



“SKF India Q2 FY2017 Results Conference Call”

October 30, 2017



Management:

Mr. Shishir Joshipura, Managing Director and Country Head – SKF India Ltd.

Mr. Chandramowli Srinivasan, Director (Finance) – SKF India Ltd,

Ms. Bibhabaree Biswal, Corporate Communications – SKF India Ltd.

- Moderator:** Good day ladies and gentlemen and a very warm welcome to the SKF India Limited Q2 FY2017 results conference call. As a reminder, 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. In case you need assistance, during the conference call please signal an operator by pressing "*" and then "0" on your touchtone telephone. Please note that this conference is being recorded. I now hand the conference over to Ms. Bibhabaree Biswal. Thank you and over to you Madam!
- Bibhabaree Biswal:** Good afternoon everyone. Thank you for joining the call today. We have with us Mr. Shishir Joshipura – Managing Director and Country Head, SKF India and Mr. Chandramowli Srinivasan – Director Finance from SKF India. I will now handover the phone to Mr. Shishir Joshipura to share the brief update of Q2 results with you. Over to you sir.
- Shishir Joshipura:** Good afternoon everybody and welcome to this call. We came through a very, very historic quarter where we experienced the rollout of the GST reform, the much awaited tax reform and we could see that the business had some challenges to meet the requirements of this very major reform and the markets almost in some businesses took a pause, although temporary one to understand what was required of them in terms of business transactions, business processes definition and from that perspective this was a very differently challenging quarter for everybody in the business.
- I had mentioned during my earlier interaction as well that, we are focusing very heavily on leveraging innovation as a major lever for our growth. We have continued to use that coupled with favorable mix of our business. And the business that is coming our way because of the solutions that we are able to provide in the market is leading us to our current stage of business, which saw us register our highest ever sales in any quarter so far. We remain confident that GST as a business settles down to the new way of doing business under GST regime we will see the growth come back and we will be able to build our businesses from here onwards. With these comments I would be happy to answer any questions that you may have.
- Moderator:** Thank you very much. Ladies and gentlemen we will now begin the question and answer session. We will take the first question from the line of Basudeb Banerjee from Antique Finance. Please go ahead.
- Basudeb Banerjee:** Sir congrats for reporting very good earnings and margin. Few questions, one is if one sees the auto OEM industry growth across segments like two-wheelers and even motorcycles which were not growing for many years, peer are also delivering the PV, the trucks, each and every segment is growing almost at more than double-digit, there has been metal inflation even after all these things your revenue was up only low single-digit year-on-year so if you can highlight where I am missing out or there is something one needs to look at? This is the first question.
- Shishir Joshipura:** So as we have explained in the note to the accounts the revenue figures are not comparable directly with any previous periods because of the fact that the previous periods when it came to manufactured

goods sold by us it included excise duty when it comes to imported goods sold by us in most of the cases it included CV duty whereas in the current quarter neither excise duty paid on manufactured goods is included in topline nor is CV duty paid on imported goods paid on in topline. So the figures are not directly comparable, if you were to adjust for both these differences then the sales for this quarter is actually 6.5% higher than the same quarter last year.

Basudeb Banerjee: Still Sir 6.5% might be one could have expected double-digit growth with this kind of strong OEM demand so if the industrial segment where growth has been laggard?

Shishir Joshipura: No, I think that is why I have commented in the beginning that this was a very different quarter for businesses because when GST got rolled out in July it brought the distribution business to a pause because people were trying to hit, the pause had actually started from June and it continued into July when people were trying to understand how their businesses processes were to change the inventory norms, the process of transaction, the cash flows and both on the vehicle after market as well as on the industrial after market the effect was very pronounced. It was also pronounced but to a lesser extent on the OEM side where especially small & medium enterprises were trying to compute on with these changes that were being rolled out so that business were got to a pause and I am not saying a halt, a pause, and then it started to picked up back. August onwards the people understood and you as you probably know that rules were still being notified even as the reforms were rolled out or regulations were rolled out so to believe that the industry was growing at a double-digit and our company did not grow I would recommend that we need to look at in the overall context of what happened in that quarter.

Chandramowli S: The OE part of our business grew by 14.5% this quarter compared to the same quarter last year.

Shishir Joshipura: So that tells you that on the OE part where the auto as you had rightly observed the auto OEM business, which was growing we have also grown.

Basudeb Banerjee: Second thing Sir, in the reported format any change in accounting of raw materials and other expenses from this quarter because your gross margin improvement seems very much on the higher side and similarly the other expenses also moved up significantly?

Shishir Joshipura: Yes, so in this quarter our mix between traded and manufactured changed quite a bit in favour of manufactured. Sso manufactured goods accounted for 63% of sales this quarter whereas last quarter last year same quarter it was 56%, much higher of our own manufactured goods in the topline compared to traded goods.

Basudeb Banerjee: So that is why you meet those distributions and other expenses and relatively gross margin is better?

Shishir Joshipura: Correct, that is why the material cost you see is much lower obviously because when it is traded goods almost all of its in material cost.

