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August 19, 2020

The Relationship Manager, BSE Limited, Phiroze Jeejeebhoy Towers Dalal Street, Fort, Mumbai 400001 BSE Scrip Code: 500480	National Stock Exchange of India Limited Exchange Plaza, 5 th Floor, Plot No. C/1, G Block, Bandra – Kurla Complex, Bandra (East), Mumbai 400 051 NSE Symbol: CUMMINSIND
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Subject: Intimation of transcript of analyst conference call held on August 13, 2020

Dear Sir/ Madam,

With reference to our stock exchange intimation dated August 04, 2020 towards investor/ analyst/ Financial Institution conference call, we are enclosing for your records a copy of the transcript of the said conference call conducted by the Company on August 13, 2020.

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

Thanking you,

Yours faithfully,
For Cummins India Limited

Vinaya Joshi
Company Secretary & Compliance Officer

(This letter is digitally signed)

Encl.: As above.



Cummins India Ltd.
Analyst Call

August 13th, 2020



SPEAKERS:

Management, Cummins India Ltd.

Moderator:

Good morning everyone. I'm Harpreet Kapoor, the moderator of this call. Thank you for standing by and welcome to the Cummins India Limited Analyst Call for Quarter One of 2020-21. Today on this call, we have with us our leadership team, Mr. Ashwath Ram, Managing Director Cummins India, Mr. Ajay Patil, Chief Finance Officer Cummins India and with Mr. Anubhav Kapoor, Legal and Secretarial Head Cummins India. I have the pleasure in handing over the floor to Mr. Ashwath Ram. Thank you and over to you, sir.

Ashwath Ram:

Good morning, ladies and gentlemen. I am Ashwath Ram, the Managing Director of Cummins India Limited. Hope all of you and your families are doing



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well and are healthy. Also joining me on today's call is our CFO, Ajay Patil. I want to thank all of you for joining us on this call. I'd like to share the financial results of the quarter ended June 30th, 2020 through this call. Here are the financial results. For the quarter ended June 30th, 2020 with respect to the sequential quarter, our total net sales stood at INR 484 crores, which declined by 53% compared to INR 1032 crores recorded in the preceding quarter. Domestic sales stood at INR 358 crores, which declined by 54%. Exports stood at INR 126 crores and declined by 51%. Profit before tax and exceptional items were at INR 70 crores which declined by 42% compared to INR 121 crores recorded in the preceding quarter. For the quarter ended June 30th with respect to the quarter ended June 30th, 2019, our total net sales stood at INR 484 crores, declined by 63% compared to INR 1316 crores recorded in the same quarter last year. Domestic sales stood at INR 358 crores which declined by 64%. Exports at INR 126 crores, declined by 61%. Profit before tax and exceptional items at INR 70 crores is 64% lower as compared to INR 194 crores recorded in the same quarter last year. The segment wise breakup for quarter ended March 31, 2020 to give you a sales wise sales breakup per segment, industrial domestic business sales were at INR 80 crores, which was 68% drop over last year. Power generation domestic sales were at INR 96 crores, which is a 75% drop over last year. And the distribution business sales were at INR 183 crores which is a 47% drop over last year. High horsepower export sales were INR 57 crores, which is a 67% drop over last year. Low horsepower export sales were INR 55 crores which is a 58% drop over last year. As far as Cummins India financial guidance is concerned, the company expects gradual recovery of demand in coming months. However, there remains significant uncertainty about how COVID will impact market demand as well as customer and supplier operations. Due to this uncertainty, the company is not providing a full year revenue guidance for financial year 2021. With this, I would like to 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. So participants, if you wish to ask a question, you may please press '0' and then '1' on your telephone keypad and wait for your line to be unmuted. I'll repeat, you need to press '0' and then '1'. First question of the day we have from Ravi Swaminathan from Spark Capital. Your line is unmuted. Please go ahead.

Ravi Swaminathan:

Hi, sir. Good morning. Thanks for taking my question. My first question is with respect to the powergen business, if you could give a broad flavor as to how the demand scenario currently is in terms of commercial buildings, hotels, hospitals, IT offices, data centers, etc. So if you can extend on niche subsegments [indiscernible] it will be great as to what percentage of the usual normal at which [indiscernible]?

Ashwath Ram:

Right. So first I'll tell you a little bit in that the demand is coming back, but it is coming back in an asymmetrical manner, in the sense that certain segments such as rental data center and healthcare are leading as far as demand recovery is concerned. And other segments such as hospitality segments such as commercial realty and even residential realty is coming back. Some areas of manufacturing is all coming back at a lot more gradual rate, and you can understand the reasons



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why they would be coming back at that rate but certain segments are coming back quickly and certain others are going to take longer time to recover.

Ravi Swaminathan:

Sir, will it be say all this hospitality, commercial real estate will be 50-60% of normal or it will be higher than that? And how [indiscernible] data centers are a flattish compared to last year or how is it?

Ashwath Ram:

I can tell you the data center has caught up to last year and in some areas we've been doing better whereas hospitality, etc. is in pretty bad shape and it's going to take quite some time to recover.

Ravi Swaminathan:

Got it sir.

