

Cummins India (KKC IN)

Rating: HOLD | CMP: Rs772 | TP: Rs796

May 27, 2021

Q4FY21 Result Update

☑ Change in Estimates | ☑ Target | ■ Reco

Change in Estimates

	Current		Previous	
	FY22E	FY23E	FY22E	FY23E
Rating	HOLD		HOLD	
Target Price	796		546	
Sales (Rs. m)	53,290	59,606	54,463	60,051
% Chng.	(2.2)	(0.7)		
EBITDA (Rs. m)	6,448	7,212	6,209	6,846
% Chng.	3.9	5.4		
EPS (Rs.)	23.8	26.5	22.3	24.8
% Chng.	6.6	6.9		

Key Financials - Standalone

Y/e Mar	FY20	FY21	FY22E	FY23E
Sales (Rs. m)	51,577	43,292	53,290	59,606
EBITDA (Rs. m)	5,863	5,795	6,448	7,212
Margin (%)	11.4	13.4	12.1	12.1
PAT (Rs. m)	6,293	6,179	6,591	7,359
EPS (Rs.)	22.7	22.3	23.8	26.5
Gr. (%)	(12.9)	(1.8)	6.7	11.7
DPS (Rs.)	15.5	15.0	15.7	17.5
Yield (%)	2.0	1.9	2.0	2.3
RoE (%)	15.2	14.4	14.6	15.5
RoCE (%)	10.3	10.0	11.1	11.8
EV/Sales (x)	4.0	4.7	3.8	3.4
EV/EBITDA (x)	35.2	34.7	31.4	28.0
PE (x)	34.0	34.6	32.5	29.1
P/BV (x)	5.1	4.9	4.6	4.4

Key Data

CUMM.BO | KKC IN

52-W High / Low	Rs.934 / Rs.338
Sensex / Nifty	51,115 / 15,338
Market Cap	Rs.214bn / \$ 2,947m
Shares Outstanding	277m
3M Avg. Daily Value	Rs.2215.34m

Shareholding Pattern (%)

Promoter's	51.00
Foreign	8.97
Domestic Institution	26.24
Public & Others	13.79
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	(13.8)	31.7	123.7
Relative	(17.4)	13.8	38.3

Viral Shah

viralshah@plindia.com | 91-22-66322250

Nilesh Soni

nileshsoni@plindia.com |

Export to drive growth

Quick Pointers:

- EBITDA margins expanded by 710bps YoY on account of better cost rationalization measures and healthy execution.
- Management stands optimistic about revival in export markets demand from H2FY22 basis recovery seen in China, North America and European region.

Cummins India (KKC) reported strong performance in Q4, led by sequential recovery in economic activity. Revenue grew 18% YoY on account of robust growth in domestic market (up 26% YoY) led by continued traction witnessed in power generation, construction, mining and mineral segment. EBITDA margin expanded 710bps on account of strong revenue growth and better cost rationalization measures. Management indicated strong domestic demand for powergen segment with inventory levels in system being at all-time low. On exports markets front strong recovery is witnessed in China, North America and European region while Latin American, Africa and Middle East are expected to recover gradually in the coming quarter.

In short run we remain cautious for both domestic and exports market on account of second wave of Covid. Given sharp rise in margins and improved visibility in export market, we have revised upwards our earnings estimate by 6.6%/6.9% for FY22E/23E. The stock is currently trading at 32.5x/29.1x FY22/FY23E. We maintain our Hold rating on stock with revised TP of Rs796 (earlier TP of Rs546). We believe 1) government push on infrastructure spend, 2) demand revival from exports market, 3) implementation of CPCB-IV norm and 4) opportunities arising from hydrogen technology augurs well for the stock there by increasing target multiple from 22x to 30x FY23E earnings estimates.

Lower other expenses and employee cost boost margins: Sales reported a strong growth of 18% YoY to ~Rs12.5bn (PLe ~Rs16.6bn) led by strong growth in domestic markets. EBITDA came in at Rs1.7bn in line with our estimate (PLe ~Rs1.7bn) with EBITDA margins expanding by 710bps coming at 13.4% vs 6.3% in 4QFY20, mainly on account of lower other expenses (down 30% YoY) and employee cost (down 5% YoY). PBT came in at Rs2.5bn in Q4FY21, on account of higher other income (up 24% YoY) and lower interest cost (down 33% YoY). PAT came in at Rs1.9bn (PLe ~Rs1.4bn).

