Date: 18th February 2025

National Stock Exchange of India Limited,	BSE Limited,
Exchange Plaza, 5th Floor,Plot No. C-1, G Block, Bandra- Kurla Complex, Bandra (East),Mumbai – 400051, Maharashtra, India	Phiroze Jeejeebhoy Towers, Dalal Street, Fort Mumbai – 400001, Maharashtra, India
NSE Scrip Code – SKFINDIA	**BSE Scrip Code -500472**

Subject: **Transcript of Analyst/Institutional Investor meeting held on 13th February 2025**

Reference: **Our intimations dated 07th February and 14th February 2025.**

Pursuant to Clause 15(b)(iii) of Schedule III, Part A, Para A read with Regulation 30 (2), Regulation 30(6)&Regulation 46(2)(oa)of SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 (as amended from time to time) ("SEBI LODR"), please find enclosed herewith the transcript of Analyst / Institutional Investor meeting held on Thursday, 13th February 2025 at 10:00 a.m. (IST). The same will soon be uploaded on the website of the company for convenience of the shareholders.

We request you to take the above information on record and disseminate the same on your respective websites.

Thanking you,

Yours faithfully,
For SKF India Limited

RANJAN KUMAR

Digitally signed by RANJAN KUMAR
DN: cn=RANJAN KUMAR, c=IN, o=Personal, email=RANJAN.KUMAR@SKF.COM
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Ranjan Kumar
Company Secretary & Compliance Officer

"SKF India Limited
Q3 FY24-25 Earnings Conference Call"
February 13, 2025

MANAGEMENT:	**MR. MUKUND VASUDEVAN – MANAGING DIRECTOR – SKF INDIA LIMITED** **MR. ASHISH SARAF – CHIEF FINANCIAL OFFICER -- SKF INDIA LIMITED** **MR. RANJAN KUMAR – LEGAL DIRECTOR, COMPANY SECRETARY AND COMPLIANCE OFFICER -- SKF INDIA LIMITED** **MR. ASHISH PRUTHI – HEAD, MARKETING AND COMMUNICATIONS – SKF INDIA LIMITED**

Moderator: Ladies and gentlemen, good morning, and welcome to the SKF India Limited Q3 FY 2024-'25 Earnings Conference Call. For the smooth conduct of the meeting, all participants are in a listen-only mode. A brief question-and-answer session will follow the formal presentation. Should you need assistance during the conference call, please press star, then zero on your touch-tone phone. As a reminder, this conference is being recorded.

I would now like to hand the conference over to Mr. Ashish Pruthi, Head, Marketing and Communications from SKF India Limited. Thank you, and over to you, sir.

Ashish Pruthi: Good morning, everyone. Thank you for joining us today. With us, we have SKF India's Managing Director, Mr. Mukund Vasudevan; our CFO, Mr. Ashish Saraf; and our Legal Director, Company Secretary and Compliance Officer, Mr. Ranjan Kumar. Before I turn the call over to the management, I would like to remind you that in this call, some of the remarks contain forward-looking statements, which are subject to risks and uncertainties, and actual results may differ materially.

Such statements are based on management beliefs as well as assumptions made by and on the information currently available to the management. The audience is cautioned not to place undue reliance on these forward-looking statements and making any investment decisions. The purpose of today's call is to purely educate and bring awareness about the company's fundamental business and the financial quarter under review.

We can now open the call for Q&A.

Moderator: Thank you very much sir. The first question is from the line of Mumuksh Mandlesha from Anand Rathi Institutional Equities. Please go ahead.

Mumuksh Mandlesha: Firstly, at a broader level, at global level, there's a division of auto and industrial happening. I just want to understand the thought process on this division, what kind of benefits you see over the medium to long term, whether in terms of new products or M&A opportunities? And also how different is the margin profile for both these divisions when they separate out?

Mukund Vasudevan: This is Mukund Vasudevan, Managing Director. So I will answer the question to the best of my ability. So obviously, the separation is something which we believe is the right thing for the company, the customers and our investors. And the reason for that is these are 2 fundamentally different businesses. We have been operating them fairly independently, but we believe by separating them into 2 separate companies, it will create additional value for everyone.

And let me explain why. First, from a customer perspective, the customers are fundamentally different. As you can imagine, one, automotive is a lot of automotive OEMs, where the solutions you provide, it's a longer sales cycle, but the solutions are sticky, and it takes a different kind of innovation to address that market. Industrial, on the other hand, has a lot more segments, a lot more verticals, each one requiring a different kind of innovation and a shorter sales cycle typically.

From a manufacturing perspective also, the automotive is much with higher volumes and you have batch processing of much larger volumes in continuous manufacturing, whereas industrial has smaller batch sizes typically -- not all segments, typically. And it requires -- the main key there is faster changeover times and flexibility in the manufacturing line.

The third is capital allocation also. In general, the automotive margin profile is a little lower than in the industrial, given the nature of the industry. And we also believe that -- so capital allocation will be much more efficient if we have 2 separate companies.

And last but not least, the future of both these industries also looks a little different in terms of automotive going towards EVs in many parts of the world faster than others. Industrial moving towards industries, some sunrise industries like renewables. So all this is changes which I think can be more efficiently addressed as 2 separate companies.

