Date: 2nd August, 2022

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

Dear Sirs/Madam,

Sub: TRANSCRIPT Of ANALYST/INSTITUTIONAL INVESTOR MEETING ON JULY 28, 2022

Reference: Intimation Dated 21st July, 2022 & Intimation dated 29th July, 2022 for Audio Link

Pursuant to Clause 15(a) of Schedule III, Part A, Para A read with Regulation 30 (2) and Regulation 30 (6) of SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 (as amended from time to time), please find enclosed herewith transcript of Analyst / Institutional Investor Meeting on 28th July, 2022

Transcript will be available on website of the Company.

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

Thanking you,

Yours faithfully,
SKF India Limited

RANJAN
KUMAR

Ranjan Kumar
Company Secretary & Compliance Officer

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SKF India Limited
Q1 FY 22-23 Earnings Conference Call

July 28, 2022

Management:

Mr. Manish Bhatnagar – Managing Director – SKF India Limited

Mr. Ashish Saraf – Chief Financial Officer – SKF India Limited

Ms. Aparna Srivastava – SKF India Limited

Moderator: Ladies and gentlemen, good morning and welcome to the SKF India Finance Limited Q1 FY2023 Earnings Conference Call. For the smooth conduct of the meeting, all participants are in the listen-only mode. A brief question and answer session will follow the formal presentation. Should you need assistance during the conference call, please signal an operator by pressing "*" then "0" on your touchtone phone. As a remainder this conference call is being recorded. I now hand the conference over to Ms. Aparna Srivastava from SKF India Limited. Thank you and over to you Madam!

Aparna Srivastava: Thank you Michelle. Good morning everyone and thank you for joining our investor call today. With us we have our Managing Director, Manish Bhatnagar and Chief Financial Officer, Ashish Saraf. Before I turn the call over to the management, I would like to remind you that in this call some of the remarks contain forward-looking statement which are subject to risks and uncertainties and actual results may differ materially. Such statements are based on management beliefs as well as assumptions made by and on the information currently available to the management. The audience is requested not to place undue reliance on these forward-looking statements and making any investment decision. The purpose of today's call is to purely educate and bring awareness about the company's fundamental businesses and the financial quarter under review. Let me turn the call over to SKF India's Managing Director, Manish Bhatnagar who will give an overview of the company's business activities and development for the Q1 FY2022-2023. We will then open the call for Q&A. Over to you Manish!

Manish Bhatnagar:Aparna, thank you very much and welcome to everyone who has joined this call. We have a two-hour call set up and hopefully we can address all questions and comments on this call. We do not have a formal presentation for this call because we wanted to make it more Q&A and answer your questions about SKF, but certainly I will make a few comments to open the discussions around the quarter just went by.

We are truly in an environment which is extremely inflationary. We are seeing increases in cost on material, on freight, on a number of things that impact us but despite that we had turned out a very, very good quarter in terms of revenue and profitability, both. Our revenues for the quarter are up 52% over the previous year but having said that we all know the previous year is not a great comparison because of the COVID impact in the same quarter last year, but even if you compare quarter to quarter, sequentially compared to the previous quarter up by 1.4% on revenues.

Likewise, on PBT while we are up 66% over the same quarter last year the more important one, I think the more relevant one is we are up 21% sequentially over the previous quarter so really a good performance, a good set of numbers by SKF and the future is frankly anyone's guess right now. We have to see how inflation pans out. We are seeing some slackening on steel prices which is a big expense for us. We are not yet seeing a demand slow down so the order book still remains fairly robust across segments and we can talk about that if the questions are on the order book but having said that we know what is happening in the world around us whether it is Europe or other parts of Asia or Americas, we are seeing a demand slowdown. We are seeing high inflationary environment around the world so I would not be hesitant to say that India will be outlier. So, we are preparing for winter. Now when that winter comes, we do not know but I think it is better to be prepared for it then to be taken by a surprise.

I will stop and we just kind of say that we have had a good quarter, strong growth, good price realization, good mix changes, good working capital actions and we have been able to offset the inflationary impact in our numbers that you have already seen and analyzed it. So, thank you for listening to my opening comments and I will open it now for questions in the order that they received it.

Moderator: Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Mukesh Saraf from Spark Capital. Please go ahead.

Mukesh Saraf: Good morning. Thank you for the opportunity. My first question is on the relevant mix if you can give some sense on how the revenue is across your segments auto, non-auto and then within that OEM aftermarket this will be for FY2022 as well as the first quarter? My second question is regarding the localization targets that we might be looking to achieve especially when I looked at the annual report I see that traded bearing revenue is still about 43% of our broad revenue and this is in line with three to five years average that we have that localization has not changed much but I do believe that there would some target of localization so how do we look at this traded bearing revenues in the future, how are we expected to move and is there a localization plan and capex around that?

Manish Bhatnagar: I will hand over to Ashish Saraf, our CFO to answer the first question on the revenue mix by percentage auto industry etc. and I will come back for the second part of question.

Ashish Saraf: For the current quarter, the automotive share was around 42%, industrial was around 49% and for exports it was around 9% so that was the overall mix for this quarter. For the full year automotive was around 42%, industrial was 47, and exports was around 10%.

Manish Bhatnagar: Thank you Ashish. On the localization question Mukesh yes, we have to localize much more than what we have done in the past. You are correct in terms of has localization moved at the pace we would have liked to over the past few years, no and that localization is something that we will need to pick-up pace and it is still a little bit of unfair comparison because the last couple of years has been very, very disruptive, we know what happened there so now we have to play catch up. If we wish away what happened in 2020-2021 with COVID and everything else and the supply chain disruptions. Now is the time to catch up and I think, you will be hearing and seeing a lot more localization plans. I do not want to give a target we want to go from X to Y but certainly we want to localize a lot more than what we have done so far but I will give you some benchmarks and then you can ride on conclusions so automotive for example today almost 95% to 97% local so it is almost you can say fully local. On industrial we are about 35% to 40% so clearly our ambition and aspiration is to get as close to the benchmark that we have internally which is a very high level of localization which of course will not happen overnight it will take time but that is kind of our ambition and aspiration and that is what we are working towards.

Mukesh Saraf: Any capex numbers that you want to mention in line with this utilization or in general?

Manish Bhatnagar: In general, I can say we typically do about 100 to 150 Crores of capex every year and that has not changed over the past few years now that number will change going forward. What that number will be right now I do not know but it will be at least 30% to 40% higher than what we have done in the past.

Mukesh Saraf: Just a follow-up you did mention in your opening remarks that you are preparing for winter that does not reflect any of you capex plans as such, is what we should understand?

Manish Bhatnagar: Well certainly it impacts but the difference between preparing for winter and capex is that our capex plans are not based on one winter and even if we start to think about investing a new manufacturing line it takes almost 12 months for start of production so even if the winter does comes I think it will be a short lived may be this quarter, next quarter, this year etc. It does not impact our capex plans in general but when there will be a slight delay that is of course possible depending on how severe the winter is.

Mukesh Saraf: Understood. Thank you so much I will get back in the queue.

Moderator: The next question is from the line of Sandeep Tulsiyan from JM financial. Please go ahead.

