

TIMKEN

“Timken India Q4 FY23 Earnings Conference Call”

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Avendus[^]
SPARK 



MANAGEMENT: **MR. SANJAY KOUL – CHAIRMAN & MANAGING
DIRECTOR, TIMKEN INDIA**
**MR. AVISHRANT KESHAVA – CHIEF FINANCIAL
OFFICER & WHOLE-TIME DIRECTOR, TIMKEN INDIA**

MODERATOR: **MR. MUKESH SARAF – AVENDUS SPARK**

Moderator: Ladies and gentlemen, good day and welcome to Timken India Q4 FY23 Results Conference Call.

This conference may contain forward-looking statements about the company, which are based on the beliefs, opinions and expectations of the company as on the date of this call. These statements are not guarantees of future performance and involve risks and uncertainties that are difficult to predict.

As a reminder, all participants lines will remain 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 touch tone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Mukesh Saraf from Avendus Spark. Thank you and over to you sir.

Mukesh Saraf: Thank you, Sylvan and good evening, I am Mukesh Saraf here from Avendus Spark. Appreciate everybody logging in.

I'm very pleased to be hosting Mr. Sanjay Koul – Chairman and Managing Director of Timken India and Mr. Avishrant Keshava – CFO and Whole-time Director of Timken India.

We'll start with a “Brief Opening Remark from Mr. Koul and then follow it up with the Q&A. Over to you, sir.

Sanjay Koul: Thank you, Mukesh. Thank you everybody for joining the call.

And as you can see that there has been a little bit positive changes and the market is still okay domestically, though, outside India there are ups and downs, but overall, nothing which is extraordinary, worrisome.

And with that, I would answer the questions directly, which would cover most of the points anyways. So, we can go to question number one first please.

Moderator: Thank you very much! We will now begin the question-and-answer session. Anyone who wishes to ask a question may press star and one on their touchtone phone. If you wish to remove yourself from the question queue, you may press star and two. Participants are requested to use headsets while asking a question. Ladies and gentlemen, we will wait for a moment while the question queue assembles. The first question is from the line of Vimal Gohil from Alchemy Capital Management Private Limited. Please go ahead.

Vimal Gohil: Firstly, on the mix. So, if you could just help us with the mix for FY23 in terms of railways, auto, distribution, exports and process?

Sanjay Koul: Yes, sure. So, the mix for the whole year YTD '22-23, the rail was at 17% and mobile as we call mobile we classify anything which is having a wheel and that was 22%, distribution was 17%, process was 16% and export was 28%. So that was the distribution between our segments for the 2802 CR.

Vimal Gohil: Sir, my next question is on margins, just wanted to clarify. We have done much better EBITDA margin. I understand we are coming from transitioning from very, very high raw material cost period to now slightly normalized versions. But just wanted to understand, in light of the fact that we have done much better margins, how do we see that going forward and also your outlook on the mix for traded goods, how will that play out?

Sanjay Koul: So, if you see the margins have become better than compared to the pre-COVID levels and obviously our endeavor is that it's a profitable growth. Between pre-COVID and post-COVID steel prices obviously did bear a bitter piece of that. Steel hopefully we all expected to soften, soften a bit, but then there's still a rumbling that it might go up again. But as you can see in last three, four, five years, we have been relentlessly working on many things, localization, domestication, whether it is raw material or it is MRO and things like that. So, the whole idea is to keep on driving - cost, quality and delivery. So those are the basic metrics on which we are running it. Simple metrics we have to keep on driving the cost. We have to obviously, the more we produce better would be the cost and make sure that the deliveries get a premium when you are able to deliver fast. So that is the endeavor that we remain focused on cost, quality, delivery. Now steel is always something which is little bit becoming unpredictable, but overall, the industry trends you know better than me on the alloy steel. And then, energy costs are also pretty much up if we compare to pre-COVID levels, but then we make sure that our productivity levels are also in pace with that. And as long as the market holds well, volume leverages are important in this game. But overall, we are pretty much satisfied on the targets which we are setting for ourselves.

