Ref: STEX/SECT/2020

February 10, 2020

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, 5th Floor, Plot No. C/1, G Block, Bandra – Kurla Complex, Bandra (East), Mumbai 400 051 NSE Symbol: **CUMMINSIND**

Subject: Intimation of transcript of analyst conference call held on January 29, 2020

Dear Sir/ Madam,

With reference to our stock exchange intimation dated January 20, 2020 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 January 29, 2020.

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

Thanking you,

Yours faithfully,
For Cummins India Limited

HEMIKSHA BHOJWANI
Digitally signed by HEMIKSHA BHOJWANI
Date: 2020.02.10 18:13:23 +05'30'

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

(This letter is digitally signed)

Encl.: As above.

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Cummins India Ltd.

Analyst Call

January 29th, 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 Cummins India Limited Analyst Call. For the duration of the presentation, all participants' lines will be in listen-only mode. We will open the floor for Q&A post the presentation. I would like now hand over the proceedings to Mr. Ashwath Ram, Managing Director, Cummins India Limited. Thank you and over to you sir.

Ashwath Ram: Good morning ladies and gentlemen. I'm Ashwath Ram, Managing Director of Cummins India Limited. Thank you very much for participating in this call. I would like to convey the financial results of quarter ended December 31, 2019 through this call. The financial results with respect to the sequential quarter, our total net sales stood at INR 1428 crores, improved by 11% compared to the INR 1285 crores recorded in the preceding quarter. Domestic sales stood at INR 1058 crores, improved by 12%. Export stood at INR 370 crores, and grew by 10%. Profit before tax and exceptional items at INR 254 crores, higher by 20% compared to INR 210 crores recorded in the preceding quarter. For the quarter ended December 31, 2019 with respect to quarter ended December 31, 2018, i.e., the previous year, our total net sales stood at INR 1428 crores, declined by 2% compared to the same quarter last year. Domestic sales stood at 1058 crores, improved by 4%. Export at INR 370 crores, declined by 16%. Profit before tax at INR 254 crores is 6% lower as compared to INR 270 crores recorded in the same quarter last year. Moving on to the segment wise breakup, to give you a sense of the sales breakup segment wise in the domestic market, industrial domestic business sales were at INR 267 crores which is a 8% growth over last year. Powergen domestic business sales were 380 crores which is a 12% drop over last year. Distribution business sales were INR 415 crores which is an 18% increase over last year. In the Exports areas, high horsepower exports were INR 208 crores, which denote a 2% decline over last year and low horsepower sales were at 144 crores, which denotes a 27% decline over last year. The Cummins India financial guidance is what I'm going to speak about next. In terms of sales outlook for the full year 2019-20, we would like to maintain the target at 3% to 5% growth for domestic and negative 20% for the exports business. The current sluggishness in the Indian economy led by various factors including liquidity crunch, delay in awarding of infrastructure projects, constraint bank funding, have all resulted in reduction in demand across all our key segments in the domestic business and this is likely to continue further for a few quarters and gradual revival is likely to happen as the government measures to address these start to kick in and positively boost the economy. So we are on the wait and watch mode here to see how the infrastructure kind of spending happens. Export markets have continued to display softness in recent quarters. This is arising from global economic challenges. In this quarter, we also experienced decline in certain markets within the global power generation business, based on difficulties that some of these economies are now experiencing. We have initiated internal actions to curtail overall spending to essential only. We are also focused on improving on the efficiency of our internal processes and product coverage. We are working on creating a strong environment of cost consciousness. We continue to be positioned to outperform in our industry and continue investing judiciously in product enhancement on increasing our customer focus, on improving productivity, maintaining high quality and we will continue delivering value to all our stakeholders. 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, I would request you if you have any questions please press 0 and then 1 on your telephone keypad and wait for your line to be unmuted. The first question of the day we have from Sandeep Tulsiyan from JM Financials. Your line is unmuted. Please go ahead.

Sandeep Tulsiyan: Yeah, a very good morning, sir.

Ashwath Ram: Morning.

Sandeep Tulsiyan: Yeah, So first question is pertaining to the distribution segment that is mentioned in the press release that [indiscernible] execution of certain contracts which led to this jump of 18% in the revenue. So, what I want to understand is what is the quantum of these certain contracts which got executed in the current quarter? And if you could also explain the nature of these contracts, are they going to spill over to the next quarter or are they more going to be ongoing in future or not going to be up there in the future? That's my first question.

