Date: 08th August 2023

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

Subject : Transcript of Analyst/Institutional Investor meeting held on 03rd August 2023

Reference : Our intimations dated 21st July 2023 and 28th July 2023.

Pursuant to Clause 15(b) of Schedule III, Part A, Para A read with Regulation 30 (2), Regulation 30 (6) & Regulation 46(2) of SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 (as amended from time to time) ("SEBI LODR"), please find enclosed herewith the transcript of Analyst / Institutional Investor meeting held on 03rd August 2023.The same will soon be uploaded on the website of the company for convenience of the shareholders.

We request you to take the above information on record and disseminate the same on your respective websites.

Thanking you,

Yours faithfully,
For SKF India Limited

RANJAN KUMAR

Digitally signed by RANJAN KUMAR
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Ranjan Kumar
Company Secretary & Compliance Officer

“SKF India Limited Q1 FY24 Earnings Conference Call”

August 03, 2023

MANAGEMENT: **MR. MANISH BHATNAGAR - MANAGING DIRECTOR, SKF INDIA LIMITED**
MR. ASHISH SARAF - CFO, SKF INDIA LIMITED
MS. APARNA SRIVASTAVA – SKF INDIA LIMITED

Moderator: Ladies and gentlemen, good day and welcome to the SKF India Limited Q1 FY2023-24 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 after the discussion. Should you need assistance during the conference call, please press '*' then '0' on the touchtone phone. As a reminder, this conference is being recorded.

I would now like to hand it over to Aparna Srivastava from SKF India Limited. Thank you, and over to you.

Aparna Srivastava: Good morning, everyone. Thank you for joining us today. With us we have SKF India's Managing Director, Mr. Manish Bhatnagar and our CFO, Mr. 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 statements, which are subject to risk, and uncertainties and actual results may defer 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 cautioned 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 business and the financial quarter under review.

Let me turn the call over to Mr. Manish Bhatnagar who will give an overview of the company's business activities and developments for the Q1 FY 2023-24. We will then open the call for Q&A. Over to you, Manish.

Manish Bhatnagar: Thank you, Aparna, and welcome everyone on this earnings call. I am joined by my CFO, Ashish Saraf. Some of you have met him earlier, but it's a pleasure to be on this call.

We have about two hours set aside for this call. I know there are a number of participants on this call. So, we don't want to do a long preamble. You have seen the results. We declared them yesterday evening after a Board meeting. They are fairly strong results, and we are very happy with the performance given how challenging the environment has been. There are inflation issues. There is a supply chain disruption issues. There is issues around demand etc., but given all the macro headwinds, we have come out we think with a very nice set of numbers, and we are very pleased about those.

So, I am going to just jump straight into Q&A if that's okay with everyone, because we do want to give time to everyone in these two hours to ask their questions and get answers from us. So, with that, Aparna, if I can hand over to you or the moderator to start the questions?

Moderator: Thank you very much. We will now begin the question-and-answer session. Our first question is from the line of Mumuksh Mandlesha from Anand Rathi. Please go ahead.

Mumuksh Mandlesha: So, starting with the, can you talk about the growth environment in automotive and industrial for both OEM and aftermarket and how do you see the growth ahead?

Manish Bhatnagar: Mumuksh, thank you for asking that question. And as a reminder, automotive is about half our business. So, it's industrial 50%, automotive 50%. But I will restrict my remarks to what you have asked on automotive. I will give you the high-level comments and Ashish can jump in with some specific numbers.

In general, we are seeing automotive picking up now. You know, we have had, as you know, we have had a disruption in automotive for some time now. Commercial vehicles have had a long winter for over two years. It really began pre-COVID. With some changes in regulations and demand etc., we are now seeing commercial vehicles bouncing back. We are seeing the same in passenger vehicles on the basis of a lot of new models being launched and also a high interest in the electrification of passenger vehicles.

Agriculture has been strong and that means tractors for us. we expect a pretty good Monsoon this year. So, that will also aid in demand. And two wheelers suffer a lot of inflation because two-wheeler buyers are typically much more sensitive to inflation and pricing, but again, we see that bouncing back.

So, in general, we remain bullish across all automotive segments, and of course, there are specific sub-segments which might do better than the rest, but in general, we remain bullish.

On the aftermarket side, likewise, aftermarket demand is really a function of reach and pricing and on both those parameters, a lot of effort has been put by our aftermarket teams over the last couple of years to make sure we are producing bearings at the right price point for the aftermarket and also make sure we reach retailers and mechanics in the most effective manner. So, we remain bullish on both OEM and aftermarket. Ashish, can you share specific numbers that will help Mumuksh?

Ashish Saraf: Yes. So, just to give you a bit of an insight in terms of the overall automotive growth, we have seen a 4% year-on-year growth on the automotive for this quarter, and we see growth happening across segments, predominantly two-wheeler and powertrain, and we expect this growth to continue in the sequent quarters as well.

Mumuksh Mandlesha: Similarly, if you can share on the industrial segment as well?

Ashish Saraf: Yes. So, on the industrial segment, again, we have had strong growth this quarter. We have seen a growth of around 15% year-over-year. The growth predominantly has come from the distribution business, has come from the metals business as well as from the railway business. Having said that, all sub-segments within the industrial business have grown really well. Q3 and Q4, we expect the momentum to continue.

Mumuksh Mandlesha: How do you see the growth Trends in the upcoming segments like EVs, construction, drives, railways and renewable going ahead?

Manish Bhatnagar: Yes. On the industrial side, I will answer for electrification first. And you may know we announced a new strategy a year ago focusing on clean and intelligent, and the clean part of it is where electrification plays well, and what the strategy really meant was, we will double down on the clean tech growth areas. Two of the segments you mentioned are in that clean tech growth area, which is electrification of vehicles and railways. Both are doing extremely well.

