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November 9, 2021

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 28, 2021

Dear Sir/ Madam,

With reference to our stock exchange intimation dated October 13, 2021 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 28, 2021.

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

Thanking you,

Yours faithfully,
For Cummins India Limited

Vinaya A. Joshi
Company Secretary & Compliance Officer

(This letter is digitally signed)

Encl.: As above.



Cummins India Ltd.

CIL Quarter 2, FY22 Financial Results Analyst Call

October 28th, 2021

SPEAKERS: Management, Cummins India Ltd.

Moderator: Good Morning, Ladies and Gentlemen. Hope you are all doing great and staying safe! On behalf of Cummins India Limited, I would like to welcome all of you to CIL Quarter 2, FY22 Financial Results Analyst Call. I would like to greet Mr. Ashwath Ram, MD Cummins India Limited, Mr. Ajay Patil, CFO Cummins India Limited and the Leadership Team. Over to you Mr. Ashwath Ram to present the Financial Results.

Ashwath Ram: Good Morning ladies and gentlemen. First of all, thank you for taking out your valuable time to attend this call. I am Ashwath Ram, Managing Director of Cummins India Limited. I hope you and your family are doing well and are staying safe and healthy. Also joining me on the call today is Ajay Patil, our CFO for Cummins India Limited and our Chairman - Steve Chapman. Before we get into the details of Q2 results, I'm happy to inform you that CIL witnessed a record quarter, well supported by the economic recovery, good demand, and improved supply chain. Our priority continues to be the safety and well-being of our employees, serving our customers and communities, continuing to work on improving margins while managing cost and ensuring our company's continuity in the future. I would now like to share the financial results of Q2 FY22 through this call. For the quarter ended 30th September 2021 with respect to the last year same quarter, our sales at INR 1689 crores is higher by 48% compared to INR 1141 crores recorded in the same quarter last year. Domestic sales at INR 1250 crores increased by 68%, exports at INR 439 crores increased by 10%. Profit before tax and exceptional items at INR 293 crores is 55% higher as compared to INR 189 crores recorded in the same quarter last year. For the quarter ended 30th September 2021 with respect to the sequential or last quarter, our sales at INR 1689 crores is higher by 45% compared to INR 1167 crores recorded in the last quarter. Domestic sales at INR 1250 crores increased by 46%, exports at INR 439 crores increased by 43%. Profit before tax and exceptional items at INR 293 crores increased by 71% compared to INR 171 crores recorded in the last quarter. Segment wise breakup for the quarter ended 30th September 2021.



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The segment wise breakup for domestic first – 1. Power Generation domestic sales were INR 637 crores, an 81% increase over last quarter 2. Distribution business sales were INR 365 crores, 22% increase over last quarter. 3. Industrial domestic business sales were INR 228 crores, 21% higher than last quarter. 4. Exports, the high horsepower export sales were INR 242 crores, a 42% increase over the last quarter and low horsepower export sales were INR 163 crores, a 40% increase over last quarter. From a Cummins India financial guidance perspective, the company is quite hopeful of sustained improvement and economic recovery across industries and segments. However, potential wave three of COVID as well as forecasted supply chain disruptions make it difficult currently to give a steady or stable outlook. The company continues to work on stabilizing supply chain and part supplies, demand outlook from various end markets continue to be positive, visibility to pull market recovery is somewhat limited considering the variables of wave three of COVID and supply chain instability. Thus, the company is not providing a full year guidance for revenue for FY 2022. With this I now open the session for questions. Thank you

Moderator:

Thank you so much sir. With this we will open the floor for Q&A interactive session, I request all the investors that to ask a question please press zero and then one on your telephone keypad and wait for your name to be announced. First question of the day we have from Ravi Swaminathan from Spark Capital, your line is unmuted please go ahead.

Ravi Swaminathan:

Sir, are you able to hear me?

Ashwath Ram:

I can hear you clearly.

Ravi Swaminathan:

Yeah, sir. Congrats on a good set of numbers. So, basically just wanted your sense, we had registered a significant growth in the power gen business of around say more than 100% year-on-year at revenue of around 620 crores there. What were the sectors which had driven the growth in this? Was there any one-off large order which we had seen, if you can give more clarity on that?

Ashwath Ram:

Yeah, certainly, we had one large Projects business order which was for a big Data center and a one-time kind of order which contributed to nearly close to -- a little lower than \$20 million in top line revenue. So, that was one big segment there. Data center continues to remain strong; healthcare has also picked up in a strong manner and residential realty is beginning to pick up. And the sectors which are lagging behind off course, because of the monsoon rains etc were infrastructure, all the power consumption required for stone crushers and kind of infrastructure led activity is starting to pick up but has not yet fully picked up, but across most other segments the demand is pretty strong.

Ravi Swaminathan:

Got it. And this Data Center, so how big was the data center in megawatt terms, if you can do a broad thought process to get an -- and how sustainable are such orders over the coming quarters or years?



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Ashwath Ram: Yeah, this was you know, substantially large from a megawatt perspective; I would say it is in the range of 100 and 100 plus megawatts and these kinds of orders are going to keep increasing as we move towards 5G, Cloud based data storage and more advanced telecommunication, more people working from home etc this is only going to increase as we move forward.

