"Timken India Limited
Q4 FY '24 Earnings Conference Call"
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MODERATOR: **MR. RAM SESHAN – AVENDUS SPARK**

Moderator: Ladies and gentlemen, good day and welcome to Timken India Limited Q4 FY '24 Earnings Conference Call hosted by Avendus Spark. This conference call may contain forward-looking statements about the company, which are based on the beliefs, opinions and expectations of the company as on date of this call. These statements are not the guarantees of future performance and involve risks and uncertainties that are difficult to predict.

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I now hand the conference over to Mr. Ram Seshan from Avendus Spark. Thank you and over to you, sir.

Ram Seshan: Hi, guys. Good evening. This is Ram from Spark Capital. Appreciate everybody logging in. Very pleased to be hosting Mr. Sanjay Koul, Chairman and Managing Director of Timken India, along with Mr. Avishrant Keshava, CFO to discuss the 4Q results. We'll start with brief opening remarks from Mr. Koul, followed by a Q&A session.

Mr. Koul, all yours.

Sanjay Koul: Thank you, Ram. Thanks a lot. So my opening remarks, I would be limiting so that we can directly go to the Q&A. However the highlight of the Q4 '23-'24 performance were that we had a record quarterly revenue of INR898 crores, which were up double digits from last year same time, mostly rail and domestic sector.

Unfortunately, the exports were down. And we still see that export markets are not going to be buoyant in short to medium term. And obviously, we are also having the elections here, so that is also full of challenges. Otherwise, the performance remain solid. And also currently, we are working very hard on our new plant, which is coming up as per plan. Other than that, I would go to the Q&A and add more value to that. Over to you.

Ram Seshan: Start the Q&A, please, Muskan.

Moderator: The first question is from the line of Krupashankar from Avendus Spark.

Krupashankar: Just first up question is on exports side of things. Just wanted to pick your brain on sequentially how you are seeing things improving on the exports piece. And if you can throw some colour on the Class 8 demand as well and how you are seeing that shaping up?

Sanjay Koul: So on the export side, as you all know that we export to both the global rail markets out of Timken India Limited. And also, we export for the heavy truck to the different markets around the globe. On the rail side, South America is pretty robust. So they are doing pretty well, that market is doing pretty well on the rail side.

However, on the heavy truck side, it is not where it should be and it is soft. And the soft landing is not expected in the H2. It looks to be in the short and medium term, it will remain soft.

However, the rail markets are doing well in South America for a change and North America is okay. But the heavy truck market is, for sure not doing well. So that is looming large, and then the U.S. market have their own elections in November, so there is little bit of an uncertainty there.

Other than that, the local markets, especially the rail in the domestic market is doing pretty well. Australia is flattish; ASEAN, flat to low; China, especially for wind, is pretty much down. So globally there are some pockets of bright spots like South America. Other than that, India, obviously holding on, and no other major India-style that kind of GDP growth is not happening in the near term.

Krupashankar: Got it, sir. Sir, also a bookkeeping question, if you can share the revenue breakup for the quarter as well as for the full financial year that would be really helpful?

Sanjay Koul: Yes. For the Q4, our revenue breakup was, rail was 34% in the quarter. And mobile, others was 17% and distribution was 19% and process industry was 17% and the exports were 14%. So that was for the Q4.

And then for the full year, the rail stood at 23%, the mobile, which is the heavy truck, off-highway, was 20% of the pie and distribution was 18%, process was 19% and export was 20%. And if you see that was the whole year '23-'24.

And if you compare this with '22-'23, rail was 17%, and this year -- we completed the pie was 23%. And mobile, others remained flattish 20%-20%, distribution same, 18%-18% and process was 16% in '22-'23 went up to 19%. And the exports came down from 28% in the pie to 20%.

Moderator: The next question is from the line of Abhishek, DSP.

Abhishek: Sir, just coming back to the current quarter, we have seen very strong growth as far as railways is concerned. Any thoughts? Is it led by more wagon manufacturing kind of happening, and that's resulting in more bearing requirement? Is it Vande Bharat? Or is it just a one-off? Any some indication on the rail sustainability part as far as growth is concerned, sir?

