

Cummins

Mixed performance

Cummins India Ltd (CIL) recorded the highest-ever revenue of INR 22b (+31%/+15% YoY/QoQ, in line with our estimate). This was driven mainly by strong pre-buy for CPCB 2 gensets. The deadline for the sale of these gensets has been extended until Jul'24 (an extension of six months). As a result, CPCB 4+ emission norms will now become effective from 1 Jul'24 for gensets with power up to 800kW (CIL has 20% of its portfolio above the 800kW rating). CIL, however, launched the CPCB 4+ compliant products in Jul'23 whose prices are 20-50% higher than their older counterpart. In terms of geographical performance, domestic sales have been very robust at INR 16.7bn (+43%/+20% YoY/QoQ). The export market is flattish with a certain part of the world slowing down (Europe, LatAm, APAC). The high HP segment in the export market is robust with 5%/18% YoY/QoQ growth. In CY24, CIL expects to ramp up its manned capacity, which is currently at a utilisation level of 100% as against its installed capacity utilisation of 60-65%. CIL has multiple tailwinds, namely, stringent emission norms, Capex cycle recovery, adoption of alternative fuels with lesser carbon footprint, revival in industrials and supporting manufacturing policies. We maintain BUY, with an increased SOTP of INR 2,100 (35x Jun-26 EPS).

- Q1FY24 financial highlights:** Revenue: Highest-ever at INR 22bn (+31%/+15% YoY/QoQ, in line with est.). Domestic sales: INR 16.7bn (+43%/+20% YoY/QoQ) and export sales of INR 5bn (+3%/+1% YoY/QoQ). EBITDA: INR 3.4bn (+59%/+5% YoY/QoQ, 11% miss on account of wage hike and one-time warranty provision). Gross margin: INR 32.5% (+144bps/-20bps Q1FY23/Q4FY23, in line with est.). Consequently, the EBITDA margin was 15.4% (+274/-151bps YoY/QoQ) vs est. of 17.5%. Other income: INR 1.2bn (+17%/-10% YoY/QoQ) vs. est. of INR 1.1bn. RPAT/APAT: INR 3.2bn (+51%/-1% YoY/QoQ, 6% miss).
- CPCB 4+ implementation extended to 1 Jul'24:** The government has made changes in the CPCB IV+ norms implementation timeline. Now, the Central Pollution Control Board has allowed the sale and manufacturing of CPCB 2 generator sets until 30 June 30 (extended by six months). CPCB 4+ emission norms will now become effective from 1 July 2024 for gensets with power up to 800kW. CIL, however, has already launched the CPCB 4+ compliant gensets post-Jun '23, prices of which are higher by 20-50%. CIL now faces the challenge to maintain inventory of both CPCB 2 and CPCB 4+ compliant gensets. It has localized the manufacturing of new norm gensets at 80% and targets to move localization to 90%, capped by import dependency on electronic components.

Standalone financial summary

| (INR in mn) | Q1FY24 | Q1FY23 | YoY (%) | Q4FY23 | QoQ (%) | FY23 | FY24E | FY25E | FY26E |
|------------------|--------|--------|---------|--------|---------|--------|--------|--------|---------|
| Net Revenues | 22,087 | 16,867 | 31.0 | 19,260 | 14.7 | 77,444 | 86,488 | 98,745 | 113,584 |
| EBITDA | 3,406 | 2,138 | 59.3 | 3,261 | 4.5 | 12,426 | 15,142 | 18,783 | 23,056 |
| APAT | 3,157 | 2,095 | 50.7 | 3,185 | (0.9) | 11,405 | 13,557 | 16,253 | 19,432 |
| Diluted EPS(INR) | 11.4 | 7.6 | 50.7 | 11.5 | (0.9) | 41.1 | 48.9 | 58.6 | 70.1 |
| P/E (x) | | | | | | 43.7 | 36.7 | 30.6 | 25.6 |
| EV/EBITDA (x) | | | | | | 38.4 | 31.1 | 24.6 | 19.5 |
| RoE (%) | | | | | | 22.3 | 23.3 | 23.7 | 23.7 |

Standalone estimate change summary

| Particulars | FY24E | | | FY25E | | |
|-------------|--------|--------|---------|--------|--------|---------|
| | New | Old | Chg.(%) | New | Old | Chg.(%) |
| Revenues | 86,488 | 84,763 | 2.0 | 98,745 | 94,568 | 4.4 |
| EBITDA | 15,142 | 15,072 | 0.5 | 18,783 | 17,510 | 7.3 |
| EBITDA (%) | 17.5 | 17.8 | (27.4) | 19.0 | 18.5 | 50.6 |
| APAT | 13,557 | 13,283 | 2.1 | 16,253 | 15,064 | 7.9 |

Source: Company, HSIE Research

BUY

| | |
|-------------------------|-----------|
| CMP (as on 04 Aug 2023) | INR 1,796 |
| Target Price | INR 2,100 |
| NIFTY | 19,517 |

| KEY CHANGES | OLD | NEW |
|--------------|---------------|---------------|
| Rating | BUY | BUY |
| Price Target | INR 1,880 | INR 2,100 |
| EPS change % | FY24E +2.1 | FY25E +7.9 |

KEY STOCK DATA

| | |
|------------------------------|-----------------|
| Bloomberg code | KKC IN |
| No. of Shares (mn) | 277 |
| MCap (INR bn) / (\$ mn) | 498/6,088 |
| 6m avg traded value (INR mn) | 1,219 |
| 52 Week high / low | INR 1,981/1,104 |

STOCK PERFORMANCE (%)

| | 3M | 6M | 12M |
|--------------|------|------|------|
| Absolute (%) | 11.8 | 24.3 | 52.5 |
| Relative (%) | 5.3 | 16.2 | 39.7 |

SHAREHOLDING PATTERN (%)

| | Mar-23 | Jun-23 |
|-----------------|--------|--------|
| Promoters | 51.00 | 51.00 |
| FIs & Local MFs | 23.81 | 23.97 |
| FPIs | 13.99 | 14.37 |
| Public & Others | 11.20 | 10.66 |
| Pledged Shares | - | - |

Source: BSE

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Disclosure:

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