

# Cummins India

## Demand aids transition; normalization next

### Sales up 16%; revenue growth guidance in double digits in FY24-25

Cummins India (KCC IN) management reaffirmed FY24-25 revenue growth target in the double digits (2x of India's GDP growth), backed by pickup in domestic infra spend. Q3 net revenue rose 16% YoY to INR 25.3bn, well ahead of estimates, led by robust domestic demand across sectors, such as data centers (DC), commercial & residential real estate, infra, and manufacturing. Top line beat was partly due to execution of a non-recurring large order in DC.

### Domestic revenue up 36%, led by powergen volume and pricing

Domestic revenue rose 36% YoY to INR 21.8bn. Segment-wise, powergen revenue surged 51% YoY, led by ~20% volume growth amid robust realization of primary pre-orders during the energy transition phase, better pricing from CPCB IV+ gensets, up 20-30%, and higher contribution from high horse power (HHP) gensets. Distribution revenue rose 26% and industrials by 20%. KKC sold 3,000 CPCB IV+ gensets in Q3, contributing ~25% to powergen revenue. End-markets, such as compressors, construction, and rail aided growth in Industrials.

### Exports down 40% YoY in Q3; weakness likely to bottom

The slowdown in the global economy amid geopolitical conflicts and inflation dented international business across regions. Revenue from the EU fell 59% YoY, the Middle East by 53%, the US by 47%, the AU by 41%, and Asia-Pacific & Latin America by 20% each. Exports revenue fell 40% YoY to INR 3.3bn in Q3. The Red Sea crisis led to a 2-4 week delay in deliveries. However, early signs of recovery are visible post Q3, as per management, and weakness could bottom.

### Valuation: downgrade to Reduce with a higher TP of INR 2,320

We raise our EPS by 15%/10%/12% for FY24E/FY25E/FY26E, respectively, due to rise in domestic powergen and margin expansion, led by product mix and pricing, with lower exports demand. We downgrade to **Reduce** from Accumulate with a higher TP of INR 2,320 from INR 1,835 on 35x (from 32x) December 2025E P/E, as the stock has outperformed the Nifty by 19% in the past month. Expect an earnings CAGR of 19% during FY23-26E with a ROE of 24% and a ROCE of 23% during FY24-26E. Downgrade risk exists if the government focuses on clean energy rather than diesel gensets.

## Rating: Reduce

Target Price: INR 2,320

Downside: 3%

CMP: INR 2,400 (as on 7 February 2024)

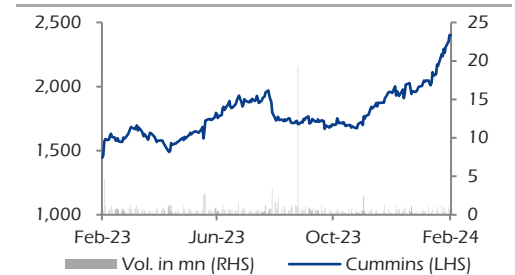
### Key data\*

Bloomberg/Reuters Code	KCC IN/CUMM.BO
Current/Dil. Shares O/S (mn)	277/277
Mkt Cap (INR bn/USD mn)	665/8,019
Daily Vol (3M NSE Avg)	531,090
Face Value (INR)	2

1 USD = INR 83.0

Note: \*as on 7 February 2024; Source: Bloomberg

### Price & volume



Source: Bloomberg

Shareholding (%)	Q3FY23	Q4FY23	Q1FY24	Q2FY24
Promoter	51.0	51.0	51.0	51.0
Institutional Investors	37.4	37.8	38.3	38.6
Other Investors	3.6	3.6	2.9	2.8
General Public	8.0	7.6	7.7	7.6

Source: BSE

Price performance (%)	3M	6M	12M
Nifty	13.0	11.9	23.8
Cummins	41.3	37.0	65.9
BSETCG Index	19.7	30.4	64.1
BSEMDCAP Index	23.8	31.4	61.8