Ravi Swaminathan: Okay, and my next question is with respect to the industrial segment, which are the sectors which are seeing traction, which are kind of [indiscernible] if you can give a broad thought process.

Ashwath Ram: Sure. I can tell you there that construction is starting to come out, which means with wave two construction activity had come to nearly a halt and road construction, as you know, had dropped to below 15 kilometers per day. Now with the monsoon getting over, we have started to see the road construction activity beginning to ramp up and the government's ambitions are to go to greater than 60 kilometers a day, in fact they are aiming for 100 kilometers a day. But we are likely to see that beginning to bounce back; we saw some of it start to come back in towards the end of this quarter. Rail is the one which is recovering the most slowly. So, rail is not up and running, freight from a rail perspective is back to full force, but the -- as you know, the commercial rail is still not running whole hog as it used to in the past. So, that is going to take a little more time to recover, we are expecting in the next two quarters to see that also come back. And we are seeing the mining continue to be strong; you all heard about the coal shortage, steel commodity prices all going up so mining is going to keep increasing, and so that demand is -- was already reasonably strong in the previous quarter and that is likely to sustain. Marine typically drops a little bit during the monsoon season and as defense contracts etc start to get awarded, that business is likely to start picking up towards the end of this year. And [Indiscernible]

Ravi Swaminathan: Got it sir. And other expense had kind of been flattish year-on-year, was there any one-time gain or something in currency gain or something which is there? Is there any one off there or the other expense trend is likely to remain the same?

Ashwath Ram: Other expense? Just give me a second here. Yeah, so other expense, it was flattish. But when you look at it from a percentage perspective, it's quite an improvement, even though there are little bit of increases from volume base. And last year, we had an advantage where we had to take an impairment of some old test cells etc. And this year, we've also had some increased warranty as the volume picks up, and we have some new products that come in. But overall, we continue to manage that tightly and we think that's what gives us leverage from a profitability perspective.

Ravi Swaminathan: Got it, and my final question is with respect to the Ministry of Power notification, any views on that? So basically, they are asking states etc to shift towards battery-based backup?



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Ashwath Ram:

Yeah, so actually, it's more a guidance to say that, this is something we are advising you, five years from now you should be ready to move etc. So, we have been working very closely with all of these stakeholders, all the governments, and we have a very clear strategy from a Cummins perspective on how to deal with this, because we are dealing with this -- in multiple countries around the world. And so, Cummins' very clear strategy here is that it's okay to talk about something five years from now, what would happen in 2030, what's going to happen in 2050. We have a four-pronged strategy, and that is as follows. The first one is, what are we doing to lower emissions today? And so, our biggest focus is not to talk about what we will do in the future but what are we doing today, and towards that we are pushing to get the CPCB 4 Plus implemented. I was able to talk to MOEF and you know the draft is all ready; this is getting ready to announced real soon. So, the date and timeline are fixed. That itself will cause a huge reduction in the emissions. Second is we are picking to say that okay, if you're worried about emissions, then why don't you introduce some incentives like scrappage policy for some of these kinds of technologies. We have committed that by 2050 we will achieve zero emission footprint and we have already published and committed publicly that this is what we are going to do. The fourth is that technology will only get adopted if you have wide scale implementation. So, you can't -- just say battery but the real question is, what is the battery strategy? As of today, 100% Of all the batteries' raw materials getting imported from China. So, how does that make us independent or, you know, where does Atmanirbhar fit into that strategy? Second is you need a game plan and a white paper. So, we are talking to the Ministry to say here is our view on how our white papers should work, here is how you can drive wide scale adoption, here is the transition plan, here is how diesel becomes cleaner today and we can migrate away from using less and less diesel going to gas moving to other technologies over the next 20 years, not abruptly which -- where nobody has an answer of how to do that immediately. And the fourth is we must look at reducing well to wheel emissions, not just look at it in isolation and say that, hey, I'll give you electricity, but 70% of my electricity comes from coal. So, how am I following my commitment to the Paris Accord or how am I solving the carbon problems for the world just by moving from diesel to burning coal? So we are talking to the government on all of those four things, we are making representations to the different organizations like CII, IDEMA etc, we ourselves are going and the government listens to us because we are the market leaders in this and we have experience from multiple markets. So, that has been our strategy on how we are dealing with these kinds of notifications, and we are showing them that even in the advanced countries of the world, despite moving to lot more green energy than what we have, those countries continue to use diesel as a standby in other applications.

Ravi Swaminathan:

Got it sir. Thanks a lot for the detailed answer, thanks.

Moderator:

Next, we have Sandeep Tulsian from JM Financials. Your line is unmuted, please go ahead.

Sandeep Tulsian:

Yeah, a very Good Morning. Am I audible? Yes, sir. Good Morning. Mr. Ram. My first question is on the large size gensets that we do for Data Centers where



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we took a project to complete one Data Center for 100 megawatt plus that you mentioned, would want to understand a little bit more about the gensets which are 50 liter plus in size, what is the kind of competitive landscape for these engine based gensets, as well as what are the indigenization levels of Cummins versus other peers in this range? And other than Data Centers which are the other end market applications where 50 liter plus engines are going currently? That's the first question.