Sanjay Koul: Rail, obviously, the rail market is pretty much buoyant in India currently both from the fact that more wagons are getting built and then also Vande Bharat and then with a little bit of metro and also locomotive. So rail certainly is going to remain, as I always say, that this rail will always be better than the previous years for many, many years to come.

India has to do lot more in railway, and the intent of the Rail Mantralaya is very much there. So that is on. That is why we see Vande Bharat, we see speeds getting over, going up, we see electrification happening. And we see double tracks being laid wherever there was single tracks, which means that they want to put more trains on the tracks and then dedicated freight corridor slowly, steadily picking up.

As they get more land, definitely, they want to move freight out of the normal lines and keep passengers as lean as possible so that more passenger traffic can be taken, so clearly, on your question, it is a sustainable model. And that, obviously, quarter-to-quarter might be little bit of aberration here and there. But year-on-year, there will be always growth for the next many, many years for rail in India. So that would be my answer for that.

Abhishek: Okay. That's very helpful. Sir, would you still be maintaining 50% market share? Or would your market shares have moved up in railways?

Sanjay Koul: So as you know that we've been in railways from our parent company also in this game for many, many years. And then we have created the optimum supply chains for railways. Our center of excellence of railways is in Jamshedpur. And then also on technology front, which we get from our parent, we are continuously upgrading those and whether it is sealing technology, whether it is greasing technology, whether it is the material finds of it etc., so that there will be a life of these bearings go up and uptime of the rail in itself goes up. So that would remain to the core of it.

Abhishek: Okay. Sir, but just in terms of the railway part of it, you think you have enough capacity or at some point, will you also have to add capacity? Any thoughts on the same?

Sanjay Koul: Yes, good question. Certainly, I think the rail capacity as it goes today and we are also exporting it in some markets at times are being like South America is doing pretty well, And we are looking at these capacities very closely. And so that we don't want to be saddled with fixed cost, but at the same time we don't want to be saddled with non-capacity. So yes this is a very good point for evaluation and we are evaluating and seeing how do we increase the output and also the base capacities. We have not taken any decision yet as we speak, but it is on our active consideration list.

Abhishek: Okay. Sir, the other segment which has done well for you is the process part of it which has seen -- which has been seeing healthy improvement. Sir, any thoughts because that's a segment which caters to the steel, cement and the power part of it. And we are seeing a lot of steel capacities coming, cement capacities increasing, a lot of solar panels are being put up. So any thought on the growth trajectory of this segment which is process industry?

Sanjay Koul: Yes. So, both in terms of putting the new steel capacities in which means that the more mills would come in and then also continuous running of the steel mills so that the output is harnessed. So steel industry certainly will remain pretty healthy in India and it should be.

Our per capita consumption of steel is low if you see countries like China and others. So our per capita consumption is pretty low and we need to produce more steel, sustainable steel, green steel. But they are all form of steel will need bearings and Timken obviously for ages around the globe are well versed in the technology of the rolling mills and how do you produce those bearings.

And as we speak, our Bharuch plant will also help us in this area whether it is cement or it is power or it is steel. And we must be the only company in India which run more than 26, 27 roll shop inside the steel companies. You name the steel company we are inside, we are 24*7 – de-choking, choking, mounting, demounting and things like that.

So this market will remain pretty nice as we need more steel for building the infra in India. And we -- from the Timken India side will remain close to the customer and we will make sure that we ride the wave as it comes. And it is -- obviously, we all know that a lot of steel companies are investing, enhancing capacities and also producing more and more.

The shape might change. People might go start putting more electric arc furnaces which means that they would like to reuse the scrap steel etc, but they have to do rolling. They have to do rolling and things like that. So, we see a nice growth in this market.

Abhishek: Great, sir. Sir, one last question. In terms of the new capacity, we see a fair amount of capex being done, almost about INR260 crores kind of operating cash flow has kind of got invested or capex has been done. Any thoughts on the timeline, sir? Are we on time to get it up and running by fourth quarter of FY '25? When can one see the traction?

Sanjay Koul: Yes. So just to give a flavour, main shop floor still work has been completed. And our pre-engineering building is all up and roofing is in progress. Our major high-tension wire cabling, etc, roofing and all that substation, switchgear work is in progress. I'm glad that our system -- ERP system is already in place and is live currently for the new plant.