Electrification right now, as you well know, is not a big part of the market right now. We are seeing traction in two-wheelers. We are seeing traction in three-wheelers. We are seeing some bullishness on passenger vehicles and of course, within the city or intra-city public transport. But of course, it's only a question of time. It's only a question of time before electric vehicles far outpace the sales of non-electric vehicles. And we are preparing for that in terms of innovation, in terms of technology, in terms of different kinds of bearings that will be needed in the electric space. So, it's a small market. It's a small market and a small business today but growing very, very rapidly, and it's only a question of time when it becomes a large part of our business, and we are preparing for it. So, that's the message on electrification.

On Railways, the big driver will be freight. As you know, most of our freight in this country is moved by road. About 14 odd percent is our logistics cost as a percentage of GDP which is very, very high as compared to any other country of our size and again, that's because most of it moves by road. Therefore, we expect this freight cost to go down when the railway freight corridors come online.

The railway freight corridors, the DFCs are now partly operational, both on the North and the East and the remaining are in various stages of testing. We have bearings now approved on those high load carrying freight wagons and we are manufacturing them locally in the country. So, all that helps in gathering a share in the freight business. So, railways also will expand for us.

And the other part of railways that is important to us is Metros. Metros again remains a small part right now, but growing very rapidly. And again, our bearings are approved for the Metro lines. So, we see growth happening there too. So, that covers electrification and railways.

The other thing you said was about drives etc. Drives includes gearboxes, pumps, compressors, you know, things like those. These are small equipments, and they typically are at the beginning, we see drives picking up really well at the beginning of an economic boom, because when you see private CAPEX picking up, the first equipment that gets bought are the smaller equipment which is basically the drive segments. So, again we expect private CAPEX to pick up in the next couple of years and we are seeing movement on the drive segment also. So, overall industrial certainly remains very bullish and Ashish talked about the growth numbers, 15% in industrial which is kind of representative of our bullishness for the future also.

Mumuksh Mandlesha: So, broadly we can expect a double-digit growth to continue in the industrial segment, right?

Manish Bhatnagar: Well, we certainly hope so.

Mumuksh Mandlesha: Also, in the Q1 reserve, the other expense was lower sequentially. Any reason for it, sir?

Ashish Saraf: So, in Q4 last year, we had SKF celebrated a hundred years of celebration in the month of March, right? So, there, as a company, we did spend a significant amount of money, and that's where it was like last quarter you saw an increase in the other expenses, whereas this quarter that expense is not there. That's why it's come back to the previous quarter run rate.

Mumuksh Mandlesha: Sir, you had earlier talked about focus on the profitability with trimming some unprofitable businesses. Any update on this? And also, how are you seeing the traded margins? Have they normalized?

Manish Bhatnagar: I will take the first part of the question. On unprofitable business, and I will expand that to even less profitable business. This is about managing our portfolio in a much better way and a much more thoughtful way. We certainly want to be careful about doing any business on less profitable accounts, on less profitable products and on less profitable ways of going to market. So, all of that is part of our portfolio management. It's an ongoing exercise. It's not something we began last quarter. It's an ongoing exercise, but certainly, given the tough economic environment right now, we are taking, we are making some tough choices internally and externally. And what you see in our profitable growth improvements is also on account of managing the portfolio in a much more thoughtful way than maybe we have done in the past.

Ashish Saraf: And on the trading margins, it has stabilized, right. If you look at over a period of last one, one-and-a-half years, we have taken a lot of price increase because of which we were getting higher margins than usual on the traded products, but now with most of the pricing increase getting passed on to the customer, we are in a situation where our trading margins are more or less stabilized.

Mumuksh Mandlesha: Just on the previous answer, the process of a less profitable trimming those businesses has been over or you see continuing benefit of that, sir?

Manish Bhatnagar: No, it's never over. Our benchmark keeps on rising. So, certainly, we have taken the first cut at it in terms of managing the portfolio with the obvious decisions we made right now, but also some of these businesses are also long cycle, long contract businesses. So, we also have to be mindful of our customer requirements. We can't just overnight turn the tap off it. So, some of these will drag on, carry on a little bit in the future also, but it's an online exercise. We have got to keep figuring out how do we constantly increase our margins and get better value for our products.

Mumuksh Mandlesha: Just one last, can you share the revenue breakup for Q1 and also FY '23, if possible?

Ashish Saraf: Revenue breakup between industrial and automotive for this quarter, industrial is around 51%, automotive is around 40% and exports is around 9%. And for the previous year, again, industrial is around pretty much in the same range. Industrial is around 52%. Automotive is 41%, and export is 7%.

Mumuksh Mandlesha: And also, you can share the aftermarket in between the automotive and industrial?

Ashish Saraf: So, automotive, overall aftermarket is 36% of our total revenue. 25% is industrial. 11% is automotive.

Mumuksh Mandlesha: How much automotive?

Ashish Saraf: 11% of our total revenue.

Moderator: Thank you. Our next question is from the line of Harshit Patel from Equirus Securities. Please go ahead.

Harshit Patel: Sir, first, just a small clarification that you mentioned about previous year industrial being 52, exports being 7, and auto being 41. That was for the first quarter of last year or for the full FY '23?

Ashish Saraf: It was for the full FY '23. Sir, my first question is on the wind market. You had previously indicated that we were making EBITDA losses in this segment about 8% to 9% and we are planning to realign both, product portfolio as well as the customer mix. Since you have already highlighted broadly what we are doing at the company level, so could you share some progress especially on this wind front?

And just consequent to that, how is the wind market doing at the moment? Because we have been hearing that the market is seeing some bit of revival since last few months and the second half of financial year specially looks very promising. So, if you could outline what is your outlook in this particular segment?

Manish Bhatnagar: Yes, I don't recall making a comment that we are losing, have an EBITDA loss of 9% on wind. It may not be as profitable as the other segments, but I don't specifically recall that commentary. But nevertheless, the spirit of the question is in terms of how is the wind market doing?

