Ref: STEX/SECT/2021

May 31, 2021

The Relationship Manager, BSE Limited, Phiroze Jeejeebhoy Towers Dalal Street, Fort, Mumbai 400001 BSE Scrip Code: **500480**	National Stock Exchange of India Limited Exchange Plaza, 5th Floor, Plot No. C/1, G Block, Bandra – Kurla Complex, Bandra (East), Mumbai 400 051 NSE Symbol: **CUMMINSIND**

Subject: Intimation of transcript of analyst conference call held on May 27, 2021

Dear Sir/ Madam,

With reference to our stock exchange intimation dated May 17, 2021 towards investor/ analyst/ Financial Institution conference call, we are enclosing for your records a copy of the transcript of the said conference call conducted by the Company on May 27, 2021.

We request you to please take this intimation on your record.

Thanking you,

Yours faithfully,
For Cummins India Limited

VINAYA ABHIJIT JOSHI
Digitally signed by VINAYA ABHIJIT JOSHI
Date: 2021.05.31 14:54:57 +05'30'

Vinaya A. Joshi
Company Secretary & Compliance Officer

(This letter is digitally signed)

Encl.: As above.

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Cummins India Ltd.

Cummins India Limited Analyst Call for Q4 2020-21

May 27th, 2021

SPEAKERS: Management, Cummins India Ltd.

Moderator: Good day ladies and gentlemen. I'm Harpreet Kapoor, the moderator of this call. Welcome to the Cummins India Limited Analyst Call for Q4 2021. Today on this call, we have with us our leadership team, Mr. Steven Chapman, Chairman, Cummins India Limited, Mr. Ashwath Ram, Managing Director Cummins India and Mr. Ajay Patil, Chief Finance Officer, Cummins India. Instructions for Q&A session will be followed soon. I would like to now hand over the call to Mr. Ashwath Ram. Thank you and over to you, sir.

Ashwath Ram: Good morning, ladies and gentlemen. This is Ashwath Ram. I'm the Managing Director of Cummins India Limited. I hope you and your family are all doing well, everyone is safe and staying healthy.

Whole of last year has been quite momentous here with the huge set of downs and ups and I feel we have come out of this crisis only headed into a new one this year. But, I also feel that we have come out very strongly out of this crisis. We finished the year with sales of INR 4256 crores which was 16% below last year. We ended up with PBIT of 19.4% which was 357 basis points better than last year. And so, our PBIT improved by 357 basis point despite 16% drop in revenue. We continue to manage down our discretionary spend by over INR 62 crores. We improved our free cash flow. And now, I will share with you the financial results of Q4 financial year 2021 and full year financial year 2021 through this course. For the quarter ended March 31, 2021 with respect to the last year same quarter, our sales at INR 1231 crores were higher by 19% compared to INR 1032 crores recorded in the same quarter last year. Domestic sales at INR 976 crores, increased by 26%. Exports at INR 255 crores, declined by 1%. Profit before tax and exceptional items at INR 245 crores is 109% higher as compared to INR 117 crores recorded in the same quarter last year. For the quarter ended March 31, 2021 with respect to the sequential quarter, our sales at INR 1231 crores, declined by 12% compared to INR 1400 crores recorded in the preceding quarter. Domestic sales at INR 976 crores, declined by 5%. Exports at

INR 255 crores, declined by 32%. Profit before tax and exceptional items at INR 245 crores, declined by 19% compared to INR 304 crores recorded in the preceding quarter. Segment wise breakup for the quarter ended March 31, 2021. The sales breakup segment wise is as follows: Domestic industrial business sales were at INR 268 crores, 10% higher than last year. Power generation business domestic sales were INR 355 crores, 34% increase over last year. Distribution business sales were INR 337 crores, 33% increase over last year. Exports high horsepower exports sales were INR 135 crores, 8% drop over last year. LHP export sales were INR 95 crores, 4% increase over last year. For the year ended March 31, 2021 with respect to financial year 2020, our sales at INR 4256 crores, declined by 16% compared to INR 5062 crores recorded in the same period last year. Domestic sales at INR 3103 crores, declined by 18%. Exports at INR 1153 crores, declined by 11%. Profit before tax and exceptional items at INR 808 crores, is 400 basis points higher when compared to INR 759 crores recorded during the same period last year. The segment wise breakup for the year ended March 31, 2021 is as follows: Domestic business sales were at INR 743 crores, 21% drop over last year. Power generation domestic business was INR 1108 crores or 22% drop over last year. Distribution business sales were at INR 1202 crores or 11% drop over last year. Exports, high horsepower export sales were INR 606 crores or 17% drop over last year and low horsepower export sales were INR 451 crores or 5% drop over last year. Some additional commentary for you regarding the quarter. Quarter four in the expos business is typically lower than quarter three, mainly because global customers gradually start ramping up and we are starting to see trends that global demand is continuing to improve pretty strongly. Domestic demand in powergen is strong and inventories are at all-time lows. Supply chain issues especially in electronic chips and sensors, turbochargers and radiators from the global as well as local supply chain were the primary reasons for not being able to meet all the demand. Markets like rail continue to be sluggish and are further impacted by COVID. The company continues to focus on cost management and improving our efficiency and profitability. The company expects gradual recovery of demand in upcoming months. However, market conditions due to the second wave of COVID continue to remain uncertain, and visibility of end market recovery is still somewhat limited. The company is, therefore, not providing full year revenue guidance for FY 2022. 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. Participants, if you wish to ask a question, please press '0' and then '1' on your telephone keypad and wait for your name to be announced. I'll repeat, to ask a question, you need to press '0' and then '1'. The first question of the day we have from Mr. Ravi Swaminathan from Spark Capital. Your line is unmuted. Please go ahead.

