“Q1FY19 Analyst Call of Cummins India Limited”

August 13, 2018

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

Moderator: Good morning, everyone. I am Harpreet Kapoor, the coordinator of this call. Thank you for standing by and welcome to Analyst Call. For the duration of presentation, all participants' lines will be in listen-only mode. We will open the floor for Q&A, post presentation. So, I would like to now hand over the proceedings to Mr. Sandeep Sinha, Managing Director, Cummins India. Thank you and over to you, sir.

Sandeep Sinha: Thank you, Harpreet. Good evening, ladies and gentlemen. This is Sandeep Sinha, Managing Director, Cummins India Limited; and I am joined by my colleague, Rajiv Batra, CFO. Thank you very much for participating in this call. I would like to convey the results for the quarter ended June 2018 through this call.

For the quarter ended June 2018 with respect to June 2017 quarter compared to the same quarter a year ago, a total sales at 1296 crores declined by 1%. Domestic sales at 856 crores dropped by 7% and exports at 441 crores grew by 12%. Our profit before taxes at 254 crores grew by11% compared to 229 crores recorded in the same quarter last year. This is excluding a one-time gain of 56 crores on sale of assets last year same quarter. With respect to the sequential quarter, our sales at 1296 crores grew at 8% to 1206 crores recorded in the preceding quarter. Domestic sales at 856 crores grew by 5% while exports sales grew by 13%. Profit before tax at 254 crores grew by 22% compared to 209 crores recorded in the preceding quarter.

The decline in the domestic sales from last year due to few factors such as pre-buy in the previous year due to the impending GST implementation. Price reduction in GST era in the current quarter as well as supply constraint with some of our key supply. Our order books have been very strong and we are confident of executing these backlogs in the coming quarters. Going forward, we feel optimistic about the long-term state of the domestic economy. With the government's effort in creating infrastructure for the Indian economy, that will help us to excel.

In export business, the growth was led by our LHP business, which grew by 26% over last year and 19% sequentially. High horsepower exports grew 8% sequentially while it declined by 5% over last year. We are hopeful in recovery of power gen markets and ready to capitalize on demand improvement in both HHP and LHP markets. We have managed to keep our costs in control in spite of high inflationary environment, which has helped us improve our profitability as you can well see in our results. In terms of the sales outlook for the full year 2018-19, I would like to maintain the same target that we gave last year, which is 8 to 10% for domestic and flat for export business. With this I would like to open the session for questions. Thank you.

Moderator: Thank you so much, sir. With this we will open the floor for Q&A interactive session. So, participants, if you wish to ask a question, you may please press "0" and then "1" on your telephone keypad and wait for your line to be unmuted. The first question of the day we have from Inderjieet from Macquarie. Your line is unmuted.

Inderjeet: Thanks a lot for the opportunity. A couple of questions from my side. First is on the margin side. If I look at the press release, you talked about exports getting better. I am assuming that the margins have improved because the export mix has improved to LHP. Do you expect this kind of a margin level to be sustained or kind of be at least better than last year kind of numbers? That's my first question.

Sandeep Sinha: The answer is yes. It is certainly to do with mix as well as some forex moving in the direction it is. We have seen an improvement in our margins. I think I could say that it should be better than last year by almost a percent. This is at the material margin level that I'm talking about.

Inderjeet: Okay. By a percent you said, right?

Sandeep Sinha: Yes.

Inderjeet: Okay. And is there any reason to believe that it will not translate into EBITDA margins by a similar amount?

Sandeep Sinha: It should.

Inderjeet: Okay. My second question is on the domestic sales. You talked about despite the quarter one on the softer side, you have maintained your guidance between 5% to 10%. What gives you confidence to achieve that kind of a run rate where the supply constraint that significant and where the supply constraint more to do with shortfall of material or something like that because given utilization levels are fairly low, it's a little difficult for us to see what exactly led to those supply constraints.