Source: Bloomberg

YE March	Q3FY24	Q3FY23	YoY (%)	Q2FY24	QoQ (%)
Net Sales	25,341	21,805	16.2	18,997	33.4
EBITDA	5,379	4,122	30.5	3,386	58.9
EBITDA Margin (%)	21.2	18.9	232	17.8	340
Other Income	1,136	1,038	9.5	1,322	-14.1
Interest	63	27	134.7	67	-5.4
Depreciation	419	343	22.1	379	10.6
PBT	6,017	4,790	25.6	4,263	41.1
Tax	1,467	1,188	23.5	978	50.1
Tax Rate (%)	24.4	24.8	(42)	22.9	145
Reported PAT	4,549	3,601	26.3	3,285	38.5
Adjusted PAT	4,563	3,601	26.7	3,285	38.9
NPM (%)	18.0	16.5	149	17.3	71

### Key financials

YE March	Revenue (INR mn)	YoY (%)	EBITDA (INR mn)	YoY (%)	PAT (INR mn)	YoY (%)	Fully DEPS (INR)	RoE (%)	RoCE (%)	P/E [x]	EV/EBITDA [x]
FY23	77,444	26.1	12,426	16.0	11,441	51.7	41.3	22.0	20.7	58.1	51.9
FY24E	88,479	14.2	16,369	18.5	14,883	30.1	53.7	24.9	23.9	44.7	39.0
FY25E	103,229	16.7	17,598	17.0	16,184	8.7	58.4	23.0	22.4	41.1	35.8
FY26E	119,196	15.5	20,856	17.5	19,099	18.0	68.9	23.2	22.7	34.8	29.7

Note: pricing as on 7 February 2024; Source: Company, Elara Securities Estimate

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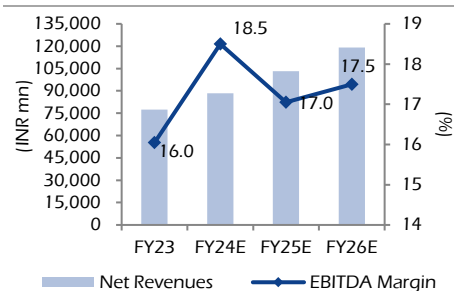
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## Financials (YE March)