Ravi Swaminathan: Hi, sir. Good morning. My first question is with respect to exports. Yeah, I heard your commentary that usually fourth quarter is relatively weaker than the other quarters in terms of exports. But say a couple of years ago, we used to do a run rate of INR 300 crores number or sometimes even INR 350 crores and current quarter, it's almost like INR 250 crores. And wouldn't that have some of the pent up demand also. So normally run rate might have - it might have been even lower. So why this below average say compared to say a couple of years ago in spite of the fact that certain countries like in markets like U.S., etc. are doing very well?

Ashwath Ram: Yeah, so the market is gradually beginning to recover. So we have started off slow, but we remain optimistic that this year should pick up as the quarters go along. We remain optimistic. When we look at order trends from global markets around the world, as you said, the markets have already started to improve, and some are gradually starting up. Do we remain optimistic -

Ravi Swaminathan: So exports, what kind of growth can we see in financial year 2022 given the fact that many markets are coming back, can we expect double digit kind of a growth in exports?

Ashwath Ram: It's very difficult to predict at this time. All we can say is that demand as of now is coming back pretty strongly. So, we expect to do better than we did earlier.

Ravi Swaminathan: Got you, sir. And with respect to the domestic market in powergen, when do you expect the CPCB 4 moms to be implemented? Do you expect any pre-buy next 12 months due to that? And what kind of price increase do you expect at the engine level at the genset level if you can share that will be great, sir.

Ashwath Ram: Yeah, so these are multiple questions. So what I'll try to do is try to answer each of them. Certainly, we now expect too much delay in introduction of CPCB 4 norms. And the reason we believe that is that the [Audio Distortion] has also signed back onto the Paris Agreement. So there is going to be a lot of global pressure on ensuring that emission norms are progressing at the right frame rate. So we don't anticipate any further delays on CBCB 4. We do expect a small amount of pre buy. We're not sure exactly how much the pre buy is. Typically pre buys do happen when you're migrating from one level of technology to another, but they're very difficult to predict how much of pre buy is going to happen. And as far as pricing is concerned, I'm afraid we won't be able to share that at this time, but we do -- our past history globally has been that every emission change cycle, we are able to improve our margins.

Ravi Swaminathan: Got you, sir. And my last question is with respect to other income this time has been quite high. What is the component in that and if you can give the breakup of powergen and industrial business, powergen with respect to LHP, MHP, HD, HHP and industrial if you can bring it up into the respect to compressor, construction, rail and mining? Thanks.

Ashwath Ram: Other income has been higher mainly because of dividend from the company's [Audio Distortion].

Ravi Swaminathan: Okay. Got you, sir. And the breakup, sir.

Ashwath Ram: Yeah, breakup of the, breakup of the powergen business.

Ravi Swaminathan: Yeah, powergen industry.

Ashwath Ram: So in powergen, do you want it for this quarter or you want it for the –

Ravi Swaminathan: LHP -- this quarter, sir. This quarter. Yeah.

Ashwath Ram: Okay. For this quarter, high horsepower was INR 185 crores, medium horsepower was INR 70 crores, low horsepower was 88 crores and for a total of about INR 355 crores.

Ravi Swaminathan: Okay. HD is there in this, sir?

Ashwath Ram: Yeah, if you break it up by those segments you have no low horsepower of INR 38 crores, midrange of INR 75 crores, heavy duty of INR 45 crores and high horsepower of INR 185 crores and miscellaneous of projects of about INR 12 crores.

Ravi Swaminathan: Okay. And industrial, sir? Compressor, construction.

Ashwath Ram: So, for the previous quarter compressor was INR 40 crores, construction was INR 145 crores, mining was INR 15 crores, rail was INR 48 crores, marine and other was about INR 19 crores.

Ravi Swaminathan: Thanks, sir.

Moderator: Next we have Sandeep Tulsiyan from JM Financials. Your line is unmuted. Please go ahead.

Sandeep Tulsiyan: Yeah. Good morning. My first question is, again, pertaining to the exports. If you can highlight a bit more in terms of regional mix, how that has changed in the past financial year, and if for the whole year you can share broad mix between different geographies and how that has contrasted with this financial year 2020?

Ashwath Ram: Sure. So when you look at the - when you look at exports as compared to last year, what we saw was that Asia Pacific was at INR 329 crores, which was slightly higher than what it was in the previous year, mainly because areas like China and some parts of Asia recovered faster. Latin America was lower mainly because those areas continue to be COVID impacted and are recovering lot more slowly. Middle East was flat. Europe was significantly lower. Africa was significantly lower, and miscellaneous, spare parts and other things were higher. And when we look at this year, we are seeing that China has had now almost a full year of recovery. So they continue to be strong. Parts of North America and Europe are beginning to come back, North America faster than Europe. But Latin America, Africa and Middle East, continue to lag and are coming back at a lot more gradual level.