Sandeep Sinha: Obviously, if it was one area supply constraint, we would have probably... Roughly exchange is in multiple areas. Basically, given our order booking position and what response we are seeing for our products in the market, we feel pretty confident of overcoming those supply constraints. And with that, we are confident to be able to execute and recover out of the supply constraint as we have done many times in the past. It's not going to be the first time. So, we feel very confident that the team should be able to execute.

Inderjeet: Sure. I will come back for more questions. Thank you.

Moderator: Next we have Bhavin from Axis Capital. Your line is unmuted.

Bhavin: Good morning, Sandeep. Could you help us with the breakup segment-wise: power gen, industrials? And within that also, you have been giving breakup on large, medium, low both on power gen and export side.

Sandeep Sinha: First at the higher segment level, power gen was about 360 crores, industrial was at 180 crores, and distribution business was at about 320 crores. Then, on the power gen rating, our low horsepower business in the domestic business was at 45 crores, mid range was at 105 crores, heavy duty was at about 30 crores, and high horsepower was at 180 crores. On exports, our low horsepower was at 84 crores, mid range was at 127 crores, heavy duty was at 30 crores, high horsepower was 150 crores, and then spares was at about 40 crores.

Bhavin: My second question is with respect to supply constraints. You mentioned that this will be overcome. So, as we have seen, July also being passed by. Have you seen that this has been overcome and bulk of the loss or the deferral of the sales can be recouped in the current quarter?

Sandeep Sinha: Yes. We have certainly had our share of challenges even in the month of July, thanks to the transporters' strike for 10 days and also the Maratha bandh. But again, the reason I'm reinforcing the numbers is because I feel pretty confident. We have a very strong execution war room in place which is working through the weeks and days and nights to be able to execute it. That's why, Bhavin, I am very confident.

Bhavin: My last question is on the price actions especially on the power generation side. One of your competitors has re-priced. So, could you give us some indication because what I understand is the last price hike was in August of 2014 and it has been over four years?

And we still haven't raised prices. So, any colour on that will be helpful.

Sandeep Sinha: First of all, we continue to look at prices which are being offered to the customers. With that, as you are aware, we always have a premium products because of our quality and the durability of our products. So, I think we will maintain that. I am not sure what and how... we look at prices offered to the customers, Bhavin. So, I leave it to that. And I don't see major changes happening in that.

Bhavin: Thank you so much. I will come back in queue.

Moderator: Next we have Renu Dutt from IRFL. Your line is unmuted.

Renu Dutt: Good morning. Sandeep, few questions from my end. First is on the industrial. If you could help us understand those numbers which are a bit soft, however the growth in the individual sub-segment of construction, on a quarterly basis, which are the segments we had to drop? And Overall for the full year, what is the growth outlook for the industrial segment for us?

Sandeep Sinha: The industrial segment actually overall continued to be strong. I think, there is only one sub-segment there which is the compressor segment which is the water-well market and then the one which has completely fallen through it. But it's not the first time. Certainly, since I have been in the Indian environment, this is the third cycle I'm seeing. And when it falls, it falls completely. So, what we saw was about 20 crores of sales in that segment. Construction continues to be really strong, and we had 95 crores of sales in that sector. Mining was about 10 crores, little soft this year again. It's pretty bulky order that comes. So, again I don't worry too much by a quarter in some of these segments that I'm going to name right now like mining. Rail was about 50 crores. Marine and others were about 10 crores.

Renu Dutt: Okay. But for the full year, should you back with double digit growth or whatever your numbers that we are calculating for this year?

Sandeep Sinha: Yes. You should certainly see, I think. Again, we feel that the next couple of quarters should be pretty strong in industrial. Right now, even in the construction market in spite of monsoons, it generally sees that market shrink of it, we have continued to see strong demand. So, I think we should certainly see even 9 to 10% growth in the industrial.

Renu Dutt: Sure. And my second question is related to data centres. Last time we discussed that we expect this market to pick up in a sizable manner. So, if you can share any update in terms of what kind of large orders are flowing through from domestic customers. And also the larger gensets which get into these big data centres of 2500, 2750 KVA, what is the game plan for Cummins India, by when do we target to start manufacturing these engine platforms in the listed arm?

