Ref: STEX/SECT/2019

May 27, 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, 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 May 24, 2019

Dear Sir/ Madam,

With reference to our stock exchange intimation dated May 16, 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 May 24, 2019.

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: 2019.05.27 12:40:05 +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 with Sandeep Sinha Managing Director Cummins India Ltd.

May 24th, 2019

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 analyst's 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, Managing Director Cummins India Limited. Thank you and over to you sir.

Sandeep Sinha: Thank you, Harpreet. Good morning ladies and gentlemen. This is Sandeep Sinha here, Managing Director for Cummins India accompanied by Rajiv Batra who is my Chief Financial Officer. Thank you very much for participating in this call. First I would like to congratulate all our shareholders for our record sales. I'd like to convey that for the financial results in the year ending March 2019 our total sales grew by 12% to 5,526 crores which was our highest ever for Cummins India Limited, as well as for the domestic shares which grew at 15% year on year. Also was a record, historic record for us at 3,873 crores. Our exports grew by 5% to 1,652 crores. Profit before taxes at 1,030 crores was our highest ever which grew by 21% compared to the preceding period which was at 852 crores. This excludes the 56 crores one-time sale of property in the earlier year. As a measure of our confidence and as a result of our record financial performance, we have kept up our dividend to 850% that is Rs.17 per share from last year which was 750% at Rs.15 per share. I am also happy to note that while the market grew significantly we grew faster than the market in most of our major segments which I think was a really good achievement for the execution team. I'll move on to the quarterly updates, for the quarter that ended March 2019 as compared to the quarter in March 2018 our total net sales at 1,314 crores. This was an increase of 9% compared to the same quarter last year. Domestic sales stood at 992 crores which was an increase of 22% over last year. Our export market, however, declined by 17% at 322 crores. Our profits before taxes at 209 crores was flat compared to the same quarter last year. With respect to the sequential quarter our total sales at 1,314 crores was a 10% drop as against 1,463 crores in the preceding quarter. We saw similar drops in both the domestic and exports from the preceding quarters. Our profits before taxes at 209 crores declined by 23% from 270 crores in the preceding quarter. I think with that I'm going to open it up for questions now.

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 any questions you may please press zero and then one on your telephone keypad and wait for your line to be unmuted. First question of the day we have from Sujeet Jain from ASK Investments. Your line is unmuted.

Sujeet Jain: Good morning sir. What is the split of other income in rental income and dividend income?

Sandeep Sinha: Okay, I'll let my CFO answer that please.

Sujeet Jain: Sure.

Rajiv Batra: Okay, I think our rental income is 117 crores and our dividend from subsidiaries is 57.8 crores -- 58 crores.

Sujeet Jain: And can you split this dividend, which is coming from which entities in amount and how much is coming?

Rajiv Batra: Really from our joint ventures and associates, so as you are aware we have Valvoline Cummins in which we hold 50% and we have Cummins Generator Technologies which we hold 48.6%, so it's really coming from these two. I don't think I would like to go into the specifics of what joint venture is giving us how much but i can assure you both of these are highly successful joint ventures and have an unblemished record of financial returns and solid dividends which they give to us.

Sujeet Jain: Sure, and my second question is [Audio Overlap] Yeah, my second question is about exports. This run rate of about 325 crores that we've touched in this quarter, would this form a bottom for exports?

Sandeep Sinha: So Sujeet, I would say right now we don't know. As you are aware, markets are soft across the world, whether it's in Europe there is uncertainty there. So we see issues in Europe, we see issues in South America. There are many elections coming up in that continent. There are weak economies showing up, so the same thing i would say applies for the continent of Africa where we export quite some. We are seeing again a lot of unstable ForEx situations in many of these countries. So overall I would say it's not really an exciting story in my view and so I'm not sure if we have bottomed out or not, I cannot tell you that but I can certainly tell you that I'm not excited for the next year with exports.

Sujeet Jain: Sure. Then what is our guidance for exports and domestic sales?

Sandeep Sinha: I think on exports I would say we should probably be flat to slightly down over the last year and for domestic I would say right now my guidance is 10%-15%, although post some of the results that we have seen yesterday and depending on how aggressive the government goes with government spending and infrastructure development I think we may see -- I'm very optimistic about our domestic sales in the coming year.

Sujeet Jain: Thanks.

Sandeep Sinha: Thank you Sujeet.

Moderator: Thanks for your question. Next we have Ravi Swaminathan from [Audio Distortion] Capital. Your line is unmuted.

