Ref: STEX/SECT/2024

August 09, 2024

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 07, 2024

Dear Sir/ Madam,

With reference to our stock exchange intimation dated July 24, 2024, 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 07, 2024.

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: 2024.08.09 17:12:30 +05'30'

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

Encl.: As above.

Cummins India Limited
Registered Office
Cummins India Office Campus
Tower A, 5th Floor, Survey No. 21, Balewadi
Pune 411 045 Maharashtra, India
Phone +91 20 67067000 Fax +91 20 67067015
cumminsindia.com
cil.investors@cummins.com
CIN : L29112PN1962PLC012276

“Cummins India Limited Q1 FY24-25 Earnings Conference Call”

August 07, 2024

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 FY24-25 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 commentary concludes. Should you need assistance during the conference call, please signal an operator by pressing "*" then "0" on your touchtone phone.

I will now hand the conference over to Mr. Ashwath Ram – Managing Director, Cummins India Limited. Thank you and over to you, Mr. Ram.

Ashwath Ram: Good morning, ladies and gentlemen. Hope all of you are doing well and staying safe and healthy. Welcome to the Cummins India Limited Q1 2024-25 Earnings Conference Call.

My name is Ashwath Ram, and I am 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 today.

We are happy to announce that CIL reported strong results for the quarter driven by stable domestic demand while export revenue is at similar levels as the prior quarter. I would now like to share the financial results of Q1 FY25. Financial results for the quarter ended June 30, 2024, with respect to the same quarter last year, our sales at Rs. 2,262 crores, were higher by 4% compared to Rs. 2,175 crore recorded in the same quarter last year. Domestic sales at Rs. 1,873 crore, were higher by 12%. Exports at Rs. 389 crores were lower by 22%. Profit before tax at Rs. 551 crores, was higher by 33% compared to the same quarter last year.

For the quarter ended June 30, 2024, with respect to the last quarter, our sales at Rs. 2,262 crore were almost flat compared to Rs. 2,269 crore recorded in the last quarter. Domestic sales at Rs. 1,873 crore were lower by 3%. Exports at Rs. 389 crore were higher by 13%. Profit before tax at Rs. 551 crore was lower compared to the previous quarter by 21%.

I would now like to share the segment-wide sales breakup for the quarter ended June 30th, 2024. Domestics, power generation domestic sales were Rs. 803 crore, 8% decrease over last year and 15% decrease over last quarter. Distribution business sales Rs. 651 crore, 22% increase over last year and 8% increase over last quarter. Industrial domestic business sales were Rs. 372 crores, 57% increase over last year and 7% increase over last quarter.

Exports, high horsepower exports were Rs. 202 crores, 17% decrease over last year and 18% increase over last quarter. LHP exports were Rs. 155 crores, 23% decrease over last year and 9% increase over last quarter.

As far as the Cummins India financial guidance is concerned regarding the sales outlook for the full year 2024-25, we are looking to continue to have double digit growth over the fiscal year 2023-2024 in line with our ambition to grow at 2x of the GDP. I now open the session for questions. Thank you.

Moderator: Thank you very much. We will now begin the question-and-answer session. First question is from the line of Mohit Pandey from Macquarie Group, please go ahead.

Mohit Pandey: Sir, my first question is on industrial segments. So, if you could give color on what is driving strength for this business, I think second or third quarter of strong numbers there. That would be question number one?

Ashwath Ram: I think for the quarter, I think it was a perfect storm of all portions of the industrial business firing. So, whether it is construction, which was Rs. 134 crores or whether it was rail which was Rs. 107 crores or mining which was Rs. 19 crores or compressor which was Rs. 44 crores, marine was Rs. 33 crores and everything else. When you added all of that in the total of Rs. 373 crores, we saw that pretty much all of the segments were doing well, and I think that is very broadly correlated to the fact that infrastructure continues to do well in India and is likely to continue to do well for the next few years.

Mohit Pandey: So, do you sense an element of market share gain there because one would have expected during the election quarter, software numbers there, so any color there?

Ashwath Ram: It's not apparent as of now. If there's been real market share gain, we would get that kind of analysis in the near future. But the demand has continued to be strong for our product.

Mohit Pandey: Yes, sir. And secondly, if you could share the breakup of domestic power chain as you usually do.

