



Ref: STEX/SECT/2022

November 10, 2022

The Relationship Manager, BSE Limited, Phiroze Jeejeebhoy 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 400 051  NSE Symbol: <b>CUMMINSIND</b>
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**Subject: Intimation of transcript of analyst conference call held on November 07, 2022**

Dear Sir/ Madam,

With reference to our stock exchange intimation dated October 27, 2022 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 November 07, 2022.

Kindly take this intimation on your record.

Thanking you,

Yours faithfully,  
For Cummins India Limited

Vinaya A. Joshi  
Company Secretary & Compliance Officer

Encl.: As above.

*(This letter is digitally signed)*



“Cummins India Limited Q2 FY'23 and HI Earnings  
Conference Call”

**November 07, 2022**



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



Cummins India Limited  
November 07, 2022

**Moderator:** Good morning ladies and gentlemen. Welcome to Cummins India Limited Q2 FY 2022-'23 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 '\*' and then '0' on your touchtone telephone.

I now hand the conference over to Mr. Ashwath Ram - MD, Cummins India Limited. Thank you and over to you, Mr. Ram.

**Ashwath Ram:** Good morning ladies and gentlemen, I am Ashwath Ram, Managing Director of Cummins India Limited. Mr. Ajay Patil, our CFO is also on the call with me. Thank you all for joining us on this call today. I hope all of you had a great and safe festive holiday season.

We are happy to announce that CIL has achieved the highest quarterly revenue and profits due to strong demand across various market segments and geographies.

#### **Financial Results Q2 FY'23**

For the quarter ended September 30<sup>th</sup>, 2022 with respect to the same quarter last year our sales at Rs. 1,922 crores were higher by 14% compared to Rs. 1,689 crores recorded in the same quarter last year. Domestic sales at Rs. 1,391 crores were higher by 11%. Exports at Rs. 531 crores were higher by 21%. Profit before Tax and exceptional items at Rs. 336 crore is higher by 15% compared to Rs. 293 crores recorded in the same quarter last year.

For the quarter ended September 30<sup>th</sup> 2022 with respect to the last quarter our sales at Rs. 1,922 crores were higher by 16% compared to Rs. 1,657 crore recorded in the same quarter. Domestic sales at Rs. 1,391 crore were higher by 19%. Export at Rs. 531 crore higher by 9%. Profit before Tax and exceptional items at Rs. 336 crores were higher by 21% compared to Rs. 278 crores recorded in the last quarter.

#### **Segment Wise Domestic Sales Break Ups for the quarter ended September 30<sup>th</sup>, 2022:**

Power Generation domestic sales were Rs. 675 crores. 6% increase over last year and 36% increase over last quarter.

Distribution business sales were Rs. 446 crores, a 22% increase over last year and 7% increase over last quarter.

Industrial domestic business sales were Rs. 250 crores, a 10% increase over last year and 5% increase over last quarter.



Exports, high horsepower exports were Rs. 234 crores, 3% decrease over last year, 1% increase over last quarter.

Low horsepower exports were Rs. 242 crores, 49% increase over last year and 20% increase over last quarter.

With this I now open the session for questions. Thank you.

**Moderator:** Thank you very much. Ladies and gentlemen, we will now begin the question-and-answer session. This first question comes from the line of Parikshit Kandpal from HDFC Securities. Please go ahead.

**Parikshit Kandpal:** My first question is on gross margin. So, despite such strong performance we are still almost 300 to 400 basis points lower than our standard gross margin, so just wanted your view level of pricing, has it receded, are you still not able to absorb the commodity inflation? Or have you rolled back some price increases, because a large part of EBITDA margins is getting justified because of operating leverage, but you still are not able to get back to our historical levels of gross margin of 35% to 36%. Just your views on that, that's my first question.

**Ashwath Ram:** I think the main factor here is that commodities while they have started softening, we have still not caught up. So, we anticipate gross margin continuing to improve over subsequent quarters. We haven't rolled back any price increases. As a matter of fact, some more price corrections are on the way, which have been planned ahead of time. So, there is that lag effect of commodities, and we are catching up, it's going to continue to improve.

**Parikshit Kandpal:** Second question is on, you have been highlighting the supply chain issues as being impacting us to the extent of 10% to 15% of demand. So, given the strong growth momentum, robust revenue, so if you can just touch up on the operational side, what is the current capacity utilizations? And also, when do you think you will reach the optimal capacity utilization that will call for a CAPEX, if you can address this question?

**Ashwath Ram:** We continue to be constrained by the supply chain. I would say that the situation has not really improved very much since the previous quarter. It's been getting better. So, we are able to get more output out from the existing suppliers and try to draw down our strategic inventory, etc. But the problems we are facing on some of the critical electronics or some of those critical parts, especially in the higher horsepower nodes of our business, we continue to see those challenges. So, with that, our capacity is somewhere between, I would say 70% to 80% utilized somewhere in that range, depending on which nodes we are talking about, which products we are talking about.

