equivalent reforms coming up and the investment plan I think we should see a good convergence for positive growth in future.

Our results are more or less flat actually 2% down compared to the previous quarter on the topline but on the bottom-line we have been able to manage similar performance is about 8% up compared to the previous quarter. We are happy to take that questions. Over to you guys.

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: As you started in your initial comments, can you elaborate on the strong and weak sectors supporting the news or impacting revenues and what are you hearing from your customers about the outlook or directionally how do you see the outlook ahead sir?

Shishir Joshipura: Let us talk about the positive first. I am positive in the relative terms. So M&HCV saw a growth compared to the previous quarter. So they were in positive territory. Cars production was in positive territory and these are too on the automotive side but they were all balanced out by tractors being in negative, by two wheeler being slightly negative after a long time and LCV being negative. So these three were the negative zones on the automotive side. On the industrial side we saw a wide spread negativity in terms of the reduction in production numbers for across the segments whether it was construction equipment, whether it was pumps, whether it was cranes, whether it was lifts , whether it was gearbox manufacturers, we

saw different rates for different people but still numbers which were below the line in the negative zone compared to positive and on the other hand Forklift guys did well from the data that we have and understanding that we have available with us. We have seen also some announcements on the railways of investment going forward some awards being given on the end user segments we still saw lot of difficulties faced by steel mining metals in general. We also saw no positive news is coming out of paper. F&B more or less flat. So that was the broad understanding on the segments. Machine Tools continues to be negative. So we did not have too many sectors showing positive. Wind energy was more or less flat compared to the previous quarter and that itself was at a very low level compared to what their normal run rates are. So that is the broad outlook on the segments. What was the second part of the question, I missed that?

Raghu Nandan:

You interactions with customers, what are you hearing from them and how do you see the pickup to pan out over the next few quarters.

Shishir Joshipura:

So I think what is very clearly right now there seem to be a strong liquidity crunch that is very evident to us, that there is a very tight liquidity position that most of our customers are experiencing and that is leading a longer cash cycles for everybody and deployment and growth and everything. What we hear the good news is that nobody is desperate or negative about future everybody saying yes it is going to happen. We remain optimistic that the growth will take place if it has not taken place in first half of the year it will take and they second half they are talking of next 6 months of course. So everybody is still optimistic that over the next 6 months things should get better and well some developments on the political side but no more on the policy and the economy side should help to drive the economy forward. So obviously what happens in the election but one stage should not be said for the whole country but at least the pace would be decided if not the direction itself is what happens in the 8th November results that is the general feeling that we get. But nobody is saying I am desperate and things are not going to work out. Everybody saying yes I know it will happen at what pace at what speed is the function of many parameters. But very clearly that is something that people are saying one. Two is we clearly see an emergence of a dialogue of in some segments especially automotive segments. There is the dialogue about taking the next level of technology not on a niche scale but on a wider scale and be deployed. So that is another dialogue that we are beginning to engagement with. We are also seeing especially from Indian railways strong focus on safety and enhancement of the same. So there will be a completely new chapter in the way Indian railway is run and is engaged and manages it running stock.

Raghu Nandan:

How do you see the railway orders spanning out and also if you can share some trend in the replacement demand scenario and on our market share scenario that would be helpful sir?

Shishir Joshipura:

So two things in the railway side. One is of course what would call is replacement of the existing stock. So which is I would call is a fairly steady state kind of a demand because given the norms of railway operations, most of these replacements are time bound. So at some moment in time you have to replace. There is no choice given whether to or not. So in that sense the fairly steady state demand on the replacement side. On the new build side I think,

there is complete different because then there are different dimensions so what happens in the metro project, we have just seen an announcement on the locomotive where the Alstom-GE combined is going to build new 6 billion contract for building high power locomotive and what happens and how fast the DCF develops in terms of there is a new rakes that may be required to be run on that etc. So two different side, one is the developmental side, one is what I call is maintenance requirement and maintenance requirement is a very steady state which currently still forms a very large part but going forward probably the new part will start to play a larger role in Indian railway.

Raghu Nandan: So something should happen on that side in the current year sir in the new rolling stock addition.

Shishir Joshipura: You are asking the wrong guy, you should ask Mr. Suresh prabhu or somebody on that one.

Raghu Nandan: So shifting on to other query on how do you see the trend overall in the replacement demand auto and industrial side and the market share scenario sir.

Shishir Joshipura: It has been fairly steady, nothing extra ordinary happened in last quarter. So we did not have any reason to believe there is any shift perceptible shift because of any one particular factor or a dimension emerging or not emerging which would have created any kind of changes in the aftermarket. They are fairly steady. The quarter to quarter no change.