Ashwath Ram:

It is very likely practice. Yeah, go ahead.

Ravi Swaminathan:

Yeah. My second question is with respect to the other income this quarter. It was on the higher side, can you do the breakup of the other income and the corresponding other income in the previous quarter and in 1QFY20?

Ashwath Ram:

Yeah, I think the biggest, biggest positive impact on other income is we have received an income tax refund from an earlier time, which had close to INR 35 crore positive impact and because our rental income continued in spite of these difficult times, it has also had all the back

Ravi Swaminathan:

Got it, sir. I'll get back in the queue for more questions.

Ashwath Ram:

Sure. Thank you.

Moderator:

Thanks for your question. Next we have Sandeep Tulsian from JM Financial. Your line is unmuted. Please go ahead.

Sandeep Tulsian:

Yeah, very good morning. Sir firstly, if you could provide us with the breakup of the industrial segments sales and also related question to that is you have mentioned in the annual report that the power car market demand is likely to fall by 50% given the electrification, drive by the railways, but some part of it will be made up by these diesel electric power cars. So if you could share some data points on that how big is power car market sales for Cummins India right now, and going forward, how much of it can be made up with diesel [indiscernible] power cars and how much will be actually lost in terms of income? That's my question.

Ashwath Ram:

Yeah, so power cars is a pretty big portion of the rail business for us. We are pretty confident that we will, whatever business gets converted to other forms of usage, that we have alternate strategies and ideas by which we can make up pretty much all of that income. So I'm not too worried about that income. But in this period, we are certainly seeing that because most of the places where power cars are used are in the passenger rail portion of the business and this passenger rails have been all down since March and they are expected to come back only gradually. So, the recovery of that segment within the rail segment is also



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expected to be a little bit more gradual. There is -- we are not worried about our ability to make up for those the sales when there is -- when the potential conversion to electrification happens that is built as a gradual part over the next few years. But even in spite of, you know, those kinds of scenarios, it's going to come out of this recessionary tendency a little more gradually.

Sandeep Tulsian:

Okay. And the breakup for the segment.

Ashwath Ram:

Yeah. So, if you look at our sales in the industrial business, we had about INR 80 crores of sales this quarter and just to clarify, this quarter we are talking about the April to June quarter and we were pretty much shut for two months of that quarter. And so you can take this as we had a one-month quarter basically. And we had about INR 12 crores of compressor sales, INR 8 crores of construction sales, INR 15 crores of mining, INR 35 crores of rail, INR 4 crores of marine and INR 6 crores of others. So, you know, so it's not a typical kind of quarter.

Sandeep Tulsian:

Got it. And sir second question is, we did mention about some of the new products that we're introducing into distribution segment mainly with coolants diesel exhaust fluid for BS-6 vehicles as well as batteries for e-vehicles. If you could just help us what is the procurement arrangement which of the group companies or external parties, what kind of margins can be clocked? What can [indiscernible] scope of this entire market size? Some more color if you can throw on this entire business segment.

Ashwath Ram:

Yeah, so, as you know, we have a joint venture subsidiary called Valvoline and they are involved in this business and we are just using our distribution channel to sell some of those products so, I can't share the exact margin information, etc. on that, but I can assure you it's a good business. It's complimentary to everything. It utilizes our chain, which is already set up and established over many years. It utilizes it lot more effectively and it brings more top line and bottom line to our business. So it's a good business for us and we are pushing aggressively to expand that.

Sandeep Tulsian:

Sir, any data if you can share like what should be the growth? It should form like 10% of your distribution [Voice Overlap].

Ashwath Ram:

I can't share that right now, because, first of all, it's very difficult to correlate and say how quickly some of those markets are going to recover. That's one reason and that's all I can tell you is that we are excited about that segment and we expected to pay roughly an important part in our growth.

Sandeep Tulsian:

Got it. All right sir. I had some more questions, but I'll come back in the queue. Thank you.

Ashwath Ram:

Thank you.

Moderator:

Next we have Renjith Sivaram from ICICI Securities. Your line is unmuted. Please go ahead.



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Renjith Sivaram:

Yeah. Good morning, sir and congrats on a good margin, gross margins have been better [indiscernible]. So only in that context I just wanted to understand that you said largely due to that higher mix of distribution where the margins are higher, but we were able to show a better lower [indiscernible] are there any other element also better than expected gross margins?

Ashwath Ram:

You're certainly right that mix had a big part to play in better margins and you're also right that distribution business decline was lower but then we also had some favorable mix impact on high horsepower versus low horsepower which contributed to that. We had some material cost advantages with cost reduction, which also helped and we had some one time E&O kind of benefits compared to the previous quarter, which also helped us, for a previous year, which also helped us. So it's a combination of those three factors, but certainly the positive mix between DBU and the other producers as well as within power generation, higher shift towards high horsepower helped us in this [indiscernible].

Renjith Sivaram:

Okay and what was, sir, if you can quantify that one-time benefit in the run up?

Ashwath Ram:

E&O, we had some E&O in the previous year which we did not have this year. So it impacted us positively.