Vimal Gohil: Sir, what would be our content of localization, what portion of our costs are currently localized or rather sorry -

Sanjay Koul: Almost all localized. Very special applications sometimes we are now using steel from abroad, but we have localized most of the steel grades. Not only localized, we have invested a lot of time, energy and knowledge in steel companies in India. Many people get benefited by that. And then as you know that we are importing finished bearings into India which we don't produce here and selling, but at the same time we are exporting as well. So, if we are importing against the currency, we are exporting for the currency. So that is a great hedge. And you see always our distribution, our exports, if you see the trends our exports have been always more than the distribution. So, we have always gained on the overall game of currency, which was part of your earlier question.

Vimal Gohil: One last question - within exports, what would be your exposure to your Class-A trucks because there seems to be some uncertainty there and I believe -

Sanjay Koul: Certainly, there is uncertainty, but for us, Europe, America, MENA, China even, so we are exporting everywhere as long as our cost, quality, delivery is good. These ups and downs obviously hits us, it is not that we are not prone to it, but we still get a decent cheque. But generally, in export generally it is 50-50, rail vs TS is roughly 50-50.

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

Sandeep Tulsian: First question is pertaining to railways. If you could give us an overview of the entire opportunity. One part is on the 90,000 wagon orders where you said even if you get half of it, it will be a big growth driver over the next two to three years. And second part is on this entire Vande Bharat opportunity. Many companies have been talking that we will be supplying to Vande Bharat. So, if you could highlight what is the opportunity that could come to Timken and how should we look at the competition in that space?

Sanjay Koul: Sandeep, as you know on the rail side, I was always saying that the growth will be slow and steady. Now, this pace of growth is becoming faster and faster now as compared to earlier times. More wagons are either getting produced or the thoughts of putting more rolling stock onto the place and then we already used the number of Vande Bharat they want to introduce and then the mass rapid transportation which is the metro system everywhere, they want to build them, and then India is becoming pretty big for electric locomotives, electrification of the tracks is gathering huge momentum and diesel locomotives will slowly vanish and electrical will run the roost, so more electric locomotives will be built by Alstom and later on by Indian Railways. So, I would say that we are well entrenched. We have very nice, depreciated assets. We have very, very nice supply chains dedicated to Timken. And we are producing all varieties of rail bearings in India and supplying to global railways, not only to Indian railways. So, I am very much very much excited that Timken would remain a very strong player in the rail. And if you see, if I take the COVID of 2020 and 2021 out, we did Rs.300 crores, before that, we did Rs.350 crores, this year, close to Rs.480-plus crores. So, rail will remain positive for Timken. It will be tough for anybody to really, really come to this level where we have invested a lot in automation, robotics, plan for each part, our rail is being produced in world-class facility to take. Everybody can do it, but it will take a lot of time and a lot of effort to do that. We have developed railway supply chains within 20 miles of our plant, cost of ring transportation is down and obviously we are also concerned about environment. So, these are milk run, no packaging and things like that. So, I'm pretty excited rail will remain good for Timken in India and also out of Timken India facility to export as well. And the rail market is gathering a pretty decent focus now. Obviously, next year there are elections. Those are out of you and mine control or there could be new government, new change. But if things remain in the same way, I think Indian Railways is going to become a lot better and better and better. The old model of coaches would vanish. More LHB everywhere and more mass rapid transportation now. Where I'm sitting in Electronic City, I also sit on the board of the Electronic City, which is a private municipality, one of its kind in India, and we are looking at many, many metros within the Electronic City and that is going to happen like you see the light metro in Gurgaon. So apart from the mass metro, you will see these light metros also happening because of the amount of people we have to transport and the focus on not burning too much diesel, these are all electrified. So, I am remaining very positive now about

railways and given the depth what we have created in supply chain seed to flower, now and next two, three years is time to leverage that to hilt.

Sandeep Tulsian:

Second question, Sanjay, is on the margins. We see that of course margins in the past pre-ABC acquisition was around 15% to 17%. We bumped it up to between 22% to 24% post amalgamating their factories. But this year, you see margins coming down significantly in second half at EBITDA level; we are at 17% to 19% again. And you see your exports share has also come down significantly from first half to second half. So, going forward, if you could share some thoughts on how this mix will evolve, how you're seeing the demand in US driving growth as well as where do you think these margins should go back, should we go back to that 22% to 24% range or these are the new normalized level of margins with our inflation, your thoughts on that please?

