Cummins India Limited

Quarter Two Earning Conference Call 2017-18

October 27th, 2017

Anant Talaulicar: Good morning, ladies and gentlemen. This is Anant Talaulicar and I am here to announce the results of Cummins India Limited for the July through September quarter. Net sales at 1118 crores declined 11% compared to the same period last year and 15% sequentially. This is on an apples-to-apples basis, you know, considering the changes from excise and GST. Net sales for the first half of the year declined 2% as compared to the same period last year. Within this, domestic sales at 748 crores in the quarter declined 7% versus the same period last year and 18% sequentially. For the first half we grew 3%. Exports for the quarter 371 crores declined 17% versus last year and 6% sequentially. Exports for the first half declined 11% as compared to the same period last year.

Net profit at 195 crores was 20% lower as compared to the same period last year and 15% sequentially and this is excluding any extraordinary gains on the sale of assets, so it's an operational number. Net profit for the first half at 424 crores declined 9% as compared to the same period last year.

I have to say that we had, you know, pretty significant impact related to GST which we are not fully anticipated for the quarter and we believe this is a temporary impact, it's a teasing issue as various customers began reading themselves for all the IT system changes and the accounting changes and we are already seeing improvements in that. So, there is a good level of confidence that we will recover in the current quarter.

Aside from that, we did have some supply chain issues in the system, as the supply-based geared up to ramp up for the commercial vehicle upsurge. While it doesn't connect directly to CIL legal entity, you know, we do have a common supply base in India, the manufacturing supply base, which does gave strength when a particular market jumps significantly. So just to give you an indication the commercial vehicle market has grown 58% close to 60% sequentially. And again that is because India went to Bharat stage IV regulations in April of this year and so in that first quarter post Bharat stage IV there was significant downturn in the market, as the market tried to understand the major changes relating to all electronically-controlled engines and vehicles as well as the introduction of new technologies such as SCR and EGR. So that seems to have settled down and, in fact, we have seen a remarkable and unforeseen upturns in that entire market, as I said, 58% change. Even as compared to the same quarter last year, the commercial vehicle market is up 17%. So these are couple of, I would say, temporary issues that did impact our results in the quarter which will get resolve in next quarter. The underlying demand trends remain the same, so we are continuing to see growths in our domestic market. In terms of our exports, you know, we continue to see, you know, a little bit of a mix bag, I would say, after hitting a low point in terms of the high horse power engines we have seen some gradual increases and that continues.

As far as the genset side, the low kilowatt genset side, we continue to see, you know, slight decline we think we've kind of hit bottom, but, you know, maybe not entirely, so the softness continues in terms of gensets exports.

One of the few things to point out is despite the reduction, fairly significant reduction in revenues in the quarter for the reasons I've mentioned, the materials margin has improved. It stands at 34.9% which is an improvement of 1.2 basis points from the same period last year and a 1.5 basis point improvement sequentially. So with that, you know, we feel generally good that we are driving the right kind of cost focus. The mix in the quarter was also more reasonable, I would say, we would hard me say for a number of quarters we ran adverse impacts of mix we didn't quite see that much this quarter. But clearly our cost reduction efforts are playing out and so we saw the margin improvement despite lowering of sales. So, as these, you know, external factors I talked about like GST and supply chain issues are behind us, we should see a much better quarter currently. So with that, I will close my remarks and open it up for your question and answers. Thank you.

Moderator: Thank you, sir. With this, we open our floor for our Q&A. Any participant who wishes to ask any question can press "0" and "1" on your telephone keypad and wait for your name to be announced. I again request, all the participants if you wish to ask any question, you can press "0" and "1" on your telephone keypad and wait for your name to be announced. We have the first question from Ms. Renu from IIFL. The line is unmuted.

Renu: Yeah. Good morning, sir.

Anant Talaulicar: Good morning.

Renu: Yeah. The improvement in gross margins, sir, the first question is the improvement that have seen in gross margins can you quantify what proportion of it was rated to the exports and what proportion to the cost rationalization measures you've taken and also to the mix?

Anant Talaulicar: Okay. Let me just clarify the improvement numbers that I quantify is related to material margins not gross margins.

Renu: Yeah. Sorry. Materials.

Anant Talaulicar: Yeah. Material margins, yes. So, essentially the vast majority of the improvement is related to our cost saving efforts. Mix has had some impacts, but I would say if you look at the proportions, the mix is probably in the ratio of 3:1. Im sorry its actually other way round So, cost reduction is 3 and the... you know, mix is more like a 1 factor.

Renu: Sure. Sir, the GST impact can you help us quantify what was the kind of sales deferment and in which particular segments did you see, so power gen what was the kind of decline and to what extent we think we will be able to recoup it similarly in the distribution segment how was that?