And likely, production start is same as per plan. So we should be able to -- the machines are either on the seas or landing in Bombay from different parts of the world as this is going to be a high-tech plant with a lot of robotics and IoT and things like that. So things are moving. And the direct short reply to the question is that we are on time and should be PPAPing by the end of this year and commercial production thereafter.

Abhishek: Great sir. I have few more questions I will come back in the queue. Thank you so much.

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

Ankur Sharma: Just going back to the export piece. And if I heard you right I think you said the quarter gone by, exports were at 14% which possibly is one of the lowest we've seen in a very long time. So are we -- I mean, obviously, there would have been both a Y-o-Y and a sequential decline there. But are we like near or at the bottom and therefore at least going into the next few quarters we start seeing an improvement or is that also a little difficult to call out?

Sanjay Koul: So I would say that, yes, this quarter was amongst the lowest definitely. You're absolutely right bang on this was amongst the lowest. While the next quarter might be a little bit better but the idea of soft landing which was earlier thought that by H2 U.S. market would be up and running with full speed, that is not seen by us both by our principal and we from here looking at that window. It is going to remain a little bit soft for sure.

And short term, medium term, maybe the last quarter was among the lowest. I think it has bottomed out and next quarter might be slightly better and thereby, but kind of going up like a hockey stick is not happening this year. But definitely next quarter might be better than the previous quarter and thereby makes slightly better. But overall, short term, medium term, export markets would remain soft which means that if you look at the calendar year January to December would be kind of soft with January to March among the softest.

Ankur Sharma: Right. And I'm just wondering because is it primary driven by the weakness you expect in the heavy truck, the Class 8 market in the U.S.? Because I thought you said the rail markets are doing okay? So it's more to do with the decline in the U.S. market?

Sanjay Koul: Yes. So rail market in South America is doing well. Rail market in North America are okay-okay-ish and heavy truck market is not doing well. And then we are also exporting, Australia is also flattish. ASEAN is definitely low. And so overall it is for the heavy truck – and even in India the heavy truck is also flattish. So it is kind of a global phenomenon.

Ankur Sharma: And are we -- is the parent also exploring options for maybe sourcing more from us in India? Is that an offset or a leveller that we may have as well?

Sanjay Koul: So the global supply chain folks are always looking at options of sourcing, resourcing. But as you know that resourcing, changing source it is like steering a very big ship, cannot be done overnight and things like that. So the evaluation of sourcing, resourcing, all that will always be there but the plants in -- we have a plant in Mexico, we have obviously plants in different parts of U.S. and we have, parent has a plant in China, etc. So sourcing from India will remain attractive. But overall, the markets have not -- not really doing so well so including the off-highway market in America, even that is not doing that well.

Ankur Sharma: Fair. Okay. And just on the distribution piece which is the aftermarket and I'm assuming a more stable and also more profitable business for you. Fair to assume that keeps on growing in that 10%, 12% kind of a range in line with maybe nominal GDP? Is that a fair assumption? And also what is driving that growth there?

Sanjay Koul: So when you talk about aftermarket there are two kinds of aftermarket. One is the MRO business for the industry, say for example, a steel company needs to produce steel, cement needs to produce cement; energy needs to produce energy. So obviously, they have their life cycle for the bearings. So that market will keep on growing and your GDP itself and any good company wants to outgrow the market, so if you're GDP is growing 6% to 7%, and you want to outgrow let's say at 50%, so you grow double digits. Like MRO market is bound to grow and grow.

The other market is the auto aftermarket. So when I mean new trucks are not built and auto aftermarket is obviously using more trips or ferrying more payload and is obviously consuming more bearing but auto aftermarket in India is always going after -- especially believe in going after cheap bearings and differential-pinion doesn't get replaced so fast.

So, on the one side of industrial distribution, where we focus more is going to remain pretty solid. And the auto aftermarket is going to be commoditized to a large extent, which is happening in the market.

Ankur Sharma: Right. And just one last one on our utilization levels, both in Jamshedpur and in Bharuch. Fair to assume while exports are a little weak, the strong growth in rail and the other industrial aftermarkets should kind of keep us fairly busy and...

Sanjay Koul: Jamshedpur is running 6 days full 3 shifts. Bharuch is also running more or less full. We don't see that going down. And Jamshedpur is running flat out. I would say our Bharuch plant might be a little bit 5-odd-percent less loaded. But overall, both plants are running -- currently as we speak, are running full.

