Ref: STEX/SECT/2024

November 11, 2024

BSE Limited, Phiroze Jeejeebhoy Towers Dalal Street, Fort, Mumbai 400001 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: Transcript of Q2 and H1 FY 2024-25 Results Conference Call

Dear Sir/ Madam,

Pursuant to Regulation 30 read with Para A of Schedule III and Regulation 46(2) of the Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015 and with reference to our stock exchange intimation dated October 16, 2024, regarding Q2 and H1 FY 2024-25 Results Conference Call, please find enclosed herewith transcript of the said call held on November 8, 2024.

Kindly take this intimation on your record.

Thanking you,

Yours faithfully,
For Cummins India Limited

Vinaya Abhijit Joshi
Digitally signed by Vinaya Abhijit Joshi
Date: 2024.11.11 13:55:55 +05'30'

Vinaya A. Joshi
Company Secretary & Compliance Officer
Membership No.: A25096
(This letter is digitally signed)

Encl.: As above.

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“Cummins India Limited

Q2 FY 2024-'25 Earnings Conference Call”

November 08, 2024

MANAGEMENT: **MR. SHVETA ARYA – MANAGING DIRECTOR – CUMMINS INDIA LIMITED.**
MR. AJAY PATIL – CHIEF FINANCIAL OFFICER – CUMMINS INDIA LIMITED

Moderator: Good morning, ladies and gentlemen. Welcome to Cummins India Limited Q2 FY 2024-'25 Earnings Conference Call. We hope you all are keeping safe and healthy. As a reminder, all participant lines will be in the listen-only mode. And there will be an opportunity for you to ask questions after the commentary concludes. Should you need assistance during the conference call, please signal an operator by pressing star then zero on your touch-tone phone.

I will now hand the conference over to Ms. Shveta Arya, Managing Director, Cummins India Limited. Thank you, and over to you, ma'am.

Shveta Arya: Thank you. Good morning, ladies and gentlemen. I hope all of you are doing well and staying safe and healthy. Welcome to the Cummins India Limited quarter two financial year 2024-'25 earnings conference call. I'm Shveta Arya, Managing Director of Cummins India Limited. Joining me on the call today is Ajay Patil, Chief Financial Officer of Cummins India Limited. Thank you all of you for joining us today.

Now I would like to share the financial results of quarter two financial year '24-'25. For the quarter ended September 30th, 2024, with respect to the same quarter last year, our sales at INR2,444 crores are higher by 31% compared to INR1,871 crores recorded in the same quarter last year. Domestic sales at INR2,008 crores are higher by 47%. Exports at INR440 crores are lower by 13%.Profit before tax at INR594 crores is higher by 39% compared to the same quarter last year.

For the quarter ended September 30th 2024, with respect to the previous quarter, our sales at INR2,448 crores are higher by 8% compared to INR2,262 crores recorded in the last quarter. Domestic sales at INR2,008 crores are higher by 7%. Exports at INR440 crores are higher by 13%. Profit before tax at INR594 crores is higher by 8% compared to the previous quarter.

I would now like to share the segment by sales breakup for the quarter ended September 30, 2024. For the domestic business, Power Generation domestic sales were INR896 crores, 84% higher compared to last year; and 12% higher compared to last quarter. Distribution business sales were INR658 crores, 20% higher compared to last year and 1% higher compared to last quarter.

Industrial domestic business sales were at INR406 crores, 35% higher compared to last year and 9% higher compared to last quarter. For the exports business, high horsepower exports were at INR200 crores, 24% lower compared to last year and 1% lower compared to last quarter. Low horsepower exports were INR198 crores, 5% lower compared to last quarter and -- to last year and 28% higher compared to last quarter.

Cummins India financial guidance. Regarding the sales outlook for the full year 2024-'25, we expect to have double-digit revenue growth over the fiscal year. That's it from my side. I'll now open the session for questions. Thank you.

Moderator: Thank you very much ma'am. We will now begin with the question and answer session. The first question is from the line of Parikshit Kandpal from HDFC Securities.

Parikshit Kandpal: Shveta, congratulations on a great quarter. Ma'am my first question is on the pricing of the CPCB IV+ engines. So now -- we have almost 2 quarters now. And so from the starting point when you had introduced these engines and then there was a deferral, so from that point to this point, have you seen any correction in prices?

Shveta Arya: So you're right, CPCB IV+ was announced last year, and then we transitioned to full CPCB IV+ this year, 1st of July. We are watching this space. We had launched our products last year. We are seeing all the other products from other players getting launched now. And so I think we will see what happens to pricing in the coming 2 quarters. That's how I think this will play out in the next 2 quarters.

Parikshit Kandpal: But your own pricing, when it was introduced, the engine was introduced until now, so have you seen any correction in prices? Are you still maintaining those prices?

Shveta Arya: We are mostly maintaining those prices as of now since we launched.

Parikshit Kandpal: Okay. And my second question is on the nodes. I think you have some advantage. I mean you have more nodes in the market versus the competition. And now you said that more nodes are coming in from the competition. So do you think you have some fair advantage because you have more nodes in the market, and hence, you are able to capture a larger share of the market? And as competition introduces more product, do you think that potentially there is a case that you may lose some of this market share gains?

Shveta Arya: I would say that customers will now have more choices in the market for sure. We work amongst one of the first few players to launch the full range of products in the market. In the meantime, we have continuously worked on improving our supply chain, making sure that our product is well accepted in the market. We do have a strong brand in the market. So we do think we are pretty well positioned in the CPCB IV+ space in the market.