Ashwath Ram:

So anytime you need more than 2000 horsepower from a -- and where space is at a premium and you want greater density of product, you need these kinds of engines. And we have the largest level of localization as compared to anybody else because we have the 50 liter which we have now made capable of going all the way up to 2000 kV and nobody else has a product of that size. So, that certainly gives us a significant advantage, and the 50 liter product for us is that greater than 85% localization. Now as we move higher than 50 liters, and we have 60 liter products, we have 78 liter products, we have 95 liter products, those, most of those -- the 60 liter product is getting more and more localized, I would say we are at roughly at a 50% localization as of now heading towards in the next 18 months to like an 80% kind of localization level for those products. Almost everybody else is importing those products. There are only two or three big players in the world who have products in those ranges. So, we stand very well when we compete against them. And there are multiple applications; not just Data Centers, anything and anywhere you need power greater than 2000 kV, you need a big genset and we are well-versed to fight in that space and we continue to remain the market leaders there.

Sandeep Tulsian:

Got it. Second question is on the gross margin compression that we saw during the quarter. Would I be correct in saying that this compression is more to do with the mix, you know exports being lower as well as the project order that we executed rather than the pure raw material inflation in fact, that was there in the quarter and which may come in subsequent quarters.

Ashwath Ram:

I think it's a combination of [Audio Overlap]

Sandeep Tulsian:

And one other fact is how much price hikes have you rolled out, sorry, if you can address that part also.

Ashwath Ram:

Yeah, I won't give you the exact amount of price hike, all I can tell you is if you look at the percentage of commodity increases, so commodities like copper have more than doubled, commodities like steel have gone up excess of 40%, we have been able to realize, I would say with price increases more than 60% of the -- of that impact we have been able to realize through price increases. We also have certain mixed differences which caused some material margin reduction in this quarter. But we can pack on those, but it lags, it lags a little more than a quarter. And so, you know, it takes some time to catch up and the rise of these commodities is unheard of. This is the greatest rise we have at least in a 15-month period in the history of our business.



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Sandeep Tulsian:

Got it. And my final question is pertaining to the industrial segment; we have seen a fair bit of contraction in the railways business because the power consumption would have gone down, and electrification is taking place. So, if one were to compare it to pre-COVID sales, where do you think the normalized sales for the railway segment would look like, which was more like around between 350 to 400 crores a year? What would you pick as a comparable number, you know, when sales normalize in this segment?

Ashwath Ram:

I think we are introducing many more new products, and we've started winning some tenders with those new products etc. If I look at it from a longer term, I will say beyond 18 months kind of perspective, we expect it to be even better. Also, rail is not a contracting segment for us. It's a growing segment for us. What we are seeing now is a short term impact of one, the entire segment working at a slower pace and of course electrification happening, but we are gearing our business to deal with the electrification and actually opening up more markets for us. So, I would say in the short term, it will continue to remain slightly subdued as compared to our best quarters ever in rail, but when I look at it from a medium term outlook, I can -- I'm very bullish on this segment for us as a company.

Sandeep Tulsian:

Got it. I have some more questions, but I'll probably come back in the queue. Thank you so much for taking the questions.

Moderator:

Next is Renu Vaid from IIFL. Your line is unmuted, please go ahead.

Renu Vaid:

Good Morning and thank you for the opportunity and congratulations on the strong performance. So, my first question is, broadly if we knock off this large project that we have received, that is executed on Data Center side, base business volumes at approximately 15 billion INR still seem to be pretty much strong. So, what is the comfort that we have in terms of tailwind from the end market or broadly sustaining this 14 to 15 billion INR kind of run rate? Or do you think there were certain slippages or a pent-up impact in the volume which may not be sustainable in the quarters to come? Your views on these, please.

Ashwath Ram:

DC demand is quite strong, and not all segments have come back. So, when I look out into the future, I see demand picking up. But it's -- the reason I hesitate to say we will do fantastically better and give you that kind of optimism is because supply chain is still constrained. So, we are still running with backlogs of certain types of orders, we are still not able to supply the market with unconstrained demand, but I remain optimistic that supply chain will continue to improve and we will continue to keep growing the demand here. I guess that's the way I look at it. I'm bullish right now on the way demand outlook is looking out for the next few quarters at least.

Renu Vaid:

Got it. Secondly, on exports now that we are back to almost the pre-COVID levels in terms of company's run rates, can you shed some color in terms of the growth pattern of some of the key regions and what kind of tailwind can be expected as global economic growth picks up?



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Ashwath Ram:

Sure. So, pretty much I can say that the biggest growth we are seeing in the Asia PAC region, and a lot of it, I guess, is because of very strong demand continuing from China as well, even though that has started to taper down a little bit but the other regions of Asia-Pacific like Philippines, Indonesia, Malaysia; all of those regions continued to do really well and have bounced back the fastest. Latin America is gradually getting ready to come out of it, their COVID hits have been deeper and have been at a later cycle than even ours. So, they are just coming out of it. And Europe is still lagging, and we think it will take another couple of quarters for Europe to start picking back up. Middle East also is just getting ready to start bouncing back with oil prices becoming stronger, those economies -- but since travel sector has been so restricted and those economies are very, very heavily dependent on service and oil industries, so those fundamental markets in those countries, at least in Middle East, are just slowly starting to recover. Africa is starting to bounce back, but Africa had reached such a low that even a small comeback seems like wow, these things are much better. So, that's the way I would look at the overall globe that things are slowly starting to come back, with the Asia-PAC leading and followed by Africa and then Middle East and Latin America.