Ankur Sharma: And if you could also just give me the comparable -- the sales breakup for Q4 '23. I think you gave the number for '24. If you could just share the same for the last year.

Sanjay Koul: So Q4 -- if you want Q4 of '22 and '23, the rail was 23%, mobile other was 20% and 19% was distribution, 18% was process, export was 19%.

Moderator: The next question is from the line of Rishi Vora from Kotak Securities.

Rishi Vora: Sir, first on the margin side. If we look at it on a Y-o-Y basis, our margins have improved by 300 basis points. While operating leverage would have played its part, but at least in terms of mix, if you look at it, railway has done better and export has not -- has declined, which in terms of mix is inferior. So what explains the margin expansion? And do you think these margins are sustainable?

Sanjay Koul: So, the margin performance largely is driven by volume and product mix. So utilization was better. So that helped the cause. When you can overleverage capacities, so that has an impact on the margins. And the second is that post-COVID, everybody in the industry has been relentlessly leveraging cost or cutting waste or making sure that the waste is out of the system.

And now because of the push on ESG, especially sustainability, so everybody is trying to see and make sure that supply chains are circular, they are shorter, smarter. So I would say that an answer to your question, strong margin performance in the quarter largely was driven by favorable volume and product mix and the better cost leverage we have been trying to do in the area of supply chain.

And on top of that, despite the fact that steel prices have come down. Labor, obviously, keeps on going up. So, we have been working very hard on price realization. And that has remained pretty much our continued effort on price realization despite softening of the metal prices. So we are generally, the OEs would only look at steel.

Now we are trying to discuss and bring their focus on the other aspects of the pricing, not only steel pricing. And when you are a natural supplier, how much productivity increase can be done over a period of time and we're already supplying for 40 years. So that will also a go-to-strategy, especially when the application is where you can harness value. I hope that answers your question.

Moderator: The next question is from the line of Rajesh Kothari from AlfA Advisors Private Limited.

Rajesh Kothari: Just a few questions from my side. The first question is on the railway side. Can you please share in terms of this growth? Because generally, the railway CapEx is yet to happen in a big way. So over next 2 to 3 years, do you expect this segment to continue to grow at 25% to 30%? And if yes, how much you think is primarily driven by, say, Vande Bharat and metros compared to the freight-related railway segment?

Sanjay Koul: So I can't tell you whether it will grow 25% to 30%. But as I have been telling over the years that rail in India will always grow. The growth might not be like a huge hockey stick, but it is bound to grow year-on-year, year-on-year, it has to grow for the simple fact that we don't have enough track kilometers.

When you lay more tracks, you need more trains, you need more stuff and as you produce more steel, as you produce more cement, then you need those wagons to transport it, then we have an aging wagon population as well, despite the fact last 5, 6 years, we've been pushing these wagons, but still 300,000 population of these BOXN wagons need to be overhauled especially, replaced especially because of the fact that Dedicated Freight Corridor is slow and we cannot afford to have a bad wagon or a hot axle on a track where the passenger is coming every 2, 3 minutes.

So long story short on this is that Indian Railways will grow Y-o-Y, Y-o-Y, Y-o-Y, it will keep on growing. Some years it will be better, some years it will a little bit less better, but it will keep on growing. The other question is that India on the mass rapid transportation is bound to invest more. Every state, every city needs metro because of the fact that the roads within the city are limited. So your metro population will keep on growing. But the metros don't use mass amount of cars and bearings. So -- but it is still a segment which will keep on growing.

On Vande Bharat and related area is that now the good old Schlieren passenger car, which was the workhorse of Indian Railways, needs to be replaced all over India because of the fact that it has a limitation on safety, et cetera.

So the modern coaches of Vande Bharat and speed enhancement, etc., etc., will keep on happening. And as we see in Europe, as we see in China, the speeds are much, much higher. We still have to catch on the average speed of say, 175 kilometers and then maybe beyond that. So this segment will also keep on growing. So whether it is 25% or 30% or 10%, but every year will be better than the previous year.

