"Timken India Investor Conference Call"

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MANAGEMENT: **MR. SANJAY KOUL - CHAIRMAN & MANAGING DIRECTOR, TIMKEN INDIA**

MODERATOR: **MR. KAUSHAL MAROO – ANALYST, EMKAY GLOBAL FINANCIAL SERVICES**

Moderator: Ladies and gentlemen good day and welcome to the Investor Conference Call of Timken India, hosted by Emkay Global Finances Services. We have with us today Mr. Sanjay Koul – Chairman and Managing Director. As a remainder all participant lines will be in the listen-only mode. There will be an opportunity for you to ask questions at the end of today's presentation. Should you need assistance during this conference call, you may signal an operator by pressing '*' then '0' on your touchtone phone. Please note that this conference is being recorded. I would like to welcome the Management of Timken India and handover the call to Mr. Kaushal Maroo of Emkay Global Financial Service. Thank you and over to you sir.

Kaushal Maroo: Hi, good afternoon all. Thank you for joining us today. I would like to welcome Mr. Koul for giving us the opportunity to host him here today and sincerely thank him for giving us this time. We will start with the brief remarks from Mr. Koul and then we will start with the question and answer. So over to Mr. Koul for your brief remarks.

Sanjay Koul: Thank you very much. First of all good afternoon and Happy New Year as we are in the first week of January. I just want to take a couple of minutes. First of all thank you very much for the opportunity and we all coming together. Thanks a lot for that. On the opening remark, I will like to make about the Timken Company is that Timken is more than 120 year old company. Timken started with an innovation like most of the enterprises which started in America were based on innovation and the Timken Company was started by Henry Timken who invented with a tapered roller bearing. So it started with an invention and when the first motor car was made in America, it was rolled on Timken bearings and when the first locomotive was made in America a proper locomotive for real it was on a Timken bearing or when the first passenger vehicle for railways came or freight wagons came it started on Timken tapered roller bearings. So the invention and the company and the innovation have been well connected and Timken for last 100 years have been multiplying their innovation and Timken came to India in late 80s when they partnered with Tata Steel and it was Mr. Modi who went back to America and wanted Timken to come over to Jamshedpur and that is how we started at that point of time as a JV between Tata Steel and Timken and 40:40.

I personally joined the company as a young graduate engineer in 1990 working for Tata Timken at that point of time in Jamshedpur on the shop floor when we were building this factory and since then both globally and in Asia and then in India in particular we had come a long way. With that I would open it up for Q&A as we all have limited times available this afternoon. Over to you for question and answers.

Moderator: Thank you very much sir. Ladies and gentlemen we will now begin the question and answer session. The first question is from the line of Nishant Sharma from HDFC Bank. Please go ahead.

Nishant Sharma: Sir can you just help me out with the revenue bifurcation segment-wise with respect to taper rolling, what is our market share over there and second is what is the revenue contribution coming from traded goods?