Sandeep Tulsiyan: A very good morning and congratulations on excellent set of numbers. First question is pertaining to the sales break up if you could further split up your automotive and industrial sales between OEM and aftermarket how we need to share and if you could also give a comparative number for fourth quarter of FY2022 to see how that mix has changed sequentially that is the first question.

Ashish Saraf: The OEM share is around 55% for this quarter and after market is 36%, exports is around 10% and quarter over quarter I would say OEM share was 52% and after market was 34% and exports was around 14% so not a significant movement quarter over quarter I would say in terms of the mix.

Sandeep Tulsiyan: I wanted the slip between the OE and the industrial. Within auto what was the split between OE and after market and within industrial if you could share the same.

Ashish Saraf: Within automotive the OE share was around 62% and the overall VSN share was around 40% for this quarter.

Sandeep Tulsiyan: Okay and the industrial OE share would have been.

Ashish Saraf: So, OE share will be around 65% and VSN share would be around.

Sandeep Tulsiyan: VSN you mean after market.

Ashish Saraf: Yes, that is right.

Sandeep Tulsiyan: Okay understood. Second question is pertaining to some of the aftermarket product that we have mentioned in our annual report that we will be doing sprockets for two-wheeler, steering suspension for PVS as well as lot of belts for different two wheelers as well as EV. If you could just give us an overview, are we manufacturing all of these if not these are traded products, then that would continue to keep our traded products share high what is the overall strategy, is this a new market or is it a market which is already penetrated to some extent by us some colour on these products if you could provide overall,l please.

Manish Bhatnagar: Sandeep first of all thank you for reading the annual report. I am glad someone is reading it, but the spirit of the question is how the new products is panning out in the vehicle aftermarket space as you know traditionally, we have been predominantly bearing company. In the past we have also added on some ancillary products like greases, lubricants etc. but we really want to make a splash beyond our traditional friction reducing products and therefore the names you mentioned sprockets etc. fall in that category. The reason we said we have a good ambition and a good potential to succeed in the new category is because we already have access to the retail market where these will also get sold in addition to bearings and secondly we have an engineering center in India which is anyway working on product developments for these new product which we sale elsewhere in the world so it made complete sense because we had the equities in house and we had market access to also launch these in India. Today they are still very small. They are not more than 5% of our total aftermarket business but keep in mind it is only about less than a year that we have launched it so we are right now penetrating this market with the traded route. We are not manufacturing these in house, over time if this 5% and we hope it will become maybe 10, 15 whatever it becomes that is when we will start thinking about manufacturing these in house.

Sandeep Tulsiyan: That is clear. Second question was on another product that we have discussed was the HUB 3 solution that we have developed for electric LCD player. If you could give some more colour what is the differential in terms of cost for regular engine vehicle versus this solution that you have developed for the EV player and what kind of a potential that you see in terms of conversion for this product going forward for other players.

Manish Bhatnagar:I do not have information on the cost etc. so we will have to come back on that, but I think what you really want to know are the margins on this higher than the margins on the highest products that maybe more relevant question to ask her. Certainly margins on extra vehicles product in general are better because these are high performance bearings, you are talking about hub 3 but I could add a number of other bearings to it because these are certainly technologically more superior bearings that our traditional ic engine bearings whether it is noise or friction or insulation or any other property that are important to that manufacturer so the margins are better now how material would this margin increase be in the overall results really depends on the adoption of electrification in the industry so today the electrification in the industry is being led mainly be two wheelers and then we expect passenger vehicles to pick-up, we expect commercial vehicles to pick-up so we do expect electrification to proceed at a pace which is not uniform across all segments. Going back to your question on hub3 specifically, hub3 is both for passenger vehicles and you could extent that mainly some LCV so as you know we work with a number of manufacturers in both these spaces and our penetration in these segments really depend on the penetration of these OEM players in that space.

Sandeep Tulsiyan: Yes, I have one more follow-up question on the railways piece. I think on the railway side we have major presence on passenger cars as well as on locomotives while the presence on freight wagons continues to be limited where we were expected to become eligible for bidding for 100% of quantity. Where we are on that road map for class 3 bearing and what kind of share are we targeting going forward within railways, freight wagon fees specifically.

Manish Bhatnagar:We have approval Sandeep now for class E and also class K. There are two kinds of bearings. The class E bearing is lesser load carrying bearing and class K are higher load carrying bearing. We have approvals for both the bearings. We have also supplied a sample order to the wagon manufacturer. On freight as you know that the Indian railways laid out a tender for a three-year requirement, I think about 90,000 wagons over three years so 30,000 a year. Why that numbers become important is that the total wagon population for freight in the country is about 300,000 and that is being developed over decades of freight, but the railway is now adding 10% of that wagon capacity every year for the next three years so we think freight will be the next big growth opportunity and because we are now approved locally it also becomes a big opportunity for us.

Sandeep Tulsiyan: So, any indication you would like to give because this order used to get divided between two players earlier and you know the new players had a very small share so how will that look going forward between the four players.

Manish Bhatnagar: We are working with all the wagon manufacturers to make sure that SK bearing also get purchased along with their legacy players, so we had discussion with all of them. We have placed pilot orders with a few of them and depending on how the relationship progress we hope to start seeing share gain in the freight in line with what we are seeing in the past in passenger and locomotives.

Sandeep Tulsiyan: Understood. Thank you so much Manish for taking these questions.

Moderator: The next question is from the line of Alok Ranjan from IFFL AMC. Please go ahead.

Alok Ranjan: Good morning. Thanks for taking my question. Sir my first question is on the transfer pricing so if you can highlight in terms of both export and stated goods that we get how does the pricing works whether it is cost plus or whether it is sales minus so if you elaborate on both sides of transfer prices.

Ashish Saraf: So Alok the transfer pricing works from the net margin method right which is we are buying in goods from our sister company right. All the significant amount of risks are borne by the manufacturing entity and relatively the sales entity takes limited risk so considering that the margins for the sales entity is relatively normal than the manufacturing and same is the case when we are exporting any goods from SKF India to any of our related party company in that situation since SKF India is manufacturing those bearing the significant amount of risk is borne by SKF India hence SKF India gets a better share of margins compared to the related party.

Alok Ranjan: In relation to that in terms of the mix of the product, in terms on the industrial side the localization percentage is lower can we say that if the mix towards the industrial side increases our gross margin and EBITDA margin will get deteriorated compared to when the auto mix is higher.

Manish Bhatnagar: So, can you repeat the question. I am not very clear in terms of your question. Are you saying that if we have more localization in the industrial market?

Alok Ranjan: Sir my question is that our localization percentage is different in auto and industrial on the auto we are highly localized 95 to 97% while on industrial side 35 to 40%, a shift in the mix towards industrial in terms of the sales mix, how the margin on the gross and EBITDA changes.

Ashish Saraf: That is right. If the industrial mix increases and we do not have an increase in the localization overall margins will come down because our traded products would be relatively lower for the goods which are being traded by us but if we increase our localization in SKF India, then our margins for the industrial products will be higher. In general, the industrial products have a better margin compared to the automotive products so if you localize more and increase the share of industrial products then our overall margin will improve for SKF India.

Alok Ranjan: Sir one clarification in terms of the localization. On the auto side generally, companies work from just in time basis so generally a different market, have a very localized manufacturing for auto side but on industrial side since these are low volume products and generally you need higher capacity to ensure that every market is having their own localization so can you say that the localization percentage on the industrial side will continue to remain lower.