You are right in saying that there has been a revival in, well, we see signs of revival in the wind space. The wind market, as you know, is also kind of a function of the auctions and the prices set in those auctions for producing wind energy, and I think a number of players who had bid for those were struggling to meet those commitments and that led to a slowdown in the wind market because of profitability concerns. We are seeing a bit of revival on that space.

But as it relates to us, one of our big initiatives is around localization of bearings for the wind market, and localization is not just about manufacturing bearings locally. It's also about sourcing steel locally for those bearings. So, it's localization of supply chain and localization of manufacturing. And on both those fronts, we have made a lot of progress in the last 18 months.

So, we have now begun to source steel locally, and we have now begun to manufacture bearings locally. Of course, not everything is being done locally right now, and there is still some work to be done here, but that is our path forward on the wind market. As much as possible localize and help our customers improve their own profitability.

Harshit Patel: Sir, secondly, on the railways market, I believe we have already had a very good market share in the locomotive segment. So, on the other segments, like coaches and wagons, have we secured all the approvals or the qualification to bid for the full tender quantity? I believe a few years ago, we were not allowed to bid for the entire tender quantity because we were still in the process of securing those approvals.

Secondly, you have already mentioned, we are already localizing these railways bearing in our sister company, which is SKF Engineering. So, what kind of CAPEX we are incurring in that sister company for both these, wind as well as railways bearings? That would be my last question.

Manish Bhatnagar: On railways, just to correct you, we have a good market share both on locomotives and on passenger. Where we did not have a good market share was on the freight side and that was mainly because of the comment you made about approvals pending for bearings on the freight wagons. Those approvals have now been obtained and we are fully qualified to bid for the complete freight wagon tenders. Metros we have always been approved. So, no concern there. So, now we have all the approvals to bid on all four sub-segments of railways.

On your other question on SKF Engineering, that's a question that I would not answer on this call as this is a call for SKF India.

Moderator: Thank you. Our next question is from the line of Akash from the Lalan Brochure Stock Broking. Please go ahead, sir. May I request to management members, we move to the next participant? Our next question is from the line of Ankur Sharma from HDFC Life. Please go ahead.

Ankur Sharma: Before I ask my questions, I just had a small suggestion if we could do these calls a little more frequently, maybe once in six months, even that would be great, you know, something which one of our peers also does just to get a broad update on what's going on in the business etc. So, just a suggestion if you may kind of consider that. So, that was that.

Just a few questions. One in terms of localization, especially on the industrial bearing side, you know, if you could help us how are things progressing there? Well, I understand the larger industrial bearings, I believe, are made by our parent unlisted entity, but in the listed entity where are we in terms of localization, especially on the industrial bearing side?

Manish Bhatnagar: So, industrial large size bearings, you are right, are made by our sister company and these would be catering to the railways and the wind segment specifically, and we answered that in the earlier two questions. Railways is about 7%, 8% of our business. wind is about 7%, 8% of our business. Let's take about 15% is catered to from that plant. The remainder of the industrial bearings business is catered from the plants of SKF India, and localization is progressing very rapidly also, and it has to also in the remaining segments.

So, every other segment that we cater to, whether it's metals or steel or cement or infrastructure or construction etc., or F&B, all those bearings will need to get localized, but by and large, we are at about 35%, 38% localization today on industrial. We are about 95% plus on automotive. Obviously, our goal is to increase the industrial localization to as high as possible. It will never get to the automotive level because it's a very different industry. Automotive, as you know, is a very high throughput, the same kind of bearings. So, it's easy to localize that to 95%. Industrial is a long portfolio of not that higher volume bearings. Therefore, it's not easy to localize everything.

But having said that, we hoped all our investments for the next couple of years, a lot of it would be focused on localizing industrial bearings for every other segment. We certainly hope our internal goal is to get to about 60% localization on industrial in the next couple of years and we are making plans to get there.

Ankur Sharma: Sir, second, on the railway side and specially on the LHB coaches and the Vande Bharat coaches which I believe is what the government wants, right, to be there over the next decade or so and replace existing coaches. I think that something called UIC bearing which have come in and which will replace the older bearings which were used. Am I right in understanding that SKF is amongst the two or three players who are kind of qualified for that?

Manish Bhatnagar: That would be correct. I don't know what UIC frankly is. I am not aware of that nomenclature, but in general, I can say that we are qualified to be one of the suppliers for passenger coaches in India.

Ashish Saraf: You are saying especially for Train 18, we are already qualified. They are already supplied.

Ankur Sharma: So, we already supplied. And any sense of the market sizing, sir, in terms of the overall railway market and if you could break down that between say the freight and the passenger/Metro markets?

Manish Bhatnagar: Yes, I don't have the numbers top of mind. Sorry, but as a percentagewise, if I remember correctly, I looked at the numbers about six months ago. Metro was the smallest about 5%. Freight was about 35% and passenger was about 40% and the balance was locomotive, but we can get back to you if you are interested in the more detailed numbers. That's kind of top of my mind right now.

Ankur Sharma: Thirdly, sir, on the gross margins or the EBITDA margins, whichever you may, and then, clearly, when I look at say the last six, seven years, clearly, we have seen this big shift, right? So, maybe in '16-'17, our EBITDA margin used to be at about 13%, 14% or maybe at 15%. Now we are a number closer to 17.5 odd percent. So, A, you know, what's driving that shift? Is it more leveraged and higher top line driven shift? Is it a change in the mix? Is it better localization? So, just trying to understand the two, three key drivers behind this higher margin and sustainability more importantly of these margins?

Manish Bhatnagar: Yes, it's everything you said honestly. You know, over the last few years, last five odd years, we have changed the structure of our business somewhat in terms of where do we focus on strategically and not just tell to everyone who comes to us. So, it's combination of figuring out which segments will drive the best profitable growths and focusing on that. We mentioned on a previous conversation about managing our portfolio much more thoughtfully over the past couple of years and this is an impact of COVID and post-COVID, how do we improve our operational efficiency in a much more nicer way?