Ravi Swaminathan: Yeah. Sir, can you give me the quarterly breakup of revenue segment-wise and the annual numbers also for segment-wise?

Sandeep Sinha: Sure. So quarterly numbers for power gen was about 400 crores and 270 crores for our industrial business and about 330-340 crores for our distribution business.

Ravi Swaminathan: Okay, and the annual numbers also.

Sandeep Sinha: So our annual numbers were at 1,600 crores for power gen, industrial was about 950 crores and distribution business was about 1,350 crores. That's our domestic sales. That added up to about 3,900 crores. 3,873 to be precise.

Ravi Swaminathan: Okay, and this trade war between U.S. and China, so is there a possibility of some manufacturing shifting from China to India. Is there a possibility like that going forward [Audio Overlap]

Sandeep Sinha: Certainly, I mean the only thing you have to remember is the supply chains are complex and I think we as a team are certainly very closely looking at China and so therefore I would say that over a long period of time we should see more opportunities come to us. But having said that we want to make sure everyone understands that our supply chains are complex enough, these are not overnight operations to shift into.

Ravi Swaminathan: Got it sir. And if at all there's a shift will it be the higher range, mid range or lower range?

Sandeep Sinha: Low range, we are the only ones who make gensets, so there is no low range requirement -- no supply chain establishment for low range in China. It's only from India that we export across the world. So I don't see any opportunity there. I do however see that there could be some models in the higher horsepower range which we could get some opportunities.

Ravi Swaminathan: Got it sir. And couple of book-keeping questions, CapEx guidance for FY20 and also the run rate [indiscernible] tax rate that we need to assume?

Sandeep Sinha: I'll go with CapEx first and I would say -- so our guidance would be about 300 to 350 crores, somewhere in that range.

Ravi Swaminathan: Okay, and tax rate.

Sandeep Sinha: And your second – effective tax rate, I think that's 30...

Rajiv Batra: It's about 30% right now what would guide you forward. This rate is about 32%. But as you are aware our low horsepower genset plant is now into the second phase of the SEZ benefits, that is one. As well as dividends received are slightly less than last year so the rate is -- therefore 0 rate is slightly depressed on dividends and the physical volume of exports is lower. So these are your main three benefits that we did not enjoy this year. One will sustain into the future which is the low horsepower genset plant, hence I am guiding you for a 30% tax rate.

Sandeep Sinha: Thank you Ravi.

Ravi Swaminathan: Thank you.

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

Sandeep Tulsian: Yeah, very good morning gentlemen. My first question being [Audio Overlap] sure, so my first question is pertaining to exports. If on an annual basis for FY-19 could you broadly give us the breakup, how much percentage of exports comes from which geography and what has been the growth trend in each geography for the whole year?

Sandeep Sinha: Yeah. I think, let me – may be what I could do is I could give you the geographies that are -- that really matter to us right. And I can assure you that as I look at, when you ask me growth rates there are a very few geographies that I can tell you have had a growth rate. So you could pretty much say that roughly on an average it is either some geographies are operating at minus 5% year on year to some positive and so that's where we ended up with just the 5% growth. So you know kind of there. I think our big geographies are of course Africa and the Middle East. I would consider that a very big geography for us. So, and then we have rest of Asia outside India and China, if you take those out that's another very big market for us. Europe is in that order, I would say is a big opportunity for us, for Cummins in India. We don't do much for the U.S. because there is a plant within in the U.S. itself, mostly the North American market there are certain engine models which we do. Mexico and South America, if I could say would be the next in line. That's kind of the -- and I think I told you how each of these markets are behaving in the early part of my conversation today. So you know, doesn't seem to be a very -- I don't see possibilities of anything changing in the short term. Of course we all know that these are cyclical markets and I feel like we are not looking at the exports in a very optimistic manner looking ahead.

Sandeep Tulsian: Alright sir. Broadly one were to slice it, probably one-third between Africa and Middle East, one-third in Asia and balance one-third between Europe and Mexico/South America is how you would put it?

Sandeep Sinha: Yeah, kind of.

Sandeep Tulsian: Alright. Sir, my second question is pertaining the power gen segment. We have seen a sharp increase in your outsourcing activities over the last say five years but at the same time your margins have -- gross margins have declined by 300 basis points. So how much of this decline would you assign to factors like mixed change as in low horsepower growing fast, competition coming in and how much would you assign -- would largely be outsourcing that decision which probably has led to a contraction of your gross margins.

