



**Delivering our
Brand Promise
through Innovation
and Dependability**

Cummins India Limited

Annual Report 2017-18

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Mark Levett
Chairman,
Cummins India Limited

Dear Shareholders,

Following my recent appointment as Chairman, Cummins India Limited, it is my pleasure to introduce myself to you.

I joined Cummins Inc. in 1973 and since then, have worked in different roles that include Community Relations and Corporate Responsibility, High Horsepower Engine Business, apart from handling the International Asia Pacific among others. It has been an amazing journey and I am extremely proud to work for Cummins as I sincerely believe that ours is an exceptional company with an extraordinary heritage and a promising future.

I am excited to share with you that Cummins Inc. steps into the 100th year of operations this year with a steadfast dedication to the clients, partners and communities we serve, while earning a fair return for our shareholders.

Having said this, I would like to share with you the new Mission, Vision and Values of Cummins that we reinvigorated last year. Our earlier Mission, Vision and Values were developed in 2002. With the changing business environment and Cummins Inc. having grown more than three times since 2002, the whole idea was essentially to communicate that making the world a better place is central to our strategy for success.

While our industry may change over time, what has defined us, what has inspired us and what has enabled us to win hasn't changed. Today, we remain as proud as ever of our heritage and are determined to stay focused on the future and exciting opportunities that lie ahead of us.

Our Mission

*Making people's lives better by **powering a more prosperous world.***

Our Vision

Innovating for our customers to power their success.

Our Values

Integrity, Diversity and Inclusion, Excellence, Caring and Teamwork.

India has always been an important market for us and I am honored to have been chosen to lead Cummins India Limited. Over the last five decades, our confidence in Cummins India has increased with every passing year and this is reflected in our continued investments, the state-of-the-art Cummins India Office Campus, Megasite at Phaltan and now, Cummins Technology Center India (CTCI), the largest research and development facility for Cummins worldwide. All these world class facilities stand tall as a testimony of our confidence in the ability of Cummins India. India is home to some of the best talents in the world. These investments can enable the growth of the economy, generate employment, create equality and contribute to the growth of the Nation.

As much as I am proud of the great business potential of Cummins India as well as the ability and skill of the people here, Cummins' corporate citizenship is a natural extension of the Cummins personality. For a brand that stands by the value of Care, Diversity and Inclusion, Cummins India

has always recognized its duties as a responsible corporate citizen and constantly works towards building not just a better company but a better community.

With the appointment of Sandeep Sinha as Managing Director on February 1, 2018, I am confident that Cummins India Limited is well poised to begin a new phase of growth, further strengthen its market position as the leader in the power generation and industrial space and continue to deliver on our brand promise of innovation and dependability of products and services to its customers.

In closing, I would like to express my gratitude to our shareholders for continuing to place their trust on us and to the Board for their invaluable guidance.

Thank You.



Mark Levett



Sandeep Sinha
Managing Director,
Cummins India Limited

Dear Shareholders,

As I take on my new role, I am honored to be entrusted with the leadership of such a large and capable organization. It has been a privilege for the last 14 years to be a part of Cummins, an organization that continues to deliver value to our shareholders, strongly backed by our mission, vision and values.

My India journey with Cummins spanned the last ten years, wherein I helped set up the New and ReCon® Parts business, led the Industrial Engines business, and, moved on to become the Chief Operating Officer.

I am pleased to share the performance of Cummins India Limited (CIL) for the year 2017-18.

Year 2017-18 has been one of the most eventful years for the Indian economy, with the implementation of the Goods and Service Tax (GST) dominating the landscape. Amidst this transition to a new tax structure, CIL was able to successfully overcome the volatile market conditions through its' cost reduction efforts, coupled with a strong customer centric approach towards delivering innovative, dependable products and services, and a legacy of strong partnerships.

It gives me immense pride to share with you that our world-class facility, Cummins Technical Center India (CTCI) was inaugurated by Tom Linebarger, Chairman and CEO Cummins Inc. The CTCI operations will generate leading edge solutions in India which will provide your Company a distinct competitive advantage.

Another feather in the cap for your Company was being conferred with the Confederation of Indian Industries (CII)-ITC award for significant achievement in Corporate Social Responsibility.