Anant Talaulicar: I would say the segment that was most impacted by GST was at distribution segment. And that impact was somewhere in the 70-80-crore range and this is largely because our distribution business deals with various end customers, you know, some of them are even government companies and they were not ready, you know, now they are ready, of course, but at that time they were not ready. So, this is the issue. As far as power gen, it was a smaller impact, maybe, in the range of about 20 crores.

Renu: Okay. And with this especially not material change in the export outlook and LHP disappointing this quarter do you see there could be a risk to the guidance that we had given at the beginning of the year exports being flat to minus 5 and domestic growing by 10%?

Anant Talaulicar: What I would say is, you know, if you recall, guidance I gave last time for domestic was 5 to 10% growth; that was the guidance. And I speak by that guidance; I am not changing that guidance. So all these temporary impacts we are talking about will not impact the overall year's guidance. As far as exports go, you know, given the continuous sluggish situations particularly on the genset side, I am going to revise my guidance a little bit downwards. So where I had a guidance of flat to minus 5, I would like to change it to minus 5 to minus 10 at this point. I hope I am wrong, but always try to be more conservative. Sometimes I am not, but this is where I see.

Renu: But then do we see the LHP declining for and if you can just help us how was it split in exports for the second quarter and if HHP has grown, then do we see any situation HHP growth moderating out or LHP we expect further downside from these levels?

Anant Talaulicar: What I would say is I don't expect right now conservatively any improvement in LHP. So, you know, where it has come down currently I think it's for the kind of say at this level is what I am projecting.

Renu: Okay. Right. Sir, my last question if you can just help us with the sales mix split between segment-wise domestic, industrial and similarly for exports with the HP-wise, LHP, MHP and HHP?

Anant Talaulicar: Okay. So, when you look at our domestic sales in the quarter, as I mentioned, there was 748 crores and within that power gen was 318 crores, the industrial business was 170 crores, distribution was 250 crores and there was some miscellaneous stuff, you know. So that's the domestic breakdown. As far as the exports go it is 371 crores for the quarter.

Renu: Hello?

Anant Talaulicar: Yeah. So, as far as exports go, the LHP's range was approximately 60 crores, the mid-range was approximately 90 crores, Heavy Duty was approximately 25 crores and HHP was approximately 170 crores and about 25 crores of spare parts. That added up to approximately the number I quoted which was 371 crores.

Renu: Okay. Right. Sure, sir. But then you don't draw any specific optimism that despite distribution revenues declining this quarter and mix being in favour of HHP we've achieved the expansion gross margins, so if in the second half we see growth recovering and sales coming back, then ideally margins improvement should be better than what have seen during the first half of the year?

Anant Talaulicar: I would say, you know, you are right if those factors play out just like you've said, absolutely there should be upside.

Renu: Then the current gross margins or the material margins that we've seen in 2Q should be broadly maintainable for the rest half of the year?

Anant Talaulicar: They should be.

Renu: Sure. Thank you so much, sir, and all the best.

Anant Talaulicar: Thank you. Thanks, Renu.

Moderator: Thank you, ma'am. We have the next question from Mr. Venkatesh. Mr. Venkatesh your line is unmuted.

Venkatesh: Yeah. Good afternoon, sir. Sir, the first question I am sorry, but I think there was some disturbance in the line and I missed the numbers which you gave for power generation and industrial. Is it possible to repeat it for the quarter?

Anant Talaulicar: Certainly. So the power gen number for the quarter was about 318 crores and industrial was about 170 crores.

Venkatesh: Okay. Thank you very much, sir. Sir, the next question is if we look at your purchase of traded goods, I mean, I think we've raised this question in the previous quarters also, last two quarters that is fourth quarter of 17 and first quarter of 18, the purchase of traded goods were high and when the purchase of traded goods are high, your material margins were lower, but this quarter we've seen a sequential decline in your purchase of traded goods and your gross margins have expanded. So has it got to do to some extent with your make versus outsource kind of a thing that which is actually having a impact on your gross margins or it is just happens to be that, you know, the numbers are looking like that?

Anant Talaulicar: So the answer to that question is no. You know, we did go through an outsourcing exercise which has benefits to CIL legal entity. But when you look at the big picture, you know, I would say it's not a very material impact. That is where I stick.

Venkatesh: Okay. That's it from me, sir. Thank you very much.

Anant Talaulicar: You are welcome.

Moderator: Thank you, sir. We have the next question from Mr. Sandeep from JM Financial. The line is unmuted.

Sandeep: Good morning, sir.

Anant Talaulicar: Good morning.

