



Ref: STEX/SECT/2021

August 17, 2021

The Relationship Manager BSE Limited P. J. Towers Dalal Street, Fort Mumbai 400001  BSE Scrip Code: <b>500480</b>	National Stock Exchange of India Limited Exchange Plaza, 5 <sup>th</sup> Floor Plot No. C/1, G Block, Bandra – Kurla Complex Bandra (East) Mumbai 400051  NSE Symbol: <b>CUMMINSIND</b>
---	--

**Subject: Intimation of Transcript of Investor/Analyst call held on Friday,  
August 13, 2021**

Dear Sir/ Madam,

With reference to our Stock Exchange Intimation dated August 02, 2021 towards investor/ analyst / financial institution conference call, we are enclosing for your records copy of the transcript of the said conference call conducted by the Company on August 13, 2021.

We request you to please take this intimation on your records.

Thanking you,  
Yours truly,

For Cummins India Limited

Vinaya A. Joshi  
Company Secretary & Compliance Officer  
Encl: as above

*(This letter is digitally signed)*



**Cummins India Ltd.**

**Cummins India Limited Analyst Call for Q1 2021-22**

**August 13<sup>th</sup>, 2021**

**SPEAKERS:** Management, Cummins India Ltd.

**Moderator:** Good day ladies and gentlemen. I'm Harpreet Kapoor, the moderator of this call. Thank you for standing by and welcome to Cummins India Limited Analyst Call for Q1 2021-22. Today on this call, we have with us our leadership team, Mr. Ashwath Ram, Managing Director, Cummins India and Mr. Ajay Patil Chief Financial Officer, Cummins India. Instructions for Q&A session will be followed post presentation. So I would like to now hand over the proceedings to Mr. Ashwath Ram. Thank you and over to you, sir.

**Ashwath Ram:** Good morning ladies and gentlemen. I'm Ashwath Ram, Managing Director, Cummins India Limited. I hope you and your family are doing well and are staying safe and healthy. This COVID time has been difficult on all of us and as a nation, we're slowly coming out of this crisis. Also joining me on the call is Ajay Patil, our CFO. Thank you all for joining us on this call today. Before we get into the details of the quarter one results, I would like to provide you a brief update about some of the new products that we have launched recently. The company introduced new products in powergen. Four products in high horsepower, one in medium horsepower and two in low horsepower. In the industrial business as well, seven products in rail, mining, marine, construction, and the pump segments and three products even in the distribution segment. We believe that these new product launches will continue to position Cummins as a preferred choice for our customers. These new products are strengthening our existing product portfolio and will allow us to introduce new technologies to address the need of specific applications. We have also introduced products for our export market to expand our offerings in the powergen and industrial portfolio. The company continues to stay focused on the wellbeing of our employees and their families. The company conducted vaccination camps at various company locations. So far at a Cummins group level, over 19,000 vaccination doses have been given by the company and we plan to conduct more such camps in the July to September period to ensure that all our employees, contract workers and their families are fully vaccinated.



*Cummins India Ltd.*

*Cummins India Limited Analyst Call for Q3 2020-21.*

*January 29th, 2021*

Now, I would like to share the financial results of Q1 FY22 through this call. For the quarter ended 30th June 2021 with respect to the last year same quarter, our sales at INR 1167 crores were 141% higher as compared to INR 484 crores recorded in the same quarter last year. Domestic sales at INR 859 crores, increased by 140%. Exports at INR 308 crores, increased by 144%. Profit before tax and exceptional items at INR 171 crores is 143% higher as compared to INR 70 crores recorded in the same quarter last year.

For the quarter ended 30th June 2021 with respect to the sequential or last quarter, our sales at INR 1167 crores, declined by 5% compared to INR 1231 crores recorded in the last quarter.

Domestic sales at INR 859 crores, declined by 12%. Exports at INR 308 crores increased by 21%. Profit before tax and exceptional items at INR 171 crores, declined by 30% compared to INR 245 crores recorded in the last quarter.

Segment wise breakup for quarter ended 30th June is as follows: Industrial domestic business was at INR 189 crores, 29% lower over last quarter. Powergen domestic sales were 351 crores, 1% decline over last quarter. Distribution business sales were 300 crores, 11% decrease over last quarter.

Exports, high horsepower export sales were INR 171 crores, 26% increase over last quarter. Low horsepower export sales were INR 116 crore or 22% increase over last quarter.

As far as financial guidance is concerned, the company is hopeful for sequential recovery based on relaxations granted by various state and local governments coupled with increasing rate of vaccination. However, potential third wave of COVID-19 is being forecasted by various agencies. The company continues to work on stabilizing and improving the supply chain and I'm happy to report it is improving every passing week. Demand outlook from various end markets continues to be positive. However, visibility to full market recovery is somewhat limited considering potential wave three implications. Thus, the company is not providing full year guidance for financial year 2022. With this, I now open the session for questions. Thank you.

**Moderator:**

Thank you so much, sir. With this, we will open the floor for Q&A interactive session. If you have any questions, please press '0' and then '1' on your telephone keypad and wait and wait for your name to be announced. I'll repeat, to ask a question, you need to press '0' and then '1'. First question of the day we have from Sandeep Tulsian from JM Financials. Your line is unmuted. Please go ahead.

