

TIMKEN

“Timken India Limited

Conference Call”

November 24, 2022

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MANAGEMENT: **MR. SANJAY KOUL – CHAIRMAN AND MANAGING
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MODERATOR: **MR. MUKESH SARAF – SPARK CAPITAL ADVISORS
INDIA**

November 24, 2022

Moderator: Ladies and gentlemen, good day and welcome to the 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 star then zero on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Mukesh Saraf from Spark Capital Advisors India Private Limited. Thank you, and over to you, sir.

Mukesh Saraf: Thank you, Rutuja. Good evening, Mukesh here from Spark Capital. 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 very brief opening remarks from Mr. Koul and follow it up with Q&A. Sir, over to you for some very brief opening remarks.

Sanjay Koul: Okay. Thanks, Mukesh. Thanks for arranging this. So I think the long-awaited and we've been discussing it over the years, long-awaited news from Timken India Limited is that we have ultimately decided to invest into spherical and cylindrical roller bearings into India, which has, obviously, you know, India is a growing, maturing market. And slowly, it is investing a lot in mining, power gen, pulp, paper, metal, wind, and obviously, there are applications in freight, passenger, etc., which are CRB, SRBs, wind, metal, gear, port cranes. So all these are the markets where we are selling but imported or we are not pushing this product line too much.

And there was obviously, I have been always saying that when the time will be right, we would start investing as we are a careful investor in the manufacturing arena. So we have made the first step by announcing that and almost 600 crores rupee investment for the time being going into manufacturing of CRBs and SRBs up to 400 millimeter range. So with that, we can get into the questions and answer accordingly.

Moderator: The first question is from the line of Ankur Sharma from HDFC Life.

Ankur Sharma: I have three questions. One, on your margins. And when I look at your Q2 numbers, we've seen this sharp fall especially at the gross margin levels in the quarter just gone by. So, if you could just help me understand what's driving that fall? Where do you believe margins stabilize? That's one.

Second, on your exports, obviously, we all know about the global slowdown. We also heard from some vendors who supply into the bearings in the US and in EU markets of a sharp deceleration which is happening and would love to hear your thoughts given we also have the sizable export sales from our Indian entities? So that's number two.

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And number three, sir, on the rail side also, I remember you spoke about large orders, for bearing that is given the fact that we have these large wagon orders, the Vande Bharat Trains, etc. So, if you could touch upon how are we seeing the ordering on the rail side?

Sanjay Koul:

Yes. Thanks, Ankur. So, margin first. So, I think that would answer that might be an answer question from many others as well. So, margins have shrunk almost, I think, roughly INR 35-odd crores quarter-on-quarter. And the largely they are still the steel price increases. So, it's a huge pipeline of steel, which remains in the system for some months, so steel price increase, which means the equal passing it on that equation. So, steel price has been one major impact. Currency has been another. As you know, we import and also sell in India.

And then when we were exporting so there is a mix impact on that export as well. And then also domestic margin, there is a mix impact as well. So, these put together and sometimes we get great mix, sometimes we get a little bit of mix which is not great. So, put together, that was the major impact on the margins.

And then on the export, obviously, this is certainly a concern around the world, and Europe market is, everybody is aware, Europe market is down. It certainly is facing HLA because of the war and then the energy cost and all that stuff is happening. China has its own problem. Today, they reported 30,000 people getting into -- they have been just a positive and all that stuff. But at the same time, the domestic market is pretty much okay, and North American margin too is also stating there might be a chance that it might come down. And all companies have, post this Corona, has worked on their inventory levels.

So, while we speak, our order book on export is - Europe side is not good, but rest our order book is not bad actually as we speak today. Our order book is not bad. But who knows about tomorrow. If there is going to be a recession, which everybody is saying that looking at US that they might have the first six months of the calendar year might not be great and then it will come back. And Europe, unless and until, they cannot sort out the issue or the war is not over. So they are under tremendous pressure. So, there are those tomorrow ifs around the corner of export. But as I speak today, our export order book is pretty decent, I would say.

And then on the rail side, out of our mix, rail if you see last year, total for the whole year, rail was 17% of our total sale value. This quarter, it was roughly 16%. So it was a little bit lower. And that is how it is. And we have a nice order book for rail. So we have won orders and rail is where the supplies would continue. Inventory pressures, and we have to see all that in totality payments in time and all that, but the order book is nice, berries are flowing on that. So on the rail side, I don't think we have a worry for next year.

As you rightly said, export, who knows what will happen tomorrow and America might get into a recession, and Europe is bad. But then the work and any day and Europe might get the supplies of energy and everything would come back quickly there and America if they rebound after six months or do not go into a recession per se has to be seen. But as we speak, our order book on

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export is pretty decent. And we are actually, our Jamshedpur plant is working six days, three shifts. So is our Baruch plant working six days, three shifts as we speak.