Renjith Sivaram:

Okay, sir if you just give us the breakup of the power gen in terms of HHP, MHP, high and low?

Ashwath Ram:

Sure. So, as far as the domestic business is concerned, about, we had sales of INR 96 crores out of that we had nearly INR 50 crores of high horsepower sales. We had INR 24 crores of medium horsepower sales and 13 crores of low horsepower sales.

Renjith Sivaram:

Okay. In terms of mid-range?

Ashwath Ram:

So, when you look at it as that classification we had INR 21 crores of mid-range sales and 13 crores of heavy duty sales.

Renjith Sivaram:

Okay and sir, what should be the material cost [indiscernible]? Are you seeing a clear trend that we will be able to contain that from the previous highs? What's the kind of run rate which you think that will be a sustainable material cost of sales or gross margins for us?

Ashwath Ram:

I don't see a very major change in this. [indiscernible] things will come back to a normal level as the volume ramps back up and mixed normalizes between the different factors I spoke about earlier. So I don't see a very significant change in material margin. Certainly, many of the cost improvement initiatives that we are driving should help in improving that a little bit, but not very, very significant.

Renjith Sivaram:

Okay, and sir lastly in the exports if you can explained which all geographies, did relatively better and where do you see the demand coming back from which geography?



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- Ashwath Ram:** Yeah. So what I can say is that it is not because of lack of demand that the numbers are so much lower in this quarter. It is mainly because we only shipped product for one month out of three. So it's pretty uniform when I see the - when I see the shipments across the different geographies. So it's even though by we will know only by this quarter whether the geographies are recovering at a different rate as compared to how we are doing and is there some relative advantages in some other markets. Certainly we know for a fact that China and North America are recovering at a faster rate compared to other geographies. But as of now, like I said, since the main reason why our sales are lower because we did not shift. We will know only in the next quarter, the real impact of the geographical spread.
- Renjith Sivaram:** Okay, sir. Thank you and the all the best. I'll join for further question. Thanks.
- Ashwath Ram:** Thank you.
- Moderator:** Next, we have Renu Baid from IIFL. Your line is unmuted. Please go ahead.
- Renu Baid:** Yeah. Hi, good morning, sir. I have a couple of questions. My first question is what could be the update with respect to the implementation of emission norms of both for the industrial engines as well as CPCB IV which was proposed and how are we with respect to our progress on motor, so design engineering as well as the [indiscernible] side?
- Ashwath Ram:** Okay. So let me first answer that question. First let me talk about the industrial side, the first emission that was going to be implemented was PV BS-4 and that has already there is notification that that has been pushed out by three quarters and that notifications has already come out. We expect similar as of now, there is no notification for CPCB IV+, but we are expecting similar kind of push out in that emissions norm as well. And we are just waiting for the notification, but the industry bodies have all guided that would be better for the different businesses that are going into the development. We continue to work very aggressively in the development of these products. We have made great progress on the development of these products and we continue to remain optimistic that that will help us win market share and grow the business and we're seeing a lot of more opportunities open up for us as we upgrade the technology
- Renu Baid:** [indiscernible] on the industrial side should that help us in terms of the margins and the growth that we're seeing or [indiscernible] some changes in this segment as well?
- Ashwath Ram:** As we have always been in markets around the world as we transition from pure mechanical engines to electronic engines with after treatment that are both our top line and bottom line [indiscernible] in the process.
- Renu Baid:** Okay, sure. Sir, second question would be to understand across business segments you mentioned last time as well the distribution would be earliest to cover followed by industrial export and powergen will lag. So based on [indiscernible] short timeline the dates in the last 40-45 days of inquiries



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[indiscernible] seeing in terms of [indiscernible] recovery across all these segments or we're normalizing that to 100% levels, what could be the possible timelines and alternative input from your side?

Ashwath Ram:

They are bouncing back is what I can tell you and obviously, they are going to move at different rates in different segments, as I mentioned at the earlier questions, the [indiscernible] data centers and telecommunications and those kinds of industries rental, those kinds of industries ramp up pretty quickly and may even do better than what they were doing in previous years. We see some segments like hospitality and residential realty as well as commercial realty places where their core business is impacted like manufacturing, to defer CapEx and large equipment till they get their base businesses under control. So take a slightly longer time to recover. I don't think we will fully recover and come back to previous levels in a very, very short time. It will be graduated over a slightly longer period is our feeling at this stage. But this quarter, which we're working on the July to September quarter, will give us a better indication of how quickly things will bounce back.

Renu Baid:

Okay, and the last question would be, you mentioned last time that there could be some possibility of renegotiation from the rental income side for our office building complex side. So has there been any change in terms of the rental income expected from there or they're broadly intact as of now? That's the last question from my side sir.

Ashwath Ram:

Yeah. So far, they're still intact.

Renu Baid:

All right. Sure. Thank you and all the best.

Ashwath Ram:

Thank you.

Moderator:

Next we have [indiscernible]. Your line is unmuted. Please go ahead.