Parikshit Kandpal: Okay. And what will be the differential within the competition prices and our prices in the market now?

Shveta Arya: We are watching the space. Pricing will play out in our view in the next few quarters. We have seen products getting launched. So we are watching this space.

Parikshit Kandpal: Okay. This is the last question on the exports market. Now this is the fourth consecutive quarter of recovery in exports. If you can help us understand the demand from the end markets and which geographies have recovered? And how do you see this demand panning out for us to play out?

Shveta Arya: So from an export perspective, specifically speaking about the quarter that went by, we saw some good orders coming in from Latin America and from Europe. The Middle East, Asia Pacific, Africa regions remains muted. So these are mixed signals. There are geopolitical situations around that. We provide our products to a wide range of countries. So we do see mixed signals. But for the quarter gone by, we definitely saw great orders coming from in Latin America and Europe regions.

Moderator: The next question is from the line of Subhadip Mitra from Nuvama.

Subhadip Mitra: Congratulations for an excellent set of results. My first question is to -- what we're trying to understand is out of the overall INR2,400 crores of top line that you have come up with, what rough percentage of that would be CPCB IV sale?

Shveta Arya: Thank you for the question. Thank you for -- I can share with you that in the domestic power gen market, out of the INR2,448 crores, the overall domestic market number I shared with you at INR2,008 crores, of which, our power gen number is around INR896 crores for the quarter. That is PowerGen and the mix continues to be in the last quarter, mostly CPCB IV+ from CPCB II, but mostly CPCB IV+, as you will understand, CPCB IV+ is below 800 kilowatts, and above that is CPCB II range. So there is a mix there of CPCB II and CPCB IV+.

Subhadip Mitra: Understood. Secondly, I think in the -- in your present commentary for this particular quarter, it was mentioned that there is still some lingering benefit of CPCB II presales. So has there been any CPCB II-related presale benefit that has still continued in 2Q?

Shveta Arya: No, no. CPCB presale is all over, and we flushed out all the inventory now. So in this quarter, there is no CPCB presale benefit.

Subhadip Mitra: Perfect. Perfect. That is understandable. Secondly, I just wanted to understand that in this particular quarter, clearly, gross margin numbers have seen a bit of an impact. Is this largely because of higher import component that we're seeing for CPCB IV?

Shveta Arya: No. This is largely due to the mix that plays out for us. When we -- in this quarter, there is a large share of the projects business, as we call it, where we do installation and commissioning for some of our gen sets in the -- and so because of that, it's the mix playing out.

Subhadip Mitra: Understood. So we anticipate gross margins to kind of revert back to normalized levels once this project business execution is done?

Shveta Arya: It's the regular part of the business. Projects business continues for us as do the other sales. So there are some quarters where we do a larger share of that kind of business. We do sometimes larger share of the other sales. So it's a continuous part of our business.

Subhadip Mitra: Understood. Understood. Last question from my side is, I understand there is a good component of operating leverage benefit also, which would have probably come in this quarter, leading to these kind of EBITDA margins. So would you believe that this range of EBITDA margin can continue? And what kind of capacity utilization are we getting on that?

Shveta Arya: So from a margin perspective, we've been putting continuous efforts really. We do have good volumes. There are cost management and material margin improvement programs that we continuously work on. So all of that is ongoing work for us, which is mostly to provide the right value to our customers in the market, and that is going to continue for us.

Subhadip Mitra: And in terms of capacity utilization, any number you would like to talk about?

Shveta Arya: There are -- so there's a large -- there's a wide range of products that we manufacture in our plants. And our capacities are utilized quite well at this point in time, more than -- on an average, more than 60% to 65% utilization.

Subhadip Mitra: Understood. One last question I would squeeze in that in terms of data centers, is there a large potential market that you're looking at? And what quantum of your sales would data centers apply to?

Shveta Arya: Data centers around the world as a segment is doing very well given the AI boom across the world, as is the case in India. And we have products which are rightfully positioned for that segment. So most definitely, we are quite focused on that segment, and we see the growth of that segment around the world as we see it in India. So that's where we are with data center.

Subhadip Mitra: And any particular percentage of sales today that you're seeing data centers comprise of?

Shveta Arya: Not really. Data center is spread across. We don't give specific segment-wise information. And in data center space, we do first-fit sales as well as we do some project work. So it's spread out across different kinds of work that we do. So we can't share that segment specific information.

Moderator: We'll take the next question from the line of Jason Soans from IDBI Capital.

Jason Soans: Congrats on taking charge on your new role. I would just want to ask you first on the Industrial segment business. Now I believe in January 2025, there is an emission norm change for the construction equipment industry in terms of engines. So are we looking in this -- in the Q3 quarter for some pre-buying? Could you give some color on this aspect in terms of the emission norm change, how are we playing? And how are we getting ready for this change coming along from January 2022 -- 2025?

Shveta Arya: Thank you. Thank you for your question. Yes, there will be an emission norm change in that segment. The construction segment from a demand perspective has been doing well. So in the quarter gone by and in the coming quarter, given the construction activity going on in the country as it is the segment has been -- this particular space has been doing well. As with any other emission change, there is some prebuy that happens in the market, plus the demand is strong. So there would be mostly some prebuys before the emission change as happens in every segment.

Jason Soans: I also wanted to understand. I mean I wanted to understand that earlier...

Moderator: Sorry, Mr. Soans your voice is breaking, sir. Can you come in the network area? And there is background noise as well from your end.

