Ref: STEX/SECT/2023

August 07, 2023

The Relationship Manager, BSE Limited, Phiroze Jeejeebhoy Towers Dalal Street, Fort, Mumbai 400001 BSE Scrip Code: **500480**	National Stock Exchange of India Limited Exchange Plaza, 5th Floor, Plot No. C/1, G Block, Bandra – Kurla Complex, Bandra (East), Mumbai 400 051 NSE Symbol: **CUMMINSIND**

Subject: Intimation of transcript of analyst conference call held on August 04, 2023

Dear Sir/ Madam,

With reference to our stock exchange intimation dated July 20, 2023, towards investor/ analyst/ Financial Institution conference call, we are enclosing for your records a copy of the transcript of the said conference call conducted by the Company on August 04, 2023.

Kindly take this intimation on your record.

Thanking you,

Yours faithfully,
For Cummins India Limited

VINAYA ABHIJIT JOSHI
Digitally signed by VINAYA ABHIJIT JOSHI
Date: 2023.08.07 09:54:23 +05'30'

Vinaya A. Joshi
Company Secretary & Compliance Officer
(This letter is digitally signed)

Encl.: As above.

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"Cummins India Limited
Q1 FY 2024 Earnings Conference Call"
August 04, 2023

MANAGEMENT: MR. ASHWATH RAM – MANAGING DIRECTOR – CUMMINS INDIA LIMITED.
MR. AJAY PATIL – CHIEF FINANCIAL OFFICER – CUMMINS INDIA LIMITED

Moderator: Good morning, ladies and gentlemen. Welcome to Cummins India Limited Q1 FY '23-'24 Earnings Conference Call. We hope you are all keeping safe and healthy. As a reminder, all participant lines will be in the listen-only mode. And there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing star then zero on your touchtone phone. Please note that this conference is being recorded.

I will now hand over to Mr. Ashwath Ram, MD Cummins India Limited. Thank you, and over to you, sir.

Ashwath Ram: Good morning, ladies and gentlemen. Welcome to the Cummins India Limited Q1 FY '24 Earnings Conference Call. My name is Ashwath Ram, and I'm the Managing Director of Cummins India Limited. Joining me on the call today is Ajay Patil, Chief Financial Officer of Cummins India Limited. Thank you all for joining us on this call today.

I'm really happy to inform you that the company successfully launched product duly certified to lead the new CPCBIV+ emission norm in the power gen segment and is fully prepared to deliver the best-in-class products to power the success of our customers. Backed by our brand promise of innovation and dependability, we are confident that these products will continue to deliver superior performance.

Now I would like to share an update on our Q1 FY '24 financial results. I am pleased to announce that CIL reported record revenue for the quarter, driven by strong domestic demand. The export revenue is at levels similar to the previous quarter.

Getting into the financial results; for the quarter ended June 30, 2023, with respect to the same quarter last year, our sales at INR2,175 crores are higher by 31% compared to INR1,657 crores recorded in the same quarter last year. Domestic sales at INR1,677 crores are higher by 43%. Exports at INR498 crores are higher by 3%. Profit before tax at INR415 crores is higher by 57% compared to the same quarter last year.

For the quarter ended June 30, 2023 with respect to last quarter, our sales at INR2,175 crores are higher by 15% compared to INR1,889 crores recorded in the last quarter. Domestic sales at INR1,677 crores are higher by 20% and costs at INR498 crores are higher by 1%. Profit before tax at INR415 crores is flat compared to the previous quarter.

I would now like to share the segment-wide sales breakup for the quarter ended June 30, 2023. Domestic; power generating domestic sales were INR873 crores, a 76% increase over last year and 30% increase over the last quarter. Distribution business sales were INR534 crores, 28% increase over last year and 11% increase over last quarter. Industrial domestic business sales were INR236 crores, flat versus last year and 9% increase over last quarter.

Exports. High Horsepower exports were INR2.4 crores, 5% increase over last year and 18% increase over last quarter. LHP exports were INR201 crores, flat versus last year and 17% decrease over last quarter.

Cummins India financial guidance. Regarding the sales outlook for the full year 2023-'24, we look forward to continuing our double-digit growth over the fiscal year 2022-'23.

I now open the session for questions.

Moderator: Thank you very much. We will now begin the question-and-answer session. We have our first question from the line of Parikshit Kandpal from HDFC Securities.

Parikshit Kandpal: So my first question is on CPCBIV+ implementation. So now it's all done and dusted. So how do you see the channel demand right now? Do you see any significant decline in the volumes for the rest of the year? Do you think that it can be made up more than made up by the increase in prices, so that we can maintain that 2x normal GDP growth, which we aspire to have in the year.

Ashwath Ram: Sure Parikshit. That's a very good question. CPCBIV+ has been launched -- it's been launched very well, and we've been very comfortable with our position in the market from where we stand as compared to their competition, from a product perspective. What the government at the last minute has announced is that CPCB gensets can be produced and sold all the way up to June 2024.

