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November 04, 2020

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, 5 th Floor, Plot No. C/1, G Block, Bandra – Kurla Complex, Bandra (East), Mumbai 400 051 NSE Symbol: CUMMINSIND
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Subject: Intimation of transcript of analyst conference call held on October 30, 2020

Dear Sir/ Madam,

With reference to our stock exchange intimation dated October 27, 2020 towards investor/ analyst/ Financial Institution conference call, we are enclosing for your records a copy of the transcript of the said conference call conducted by the Company on October 30, 2020.

We request you to please take this intimation on your record.

Thanking you,

Yours faithfully,
For Cummins India Limited

Vinaya Joshi
Company Secretary & Compliance Officer

(This letter is digitally signed)

Encl.: As above.



Cummins India Ltd.
Analyst Call for Q2 2020-21

October 30th, 2020



SPEAKERS:

Management, Cummins India Ltd.

Moderator:

Good morning, ladies and gentlemen. I'm the host for today's call. Thank you all for standing by and welcome to the Cummins India Limited Analyst Call for Quarter Two 2020-21. Today on this call, we have with us our leadership team, Mr. Ashwath Ram, Managing Director, Cummins India; Mr. Ajay Patil, Chief Finance Officer, Cummins India and Mr. Anubhav Kapoor, Legal and Secretarial Head, Cummins India. For the duration of presentation, all participants' lines will be in listen-only mode. We'll have a Q&A session post the presentation. So now without any further delay, I would like to hand over the call to Mr. Ashwath Ram. Over to you, sir and thank you.



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Ashwath Ram:

Morning everyone. First let me apologize for the slight delay. This was due to some technical reasons we had in getting the bridge up. So let's get started. So morning, ladies and gentlemen! I am Ashwath Ram. I am the Managing Director of Cummins India Limited. Hope all of you and your families are doing well and are staying safe and healthy in this. Also joining me on today's call is Ajay Patil, our CFO. Thank you for joining us on this call.

I would like to share the financial results of the quarter and half year ended September 30th, 2020 through this call. First, I'm going to share the financial results. For the quarter ended September 30th, 2020 with respect to the quarter ended September 30th, 2019, our sales at INR 1141 crores, declined by 11% compared to INR 1285 crores recorded in the same quarter last year. Domestic sales at INR 743 crores, declined by 22%. Exports at INR 398 crores, increased by 18%. Profit before tax and exceptional items at INR 189 crores is 10% lower as compared to INR 210 crores recorded in the same quarter last year. For the quarter ended September 30th, 2020 with respect to the sequential quarter, our sales stood at INR 1141 crore, increased by 136% compared to INR 484 crores recorded in the preceding quarter. Domestic sales at INR 743 crores increased by 108%. Exports at INR 398 crores, increased by 215%. Profit before tax and exceptional items at INR 189 crores, increased by 168% compared to INR 70 crores recorded in the preceding quarter. Segment wise breakup for the quarter ended September 30th, 2020.

Ashwath Ram:

Segment wise breakup for quarter ended September 30th. To give you a sense of the sales breakups segment wise in the domestic area, the industrial domestic business sales were at INR 170 crores which is a 21% drop over last year. The power generation domestic sales were INR 257 crores which is a 35% drop over last year. The distribution business was at INR 317 crores which is a 4% drop over last year. In the export area, high horsepower export sales were INR 213 crores which is a 4% increase over last year. Low horsepower export sales were INR 156 crores, is 39% increase over last year. For the six months ended September 30th, 2020 with respect to six months ended September 30th, 2019, our sales at INR 1625 crores, declined by 38% compared to INR 2601 crores reported in the same period last year. Domestic sales at 1101 crores, declined by 43%. Exports at INR 524 crores, declined by 21%. Profit before tax and exceptional items at INR 259 crores, is 36% lower as compared to INR 404 crores recorded during the same period last year. Segment wise breakup for six months ended September 30th, 2020 to give you a sense of the sales breakup segment wise. Industrial domestic business sales were at INR 250 crores which is 46% drop over last year. Power generation domestic sales were at INR 354 crores which is a 55% drop over last year. Distribution business sales were INR 500 crores which is a 26% drop over last year. High horsepower export sales were INR 270 crores which is a 29% drop over last year. Low horsepower export sales were at INR 210 crores which is a 13% drop over last year. As far as Cummins India financial guidance is concerned, the company expects gradual recovery of demand in coming months. However, there remains significant uncertainty around how COVID-19 will impact market demand as well as customer and supplier operations. Due to this uncertainty, the company is not providing a full year revenue guidance for FY20-21. With this, I would like to open the session for questions. Thank you.



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Moderator: Thank you so much sir. Participants it's time for the Q&A session. If you wish to ask any question, please press 0-1 on your dialing keypad and wait for your line to be unmuted. Alright, so the first question is coming from the Mr. Ravi Swaminathan, Spark Capital. Your line is open, sir. Mr. Ravi Swaminathan from Spark Capital. The line is open sir. You may ask your question. Alright, as there is no response from Mr. Swaminathan. Second is Sandeep Tulsian from JM Financial. Over to you, sir. Your line is open. Mr. Sandeep Tulsian, your line is open. You may ask a question.

Sandeep Tulsian: Hello.

Moderator: Yes, you are audible.

Sandeep Tulsian: Yeah. Hello, can you hear me?

Moderator: Yes, we can hear you, sir. Your line is open. You may ask your question.