And we are working there have been war rooms now going on for two years, that work is continuing. So, we do expect to see the situation gradually keep improving, but unfortunately,



we have no news which tells us that this problem is just going away right now. So, we are likely to see continued similar challenges even moving forward.

**Parikshit Kandpal:** What about the capacity expansion now, I mean because you said we are close between the range of 70% to 80%, and we have seen other MNCs expanding in India, so given the strong demand, both in local and export markets. So, when do you think is the right time for you to start looking at the capacity augmentation?

**Ashwath Ram:** We are looking at it. And based on the types of forecasts we have and the future demand, we will take the right calls at the appropriate time, but it's not yet there. So, we still have plenty of muscle to flex even at 70% to 80% utilization, lot more can be done with just manpower balancing, etc. So, we still have lot more ability to sweat these very assets before we will need capacity expansion.

**Parikshit Kandpal:** The last question on this CPCB-4 Plus are you seeing any part of **(Inaudible 00:09:11)** coming in during the 2<sup>nd</sup> quarter, or was there any one-off like a data center kind of product getting booked in this quarter? So, any one-offs and how do you read the second half the **(inaudible 00:09:25)** happening on the CPCB front?

**Ashwath Ram:** So, the good news is that all this time we have been talking about CPCB-4 Plus that is going to be announced is likely to be announced all of that. So, there was a lot of worry that what happens if it doesn't get lost, get notified on time. It's been notified now that GSR is out as of last week, and so the timelines are frozen. And typically because there is such a major technology transformation, there is a major cost impact likely for end customers. So, we do think there will be a strong pre-buy sometime in the latter half of 2020 or the early half of 2023. And we are planning and preparing for that.

So, it's a double challenge. One, as you can see, we are already supply chain constrained. And then we are going to have to plan for a pre-buy and build inventory for that, and then plan out a transition where everything fades away. So, it's quite a bit of tricky and a challenging situation. But we are also optimistic that now there is clarity and things will move forward smoothly.

**Parikshit Kandpal:** And any one-off during this quarter on data center order, I mean the numbers look quite robust from the revenue point.

**Ashwath Ram:** Yes, so those are, data center orders, you get in a lumpy manner, so if we had similar kinds of orders last year, and we have orders this year as well. We were able to execute a few in this quarter and there are many more in the pipeline. Data centers is one of those segments which is going very well for us and is growing very well in the country. And we are likely to see more demand coming out in the future.

**Moderator:** Thank you. Our next question is from the line of Deepak Krishnan from Macquarie. Please go ahead.



**Deepak Krishnan:** I just had a question on the export front, given how we have done on the LHP side (inaudible 00:11:44) increase YoY. What is specifically driving this and what geographies are we gaining share? And further given that we manufacturer in India, China and U.S. has any China disruption lead to incremental orders coming to the India entity? So, any further color on the export front and the detail breakup among the four segments that will be helpful?

**Ashwath Ram:** Yes, so I think, as I have mentioned in previous call, Cummins has three major manufacturing hubs for products around the world. The first is in North America, the second is in China and the third is in India. Of course, we also have some older historical plants in Power Generation, etc, which are based in the United Kingdom, as well, with some of the European market. So, for certain types of products especially the low horsepower products, India is the sole supply center for pretty much the rest of the world other than North America and China. So, as demand in those markets keeps fluctuating or keeps increasing, all those opportunities come to us.

And so we have seen that pretty much all the areas if you compare versus last year, all markets have grown a little bit. Latin America, Asia Pacific, even Europe, despite Europe slowing down a little bit versus the previous quarter has continued to grow versus last year. Middle East continues to be strong. And Africa is the one which has been lagging and been struggling even compared to the previous year. And a lot of it has got to do with the ability to get money out of Africa in U.S. dollars. And because of which, even though there could be more demand, we have held back from supplying products there, because you are not able to get money out there. So, to summarize, I can say that most global markets continue to remain strong. Europe has begun to slow down a bit as compared to the previous quarter.

**Deepak Krishnan:** And generally, if you kind of look at it, is it majorly all volume driven or is, if you look at exports how would you classify between volume and value group?

**Ashwath Ram:** I think it's a fair mix volume is higher; we continue to introduce new products. So, as I have emphasized before, earlier we used to have one product for all markets and we introduced what we call Fit for Market 2.0 by which we began tailoring products for very specific regions. And now we are in the process of investing into what we call Fit for Market 3.0, so even further customization to deal with competition in specific countries. So, it's a combination of mix product, volume, us gaining share so this is an ongoing journey.