Sanjay Koul: Okay, you know, just so that many of us will have similar questions, for Timken in January for the bearing work, the bearing application, or bearing products or bearing segments are generally divided into mobile process and aerospace. So when I say mobile segments, so this mobile segment means anything which is on the wheels is known as mobile, people might call it differently. But anything on wheels for Timken means mobile and in mobile there is the different sub-segments of the mobile which is railways, heavy trucks, light trucks, medium trucks, tractors off highway equipment and any other small things which are on the wheels, two wheelers, three wheelers, cars as well and then there is this part of the process industry which is connected to iron making, steel making, cement, power generation, etc., and the third segment is the aerospace and then there is also a fourth segment which is the consumer goods, etc., which also requires bearing. So Timken predominantly work where you have commoditized ball bearing applications. So that means, Timken is not in the game of ball bearings. So we are not selling in the segment of two wheelers, three wheelers, washing machines, and things like that. So now in India, India in general, this business in general in India is actually, the Indian market is 60%-65% mobile market, 30%-35% process industry, and Timken in India is also having the similar nature. So we are almost like 60%-65% into the mobile and 30%-35% into the processes. So that is our, also next sub-segment. Then when you really want to see where we play and which are our revenue streams and allied things we have a factory in Jamshedpur and in Raipur. So this is producing the bearings for railways and also for the trucks and the tractor market of India and in Raipur we do mission critical gear boxes and gears. We are also importing bearings apart from tapered roller bearings we import bearings which are spherical bearings, cylindrical bearings which go into the different application of the process industry. So generally currently between our total India sale is 70% which is domestically produced and 30% which we import and trade out of different parts of the world, the Timken world and then what total revenue pie around 20%-22% depending on the year we are into the railways. When I say railways we are the leaders in providing bearings for the freight application. So in India the freight application is only on tapered roller bearings. So any freight, which you see any freight cars on the rail tracks which you see is on tapered roller bearings. Many years back, 20-25-30 years back they were on a different kind of bearings and Timken was one of the prime movers to get it converted to tapered roller application because of the fact that it can carry more load and it is better efficient. So Timken is a major supplier. 50% of that market of the freight application is with Timken and we all know that the Indian freight car industry has ageing strut as the railways get more modern and they carry more freight it means good for companies like us. So we are a major supplier, 50% SOB on the freight application and then the Indian railways also have the passenger traffic. In passenger traffic there are 3 segments. One is the normal coaches which you see, which in technical terms we call **(Inaudible) 8.01** coaches they are on spherical roller bearings and this is the technology which is getting phased out, we don't play that market. But the market we play and we are also again almost 50% strength of business and penetration is the new aged Rajdhani Coaches you see, the new aged Shatabdi coaches you see which are the high speed fast trains. We produce these bearings in Jamshedpur. Timken is the only company in India which produces these high speed passenger bearings, so we produce them for export and for domestic consumption and we are market leaders with Indian railways on that application and then there is also another application which is coming up very fast in India which is the metro application. So again Timken on the metro application which uses tapered roller bearing technology we are the principal suppliers. Not only are we the suppliers we are also partners with Indian railways on the refurbishment of those bearings, reconditioning of those bearings so that Indian railways does not have to do reconditioning of these high super precision bearing themselves. So again we are market leaders there and the third segment in the railways is the locomotive segment. So locomotive population is less niche market, again Timken tapered roller bearing; wherever there is a tapered roller bearing application we are the major suppliers.

Then we play the heavy truck area, we are again dominant player in India on the heavy truck side. In the truck there are bearings used as you all know on the wheeling's, on differential, on pinion. On differential and pinion on heavy haul we are again the market leaders. So for example any truck coming out of Ashok Leyland all their pinion application mostly are on Timken bearing. When I say these technical terms, the whole essence is actually that wherever there is a chance of commoditization, wherever there is a chance that there will be many players we tend to only go to the application here where the value is appreciated, technology is appreciated. So every time you see, for example a JCB on the road, Timken is a major supplier. So any demanding application we would be a major player. So coming back to your original question, 20%-25% on railways, 20%-25% on the rest of the mobile pieces which is trucks, tractors. Our distribution which is industrial and automotive distribution is another 25% and then rest of the services import trading is that 25% and then you can sub-segment to the various application tractor industries, heavy tractor-small tractor things like that.

Nishant Sharma: And for traded goods from where we get supplies?

Sanjay Koul: So Timken has global manufacturing footprints and Timken India Limited is the selling agent here. We have factories in Europe, France, Italy, Romania, Poland, China, we got 6 plants in China and then obviously it is a North American company so we got plants all over North America. So as you all understand that in the world of bearings there are millions of different part numbers and we got SRB, TRB, CRBs, ball bearings and so on and so forth first spherical, split spherical, so many different point of them. So we got different kind of bearings coming from different parts of the world. But the basic strategy for any good company and including Timken is that if there is a good domestic market say for example if Eastern Europe has a very good domestic market for spherical roller bearings, so we have a SRB plant there and then we use that as a center of excellence to import from. So essentially we got plants all over the world including Africa we got a plant in a place called Benoni in Jonesburg but majority of these plants in China, Europe and North America and we are importing from all the plants, obviously Chinese plants we import little bit more but big tapers we import from North America.

Nishant Sharma: Our trading business is more for process industry right?