Sanjay Koul:

So obviously the margins are related to mix and some areas are high margin, some areas are low margin and whenever the mix changes, it impacts the margin. And exports certainly, as you have seen, exports are little bit slow, because of the fact that some of the global markets are down, and if the US market really goes down in the second half, it certainly would have some impact on us. But, at the same time, we are pushing hard for the other markets, not only Europe, but Africa as well, wherever there is a chance to push more. So, whether the US margin really go down or not, or whether it is only the retail market or US which will go down and engineering will not go down, you guys have a better sense than me, but certainly the current demand going down is not the end user demand, is more like safety stocks going down, people react, especially the Americans react very quickly to any time they are immediate. So currently for exports end customer demand is not going down, but people are cutting down in inventory and safety stocks and things like that. So, while I'm not negative about it, I think we'll find ways to harness the better price markets which is our endeavor and then in India also the markets where we get better margins, we are pretty much on it. I can't predict the margin, but you will have to see this game not quarter-by-quarter, you will have to see this in a block of three years. Look at three years before COVID, look at three years after COVID. That would give you more regression rather than a quarter-to-quarter movement.

Sandeep Tulsian:

Just your thoughts on future investments, in the past you highlighted different scenario space is an area where post your spherical roller bearing plant you may want to step up investments on that front. If you could give us a road map, how should we look at it over a three year period, five year period, seven year period, how that should end up in getting indigenized ? And if you can also share some near-term growth guidance for '24 that would help?

Sanjay Koul:

We recently announced our investment for the Spherical and CRB. So that is a significant investment and the endeavor is always to look at how do we keep on growing, bearings all cannot be localized in one country, but if there is huge wind market exploding in India and obviously the customers want shorter supply chains, etc., then that time we would be forced to make investments, or we might be ahead of the game. The other piece really is that Timken company globally has a lot of M&As which are in the area of belts chain, coupling, etc., and those are exciting areas which we continuously look at how do we create supply chain out of India. We

want to make sure that any investment has the necessary return on investment. So, I would say while I can't predict what we are going to have to invest tomorrow, we are looking at everything. The good thing is that we are looking at everything and that is because of the fact that there is chance to do more and more out of India, especially when The Timken Company has a major investor in TIL, has a lot of technological companies, especially in grease system. Rollon is a fantastic technology company. They have robotics, they got Lovejoy, Diamond, etc., and these are the companies which would be needed more and more to get better global supply chain, best cost countries plus the Indian market certainly would need going forward a world-class product for example in defense, you need linear motion now a lot more and more and more as compared to the previous generation. So, I think the good news is that we are looking at continuously looking at many, many things. And as you know, over the past we have been careful to invest at the right time so that we can get the better return on investment. We are looking at many things and we are working to see what are the best investment, but we are not making any current decisions, but as usual we are always looking at it. And India is a place where growth will come, nothing to do with Timken, in general engineering growth are bound to come. So, any company which has the technology and also who are in the game of investing more and more will keep on doing that.

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

Hardik Doshi: Continuing on the export side. I think a few years ago Timken parent had commented that they were looking to maybe reach 50% of revenues from India to be coming from export. So, do you want to give maybe an update on like how we are looking at it, is there any opportunity for a lot of supply chains shifting from China to India and then are there any investment plans around that as well?

Sanjay Koul: Obviously, for the parent company, India is among the best cost manufacturing sources and the intent is to procure material from countries which are best cost. Now comparing India and China for Timken is little bit tricky; in China they make large bore bearings, they make bearings which are one meter SRB, CRBs, in India, we are mostly rail in zero to 8 inch. Now, with the investment which is coming in the CRB and SRB, that has a very nice potential for export. So, you will see that exports out of that going, that plant which we are putting hopefully will be exporting stuff and also pitching their material to India, and if we have the critical mass, more can be done hopefully on that area depending on how do we carry that momentum. So intent is to source more and more out of India, that intent is clear. We have to increase our product basket which with SRB, CRB, you'll see more exports going, and who knows tomorrow we do something else, then again that would be the case. What we produce in India will be for Indian market and global market both. So that option is an important, and we've been exporting for a long, long time and we will continue doing that and we'll make sure that the Indian customers are also taken care. And if the critical mass goes up and that demands more investments, so would be the case, which would be judged at that point of time. But directionally, certainly out of India, we would keep on exporting to the mother fan and in that kitty we are a great source.

