Management Discussion

Kanupriya Mittal - Corporate Communications, SKF India Industrial Ltd
Hi, uh, good afternoon everyone. Thank you for joining us today. With us we have SKF India Industrial's Managing Director, Mr. Sujit Pai, and our CFO, Mr. Ashish Saraf. The purpose of today's call is to share our Q2 financial year 2026-2027 results. Before I turn the call over to the management, I would like to remind you that some of the remarks made during this call contain forward-looking statements which are subject to risk uncertainties. Actual results may differ materially. Such statements are based on management beliefs as well as assumptions made by one- 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 make any investment decisions. The purpose of today's call is to purely educate and bring awareness about the company's fundamental business and and the financial quarter under review. Let me turn the call over to Mr. Sujit Bhai.

Sujeeth Pai - Managing Director, SKF India Industrial Ltd
Thanks, Talapriya. Good afternoon, everyone. It's good to be here. We will spend maybe the next 30 minutes going through 4 key agenda items. We'll cover the macro indicators, we'll cover the strategic growth drivers that we have post our split, We'll cover the financial highlights and then we'll summarize. That should leave us with enough time for some Q&A as well. So with that, we will jump right into it. So starting off on slide number 4, I'm going to just briefly cover the macroeconomics. And the good news is the economy remains resilient despite all the headwinds and the challenges that we've had.

If you look at our GDP, the GDP continues to remain healthy. While it was at 7.8% last quarter, it's projected to be 7.2% and continue to grow at about 7.1% for the next year, which is in the healthy range. Inflation is, is one element that's impacting us and most other businesses. It has gone up to 4.9% and it is primarily the geopolitical uncertainty and the monsoon conditions that have added pressure to fuel and food. But it's mostly the fuel and logistics inflation that impacts us as a company.

Industrial production, which is probably one of the best indicators of how we do as a company, is looking strong. While it has been going up over the last few quarters, we're at 7.1%, which is the strongest it's been in a while. And that is basically good news for us as a business as the industrial output strengthens. Moving on, I will move to the next slide and also get into some of the specific industries which are material. Construction is the first one, and we continue to see healthy activity in construction.

On a year-on-year basis, we see the construction sector is expected to grow 10%. And we're seeing that in the current quarter as well. We had seen a little bit of lull in steel production and we're starting to see that increase as well. We remain above 42 metric tons, which is a healthy level for steel. And we also see from a long-term perspective, the CapEx and investment plans for steel plants remain in place, well in plan to double by 2031. Wind. We're seeing a lot of strength in wind. And I think the intention in wind in India has always been there.

And primarily it has been the execution that has been a little bit of an issue in wind in India. And we're really seeing that progress very nicely quarter on quarter. This is going to be, I think, the 5th consecutive quarter where we are seeing a lot of additional capacity come into wind and companies delivering on their promise. And this bodes well for us. Currently, we see about a 10% year-on-year

growth in wind, and we will be the- we are currently the 4th largest wind players in the world. But the interesting part is the growth in capacity addition that we're seeing, and we see that impact us, our order books, and our results as well.

Moving on, I shall move to the strategic growth drivers that we have as a company. And there are 4 key ones. I'll quickly touch upon them on slide 7, and then we'll go into a few of them. But 4 key drivers for us to grow, especially as we complete 1 year of demerger and operate as an independent industrial company. Localization is one of our biggest strategic drivers, whether it's through our own factories in SKF Industrial or whether it's through our suppliers or our partner factories. The goal is to increase localization, reduce supply chain times, and reduce costs so we become more competitive.

Innovation. SKF has always been known for innovation, and we've been at the forefront, and we continue to innovate, whether it's in terms of more energy-efficient bearings, lower-friction bearings, more intelligent solutions, more custom bearings for specific solutions. And that's something that we will continue to work on and innovate, and we'll cover a few examples today as well. Digitalization is the other key driver for us in terms of really becoming more efficient as a manufacturing organization.

One of the things that we are focusing on is how we can use digitalization as an example- digitalization to reduce our working capital, as an example, reducing inventory, being more efficient, as well as increasing service levels to our customers. So we are in that process. It's a medium-term journey where we will revamp our whole digital footprint, our IT infrastructure, and we will start seeing progress on that as we move along. The last one, of course, probably the most important, is people. As we continue to grow, as we continue to invest, and as we become more agile as an industrial organization, whether it's giving better service levels to more industries, whether it's to more segments, or whether it's becoming more flexible as a manufacturing unit.

It's our people who make that possible, and we continue to invest in people, in skills, as well as strengthening our execution ability. Especially now, given we've got our investment plans laid out, given we've got our strategy laid out, execution will be a key focus for us and one of the biggest levers in terms of our performance, and that's the reason we will focus on executing a lot in the next year to come. I'll just cover a few examples when I look at these 4, and we'll move to the next slide, which is slide number 8.