Sandeep Tulsiyan: Okay, if we can share the broad numbers, as you mentioned INR 329 crores for Asia Pacific, how that would be for, say, Latin, Middle East, Europe and the Africa and other markets?

Ashwath Ram: Unfortunately, we don't have that breakup available at the moment. But I can tell you that it is relatively Latin America and Africa are worst performing regions from an overall global perspective.

Sandeep Tulsiyan: Understood. Second question is pertaining to the comment that you made in the previous conference call on the venture out of Cummins on the hydrogen side, since given a lot of government announcement and initiatives have been given in the last quarter, do we intend to form a separate entity for this so that we can map out what kind of investments are going in and what kind of returns to generate? And again, just to follow up on that is what percentage of business would remain within the listed entity? And what business in hydrogen would be outside of the listed entities purview?

Ashwath Ram: As of now, there are no, you know, no clearly defined thoughts on this. This is an evolving space and the technologies are also evolving in this space. But Cummins India continues through its different business unit. So let's say rail or infrastructure, wherever those opportunities come up, those particular segments continue to bid for those projects and participate in those kinds of tenders. The company is still working on the best way to capitalize on these emerging technologies and figure out a path in the future. There are no plans as of today on how what that route will be. But we are working out all scenarios and all options to figure out what would be the best. As far as –

Sandeep Tulsiyan: Please go ahead, sir.

Ashwath Ram: The businesses which have been in Cummins India will continue to remain in Cummins India and we continue to work on growing those businesses aggressively.

Sandeep Tulsiyan: Got it. Got it. And lastly, sir, it was heartening to see that we have curtailed our CapEx in the past financial year, and assuming bulk of the CapEx for CPCB 4 would also be behind us. What would be the annual CapEx run rate that we intend to pursue going forward? If you can get some more clarity and what's the thought process on these cash flows that the company is generating where we intend to divert that? Thank you.

Ashwath Ram: Yeah, so I won't give you exact numbers. But all I can tell you is that the big infrastructure CapEx, which we had undergone in the previous years, is behind us. Most of our new CapEx is focused on growth, that is product upgrades and product technology and on sustenance CapEx for what has already been invested in. So yes, we do see that, you know, the CapEx cycle is going to be lot - CapEx we intend to spend is going to be lot lower than what we have spent in the past.

Sandeep Tulsiyan: Got it. Got it, sir. Thank you so much for taking my question.

Moderator: Next, we have Ranjit Sivaram from ICICI Securities. Your line is unmuted. Please go ahead.

Ranjit Sivaram: Yeah. Hi, sir. Good morning. Sir, we have seen the commodity prices have been going up and that is also impacting our overall gross margins this quarter. So what kind of price increases that we have taken? Or when will that get likely reflected in the first quarter or versus in fourth quarter there was some portion of that price increases? And what is your overall strategy to minimize the impact of the commodity price increase?

Ashwath Ram: Yeah. So you are right in stating that commodities have gone up significantly, pretty much all the major commodities that the business works on have all increased substantially and our way to combat this kind of increase is twofold. One is certainly we continue to focus on cost reduction, which means we are looking internally to say what all can we do to reduce the cost structure or the material costs of the product. That is one. The second of course, is to pass on prices, commodity increases to customers. Those customers where commodity linked agreements are already in place that happens automatically based on a periodicity that is defined. For those, that doesn't happen that happens through negotiations and price increases, which are typically lagging, I would say by about a quarter or so at least. So we do intend to catch that up. I can't give you specifics on exactly how much we are planning to increase but to say that we will increase enough to make sure that we are offsetting most of these ingredients.

Ranjit Sivaram: Okay, and continuation of that policy angle of CPCB, so the previous date was the notification was expected in July. So, do we believe that the July notification date can be other [indiscernible] feel there can be some delays with that announcement?

Ashwath Ram: As of now, there is only a draft notification, but when we talk to the ministry, they keep telling us that they don't anticipate any delays and that, you know, we should be completely prepared and ready for the timing they have announced in the draft itself. So as of now that's what we are planning on and based on the pressure the government is facing to make sure environmental laws are implemented and aligned to global environmental ruling. We do not think there should be too much of a delay even if there is.

Ranjit Sivaram: Okay. Okay, sir. I'll join for further question. Thank you.

Ashwath Ram: Thank you.

Moderator: Next we have Renu Vaid from IIFL. Your line is unmuted. Please go ahead.

Renu Vaid: Yeah, good morning, sir. I have a few questions. First would be if we look at broadly as CPCB 4, it is expected that the overall cost of ownership of the genset could go up anywhere between 30-40% to the end consumer, or do you think the steep jump in likely cost can drive transition to alternate fuel, gas or others? And how would we come in preparedness to offer alternate products in the market?

