Ref: STEX/SECT/2019

October 31, 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 October 25, 2019

Dear Sir/ Madam,

With reference to our stock exchange intimation dated October 22, 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 October 25, 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: 2019.10.31 17:24:38 +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 for Cummins India Ltd. Quarter 2 2019-20

October 25th, 2019

SPEAKERS:	**Management, Cummins India Ltd.**
Moderator:	Good morning, everyone. I am Harpreet Kapoor, the moderator of this call. Thank you for standing by, and welcome to 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. So I would like to now hand over the proceedings to the Managing Director, Mr. Ashwath Ram. Thank you, and over to you, sir.
Ashwath Ram:	Good morning, ladies and gentlemen. This is Ashwath Ram, the Managing Director of Cummins India Limited. Thank you very much for participating in this call. I'd like to convey the financial results of quarter ended September 2019 through this call. Our total net sales is INR 1,285 crores, which have declined by 2% compared to INR 1,316 crores recorded in the preceding quarter. Domestic sales stands at INR 947 crores, which have declined by 4%. Our exports grew by 3% at INR 337 crores. Our profit before tax at INR 210 crores is higher by 8% compared to INR 194 crores recorded in the preceding quarter. When you

compare this quarter with the quarter ended September, 2018, our net sales of INR 1,285 crores declined by 11% compared to the same quarter last year. Domestic sales which stands at INR 947 crores dropped by 6% and exports at INR 337 crores dropped by 25%. Our profit before tax at INR 210 crores is 29% lower as compared to INR 294 crores recorded in the same quarter last year. Getting into the segment-wise breakup. To give you a sense of sales breakup by segment. Domestic, the industrial domestic business sales were at INR 214 crores, which denotes a 10% drop over last year. Our power generation domestic sales were INR 394 crores, which is a 4% drop over last year. The distribution business sales were INR 330 crores, which is a 5% drop over last year. Exports, the high horsepower exports were INR 205 crores, which denotes a 12% decline over last year. Our low horsepower exports were INR 111 crores, which denotes a 41% decline over last year. I'll now give you our Cummins India financial guidance. In terms of sales outlook for the full year 2019-'20, I would like to revise down the target at 3% to 5% growth for domestic and negative 20% for exports business. The current sluggishness in the Indian economy arises from several factors, including the prevailing liquidity situation; delays in awarding of infrastructure projects; banking sector, including the shadow banks continuing to sort through their funding constraints. These factors have all resulted in reduction in demand across our key segments in the domestic business. In our estimation, this was likely to play out further for some time with the gradual revival thereafter. The government had already undertaken significant actions to boost the economy, including allocating incremental funds to the execution of infrastructure projects, easing out liquidity as well as reduction in corporate tax rate accompanied by interest rate cuts. Our confidence in the medium to long-term outlook on domestic sales, especially from the infrastructure sectors, is high. Once the fund allocations from the fiscal union budget starts to positively impact this sector, we see this area start to revive. Export markets have continued to display softness in recent quarters, arising from the 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 significantly to essential only, as well as improving on the efficiency of our internal processes and product coverage, creating a strong environment of cost consciousness. We continue to be positioned to outperform in our industry, and continue investing judiciously in product enhancements. We continue to focus on increasing our customer outlooks while maintaining productivity and quality as strong focus areas as well as 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, if you wish to ask a question, 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 Sandeep Tulsiyan from JM Financial.

Sandeep Tulsiyan: Yeah. A very good morning sir.

Ashwath Ram: Good morning.

Sandeep Tulsiyan: Yeah. My first question is pertaining to the gross margins particularly. We've seen a very sharp decline of 300 basis points in the gross margins in this quarter as well as first half. If you could help us understand how much of this is purely driven by a mix change, and how much of it is more driven by competitive pressures like, you're not able to take price hikes, or you've taken price cuts in certain categories as we have also observed that Cummins is gaining share against the other competitors. And how much of this is reversible from a near to medium-term perspective out of this 300 basis point loss in the gross margins? That's my first question.

Ashwath Ram: So I can answer that by saying that the biggest chunks of the loss of margin are caused by mix and by FX impact. We also see some impacts due to commodities, which we should recover in subsequent quarters, and a little bit this quarter with some of the regroupings that we have done. But actually, from a pricing perspective, we've actually been able to realize slight improvement in margin, because of pricing. But certainly, we don't have the leverage to increase price significantly in a softening kind of market. So to answer your question, till the mix improves, I don't see us being able to significantly improve the margins.