Sandeep Tulsian: Okay. So, I had a couple of queries on the color on the end market segment. Firstly, wanted to understand which are the areas that are showing faster recovery in the domestic segment? If you could also share tentative mix what we have between data centers, commercial real estate, hospitality, infra for the powergen segment that would be helpful. And second question is on the exports to China. If you could give us some color on the end market segment that we cater to in China, how much goes to data centers, construction, and real estate? That would be helpful, thank you.

Ashwath Ram: Yeah, so, let me try to answer that. When you look at a very macro trend, you can see that the distribution business has recovered fastest followed by our export business and then the domestic power generation followed by some of the industrial segments. Now, as we grow within the domestic power generation business, we can say that the segments related to data centers, segments related to healthcare, pharmaceuticals, even some portions of industrial and residential and commercial realty have started to recover at a very rapid rate and the segments which are lagging quite significantly are related to again large infrastructure projects as well as hospitality I would say those are the lagging segments from a power generation perspective. Now, when you look at what do we sell to China, we sell products in all ranges, but quite a bit into the data center segments as well as into telecom infrastructure. I would say those two segments are probably where our largest concentration of exports to China lies.

Sandeep Tulsian: Sure. And sir, actually I got logged in a little late due to some issue. If you have already shared, can you please repeat the case breakup between the different segments that you give every quarter and also within that the breakup for exports and industrial that you usually share, please. Thank you.

Ashwath Ram: Sure. So, we did about INR 743 crores of domestic sales and INR 398 crores of export sales and out of that power generation was about INR 257 crores. The industrial business was INR 170 crores. Distribution business was INR 317



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crores and in the exports business high horsepower was INR 213 crores and low horsepower was INR 156 crores.

Sandeep Tulsian:

Okay. And the breakup for industrial within compressors, construction, mining, rail and other?

Ashwath Ram:

Sure. Compressor was INR 28 crores, construction was INR 45 crores, mining was INR 23 crores, rail was INR 53 crores and marine and others were about INR 20 crores.

Sandeep Tulsian:

Alright, thank you so much, sir.

Moderator:

Thank you so much. The next question is coming up from Venugopal. The line has been unmuted. Please go ahead.

Venugopal:

Hi, this is Venugopal from Bernstein. So, you know, again I think there's some problem with the line we just managed to log in 15 minutes after the call started. So pardon me if I am asking something which has been asked before. You know, firstly, on the export side I think in your press commentary you had mentioned or given some degree of caution. Maybe I was cautiously optimistic, maybe the right word, but are there any specific geographies that you actually see momentum improving and starting to receive? That's the first question.

Ashwath Ram:

Yeah, we were beginning to see some momentum built up in Asia Pacific and in Europe, as compared to some of the other markets and a little bit in Latin America. But, you know, based on the recent scenarios that you're seeing with COVID, we are a little uncertain and have to be a little cautious about what the implications of those are for the subsequent quarters, but we had started to see some amount of optimism in some of those markets.

Venugopal:

Okay, you know, on the domestic market, just wanted to check two small things here. One is, are we venturing at this juncture to give any form of growth view for the rest of the year, based on what we're seeing right now, and also, on the pricing side of things, given that the markets, you know, of Q1 was literally sharp and you started seeing demand coming back in Q2, but I'm not really sure if your end market customers are becoming a bit more price sensitive. So, this is my second question.

Ashwath Ram:

Right. So, what we are seeing is month on month, quarter on quarter we're seeing recoveries, pretty much every segment is slowly reviving. So, while we are not giving full year guidance of where we are likely to be, we remain cautiously optimistic that things are improving month on month. And that's where I would like to, you know, leave that at this time. And what was your second question sorry?

Venugopal:

On the pricing side of things, given the state of the economy.

Ashwath Ram:

Certainly, there is, you know, there is going to be -- there is pricing pressure and there is going to be pricing pressure, but it's not significant. And we are looking



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at ways to, ways to deal with that by offering, you know, better themes and better opportunities for people to purchase these through financing, etc. So, I think we are in good shape from a sensitivity to pricing at this stage at least.

Venugopal:

Okay. Now, thanks a lot.

Moderator:

Thank you so much. The next question is coming up from Nitin Arora. Line has been unmuted. Please go ahead.

Nitin Arora:

Hi, sir. Thank you so much. So, my question is more on the technology sharing part. So the electronic engines, what we are taking from the parent, how is the arrangement here? Are we going to pay them the royalty as far as the technology coming and different KVAs, you know, sourcing will start? That's how the arrangement is done? That's my first question. I'll take up after that, the second one.

Ashwath Ram:

It depends on what stage of maturity the technology is. If it is technology, which already exists in India, then there is no technology fee. But if it's brand new technology which has already been developed internationally and we are bringing it to India for the first time, then yes, there is a technology fee and there is some royalty to make up for all the expenses, the parent has already undergone to develop the technology.

Nitin Arora:

Then in that case, whatever R&D are we doing again, you know, because we talked a lot about a BS-VI technology, we talked a lot about the electronic and finally, we are looking at the parent for the technology and start paying royalty to them. So you know, just want to understand and what kind of R&D then we are involved with if you can clarify that? Then I'll take up my second question.

