

TIMKEN

“Timken India Limited Q4 FY2022 Earnings Conference Call”

May 31, 2022

TIMKEN

SPARK
CAPITAL 



MANAGEMENT: **MR. SANJAY KOUL - CHAIRMAN AND MANAGING
DIRECTOR, TIMKEN INDIA LIMITED**
**MR. AVISHRANT KESHAVA - CFO AND WHOLE
TIME DIRECTOR, TIMKEN INDIA LIMITED**

MODERATOR: **MR. MUKESH SARAF - SPARK CAPITAL
ADVISORS INDIA PRIVATE LIMITE**



*Timken India Limited
May 31, 2022*

Moderator: Ladies and gentlemen, good day and welcome to Q4 FY '22 Earnings Conference Call of Timken India Limited hosted by Spark Capital Advisors India Private limited.

As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call please signal an operator by pressing "*" then "0" on your touchstone phone. Please note that this conference is being recorded. I now hand the conference to Mr. Mukesh Saraf from Spark Capital. Thank you and over to you, sir.

Mukesh Saraf: Thank you, Margareth. Good evening, appreciate everybody logging in. I'm very pleased to be hosting Mr. Sanjay Koul, Chairman and Managing Director in Timken India and Mr. Avishrant Keshava CFO and whole time Director, Timken India.

We'll start with very brief opening remarks from Mr. Koul and follow it up with the Q&A over to you, sir.

Sanjay Koul: Thank you, Mukesh. Good evening, everybody. Happy to be part of this telecom. We just declared the quarterly results, which are to our satisfaction and then the whole year, despite the volatility and everything, which could move this way or that way, despite the volatility, we had a pretty good year. And the overall growth in India is pretty good. And, in this overall good market prices moving up, volatility, so this kind of, required more agility, which, the whole team of Timken India has demonstrated and delivered pretty much a satisfying year. So over to you back for any specific questions and we can start answering.

Moderator: Thank you very much. We will now begin the question and answer session. The first question is from the line of Sandeep Tulsian from JM Financial. Please go ahead.

Sandeep Tulsian: Yes, very good evening. Sanjay, I have a couple of questions. First one, if you can just start by giving us a revenue breakup for the current quarter as well as full year FY '22 between the segments you usually share and then I can ask the second question.

Sanjay Koul: So, the breakup for us, for the quarter 4 '21 - '22 starting with rail around 17-ish percent mobile, 20-ish percent, distribution again around 20-ish percent, exports were 30% and our process was around 13% - 14%. So, that was for the quarter end, almost identical for the whole year. So exports remained at 30% process 13-odd percent, distribution same at 20-ish, and, mobile around 20-ish and rail around similar 18% to 20%. So pretty much quarter and the whole year almost were same. And, we closed the year at INR 2,203 crore, and the previous year was I think, INR 1,410-ish if I remember correctly. So, significantly over the previous whole year.

Sandeep Tulsian: And within this mobile, how would the split be between Timken and ABC?

Sanjay Koul: So we are not, it is Timken - Timken so this is, kind of not a complete breakup, but majority is Timken. Majority is Timken. So, there is nothing like ABC, that Bharuch plant is converted to produce more and more of Timken circle R, although we are still producing ABC brand but that is getting lesser and lesser. So we are producing more and more of circle R out of the Bharuch facility, which we no more call ABC. We call it Bharuch facility of Timken, so similar like Jamshedpur and half of the production, like, which we produced last month, went for export. So it was destined to produce more and more for export. And that is one of the reasons we have a nice jump in export overall.

Sandeep Tulsian: Understood. Sir second question is on the railways part, broadly, if you can, give us a breakup, how the business is broadly between wagons, passenger coaches, locals, and metros, and given the traction seems very strong 30,000 new wagon ordered in addition to regular high speed trains are getting added. New Metro projects are also getting announced. So where is the total market size? Where is it split for Timken and how do you see the growth rate, a broad overview of that, if you can share please.

Sanjay Koul: So, in rail, the buy -- still the maximum buy from the railways is on wagon, and in the wagon, which is the freight. In the freight, there are two kind of buy, one is what the railways buys themselves for their own MRO requirement or workshops. And, what, they tender out as a wagons, which goes to the private wagon builder. They in turn buy bearing to the specification of the RDSO. So as, this year they just, added , the plan is 90,000 wagons for three years, which are roughly 30,000 for a year. So, which is already rolling. And as we talk about the previous year, the revenues more came from the freight followed by the passenger and passenger is both mass rapid trans, which is the metros and the long range.