Certainly, August, September, there was, certainly, it was down. We closed down the plant, Jamshedpur plant. We closed down for roughly some days there. Eight or ten days due to Puja time and also to correct our own inventory system and things like that. So that is what it is as of now.

Moderator: The next question is from the line of Sandeep Tulsian from JM Financial.

Sandeep Tulsian: First question is pertaining to the new investment that you're making on CRB, SRB, of course, we highlighted a few new growth areas. So one definitely has been addressed out of those. If you could give us some more color in terms of how the asset turns for this business will be traditional businesses to understanding 1.3x, 1.4x will be better, similar in terms of asset turns, how will the margins be because the customer profile will be slightly different? And, also in terms of the domestic and exports, what will be the mix ideally targeted from this plant? If you can just give some more color on that?

Sanjay Koul: Yes. Surely, Sandeep. This is what I explained to the Board. So, I can, again, first of all we primarily in India are making tapered roller bearings, but we are selling all sort of bearings in India, though some of our competitors are certainly making the, our same peer group be making spherical and cylindrical in India. This market, if you see the spherical roller bearing market in India is roughly INR 1,700 crores market and growing at a decent CAGR and cylindrical roller bearing market something like INR 2,000 crores market.

So SRBs are used in mining, power gen, pulp, paper, metals, as I said, wind, so they are being extensively used in applications, especially spherical roller bearing are known to be self-aligning bearing. So wherever the application are harsh. So these run pretty nicely. And we were making them in different parts of the world, America, Europe and China. But now as the Indian market is graduating towards the more like stationary equipment, more infra push is coming in and our mining Act might get that together and that picks up metal as it goes on.

So these spherical roller bearings, we are selling in India in limited quantities. We were importing them and selling them in India. Though the fundamentally spherical roller bearings are same. You forge them, you turn them, you heat-treat them, you grind them, you assemble them, and we obviously have the technology available for doing spherical roller bearings and also cylindrical roller bearings.

So, similarly on cylindrical roller bearings, these are again used in the similar field of metal, wind, gear drives, port cranes. So generally, we were known to be in India known to be pretty much a leadership upstream in tapers. On cylindrical, spherical, we were selling, on critical application, but because of high cost of import and sometimes they're putting out of America selling in India is not easy and things like that. So, this market size both put together is INR 4,000 crores market, and we have almost a running rate supply chain available in India up to

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certain size ranges technology is available with Timken for decades on these bearings and then our knowledge on these applications, obviously, we can put in more new technologies in terms of bearing profiles and bearing designs etc.

So that goes into it. And this is obviously, we have to work in the market. It is a decent gross margin business. And obviously, we will invest on even the, for every INR 1 invested, the sale has to be more than INR 2. So we will, between INR 2 to INR 3. And obviously, initially, you invest and then you capitalize and then you ramp up and then you do the PPAPs with the customers and it all and ramping up PPAP training all takes time. And then once you stabilize then you get the numbers.

And then obviously, when you produce more, then you can, obviously, your cost of manufacturing comes down and then your margins go up. So it's a process. We will start the project. It is already working on the paper and hopefully, by the end of '24, so I'm taking 24 months to start supplying the bearings, built to finish building these days seven, eight months, asset-lead time is going to be obviously, and we will be using state-of-art assets. So these won't be low technology, low grade. These will be the modern automation, industry 4.0 and things like that. So these will be state-of-art assets, and these will be the assets for tomorrow, not today. So robotics all that would be in a less manpower.

And then this would be the start. These are all size range dependent. So, first step or first foray is with that. So I think INR 4,000 crores market, we don't sell much in India. We do sell certainly, but not a huge number. So with our knowledge on supply chain, manufacturing, global knowledge on these assets. So I am pretty much, and knowing the price points of India market, we are still making money by importing. So we understand this market pretty well. Customers are same, for example, if you can say Tata steel that the use of the papers, we do sell them spherical, etc, but not the in huge number. So the same customer steel industry, same wind industry. So we know the industry pretty well. And in fact, a lot of questions from the industry that when can you start making them in India so that we can use based on our performance etcetera.

So this is going to be certainly a growth market for TIL and for every INR 1 invested, our sale has to be more than INR 2, between INR 2 and a little bit more than that as well. But it is going to be a journey where the maturity will take time from the time of producing the first lot of PPAP to the time of making a bulk where my capacity utilization is 85%. So that journey obviously will take some time.

Sandeep Tulsian:

That's very detailed. Thank you so much for explaining this. And I'm assuming a lot of this will also replace your existing that 18%, 20% of distribution business which, or sorry, process industry, which is about 12%, 13% of sales which we were importing and selling will become locally manufactured and will be different...

