Ref: STEX/SECT/2023

February 14, 2023

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

Subject: Intimation of transcript of analyst conference call held on February 09, 2023.

Dear Sir/ Madam,

With reference to our stock exchange intimation dated January 25, 2023, 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 February 09, 2023.

Kindly take this intimation on your record.

Thanking you,

Yours faithfully,
For Cummins India Limited

VINAYA ABHIJIT JOSHI

Digitally signed by VINAYA ABHIJIT JOSHI
Date: 2023.02.14 10:43:07 +05'30'

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

Encl.: As above.

"Cummins India Limited

Q3 FY 2022 '23 Earnings Call"

February 09, 2023

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

Moderator: Good morning, ladies and gentlemen, and welcome to Cummins India Limited Q3 FY 2022-'23 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 will now hand over the call to Mr. Ashwath Ram, Managing Director, Cummins India Limited. Thank you, and over to you, Mr. Ram.

Ashwath Ram: Good morning, ladies and gentlemen. I'm Ashwath Ram, Managing Director of Cummins India Limited. Mr. Ajay Patil, CFO of Cummins India Limited is also on the call with me. I want to first thank all of you for joining us on this call today.

We are happy to announce that Cummins India Limited reported the highest quarterly revenue and profit for the second quarter in a row due to strong demand in the domestic and export markets. Now, I would like to share the financial results of Q3 FY '23 through this call. For the quarter ended December 31, 2022, with respect to the same quarter last year, our sales at INR 2,144 crores are higher by 26% compared to INR 1,701 crores recorded in the same quarter last year. Domestic sales at INR 1,603 crores are higher by 27%. Exports at INR 541 crores are higher by 23%.

Profit before tax and exceptional items at INR 479 crores, are higher by 50% compared to INR 320 crores recorded in the same quarter last year. For the quarter ended December 31, 2022, with respect to the last quarter, our sales at INR 2,144 crores are higher by 12% compared to INR 1,922 crores recorded in the last quarter. Domestic sales at INR 1,603 crores are higher by 15%. Exports at INR 541 crores are higher by 2%. Profit before tax and exceptional items at INR 479 crores is higher by 42% compared to INR 336 crores recorded in the last quarter.

Segment-wise break up for the quarter ended December 31, 2022, are the following. Power Generation domestic sales were INR 712 crores, 42% increase over last year and 5% increase over last quarter. Distribution business sales were INR 527 crores, 17% increase over last year and 18% increase over last quarter. Industrial domestic business sales were INR 342 crores, 18% increase over last year and a 37% increase over last quarter. Exports. High Horsepower exports were INR 224 crores, 16% increase over last year, 4% decrease over last quarter. Low Horsepower exports were INR 264 crores, 22% increase over last year, 9% increase over last quarter.

With this, I now open the session for questions.

Moderator: The first question is from the line of Parikshit Kandpal from HDFC Securities.

Parikshit Kandpal: So, my first question is on growth. If I just extrapolate the fourth quarter last year numbers with the fourth quarter of this, we will end up somewhere around 48% growth Y-o-Y. So, just wanted to understand what is driving it? If you can help us break this into pent-up demand, pre-buying because of CPCB-4. So, was there any large deals in this quarter? Did you fill up the channel? There was a huge demand from channel on the CPCB side that has led to this huge outperformance. So, that's my first question.

Ashwath Ram: In this quarter, we saw growth pretty much across all the areas. So, it was not just in one area. It was in power gen, it was in the industrial business, it was in distribution. Pretty much across the board, we saw growth. Some of it, of course, continues to be the infrastructure segments all are recovering well. The second aspect was that exports continued to hold in the quarter. So, the growth we saw in the previous quarter compared to the previous year that continues to hold. So all in all, I can say that with all the growth and the pricing actions, et cetera, we had taken, we saw relatively better growth compared to the previous year.

Parikshit Kandpal: Sir, can you also give some sense on the channel selling ahead of CPCB? Do you think from the historical inventory levels of the channel which channel was holding? So, is there a significant jump on account of now nearing of the CPCB implementation from July?

Ashwath Ram: It's not yet started in the previous quarter. There is still 7 months for that to happen. So, we think there could be some amount of pre-buy starting from the next quarter, but it has not yet started. We are still catering to regular demand as of now.

