Ref: STEX/SECT/2023

November 10, 2023

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

Subject: Intimation of transcript of analyst conference call held on November 08, 2023.

Dear Sir/ Madam,

With reference to our stock exchange intimation dated October 25, 2023, towards Investors / Analysts / Financial Institutions conference call, we are enclosing for your records a copy of the transcript of the said conference call conducted by the Company on November 08, 2023.

Kindly take this intimation on your record.

Thanking you,

Yours faithfully,
For Cummins India Limited

VINAYA ABHIJIT JOSHI
Digitally signed by VINAYA ABHIJIT JOSHI
Date: 2023.11.10 10:53:29 +05'30'

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

Encl.: As above.

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"Cummins India Limited Q2 FY2024, Earnings Conference Call"

November 08, 2023

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

Moderator: Good morning, ladies and gentlemen, welcome to Cummins India Limited Q2 FY'23/'24 Earnings Conference Call. We hope you all are 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 '*' then '0' on your touchtone phone.

I 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. Welcome to the Cummins India Limited Q2 FY'24 Earnings Conference Call. I am Ashwath Ram - Managing Director of Cummins India Limited. Joining me on the call today is Mr. Ajay Patil - Chief Financial Officer of Cummins India Limited. Thank you all for joining us on this call today.

The quarterly results this time demonstrate a stable outlook in the domestic markets and a resilient Indian economy, while the key economies and regions of the world are experiencing slowdown in economic growth rates.

Update on Q2 FY'24 Financial Results:

For the quarter ended September 30th, 2023, with respect to the same quarter last year, sales at Rs. 1,871 crores are lower by 3% compared to Rs. 1,922 crores recorded in the same quarter last year. Domestic sales at Rs. 1,364 crores are lower by 2%. Exports at Rs. 507 crores are lower by 4%. Profit before Tax at Rs. 426 crores is higher by 27% compared to the same quarter last year.

For the quarter ended 30th September 2023 with respect to the last quarter our sales at Rs. 1,871 crores are lower by 14% compared to Rs. 2,175 crores recorded in the last quarter. Domestic sales at Rs. 1,364 crores are lower by 19%. Export at Rs. 507 crores is higher by 2%. Profit before Tax at Rs. 426 crores is higher by 3% compared to the previous quarter.

Segment Wise Domestic Sales Break Ups for the quarter ended September 30th, 2023:

Power Generation domestic sales were Rs. 486 crores, 28% lower compared to last year and 44% lower compared to last quarter.

Distribution business sales were Rs. 549 crores, 23% higher compared to last year, and 3% higher compared to last quarter.

Industrial domestic business sales were Rs. 300 crores, 20% higher compared to last year and 27% higher compared to last quarter.

Exports, high horsepower exports were Rs. 264 crores, 13% higher compared to last year and 8% higher compared to last quarter.

Low horsepower exports were Rs. 209 crores, 14% lower compared to last year and 4% higher compared to last quarter.

Cummins India Financial Outlook:

The Indian economy remains resilient to geopolitical events. Softening demand in developing economies and the inflationary trends seen both in India and worldwide.

GST collections continue to remain strong, indicating underlying trade activities. The Index of Industrial Production (IIP), PMI etc. are all indicating a reasonably stable economic outlook, keeping the Indian economy on course for growth in the range of 6.3% to 6.8% based on various estimates.

Geopolitical events, especially further escalation of conflict in the Middle East, fluctuations in crude oil prices, rising U.S. bond yields and their impact on capital flow are a few key watch outs.

The Company successfully launched the CPCB-IV emission norms compliant products in the market on time. The prior two quarters witnessed some demand shifts as both CPCB-II and CBCB-IV+ products are allowed to be sold till June 2024. We expect the demand to normalize and sustain for the rest of the year.

As most of the developed markets are experiencing slowdown in demand, we are closely monitoring our end market conditions. The Company continues to have prudent capital allocation and cost management and have a strong balance sheet and cash position. We remain optimistic about the Company's prospects for continued profitable growth. We remain optimistic about the prospects of the Company's continued profitable growth and expect double-digit revenue growth for Fiscal Year 2023/2024.

I now open the session for questions. Thank you.

Moderator: Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Ravi Swaminathan from Avendus Spark. Please go ahead.

Ravi Swaminathan: My first question was with respect to the Power Gen business during the quarter it's obvious that we had seen revenue decline because the pre-buy activity which was there in the first quarter that is getting normalized. My question is more towards the secondary demand, I mean from the OEM to the end customer level, how does especially in the HHP level that is above 750 or 800 kVA, it shouldn't have been impacted by this pre-buy activity right. So, how that demand is, which sectors are driving the growth, if you can share your thought process that would be great?

