# "Q4FY17-18 Analyst Call of Cummins India Limited"

## May 25, 2018

**SPEAKER:** **Mr. Sandeep Sinha, Managing Director, Cummins India Limited.**

**Moderator:** Ladies and gentlemen, I am Sourodip, your coordinator for the session. Thank you for standing by and welcome you all to Cummins India Limited Q4FY17-18 Analyst Conference Call. During the course of presentation, all participants will be in listen-only mode and post that we will open it for Q&A session. I would like to now hand over the proceedings to our speaker for today, Mr. Sandeep Sinha, Managing Director, Cummins India. Thank you and over to you, sir.

**Sandeep Sinha:** Thank you, Sourodip. Good evening, ladies and gentlemen. This is Sandeep Sinha, Managing Director of Cummins India Limited. Thank you very much for participating in this call. I would like to convey the results for the quarter and the full year ended March 2018 through this call.

For the quarter ending March 2018 with respect to March 2017 quarter with comparison to the same quarter a year ago, a total net sales at 1206 crores grew by 4%. Domestic sales at 816 crores declined by 5% and exports at 390 crores grew by 30%. Our profit before taxes at 209 crores grew by 7% compared to 195 crores recorded in the same quarter last year. With respect to the sequential quarter, our total sales at 1206 crores dropped by 9% to 1318 crores recorded in the preceding quarter. Domestic sales at 816 crores declined by 9% while exports sales declined by 7%. Net profit before tax at 209 crores declined by 5% compared to 220 crores recorded in the preceding quarter.

For the financial year ended 2018, our total net sales at 4952 crores was almost flat compared to 4958 crores recorded in the previous year. Domestic sales at 3378 crores improved by 1% while exports declined by 2%. Net profits before tax at 852 crores excluding a tone-time gain of 56 crores on sales of asset declined by 6% compared to 908 crores recorded in the earlier year.

In terms of the domestic sales, while it is showing a 1% improvement over the previous year, if we normalize for GST price reduction in this year and the automotive segment sale, this comparison would show a growth of 5%. Within domestic business, industrial segment registered 8% growth primarily driven by rail and construction segment and distribution grew by 6%. Power gen remained flat despite competitive pressure.

I would also like to highlight that we increased our dividend from 700 to 750%. This certainly reflects the confidence we have in the future. Going forward, we feel optimistic of the long-term state of the domestic economy with government's effort in creating infrastructure. For the Indian economy, that will also help drive our sales. For exports, we are hopeful in recover of global power gen markets and are ready to capitalize on demand improvement in both the HHP and LHP markets.

With this I will open up the session for questions. Thank you very much.

**Moderator:** Thank you very much, sir. Ladies and gentlemen, should you wish to ask any question, please press "0" and "1" on your telephone keypad. I repeat, participants, if you wish to ask any question, please press "0" "1" on your telephone keypad. We have the first question from Mr. Deepak Agarwal from Irish Capital. The line is unmuted. Please go ahead.

**Deepak Agarwal:** Good morning. This is Deepak here from Elara. My first question is, as in the past, can you help us give a broad guidance of FY19, how do you see both the domestic market and the exports market in terms of revenue?

**Sandeep Sinha:** Sure. On the domestic side, our guidance is a growth of 8 to 10%. Exports right now, I would like to keep it flat. We will continue to keep you updates on how that market changes.

**Deepak Agarwal:** Okay. And within the domestic segment, do you think, as we have seen in the past, it's more of led by the industrial demand versus the power gen segment.

**Sandeep Sinha:** We certainly feel more positive about the power gen segment in this coming year than what we have felt and seen in the last couple of years. We do see a growth. Again from a forecast perspective, it's something around 7 to 8% growth this year. Industrial will certainly continue to have a stronger trajectory, and then we will be again between that 9 to 10% growth.

**Deepak Agarwal:** Okay. My last question is, can you just comment on the pricing behaviour because we have seen that the margins is continuously under pressure for the last few quarters at the EBITDA level and the same was witnessed in Q4? So, any price action that the company has seen or are you feeling the pressure of the higher commodity prices especially steel which are not able to pass on to the customers?

**Sandeep Sinha:** Yes, Deepak. You said it correctly. We have seen the pressure of commodity price increase. We certainly have not been able to pass that on to the market. Having said that, we continuously look at introduction of new products that can help us improve our margin position. Especially on the industrial side, we are trying to work on seeing how to increase the value proposition to the customer in terms of the entire system solutions, etc. which do tend to get us better margin. Of course, we see an improved after-market participation. That always helps us increase our margins.

