"Cummins India Limited Q3 FY-22 Earnings Conference Call"

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

Moderator: Good morning ladies and gentlemen. Welcome to Cummins India Limited Q3 FY22 Earnings Conference Call. We hope you all are keeping safe and healthy. As a reminder, all participant lines will be in listen only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call please signal an operator by pressing "*" then "0" on your touchtone phone. I will now hand the conference over to Mr. Ashwath Ram, MD, Cummins India Limited. Thank you and over to you sir.

Ashwath Ram: Good morning ladies and gentlemen. My name is Ashwath Ram, I am the Managing Director of Cummins India Limited. I hope you and your families are all doing well and staying safe. Joining me on today's call is our CFO, Mr. Ajay Patil. Thank you for joining us for the CIL Financial Results Call for Q3 2021-22.

Cummins is navigating this period of uncertainty from a position of strength and I'm happy to inform you that Q3 was a record quarter for CIL in terms of revenue, EBIT our distribution, industrial and our associate JV companies that is CGT and VCL all recorded their best ever sales. This record quarter was possible due to strong demand from our key markets like data centers, health care, infrastructure, commercial real estate and manufacturing. Gradually improvement in supply chain is another factor which helped in meeting demand for the quarter. While we do see some improvement in the supply chain, there is still quite a bit of uncertainty and constraints on semiconductors, electronic parts and quite a few other commodity linked items. As we share our organization's growth through another wave of COVID-19 our top priority will remain the safety and wellbeing of our employees and communities.

Now, I would like to share the financial results of Q3 FY22 through this call. For the quarter ended December 31, 2021 with respect to the last year same quarter our sales at Rs.1701 crore was higher by 21% compared to Rs.1200 crore recorded in the same quarter last year. domestic sales at Rs.1261 crores increased by 23% export at Rs.240 crores increased by 18%. Profit before tax an exceptional items at Rs.320 crores is 5% higher as compared to Rs.304 crore recorded in the same quarter last year. For the quarter ended December 31, 2021 with respect to sequential or last quarter, our sales at Rs.1701 crore higher by 1% compared to Rs.1689 crore recorded in the last quarter. Domestic sales at Rs.1261 crores increased by 1%. Exports at Rs.440 crores was sustained at the same level. Profit before tax and exceptional items at Rs.320 crores increased by 9% compared to Rs.293 crores recorded in the last quarter.

Segment wise breakup for the quarter ended December 31, 2021. The sales breakup segment wise are in the domestic market. Power generation domestic sales were Rs.501 crore, 21% increase over last year and 21% decrease over last quarter. Distribution business sales were Rs.450 crores, 23% increase over last year, as well as 23% increase over last quarter. Industrial domestic business sales were 291 crore, 22% increase over last year and 27% higher than last quarter.

Exports, higher horsepower export sales were 193 crores, 4% decrease over last year and 20% decrease over last quarter, low horsepower export sales were 216 crore, 48% increase over last year and 33% increase over last quarter.

As far as Cummins India financial guidance is concerned, the company expects the current trend of sustained growth across industries and segments. Demand from various market and end markets continues to be positive. The impact of the third wave of COVID-19 is still under scrutiny. The company continues to work on stabilizing supply chains and part supplies. Considering the uncertainty, surrounding the business environment and the supply chains, the company will not be providing the FY22 forecast. With this, I now open the session for questions. Thank you.

Moderator: Thank you very much. Ladies and gentlemen we will now begin the question-and-answer session. First question is from Ravi Swaminathan from Spark Capital. Please go ahead.

Ravi Swaminathan: Sir, if you can give the break up once again for this quarter will be greater sir, because I missed a couple of numbers. So, power gen you told 501 crores and then in the distribution business, you told 250 crores?

Ashwath Ram: The distribution business is 450 crores.

Ravi Swaminathan: 250 crores. So, compared to last year.

Ashwath Ram: 450 crores.

Ravi Swaminathan: Okay. And industrial was 291?

Ashwath Ram: That's correct.

Ravi Swaminathan: And exports is 409 total?

Ashwath Ram: Exports is 440 crores.

Ravi Swaminathan: Got it. And sir if you can give some thoughts on what kind of price increase that we have taken since the first price increase that we would have taken last year on a blended basis and how much more price increase is needed going forward if you can?