Ashwath Ram: So, demand continues to remain robust, especially in the domestic markets. And we have seen quite a bit of depletion in the inventories that were build up as part of the pre-buy. And we are seeing the demand continue to remain strong so we are quite hopeful that the remaining quarters we will see a bounce back as far as the numbers are concerned from our domestic market perspective.

Ravi Swaminathan: If you can give it in terms of numbers like volume growth in the LHP business, how it was year-on-year for this quarter, HHP how it has been, if you can share that perspective it would be great?

Ashwath Ram: Sure, so for us we have seen that, just one second here, I am just pulling up the numbers here. Right, so we saw a demand in LHP drop by nearly 60% versus the last year. And we saw LHP demand drop by nearly 70% as compared to the previous year whereas HHP demand we saw only drop by 2%, because we count HHP at 500 kVA and above. So, you can see that real, there is hardly any drop in HHP. So, your hypothesis that that should not impact HHP is actually correct. And some part of HHP continue for us to remain under allocation because we continue to build long-term capacity which takes 18 to 24 months to build out. Whereas the LHP and MHP market are corrected from an inventory perspective and we expect that to come back to a steady state levels of what we saw in the first quarter, we expect that to comeback to those kinds of levels.

Ravi Swaminathan: And my second question is with respect to the industrial business. We have seen very good growth of around 20%. Where has this growth come from? Is it from the construction equipment side, compressor side, --?

Ashwath Ram: Quite good bounce back on construction as compared to the last year primarily driven by the fact that road construction has begun again. And we expect that trend to continue because of from the stated ambition of building 12000 plus kilometers of road this year only 4000 has been completed so far. So, there is a lot of work yet to be done. So, that market historically has underperformed. And that is now starting to bounce back pretty robustly.

Also, some of our other businesses in industrial are a little bit lumpy. So, you see some spikes happen and then you see steadiness in some quarters or you will see a dip in some quarters just because they get delivered and so we saw some very good delivery of rail in this quarter driven by Power Car and DETC. We also are starting to see the compressor business start to bounce back. Sometimes we have seen this trend historically that when monsoons are not that great, people have to drill more for water well and other applications and the compressor market then begins to bounce back. And we also see other markets, especially areas like Defense, start to come back and again those are lumpy in terms of delivery. So, when we have good delivery like we did in the previous quarter, we are able to grow that business.

But overall, as long as the core infrastructure continues to keep getting built out, so mining for example is much lower in this quarter as compared to the previous year same quarter. But there are many tenders out there because mining for steel as well as coal is actually beginning to scale up quite significantly. So, we are quite optimistic that the demand will continue to improve in that segment as well.

Ravi Swaminathan: And my final question is with respect to the gross profit, gross margins have expanded very significantly, is it because of the mix being in the favor of the higher end gensets being sold and coupled with raw mat going down. So, is that the case?

Ashwath Ram: So, like in some quarters you get a perfect storm of bad news, this time we have a perfect storm of good news. In that we were able to control the material cost and all the advantages we had of continuing commodity corrections, benefited us. We continue to hold on to pricing. And we also got favorable mix because lower margin products in low horsepower etc. the demand were significantly lower. So, all three variables which impact our material margin were favorable and that's why the material margin improved significantly.

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

Parikshit Kandpal: So, in the mix what was the contribution of the CPCB-IV+ because last time I think you had said that we are targeting about 24% for the full year, so any positive surprise, we are seeing. I was seeing on your social media handle you have been promoting with your dealers all these CPCB-IV+ complaint engine. So, has been the feedback from the channel, from the end customers. So, any early trends of picking up of demand despite the prices being higher and still some time before it gets implemented?

Ashwath Ram: So, actually it is pretty positive news, especially in the areas like the NCR region and the big cities, people are switching over to CPCB-IV+ despite the pricing advantages that of CPCB-II, just because the product is newer, it has longer life, better performance etc. There are some lows where we are actually now scaling up capacity to be able to supply CPCB-IV+ product, but that is only true in the big cities, in all the other regions CPCB sale continues to be strong. And I can't give exact numbers, but I would say that greater than 70% of the sales for the quarter were with CPCB-II products. But the very fact that CPCB-IV+, I was expecting 5% to 10% but the actual demand is a lot higher than what I was anticipating.

Parikshit Kandpal: Has that also impacted on our gross margins, I mean slight better mix in the CPCB-IV+, because --?

Ashwath Ram: Little bit, but not yet significant enough because the ratios are so skewed in favor of CPCB-II+, it's more to do with us not selling as many low horsepower gensets as compared to just selling more CPCB-IV.

Parikshit Kandpal: Was there any one-off in this quarter, I mean the gross margins despite if I may take the degrowth in the low horsepower engines, still the margins look better, I mean the benefit, I mean we have been holding on to the volumes and not much of a degrowth. So, were there any other one-offs or it's largely just as you said commodity benefits and just the pricing we have been holding on.

