

January 29, 2021

Q3FY21 Result Update

Change in Estimates | Target | Reco

Change in Estimates

	Current		Previous	
	FY22E	FY23E	FY22E	FY23E
Rating	HOLD		ACCUMULATE	
Target Price	546		472	
Sales (Rs. m)	54,463	60,051	52,977	56,747
% Chng.	2.8	5.8		
EBITDA (Rs. m)	6,209	6,846	6,039	6,469
% Chng.	2.8	5.8		
EPS (Rs.)	22.3	24.8	21.4	23.0
% Chng.	4.0	7.8		

Key Financials - Standalone

Y/e Mar	FY20	FY21E	FY22E	FY23E
Sales (Rs. m)	51,577	49,489	54,463	60,051
EBITDA (Rs. m)	5,863	5,939	6,209	6,846
Margin (%)	11.4	12.0	11.4	11.4
PAT (Rs. m)	6,492	5,875	6,182	6,881
EPS (Rs.)	23.4	21.2	22.3	24.8
Gr. (%)	(10.2)	(9.5)	5.2	11.3
DPS (Rs.)	15.5	14.0	14.7	16.4
Yield (%)	2.3	2.1	2.2	2.5
RoE (%)	15.6	13.7	13.8	14.6
RoCE (%)	10.3	9.7	9.6	10.2
EV/Sales (x)	3.4	3.6	3.3	3.0
EV/EBITDA (x)	30.3	30.1	29.0	26.5
PE (x)	28.5	31.4	29.9	26.8
P/BV (x)	4.4	4.2	4.0	3.8

Key Data

CUMM.BO | KKC IN

52-W High / Low	Rs.689 / Rs.280
Sensex / Nifty	46,286 / 13,635
Market Cap	Rs.185bn/ \$ 2,532m
Shares Outstanding	277m
3M Avg. Daily Value	Rs.1812.1m

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	17.1	66.3	10.8
Relative	20.5	36.8	(1.3)

Viral Shah

viralshah@plindia.com | 91-22-66322250

Khushboo Parekh

khushbooparekh@plindia.com | 91-22-66322257

Rich Valuation, Reduce to HOLD

Quick Pointers:

- EBITDA Margins expanded by 213bps on account of execution of high margin one-off order and better cost rationalization measures.
- Strong recoveries seen in segments such as distribution, exports, domestic powergens and some industrials.

Cummins India (KKC) reported healthy quarterly performance led by sharp recovery in economic activities across some key segments. Revenue declined by 3% YoY largely in-line with our estimates. EBITDA margins came in at ~17% (highest ever) driven by execution of high margin one-off order and better cost rationalization measures. For domestic market, management indicated several businesses such as construction, mining, power generation and industrial who witnessed faster recovery leading to revenues reaching 97% pre-covid levels. Going ahead, KKC expects demand to improve across various segment in domestic market. Export markets are seeing some signs of revival from Asia- Pacific and African regions while Europe Latin America seems to be affected from second wave of Covid.

In short term we remain cautious as export market condition remains uncertain on account of second Covid wave. We expect gradual pick-up of demand in domestic market as government's spending for Infrastructure continues. We expect implementation of CPCB-IV norms and upcoming opportunities in Hydrogen Technology could be positive for the company in the long run. With robust 9MFY21 performance we have revised our earnings estimates for FY21/22E/23E upwards by 10.9%/4%/7.8%. The stock is currently trading at 30.1x/28.6x FY21E/22E. Due to recent sharp run-up in the stock price we have reduced our rating from Accumulate to HOLD. We rolled over to FY23 estimate revising our TP to Rs546 (Rs472 earlier).

Cost rationalization measures margins: Sales came in at ~Rs14.2bn (down 2% YoY) vs (PLe ~Rs14.8bn) led by better execution. EBITDA increased by 12% YoY to Rs2.4bn (PLe ~Rs1.8bn) with EBITDA margins expanding by 220bps coming at 17% vs 14.8% in 3QFY20. EBITDA came in higher than estimates due to lower employee cost (down 12% YoY) & other expenses (down, 6% YoY). PBT increased by 28% YoY to Rs3bn owing to higher other income (up,36% YoY) and higher operating performance. PAT came in at Rs2.3bn (PLe ~Rs1.5bn), up 25.7% YoY.