- Basudeb Banerjee:** Last question Sir, like those 3rd generation bearings, which you were saying last time were to roll out soon so what is the status of that?
- Chandramowli S:** So on the 3rd generation bearings now we have reached a stage where we should be in a position to supply on a regular basis starting next month so yes, we do not see any numbers in our results on account of this.
- Basudeb Banerjee:** So largely from March quarter one can see it on a full-fledged?
- Chandramowli S:** Yes.
- Basudeb Banerjee:** Thank you.
- Moderator:** Thank you. We take the next question from the line of Sandeep Tulsian from JM Financial. Please go ahead.
- Sandeep Tulsian:** Good afternoon Sir. My first question is if you could share the mix between auto, industrial and within that OEM aftermarket how it has been in the quarter vis-à-vis the same quarter last year?
- Chandramowli S:** Auto is 42% of our sales this quarter, exports are 10% and industrial is 48%. The sales figure last quarter were 37% auto 8% exports and 56% industrial. So clearly I mean exports is almost also auto related so in that sense we add auto plus export is about 52% this quarter compared to 39% and 7% last time so 46% last time. Industrial has reduced from 54% to 48%. Within the auto 42% the OEM is 30% out of that so 30% out of 42% so yes you can workout the maths and the after-market is 12% out of that 42%.
- Sandeep Tulsian:** Okay and within the industrial how is it Sir?
- Chandramowli S:** Within industrial it is around 23% out of the 48% is OEM and balance is after-market so it is more or less 50-50 slightly more than 50 on the after-market just about marginally higher.
- Sandeep Tulsian:** Got it. Sir also in the two other large industrial segment that is renewable energy and railways if you could highlight what has been the sales in the current quarter? has there been any delays in release of orders from railways and how the execution profile has been on the wind energy side?
- Shishir Joshipura:** So wind energy is very simple there has been literally no business because wind as you all know is at a standstill. That is the word I use and that will also probably help the first question we answered in little better way that we have seen almost negligible business happening in the wind segment because of the simple fact that turbines are being manufactured in India last quarter and I am saying the word manufacture may be a very small quantities of turbines which are installed but very, very small number and if you know that the drop is almost 80% so it is a very high steep drop on the industry side and it is very clearly visible for us so that is one and on the railways side I think the business has

been also growing although not at the same rate that we have seen in the previous quarters but we have no reason to concern on railways business for the simple fact that we continue to believe that we have increased focus on safety and performance railways will continue to grow.

Sandeep Tulsian: Sir I also wanted to understand in terms of manufacturing has there been a very slow manufacturing in the particular quarter because we are seeing there has been a big decline in your stock and also at the same time purchase of traded goods also declined significantly so has the production activity been significantly below the normal levels in the quarter?

Shishir Joshipura: No on the production this quarter was about 5% higher than the same quarter last year. We worked a lot on reduction of inventories as a project we have done that and therefore you see the reduction in inventory also on the imported goods on the traded goods we have reduced the inventory. The other thing is of course, as I said earlier our mix is now this quarter has been very much on the manufactured goods sale and not so much on the traded, in the past traded used to be around 44%-45% it has now dropped to 37% this quarter so that answers your question about purchases of traded goods.

Sandeep Tulsian: Sir my last question is we see a lot of consolidation in the industry in the past two quarters as in one of your competitors consolidating all its listed unlisted entities into one while one of the other companies has gone ahead and acquired another smaller companies so how do you just view the overall competitive scenario going forward? Any steps that SKF is thinking on those lines to consolidate its businesses or may be looking at different companies or anything that you can give your views on?

Shishir Joshipura: I think both transitions that you mentioned have happened for different reasons, which obviously are valid for both the companies to go ahead with those steps and they had and I think the second is just bringing all the good companies under one umbrella so that is not in real sense the consolidation of that sort that one you mentioned the previous one where is more around market consolidation that two companies become one, but obviously both the companies have their own rationale and it worked for them so we are also continuously looking at these is to when that the rationale is defined for us act in different directions then we will do so.

Sandeep Tulsian: But do you think this will make you more competitive in terms of pricing?

Shishir Joshipura: Why should that happen?

Sandeep Tulsian: Since the management change would be there?

Shishir Joshipura: Management change in second case is not there. It is the management still. In one case if you look at the overall market position is still not changing. It is not changing the relative packing order and also

they have mentioned their own rationale for this acquisition and a lot of it is indicating for business outside India so I do not see too much of changes happening in Indian market.

Sandeep Tulsian: Thank you so much for taking my questions.

Moderator: Thank you. We will take the next question from the line of Nishit Jalan from Kotak Securities. Please go ahead.

Nishit Jalan: Thank you for taking my question. Sir my question is primarily on your revenue mix, you said that manufactured good mix has increased. Is there any specific reason for that and like is it sustainable because how we understand is that the auto segment manufacturing happens in the listed entity and most of the industrial is outside the listed entity and we have seen auto segments basically in the replacement market and all there is some demand pressure is it purely because of revenue mix or there are certain products that you have started manufacturing in-house and because of it, it has structurally changed and it will remain around these levels going ahead as well?