Ashwath Ram:

Yeah, sure. So just to explain this, the technology is pretty complicated. What you pay for is a base technology to, you know, go from one emission level to another emission level which is pretty much what you pay for, but even just having that base technology is not enough to make a product suitable for the market condition. So the usage applications are not similar, exactly similar in one market versus another. So for example, the technology in America is designed to run at 60 hertz, whereas the technology in India is designed to run at 50 hertz, whereas you're paying for a technology -- you're paying for some base technology, which takes you from one from a mechanical product to a complete electronic product, but then you have to customize and tune those applications into the local market and make it fit for this market as well as localize it and make it manufacturable locally. So all of that development is done in India, and there are many cases where the base technology itself is developed in India. In those cases, there is no technology or royalty fee which is charged by the parent.

Nitin Arora:

Thanks for clarifying that. My second question is, you know, as you said that you are seeing some signs of improvement in exports. But generally, if one has to draw a view for the next one year perspective, you know, we've been struggling around to INR 280-320 crore kind of an export number for long and you have been guiding us, you know, the way market is, the end market is weak.



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Do you think that that base demand of INR 280 or INR 320 crores still remains and it's more of a lag time which will start increasing or you think now, at least, the INR 320 number would eventually not fall and we will only grow from INR 320 or 300 crore odd numbers. So, just want to understand more from the, because these can be the order as you rightly said, would be pent up, and then can fizzle out or we should look at that no, 320-330 is a reasonable number to assume and then whenever the growth comes, we start going on that?

Ashwath Ram:

Yeah. And my answer to you is that it's so turbulent at this stage that for me to either show optimism or pessimism, I am likely to be wrong. And we have to wait and watch. But we remain cautiously optimistic that we won't see significant drops, but you never know what the impact of all of these lockdowns globally, the second wave coming and all of these things, what impact it has on overall demand is very, very difficult to predict at this time. So I still feel that another at least 6 to 12 months is going to be quite turbulent before things stabilize. And then we are able to have a very clear outlook on how the business will keep growing. When you look at it from a longer-term perspective, when you look at it from a two-year or three-year horizon, we continue to remain optimistic that we continue to grow global market share, we continue to introduce you know, leading products around the world, we have the largest network and service centers in 120 countries around the world. We have a strong brand name, and we are the leaders in technology. So we will continue to keep growing this business. So that's where I'd like to leave it at this stage.

Nitin Arora:

Thank you very much. Thanks a lot.

Moderator:

Thank you so much. The next question is coming up from Ranjeet Shivaraman [ph]. Line has been unmuted Please go ahead.

Ranjeet Shivaraman:

Yeah, hi, sir. Congrats on a good set of numbers given the challenging environment. Sir, if you can just throw some light regarding our raw material to sale, it has just improved compared to last year, but sequentially it has been come down. But is there any one-off in that or what is the trend which used to be in terms of -- was there any advantages of low commodity prices? If you can give some outlook on that?

Ashwath Ram:

Certainly we have had what we call favorable mix, which means we had the businesses where we have lower margins like low horsepower power generation or construction. We certainly had lower sales there. And so the percentage mix of exports and our higher horsepower products where we have slightly better margins. So the mix had a positive impact for us of nearly a little over 2.5%. And lot of the work we've done on cost reduction and slightly favorable commodities gave us another percentage or so. And we continue to work on pricing in different segments and we've had some pricing impact as well. So those are the kinds of factors which led to better material margin in this quarter.

Ranjeet Shivaraman:

Okay. And, sir, if you can help us with the breakup of the powergen in terms of HHP, midrange and LHP for the domestic?



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- Ashwath Ram:** Sure, so. Low horsepower was roughly INR 30 crores, mid-range was about INR 67 crores, heavy duty was around INR 55 crores and high horsepower was about INR 107 crores.
- Ranjeet Shivaraman:** Okay and, sir, just wanted to collaborate between the global call, they had mentioned that the India powergen market de-grew by 45% while in our numbers, it is a 35% de-growth. So, just wanted to understand what is the link that we are missing on that?
- Ashwath Ram:** I think they are comparing for the half -- they are comparing YTD versus last year. And if you look at the number there, that is roughly 43%. So, that's where they're getting that number from.
- Ranjeet Shivaraman:** Okay, sure.
- Ashwath Ram:** So the powergen as compared to last year actually dropped about 55% because we had about two and a half months where we produced nothing.
- Ranjeet Shivaraman:** Yeah, I will reach out to you later on because there is something -- because in the first quarter, they told 75%, and it matched with our decline. But in the second quarter, they told 45% and ours is 35%. Yeah, I'll get back to you on that later.
- Ashwath Ram:** Sure, sure.
- Moderator:** Thank you so much. The next question is coming up from a Renu Vaid. Line has been unmuted. Please go ahead.
- Renu Vaid:** Yeah. Hi. Good morning, sir. We started about 15 minutes late on the call. So kindly excuse if certain questions are repeated. My first question would be to understand a bit on the export side of the business. Given that the MEIS incentives are being withdrawn from September, and last year, we had as an almost total export incentives for Cummins India has been 3.7% of revenues, export revenues, 6% of PBT. So what is the likely impact of these incentives on our margins and earnings? And what proportion of the export incentives today are driven by MEI scheme? And now in terms of accounting treatment, have we considered these incentives in our revenues for this quarter or how are you treating them? That's the first question.
- Ashwath Ram:** Yeah, so we have - we have made some - we have made a provision for this quarter of roughly about INR 13 crores and we do believe though that [indiscernible] test will be in place from January. And so we will recover some of the MEIS equivalent incentives in that quarter. And the first quarter, of course, was a weak and impacted quarter. So we didn't have many incentives there. So yes, certainly, we will be impacted. But we are already making provisions for that and we hope the new regime of [indiscernible] will start playing positivity for us starting from January,



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Renu Vaid: Right. So, sir, of the 3.7% incentives that we booked typically on export side, what percentage is driven by MEIS and do we also use duty drawback and other incentives?