Parikshit Kandpal: And other question is on the growth, Ashwath, because we have gone almost like as I was telling 48%, if I just extrapolate the fourth quarter last year number into this fourth quarter. So from here on, I think we have been telling that we will grow at some multiple of GDP, I think 2x of GDP grows at 7%, 8%. So, we can be higher than that. So, how do we visualize the growth going ahead on such a high base of FY '23 revenues?

Ashwath Ram: So as of this time, if you look at the historical data, Q4s are typically a weaker quarter for the company. There's usually, the Q3s are the strongest quarter and then everybody goes away for Christmas, et cetera, in the global markets. And by the time things start to come back and inventory starts to get built back again, you almost lose a month. So typically, Q4s are a weaker quarter. So, it's likely to still be a reasonably strong quarter, but I can't comment on how the growth will be in comparison to the previous quarter.

Parikshit Kandpal: I was more talking about next year, Ashwath like how do we see? At least can we be like mid-double-digit or early double-digit growth for FY '24?

Ashwath Ram: As we have been guiding, it's our ambition to grow at continued growth at 2x of GDP is what we aspire to. Now the realities of the market are pretty complex. There are still a huge number of unknowns out there. There is still inflation, which continues to creep up. There are still geopolitical tensions. There is -- we are starting to see reversal of certain commodities. We have a whole emission change happening. So, there are a lot of variables, so it's very, very difficult to predict the kind of windfall we got this year. It seems unlikely that you will continue to get it year-on-year. But certainly, as a company, all the things that we have put in place, I think it augurs well for us to at least meet our aspiration of 2x of GDP growth.

Parikshit Kandpal: And just the last one on hydrogen thing. So, now we have this GAIL order. So, I understand that CV part with Tata is through the parent. What about any update on this GAIL order? Will it be executed through Cummins India? Are we building our credentials in that segment? And are we going to participate? So, is there any clarity, which is emerging on that front on what will be the role of the Indian entity -- listed entity?

Ashwath Ram: Yes. So, that is still being evaluated. We are looking at the best path to market. As far as GAIL order is concerned, the order was taken globally by the Cummins division. And Cummins India is supporting that order through service support installation, those kinds of things. So, we are still figuring out the best path to market for some of these new energies. And we will very soon be getting clear clarity on what that path will be.

Moderator: Next question is from the line of Mohit Kumar from DAM Capital.

Mohit Kumar: Congratulations on a very, very good quarter, especially on the margin side. So, my first question is, do you think this gross margin of 34%, EBITDA margin of 18%, 19%, how sustainable this is? And was there any one-off from any large order in this particular quarter?

Ashwath Ram: Certainly, margin is better because we were able to leverage the increased volumes. Certainly, we had larger volumes. We were able to execute better. Supply chain picked up some more. So, the combination of all of that was the order board has been strong and we still continue to under-deliver to demand. So, when we were able to deliver better than in the previous quarter, it helped us by getting better leverage on all the operating costs and the increased sales. So, all of that helps with profitability.

Further, we had the advantage, as we had been speaking about for the last couple of quarters that we had put in price increases, but the commodity increases in the first half of the year were still greater than the price increases we had put in. I think slowly, they're getting to a point where they are balancing each other out. Again, that helps us improve profitability as compared to the previous quarter.

Mohit Kumar: How should we think about this going forward for the next couple of quarters? Do you think the commodity prices are softening? Can you hold on to these margins?

Ashwath Ram: It is certainly our attempt to hold on to margins moving forward. Commodities are mixed bag. It means some of them have been softening, but some of them have now flattened out. So commodities such as copper, aluminum and even some parts of some types of steel are starting to see commodities creep back up again a little bit. The other variable that we are worried about is that China has been pretty weak for the last 12 months and that is what caused the softening of some of these commodities. China is now starting to pick back up. And if they do pick back up strongly as what is being anticipated, it is likely that commodities will again start rising pretty sharply. So, we've got to be careful and we're going to watch out for those variables as we try to protect our margins.

Mohit Kumar: Secondly, can you comment on the industrial side of demand outlook for the next few quarters? How are you seeing the activities: construction, defense, railways?

Ashwath Ram: I think all of you have heard about the infrastructure announcements from the government. So, from a -- theoretically, if infrastructure continues, demand for Cummins products will be strong. The only dampeners are the global geopolitical crisis, the inflation and if we see some kind of softening in the capex cycle, those are likely to impact growth in the segments we play in a little bit. But despite all of that, I think we remain cautiously optimistic.