Shishir Joshipura: Let me put it like this that I do not think we should start drawing from conclusion based on one quarter that is No.1. No.2 is we did see in the first question also that the OEM side of automotive business has grown in double-digit space and we also growing double-digit space in that business line and the part that we make in India so obviously all of that is happening and it must reflect in these numbers as well, which is got you see here. It is not that we were driving that the design to be at certain number and as I said in the opening also that we did see this particular quarter product mix price mix ratio which was different than the other quarter for different reasons because of the GST reforms this was a unusual quarter. This was not a normal quarter in which things were happening. This was a quarter in which there was a big external change and therefore obviously everybody have kept their capacity and ability to respond that change is different, different market segments responded differently for some it meant completely overhauling in their business process for some it meant taking a pause to see what modifications are required and for some it was still business as usual so it makes different piece and different impact for different businesses and that is what you see in this quarter.

Nishit Jalan: Sir is products for wind energy manufactured in-house or do we it is mostly traded?

Shishir Joshipura: Well it is in-house but so within the listed entity there is nothing in-house everything is traded.

Nishit Jalan: Everything is traded, so it could be because of that as well, the wind energy segment was down auto OEM was up so that is the reason why manufacturing goods mix could have increased?

Shishir Joshipura: Yes, those are some of the factors.

- Nishit Jalan:** But there is no specific new products, which were initially manufactured outside the entities now we have started the manufacturing those or something?
- Shishir Joshipura:** Nothing that would change these numbers significantly.
- Nishit Jalan:** Sir my second question is on you mentioned that GST led to a big disruption so is it only the distribution segment where you would attribute the GST impact or you saw a GST negative impact on other segment as well?
- Shishir Joshipura:** No, I am not saying negative. I used the word pause and what I mean that pause is that when such a large reform is introduced it is obviously asking everybody to relook at their business processes especially for because the laws were impacting the distributor community in a particular way therefore they had to really look at that what happens to their stocks, how do they account for them, what is the three four principles for them, the movement of goods interstate versus inter-branches and there are many, many “normal business practices” that was called for change because of this reform. Obviously those are small organizations, so it takes time for them to understand what does it mean, how does it go and they were all and it diverted attention, I mean there are small organizations, so the owners attention would get diverted and that is what we saw happen so in that sense distribution businesses were impacted with a pause because they were not able to, not that they did not want to transact but they were not able to transact because they were in no position to stay focused on growing and getting ready on their business side they had to look after the regulatory side a little closely to be ready so they can then go and that is what we have seen, it is not beginning to get back on track on that line so that is No.1. No.2 as I said on the OEM side obviously much more organized compared to the distribution community but even there we saw there were organizations, which were large who were better prepared and there were small who were not so well prepared, even within the big ones there were issues, even we faced challenges so I am saying that everybody was having a different challenge to face based on their level of preparedness and systems preparedness itself because there were lots of challenges that we were facing on system side. So MIS system I am saying that introductory system between the government and the business so it was that is why I keep on saying this was an unusual quarter.
- Nishit Jalan:** Okay so basically we should see growth coming back to double-digit kind of levels, which you were delivering, in previous quarters?
- Shishir Joshipura:** Two things will happen, which is what I think Mouli was explaining that the way sales is accounted has changed so the numbers if you start comparing to previous quarter you will not see that because the sales is being restating to a lower level now because of the new accounting method.
- Nishit Jalan:** So those are showing negative impact right this quarter because of that?

- Shishir Joshipura:** Correct, so you will see that if it still continues it will go to July of next year right, in that quarter it will probably again comparable sales till that time it will not be. So I am talking purely from comparable basis but if you say is the growth coming back, will that happen, yes of course it will.
- Nishit Jalan:** So basically the inventory levels of the dealers that OEs that will atleast normalize and that has impacted your growth that has normalized in the next few quarters?
- Shishir Joshipura:** Yes, and also the accounting more than that the accounting part that the inventory and all that will get normalized now but the accounting portion will stay because that the new rule that you cannot earlier sales included excise duty and heavy duty now it does not to that extent the sales has got restated to a lower sales, same volume got restated at lower level.
- Nishit Jalan:** Sir my last question would be on we are seeing lot of commodities moving up especially steel, aluminum and all this so how are we placed on that have we been able to take price increases or will can see some negative impact coming in the future, how should we look at?
- Shishir Joshipura:** The way we operate is obviously we have a forward-looking view on the commodity pricing and we have been in dialogue with the customers since shall I say, March of this year to and this surprises to the new reality because you know the way the whole cycle works is by the time I get increase on customer and I actually supply the part we are looking at four, five month kind of cycle time before the price increase starts to become visible. So we had started this dialogue best in March with all customers, and we have been able to and at different points in time it is not that everybody agrees on the same date but we have negotiated and we have come to an agreement with most of our customers on what should the new prices look like? And then of course there was a GST rules in which also meant that there was some downward revision required for some cases where the new tax structure was indicating a lower input cost so we had to adjust for that so after all that stuff we had to come up of the new price point which is what we have done.
- Nishit Jalan:** And you have done the same in the registration market as well?
- Shishir Joshipura:** Everywhere.
- Nishit Jalan:** Thank you Sir. That is it.
- Moderator:** Thank you. We will take the next question from the line of Raghu Nandan from Emkay Global. Please go ahead.
- Raghu Nandan:** Thank you Sir for the opportunity and congratulation on highest ever profit numbers. Sir can you share the segment wise growth?