And I want to talk about localization strengthening competitiveness. The Ahmedabad factory, we've just inaugurated a new line, which is a medium CRB line, in the last quarter. What this does for us is it adds an annual capacity of about 220,000 units, and this will help us serve the gearbox, motors, railway, agri, and aftermarket business. This does 2 things for us. It reduces our lead times. It also reduces our costs. It also makes us less affected by global disruptions as well as logistics costs, for example.

So that's a goal to keep localizing as much as we can, and this is one of the successes we've had in the last quarter where we've inaugurated this new line. Also in this line, as we move from SKF to a purely industrial company, one of the things that we've been able to do well in this line is bring in advanced automation and flexible manufacturing capabilities. The goal really here is when it comes to industrial, it's not one line producing one product, you know, 7 days a week in 3 shifts. But each channel that we have will cater to different types of products, although they are all CRBs, different sizes, different variants for different segments and different customers.

And this is where we're making a difference in terms of having more flexible channels reduces the

setup time and increases our ability to change quickly and manufacture different products based on what the customer needs. So the goal is keep inventory as low as possible, keep the service level as high as possible, and provide what the customer needs in time. Moving on, I'll talk a little bit about innovation as well. If you go to slide 9, and I'll talk about 2 specific examples here. The first one is the SKF solid oil bearing.

And if you, if you look at bearing failures in general, majority of the bearing failures, it's close to maybe 65-70% of bearing failures happen because of a lubrication issue. And there are applications where 2 things happen. One is it could be a condition where it is very easy for dirt and dust and other impurities to get in and remove the existing lubrication. So that is one big time where lubrication is a key failure. The second is the bearing could be mounted in an area which is difficult to access.

It could either be difficult to get to that place or it could be difficult to reach, although it's, it's right in front of you. And these are the key applications where it's typical that bearings fail because you may have in the logbook of the customer that the engineer has gone and done the lubrication, but in reality it's very difficult and this gets avoided. Our solution here is a solid oil bearing which is completely sealed and lubricated for life, which means that for the entire lifetime of this bearing there is no need to lubricate it.

It is completely sealed and And it makes sure that it operates with lubrication as long as the life of the bearing, as long as it's supposed to for the life of the bearing. So this is a new application in mining and construction where we've been able to get a big win. And that was a key reason for our win. It's the technology, it's the innovation, and one of the things that we do differently at SKF. The second one I'll talk about is the DuraPro carbon nitriding bearing that we've gotten for our tractor application.

And here really, when it comes to tractors, again, not an easy environment to operate in, but one of the key requirements when it comes to an application like agri or tractors is the load carrying capacity. That's one, and the second one of course is the wear resistance. So the idea here is to have a bearing which at a smaller size and smaller weight can have a higher load carrying capacity and a higher wear resistance capacity, which helps us become more competitive. And win in this market. So that's the second technology win that we've had.

Both of these examples, it's really the technology that helps us differentiate with competition. One is the solid oil, which is proprietary, and the second one is DuroPro carbon nitriding, which again is proprietary and something that SKF does differently. Those were the strategic growth drivers, and with that, we'll move to the financial highlights. Where I'll give you an overview of our financial results over the last quarter. So in line with what we're seeing in the macroeconomy, we've seen strong growth in revenue.

Revenue is at Rs 10,429 million and we've grown about 28.3% year on year. Our goal, of course, is to always grow above GDP. We've seen strong GDP growth and we've seen strong IIP growth. And it is in these environments where our goal is really to make sure that we grow above that. And that's what we've been able to achieve in this quarter. There were specific segments where we've seen outstanding growth this quarter, and I'll talk about 4 of them, which were the major contributors. We already spoke about wind in the macro slides and we spoke about how we're seeing wind production at an all-time high.

We see that in our results as well, and we've had one of the best quarters that we've had for wind in the last quarter. We also see that in our order books, and we expect wind will continue to grow in the

near future. Heavy industries- and again, I'll talk about what in heavy industries has grown for us, but 2 specific areas. As we see the steel industries pick up and the cement industries pick up, we see material handling pick up a lot. So that's one of the areas within heavy industries that we're seeing a good performance in the previous quarter as well as good order books.

So material handling is one key segment within heavy that's doing well for us. The second one that's doing well for us is also off-highway within the general construction industry. So, so we're seeing some momentum there as well. Construction activity continues to stay strong. And with that, we see the off-highway requirements coming strong and help with a strong result in the previous quarter. The other one, which is exports, is a step jump that we've had here. We spoke about the TRB capacity that we've added in our Pune factory in our last quarterly call and the last investor call as well, and that is starting to pay off.

We have allocated a part of that capacity to exports, and based on that, we've seen a healthy jump in the export volume that we've had from our Pune factory. So that has been one of the big growth levers for us as well. And the last one, I think, which is the most encouraging, is distribution, because distribution is our most broad-based business. And distribution caters to, you know, everything from textile to chemicals to heavy to cement to every possible industry you can think of, which is why when we see growth in distribution, It tells us that there is not just concentrated strength, but we see overall strength in the market and the economy.