**Sandeep Tulsian:**

Yeah. Very good morning. My first question is pertaining to the comment that you made in the AGM yesterday regarding the global OEMs who are setting up shop in India where Cummins is having a longstanding relationship with these OEMs especially in the construction compressor space. So if you could just elaborate this a little bit more, where have you been able to gauge a demand



*Cummins India Ltd.*

*Cummins India Limited Analyst Call for Q3 2020-21.*

*January 29th, 2021*

from some of these construction OEMs? And what is the kind of investments? And based on this, how would you want to provide a near to medium term kind of a growth outlook for your industrial segment?

**Ashwath Ram:**

Yeah, I won't give you exact details of the kinds of investments those OEMs are making because I don't have access to them, but I can tell you that pretty much all the major construction and compressor OEMs so be it the Hyundais of the world, the Hitachis of the world, the JCBs of the world, the Dasanis of the world, every single one of them is now starting to use India as an export base, where they are making equipment which were being made in other parts of the world are now being made in India and are being exported. And we are already seeing increase in demand for exports through these OEMs. So that for us that gets counted as local sales, but we are seeing that increase happening very strongly.

**Sandeep Tulsian:**

Any outlook you would want to give over there for medium term, three to five years?

**Ashwath Ram:**

All I can tell you is -- I can tell you that we are very bullish on the construction market based on just India's demand alone and you can see that the road construction, which in the peak had touched 37-38 almost 40 kilometres per day during this wave to drop again to 20-25 kilometres. And so, you know, the construction activity had slowed down a little bit. But the amount of money that has been promised by the government to build roads and infrastructure is just significant. The Nitin Gadkari just recently announced that his ambition is to get to 100 kilometres per day. So the combination of all of these factors and plus the fact that our infrastructure in India from a road perspective is poorer than many of the developing nations leads us to believe that this is not a one year journey, but a three to five-year double digit growth kind of journey for the construction market. And being a major participants in that market, we hope to significantly benefit from that. We could already see the trends in Q4 of last year, where, with the transition happening to CEV BS-IV, we saw significant demand start to increase. The COVID hit has been a bit of a setback, but we see that bouncing back very strongly.

**Sandeep Tulsian:**

And, sir, second question is on the exports side, we've seen a very healthy growth in the current quarter on sequential basis. If you provide some more color, is it being driven by some of the new markets or your penetration has increased in some of the existing markets with new products, basically, how sustainable this trend is, and also you made a brief comment earlier saying that you know some countries may introduce import barriers in terms of similar to what India is also introduced in the last one year, which may have an implication on exports. So if you can provide that along with followed by the detailed breakup that you gave for industrials and powergen segment please. Thank you.

**Ashwath Ram:**

Yeah, so, I'll start off with saying that pretty much every region around the world has recovered, both on a sequential quarter basis and on a year on year basis. Part of it, of course, is that, you know, this has been a cyclical market.



*Cummins India Ltd.*

*Cummins India Limited Analyst Call for Q3 2020-21.*

*January 29th, 2021*

And the last two years have seen the us reached the bottom of that cyclical phase and we were gradually starting to see parts of the market bounce back. That's one part. The second part, of course, is that as the vaccinations around the world are increasing, the economies are bouncing back and that is also leading to demand. So we do see this sustaining. You know, as far as we can tell, at least, this year should be a pretty steady kind of year. As far as regions is concerned, the strongest bounce back we saw in Asia Pac led by China. And then, of course, all the other regions continue to slowly bounce back Latin America, Middle East, Europe, Africa, every one of those regions started to come back. As far as our breakup of sales and this is region wise, our total sales for the quarter was INR 308 crores. And Asia Pac was the 90, Latin America was roughly 60-68, Middle East 48, Europe 47, Africa 32 and, you know, miscellaneous was about 22.

**Sandeep Tulsian:**

Sir, if you could give comparable numbers for these because it will be difficult to make sense out of, sir, if you give either fourth quarter number or full year of FY21 number, so it will be easy to compare.

**Ashwath Ram:**

Yeah, so compared to the, compared to FY21, you know, it's a remarkable change because FY21 the number was INR 126 crores overall versus INR 308 crores. So Asia Pac was 34, Latin America was 27, Middle East for 17, Europe was 24, Africa was 9 and everything else was 14. So, you know, it's just a significant bounce back.

**Sandeep Tulsian:**

So, I'll probably hop back in the queue. Thank you so much for taking my question.

**Ashwath Ram:**

Thank you.

**Moderator:**  
Please go ahead.

Next we have Bhavin Bitlani from SBI Mutual Funds. Your line is unmuted.

**Bhavin Bitlani:**

Thank you for the opportunity. The first question is regarding the QSK60 G23 which was launched in the AGM. If you could just help us clarify because this QSK60 has being manufactured by CTIL. So will this be manufactured by CIL, so clarity on that front will be useful.

**Ashwath Ram:**

Yeah, so as far as the QSK60 is concerned, you know, different parts of it are made. Some parts of the supply chain are handled by the CIL and some parts of the products are made within CTIL and the product is sold by CIL. So it's not entirely accurate that, you know, every part of the QSK60 is done at CTIL. So, CIL has, you know, many gains from us localizing this product in India.

