

August 4, 2023

Q1FY24 Result Update

Change in Estimates | Target | Reco

Change in Estimates

	Current		Previous	
	FY24E	FY25E	FY24E	FY25E
Rating	HOLD		ACCUMULATE	
Target Price	1,788		1,750	
Sales (Rs. m)	86,771	97,224	85,758	95,932
% Chng.	1.2	1.3		
EBITDA (Rs. m)	14,187	16,188	13,121	15,829
% Chng.	8.1	2.3		
EPS (Rs.)	45.4	51.1	42.4	50.0
% Chng.	7.0	2.2		

Key Financials - Standalone

Y/e Mar	FY22	FY23	FY24E	FY25E
Sales (Rs. m)	61,404	77,444	86,771	97,224
EBITDA (Rs. m)	8,851	12,426	14,187	16,188
Margin (%)	14.4	16.0	16.4	16.7
PAT (Rs. m)	7,854	11,406	12,573	14,163
EPS (Rs.)	28.3	41.1	45.4	51.1
Gr. (%)	27.1	45.2	10.2	12.6
DPS (Rs.)	10.5	25.0	29.9	34.2
Yield (%)	0.6	1.4	1.7	1.9
RoE (%)	17.0	22.3	22.5	23.5
RoCE (%)	15.5	20.0	21.2	22.4
EV/Sales (x)	7.9	6.2	5.5	4.9
EV/EBITDA (x)	54.5	38.4	33.8	29.6
PE (x)	63.4	43.6	39.6	35.2
P/BV (x)	10.3	9.3	8.6	7.9

Key Data

CUMM.BO | KKC IN

52-W High / Low	Rs.1,981 / Rs.1,104
Sensex / Nifty	65,721 / 19,517
Market Cap	Rs.498bn / \$ 6,010m
Shares Outstanding	277m
3M Avg. Daily Value	Rs.1252.35m

Shareholding Pattern (%)

Promoter's	51.00
Foreign	13.99
Domestic Institution	23.81
Public & Others	11.20
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	(3.3)	24.3	52.5
Relative	(3.6)	15.0	35.2

Amit Anwani

amitanwani@plindia.com | 91-22-66322250

Nilesh Soni

nileshsoni@plindia.com | 91-22-66322214

Healthy performance; pre-buying drives growth

Quick Pointers:

- Domestic Power Gen sales grew 76% YoY to Rs8.7bn, driven by pre-buying.
- Export growth was muted at ~3% YoY due to softening of global demand.

We revise our FY24/25E EPS estimates by +7.0%/+2.2%, factoring in strong domestic & pre-buying demand, and revised guidelines on CPCB IV+ transition, which has been shifted to June 2024. Cummins India (KKC) reported strong revenue growth of 31.0% and EBITDA margin expansion of 274bps YoY to 15.4%, due to commodity softening and operating leverage. Robust demand is seen across the board, such as in data centers, realty, pharma, manufacturing, and hospitality. Meanwhile, export markets such as Europe, Americas, and Asia Pacific have slowed down.

Cummins' outlook remains intact given 1) strong domestic demand in power gen across sectors 2) improving margin profile, and 3) ample room for growth in the Distribution business. We estimate FY23-25E Revenue/EBITDA/PAT CAGR of 12.0%/14.1%/11.4%. The stock is trading at PE of 39.6x/35.2x FY24/25E. We downgrade the rating to 'Hold' from Accumulate with a TP of Rs1,788 (Rs1,750 earlier), valuing it at 35x on FY25E EPS (same as earlier), given the recent run-up in the stock price.

