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August 12, 2019

The Relationship Manager, DCS-CRD BSE Limited, Phiroze Jeejeebhoy Towers, Dalal Street, Fort, Mumbai 400 001 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 08, 2019

Dear Sir/ Madam,

With reference to our stock exchange intimation dated July 31, 2019 towards analyst conference call, we are enclosing for your records a copy of the transcript of the said conference call conducted by the Company on August 08, 2019.

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

Thanking you,

Yours faithfully,
For Cummins India Limited

Hemiksha Bhojwani
Company Secretary & Compliance Officer
ICSI Membership Number: ACS22170

(This letter is digitally signed)

Encl.: As above.



Cummins India Ltd.

Analyst Call for Cummins India Ltd. Quarter 1 2019-20

August 8th, 2019



SPEAKERS:

Management, Cummins India Ltd.

Moderator:

Good morning everyone. Thank you for standing by and welcome to analyst's call for Cummins India Limited. Quarter 1 2019-20 Conference Call. For the duration of the presentation, all participant's lines will be in listen-only mode. We will open the floor for Q&A post the presentation. So I would now like to hand over the proceedings to Mr. Sandeep Sinha. Thank you and over to you sir.

Sandeep Sinha:

Thank you very much. Very good rainy morning to all of you. This is Sandeep Sinha from Cummins India Limited. I have along with me Mr. Rajiv Batra, CFO. Thank you for participating in this call. I would like to convey the financial



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results for the quarter ending June 2019 through this call. Before I go into the results, I would just like to give an update on what I see as happening in the markets that we participated. Our power gen market and our distribution market is still holding up well. Mining, marine and construction have certainly slowed down especially because of the financial crunch that we see in the market and as well as especially in construction because of monsoons a lot of activities of construction slowed down. On exports, we see significant slowdown across the different geographies that we participated and this is certainly an area of concern for us. Our financial results for the quarter ended June 2019 with respect to June 2018, our total net sales were at 1,316 crores which was an increase of 2% compared to the same quarter last year. Domestic sales stood at 990 crores which was an increase by 16%. Our exports, however, declined by 26% at 327 crores. Our profits before taxes was at 194 crores which is 23% lower as compared to 254 crores in the same quarter last year. With respect to the sequential quarter, our total net sales of 1,316 crores was flat as compared to the earlier quarter of 1,314 crores. Domestic sales stands at 990 crores which is flat as compared to 992 crores in the preceding quarter. Our exports grew by 1% over last quarter at 327 crores. Our profits before taxes at 194 crores was 7% lower than last quarter which was at 209 crores. Segment-wise breakup for you, in the domestic market, our industrial domestic business sales was at 250 crores which denotes a 37% growth over last year. Power gen domestic sales was at 393 crores which was a 10% growth over last year and distribution business was at 346 crores which was 8% growth over last year. Low horsepower exports, however, was at 129 crores was a decline of 39% over last year. High horsepower exports at 173 crores was a decline of 10% over last year. Our financial guidance in terms of the sales outlook for the full year 2019-20, we maintain the target at 8% to 10% growth for domestics but we are lowering our guidance for exports to between -12% to -15% over last year. I also wanted to share a piece of news regarding myself after 15 rewards years at Cummins, I would like to share that I have decided to pursue a career outside Cummins. This decision to move onto the next chapter of my career was certainly not an easy one. I have been a Cummins' leader and everything that it has taught me will remain with me as I move into new territories in the coming months. I am very, very grateful to the support I have received from our board members, my leadership team and extremely proud of the collective accomplishment we've had over the last few years. I would also like to thank all of you for the confidence you have shown in Cummins India. In its 100th year, both Cummins Inc. and Cummins India have reported record revenues and EBITDA and I am confident that we will grow from strength to strength in the coming years. With this, it is also my pleasure to inform you that the new Managing Director of Cummins India is Ashwath Ram. Ashwath first joined Cummins in Columbus, Indiana in 1991 and since that he has led many operations and key transformation across many businesses. In his last role, he has been the leader of the engine business in India, power systems business in India. In fact, he was the director of sales and marketing for power gen for a period of time. Ashwath also has served as a managing director of Tata Cummins and has been a gentle manager for our engine business in global roles beyond his India



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tenure. I have known Ashwath as a friend, as a peer, as a team member and I can assure you that I am leaving all of you in very, very safe hands. He's an extremely committed and professional individual and I know that he will steer Cummins India into its next phase of growth and competitive challenges. He certainly inherits a very strong team and I am sure collectively they will take Cummins India into its bright future. With that, I would like to open up our session for questions.

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 your questions, you may please press 0 and then 1 on your telephone keypad and wait for your line to be unmuted. First question of the day we have from Renjith Sivaram from ICICI Securities. Your line is unmuted.

Renjith Sivaram: Good morning sir and some of the major worry on the gross margin [indiscernible] material cost to sale so if you can throw light is there any one-off or is it because the price hikes which we had spoken about has not been transmitted? What's the reason the material cost to sales have gone up this quarter?

