Ref: STEX/SECT/2023

May 29, 2023

The Relationship Manager, 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: Intimation of transcript of analyst conference call held on May 25, 2023.

Dear Sir/ Madam,

With reference to our stock exchange intimation dated May 12, 2023, towards investor/ analyst/ Financial Institution conference call, we are enclosing for your records a copy of the transcript of the said conference call conducted by the Company on May 25, 2023.

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: 2023.05.29 17:38:57 +05'30'

Vinaya A. Joshi
Company Secretary & Compliance Officer
(This letter is digitally signed)

Encl.: As above.

“Cummins India Limited Q4 FY 2022-23 Earnings Conference Call”

May 25, 2023

MANAGEMENT: MR. ASHWATH RAM – 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 Q4 FY 2022-23 Earnings Conference Call. We hope you are keeping safe and healthy.

As a reminder, all participants' lines will be in a listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '*' then '0' on your touchtone phone.

I will now hand over the call to Mr. Ashwath Ram, Managing Director, Cummins India Limited. Thank you and over to you, Mr. Ram.

Ashwath Ram: Good morning, ladies and gentlemen. Hope all of you are doing well. I Am Ashwath Ram – Managing Director of Cummins India Limited. Mr. Ajay Patil – CFO of Cummins India Limited is also on the call with me. Thank you all for joining us on this call today.

As most of you know the CPCB-4 Plus norms will become effective July 1st, 2023, for gensets up to 800 kilowatts. I am happy to inform you that the company is ready with its products to meet the new emissions norms and is confident of offering the Best-in-Class products to its customers which will continue to deliver superior performance and meet the new emissions norms.

Now with the results, we are happy to announce that Cummins India Limited recorded the highest ever revenue and profits for the second financial year in a row, primarily driven by strong demand across various market segments, and geographies, and a conscious effort by the company on systematically managing costs and focus on improving profitability.

I would like to share the financial results of Q4 FY '23 and Financial Year '23 through this call. Getting into the financial results for the quarter ended March 31, 2023, with respect to the same quarter last year, our sales at Rs. 1,889 crore are higher by 29% compared to Rs. 1,469 crores recorded in the same quarter last year. Domestic sales at Rs. 1,396 crore are higher by 33%. Exports at Rs. 493 crore are higher by 17%. Profit before tax and exceptional items at Rs. 413 crore are higher by 69% compared to Rs. 244 crore recorded in the same quarter last year.

For the quarter ended March 31, 2023, with respect to the last quarter, our sales at Rs. 1,889 crore are lower by 12% compared to Rs. 2,144 crore recorded in the last quarter. Domestic sales at Rs. 1,396 crore are lower by 13%. Exports at Rs. 493 crore are lower by 9%. Profit before tax and exceptional items at Rs. 413 crore is lower by 14% compared to Rs. 479 crore recorded in the last quarter.

Segment wise breakups for the quarter ended March 31, 2023. The sales breakup segment wise are in the domestic market, power generation sales were Rs. 672 crores, a 43% increase over last year and 6% decrease over last quarter. Distribution business sales were Rs. 483 crore, 31%

increase over last year and 8% decrease over last quarter. Industrial domestic business sales were 217 crore, 14% increase over last year and 36% decrease over last quarter.

Exports, high horsepower exports were Rs. 207 crore, 2% increase over last year and 8% decrease over last quarter. Low horsepower exports were 244 crore, 31% increase over last year, 7% decrease over last quarter.

For the year ended March 31, 2023, with respect to the last year, our sales at Rs. 7,612 crore are higher by 26% compared to 6,026 crores recorded in the last year. Domestic sales at Rs. 5,562 crores are higher by 26%. Exports at Rs. 2,050 crore are higher by 27%. Profit before tax and exceptional items at Rs. 1,506 crore is higher by 47% compared to Rs. 1,028 crore recorded in the last year.

Segment wise break up for the year ended March 31, 2023. The sales breakup segment wise, domestic, power generation domestic sales were Rs. 2,555 crore, a 30% increase over last year. Distribution business sales were 1,872 crore, 26% increase over last year. Industrial domestic business sales were Rs. 1,046 crore, 16% increase over last year.

Exports, high horsepower exports were Rs. 897 crore, 11% increase over last year. Low horsepower exports were Rs. 952 crores, a 40% increase over last year.

With this, I now open the session for questions. Thank you.

Moderator: Thank you very much, sir. Ladies and gentlemen, we will now begin the question-and-answer session. We take a first question from the line of Ravi Swaminathan from Spark Capital Advisors. Please go ahead.

Ravi Swaminathan: My first question is with respect to the Power-Gen business. If you can, at an annual level, give a breakup of how much of the revenues below 800 kilowatt and above 800 kilowatt? And how do you see the current pre-buy scenario with respect to the power gensets, if you can give a thought process?