Ashwath Ram: Yeah, so to answer that these were contracts we executed in the bus market segment. These were gas engine products and the impact of that is roughly about INR 70 crores of order execution that happened. These orders are now executed and completed so they will not spill over into additional quarters. And as you are aware some of these technologies are changing from April. So, they will take a different form in the future, but they are not going to have impact in the current quarter.

Sandeep Tulsiyan: Understood. Second question is pertaining to more from the long-term growth guidance, you did mention the current year's growth guidance has been maintained, but if you go through the earlier releases, we had mentioned that exports should grow anywhere between 0 to 5% on a five-year cycle and domestics around 9% to 11% which leads blended growth of anywhere about 7% to 8%. Given we have seen such a sharp decline in the current financial year, would you stick to the same guidance over the next five-year cycle or would you want to have a fresh look at that?

Ashwath Ram: We continue to remain optimistic about the long-term cycles. We have seen these trends multiple times and in multiple markets. So we would like to continue to maintain that outlook.

Sandeep Tulsiyan: Got it. And last question is on the railways business, if you could quantify the impact, the amount of growth that you see in that particular segment in the current quarter, and also given the government's drive on electrification of railways, what kind of impact it could create on the overall business by for Cummins India?

Ashwath Ram: So the rail business has been good for Cummins India, and if you see as compared to the last quarter, we actually declined by 4% but it's still very, very, very strong performance as compared to the previous year. We have grown by almost 49%. And we continue to maintain our outlook in the segment at this kind of performance level.

Sandeep Tulsiyan: But given the government's drive on electrification.

Ashwath Ram: Yeah, so the areas where we are selling these products are -- have limited impact of the electrification. Some of that electrification is likely to come in, in a two to three-year timeframe and for which we are already developing alternate products in our pipeline to be able to compensate for those sales with new products.

Sandeep Tulsiyan: Understood. All right. So thank you so much for taking my questions. Wish you all the luck.

Moderator: Thanks for your question. Next we have Ranjit Shivram from ICICI Securities. Your line is unmuted. Please go ahead.

Ranjit Shivram: Yeah. Hi, sir. Good morning and congrats on good set of numbers given the overall environment.

Ashwath Ram: Thank you.

Ranjit Shivram: Sir, when we see the raw material to sale that hasn't improved significantly, despite so much of increase in distribution business, which we believe has higher margins. So any particular reason for that?

Ashwath Ram: I think this is primarily because exports business continues to be weak and also power generation is slowing down. And so, whatever improvement we got we got in the distribution businesses offset. We did get a little bit of positive impact, but not significant enough to overcome the decline in the other areas.

Ranjit Shivram: Okay and is there any one time or something like kind of ForEx loss-gain under the other expenditure because that has significantly come down to – so is there anything there we should be aware of?

Ashwath Ram: Yeah, I think this has got to do with dividends. That is the primary reason for that difference.

Ranjit Shivram: No, other expenditure?

Ashwath Ram: Oh, other expenditure. In other expenditure, I think the biggest area is royalty and that is the difference between the previous quarter and this quarter. There was a -- there was a -- there was a -- this quarter we got roughly INR 10 crore kind of benefit in that area.

Ranjit Shivram: Okay. So, is that kind of a continuous trend or is it pertaining to this particular period of point?

Ashwath Ram: Yeah, it is pertaining to this particular period and is likely to go back to the similar kind of numbers which we saw in earlier quarters which are closer to the inr 160 crores kind of number.

Ranjit Shivram: Okay, and sir if you can share the breakup of our Powergen in terms of HHP, MHP?

Ashwath Ram: Sure. So, yeah just a second. So, so, in this quarter high horsepower was roughly around INR 170 crores, medium horsepower was roughly around inr 120 crores and low horsepower about inr 90 crores.

Ranjit Shivram: And mid range?

Ashwath Ram: So, if you look at -- if you look at the -- if you look at the breakup there, mid range was roughly about inr 110 crores.

Ranjit Shivram: Okay, okay. Okay sir. Thanks. I'll join for further question. Thank you.

Moderator: Thanks for your question. Next we have Renu Baid from IIFL. Your line is unmuted.

Renu Baid: Yeah, hi. Good morning sir. Sir few questions from my side.

Ashwath Ram: Morning.