And locomotive is a very small subset of that. So, major player remains freight followed by the passenger, which is a subset of Metro. And, obviously on freight, we remain a strong and rail wheels have also changed the specification and gone for in the normal freight wagons. Forget the dedicated freight corridor the normal one, the spec has been changed to what we call it the higher freight, limits. So it has gone what is known as a high cap class E, which we are now supplying the old class E is already kind of phased out and dedicated freight corridor is a different bearing. So this will remain dynamic because railway wants to carry more and more load and slowly more and more speed. So -- and Timken remain strong in this segment.

Sandeep Tulsian: Okay. If I got those numbers, correct, INR 19,000 wagons for this year...

Sanjay Koul: No, 90,000, they have tendered for next three years. For next three years. 90,000 means into 8, so 7,20,000 bearings over next three years.

Sandeep Tulsian: Three years, it looks very high. Amazing. Thank you, sir.

Sanjay Koul: If they buy it, if they buy it completely and if wagon builder can produce it completely. So then it is pretty significant, but obviously, everybody wants to do their best, but that is what they have gone on record, which is the in public domain. They have tendered out 90,000 wagons, but they have not allocated the whole, amount yet. So they're in the process of allocation and it is moving -- the Calcutta based wagon builders have got their allocation, so they're already negotiating and work is in progress.

Moderator: Thank you. The next question is from the line of Ankur Sharma from HDFC Life Insurance. Please go ahead.

Ankur Sharma: Yes. Hi sir, good afternoon. Thanks for your time. Before I ask my questions, I had one request, if you could do these analyst calls little more frequently that would be great because I guess that we do it maybe once a year. So even if maybe twice or maybe every quarter, just like what some of your peers do, that would be really helpful to get a better understanding of the numbers. So that's a small request from my side. Specifically, a couple of questions, one, when I look at your margins for this quarter, very, very strong both at the gross level as also on the EBIDTA margins. So, what's driving that, is it a higher, export mix? Is it a or is it higher mix of CV base etc. So just trying to understand, what's driven that very, very strong, gross margins and internal bigger margins. And how sustainable do you believe are these margins here?

Sanjay Koul: So, obviously if you see, the Timken company globally is also leaders in the bottom line as you must be knowing it. But other than that, coming back to Timken India Limited, volatility has been there. The alloy prices have been going up relentlessly from 2020. And, hopefully now we see a little bit of softening because of this duty, which they have put up on exports. So that might bring in some helpful cheer to the alloy buyers, steel buyers. But, three things, one is that passing on the price. So, that has been -- though, as you know better than myself, that there is always the automotive customers are always very, very finicky about any change, but the continuous discussion debate about passing on the prices of raw material.

So that is one, the product mix has been both domestic and export. So they are pretty much aligned. And obviously, when I'm able to use my capacity fully from both the units, so our Jamshedpur unit and the Bharuch unit, so that kind of gives us when your fixed cost is

divided by say only 10 bearing versus 15 bearing, obviously that gives you an advantage. So we've been running pretty much a good order book in both the clients. The product mix has been better in this quarter, now product mix is a subset of forecast, which is further subset of what our end customers are going to buy. So, whether it is sustainable or not sustainable is a question which is related to product mix to demand to the end user buying.

But overall, we have always been, working continuously on our continuous improvement, localization plans, passing on the price changes, I would say cost changes rather than the price changes relentlessly. And, some quarters obviously we get lucky with a good product mix. And the last quarter was a good product mix and as we know that off highway segment is pretty much good, rail is pretty stable, exports are, pretty much good. And, because of the war one or two plants globally got closed. So that might also help us a little bit in the long run. So all that put together has given us this robust bottom line now, whether it will be sustainable or not, too many moving things in that, but the whole idea is to keep on hitting these moving targets.

Ankur Sharma:

Okay. That's quite helpful. So secondly, since you touched upon exports and that's one piece that has actually done quite well, even for some of your peers, and I think overall, seeing increased traction from India. If you could talk about that, how do you see that traction, both this quarter -- coming quarter, obviously ABC also contributing now. So if you could just spend a little more time on the export side and more importantly, now with talks of a global slowdown, maybe US heading into a recession etc, or even Europe for that matter, any initial signs of slowdown that you've seen there, or when you talk to your end customers, things are fairly okay. That sense.