**Deepak Agarwal:** Okay, sir. I will join back in the queue. Thank you.

**Sandeep Sinha:** Thank you, Deepak.

**Moderator:** Thank you very much. We have the next question from Mr. Sandeep from GM Financial. Your line is unmuted.

**Sandeep:** A very good morning. My question is pertaining to the power gen segment for the quarter. If we back-calculate the numbers that you have given for full year, it appears that there was a decline in the overall sales. So, just trying to reconcile this with your earlier commentary on the India business where it is stated that the power gen business has grown 6%. Also, one of your large competitors has grown in double digits in the quarter. So, I just wanted to understand where the mismatch is. Is it more of a volume number or how is the power gen shaping up? Are you losing share or is it purely pricing concern? If you could give a little bit colour on that portion?

**Sandeep Sinha:** Sure. I think there is a mix of a couple of issues over here, Sandeep. The first one is, we had very strong secondary shipment in this quarter. But a lot of that could not be fulfilled by primary shipments from our engine plant, and I think that's where you are seeing the results not reflecting what actually happened in the market place.

Your question on "Are we losing share"- no. The answer is, in the markets that we are playing we feel very strong about our share position, and we have grown share overall for the year by a percentage in the market place. We are not participating, as you are aware, in the telecom market which saw significant increase in this period of time. For us, participation in that market is actually going to erode margins for us, and that's why we don't play in that. So, I hope I have been able to answer your questions.

**Sandeep:** Right. That's very helpful. On the industrial division, you had communicated earlier that you have formed a projects division over there and you had guided that overall revenue in this segment should see a strong growth as we would capture more value from the customers now onwards. Despite that, we have not seen any incremental jump in the revenues over the last two, three quarters. So, where are we in that transformation slightly on longer term perspective, over say two, three years?

**Sandeep Sinha:** Sandeep, think about this whole projects business as a very lumpy business. You get major projects. In this particular business field, we have to look over a little longer periods of time to see how it is growing. We had a pretty good growth last year. One of our markets where we have 100% share is water rig market which actually came down to almost half its size in the preceding year. Yet, we grew at 8%. Now what is happening is water rig market is traditionally a market which grows for two to three years and then it goes into a downward spiral for five years. It also depends a lot on government policies whether it gives farmers some incentives to be able to drill these bore wells, etc. Right now, we feel the bottom into that market. It will be at the lowest somewhere in this or the next quarter, and from then on we feel we should start to recover. So, a lot of our good stories in the construction, mining and real market was kind of impacted by this poor performance of water rig compressor market.

The other one I would say that we are still very optimistic is the marine market. We have got all the projects in hand but just the execution by the ship yards has not been good. The government ship yards are having significant backlogs. Private ship yards, you probably know better, the financial situation of most of the ship yards is not good.

**Deepak:** Okay. Fair enough. Sir, lastly if you could give us the absolute amount breakup for the fourth quarter so that we have comparable numbers vis-a-vis fourth quarter FY17 for each of the segments? Thank you. It's my last question.

**Sandeep Sinha:** Sure. Power gen was at 330 crores. Industrial was 197. Distribution business was around 300 crores.

**Deepak:** Alright. Thank you so much, sir.

**Moderator:** Thank you very much. We have the next question from Sandeep Gulati from HSBC. The line is unmuted.

**Sandeep Gulati:** Thank you so much for the opportunity. Just trying to understand a bit more on what is driving your positive outlook on the power gen segment. You indicated a 7 to 8% growth. What is it that you are seeing in the market for this year versus what you saw last year?

**Sandeep Sinha:** Sure. Few things: One is, we are seeing our infrastructure segment of the power gen business expanding. So, we feel pretty good about that. We are now starting to see better order board from the manufacturing segment, which we have been saying in the past has not been very strong. So, that's really good. Our rental business, that seems to be on the upward trend. And then, of course, the one we feel pretty confident is our data centre where we have a very good product as well as a very, very strong market share. That will continue to expand into this year. So, these are the three or four segments which are making us feel pretty confident about our coming year.

**Sandeep Gulati:** Okay. Can you give us more insight on the export part of the business, what geographies, what products seem to be doing well and how do you see it? At this point in time, I know you gave a flattish guidance but some more colour because last year was a decline. So, flatish is still good. Some more colour would be helpful.