- Chandramowli S:** Cars have grown for us compared to the same quarter last year I am talking now, it was same quarter last year car was almost flat just about 2% reduction in cars, truck was a fantastic growth of almost 96% for us because of introduction of new products there and being therefore got a lot of increased market share on the truck side. Tractors we grew by about 16%, two-wheeler etc., that grew by about 9% for us. Industrial sales were about overall about 3% lower may be on the wind size because that was the major contributor and export grew by about 45%.
- Raghu Nandan:** Thank you Sir. Can you elaborate on those new products in the truck segment Sir?
- Shishir Joshipura:** So Raghu, I have said like last time also that we have used innovation as a lever to track our growth and we have come up with the new set of solutions for transmission side of commercial vehicle, which we found a great acceptance amongst the users and that is why we are able to see because obviously we are replacing our competition volume there where we were not present with, so therefore our growth is significantly higher compared to the market growth rate.
- Chandramowli S:** Having said that some of these growth numbers also would probably I mean sometimes it is little difficult to see this quarter in isolation because due to GST coming we had different buying pattern in the month of June from different OEMs, some of them bought in advance because they did not want disruption in the beginning part of their new quarter when GST rolled out, some of them delayed buying so it was a mix of both so it is little difficult to judge this quarter's numbers by themselves because they may not truly reflect only this quarter requirement of bearings at their end which you get abroad and in India.
- Raghu Nandan:** That explanation broadly says true even for the cars side where it has been a flattish kind of a performance?
- Shishir Joshipura:** Yes, especially the second explanation that I gave about some people buying in advance to make sure that they do not suffer in this quarter when it begins also again different companies transition to GST differently, some companies close down in June last week in order to get their systems aligned and from July 1, they went full blast, companies like us actually sold full blast till June 30 and then close down in the first few days of July to transition to GST so a lot of different pattern like that.
- Raghu Nandan:** Understood Sir. Like as of today would you say that things are normalized post the GST implementation and any trends you are seeing where there is a likelihood of market share gains from unorganized players and how big is the opportunity for these market share gains?
- Shishir Joshipura:** Let me say that as of now just one quarter of GST has happened. Things are beginning to stabilize. I would not say it is fully stabilized yet. It is still in the work-in-process but it is better each month seems to be slightly more stabilized than the previous month; however, the big challenge of GST still remains in terms of reconciliation as the sales made by one person and the purchases that was recorded by another person that has not even started here it is just about starting this month so to that

extent I do not know whether it will go smoothly but things on the business side seem to be improving. It is too early to say about market share yet. I mean we have just seen one quarter of a disruptive GST so we will have to wait and watch. The hope is that yes more and more players will come into the organized sector therefore it is better for companies like us in fact there are all competition will be level playing field, but it is too early to talk about market share increase as of now due to unorganized sectors and that kind of stuff.

Chandramowli S: That will not be visible for a year.

Raghu Nandan: Sir like what has helping exports and what kind of a run rate do you expect I mean a double-digit growth is possible?

Shishir Joshipura: Exports we are doing quite well driven by the fact that things are improving globally on the automotive side and a lot of our exports are to the European markets and things like that. Also we have started to look at a lot of new businesses in America, Latin America etc., plus in Asian markets some of the products, which earlier used to be imported from other say in Western European countries for sale in Asia are now being to some extent displaced by manufactured in India product so that extent our products are as good as anything made in the Rest of the World and we are slowly starting to increase our presence in Asia as SKF moves more and more towards a more Asia for Asia kind of footprint so we are getting our space there and that is also helping our exports.

Raghu Nandan: Sir like one long-term query how would the content per vehicle change in event of electric vehicles?

Shishir Joshipura: It will change because the power trains will be very different, so the gear boxes in power trains would be very different for electrical vehicles compared to IC engine ones and I can only say that it will see a significant change but the good news for us is there are still wheels to be moved so most of the solution at around wheel end so they will still be required not depending on what philosophy each of the EV manufacturer adopts in terms of either shall I say individual motor driven four wheeled drive or a single central motor driven that big different philosophy for different guys, that would determine the content of our product. The good news for us in SKF India is that is in terms of overall sale car sale for us is almost like 5% of our overall sales and within that majority of the solution for us are on the wheel end so we are not going to be so much impacted with electrification if I were to say.

Raghu Nandan: Thank you very much.

Moderator: Thank you. We will take the next question from the line of Mukesh Saraf from Spark Capital. Please go ahead.

Mukesh Saraf: Thank you for taking my question. Sir first question is like you had mentioned about the adjusted revenue is up 6.5% is the EBITDA largely comparable Sir, because EBITDA is up 25% Y-o-Y so just wanted to check if it is largely comparable?