Ashwath Ram: No actually this is just the, sometimes you get the positive effect of all the work you have been doing for a long time. So, no one-off but yes, we are pretty happy that we are happy with good news sometimes so.

Parikshit Kandpal: And just the last question on the exports market, I mean how is your strategy on the CPCB-IV+ and I mean you have been promotions in India, with channel network. So, how has been the response, how has been the promotions and marketing being done for the CPCB-IV+ compliant in gensets export markets?

Ashwath Ram: Right, so till the last quarter, we were focused on launching the CPCB-IV products in the domestic market. So, all the fine tuning, testing, validation, approvals, branding and all of the work was 100% focused on the domestic markets. Once the launches were complete and once we got the news that in India we have decided to push out the implementation for another year, we are now focusing all our energies on trying to figure out how to sell the same products into other markets. So, first markets were these products can be used well are in the European Union. And so now efforts are on to take the product and get the required approvals in the EU, get them customized for those markets and those applications.

And there is a global plan which has been put in place, stage by stage on how the product will be transitioned first to EU and then to markets in Americas where the voltages as well as the frequencies at which those gensets operate are completely different. And so we are going to have to do some modifications on the product to be able to meet those specifications.

We expect to get all of this engineering work done in the next couple of quarters. And so to answer your question, work is going on and we are pretty focused on trying to push these products on a global scale, because we feel these are world-class products and we have a very good price positioning to be successful globally.

Moderator: Thank you. The next question is from the line of Ankur from HDFC Life. Please go ahead.

Ankur: Just touching back on the domestic powergen segment, so if you could just highlight again how is the inventory in the channel with your GOEMs especially post this pre-buy and now of course we see some normalization in Q2. So, do we and correct me if I am wrong, but do we expect Q3, Q4 to be more normalized quarter now that most of this pre-buy and the normalization being over? So, what kind of growth do you think for the full year is possible?

Ashwath Ram: So, we think inventories are pretty much back to the normal inventory levels the channel had before the pre-buy. And which is why we think that Q3 and Q4 will be from a demand perspective what I consider regular quarters which means we continue to attempt to deliver the domestic markets at 2x of the GDP in terms of growth. So, that's where we think we will be able to get to by the end of this year.

Ankur: And on a related note, you were talking of some supply chain or potential supply chain issues because we are making both the II and IV engines, so is that largely sorted?

Ashwath Ram: Some parts of it has sorted, but some parts of supply chain are not fully sorted because we take couple of years to put the incremental capacity in place. And we are already making all the investments for that. We started making investments nearly two years ago. But it takes time for setting up some of these large engine capacities. And so we are meeting demand but we are not able to have excess supply available to meet unconstrained demands. So, it is still constrained demand. So, we expect by, I would think by the early part, middle of next year to be in much better position as far as supply is concerned.

The other part of supply, the global electronic supply chain is still in crisis. So, despite this being a reason I have been stating for almost three years now. It is still in allocation. So, we are not getting 100% of all the electronics that we need to meet all the demand in the market. So, it's still, we are keeping strategic inventory, we are doing all the necessary things, we are negotiating, we are setting up more suppliers, we are doing all the things. But if there is spike in demand in certain other markets around the world sometime, we are not getting all the parts that we need. So, it is still constrained. So, it's not yet a situation where I can say that every piece of demand will be met, it's still wait and watch on some notes.

Ankur: And how is the export piece while it's obviously grown QoQ, we are still seeing a slight decline on a YoY, but surprisingly the HHP growing and the LHP declining so if you could just help us and I understand Q3 typically is the weakest quarter as we head into the calendar end. But how do you see the export piece kind of playing out next couple of quarter, will '23 end be the bottom and maybe start seeing better numbers going into '24? How should we look at it?

Ashwath Ram: So, this quarter HHP was robust, because we were still fixing and delivering on backlogs. And we are seeing pretty much all markets around the world start to slow down a bit. There are some pockets in Africa which continue to do okay, there are some pockets in Latin America which are okay, but when you look at the overall trend whether it be Europe, whether it be China, whether it be big chunks of the Middle East, we are starting to see demand drop pretty significantly. We are trying to counter that by trying to launch more products and do those kinds of thing. But when cyclically some of these markets go down, they go down. And we have been able to hold out for this quarter, but from the way I see the order board show up, I think it will continue to weaken for the next quarter and maybe start to pick up in the fourth quarter.

Ankur: And just the last one is on the Defense side. And there was some news flow about Cummins being selected to supply the engines for the light tank project, the Project Zorawar. So, if you could just help us, what is the kind of supply we are going to do here, is it from Cummins India the listed entity, timelines for delivery etc.?