**Bhavin Bitlani:**

Sure. Sir, second one is again in the AGM, in your presentation you highlighted about 100 basis point per annum increase in the operating profit margin. So, if you could give us more color on that and where exactly are you seeing increase in the margin? Will that be from operating leverage better product mix that will



*Cummins India Ltd.*

*Cummins India Limited Analyst Call for Q3 2020-21.*

*January 29th, 2021*

be more useful and over the next three years where should one expect the operating margin trajectory?

**Ashwath Ram:**

Yeah. So, like I mentioned at the AGM, this is an ambition we have set for ourselves which means this is an internal target. It's a strategic intent and way we see doing that is all those four areas that I mentioned. One is of course, bringing in better product by which we can get better pricing and, you know, differentiate ourselves in the market. That's one. Second of course, is improving operating leverage which means better utilizations, exporting the supply - I mean, utilizing the supply chains in a better manner. Third is we continuously keep working on cost efficiency from a materials and supply chain basis. So to leverage that also to look at the product portfolio and try to figure out how we can, you know, introduce more local fit for market kind of products, we certainly see that going forward with the tightening emissions and introduction of new stage emissionized products, there is an opportunity for us to improve, improve margin. So combination of all of that and continuing to, you know, get greater efficiencies out of our system where we have made a lot of investments over many years. It is -- that's our intent. It's not a guidance. It's an intent that this is what we want to do as a leadership team to keep delivering better performance as a business.

**Bhavin Bitlani:**

Thanks. Last question from my side, again, given the uncertain environment, we completely understand near term is uncertain, but if one were to take a three-year perspective and given the fact that we had a mid-teens decline in exports and double digit decline in domestic over the last three years, high teens to early 20s over a next three years on a low base, would you believe that could be a reasonable expectation?

**Ashwath Ram:**

I would believe that to be a reasonable expectation that, you know, that's the kind of target I would set for myself to help to grow this business. So yes, that's -- yes, certainly, I would agree with you over there.

**Bhavin Bitlani:** Yeah. Thank you so much for taking my questions.

**Moderator:**

Next, we have Harshit Bansal from HDFC Securities. Your line is unmuted. Please go ahead.

**Harshit Bansal:**

Sir, my first question is on the traditional segment which we have. So beyond that, are we seeing any incremental order flows coming out from the U.S. [indiscernible] on the clean energy side and [indiscernible] infrastructure side, so if you can highlight the segments outside the traditional segments which we have.

**Ashwath Ram:**

So, yes, there is movement on the clean energy side. If you look at India as a market, the moves on the clean energy side are happening more in the space of two wheelers and maybe buses and some of those, intercity, within city kind of applications. Most of the applications where we sell our products, I feel the cycle is somewhere like in the, you know, the seven to 15-year timeframe is



*Cummins India Ltd.*

*Cummins India Limited Analyst Call for Q3 2020-21.*

*January 29th, 2021*

where we should start to see a little bit of momentum going there. That being said, Cummins, globally is investing very heavily in the hydrogen economy. And with that, we are, you know, we are already selling electrolyzers and we are selling a whole bunch of equipment which goes to support the hydrogen economy. We believe that even in a market like India, the production of hydrogen needs to increase pretty substantially over the next five to 10 years. And we are already in the process of bidding for all the major tenders that are being floated by the government in this space. We are also looking for, you know, strategic alliances and partnerships with people who use hydrogen as part of their manufacturing processes where there's large amounts of consumption. So, that's the way we are thinking of opportunities over there. There are also some limited prototype and you know, starting opportunities in segments like rail to use fuel cells, and some of those very focused kind of activities. Those will take anywhere between two to five years to you know, really gain traction and make a difference. So, broad base, we have the technology, we are starting to invest more in those technologies in India setting up teams, talking to customers, doing that, but the big money is being spent in Europe and in China and that is where the biggest factories even for Cummins to produce some of these equipment etc. is being set up as of now.

**Harshit Bansal:**

Sir, second question was on the new product, sir, which you have introduced. So, are we [indiscernible] introduce electronic pump versus the mechanical pump, you know, specifically [indiscernible]? So how has the portfolio now becoming more fuel efficient, more economical and remain more better output on the power side?

**Ashwath Ram:**

Yeah, so I think the -- if there's one takeaway you can - from the new product introductions is we have introduced amazingly better product density in everything that we've launched, which means we are generating more power in a much smaller footprint, in a much smaller sized box. And that means yes, we do get better fuel efficiency. The move to electronic means, they are cleaner products, and then you know, they're also ready products for the next cycle of CPCB 4 etc. So, significant investment and we believe these are market leading products.

**Harshit Bansal:**

Sir, just last question on the USD 1 trillion infrastructure spend. So, this will [indiscernible] a huge export opportunity from India as well feeding into the U.S. market is a phenomenal expenditure going to happen. So [indiscernible] we have much of exposure in the U.S. in terms of exports. So, first if you can quantify the number and do you feel there is exports opportunity emerging out from India for CIL [indiscernible]?

**Ashwath Ram:**

Yeah. So CIL not only exports finished products, it also exports components and, you know, parts of engine. So, you know, there's such a large opportunity, the opportunity for CIL to ship more things to North America will keep improving. We are always constantly looking at more opportunities to utilize CIL for exports and CIL has a great advantage that it is Cummins' lowest cost base production facility, you know, in the world. So, I do see opportunities





*Cummins India Ltd.*

*Cummins India Limited Analyst Call for Q3 2020-21.*

*January 29th, 2021*

opening up. I cannot quantify exactly what all those opportunities are at this stage, but I do remain bullish that this will result in more business for us.

