Ref: STEX/SECT/2024

February 12, 2024

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 February 08, 2024.

Dear Sir/ Madam,

With reference to our stock exchange intimation dated January 25, 2024, 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 February 08, 2024. The said transcript will also be hosted on the Company's website.

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: 2024.02.12 10:53:38 +05'30'

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

Encl.: As above.

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“Cummins India Limited

Q3 FY'23-'24 Earnings Conference Call”

February 08, 2024

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

Moderator: Ladies and gentlemen, good morning, and welcome to Cummins India Limited Q3 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 star then zero on your touchtone phone. Please note that this conference is being recorded.

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

Ashwath Ram: Good morning, ladies and gentlemen. Welcome to the Cummins India Limited Q3 FY '24 Earnings Conference Call. My name is Ashwath Ram and I'm the Managing Director of Cummins India Limited. Joining me on the call today is Ajay Patil, Chief Financial Officer of Cummins India Limited. Thank you for joining us on this call today.

We are happy to announce that Cummins India Limited recorded the highest quarterly revenue and profits during the quarter ended December 31, 2023. This was aided by strong domestic demand across various market segments.

Now I would like to share the financial results of Q3 FY '24 with all of you. For the quarter ended December 31, 2023, with respect to the same quarter last year, our sales at INR2,502 crores are higher by 17% compared to INR2,144 crores recorded in the same quarter last year. Domestic sales at INR2,177 crores are higher by 36%. Exports at INR325 crores are lower by 40%. Profit before tax at INR602 crores is higher by 26% compared to the same quarter last year.

Thank you again. Sorry for the interruption. I will repeat what I was saying. For the quarter ended December 31, 2023, with respect to the last quarter, our sales at INR2,502 crores are higher by 34% compared to INR1,871 crores recorded in the last quarter. Domestic sales -- INR2,177 crores, are higher by 60%. Exports at INR325 crores are lower by 36%

Profit before tax at INR602 crores is higher by 41% compared to the previous quarter. Segment-wise breakup for the quarter ended December 31, 2023. The sales breakup segment-wise is as follows: Domestic sales, power generation domestic sales were INR1,073 crores, 51% higher compared to last year and 121% higher compared to last quarter.

Distribution business sales were INR662 crores, 26% higher compared to last year and 21% higher compared to last quarter. Industrial domestic business sales were INR212 crores, 20% higher compared to last year and 37% higher compared to the last quarter. Exports, high horsepower exports were INR138 crores...

Hi again. Sorry for this inconvenience. I don't know. Some technical glitches, I suppose. And I will restate some of these numbers.

Export, high horsepower exports were INR138 crores, 38% lower compared to last year and 48% lower compared to last quarter. Low horsepower exports were INR147 crores, 44% lower compared to last year and 30% lower compared to last quarter.

As far as Cummins India financial guidance is concerned, regarding the sales outlook for the full year 2022 -- 2023-'24, we continue to expect double-digit growth over the fiscal year 2022-'23.

I now open the session for questions. Thank you.

Moderator: Thank you very much sir. 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 is with respect to the PowerGen business. If you can tell me, both from a quarterly and for 9 months the volume growth that we have seen in the PowerGen business. The ratio of mix of CPCB IV based engines and CPCB II based engines? And also the broad realization gain that we would have seen on the back of price increases related to CPCB IV and general price increases?

Ashwath Ram: Yes. So I'll start off by saying -- talk about CPCB IV+. CPCB IV+, as you know, the full implementation is only going to happen by June of this year. And so we have been selling CPCB IV+ products in some limited markets, the markets where the regulation has already been implemented.

And we have so far sold a little over 3,000 gensets in those markets and they are doing very well. They are at slightly better realization than the CPCB II gensets. But it's very difficult to predict the exact difference between what will happen when full implementation happens versus when the product has at times for us to mature and bring down costs and all of those kinds of things, whereas the CPCB II product is a fully matured product. And as far as growth for the -- for Power Generation versus the previous year, we have grown the Power Generation market by 29%.

Ravi Swaminathan: That is on the revenue side, sir. Volume-wise how much it could have been?

Ashwath Ram: Volume-wise is roughly is proportional -- it's just -- it's pretty complicated to answer that question because the mix is very, very sophisticated, as far as Cummins India is concerned. But if you take out certain aspects of pricing, I would say in excess of 20% is the growth in volume.

Ravi Swaminathan: Got it. And which key sectors would have driven this 20% growth, sir, any particular...

Ashwath Ram: Yes. I would say the top 5 big sectors, which have been growing rapidly for us this year have been datacenters, commercial realty, residential realty, infrastructure and manufacturing.

Ravi Swaminathan: Understood. And exports, the sharp drop this quarter, is it likely to normalize back to, say, INR450 crores, INR500 crores levels or is there some kind of displace delay? Why exports haven't meet this quarter? Any sense on that?

Ashwath Ram: Yes. So I've been indicating for the last few quarters that exports has been softening. I believe that we may have now bottomed out. It's been weakening in multiple regions around the world. So it's pretty uniform that all our big markets around the world, whether it be in Europe, in the Middle East, in Asia Pacific, in Latin America, pretty much across the board, we have seen a softening of demand.