Renu Baid: First just wanting to understand as in exports, you mentioned good growth coming and HHP has seen some recovery and still you have maintained your annual guidance of 20% drop, which implies at fourth quarter we might be close to just INR 280-290 crores, significantly lower from whatever we've seen in the past few quarters. So are we missing something in terms of any one-offs in this quarter and overall, how has been the bucket of outlook within the LHP portfolio and HHP for us because HHP has been pretty much steady at about INR 200 odd crores for the last couple of quarters, LHP has seen some recovery. So if you can share some comments in terms of market wise performance and what were the tails in this particular quarter and broadly what is the outlook for CY20 on the export side?

Ashwath Ram: Right. So most of the recovery that we saw was on the LHP side and as I mentioned in my outlook in the last quarter, we thought the LHP was close to bottoming out and we did see some positive impact from certain markets, but those are just pockets of, of markets, in certain regions around the world, like we got some special orders from areas like Egypt, etc. But we don't. -- overall when you look at those markets, they continue to slow down and so we are forecasting that the next quarter is likely to be closer to -- closer to the Q2 kind of numbers rather than the Q3 kind of numbers, mainly because we continue to see those markets consolidate and, you know, attempting to reach a bottom.

Renu Baid: So probably a run rate of about INR 330 odd crores is where we are looking the exports to be in the near quarter.

Ashwath Ram: Yeah, that's a very, very fair kind of assumption.

Renu Baid: Yeah but if slightly longer view as in take a 12-month timeframe or now that we are entering calendar 20. So as in exports probably looked to have bottomed at INR 320-330 crores average quarterly run rate. So are we seeing any positive tales anywhere where you can see a 5% to 10% or even at least marginal growth of 5% in the export portfolio is not declining further, or probably we think it will be flattish for some time before the growth reverts back on this side of the business?

Ashwath Ram: So, almost for the last 12 months these markets have been steadily declining and typically these markets are cyclical markets. So these cycles last anywhere from

18 to 24 months and so we are expecting at least for the next couple of quarters this to be flattish before things start picking up. We are though going to be very aggressively pursuing market share growth. Now exactly how much time that takes for some of that to happen is difficult to predict at this time. But we remain seriously committed to this business and attempting to grow this. So, our longer-term outlook, I wouldn't say six months out, but I would say longer term we are bullish, that we will be able to grow this market well. The globe is dependent on the product out of India for this so it's not like we are being replaced by any other products and as the 18 to 2 years' outlook is extremely bullish mainly because we are also introducing new technology products in conjunction with the CPCB-4 plus which will happen in India, all of those bode well for these products out of India.

Renu Baid: Okay, so probably we will see probably more of electronic based Indian platforms and advanced portfolio coming to Cummins India Limited for manufacturing.

Ashwath Ram: Absolutely. There's no doubt about it, especially with the timing of CPCB-4 which is still not announced. So, we are working through those. But yes, certainly that is in the plan.

Renu Baid: And these will be largely in the as in mid range horsepower HHP or largely in the LHP part of the portfolio, which part of the exports portfolio are we talking about?

Ashwath Ram: It will go all the way up to almost 800 horsepower because that's the notification of CPCB-4 plus. It is 820 kilowatts and below and so all the products to meet the emission challenges, you will have to go to electronic on those products and so that portfolio will then become available for us for export as well.

Renu Baid: Yeah. No, I was actually referring on the exports side, as you mentioned, there could be some positive tales and new portfolio being added. So within the export bucket, we are looking for new nodes being added on the LHP HHP bucket with side of the business [indiscernible].

Ashwath Ram: So that's what I was trying to say is that the entire domestic portfolio will have to be upgraded all the way up to 800 horsepower, which means it spreads across LHP, MHP and the lower end of high horsepower. So all of those nodes will then become opportunities for export to markets which currently don't buy leading emission products from India.

Renu Baid: Sure. And sir my second and last question would be to understand a bit more on the domestic Powergen industrial segment. They have been a bit of mixed performance. So where do we see the growth bottoming out and recovery to set in for this portfolio? And also if you can highlight what was the sales mix of the industrial segment for 3Q20 in terms of compressors, construction [indiscernible].

Ashwath Ram: Yeah, so actually the industrial business has -- we've managed to hold out, despite all the infrastructure and other slowdown reasons that India has faced. So despite all those factors in this quarter, we grew by - the industrial business by about 25%. And most of that crores is coming mainly from -- actually this last quarter most of the segments performed well, rail maintained its performance. Compressor grew a bit. Construction which we think has bottomed out in Q2 has started to slowly turn and we'll have to see how much it recovers based on some of the announcement we hope to see in the budget. Marine is a very small business for us, but we had some yearend execution which went well for us so that performed okay. So that's the rough breakup of why we did better.