Renu Vaid:

Sure. Sir, my third question more importantly from a long-term perspective, what solutions does CIL or Cummins India have today for customers who want to offer non-diesel-oriented solutions, backup solutions? It could be cleaner energy combinations of battery and otherwise, especially for applications like reality, data centers. So, can we do without diesel type of products for technical reasons in some of these end markets? And if so, is Cummins India ready to supply them for their requirements?

Ashwath Ram:

Yeah, so the answer there Renu is that eventually, yes. But when we look at the TCO from a customer perspective, we still feel that as of now at least for the next couple of years till the end of this decade, diesel is the best answer for those kinds of large customers and they continue to buy these products around the world, especially Data Centers and those kinds of products. Solid fuel oxide cells are probably the best answer, not batteries for those kinds of large applications. We are already experimenting on a few niche customers in Korea and a few other places. But we think that somewhere in the late 2030s is when we will see more movement into those kinds of technologies. We have those technologies; we are the leading player there as you know. We own one of the biggest hydrogen companies in the world. We have set up three major gigawatt hydrogen production centers, we have battery companies. So, we are already invested in all those technologies as we find it appropriate. We are looking at opportunities where we can bring in those technologies into the country, and in the power generation space certainly CIL, if it needs to play with multiple energy technologies, we will be the path to market.

Renu Vaid:

So broadly just to summarize, irrespective of the technology base, do you perceive a fundamental risk to backup solutions or demand, especially for large corporates who are looking to move towards net zero for the [indiscernible] mandate for compliance? Or does that [Audio Overlap] the demand for backup continues.



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Ashwath Ram: The demand for backup will continue at least till the 2035 timeframe by which time some of these technologies have an opportunity to mature and provide a better TCO for these large solutions where migration can happen at a faster pace in the sub 10 kVA market where solutions like inverter, UPSs batteries can replace small diesel gensets which are sold. We have a very small play in that space, but we certainly will also attempt to make a space in the battery technologies in those spaces.

Renu Vaid: Got it. Thanks so much and all the best, sir.

Ashwath Ram: Thank you.

Moderator: Next is Bhavin Vithlani from SBI Mutual Funds. Your line is unmuted, please go ahead.

Bhavin Vithlani: Thank you for the opportunity and congratulations for a good set of numbers. So, the question is on the exports, slightly longer term, and when we add up CMIs revenues from the high horsepower engines it comes to about 5 billion USD and the exports from Cummins India plus CTIL is about 200 million. So, do you see an opportunity to increase the exports considerably over a 5-year basis as CMI moves more towards hydrogen and battery?

Ashwath Ram: Certainly, the opportunity for increasing exports from India continues to remain strong. There are many product families that are now only produced in India and we are using the advantages now offered through PLI and other schemes to bid for more projects out of India. So, the answer is yes, there is an opportunity to do more. How that plays out, because there are other factors just like we have Atmanirbhar Bharat, every country has their own version of that. So, there is US MCA and there are so many other global barriers to protect industry in their own region. So, we are within the gambit of all those complexities, there is still an opportunity for us from India, because of our great quality, low cost base. If we continue to perform well certainly more markets will keep opening for us. So, the answer is yes, we are looking, exploring, trying to figure out how we do more out of India.

Bhavin Vithlani: Sure, thanks. Just another question is, you also highlighted about couple of other products which are currently imported, which is a 78 liter and a 95-liter engine. As we see demand in India for Data Center picking up and if at all the need to localize arises, so will that be housed under CIL or CTIL?

Ashwath Ram: You know, it depends on the market that we are serving. CIL serves the Data Center market and that is not handled out of CTL etc. But so, eventually all the final revenue flows through CIL for those markets, but depends -- where the investment will be made depends on what Cummins looks at from a strategic perspective, where it needs to put in money for the best return on investment. So, we will always look at what is in the best interest of all the stakeholders; whether it is our India shareholders, whether it's the global Cummins stakeholders, you know, everyone and make sure we take the best decision



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which is in the interest of everybody. We continuously keep looking at opportunity to do more out of CIL.

Bhavin Vithlani:

Sure. Just a follow up, like about four quarters ago you had highlighted that you're evaluating options to simplify the structure, any progress on that front?

Ashwath Ram:

Good progress, but I cannot say more beyond that other than you know, once we make some progress it will be obvious, and everyone will hear of it. All I can say right now is that we continue to evaluate these options.

Bhavin Vithlani:

Sure. Thank you so much for taking my questions, best wishes.

Moderator:

Next is Nilesh Shetty from Quantum Mutual Funds. Your line is unmuted, please go ahead.

Nilesh Shetty:

Yeah. Hi. I have two questions. The first is, I mean, everyone is aware that the global supply chains have been sort of messed up and shipping costs as well as containers availability have become two major issues. So, I just want to know how much of that has impacted Cummins India or has it been no impact at all?