Ashwath Ram: Typically, we don't classify as below 800 and above 800. Typically, we are classifying the sales by high horsepower, which is above 500. So, I don't have the data to just say what is above 800, but I can by empirical kind of analysis, I can say that roughly about 20% of our sales are above 800 KW.

Ravi Swaminathan: And how do you see the pre-buy for the below 800 kilowatt ahead of the implementation of the norms?

Ashwath Ram: The pre-buy is pretty strong at this rate and as a matter of fact, we are working literally 24x7 to meet the pre-buy right now.

Ravi Swaminathan: And what is the likely price increase that is going to be there with respect to the below 800-kilowatt engine prices?

Ashwath Ram: Yes. It's going to be dependent on the node and the complexity of the changes that are on each of the nodes that I would range between 20% to 50% is where is the ballpark of how much we think prices will increase by.

Ravi Swaminathan: And compared to the Power-Gen business, the industrial business growth on an annual basis has been relatively softer. Any reason behind that? Is there any weakness in any segment?

Ashwath Ram: Yes. Yes. As a matter of fact, there are some pretty solid reasons why the industrial segments in India has been lagging the Power-Gen segment. It's mainly because construction has been pretty slow in the beginning part of last year and has just begun to recover in the last two quarters. Rail also has not been as strong as it has been in prior years, primarily driven by the move towards electrification, and it's we are lagging as far as getting some of our new products still introduced in those markets. I would say those would be the primary two reasons why even though we have had growth, the growth is not as exciting as the growth in the Power-Gen markets.

Ravi Swaminathan: And with respect to the export market, LHP has grown faster than the HHP categories. Any reason behind that? And overall exports, has it come back to pre-COVID levels in terms of demand normalization as a trend?

Ashwath Ram: Yes. I think LHP has grown faster because the volume is in LHP, and as we introduce new fit for market products over the last two years, those products have gained more and more acceptance. So, we are able to do better in multiple regions around the world. So, the combination of that has led to greater growth than in the high horsepower segment where we always had the right kind of products for those markets.

Ravi Swaminathan: So, these new products are in newer geographies or the existing geographies? And overall exports, what kind of steady state growth should we expect?

Ashwath Ram: The products which we introduce which we call the fit for market products, these were the fit for market 2.0 products. They are there in almost all nodes and for all market. So, it's a combination of new products with more growth in each of the markets is the way I would put it.

I think as long as the global markets fold out, we should continue to see steady growth in the exports markets even though we are subject to the global trends of economy and slow down in different regions.

So, non-withstanding that, I think with the kind of products that we have and the fact that we are going to continue to upgrade and continue to try to launch new products which are fit for market 3.0 is what we are going to call it. Now I think we continue to see that there is demand around the world which we should be able to capitalize on.

Ravi Swaminathan: Final question. Distribution revenue mix between Power-Gen and industrial, if you can give?

Ashwath Ram: Distribution mix between Power-Gen and again, we don't classify the distribution business by Power-Gen and Industrial. So, it's very difficult to provide that kind of information. The way we classify it is we classify it by parts, by rebuild, by service contracts and miscellaneous. So that's the way we try to look at the distribution business, but since Power-Gen is a big chunk of the aftermarket from a service perspective, I am pretty sure it's got a major contribution as compared to industrial.

Moderator: Thank you. We take a next question from the line of Parikshit Kandpal from HDFC Securities. Please go ahead.

Parikshit Kandpal: My first question is on pre-buying again. So, in Q4 going by the numbers doesn't look like there is too much of an impact of pre-buying. So, either so we can reason it out in two ways. Either the demand is not so strong and the second thing is that though we are expecting a price hike of 20% to 50%, but the demand side, consumption side, the market is still expecting that this much of price hike may not be absorbed. So, can you give me some more clarity on this whether the pre-buying will come in the first quarter or how is the market taking up the pricing ahead of this cut-off date?

Ashwath Ram: Certainly, the pre-buy in this quarter, which is the first quarter, is quite strong and that should be seen in our future results. How the market will absorb the prices is something which is still to be seen, but our experience in markets around the world is it depends on the overall market demand and the requirements.

So, for example, in the automotive markets, there is typically a strong pre-buy, and then there is about one or two quarters where the demand drops by 30% to 40%, and then everyone readjusts to the new prices, and it picks back up again and moves on.

Now it depends on the situation in our market. So, it's not very, very clear how that will go on. Certainly, the pre-buy is strong at this rate, but we expect that once the transition happens, once the deadlines are cut off, demand does not go away. If you need a generating set, you need a generating set. You don't just wait for it and you can't postpone some of those purchases. So, we do expect demand to bounce back as long as the economy continues to do well is the way we are thinking about it.