Sandeep: Sir, my first question is on the domestic power gen segment, you know, we have been highlighting in the past that because of various competitive pressures we haven't been able to pass on a price increase in this segment almost in the past 2 years. So given the current rise in material cost what is your outlook in terms of pricing for the segment?

Anant Talaulicar: It's not very favourable. I am not holding my breath that we will be able to pass on price increases to our customers because I continue to see very strong competitive intensity in the marketplace.

Sandeep: So, I mean, how is Cummins like preparing to safeguard its market share or do we also want to participate in the kind of discounting that the competitors are doing in the higher HP category to challenge Cummins market share or it will be just through the cost savings will be trying to tackle and focus on maintaining margins or what would be the corporate strategy over there?

Anant Talaulicar: The strategy is to hold and increase market share and manage margins via cost reductions if we have to give price reductions.

Sandeep: I got it.

Anant Talaulicar: But we are not backing off from market share. Let me make it very clear. Our intent is to hold and grow market share.

Sandeep: Right. Because you've been highlighting in the past that at any cost you would not want to lose the market share that you already have.

Anant Talaulicar: That is correct.

Sandeep: Secondly, on the LHP exports side, sir, we have seen that this particular segment where we were very ambitious to grow our sales from 400 crores where we started to about 2000 crores in a period of, say, 3 to 5 years it has sort of stagnated in the past 2 years, when do you see this market returning, what are the current challenges, what is the current scenario in terms of demand in the African market?

Anant Talaulicar: Basically what I would say is Africa continues to struggle and it's lot of it you folks know better than me, but, you know, clearly even at current oil price levels, you know, most of the economies are still struggling and there's many other factors I am sure including local governance issues and all of that. But bottom line is with the kind of debt levels and their situations individual countries are truly struggling from a cash flow and liquidity perspective. So that is really what's going on there, you know, the situations in the Middle East is slightly better, but not, you know, whole lot better But having said that, you know, I do see that the worst seems to be kind of behind us and I would project, you know, that over the medium term we should seeing improvements. So frankly I continue to be optimistic for the long-term as far as this product range goes and I continue to see the opportunity for us to grow it to the numbers that you quoted. I continue to hold, you know, but again unfortunately that has slipped out because of the significant downturn and commodity prices that the world experience. But I think we will work hustles out of it and I think the worst is now what is behind us. That's how I would put it.

Sandeep: Okay, sir. Thank you so much for taking my questions.

Anant Talaulicar: You are welcome.

Moderator: Thank you, sir. We have the next question from Mr. Jaigakar. The line is unmuted.

Jaigakar: Yeah. Hi, sir. Thanks for taking my question. Just want to understand... Hello?

Anant Talaulicar: Yes, please. Go ahead.

Jaigakar: Yeah. Just want to understand the impact of GST a little better. Sir, input credits that we received or input credits, so has the customer demanded input needs to be passed on, has there been any contracts for, sir, I have some large contracts, has there been some contract negotiation? I am just trying to understand is there any change in the pricing because of this?

Anant Talaulicar: Absolutely. So, you know, we have passed on the input credits, as you know, the government is very serious that, you know, this cannot result in some extraordinary margin changes. So we have been very, very diligent on that. We have, in fact, even external auditors helping us on that part. So that's already passed on, in fact, you do see some impact on the price side based upon that, you know. So that has been passed on to our customers.

Jaigakar: Okay. So that means the revenues would have also got impacted, so growth would have also got impacted a little bit because of the price reduction?

Anant Talaulicar: Correct. It already is there. It's already there in the number, I think, somewhere I don't know, probably in the 10 crores odd range is what is already in the numbers.

Jaigakar: Okay. Understood, sir. Sir, second question is on the power gen you said you are not seeing any significant, you know, loss of sales or postponement of sales, but the segment has de-grown by around 7% y-o-y. So what's the demand outlook on the segment, is it coming back this week, how do you see the segment?

Anant Talaulicar: So what I would say is, you know, the underlying demand for our products in power gen domestically, you know, I would say, you know, still in that guidance range; it's still in the guidance range. So I am really not worried about what we saw in this quarter, you know, I am not worried. I will make it very clear. Yeah.

Jaigakar: Okay, sir. Can you provide details on the domestic power gen mix?

Anant Talaulicar: Yeah. So when you look at that, you know, approximately 320 crores of domestic power gen sales, the LHP side was about 35 crores, the mid-range was approximately 90 crores, heavy duty was approximately 20 crores and high horse power was about 180 crores.

Jaigakar: Okay, sir. Thank you so much.

Anant Talaulicar: You are welcome.

Moderator: Thank you, sir. We have the next question from Mr. Bhavin. The line is unmuted.