Sandeep Sinha: Thank you Renjith for your question. I think the biggest impact is coming because of our mix. So as our export mix has come down and which is as much higher margins in our domestic sales. That has had a significant impact and then, of course, we've also had FX impact. So between the two are kind of the main reasons. So I think we continued to sustain our pricing -- the price increase that we had given in the market. So other than the first two reasons I mentioned I think everything else is in control.

Renjith Sivaram: So sir can you just quantify the FX impact for this quarter?

Sandeep Sinha: About a percent -- little more than a percent.

Renjith Sivaram: Okay and this is included in the material cost.

Sandeep Sinha: That is correct.

Renjith Sivaram: Okay and sir you also mentioned in your opening remarks the industrial construction mining marine is not doing well but this quarter we have seen a 37% growth in industrial. So is it going forward you are seeing a decline in these numbers because 37% growth in industrial is a very good number to start with?

Sandeep Sinha: I think I was just trying to mention that -- so construction is actually we are saying for the whole year will be flat as against significant growth we have seen in the last year and rail is still doing well. So because of some of the markets and compressors market is doing very well for us. So between compressors and rail are two segments within the industrial business that are doing well and right now construction and mining are bit of a concern. Marine, of course, is a small market



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but we hope to make it up in the next year. Lot of projects have been delayed. So yeah we still have hope that within the year we should be able to capture those.

Renjith Sivaram: Okay and sir lastly if you can give that breakup of industrial. You gave us construction, mining and rail.

Sandeep Sinha: Right, right. So you want by power gen industrial and...?

Renjith Sivaram: No, that you've given already. The industrial breakup you give it .

Sandeep Sinha: Oh, yeah, yeah. Sure, sure. So in this quarter we had about 45 crores of compressor sales. Construction was about 90 crores. Mining was 10 crores. Rail was 85 crores and marine and others was about 20 crores.

Renjith Sivaram: And what were the corresponding growth numbers if you can share that?

Sandeep Sinha: So compressor was a very significant growth about 150 plus percent. Construction as I said slowed down by 7%. Mining remained flat. Rail grew by 85%. Marine, of course, it's a very small number – marine and others grew by about 25-30%.

Renjith Sivaram: Okay, sir. Okay, sir. Thank you. I'll join for further questions.

Sandeep Sinha: Thank you Renjit.

Moderator: Thanks for you question. Next we have Sandeep Tulsian from JM Financials. Your line is unmuted.

Sandeep Tulsian: Yeah a very good morning sir.

Sandeep Sinha: Good morning Sandeep.

Sandeep Tulsian: First question is a clarification in the domestic sales guidance. The earlier guidance was 10 to 15% that we had on the previous conference call which also has been lowered to 8 to 10% in the current quarter.

Sandeep Sinha: Yes. Sandeep I am sorry. Actually I think when I initially said that we maintain, actually it is not true that we had 10 to 15, I probably should have said it's 8 to 10 which is a lower guidance than before. So my apologies for that.

Sandeep Tulsian: Sure, sure. Thank you for clarifying that. Second question is on the distribution segment. If you look at the overall trajectory in the power gen segment over the last say three to four years on an average, it has grown between 10 to 12% which ideally should translate into healthy growth for distribution in the coming years. So my question here is that our annual reports states of a one time large defense order which we executed in the previous year. So what was the quantum of that and excluding that how do we see the growth's trajectory in distribution? If you can give some more color on that?



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Sandeep Sinha:

Maybe I, for the specific question, please I will ask Rajiv to clarify that with you. I just want to give you an overall sense of distribution business, its impact because of power gen and what we are doing. As the main grid continues to become more reliable, the usage of our power gensets keep coming down and which impacts our service revenues because of that. So our mix used to be that in distribution almost than 60 to 70% of the distribution revenues used to come from power gen and that has come down to may be about 55% now. And please don't quote me on these numbers but I am giving you a generic sense. Now there's a usage of gensets coming down. People service it less, correct because your number of hours of usage before it gets serviced. So it takes longer to service, right. Now what we have been doing though what -- so actually we have degrowth in many of the power gen service markets but what we are doing is overcompensating with increase in assets in rail etc. where the usage is high and our market share and our growth have been very high over the last few years. So lot of our focus has moved into those markets. So I think that is the -- at high level that's how you will need to think that we are- but the 8 to 10% growth that you see year-on-year is because we are putting a lot of focus into some of these new segments like rail and marine where the usage of our engines and assets are much higher.

Sandeep Tulsian:

Understood. And lastly sir just want some clarification on the export breakup that you shared in LHP and HHP. If you could just give us in the earlier format of say LHP, HHP, heavy duty HHP and spares, those five broader subsidiaries.

Sandeep Sinha:

Certainly, certainly. So we had about 50 crores of LHP sales, mid range was about 80 crores, heavy duty was 30 and high horsepower was about 140 crores. Both LHP and HHP spares put together was about 25 crores.

Sandeep Tulsian:

Okay. Got it. Thank you sir. That's all from my side. Thank you for taking my question.

Sandeep Sinha:

Thank you sir.