In effect, only certain areas and present market segments will move to CPCBIV+, as they are still trying to ascertain how that mix and how that spread is. And that puts us in -- we were expecting a very smooth product A to product B transition. But now for the next 1 year, we're going to have to work with both the ranges of products being sold simultaneously.

So while we feel good about where the market is, good about our position in the market, there is no uncertainty about how will the transition -- what percentage of the market will transition over the next couple of quarters, and that's where we find ourselves right now.

Parikshit Kandpal: Okay. So you're saying both CPCB II and CPCBIV+, so both the products will be amenable for sales, even for the rest of the year till June '24?

Ashwath Ram: That's correct. But at least the good part is that it's all announced -- the guidelines are in place, everything has been tested, everything has been launched, pricing has been announced. So we feel that all the uncertainty from the development and launch of the product, all of that has gone away. Now market adoption, we will get more and more clarity as we move forward.

Parikshit Kandpal: Okay. My second question on the AGM presentation. I think the first time you have put out something on the hydrogen. So you've mentioned about fuel cells on railways and battery energy storage systems for other applications. So is there now clarity what CTIL will do in terms of hydrogen and what CIL will do, so if you can help us understand. So what will be the roadmap for hydrogen story for both these entities in India?

Ashwath Ram: Yes. There is always been clarity that the market segments that are served by CIL will continue to get served by CIL. So whether it's batteries or whether it's hydrogen or other any other kind of fuel, the segments which are already being served will continue to get served. What is not 100% clear to us is, the best path to enter into the production of hydrogen, and that is what is being worked out -- the strategy for that is being worked out and the company, we have been talking to various consultants and trying to figure out what is the entry strategy.

But getting into rail or getting into expanding the scope of our power gen services to also include battery and energy storage facilities, getting into construction, running hydrogen internal combustion engines in the production market. I think all of those kinds of visions are clear for the company, and we are moving forward as we go beyond that.

Parikshit Kandpal: Okay. And just the last question, sir, on the margins. So we have seen a slight decline in the gross margins and also there has been an increase on other expenses and employee costs. Just wanted get an understanding in terms of margin trajectory, I mean where we have seen, that there could be a pathway of 100 basis point improvement in margin. So how do you stand there? And also, if there was any one-off this quarter and low margin. I mean data center, large lumpy order, which could have resulted in slightly lower margin.

Ashwath Ram: Yes. So actually, margins have improved as compared to the previous year. So our guidance of attempting to improve margin by 100 basis points in 4Q. When you compare from a quarter-on-quarter basis, we have some onetime kind of expenses on the cost side related to timing of where we did increments or employees will move that forward by about a quarter. So some of those kinds of variables as well as some one-timers in warranty, etcetera, those led to sequential quarter -- a slight reduction in margin. But overall, we feel good that the -- our attempt to keep improving margin year-on-year holds true. There's a lot of focus on cost. And so I feel confident that we are on the right path as far as margins are concerned.

Moderator: We have a next question from the line of Mohit Kumar from ICICI Securities.

Mohit Kumar: Congratulations on an excellent set of numbers. I understand you're allowed to sell up to June '24, if you have the purchase order received till June '23. How has that purchase -- can you strongly indicate the activity on it a purchase order, what you have received for the older rate till June '23 and which is still pending to be supplied, in the rest of the year?

Ashwath Ram: So we have received a very, very full order board, which has demand all the way up to June 2024. So I don't think we are worried from an order perspective. I think the bigger concern for us is that there will be many market which will also begin their transition to CPCBIV+ without waiting for June. And how we balance out the right mix and -- with 2 sets of product lines in parallel, those are the kinds of things the teams are working on and figuring out how to optimize both the supply chains, because both will have to be -- one will have to be kept alive and the other one will have to be scaled up. But order board are full.

Mohit Kumar: My second question is, how is the new CPCBIV being built, what is the pricing difference now as, of course, you rolled out the pricing, you must be more aware of the pricing now. So can you indicate the broad pricing difference? And the related question is how do you see this opening the export market for us?

Ashwath Ram: Right. So pricing is in the range. It's not -- we can say on an average is somewhere between 20% to 50% in the range -- these prices have gone up. And so I won't tell you exactly what the average is, because it's irrelevant because of the volumes are different at different nodes. But certainly, prices have gone up significantly, and we find that we will be very competitive with that kind of price increase.

The second proportion of your question was, what does that mean to access other markets. And certainly, it's good news for us that these products are developed. The product of CPCBIV+ are the tightest emission products in the world, as far as the markets are concerned. And so there is -- we are working on reconsidering some of these products for use in other markets around the world.

So the consideration for India is we can't just be taken one to one and just sold in market, whether -- in markets in North America, or the market in India work on a 50-hertz electrical cycle, whereas the market in the United States work on a 60-hertz electrical cycle, so the engine pretty much works at a different RPM. But the teams are working on trying to make things kind of conservative, and also trying to figure out which are the market segments globally, where we can launch some of these products in the near future.