Sanjay Koul:

Yes. So obviously we are able to supply globally Europe, America, even, Africa, even China, obviously, in between these troubled times there was a little bit of disruption, but we are able to Russia as well. but so, we are fragmented in that sense that we are not dependent to say, three, four major customers. So we are fragmented in that panel. So that kind of helps us on the risk mitigation piece of it. And, second is obviously the China exports to America on papers, is -- it has a special duty structure. So India scores on that. And, though there is a lot of discussion on the slow down, with the interest rates and all that stuff. But we don't see that on our order book, neither in the short range forecast neither in the long range forecast yet. But these things can, turn around suddenly many times, so nobody can predict that, but overall we are in a pretty steady state. And one of the reasons of procuring capacity, in 2018 in Bharuch was to actually augment our export. So we've been exporting, as you all know for many, many, many years. So this is not part of our new strategy. We want to have a robust mix of domestic and exports we've been working on that relentlessly. Lot of components child parts, which we were either importing or doing so that capacity enhancements we have done, in Jamshedpur like last time we spoke on the roller etc. And our Bharuch facility, is also, producing now, more and more for exports. So export is going to remain steady for us and India being a very good in the overall Timken family kitty, India remains, best cost country. So even if God forbid tomorrow a serious recession hits there is a good chance that we will still need some reckoning, but it's a game of demand. So obviously, the demand really drops at the global recession takes place. Nobody can move that, but currently, while the talks are there, everybody's talking about orderbook does not show yes the sign, but automotive order book, does not show yet sign, but automotive auto books can vanish suddenly also we have seen that in the past.

Ankur Sharma:

Okay. And just one last question, if I may, would be on the process side here again, there been talks of a recovery on the private CapEx, obviously also with high utilizations, coming out of COVID, we would've seen, demand for bearings, etcetera pickup. So if you could just talk about that piece as well, how demand sustaining there, is inflation maybe hitting, demand or starting to hit demand there as well.

Sanjay Koul:

My apologies, your voice broke a little bit in between, if you could repeat the question, I'm sorry.

- Ankur Sharma:** Sure, sure. No, my apologies. So, as I was saying on the domestic industry, that is the process industry on a domestic side. If you could talk about how is demand there from steel, cement, the process industries, so given the way inflation has been and prices hiked have been taken, has demand there taken any hit or is that also kind of continued to do well?
- Sanjay Koul:** So I think that, generally my 30 years of experience in the bearing market, whenever the commodity prices are up, sales of bearing is always up. So, now how do you correlate these two, is the science in itself, but generally, always that has happened. So that is on one side. On this stationary equipment wise, whether it is energy, whether it is, infra, cement, steel, robust demand, pretty robust demand. So, that, I think, is going to remain like that obviously, steel is getting the chance to export more opportunity cost, so there is opportunity sales with better margins. There is always attractive, but with government of India also making sure that they get a steel for the infrastructure. And as we all know that between now and '24, the push on in infra is going to remain strong in India. Whether it is built off rail, built off the Infra post extracts. And, the process is going to remain pretty strong now, the steel prices have gone up significantly in last two years. There is a chance that they will soften, and we see a little bit of that in India, but in Europe we don't see these steel prices softening, I had not yet seen that very closely in America, so they are not softening there yet. But the demand is remaining, pretty, robust. The pool is very much there.
- Moderator:** Thank you. The next question is from the line of Priyaranjan from HDFC AMC. Please go ahead.
- Priyaranjan:** Yes, thanks. Good evening, sir. So my question is related to the first is on your top line. So top line, how much you can attribute it to the commodity pressure and the commodity pass through, because that will be one element and there will be volume element. So how should we look at the volume and the mix, overall in the top line for the FY '22?
- Sanjay Koul:** So next is that -- see, the overall, if you see our mix in this has been, margin wise might be little bit skewed towards this, but overall the mix is zero to eight inch mix, which is pretty much sometimes it moves a little bit on the four to eight inch, which are little bit more costly bearing. So that mix, is going to remain healthy. As far as commodity prices are there, we have not been the same, if you take, hundred kg of steel, the finished bearing conversion of steel is not hundred kgs, of course. So it is different. And then, whether we have been able to pass it completely to the customer, I would say we have been significantly into the game, but still not a hundred percent. So we got, certainly, I would say a small percentages or top line. The mix will remain healthy in the sense that as we see the demand forecast for the off highway demand forecast of the related distribution, as previously the question asked on the process side and the export is always anyway tilted over towards the heavier side of the zero to 18, because these bearings normally Timken is supplying in more in pinion and differential application. So I would say that certainly there is an element of, the prices going up. So there is that little element on that. And, there is certainly an element of richer product mix, which on YTD washes out, when you look at the whole year quarter-to-quarter, they might kind of, some quarters more sluggish, some quarter less sluggish, but overall YTD year on year, YoY you see then they kind of wash out. Yes. They have a role, and that role is not hugely significant, but certainly a role is there.
- Priyaranjan:** Understood. And so secondly, on your -- how has been the wind industry, or the wind supply panned out this year, and, if you can help us, what is the percentage of sales now in terms of wind?
- Sanjay Koul:** So, wind is for us, Timken India limited sales bearing to the wind market in India. So, our sales are to selling within India. Wind market overall is pretty, pretty good. China was slow, definitely China was slow, but the gear box manufacturing in India for exports, was pretty much good. And, we certainly, if you see that our process -- the wind goes into the process, which is this stationary equipment, our revenues almost doubled between, the whole year off 2021 to '21 - '22, they almost doubled. So I would say that wind growth is certainly pretty much there. And this will keep on growing as more and more companies start making more gear boxes in India and the indication from the global gear boxes is that they want to use