Ashwath Ram: Yes, so these are long gestation projects. And here on this project that you are mentioning, our partner is Larsen & Toubro. We similarly work with many of the OEMs in India to supply them engine products. And this order has been won after many years of work. And it's right now in trial stage etc., and as the draw outs come from the customers, they will be supplied. This product is made in North America and some value-add is done in India and then supplied to this customer. It's a very specific and special purpose designed defense product. So, it's not a mainstream product which has just been adapted, it's a very special product just designed for defense which has been used by Cummins in markets in North America and other place.

Just to provide clarity, that is just for this order. There are many other defense projects which we are working on which have all localized products as well. I was referring to the very specific order that you mentioned earlier.

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

Jonas Bhutta: Two questions, firstly given that it's been more than a quarter now that we are selling both CPCB-IV and CPCB-II engines. What are the sort of early indications that we are seeing in terms of the absorbable price increase, because I remember that you told us prior to the launch anywhere close to 20% upwards would be the pricing impact. But in reality, what is that on the ground in terms of the price rise that we have been able to pass through without impacting demand?

Ashwath Ram: What the price indications that we have given those are exact price indications that we have launched the product within the market. And this is the first quarter where we have started to see demand. And in the areas where the demand is the highest, which is the NCR region and in the big cities, we have not seen that as impacting demand as a matter of fact we are getting greater demand despite the pricing because the product is that much better. So, we don't see once the overall transition happens by middle of next year that this incremental price is something the market will struggle with. This kind of transition has happened in multiple markets around the world and in multiple products where there is psychological resistance to start off with, but when it is the same for every manufacturer and the industry has changed, then everyone just aligns to that and moves ahead. And Company has also been looking at alternate means to be able to work with banks and other financing agencies to help people finance these products etc. so the net impact on individuals is not as significant as one might think.

Jonas Bhutta: So, in a full year so say starting June 24, if volumes remain as is where is in terms of the demand, is next year potentially then our powergen sales by the virtue of just the sales mix should be up at least 15% odd, just because that's going to be the pricing impact. Is that a fair assessment?

Ashwath Ram: It's a fair assessment, but that doesn't really hold true for all products. There are some products where the, just because of volume and change in platforms, there is a higher content of import and even this prices go up, but margins don't necessarily go up in the same proportions. As a portfolio we will continue to do better than what we have done. But that does not mean that these translates into like today we are making 20%, next year we will make 40%, not the math doesn't work out that way. You continue to keep those, and our ambition is to continue to grow our overall margins by 100 basis points year-on-year.

Jonas Bhutta: So, which was what my follow up question was, so since now we have an indication of the pricing being absorbed also could you help us understand the gross margin differential between the CPCB-II and CPCB-IV+ now given that the supply chains are in a way stabilized. So, where are we settling now and then what is --?

Ashwath Ram: It's very difficult to give you this at this stage because first of all we are just coming out of a quarter where utilization is incredibly low. We are burning off inventory from an older cycle. We have just started to ramp up a new cycle so it's very difficult to give you an answer to say what a stable situation will look like. All I can tell you is that, once we reach a steady state and the percentage of CPCB-IV becomes greater than that of CPCB-II, margins will maintain this positive trendline of improvement.

Jonas Bhutta: My second question was on the VRS scheme that we have launched. If you can walk us through the rationale, because if the going is so good and capacities are coming up, what is triggering the VRS?

Ashwath Ram: Sure, first of all you have to keep looking at people cost in India, people cost in India is rising at the rate of roughly anywhere between 10% to 15% on a year-on-year basis. And so it's almost keeping pace to the rate at which growth in sales is happening. And we continue to look at opportunities to improve cost efficiency whether it would be material cost efficiency or people cost efficiency. Also given the softening demand and uncertain economic outlook in some of the global markets, we need all of our employees to help reduce cost, lower inventory and just manage our efficiency as we continue to meet our goals for profitability and cash flow.

So, this is an ongoing exercise of cost management, of pruning, of cutting, of trying to get more and more efficient as we move along. This is not something which is new that the Company has done, there is lot of focus on cost management throughout the year and over the last couple of years. But we continue to face growing cost. So, we are just looking at ways to keep managing that and getting more efficient.

Jonas Bhutta: And my last question if I can just squeeze in, so the export sales and your commentary suggests that developed market seem to be softening in terms of demand. Could you please remind us in the first half or in FY'23 developed markets accounted for what percent of exports? And again is it fair to say that these are markets where our margins are relatively better than that in emerging market, because there we have in emerging markets we run our own distribution channel, while in the developed markets largely to the parent entities. If you can give us that, that will be helpful and that's my final question, thank you.

