Ref: STEX/SECT/2022

May 30, 2022

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 400051 NSE Symbol: **CUMMINSIND**

Subject: Intimation of transcript of analyst conference call held on May 27, 2022

Dear Sir/ Madam,

With reference to our stock exchange intimation dated May 13, 2022, 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 May 27, 2022.

Kindly take this intimation on your record.

Thanking you,

Yours truly,

For Cummins India Limited

VINAYA ABHIJIT JOSHI Digitally signed by VINAYA ABHIJIT JOSHI Date: 2022.05.30 14:51:22 +05'30'

Vinaya A. Joshi
Company Secretary & Compliance Officer

Encl.: As above.

(This letter is digitally signed)

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"Cummins India Limited Q4 FY-22 Earnings Conference Call"

May 27, 2022

MANAGEMENT: MR. ASHWATH RAM – MD, CUMMINS INDIA LIMITED
MR. AJAY PATIL – CFO, CUMMINS INDIA LIMITED.

Moderator: Good morning ladies and gentlemen. Welcome to Cummins India Limited Financial Results Call for Q4 FY22 and Full Year FY22. We hope you are all 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 "*"and then "0" on your touchtone phone. I will now hand over to Mr. Ashwath Ram – MD, Cummins India Limited. Thank you and over to you Mr. Ram.

Ashwath Ram: Thank you. Good morning, ladies and gentlemen, thank you for taking your valuable time to come and talk to us. My name is Ashwath Ram – Managing Director of Cummins India Limited. I hope you and your families are doing well and staying safe. Joining me today on this call is Mr. Ajay Patil, our Chief Financial Officer of Cummins India Limited. Thank you for joining us for the CIL financial results call for FY22 and full year FY22.

At the outset, I'm very happy to inform you that Cummins India Limited, closed FY22 with record revenues and so did our associate Company Cummins Generator Technologies India Private Limited and JV Valvoline Cummins Private Limited.

Post wave two of COVID-19, we observed strong economic rebound enabled by a combination of factors like mass vaccination, government spends on infrastructure and social programs, pent-up demand across different sectors. Cummins India responded strongly despite significant supply chain challenges to meet the demand from domestic and export segments. High commodity cost inflation continued throughout the year. Cummins India employed tactical pricing actions and continued efforts of cost containment and reduction to help mitigate impact of commodity inflation. We continue to leverage our global integrated supply chain to meet demand from customers for domestic and export segments.

Now, I would like to share the Financial Results for Q4 FY22 and full year FY22:

For the quarter ended March 31, 2022, with respect to the same quarter last year, our sales at Rs.1468 crores were higher by 19% compared to Rs.1231 crores recorded in the same quarter last year. Domestic sales at Rs.1046 crores were higher by 7%. Exports at Rs.423 crores increased by 66%. Profit before tax and exceptional items at Rs.244 crores is lower by 1% compared to Rs.245 crores recorded in the same quarter last year. For the quarter ended March 31, 2022 with respect to the last quarter our sales at Rs.1468 crores were lower by 14% compared to Rs.1701 crore recorded in the last quarter. Domestic sales at Rs.1046 crore were lower by 17%. Exports at Rs.423 crores will lower by 4%. Profit before tax and exceptional items at Rs.244 crores will lower by 24% compared to Rs.320 crores recorded in the last quarter.

I will now walk through the segment wise breakup for quarter ended March 31, 2022:

The sales breakup by segment are domestic. Power generation domestic sales were Rs.471 crores, 33% increase over last year, 6% decrease over last quarter. Distribution business sales were 369 crores, 10% increase over last year and 18% decrease over last quarter. Industrial domestic business sales were Rs.191 crores, 29% decrease over last year and 34% lower than last quarter. Exports, high horsepower exports were Rs.203 crores, 50% increase over last year, 5% increase over last quarter. Low horsepower exports were Rs.187 crores, 97% increase over last year, 14% decrease over last quarter. For the year ended March 31, 2022 with respect to last year. We had record sales at Rs.6026 crores higher by 42% compared to Rs.4256 crores recorded last year. Domestic sales at Rs.4416 crores were higher by 42%. Exports at Rs.1610 crores increased by 40%. Profit before tax and exceptional items at Rs.1027 crores is 27% higher than last year.

Segment wise breakups for the year ended March 31, 2022. The sales breakup segment wise are as follows. Power generation domestic sales were Rs.1959 crores which is 77% increase over last year. Distribution business sales were Rs.1484 crores a 23% increase over last year. Industrial domestic business sales were 899 crores, 21% increase over last year. Exports high horsepower export sales were Rs.808 crores a 33% increase over last year. Low horsepower export sales were up Rs.681 crores a 51% increase over last year.