And lastly, localization, because localization really helps us drive our costs down. It really helps us to control our quality, control availability, and control costs and that in turn helps us drive better share with customers because customers are also facing the same problems that we face in terms of supply chain disruptions. Customers for the last couple of years, as you might well know, are more open now to prioritizing availability over pricing. So, we are certainly seeing a change in also customer behavior. They don't mind paying the 3%, 4%, 5% premium if availability improves. And so that's really our localization efforts are also helping there. So, it's a combination of a number of things that you mentioned in terms of driving EBITDA margin upwards.

Ankur Sharma: And just one last question. You know, not sure if you shared this, but if you could just help me with the sub segment-wise breakup of sales for FY '23, so, you know, two-wheeler, passenger, tractors, EVs and auto, the OEM and industrial share there as overall share?

Ashish Saraf: Sure. So, automotive as I said is overall 41%, right, for financial year '23, out of which two-wheelers is around 11%, powertrain is 6%, cars is around 6%, trucks and tractors are around 7% and VSM or aftermarket is around 11%.

Ankur Sharma: And in the industrial, if any further breakup? I heard wind and radar 8% each.

Ashish Saraf: Yes. So, on the industrial side, aftermarket is around 25%, drives is around 8%, heavy is around 4%, metals is around 2%.

Moderator: Thank you. Our next question is from the line of Deepesh Agarwal from UTI Mutual Funds. Please go ahead, sir.

Deepesh Agarwal: My first question is we have seen the two-wheeler industry is now transitioning towards electric two-wheelers. So, can you help us understand how your content per vehicle would have moved in two-wheelers when you supply for IC and then moving to electric?

Manish Bhatnagar: Deepesh, we answer this question on every conference call, but I will again this time. So, on two-wheelers, the bearing content on the wheels does not change because whether you have electric or non-electric, you still need two wheels on a two-wheeler. They still need those bearings on the wheel. Where the bearings will change is on the engine side. Typically, a two-wheeler has about, and I am giving you a kind of a simplistic answer, about 14, 15 bearings on the engine side. That will not drop to about 9 or 10 bearings. So, while the number of bearings go down, the type of bearing will change, and the quality of bearings will change. So, electrification needs much lower friction, much lower noise, much more highly insulation on the bearings etc. So, the type of bearing will change and therefore the price point of the bearing will change. We expect our bearing revenue per vehicle to be neutral even though the number of bearings will go down.

Deepesh Agarwal: The second question is on railways. So, can you help us understand the bifurcation between SKF Engineering and SKF India because I can see some of the PQs for the railways are with SKF Engineering rather than SKF India?

Manish Bhatnagar: So, we are not, in general, all our railway business is done through SKF India. We don't do any business through SKF Engineering with our customers. So, pretty much all our top line is booked in SKF India as such.

Deepesh Agarwal: The next question is on the wind, what percentage of wind revenue of this 7%, 8% which you guided would be for the domestic market? And what percentage would be in direct export?

Manish Bhatnagar: Well, it's all domestic market, but having said that, when we say domestic market, it is all that we sell to manufacturers in India who have plants in India. Now, what they do with their products is a different part. That we are not concerned with. So, we may have customers who buy bearings domestically from us for making geared boxes, but they in turn may export their gearboxes to wherever they need to, but all our sales is domestic business.

Deepesh Agarwal: And can you share some comments on the exports? I know it's not a very focused area for SKF, but because it still contributes a sizable portion of your revenue, how is the demand trend out there?

Manish Bhatnagar: It's not a sizable portion. It's about 7% to 9% and it's not something that we focus on. We are really focused on localization and really focused on serving the local customers as best as we can. Exports really, our outlook is that this is more filler production for us. If we have some spare capacity, if someone else outside the country needs some support production, we are happy to pitch in, but we don't have sales teams out there in the world pitching for new business. That's not kind of our focus as you rightly said.

Deepesh Agarwal: And the last question, if you can share your guidance on CAPEX and trend for next two, three years?

Manish Bhatnagar: Yes, we expect CAPEX to be in line with what we have done in the past around 150 odd crores a year, you know, give or take 20% up or down and that will not change over the next couple of years.

Deepesh Agarwal: At SKF India level, 150 crores? At SKF India, 150 crores, right?

Manish Bhatnagar: Yes.

Ashish Saraf: That's right.

Moderator: Thank you. Our next question is from the line of Bharat Sheth from Quest Investment Advisors Private Limited. Please go ahead.

Bharat Sheth: On Industrial when we are talking a lot of big things and which is a business where we provide the solution also taking a long-term maintenance of the plant as well as, so how do we see that our offering really improving? And second thing, when you spoke on the availability over prices, so what exactly on ground we are doing to improve that? In your last call, you mentioned about digital connection and all. So, if you can give a broader outlook, one, on this industrial side?

Manish Bhatnagar: Yes, on the industrial side, of course, we are focused on providing services to our customers, and I think what you mentioned is one part of our services which are performance contracts where we don't sell bearings, but we sell performance, and that's been an ongoing strategy for us for the past couple of years. And certainly, it's helping us win share in key segments where performance becomes important. So, for example, the steel industry is a big driver for these performance contracts.

The other question you asked was on, what is the second question?

Bharat Sheth: Availability over prices? So, how these solutions business is really and digitally connecting, I mean, a distributor and all so that furious bearing really do not go to the customer?

Manish Bhatnagar: So, on availability, there are two ways of ensuring good availability. One is, of course, manufacturing the bearings locally as much as possible because only when you manufacture them locally do you cut the lead times both for manufacturing and for freight and movement to customer. That's one big initiative for us.

The second one is around on the aftermarket side, how do we ensure we have good reach to our customers, because sometimes customers are not able to reach SKF, and they want to buy SKF. So, typically, they would go to where they think they are buying a genuine bearing, but they could end up with a counterfeit bearing, or they could go to a comparative pairing, and that's where we need to also improve our reach and digitally connecting our customers to our warehouses is part of their initiative.

Bharat Sheth: Sir, where we are in this whole journey what you spoke about on solution? And is there still further a room to grow all these significantly?