And the CapEx obviously has to happen. Now some years we might be able to buy like last mega tender of 90,000 wagons and then there was a little bit less, then again, they are working on a master plan. So the master plan on infrastructure certainly has a major play for Railways and electrification of 1,000 locos a year and all that stuff. So this sector in India will grow for many, many years. Now whether it will grow 20% or it will grow 5% but it will keep on growing.

Rajesh Kothari: So while I clearly understand the macro tailwind, what we are witnessing, but in terms of the visibility, so typically, how it works, you get a visibility for next 12 to 18 months because, say, companies like Texmaco or Jupiter, they might be – you might be supplying to them. So they give advance orders to you, which is to be executed over 12 to 18 months? Or is it like every month, you get the orders and you have to supply to them?

Sanjay Koul: Yes. Railways generally tend to be long-term orders. So then you win a bigger order, and then you keep on supplying. So it is not – even in – let's say, even in OE making truck, they will do an annual contract and then pick up based on his demand. And same goes for the wagon builders.

They will do a large -- say for example, so x building wagon gets a 20,000-wagon order and which means that his capacity, if he do 3,000 wagons a month and he has to complete these 20,000 wagons. So obviously, he needs 3,000 into 8 bearings every month, which is 24,000.

He will be able to using take five, six months of order. And generally, rail -- because of the fact that they need to – they need the wheelset, they need to mount the carriage and turn it out. So they want to push it out, so that they get their money back quickly. So it is generally -- I would say it is an order for which lasts 24 months, but certainly between six months to 12 months, the order would last.

Rajesh Kothari: So basically it means that in terms of you would have certain visibility for the current year as well...

Sanjay Koul: Yes, we have -- yes, definitely, we have the visibility for this full year as we speak.

Rajesh Kothari: And that looks reasonably robust as you see the order book as on now in terms of -- that looks reasonably...

Sanjay Koul: Yes. It looks pretty robust touch wood. And then as we get into October, then our visibility will go into '25 mid till that time.

Rajesh Kothari: I see. So they would it be -- I'm not too sure, but is it possible for you to share some numbers in terms of the, say, order intake or something like that? Because macro tailwind, of course, is there for the next 10 years for India, correct? Amrit Kaal is going on. But that growth of 10, 20, 30, 40, there's a big difference between the two numbers, correct? And to that extent, of course, the profit variance is also very, very high. So would it be -- might be -- you might use in a different terminology or high-teen, low-teens, high-20s, low-20s. But some indicators definitely will be useful for us.

Sanjay Koul: Yes. So I can tell you that it is robust. We have order book, which is very strong. Beyond that, obviously, I don't want to share. But as we speak, the next 15 month are pretty robust.

Rajesh Kothari: Super. Sir, my second question is with reference to the automobile segment. Typically, the commercial vehicle segment is a very bulky segment for you. And CV industry is right now going through the, what I would say, consolidation or maybe a little bit downward kind of a trend. But despite that, our margins have improved because normally, this is considered with a little bit higher-margin segment. So how we should read that? And despite CV kind of a little bit slowing kind of a growth, you have still reported reasonably good number in the mobile segment. So how we should read this?

Sanjay Koul: So obviously, now we have reported margins as a whole, and not in mobile. We have obviously given the whole quarter consolidated margin. That is how it is. Now if you want to say that for the CVs were flattish and rest was whatever percentage. As I said earlier, I think Ankush was asking the question that, margin performance in the quarter is obviously product and mix and leveraging the capacity always plays a role. And then our consistent work in the area of supply chain, steel optimization etcetera that plays a role.

So our endeavor obviously, always is to have a better margin. But sometimes, the mix is to your disadvantage and sometime, it is to your advantage. So, depending on the forecast and the buyers and things like that. So, this quarter, the margin performance is if I have to kind of say that three major points is volume-product mix, cost leverage which was there and then Timken India Limited, we are relentlessly working with our customers on price realization. And we've been kind of market leaders in asking for better pricing in the fraternity.

Rajesh Kothari: And inherently, the railways margins would be, compare to say company average margins, if you basically put this, which will be the highest in that order, say, between railway and mobile and process and exports. How do you basically rank this?

Sanjay Koul: No, I would not like to rank.

Rajesh Kothari: Okay. But at least railways will be higher than the company average? Would that be a safe assumption?

Sanjay Koul: No, I cannot give you my core competence since that, the point is generally, I would say that the aftermarket is always around the globe -- any segment aftermarket is always the most profitable.

