

Cummins India

BSE SENSEX
80,248

S&P CNX
24,276

CMP: INR3,430

TP: INR4,300 (+25%)

Buy



Motilal Oswal values your support in the EXTEL POLL 2024 for India Research, Sales, Corporate Access and Trading team. We request your ballot.



Bloomberg	KKC IN
Equity Shares (m)	277
M.Cap.(INRb)/(USD\$b)	950.8 / 11.2
52-Week Range (INR)	4172 / 1836
1,6,12 Rel. Per (%)	-2/-11/59
12M Avg Val (INR M)	2333

Financials Snapshot (INR b)

Y/E MARCH	FY25E	FY26E	FY27E
Net Sales	106.6	126.4	147.8
EBITDA	21.8	26.0	30.4
PAT	20.5	24.6	28.9
EPS (INR)	74.1	88.7	104.3
GR. (%)	23.6	19.6	17.7
BV/Sh (INR)	251.2	286.0	327.2

Ratios

ROE (%)	31.3	33.0	34.0
RoCE (%)	29.5	31.2	32.3

Valuations

P/E (X)	46.3	38.7	32.9
P/BV (X)	13.7	12.0	10.5
EV/EBITDA (X)	42.9	35.8	30.4
Div Yield (%)	1.2	1.4	1.7

Plant visit and interaction takeaways

Our recent interaction with the management of Cummins India Ltd (KKC) reinstated that demand has continued to remain strong for the powergen segment from key user industries. Additionally, other segments, such as distribution and industrial, continue to benefit from initiatives taken over the years to enhance customer reach and the overall positive macro environment. The company has transitioned well in the CPCB 4+ norm shift and expects the market to normalize in the coming quarters. With cost efficiencies and value addition in products, the company aims to maintain margins at similar levels as in 1HFY25. We continue to maintain our positive stance on the company and reiterate BUY with a TP of INR4,300, based on 45x two-year forward earnings.

Key investment thesis

Powergen market pricing to mature in coming quarters while demand remains strong

KKC is well-positioned in the powergen market with its wide range of nodes across CPCB 4+ as well as the HHP portfolio. We expect the company to continue to benefit from 1) its leadership positioning in the genset market, where price discovery will play out in the coming quarters, with nearly 25-30% YoY higher prices seen so far for CPCB4+ products; 2) strong YoY demand momentum from areas such as residential, hospitality, manufacturing, healthcare as well as data center, which is witnessing multi-year growth; 3) the focus on controlling costs and maintaining margins, with incremental value addition despite a higher share of imported content and project business for certain nodes, particularly HHP; and 4) the normalization of channel inventory with market shift toward CPCB 4+. We maintain our estimates for KKC's powergen segment and expect powergen revenues to clock a CAGR of 21% over FY24-27.

Industrial business witnessing healthy growth over past few quarters

The growth of the industrial segment has remained fairly strong of late. Infrastructure serves as the macro driver. The company provides engine solutions to construction equipment makers, compressors, and railways. In this segment, emission norms for construction engines (CEV-V regulations) will be implemented from 4QFY25 onwards, thereby creating pre-buying opportunities in 3QFY25 and potentially boosting demand further.

Distribution segment to continue witnessing stable and healthy growth

The company's distribution segment has posted a healthy 25% CAGR over the last three years. KKC has reoriented itself in this segment, which has started yielding results now. However, the company mentioned that there is still a lot more that can be done in this segment. As the installed base continues to rise, we expect KKC to benefit further with a stable 25% CAGR in its revenues over FY24-27.