**Pari Harshit Bansal:**

Thanks. Thanks, Ashwath. Those are my questions. Thanks.

**Moderator:**

Next we have Pulkit Patni from Goldman Sachs. Your line is unmuted. Please go ahead.

**Pulkit Patni:**

Yeah, Thank you so much. Sir, two questions. My first question is in the AGM presentation you speak about consolidation of global supply chain. Is this any way a precursor to a potential merger of the unlisted arm with the listed arm? What exactly are you referring to here if you could clarify that?

**Ashwath Ram:**

Yeah. So it is not referring to merger of the unlisted arm with the listed arm. Though that question was also been asked by many people and our answer there is we continue to look at those opportunities and we will continue to look at it and see what is best from all stakeholders' perspective. So, keeping that aside, what I mean by global consolidation is that as companies continue to look into the future and make their investments in newer spaces, so as they invest in the connected world, in autonomous technology, in electrification, in the urbanization of the world, you know, case as they call it, they are not going to be able to keep making investments at the same rate in some of the older technologies in diesel, natural gas and those bases. What that means is, if there were, you know, 300 manufacturers of diesel engines around the world, we are seeing that many of these folks are talking to each other and consolidating capacities under a single roof and Cummins has been a beneficiary of some of these kinds of consolidations, as you must have heard, Cummins has already signed an agreement with Daimler to produce their mid-range engines, has similarly worked on agreements with the Hino, with Isuzu. And we see those kinds of opportunities for CIL as well in the Indian space. That's what I meant by consolidation, that there's an opportunity to play a bigger role in more OEMs than what we've been playing in the past.

**Pulkit Patni:**

Sure. That's clear because we were confused whether it is talking about you know, consolidation of the two Indian entities. Thanks for clarifying that. Sir, my second question is on export. Now, while you've done better than the previous quarter, but we used to do about 420 to 450 crore per quarter of export, you know, about two and a half, three years back when we were doing well on exports. Should we expect anytime soon to touch that run rate? Was this a quarter impacted because of lockdowns, etc., or you think that we should be in say 350 crore kind of a quarterly range? Any thoughts there would be helpful because your commentary on export is positive, but numbers are still, you know, below the 400 crore quarterly run rate.

**Ashwath Ram:**

I do believe that the global exports market is picking up. It is the -- it continues to improve every quarter. And when I speak to different leaders around the world, they all are expecting that this trend will continue to be on a positive rate. How much is difficult to say because different countries are undergoing





*Cummins India Ltd.*

*Cummins India Limited Analyst Call for Q3 2020-21.*

*January 29th, 2021*

different cycles of bouncing back from this COVID crisis. And that's why, you know, I can't come out and just tell you Okay, by next quarter, it will be better. All I can tell you right now is that at least looking forward things are appearing that the demand cycles are moving upwards and I don't see it, you know, declining of like.

**Pulkit Patni:**

Fair point sir. Thanks for answering those questions. Thanks.

**Moderator:**

Next we have Ranjit Sivaram from ICICI Securities. Your line is unmuted. Please go ahead.

**Ranjit Sivaram:**

Yeah, hi, sir. Good morning. If you can throw some clarity on this expected emission normal change, what is the current timeline? And do you feel that the government will stick to the deadline anything that you are hearing and what can be such implication in terms of pre buying?

**Ashwath Ram:**

Yes, as of now, we have been targeting late 22 cycle for this emission transition to happen and while the notification is not yet out, all conversations with the government seem to indicate that, you know, they still seem aligned to move forward with that kind of timing. But as you know, there are always usually plus few quarters here and there movement in the worst case kind of scenario. There's a lot of pressure on the government as you can see from the global -- you know, UN just released global warming and climate change report, just this week, and the U.S. under the new Biden administration has re-signed the Paris Accord. So there is going to be lot more pressure to actually move faster on tighter emissions than move slower. So we remain optimistic that things will move faster. We are well prepared and usually when there is an emission transition cycle, there is a pre-buy, but you know, not knowing exactly the date of the transition, I cannot estimate what that pre-buy timing is going to be, but we remain positive that emission change is coming and we don't see significant delays to emission change.

**Ranjit Sivaram:**

Okay. So, previously, April 2022 was the deadline. So do you probably believe that it can get shifted by one or two quarters if the worst case?

**Ashwath Ram:**

It could, but the moment we get the clarity, we will, you know, we will make it clear to everyone. We continue to have discussions at the government level to try to get them to release the final notification. But yeah, as of now, we are thinking that it is already August of 21. And typically, industry needs about a year to, you know, from the point of notification to really convert a development product into a productionized product. So that's why we are thinking it is closer to the latter half of 22 than the April 1 kind of a date.

**Ranjit Sivaram:**

Okay. That's useful. And in terms of the margins of this quarter, is there any ForEx related impact or is there any one-off in the other expenditure or in the raw mat? Because when we see the [indiscernible] improved YoY, still there is a lot of room for improvement. So how do you -- because of the exports has done well, so we believe when exports do well, the margins tend to move much



*Cummins India Ltd.*

*Cummins India Limited Analyst Call for Q3 2020-21.*

*January 29th, 2021*

better. So is there any more scope and in terms of price hikes? It's a related question to the what kind of price hikes we have taken?