Also, in this quarter, typically, it's a correction quarter, so people globally try to correct inventory in this track. In some areas where there are backlogs, then people push out the -- try to push out as much material as they can. But in areas where there are no supply problems like in our products, they actually try to cut back on the inventory.

So we believe things have bottomed out. And despite all these constraints, we should start seeing -- it picked back up now. Exactly how much it will pick back up will be determined by how the global markets continue to pick up. And we have seen that China is not recovering at all.

We have seen that Europe continues to remain weak and with all these further turmoil of Red Sea crisis, etcetera, we're starting to face some more problems with supply chain, etcetera, especially past, which come from out of Europe into the country or even parts that we export from India to Europe, the lead times, etcetera, have gone up pretty significantly.

Ravi Swaminathan: Got it. And my last question is now that FY '24 is almost done, hardly we have a couple of months. So your outlook on FY '25, what kind of growth at a company level should we expect, say, broadly revenue growth, if you can?

Ashwath Ram: Yes. It's going to be same as what we have been indicating for the last couple of years. It is driven by -- our aspiration is to grow at 2x of the GDP at the minimum and to continue to improve our profit margin by at least 100 basis points.

Ravi Swaminathan: Got it, sir. Thanks a lot.

Moderator: Thank you. We'll take the next question from the line of Parikshit Kandpal from HDFC Securities. Please go ahead.

Parikshit Kandpal: Hi, Ashutosh. Congratulations on a great quarter.

Ashwath Ram: Thank you.

Parikshit Kandpal: Congratulations on a great quarter. This is the second quarter where we have almost clogged 37% gross margin. I remember your commentary last quarter you had said that demands may correct again to 32% to 34% and what we have been holding on. So just wanted to understand, first of all, was there any one-offs in the revenue this quarter?

Any large data center deliveries which could have led to economies of scale and expansion in margin? And whether these margins are not sustainable and you are building the profit margin improvement on current base now.

Ashwath Ram: Yes. So we had another quarter of the perfect trifactor, which I had spoken about even last time, which means we were able to hold on to the prices. We continue to get the benefit of commodities. We continue to be able to sustain the work on the cost reduction that we have been doing. We did get a positive impact from a big delivery to a big data center customer, which is lumpy and which happened -- which the delivery happened in the last quarter. We were expecting that delivery to be pushed out into Q1, but we were able to make the deliveries happen in the previous quarter itself.

When all the variables are positive, that's why we have been able to sustain what we did in the previous quarter. I did not think that we would -- everything would go well. Looking forward, I would say that we've already started to see some of the commodities starting to get more expensive.

So metals, such as copper and CR iron have started to get more expensive. So the positive impact we got from a weaker commodity cycle, I think we will see a little bit of a reversal on that. And then if the mix continues to be lopsided towards domestic and we don't see a strong pickup in exports, we are still likely to have the same problem.

Parikshit Kandpal: Okay. And my second -- sir, if you can quantify how much was the contribution from the data center order in this quarter?

Ashwath Ram: I can't exactly quantify. All I can tell you is, it was one of the biggest orders in the country. So you can make some of your estimates from that. I'd just like to add that data center orders are in that there are big lumpy orders, and it's going to continue. The cycle is going to continue. So this is not the first of it neither is it the last of it. We expect this segment to continue to do well for at least the next couple of years.

Parikshit Kandpal: Sir, the second question is on the -- so one of our channel partner or partners, Jackson has set up a capacity for manufacturing power engines. So is it, I think, 24 or 500 per annum. So will it anyways impact our supply chain, our sales, our distribution?

Ashwath Ram: No. I mean they are exclusive. They sell only Cummins products. So whatever capacity they set up only go to help us sell more products. So I think it's not...

Parikshit Kandpal: They said, need to buy from you and go brand and sell it to the capacity as an expansion for that.

Ashwath Ram: That's right. Their power generation business is 100% with Cummins.

Parikshit Kandpal: And just the last question around this CPCB IV plants. I mean, last quarter, the contribution was about 30% plus in the mix. So what was the contribution for the Q3 and for the 9 months, if you can help us with that?

Ashwath Ram: So you're talking about CPCB IV?

Parikshit Kandpal: Yes. CPCB IV+ contribution, you had said last quarter was about 30% -- 30% plus in Q2 FY '24. So what was the quarter -- the contribution in this quarter from CPCB IV+ and the 9 months as a whole, what was your contribution? And did you get any help from prebuying because again, now that third quarter is gone. So do you think any prebuying happening in fourth quarter or part of that has happened already in the third quarter?

Ashwath Ram: So let me first correct your statement. I did not say that CPCB IV+ contributed to 30%. CPCB IV+ was just launched in July and at the same time, the CPCB also announced that they would allow the sale of CPCB II product all the way up to June of 2024, which is why the takeoff of CPCB IV+ was very, very, very slow coming out of the launch.

Majority of our sales continue to happen in CPCB II+. We also did manage to sell roughly 3,000 gen set in the previous quarter in CPCB IV+. I would say that contributes to less than 25% of our overall sales. We think that as we get closer to June, that means probably in the April to June quarter of this year is when we will start to see CPCB II demand start to die down and a pre-buy in CPCB IV+ start to happen.

Parikshit Kandpal: Okay, sir. Thank you and wish you all the best. Thank you.