- Shishir Joshipura:** EBITDA is comparable in absolute numbers and the percentage of course you will up the topline upwards a little bit so the margin percentage drops by about half a percentage point if you do that.
- Mukesh Saraf:** So that is largely comparable. Alright and you had mentioned about 63% of your revenues being manufactured while if I look at your autos it is 42 plus 10%, 52% so is this gap largely to say versus a previous year or previous quarter in terms of manufacture non-automotive products?
- Shishir Joshipura:** Sorry.
- Mukesh Saraf:** Sir you mentioned 63% of your revenue was manufactured goods while your auto business is 42% plus exports is 10% so that is 52% so this gap?
- Shishir Joshipura:** Auto is 52% compared to 46% last year same quarter.
- Mukesh Saraf:** This 63% versus how much Sir last year same quarter manufactured?
- Shishir Joshipura:** 56%.
- Mukesh Saraf:** The gap is explained there and my question on railways Sir we are hearing a lot obviously on the freight side we are hearing a lot, and the timing of which is still awaited obviously but on the passenger side also where you have the presence we are hearing about Silurian coaches being converted to LHB so is that on the cards could that happened earlier than the freight side expansion? What is your thought on this?
- Shishir Joshipura:** That the LHB coach conversion will move at a very fast pace. I am not a person to judge on behalf of railways whether this will happen before the freight part of it but independently I think, if you think of two tracks than LHB coach conversion is a definite track, which is now visible to us and we are happy about it because as you know that we are large share supplier on LHB coaches. On the freight side there is still the DFC is delayed that is for sure now that it is delayed, it is on track, but delayed, so obviously from that extent yes some other issues around the carrying capacity those decisions are still with railways I am not involved.
- Mukesh Saraf:** Right okay. And you had mentioned about cars being 5% revenues how much your trucks be Sir overall?
- Shishir Joshipura:** I do not have, it will be similar.
- Mukesh Saraf:** Just last one probably more bookkeeping we see interest expenses on your P&L so which means this be a temporary kind of a issue or how it looks?

- Shishir Joshipura:** It is little bit of arbitrage that we are doing on export credit, earlier we were not taking that we decided to do that so it is loan that is taken to finance exports on which there is a list by the government so we get some money on our treasury side.
- Mukesh Saraf:** That is it from my side. Thanks a lot.
- Moderator:** Thank you. We will take the next question from the line of Lakshmi Narayanan from Catamaran. Please go ahead.
- Udit:** Thank you Sir for taking my question. This is Udit. Sir I wanted to understand like in the next three to five years like you mentioned double-digit growth but if we have to break that growth like coming from like your auto division and industrial division what would those numbers look like and how much of that growth will be content driven and how much will be like total industry volume growth?
- Shishir Joshipura:** I do not know from where you got it, but let me try and answer the question so as you said in the past that our aim is to grow all our businesses and we are not focused on growing A versus B. We are very clear that we would like to serve all the emerging opportunities with the extent that we can and therefore we are not going to follow as of now any specific strategy to say we will serve automotive and not in the industrial or vice-a-versa so we will continue to serve both the segments in a decent way that is No.1. No.2 is if you look at organic growth in terms of some of the tide effects I would say that tide effect would be pretty reflective on the average industrial growth, I would say 50% of our growth should be from that but the other half of our growth has to come from what I call as designed growth which is where we will have to innovate, improve our content, improve our share of business improve new offerings for example that I have given for trucks earlier those kind of things to happen, LHB coaches, so we will have to see as to how innovation can help us to get a larger share of customer spend and grow the business in that direction.
- Udit:** Thanks a lot. That was my question.
- Moderator:** Thank you. We will take a next question from the line of Bharat Sheth from Quest Investment. Please go ahead.
- Bharat Sheth:** Good afternoon Mr. Joshipura and Chandra. Sir in railways how do we the traction because now elongation process and everything so how the acceptance is happening and we are the second supplier first one is very old supplier so how the things are moving now and how do we see railway growth in our overall business?
- Shishir Joshipura:** We are very positive about the growth of railways on different levers. We believe that there is a higher and increasing focus on safety. We believe there is a higher increasing focus on efficiency and both of these combined together would open up several areas of modernization of new technology, of

improved solutions and all of this is a good sign for us so we are pretty positive about the way the business is going forward.

Bharat Sheth: And regarding the dedicated freight corridor whenever it starts our products are ready and its already approved product correct?

Shishir Joshipura: That is correct.

Bharat Sheth: Sir can you share, I mean CV, which we started and we are seeing a good traction so how do we see the CV as a whole I mean pie of auto business to grow?

Shishir Joshipura: No as I said that we do not see that CV as a pie of auto and as I kept on saying if we believe that we have a solution on a rotating shaft, we would like to offer to our customers and wherever we are successful in establishing the value we are very sure that we will get the business like the (inaudible) 36.55 vehicle and we are able to get a very clear advantage to our customers in terms of performance and therefore they are able to see that value and that leads to increase in our business.

Bharat Sheth: Okay and Sir what is a utilization that of course you say that depends on the mix but overall utilization if you have to put any initial number?

Shishir Joshipura: So we have in the past we said that we can have another 15% change in our volume and we can now revise that down to say we are at may be more 5%-6% of volume more can be accommodative before the new investment had to kick in.

Bharat Sheth: So when do we expect that new investment is likely to happen and what size?

Shishir Joshipura: We are making plans. I have already said that over the next three years we will be spending significant amount of money and we will do that. We are committed to do it.

Bharat Sheth: Any plan on I mean moving to bearing manufacturing in our own?

Shishir Joshipura: No that is being made in our subsidiary, it is a group company and we have technologies and we have no plans to move that.

Bharat Sheth: Secondly, you said that in exports the things are improving vis-à-vis I mean sourcing from factory vis-à-vis more than the other factory so earlier which where we were saying that because of other factory we were more competitive than Indian one so how do we really read in that?