Sandeep Sinha: There are many combinations depending on the size of the data centre, etc. So, first of all, let me tell you which are the segments that we are looking and we feel very positive about. Commercial reality is starting to look better than before. Manufacturing again seems to be... I think, there is more capital formation taking place in the manufacturing centre. Till last year, I wasn’t talking about manufacturing. Of course, infrastructure continues to be really strong. Again, both for power gen and industrial market. So, that’s really good news for us. Healthcare seems to be doing well too. And even pharmaceutical industry. I would say all these along with data centre is how you should look at it. Data centre is still very nascent in India. It certainly will grow faster than others because the base is small. But if you’re talking about high horsepower market, there is much more to that than data centre. Data centre in fact has still got very limited contribution from a contribution perspective. So, even if we have a good execution quarter, it still doesn’t mean that it can really by itself change the high horsepower market outlook for us. So, I just wanted to set the context but it’s certainly a growth area and we feel we have all the right products. In fact, by December, we are going to introduce another product – very, very focused. So, our engineering teams at CIL are working very hard in making sure that we have a launch on time, which is going to be very focused to the data centre market.

Renu Dutt: Thank you so much.

Moderator: Next we have Jay Kakkar. Your line is unmuted.

Jay Kakkar: Thanks for taking my question. Just wanted to get a sense on the mix during the quarter. Your LHP has grown compared to HHP and exports. Domestic has degrown versus exports. So, just wanted to get as sense on how was the mix during the quarter.

Sandeep Sinha: Thanks, Jay. Can you just be more specific? I just gave the mix in terms of the segment mix.

Jay Kakkar: Okay. I just wanted to know whether it was a better mix. The margin expansion that we saw, whether that was due to an improved mix or whether the mix was at work with something else led to margin expansion. That's what I wanted to understand.

Sandeep Sinha: No, no. Certainly, it was to do with the mix, as I said. And then obviously forex gains. Those were the two main reasons I would say for the improvement in margins.

Jay Kakkar: So, this forex gains were on the derivative contracts which will be a part of other expense? Is that the case or it will be a part of RM?

Sandeep Sinha: Part of RM.

Jay Kakkar: Okay. And sir, your export for LHP has grown, but your tax rate has also increased. What would be the reason for that?

Sandeep Sinha: It has to do with our SEZ plants. I will just have Rajiv for that.

Rajiv Batra: Yes, you are right. The SEZ plans. The first five years, we made 100% and it came down in the next five years to 50%. So, we have just entered the next five years bracket. I expect the tax rates going forward from here would be at around or about where we have the tax at this quarter.

Jay Kakkar: Okay. Sir, related to capex, this year you planned 400 crores kind of a capex. How was it doing in the quarter and which are the areas you are looking for during this year for the capex?

Sandeep Sinha: First of all, expansion of some of our facilities. So, we in fact inaugurated a new plant for our rail and marine segments where we will have larger value add. That we have inaugurated last week. It used to be an old plant. So, we have some capex there. And our parts distribution centre is expanding to meet the needs of the increasing parts business for us in the coming year. So, there is capex over there too. And then, big one is in our high horsepower itself that we are going to be investing so that newer technologies like are required in CPCB3. In that, we will be ready to be able to test those engines and develop those engines in India.

Jay Kakkar: Thank you so much for answering my questions.

Moderator: Next is Nitin Arora from Axis Mutual Fund. Your line is unmuted.

Nitin Arora: Sandeep, my first question is, when you said about the forex gain, I just wanted to understand because the reset generally happens in a year's time. Is it possible to quantify how much margin benefit eventually came only from the forex movement?

Sandeep Sinha: About half a percentage.

Nitin Arora: Okay. When you talked about the 1% improvement next year, that was on the gross margin, right?

Sandeep Sinha: That is correct.

Nitin Arora: But that is extra forex or something that you are attributing to because that's a part of our business at the end of that day.

Sandeep Sinha: It includes all. It includes pricing improvement that we make, anything that we do on our accelerated cost efficiency programmes to mediate the commodity. We mix all of these put together. We are looking and thinking that we should be at a percentage higher than last year.