Sandeep Sinha: So there is no outsourcing. I think the product mix has changed, I think we have been -- some of the tangents that were not localized, we have seen some changes there. But I think the real big factor over there is -- one is our mixed change is happening significantly so we have sold more in the industrial segment. If I sell more in the construction market I get a lower -- negatively impacts our growth margin, so that is one. Our exports as the mix has changed so you know that our exports are higher margin business than our domestic and you have seen that domestic sales have outgrown exports. And the third is that overall our export, you know we do this price adjustment which we do at the start of every period. So I think that also took a hit. What we have done though is we have really tried to make sure -- and then for the commodity impact which was about 0.5%-0.6% we have made sure that we have kept that impact to zero by bringing in our material cost reduction program which we call ACE. So ACE has more than compensated for the decline in -- for the negative impact of the commodity prices.

Sandeep Tulsian: Sir, your purchase of trade goods has increased 6x in the last five years from 150 crores to almost 950 crores, so I guess that was part of the outsourcing activities that the company had undertaken in last few years, right?

Sandeep Sinha: There is no outsourcing. Let me tell you there have been higher increase in the low horsepower business, and if you see even our low horsepower growth last year was very significant in the genset which is where we don't make our own engines, we buy them from companies like Simpsons and outsource from our JV Tata Cummins because these two entities make these engines in very significant numbers so that's why it is smarter for us to buy them from these versus making them. I won't call it outsourcing, these are always [indiscernible] when we bought it so it's the mixed change is causing this.

Sandeep Tulsian: Understood. Sir, one last question if I may, again in the power gen segment...

Sandeep Sinha: Whatever engines -- just so that Sandeep I'll make sure, whatever engines were being made in CIL continue to being made in CIL. We have not outsourced any engine platform on whatever engines were being made in CIL okay?

Sandeep Tulsian: Understood. Sir one last question if I can squeeze in, the power genset segment, if you could broadly guide us. Like we've seen a very strong growth in the full year FY-19 of about 19 odd percent, how much of it is volume growth and which are the larger categories? Like data centers and all, if you could broadly highlight which categories are growing at what rate and the volume and pricing of growth.

Sandeep Sinha: So first, high horsepower for us grew at about 25% which I think was a phenomenal growth and if you remember last year around the same time I had mentioned that we have a whole set of new products that we were launching, and that they would be performing -- we were very confident about the performance and the value proposition that it brought to our customers. And I can tell you that

I think we will continue to do this and we have big plans in the coming year and a half for the introduction of these products. So I feel really good about the high horsepower. I think the medium and the LHP have grown a little higher than what the market has grown. So again in those i feel confident to say that our -- everything from our product strategy, our go-to market strategy, our supply chain efficiency improvement; all of those are helping us grow faster than the market.

Sandeep Tulsian: And the volume and pricing?

Sandeep Sinha: So the volume as I think I told you that -- I did not give the numbers right? So for high horsepower we did about 700 crores, MHP we did 500 crores last year and about 400 crores from LHP.

Sandeep Tulsian: Alright, thank you. Thank you so much sir, for taking all these questions.

Sandeep Sinha: No, no. Thank you Sandeep.

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

Nitin Arora: Hi, good morning. My first question is just a clarification, Sandeep. You said the guidance for the export is flat to negative or flat to last year what we did 6%, just below that?

Sandeep Sinha: No, flat to negative.

Nitin Arora: Flat to negative, okay. Thanks. My second question is related to margins because as you stated, as you already stated your export outlook. Now when we look at this margin, this year EBITDA margin you crossed almost like 15%. In that 100-150 bits [ph] would have come by the Rupee depreciation to you. How we should look at next year because the margins have been, you know the Q4 I'm assuming is down just because of the exports part. You can throw some light there if there is any other attribution to it. So next year if we remove the Rupee depreciation, would be 14% or a 13. 5% would be a steady state margin? I just need your outlook on that.

Sandeep Sinha: I would say flat and the reason is why we will -- while we will continue to improve our cost structure and because of some of the pricing actions we have taken, those will be the positives. I think where we will be under pressure is the product mix change coming towards domestic. So you will see that, because again this year our domestic market will grow much faster than our exports which I have already mentioned. So you see there will be pressure on the margin because of that product mix change, that we are committed to seeing if we can -- how to retain it and I hope hopefully we should be able to achieve that very aggressive target.

Nitin Arora: Because a flat means almost like a 17% EBITDA margin implied if I remove the Rupee depreciation, you are talking about almost like a 17% margin. That's why I was like -- so flat is something which is like 15%, you are saying that right? Is that the right understanding?