Manish Bhatnagar: Logically yes because the industrial that sizes are much smaller than automotive pad sizes so automotive for example one manufacturing line can easily churn out 10 million bearings a year because there is demand for 10 million bearings a year maybe from one customer on the industrial on the other demand could vary from 5000 bearings to a million bearing it is a very large mix of SKUs. It has a large tail of smaller volume SKUs so there is no way that industrial localization will get to the level of automotive simply by the nature of the business that is correct but having said that it will certainly increase beyond today 35% to 40% but it will not get to it is not feasible for it to get to 100% or close to that like automotive is.

Alok Ranjan: Got it Sir. Sir one question on global scheme of things on Europe and Ukraine side we are seeing lot of disruption happening and SKF is having a bigger plant in Ukraine. In the near term can India be an alternate source of supply if there is any disruption which is happening in the any of SKF Europe or Ukraine plant. Can you please comment on this?

Manish Bhatnagar: We have one plant in Ukraine which is right now functioning. It has not shut down. Certainly disruption is there but it has not shut down but I think more importantly as and when the disruption becomes larger maybe in Ukraine or some other parts of the world can India pick up the manufacturing slag, the answer is yes and even over the last few months our Indian factories have been supporting our European customers by producing bearing as and when required assuming of course we have the capability to produce those bearings so the answer is absolutely yes.

Alok Ranjan: Got it Sir. Sir just one last clarification on the wind turbine gear box side generally we have cylindrical roller bearing, which was there, now there are some alternatives which are there like Groove bearings, which other companies are talking about. Wanted to ask whether SKF is looking this as a threat or how do you see the new product Groove bearing compared to the normal bearing that used to be there in the wind turbine gear boxes?

Manish Bhatnagar: I do not have knowledge of what you are talking. I am sorry so we will have to come back to you on this new bearing you are talking about. I have not heard this as threat so far but maybe I am just informed so let us investigate this and come back to you if it is okay with you.

Alok Ranjan: Sure Sir. That is all from my side.

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

Bharat Sheth: Sir good morning and congratulation on good set of number and thank for the opportunity. Sir talking on this localization on industrial side you are right that in large bearing number of pieces are low so localization is bit difficult so which part of industrial side are we really looking for a localization and how big is the potential of that market that is one part and within industrial there is lot of cases of spurious bearing in aftermarket so what exactly we are doing to resolve that and lot of these bearing are coming from China and looking at China so are we really getting a traction making a good enroll in the industrial side so if you can give some colour on that will be great and lastly K bearing what we talk on these heavy so who other have got approval apart from us.

Manish Bhatnagar: Who all have got the K class bearing approval you will have to ask our competitors. I am not privy to that information, so it is best to ask them. The second question was around localization and what kind of products are we looking at. It really depends on what segments we expect growth to come from. We expect the industrial growth story in India to be led by infra structure to a large extent which means construction equipment, cement, steel etc. and many of these segments and some segments that support these growth segments like gear boxes, pumps, compressor, motor etc. many of them use small and medium DGBBS or SRBs spherical roller bearings and deep-groove ball bearings, so we expect a localization effort therefore to be also in line with these products and these segments. Did I answer all three of your questions, Bharat? Your first question was on counterfeit bearings.

Bharat Sheth: And aftermarket overall industrial what is our strategy to grow that?

Manish Bhatnagar: The strategy to grow in the aftermarket is actually pretty straightforward and it is also linked to counterfeit bearings. It increases our reach as much as possible. In industrial segments an industrial customer do not buy counterfeit bearings because it is cheaper or because they want counterfeit bearings but very often they cannot run the risk of running their machinery on counterfeit bearings. They are forced to buy counterfeit bearings because they do not have access or they cannot reach authorized SKF distributors for genuine bearing and very often you will be surprised to know they end up paying higher price for counterfeit bearings then they would to distributor for SKF or the genuine and of course counterfeit bearings leads to failure etc. so a strategy to mitigate the counterfeit problem and to increase our aftermarket business is to increase reach of our bearings to every customer who needs SK bearing. Today our distribution network reaches about 10,000 pin codes in the country. We have about 20,000 pin codes totally in the country, so we are at about 50% penetrated. The rest is where we need to work on through an online channel or through more distributor or master distributors or direct and that is the ongoing effort on increasing after market.

Bharat Sheth: What stage in this journey we are currently?

Manish Bhatnagar: Well, we have launched a E shop and E marketplace in January, and we are now seeing very, very large footfalls into that marketplace. I do not know the numbers, but I think we are doing about 4 or 5% of revenue for specific segments through e market players so it is still new early days, but we expect this to become larger in the days to come.

Bharat Sheth: And second question some on the auto side. Our larger presence in two-wheeler vis-à-vis, PV, tractor, and CV so what is our strategy to grow the share of remaining part of this business.

Manish Bhatnagar: Our strength is two-wheeler both OEM and aftermarket that is where than half of our revenue in the automotive comes from and we will continue to play to our strength. On the other segments passenger, commercial and agriculture we will go ahead and work with specific customers and specific subsegments. Passenger vehicles we do not have a very large share and we are okay with that. On commercial we work with the largest player in the country and we have a good market share with all of them and again like in two wheelers we will keep working to increase that share and increase our business, also keep in mind commercial vehicles have not grown at the same pace as two wheelers for the last couple of years for various reasons that you are well aware of so commercial vehicles will be a good segment for us but the growth rate are slower than two wheelers, agriculture tractor etc. is not a large market but we have a decent size share there.

Bharat Sheth: These import of this product from the sister group are largely in euro term or dollar and if euro has depreciated vis-à-vis rupee so do, we get benefit or is there any reset clause is there automatically.

Ashish Saraf: So generally, most of our imports are in Euro or SK which is Swedish Krona and both the currencies have depreciated. For the traded products, the product risk is typically borne by the manufacturing entity so now in this case since it has depreciated the benefit would go to the manufacturing entity. In case these currencies depreciate the negative impact will not come to SKF India so that is how we are structured.

Bharat Sheth: Okay thank you very much and all the best Sir.

Moderator: The next question is from the line of Mukesh Saraf from Spark Capital. Please go ahead.

Mukesh Saraf: Thank you again for the opportunity. My question is on market share. In the annual report you had mentioned that our market share has gone up in FY2022 could you give some sense on which segments we are talking about and probably if you could give some numbers around how much is the market share right now.

Manish Bhatnagar: Our market share depending on the segment varies from high teens to mid-twenties in terms of which segment has it improved. On the automotive side we are seeing improving shares on the two-wheeler side and on commercial vehicles. On the industrial side we are seeing gains in cement, in steel, in construction equipment and in prices and again this is on account of focus in these segments and the same four segments you can recall Mukesh I had mentioned in earlier question. These are the high growth segments where we are seeing good growth and we are also investing resources in making sure we gain share and we expand our portfolio in these high growth segments, so these are kind of six or seven segments where we are seeing share gains. It does not mean we are losing share in rest; all it means that we are static in the rest.

Mukesh Saraf: In continuation with that when we say market share gain is it more to do with import substitution or is to do actually the competitor losing our business or is like a business opportunity that we are getting more is there like a pricing not a pricey war but is that like a pricing competition?