Nitin Arora: Okay. Sandeep, on the capacity supply constraint, you still have very bad basis quarters like Q1. If you look at your base, it was about 6.5%. You have declined about 1%, and the next quarter is another drastic quarter for 10% decline in your base. When you are guiding for a strong quarter, just wanted to understand it is also related to a capacity size issue as well because 8 to 10% on that bad base is something that doesn't look that strong. But just wanted to understand also from a capacity, is there some constraint also coming to you from the sourcing as well? That's my last question.

Sandeep Sinha: Let me just be very clear. We have enough capacity to meet the requirements and we look at our capacity and make investments as we see the market improves. So, I don't think there is any issue with our internal capacity right now. There were about half a dozen key suppliers where we saw supply issues not necessarily because of capacity. Some were related because of some quality issues we had. Some were because of some raw material issues that they had, etc. I think it was a combination of these issues. Certainly, I am not worried about internal capacity and overall supply base capacity. I think there are handful suppliers that we are working closely with. That's the way you should see.

Nitin Arora: Thank you, sir.

Moderator: Next is Ranjit Shivram from ICICI Security. Your line is unmuted.

Ranjit Shivram: Good morning and congrats on the good set of numbers. If you can explain in the export geography like which regions you are seeing improvement in growth and which are the ones that are still not growing as what we expected?

Sandeep Sinha: Ranjit, I think, Middle East was a good quarter. I think, Africa kind of sustained their growth. Then if I look at Europe, it was not doing very well. I think, last year in Europe, there was one single order that had boosted our sales. So, something like that didn't come. The rest of the market was pretty ordinary. We have seen some positive movement in Latin America, especially Mexico. That's really what I would say. We are hoping that with the crude prices that way it is going, commodity price stronger than the earlier year, I think we should generally see a more positive outlook on exports in power gen than in the past.

Ranjit Shivram: Because if I put your global parent's commentary and both Cummins and Caterpillar, they are from strong set of numbers and they have raised their guidance. Is there anything for us to be happy about and should we read more into their commentary?

Sandeep Sinha: Ranjit, I am not sure which part of that commentary because there is a very strong North America heavy duty on highway market. It has been a historical high for Cummins and also for our share in that. So, both the markets have grown, our share has grown. So, certainly there was a strong position of Cummins results with that. Of course, even in the power gen markets, Cummins has done better. But Cummins results have been primarily driven by the very strong growth on highway market, which does not impact our exports to the parent. Our export to the parent is mostly in the power gen market, almost 95%. So, I would like you to keep that thing to the power gen segment of the results that Cummins Inc. shares.

Ranjit Shivram: Okay. And lastly, you also shared the geography-wise exports details. If you have that in hand, if you can give those numbers?

Sandeep Sinha: As I said, probably the strongest growth came from the Middle East and from countries like Mexico, etc.

Ranjit Shivram: Okay. You have any numbers with you? If you can share that regarding the geography...

Sandeep Sinha: We don't have the detailed breakup, but I could tell you where the growth is, which region we are seeing positive results.

Ranjit Shivram: Okay, sir. Thank you.

Moderator: Next we have Venkatesh. Your line is unmuted.

Venkatesh: I had a couple of question. Sorry, I joined a little late. So, if my questions are repetitive, forgive me. When we look at your exports business, the first quarter has been quite good. You have shown almost 12% kind of growth. Now, even the initial commentary which you said about exports are started to look up, that commentary seems positive, but that doesn't seem to be translating in your guidance because you are talking about flattish numbers. Are you expecting in the remaining nine months? That is why you have like flattish kind of guidance? Why is that not showing up in your export guidance? That's the first question.

Sandeep Sinha: Venkatesh, one can debate it one way or the other. Right now, the reason we have kept our guidance same is because I wanted to see a couple of quarters before we kind of give a more positive guidance. The reason being sometimes inventory correction, you know... Remember, we are a fulfilment organization, right. So, that's why we are being cautious. As I said, we feel positive and hopefully if this quarter gives a similar thing, then we will change the guidance.

