



“SKF India Limited Results for
Q2 2017-2018 Earnings Conference Call”

October 25, 2018



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Moderator: Good day and welcome to the SKF India Limited Results for Q2 2017-2018 Earnings conference call. As a remainder, all participants' lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing "*" and then "0" on your touchtone phone. Please note that this conference is being recorded. I would like to hand the conference over to Ms. Mallika Apte, Head-Country Communications. Thank you and over to you Madam!

Mallika Apte: Thank you. Good morning. Thank you all for joining the call today. With us we have Mr. Manish Bhatnagar, Managing Director, SKF India and Mr. Chandramowli Srinivasan, Director Finance, SKF India. Before I begin I would like to mention a short cautionary statement. Some of the statements made in today's earnings call may be forward looking in nature. Such forward-looking statements are subject to risk and uncertainties, which could cause actual results to differ from those anticipated. Such statements are based on management beliefs as well as assumptions made by and on the information currently available to the management. Audience is cautioned not to place undue reliance on these forward-looking statements and making any investment decision. The purpose of today's earning conference call is to purely educate and bring awareness about the company's fundamental business and the financial quarter under review. I will now hand over the conference to Mr. Manish Bhatnagar who will discuss the highlights of the Q2 2018-2019 results for SKF India. Thank you. Over to you Manish!

Manish Bhatnagar: Thank you Mallika and good morning everyone. As way of introduction I joined SKF as Managing Director about two months ago, so this is my first earnings call. It is a pleasure to be here on this call. I have Mowli here whom you all know very well and he will be joining me on this call. We declared Q2 results yesterday, net sales for the quarter amounted to Rs.766 Crores, which was a growth of 12.7% over the same quarter last year and profit after tax for Q2 came in at Rs.84 Crores, which was a growth of 14% over the same quarter last year, so clearly a steady financial performance in the quarter that just passed us by with good growth in both industrial and automotive markets. As you are aware we have had significant headwinds over the last few months whether it is rising oil prices or rising material prices, weakening currencies, tightening credit in the markets, but nevertheless we delivered our results working fairly closely with customers and we are happy to talk more about that through the call. The board also has approved a buyback proposal subject to approval of the shareholders for purchase by the company of up to 1.9 million shares from the shareholders by way of tender offer at a price of Rs.2100 per equity share, so with that I will close my opening comments and will open it up for questions hereafter.



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- Moderator:** Thank you Sir. Ladies and gentlemen we will now begin the question and answer session. Ladies and gentlemen, we will wait for a moment while the question queue assembles. The first question is from the line of Mukesh Saraf from Spark Capital. Please go ahead.
- Mukesh Saraf:** Good morning and thank you for the opportunity Sir. Firstly just bookkeeping if you could give the revenue mix, the breakup between the various segments within the autos and industrials?
- Manish Bhatnagar:** Yes, so automotive for us is 43% of revenue, industrial is 50% and exports is about 7%, but exports as you are aware is also mainly automotive, so if you add that back it is about 50:50 between automotive and industrial.
- Mukesh Saraf:** And just the way the OEM and after market split within auto and industrial?
- Manish Bhatnagar:** Auto, out of 43% auto market is 13% and 30 is OEM and in the industrial out of the 50% it is almost equally divided between aftermarket and OEM.
- Mukesh Saraf:** And if you could give some sense on the various industrial markets railways, energy and maybe some other ones like your off-highway and these other markets?
- Manish Bhatnagar:** Broadly we have energy segment, which is about purchase of our space and that has grown this quarter compared to of course a very low base last quarter, it is almost a 100% jump over the same period last quarter. Railway is about 7% of our sales and the balance is said over the rest of the industries here.
- Mukesh Saraf:** Just on the railways bit we were reading some updates on the fact that the wagon manufacturers have been very slow in deliveries while the Railways have ordered maybe around 11,000 to 12,000 wagons on the freight side, I think for this year, the deliveries have been very slow till now and the major reason sighted was supplier constraints and things like that. So what is your sense on that and how do you see that grow because now I guess we are past the initial three years with respect to the freight side, so could you give us some update on that?
- Manish Bhatnagar:** On the railway side as you know there are three segments that we compete and it is the passenger coaches, freight and locomotives, it is also fairly long sale cycle, so sales this year would have typically begun a couple of years ago. We are seeing from our perspective good traction on the passenger wagon side, we are seeing intent to buy, our bearings are now entering key development phases in terms of approvals, so we certainly see a strong market for the passenger side. On the freight side, our bearings are also nearing approval,