Jason Soans: Hello? Can -- is it better now?

Moderator: Yes, sir. Much better. Please continue.

Jason Soans: Yes, sure, sure. I'll try and continue. Yes. So I just wanted to ask, I understand that an earlier participant did ask this question. Now I just wanted to understand this -- the gross margins dip, which happened, it's around 220 bps on a consol basis. So just wanted to understand, you did explain about the larger share of the project. Could you just explain a bit -- could you throw some more color on this, like? And now since we have completely shifted to this CPCB IV+ regime, what could be sustainable options going forward for Cummins?

Shveta Arya: I did explain this that this did happen due to the mix of the products, and it's a continuous part of the business. Other than that, there is nothing specific in this space, and there's just continuous work going on, on improving our material margins, which is an internal program called ACE that we run. Other than that, there is nothing unusual here than the mix. So -- and which plays out based on how we get those projects and how we execute them, as I mentioned earlier.

Moderator: We'll take the next question from the line of Umesh Raut from Nomura India.

Umesh Raut: Congratulations for the strong domestic performance on sales side. My question again is more on the gross margin side. So if I look at overall mix for the company on a quarter-on-quarter basis and on a year-on-year basis, I think it is largely remaining same, but we have observed about closer to 200 basis point gross margin drop on a quarter-on-quarter basis.

So is it primarily because, in your view, whatever cost increase that was there on the CPCB IV+ product side, that is fully not yet passed on to the customer, and that is how incremental CPCB IV+ product line is kind of impacting on the gross margins for you?

Shveta Arya: Thank you for the question. But no, that is not how it is playing out in the gross margin. The gross margin, as I explained, is mostly a function of the mix really. So that's not what's playing out.

Umesh Raut: Got it. Second question. When you are saying that the project business contribution for this quarter was relatively on a higher side, are you referring to project business which is coming under Industrial segment? Or any particular project order that you have received in the power generation side?

Shveta Arya: This is a separate business. This is not from the Industrial business. This is execution of sites at the data center where we do installation and commissioning of heavy genset applications tailored to the customer's demands. So that's what this projects business is.

Umesh Raut: Got it. I'm sure you are restructuring exercises like VRS and all. They have contributed in controlling employee cost for you. But for this quarter, we have observed more of about flat employee cost on a year-on-year basis. Any reason over here? What kind of employee cost run rate we can assume going forward?

Shveta Arya: I'll request Ajay for you to take this question, please.

Ajay Patil: Umesh, thank you for joining the call. I think the function of what you see on the people cost has some amount of one-off item impact that has played out in the quarter. There were certain reclassifications that we reported. So therefore, the number is still flat when you see it on a year-on-year basis. However, when you see it on a YTD basis, on a 6-monthly basis, you will find people costs have the impact of one-off plus the mix. So overall, you should expect the people costs to inflate at a normal rate what you've seen historically.

Umesh Raut: Okay. Could you please quantify the number for first half or for this quarter?

Ajay Patil: There was some one-off adjustment to the tune of about INR42 crores.

Umesh Raut: This is for the quarter, right?

Ajay Patil: Yes. Quarter and YTD, both.

Umesh Raut: Okay. Got it. And there is any one-off on the other expenses side as well in the quarter? Because we have seen about 32% jump in other expenses as compared to 31% sales growth. Was there any promotional expenses around new product launches related to CPCB IV+?

Ajay Patil: No, I think the other expense, Umesh, is a function of how the volume has played out for us. As you would have seen on an H1 basis, the revenue is up 16%. So obviously, there is an impact of some volume-linked variable expenses there. Besides some of the re-class that I talked about has some impact flowing through the other expense as well. And plus, of course, there are certain investments that we have made when it comes to our front-end infrastructure on how we serve the customer.

So some costs associated with those technology expenses, those are coming through in the other expenses.

Moderator: We'll take the next question from the line of Mahesh Bendre from LIC Mutual Fund.

Mahesh Bendre: Ma'am, what is the currently capacity utilization in our genset factory in terms of engine manufacturing facility?

Shveta Arya: Yes, Ajay, would you like.

Ajay Patil: I think, Mahesh, the way the capacity utilization actually looked at, it is in 2 parts. One, is on the manned capacity side, we are in excess of 90%. However, when you look at our installed capacity relative to that, we are about 60% or thereabouts. So from a capacity availability point of view, we have ample capacity available in order to address any potential uptick that will come.

Shveta Arya: Yes, thank you. Yes.

Mahesh Bendre: So basically, the waiting period for genset has gone up?

Shveta Arya: No, the waiting period for genset has not gone up. We are maintaining our lead times. In fact, we've been able to work on our supply chain, and we have been able to improve our lead time.

Mahesh Bendre: Okay. And sir, last question from my end is about distribution side. I mean, this business has been doing really well, 20% growth. So how should we look at in terms of the genset population we are currently addressing? I mean, if someone has to imagine about the business in terms of growth, how should we look at this?

Shveta Arya: So this is a parts and service business for us. And where we are focused on, is increasing the penetration with our customers across the board. And we continuously provide service contracts as well as parts to our customers for them to be able to maintain their assets over a long period of time. So our endeavor is to provide that right kind of maintenance and the right kind of value add for the customer. And that's how this business has been growing for us, and it continues to be a focus area for us.

Mahesh Bendre: So the -- I mean, the genset -- as long as genset population grows from our end, this business will continue to build up, right?

