

August 11, 2022

Q1FY23 Result Update

Change in Estimates | Target | Reco

Change in Estimates

	Current		Previous	
	FY23E	FY24E	FY23E	FY24E
Rating	ACCUMULATE		ACCUMULATE	
Target Price	1,296		1,087	
Sales (Rs. m)	67,136	73,211	66,153	71,840
% Chng.	1.5	1.9		
EBITDA (Rs. m)	9,792	11,344	9,751	11,099
% Chng.	0.4	2.2		
EPS (Rs.)	31.3	36.0	30.4	34.0
% Chng.	2.9	6.0		

Key Financials - Standalone

Y/e Mar	FY21	FY22	FY23E	FY24E
Sales (Rs. m)	43,292	61,404	67,136	73,211
EBITDA (Rs. m)	5,795	8,851	9,792	11,344
Margin (%)	13.4	14.4	14.6	15.5
PAT (Rs. m)	6,179	7,854	8,666	9,978
EPS (Rs.)	22.3	28.3	31.3	36.0
Gr. (%)	(4.3)	27.1	10.3	15.1
DPS (Rs.)	15.0	10.5	20.6	23.8
Yield (%)	1.2	0.8	1.7	1.9
RoE (%)	14.4	17.0	17.3	18.8
RoCE (%)	10.0	15.5	15.4	17.0
EV/Sales (x)	7.6	5.3	4.9	4.5
EV/EBITDA (x)	57.0	37.0	33.8	29.1
PE (x)	55.5	43.7	39.6	34.4
P/BV (x)	7.8	7.1	6.7	6.3

Key Data

CUMM.BO | KKC IN

52-W High / Low	Rs.1,257 / Rs.842
Sensex / Nifty	59,333 / 17,659
Market Cap	Rs.343bn/ \$ 4,309m
Shares Outstanding	277m
3M Avg. Daily Value	Rs.596.48m

Shareholding Pattern (%)

Promoter's	51.00
Foreign	10.35
Domestic Institution	25.05
Public & Others	13.60
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	11.4	31.9	31.0
Relative	2.1	29.2	20.4

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Healthy topline, product mix to drive margins

Quick Pointers

- Exports business continues its growth momentum, driven by robust growth in Middle East (up 127% YoY).
- Gross margins are expected to revive in coming quarters with gradual price pass-through and softening commodity prices.

Cummins India (KKC) reported robust revenue growth of 42.4% YoY to Rs16.9bn, while gross margins were impacted (down 332 bps YoY) due to change in revenue mix (higher contribution of LHP in exports business) and commodity inflation. Though better absorption of fixed cost aided EBITDA margins (flat YoY at 12.7%). However, with commodity price softening, price hikes and better revenue mix, margins are expected to improve going forward. Demand is witnessing double digit growth from end users. Exports market likely to continue its strong traction in key geographies like Middle East, Latin America, and Asia Pacific, from segment such as infrastructure, data center, telecom etc. Domestic powergen and industrial segment outlook continues to remain strong from sector such as infrastructure, residential reality, pharma, biotech, mining, defense and railways. Though demand from end markets continue to remain healthy, supply chain disruptions may likely impact performance of the company in near term.

We believe strong demand outlook from end user industry, reviving margin profile, implementation of CPCB-IV, strong momentum in exports market and new technology driven product launches to benefit company in long run. Consequently, we revise upwards our EPS estimate by 2.9%/6% for FY23/24. At CMP stock is trading at 39.6x/34.4x FY23/24E. We maintain 'Accumulate' rating with revised TP of Rs1,296 (Rs1,087 earlier) valuing it at PE of 36x FY24E.

Commodity inflation and product mix drags gross margins: Standalone Sales grew 42.4% YoY to Rs16.9bn (PLe ~Rs12.9bn), driven by domestic (up 36.4% YoY) as well as exports business (up 57.5%). Gross margin contracted 332bps YoY 31.1% owing to commodity inflation and change in product mix. EBITDA grew 43.7% YoY to Rs2.1bn (PLe ~Rs1.6bn), with EBITDA margins remaining broadly flat at 12.7% in Q1FY23 (vs 12.6 in Q1FY22), Adj. PAT grew 57% YoY to Rs2.1bn, (PLe ~Rs1.4bn) on account of strong operational performance and higher other income (up 82.4% YoY).