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although we have a low share in freight today as compared to passenger wagons, but we are also completing our development cycle there.

Mukesh Saraf: But anything on the industry Sir, is there a significantly lower supply versus what the railways have ordered?

Manish Bhatnagar: We have not seen a slowdown at least from bearings perspective.

Mukesh Saraf: Okay and just lastly on the Forex for this quarter, what would be the Forex impact on this quarter Sir?

Manish Bhatnagar: Forex loss is Rs.116 million, last year same quarter was Rs.33 million.

Mukesh Saraf: Okay. Thank you for this. I will get back into the queue.

Moderator: Thank you. The next question is from the line of Sandip Tulsian from JM Financial. Please go ahead.

Sandip Tulsian: Good morning Sir. My first question is on the hub three bearings plant I mean what is the status update over there, have you started deliveries, has it contributed to some amount of growth in this quarter, what is a kind of ramp up that we expect on these bearings?

Chandramowli S: So on the hub three we have now at the final stages of approvals and we are expecting start up of production in the January, March quarter.

Sandip Tulsian: So what could be the ramp up in the first year I would consider say FY2020 would be first full year of – supply of bearing, what kind of...?

Manish Bhatnagar: 2019-2020 yes.

Chandramowli S: So that will be the first, the FY 2019-2020 would be the first full year, we have a capacity of about 350,000 bearings on that line and we expect to be fully utilized as per demand.

Sandip Tulsian: Fully utilized in the first year itself, great. Sir second question was previous quarter we mentioned there was some capacity constraint as we were running nearly at full capacity and previously the management has guided that we are likely to more than double our annual capex, which was in the range of say Rs.50 Crores of an annum may go up to more than Rs.100 Crores to Rs.150 Crores an annum, so what is the status on that, how much capex have incurred in this year till date, how was the utilization levels expected to ramp up, if you could give some color on that, more on qualitative basis?



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- Manish Bhatnagar:** We still continue to remain at working 100% capacity on all our plants, we are running full block and capex, ordering, instillation, different lines are in different stages in that cycle and we are going to incur capital expenditure of the kind of magnitude that you talked about in the next couple of years that we – I am talking more calendar year now, so in 2019 and 2020, so right now the ordering stage is fully underway and some capacity addition will actually happen in the current year itself in the last quarter as well and in the first quarter of next year, but in the next two financial years, you will see see much more of the capex actually happening.
- Sandip Tulsian:** All right, Sir also if you could finally give some color as to how are you seeing the growth rate in each of the sub-segments as in between say two-wheelers, passenger car, CVs, tractors and also share some thoughts how you see these segments ramping up for the year as a whole that would be very helpful Sir. Thank you.
- Manish Bhatnagar:** On speaking to our customers we see them expanding their production, we see them driving growths and in turn in line with their expectations as Mowli mentioned we are lining up our capex to meet the demand. They are certainly seeing sometimes the same cost pressure that we are seeing in terms of materials, but all feedback from them as they see strong growths, all segments that we are present in two-wheelers, passenger vehicles or commercial vehicles, all are projecting low double digit growth for the next financial year.
- Sandip Tulsian:** Okay, on the quarterly basis the numbers that we usually shared YOY growth in each of these segments if you could share that for this quarter also?
- Chandramowli S:** In cars we grew by about 19% in this quarter compared to the same quarter last year, commercial vehicles we grew by about 24% and tractors we grew by about 10% and in two-wheelers we grew by about 14%.
- Sandip Tulsian:** How about Sir aftermarket and industrial and industrial aftermarket?
- Chandramowli S:** Vehicle aftermarket we grew by about 9%, industrial aftermarket also we grew by healthy double digits actually.
- Sandip Tulsian:** Thank you for taking my questions. I will come back in case if I have more questions. Thank you so much.
- Moderator:** Thank you. The next question is from the line of Nishith Jalan from Kotak. Please go ahead.
- Nishith Jalan:** Thank you for taking my question. Just wanted to understand that in the aftermarket are you seeing any pressure or basically the pressure easing from a smaller unorganized players or