Bhavin: Good morning, Anant.

Anant Talaulicar: Good morning.

Bhavin: What's heartening to see is the improvement in material margin and this is despite significant rise in commodity and you said bulk of it is due to cost reduction and which seems to be like a significant benefit. So if you could delve a bit deeper and help us on that, it will be grateful because what seems like it is more sticky as you suggest it.

Anant Talaulicar: Yeah. So, you know, as I mentioned, you know, we have been very, very diligently conducting, you know, very long-term exercise on value engineering and partnering with our suppliers. We call it the ACE programme, Accelerated Cost Efficiency, which deals with all aspects of costs and, you know, we are seeing the benefits of that. We've been seeing the benefits even in the past. Unfortunately, they were getting some more hidden by other factors that is some price reduction in a particular quarter or, you know, an adverse mix; mix has been a really adverse factor for us now for a very long period of time if you've been staying in tune with my calls. But fortunately in this quarter, you know, things finally changed. As I had mentioned, you know, things changed, right? So the mix didn't hit us hard. In fact, it went slightly in our favour, but, you know, these cost reductions are showing up now, you know, they were hidden in the past. So that's what we are really seeing.

Bhavin: Okay. My second question is on the industrial side, so if you could give us a breakup within the industrial for the quarter and for the first half and what is your outlook because the question that comes to us from the investors is like we've now seen a heightened activity of growth construction like and there is a very high bees formation, so what is in store from here on?

Anant Talaulicar: Yeah. So, as I said, the industrial was about 170 crores in the quarter. It did decline some as compared to the same period last year, but grew as compared to the sequential quarter. And from a first-half basis, you know, we were growing 14%. So, you know, there is just, as I mentioned, the strength in industrial demand growth is even stronger than the power gen side and I expect that to sustain. So, as I look at, you know, the individual numbers the compressor segment and even within compressor there are two segments actually, sub-segments we want to call it that, one is portable compressors that actually, you know, help with road construction activities and then there is the water-well rigs where you drill down into the earth for water, but a combine number of 3 crores. Then construction equipment itself was 57 crores, mining was 15 crores, rail was about 50 crores and then there are some miscellaneous. So marine was quite depressed actually in the quarter, barely about 2 or 3 crores. So, as far as the industrial segment goes in the quarter, now, as you mentioned, you know, the road activities are definitely strong and brisk. They are like none we've seen before, I believe. And based upon that I think it has had a positive impact on the construction market. This also had a positive impact on the portable compressor market. It has had a positive impact on the mid to lower end of the generator market where even generators are used, you know, as you build roads and for sure it has had a very positive impact on the commercial vehicle market. And this is sustaining because, as you know, there's a lot of work to be done ahead of us in terms of the dedicated and various other things, you know, the national highways in the second tier part and the rural. So I feel very positive about this side of our economy.

And then I think some of the others are really being driven by government spend and the best one that had traction now for the last two years has been the railways. And I do want to recognize the stewardship there of Mr. Suresh Prabhu. I think he did manage to drive significant change in terms of operational efficiencies and good governance in the railways like I have ever seen before. And we are seeing clearly impacts on that our rail business is of 44% in the first half of the year.

Now, that is followed by marine where also, as you know, the government is trying to do a lot in terms of building out, you know, the navy, the coastguard, some of the fast petrol vehicles to protect against terrorism and all that in Mumbai and the coastline, so all of that we are seeing that. The issue is all the shipyards are right now full and frankly they are struggling with supply chain issues. I am not talking specifically about engine; I am talking about the entire ship. And we are witnessing just a bog down situation right now means moving, but it's not moving as fast as what we should be seeing what the government would like to see in terms of execution. So that is what is causing a little bit of a bottleneck. I am sure we will work through it in the mid to long-term, but the demand situation in the marine side is very robust.

And I think then the defence part which is a much smaller business for CIL, of course, is practically insignificant. But we see potential in it, but again it's bogged down by just lead times of getting the standards and the whole process going, so real action in that.

Bhavin: Okay. So this 15-20% number should sustain even next year as well?

Anant Talaulicar: Yes. I would stand by that. I would still stand by that growth on the industrial side.

Bhavin: Okay. Lastly, if you can help us with the first half numbers of breakup within the industry?

Anant Talaulicar: So the breakup of the first half in industrial was the compressor was 80 crores, construction was 150 crores, mining was 35 crores, railways was 95 crores, marine was 3 crores and then there are some miscellaneous stuff.

Bhavin: Sure. Yeah. Thank you so much for taking my questions.

Anant Talaulicar: Welcome.

Moderator: Thank you, sir. We have the next question from Mr. Sujeet Jain from HDFC Securities. The line is unmuted.