As far as Cummins India financial guidelines for financial year 23. The Company expects the current trend of sustained growth across multiple industries and segments, demand outlook from various end markets continues to be positive. The Company continues to work on stabilizing supply chain and power supplies. We are closely watching the impact of high inflation, geopolitical events unfolding in different parts of the world and their impact on demand and the supply chain as a consequence. Considering these uncertainties, the Company will not be providing any guidance for FY23. With this, I now open the session for questions. Thank you.

Moderator: Thank you very much. We will now begin the question-and-answer session. Our first question is from the line of Sandeep Tulsiyan from JM Financial. Please go ahead.

Sandeep Tulsiyan: First question is pertaining to the margins especially gross margin. What we have observed in the current quarter the mix between domestic and export is usually treated towards export its more like 70:30 versus the usual run rate of 75:25 what we have. But despite that, we've had almost 100 to 150 basis points margin contraction at gross level. So, would you be able to guide us, had this exchange not been there, the gross margin decline would have been even sharper. So, to what extent have we taken pricing action and when this mix normalizes, in the coming quarters, do you foresee the gross margin pressure to continue and if any price hikes which are taken maybe say, during the end of quarter are not fully impacted? If you can guide on those lines, please?

Ashwath Ram: Yes, so Sandeep very good question. And this is a question, which has been our continuous battle now for the last almost four quarters. And we think this battle will continue for at least a few more quarters. So, the commodity rises are unprecedented and the rate of growth of commodities has been unprecedented. And so the biggest impact on the margins has been because of the commodity increases, we have been able to partially offset some of those because of the mix as you mentioned, because of some of the price increases that we have passed through, because of cost reduction activities and cost containment activities. But the overall lag between when we keep increasing prices. And as a market leader, we are the first to increase prices. And that of catch up with the commodities in my view is roughly about a quarter, a quarter and a half. So, we are playing a catch-up game and that directly is flowing through into the bottom line. What we do think that once commodities start stabilizing, and it's already started stabilizing in certain commodities, we think that the price increases will have an opportunity to catch up. But I'm not really optimistic of that happening immediately, because there is still a lot of instability as far as global commodities are concerned.

Moderator: We will take our next question from the line of Parikshit Kandpal from HDFC Securities. Please go ahead.

Parikshit Kandpal: Sir if you can give some sense on the average order size, which was before COVID so as compared right, what kind of pre COVID and now will be the price increase because what we have for some of your competitors, not your competitors, but companies that they assume 19% to 20% kind of price hike over last two years, so we just wanted to understand for us, like how much are we in this quantum?

Ashwath Ram: I can't give you the exact numbers because it differs by market segment by, by type of product, etc. Depends on the impact of commodities, but certainly they have been in the double digits is what I can at least give you an indication so it's been large.

Parikshit Kandpal: We are seeing this in early teens.

Ashwath Ram: I won't confirm that because we continue to pass through increases, but certainly they are pretty large.

Parikshit Kandpal: Okay. Sir my second question is on, the last call you had highlighted that you were doing some demonstration projects, and pilot project on hydrogen for both North East and sea-land locomotives. Any tangible or measurable outcome what we are seeing out of this and how do we intent to grow this segment related to green hydrogen or clean energy. So, if you can quantify some measures and qualitatively also, it will be helpful.

Ashwath Ram: Certainly, we have participated in a lot of tenders, some of those tenders are in final stages of negotiation. And we are quite well placed to do well in those tenders. The number of tenders is increasing, but the deployment of all of these are in the two years to four years kind of range. So, none of these projects, the projects are complex enough that it doesn't get implemented, in less than two years timeframe. But we are certainly actively participating.

Parikshit Kandpal: And what could be the cumulative size of all these tenders if we can just quantify since you are participating in all the tenders?

Ashwath Ram: It depends year-on-year these are in hundreds of crores. But, I can't give you one number, but I would say so far if you take a timeframe between 24 and 27 there are already contracts worth nearly (+1000) crore have already been tendered. So, it depends how many people win and there are many, many variables between now and us closing those deals.

Parikshit Kandpal: Okay. But just last question on this electricity amendment, which happened earlier a couple of times. So, last time you had said that you were presenting a white paper, you were in discussions with the government and bureaucrats, so any sense on how this thing will shape up now. So, over the next five years how do you see the industry on the genset side, the power gen side, how it will evolve and what will be the impact of this, if you can just highlight for us?