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

Renu Baid: Yeah, hi. Good morning team and congratulations for the strong performance. My first question is to look at -- I know the gross margin is a combination of various elements here. But last quarter, we were alluding that given the cost structures and the mix that we see in the market, maybe 34% to 35% range of gross margin should be sustainable as we go in the next fiscal year as well.

Do you think this should be broadly achievable and is in line with the 100 bps guidance that you're giving? On the 100 bps further increase in margins -- profit margins over fiscal '24 will be more of operating leverage driven?

Ashwath Ram: I think this is what we would love to have, but like I said, it gets increasingly difficult to do as you move forward. And certainly, as I've mentioned in my earlier conversation, we continue to have in this quarter all the variables going positive for us as far as gross margin is concerned.

We think we will start to see some of that go reverse. And we will -- but we will continue to work hard to manage our costs, improve the mix, try to get more products out with a better mix so that we maintain the margins at this level and work on improving it. So the aspiration is certainly there to continue to work to improve the margins.

The reality on the ground is that we will start to see some of these variables go negative as compared to where they are today. So I would continue to say that it is going to be our attempt to be in this range of profitability as we move forward.

Renu Baid: Got it. And on the export side, while you had given a heads up that we should be prepared for a bumpy quarter ahead, which is the way it has turned out. How do we see the demand bottoming out from some of the key regions if you can share geography-wise comment. And also how has been the development with respect to customizing some of the applications related to CPCB IV for the EU and the American markets?

Ashwath Ram: Yes. So when I look at all the markets, so if you look at -- I go in sequence of those that have been worth impacted. So Europe is down 59%, Asia Pac is down 20%, Latin America is down 20%, Middle East is down 53%, Africa is down 41%, US is down 47%, so pretty much across the board markets are down.

When we look at the forecast coming in, typically, what happens is people shut down for the Christmas quarter, they try to push out as much material as they can, and in some cases, they correct the inventory. Then they come back about -- they come back 1 to 2 weeks into the year, and then they start figuring out how to push volume and how to get the next year to be successful.

So far we have started off a little bit slow at the beginning of the year, but early indications are that the demand is not going to be below what it was in the previous quarter. So that gives us a little bit of hope that things have bottomed out and things will start looking a little bit better moving forward.

But systemically, if some of those global markets, especially the Middle East, etcetera, if some of these crises and turmoil does not go away, it's going to be difficult to just come out of this lower demand kind of scenario. But I think things have bottomed out and things will start to pick up in the future.

Renu Baid: And on some of the new launches that we were planning on the export front of the developed market.

Ashwath Ram: Yes. And that's continuing. And yes, we continue to -- every month, we will launch more products. And so a lot of discussions are going on with the global markets to try to figure out where is the biggest value add that India can do to help them grow market share to grow the business, and that work is going to continue.

And India will -- when I look at it, if you look at it on a quarterly perspective, it looks like, okay, it's going to be incremental improvement. But when I look at it from a 2-, 3-, 5-year horizon, the situation looks very positive from an India perspective.

Renu Baid: Got it. And related to this last on the export front, while you were among the early ones to highlight that as the global ICE value chain consolidate globally, India should be a key beneficiary and that should also drive exports for CIL. So have you started to see any initial signs of green shoots or enquiries from global partners for the products? Or it's still the conventional business, which you think could drive in the medium term?

Ashwath Ram: I would say from the -- in the power generation business, the short to medium term will be completely driven by internal combustion engines. And there is significant capacity underutilization in most regions around the world. So I don't see it as changing very, very dramatically.

But we are pushing pretty aggressively. We have got customers visiting us continuously, try -- we are showcasing our products. Our plants continue to be amongst the best plants in the world as far as the Cummins network is concerned. Recently one of our plants won the award as the Best Plant -- Best Manufacturing Plant in the entire Cummins network. So all of those kinds of things are being done to continue the focus on India as the best low-cost base for Cummins products globally.

Renu Baid: Got it. I will get back in the queue with a couple of more questions for the industrial segment. Thank you and best wishes to all.

Ashwath Ram: Thank you.

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

Ankur Sharma: Hi, sir. Good morning. Thanks for your time as always. First on the power gen business, if you could talk about the CPCB IV engines, has the price size been taken whatever was needed? Has it been followed by your peers? Essentially trying to understand has pricing kind of settled down? And therefore, as we move into majority of engines being CPCB IV, from, say, Q1, Q2 of next year, margins are largely intact or maybe gets better.

Ashwath Ram: I would say that we had the early lead in launching these products. But I think as of now, everybody in the market has also launched these products. It's difficult to predict whether the prices have stabilized because you're selling products from both the regime. You're selling a CPCB II product and you're selling the CPCB IV products into the same market.

And so the people buying the CPCB IV products are the people who do not do the regulation mandates that you need to buy this kind of product. So it's price inelastic as of now. But moving forward, as the entire product goes to one regime, then you will get a truer picture of what completion is able to do versus what we are able to do from a pricing perspective, and we will get a purer indication of whether margins can be held or competition is getting so intense that we have to reduce margins to hold on to or gain market share.

Ankur Sharma: Okay. So, still a complete pass-through has not happened potentially....