Sujeet Jain: Good morning, sir. I think the line was not clear when you mentioned the compressor number in industrial for the quarter, if you can repeat that, please?

Anant Talaulicar: The compressor number for the quarter was 45 crores.

Sujeet Jain: Sure. And in 2Q call last year you had mentioned the lead indicators for projecting a growth in exports which were you'd put out precisely that point in time growth in China that is Chinese GDP growth oil prices and metal prices. Now that everything is looking very firm, what level of you have given this commentary about countries still facing problems in their economies, countries which are dependent on oil at what levels of, let's say, some of these indicators you would see some of the areas like LHP exports to come back and are we seeing some other problems in LHP exports such as compression, et cetera because domestically for years we've seen then that segment is probably dominated by some other players?

Anant Talaulicar: Okay. So what I would say is that even at current levels of these indicators that you quoted such as China GDP growth, oil price levels and metal price levels, even at current levels we should start seeing recoveries now in many of our range of products and I think we are starting to see that more on the high horse power engine side currently. So we are seeing growth on the high horse power engine export side. We are not yet seeing it in the LHP side for the factors I mentioned. But given some time, now whether that time is another 6 months or a year, I think it's anyone's guess. But even at current indicator levels given some time, I think, there should be a recovery even on the LHP genset side. And then, of course, if these indicators improve beyond current levels, then there is more upside. That's the way I would put it.

Sujeet Jain: So you are saying LHP is not an issue about competitive intensity or competition there in export markets; it is more related with these indicators only that if they improve further, then basically we are maintaining our market share in LHP exports?

Anant Talaulicar: Yeah. And I think the point that you bring up around competitive intensity in these various markets like Africa, Mexico, Latin America, Southeast Asia, Europe I would say, yes, there is scope for Cummins to play even stronger in those markets and we are focused on doing that. So that could be another upside to your point.

Sujeet Jain: I mean, just to understand it could be difficult to pinpoint a number, but what level of oil you see eventually that could correlate to better export guidance or growth?

Anant Talaulicar: No. Like I said, I think it's already at a level. Today oil is at what? It's cross the $50 mark, you know. I think it's reasonable. Even at these levels that we should start seeing improvements in LHP exports given some time because obviously, you know, when you get into a real crunch situation as a country, it takes time to get through it, you know, we saw that in India with our banking situation, et cetera we are still working through it.

Sujeet Jain: Sure. Many thanks.

Moderator: Thank you, sir. We have the next question from Ms. Anisha. The line is unmuted. Ms. Anisha, your line is unmuted. You may go ahead. Sir, no response. Shall we move to the next question?

Anant Talaulicar: Yes, please.

Moderator: The next question is from Ms. Renu, IIFL. The line is unmuted.

Renu: Yeah. Hi, sir, once again. Sir, if you can just help us clarify of the other income what was the value of dividend this quarter because I did last year we had is one of dividends from CRTI and some other elements also, so what would be the dividend income in 2Q?

Anant Talaulicar: Correct. So the dividend income came down to half basically from what you are talking about. So that quarter that you referred to we had a dividend income of 31 crores and in the current quarter we had a dividend of 15 crores.

Renu: Okay. And what would be the share of the rental income that we would have received from the other group entities for India campus?

Anant Talaulicar: That has been steadied, you know, at least from a sequential basis and even from last year, you know, we get our rental income of approximately 4 crores per quarter.

Renu: Okay. Per quarter?

Anant Talaulicar: Yeah. 4 crores per quarter. You know, that might go up a little bit, as we looked to rent out some more sections of the headquarter's office in the next couple of quarters. But that's not going to be substantially different; not substantially different.

Renu: But then one can broadly expect that the quarterly run rate of 15 crores of dividend that we have seen or 15 to 20 that should be a much more broad base run rate for us now?

Anant Talaulicar: I would say so. Yeah. I think that's reasonable.

Renu: Right. Sure. And, sir, just overall wanted to check in the HHP where we are seeing growth in the exports also being pretty steady how has been the growth outlook especially in the North American and other market and do we see that number probably now growing in double-digit terms or sustaining the double-digit growth?

Anant Talaulicar: No. I don't see double-digit. I don't see that. And again as far as growth in North America, et cetera frankly I am not qualified to comment upon that, you know, that you should check with our global parent.

Renu: Right. So the HHP portfolio for us in the exports side in your view or double-digit growth may not be possible or sustainable?

Anant Talaulicar: At least I am not forecasting that kind of double-digit growth. You know, I hope it happens, but that's not what I am foreseeing.

Renu: Sure. All right, sir. That's it from my side.

Anant Talaulicar: Okay. Thank you.