Unknown Speaker:

Hi. Thanks a lot for the opportunity. Just to get a sense of where we are in terms of our demand, understand that we anyways would be working with some form of an order book at any given point of time. So could you just tell how [indiscernible] compared to what it is [indiscernible] last year in the similar time, probably like 40% of normal, 50% of normal. So that would probably, you know, help us understand where we are and how [indiscernible] that has changed over the last month.

Ashwath Ram:

Yeah, so, our order books are pretty strong right now. And I will say that's mainly because in the last quarter we shipped only for one month, which means there is lot of pending demand which we are now trying to fulfill and, you know, catch up on. How that really indicates into real market demand we'll have clarity on that only by the end of this quarter. And so it's very, very difficult to say how strongly it will recover. But all I can tell you at this stage is that as of now, we have got a pretty strong order board as of today.



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Unknown Speaker:

Okay. And sir, my second question was on the powergen side. I want to understand commercial reality, you know, this could be shopping malls, office complexes, etc. Even normal year, how big would that be as a percentage of domestic powergen sales [indiscernible] I'm not sure if that is an area which possibly would take much, you know, would probably see some challenges, you know, in the medium to long term. So just want to understand that.

Ashwath Ram:

Yeah, it's an important segment. I couldn't tell you the exact percentage in previous years [indiscernible] but I can tell you that it's a pretty important segment for us because those offices and those kinds of building complexes buy a lot of large gensets and certainly when they are not building those complexes or those complexes are idle, those companies don't tend to then buy new equipment till their situation is improved. So, I can say that certainly that will have an impact on us and we are working on alternate segments which are doing better to try to make up some of that to those losses.

Unknown Speaker:

Sure. Thanks a lot.

Moderator:

Next, we have Priyanka Biswas from Nomura. Your line is unmuted. Please go ahead.

Priyanka Biswas:

Yeah, good morning, sir. Priyanka from Nomura. So my question is like as of today, like if you can quantify, so what would be your current utilization levels, let's say versus, let's say compared to pre-COVID levels before the COVID broke out. I mean, at present?

Ashwath Ram:

I would say we are somewhere close to 65% to 70% kind of utilization level.

Priyanka Biswas:

Okay. And second part is, sir, what I understand is this shift towards mechanical to electronic engines and the lower emissions. So does this open up opportunities, even in, let's say the more developed geographies? Because what I understand is the emission norms that we will be having now is actually comparable to let's say the U.S. or even Japan for example. So is there something that is there in the pipeline, like product approvals for [indiscernible] that can give us some visibility on the export markets ahead?

Ashwath Ram:

Yeah, certainly it opens up the doors for export markets. As I have explained in the past, Cummins has a manufacturing strategy where we have three main hubs around the world. The first one of course is in the home country of the company which is in the United States. The second is in the largest growing market for the company, which is in China. And the third, the biggest manufacturing base for the company is in India. And that continues, India continues to be a major hub for manufacturing for Cummins for utilization around the world. Certainly the opportunities for more products open up the difference in the levels of emissions, all nullify, and they all become, you know, equal around the world. And the way those opportunities typically play out is if we are better than others in the world in terms of cost, quality, delivery. efficiency, then certainly more opportunities have opened up in the past for India and will continue to open up in the future as well.



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Priyanka Biswas:

So can you throw something on the pipeline? Like, let's say, like for these things to happen, I think maybe would require let's say some product approvals in those geographies probably, I mean to ship it from India. So anything on works in that. So something on that, sir.

Ashwath Ram:

So, most of the -- if you look at the way products get developed, like for example, in India, we are developing CPCB-4+ products. The CPCB-4+ products are equivalent to EPA Tier 4 kind of emission norms. And so once those products are developed, then they go for testing in multiple countries and they get approval certificates in multiple countries. We have already done that for many geographies, in Europe and in America with our CPCB-2 products and similar kind of path will be followed for CPCB-4+ product as they get developed. So there is a well-documented process [Audio Distortion] able to do all of these, and those are all being followed.

Priyanka Biswas:

Okay, sir. And sir, just one question, if I may just squeeze that in. So I see that sequentially, you have halved your other expenses broadly. So I think, of course, one factor would be that your sales were down. So that explains a part of it. But still, even then it seems to have halved, it seems to have been cut down significantly. So if you can elaborate like of this other expenses that you would have what would be probably the fixed component, I mean, more like the fixed costs that cannot really be cut out under any circumstances, and what can be the sustainable level what you see this going forward?

Ashwath Ram:

Yeah, so it's very difficult to give you that kind of clarity in a company which has been in existence for 58 years, but all I can tell you is that as I mentioned, even in my call last quarter, we have been taking various actions to reduce costs. And what we are committed is that you will see, you will see the impact of many of those actions in subsequent quarters. So, certainly, we are seeing the impact of some of those actions and if I were to classify in the broad areas where we have seen improvement, certainly we've had improvement due to the volume. In cost, all our cost reduction activities on discretionary spending has gone down. Our products have performed better in the market and so, our warranty costs are lower. You know, so, just about every part of cost management has gone into getting there and we are watching it. We are continuously watching what are variables, what is fixed and can be converted into partially variable is the kind of exercise we are going through. We call that exercise rings of defense and we have been -- I've been talking about it and we have been going through it for the last six months and we will continue to keep working on that.