**Sandeep Sinha:** Sandeep, it's been probably very, very inconsistent overall. We see a certain region picking up for some portion of time and then we kind of see changing colours from now. The hope we have is one that we have kind of reached the bottom. That's why I am giving you a guidance of market being flat. With the oil prices, a lot of the geographies that we serve in especially in many parts of Africa, Middle East, etc., with that I think we may see some positive gains from that market. Again, we are very watchful. I cannot say there is a trend right now. We see some spots. Hopefully, it becomes a trend, and for our company that would mean a good story then.

**Sandeep Gulati:** Okay. Breakup for exports for this quarter- low horsepower, mid heavy in those?

**Sandeep Sinha:** For this quarter, the low horsepower was around 70 crores. Mid was about 110 crores. Heavy duty was 25 crores, and high horsepower was 150 crores. Spare was about 30- 40 crores.

**Sandeep Gulati:** Okay. And similar breakup for the domestic segment?

**Sandeep Sinha:** Sure. Low horsepower was about 110 crores.

**Sandeep Gulati:** Very different from the previous year.

**Sandeep Sinha:** Power gen is 33 crores. Mid is 100 crores. Heavy duty is about 30 crores. High horsepower is 180 crores.

**Sandeep Gulati:** That's all from my side. Thank you so much.

**Moderator:** Thank you very much. We have the next question from Mr. Ranjeet from ICICI Securities. Your line is unmuted.

**Ranjeet:** Just wanted to get some colour. You had talked about the margins. Is there any price increase that we can expect next year given the commodity price increase? Are you looking at any increase in the prices? Did you take any price increase this quarter?

**Sandeep Sinha:** Right now, given the competitive pressures in the market and our very strong focus to continue to maintain and expand shares in the segments we want to play strongly, I don't see that happening per se. I think, we will continue to work on making sure that the kind of products we launch will have better margins. So, there is a lot of products that we are launching especially in the industrial space, certainly in power gen space too. And then as I said earlier too, we are looking at giving systems offering where we believe we should get better margins than just selling an engine alone. So, I think those are two ways that we will see and make sure our margins improve.

**Ranjeet:** Okay. Sir, we have seen a lot of traction in the industrial especially in the railway segment. So, if you can help us like break up your industrial segment into... You generally break up in terms of railways compressor and mining. If you can also give an outlook regarding those segments for next year.

**Sandeep Sinha:** First one, I will give you the quarterly numbers. So, compressors was about 35 crores. Construction was 80. Mining was about 25 crores. Rail was 50 crores (one of our best quarters). And then the others was about 10 crores.

**Ranjeet:** Sir, in terms of growth outlook, where do you see traction in these segments?

**Sandeep Sinha:** As I said, you know, clearly it will be construction and rail. And we hope that marine business probably towards the second half of the year, we should see more traction. But main drivers of growth this year will continue to be construction and railways.

**Ranjeet:** As a follow-up to the previous question, in your global con call it was told 7% growth in the power gen, but when we see in the Indian report, it is not good. What is that thing that was missing? Was it to do with the exchange rate? Want to get some understanding on that.

**Sandeep Sinha:** Maybe it's a calendar year comparison.

**Ranjeet:** Because they were talking about this particular quarter, that's why we are asking.

**Sandeep Sinha:** Okay. I will just check whether they have lumped both our domestic and exports into one. That could be... We had a strong export quarter. But let me come back to you, Ranjeet.

**Ranjeet:** Okay, sir. Thanks. I will come back.

**Moderator:** Thank you very much. We have the next question from Mr. Charanjit Singh from B&K Securities. The line is unmuted.

**Charanjit Singh:** Hello, sir. Thanks for the opportunity. Our power gen volumes earlier had been impacted because of the slowdown in the residential space, and what we are seeing is now government focus increasingly on the housing side. Does it have any rub-off impact for our power gen in at least some of the larger towns and cities where these housing projects will get completed and can give a bump up to the power gen demand?

**Sandeep Sinha:** I would say both yes and no. You know, for the government housing, the requirement for the genset is generally a small genset. For the hotel load, maybe a lift or something like that. Where we play in the realty market is in the bigger constructions like DLF, those kind of bigger apartments where you need a 500, 750 kind of KVA gensets, etc. which is where we are very dominant. But, having said that, do we play in some of those? Yes. But it's much more of the smaller gensets in those government housing. Mostly it's like a telecom products.