Parikshit Kandpal: My second question is on the energy transition. So, we have been making lot of announcements and we have been at the forefront of making hydrogen tie up Tata, Cummins JV. So, just wanted your stance, anything has been closed or finalized or strategized for the listed entity in terms of energy transitions for the projects that was within the listed entities?

Ashwath Ram: So, I don't have anything to announce at this stage. All I can tell you is we are in the advanced stages of negotiation to tie up with a few big partners and that is not preventing us from bidding on projects and continuing to move ahead as the opportunities arise. But yes, stay tuned. We are trying to kick start some pretty large projects.

Parikshit Kandpal: And lastly, sir, on this 800 kilowatt, so as a percentage of this year's revenue potential, what will be approximately the state's up to 800 contribution to the revenue?

Ashwath Ram: In the power generation business like I mentioned, the below 800 is roughly about 80% of what we sell. So, I would think that is roughly the proportion, but I don't have the exact numbers with me right now, but we should be able to calculate that and provide some clarity in the future.

Parikshit Kandpal: So, this business will go out. We're at 20% to 50% rise like so Power-Gen domestic up to 80% will see almost 20% to 50% price hike.

Ashwath Ram: That is correct.

Moderator: Thank you. We take a next question from the line of Mohit Kumar from ICICI Securities. Please go ahead.

Mohit Kumar: Sir, first question is on the as you answered the previous participant, it's going to do a little more. Can you expect the listed entity to have fairly large role to play in the hydrogen opportunities and can you expect some localization in the let's say three-to-five-year horizon?

Ashwath Ram: Certainly, the listed entity also has a large part to play in the new energy journey, and we have been bidding for multiple projects within that space. We are trying to figure out the best path to enter the market and yes, certainly, we have been in India for 60 years, and it's clear to us that we cannot be successful in India if we don't localize and manufacture in India. But the best path to market where the best incentives are, what's the best way to do that, I think that's those are the kinds of decisions we are working on today to try to figure out how to do that.

Mohit Kumar: Understood, sir. The second question if I talk about 3.0. What does it mean? And what are the kind of new products you are looking to introduce and if you can just detail the additional market, it's very helpful Thank you.

Ashwath Ram: You are asking about fit for market 3.0, right?

Mohit Kumar: Yes.

Ashwath Ram: So, fit for market is our attempt. When we originally launched the Power-Gen products into the global market, we launched one, what we called, one brand or one class of products which was designed for to meet the requirements of all markets around the world. These were based on the Best in Class kind of designs which were most sellable in Europe etc.

What we found out over the years is that different regions and different markets require customized products where some features are not required in some areas, some features are over-engineered for some area. So, we began adapting the product and launching products which are suitable for very specific regions and markets. Like, for example, to some parts of Africa, why do you need a block heater whereas it's required in Northern European countries or in America? So, things were that we began fine-tuning features and performance for specific markets and that we then launched it for market one, then we went on to two where we made more changes, and now we are in the third iterations where we are fine-tuning to target and to look at different market segments within those regions to do better at.

Moderator: Thank you. We take a next question from the line of Renu Baid from IIFL Securities. Please go ahead.

Renu Baid: If you can just give some inputs in terms of you commented on CPCB-4 and the kind of pre-buy. This transition will also make certain nodes unviable under the current regimes which are under CPCB-3. So, are you expecting any particular nodes specifically could be the 1,010 KV or so or to see significant jump during this transition, post-transition period, which is outside CPCB-4? And what would be your view in the HHP growth segment for '24?

Ashwath Ram: So, in the below 800 kilowatt, pretty much every product is undergoing very, very significant upgrade. All our products are now going to be electronic products and all products are now going to require after-treatment. That is there is two significant different changes which are coming to the products which is what contributes to most of the nodes of the change in cost.

Along the way we have made our products a lot better than what they used to be when they were pure mechanical products because with electronic engines, we are able to control the efficiency of the overall system a lot better than we used to do with mechanical systems, and with that we are also able to improve the power density of the products pretty significantly. So, those are the kinds of things which we are doing to continue to provide more value to the customers.

As far as the high horsepower is concerned, certainly during those transitions, there could be the higher end nodes in high horsepower where if the pricing of 800-kilowatt product turns out to come to be pretty close to 1,000 kilowatt products, customers may prefer to buy the 1,000 kilowatt products getting more power for the same kind of money. So, certainly, the demand of those kinds of products could increase and some peripheral nodes could decrease, but we have planned for all of that.

We have set up capacity, significant capacity. We continue to keep enhancing and increasing that capacity. The nodes in those areas, even the CPCB-2 products, continue to be exported and sold in international markets. So, we don't see us taking out demand from one area and moving it to another area. So, we have sufficient capacity to cater to all those changes. So, I don't see those as hindrances. I see those as opportunities to be able to do more.