Ashwath Ram: Actually it's pretty complicated because it depends on what products and there is a whole bunch of mix, but all I can tell you is that the developed markets of Europe and North America has dropped like over 50% so as compared to Asia Pacific, Middle East, Latin America which are dropping more like 5% to 10%. So, the proportionate drop is significant in the developed markets. But it's difficult to say how that impacts margin, because the products and the mixes are completely different for each of those, and they keep changing.

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

Renu Baid: My first question is coming back on the exports side while you did mention of glaring decline in U.S. and EU. Is part of the decline also attributable to significant inventory destocking with these markets are witnessing after the pandemic now, given average inventory in these markets of various products had shot up very sharply and customers are pruning inventories to keep the cash profits better. So, if you can throw some more color on this?

Ashwath Ram: Certainly, that is a fact, as a matter of fact when Cummins Incorporated announced their results, they did mention that significant amount of inventory corrections has happened and will continue to happen. So, that is a factor in it, a big factor and especially for the next quarter it will be a big factor because as companies come to the year end, they try to optimize inventory as much as possible. But that doesn't take away from the fact that because of all these Middle East crisis, oil prices going up, Ukraine-Russia still not getting resolved, the entire China market still recovering slowly. There is slower demand from all, pretty much all over the world. So, that has also got a part to play, we continue to push aggressively to try to compensate for the loss in demand from the overall market by attempting to gain share etc. but the reality is that there is softness is base demand itself.

Renu Baid: And when we talk about attempts to gain share in presence in export portfolio, typically these would be for which type of applications, which type of gensets that we are talking about?

Ashwath Ram: So, these are what we earlier have said that we had done our Fit for Market 1.0, Fit for Market 2.0, now we are in the process of launching Fit for Market 3.0. And what we are trying to do is to try to develop products which are very suitable for specific regions. Earlier we used to have one product which was the same product for Europe, for Africa, for Middle East, for America everywhere the product was the same. Then this Fit for Market 2.0 we did some percentage of delineations of product based on the geographic location. Now Fit for Market 3.0 does that even more and it also tries to take some of the products developed for CPCB-IV+ and applicate them into other markets. So, the combination of all of these efforts more local understanding and then developing products to meet those markets is what we are working on to improve market share even in a declining market --

Renu Baid: Secondly on the margins while you did highlight that 2Q was the perfect quarter in terms of mix and various other elements. As we move in the second half of the year commodities remain benign and volume growth coming back on the domestic powergen business. Can we assume a) gross margins to sustain that 32%, 33% levels? And from a longer-term perspective you tend to highlight that the Company would target 35% kind of gross margin from a longer-term perspective. So, how should we read into the margin trends expected for second half of the year and from a medium-term perspective, how long it maybe for us to reach 35% kind of gross margins?

Ashwath Ram: You are referring to material margin at 35% -- gross margins are lot lower but material margin like I said it's a perfect storm of everything going well. We expect certain parts of it to act negatively compared to 35% which is almost like an all-time best kind of number. And we expect with the mix changing in subsequent quarters with larger low horsepower being sold more of the data center PDI markets being served etc. that at least a couple of percentage points will drop from the material margin with that. But our endeavor is to not give up the all the gains and somewhere grow between 32% to 34% is the number we are continuously striving to hit and when it goes below that, it makes us grumpy, when it goes above that we are slightly pleased. But 32% to 34% is the range we are trying to as our sweet spot of where we would like to remain consistently.

Renu Baid: And lastly any updates that you would like to share in terms of new product introductions or launches across different applications of the industry business?

Ashwath Ram: Quite a few, they just keep happening. I think the gentlemen earlier spoke about some of the Defense launches. We have finished introducing all the powergens, domestic market we have introduced REPD kits, we are selling more products into the rail market. We have also launched some special propulsion engines into the Marine market. We have launched some new gensets also into the Marine market. In the Mining market we are trying to win some orders for QSK23 based engines into that market. What else have we launched?

Renu Baid: Anything on the Vande Bharat and Electric Locos and the trains that we are looking at --?

Ashwath Ram: Those are in final phase of approval, so those are what we call Hotel Load Converters. And those are in final stages of approval. So, we haven't yet finished that work, that is all incremental. So, that is tight testing right now. So, once those get approved we will be talking about different types of numbers as compared to what you are seeing now. We have also been able to launch some of our L Series engines for the Defense market with customers like Bharat Forge. So, yes lots of things being launched in parallel. So, that's going to be an ongoing effort and every quarter we will attempt to launch more products.

Renu Baid: And lastly any updates that you can share on the likely CAPEX for Fiscal '24 and for '25 for Cummins India?

Ashwath Ram: It's pretty much in line as what we have indicated. No special CAPEX other than for launching products, for upgrades to products etc. So, it's likely to be in line with what we were doing this year, maybe 5% to 10% more, because sustenance increases as asset base increases.