Fast recovery in Domestic segments: In 3Q, domestic revenues decline by 3% with strong recovery seen in some segments. Domestic business recovered to ~97% levels of last year, led by faster recovery in power generation, construction, and mining segments. Exports grew by 1% YoY led by some signs of recovery in export markets particularly Asia Pacific and African regions. Europe and Latin America has been impacted due to second wave of Covid-19. Management continues to remain cautious and has not given guidance for FY21, given uncertain market condition and limited visibility of end market recovery.

Exhibit 1: Q3FY21 Result Overview (Rs mn) – Cost control measures and higher other income boosts profitability.

Y/e March	Q3FY20	Q4FY20	Q1FY21	Q2FY21	Q3FY21	YoY gr. (%)	QoQ gr. (%)	9MFY21	9MFY20	YoY gr. (%)
Revenue	14,534	10,528	4,982	11,602	14,243	(2.0)	22.8	30,827.3	41,048.9	(24.9)
Total Revenues	14,534	10,528	4,982	11,602	14,243	(2.0)	22.8	30,827	41,049	(24.9)
Expenditure	12,377	9,862	4,953	9,928	11,826	(4.5)	19.1	26,707	35,853	(25.5)
<i>as % of sales</i>	<i>85.2</i>	<i>93.7</i>	<i>99.4</i>	<i>85.6</i>	<i>83.0</i>			<i>86.6</i>	<i>87.3</i>	
Consumption of RM	9,460	6,844	2,927	7,187	9,161	(3.2)	27.5	19,276	26,835	(28.2)
<i>as % of sales</i>	<i>65.1</i>	<i>65.0</i>	<i>58.8</i>	<i>61.9</i>	<i>64.3</i>			<i>62.5</i>	<i>65.4</i>	
Employee Cost	1,416	1,403	1,150	1,189	1,252	(11.6)	5.2	3,590	4,199	(14.5)
<i>as % of sales</i>	<i>9.7</i>	<i>13.3</i>	<i>23.1</i>	<i>10.3</i>	<i>8.8</i>			<i>11.6</i>	<i>10.2</i>	
Other expenditure	1,502	1,615	876	1,552	1,413	(5.9)	(8.9)	3,841	4,820	(20.3)
<i>as % of sales</i>	<i>10.3</i>	<i>15.3</i>	<i>17.6</i>	<i>13.4</i>	<i>9.9</i>			<i>12.5</i>	<i>11.7</i>	
EBITDA	2,158	667	29	1,674	2,417	12.0	44.4	4,120	5,196	(20.7)
Depreciation	296	308	303	327	320	8.2	(2.2)	949	879	8.0
EBIT	1,862	359	(274)	1,347	2,098	12.7	55.7	3,171	4,317	(26.5)
Other Income	723	898	1,022	580	984	36.2	69.8	2,586	2,418	6.9
Interest	47	49	43	40	46	(1.5)	13.9	129	154	(16.0)
PBT	2,538	1,208	705	1,887	3,036	19.6	60.9	5,627	6,581	(14.5)
Total Tax	515	(13)	179	431	695	34.9	61.2	1,306	1,310	(0.3)
Adjusted PAT	2,023	1,221	526	1,456	2,341	15.7	60.8	4,322	5,271	(18.0)
(Profit)/loss from JV's/Ass/MI	-	-	-	-	-	-	-	-	-	-
PAT after MI	2,023	1,221	526	1,456	2,341	15.7	60.8	4,322	5,271	(18.0)
Extra ordinary items	(161)	(38)	-	-	-	-	-	-	(161)	-
Reported PAT	1,862	1,183	526	1,456	2,341	25.7	60.8	4,322	5,110	(15.4)
Adjusted EPS	6.7	4.3	1.9	5.3	8.5	25.7	60.8	15.6	18.4	(15.4)
Margins (%)	Q3FY20	Q4FY20	Q1FY21	Q2FY21	Q3FY21	bps	bps	9MFY21	9MFY20	bps
EBIDTA	14.8	6.3	0.6	14.4	17.0	213	254	13.4	12.7	71
EBIT	12.8	3.4	-5.5	11.6	14.7	192	311	10.3	10.5	(23)
EBT	17.5	11.5	14.1	16.3	21.3	385	505	18.3	16.0	222
PAT	12.8	11.2	10.5	12.5	16.4	362	389	14.0	12.4	157
Effective Tax rate	20.3	-1.1	25.4	22.9	22.9	260	5	23.2	19.9	329