Rajesh Kothari: Sure. And last question from my side. In terms of the competition, how do you see the competitive landscape, particularly on both railways as well as in the process side? Because the competitors are also entering into a few segments, where Timken has a traditionally very stronghold. So would you like to comment on that?

Sanjay Koul: Yes, competitors always were very, the competitors and competition has been there and will remain there. And obviously, there are in this segment still today, there are only few companies which have the technology, there might be companies who have money to say buy a foreign nice, great grinding line. But then there is a lot of application engineering, customary engineering, product technology, manufacturing, which only a few companies have.

And I'm not saying that the competition will not have everybody in this market over the years. But and this is again where, the mobile we had in 1998, the mobile handset we have today, you can understand what is the technology change happening. The car which I drove first time when I joined Tata Timken back in 1990, the Premier Padmini, I used to carry all the spark plugs, panna, petrol bottle, everything.

Now, I don't need to keep it there. So, all that put together, I would say tha, the parent is relentlessly innovating. And obviously, other few companies are relentlessly innovating and this market needs innovation. And then, new segments, sunrise segments are coming. For example, I'll give an example that the solar used to be fixed panel. Even in India, till last year, it was generally fixed panel.

And then all of a sudden, people understood that, hey, you have to leverage solar to the maximum. And the sun direction to the panel is changing. Now, rotating panels, which means small gearboxes, bearings, etc. So, that is one new segment. And not everybody will have the technology to cater to that. Food and beverage, food and beverage is another segment.

Very few people will have the technology to have that kind of bearings or solutions for these new industries which are coming up. And then, obviously, wind, very few companies will have the reliability to cater to, today it is in India 3 to 5 mega, but globally, even 15 megawatt windmills are installed. So, you need highly reliable, highly technologically advanced bearings. So, we will relentlessly work on innovation. We are working on innovation, optimizing supply chains and things like that. So, competition is welcome. And we will compete and everybody will compete. And winning is important.

Rajesh Kothari: What is your capex for FY '25 and FY '26?

Sanjay Koul: Okay. I think I am not sure. I am just asking Avishrant, our CFO, to check that.

Avishrant Keshava: Plus INR400 crores.

Sanjay Koul: More than INR400 crores.

Rajesh Kothari: So combined? You mean both combined?

Sanjay Koul: Both combined meaning?

Rajesh Kothari: Sorry, is it each year? Or is it '25 and '26 combined?

Sanjay Koul: '24-'25, INR400-plus crores.

Avishrant Keshava: That includes Bharuch

Sanjay Koul: '24-'25.

Rajesh Kothari: Yes. You mean...

Sanjay Koul: These too in March 31st of '25

Rajesh Kothari: Okay. It means by 31 March '25, you will spend INR400 crores, correct?

Sanjay Koul: Yes.

Rajesh Kothari: Okay. And for '26?

Sanjay Koul: '26, I don't have the figures yet. But so this financial year will be INR400 plus spending -- INR400 crores.

Moderator: The next question is from the line of Rishabh from Premji.

Rishabh: So my question is regarding the new capacity for the CRB and SRB. What would be the domestic versus export mix that we are planning?

Sanjay Koul: So the CRB and the SRB mix is going to be -- there are certain applications in the segment, which are both available in -- whereas consumption is in India and whereas consumption is outside. And these bearings largely in this size range is the market largely is India and also there is a nice market in ASEAN and a little bit in Australia as well. And obviously, it has a market in Europe and other places. But our focus on export would be little bit less, and it will be more domestic.

And we are open to exporting more and more, but our first go-to-market strategy on this definitely is domestic market. While we are already supplying tapers and we are well entrenched here with these customers, both whether it's metal handling or it is cement or is it power etc. So domestic is the priority. And there are markets in ASEAN and nearby countries, which will also be catered. I can't give you the exact percentage. Focus is domestic, for sure.

Rishabh: Okay. Sir, just a follow-up here. So if we were to sort of consider, let's say, 60-40 or anything more than 50 for India, our market share in SRB and CRB would grow a bit closer to double-digit versus low-single-digit, if I'm not wrong from recollecting from one of your con calls. So if we were to sort of grow such a market share, what sort of competitive challenges that we might see any margin pressure that might come?