Moderator: Next question is from the line of Deepak Krishnan from Macquarie.

Deepak Krishnan: Congratulations on a good set of numbers. I just wanted to understand on the distribution side, we generally do about INR 400-odd crores, INR 450 crores. This time, we have done INR 527 crores. Anything that's sort of one-off or do you think this sort of number is sustainable?

Ashwath Ram: We have been focused on this business to try to take it from a single-digit growth kind of business to have the same kind of aspiration to try to grow at GDP plus kind of levels. So, a lot of actions have gone in, in the background on improving availability, improving the distribution channel to get better reach, better pricing, more products being sold. So, a combination of all of those has resulted in better sales. And I would say part sales for the quarter has been pretty strong and those were -- that was the main contributing factor.

Deepak Krishnan: And do you think that will be sustainable as well, right?

Ashwath Ram: Sorry, just missed that. Could you repeat that last part?

Deepak Krishnan: So, do you think the part sales would be sustainable going ahead as well?

Ashwath Ram: Yes, we want it to be sustainable. Yes. That's what we are working on.

Deepak Krishnan: Maybe just a follow-up, like you indicated you want to grow 2x of GDP line, your parent in its earnings call indicated that India growth for CY '23 will only grow 1% Y-o-Y and trucking will grow 5%. So, ex of trucking that implies that everything else could potentially see a decline. Just wanted to reconcile these 2 numbers, 1% all India growth and 2x GDP growth for how those kind of reconcile?

Ashwath Ram: Yes. I think they are factoring in the fact that what they saw this year, where the currency devalued almost 10-plus percent. And so they are factoring in that variable to -- in dollar terms, if you have another 8%, 10% devaluation of the currency, then you lose a big chunk of all the growth that we get. So, that's probably what that comment was alluding to.

Deepak Krishnan: Maybe just one follow-up. The INR 712 crores of Power Gen. Could you just give us a breakup between LHP, MHP, heavy-duty and HHP?

Ashwath Ram: The breakup is as follows. LHP was INR 51 crores, mid-range was INR 124 crores, heavy-duty was INR 75 crores and high horsepower, INR 461 crores.

Deepak Krishnan: So basically, high horsepower we would attribute that to data centers and all the other growth, any of it is sort of one-off? Or do you think all of the other segment ex HHP sort of sustainable?

Ashwath Ram: It's -- there is growth across the board in terms of demand. High Horsepower, I wouldn't say it's only data centers, but it's also a lot to do with infrastructure, manufacturing and some parts of reality also bouncing back.

Deepak Krishnan: Anyway, the High Horsepower is outside of CPCB, right, because it's only up till 800, right?

Ashwath Ram: That's correct. Not all of high horsepower. High Horsepower, everything above 600 kVA -- sorry, everything above 500 kVA is considered as High Horsepower. So, about 300 kVA, there's an overlap.

Moderator: Next question is from the land of Sandeep Tulsiyan from JM Financial.

Sandeep Tulsiyan: First question is on delving a bit deeper into this Power Generation segment growth. If you could also give us what is the top sectors which are contributing to the overall Power Gen segment now, namely in data centers, IT and manufacturing? And if you could also individually give your outlook, how you see each of these segments panning out in terms of growth over the next 2 to 3 years?

Ashwath Ram: Yes. So, the healthiest segment when you look at it year-on-year have been data centers, manufacturing has bounced back, infrastructure, rental, hospitality and realty. So, those are the top 6 segments from where most of the growth is coming from. Looking out 2 or 3 years, because the -- as India moves to 5G and as people are continuing to consume more data, watch more OTT platforms, consume greater amounts of media, the requirement for data centers is going to continue to increase. There is a robust pipeline of orders and at least is my view that this market could hold out and show growth for at least 3 to 5 years.

Manufacturing, again, is very, very dependent on the overall GDP growth. So, as certain industries like the automotive industry, which had a recession for 2 or 3 years and were deeply impacted by COVID, as they start to bounce back, it is likely that, that trend could also remain positive for a few years. Infrastructure, the government has certainly committed even in this budget and the long-term plan by 2030 to become a $10 trillion economy, big. That means nearly $2 billion, $3 billion, $4 trillion out of $10 trillion will have to be spent on infrastructure. And if that really translates as the ambition is, then, of course, it holds good for us that we have a multi-year sustained growth in the infrastructure products.