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

Bhavin Vithlani: So, Ashwath, question is when we actually anecdotally see the construction equipment market, we see a significant increase in market share for the Chinese players. And we have a large market share in the construction equipment segments. So, if you could just give us an outlook on how are we seeing this market? Are we also able to maintain our share with supplies with these Chinese equipment suppliers?

Ashwath Ram: Certainly, the Chinese are very strong not only in India but around the world. And Cummins having the presence in pretty much all markets around the world also has relationships in terms of supplier, customer with many of these companies. And so when they bring their product to India and then they have to beat local value-add and content requirements, they certainly approach us and they look at us as prime partners to supply them the powertrain. And we are working with pretty much all of those OEMs. But we also continue to work with our traditional OEMs from America, from Japan, from Europe to supply them product. This is a sweet spot for Cummins around the world and we intend to continue to improve our position in this space.

Bhavin Vithlani: And on the competitive landscape in this segment because Weichai has also set shop here and similarly on the powergen side if you could just talk about the competitive landscape, because certain other capital goods companies have been complaining about sudden surge in the Chinese imports and which is hurting them.

Ashwath Ram: Certainly, they are, those companies are pretty aggressive and they are state-run companies and they are able to deploy scale like we cannot. So, certainly we are under competitive threat. And certainly we do pitch to the government in cases where we find unfair prices or dumping of goods at unreasonable prices. We do write to the respective government agencies to set, we are happy to compete on a fair basis, but when pricing is unfair, it becomes a challenge and customers are not so discerning in the end markets, for them price is everything. So, yes, we do lose some kinds of orders, but when it is compared spec to spec on product technology etc., we have an advantage. When it compares, we also have a huge amount of localization so we are able to stand toe to toe and fight with them even on prices. But when it is unfair pricing in certain cases we have seen that, then it becomes the challenge. But it's not a significant challenge as of today. But it can be in the future.

Bhavin Vithlani: On the exports, so historically we had a larger share in the African and some of the developing markets. If you could just help us of the geographical share and the ongoing currency volatility, in some part of Middle East and Eastern Europe, how is it impacting our outlook there?

Ashwath Ram: So, Asia Pac, I can give you the breakup of how the Rs. 507 crores our exports was region wise. So, Asia Pac was Rs. 122 crores, Latin America was Rs. 137 crores, Middle East was Rs. 111 crores, Europe was Rs. 64 crores, Africa was Rs. 63 crores and the U.S. was Rs. 8 crores. So, we have seen the biggest drop as I mentioned (50+%) kind of drops in Europe and North America whereas we have seen smaller drops in Asia and Middle East as of now. But we expect that to worsen in the next quarter.

Moderator: Thank you. The next question is from the line of Amit Mahawar from UBS. Please go ahead.

Amit Mahawar: My first question is so in H1 we have done around 30 billion of domestic sales of around 19%, how much out of that is CPCB-IV revenues, I am sure if I missed that. And is that broadly 100% market share in H1 for you at this stage?

Ashwath Ram: In H1 I would say, CPCB sales are less than 20% of our powergen sales.

Amit Mahawar: And in your assessment so maybe today we are the only supplier of the new node, within the permissible range. Do you think maybe six months to 12 months is the time where we will have competition joining in terms of entering the market or it will take much more longer, I appreciate we can't take names, but qualitatively you can help us understand.

Ashwath Ram: I think all competition have announced that they have product ready, because the launch was supposed to happen in July. So, they may not have been 100% ready, but I think everyone has announced that they have some products ready. So, it's absolutely going to be the scenario that when launch is 100% that everyone will be ready, but it also means that we have had one year to further fine-tune these products and make them even better and even more efficient. So, this is an ongoing cycle and we play this competition throughout the world and which is why Cummins continues to invest very heavily in product technology so that we can remain ahead of competition.

Amit Mahawar: So, then my second question is on FY'25 on a normalized basis what would be the volume growth for the industry for the powergen?

Ashwath Ram: We think that the powergen market at least for the next few years will grow at a CAGR of at least 7% to 8% in the domestic market. And it has been our stated ambition that Cummins India Limited grows at, at least 2x of the GDP. So, we expect for the next year the GDP to grow at, at least 6.5% so which means you got the automatic answer that we will aim to grow at, at least 13% to meet our own internal aspirations.

Moderator: Thank you. The next question is from the line of Rahul Gajare from Haitong Securities. Please go ahead.

Rahul Gajare: I wanted to continue from an earlier participant's question where you talked about ultimately moving towards sustainable material margin of about 34% to 35% over a period of 18 to 20 months. I think you talked about this almost a year back. Now today you are talking about material margin moving or remaining between 32% to 34%, so is this clamp down on your earlier thought process of the Company being able to move towards 34%, 35% margin?