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imports which used to be quite big in our industry, are you seeing some gains for players like you in that sense?

Manish Bhatnagar: Is your question on the industrial aftermarket or the vehicle aftermarket?

Nishith Jalan: Both.

Manish Bhatnagar: Right we have certainly seen a slowdown of non-branded products in the aftermarket.

Nishith Jalan: Okay. Sir my second question is, if I look at the currency has kind of our rupee has depreciated significantly against Euro and we have a lot of imports coming in from Euro region. So how does the pricing for those take place, will SKF India need to take a hit because of currency depreciation and will you be able to pass it onto the end customer, how should we look at it?

Chandramowli S: As we have explained before also we generally have a little bit of a lag between when the currency moves into certain direction and how it follows through in our pricing and cost structure and which is why in this quarter we have incurred a Forex loss of about Rs.115 million. Generally prices increases are – it is not an automatic pass through, but generally customers are aware of the fact that many of bearings are imported and therefore they are open to look at when currency changes in the big way as it has changed now, but it will take sometime before the __ actually comes in, but overall we are reasonably confident that when currency moves, but not in a extremely high fashion, but in a slow depreciating mode over a business cycle, generally we are able to maintain our pricing and costing in reasonable kind of level.

Nishith Jalan: Sir my last question is on gross margin, if we see we have seen a big improvement from last quarter, is it because of some delayed price increases that we have got from our customers or has it also got to do with some product mix in that sense?

Manish Bhatnagar: It is a combination of both, it is both pricing and mix, as Mowli mentioned pricing sometimes comes into the lag effect as we have long term contacts with customers, so the price improvement we put in place a couple of quarters ago may have kicked in now. We are seeing some bit of retrospective price effect coming into play this quarter and certainly we made a constant effort to improve our mix to move towards higher margin products.

Nishith Jalan: Okay. Thank you Sir.

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



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Puneet Gulati: Thank you so much for the opportunity. Welcome Manish, first of all I got dropped out a bit so if you can give me the number of trading revenue as a percentage of sale Sir?

Chandramowli S: So trading revenue this quarter is 42% of total sales and manufacturing is 58%.

Puneet Gulati: Okay and did I hear it right that the automotive aftermarket grew only by 9%?

Manish Bhatnagar: It is 9% but you have to keep in mind that it is also a seasonal effect because the automotive aftermarket is linked to Diwali, Navratri etc and that festival last year was in the previous quarter.

Chandramowli S: And also remember that last year, the third quarter, July, September quarter was the quarter immediately after GST, so in the quarter preceding GST most of the dealers cutback on stock, so they really built up stocks again in the July, September 2017 quarter last year after GST kicked in, so we had a high base effect this quarter.

Puneet Gulati: Alright, got it and if you can give more colour on how the railways business is expected to do. Now you should be among qualified to bid for the entire order, are you seeing any significant uptake that might come through because of this?

Manish Bhatnagar: I mentioned this briefly earlier on both on the passenger side and the freight side, you are correct, we are now nearing the end of our development cycle and we expect uptick in demand from both those segments. On the locomotive side, already we have good presence in the railways, so we expect to have been with significant part of the portfolio in all three subsegments.

Puneet Gulati: So what percentage of revenues does railways contribute now and what could be the potential here?

Manish Bhatnagar: This quarter it was 7% and this quarter we grew by about 11% compared to the same quarter last year.

Puneet Gulati: Okay and how much can it change going ahead if you qualify for?