**Deepak Krishnan:** Just one final bookkeeping question if you could just give us the breakdown of exports between LHP, HHP, Heavy Duty and MHP?

**Ashwath Ram:** So, typically, we provide that kind of breakup mainly for the domestic market. But to give you a thumb rule kind of calculation over there for exports it's almost half-half, 50% is HHP and 50% is everything else. So, that's the way we roughly look at the way exports breaks up as of today.



**Moderator:** Thank you. Our next question is from the line of Renu Baid from IIFL Securities. Please go ahead.

**Renu Baid:** My first question is on the gross margins, while you did mention that pricing actions have been in place, and you expect sequential improvement in gross margins to continue. But if we look at CPCB-4 implementation coming in the next year, there will be changes in cost structure, sourcing mix. So, from a medium-term perspective, how should we look at Cummins journey to bring back to the old gross margin levels of 34%. In the last call, you did mention that you would target the margins to be back in 34% to 35% levels. So, what would be the timeline to get back to those levels of margins and the levers which will help the margin improvement to 33% to 34% gross levels?

**Ashwath Ram:** We want it as soon as possible. The reality is that commodities have been slowly coming down. And we have held the pricing. We continue to increase prices in strategic nodes where gross margins have dropped more heavily. So, we want to, by the time we launch the CPCB-4 Plus and get that into a stable state to attempt to get back to the previous levels of margins. So, I am not talking about two or three or four years, we would want to get to that kind of margins in the next 18 to 24 months.

**Renu Baid:** And broadly from given that the notification is out, there is no clarity on the final changes required. What is the expected change in the pricing, which is expected more for engines in gensets across the major nodes under CPCB-4?

**Ashwath Ram:** I can't give you the exact increase as far as prices are concerned, all I can tell you is that they are substantial. I will give you an analogy to a different market segment. In the automotive space, when they went from BS-4 to BS-6, the prices of the full engine plus after treatment system, the cost of those went up by about 50%. So, it's likely to not be as high in this because the engines with after treatment makes up a smaller portion of an entire genset. But it is likely to be substantial because you are changing the technology and the Euro CPCB-4 Plus are equivalent to Tier 4 final emissions of the United States. So, they are very strict and stringent. So, the technology required to do that is pretty expensive so that's what's going to drive the increase in prices.

**Renu Baid:** Secondly, if we broadly look at the performance across domestic and export it seems very much resilient to the external markets. And you had also mentioned Europe has started to slow down. So, if we look at exports do you think that 15% to 20% growth in the export revenues, the value revenues should be sustainable? Or you think there could be pockets of continued impact from the Europe slowdown which is now looking more evident.

**Ashwath Ram:** It's very difficult to predict Renu, with the way the global economies are going, it all depends, if everyone keeps increasing interest rates and multiple economies are driven into recession, then it's going to be difficult to sustain this kind of growth. If things were to normalize, stabilize at



certain point, we certainly have a lot more to gain. Even in a slowing economy, I think, our aspiration is to continue to grow. So, whether that is through gain in market share or through improving more products, if the overall global economy does not grow, we would still have the ambition to attempt to grow. Now, how successful we are in doing that depends on how well some of our new product launches go, how well we are able to leverage the CPCB-4 Plus to capture some of the other global markets, etc. So, it's not a simple answer. Our ambition, of course, is to keep growing at this rate, if not more, but the realities of, the way the cycles are going to work in multiple markets, based on global commodities, based on geopolitical crises, based on oil prices, based on inflation, based on the dollar getting stronger and stronger versus multiple currencies, all those are going to play a factor in how some of those other countries are going to be able to compete with us or not.

**Renu Baid:** And have you seen any positive tale in that of the consolidation of global supply chain for ICE engines which you were expecting, so have that started to play out or you think it's still will take time, despite the increased energy costs in the Western world?

**Ashwath Ram:** It's starting to play out a little bit, but you really see, the real impact you will see in a couple of years. But we are certainly seeing trends where it is starting to play out more and more.

**Renu Baid:** And one last, if I can ask within the Industrial segment, Rail segment was one where the growth numbers or volume uptake has been a bit volatile. So, if you can share some of your comments on various segment outlook and in specific for Rail business, how are you looking at that portfolio ramping up again?

**Ashwath Ram:** Yes, so Rail is beginning to bounce back. It's not yet bounced back to the previous high levels. And we hope that we have launched quite a few new products, including getting into the electrification space with our hotel load converters, etc. So, we hope to see that beginning to catch up and then beginning to go ahead of where we were in the past.

The area where we have been slightly disappointed in the Industrial space has been in the construction space. We were expecting construction space, starting from the previous years to have a multi, a decade long growth of over 13% to 15% CAGR. The reality is that the spends have not happened and we have actually seen that market contract a bit and is only now starting to show some signs of revival. So, construction is an area which has underperformed our plan. Rail is a segment which has performed sort of on-plan and the other areas of Mining, Defense, Marines, etc. those have all performed better than planned. So, that's the way I would classify the Industrial market. We remain extremely bullish and optimistic about the future of this segment. It has underperformed some of our other segments, though, in the last year or so.