Ashwath Ram: No I think it's not clamp down, I guess what I meant to say is we have already achieved 35%, but that is because we had all good variables work in our favor, that's not going to be the case in every quarter. So, what we are attempting to do is if you look at the previous year's material margins, they were closer to 30.8%. So, from that framework to move the entire average up by 5% could be a multiyear journey. But the 32% to 34% range that I indicated, it seems that it can be sustainable at least for the next couple of years as we build up the next series of cost structure and material structure, products etc. which then eventually get us to that 35% kind of level.

It would make us extremely happy to be able to get there and I am just stating that there are, it's easy to put out a number, it's quite complicated to work systematically to be able to get there. So, the bridge between 30% to 35% indicates that we need to sustain 32% to 34% at least for a period of time before we can build on it and then get to 35% on a consistent basis. So, that's where we think we are going.

Rahul Gajare: My second question is we do understand from our channel check that the inquiry level have seen material rise in the recent months, but I think your commentary seems to be or it appears to be guarded in terms of domestic growth of mid-teens, especially when Q3, Q4 are normally stronger for the Company. Can you talk about this?

Ashwath Ram: Certainly, a little bit of the domestic growth, we do think it will be in the mid-teens because if the market itself grows at 7% to 8%, we are growing even faster than the market. So, we do think that that itself takes a lot of work. Also, there is a whole bunch of, as I said inventories is burning out, but it doesn't burn out evenly across all the nodes, so there are certain nodes where there is slightly higher inventory, there are certain nodes where there is lower inventory. So, when we try to create a portfolio of all of this, it then causes us to think that there will be a little bit of muted growth as compared to what the real demand in the market is.

Rahul Gajare: My final question is, I mean you did talk about various industries, but can you talk about what is the situation as far as demand from data centers is concerned?

Ashwath Ram: Very strong.

Rahul Gajare: Can you quantify that demand please?

Ashwath Ram: So, year-on-year the data center business, our whole business is growing at 12% to 13%. Data center business is growing at a CAGR of 25% plus.

Moderator: Thank you. The next question is from the line of Puneet Gulati from HSBC. Please go ahead.

Puneet Gulati: In the beginning you also gave a guidance of double digits revenue growth. Is it possible to break it up between domestic and exports? And also, how much of this growth would you attribute to volume versus pricing?

Ashwath Ram: It's difficult for us to give you that exact breakup on where we think growth will come from at this stage. But our ambition has been that irrespective of which markets go up or down as a Company we demonstrate that double digit plus growth. So, that has been our endeavor at least for the last few years and so far we have been successful at that.

Puneet Gulati: Specifically for FY'24 when you guided, possible to break between volume and pricing?

Ashwath Ram: It's always a combination, so it's very difficult to give you an exact answer on that. Certainly, volume as I mentioned earlier, the powergen and some of these markets grow at 7% to 8% so you have to do the math. So, if the market grows at 7% to 8%, we get some market share and then the rest is all pricing.

Puneet Gulati: Secondly if you can give more colors around what's driving the distribution part of the business so strongly for you, if you can highlight --?

Ashwath Ram: So, we have believed that historically we have underserved our own entitlement of the distribution business. But we certainly saw strong demand come in from past, quite robust commitment from customers in terms of service contracts especially from Rail and from big customers in Mining etc. And even our rebuild business saw a very good demand pickup. So, the nature of the business for us has changed quite significantly. And we expect to see this kind of trend continue.

Puneet Gulati: And is there room for further gain in market share in the distribution business or have you achieved the optimal level yet?

Ashwath Ram: No the answer is yes, there is always room for improvement, doing better and if the overall Company has to grow at towards the GDP every business needs to continue to grow at disproportionate level to the market.

Puneet Gulati: And lastly on the exports, there was a divergent trajectory for LHP and HHP, if you can guide to what drove the difference and --?

Ashwath Ram: So, it's very clear that HHP has always been in a backlog situation. So, when you are in a backlog situation even if the inventory corrections happen and demand starts reducing, you are first fulfilling whatever was already in the pipeline. So, the drop is not significant in HHP till the previous quarter. Whereas low horsepower, there has never been any supply constraint in those markets. So, as the demand corrects, you will see a direct correlation of that cut. So, that's why LHP and HHP are a little bit divergent.

And also a big chunk of HHP goes directly into product, into some of our internal applications so that demand remains little more steady than the end user market segments which react more rapidly. So, when it goes up, it goes up faster. When it goes down also it goes down fast and this is a typical trend you see different in LHP versus HHP.

Puneet Gulati: And -- similar trend that has prevailed in LHP segment as right you alluded to a 60% decline in the domestic market. So, is that similar in the sense?

Ashwath Ram: That is correct.

Moderator: Thank you. The next question is from the line of Koundinya Nimmagadda from Jefferies. Please go ahead.