Sandeep Tulsiyan: Got it. Sir, my second question is pertaining to the exports comment that we have given in the press release that certain markets within power gen are experiencing some difficulty is what we mentioned over there. What I want to understand is, are these LHP markets predominantly in Middle East Africa what we're talking about? And are these issues more structural in terms of currency depreciation? Or are these cyclical demand issues, which may get recouped in the near term?

Ashwath Ram: Actually, for the first time, we have seen significant drop in pretty much all markets around the world, but the biggest drops I see are in, Middle East and Africa, where we've seen greater than 50% reduction in demand as compared to the last year. But if the story is similar for other parts of rest of Asia and in other markets as well. We cannot attribute just currency issues to be the main factor. We are seeing the weakness in those markets as well.

Sandeep Tulsiyan: Okay. The last question, sir, is on the CapEx. So given all this weakness in demand, we have always guided for like INR 250 crores to INR 300 crores kind of an annual run rate. Are we likely to trim that number to probably include the balance sheet and the cash flows or that is the amount of CapEx that is required to maintain the sales?

Ashwath Ram: See, it is the kind of CapEx which is required to maintain the future growth. And as we have indicated in the past, there are many major emission changes which are coming to our market especially in the power generation and in the construction markets. And to lead in those kinds of markets, we need to make those kinds of investments.

Sandeep Tulsiyan: Got it. Thank you so much, sir, for taking all the questions.

Moderator: Thanks for your question. Next we have Renjith from ICICI Securities.

Renjith: Yeah, hi, sir, good morning and wish you a happy diwali. Sir, I just wanted to understand, is there any impact because of the floods in Kolhapur? Because most of your customers come from Kolhapur. So because of that was there any impact on our production?

Ashwath Ram: We did have a minor disruption because of that but not significant enough to impact the results in any manner. Those were more disruptions in the supply chain and then having to scramble at the end of the month to try to ensure most of the shipments were met. But not significant enough that it is impacted business in any manner.

Renjith: Okay. And sir, if we look at the overall power gen, if you can throw some more light into the segmental breakup of power gen, and which are the sub segments, which are impacted more and where are you seeing growth in terms of HHP, MHP and LHP?

Ashwath Ram: Yeah. So the overall slowdown was our economy in India has pretty much resulted in all market segments slowing down. We had some catch up work to do in our low horsepower segments, and so we saw some growth in the low horsepower segment this quarter, but the major indicators all are pointing towards a slowdown in this sector as well, which is because -- due to the overall slowing down of the Indian economy. Now, when you look at which segment within the economy, or within the economy which impacts power gen, then I would say that infrastructure, manufacturing, those are the segments which are impacted more significantly, whereas segments such as data centers, large retail continue to go ahead with the projects, which are already in the pipeline.

Renjith: Okay. And can you just give me kind how big is our data center in the overall sales of power gen, and what kind of growth is there in power gen in the data center market?

Ashwath Ram: That business size is roughly about INR 75 crores to INR 80 crores, and its growing at a CAGR of 10% to 12% annually.

Renjith: Okay. And this INR 75 crores to INR 80 crores is for this quarter?

Ashwath Ram: No, this is more of an annual number.

Renjith: Okay. And lastly, if you can give the break up you give for every quarter regarding MHP, LHP and HHP for the power gen segment?

Ashwath Ram: So the high horsepower business did about INR 165 crores, the medium horsepower business did roughly about INR 120 crores and the low horsepower business did about INR 110 crores.

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

Moderator: Thanks for your question. Next we have Abhishek Puri from Axis Capital.

Abhishek Puri: Thank you for the opportunity. Sir, if you can just break up on the industrial business as well? I mean from construction, compressors, mining, et cetera?

Ashwath Ram: Sure. The compressor business did around INR 25 crores. The construction business did around INR 55 crores. Mining did around INR 13 crores. Rail did around INR 105 crores. Marine did close to INR 10 crores and everything else did close to INR 10 crores.

Abhishek Puri: Understood. And secondly, on exports, I mean the Middle East and North American market GDP growth has not been that weak. So is there some structural change in the economy that you're seeing, which is why the demand is weakening there?

Ashwath Ram: Actually if you look at markets such as North America, first of all, North America is a very small market segment for our products. Those are mainly served out of the North American market itself. We serve the rest of the world and the rest of America, and we have seen significant slowing in the purchasing coming out of those markets. I'm not sure how I can correlate it directly to the GDP of those market. But just to tell you that the United States is a very small market for us from India, whereas the rest of the world, especially Middle East and Africa are the most significant market for us, which are impacted quite significantly by their economic conditions. We are certainly...