Ashwath Ram: So, I won't give you exact numbers on price increases, all I can say is that we have tried to keep up the price increases along with commodity increases, but typically this lags behind us, I would say it lags behind about a quarter and a half in the catch up kind of basis. So, we do see some back of the commodities on the margin, but we continue to increase prices to offset the commodity increases.

Ravi Swaminathan: Okay. But the past 12 to 18 months we would have taken high single digit price increase, is that something near that?

Ashwath Ram: It depends on the market segment. So, I can't give you one exact number but we are trying to keep up with the commodities that's the best way you can look at it because some segments are very heavily impacted by commodities some are not as much so it depends on which segment and which market we don't really do like a peanut butter price increase across everything, we go to it based on which market, which segment and how much impact we have had from a cost perspective.

Ravi Swaminathan: Okay. Sir, and with respect to the Power Gen business, we have seen good growth. So, how much of it would be driven by key sectors like data centers, if you can give any segmental share across different sectors it will be really great sir in the Power Gen business, data center, commercial.

Ashwath Ram: As of now we don't give segmental share because very difficult to get that information from the market in a live kind of basis. But, I can tell you that the sectors that I mentioned data center, manufacturing, pharma, healthcare, commercial reality, all of these have started to pick up pretty strongly. And we are starting to see some signs of bounce back even in infrastructure and some areas for residential reality as well.

Ravi Swaminathan: Got it sir. And with respect to export my final question, so which geographies are seeing, are they seeing any pickup any specific geography that you are seeing that is seeing good traction oil at $90, Middle East Africa how the traction is?

Ashwath Ram: So, just to give you a little bit of which markets are doing better, in the last quarter of the calendar year. Typically, most markets actually slow down a little bit as they shut down for Christmas. And then they ramp up a little bit slowly in the January month as they come back from Christmas vacation. So, Latin America was a little bit slower than the previous quarter. Asia pack continue to pick up and start to bounce back. Europe has been picking up quite well and has done better than the previous quarter. Middle East continue to pick up as you have attributed as their funds increase with oil price going up that business there is picking up. Africa as a market, which has been very subdued and they have felt the biggest impact in the global terms from all of these COVID crisis. They continue to languish a little bit.

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

Renu Baid: Sir my first question is, if you look at the export part of the business, despite the seasonality in terms of slowdown, we have managed sequentially flat numbers in revenue terms. So can you highlight as in which applications earlier you had spoken about Telecom as one of the key sectors driving growth. But in terms of end market applications, which are the sectors you think can help us recover exports in same double digit levels and do you perceive any risk to volume or off take to Europe, emits the UK, Ukraine and Russia standoff?

Ashwath Ram: Certainly all of those factors have a little bit of impact, but we are recovering from multi year lows in the low horsepower business. So that continued to either perform well for us. And as we had previously told you, we have launched quite a few new products, which are fit for market products in the global market. And so we are starting to see some dividend payoff in those markets. So that's why no horsepower continue to do well, and some of the newer products that we have launched all of those continued to do well. I'm not sure how much impact, the Ukraine crisis is going to have on the overall demand, you have to wait and watch. Certainly, some of our products go into those kinds of regions as well. But Europe is also beginning to recover and has opened up a lot more from a business perspective. So could that offset each other, we have to wait and watch and that's why we would like to be a little bit cautious because so many variables are unknown still at the time, but overall, as of now the order book still look reasonably strong and confident.

Renu Baid: Sure. Sir, my second question is industrial segment after quite a few quarters is now back on a very strong footing. So how are we seeing the growth outlook across the key markets construction, rail, marine and if you can share numbers. Along with this construction equipment in specific where we had new emission norms being implemented two quarters back so how is that market panning with respect to acceptance of new price hikes and demand off take?