**Renu Baid:** Just a follow up on the construction, you think the demand impact is also linked to the increase in prices due to CPCB implementation or it has come from the end market demand?





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**Ashwath Ram:** Yes, I think this is directly correlated to end market demand because when you build X amount of highways, you need X amount of equipment. So, when they want to use that equipment, it doesn't matter what, the net impact of those price increases are very small compared to the cost of building those roads, etc. So, it's the slowdown of funds to build those actual projects on the ground which is what in my view is the reason for it lagging. And we have started to see it slowly start to come back. We hope now it will pick up steam and then continue forward like if it had started off in the 19/20.

**Moderator:** Thank you. Our next question is from the line of Sangeeta Purushottam from Cogito. Please go ahead.

**Sangeeta Purushottam:** I just wanted to get, an understanding was that the export side you don't exports to the other hub that is North America and China at all?

**Ashwath Ram:** We export some, but we don't export too much of the product there because one is because of treaties such as US MCA, they have requirements to produce majority of the product within the countries of United States, Canada or Mexico, so it doesn't fit, you don't fit the pricing targets, if you have to add the duties and then still sell into those markets as far as that is concerned.

As far as China is concerned, we sell some products into China, but they also have capacities within China to produce as many products as we can produce, if not more, so the access to that market is limited. Similarly, their products don't get sold in our market. And they could ask a similar question. But yes, that's the way it is. And but it's sold in the rest of the world.

**Sangeeta Purushottam:** And given that the China manufacturing facilities are all within the same group, would it be fair to assume that you are unlikely to benefit from any shifts from China to Indian of manufacturing?

**Ashwath Ram:** I wouldn't say we are unlikely to benefit, we are already benefiting a little bit because the competition for us in those market segments mainly comes from China. So, if customers are going to buy less Chinese products, then automatically they buy more of our products. So, not in a direct sense but in an indirect senses it certainly helps us.

**Sangeeta Purushottam:** So, what you are saying is that you are benefiting from the non-Cummins users in China, we shift from there.

**Ashwath Ram:** That's correct.

**Sangeeta Purushottam:** Okay.

**Ashwath Ram:** And we also benefit from the fact that as a backup to China strategy things which were single sourced in China are being dual sourced in India. And things which were single source in India, maybe at some stage will get dual sourced in China. So, everyone's become more cautious about



having all their eggs in one basket and in one region. So, there is a whole bunch of work happening in dual sourcing and risk management.

**Sangeeta Purushottam:** And in terms of the broad macro drivers for exports as well as domestic, would it be fair to say that over the medium term that three to five years, the domestic drivers are likely to be stronger?

**Ashwath Ram:** So, if India continues to grow at the 6% to 7% growth of GDP and our own ambition is to grow at 2X of the GDP. So, certainly, India market growth rate will be faster than exports growth rate, unless our products really work out well. And we do a good job on product management and we are able to gain market share. Our global market shares, even though we are the largest Power Generation manufacturer in the world for gensets, we still have lots of opportunities around the world. So, we do have an opportunity to grow those market faster as well, but a lot of that is dependent on many other variables, whereas the domestic market is completely under our direct supervision. So, we think we can grow that at a faster rate.

**Sangeeta Purushottam:** And one last question that with the change in technology which is likely to happen soon and you mentioned that there could be a substantial increase in the cost of the gensets, is that likely to impact demand?

**Ashwath Ram:** So, in all of these technology transitions, and we have seen this trend now for I would say over 100 years that this company has been in existence there is this concept of pre-buy where people buy larger quantity of the previous technology product, and then they hold off buying the product for a little while, because they are stocked up on inventory, etc. And so there is a little bit of a lull. And then over a period of 12 to 18 months it catches back up and goes back to the old historical rate and you continue to get growth. So, these technology changes and price increases etc. do not impact long term demand for the product.

**Moderator:** Thank you. Our next question is from the line of Bhavin Vithlani from SBI Mutual Fund. Please go ahead.

**Bhavin Vithlani:** First is, if you could just help us with what are the implications of Cummins in India, from the acquisition of Meritor by the global entity? And also what will be the implications for the listed entity? That's one.

Second is more color on Exports will be appreciated, if you could give geography wise breakup of the exports and how are you seeing the macro trend there?

Third question is on the Industrial side, if you could give us a breakup, Compressor Construction, etc. as have you been giving.

And last is if you could help us with the capacity utilization at the Kothrud facility and at our mega site where we source from CTIL and also our Tata Cummins facility, more color on the



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capacity utilization at these entities where we buy the products just to understand the overall capacity utilization. Thanks, these are my questions.