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Sanjay Koul: There are part numbers where we were not able to maybe compete very well. We don't want to kill our margins by buying the business. We have been always careful about that. So there's a lot of growth also attached to it. And when we say for example, like on a gearbox, we are already supplying a taper, when you start supplying them taper CRB, SRB together. So it becomes a complete value package, so it is going to be obviously complementing our current and taking that to the next level. So for example, we are weak in taper because of the fact that taper does not use, doesn't use paper but not a whole lot of taper. Sugar industry uses a whole lot of SRBs etc.

Railways, all these coaches, you've seen Bombay running, they use SRB 22326, 22328 these are the two part numbers, I can remember from my youth. So, these are the areas where we know the market very well, and I think we are pretty much decent and expert in manufacturing. So this is going to be a nice ride once we start producing in bulk.

Sandeep Tulsian: Great. That the company is doing this investment in the listed entity. Also, Sanjay, as a part of book-keeping, can you help us with the revenue breakup with for either 2Q or first half whichever you would like to share?

Sanjay Koul: April to September, which is 16% was rail, mobile was 20%, distribution was 17%. The process industry was 16% and exports was 32%. That is April to September. And last quarter was again, rail 16%, mobile 20%, distribution 17%, process 16% and export almost same.

Sandeep Tulsian: Sorry, processing, how much?

Sanjay Koul: Process was 16%. Distribution was 17%. So between distribution and process, that is 17% + 16%.

Sandeep Tulsian: Last question from my side is on one of the other growth drivers that you were mentioning during the last interaction is on defense and aerospace, you said the market locally is definitely not big for is to localize those bearings and venture into that side, definitely, you would want to absorb the CRB SRB part. But any thoughts on that you would like to give us maybe in the next two years or five years, when can you see those bearings getting utilized in that market becoming made in India?

Sanjay Koul: So certainly, the defense industry in India is sunrise industry. There are no two thoughts about it, both in terms of defense aviation and civil aviation. Civil aviation is slowly catching up when I say, civil aviation does not necessarily mean building the civil aircraft. The repair and refurbishment of the engines and landing gear has not really started in a big way in India. But now with the amount of passenger traffic, which Indian aviation is doing on the civil aviation, commercial aviation is huge. The numbers are huge.

So they cannot afford to send now engines to Singapore and Colombo and other areas and Malaysia for refurbishment, though Indian, obviously, engineering is pretty sound. So as that takes on which we will take off every it is on the radar of everybody to start doing the landing

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gear refurbishment and engine rebuild or remanufacturing or testing, in India in full ways and not in a small way. So that consumes MRO and obviously, these are high-end bearings where the failure rate has to be zero. So this is coming up.

And on the defense side, whether it is helicopters, light helicopters, and now India has started peddling or trying to sell these to the outside world as well. So this industry is going to come up definitely. This industry will have a nice home in India. And they use spherical, they use extended tapers, they use high-end ball bearing, they use cylindrical, spherical. So all of that, currently, we are certainly importing them wherever there is the sale to be happening.

Just to share with you every landing, every time a Boeing aircraft lands anywhere in the world, it is on Timken bearings. So they are made in the US currently. But as the critical mass grows and Boeing starts doing more stuff in India, so we not only have the technology, we have also the intimate knowledge of the aviation industry and the different industry. So this is after we do SRB, CRBs, the new Sunrise market in India is certainly different. And another one, which is also slowly growing is food and beverage. This food and beverage obviously, as we start becoming more westernized in our food habits, as you start eating more Kurkures and more of the chips and more of the process food and those who eat processed meats and all that.

They use plenty of machines, which we need plenty of bearings and then obviously, the MRO companies like Buhler etc. who are into rice, they produce special machine for rice and other. So that is another big 1.3 billion people and who are slowly going towards eating more and more of processed food and processed food is, again, highly dependent on factories, which produce that food. So defense, food and beverage, all these are sunrise and we are connected and as it becomes more and also another area is export on medical equipment out of India. Mode of CAT scans, those CT scan machines and things like that as they start exporting them out of India would be another industry.

So we are watching them, and we are not shy of investing but we want to make sure that there is a right critical mass, and we guarantee a return of the investment and also the shareholder's value. So we are watching each segment pretty closely. We work with these industries very closely. And definitely, a matter of time, as I was saying, for Timken India Limited, SRB, CRB matter of time, right time and that time has come. It is same for the defense industry. I'm saying defense both from the Army procurement to naval procurement to aviation; navel also is a big consumption of bearings if you start making naval crafts in India more and more.

They require gearboxes, they require a lot of bearings. Aviation, we spoke about it. Similarly, as we start making more tanks in India and more high-end heavy-duty army vehicles, arm or carriages and things like there all quite a lot of good bearings. They cannot use bearings, which will break down while we are at war with somebody. So all this is coming and coming at a faster pace. And if the political stability remains and the focus remains as it is today, so it is not far.