Source: Company, PL

Conference Call Highlights:

- Management indicated strong economic recovery in some segments such as industrial, construction, mining, power generation and exports segments leading to healthy quarterly performance.
- **Domestic market:** For 3Q, domestic segment reported revenue decline of 3% YoY. During the quarter, healthy economic recovery has been witnessed in segments such as construction, mining and power generation resulting in revenue reaching 97% pre-covid levels.
- Within Power generation, management is witnessing pickup in demand from various segments such as data centers, industrial, construction, marine, mining and rentals while MHP's, hospitals and commercial reality continues to remain a lag.
- **Export Markets: Export revenues grew by 1% YoY led by strong recovery in Asian and African markets.** However due to second wave of pandemic in Europe and Latin America, economic recovery has been halted for the near term.
- **In terms of segmental revenue:** For 3Q, powergen segment revenue reported a growth of 11% YoY to Rs4.2bn while Industrial business de-grew by 4% YoY and Distribution segment de-grew by 12% respectively.
- Due to steep rise in commodity prices, management expects to take price hike in coming quarters. Management remains cautiously optimistic on demand front as things have started improving MoM.
- EBITDA margins were higher primarily due to one off execution of large ticket size high margin order and relatively lower exports.
- Going forward with steep rise in commodity prices, reversal of salary cut announced earlier and high competition intensity, margins are expected to remain under pressure.
- Other income increased led by higher share of dividend to the tune of Rs380mn from its subsidiary and forex gain reported during the quarter.
- Management expects implementation of CPC IV plus norm from Jan'22.
- The company expects to gain healthy market share from its upcoming Hydrogen technology segment and is currently evaluating and bidding for various tenders in Railways and construction segments.
- **Outlook:** On account of pandemic and uncertainty, management has reframed itself from giving any guidance; however, it is optimistic based on gradual recovery in demand witnessed across various sectors.

Financials

Income Statement (Rs m)

Y/e Mar	FY20	FY21E	FY22E	FY23E
Net Revenues	51,577	49,489	54,463	60,051
YoY gr. (%)	(8.9)	(4.0)	10.1	10.3
Cost of Goods Sold	33,679	32,514	35,510	39,153
Gross Profit	17,899	16,975	18,953	20,898
Margin (%)	34.7	34.3	34.8	34.8
Employee Cost	5,602	4,949	5,991	6,606
Other Expenses	3,331	3,464	3,812	4,204
EBITDA	5,863	5,939	6,209	6,846
YoY gr. (%)	(32.2)	1.3	4.5	10.3
Margin (%)	11.4	12.0	11.4	11.4
Depreciation and Amortization	1,187	1,296	1,373	1,431
EBIT	4,676	4,643	4,836	5,415
Margin (%)	9.1	9.4	8.9	9.0
Net Interest	203	221	241	261
Other Income	3,315	3,464	3,704	4,083
Profit Before Tax	7,789	7,886	8,298	9,237
Margin (%)	15.1	15.9	15.2	15.4
Total Tax	1,297	2,011	2,116	2,355
Effective tax rate (%)	16.7	25.5	25.5	25.5
Profit after tax	6,492	5,875	6,182	6,881
Minority interest	-	-	-	-
Share Profit from Associate	-	-	-	-
Adjusted PAT	6,492	5,875	6,182	6,881
YoY gr. (%)	(10.2)	(9.5)	5.2	11.3
Margin (%)	12.6	11.9	11.4	11.5
Extra Ord. Income / (Exp)	(199)	-	-	-
Reported PAT	6,293	5,875	6,182	6,881
YoY gr. (%)	(12.9)	(6.7)	5.2	11.3
Margin (%)	12.2	11.9	11.4	11.5
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	6,293	5,875	6,182	6,881
Equity Shares O/s (m)	277	277	277	277
EPS (Rs)	23.4	21.2	22.3	24.8