Raghu Nandan: And revenue mix and the trading mix share can you share it sir, thank you.

Shishir Joshipura: Traded is about 43% and manufactured is about 57% in our total sales for the quarter.

Raghu Nandan: And auto industrial exports sir?

Shishir Joshipura: Automotive is 41%, exports is 7%, so together they are 48%, I mean because of exports of basically automotive and industry is 52%.

Raghu Nandan: And within auto the share of replacement sir?

Shishir Joshipura: Out of the 41%, 13% is after market.

Raghu Nandan: And that is industrial out of 15?

Shishir Joshipura: That is almost equal.

Raghu Nandan: And sir there was some strategically important order to an extent low margin orders in the earlier quarter, is there any such orders in the current quarter and lastly my question was any FOREX losses or gain in the current quarter sir?

Shishir Joshipura: Nothing of the first side that you asked no such things and FOREX we had a small loss of 18 million this quarter.

- Raghu Nandhan:** And in which line item, is it sir?
- Shishir Joshipura:** That will be somewhere in other operating expenses I think,
- Moderator:** Thank you. The next question is from the line of Punit Gulati from HSBC. Please go ahead.
- Punit Gulati:** While I understand that the commentary has been negative, can you give a bit more color when you say the revenues have been weaker on account of liquidity, do you mean that if liquidity were to come back in terms of lower interest rate easy availability. The demand would just pick up, is that what your experiences?
- Shishir Joshipura:** Yes, because what the way we as you know that SKF we run a pretty tight ship on our receivables. So one of things that we do is we control very quickly how much credit exposure we will give to any account whether it is a distributable or customer account. So if the liquidity is not there and we are not getting paid in time then our systems do not permit us to ship beyond a certain limit.
- Punit Gulati:** Secondly, I presume there is some impact of fall in commodity prices in the revenue as well. So is it possible to break between what would be attributable to price mix and what would be attributable to volume?
- Shishir Joshipura:** Out of the 2% drop in topline about 1% is volume and 1% price.
- Punit Gulati:** And lastly the fiscal year change is applicable from this year onwards. So this is going to be a 5 quarter year for you?
- Shishir Joshipura:** This is a 15 months' period. Yes.
- Punit Gulati:** There was some new orders on commercial vehicles segment that were to start from this quarter, just wanted to check if that has started off, is it on track, delayed, what is the status on the new order?
- Shishir Joshipura:** Well, from our end there is no delay and the customer's end we expect 2-3 month delay.
- Punit Gulati:** So that wasn't recorded in this quarter.
- Shishir Joshipura:** No.
- Punit Gulati:** So it is expected to be in?
- Shishir Joshipura:** May be towards the end of this quarter or beginning of next quarter?
- Moderator:** Thank you. The next question is from Mukesh Saraf from Spark Capital. Please go ahead.

Mukesh Saraf: Listening to your commentary over the last quarter and again this quarter on obviously the timing of it is unknown but Railways could be a big growth driver and obviously now you are also talking about how some new segment within the CVs will be supplying. Would our product mix within the overall sales mix change significantly? Like would that be a higher movement towards tapered roller bearings, say vis-à-vis a deep groove ball bearings or wheel bearings, could you give some sense on just a broad mix of the current product mix in terms of the types of bearings and how this could change?

Shishir Joshipura: That is a little difficult for me to put out. The reason being this that if everything else remains where is and then only they Railways grows and then I can probably hazard a guess that yes TRB will go up. But generally speaking yes, because when these kicking in that one quarter or something, if the other product lines are not sort of progressed to similar level right by then it will probably be reflective of the fact that the Railways will go up higher in our mix or shall I say the TRBs will go up higher in our mix. But that depends on how the other segment develops as well. So let us say for example between now and the time we actually start supplying Railway bearings pretty soon if theoretically speaking two wheeler were to kick in in by 10% more, then the DGB will start to sell more. So it is difficult for me to put out a guess saying what is the future pie will look like but yes the Railways business we will get at it no question about. In fact we are in the final stages now of what is required as an inspection and test just prior to shipment we are at that stage now so that will start kick in definitely yes.

Mukesh Saraf: So this Railways you mean both the freight side as well as the passenger side...

Shishir Joshipura: Right. What I am taking about is freight because passengers or anyway we are already present and we are supplying on a regular basis to Indian Railways.

Mukesh Saraf: I was actually referring to the recent news on the high speed trains I think there has been some announcements there in terms of how JICA has expected to fund some high speed bullet trains as well as there is some announcement that there will be a train I think to Agra that is going to start in March itself. So that is a lot of announcement on the high speed train.