Manish Bhatnagar: That is always tough to answer. How much can I grow. Our intent is to grow from here onwards certainly this is a long-term play for us, right now it is 7% of our revenue, we expect it to get to high single digits in the next financial year.

Puneet Gulati: Okay and in terms of exports, are you using any increased opportunities for growth on the export side?



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Manish Bhatnagar: It is a very small part of our business right now and I think you probably heard Mowli say earlier right now, we are running at full capacity and we have strong demand in India while there are certainly demand for exports from India. Our immediate priority is to focus on meeting India demand and therefore you have seen exports slowdown not because of any slowdown from demand from other markets.

Puneet Gulati: Okay, great. That is all from my side. Thank you so much. All the best.

Moderator: Thank you. The next question is from the line of Saurav Ginodia from Stewart & Mackertich. Please go ahead.

Saurav Ginodia: Good morning Sir. Thank you for the opportunity. If you can just speak a little bit about the capacity expansion part?

Manish Bhatnagar: Specifically what do you want to know?

Saurav Ginodia: The capex related and what kind of capacity increase we are looking for?

Manish Bhatnagar: We are in the process of firming up our plants but all I can say is that we have already... the capacity expansion cycle has already started for this, some of the equipments will be installed in this year before the end of this year and more will come in the first quarter of calendar year next year and so on. So it is the continuous thing that as I said in the answer to our previous question that next two financial years we will see sizeable increase in our capex compared to what you have been investing for the last two years.

Saurav Ginodia: Any ballpark number you want to share?

Manish Bhatnagar: It is around Rs.150 Crores kind of numbers and of course yes.

Saurav Ginodia: Okay and Sir I missed your number on the breakup of the auto between OEM and replacement?

Manish Bhatnagar: Out of 43% total automotive is 13% is the aftermarket, 30% is the OEM market.

Saurav Ginodia: OEM would be how much?

Manish Bhatnagar: 30% out of 43%, 30% of the total sales.

Saurav Ginodia: And previously you also were giving the figures at the breakup between the two wheeler and the four wheeler within auto?



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- Manish Bhatnagar:** Continues to remain almost 50, 50 between two wheelers and four wheelers.
- Saurav Ginodia:** Okay, thanks a lot Sir. All the best.
- Moderator:** Thank you. The next question is from the line of Prachi Kodikal from Bay Capital. Please go ahead.
- Prachi Kodikal:** I wanted to know more about your new product pipeline, so if you could talk a little bit about that please?
- Manish Bhatnagar:** I am going to expand your question to also solutions, we do product and solutions. When our customers demand that and we are always serving that demand, so we have a healthy pipeline of products both developed locally and of course what we translate on what developed globally in all segments and more importantly for us as we go further into this journey, we are also looking at bundling products and solutions together to sell performance contract to our customers.
- Prachi Kodikal:** Okay, but if you could may be give a couple of example what sort of products you are looking at?
- Manish Bhatnagar:** The question earlier on hub three, that is an exciting new product for us for automotive wheel hub that is a new technology and that production line will go full capacity in the next full financial year that is an example of a new product.
- Prachi Kodikal:** Okay, thank you.
- Moderator:** Thank you. The next question is from the line of Keyur Shah from Emkay Global. Please go ahead.
- Keyur Shah:** Thank you for the opportunity. Sir I missed your numbers for the growth you gave in each industry as of CV in two wheeler, four wheeler?
- Manish Bhatnagar:** I said we grew in car at about 19% this quarter compared to the same quarter last year. In the commercial vehicle side, we grew by about 24%, on the tractors by about 10%, on two wheelers by about 14% and on the vehicle aftermarket by about 8%, 9% and on the industrial side we grew overall by about 19% and OEM aftermarket put together here.
- Keyur Shah:** Sorry.
- Manish Bhatnagar:** On the industrial OEM aftermarket put together we grew by about 19%.



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Keyur Shah: Okay and how can you see the demand coming in from the renewables from wind energy going right?