Venkatesh: Okay. Similarly, on the domestic side of the business, your 8 to 10% guidance basically implies almost... and 8% level means that in the remaining nine months you need to almost 13% growth on a y-o-y basis for the remaining nine months. And at 10% level, you need to do 16%. Is it like your guidance is slightly aggressive on the domestic side or is it like you are fairly confident that this will come true?

Sandeep Sinha: I would say that we are fairly confident that it will come true. That's what I would say.

Venkatesh: Okay. Just two more small questions. One is on the margin side. Actually, if I look at your margins, last year your first quarter margins were actually the strongest and the remaining three quarters actually weakened out even further. Usually, you have a much bigger quarter. Third quarter is usually a larger quarter than other quarters. Your margin improvement could be much, much more because of the operating leverage which could play out in the remaining three quarters?

Sandeep Sinha: I think if our exports exceed what we have put as our expectation, surely the mix improvement should show in our bottom-line improvements too.

Venkatesh: Okay. Just one last question. I think Mr. Batra answered that the five-year is over, so the tax rates have moved up in the SEZ. Now, is it the kind of numbers we should be working with henceforth closer to 28% vis-a-vis the 22% earlier? Is this what we should be doing going forward?

Rajiv Batra: The 27% number is what I have indicated as sustainable in the future.

Venkatesh: Okay. Thank you very much, sir. All the very best.

Moderator: Before taking the next question, I will announce again. If you have any question, you may please press "0" and then "1". So, next we have Ashish Jain from Morgan Stanley. Your line is unmuted.

Ashish Jain: Hi, sir. Good morning. Sir, my first question is on imports. The last part of your export growth was driven by LHP where we are directly dealing with distributors and all. Is it a visibility that this was more of a sustainable kind of a recovery we are seeing or this is more one-off you would say?

Sandeep Sinha: Ashish, I answered it. I would say my response in one line. We are certainly feeling more positive about the export market because of some fundamental shifts that have happened. Commodity prices have been moving in the correct direction for this market to grow. The other one is the crude prices. So, with that, certainly we are more positive. I am more positive than before. As I said, let us wait for a couple of quarters to be able to decide and say, "Hey, this is not a one-off but a trend." Right now, I would say I am still cautiously optimistic about this market.

Ashish Jain: Have you see the trend sustaining in the 45 days of this quarter? If you can comment on that?

Sandeep Sinha: As I said, remember that these are bulk shipments to one market. Let's wait since we are already 45 days through. In another 45 days, I will be able to happily share what we see.

Ashish Jain: Sure. Sir, secondly, on margins again, coming back to margins, I actually didn't get the forex impact that you set on EBITDA margins. Can you please explain that again?

Sandeep Sinha: As I said, there were two major reasons for us to have a stronger mix as compared to last year. One was certainly because of the mix impact that we saw, almost a percentage because of that, and about half a percentage because of better forex realization. So, if you compare same quarter last year to this quarter, there is a 0.5% improvement because of forex realization.

Ashish Jain: Okay. Sir, the 1% gross margin improvement you said for fiscal 2019 on a full year basis and you would expect a similar improvement in EBITDA margins because of operating leverage EBITDA margins could be much higher than that?

Sandeep Sinha: Yes, it could be higher than that. That 1% would certainly roll down and we could add anything up to almost 0.5% if we execute them.

Ashish Jain: Okay. Got it, sir. Thank you so much and best of luck.

Moderator: Next we have Ruchit from Kotak Securities. Your line is unmuted.

Ruchit: Thanks for taking my question. Sir, can you throw some light on the competitive landscape? Is there any change because we have seen one of your competitors also taking pricing hike in the past so that pricing pressure which was existing for quite some time? So, is it okay to assume that such pressures could get away especially in light of the fact where you are also feeling confident about the domestic markets?

Sandeep Sinha: Ruchit, I think, I answered this a little earlier in our meeting today. What we do is we actually through our CRM process constantly monitor the pricing at the customer level. I am not sure about announcements, etc. That has no relevance in the market place. Right now, we have not seen anything that I could say at the customer level we have seen any price change in the competitive landscape. Again, you may be going by some announcement that has been made. We as a company go through and look at pricing and we don't do it twice a year. Every month we report and we constantly look and see how to tract the right pricing. I hope that helps you understand the process we follow. At a time when we feel that there is opportunity, we do that. So, certainly we will do that again if required.