**Ashwath Ram:**

The Meritor being an axle and brake company acquired by Cummins Inc. globally has very little impact on the Cummins India business other than we can now in the construction and in some of the other heavy-duty applications, we can now aspire to sell an entire powertrain solution rather than just selling an engine and an after treatment. So, it improves the ability to sell a complete package. So, I think those are opportunities, we are just evaluating and trying to figure out where those opportunities are, it gives us a play in and to utilize synergy in some of these segments like construction mining, where some of those products could be used.

As far as, I will first answer utilization, and then I will give you a break up, as far as utilization is concerned, Kothrud like I said is like at a 70% to 80% utilization and primarily driven by supply chain, not having enough parts to utilize it at a greater level than that. So, as we keep getting more parts and more material, we should be able to push the utilization higher and we should be able to gain better efficiency also. So, we don't see needing to put in more investment for quite some time.

As far as utilization of plants, other entities where engines etc. are purchased from I would say those are all high-volume plants with mega capacities and I will say there utilization is below 50% as of today. So, there is plenty of capacity available for Cummins India were to need more capacity.

So, let me get into the details of exports region wise. So, in this quarter, Latin America had sales of Rs. 116 crores, Asia Pacific had sales of Rs. 1.3 crores, Europe had sales of roughly Rs. 70 crores, Middle East had sales of Rs. 109 crores and Africa had sales of about Rs. 40 crores. And then getting into the breakup of the Industrial businesses Compressor which is going through a cyclical downturn had sales of Rs. 13 crores. Construction had sales of Rs. 93 crores, Mining had sales of Rs. 38 crore, Rail had sale of Rs. 40 crores, Oil & Gas and Defense and Marine and all of those put together had another close to Rs. 60 crores.

**Moderator:**

Thank you. Our next question is from the line of Dhaval Shah from AlfAccurate Advisors please go ahead

**Dhaval Shah:**

Couple of questions from my side, #1, when this new version of CPCB-4 gensets will be launched?

**Ashwath Ram:**

The target for when it becomes effective is July of 2023. So, they have to be launched by 1<sup>st</sup> July 2023.

**Dhaval Shah:**

Once these new versions are launched, do we see a strong export growth from here on, when basically the Indian manufacturer gensets are at par in terms of the compliance with the global standard. So, do we see strong export growth from there on?



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- Ashwath Ram:** We see access to some markets, which we did not have access to earlier. So, we do see more access to some cities and some areas in Europe. We do see access to some areas in North America like Canada and the United States where they buy some of our products and they buy some components from us, but they don't buy entire products from us. But we do see better access to some of those. But like I mentioned earlier, there is an offsetting concern that with USMCA even if we were to be able to do that we may not be able to still supply entire products, but we were able to supply subsystems of products. So, but certainly, the opportunity should open up more. So, it doesn't hamper us in any way because we continue to have the older ranges also in our portfolio and a few additional new market also open up for us.
- Dhaval Shah:** But you indicated that you will not be able to supply the full system. So, still there would be some bottlenecks because of the compliance.
- Ashwath Ram:** There will be bottlenecks, because as per USMCA they have to buy a majority of the product sourced from for example, in Canada, United States or in Mexico. So, despite the fact that we may have those products, we may even be cheaper, they still may not be able to purchase this product from us.
- Dhaval Shah:** Because of their regulatory norms?
- Ashwath Ram:** Because of the Free Trade Agreements. So, unless India also signs a Free Trade Agreement, which gives us extra exemptions from USMCA restrictions, we will not have access to some of those markets without having to pay those anti-dumping kind of penalties.
- Moderator:** Thank you. Our next question is from line of Puneet from HSBC. Please go ahead.
- Puneet:** My first question is with respect to the CPCB. From 1<sup>st</sup> of July, will you not be allowed to manufacture or do not be allowed to sell the products of the previous generation?
- Ashwath Ram:** We will not be allowed to manufacture, our OEMs and our dealers and distributors who have bought inventory which has been manufactured before 1<sup>st</sup> of July will still be able to continue selling it till they run out of it, I think and there's a cutoff for that as well, I think it's the end of the year, by which they will not even be able to sell product for which they have inventory.
- Puneet:** Okay so there is a six months benefit.
- Ashwath Ram:** Yes.
- Puneet:** Second is if you can also talk about, you said that you don't need to increase capacity, but you may need to add labor. Can you also elaborate on how much labor would you need to add if you were to take the capacity utilization to 100% from current levels?