Renu Baid: Sure, any number that you can share here [indiscernible] possible?

Ashwath Ram: Not at this time. All I can tell you is that those segments that I mentioned have all done better and we continue to be optimistic that this portion of the business will maintain its performance.

Renu Baid: Right. And sir just a small clarification, we mentioned in other expenses the INR 10 crore savings on the royalty side helped to reduce other expenses. But was there any impact also of the cost rationalization and the tight budgets that we're running through which will help contain the other expenses between INR 150-160 odd crores in the coming quarter or probably in the next financial year as well or how should we look in terms of cost actions there?

Ashwath Ram: Yeah. So the cost actions have been going on for some time, but the real impact of those cost actions you'll see more in the next financial year.

Renu Baid: Sure. All right. So thank you and all the best. I'll get back in the questions later.

Ashwath Ram: Thank you.

Moderator: Next we have Bhavin from SBI Mutual Fund. Your line is unmuted.

Bhavin: Yeah. Thanks for the opportunity. Good show Ashwath. So I have a couple of questions. Could you give us some color on the market share in the power generation market and breaking up into the different modes of high horsepower, ultra horsepower, medium and low?

Ashwath Ram: Sure. So in the -- let's start off with the high horsepower and that is the segment where Cummins has the largest market share, and we continue to maintain our market share at roughly around 65%. In the medium horsepower segment, we did almost maintain market share; we are at 48%. In the low horsepower space, we have improved market share a bit and gone to 38% and in the very low horsepower space where we are not a significant player we have lost a little bit of market share at 18%.

Bhavin: Okay and what would be the loss in market share?

Ashwath Ram: The loss in market share is in the smallest nodes and that loss is about 4%.

Bhavin: Okay. Second question is on the exports. Couple of quarters back you mentioned that there's a new policy that you're starting with 1% commissions to the sales team and the dealer distributor network. Could you give us some color on update on that and is that helped you to actually pep up this exports that we have seen and so we can see more legs to it?

Ashwath Ram: I won't comment on percentages, etc. All I can say is that we continue to be very aggressive in trying to gain market share and grow in all our exports markets. India is the significant provider of product for Cummins globally in those markets and we continue to aggressively try to pursue market share.

Bhavin: What would be a market share? I know we're addressing multiple geographies, but if you can give us some broad color of Cummins' market share within the geographies that we are addressing and how large can we become? You mentioned a couple of times that you have a lot of headroom to grow market share in the exports market and what are the efforts that we are taking to gain market share? Will it be price action? Will it be certain reach that is deficient that we are trying to address? So some color on that will be helpful.

Ashwath Ram: So, we will use all aspects available in our hands, which is certainly we will use price judiciously as necessary. We will use positioning of Cummins with its technology, its brand. We will use the reach Cummins' present in 120 plus countries and we are using more reach to try to get to more people and the biggest area which we work on of course is the product. Cummins is a product company and so, the way we will most easily is when our products are focused towards certain markets and are differentiated and better than other suppliers there. And we are working on all of those four areas to try to grow the business.

Bhavin: Okay. Thank you so much for taking my questions.

Moderator: Next, we have Abhishek Puri from Axis Capital. Your line is unmuted.

Abhishek Puri: Yeah, thank you for the opportunity. My most of the questions have been answered. Just on the exports part continuing a bit further on, are there any specific segments where we are global cost leaders and hence that segment is exported out of here or in terms of the approach or is it like the capacity filling approach that the local geography's capacity is full and then we are kind of exporting from here?

Ashwath Ram: I think we have the greatest cost advantage all the way in the low and medium horsepower products. And so that is why we are the major supply chain hub for the world for these products.

Abhishek Puri: But that's the segment that has seen the maximum curtailment in terms of revenue growth over the last few quarters. So that is related to demand. It's not related to the capacity coming up elsewhere in the world and hence our exports are reduced.

Ashwath Ram: No, it's completely related to demand and that's why the earlier comments on what we are trying to do even in this global slowing market scenario for Powergen to try to get back some growth through gain in market share, etc.

Abhishek Puri: Right. And secondly, in terms of the distribution and spares business, I mean you mentioned that one of the contracts has obviously led to that impact. If we take that out, do we have steady state of business here where we have contracts to ensure that we get about INR 330-350 crores kind of run rate? Or is it that you have to go out and win that business on a regular basis?