**Charanjit Singh:** From the competition perspective, we had seen earlier one of the large multinational players coming into the Indian market and competition was increased in the high achieved space now. They are also entering to compete in a bigger way by having the channel and exposure. So, a larger part of our business is seeing in the domestic and increased competition. So, do you think that margin profile going forward will remain at these levels or we can still continue to improve our margins based on our cost initiatives which we do or how do you see the margin trajectory and competitive pressures going forward?

**Sandeep Sinha:** I think the competitive pressures are going to be there. That's the reality. India is a growth market and everybody wants to play here. So, to expect not to have competition would not be smart for us. We prepare ourselves really well. As I said, we continue to plan for two things. One is, we will make sure that we stretch our products to the right nodes that uprate our products, etc. which helps us improve our margins. That's one. Having said that, the balance between what we need to do in the market place to keep our share versus some of those products have not been obviously adding up to each other. Otherwise, you would not have seen this margin pressure. It has not helped with the commodity impact also. But I think over a period of time, we will have new emission standards come. We feel confident that as a company we do well when the emission standards become more stringent. We are already starting to plan for those changes, and plan our products to be best in class. Those are things that are within our hand. So, we will continue to make sure our partners are aligned. We will continue to make sure our path to market is strong, and we will continue to make our products are best in class. So, I think, if these are in place, we will see a good growth in the future.

**Charanjit Singh:** Last question from my side is, sir, on the industrial segment, you have highlighted about 9 to 10% growth. The kind of traction which we have seen in the railways and the construction space, do you think that this is a conservative number because earlier we used to have an expectation of maybe 15 to 20% growth in the industrial segment. So, what is changing here by being more conservative on the industrial side?

**Sandeep Sinha:** Certainly, it's going to be higher and it will be double digit growth for sure. I think what we are seeing, as I told you, as I reflect nf last year. We had really, really strong growth in two out of the five segments. One was in line. And then two had actually zero traction. Right? As I was talking earlier about compressor and marine, hopefully we are perfect with all the segments and running on high gear and we should expect much stronger growth. So, it will all depend on how those two markets come back. Right now, for the coming year, my guidance would be that, again, this is 10% plus growth in this segment and again driven mostly by rail and construction.

**Charanjit Singh:** Fine, sir. That's all from my side. Thank you.

**Moderator:** Thank you very much. We have the next question from Mr. Venkatesh from Citi Financial. The line is unmuted.

**Venkatesh:** Sir, my first question is on the power generation segment. I think Ranjeet asked this question that in your international Cummins Inc. Call, you said this quarter this segment in India has done 6 to 7% growth but you are showing 0% growth. Is it possible that when they are talking about numbers, they are also including the numbers of Cummins Technology India Private Limited? That is why the numbers look much higher for them.

**Sandeep Sinha:** No, I think when we talk about power gen market, you know, there is pretty much... it's catered through by CIL. Let me go back and check on this 7% number. I think it could be mostly because of the export products.

**Venkatesh:** Okay, sir. Sir, second question is on your CapEx. It looks like you have CapEx of almost 450 crores in the current year. Can you actually tell us what exactly you spent this money on? And secondly, what are your annual CapEx expectation over the next couple of years?

**Sandeep Sinha:** Sure. Venkatesh, I would put that number as more like 200 crores, not 400. Not sure, but we can certainly help you understand that our CapEx spend for last year was about 200 crores. If you want a high level breakup, I could say the big ones was on our Kothrud plant. We are trying to make sure that we put in new lines, we put in a new Conrod line, a new robotic line there for exports. That was one of the significant CapEx that we had. Then we spent on our tech centre. The phase one of the tech centre, that's where we spent about 130 to 140 crores.

**Venkatesh:** Okay. So, you have a line item called investment property when you report your results. So, if you spend money on that, that you don't include part of this CapEx?

**Sandeep Sinha:** It is part of that.

**Venkatesh:** Okay. Sir, a general question, when we interact with investors, we keep on getting this question. Over the last so many years, you spent almost 1400 crores on this India office centre and this technology centre and we believe that at an arm's length basis, you are renting it out to Cummins Inc. entities and what Cummins India is getting is a rental income which is 8% pre-tax. Now how do you justify this to minority shareholders that the balance sheet of Cummins India is being used to put up in, invest in real estate where the return is extremely low? Because the reason I am asking you this question is if you look at it over the last four, five years, your asset turn which was at around five times now have gone to two times and your ROE is now deep below 16, 17% at the end of the year. So, do you think it is justified from the perspective of the minority shareholders that they get a return of only 8% pre-tax?

