



“Timken India Limited
Q3 FY '26 Post Results Earnings Call”
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MODERATOR: **MR. ANNAMALAI JAYARAJ – BATLIVALA & KARANI
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Moderator: Ladies and gentlemen, good day, and welcome to Timken India Limited Q3 FY '26 Post Results Earnings Call. 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 touch-tone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Annamalai Jayaraj. Thank you, and over to you.

Annamalai Jayaraj: Thanks, Hina. Welcome all of the participants to Timken India Limited 3Q FY '26 Post Results Conference Call. From Timken India management, we have with us today, Mr. Sanjay Koul, Chairman and Managing Director; and Mr. Sujit Kumar Pattanaik, Business Controller India, CFO and Whole-Time Director.

I'll now hand over the call to the management for opening remarks to be followed by question-and-answer session. Over to you, sir.

Sanjay Koul: Thank you, Mr. Annamalai. As stated, I'm in a car. My schedule of flight was changed, so I'm asking my CFO to carry on and do the opening remarks. A lot of data is in the opening remarks. Go ahead, Sujit, please?

Sujit Pattanaik: Yes. Thank you, sir. Once again, good evening, and thank you for joining us today. We appreciate your continued interest and support in Timken India. During the period -- before I go to the numbers, during the period, we continue to focus on executing our strategic priorities, including the capacity expansion and strengthening our operational capabilities to support the long-term growth. I will briefly walk you through about the quarter and 9 months performance, after which, we will open up the floor for the questions.

So quickly on the quarter 3 of the financial year '25-'26, the revenue from the operations was INR764 crores, INR7,644 million, which is a 13.8% increase over the same period last year. While sequentially, we were down very close to a percentage primarily driven by the seasonality of the rail business.

The profit before tax, there's a lot of onetime transitional impact that came in during the quarter. So the profit before tax during the quarter was INR719 million, it was lower year-over-year and sequentially as well on account of Q1 transitional impacts. One was the Labor Code related impact, which came in during the quarter.

The second is the other income reduced during the quarter because of reduction in the investable surplus. The third is the new plant, Bharuch ramp-up cost. If I take out these exceptional items, this onetime transitional impact, we would have ended the profit before tax very close to 13%, which is primarily because of unfavorable mix versus last year's same quarter.

So now moving on to the 9 months ended quarter 3 of financial year 2026. So the revenue stood at INR2,346 crores, reflecting almost close to 6% year-over-year growth. And across all the

individual segments, we grew our revenues. Profit before tax stands at 13.8% versus last year of 15.9%. Again, the similar impact for this YTD, primarily driven by the Labor Code impact, the transitional impact on account of the ramp-up cost and of course, the lower other income. So without that, the profit would have been flattish to 30 basis points lower compared to the same period of last year.

So now as we know, the recent global trade developments, particularly the ongoing trade engagements between India and the United States and the European Union are expected to create favorable opportunities for the Indian manufacturing, in general. So progress towards deeper trade partnerships, supplies and diversification and global OEMs and increasing localization requirements are supporting India's position as a preferred manufacturing destination.

So these developments, which have come in over the last couple of weeks, are expected to strengthen the export opportunities for engineering and industrial product companies, which includes the bearing and the related components as well over the medium to long term.

So as the new capacities and stabilization and utilization improves for our new manufacturing plant, ramp-up costs are expected to moderate, so which is going to support the gradual margin normalization. So we remain focused on disciplined capital allocations, operational productivity and capturing growth opportunities across various end user segments.

Now I will move to the front-end wise -- segment-wise sales, after which we will open up the floor for the questions. So during the quarter, the rail front-end, we did INR128.6 crores. Mobile, others is INR157.1 crores. The distribution business, we did INR138 crores. Process, INR167 crores. Export intercompany, we did close to INR159 crores and the small amount that came in, in the export incentives of INR4.4 crores. Total revenue is INR764.4 crores, 13.8% favorable compared to last year's same period, 1% down sequentially compared to the last quarter of this financial year.

So that's a quick summary of the opening remarks from our side. So with that, we'll open up for questions.

Moderator: Thank you very much. We will now begin the question-and-answer session. The first question comes from the line of Nikhil Rao, an Individual Investor.

Nikhil Rao: Could you help us understand how demand from the commercial vehicle segment is shaping up, both OEM and aftermarket. Roughly, how much of CV offtake is driven by replacement demand versus the OEM production?

Sanjay Koul: So Sujit, you can compare the quarter-to-quarter numbers of mobile.

Sujit Pattanaik: Yes. So as we talked about, so the commercial vehicles, primarily which includes both on-highway and off-highway, put together, we did for the quarter is INR157 crores, which is almost 9% quarter-over-quarter and almost 20% year-over-year. So as we have discussed in the last quarter. So we see a little acceleration in the commercial vehicle segments. And that's something which is reflecting in our revenue as well.