Koundinya Nimmagadda: Most of my questions have been answered, but just one question on the CPCB-IV engines. When you try to deal, interact with your channel what is the kind of feedback that you are getting with respect to competition, I mean with respect to the pricing, the price point at which they are launching their products. And do you see any -- sense to what downtrading in the industry, can you provide some color on that please?

Ashwath Ram: Not seeing a downtrend in the industry, so start with that first. The product is very well received in the market. Channel is quite excited about the product as a matter of fact, channel is pushing us to give them even more products, in some nodes we are lagging in terms of supply because we didn't think the demand would be pulled through as fast as we would have liked.

As far as pricing is concerned, the pricing is being absorbed, we are not seeing any resistance to the pricing from the market at this stage. And as far as competition is concerned, competition has also announced to product and announced sales of product. And we don't have enough data as of now to be able to say how well they are doing, but I can tell you about us, we are doing well with the product.

Moderator: Thank you. The next question is from the line of Amit Anwani from Prabhudas Lilladher; which will be the last question for today. Please go ahead.

Amit Anwani: My question is with respect to there was some development on the hydrogen-based ICE engine and couple of months back I think Cummins in JV with Tata announced some new factories set up --. And also on the electrolyzers there have been talk of Cummins Inc. looking for India market. So, just wanted to understand on all these new product initiatives including battery-based powertrains and SOFCs and hydrogen-based ICE engine, how the Indian entity will be in shape to gain business in coming years?

Ashwath Ram: So, let me first talk about hydrogen internal combustion engines. So, hydrogen internal combustion engines are where we take and create a new engine which can burn grey hydrogen as well as green hydrogen. And for those kinds of models to be successful you need scale and so the first application that has been successful anywhere around the world are being in the automotive space. And so the joint venture with Tata, Tata Cummins joint venture is getting into that space and they are going to create hydrogen internal combustion engines and then they are going to use it in automotive kind of applications, the target that's going to be setup in the State of Jharkhand and they are going to start supplying into those markets.

From a listed entity perspective, the listed entity will have access to those technologies which are produced in scales. And we will be able to applicate them into multiple of our applications including construction, including power generation etc. and as the market develops, we will use those products and applicate them into those market will give our access to all of that technology.

As far as batteries etc. is concerned, the listed entities working on tendering for bids etc. and there are batteries which are being developed with a partner like Tata, but that is for mobility. The mobility battery applications don't really work very well for the industrial scale grid kind of storage. And there the listed entity is working and trying to find some partners from where we can get some of that technology and then deploy it into the field. So, that is still an exploratory stage, we are filling out some tenders, we are working on that.

On the other parts of applications of hydrogen including in the Rail, Marine and other applications, Cummins India continues to bid out tenders for that and that technology will be made available for deployment into those applications.

As far as electrolyzers and the production of hydrogen is concerned, Cummins have formed a new division called Accelera and that division is looking at the best entry into the India market strategy on how, what is the best way, who are the best partners to be able to produce hydrogen with, because these are incredibly high CAPEX kind of equipment which also has very long gestation period for recovery as the market matures. So, that strategy has not been finalized, it is still being worked out and as we make progress certainly, we will keep everyone posted.

Amit Anwani: My next question on the data centers, you did highlight that in a very strong growth of I think 25% upward. I wanted to understand how was the absolute contribution, a percentage contribution for H1 within powergen from data centers. And seeing the trend in data centers that there still will be much higher traction in data centers in coming quarters -- are we seeing much higher growth than this or the similar trend will continue?

Ashwath Ram: I can't give the exact contribution of data centers into our revenue, but I can certainly tell you that it is one of our Top 10 market segments. The second thing I can tell you is that this trend for data center is likely to continue at least for the next three to four years.

Moderator: Thank you. Ladies and gentlemen, that was the end of our question-and-answer session. I would now like to hand the conference over to Mr. Ashwath Ram for his closing comments. Over to you, Mr. Ram.

Ashwath Ram: Thank you everyone for your active participation and engagement today. You always ask the most interesting and tough questions. Cummins India believe that the domestic market will continue to have strong growth, while export markets are experiencing a bit of softening of demand in the near term. Geopolitical events, continued conflict between a few countries and their impact continues to present some uncertainty for global trade, therefore we remain cautiously optimistic about the short-term, but from the medium and long-term we are absolutely bullish and optimistic.

I would like to assure you that the Company continues to leverage its strong balance sheet, world class infrastructure, on the ground manufacturing, engineering and best-in-class talent and team. We are confident of sustaining our growth trajectory.

Before I close out, I want to wish you, your family a very Happy Prosperous and Safe Diwali. And on this happy note, I close this call. Thank you.

Moderator: Thank you very much sir. Ladies and gentlemen 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 and you may now disconnect your lines. Thank you.