Ashwath Ram: I mean, you always have to go out and win business in these markets. But this business when you look at it, even over the last three to five years, has been able to grow steadily from between 6% to 8% annualized and we think we can continue that kind of trend and focus our energies on doing better.

Abhishek Puri: Right. Despite the slowing economy, I think this is, you know, surprising the way this kind of growth is coming because one would have expected that the in slowing growth trajectory, the people tend to cut back on their expenses as well. So, I mean just a thought from your side on this point.

Ashwath Ram: Yeah, so we do see, we do see these markets slowing down as well. But what happens is when people stop purchasing new equipment, the base level of work in the economy continues and so they maintain their equipment, they continue to service their equipment. So the distribution business is not as strongly impacted as the other sides of the businesses, but the growth rate certainly is under pressure, even now as we speak.

Abhishek Puri: Right, right. So fair enough. Thanks a lot, and all the very best.

Ashwath Ram: Thank you.

Moderator: Next, we have Fatima from ICICI Prudential. Your line is unmuted.

Fatima: Hello, sir.

Ashwath Ram: Hi.

Fatima: Hello. Sir I had a query on the steel price benefits that we should have had as a company over the last nine months and we're seeing how the steel prices are turning. So considering we've not had a lot of benefit from the steel price cut, would it be fair to say that the reverse also hit might not be as much because at the margin, you've helped your vendors?

Ashwath Ram: Yeah, I think that's a fair statement that we have not been impacted significantly by the steel commodity fluctuations. I think its overall material margins have remained pretty steady. So, the other side of it going should not impact us significantly and we do have lot of cost reduction projects going on in parallel to offset any increases.

Fatima: Okay and sir on the Powergen side, is it fair that at the margin the government spending and all pick up is there so, going forward at least this pace of decline will not be there in Powergen or at least we can start seeing growth going forward in CY 2020.

Ashwath Ram: It all depends on the way infrastructure spending actually happens. So, as you have seen in the rest of the economy in India, when the production rates are all down and business is not growing, their use of power reduces and when use of power reduces, sort of make do with whatever they have, and don't buy new equipment. So, if that cycle were to change, certainly, we are the primary beneficiaries of that kind of infrastructure improvement. So we are optimistic. But you know, we tend to be cautious about the future before we start seeing it.

Fatima: So, in January at least the month so far you're not seeing any pick up which you'd see seasonally, generally when Jan, Fab, March ramp up begins. You're not seeing any initial signs of that.

Ashwath Ram: Not at all.

Fatima: Okay, and sir the export side is U.S. doing much better because all data points from U.S.-Europe continue to be very strong. So why isn't the acceleration on HHP export side? I understand it's flat and that's a big thing because the exports have been declining, but no ramp up there expected considering, you know, last one year U.S. has not been doing that well, but at the margin last two, three months, the data points from U.S. has started to look good and that the QE and everything you don't believe the industrial pickup in U.S. will be strong, which will help HHP exports.

Ashwath Ram: As a matter of fact, last year the U.S. did extremely well. The first half of this year also the U.S. did reasonably well, but the second half of the year, they have started seeing a significant drop off. So, we are seeing great trends of slowing down significantly, and which is why Cummins has announced cost reduction actions globally based on these trends

Fatima: What are takeaways from the cost cutting measure as in what is the kind of mandate like we have seen other MNC companies come out with margin aspiration targets? Do we have something like that based on the global guideline?

Ashwath Ram: We are focused on controlling the costs and we have undertaken what we call rings of defense and in rings of defense, we first target all aspects of costs, the discretionary spend like travel, technology costs, facility costs, and then we move on to the next lever, which is people. So we have already gone through the first couple of layers of our rings of defense and now, we've also taken the people actions, but we will see the benefits of many of those actions only in the next financial year.

Fatima: Fair enough. So thank you so much, and all the best.

Ashwath Ram: Thank you.

Moderator: Next we have the Deepak from Goldman Sachs. Your line is unmuted.

Pulkit: Hi sir, this is Pulkit. Thanks a lot for taking my question. Sir given the fact that we have done a VRS this year, and even your overall commentary doesn't sound very optimistic. Just wanted to get a sense that because we've done quite a lot of CapEx in the last few years, how should we look at the next couple of years of CapEx for the company and which segments particularly do you think would be focus area if at all we have to do any expansion?

Ashwath Ram: I think the biggest spend is going to come in the technology areas for moving to CPCB-4 Plus in the Powergen space and in the CEVBS-IV and BS-5, which is going to happen in the construction of highway kind of spaces, and those are significant upgrades to the technology and they are likely to happen over the next three years. Based -- we are still working out the exact details of that but there are significant investments we are planning to make to upgrade those technologies and get a significant distance in the market as compared to competition.