Sanjay Koul: Trading, we use trading industry for, say for example we have a source supplying to Indian defense or Indian aeronautical so they come from America. So we are using lot of bearings in the cement industry, where they are coming from China. For Timken Company and generally for all global good company they will have one quality, one spec irrespective of the geographical location, the quality or the brand promise or the material used does not generally change.

Nishant Sharma: Okay, do we have any technology partner as in India or we import technologies from our parent only?

Sanjay Koul: From our parent only, so we have free flowing technology coming from the Timken Company.

Nishant Sharma: Okay, so for that we might be paying royalty?

Sanjay Koul: Yes.

Nishant Sharma: Any numbers which you can share with us on royalty?

Sanjay Koul: Yeah, 4%.

Nishant Sharma: 4%, okay I will get back to in the queue. Thank you sir.

Moderator: Thank you. The next question is from the line of Srinath Krishnan from Sundaram Mutual Fund. Please go ahead.

Srinath Krishnan: Sir you have been mentioning in the past how India is one of the low cost manufacturing locations for the company. Can you explain the reason how the India's plant scales better compared to China in that, where do we rank better, is it more from the product development capabilities or the supplier base that we have in India?

Sanjay Koul: So basically, I am saying in general, in general between India and China both countries actually on the cost structure and D&A are very neck to neck in the engineering world. Now, where does India score and where does China score I will tell you for example that if we have to say import a consignment and we import this consignment from Poland and it comes to Chennai and you air freight it. You want it urgently. It lands in Chennai and it has for example go to Chhattisgarh area. So after it lands in India, generally to reach Chhattisgarh, it will come in a day from Poland to Chennai and it will take almost 10 days after the custom clears and paper work and the transportation hassles and the road concern it will take 10 days for that consignment to reach the destination of Chhattisgarh which might be 1500 KM from the port of landings and obviously when it is at the port at demurrage when it is on the trucks taking 3 days on the trucks, the cost of transportation goes up and all that stuff which we all understand. Now if the same thing has to happen, it lands in Shanghai, and it has to go to Wuhan which is similar kind of 1500 KM it will take another one day including clearance charges. So that all adds to a cost and is actually a waste and so if you go to the manufacturing parlance on the shop floor because of neck to neck, India score on technology, obviously India scores on innovation. Indians are generally multi-skilled on a shop floor while I have the good fortune of running plants in China for 4-5 years, so I have seen that hands on. So Indians score a lot on there but we get, a lot of waste gets build up in the logistic model, in the warehousing model, obviously the taxation very well. We lose a little bit on there. But if you just take all the things out, India and China on a shop floor to shop floor, Indians are little bit better and our cost and D&A is more sustainable. Now obviously China has opened up the market lot earlier than us, so you will see lot of Europeans and we will see lot of German and you will see lot of American companies there. What it does obviously in Japanese companies, what it does is that they have a better vendor base. India is catching up; we opened up little bit late. We opened 10-15 years later than them and our flow of FDI to India has not been not very strong in the sense which has not resulted in lot of manufacturing activities which means that the vendor base is not as advanced as it is in Taiwan or it is in Korea or it is in China but that in this matter of time that we will catch up. But one thing which we are ahead of the rest of the gang in Asia is that our engineering sense is lot more better, our expertise is lot more better when we become experts. Say for example, today, you will see that lot of Indians are running shop floors across the world which give us compliment to Indian Engineering sense. So, in this race when it becomes free flowing and these deterrents of taxation and logistics and all that is at par, Indians would score ahead. But we need some more time to catch up with the Chinese. But when you come to Timken, on the shop floor level, same technologies we use, same machines we use, same processes and Timken has been in India for 25 years, I have operators which fly in at times different parts of the world to solve the problem of other Timken plants. We are technically very well entrenched in India. We got a technology center which is 100% owned by the Timken company but it helps a lot because I can pick up a phone and call Bangalore and ask for any technical question or clarification.

Srinath Krishnan: Secondly you have always wanted to increase industrial segment share in the company into about 50%. So wanted to understand in a matter of 3-5 years period how does the company planted through, does it through introduction of entry into new segments or higher localization or better pricing, how do you plan to do that?