- Hardik Doshi:** We've announced the CAPEX plan for a new facility on the cylindrical, roller bearing. How are we in terms of capacity utilization with regards to the taper roller bearing and if there is a demand, what will expect to pick up on export, do we have enough capacity to kind of cater to that in India?
- Sanjay Koul:** See, currently our Jamshedpur plant and Bharuch plant both are running full. Jamshedpur, some months we are exporting 50%, some months 30% and in totality we keep on looking in long range forecast and we keep on looking at the demands. If the demands are more and our capacity is less, then obviously we will correct that and use the capacity, at the same time the parent company would look at the global capacities also to leverage that. But, currently our both the plants are running pretty much full and our rail is running pretty much full and the SRB, CRB plant, as we look at the demand and as we look at everything, would be also off to a very nice start.
- Hardik Doshi:** Just a follow up on that, if our plans for taper roller bearing is running pretty much full, why are we focusing our CAPEX on SRB, CRB in the new markets, should be kind of expanding this capacity given railways potential etc.,?
- Sanjay Koul:** So, SRB, CRB is not a new market, we are importing and selling in India. And now we manufacture in India and sell in India and also export given the fact that India will offer a great supply chain, a great cost advantage and also top quality. And then obviously we want to risk mitigate if we just concentrate on 1, 0 to 8 inch, the truck market goes down or off-highway goes down, then you are down and out. So, we want to make sure that we cater to the fragmented markets, we want to cater to rail, we want to cater to the trucks, to the tractors, off-highway, we want to cater to the stationary machinery and also there are some markets which are more commoditized, there are some markets where we can get more value and that is why we want to concentrate on CRB, SRB. And at the same time, currently, we don't see the need to expand zero to 8 inch. If we feel the need to expand it, and there's a business case 100%, we'll do that.
- Hardik Doshi:** In terms of the new CAPEX and the new plan, are we on track, when will the capacity come on board for us?
- Sanjay Koul:** As we speak, we have already done the foundation-laying ceremony. We have the approvals from the local government to start the construction. Almost all the equipment are coming from very developed state-of-the-art countries on machine tools, so they are all placed, money is flowing to them. So, we are on track and hopefully we remain on track. Just building the four walls is just one part of it - one important part, but getting all the assets at the right time, running them off and creating the back-end supply chain. So, we have got teams working on it concurrently - all teams sitting here and in Bharuch, so they are all working on that. So, we should be hopeful to deliver the inauguration in time and hopefully, we invite you guys as well for the inauguration.
- Hardik Doshi:** When would that be?

- Sanjay Koul:** So that would be somewhere close to end of next year. Who wants to go to Bharuch in May! We have to choose a colder month.
- Moderator:** The next question is from the line of Shirom Kapoor from Prabhudas Liladhar. Please go ahead.
- Shirom Kapoor:** I just wanted to understand, you mentioned that you are almost completely localized in your steel raw material procurement. But in terms of the various bearing components like your cages and seals and those various bearing components, what is your localization level there and what's your outlook on that?
- Sanjay Koul:** So, the raw material which is steel for the inner and outer for Jamshedpur and Bharuch, that is all localized in India. Rail application, almost all the steel localized in India. And there are certain alloy grades which we are continuously working to localize, and then we continuously work on material sciences, so we work with IITs and work with these companies to start on this, whether it is green steel or better steel, so that is one part of it, but they are all localized. So, coming to your question on cages, we are on the zero to 8 inch, and rail we are almost localized, there would be some high-speed rail. where we are importing but the effort is already on to localize. Harsha is one of the major gauge guys for the industry in India, and so cages are localized. Rollers, some of you did go to Jamshedpur recently and they had the chance to look at our roller localization. So, we are by and large localized on most of the components which was not the case some years back.
- Shirom Kapoor:** A lot of the bearing companies globally including Timken make a lot of the components in-house, right, bearings. But what would be your level of outsourcing that and focusing purely on the value addition and bearings, if you could quantify that for us?
- Sanjay Koul:** Same as the bearing industry, steel is always outsourced, forging is outsourced, green turning is outsourced, heat treat is a combination. Timken has been one of the pioneering companies which was the first to develop the local cages in India which others followed later, and we were one of the first companies which started state-of-the-art sourcing of heat treatment, etc. So, the application in your product technology, intricate grinding and those aspects of assembly design remains always in-house but steel making, forging, turning and wherever we have the combination of heat treat, we have those in place. And we are a little bit ahead of this game in supply chain than rest of the gang in India. And what is core to us remains inside and rest most of it is outsourced and generally we have greater relationship, for example, cages, as I said we were the pioneers to start with this particular company. And then obviously on forging, etc., technologies have changed, robotics have stepped in, all our suppliers are using those technologies and they are also one step ahead in the game in terms of using solar farms to bring their costs down and things like that. So, we are pretty much balanced and risk-mitigated on the supply chain.
- Shirom Kapoor:** Just a couple of book-keeping questions. Could you provide the split in revenues for region wise, across India, USA and the rest of the world as you typically do in the annual report?