India more and more. So which is good news. They want to make, more and more, these gear boxes in India. And as you know the wind used to be sub megawatt, then they moved on two megawatt. And obviously these megawatt changes platforms are getting, they get redundant and they move to four and things like that. So that evolution is also happening because a lot of countries don't use these smaller wind mills like India where using one upon a time, like half a megawatt and 250 kilo that all arise on two megawatts are also gone. So these are graduating and beginning bigger and bigger, bigger and bigger, but the India as I said does not have a very strong wind. We still have to install many wind mills in India, but the market is going to be gearbox exports out of India, which is going to grow. You got Chinese gearbox right now coming to India, and putting a shop in Chennai, you got ZF established Flinder, Siemens, all established. They want to make more and more gear boxes out of India but this is a cut throat market as you know, this is as tough as automotive or even tougher.

Priyaranjan: Understood, understood. And so in terms of the defense and aerospace, because I mean, now the government is also lot of focus on the defense localization, etc . So what kind of opportunity because I see in your global presentation, defense and aerospace is kind of a decent top line contributor. So how should we look at that business going forward in say next three year, four year?

Sanjay Koul: So, you're absolutely right. Defense globally for Timken globally is a pretty strong segment. Like US Navy is completely all the refurbishment of all their naval carriers are actually with philadelphia gear, which is part of the Timken company. And then on helicopters extra or on the landing gears Timken is pretty much significant globally. In India, still, I think the defense is going to be certainly strong segment in times to come because not only India wants to localize, India also wants to export. Now, obviously, the bearings are used in naval ships, coast guard ships, submarines through the gear boxes. They are used in the engines for aircraft. They are using the landing gears, but they are not using revolvers, machine guns and things like that. But, certainly they are used in tank turret when the tank turrets move, they use a spherical bearing down there. So this market is growing, Timken, luckily , has an advantage in the sense that if the platforms are going to be Russia, then they use a very unique size which is only unique to Russia, but as we all know, everything is moving towards the American platforms, more and more, Lockheed Martin and Boeing and all these for aircraft so we are certainly supplying to those in small quantities whether it ISRO or it is to HAL or to some of the ordinance factories. So we are certainly, watching this with a lot of interest as this market grows, we will keep on supplying through import, but as this market -- gets this critical mass, then it is going to be pretty significant. And now we also see a shift in defense buying, many times, I have seen many years back, I would go to the command. Like I go Northern command, many years back. I used to go to Northern command Udhampur, they had a lot of trucks, and their drawings would say, Timken design or equivalent, so they were generally using the equivalent which was through the L1 route. So I was getting many worried when the war happen our truck should not stop of India Army.

So, now they are getting more tech savvy, they want to use the best of the technology, but it still does not have the critical mass we just started producing, lot more guns, bullet proof vest and things like that. But, obviously, Boeing, is working with the Government of India, Ministry of Home and all that. So, slowly, and steadily as it gets critical mass, certainly, this is a high tech area. And, just imagine that an aircraft, which has to have zero defect on the landing gear is not going to be small segment. So we have to kind of keep on watching it, it is going to come, but it is not coming now. It is still slow and steady, sorry for the long answer.

Priyaranjan: Sure, sure. And lastly, sir, on your capacity utilization and any plan for increasing capacity, because now even ABC's contributing significantly to export. So do we see expansion capacity is required going forward?

Sanjay Koul: as we speak, our capacities are fully loaded in both our plants and if there is a need to put in more capacity, we remain debt free, and we remain having cash, so we can have the speed to invest on, but all depends on we have been always careful. So now, as we all know, there is this talk going on about depression and recession around the corner, but I'm in your camp, we have to be optimistic. India is on a growth path. We are close to \$3 trillion going on to \$4

trillion economy and manufacturing is going to become more and more significant. India is destined to become a strong exporter. So we will obviously not shy away from enhancing our capacity and we still do not produce spherical roller bearings in India. So we are watching that segment keenly, and we are evaluating every quarter what and how and why we should invest more.

Moderator: Thank you. The next question is from the line of Hardik Doshi from White Whale Partners LLP. Please go ahead.