**Ashwath Ram:**

We have taken price hikes. I won't give you all the details of the kinds of price hikes we have taken. Most of the price hikes were meant to offset the hits we took on commodity. So, this was more of a cycle correction to offset the commodity increases that have taken place. But overall, you know, pricing and foreign exchange put together has about a half a percent impact in the cycle on material margin.

**Ranjit Sivaram:**

Yeah, and sir, just a bookkeeping question, you generally give the breakup of the industrial and the domestic, can you share that data points? That will be my last question. Thank you.

**Ashwath Ram:**

Sure. So I'll first go with industrial in the compressor overall we had a sales of about INR 189 crores, compressor was INR 30 crores, construction was INR 49 crores, mining was INR 16 crores, rail was INR 57 crores, marine was INR 18 crores and everything else was about INR 19 crore. And if we look at the domestic market, we had sales of INR 351 crores, low horsepower was INR 26 crores, midrange was INR 110 crores, heavy duty was INR 46 crores, high horsepower was INR 168 crores and some miscellaneous stuff was about a crore.

**Ranjit Sivaram:**

Okay, sir. Thanks and that were my questions.

**Ashwath Ram:**

Thank you.

**Moderator:**

Next is Shankar [ph] Biswas from Nomura Securities. Your line is unmuted. Please go ahead.

**Shankar Biswas:**

Good morning sir. Congratulations for quite decent results in the challenging environment.

**Ashwath Ram:**

Thank you.

**Shankar Biswas:**

Sir, what I was observing was that in the second quarter as well, there is still an ongoing increase in commodity prices as well as it seems that the ocean freight rates have also increased massively. And furthermore, there have been lockdowns and multiple COVID outbreaks in Asia Pac also like, for example, Vietnam and Indonesia, all those countries. So do we expect that to Q2 still have some recurring impacts that we have seen in 1Q or largely 2Q should normalize out in terms of margins? So like, can margins come down from this 12.5% level? Or do you see directionally moving up in the coming few quarters?

**Ashwath Ram:**

I think we should do better in the second quarter, mainly because the supply chain is a lot more stable. And, you know, Q1, we literally had to take three or four weeks of downtime because of lockdowns, and we ran out of parts and all of those kinds of issues; those are much better under control, as far as the Q2 is



*Cummins India Ltd.*

*Cummins India Limited Analyst Call for Q3 2020-21.*

*January 29th, 2021*

concerned. And we did take a lot of pricing action in Q1. So the positive effects of the pricing action would be seen with the full quarter impact, more in Q2. So we think margins will improve.

**Shankar Biswas:**

So the follow up on this, so if I may take a look at the FY21 annual report, so it seems that the royalty rates which used to be like typically 1.5% of sales are now almost like 0.6% types. So shall we consider this level to be sustainable? Or like, it should revert back to the earlier levels? So what are your thoughts on that? I mean, you have done localization and all these exercises. So should we think some number tending more towards 0.6% than the earlier 1.5% level? So what is your take on that?

**Ashwath Ram:**

Yeah, so I think a lot of it depends on the product mix. But I think the levels we are at now, somewhere between 0.6% and 1%, I think those are sustainable for the long term.

**Shankar Biswas:**

Okay sir. That was all from my side.

**Ashwath Ram:**

Thank you.

**Moderator:**

Next we have Renu Vaid from IIFL. Your line is unmuted. Please go ahead.

**Renu Vaid:**

Yeah, hi, thanks for the opportunity. My first question is -- can you help [indiscernible].

**Ashwath Ram:**

Sorry Renu, you cut off for a little bit. Could you just start again?

**Renu Vaid:**

Yeah. My first question is for the recently launched, Made in India QSK 60 G23 HP product, what is the value addition by CIL in this range and what is the likely amount that you're looking that at especially given that data centers have been a big growth driver?

**Ashwath Ram:**

Yeah, so CIL certainly manufactures quite a few of the components used over there and the product is still being localized. So over the next 18 months, we will see lot more value addition at CIL and – but it is going to be better for CIL from a margin perspective, because right now when CIL sells these products, they are imported from the U.K. and sold. So in any combination, just us making it in India with some of the components being made by the CIL and then being sold by the CIL, it helps improve the margin position of the CIL when selling these products and makes it more competitive to be sold in India, which should also help us improve market share.

**Renu Vaid:**

Sure. Secondly, if you look at the power-gen portfolio, our sequence should be flat and your comments did mention there was some pent up impact as well. But broadly, one has to look at the demand momentum pick up. How was it versus your normalized business environment, and how are you looking at the broad inquiry levels versus pre-COVID environment? Any relative percentage figures or just some indicators?