Shishir Joshipura: No, I do not know whether we should read the way you have described because most important to understand is yes India is the base, which is able to establish a best cost country for some product lines and on those product lines we have capacities. First of course I would like to serve the customers in India and then if I have additional capacity I would like to go outside and that has been the strategy

for us right through that we follow. What we started to do now is also expand the geographical reach so from what earlier Mouli mentioned and I add to that so let us say mining application for example, that was a market segment, SKF was serving but we were not. But now we have found it together we can do even more business should SKF India and SKF Australia combine their knowledge and experience together to the marketplace. So some of those initiatives have happening, which is helping us to grow, also, know coupled with the fact that European market especially the European market where we are supplying we see some very good growth happening and this also helping us.

Bharat Sheth: Sir you said that we are working on some investment so do we really taking I mean increasing export pie also will be the part of this investment I mean to meet export demand?

Shishir Joshipura: Yes.

Bharat Sheth: Okay that is all. Thank you very much Sir.

Moderator: Thank you. We will take the next question from the line of Aksh Vora from Praj Financial. Please go ahead.

Aksh Vora: Sir just wanted to know the margins in this quarter has been significantly better is this because of mix between manufactured and traded or is something I am missing?

Shishir Joshipura: Mix has had a big part to play in the improvement in margins this quarter. We had all the right things going in terms of mix in the sense that more manufacture than traded, more of a better auto OEMs like trucks and tractors within the overall auto OE space, our vehicle aftermarket improved this quarter because June was such a bad month because everybody was destocking so we had restocking effect in the month of August and September so our vehicle aftermarket was better than the same quarter last year. On the industrial side segment like wind, which is highly competitive, that was much lower so all these together meant that our product or segment mix was much better this quarter so that helped in the overall margin percentage.

Aksh Vora: So it will be difficult to say that margin will be sustainable more or no?

Shishir Joshipura: Well we have always told you all that we never look at it as a quarter-to-quarter basis. Our margins are reflection on a more long-term basis never on a quarter-to-quarter because in a quarter you could always have a product mixes that might swing the margin percentage this way and that way. We stick to that.

Aksh Vora: True, that helps. One more thing Sir on electric vehicle, you mentioned that our car portfolio is just 5% to the overall revenue can you breakdown auto so car is 5%, trucks was more or less similar you mentioned so the rest is two-wheelers, can you break down the auto?

- Shishir Joshipura:** Yes, car is 5%, trucks and tractors together is 7% and two-wheeler and power transmission is 17%, vehicle aftermarket is 12% this is all I am talking about this quarter okay. So it is around that fairly you can say a reasonably long term also is around that percentage.
- Aksh Vora:** Thanks a lot Sir.
- Moderator:** Thank you. We will take the next question from the line of Kunal Bhatia from Dalal and Broacha. Please go ahead.
- Kunal Bhatia:** Thank you for the opportunity. I just missed out on number, Sir you mentioned in Q2 FY2018 auto was 42% versus 39%, exports 10% against 7% Sir how much was aftermarket and industrial vis-à-vis last year?
- Shishir Joshipura:** Auto 42% includes after-market. So aftermarket was 12% same last year same quarter are also 12%, the industrial aftermarket more or less same 24% this quarter versus 25% last quarter the absolute value also almost the same.
- Kunal Bhatia:** Okay. So Sir what I am missing because I am getting 42,10 and 24?
- Shishir Joshipura:** Then there are industrial OEMs.
- Kunal Bhatia:** Yes, Sir how much was that I missed out the industrial OEM overall figure?
- Shishir Joshipura:** Last year same quarter was 29% this time it is 23%.
- Kunal Bhatia:** Okay fine. Perfect Sir, thank you so much.
- Moderator:** Thank you. We will take the next question from the line of Sandeep Tulsian from JM Financial. Please go ahead.
- Sandeep Tulsian:** Sir I just had one follow up question Sir what is the plan on since you mentioned that you worked on a plan to reduce inventory overall so how are you going about in reduction of depots and what kind of cost saving will it lead to on a sustainable basis in terms of margin profile?
- Shishir Joshipura:** We have to start off before anything else we had about 16 of these different storage locations across India. We had started a project last year itself to start consolidating because obviously it cannot be done overnight so in anticipation of a rule that we thought will come in one moment or the other of course it came in July we have now, our overall plan is to reduce it down to six and we are working on the plan right now and consolidating it obviously helps us to cut off cost, cut off the inventory and the challenge of course is to make sure that our customer service levels do not slip off.
- Sandeep Tulsian:** This number is down to what right now?