And that's something that we've seen in distribution in the last quarter. So that is on growth where we're very happy with the 28.3% that we've seen. Moving on to margins, our profit before tax stands at about Rs 1,344 million and we are coming at a margin percentage of about 12.9%. Overall, when you just look at the number, of course we've improved by 42 basis points year on year, and there are 2 parts to this. If you look at our compare from a year ago, we had some one-off demerger expenses last year which we don't have this year, and that has helped us in our profit.

At the same time, we've also had higher costs. We're seeing oil prices much higher, which impacts our logistics costs. It impacts our supplier costs. It impacts our heat treatment costs. We're seeing steel prices up about, about 16%, which is the latest price that we have. And that is also impacting our direct material cost. So overall, if you look at the biggest levers of our manufacturing cost, whether it's energy, whether it's logistics, or it's the biggest part of our direct material, which is steel.

We're seeing due to the macroeconomy, due to the geopolitical issues, due to the Middle East war, we're seeing a really big increase in all of these elements at one point. We have partially offset these costs with improved price realization. So a combination of some downside from these higher costs partially offset by price, and the positive impact of not having the one-time has resulted in an overall margin of 12.9% for us in this quarter. Cash flow, we've come in at -$61 million this quarter. The reason we're negative this quarter is due to the settlement of intercompany payables that we've, that we've had.

Sorry, just give me one second, please. Yeah, so coming back to cash flow, we're at -61, which is due to the intercompany payables that we've had to clear off. So this is a one-off, and you see our cash conversion at -4.5%. However, when I get to the end of the presentation, you'll see the half-yearly results, and we should look at this more from a half-yearly or a full-year basis. And we will see that our cash conversion is still strong. So this is one time, and we will see this improve, and we will- and the working capital level is back to about 19%, which is a healthy level that we expect to be at.

Moving on, on to slide 12. Just to give you all an overview, we've covered most of it, but if I were to just sum up the financial results of Q2 '26-'27 versus '25-'26, very strong revenue growth at about 28.3% year on year. PBT margin up 42 basis points for reasons that I explained. Profit before tax is up about 32.6% on an absolute basis. Net working capital, we're up 25.8%. This has come in when our revenue has grown up 28.3%, so within, within where we think we should be. And if you just look at that as a percentage of revenue, slightly higher, 9 basis points.

We came in at 18.8% last year and we come in at 18.9%. This year. Operating cash flow we spoke about, and we are at -$61 million, which is a one-off, and we see that coming back to levels at healthy positive levels moving forward. Moving to slide 13, I'll talk about the revenue mix so that you'll get a sense of different segments and areas that we've got our revenue from, and also talk about a couple of interesting key wins which we'll tie back to our strategic levers and initiatives. So we see how that's helping us win more business.

But if I just start off with the customer mix, we predominantly stay the same if you look at it, if you look at '26-'27 Q2 versus Q1. The change, the biggest change has been in exports where we've gone from about 12% of our total mix being exports to 16% of our total mix being exports, and this is 16% of the OE sales that we do. That has happened like we discussed because of the TRB line that we've inaugurated last quarter in Pune, and that has given us the additional capacity to do some more exports.

Outside of that, if you look at our distribution business and OEM business, they remain very similar in terms of percentages but overall come down with respect to the export that has increased. If I deep dive a little bit into the segments within OEs, again, when you look at these numbers here, these are the segment percentages of the total OE business that we have. So for example, GM is 26% of our OE business, which is the highest, but GM again has multiple segments within that. So for example, you have escalators and elevators, you have tractors, etc.

So you have multiple businesses within that. You have metals, which is 11%, wind, which is 16%, uh, it's the highest wind has been, uh, rail at 17%, heavy industries at 16%, and then we've got agri and electrical, which is a new segment that we've added post the split, which is now 14%. If you look at this in terms of the overall contribution to our business, you can approximately divide this by 2, which means most of our businesses are within 10% of the overall contribution, which bodes well for us since any specific issue with any specific industry should not give us a major shock since it is not- we're not heavily dependent on a single sector.

The only segment where you see we're above, if you look at GM, we're at 13% overall. But there again, we're split into multiple segments and the subsegments all are well within the 10% mark that we've spoken about. With that, I'll talk about a couple of key wins that we've had, which, which are pretty interesting. The first one is on a private railway player, a private player who supplies motors to the railways. And while we've been doing business with this customer, we've been having to fight for each order on a monthly basis to get this business.

The key success here really is we've gotten a large order for the whole of the next year because we've been able to give confidence to this customer that we are the best company for them to partner with. And I'll explain to you why that happened. One of the dispatches that this company had made to Indian Railways was rejected because Indian Railways complained of high vibrations in the motor. When they had high vibrations in the motor, SKF was the company who was able to work with them, analyze the issue, and then give them a solution.

And to them, this was one of the biggest reasons they could maintain their faith with the customer

and give a timely solution. And this is something that we do consistently well as an organization. Where our customers rely on us not just for the quality of our products, but they also rely on us for our technical expertise. And I think it's really nice sometimes where we can pinpoint specific wins and attribute those wins toward the technical expertise that we have and the way we're able to help our customers beyond just giving them quality products.