Hardik Doshi: Yes, thanks for taking my question. And I just wanted to reiterate, I think a comment from another participant, that it would be great if you can have these calls more frequently, maybe at least half yearly. So just on the export side, I think, a couple of years ago, maybe, there was a comment made by management that they targeted export to reach 50% of overall revenues. So is that, do you think that's still feasible and what kind of timeline would you be looking to kind of get that?

Sanjay Koul: I would not comment on the percentage, but, if you see our old capacity minus the Bharuch capacity, so then it is significant numbers, but if you take the Bharuch capacity, now the capacity has become double. So it is 30%. If the capacity would've been single, then it would be a 60% by that math. but, we are going to remain a focused domestic player and a focus export player, because of the fact that we have – Timken India in the last 30 years has been instrumental in developing a global supply chain out of India, localizing this whole supply chain investing in child parts, and continuous expansion and enhancement on technology, if you walk in our plants and you'll see and if anybody has walked into the plant, 15 years back, and now will walk in, would see how much more robotics is being used. Process automation is. So this all is focused to become remain -- a good, significant global player. And, we want to sell more and more, we want to produce more and more, as Priyaranjan just asking, what you invest more, if the market is there we will invest more. So the pie will become bigger and bigger and will keep on exporting. So, the -- whether it is 50%, 30%, 40%, depending on, how much more capacity we are able to put and how the demand moves. But one thing is sure that we'll remain a good export partner for our other sister companies out of India.

Hardik Doshi: Okay. just a follow up to that is, I mean, are you for your sister companies around the world, are you seeing a lot of, substitution of orders where you are taking over orders that maybe would've been coming out of China?

Sanjay Koul: So If you see Timken in China is more on the heavily on the industrial site and our capacities here more on the smaller sizes. So they, certainly do not have that kind of relationship but this -- every, every customer in the global automotive segment or off highway segment, has been, like Caterpillar globally is doing well. Everybody is increasing their production and everybody's selling more and more, so that is happening. But now, if the question is that is Timken China supplying, or they replacing the answer in this segment of 0-12, if I want to simplify it, that is not there, but, Timken keeps on winning penetration. So globally we are winning penetration. And, we might be losing penetration globally in some of the same, I dunno, but this game of penetration, obviously we as a company want to do more than what the market growth is. If the market is going one, we have to do 1.5, for example. So that is happening. And China not able to export tapers to America is one thing, China now reeling under the issue of their own COVID obviously, there is a play in that. So all this kind of, makes, global companies think more and more, to de risk themselves. So I think all this put together, whether war in Ukraine, and its impact, all that kind of is helping India. And, then I think the Indian stance has been pretty wise and well appreciate. So all these little things are going to only help India. India, as a country, then India as a manufacturing base and then the global company.

Hardik Doshi: Got it. Got it. Okay. My last question is on the railways side, you mentioned 90,000 wagons into eight, and I mean, it seems like a big opportunity, but historically we've also seen that the railway CapEx seems to be kind of lumpy and on and off, and there's no real, directional, impetus out here. So is -- do you think anything's changing, let's say, in the next three years versus the last three years, which would make you believe that the opportunity from railways

in terms of revenues will actually fructify and can be a significant growth driver for you what's different from the last three years?

Sanjay Koul:

Yes. It is a tough question. certainly rail is government of India and government keep on changing and then their focus keeps on changing. But if we just take a snapshot of the current sale last 24 odd months, the railway is becoming more professional in India, because maybe - it is because of the rail minister Mr. Vaishnaw or the focus of Government of India on that. But, if I go, regression wise, Indian railways has almost 300,000 wagons or maybe 350,000 wagons and we many of them are aging, so they need to replace. And then the freight, they certainly have an advantage on the freight cost versus the road cost given the fossil fuel cost and the pollution and all that put together. So railway has an opportunity, so now these 90,000 wagons for three years, high chance they will happen, but there's always a chance that there might be something, which might come in between, but given all what we see, what we hear, what is happening, this wagon build is going to happen, unless there is something, which goes drastic wrong. So this would happen certainly, but then rail is government and sometimes they can take, all of a sudden they can take a call on doing something different. But, generally I think, they should be able to do it, but at the same time, we can take the example of dedicated freight corridor. There's a huge opportunity. It's just moving, but moving very slow. So it has to kind of, catch up, similarly on the passenger side, the will is to change to faster trains, better models, train 18s and Vande Mataram and all that. It is happening certainly happening, certainly happening at a better speed in the previous years. But still would need much more push.

So I would say we have to remain optimistic, when we do our own, business planning, we remain a little bit orthodox, but as a market outlook, we want to remain optimistic and we don't want to fail, and at least, wagon build, as I see the market, it is galloping. So, it might not be 90, it might be 80 or there about, but the build is happening pretty well and they also need this built.