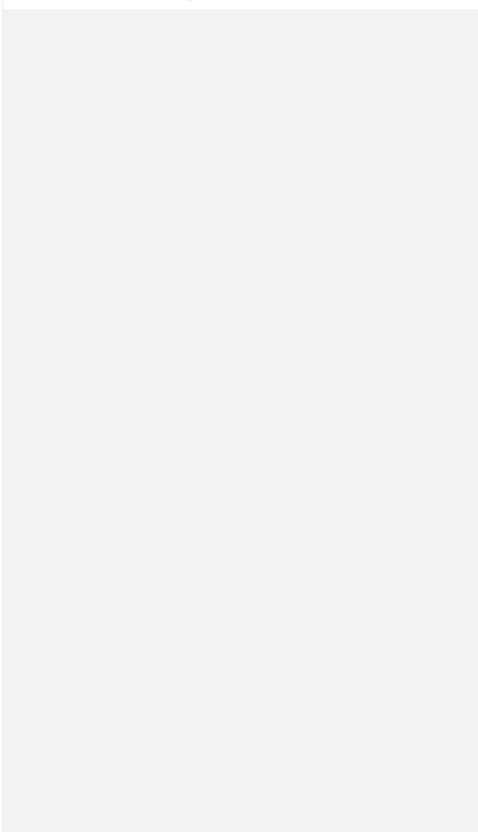
Strong sales drive operating leverage and profitable growth: Standalone revenue grew 31.0% YoY to Rs22.1bn (PL estimate of Rs19.2bn), driven by pre-buying. Gross margin expanded 143bps YoY to 32.5% due to softening commodity prices. EBITDA grew 59.3% YoY to Rs3.4bn (PL estimate of Rs2.7bn), with EBITDA margin rising by 274bps to 15.4% (PL estimate of 14.3%), on account of operating leverage (employee costs and other expenses as a % of sales fell 44bps and 87bps YoY respectively). Adj. PAT grew 50.6% YoY to Rs3.2bn (PL estimate of Rs2.5bn) owing to a strong operational performance, but was slightly dragged down by higher interest costs at Rs77mn (vs Rs19mn in Q1FY23).

Power gen and distribution businesses record robust growth: Domestic sales grew 43.0% YoY to Rs16.4bn (76.7% of total sales), driven by power gen (up 76.0% YoY to Rs8.7bn) and distribution (up 28.4% YoY to Rs5.3bn). Industrial sales were flat YoY at Rs2.4bn. Exports rose only 2.7% YoY to Rs5.0bn (23.3% of total sales), as Europe, North & Latin America, and Asia Pacific have started to decline while Middle East and Africa have flattened. Low HP exports were almost flat YoY at Rs2.0bn, while High HP exports were up 5.2% YoY to Rs2.4bn.

Exhibit 1: Strong revenue growth on account of robust power gen and distribution sales

Y/e March (Rs mn)	Q1FY23	Q2FY23	Q3FY23	Q4FY23	Q1FY24	YoY gr. (%)	QoQ gr.(%)
Revenue	16,867	19,513	21,805	19,260	22,087	31.0	14.7
Total Revenues	16,867	19,513	21,805	19,260	22,087	31.0	14.7
Expenditure	14,728	16,607	17,683	16,000	18,681	26.8	16.8
<i>as % of sales</i>	<i>87.3</i>	<i>85.1</i>	<i>81.1</i>	<i>83.1</i>	<i>84.6</i>		
Consumption of RM	11,621	13,300	14,432	12,955	14,902	28.2	15.0
<i>as % of sales</i>	<i>68.9</i>	<i>68.2</i>	<i>66.2</i>	<i>67.3</i>	<i>67.5</i>		
Employee Cost	1,513	1,609	1,610	1,566	1,885	24.5	20.4
<i>as % of sales</i>	<i>9.0</i>	<i>8.2</i>	<i>7.4</i>	<i>8.1</i>	<i>8.5</i>		
Other expenditure	1,593	1,698	1,641	1,479	1,895	18.9	28.2
<i>as % of sales</i>	<i>9.4</i>	<i>8.7</i>	<i>7.5</i>	<i>7.7</i>	<i>8.6</i>		
EBITDA	2,138	2,905	4,122	3,261	3,406	59.3	4.5
Depreciation	337	353	343	372	358	6.4	(3.8)
EBIT	1,802	2,553	3,779	2,888	3,048	69.1	5.5
Other Income	1,001	855	1,038	1,306	1,175	17.4	(10.1)
Interest	19	46	27	66	77	295.9	17.3
Extra ordinary items	143	-	-	-	-	-	-
PBT	2,641	3,362	4,790	4,129	4,146	57.0	0.4
Total Tax	653	838	1,188	944	989	51.6	4.8
Reported PAT	1,988	2,524	3,601	3,185	3,157	58.8	(0.9)
Adj. PAT	2,096	2,524	3,601	3,185	3,157	50.6	(0.9)
Adjusted EPS	7.6	9.1	13.0	11.5	11.4	50.6	(0.9)
Margins (%)	Q1FY23	Q2FY23	Q3FY23	Q4FY23	Q1FY24	bps	bps
EBITDA	12.7	14.9	18.9	16.9	15.4	274	(151)
EBIT	10.7	13.1	17.3	15.0	13.8	312	(120)
EBT	15.7	17.2	22.0	21.4	18.8	311	(267)
PAT	12.4	12.9	16.5	16.5	14.3	187	(224)
Effective Tax rate	24.7	24.9	24.8	22.9	23.9	(86)	99