Shishir Joshipura: So the high speed is relative term you know. If I am running in at right now at 100 km and then I go to 150 it becomes high but it may not be high in the world of railways. So from that perspective the current track condition, etc. that we have in India is not fit for any universally accepted high speed train but compared to our current speeds of course these trains speed can go up and that is some minor adjustments required more on the track side and the signaling side than anything else. Of the same trains can run at high speed that is the problem. So the current average speed of about 60-70 and if they can go to 100 that is 1.5x. So obviously it is a big jump. But that by itself does not fit to business. But on the freight side, two things – one of course as we are referring to earlier is the continued maintenance and refurbishment requirement which is one steady state stream and very large one. But the second one is as and when the DFC rolling stocks starts to roll out which could be sometime next year, when they will start to have and the decisions which we now have indications that hopefully Railways will move to high tonnage ordering as opposed to the current low tonnage ordering that they do

on the Axle load. So if that happens, then obviously it will start to change but that is still early days for that.

Mukesh Saraf: Would you be able to give some broad mix of your current say DGBB versus TRB. Current mix in revenues?

Shishir Joshipura: 70% of our sales is currently DGBB and we have very broad number to you and about 30% will be TRB.

Mukesh Saraf: And abroad any market shares like I would assume DGBB we are number 1, but in TRB where would we stand sir market?

Shishir Joshipura: TRB the problem with market share is I can always exclude something and look good, but I do not want to do that since we do not supply to Indian Railway today it is not fair on my part to say that my share is excluding railways. So if we include everything then currently we have about of overall TRB market maybe about 25% of the market is with us.

Mukesh Saraf: And just last question you had mentioned on the forklifts are doing kind of well in your industrial segments.

Shishir Joshipura: Not for us, I am saying forklifts being made is the one that show a positive growth.

Mukesh Saraf: Is there some kind of trend where could this be a leading indicator for say something because all the other industrial segments, in general are doing weak right from construction, to cranes. But this segment doing well, could this be some leading indicator or is this just a one-off case?

Shishir Joshipura: I do not know may be the e-commerce companies are beginning to do better so more logistics or whatever, I have no clue. But obviously those are the things that are very popular in warehouse logistics kind of operations.

Moderator: Thank you. The next question is from Hitesh Goyal from Kotak Securities. Please go ahead.

Hitesh Goyal: Can you brief down your automotive into different segments like CV, passenger cars, tractors, and two-wheelers so that we have a sense.

Shishir Joshipura: Yes, I have commercial vehicles and tractors together. So that is about, the total automotive OE is 28% of our sales. Of which the two wheeler and electricals they are about 17% and cars and trucks are the balance 11% almost equally split between cars and trucks. Well I mean trucks, trucks and tractors together.

Hitesh Goyal: And sir you have also talked about new products which will help you do it faster than the industry. Can you give us some sense what is happening and new bearings that are being developed on the automotive sector and railway? Is there some regulation change that help it because lot of things are happening on the regulation side?

Shishir Joshipura: Yes, I will split it into two half, one is what is happening today and what is the regulation like to drive in? What is happening today is they were answering earlier itself to a question that solution we have for field for life, lubricated for life, wheel-end solution for medium commercial vehicle that should come in life on a three months' time frame and so that, that is one. It is just dependent right now on how fast customers, we have to change some of the things at their end which they are working on. That is number one. Number two is on the cars side there will be movements to third generation bearing which is currently very small percentage of car in the country are of that but we are expecting that as time progresses we will see increasing number of cars going that way and we are also participating in that program with some of the leading guys in the country today. And of course there will be many more such development that will take place in terms of what happened through the way but one thing that I can share with you is it is the way the wheels and bearings are today specified and fitted into any vehicle into country is undergoing a change. Different speed for different segments but all segments are segments are witnessing that wheel segments are changing for different reason and that will connect to the next answer. So if the ABS comes the trucks are already coming into play from April and for two wheeler it is further year and a half down the line. It will mean that it will open up an opportunity for sensorized bearing because that is where you can sense the movement. There are alternative places to sense it till some development work is taking place terms in terms of where each OEM would like to sense the speed, the rotation and condition of the wheel, etc. So that work is in progress in OEMs but yes when that happens and if they go in wheel sensing way or bearing sensing way then obviously change the type of bearings that is bought.

Hitesh Goyal: Wherever ABS is there in the high-end car there you have which speed sensing bearings.

Shishir Joshipura: In Railway.

Hitesh Goyal: I am saying in high-end cars do we have that?

Shishir Joshipura: High-end cars today in India are only an assembly operations. So they do not make anything here.