Ashwath Ram: So, the most important thing which we were interested in is the tightening of emissions, because if, as we were speaking to the government they are serious about clean air, then the best way to get clean air is to have tighter emissions and which is why we have been pushing aggressively to move to CPCB 4+ and so the draft and the timing and the notification of that has already come out. Certainly, certain ministries, not all ministries work in cooperation with each other. So, certain ministries have gone ahead and despite us submitting white papers on the advantages of tightening emissions, the advantages of moving to newer technologies and the overall impact of gensets on the environment and on the supply of power. The power ministry has gone ahead and released a draft saying that people should not be using as many diesel gensets in certain markets. But that has not impacted our business as a matter of fact, ever since they announced that they also guaranteed 24/7 power. And you've seen what has happened as compared to promises versus the reality on the ground. We have seen increased demand across pretty much every segment. We certainly all those notifications by some of those agencies it doesn't directly impact business it does push certain customers in certain markets away from diesel into some of the other technologies we sell, like LNG and CNG. So, it's positive from our perspective some of these notifications that have come up, so I just see it as a win-win for us what whatever has come out so far.

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

Renu Baid: I'm not sure if I missed your initial comments. My first question is, broadly in the current environment post the Russia, Ukraine war and significant liquidity tightening across global markets, including India. What are you seeing in terms of bottom up demand momentum across various end markets and customers effectively on the export market and also the domestic market if you could share your views are you also seeing project delays or risk of CAPEX getting slowed down or do you think the broad momentum is still intact?

Ashwath Ram: To first answer the very broad global view is that demand is not slowing down demand is continues to remain pretty strong. It's as a matter of fact supply chain is a bigger impact to our growth rather than actual demand from multiple segments as a Company Cummins has pulled out of Russia, and that certainly has a, it doesn't have such a big impact on our India business because the Russian market was a smaller market for us. But it does have a limited impact but overall as of today, our demand far outpaces our ability to supply. And it's not slowing down either in India or in other parts of the world.

Renu Baid: But do you see a risk of slowdown in the coming two quarters or do you think it's more about liquidity adjustment at the end market demand environmental robust to that extent?

Ashwath Ram: I think for the products that we serve, they're coming out of a multi-year low. So, we don't see too much of a setback or a correction there. And with many of the nations, which are have a positive impact due to commodities, like the Middle East, like some parts of Latin America, even some parts of Africa, they are benefiting from higher commodity prices, and they're actually able to buy more products. So, we are seeing demand continue to remain strong.

Renu Baid: Sir, second question is, if we look at the segment numbers, which you highlighted, sharp sequential drop in the industrial business segment. While you did allude last quarter that we do see a sequential drop in the business volumes, but the 30% kind of sequential drop seems too alarming. So, if you could give some color in terms of how the sub segments have performed within industrial and how should we look at the growth across some of the key verticals within the industrial business?

Ashwath Ram: So, if you look at it, there is typically the Q4 in most of our segments dropped as the government and many of the other customers close out the year and then close all the buying before the end of the year, the strongest quarter of the year is typically Q3, but when you look at the full year, you can see that despite all of those challenges, we have continued to grow even in the industrial market, as a matter of fact we have grown 21% over the previous year. Now, when you look at it, quarter-to-quarter comparison the segments actually we have seen a slower pickup is the construction and compressor segments. So, the compressor segment is of course very cyclical and it is dependent on having the right amount of water table, which means if it's too dry, then the compressor segment drops. If it's too wet, the compressor segment drops. And as of now it's too dry and so the compressor segment is down a bit.

Construction came very, very slow out of the gate at the beginning of this year and we do expect construction to pick up pretty strongly, do a bit of catch up and then then bounce back as compared to last year. Last year similar quarter it was down very significantly. But all indications tell us that as road construction increases and they come back from right now they're struggling between 30 to 40 kilometers a day, their ambition is to do over 100 kilometers a day. So, as they start ramping up, construction, this market will start to pick up. The same is true in rail. The rail was the last to come out of the COVID cycle as far as ramping back up. And it's starting to scale back up we have some timing issues as far as delivery on some of those products so we could have done a little bit better than what we did in rail. And some of the other segments like defense and marine. But we think that demand will continue to be strong and it's our ambition to do better this year than we did last year.

Renu Baid: Sure. And last related question here would be, if you look on the rail segment railways have floated large tenders for local motors and Vande Bharat train it's more on the early stock now investments are coming back. So, how is Cummins space in terms of new product launches, which were planned somewhere for this calendar year and do we have any proxy related to some of these large projects which are in pipeline?

Ashwath Ram: Certainly the biggest one I can talk about which has got a multiyear positive impact on us is on the electrification of rail. And so we have won our first tender there, this is a breakthrough and it bodes well, of course we have to deliver well, the products have to perform well, but it bodes well for future growth demand, this was something which has got multiple years of investment has gone into developing some of these technologies. So, we need a little bit of time before it starts to convert itself into a strong growth area for us. But there are other parts of rail, the traditional parts of rail have now started to revive again, and they seem to be going pretty strong.