Manish Bhatnagar: Wind as we now have gone through significant turbulence over the last few quarters. We have seen stability in at least prices now in the new auction regime as you are probably aware the last option was in August, September timeframe where the prices have settled down to about 2.7 per unit which is significantly better than the 2.4 we saw in December last year. That is the best price for the industry I cannot comment on that, but certainly we are seeing investments picking up in turbine manufacturing and we are seeing demands raising from our customers end.

Keyur Shah: Okay, fine. Thank you and all the best.

Moderator: Thank you. The next question is from the line of Vijay Sarthy from Anand Rathi. Please go ahead.

Vijay Sarthy: Thank you gentlemen. I just had a small question on the breakup from the industrial revenue for the quarter and also the exports if I missed it sorry.

Manish Bhatnagar: Industrial distribution and industry aftermarket and these I guess is that a question?

Vijay Sarthy: Yes Sir. So the breakup between what is the total proportion of industrial revenue to the total mix and then the breakup between OEM and replacement.

Manish Bhatnagar: So 50% of our total sales that we said is industrial of which the OEM aftermarket are almost split equally 25% each.

Vijay Sarthy: Fair and this capex of Rs.150 Crores, what is it for regarding could you help me understand the breakup of Rs.150 Crores what is it for?

Manish Bhatnagar: A mix of both capacity expansion, of course everything has more or less, lot of it for capacity expansion, but it could be either capacity expansion of existing product lines, new product lines, both put together and some normal maintenance capex quality investments all those of course.

Vijay Sarthy: And when does this get commercialized this Rs.150 Crores?

Manish Bhatnagar: Different points of time... Different lines will come on stream at different points of time, some of them are already on order, some of them as I said it is already going to be installed by the end of this calendar year, so it is a phased manner of expansion.



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- Vijay Sarthy:** So can I see the entire Rs.150 Crores will get reflected in revenue in FY2020, is that a fair assumption?
- Manish Bhatnagar:** By 2020 may be not the whole of it, but at least 60%, 65% of that, but as I said part of it will then go to 2021, but in 2021 we will invest more which we will get fully reflected in 2021, 2022, so it is a base program of expansion from here on we can as we see it now.
- Vijay Sarthy:** And any number that you could share for FY2020 capex Sir?
- Manish Bhatnagar:** Yes, around Rs.150 Crores.
- Vijay Sarthy:** Okay, great. Thanks.
- Moderator:** Thank you. The next question is from the line of Kunal Bhatia from Dalal & Broacha. Please go ahead.
- Kunal Bhatia:** Thanks for the opportunity. Sir I just missed out on your number for, how much did energy segment contribute, we saw 100% growth there.
- Manish Bhatnagar:** There are about 3% of sales in this quarter.
- Kunal Bhatia:** Sir my second question in regards to hub three bearings, I just wanted to know how much is the capex we have incurred on the same and what kind of realization differential would it have to the other traditional bearings which we have meaning if you could just give a flavor on the same?
- Manish Bhatnagar:** So the realization is roughly about 1.75 times the normal bearing, but remember it is a lot more material content in a hub three bearing compared to the traditional position. As we have explained before the technology is mainly in the hub bearing versus the traditional TRB, the hub three is just extension of the hub concept because you add more components or more material around it.
- Kunal Bhatia:** How much is the capex which we have spent on this?
- Manish Bhatnagar:** It is about Rs.25 Crores or Rs.20 Crores.
- Kunal Bhatia:** And secondly in regards to the railway, passenger coaches, freight and locomotive how much is the opportunity side in each of this?



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Chandramowli S: The total opportunity for our business in the railways is about Rs.800 Crores. That is the total market demand from railways.

Kunal Bhatia: All put together?

Chandramowli S: Yes.

Kunal Bhatia: Okay, fine Sir. Thank you so much.

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

Udit Poakria: Thanks for taking my question Sir. Sir what is to understand you mentioned in the car segment you grew by 19%, so just wanted to understand what is driving our performance versus the industrial, have we already started supplying products which will be required for BS-VI or is it helped by market share gain and the second question is if you can just give an overview on how you – do you see the industry's capital activity picking up which gives you confidence for the industrial OEM revenues for the next two to three years?