From distribution standpoint, if you look at it, which, of course, we report the numbers, both auto distribution as well as the industrial distribution piece of it. So we did INR138 crores for the quarter, which is again very flattish compared to the sequential quarter of last quarter, 1.5% up. But year-over-year, we have grown by 8.5%. So in both the segments you talked about, we have seen a steady growth and we expect probably the momentum to continue, given that it is the last quarter of the financial year, and most of the OEs are going to kind of build up the stock and do the record sales.

Nikhil Rao: Okay. Okay. And is this purely volume increase? Or are you also seeing an increase in kit value or content per vehicle contribution with this?

Sujit Pattanaik: I would say, it would be more of the volume increase at this stage, not in terms of the content values from a bearing industry perspective, I would say it's more of a volume increase.

Sanjay Koul: Also, adding to what Sujit said, as we speak, as we all know, commercial vehicles are picking up. And whether it is now a long-term demand, or it is just the last financial year, the last quarter of the financial year, but the CV market is currently, for sure drawing, pulling more bearings. So volumes are -- we see steady growth in volumes.

Moderator: The next question comes from the line of Mukesh Saraf from Avendus Spark.

Mukesh Saraf: My first question is regarding the Bharuch facility. So could you kind of give an update on the SRB line commissioning and also our targets in terms of revenues from this plant, say, this year and probably next year based on the utilization rates you want to hit?

Sujit Pattanaik: Yes. So as far as the Bharuch facility is concerned, all our lines are capitalized, as we speak. So that is why we would have taken all the depreciation impact in this quarter. So both the SRB lines, both the small and large as well as the CRB lines are capitalized. So as the Chairman explained in the previous meetings, of course, in a manufacturing of bearings, it goes through multiple steps before we do the commercial sales. So starting with the customer PPAPs, the approval from the customers, so on and so forth.

So we are currently in the process of ramping up for doing the PPAPs, doing the pulling up of the PPAPs as quickly as possible. So now as we speak for the quarter, we had a moderated sales figure of very close to INR12 crores to INR15 crores, but as we are ramping up significantly, and we are pulling up parts as much as possible. So we would expect, in the near future, we are going to ramp it up quickly. And with the recent developments of the trade deals, which got signed off between Europe and U.S., So we expect some kind of favorability in terms of loading of the plant. But again, we need to wait and watch for the fine prints of those print out. So we are yet to look at it the overall impact. But again, that may accelerate a little bit in terms of the loading of the plants. But again, it comes back to the executions, how quickly we are pulling up parts. The entire team is working to kind of ramping it up as fast as possible in terms of PPAPs and pulling of the parts.

Mukesh Saraf: Right, right. So I mean, we have a target of, say, exiting the year at 45% utilization. I mean, in conjunction to that, I mean, where will we stand?

- Sujit Pattanaik:** It's difficult to tell the exact percentage in terms of capacity utilization, if you look at it at a high level, I would say we are not definitely 45%, I would say at some 30% level. But our expectation is to ramp it up as quickly as possible during the first quarter -- sorry, the last quarter of this financial year and this first quarter of the next financial year. So that at least we had in a sizable percentage more than -- a little more than 50% utilization by then.
- Mukesh Saraf:** Sure, sure. Understood. And you did allude to the fact that even the European trade deal now kind of opens up new opportunities. I think when you initially announced the investment into this plant, I think you had said that the opportunity size for SRB was say, around INR17 billion, and for CRB is INR20 billion based on the current import, etcetera. Any update, any change to that number? Do you see a higher opportunity now for localized SRB, CRB, obviously, import substitution plus exports, anything that you could share there?
- Sujit Pattanaik:** Again, as I said, that the -- though the trade deals have been announced with both European Union and the U.S., but I think the fine prints are getting evaluated. So we are in a continuous evaluation. So as we speak, we do not have a ready made numbers to talk about. But to answer your question, I think the Chairman also explained in the last meeting as well, our whole objective is to find out the overall capacities, expansion as much quickly as possible to utilize for the plant. And definitely, the trade activities, which have happened over the last 2 weeks, that's going to accelerate that process.
- Mukesh Saraf:** Got it. Got it. And just lastly, the GGB, the plane bearings line that we are kind of setting up. Could you give some more color on that in terms of the immediate opportunity because I understand that I think it's entirely imports right now into the country? So now that you're setting up a line here, when would that be ready in terms of commercial manufacturing and what kind of opportunity could that give us?
- Sujit Pattanaik:** Yes. So if you are referring to the FRC line, which we talked about in the last call. So that project is at timeline, so the original plan was to install all the equipment by quarter 1 -- end of quarter 1 and beginning of quarter 2 of this financial year -- next financial year, '26-'27. And we are on track. And that's an investment of, for FRC line, very close to INR35 crores. So we are on track in terms of that investment, in terms of that project. And I'm sure once that is executed, we will give the appropriate payback, which was considered in the assumptions.
- Moderator:** The next question comes from the line of Shubham Bhatra from Ambit AMC.
- Shubham Bhatra:** Firstly, wanted to understand largely, our top line was strong this quarter. However, we saw a 400 bps margin compression Q-o-Q. So what was the reason for the same?
- Sujit Pattanaik:** Yes. So again, as I explained, broadly, that's driven by 3 major items. One is the onetime Labor Code impact. As all of you know, the Labor Codes came into effective of November 21, which has got an impact the way your actual values in terms of the gratuity, in terms of...
- Shubham Bhatra:** Sir, I'm talking about the gross margin, the gross margin impact.
- Sujit Pattanaik:** Yes. So gross margin is primarily, if you're excluding the Labor Code, you are taking only the material margin piece of it. So that's primarily because of the unfavorable mix and the