Hardik Doshi:

Got it. I'm just gonna squeeze one more question on the margin front. We used to be in margin, which were in the mid-teens and then we move towards like the low twenties, and now this quarter, we are 26% in terms of with the margin. So, just, I don't need the exact numbers, but directionally, I mean, do you think these kind of margins are really sustainable going forward, given the mix of exports and the kind of product orders that you're seeing going forward?

Sanjay Koul:

So obviously, we certainly want to keep the export going, that certainly is going to happen. we are going to remain, very, very, focused on that. And, then we are continuously -- more volumes is more optimization. So if less volumes is obviously less optimization is a hit on little bit of the fixed cost, while this quantum leap, is pretty nice and good, but we will have to keep on working hard, to keep maintaining it. And, little bit of luck also. So all that put together, but we are going to remain focused on rail, remain focused on export, remain, focus on continuous improvement optimization, but if tomorrow the demand really goes down, then obviously, then it has a relation to the bottom line, for sure.

Hardik Doshi:

Sure. But I mean, from a growth margin perspective, at least it's you think consistent around these levels?

Sanjay Koul:

I can't say these level, that level, the whole focus is to have robust gross margins.

Moderator:

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

Sameer Dosani :

Thanks for the opportunity. So my question is if we are to dissect the effect to growth of 56%, what part would have come from in volume growth and what would have been because of the pricing actions that we have taken, during the year? That's my first question.

- Sanjay Koul:** So, if I could get your question, right. So this leap on the top line, two major contributors certainly one is our process industry, which is heavy industry and the wind and the second is export. So these are the two major -- we got obviously double digital growth everywhere, but these two are significant growth and export, as I see the auto book currently is going to remain pretty much okay. We are focused on export order book is pretty solid. So that would remain there, process industry in India, as I was earlier saying that the mini gearbox companies are wanting to produce more gear boxes out of India. And they also want to risk mitigate China, which means some production will be getting rationalized between these wind gear boxes to India, which means more supplies. And then on steel, as we see steel is getting consumed infra push is very much there. And, all that will keep the process industry also alive. Rail will remain, as we spoke that wagon build is going to go up, is already going up, 30,000 wagon per year, 90 divide away three, 30,000 wagon is almost to like 2,40,000 bearings. And, we will get a significant piece of that for sure. And, the passenger is also coming up pretty well. So, if you ask just the plain question, it is the export and the stationary which is the captain and the vice-captain of the pie.
- Sameer Dosani :** My question was more about out of 56% growth that you are seen, what is the kind of volume growth overall level that we have seen and what part of the growth would have come from pricing actions, price increases because the steel price increase would have taken?
- Sanjay Koul:** No, I asked, Yes, I answered, presently, on the same question. So, the change in commodity pricing, does play a role, but is not significant. The volume mix is significant because we have been able to use it the last quarter and last year, the capacities of our Bharuch and also our complete capacity utilization of our Jamshedpur plant. So the volumes are up, suddenly they're up because of this.
- Sameer Dosani:** But any ball park number that you think would be the precisely any idea on that overall level?
- Sanjay Koul:** Yes, I would say percentage wise, the volume on our between these two plants in the last quarter would be up by 40 odd percent.
- Sameer Dosani :** Okay. For the year FY '22, 40% volume below the overall level.
- Sanjay Koul:** Yes. Roughly 30 to 40. I don't have the but around that.
- Sameer Dosani :** No problem. No problem around that. Also when you look at, you answered, earlier participant that Q4 utilization, you are already fully loaded. So what would utilization -- what would be the utilization for Q4? And, and then obviously, we want to grow from here -- Is there CapEx would be required from here on, just want to understand what is the kind of top line you can do from the current capacities that you have overall level?
- Sanjay Koul:** So, our capacities on the last quarter, our capacities on our both the plants where we always do not utilize capacities. We don't plan more than utilization of 80%, 82%, because of the predictive maintenance health of the assets and the quality which we have to predict, right. We have been hitting in that range. So, which means that we can always, produce more using the seven day of the week by having a rotation on this, but our rail capacity utilization was lower. So there is the chance to use more capacity there. Having said this, we are already, putting some little bit of more capacity in our Bharuch plant, which is a very specific line, which we use for very small size bearings. So we want to -- looking at the market, looking at our export potential and our dedication towards that, we are not going to be shy of putting more CapEx. But the question remains that is there a global recession around the corner? So obviously we don't want to be -- stuck with any depreciation all of a sudden without producing any bearings. So there is a chance that we can put in more CapEx if the demand remains robust. And we look at that, so certainly we need to produce more for sure for further growth. And we still have to kind of, I would say that Bharuch where the capacity utilization is in that range, but the efficiency has to go up. So like our Jamshedpur plant is highly efficient. This plant, we are investing more and more into those assets. We are modernizing

those assets. We are upgrading technology in that. So same assets have the chance to produce more. So we are working on that. And before we put any additional lines, we want to make sure that the capacity utilization vis-a-vis the knowledge we have comes to path.