Renu: Sure.

Moderator: Thank you, ma'am. We have the next question from Mr. Bhavin. The line is unmuted.

Bhavin: Yeah. Thank you again for the opportunity. We have seen recently announcements from the global parent on the electrification products and the storage products, if you could throw light could that be an opportunity which can be addressed in India and how would CIL could be a beneficiary of that?

Anant Talaulicar: Yeah. So, you know, I think you probably seen it in the announcement also, but, you know, we are very clear as Cummins that we don't want to write on one technology. You know, we don't want to be a one-horse pony like Tesla, for example. Right? We want to make sure that we are the leaders supplying the power train or power for commercial equipments around the world. And commercial equipment around the world is defined as on highway is trucks, busses; off highway it is generator sets and construction equipment, mining equipment, rail equipment, marine equipment, etcetera. So just think of us as being technology agnostic in terms of supplying power technologies within commercial equipment and so we will provide a, let's say, a bouquet of solutions that give our customers the best possible PCO. That is the way to think about this. In some pockets around the world it has been natural gas also. But, as we see the world evolve, right, we are seeing that in some pockets like, for example, in passenger cars you are seeing an evolution of electrifications. We think electrification will also play a role in commercial markets. In all commercial markets? No. But, yes, in some pockets of the commercial market at least in the mid to the long-term; not tomorrow, not day after tomorrow. Certainly, yes, in the next 5 years, 10 years, 15, 20, 30 years and we are talking about a long-term horizon years. We are also seeing that, you know, there are other technologies like fuel cells. So there has been fuel cell, there are solid fuel cell and over time these will also be really play and increasing role in terms of powering commercial equipments. Solar will also have some role to play, you know, so all of these things will continue to play out. There are some other alternate fuels which will have some niche applications. It could be vegetable oils, methanol, ethanol whatever you are hearing. So bottom line is Cummins will play in all of this. So the most recent announcement that you saw from Cummins Inc is nothing but a demonstration of what I just talked about. It is nothing but a demonstration that we are serious, you know, this is not just all talk. We are not going to be like a Polaroid that is only stuck with one type of technology. We will play in all and you are seeing now that we made a bold move into the battery side of the equation, electrification side. So this company Bramo is one that we have already had a partnership with on the light sort of WAN application in North America with a customer called Purolator. So that's how we got to know them. And then, as we get closer to, you know, what they are all about, we felt that by making this acquisition it would accelerate our journey into this phase because I think again we've already committed to the market, you know, so public news that by 2019 we will have whole electric busses in some parts of North America. That has already been committed to. And then we've also said by 2020 we will have range extended hybrids operating in North America. So these are some shorter, if you want to call it shorter term in this timeframe because this is a long horizon, this is a 30-year horizon we are talking about, so for that the next 2 years is a very short-term, you know, it's not about quarters there; it is about years, right. So that is where we are moving essentially, right? So I hope that helps you understand. So, yes, will it play in India? Yes, of course. The horizons may differ, but, for sure, we are seeing, you know, the interest levels on the part of the government, some NGOs, some customers we are seeing all of that happened. But let me tell you that there's a lot of confusion right now here in our country. There's a lot of, I would say, loose talk without data. So one of the things Cummins is also doing is we are starting to now come up with, I would say, more data-based and robust financial models that show a TCO for different technologies. So what is the total cost of ownership for a diesel? What is the total cost of ownership for all electric? What is the total cost of ownership for a certain type of hybrid? So this is what we are developing and we are sitting with various stakeholders to show that and here's the assumptions we are making. If you believe the assumptions are incorrect, we are willing to look into and change our TCO models. But when you look at that, you know, sort of equations, what I would say is we should not go by the hype, you know, because this is a long-term, you know, trend that will play out and you will see Cummins playing all across that trend. So I hope that solves it.

Bhavin: Yeah. Sir, thank you. And just one last housekeeping question. We've seen tax rate move up this quarter about 22; what could be the guidance if you could help us the tax rate for current year as well as next year?

Anant Talaulicar: Right. So the tax rate has moved up because of two factors. You know, one is the decline that we've seen in our LHP exports, all of that comes out of an SEZ in Phaltan. And so as those sales have declined, obviously, you know, we've not been able to enjoy the benefit of that lower, you know, tax rate. And the second reason is because the government changed the law where they were giving a 200% benefits for certain R&D investments and they are sun-setting those over a period of time. So they've taken the 200 down now in this fiscal year to a 150% and over the next couple of years they plan to eliminate that. And, as a quid pro quo, the commitment from the Finance Ministry is that they will lower the overall corporate tax rate. They want to take that overall corporate tax rate down, you know, or as you know from CII the demand is the corporate tax rate in India should come down to 18%. It's way too high, it doesn't help the manufacturing industry certainly from an export's perspective and not as it helped the consumer. So these are the two factors that are playing out here. And also by the way we are not in favour of this R&D sunset because, as you know, R&D work in India is at a very, very low proportion as compared to most of our competitor countries and government should actually do opposite. They should actually do more to foster, more R&D work in India. When the Prime Minister talks about "Make In India", it shouldn't be just about metal basing in India, but it should be about doing innovation work in India.