Sanjay Koul: No, we don't do break it up like that, but the exports which we call intercompany, this year was Rs.798 crores, process was Rs.445 crores, distribution was Rs.470 crores, mobile was Rs.608 crores and rail was Rs.482 crores. So that is the general breakup. But we don't give the breakup region wise, we have not been doing that.

Shirom Kapoor: The previous breakup you gave was for FY23, right not Q4?

Sanjay Koul: Right, '22-23.

Moderator: The next question is from the line of Alok Ranjan from 361 AMC. Please go ahead.

Alok Ranjan: How is our portfolio positioned towards wind segment? As there are expectations of increased bidding scenario on the wind side by renewal energy implementation agency. That's what we have seen that around 10 GW of bidding will be there. I understand that the market has not done well post the peak that was there in 2008-09. But now since we are hearing in terms of the increased intensity, how is our portfolio position on that side, and how is the offering different in onshore versus offshore, if you can comment on that?

Sanjay Koul: So, a little bit of voice break, but if I could understand your question is about more windmills being installed in India. And whether it is offshore or onshore, windmill does not change. What changes is that whether it is a gearbox-driven windmill or it is a direct drive. So that is the general difference. So direct drive will have a master bearing on the direct shaft, which will be pretty big and if it is gearbox-driven then it will have multiple bearings because it will be stage one stage two, stage three like that. So India per se, if you see in the Indian market of wind was always sub megawatt, we had 250, 500 KW kind of. Now India is waking up to the fact that we might use more offshore because the wind tunnel onshore is not pretty strong. So offshore wind especially in the Bay of Bengal side it is very, very strong and also if you got a lot of windmills outside, it is great for security of the nation as well at times etc., So, that is there, but currently the wind market for bearing companies in India is actually the gearboxes which are getting exported out. So, that is more important currently. And as India starts installing more and more windmills in India, that would be obviously an added advantage. So, Timken company globally and including TIL does not make wind bearings, but we have another company in India called, TERI which makes wind bearings in Chennai which we sell to Timken India and they in turn sell it to the customers and we are selling it globally and we import wind bearings also from our other locations in Romania and also that is TIL imports from Romania and China and sells to the wind customers who make the gearboxes. So, if you ask me next couple of years, it would be more gearboxes made in India getting exported which is going to be more important for the bearing companies and I would say that in next two to three years' time, India would start installing more offshore and we have heard the news and seen this. But it needs lot of background work to do. I would say two to three years, it would start putting more offshore, Onshore, there will be some, but it won't be much. It would be more offshore because it is augmenting. if you see the Kutch, Gujarat belt, if they put more offshore, it will help a lot of national security as well. So that is being seen in combination. I would say that give it two, three years it would gather momentum. Though we see lot is being in the discussion, but I would still say two to three

years, but at the same time gearboxes for windmills made in India by many multinationals is going to increase a lot, which is China plus one and cost and delivery out of these plants in India. And it's a tough game, cost is important. so people will do strong design because warranty costs are very, very high. You cannot afford warranty cost. Timken is lucky to have the right design for the gearboxes and also for the direct drive and we have been doing very well in the wind in last two, three years and intend to keep on going with. So, I would say the market is growing, it is becoming an important market in India, and it will only grow - both in terms of export of gearboxes out of India, and as India gets its act together and starts doing the installation offshore. Onshore, to my experience or my knowledge would be slow. It will be offshore, which will be a game changer.