Renu Baid: Sir, secondly, under the CPCB-4 regime, the entire approach towards distribution after market will go complete sea change with SERs and urea as a catalyst and electronic engine base coming in. So, how has Cummins geared its feet on the street to capture a higher share of this recurring income base on the new install base?

Ashwath Ram: Yes. So, certainly 100% of the engines are covered by our distribution system during the warranty period and because these products require a lot more sophisticated tools and technologies to diagnose, monitor, as well as to repair and fix, the entire distribution system has been upgraded with those tools and technologies which is not really available. The mechanical product could be pretty much serviced and repaired by anyone, and now that that just goes away.

But what we are offering customers along with the ability to be available 24x7 and be online and have all the tools ready and available, including parts and service capability, we are also offering packages which extend warranty which provide more support and service features 24x7 kind of support as well as extending the warranty, which then gives the customer the comfort that they don't have to worry about service in any manner and so they will stay within the fold of Cummins for longer periods of time.

Renu Baid: And further to this, sir, overall, can you just share some of your inputs and comments on how are you seeing some of the end segments within Power-Gen industrial behaving in the next 18 months, especially end market demand outlook that can be shared would be very helpful?

Ashwath Ram: Yes. As far as segments are concerned, the segments I have continued to mention in my previous two calls such as data center, infrastructure, hospitality, hotels, and now we have been manufacturing, continue to remain very, very strong. We are seeing even commercial and residential realty start to slowly bounce back and get stronger. So, when I look across segments, I am continuing to see in proportion to the growth of the GDP the segments continuing to hold. So, all those segments which are contributing to the growth of GDP are contributing to demand for us. So, that's the way I am looking at it.

As far as the industrial markets are concerned, construction is the one which is bounced back pretty strongly and which is what is going to help us to continue stronger growth. Mining and defense which were strong in the previous couple of quarters, they have been flat, but they are now starting to again see signs of growing again because demand for coal, demand for steel etc., continue to rise, and so we are starting to see some of those segments start to increase.

Rail has been steady, though it's not been growing at the aggressive pace for us. We are still in the qualifying stage for some of our new products in that space, and we think that only after those products are qualified and are being sold will we start to see faster growth in rail for us.

Moderator: Thank you. We take a next question from the line of Rajesh Kothari from AlfAccurate Advisors. Please go ahead.

Rajesh Kothari: Congratulations Ram for great set of numbers. Super delivery and execution. Two questions. One is on the profitability side. How do you see this year considering that raw model costs are now cooling down? So, how do you see that? That's my first question.

Ashwath Ram: I think we have been able to leverage that. So, if you look at the last couple of quarters with the price increases that we have put in, we have been able to overcome the significant commodity increases that we had in the past, and as those commodities have started to come down, we have been able to improve our profitability and to better. We have also managed to control our costs during that same time period, and so the leverage of volumes as well as managing costs well is what is leading to better profitability numbers.

Rajesh Kothari: No. So, my question is how do you see next 12, 15, 18 months considering that RMC means soft?

Ashwath Ram: Right. So, what we have endeavored to and what we have been saying for the last couple of years is our ambitions as a company are to grow at twice the GDP and to continue to attempt to increase our profitability by 100 basis points year- on-year. Now it's easy for me to come out and make that kind of statement. It's a lot more complicated on the ground to continue to maintain that momentum on improving profits, but we think the changes in the technology are close monitoring of our costs, the softening of the commodities, I think all of those will enable us to fold or even maybe attempt to improve the profitability level from the levels we have reached so far.

Rajesh Kothari: And just second question is you said that currently, pre-buying this quarter, of course, looks like very strong. So, what would have been your average capacity utilization say in last year FY '23?

Ashwath Ram: Off the manned capacity, we are almost at 90% utilization of our manned capacity, but if you look at installed capacity, we are anywhere from 60% to 65% utilized on that, and so there is room available for us to grow further without making significant capital investments, and we are also making some balancing investments. Those Investments are ongoing because there are certain nodes where despite having so much capacity, we are still running out of capacity, and we are not able to meet market demand in certain nodes. So, on those kinds of nodes, we are actually increasing capacity going forward.

Rajesh Kothari: So, is it therefore fair to assume that considering the pre-buying right now at least currently as of now which is extremely strong, therefore, there can be strong double digit kind of a volume growth compared to FY '23 because of this pre-buying kind of thing?