Ashwath Ram:

So, there has been quite a bit of impact, I think we have not been able to meet unconstrained demand and we have faced cost challenges. We have not able to ramp up at the rate at which we want to and there are some of these challenges which are not going to get overcome for maybe even longer periods of time, especially the problems in the supply chain of electronics. It now looks like it could be end of '22 before those problems get better. So, it's a wait and watch continuously every quarter. But the problem keeps spreading; it spreads to multiple areas, it spreads to commodities, it spreads to power, the latest commodity that is impacted now is silicone. Hence, we are playing it as we see it, we have war rooms working in India and around the world trying to deal with the situation. I think we can reasonably stay ahead of the problems but not to the extent we would like to be completely happy.

Nilesh Shetty:

Okay. And I know companies sort of have built their supply chains with GIT in mind. How much of that is being rethought, given the kind of disruption we've seen over the last 18 months? They are complete now? [Audio Overlap]

Ashwath Ram:

Yeah, so over the last few quarters we have taken inventory, strategic inventory percentages have gone up quite significantly. So, we have taken many of those calls and we are building more inventory. Like I said, you know inventory is a double-edged sword. So, it hits you on cash, but we have taken some of those calls and we are doing that. So, yeah, not everything can work with a different time model with the global supply chain.

Nilesh Shetty:

Okay, and just one clarification, on the input side do you have a hedging policy and how do you sort of manage the wild fluctuations that happens in commodities?



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- Ashwath Ram:** At a global level for certain commodities, there is a global hedging strategy but not for everything. So, we do deal with a lot of the fluctuations in some of the commodities, because they are at tier two, tier three level for us and we cannot do direct hedging on those. So, the only way to deal with that is through commodity agreements with customer and you know pricing increases that we talk on from time to time. But certain critical materials in certain technologies, we do have some hedging strategy.
- Nilesh Shetty:** Okay, thanks a lot.
- Moderator:** Next is Charanjeet Singh from DSP Mutual Fund. Your line is unmuted, please go ahead.
- Charanjeet Singh:** Hello, sir. Good Morning. Thanks for the opportunity, and congratulations on great set of numbers. So, my first question is in the domestic power-gen market. If you look at historically, this market has grown by at around 5% to 6% CAGR maybe for the last five to six years, including FY21. So, going forward from the market perspective, how do you see the outlook, maybe if you can not quantify but at least qualitatively, do you think that overall growth rates can be much higher than what we have seen in the past and what would be the drivers for that? That's my first question.
- Ashwath Ram:** So, this is one of those industries, which is directly linked to the GDP of the country; as the country grows, this business grows at a faster rate. So, if we build more infrastructure; if we build more roads, airports, ports, data centers, all of that, business will grow. When we don't spend money, it doesn't grow as much. So, since India is getting ready and we have ambitions to first become a 5 trillion economy and then become a 10 trillion economy over the next five to seven years and we want to spend \$2 trillion on infrastructure. I think all of these are very strong indicators that this power-gen business will grow. From a top line perspective, I think it will grow for Cummins, even more than for other companies because we are also seeing the emissions transition. And what happens when emission transition happens, even if volume doesn't grow the size of the pile increases just because of the complexity of the technology. So, we have seen that in multiple markets. So, I'm very optimistic on the account that with CPCB4 things will grow in the short term. Usually when there's a technology transition, there is also a pre-buy. So, you know, we are likely to see demand go up as a transition happens, but in the long term it's pretty strongly linked with the GDP and that's going to keep improving, and we will see this business keep growing.
- Charanjeet Singh:** Okay, so in terms of price hikes, you know, for production in various categories, what are the kind of price hikes which we have taken, and as you know, commodity costs continue to put a lot of pressure --
- Ashwath Ram:** Very significant, but still lagging behind commodities. So, I would say we typically lag about a quarter and a half behind commodities, just because the rate of increase of commodity prices has been so steep that customers are not able to



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absorb first key rises in prices. So, we have to slowly ease that into the market. So, it's a very, very big challenge right now. But we do keep increasing prices to offset some of these and off course, we try to keep optimizing the product and try to be more cost efficient to still be able to manage and not ask as much back from customers.

Charanjeet Singh:

Okay, so this last question for my side on the data centers, you have seen a good success. So, in terms of the pipeline, you know, which we'll be building up as you're interacting with the customers, how it is scaling up from one, the average size, what we're supplying to the customers, and in terms of the competition and thus our market share, how that has been in the data centers, market access and just give more detailed understanding of that. Thank you.

Ashwath Ram:

I won't give you exact market share numbers, all I can tell you is we are the leading player in the country in that space. Demand is strong, and many, many more Data Centers are coming in. Typically in a data center, standard configuration is roughly about a 20 megawatt kind of size -- these are the standard modules typically 5 to 10, you know, 2000 kVA that kind of size, because with 5G people are also trying to have more distributed data centers closer to customers to avoid latency and other issues. But I'd say our pipeline is strong.

Charanjeet Singh:

Okay, so thanks for taking my questions. That's all from my side.

Moderator:

Next is Nitin Arora from Axis Mutual Funds. Your line is unmuted, please go ahead.