Moderator: We have the next question from the line of Ravi Swaminathan from Avendus Spark.

Ravi Swaminathan: Sir, congrats on a good set of numbers. My first question is with respect to the Power Gen segment. This quarter, there would have been a lot of prebuy price increase, which had led to close to 76% kind of growth. But what is the underlying volume growth that one should roughly anticipate in the power gen side over the next few quarters or a couple of years? And what are the drivers of that?

Ashwath Ram: Right. So yes, you are absolutely right. I would say that prebuy led to a very, very strong quarter for the Power Gen business. Moving forward, initially when so much of a prebuy happens in any cycle, the subsequent quarter sees slightly less demand. And so we anticipate that similar kind of situation to happen here. That's a very short-term phenomenon. The long term -- our estimate of this market is, we expect it to grow at roughly 2x of GDP. And the reason being that, as markets become more mature and more dependent on the power consumption and their sensitivity to not having 100% reliable grid power actually increases, and we have seen this trend in multiple markets around the world.

So we think that the power gen market in India will continue to grow aggressively over -- at least for the next 8 to 10 years, especially because a big chunk of power gen also goes into infrastructure. As India is becoming first a $6 trillion economy and then a $10 trillion economy over the next 10 years, the use of gen set and power gen equipment and industrial and construction equipment is going to keep increasing. And that is a very good sign for us, from an Indian perspective.

So short term, very, very short term, slightly flattish kind of indication, long term, very bullish and optimistic that things will be good for the business.

Ravi Swaminathan: Got it, sir. And my second question is with respect to exports. After multiple quarters of very strong growth, we have seen exports have been be seeing moderate or mail growth. Is it something that this quarter is kind of an aberration, nothing too much to read on it? Growth can tug along? Overall market level demand and company-level efforts that you can comment upon?

Ashwath Ram: Yes. So what we are seeing is that certain areas of the world have started to slow down quite significantly. We are especially starting to see slowing happening in Europe pretty significantly. Asia is flat. Asia Pacific and Latin America has also started to slow down a little bit. I think part of it is to do with the China bounceback not happening as well as we anticipated. And so the combination of all of these things is that it appears some parts of the power gen market are flattening out.

Now what we are trying to do to overcome that is to try to figure out, can we launch -- we have launched lot of new products, can we launch more products, can we be more aggressive using our better cost base in India to try to get more market share? So the attempt that we're going to do, is to take -- can we get market share even in a declining market. So the news from the market is that the market has -- is flattening and in certain parts of the world, it is starting to decline a bit, whether a couple of quarters down the line, whether that will flatten out and again start to grow is something we are waiting and watching. So I can't predict that well.

But what we can do, what is in our control is to say that, despite those markets slowing down, can we still increase our market share by being more aggressive as well as by introducing more products. So that's going to be our attempt to try to maintain the export performance.

Ravi Swaminathan: Got it, sir. And my last question is with respect to the distribution business. I mean, this is a derivative of growth -- or the demand should come from the power gen or industrial side, what is driving the growth in the distribution business? I mean, if we continue to grow at a robust level?

Ashwath Ram: I think you already answered your own question. As the power generation business is growing, as the industrial construction business is growing, as infrastructure is being embedded, people are using equipments. So when they use equipment, it needs to be serviced. Our products are -- we are offering longer and more better maintenance packages. So historically, after warranty cycles were over, people used to be able to go out of fold and be able to use roadside mechanics or small service centers who repair their products, use aftermarket parts, not bought from Cummins.

But as the products are getting more complicated as electronics is entering into these products, we are also offering more comprehensive longer-term packages, by which customers remain in fold and they buy our genuine parts, etcetera. That and, of course, trying to enter into new market segments, provide more services, more options, more parts, more kits, combination of all of these activities is what is leading to the growth. We still feel that where we are today in terms of our penetration of distribution business, is lower than what we have seen in our own company in other parts of the world. And so our entitlement is higher. So we still see there is a lot of growth opportunity available in this space in the business.

Moderator: We have a next question from the line of Deepak from HDFC Pension. Mr. Deepak, please go ahead with your question. Since there is no response. We'll go on to the next question from the line of Rushabh Shah from O3 Securities.

Rushabh Shah: Yes. Yes. So since hydrogen is very flammable, any technology has been discovered so that hydrogen can be used safely for short or long distances?

Ashwath Ram: Yes. So to answer that question, hydrogen is now being used for many, many years now. People still have memories of the historical dangers of hydrogen. But over the last 40 or 50 years, significant improvement has been made in making hydrogen safer to use in terms of the fluid mechanism, the fuel delivery systems, the combustion process itself, leak detection and escape and routing mechanism.

So the answer is today's hydrogen designs are, I would say, on par with most other combustible fuels like LNG, CNG, etcetera. So yes, I would say that India has come a long way. Of course, there's a cost to that safety, hydrogen systems can be a lot more expensive and still not used in the scale that is required for the costs to come down. But the safety question is more or less now under control.