Ashwath Ram: So, low horsepower was Rs. 49 crores, mid-range was Rs. 153 crores, heavy duty was Rs. 93 crores, and high horsepower was Rs. 508 crores. You have to keep in mind that this was a transition quarter when the transition happened between CPCB-II and CPCB-IV finally.

Mohit Pandey: Right sir and CPCB-IV would have contributed how much during the quarter broadly?

Ashwath Ram: Close to 5000 sets were sold during the last two quarters. So, roughly I would say that somewhere about 30%-40% of the sales in the quarter were with CPCB-IV.

Mohit Pandey: Understood, sir. Last question, if I look at the P&L, the proportion of traded goods has come down sharply, the purchase of traded goods. Anything specific to read there? That would be my last question.

Ashwath Ram: No, nothing, no trend that I can at least see, for that, just probably a slower or different quarter.

Moderator: Thank you. Next question is from the line of Parikshit Kandpal from HDFC Securities. Please go ahead.

Parikshit Kandpal: My first question is on gross margins. This time you've recorded, I would say, almost 5-year kind of high gross margins of 37.8. My question was on, is it largely attributable to the increasing mix of CPCB-IV+, Power Gen in the mix? Do you think with the now 1st July kicking in from Q2, there could be further tailwinds and margins as we see the mix increasing on CPCB-IV+.

Ashwath Ram: I think we have had for the last few quarters almost a perfect storm of capitalizing on the pricing increases that we have done. The mix of course with CPCB-IV+, and the fact that commodities have helped us, and we have been able to continue the cost reduction game. So, the combination of all of those are what is ensuring that gross margin or material margins are at record levels. I think as the cycle changes and as commodities start getting more expensive and as competitive pricing intensifies, I think there will be some pressure, and I don't think this kind of material margin is sustainable indefinitely though it is our attempt to continue to try to get as much out of it as we can.

Parikshit Kandpal: Second question is on CPCB-II and CPCB-IV. In the channel right now, is there still any venture on CPCB-II? And going into the coming quarters, do you think that what kind of mix will now in the Power Gen move towards CPCB-IV say, more stable life quarters, like two quarters down the line? How do you think will that shape up?

Ashwath Ram: So, the channel inventory is zero. So, that which is what accounts for as we were draining the inventory throughout the previous quarter. So, the transition has happened, and we ended up with depleting all the inventory. So, starting from this quarter, it will only be CPCB-IV sales that are sold in the month.

Parikshit Kandpal: Okay, and just one question on this GAIL project, which you had won about 10 megawatt on hydrogen sites. My understanding was that part of that will be executed by the rest of the entity in India. So, any update there? So, how's the progress on that project?

Ashwath Ram: I think the progress is that this is a global project for the GAIL application, the project is also being executed. And the distribution business of Cummins India has been awarded the contracts to service and support that. So, it's still in the process of being installed. Some portions of it are already commissioned and introduced. This is the largest working hydrogen installation in the country.

Parikshit Kandpal: And this is being done in this distribution part is the part of the Indian listed entity, right, which is executing this project?

Ashwath Ram: Yes, that's correct.

Parikshit Kandpal: Okay, and just last thing, sir, I think now you're leaving, so I wish you all the best for your future endeavors and look forward to interact with Shweta for Cummins India. Thank you and wish you the best.

Moderator: Thank you. Next question is from the line of Amit Anwani from PL Capital, please go ahead.

Amit Anwani: First question is on exports. If you could highlight on how the export is panning out the geographies, which we're kind of seeing slow down. What is the trend there and the mix of the products?

Ashwath Ram: Yes, so I think last time I indicated that the markets have been slowing for quite a few quarters and we thought we had bottomed out and that statement appears to have held true. So, exports did grow in this quarter, and we are mainly seeing that increase come from two areas, Middle East has recovered quite well, and Africa is starting to recover. The rest of them are either flat to where they were bottomed out and Europe actually also is pretty flat to where it was in the previous quarter.

Amit Anwani: And second is are we largely sticking to the guidance of 2x of GDP, topline growth, and any incremental thing you would like to highlight on the outlook on the growing sectors that would help?