Abhishek Puri: I'm sorry, I was talking about the Middle East? I was talking about the Middle East one only, because the GDP growth, I think are -- is between 2%, 2.5% to 3%, 3.5% for the last couple of years, well. So is there any significant slowdown in GDP or is there any structural change that you're seeing in that market that is leading to people using less DT sets or industries using less DT sets or the growth in the commercial real estate market is slowing down. I like the way you're seeing the slowdown in the Indian market. I mean, is there any structural slowdown or is it more of a some of those specific sectors that are slowing down that is impacting our growth?

Ashwath Ram: I'll defer on that questions about all the factors which are causing the slowdown. All I can indicate at this time is, we have seen this for quite a few quarters sequentially that the markets are slowing down in some of those countries. And what are all the factors which are leading to that and the correlation to their own GDP, I'll probably have to get back at a later stage on our analysis on that.

Abhishek Puri: Understood, sir. And lastly in terms of some of the deals that you mentioned, we have opportunistic pricing in the LHP segment locally to gain more volumes. But I think the overall volumes have picked up for you to some extent on the LHP side. Is that the reason for margin dilution? Or are we getting back in terms of pricing? Is it because of the competitive intensity? I mean, if you can specify that.

Ashwath Ram: I think the low horsepower business is always the most competitive business from a pricing perspective. So if you sell more in low horsepower, certainly, it will have a relative impact on margins decrementally. And as we all know, with the market -- overall market slowing down, certainly, competitive pressure is more intense. So certainly, it does have play a factor as we fight for market share that there will be a little bit of impact there. But it is not significant. That is not the big reason for the market decrement.

Abhishek Puri: Understood sir. Thank you so much and all the very best, sir.

Moderator: Thanks for your question. Next, Renu Baid from IIFL.

Renu Baid: Yeah, hi, good morning, sir. Sir, my first question is just want to understand more from the exports now that if you've seen consistently sequential duration over the quarters. Are you -- where do you see the exports really bottoming out? Because if you see from the HHP exports, sequentially it has seen some improvement back to INR 200 crores. LHP has continued to drop. So where exactly should we look at the days minimum volumes, which should sustain even if global GDPs are to contract or remain broadly stagnant in the way they are? So how should we look at the worst for the exports from the near to medium term perspective?

Ashwath Ram: Yes. So that is a very good question and a very tricky question, because it's very difficult to predict. But when we talk to our counterparts in the global markets, and we talk to the sales folks in the global markets, the local people, et cetera, the indication we are getting is that I don't think we have seen the worst yet. Because typically what happens is the next quarter, which is the last quarter of the year is when the people do their final correction of inventory. So I think we are close to the bottom, but I won't be bold enough to say it's not going to get a little worse before it starts getting better.

Renu Baid: So probably December quarter could further see some inventory corrections global level and thereafter probably from the fourth quarter, next calendar year onwards, we could see some signs of bottoming out?

Ashwath Ram: That's the broad indication we are seeing. Like I said, we've got to wait and watch. We think we are very close to the bottom now, but it is very difficult to predict in exactly which part of the exports business you've already got in there and we have turn around in which part. There is still some more inventory correction to be done.

Renu Baid: So second, you've mentioned that Middle East and Africa is further shrunk by 50%. So any insights you can give with respect to how has been the split between various markets for the first half, and the respective performance where in the exports side.

Ashwath Ram: I'm just looking at that information.

Renu Baid: Yes, in the case if that's...

Ashwath Ram: You want to know first half versus second half, is that what you're asking for us?

Renu Baid: The first half '20 performance, how does the exports stack up regionally, and what kind of decline have you seen in these geographies?

Ashwath Ram: Yes. So like I mentioned earlier, the biggest drops I would say are in Middle East and Africa. And when I look at those kind of numbers, I've seen excess of 50% or closer to 50% is the kind of drop we're seeing. The other regions like Brazil as well as some of the other regions in Latin America have -- Brazil has dropped the most in Latin America, which has dropped close to 40%. Actually, the rest of Latin America has actually not dropped as much. As a matter of fact, we have a little bit of growth in that market. But rest of Asia has also dropped pretty significantly, dropped over 30%, and we've also seen some of the shipments that we do to China have dropped where about close to 20%.

Renu Baid: And Europe?

Ashwath Ram: Europe is kind of holding steady at roughly about a 25% to 30% drop.

Renu Baid: Okay. And just to put a perspective, Middle East and Africa combined should be nearly 50% of our revenues, or slightly lower?

Ashwath Ram: Middle East and Africa should be about at least 30% of our revenue, approx 35% of our revenues.

Renu Baid: One third combined?