Shveta Arya: So the genset population growth, our penetration with the customers, both of those help with growing this business.

Moderator: We'll take the next question from the line of Priyankar Biswas from BNP Paribas Exane.

Priyankar Biswas: Congratulations, ma'am, for your new responsibilities. So my first question is on the PowerGen side. If I recall in the last con call, what we heard was that there was a lack of channel inventory for CPCB IV because there was a lot of pre-buying. So what is the inventory level at the channel right now? And also parallelly on that question, I would add on one more thing is, what I understand is that most of the players are offering 2 years comprehensive warranty.

And then on top of that, 3 years critical parts warranty. So isn't it going to lead to higher warranty provisionings at your end in case if you are following the same trend. So that's my question.

Shveta Arya: Okay. Thank you for the question. I'll first answer the inventory question. We continuously evaluate inventory in the channel. And for CPCB IV+ as well, we have evaluated the inventory, and we are at adequate stock availability in our channel for CPCB IV+. So that's where the inventory levels are. In terms of your question around warranty, we -- this is a very, very careful calculation at our end.

We work through what does the customer need, how can we provide the best value to the customer. And that's how we provide them these kind of warranty options. This does not lead to any excess provisions. It's the usual course of business, and we have quantified that in our books as well.

Priyankar Biswas: Okay. So -- and then one more question that I have is recently, what we are seeing is that, at least from the data shared by ICEMA that the construction equipment sales growth has been falling. For example, in 4Q, what used to be 21%, is now like 1% construction equipment sales growth in September. So how confident are we that our construction segment or the industrial sales will continue on their growth momentum?

Shveta Arya: We have seen strong demand from our customers in the construction segment. So that's -- we do think that this space will show demand in the coming quarters as well. We have not seen any other signals yet.

Priyankar Biswas: And then finally for me and like the usual breakup of PowerGen, like HHP, mid-range, LHP and for industries like mining, construction, those numbers, if you can share?

Shveta Arya: Sure. Let me share the PowerGen sales numbers. So for high horsepower for the quarter, we saw INR452 crores of revenue, for MHP, INR178 crores, so LHP, INR199 crores, and for our projects business, around INR68 crores. That's the total breakup of PowerGen. For the Industrial business, the breakup into different segments, construction around -- construction is INR146 crores, rail INR105 crores, mining at INR32 crores, compressor at INR58 crores and those are the major segments that we operate in.

Moderator: The next question is from the line of Nidhi Shah from ICICI Securities.

Nidhi Shah: Just on the previous participant's question. You gave us the breakup for PowerGen for domestic. Could you also provide the breakup for export?

Shveta Arya: Yes, let me share that with you. For the export, the high horsepower exports for the quarter overall, INR200 crores. And the low horsepower for the quarter is INR198 crores spread across the different geographies.

Moderator: The next question is from the line of Vinod C from PhillipCapital.

Vinod C: Congratulations on your first quarter. I had a question related to data center. So what will be our market share in our addressable market in data center? And parallel to that, see, backup is non-negotiable in data center. So are we able to command better pricing in data center sales compared to our regular sales?

Shveta Arya: Thank you for your question. As I mentioned, data center is a focus segment for us. It's a growing segment. We are rightly positioned with the correct product in this market. We have good relationships with all our customers. As you rightly said, backup is very important as is customer service in this segment. So through both our businesses, we are very well positioned in the data center market to provide the value that our customer needs.

Vinod C: So are we seeing better pricing in data center compared to what we normally realize in the market?

Shveta Arya: We are always very competitively priced in the market. And data center, as any other segment, also, there's obviously competitive pricing in that space as well. We are priced adequately.

Vinod C: So what would be our market share there?

Shveta Arya: We won't be able to share the market share information, but I can tell you that we are very well positioned because our products are very well accepted in the data center space, and we provide the right kind of service to our customers along with the value add that specific segment needs.

Vinod C: Sure. Second question was on exports. You've been mentioning for the past 1 year that India has the higher standards of emission norms. And if my engines are passed in India, it can be sold anywhere. So where are we on that in terms of making India for CPCB IV? And since you spearheaded the CPCB IV probably you're apt to answer that?

Shveta Arya: Yes. Thank you for that question. So CPCB IV if you see, it is -- we are rightfully amongst the most stringent norms across the globe. We do have that technology. There are certain markets who are at these kind of emission levels, and there are certain markets that are not.

As markets transition and as they require these products, we are ready with the technology. As we speak, we are tailoring our products for the markets which are getting ready to be able to provide this technology to them. So as and when the markets move, we move and we are able to provide this technology to them.

Moderator: The next question is from the line of Aditya Mongia from Kotak Securities.

Aditya Mongia: Shveta, congratulations for the new role. I move to my questions. The first one being, was there any positive benefit that you had in the PowerGen segment because of restocking that would have happened for CPCB IV products? Can we assume this run rate?

Shveta Arya: We can't hear you clearly. Could you please repeat your question?

Moderator: I'm sorry to interrupt, sir. Your voice is muffled. May I request you to use your handset, please?

Aditya Mongia: Is it better now?

Moderator: Yes, sir. Please continue.

Aditya Mongia: Great. So the question that I had was, was there any positive effect on the PowerGen sales because of restocking that would have happened for CPCB IV compliant products? Or can we assume this run rate incrementally as well?

Shveta Arya: Sorry, we're still unclear. The voice is still slightly muffled. You're asking about CPCB IV+ restocking?