Sandeep Sinha: Yeah, so what I'm saying is in like -- see what happens when my product exchanges right. My margins will take a negative impact because I will move more towards the lower, my volumes will be higher in the domestic sales correct? I will have a negative impact because of that on my overall margins. I'm saying that we will recover through price increase in the domestic market as well as improvement in our material cost structure. Those are the two areas that we are focusing on to take away the impact of lower exports which would be about half a point to a point.

Nitin Arora: Got it. And my second question is just a book keeping question, if you can give a range-wise split, which you give LHP, MHP, HD and HHP and also in exports it's the same thing and as well as the revenue which you gave in the industrial business compressor and construction for the quarter. Thank you.

Sandeep Sinha: Sure, for the quarter. Okay so this is -- you are asking for the domestic Nitin?

Nitin Arora: Yeah. The range-wise and also the export [Audio Overlap] which you give.

Sandeep Sinha: Got it. So let me start with the domestic. Domestic was about 190 crores in high horsepower, about 120 crores in MHP and about 80 crores in LHP. From segment perspective in domestic, power gen for the quarter -- I think I've already given you the power gen [Audio Overlap]

Nitin Arora: Could you tell the same in the exports; LHP, MHP, HD and HHP?

Sandeep Sinha: Yes, yes. I certainly can. For exports I would give you LHP is about 50 crores, mid range is about 80 crores, heavy duty is about 30 crores, high horsepower is about 140 crores and spares is about 20 crores.

Nitin Arora: And the compressor, construction, mining?

Sandeep Sinha: Yes. So compressors actually was about 50 crores so we saw some good movement there. Construction has been softer but it's about 110 crores. Railways about 80 crores, marine and mining all of them put together is the balance. Total over here is about 270 crores.

Nitin Arora: Thank you very much.

Sandeep Sinha: Thank you.

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

Abhishek Puri: Thank you for the opportunity. Just wanted to understand a little bit on the industrial business and the outlook here because on the construction side I think you've seen a good growth overall for the year. So what is the outlook on each of the segments [Audio Overlap] if you can just broadly give us.

Sandeep Sinha: So I think in compressors I feel this year will be a good growth year. Having said that you know it's probably one of the most cyclical businesses, even within our industry I would say this is one is the king of cyclicality. So I think we do see this year a 40%-50% growth in the compressor market as of now. Construction, right now we expect it as a kind of flat because last year was a record year in the construction market. But I do think there is some upside here based on whatever we get to hear in the next two-three weeks. But I feel there is some opportunity for us to grow faster than the earlier year. Railways, we will grow at at least 10%-12%. Mining, then we think this year will be a better year for us so about 30% growth, and then marine we are trying to get into new markets over there. So we should see a significant growth. So I will keep updating you as the quarters progress. I think you should see some good growth even in our marine business. [Audio Overlap] Overall 15% is what I was saying, that 10%-15% for the domestic market. Within that in the industrial market it will be towards the higher end of that.

Abhishek Puri: Understood. And similarly on data centres and real estate, how do you see that segment panning out?

Sandeep Sinha: You know I'm actually very optimistic on that too. I think we will continue to see good growth in commercial reality, data centers. We will see good growth in the infrastructure, segment manufacturing you know. We should see some growth there too. So overall I would say in the high horsepower range we could see good growth. I think it's a little softer on the smaller gensets because these are mostly for smaller residential, reality et cetera, so we will see how that goes but overall I would say high horsepower you should have good growth this year.

Abhishek Puri: And my last question is on the export part which you mentioned earlier. The margins have been actually taking a hit because of the exports business but if we go back in history, I think in FY 12-13 when your revenues from exports were less than 30% your margins had been in 17%-18% range at that point in time. Is there a structural decline at the domestic level because of the competition in the margins profile?

Sandeep Sinha: Yes. Yes, certainly. Certainly we don't -- see what happened was especially in both the markets right, you have to think about how -- what was the power gen, the gensets we used to sell were what you would call a prime application which was running more than a thousand hours in a year. Today gensets have declined to less than 200 hours in a year, the usage. And when you move into standby, clearly you will see a pressure on pricing because it's a grudge to purchase right. I mean you and I will never buy a genset out of excitement. It's not like we are buying an asset like a truck or a construction equipment which actually helps you build on revenue. So I think there is -- as we move into standby you will see, of course within that there are segments. There are segments where we do get a good premium but then there are segments where we are under significant price pressure. So to your question, has there been a structural change the answer is yes.

Abhishek Puri: And in terms of -- a similar concept can be extended to the spares business also? I mean would we see structurally lower growth in spares because gensets are now being used as a standby device?