Renu Baid: And on the new products which you mentioned the rail, what could be the size if you look over the three to five year perspective. How large can it contribute in terms of revenue terms to the business?

Ashwath Ram: Our ambition is to get over 300, 400 crores out of just those products. Now, how it pans out, how quickly the electrification of those products happens is to be seen, but certainly we are pretty ambitious about how much potential that those products have.

Moderator: Thank you. Our next question is from the line of Rajesh Kothari from AlfAccurate Advisors. Please go ahead.

Rajesh Kothari: Decent business in otherwise challenging environment. My question is, just like in the industry segment can you also give you a little bit more insights into the power gen segment particularly on the data center side what kind of traction we are seeing, are there any other **–26:43** large project which are coming into this, and also more insights into the distribution side of the business?

Ashwath Ram: Sure. So, suddenly demand is incredibly strong, like in all other segments and all other parts of our business Q4 tends to be a weaker quarter than Q3. But when you compare Q4 of this year versus Q4 of last year, which was also not a COVID impacted quarter, you'll see that we have grown pretty, pretty significantly, with almost like something like 33% growth over the last year. So, demand is strong across multiple segments, whether it's high horsepower, medium horsepower, pretty much across the board demand is strong. Data centers the potential is huge.

We are booking lots of orders, we have many more orders than what our capacity is today. So, there is no problem with orders at all, data centers is going, the boom in data centers is not going to last for just one year we see it as at least a five to eight year double digit growth opportunity in data centers. We are very, very strongly positioned every major data center player, we have the opportunity to serve them and supply products to them. Also in the market segments like industrial, pharmaceutical, hospitality, residential realty and commercial realty we are starting to see all of those segments start to bounce back pretty strongly. It's right now a supply constrained environment in many of the high horsepower nodes. Low horsepower nodes right now this quarter is the peak summer quarter. And again, we have strong demand there, we have pretty good growth there, we have better growth in low horsepower than we even did in Q3. So, we think that we are pretty well positioned in the power generation space to have a strong year, this year.

Rajesh Kothari: Within power gen the data center kind of a opportunity or your current contribution to the sales and power gen would be how much approximately?

Ashwath Ram: Right now, data centers will probably contribute anywhere from I would say about 10% to 15% in that range. And we think that percentage will probably increase over the next few years. But the overall market is growing. So, while that segment is growing well, other segments are also doing quite well.

Rajesh Kothari: Sure. And sir color on distribution business?

Ashwath Ram: Sure. So, as far as the distribution business is concerned, the biggest component of our distribution business is past sales and demand there continues to be pretty robust. The next biggest segment is rebuild engines, that market is slowly starting to recover. Again, when we compare to the previous years, we grew at 10% quarter-on-quarter. And as far as service revenue, which is the second largest portion of our revenue after part, that was same as the previous quarter indicating that there isn't any cyclicality. So, the number of service calls that we are getting and the number of requests for maintenance, the number of people getting gensets ready for the summer months, and for the peak month, that continues to be at a record level. And we think we could have done a little bit better, where had a supply chain being able to get us more parts. But the demand is not as a problem even from a distribution perspective.

Rajesh Kothari: And sir in exports market particularly which markets are basically seeing high traction?

Ashwath Ram: As a matter of fact, when I look at the numbers, every single market has done well. Asia pack as compared to the previous quarter has done a little bit worse, that could be related to the China shutdowns, that was probably the bigger variable there. But other than that, we haven't seen too much of a slowdown. Q4, as I mentioned, is the first quarter for global markets. And what they do is they buy all the materials by the end of the year, and then they take a shutdown for the year. And by the time they come back and they start scaling up again, you lose a couple of weeks in the quarter. So, the Q4 for us from an exports perspective is typically a lower quarter just by design. But even if you compare our Q4 to the previous years, we have grown by something like 62%. So, it's a great indication and if you look at our order board, we are we are prioritizing a little bit on exports as compared to domestic, but even then we are not able to meet unconstrained demand because of availability of certain types of semiconductor, certain type of parts or capacities in the global system.

Rajesh Kothari: Great sir, that's really detailed explanation. Just one last point from my side, probably you repeated this probably five to seven times that it is a supply chain which is creating issue compared to the underlying demand which the ability to supply that's where probably the constraint starts with and probably with a better problem to handle rather than falling demand issues. So, in a normal environment in terms of would you like to have any kind of estimate that otherwise what kind of underlying demand growth is, how do you track actually underlying demand growth. So, what you do internally?