Domestic market reported strong growth: In Q4FY21 domestic market reported 26% YoY growth, led by continued traction in power generation, construction, and mining and strong revival witnessed in marine segment during the quarter. Exports declined marginally by 1% YoY, mainly due to recovery witnessed in China, North America and Europe, while markets like Latin America, Africa and Middle East are expected to recover gradually in coming quarter. Management is optimistic on revival in export demand in FY22, but has reframed itself from giving any guidance.

Exhibit 1: Strong operational performance and higher other income boost profitability

Y/e March (Rs mn)	Q4FY20	Q1FY21	Q2FY21	Q3FY21	Q4FY21	YoY gr. (%)	QoQ gr. (%)	FY21	FY20	YoY gr. (%)
Revenue	10,528	4,982	11,602	14,243	12,465	18.4	(12.5)	43,292.4	51,577.3	(16.1)
Total Revenues	10,528	4,982	11,602	14,243	12,465	18.4	(12.5)	43,292	51,577	(16.1)
Expenditure	9,862	4,953	9,928	11,826	10,790	9.4	(8.8)	37,497	45,715	(18.0)
as % of sales	93.7	99.4	85.6	83.0	86.6			86.6	88.6	
Consumption of RM	6,844	2,927	7,187	9,161	8,330	21.7	(9.1)	27,606	33,679	(18.0)
as % of sales	65.0	58.8	61.9	64.3	66.8			63.8	65.3	
Employee Cost	1,403	1,150	1,189	1,252	1,336	(4.8)	6.8	4,926	5,602	(12.1)
as % of sales	13.3	23.1	10.3	8.8	10.7			11.4	10.9	
Other expenditure	1,615	876	1,552	1,413	1,124	(30.4)	(20.5)	4,965	6,434	(22.8)
as % of sales	15.3	17.6	13.4	9.9	9.0			11.5	12.5	
EBITDA	667	29	1,674	2,417	1,675	151.2	(30.7)	5,795	5,863	(1.2)
Depreciation	308	303	327	320	306	(0.6)	(4.3)	1,255	1,187	5.8
EBIT	359	(274)	1,347	2,098	1,369	281.0	(34.7)	4,540	4,676	(2.9)
Other Income	898	1,022	580	984	1,116	24.3	13.4	3,702	3,315	11.6
Interest	49	43	40	46	33	(33.3)	(28.8)	162	203	(20.1)
PBT	1,208	705	1,887	3,036	2,452	103.0	(19.2)	8,080	7,789	3.7
Total Tax	(13)	179	431	695	595		(14.4)	1,901	1,297	62.6
Adjusted PAT	1,221	526	1,456	2,341	1,857	52.1	(20.7)	6,179	6,492	(6.7)
(Profit)/loss from JV's/Ass/MI	-	-	-	-	-	-	-	-	-	-
PAT after MI	1,221	526	1,456	2,341	1,857	52.1	(20.7)	6,179	6,492	(6.7)
Extra ordinary items	(38)	-	-	-	-	-	-	-	(199)	-
Reported PAT	1,183	526	1,456	2,341	1,857	57.0	(20.7)	6,179	6,293	(3.8)
Adjusted EPS	4.3	1.9	5.3	8.5	6.7	57.0	(20.7)	22.3	22.7	(3.8)
Margins (%)	Q4FY20	Q1FY21	Q2FY21	Q3FY21	Q4FY21	bps	bps	FY21	FY20	bps
EBIDTA	6.3	0.6	14.4	17.0	13.4	710	(354)	13.4	11.4	202
EBIT	3.4	-5.5	11.6	14.7	11.0	757	(375)	10.5	9.1	142
EBT	11.5	14.1	16.3	21.3	19.7	820	(164)	18.7	15.1	356
PAT	11.2	10.5	12.5	16.4	14.9	366	(154)	14.3	12.5	182
Effective Tax rate	-1.1	25.4	22.9	22.9	24.3		137	23.5	15.0	852

Source: Company, PL

Conference Call Highlights:

- Management indicated second wave of Covid has impacted the economic recovery affecting business operation in Q1, and going forward economy is expected to start recovering from end of Q2FY22.
- **Domestic Market:** Demand outlook for powergen in domestic market is strong along with inventory level being at all-time low. Within Power generation, segments such as data centers, IT, Pharma, construction, marine, mining performed well during the year and are expected to perform well in FY22, while hospitals and commercial reality will continue to remain impacted due to second wave of Covid.
- **Exports Market:** Management indicated they are optimistic on revival in demand from export market and FY22 to be better compared to FY21. Exports markets such as China, North America and European region witnessed a strong recovery, while Latin America, Africa and Middle East are expected to gradually recover in coming period.
- **Segmental Revenue:** For 4Q, powergen segment revenue grew 34% YoY to Rs3.6bn, Industrial segment revenue grew 10% YoY to Rs2.7bn and Distribution segment revenue grew 33% YoY to Rs3.4bn.
- Management indicated Utilization level in month of April and May stood at ~50%, impacted by second wave of Covid.
- To mitigate the impact of increase in raw material, company will be taking a price hike in near term and will also focus on cost reduction measures.
- Impact of withdrawal of Merchandise Exports from India Scheme (MEIS) for full year was ~Rs300-400mn.
- Other income for the quarter was higher on account of higher dividend from JV's.
- The company is currently evaluating opportunities and will participate in various tender in railways & construction segments for its upcoming hydrogen technology.
- Management expects there won't be much delays in implementation of CPCB IV plus norm and company is progressing well to be prepared to fulfill demand.
- **Outlook:** Company is optimistic of gradual recovery of demand in coming quarters, but the management refrained itself from giving any guidance for FY22 on account of uncertainty in market due to second wave of Covi-19.
- Going ahead capex will be towards products & technology upgradation and lower compared to the past, which was mainly towards building infrastructure.

Financials

Income Statement (Rs m)

Y/e Mar	FY20	FY21	FY22E	FY23E
Net Revenues	51,577	43,292	53,290	59,606
YoY gr. (%)	(8.9)	(16.1)	23.1	11.9
Cost of Goods Sold	33,679	27,606	34,905	39,042
Gross Profit	17,899	15,687	18,385	20,564
Margin (%)	34.7	36.2	34.5	34.5
Employee Cost	5,602	4,926	5,329	5,961
Other Expenses	3,331	2,671	3,730	4,172
EBITDA	5,863	5,795	6,448	7,212
YoY gr. (%)	(32.2)	(1.2)	11.3	11.9
Margin (%)	11.4	13.4	12.1	12.1
Depreciation and Amortization	1,187	1,255	1,356	1,494
EBIT	4,676	4,540	5,092	5,719
Margin (%)	9.1	10.5	9.6	9.6
Net Interest	203	162	83	133
Other Income	3,315	3,702	3,837	4,292
Profit Before Tax	7,591	8,080	8,847	9,878
Margin (%)	14.7	18.7	16.6	16.6
Total Tax	1,297	1,901	2,256	2,519
Effective tax rate (%)	17.1	23.5	25.5	25.5
Profit after tax	6,293	6,179	6,591	7,359
Minority interest	-	-	-	-
Share Profit from Associate	-	-	-	-
Adjusted PAT	6,293	6,179	6,591	7,359
YoY gr. (%)	(12.9)	(1.8)	6.7	11.7
Margin (%)	12.2	14.3	12.4	12.3
Extra Ord. Income / (Exp)	(199)	-	-	-
Reported PAT	6,095	6,179	6,591	7,359
YoY gr. (%)	(15.6)	1.4	6.7	11.7
Margin (%)	11.8	14.3	12.4	12.3
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	6,095	6,179	6,591	7,359
Equity Shares O/s (m)	277	277	277	277
EPS (Rs)	22.7	22.3	23.8	26.5