Similarly, when this customer wants to get their motors approved by the Indian Railways, There are a lot of back and forth that happen with railways technically, which need to be satisfactorily understood and answered to be able to qualify. And again, SKF Industrial plays a key role here to help them with that, to make them more- to make them put them in a better position to answer these questions and provide the right product. And that's why they've decided to give us a much bigger share of their business for 2027.

The second success I'll talk about is on heavy industries where we secured a bearing supply for a steel project. And it's very interesting here because we spoke about how localization is one of the key initiatives that we're taking as an industrial organization. Now when it comes to EPC players who supply to say a steel plant or a cement plant, they typically bid for a project and there are say 2 or 3 companies who are bidding to win this. It could be an EPC player, it could be a large OEM, but it's never- they never know for sure that they've got the order, which means that they do not stock what they need before they win the order.

But once they win the order, there is a lot of urgency and pressure on them to deliver. And the earlier they can deliver, the more profitable they are. What we've been able to do in this case is by localizing our bearing, we've been able to number one, reduce cost, but more importantly, reduce our supply chain time. This is a large bearing which would typically take about 8 months to be produced and reach India, and we're now able to do that within 2 months. And this reduction in lead time is something that has really helped the customer become a lot more agile, provide their end customer with a much shorter delivery time, and that is what has enabled this customer to choose SKF for this business.

So again, this is where we see that some of those strategic initiatives we are taking, whether it's investing in our people through technical ability, whether it is localizing, which really comes in and helps us with very specific wins that we see, which are an indication of the general direction that we're going in. So those were the financial highlights, and I will just summarize. We've got 3 minutes, so we should be well on time. I will summarize how our H1 performance has been. If you go to slide 15, overall we've ended the half of the year at Rs 2,014 crores.

The PBT margin has come in at 11% and the cash conversion is at 19.5%. Again, like I mentioned earlier, while the previous quarter has been negative cash conversion due to settling the intercompany dues, on a half-yearly basis, we are pretty strong on the cash conversion position. Overall, I think it's been a strong first year post-demerger. So with this quarter, we finish our first full year as a demerged company. We're very happy to see the strong revenue growth and the healthy margins reflect the progress that we're making as a focused industrial business.

Within specific segments, we are seeing efforts pay off in terms of higher growth from dedicated segments where we're spending time, specifically motors as an example. Electric motors is where we're seeing higher- tractors where we're putting in more effort, more focused effort, and we're seeing higher order books and higher revenue in some of these segments. Our investment plans continue to stay on track. We have added the TRB last quarter in Pune. We've added the CRB in Ahmedabad, and we will also- we also continue to make progress on our investment in the new

Pune plant, which we expect to end in 2028.

So that expansion continues. We feel like we're in a good place to benefit from India's growth story. If you look at wind, you look at heavy industries, you look at aftermarket and export, these are segments where we have the capacity today. We have the experience there. And, you know, we feel like we can bank on the success that we've had in the past and really accelerate growth in these segments given what we've delivered to these customers in the last few years. We're also strengthening our competitive advantage.

We spoke about few of the successes we've had, but it's whether it's through localization, whether it's through innovation, whether it's through digitalization or operational excellence, these are all areas where we continue to focus to ensure that we not only just innovate and create the best quality products, but we also increase our competitive advantage by being closer to the customer, reducing our lead times, as well as reducing costs where we can. So I will end the presentation with that. Uh, thank you for listening.

Thank you for your time, and we can move over to the Q&A section.

Questions & Answers

Operator
Thank you very much, sir. We will now begin with the question and answer session. Anyone who wishes to ask a question may press star and 1 on the touchtone telephone. If you wish to remove yourself from the question queue, you may press star and 2. Participants are requested to use handsets while asking a question. Also, in order to ensure that the management is able to address questions from all the participants in the conference, please limit your questions to one per participant. Ladies and gentlemen, we will wait for a moment while the question queue assembles.

The first question from the line of Mumuksh Mandal from Anand Rathi Institutional Equities. Please go ahead.

Mumuksh Mandal - Analyst, Anand Rathi Institutional Equities
Yeah, thank you, sir, for the opportunity and happy festive greetings to the management and congrats on a strong revenue performance. Uh, so firstly, on the- just on the margin performance, uh, I just want to understand, was any forex or IT-related cost this quarter? Um, and, uh, and just on the input side, uh, Still Sahil sir, just want to understand how much further impact we see on the community front and how the price side we taking, sir.

Sujeeth Pai - Managing Director, SKF India Industrial Ltd
Okay, I let Ashish answer that question and I'll come in if there's something question.

Ashish Saraf - Chief Financial Officer, SKF India Industrial Ltd
So if you look at if you look at emergence, right, predominantly on the FX side it's been relatively positive because rupee appreciated, uh, at the end of September. So we had a positive impact on account of FX. And he had one additional question, right?