Ruchit: Fine. Sir, in the industrial side of the business, is railways expected to expand further? What is your outlook on this?

Sandeep Sinha: Overall, this year we will certainly see growth over last year, and we should see something between 20 to 25% growth. We are pretty confident about the rail story and the Cummins' rail story more so.

Ruchit: Fine, sir. That's all from my side. Best of luck.

Moderator: Next we have Abhineet Anand from SBI Caps Securities. Your line is unmuted.

Abhineet Anand: First question is, you explained on the margin. 1% because of the mix. But if you look into the guidance, we are largely seeing flat exports and the growth is going to come from domestic which makes it an adverse big side compared to what we are seeing as the mix impact. We will have 1% margin positive impact.

Sandeep Sinha: Obviously, there are many elements but certainly I think we feel that where we are going to grow in the domestic market in the coming quarters, the overall impact should certainly... because there are certain quarters where we have higher revenue plans. That should also help the overall mix, and at a gross margin level, as I said, we should see 1& year-on-year growth for us.

Abhineet Anand: Okay. Secondly, sir, can you give us the breakup of the other income?

Rajiv Bhatra: About half of it comes from our dividend from subsidy as well as our treasury income, the cash that we have which is flowing in the market. That's about half of it. And then we have the rental income. So, these are the main constituents. There is a whole lot of other small stuff there like foreign exchange. So, three main elements. Half being treasury plus dividend from subsidy and half being rental.

Abhineet Anand: Okay, sir. Thanks a lot.

Moderator: Next we have Aditya Mongia from Kotak Securities. Your line is unmuted.

Aditya Mongia: Sir, this one question is more from the annual report. Just wanted to get a sense that there was almost a 13 to 14 crores of cost agreement for services paid to Cummins Inc. This typically is a number which is very, very small but last year it was about 14 crores. I wanted to just get a sense whether this is a recurring number or one-off in FY18.

Sandeep Sinha: Aditya, can I request that Rajiv could specifically take this question and respond.

Rajiv Batra: I probably do it with data but there are technical services which we actually purchase from time to time based on the... Those are the parts of thing that we do. It is no transfer of any revenue of horsepower outflow. So, there would be a specific purchase at a point in there.

Aditya Mongia: Got it. I will take this question offline also. Second this is, on the export side, I want to get a sense from you that let's say over the next two, three years, do you see more and more exports coming from India and if you could share some more glanurality whether it can be in LHP, MHP or an HSP driven new product growth strategy for us on the export side.

Sandeep Sinha: Over the years, Aditya, CIL has been looked as a very strong partner to the parent for exports. And that's why you continue to see that we have grown. Obviously, it's dependent on the market but even when the markets have been down in the added new areas. So, it has started with high horsepower products and we went into LHP. Now with spares. We are looking far at any given time at two or three opportunities. And from Cummins Inc. view, they obviously look at all the supply chain equations to look at all the different plants. What we do is we continue to improve the quality and the cost structure of the CIL manufacturing operations so that when an opportunity comes we are given a preference because that's what is in our hands. Right? That's what we work. I can tell you even now, as you rightly said, that there are two or three projects. As soon as we are given LoI, I will certainly share it in this forum.

Aditya Mongia: Sure. You would believe that the chances of us getting, let's say, an LHP, HHP product, everything is open. Would you say that LHP is more a focused area for us in terms of export going forward?

Sandeep Sinha: No. Actually, in high horsepower, we continue to add new product lines, Aditya. You know, we used to export certain mechanical versions. When the need for an electronic product comes in, we then support the global export with those products. So, I think, as I said, we continuously keep looking in seeing what are the new opportunities for exports, and we want to be the fulfilment site for those Cummins Inc. requirements.

Aditya Mongia: Got that, sir. Those are my questions. I will come back in the queue if I have more. Thank you.