Bhavin: How should we take a tax rate for current year and next year, so full year as of...?

Anant Talaulicar: I would keep it at current levels, you know, I would say that what you saw in the current quarters just hold it there in your mathematical model.

Bhavin: Yeah. Sure. Thank you so much. That helps.

Anant Talaulicar: Okay. Thanks.

Moderator: Thank you, sir. We have the next question from Phulkit Patni. The line is unmuted.

Phulkit Patni: Sir, thanks a lot for taking my question. Sir, could you just repeat in your opening remarks you mentioned about some supply side disruption that you faced because of the high CV demand. I couldn't understand how exactly did it impact you, if you could explain that in a little greater detail?

Anant Talaulicar: Certainly. So, you know, we have something like probably close to 2000 suppliers in India. Okay? And these suppliers they serve all our markets, many of them. There are a few who might only serve, let's say, a compressor market, some might serve rail market. But many of them, in fact, I would say probably more of them would essentially supply to all markets. So, in other words, you know, if you think of what Tata Toyo being a radiator company, they will make radiators for the on-highway applications, they will make radiators for an excavator, they will make a radiator for a generator set. If you look at Bharat Forge, they are also in the same board. They make crankshafts that go across, all applications. And so when a particular large market which is the commercial vehicle market, as you know, commercial vehicle market in India is something like 350,000 units per year. I am talking about the medium and heavies. I am not talking about the smaller case and, you know, below 12-ton kind of vehicles. This is a big market; very big market. When that big market shoots up from one quarter to the next quarter, so within 3 months when that market shoots up by 60%, it puts a stress on the entire supply base. So all the Bharat Forges of the world or the Tota Toyos of the world they struggle to then meet the demands for the entire all segments put together. That is what I was trying to convey in my remarks.

Phulkit Patni: Understood, sir. And has that sort of normalize now or you expect that to be under stress for some more time?

Anant Talaulicar: I think it's going to be under stress even in this quarter, but not as drastically as it was in the last quarter. So we've seen considerable relief and improvement in this quarter. Is it zero? I would say no, I mean, even now many of our suppliers and including our own like our Tata Cummins operations is running full board 24x7.

Phulkit Patni: Understood, sir. That's helpful and very helpful. Thanks.

Anant Talaulicar: Thank you.

Moderator: Thank you, sir. We have the next question from Mr. Charanjit from B&K Securities. The line is unmuted.

Charanjit: Hello?

Anant Talaulicar: Yes, please.

Charanjit: Sir, good morning. Thanks for the opportunity. Sir, you know, we are trying to understand the industrial segment, one is the proportion of the government in the stage right now and how do you see that killing up going forward. The other thing is, you know, the margins what we are, you know, having OEM versus the government, you know, business margins if you can help us understand that?

Anant Talaulicar: I am not sure I quite understand your question. But let me make an attempt and then you tell me whether it's hit the mark or not. But, as I look at our industrial segments which, as I said, I feel more bullish about as compared to power generation in the short, medium and possibly even longer terms, you know, what we are seeing here is we are seeing largely a government that is very focused on economic development, they may be focused on other stuff around social, stuff around – but anyway they are focused on, you know, economic development and I think they are putting their money where their mouth is by investing and their traction right now is in the railways and in the roadways. I am seeing less traction on the shipyards and I am seeing even less traction on the defence. That's what I was trying to explain. So based upon, you know, the traction that we see in railways, you know, that has led to a lot of demand increase for Cummins products and so we are at Cummins to make all the right investments in our infrastructure and our people to cater to that demand increase, not only from an engine perspective but in terms of expanding our all offerings into the entire generator set that goes into railway and even beyond noise at innovation systems, you know, things like that. So essentially, you know, this is what you are seeing and a similar phenomenon you are seeing on the construction equipment side and so, you know, we are really focused on those two very heavily. And, in fact, in the construction equipment side we are also seeing that most of these OEMs are also now starting to export equipment out of India. So you are seeing the benefit of a domestic robust demand and the fact that now these OEMs are exporting outside of India.