Mumuksh Mandlesha: Got it, sir. And sir, just on the product side, how do you see the expansion of the product line from the current what we have because the division happening, sir? Do you see that over medium term to play out, sir?

Mukund Vasudevan: So the product line will continue to expand. It's not that it hasn't been expanding now, it will continue to expand. I would say this gives us the opportunity to actually innovate more and add more products specific to the industries we want to serve

Mumuksh Mandlesha: And sir, you mentioned auto margins being lower because -- but in India we have the auto more of a manufacturing than in India, while industrials have a lot of traded share. So also in India, do you see that margin in auto being lower than the industrial, sir?

Ashish Saraf: So again, if you look at -- hi this is Ashish Saraf, CFO of SKF. So if you look at the carve-out financials, as you rightly said, the mix is different. The automotive currently is 95% localized, whereas industrial is around 40% localized. So because of a different mix, the margin based on the carve-out financials, which we recently submitted is going to be very similar for both the companies. Again, this is based on the analysis that we did on the historical results.

Mukund Vasudevan: And just to add to what Ashish said, globally, what I said was the industrial margins tend to be higher. In India because of traded products being higher in industrial, it's a bit lower. But long term, as we localize more, we expect that to normalize.

Mumuksh Mandlesha: Got it, sir. And sir, in India, you also have this SKF Technology, the unlisted entity. I just want to understand, will that remain outside the listed entity or will also -- that also be merged to the industrial part of the business, sir?

Mukund Vasudevan: At this point, there's no plan to merge that. We'll continue to serve both -- serve the entities as separate entities, meaning there will be a technology center, which will serve the industrial, there will be a technology center which will serve automotive. But at this point, there is no plan to merge that. There's lots going on with just the separation initially. So this is not under consideration right now.

Mumuksh Mandlesha: Got it, sir. Sir, coming to the results for the Q3 quarter, gross margin have seen a contraction by around 600 bps Y-o-Y. Just can you explain the reason for the drop? And I just want to understand is there any seasonality in the gross margin? And how we will see the Q4 for this gross margin ahead, sir?

Ashish Saraf: So if you look at our current quarter results, as you rightly said, our overall margin was down by around 4.5% year-over-year. And one of the reasons why it was lower was the high cost of the traded products. We were expecting some rationalization of the traded products from Q2 to Q3.

It has rationalized a bit. That's where -- if you look at our margins quarter-over-quarter, it has slightly improved. We are expecting some further improvement as we move to next quarter. So you should see some further rationalization on the traded product cost as we move to Q4 of this financial year.

Mumuksh Mandlesha: Sir, just to get it right, sir, basically this traded products, is it a pricing difference between the end market and your sourcing prices, right, where -- that's where the margin differ. And then basically, the temporary loss in margin is compensated over the coming quarters. That's right, sir?

Ashish Saraf: That's right. Yes.

Mumuksh Mandlesha: Got it. Got it. And sir, on the revenue side, this quarter has been -- seen a very good growth of 15%. And even 9 months has gone by 10%. Can you help us how has been the subsegment growth? And also, can you share thoughts on the outlook for the key segments like wind, railways, general machinery and after market?

Mukund Vasudevan: Sorry, what was the second part of your question? Can you share what?

Ashish Saraf: Can you share the outlook?

Mumuksh Mandlesha: Outlook for some key industrial segments.

Mukund Vasudevan: So I'll let Ashish also add to this. But overall, let me start with some of the industrial segments. Industrial, pretty much all the segments did quite well, including the highlights where distribution, heavy, metals and renewables. Renewables, which did all very well this quarter. And some of those are lumpy orders like renewables, but in general, it was done -- the distribution really stood out.

Also general machinery, sorry, came back strongly this last quarter. General machinery is motors, pumps, things like gearboxes. Automotive also did well. I think automotive overall was 10%. And within that, both 2-wheelers and passenger vehicles did well. Commercial vehicles not as much.

And outlook, I'd say continues to be strong, driven primarily by infrastructure spending, which at least for the coming quarter, right? Long term with changing economy or global geopolitics, may be less clear. But at least for the current quarter, infrastructure spending will continue to drive some of metals, heavy industry, etcetera.

And general machinery distribution will continue to be strong. Automotive, I think, we'll -- 2-wheelers will continue to be strong. Passenger vehicle is a little seasonal. So I would say that's the outlook for the coming quarter at least.

Mumuksh Mandlesha: Got it. Just, I mean, in terms of growth number, can you share how was the industrial aftermarket -- auto aftermarket and the industrial segments like wind growth and railway growth sir?

Ashish Saraf: Sure. So I'll just go first by segment, and then I'll talk about the key sub-segments within it. So Industrial grew by around 23% year-over-year for this quarter. And Automotive growth was around 10%, right? If you look at within industrial, we saw a strong growth in the distribution business to the tune of around 20%, general machinery to the tune of 23% and wind to the tune of around 16%, rail and defense to the tune of around 23%, right? So that's on the industrial side.

On the automotive side, again, automotive aftermarket we saw a strong growth of around 18%. 2-wheelers grew by around 10% plus, passenger vehicles, 11% and tractor business around 30% plus. These were the growth year-on-year.