Priyanka Biswas:

Okay, sir. That's all from my side.

Ashwath Ram:

Thank you.

Moderator:

Next we have Abhishek Suri from Axis Capital. Your line is unmuted. Please go ahead.



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Abhishek Suri:

Thank you for the opportunity. Good morning, sir. Sir two things first in terms of your product approvals that you mentioned in annual report like the hazardous material approval for an HP products to be marketed in Europe as well as high horsepower production for the MENA region, how big that market can be and, you know, how soon can we start with those projects with the products that have been approved recently?

Ashwath Ram:

So, we have already started some of those. We have started gradually. Usually the way this works in the global system is once we have completed those approvals, we start getting trial orders and then based on the success of how well they work in those markets, then more orders show up. I can't give you the exact breakup or exactly how much we will be able to get out of that. But I can tell you that the reason those projects got approved is because they have a good business case, which has good internal rate of return, etc., and good NPVs. So, yeah, these are positive steps for the company, and we will continue to move forward with that.

Abhishek Suri:

Could that really improve our LHP and HHP, I mean in the coming year or maybe a year later, you know, has that got potential to double, you know, anything of that sort or these will be more incremental?

Ashwath Ram:

I would say they would be incremental. And, you know, most of these kinds of ideas are incremental but, you know, incremental, little by little is how we got to be a large business. So one can't discount that as you start exporting more and start playing in more and more niche segments, more opportunities keep opening up.

Abhishek Suri:

Okay [indiscernible]. Sir, secondly on the railways business, I think you mentioned that HOD based systems will reduce the DA requirements for [indiscernible], you know, by half as a backup arrangement only in future. So, any other product segments which can compensate for that loss?

Ashwath Ram:

Yes, we are working on quite a few products and projects on that. I won't comment into the exact detail till we have launched those products until we are successful in getting those orders. All I can tell you is we are in final stages of quite a few exciting projects which will take us forward for the next few decades with replacing whatever business will go away eventually.

Abhishek Suri:

So, would you say that the INR 400 crores approximate [indiscernible] that we had in railways business last year, would that remain or would that reduce or increase with these new products and...?

Ashwath Ram:

Yeah, our aim is to try to keep increasing that business. So, we are not in the business of, you know, trying to lose business or trying to reduce our share in any segment. So, certainly we are pushing aggressively to try to keep growing rail. Rail is an important segment for Cummins in India and around the globe. And we think we have some exciting products to continue to build the success we've had in rail and grow on that [indiscernible].



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Abhishek Suri:

Right. Okay. And if I may squeeze one more sir, employee and cost overheads have been, you know, commendable that they have reduced at both the cost levels. So, is there any one off there or your efforts have been there for many years, but this quarter has seen the results. So should we consider that as sustainable numbers or should we consider as one off?

Ashwath Ram:

See employee cost will always keep going up. So, it's going to be a constant fight and a battle to keep improving efficiency, keep improving your path structure, keep improving the way your per employee output keeps improving. So, you know, one does not build a successful company at the cost of underpaying employees or just taking employee action. So, certainly we focus on that. We are a top employer of the nation so certainly we have to worry about what we do with our people, but we are focused on that and we are pretty optimistic that we will keep delivering better value to the shareholders.

Abhishek Suri:

Great. Thank you so much, sir and all the very best.

Moderator:

Next is Ritesh Agarwal from UTI Mutual Fund. Your line is unmuted. Please go ahead.

Ritesh Agarwal:

Good morning, gentlemen. So my first question is the way we understand Cummins India till FY19 was a 16% to 17% EBITDA margin company. Last few quarters that understanding has been shaken. So, what are the factors in the medium to long term that needs to fall in place for you to go back to the previous margin levels? Or is it that [indiscernible] margins are out of question in this industry?

Ashwath Ram:

I don't -- I honestly believe that we can certainly get to those margin levels that you mentioned and the big levers for us usually are improving sales and improving our utilization and our fixed cost absorption better, and continuing to focus on our cost structure to make sure that it is aligned to our profit ambition. So we have to be very focused on making sure that all our stakeholders get the kind of margin we have delivered in the past and we're working on getting back to those levels.

Ritesh Agarwal:

Okay, on the export front, can you help us understand the size of low to medium KVA genset markets across the geographies and Cummins India's market share out there?

Ashwath Ram:

It's a very, very complex question Ritesh and I don't really have a good answer other than to say that Cummins is probably in the top two in terms of global powergen as far as the global player is concerned, and the fact that we are growing and India plays a significant part in Cummins' global manufacturing and footprint strategy. So I can't tell you more than that. All I can tell you is this is a very important market for Cummins. It's a very cyclical market, which is why you see large ups and downs here, but Cummins is focused on this market and we are trying to improve our position and thereby India's export potential as well.



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Ritesh Agarwal:

Okay. And lastly, as I understand from your earlier question as you move to CPCB IV, the potential for permits may increase to some of the geographies like North America, Japan; that are emission norms that are there, but how difficult it is to convince the local entity out in the U.S. to cut out of the local production and post [indiscernible] that we are giving it at a cheaper cost.