Ashwath Ram: Yeah.

Renu Baid: Sure. Sir, second perspective, recently we had the new corporate tax policies been announced trying to encourage more domestic manufacturing. And last quarter, we had highlighted that we saw some green shoots of local sourcing or supply chain movements coming in the component side for generator technologies of Valvoline. So how should we, as in as India holders and Cummins India look at likely opportunities for CIL to benefit from any supply chain movements or reallocation from China, if at all? Or the India portfolio is likely to be the way it is, and no material changes from this?

Ashwath Ram: As of now, we are not seeing any significant changes to the portfolio. We did see a little bit of advantage in the previous quarter in our alternator business, but nothing else we have seen an impact on so far.

Renu Baid: Anything from a medium term from a two to three-year perspective you think there could be some positive movements to our portfolio? Or it would be too early at this point in time to comment?

Ashwath Ram: As I'd indicated last time, the -- currently, India is a lagging market as far as emissions is concerned in the power gen industry. As we move towards the leading market once CPCB4 plus comes in, and the technology we are using is very similar with what some of the other markets are using, then there is a chance that opportunity could increase, but it's a little vis-a-vis.

Renu Baid: Sure. Thank you so much, sir, for your questions. I'll get back in the queue with some more queries thereafter. Thank you and all the best, sir.

Ashwath Ram: Thank you.

Moderator: Thanks for your question. Next we have Pawan [indiscernible] from SBI Mutual Funds. Your line is unmuted.

Unknown Speaker: Yeah. Thanks for the opportunity. So the question again is on exports. What we understand from the channel is there was some issue with respect to the sanctions on Turkey and Iran. And again, on the Africa side, there is growth in markets like Nigeria where the distribution on the Cummins side is really weaker, where Cummins has stronger distribution, and these markets are not doing well. So your comments on that will be helpful. And any work which is ongoing to strengthen the distribution within the Africa, so the economies which are growing stronger and getting larger, we build up these much more on that?

Ashwath Ram: So Cummins has what we call an Africa ABO, which is very similar to an India ABO, which is an Area Business Office, which looks at all the markets and looks at all the opportunities and then tries to set up the right kind of resources to exploit or to grow in those markets. And those folks have been working pretty significantly and very closely. We have over the last, close to a year, assigned dedicated resources within the India CIL structure to be able to focus on those markets, try to understand what it is in those markets, which is either causing the market to slowdown, or what could be done even if the market is slowing down to increase our presence and our market share in those markets. Now, it's ongoing work, and I can't at this stage report that we've had any major breakthroughs or critical success. But we are highly focus on this area. We understand the importance of this markets to the success of our business here in India. And we are putting in the right kind of resources to try to get a better understanding of what's happening again into all that.

Unknown Speaker: Sure. The second question move around in similar line. So in the annual report, you mentioned about some new product introduction like the QSK19 where it's currently not large part of the export portfolio. So, which you also highlighted in analyst meet. So when do we see a growth in models like these? And like to the previous participant, you mentioned that there is a probability of you going on to developed markets once the portfolio moves through the CPCB4. So are you looking at maybe preponing some of the launch and then you can expand your addressable market on the North America and the European side where the products are meeting the emission standards of those end markets?

Ashwath Ram: We're looking at all opportunities. We haven't found any -- very significant ideas as of today as many of those markets have themselves slowdown. And we are working in a cost optimize kind of manner even in those markets. Some of the facilities in those markets are also going through a tougher kind of market situation. But we are looking for all opportunities. So, we are always been open to look for the opportunities and keep working on them to improve this business.

Unknown Speaker: Sure. On QSK19, sir, if you can highlight, when can we see the export of this model actually pick up?

Ashwath Ram: Actually, specifically, I don't have an exact date or time when this is, but we are exploring options on where this product, once we have reach a cost optimized volume, or a cost optimized structure with that product here, we are looking and exploring some options where we can try to export this product.

Unknown Speaker: Sure, yeah. Thank you so much for taking the questions.

Moderator: Thanks for your question. Next we have Varun from AMBIT Capital. Your line is unmuted.

Varun: Hello, sir, good morning. Thanks for the call. My question first is, can you give a sense of inventory levels at global distributors? You said before that it's normally in the range of 30 to 60 days. So where that normally lies now? And secondly, on tax rate in the second quarter, the number was very low. So what was the driver behind that?

Ashwath Ram: Right. So first I'll answer the question on inventories, and all I can tell you about inventories is they are at a similar level as they were in the last quarter. And on the tax rate portion, I'll let Rajiv answer that question.