Aditya Mongia: Yes. In the sense that as you flush out CPCB II products and go for CPCB IV, was there any inventory filling that led to a higher-than-usual number in PowerGen for the quarter?

Shveta Arya: Okay. No, no, no. No, we had flushed out all the inventory before 1st of July. So there is no impact of CPCB II inventory in this quarter.

Aditya Mongia: Understood. The second question that I had was more on your assessment of the market share gain that has happened for you prior to and now post CPCB IV in the PowerGen segment as a whole, if you could give us some sense on that?

Shveta Arya: So in the PowerGen space, I will tell you, in the CPCB IV+ range, we launched the product last year. And we have managed to make a lot of improvements in our supply chain till then. We have been able to -- our product is exceptionally well positioned. We have a great brand in the market. We are pricing competitively. And there is good acceptance of the product in the market. That is the CPCB IV+ range.

And in the higher ranges, we have seen, because our products are well positioned in the high horsepower range, so we have seen that our market presence has remained stable over the last 3 quarters, and we have been able to maintain good value to our customers. That's what I would be able to say.

Aditya Mongia: Understood. I just want to move on to the data center piece because I think it's important to understand for all of us. Now if you see the global company's PowerGen sales, it seems as if data centers command almost 40% salience inside the PowerGen number and they count the distribution piece of PowerGen inside. Could you give us a sense whether it's a good way to think through the mix of PowerGen in India for Cummins, maybe, 3, 4 years down the line?

Shveta Arya: We -- global markets and India markets are quite separate in their demand drivers and what drives the market. Different countries are at different spaces in terms of their backup power needs and how data centers are progressing. So I will not be able to say that we can draw a parallel right away with those global markets unless we can really analyze them with how similar they are and how similar India will be to some of those market signals.

Aditya Mongia: Understood. Just a related question and maybe I'll fall back into the queue. Basically, if you see globally, this phenomenon of hyperscaler data centers are becoming more and more prominent and these customers typically are probably better served by Cummins because -- because Cummins owns their own kind of distribution network as well, which I think is of importance in this kind of segment.

Should one thus be assuming that as share of these kinds of customers goes up, the market share that Cummins would be having in the data center segment and potentially the distribution revenues also start scaling up?

Shveta Arya: I will only say that Cummins has good technology, well-accepted product and really good service and relationships with these customers. That being said, the data center is absolutely a growing market in India. And us as well as others who are present in this market, we do have a great brand presence and great relationships with our customers.

Aditya Mongia: Can that lead to an export kind of number happening in the data center market as such? Can that lead to an export number that starts becoming relevant over time? That will be the last question.

Shveta Arya: Data centers across the world, the nodes at which they operate are not similar. India operates at a different node. And in the other markets, these are slightly higher nodes at which data centers operate, what they buy. So there could be, but there are -- these are different nodes as we speak.

Moderator: The next question is from the line of Amit Mahawar from UBS.

Amit Mahawar: I just have one question, and sorry to harp on the competition and domestic market point. See on post the new nodes, the competition eventually will catch up. But do you think this time on gensets up to 800 kVA, the competitive intensity will make us command the market share similar to what we enjoyed in the older nodes? And more importantly, because this time, seeming the competition is taking more time.

So 3, 4 of our key local global competition are yet to see the acceptance of even higher nodes, particularly in data center or advanced nodes. So do you think the market share will stabilize even in the data center piece of ours by next year? Or it will still remain around 70%, 80% plus market share, which earlier in the calls we had shared?

Shveta Arya: So the data center space is outside of the CPCB IV+ space. The CPCB IV, as you rightly said, is up to 800 kilowatts. So if we were to talk about the CPCB IV space, we were amongst the first few to launch this product about a year ago across the nodes in the power gen market. And we do -- I did mention that our product has good acceptance, and we have been able to make a lot of improvements in our supply chain and provide better value adds to the customer.

Definitely, our customers have more choices now with other products being launched in the market as well. So that's with respect to your specific CPCB IV+ question. Data center is not a part of the CPCB IV+ range. And I did answer the data center question that we definitely see the demand in the data center market to continue. And we -- our product is very well positioned, along with the relationships that we have with our customers.

Amit Mahawar: And just a clarification on the last participant's question. Did I hear you correctly, you mentioned the manufacturing of data centers led product and the manufacturers, particularly for India, it is not for the global markets. And I'm also asking this question because some regions saw a very strong growth, like China doubled in power gen revenue this quarter. So did we have any export benefit there?

Shveta Arya: So in case of the data center market, the product that we have for the data center market, India, China, Southeast Asia actually use the same product. It's the US and the U.K. which use different nodes in the data center. So definitely, we export to those kind of markets, which is the same product in the data center space.

Moderator: The next question is from the line of Jonas Bhutta from Birla Mutual Fund.

Jonas Bhutta: Congratulations on a great set of numbers. And Shveta congratulations on the new role. A couple of questions from my side. Firstly, if you can talk about volume growth in the PowerGen side. While we understand this quarter sort of benefited from a lot of restocking of CPCB IV+ engines at the dealer end. For the year, as a whole, do you expect volumes in the power gen to grow?

Given that what we see as revenues is a function of price and volume and prices are up 25%, 30% for this year. So how should we think through volume growth, particularly in PowerGen, with the backdrop that last year, FY '24, saw 40% growth in megawatt terms, in the power -- on the generator sales side, which is what is reported in the annual report. So that's the first question.

Shveta Arya: Thank you, Jonas, for the question. Ajay, do you want to take the volume question?