*Cummins India Ltd.*

*Cummins India Limited Analyst Call for Q3 2020-21.*

*January 29th, 2021*

- Ashwath Ram:** All I can tell you is the demand outlook is positive. And so we expect to keep doing better than what we did in the first quarter.
- Renu Vaid:** Compared to pre-COVID are you looking at demand environment improving in pockets which are pulling --
- Ashwath Ram:** Demand environment is already strong and as the economy recovers, certainly as does the infrastructure linked kind of business. So as the economy picks up automatically we pick up even further. So, I can tell you that even in the current condition of COVID and the state of the economy right now, demand is quite steady and strong.
- Renu Vaid:** Three, from the new product launches which you mentioned, what kind of applications are we focusing on domestic launches that we've done? And in exports, in the annual report as well the AGM mentioned that we are expanding it beyond power-gen solutions to industrial engines to APAC region. So any insights in terms of which applications are we looking at for exports on the industrial engine side?
- Ashwath Ram:** Yeah, the biggest applications are in mining, and the mining is the biggest consumer of industrial engines and spare parts. So that's as far as mining is concerned, but these products are across the load. We have launched products with our 6.7 liter electronic engines and 3.3 liter engines, which are going to be used in the medium horsepower and low horsepower segments. We have improved our product density there. As I spoke about, our product will be 20% to 25% better in terms of product density as compared to competition. Similarly, in the 1000 kVA, in the 2000 kVA ranges, we are also introducing new products. We are introducing products for export, which are in the 500 kVA-550 kVA ranges. So a whole bunch of these products across multiple active applications, across multiple segments. You know, it was -- you know we were -- actually there's a catch up of a huge amount of work that we've been doing over the last 18 months, which is all getting released in this time period. We have also introduced packages in rail etc.
- Renu Vaid:** Sure, on a relative basis bunch up of new launches that you [Indiscernible] can they be in terms of a revenue mix, that you have to --
- Ashwath Ram:** Renu, could you repeat that question again? I lost you for a little bit.
- Renu Vaid:** I'm saying that with respect to the recent launches that we have done in the last 12 months, including the ones that we've done currently, how large could these just be in terms of revenue mix for the next two years? Can they be 15%-20% of your revenues or higher?
- Ashwath Ram:** That's a good question. I don't have a good answer for that right now, but these are significant product breakthroughs as far as the market is concerned. So certainly we do expect that they play a very big part in our portfolio.



*Cummins India Ltd.*

*Cummins India Limited Analyst Call for Q3 2020-21.*

*January 29th, 2021*

- Moderator:** [Indiscernible] players and dealers and CRL has probably [Indiscernible] so could there be any market share gains that we have witnessed the last 12 months in the domestic market, though it's --
- Ashwath Ram:** Renu, you are breaking up but I think your question is related to market share. And the answer there is we are holding as far as the market share is concerned in all segments. With these new product introductions, yeah, the ambition and our goal is to try to improve market share pretty much across all the market segments. Sorry Renu. If you're saying something, I can't hear you.
- Moderator:** Sir, can we take the next question by the time?
- Ashwath Ram:** Yes please.
- Moderator:** We have Bhalchandra Shinde from Max Life. Your line is unmated, please go ahead.
- Bhalchandra Shinde:** Good morning. Sir, two quarters back we mentioned that we are working on some corporate actions like buyback or any other thing and we were evaluating the -- in the process; any further development of those factors?
- Ashwath Ram:** No not yet. No development, but we continue to look at all of those scenarios.
- Bhalchandra Shinde:** Okay, and this new product which we have launched like QSK 60 and others, how are the export opportunities which we see? Like obviously, QSK 60 as you mentioned that most of the parts were imported and we are localizing it, but once we localize do we see our export content to increase in those products? Or export will continue to be with CTIPL?
- Ashwath Ram:** I think as far as that product is concerned, that export is going to continue to remain with CTIPL but exports overall is continuing to increase in multiple segments and with some of these products, so I do see a positive trend on exports.
- Bhalchandra Shinde:** Okay, and as you mentioned that in North America we see a good traction, how much of total exports currently is due to the North American part and what kind of jumps we can see in that?
- Ashwath Ram:** Right now it is a very, very, very small percentage; I would say less than 5% goes to North America. And I certainly see that becoming at least 10% to 15% of our portfolio in the future and not just because of this infrastructure thing. What is happening around the world is that consolidation of supply chain is also happening, which means the big supply chain producers of castings and forgings and different other manufacturing, that kind of consolidation is happening in regions around the world and India happens to be one of the big nodes of consolidation. So, and we have a great cost base. So the combination of being an attractive producer having a great supply chain base, those two combinations are a bigger factor for our share in the global pie increasing.



*Cummins India Ltd.  
Cummins India Limited Analyst Call for Q3 2020-21.  
January 29th, 2021*

**Bhalchandra Shinde:**

Sure, sure. Thanks, sir. Thanks.

**Moderator:**

Next is Jinesh Gopali from Axis Mutual Funds. Your line is unmuted.

**Jinesh Gopali:**

Hi sir, thank you so much for taking my question. And I'm sorry I'm harping on this QSK 60 engine which we launched yesterday. Just to clarify, once again, in the domestic market CPIL manufacturers, CIL distributes it and it gets the distribution margin. I understand you said there are some value additions we also do but it is currently getting imported. When currently it is getting made here -- that's my first question, when currently it's getting made here who's making it? Is CPIL making it or CIL? That's number one. And tomorrow if the export starts happening, let's say from the U.K. or going to China who gets the manufacturing margins and who gets the distribution margin? That's my first question, I have two more questions after that.