Ashwath Ram: So, we track demand by order bookings. And I would say at this stage right now we are meeting anywhere from 80% to 85% of the order book for a particular month, which tells me that we are leaving anywhere from 10% to 15% on the table that we could have done better as far as exports is concerned and domestic it depends by segment, if you have a greater problem in the high horsepower area than in the low horsepower areas, but again the problems are similar.

Moderator: Thank you. Next question is from the line of Charanjit Singh from DSP Mutual Fund. Please go ahead.

Charanjit Singh: Sir just in the domestic as well as on export side on the power gen front if you can highlight. So, my question is regarding if we have to break up this growth in terms of the volume and value growth for Cummins India, in the power gen or in the export market what could that be and from volume growth perspective going forward in FY23 while your commentary is extremely positive, but from here on how we should look at the volume growth in the domestic margin as well as in exports. That's my first question.

Ashwath Ram: The power generation growth is very directly proportional to growth of GDP and the growth of the economy. So, as our economy keeps growing and becoming stronger we always need more power, as our society becomes more affluent, they need more power, as their dependence on data or their dependence on information increases, they become more dependent on power. So, as our economy keeps increasing, the demand for power generation will keep growing proportionately. From a value perspective, the value buckets keep increasing as the technology gets more sophisticated. So, for the last four or five years, we've been on CPCB 2 which is a, what I call a mechanical technology and we are getting ready to move to a CPCB +4, which then transition the product to full scope electronics and after treatment kind of technology, where there is a lot greater value add a Company like Cummins can do so. So, that's the way I would probably answer this the question you had, demand continues to remain robust, and there are opportunities around the world for more demand.

Charanjit Singh: And export side you have given the numbers for low HP and high HP 4000 you have done. But if you can also give more granular details specially on the high HP exports front, which geographies I remember that it used to be only going to the US markets. So, has those things changed in terms of the high HP exports and from the low HP exports we are doing it mainly for the **–37:32** distribution channel. So, there also if you can highlighting how the trends are being shape up in the low HP export side?

Ashwath Ram: So, certainly as far as we're concerned in the previous quarter in Asia, I'll first talk about high horsepower exports by region. In Asia Pacific, we sold about 73 crores worth of exports. In Latin America, we did about 33 crores, in Middle East we did about 35 crores. In Europe we did around 46 crores and in Africa we did nearly 16 crores. If you look at low horsepower exports we did about 64 crores in Latin America, we did 23 crores in Asia pack, we did 46 crores in Europe, we did 36 crores in Middle East, and we did 18 crores in Africa.

Charanjit Singh: Okay. Sir lastly from my side now what we are seeing is the peak power deficit are coming in downtrend after every one or two quarters we see this situation increasing so while overall deficit continue to remain low in the power side but peak power deficit has become an issue. And there the gensets faced with more traction in the market so any thought there in terms of how this scenario will be panning out on the ground, maybe renewables not able to cater to that peak demand. And then the requirement of genset and there is overall growth changes while we touch on that the low HP is getting some benefit from that, but if we are looking for a two to three years perspective, if we can highlight more on this aspect.

Ashwath Ram: Certainly as the economy keeps getting larger, the demand on power will be higher. And so automatically, we have products which benefit from that demand opportunity. The second aspect of this is that, as we transition from thermal power to greener power like wind and solar, there is a phenomenon called grid imbalance which happens, which means you can use solar only during the day, you can use wind only when the wind is blowing. So, there may be certain times when lots of power is available, and then certain times when power is not available. And you can't just take all the power and store it in batteries because you can't afford it. So, the power costs become so great that it's unaffordable. So, when these kinds of things happen, you continue to require balancing power generated through gas fired gensets, or diesel fired gensets. And all of these kinds of phenomenon are likely to happen as our market also gets more sophisticated. We have seen this happen in Europe, in North America, in Japan, in China and our hypothesis is that the same will happen in India as well.

Moderator: Thank you. Our next question is from the line of Harsh Shah from Jefferies. Please go ahead.

Harsh Shah: I have two question. Sir my first question is that if the government is reducing the diesel engine usage, when the parent new technology will come to the listed entity, or the unlisted or not sure as of now?

Ashwath Ram: All the businesses which are there in the listed entity will continue to remain in the listed entity. So, power generation business as such remain in the listed entity. As far as if the power generation, for example moves to different technologies like CNG, LNG, hydrogen in ice, all of those technologies which are already part of what is in the core they continue to remain. What is to be done with some of the newer technologies which have still not come into the country that is something which is being explored to try to figure out what is the best, best path to market from an end user perspective and from a Company perspective to protect the intellectual property, rights, etc. So, that's all being worked out right now. So, I don't have a good answer of where it will lie. But our principles have always been that what has remained in the listed entity will remain in the listed entity.