Manish Bhatnagar: Import substitution is not a big play. A few exceptions are not importing bearing directly, they are still buying locally from people like us so when we say share gain of course there is some import substitution but that is not the big driver for the share gain. The big share gains we are seeing is taking share from competition.

Mukesh Saraf: My second question is regarding in general you are having margins and with steep increases steel cost we are still seeing that your gross margins are minting around that 40% mark within the first quarter FY2023 so this does obviously tell us that we have been able to pass through a lot of your cost increases my question is what happens steel starts cooling of how much of this we can retain and hence margin upside can be higher or do we have to pass through the cut in prices especially aftermarket.

Manish Bhatnagar: So, it really depends on the segment, it depends on the customer, and it depends on the market in general automotive OEMs the prices are linked to steel index. When the steel prices goes up our prices go up when steel prices go down our prices go down it is fairly straight forward that is the industry practice and we are no different. On the aftermarket we certainly pricing power so the aftermarket we do not increase or decrease prices every month depending on steel going up or steel coming down, so we typically take a price increase in the aftermarket it stays. I cannot recall a time in the last five years we have taken a price down in the aftermarket, so we have taken a price increase and it stays. On the industrial side it is a bit more complex. On the industrial side unlike automotive OEMs these are not linked to the steel index instead we have binding contracts with large industrial OEMs these could be three months, six months, one-year etc. so we have to play out the entire time duration of the contract before we can go and ask for price increase. The obvious resolution here is we should limit our contracts to a smaller time period as possible with steel being volatile it would be foolish to tie in five year contract because we do not know our prices will move but this is knowledge in hind sight so all our contracts going forward as we negotiate new contracts either there are smaller time period contracts or we are including in the contract a clause to link it to steel prices so we hope to see that taking share going forward.

Mukesh Saraf: So, what I understand is in summary the aftermarket price we can probably retain a lot of this benefit if at all you see a good correction in the steel prices.

Manish Bhatnagar:The aftermarket is sticky. It will stick on the OEM side. It is question of negotiation and duration of the contracts.

Mukesh Saraf: Right. Got that. Thank you so much.

Moderator: The next question is from the line of Sameer Dosani from ICICI Prudential AMC. Please go ahead.

Sameer Dosani: Thanks for the opportunity. Just one request if you can do that frequently that will be good for us. Overall, when you speak about increase in localization, I assume that includes our unlisted entity as well so when you increase the localization whether that share will come to the listed entity how does that split to listed versus unlisted and can you share some colour on the export strategy is there some strategy to shift business may be manufacturing or making India as hub for the global parent.

Manish Bhatnagar: Sameer two questions you have asked me gets asked at our investor call and I give the same answer at every investor call, and I will say it again here. Number one our strategy is not based on exports. Bearings by their very nature of our business is to serve local customers and it may differ for other competitor of ours but for SKF we want to be as local as possible, so our strategy is not to increase exports. We use exports as a filler so from some reason we have a gap in our manufacturing lines for low demand we would use that to fill the lines to export something or if we have a war in Ukraine and they need our help we will step in and make some bearings for them but we do not salespeople out there in world trying to sell India made bearings to increase share so that is not our strategy. So, our strategy is not to increase exports. We use exports as a filler so if for some reason we have a gap in our manufacturing lines for lower demand we would use that to fill the lines to export something or if we have a war in Ukraine and they need our help will step in and make some bearings for them, but we do not have salespeople out there in the world trying to sell India made bearings to increase share so that is not our strategy. Exports is not where we want to focus on. That is a conscious decision we have made which may be different from other competitors but that is alright. That is our strategy. On your first question on the two entities, we have in India there is no magic formula here. There is nothing like saying okay 50:50 or 20:80 or 60:40. Both these entities are serving different segments and have different manufacturing capabilities. The listed entities that we have the ones that we are talking about right now is specifically set up to serve automotive customers and industrial small and medium size variants, which means if the demand increase we see comes from these segments we will have to invest is the SKF India facilities there. The other entity is more an aggregation facility where we aggregate demand for large size industrial bearings around the world. In response to your previous question, I have said industrial bearings their batch sizes or the requirement can wary from 5000 actually sometimes even 500 to 5000 to 50,000 so fairly small numbers as compared to the small and medium size bearings so that other facility in Ahmedabad has been set up very differently to make large size bearings. Even if you wanted to make those bearings in our Pune plant in SKF India we could not do that because we do not have the capability and likewise if wanted to make small and medium bearings in the Ahmedabad facility we cannot because we do not have the capability there, so it is not question of a choice we are making internally where to invest. It is a choice that customers make for us where is the demand. The demand comes for large size bearings, it will go to Ahmedabad. If the demand comes for small and medium it will go to the listed entity.

Sameer Dosani: Fair point so just a follow-up so increasing localization is it going to be smaller size bearings or is it going to be on the larger bearings that you see?

Manish Bhatnagar: Yes so, the big market is in the segments I mentioned construction equipment, steel, cement, motors, and gearboxes is all small and medium size bearings. It is not to sell large size bearings will have no investments, Elvis for example are large size bearings, and wing is large size bearings.

That investment will need to go Ahmedabad but for everything else it will have to come to the Pune, Bengaluru, or Hyderabad.

Sameer Dosani: Sorry just try to say larger part will come to the listed entities I think?

Manish Bhatnagar: We do not know the answer. It depends on the demand from customers. If tomorrow the wind business in India really picks up. If it becomes10 times our current volume that investment will need to go to Ahmedabad because we cannot make the wind bearings in another plant, but if tomorrow our tractor business increases by 50 times that investment will need to come to Pune or Bengaluru because we cannot make that in Ahmedabad.

Sameer Dosani: Understood and lastly you spoke about gaining market share in specific segments in India just to India what kind of efforts or what are the benefits that are playing out in our favor what actions are we taking to gain this market share in India just to understand that?

Manish Bhatnagar: I will answer a large question on strategy. Strategy is as much about doing certain things as it is about not doing certain things. We cannot be doing everything and with that on strategy. That is insanity so we have a strategic plan that we laid out of couple of years ago which got delayed because of COVID but now with COVID is behind us we can kind of reevaluate it a strategic plan and decided that here are the few segments we will focus on and when we say we focus on these segments it means doing a number of things. It means making sure we have the right products to service so I will give you one example so for example in construction or heavy industry. There are segments around idlers, segments around conveyors and pulleys and segments around crushers. Now our strategy will have to inform us do we have the right products for all these segments or not and what we have learnt now in the last 18 odd months that while we have products in some segments, we do not have some in some other segments so then we put our entire product development team in India to work on those new products in some segments so for example in crushers or in dump trucks we need different technology and our teams are now working on developing those products so that is on the engineering side. The next stage is on the manufacturing side. After we develop those products and making the right investments to manufacture those bearings to where they are needed and third is on the go to market side as we are hiring more people. We are hiring people who come from a bearings background or are we hiring people who come from a segment or industrial background so I would much rather have a guy who knows the cement industry and can walk into a cement plant and speak to the cement factory manager and talk to that manager in his language versus have a person who comes in who knows only bearings so these are some examples of changes we have made in the last 18 months or 24 months and that is bearing fruit now.