Hitesh Goyal: They are all imported, right, that is what you are saying?

Shishir Joshipura: Yes.

Hitesh Goyal: In Railways also, most of these Bearings are imported or a substantial part is sourced from India?

Shishir Joshipura: As I was mentioning earlier, as and when the movements to safe for operation happens which is right now the direction. Railways will move to use Bearing as a medium or the point of data extraction as opposed to the current system which is independent, it is mounted along with the braking system and that would make it very cumbersome. So we have now proposed to Railways that they can probably do it by moving it on the Wheel side of the Bearing and let us

see how the development takes place. But, that will make it very-very easy for them and it will not make it very possible for them to manage the safety at a much higher level. So that is the dialogue underway right now it is at a very-very good constructive stage.

Hitesh Goyal: And there were a lot of imports, that is why margin in the Industrials are lower, do you plan to increase localization here or does not make sense?

Shishir Joshipura: About 15% of what we sell in the Industrial market is what we make here and some part of that balance 85% also comes from Ahmedabad, so it is not entirely imported, but yes, for the listed entity it is still traded goods. The content of manufacture in that will change only when the volumes of scale or big enough to justify local production in India because Industrial is typically characterized by a very wide variety of Bearings, but individual volume of each type of Bearing is very low. That is why does not lend itself easily to localize production, it generally get aggregated at a global level in one place and gets manufactured in one place, that is the way Industrial generally work.

Hitesh Goyal: Is there element of cost benefit in the Bearing manufacturing or it is totally automatized, so wherever it is made, does not make too much of difference or there is an element of labor also?

Shishir Joshipura: There is an element of labor, but it is not that big.

Hitesh Goyal: So until and unless India market becomes big, does not make sense to look...?

Shishir Joshipura: Volumes are most important because it is a quite capital-intensive industry.

Moderator: Thank you. The next question is from the line of Naushad Choudhary from Astute Investments. Please go ahead.

Naushad Choudhary: Have you shared the top line number for the Auto and non-Auto Replacement. Just wanted to know if it would be possible to share the bottom line break up as well?

Shishir Joshipura: No.

Naushad Choudhary: What would be the average life of the Bearings -- does the climate also impact life of the Bearings?

Shishir Joshipura: The theoretical lifecycle of a Bearing says that fully lubricated and sealed Bearing, working under ideal conditions of temperature, dust, conditions of cleanliness, etc., the life is infinite. It is a theoretically definition but it does point out that the temperature is an important aspect that determines the life of Bearing.

Naushad Choudhary: So India from industry point of view what is the mix between OEM and Aftermarket in this business?

Shishir Joshipura: In the Industrial, we are almost equal between OEM and Aftermarket.

- Naushad Choudhary:** What is this mix in cold temperature countries like in Europe and US?
- Shishir Joshipura:** I do not know about that but that does not really matter because the Bearing then gets designed for the temperature where it was running. What I am only saying is if you put a Bearing that is meant for cold conditions in a warm country, it will not work, that is what I meant.
- Naushad Choudhary:** I just wanted to understand the profitability side; what is the margin difference between OEM and Aftermarket business?
- Shishir Joshipura:** No, we do not give such segmental margins separately.
- Naushad Choudhary:** And if you could share the number of SKUs we have in Auto and non-auto?
- Shishir Joshipura:** Many-many, it is difficult for me... Automotive will obviously lesser number of SKUs than Industrial, Industrial will be extremely big.
- Naushad Choudhary:** Qualitatively, if you could tell us about the margin what if we manufacture the Industrial Bearing despite of importing, what could be the margin difference between importing and manufacturing in India?
- Shishir Joshipura:** I just now said that manufacturing make sense only when the volumes of scale justify local manufacturing. If the volumes of scale are not there, the investment in plant and machinery and toolings required will be disproportionately higher to the volume that you make, then you will not be competitive at all.
- Naushad Choudhary:** What is the industry size of Bearing in India and what is the mix of Auto and Non-auto?
- Shishir Joshipura:** Roughly, I think the total market size is about Rs.8500 crores. Between Auto and Industrial it should be more or less equal.
- Naushad Choudhary:** How this was let us say 10 years or 15 years before and you see any change in the mix going ahead?
- Shishir Joshipura:** I cannot tell you how much those 10 to 15 years back because I would not know that much, but generally as a bench rule one can say that if you take very developed economies, there generally it is about one-third Automotive and two-third Industrial.
- Moderator:** Thank you. The next question is from the line of Mahesh Bendre from Way2Wealth. Please go ahead.
- Mahesh Bendre:** Sir, this is the eighth quarter where our growth has either been negative or in a single digit. So I just wanted your assessment when do you expect we will be able into double-digit growth?
- Shishir Joshipura:** I think it is a very-very good observation. We are not happy with the situation in which we are but we are also bound by the circumstances that are facing us, I was just telling some of your