Mumuksh Mandlesha: Got it. Sir, very strong growth. Is it you are gaining some market share or is it also a lot because of the strong underlying market, sir?

Ashish Saraf: So it's a mix of both, right? So in some segments, we are gaining market share. So say, for example, 2-wheelers, we continue to gain market share with customers like Bajaj and Honda, in the -- both in the vehicle market -- vehicle aftermarket as well as industrial distribution, our reach to our end customers are getting better. Industrial, we are kind of continue to onboard new industrial part sellers as well as engage new AID's across the market, both in vehicle aftermarket as well as on the industrial side. So that's kind of helping us significantly grow and gain share in the aftermarket business.

In the general machinery side, we are -- we continue to increase our market share with existing OEMs as well as we are onboarding a lot more new OEMs directly. And that's kind of helping us grow the market in the general machinery business. Wind and railways, I would say, is more seasonal and cyclical. It's more dependent on the orders that we have in hand, and that's where you see a strong growth in Q4.

Mumuksh Mandlesha: Got it. And sir, we had an earlier shift of the -- some plant capacity from Korea to India. Has that also started flowing in our revenue for current quarter, sir?

Ashish Saraf: Can you repeat your question? It's not very clear.

Mumuksh Mandlesha: Yes, we recently shifted some Korea plant machinery to India as we discussed last time, any revenue from that, sir -- that business?

Ashish Saraf: I think the transfer is still in because it takes -- again, Mukund, maybe you can correct me, but I think the transfer is still in process. We are -- it will take maybe a couple of quarters for it to kind of start production.

Moderator: We'll take the next question from the line of Mukesh Saraf from Avendus Spark.

Mukesh Saraf: Firstly, if you could just give this revenue mix, you did mention about each segment growth, etcetera. But the revenue mix between auto, industrial and within each of these, the OEM aftermarket?

Ashish Saraf: Yes. So if you look at the overall sales mix for this quarter, industrial is around 54%, Auto is at 39% and exports is at around 7%, right? And within industrial -- overall, I would say, industrial distribution is around 24% and vehicle aftermarket is around 12%.

Mukesh Saraf: Right. Understood. So there was this scheme of arrangement that you had filed in the stock exchanges. When we look at that, it says that the industrial revenue is 63% of revenue in F '24. While in our commentary last few quarters and even this quarter, we're saying it's around 50%, 54% mark. So could you kind of help understand this difference here between the 63% and the 50% broadly that you have been mentioning on the industrial revenue side?

Ashish Saraf: Yes. Yes. So currently, if you look at our automotive business, we have the tractor business, which is predominantly around agriculture and electricals. So once basically the separation happens, that business, which we are currently reporting under automotive will transfer to industrial. As per the -- our because in India, we've been reporting these numbers under automotive. Globally, agriculture and electricals are part of industrial. Hence, post separation, we would transfer that business to industrial.

Mukesh Saraf: Understood. But the manufacturing of those bearings will also move to industrial? Or it's only the sales part of it that will move to industrial?

Mukund Vasudevan: So we are still working through manufacturing split exactly. But as soon as we have some information on that or clarity on that, we will walk you through -- we'll kind of communicate that to you. But today, it's still, I would say, there are multiple options open to us, whether it's transferring the manufacturing assets to the individual companies, split companies or if one company manufactures for the other. Both are open options. So we're still evaluating these to see what makes the most sense.

Mukesh Saraf: Got it. And in one of the comments, you had mentioned that 95% of automotive is localized and 40% of industrial is localized. This 40% industrial being localized, is it in the listed entity? Or does this include the unlisted business?

Mukund Vasudevan: No, we're talking only about the listed right now.

Mukesh Saraf: Okay. So 40% of industrial is already localized in the listed business. Got that. And just lastly, we're seeing new capacity is coming up from the competition on localizing SRB, CRBs, especially to address the industrial segment. Obviously, we are also looking at localizing more and more. But do you think immediately you might see some pressure on either market share or pricing given that a lot of new capacity is coming up in the industrial segment?

Mukund Vasudevan: So obviously, we are aware that this is happening. We also are localizing as much as possible, whether it is in the listed entity or in the unlisted one, right, which will just make us more competitive. So I would say we are continuously working on it. And you'll see more announcement come up in the future on this.

Moderator: We'll take the next question from the line of Harshit Patel from Equirus Securities.

Harshit Patel: Sir, once again, on the margin front, I just wanted to understand a little bit more. Earlier, it used to be one-off occasion wherein there would be some adjustment to the transfer pricing. And consequently, it would get normalized on an annual basis. However, this seems to be happening very frequently in the past few quarters. So could you explain something structurally has changed over here?

Ashish Saraf: So let me explain. So Harshit, if you look at the last couple of years, right, financial year '22-'23 as well as '23-'24, right, we've had a lot of price increases with our customers because of the inflationary environment that we were facing. But as we talk about financial year '24-'25, most of our growth that you see in this quarter as well as the previous 2 quarters have predominantly been driven on account of volume growth and not so much on account of price increases that we have been able to take with our customers.