Manish Bhatnagar: Oh, yes, absolutely. There is a lot of room to grow on performance contracts. We are only scratching the surface here. In some industries we are doing better, and you have to look at performance contracts as being attractive to industries where the cost of failure is much more than the cost of replacement. So, things like…

Bharat Sheth: What kind of process industry?

Manish Bhatnagar: Yes, so process industries or even high CAPEX industries like wind etc., where the accessibility is an issue for wind turbines. So, the cost of failure can be catastrophic there. The cost of replacement is lesser. So, that's where these performance contracts come into play. It will certainly not be a viable play for a two-wheeler owner because the cost of failure there is not more than the cost of replacement. So, you have to choose your industries well, mainly industrial process industries, long cycle industries, things like those.

Bharat Sheth: Last question, sir, last call we said that this refurbishing of passenger coaches is also could be a big opportunity. So, where are we now in this refurbishing of the coaches with the change in new bearings and all?

Manish Bhatnagar: Well, we don't refurbish coaches. We refurbished the bearings that go into those coaches. So, absolutely, we have what we call solution factories. So, these solution factories are set up as a sub-factory within a main manufacturing factory where we take back the used bearings and we remanufacture them. So, pretty much make them as good as new and then send them back to the original purchaser for reuse in their coaches.

Bharat Sheth: And sir, one bookkeeping question with your permission. Sir, in our latest annual report, we stated that this whatever import or, I mean, sourcing from this domestic SKF Technology, this year the number indicated are as high as 25% over last year. So, this is what you gave in your commentary on opportunity on industries are, so that really reflects that 25% outsourcing from our group company.

Ashish Saraf: Sorry, it's not very clear to me, but typically, if you look at last year, we grew by around 17%, right? And that happened pretty much across our segments. So, since we grew at around 17% last year, naturally our purchases from SKF Engineering would accordingly increase in the same lines.

Bharat Sheth: This year for '23-'24, we have indicated a 25% growth amount that we, I mean, when related party transaction we take the approval for AGM, that is…

Manish Bhatnagar: That's right. Yes. So, you know, like Ashish said, our expected growth rates are high double digits, and we typically take an approval for related parties in excess of that just as a buffer. That's why you see a little higher approval for related party transactions.

Moderator: Thank you. Our next question is from the line of Jeetendra Khatri from Tata Mutual Funds. Please go ahead, sir.

Jeetendra Khatri: Sir, for two-wheeler OEM, I wanted to know what would be your bearing content in or let's say, what would be your exposure towards budget or entry-level motorcycle and premium motorcycles? How would you divide the market into two?

Manish Bhatnagar: The number of bearings don't change that much between the price point of the vehicle.

Moderator: Thank you. Our next question is from the line of Suraj Sonulkar from Asian Market Securities. Please go ahead.

Suraj Sonulkar: Sir, I just want to ask you, I mean, can you mention what is the growth in railways in this quarter?

Ashish Saraf: Year-over-year, railways have seen a 30% growth.

Suraj Sonulkar: And wind business?

Ashish Saraf: Wind has been relatively flat.

Suraj Sonulkar: Secondly, on railways, I just wanted to understand, I mean, as you mentioned that we are doing business from SKF India, so is it like some part of the business comes under transfer pricing with the sister concern?

Ashish Saraf: That's right. That's right. So, whatever we buy from SKF Engineering comes under the transfer price regulation.

Suraj Sonulkar: So, how much percentage of that is from that in railways and how much is directly from SKF?

Ashish Saraf: I wouldn't have a specific number in terms of buy business how much percentage of our total sales is what we are buying from SKF Engineering.

Suraj Sonulkar: One question particular to the localization plan and the parent's plan of regionalization of supply chain. How does these two things sink in together for us? Because parent is more focusing on the regionalization of supply chain across the continent and India, I mean, they are also focusing on localization in India. So, can you just give some qualitative feedback on how maybe this can be a positive trigger for SKF going forward in terms of export or in terms of other opportunities for particularly in the Asia Pacific region?

Manish Bhatnagar: No, just to clarify, regionalization and localization are the same thing. When we say regionalization, we mean don't think of it as Asia region. Think about it including the India region. So, as much as possible, if we can regionalize, which is the same thing as localized, whether it's India or China or Malaysia or Europe or wherever else it might be, so they are the same thing. So, parents, SKF AB's drive towards regionalization of supply chain is the same thing as what we are calling localization of supply chain.

Suraj Sonulkar: But that does not fit in when we say our export will be limited from India.

Manish Bhatnagar: Yes. We are not focusing on exports from India. We are focusing on localization or regionalization. For us, India is the region. So, we are focused on localization for India.

Suraj Sonulkar: And one more thing on the presence in Robotics and Industrial Automation. Are we seeing good, I mean, inquiries in that segment from Indian market?

Manish Bhatnagar: I think we are seeing some inquiries from robotics and automation mainly around motors and drives. It's not something that I would say is a material part of our business right now, but we are seeing some inquiries.

Moderator: Thank you. Our next question is from the line of Mukesh Saraf from Avendus Spark. Please go ahead, sir.

Mukesh Saraf: My first question is again on industrial localization. We are also kind of noticing a lot of your peers, obviously, the large ones are also now embarking on a significant localization plan for the industrial segment. So, could you give some color on, you know, what is driving all the large players to now focus on localization? Is there a new opportunity that is coming out on this space probably defense or a PLI schemes in various other sectors? Some color there would really help on what's driving this localization now and would this open up any new markets or new opportunities which maybe so far were catered to by maybe unorganized segment or anything of that sort?

Manish Bhatnagar: Well, localization is not to fight against the unorganized segment. Localization really is about import substitution. I cannot comment for the other players that you mentioned, but certainly for us, if today 35% to 38% of our industrial business is localized, which means 62% to 65% of industrial bearings are being imported from other SKF factories around the world. This is what we need to change. We need to change that to get a higher localized content from our factories in India. Why? That is pretty straightforward because our customers want it. Our customers really don't want to be at the mercy of long lead-time supply chains. It's not so much frankly a cost issue. There could be some bit of it, but the larger issue is the long lead supply chain, and that's what is driving us in terms of more localization on the industrial side.