Sanjay Koul: You know, A) is that you know, it has to be a combination of all and as management we have to kind of grow the volumes through imports and when the critical mass comes obviously indigenization is an answer and Timken has a technology in today's time if I have to build a new plant with a technology background which Timken has, I can build a plant in 9 months from the time to take to produce the part number and that is the 100 year technology which is available behind us. So you know, India currently as we all know we are a power deficit country. So we need more power, which means that we need more power producing station, thermal power producing station which means that the liberalization of minds has to take place which all comes together and which means that the process side has to increase. So you know, as it starts increasing, as it starts consuming over bearings we will do exactly what you said, a combination of all you know, localization will take place as a critical mass and goes up. We are already working in new customers, last year despite market was not great but we kept on working on new products, new customers, new accounts, new products to old customers and creating new customers with our old products. So we are doing the combination of all and that is the way forward. We will always do the combination of all. We have introduced new products last year. We will keep on introducing new products in India and as the critical mass grows it is no rocket science that the answer will always be localization and Timken company would be open to that but it all depends on how the market behave when that critical mass comes and when we will be ready to make the move. Investing in India is dependent directly on the Indian market. Timken Company has stated it 25 years back that India is a place of choice and it we reiterated it last year when the Timken Company in America purchased Philadelphia Gear and then they immediately brought the technology to India and that is why we have a plant in Raipur. So as the Indian market grows and we don't want to make bad CAPEX decisions, we will make very well meaning, very well balanced CAPEX decisions so that we are not saddled with this fixed cost. So a combination of all.

Srinath Krishnan: So how much would be the import content currently and how would that move over a period of 4-5 years sir?

Sanjay Koul: See currently our import content is around 25%-30% depending on the month or the day into India and as the pie grows even with localization, the percentages might not change because we are continuously say for example while I might indigenize the bearings for cement industry and a new segment of defense opens up and I will keep on importing. So this pie will keep on growing, I am sure of that but the percentages might remain same because you will always have to import bearings for new segments continuously.

Srinath Krishnan: Sure and lastly sir you spoke about how the Philadelphia Gear box businesses brought to India with the parents acquisition there, but you know, for the last 4 years if I see the parent has done about 8 acquisitions, something like Drives LLC or Schulz Group, so would those entities also be brought under the listed entity over a period of time?

Sanjay Koul: See, when we, as you rightly said, we have done many acquisitions, so Philadelphia Gear, we saw there is a market opportunity in India and we immediately invested in that and we have done us some acquisitions around the world which don't make lot of sense for India. So we have not brought them here to India. But anytime there is a meaningful acquisition which is done by Timken company or the parent company and it makes sense for India, Timken company there were so glad to bring it to India. So Philadelphia Gear made sense, the market is available for those big gearboxes and I am pleased to say that we are already running full capacity on that. The plant is always running full. It is a small plant but running to full capacity. So these **(Inaudible) 22.29** are based exactly on the local demand.

Srinath Krishnan: And my last question, the Timken parent puts out capital allocation summary of a 18 months of how the CAPEX, dividends, M&As and share purchase and pension is going to be for the next few years, similarly for Timken can you give us a brief guidance on how at least CAPEX and is there any acquisition plans, how much would the percentage of allocation would it be from the cash flows?

Sanjay Koul: Yeah, as you know, A) is that like every professional company, Timken company A) is open and aggressively always looking at any given point of time looking at possibilities to grow business inorganically and in India also we keep on evaluating them as a regular business processes, so that the market growth through organic means does takes place. So there is a global kitty available always which is used for M&As and wherever the business makes sense or the business case makes sense, ROI is good and as you all know that Timken Company globally is the most profitable company so we work on very nice financial guidelines. So, if there is a good business case the kitty is available. Timken is almost debt free, cash rich. So the kitty is available. The businesses cases should make sense and we are not in the game of paying 15 multiples, it has to be sound not emotional. So we grow for the sake of profitable growth not only for the sake of growth. So there is pretty decent kitty available which always can be used. In the Indian level we can always leverage debt as the business case evolves and then we have been investing regularly just to run the Jamshedpur plant every year we will keep on investing or expanding it small incrementally, so putting in 20-30 crores every year has been the norm and on top of that we did invest in the Raipur. So I can tell you that, business case are important than finding the finance to finance it.

Moderator: Thank you. The next question is from the line of Hemang Kapasi from Canara Robeco Asset Management Company. Please go ahead.