**Sandeep Sinha:** Venkatesh, I have my CFO, Rajiv, with me. First of all, let me clarify on the numbers because they don't seem to be agreeing.

**Rajiv:** When you talk about 1400 crores, the investment in the India office complex is not for Cummins Technologies. It is for the use for Cummins India for the most part. We were situated many years in our manufacturing plant which also doubled up as the corporate office. So, after doing business for some time, we felt that we must provide our employees and environment of which we are proud of. Yes, some part of this has been leased out. At arm's length rates, determined by realtors and at market rates. These are absolutely transparent transactions. And surplus capacities have been made out.

The second thing is on the technical centre. The technical centre again will be used advantageously as well for Cummins India's requirements. So, while it represents a fair recovery at 8% which your rightly stated which again has been benchmarked by the Deloitte. It also provides a very stable stream of rental income with revisions based on market, no collection risk plus CIL engineers are also housed in this complex. There is core discovery of support, product lines to support Cummins emission standards. So, this really is for our listed entity, the best of both worlds. And by the way, this company would start to receive in rental stream as we have clarified earlier at a mature stage almost 100 crores of income . But I think your company is strictly advantageous through this investment.

**Sandeep Sinha:** Thank you, Rajiv.

**Venkatesh:** Thank you very much for that answer. Just a couple of follow-ups. Is it right that in the current year, your total rental income should be close to 72 crores and this should be up to 100 crores in FY19?

**Sandeep Sinha:** That's exactly what I stated. In the matured state, you would have 100 crores of rental income, which provides us a very stable stream and provides us a buffer against fluctuations in other streams. I would reflect this as an insulation we have to the bottom line.

**Venkatesh:** Thank you. At the end of the third quarter, at that point in time after the third quarter conference call, you had mentioned that for the next year if you have to take an educated guess on export growth, you would say it would be more like 5% or so. Now, when we have entered the year, you are expecting it to be flattish. Logically speaking, over the last quarter, commodity prices have gone up even more. So, your market should be that much better off. Secondly, the rupee has also depreciated. So, if rupee depreciates, the Indian exports should become that much more competitive. So, why is that your expectation has come down from 5% to flattish in a quarter's time?

**Sandeep Sinha:** First of all, you have to remember that, as I said earlier, it is still very spotty. We see certain regions recover. We see some other regions not doing well. And it's reflective in our export numbers. If you see our trends, we will get one strong quarter, and then we see a decline in the next. Right now the reason why I am saying flat is because we are seeing this kind of roller coaster quarters. Once we see two good quarters of consistent growth, I think we will be able to... Certainly, I feel more confident to advise you on that. I want to do that. I just want to have data to be able to do it, Venkatesh.

**Venkatesh:** Okay. Sir, finally, how often are you now adjusting that... There is that USD/INR exchange rate at which you export to Cummins Inc.

How often are you adjusting that? Is it well within the band or it has hit the band? What exactly is the status on that?

**Sandeep Sinha:** We are adjusting it within the quarter. I think we are reflecting our financials. That keeps happening. It's an ongoing process. So, every quarter, we do it. Pretty mechanical and automatic. And given the fact that the way rupee-dollar is going, those fluctuations have to happen.

**Venkatesh:** Okay. Thank you very much, sir.

**Moderator:** Thank you very much. We have the next question from Mr. Bhavan from Axis Capital. The line is unmuted.

**Bhavan:** I have two questions. One on the industrial side. When we speak to some of your OEM customers, let's say JCB would have recorded 70% kind of a volume growth, but we see on a y-o-y basis kind of a flattish trend. Could you dwell a bit more on this like we have lost some shares or the products which Cummins does not address those have grown faster? That will be helpful. That's my first question.

**Sandeep Sinha:** Could you mention the name of the OEM that you gave as an example? JCB?

**Bhavan:** Yes.

**Sandeep Sinha:** First of all, to give you a sense. In the construction space within the industrial market, as the road construction and highways come up, the need for the products that are powered by Cummins increases even more than those that are not. I will give you an example. 20-tonne excavators are used for road construction. Today we believe that almost 7 out of 10 of those equipment are powered by Cummins. This market share has gone up from the past. We don't blame the backhoe loader market. I think that is going to be a more flattish market. So, this would be just corrections that are happening between the channel inventory and all of that, but I certainly feel that our market share continues to grow. And the markets that we play in are going to continue to grow, which is that kind of excavators, and a lot of the road construction, wheel loader market and then the compactor market. These are where we are very strong. I feel we are well positioned to certainly maintain if not grow that share.