Sameer Dosani: Understood lastly if I can squeeze one what is the margin trajectory going to be for SKF as a whole because in the backdrop of steel prices cooling off a little so can you just share some insights on that thanks?

Manish Bhatnagar: I have no idea, frankly. I have no idea. If you can give a trajectory of steel prices and freight prices and forex, I can tell you trajectory of margins.

Sameer Dosani: Thank you. Thanks that is it from my side.

Moderator: Thank you. The next question is from the line of Harshad Patel an Individual Investor. Please go ahead.

Harshad Patel: This is Harshad from Equirus Securities. Sir my first question is on the overall auto bearings industry so could you give us a sense on what would be the overall bearing content in a typical two-wheeler passenger vehicle and the commercial vehicle in the value terms and similarly how is the overall industry value would be bifurcated between energy and transmission, and so on and so forth that would be my first question?

Manish Bhatnagar: That is a very specific question. I am sorry I do not have the answer for you right now in terms of value by vehicle, etc. I can tell you in terms of number of bearings per vehicle. I think you are looking for a more market research kind of an answer so I will have our teams come back to you.

Harshad Patel: Sure, even if you could answer on number of bearings even that will be very helpful if that is possible?

Manish Bhatnagar: I can answer for two wheelers as an example. Two wheelers typically use between 12 and 16 bearings between the wheel and the transmission and the engine.

Harshad Patel: Sure, Sir thank you. Sir my second question would be on our rotating equipment performance business, so you have elaborated quite a lot in the annual report as well? Sir could you light as to what proportion of our overall sales did we derive last year from these activities and also going ahead which will be the end user industry that we are targeting?

Manish Bhatnagar: It is today at about 5% to 7% of our business is REP rotating equipment performance. The industries we are targeting is where the cost of failure is more than the cost of the replacement which means what does that mean. It means where we have to target industries like steel or cement or wind turbines for example where they cannot afford unplanned down time. They cannot afford failure because the cost of a bearing failing in wind turbine or the cost of a bearing failing in a steel mill or steel converter or cost of a bearing failing in a cement press it is not just the cost of the bearing, bearing. It is the cost of the loss of production so those industries cannot take the chance. Therefore, they would much rather work with someone like us to be able to predict failure before it happens so what these industries hate the most is unplanned down time. They would very like to like basis see if that is okay here is an SKF bearing in my converter. Today it is being monitored by SKF through a remote diagnostic centre and based on the data we are sending to them we think in the next three weeks sometimes this bearing is probably going to fail. With this information that factory manager can then make a call in the next planned downtime on a week from now. He will call SKF when the machines are stopped, pull out that bearing and meanwhile the SKF guys have come with a new bearing to install to replace the taken out bearing so that the machine starts running all over again when the planned downtime is over and the SKF guys go back and take a look at that bearing and see what needs to happen there in terms of evaluation or remanufacturing or what have you so in these industries the cost of failure is much more than the cost of replacement and therefore these are the industries we are targeting with our reps.

Harshad Patel: Understood Sir and if I can just squeeze in one last question so you have given quite a lot of idea on the initiatives that we are taking on the freight wagons front wherein we are coming from a very low base so could you give us an idea about our overall market share in passenger coaches and locomotives where we are one of the dealers of the market that would be my last question? Thank you Sir.

Manish Bhatnagar: We are around 30% to 40% in those two segments.

Harshad Patel: Thank you very much Sir for taking my questions.

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

Bhargav Buddhadev: Good morning team and thank you for the opportunity so I have two questions. The first on the aftermarket side you mentioned that availability is one of the most critical drivers. Whilst an online platform will help but in India typically you need physical presence so is it possible to quantify what has been in the increase in terms of channel footprint since our focus has been arising on the aftermarket side and have you budgeted any increment in terms of channel footprint over the next two years? The second question is on the roadmap on localization? You mentioned 35% is the localization on industrial side but is there any roadmap in terms of where do you want to reach in the next two to three years and has the capital allocation been sort of pinned down to sort of reach that target and who takes the decision in terms of capex? Is it the Indian entity or is the parent entity in terms of capex to be incurred on the localization front? These are my two questions.

Manish Bhatnagar: Again, the last question is easy. Our localization will be somewhere between 35% and 95%. 35% till date and like I said earlier the benchmark is 95% for automotive. Obviously, it will not hit the very high number of automotive for the reason I gave earlier so it will be somewhere in between this and that number and of course it will not happen overnight. It will happen over a phased approach and also depends on which segments we focused on, which bearings we will make, etc., and that plan we will share with you as and when we can. The capex decisions linked to these investments are made locally by us and as they should be because this our business and we know it best. On your first question on the aftermarket side, I think you mentioned automotive but the e-market place or the online marketplace is more geared towards industrial. On the automotive side we are fairly well penetrated through our distributor network and then the retail network and then the tertiary mechanic network. On the indusial side is where we have some work to be done. The example I gave earlier about counterfeit bearings and the 10,000 pincodes was in relation to that so that is where want to increase our footprint not by adding more distributors but by adding more accessibility to all the pin codes in the country that need our bearings.

Bhargav Buddhadev: Understood. Thank you very much.

Moderator: Thank you. The next question is from the line of Sonal Gupta from L&T Mutual Fund. Please go ahead.

Sonal Gupta: Good morning and thanks for taking my question. Just going back could you give on a full year basis for FY2022 like a little more granularity in terms of the revenue mix so auto like you said is 42%? How much will the aftermarket as a part of autos?

Ashish Saraf: We already answered that right. We said out of auto around 35% is aftermarket and the rest 65% is OEM.

Sonal Gupta: Okay I thought that was for the quarter fine and industrial would you be able to break this up as to how much would be wind and railways just trying to understand?

Manish Bhatnagar: Industrial is much more diversified. None of our segments are more than 8% of the total industrial business so you can make a good guess. It is about 7% to 8% for the total business and not the industrial business so wind, railways, etc., are ballpark in their range of 7% to 8%.

Sonal Gupta: And industrial would have a meaningfully large after market?

Ashish Saraf: Yes, that is right.

Sonal Gupta: Would you be able to share what is it?

Ashish Saraf: It is around 45% to 60% would be the aftermarket business in the industrial.

Sonal Gupta: Got it and just my last question was again on the auto aftermarket side what we are seeing is that a lot of the OEMs are also trying to grow their aftermarket revenues? They are getting into traded products. They are trying to enhance their share of the pie especially on the two-wheeler side. We are seeing fairly aggressive move so does that really impact you in any way? Do they source from you for aftermarket, or will they be sourcing from other suppliers for aftermarket just trying to understand?

Manish Bhatnagar: That is a good question. We are seeing a number of OEMs in the automotive space also get into what is called OEs (original equipment space) not just in bearings but across the entire space product line. Bearings have become a very critical part of this portfolio. Unlike let us say a bulb in a headlamp or a blade in a windshield wiper. A bearing contributes a lot to the performance of that vehicle so if a two-wheeler manufacture has put in a SKF bearing as an original equipment and they try and sell OEs they would want to make sure the same bearing that they put into their original vehicle also gets put as a replacement so really the OES market derives its share or its volumes from the OEM market. I would be very hesitant to say that an OEM manufacture out put SKF in their original equipment and then put some other brand or other traded product from another country in their OES because that is called reputational damage to that OEM if that bearing fails in the aftermarket so in all these cases you are mentioning we are seeing a very, very tight cooperation between SKF and that manufacturer. Of course, it depends on the relationship we have with them at the OEM level first.