incremental cost that we got on our Bharuch plant. So these are primarily two drivers. As, I was just referring to, so since December is a typical quarter where our product mix are unfavorable, as you know, the sales number I have given, the rail sales were lower compared to the earlier quarters. So as the other profitable segments, I would say. So the unfavorable mix played a role in terms of that margin.

Shubham Bhatra: Got it. Sir, secondly, we indicated a INR120 crores capex coming up in Jamshedpur, I wanted to understand what kind of asset turns are we looking at in that plant and when do we see that ramping up?

Sujit Pattanaik: Again, we do not refer to asset turns. But if you look at it, the asset turn, what we have given to our existing portfolios in the past, we follow the similar kind of asset turns. So as the Chairman explained in the previous meeting as well. So rail business cannot be like hockey stick. It's a slow and steady business, but it will give you a clear capacity utilization as far as that capacity is concerned. So in terms of the asset turn, so if you look at the overall company, the asset turn, that is given, it's going to give for the new investment as well in a similar way.

Shubham Bhatra: And how do we expect...

Sujit Pattanaik: Yes. So that project, we are expecting to go live towards the end of this calendar year, which will be Q3 of financial year '26-'27.

Shubham Bhatra: Okay. Got it. So we can aim at around 30% utilization by end run rate of FY '27?

Sujit Pattanaik: Yes, that's a fair assumption, I would say, at this stage. As I talked about, so this recent trade deal announcements are going to have some acceleration in a few of these projects. So yes, so that's a fair assumption, I would say, at this stage. But again, we need to wait and watch what's the fine print about those trade deals.

Shubham Bhatra: Got it, sir. If I can squeeze in one last question. Can you also share the revenue breakup for the last quarter?

Sujit Pattanaik: Yes. So I'll just repeat what I explained, the rail was INR128.6 crores. Mobile, others was INR167.1 crores.

Shubham Bhatra: Sir, last quarter, Q2.

Sujit Pattanaik: You mean Q2, okay. So rail was INR178.2 crores. Mobile, others was INR153.2 crores. The distribution business was INR135.9 crores. Process was INR141.5 crores. Export was INR161.2 crores, and we had a small export incentive, which was INR3.2 crores, total INR773 crores.

Moderator: The next question comes from the line of Rakesh from Axis AMC.

Rakesh: So I have 2 questions pertaining to margins. Firstly, if you can quantify what was the absolute impact of Bharuch plant versus the INR12 crores to INR13 crores revenue impact which we had.

And second one is a little, if you can give some color as to how we see the margin from the perspective of, let's say, auto versus non-auto? And on top of that, the Bharuch plant ramp-up

taking its own time. So where should we -- I can understand the Labor Code impact, if we exclude that. And if you see how should the mix play out for us in terms of margin and whether we can look at 17%, 18% margin. Is it some time away from now or it can come back very quickly?

Sujit Pattanaik:

Yes. So I think there are multiple questions. So let me give an attempt one-by-one. So the first - am I audible? There are a lot of background noise I'm hearing. Yes. So the first one is in terms of the Bharuch. So as I said, the roughly sales was very close to INR15 crores for the quarter, but we had the depreciation full impact because we have capitalized all the lines. And as we know, INR750 crores of investment, the depreciation will be anywhere between INR9 crores to INR10 crores a quarter, approximately.

So that has impacted in terms of the basis point very close to 170 basis point impact because of the ramp-up cost for the quarter. Then on top of that, we had the Labor Code impact, which was very close to 60-odd basis points. Then if you're taking other income as part of your PBT calculation, so that has got another impact of 120 basis points, given that we did a significant capital allocation in terms of the dividend payment and the GGB acquisitions in the last 2 quarters. So these 3 put together, if you look at it, that's primarily the transitional impact for this quarter in our PBT.

Now if I exclude these 3 aspects of it. So we had a little bit of unfavorable mix, which has impacted the gross margin per se. But again, to a great extent, that got offset with the improved operating leverage. So the net impact of the gross margin because of the unfavorable mix and the improved leverage is very close to 1.5%. So that's the broad answer to your margin questions.