Sanjay Koul: So currently, we are selling SRB/CRB in India, and we are importing them from different parts of the world. So obviously, when we are domestically producing your structure of the cost would be different than when you are importing. So that is one fundamental. You can't produce everything in one country. But whenever you are importing, obviously, the cost challenges are more than compared to domestic production.

And definitely, our penetration in CRB/SRB is less, you're absolutely right, and it got better in tapers. And the idea is that we grow into a double-digit penetration in this area in India. And that is the intent and that is the path we are taking. And we have already started testing certain part numbers, etc. So, so far so good, looks pretty okay. And now we have to obviously complete the plant and start PPAPing and start selling. But the general direction is that we want to take the penetration single-digit to double-digit with this margin in India.

Rishabh: So you're confident that the margins won't be impacted despite of growth?

Sanjay Koul: If every thing remain same, it should have a nice impact positive.

Rishabh: Okay. Thank you sir.

Moderator: The next question is from the line of Abhishek from DSP. Please go ahead.

Abhishek: Hi, sir, thanks for the opportunity again. Two questions. First is, the parent has got into lot of M&A in terms of new products, which is coupling, chains, belts, pulleys. Any thoughts of actually starting the distribution of the same in this -- in the domestic market? Any thoughts to progress there?

Sanjay Koul: So yes. So, the whole concept, if you see is that we want to be on the powertrain, which is right from motor upto to end. And then we have coupling shafts, chains, pulleys, lubrication system. And Timken globally has acquired company, which would serve this dynamic powertrain and pretty much high-tech technological company like the Rollon is there, for example, one such company and Groeneveld-BEKA in lubrication and Lovejoy in couplings and Diamond in chain.

And definitely, India is a growing market and India is a great place to manufacture,, great place to export, etc, etc. So currently, this is an area where there is a chance for us to grow definitely. And it is not only importing and selling in India. It is like can we as a company create a supply chain model out of this place? And serve the Indian market, serve the globe. Saying is easy, doing is tough. And we are looking at it, we are working on it. Say for example, on one of the metros, we installed a lubrication system first time and running very successfully already.

So we are looking at opportunities and seeing what is the best way to serve this market. And definitely, this is a market which we should cater in India. This is a combined nice market. The parent has the technology, and that technology is available to us. And now how to optimize the supply chain to cater to the domestic market and at the same time, see if we can also be part of the parent's global supply chain model.

Abhishek: Sir, but any thoughts on the time line?

Sanjay Koul: I cannot comment on the timeline as this creating supply chain is tricky in the sense that you have to either go and buy a company or build a company or have such capable companies in India, which can become your source partner. So we are working on it. We have a small team working on it currently. But no timeline, which I could provide. Though my intent is the time line should be faster and faster, but currently we do not have any such time lines in front of me.

Abhishek: Got it. Sir, the other question is on exports, which has seen - at one point in time, exports used to contribute to more than 30%-35% of your overall top line. In the current quarter, it has gone down to as much as 14%. And your - if you look at your overall EBITDA margin, still continues to be very robust.

So sir, in the next couple of years, given the overall thing which is happening around the globe in terms of wind and other things and China-PLUS-One strategy, do you believe on a sustainable basis, given the way your domestic market is also growing, exports should be more like 25%-30% of your overall top-line contribution? Is that the way one should look at it? Any thoughts, sir?

Sanjay Koul: Yes. I will give you a short answer. Yes. 25%-30%, that is the correct range. But the long answer, definitely, Indian market is growing. And then there is definitely China-PLUS-One, which is going to and is benefitting India. Lot of manufacturing shift to India. And, then at some point of time, China-PLUS-One competing against Indian cost, quality, delivery also will be a challenge for other countries. So, 25-30 is a is a safe range and a safe bet out of our total pie to be exporting, and we want to keep on serving our strategic domestic customers. So, we don't want to kind of drop any domestic customer for exports. Obviously, we want to serve all. And you know as the market moves, so shall our capacities.

Abhishek: Got that. Thank you so much sir, and wish you all the best. Thanks.