Ashwath Ram: So MEIS is a pretty large percentage of that. I don't have the exact number but if you can, if you can send us an email, you'll get one of our finance folks to get back to you with the details of those numbers.

Renu Vaid: Surely. No problem, sir. Second would be on the industrial segment [indiscernible] among the other categories, rail has picked up sequentially, but compared to overall last year, that was still fairly muted and we have shared on previous occasions that rail is seeing headwinds in terms of procurement. So, from a medium term or from a 6 to 12-month perspective, what is the visibility that this business can get back to the INR 100 crores kind of run rate and in case if it is likely to remain in the current range and would it imply that the industrial segment will have close to about 10-15% growth headwinds from rail segment alone. So if you can throw some light in terms of growth outlook within the industrial segments and rail [indiscernible].

Ashwath Ram: Right, so as you know, in the in the rail side, full trains, metros, and all of those did not become operational till the month of October, which means even beyond the two and a half months where we were shut down even for subsequent months, the whole system was not running. So pretty much there was no procurement of power cars and the significant products that we sell into the rail market. So -- but you know, diesel electric, in that DTC segment, we continue to keep selling products, which is why we have some sales going. Now all of those markets are slowly beginning to ramp up and we remain, we remain confident that they will get back to the run rates they were pre-COVID but that segment has been more impacted from a timing perspective in the industrial business as compared to any of the other segments. And so certainly, it's not going to be possible to catch that back up in this financial year. But from a longer-term perspective, I think we remain optimistic that the rail business will keep growing at the aggressive rate you've seen it grow in the past few years.

Renu Vaid: Sure. So the next question relates to CPCB4 class given that the norms would require significant investments and increase in cost especially on the SCR side, can we throw some insights in terms of how the sourcing of these emission technology products in bands for EI as the listed entity, they would be done by the group entity in India? Will they be bunched up by Cummins India and then sold to the GOEMs or they will be directly supplied from CTIL to the GOEMs? So what would be the roadmap in terms of some of the supply chain sourcing arrangements for the new emissions? And how could that have a potential impact on the overall profitability and the portfolio profile of the listed company?

Ashwath Ram: That's quite an interesting question. I haven't really thought about how that works. But typically, most of the powergen products that we supply are completely integrated products. So it's most likely that they will be bundled and then sold like we do today. But it's something -- depends on the impact of



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taxation and the logistics and transfer pricing and a whole bunch of other variables. So we'll have to look into that.

Renu Vaid:

Sure. And one last question, if I may ask on the export side, obviously, this quarter had a good pent up impact as well. So within regions, can you share some insights in terms of the impact that we saw in this quarter? How important was China supplies in this quarter also for us? And overall, if you consider the first half export revenues of approximately INR 525 odd crores, can we expect in second half, given the visibility that we have today? Can second half be almost flattish, or at least 5% to 10% growth on the export business both LHP as well as the HHP part of the business?

Ashwath Ram:

We remain optimistic and don't see any reason by the second half we do worse than the first half. But typically, when we have seen the patterns, the Q3s are usually slightly weaker than Q2s other than last year where we had an exceptional record year with the highest ever revenue in Q3. But typically what happens is there is inventory correction, which happens because most global distributors and businesses have their yearend in December and they also have the Christmas and the holiday season there where people all go on vacation. So sales are slightly subdued. So we are expecting a slight amount of correction in Q3. But all of that typically gets made up in the Q4 for us. And so we expect the second half to be as good as if not better than the first half.

Moderator:

Thank you so much. The next question is coming up from Sandeep Tulsayan. Line has been unmuted. Please go ahead.

Sandeep Tulsayan:

Yeah, thanks for taking my followup. Just wanted to understand the other costs, other than the material costs which have seen a decent decline in the quarter as well as first half, first we have highlighted in detail, the cost cut stance that we have rolled out since third quarter of last year, I want to understand what should be sustainable rate once the volumes come back and the recoveries that to pre-COVID levels, how much of these [indiscernible] would get reversed because on expenses like advertising, marketing, all of those would be at a complete curb right now, and might get reinstated once you have a pickup in volumes. So want to understand broadly this 20% decline, how much of it should get reversed in other expense and on staff cost what should be the [indiscernible] run rate in terms of [indiscernible]. Thank you.

Ashwath Ram:

So as we have mentioned in earlier calls as well, we continue to focus pretty heavily on managing our variable costs and our fixed costs and some of the changes like reducing the number of professionals, all of those are positive impact which carry forward because even with volume coming back, we are going to do our work harder to try to, you know, manage with what we have and try to get more productivity out of our people. But certainly, there are certain parts of that there we have not given merit for the previous year etc; some of those kinds of costs which are, you know, are necessary to keep people motivated and are important for being the market leader and innovating and getting more productivity out of people, some of those kinds of costs are likely to come back, but we are watching those. There are continuous projects running



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to make sure that we maximize on the work we have done in the last six or eight months to cut back on costs. So yeah, it would not be a good thing to when volumes return to go back to the you know, the previous kind of cost structure, we are working on many projects to sustain some of these advantages we have gained as of now,

Sandeep Tulsian:

The [Indiscernible] year on the expenditure side, if you could elaborate, say if we will retain 60% of these benefits or some ballpark range, which expenses seem more sustainable to you.