So because of that, there has been some amount of pressure on our margins, and which has in the past years enabled us a better margin on our traded products, the price increases that we were taking. To kind of give you an example, for financial year '23-'24, my traded margins were hovering close to double digit.

Whereas in this financial year, my traded margins are lower than expected. So we are -- as I explained earlier, we are expecting some more rationalization to happen in the last quarter of this financial year but are not expected to be close to double digit. They are going to be in line with the transfer pricing practices, given that our end market pricing has been relatively constant this financial year. I hope this explains it for you.

Harshit Patel: Yes, sir. But sir, my earlier understanding was that no matter the end pricing, our overall distribution or traded margins would be in the mid-single digit kind of a range. If we are getting higher or lower margins, that would be passed on to the manufacturing entity from wherever we are procuring. So is this not -- so is there a gap in this understanding?

Ashish Saraf: There is a slight gap. Your understanding is right that if the margins are lower than the mid-single digits, then we would do a catch-up. But if the margins are higher, under the FEMA Regulations, we cannot go and recover that by issuing a debit note to a supplier. So typically, if the margins turn out to be higher, which has been the case in the last 2 financial years, you would typically not be able to return it back to the manufacturer. And that's where we have had a higher margin in the last financial year on the traded products compared to what it should have been.

Harshit Patel: Sure. So in a nutshell, we returned back those margins in these last 2 quarters, right?

Ashish Saraf: We have not -- as I said, it's not that we've returned back those margins. For this financial year, the margins have been relatively stable in line with the transfer pricing regulations. In the previous years, because we were getting more price increases from our customers, we were able to generate a higher margin, which because we had to return it within the same financial year and we couldn't do so, as a company, we landed up retaining a higher margin because we cannot issue, as I said, debit -- credit notes or debit notes to our suppliers, because these are foreign exchange transactions under the FEMA Regulations.

Harshit Patel: Understood. Sir, secondly, on the wind business, I believe we had done some customer pruning in this segment, and hence the growth was impacted in the first quarter of FY '25. What has been the update on that in the second and the third quarter? Also, what percentage of our revenues have come from this wind segment in the first 9 months of this year? Also, if you could give some color on the profitability in this particular segment, that will be very helpful.

Mukund Vasudevan: I'll let Ashish talk about the profitability and the percentage revenue from wind. But in terms of customer pruning, that is a continuous exercise where if we find something unprofitable, we do look at what do we do? Do we do price increases or are we not -- do we not want to play in that market? That said, that is also an evolving situation because we -- with our more localized manufacturing, exploring alternate sources, different solutions for the customer, adding more value through innovation, we sometimes get back into that.

So I think our growth in the wind segment this quarter reflects some of those actions. We won back some of those business at a better margin because the customer understands the value we bring. But at the same time, there are still some which we have not got back into. In terms of percentage of business, go ahead, Ashish.

Ashish Saraf: Yes. So in terms of wind share of business, overall, it kind of continues to be in the range of 4% to 5% of our total business. In terms of margins, the margins on the wind business after portfolio pruning, they have become definitely positive, and they continue to be in the range of mid to high-single digit in terms of overall wind margin as a business.

Moderator: We'll take the next question from the line of Viraj from SiMPL.

Viraj: Just a couple of questions. First is, just wanted to understand the impact on gross margin a little better. If I look at our history over the last 12 years, right, and if I kind of derive the traded margin business, the traded margin business, except for 1 or 2 years in 2020 and 2021, has never traded below a single-digit margin.

It's always been around 13% to 14% or if I have to speak in a band, it's been around 9%, 10% to upwards of -- in one-off years to even 20% or plus. So I'm still not able to understand that when we kind of look at traded business portfolio and traded business margin, what is that the impact is -- what is that is driving the impact on the business?

Ashish Saraf: So again, I'm not able to understand your question. But as I said, the traded margins have been hovering, as I said, in the previous financial years, the margins were higher. They were close to double digit, whereas this financial year, the margins have rationalized to mid-single digits, which is in line -- if you look at our long-term margins on traded products, they have been in that range in a steady environment. And that's where it's kind of gone back to.

Viraj: So sir, when you say -- just a small clarification. When you say margins in mid-single digit, are you talking at the operating level?

Ashish Saraf: Yes, I'm talking at an operating level. That's right.

Viraj: Okay. So sir, then this -- going back to one of the earlier questions on margins in industrial versus auto for parent globally, in auto they earn EBIT margins of somewhere around high single-digits. For us in SKF India listed entity, how would the margins compare at the EBIT level or the PBT level between auto and industrial?

Ashish Saraf: So again, we generally do not prepare segmented financial statements, right, between -- at a statutory level for automotive and industrial, right? As I said, what you can refer because we did this analysis for the purpose of carve-out financial statements. And if you look at financial year '23, '24, the margins were similar, right? It kind of stood around 14%, 15% each for both of them.

Viraj Kacharia: Okay. Just 2 more questions. You talked about rationalization, which is driving the impact on gross margin and pricing being constant. Generally, from a pricing approach point of view, especially in the industrial business, pricing and margin point of view, usually, how do we go about when you kind of decide the pricing strategy in the marketplace for the industrial piece?

Mukund Vasudevan: I'm not sure I followed your question again. Can you repeat that again?