**Ashwath Ram:**

Yeah, so the QSK 60 line is set up in CTIPL. So you know when CTIPL exports that to our other global plants CTIPL gets that. What CIL gets out of it is whatever CIL makes as a component and supplies left; CIL makes the block and the head and connecting rods etc, CIL will get the markup and the margin over that. When we sell it in the in the domestic market, again we get the engine at a transfer price from CTIPL and CIL makes the markup and the margin of when it sells to the customer, and which is significantly higher considering that currently the product was being imported from the U.K. and brought in and sold.

**Jinesh Gopali:**

Got it. It was very helpful. Thanks for this clarification sir. Sir second on, you know, you clarified the way you are looking at the inquiries and the export market. But just on specific end market where the product really goes, there is the oil and gas or the power-gen side, data centers which are the end markets where you see -- and I'm asking this question more from a perspective that there are a lot of export engine export guys, who does it for auto? Okay, so we have a bigger arm in auto which is being [Indiscernible] there is a tremendous amount of exposure in that product. So I'm just trying to understand if you can throw some light, which are the end markets which are firing across all regions, where -- which gives you the confidence, whether -- and you can collaborate in the way of U.S., Africa, Middle East and China, which are the end markets you think will be firing, which will help us really go back to our original run-rate of 400-450 Crore. That will be really helpful. Thank you, sir.

**Ashwath Ram:**

Yeah. So when you look at globally at market, you can see that the strongest recovered market for us is China, and China has been absolutely booming and it continues to be extremely strong. And within China, also data centers and telecom are market segments which continue to grow. Around the world data centers and --

**Moderator:**

Please stay connected. Ashwath Sir's line got dropped, so he'll be connecting back. I request you all to please stay back.

**Ashwath Ram:**

Yeah, yeah. So where did I lose you?



*Cummins India Ltd.*

*Cummins India Limited Analyst Call for Q3 2020-21.*

*January 29th, 2021*

**Jinesh Gopali:**

I think you just started talking on the end market and then I think –

**Ashwath Ram:**

Okay, okay. So the strongest end market for us is China and other parts of Asia Pacific. And there we see that the data centers, telecom and health support, critical applications, infrastructure build up; those are the main market segments which continue to grow. And we are seeing this trend across the world that as we move towards 5G that the number of data centers, the number of telecom hubs, you know, with COVID the requirement for health support services, the rebuilding of infrastructure, those continue to be now a global trend where there is a lot of liquidity available in the entire global ecosystem, which is causing people to now spend on infrastructure that they were not doing for a long time. With that we do think that there is a multi-year growth cycle in the Power-gen space which is likely to come about.

**Jinesh Gopali:**

And sir, in the Middle East and Africa you talked about last quarter, there are some issues of their currencies and all, markets slowly picking up; in the last three four months, any signs of revival there? Any sector, which has picked up?

**Ashwath Ram:**

Yeah. So oil and gas has certainly picked up and with that, we have seen growth in the Middle East as well as in Africa. So in both those areas, we have started to see signs of revival.

**Jinesh Gopali:**

Thank you very much and all the best. Thank you.

**Ashwath Ram:**

Thank you.

**Moderator:**

Next, we have Aditya Mongia from Kotak Securities. Your line is unmuted.

**Aditya Mongia:**

Thank you for the opportunity. I hope I'm audible to you all?

**Ashwath Ram:**

Yes.

**Moderator:**

Yes, you are audible.

**Aditya Mongia:**

Great. Now the first question that I had was more on the distribution business. So we understand that there's obviously a large installed base of engines that it is there in the country and at least from our stance we get a sense that Cummins is trying to penetrate or leverage its distribution network more and more. And you've said similar thought processes in yesterday's AGM also. If you could give some more color as to where exactly in distribution do you think there is the good prospects of growth; you talked about on-highway applications as well in the annual report, so some more color would be very, very useful over there.

**Ashwath Ram:**

Yeah, so you know, our penetration from the aftermarket, both in off highway and on highway is significantly lower than what we feel our entitlement is. So that itself represents a pretty, pretty large opportunity. We currently don't even have an online marketing presence for selling parts and all of those kinds of





*Cummins India Ltd.*

*Cummins India Limited Analyst Call for Q3 2020-21.*

*January 29th, 2021*

things. So just expanding our own scope of our aftermarket itself is a pretty large opportunity. There are also opportunities on the service side, there are opportunities on pushing more products and parts through the same distribution channel, which is already well established and well trained and in place, combination of all of that and the nature of support that customers want, where they want a single provider to give them a full service solution rather than talk to three-four different providers, we think represents a lot of opportunity for the distribution business to grow its portfolio of what it's selling today. So really bullish, that we can do a lot more here.

**Aditya Mongia:**

Sure. So the way you kind of see through it is this for you will always grow because of the installed base growing, some amount of positive relations and then coupled with penetration, do you think that this can be led to a double digit or mid double digit kind of growth story for the next few years?

**Ashwath Ram:**

We certainly hope so and we will be pushing very aggressively to ensure that that happens.

**Aditya Mongia:**

Okay. The next question that I had was on the industrial exports. Now, this is something that has not happened for comments for the longest of times, and now as you are seeing discussions are starting to happen. We just wanted to get a sense of what exactly has changed over there, and how quickly can things happen. And some comments on let's say, a fire pump kind of market, let's say in China and on that opening up could be useful.