Mukesh Saraf: So, we shouldn't expect localization to say lead to higher volumes? As such, it's probably, it's just primarily only substitution.

Manish Bhatnagar: Well, I hope when we are able to supply to our customers better lead times, it will also lead to a better share with them. So, it's not, I mean, why do we need to do import substitution? Not because it's a nice thing to do. We are doing it and investing in that localization because we hope to get returns on it and the returns, we hope to get on that is by getting more share with customers. And in the last one year, in fact, the example I gave at yesterday's AGM, if you watched it, is the other customer, a large cement OEM Humboldt and we had zero share with that customer because we were importing those bearings from Europe and because we were able to localize those bearings in India, we now have a high double-digit share with that customer.

Mukesh Saraf: And my second question is on the EV side of it. Given that we have a good exposure to the two-wheeler space and we have probably seen two-wheeler EVs see some higher penetration than the other segments, any specific order wins that you would want to mention or probably any more color there on how your orders are placed on the two-wheeler EV side of it and how the content there for you per vehicle is vis-a-vis say ICE in terms of value?

Manish Bhatnagar: I already answered the content and the value question to an earlier question. So, you can review that answer. But on the larger one on electrification of two-wheelers, you know, our take is that electrification is a question of when and not if, and I am sure you will agree with that.

Now, today, frankly, we sell about, let's say about 20 million two-wheelers in a year approximately, give or take a few. More than 5% to 8% of that market is electrified, but it is not to say it will not become larger very, very soon. The 5% to 8% could go to 15, 20, 25, 30 in no time. And therefore, the question is which customers are well positioned to drive that growth?

Our belief is that the customers best placed to drive growth and gain share in the electric two-wheeler space are today's big players. It's the Bajaj, the Hero, the Honda, etc. It is not the small disruptors. As much as we hear about them, the big growths will come from the established players and the established players today have a very, very strong partnership with SKF. All of them. We are working with all of them to co-develop bearing types especially suited for electric vehicles and you could also extend that logic to passenger vehicles. So, we believe that when that growth happens, we are well-positioned in terms of both development of bearings and stickiness with customers to drive that growth for SKF.

Moderator: Thank you. Our next question is from the line of Mumuksh Mandlesha from Anand Rathi. Please go ahead, sir.

Mumuksh Mandlesha: Just you mentioned about the wind and railway growth Y-o-Y for Q1 quarter. Can you mention for other sub-segments like two-wheeler, powertrain, car, CV, tractors auto, aftermarket, and Industrial aftermarket, drive, heavy metals, sir?

Ashish Saraf: I already mentioned it earlier, right? If you look at for this quarter, we have seen strong growth in two-wheeler, powertrain for this quarter, whereas for cars, trucks, and tractors, it's been relative. On the industrial side, VST seen strong growth across all segments except wind, which has been flat year-over-year.

Moderator: Thank you. Our next question is from the line of Anish Rankawat from Haitong Securities. Please go ahead with your question, sir.

Anish Rankawat: So, my first question is, and I am sorry to hop on localization. My first question is, firstly, a clarification. You mentioned 35% to 38% localization in industrial. Does it include both listed and the unlisted arm? Or is it just the SKF India you are talking about?

Manish Bhatnagar: SKF India.

Anish Rankawat: Secondly, or in continuation, could you please talk about the roadmap for getting to the 60% target in couple of years, talking about which segments will drive, what will be the CAPEX and the asset turns you will be looking at?

Manish Bhatnagar: I think I answered that in an earlier question, but it's every segment. It's not specific segments. Localization is really driven by where the growth comes from, and we are seeing very strong growths in industrial. Apart from wind and railways, you know, we have a presence in almost every industrial segment. Steel, cement, construction equipment, food and beverages, mining, textiles, and I am sure I missed a few already here. All of those will drive localization.

Keep in mind that localization is for products. Localization is not necessarily for the segments. The same product will go into many segments. So, when we localize more of let's say, Deep Groove Ball Bearings, or DGBBs, they will feed multiple segments. When we localize cylindrical roller bearings or CRBs, they will feed multiple segments. So, we expect localization to feed demand and drive share growth in almost every segment. And the CAPEX that I talked about in response to a previous question of 150, 160 crores, we expect about 60%, 70% of that to go towards industrial.

Anish Rankawat: Continuing on the same topic, how is the localization improved over the last five years since you mentioned it's one of the drivers of margin improvement that has happened? Any numbers will be helpful here.

Manish Bhatnagar: But I don't know the numbers five years ago, but it was certainly less than 30%.

Anish Rankawat: I appreciate that. Secondly, on the traded revenues, if I look at FY '23, the proportion is just over 50% and that's moved significantly over FY '22, which was around 44%. So, could you please talk about what were the drivers of this move?

Ashish Saraf: So, again, I am just looking at the numbers. So, traded, just to kind of give an answer for the financial year '23, the traded was around 45% and it's actually come down 42%, say, for example, for this quarter. So, you can clearly see that localization is helping.

Anish Rankawat: That's very helpful. The second topic is for Manish. Yesterday in the AGM you talked about doubling of the R&D spend. Could you please talk about what would it be directed towards, and would there be any in the listed arm of SKF?

Manish Bhatnagar: Yes, I was talking more on the global strategy. That's our global strategy for SKF about doubling R&D spends, but I think, so without getting into specifics, what do we need to do differently in India? You may know that we have a Technology Center in India where we employ about 200 engineers, and these engineers are working day and night to focus on innovations and technology development both for global customers and for customers in India.

Localization, as an example to pick on your previous question, is not as simple as finding a source and start to manufacture bearings locally. A lot of technology also goes into that. So, for example, the Humboldt example I talked in the AGM yesterday was a lot of hard work in developing bearings locally with the right suppliers working with the customer to ensure the right testing. So, a lot of work also goes in making sure we have the right development which meets the standards for SKF and for the customer. So, that's one part of it.