Now coming to the Bharuch's auto versus non-auto margin, of course, we don't provide auto vs non auto we have just one segment overall. But again, we don't give the segment-wise margin per se or the front-end wise margin. But generally, as you know, probably from the OE side of it. So you'll always see the margin portfolios are different from an auto and non-auto. So the same thing, you can take it from here. We don't give any specific margin percentage for auto and non-autos.

Now coming to your margin expansion. So are we in the range of 17%, 18% or that's going to probably take a little bit more time. So as we said, so everything is dependent on how quickly we are ramping up the Bharuch plant. And historically, we have seen, given the fixed cost categories for the manufacturing plants here in India, so the moment we start ramping it up, so our leverage that comes to the bottom line is significantly higher compared to many other industries.

So that is what our expectation is. So our expectations and the work what we are currently doing by the entire team is the execution in the fast mode, ramping up the parts, doing the quick PPAPs and these external factors like the trade agreements, that's going to accelerate a bit in terms of the loading of the plants. So that's going to help us.

And once these 3 things happen, so we will definitely see the margin at a very close to what the numbers you are referring to. And that's what historically we have been doing that over the last

several quarters, several years, even pre-COVID as well. So that's all I would say at this stage. Did I answer all your questions or anything I left out?

Rakesh: Yes. So just one last thing. Is the GGB part consolidated and under which head of the subsegment is it consolidated right now?

Sujit Pattanaik: Yes. So GGB, if you look at it, of course. So for the first time, we have published 2 results, consolidated financials and the stand-alone financials. Again, GGB has got -- they're more into the plain bearings, the bush bearings. So they are into multiple segments, but I would say most of their sales would be in Distribution and the Process industries and some components goes to Mobile, Others, but most of them would be in Distribution and Process.

Moderator: The next question comes from the line of Sabyasachi Mukerji from Bajaj Finserv AMC.

Sabyasachi Mukerji: Two questions from my side. First is, I see a good, strong growth in both mobile and process. Mobile, as I understand, CV outlook, CV growth is strong. My question is what is the outlook on rail and the export segment now that the India, U.S. BTA is done. So what is the kind of outlook for Q4 as well as FY '27?

Sujit Pattanaik: Yes. So again, formally, we don't give any future guidance per se. But since you have asked the questions on rail. So again, we keep repeating this every quarter. So rail business per se is not going to be a hockey stick. It will have a slow and steady. So if you would have seen this recent budget, so the allocation of the capital from the government is going to be a slight improvement compared to last year. So which effectively means the infrastructure around the rail are going to come up exactly in the similar range what we have seen in the past.

Now if we look at the rail per se for this quarter, was the lowest quarter, so INR128 crores, we did. And historically, if we look at it, the rail per se, the quarter 4 of the financial year is always going to be a strong quarter. So that's what historically we see. And year-over-year, if we look at it, there is a growth of rail of very close to 10.5%. That is INR128 crores of this quarter versus the last year, same quarter, we did INR116 crores.

So from your perspective, we will always see rail business is a steady growth. Definitely, there won't be any decline unless and until we see a significant impact of government spending, diversification to other segments. So as of now, we don't see. And with the recent budget, what the Finance -- Honourable Finance Minister has announced. So we see the capital allocation to the rail, of course, growing for the next year as well. So that with respect to the rail.

Coming to the export piece of it, as I said, we are still evaluating detailed fine prints, how the trade agreements are yet to come out soon. And our expectation is the European Trade Agreement, what we saw. So again, by the time it gets signed up by the European Union with all the members of the European Union, so that may happen any time towards the end of the year.

So that's why I would see probably that will be effective sometime beginning of next year. And the U.S. trade deal with the recent announcement that came out with the interim press release.

So that, of course, we need to look at it, the details of the chapter ID and the code, all those stuff, but that's definitely going to be helpful in some way to our industry per se.

So again, we need to wait and watch. So there is no kind of concrete answers, whether that's something which is going to have a direct impact on our exports, but these are all the directions in the positive way. We definitely can expect to the industry like us will have beneficial out of those agreements.

Sabyasachi Mukerji: But just a follow-up here. With tariffs, U.S. tariffs going down from 50% to 18%. I mean, what happens to the shipments? I mean, is there anything material that is happening because our parent is U.S. parent, right? So anything on that front in terms of shipments, in terms of orders, are we seeing any pickup? Anything on that?

Sujit Pattanaik: So even before the tariff announcement, if you look at it, our exports, okay, so technically, it has not gone down significantly because we closed the quarter, exports with INR159 crores, and it was INR152 crores same year, same quarter, and INR161 crores sequentially. So it was almost flattish.