Ajay Patil: I'll take it. Jonas, as you know, for last year, the original date for migration to CPCB IV+ was July 1, 2023. And at the last minute of that change that date was shifted to July 1, 2024. The consequence was that we had a prebuy in quarter two of last year, which was quite significant. And that's the reason when you see it in unit growth perspective, the FY '23, '24 number were to that extent significantly higher than the year before.

Now obviously, from a current year that the migration was clarified. The 12 months that you see from July till this June was a combination of both sets of products getting sold in the market. So obviously, the onetime effect of that prebuy had an obvious impact on the subsequent quarter and all of us have seen those numbers softening on an expected line last year.

Now if you take that sort of a phenomena out, our belief based on when we see the unit wise volume growth that is playing out for the year to be consistent with what we see the broader guidance that we have been generally providing in terms of how do we see the growth is panning out for the year, number one.

Number two, price that you talked about is really a function of how CPCB IV because we were among the first to get our product readiness in the market. And then the other players progressively catching up would mean that the price discovery is still playing out. Now whether that price discovery process goes on for another quarter or more, our hypothesis is that maybe it will go on for up until another 3 to 4 months. So maybe that's where the clarity would start to emerge.

So when you see the revenue number, as you rightly pointed out, I think it's a function of what is happening on the unit side; b, what is happening to the price. Obviously, there is a price change because we are talking of transition from mechanical to electronic engine.

And number three, also there is a content increase. The configuration of CPCB II genset and CPCB IV genset is very different. Given the emission requirements, we have new products which are after treatment and many other electronic components getting added. So the II and IV products is really not comparable. So when you put these 2 things together, you will have to look at this current year more of a transitional year in terms of these changes playing out before we can very clearly state as to what the unit growth volume is and what the pricing impact is.

Jonas Bhutta: Just a follow-up on this, Ajay. So just to close this out, is it fair to say that on a normalized basis, this year, we'll still see a 2x GDP volume growth? Pricing will obviously yield at a higher ultimate revenue number. But are you on track to do a 2x GDP volume growth this year? Is that what is the market is supporting?

Ajay Patil: I think since your question is linked to the guidance, Jonas, I will just reiterate what Shveta said at the start of the call that we continue to maintain our double-digit guidance for the year. On the revenue side, volume is a little bit of a difficult one to see because we are not giving guidances on volume. And you also have to remember that the volume also has a shifting chance in it because the way the volume gets computed depending on which segment you talk about.

For example, telecom, there is a large volume unit growth at a very low end of the market goes into the segment, which kind of re-shades the number when you think about the volume growth. And because it's a tender-driven business, and we participate very selectively into it, that can change the dynamics of what unit volume we had in the previous year compared to what unit volume we have this year.

So therefore, I think, this year is going to be that way difficult to compare given the sort of a hybrid transition that we did, where we had 2 emission products playing out in the same year. It generally doesn't happen because there is generally a clean cutover taken for emissions. But because it has been sort of a mixed bag and we are selling both the products up until 30th of June, that the unit growth is going to get a little bit impacted as a result of how the emissions are implemented.

Jonas Bhutta: That's helpful. The second question was on the value addition on the CPCB IV+ engines kind of. And you alluded to the fact that there is a content change, and most of that content typically is going to come from group entity, which is on the SCR side. Given now 2 normalized quarters on CPCB IV+, do you still hold on to this view that the gross margins on the IV+ engine is similar to the CPCBII engines despite the higher components coming from outside the listed entity?

Ajay Patil: Yes, so Jonas, I think the question is -- and we have already stated that, right? I mean, the -- when you think about the content change and the way it is playing out. The current year's revenue has a combination of both the products, okay? Number two is that as we now take a clean cut from July onwards, then we will, so to say, a revenue which is predominantly driven by CPCB IV into our revenue profile.

Number three is the mix part, which was explained by Shveta earlier for a different question. Also how the mix plays out overall because just to remind all of us that the emissions are only up to 800 kVA. Above that, which is predominantly an HHP segment continues to be operating at the old emission norms. If that plays out stronger, for any reason, then to that extent, the overall revenue number would be then little different as to how the year plays out.

Number three, from a supply chain question that you asked, I think we continue to sort of optimize. And as you rightly said, now that we are operating for a period of time, our supply chain optimization is a continuous process. And because we are an engineered product, even if we see a cost reduction opportunity, we are not able to deploy it immediately unless it is clear from engineering point of view. And that process of validation takes time for us.

So an opportunity identification, getting the opportunity realized and getting a sign-off typically can take anything between 3 months to 6 months for us. So some of this cost optimization effort, we will continue to see reflecting into our margins as we go forward. And the quarter-on-quarter number, Jonas, as all of us know, has the impact of mix. And therefore, I'm not giving a guidance or anything, but simply saying that generally, a full year number or half yearly number is a better representation in terms of how the figures look like.

Jonas Bhutta: And the last quick one. I know many questions were centered around data center. But Shveta, like you said that, there is no difference between developed markets and developing markets. But typically, as the scale migrates, today, they are -- developed markets are setting up 100-megawatt data centers, single locations, and probably at some point in time, this migrates to India over the next 2, 3 years.

Indian entity because what we understand the QSK60 and the QSK95, which are the predominant nodes used abroad, sit in CTIL. So from a clarification perspective, would appreciate that while the sales is routed through CIL, which is the listed entity, the manufacturing for QSK60 and QSK95 currently sit in CTIL?