**Ashwath Ram:** One is certainly we will have to add labor. We are also over the years we have been bringing in more and more automation so we can increase efficiency lot more without adding too much late labor. So, we continue to work on semi-automation to improve efficiency, to improve quality, to improve safety and those kinds of things. So, I cannot give you an exact number, it depends on how the demand is because different lines whether it's assembly, whether it's big engines, smaller engines, medium engines, depending on the type of mix, the number of amount of labor required on which project will vary. But I don't know if I were to take just a thumb rule, kind of guess it's maybe 400 to 500 people will be needed to get to 100% utilization.

**Puneet:** So, what I am trying to reach is do we get some operating leverage once the demand goes up on account of labor or that --?

**Ashwath Ram:** Yes, we always get leverage on labor, we get leverage on utilization of fixed cost assets, everything.

**Puneet:** Last one is, you also talked about the shortage of parts, what are the parts where you feel a bit of shortage?

**Ashwath Ram:** I can tell you the biggest composition of those are based on electronics, and those continue to be in crisis, they continue to be on allocation. There are other specialist parts which need some special materials coming out of countries like Ukraine, which are also constrained. And so, as alternate capacities are being set up, those parts also get constrained a lot of times that has got to do with fuel system part, some specialized casting, etc. So, majority, I would still say is electronics-based parts. But that it would be unfair to say that only electronics, there are quite a few other things also, which are constrained.

**Puneet:** And any size of the shortages easing on and you getting higher allocation?

**Ashwath Ram:** Is it's been getting better every quarter, which is why we are able to do better every quarter, for the last I would say, seven, eight quarters. But I do not have a clear answer on when we think the problem will just go away completely. Big investments are being made by players to set up alternate capacities the moment some of those start to kick in globally. I think this crisis should resolve itself.

**Moderator:** Thank you. The next question is from the line of Mahesh Bendre from LIC Mutual Fund. Please go ahead.

**Mahesh Bendre:** You mentioned the data center opportunity seems to be descent in Indian market. So, what is the current contribution to this particular segment to our sales? And what is the outlook for that going forward?

**Ashwath Ram:** I won't do the exact breakup in terms of value. But I can tell you that it is one of the fastest growing segments. If I look at the power generation market, the Top 3 segments for us in the



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previous quarter that grew were data centers, pharmaceuticals and biotechnology and overall manufacturing. And so, we have had the highest number of large gensets shipments ever in our history for data centers, commercial realty and manufacturing. So, that gives you a kind of indication of how strong this market is. And we don't think this market will slow down for at least a couple of years, we think that this can be sustained, this growth.

**Mahesh Bendre:**

And so what is our capital expenditures plan for the next two years?

**Ashwath Ram:**

Capital expenditure is in line with what we have been doing for the last, and as we have clarified the big capital expenditures that we used to do in the past, we are behind those. We have been roughly somewhere between Rs. 200 to Rs. 250 crores kind of CAPEX spending for the last two years. A big chunk of that is driven by sustenance CAPEX just to keep things going, to upgrade things etc. another big chunk goes into growth projects where we develop new products, launch new ideas etc. And the bigger, other chunk goes into engineering so we expect to be in that kind of band for at least for the next two years till we get to that point which others have been talking about where capacity utilization is so high that, we feel we need to put in more CAPEX to grow capacity from a long-term perspective.

**Moderator:**

Thank you. Our next question is from the line of Aditya Mongia from Kotak Securities. Please go ahead.

**Aditya Mongia:**

I wanted to first of all stress a little bit more on the distribution segment. The segment appears to be probably growing faster than product sales over 1H. And while we have been reading about, in the annual report endeavors of yours to grow, it would be good if you could kind of bucket down what all is firing for you? Is it more, let's say offering more services to your existing installed customer base, is it more competitions, customer base that you are able to get insight or maybe let's it is it more because auto linked, spares and services sales are going up? If you could give some color it will be very useful.

**Ashwath Ram:**

Yes so in one line it's all of the above. And so we have been putting in tremendous focus into this segment, because we feel that what we are entitled to and what we have seen as Cummins's entitlement in other markets, it's been lower in India. And so there has been a lot of focus to improve availability of parts for customers. So, parts have been growing in multiple segments. We are doing more reconditioning and recon, and that's greener, better for the environment and is better value for customers because we provide a warranty on all rebuilt and recondition products. So, as utilization increases, the distribution business also grows well. So, mining is now working 24x7 in India. So, because of that our business is growing. So, the service business is growing, parts business is growing, we are getting more contracts. We used to do just the engine now we do, let's say for rail we do the entire powertrain including the whole compartment. So, we are expanding services, we are adding more product lines, we are reaching out to more customers, we are bringing more out of old customers back into fold, we are offering more products. And also, we are because of the impact of commodities etc. we are also



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increasing prices. So, the combination of all of those is resulting in a pretty steady growth. And we think more can be done as far as this segment is concerned.