Ashwath Ram: So we got off a little slow after the monsoon. If you look at the spend of infrastructure by the government, on road building, et cetera after the monsoons, it didn't pick up as much. So it started off a little bit slowly, but it has picked up, which means this quarter we had sales of 95 crores in construction which was better than the previous quarter, but it's not yet back, it's not yet going all out. So we have optimism that it will, as the year progresses it will continue to pick up, we still think in this quarter it may not recover as strongly because there are elections going on, election plans going on in multiple states, the big state some of them and so, construction has not yet picked up as strongly but the outlook is positive, the products are doing well. And we continue to be extremely bullish about the prospects of construction on a multiyear growth kind of perspective. Rail was the segment which had taken the biggest hit in the whole nearly two years of COVID and it is starting to slowly return back, we did about 83 crores in this quarter, which is an improvement versus the previous couple of quarters. Compressor continues to remain steady at about 39 crores. Again, activities like compressor are very heavily driven by the government allowing drilling for water for farmers, etc. So when some of those activities are impacted, then quarter-on-quarter you see some trends which are a little difficult to predict. But when you look at it on a year-on-year basis, we remain optimistic that we continue to grow in those and the smaller segments like mining and marine, they continue to remain strong and keep doing better quarter-on-quarter.

Renu Baid: Sure. One last question if I can ask here, our cash on books has remained pretty steady and now stronger on a sequential basis as well. So how do we plan to utilize this cash, you have announced interim dividend, what else would be on cards in terms of using the cash?

Ashwath Ram: Certainly, with the PPCB four plus kind of launch happening pretty soon now. Some of those investments are going in product development. And we are looking at most of the growth ideas are all focused on trying to bring in new product, trying to upgrade the technologies and some of the products, get some of our facilities upgraded to do future product as some of the older ones get obsolete. So that's the way we are thinking of utilizing some of the cash. And then if we see some interesting options and interesting ideas on where we can move quickly, certainly we are open and looking for some kind of ideas to get faster growth.

Renu Baid: Any investment plans for clean energy or hydrogen in the near term?

Ashwath Ram: We have bid for quite a few tenders. So, if we were to win some of those tenders, then those investments are likely to come in. But, we remain optimistic that we should be able to win a few orders in this calendar year and make a breakthrough there. So, if we are going to win some of these orders, yes subsequent investments will be coming in.

Moderator: Thank you. Our next question is from Parikshit Kandpal from HDFC Securities. Please go ahead.

Parikshit Kandpal: My first question is that, inflation has been surging globally. We have seen parent reporting under lower gross margins in the Power Gen segment and we continue to still remain, we got very robust numbers that, so just wanted to check with you, are we playing better in terms of price, competitiveness, to supply to the export market, so if you can give some?

Ashwath Ram: I didn't get your question very, very clearly. But, I will try to answer it to what I think I understood. Certainly exports is better for us as compared to the domestic market we get much better price realizations than the export. So that's one part of it. Second is as the market leader in it India in power generation, we do see significantly better margins in power generation as compared to others and which is why there is as we hold or gain market share there is always cost pressure from the India market, but we continue to not only target growth, but also growth in profitability. So, we will continue to remain focus to make sure that not only are we growing, but not just buying market share for the sake of market share, but market share with decent profitability is the way we think about it. So, we will continue the actions necessary to win on both counts, to win with product, to win with market share and to win with better profitability.

Parikshit Kandpal: Okay. My second question was on the hydrogen strategy. So, we have seen some of the larger players like Reliance and Larsen and others Adani they know how to be strategic in energy strategy and on the CAPEX plans. So, you touch upon hydrogen part earlier but you have a buying from the global parent on this, do you thing significant capital outlay is being made over next few years on localizing this technology, producing in India. So, if you can give some sense of that, how will the clean energy portfolio emerge for us in India, more on the localization side of it?

Ashwath Ram: So Cummins in India, we have been in India for nearly 60 years now. And our experience tells us that we are never successful in India unless we localized. So, it's never going to be a strategy for Cummins to just import something and just sell it here. If there is sustained demand, of course we will do that in the short term when you don't have enough demand or when there are economies of scale somewhere else. But in the long term, India is moving towards the hydrogen economy, Cummins is heavily invested in India, and we will continue to invest in the hydrogen economy. Some of the names you mentioned, those and many others are big consumers of the product, we are the technology suppliers. So, certainly we would want to talk to them and many others to bring our products into the country and help the country meet its objectives from becoming a carbon neutral kind of country.

Parikshit Kandpal: Sir, on this EGM announcements. So there's a point two which is the transaction and ordinary course of business Cummins Technologies India Private Limited. If you can elaborate on what is this item maybe some more granularity?