Moderator:

Sorry to interrupt. May I request Mr. Sandeep Tulsian to please rejoin the queue.

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- Moderator:** The next question is from the line of Vimal Gohil from Alchemy Capital Management.
- Vimal Gohil:** **Thank you for the opportunity and** congratulations on announcing much acquired and much awaited capacity expansion. So my first question was a bookkeeping one. Could you help us with the capacity utilization of ABC bearings? And could you just clarify that whether most of it is using or is being used for exports?
- Sanjay Koul:** So the capacity utilization -- so we are making both currently both the Timken ® at our Bharuch plant and the ABC. So capacity utilization, as we speak, is around 70% and we make some small CRBs there under the ABC brand and we make largely the -- so currently, we are out of the whole produce 30%- 35% is taken Timken ® and rest is still producing ABC and as the Indian off-highway recently had a good traction, so they are consuming some of these ABC.
- So around 70-ish is the capacity utilization, while Jamshedpur, barring these last two months, we were almost at 90% utilization, 85%-90%. And now this month we are back in 90%. And Bharuch is 30%-35% given depending on the month, he is making Timken ®. So we are exporting. We have started exporting. Unfortunately, the Europe one would have been quite helpful, but still the North American markets and other areas we are exporting, and we are also selling domestically Timken ® out of that plant and which is now from -- we have converted some of the application to through hardened. And we are still making ABC out of that plant.
- Vimal Gohil:** Sir, any -- would you be able to share the -- what is our revenue contribution coming from the ABC plants? .
- Sanjay Koul:** Let me check with the CFO. Yes,so we are not giving the breakup.
- Vimal Gohil:** sir. No problem. Sir, my second question was on your -- roughly on your broader strategy. Just going through the transcripts by the parent entity in the US. They have been talking about adding incremental capacity addition in low-cost geographies and also focusing on acquisitions, how much of that strategy, which you have spoken about will seep into the Indian entity? If you can just highlight some points there?
- Sanjay Koul** So obviously, Timken Company globally is doing the merger and M&As continuously. And recently, they took over another bearing company called GGB, which is glacier bearings, the old glacier bearing. So they are continuously augmenting that and those technologies are also available for us to -- at some point of time, to be used. Obviously, we globally are growing around the bearing, so in the powertrain.
- So it is belts, it is chains, it is pulleys, it is plain bearings. GGB does plain bearing. Plain bearing are used now in the wind industry quite nicely, and they go into some of the applications in mining as well. So while that strategy is down in India also, we are always on the lookout of good M&A, but unfortunately, the Indian M&As are always very tricky and costly. So that M&A

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of the Timken Global strategy hopefully helps Timken India Limited also to grow as we can at some point of time see if there is a synergy to connect the dots on belts, pulleys, chains etc. etc.

So that is on one side and their capacity augmentation in other areas, which they have done, certainly, Mexico is one which they want to do for their own local market there. But those strategies are in place and our strategy, they're complementing each other. They are in synchronization. And ADI is the best cost. I don't know to use the low cost. We are the best cost, cost call delivery given the dynamics of China and China plus 1 and how India is panning out.

I think India will remain a strong player for many, many years. Based on as our logistics also improve, the logistics cost in India is high, 12%, 14% and the government wants to bring it to at least 8%. And that is a great, great move. Just imagine that if four, five percent gets added to the bottom line, government of India gets the act together, which we see happening. So, Indian cost or Indian skill or Indian mechanical engineering has a lot to offer. And I'm not saying only about Timken in general for all the industry.

So India is destined to become the workshop of the world. It is the decade of India. And any company who are doing their expansion, they will always expand in India as well. And obviously, they all strategize, they look at it deeply. And India is the shining star. This decade belongs to India. So if there are capacity expansions in other low-cost, best-cost countries, it will not hurt India. will make the corporation more stronger whichever company it is.

Vimal Gohil:

Sir, just one clarification. Would it be fair to expect our margins to revert back to that historical you operated at 25- plus percent levels? So would it be fair to say that you will probably go back to those levels going forward? But assuming that raw materials and cost like freight come down incrementally going forward in each...

Sanjay Koul

I cannot speak about the future, anything future margin, which can impact the stock exchange and all that, we do not speak about it. But in general, you know the steel industry, how it is happening, the logistic problems, which we are there, how they are sorting out. And our endeavor obviously always is to grow profitably and deliver the profitable numbers. But to make peanut butter spread guess for future margins not -- we cannot speak about that.

But the endeavor certainly is, and you know the industry better than me, how is steel happening. And now the steel all of a sudden, they are going to export. Now what is the impact of that going to be on the steel pricing, coming months will tell, but our endeavor obviously, is always to make sure that we use the best cost of supply chain and make our mix more healthy. And the idea is that the margins keep on remaining intact. But currently, it is pretty, this steel impact has to be seen how that pans out in coming weeks and months.