Momentum continues in exports as well as domestic market: Domestic business grew ~36.4% YoY, driven by Powergen (up 41% YoY at Rs4.9bn), distribution (up 36% YoY at Rs4.2bn), Industrial (up 25% YoY at Rs2.4bn). Exports revenue grew 57.5%, driven by HHP (up 36% YoY at Rs2.3bn) and LHP (up 74% YoY to Rs2bn).

Exhibit 1: Better absorption of fixed overheads aid EBITDA margin (Rs mn)

Y/e March	Q1FY22	Q2FY22	Q3FY22	Q4FY22	Q1FY23	YoY (%)	QoQ (%)	FY22	FY21	YoY (%)
Revenue	11,845	17,274	17,350	14,936	16,867	42.4	12.9	61,404	43,292	41.8
Total Revenues	11,845	17,274	17,350	14,936	16,867	42.4	12.9	61,404	43,292	41.8
Expenditure	10,357	14,682	14,645	12,869	14,728	42.2	14.4	52,553	37,497	40.2
<i>as % of sales</i>	<i>87.4</i>	<i>85.0</i>	<i>84.4</i>	<i>86.2</i>	<i>87.3</i>			<i>85.6</i>	<i>86.6</i>	
Consumption of RM	7,768	11,571	11,573	10,156	11,621	49.6	14.4	41,068	27,606	48.8
<i>as % of sales</i>	<i>65.6</i>	<i>67.0</i>	<i>66.7</i>	<i>68.0</i>	<i>68.9</i>			<i>66.9</i>	<i>63.8</i>	
Employee Cost	1,349	1,569	1,609	1,428	1,513	12.2	6.0	5,956	4,926	20.9
<i>as % of sales</i>	<i>11.4</i>	<i>9.1</i>	<i>9.3</i>	<i>9.6</i>	<i>9.0</i>			<i>9.7</i>	<i>11.4</i>	
Other expenditure	1,240	1,541	1,463	1,285	1,593	28.5	24.0	5,529	4,965	11.4
<i>as % of sales</i>	<i>10.5</i>	<i>8.9</i>	<i>8.4</i>	<i>8.6</i>	<i>9.4</i>			<i>9.0</i>	<i>11.5</i>	
EBITDA	1,488	2,592	2,705	2,067	2,138	43.7	3.5	8,851	5,795	52.7
Depreciation	309	336	349	347	337	8.9	(3.1)	1,340	1,255	6.8
EBIT	1,179	2,256	2,356	1,719	1,802	52.8	4.8	7,511	4,540	65.4
Other Income	549	694	866	766	1,001	82.4	30.7	2,875	3,702	(22.3)
Interest	18	22	27	48	19	10.9	(59.8)	115	162	(28.9)
Extra ordinary items	(1,324)	-	-	-	143	-	-	(1,324)	-	-
PBT	3,034	2,929	3,195	2,437	2,641	(13.0)	8.3	11,595	8,080	43.5
Total Tax	668	730	786	545	653	(2.3)	19.6	2,728	1,901	43.5
Reported PAT	2,366	2,199	2,410	1,892	1,988	(16.0)	5.1	8,867	6,179	43.5
Adj. PAT	1,334	2,199	2,410	1,892	2,096	57.1	10.8	7,854	6,179	27.1
Adjusted EPS	4.8	7.9	8.7	6.8	7.6	57.1	10.8	28.3	22.3	27.1
Margins (%)	Q1FY22	Q2FY22	Q3FY22	Q4FY22	Q1FY23	bps	bps	FY22	FY21	bps
EBIDTA	12.6	15.0	15.6	13.8	12.7	12	(116)	14.4	13.4	103
EBIT	10.0	13.1	13.6	11.5	10.7	73	(83)	12.2	10.5	175
EBT	25.6	17.0	18.4	16.3	15.7	(996)	(66)	18.9	18.7	22
PAT	11.3	12.7	13.9	12.7	12.4	116	(24)	12.8	14.3	(148)
Effective Tax rate	22.0	24.9	24.6	22.4	24.7	271	233	23.5	23.5	0