Ashwath Ram: It's not. And you will not get that purer picture till all the capacity is being utilized for a single product. Right now, as I said, less than 25% of our capacities are being utilized for CPCB IV products. So you don't have a real understanding of fully leveraged costs.

Ankur Sharma: Right. But given the demand is fairly strong, I guess, passing on pricing should be relatively easier, right? That's the basic assumption.

Ashwath Ram: So we have been able to hold on to all the pricing that we have passed on in the market. Competition has also passed on increases in prices. The only area where we are feeling some pressure is we have some global competitors who are bringing in products through France and other countries and are then selling those products in India. So there is some competitive pressure from those competitors because they don't have the same margin expectations that we as a company have.

Ankur Sharma: Secondly, on the industrial business, again, very strong growth what you reported this quarter, but it is a little bit of a contrast versus some of other industrial short-cycle companies, which are seeing a slowdown. So if you could just help us which sector is really driving this? Are you starting to see any slowdown there, selection or even given your current order book in this. Whatever you have in terms of inquiry order book. Your top line growth can remain not strong next few quarters?

Ashwath Ram: Yes. So all I can say is that the results look good, but we are not so happy with where we are overall in the -- what I'm trying to say here is that we are coming off a very low base. So when you come off a low base and you do well, the numbers look great, but it's not close to what our aspiration has been or where this market can be.

The segments, which have helped us positively have been construction, which has significantly underperformed the investment in infrastructure. So if you see the infrastructure investment has been going on for the last 2 or 3 years, but the construction market has significantly underperformed that. So there has been a little bit of a catch-up in this quarter.

Also the compressor market, which is a highly cyclical market with almost 40% to 50% swings up and down, we've got the positive swing on it in the previous quarter. And the rail continue to hold on. So again, coming off a much lower base than what we were used to in the past, we did better than that lower base. And the other segment, which is that of mining actually has underperformed what the potential is from an overall market perspective.

Ankur Sharma: And just lastly on distribution. Also fairly strong growth here. So anywhere the flag of -- what's really driving -- the distribution typically is more like a really steady stated, 10% kind of a growth business. So what's driving this?

Ashwath Ram: Yes. So I think I've spoken about this for the last few years. In '21, we set out with a very clear strategy that we need to grow the overall India business at 2x of the GDP. And we found out that some of these businesses, like the distribution businesses, historically had been growing at 6% to 8%, and very steadily doing that. What we found that we were underserving the market.

So there were many areas within distribution, within parts, within aftermarket, within service, where we were underserving the needs of our own customers. And as we focused on that, as we started improving our channel, improving the types of parts, improving the service offerings, we are finding that this business can also grow at that 2x on GDP and better levels.

And because we were growing at historically at a lower rate, there is a catch-up that has been happening for the last few years. And as of now, we've seen -- we are fairly confident that we can continue this growth cycle even in that business.

Ankur Sharma: Okay, got it. Great. Thanks and best of luck.

Moderator: Thank you. The next question is from the line of Amit Anwani from PL Capital. Please go ahead.

Amit Anwani: Yeah, thanks for taking my question. My question, sir, on the gross margin, you did alluded that many factors played role on a positive side. But I still want to understand despite exports contributing lower this quarter. With respect to product mix, if you want to give some sense to which segment products, which are higher margin would have contributed last quarter and this quarter? And that is where the better gross margin which is coming in.

Ashwath Ram: I think the high-horsepower sales have been better and -- so whenever high-horsepower sales are better, margin improves. So I would say that is a more broader statement as far as margins and also distribution volumes continue to remain strong and aftermarket is typically at better pricing than general product sales. So the combination of those from a mix perspective is what was most positive.

Amit Anwani: Right. On the -- as you've given a very strong commentary for the domestic market now, just wanted to understand what was the capacity utilization? Any capex you are needing? Any debottlenecking, any sense on this front?

Ashwath Ram: We continue to remain at 60% to 70% of utilization of our capacities. So no major investment is planned other than balancing capacities. There are some special capacities that we have put in so that we can do some more expose -- there is rebalancing and some critical special machines, etcetera, but nothing which will significantly take up capacity. We still feel we have plenty of headroom. I think we can double our sales and still not be at greater than 100% capacity utilization. We have that kind of inherent capacity build in.

Amit Anwani: Sir, lastly, on the Red Sea issue, which you did highlighted that there could be an impact on supply sales and deliveries. Just wanted to understand -- so obviously, the export has been slightly muted. But any near-term assessment on Red Sea issue where we can see the deliveries not meeting or any shortfall of revenue which can happen? Any color on that?

Ashwath Ram: Yes. So what has happened because of the Red Sea issue as far as we are concerned and ships are not going through the Suez Canal and they're going all the way across the Horn of Africa. So that adds anywhere from two weeks to four weeks to the lead time. So everything that had been ordered is coming late. So for some of the export orders, some of our raw materials are coming in late.

So some orders could get deferred by as much as a couple of weeks out. The same is true with our delivery. So anything that we are shipping is reaching the ports of Europe two to four weeks later. And there is an increase in logistics costs, but that's a fractional increase, that's not enough to really talk about. But more of it is supply chain getting disrupted and lead times lengthening and complexities related to that.