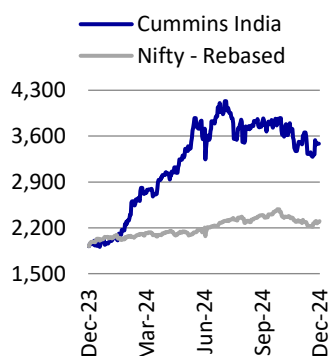
Research analyst – **Teena Virmani** (Teena.Virmani@MotilalOswal.com) | **Harsh Tewaney** (Harsh.Tewaney@MotilalOswal.com) | **Prerit Jain** (Prerit.Jain@MotilalOswal.com)

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Shareholding Pattern (%)

As On	Sep-24	Jun-24	Sep-23
Promoter	51.0	51.0	51.0
DII	22.6	22.4	22.2
FII	17.5	18.0	16.5
Others	8.9	8.7	10.4

FII includes depository receipts

Stock Performance (1-year)**Export markets recovering selectively**

KKC's exports were impacted in the last few years as Africa and Latin America slowed down after good growth. With exports already bottoming out since 3QFY24, we expect both YoY and QoQ growth to be visible in 3QFY25. KKC exports to the US, Europe, China, Latin America, and SE Asia and is witnessing the growth of select pockets in export markets.

Financial outlook

We maintain our estimates and expect a CAGR of 18%/20% in revenue/PAT over FY24-27. We build in EBITDA margin of 20.4%/20.5%/20.5% for FY25/FY26/FY27.

Valuation and recommendation

The stock is currently trading at 38.7x/32.9x on FY26E/FY27E EPS. We maintain our TP of INR4,300, based on 45x two-year forward EPS. Reiterate BUY rating on the stock.

Key risks and concerns

Key risks to our recommendation would come from lower-than-expected demand for key segments, higher commodity prices, increased competitive intensity, and lower-than-expected recovery in exports.

Kothrud plant: A brief description

- The facility manufactures high horsepower engines and heavy-duty engines (K-series and V-series) in the 350 to 2,200 HP range for off-highway applications, such as mining, marine, construction, defense, railways, etc., in addition to engines that form part of a genset, which are integrated by KKC's OEM partners such as Jakson, Sudhir, et al. The facility is capable of manufacturing ~3,000 models of various specifications in the 14L, 19L, 38L and 50L range.
- The 5 Cs of an engine – cylinder block, cylinder head, crankshaft, camshaft, and connecting rod are assembled here. The forged components (crankshaft and camshaft) are sourced from Bharat Forge, which is the company's sole supplier. The time required to manufacture a cylinder block (up to 2 tons in weight) takes ~68 hours as it undergoes a casting process, followed by precision drilling and finishing.
- The key raw material is cast iron, followed by aluminum and copper. The assembly plant currently operates in 1.5 shifts while the cylinder block runs at 3 shifts, with ~2,000 permanent employees and ~2,500 contractual workers.
- For CPCB 4+ compliant products, the fuel system is procured from Bosch. CPCB 4+ gensets offer ~16-17% power and fuel efficiency vis a vis CPCB 2. The plant has a fungible capacity to manufacture both CPCB 2 and CPCB 4+ products, as CPCB 2 is now solely sold in export markets.
- In an ongoing exercise to upgrade the Kothrud plant, the company has recently acquired CNC machinery from Japan, while also increasing the number of robotics arms from 2 in the pre-COVID period to 10-12 currently. Each robotic arm can perform the job of 2-3 personnel while simultaneously eliminating human errors that can potentially creep in at each stage of the process.

Financials and Valuation

Standalone - Income Statement

(INR m)