Now to your question, again, as I said, so still the fine prints are being looked at it. So that 50% to 18% is a headline tariff reduction. But we need to go into the details of the engineered growth, so on and so forth, which is most likely going to be reduced from 50% to 18%. And as it reduce, of course, the movement of the supply chain, the other piece, it's not only for Timken Company, we need to look at it other aspects as well, what's going to happen.

So again, we need to wait and watch. It's very early to come to a conclusion that's going to significantly improve the numbers. We need to wait and watch. I'm sure in coming days, we will have a better visibility to give numbers on that aspect.

Sabyasachi Mukerji: Got it. My second question on GGB. Effectively, we saw just 1 month of revenue in this quarter. And probably, the cost, fixed cost was, I mean, full, the absorption. And just correct if my understanding is right here?

Sujit Pattanaik: So there is a slight comment there. So we have also given the notes, Note number 5 in our consolidated financials. It is not just 1 month revenue. So since it's a group company acquisition, so as per the Indian Accounting Standard, we need to do the pooling of interest. So which effectively means the consolidation will look like as if it has happened from April 1, 2024,

So for this quarter, what you are seeing, the revenue numbers are 3 months revenue for GGB, it is not 1 month revenue. And you would have seen, if you reduce the consolidated financials minus the stand-alone financials, that's very close to INR15 crores revenue for 3 months.

Sabyasachi Mukerji: Okay. So the annual run rate for this entity is close to that INR60 crores mark, I mean, that is -- that's how you would say?

Sujit Pattanaik: I would say somewhat close to INR50 crores, INR55 crores. They will also have their seasonality. So I would say somewhere close to INR50 crores, INR55 crores range.

Moderator: The next question comes from the line of Viraj from SiMPL.

Viraj: Just a couple of questions. First is on the railway. Can you give some more granular color in terms of the tendering activity in different subsegments, freight, passengers, metros? And a related question is how are you seeing the pricing? So this question is also in relation to the competition inventory, do you see any changing in terms of the competitive intensity in railways?

Sujit Pattanaik: Yes. So again, subsegment-wise, the numbers I have already spoken about. So rail, if you start with those 5 broad end users segment we talked about. So rail, again, it's a typical lower quarter for the rail business per se. And we always see historically the quarter 4 of the financial year always picks up, given the wagon builds, the government spend allocation and so on and so forth. So for this quarter, it was down sequentially for rail. But if you look at it year-over-year, still we had a best December quarter. So that's rail.

And as a future prospect, as we discussed, again, we don't give the future guidance for this per se for the company. But overall, if you look at it with the recent budget announcement, so we have not seen a significant reallocation of the capital as far as the rail segment is concerned. So it effectively means the infrastructure around the rail ecosystem are going to probably sustain. And that's going to happen for any developing countries like India, at least for the medium to long term.

So now on the mobile, others piece of it, as the Chairman explained, the commercial vehicles, both on-highway and off-highway and we see a slight acceleration than the earlier years. So that's something which we closed at INR167 crores. And again, traditionally, we have seen the quarter 4 of the financial year is always a great year for the majority of OEs. And since we supply the majority of the OEs, so we also foresee probably this quarter 4 of the financial year will accelerate to a great extent.

Now is it a sustainable increase in the demand or it is more of a stock correction. So that's something which we need to wait and watch. But as we speak for this quarter and what we see as we speak in January, we see probably an acceleration in terms of numbers.

Now distribution, again, both auto and industrial distribution. So there also, we see a year-over-year growth, what we have seen for this quarter is 8.5%, and we see a steady momentum for most of the stationary equipment OEs and steel plants. So same thing is for the process as well, and the export we talked about.

So despite those tariff issues, what we had, the geopolitical dynamics, what we had, we have not seen a significant drop in our export if we look at the numbers. We closed to INR159 crores, which was 4% year-over-year growth, a slight decline sequential. But with that said I know that's been happening over the last 2 weeks, so we see probably that's something which is going to be favorable for most of the industrial manufacturers. So that broadly...

Viraj: Sorry to interrupt. My question was on competitive intensity in railway. If you can give any color, is there any change in market share number of...?