Rushabh Shah: Okay. And second question is, sir, how might the shift to electrification be affected -- how might the shift in electrification affect the market share of Cummins in engines? Is electrification happening at a faster pace or slower pace? I mean, how will the market share be affected of Cummins?

Ashwath Ram: Right. So I think we are all trying to figure out what that right balance is. It is Cummins' view based on many studies that we have conducted that it is going to be different for different markets. So let's look at the markets in which CIL plays, which is mainly in the power generation and, let's say, the industrial market.

In the power generation market, we feel that over the next 5 to 10 years, everything below 25 kilowatts could go towards battery. It's not going to go to any other fuel. Above 25 kilowatts, it is still diesel and other fuels, including LNG, CNG, etcetera. Still, we have a very, very long way to go before battery technology can be cost effective, to meet some of those kinds of requirements and Cummins is exploring all of those options.

In the industrial and construction market, we feel that it will be a gradual part. The first move from diesel over the next -- up to the end of this decade, we actually see demand for diesel going up before it starts to plateau out and then gradually decline starting in the 2014 time frame. And during that time, different technologies like LNG, CNG, hydrogen internal combustion engines, etcetera, will start to gain more ground and gradually, the shift could happen to hydrogen in that space.

The lower end of the construction vehicle, which is sub-50 horsepower, those are the areas which could grow in the electric mobility route, but mainly for areas where there is limited use scenarios. So that's the way we are looking at it right now and Cummins is already making investments in many of those areas and has a plan to become a carbon-neutral company by 2015. India, as we know will become carbon neutral by 2070. So the migration path for India is even longer than what it is going to be for other parts of the world.

Rushabh Shah: Okay. And one last question is, sir, going ahead, what kind of headwinds can be seen for Cummins in such an inflationary environment?

Ashwath Ram: I don't see too many headwinds. I think this is a very exciting time from a Cummins perspective. The biggest headwind is ourselves internally in how well we can execute on some of the projects that we have undertaken. But when I look at our macroeconomic factors, I think that India is growing, that India will continue to grow that infrastructure will continue to grow, that power requirements will continue to grow, that technology will be needed to move into cleaner emissions and electrification and all of those are areas where Cummins plays in and so.

I don't see those as challenging. The challenge will be how well we execute on introducing some of the technologies, how well we localize, how well we invest within the country and how well we scale up and build on the technology that Cummins is developing worldwide.

Moderator: We have a next question from the line of Deepak Krishnan from Macquarie.

Deepak Krishnan: I just wanted to check, especially because we now have order book of CPCB-II for the full year? Is CPCIV implementation virtually sort of not expected yet. I just want to understand why would customers pick up a product that is 35% higher in cost, and does that give competition an edge, that they know your pricing and sort of can catch up with you over the one year period?

Ashwath Ram: I think, first of all, the development cycle for CPCBIV was a very, very expensive and very complicated cycle. So just by looking at pricing, one can't catch up to technology. So I'll put that question aside. But there CPCBIV+ is already taking at adopted, there are many cities like in the National Capital Region, where CPCB-II gen sets were not being allowed to be run in many months of the year. And what -- the notification to say that they had to put the retrofit devices, emission control devices to make them suitable to work.

Now the cost of retrofit device on a CPCB-II engine is higher than the cost of a CPCB4+ engine genset. So many of those markets will directly move to CPCBIV+, the product is better, the efficiency is better, the equipment is better and they are highly certified and qualified to work in those markets. And also, anyone going in for new purchases, not everyone will just -- not everyone is just worried about the initial capital cost. If you look at the long-term requirements, I think there are certain companies in certain types of markets, who just want the best product in the segment, and we see some of those markets also going there.

We are not able to exactly predict what that means in the percentage of the overall mix, but we think it is likely to be greater than 25% to what our current estimate is as of now.

Deepak Krishnan: Sure, sir, maybe just one follow-up. The employee expense, I just wanted to understand, given that you've taken the price that you have given the employee hike, this would sort of be the run rate deals that we would look at for quarter, is that understanding correct?

Ashwath Ram: Could you repeat? Sorry, I couldn't understand very clearly in the last part?

Deepak Krishnan: Yes, the employee expense, now that we've undertaken the pay division, this would be sort of the run rate that we plan going ahead. Is that understanding correct?

Ashwath Ram: Yes, that is correct.

Moderator: We have a next question from the line of Gokul Maheshwari from Awriga Capital.

Gokul Maheshwari: Just wanted to clarify one thing. The extension of June '24 allows you to manufacture, as well as manufacturing and sale of CPCB-II machines?

Ashwath Ram: That's correct.

Gokul Maheshwari: Okay. Second thing is on the JV income. If you could just highlight in the last 2 or 3 quarters or in the last 12 months, there has been a substantial increase. How sustainable is this, and if you could comment that what is leading to such strong growth over there?