Pulkit: And sir would that entail a lot of CapEx? Could you tell what your CapEx guidance for next couple of years would be?

Ashwath Ram: We are still finalizing those numbers. So I will not be able to disclose those amounts. All I can tell you is they are pretty significant because the technology change is a quantum difference between what we have been doing in the past.

Pulkit: Sur sir, thank you so much.

Moderator: Next we have Nitin Arora from Axis Mutual Fund. Your line is unmuted.

Nitin Arora: Sir my first question is that when we looked at the distribution order, how much it contributed to your margin? So just wanted if you can relate to a steady state margin.

Ashwath Ram: So, distribution plays its role in the overall margin picture but I cannot really quantify the exact details of how that plays into the overall margin picture.

Nitin Arora: No, I'm talking about only a particular INR 70 crore contribution to the EBITDA because if Powergen is down 11% your exports are down. So just wanted to understand the mix that has changed, how much is the steady state margin you would have done in this quarter if I remove that distribution?

Ashwath Ram: Yeah, I can't quantify that granular level of details.

Nitin Arora: Okay. Second think sir on the CPCB Norm 4 where you look very excited, you know, with respect to the technology angle and when we saw in the last emission norm, what has happened in the market there was just a 4-5% pre buy, that just happened because of the technological change and rather lot of people over engineered in engine and then brought down the cost, what is going to change this time where you know, the company is very excited that technology will lead to the end market sale, if you can quantify that?

Ashwath Ram: Yeah, so, when we went from CPCB-1 to CPCB-2, it was possible to continue to use the mechanical products and with very, very limited after treatment still meet the emission norms and that is why we didn't see the kind of growth in technology on the products that we were anticipating. When we go to CPCB-4 plus, these are the tightest emission norms in power generation in the world which means even the United States with Tier IV final has got slightly lower emission standards than what India will have and to reach these emission standards which are over 80% improvement in NOx and hydrocarbons and similar kind of improvement, over 40% improvement in particulate matter, you're going to have to one, move to complete electronic engines and second, you're going to have to put in a significant amount of after treatment. Things like SCR, etc. and Cummins has already invested in all of these technologies in India, and has been leading in these technologies around the world where we have been able to gain market share as well as improve on pricing, etc. So that's why we are so excited with this change. It gives us an opportunity to differentiate from people who could just use the previous technology with minimal modification. Now, everyone will have to make significant investments in areas where we have already made investments.

Nitin Arora: Why I was asking because the auto industry went to the same technological change and even the Indian vendor has done that. So generally a genset, which is a lower end than the auto engine, generally the technology becomes available, what we have seen even in the previous changes. So that's why I was asking that. Just lastly one clarification, when you said that you didn't have a commodity impact in this quarter, why would you have a commodity impact when actually commodities are down till December? So just need a clarification on that. You would have benefited from that right?

Ashwath Ram: Yeah, so I'll answer your first question. One is, even in the auto space, the auto space went through two changes in the last four years. One is it went from BS-III to BS-IV and now it's going from BS-IV to BS-VI and in each of those emission changes, the technology has gotten upgraded significantly. And Cummins has done much better in the market because of those changes. So, actually it proves the point I'm trying to make that when technology becomes more complicated Cummins wins because we are leader in the technology. The second point on impact of commodities. For us, these commodity settlement and changes don't happen month on month. It happens over a longer period of time. And so, with the pluses and minuses you sort of at least in this period, we have seen it averaging out. So, despite the commodities going down in certain commodities, certain other commodities have actually gone up so we see more of averaging out, but all positives and negatives in this area, they get adjusted over a slightly longer period of time for us.

Nitin Arora: Got it. Got it. Thank you very much.

Moderator: Next, we have Amit Shah from Bank of America. Your line is unmuted

Amit Shah: Hi sir. I just wanted to understand that over a long period of time, like let's say three to four years, how do we see some of these disruptions to the industry like let's say solar including with batteries may get economical, railways is moving towards electrification which may impact some of our diesel locos [indiscernible] business, power capacities in India's improving which may reduce the base load requirement apart from the gensets earlier. So, if you can just give some perspective over a longer term, you know, that will be useful.