Ashwath Ram: It's more compliance related matter, related to related party transaction where the authorized when a certain percentage, when you do a related party transaction greater than a certain percentage, then you need to have it approved by the shareholders. And because business has been better, we have had to do that and the EGL is just to normalize that.

Parikshit Kandpal: Lastly sir any plans on the merger, any update that if you can share?

Ashwath Ram: Nothing I can share at this time. So I'll leave my comments with that.

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

Rajesh Kothari: So sir my question is, last time you gave a very detailed your view on the ministry notification that you are closely working with government any further, thought progress from that perspective in last three, four months how do you think that can evolve?

Ashwath Ram: Moving forward, just as we had forecasted and there is nothing new report in this quarter, but it's moving forward exactly as was discussed earlier, and the dates that were confirmed by the ministries are going to hold to it.

Rajesh Kothari: So basically, what is the date now as per the realized one because earlier it was April we did transfer, shifted something?

Ashwath Ram: The date continues to remain July 23 as was previously announced,

Rajesh Kothari: Okay. And also, from the overall zero emission footprint related that notification not to use Digi said for all that stuff, any further clarity on that?

Ashwath Ram: The ministry has issued a clarification and Cummins has been very clear that Cummins as a company is committed to get to a carbon neutral position by 2050 India itself has committed to get to a carbon neutral position only by 2070. So, we are all for, all means and methods necessary to get there. But there is a short term plan, a medium term plan and a long term plan. In the short term plan, the best way to help the environment is by tightening emissions, by introducing biofuels, fuels like ethanol, et cetera and blending them with diesel, so that you get a benefit with the infrastructure you already have invested in. And then as we move forward to move to alternate energies like LNG, CNG, et cetera we will have talked about technologies that we have which we are leaders in like, introducing hydrogen in internal combustion engine, and then in the long term moving to a hydrogen kind of economy, which is more in the 25, 30 year kind of timeframe. So we have had these kinds of conversations with the relevant ministries, and they're pretty aligned that this is the best strategy for the country.

Rajesh Kothari: Great. And my second question is with reference to the margins, do you think that once the inflation is probably, you pass through the entire increase in commodity, do you think the operating leverage and product mix, will finally lead to probably longer term better margins compared to what you've seen in last two, three years?

Ashwath Ram: We are striving for that, as you must have seen from what similar kinds of companies like our we have globally been going through, the commodity inflation has been so significant, and for severe that we have done significant work on cost management and getting leverage in the operational space in the cost space, in the people space. But, the question of whether we will be able to improve margins, one commodity stabilize, the answer is we really think so. And we have demonstrated that in the past, and we are continuously striving to keep improving our operational efficiencies and get better margin. So my answer is, yes I think so. And we are pretty focused towards continuing to improve our margins.

Moderator: Thank you. Our next question is from Mayur Liman from Profit Mart Securities. Please go ahead.

Mayur Liman: I just want to ask, what is the outlook for the next quarter. How do you see the quarter four now and what is the plan for the CAPEX, that are the two questions from my side.

Ashwath Ram: Yes, so on the outlook typically Q4 from a domestic market perspective, are the second weakest quarter in the year mainly because what happens is, all the big government tenders all the big OEMs, et cetera they start to wrap up the year and shutdown on inventory sometime by early March. So they start to taper down their buying, and then they start buying again in the month of April. So this quarter is typically weaker. And also you get the double whammy that the global export market because they shut down for Christmas. They begin work only at the end of the first week of January. So you lose almost two weeks in January as those guys begin to start to ramp up. So typically, historically we've seen that this quarter, you start off the gate a little bit slow and then you start picking up and we are still constrained with quite a few supply chain problems. On the domestic side, our order boards are very strong, but we continue to remain constrained by supply chain so I'm kind of forecasting a slightly weaker quarter compared to the previous quarter, but it's a difficult comparison because the previous quarter was the best quarter we've ever had in history. So, relatively it is going to be slightly weaker.

Mayur Liman: Okay sir. And second question is, what is the plan for the CAPEX?

Ashwath Ram: It's nothing significant most of the investment in CAPEX is either sustenance CAPEX and some continued CAPEX from a growth perspective. No major capital expenditures are planned in this quarter.

Moderator: Thank you. Our next question is from Rajesh from ITI Limited. Please go ahead.