Income Statement (INR mn)	FY23	FY24E	FY25E	FY26E
<b>Net Revenues</b>	<b>77,444</b>	<b>88,479</b>	<b>103,229</b>	<b>119,196</b>
Change (%)	26.1	14.2	16.7	15.5
<b>EBITDA</b>	<b>12,426</b>	<b>16,369</b>	<b>17,598</b>	<b>20,856</b>
% of Total Revenues	16.0	18.5	17.0	17.5
Add:- Non operating Income	4,200	5,054	5,520	6,032
<b>OPBIDTA</b>	<b>16,626</b>	<b>21,423</b>	<b>23,118</b>	<b>26,888</b>
LESS: Depreciation & Amortisation	1,405	1,590	1,624	1,657
EBIT	15,222	19,833	21,494	25,230
Less: Interest Expenses	158	250	200	100
<b>PBT</b>	<b>15,064</b>	<b>19,583</b>	<b>21,294</b>	<b>25,130</b>
Less: Taxes	3,623	4,700	5,111	6,031
Rate (%)	24.0	24.0	24.0	24.0
<b>Adjusted PAT</b>	<b>11,441</b>	<b>14,883</b>	<b>16,184</b>	<b>19,099</b>
Extra-ordinary Income (net)	(143.00)	-	-	-
<b>Reported PAT</b>	<b>11,298</b>	<b>14,883</b>	<b>16,184</b>	<b>19,099</b>
Balance Sheet (INR mn)	FY23	FY24E	FY25E	FY26E
Share Capital	554	554	554	554
Reserves	53,125	63,143	74,138	87,399
<b>Net Worth</b>	<b>53,680</b>	<b>63,698</b>	<b>74,692</b>	<b>87,953</b>
Borrowings	3,500	3,000	2,500	2,000
Deferred Tax Liability	1,057	1,057	1,057	1,057
<b>Total Capital Employed</b>	<b>58,237</b>	<b>67,755</b>	<b>78,250</b>	<b>91,011</b>
Gross Fixed Assets	34,328	35,328	36,078	36,828
Less: Depreciation	12,108	13,698	15,321	16,979
<b>Net Block</b>	<b>22,220</b>	<b>21,630</b>	<b>20,757</b>	<b>19,849</b>
Add: Capital Work in Progress	413	400	300	300
Investments	10,852	10,852	10,852	10,852
Net Working Capital	10,945	15,684	18,881	21,817
Cash & Bank Balance	13,808	19,189	27,460	38,192
<b>Total Assets</b>	<b>58,237</b>	<b>67,755</b>	<b>78,250</b>	<b>91,011</b>
Cash Flow Statement (INR mn)	FY23	FY24E	FY25E	FY26E
<b>Cash PAT after adj of non cash items</b>	<b>13,090</b>	<b>16,723</b>	<b>18,007</b>	<b>20,856</b>
(Inc)/Dec in WC	(582)	(4,740)	(3,197)	(2,936)
CF from Operations	12,508	11,983	14,810	17,920
EO Income	(143.00)	-	-	-
CF from Oper. Incl. EO Items	12,365	11,983	14,810	17,920
Capex	(656)	(987)	(650)	(750)
<b>Free Cash Flow</b>	<b>11,708</b>	<b>10,996</b>	<b>14,160</b>	<b>17,170</b>
Financing Cash Flow	(6,649)	(5,615)	(5,889)	(6,438)
Investing Cash Flow	(4,703.80)	-	-	-
<b>Change in Cash</b>	<b>355</b>	<b>5,381</b>	<b>8,271</b>	<b>10,732</b>
Financial Ratios	FY23	FY24E	FY25E	FY26E
<b>Profitability ratios (%)</b>				
Revenue Growth	26.1	14.2	16.7	15.5
EBITDA Growth	40.4	31.7	7.5	18.5
PAT Growth	51.7	30.1	8.7	18.0
EBITDA Margin	16.0	18.5	17.0	17.5
Net Margin	14.8	16.8	15.7	16.0
<b>Per Share data and valuation ratios (%)</b>				
EPS (INR)	41.3	53.7	58.4	68.9
DPS (INR)	13.0	15.0	16.0	18.0
P/E ratio (x)	58.1	44.7	41.1	34.8
EV/EBITDA (x)	51.9	39.0	35.8	29.7
EV/Sales (x)	8.3	7.2	6.1	5.2
Price/Book (x)	12.2	10.3	8.8	7.5
BVPS (INR)	197.5	233.6	273.3	321.1
Dividend Yield (%)	0.5	0.6	0.7	0.8
<b>Return &amp; Liquidity ratio (%)</b>				
Net debt/Equity ratio (x)	(0.4)	(0.4)	(0.5)	(0.5)
RoE	22.0	24.9	23.0	23.2
RoCE	20.7	23.9	22.4	22.7

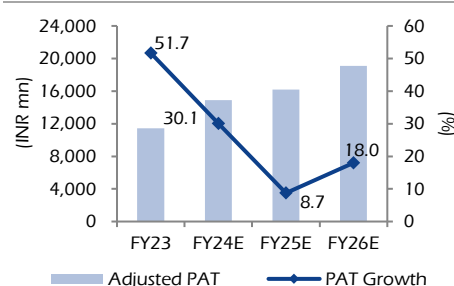
Note: pricing as on 7 February 2024; Source: Company, Elara Securities Estimate

### Revenue & margin growth trend



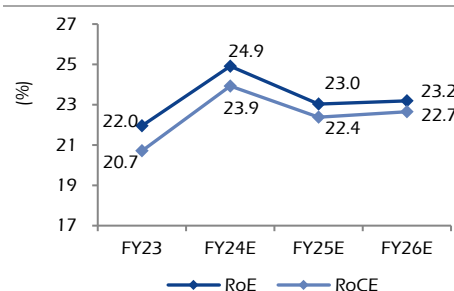
Source: Company, Elara Securities Estimate

### Adjusted profit growth trend



Source: Company, Elara Securities Estimate

### Return ratios



Source: Company, Elara Securities Estimate

### Company background

Cummins India (KKC IN) is part of USD 17bn, US-based Cummins Group (owns 51% of KKC). KKC makes diesel and natural gas engines, and generator sets, and offers related services.