**Bhavan:** Actually my question was because last year same quarter you had 75 crores and this year you mentioned that it is 80 crores. So, the growth is a little lower versus what we are seeing with the kind of construction equipment growth most players are reporting.

**Sandeep Sinha:** You are right. Specific to quarter to quarter, one thing that certainly has happened is the products that we get for this market is... We are just managing a very tight supply position because these particular engines do come from joint venture with Tata. So, there is certainly growth both in the truck market and this market. So, we are balancing the requirement. So, you would see a little bit of that. I think we will recover within this quarter, and we should be fine. So, you will actually see a stronger quarter hopefully this coming quarter. But nothing to be concerned.

**Bhavan:** Sure. So, there was very strong growth in the commercial vehicles and consequently there is a spill-over and there is a backlog which is kind of built up.

**Sandeep Sinha:** We allocate the capacity. That's why we are going to make sure that the capacity secures all our partners. I just think it's a little bit of that adjustment, but we should be fine in the coming quarters.

**Bhavan:** Sure. The second question is on the spares and the distribution segment. This is going from the past conference call where you mentioned that 70% of this goes for industrial. But when we look at the quarterly trend, 362 crores in December quarter has come down to 300 crores this quarter, vis-a-vis last year also it's kind of flattish. So, if you could help us on this slowdown in the spares that we have seen. Is it some quarterly aberration and how should we see this going forward?

**Sandeep Sinha:** Couple of things that you should see is, we had a much more positive quarter last year because of the GST issue spill over that happened last year same quarter because we had a very poor quarter three if you recall in 2016-17 because of the GST impact. So, I think that's where the recovery numbers came. Also, there are a couple of service contracts which we are closely monitoring because of the receivables position. So, it has a short-term impact. I think, we will be fine on the distribution side. We should maintain 8 to 10% growth in the coming years. So, this is quarterly aberration.

**Bhavan:** Okay. My last question is on the pricing. You did mention about cost pressures. You were dealing with introduction of new products. I would appreciate if you could speak a bit more on what kind of new products and in which new markets and how large could this opportunity be because the other part is when we visited the Defence Expo we saw potential of significant opportunities for tanks upgrade where they were using Cummins engines? Some clarity on this would be helpful.

**Sandeep Sinha:** I am glad you see the potential. When I got connected to this industrial business in 2013, that year we thought we would get this tank business. Like it was almost on the verge of being signed. We are in 2018 and I am telling you it's another five years before I ever see. The good news is many, many such equipment have been powered or repowered with the Cummins product. My worry is the Defence procurement process right now is both not transparent and full of issues. So, I don't find that personal optimism in the Defence. The good news is if the market opens up, the Defence procurement is changed, we will be well positioned as you rightly noted in your experience in the Defence Expo. Now I can give you one example in the way we try to improve our margins. In the past, for example, for the powered car real market, we used to only supply engines. And now we are supplying not only engines but the entire gensets along with noise attenuation system which means the sound reduction system. So, we have gotten our first standard, what is called the silent power part in which we are the only qualified company as we have been able to reduce the sound from 100 plus decibels to 86 decibels. That's one of the examples of many projects like this where we are increasing our scope as well as helping that bring our margins back. I hope that helped you understand what I meant by that.

**Bhavan:** Sure. That's very helpful. Thank you so much, and wish you all the best.

**Moderator:** Thank you very much. We have the next question from Ashish Jain from Morgan Stanley. The line is unmuted.

**Ashish Jain:** Hi, sir. Good morning. Sir, firstly on exports, I just wanted to understand. Based on the distribution channel and the way we are supplying directly to the market or to our parent, how many months or quarters in advance would we have a sense in terms of build-up of our pipeline or order book whether the business is improving or not?

**Sandeep Sinha:** I like to split that exports business into two: what we call low horsepower and high horsepower. High horsepower obviously have a little longer visibility because these are projects where nobody makes up to put a 1000 Kva genset. So, we feel we have more visibility in the longer lead time. Other smaller gensets, those are low horsepower. That is much shorter period. There are many times when re-assess our requirements within a month also. That's where the fluctuations seem to be the most.