Rajesh: Sir my question is around, our medium term and long term plans, which you just mentioned answering the previous question. The thing is most of our plans for future are hinged around hydrogen economy and hydrogen technology, which is slightly behind in terms of or the timeline is slightly more extended, what is more imminent is electrification in storage, as well as for vehicles. So, how exactly are we preparing for that, because most of our product segments and end user industries rather they are looking at this sort of shift towards electrify economics. So, do you think we are at a risk where in the interim period when hydrogen is still evolving, but our end users or end masters are facing the brunt of shift to electrification. So do we have any plan on what are basically our thoughts first of all on the risk from that, and on the mitigation?

Ashwath Ram: Yes, so we have always considered ourselves a fuel agnostic kind of company. And over the last 10 years, Cummins has been making significant investments in the EV economy, we own quite a few battery companies, we own battery integration to vehicle and powertrain kind of companies, we own some of the largest companies making hydrogen based products. So we keep continuing to evolve in the new energy technology spaces. We have won quite a few orders in these spaces, we have set up capacities in North America, in Europe, in China, the areas where the biggest amount of money currently is available for some of these investments, we already have large facilities and they're continuing to evolve the technology including those of battery as well as electrically driven powertrain. So we think the transition as I mentioned is a three stage transition the short term, where we will continue to see diesel actually increase for the next four or five years before it starts to decrease a little bit. And in that timeframe, you'll start to see the emergence of other fuels like blended fuels like ethanol, methanol, LNG, and then CNG all coming in. Once that, those are still fossil based fuels or plant based news. From there, we will migrate to what we call a partially hybrid economy, where there will be some amount of electrification coupled with some of these older technologies. And then there will be a gradual migration to either full electrical vehicles and fuel cell based applications. From an India perspective, when we look at it, India doesn't have any much of lithium deposits or some of these rare metals, et cetera in our kitty. So if we were to take a very aggressive battery based strategy, it would only benefit our most aggressive neighbor. So for our economy and hydrogen based economy is a better strategy from a long term perspective and Cummins is very well positioned to take advantage of that situation and introduce some of the leading products that we have into these markets. And that's exactly what we're trying to do.

Rajesh: Okay. And just one small doubt sir, when you said diesel will initially increase for a few years, where does this, how exactly you arrived at this particular observation or conclusion?

Ashwath Ram: Yes, so this is what we are seeing around the world. So as countries get more affluent, as the economies gets bigger and stronger, there is a huge spend of infrastructure, there is a spend on building roads, highways, and then the average vehicle speed, et cetera go up. And right now, the only available technology to be able to do that in the short term is with diesel. So there's a likelihood for diesel demand, we're seeing demand for diesel for our existing diesel products around the world at an all-time high. And so, this trend is likely to continue. The second thing that is happening is there is consolidation happening around the world which means the smaller players or OEM who used to also make some of their own engines, et cetera are focusing their capital investment and their energy on some of the newer technology. So they are not able to continue to make investments in these cleaner diesel technologies, which as we are going to Euro six, Euro seven, we are not able to keep up with those investments. So players like Cummins who continue to invest heavily in this space, are seeing the effect of consolidation and so our demand actually is increasing. So that's where we are seeing that diesel demand is likely to increase for the next few years before they move to alternate energies.

Rajesh: Okay and just one follow up question if I may check in. Sir, similarly, in the way you explained on the Indian side of the gas oil engine, how are the things placed and what's the outlook on the Digi sec side, because for them, the computing thing will be energy storage were actually much cheaper electrification options, or the chemistries are available and are being explored. So, do you think that Digi sec is a segment which can get disrupted faster by electrification and how are we prepared on that side?

Ashwath Ram: It will get disrupted but at the lower end of the range, below 10 kV where Cummins has a very, very low part to play in right now. But Cummins has battery technologies and electrification technologies. So as a strategy, we could put those into play and actually enter into some of those segments where currently we do not have business today, so if that happens at a faster rate we will be quite happy for that. And we will then be ready with technologies to enter into those markets.

Moderator: Thank you. Our next question is from Abhishek Basumallick from Intelsense**.** Please go ahead.

Abhishek Basumallick: So, I have a couple of questions. One is, if you could share some insights on how your data center business is shaping up, that's the first question and the second one is what are the actual kinds of projects that you are participating in when you say we are bidding for hydrogen technology projects, so what are the types of projects that you're doing, what are the typical, signs in terms of orders for those projects, and how do you see the near term outlook for hydrogen for Cummins. Thank you.