Hemang Kapasi: Just to take the cue from the earlier question on the export opportunity, how do you see the export opportunity for Timken India. Last year you have grown by 30%, do you see any sort of run-rate or the intent of outsourcing from India by the parent continues from India?

Sanjay Koul: Okay, India as you should first see in general and then particular about Timken. India certainly has the potential. Now, if you see India in last 6-7 years we have imported engineering goods, just engineering goods to the tune of $500 billion US dollar. Just imagine how much potential there is to first just replace those imports and how much more beneficial it would be to this CAD of the country. So India has the potential to export a lot and now the good part of the, bad part of the Indian currency is that export cell, becoming even more meaningful. So a combination of everything India is an export destination for any good company makes a lot of sense and it will continue making sense for India as well. We will keep on concentrating on our exports. Timken India is a very important link of the global Timken supply chain, so the exports will be always under focus and will only increase. Now depending on the global economies, economic condition, Europe going down, and wars in the Sudan, etc., and all those stuff are playing their role but Timken would keep on importing out of India and Timken India will keep on exporting and that growth will remain healthy not only for Timken, for companies which are dealing niche engineering product that will remain on a growth trajectory.

Hemang Kapasi: Sir just one more thing on that. What sort of products do we export? Is it in the mobile segment or it would be in the process industrial kind of…?

Sanjay Koul: Timken India Limited is making bearings in India currently for the mobile segment which is what we export so we are exporting bearings out of our India plants to the truck industry, to the off highway industry in North America and also the global rail industry.

Hemang Kapasi: Okay and sir there is one statement in your last year’s annual report that the Timken globally has transformed from a tapered roller bearing manufacturing company to a power transmission and solution company. So, what it means for the Indian listed company as a statement and what implications are there for the unlisted company as well?

Sanjay Koul: So for the listed entity, Timken which has the intentions and the desire and the design to grow beyond pure bearings. So, we are going around the bearings. So when you see the bearing applications, generally there is a gearbox. There is a motor. There is a shaft and there is another power transmitting piece of it. All of these put together, consumer auto bearings and we want to grow around it and that is the reason Philadelphia Gear is the gearbox company became part of it. Timken is open to grow in this which would have been that the listed entity has got Philadelphia Gear and if there is any such M&A outside that would become part of our piece and we want to provide these end-to-end services to the customer and not just sell the product. So, here for example in the steel industry today we also maintain our own shops, Tata Steel, Essar, JSW, etc., we go and maintain their own shop and not only we maintain their own shop, the byproduct is that they also have to consume bearings, they are like bearings, etc. So we wanted to grow around the bearing and provide end-to-end solutions to our customers, where it is so design or our knowledge of material sciences, our knowledge of power transmission, and our knowledge of friction management. The simple funda is that you want to protect and grow your business. So, more you grow around those bearings more the customer is dependent on you especially when you understand those pieces. So, that was one piece and the other on the non-listed entity for example in Chennai we have a plant which is not a part of the Timken India Limited. It is export-oriented unit doing what we don’t do in India, it makes products which are off bigger size range and they all go to applications in North America and generally those applications are very rare in India. There is little bit but very miniscule.

Hemang Kapasi: So what sort of opportunity do you see from this dedicated freight corridor, the CAPEX done by the Indian railways. Do we see any benefit coming out of that to Timken India?

Sanjay Koul: On DFC, dedicated freight corridors, and this is little bit confidential is that, Timken is the partner with Indian railways on selecting the bearing for the DFC. The wagons are going to be heavy haul as compared to the current 22.9 tonne, they are going to be more than that. So Timken is in fact the technology partners who we are working very closely with RDSO, Manek Bhawan – Lucknow on the selection of the bearings and obviously as we are part of here you see that we are major suppliers on that as well. So, the short answer is that it will benefit Timken for sure.

Moderator: Thank you. The next question is from the line of Monica Joshi from Bajaj Allianz. Please go ahead.

Monica Joshi: I am looking at Timken's financials and two of your listed peers and if I ignore the first six months which have been broadly good for everybody. Compared to your peers you have actually had a very strong revenue growth but however this has come in the cost of very low margins. So you have had a very sharp declining trend. So, if you strip out the export of the traded component of your growth and focus only on the domestic components for all three companies, would you say that you have been gaining market share from others and has this come at the cost of margins?