Moderator:

Next we have Venkatesh from Citigroup. Your line is unmuted.

Venkatesh:

Yeah, sir at a broader level I mean if you could take some time to explain this aspect. If you look at your EBITDA margins in this quarter, it is at 9.5%. Now this is a 15-year low in terms of EBITDA margins. So can you actually throw some light what exactly is happening which has created such a poor performance in this quarter? If you could deal with some of these aspect, if I could just mention it to you. One is I see that the other expenditure has gone up. Is there an element that technical fees and royalties or commission to the parent has increased which has caused this other expenditure to increase? I also notice a fact that every passing year your purchase of traded goods keeps going up. So it almost seems like Cummins India now has become more like a marketing entity than a manufacturing entity. So is it like you've taken decisions where you're purchasing more than manufacturing it more on your own self? Now when you



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are purchasing these traded goods, where are you purchasing it from? Is it from third party entities like Simpsons or is it got to do with the fact that you are purchasing more from your internal entities? So what exactly is happening? Is there a problem in the market that -- because I distinctly remember that you mentioned that in the third quarter FY19 you took price hikes. It doesn't look like there has been any impact of the price hikes. Is it like you're giving discounts to sell? So what exactly has caused these margins to go to 58 quarter lows in terms of 9.5%? Could you spend some time to explain this.

Sandeep Sinha:

Sure, sure. Venkatesh I think you've kind of answered a few while you asked the question but I'll make sure I give you my sense on this. I think we should start first with the material margin impact. So what is happening is our export markets and again I don't need to tell you, you probably read it in the papers and hear in the news everyday what is happening in the global markets and almost cross every -- and you know we have a pretty widespread footprint of exports around the world and every market we are seeing we are having issues. Right now South America is in trouble. Continent of Africa is not doing well. Europe, you know very well what's happening there. So across our markets where we play significantly even China where we have our footprint in certain segments is not going well at all. So with that first the export -- because the export margins are way higher than domestic market, I explained before we've lost almost a percent and a half in mix. FX has a negative impact [indiscernible] percent, right. Certainly, we are investing more in some of the future capabilities, new products that we will need to define. So for example our teams have already started to work on CPCB-4 programs. So we have kind of started our investments, although slow this year but still we have started. So that's obviously going to come out. And then we've had couple of discretionary spend like we had a one-time consulting fee which we are trying to make sure that our supply-chain model is improving and becoming more efficient with the change in GST structure, etc. So a lot of those things that we want to do for the future, we've made investments right now which I think are very prudent. Now, to come to your -- and I do think that this is kind of the low for this year -- this quarter is low for this year. So we are hoping that in the coming quarter you will see a recovery and I don't think that this is the level we will operate it. And I do see that in the -- you know kind of I do see the positiveness in the months that has gone by. Now as far as your question on trading goods is concerned, there is no change in our strategy [indiscernible] today. What has happened is traditionally the products that we used to make within our Cummins India boundaries. Those are the ones where we were putting a lot of our efforts. But over the last few years what we have done is the engines for example our small gensets, we buy those engines from Simpsons. It is much cheaper to buy them from engines versus CIL putting in its capitals and trying to make it because Simpsons makes it in much higher volumes, we buy a part of their volume. So they have leverage of scale. We would never be able to get that [indiscernible]. So it is not because we don't want to make those engines, we can. Of course, some of those engines we don't even build anywhere in the world like 1-liter engine etc. but having said



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that it would not be prudent for CIL to make those capital investments and [indiscernible] investment. Now those markets have grown very well for us. So when you see the trading goods go on, we have not changed the engine purchasing platform over the last few years. It's still been the same. We used to it buy from Simpsons or from Tata Motors which now changed to only Simpsons because we were able to get further cost reductions from them and then we buy it from Tata Cummins and I explained this in my AGM too yesterday that Tata Cummins makes about 200,000 B-series engines. Our requirement is 8000 or 9000 each year, 5000 to 9000 depending on the year. So you are able to get the leverage from them, right. Again if we were to take a B-series line and put it into CIL, it would not be financially prudent. We have looked at it several times and I can assure you that the cost difference is significant. So that is the reason. On the higher end, our 60-liter engine was actually mostly for exports but the data center market has come up and in that you use 60-liter engines. So all these reasons, so certain new markets have come and again remember especially on the bigger engines we continue to relook and see that if the domestic demand goes up to a certain extent, we will relook at our manufacturing strategy within CIL. The other fundamental reason is LHP sales in general whether it is construction markets which use B-series all of those markets have exploded. So we are buying more on trading good but there is no change in our engine portfolio. In fact, almost every engine that we were making in the past which were mechanical, the electronic version of that 100% have come within CIL. So I want you to know that for the engine portfolio that CIL had for manufacturing and development remains there and in fact are being upgraded. So I hope I answered your questions Venkatesh. We will continue to look and see.

Venkatesh:

Just one aspect there is this clause [ph] charges to the parent entity. Is there a change in that in terms of commission, technical fees or royalty? Anything, has there been a change?