Ashwath Ram: Yes, so we continue to maintain the guidance of our ambition to grow at a minimum of 2x of the GDP, which in this year at a 6.5 to 7 is somewhere between 13% to 14% is what we think we should be able to grow. Our internal aspirations, of course, are to do much better than that. So, that's what we are all working on. We have also had this ambition of growing profitably. So, we continue to focus on all aspects relating to profitability. So, not have growth just for the sake of growth but continue to do it with healthy profits. And we have been ahead of the curve as far as profits is concerned, so we could see some pressure over there. But overall, all the plants are linked to the growth of the GDP of the country because most of the products that come in sales go into the infrastructure segment. And as the country continues to grow and infrastructure spending continues to happen, we will see strong growth, especially out of India. And as far as the global markets are concerned, they are undergoing some level of slowdowns in different segments because of all these different crises, currencies, so many other big nations like China are slowing down pretty significantly and not recovering. We think that could take some time to recover and we continue to focus on making sure that we are in a strong position to grow there once those markets start to recover.

Amit Anwani: So, lastly, if I may, the data center contribution in Power Gen and growth. And second, any supply chain issues which you feel pose any risk currently in meeting deliveries or logistical issues in that aspect?

Ashwath Ram: Yes, so data center, globally when we look at data centers, data centers contribute to roughly around 10% of Cummins' power generation business. And that similar kind of trend holds true in India as well. We have very strong order books there. The heavy data center applications are fully booked and are completely supply chain capacity constrained, which means that the very largest of sets which are made by Cummins Inc. globally and are not made in India, we are pretty much on allocation basis. On all the products which is made in India, we have enough capacity. There are some spikes in certain kinds of products where we run into some challenges. But overall, I would say, supply chain is well geared up to be able to meet all the demand that we're seeing.

Moderator: Thank you. Next question is from the line of Raja Kumar Vaidyanathan, who is an individual investor. Please go ahead.

Raja K. Vaidyanathan: Sir, I have two questions. The first question is, do you see any short-term impact on the unrest in Bangladesh?

Ashwath Ram: Nothing that we can see right away, but certainly when there are problems, whatever we are exporting out into those regions could see a small setback, but nothing significant because the volume of exports that we do into that country is quite minimal.

Raja K. Vaidyanathan: The second question is, compared to the last quarter, the commodity markets have kind of softened. So, do you still see that as a challenge in terms of maintaining or improving the margins go forward?

Ashwath Ram: I think they have been favorable. That's why we continue to have much better material margins. The concern is that some commodities like copper and aluminum, which gets used in big parts in our gensets, those have continued to increase in price. And so that portion of commodities is impacting us negatively. So, we would have gotten even more gains out of material margin had the softness in iron, etc., also continued in the other commodities. But it's sort of eating away at each other.

Raja K. Vaidyanathan: Okay, so if I can just squeeze in one more question. So, this is a reference to the guidance given by your parent. So, they have kind of said that this time the India sales have kind of dropped by 10% and they also reduced the sales outlook for the India business from the previous quarter they gave 9% growth to now they reduced it to 8%, so 100 bps reduction. So, just wanted to know is that coming out of the non-Cummins India subsidiaries of Cummins Inc. or is it to do with Cummins India?

Ashwath Ram: Yes, it doesn't have anything to do with Cummins India. At Cummins India, we continue to guide growth rate of 2x of GDP. So, we continue to aspire to grow at somewhere between 12% to 14%. So, some of those comments were also made looking at corrections in other markets, including automotive markets and some global slowdowns as well.

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

Mahesh Bendre: Sir, if I look at for last 12 months, whatever the revenue we generate in Power Genset, which are the user industries have contributed that? I mean, any industries wise break up material?

Ashwath Ram: So, I would say it's a data center, manufacturing, infrastructure and commercial realty.

Mahesh Bendre: Even you said commercial real estate, but even residential real estate is also picking up. So, that will also generate volume growth for us going forward?

Ashwath Ram: Absolutely. We have already started to see that happen and that will continue.

Mahesh Bendre: And sir, in the best of the time, what was the contribution from this segment to the overall sales, maybe previous years?

Ashwath Ram: You're talking about realty?

Mahesh Bendre: Realty, yes, sir.