Sanjay Koul: You know it is this combination of many things. For sure we not crashing the prices in the market but we are certainly gaining market share in areas where we were not there, but at the same time what is going against us and we are working on it in a big way is that, Timken Company is very much focused on top notch quality and a byproduct of that in terms of business and in terms of economics is that we are importing lot of clean steel out of Japan and you can understand that when you are importing steel and some of the other commodities despite the fact that we are working very hard on indigenization. You will see that our friends and competitors are not importing that much of steel and with the currency going the wrong way, it is hurting our margins for sure, so that is A) and B) is that we are working very heavily on indigenization program so that the currency fluctuation can be taken out of that and we can protect our margins even better and thirdly for sure the spherical market in India where we see a lot of price fluctuations from our competitors and that is taking its toll around and the short answers to your original question is that we are gaining market share. We will continue to be aggressive in gaining market shares and we will also use our own plants to make sure that it is a profitable growth but gaining market share is one of the priorities for us including improving the bottom-line.

Monica Joshi: Sir if we take the statement, then, okay let me put it this way. For you to with composition of traded goods to your overall revenue mix is actually increasing vis-à-vis your peers. In the last four years probably they have come down as a percentage and probably gone up as a percentage. So, how do you really maximize shareholder value for minority shareholder in deciding whether it makes sense on your margins, on your bottom line to really pursue the traded good opportunity?

Sanjay Koul: See you know, when you are a buyer and you are buying bearing sitting in a cement industry, the buyer when he talks to you he needs 10 different bearings which goes into 10 different applications and he is not thinking about where you are getting them from and how it distracts your business. The buyer mentality is that he wants to talk to one guy, one solution, one purchase order, so that is A) and B) is that so many applications and so many new products, so India is a growing economy and you don't want to miss on application. Trading is the way to let the companies or let your customer understand the value and the depth of the product and as these applications grow, it makes very good pure business sense to go ahead and localize and indigenize, but if you do not, say for example test your markets with new products which are imported which are traded then you don't really understand those markets very well and it is in general people will use the trading route to start with and then as the critical mass grows and as they see the cost dynamics of that country they would start putting the manufacturing bases. So, we would always make sure that we will test those markets when we see there is a future growth and there is a possibility that you can at some point of time have the critical mass to localize and see it for our long term business.

Monica Joshi: But how do you protect the interest of the listed entity in determining the transfer pricing which is your parent and yourself and your client and so what we are trying to understand is, is this going to become increasing the margin dilutive for the company?

Sanjay Koul: You know, sharp answer is no. globally we got very strong global TP models driven by tax structures and things like that but the short answer is no, as a as fair company which is interested in growing the business profitability whether for the majority stakeholders or minority is being weighed like that and we will always use the long term business case, more than any short term TP issues.

Monica Joshi: Sir over the last 5 years, if you can give us a sense of how have you expanded this section of your business? So how many types of bearings if I can say that has been added to your portfolio in the last 3 years or 5 years?

Sanjay Koul: When we started in India we started with Jamshedpur, we started with just 20 part numbers and we are making more than 2500 part numbers in Jamshedpur. We make the passenger bearings which we call UIC 130 only now in Jamshedpur. So, we are making different kinds of rail bearings for the Indian railways and for global construction out of India. So, if you say that in the last 3-4 years I would say that we have almost increased our product basket or part number by almost 50% in the last may be 5 years I would say rather than 3. So, there is an increasing trend to do that. All depends on, where you cannot indigenize the part or add a part if the consumption is 50 pieces, you need a critical mass so that you can justify as the business case on tooling or on the machines and things like that.

Monica Joshi: I was specifically referring to the traded goods. How has that portfolio moved in the last 5 years?

Sanjay Koul: Traded goods essentially on railways we have indigenized a lot. On the Cement industry where the utilization of the India cement industry in the last two years is less than 50%. We are still importing, still add to that, but on the heavy truck and the tractors we are almost down to may be 5% in that market importing. You see a major imports for us are coming actually in steel industry where the volume is less value is big. Cement, volume is less value is big. But wherever there is volume is big which are railways, tractor, or trucks we are making them in India and multiplying that.