Ashwath Ram:

I mean, like I mentioned, the headcount reduction is sustainable, because we are not -- we have a very clear direction that we are not going to be adding more people even if that volume comes back. So certainly some of those kinds of costs are going to be sustainable, some of the costs we have taken to improve the efficiency of our factories, to improve on the -- to improve on warranty, to improve on repairs and maintenance, some of those kinds of areas. Some of the changes in reduction in royalties, I think some of those kinds of improvements that we have made are sustainable.

Sandeep Tulsian:

And one point I wanted to ask on the efficient segment, we touched upon it in the previous call, that the new products that we are planning to introduce within the distribution segment, batteries, and these are new filters, etc. So [Indiscernible] product likely to get launched, do we have any time frame for that?

Ashwath Ram:

They're being launched literally on a continuous basis, so I can't tell you exactly when each of those products are being launched. But there is literally a monthly cycle where pretty much every month we are adding to the range of products and which is why you could have seen that the distribution business and the sale of parts has recovered faster than any other business and actually had it not been for a lot of supply chain challenges with lock downs in different cities in the country and even to get in some imports etc, we would have done even better than what we did in this quarter. And so at least I remain optimistic that you know all those new product introductions as well as the work being done by our people is sustainable as well as it will lead to more growth in those areas.

Sandeep Tulsian:

Thank you so much, sir.

Moderator:

Thank you so much. The next question is coming up from Priyankar Biswas. Line has been unmuted. Please go ahead.

Priyankar Biswas:

Good morning, sir. This is Priyankar from Nomura. So my question is, sir, on the global Cummins call it was highlighted that sequentially, the global employee costs would probably rise by something like 90 million USD as temporary salary cuts that were implemented due to Covid are being rolled back. So my first question here is like similarly, Cummins India would also have probably such sort of a roll back. So in that situation, sequentially at least where do we see the employee costs at? Probably a percentage increase would have.



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Ashwath Ram: Yeah. So you will see that in the -- you will see that in the next quarter. But you know, the exact impact is not yet clear, because at the same time we have also had headcount reduction and some attrition, so at this time I won't indicate an exact amount but certainly we also are likely to see a little bit of increase as we restore some of the wage cuts that we had imposed on the people during this time. And since the volumes are coming back to previous levels, it's not fair on people to have their wages cut.

Priyankar Biswas: So conversely, like what has been the extent of which cuts, let's say for an average employee during this period? I mean, this COVID period, on a ballpark.

Ashwath Ram: 10 to 20 percent. Yeah, between 10 to 20%.

Priyankar Biswas: Okay, so one more here. So the exports were quite higher in this quarter. So pardon me if that was answered earlier, because I joined the call late. So in the press release that you had provided, there is a thing like there was some pent up demand that has been mentioned. So like, can you shed some idea, like what has been probably the pent up demand that would have probably spilled over from Q1 to Q2? And similarly did we see such a thing in the domestic side as well, like something which was to happen in Q1, but due to the lock down issues it happened in Q2? So sort of a bunch up happened, so some idea on that?

Ashwath Ram: Yeah, it certainly would have happened in domestic as well, it's very difficult to -- it's very difficult to you know, calculate that to say exactly what was pent up demand and exactly what was just regular demand. I think the best way to gauge that is to look to -- is to look forward and say that is that sustaining or is the order book sustaining or are the order books dropping. And so far, the way we are looking at it, the order books are reasonably sustaining. For exports, other than adjusting for the two-three traditional drops which happened, and in the domestic markets as the segments start to recover, we are seeing that the order books are sustaining. So that's why we remain cautiously optimistic that you know, that the real demand and not just pent up demand is also coming back gradually.

Priyankar Biswas: Sir, the last question from my side. So in the global calls something was highlighted, like even there as well, I mean for the global entity, the relative amount of warranty expenses and other provisions were relatively lower, I mean compared to historic trends, and probably the same would have been seen in Cummins India as well, as we were highlighting when explaining about the cost reductions. So the global call, it was highlighted that probably some bit of the provisions, warranty provisions may come back. So can you give an idea like, of the cost reductions that had happened particularly in the other expenses, what extent would be sustainable? A broad ballpark.

Ashwath Ram: You know, it's very difficult to predict, all I can tell you is that we want to sustain as much of it as possible. Now items like warranty, is a lot of warranty reversals is also a function of usage. And sometimes as use -- if usage is very low, certainly warranty costs sometimes are lower. And based on what the usage increases, the warranty costs could go up, but it's very difficult to say how much



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of it is sustainable and how much of it isn't. The things we can very easily talk about are things like, you know, labor cost reduction that are due to headcount reduction or cost reductions in travel, or repairs and maintenance, some areas related to royalty, where you've actually done work to localize and develop product here so the royalty no longer is relevant. So -- and some of the work on actual productivity improvement or efficiency improvement in electricity usage charges or technology usage charges; I think those are the kinds of things which are very predictable and sustainable. The other thing, while it will be our endeavor to try to hold on to as much of the gains as we have made possible, it's very difficult to predict exactly how much it will come back up by as the volume increases.

Priyankar Biswas:

So essentially the reduction in royalty, then localization of production and certain efficiency capex -- certain efficiency measures that would have been taken, those are the things that could still sustain. I mean, like [Audio Overlap]

Ashwath Ram:

Absolutely, yes.

Priyankar Biswas:

Okay, thank you sir.