Y/E March	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E	FY27E
Total Income from Operations	51,577	43,292	61,404	77,444	89,586	1,06,629	1,26,366	1,47,780
Change (%)	-8.9	-16.1	41.8	26.1	15.7	19.0	18.5	16.9
Total Expenditure	45,715	37,497	52,553	65,018	71,972	84,868	1,00,408	1,17,419
% of Sales	88.6	86.6	85.6	84.0	80.3	79.6	79.5	79.5
EBITDA	5,863	5,795	8,851	12,426	17,614	21,761	25,958	30,361
Margin (%)	11.4	13.4	14.4	16.0	19.7	20.4	20.5	20.5
Depreciation	1,187	1,255	1,340	1,405	1,576	1,764	2,090	2,442
EBIT	4,676	4,540	7,511	11,022	16,037	19,997	23,868	27,919
Int. and Finance Charges	203	162	115	158	268	295	295	295
Other Income	3,315	3,702	2,875	4,200	5,678	5,856	7,124	8,601
PBT bef. EO Exp.	7,789	8,080	10,271	15,064	21,448	25,559	30,697	36,226
EO Items	-199	0	1,059	-143	-17			
PBT after EO Exp.	7,590	8,080	11,330	14,921	21,431	25,559	30,697	36,226
Total Tax	1,297	1,901	2,463	3,623	4,824	6,146	7,382	8,712
Tax Rate (%)	17.1	23.5	21.7	24.3	22.5	24.0	24.0	24.0
Minority Interest								
Reported PAT	6,293	6,179	8,866	11,298	16,606	19,413	23,315	27,515
Adjusted PAT	7,072	6,350	8,284	12,460	16,623	20,541	24,576	28,926
Change (%)	-3.2	-10.2	30.5	50.4	33.4	23.6	19.6	17.7
Margin (%)	13.7	14.7	13.5	16.1	18.6	19.3	19.4	19.6

Standalone - Balance Sheet

(INR m)

Y/E March	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E	FY27E
Equity Share Capital	554	554	554	554	554	554	554	554
Total Reserves	41,195	43,513	47,972	53,125	61,077	69,065	78,712	90,139
Net Worth	41,750	44,068	48,527	53,680	61,631	69,619	79,266	90,693
Total Loans	4,854	156	3,933	3,500	1,000	1,000	1,000	1,000
Deferred Tax Liabilities	800	823	971	1,057	941	941	941	941
Sources of fund	47,404	45,047	53,430	58,237	63,572	71,560	81,207	92,634
Gross Block	20,894	20,337	22,278	23,458	26,183	30,444	35,378	40,731
Less: Accum. Deprn.	8,617	8,684	10,024	11,429	13,005	14,769	16,859	19,301
Net Fixed Assets	12,277	11,654	12,254	12,030	13,178	15,675	18,519	21,431
Capital WIP	800	1,275	608	413	968	968	968	968
Total Investments	18,606	13,892	15,939	21,042	21,927	21,927	21,927	21,927
Curr. Assets, Loans & Adv.	27,713	29,950	39,230	41,625	48,884	56,214	67,316	80,496
Inventory	5,729	5,578	7,288	8,862	9,369	12,211	14,472	16,924
Account Receivables	11,316	10,745	12,473	15,927	20,776	21,930	25,989	30,393
Cash and Bank Balance	4,538	9,652	14,267	13,808	15,047	18,055	22,093	27,609
Loans and Advances	2,448	1,517	2,646	539	505	601	712	833
Other Current Assets	3,682	2,459	2,556	2,488	3,188	3,418	4,051	4,737
Curr. Liability & Prov.	12,137	11,922	14,621	16,883	21,413	23,225	27,524	32,188
Other Current Liabilities	9,650	9,723	12,362	14,497	18,602	19,953	23,646	27,653
Provisions	2,487	2,199	2,258	2,386	2,810	3,272	3,878	4,535
Net Current Assets	15,576	18,029	24,609	24,741	27,472	32,990	39,792	48,308
Misc Expenditure	144	199	21	11	27	0	0	0
Appl. of Funds	47,404	45,047	53,430	58,237	63,572	71,560	81,207	92,634