Monica Joshi: In the next 3 years if we have what is generally perceive to be a good economic condition would you see yourself going at your 15%-odd margin level that you had in 2010, is that a possibility?

Sanjay Koul: We are big time connected and everybody is big time connected to what will happen to the India story and if this India story picks up at a faster pace and we have got the mining getting **op-ed 39.41** up, the power opening up, which will in turn kick commercial vehicle story and DFC, dedicated freight corridor, we should have been done by now is now pushed to 2018 and should happen hopefully by 2017-18. If that all comes 3x the GDP should not be any tough deals for good companies and Timken, I presume, is one of the good companies. So, hitting the target directly connected to Indian market condition is very much possible.

Monica Joshi: And the last question if you could breakdown your export on how much is your composition from the US railway side or the global railway side?

Sanjay Koul: Our exports to global railway?

Monica Joshi: Yes. What I believe is that your overall railway sales is about 22% of your revenues. So, this would include domestic railways and exports right?

Sanjay Koul: Correct.

Monica Joshi: Yeah. So, how much of this would be domestic and how much would be export?

Sanjay Koul: I think I need to really check but it will be 70:30, 70 would be domestic. But don't hold me on this, it is just I don't have the number in front of me, but majority is domestic.

Moderator: Thank you. The next question is from the line of Ajit Motwani from Bharti Axa Life Insurance. Please go ahead.

Ajit Motwani: For the MHCV and LCV business let us say what sort of opportunity you see if there are some changes like ABS being mandatory or fuel injection systems being changed, how does it impact you as a company?

Sanjay Koul: If India graduates to the level – in bearing there is a technology called Green technology which means that there are fuel efficient bearings and Timken is one of those rare companies which has the technology to produce fuel efficient bearings. So, as it becomes mandatory law to have and it is becoming in North America as that we need on certain application especially on the heavy HP application you need fuel efficient bearings. So Timken has those technologies. But coming back to the LCV India Hub and Spoke model working very well, you see the LCV picking up but again LCV highly commoditized, we are there on some of the application but I am more looking at the heavy truck, heavy haul, where the warranties are needed, where now customer is asking for half a million, million KM worth a warranty, that is where our niche products comes in and we see that happening. Now Tata Motors want to scale up their technologies so that they can compete with the Volvos and then Benz of the world and that is where we have the product offering, that is where we have the technology and as that grows faster in India, better for us. But purely on the kind of Dost of this world which is majority in the spoke model. I don't see immediately hi-tech bearings coming in.

Ajit Motwani: No, but I was being specific on let us say this is mandatory ABS being applied, so would our content per vehicle sort of will go up?

Sanjay Koul: Yes, it will go up.

Ajit Motwani: And if you can quantify that number for us?

Sanjay Koul: It would be very tough for us to currently comment on that. I can say it will go up to what extent it can go up, it has to be really quantified but it certainly will go up. But how much it will go up it is a tough deal currently to answer that precisely.

Ajit Motwani: No but there would be some vehicle which are being on the ABS and so you would precisely know as in what is the content different in the two vehicles. So I am saying a part of it you will already know.

Sanjay Koul: I am sorry. I don't have the precise answer for this.

Moderator: Thank you. The next question is from the line of Ajay Nandanwar from Hornbill Capital Advisor. Please go ahead.

Ajay Nandanwar: Had a question how do you think obviously next couple of years you will see huge growth driven by CV and railways, but how do you see the Indian bearing industry in 5-7 years out and in terms of probably at $1.5 billion size now overall industry, how do you see it evolve over the next 5-7 years sir?