Moderator:

Thank you so much. The next question is coming up from Bhaven. Your line has been unmuted. Please go ahead.

Mr. Bhaven:

Thank you Ashwath. At the outset I would like to congratulate for a good performance despite a challenging environment. So for my first question is, actually there was a report from the meeting with the management from India, which is that post the new emission, that CPCB4 and all they have the requirement of lot of after treatment and all of this will be sourced from CTIL. So, when the new emission norm comes in and you transit to this, the incremental profit will be captured by CTIL and not Cummins India. So I just wanted to get your thoughts on this.

Ashwath Ram:

My thought on this is this is typically done at arm's length transfer pricing kind of basis and it will be done in a fair manner.

Mr. Bhaven:

Sure. So would Cummins India see a benefit in terms of incrementally the margins because Cummins is a technology leader and there was no other competition. You do have a --

Ashwath Ram:

Yeah, certainly. Certainly, because Cummins India will be able to buy product from a sister company at a transfer pricing, whereas market pricing will be at a different level based on what the real cost of the technology is. So certainly, the CIL will be able to have some leverage based on that. And also the other advantage is the whole -- these systems are sold typically as complete integrated packages, which is because the electronic modules control both the engine as well as the after treatment. And so, there are some significant advantages to that kind of integration in having less components as compared to other power gen equipment manufacturers who have to have a separate control module for an after treatment; they buy from a different manufacturer and a separate one for



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the engine itself. So those kinds of advantages on the -- on reducing the overall system cost as well as being able to purchase the technology at a transfer pricing kind of cost, I think will all lead to advantages to CIL.

Mr. Bhaven:

Okay. So Cummins will have an advantage over the competition in terms of the sourcing cost and that could lay the benefit in terms of either a better market share or better margins. Is that the right interpretation?

Ashwath Ram:

That is correct. And if you look at historically, Cummins has purchased many such components from its sister -- CILS purchased many components from its sister companies like turbochargers or filtration products, which follow the same kind of arm's length prices and has benefited from those relationships. So we expect the same to continue.

Mr. Bhaven:

My second question is just referring back to the fiscal year 19 annual report, wherein there was a mention that there were a couple of products introduced in CIL, QSK19, QSK15 and the under-slung engines to name a few. And in the same AGM, there was a very -- actually, it was highlighted that perhaps there could be another 10-12 products which could come in maybe in a year or two. So, and more of -- many of these would be used for the exports. So I was actually keen to understand an update on those exports of those products, which have been introduced and how are they helping in terms of incremental growth for CIL?

Ashwath Ram:

Yeah, so pretty much on a monthly basis we are introducing new products and we are filling in the gaps in the product profile, as well as trying to obsolete certain products and upgrade the products from a market perspective. I don't have a comprehensive list of since the last time what all have been introduced. But you know, again, if you reach out to us and send us an email, I'm sure we will be able to provide some kind of data on all the products that we have introduced and also how that's helping us grow the business. But yeah, we are -- we continue to invest in products, we continue to introduce new products and certainly they are helping us either from improving margins or from -- or getting market share, or improving our exports product as well. We continue to look at those markets, study those markets, try to understand what is the need of those markets and then launch products to help improve the business.

Mr. Bhaven:

Okay. The last question is, this is what you had highlighted in the presentation of the AGM. We understand short time has passed, but you did highlight looking back into longer term history showing the cycles that each of the time there is a dip and then when there is a comeback, there is a reasonable amount of growth that you would have seen from the earlier peaks. So like exports peaked at about 1600 crores. So, do you see that for over a couple of years, you would be able to actually increase the exports from the previous peak of 1600 crores? I know it's a short time but if you just park out some of these uncertainties which are there in the shorter term, do you believe that that something concrete has changed?



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Ashwath Ram: Absolutely, we believe in that and which is why if you see many of the products which are being introduced even for CPCB4 and which are being developed in India, India is the -- India is the lead market for those products for the rest of the world, which then opens up the opportunity not only to add more value and per product, but to continue to be the primary source to supply the demand of not only lagging markets which is what India has traditionally been supplying to, but also opens the door to some of the leading markets. So the combination of more value add in the product and a catch up in terms of technology with the leading markets, in my view the combination of those two things hold very strong for India to you know, to be a major supply hub for Cummins around the world.

Mr. Bhaven: Sure, thanks so much and that's it from my side.

Ashwath Ram: Thank you.

Moderator: Thank you so much. The next question is coming up from Lavina Rodrigues. Line has been unmuted. Please go ahead.

Lavina Rodrigues: Yeah, hi, sir. Congrats on the good set of numbers. So just two queries I had. One is on the pricing side; the domestic genset industry does seem to be in overcapacity which might last for some time. So do you see the pricing competition which is there? Do you see it stabilizing or bottoming sometime soon? And secondly sir your debtors, as the receivable days have gone up by more than -- have risen quite sharply. So I just wanted to understand, is this something that should ease off with time or are there some changes in terms of credit that is being offered in the industry? Thank you.