Sandeep Sinha:

Yeah, so there is a small change there. What has happened is because we were pushing a lot of sales into Africa, the African ABO has taken -- asked us for a certain commission to support them to increase the market share in the continent. We have less than 1 or 2% share in the LHP gensets which we export to them. So they asked for support so they could intensify the effort because they did not have that resources there and we thought that we can still give them this commission and if we can increase our sales, the margins are so strong that it will overcompensate. So it is based on -- it is based on a proportion of sales increase. So it's just not -- you know, we just don't give a cheque just like that but we'll pay it on what we see as the salesman. So actually if that commission goes up, it's actually good news for us because that means we are selling way more gensets which has a material margin of more than 40%.

Venkatesh:

Okay. Sir just one small additional question, last year the effective tax rate was 29.9%. Will it remain around the same level or it is expected to go up?

Sandeep Sinha:

I'll let Rajiv take this question. I think he has played it last time too.



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- Rajiv Batra:** A couple of things here Venkatesh. I think one is [indiscernible] for SEZ exemptions. So we were in the last few years -- one or two years of the SEZ benefits. First truncated to 50% and now that runs out. Plus as you are aware FX has gone up anyway. So I think between those two as well as the sunset on the R&D benefits that operates 1st April. So that's also gone away. So the only way the taxpayers can go with withdrawals of any incentives of any nature is upwards. So you should expect the tax rates to increase.
- Venkatesh:** Okay. At what level should this be in the current year? Should be closer to 31-32%?
- Rajiv Batra:** Well I would say it could be in the early 30's.
- Venkatesh:** Okay, okay. Thank you very much sir.
- Sandeep Sinha:** Thank you Venkatesh.
- Moderator:** Next we have Ravi Swaminathan from Spark Capitals. Your line is unmuted.
- Ravi Swaminathan:** Hi sir, just wanted to get a color on exports further. How the demand scenario is there panning out in US, China and European markets? Is it like -- so basically we are somewhere closer to the peak, past one-two quarters it has been weak. I mean is the pain starting or like it can even recover from the slow [indiscernible] just temporary?
- Sandeep Sinha:** So thank you Ravi for your question. It's a very difficult question to answer very honestly and the reason is there is so much of flux, you know, we see certain trends in certain markets for two quarters and then that completely changes. So I really don't know how to answer this other than saying that we don't think there is recovery at least for the next two quarters. You see some slight recovery may not be, you know, in certain markets we might see some -- I know in certain markets we had some inventory correction. I know in certain markets we have had some change in our ground level organizations. We ourselves now as Cummins India are now integrating a lot with the global sales team and our folks are kind of going and addressing product issues etc. to be able to increase our penetration in these markets. So we are saying we'll take a lift, in the past we were just a kind of fulfillment [indiscernible] organization but we have been way more proactive understanding if we can make certain product changes to make our share growth in those markets or understanding if there are pricing issues in certain markets, we can do something. So there's a lot more ownership that we are taking into our hands as Cummins India. So I hope all those at some stage start to help us grow penetration. Look the markets will go up and down, right. we can't control the market's position. What we can, what is within our hand is penetration of market share. So I think that's where our focus has now moved into and making sure that our fulfillment part which is cost, quality and delivery continue to be topnotch. So we are working a lot on our rings of defense to improve our cost structure as we see these markets unstable and maintain and



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hold margins. So a lot of work is going into that area, lot on market share and I hope all these activities over next few quarters start to bear some results.

Ravi Swaminathan: And in terms of the LHP demand for exports also, so I mean have we explored all the markets in terms of Middle East, Africa or are there further new geographies where we can try and expand it to or is it like we kind of slightly saturated at that front also?

Sandeep Sinha: So unlike high horsepower, LHP, we are the only – CIL is the only entity which makes gensets for the entire world. So wherever Cummins is and wherever the small gensets go, it is a Cummins India manufactured gensets. And we operate in about 190 countries. So I don't know if there is any major geography that I am aware of that we have missed. Having said that, can we strengthen some of our footprint and I think that's what we are looking at and as I told you earlier we are taking more ownership of saying how can we strengthen some of the geographies which we believe could be weak.

Ravi Swaminathan: Okay. All right. And one more question.

Sandeep Sinha: Okay thank you. Go ahead.

Ravi Swaminathan: Hello.

Sandeep Sinha: Yeah, go ahead Ravi.

Ravi Swaminathan: Yeah, sir is the engine sales related to CTIL also, is it also seeing similar slowdown or that is seeing growth?

Sandeep Sinha: Every venture of ours is – actually CIL is probably among the legal entities that I am responsible for. I would CIL is one of the best right now in terms of the results we are sharing with you.

Ravi Swaminathan: Got it sir. Got it. And finally bookkeeping. The power gen business breakup between LHP, MHP, HD and HHP if you can give that is for the domestic power gen business.

Sandeep Sinha: Yes, certainly, certainly. So LHP is about 45 crores, 110 crores is mid range, 25 crores is heavy duty and 215 is high horsepower.