Harsh Shah: Sure, thank you. And secondly on the CTCP engine, so when do you think it will be effective in India, the upgrade?

Ashwath Ram: 2023 is already been announced.

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

Bhavin Vithlani: Ashwath, I have two questions. One, you did mention about the supply chain issues prevailing for the last four quarters. So, if you could just help us understand the changes that we have made to our supply chain. And when do you see these issues getting sorted out that's question one. The second question is freight rates have seen a considerable increase and exports being a significant part of the business are we actually seeing an impact on our competitive that's for our products because the freight rates have gone significantly higher we need somebody who is manufacturing locally?

Ashwath Ram: So, I'll answer the second question first. The answer is yes, to a certain extent, freight rates are more than doubled. And there is no quick solution which is available and the increase on freight rates it's two ways, it hits us on inputs of all important supplies as well as imports of all commodities directly impacts us from a cost perspective. And from a selling perspective there are two aspects again, one is that you don't even get enough containers. And if you do get containers and the cost are more than doubled. So, certainly, the way it impacts us is it impacts our margin that's what it impacts, it's still not significant enough to offset the advantages of productivity and cost that we have from India. So, that that continues to not be a factor. Because wherever you produce it, you got to get the material there. So, that cost doesn't just go away from the overall system. But certainly, it makes it more attractive for certain countries who have treaties amongst themselves like US MCA treaty. So, between Canada, U.S. and Mexico, it does make it sometimes more lucrative to just buy stuff from Mexico, etc., into America, there is a little bit of impact there. What we have been doing from a supply chain perspective, we continue to focus on cost within our system. We continue to add more suppliers. We continue to keep strategic inventory, we continue to invest in new suppliers. So, pretty much every, every strategy in supply chain to keep us going and ahead of the game is being deployed, there are war rooms and councils being run in multiple countries to support manufacturing. When do I see us get out of this, honestly I have no clear answer because every time we predict that, now things look like they're getting under control. Something happens like COVID in China and China shutting down everything, no one had predicted that, no one had predicted that there's going to be a war between Russia and Ukraine and this is going to last this long and have all of these impacts. It's very difficult at this time to predict how long it will last, all of these variables have an impact on the overall global supply chain. So, lead times are longer now and certain commodities like electronics are still not available in the volumes that we would like. So, I would say there is at least a couple of quarters before there should be better stability than what we have today.

Bhavin Vithlani: There's one more question if I may. So, if I look at the portfolios the India versus the parent it is 78 liter is the one which is missing any plans of localizing it considering that this is the demand from data center is on the rise and this is one category where we are seeing a significant increase in demand?

Ashwath Ram: We keep looking at that certain components which are used in those engines are already being manufactured in India. So, certainly we keep looking at all options and when the timing is right, when there's a right balance between demand and supply. Those kinds of decisions are usually taken at the Company. We have the best cost base in India so there is no reason unless if you have good demand and great utilization of not wanting to put more than India. So, certainly those kinds of products are being looked at.

Moderator: Thank you. We'll take the next question from the line of Sandeep Tulsiyan from JM Financial. Please go ahead.

Sandeep Tulsiyan: So, I had a couple of more questions. First one was on the overall employee expenses, we announced a VRS scheme, a week or two weeks back. So, if you could highlight in terms of the cost containment measures what you'd have rolled out, how do you see foresee these measures to contain your overall employee cost, what kind of growth rate your employee cost is likely to see what your sales growth over the next say one to two years?

Ashwath Ram: So, you can look at the way we have been managing employee costs currently, if you look at our employee cost it's almost at the same level as what it was a couple of years ago. And the way we have manage that is through significant focus on productivity, significant focus on doing more with less every variable, both fixed costs and variable costs is looked at by the Company and we tried to optimize those, if you look at expenses on our books again they are lower today than what they were a couple of years ago, despite significantly greater volumes. So, we are able to get leverage out of that. So, this VRS and these kind of schemes are schemes and opportunities provided to people who have worked in the Company for a long time, as we move towards greater automation, greater technology, trying to get greater productivity out of the same system, and assets. These are the kinds of opportunities we are making available to some of the people to volunteer and take those options. And it helps us optimize and helps us improve on productivity, etc.

Sandeep Tulsiyan: But just one contradiction there. Actually, if we look at the employee cost it's very much in-line in terms of growth with sales, or actually it has gone higher in terms of sales growth over last five or 10 years. So, that's the reason that question was there what percentage or in terms of margins, what kinds of benefits you can fetch out of this VRS?