Ashwath Ram: Yeah. The first is that Cummins doesn't consider itself just a diesel company. We are a complete power solutions and power train company, which means we are fuel agnostic and whatever is the right fuel availability in a particular market, we have the appropriate technologies to play and win in all of those. To give you an example, we are leading players in gas products in markets such as North America and China where there is availability of gas. We have made significant investments in electrification and in batteries and integration of electrical technologies. We have acquired many companies. We are now a large player in the hydrogen space. Having recently acquired one of the leading hydrogen and fuel cell providers company called Hydrogenics. So we see ourselves as a player in multiple fuels to power the needs of the customers. Now, based on the availability of the right fuels in this market, we feel we have the right kind of technologies which are available with us, which at short notice we can introduce in the market. We are working very closely with the various Planning Commissions, the Niti Ayogs of the world to try to understand what the India fuel roadmap and the technology roadmap and to help define that, and then use the appropriate technology to ensure that our business continues and our business continues to grow. We have leading technology in all the areas you mentioned including in rail, including in power generation, and we intend to use those as appropriate to keep growing the business.

Amit Shah: Thank you. That's, that's really very helpful. Thank you very much.

Moderator: Next we have Sunil Gulati from HSBC. Your line is unmuted

Sunil Gulati: Yeah. Thanks for the opportunity. Can you give some color on what you're seeing on the working capital side, any cash collection issues, any deferments?

Ashwath Ram: No, we've had very steady performance, improving performance in that area. Working capital is an area where we focus very strongly on and I'm happy to report that that's an area where we are doing quite well.

Sunil Gulati: Okay. Okay. Great. That’s all from my side. Thank you so much.

Moderator: Next, we have Sujeet Jain from ASK Investment Management. Your line is unmuted.

Sujeet Jain: Sir you spoke about railways and when railways [indiscernible] electrification in two to three years, you said there'll be alternative products that you can introduce. Can you elaborate more on this?

Ashwath Ram: These are highly proprietary confidential and intellectual property covered technologies. They are in the stage of development and introduction into various markets around the world. So, I will not be able to comment about details on that at this stage. All I can tell you is there is public information available about the kinds of investments Cummins has made and some of the markets including rail that Cummins already is winning business around the world.

Sujeet Jain: Sure. And when do you expect CPCB-4 Plus norms to based on your intelligence in the market to be implemented from? Would it be March 21 or March 22?

Ashwath Ram: There is lack of clarity at this stage but somewhere within that timeframe. Somewhere between April 21 to April 22 and we are ready to deal with either of the dates.

Sujeet Jain: Sure, thanks.

Moderator: Next we have Venugopal from Bernstein. Your line is unmuted.

Venugopal: Hi, thanks a lot for the opportunity. You know on CPCB-4 norms just wanted to understand how different is it from the BS-VI diesel norms for auto sector and more importantly, since these technologies to a large extent are already been developed. So what is the nature of CapEx that you're talking about that you need to do in the next two years? Is it R&D related or is it actually physical capacities that you need to set up?

Ashwath Ram: It's mostly R&D related and the technologies are similar in certain aspects and little different in many aspects because one is a variable engine and the other one is a fixed speed kind of engine. So that is what causes the difference in the technologies. But when we look at the BS-VI guidelines and the CPCB-4 guidelines for output out of the engines, it's very close.

Venugopal: Okay, so given that in the auto market we have seen when demand is weak and the economy is weak, such emission norm changes to price hikes and that tends to impact demand. Is there any sort of push or lobby the industry can do to actually push out these norms by year or two because it could be detrimental of demand or you think you really have not much of a say and this will happen as per the timelines, whatever the timelines are.

Ashwath Ram: Yeah, I think this is driven more by the environmental mandate of having cleaner emissions, etc. So I don't think there's too much of an audience to say we want to push things out for the sake of demand.

Venugopal: Okay, one more question on the export side. I do remember a couple of quarters back to, you know, you had taken some price actions. I remember it was more about your team mentioning that you're also probably given slightly higher distribute margins or something like that in the MENA region probably. So, I just want to understand you mentioned earlier in the call that price actions is one of the strategies that you would use. I want to check given the price actions may have already been taken and still exports are broadly in the similar range, is incremental price action actually beneficial at all to volumes or it's better not to take price actions?

Ashwath Ram: So, it all depends on that particular market and that market segment. Each of those regions work differently and so, certainly we will not be taking price actions if that is not resulting in either market share or growth in demand and to that point your statement is right. So, we will not take price action if it is not resulting in further growth or further improvement in market share.