Moderator: Next we have Sandeep from JM Financials. Your line is unmuted.

Sandeep: Good morning, sir. Sir, my first question is pertaining to the exports realization. When you guide for 8% growth in exports, the translation impact could itself deliver that kind of a growth. So, are we likely to see a flattish kind of a volume growth for the year, or does your guidance is more pertaining to the volume?

Sandeep Sinha: Again, I think, we certainly had a very good quarter. Sandeep, whatever sense I have, whatever my counterparts in the global system have indicated, sense is that global power gen markets are certainly showing signs of recovery. As I have said earlier, our global markets, we have seen very strong growth in the on highway North America market. We have seen good growth in mining and oil and gas. We believe now we have similar positive sentiments of power gen. As we see changes coming in, I will continue to bring all of you to speed up with that. Right now, we have our guidance flat. But if we have another good quarter, I certainly think there is opportunity to change the guidance.

Sandeep: Sure. Let me just ask you this question another way. Maybe 0 to 5% growth that we guide for the full year, I want to break that between realization growth and volumes. How would you put that across?

Sandeep Sinha: Positive realization growth, we should see certainly a couple of percentage coming in from there.

Sandeep: Alright. I got it. Second question was pertaining to the annual capex you had guided for the number around 350 to 400 crores for current financial year. Do you stick to the same number? And have we formalized a capex plan for the next financial year also? What would that number be?

Sandeep Sinha: First of all, yes, we still have the same plan right now. We obviously always want to optimize capex, and so we continuously look at it and if there are changes we tweak it. As of now, I would keep the guidance plan at 350 to 400 crores. I certainly think for next year we should see a lower capex kind of south of 300 crores and that is something we need to maintain for the coming two to years in the future.

Sandeep: Thanks you so much for taking my question. That’s it from my side.

Moderator: Next we have Ankut from Motilal Oswal. Your line is unmuted.

Ankut: Hi, Sandeep. Good morning and thanks for the opportunity. My question was actually on the domestic power gen business. On a slightly longer term maybe like 3 to 5 years, a) what’s the kind of growth rate for the industry that you would expect over the next few years? And more importantly, if you have to slice it into low, mid and high, which would be the segment growing the fastest? If you could just rank that and give us some more colour there?

Sandeep Sinha: Sure. The domestic market should grow between 8 to 10% in power gen market, in that range. Certainly, we believe that we will grow with the market. There will be like telecom which is what has fuelled the growth in the last few years. That was the big chunk of the overall. In my view, the last three, four years was about 6 to 7% growth for the market. But a significant of that growth had come because of telecom. I think that my shift. Telecom may have growth but I don’t think it will be the major growth driver. I think some of the traditional segments like manufacturing, infrastructure, IT, ITes, datacentre will be the growth drivers. That is why I feel positive about our participation because those are the segments where we are strong. As you are aware, we don't participate in the telecom market. And that's why what you have seen was our inability to... Why we grew share in many of the segments where we already operated in, but that was special for overall growth on us because of the growth driver being in the segment where we did not participate. I hope I answered your question.

Ankut: So, the way we should look at it is the growth was primarily in the mid and high KVA with telecom which is in the low KVA probably being flattish to maybe single digit growth. Is that right, sir?

Sandeep Sinha: I think it will grow at least at the rate of overall market growth. What I was trying to suggest was in the last three to four years, bulk of the overall market growth had come from that smaller gen sets. Now you will see the other segments grow at the same market rates.

Ankut: Understood. Sir, could you also share your market share data by low, mid, and high if you have that handy? And how has that changed over the last few years? One of the push backs we get from investors is that Cummins may have lost market share most in the high horsepower. I don't know if you have that number ready with you as to where you are today in terms of your market share across these three segments and how this may have changed over the...?

Sandeep Sinha: I don't have the number. The general trend is that obviously in the smaller gen sets, we have low share. And then, as the segments grow higher, we have more expanded share in those segments. And I can assure you that we have not seen anything that helps our share to come down. With good product in production that we have made and done and what we have planned, I think we are very confident about our share in the segments where we participate.

