

Cummins

Continues to surprise positively

Cummins India Ltd (CIL) delivered a positive surprise with the highest quarterly revenue/EBITDA/PAT at INR 21.8/4.1/3.6bn, beating our estimates by 12/37/34%. Revenue outperformance, pricing action and op-lev resulted in gross and EBITDA margin expansion. CIL maintained its guidance of the returning to historical gross margin range of 35-36% (+300bps) in 18-24months. The demand environment is strong in both domestic and export markets, and CIL expects to grow at 2x the Indian GDP growth. With the transition to stringent CPCB 4+ norms expected to take place in July'23, powergen pre-buying is expected to pick up in Q4FY23/Q1FY24. CIL has multiple tailwinds, namely, stringent upcoming norms, Capex cycle recovery, adoption of alternative fuels with lesser carbon footprint, revival in industrials and supporting manufacturing policies. CIL highlighted that it continues to evaluate on CTIL merger and will arrive at a solution which is in the best interest of various stakeholders. We have increased our FY23/24/25 EPS by 7.4/3.7/9.8% to factor in strong growth. Maintain BUY, with an increased SOTP of INR 1,818 (35x Dec-FY24E EPS).

- **Financial highlights:** Revenue: INR 21.8bn (+26%/+12% YoY/QoQ, 12% beat), highest-ever quarterly. Domestic sales: INR 16bn (+27%/+15% YoY/QoQ) and export sales of INR 5.4bn (+23%/+2% YoY/QoQ). EBITDA: INR 4.1bn (+52%/+42% YoY/QoQ, 37% beat). EBITDA margin: 18.9% (+331/+401bps YoY/QoQ) vs est. of 15.5%. This outperformance was mainly on account of a higher gross margin at 33.8% (+52bps/+198bps Q3FY22/Q2FY23) and operating leveraging kicking in because of higher-than-expected revenue growth. Other income: INR 1bn (+20%/+21% YoY/QoQ) vs. est. of INR 950mn. RPAT/APAT: INR 3.6bn (+50%/+42% YoY/QoQ 34% beat).
- **Demand outlook stable; CIL targeting 2x GDP growth:** CIL continues to witness strong demand, both in domestic and export markets. Demand is especially strong in the powergen segment where end markets like hospitality, commercial realty, manufacturing and data centres are driving growth. During 9MFY23, CIL did not witness any major pre-buying ahead of the transition to stringent CPCB 4+ norms in July'23. It believes that the impact will kick in as we are now 5 months away from the transition.
- **Price hikes and commodities inflation now balance each other, China recovery, supply chain issues key constraints to margin improvement:** The global supply chain challenges continue to persist, with electronic components and specialist parts like specialised casting still in short supply. CIL factories are currently running at 70-80% utilisation and are good to meet the demand for the next two years. It expects to maintain the annual sustenance Capex of INR c.2-2.5bn largely on CPCB 4+ implementation and improving the green product mix. The China recovery and supply chain issues may result in higher commodity inflation.

Standalone financial summary

(INR in mn)	Q3FY23	Q3FY22	YoY (%)	Q2FY23	QoQ (%)	FY22	FY23E	FY24E	FY25E
Net Revenues	21,805	17,350	25.7	19,513	11.8	61,404	76,247	84,763	94,568
EBITDA	4,122	2,705	52.4	2,905	41.9	8,802	12,010	15,072	17,510
APAT	3,601	2,410	49.5	2,524	42.7	7,837	10,752	13,283	15,064
Diluted EPS(INR)	13.0	8.7	49.5	9.1	42.7	28.3	38.8	47.9	54.3
P/E (x)						55.8	40.7	32.9	29.0
EV/EBITDA (x)						47.9	34.8	27.3	23.1
RoE (%)						16.9	20.9	22.7	22.1

Standalone Estimate Change Summary (INR mn)

Particulars	FY23E			FY24E			FY25E		
	New	Old	Chg.(%)	New	Old	Chg.(%)	New	Old	Chg.(%)
Revenues	76,247	73,148	4.2	84,763	81,363	4.2	94,568	89,978	5.1
EBITDA	12,010	11,022	9.0	15,072	14,405	4.6	17,510	15,846	10.5
EBITDA (%)	15.8	15.1	68.4	17.8	17.7	7.7	18.5	17.6	90.5
APAT	10,752	10,009	7.4	13,283	12,803	3.7	15,064	13,722	9.8

Source: Company, HSIE Research

BUY

CMP (as on 09 Feb 2023) INR 1,578

Target Price INR 1,818

NIFTY 17,893

KEY CHANGES	OLD	NEW	
Rating	BUY	BUY	
Price Target	INR 1,597	INR 1,818	
EPS change %	FY23E +7.4	FY24E +3.7	FY25E +9.8

KEY STOCK DATA

Bloomberg code	KKC IN
No. of Shares (mn)	277
MCap (INR bn) / (\$ mn)	438/5,302
6m avg traded value (INR mn)	877
52 Week high / low	INR 1,618/904

STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	16.8	32.6	69.3
Relative (%)	17.2	29.3	65.3

SHAREHOLDING PATTERN (%)

	Sep-22	Dec-22
Promoters	51.00	51.00
FIs & Local MFs	26.74	25.20
FPIs	10.36	12.20
Public & Others	11.90	11.60
Pledged Shares	-	-

Source: BSE

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Disclosure:

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