Manish Bhatnagar: I will take the second part first. On the industrial market side, it is a mix bag we have seen capacity additions in some sectors and you know as much as we do that we are seeing expansion in cement, we are seeing expansion in steel, electricity is a mixed bag right now, we are seeing some decline in mining, we are seeing uptick in pulp and papers, so it is a mixed bag really, but on the whole for industrial OEs we do see a mid double digit increase in capacity expansion and therefore our business for next year.

Chandramowli S: And on the car side, a growth compared to the industry you are right that we have out beat the industry growth and that sometimes also it depends on which models you are serving, we have different market shares in different models, different customers, different models and then depending on which customer has done well, which model has done well etc, we have also introduced of course a new product there for the car segment which has also helped us to gain market shares so.

Udit Poakria: Just one last question if you can give how much did the export segment grew and like post the capacity expansion will you be able to then cater to the export demand?

Chandramowli S: Exports actually have fallen for this quarter compared to the same quarter last year and that is mainly because last year same quarter there was some capacity constraint in some of our sister factories in Asia and we were really just doing support production for them, so that has gone off. Our primary exports are more to the western countries of Europe and US and



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Brazil and Latin America and things like that, so that remains more or less steady. As Manish said before our main focus is not on exports. We are here mainly to service to Indian market and when the Indian market is so good then of course automatically it means that we do not have too much capacity left for exports. Having said that of course we are sole supply to a certain carmakers in Europe for certain models and certain applications, so that continues of course.

Udit Poakria: And one last question if I can ask, there was some increased in employee expenses as well as other expenses, was it just due to the capacity being running full which required higher expenses or what is the reason?

Manish Bhatnagar: Employee expenses, we do see sometimes as the year goes by some of our variable pay accruals etc starts to change as we see how we are performing compared to targets etc, so as you can see we have done reasonably quite well this year compared to the previous last year, so we have had to add some extra cost on account of those kinds of accruals that is the main reason. Other expenses more or less in line with sequentially increases quarter if you see, nothing special really about that.

Udit Poakria: Thanks a lot Sir.

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

Shan Dolar: Good morning Sir. Thank you for the opportunity. Just two questions. One is to understand our outlook in the automotive segment as you indicated the automotive companies are looking at a lowest double digit kind of a growth. So would not we looking at outperforming that because of our hub three also starting production from Q1 CY2019?

Manish Bhatnagar: So just to be clear the hub three is more aimed at the passenger vehicle segment four-wheeler segment, our automotive business is almost evenly split between two wheelers and four wheelers just wanted to clarify that the hub three is focused on four-wheeler segment, but nevertheless you are correct the automotive company that we speak to our customers are projecting low double-digit growth to next year and we certainly expect to gain share at those companies with a new product so we hope to outpace that growth.

Shan Dolar: Fair enough and just secondly on the industrial outlook I just wanted to check did I hear it correct that in the railways you said we are looking at mid single digit kind of growth I just wanted to understand with this newer opportunities of Class K bearings and passenger side,



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ideally the scenario should be getting better right as compared to what we are growing right now?

Manish Bhatnagar: Just to clarify what I said was our current share well the current contribution of railways to our total business about 7%, we will increase that to maybe a couple of points more that is what I meant by low single-digits.

Shan Dolar: Oh I see you are talking about contribution Sir but if you could just also share the outlook in terms of the opportunity size because the pie that you spoke about has always been that level so with this new freight corridor and the passenger side metros and modernization would not it lead to even bigger pie in terms of the opportunity size in railways.

Manish Bhatnagar: Right, so we are certainly on the passenger side you mentioned the freight corridor side etc., those are biggest opportunity is to growth for us, you mentioned E-class bearing, K-class bearings, we are important players in both bearings. We expect to gain share in the freight segment with the new bearings as they start moving from E to K, we certainly expect to gain share on a passenger wagon segment with the bearings being approved now for developmental cycle.