**Ashwath Ram:**

So what happens is, typically the reason industrial products are not being exported is because of the problems with integration. Usually the product, the entire end product was being built, let's say it was being built in Europe or it was being built in America or China or somewhere like that. And so, they would want the source of manufacture of the engine to be as close to them as possible so that when you do integration and coupling and do all of those things in a technical manner, it's much easier to work with. As more of these OEMs are starting to use India as a base, they are beginning to find that, you know, yeah the products that are made here are just as good if not better than anything they're buying globally, and they are using India as an export base to get that value add. We are seeing once you get traction, once you -- once people see that hey the product is great, is working well they start then pulling that product for multiple markets around the world. So I think that is what is driving the push towards the even industrial products being used by customers out of India.

The second is similar kind of trend is happening in China as well, as the costs within China keep increasing year on year. So the cost structure of China is not like what it used to be 10 years ago. Everything in China is now more expensive than what it is in India. Labor cost is two and a half times that of what it is in India. So India then becomes an attractive source for some of those kinds of components even for a market like China.



*Cummins India Ltd.*

*Cummins India Limited Analyst Call for Q3 2020-21.*

*January 29th, 2021*

**Aditya Mongia:**

Okay. So that helps. The third question that I have was kind of an open ended question. I'm just taking this example of QSK 60 G23 products that India will now be manufacturing versus taking from U.K. and China still imports from U.K.. Should one see that as corroboration that India is a much better space to be manufacturing out of -- versus China because the demand impetus for the data centers would have been even stronger for China to start producing this by themselves?

**Ashwath Ram:**

You know, Cummins has three major hubs around the world. Okay, North America, China and India. So there are some things which China does extremely well, some things which India does well and some things which North America with USMCA and all those combinations of what you can bring in, what you can't do without duties and all that just make it impossible to get from other markets. The strategy is different for different; so like for example, in the on highway side of things, the scale in China is significantly more than what is there in India. So despite all the advantages on base that we have, the scale in China is so much greater that they have a comparative if not even advantageous position, especially with electronics and all of those being made locally over there. So it depends is my answer, it's that in some things we are better and in some things they are better. And so as a company Cummins tries to use the best combination of this to overall have a very, very cost effective supply chain.

**Aditya Mongia:**

One more question from my side, it will be the last one. So you mentioned in the con-call that North America is representing 5% of your exports at this point of time, and you intend to make it 10% to 15% over time. I just want to get some more color from you in terms of let's say, the steps ahead of timeline, because I do understand probably a few quarters back you had talked about prototypes being given to U.S. in this regard.

**Ashwath Ram:**

Yeah, so as the product -- as India becomes a leading emissions market and catches up to North America, it opens up more opportunities to export products over there. And like I said, there are a lot of complications now with USMCA in that you can't really export finished products; you may have to -- without paying a lot of duty. So in specialist applications is where we may we probably will get the entry first, in products like natural gas and some areas where the scale is not very, very big, there's a lot of variety, there's a lot of complexity, those are the kinds of products where we will start doing earliest and then we will become a major system, components system supplier of products or parts made in India and then put together and then given for assembly in places like North America. That's the direction where I see some of this going.

**Aditya Mongia:**

Thanks a lot for your answer to my question. Thanks.

**Moderator:**

Due to paucity of time, we will take one last question coming up from Mr. Nilesh Shetty from Quantum Mutual Funds. Your line is unmuted. Please go ahead.



*Cummins India Ltd.*

*Cummins India Limited Analyst Call for Q3 2020-21.*

*January 29th, 2021*

**Nilesh Shetty:**

Yeah, I just have two small questions. One is if the quarter would not have been impacted by supply constraints and say COVID second wave, what would the likely revenue number have been? How higher could it have been?

**Ashwath Ram:**

I think we could have met the previous quarter's numbers and maybe done even little better.

**Nilesh Shetty:**

Okay. And secondly, we're reading sort of reports about ports in China being shut because of COVID and so just wanted to know, are you getting impacted by that or are your operations, especially on the export side, are they normal right now?

**Ashwath Ram:**

They are likely to impact us a little bit. But I think that's why we've been speaking that we've been using this time to build up some strategic inventory. So it's not impacting us immediately, but that does not mean that six weeks or eight weeks down the line, if things pile up and backlog are created in the chain, that it won't impact us at that time. It's very difficult to predict because the global supply chain is so complex, that when one or two of the very big ports of the world, they get congested, it sort of spills over into multiple regions around the world. So the quick answer is not yet but I won't dare to just say it will not affect us.

**Nilesh Shetty:**

Okay, thank you so much.

**Ashwath Ram:**

Okay, so thank you. I mean, really nice to talk to all of you. As I've said many times before, Cummins is a leading technology and product company; we continue to invest very, very heavily in our products. We have a very strong core and a very strong base set up in India and we've been here for 60 years now, we are pretty determined and optimistic that lots of opportunities are opening up in India and around the world for us. So we remain positive and I think you'll start to see more and more exciting things come from our portfolio in the future. So thank you very much, stay safe. Make sure your families are all protected. Delta is pretty, pretty dangerous. We have seen the impact on our families and on the families of many of our employees and the community. So please don't take it lightly and keep the pressure up. We will get out of this in a positive frame. Thank you.

**Moderator:**

Thank you sir for addressing the session, thank you all the investors for taking out time and join the call that does conclude our Analysts call for Q1. You may all disconnect your lines now. Thank you and have a pleasant day.