Nitin Arora:

Thanks for taking my question. You know, the question is again on the exports, you highlighted in the past two quarters about the supply chain issue. Now, if one has to -- and you commented that you know, you are seeing recovery in a lot of markets, demand is coming up, but if one has to draw a conclusion with respect to the backlog on the orders, backlog you have in exports given you are not able to execute because of the supply chain and let's say in a project, if you're supplying a genset or an engine is rather a component which might not be going into project which is leading to the delays. Can you throw some light, what kind of backlog you would you be having today in exports? I'm asking this question because this number is getting too volatile every quarter and you have stated earlier this is largely because of the supply chain. The orders -- the demand is strong, but just to get a comfort that what kind of backlog you have which can help us understand that what really is the demand because -- you know, which is getting hampered by the supply chain, if you can throw some comments on that?

Ashwath Ram:

I will say we have done a reasonable job on exports because we focus first on exports from a priority perspective and the way we manage container logistics etc to meet a month kind of number. Typically order backlogs run, maybe 30 days at the most is the way I look at it from an export perspective. From a domestic perspective we are running on a greater backlog and the backlogs are



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not necessarily in every area. You know, there are certain segments, certain nodes where the problems are more acute. So, it's very difficult for me to pinpoint and tell you that this is the exact order backlog. By node, literally, we have order backlogs; some are significant. There are certain nodes where we have as many as two months worth of order backlog, which is unprecedented for us. Typically, we have 15 20 25 days worth of backlog, we know these are like double, triple than that, but there are other nodes where we have caught up. So, I can say from an overall perspective, when I look at unconstrained demand, if all supply chain problems were solved tomorrow, how much would I be able to do? Maybe I would say 20%-25% more from where we are today, that would be my guess as of now, but it's very difficult for me to give you a very good answer to say how much is the real backlog.

Nitin Arora:

Okay. And sorry for again asking this question, that's my second question. You know, the government sets a narrative, I understand what you said it's not that easy that in 10 years you do this and 15 years you decide this despite emission getting changed, you've already spent money on the CPCB new norms. But eventually the narrative has been set. Can you tell us because I think battery or the backup battery; we are not present in that segment as well, on the backup side. What we have is more on the hydrogen portfolio. How would you tackle that even if, let's say 5%-10% of the market shifts? I'm asking this question because in some of our sectors, whether it's the auto, the debate used to be same; that nothing will happen on electric. Today everything in the two-wheeler is turning electric, and ice is not growing. So, it's more of a narrative, you know, which government is setting up. So, can you throw some light, how would you tackle that? And especially in the power generation sector, like I understand you explain the concept of TCO but if government starts giving subsidy, the way they are given to the two wheelers, then how the situation will change? That will be helpful if you can comment.

Ashwath Ram:

So, this is, you know, we have been studying this scenario now for over 15 years and based on that we have been making investments, acquisitions etc. Over the last five years, we've ramped up and made many of those happen. As you're rightly saying, there are certain characteristics which lend themselves to move faster. So, two wheelers, three wheelers, things where their utilization is low and where the energy density is low, those are the areas which have -- which are the easiest to move. They've moved the fastest in China, they're going to move the fastest in India, they're moving the fastest everywhere else. Now when it comes to working equipment, if you look at the same trend; whether it is China, whether it is America, Europe anywhere else also, as the tonnage or the size of the equipment grows larger, the time it takes or the complexity of the storage systems as a try is enormous. So, even I'm saying that sub 10 kVA, we think a transition will happen because I can put in a power wall system or we can put in a inverter system or those kinds of systems and you know, over the next 10 years, we will see maybe 100% of that sub 10 kVA market move to alternate energy. But when you go higher than that, the systems required, the space, the paths, the complexity, management, the technology does not exist today. Whatever incentive you may give or not give, neither do you have the technical capability to deliver on that for customers nor is the availability there. So, there



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is no way we are putting our head in the sand and not watching it; we are watching it faster, sharper than everybody else. But we think there are alternate ways that transition will happen. All we're saying is we're ready with all of those answers for you – let's align on what the path is going to be. That's all. So, we are working very closely with the government to say that, okay, you want to give incentives, where do you want to give incentives? Do you want to give incentives to a technology which is sustainable and where you can get scale, and which helps you in your 2050 ambition to get to zero or do you want to wait for a cliff event to happen in 2050 without any plan?

Nitin Arora:

Got it sir.

Ashwath Ram:

So yeah, so like I said, and if there have been breakthroughs in battery technology etc which has made the speed of movement faster, we are monitoring all of those as well. And, you know, this is not a static space that we are -- strategy we cannot evolve at a faster pace. If we think something is going to move even faster, we will put in even more of our investments. I think we have the ability to move faster than anybody else because we already have our skin in the game in all of those technologies you mentioned.

Nitin Arora:

Got it. Thank you very much, sir and all the best. Thank you.

Moderator:

Next, we have other Aditya Mongia from Kotak Securities. Your line is unmuted.

Aditya Mongia:

Thanks for your opportunity and congratulations to the entire team for a very strong result. I have a query from my side, the first is on the exports part. Now if I caught it rightly, what you are suggesting is that if there is no supply chain disruption then a quarterly run rate of 500 crores being possible today, for 2000 crores number on a full year basis. On the other side you're also saying that certain parts of the world Latin America, Europe and Africa still recovering. I want to get a sense from where is this new demand coming in that is helping you grow versus pre-COVID levels to a number of about 25% in terms of demand that you are seeing?