Ashwath Ram: So, very good question. Certainly, we have seen in certain market segments, if the cost increase is too much, alternate technologies become easier to adopt. I don't think that the amount of increase that will happen going between CPCB 2 and 4 will prompt that much of a change because the alternative as of now to diesel is natural gas. And the products with natural gas are even more expensive to meet the same emission standards. That being said, Cummins already has products with those technologies as well and is the market leader in those alternative technologies like gas as well. So should some amount of availability of fuels like natural gas become available in places, in the big cities, we will be ready with products to be able to capitalize on that. So in any of the scenarios of tightening emission norms, and moving to alternate energy ideas, Cummins benefits because we already have implemented and demonstrated these technologies in other parts of the world.

Renu Vaid: Sure. And now can you help us quantify what could be the rough quantum of revenues, which would have slipped because of the supply chain issues and orders getting delayed in shipments because of the COVID second wave in the domestic market as well outside during the fourth quarter?

Ashwath Ram: It's pretty complicated to really put a real number to it. But I can, you know, I can say that honestly, I don't have a very good, good feel but it's a combination of so many variables in this supply chain with specific parts within the supply chain, and also, you know, different regions of the country being shut for COVID lockdowns and such kind of variables. So, I would say that supply chain is a problem right now. We are seeing no demand loss because we are seeing inventory levels at most of the OEMs as well as with the dealers and distributors continue to keep reducing.

Renu Vaid: Okay. Probably with the initial comments, can you help us understand what was the impact of the COVID second wave and lockdowns that we've seen April onwards on the business and the expectation of recovery in the domestic demand outlook going forward in the second half of the year?

Ashwath Ram: I can just tell you what I expect it to be for this quarter because we've already seen the month of April and seen most of May. So, we were at roughly about 50% utilization in the last month and this month as well. 50% by means of, you know, people being able to come into work, supply availability, disruptions in the supply chain, all of that, all of that leads to roughly about 50% of our of our efficiency being utilized. Prior to that, we were at close to 70% levels of utilization. So, we were in the mode of ramping up from the previous cycle to go beyond 70 to 80, 90 kind of percent and with this, we are back to about 50%. So that's where we are right now. And it's very difficult right now to predict whether it will bounce back in June or July or August. It all depends on how well we are able to contain the second wave across the country.

Renu Vaid: Sure. And, sir, one last question if I can ask. Globally, the way we are seeing the energy transition towards alternate technologies and product lines from a medium to long-term perspective, is it fair enough to say that the global supply chain especially for IC products has a higher probability to move to India? And to what extent that happens? Can Cummins India leverage this opportunity and drive exports for the global supply chain and for domestic competitiveness?

Ashwath Ram: Again, great question. As you know, Cummins is a global company with the presence in over 100 countries. But if you look at our supply chain footprint, we have three major regions which account for majority of our supply chain. The first one being the home ground of North America, the second is China and the third, of course, is India. And when you look at the variables of cost, quality and delivery, India happens to lead in all of those variables. So, I remain highly optimistic that as the global economy recovers and as there is consolidation of manufacturing and technologies that India will get more and more opportunities to produce products for the world.

Renu Vaid: Sure. Any number that you want to quantify or it's too early for that?

Ashwath Ram: It's too early for that. But I can, you know, confirm that every quarter we get more and more business. So it's not just hypothesis. It's reality. We see more business coming in.

Renu Vaid: Got it. Thank you, and all the best, sir.

Ashwath Ram: Thank you.

Moderator: Next, we have Akshit [ph] from HDFC Securities. Your line is unmuted. Please go ahead.

Parikshit Kandpal: Hi. Hi, sir. Parikshit here from HDFC. Sir, my first question was you touched upon the gas technology with us which if required can be brought [indiscernible]. This will be done in the CIL entity only, right, if at all if there is a change in technology, from diesel to natural gas?

Ashwath Ram: Diesel to natural gas, yes for all the products in those segments, if the transition happens for [indiscernible] continue to remain in the gas.

Parikshit Kandpal: Sir, second question was on the overall clean technology and [indiscernible] infrastructure being set up slowly picking up in India. So what we have seen in some instances that there is a backup genset which has been provided despite getting the regular supply of power from the utility. So do you think over a period of time this could be also one of the big opportunities over the next five to 10 years for CIL?

Ashwath Ram: I couldn't hear your question very well. Could you repeat just the last portion of that? What were you asking, opportunity perspective? Sorry.

Parikshit Kandpal: Sir I was asking from that the Indian infrastructure on the charging side, which we are seeing gradually getting rolled out in India in some cases. So there is also a backup genset, which has been given as a backup, so that the power continuity remains in case of outages. So do you think that an overall piece of the EV infrastructure we'll have some role to play as utility [indiscernible]?

Ashwath Ram: Oh, yeah. I understood your question. I got it. Yes, yes, we do have a role to play in that and we are playing a role -- pretty much every infrastructure project which happens, we have some kind of involvement, whether it be from an industrial segment, for building roads, and you know, earthmoving and creating digging tunnels, digging ditches, to all of those use our industrial side products. And if we have to produce power, have power in remote location, provide a backup to clean power because as you know, the clear power works only in certain hours during the day or under certain conditions. So typically, as the percentage of clear power in any economy increases, our business also goes up because you want reliable power to be supplied. The other trend you'll typically see is one would think that as a nation becomes more sufficient in grid power, the demand for backup power would go away. But that is not the true reality as people get used to having electricity 24/7, every small disruption, they find uncomfortable. So they want backup power. So that then serves as a means for growth and that's why we have seen growth over decades, even in countries like in North America or Europe, or even countries like Japan and China who have pretty much solved their power supply problems.