- Shishir Joshipura:** We are in the process of transiting towards six.
- Sandeep Tulsian:** Yes, so from 16 you are at may be say 10 to 12 right now?
- Shishir Joshipura:** Yes.
- Sandeep Tulsian:** And Sir what kind of cost savings can this accrue in terms of margins?
- Shishir Joshipura:** We are not advised to give all those granular outlay.
- Sandeep Tulsian:** Thank you so much Sir.
- Moderator:** Thank you. We will take the next question from the line of Priya Ranjan from Systematix Shares and Stocks. Please go ahead.
- Priya Ranjan:** Thanks for taking my question. My question is on Generation Next bearings so what kind of opportunity on a similar volume what can be if we transit from the normal existing bearing class to the generation next bearing so what is the topline growth?
- Shishir Joshipura:** The generation bearing since you asked a question needs to be seen in two phases, one is the transition of the current solutions to Gen III and the second is what happens in the electric vehicle because electric vehicle by definition will have a very different set of bearings deployed. There is no engineering to take weight off, so very different, so in the current phase right now in the transition happening also I think we would see may be fully settled 40% of car market transiting to 50% car market transiting to generation market not everybody will transit and thus so that I have said to some of you in the past I am sharing for common benefit of everybody the Gen III is bit of misleading thing because you see the Gen III means which is something very hi-tech know, well it is not, it is actually you take a Gen I bearing as you build some more parts around it so that the number of SMV operations actually go down for the OEMs, so it becomes a single part as opposed to let us say three or four parts let us say OEM is required to assemble and inventory and do all the processing and everything that gets reduced so it is not in that sense a hugely technology advance like a Pentium chip, series 4, 5, or something like that more around consolidating a part and then growing and it is only a VLAN solution and as I said when electric vehicle comes it completely be defined.
- Priya Ranjan:** Sir just one question follow up question on the import versus locally manufactured say from the GST back do you see any kind of benefit in GST versus imported?
- Shishir Joshipura:** No by and large neutral for us.
- Priya Ranjan:** That is all from me. Thank you.

- Moderator:** Thank you. We will take the next question from the line of Ajith Motwani from Bharati Axa Life Insurance. Please go ahead.
- Ajith Motwani:** Good afternoon Sir. Sir I joined little late. Your press release mentions that the business had some disruptions or let us say challenges from the GST so can you elaborate more and what it more related to a aftermarket sales and how is it shaping up now?
- Shishir Joshipura:** When I said business I am not talking about SKF. I am talking business in general. So when GST rolled out obviously there was a change right the change in the business process, change in the way managed inventory, change in the way you treat your taxes across the segment, for some it is different rates, for some it is different way of accounting, I have said this in the context that this business was facing a challenge of because it was just not a rate change right it was much more than a rate change, the consolidation of different taxes so IT systems had to change the way inventories are reported and manage had to change and so on. So it has several changes and those changes meant that for a big player of time the business took a pause especially the distribution community was even more impacted for different reasons, manufacturing companies were reasonably well prepared because they have excise duty and then they had MODVAT and CENVAT and everything they knew what to do but if your trading arm then you did not know it so well as manufacturing entity so to that extent the distribution community was impacted and therefore the business as Mouli also mentioned a month prior in June and during the month of July, we did experience a little pause in the distribution business more pronounce and OEM but even in some OEMs.
- Ajith Motwani:** Got it. In terms of the rates per se for you were the GST rates neutral for bearing industry as such?
- Shishir Joshipura:** Neutral.
- Ajith Motwani:** In terms of I was looking at industrial OEM number the percentage that you have shared was about 23% this quarter versus 29% is this just a quarterly issue or even the first half revenues for industrial OEMs?
- Shishir Joshipura:** The big drop was in renewables, which went down by 4%, renewable energy where the wind is almost gone out of these wind makers.
- Ajith Motwani:** Okay last year same quarter it was 4% points.
- Shishir Joshipura:** It was 6% it dropped to 2% this quarter.
- Ajith Motwani:** Okay got it.
- Shishir Joshipura:** That was a big drop.
- Ajith Motwani:** The industrial aftermarket also seems to have moderately declined but still in?

- Shishir Joshipura:** No in absolute value it was actually more or less slightly positive, just very marginally
- Chandramowli S:** It is important is to know that it is as we kept on saying during the call that let us not forget the fact that this was an unusual quarter it is not a business as usual because of the GST rolled out.
- Ajith Motwani:** Got it, thanks a lot Sir.
- Moderator:** Thank you. We have the next question from the line of Bharat Sheth from Quest Investment. Please go ahead.
- Bharat Sheth:** Thanks for follow up question. Earlier we had service initiative so can you elaborate more what is the status I mean that we were looking to garner more business from the OEMs?
- Shishir Joshipura:** So there is no change in the strategy. We are actually consolidating that even further by announcing an initiative called REP, which is the rotating equipment performance improvements program and we are offering to our customers solutions across the technology platforms and combining it with the services to deliver a performance rather than just a product or a hardware that is something that we will continue to build upon.
- Bharat Sheth:** How that has helped, can you I mean tell that is almost three four years old initiative?
- Shishir Joshipura:** The REP part is not three four years. The services part is, but now I am saying I am not owning when we give this services standalone services and that has helped us to go further to customers and did improve our share of businesses on account where we were able to offer services on a sustain basis, now I am saying we are going one step forward to say services plus all the technologies that we have to offer we will offer solutions and a performance rather than a hardware or a software. Output is what we will get paid for and not input. That is something that is the REP initiative that I am talking about and that is something that we start to roll out, it is very exciting, it is very promising, it promises to challenge us and our customers both together but we will see as to how that pans out.
- Bharat Sheth:** And I understand this is more on industrial correct?
- Shishir Joshipura:** That is correct.
- Bharat Sheth:** Thank you.
- Moderator:** Thank you. We take the next question from the line of Vipul Shah from Sumangal Investment. Please go ahead.
- Vipul Shah:** Good afternoon Sir. My question is all our expansion will be on the electrical vehicle side or it will be on IC side also?