KKC operates in four business sectors: industrials, automotive, power generation and distribution. The industrials segment caters to the industrials sector, making engines in 65-3,500HP range.

The power generation segment makes generator sets (genset) across fuels. It also produces transfer switches, equipment and genset controls.

The automotive business caters to the CV segment, making engine platforms via related technologies, such as filtration, exhaust, turbo, fuel & coolant systems and lube oil.

The distribution segment sells engines and provides after-market support to customers in India, Nepal and Bhutan.

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**HHP outperforms in domestic powergen; LHP weaker**

In the domestic business, revenue from the HHP genset revenue (72% of domestic genset revenue in Q3) rose 67% YoY, heavy duty up 71%, and medium horse power (MHP) by 6% YoY. Low horse power (LHP) genset revenue declined 16%.

**PAT at all-time high on realization and cost measures**

Gross margin improved 320bp YoY to 37.0% amid improved realization in the domestic genset business and better mix. Employee cost was up 30% YoY, and operating cost by up 17% YoY. 9MFY24 employee cost was up 25% YoY, led by an additional quarter's compensation due to change in the cycle. It is expected to moderate in the next fiscal, in line with India's wage inflation trend. EBITDA rose 31% to INR 5.4bn, 42% ahead of our estimates, and margin expanded 230bp YoY to 21.2% (the highest since FY10), led by GM expansion, cost efficiency measures, and operating leverage. Margin would normalize as genset prices are expected to stabilize from Q1FY25 once CPCB IV+ becomes mandatory in the secondary markets.

Interest cost rose by 135% YoY and depreciation was up 22%. Other income rose 9% to INR 1.1bn. Net profit surged 26% YoY to an all-time high of INR 4.6bn, 32% ahead of our estimates.

**Supply chain concerns not abating**

Supply chain of electronic components has yet to fully normalize as on Q3FY24 (~10% disruption could still be felt by management). Adding to concerns, the Red Sea crisis has been leading to delays in imports of supplies. Management expects the situation to normalize in FY25.

**Exhibit 1: Quarterly performance (standalone)**

YE March (INR mn)	Q1FY23	Q2FY23	Q3FY23	Q4FY23	Q1FY24	Q2FY24	Q3FY24
<b>Net Sales</b>	<b>16,867</b>	<b>19,513</b>	<b>21,805</b>	<b>19,260</b>	<b>22,087</b>	<b>18,997</b>	<b>25,341</b>
<i>YoY (%)</i>	<i>42.4</i>	<i>13.0</i>	<i>25.7</i>	<i>29.0</i>	<i>31.0</i>	<i>(2.6)</i>	<i>16.2</i>
Operating Expenses	14,728	16,607	17,683	16,000	18,681	15,611	19,961
<b>EBITDA</b>	<b>2,138</b>	<b>2,905</b>	<b>4,122</b>	<b>3,261</b>	<b>3,406</b>	<b>3,386</b>	<b>5,379</b>
<i>EBITDA Margin (%)</i>	<i>12.7</i>	<i>14.9</i>	<i>18.9</i>	<i>16.9</i>	<i>15.4</i>	<i>17.8</i>	<i>21.2</i>
Other Income	1,001	855	1,038	1,306	1,175	1,322	1,136
Interest	19	46	27	66	77	67	63
Extraordinary Items	(143)	-	-	-	-	-	(17)
<b>PBT</b>	<b>2,641</b>	<b>3,362</b>	<b>4,790</b>	<b>4,129</b>	<b>4,146</b>	<b>4,263</b>	<b>6,017</b>
<i>Tax Rate (%)</i>	<i>24.7</i>	<i>24.9</i>	<i>24.8</i>	<i>22.9</i>	<i>23.9</i>	<i>22.9</i>	<i>24.4</i>
<b>Reported PAT</b>	<b>1,988</b>	<b>2,524</b>	<b>3,601</b>	<b>3,185</b>	<b>3,157</b>	<b>3,285</b>	<b>4,549</b>
<b>Adjusted PAT</b>	<b>2,102</b>	<b>2,524</b>	<b>3,601</b>	<b>3,185</b>	<b>3,157</b>	<b>3,285</b>	<b>4,563</b>
<i>NPM (%)</i>	<i>12.5</i>	<i>12.9</i>	<i>16.5</i>	<i>16.5</i>	<i>14.3</i>	<i>17.3</i>	<i>18.0</i>
<b>Operational details</b>							
Domestic Sales	11,716	13,914	16,031	14,381	16,766	13,645	21,768
<i>Change (%)</i>	<i>36.4</i>	<i>11.3</i>	<i>27.2</i>	<i>37.6</i>	<i>43.1</i>	<i>(1.9)</i>	<i>35.8</i>
Exports	4,850	5,310	5,410	4,510	4,980	5,070	3,250
<i>Change (%)</i>	<i>57.5</i>	<i>21.0</i>	<i>23.0</i>	<i>6.6</i>	<i>2.7</i>	<i>(4.5)</i>	<i>(39.9)</i>