Nikhil Rao - Analyst, Ithar PMS
Uh,

Ashish Saraf - Chief Financial Officer, SKF India Industrial Ltd
Yeah, on IT, uh, we had, we had a cost, uh, last year, right, as Sujit mentioned, on account of demerger, right? Uh, we, uh, so we did have some additional cost on account of IT in this quarter. But it was not as significant as it was in the previous year, right? So it has significantly come down, and we expect, uh, in the subsequent quarter to further come down or nullify pretty much by, by end of, uh, end of Q3. And, uh, in terms of, in terms of price, again, we have seen good overall good price development, uh, year on year.

As we said, that we had cost inflation coming in on account of steel prices, which is to the tune of 16%. We have taken some actions in terms of taking price increases throughout the year with our customers, both OEM customers as well as distributors. And, uh, and we continue to monitor the current situation. If, if Uh, there are further increases that we see both in terms of, uh, steel prices and oil prices going up as well as rupee depreciating. We will take further actions moving forward to offset some of these increased costs.

Sujeeth Pai - Managing Director, SKF India Industrial Ltd
If I can just come in on the steel-specific question that you asked us, um, while it's, you know, while it's difficult to talk about where steel is going to go, what we've seen in India is, um, Starting maybe about 3 quarters ago, we've seen the Middle East impact kind of gradually push up steel prices, and we've gone from close to 3 to 4% per quarter to we're now up about 15% in steel. So we're hoping that, uh, the India steel prices, uh, stay where they are for a while, but again, uh, can't 100% be sure about that.

But we've seen a big increase come in. On steel in India. At the same time, we also have steel that we import from China, and the China steel companies have not yet passed on their steel price increases. So that's an additional impact that we expect to see starting next quarter. But again, the hope from China is that steel prices start to cool off and they don't have to pass that on. So we'll have to see where the Middle East war goes. But with the status quo remaining, our expectation is that the India steel prices stay where they are.

But if you look at the products that we import and today we import close to, close to about 55% of our products, and some of that includes steel that comes from China as well, and that could have a negative impact in the next quarter or 2. So that's where we are on steel.

Mumuksh Mandal - Analyst, Anand Rathi Institutional Equities
Got it, sir. Thank you for this. Uh, secondly, just on the revenue performance, sir, uh, this first half has been very good in terms of growth side. If you can just share more, if, uh, for the first half segmental-wise, what could- what would be growth across key segments, um, and, and the outlook for going ahead. So how do you see the growth momentum in the underlying segments?

Ashish Saraf - Chief Financial Officer, SKF India Industrial Ltd
So maybe I can answer that, right? So if you look at overall, right, for H1, we've had a strong growth of around 20%, uh, year on year, uh, predominantly driven by, uh, by segments like wind, right, which has grown by around 40% plus. Similarly, heavy industry, uh, we continue to see it because of the strong project orders, uh, that's coming our way, uh, almost 30% plus, uh, growth in the heavy industries. And distribution continues to show a strong performance of close to 8 to 10%, uh, year over year.

So these are the 3 big segments which is driving, uh, driving growth. Other segments within the

industrial are also growing, barring rail, where we are seeing some decline because of, uh, uh, uh, government relatively reducing their investments on the rolling stock but investing more on tracks. So that is having some impact on the rail business. But, uh, but all the other segments within the industrial continues to see, uh, to demonstrate strong growth. Even exports kind of continue to grow well, and our sale to SKF India, which has been there post-demergence, that is relatively stabilized and pretty much continues to be at around 6% of our total revenue.

Mumuksh Mandal - Analyst, Anand Rathi Institutional Equities
Got it, sir. Just one clarification. This Amrita,

Operator
I'd request you to join back the queue for more follow-up questions.

Mumuksh Mandal - Analyst, Anand Rathi Institutional Equities
Sure, thank you so much.

Operator
Thank you. The next question is from the line of Varun Jain from Dollar Capital Private Limited. Please go ahead.

Varun Jain - Analyst, Dolat Capital
Yeah, uh, good afternoon, sir. Uh, so firstly, on the margins piece, uh, management keeps guiding, you know, 12-13% PBT margins So I have a two-part question on this. Firstly, why do we guide on PBT margins when everyone in the industry guides on EBITDA margins and PBT includes other income and depreciation, which which is not really an operational metric for a bearings business. Secondly, sir, this quarter the EBITDA margin was close to 9.6%. So is this a sustainable margin for the rest of this year and?

Ashish Saraf - Chief Financial Officer, SKF India Industrial Ltd
FY28. So, uh, again, if you look at our EBITDA margins, right, uh, you're right, uh, when you were calculating the EBITDA margins, uh, you are including the entire other income line, right, while, while deriving, uh, the EBITDA margins for 3Q26. Uh, and, uh, and if you look at the other income line, that has substantially gone up from year on year. So that's, that's what's diluting the EBITDA margins for the, for the current quarter. And the reason why in 3Q26 we had a relatively higher other income was we had a forex gain, as I had earlier said, because of the rupee appreciating and our overall product cost, uh, coming, uh, positively getting impacted because of the rupee appreciation, uh, impacting the other income, right?