Ashwath Ram: Sure. So, our data center outlook is very positive. There is as demand for 5G and storage of data. People are using more computers, people are working out of home more, people are OTTs is increasing, more people are watching movies on Netflix and so many other things. The amount of bandwidth required, the amount of storage required, the amount of local storage required to serve content to millions of subscribers. All that means is that you need bigger and more data centers around the country. And when you look at the big players around the world, they are adding significant capacities into India. So we think in the next five years we are going to see more than double digit growth in this market. And typically, these are all big gensets. And Cummins, it's an advantage because we have localized most of those products in India. And so that's a big advantage for us to be able to supply this. And we also have experience supporting data centers, some of the biggest data centers in the world are run with Cummins gensets. So, we have a great experience to run these in India. So that's why we are so bullish about that.

Abhishek Basumallick: And what is your market share in Indian datacenter as of now, approximately?

Ashwath Ram: I won't give you exact numbers, but I will say we are the largest player.

Abhishek Basumallick: Okay, but is it like 10%, 15%, 20%, 30%?

Ashwath Ram: You are again asking me for numbers, you need to draw some conclusion.

Abhishek Basumallick: I am not asking you for exact numbers, but our offsets?

Ashwath Ram: You can say we are significantly the largest player. Okay, so I'll to your next question. So, on hydrogen the kinds of projects we are bidding for is in two spaces, one is in the automotive space, and here we are bidding for these are just prototypes product project. So, there will be projects in Leh or Ladakh where somebody wants to run just five buses on hydrogen with a small electrolyzer unit and then run it with hydrogen fuel cells, those are the smaller kinds of projects, then there are some demonstration projects on electrolyzers, where for some applications like small field plants, et cetera people are still trying to prove out the model that hydrogen generated from electrolyzers how cost effective that is. So those kinds of projects we continue to bid for and then we are also bidding for bigger projects like we are bidding for a train which run on hydrogen fuel cell for the railway. So those are much bigger scale projects, again the first is all for to build a couple of protos make sure they are running well. But when you look at our portfolio of what we are doing in places like in Europe, we have now got like 100 trains running.

So if we were to, win some of these orders of India, we could start off quite aggressively here. And as the business model is getting proven out more and more demand is slowly starting to increase. As of now, the cost of hydrogen is something like $7 per kg and folks like Reliance and many others around the world, their ambition is to get to $1 per kg. So there's still quite some work to be done quite a way to go there. And we are on that path.

Moderator: Thank you. Our next question is from Pulkit Patni from Goldman Sachs. Please go ahead.

Pulkit Patni: Ashwath you mentioned in one of your remarks that Q3 tends to be relatively weak for exports. But if I look at your history, every year it is Q3 where you've typically done the highest export within that particular year. Now with that context, given that you've done about 440 crore this quarter, which I would expect would have an element of price increase also, so from a volume growth perspective could you give us a sense if we can sustain this number or can we actually grow this number into the next few years in a meaningful way. That would be my question number one.

Ashwath Ram: So the answer is certainly we can grow because as of now, we are dealing with a constrained situation as far as supply chain is concerned. So we are not really meeting our demand. And not all the markets have recovered yet. So certainly, you want to do more. We are pushing to do more, and we will do more. That my answer towards, it is sustainable yes, it's sustainable, and we should do better.

Pulkit Patni: Got it. My second question is on services distribution where clearly we've done really well in the quarter. I remember it was maybe a couple of years back again in one quarter that we have clogged over 400 crores. Can you just help us understand how we should look at this segment going forward because it tends to be pretty volatile. So any sense on that?