Shveta Arya: So Jonas, QSK60 is the predominant node in the data centers in India and Southeast Asia. And for the global markets like US and Europe, the predominant nodes are QSK78 and QSK95. Now we've been watching the data center space, and as you rightly said, we were also thinking that probably the data center nodes in India will move up in the range.

But for now, data centers is a very space -- constrained space in our country still, where you see the data center clusters in India, in Mumbai, in Hyderabad, in Gurgaon, in Delhi, these are still space-constrained cities, which is unlike the global markets.

So for the India market and predominantly the larger Southeast Asia market, QSK60 continues to be the predominant node, which is a very, very robust node made in India and made for India for the rest of world as well. So as of now, we are not seeing a migration towards the higher nodes for the India market, mostly owing to space constraints and also customers being very familiar with the QSK60 node and the maintenance of that -- those equipments which have QSK60.

So we are not seeing that trend. We are watching it very carefully for now. And as things change, we'll take those calls.

Jonas Bhutta: Just to clarify, does QSK60 manufacturing sit in CIL?

Ajay Patil: Jonas, QSK60, as we have stated in the past. It is an export program that got launched. And therefore, from a manufacturing perspective, a significant volume of the QSK60 was for Cummins to exports purpose. The domestic volume is fairly low. On its own, therefore, on the competitive side, CIL gets that engine at a certain level of readiness from CTIPL does the subsequent value add to CIL, and then it gets sold in the domestic market or various applications, including data centers.

Moderator: We'll take the next question from the line of Pulkit Patni from Goldman Sachs.

Pulkit Patni: Most of my questions are answered. And this is in continuation with Jonas' question. So we've had 2 consecutive quarters of about INR800 crores plus revenue in the PowerGen segment, out of which second quarter clearly was only CPCB IV+ in terms of new implementation. Can we, for our modeling purposes, assume that this is now the new base to model next few quarters from here on, i.e., it has the impact of significant price increases in CPCB IV+, plus that you did not have a large portfolio of CPCB II that got sold in the current quarter.

And I'm asking this question because there's been a lot of noise and numbers in the past few quarters with meaningful price increases and pre-buying and so on and so forth. So between INR800 crores to INR900 crores in the last 2 quarters, is it the right number from a sustainability perspective and we build our models based on that. Is that a right assumption?

Shveta Arya: I'll say 2, 3 things here. The first is that from an overall market demand perspective, the market continues to show demand in the power generation space. The second, the numbers are not completely just CPCB IV because CPCB IV+ is applicable only up to 800-kilowatt hour or the 910 kVA range. Above that is CPCB II. So both these in different ranges continue and contribute to the overall PowerGen segment sales.

Now the third thing around pricing, Ajay, mentioned, we are seeing -- this was the first quarter where we saw full CPCB IV+ and we do believe that pricing will take some time to settle in the market, at least 3 to months. So the demand, the pricing, the mix between below 800 and above 800 which can change given where the demand is driven. So higher -- if we are selling in the higher than 800-kilowatt hour range, that is more the CPCB II product and then below is the CPCB IV+ product. So those will continue to play out really and could give us different results.

Pulkit Patni: No. I think all the 3 points are well taken, and that's exactly what my question was.

Moderator: We'll take the next question from the line of Sanjaya Satapathy from Ampersand Capital.

Sanjaya Satapathy: Can I just ask that what is the level of indigenization in your CPCB IV gensets? And what is the scope of improvement there?

Shveta Arya: So in the CPCB IV+ product range, you will appreciate that we are a global company, and we do take advantage of technology and products from around the world. A large part of our CPCB IV+ product range and what goes in those products is localized. And we are continuously working on where we do not have indigenized parts yet. So it's a continuous endeavor, but I can tell you that the large part of that product range is already localized at the time of launch.

Sanjaya Satapathy: Understood. And does this mean that our scope of margin improvement is not much from current level?

Shveta Arya: I do think margin will be a factor of various things. Other than localization, there are other cost reduction efforts that we take, which is around value engineering, Ajay was explaining just a while ago. We are continuously working across all CPCB IV+ products, even those that are localized on cost improvement programs. And that, plus the pricing settling in the market. So margins is actually a function of those two. So can't say it only depends on localization efforts.

Sanjaya Satapathy: Understood. And last thing, if you can just tell us like a bit in the gen sets, which is like over INR800 crores for you, how much would be data central-related and how much would be non-data center? Is that something which you can share?

Shveta Arya: That is very segment.

Sanjaya Satapathy: At least how much is more than those 800-plus capacity that mix of that?

Shveta Arya: We won't be able to share that. And like I explained earlier, data center sits in the projects business for us as well as in the actual sale of the product, both different places. So it's difficult to tell you really what would be our presence in that space.

Sanjaya Satapathy: Okay. And can I just also understand from your perspective, like the previous instance of this emission change was a little bit more disruptive for the industry and the demand took a lot longer to settle, but this time around the implementation has been a very different way that is 1 -- staggered 1 year.

So should one expect the normalcy to return to the industry much quicker and the pricing discovery will be faster than what happened in the past? And also related to now that you are like in globally benchmark in terms of emission norms, shouldn't one expect a much better export prospect for your company?

Shveta Arya: So on your first question on whether the market will settle quicker, obviously, everyone has learned through the last emission change. But how soon will we settle in the market is difficult to say. Will it be quicker than the last emission norms? Difficult to say. All I can say is that everyone has learned through the last emission cycle, and we all had 1 year also to learn on how the product is doing in the market.