Fortunately, maybe Europe is down, so which is bad because a lot of Indian companies export to Europe. The good thing is that Europe is down and the steel cannot be consumed. So the steel pricing might not get impacted. So let us see what happens in the next two, three weeks' time.

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...recently were together. Let us see what they talked about. They were together recently in some major international forum. So let us see how it behaves.

Moderator: The next question is from the line of Neelesh Dhamnaskar from Invesco Mutual Fund.

Neelesh Dhamnaskar: I have two questions. So first is just some clarification. You mentioned the plant-wise capacity utilization at a broader level, what's the capacity utilization of all your plants combined? If you could give some...

Sanjay Koul: August, September, our utilization definitely was down. And as we speak, both the plants are running six days, three shifts. So currently, we are running pretty all six days, all three shifts. So which means that the capacity utilization should be around 85%, we kind of plan like that. And then December is always a month where some days has to be taken off for inventory purposes -- year-end inventory. So that has an impact on utilization generally 2, 2.5 days that does -- and the last quarter of the year looks pretty healthy. So it should be running pretty at capacity -- full capacity utilization, both in domestic for us, domestic and export together should be running pretty okay.

Neelesh Dhamnaskar: So then would you -- so from a '24 perspective, would you have capacity to take care of the growth which will come in FY '24 in the various revenue streams which you generally have?

Sanjay Koul: So pretty good question, and important question that as we start in April next year running towards that fiscal year, and we are expecting it to be the last year of the current government investments should get a little bit more push and hopefully, the heavy truck market behaves nicely and all that stuff. So we -- as we speak, we are looking at -- we have assets available globally, which are not running. We can always utilize them, bring them here.

We have space available. So we are looking at these closely, and we do have some plans to see if the demand sustains to do a little bit of more capacity extension, not a huge lot, but a little bit, but still too early to predict about it. We'll see how the demand looks but we can use the assets. And then obviously, we can always import from our other plants and sell in India.

Neelesh Dhamnaskar: Right. And for this shifting, the lead time can be how low to these assets, which you're talking about if at all.]

Sanjay Koul: We can always make the sale depending on how far the market picks up from our -- we can start -- we buy from our other plants of Timken globally. So they have capacity available. As you know, there are plants where we have the capacity globally available. So we can use that capacity and start selling and then see how much incremental push we need to do. We have been last 2-3 years continuously investing in our roller expansion and things like that. And our suppliers also -- they have been continuously ramping up and we are making sure that the back end is also available. So if the market jumps out 10%, 15%, 20%, I don't see a problem not being able to supply it.

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Neelesh Dhamnaskar: Yes, this was helpful. And the second question was again, on this -- these large capex, which you have announced. So you said, I think in the opening remarks, you mentioned that this INR 600 crores to start off -- to start with. So is it that there are -- you guys are thinking about some new capex, which is in the pipeline? And in -- and any time line to it? I mean, can you throw some light on this?

Sanjay Koul: So we went to the Board with our INR 600 crore expansion plan on SRB, CRB and the SRB CRB market and bearing market is size-dependent. So first, we will do that. And if there is a business case tomorrow, to do further size ranges, then we'll go to the Board and look at that. And we are always looking at that. We're always -- that is our -- part of our job to look at the markets and see that.

And like when we started our Jamshedpur plant, we started with 3 lines. And then every year the expansion a little bit here and there, it's a huge complex now. And similarly, we took over Bharuch and we started putting in new furnaces, etc . So once you start on a product line, it does not stop with that in general, but will it be another double, triple time will say, first we need to complete it and start making money on it by '24 ends.

Neelesh Dhamnaskar: So it may get upsized marginally as time progresses. Fair enough. And last question is you -- I think you gave some sense on the size of opportunity for the SRB and CRB in India. But -- so can you give us what the ideal market for you would be to start off with from an export perspective? So the plans for the new plant I am talking about. So, will that exports will simultaneously start or that will come later?

Sanjay Koul: So on size range, so if I take a step back, while Timken invented the tapered roller bearing, Timken started supplying spherical and cylindrical only after taking over; The Timken company taking over a company like a company called Torrington. I don't remember the year, but we are into the... Torrington is a very old company making SRB CRBs, and they were market leaders, actually out of America.

And our market share, globally for the Timken company and for us here in India, SRB CRB is small and globally also it is small. And knowing this market outside - market in ASIAN, market in Australia, market in META, where there are these steel industries, where there is lot of port and crane and things like that, a lot of grades available. So export and domestic would go hand-in-hand. So as soon as we start making, we'll start making it for both domestic and export together.

Now actually we'll see as for the demand and how do we -- Timken established player in other parts of the world, so we don't need to establish ourselves, but we'll see how the demand trends. But to your question, direct answers that we'll do both exports and domestic together. So there's nothing like domestic first and export later.