Parikshit Kandpal: Okay. Sir, just my last question would be on the last call, you had mentioned that the price hike given the commodity impact [indiscernible] peanut butter kind of an approach. So here the price hike will be commensurate with the raw material increases. So first question, the first point on was that this quarter we had a gross margin hit. So have we accounted already for the current [indiscernible] entire impact of raw materials or will it still continue in the next quarter? And while the market demand is so strong that they will be able to absorb the price high [indiscernible].

Ashwath Ram: So, like you rightly said, it doesn't happen in a peanut butter approach and it happens based on the type of product and the content there and it happens over a period of - it happens over a period of time. So, yes, the impact is typically, market doesn't react too negatively to this and we think there is a lot of pent up demand in the market right now. So we see minimal impact of commodities on overall demand as of today.

Parikshit Kandpal: And we've accounted for the commodity impact already in this quarter – entire impact on our order book?

Ashwath Ram: That's correct.

Parikshit Kandpal: Okay, sir. Thank you. Thanks a lot. That's all from me.

Moderator: Next, we have Bhavin Vithlani from SBI Mutual Funds. Your line is unmuted. Please go ahead.

Bhavin Vithlani: Yeah. Thank you for the opportunity. Sir, a few questions. First is, in fiscal year 2019, you had a very strong order, the product launch, I mean you had QSK19, QSK50, [indiscernible] etc. and at the AGM day, when you were selected as M.D., CEO, it was cited that there could be another 11-12 products which are in the pipeline. So it'll be useful to understand where are we in that and if you could also highlight the products that were launched during fiscal year 2021?

Ashwath Ram: Sure, I won't give you the list of all the products we have launched here. We will be publishing that soon. But yes, we continue to innovate, we continue to launch new products, we continue to develop new products for the export market, we continue to work on fit for market product for quite a few markets, which means the earlier we used to supply one product type for every market globally. And over the last year or two we have been working continuously to create fit for market products for each region and certain market segments. So certainly a lot of products are being launched. You should see announcements coming out pretty much every quarter. And we are very excited about our new portfolio. And we certainly believe that, you know, being a product company, that's where we excel at and we are pretty optimistic about our opportunities in the future.

Bhavin Vithlani: That's helpful. The second question is on export. So when we look at the CMI results, in especially we saw powergen was the star performer in the March quarter, but our exports actually seem to be off the trend. If you could help us understand even on a trendline you mentioned that you're very optimistic and we saw around INR 400 crores per quarter run rate in second quarter and third quarter. So just some granular understanding will be useful. Can we expect INR 400 crore at a steady state run rate and that might come back as normalcy restores?

Ashwath Ram: I won't give you exact numbers, but all I can tell you is that powergen which was for the last, I would say, almost three or four years have been globally a declining kind of market. The decline has been arrested last year and we are starting to see upward trends from this year. So while certain segments are doing significantly better, like data centers and telecom are doing significantly better in the powergen space as compared to other segments, we are seeing optimism and we are seeing opportunities start to emerge there. So whether that will immediately translate to INR 400 crores or more or what that number is, I don't have a good feel for it right now. All I can say is that it appears optimistic from what we are seeing trends around the world.

Bhavin Vithlani: Sure. That's helpful. Another, just data point, MEIS impact, what could be that in the March quarter and any outlook that you are seeing on the RoDTEP?

Ashwath Ram: Yeah, so certainly we have taken an impact of MEIS in the whole year. I would say that -- just a second. I'm just looking up some numbers here. Give me a second.

Bhavin Vithlani: Sure.

Ashwath Ram: Yeah. So from an export incentive perspective with MEIS, we have seen a loss of roughly somewhere between INR 30 to 40 crores is the impact on our bottom line. And RoDTEP is still not implemented and still awaiting a lot of clearance and guidance on that. So, we haven't factored that in. So there is no impact in the March quarter.

Bhavin Vithlani: So just continuing on that, have we factored that in our export pricing, and subsequently the pricing could be revised, or we are now continuing with the old prices assuming that the incentives can come back?

Ashwath Ram: That is all factored into the pricing.

Bhavin Vithlani: Sure. Just the last question from my side, on the alternative technology, seeing around the world and specifically fuel cells, do you see that these could actually become a good substitute for the backup gensets? Or these are actually primarily being used for prime power applications? Your outlook will be useful on this.

Ashwath Ram: When we talk about new energy, we're usually talking about electric driven, we're talking about fuel cells, and we're talking about hydrogen. And we're not talking about, you know, wind, solar, and those typically. The Cummins doesn't have any play in solar or wind. But certainly Cummins has a very strong play in the hydrogen and the battery electric economy. We don't see that playing a major role in the powergen market, at least for the next 15 or so years. And we are also looking at ways by which existing equipment and technology can be used in conjunction with some of these new and alternate fuels. So there is a path we are continuously working on. We have also made significant investments as Cummins globally in the hydrogen economy. So when that transition happens, the Cummins will be very well placed in that space as well. So I would say that's where we are right now. But in the short to medium term, which I'm classifying as up to 15 years, we don't see too much impact of some of these new fuels. As a matter of fact, we see demand for diesel rising pretty significantly before it starts to taper.