Source: Company, PL

Conference call highlights

- Demand scenario continues to be strong from domestic and exports end user markets and likely to continue double digit growth momentum.
- Domestic revenue grew 36% YoY to Rs11.7bn, while exports revenue grew 58% YoY to Rs4.6bn.
- Revenue was impacted to the extent of 10-15% owing to supply chain disruptions. Supply chain issues may continue to pose near term challenges.
- Margins were impacted due to change in revenue mix, increase in commodity prices and lag in price pass through. With price hikes, commodity prices softening and change in revenue mix, margins are likely to improve in medium term.
- Going forward focus will be on stringent cost control measures and price hikes to mitigate the risk of higher commodity prices.
- New products introduced are more of advance technology and efficient products and have started contributing to revenues.
- **Domestic:** Powergen revenue grew 41% YoY to Rs4.9bn, distribution up 36% YoY to Rs4.2bn, Industrial up 25% YoY to Rs2.4bn.
 - **Powergen:** Demand remains strong from sectors such as infrastructure, residential reality, pharma and biotech.
 - **Industrial sector:** Construction segment was below management expectation due to slowdown in road construction, however the segment is expected to rebound strongly in coming period. Enquiry pipeline in railway is gradually picking up. Mining & Steel segment is expected to report its strong momentum. Marine and defense are doing for better than expected, though are long duration contracts. While compressor segment is in downtrend.
- **Exports:** HHP revenue grew 36% YoY to Rs2.3bn, LHP up 74% YoY to Rs2bn.
 - Exports markets such as Middle East, Latin America and Asia Pacific continues to witness strong traction, from segment such as data center, telecom, infrastructure.
- CPCB-IV norm is expected to be implemented from July 2023 onwards, which will likely lead to pre buying. Being more complicated and high technology driven it is likely to be priced higher.

Financials

Income Statement (Rs m)

Y/e Mar	FY21	FY22	FY23E	FY24E
Net Revenues	43,292	61,404	67,136	73,211
YoY gr. (%)	(16.1)	41.8	9.3	9.0
Cost of Goods Sold	27,606	41,068	44,048	47,001
Gross Profit	15,687	20,336	23,088	26,209
Margin (%)	36.2	33.1	34.4	35.8
Employee Cost	4,926	5,956	6,445	7,101
Other Expenses	2,542	3,028	3,357	3,734
EBITDA	5,795	8,851	9,792	11,344
YoY gr. (%)	(1.2)	52.7	10.6	15.9
Margin (%)	13.4	14.4	14.6	15.5
Depreciation and Amortization	1,255	1,340	1,404	1,466
EBIT	4,540	7,511	8,387	9,878
Margin (%)	10.5	12.2	12.5	13.5
Net Interest	162	115	190	205
Other Income	3,702	2,875	3,357	3,631
Profit Before Tax	8,080	11,595	11,554	13,304
Margin (%)	18.7	18.9	17.2	18.2
Total Tax	1,901	2,728	2,889	3,326
Effective tax rate (%)	23.5	23.5	25.0	25.0
Profit after tax	6,179	8,867	8,666	9,978
Minority interest	-	-	-	-
Share Profit from Associate	-	-	-	-
Adjusted PAT	6,179	7,854	8,666	9,978
YoY gr. (%)	(4.3)	27.1	10.3	15.1
Margin (%)	14.3	12.8	12.9	13.6
Extra Ord. Income / (Exp)	-	1,012	-	-
Reported PAT	6,179	8,867	8,666	9,978
YoY gr. (%)	(1.8)	43.5	(2.3)	15.1
Margin (%)	14.3	14.4	12.9	13.6
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	6,179	8,867	8,666	9,978
Equity Shares O/s (m)	277	277	277	277
EPS (Rs)	22.3	28.3	31.3	36.0