And rental and hospitality, again, hospitality is directly proportional to how people are feeling good about themselves, how they can travel, how tourism picks up. It's at a record high in the previous quarter. And at least all indications are that bans on travel are done with across the world. And so tourism is only likely to increase and travel is likely to increase. So, hospitality should do well. And as the GDP grows, as the economy grows, once reality starts to stabilize and bounce back, I think these are segments or sectors which are directly proportional to how well India does as a country. So, if we do well as a country, these segments will continue to do well for us in the Power Gen business as well.

Sandeep Tulsiyan: And on data centers, specifically, if you could quantify where the current market size is, how it has grown in the past 3 years? And what is the competitive landscape? Where does Cummins market share stands in this segment now? And who are the major competitors?

Ashwath Ram: We don't give direct market share numbers by segment. But certainly, I can pretty proudly say that we are the leading player in the data center space. We do see significant growth happening there. We are partners with some of the biggest players in data centers, not only in India, but around the world. And the competitor for us in data centers are also the major competitors that we have globally. So, we don't have any local competitors for the data center space. Most of the competitors are the same competitors that compete with us worldwide in the data center space.

Sandeep Tulsiyan: Next question is on the entire technology transition happening on the fuel side. On one end, we are -- we've just introduced the fuel-agnostic engines, which was there in the newspapers that you did last month. And also at the same time, we've also marketing our H2-ICE-based engines, which we thought should be the next-level technology. But the recent reports by media or the other houses say that the efficiency of these engines is actually much lower. So, would want to get your thoughts on how the technology transition would happen in these 2 areas, both fuel-agnostic as well as H2-ICE and over what time period you see this transition taking place outside of diesel?

Ashwath Ram: Sure. First, I'd like to correct the technical perception. It's probably true that some of the folks who have launched introductory products in that space are getting lower efficiencies. But the product Cummins will launch will have equivalent efficiencies to our current products. So, we are not seeing any loss of efficiency, so that's talking about the technical side. So, where we see the fuel transition though is it's not a quick switch over event. India has a zero carbon target of 2070.

Cummins as a company aligned to North America and certain European markets has a plan to become a zero carbon company by 2050. So, between now and 2050, a transition will happen, which will happen in 3 phases. Between now and the end of this decade, there will be a lot of testing prototypes, very, very limited launches and there will be more movement to greener fuels and improving the efficiency of existing products. So, you will see tighter emission norms like CPCB-4+, BS-VI, OBD2. You will see the use of biodiesel, you'll see the use of bio PNG, CNG, LNG, ethanol. So, those are the types of fuels, which will dominate this decade or start to become more in use.

The next decade after that is the period we call the messy middle. That is when some of these other technologies like hydrogen internal combustion engine, a little more on hybrid, more usage of the greener gas technology, they will play a bigger part in that decade. And the final decade of 2040 to 2050 is when we see greater adoption of newer fuels like hydrogen in scale as the infrastructure for that becomes -- gets developed. The capability to produce those fuels get more robust and the technology gets more mature in terms of availability, in terms of stability, in terms of range, in terms of usage. So, that's the way we are seeing this. And this is more likely to happen in the sub-400 horsepower ranges of products. In above 400 horsepower, we still see fossil fuels and diesel continuing for a significantly greater amount of time just because technically, there is no clear alternative available as of now.

Sandeep Tulsiyan: And last question on my side. Thank you for the detailed answer on that, sir. And last question from my side is on the capital allocation. The business, of course, throws a lot of cash, but the capital expenditure requirement over the next few years will not be large in our view. If you could give us more clarity on where the capacity utilization levels are? How do you plan to allocate capital?

Are there any inorganic acquisitions which are planned? What are the new product lines where you'll be making incremental capital expenditure in the future? Would you increase the payout portability significantly? Anything on the merger with Cummins Technologies? What are the thoughts on that? If you could just elaborate that, please.

Ashwath Ram: I think most of the big capital expenditure for manufacturing and scale have been put into place already. So, we don't see very significant investment in that portion of the capex, of course, there will be some project-based capex in those areas as well. Also, as we transition to some different technologies, those will require some kinds of capex. We do see in the next year, there will be a significant jump in capex related to technology fees, et cetera, for transition to CPCB-4+. Most of the new capex that we will be adding in will be primarily focused on growth, which means, as you rightly said, new products, new fuels, new technologies.