Sandeep Sinha: Yes. I think for the power gen segment of spares, yes. What we are trying to do is because you've seen the industrial market has been growing well for us right? And in the industrial market we are able to -- the usage patterns are much higher. For example a construction equipment is used for 4000-5000 hours annually and so I think as we sell more in those it's able to somewhat compensate for the reduction of spares in the power gen usage. So that's how I would have you think about it. We are trying again to make sure that our spares volume continues to grow at at least 8%-10%. That's the aim, spares and services.

Abhishek Puri: So just one clarification on this. I'm sorry, the guidance that you had given 10%-15% growth was only for products or was that including the services as well?

Sandeep Sinha: Both, products and services. That's overall domestic.

Abhishek Puri: That's the overall revenue growth, okay. Thank you.

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

Renu Baid: Yeah hi, good morning sir. Sir, you did share the segmented split for domestic across MHP, LHP and HHP but if you can help us fine tune in between the heavy duty split as well. How do you intend to maintain across whole four categories?

Sandeep Sinha: The domestic side by heavy duty -- I thought I gave you power gen high horsepower, MHP, LHP. Is that what you are looking for?

Renu Baid: Sir LHP, mid range, heavy duty and HHP. You gave between LHP, MHP and HHP. It would be a very small number, 20-30 altogether. Just wanted to check the adjustments there.

Sandeep Sinha: Are you looking for exports or domestic?

Renu Baid: Sir domestic. Domestic power gen.

Sandeep Sinha: No, we do not give it by heavy duty now anymore. We give it by high horsepower, in medium high horsepower and low horsepower.

Renu Baid: Sure. I'll fine tune the number later on [indiscernible]. Sir, second question would be [Audio Distortion] of -- you did mention of new strong pipeline of new product launches that you are planning in the domestic power gen segment over the next 18 months, so we should expect them in which -- largely these would be all the HHP [Audio Distortion] looking at applications more towards metro and the other segments. If you can throw some insight whether these would just be upgrading or new nodes being introduced. What type of new launches are we looking at and any further CapEx in the new factory expansions for railway or other product lines?

Sandeep Sinha: So yeah, I mean some of the CapEx will be meant for improving our infrastructure for the industrial markets and even for power gen. I think we have to also start preparing for the emission change that is most likely going to happen in the power gen segment, so we'll see how and what we need to do but certainly there will be investments and having said that, for the new products this will be a combination of many things. It could be an upgrade, it could be some significant value proposition for the customer. So there are different things and I'm not sure if I feel good sharing all the details, but I would say generally think of these as higher value proposition products for our customers. That's the entire goal.

Renu Baid: Got it. And on the competitive intensity, how are again we looking at now the domestic players [indiscernible] they are behaving in terms of price discipline, and the pricing action that we had initiated in the fourth quarter earlier, are we seeing that entire 3%-4% plus being very well absorbed in the market. So how is the end market behaving and competition absorbed?

Sandeep Sinha: I would call it satisfactory. I don't think I would say I'm ecstatic but I'm not disappointed either.

Renu Baid: Okay, right. And sir, last question would be on data center. We have seen that they are a relatively fast growing market and Cummins has had market leadership there. So how would one peg in the market size in this category and the likely growth outlook for the next three to four years if data localization is to be implemented in real sense.

Sandeep Sinha: I'd say it's about 10% of the total high horsepower market. So we're small but I think it's a new opportunity and I am pretty convinced that as a society we will continue to use data in many, many different ways in the future. And right now the most feasible solution for backup for these data centers are the diesel gensets.

Renu Baid: Sure, and one more if I can ask would be on -- last time you did touch upon the emission norms which could be rolled out for less than 800kVA in line with the

Euro 6, BS6 norms. So do we have any update there, any developments or time-lines to look forward to? And if one has to look at [Audio Overlap] yeah, what would be the kind of CapEx that Cummins might be required to do over the next two-two and a half years towards these norm changes?

Sandeep Sinha: So it's too premature for me to say how much our development cost will be there and how much of CapEx we will have to spend because it all depends on what is the final version of the norms. As you are aware the last 3-4 months actually everything has come to a standstill in Delhi, so hopefully with what we saw yesterday we should start to see things move. As and when the notification comes I will certainly make sure that in my update to you, I will ensure that I give you a good update along with our estimates on what kind of CapEx and development costs it'll take.

Renu Baid: Sure. Thank you so much sir and that's it from my side. All the best.

Sandeep Sinha: Thanks Renu.

Moderator: Next is Anisha from CNBC. Your line is unmuted.