Moderator: The next question is from the line of Devang Shah from Asit C Mehta Investment Intermediates Limited. Please go ahead.

Devang Shah: My first question is that will you be able to share us your current order book? Railways or you are saying value-wise?

Sanjay Koul: You have to see our sales in the past year. So current data if I give you would be bad for business. So, I can only say that we are running pretty, pretty full and the order book is pretty full. I won't be able to give you the breakup of the order book.

Devang Shah: In the last con call also you have mentioned. The same way you are saying you will be able to maintain the same run rate as far your revenue growth is concerned in the coming two, three years, that can I understand from your current order book?

Sanjay Koul: Currently, the demand forecast is pretty healthy. So, when I thought that, that is for next couple of quarters. Now you are saying that next two, three years, then you will have to look at India, you will have to look at GDP and then you will have to see Timken India Limited as a company, are we outgrowing the market and then you can take the call. But personally, I would say that India's GDP between six and seven would remain there for next two, three years. We have delivered double digit CAGR and we intend to do that and keep on doing more than the market growth. So, if that helps your analysis cause that is what I would say.

Devang Shah: You may have orders as you are saying, but in your order book you have a price escalation clause also sir? Because volatility, raw material price, how the business works in this particular area that I wanted to understand due to just protect yourself from a raw material price any kind of escalation?

Sanjay Koul: There are different kinds of businesses. When you are dealing with OE, we have metal escalation clauses. So that is very much in place. In distribution, we always work on by increasing the prices as the commodity prices or other prices go up. But there are some businesses which are tender-based. So on tender-based businesses, you can get clauses on currency, but you cannot get clauses much on the material changes. So as a business, we will have to kind of predict and forecast and quote. But largely in last two, three years because of the volatility of the metal

market, so those clauses are more or less in place. So steel guys have those clauses with say the OE truck builders and truck builders generally have it with their suppliers and now still after having the clauses, India is always better to get it all in place, that's where the clauses. But yes, generally we have clauses with almost all the companies.

Moderator: The next question is from the line of Vimal Gohil from Alchemy Capital Management Private Limited. Please go ahead.

Vimal Gohil: Just wanted to know what are your CAPEX plans in absolute terms for FY24, how much would be Greenfield and what is going for the new plants or the CRB new plants, if you could just give us a split?

Sanjay Koul: So, for the greenfield which is the CRB, SRB plant, we had announced the CAPEX of...Avishrant, what was the exact amount?

Avishrant: Rs.600 crores over a period of next two years.

Sanjay Koul: So, you can take that Rs.300 crores each year or maybe 400, 200, so 600 is for the greenfield CRB, SRB. Other than that, the normal enhancement in our current plant in Jamshedpur, which we keep on doing, which is not a great sum. So that keeps on doing 5%, 10% generally that is happening. But this 600 crores over two years is the major CAPEX for us this year and next year.

Vimal Gohil: You mentioned that existing plants are running at full capacity. Sir, would that be some sort of hindrance in terms of targeting a double digit growth that we are talking about especially when you are looking at very good opportunities within something like railways, metros is also doing well, so do you see capacity as some sort of a hindrance or you will be able to manage?

Sanjay Koul: No, like the plant which we purchased in Bharuch, the old ABC plant, there's lot of technology investments which we are doing continuously in that so that the productivity comes up. We are doing a lot of process automation. So it is becoming a different plant by the day. And then there is lot of insource, outsource, combination work and things like that. So I don't see an immediate need to kind of... it won't be a deterrent and if we see this is a deterrent to grow, then it makes a great case to invest. So, we are still not at that point. We want to leverage each asset and each investment to the hilt and only post that... To the direct question, no hindrance.

Vimal Gohil: So, sir, do you add more shifts to the production or how exactly will growth come when you are running at full capacity, do you add more shifts or -?

Sanjay Koul: At the end of the day, you need to produce more number of pieces and there are many ways to do that. It will take a lot of time to explain that. There are many ways to do in the existing capacity. You yourself said using more shifts, using more skills, then also there are many things which can be done say for example, if you have to say grind 500 microns, how do you grind the first 300 on a side etc., and then on the main asset 200. So there are many ways to increase and

we continuously keep on doing that. And when that flex point comes for new inner spends or augmenting more lines, then we do that. And certainly, in this era when there is lot of automation happening, that itself is helping the cause of productivity.