We are open to inorganic growth options and we have been setting up a growth office, which is looking out for those kinds of opportunities as well. So, we would like to utilize cash available on the balance sheet to help growth and make the -- have future growth opportunities for the company. As far as utilization is concerned, we are right now in the 70 to 80 kind of percent utilization of the installed capacity. A lot of it to do with ability to source in a raw material to improve utilization even further. The last portion of your question was...

Sandeep Tulsiyan: On CTI and probable merger? Or what is the prime taking of bringing all these...

Ashwath Ram: We continue to look at those options. There is no clear decision made as of yet, but we will continue to evaluate this for all stakeholders and come up with some kind of best scenario for everyone. But it's being evaluated. You guys ask us this question every time, and we continue to work with our global parent to keep evaluating the options and try to figure out what the best solution is.

Moderator: Next question is from the line of Rahul from Haitong Securities.

Rahul: Congratulations for very strong performance in this quarter. I've got a couple of questions. On the supply chain, you did indicate that the supply chain continues to be impacted. Are there any qualitative comments that you can offer with respect to whether there has been improvement from what we've seen earlier or it has obviously gone further downhill? That's the first question.

Ashwath Ram: So, there has been improvement, which is why in this quarter, we have been able to deliver more product than we have ever delivered before in our history. They're still -- it's still constrained. So, the big areas of constraints being electronics and certain types of capacities where the demand now is greater than all the capacity that was built up. So, there are certain products and parts like specialized castings, et cetera, where the demand today is greater than the overall global capacity, so is going to take some time to scale up and establish new capacity.

So, the combination of that is what is true right now that we are doing better. We are doing more than we've ever done before, but it's still not enough for where the demand cycle appears. And then this is the condition when China demand has been low. So, if China demand were to pick up pretty strongly in the next year, this supply chain will again face severe constraints.

Rahul: Sir, my next question is on the break-up of industrial. Normally, you give a break-up between compressor constructions. And here I specifically want to understand how is railway doing for you? Given that is going to be a key vendor over the next several years, are there any specific areas that you are participating, growth that you see in the railway business?

Ashwath Ram: Yes. So first, let me give you the break-up by sector. So, construction was INR 100 crores, rail was INR 77 crores, mining was INR 33 crores, compressor was INR 15 crores and others which comprises of oil and gas, defense, marine, pumps, all of that put together was INR 118 crores. So, this represents roughly about 18% growth in the industrial markets quarter-on-quarter. Coming back very specifically to rail, rail actually in the previous quarter has grown pretty significantly compared to Q2. But when we look at it year-on-year, it's almost flat.

And the reason it's almost flat is rail is undergoing a transition from where it was using many of the diesel products to where it has gone to electrification. We, of course, have been developing products in parallel and many of those are already in testing and are -- we have already participated in a few tenders for these new products. So, future opportunities in rail do appear positive. And it's a segment where we are betting pretty heavily on in the future to get some growth.

Rahul: So, my last question is on the break-up that you normally give on the export side, between Asia Pacific and Oceania?

Ashwath Ram: Sure. So, in the previous quarter, Latin America and Oceania was INR 111 crores, Asia Pacific was INR 137 crores, Europe was INR 97 crores, Middle East was INR 109 crores, and Africa was INR 33 crores.

Moderator: Next question is from the line of Renu Baid from IIFL Securities.

Renu Baid: Congratulations for the strong performance. My first question is just to understand a bit more on the export market. Now, it's been like almost few quarters that you have been cautious on potential slowdown in Europe, the U.S. because of energy crisis and inflation. But somehow these markets have still held up on a broad basis. So, how should we look at the export outlook from some of the developed markets and that from Africa, Middle East, which are now looking up again? So, some views on that will be appreciated.

Ashwath Ram: Yes. While they have looked up, if you see even Q2 versus Q3 performance, the performance though robust has been kind of flat and that's why we have been cautious to indicate that while we think we are doing well and we have seen the benefits of launching new products, et cetera, some markets have certainly slowed down. They have been made up by other markets. So, we remain cautiously optimistic is all I can say right now, Renu, because there are some downs and there are some up. We think all the energy we are putting in will continue to see us hold to this.

It is our ambition, of course, to grow this market also the way we have -- we are growing in the domestic market or have an aspiration to grow at 2x of the GDP of India. So, that's what we are going to keep our focus on to keep working with more countries, more markets, more products, more segments and not lose the momentum that has been built up in the last 3 or 4 quarters.