Sandeep Sinha: Hi Anisha, please go ahead. Anisha, can you hear us?

Moderator: Anisha your line is unmuted. Please speak. Sir, there is no response. Next we have Priyankar Biswas from [Audio Distortion] Your line is unmuted.

Priyankar Biswas: Good morning sir. So my first question is like, how much of your domestic revenues are actually directly or indirectly dependant on let's say the infrastructure spendings? I mean if you can give me some idea.

Sandeep Sinha: Okay. Slightly tough one but I will try to give. Our industrial part of the business, I would say a lot of that goes into rails, marines, construction. So I would say about -- and mining. So well mining is not infrastructure so you could say about 70% would be -- 60%-70% could be infrastructure there. And then in power gen I would say about 20%-25% could be infrastructure related. Direct infrastructure related. So it's a big number actually.

Priyankar Biswas: So the question, why am I asking this question is essentially, like if I look at the commentaries of many of these root players especially because this is one of the fast growing segments. So they are not speaking of doing any equipment CapEx, I mean a major part of them like at least in the first half of this financial year 2020. So what I was wondering was can we expect then this growth that you said like 10%-15% to be more back-ended? Like maybe not something of a great exciting market at least in the first half. So that's what I'm trying to understand.

Sandeep Sinha: Yeah I think that I would say that's reasonably accurate. I think having said that, let me also tell you that when the construction companies also acquire CapEx there is -- they move really fast. So we've seen in the past that we have seen within the first month and the third month of the quarter 30%-40% increase in the volume and at many times we do get into allocation mode because of that. But I think the construction OEMs are trying to flat load these with some inventory et cetera. So this is -- I think we will see some growth in the first half but I would agree with you that the second half may be -- will be stronger than the first half.

Priyankar Biswas: Sir, am I thinking correct? Like let's say the ordering activity let's say picks up post elections, so maybe the ordering happens somewhere let's say around August or something like that. So maybe when the companies do the CapEx for the new equipment, so we can see maybe strong growth somewhere in Q3 more or less like that. So almost like a 3 months or 6 months lag in ordering. Something like that?

Sandeep Sinha: Again I think this depends on different cycle. I think overall for the industry you may be right. I think certainly the other part in construction is pre-monsoons. There is some amount of softness or during the monsoon period. Post monsoon is where the activities really steam up. So I think all these deductions that we are making seems to give the answer that yes we will see a stronger rates. So hopefully we can realize those extra sales and share that we hope to gain in that segment.

Unknown Analyst: Okay sir. That's from my side. Thank you so much.

Sandeep Sinha: Thank you very much.

Moderator: Next is Bhavin from SBI Mutual Funds. Your line is unmuted.

Bhavin: Yeah, good afternoon Sandeep.

Sandeep Sinha: Hi Bhavin.

Bhavin: Haanji. My question is on the exports. So speaking at slightly longer-term view because if I recollect the analyst meet, there was this QSK15 where there was a potential for exports out of India and secondly while some of these markets are soft on a longer term basis as you're highlighting 2020 when the emission norms of India get aligned with the U.S. and Europe developed market. Does that actually open up the opportunity for exports in a bigger way because now the [indiscernible] volume in India and the cost also kind of becomes more conducive?

Sandeep Sinha: Yeah so Bhavin first of all I think it was QSK19 which we make in CIL which is what you're talking about I think.

Bhavin: Yeah, it's QSK19.

Sandeep Sinha: No problem. I just wanted to make sure you were aligned. As far as your question that with newer emission standards coming, first of all let me tell you globally emission standards which we currently even have CPCB-II is one of the highest anywhere in the world and the way emissions on gensets are put across most part for the world is that standby is not emissionized and only Prime gets emissionized. Now in India everything will get emissionized and if CPCB-4+ as the way government is calling it does come, there will be no country with that level of high emission standards. Now what can happen is there are certain other applications where we have similar engine requirements which are today not made in India because we don't need them from Tier 4 Final kind of emission standard which may become opportunities in other markets outside power gen from an export perspective. So to answer your question, yes there will be opportunities, may not be in the global power gen market because they're mostly non-emissionized but it could be in some adjacent markets where we can make a play and we are looking at that.

Bhavin: Sure and on the QSK19, is there a possibility that also like India becomes, CIL becomes a hub for the exports?

Sandeep Sinha: Answer is we do have three plants which make it. I do think that the one product that we are trying to introduce. If that comes, we will take share from one of the other plants because we have a good cost structure in place and our product features are stronger. So yes it could be either be electronic version or we might even sell more of the mechanical version in that market. So we are still working through that. And my preference is to sell the mechanical version because of PCO for our end customers will be much better. So that's what we are trying to do.