Bhavin Vithlani: Sure. That's very helpful. Thank you so much for taking my questions.

Moderator: Next, we have Charanjit Singh from DSP Mutual Funds. Your line is unmuted. Please go ahead.

Charanjit Singh: Hello, sir. Good morning. Sir, my first question is on the domestic powergen, if you can, you know, give us an understanding for FY21 whole year, how different end markets would have looked like, what are the proportion of sales from real estate, data centers, or [indiscernible]? And going forward as these lockdowns open up, how do you see you know, some of [indiscernible] markets behaving and do you see manufacturing as a segment coming back in a big way for the domestic powergen? That's the first question.

Ashwath Ram: Yeah, so from a segment perspective for the domestic market was concerned last year. I'll start off with the worst performing sectors because those are very clear and we need to talk about the -- number one worst performing sector of course was the hospitality. So, hotels were pretty much [indiscernible] throughout the year or we're starting up for a very small period.

Moderator: Mr. Charanjit, please don't attend another call from your phone. Thank you.

Ashwath Ram: So as I was saying hospitality, residential and commercial real estate were the worst impacted last year. Other segments were impacted for I would say for a couple of quarters like manufacturing and infrastructure, but in the latter half of the year as the government began pumping in more money, all those segments began recovering. The segments which performed the best were of course, data center, telecom, IT, pharmaceuticals, healthcare and hospitals, etc. So, there was a very distinct performance difference between the well-performing sectors versus the badly performing sectors whereas, for the current year we are seeing pretty much other than hospitality and some parts of commercial reality almost everything all other segments have started to recover pretty strongly.

Charanjit Singh: Okay, and, sir, on the industrial side, you know, most of the categories are definitely in a bound to show good growth. So, within that, if you can highlight what's the trends especially in railways or construction and mining, how do you see the second half picking up as the project activities start picking up much faster in those markets?

Ashwath Ram: So, construction certainly was on track before the second wave to be at a record level. And at Cummins, we certainly feel the emphasis the government has placed on infrastructure building roads, ports, highways, all of that will lead to a multi-year growth in construction like we've never seen before. And so, we are very, very optimistic on the construction market and we have the leading market share and have great products in that space. So, we continue to remain optimistic about that bouncing back, once things start to open up. As far as rail is concerned, the rail is the most significantly impacted because trains have not been running at capacity since the lockdown last year. So it's been almost a full year where rail has not been running at capacity and it is likely to take even more time, few more quarters before rail starts to bounce back up. So rail is the segment where, you know, even though we have great share and we have great products, the segment itself is likely to take some time to recover. Mining was not at all impacted due to COVID. You know, mines continue to run and production continues to be at record levels and we continue to see that grow very well and segments like marine and you know pumps, etc. Also, we are starting to see strong revival and once we are out of this second wave we think they will bounce back pretty strong.

Charanjit Singh: Okay. Sir, thanks for the detailed answer. Last question from my side on our market share currently and in any particular segment are you seeing that we can see, you know, incremental gains in market share [indiscernible]? That's all from my side.

Ashwath Ram: As of now, we are pretty much holding market share across more segments. We haven't seen real gain across any of the segments as of now. But we will be remained focused on improving market share.

Charanjit Singh: Okay, so that's all from my side. Thanks for taking my questions.

Moderator: Next, we have Nilesh Shetty from Quantum Mutual Funds. Your line is unmuted. Please go ahead.

Nilesh Shetty: Yeah, hi. Just to understand, since you run a global business in countries where you operate, say Europe and U.S., what was the demand like post the second wave? Was it sort of much stronger than what you thought? Did surprise on the upside? And how did - sort of your product that you operate in Cummins India, how did these end markets behave at the end of the second wave?

Ashwath Ram: Certainly the markets, especially North America and Europe, and China, you know, bounced back quite aggressively. China didn't even have a very strong second wave. So they just kept going after the first wave. As far as the North America and Europe is concerned, North America bounced back because faster than what was anticipated and Europe is starting to bounce back as of now. So, as a matter of fact, at the end of the first wave India surprisingly bounced back faster than almost every other market and we are better prepared now from a manufacturing and supply chain perspective than we were when we were hit with the first stage. So, you know, my hypothesis is that India should be able to bounce back quite well.

Nilesh Shetty: Okay. And does the global chip shortage which is impacting the auto industry, does it have an impact on your production?

Ashwath Ram: It has more of an impact on our automotive side of the business which is much lower inside CIL. So, it has a very strong impact over there. In the CIL business, all the electronic engines that we produce are impacted, we are able to supply roughly at 50% of demand in some of those markets, because of the shortages, chip shortages, and those are -- some segments are getting slowly met. But in other segments, we are still continuing to struggle with that.

Nilesh Shetty: Okay, and just one sort of bookkeeping question. There's a line [indiscernible] purchase of traded goods in your P&L and in some quarters it jumps sharply. Is it primarily linked to your low horsepower business where you source engines from Simpson and [indiscernible] other players or what drive that number basically?

Ashwath Ram: Yeah, you're exactly right in what you figured that is the purchase of engines from Simpson.