Ashwath Ram: Right. I think you're talking about the 2 JVs. One is our alternator JV and the second one is the Valvoline JV. And the alternator JV is doing well because it is directly proportional to the power generation business. But as the power generation business is doing well, the alternator business is also doing well. So it results from a productivity perspective are very similar to the results with overall the power gen business comes out with.

As far as the Valvoline business is concerned, that's mainly an aftermarket kind of business, and that business gets severely impacted by the cost of oil and many such variables. So both are good and great companies. So we expect that these businesses will continue to do well. But we don't expect them to do disproportionately well, as compared to the rest of the company.

Gokul Maheshwari: Second thing is on the -- you, in the past, have been mentioning that you've been able to cater to -- out of 185% of the demand, how supply situation now for you to take up the demand, given semiconductor supply?

Ashwath Ram: I would say, it's improved a little bit, but still, I would say, maybe now we're meeting close to 90% of demand. The global electronic supply problem for some of these products, especially in high horsepower, they continue. We are trying to work around those, develop some alternatives, etcetera and that is what has led to the limited success of going from 85% of demand to 90% of demand. But the supply chain teams have war rooms, and they are working with some of the global suppliers to try to get this under control. So it's getting better -- every quarter, as I'm speaking, it's getting better. But the answer is that no, we are able to supply everything that -- as the orders that they are getting, the answer is still no. And it's still uncertain how much time it will take to fix that.

Specifically, the fact that China has not bounced back as strongly as was expected, has picked up. If China were to come back stronger in the future quarters. Again, this situation is likely to worsen. So not any -- 100% might be kind of pushing right now.

Gokul Maheshwari: Great. Lastly, just on your gross margins. Your longer-term range for your gross margins are in the mid-30s. Sometime back, you also expressed this ambition to go back to these gross margins. Is that plan still on -- in terms of your capability to achieve those gross margins?

Ashwath Ram: Yes. Certainly, it is our ambition as well as our attempt to try to get there. And then when we were recently studying some of this, we found out there a big chunk of why we lost some of those big percentages of margin was because the change in schemes like MEIS and RoDTEP etcetera, those have had a significant impact on companies like us, because we exported the large amount out of our company. So we are looking at alternate ways to try to improve the margin, but it's not as straightforward as it appears. But the work is on, and we will continue to try to improve the margins.

Moderator: We have our next question from the line of Renu Baid from IIFL.

Renu Baid: My first question would be related to CPCBIV. While you mentioned that the production is now in place. Just want to understand from a different perspective, the FCR, which will be required for the gensets. They will be booked as revenue by CIL and supplied to GOEM, or this is directly forcing us for the purpose of the genset supplies?

Ashwath Ram: They'll be sold by CIL.

Renu Baid: Got it. Sure. So relatively, gross margins on the SCR portion could be a bit softer, so this would be a sourced components from the group enetities, right?

Ashwath Ram: Could you repeat that question again?

Renu Baid: Sure. The resulting gross margins on the SCR component will obviously be relatively softer than the engines, given that these are outsourced components for us?

Ashwath Ram: Yes.

Renu Baid: Got it. Sir, second, while you did mention one of the conversations that NCR has had this restriction on usage of CPCB II old engine profile. But if I see similar notices by NGT has been issued in states like Kerala, Karnataka and Maharashtra. So this shift in the customers in these states, A, the existing users who are using CPCB-II, they've been asked to retrofit kits, to make them usable as a compliance proof. Are you seeing that usage of retrofit kits are increasing or these customer themselves are now looking to shift to CPCBIV based engines, at least from these large states, which are industrial and commercial are driven in terms of GDP growth.

Ashwath Ram: That's exactly the point very clearly made, Renu. So many of those -- many of our customers there have been getting notices to say that either they need to buy these REPD kits or find alternate solutions. And there was no alternate solution other than selling them those kits. So the kit sales have been increasing. And now whenever such a request comes, we will be recommending to those customers who just buy a CPCBIV genset. So those market segments will migrate to usually more than what we see.

Renu Baid: So to that extent, the demand for CPCBIV or the new gensets would not just be the new demand or newbuild demand, but also replacement of the old engines to the new engine?

Ashwath Ram: That's correct. But how much of that will happen is something to be seen and studied. So it's very difficult to predict that.

Renu Baid: Understand. Second, if we see, while you have not -- you have not mentioned anything clearly. Can you share some comments in terms of within the industrial market and the export mix, how has region-wise growth been? And you highlighted Europe slowing down very sharply. So on the exports, are we worried that this INR500 crores kind of run rate, you may get stuck here in the change, or there could be probability of drop in the volumes if the global markets turn out to be far more weak than what has been expected?

Ashwath Ram: Yes. So as I mentioned, we have seen that Asia Pac has certainly started to slow down, and dropped -- Latin America is also starting to drop, Middle East actually flat. As of now, Europe has dropped quite a bit. Africa is flat, and North America has also dropped a little bit. And the China data center market has also softened, as compared to where it was in the previous year.