Ashwath Ram: It's very difficult to say that because the segments grow very relatively and proportional to each other and sometimes it's difficult to calculate and just say which segment contributes because some segments contribute in terms of horsepower, some segments contribute in terms of volume. So, data centers for example, the volume may be very low, but it contributes a lot in terms of value. Whereas, realty sometimes is a mixed bag. And there have been years when that's done very well, but you sell a lot of gensets, but a lot of low KVA gensets, sometimes it's higher KVA, so it's very difficult to get a segment-wise share of what that is when you compare to the history.

Mahesh Bendre: Sir, last question from my end. You mentioned that the channel inventory is zero. It means CPCB-II engines are not there in the system, right?

Ashwath Ram: That's correct. CPCB-II inventory has gone to zero and because CPCB-IV is overlapping and ramping up, the overall stock inventory at all our OEMs and dealers is also pretty low, amongst the lowest it's been in a couple of years.

Mahesh Bendre: So, we will try to fill this in next two, three quarters, right?

Ashwath Ram: That's correct.

Moderator: Thank you. Next question is from the line of Nitin Arora from Axis Mutual Fund. Please go ahead.

Nitin Arora: Thank you for all the guidance you gave us over the last two years and the way company performed. The basic question here is there was a lot of fear, and I kept you asking every quarter that once this price hike comes in of the CPCB-IV, do you see a cliff fall happening in the demand? You started in the opening remarks stating that the demand remains pretty strong. Can you throw some light that how you look at this market because the price hike is quite immense and we understand in your opening remarks in the previous call that few sectors are firing like data centers, real estate as well. But how do you think this price would be taken by channel? I am asking a little near term question of July and August when you will be filling up the inventory. Is still the volume of the end market is still strong taking into that?

Ashwath Ram: Yes, let me try to answer that question by giving you some examples from some other markets. India was a power deficient market and has kind of sorted itself out to it is not such a power deficient market. And during all of this period, we have continued to grow, and the demand continues to increase. Now what happens as a country becomes more affluent and we get used to having power working for us 24x7, the lack of power becomes almost unbearable and so even though you have more reliable grid power, you still need the backup power. And a big chunk of what we sell are all backup gensets. And when you need power, you need power. Then you don't ask yourself that did I pay 15% more or 20% more when I bought the genset? You don't ask yourself those questions. You need power, you need power. And so that is the way it has been around the world that the regulations are driving the cost up because of tighter emissions,, etc., And customers really don't care about emissions. They care about overall value. We are trying to deliver more value to them by making the products more fuel efficient and more dense, etc., So, in an overall scheme of things, the cost of a genset,, etc., is a pretty small percentage of capital costs to run infrastructure. So, it doesn't significantly impact purchasing power. That's why the demand is not dropping, the demand is strong and overall, since the infrastructure of the country is growing, the power demand in the country is growing, the affluence of the country is growing, everybody wants more power and so demand continues to remain strong despite price increases.

Nitin Arora: This is very helpful, Ashwath. Second question, just on the export side, you touched base on that, that few green shoots are seen, but generally in your sense what kind of inventory levels globally are at this point in time? You used to map an inventory at the channel globally. Is that something you can talk about? And on the demand side?

Ashwath Ram: It's well-stocked. It is a pure demand issue as of now. And we are seeing increased dumping from other countries where local demand has fallen off. So, to keep their utilization of factories high, their products are being dumped in export markets in South Asia, in Latin America, in Africa. So, there is bound to be more pressure at this time. It's a particular demand constraint, not any other channel inventory or any of those kinds of constraints.

Nitin Arora: In your view, it might take one or two quarters more to stabilize that part and then you start seeing growth because your base is quite weak over the last three quarters. When I look at last year base, so you expect some growth to start kicking in or you think still it's two, three quarters?

Ashwath Ram: Yes, like we expected, we already saw that it seems to have bottomed out and we're starting to see some growth. How much of it will sustain is difficult and how long it will take because we seem to be going from one crisis to another crisis. So, we already see now that Ukraine seems to have calmed down a little bit, but the Middle East has hoarded up and now with all of this new stuff happening, there is even more crisis. When such things happen, all kinds of slightly discretionary spending all comes to a halt and then you only start buying emergency kind of things. So, it's very difficult to predict how the cycle is going to turn. We are just trying to be ready with more products, more availability, keep continuing to work on our cost base so that we can be even more competitive in those markets so that when they do bounce back, we are ready.