Charanjit: Sir, my question was, you know, more towards how much is the tender-driven business right now in our industrial segment where, you know, we are participating in the tender directly with the government because we see that, you know, the L1, L2 pricing mechanism that should tend to put a lot of pressure on the margins.

Anant Talaulicar: Correct. Absolutely right. You are absolutely right. So when you look at government business which we do both in our industrial side as well as power generation side, the government, you know, there are certain moves to do things like, you know, you have the gen now, right, through the government e-bidding mechanism and that is impacting our generator side in terms of, you know, now we can see the price pressures as a result of tenders, you know, that are done online. And then even on the industrial side, you know, it doesn't exist necessarily in the construction and compressor markets because those are private OEMs operating. So there you have to be market competitive, obviously. But in the case of railways or marine there are tenders and generally they go by L1.

Now, one of the things, one of the changes that has been made in the latest government procurement laws is they are starting to move away from L1 and giving cognisance to total cost of ownership. Now, this is a very new phenomenon. It has been suggested and strongly recommended by organizations like CII because if you just go by L1, then, you know, there are significant risk that you don't get the right quality, you don't get the right reliability, you don't get the right durability. So all of those things happen, you know, when you start driving only L1. And so the government is starting to move slightly away from that, but it's very early days and this will play out to process starts to percolate in the system.

Moderator: Sir, I guess, his line has got dropped. Shall we move to the next question?

Anant Talaulicar: Okay. Yeah. Sure. Can we take one last question?

Moderator: Yes, sir. He is the last participant in the queue.

Anant Talaulicar: Okay.

Moderator: The name of the participant is Ashish Jain. The line is unmuted.

Anant Talaulicar: Okay.

Ashish Jain: Hi, sir. Sir, good morning. Sir, I just have two questions, so one is on low horse power exports. I understand you point that the macro outlook for the consumption this week. But how have you fared in terms of a market share because around the key thesis we always highlighted was market share gains that we might see?

Anant Talaulicar: Yeah. Again, I am not qualified to answer that specific question only because, you know, the role that we play from India is as a supplier, you know, so we really don't control the selling and the channel management activities in these various countries like Africa and Mexico and all of those. So I don't have any visibility in terms of market share that exist in those countries. I think that is again a question issued direct to our parent, you know, from the power gen perspective, the global power gen business or power system business they can probably better respond to that kind of question.

Ashish Jain: Okay. Sir, secondly, you know, on the same lines like if I look at the parent's guidance on power gen, they have actually been raising their guidance for the last couple of quarters. So is it only low horse power which is impacting our exports or, you know, is it something else in terms of the sourcing, you know, the sourcings from a different country or is it different kind of products which are seeing better growth for the parent?

Anant Talaulicar: Yeah. So I think in general for the parent, again, you should check this with the parent. We are vast majority of those do go into power generation applications and that is where, you know, when they guide an improvement, that's where we are seeing that positive impact at CIL. But we haven't yet seen that on the low horse power genset side. But, again, that's a smaller component of the overall power systems business. So they can continue to guide improvements, even despite this not improving, you know, in the short-term.

Ashish Jain: Okay. And just lastly how much does railway account for our current business today?

Anant Talaulicar: Well, you saw the numbers I quoted. The railways in the quarter it was about 50 crores, so you can make your own calculation.

Ashish Jain: Okay. But is there any component of railways in power gen as well or?

Anant Talaulicar: There is no component of railways in power gen, but there is certainly a component of railways, an important component of railways in distribution which concerns, you know, the service and parts.

Ashish Jain: Okay. Fine. I understood, sir. Thank you so much.

Anant Talaulicar: Okay. Well, thank you, ladies and gentlemen. I appreciate your interest in CIL. I hope I was able to explain the scenario for the quarter as well as the first half as well as the future that's coming up. In general, I continue to feel, you know, good about the macro situation. Of course, we've had a short-term, you know, struggle, but we have to keep in mind that GST was not a minor change; it would call it a revolutionary change. It is one that the country has never seen and may not see for a long period of time. So, you know, clearly it has had some unintended consequences for industry. But having said that, you know, I can clearly see that the worst of the teasing issues are behind us. And from here on, we should start seeing the gradual, you know, benefits and improvements and we will continue to play out in the mid to longer term. The supply chain was another temporary factor, you know, that is mostly behind us. So going forward I feel very comfortable with where we sit and most importantly I think we are executing very well. We saw that in the material margin improvement numbers I feel very good about our management team, our diverse workforce, our technology prows and so I think we can continue to expect Cummins to outperform our industry. That is our commitment to you. Thank you very much.

Moderator: Thank you, sir. Thank you, participants. That does conclude our conference call for today. Thank you all for your participation. You may all disconnect your lines. Thank you and have a wonderful day ahead.