Sonal Gupta: Got it but these OES supplies would count as OEM for you or do you count it because it is going I guess the packaging, etc., will be different for that?

Manish Bhatnagar: Well, it today counts as OEM because it goes to the OEM but today it is not that material, frankly. It may seem like a lot, but it is not that much.

Sonal Gupta: Got it because again in these segments we are seeing fairly large share of aftermarket revenues and like you said bearings is a key product in there, but you are saying as of now it is not very?

Manish Bhatnagar: As of now it is not. It is not to say it will not become large in the future. What I am saying as of today it is not a large part of even their revenue.

Sonal Gupta: Right and the point I was getting towards is there is no cannibalization of your aftermarket because of this or because of OEM sourcing?

Manish Bhatnagar: On the other hand, I would say it is actually beneficial to us because if a large OEM manufacturer now puts out an OES under their brand name let us say SKF inside that packaging it is more likely than not that the mechanic now would then use that OES to retrofit a two-wheeler versus putting in place some other bearing.

Sonal Gupta: Got it great. Thanks a lot.

Moderator: Thank you. The next question is from the line of Jitendra Khatri from Tata Mutual Fund. Please go ahead.

Jitendra Khatri: Thanks. My questions have been answered. Thank you.

Moderator: Thank you. The next question is from the line of Salil Desai from Marcellus Invest Managers. Please go ahead.

Salil Desai: Good morning gentlemen. Sir the first question in the annual report you have some references to patents filed I think 14 filed and three in process so I wanted to clarify these patents are we part of what the India R&D centre with global technical centre does or do you do separately you own R&D also product development for your business?

Manish Bhatnagar: It is actually a combination of both so we do some. R&D is predominately done at the engineering centre but the patent filing can happen at both entities.

Salil Desai: So, these would be stay in India specific product that you are developing and so for that you file a specific patent? That will largely be kind of geographically it will be implemented in India?

Manish Bhatnagar: Yes.

Salil Desai: The second question globally, are you seeing or at least we are seeing that most of the larger bearing players are trying to have a more industrial orientation in the business, right? Most of the auto originally and there has been a fair bit of M&A in this regard? Do you see that as a sign of arising competition on the industry business where you have earlier more established business today?

Manish Bhatnagar: Sorry just repeat your question. It is not clear to me. What are you asking exactly?

Salil Desai: Globally what we have done is that some of the peers at least the large global players some of them have been trying to increase the share of industrial business in their overall revenues? A couple of them also done some large M&A transactions in this field would you think that given your strong presence in the industrial market this is the kind of say rising competition as the market gets more consolidated on the industrial side if you have any reviews or if you have seen a trend like this?

Manish Bhatnagar: You say is it a sign of surviving competition.

Salil Desai: Do you see more competition on the industrial side this consolidation right let us say your larger peers are acquiring a smaller name and they increase their industrial shares versus auto and you are already a larger industrial player globally so would you think it is a treat or how would you respond to that?

Manish Bhatnagar: I will restrict my comments to India. I do not want to comment on what is happening globally if it okay with you. In India, we are about a 50:50 between automotive and industrial, but our industrial business is growing faster than the automotive business. Globally we are about 70:30 in favor of industrial so I think overtime we will also move towards that mix so in terms of growing our share of industrial in India and that is where all the discussion so far around localization, new product development, aftermarket development, and share gains so lot of effort is going towards increasing our industrial footprint and industrial businesses so to that extent we will certainly hope to become an even stronger player in the industrial space than we are today. We are the market leader today in industrial, but we will consolidate that even more through all these efforts. Specifically on M&A we have looked around the country. We really have not found anyone that interests us that much from the industrial M&A perspective, so we are not going done the M&A route to consolidate and strengthen our industrial position. It will also be organic or through our own efforts.

Salil Desai: Great. Good to know that and Sir finally just one clarification when you say localization are you referring to kind of a like to like replacement of what is being imported to a complete manufacturing of that product in India, but is it a mix of some local procurement versus some parts still getting imported?

Manish Bhatnagar: So, localization for us is not just the manufacturing of bearing. This is an industry where the supply chain can be very complex. To give you a very simple example Salil and I am making it simplistic here, but a bearing would have the rollers or the balls, would have the cages, would have the inner ring and the outer ring so let us say the four components and of course there are a couple of other more components, but for the sake of simplicity let us keep these to these four components. When I say localization it also means localizing the suppliers for these components. Sometimes it could be the steel we are sourcing. Sometimes it could be the component we are sourcing and of course it will also be the bearing we are assembling or manufacturing so when I say localization I mean localization of the entire value chain. It is not as simple as SKF setting up a new line to assemble their rings because if you are still importing that steel from China, it is still not fully localized.

Salil Desai: Perfect. This is very useful to know and Sir lastly on the REC business model so there is a kind of bearing supply component to it and then there is a service component where we must be charging on the monitoring of the equipment so if you can explain in detail how the model works? You charge a fee on the service part I assume right and then there is the hardware supply and between the two I think you had to sale contract where you can put some basis then would that involve a fee and fiber component also or it is just completely per tonne basis so may be an explanation how the model works?

Manish Bhatnagar: The classic RED contracts are performance contracts. They are not linked to a fee or the bearings or anything like that. These are really linked to performance so for example we have a contract with the steel supplier. It is a pay per tonne contract. The more steel you produce the more you will pay us because we have been guaranteeing you uptime on your steel mint so by guaranteeing you a higher up time through our bearings or our diagnostics or our insights you are able to produce more steel and therefore, we would like to a share in that additional steel you are producing so it is pay per tonne contract. In some other contract it could be reducing mean time between failures. It could be increasing availability. It could be down time\, so it is really demands Salil on the customer and what are they pain points and therefore in response to an earlier question I had commented that when we hire our go to market people now or our salespeople now we are now hiring industry experts. We are no longer hiring bearing exports so the cement guy needs to be able to walk into a cement plant and at a glance identify the pain points for that factory manager and then propose an RDP solution which will then mitigate that pain point and not just talk of bearings because when you are reduced a supplier of a component versus being a true partner in the performance of that factory so that is what we are structuring RDP contracts as.

Salil Desai: Great Sir. Thank you so much and all the very best.

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

Vijay Sarthy: Thank you for this opportunity, Sir. Sir just one question Sir it is generally perceived that the bearing is basically a buyer's market, and the perceived quality is almost same among the customers and given that the pricing is more of competitive are concerted in some cases but what is it unique positioning point for you increase market share because you have mentioned market share has increased? How does this work if you can help us u understand it thanks?