Nitin Arora: And just last comment of yours on the distribution business. That is something growing very well and also contributing to the margins as well. Going forward, how you're looking at this business? Does that, the growth eventually comes down now? Because the way you are highlighting the things on the power side, ally, then it should be continuing with the growth, what it is doing. So, just your one comment on that?

Ashwath Ram: Distribution has multiple segments where it gets revenue. It gets revenue from service, it gets revenue from parts, it gets revenue from selling into certain market segments where the big business units don't do. So, we are seeing growth in all of those areas. So, we are seeing as the population of product in the field continues and as the infrastructure development continues, so if you use equipment more, you need more service, you need more parts. And the second portion of that is we have always had very low penetration from a market perspective, and we continue to focus on better service, better availability of parts, better quality of parts, all of those are leading to growth in that. And we think this is not a three year, five year kind of cycle. We think we can sustain this kind of growth for at least a decade.

Moderator: Thank you. Next question is from the line of Umesh Raut from Nomura India. Please go ahead.

Umesh Raut: Hi sir, congratulations for the good set of numbers and wish you all the best for your new role as well. My first question is pertaining to industrial segment. I think even though we have seen contraction in railway business largely because of Indian Railways initiative towards railway electrification, but I think we have surprise on three lines of business within industrial, especially on the marine side, defence side and on construction side. And during the annual report as well, you are mentioning about some of these larger defence cater in terms of defence business, for example, Zorawar tank and ship building businesses as well. So, can you please qualitatively give us a trajectory in terms of outlook for these three segments within industrial?

Ashwath Ram: Yes, so construction is directly related to infrastructure. This is where we supply engines into all the earth-moving equipment, which are on the road, typically. And that is, I think, in a multi-year boom cycle, especially if the country is going to grow at the rate at which the government wants it to grow. So, anywhere you build a road, you build a building, you build a dam, you build a port, you build an airport, any infrastructure activity requires earth-moving equipment and all of those, a big chunk of those use our product and so that's why that's doing so well and it will continue to do well. The next segment is rail. Like I said, the big chunk of slowdown for Cummins in that business was the migration of a big chunk of the diesel driven locomotives, etc., going into electrification and as I have said in the past, we continue to invest in the electrification cycle also. We think it's a tremendous growth opportunity coming up. We have now got product which is now certified and approved and it is now doing test trial runs in rail. And we also saw a lot of demand for DETC full scope kind of orders, even with existing diesel. So, that's why this quarter was so good with rail. And we think the future for rail is also very optimistic because we have such small presence in the electrification that as our products become successful, I think the opportunity is significant for us. The third of course is mining. As the economy continues to grow, we need more steel, we need more coal, we need more aluminum, we need everything. And mining will continue to boom, and that's doing reasonably well. And compressors is a cyclical market, but compressors also, as the economy does well and the infrastructure does well, you need more compressors, so we do well there. And marine is a lot related to fishing, trawlers, and defence, and those kinds of products. And there is record spending happening there. Of course, it's a very lumpy business because the gestation time for building ships, etc., is long. So, it's not as predictable as some of the other businesses. And the same goes for defence. We have great products, great partners, great customers, but the gestation period of those products is anywhere from 3 years to 10 years. And so, it's very difficult to predict when exactly those will get translated into revenue and profitability. So, that's what, but overall, when you add all of those things together, there is no bad news that we have to share because the ambitions of the government are pretty well tied into the products that we have produced.

Umesh Raut: My second question is pertaining to distribution segment where you are continuously launching new range of service products. So, just wanted to understand how much of contribution you are receiving from new range of these launches of products and how you look at this distribution business in export markets as well?

Ashwath Ram: So, if you look at the last couple of years, we have been growing that business at greater than 20% CAGR. And like I mentioned, in each of the sub-areas, whether it be parts or service or rebuilding engines, new engines, whole goods, each of those areas we are seeing growth happening. And we continue to focus on that. And we think that there is a lot more growth available there. I think we are entitled to a lot more growth available there. And that's where the focus is.