I think it's a shorter-term issue. Once you reassess the supply chain, you feed in the new numbers and you place more orders to balance out the longer lead times, I think things will get back into control. So I expect by the next quarter we should have this issue pretty much under control.

Amit Anwani: Sure, sir. Thanks for taking my questions. Thank you.

Moderator: Thank you. The next question is from the line of Kunal Sheth from B&K Securities. Please go ahead.

Kunal Sheth: Yeah. Hi, sir. Thank you for the opportunity. Most of my questions have been answered. Just one clarification. Sir, you did mentioned that the entire cost increase -- the price required for passing on the cost for CPCB IV has not been taken yet.

Ashwath Ram: See, what I think I'm trying to say and let me -- you can ask the question again, if I'm not clear enough, is that, right now the full advantage of a single system, which is producing one type of product is not yet. So there is some of the past of development, etcetera, the entire cost is absorbed on a much smaller volume of product. As we move forward, as the full utilization of the factories goes towards CPCB IV, the cost base theoretically should absorb the cost in a better manner. And that should, in my view, help improve the margins of CPCB IV product.

Kunal Sheth: All right, sir. Sir, essentially you were trying to get at is that you had indicated that the cost increase in CPCB IV machine is about, I think, 20%, 25% in terms of price increase. So has that kind of price increasing the 3,000 machines that you have sold, has that kind of price increase being absorbed by the market is what we're trying to understand.

Ashwath Ram: As of now, like I said, because it is focused on very select markets, that price has been -- customers are buying that product at that incremental price. But how that will be once it's sold in all markets and -- is something we have to still find out. We think the hypothesis that -- we have had cost increases, everyone also has had cost increases is the hypothesis, which we will be -- we are testing in the market. And we think that will hold true. But it's a very competitive landscape. So you've got to wait and see how the market plays out before you can make a comment like that.

Kunal Sheth: Sure, sir. Got it. Appreciate, sir. Thank you so much.

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

Rahul Gajare: Good morning, gentlemen, and thanks for the opportunity. You know, while you've given a very good commentary in terms of qualitative aspects of how demand has played out during this particular quarter. Can you please quantify the PowerGen, the breakup that you normally give in terms of high horsepower, medium and so on.

Ashwath Ram: Sure. So our high-horsepower sale was INR770 crores. Our heavy-duty sales were INR128 crores. Our mid-range sales were INR132 crores, and our low-horsepower sales were INR43 crores.

Rahul Gajare: Right. Sir, my second question is on -- we've seen employee costs has been on a rise. Now is it fair to expect similar quarterly run rate of about INR210 crores for next year also?

Ashwath Ram: Yes. So if you've studied the markets in India, the wage inflation is roughly between 10% to 12% annually. And we are seeing similar kind of wage inflation. In this financial year we've also had the impact of one additional quarter of compensation because we changed the cycle of how we compensate our employees. So we think there is -- it's slightly negatively impacted in this financial year. But we expect growth in our costs to be in the range I had indicated just based on the market tendency in India to increase wage at that level.

Rahul Gajare: Sure. Sir, my last question is on -- you've been talking about supply chain disruption, which was impacting growth. But with the kind of growth that we've seen, is it fair to say that supply chain disruption, if any, are completely behind now?

Ashwath Ram: I will never make that statement because every time I've made that statement, I have been bitten badly by something which goes wrong around the world. You can see already that Red Sea has already happened. And electronics, which we had been struggling with in the past, that problem is not fully behind us.

I would say we are -- it's 90% behind us, but 10% is still niggling worry because China demand is down significantly and so we are able to get our ask of some of these electronics. If that demand were to pick up, the global supply of these electronic components is still not up to mark. And we could still end up in some kind of supply challenges and trouble were some of those economies to pick up.

Rahul Gajare: Sure, sir. Thank you very much for your commentary and all the best.

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

Mahesh Bendre: Hi, sir. Thank you so much for opportunity. Sir, in last 9-month at the consolidated level, we have reported EBITDA margins of 18.4%. And when we talk about the next year, you indicated that you plan to grow with, I mean, double the GDP growth rate and 100 basis improvement in the margin. So 18.4% should I take a benchmark where we plan to add 100 basis point about this for next year?

Ashwath Ram: This year, we have grown better than our own plan. So it's difficult when you take that as the base, and then we need to grow another 100 basis point on that. But certainly, that is always going to be our attempt. Aspirationally, that is what we want to do. But realistically, I would say, to look at a 3-year kind of average and then use that as a base from which we will continue to aim to grow by at least 100 basis points.

Mahesh Bendre: Yeah, because, sir, last 3-year average has been -- I mean, it's around 16%. So...

Ashwath Ram: Yes. So I'm not going to answer beyond that because, you know, it's very difficult to give you an answer like that. Aspirationally, we want to keep getting better from where we are. Realistically, all the variables don't play in our favor like they have played for us this year.

Mahesh Bendre: I'm just trying to understand, you said 100 basis point margin expansion. I just wanted to know the base on which you want to build on that.

Ashwath Ram: Yeah, the base for us has been from our starting point in 2021. And so what we have said is that for the next five years, this is what is our ambition. And ambition is not equal to reality, right? So this has been our ambition, and this is what management is trying to strive to do.

Mahesh Bendre: Okay. But at least we will be able to maintain this margin, 9-month margin for next year?