Nilesh Shetty: Okay, thank you so much.

Moderator: Next, we have Priyanka Biswas from Goldman Sachs. Your line is unmuted. Please go ahead.

Priyankar Biswas: Sorry. This is Priyankar Biswas from Nomura. So there was some mispronunciation. So, my first question, sir is, like, you seem to be reasonably confident that post the emission norm changes, the margins probably may be maintained by past [indiscernible] costs. But if we look at the past emission changes, let's say from CPCB 1 to CPCB 2 and even in the USA, for example, in 2016, we have seen that the EBITDA margins typically tend to contract. So, how are we gaining the confidence now that this will not be the case again?

Ashwath Ram: Yeah, so very good question. Usually you don't see too much of pricing advantage if the technology change is gradual. So, for example, the example you mentioned in North America, for example, the product was going from one emission level to another with a single jump, and it was moving from an electronic product to a similar electronic product with just tighter emission control. So, the change was not as significant as the change we are seeing in India. So in India, we are going from CPCB 2 to CPCB 4+, which is two emission jump which makes the product equivalent to EURO VI and even tighter. To achieve that level of emissions compliance, the technology change is drastic. So we are going from a 100% mechanical portfolio to a 100% electronic portfolio with 100% after treatment. So, whenever we have done that kind of change in any other market segment, let it be in the automotive segment, which has gone from BSIV to BSVI in India, or when that kind of change took place, even in North America or China or any of the other markets, the margin, the price, the end user price, everything changed significantly. And we took a bigger share of the pie and we were able to improve margins during that kind of technology change.

Priyankar Biswas: So, sir, related on this, so since we are highlighting export opportunities as well, once this technology change happens, and we are let's say at par or better than the other parts of the world. But what I understand is like in China, they recently went ahead with their emission norm changes so they went with NSVI, if I'm not wrong, and even Cummins China is a big player in that technology. And what I see from their comments is they have scaled up production massively. So, if they already have the scale and the technology, so wouldn't it make much more sense from a parent level to source it from there because they already have the scale and maybe because of the scale, their cost competitiveness will be higher, whereas our norms are yet to change? So isn't that a risk to the export scenario?

Ashwath Ram: I think you're mixing up two norms. The China's going to NSVI is equivalent to India going to BSVI. So that's an automotive norm. We are going to CPCB 4+, which is equal to Tier 4 Final of North America, which no other market in the world is going to before us. So we will be the first there. The second point, of course, is, of course, India and China, we compete with each other as we supply to the rest of the world. And as I mentioned in one of my earlier comments, Cummins has three major manufacturing hubs around the world, North America, China and India. And there are certain products being made in China for the world, there are certain products being made in India, and there are certain products being made in North America and continuously, we need to -- there is no entitlement. So we have to be better on cost quality and delivery. Otherwise, certainly, you know, customers will go to market, to markets and areas which provide better performance. But we remain confident that we have advantages in all those spaces.

Priyankar Biswas: So, sir, the last question from my side, as this is linked to the new technologies, especially like hydrogen and fuel cell. So you are highlighting that the potential for let's say fuel cells is hydrogen in rail projects that you were highlighting maybe in the future. But I was just wondering, isn't it more cost effective for Indian Railways that they have kind of already electrified the main route or electrified the main routes, and so rather than that going for an increased solarization of the grid, could actually be like a more cost saving proposition than going by the fuel cell route because either they're to produce green hydrogen you require a renewable energy source. So how does the green hydrogen theme play here, I mean in the railway for India [Voice Overlap]?

Ashwath Ram: It's pretty complex, the whole, you know, path to new energy. What happens in any grid, as the percentage of renewable energy increases beyond 15% to 20% of an economy's, electricity production, there is a whole bunch of grid imbalance which takes place because the clean energy, let's say solar, for example, can only be produced during the day. So then what do you do during the night? So, during the day, whatever you produce, you got to figure out a way to store it right. And so, to store it means you have to now invest in batteries and other technologies, which are also very, very expensive. Wind for example, is only available at certain times during the day. So what happens is when you get surges of electricity, it is not 100% reliable, steady source and one of the reasons why options like hydrogen become important is you can use that surplus green energy during the day and use that energy to create hydrogen which can then either be burned as a fuel or be used as a store of energy to convert back into electricity. So that's certainly one path. The other path is what you mentioned we have electrified all the main paths, but there are hundreds and hundreds and thousands of little towns, villages, paths in the mountains, hills, etc., which are not electrified. And those also eventually need to move to clean sources of energy. And that is why, you know, many countries around the world including Germany and China and Europe etc., are moving to using the clean hydrogen in some part of their rail network and we expect similar kind of applications in India as well.

Priyankar Biswas: Okay, sir. That's very clear. That was it from my side.

Moderator: Next, we have Kirti Jain from Sundaram Mutual Funds. Your line is unmuted. Please go ahead.

Kirti Jain: Sir, with regard to further price hikes, are we contemplating to take further price hikes in the coming times?

Ashwath Ram: The answer is yes to meet up with the commodity cost increases. We are planning price increases in the future.

Kirti Jain: Sir, with regard to competitive intensity in the market, is it because of the demand momentum improving, is the competitive intensity coming off a bit or how do you see [indiscernible]?