colleagues earlier in the day would come to see me that. We have grown 47% in a segment of Wind Energy where we all know that for the last two quarters it is absolutely flat, but we have grown 47%. So we have done lot of steps to see that A1 when the industrial segment is not growing or a target segment is not growing, what can we do to grow in that segment and two different levers of deploying them, so one of them is of course some of the products to be talked about create innovative products for localized solutions, somebody else was mentioning in the call saying how will you localize, localization itself is also a focus area for us where we are seeing what can we do to bring locally produced products to the markets because it improves my competitiveness and so on. And third of course is to leverage ourselves with more with the customers who are already buying from us. The way our products get bought is usually customers would not nominate a single source for their requirement, they will always one or two, in some case even three vendors and there are some crazy examples where there are also six. But they have three or six vendors supplying the same product to them and especially the OEMs have that kind of lay out. So we have to see as to how we can make sure that with due respect to their own policies how can we increase our share of business within each of these accounts. So even if the economy is slowing down, how do we sort of get growth back into our targeted segments in our top line and bottom line. So you are absolutely correct. It is a very challenging environment. We have not seen a double-digit growth in the economy. So that mix even more difficult for us. In fact we have seen a lot of negative growth in a lot of segments as I was telling you. So if all the efforts that we are making building our share is only proving to be good enough to keep us where we are, so we are not degrowing as well, we have not grown but we have also not degrown, but obviously we need to do more than what we have done.

Mahesh Bendre: What is the current capacity utilization for factories and what are the CAPEX plan going forward?

Shishir Joshipura: Capacity utilization this quarter was just marginally better than last quarter. So we still say that we can produce on average about 15% to 20% more from our existing capacity that we have. Obviously, when that is the kind of capacity utilization CAPEX is quite muted of course, but we are investing for new product lines, etc., but not for overall general capacity increase.

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

Lakshmi Narayanan: A couple of questions; broadly what is the value of Bearing that actually go into Two Wheelers, Cars, Commercial Vehicles, Tractors, any kind of a range that will be helpful?

Shishir Joshipura: Rs.700-800 per Two Wheeler and cars is a complicated one because we have to see what technology, there are car with normal Bearings, there are car with first generation Bearing, second generation Bearing, third generation, the combination front wheel, rear wheel, that is because a difficult number, motorcycle pretty steady state that way?

Lakshmi Narayanan : Kind of way is what looking at?

- Shishir Joshipura:** I cannot put out a number like I did for, but Lakshmi if you want, I will do some kind of calculation and call you back.
- Lakshmi Narayanan:** Commercial Vehicles, similar or...?.
- Shishir Joshipura:** Same thing, we do not know, it depends on what technology they deploy.
- Shishir Joshipura:** Where I am trying to get here, I am just trying to see index to that, right, what is the scope of growth if the ABS for example gets implemented – are we going to see 2H in terms of the realization in Two Wheelers, for example, or what we call us the component realization. So the value of component that actually can go in terms of the Bearings, can it actually go up from here index to 100?
- Shishir Joshipura:** The way this works, Lakshmi, as I was telling earlier in an answer, I do not know whether you were there on the call at that time, it depends on what is the OEM's philosophy for controlling the machine, whatever the machine is. If their philosophy is around saying I want to sense everything out of a wheel movement and therefore Bearing is a right component then that is one way to do it. Some people say, no, I will split it, I will measure it on the brake and on the wheel and then on the shaft. So it depends. Everything has a valid reason. So this is in that sense governed by the OEM's philosophy of managing their machine. But per se if you take a normal Bearing on a wheel side versus sensorized Bearing then we are looking at least 2 to 3x increase in price per Bearing. That is one Bearing in the whole set. You do not need all the Bearings to be sensorized.
- Lakshmi Narayanan:** And I presume that this will be done through the Made in India in the listed entity and sold in India via the listed entity?
- Shishir Joshipura:** Yes.
- Lakshmi Narayanan:** What is the broad market share we have in Cars and Two Wheelers, OEMs?
- Shishir Joshipura:** Two Wheelers I will put roughly it is about 30% and Cars for us it is between 13% to 15%: all Commercial Vehicles put together there will be a similar number.
- Lakshmi Narayanan:** If I just look at our earnings at a profit level, tracking back to nine months data from 2011, 2012, 2013, 2014 and 2015, I see that cumulatively this is the lowest in the last year tracking from 2011 onwards. Now it is the mix of external reason when it comes to the some places where we would have been internal. Just trying to understand what is that has actually done worse for us comparatively from internal point, one is the growth has anyway slowed down, but if you can just touch upon where we could have actually done much better? I am looking at the operating profit level it was Rs.210 crores in 2011 cumulatively first nine months and then I look at it first nine months of 2012, 2013, 2014 & 2015. Not looking at quarter but I thought nine months is a fair thing then I ran it through over the last five years.