Ashwath Ram: I wouldn't say compared to the entire year, but certainly compared to previous quarters, the demand is strong enough for us to have significantly better quarter. See that was because if you read the CPCB-4 regulation, we will not be allowed to make CPCB-2 products after July 1st. So, we have only this quarter in which to do the maximum production of pre-buy and whereas the customers can sold the product all the way till December. So, we expect that even if we customize and even if we do a very strong pre-buy, the market will still run out of inventory pretty close to before December.

Rajesh Kothari: Oh, I see. Understood. So, are you saying that you might get to basically fill the channel at least for this quarter up to July kind of thing till the timeline so that they at least have inventory up to December to cater to the market?

Ashwath Ram: Yes. So, that's the attempt which the company is working on.

Rajesh Kothari: So, I think, just to conclude everything looks by and large green except of course this global ridges and fear those macro headlines are always there. But otherwise, across the parameter you see most of the user segments, the domestic exports, you are fit for strategy, everything by and large looks green rather than amber and red.

Ashwath Ram: I would say from an overall perspective, yes, I would say, I would agree with that statement. But when we stratify it and look at it regionally, it's different. It's mixed. Europe, for example, is flattening out. We are seeing Africa start to pick up a little bit, but Africa is a much weaker market for us. Latin America is doing okay.

If you look at Asia, some countries in Asia are doing well and some are not doing as well as we would have anticipated. So, it's a pretty mixed picture right now, and that's why it's very difficult to predict that that everything is going to be wonderful. There's a lot of variables at play right now.

Moderator: Thank you. We take a next question from the line of Rushabh Shah from O3 Securities. Please go ahead.

Rushabh Shah: I have a couple of questions. The first is what is your view on green hydrogen in going ahead in the future?

Ashwath Ram: So, the future from an India perspective for hydrogen is very strong. The reason is that India has no real oil of its own. So, we import our oil, whereas we have a lot of sunshine. We have lot of arid land and a lot of space. So, we are able to produce green energy. And once we are able to produce green energy and that gets up to scale, suppose the renewable energy as a percentage of the grid is greater than 35%, the grid start to become very unstable in the sense that you can't store this energy. So, it's very expensive to take the energy created and just store it in batteries. It's not practical at least as of now the way technologies exist.

So, the only other option is to take a lot of that green energy and convert it into hydrogen and then use that hydrogen and then store it as ammonia or create green ammonia or then use the green hydrogen as a transportation fuel, use it in decarbonization. So, we are well placed to be able to do that as a country. How quickly we can do that is not dependent on the speed at which the hydrogen infrastructure can be set up. And I do not think that's a three-to-five-year journey.

I think it's a 10 to 15 years kind of journey is where Cummins view this based on the current situation of how much raw infrastructure is in place.

Rushabh Shah: Sir, you mentioned the transportation. So, what are your views on using the hydrogen for transportation on a shorter distance versus a larger distance?

Ashwath Ram: For the shorter distances, batteries can be used, but batteries are quite expensive, and for longer distances, batteries are absolutely not viable. So, the only answer is hydrogen. Hydrogen today, there are two technologies for mobility. The first one is fuel cells which are 100% pure hydrogen that needs to be used there. 99.49 levels of purity of hydrogen is required to dry fuel cells, and fuel cells are very expensive. They are 5x the, fuel cell electric vehicles is five times the cost of a conventional diesel vehicle as of today.

So, we have come up with a solution called hydrogen internal combustion engine, which sort of addresses this issue. We are able to burn hydrogen in the combustion engine we already have with newer designs, and we are able to solve that problem. It still does not go away from having to create a base hydrogen infrastructure and being able to supply hydrogen for these mobility applications which is why I said the scale deployment can only happen in a five-year plus kind of time frame.

Moderator: Thank you. We take the next question from the line of Sangeeta Purushottam from Kogito Advisors. Please go ahead.

Analyst: I have two questions. First can you just tell us what is the pattern of seasonality in your sales? So, if your sales is 100, how much happens typically in Q1, Q2, Q3, and Q4? And I wanted to understand the relative outperformance of Q3 versus Q4 in that context.

Ashwath Ram: Yes. So, from a Cummins's perspective, for us Q4 are typically the strongest because, sorry, Q3 are typically the strongest because the global economy works from a January to December kind of timeline, and so as budgets gets closed out globally, most of the buying takes place, most of the accounts try to maximize their sale for the year in Q3. And then Q4 is typically a lower quarter because as people are coming back from Christmas and the economy really starts to pick up only by the middle of January. And then it starts to pick up momentum in February and March, and then the Q1 of the financial year is also a reasonably strong quarter because it's the peak of summer in India, and that's when the Power-Gen sales are the maximum. And then there is a quarter after that is monsoon season. So, it's likely to see a bit of a dip. That's typically the way it works.