Ashwath Ram: Competitive intensity continues at this stage. But over a period of time as people are migrating towards new technologies, we see a greater consolidation happening and we certainly see that we have an advantage in that consolidation as the leading technology provider.

Kirti Jain: Sure.

Ashwath Ram: So, as of now, competition is pretty intense. Moving forward as the technology causes differentiation, we expect to be able to differentiate from competition and move ahead.

Kirti Jain: Sure, sir. Sir, last question from my side is in terms of the non-powergen engines exports, how do you see the trajectory? And what are the growth triggers in the non-powergen engine exports?

Ashwath Ram: So those are for markets such as mining, construction, and we are seeing quite a positive trend in that as well. The reason some of that doesn't get counted as exports for us is what many of the global OEMs have done, companies like Hyundai [indiscernible], JCB and even companies like Hitachi. They use India as a base to produce the entire equipment for exports. So we don't then get credit for some of those exports as exports, because they are purchased and built locally and export, but they are indirect exports. And we do see a lot of, a lot of opportunities in the upcoming future for those segments and those areas to continue to give us strong growth.

Kirti Jain: Sure, sir. Thanks. Thanks a lot, sir.

Moderator: The last question of the day we have from Mr. Deepesh Agarwal from UTI Mutual Fund. Your line is unmuted. Please go ahead.

Deepesh Agarwal: Yeah. Good morning, sir. Sir, my first question is, when commodity cycle was weak, we used to hear Cummins' commentary that end market for low to medium kVA in geographies, like Latin America, Africa are down by almost 40-50%. Now with the commodity cycle being on a strong footing, do you expect these markets to bounce back where they were three-four years ago?

Ashwath Ram: I certainly expect markets to come back stronger than they have been in the past. Like I was mentioning earlier, power generation global markets have seen almost five or six years of steady decline from the, you know, the mid 2015 kind of timeframe. We are starting to see that bottom out and start to gradually improve. So yes, I certainly believe that we should start seeing demand growth globally and in some of those markets as well.

Deepesh Agarwal: Okay, And, sir, my second question is continuation of Kirti's question, with the consolidation in the industry over the longer term, do you expect the pricing discipline to come and easing of the pressure on the margins?

Ashwath Ram: Certainly a more consolidation happens and as we continue to gain market share, we are continuously striving to improve margins. So, we see that as a positive trend towards improving margins.

Deepesh Agarwal: Okay. Okay. And, sir, in last couple of con calls, you have been highlighting with CPCB 4 our opportunities in the developed markets like U.S. and all will increase as our product will become more advanced. Would the domestic product be straightaway marketable in these geography or there would be a long gestation period for us to develop specific product and market it and before we start showing revenues there?

Ashwath Ram: It won't be just automatic because India works at 50 hertz and those markets work at 60 hertz. So, there are some product modifications which are needed. And when you make product modifications, because the emissions are so tight, you need to do quite a bit of work to fine tune the product. But it's not something which Cummins is not capable of doing or is difficult for Cummins to do. So certainly we have -- when we're developing these products, we are looking at those options as well.

Deepesh Agarwal: Okay. And, sir, lastly, if I can squeeze, what extent of our domestic sales are dependent on private manufacturing? And are you seeing an increase in inquiries out there?

Ashwath Ram: I didn't understand the question. Could you repeat it?

Deepesh Agarwal: Sir, what extent of our domestic sales or you can talk about powergen sales also, which are dependent on the private manufacturing? And are you seeing an increase in inquiries out there?

Ashwath Ram: So manufacturing as a segment is a pretty large segment in power generation, because factories need power generators to drive them, they can't be 100% dependent on the grid, they want to work 24/7, etc. And yes, we had a strong order board at the end of the year and manufacturing was beginning to ramp up very, very, very strongly. It has taken a hit right now because of all the lockdowns, etc. But yeah, I remain optimistic that once things get back to normal, there will be pent up demand and it will start to bounce back again.

Deepesh Agarwal: Okay, thank you, and all the best.

Ashwath Ram: Thank you.

Moderator: So, I would like to now hand over the floor back to Ashwath, sir, for his final remarks. Over to you, sir.

Ashwath Ram: Thank you. It seems like we have been in a constant state of crisis for the last, you know, 12 to 15 months. I remain confident that we have done all the right things. We have focused on the safety and health of our employees and their families. We have done everything to ensure that our company remains strong by focusing on costs, focusing on cash, focusing on making the company more lean and more efficient. We continue to, in this complete crisis, continue to focus on developing our products and introduce newer and better products into the market. So, I remain really confident that once the economy starts to bounce back and pick up again, we should get back to the trajectory of strong growth. So we are still not out of the crisis yet. We don't think vaccinations will be completely available to all the people till for the next couple of quarters. And so we will gradually come back. But, you know, I'm urging all of you to also continue to remain safe and be confident that this is a company which has been in business for over 100 years. We've been in India for over close to 60 years now. And we will continue to do everything that is right to make sure the company remains strong and continues to grow profitably. Thank you.

Moderator: Thank you so much, sir, for addressing the session. Thank you everyone for taking out time and join the call. That does conclude our analyst call for Q4 2021. You may all disconnect now. Thank you and have a great day ahead.