2017-18 Financial Performance

In the fiscal year 2017-18, net sales for your Company were at

₹4,952
Crores

Net profit before tax (excluding exceptional items) at

₹852
Crores

Free Cash Flow of

₹651
Crores

We are positive about our ability to grow the company profitably. The Company generated a significant amount of cash, strengthened its balance sheet and continued to return strong value to its shareholders in alignment with its mission.

An interim dividend of ₹5 per fully paid-up equity share of ₹2 each (250 percent) was disbursed in

March 2018. The 2017-18 financial year concluded with the Board recommending a final dividend of ₹10 per share of ₹2 fully paid-up (500 percent) aggregating to ₹15 per share of ₹2 each fully paid-up (750 percent), subject to your approval at the Annual General Meeting.

Strong Partnerships with all Stakeholders

Your Company continued to strengthen its long-standing partnerships with our stakeholders including key OEMs, end-users across operating segments, our suppliers and our communities.

During the year, the Industrial, Power Generation and Distribution businesses continued to demonstrate commitment towards providing innovative and dependable products and services to cater to the evolving needs of our stakeholders.

In the Industrial business, your Company was able to strengthen its market presence across operating segments by providing integrated power solutions and value added offerings in partnership with our customers.

Recognizing the need of the Indian Railways to free up space on-board, we introduced and installed the underslung power pack for the Diesel Electric Tower Car (DETC), thereby successfully delivering on our brand promise of innovation. This technology is also being leveraged for Power Car and Diesel Electric Multiple Unit (DEMU) market segments. Your Company has introduced cost-effective, noise attenuation solutions for the Power Car segment in order to help facilitate a comfortable passenger experience.

Your Company continues its strong partnership with the Indian Navy, Coast Guard and Shipyards with its propulsion packages and diesel generator set offerings. Various initiatives were undertaken to

strengthen our position in the fishing boats segment as a complete propulsion package provider.

In the Mining segment, we are well positioned to meet high capacity market needs, by powering the BD475 Dozer (largest dozer built in India by Bharat Earth Movers Limited) with the Cummins QST30 engine.

Your Company is also working closely with Defence OEMs to cater to stringent engine and system requirements for guns and tanks. The Advanced Towed Artillery Gun System (ATAGS) developed by Defence Research and Development Organization (DRDO), that set a record of firing shell range of 48 km, was powered by our ISF2.8 engine.

The Construction sector witnessed sustained growth and your Company recorded its highest-ever sector sales driven by increased demand for equipment in roads and infrastructure projects. Anticipating the need of this sector, your Company also entered the Indian Backhoe Loader market with its 3.9-Litre engine. This solution significantly improved customer value through improved productivity, reliability and durability. We have also enhanced our market leadership position in the excavator market by working closely with a variety of customers to launch new products. To address the upcoming Construction Equipment Vehicle-Bharat Stage Four (CEV-BSIV) emission changes in the Indian market in 2020, your Company has initiated programs to launch superior electronic engines with key



Partnering to Succeed: Launched the Tata-Hitachi Backhoe with the Cummins 3.9-Litre engine

customers. In addition to this, we continue to partner with global construction equipment manufacturers to increase our exports business.

In the Power Generation Business, your Company continued the trend of gaining market share across its operating segments, especially Data Centers, Infrastructure, Commercial Realty and Manufacturing. Significant gains were also made in key High Horsepower nodes.

Your Company has received a positive market response for the advanced Power Command Control (PCC) 3.3 controller for the High Horsepower segment, which provides significant benefits to

customers to manage large multi-generator set installations. In the Low Horsepower segments, the new 20 kVA product, our most compact 2-cylinder power solution that offers best-in-class installation footprint, was also well received by customers.

Focusing on customer needs, your Company took significant steps to improve the power density of its products in order to reduce total cost of ownership, lower maintenance cost and provide the benefit of a smaller installation footprint. Programs have also been initiated to launch products so that your Company is well positioned for the implementation of tighter emission norms in the future.

The overall power deficit of the country is expected to continue its' declining trend. However, your Company believes there will be a sustained demand for backup power due to rapid urbanization, GDP growth and changing preference of consumers.