Source: Company, Elara Securities Research

## Exhibit 2: Segment-wise performance

Revenue (INR mn)	Q1FY23	Q2FY23	Q3FY23	Q4FY23	Q1FY24	Q2FY24	Q3FY24
PowerGen	4,960	6,750	7,120	6,730	8,760	4,860	10,730
Distribution	4,160	4,460	5,270	4,830	5,340	5,490	6,620
Industrial	2,370	2,500	3,420	2,170	2,360	3,000	4,120
Auto	-	-	-	-	-	-	-
Others	230	200	220	230	310	290	300
<b>Domestic sales</b>	<b>11,720</b>	<b>13,910</b>	<b>16,030</b>	<b>13,960</b>	<b>16,770</b>	<b>13,640</b>	<b>21,770</b>
% YoY	36.4	11.3	27.1	33.5	43.1	(1.9)	35.8
LHP Exports	2,020	2,420	2,640	2,440	2,010	2,090	1,380
HHP Exports	2,320	2,890	2,770	2,070	2,440	2,640	1,470
<b>Exports</b>	<b>4,850</b>	<b>5,310</b>	<b>5,410</b>	<b>4,510</b>	<b>4,980</b>	<b>5,070</b>	<b>3,250</b>
% YoY	57.5	21.0	23.0	6.6	2.7	(4.5)	(39.9)
<b>Total sales</b>	<b>16,570</b>	<b>19,220</b>	<b>21,440</b>	<b>18,470</b>	<b>21,750</b>	<b>18,710</b>	<b>25,020</b>
<b>Exports</b>	<b>4,850</b>	<b>5,310</b>	<b>5,410</b>	<b>4,510</b>	<b>4,980</b>	<b>5,070</b>	<b>3,250</b>
% contribution	29.3	27.6	25.2	23.9	22.9	27.1	13.0
% YoY	57.5	21.0	23.0	6.6	2.7	(4.5)	(39.9)
<b>Domestic</b>	<b>11,716</b>	<b>13,914</b>	<b>16,031</b>	<b>14,381</b>	<b>16,766</b>	<b>13,645</b>	<b>21,768</b>
% contribution	70.7	72.4	74.8	76.1	77.1	72.9	87.0
% YoY	36.4	11.3	27.2	37.6	43.1	(1.9)	35.8