Ashwath Ram: That is our attempt.

Mahesh Bendre: Okay. Sure. Thank you so much, sir.

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

Aditya Mongia: Thank you for the opportunity. I hope I'm audible to you all. First of all, congratulations on a very strong set of results. The first question that I had was more from this capacity utilization number that you are suggesting between 60% and 70%. As this mathematically tells me, there's probably a higher number of few quarters back. So have you kind of added capacity or have you kind of meaningfully debottleneck this capacity? Some more color would be useful over here.

Ashwath Ram: Yeah. So we continue to improve the efficiency of our lines. And if you look at the -- how much exports has dropped, the similar kinds of lines are used for both domestic and export products. So we have not really expanded significant capacity. But yes, certainly, we have debottleneck some of the lines to be able to produce even more than what we have produced in the past. So that's where we are. And we will continue to do that. We will continue to balance out -- balance -- put in balancing equipment to make sure that the flows are better.

Aditya Mongia: Understood. The second question that I had was more on exports. If I recall your commentary from the last quarter, you had started talking about Europe being the next kind of definition for us from the perspective of CPCB IV. Is more progress that has happened to be kind of useful to know? And also a different question on export.

We've been hearing about the capacities of U.S. plants being utilized for newer products such as, let's say, Fridley is doing the electrolyte. Does that create an opportunity for existing kind of products or new products to kind of do better in the near term beyond just the export being the driver? Thank you.

Ashwath Ram: I'll answer the second question first. Certainly, it does create options, but what happens is, especially for North America because of USMCA, some of those products are preferred to be moved into places like Mexico. But certainly, for certain types of products where we have a cost advantage even after paying USMCA duties, I think certainly, the opportunity exists for India to be able to supply more to those markets as well.

Aditya Mongia: Understood. And maybe just a last question from my side. The distribution has been fairly revealing kind of segment and I kind of recall your remarks saying that for the next five years it could be the fastest growing business segment for you. It would be useful if you can kind of bring down or break up the growth between what is happening from the perspective of, let's say, higher penetration. What you were doing on the existing products? And then secondly, on new lines of business that have started to kind of show up well.

Ashwath Ram: Yeah. So I would say -- see, all areas of distribution are doing relatively better. So part sales are doing better because penetration is better. We have introduced many, many new parts and products in two parts. So not only is our share of the older pie better, but we are changing the pie itself, making the pie bigger and targeting many more customers and many more types of products. So it's both as far as parts is concerned.

As far as other services, we are offering longer warranties, better full-service warranties, more assurances of guaranteed uptime. Customers are more sensitive now to downtime than they have ever been historically. So that presents an opportunity for companies like Cummins to be able to improve our share in that service pie as well. And we are entering into newer areas, we are supporting customers in rail, in marine, in defense, in many of those niche kind of markets. Some of that work is done through the distribution business.

The other area we are trying to grow, which is still, I would say, in infant stages is the reconditioning market. If you look at mature markets like North America, nearly 25% of the sales in the aftermarket is from reconditioned parts, whereas in India, it's much, much lower.

And so we have a good -- we have good technology in reconditioning and remanufacturing. So we are trying to grow in that space as well. So it's a combination of all of these strategies, which are yielding good results. And I continue to hold to my statement that we do think there are multiyear opportunities to keep growing this business.

Aditya Mongia: Splendid. We can see that your margin is growing better than that at a faster pace. So all the very best, sir. Those were my questions.

Moderator: Thank you, sir. The next question is from the line of Mohit Kumar from ICICI Securities Limited. Please go ahead.

Mohit Kumar: Yeah. Thanks for the opportunity, sir. First question is, does the supply to data center doesn't get impacted by CPCB IV and does the data center revenues mix our quarterly revenues lumpy?

Ashwath Ram: The answer one is CPCB IV is not applicable to those very, very large gensets. They fall under different provisions. Above 1,000 kilowatt, the regulation is not applicable for CPCB IV+. There is a different regulation called stack emissions, which are applicable for those products. So it doesn't impact it. The second part of the question -- sorry, could you repeat the second part of your question?

Mohit Kumar: Does the data center revenues, because...

Ashwath Ram: The lumpy port -- yes, because this is -- these are big installations. And so it's always going to be lumpy. So yes, and it's very difficult to predict sometimes there's -- the deliveries are sometimes pushed out a quarter. Infrastructure is not necessarily ready. So it does tend to be lumpy. Yes, the answer is yes.

Mohit Kumar: My second question is, is it fair to say that whatever we are selling in the lower category, lower KVA category, say, selling right now and for next couple of quarters, the orders were booked prior to June '23, [proportionalize] they are very significant.

Ashwath Ram: Again, could you repeat that question? I was not clear what you meant by orders being booked before June '23. I didn't understand that portion.

Mohit Kumar: Recall that CPCBIV, for the extension of CPCBIV from June '23 to June '24. And your order has to be signed before June '23, if I'm not wrong, right? So my question was does this proportion of what we're saying right now, does it have a significant contribution to your top line, especially in PowerGen? And will it continue to fit until the next couple of quarters?

Ashwath Ram: Yes. I think it will continue for the next couple of quarters. So the transition to CPCBIV products is likely to happen only in the April to June quarter on a full basis. So CPCBII is the primary contributor to our top line and bottom line as far as PowerGen is concerned.