Manish Bhatnagar: Well obviously I will disagree with you, but we can totally disagree. We do not think bearing is a buyer's market. If that was the case it would be a simple price gain and a race to the bottom. Then the cheapest bearing would have the highest market share but that as you know is not the case. We are by no means the cheapest in the market, but we have the highest share so that I would just put out there a data point for you to say I would disagree that it is a buyer's market, but more importantly how do we gain share. Let us take and again I will repeat an example I gave earlier on in terms of industrial customers. The cost of a bearing frankly is very, very small in the larger scheme of things for a factory manager. It is a very small part of that machinery. The cost of a bearing in a commercial vehicle is very, very small compared to the cost of the entire vehicle so would customers really go and risk the performance of their vehicle or their machinery by buying the cheapest bearing I would imagine not why because the cost of failure is so much higher. They could go buy a cheaper than SKF. They could buy a Chinese import and put it in their machinery and if the machinery fails that will cost them a much more-higher loss of production and revenue and profits than if they had paid the premium to SKF at the beginning so that is where we need to gain share on. We need to gain share on technology. We need to gain share on performance. We need to gain share on availability. That by the way has become an increasingly increasing point to differentiation today as compared to two years ago. With the recent supply chain disruptions, during the COVID world and this current Ukraine war, etc., availability and reliability of supplies is a big differentiator for people who want to gain share. No one wants an assembly line stopping because "oops we could not supply the bearing and it is stuck on the sea' in some port in Chennai so these are all the differentiation points I am laying out for you in terms of shared gains that are important that we are working on.

Vijay Sarthy: Sure Sir. One more question so what can obstruct you to achieve your long-term target of localization in industrial business?

Manish Bhatnagar: Well, obvious answer is demand. If the demand comes off the cliff which we are not seeing by the way but that is the obvious answer short of demand falling off the cliff there are no other obstructions.

Vijay Sarthy: Fair enough thank you Sir.

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

Dhanush Mehta: Sir most of my questions have been answered. I just had a small question. I just read in one of your press releases that SKF had partnered with Indian Railways for remanufacturing of bearings and they have successfully recycled close to 20,000 bearings so can you just throw some light on that?

Manish Bhatnagar: Yes, the Indian Railways as you know runs the world's largest or second largest train network anywhere so our bearings go into the bogies, and I will pick an example only of passenger wagons right now leaving aside locomotives and freight, so our bearings go into these bogies and as and when these bearings have a life. It could be number of kilometers or time, etc., or just monitoring their condition through diagnostic. Whatever railways will use, and it varies region to region they have two options. When that marker is over it could be time or it could be duration or mileage or condition monitoring, they need to bring those wagons back to their workshops and Indian Railways runs many, many workshops around the country. You know all the names the CLWs, etc., and then they take out those bearings because they cannot run the risk of a bearing failing when the train is running. Again, it goes back to an earlier answer with the cost of failure is so much higher than the cost of the placement for a train wagon. If a bearing fails the train derails and there is loss of life so the Indian Railways will not take a chance of the bearing failing so when that marker that they have set is met, they will pull that wagon back to the locomotive workshop, take out those bearings and sent to SKF for what we call remanufacturing. The bearing has not failed but it comes back to SKF for checking the quality of the bearing. In many cases we will say that the bearing is okay. It has so much more life left on it or we will say it needs some bit of refurbishing and what we call remanufacturing so we can do that in our factories and send it back to the railways and that is what is our 20,000 bearings per year remanufacturing program.

Dhanush Mehta: Okay so basically this would be more of repair and maintenance work?

Manish Bhatnagar: It would be. Yes, I would call it refurbishment or remanufacturing but yes on the same lines.

Dhanush Mehta: I have seen Sir from late from 2010 to 2022 the last 12 years we have seen our sales rising from Rs.2000 Crores close to around Rs.3,500 Crores to Rs.4000 Crores now whereas in the same time period the net block has gone up from Rs.280 Crores to Rs.400 Crores? I just wanted to know that with the increase in capex that we are planning every year that is around 30% to 40% increase in an annual run rate for capex can we see our gross block going 2x in the next three to four years?

Manish Bhatnagar: So again, it is not going to be 2x but again it will all depend on the capex investments that we made so given that we are looking at investing under Rs.100 Crores to Rs.150 Crores right per year I do not think it will be 2x.

Dhanush Mehta: Okay thank you Sir and good luck for the coming quarters.

Moderator: Thank you. The next question is from the line of Virag from Simple. Please go ahead.

Virag: Thanks for the opportunity. Most of my questions have been answered just one on REC so maybe there are parts to the question? Firstly, we have been offering this particular service solution for a little more than a year and a half to two and a half and we have been quite ahead of the competition and also in terms of rolling out and catering to customers so just want to understand what will be our share currently in the market please for REP? Will it purely be a solution for the Indian market which will be catering from SKF India or we will also look at eventually rolling out to other geographies say South East Asia and the likes that is part two and part three is since this is a more performance related pay kind of a revenue model what changes on the cost part you would have to do to make sure that the business is profitable and is the business right now still in investment stage or it is quite profitable any perspective you can share thank you?

Manish Bhatnagar: I will address it now first to India if it is okay with you and not comment on South-East Asia that is out of scope of this call. In India, our REP business is today an investment stage. We launched it about couple of years ago but it has been a very difficult couple of years because of the pandemic and everything else here so it is also a learning we have around which industries are most accepting of a performance contract and which industries are not so there is no point selling a REP contract to an industry where the cost of failure is less than the cost of replacement it simply does not make economic sense for the industry and therefore we are now focusing our efforts in REP. It is a learning we have had on some specific end segments and some names I mentioned earlier. In terms of share of REP is very, very early days. It is about 5% or 7% of our total revenue. I do not know what that translates in terms of market share in the segments. I do not even if other competitors have comparable offerings that we have, maybe they do, maybe they do not, but still very, very early days to compare market shares. It is more important right now to figure how many customers can adopt these performance contracts as quickly as possible because that leads to a multiplied effect, and we should be less concerned about market share and more of an adoption so that is where our focus is right now and certainly with our new focus on some specific industries, we are seeing better progress than we have done in the past.

Virag: Sir on the first part if you can share because it is more of a performance driven kind of a pay model as against your product base which we have traditionally been more accomplishment?

Manish Bhatnagar: Right the cost most of these performance contracts are linked to data being streamed from the bearings into a remote location. If you ever come to Pune for example, we will be happy to show you around what we are calling the remote diagnostic centre. These are a bunch of engineers who are basically monitoring assets on some large screens in front of them 24x7 across the country but again these engineers are not doing it firsthand. They are not doing it themselves. They are monitoring algorithm and machine learning programs that are monitoring the data from all these assets and the engineers are there to mainly alert the customers if the algorithm point towards an abrasion so for example if a bearing in a steel mill converter starts to show signs of failure it will alert our engineers who will then cross check the data to make sure the algorithm is saying what is supposed to say and then work with the customer to make sure they understand the consequences so the only additional cost that I would say are the cost of setting up this remote diagnostic centre and engineers we need to higher to monitor that. That of course gets amortized. It becomes easier the more assets we start monitoring so it is in investment stage right now but overtime it will become more and more part of the business and those costs becomes very insignificant compared to the performance gains we get from them.

Virag: So, one business kind of reaches a steady state or a mature state how would one understand where the margin structure and this kind of business? Any learning from how it would have evolved at the parent level anything you can share on that front?