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Mar	FY20	FY21	FY22E	FY23E
Non-Current Assets				
Gross Block	20,450	21,094	22,594	24,094
Tangibles	20,450	21,094	22,594	24,094
Intangibles	-	-	-	-
Acc: Dep / Amortization	8,192	9,447	10,803	12,297
Tangibles	8,192	9,447	10,803	12,297
Intangibles	-	-	-	-
Net fixed assets	12,258	11,647	11,791	11,797
Tangibles	12,258	11,647	11,791	11,797
Intangibles	-	-	-	-
Capital Work In Progress	819	1,282	1,275	1,275
Goodwill	-	-	-	-
Non-Current Investments	11,081	10,761	14,052	14,913
Net Deferred tax assets	(800)	(823)	(823)	(823)
Other Non-Current Assets	1,773	962	1,066	1,192
Current Assets				
Investments	7,815	3,267	3,267	3,267
Inventories	5,729	5,578	6,570	7,349
Trade receivables	11,316	10,745	11,451	12,808
Cash & Bank Balance	4,645	9,652	9,085	10,066
Other Current Assets	2,053	1,695	1,865	2,086
Total Assets	59,541	56,969	62,021	66,542
Equity				
Equity Share Capital	554	554	554	554
Other Equity	41,195	43,513	45,754	48,256
Total Network	41,750	44,068	46,309	48,811
Non-Current Liabilities				
Long Term borrowings	4,879	190	690	1,190
Provisions	-	-	-	-
Other non current liabilities	-	-	-	-
Current Liabilities				
ST Debt / Current of LT Debt	158	137	137	137
Trade payables	6,964	7,293	8,760	9,798
Other current liabilities	4,989	4,458	5,302	5,783
Total Equity & Liabilities	59,541	56,969	62,021	66,542

Source: Company Data, PL Research



Cash Flow (Rs m)

Y/e Mar	FY20	FY21	FY22E	FY23E
PBT	7,591	8,080	8,847	9,878
Add. Depreciation	1,187	1,255	1,356	1,494
Add. Interest	203	162	83	133
Less Financial Other Income	3,315	3,702	3,837	4,292
Add. Other	(1,525)	(1,814)	-	-
Op. profit before WC changes	7,455	7,683	10,285	11,504
Net Changes-WC	144	1,028	(9)	(1,185)
Direct tax	(1,609)	(832)	(2,256)	(2,519)
Net cash from Op. activities	5,990	7,879	8,020	7,800
Capital expenditures	(2,366)	(1,140)	(4,655)	(2,329)
Interest / Dividend Income	1,395	1,371	-	-
Others	(1,163)	(75)	-	-
Net Cash from Invst. activities	(2,135)	155	(4,655)	(2,329)
Issue of share cap. / premium	-	-	-	-
Debt changes	1,762	(4,697)	500	500
Dividend paid	(5,681)	(3,881)	(4,350)	(4,857)
Interest paid	(154)	(112)	(83)	(133)
Others	(36)	(35)	-	-
Net cash from Fin. activities	(4,109)	(8,724)	(3,933)	(4,489)
Net change in cash	(254)	(691)	(567)	982
Free Cash Flow	3,413	6,717	6,527	6,300

Source: Company Data, PL Research

Key Financial Metrics

Y/e Mar	FY20	FY21	FY22E	FY23E
Per Share(Rs)				
EPS	22.7	22.3	23.8	26.5
CEPS	27.0	26.8	28.7	31.9
BVPS	150.6	159.0	167.1	176.1
FCF	12.3	24.2	23.5	22.7
DPS	15.5	15.0	15.7	17.5
Return Ratio(%)				
RoCE	10.3	10.0	11.1	11.8
ROIC	11.7	10.6	11.4	12.1
RoE	15.2	14.4	14.6	15.5
Balance Sheet				
Net Debt : Equity (x)	(0.2)	(0.3)	(0.2)	(0.2)
Net Working Capital (Days)	71	76	63	63
Valuation(x)				
PER	34.0	34.6	32.5	29.1
P/B	5.1	4.9	4.6	4.4
P/CEPS	28.6	28.8	26.9	24.2
EV/EBITDA	35.2	34.7	31.4	28.0
EV/Sales	4.0	4.7	3.8	3.4
Dividend Yield (%)	2.0	1.9	2.0	2.3