Ravi Swaminathan: Got it sir. Thanks sir.

Sandeep Sinha: Thank you Ravi.

Moderator: Next we have Renu Baid from IIFL. Your line is unmuted.

Renu Baid: Yeah hi, good morning.

Sandeep Sinha: Hi Renu.



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- Renu Baid:** Hi. Sir, just want to repeat the domestic PG sales fix. Somehow actually the numbers are tallying. LHP 45, mid-range 10, heavy duty 35 and 215 for HHP --
- Sandeep Sinha:** No, between 110 Renu, otherwise...
- Renu Baid:** Yeah, yeah, I thought probably I missed some number, that's the reason why I just wanted to --
- Sandeep Sinha:** Luckily my sales team will miss that number, Renu, I'm just joking.
- Renu Baid:** So the first question is, if you've seen the annual report as well as in the AGM, there was significant highlight on new product introductions. And then you mentioned that you want to introduce one product, almost new product every month. So, if you highlight what products are we talking about, which category, which range, which end markets? And eventually, with these new launches and different categories, what are the end objective in terms of revenue growth, penetration, entry into new markets? And how has been the market response for the new launches that we have in pipeline?
- Sandeep Sinha:** Very good question. And this is actually a shift for us from the past, where we have started to spend a lot of our energy into the segments that we play. So the way -- I hope sometime in the future we will actually give you by segments rather than by product ratings, because ratings actually don't mean much right, you can have a similar rating, in a construction site, you can have a similar rating in a, you know, a residential building. And so, really, those are two different product usages, right. One on a construction site will run, you know, 10 to 14 hours a day. Residential will run 20 minutes a day as best. So, we are trying understand that, right. And so what we are trying to do is making sure that our products have the highest -- the most power is pulled out of our products. So we are bringing in new technologies with that. And so that's really hard -- when we shared with you last time, the stallion range, which we call internally, you know, they are all about making sure that similar engine and alternative combination gives us higher output. And so a lot of really good work has gone in, a lot of new technologies we have brought and even developed in-house here. So I'm really proud of that work. And we see that every time we have made a new launch, after the first two, three months, it's really caught on. So, an example is, the last one I could say is, we introduced Mechanical 19 for our 500kVA -- sorry 600kVA node and it has done really well. So, now the PCO for the customers have come down, because we've move from electronic to a mechanical engine. While in the mechanical engine, we have kept all the benefits like fuel economy, et cetera, at the same level as that of electronics. So, I think that is one example that's in the power gen. The second is, in the rail market we have moved into what I call underslung engine. So we are trying to now give engines where you put it below the carriage what it on top of the carriage and which really opens up space for commercial purposes for the Indian Railways. This is a very difficult technology to copy and we've been doing this with Bombardier and Japan Rail et cetera, for many years. So we have that. We have obviously localized it. And I



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think we have a great future in those. We are also looking at you know, new markets, where we are giving just not the engine, but the entire system. So for example, in fishing trawler, we are not the selling engines, now we are selling an entire engine along with the propeller shaft and the controls. So we are trying to make the biggest system level. So these are, you know, again -- we are not waiting for emissions changes, which we -- which is what we would do to introduce new products we are moving ahead. The other is we are starting to prepare big time for CPCB-4+, which is going to be the highest emission standards for power gen anywhere in the world. Okay? Nowhere in the world would you have such stringent standards. Now, what it does though, is of course, we feel very comfortable because, if you know we have our own components group, and which will help CIL build these new technologies with a lot of experience, that is one. So we don't depend on others to come in and help us upgrade our engines to the emission standards. Second, because it will be the highest commission standard, it will give us significant export opportunities, which we don't have today. So it will further our export opportunities for CIL. So for CIL, CPCB-4 is actually a very, very good thing for the future. Not today, not tomorrow, but for the future, it will continue to add those areas of strength for company. I hope I was able to answer your question, Renu?

Renu Baid:

Yeah, sir. That was pretty detail. So in the near-term, at least the way we have seen gross margin being weak, so that should definitely see about 100 to 200 basis point of correction, or I would say improvement in the subsequent quarters, that will have new product launches coming and the ForEx and some of those benefits might not be recurring in the subsequent quarters per se?

Sandeep Sinha:

Correct, correct. So you're right. We feel very comfortable. I feel very comfortable to say it will be more than 2%.

Renu Baid:

Sure. Second question, sir, would be on QSK19 where -- there was some new introductions in India for global savings. So what has been the progress there we're probably -- is now it's being done in CIL entities itself and does that open CIL's door as being the global hub for this platform?

Sandeep Sinha:

That is -- well, so two things. This -- we had a K19 facility in CIK. We have upgraded for India, requirements for especially mining markets, et cetera. And globally, there we have another operation, where this was being made for many, many years. We are trying to see anything possible where CIL can support. So if they have a block shortage, for example, CIL got the benefit of supporting that plant in the U.S. with our blocks. And so anytime there is any opportunity, we are working on making sure that the way we do it is very clear. You reduce your cost to that extent and your quality is proven to that extent that you are ready to take care of any opportunity that will come your way. And I feel our Q19 products, both from a cost and quality perspective, is now the global benchmark. Now, what also happened was for QSK19, which was -- I was explaining on the 600kVA note we used to use this, but now we are using our mechanical version of [indiscernible] to reach that note. So while we -- for certain customers, we still



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give that, but most customers prefer the mechanical 19. Again, it's on the same line. So it doesn't matter. Revenues are, you know, still intact, actually our margins improve when we sell k19 instead of a Q19 for 600kVA note.