Bhavin: Understand. And could you give us some more color into the areas in which CapEx is going because last time you mentioned we're spending on the test beds at [indiscernible] which can de-bottleneck the capacity?

Sandeep Sinha: I think one is de-bottleneck. The other is it becomes a necessity for us as we enter into the Tier 4 Final kind of stage. So today we don't have a Tier 4 Final. It's a normal right for some of the market segments and today we don't have that capability in India. So this is actually enhancing the capability of testing advanced electronic emissionized engines in India. So this will be certainly a core strength that we are creating along with our new tech center that we have put together. So this is very important and I would say a third of mine overall CapEx will go into this for the coming year.

Bhavin: And balance where would that be spent?

Sandeep Sinha: So balance will be, you know, we enhance the parts distribution center. So we're building capacity. So the last stage of that is there. We are putting together some other, you know, [indiscernible] projects. So again mostly I would say in enhancing capacity and also in this -- and yeah some of that will be the remaining portion of the tech center that we had built. Many small floors into the tech center will also come this year.

Bhavin: Sure. My last question is on the low horsepower. The slowdown that we saw in the quarter, the low horsepower exports slowed down -- the exports that we saw, how much would you attribute it to where you're kind of curtailed because there were receivable challenges which you were mentioning last time. You did see improvement in the balance sheet.

Sandeep Sinha: Yes.

Bhavin: [indiscernible] we are curtailing because of receivable challenges and may be going forward testings do normalize we can actually see a pick up on that side.

Sandeep Sinha: So the answer is I think your observation was correct. We have made very good progress on the receivables side. I think that we personally [indiscernible] team have been involved in making that happen. I do think, however, that I'm not sure if I find that the market is fundamentally strong right now and I think for us -- we may gain some, I won't say no because of that but again these are very complex environments and economies. So we just – I don't have enough data right now to say that there can be a come back here. If you look at Angola, Mozambique all of these nations where we sell to, you know, at least structurally they are weak in their economic outlook. So I do worry about this market and with Europe and BREXIT and all those pressures with South America and all the political environment building up in that part of the world, this doesn't seem to be – and this trade war is happening. So all put together I feel like it's not a great story right now for us but the good news is we have this business in CIL, we continue to try to gain with new customers, new products and when the markets come back, they will all come back to us. So that's the good news. The bad news is in the interim, I would say I'm not feeling positive about it.

Bhavin: And just the clarification, the domestic growth you have said is 12 to 15, I heard somebody saying 10 to 15…

Sandeep Sinha: I said this. No, I actually said 10 to 15. So that is correct.

Bhavin: Okay.

Sandeep Sinha: And I said that – yeah.

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

Sandeep Sinha: Thank you Bhavin.

Moderator: Before taking next question, I'll announce again. If you have any question, you may please press 0 and then 1. Next is [indiscernible] from PhilipCapital. Your line is unmuted.

Unknown Analyst: Hi Sir, just wanted to better understand the movement in gross margin in this quarter. So you gave a couple of reasons that sort of -- which add up to the decline that we've seen. But the last point that you made in that was there was a revision in the ForEx rate which typically happens in Q4. If you can dwell slightly more on what's the rate for the year and how did that sort of impact gross margins, if I got that right?

Sandeep Sinha: Sure, sure. I'll make sure Rajiv who's right in the middle of [indiscernible].

Rajiv Batra: Yeah I think there's a caller rate which is set up at the start of the year and then as we go through the year, any variations from that caller rate, 3% up or down, same in the entity as is the purchasing entity or the supplying entity which in this case is us. So as the rate depreciated in the last quarter, the 3% variation negative in this case stayed with us. So that's how the caller operates. It's a consistent operation year to year and therefore, you win some, lose some. So that's how the foreign exchange was negative in the last quarter.

Unknown Analyst: So for the year CY19, what is that rate back then if you can share that?

Rajiv Batra: It is going into the future, it is about 69.5.

Unknown Analyst: Got it and my second question was if you see some the other reason that you'll get for the gross margin decline was higher growth in the industrial business whereas you see sir the HHP part also sort of adds up, you know, almost adds up to the industrial piece just a differential of 60-70 crores in terms of top line on a quarterly basis and our assumption is that HHP in the power gen business is your core and there margins are higher. So why would like a 60-70 crores swing in industrial have like telling effect on gross margins?