Shishir Joshipura: I am looking more at it sequentially this quarter, we have done compared to the immediate preceding...

Lakshmi Narayanan: I mean that will have for example, in 2013, was a low base, so 2014 would look slightly elevated. So I just for ease of comparison to remove cyclicity I have done it for the last six years? I am just looking at absolute number, profitability margin here and there cannot capture the entire thing because it would be like one off and so on.

Shishir Joshipura: What I mean to say is if the top line is not there to that level obviously the bottom line in absolute value will not be there. So as a ratio I am saying in 2013 we were 12.4% for the full year, 2012 we were 12.8% and current year for the first nine months we are at 12.6%. So given a certain top line the bottom line is more or less following as a ratio that is more or less at the same level, 2014 also was 12.6%. I do not have the absolute numbers of the nine months of the previous year. So I am not able to do that comparison. But for full year if I take 2012 was 12.8%, 2013 was 12.4%, 2014 was 12.6% and 2015 nine months is 12.6%.

Lakshmi Narayanan: I can send an email to you. While SKF do have things like Polymer Ball Bearings for F&B industry and also you make some maintenance-free spherical plain Bearings, etc. Just trying to understand round the year, will we also be making or supplying nonmetal-based Bearings. What is the future that holds?

Shishir Joshipura: It is very application-specific in terms of where do the non-metal Bearing go is very sector-specific. So there are ceramic Bearings, for example, there are plastic Bearings, but they are very application-specific, they do not go and readily substitute metal Bearing unless a specific value is being delivered to the customer, for example, in Food and Beverages you do not want any rust to settle. That is why you want to use plastic. Highly abrasive environments you want to make sure that you do not end up with failure, so use ceramic because then you do not have to worry about abrasiveness in the environment and so on. So depends on the application I do not see a day where plastic will go and replace metal or vice versa in this particular application.

Lakshmi Narayanan: I am trying to understand is there a possibility of market moving slowly towards that. Do we have a capability to supply those types of Bearings currently from a global portfolio or some customers that are asking?

Shishir Joshipura: F&B we are very strong. There are guys who would not touch any other Bearing other than us because it is not only the Bearing but then you also have to have the food grade, grease and the seals. It is a whole contraption that needs to be food grade as it is called and we are very capable of that. That is not the problem for me. But I was more is there a shift taking place. I am saying that I do not see that yet.

Lakshmi Narayanan: Are we gaining market share or losing market share in any of the key segments we operate in? You mentioned wind where you have done fabulously, but just trying to get a sense of where are we?

Shishir Joshipura: There was a time when we were not 12-13% in Car market, we were probably more like 20-25% in Car market, but we lost out because in the first round of third generation Bearing which happened in 2009 around that time. Remember that in Automotive if you lose its contract in 2009, you can come and catch up in 2013, 14, 15, and then the program gets delayed or something. So 2009 awarding to the 2009-10 the programs that got awarded, they went the other way. So we lost out on generation three on wheel ends for the new cars. The second round has now come and we have as mentioned in the past also we have a contract that will start delivering 2016 December onwards. When that comes into play, again, the share will start to look better. But till that time I will continue to have this problem that I lost out on a segment which grew and I do not have an offering because I am not present on those platforms. "Today, can I make the Bearing?" "Yes, but will I be able to bid and win?" No, because they would not change...

Lakshmi Narayanan: And these are restricted to particular type of Cars with third generation or is it across all platforms across all models.

Shishir Joshipura: It is an OEM decision, right now if an OEM has taken a decision, then on this platform whatever car I make, the wheel ends will be top three. Then depending on how the car does in the market, if the car does very well and I am not on that, I will continue to look poorer and poorer in terms of segment share. I just want to comment in addition to the answer that Mowli gave. I think your observation on saying what is happening to our margin. I want to share with you that we are seized of the issue that as the economy has become stagnant, as lots of our customer segments where we were strong have become negative growth-oriented the challenge for us as management is obviously to find ways and means of pulling us out of that situation and there are several steps that we are taking to see if that can happen. We have already taken some, but my own analysis is that that has only kept us at the current level. We have not degrown, in that sense we are a slave product, so if somebody makes 1000 trucks instead of 10,000, then my Bearing sales go down in the same proportion but we have not allowed that to happen to us. We have taken a lot of tests but obviously I was talking to my team and I said "Guys, whatever we have done is only keeping us where we were." So we need to do it even more of what we are doing or even different stuff than what we are doing" and that is what we are working on right now. Top line growth is a key criteria. We will keep it efficient and range-bound in terms of percentage but in rupee number terms it has to grow only when the top line grows.