Analyst: My second question is a very long-term question and that relates to the future possible obsolescence of diesel gensets because diesel costs will keep increasing because of increasing regulatory norms and other competing technologies like solid oxide fuel cells possibly will start decreasing in terms of cost. So, at some point these cost curves will intersect in which case your product mix will change, and I wanted to know what else you are thinking in terms of the interplay between yourselves, between your parent company and Tata Cummins if it were to come in as to who will do what in this scenario?

Ashwath Ram: Yes. So, it's from that it's pretty straight forward. As far as the power generation market is concerned and let me talk about that market. We think that the lower end of the market will eventually get to batteries. The sub 25-kilowatt market will eventually get to batteries and Cummins has already invested in technologies to be able to cater to that. So, as the timing of that becomes appropriate, we will be ready to transition into that space including making investments in India to be able to do so.

The about 25 kilowatt to even high horsepower range we think is not going to transition away in the Power-Gen market anytime soon. In our view, it's up to 2050 kind of timeline when we see that kind of transition happening, and we see above 500 horsepower not happening even beyond 2050. Maybe 2070 is the timeline by which those markets are at risk. And so, for each of those nodes and segments, the company is making the right kind of investments to have that transition happen.

The other companies which Cummins has like Tata Cummins; they produce engines for very specific applications like the automotive applications. When those products are used in the Power-Gen space, they are still routed through the main listed entity. So, that logic has always been clear. So, the company is looking at the curves of how these changes will happen and then making the right kind of investments to ensure that we continue to maintain and improve our market portion.

Analyst: So, at whatever future point of time is solid oxide fuel cells, by example, when to become an increasing part of the consumption pattern, then Cummins will also participate with the listed entity will also participate in that space directly rather than just through acting as an agent for the parent. Is that correct?

Ashwath Ram: That is the way we have always thought about it. But you know, I will not say that is the only way we will think about it. We will look at the best path to market for the overall companies to reach the customer in the lowest possible cost manner and if that path is something different from being from the main legal entity, we will look at that, but as of now, we have not found any such avenues or options. So, as of today, I can say that's the way we have done it for 60 years, and that's the way it's going to continue.

Moderator: Thank you. We take the next question from the line of Rahul Gajare from Haitong Securities. Please go ahead.

Rahul Gajare: I have this question on the CPCB norms. Now with respect to the pricing increase, you have indicated that the expected price increase would be in the range of 20% to 50%. You know, this is compared to what you had said in Q3 when you were expecting the price increase to be in the range of 30% to 50%. Now typically in an engine, and this clearly I would imagine is the cost of the engine which is about 70% of the Power-Gen. So, is it right then the effective price increase for the end consumer will be in the range of say 20% to 25%? Is that the way one should look at it?

Ashwath Ram: Actually, the effective price for the end customer is likely to be 20% to 50%. So, it depends on the node and depends on how much of the chain. So, the actual increase in the power train is likely to be anywhere from 50% to 100%. So how that translates into the genset is what comes into the 20% to 50% kind of bracket.

Rahul Gajare: Now connected with this on the profitability with this cost increase and the price increase, which is expected, do you see all this will be margin accretive or margin neutral for engines below 800 KV?

Ashwath Ram: We have always attempted to follow principles of pricing from a market perspective, and in those principles like I have stated, we are constantly trying to say what is the value add that we are bringing to the customer. If we can get better value add to the customer and improve profitability, that will always be our attempt.

So to answer your question, we hope the technology and the features and the improvements that we are bringing in will enable us to improve our profitability in all of these nodes because now we are no longer fighting on commodities. We are fighting on a very engineered and complex structured product. So, we hope that that allows us to improve on the margins that we have.

Moderator: Thank you. We take a next question from the line of Mihir Manohar from Carnelian Asset Management. Please go ahead.

Mihir Manohar: Sir, actually, I wanted to understand, I mean, with CPCB-4 Plus norms getting kicking in, will we be able to cater the US geography or the Latin geography? So, that was my first question. Second question was given the fact that the Indians are now getting upgraded, so what are the kind of threats or what are the kind of inquiries we are seeing specifically with the export side just because of the implementation coming in? So, if you can throw some light, I mean, how were we trying to increase our market share, increase our presence in the overall exports market, that will be really helpful.

Ashwath Ram: So, with the CPCB-4 Plus norms, India has the tightest regulation in the world for power generation which means these emissions are tighter than what in North America is called Tier 4 final regulations, and even in North America they don't have these for standby gensets that we have in India.

So, for the first time in the world, I think India will lead as far as the tightest emissions in the world are concerned. So, that certainly ensures that there are no products being sold anywhere which we cannot cater to and certainly our attempt around the world is to export more products out of India not because we have an advantage from India. We have a cost leverage advantage from India.