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

Sandeep: I had a couple of follow-up questions. First thing is in the market. The commentary that we have been hearing from some other players due to the entire Russia-Ukraine crisis and some sanctions, there is a big dip in the number of wind gearbox supplies, which is kind of impacting the demand for all the bearing companies here in India. So, if you could give some more clarity exactly what are these sanctions and how are impacting the demand?

Sanjay Koul: Sorry, you know if you could repeat, you said that because of the Russia-Ukraine war there was less utilization of gearboxes?

Sandeep: Yes, the demand is down and some part of it is also pertaining to the sanctions on some of the companies. So we are seeing your peer group companies reporting a big decline in the wind energy bearing supplies what they are doing to the companies overall. So how is that placed for Timken?

Sanjay Koul: For example, if there is a European company in Europe which has to produce gearboxes in Europe and his steel was coming out of Belarus or Ukraine, then obviously they are impacted. But for Timken India Limited and our peer group looking at the Indian market, Ukraine war obviously there would be some impact. But to the gearbox market out of India, I personally have not seen that. Now Ukraine was not a big market for wind market or gear boxes. Definitely steel was coming out of Ukraine, steel was coming out of Belarus, Greece, steel was coming out of Russia, but alternate steel supply chains have been energized. So, there may be some companies might be feeling the impact differently. Timken company even globally have great supply chain which have risk mitigated, they have gone to the primary to secondary supply chain. For Timken India Limited now I don't see the impact.

Sandeep: Second question was on this for ABC bearings in Bharuch plant that we had acquired. You have done a lot of rejig at this plant over the years. The past you mentioned some and agri-related portfolio are shifted here. It was qualified for Timken circle as exports had jumped up or was start getting built up at this plant. So could you walk us through where we are in that entire capacity buildup stage, it was 160, 170 crores top line company when you had acquired. How you have scaled up, how the product profile has changed, and what is the export-domestic mix for this plant now, if you just give you a brief walk through that would be really helpful.

Sanjay Koul: When we acquired the plant in August 2018, it was only producing one that was ABC design and then it took us more than a year to invest, more than a year actually to get it to Timken Circle-R level, then we had to obviously introduce a new design because ABC fundamentally design was inferior to the grand scheme of things, it was a Japanese design. So, we have currently implemented all the changes and we are currently in the process of further enhancing those

capabilities and we are producing in Timken Circle-R out of that plant and it is getting exported, it is getting exported to America and to Europe as well. And at the same time, the old ABC brand we are still making, and we are giving it to the customers who were buying it before. But we are not enhancing that much, we are enhancing more Timken Circle-R. Currently, we are 50-50, some months 40:60, some months 45:55, so 50-50 is Circle-R and that Circle-R which is being produced is exported and used also to our customers in India and 50% is being produced as ABC, and that goes also to the old customers of ABC. So, we are roughly at 50:50-ish.

Sandeep: Last question is on some of the indigenization that you have spoken about in the past regarding some of the child parts that you are outsourcing or buying out, but you had enhanced the capacity to do some of the child parts internally which will bring about cost efficiency. So, if you could just elaborate a bit more on that?

Sanjay Koul: As I said earlier that cages are indigenized a lot into India, whether it is rail cages or double axel cone or TSO, that is done. The child parts majorly which are the rollers we have mostly localized it. It can't be 100% because of the volumes and the cost, but majorly those expansions have been done and some of you guys had the chance to go to Jamshedpur earlier, they would have seen those expansions there. So, we are more or less expanded on those child parts and on cages, forging, stubbing we have now very nice 25, 30-year old supply chain in place.

Moderator: The next question is from the line of Devang Shah from Asit C Mehta Investment Intermediates Limited. Please go ahead.

Devang Shah: Sir, one thing is that we are seeing that there is a rise in other income in this particular financial year if we compare with a normal practice you have. So, can you just say what it is related to and is it something for this year only?

Sanjay Koul: Yes, this other income is one-off. This is the investment which we had done in Jamshedpur. So, this was the government incentive, that is the other income majorly. But I will ask Mr. Avishrant, our CFO, to add more light to it.

Avishrant Keshava: Exactly, you are right. And if you see in our September quarter, we had also given a note on our results in the financials that this other income is pertaining to the government incentive which we have received this year.