Ashwath Ram: Yes, but if you look at it as a percentage of sales is actually dropped pretty significantly. When I look at the employee costs in Q4, of 19-20, versus what it is in Q4 of 21-22, we have got almost 4% point drop. So, that has only happened, because you're focused on that and gotten greater productivity despite your annual increases in labor cost and other employee cost. Despite that, you have dropped the employee cost percentage as a percentage of the overall cost of the system. So, we will continue to focus on that. So, my point was not to say that this is not something we care about, actually we do care about it. And we talk about it all the time and there are dedicated teams who are focused on managing that and the VRS scheme you referred is part of those kinds of exercises to keep looking at that structure continuously and trying to get better at it.

Sandeep Tulsiyan: Fair enough. Sir another question on two specific verticals. One is in data centers, a couple of quarters back we had one large order of 150 crores revenue what we had executed. And at that point in time, we had guided that every alternate quarter we shall see one such order, but we haven't actually saw that materialize in the previous quarter so, would you still maintain that kind of guidance that two such orders can be done every year. And second was on railways within industrial if you look at the numbers over say a two or three year period, we have seen a sharp contraction in that business, although you highlighted some new orders are won one on the electrification side, but do you still foresee that the transaction from or two electrification has overall stagnated or kind of reduce the opportunity from railways although we might grow on this slowly, but overall opportunity size has contracted or that has increased if you can help us understand that part?

Ashwath Ram: See the last two years are not a fair comparison at all because they are COVID impacted years and of all the segments that we participated rail is the one which is the hit the worst. So, they are bouncing back. So, we should see some of the traditional demand come back, but certainly the move to electrification as we migrate there, we see many more opportunities coming up over there, so we remain quite bullish and optimistic about rail. We are going through a transitionary period right now, but we remain pretty optimistic that things will, we can get growth out of rail.

Sandeep Tulsiyan: Okay. And on the data center part?

Ashwath Ram: Data centers, it's some of these execution timing issues we continue to remain highly optimistic whether every quarter we will get whatever 150 or 200 crore order or not it's difficult to say this, but certainly we will keep growing that business and every year, we expect at least double digit growth in that segment. So, if in one year we have got an order and if you're expecting double digit kind of growth in that we have to get even more orders. So, yes, there is a strong pipeline, I'm not sure about the exact timing of when we will execute there, but you will see orders that come in at a pretty frequent intervals.

Moderator: Thank you. Our next question is from line of Renjith from Mahindra Manulife Mutual Fund. Please go ahead.

Renjith: Sir one clarification which we would like to understand, in future when these smaller NHP gets converted to batteries and that kind of technologies so, how will that work in terms of the IP rights and royalty payments will that be transferred to the Indian entity or will we have to pay some higher royalty to the parent entity and as a follow up tomorrow when hydrogen also comes how are we going to structure these things, what is your thought process behind that, as a listed entity what we gain and how will that the whole thing will pan out?

Ashwath Ram: First of all these transitions are nowhere in the short term, the short term for power generation industry for transitions is anywhere from 10 to 25 years. So, at least in the near future, we don't see anywhere in the world that our scale of business has transitioned to batteries, but it can 10, 15 years from now some portions of it. Cummins has a lot of IP as far as batteries is concerned. And like IP for diesel engine is transitioned to the listed entity in a similar manner, IP for batteries and some of those kinds of solutions like hydrogen, ice, etc., will get transitioned to the listed entity. So, there is no difference in the way of thinking, the same logic which is used historically this is just different technology going into the same market. So, the logic is similar, what those percentages, etc., will depend on, how much investment the parent has made in acquiring those technologies or spending on R&D, etc. So, it cannot be compared to a technology which is in existence for 100 years. But the logic of the way Company thinks about it is very similar to what it has been done in the past.

Renjith: Okay, sir thanks for that. And another thing like, I don't know whether this has been asked like what's there's been talks regarding the restructuring of the Cummins India entities into one single legal entity. So, anything on that which you'd like to highlight or any timelines?

Ashwath Ram: No, nothing as of now. These matters keep getting discussed continuously and the moment we hear of something we will certainly keep everyone posted. But there is no progress as of now or anything I can announce at this stage.

Renjith: Okay. And sir this is industrial segment has seen a sharp Y-o-Y decline also Q-o-Q, we can understand that can be something but the strap Y-o-Y decline. So, is that something to be alarmed about or you believe that it will come back in the next quarter or something like that?

Ashwath Ram: Industrial segment has not declined year-on-year versus last year.

Renjith: I am talking about the 4Q.

Ashwath Ram: That's right. So, only the fourth quarter we have seen a decline. We still remain, we've got very clear factors as to why we see that decline versus the previous quarter, if you look at the full year, you can see that we have still grown and we continue to believe that even this year we will see growth even as compared to last year. So, we don't see any permanency in the difference we see between Q3 and Q4 or the comparison of Q4 last year versus this year. It's normally according to us, we remain optimistic that we will do better this year than what we did in the previous year.