The other part of it is also developing new bearings or new bearing types, what we call application specific offerings or ASOs. So, these are customers who may come to us with a very new application or a different requirement for the same application. There sometimes we have to do some research or development into taking an existing product and modifying it or developing a new product completely.

A bearing has many components to it. At a very simple level, it's got a couple of rings, a cage, some balls, rolling elements and greases. We could do research and we could make tweaks to any of those elements to make a new application specific offering. So, the engineers who are working in our Bangalore Technology Center are working to develop these application specific offerings, sometimes new offerings, sometimes modified offerings, sometimes working with customers. So, all kinds of things across the entire gamut of technology development.

Anish Rankawat: That's quite helpful. Last question is on railways. Firstly, a clarification. Was it 30% growth in this quarter?

Ashish Saraf: That's right. For this quarter. That's right.

Anish Rankawat: And that's significant. Congratulations on that. Now would you be able to share some market share numbers specifically in the railways? And given that you have now the freight approvals are in place, do you envisage similar market share in freight as well compared to the other segments that you are operating in?

Manish Bhatnagar: Yes. So, we are high double digit on passenger coaches, metros and locomotives. We are mid-single digits on freight and our intent is to get the freight market share at the same level of the other segments.

Moderator: Thank you. Our next question is from the line of Mr. Akash from Dalal **& Broacha Stock Broking** Stock Broking. Thank you. You may go ahead, sir.

Akash: My question was how much of CAPEX is SKF India planning to do in the next couple of years, in the coming year and as well as the next two, three years?

Manish Bhatnagar: 150 odd crores each year.

Akash: So, sir, seeing the kind of growth and CAPEX both done by the government and the private sector on the industrial side and the boom that has recently surround the automotive side, will it be comfortable to say that SKF will be able to grow at a double-digit rate in the next two, three years?

Manish Bhatnagar: Well, we don't give forward guidance, but certainly expectation is to keep growing at the rates we have been growing, if not marginally better.

Moderator: Thank you. Our next question is from the line of Akshay Karwa from Anand Rathi. Please go ahead, sir.

Akshay Karwa: Sir, my question pertains to new products, new offerings that you have. So, I think if my memory serves me right, in the last year Q1 FY '23, we were developing products like chains and sprockets for motorcycles, timing belts for passenger cars, CV belts for scooters, steering and suspension parts for passenger cars and so on. So, where do we stand with that? And what sort of revenues are we expected to book from them? And what sort of new products are we expected to see in the next one or two years, sir, from your end?

Manish Bhatnagar: So, our bread-and-butter business is bearings. Everything else that you mention are adjunct products to improve our retail presence. And what you mentioned was mainly for the automotive aftermarket. These were not meant for the OEMs. And so, this we have launched all of them with reasonable success, but again, they are really a small part of our business, not material enough. Where they really help us is in driving more bearing sales as we are able to offer a full portfolio to the retailer or the mechanic.

Akshay Karwa: If you could put some number, like some percentage, I know it is a small number but then…

Manish Bhatnagar: Less than 2%.

Akshay Karwa: Less than 2%. Got it, sir. And sir, second, my last question is regarding the EV bearings. So, you mentioned on the earlier comment that your, so basically in an ICE two-wheeler, the number of bearings are like close to 14 or 15 bearings, while in an EV, it comes down to almost like 50% and the volumes comes down over here, but the pricing is a bit higher. It's a bit more premium compared to the ICE part of it. So, if my understanding serves me right, so net-net, there would not be any loss of business from this despite the EV volumes progressing. So, this could potentially lead to better margins in the future if ICE volumes come down, let's say, in the next five to six years. So, is my understanding correct, sir, over here?

Manish Bhatnagar: Well, just to correct it, correct you, it's not a 50% drop. It's about a 30%, 35% drop. I said about 14 to 15 will drop to 9 to 10. A minor correction there, but nevertheless, we expect this to be revenue neutral for us in terms of value to us. Profitability, I think it will be slightly better. I don't actually have a good answer for you right now. I haven't done the research on that. Based on what we see right now, we do expect the bearings that go into the EV space to be margin accretive, but that's based on current competitive dynamics. As and when these things become more competitive, the margins may drop a little bit, but overall, I would expect this to be accretive.

Moderator: Thank you. Our next question is from the line of Pramod Amthe from InCred Capital. Please go ahead, sir.

Pramod Amthe: Sir, if you try to look at your sub-segments which seems to be like eight, nine of them, how do you see competitive intensity currently as compared to last two years? And what's the outlook on the same for the next two, three years, you expect them to continue to remain in that stance for each of the sub-segments or they accidentally works off?

Manish Bhatnagar: Yes, the big change or the big difference between SKF and our competitors, as you have seen on this call, we don't have a high dependence on a single segment. You know, 7%, 7.5%, 8% is kind of our max exposure to one segment. So, we are extremely well-diversified, which means we are very, very well-positioned to withstand economic cycles. Some segments go up. Some segments go down, but overall, that's a good hedge against market movements or demand movements. So, you know, we face competition in all these segments.

Our competitors are sometimes more focused on a few segments, not on all the segments that we are in. So, we face different competitors in different segments. In railways could be someone else. In wind could be someone else etc., but we face competitors everywhere and we face competition not just from large global players but also local Asian players or Indian players, but we are well positioned as you have seen in the margins growth, in our share growth to keep on winning in this market.

Pramod Amthe: And just to dwell on the same especially the high growth segments like railways, do you see your products have a unique advantage versus what the competition, and hence, the intensity might be lower in those high growth segments or the new segments which are opening up for a substantial growth?