Ashwath Ram:

Yeah, it's very difficult to do that unless you provide significant value in terms of like I mentioned, cost, quality and delivery. But we have done that in the past. We do supply products to every major European, Asian and North American market based on being able to deliver that kind of advantage. Certainly when that advantage is not enough to cover their fixed costs or their sunk costs, certainly they will not be open to buying those products but you know that's the way the game is played. Unless you can, you can prove value to any customer or market, there is no you know free entitlement to just be able to ship product.

Ritesh Agarwal:

Okay. Thank you. All the best.

Moderator:

Next is Ajinkya Gaikwad from Macquarie. Your line is unmuted, please go ahead.

Ajinkya Gaikwad:

Hi, good morning, and thanks for the opportunity. There's two questions from my side. The first question is on the employee cost. You had mentioned earlier that your VRS and other employee salary-related actions were supposed to impact 15% of the workforce and would start showing benefits from April. So whatever a staff costs you have reported this quarter can we take it as the new quarterly run rate or are there any actions pending or could there be certain one-off additions in the rest of the year, like let's say performance based incentive that you might have before that would be restored in the later part of the year. Your comment on that, that is the first question.

Ashwath Ram:

So, certainly, there are -- when you do employ actions or payroll actions, they are built up into multiple components, there are things you do with salaries which are of temporary nature, which have been done during the recessionary period. There are things which we have done on a more permanent basis, such as headcount reduction and VR fees, etc. Those certainly continue, the impact and benefits of that continue. And there are certain things we have done in terms of deferring merit or deferring some settlement etc. and those are likely to come back and we are evaluating the situation and we are focused on our profit objective and we are trying to figure out from a medium to long term perspective, what is the best strategy for us? So we will continue to take more adjustment actions as appropriate for the business as it picks up.

Ajinkya Gaikwad:

Okay, okay. And the second question is, in the last quarterly update you had mentioned that there were about 1.9 billion INR worth of shipments that were recalled in the last quarter, basically the product that was ready but could not be shipped out due to the sudden situation like lockdown. Had it all been dispatched and revenue booked in this particular quarter. Essentially, what I'm trying to understand is that mathematically we can see that if there was two months of lockdown so your revenues are 63% down YoY. But if this already



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includes 1.9 billion of deferred shipments than your actual execution and the shipment in this particular quarter, excluding that deferred portion, then it would show a decline of more than 75%. So, is that a significant demand dismiss that you have seen?

Ashwath Ram:

It is a very complex question, but I'll try to answer it in the best way. Certainly it is true that we were shut down for two months. So, mathematically you can say that only 33% you know of what we shipped and certain segments have to -- have had a deeper fall than that as I mentioned, power generation for example has fallen by more than 75%. So yes, it is true that some segments have fallen more. We have shipped some of those backlogs which we could not ship, we have tried to catch up but our order board is still looking pretty strong. So we will get a much better understanding of the full year in fact, by the end of this coming quarter, the July to September quarter, we'll get much more clarity on where we are likely to end up.

Ajinkya Gaikwad:

And sir, any number around what portion of that 1.9 billion has been shipped out this quarter?

Ashwath Ram:

I think all of it has been shipped out because it was all packed and ready to ship. And so the first thing that would have got shipped would have been that.

Ajinkya Gaikwad:

Okay, I understand. That's it from my side. Thank you so much.

Moderator:

Next, we have Bhavin from SBI Mutual Funds. Your line is unmated, please go ahead.

Bhavin B. Vithlani:

Thanks for the opportunity. If you could just take the industrial segment, and it would be useful if you could just give a brief view of the outlook of the sector maybe shortly; compressors, construction equipment, railways, mining, what are the new opportunities that you can see in the longer run?

Ashwath Ram:

Yeah. So, as you know, we are a major player in the compressor segment and that segment was going through a cyclical correction. But because of the good rains and good, strong agricultural output that segment is not expected to be impacted that strongly. Construction is the segment which has got impacted quite deeply mainly because infrastructure spending has not happened. But the government has proclaimed even recently that the Prime Minister himself is going to aggressively push infrastructure development and our business is directly correlated to money spent on infrastructure development. So that has the potential to bounce back, bounce back very strongly, we again have very exciting products in that segment. So, when that segment bounces back, you know, we always do well in those in those segments. We have amazing customers there and so that helps us in terms of -- and good market share, so that helps us grow. Mining, we have made an entry into larger horsepower products and with all the talk of "Atma-Nirbhar Bharat" and more business coming to Indian companies like Bharat Earth Movers, who are our big customers, we expect to move strongly in that area. Marine again is a lot of the spend is dependent on defense, the Navy, and many of those kinds of applications. And



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those have been lagging in this year because of lack of spend or lack of release of money in the past four to five months. But with the kind of crises faced by our country, we expect the spending there to start increasing and so, we are positive that that segment will continue to grow. Rail, I mentioned earlier that we have lots of new exciting products coming up there to replace some of the business which is likely to get obsolete. But while it is not obsolete, while the old technology still continues, we continue to have extremely well working products with being the preferred supplier to the government and we will continue to maintain our strong market share in those areas. So, overall while the short term is not extremely bullish for the overall industrial segment, the medium to long term is extremely optimistic and bullish as far as those segments are concerned.