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Mar	FY21	FY22	FY23E	FY24E
Non-Current Assets				
Gross Block	20,107	20,684	21,884	23,084
Tangibles	20,107	20,684	21,884	23,084
Intangibles	-	-	-	-
Acc: Dep / Amortization	8,461	8,848	10,252	11,718
Tangibles	8,461	8,848	10,252	11,718
Intangibles	-	-	-	-
Net fixed assets	11,647	11,836	11,631	11,366
Tangibles	11,647	11,836	11,631	11,366
Intangibles	-	-	-	-
Capital Work In Progress	1,282	1,226	804	804
Goodwill	-	-	-	-
Non-Current Investments	10,761	10,263	13,023	14,358
Net Deferred tax assets	(823)	(971)	(971)	(971)
Other Non-Current Assets	962	1,219	1,276	1,464
Current Assets				
Investments	3,267	5,775	5,775	5,775
Inventories	5,578	7,288	8,093	8,825
Trade receivables	10,745	12,473	14,100	15,573
Cash & Bank Balance	9,652	13,867	11,098	12,403
Other Current Assets	1,695	1,558	2,014	2,343
Total Assets	56,969	68,051	70,567	75,912
Equity				
Equity Share Capital	554	554	554	554
Other Equity	43,513	47,972	50,919	54,311
Total Network	44,068	48,527	51,473	54,866
Non-Current Liabilities				
Long Term borrowings	190	3,972	4,472	4,972
Provisions	-	-	-	-
Other non current liabilities	-	-	-	-
Current Liabilities				
ST Debt / Current of LT Debt	137	151	151	151
Trade payables	7,293	9,973	8,461	9,427
Other current liabilities	4,458	4,457	5,039	5,525
Total Equity & Liabilities	56,969	68,051	70,567	75,912

Source: Company Data, PL Research

Cash Flow (Rs m)

Y/e Mar	FY21	FY22	FY23E	FY24E
PBT	8,080	11,595	11,554	13,304
Add. Depreciation	1,255	1,340	1,404	1,466
Add. Interest	162	115	190	205
Less Financial Other Income	3,702	2,875	3,357	3,631
Add. Other	(1,814)	(2,753)	-	-
Op. profit before WC changes	7,683	10,297	13,148	14,975
Net Changes-WC	1,028	(684)	(1,726)	(1,549)
Direct tax	(832)	(2,543)	(2,889)	(3,326)
Net cash from Op. activities	7,879	7,070	8,534	10,100
Capital expenditures	(1,140)	705	(3,301)	(2,504)
Interest / Dividend Income	1,371	1,030	-	-
Others	(75)	(7,597)	-	-
Net Cash from Invt. activities	155	(5,862)	(3,301)	(2,504)
Issue of share cap. / premium	-	-	-	-
Debt changes	(4,697)	3,777	500	500
Dividend paid	(3,881)	(4,435)	(5,719)	(6,586)
Interest paid	(112)	(74)	(190)	(205)
Others	(35)	(42)	-	-
Net cash from Fin. activities	(8,724)	(774)	(5,409)	(6,291)
Net change in cash	(691)	434	(176)	1,305
Free Cash Flow	6,717	5,552	7,756	8,900