Renu Baid:

Sure. And sir, now that we're also seeing a lot of as in tightening and greed intensity of the trade disputes between U.S., China, do you think in the medium long term, we could see some influence components, pairs and other product platforms moving to India? Does that make long term beneficial, specialist the listed entity?

Sandeep Sinha:

Yes. The answer is, yes. So in one way, again, I give this example yesterday, one of our CIL subsidiaries, which is CGT, Cummins Generator Technology, has benefited quite a lot, because of this move from China to India. So there were quite a big portfolio of products being made for China -- from -- in China, which have already moved to CGT India. We are studying very closely what are the other opportunities for the listed entity. And I do think that there will be some opportunities that will continue to come. It's not unlike, you know, many other industries. This has a lot of interest in supply chain, long term agreements with supplier base et cetera. So to move it from one geography to the other overnight is not possible, but yes. I think in the long-term, there certainly will be a positive shift with this trade relationship going the way it is between China and U.S.

Renu Baid:

Right. And one last question if I may ask. Are you overall commenced in the press release in the near-term look pretty challenging, especially from a domestic market and great environment. So does that challenge, especially with respect to the domestic power gen business to reality, where we have reasonably large exposure, so does that concern you? Or do you think it's just a transitory impact for a couple of quarters?

Sandeep Sinha:

Well, I hope it is, for a couple of quarters. I've been more optimistic than others. So maybe my optimism is also wearing down a bit. But you know, when you think about all the things that are happening in the -- in India right now, right, this country needs a lot of infrastructure growth. And that money has been committed by the government. I think the execution capabilities of the governor on infrastructure projects have improved drastically in the last five years. And we hope this next five years, it continues to increase. So that will give us continued opportunity. I do think that's the real state, we are kind of hitting the bottom run. I think there is only upsides as the middle class continues to, you know, increase the base increases and more housing will be required in this country. I do think that I would say, I was reading about the monsoons. I think that has changed. I feel that we are now close to normal monsoon as against, you know, below par monsoon. So all of that put together, I do feel that -- and, of course, the recovery of -- from the liquidity crunch that we see in the financial markets, I'm sure that -- I know that the government is trying to do everything. It's not showing up. It's not hitting the streets right now. But it should in the next couple of days quarters. So I am still optimistic. Although I must say I'm a little



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less optimistic than I was in the past, but on timing, not on the fundamentals of this economy. The fundamentals are very strong --

- Renu Baid:** Thank you so much, sir, and all the best.
- Sandeep Sinha:** Thank you. Thank you, Renu.
- Moderator:** Next we have Inderjeet Bhatia from Macquarie. Your line is unmuted.
- Inderjeet Bhatia:** Hi, thanks for the opportunity. My first question is on, you mentioned some of the expenses like, expenditure on CPCB and some consulting. Would you be able to quantify these numbers and how long the CPCB investment would continue?
- Sandeep Sinha:** Well, I won't be able to quantify it right down, but I -- certain thing we can share it in the later stage. I do want to say, however, that the CPCB investments are just going -- just about starting. So you know, it's not a big impact right now. But the answer is, yes, we will have to invest, because these are very -- as I told you, these are very big technology upgrades. So I do see that as a good investment.
- Inderjeet Bhatia:** Within exports would you be able to provide some color as to which part, which LHP, or heavy duty or HHP, which is the highest margin business for us? Is it safe to assume that HHP is the best margin business?
- Sandeep Sinha:** I mean, I think that would be a safe assumption.
- Inderjeet Bhatia:** Okay. Lastly, if now exports account for almost 25% of our revenues. Is it a safe assumption that with this proportion remains and sustainable margins for us is now more EBITDA margins is more like 13%, including other operating income, or even that's too ambitious?
- Sandeep Sinha:** No, look, there are two things. One is, certainly, when you'll proportion of domestic business, because of the way the Indian economy is growing and our market share is growing in the domestic market, I do feel that our share -- this is probably where the split between domestic and export will remain, maybe some small shift. We are putting a lot of effort to increase our domestic margins. Right. As I told you with all those product works that we are doing, all the cost reduction works we're doing, all of that is focused to make sure our domestic margin starts to improve. But you know, how much of that shares will change, what will happen with the commodities et cetera. But I would say, what you're saying kind of right, you should expect this as a new order.
- Inderjeet Bhatia:** Thank you, sir.
- Sandeep Sinha:** Thank you.
- Moderator:** Next we have Abhishek Puri from Axis Capital. Your line is unmuted.