So that's where we had a positive impact. And, uh, and we had an overall, uh, uh, if you, if you take out the impact of the other income, our EBITDA margin would be close to, uh, let me just check, right? One

Varun Jain - Analyst, Dolat Capital
So it was 9.6%. I did not take the other income in my calculation. It is close to 1,042 crore revenue base.

Ashish Saraf - Chief Financial Officer, SKF India Industrial Ltd
Why, why

Varun Jain - Analyst, Dolat Capital
Do you guide on PBT margins instead of EBITDA margins? And internally, the real EBITDA margins, uh, like 10% or so.

Ashish Saraf - Chief Financial Officer, SKF India Industrial Ltd
Yeah, no, no, it's a fair comment, right? This is something we will come back to you, uh, Historically, we have been measuring ourselves on EBT, right? And that's what we measure in terms of the overall performance for SKF. But this is something we'll look into and come back.

Varun Jain - Analyst, Dolat Capital
And sir, revenue growth, what is the annual guidance for '28?

Operator
Revenue growth

Varun Jain - Analyst, Dolat Capital
Guidance, if they can just- I'd request you to

Operator
Join back the queue for more follow-up questions, please. The next question is from the line of Yash Goenka from Auriga Capital Advisors LLP. Please go ahead.

Ashish Saraf - Chief Financial Officer, SKF India Industrial Ltd
Hi, thank you for this. With one line already commissioned in Pune, uh, you mentioned that one line will be commissioned in early 2027, uh, and, and that Ahmedabad line has also come in. Should we expect one more line or a few more lines to come in before the new Pune plant comes up? And if yes, can you talk about the revenue potential of these lines?

Sujeeth Pai - Managing Director, SKF India Industrial Ltd
Yeah, sure. So the way we're looking at- so first question, are we going to see more investments come in before the new plant comes? Yes, in Pune not likely, but in Ahmedabad we expect to see close to 3 more- well, 2 full channels and 1 roller channel coming as well in the next year. Um, so that is part of our overall localization strategy. Um, and the goal there really is these are products that we continue to sell even today. So what it will do is not open up a new market for us or a new product for us, but what it will do for us is help become more competitive in terms of lead time as well as become more competitive in terms of cost.

So a lot of these increases that we're seeing today, which is in terms of steel price, which is in terms of oil, which is in terms of logistics, etc., what we're trying to do is offset a lot of these by localizing and having lower manufacturing costs.

Ashish Saraf - Chief Financial Officer, SKF India Industrial Ltd
And revenue potential of these lines?

Operator
Sorry to interrupt, sir. As a question, part of my first question. All right, so I can

Sujeeth Pai - Managing Director, SKF India Industrial Ltd
Just- I mean, like I said, that I would not specifically talk about revenue potential because it is not new revenue. It is not the revenue that we are not getting today that we will start getting tomorrow.

However, having said that, we do expect from the channels that we get in the markets that we're addressing, we get to see maybe a 15% higher growth than we see today given we are more competitive. Hope that answers the question.

Ashish Saraf - Chief Financial Officer, SKF India Industrial Ltd
Okay, thank you.

Operator
Thank you, participants. In order to ensure that the management is able to address questions, Please limit your questions to one per participant. The next question is from the line of Mukesh Saraf from Avendis Park Limited. Please go ahead.

Mukesh Saraf - Analyst, Avendus Park Limited
Yes, good afternoon. My question is on the other expenses. In the first quarter, you had mentioned that there was a Rs 150 million of forex cost and another Rs 150 million of demerger-related cost, which would probably go away by 3Q. So In this quarter, we don't have the forex cost is what I assume based on your commentary. And what would be that one-time demerger-related cost again in this quarter?

Ashish Saraf - Chief Financial Officer, SKF India Industrial Ltd
Yeah, so in this quarter, the additional expense on demerger is around 100 million INR.

Mukesh Saraf - Analyst, Avendus Park Limited
Okay, so it's 100 million INR. So then if I compare this number to the first quarter, it seems like our other expenses have gone up significantly. Uh, because, uh, just 100 million one-off versus 300 million one-off last quarter. So any, uh, any reasons you could kind of give us for this increase in the other expenses?

Ashish Saraf - Chief Financial Officer, SKF India Industrial Ltd
And just, just one second. So when I look at, uh, and you are kind of comparing quarter on quarter,

Mukesh Saraf - Analyst, Avendus Park Limited
Right? Yeah,

Ashish Saraf - Chief Financial Officer, SKF India Industrial Ltd
I don't see I see actually when I look at the overall line, right, I don't see a significant, uh, I've seen some increases and, and some increases on miscellaneous. So quarter on quarter, I don't see a significant increase. Um,

Mukesh Saraf - Analyst, Avendus Park Limited
I'm just kind of adjusting the 300 million in the first quarter other expenses that brings the overall the other expenses down to, uh, 137 crores. In this quarter, when I adjust the 100 million, uh, the other expenses comes to 162 crores. So as a percentage of the revenue as well, it has gone up about 150, uh, 140 basis points, and an absolute number as well. So just trying to figure out, uh, any, any, uh, reasons for this, or is there any more one-offs which we have not caught up?