**Aditya Mongia:**

The second question that I had was more on this comment that you had made that we want to play catch-up on gross margins. Now as I understand, if I let's say take the average shown, let's say FY2017 to 2021. And the gross margins today are probably 400 bps lower. Are you suggesting that this kind of decline that has happened the last two years can be kind of fully covered up over the next 18 to 24 months, as you suggested.

**Ashwath Ram:**

That's what we are going to attempt to do, whether we are successful or not, you all have my comments and then you all can grade me on our scorecard. But that's the ambition we seek to get back to better gross margin, because that's what we think we are entitled to from the kind of quality of the product as well as the services we provide to customers. Now like I said, it's easy for me to make a statement like this, to all of you, the people on the ground have to do a lot of work. It's got to do with cost production, it's got to do with engineering, it has got to do with product management, it's got to do with getting better realization from the market. So, I think a combination of all of this is how we plan to get back. But yes, and of course we get to reprise the CPCB-4 etc. So, that's going to be our ambition. How well we succeed is for future calls for us to analyze on.

**Aditya Mongia:**

Sure, I just probably have a follow up question over here. And I think this is important for us to understand. See, if I was to compare, comparing your return ratios. And that's one parameter of assessing how better you can go from here. They are already kind of at let's say 2015 levels were in CPCB2 had not happened the company was doing fine in terms of competition. Everything was earning decent margins, including competition. And since then, we have seen A) returns fall down because competition played spoilsport and B) then you as a company started to do something more micro in nature and managing your costs better and managing your product portfolio a lot better especially on export side.

Now with already you are operating at decent returns at depressed gross margins today, and these are like 20% plus if I do ROIC calculations. Do you see scope of doing more micromanagement of margins, which means you doing something that competition cannot kind of come up with. And thus exploring better gross margins/EBITDA margin/ return ratios.

**Ashwath Ram:**

Yes, we are a product technology company. And we have always won around the world when we have introduced product technology, which is more reliable, more robust, more durable, provides better TCO for customers. So, as always, we will continue to work on the product side to help give us those kinds of advantages. And we continue to focus on the fixed cost side, the variable cost side on how we can continue to get efficiency year-on-year on our labor efficiency year-on-year on our white-collar folks. So, way, it's possible, I guess that's what good management is all about the say how to make that happen. It's not going to be easy in this kind of volatile environment. But that's what we are aiming to do.



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**Moderator:** Thank you. Our next question is from the line of Priyankar Biswas from Nomura. Please go ahead.

**Priyankar Biswas:** So, my first question is regarding this CPCP4 tech transition. So, what I understand is the customers still have a window to buy let's say the order products after let's say 1<sup>st</sup> July 2023, so till distributors have stocks. Is that the correct understanding?

**Ashwath Ram:** That is correct.

**Priyankar Biswas:** If so, then how are we able to take up the price hikes that are necessary for the CPCB-4 engines. So, if the customer still has the option to buy something, let's say which meets his requirement and still at a relatively much more affordable?

**Ashwath Ram:** So, the first is right now there are certain nodes which are already capacity constrained. And so even if somebody wants to build up inventory, and then wants to buy products, it's not going to be available post the July timeframe. In all of the other nodes where extra inventory or material can be available, people will be pre-buying, and they will be buying more material. And they will stock up. And our hope is that we have got more pricing increase coming in the future. And we are hoping that commodities will soften further. So, the combination of holding on to price increases and commodity softening. The combination of both of those is what we hope will play in our favor to continue to hold or improve margins.

**Priyankar Biswas:** So, the reason why I was asking is, so clearly some of your competitors are behind you on the technological curve as far as CPCB-4 is concerned. So, wouldn't it make rational sense for them to actually overproduce in this period so that they have a lot more older products inventory? Since they cannot reasonably expect to compete with you on CPCB-4 at least in the very near term?

**Ashwath Ram:** Yes. And that would be what I would do if I were in their shoes. Unfortunately, that unconstrained supply of raw materials is not available to anybody. So, even today, if we could produce more of everything, we would be producing more, but the supply chain cannot meet up with that kind of spikes in demand. So, yes, it will happen in some nodes it will happen and we will have to deal with that for six months, but in many nodes, it will not happen and the transition will happen sooner.

**Priyankar Biswas:** So, just a add on question here, so, in the past, like if my memory serves me, right, with the transition to CPCB-4, we were kind of expecting that, with the 5G opportunity in China, probably we could see some uptick in sales, or maybe something in the North America. So, in North America is the parts and components market, how big can it be for us? Like, let's say today, you have to set in an X level of exports. So, just by the parts, because you highlighted the NAFTA constraints, I understand that. So, how big can it get?





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**Ashwath Ram:** It is pretty big. I mean, there is no, I can't give you exact numbers as of today. But I can tell you that for us to be able to maintain the rate of growth we have had in the last two years; it can be sustained in the future if we were to even just apply components going forward.