Rajiv Batra: Yes, the tax rates at the outset, I wish I could enjoy that tax rate for all times to come. So clearly, there is a reversal sitting here, and that is on the deferred tax that we had provided in higher rates, which we are now bringing down. So it's a one-time benefit that you're getting. Next quarter onwards, we will step back to the elected new rate, which would be about 25.2%. And still, on a full-year basis that would give us a benefit of between INR 30 crores to INR 40 crores a year. That answer your question?

Varun: My sense was that reversal of deferred taxes, they -- you can't take credits taking forward if you're opting for a new regime. So can you take them at lower rates going forward? Like, is that possible?

Rajiv Batra: That's exactly what happened this quarter. Whatever we had brought -- whatever we had provided in the past at 34% is what we are bringing now down within new tax rates. So that will give you one-time impact. Future, everything is at new rates.

Varun: Okay, yeah. That would be from my end. Thank you.

Rajiv Batra: Thank you.

Moderator: Next is Puneet Gulati from HSBC. Your line is unmuted.

Puneet Gulati: Yeah. Good morning and thanks for the opportunity. Can you give me some more color on what's happening on the distribution side of the business, which product is seeing a bit of decrease in volume more than others?

Ashwath Ram: Pretty much we're seeing that parts -- with the overall economy slowing down, we are seeing that sales of parts have slowed down a bit. We are also seeing that some of the new engines sales have also slowed down a little bit. Actually -- this business is actually holding out quite well, and we are pretty confident that we won't see too much of an impact into this business.

Puneet Gulati: But is it more industrial genset parts driven or power genset part driven?

Ashwath Ram: It's both, people are not using equipment that much. So certainly on the industrial side, there is a bit of a slowdown when equipment is not being used as much to build the roads or to build the highways, then you don't do as much maintenance, so you don't do -- you don't sell as many parts. So it's a combination of both of those. Similarly on the power gen side, if manufacturing is not working at whole hog and factories are not running 24/7, then it's likely that even that equipment is not used as much and so the requirement of parts is slightly lower.

Puneet Gulati: Okay. Fair enough. The other thing I couldn't quite understand was, your total export declined by 25%. But when I look at the break up that you given geography wise, everything seems to be upwards of 20%, 25%. Middle East you said is down 50%, Brazil 40%, Asia minus 30%, Europe minus 25%, China is minus 20%. So, is there some part of the business which you didn't mention and actually grew to take care of the result in lower decline then what were shown in individual geographies?

Ashwath Ram: Yeah, we had -- like I mentioned, we had some sales to the U.S., a very small percentage, a small value that declined by only about 14% -- 15%. We actually had some increase in sales to Mexico, which actually grew by about 200%, but on a very small base. We had -- we sell spare parts into those regions as parts of exports that didn't drop as much. So, yeah. We sell some into the U.K., which dropped by only about 20%.

Puneet Gulati: Okay. So are you finding newer geographies now, apart from this, is there anything else that you can target to ensure that the sales decline don't continue -- at this rate?

Ashwath Ram: We are already reach over 140 countries, and so certainly, we are not going to leave any stone unturned to see if there's any opportunity in any market, we will try to capitalize on that, because we depend so heavily on exports. So yeah, it's certainly a priority for us to focus on.

Puneet Gulati: Okay, great. And lastly can you give some color on what would be your capacity utilization now?

Ashwath Ram: Anywhere between 50% to 60%.

Puneet Gulati: Okay. That's all from my side. Thank you so much.

Moderator: Next is Atul from Citi. Your line is unmuted.

Atul: Sir, thanks. My questions have been answered.

Moderator: Thanks, Atul. Next we have Ajinkya Bhat from Macquarie. Your line is unmuted.

Ajinkya Bhat: Hi, sir, thanks for the opportunity. Sir, my question pertains to a comment in your press release as well as initial remarks that now you have taken internal initiatives to curtail costs to essentials only. Now my question is, even historically Cummins has always been in that continuous improvement mode you have had these ACE and AMaZe programs that have been going on for a few years. So, what different is now being done under this new initiative? What are these nonessentials that you're trying to curtail? And are there any internal targets, if you could please quantify?

Ashwath Ram: Yeah, so to clarify the ACE project, which is called Accelerated Cost Efficiency, and the AMaZe project, which is more focused towards quality, those have been focused -- the ACE project has been more focused on material cost, and certainly that work also continues. But now the more increased focus is on reducing the cost of overheads. And with that in mind, there is significant pressure we are applying to reduce things like travel, reduce cost of maintenance, reduce all -- reduce headcount, balance out all of those in line with utilization. So that's where the biggest focus areas are going to be to look at all other areas of overhead, of which the company incurs, while a separate team focuses on the material cost area.