Ashwath Ram:

Right. So, first of all, you know you used the 2000 crores number, certainly that is our aspiration to get there, that would be about 700 crores better than the best number we have achieved. But we are working there. I mean, that's the way we are thinking about it. So, you know, it's not a number which scares me. I think as one of your earlier colleagues asked that there is so much global space, can we do more here? Yes, we are trying to do more and we are looking at it, but what is driving global demand is multifold. So, one is, as the same trends in India are also playing out in the world, everybody is working from home. So, Data Centers are becoming bigger, computers are getting faster. In Camera phones the -- megapixels per images has gone up by 10x in the last five years. So, storage is increasing, telecommunication is increasing, faster speed is increasing. You know, everybody is using mobile phones. All those trends are driving a global demand for more and more and more data storage, telecom infrastructure;



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that is the primary demand driver for growth, and then the subsequent infrastructure builds up around the world as people try to get more and more people employed and as people try to build better and better infrastructure, that again drives another cycle of growth and demand in the power gen business and we are seeing that in multiple parts of the world, and I think that's what's driving demand.

Aditya Mongia:

Okay, got that. The second question that I had was [Indiscernible] genset portfolio, which is quite commendable, that at sort of a global level one can leverage better. What is propping the adoption of like kind of a product as a substitute to diesel in India, because from what I can see the kind of cost saving from an optics perspective make the payback period pretty small. Is there an availability issue of gas or is it somebody else?

Ashwath Ram:

You're talking about -- could you elaborate a little bit, you're talking about -- what are you comparing, sorry?

Aditya Mongia:

So instead of diesel gensets, the substitute is obviously changing the fuel to natural gas. So, I think we have those gensets in our offering, and a recent study by CFE suggests that the OPEX or operating cost savings are quite meaningful in the sense that the payback period is not terribly high. And I'm just trying to get a sense whether there are other bottlenecks to transition happening which probably would be beneficial for your company.

Ashwath Ram:

Yeah, certainly, for example, now the government is gung-ho and is putting a lot of money into the gas infrastructure. So, LNG-CNG for example and using more blended fuels, so automatically if you use clean carbon fuels and mix it with diesel, you meet multiple objectives. For example, you will lower the overall carbon footprint of the country. And the second, it lowers the cost. Your diesel is at 100 bucks and you can get a biofuel at 40 bucks; the blended cost at even at 30% utilization lowers the cost of diesel significantly, will lower the TCO. It solves your cleanliness, carbon problems as well as you know, you don't have to change any of your fundamental infrastructure. So, that's one side of it. Second is gas. Gas, we are -- the country is laying huge infrastructure across the golden quadrilateral etc, we expect that infrastructure to be fully in place in the next two to three years. And we have an entire portfolio ready, which we will introduce once that supply is made available. So, that represents an entire new opportunity, where I think as Cummins, we have the leading technology in those spaces and as compared to other folks it opens more doors for us and allows us to play more in those spaces. So, yes, I think as the transitions happen it will open more opportunities for us.

Aditya Mongia:

Great to know sir. The third question that I have Mr. Ram was on the data center order, the large one., I'm assuming it's a domestic order, right, not an export order? The one \$20 million dollar order that you were talking about.

Ashwath Ram:

Yes.



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Aditya Mongia: Now if I take that order, basically, what I'm trying to ask you is that does it have that dilutive effect on your gross margins and EBITDA margins? Because otherwise it's such a strong top line, a 15% kind of margin appears to be low in the quarter. I'm just trying to get a sense whether if I take that out will the numbers look better or not.

Ashwath Ram: It will be a little better, because that happens on a transfer pricing basis because those products we don't yet make in India and so they are imported. So, yes, so it does have a slight impact of dilution on margin. And as the percentage of localization for us keeps increasing, some of those, it should have a positive impact on margin.

Aditya Mongia: Okay. Thanks a lot for your response to those questions. Thank you.

Moderator: The last question of the day, we have from Parikshit from HDFC Securities. Your line is unmuted.

Parikshit Kandpal: Hi, Ram sir. Congratulations on having a good quarter. So, my first question is on the scrappage policy, which you spoke earlier in the call. So, what's your stance on whether it is implementable in diesel gensets and if yes, then how big this opportunity could be overall?

Ashwath Ram: I'm sorry; could you repeat the question, please?

Parikshit Kandpal: Hello? Earlier in the call you mentioned about this scrappage policy discussion with our MOEF to reduce the emission footprint in India. So, I wanted to understand whether it is practically implementable in India because you know, earlier gensets don't have any registration number, it's very difficult to track. If we could implement it in EV, so do you think there are challenges to implement this, and if not, then how big this opportunity could be for you?