Ashwath Ram: So there are parts of it which are volatile. If you look at the composition of what we do in our distribution business, we do service, which is not really volatile, it's a very steady kind of business. And as we keep improving our level of service, we are launching new programs of, comprehensive service coverage, we are increasing warranty terms, we are doing more recon engines, we are doing many things to keep more customers in fold and bring in out of old customers. So the combination of this will mean that the service revenue which is of more, it's almost like an annuity, it keeps increasing and it's pretty steady. The next portion of our distribution business is the spare part. And that is where historically what at least we inside Cummins management have felt that we have underperformed as far as our own feeling of what our entitlement is. And so, there are many concentrated efforts that the distribution team has been working on. And we are seeing some results of that and we are just scratching the surface we should over the next few years we should continue to do better there. The third part is what is most lumpy. And that is where we win engines, orders and repower orders, etc. For new market, smaller OEMs things which are mainline business does not do and that tends to be lumpy, it tends to be tender based, it tends to be depending on which specialized opportunities keep coming up. And that is the area where with our improved product range with more variety of products to sell, with this global consolidation happening in capacities. We think there too, in the long term we will be able to show some growth. That's the way I would look at, maybe looking at the distribution.

Pulkit Patni: Sure. And I guess there is an element of that one off in this quarter, that why 450 crore?

Ashwath Ram: No, this quarter is driven by very, very strong aftermarket performance and very strong service performance.

Pulkit Patni: Okay, great. And just one last question see Power Gen last quarter, you had mentioned that you had a one off data center order and that's why worth $20 million additional revenue you did, and now given your outlook on power, data center, then I guess we are seeing it across the board. Should we not expect something like that to come every few quarters, would that be like an aggressive assumption, or you would clarify the last quarter?

Ashwath Ram: It's a very fair assumption and we hope to get some of these happen every couple of quarters, we want it every quarter. But the way these projects go it doesn't really happen and it's lumpy. But yes, it is not surprising at all if we should get some of these every couple of quarters.

Pulkit Patni: Okay, great. Can I ask one more question if time permits?

Ashwath Ram: Sure.

Pulkit Patni: Okay, so again this is on hydrogen as people were asking this entire tie up that Cummins has done with Sinopec in China. Clearly, it's going to be something of a very large scale. And we know scale is really critical for the price of electrolyzer to come down. So would it still be fair to assume that Cummins would do something in India as well because would it not be just ideal to import it from China when we are doing something on a large scale there?

Ashwath Ram: We are doing equal scale in Spain as well. And we have done even bigger scale in Mississauga in Canada. It doesn't work to buy things from other countries and bring it into the country, you may bring in a few elements. But the overall systems unless you build them locally, you don't get that real kind of advantage in cost. So our strategy has always been to, Cummins has three big manufacturing locations around the world, North America, China and India. So pretty much almost everything that we produce, we like to produce in these markets.

Moderator: Thank you. Our next question is from Sandeep Tulsiyan from JM Financials. Please go ahead.

Sandeep Tulsiyan: First question is pertaining to, if you can share data on your market share across different nodes in Power Gen and also given turbulence in the market, what we have seen have eroded profitability in a much more severe way for the smaller players. So, for Cummins India as a strategy, given the cash reserves we have would be to consolidate some of these smaller players under our fold or would you rather wait for slow debt for these smaller companies and grow organically in that way what would be your strategy that's my first question.

Ashwath Ram: The way it has worked in other markets is that, people start to collaborate with each other and not produce everything. So you start producing some products for even those who consider your competitors and in that way, you consolidate your capacity, and keep growing the business. But if there are any really attractive opportunity that come up our way we are not, going to be blind to those and certainly we will be open to look at those inorganic opportunities as well. But if we are doing that, it will just be for share, not for technology, because we really have all the leading technology in some of these spaces. So it's a combination you Sandeep, I wouldn't say exactly one way. But our preferences would be that, as these conditions are happening, that we work with some of our competitors. And, we like the engine inside for the genset because that's the heart of the technology. And we have made a lot of investments in that.

Sandeep Tulsiyan: And the market share if you can share across different nodes entirely?

Ashwath Ram: We've been holding and doing pretty well, in market share, these shares are typically we get this information a couple of times a year, and the last time I looked at it, I didn't see any significant shifts, we continue to hold, if not do better in some of our bigger loads.

Sandeep Tulsiyan: So that's also periodically so, if you can share some data points here, that would help?

Ashwath Ram: Not today Sandeep but in the future, I'll make sure that I take this request and we share some directional data.

Sandeep Tulsiyan: Okay. And the other question is on railways you have highlighted in the past that the power car market has shrunk by 50% electrification pace is going to improve, if not now maybe at least going into 23 and 24. So, despite that our railways portfolio has been doing very well if I go by the current quarter numbers. So, how would you foresee growth in this market, how much of that would grow from existing products, how are some of the new products that you have launched are doing, if you can share some more detailed color on this segment?