Renu Baid: And within the exports, we were starting to look up at export potential for industry products. So, how has that traction picked up in these markets? So, you think the products are picking up on the industrial applications or still it's Power Gen dominated?

Ashwath Ram: Industrial markets have started to pick up. Some of the products that we have launched in the marine markets and in the construction markets, those are doing well and we are starting to see -- we are starting to see good demand there. As a matter of fact, I can tell you that we are unable to supply products into some of those markets because of the supply chain challenges that I spoke about.

Renu Baid: Secondly, if you look at the gross margins, while they have increased to 32.7%, close to 33%, there was in your comments in terms of last few quarters was the target of taking margins to 34%, 35% of the previous normal level. So, where are we in terms of that trajectory of margin improvement? Could be a mix of product mix, cost actions and pricing actions? So, how far are we and you think that 34%, 35% gross margins are achievable in the next near term, 12, 18 months?

Ashwath Ram: That is certainly our ambition and the direction towards which we have been working with all of our teams on. And you can see the benefit that we have gotten in the -- from the previous quarter to this quarter, pretty much as we had indicated that if commodities continue to soften, the price increases that we have taken will yield better material margin. And we continue to hold on cost. We continue to try to get more efficient. We continue to try to get better prices from the market. So, a combination of all of those activities, certainly -- it is our ambition to want to get back to the kind of levels we have enjoyed in the past.

Renu Baid: On the Rail segment coming back, you did mention of new launches. So, any color that we can throw in terms of Cummins addressable market in the recent electric -- as in the loco electrics, which are getting awarded, 9,000, 12,000 HP or the Vande Bharat train sets. So, what could be our addressable market from these large PCP-based projects which are in pipeline?

Ashwath Ram: Yes. We see more in the rail construction infrastructure as well as in the hotel load applications. We -- in India, we have not played as much in the prime mover application till they moved to some newer technologies like fuel cell-based rail, et cetera. And then we have product there, so we could be a prime mover there as well. The opportunities still are pretty large and I won't be able to quantify exactly. It depends on as we keep launching more products, rail is a pretty, pretty large market. And the -- our overall growth strategy is -- all I can say is our overall growth strategy is very dependent on us being able to grow rail better than almost any other segment.

Renu Baid: And lastly, while in some of the perspective, we have had some indoors in the oil and gas space through GAIL project on the electrolyzer side, but you're also looking at pilot projects on hydrogen trains, on the automotive side, where Cummins India was driving some of these initiatives. So, any updates on where we are? Are these projects materializing?

Ashwath Ram: We are filling out tenders and we are hoping to win. So as of now, I do not have anything to report at this stage. These are pretty complex projects. These are multi-year gestation projects. So, it's unlikely that it will just happens overnight. But we continue to bid on these and we continue -- we will report out the moment we have success in anything.

Moderator: The next question is from the line of Sangeeta Purushottam from Cogito.

Sangeeta Purushottam: Thank you. My questions have been answered.

Moderator: Next question is from the line of Mahesh Bendre from LIC Mutual Fund.

Mahesh Bendre: Most of my questions have been answered. One thing is, the export side, the export number was flat, almost flat on a quarter-on-quarter basis. So, do you think further break-up possible going forward?

Ashwath Ram: Certainly, when you look at it on a year-on-year basis, there has still been good growth. On a quarter-on-quarter basis, it has been flat. As a company, we aspire to grow this business also at a double-digit level. The 2x of GDP that we indicated for the whole company, we also want to -- that kind of ambition we have to grow this business as well. So, we will continue our effort to try to get that growth to see if we can do more things to have opportunities by which it doesn't remain flat, but we can do better.

Mahesh Bendre: And sir, capital expenditure plan for next 2 years?

Ashwath Ram: So, both of the capital investments, as we have been indicating have been driven towards growth projects. There is one big capex investment coming in for the technology fees for CPCB-4, which will go into effect next financial year. And then there are all kinds of investments related to growth and technology and some balancing capex for manufacturing, etcetera. I do not expect it to be very, very significant as what we used to do in the past as we were setting up the base infrastructure for manufacturing, office space, et cetera, within the country. I expected those to be more muted, but in line with our growth expertise.

Moderator: The next question is from the of Priyankar Biswas from Nomura.