Sameer Dosani: Right. So just to get it clear, 80%, 82% is the highest you can go. Currently, you have, 70%, 75% kind of level, and maybe you can just go a little bit higher and improve the efficiency. Is that correct?

Sanjay Koul: Yes, roughly correct.

Sameer Dosani: Yes. So, third question is we are sitting on 40, roughly around the highest gross margins that we have seen around in last seven, eight quarters. I mean, obviously mix has helped our automation and efficiencies and everything has helped, but overall, where do we see this margins in the long term? I think I'm just continuing the earlier participants question, but what do you think would be the sustainable kind of a gross margin that you see? Thanks.

Sanjay Koul: As I said earlier, also, the focus of the whole team is to make better margins, to produce more with less, to do capacity utilization, to spend less and do more volumes, so that all is dependent and corresponding, to the volume. So volume plays a role, passing or the cost increases to the customer and using technology, to get it delta over your peer group is another area. So I would say that, our focus has been margins, and that is why you if you see regression of last 10 quarters. So Yes, there is certainly, a shift in the published number, as you can see. So whether now it can be up twenties or low twenties, depending on all these moving items, but we certainly are focused to deliver better gross margins. We are focused to deliver more return on investment, for sure. So whether, it is sustainable not sustainable towards sustainable, depends on many things. but, the focus is clearly on that.

Moderator: Thank you. The next question is from the line of Neelesh Dhamnaskar from Invesco Mutual Fund. Please go ahead.

Neelesh Dhamnaskar: Yes, thanks for taking my question. So, basically I had again, a question on margins, So just wanted to clarify, is there any one off during this quarter, maybe any previous, I mean, previous quarter compensation, big cumulative compensation received or any other things?

Sanjay Koul: No.

Neelesh Dhamnaskar: It's all normal. Fair enough. That's good to know. And the second is in terms of lead time, you said that you, you have the capability, and whenever you see the need for capacity, you will put it, but what would be the lead time for you to -- once you put up from the decision making to the operational aspect -- to operationalizing the capacity?

Sanjay Koul: Yes, so, in order to put in capacity, say, for example, if you have to build the capacity from scratch, so it'll take you 12 to 24 months, but for us we have a very mature supply chain. So that gives us speed to the market. We also have assets available globally, which we can buy from our sister companies or use them. So our speed to the market can be fast, but it is still at the maturity level of what we have, in India, globally supply chain still it is a six month game, if you are really a winner. And, if you are to put up a complete green field and you don't know, -- you don't know the whole game very well. It'll take you two years, but for us, putting in capacity generally takes five to six months.

Neelesh Dhamnaskar: So five to six months, if it's a brownfield, and if you get aid from the global operations that way, right?

Sanjay Koul: Yes. That right.

Moderator: Thank you. The next question is from the line of Mukesh Saraf from Spark Capital Advisors, please go ahead.