- Sanjay Koul:** So competition is always there, be it rail or be it any other segment. So competition is always there. And then obviously, Timken has the ability to innovate relentlessly. So we are not afraid of the competition. What we are really looking at the market with more innovation. So that is what -- why we are the leaders in rail for the last so many decades, not only in India, but globally also the parent as well.
- Viraj:** Perfect. Second question was on the distribution side. Post-GST cut, do you see any material change? So it used to be a very large market for counterfeits and spurious in bearing per se in distribution. So post the GST cuts, do you think there's a trend of unorganized, organized. Has that seen any acceleration or any color you can give on that?
- Sujit Pattanaik:** You are talking about GST on distribution business?
- Viraj:** Yes, distribution, yes.
- Sujit Pattanaik:** You mean you are referring to there is a change in GST recently?
- Viraj:** Yes. And the impact in terms of the unorganized to organized? I mean, especially the large counterfeit and spurious market, which was there in bearing.
- Sujit Pattanaik:** Yes. So again, so if you look at it per se, there is no change apart from the administrative changes, which has been brought in the GST council meeting of the quarter 4 of last calendar year, plus the current project. So now from a rate perspective, if you look at it, so still majority of our product falls under that 18% categories. And of course, GST has got its own facilities in terms of the invoicing, the cascading impact of credit, so on and so forth, it was there since the inception of GSTs.
- So now the changes, which you are talking about for our unstructured business to structured and unorganized business to organized business, so that's, again, that's an evolving step. That's something which is not going to have a significant impact in terms of our sales, the way we were doing it. Now if you look at it, our distribution business per se. So majority of our distributors were tax compliant from the beginning of the GST implementation, and Timken being a good governed company. So we always do business with any of those distributors or the OEs who have a good governance system in them.
- So per se, the changes, what you are referring to in the GST that has come in, so that's primarily the administrative piece of it, whether it is invoicing, whether it is investment -- sorry, invoice management system, so on and so forth. So which is going to help probably many other unorganized sectors to come into the organized sector per se. But majority of the profiles, what we are looking at, we do the business. They were all compliant much before these changes that came in.
- Sanjay Koul:** Just to add to that, in railways, unless and until you are not certified by the certifying body where the norms are pretty tough because it is a safety item. So just by changing a little bit of a norm here and there cannot lead to a lot of people -- obviously, people can try and should try. But the entry bar is very high because of this criteria of the safety, especially for rail.

- Moderator:** The next question comes from the line of Nikhil Chintamani Kale from Invesco.
- Nikhil Chintamani Kale:** Just had a couple of questions. Firstly, just on the SRB, the new plant at Bharuch, you talked about the kind of revenues that you had in this quarter. What were the fixed costs? So I'm talking about at the EBITDA level, you would have probably seen a loss. So if you could maybe just highlight that number to help us understand what is the core profitability or the business profitability?
- Sujit Pattanaik:** Yes. So again, we do not monitor profitability at the plant level. But as I said in the previous questions as well, so overall, from a PBT perspective, if you look at it because of this planned ramp-up cost, which is nothing where the fixed cost over the revenue that we have generated are impacted very close to 1.7% approximately for the quarter.
- Nikhil Chintamani Kale:** Okay, understood. And just to double click on the unfavorable mix part of it. So yes, I think, Y-o-Y, if you look at it, the segmental mix is not too different. So just wanted to understand, I mean, is the gross margin reduction also a function of traded goods kind of higher mix of traded goods in the revenues?
- Sujit Pattanaik:** It's again, when we use the word mix, it is also trading versus manufacturing. It is also mix between the content of the front end units per se. So this is combination of both.
- Moderator:** The next question comes from the line of Rishi Vora from Kotak Securities.
- Rishi Vora:** I just have a follow-up again on this gross margins, right? Even if I look at it from a sequential basis, the cost of credit goods has gone up significantly. So is there any change in the traded goods agreement with the parent, some tariff impact, which we are bearing? Anything of that sort has happened on a sequential basis or on a Y-o-Y basis, which explains such a sharp drop in gross margins?
- Sujit Pattanaik:** No. So again, to answer your question, of course, so any transaction that happens to the group companies. So we follow the transfer pricing policies. And we all know probably the regulations that surround the transfer pricing. So to answer your question, there was no changes done during the quarter when it comes to the pricing mechanisms of the group company. So it follows exactly the same pricing mechanism, which is being followed in the previous quarters.
- So the gross margin impact, what we see, as I explained before. So this is 2 mix, one is, of course, the content-wise sales and the profitability mix. The second is also for your product source, import from multiple countries. So every country will have the transfer pricing mechanisms. So the pricing methodologies between that country and the mix of that will have an impact as well.
- So to answer your question, there was no change, which was done during the quarter in terms of the pricing mechanism. It followed exactly the same pricing mechanism, what it was followed in the earlier years. So it's primarily the unfavorable mix, which I would say, a transitional impact, which has impacted for this quarter.
- Rishi Vora:** Understood. And my second question is just pertaining to when we are importing the finished goods from USA, do we pay any duty at this point in time? And if U.S. and India deal happens

and if that duty comes down to 0%, then is there something -- some benefit which we could accrue once that happens?

Sujit Pattanaik: Yes. So answer to your first question, do we pay any duty as of now, answer to that is yes. So most of our products that falls under the industrial bearings, which is 84 chapter ID, I think the duty, it is applicable very close to 8% plus certain cess, so on and so forth.

Now with the trade deal that is happening. So, so far, again, we have not seen a detailed fine prints of the trade deal. So we need to wait and watch for the HS code. So now if I take hypothetically, if that's going down from the existing rate, definitely, that's going to be beneficial from a profitability standpoint. But again, as we speak, there are no details, HS code wise, released in terms of the duty. We need to wait and watch what that percentage is going to be.