Ashish Saraf - Chief Financial Officer, SKF India Industrial Ltd
Yeah, so when I, when I look at, uh, see, uh, when I look at, again, the big difference is the FX, right? So we had an FX loss of 100 million, uh, 100 million, whereas we don't have any FX loss. And then

we had 160 million of demerger expenses, whereas this quarter we have 100 million. So the gap is 160 million. right so not 300 million quarter on quarter, right, in terms of the change and in terms of the overall, okay.

Mukesh Saraf - Analyst, Avendus Park Limited
And

Ashish Saraf - Chief Financial Officer, SKF India Industrial Ltd
Quarter on quarter the other operating expense change Not very significant. I only see some seventy to eighty. Okay. It's actually not gone up; it's come down.

Mukesh Saraf - Analyst, Avendus Park Limited
All right, sir. I'll probably take this offline and send an email. Yeah, maybe

Ashish Saraf - Chief Financial Officer, SKF India Industrial Ltd
Send me an email and I'll sure. Yes, very clear.

Mukesh Saraf - Analyst, Avendus Park Limited
All right. Thank you so much. I'll get back.

Operator
Thank you. The next question is from the line of Vidaj Kacharya from Simple Capital Limited. Please go ahead.

Ashish Saraf - Chief Financial Officer, SKF India Industrial Ltd
Yeah, hi, uh, thanks for the opportunity. Uh, just 3 questions. Uh, first is on the other expenses piece. See, if you look at our operating margins, the key reason why you've seen a moderation from 12-13% to around close to 10.5-11% is because of the spike in other expenses. So as what the previous participant was calling out, you know, if you look at the reported other expenses last quarter was Rs 168 crore, of which you had around Rs 14.7 crore of IT expenses and another close to Rs 15 crore of, uh, demerge expenses.

So if you adjust that Rs 30 crore, you are at Rs 138 crore. Now from the current quarter's other expenses of Rs 172 crore, if you adjust that Rs 10 crore, you're left with adjusted operating expenses of Rs 162 crore. So while sales has increased only by 60-65 crore, your other expenses have seen a material jump, and that is why your overall operating margins, even sequentially, you know, uh, the EBITDA has seen a drop. So that is what we are trying to understand, what is driving this. So that is one. Second is, uh, you know, as you, as you are given the segment-wise sales, uh, you know, in different end industries For this quarter and the quarter before, can you give similar figure for last year?

Maybe H1 and give some color. You know how are we progressing in terms of our journey in terms of market share recovery, especially in wind, freight, the distribution business. So that is second and third. Any update on the timeline for the Pune plant? How are we progressing?

Operator
Sorry to interrupt. I'd request you to only ask one question due to time constraints.

Sujeeth Pai - Managing Director, SKF India Industrial Ltd
Okay, so maybe what I'll do is, um, I will, uh, answer the second one because the third one we spoke

about, uh, 2028 end is when we expect to, um, to come back, expect to have the Pune factory up and running. Um, we have a similar question on one, and, um, and, and maybe we'll see if someone else answers it. We will ask that question, we'll answer that. But otherwise, we will get back on email on that question. The second question is what I'll take as a primary question here from, from you, which is on the segmental revenue.

I'll answer this question in 2 parts. One is overall in terms of market share, and then I'll talk about segmental, how we're doing. If you look at market shares, typically we look at market share, we do the exercise on a yearly basis. And the last time we did that exercise, which is for annual year ending 2025, our market share went up slightly by about 0.2 to 0.3%, and we were 19.4 or 19.5% was our overall market share as SKF. We will get to know the overall market share once we do the study for this year, once we get into the next annual year.

On the segments though, we can get a sense of, of how we're doing for a few segments where we see very high growth. And I think wind is one of those segments where we are at the highest revenue we've ever been at and also our highest overall. If you look at the percentage of revenue coming from wind for us, it's the highest it's ever been. So we've got, I think, the most capacity in wind as it stands today, and that's the industry that's growing. So So we have been able to take advantage of, of that and increase our shares in wind.

Similarly, in heavy, we've been able to increase our localization over the last year, which has helped us become more competitive in material handling. We spoke about a specific customer success today, but heavy is the other area where we're seeing our growth is above industry growth, which, which tells us that we're gaining market share there. Distribution is where I think we are growing about maybe 2 to 3% above GDP. So again, we see slight growth in market share in distribution. Freight is- we're seeing an overall We've seen overall strength up to last quarter, but we do expect to see a little bit of moderation in, in freight as we go along.

However, again, from a market share perspective, difficult to comment specifically, but we will have that information at the end of the year.

Ashish Saraf - Chief Financial Officer, SKF India Industrial Ltd
Just to, uh, answer

Operator
On- sorry to interrupt, I'd request you to join back the queue for more questions.