Venugopal: Sir lastly if I may ask can you mention specific geographies where you have the impact you've seen on exports being weak in the last couple of quarters being fairly intense even now, and what is those geography -- what are those geographies dependent on, you know, in terms of underlying economy for them?

Ashwath Ram: Yeah, so I can say that Middle East and Africa is the most significantly impacted and you can see from the economies in those countries why. They have a huge -- country itself has huge -- some of those countries themselves have got huge payment problems and so the priority is not on gensets but on buying food grains and things like that. So those are the areas which are most significantly impacted, but the rest of Asia, Mexico and even Latin America continues to remain weak.

Venugopal: Okay, thanks. Thanks a lot for the answers. Thanks a lot. Bye.

Moderator: Next we have Ankur Sharma from HDFC Life Insurance. Your line is unmuted.

Ankur Sharma: Yeah, hi sir good morning and thanks for the opportunity. Just one question again on the margins. Clearly, you know, we’ve seen this big jump in spare revenue this quarter and that's kind of been offset by the fall in Powergen business and exports, but your gross margins are pretty much remained flat in Q3. Now, I'm just wondering given the fact that as we go into Q4 and onwards, the distribution jump may not be there. So, sir can we expect, therefore, the gross margins could actually come down deductionally going into the next couple of quarters?

Ashwath Ram: Yes, we are expecting gross margin to be down in Q4 as compared to Q3 and/or inline with what we saw in Q2.

Ankur Sharma: This is actually flattish sequentially as well, right? I think Q2 was also around that 34.9. Okay. Because this is flattish in Q2 and Q3, right, has been the same number.

Ashwath Ram: We did see a little bit of improvement between Q2 and Q3 and we are currently thinking based on the numbers we are seeing it will be flattish to Q2 and slightly below Q3.

Ankur Sharma: Okay, right. On sir just on the Powergen business, I think in response to one of the participants, you said that you still are not seeing any kind of a pick up even going into January. If you could just talk about how has the industry growth or degrowth YTD and also what are your expectations for FY20?

Ashwath Ram: Right. So as far as this quarter is concerned, we are seeing that the channels have a lot of inventory and there is a poor demand from the market and that's why we are not very bullish that the market is going to improve. As a matter of fact it's going to continue to degrow a little bit. When you look at the full year, the Powergen market as compared to last year will be about 6% below last year. That's the kind of slowdown we have been able to anticipate.

Ankur Sharma: [indiscernible] Thank you so much and [indiscernible].

Moderator: Next we have Kunal from B&K Securities. Your line is unmuted.

Kunal: Thank you so much for the opportunity sir. My question is relating to our margins. I just wanted to get some sense from you what is the steady state margin we can work with given the backdrop that we are also working on cost optimization. So, what should we, you know, how should we think about margins next year?

Ashwath Ram: I think margins will -- just one second. So, for next year, based on our estimation, that unless something significantly happens in the economy that the market will continue to remain weak, we are anticipating margins to be at the Q2 levels that we saw this year.

Kunal: This is for next year you're talking about right?

Ashwath Ram: Yes, yes.

Kunal: Okay and the Q2 levels. Because sir why I'm wondering is that because we're also talking about slight recovery in exports and exports generally are better margin business. So should that -- and also there has been cost optimization programs that we are talking about. So, should that not help margins next year?

Ashwath Ram: It could, but we are, you know, we are not saying that exports are going to recover immediately. So we said exports would take at least a couple of quarters to start recovering and we are still not sure how much further slowdown is expected in our local economy. So considering those two factors, both being slightly unknown at this stage, we are not optimistic to say that just because we have curtailed costs, that margins will improve significantly.

Kunal: Okay, sure. Got that. Thank you so much sir and best of luck for future quarters.

Moderator: So this was the last question of the day. I would like to know hand over the proceedings to Mr. Ashwath Ram for the final remarks. Over to you, sir.

Ashwath Ram: So, thank you everyone for taking your time to talk to us and ask us a whole bunch of interesting questions. Cummins has celebrated its 100th anniversary as a global company last year and we are almost 60 years in India. So, all the decisions that we take and that we do we do it from a long-term perspective. We continue to invest heavily in India and use India as a base for lot of our global demand. We continue to invest strongly in India to upgrade all the technologies and bring in new technologies. So, we remain optimistic that the investments we made in India and continue to make in India are the best thing for the company and we are optimistic about the future of the company. Thank you.

Moderator: Thank you so much sir for addressing the session. Thank you participants for joining in. That does conclude our analysts call for today. You may all disconnect now. Thank you and have a pleasant day.