On the export side, I did answer this question earlier. Yes, we definitely have the technology. We are looking at different markets. Some of the markets which need our product, and we can tailor our products for their specific requirements, that work is going on. And for other markets, which would move to this emission norm, this is one of the most stringent emission norms around the world.

So there are not many markets which are on this level of emission norms. But we closely monitor that. And as markets move, we are ready to provide the products for those markets. And you will appreciate that for each different market, while the core technology is there, the products need to be tailored to suit the local market requirements. So that is the work we are doing currently for some markets which need these products and watching the other markets closely.

Sanjaya Satapathy: Okay. And as we know, like last year, December quarter, you had taken some kind of inventory correction in your exports market, probably that is not the case. So the double-digit guidance which you are giving probably, I assuming it is for domestic market while exports probably on that low base will start growing much better. Is that correct assumption?

Shveta Arya: Guidance for us is overall guidance, not just for the domestic market. And exports, I shared earlier, we have mixed signals. There are certain markets which have shown some signs of recovery. There are certain markets which we are watching very closely. The geopolitical situation is still volatile. Yet our overall guidance is what we have provided for the overall business of the company.

Moderator: Ladies and gentlemen, this will be the last question for today, which is from the line of Mohit Pandey from Macquarie Capital.

Mohit Pandey: My first question is on the demand outlook. On press release, you have mentioned you're cautiously optimistic about the near term, but optimistic about the demand outlook for the medium term. If you could share your thought process around how are you factoring in impact, if any, from potentially higher adoption of storage solutions on genset demand, ma'am. That would be my first question.

Shveta Arya: Sorry, the voice was a little.

Ajay Patil: Battery storage impact.

Shveta Arya: Okay. Battery storage demand on -- the impact of that. Well, I would say that in the backup power space in the country, given the way we are in the power situation, for a growing economy like ours, one is that we do see this backup power demand grow over the medium to long term for the time being for our country.

Second, there are different solutions which are being priced today. But you will appreciate that in the backup power market or the standby market, reliability is extremely important for our customers for different segments that we operate in. So the energy storage solutions, while there are available in the market, from an affordability, reliability, ease of use, ease of deployment, I think we all are watching that space.

So it remains to be seen how it comes out in the future. But I would only say that reliability of the product, clean products available to the market is paramount. And for now, we are seeing good demand for us in the market.

Mohit Pandey: Okay. And then secondly, with regards to the Industrial segment, if you could share a sense of what proportion of the segment will see some impact of the upcoming emission norm changes, that would be very helpful.

Shveta Arya: Yes. That's the construction segment you are referring to, which is going through different emission norms from the 1st of January. I did share that in the last quarter, the construction segment saw about INR146 crores of revenue. We are seeing strong demand from that segment, owing to activity -- higher construction activity from our set of customers, and we see that demand continuing for the time being.

Mohit Pandey: Okay. And any ballpark indication of what kind of price changes are expected with these norms? Or is that too early?

Shveta Arya: That's too early. That is too early.

Mohit Pandey: Okay, ma'am. No problem. And the last question is on exports. If you could share more color on region-wise trends that would be very helpful, for the key regions, yes, on the demand side.

Shveta Arya: On the demand side?

Mohit Pandey: Yes, yes.

Shveta Arya: So we have shared in the past calls that we believe the demand has bottomed out. But like I said earlier, mixed signals yet. So we are trying to watch it really closely. So for example, in this quarter, we definitely had great order from Latin America region and Europe region, which we were able to execute. From the Middle East and Africa and Asia Pacific regions, the demand continued to be flat or muted. So watching the space, we're getting mixed signals. We do believe that this should improve. We're watching this very closely.

Mohit Pandey: Okay. And a lot of this sluggishness is also linked to higher channel inventory there? Or is that understanding not fair?

Shveta Arya: I'm sorry, could you repeat that?

Mohit Pandey: Yes. So this continued sluggishness is linked to higher channel inventory in some of these markets? Or is that kind of...

Shveta Arya: In the exports? It's the exports?

Mohit Pandey: Yes. Yes.

Shveta Arya: It's a mix. It is really a mix. Different regions are -- there are certain geopolitical issues in certain regions. There is, for example, better power availability in certain regions. There are certain regions who are dealing with emission changes. There are different -- there is obviously some inventory in the system as well. So there are different reasons.

And in fact, if you look at places like Europe or Africa, these are -- even within those places, every country behaves differently. So very, very different reasons in different countries and different regions, hard to point 1 or 2 big reasons for this.

Moderator: Thank you. As that was the last question for today, I'd now like to hand the conference over to Ms. Shveta Arya for closing comments. Over to you, ma'am.

Shveta Arya: Thank you. Thank you to all of you for your active participation and engagement during the call today. Cummins India believes that the broader economic outlook is stable. And India's GDP is expected to grow by approximately 7% based on various reports. Fiscal and monetary policy stability, coupled with government emphasis on infrastructure development, bodes well for our end markets.

Export markets are showing some signs of recovery in few pockets, and we continue to work with our intercompany partners to drive growth opportunities in all the end markets in the world where we supply. The company closely monitors geopolitical events unfolding in various parts of the world and their impact on global demand and supply chain. The company is well positioned to leverage all opportunities to sustain its growth momentum.

And with a strong balance sheet, world-class infrastructure on the ground for manufacturing, our best-in-class talent, we are very confident of sustaining our growth trajectory. Thank you for your continued trust and confidence in the Cummins brand. And with this, I would close the call. Thank you so much, everyone.

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