**Priyankar Biswas:** The last question from my side, you don't give a guidance I understand that, but I think your parent gave a guidance of something like 20% growth for the calendar year for the entire India business. So, how does that translate for us, essentially, based on the parent's commentary only?

**Ashwath Ram:** Yes. So, you can take that as the sacrosanct so that's the kind of growth we are aiming for. We still do not provide full guidance, and we will probably get started in future quarters from providing that guidance. But we remain cautiously optimistic, which means the order books are good. We are waiting and watching to see if the impact of all of these global turmoil is going to have any negative effect on us. But if it doesn't have too much of a significant impact on us, then we will continue to perform the way we have been performing in the last six quarters.

**Moderator:** Thank you. Our next question is from the line of Deepesh Agarwal from UTI Asset Management. Please go ahead.

**Deepesh Agarwal:** My first question is, if we see in India, a lot of your peers are setting up electrolyzer of fuel cell capacities over the next two or three years. I understand you have an ambition out there, so to be cost competitive, do you think Cummins will also have to set up a facility soon in India? And if so, which of the Cummins entity will house the manufacturing units?

**Ashwath Ram:** That's still being evaluated. So, certainly, we will have to set up in India to be cost competitive in India also to meet the Make in India, PLI, those kinds of guidelines will have to produce in India. What's being evaluated is what's the best way to produce whether it makes sense for Cummins to setup its own capacities or whether it makes sense for Cummins to partner with somebody, to get the leverage of scale and access to end markets. Those are the kinds of questions we are asking ourselves and then evaluations are being done on what's the best path to enter from an India perspective from a long term. And so it's still an evaluation. And Cummins has probably more experience in setting up capacity globally in the electrolyzer space than any other manufacturer. So, we are quite optimistic and bullish on India, but evaluation is currently going on what is the best path of entry into the country from a long-term perspective.

**Deepesh Agarwal:** Secondly, it seems under CPCB-4 Plus, the share of bought out components will increase. Do you think the increase in the bought out could be a spoiler to your gross margin ambition of say 35% to 36%?

**Ashwath Ram:** No, I don't think that's going to be a spoiler for us. I think we are going to aim for that and we are going to get there.

**Deepesh Agarwal:** Last question, book keeping question. Can you quantify the large data centers revenue, which you would have booked in this quarter?



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- Ashwath Ram:** So, we can't quantify the exact data center revenue, but all I can tell you, it's very similar to the same period in the previous year, where we close one of the very big data center orders. So, it's a pretty big quantum jump.
- Moderator:** Thank you. Ladies and gentlemen, we will be now taking our last question from the line of Gopal Nawandhar of SBI Life Insurance. Please go ahead.
- Gopal Nawandhar:** As I remember, earlier there used to be some arrangement with the parent on currency depreciation. So, if you can just highlight, how much of those currency depreciation benefits flows to Cummins listed, and how much is to be passed on?
- Ashwath Ram:** So, there is a quarter-on-quarter settlement as far as currency is concerned. From our perspective, in the current quarter, we have had a benefit on currency of something like 0.5%. And it will get trued up in future quarters.
- Gopal Nawandhar:** So, I remember earlier like it was like (+5%) currency movement is kept by us and then over and above that we generally used to pass it on to parents, is that same arrangement?
- Ashwath Ram:** There is a pre-arranged formula, but I don't have the exact numbers with me right now, so I won't comment on that.
- Gopal Nawandhar:** Secondly, just a clarification, in the beginning you mentioned about some price correction. Is it because of the decline in the raw material you are calling out that or you are talking about positive pricing?
- Ashwath Ram:** We are talking about price increases.
- Gopal Nawandhar:** Price increases, okay.
- Ashwath Ram:** Yes.
- Moderator:** Thank you. I now hand the conference again over to Mr. Ashwath Ram for his closing comments. Over to you Mr. Ram.
- Ashwath Ram:** I want to thank all of you for your participation today and your patient listening to all the questions and all the commentary. Cummins India strongly believes that the demand in various end markets will sustain. However, as I have mentioned earlier, uncertainty in the industry prevail because of high inflation, interest rate, policy rates, supply chain disruptions. This week, again, China has announced that they will be cracking down on COVID. And so every time that happens, we see more disruptions. So, these kinds of disruptions continue. We continue to watch the geopolitical events and the supply chain challenges very closely. These are unfolding in different parts of the world. So, we are watching it very closely.



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We at Cummins India though are extremely confident to maneuver through these tough times. We have demonstrated that in the past through these tough business times in a very progressive manner. We are very confident and optimistic that things will continue to be steady or get better. With this I thank you all and would like to close this call.

**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 are ending the conference now. You may disconnect your lines. Thank you.