Mohit Kumar: Understood sir. Thank you. And all the best. Thank you.

Moderator: Thank you. The next question is from the line of Laxminaranayanan from Tunga Investments. Please go ahead.

Lakshminarayanan: Thank you. Couple of questions. You talked about your mix in HHP, heavy-duty lead sales and MHP. So what's the market share you have in these segments after your estimates?

Ashwath Ram: We usually don't comment on exact market share numbers because we get the information from various sources and they are always slightly different. All I can comment is that we continue to hold market share on most areas and then we have gained a bit in some of our higher horsepower [revenue].

Lakshminarayanan: Let me put it this way. From a market potential point of view or the current market point of view, whether the market -- like if you draw a pie chart on the HHP, HP, MHP and LHP, how it will look like? So here revenue is 70%. What is the market's revenue?

Ashwath Ram: Right. So you're talking about the market size in some of those...

Lakshminarayanan: Yes.

Ashwath Ram: Again, if I tell you what my revenue and I gave you the market size, then you have the market share...

Lakshminarayanan: And directionally, I just wanted to know whether HHP is like 50% of the market or 30% of the market or 70%?

Ashwath Ram: No. As a matter of fact, some portions of low horsepower are probably the biggest market in India, and we have a lower market share there. And so the largest volume and value is in low horsepower primarily because it goes into telecom and various other small residential and many of those kinds of applications where volume is pretty significant. And so when you multiply by volume, the scale is pretty large. So I would say the biggest market in India is low horsepower, followed by high horsepower and then followed by medium horsepower.

Lakshminarayanan: Could you be at least 2x because you are next streaming the HHP.

Ashwath Ram: What I can tell you is that there is no shortage of opportunity for us to grow. So what is preventing our growth is only ourselves. So that would be my answer to you to say, is there more opportunity for this company to grow? The answer is, yes, there's plenty of opportunity.

Lakshminarayanan: Sir, second question is, in terms of data center, annually, what is the potential a data center would offer for power generation?

Ashwath Ram: We think the data center market alone is very difficult to just classify that way. But for Cummins India alone, it is greater than INR500 crores of opportunity is what I can say very, very confident?

Lakshminarayanan: Per year?

Ashwath Ram: Per year.

Lakshminarayanan: And what's your contribution from railways for us now? And how it has moved? And given that a lot of incremental capex is coming on efficient railways with the expense, [inaudible] what kind of opportunity that presents in terms of this?

Ashwath Ram: Yes. So like I've been mentioning, we have underperformed in rail, and we have sold about INR225 crores worth of product year-to-date. We think there is significant greater opportunity, and the company is trying to develop more products to get into spaces in rail where we don't exist today.

Lakshminarayanan: One last question is that if I look at globally you have a tie up with track unit in terms of Internet of Things, which actually minimize the downtime in engines, in generators on a real-time basis. Did you actually started providing solutions to your customers in terms of doing things that it in real time you can analyze the performance and then you can increase your distribution revenues from these kind of levers.

Ashwath Ram: The answer is yes. Many of the new products come built in telematics and they can be enabled if the customer chooses, we do offer back-end live monitoring. We do offer 24x7. We offer 4-hour -- and the guarantees we offer -- we offer many, many services and support options based on being able to access the live data. So the answer is, yes, that can help customers and also help Cummins grow the business.

Lakshminarayanan: Thank you so much sir…

Moderator: Thank you. The next question is from the line of Amit Mahawar from UBS. Please go ahead. Mr. Mahawar I have unmuted the line. Kindly proceed.

Amit Mahawar: Hello. Can you hear me?

Moderator: Yeah sir. Please proceed.

Amit Mahawar: Yeah, thank you. Sorry about this. So Ashwath, congratulations and great early more advantages the Cummins is enjoying. I have two specific questions. First is, is your market share on the CPCBIV+ range thus far more than 80%, 90% today? And where do you think this will settle down as the three to four large players also roll out and effectively able to sell maybe two years down the line. That's my first question.

Ashwath Ram: One it's very difficult to calculate market share when only certain places in the country are using CPCBIV+. We think they are -- we moved first. So we may have better share than what we have in the overall Power Generation business. It is our ambition to continue to improve our share across all of our market segment. So that is what we will strive for in the future as well.

But it's very difficult to predict how well competition product is also received in the market. We can talk about our products and we think they are amazing and customers have given us good feedback about those products. But it's difficult right now when very limited CPCBIV product is being sold about how well competition product will also work, which then gives us an estimate of how market shares can move in the future.

Amit Mahawar: Fair, fair. And the second question is on parent. It seems that directionally Cummins Inc. is moving the conventional stroke diesel gen set mandates to emerging markets, especially in India, which is a prime focus as we also understand from parents. In the long run, at least for the next three to five years, do you think we will still be very heavy on the diesel-based mandate from parent and CTR and other entities continue to do R&D or developmental work for the new range?

Or do you have a greater role to play in the new range even in the next three, four years? That's my second question. Thank you.

Ashwath Ram: Yes, first of all, I'd like to clarify that we consider three to five years is the short range. India is committing to become a Net Zero country by 2070. The United States and a few other countries become Net Zero by 2050. So the time frame for internal combustion to play a smaller and smaller role starts becoming greater and greater post-2035. And so -- and for India it's going to be even longer.