Manish Bhatnagar: Yes, so you have to look at, I mean, whether it's railways or any other segment, certainly, we sell our products not on price, but on innovation. Innovation is not just about products. Innovation is also about services we offer. In response to a previous question, I answered about remanufacturing of railway bearings. We have the most advanced remanufacturing facility of railway bearings in the region. We also speak to the railways around what we call condition monitoring. So, how can we predict failure on the coaches before they happen? So, it's really a combination of innovation on the product side, innovation on the services side and remanufacturing services to be able to win more with railways and similarly with other segments.

Moderator: Thank you. Our next question is from the line of Saif Saurav Gujar from ICICI Prudential AMC. Please go ahead, sir.

Saif Gujar: My first question would be on imports from China. So, we understand it is a big proportion of the Indian bearing industry, right? So, how is the competition from imported bearings and compared to pre-COVID levels and which segment it is particularly in?

Manish Bhatnagar: I don't know what you mean by it's a big part of Indian bearing industry. It's not a big part of where we compete. For us as a company, we don't have more than 12% to 15% of imports from China for our supply chain. From the customers we sell to, yes, of course. Some of them buy from Chinese companies, but we see that going down every year and certainly, you are right.

After COVID, it's gone down even more. So, we really don't see a big competition from China in the segments we compete with except maybe on the aftermarket side in automotive to some degree, but beyond that, that's not a big threat to us.

Saif Gujar: And sir, second question would be again on the localization front itself. When we talk about one, our focus is import substitution. Second, is it also about localizing the components in India? So, various components we talked about which go into a bearing, is it also focusing on that? And if yes, how much further headroom we have there?

Manish Bhatnagar: Yes, localization is not just about making bearings locally. I think I mentioned earlier. Unless the big part of bearings is steel as an example, unless we also localize steel, the job is only half done, if we import the steel and make the bearings locally from the imported steel. So, we are working with steel mills to also localize steel or bearing steel because that as you know is a very high-quality steel. So, yes, it's localization of supply chain and localization of manufacturing.

Moderator: Thank you. Our next question is from the line of Anish Rankawat from Haitong Securities. Please go ahead.

Anish Rankawat: Just a few bookkeeping questions. What is the capacity utilization SKF India is running at currently?

Manish Bhatnagar: You have to define capacity utilization first. Are you comparing on 365 days? Or are you comparing on the calendar year less holidays et cetera? Because the answer can vary.

Anish Rankawat: Whichever you think is relevant for our knowledge.

Manish Bhatnagar: No, the reason I asked that question is when you compare capacity utilization across industries, you always ask the question what's the base here. So, for example, today, the cement industry is working at about 70% capacity utilization, which is based on 365. We are at about 65%, 66% capacity utilization on our plants. That's based on 365 days of working and 24x7. So, I am giving you two benchmarks. You can compare both, but you must compare like to like.

Anish Rankawat: That's helpful. Thanks a lot. And in the overall CAPEX guidance of about 150 crores, what would be the maintenance CAPEX?

Manish Bhatnagar: It's about 25% of that or sometimes actually no, maybe even less than that. Maybe about 20%.

Anish Rankawat: And lastly, you are talking about localizing steel is the most important aspect of supply chain. And I am talking about the industry level. How much of the requirement is localized in your view? And what is the potential?

Manish Bhatnagar: So, steel, as you know, steel goes into making the rings, the inner ring, the outer ring and goes into making the rolling elements, could be rollers, could be balls or whatever. For the industrial level, localized steel would be pretty close to 65% I would think. I am guessing. It could be even less, lower, but I am giving you a ballpark, my high-level number.

Anish Rankawat: And do you see it going to fully localized? Or that's something that's…

Manish Bhatnagar: No, that's going to be, you know, very difficult. Not in the near time. You know, simply, it's both a question of technology and pricing. And I think it will take some time for us to get there.

Moderator: Thank you. Our next question is from the line of Mukesh Saraf from Avendus Spark. Please go ahead, sir.

Mukesh Saraf: Just one question from my side on the railway freight bearing segment where you mentioned that you have a mid-single-digit market share, and you want that to, or you are targeting for that to kind of improve. So, I mean, if I go back to some of the comments, say, made a few years back, say, 2015, '16, that time I think SKF had got approved as a vendor to Indian Railways on the freight side and the target was to kind of improve market share from that time, but say six, seven years hence, we still are at say a single-digit market share. So, want to understand, you know, what different are we going to do now? Is there something that we were lacking, which now we have kind of fixed and so the market share we can kind of look for it to go up on the freight side of it?

Manish Bhatnagar: So, I don't know what happened, what comments were made, you know, in '15-'16. I was not here at that time. So, I cannot comment on those comments. What I can say is that what's happening now is that we have got approval and the approval only came like a year or so ago. I mentioned on a conference call a couple of years ago that we have begun the approval process and the approval process takes time. It takes time. As you well know, it takes 18 months, 24 months. So, we now have the approval for freight wagon bearings and that's what the big game changer for us is.

Mukesh Saraf: So, the approval actually is coming much later.

Manish Bhatnagar: Like I said, I can't comment on 2015 comment.

Moderator: Thank you. Our next question is from the line of Shirom Kapur from Prabhudas Lilladher. Please go ahead, sir.

Shirom Kapur: I just want to speak about the localization where you speak about localizing supply chain. You know, kind of related to that in case I hope I am not repeating as I missed the earlier part of the presentation, but are we also looking at increasing outsourcing of these various bearing components you mentioned like rings, cages et cetera? Or is that largely still produced in-house? And if you could kind of give a share of how much of that is outsourced and whether outsourcing would benefit SKF's overall profitability and allow SKF to focus more on the final value add aspect of the bearings?

Manish Bhatnagar: Well, we don't make the rings and rollers in-house. We never have. So, that's, there is no change in strategy there. We have suppliers who supply us rings and supply us cages and supply us rolling elements and we assemble those in our factories. So, there has been no change in our strategy over the last few years on that one.

Moderator: Thank you. Ladies and gentlemen, as there are no further questions from the participants, then we will close the conference. On behalf of SKF India Limited, that concludes this conference. Thank you for joining us and you may now disconnect your lines.