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

Aditya Mongia: The question that I had was more on revenues and I am trying to make a see through the prospects of revenues to grow from here on versus what a business as usual scenario will suggest. So, obviously, there are linkages to underlying factors such as the economy and I am trying to kind of capture the alpha or the growth beyond that, that can happen because things are probably changing across segments. And I will start with power gen, as you rightly said there are several things that are going to play out in terms of there being a requirement for higher, societies wanting more and more gensets, there will be grid imbalance as you rightly said there will also be let's say a prime over demand and because of our deficits, there's a data center element towards which I think is a part of your power gen demand maybe 30% or so. And then there are markets again CPCB4. It's the alpha that you can get, it's a growth beyond what GDP will suggest, is this a meaningful numbers in power gen for you, if you see from a three to five year perspective, thank you.

Ashwath Ram: We think so, because even globally we have seen this trend work in multiple market segments including in the automotive space where there is consolidation also happening, which means as people are migrating to some of the newer technologies, they cannot keep investing in some of the legacy technologies and so, there is more consolidation happening as well and so and when consolidation happens the market leader has the greatest leverage. So, there are opportunities so we do see growth beyond the GDP as an opportunity for us.

Aditya Mongia: Okay. And then I would want to think may be 1.3x is also possible so just thought I will check your non-power get to start?

Ashwath Ram: We remain very bullish on power gen. So, we think globally there are many opportunities and we have many customers and the potential for that market to grow is significant.

Aditya Mongia: Understood. And the second segment for now, so let's say distribution in the fact that there is a deficit for usage will go up and the fact that the electronic engines will become a larger part, do you foresee distribution segment growing probably as fast as your product portfolio?

Ashwath Ram: Historically, distribution in India has grown at a lower rate than in some of our other markets, because in other markets, distribution also does sales of new engines, it does sales of many different types of products. So, we are getting into a little bit of that, where we are introducing more products, beyond what are manufactured by our Company into a distribution channel which already exists. So, those are new incremental areas of opportunity, certainly parts will continue to grow. And there is a long tail of on part. So, these products lasts for dozens of years. So, you continue to serve historical markets and you also continue to serve new markets with more complicated more expensive parts for electronic kind of engines. The need for full service also increases so if we have a certain percentage of our service market beyond warranty, that percentage usually goes up as the technology gets more sophisticated. So, there's an opportunity to grow there as well. And as people get more environmentally conscious the opportunities are rebuild and reconditioning products which in India has been a weak market, but globally has been a pretty strong market for Cummins, that also represents a very good opportunity for the distribution business to grow. So, again, this is a business where we are aiming for and targeting at least double-digit growth year-on-year, over year going forward for many years. But, there are a lot of fundamentals that we have to keep working on and build to be able to do that.

Aditya Mongia: Understood. Rounded off on exports again the same question how much alpha, as you gave the breakup today Europe is about 20%, 25%, and U.S. is zero, almost zero North America. And there are new products that you would want to launch any sense of how strongly can export grown, I know your subjective comment that you will be disappointed if it doesn't develop in certain timeframe. Just one more granularity on when to start expecting North America and a greater part of Europe starting to contribute.

Ashwath Ram: You can already see in the last few years that it has stagnated, it has dipped and now we are beginning to grow it back again pretty aggressively. And this growth that we are seeing recently is driven by our improved focus, launching many new products, launching fit for market kind of products, and then tackling the needs of individual markets rather than having generic products which kind of cater to everything. So, we think that by focusing on even the existing markets that we cater to forget North America, with the complications of U.S., etc., it's a more difficult market to penetrate but even the markets that we currently are serving we think there is an opportunity to double as I've stated multiple times it's ours to do if we don't do that, and we are pushing pretty aggressively to get more growth there.

Aditya Mongia: Just to kind of summarize, not asking another question, but let's say GDP growth 7% the way we are discussing across segments, from a volume perspective can the Company grow double digit for a long period of time?

Ashwath Ram: This market is certainly cyclical but there is no logical reason why it cannot grow at those kinds of rates, but I would be just speculating if I had any real insight on exactly at what volume rate it can grow. So, we are not clearly giving you any guidance all we are saying is that, as of now looking out in the next few years, the demand scenario globally looks quite optimistic. And we think that growth will happen.

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

Ashwath Ram: I would like to thank all of you again for taking time to attend our investor call. These questions certainly help us to think about the way our investors think about our business. I remain cautiously optimistic about the demand for Cummins India and I thank you for all your support and wish you a safe and healthier year. Thank you.

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