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Abhishek Puri:

Thank you for the opportunity. Just two things. One, could you elaborate the previous, you know, new product launches that you have done so mechanical and underslung, you know, underslung railway engines. Has that helped you grow your market share and the margins do not seem to improve over the last two years, despite, you know, new products coming in. And similarly, the new products that you were excited about in terms of new range that we are launching, starting rate and all. Would that help grow our market share again, or would it be you know targeted towards you know bettering the margins?

Sandeep Sinha:

Both, Abhishek, that's the answer. It is meant for both. In some cases, clearly new markets. In some cases, creating new markets, like, we underslung there is no market, there was nobody else supplying underslung. But we are creating a new market in terms of the new product. In certain cases, like the upgrade lot of us focused on margins, because you could use a mechanical engine for that. And with margin improvement, you also get flexibility to get pricing in a way that will fit into the share, right. With new product development, you create a lot of benefits for the customer, and therefore, your market share grows. Our investments are in connected solutions, for example. So today, we have about 1,400 gensets now running where we have live data coming in. And we are able to make -- do a lot for the customers in proactive service and proactive requirement understanding than we have in the past. So all of this is aimed at two things. We certainly want to be more profitable, and we certainly, as we have done in the past, continue to gain market share.

Abhishek Puri:

And just a clarification on the GST part. The U.S. addressed duties on some of the engines, which were imported from India or as other by about 10%. Does that impact us by any chance?

Sandeep Sinha:

No, very small, very small impact.

Abhishek Puri:

So one third of our sales goes to North American market. So I mean, could you quantify, will it be -- had the margins been impacted because of that, or --

Sandeep Sinha:

No, one third does not go, it's a much smaller portion than one third actually.

Abhishek Puri:

Okay. And lastly, this ForEx, you know, impact that you mentioned in the raw material to sales of almost 1%. Is that really repeatable? Or is it a non-recurring FX impact? Or, you know, if you can provide some details on that.

Sandeep Sinha:

I think I have heard Rajiv said, but Rajiv if you don't mind for Abhishek's benefit, if you could talk about the color.

Rajiv Batra:

Yeah. See, it depends on where the currency is. Now, at the start of the -- you said that at a rate plus minus 3% remains with the legal entity, beyond that is sharing. So last year as we set it for the most part, the legal entity benefited. This year we are at where we fit it. And therefore, the positivity we had from exchange last year is not with us this year. It's not that we're losing all the exchange, it's the fact that the extra benefit we got last year is not with us. So



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hopefully that kind of explains that. But so, this year therefore, we're at target margins.

- Abhishek Puri:** Okay, that's helpful. Thanks a lot. And all the very best.
- Rajiv Batra:** Thank you.
- Sandeep Sinha:** Thank you.
- Moderator:** Next we have Renjith Sivaram from ICICI Securities. Your line is unmuted.
- Renjith Sivaram:** Hi, sir. Just one small clarification like, last call we had mentioned regarding some price hikes. So we were expecting a gross margin on material costs to come down, because of this price hike. So if you can through some color on the transmission of the price hike for what kind of price hikes we have taken or what we are planning to?
- Sandeep Sinha:** So first of all, we have not taken back any price hikes. We feel good about the way we've handled the price increase and made sure there's no shed impact that I would say that as the results come out for last quarter, we should be fairly good place with market share. And it's positively helped us by around 0.5% in our margins.
- Renjith Sivaram:** So what -- have we taken it? What percentage of price hikes you'd have taken, if you can give some quantification to that?
- Sandeep Sinha:** About 2% to 3%.
- Renjith Sivaram:** Okay. And that has been taken last quarter?
- Sandeep Sinha:** Yes.
- Renjith Sivaram:** Okay. And sir, this export also, if you can get some more color in terms of the geographies? A couple of geographies which we majorly are into for this quarter? And what's your outlook there in terms of the geographies?
- Sandeep Sinha:** I'm just thinking which geography should I start with versus all of them [indiscernible]. I think Middle East is lower by about 30-40% as against last year at 50 crores. Africa -- Continent of Africa is about the same number. Rest of Asia is about the same number. So again, same numbers and also same -- similar drops. So I would say, what was holding on before was a little bit of South America but that too looks in not a great shape anymore.
- Renjith Sivaram:** So if we understand Middle East has been one of the major disappointment in terms of this 26% drop in --
- Sandeep Sinha:** Middle East, I would say Middle East and, you know, the Rest of Asia, if you take China out. Those are big two -- big ones that we have seen.