Ashwath Ram: So I'll answer the second question first. The answer is, it has already improved pretty significantly as compared to the previous quarter, as you know that in the previous quarter, pretty much for two and a half months the entire machinery of customers, including the government was at complete standstill. And so no monies were being released by many of the big players, especially the government. And if you look at this quarter, already that has dropped from -- dropped pretty significantly, almost by half. And we are pretty confident that by the end of next quarter, we should have come back to our average which we have achieved after a lot of hard work over many years. So I remain confident that receivables will be under control. So there is no change in credit quality or any such thing. It's just the cycles of release of money from the government, I think, has been has been the biggest factors in other markets. So there is money available with our customers and we are we are receiving it and it's getting better and better over time. As far as your first question of whether power gen competition will be -- pricing will be under pressure; pricing has always been under pressure, especially for us in the low horsepower market segments where you know, we don't manufacture some of the base engines globally as well. There has always been intense competition and Cummins continues to get a premium for its product as compared to other OEMs. We will continue to keep working on differentiating our product to be performing better than what our competition always has and we will continue to try to get a better pricing for our



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products and what the competition is able to but that there is continuous pressure; that situation is neither new, nor is it going to change. And the only way we see of being able to break out of that constant pressure cycle is to keep improving our products and give customers more value for what they buy from us.

Lavina Rodrigues:

Thank you.

Moderator:

Thank you so much, sir. Sir, we are already past the scheduled time. Should we go ahead?

Ashwath Ram:

I think we should we should give folks another 10 minutes because some folks got in about 10 minutes late. So I'm good to go for another 10 minutes if you want to.

Moderator:

Sure sir. The next question is coming up from Ranjit Shivaraman. Line has been unmuted. Please go ahead.

Ranjeet Shivaraman:

Hi sir, thanks for taking the question again. If you can throw some clarity on like, how we see growth traction in terms of like, we have seen a recovery of growth in the second quarter. So in the next two quarters are you seeing the same kind of trajectory and if so, because all of these segments, if you can highlight within industrial or within power gen, there you see that demand is still continuing.

Ashwath Ram:

We continue to remain positive as well as optimistic. So, we have seen demand picking up in pretty much all market segments in the domestic market. I mentioned earlier about the export markets, saying that Q3s are typically weaker in export markets as compared to Q2, but we are still not exactly clear how much the drop is there likely to be, but in domestic markets we are seeing across the board, across segments that month on month, you know, we remain cautiously optimistic over there and we are likely to see sequential recovery.

Ranjeet Shivaraman:

Okay. And regarding the CPCB, we have put out some of our engines for testing. So when you -- when do you see that -- the results of that and what kind of postponement can we expect in terms of the deadline for CPCB as per what you would want to have?

Ashwath Ram:

As of now we are expecting six months to a year of postponement, and so that does not significantly impact our development plans. We are in advanced stages of readiness as far as product development is concerned and we are continuing the development cycle as we had originally planned.

Ranjeet Shivaraman:

Okay. Okay sir, thank you. Those are the questions from my side.

Moderator:

So the next question is coming from Renu Vaid. Line has been unmuted. Please go ahead.



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Renu Vaid: Yeah. Thank you for the opportunity back, sir. The question was largely to understand on the LHP export side, we'd have seen some traction this quarter, so how is the outlook of the cup from the end markets in Africa, Latin, and do we see the LHP markets which were struggling for almost last two years, that are finally now coming back to normal? And the last question would be what would be the target as Capex for FY 21-22 for us?

Ashwath Ram: Right. So I don't have a clear – I will answer, again your second question first. I don't have a clear guidance on Capex other than to say that we have significantly cut back our Capex cycle. And you will see this year itself that we have cut back Capex significantly and as far as Cummins India Limited is concerned, the big cycles of Capex investment are -- as far as infrastructure are concerned, we are done with for quite some time, and the investments we are going to make in Capex are mainly going to be in product development and introduction of new products. And to answer your first question on low horsepower, regional, what are the themes from an export perspective, I think the biggest segment where we are seeing positive growth is in the telecom sector. And all of that is driven by the growth for or the investment being made in that sector for 5G networks, and the biggest of that investment is happening in Asia. And so we are seeing strong growth there which is likely to sustain for at least a while. Africa and the Middle East continue [Indiscernible] because of the weak oil prices and Africa because of the various other crises that the big nations like Nigeria and South Africa and all are undergoing. We are continuing to see a weakness in that whole continent and region. As far as Europe is concerned we were seeing demand start to pick up strongly. But with the second wave of COVID, we are now uncertain if, you know if we are going to see an impact in that or not; we hope we don't see an impact. But we don't know if it's -- again, if they go into a deep lockdown we could see an impact. And the same place holds true with Latin America; we were starting to see a revival but if there is a second wave coming through again, there could be some impact. So that's basically where we are. But we remain, again, cautiously optimistic that things are getting better than they used to be.

Renu Vaid: Sure. And then you mentioned a demand happening -- coming from Asia for 5G; this will be both for India and China, China especially because they might be ahead in terms of implementation of this technology.

Ashwath Ram: Yeah, other countries also like the Philippines and Malaysia and many of those countries, they seem to be moving faster with the 5g than even what India is doing.

Renu Vaid: Sure. Thanks so much sir, and all the best for the subsequent quarter. Thank you, and all the best.

Ashwath Ram: Thank you.

Moderator: Thank you so much sir. Just for the confirmation, we have already exceeded 10 minutes. Do you want to go ahead, still go ahead?

Ashwath Ram: Four more minutes please.



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Moderator: Sure sir. The next question is coming up from Ajinkya Bhat. Line has been unmuted. Please go ahead.