Source: Company Data, PL Research

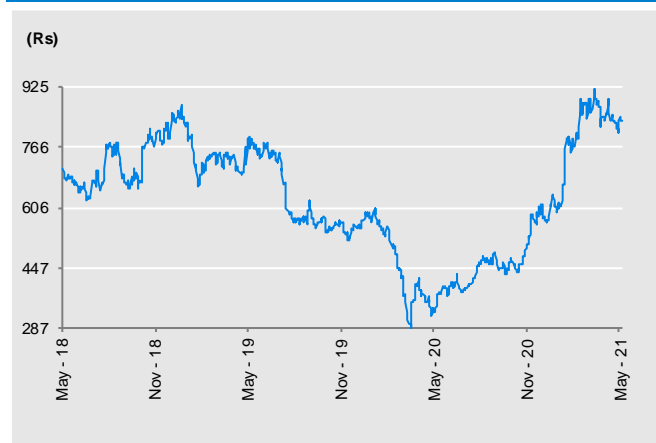
Quarterly Financials (Rs m)

Y/e Mar	Q1FY21	Q2FY21	Q3FY21	Q4FY21
Net Revenue	4,982	11,602	14,243	12,465
YoY gr. (%)	(62.9)	(11.3)	(2.0)	18.4
Raw Material Expenses	2,927	7,187	9,161	8,330
Gross Profit	2,055	4,415	5,082	4,135
Margin (%)	41.2	38.1	35.7	33.2
EBITDA	29	1,674	2,417	1,675
YoY gr. (%)	(98.1)	9.8	12.0	151.2
Margin (%)	0.6	14.4	17.0	13.4
Depreciation / Depletion	303	327	320	306
EBIT	(274)	1,347	2,098	1,369
Margin (%)	(5.5)	11.6	14.7	11.0
Net Interest	43	40	46	33
Other Income	1,022	580	984	1,116
Profit before Tax	705	1,887	3,036	2,452
Margin (%)	14.1	16.3	21.3	19.7
Total Tax	179	431	695	595
Effective tax rate (%)	25.4	22.9	22.9	24.3
Profit after Tax	526	1,456	2,341	1,857
Minority interest	-	-	-	-
Share Profit from Associates	-	-	-	-
Adjusted PAT	526	1,456	2,341	1,857
YoY gr. (%)	(62.9)	(20.6)	25.7	57.0
Margin (%)	10.5	12.5	16.4	14.9
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	526	1,456	2,341	1,857
YoY gr. (%)	(62.9)	(20.6)	25.7	57.0
Margin (%)	10.5	12.5	16.4	14.9
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	526	1,456	2,341	1,857
Avg. Shares O/s (m)	277	277	277	277
EPS (Rs)	1.9	5.3	8.4	6.7

Source: Company Data, PL Research

Price Chart

Recommendation History



No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	07-Apr-21	Hold	546	879
2	29-Jan-21	Hold	546	666
3	08-Jan-21	Accumulate	472	643
4	30-Oct-20	Accumulate	472	434
5	08-Oct-20	Accumulate	472	443
6	13-Aug-20	Accumulate	472	437
7	08-Jul-20	BUY	472	411
8	18-Jun-20	BUY	472	370

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	ABB India	Hold	1,337	1,388
2	Ahluwalia Contracts (India)	BUY	384	293
3	Apar Industries	BUY	543	373
4	Ashoka Buildcon	BUY	160	96
5	Bharat Electronics	Accumulate	110	131
6	BHEL	Hold	34	49
7	Capacite's Infraprojects	BUY	270	199
8	Container Corporation of India	Hold	607	634
9	Cummins India	Hold	546	879
10	Engineers India	BUY	115	76
11	GE T&D India	Hold	122	119
12	H.G. Infra Engineering	BUY	476	333
13	IRB Infrastructure Developers	BUY	157	108
14	ITD Cementation India	BUY	97	76
15	J.Kumar Infraprojects	BUY	260	183
16	Kalpataru Power Transmission	BUY	448	382
17	KEC International	Accumulate	420	383
18	KNR Constructions	Accumulate	253	227
19	Larsen & Toubro	BUY	1,604	1,416
20	NCC	BUY	111	78
21	PNC Infratech	BUY	295	256
22	Power Grid Corporation of India	BUY	205	170
23	Sadbhav Engineering	BUY	115	63
24	Siemens	Accumulate	1,856	1,786
25	Thermax	Accumulate	1,559	1,455
26	Triveni Turbine	BUY	98	102
27	Voltamp Transformers	BUY	1,466	1,058

PL's Recommendation Nomenclature (Absolute Performance)

Buy	: > 15%
Accumulate	: 5% to 15%
Hold	: +5% to -5%
Reduce	: -5% to -15%
Sell	: < -15%

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