Viraj Kacharia: So in terms of -- I think if I look at one of the earlier calls, we talked about having a transaction margin approach when it came to operating on traded business, especially in the industrial piece. So when it comes to pricing, you talk about pricing being constant in the last 1 year. So just trying to understand like what is -- usually how do you go about in terms of a pricing strategy?

Ashish Saraf: Yes. So see, pricing strategy is relatively simple, right? Like if you look at financial year '22-'23 and '23-'24, we have had significant inflation, right, in the global economy, especially Europe, right, which basically pushed us significantly to increase end user pricing, right, in India for the traded products. Now since the pricing pressures have relatively stabilized, we have not taken significant price increases from our customers in this financial year, right? And that is where you don't see a significant variation in the pricing.

In terms of the traded products margin, we continue to follow the transaction net method process in terms of arriving at the overall margins for the traded products. As I said, since in the previous 2 financial years, our end user pricing were constantly going up, right? We were able to generate a higher margin for the traded products in those 2 financial years, which -- because in financial year -- current financial year, the prices have more or less been stable.

We have been able to maintain it at the mid-single-digit, which is -- which ideally should have been maintained, right, for the previous 2 financial years as well.

Viraj Kacharia: So on a long-term basis, on a blended basis, both for auto and industrial, given the kind of mix we have in traded versus manufactured, the kind of margins we earned maybe not in '23 or so, but we have been reporting around 15%, 16% kind of operating margins. Given the kind of mix and our players, should we expect this kind of margin to sustain for us?

Ashish Saraf: So again, the way we are looking at margin growth is through localization, right? So we do expect our margins to improve, right? Not -- again, currently -- the current year margins are going to be lower than -- are likely to be lower than what you have seen in the last 2 financial years. But in the long term, we do expect our margins to improve as we kind of grow in the market and as we kind of continue to localize.

Viraj Kacharia: Okay. Just last question. If you look at some of the competitors, they have announced and even commenced significant capex in SRB, CRB kind of bearings. When you look at SKF and in the industrial piece, you talked about 40% localization in the listed entity. So if you kind of look at the portfolio gaps globally versus what we have in India and in that sense, look at localization, can you give some perspective, kind of, what are the low-hanging fruits? Or how should one understand localization play for us in the listed entity over the next 3 to 4 years?

Mukund Vasudevan: So I think our investment is going to be -- I mean, we have committed it's going to be largely this year in line with what it was last year. We are continuing to expand wherever there's capacity needed. So in the automotive, for example, we need more capacity, and we will invest fairly rapidly. Similarly, in the industrial, we also have to make the right decision whether -- or to make sure that the return on invested capital is good.

So if we have capacity elsewhere in the larger SKF entity, we will try and utilize that if that makes the most sense for even the listed entity in India. So we're trying to optimize the supply chain to the extent possible. Where it makes sense, we will invest. Where it makes -- where it doesn't make sense, we'll continue to trade.

Viraj Kacharia: Sir, but if you look at the parent presentation, they talk about in the rationalization grouping, which the India entity is. They talk about rationalization or localization in India plus Southeast Asia to the tune of close to 70% -- 68%, 70%. So in that sense, do you see any opportunities for localization, not just for the India market, but even for exports to other regions -- other countries in that region?

Mukund Vasudevan: Yes, absolutely. We're continuing to explore that. I think there will be more opportunities coming up for those, whether it's for the local market or for exports. I think the global statement is, you're right, it says region for region. But it also if you see the full statement, it says region for region, but competitive supply chains also. So we want to make sure that we make the best decision and not just invest for the sake of investing in every region.

Moderator: We'll take the next question from the line of Ravi Purohit from Securities Investment Management Private Limited.

Ravi Purohit: Sir, again, I'll harp a little bit more on the margin side. So if you refer to '23 and '24 years, right? But if I look at our operating margins since 2018, and I'm not referring to only the last 2 years, I'm talking about last 7 years, right? Average operating margins for us have been around 16% to 17%, right? So far in the current year, we are at around 13%, 14%, right? So there is a material drop, and this does not look like last 2 years are unusual because last 2 years margins were also in the same band as we have been doing since 2018.

So sometimes there is a disconnect between -- either there is an increase in royalty or there is an increase in margin that the parent is keeping at its end? If you could clarify, it will be helpful because the numbers do not match, what you are mentioning about last 2 years being unusually higher margins, right? I can go back to 2018, and we've been doing 16%, 17% margins in each of those years.

In the last few calls also, Mr. Bhatnagar had also reiterated that we will focus on these margins and be in this band. And in future, as localization improves, our margins can actually go up. Parent in SKF in industrial side makes almost 19% EBITDA margin, right? So somewhere there is a disconnect. I think it will be helpful if we are more transparent and open to shareholders and help us understand this.

Ashish Saraf: Yes. So again one -- so one is nothing has changed, right, in terms of like when you say is SKF India paying a higher royalty or any other charges to group? We haven't changed anything. It continues to remain the same, right? Yes, as I said earlier, the net -- the transfer pricing calculations, it's governed by the law, right? It's not something that SKF India or AB SKF can decide how the transaction net margin method would work between the 2 companies.