Moderator: Thank you. The next question is from Shreenath Krishnan from Sundaram Mutual Fund. Please go ahead.

Shreenath Krishnan: Since you are a leader in the Replacement segment, are you seeing increased competition from Chinese players or how is the environment or rather you are seeing pricing pressures from your competitors here in India? And secondly, sometime back you mentioned that you are exiting certain segments which are not profitable. So how would that share be in total revenue maybe next three to four years time if you were to slowly run down the business, would it be something like 4-5% of current business that you would want to run down? Generally, you

mentioned that gradually you are trying to reduce certain businesses which are not clearly profitable for you.

Shishir Joshipura: Yes, you are absolutely correct. That is what we will work up on because there is no point chasing a pot at the end of the rainbow when there is no gold in it. And that is a strategic alignment of portfolio we will continuously do, we are doing it and we will continue to do it which is one dimension.

Shreenath Krishnan: Which are the segments that you would want to reduce your share?

Shishir Joshipura: There are, for example, the Ceiling Fan segment was there which at one time was dominant in our business, it is completely vanished but now with the demand coming back for higher performance Ceiling Fans we expect the segment will come back. There was a time when our entire Bangalore factory was set up to serve that segment. Now it is completely gone. We do not sell hardly any Bearings to the Ceiling Fan industry but it is now coming back. A similar thing was happening to Electric Motors. Again, they are coming back because now people realize that reliability is more important going forward. We see return of that segment as well from almost complete oblivion to us. If we expect then something can also move out in the similar direction that can happen, we have seen for example certain segments in Industrial Material Handling, in end user segments in Mining, in Metal where we felt that it was just becoming completely commoditized and there was no value proposition possible. So maybe they will move out.

Shreenath Krishnan: Put together how much will all these be?

Shishir Joshipura: It is so easy to lose a customer. You just do not have to do too much to lose a customer whereas to win you have to do the whole yoga asanas of all size.

Shreenath Krishnan: And in the Replacement market what is the environment?

Shishir Joshipura: Replacement market in terms of environment as we see it is, a) I do not see any major change happening in the competitive landscape of the market except that fact that yes, you are right, we do see a lot of Chinese play especially in the Automotive Aftermarket where they have a big play, because the end user is not playing a role in determining in what he or she wants which is #1; #2 is some of the policies that have come into play recently also are not very friendly to the Bearing industry per se. We now have in position of 20% safeguard duty on steel which has been brought in addition to 20% duty that was imposed last year. So I end up paying duty at a higher rate whereas somebody who makes the Bearing in China does not have to do that and when he brings Bearing into this country, it is not taxed at the same rate, it is taxed at a very low rate of 5 to 7.5%. That creates what I call as a non-level playing field. But at the same time we do not want to complain about it. It is what it is. We have decided that we will fight it through the weapons we have. I cannot keep on complaining about the fact this protection for our industry and no protection for another one. It is what it is. So we have decided that we will shift our gears and we will enhance the service portfolio, we will enhance

the bundling of our offerings to the customer, we will create a different value proposition for him which is so compelling that these things become insignificant. That is a challenge for us there.

Moderator: Thank you. The next question is from Shraddha Sheth from Edelweiss. Please go ahead.

Shraddha Sheth: Just two-three questions; we had an year-on-year dip of 260 bps in gross margin. So wanted to understand what explains that? Is it just the mix or even the commodities price pass-through? What is the clause with our customers? I just wanted to understand that first.

Shishir Joshipura: Commodity prices have actually been favorable to us and we have not had to pass on too much in terms of price reduction, but, yes, the mix has definitely played a difference; last year same quarter the Traded was 41% and Manufactured was 59%; now it is 43% Traded and 57% Manufactured. So that has made some impact. Also compared to the same quarter last year we have FOREX loss this time of 18 million compared to a gain of 47 million same quarter last year. So that swing is 65 million.

Shraddha Sheth: Just wanted to understand on this commodity pricing. How is the pricing structure annually? How is that we pass it on to our customers or do we retain majority of it?