And as far as Cummins is concerned, Cummins has only three main manufacturing hubs around the world for these products: North America, China and India. And so, India will continue to play a strong, if not stronger role in the future as far as exports is concerned. There are many product families that are only made in India and they cater to demand around the world.

So, will CPCB-4 Plus help us do even more? The answer is I think yes, but those products directly do not help us today because they are of even higher emission regulation than what is required in even the leading markets of the world.

Moderator: Thank you. We take the next question from the line of Nitin Arora from Axis Mutual Fund. Please go ahead.

Nitin Arora: Can you talk about on exports how is the end market doing across Europe and let's say, Africa, China? If you can talk about that, what's the outlook there?

Ashwath Ram: Yes. So, sequentially, when I look at it as compared to the previous quarter, it has dropped a little bit, and what I would say across the board when you see overall, it has dropped by 9%, but we have seen the largest drops have been in Latin America followed by Asia, Asia-PAC. Europe has been flat. As a matter of fact, Europe has been despite typically the Q4 being weaker, Europe has actually held on, which tells me that demand in Europe is not dropping at all. Middle East has also not dropped as much, and Africa has actually increased. So, that's the way the overall globe is looking like.

Nitin Arora: But given the trajectory now, do you think next year growing on this base is still possible? Or how one should look at the growth aspect? If you can talk in terms of inquiries or pipeline, what's your best estimate there in terms of growth in the exports or we should see a decline here on because of the base?

Ashwath Ram: I mean, the kind of growth we have gotten between '22 and '23, I don't think that is sustainable, but certainly, growth is possible, and we are exploring more products, more options and more segments to be able to continue for the growth to happen. And India continues to play a bigger role in the exports market. So, we do see that the opportunities are not really diminishing. So, we are not, at least we don't see this as that we have peaked and so there are no more opportunities. There are quite a lot of opportunities and order books continue to remain full.

Nitin Arora: Now, sir, just on your aspect of pre-buying which is not a sustainable way of looking at the business, I mean, pre-buy will come and will eventually go away. Can you talk about in your pre-buying, which consumers or which end markets are buying? I am assuming the data centers would not be doing a pre-buy. I mean, generally, a project business would not be doing, would not be in a hurry of a pre-buy or they are? And what end market is doing pre-buy where the confidence is coming look the pre-buy will be heavy which is not a sustainable thing? Eventually, it will fall off. Can you talk about where are the segments which is where the pre-buy is coming?

Ashwath Ram: Yes. Pre-buy typically happens in a larger percentage in the lower cost, lower horsepower kind of nodes where if somebody is going to buy, if somebody knows they are going to buy a genset in July or August they are like, and then let me buy it or they are going to buy it early next year.

They are like okay, let me buy it, let me prepone it by a few months if it will save me 20%, 25% money, and those are not the kinds of markets which are so sensitive to emissions and those kinds of our requirement. It's particularly the consumer markets, the small, small buyers, small manufacturers, people for whom that the scale of the CAPEX is large. Those kinds of people tend to buy during the pre-buy.

The big buyers the people who get funding for CAPEX, this is a very, very small fraction of let's say a data center. It's a very small fraction of a manufacturing setup. So, those kinds of consumers, those kinds of users don't tend to worry about pre-buys. They buy as they need it, and they tend to finance things. So, when you are financing something then these percentages of increases don't really matter.

Moderator: Thank you. We take the next question from the line of Priyankar Biswas from Nomura. Please go ahead.

Priyankar Biswas: So, my first question is, sir, there has been price hikes that you had, of course, suggested. But despite this price hikes, I am not aware of any price cuts having taken place. So, can you explain the reasons for why the gross margins had fallen sequentially? That's the first question.

Ashwath Ram: Let me just talk about the gross margin. Gross margin has fallen maybe because of our impact on mix and because we had a higher mix of our PDI product, and we also had lower sales of industrial, especially, defense, marine and rails, those tend to be higher margin kind of products, and construction, which tends to be a slightly lower margin as compared to the other business. So, the combination of this mix is what led to a lower gross margin. That's the main reason.

Priyankar Biswas: And sir, what about the component issues that you had highlighted in the previous quarter, especially, like for electronic components you had highlighted especially for active components, there were some supply chain issues? So, are these behind us because going forward, we will be producing electronic engine? So, in that context.

Ashwath Ram: These problems are not behind us. As a matter of fact, I would still say that we left a lot of sales on the table just because we were not able to procure enough of these kinds of components. These problems are not going away easily, and because Cummins has a global supply chain and lot more leverage, they are able to get a lot more of those electronic components than others. But we do not see this problem going away at least till the middle of '24. But they are not really causing revenue loss. You know, they are just, they are pushing out our ability to supply products and increasing lead time etc.

Priyankar Biswas: So, you mean '24 means calendar year '24 or you are meaning FY '24 not going away?