Ashish Saraf - Chief Financial Officer, SKF India Industrial Ltd
Hello. Yeah, yeah, just to answer the question on, on other expenses, right? Uh, so, uh, what, what has happened quarter on quarter, right? So one is, uh, we have written off some of our old receivables which were already provided for, uh, in the balance sheet. In, in, uh, in this quarter, and the impact of that has hit the other expenses, whereas the provision release has basically gone and impacted the other income, right? So what you see is the write-off impact in the other expense, but the credit of that is basically going and hitting the other income.

So that is to the tune of around 60 MRR. On top of that, what we have also seen is our logistics costs have, have gone up because of the overall inflation that we are seeing on logistics. And thirdly, we are internally driving a cost efficiency project with a consultant which is basically helping us reduce our overall manufacturing cost. So that is where we have seen some increases in our legal and professional fees. So these are the predominantly 3 reasons where we've seen some increases in

the other expenses.

Thank you. I'll come back in queue.

Operator
Thank you. The next question is from the line of Nikhil Rao from Ithar PMS. Please go ahead.

Nikhil Rao - Analyst, Ithar PMS
Oh yeah, thanks for the opportunity. So just wanted to understand more about the GM segment. So could you help break it down into its main applications, uh, like industrial gearboxes, motors, pumps, compressors, etc.? So I'm just, uh, trying to get some sense of the product mix that we have here and which sub-applications will account for most of the segment's revenues. And also, what is the level of localization in this segment?

Sujeeth Pai - Managing Director, SKF India Industrial Ltd
Sure. So if you look at general machinery, we have removed- and I'll talk about general machinery just so that you get a sense what it was earlier and what it has become now. We have separated earlier electrical, has become a separate segment now. So we have moved motors primarily out of general machinery and that has become a separate segment. Similarly, we have moved agri out of general machinery and that has become a separate segment. So we now have a new segment which is called agri, and electrical.

What stays back in general machinery is you have elevators and escalators, you have pumps, you have compressors. So all fluid machinery, escalators, elevators- these are the key applications that stay within the general machinery. Plus textiles is the other big one. So So if I were to give you the 4 biggest categories or subsegments within general machinery, it would be compressors, pumps, escalators, elevators, and textiles. Next, your related question rather was what is our localization content in general machinery.

It wasn't very high. We were importing most of it, but with the new CRB channel that we've inaugurated last quarter. We've got capacity of about 220,000 bearings. A lot of that goes into the general machinery segment. We are also expecting another channel in Ahmedabad in 2027, which again would cater to general machinery. So progress there, and the goal is we plan to get about maybe 70%, 75% localization in the machinery by the, you know, say by 2028.

Nikhil Rao - Analyst, Ithar PMS
Okay, thank you. And could you also provide similar information for the heavy segment as well?

Sujeeth Pai - Managing Director, SKF India Industrial Ltd
Yes, so if I look at heavy, heavy, if I look at the main subsegments, you have off-highway, you have cement, you have material handling, and then you have mining. So these are the 4 segments. We also have construction, and construction is- when we talk about construction, it's the non-mining off-highway vehicles which are part of construction. So a lot of actual construction equipment that you see while roads are being constructed, you know, where you see the stones getting crushed, you see the crushers, etc., on the side of the road, All of that comes under construction.

So it's not really vehicles per se, but it's construction material. So construction, material handling, mining, and cement would be the more- would be the 4 key subsegments in heavy.

Nikhil Rao - Analyst, Ithar PMS
Okay, thank you very much. Wish you all the best. Thank

Sujeeth Pai - Managing Director, SKF India Industrial Ltd
You.

Operator
Thank you. The next question is from the line of Rajakumar Vaidyanathan from RK Investments. Please go

Ashish Saraf - Chief Financial Officer, SKF India Industrial Ltd
Ahead. Yeah, thanks for the opportunity. Uh, the question is for the CFO. Uh, sir, in the last call you mentioned that if you adjust for forex and one-off IT cost, then we are already at 14% EBITDA margin. So this quarter we don't have the forex, and even your one-off IT cost has also come down, but then your margin

Sujeeth Pai - Managing Director, SKF India Industrial Ltd
Is still remaining at same as Q1, right? So just want to know what is the pathway to the 14% margin?

Ashish Saraf - Chief Financial Officer, SKF India Industrial Ltd
That we've been monitoring the PBT margins, right? So if you look at our Q1 margins, Q1 margin was at 9% overall and we came in close to 13%, right? So if you remove the, uh, the FX impact as well as, uh, lower, uh, lower demerger-related expenses, then we still have some demerger expenses which is impacting us. Uh, so if you remove that, then we are close to 13% PBT, right? So, so, so from a quarter-on-quarter perspective, we have seen almost a 4% improvement. Okay, so you're saying you have already achieved 14% margin.

So this is kind of your steady-state margin go forward before the manufacturing-related efficiencies will kick in? That's right. Okay, thank you so much.

Operator
Thank you. That was the last question for today, and with that, we conclude the question and answer session. On behalf of SKF India Industrial Limited, that concludes this conference. Thank you for joining us, and you may now disconnect your lines.