Devang Shah: So, this is related to this year and this is the -

Avishrant Keshava: That's around Rs.7-7.5 crores was the amount. So, if you remove that, then it will be almost at par with the previous years. Only with the volume of export and other things increasing, the other income pertaining to the exports also goes up.

Devang Shah: That is related to currency?

- Avishrant Keshava:** No, no, no. See, the other income is basically my DBK and ROD DP. So, if my export volume goes up, those will also go. So, everything is normal for us. But if you see from the MIS of 3% what we were getting, it has come down to 1%. So now it is going exactly the same way for last almost 17, 18 months. But other than that, everything is normal except Jharkhand incentive which was Rs.7.5 crores, this was additional in the current year.
- Devang Shah:** Generally, we have seen that you have a certain portion of the investment that I believe that you are investing from your cash. So, I am asking what is the practice of the company generally -- don't want to keep a cash and certain portion is generally you are investing, how it is going to be a forward also?
- Sanjay Koul:** So general strategic direction is that we want to leverage the cash for more growth and if you see some investments of the cash is always short term. The major focus is this cash is going to be utilized for more growth. So, the intent is not to earn interest, interest is to invest in. So, these are always in short term, three month kind of stuff that whenever we need anything for investment and as you know we are debt-free and we generate cash and we invest and that is the general direction. So the treasury would always like to, if the cash is there, they would like to invest in short term way. But the whole idea is the money should be invested for growth.
- Avishrant Keshava:** Whatever we are investing, we are investing because all this money will be required for the CAPEX in the current year as well as next year. So additional money whatever we are having, we are investing in the short term mostly in the liquid funds and just to split our risk we are also putting it in the FDs with the bank. So, we are not looking for the returns, rather we are looking more for the safety and security of those investments.
- Moderator:** The last question is from the line of Mukesh Saraf. Please go ahead Sir.
- Mukesh Saraf:** I just had a couple of questions. Sir, firstly, on the market shares in the domestic business, railways, CVs, etc., could you give some sense starting with railways because there we do keep hearing about a lot of competition, so any directional sense or numbers you can give on the market shares in FY23?
- Sanjay Koul:** Competition is not only in rail, we have competition everywhere. So, there is nothing unique in competition. In our truck business, we have competition, in our distribution we have competition, in process we have competition, competition is not new. So, our whole strategy is to keep on winning. To keep winning, you need elements of cost, you need elements of design, and you need elements of speed to the market, and you need others. So, competition is not only in rail, they are everywhere. So, this is going to be like that globally and in India the intent is keep on winning in the marketplace.
- Mukesh Saraf:** Any sense on market share you can give sir say on railways or CVs where we'll stand right now, probably how it was say a couple of years back and how it's now?

- Sanjay Koul:** In railways we are the market leaders on Tapers and others are market leaders for SRB, CRB and when you start producing here. On commercial vehicles, differential & pinion. certainly Timken is market leader on Tapers, on wheel we are not the market leader. But if you want the exact percentage, I don't have it off my mind, I can give you later.
- Mukesh Saraf:** Sir. in terms of the revenues that we've done this quarter of Rs.800-odd crores, should we assume that most of the raw material impact, any of the contracts, all of them that had to be kind of pass-through, renewals, etc., all that have been done now and this is like a stable kind of revenues?
- Sanjay Koul:** So, what I would say is that on passing the cost, India has to become like Europe and America. It would be now a regular affair to pass on any cost so that our margins don't get eroded. The industry is tilting towards that, not only alloy, energy cost etc. plugged into it. So this endeavor will be on. While we have got price pass on because of cost escalation, but this game will be now not a one-time game, it will be a continuous game and the industry also understands it and that is why you see also the end consumer prices also going up. As I said, the order book for next couple of quarter looks pretty healthy and we are pretty much well entrenched on all sides currently.
- Mukesh Saraf:** So basically, there's nothing pending in terms of pass-throughs, they have all come through is what you are saying?
- Sanjay Koul:** Nothing major. So, thank you everybody. As usual, we learn a lot from these questions. So, thanks a lot. Thanks, Mukesh for setting it up for us. Thank you very much!
- Moderator:** On behalf of Avendus Spark, that concludes this conference. Thank you for joining us and you may now disconnect your lines.