Ajinkya Bhat: Hi sir, this is Ajinkya from [Indiscernible]. Thanks for the opportunity. Sir, two questions. One question is, we saw in the news reports that you completed the certification of new emission norm engines for the construction equipment. And you mentioned that they can be easily upgraded to BS5 as well, if required in the future. So first question is, can you talk about its export potential? Does it improve our export potential to develop markets; whether we can gain shares within the parents sourcing locations globally? That's the first question. And secondly, on the raw material side, if we grab the India WPA index, it looks like that in the last two months in August and September, from the lows of the index of about 102-103, in August and September it has already recovered to 111 and 112. So how much of that impact do you see on raw material costs? Will it just normalize to 65% of sales as has been seen historically, or could there be a further downside as well? Those are the questions.

Ashwath Ram: Right. So certainly the introduction of the CPCB4, we are among the first to market with those products. Certainly, they will help us not only gain market share in India, but yes, it opens up the opportunity in other markets as well. What is happening though, in some of those market segments is there is concentration of manufacturing in three or four countries. And so it's not really - those products are not really produced in like dozens of countries; they're produced in India, they're produced in China, they're produced in Japan, and maybe they're produced in America. And that's it, and a little bit in Europe. And so certainly with us localizing more of that product, there are opportunities to help our parent company by setting them some products to be more competitive in some of those other markets. And yes, it does open up doors for us, but how long that -- it takes to build that confidence that these products are going to be exactly tailored and suitable for those markets is a question of us, you know, working on that. So certainly, it will help is my outlook from a longer term perspective. As far as your second question is concerned -- I'm sorry. Could you repeat the second question again?

Ajinkya Bhat: Yeah. So I was saying if I -- now from your raw material cost, it was somewhere around 59% of [Indiscernible], it has come back to 60%. Right, and the [Indiscernible] cost has risen.

Ashwath Ram: Yeah, so certainly commodities, some portion of commodities, we recover from customers. So yes, if it does go up drastically, and it goes beyond a certain threshold agreements that we have with suppliers, you know, that does impact us. And we have to watch out for that very carefully. But some of those are built in back to back with customers, some are not. And so we just have to figure out the most optimum way to deal with that and our teams are working aggressively to continue to work on a program we call accelerated cost efficiency. To keep working on overall material cost reduction; so even if one or two commodities go up, we continue to work on trying to improve the material margin. So my answer is yes, there will be an impact, but we will try to mitigate it with more cost reduction and value improvement activities.



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- Ajinkya Bhat:** So as of now, you don't think that there is any risk of RM cost shooting up beyond 65%, which has been the historical rendering. So it might normalize from 62% in Q2 to 65%. gradually over the next couple of quarters, but right now there is no risk of that overshooting.
- Ashwath Ram:** There are many variables, yeah, there are many variables including global demand, and so many other factors are there for overall material costs to go up or down. As of now, we're not seeing trends which are very, very significantly increasing all the commodities. So I still feel that we should be able to manage within the range.
- Ajinkya Bhat:** Okay. That's it from my side. Thank you so much. So thank you so much.
- Ashwath Ram:** Thank you everyone. I can take one question, and then we can wrap up.
- Moderator:** Sure sir. The next and the last question in the queue is coming up from Mr. Abhishek Puri. Line has been unmuted. Please go ahead.
- Abhishek Puri:** Thank you for the opportunity, and congrats for the results. I'm intrigued by one of your comments that you'd done some pricing changes in a few segments. Could you just elaborate on that, which are those segments?
- Ashwath Ram:** It's got to do with to the value addition that that we are doing. And so there are some segments such as data centers etc, where we are customizing products to meet the very, very specific and very stringent requirements of working 24 by 7 and those kinds of conditions. And so we are able to get a little bit of better pricing from some of those kinds of segments. So you know that's the level of detail I can probably give you at this time. And we are also getting some better foreign exchange, foreign exchange realization, which is also helping with the overall pricing.
- Abhishek Puri:** Right. So some of this foreign exchange realization, will it become a pass through in the coming quarters? Because typically, that's adjusted with one or two quarter lags, right?
- Ashwath Ram:** Yes, that is correct.
- Abhishek Puri:** Okay. And secondly sir, your parent company results actually showed a very strong growth in components. So will it be largely at the CPII level or would it – would have covered our services business as well?
- Ashwath Ram:** I think it's a combination. Because as far as CIL is concerned, you know, it has some of those areas built in, but the global components better performance is driven by North American truck market becoming much, much stronger and recovering in a better way than what was anticipated.
- Abhishek Puri:** Right. And my last question is on the export segment again, I think you've answered it partly, but in terms of HHP that has seen a good growth in YoY growth also from last year, and it's at some of the highest levels in last few



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years. So would it -- I mean, you've said, there are a few orders to sustain some of the growth. But I mean, how much of that could be pent up? And how much of that can be sustainable? I think it'll just help us model it better if it is available, because the number is really [Audio overlap]

Ashwath Ram:

Yeah, it's really difficult to you know, say what is just pent up and what is sustainable. But we remain optimistic that a large chunk of it is sustainable.

Abhishek Puri:

Right. Thank you so much and all the very best.

Abhishek Puri:

Thank you. So that was the last question. And again, I apologize for some of the technical problems that we had at the start of this call, and I thank you all for participating and asking all of these very interesting questions. We continue to remain optimistic about the future of this company. We have been in India now for nearly 60 years, and globally we are 100 plus year old company. So we do remain optimistic about the long term future for this company. Thank you.

Moderator:

Thank you so much respected speakers. Thank you, participants for joining the con call. Wish you all have a great day ahead, and requesting to please stay safe. Thank you so much.

Abhishek Puri:

Thank you, everyone. Bye.