Bhavin B. Vithlani:

So, can we say over a medium to longer term 20% compounded growth is achievable in the segment?

Ashwath Ram:

We don't do that kind of growth estimate or analysis, but you can just look at the past trends of that segment. And there are periods when we have done even better than 20%. There are periods when we have not. So, we think that we will do well in these segments. As the technologies get more sophisticated, more complicated, we have – Cummins has always done well in these segments around the world and we are expecting to do the same in India.

Bhavin B. Vithlani:

Okay sure. Question on margins, pardon me, I joined in late. What could be the sustainable material margins that we could look for? And employee costs historically used to be in the range of 6% to 7% of revenues. Can we get back to that number as the growth resumes to normalcy and the optimization that we have done on the cost front?

Ashwath Ram:

Yeah, it's going to take some time but certainly we are working towards those kinds of numbers and bring back material margins to historical levels. So Bhavin to – yes, we are working very diligently to bring back the profit margin levels to the level we have historically delivered, and that's the biggest effort going on. And, you know, I think we are confident that we will get there.

Bhavin B. Vithlani:

Sure. Thank you so much for taking my questions.

Moderator:

Before I [Audio Cut] I should announce again participants, if you have any [Audio Cut] press zero and then one. Next is Atul Tiwari from Citi Group. Your line is unmated, please go ahead.

Atul Tiwari:

Thanks a lot. Just one question; how much is the CapEx spend that we are seeing this year?

Ashwath Ram:

We continue to spend on CapEx though we are cutting back a bit on. Anything which is non-essential, we are trying to cut back on the CapEx spend but we continue to invest very strongly in areas which are related to R&D and new product development, which is -- which impacts our future. So we continue to invest there. And that actually is a great advantage to Cummins because we have



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seen around the world that in these stressful times, when other companies cannot invest so heavily in some of these technologies, they then become more dependent -- or well, I wouldn't be more dependent, they rely on [Audio Cut] with Cummins and on the ready technology which has already developed to use in their platform. So customers we have not had in the past or areas where people have made their own investments. We find that in these stressful times continuing to make investments in critical technology helps us in the long term.

- Atul Tiwari:** Any rough number for this year that you have finalized or would have in mind?
- Ashwath Ram:** No, I wouldn't at this time give you that, that kind of granularity. But all I can tell you is the CapEx continues at Cummins India in a pretty aggressive manner as compared to other companies in our space.
- Atul Tiwari:** Okay sir, thank you.
- Moderator:** Next we have Ankur from Bank of America. Your line is unmuted, please go ahead.
- Ankur:** Hello, thank you for the opportunity sir. Just a couple of questions from my side. I'm sorry they have been answered already, the call disconnected twice. Can you please give the breakup of export into low horsepower and high horsepower, mid-range, heavy duty etc.?
- Ashwath Ram:** Sure. So exports is we had about – sorry, one second, I'm just pulling up my data here. Yeah. So, in exports we had a total of INR 126 crores out of which low horsepower was INR 21 crores, mid-range was INR 36 crores, heavy duty was INR 14 crores and the high horsepower was INR 41 crores and spare parts was INR 14 crores.
- Ankur:** Thank you sir. And if similarly you could give the breakup for domestic genset for similar category.
- Ashwath Ram:** Sure. As far as the domestic segment is concerned we had INR 4 crores of LHP, INR 21 crores of mid-range, INR 13 crores of heavy duty, INR 59 crores of high horsepower.
- Ankur:** Thank you. Thank you so much sir. Best of luck.
- Ashwath Ram:** Thank you.
- Moderator:** Next is Aditya Mongia from Kotak Securities. Your line is unmuted, please go ahead.
- Aditya Mongia:** Hi everyone, and thank you opportunity. The first question which I had was related to the emission norms change, and as we improve on our product offering, could you let us know what kind of opportunity for export opens up for us, and by opportunity I mean something that Cummins Global is always doing



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in these product at sales, which could be the potential sight of what we can do eventually?

Ashwath Ram:

Sure, so I can't give you the exact potential size but what I can tell you is that currently India is in what is called CPCB II as part of these products or in BS III as far as the off-highway product is concerned. As the technology moves up it goes to what is called CPCB IV+ which is equivalent to EPA Tier 4, which is the current standard which is being used in the United States or it is equivalent to Euro stage six which is what is the standard being utilized in Europe and those markets. So when we go to these technologies, that brings us on par with all of those markets. Currently we are only exporting what are called lagging emission products, and this opens up the door to also export leading emission products. Of course, like I said, there are many, many variables between just being able to be at the same emission levels and actually getting orders and being able to export and you know, to fulfill demand in those markets. So, while it opens the doors wide open for us to many more opportunities and markets, which the company has been exploring, and because India is a region from which a lot of products are sourced around the world, it opens the doors for us to do even more.

Aditya Mongia:

The second question which I had, somewhat related was we obviously talked about costs and delivery quality, key elements that can be taken into account. Could you provide us with a subjective comparison of Indian products versus the Chinese products from a company perspective and how India would fare on [Indiscernible] coming to and get a sense of what are the trends of manufacturing from India versus China, for Cummins?