Shan Dolar: Sure thank you.

Moderator: Thank you. The next question is from the line of Jeetu Punjabi from EM Capital Advisors. Please go ahead.

Jeetu Punjabi: Manish we have not met but what I love to understand from you is in your new avatar as CEO, MD for the company, are there two or three bigger goals you would like to achieve over the next two to three years for the business?

Manish Bhatnagar: That is always a tough one to answer and I wish I could crystal gaze a little better here along with you, but great question I think certainly in line with our global strategy and I think I have mentioned this briefly in response to one of the question we would like to see to be able to sell more performance contract. As far as our sales right now very tightly link to the bearing consumption what I would love to do is sell more around the performance side. That is one that I would like to see changes at SKF India. Another one just around specific segment and we talked about on this call with this railways or wind etc., where there is potential for growth and we would like to do more there.

Jeetu Punjabi: Right and organizationally are they any significant goals?



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Manish Bhatnagar: I must say what you mean by organizationally if you meant are we going to add more heads certainly we will add heads depending on the business, you meant upgrading talent to meet our goals certainly we will do that. If we are going to wherein performance selling for example, but that has always ongoing process it does not start or end with a new person coming in.

Jeetu Punjabi: Okay anyway my final thing is final question really is when you look at your portfolio and your customers and you see where you guys are positioned, is there one or two pieces of 5 at kind of sound like while this can be really big very quickly some low hanging opportunities that you see us as a fresh set of eyes on this role?

Manish Bhatnagar: I have only been two months I would hate to give you my limited knowledge here, but from what I have seen so far is that I see tremendous opportunity for growth in almost every segment, but keep in mind there are growth very often is linked to industry growth so we see mining starting to decline as we seen last quarter certainly that growth will be limited, but if you are seeing cement demand picking up, our growth would be focused more there so it is also important for us to be agile and quick to respond to market changes because the market may not change for us.

Jeetu Punjabi: Okay thanks Manish all the best in your new role, we will catch up in person soon. Thank you.

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

Bharat Sheth: I just want to understand I mean is there any... how we will be affected with this Euro VI norms coming in from April 2020 whether it will be opportunity for us or not?

Manish Bhatnagar: Generally as we have said before any technology improvement is always going to benefit we hope players like us who are technologically better advanced with products. So we definitely hope that with every such move that the government makes in order to up the technology whether in two-wheeler, four-wheeler etc, it will give better opportunity for players like us that is really there.

Bharat Sheth: Is there any I mean ballpark figures somewhere that content per vehicle can increase from X percentage to X.5% or something?

Manish Bhatnagar: No we do not have any such figures as of now.



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Bharat Sheth: Okay and Sir now with the GST in play, how do we see aftermarket and how we again I mean rupee weakening, so imported full years bearings, so how things are improving and what are the steps that we are taking I mean to improve aftermarket?

Manish Bhatnagar: Our response to that certainly GST coming in play and everything as we talked about we are seeing reduction in the unorganized segment that is for sure, it is very difficult to point out exactly how much of that reduction are we seeing, but that should certainly benefit players like us in this market.

Bharat Sheth: What are other I mean proactive steps that we are taking I mean to improve our aftermarket sales?

Manish Bhatnagar: Well it is aftermarket as you know it is all about reach and timeliness of delivery, the aftermarket is linked very closely for distribution, greater distributed we are the more people we can reach and therefore we can supply in a much more timely manner. There is almost a direct correlation between how fast we expand distribution and aftermarket growth.

Bharat Sheth: What is your plan for next three years to increase the distribution from the current?

Manish Bhatnagar: It is an ongoing plan is not just three years, it has been ongoing plan for the last three years and we will continue for the next three years. We are constantly looking at adding distributor and looking at adding their customers which in the aftermarket for automotive mechanics and small workshops and for the industrial side it is smaller OEMs and end-users.

Bharat Sheth: Thanks that is all from my side. Thank you very much.