And we kind of consistently continue to follow that. I have already explained you in terms of why the overall margins for this financial year were lower compared to the last two financial years. I can go back. I don't have the results for previous financial years prior to financial year '22, '23. I can go back and recheck and kind of come back to you on this if I see this anomaly.

Ravi Purohit: Sure. That will be very helpful, sir, there. We'll appreciate that explanation also because '18, '19, '21, '22, each of those years the operating margins were 16%. And I think Mr. Bhatnagar had also kind of mentioned that. And sir, another thing is -- I wanted to ask about is when you mentioned that currently the operating margins between auto and industrial in India are roughly very, very similar.

So we make on an average about 16% operating margin. And you just mentioned that the traded good margins are mid-single digit. So is it fair to assume the manufactured industrial margin are significantly higher and if you have to kind of put a sequence of order, manufactured industrial margin, then auto margin and then traded margin. Is there a correct sequence to follow?

Ashish Saraf: That is right.

Ravi Purohit: That is right. Okay. And sir, I think we had also mentioned in a couple of our calls and AGMs in the past that we are looking to spend INR100 crores, INR150 crores every year for the next 3 years. Are we on course on that and could you break up on that capex between industrial side and auto side?

Ashish Saraf: So again we continue to spend our capex in line with what we have promised. If you look at even the current financial year, we have spent close to almost already around INR100 crores for this financial year. So we kind of continue to be in the range -- we will continue to be in the range of INR120 crores to INR130 crores as we had communicated earlier. In terms of the capex split between automotive and industrial, I currently do not have numbers available for me to kind of tell you what's been the mix of our investment into industrial and automotive business.

Ravi Purohit: Just one request. Will it be possible for you to kind of give us at least 2-year or a 3-year pro forma numbers between industrial and automotive, just to get -- see because the thing is it's a big event that is happening and it will be useful if shareholders have all the information before. I don't know if there will be a vote for this. And if there is a vote, it will be easier for us to kind of take an informed decision once we have some clarity. We are not talking of audited numbers, but at least pro forma some idea of last 3 years?

Ashish Saraf: That has already been shared as a part of the carve-out financials that we had to submit to SEBI, the same is available if I'm not wrong on SEBI website.

Ravi Purohit: But those numbers indicate zero sales and zero profit numbers everywhere because this entity did not exist. This 100% subsidiary that we have been formed and if I look at the 3-year financials for that subsidiary, it will not reflect any revenue because there was no revenue for that subsidiary?

Ashish Saraf: No, we have -- as a part of our demerger requirement, we had to share the carve-out financials of the previous 3 years.

Ravi Purohit: Of the Industrial division?

Ashish Saraf: You are asking about forward-looking or...

Ravi Purohit: No, previous 3 years.

Ashish Saraf: Previous 3 years. So previous 3 years have been shared with SEBI. It's a public information available on the website. You can go and have a look.

Ravi Purohit: I have checked, sir. I've checked three times. I could not find the numbers and the numbers that are given for the 3 years actually indicated zero revenues because...

Ashish Saraf: You are checking for SKF industrial, you need to check for SKF India. There you will see the demerged accounts between industrial and automotive.

Ravi Purohit: And we have provided those for 3 years?

Ashish Saraf: Yes, that's right.

Ravi Purohit: Okay. We'll check if you are not able to find, I'll reach out to our Company Secretary and...

Ashish Saraf: You can send us an e-mail and we can share the link where it's available.

Ravi Purohit: Okay. Thanks a lot. Really appreciate it.

Moderator: Thank you. The next question is from the line of Bharat Sheth from Quest Investments. Please go ahead.

Bharat Sheth: Hi, sir. Thanks for the opportunity. Sir to understand a little more about this scheme of demerger. So when we are talking of industrial side of 40% manufacturing, so that 40% which is currently being manufactured by SKF India or it also include our SKF technology sales?

Ashish Saraf: This 40% is the products which are manufactured in SKF India.

Bharat Sheth: Okay. So post demerger, how does this transaction between this SKF India and SKF Industrial unit will take place?

Ashish Saraf: Can you repeat the question? It's not clear to me.

Moderator: I'm sorry to interrupt Mr. Sheth, your voice is muffled. Could you use your handset, please?

Bharat Sheth: Yes, I'm using now. Is that clear?

Moderator: Yes, please proceed.

Bharat Sheth: See, currently, it is being manufactured. So once both the division will be splitted and there will be a separate entity. So SKF India will sell it to this SKF Industrial unit or so that manufacturing will be also shifted to SKF Industrial?

Ashish Saraf: So again, this is currently being worked out. This is not something we have finalized yet. Once we have internally finalized, we will definitely share with all the investors.

Bharat Sheth: Okay. And sir on second piece, I mean when we are talking of product rationalization is this trading business. So how we are placed -- I mean, first, I mean, vis-a-vis peers we have a lot of domestic manufacturing. And with -- second thing with our portfolio coming down, so providing a full solution to our industrial unit side?

Ashish Saraf: Again, can you be more clear to -- with your questions it’s not clear.

Bharat Sheth: We are pruning the portfolio, I mean, some of the -- rationalizing the portfolio on the industrial side. So how that -- how it is going to affect our sales?