So we do see the role of -- I see not diminishing in the short term, which, as you classify three to five years, we actually see demand for internal combustion products actually increasing substantially in that time frame. And yes, India continues to be a prime hub to design, develop, manufacture, source many of those products both for internal use within the country and for exports.

Amit Mahawar: Very clear, Ashwath. Thank you. And can I -- am I allowed to sneak in one quick question, a single-line question?

Ashwath Ram: Sure.

Amit Mahawar: Yeah. So if you see the run rate of PowerGen, in Q3, it is materially, materially higher than the average strong grade, and generally our business has said that the operating leverage is proportionately higher. Where would you see the normalized quarterly PowerGen run rate, say, for the next five, six quarters? Yeah, that's it. Thank you.

Ashwath Ram: So it's very difficult because, like I mentioned to earlier folks that sometimes it's lumpy because we have these large data center kind of orders come in. But we are -- overall, we are guiding that we will continue to grow this business at least at 2x of the GDP. So that's going to be our attempt. So you know, one can draw some base inferences from there, but it's not an exact science of which portion of that business will be growing at what run rate.

Amit Mahawar: Sure. Thank you Ashwath and Ajay. Good luck.

Ashwath Ram: Thank you.

Moderator: Thank you. Ladies and gentlemen, we will be taking only last two questions from the participants now. The next question is from the line of Shrinidhi from HSBC Please go ahead.

Shrinidhi: Yeah. Thank you and congratulations on a great set of numbers. Sir, would it be possible to share some colour on exposure of your domestic PowerGen business by different end markets that you service?

Ashwath Ram: I think it's quite complicated to be able to do that. The domestic power market is a robust market and is pretty tightly linked to GDP and the consumption of power. So as India's GDP continues to increase, the demand for power is increasing. As telecommunications continues to strengthen, as 5G is increasing, as the usage of more data increases, the need for power generation for data centers, the need for more telecommunication hubs.

The need for more storage and infrastructure, all of that continues to increase. As we build more roads, you need power to run stone crushers and so many other applications. So it's very, very tightly linked to how the economy will continue to grow. And all I can say is if the economy continues to grow at this kind of run rate, this market will also keep pace and keep growing.

Shrinidhi: But won't you have some colour on how much you probably say, residential, real estate and factories, which looks like offer a much better tailwind in coming years than that they have been providing in the past two years?

Ashwath Ram: I think it's directly linked to GDP. If infrastructure is growing and if the economy continues to do well, people will buy more homes, and so the residential market will do better. If we continue to grow the economy and manufacturing continues to -- Make in India is more successful and more manufacturing comes to India, manufacturing will do better. It's very, very difficult to pinpoint and say exact numbers within those segments.

Some of those segments move in line with GDP, some of them move for time periods, they move disproportionately to GDP. So it's difficult to come out and give you some exact numbers. But in general, our ambition is to grow at 2x of the GDP. So that gives you a fair indication of how the overall company can grow.

Shrinidhi: Fair enough sir. And sir, would it be possible to share the industrial business breakup the way you give it every quarter?

Ashwath Ram: Sure. So the industrial business for Q3 of 2023-'24, construction of INR152 crores, rail was INR92 crores, mining was INR18 crores, compressor was INR47 crores and everything else was the remaining.

Shrinidhi: Thank you, sir. And all the very best.

Moderator: Thank you. The next question is from the line of Sriram R, an Individual Investor. Please go ahead.

Sriram R: Can you share the genset volume for three months and nine months?

Ashwath Ram: We don't share exact volumes because it is misleading. But all we can say is that the genset volumes are -- have grown in proportion to our revenue. So roughly that would be -- as compared to the previous quarter, they have grown by roughly about 20%.

Sriram R: And that would be the same for -- if it is translated into megawatt terms, still, it could be 20%?

Ashwath Ram: May not be -- it could be -- actually be more because high horsepower has grown at a, I would say, a faster rate. So that's probably megawatt may have grown even faster.

Sriram R: Okay, sir. That's helpful. Thank you so much.

Moderator: Thank you. Ladies and gentlemen, that was the last question. I now hand the conference over to Mr. Ashwath Ram, MD, Cummins India Limited for his closing comments. Over to you, Mr. Ram.

Ashwath Ram: So thank you all for your very, very active participation in the call today. I apologize for some of the technical glitches. We will make sure next time we have even better infrastructure.

Global economic conditions remain uncertain as the world markets are witnessing the impact of continued geopolitical tensions, disruption to trade routes and inflationary trends.

However, the Indian economy is holding up quite well, and we have an optimistic demand outlook, and this is expected to contribute to sales growth for the company. Though exports are expected to be impacted due to global economic uncertainties in the short to medium term, we do think they have bottomed out in the previous quarter. Because of these reasons, we remain cautiously optimistic about the short- to medium-term demand outlook.

We are confident of manoeuvring through these times due to our strong brand positioning, technology-led leadership, very healthy financial position and amazing people that work for this company. We remain committed to our purpose of powering the success of our customers and living our brand promise of innovation and dependability. Thank you all. With this, 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 disconnect your lines. Thank you.