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Mar	FY20	FY21E	FY22E	FY23E
Non-Current Assets				
Gross Block	20,450	24,450	27,450	30,450
Tangibles	20,450	24,450	27,450	30,450
Intangibles	-	-	-	-
Acc: Dep / Amortization	8,192	9,488	10,860	12,292
Tangibles	8,192	9,488	10,860	12,292
Intangibles	-	-	-	-
Net fixed assets	12,258	14,962	16,590	18,159
Tangibles	12,258	14,962	16,590	18,159
Intangibles	-	-	-	-
Capital Work In Progress	819	800	800	800
Goodwill	-	-	-	-
Non-Current Investments	11,079	9,804	10,431	11,101
Net Deferred tax assets	(800)	(800)	(800)	(800)
Other Non-Current Assets	1,773	1,831	1,906	2,102
Current Assets				
Investments	7,815	7,815	7,815	7,815
Inventories	5,729	6,101	6,715	7,404
Trade receivables	11,316	11,905	13,102	14,446
Cash & Bank Balance	4,538	3,831	2,860	1,863
Other Current Assets	2,053	1,980	2,179	2,402
Total Assets	59,541	61,108	64,684	68,614
Equity				
Equity Share Capital	554	554	554	554
Other Equity	41,195	43,193	45,295	47,634
Total Network	41,750	43,747	45,849	48,189
Non-Current Liabilities				
Long Term borrowings	4,879	5,379	5,879	6,379
Provisions	-	-	-	-
Other non current liabilities	-	-	-	-
Current Liabilities				
ST Debt / Current of LT Debt	158	158	158	158
Trade payables	6,964	6,779	7,461	8,226
Other current liabilities	4,989	4,244	4,537	4,861
Total Equity & Liabilities	59,541	61,108	64,684	68,614

Source: Company Data, PL Research

Cash Flow (Rs m)

Y/e Mar	FY20	FY21E	FY22E	FY23E
PBT	7,591	7,886	8,298	9,237
Add. Depreciation	1,187	1,296	1,373	1,431
Add. Interest	203	221	241	261
Less Financial Other Income	3,315	3,464	3,704	4,083
Add. Other	(1,525)	-	-	-
Op. profit before WC changes	7,455	9,403	9,912	10,929
Net Changes-WC	144	(1,804)	(1,294)	(1,625)
Direct tax	(1,609)	(2,011)	(2,116)	(2,355)
Net cash from Op. activities	5,990	5,588	6,502	6,949
Capital expenditures	(2,366)	(2,696)	(3,652)	(3,643)
Interest / Dividend Income	1,395	-	-	-
Others	(1,163)	-	-	-
Net Cash from Inv. activities	(2,135)	(2,696)	(3,652)	(3,643)
Issue of share cap. / premium	-	-	-	-
Debt changes	1,762	500	500	500
Dividend paid	(5,681)	(3,877)	(4,080)	(4,542)
Interest paid	(154)	(221)	(241)	(261)
Others	(36)	-	-	-
Net cash from Fin. activities	(4,109)	(3,599)	(3,822)	(4,303)
Net change in cash	(254)	(707)	(971)	(997)
Free Cash Flow	3,413	1,607	3,502	3,949

Source: Company Data, PL Research

Key Financial Metrics

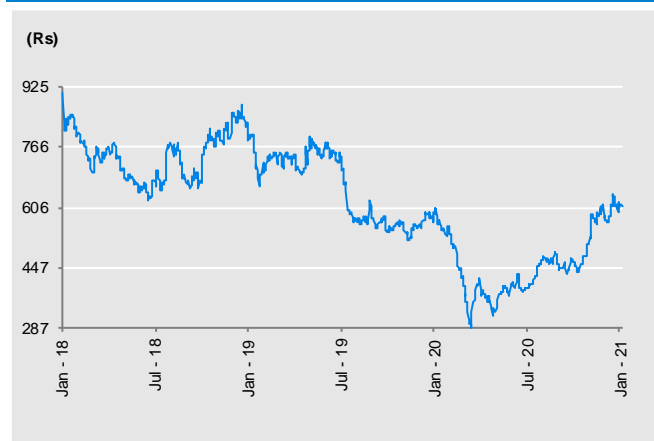
Y/e Mar	FY20	FY21E	FY22E	FY23E
Per Share(Rs)				
EPS	23.4	21.2	22.3	24.8
CEPS	27.7	25.9	27.3	30.0
BVPS	150.6	157.8	165.4	173.8
FCF	12.3	5.8	12.6	14.2
DPS	15.5	14.0	14.7	16.4
Return Ratio(%)				
RoCE	10.3	9.7	9.6	10.2
ROIC	11.7	9.5	9.0	9.2
RoE	15.6	13.7	13.8	14.6
Balance Sheet				
Net Debt : Equity (x)	(0.2)	(0.1)	(0.1)	(0.1)
Net Working Capital (Days)	71	83	83	83
Valuation(x)				
PER	28.5	31.4	29.9	26.8
P/B	4.4	4.2	4.0	3.8
P/CEPS	24.1	25.8	24.4	22.2
EV/EBITDA	30.3	30.1	29.0	26.5
EV/Sales	3.4	3.6	3.3	3.0
Dividend Yield (%)	2.3	2.1	2.2	2.5