Ankut: Got it. Best of luck, Sandeep. Thank you so much.

Moderator: Next we have Bhavin from Axis Capital. Your line is unmuted.

Bhavin: Thanks for the opportunity once again. Sandeep, a more high level question on the exports. We have been seeing so much of geo-political uncertainty, your tax rates being changed, the tariffs vice versa on the US and China. Does it impact India? Does it benefit India? Some colour on that will be helpful.

Sandeep Sinha: First of all, Bhavin, you are asking a very complex question, and I don't think even the governments are able to understand what is the overall impact, right? If you keep watching news, there is so much confusion. But, you know, overall I think from an India perspective, I think really the trade war has kept India on the side. There are different agenda going on today, right? And that is really about the US and China and some of the other things. So, in my view, we are not seeing anything that helps us on an immediate impact that is going to happen. I can tell you that. Or even in the next three-year window. These are very complex supply-chain. Don't underestimate the complexity. So, to change things overnight is very difficult just because of a tariff.

Bhavin: Anything on the tax rates in the US? Has that changed any decision?

Sandeep Sinha: No.

Bhavin: Okay. Last question is, on that analyst day, you had demonstrated a few products. Has that also helped somewhat in the margins like the N14 you are getting 600 instead of 500? Could we see more of product? Does that help on the margins?

Sandeep Sinha: It has not helped us till last quarter because while we introduced the products, there was still inventory in the system. So, we should see in fact. To an earlier question, on margins, why because of mix not being positive in the coming quarters, why would we expect? I think we would expect because the domestic products will bring some of the improvement in the margins as those become mainstream products for us. Right now, you have not seen the impact, in other words. You would see it in the coming quarters.

Bhavin. Sure. Thanks so much, Sandeep.

Sandeep Sinha: We have time for one last question, I think.

Moderator: Sure, sir. So, the last question of the day we have from Renu Dutt from IRFL. Your line is unmuted. There is no response. The last we have Aditya Mongia from Kotak Securities. Your line is unmuted.

Aditya Mongia: Thanks for this opportunity again. I wanted to just check with you on this ACE and AMaZe programmes. If you can share some target from your side and what kind of cost improvement you are looking at? Basic question obviously over here is that when you used to operate a fairly high EBITDA margin range earlier, how much part of the margin loss can be recouped through a steady growth in business and cost initiatives like ACE and AMaZe?

Sandeep Sinha: It has been more than a 10-year-old program and we try to see anything every year between 0.5 to 1% reduction in material cost because of this programme. Now of course, there is an inflationary pressure and commodity increases, etc. So, depending on which year you talk about, sometimes it does get transmitted into the P&L and sometimes it just doesn't show off directly because it has just about been able to negate the negative impacts of commodity. That's really on the ACE programme which is a direct material cost reduction program. When we think of AMaZe as an overall quality improvement journey, certainly one element of that is re-improvement in the warranty cost. And if you see historically, we have been able to reduce our warranty cost from maybe 2.5%, 2.6% to the current 1.7%, 1.8% that we operate in. And I think that's a tremendous achievement by the team. Again, remember that the AMaZe programme is about three to four years in its journey. And I think we will continue to build a lot more in this programme especially around advanced analytics, etc. where we start to get more predictive rather than reactive in our approach to quality. So, we have a lot of good projects working under the AMaZe umbrella. And we have committed on our journey for continuous improvement. These should be the pillars of our margin improvement and cost structure, etc. I hope that helped you understand the programmes and what we are trying to do.

Aditya Mongia: Sure, sir. Essentially, may I infer that there is a possibility of a reasonable addition to margin over the next two years? This is what you see as prospects from the cost reduction programmes?

Sandeep Sinha: I don't know how you define reasonable but certainly I think as a goal we want to operate at 14.5% to 15% margin.

Aditya Mongia: Got it. Thanks a lot. That was the only question from my side.

Sandeep Sinha: Thank you, Aditya. And I want to thank everyone for calling in and giving me an opportunity to share our results and our outlook. I hope to see you next quarter again. Thank you, Harpreet.

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