Ashwath Ram: Calendar year '24 is by when we think lot more capacity is coming into play, and that could help alleviate these problems we are facing. These problems continue to exist.

Priyankar Biswas: And sir, just one more question from my side. So, linke in the data center opportunity, so I had the opportunity to visit couple of data centers, and of course, right now that Cummins's products are being used. So, that's one very positive thing, but for this high horsepower gensets, what was surprising is that it seems those were imported. So, if the data center opportunity is so large, are you generally importing? Or I mean, if it's so large, ideally it should be locally produced. So, any thoughts on that?

Ashwath Ram: I think a few products continue to be imported, and some of those have already been localized. They are like I think in the last quarter or the quarter before that is when we launched what we call the QSK60-G23 product, which is the most popular product as far as data centers is concerned. It's now fully localized.

But there are some larger data center kind of products where there is this engine family called the 95 liter family, that is only produced in one location at Cummins which is in the US. Just because of the significant investment required to produce that engine, it was not viable to produce it in multiple countries, but certain components of those kinds of products are also being now produced in India.

So, yes, to answer your question, I think the majority of all gensets sold in the data centers are being produced in India as of now. There will continue to be a few products which will be imported and sold, and even for those products we are trying to figure out how to localize more of that. It's very clear to us that we have localize as much as possible to be able to sell in India to be cost competent and to improve our margin.

Moderator: Thank you. Ladies and gentlemen, due to time constraint, we take the last question from the line of Aditya from Kotak Securities. Please go ahead.

Aditya: My first question was more on imports and the prospects of India as that is going up in the Cummins family. Now two events have happened which I thought are engaging you're view on. The first event that happened was Cummins from a US perspective, investing has seen their own fatalities for newer products on the green side putting pressure on speed for the green products that we are manufacturing from there.

And the second event that probably can happen is India and Canada having a Free Trade Agreement, which may impact the competitiveness for power products in US and Canada both in a personal manner. I wanted to kind of gauge from you whether these are actual events that will help Cummins India grow exports for the base surplus in US and Canada? And if so, are you seeing any more, any increase in the case of tenders coming out from those geographies?

Ashwath Ram: So, certainly, as the CPCB-4 Plus products have been launched, the products from a readiness perspective can cater to all markets in the world including the US and Canada. Historically, quite a bit of manufacturing of some of those gensets have been in North America because of n NAFTA and USMCA and those kinds of agreement, but more and more there are many product lines which are only produced in India, and those products are now then being exported to the US, to Canada and some of those markets.

But India, as India has better Free Trade Agreements with those markets, I think, certainly that will help us to sell more into those markets, but we already have a great cost advantage, and there are many products where the company pays the USMCA duty and still buy it from India and utilize this in those markets. So, I think going forward, as India sets up better trade alignments with some of those markets, it's going to be great for India if we can do that.

Aditya: Another question that I had was more on the distribution segment. Now for this year you have seen it grow faster than the average growth of the company.

Ashwath Ram: Yes.

Aditya: About it being a lot more exposed to Power-Gen wherein you will see only electronic engines incrementally kind of coming in. Could you give us a sense whether distribution segment can continue to outperform the average company growth so as you put up the target as to where GDP for the entire company, can distribution do meaningfully better on a recurring basis next two, three years?

Ashwath Ram: It's my hypothesis at least that yes, and that's what we set about to do a couple of years ago to say that distribution is a business which historically has underperformed. It's historically underperformed the growth of the rest of the company. It has grown at about anywhere from 6% to 8%, and so we are underrepresented from our entitlement of what our share of the market should be and what, how we should be supporting and servicing our customers with both parts and service, and so we have been getting into the market and offering better products services and solutions, and that is what is causing an increase in growth rate and demand for that business. And we think that is absolutely sustainable not just for two years but for at least five years is the way at least I am trying to look at it.

Moderator: Thank you, sir. Ladies and gentlemen, due to time constraint, that was the last question. I now hand the conference again over to Mr. Ashwath Ram for his close. Over to you, Mr. Ram.

Ashwath Ram: So, again, thank you all for amazing participating and as always, you are always dump me with amazing questions. There was quite a detailed engagement today, I thought, from all of you.

Cummins India believes that the strong demand in various end markets will sustain. However, because of supply chain challenges which we continue to work through, you saw me talk about the complexity of this whole pre-buy as well as this transition that is happening. We remain cautiously optimistic about the short to medium-term demand outlook. With a strong financial position that we have, we are very confident that we will be able to maneuver through this tough business time quite successfully. So, I remain confident, and I remain optimistic that we will continue to sustain the kind of performance that we have demonstrated in the past. With this, I close this call, and thank you, and wish all of you a safe and happy quarter. Thank you.

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