Ashish Saraf: So as I said like portfolio pruning is a continuous process wherever we see opportunities, wherever we see that as a company we are making losses, we constantly prune those products, either we modify those products to be more competitive or create a unique value proposition with our customers to get a better value from the customers. In case none of them is possible, as a company strategy we do not want to be in a loss-making business. So we kind of continue to prune some of those accounts as well as those products.

Bharat Sheth: Okay. Coming back to the solution side of the business, which we started about a few years back. So that business will go under with the industrial or it will be also -- there is -- auto side also, there is -- some kind of solution business is there?

Ashish Saraf: You mean the services business?

Bharat Sheth: Correct.

Ashish Saraf: So the services business is predominantly industrial. It will move to the industrial business.

Bharat Sheth: And last point sir with this portfolio rationalization, will it -- I mean, our product gap, how do we plan to compete vis-a-vis other peers when there will be a product gap?

Ashish Saraf: So as I said that we constantly continue to compete with our peers. And we would do as a company whatever possible either to create a strong value proposition for our customers, be cost competitive. And for -- if for any specific reasons or challenges, we are not able to overcome that and we are not able to compete in the market at the price point at which the market is asking us to compete, we would do portfolio pruning to make sure that we cut our losses. We do not do loss-making business.

Bharat Sheth: Okay and thank you. All the best.

Moderator: Thank you. The next question is from the line of Lakshmi Narayanan from Tunga Investments. Please go ahead.

Lakshmi Narayanan: Two questions. One is that if I understand the industrial business which you're saying it's around localized, almost 35%, 40% is localized. Just in the last 9 months or maybe the calendar year. if you can just give me the split of the industrial business by made in SKF India, made in SKF Technologies and made outside?

What is the split of this business between made in the listed, made in India but not in the listed and imported? And how does this number fare for the previous calendar year or previous 9 months, whichever thing you have?

Ashish Saraf: So currently, I don't have this data available with me. If you can send us an e-mail, we can get back to you.

Lakshmi Narayanan: Okay. And the second question is that, see, there is some kind of agreement between how all the things has to be going through the listed company, all the traded margins that SKF Ahmedabad as well as SKF Imports, all the sales of the industrial bearings will go through the listed entity, right? That's the current arrangement, if I'm not wrong?

Ashish Saraf: That is right.

Lakshmi Narayanan: Okay. Now is there a possibility of this getting changed? Or like is that all -- is it in the annual? What will happen if there is a decision to you're actually creating another company, whether the same kind of rights would be applicable on the new subsidiary or it will be different?

Ashish Saraf: It will continue. As of now, there are no plans to change that. It will continue as is.

Lakshmi Narayanan: Got it. So -- and the last question is that among your various facilities, which are in the listed entity, how much -- which locations will have the industrial operations also so that how do you intend to separate out when you have industry. For example, in Pune, if you have both industrial and automotive under the same premises, how do you intend to demarket and change? Which are the plants where this issue will be there?

Mukund Vasudevan: So this is still under evaluation. As you can imagine, it takes time to make those decisions. So it's still under evaluation. As soon as we have an answer, we will communicate to you, right? Hopefully, in the next couple of months, we will communicate this to you. But it will be done in a way which is kind of makes both companies successful and sustainable in the long term. So it's not that there will be a bias towards 1 listed entity versus the other.

Moderator: The next question is from the line of Priya Ranjan from HDFC AMC. As the current participant did not answer, we'll move on to the next question, which is from the line of Mayank Bhandari from Asian Market Securities.

Mayank Bhandari: Sir, my question is again on the margin side, as you've been highlighting localization, pricing, portfolio clean-up, a lot of initiatives are there, which should ideally be leading to increase in the margin. But we have seen very sharp fall in the last 2, 3 years. So just to understand, have we reached the bottom of the margin, what do you say?

Mukund Vasudevan: So we would hope so, right? I think you would continue as Ashish had also mentioned, we will see -- even in the next quarter, you will see hopefully an uptick as it has come -- even the last 2 quarters, you would have seen an uptick itself. So you'll continue to see that. We expect this to kind of normalize back to the 14% to 15% range. But in terms of long term '18, '19, we said we'll come back to you. Let us come back to you with that compared to '18, '19, if there has been a drop and why.

Mayank Bhandari: And sir, in the numbers you have given like 23% growth for the industrial for the quarter, how do you categorize this as a volume versus value growth?

Mukund Vasudevan: Largely volume, right? We can give you exact numbers...

Ashish Saraf: So in Industrial almost 19% was driven on account of strong volume growth year-over-year out of the 23%.

Moderator: The next question is from the line of Dishant Jain from Anand Rathi.

Dishant Jain: So my question would be what is the traded mix currently and for Q2?

Mukund Vasudevan: Can you repeat you question? Couldn't hear you.

Dishant Jain: What is the traded mix in Q3 and Q2? And what is our expectation for the medium term?

Ashish Saraf: Yes. So Q3 traded business was to the tune of around 39% overall.

Dishant Jain: Sir, sorry to interrupt. I mean traded mix.

Mukund Vasudevan: Yes. So that is of the overall traded was 39% is what -- if that's what you're asking.

Dishant Jain: Okay.