**Ashish Jain:** Sir, the parent has been pretty positive on the high horsepower side of the business. So, is that not that translating into any visibility for us in terms of growth?

**Sandeep Sinha:** If you see this particular quarter for quarter-on-quarter, we have a had a very strong growth. So, I think that's where you see the parent initiating. Now remember when they see high horsepower, it also means that the business that Cummins has on high horsepower products in oil and gas and mining etc. which we don't cater. We just cater to high horsepower power genset segment. And I think that's where you may be finding a gap. When they say high horsepower, they don't necessarily mean only power gen. In fact, the last two years, when they have said high horsepower, it has been primarily driven by oil and gas and second by mining markets.

**Ashish Jain:** Great, sir. Thank you so much.

**Moderator:** Thank you very much. We have the next question from Mr. Mayur Patel from the DSP BlackRock. Your line is unmuted.

**Mayur:** Thanks for the opportunity. My question is around two things. First, on the commodity pricing, given the kind of commodity prices, what is your plan to increase our product prices to pass it on? Or do you think that the market is still very tight to hold it?

**Sandeep Sinha:** I certainly would call it a very price sensitive market price. We have had new players coming in. We have had players trying to move into new markets. Cummins of course for a long time has played across the segments other than the smaller gensets which go into telecom. Other than that, we have been well established. As the size of the nodes increases, our market share in those higher knots becomes more dominant right up to 65% plus in the higher horsepower segments. So, the question is, what is our plan? I think we are very aggressively working on what we call "Accelerated Cost Efficiency Programme". We have put in more resources. The reason is we believe that it will be a little wishful thinking to be able to maintain share and yet have price increase. That's our assessment right now. So, the only thing we can do is make sure our cost structure across the direct material, our manufacturing overheads, all of them get aligned. That's our view right now.

**Mayur:** Okay. And one more thing like Venkatesh asked you a question and you answered to some extent. What he was saying is power gen global players in different parts of the world have been changing their commentary more towards the positive side about the traction, demand and pickup in the skills volume outlook. But still your flattish kind of trajectory for exports for next year, is it more from the LHP exports or the HHP that goes to the parent?

**Sandeep Sinha:** In India, we are more of a fulfilment supply chain support for the global markets. So, if you are hearing commentary otherwise, I can verify that. Honestly, I can't comment on those commentaries that other genset manufacturers across the world are making for those markets. Having said that, we obviously are regularly interacting with our global teams. I would say we are more optimistic now than a year ago for a stronger market recovery. Unless I see for two consecutive quarters a strong growth, I will not change the guidance at least from my perspective.

**Mayur:** Thanks. All the best.

**Sandeep Sinha:** Thank you, Mayur.

**Moderator:** Thank you very much. We have the next question from Mr. Jay Kakkar from High Tong. The line is unmuted.

**Jay Kakkar:** Thank you for taking my question. Just want to understand are there any CapEx plans in the future, you have cash on your books and every year you are generating a lot of cash. So, just want to understand are there any new plans for CapEx or how do you plan to use this cash?

**Sandeep Sinha:** I am pretty confident that this coming year will probably be the peak of our CapEx cycle, and then I want to make sure that we will start to reduce that part of our investment plans. I think we have good capacities in place. We continue to upgrade our Kothrud engine plant. We are looking at maybe one or two investments, for example we are thinking of centralizing all our warehouses. So, that could be one project. I think, our parts distribution centre expansion is going on as we talk. So, between this year and next year, that should get closure. I feel like with that capacity, we are always looking ahead and making sure we build capacity. For the projects business, we have started the completion of the plant in Pirangut where we used to make some small gensets, etc. We are revamping to make it sure that we cater to our industrial requirement for some of the value-added systems from that plant. Right now that CapEx investment is going on. So, I feel pretty good that we will have all the right capacity. And certainly, we see anything in the horizon we will be very proactive to make those investments.

**Jay Kakkar:** Okay, sir. Lastly, there is one large player which is trying to take market share from you. Do you think this price intensity will continue till this player gains some foothold in the market or you think that they don't have this kind of patience? How do you see this playing say in the next three years?