Priyankar Biswas: Sir, I happen to notice in one of your media interviews, probably, you had highlighted that post this CPCB engines being implemented, the costs could go up by as much as 50%. So, under such circumstances, what are the specific cost initiatives that we are taking so that the machines are still affordable and there is not much of a big impact on the gross margin as it typically happens with the emission norms exchanges?

Ashwath Ram: Right. So, let me restate what I had stated there. Our experience when we went from mechanical products to electronic products in the automotive market, when we went from BS-III to BS-IV, we saw that the base composition because it went from base mechanical products to full scope electronic products along with addition of after treatment systems. The base cost in that market almost doubled and over the years, we have been optimizing on bringing the cost down of many of those components like the emission systems, components like some of the electronics components, like some of the internal tools and systems, which are required to run the electronic engines. And that is why our estimate is that cost will go up pretty substantially.

It's still -- we are trying to add more and more capacity and we are localizing more and more of those products to be able to get the most cost-efficient product available to customers. We also we have to realize that there is a penalty to be paid for a greener environment in terms of having some of these systems on. And those, while we do make the products more and more efficient year-on-year, it doesn't really cover all the costs associated with this level of technology change, but we continue to strive to work on getting customers as economical a product as possible.

Priyankar Biswas: So sir, my question was more like if the cost is increasing so high, like to maintain the margins, would it be possible to price up higher similarly? Or would -- or based on your interactions with, let's say, the channels, what is your feeling about the pricing actions then?

Ashwath Ram: Yes. This is what has happened in every transition around the world that one has to price correctly to pay for the investments in the technology. If companies don't do that, then certainly, their balance sheets become unhealthy. So, we certainly will need to price in the right manner.

And over a period of time, customers realize that, that's the cost of that commodity or that product. And they pay for it because it's essential for their backup power or their need of energy.

Priyankar Biswas: And sir, just coming to a different point. So, on the export side, so based on interactions with some companies, it appears that there was earlier -- so not -- this is not related to KKC-related products, something different. But the general trend in North America and Europe has been that there was a significant stocking up cycle last year. So, that had actually supported the exports. And now on a weaker growth, apparently, there are some initial signs of destocking. So, are we seeing that? Or -- and what -- like what is your sense on this?

Ashwath Ram: It's different for different countries around the world. There are some markets which continue to grow to grow, there are some markets which are seeing some slowdown, especially in some parts of Africa and some parts of Europe, but there are other parts which have been in deep recession. So, they're actually bouncing back. So, there is no one answer, which is why it's very, very difficult to predict what the overall scenario is going to be. But the big markets like North America, we have certainly seen the demand to continue to be stable and strong and haven't seen a very big drop off.

Priyankar Biswas: And sir, the last question from my side. So while in this quarter, there was a close to 15% growth in revenue, so quarter-on-quarter, I mean, so versus 2Q. Separating the other expenses were 3% lower. So, what explains this divergence?

Ashwath Ram: Other expenses, mainly because we've got some one-time benefit. Usually some of our shared services, et cetera, they do the final adjustment at the end of the calendar year. So, we got some advantage of some money back on some of the accruals made in that space. So, those are the ones which really helped us in this quarter.

Moderator: Ladies and gentlemen, the last two questions. The next question is from the line of Sujit Jain from ASK Investment Managers.

Sujit Jain: Congratulations, very strong quarter. Just to understand, in terms of absolute number or percentage of your overall Power Gen business, how much would be data centers?

Ashwath Ram: I would say, as of now, it's very difficult to say, but I would say less than less than 10%.

Sujit Jain: And growing at probably 15%, 20% CAGR?

Ashwath Ram: Yes. That's a fair statement to make. Yes.

Sujit Jain: And railways, what kind of absolute number you'll reach FY '23.

Ashwath Ram: Sorry, could you repeat the question on rail again?

Sujit Jain: Rail, the overall size that you will reach in FY '23, absolute sales.

Ashwath Ram: For the full year?

Sujit Jain: For the full year?

Ashwath Ram: It's difficult to predict, but we think we will be able to grow rail at, at least greater than the 2x of GDP that we have been aspiring to. So, we will see some growth happening there.

Sujit Jain: But close to INR 350 crores this year?

Ashwath Ram: I do not have that exact number on the top of my head, but if you reach out to us, I will try to look that up.