Financials and Valuation

Ratios								
Y/E March	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E	FY27E
Basic (INR)								
EPS	26	23	30	45	60	74	89	104
Cash EPS	29.8	27.4	34.7	50.0	65.7	80.5	96.2	113.2
BV/Share	150.6	159.0	175.1	193.7	222.3	251.2	286.0	327.2
DPS	17.0	14.0	10.5	25.0	34.5	41.2	49.3	58.0
Payout (%)	90.3	62.8	32.8	61.3	57.5	58.8	58.6	58.5
Valuation (x)								
P/E	134.4	149.7	114.8	76.3	57.2	46.3	38.7	32.9
Cash P/E	115.1	125.0	98.8	68.6	52.2	42.6	35.7	30.3
P/BV	22.8	21.6	19.6	17.7	15.4	13.7	12.0	10.5
EV/Sales	18.4	21.7	15.3	12.1	10.5	8.8	7.4	6.3
EV/EBITDA	162.2	162.4	106.3	75.7	53.2	42.9	35.8	30.4
Dividend Yield (%)	0.5	0.4	0.3	0.7	1.0	1.2	1.4	1.7
FCF per share	13.1	24.3	28.1	23.7	36.0	53.1	64.9	79.0
Return Ratios (%)								
RoE	17.0	14.8	17.9	24.4	28.8	31.3	33.0	34.0
RoCE	14.6	13.9	16.8	21.0	28.1	29.5	31.2	32.3
RoIC	15.6	15.9	27.4	36.6	51.1	54.0	54.3	54.1
Working Capital Ratios								
Fixed Asset Turnover (x)	2.5	2.1	2.8	3.3	3.4	3.5	3.6	3.6
Asset Turnover (x)	1.1	1.0	1.1	1.3	1.4	1.5	1.6	1.6
Inventory (Days)	41	47	43	42	38	42	42	42
Debtor (Days)	80	91	74	75	85	75	75	75
Creditor (Days)	68	82	73	68	76	68	68	68
Leverage Ratio (x)								
Current Ratio	2.3	2.5	2.7	2.5	2.3	2.4	2.4	2.5
Interest Cover Ratio	23.1	28.1	65.3	69.8	59.9	67.9	81.0	94.8
Net Debt/Equity	-0.4	-0.5	-0.5	-0.6	-0.6	-0.6	-0.5	-0.5

Standalone - Cashflow Statement

								(INR m)
Y/E March	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E	FY27E
OP/(Loss) before Tax	7,599	8,711	9,614	11,631	17,773	25,107	30,317	35,963
Direct Taxes Paid	-1,609	-832	-2,543	-3,520	-4,972	-6,146	-7,382	-8,712
CF from Operating incl EO	5,990	7,879	7,071	8,111	12,801	18,961	22,935	27,252
(Inc)/Dec in FA	-2,366	-1,140	705	-1,540	-2,812	-4,234	-4,934	-5,353
Free Cash Flow	3,623	6,738	7,776	6,571	9,989	14,727	18,001	21,898
(Pur)/Sale of Investments	-1,163	-75	-7,597	376	-2,967	0	0	0
Others	1,395	1,371	1,030	1,857	3,106	0	0	0
CF from Investments	-2,135	155	-5,862	694	-2,673	-4,234	-4,934	-5,353
Dividend Paid	-5,681	-3,881	-4,435	-6,237	-8,593	-11,424	-13,668	-16,087
Others	1,572	-4,844	3,661	-607	-2,733	-295	-295	-295
CF from Fin. Activity	-4,109	-8,724	-774	-6,844	-11,326	-11,719	-13,963	-16,382
Inc/Dec of Cash	-254	-691	434	1,960	-1,198	3,008	4,038	5,516
Opening Balance	7,379	4,538	9,652	14,267	13,808	15,047	18,055	22,093
Other adjustments	-2,587	5,804	4,181	-2,420	2,437			
Closing Balance	4,538	9,652	14,267	13,808	15,047	18,055	22,093	27,609

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Cummins India

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Grievance Redressal Cell:

Contact Person	Contact No.	Email ID
Ms. Hemangi Date	022 40548000 / 022 67490600	query@motilaloswal.com
Ms. Kumud Upadhyay	022 40548082	servicehead@motilaloswal.com
Mr. Ajay Menon	022 40548083	am@motilaloswal.com

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