Umesh Raut: Sir, last question more on the bookkeeping side. You said HHP power generation on domestic side was closer to 500 crore plus, but how much of that was related to less than 800 kV where CPCB-IV+ products are getting applicable?

Ashwath Ram: We track it as greater than 500 kVA. In the CPCB 4+, actually I don't have that information in front of me, so I don't have a good answer, but we will see it very soon CPCB-IV is starting to ramp up very strongly. It will start getting much clearer in the next couple of quarters.

Umesh Raut: But is it fair to assume that LHP, MHP plus heavy duty on the domestic power generation side would be forming closer to 90% of CPCB-IV+ products?

Ashwath Ram: Yes, that's a very good logical assumption and I think that that is likely to be true.

Moderator: Thank you. Next question is from the line of Mayur Patel from 360 ONE Asset Management. Please go ahead.

Mayur Patel: My question is related to the one asked by Nitin. So, Ashwath, in the past we have seen like in CPCB-II transition. First good amount of pre-buying happening before the transition and then the price hike had some dampening impact on the volumes post implementation and we did see some weakening in volumes. But this time around, you are getting for no such major drawdown on volumes despite a 35%-40% rise because of changing norms. Just confirming this confidence is coming from the current investment cycle in the country and do you have some decent color on your pipeline of inquiries, I am not asking for any specific numbers but some qualitative comments on that please?

Ashwath Ram: Yes, one is we had a whole year to absorb the pre-buys and all of CPCB-II and 4. So, the market is now already, it's not new news that CPCB-IV is happening, and the prices are changing. So, the market has had time to absorb, time to use up as many CPCB-IIs as they could. And we now find the channel inventory to be very, very low, which means that there aren't any CPCB-II sets to sell, and the order books are scaling up and order books are pretty strong. So, we are tending to align to the hypothesis that the demand is now agnostic of the price increase that the CPCB-IV calls for.

Mayur Patel: This is what gives you the confidence despite exports yet to pick up about 12% to 14% growth which would mean a slightly higher ask rate for the remaining 9 months. I think the demand resilience is what is giving you that comfort. So, understood that.

Ashwath Ram: Yes. The order books are strong and there is no inventory in the pipeline. So, that's what is giving me the confidence right now that there is no real, nothing to be concerned about.

Moderator: Thank you. Next question is from the line of Pulkit Patni from Goldman Sachs. Please go ahead.

Pulkit Patni: I think first one was similar to what Mayur asked. Sir, my second question is on competition. What we understand is that we were one of the first ones to actually release nodes of CPCB-In the market and that time our pricing power was significantly better than anybody else simply because there was nobody else. I understand some of your competition has launched quite a lot of nodes in the last couple of quarters. So, can you just talk about whether we are seeing some sort of price discovery for the CPCB-IV+ i.e. is that also going to be a factor in the margin number you are saying which cannot sustain at these high levels? Is it just commodity or is it also that price discovery now amid more supply could drive margins lower?

Ashwath Ram: Certainly, always once you start to see what competition is pricing at, we will need to take some adjustment actions based on our own, we command a certain premium as compared to competition based on the product quality and the robustness and the features that we offer to our customers. But one has to look at where the competition comes in bulk production. And then there is bound to be some level of readjustment. It doesn't typically happen all across. It happens in certain nodes where somebody else has a competitive advantage in terms of scale or economies and somebody else doesn't and so the only way to maintain that relative positioning is with pricing, but overall, I don't see too much of an impact due to pricing. We are very happy with the one year of experience we have had with the products, we think they are absolutely super competitive, and we have some relative positioning advantages, and I think we should be able to capitalize on that and hold on to the current pricing structure.

Pulkit Patni: So, since I have one more question, maybe I'll just use that. Ashwath, all that you've said on the domestic market in terms of a commentary is extremely positive and particularly in light of CPCB-IV being fully implemented,, etc., I am just trying to reconcile this with what you have put out in your release, where you say we remain cautiously optimistic about the demand holding the near term and optimistic about the longer term. So, how come there's a disconnect between cautiously optimistic in your commentary in the press release, but your commentary in general is pretty optimistic about the domestic market? So, is my understanding a little different on interpreting that?