**Sandeep Sinha:** Maybe I will respond to it a little differently, Jay. I am not sure if I will satisfy the question you asked. The way I look at it is, we are very sure that in the markets we will hold on to our share. That's what we are working on. For that, if we have to take a pricing decision, we will. For us, pricing is a short-term action. What we believe is making sure that we have the right products, we have the right path to market. So, those are things we will continue to work and invest in. And we will do so. And as I said in the earlier part of this conversation, every time there is an emission change as well whether it is in the market that all the CIL part of the business plays, whether it is in the automotive space where we play with some of our partners like Tata. As emissions have changed, we have gained share. Even in CPCB III, which took us about 12 months, but we have been able to gain share in all those segments for CPCB II. CPCB III will come in. So, those are things we prepare for. Technical pricing decisions we take just to make sure that we continue to be dominant in those markets.

**Jay Kakkar:** Okay, sir. Thank you for answering the questions. Thank you so much.

**Moderator:** Thank you very much. We have the next question from Mr. Dipesh from UTI Mutual Fund. The line is unmuted.

**Dipesh:** Good morning, gentlemen. My first question is, what is that led to such a sharp increase in receivables despite a flattish kind of a topline?

**Rajiv:** We had some fiscal issues on our collections from Cummins overseas entities which have been fixed. Subsequently, the situation has become normal.

**Dipesh:** Okay. What is our CapEx guidance for FY19-20?

**Sandeep Sinha:** Right now, our plans are about 350 to 400 crores. That's why I said it's going to be the peak of our CapEx cycle.

**Dipesh:** This will be primarily spent on?

**Sandeep Sinha:** The big spend over here will be: one is, as I said, on Kothrud high horsepower tech cells. We will also be completing the phase 2 of the tech centre which we spoke about earlier. We also have a chunk of our CapEx going into making sure that Kothrud plant keeps getting upgraded. That's what we will continue. I think that's pretty much what I can think of.

Our distribution centres are going through an expansion. As we are projecting our future, our parts business continues to grow. So, we are expanding our distribution centre in Phaltan.

**Dipesh:** And for FY19, what is the guidance for CapEx?

**Sandeep Sinha:** Again, I would say it would be a little less, maybe 300 to 350 crores kind of guidance. And then we should see a steeper decline in the years beyond that.

**Dipesh:** Okay. Thank you.

**Moderator:** Thank you very much.

**Sandeep Sinha:** Sourodip, this should be the last question. We are running out of time.

**Moderator:** Alright. So, we will take one last question from Ravi Swaminathan from Spark Capital. The line is unmuted.

**Ravi Swaminathan:** Sir, just wanted to know what is the size of the HHP market for FY18 and how was it compared to last year?

**Sandeep Sinha:** The size of the high horsepower market? Just give me one second. I am assuming your question is for power gen, correct?

**Ravi Swaminathan:** Yes.

**Sandeep Sinha:** Give me a second. I will make sure I give you the correct data. Roughly, it's about 2500 units. In that we have about 65% to 66% market share. I hope that helps you.

**Ravi Swaminathan:** Okay. And last year how much it would have been, sir?

**Sandeep Sinha:** It was rather, I would say, flattish. It's about 2400 and our market share was about 3 to 4% lower in that year.

**Ravi Swaminathan:** Okay. Because revenues wise, if you see, compared to last year, we are seeing a revenue decline.

**Sandeep Sinha:** Yes. That's right. It's a question of the mix. In terms of the lower end of the high horsepower load, the growth has been higher in that 500 to 750 kind of products. From a topline perspective, you may see a change but in terms of units we have gained share. It's a good news for us.

**Ravi Swaminathan:** I got it. Sir, with respect to industrial segment, what is the relationship between Tata Cummins and Cummins India with respect to supply of engines?

**Sandeep Sinha:** We have always kind of talked about five big markets in the industrial space: Compressors, Construction, Mining, Rail and Marine. All other engines are by CIL internally. For the construction market, it uses the same engine that is used by truck market. So, it's a 6-liter engine, and that's what we buy from Tata Cummins. So, only for one segment and in that construction segment, that's where we source those engines from Tata. The rest in the industrial market engines are manufactured by CIL.

**Ravi Swaminathan:** Does Tata Cummins directly supply also to some of these customers?

**Sandeep Sinha:** Of course, yeah. At even JV, we have certain capacity that is allocated by agreement to us. So, absolutely.

I think we have run out of time. I want to thank everyone for the questions and thank you for your support. I look forward to meeting you next quarter again.

**Moderator:** Thank you very much, Mr. Sinha. I would like to thank all the panel members and participants who joined us today. Hope you all had a useful time. That does conclude the quarterly investors' call. On behalf of Cummins India, I would like to thank all the participants once again. Wish you all a great day ahead.