Rajiv Batra: Yeah I think you have to look at the industrial business. Now, there is something where we made money over the life cycle of the product. So, therefore, you are dealing with lower margins but clearly whereas initial margin plus after sales as well. We have to look at that composite picture whereas in the high horsepower margin [indiscernible] but then it depends also in the extent of export quantum which has a [indiscernible] and that's where we are told you when exports go down then there are several factors like leverage loss as well starts to operate. You have to look at margins holistically and you really cannot say yes [indiscernible] into double digit [indiscernible]. So that's a view which we have to take.

Unknown Analyst: So we should sort of build in flat gross margins for next year?

Rajiv Batra: I think that's exactly what Sandeep earlier stated that there would be no opportunity to improve on margins.

Unknown Analyst: Got it. Thanks a lot. That's all from my side.

Sandeep Sinha: I think we have time for one last question. So we can take one more.

Moderator: So the last question of the day we have from Deepak Krishnan from Goldman Sachs. Your line is unmuted.

Pulkit: Sir this is Pulkit from Goldman. Sir could you just highlight in the benefit of the tech center if at all something has come through. I remember when we used to ask this question about a year back we were told that this investment is going to yield return over time. So just wanted to understand any tangible benefit of that that has either come through or that we are likely to see further Cummins India listed entity in the next year to two years?

Sandeep Sinha: So good question Pulkit. Thank you for asking. I think there are many, many different advantages. So I start with a few which we have seen but remember that as we start to mature you will see way more than what you have already seen. I can give you two-three examples which I see happening right now. One, as we move into a higher emissions world that CPCB-4+, I don't think there is a company as well positioned to cater to this new technology than Cummins simply because the tech center is already doing Tier 4 Final work for other parts of the world with the engineer sitting here and labs over here. Example could be we have a PM Lab which is Particulate Matter Lab which is the most advanced in Asia actually. In fact our testing agencies are taking help from that lab. So I can give you that as an example. A lot of our connected solutions work for the global Cummins Inc. is happening today. So as we've started to move connected solutions work into our genset business in India, we were able to bring people with lot of experience and talent quickly on board from the global project into the domestic project. So then as we build new labs, metrology labs, all of those, these are absolutely top of the line kind of labs. So we are able to improve our own testing capability, our speak to market. So if you remember if you've been following us for long, the only time we used to introduce new products in our genset business used to be when there was a change in emissions. Today we are doing every quarter we are launching one new product at least. We have the world's largest electronics and controls engineering lab here in India. Almost 70% of all controls engineers for the Cummins worldwide requirement are based here. So as we get into this new world of connected of higher emissions, these are huge benefits that we see in our capability which is I think going to continue to be a critical advantage that we have and I'm very convinced that this is probably the best investment that we have made for the company here, company globally and certainly for CIL legal entity too. I hope I was able to answer your question.

Pulkit: No sir, definitely you have been. I think as an analyst what I'm more keen on is there sort of a revenue linkage that we could do to this investment? I understand the indirect benefits but just trying to understand if there is sort of a jump up in revenue that could come through because of this.

Sandeep Sinha: See if you see our power gen growth that we just talked about in the high horsepower example in last year. I think a lot of those new products were outcome of our improved engineering capability here and our ability to take more out of the engine without changing the quality or any other features of the genset. So that could be now – do we measure it like that? The answer is no. I think we just don't measure it directly but yes I mean if we need to I think it certainly can be easily measured in many, many different segments. That was just a few example I gave you right now.

Pulkit: Sure sir. I'll dwell more into it in some one-on-one meeting sir. Thanks a lot.

Sandeep Sinha: My pleasure. Thank you everyone. Again I would say that as I wrap up our financial guidance for the year for domestic is 10 to 15%, flat to a slightly lower position on exports. I can assure you that in the domestic market we continue to outperform in our industry and we continue to make judicious investments in our products. We continue to focus on creating significant value for our customers and also for – not only for customers in India but also making sure we do same for our customers in other parts of the world. We have pretty strong control on our cost of operations. We will look at improving further on productivity and quality as part of our continuous improvement programs. I really feel optimistic about the domestic market right now. As I said earlier, we will continue to see some significant growth in infrastructure which is what our country will need if we want to continue to have GDP growth of 7% plus. If that does not happen, our GDP will not grow at 7% plus. So I don't think the government has a choice and I think the government has all the will at least from my interactions to continue to invest which will benefit CIL. So with that, I want to thank you. Thank you for your interest in CIL and that you for supporting the management team here. Have a good day.

Moderator: Thank you so much 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. Have a pleasant day!