Ajinkya Bhat: Okay. And are there any internal targets or any broad view how much you want to save within this year or by the end of next year?

Ashwath Ram: I won't comment on that right now, other than to say that we've very significant and we'll let the numbers speak for themselves in subsequent quarters.

Ajinkya Bhat: Okay. Sir, just one related question, especially since you mentioned about potential of these cost-cuts could be headcount. Will this program then probably see an increase in maybe outsourcing instead of in-house manufacturing, especially for those engine models, which may not have significant volume to justify in-house manufacturing? Because you have had this mix of outsourcing as well as in-house manufacturing, right?

Ashwath Ram: Yeah. So, as you can see, our capacity utilization is that between 50% to 60%. So the opportunities for increasing outsourcing are diminishing. But we are looking at all ideas.

Ajinkya Bhat: Okay. Thank you so much, sir.

Moderator: Next is Sujit Jain from ASK Investment. Your line is unmuted.

Sujit Jain: Sir, have we lost market share in export markets, important markets such as Middle East and Africa?

Ashwath Ram: Our analysis currently says we don't seem to have lost market share, and we are seeing similar decline with competitors as well.

Sujit Jain: And what is our market share status in MHP and HHP in domestic power gen business?

Ashwath Ram: We don't share the exact market share information, but all I can tell you is that it continues to be strong and we are holding onto market share.

Sujit Jain: I'm not looking for exact numbers, but incrementally, have you gained, lost, has it been stable?

Ashwath Ram: It has been stable. In the high horsepower business, we continue to gain a little bit of market share.

Sujit Jain: Understood. But is it at the cost of price pressure?

Ashwath Ram: Not at this time. Even though, like I mentioned earlier, the change in the mix certainly causes impact to margin, because the low horsepower business is lot more competitive than let's say the high horsepower business.

Sujit Jain: Understood. And one last quick clarification, it's about the data center. To an earlier question you said that at annual size, in terms of revenue for us is about INR 80 crores. Is that the correct understanding?

Ashwath Ram: Yes.

Sujit Jain: Okay. And what would be the total size of the data centers market currently in India? I mean, overall market share we would be having then?

Ashwath Ram: We think it's somewhere between INR 100 crores to INR 125 crores.

Sujit Jain: Okay. Because the earlier understanding that was given by the previous management, and the previous comment was that probably we had -- the side of the market was bigger, it was growing at 20%, 25% kind of a CAGR, and our market share was about 70%, 80% then.

Ashwath Ram: I think if you see the earlier numbers as compared to where we were last year, we have seen a dramatic growth in that segment. But based on what we're seeing now with the overall infrastructure slowing down a bit, we are now indicating close to a 10% to 15% CAGR moving forward in this segment.

Sujit Jain: Sure, sir. Thanks.

Moderator: Next we have Tarik from Renaissances. Your line is unmuted.

Tarik: Hello? Am I audible? Hello?

Ashwath Ram: Hi, we can hear you clearly. Please go ahead.

Tarik: Yeah, sir. So basically sir, net-net, just wanted to understand what's the outlook for margins in the medium to long term. Say in the medium term, given that we've not seen benefits on the RN side as yet. And while we were working on a lot of cost cutting measures, but we haven't seen a massive or a substantial reduction in our other expenses also. So how should this pan out say over next two to four quarters?

Ashwath Ram: I think the way we are looking at it, it's likely to be -- likely to remain at these levels unless we see improvement in the export markets. So that's where we think we are likely to be. The next two or four quarters, we are -- we think there's likely to be a bottoming out of those markets and then a gradual improvement. So we don't see any significant change from the levels we are.

Tarik: Okay. So, sir, now that -- I mean, we were earlier at 62%, 63% odd raw material by sales. Even if the raw material prices eases and commodity prices eases from now, we will still remain at around what you are [indiscernible]?

Ashwath Ram: We are likely to see a little bit of improvement due to the commodity. What we lost in commodity in this quarter, a little bit of that will come back in subsequent quarters. But that's to the tune of somewhere between 0.3% and 0.5%, not very significant.

Tarik: Okay. And this run rate of about INR 160 crores, INR 170 odd crores of other expenses, I am thinking this will have some semi-variable and variable expense also. So despite a 12% reduction in revenue, 12%, this is down only 2%. And so how should this pan out then?

Ashwath Ram: I think there is an opportunity from the way we are looking at -- there's a large chunk of fixed cost in there, but there are some opportunities to improve on this as part of the overall overhead reduction.