Ashwath Ram:

As far as Cummins is concerned and I cannot answer for other industries, I can tell you Cummins India has the best cost structure as compared to any geography in the world. So this is why many of those geographies including some of the ones you mentioned, import products from India. So I can tell you that our overall cost structure, our quality is really among the better in the world. So, that's why we get those opportunities.

Aditya Mongia:

Sure. The last question from my side was that in the annual report and even otherwise are we thinking about increasing competitive [Indiscernible] in exports portfolio. I wanted to get a sense from you who are the key competitors over there? Would it be the companies exporting from India on the LHP front? Just want to get a sense of competition from your side on the export front, how things are shaping up over there.

Ashwath Ram:

It is different for different geographies. So for example, in continents like Africa and Latin America, it is Chinese products. In Europe and Middle East, it is some products which are made by American and European manufacturers which compete with us and in the nearby geographies like Bangladesh, Sri Lanka, Nepal, etc. it's our local Indian manufacturers. So that's the way, probably I would answer that question. It's different for different regions.

Aditya Mongia:

Fair. I have no question that I [Indiscernible]. Thank you.



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Moderator: Next we have Rahul from IIFL Securities. Your line is unmuted, please go ahead.

Rahul: Yeah, Hello, can you hear me?

Ashwath Ram: Yes, we can.

Moderator: Yes, you are audible.

Rahul: Thank you. Sir, I had a question on the industry business and I think you did give a very good outlook on each element of the industry business. Could you give us a breakup of the revenue of the industrial business including compressors, construction, mining and railway etc.?

Ashwath Ram: Yeah, I think I did that. I'll do it again. Out of the INR 80 crores that we had in the last quarter INR 12 crores was in compressor, INR 8 crores was in construction, INR 15 crores was in mining, INR 35 crores was in rails, INR 4 crores was in marine and INR 6 crores was in other segments

Rahul: Okay, and would you have the number for the fourth quarter handy?

Ashwath Ram: Sure. It was INR 245 crores in that quarter, and it was INR 33 crores in compressor, INR 83 crores in construction, INR 26 crores in mining, INR 92 crores in rail, INR one crore in marine and INR 10 crores in others.

Rahul: Okay, right. Thank you very much. That's all from my side.

Moderator: Next we have Amar from MG Global. Your line is unmuted, please go ahead.

Amar: Yeah, hi. Good afternoon sir. I have a couple of questions. the first is --

Moderator: Sorry Amar, your voice is very low.

Amar: Hello?

Moderator: Yeah, it's better now. Please go ahead.

Amar: Yes. The question was, you have been incurring spends on the preparedness for the CPCB IV+ for quite some time. Now, even though you mentioned about three quarter likely push back in CPCB IV+, you also mentioned about the export opportunity that this could open up. So is it possible that even though the domestic implementation of CPCB IV+ is getting pushed out, but your export opportunity could take off, since you're already ready on this or is it that economies of scale will only allow you to do this when the domestic market also opens up?

Ashwath Ram: I think you partially answered the question by – see, you have got to scale up before you become cost competitive to be able to meet all the market requirements and also the development is an ongoing process. So, even though



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the push out is, by three quarters products don't get fully developed, you know, that much ahead of time while we are making great progress, we've got products on tests, etc., there's still quite a bit of time to go. But certainly as products become ready and as opportunities open up around the world, we are not waiting for CPCB IV to get more products from India. So, there could be some opportunities which open up even before that.

Amar:

Alright, so the second question that I had was the business, you mentioned about -- you answered someone about the likely delay in commercial real estate business picking up and hospitality and all those things, picking up and which is why there could be an extended impact on the power-gen business. But at the same time, the impact in my view would mostly be on the new launches in these businesses, but the deliveries for commercial real estate, for example, might still continue for whatever has already been launched. So in that sense would you agree that the real impact will only start showing up two to three years down the line?

Ashwath Ram:

Yes, in principle, yes, I do agree with you. But what happens is people who have not yet completed projects, what they sometimes do is they don't finish off the projects and equipment like gensets are pretty much dropped in at the last moment. So they defer buying it till they get their financials and that demand for the sale actually happens. So, you know, yes, those people who are already almost complete and those people will just finish up and move on. So yes, certain portions of that business could come back. You're absolutely right in that.

Amar:

Alright, thank you so much. That's all that I had.

Ashwath Ram:

Thank you, everyone. Yeah, so thank you everyone. These were really good questions. We continue to remain positive and optimistic about the future of this business. Our company is coming out well out of this crisis, and we are pretty confident that over a period of time, we will recover and make up for all of these bad impacts and bad quarters that we are having because of many of these global events. But again, I want to reiterate that we continue to be a market leader in every segment that we serve, and we are optimistic that we will continue to maintain those positions and increase our lead. Thank you.

Moderator:

Thank you so much, sir, for addressing these questions. Thank you participants for joining in, with this we conclude our conference call for today. You may all disconnect now. Thanks, and have a pleasant day.