Rishi Vora: Understood. But this 8% currently is borne by us, right? It's not shared between us and the parent?

Sujit Pattanaik: It's part of the landing cost, right? So the same thing is applicable for our export as well because when we export bearings, there is a cost and the importing country always takes the cost. So that means parent takes that cost for our export side. The same thing is applicable for import side as well.

Rishi Vora: Understood. And just last question on the -- you said that India deal also would be, at least over the medium term, beneficial to us. And just wanted to understand, like my understanding was the import duty today from India of any auto anc part, including the industrial bearings is anywhere between 2% to 5%, right? Then that essentially goes down to 0%, right? So do you think that the 3% price cuts is good enough for us to be competitive in that market?

Sujit Pattanaik: Answer to that, again, whether it is competitive or not, that future will say. But again, at the end of the day, if you look at it, the economic piece of it. So if today, you have a market share of X and that cost is going down, let's say, 3%, 4%, whatever that number be. So definitely, you will be in an advantaged position to gain some market share, right? So that's how the economics will work.

Now to your point, whether that is today, 2% to 5%, that's going to come to 0% all of a sudden or gradually, that's going to 0% that we need to wait and watch. But to your point, if there is a reduction and what the trade deal headlines talk about. So eventually, that's coming to very close to 0% at least 98%, 99% of the products. So we need to wait what is the timeline of that

Is it something is going to happen from day 1 or probably gradually they're going to bring it down? We need to wait and watch. But anything that's getting reduced from your existing base, that's how the economics works. So we will always have the advantage position in that particular market.

Rishi Vora: And sir, just last question, if I may squeeze in. Just on the SRB, CRB, is there any order book number, at least in terms of domestic export, where are we seeing incremental direction, which end segments? If you could share some details around it, that would be helpful.

- Sujit Pattanaik:** Maybe the order book, we don't give per se. But as I said, so there are 2, 3 aspects, which to be considered as far as this new plant is concerned, and that is true for any greenfield investment that happens. One, specifically in industry like us, which is, some period will be slightly higher in the sense that it has to go through the PPAPs, the customer approvals, then the plant loading.
- So our whole objective, the entire team is working to do that as quickly as possible. Now having said that, with the last 2 weeks, the favorable comments that's coming in, both for India, U.S. and the European deal, that's going to bring in some kind of acceleration to this entire program.
- So again, as we speak, there is no order in mind. We don't disclose the open order numbers per se. But I can tell that definitely, we are in a much better position in terms of the visibility of what we are seeing now versus what we saw probably 3 months down the line.
- Rishi Vora:** And sir, this INR15 crores, how is it split between domestic and exports?
- Sujit Pattanaik:** Which INR15 crores?
- Rishi Vora:** The quarterly revenue which we did for SRB, CRB. How -- what is the split within domestic and exports?
- Sujit Pattanaik:** So that's roughly around INR12 crores. I would say maybe 20%, 25% is domestic and 75% would be export at this stage. But again, that should not be taken as an indication of the future business.
- Moderator:** The next question comes from the line of Vipulkumar Anopchand Shah from Sumangal Investment.
- Vipulkumar Shah:** So what was the profitability for this GGB Technology Private Limited, which we have acquired for the last financial year in terms of EBITDA?
- Sujit Pattanaik:** Yes. So again, this is there in the consolidated financials. If we look at it the last financial year, they had a revenue of INR50 crores with a profit before tax of very close to INR19.5 crores.
- Vipulkumar Shah:** Profit before tax of INR19.5 crores?
- Sujit Pattanaik:** Yes.
- Moderator:** The next question comes from the line of Sisir Saha from Saha Security.]
- Sisir Saha:** Pardon, sir. When you took up these capital expenses towards the CRB and SRB plant, it was envisaged that the top line growth will be around 3x of the capex. So which is around INR1,800 crores.
- In the last conference call, Sanjay told that we would be achieving this turn a little earlier because we are already established there, generally a bearing company would take 4 to 5 years to achieve this. But Timken India will achieve this within maybe 2 to 3 years. So my first question is that how much will be there in the top line for the next year?

And second thing, why you are depending so much on the trade deal because there was no question of any trade deal and all these bearings so that the -- actually imports are scheduled. And there was nothing of trade deals sort of thing when this plant goes complete. So will you kindly tell me that whether we are depending on the trade deal to a great extent for this plant?

Sujit Pattanaik:

Yes. So 2 aspects to it. As you explained, the Chairman explained about 3 years versus the industry average of 5 years. I think still that holds good in a way that the way acceleration of demand we are seeing and the way team is working and putting their efforts in speeding up the PPAPs and all those pulling up, I think that is still achievable as we speak.

So now to the second part of your question, we are definitely not dependent -- because trade deal is something where we do not have control to. So we are not dependent on trade deal per se. So the comments that I gave is with this favorable geopolitical situations, whenever that happens, that's going to only be an advantage and favorable to us.