Management: Thank you very much. And I think we are really close. I just want to also share before I take the last question that you already might be knowing that our CEO, Rich Kyle, which he has shepherded the company very well. He is one of the longest tenured CEOs in his peer group for the parent. Worked professionally for almost 35 years and 18 years with The Timken company. he led Timken, the parent to a remarkable strategic journey and has transferred the company into a very nice, high-performing diverse industry leader. And he has made up - I was about to say unfortunately, Rich made a very personal decision several months ago to retire and the company has already selected a successor. The board has selected the successor. And the on-boarding process is on.

And I'm happy to share Mr. Tarak Mehta is going to be parent's next CEO. And he comes from a very highly acclaimed company, ABB. And from September he would be taking over. And Mr. Kyle would work as advisor to him for some months. And that would be one more thing. And Mr. Mehta has been working in the industrial motion, which just now the question was asked about his expertise and more than $10 billion worth of business he has been driving at ABB in the industrial motion segment, which is same kind of you know, beyond bearings you know the powertrain piece of it. .So that is another information. And with that, I can go to the last question.

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

Bharat Sheth: Hi, Sir, congratulation and bouncing back, I mean, strongly. Sir, my only question is that within railway, the way it has grown. So can you give some color which segment is growing faster than - I mean we are supplying to everywhere. And within that, also a margin profile, which is, I mean, give you better for margin?

Sanjay Koul: So currently, if you see the last quarter, rail is the best-performing sector. And the - and if I can say the not-so-good or same is the heavy truck market. Heavy truck market has been flattish, sluggish, has not reached the peak of 2018.but Rail has been our star for the quarter. And I said previously also that rail will keep on doing well over the years. So though it might not be a hockey stick, but we will keep on doing well.

Now we have - we are waiting for a government change and - which might change policies or steady policy definitely. Heavy truck scrap policy might be a move which the industry might need as the new government steps in. And if that happens, all of a sudden heavy truck in India would be a hockey stick.

But currently, as I see the two areas, which are performing well and will perform pretty well this year is rail, distribution and process, these three industries. And if the new government comes later in the year and decides to scrap the 15 year plus vehicles then the demand for the heavy truck will be certainly go really up.

On the margin, I've been telling that you know continuously that we'll not obviously segment-wise give you any indication on the margin. But as a company, our strong margin has been this quarter, because of the product mix and a nice leverage on the cost. And obviously, price realization has been strong despite challenges of the softening of the metal pricing.

Bharat Sheth: So, is it a fair assumption that the railway is highest base, so better product means rail generate a little better the margin than a company level? And within rail, if you can give some color, which is growing faster and which you expect to pass out like Vande Bharat wagon and other freight?

Sanjay Koul: So in rail, actually, obviously, we have to see the base. Freight has the largest base. So freight is growing. Metro has a very small base. It is growing but obviously, when you see the base is small even if it grows by 100%, the base is pretty small. Wagon base is big there even if 5%-10% growth is pretty significant in terms of dollars or INR.

And certainly, electrification is pushing the locomotives and Vande Bharat and the passenger after wagon that has the second largest base, Vande Bharat is following. So, wagon consumption. I'm saying if you see the whole pot, wagon has the number one for the build side, I am not saying margin side, for the build side followed by passengers and then metro and locomotive. So that is how it's going to play out. And on margins, I am not authorized to tell you the margins in segment-wise. But our endeavor is to obviously is to kill the waste and work hard to make sure that we optimize cost wherever it's possible.

Bharat Sheth: Sir, do we believe the Q4 margin is sustainable for the full year FY '25 or maybe some softness?

Sanjay Koul: As I said that it is a volume and mix driven. So, some quarters go up, some quarters come down. So that up and down remains for every company. If your product mix that quarter was bad, so it can come down. But what is sustainable is how your supply chains are behaving. And if you have good demand, then how do you leverage that volume, which is very, very important in our industry. So, the endeavor is obviously a profitable growth and quarter-to-quarter mix and play, so.

Bharat Sheth: Okay. Thank you very much. And all the best

Sanjay Koul: Thank you so much, thank you very much. With that, thanks a lot for all the questions. I always learn more from the question. I hope you got the answers. And thanks a lot for Spark for coordinating. Thank you and Jaihind.

Moderator: Thank you. On behalf of Avendus Spark, that concludes this conference. Thank you for joining us, and you may now disconnect your lines. Thank you.

Note: Transcript may contain transcription errors. Please refer audio recording for accurate details. Audio recording is available on website of the Company.