Moderator: The next question is from the line of Priya Ranjan from HDFC Asset Management.

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Priya Ranjan

Just 2 questions. One is on -- so when we look at your localization and your taper is very, very, pretty high. So when we start the CRB and SRB, so are we thinking a similar line of localization and to begin with how it will gradually happen over a period of time when we ramp up and then will do more localization? So what is the way forward in that?

Sanjay Koul:

Very good! So, you're speaking like our global CEO. So obviously, supply chain is critical, always for A, speed to the market, and B, for cost and obviously related things, which is margins and things like that. So supply chain is our forte. Timken started manufacturing in India in 1990 and our other peer group were manufacturing long before that. But still the supply chain were not that robust and Timken, I should say that should take the credit of creating a global cage manufacturing in India.

It was started by Timken or both the listed companies, whether it is cage or rings, Timken has started them, nurture them, and obviously, we are serving the market completely. So, our focus would be obviously localization from the word go. And we have a big team already working on it with our supplier base, existing and new. And the idea is to create best cost the supply chain back end. So the back end is not only for tapers actually. So it is rings, so steel forging rings, turning, heat treat, area is same, shape is different. So, to answer your question, yes, our success will lie in also creating a very nice domestic vibrant supply chain.

Priya Ranjan:

And so just to summarize what you have said initially in terms of the production will start probably by the end of 2024. So any revenue benefit, etc, should start reflecting in FY '26, which will be...

Sanjay Koul:

December 24 is the time which I am looking at that our product will start coming out. You are right. So that FY you start looking at the revenues.

Priya Ranjan:

And sir, now we have addressed this -- the other bearing part. So the two, three aspects which are yet to be addressed is basically one is like lubrication and all these businesses plus the chain, etc. So do you see the market is ripe or I mean the market in India has become such a scale that we also need to start investing or thinking of investing in that -- those domains at list?

Sanjay Koul:

So lubrication, yes, it is a market which is quite nicely maturing in India and is also a high-margin business. And this can also, if you create a base in India, can become also a very good export model. Same thing goes for coupling, which is used by the industries similar to where we use bearing the most probably they will use it. They will use a similar coupling as well. So this market obviously is augmenting each other and coupling, lubrication these are pretty, industrial belt also in India, there is high-end industrial belt manufacturing is still not that much in India, though we got nice Indian companies doing a good job.

So all this is on our table for thinking, strategizing, looking at it and obviously, time will tell when the Timken India will foray into that. But our principals are certainly manufacturing it. We are also sourcing a little bit in small buckets from India and other places. Time will say. But

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definitely, these M&As of the corporation should get connected to best cost countries at some point of time. But currently, we have no immediate plans to invest.

Priya Ranjan: And sir, just coming back to your defense because you have highlighted that this is a sunrise industry. So in terms of the LCA, I mean, the advanced light helicopter and all this, so are we already supplying or are we already supplying through imports, etc? Or what is our status out there?

Sanjay Koul: So LCA Timken is the major supplier actually. And also not only bearings, the rotor application up there. So Timken is the major supplier. We've been supplying that for some years. And also on some other applications as well, which HAL is doing similarly to ISRO as well. So we are already present on that.

Sanjay Koul: Timken has been doing globally, Apache helicopter since it has been designed or Bell Helicopter. So Timken has a very strong history of Navy through Philadelphia Gear and also aviation through Timken aerospace. So a lot of knowledge in that area.

Moderator: The next question is from the line of Pranav from Invesco Mutual Fund.

Pranav: As regards dealing with Timken entities or group entities, both on purchase and sales, do you have any policy as regards how raw material pass-through happens or how the currency pass-through happens? Is it invoice specific? Or it's every quarterly, there is a reset. Could you help understand that?

Avishrant Keshava: You were talking about transfer pricing?

Pranav: Yes. So as regards both the pass-through of the currency as well as the raw material?

Avishrant Keshava : I'm not getting you like -- a pass-through of currency. The currency is...

Pranav: So suppose technically, if say, today, the rupee and USD say 82, you get a contract from a US entity. I mean is 82 fixed? Are the contracts for specific bearing on exports is 82 fixed for a full year or every quarter you will get that currency and then how does it happen? Similar with RM, is RM up to arrange pass-through, not pass through both when you purchase as well as sell that?

Avishrant Keshava: I got your point, especially for the intercompany you were talking about?

Pranav: Yes, intercompany, especially when you're dealing with the group entities.

Avishrant Keshava: So, when we are dealing with the group entities, so whatever is the cost is an uplift factor. So that uplift factor changes every quarter. And when we deal intercompany, every transaction, everything in the USD, nothing is in INR.

Pranav: Okay. So within a quarter, the currency variation is more than the uplift factor, then it is a pass-through. Is it?