On a solid footing: The new 20 kVA product, our most compact 2-cylinder power solution that offers best-in-class installation footprint, has been well received by customers

In the Distribution Business, your Company took customer support innovation to the next level by launching the “Cummins CARE” mobile application. This application lets our customers raise service requests instantly, track their real-time progress, view service history and provide feedback, all with the convenience of their smartphones. A lighter version of the application has also been created for lower version mobile phones and non-smartphone users. Cummins Dealer Operating System (CDOS) application, the backbone of Distribution business, was enhanced to increase dealership partners' efficiency, comply with GST tax regime requirements and ensure business continuity by protecting and recovering critical data.

We continued our focus on customers through flagship programs such as Customer Connect and Customer Talk in order to understand their needs and challenges. Our Net Promoter Score (NPS), a key indicator of customer loyalty reached an all-time high of 78%, placing us in the top quartile for this category. In an effort to standardize customer visual experience, your Company has successfully branded 48 dealer facilities and 30 express vans across India.

Continuous Improvement

Over the last two years, we have been focusing heavily on improving Quality as this remains one of the most important parameters for our customers. We view our suppliers as strategic partners in the journey of bringing high quality, right-first-time products to the marketplace. In the quest to achieve zero defect in Quality, through the Accelerated Move towards Zero Defect (AMaZe) program, your Company closed over 260 projects that yielded more than 30% YOY improvements across key quality performance indicators. Launching the next phase-AMaZe 2.0, your Company will focus on cultivating a Preventive and Predictive approach to further enhance Quality.

Various cost optimization projects were undertaken to reduce the total cost of ownership for direct materials. Your Company made sustained efforts to stay competitive in the face of increasing commodity prices and pressure due to economic downturn, resulting in accrued savings of approximately ₹51 Crores by implementing 119 cost reduction projects.

Currently in its 14th year, our efforts in Six Sigma resulted in achieving record savings for CIL - over

800 projects with a total financial impact of ₹378 Crores (exceeding target by 20%).

Cummins has been working on a supply chain transformation that focuses on eliminating waste and creating a green supply chain. This includes exhaustive work on introducing returnable packaging, reducing transit lead time to procure parts and expanding supply chain to meet new emission requirements.

Your Company is constantly looking for ways to make a positive environmental impact while delivering economic value to its stakeholders. Your Company disposed 204 Metric Tons (MT) of waste, 22,328 MT of Green House Gas (GHG) emissions and consumed 165 million liters of water in 2017. Waste disposal and GHG emissions increased 5% and 4% respectively with respect to the 2016 baseline due to increase in production, maintenance activities and full-fledged running of the night shift. To combat the increase in waste, the company has taken up various returnable packaging and waste minimization projects. On the waste recycling rate, your Company stands at 95.19%.

Your Company ensures that all its sites comply with the Health, Safety and Environment Management System policy, procedures and initiatives independent of certification status.

The Kothrud Engine Plant transitioned from ISO 14001:2004 to ISO 14001: 2015 while the India Parts Distribution Center (IPDC), upgraded their system from ISO 14001:2004 to ISO 14001:2015. The Power Generation SEZ plant won the Silver and Bronze prizes from 'Quality Circle of India-Pune Chapter' for energy efficiency as well as Gold and Silver awards from 'Automotive Components Manufacturers Association India' for energy efficiency and water conservation efforts.

Living Our Values

Caring, one of Cummins' core values drives our corporate responsibility initiatives in our communities and the purposeful, long-term impacts they are intended to have. I feel incredibly proud to share that your Company was conferred with Confederation of Indian Industries (CII)-ITC Award for significant achievement in Corporate Social Responsibility. In addition to this, your Company was declared the winner for the third consecutive year at the Lakshya Awards organized by National Institute of Industrial Engineering (NITIE) for the project "Ideal Immersion" - Prevention of pollution during festival times.

For the fifth consecutive year, your Company achieved a 100% score under the Every Employee Every Community (EEEC) initiative. These hours were dedicated across the focus areas of Higher Education, Energy & Environment, and Equality of Opportunity.



Towards a better future: Aditya Gosavi, a hearing impaired employee working at Megasite, Phaltan talks about career development with parents and students at Mahatma Shikshan Samstha, a hearing impaired NGO that is supported by Cummins.