Ashwath Ram: No, not at all. In Tamil, we have a saying that no good deed goes unpunished. So, our own relative good performance in the last couple of years makes us slightly cautious about the rate of growth that we have been able to achieve in the past versus what we can continue to do in the near future. We continue to be extremely optimistic about the growth opportunities when I look at a 2-year, 5-year, 10-year kind of window. What we remain cautious about is the short-term cyclicality, like the transitions happen in one quarter, the second quarter there's time for the pipeline to fill up and then for people to get moving, etc., All of those are very difficult to predict whether you go from a steady state of 100% on one series of products to a steady state 100% on the second series of products. There's turbulence during the transition and that is what leads us to be slightly cautious about that.

Moderator: Thank you. Next question is from the line of Jonas Bhutta from Birla Mutual Fund. Please go ahead.

Jonas Bhutta: Thank you for the opportunity and at the outset, congratulations and all the best, Ashwath, for your new role. I have a couple of questions pulled out primarily from the annual report. I'll sort of try and be brief. Firstly, on the Power Gen site, sir, you spoke about increasing dealer count. How much of role did that play in the FY24 sales growth beyond the pre-buy? Was it a material thing? And similarly, you spoke about one ICF contract on the distribution side. So, how much of sort of contribution on FY25 basis can that one single order sort of move? So, that's the first question?

Ashwath Ram: We continuously adding more reserves and certainly that contributes, it's very difficult to say exactly how much? That is important, which is why we keep adding more to get better penetration and better positioning in the market. So, we will continue to keep doing that. We continue to monitor all the dealers. We continue to look at who is performing well and who is not. And then appropriate actions are taken by the finding better people or looking at different ways by which those dealers can be more successful. And as far as some of these orders are concerned, they are good orders. So, I wouldn't say any one order very significantly changes all the results for the company, but it all adds up. It's all like big chunks in a bucket which then keeps expanding. So, I would say it's positive.

Jonas Bhutta: The second question was, in megawatt terms, your sales last year grew almost 40% but in unit terms, the increase was just 4% which sort of implies a greater share of higher HP nodes that got sold. Was that largely a pre-buy impact or this kind of deviation between the megawatts sold versus units is here to stay. And given that within that 26,000 only, 10% were, 2,000 units were roughly CPCB-IV+. Could you sort of now talk about as this contribution sort of increases, the impact on warranty expenses, royalty and purchase of traded goods? And just wanted to fold that into another question or sub-question was, now that you've had some time, what is the average price increase in the CPCB-IV+ regime? If you have to just put a very simple average or a weighted average number, what is the price increase versus the CPCB-II regime? That's the final question. Thank you.

Ashwath Ram: I'll answer the last question first. It's anywhere in the range between 15% to 25% is what the pricing increases have been. To answer the other question, if you see, historically, we have always been the weakest at the lower horsepower ranges. And that's because over the last 15 years or 20 years, they had turned into commodities. They had become pure mechanical products with not real great differentiation that we could show as compared to competition. And certainly, I would say that competition had gained share in some of those segments, and we continued to where there was technology, where there was higher durability, reliability requirements, those were the high horsepower nodes where we continue to gain share. Why we think CPCB-IV+ is a game changer for us is because it forces the market into changing from a commodity player to having to invest in technology and then having to service and support greater technology, higher warranty cost kind of product which we have done around the world for many years, so it's a sweet spot for us. So, in this transition to CPCB-IV+ and higher technology, we hope to not only gain in horsepower but to change the cycle in from a volume perspective also. We are trying to pursue our ambition to be stronger in the areas where we have been weak in the past and to hold on to or improve our position even in the nodes where we have been strong.

Jonas Bhutta: But what does it do as the share of this increases, so on the warranty and royalty because we have seen a very sharp decline in royalty or service fees to the parent over the last five years. Also, the R&D expenditure of just Rs. 10 crores versus a peak of almost Rs. 190 crores in FY20. Is the R&D expenditure while a large part of that is housed in the parent, but how does that impact R&D expenditure over the next 2-3 years?

Ashwath Ram: We are done with the peak R&D expenditure, so now it's only going to be sustenance and improvement kind of expenditure as far as that is concerned. I don't see anything very significant from a royalty. It's well in line with what we have publicly stated for quite some time. So, I don't see any concern with that. I actually see this as a great opportunity to improve our market position and also to leverage all these investments to export some more because we now have higher emissions product than what emissions are needed in the rest of the world. So, it actually brings us to a level playing field as far as the rest of the world is concerned. It brings us to a more competitive position as far as low horsepower is concerned in the local market. So, overall, I see more positives than negatives from this transition.