So to your point, when the assumptions were taken, the tariff was not 50% during those days, like when we took the approval about this plant, to your point, it was not 50%, it was below 50%. This tariff of 50% came in over last 3 to 4 quarters.

But to answer your question, definitely, we are not dependent on the trade deal because that's something where the government has to negotiate and close to. We have very limited controls on that. We control -- we focus on where we can control, which is the execution piece of it, and the team has done a good job to execute it as fast as possible in terms of the pulling of the parts, the PPAPs, interacting with the customers and getting the plant loaded.

So I would say the assumptions what Chairman told in the earlier meeting still holds good, and we are in a better position as we speak, I would say the visibility is slightly better than we had 2, 3 months before.

Sisir Saha:

Sir, on the lighter side, I will just ask one question. When can we expect it after seeing the results? Because every quarter, we very excitingly wait for your publishing the results? And when the results come out, we really -- it was [inaudible 0:49:17] thing. This time, when can we be, once again, excited with Timken's results?

Sanjay Koul:

On this, Sujit, the answer is that hope sustains life on the lighter side.

Sisir Saha:

So next year again, we can expect some good things there out of the new plant and the new acquisition and all that?

Sanjay Koul:

I can only tell you one thing, sir, and Sujit can quantify in terms of numbers and everything. I have worked in this company for 30 years, and I know the bearing market, I can say, among the best in India. So this certainly -- I mean, the best companies where one can grow business and see better results for all the stakeholders. That much, I can tell you. Over to Sujit for more number -- numerical answer.

Sujit Pattanaik:

No, I think you have covered it well. But just to give a perspective, if you do the historical analysis of Timken India Limited since from 2010 to today, so you would have seen a marked improvement in the profitability.

Now all those things were possible because we look at it long term, whether the investment which we have made in Bharuch, whether the acquisitions and the merger, which we're talking about on the GGB, whether the investment that's happening in FRC product of GGB, whether the expansion of rail portfolio that's happening in Jamshedpur, all those things by keeping an eye in the long term.

And historically, if you look at it, we used to be the operating margin somewhere close to 10%, 12% range in 2014, 2013. Now that has moved to 18%, 19% range. And all those things were possible because the investments, which were being made by keeping an eye of the long term at which we are getting the return now.

So the same thing, you can take it. Of course, we don't give the future guidance. So the investment which we have made in the Bharuch, these are not bad investments. These are good investments. The world-class plant that's coming up, so that's going to compete with a lot of our competitors in India in terms of the product quality, in terms of the cost positioning, in terms of the price positioning.

So the rail expansion going to happen in Jamshedpur. So that's going to help in a big way. So all those things are good investments, which are definitely going to pay back us at some point in time. Now when is that time, the team is working on flawless execution to see that the time comes as soon as possible.

Sanjay Koul:

Can we take the last question?

Moderator:

The next question comes from the line of Chandrakant Kanse, an Individual Investor.

Chandrakant Kanse:

Sir, I have got 2 small questions. One is regarding the ceramic line coming at Bharuch. What is happening on ceramic part of bearings for electrical vehicles? That is one. And second question is regarding, do we have plans for linear motion products to be manufactured in India?

Sanjay Koul:

So the line which is coming in Bharuch is not ceramic per se. It is a different alternate material called FRC. It is not ceramic. And so we are not producing yet ceramic in India. This is a little bit different, and obviously, can be used in EVs and other applications in process industry, etcetera. So that is not actually pure ceramic, if you're referring to ceramic ball bearings. And what was the other question, Sujit?

Chandrakant Kanse:

Yes. Regarding linear motion products.

Sanjay Koul:

Yes, linear motion certainly is a low-hanging fruit for the -- for both Timken India Limited in this year and for the parent company as well. So debates and discussions are very actively going on. As you know, our global CEO also -- recently new CEO has taken over. He is very bullish on Industrial Motion Products. So hopefully, some good things would come up shortly.

Moderator: Thank you. Ladies and gentlemen, that was the last question for today. I would now like to hand the conference over to management for closing remarks.

Sanjay Koul: So thank you very much for your support, and we relentlessly work hard to improve shareholders' return. That is the karma for us. And obviously, last quarter, we know the challenges, both in terms of labor, taking those provisions and also the mix and things like that. But as I see, future of this year looks to be pretty good. So we should be all happy in coming days. Sujit, any comments?

Sujit Pattanaik: No, I think you have covered it well. Again, we work on the long-term value creation, and I'm sure the investments which have been made, which we had the transitional impact during the quarter are going come up at some point in time. So once again, thank you, everyone, for joining us today and all your interest in Timken India Limited. Thank you.

Moderator: Thank you. On behalf of B&K Securities, that concludes this conference. Thank you for joining us, and you may now disconnect your lines.