Sanjay Koul: Yeah, I think as you correctly said that the Indian antifriction bearing market is around USD1.5-1.6 billion. The Chinese market is almost USD18 billion market. So, you can see that because of the simple fact that China had economically grown and has become a destination or world workshop, we have to do a lot of catching up and when we go out on the roads or when we go to the ports or when we go to our airports or when we see our railway station of when we go the tracks, we have still not taken off. We are better than the banana countries and we are doing lot better than some of the third world countries but still uninterrupted power, flawless roads, more metros, public rapid transport systems, 7000 KMs of coastline, very few ports, so all that has to happen and it is bound to happen. I don't think it is a matter of debate that it will not happen. It is bound to happen. Only the pace of that happening or the pace of that change will be directly dependent on how the government policies come into being and we all know like Indians teases that what is being done in last 6 months has not happened in last many years. So, I am very much positive that our growth in next 10 years and as these policies get cleared, ordinances get cleared and everything really can get converted into the purchase order which essentially means that FDI or investment does not come on invitation. No Indian businessman, American businessman, European business will invest based on invitation. He will invest based on return on investment. He will see the risk, he will see the potential. As that becomes clear to the investors it is bound to happen in India, I would say that the Indian growth story should start gathering momentum and India has to do lot of gap to catch up if you see our neighbors. So, Indian industry at 1.5 billion is a very small industry. It has a potential to grow. It has a potential to export. It has a potential to really grow at a decent pace and my earlier question that if our GDP grows at 6% the bearing company should be 15%-16%. So the growth story has to really happen. It has not yet happened to India.

Ajay Nandanwar: Quickly a question is there a way to estimate the bearing intensity because the China obviously is extremely high. China is almost 40% of the global bearing market and its GDP is about the 40% of global GDP. How should we think about bearing intensity of the economy or when economic growth has picked up?

Sanjay Koul: I am sorry, you mean to say how much percentage would be the bearing of the GDP?

Ajay Nandanwar: Well I mean, I am trying to understand that side, because China because of its manufacturing, because the global bearing industry is 50 billion right? With China is like 35%-37% of that. I am trying to understand what is sort of 10 year growth, what was realistic way of thinking of 10 year growth? Is it like link to specific manufacturing industries or is it driven by manufacturing as opposed to GDP or is there something else that is more relevant?

Sanjay Koul: Many things are coming together and it is a very nice thought provoking question and whole teams on marketing keeps on evaluating that. So, you can directly link the current Indian bearing industry that pie to exports and then to mobile industry and then to the process industry and as that industry itself grows very easily you can say that we will grow at that pace and if the export grow double at that, you can put up. So, it can be calculated and but you can directly see if the commercial vehicle market is growing at 10% year-on-year so the bearing, has bearing going into that commercial vehicle market will grow at that and then the process industry or the infrastructure industry grows at this pace and this X-amount goes to that, that will also grow at that and as earlier question was asked, the bigger chunk actually is that as the multinational companies or the technology leader companies or good Indian companies has they also interested in indigenized, then also there is a chance to export more. That will make it little bit more bigger. So, I know it is not a complete answer to your question but nonetheless you can calculate very easily what could be the next 10 market and I can tell you from my general wave that from here next to 10 year the Indian bearing market will be at USD5 billion.

Ajay Nandanwar: Sir one last question, the global margins of Indian bearing companies are generally higher than global averages, why is that? Is it because every segment has got a dominant player and just like you have market share in tapered roller bearing, is that the reason, or are there some other factors which makes the margin for Indian markets higher than the global averages?

Sanjay Koul: I really don’t have the answer to this dangerous question.

Sanjay Koul: Thank you and I am sorry but unfortunately we had booked only I think 30-40 minutes and I need to rush to a tele-con. If you would allow them should we now close the meeting please?

Moderator: Certainly sir. Would you like to add any closing comments?

Sanjay Koul: No, very nice question couple of thought provoking questions and may be next time we can give those also couple of questions where I did not feel those as the numbers were not really, but thank you very much for the time, nice questions and looks like lot of in-depth understanding of the market and the annual report is there. So, thank you very much and good luck for 15, for lot of us as the Indians lot of expectations with the new government. We all need to grow as Indians as companies. Thank you very much for your time today.

Moderator: Thank you sir. Mr. Maroo, would you like to add any closing comments?

Kaushal Maroo: On behalf of Emkay Global I would just like to thank Mr. Koul for sparing his time for this conference call and I would like to thank all the participants for joining the call. Have a great evening and thank you.

Moderator: Thank you very much. Ladies and gentlemen on behalf of Emkay Global Financial services, that concludes this conference call. Thank you for joining us and you may now disconnect your lines.