Looking at all of these variables, we were to do nothing, that has just continue to sell in the way we are selling right now, I would expect that the markets would start to decline a little bit. But what we are trying to do is trying to launch more products and trying to get more aggressive and trying to get back some share. So with all of those efforts, we hope to at least hold at the level where we have reached with lot of work, and then try to pick that up as the market starts to recover.

Renu Baid: In the same background, if I just add a question, we were expecting some higher volume shifts coming in from the U.K. market. There was a long-term agreement signed and shareholders' approval also for higher yield party transaction. Has that transition in terms of higher volume growth happened through or we have seen some lag because of weakness in those regions?

Ashwath Ram: Yes, some of that has already started -- some of that has to do with the machine components, etcetera, also. So it started, and those parts of the factories are working pretty fully. So that -- all of that is going on.

Renu Baid: Sir, lastly, one more, while yesterday there was an announcement regarding the new JV between Cummins Inc. and Tata Motors for hydrogen-based ICE engines. Will Cummins India, the listed company have any role in no any supply chain part components and service to the JV? Or any relevance of this development to Cummins India portfolio?

Ashwath Ram: Yes. This JV is mainly related to mobility in vehicles, that is something which Tata Cummins is already doing. So this JV was formed with Tata Motors to launch fuel cells and internal combustion engines, utilizing the assets which are already there in the JV and making some incremental investments in banking, etcetera. So certainly Cummins India could benefit from that, and that if the same kind of products are used by Cummins India, in its applications of power gen or industrial or rail, etcetera, we could buy those products at good pricing, but not directly related to the Cummins India business.

Moderator: We have our next question from the line of Nitin Arora from Axis Mutual Fund.

Nitin Arora: Mostly my questions have been answered. Just one on your -- this double-digit growth guidance for the domestic market. Is it possible to attribute -- this is you're taking into account the decline in exports. Is that the right way to look at it?

Ashwath Ram: Yes.

Nitin Arora: And this double digit, I'm assuming double-digit can be anything. But generally, that double digit, is it possible to talk about how much would be attributed to volume, because your pricing is quite high, given the mix of the both emissions?

Ashwath Ram: Yes. I think when we indicated double digits, there the foundation of that is coming from that -- we expect to grow 2x of GDP. So if our GDP is growing at 5.5% to 6%, 2x as of that is where we expect to keep growing our business. And it's difficult to comment on volumes, because it's different for different market segments, but volume does grow proportionately. So it may not grow -- it may not grow at 2x of the GDP at that growth rate. But certainly, we do -- it's not in every cycle that one can get incremental price from the market. So certainly, a bigger chunk of the growth comes from volume, rather than just some price increases.

Moderator: We have a next question from the line of Rahul Gajare from Haitong Securities.

Rahul Gajare: I just had one question. On this move of extending the implementation of CPCBIV, this will ensure that the company struggled with CPCB -- the inventory for a longer time? Or do you think these orders or the manufacturing that you've done, they are against firm orders that the company would have got?

Ashwath Ram: The manufacturing will be done against firm orders. So back to back, whatever are the orders which are booked and in the pipeline, they will be produced. But we don't see any risk of inventory during this cycle because some of these products are also sold in other markets, in exports, etcetera. So as of now, we are not foreseeing any sort of inventory.

Rahul Gajare: Sir, my second question is on the group announcement, where they were talking about investing $1 billion in India. Now you have indicated where they are looking at spending this money. But the listed entities, CIL is planning to invest almost INR300 crores to INR400-odd crores, which are the specific areas that CIL is planning to invest this money? And what is the kind of time duration that we are looking at over here?

Ashwath Ram: Most of CIL investments are in introducing new products, to enter into new segments. Whether will be rail, whether it be mining, it be marine, export products, getting into battery-based systems. So most of the investment for CIL is mainly from growth projects. And limited amount is for sustenance capex, as we call it, where we are refurbishing older buildings, some buildings are 50-60 years old, so they have to be pretty much torn down and rebuild again. So some of those kinds of investments are also required moving forward. And we're also upgrading the whole bunch of factories to use better technology, use Internet of things, use the whole bunch of modern manufacturing methodology.

So it's a combination of those areas. And then as we get into areas like rail, fuel cells, etcetera, those areas will also need some investments in the technology, in the development of the technology, in the execution of the technology, so those are the areas where I think the business entities will spend most of this investment money on in the future.

Rahul Gajare: Is it fair to expect that 1/3 of this Cummins Group investment will be in the listed entities? Is that the right way to look at it?

Ashwath Ram: It's very difficult to exactly pinpoint that and say it's that. But certainly, Cummins India is cash rich company, and there is money on the balance sheet. So it is able to fund whatever investment it needs to help it grow. And our objective here is to try to get growth for the business. And so, whatever investment that the company needs to make to get that growth, I think we have all the resources to be able to do that, and we want to do it prudently.

Moderator: We have our next question from the line of Bhavin Vithlani from SBI Mutual Fund.