- Shishir Joshipura:** Where is the electric vehicle in India I said?
- Vipul Shah:** Okay so all the expansion that we are talking about over three years that will be on IC engine side only?
- Shishir Joshipura:** But we will start making electric vehicle then we are ready to offer this solution.
- Vipul Shah:** At the end of this expansion how much our capacity will be increased in terms of percentage Sir?
- Shishir Joshipura:** In the overall capacity, I mean it depends on how you look at it but if you look at a number upon number kind of situation then we will look at 10%-15% kind of change.
- Vipul Shah:** Sorry could you repeat please?
- Chandramowli S:** Not up to the first one or two channels.
- Shishir Joshipura:** It is difficult to say as of now as to how much of capacity will go up by because we will have to take the capacity increase step by step as we see the market demand and our offerings and so broadly the intention has been stated that we are going to invest more the exact timing of that will depend it is not all going to happen in one year so then your question will have to be seen at the end of which year you are looking at capacity expansion.
- Vipul Shah:** Thank you.
- Moderator:** Thank you. We will take the next question from the line of Sandeep Baid from Quest Investment. Please go ahead.
- Sandeep Baid:** Good afternoon Sir. Sir of the traded goods how much is imported and how much is sourced from the subsidiary of the parent company?
- Shishir Joshipura:** That ratio keeps changing now in the particular quarter because wind was very low therefore a part of what was being sold in wind from our Ahmedabad factory is lower, overall I would still say it is about may be 80:20 or 85:15. I really do not have the figures at the top of my head because for us everything is traded.
- Sandeep Baid:** Okay and are the margins similar for imported versus locally sourced?
- Shishir Joshipura:** Yes generally they would fall on transfer pricing rules and now we know the transfer pricing is applicable to locally produced local enterprises also so yes.
- Sandeep Baid:** Thank you.

- Moderator:** Thank you. We will take the next question from the line of Sayam Jain from Edelweiss. Please go ahead.
- Shradha Sheth:** Good afternoon Sir. This is Shradha Sheth here. Congrats on a good set of profitability. Sir just wanted to understand the trend in the industrial side adjusted for the wind related impact are we seeing any signs of uptake across any of the other segments?
- Shishir Joshipura:** In general we have seen railways doing better. We have seen construction doing better and those story lines.
- Shradha Sheth:** Because the way we are seeing the trend in the automotive side of double-digit growth in the OEM side is that also populating into the industrial side?
- Shishir Joshipura:** Not yet.
- Shradha Sheth:** Okay. Sir you said adjusted for the wind impact it is a flattish number in the industrials right?
- Shishir Joshipura:** Yes, it is around, slightly lower that is all.
- Shradha Sheth:** Sir just on the automotive side, wanted to understand the trend in cars segment like last quarter we saw high double-digit growth so that we saw tapering off, was it tapering purely because of GST?
- Shishir Joshipura:** No as I said there were different buying patterns by the different auto OEMs or in general all OEMs some of them ran full blast till June and then changed the ERP systems in the beginning of July for the first seven eight days they were not really doing much. Some had a different, they stopped in the last seven eight days of last month and so it is slightly difficult to say on a quarter-to-quarter basis. Let me put it like this the first nine month of this year, our car sales have grown by 16% when the industry has grown by 7%.
- Shradha Sheth:** Fair enough. And Sir aftermarket are we seeing signs of pick up because or was it purely restocking, which has helped the growth coming back because that was declining for a long time so with the OE cycle coming back can we see a sustainable trend of growth coming back here?
- Shishir Joshipura:** We should wait one quarter and as I said it was an unusual quarter so with that drawing conclusion long-term based on an unusual plus one quarter then it would not be correct. My permutation is that we should wait and see what happens. We are seeing good traction but to understand the line always of their good traction, we should give a little more time before we could reach any conclusion.
- Shradha Sheth:** Sure. Sir this just two more questions this reduction in inventory on the imported goods side that phenomenon is continuing would be done by what is the timeframe for that?

- Shishir Joshipura:** No I did not say it is a continuing reduction. I said that it was a concerted effort to reduce our inventories in order to release cash. Of course and it is always good to have a lower working capital so without compromising on service levels, we have worked a lot on looking at our inventory levels to see where all we can optimize and reduce and that is the reason for reduction in inventory.
- Shradha Sheth:** Sir lastly on the capex side, what we had indicated in the past that we are almost looking at doubling of capex from the previous trend so it will be mainly in the automotive side only or will there anything be on the manufactured industrial side also?
- Shishir Joshipura:** It depends on what the product lines because if the product line bound to lie inside the unlisted subsidiary then obviously it will go there because they have the competent to do so but those product lines where the competence is here, we will make it.
- Sharda:** Thank you Sir and all the best.
- Moderator:** Thank you. As there are no further questions from the participants I now hand the conference over to Ms. Bibhabaree Biswal for closing comments.
- Bibhabaree Biswal:** Thank you very much for participating in today's call. In case you have any further question you can write to me at bibhabareebiswal@SKF.com. Have a great day thank you.
- Moderator:** Ladies and gentlemen on behalf of SKF India Limited that concludes this conference call for today. Thank you for joining us. You may now disconnect your lines.