Moderator: The next question is from the line of Lakshminarayana from Ocimum Capital.

Lakshminarayana: I have 2 questions. And the first one is, while you highlighted that you would demerge back in December. As shareholders, we were expecting some separate meet or a call where you would explain the rationale and you would give us some sense of your value creation road map. So in this earnings call, I don't know if it's the right forum, but would you intend to do that a few -- maybe a couple of months later? That's the first question.

So we are not really sure how you would go about creating value in the new business, which is the industrial as because, by and large, it is like mostly a trading operation because the way we think about it is the management has a fantastic opportunity to bring in focus and ensure better capital allocation. So that's number one.

And secondly, if I look at your gross profit margin, it came in around 33% and somewhere around that for the last 2 quarters. But this is the lowest I've seen even going back to FY '16. So the lowest was never this bad. So I just wanted to understand what has changed on the ground for us to report this, especially when the peers are reporting exactly -- reasonably good margins. So I couldn't understand how this transfer pricing thing worked so suddenly drastically for us to report such low numbers? So these are the 2 questions.

Mukund Vasudevan: Yes. So to answer your question, we will come back to you. I think we are planning to have some kind of a call to talk about more -- in detail about the demerger. But the timing is not right, right now. It's more -- it's very -- as we said, it's right now high level in terms of what's the rationale. Specifics, we will share with you soon. So we will try and set up another meeting or a call for it.

Ashish Saraf: And especially on the gross margin at an overall level, I don't see a significant change, right? We continue to be in the range of 35%, 36%. If -- because I don't know how you are calculating the gross margin, if you can come back to me with a specific question around that on an e-mail, I can come back to you with a response.

Moderator: We'll take the next question from the line of Senthil Manikandan from iThought PMS.

Senthil Manikandan: Sir, globally, parent has secured a company on the lubrication space, JSG. So if you can just share how this will impact our business in India, either directly or indirectly? That's my first question, sir.

Mukund Vasudevan: Okay. So JSG was doing 2 things. One, it was distributing some of the lubricants, which we make, that is one. Second, they were making solutions to do lubrications. This is machines to either automatically or manually lubricate industrial machinery. That's what JSG was doing. It's a large business in Australia and Southeast Asia and less so in India.

But this is an opportunity for us to bring some of those solutions also into India. It's still early days. The actual closure happened only in October. Right now, we're still evaluating how we structure it, how -- what are the synergies to bring it into India. But there will be opportunities.

Ashish Saraf: Just to add here, lubrication business per se is not -- like currently, the lubrication business that we have in India is not done through the listed entity. So just -- so even if there is an opportunity, as of now, based on the current structure, any lubrication business may not come to the listed entity as well.

Moderator: The next question is from the line of Ravi Purohit from Securities Investment Management Private Limited.

Ravi Purohit: So outside of margins and mergers now, so just wanted to understand a few things on the business side, right? If you could kind of just give us a sense of how the realization on general bearings as a product have changed over the last few years. The context is like in the previous capex up cycle, we saw a lot of capex being done by thermal power companies and infra companies?

And this current capex cycle, you are seeing more and more electronics manufacturing companies, renewable companies who are doing the capex, right? Earlier, the capex in railways used to be on rigs and conventional bogies. This time around, a lot of the -- all the new bogies or coaches or rigs that are coming in are of different types. They are faster. They look better.

They are also far more equipped in terms of braking systems and in terms of other things. So for the same unit of capital stock on the ground, the realizations on bearings -- is it a fair assumption that the bearing realizations are far higher this time around compared to what they were in the previous cycles?

And going forward, in terms of electronics manufacturing or solar, you have solar tracker, I think so. We have done a lot of work on solar trackers also. So if you could just kind of share some insights as to the kind of bearings that are coming into the market today and the realizations on that. And based on that, what kind of growth can the overall sector itself see in the next 5 years to 7 years?

Mukund Vasudevan: It's a very broad question, but I'll try and answer it as quickly as possible since we are over time. Okay. Let me start with -- I think the current capex cycle, we're still seeing -- contrary to what you were saying, we're still seeing some in the metals industry still going on in steel, aluminum, etc., with the infrastructure spending and cement, sorry. With infrastructure growth happening, we're still seeing some capex cycle there, okay?

That said, you're right that some of the emerging industries are -- we're getting higher realization and probably capturing most market share also. Railways, for example, we're going more to high-speed trains and we're getting more share there. Whether -- in renewables, less so on solar, more so on wind. There is changes in technology, which we are capturing our fair share in.

In electronics, globally, we have a fairly strong presence, especially in China and America. In India, because the industry is relatively small right now, we don't have as much. But as and when it emerges, we will see that, and those are high -- to your point, they are high-margin products.

So yes, I think what you said is right. There are changes. Also in automotive, EVs is something which is emerging, and that also plays to our strengths. Some of the products we have very high market share in EV bearing with higher realization in each bearing.

Moderator: Thank you very much. Ladies and gentlemen, as there are no further questions from the participants, we will close the conference now. On behalf of SKF India Limited, that concludes this conference. We thank you for joining us, and you may now disconnect your lines. Thank you. Thank you, members of the management.

Mukund Vasudevan: Thank you.

Ashish Saraf: Thank you.