Bhavin Vithlani: So actually the question is regarding the working resolutions on related parties. And wherein we observed a significant increase in purchases from CTIPL and Tata Cummins. And we do understand about the new regulations regarding the increase in the quantity. So could you help us break that increase into what is the volume assumption you would have present in? And what is the increase in the cost of the newer content that is required in that business?

Ashwath Ram: Yes. So Bhavin, I can't break it down exactly, but I can tell you is that the main supplier for some of our power gen products as well as for most of our industrial products in the construction market come from Tata Cummins. And as we migrate to CPCBIV+ and some of these newer technologies, the emission solutions, which were never part of CIL purposes also come to CTIPL. So those, I would say, are the biggest reasons, and the construction market is starting to heat up and become better. The power generation, we had record sales and purchases from those entities are in line with that increase in demand by the main company.

Bhavin Vithlani: Sorry to harp, because on CTIPL, from INR700 crores to a little over INR1,400 crores and with Tata Cummins from INR1,800 crores to about INR1,850 crores. So 100% increase, 50% increase. So the quantum was fairly significant...

Ashwath Ram: Absolutely.

Bhavin Vithlani: If you total all of this, it was almost equivalent to the top line of the company. So the quantum, the share quantum was large.

Ashwath Ram: Right. No, it's a fair point. It's just that as the technology changes, some of these technologies are made in those companies, and we have -- we use the best technology available in the market, and these companies happen to have that best technology. So it is appropriate that, when you go from no CPCB, no addition treatment to 100% emission treatment that, that business goes up by 100%. So that's the logic behind why that has increased.

Bhavin Vithlani: Okay. And what would be the end product increase? Would it be like 40%-odd plus?

Ashwath Ram: It’s like we mentioned, its anywhere from 20% to 50% is the end products of the gensets, the prices have gone up.

Bhavin Vithlani: Okay. The second, this was an observation from last year, where we saw a deceleration in sales of construction segment within the industrial. And correct me if I'm wrong -- because we saw Weichai starting and the share of the Chinese construction manufacturer is growing. So is it that we are using the Weichai engines and consequently Cummins and the Indian companies are losing share?

Ashwath Ram: Certainly, there are -- companies from China have been selling in India and have increased their share in India. And certainly, as a market leader, we get most impacted by that kind of inroads that the Chinese companies make. But overall, when you look at our industrial business market share, we have been able to hold on to our market revenue. So you can argue that we should have gained market share, and we have not been able to do that, but we have held on to market share. But I am certainly seeing a lot more activity from China-based companies in India.

Bhavin Vithlani: Just the last, within the industrial, we saw a very significant jump in the marine overseas, as last year. Could you just help us understand, was it some large order that -- because the jump was exponential?

Ashwath Ram: Yes. One is the launch of the new products and second is that we have also gotten back some share in the fishing trawler kind of market, where we had to develop some new products there, and that market was primarily catered to by branding manufacturers. So we have managed to get some share back in that sale. So I think there are more opportunities there, and we look forward to do even better in that space.

Bhavin Vithlani: Okay. Great. And could you give us lastly, the outlook on the compressor side? That's been very volatile and as you said, there is a lot of cyclicality there?

Ashwath Ram: I think it's bottomed out and starting to at least come back a little bit. There's a lot of cyclicality in that market, depends on monsoons, depends on government spending brands. Certainly variables that we could be able to very accurately pretty -- I can say that our Q4 was probably the bottom there, and is now looking like it's starting to pick that up a little bit. So it's not at its peak yet, but at least it has been up from where it was -- from the bottom point.

Moderator: We have a next question from the line of Puneet from HSBC.

Puneet: My question is, you've also talked about the genset demand on the gas compression engine. How big is that market and what is the share of those gas compression engines in your powergen demand?

Ashwath Ram: As of now it's very low. It's less than 5%, primarily because, gas is not available. So this has always been the boogeyman in India for the last, I would say, now more than 15 years that gas is coming, gas is coming, and we have products, but gas prioritization for these applications is very, very low. So customers are not able to buy gas. So we do not see, at least for the next 3 or 4 years, till that supply chain is sorted out by the government that this market for gas is going to be anything exciting.

Puneet: And in terms of your CPCBIV engines, what is the extent of localization that we've been able to achieve?

Ashwath Ram: Yes, already greater than 80%, but we will continue the work to get to greater than 90%, which is our traditional average. There are many of the -- and the last 10% is almost impossible to do right now, because they all have to do with electronic, some of those kinds of parts which are not made in India at all.

Puneet: Okay. So in terms of margins, how should we think about the CPCBIV products? As the share goes up, should we be looking at lower gross margins or would you still be able to maintain 32%...

Ashwath Ram: I think we are trying to maintain or increase the margin, that's been our attempt with better products, with better technology with better features and capabilities. But we do not anticipate any reduction in margins, for we think we should be able to improve the margin.

Moderator: We'll take the next question from the line of Pulkit Patni from Goldman Sachs.

Pulkit Patni: Given that we'll have to produce and maintain inventory of both CPCBII and CPCBIV, is it fair to assume that for the next few months, maybe a couple of quarters, general inventory levels for us of raw material of parts, etcetera, will increase, or is that not going to be the case?