Source: Company Data, PL Research

Key Financial Metrics

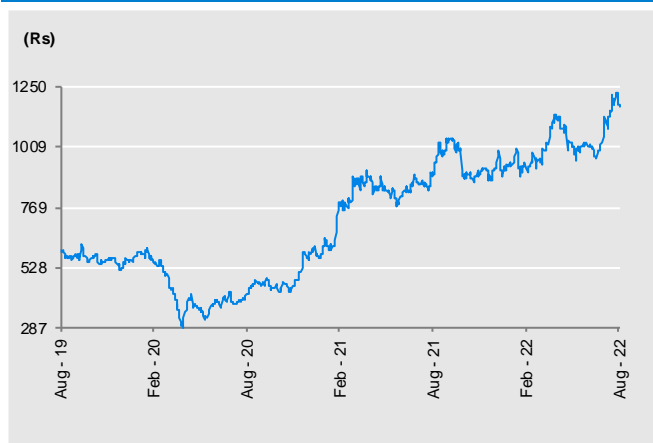
Y/e Mar	FY21	FY22	FY23E	FY24E
Per Share(Rs)				
EPS	22.3	28.3	31.3	36.0
CEPS	26.8	33.2	36.3	41.3
BVPS	159.0	175.1	185.7	197.9
FCF	24.2	20.0	28.0	32.1
DPS	15.0	10.5	20.6	23.8
Return Ratio(%)				
RoCE	10.0	15.5	15.4	17.0
ROIC	10.6	19.9	16.8	18.6
RoE	14.4	17.0	17.3	18.8
Balance Sheet				
Net Debt : Equity (x)	(0.3)	(0.3)	(0.2)	(0.2)
Net Working Capital (Days)	76	58	75	75
Valuation(x)				
PER	55.5	43.7	39.6	34.4
P/B	7.8	7.1	6.7	6.3
P/CEPS	46.2	37.3	34.1	30.0
EV/EBITDA	57.0	37.0	33.8	29.1
EV/Sales	7.6	5.3	4.9	4.5
Dividend Yield (%)	1.2	0.8	1.7	1.9

Source: Company Data, PL Research

Quarterly Financials (Rs m)

Y/e Mar	Q2FY22	Q3FY22	Q4FY22	Q1FY23
Net Revenue	17,274	17,350	14,936	16,867
YoY gr. (%)	48.9	21.8	19.8	42.4
Raw Material Expenses	11,571	11,573	10,156	11,621
Gross Profit	5,703	5,777	4,780	5,245
Margin (%)	33.0	33.3	32.0	31.1
EBITDA	2,592	2,705	2,067	2,138
YoY gr. (%)	54.8	11.9	23.4	43.7
Margin (%)	15.0	15.6	13.8	12.7
Depreciation / Depletion	336	349	347	337
EBIT	2,256	2,356	1,719	1,802
Margin (%)	13.1	13.6	11.5	10.7
Net Interest	22	27	48	19
Other Income	694	866	766	1,001
Profit before Tax	2,929	3,195	2,437	2,641
Margin (%)	17.0	18.4	16.3	15.7
Total Tax	730	786	545	653
Effective tax rate (%)	24.9	24.6	22.4	24.7
Profit after Tax	2,199	2,410	1,892	1,988
Minority interest	-	-	-	-
Share Profit from Associates	-	-	-	-
Adjusted PAT	2,199	2,410	1,892	2,096
YoY gr. (%)	51.1	2.9	1.9	57.1
Margin (%)	12.7	13.9	12.7	12.4
Extra Ord. Income / (Exp)	-	-	-	(108)
Reported PAT	2,199	2,410	1,892	1,988
YoY gr. (%)	51.1	2.9	1.9	(16.0)
Margin (%)	12.7	13.9	12.7	11.8
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	2,199	2,410	1,892	1,988
Avg. Shares O/s (m)	277	277	277	277
EPS (Rs)	7.9	8.7	6.8	7.6

Source: Company Data, PL Research

Price Chart
Recommendation History


No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	05-Jul-22	Accumulate	1,087	1,052
2	28-May-22	Accumulate	1,087	1,015
3	08-Apr-22	Accumulate	1,032	1,113
4	13-Feb-22	Accumulate	1,069	939
5	11-Jan-22	Accumulate	1,051	952
6	05-Oct-21	Accumulate	1,051	900
7	13-Aug-21	Accumulate	1,051	976

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	ABB India	Hold	2,293	2,362
2	Apar Industries	Accumulate	1,194	1,124
3	Bharat Electronics	BUY	295	269
4	BHEL	Sell	36	46
5	Cummins India	Accumulate	1,087	1,052
6	Engineers India	BUY	89	60
7	GE T&D India	Hold	102	101
8	Kalpataru Power Transmission	BUY	442	373
9	KEC International	Accumulate	473	444
10	Larsen & Toubro	BUY	2,030	1,751
11	Siemens	Accumulate	2,815	2,615
12	Thermax	Accumulate	2,190	2,019
13	Triveni Turbine	BUY	240	192
14	Voltamp Transformers	UR	-	2,972

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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