Manish Bhatnagar: The margin structure will certainly be better than selling only products that is obvious because this is not about selling more there. It is about selling better meantime between failures. It is about selling more up time, etc., and the contracts will be structured in the future where we can gain in the share of profits of customers so if we can help the customer increase uptime. Let us take the example I gave earlier the pay per tonne contract we have with the steel mill. The more you produce the more we get paid. Beyond a point our incremental cost is zero here apart from of course the cost of bearings we need to supply to them to make sure the converter keeps running on time so the margin structure will be far superior to the bearing product line in steady state. Now what that number will be I do not know right now frankly. That depends on adoption of the RAP contracts by segments and customers and certainly the more profitable the segment that adopts the higher the margin will be.

Virag: Thank you and good luck.

Moderator: Thank you. The next question is from the line of Vipul Kumar Shah from Sumangal Investments. Please go ahead.

Vipul Kumar Shah: Congratulations for very good set of numbers. Continuing on the previous speakers question so REP business is 5% to 7% of our total annual turnover right now where do you see it over the next three to four years Sir?

Manish Bhatnagar: Our state-wise ambition is for it to get to 20% of our business in the next three years.

Vipul Kumar Shah: So right now, can I ask whether that business is EBITDA positive or negative?

Manish Bhatnagar: It is right now neutral.

Vipul Kumar Shah: Neutral and what should be the margin trajectory if it reaches 20% of our turnover?

Manish Bhatnagar: It will be better than the bearing products line.

Vipul Kumar Shah: Significantly better?

Manish Bhatnagar: Yes, I hope so that is the intent we are doing it and again to elaborate on the previous answer it depends on the adoption of performance contract. It depends on which industries, and it depends on what performance is we promising so if we are only promising incremental gains, we will only have incremental profitability. If we are promising major gains, we will have major profitability and that is an education we need to do in conjunction with the customers to make sure we are sharing in the profits equally.

Vipul Kumar Shah: Okay Sir thank you and all the best.

Moderator: Thank you. The next question is from the line of Jason Soans from Ashika Stock Broking. Please go ahead.

Jason Soans: Thank you for taking my question, Sir. Sir I just wanted to know about in terms of this EV transition how is it going to play out so obviously IC engine bearings will probably slowly phase out and then you will have those bearings which will cater to the EV applications and you did mention that there are higher margin products and technologically superior so just wanted to know from a landscape perspective what is your sense on of it is going to pan out in terms of probably the volume of bearings will come down but there will be more specialized bearing so in terms of a product mix perspective and there will be more higher value bearing what is your sense on that just wanted a perspective from your side for that?

Manish Bhatnagar: Sure, the short answer is that while the number of bearings will go down the price per bearing will go up and our estimate tells us that we will be revenue neutral in the electrification game and we may be margin positive because of higher performance and better margin bearings. That is the short answer. The longer answer is that electrification is today crawling at a fairly slow pace. There is more noise in the market than reality. Also, the adoption of electrification is very different across different segments and within the segments across customers. Two wheelers as we know is probably the farthest along the block in terms of adoption and then followed by passenger vehicles followed by last mile commercial vehicles followed by intracity buses, etc., so it really depends on the adoption curve of electrification to give you a better answer in terms of margin improvements over the years.

Jason Soans: Sure, thanks Sir and just a question in connection with that so I was reading about your hybrid de-groove ball bearing which is a combination of ceramic rolling elements as well as steel rings so do you see an increased usage of ceramics for EV bearings going ahead?

Manish Bhatnagar: Yes, they are actually made for exactly that purpose. The hybrid ceramic bearings and you are right. The ceramic refers to the balls or the rollers, everything else is still seen. They are meant for exactly that purpose. They are better insulation, lower noise, less friction, high speed, etc., and we expect the hybrid bearings to lead the way in electrification.

Jason Soans: Sure Sir and just one final question from my side you did mention so bearings are a local play and the exports are just a filler so in terms of locally there is a lot of focus on infrastructure initiatives from the Government of India and a lot of other initiatives as well looking at positioning India as a viable in a strong manufacturing alternative to China so I just wanted to know what is your sense in terms of a ground level what do you see and what is your sense of the manufacturing landscape here in India and how do you see it going ahead for the next three to five years?

Manish Bhatnagar: I think it is a little naïve to imagine or to say that we will replace China supply chain excellence in three to five years because that excellence has been build up over decades so all those who talk about replacing China with Made in India is a little naive about that but having said that there is certainly a demand from customers and industries to de-risk China the so-called China plus one or China plus two strategy. Now when you say plus one or plus two India is one of the many countries which could be plus one or plus two. It could be Bulgaria. It could be Mexico. It could be Vietnam. It could be another country. I do not think we are there yet in terms of our supply chain excellence. We may have good manufacturing capability, but we do not have world class logistics for example. We do not have world class clearances, so I think a lot more needs to happen on the ground to be able to say that we are a credible treat or a creditable player in the China plus one or China plus two game.

Jason Soans: Sure Sir. My question was clearly China is a bear mouth and yes definitely but are you seeing some gradual concrete steps my own question was that so even if a small position is diverted towards India that is also is a big on a base it becomes a big jump, so I was talking about from that perceptive?

Manish Bhatnagar: Absolutely. I think the small incremental shifts we are seeing of course we are seeing that but to see that large incremental shift that will be more than a rounding we are yet to see that.

Jason Soans: Sure, Sir thanks for answering my questions. Thank you.

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

Sandeep Tulsian: Thanks for taking my follow-up question. I had a couple of years more questions. First one was on the pricing versus volume growth if you look at the last three years CAGR for our sales it is somewhere between 10% and 11%? I know it is not very simplistic. There is a big portion of mix change over here also but if you give us some sense how much of this 11% annualized growth rate would have come from pricing increase and how much of that would have been volume growth?

Manish Bhatnagar: I do not have the numbers for three years CAGR Sandeep, but I can give you a sense for the last year. This is what I have top of memory right now. Pretty much our sales volume is led by volume about 40% and price mix change about 60%.

Sandeep Tulsian: Sorry price change is what?

Manish Bhatnagar: Price and mix both about 60% and volume about 40%.

Sandeep Tulsian: Understood. The second question was pertaining to the OES sales part that you explained what we have seen is that typically with a lot of these Korean car manufactures the tier one supplier tend to be a Japanese sort of coding company so would that be a hindrance in increasing the OE sales as and when that piece grows?

Manish Bhatnagar: Specifically for those examples you mentioned we are not a large player in any of those segments.

Sandeep Tulsian: Okay that explains it. The third part of the question was on the comments made by a global CEO on the investments in Asia Pac? He mentioned that current share of Asia is at 60%. He would want to increase it to 85% and would want to make all incremental investments towards manufacturing plant in Asia? I am assuming India is a large part of that, but you did mention exports does not feature in our overall strategy of growth so was that reference more towards the unlisted entity or how do you just tally these two views?

Manish Bhatnagar: No, that reference was more to localization. It was not in reference to a specific plant. It was meant in terms of more localization therefore more manufacturing in the country.

Sandeep Tulsian: Okay do you foresee that kind of a growth within the Asian end market is what we are referring to?

Manish Bhatnagar: Yes.

Sandeep Tulsian: Okay understood and one last data keeping question is on the 4Q mix what Ashish said was on the OE aftermarket side and its spots if you could also, please share the automotive and industrial mix for Q4, so we get a proper sequential compression thank you?

Manish Bhatnagar: So, last year for the Q4 the mix was automotive was 40%, industrial was 47% and export was 14%.

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

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

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