Ashwath Ram: That is already the case because of the prebuy, that there is additional inventory in the channel and so certainly inventory levels for the next 2 quarters are likely to be higher than the historical average. But this typically happens at every transition cycle, and so we will bring it back to a regular optimized level after a couple of quarters.

Pulkit Patni: Understood, sir. Sir, maybe just a related question. So we will be producing the CPCB II engines up till what, fourth quarter or it will be third quarter? Because after that, this goes away?

Ashwath Ram: Yes. So most likely, we will attempt to -- right now, it's all based on booked orders, because we already have the booked orders, there is absolute clarity on what can be produced. So we will attempt to wrap up the CPCBII at least 1 quarter before the deadline, and then build all of that into inventory and then get our -- 100% of CPCBIV.

Moderator: We have a next question from the line of Amit Mahawar from UBS.

Amit Mahawar: Ashwath, I just have 2 questions. First is, so in FY '24, what percentage of our power gen revenue will be effectively CPCBIV+ products, since you already have the clarity and booked orders, that's first?

Ashwath Ram: The answer to that, is we think about anywhere from 15% to 20% is likely to be -- 15% to 25% is likely to be CPCBIV product at this stage.

Amit Mahawar: Fair. And in your sourcing for CPCBIV+ products like FCI, etcetera, from Cummins entities, what percentage of that sourcing of the buildup material will be from Cummins versus CPCBII compliant entities?

Ashwath Ram: I think the only incremental component from Cummins compared to CPCBII are the emission treatment system, that's it. There's no other component that will come from Cummins.

Amit Mahawar: Incremented. Third and last question quickly, sir. So yesterday, in parent results they've done very well on results, but did not increase the guidance. It's basically -- does it imply that exports for Cummins India in the second half this year and maybe part of next year might still be weak in terms of run rate that we've seen in the last 2 quarters? That's it, sir.

Ashwath Ram: Yes. And I think that -- as I explained earlier, we see some softening in the global market and which is why we maintain that we will -- the overall business, we will continue to grow it at a 2x of GDP, and we will try to make up any shortfall we are seeing in exports, we'll try to make it up in the domestic business. But that does not mean that we are not pushing very aggressively to try to get more business out of exports as well. But based on the visibility that is available today and based on all the global markets being slightly uncertain, that's the best guidance we have. Certainly, our optimistic internal scenarios push us to do better than what we're indicating right now.

Moderator: We'll take our last question from the line of Amit Anwani from Prabhudas Liladher.

Amit Harichand Anwani: My question is related to -- we have been highlighting about the supply chain issue. And I think still a couple of quarters back, we lost on volumes also because of the shortage of supply chain. Any color you would like to throw on the situation right now and going ahead?

Ashwath Ram: Yes. So despite supply chain problems, supply chain has been improving quarter-on-quarter, if you look at the last almost 3 quarters. Now of course, our aspirations are greater and we are pushing more products, we are trying to get market share. So all of those things mean that the pressure on the supply chain is more. So even though they're doing better every quarter, higher demand on them is even more.

So where we are today, is that there are already a lot of investments that have been made, which take anywhere from 18 to 24 months to get ready. So some of those are already in the pipeline. We have enhanced capacity quite significantly with multiple suppliers. Our factories are running at 100% of the land capacity. So we are trying to do everything possible to try to keep getting better at delivering what demand is out there in the market. And I remain confident that despite all these challenges, we will continue to inch our way towards even better delivery of product.

Amit Harichand Anwani: Sir, next question on the domestic side. So we saw the robust revenue because of the prebuying. Would you like to share on which user segments contributed significantly and how was the data center contribution and growth, if at all, this quarter?

Ashwath Ram: Yes. So I was responding to the question about what's the breakup by segment. And what I'm saying is that, the traditional segments of data center of reality of pharmaceuticals or manufacturing of hospitality, pretty much across the board we have seen good demand in the powergen segment. But the breakup for the previous quarter is as following; low horsepower was INR103 crores, mid-range was INR273 crores, heavy-duty was INR111 crores and high horsepower INR387 crores. So yes, pretty good demand out there.

Moderator: Mr. Anwani, does that answer your question? Your line is disconnected, sir. Please go ahead.

Ashwath Ram: So I'd now like to make a closing comment. Thank you for your participation and active engagement today. As always you ask amazing questions and tough ones. Cummins India believes that the strong demand in the end markets will sustain. However, because of supply chain complexity, which we continue to work through, we remain cautiously optimistic about the short to medium-term demand outlook. With a strong balance sheet, world-class infrastructure powered by manufacturing excellence and outstanding talent, we are confident of sustaining our growth trajectory.

With this, I close this call. Have a great day and stay safe. Thank you.

Moderator: Thank you. On behalf of Cummins India Limited and the leadership team, we would like to thank you for joining us today and making it an engaging session. We're ending the conference now, and you may now disconnect your lines.