Tarik: Okay. So I mean net-net, if I understand it right, you're saying that it's only about product mix, if that is variable, only then margins will improve, otherwise it will remain vary largely?

Ashwath Ram: Yeah, that is it with all our cost reduction measures, we should see some improvement, but not to the extent that we can recover from the impact of exports not recovering.

Tarik: And then if I'm right, when you say product mix you mean more of LHP than HHP or you mean exports versus domestic or you mean both?

Ashwath Ram: Both. Both has big impact. One is the mix between exports and domestic and the second is the mix between LHP versus HHP. Because the LHP continues to remain strong and keep growing and HHP doesn't grow as much, we still see an impact of that mix as well.

Tarik: Okay. And sir finally, in the last quarter something was mentioned around you're making a lot of effort to have a distribution team in Africa, which will give us some orders, which will have higher gross margin. Any update on that?

Ashwath Ram: So that work continues, and we have people out in the field of all the travels that we have curtailed and we are planning to curtail, that is one travel we are not curtailed. We do have people out in the field trying to understand those markets, understand the competition and try to keep working on increasing the business over there.

Tarik: Okay. So when did we see this distribution?

Ashwath Ram: We started in a very small way close to a year ago. We are continuing to build and enhance that.

Tarik: Okay. And as of now, we say that this volume that we want from this effort is not significant?

Ashwath Ram: No, because the -- we have not been able to curtail the impacts of the significant slowdown in those markets.

Tarik: Okay, sir. Thank you. All the best.

Moderator: Thanks for your question. Next we have Anupam Goswami from Stewart Mackertich. Your line is unmuted.

Anupam Goswami: Yeah, hi, sir. Sir, when do you see the [indiscernible] some green shoots in the economy, both in the domestic and export, how much the time lag will it take to see some recovery in this?

Ashwath Ram: I wish I had a crystal ball where I could give you the exact number, but I'll give you my two cents for whatever it's worth. I think you should start to see a little bit of improvement at least in some of the infrastructure projects by Q1 of next year. But the overall deep changes which industry is expecting, I don't see those happening till early 2021. So, even though the government is very, very active, and they understand what's happening and they're trying to do many, many things, the nature of the situation we find ourselves in this country I think will take at least 18 months to start seeing significant improvement.

Anupam Goswami: And sir, in the export market which [indiscernible] around 50%. Sir, can we expect some bottoming out, or you will have some more time to consolidate on that level?

Ashwath Ram: Yes. Certainly, you can -- we can expect that. We just don't know whether it is -- what we are seeing today is that bottom or is it do we see a little more worsening before it starts getting better. But all indicators and all the conversations we have with people in those markets are, we're getting very, very close to the bottom.

Anupam Goswami: Okay, sir. That's all. Thanks,

Moderator: Thanks for your question. Next we have Aditya Mongia from Kotak Securities. Your line is unmuted.

Aditya Mongia: Yeah, sir. Good morning and happy diwali to your team.

Ashwath Ram: Same to all of you.

Aditya Mongia: Sure. Thank you, sir. Sir, the question which I had was on the margin. Is it possible to quantify the difference between the export and domestic margins in the business as it stands today?

Ashwath Ram: No, we don't do that. All we can tell you is that exports margin are better than the domestic margins.

Aditya Mongia: Got that. Could you subjectively highlight whether those margins on the export front have come down or have they remained steady over the past few years?

Ashwath Ram: They have remained relatively steady. There has been no change in that.

Aditya Mongia: Sure. Sir, the related question was that over time you've seen your domestic margins come down on account of external competition, which you would have seen in the marketplace. How do you see this risk of external competition to the exports business and margins going forward?

Ashwath Ram: There's always going to be competition, but Cummins as a company, is the leading technology provider in this space. So we do have product differentiation. There will always be competitive pressure, there will always be margin pressure. So the way we think about it is we have to keep working on making sure the products that we sell provide a better value than what others are able to provide. We have been able to do that. This company is in existence for 100 years this year. And we are pretty confident that in the future, we have all the investments already made, we have the technology, we have the supply chain capabilities, we have the cost base in India. So, all of those factors will continue to be positive for us to be able to compete well in the market.

Aditya Mongia: Got that, sir. Sir, the other question that I had was, if you could provide me the breakup of exports that was likely more granular? I think today, as of now you have provided just LHP and HHP, between two categories, you typically provided at more granular level.

Ashwath Ram: In terms of -- what did you -- what exactly are you looking for from a granular perspective?

Aditya Mongia: So for LHP, midrange, heavy duty HHPs, those kinds of numbers here?