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- Avishrant Keshava:** So today, if this currency is say INR 50 and we have got selling something that with that uplift factor at INR 100 . So it will go at \$2. Tomorrow, this will change. Suppose INR 100 becomes \$3, then it will become...
- Sanjay Koul:** So the short answer is that it is passed on. So it is an arm's length transfer pricing passed on everything.
- Pranav:** And this happens quarterly?
- Avishrant Keshava:** Yes
- Sanjay Koul:** That is right.
- Pranav:** Okay. The other aspect is when you get into SRB and CRBs, do you have to pay any additional technicality or royalty to the parent entity?
- Avishrant Keshava :** If we get the technology then we will pay.
- Sanjay Koul:** Yes, if we have to get the technology from them obviously it won't come free. So there would be some fee, but there won't be any major changes to the current norm. So it will be in the same....
- Pranav:** Range as such.
- Avishrant Keshava:** Yes.
- Pranav:** And you mentioned one of your facilities were shut during this quarter. So for 7 to 10 days, if I understood you correctly.
- Sanjay Koul:** I don't remember. Some days we had closed. I think during the puja time we were closed. I don't know in the four or five days we get close because of Puja and also to kind of do the denting, painting and all that stuff.
- Pranav:** Okay. So there is no one-off in the current quarter to regard to towards expenditure or anything? Just wanted to confirm that?
- Sanjay Koul:** No, one-offs.
- Moderator:** The next question is from the line of Soniya from Dalal & Broacha.
- Soniya:** My first question is on the capex. We have announced INR 600 crores capex. So how much of that will be there in the current quarter? And how much will be doing it in FY '24? And second question is on the revenue growth. Now like after seeing degrowth in FY '20 and '21, company has delivered strong revenue growth in FY '22 and it has continued in the first half also. So talking of the overall demand scenario, you expect this momentum to continue going ahead?

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Sanjay Koul: Yes, so you know, I might have lost some of your questions, but you know, investment FY '23 INR 300 crores, FY '24 INR 300 crores, so that is how the current, so that is how it is planned out. And you know, the market in India is pretty much okay, as we see. Our order book is pretty much okay. So we will be continuously producing and selling. As I spoke earlier also, we are currently running all our, both the factories at six days, three shifts. So that is pretty much okay. Order book looks okay.

Unless there is a major obstacle, the Indian domestic market looks okay. Export to Europe, if the war all of a sudden closes down, it started suddenly, it might close down suddenly. And then again, the Europe obviously will need bearings and that particular country which is destroyed will need plenty of bearings.

So we'll see that but barring that the growth Indian GDP has to, will be above five, may not touch seven but five, five and a half, six is going to happen and we always make sure that we outgrow the market and that has been our strategy our CAGR of last five years can tell you the story. So we would make sure that we carry that momentum both in terms of the top line and the bottom line that is the endeavor and what was your ma'am, the third question?

Soniya: And the third question I'm about to ask. It's mainly on the operating margins of SRB and CRB and basically, since earlier, we used to import that and sell and now we'll be manufacturing it. So will there be a substantial increase in margins once the commercialization starts?

Sanjay Koul: So there will be certainly a substantial reduction of cost. So cost will certainly come down. The Indian cost of manufacturing is lower. Logistics costs would not be used. We'll use the local steel. We are already in the process of developing suppliers. And there are already some which are already developed. So the cost would come down significantly. And hopefully, the market and the market remains at those price points, and obviously, the margins are going to be better. But in case the price points of the market fall down, then we will have to see.

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

Mukesh Saraf: Yes, I just had a couple of questions. Firstly, with regards to the INR 600 crore capex, if you could give a sense of what the discussion between say India and countries for Timken as a group. And then Timken India kind of was chosen or was it like given that India will be doing this capex, because as you mentioned, globally also Timken is not very strong in SRB and CRB, so would India -- has India always been the choice there?

Sanjay Koul: Just to make sure that we have the clarity, I said that our penetration globally on SRB, CRB is not the number one position. So there is space for Timken to grow globally in that space. As in SRB and CRB, through Torrington we are very old, but in the new form it is only three decades or so. So there is room for us to grow in that market and every year it is a growing line of business for Timken globally. And in India, forget Timken, I think India globally is becoming obviously a destination of choice.

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And the reason certainly is that the China plus one will pan out slowly. It has to pan out, so that is very much there. Indian GDP is growing, you know, we are 3.6 trillion market. By 2030 you will be 5 trillion market, out of that 5 trillion market currently we are 15% in manufacturing tomorrow if that becomes 25% you can understand that you know how strong we would be you know, then you're Make in India is happening, Clean India is happening. Clean India - by the way - also uses bearing, skill India to you know fund our growth of manufacturing in India saying not per Timken only.