Ashwath Ram: I mean, like I said, everything helps, right? If you're using an older technology product which is beyond 10 years, it's polluting at a rate of 20x what our new generation products will be polluting, that's why we made the suggestion and if you offer up a scheme by which you get some kind of rebate or something, it then is an incentive for somebody who has an old product to say okay, you know, this is a good time for me to upgrade and get rid of my old thing and offset some taxes. Typically these schemes, they may have like a 5%- 10% improvement on demand, they don't usually have a huge colossal improvement in demand unless it is mandated and executed with a lot of governance which, as you rightly said, is not possible with all the older sets in the country. But it's working in the commercial vehicle spaces, we are seeing some improvement in demand pickup because of these schemes now implemented; not very great, but it's improvement. And so, we remain optimistic that if they can do those kinds of things you eliminate two problems. Yes, of course, it has a little improvement on sales, but it solves that overall cleaner air kind of problem which we want to fix.



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- Parikshit Kandpal:** Okay, the second question is on -- I mean, we have now started seeing the EV infrastructure getting laid out in terms of charging stations and all in India, gradually it is picking up. So, are we looking at having some OEM tie ups of backup power solutions for this infrastructure being laid out? Because still we are at early stage, but we are hearing a lot of OEMs looking and even startups and other companies looking at implementing this infrastructure in India. Are we in talks? Are we looking at this opportunity? Are you pursuing it aggressively? Then we can get more business opportunities?
- Ashwath Ram:** The simple answer is yes. We are looking for opportunities in those spaces as well.
- Parikshit Kandpal:** Okay, just last question on this draft, electricity draft, the question papers, so did you get an opportunity to discuss this with MOEF as to what's their thought and view about it? I know you did touch upon what you have recommended, but do you think that practically, so what is -- what was their suggestion and feedback on this, if you can just highlight on that.
- Ashwath Ram:** Their suggestion was, other people that we have spoken to tell us this can happen very quickly, and so what they did agree is that based on our experiences in other markets, that we could work with them to write joint white papers to come up with a clear transition plan to really show what is that impact. What is the cost impact, what is the carbon footprint impact? What is the adoption rate impact? What is the well to wheel, real emission impact? And what can I do today? So, you know, those four themes I spoke about, I think across whether I spoke to Niti Aayog or MOEF or MHI; I think all of them are open to listen to ideas on how we can do this in a better manner. And I think we are going to increase our efforts to provide that information, provide that clarity and help the nation transition. So, I think we have a role to play here, and I think we're going to try to play that.
- Parikshit Kandpal:** Okay, just last thing sir, if I may. You gave a very bullish commentary on the demand outlook and maybe you can better off by 20%-25% if everything was in optimally working out. So, just wanted your thoughts on any plans, given this strong outlook commentary of yours; any plans on CapEx or any thoughts between [indiscernible] there some arrangement can be worked out on using the unutilized capacities, so that we can deliver more without really incurring the CapEx. So, your thought on the CapEx and how that can be potentially --
- Ashwath Ram:** So if you look at all our CapEx over the last two years, and I've been saying this I think for two years now, that our big investment on infrastructure that has been done in the past, and all our CapEx cycles are towards growth projects and new technology, and whatever it takes to sustain that technology. Even if you look at our CapEx plan for last year, and this year, it is I would say almost 50% of everything we're spending from a CapEx perspective is on growth projects, on new products etc. And another I would say 40% is on sustaining what we have already invested in, so very, very little goes towards building new infrastructure etc. So, we remain confident that that will be the case going forward. We continue to have tremendous amounts of capacity we have already built. We are



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you know, as the demand grows, we will improve our utilization and help us get better leverage.

Parikshit Kandpal:

Okay, thank you, that's all from my side.

Moderator:

I would like to now hand over the floor back to Mr. Ashwath Ram for his final remarks. Over to you sir.

Ashwath Ram:

So, thank you everyone for taking the time to attend this call. I want to wish all of you very, very happy festival season; Diwali, all the festivals that are coming up. Hope you are all vaccinated, all of you are staying safe, taking care of your family; it's important that we do that. As I mentioned earlier, we have a very clear long-term strategy as far as the clean energy is concerned, the first one is to say what can we do today? You know, what can I tell my children our company is doing today over the next five years and not 20 years later? The second is what are the technologies we can bring in that we can drive mass adoption? So, if we do niche projects etc, you know that that's okay for few people but it's not going to work for the country. The third, of course, is that what is the transition timeline? What is the timeline by which we can anticipate all these technology investments to happen? So, the new technology timeline comes in place and we have made a written commitment that by 2050, we will be zero carbon. And the fourth is you can't look at carbon from an isolated perspective, you have to look at it from a well to wheel perspective. You can't say 5% coal and say that okay, I want EV, all the electricity used in EV, if it is from burned coal you've not solved the carbon problem at all. So, we are working with the government with our own technologies on all of those four areas to make progress. We have tremendous investments in infrastructure capacity in place, lot of technologies, a lot of new products we continue to keep launching, which is why we remain bullish about the future outlook with all the infrastructure spending etc happening in the country. I think the next few years are going to be quite interesting, and we are looking forward to all the emission transitions as well as continuing to keep working on improving our efficiencies in the system, and keep delivering good design. So, I want to thank all of you for the support and have a have a good year end. Thank you.

Moderator:

Thank you so much sir. I would like to thank all the investors for taking out time and join the call. This concludes our Quarter 2 FY22 financial results analyst call. You may all disconnect now. Have a great day and stay safe. Thank You.