Ashwath Ram: Okay. So low horsepower is roughly around INR 55 crores, medium range is roughly around INR 60 crores. Heavy duty is around INR 35 crores and high horsepower is around INR 175 crores, and spare parts is around INR 20 crores.

Aditya Mongia: Sure. Sir, the last question from my side, the Phaltan facility that you operate out of, this is export facility. Amongst these export categories, is it fair to assume that everything apart from HHP is coming from there as product or revenue book? Or what exactly there is in Phaltan today amongst these categories?

Ashwath Ram: Yes. So pretty much all of the LHP, the midrange and the heavy duty -- Sorry, one second, I'm just getting some clarifications here. So LHP and midrange comes out of there.

Moderator: Hello?

Aditya Mongia: Hello?

Ashwath Ram: Yeah, did you get the answer?

Aditya Mongia: Yes. Sir, you said LHP and midrange would come from Phaltan and everything else, maybe outside?

Ashwath Ram: Everything else comes from Kothrud.

Aditya Mongia: Got that. Thank you, sir. Those are my questions.

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

Sandeep Tulsiyan: Yeah. Sir, just one data related query question I had. The way you give the breakup for exports, if you could provide the same breakup for the domestic power gen business also?

Ashwath Ram: Okay, so low horsepower is roughly around INR 40 crores, midrange is around INR 130 crores, heavy duty is about INR 60 crores, high horsepower is about INR 165 crores.

Sandeep Tulsiyan: Sure. That's it sir. Thank you so much.

Moderator: Next is Renjith from ICICI Securities. Your line is unmuted.

Renjith: Yeah. Hi, sir. Just in this, you had mentioned in the opening one of the questions that the gross margins were impacted due to mix of ForEx and the product mix. So, will it be possible to quantify that how much was the impact due to this ForEx?

Ashwath Ram: I would say roughly about 0.2%.

Renjith: Okay. And how do you see the gross margins going forward? Will this improve? Or what is -- in a trajectory wise, how do you see that? Are this -- should that improve because, when we look at Q1 and Q2, there is a 50 bps improvement in the EBITDA margin. So, do you see the trajectory of this improvement going forward? Or will it be in this similar range? How do you look at it?

Ashwath Ram: Currently, I think it will be in the similar range.

Renjith: Okay, sir. Thanks.

Moderator: Next we have Pawan [indiscernible] from SBI Mutual Funds. Your line is unmuted.

Ashwath Ram: Yeah. So this will be the last question please?

Moderator: Sure, sir.

Unknown Speaker: Sir, this is Bhavin from SBI. Just one quick clarification. Last year, your material margins were considerably higher. Was there any one-time benefit, because of that we are looking at a Y-o-Y benefit? Because Q-o-Q, the material margins looks slightly better.

Ashwath Ram: So, when we look at material margins, I think we had a little bit of advantage because of; one is, exports were a little bit higher in some of the nodes. We had also construction volume was lot lower. And so construction had a much lower material margin, so that mix has helped in the material margin improvement. And there is -- there were some one-time impacts in the previous quarter in Q1 of FY '20, which also -- we saw the benefit of in this quarter.

Unknown Speaker: Could you quantify the impact?

Ashwath Ram: No, not at this time. All I can tell you is the mix has certainly contributed to the significant portion of that improvement.

Unknown Speaker: Sure. Just one -- again last clarification. The exports, you gave geographical wise breakup, everything was down 30%, 50%. Were you given only the breakup only for the MHP and LHP, because when you gave the break up, HHP is better on a volume basis.

Ashwath Ram: No, we gave you the overall breakup.

Unknown Speaker: Okay. This is not adding up, it's where we were a little bit confused. Everything is down 30% to 50%, but when we look at your HHP, it's not that bad. MHP is actually hard. So, was wondering if it is only the HHP -- sorry which is the only -- LHP breakup that you have given?

Ashwath Ram: No. Because some -- like I mentioned, some segments and some areas where it is positive, and many others did not have this kind of 25% kind of drop. They were below 20%, et cetera. So when you add it all up, it comes to about 25% drop.

Unknown Speaker: Share the break up like you shared Africa, Middle East is 30%. I mean, if you break the geography, percentage break up, maybe it will help us a little better?

Ashwath Ram: I think, Bhavin, that's too much of details for me to give you at this time, but I can tell you that it adds up. The math adds up.

Unknown Speaker: Sure. Not a problem. These are my questions. Thank you so much.

Ashwath Ram: Okay, thank you, everyone. And I look forward to talk to you next quarter.

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