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

Pankaj Tibrewal: What I wanted to understand is that there is a lot of confusion in the global automotive market regarding ICE, EVs, and so on and so forth and it is in a state of flux. From a technology perspective and new product introduction perspective, how is SKF India geared for that change. There may be some hype regarding EV at this moment, but how you guys are seeing that change in terms of engagement with OEs at SKF India and how is globally we are positioned for that so that new product introduction can be done out there. I am more referring because there is a competitor of yours at the European guy and German guy, we spoke about E-access, hybrid modules, E-motors and so on and so far, can you throw a



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little bit of light that how is the journey in SKF India going to be over a period of time on new introduction, it is slightly far fetching but it will be helpful for us?

Manish Bhatnagar: No it is a good question and it is not that far fetched. I think we all realized that the journey on electrification is not and if but is so when. In some countries it may happen faster and some countries it may happen slower, India is on the slow path for electrification, but nevertheless it is question of when it has happened. We have seen a significant move towards EVs in developed markets and SKF is very nicely positioned to supply our products to meet those demands, ceramic bearing being one good example that we are working on globally and as and when electrification of drives picks up in India we are already in a good position to translate those successes to India so we are ready when the market is ready.

Pankaj Tibrewal: So We have seen the local OEs a couple of them developing EVs, have you engaged with them already or how is your strategy going to be on the automobile side on EV going forward?

Manish Bhatnagar: We are in good discussions with almost every EV player in the country and in fact a couple of them have already begun pilot productions and we are supplying to them.

Pankaj Tibrewal: Okay great so that is one of my question and then the second one obviously on the emission norms can you give us some ballpark and planning on how... this question has been asked, but content wise how is it going to show up over a period of time where we are on the content today on our automobile where would you like to it to be over a period of time?

Manish Bhatnagar: We still are not very sure emission norms how much the bearing content in that would contribute to that. It is much more the fuel injection, the quality of fuel etc, that those are are bigger factors than that. Small extent of weight and other such things will be there, but generally we do not expect bearings to be a very major influencer in moving from the BS-IV to BS-VI.

Pankaj Tibrewal: Okay great thanks and wish you guys all the best.

Moderator: Thank you. We have followup question is from the line of Puneet Gulati from HSBC. Please go ahead.

Puneet Gulati: Just trying to understand capex plan in bit more granularity is the hub three line supposed to be commissioned by end of this calendar year?



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- Manish Bhatnagar:** Yes, will be commissioned by end of this calendar year in December, we will start pilot production in January next year and we will go into full supply in the following quarter.
- Puneet Gulati:** Okay and Rs.150 Crores of capex annually for this year and next year?
- Manish Bhatnagar:** Not this year from next year.
- Puneet Gulati:** Okay so from FY2020 you will spend annually Rs.150 Crores?
- Manish Bhatnagar:** As of now I mean, these correctly figures all subject to...?
- Chandramouli S:** Directionally correct.
- Manish Bhatnagar:** Yes directionally correct.
- Puneet Gulati:** What is the plan for this year then?
- Manish Bhatnagar:** This year will be lower maybe Rs.80 Crores to Rs.100 Crores.
- Puneet Gulati:** Okay and you think you will be able to capitalize entire capex in FY2020 itself whatever you spent?
- Manish Bhatnagar:** Yes.
- Puneet Gulati:** Okay where is directed which product if you can give some breakup?
- Manish Bhatnagar:** Almost all our product lines, honestly.
- Chandramouli S:** It is a growth we are seeing industrial and automotive both and you have seen the numbers already, capex is geared towards the meeting that demand across all segments.
- Puneet Gulati:** Okay. That is right. That is all from my side. Thank you so much and all the best.
- Moderator:** Thank you. As there are no further questions, I would like to hand the conference over to Ms Mallika Apte for closing comments.
- Mallika Apte:** Thank you. On behalf of SKF India, I would like to thank you all for joining us today in this earnings call. Should you have any further questions for the management please reach out to me via the e-mail address mallika.apte@skf.com this is also mentioned in the invitation that was shared. Thank you again for joining and have a great day ahead.



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Manish Bhatnagar: Thank you.

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