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- Renjith Sivaram:** And looking at your reduction guidance, it seems that these geographies will continue to remain muted for at least for the couple of quarters ahead?
- Sandeep Sinha:** Yes, that's what I said earlier.
- Renjith Sivaram:** Okay. Okay, sir. Thanks.
- Sandeep Sinha:** Thank you.
- Moderator:** Next we have Venugopal from Bernstein. Your line is unmuted.
- Venugopal:** Hi, thanks for the opportunity. Sir, I just for growing up on this pricing part, given that the near-term outlook for the market is not that strong, and especially given that macro itself tends to be even further moderating, especially, you know, even in July. So, I mean, are you incrementally seeing any pressure from competition in terms of intensity of pricing? Mostly because, you know, we tend to always have some premium to competition in terms of prices. So you said gap tending to narrow or this is more an incremental poster quarter sort of an event?
- Sandeep Sinha:** I think it's incremental. I think -- I would say, there's no company that has been not impacted by commodity inflation et cetera, though, over the last year. So while there will always be pressure in this company, this is highly competitive. I think the market is -- I would say the market environment is stable.
- Venugopal:** Okay. The second thing is more clarification on this commission thing that you had mentioned in an earlier question on, especially this Africa, you know, business where you're actually selling to the dealers there. So I actually couldn't understand, is it like a one-time payment done, where -- which you'll monetize eventually over a period of time? Or is it more linked to sales? Because it's linked to the sales and it shouldn't really have impacted you in any ways in this quarter, right?
- Sandeep Sinha:** Yeah. So what has happened was, when they brought it up, we're kind of not -- we were still talking to them about how this will work. So this is a two-year old issue. But eventually, we kind of reached a point where we said yes, this is a fair number to compensate them for the work that their teams are doing to help grow this market. Because otherwise, you know, since this team was completely dedicated to the exports of CIL, and they had no funding to be able to do it on their own. And rather than giving margin reduction, we thought it would be better to give this commission. And so you know, it will be recurring. But hopefully, it doesn't -- the increase in sales helps the negate, certainly negate and actually gain a margin impact for us.
- Venugopal:** Okay. Lastly, the CPCB thing since, you know, is another topic, which is under discussion. I don't know whether you would want to share. I mean, in terms of quantum of investment, is it like very large, and more so compared to the previous CPCB change. Is that incrementally a very big change in terms of the investment that needs to be done? I also want to touch upon this topic, because



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last time around when the CPCB changes were done, I was pretty much, you know, observing and tracking that at that point of time. Ahead of the event, primarily, the thought process was that it's a very tough one even then, and then the fact that competition could actually lose share, because you know, it's a difficult thing to implement et cetera. But thereafter, things were that post the event, actually, we had to increase prices 15% and competition actually didn't increase much. So there were some concerns around you know, your own volumes. Now, the reason I'm touching upon this topic is because, this time around when you approach, because the starting point of your R&D on the next CPCB version, how different are you tackling this, so that you end up being competitive too in terms of pricing?

Sandeep Sinha:

Venugopal, all your concerns are valid. I don't think we can ever underestimate and say why our competitors cannot do what they can do. I mean, they have also got access to technology. There are many partners that they can work with. So I don't think in any ways would I undermine their capabilities. I think we are all very capable competitors. I do think that we are unique in that matter, because -- so let me help you understand. CPCB-1 to CPCB-2, was if you think about on a scale, from one we move to three on a scale of 10. And from three we're going to move to 10 on CPCB-4. We are skipping many generations. It's like in the automotive world if you follow you know BS-3 to BS-4 was a step increase, because it moved everyone to electronic engine. And then BS-6 has been a even more complex. I would say, in this new environment, it will be -- it is going to see a kind of shift between BS-4 to BS-6. There is the same, I'm just giving an analogy over there. So I can actually tell you the reduction in NOx and PM, etc. were about 30% to 40% between CPCB-1 to CPCB-2, is now at -- going to be 90% In [indiscernible] reduction, you know, between CPCB-2 and CPCB-4, which actually takes the genset almost to zero emissions. So, it becomes very difficult, you will have to use after treatments and you will have to mostly use, mostly use electronic engines for the larger nodes. So there will be an increase. Now having said that, are we going to take and put a solution, which is high costs, we will try to make sure we are one of the lowest cost products now. That's all I can comment in terms of that. We are still doing a lot of studies on what kind of product architecture we need. We have all the right people now. And certainly as you said, you learn your lessons from the past. And you know, we can always say we made a mistake in our architecture. Because why we went from CPCB-1 to CPCB-2, because the CPCB-3 would come sooner, so we thought why not make the change and keep it to a higher base foundation of architecture. But that didn't happen. So you know, it was supposed to, but it did not happen at that point of time. Maybe we were a little ahead of in our thinking as to how fast the government would react to better quality. So I think now that anyways, it is going to be the highest standard. So we'll meet that.

Venugopal:

Thanks a lot, sir.



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Sandeep Sinha:

Thank you. Alright, with that, I want to thank everyone for taking this call and maybe Yashwant, if you could -- we have a Yashwant join us, so if Yashwant you could just say hello to all our friends there and --

Yashwant:

Hi, I am Yashwant, I'm glad to interact with you for the first time. I'm -- I've been with Cummins for long time and I'm very confident and optimistic about the long-term future and I look forward to interact with you more to provide the clarity. Thank you.

Sandeep Sinha:

Thank you, everyone, and have a great day. Bye-bye.

Moderator:

Thank you, sir, for addressing the session. Thank you participants for joining in. That does conclude our conference call for today. You may all disconnect now. Thank you and have a pleasant day ahead.