Ashwath Ram: Yes, so this is a very exciting segment for us. So, there are certain parts of the rail, which are mainly the equipment which goes into building the infrastructure, those will not get electrified, those will continue to remain in diesel and we will continue to, that business will continue in a steady manner. The parts which are the DETCs and all of those, those will gradually keep moving into electrification. And we are building hotel door converters and many different electrification products working individually and as part of consortiums to enter into those markets. We have made great number of products; we have entered into tenders where they're already bidding for orders in those markets. I don't have anything to announce today. But, I'm pretty confident that pretty soon in the next few quarters. We will have things to announce there which will then absolutely clarify the path moving forward for us in the rail business we remain bullish that this will be a good business for us in the future.

Sandeep Tulsiyan: Got it and last question on CAPEX, you did mention at the initial part of the call that we will utilize the cash balance to build infra for new emission norms, testing facilities as well as your capacity on that front. While you also mentioned the CAPEX is not going to be material. So if you can guide in terms of numbers, what will be the absolute CAPEX, this year of course it will be minimal, but for FY23 and 24 what kind of investments are we planning to make?

Ashwath Ram: Like I mentioned before, the big CAPEX investment we did in the past on building and new facilities, et cetera those are all behind us. All our CAPEX is now going into either growth projects, sustenance projects, upgradation projects, et cetera and we don't see that level of investment unless of course, some exciting things happened in hydrogen and we win some tenders in some of these areas and then we have to build some new capacities at that time, there will be some lumpy investment coming in. But overall, we see some pretty steady investments over the next couple of years.

Sandeep Tulsiyan: Absolute numbers if you can share because our CAPEX has gone down from an average of 300 to 350 crores to almost 100 to 150 that's a significant decline in the last two, three years. So, it would be as low as it was, this year but it will go up a little bit as we continue to do more, but it won't go back to that 350 level so, you can, if you want to really ballpark kind of a number it will be somewhere in the middle is where I can say.

Moderator: Thank you. We will be taking our last question that is from the line of Deepesh Agarwal from UTI AMC. Please go ahead.

Deepesh Agarwal: Most of my questions have been answered. Can you clarify the hydrogen related tenders where you have participated, were everything from were from the listed Cummins India entity or anything from the unlisted entity?

Ashwath Ram: All the tenders have been participated from the Cummins India listed entity.

Deepesh Agarwal: Okay. And sir secondly you mentioned commodity price impact since there, can you quantify what would be the extent of commodity price on the bottom line?

Ashwath Ram: No, we cannot clarify that at this time, but it's pretty good, I would say it is the largest component of our bottom line decrease is due to commodity.

Deepesh Agarwal: Okay. And supply chain issue still haunt us. So, what would be the extent of impact of the chip shortage on our top line?

Ashwath Ram: I would say somewhere about 10% is where I would hazard a guess it varies by market segment. But, I would say the order board that we are holding compared to what we are shipping out, I would say something like somewhere in the range of, 10% to 15% is where I would put that.

Deepesh Agarwal: Okay, so that would be roughly 170, 180 crore could have been a higher revenue if chip shortage would not be there?

Ashwath Ram: Possibly.

Moderator: Thank you. Ladies and gentlemen, this has been a good interaction. Thanks for participating. And I now hand the conference over to Mr. Ashwath Ram for his closing comments. Thank you and over to you sir.

Ashwath Ram: So, I want to thank all of you for attending this call. We continue to work really hard to do the things that we've been saying that we will do. Continue to get growth, continue to work on improving our bottom line, continuing to manage and watch our costs really closely. We are quite optimistic about the growth of India as well as our place in the export market. So while we are going through these turbulent times where it's difficult to predict what's going to happen quarter-on-quarter based on so many uncertainties around the world. Overall, when I look at a macro kind of trend, I remain bullish and optimistic about our prospects for the future. And I really urge all of you to stay safe and please keep talking to us if you need any clarification. Thank you.

Moderator: Thank you very much. Ladies and gentlemen on behalf of Cummins India Limited and the leadership team, we would like to thank you for joining us today and making it an engaging session. We are ending this conference now and you may now disconnect your lines. Thank you.