So all this is going to be pretty much, you know steel policy, mineral policy, all this is happening. India is becoming a better industry destination. As I earlier said, food production is, we are pretty strong in food production globally. As you know, all the global retail market in India, we are a strong player. So as the national master plan, rail master plan, vehicle scrap policy, energy policy, just to tell you the number India per capita I think we do 3,000 watt consumption per head in India and US is 10 times more.

So I think that this 5 trillion economy and manufacturing there means a boost for all companies, which has the depth and has the intent and has the governance to do it will certainly ride the wave. So I'm seeing this is a per se manufacturing in India is going to remain strong and people will grow. Indian economy is growing, so nobody can say it is not growing. 2014 we had 2 trillion, we have now 3.6 trillion. And then 5 trillion will happen if the stability certainly remains there.

Defense is growing, naval is growing, food production is growing. All these are the parameters which are very evident. You can see it happening. If you take a picture of landing in a Tier 2 city. So for example Mukesh you go to Indore, if you have taken a picture of Indore from the airport 10 years back, you see the skyline, Google it and see the skyline today, this is Tier 2 city. And you can see the massive change. So this change is reflecting what is happening in India. And for us making SRBs and CRBs in India has been on the annual for a long time in the sense, strategy wise because this is one area where our knowledge will help and then Indian cost quality delivery will further help.

And then being part of a global group, this utilizing it for further growth is very much there. Timken Company is strong globally. After Timken Company did away with steel, they were 2.56 billion, they are back to \$4 billion company growing at a nice growth. Very profitable company as you guys know more than me. In the peer group, they are also very profitable. Our footprints in Timken Company globally is pretty strong. And India, we have still a way to go. Indian economy is growing. Indian consumption is growing. And there is chance to invest more and more.

And India is generally speaking, and then I'll come to Timken. Any company, I am the chairman for the Karnataka American Chamber and also the Vice Chairman for the American Chamber in India. So I sit on many committees and every company, be it Boeing, Lockheed Martin, all these companies, and we hear them, they respect India a lot.

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Obviously, our political stability has to remain firm, logistics have to become better, ease of doing business is becoming better, it has to become a lot, lot more better in coming years. So all that put together, long story short is that nobody can deny India its space and for Timken also India is important. We do lot of manufacturing in India. We have lot of engineering, which is not part of TIL, but our other TERI entity, they have lot of engineering is done, global engineering is done out of India.

So India is valued and that helps and we have built the trust over the years and delivered it both for our retail shareholders, for the market, for FIs, and for the, they are also our largest stakeholders. So all put together India has a very nice place within the Timken Group, which will help augment further growth in coming years.

Mukesh Saraf: And just a couple of very quick ones. There was some commentary from one of your peers that the wind end market is kind of slowing down. Obviously, indirect exports as well over there. So what's your view there? Are you seeing temporary slowdown there on the range?

Sanjay Koul: China wind market is booming. Certainly, there are some -- obviously, Europe has a challenge and there are some -- within those Flenders, ZFs and all those guys who make the gearboxes, they are moving their production between the countries. So that is happening. Wind, if you say the Indian wind market, it was obviously always slow. It is growing slightly but making gearboxes out of India and exporting it around the globe, if that was the commentary and it is always gearboxes that size range etc.

So I would say the previous size range are shrinking. So if that commentary was made in the context of a particular size range, 2 megawatt, yes. Answer is they are slowing. But then the new platforms of four megawatt, five megawatt, six megawatt, for which everybody is not producing bearings in India will be imported, is picking up.

So wind is a complicated market. It is not an easy market which goes slow and steady like the Indian railway. It can go up, zoom up, drop like a rock, so it is a little bit of a volatile market. But I was seeing China was pretty much, you know, China windmill market is not slowing down, actually. and they are consuming gearboxes from other parts of the world as well. And now you have Nanjing High Speed making gearboxes in Chennai, so there is a Chinese company making gearboxes in India for other consumption.

Mukesh Saraf: Great, and you kind of commented on railways, so Indian railways is looking to procure 90,000 wagons like you mentioned last time as well. So will our market share kind of remain the same at this higher quantity, very broadly say over the next three years?

Sanjay Koul: So the railway 90,000 that those orders are out and those orders are running, and we are producing and we have secured bulk of these orders. So yes, we should be okay. But then wagon industry still should have the money, they should be continuously be able to get the money from the end user, all that chain has to remain flawless. Currently, it is okay. Tomorrow, we cannot predict. But as we speak it is pretty much okay.

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- Mukesh Saraf:** I think we have kind of out of time.
- Sanjay Koul:** Yes, the time is over. I think great questions. We always learn and we get the insight from experts..You talked about the variety of -- so you have the right questions, which help us also. And thank you very much for this call.
- Mukesh Saraf:** Thank you, sir. Thank you for your time and patiently answering the questions.
- Sanjay Koul:** Thanks a lot. Bye-bye. Good night.
- Mukesh Saraf:** Thank you. Bye-bye.
- 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.