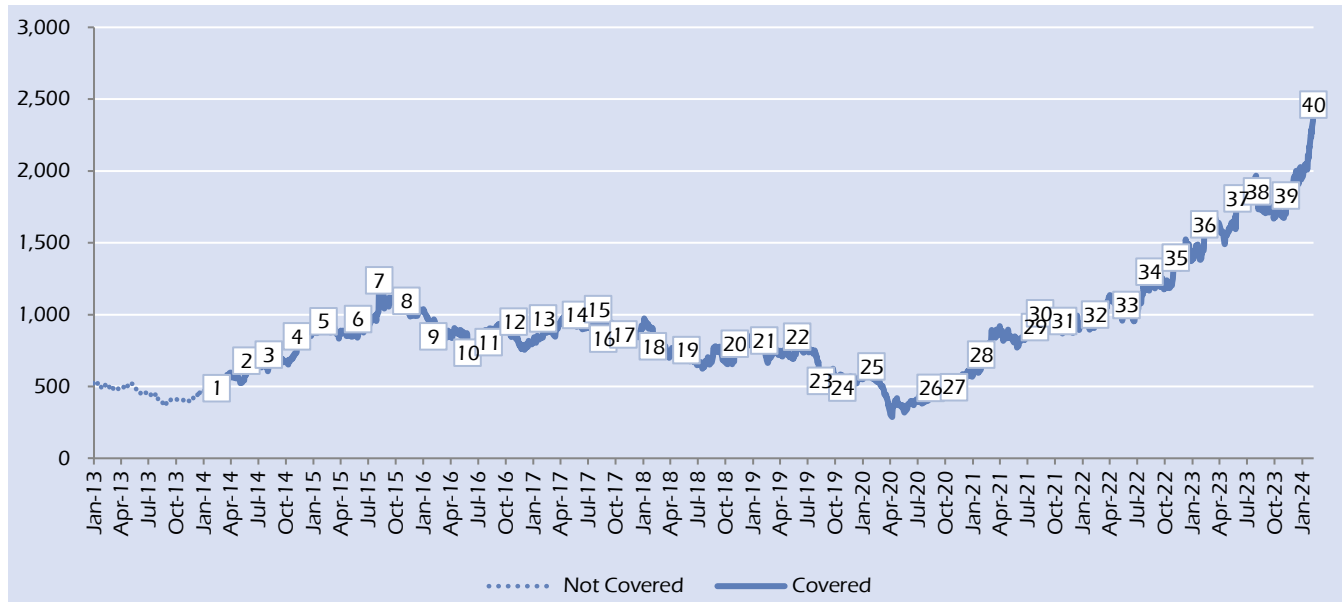
Source: Company, Elara Securities Research

## Exhibit 3: Change in estimates

(INR mn)	Old			Revised			% Change		
	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E
Sales	85,358	98,384	112,708	88,479	103,229	119,196	3.7	4.9	5.8
% YoY	10.2	15.3	14.6	14.2	16.7	15.5	403.0	141.1	90.8
EBITDA	13,878	15,848	18,503	16,369	17,598	20,856	17.9	11.0	12.7
Margin (%)	16.3	16.1	16.4	18.5	17.0	17.5	224.2	93.9	108.0
Net profit	12,931	14,737	17,091	14,883	16,184	19,099	15.1	9.8	11.8
EPS (INR)	46.6	53.2	61.7	53.7	58.4	68.9	15.1	9.8	11.8
<b>Target price (INR)</b>			<b>1,835</b>			<b>2,320</b>			<b>26.4</b>
<b>Rating</b>			<b>Accumulate</b>			<b>Reduce</b>			

Source: Elara Securities Estimate

## Coverage History



Date	Rating	Target Price	Closing Price
32 11-Feb-2022	Buy	INR 1,145	INR 939
33 27-May-2022	Buy	INR 1,200	INR 1015
34 11-Aug-2022	Accumulate	INR 1,335	INR 1,238
35 7-Nov-2022	Accumulate	INR 1,400	INR 1,335
36 9-Feb-2023	Accumulate	INR 1,635	INR 1,578
37 31-May-2023	Accumulate	INR 1,850	INR 1,760
38 4-Aug-2023	Reduce	INR 1,710	INR 1,796
39 7-Nov-2023	Accumulate	INR 1,835	INR 1,699
40 7-Feb-2023	Reduce	INR 2,320	INR 2,400

## Guide to Research Rating

<b>BUY</b>	Absolute Return >+20%
<b>ACCUMULATE</b>	Absolute Return +5% to +20%
<b>REDUCE</b>	Absolute Return -5% to +5%
<b>SELL</b>	Absolute Return < -5%



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