Moderator: Thank you. Ladies and gentlemen, we will take last two questions now from the participants. The next question is from the line of Aditya Mongia from Kotak Securities. Please go ahead.

Aditya Mongia: Ashwath, the first question is a little bit more broad-based. Having you been there with the company for the last five years, wanted to check with you as like five years back, what were the key areas of improvement or concern that you saw in Cummins, which have now kind of become better. And as you leave the company at this point of time, which are the key areas of improvement that you see your success taking up from here on?

Ashwath Ram: Yes, so when I took on the role five years ago, my biggest focus area was to try to align everybody that what we had been used to in the past, a growth rate that we had been used to, or something, or the cycle we could break. And we could set a very clear vision for the company. And then if we all work together focused on the execution of that vision, we could achieve bigger and better things than what had been achieved in the past. And with the support of a very, very strong team, we not only created the vision, we were able to execute on that vision of getting growth in multiple areas, focusing more on the product, focusing more on execution, focusing on a long-term strategy, and then sticking to a plan. I think the last five years have enabled us to create a very, very strong platform where this process methodology and this focus has yielded good results. And we have used the time to also build a lot of capabilities within the company, bring in some very, very smart people who can then take this strategy and drive it into the future. So, I feel very good about having had enough time to work with the team, come up with a strategy, be able to execute it and then transition it into a mode which can be sustainable in the future.

Aditya Mongia: From that 36,000 feet level more near term. I wanted to understand, Ashwath, I think someone also kind of pointed out that about 7 gigawatts of capacity were added by the Cummins. Now, this appears to be a fairly large number at a country level as compared to whatever capacity utilities would be adding at this point of time. And typically, the ratio of what the sector was adding from a power gen perspective to what the country was adding. From a utility perspective, it was more like 40%-50% has become 80%-90%. I wanted to check from you whether it's a sign of maybe power deficit demand, it's a sign of something else. I just wanted to get your sense that this is starting to become a very, very high base to kind of grow on from a volumes perspective. I understand that emission can boost revenues for the company, but from a megawatt volume perspective, are we getting inside a kind of a high base at this point of time?

Ashwath Ram: No, I think we are at an inflection point where I think this kind of growth can sustain for many, many years, especially if you see we are just in not even a 4 trillion economy, if it is the ambition of our country to become a 7 trillion economy by 2030 and by the 100th anniversary of our country to become a $12-$15 trillion kind of economy. I don't see any other option than for us to have to grow the requirement of power significantly, have significant more infrastructure in the country and all of that in my view is going to lead to significant more demand. So, I am not at all concerned about the high base. It actually is significantly smaller than where I think we will all be in 10 or 15 years.

Aditya Mongia: Understood. Last question from my side. This is on margins. You've seen enough for the competitive intensity in the CPCB-IV transition. Are you getting the sense that when things settle given the higher value addition from the company, the CPCB-IV genset can be margin accretive for the company over and above whatever the growth happens.

Ashwath Ram: That's correct. We believe that and nothing so far in the last 12 months is telling us any difference.

Moderator: Thank you. Ladies and gentlemen, we will take this as a last question for the day. I would now like to hand the conference over to Mr. Ashwath Ram for his closing remarks. Over to you, Mr. Ram.

Ashwath Ram: Thank you. Thank you for your active participation and engagement during the call. Cummins India believes that domestic demand in various end markets may sustain. While for the export segment, growth may gradually recover given the geopolitical uncertainties. We do see quite a few challenges, some in supply chain, some in the whole geopolitical situation etc., which we continue to work through. We remain cautiously optimistic about the short-term, but quite optimistic about medium and long-term outlook. With a strong balance sheet, world-class infrastructure on the ground for manufacturing and product development, best-in-class talent, an amazing team, we are very confident of sustaining our growth trajectory. I want to thank all of you for asking these amazing questions and all the support that you've given this company. With this, I close the call. Thank you for your continued trust and confidence in the Cummins brand.

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