*Timken India Limited
May 31, 2022*

- Mukesh Saraf:** Hi, sir. We have a few questions. I just wanted to ask a couple of questions that I had. Firstly, if could, I think you have mentioned that in terms of chronology of margins exports amongst your highest. So is there any change in that, could you kind of give us some sense on how that pecking order is across your segments on margins?
- Sanjay Koul:** So, I won't speak about the where we are getting the margin, but generally, the upper between the signals -- the upper control limit or the upper limit and the lower limit are pretty much tight. So, they are pretty tight, but the exports are obviously attractive, but overall our margin game has been pretty tight.
- Mukesh Saraf:** Right, right. Understood that. And, secondly, if I look at the global, Timken company Globally, you have expanded a lot into power transmission. It's now 30% of revenues. We at India also have that exposure, but it's quite small. and I think globally, now we've also acquired a company in robotic automation. So, I mean, how are we looking at some of these things for the Indian entities, sir?
- Sanjay Koul:** So obviously, the global companies which Timken has acquired over last some years, has companies like, Rolon, which are into linear motion. they have other companies, like beka, which is into lubrication, and Groeneveld again in lubrication. Then this robotics company, unfortunately, all these companies are, mostly Europe based, so their sales is also in Europe, but you can understand that, say for example, our competitors are making seals in India. They are making lubrication in India. And India is a very attractive destination. I forgot about, Carlisle belts which make world leader in industrial belts part of Timken Company. So India has the scope of making these all, certainly at a better value proportion, so we can easily do lubrication. when you have the technology available in Europe, the nuts and bolts can be done in India getting the technology here. So, so these are all very, very interesting, interesting m&a s, which Timken company has done. they, they are very much focused on robotics, they're focused on power transmission, which definitely is part of our plan at some point of time that how can we be part of the -- both the top line and part of the supply chain in the sense that if lubrication systems, can very easily be manufactured in India and sold in India exported to these guys. So this is a very interesting area and also interesting for Timken India Limited, interested for Timken also, because India can produce it at a very, very good cost. And then, if not globally, easily sellable in Asia. And like Beka and groeneveld are pretty much experts in, windmill lubrication. This is high price, high margin area. Lubrication on the metros is another area we just, sold one system to one of the metros in India. So this is very interesting area actually, and also it can give significant growth to Timken India. Now, issue is timing. When should we do it? How should we do it? can this be Greenfield? Should we do it? Or should we test the market, all that work and deliberation, we are doing, but certainly these technologies are available with India, with the Timken company and can be used with Timken India limited. So time will obviously decide which way will go. But, they are very interesting M&A, which has the technology available. India has limited market, but India has the potential to export these at a price.
- Mukesh Saraf:** Sure, sure, And just one really quick, one last one from my side is any change you've seen in the transfer pricing, between Timken India and the current company?
- Sanjay Koul:** No, my, CFO is saying, no.
- Moderator:** Thank you. The next question is from the line of Chetan Gindodia from AlfAccurate Advisors. Please go ahead.
- Chetan Gindodia:** Okay. hello Sajay sir, thank you for the opportunities. I wanted to understand. So export numbers, this year would be around INR 620 crore if I'm not wrong, which has grown nearly 80% from last year. Is my number correct? Or I'm getting something wrong here.
- Sanjay Koul:** No, it's INR 670 crore. So you are almost close. INR 670 crore is the number.



*Timken India Limited
May 31, 2022*

- Chetan Gindodia:** Okay. Okay. Got it, sir. And, secondly, you said that we have, railways now looking for 90,000 wagons for next three years. Does this also include, the DFC glissade bearings wagon, or this will be the regular wagons only.
- Sanjay Koul:** That the regular wagon. 90,000 is regular wagons. And on top of that, they will do the DFC, which is not -- it's going to be okay, but not a significant number. These 90,000 are dedicated for the high capacity class E, which is the normal wagon.
- Chetan Gindodia:** Okay. And when do you see the DFC opportunity panning out for us, and can be significant going ahead?
- Sanjay Koul:** It is going to be a cog in the whole set of sea. The DFC has to crisscross India it'll keep on happening, and keep on getting more, more, wagons onto the circuit, but it's not going to be huge jump overnight. It is going to be nice, slow, steady argumentation. That is my read.
- Chetan Gindodia:** Okay. Okay. And just, lastly, I wanted to understand, so within our mobility segment, I guess we supply to, the commercial vehicle segment here. And, so if you can explain to us, what would be our average content per MHCV and what is our market share here, and how do you see the growth of this segment?
- Sanjay Koul:** So on commercial vehicles, heavy commercial vehicles, bearings are used, the kind of bearings we make are used in the wheel they are used in the differential and pinion, pinion and differential are the high tech, bearings and, wheel is the commoditized market. So we supply to all the three, but, we are leaders in the differential and pinion. So we are the majority supply. Any truck you see, heavy haul track on the road, nine out of 10, the pinion would be at Timken bearing. Wheel our penetration is, okay. But, it is not, significant. We do supply ABC make bearing through Tata motors, for many, many years. And, similarly to other companies, but our focus is differential pinion and offering differential pinion technologies moving and all that, is happening. So we are working closely with our customers, both the Indian and the technology partners. So, the content, you can, calculate, the six bearings on the differential, four bearings on this, 10, 11 bearing depending on, how many axles and all that, because, there could be multi-axel vehicles and not non-multi axel vehicle, but our leadership is, on the differential pinion.
- Chetan Gindodia:** Okay. Okay. Thanks so much, sir. And I hope to keep interacting with you on a regular basis.
- Sanjay Koul:** We have taken the suggestion that we should do two. so we will try to do at least two. I think, I unfortunately have a call at five. So it is five. Anything, Mukesh you want to say before we close it.
- Mukesh Saraf:** if you had any closing remarks.
- Sanjay Koul:** My closing remark we will try to do two.
- Moderator:** Thank you. On behalf of Spark Capital Advisors that concludes this conference. Thank you for joining us. And you may now disconnect your lines.