Sujit Jain: Sure. And one last question. You just explained you are explaining the price rise that will happen in CPCB-4+. In our experience that we had in CPCB-2 transition, initially, we went full in terms of the price increase that was to be taken to have desired margins. Competition did not follow and then we had to kind of scale back. So, how do you see this playing out this time around when the price increase is cheaper than CPCB-2?

Ashwath Ram: Yes. So, first, I'll compare and contrast by saying that CPCB-1 to CPCB-2 was a mechanical to mechanical transition, which means the base product did not change in any manner. So actually, the cost structure did not change very significantly other than the optimization that was done. So, it just became a commodity play on whoever could manage with the lowest margin getting into the market. Whereas the CPCB-2 to CPCB-4+ involves a pretty complex transition where you can't just take the whole product and use it as it is with some fine-tuning.

You are literally redesigning a new product going to scope electronics and you're adding a new system, the after treatment system on top of all of that, which was not into play at all, which is what is driving those significant cost increases and subsequent price increases. So, I do expect -- I do expect that prices should go up significantly. And there is no technological answer by which one can overcome the emissions need with not going and migrating to some of these technologies.

Operator: Next question is from the line of Renjith Sivaram from Mahindra Mutual Fund.

Renjith Sivaram: Just if you can throw some color on like what is the kind of pricing action we have taken? Because during the raw material price increase, there was a, we had increased the prices. So, are we looking at reducing any of those prices? Or do we believe that the market can still absorb those high prices and there won't be any major pricing action?

Ashwath Ram: As of now, we are not looking at any price reductions because as I mentioned earlier, we have seen commodities start to reverse again. So, we are just in the mode of catching up to commodities. As a matter of fact, this is probably the first quarter where we have caught up to the commodities that we paid extra for in earlier quarters. So, this will be a wait and watch. But as of now, we are holding on to the prices.

Renjith Sivaram: And how is the competition also reacting? Because is there any market share gains for us in the last 9 months because our growth has been pretty robust in the domestic market? Are you seeing any market share gains?

Ashwath Ram.: No, we haven't already seen market share gains because it's a supply constrained market. So, we are not meeting all the demand that we have. And so anybody who has capacity is also able to sell into the same market. So, we haven't seen any real market share gains as of now. Of course, there are gains in certain segments, certain nodes, et cetera. But overall, when I look at the overall market, I wouldn't say we have really gained from a market share perspective.

Renjith Sivaram: And sir, just one more in the parent commentary, you told because the dollar-rupee, it can be a 10% growth. But even at 10% growth also, we believe that we are kind of -- we can -- even if you assume an 8% -- 7% GDP, 14% growth is some kind of a given for us. So, just wanted to recalibrate that. What's that...

Ashwath Ram: Not everyone believes that India can grow at 7% next year. So, the more conservative folks believe that India will only grow somewhere between 5.5% to 6%. So, when you do that math, that's why you come up with a more conservative outlook. And certainly, nobody is going to be unhappy if we do significantly better than that and grow more than what we -- what they think we can grow.

Renjith Sivaram: And did you quantify the amount of engine price increase for CPCB-4+? You have quantified the cost?

Ashwath Ram: Yes. So, it's going to be different for different nodes depending on how complex the transition is. But as of now, I can indicate a range which says anywhere from 30% to 50% is the kind of price increase what we are considering based on the kind of costs we are incurring to launch this technology.

Renjith Sivaram: And we have test -- we have completed the test for what percentage of the nodes we have?

Ashwath Ram: All nodes have been tested and are in final stages of approval.

Renjith Sivaram: So, we have that advantage versus the competition in being ready for the market?

Ashwath Ram: I cannot comment on competition's readiness, but I can certainly comment on ours. We will be ready.

Moderator: Thank you very much. With this, we conclude today's Q&A session. I now hand the conference over to Mr. Ashwath Ram for closing comments.

Ashwath Ram: So, thank you all of you for your participation today and extremely patient listening. Cummins India believes that the Indian economy will sustain its growth rate, resulting in holding up of demand in coming quarters. Introduction of CPCB-4+ emission standards is a welcome change to address environmental concerns and will pave the way for introduction of the latest technologies in these markets. However, because of supply chain challenges, which we continue to work through and the geopolitical concerns, we remain cautiously optimistic about the short- to medium-term demand outlook. With a strong balance sheet and liquidity, we are confident to navigate the business. With this, I close this call. Thank you, stay safe and stay healthy.

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