Shishir Joshipura: There is no pass on either way when the prices go up, go down. It is always a question of hard negotiation between the customer and us. Generally, pricing negotiations are done once a year, but sometimes if absolutely something very big happens, then, of course, we could have more than once a year price negotiations. Generally, price levels have remained reasonably steady I would say, but mix of course makes a difference and then of course competitive landscape also makes some difference.

Shraddha Sheth: So this is more of an industry phenomena where there is pricing power for each of us, right?

Shishir Joshipura: I would not say it to absolute pricing power, I would not say it is absolutely weak on pricing. It is a reasonable equilibrium between the customer and us.

Shraddha Sheth: As Mr. Joshipura was mentioning that 2016 onward the previous cycle when we had lost out on the third generation within the Four Wheelers, any new OEM tie-ups which are on the anvil that we are expecting within and also just wanted to understand, so we have also upgraded in the platform is that to match up what we missed out on?

Shishir Joshipura: It is true that we missed out on the first wave of third generation Bearing, solution is going on the wheel ends of cars, but in the second round, we have won a significant one with the biggest guys out there which will start production for us in 2016 end because initial in their own philosophy it is going to be manufactured differently, but 2016 end onwards all the volumes will come here and that is when we will be supplying the volumes to them.

- Shraddha Sheth:** Is it possible to qualitatively share few of these OEMs because anyway it is more than two supplier scenario?
- Shishir Joshipura:** That is why we are not allowed.
- Shraddha Sheth:** On the localization including the local within SKF technology, what is it that we are spending because 15% is purely within SKF India. So along with technologies, what is the target for the group to take this up?
- Shishir Joshipura:** Shraddha, we are not working on some target thing say 50% localization. As Mowli was explaining because those kind of statements do not work for us because if it was requirement of capital, land, machinery then I can have a target like that. Here the controlling factor is what returns on investment can I justify for what volumes of Bearing requirement in the market and I think that is something that depends on how the market will develop. I can continuously see a positive development going forward. If there is a business case we will not hesitate to put money wherever it is required to make it locally.
- Shraddha Sheth:** If you can give a number five years back where were we and today where are we in terms of percentage combined SKF India as well as Technologies how much was local and how are standing today, as you say we have been progressing well
- Shishir Joshipura:** Five years back SKF Technologies did not exist, the Ahmedabad plant just started in 2010 but today we are about 12-13% of our Traded goods is now from Ahmedabad so in that sense that is local.
- Shraddha Sheth:** On the Replacement within Automotive as we saw the slowdown in the Auto OEMs in the last three years, do we see any impact in our replacement cycle in the next two years or so?
- Shishir Joshipura:** The Replacement cycle is on a much bigger population of vehicles. So a couple of years slow down does not have too much of an impact on the total Aftermarket Replacement. Then the weakness has to be prolonged for a much longer period of time for you to see them affecting the Aftermarket.
- Shraddha Sheth:** So you are saying it should not be felt as much because it gets more dispersed because the cycle being longer?
- Shishir Joshipura:** Correct. And when people do not buy new vehicles they obviously sweat the older vehicles even more.
- Moderator:** Thank you. The next question is from Kunal Bhatia from Dalal & Broacha. Please go ahead.
- Kunal Bhatia:** You mentioned a big opportunity in Railways. Could you elaborate a bit more on the same stating that how much are we currently because now we are currently mainly for the Passenger side. What kind of revenues or a percentage share of revenues are ...?

- Shishir Joshipura:** Indian Railways roughly 40% is Passenger business, 60% is Freight business and we were zero in Freight business and now we start to play. Of course, Railways has a rule by which they allow you to come in and participate. Even if we are a L1 bidder you do not get majority share in year two, it is a gradual progression 5, 10, 15 like that. But the good news is therefore we start to participate in the 60% of the market, just one dimension. Second is the new program that I talked about the safety related stuff and enhancement of performance, high speed, they start on a working platform. From that perspective on those we will compete without any disadvantages compared to the competition, obviously, because some of the guys are supplying for many years, they have an advantage over me as they are established suppliers.
- Kunal Bhatia:** This 40% and 60% would be how much total amount wise?
- Shishir Joshipura:** Indian Railways is roughly Rs.1000 crores market.
- Kunal Bhatia:** And in case of the 40% what is our share in the Passenger side?
- Shishir Joshipura:** On the Passenger side we have a very significant share; I think about 60%.
- Kunal Bhatia:** Just one clarification. You mentioned in case of Industrial we have 15% localized and then 85% imported, and out of which some part is from Ahmedabad?
- Shishir Joshipura:** Yes.
- Moderator:** Ladies and Gentlemen, due to time constraints 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 queries or questions for the management kindly 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 us and you may now disconnect your lines.