Source: Company Data, PL Research

Quarterly Financials (Rs m)

Y/e Mar	Q4FY20	Q1FY21	Q2FY21	Q3FY21
Net Revenue	10,528	4,982	11,602	14,243
YoY gr. (%)	(21.5)	(62.9)	(11.3)	(2.0)
Raw Material Expenses	6,844	2,927	7,187	9,161
Gross Profit	3,685	2,055	4,415	5,082
Margin (%)	35.0	41.2	38.1	35.7
EBITDA	667	29	1,674	2,417
YoY gr. (%)	(61.2)	(98.1)	9.8	12.0
Margin (%)	6.3	0.6	14.4	17.0
Depreciation / Depletion	308	303	327	320
EBIT	359	(274)	1,347	2,098
Margin (%)	3.4	(5.5)	11.6	14.7
Net Interest	49	43	40	46
Other Income	898	1,022	580	984
Profit before Tax	1,170	705	1,887	3,036
Margin (%)	11.1	14.1	16.3	21.3
Total Tax	(13)	179	431	695
Effective tax rate (%)	(1.1)	25.4	22.9	22.9
Profit after Tax	1,183	526	1,456	2,341
Minority interest	-	-	-	-
Share Profit from Associates	-	-	-	-
Adjusted PAT	1,183	526	1,456	2,341
YoY gr. (%)	(16.0)	(62.9)	(20.6)	25.7
Margin (%)	11.2	10.5	12.5	16.4
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	1,183	526	1,456	2,341
YoY gr. (%)	(16.0)	(62.9)	(20.6)	25.7
Margin (%)	11.2	10.5	12.5	16.4
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	1,183	526	1,456	2,341
Avg. Shares O/s (m)	277	277	277	277
EPS (Rs)	4.3	1.9	5.3	8.4

Source: Company Data, PL Research

Price Chart
Recommendation History


No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	08-Jan-21	Accumulate	472	643
2	30-Oct-20	Accumulate	472	434
3	08-Oct-20	Accumulate	472	443
4	13-Aug-20	Accumulate	472	437
5	08-Jul-20	BUY	472	411
6	18-Jun-20	BUY	472	370
7	27-Apr-20	BUY	493	385
8	16-Apr-20	BUY	493	375

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	ABB	Hold	880	1,303
2	Ahluwalia Contracts (India)	BUY	288	263
3	Ashoka Buildcon	BUY	147	94
4	Bharat Electronics	Accumulate	110	132
5	BHEL	Hold	34	39
6	Capacite's Infraprojects	BUY	270	180
7	Container Corporation of India	BUY	468	378
8	Cummins India	Accumulate	472	643
9	Engineers India	BUY	104	79
10	GE T&D India	Hold	86	132
11	H.G. Infra Engineering	BUY	259	238
12	IRB Infrastructure Developers	BUY	157	116
13	ITD Cementation India	BUY	67	64
14	J.Kumar Infraprojects	BUY	176	142
15	Kalpataru Power Transmission	BUY	437	336
16	KEC International	Accumulate	339	366
17	KNR Constructions	BUY	336	337
18	Larsen & Toubro	BUY	1,526	1,361
19	NCC	BUY	83	62
20	PNC Infratech	BUY	219	176
21	Power Grid Corporation of India	BUY	205	170
22	Sadbhav Engineering	BUY	87	64
23	Siemens	Accumulate	1,516	1,633
24	Thermax	Accumulate	798	980
25	Triveni Turbine	BUY	85	85
26	Voltamp Transformers	BUY	1,283	1,254

PL's Recommendation Nomenclature (Absolute Performance)

Buy	: > 15%
Accumulate	: 5% to 15%
Hold	: +5% to -5%
Reduce	: -5% to -15%
Sell	: < -15%
Not Rated (NR)	: No specific call on the stock
Under Review (UR)	: Rating likely to change shortly



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