Source: Company, PL



Conference Call Highlights

- Cummins successfully launched products complying with CPCB IV+ norms.
- The government has extended allowance for production and sale of CPCB II products to June 2024; Cummins has a full order board for CPCB II until then.
- There is uncertainty around what % of the market will transition to CPCB IV+ over next couple of quarters as only certain segments will shift initially.
- Strong domestic demand, on account of significant pre-buying, drove revenue growth. Anticipating relatively less demand in Q2.
- Management is confident that demand in various end-markets will sustain, but is cautious of the short-medium term demand outlook due to lingering supply chain issues.
- Guiding for double digit sales growth in FY24; expecting top line to grow at 2x GDP growth for the next 8-10 years. Maintaining guidance of 100bps improvement in margins, given sharp focus on cost management.
- Seeing good demand across the board – data centers, realty, pharma, manufacturing, hospitality.
- Requirement for power gensets and industrial engines in India will continue to grow, owing to rising infrastructure and construction activity. Thus, there is still plenty of room for growth in Distribution business, as more products will need to be serviced. Cummins is offering longer term and better maintenance packages, while also looking to enter new markets and launch more services.
- In export markets, Europe, Americas and APAC have declined, while Africa and Middle East have flattened. Cummins is looking to launch more products and use its better cost base in India to gain share even in a declining market.
- Inventory will spike over the next two quarters as both CPCB II and CPCB IV+ products will be made. Cummins will need to balance the mix and optimize the supply chain, keeping the old product line going while scaling up the new line.
- In FY24, CPCB IV+ is expected to be 15-25% of total power gen sales.
- Localization in CPCB IV+ products is at ~80%; will aim to increase this to 90%. Currently impossible to get to 100% because some of the electronics required are not made in India at all.
- Cummins India is cash rich and able to fund any investments needed to grow. Capex is mainly focused on developing new technologies and products, and entering new segments such as rail, mining, battery, hydrogen, etc., A small amount is for maintenance capex – refurbishing, upgradation, implementing modern manufacturing methods, IoT, etc.
- Genset sales for gas decompression is <5% of business; management does not see much improvement in this market for 3-4 years, until India sorts out the gas supply chain to increase availability of gas.

Financials

Income Statement (Rs m)

Y/e Mar	FY22	FY23	FY24E	FY25E
Net Revenues	61,404	77,444	86,771	97,224
YoY gr. (%)	41.8	26.1	12.0	12.0
Cost of Goods Sold	41,068	52,309	57,269	63,487
Gross Profit	20,336	25,135	29,502	33,737
Margin (%)	33.1	32.5	34.0	34.7
Employee Cost	5,956	6,298	7,072	7,875
Other Expenses	3,028	3,692	4,165	4,861
EBITDA	8,851	12,426	14,187	16,188
YoY gr. (%)	52.7	40.4	14.2	14.1
Margin (%)	14.4	16.0	16.4	16.7
Depreciation and Amortization	1,340	1,405	1,504	1,668
EBIT	7,511	11,022	12,683	14,520
Margin (%)	12.2	14.2	14.6	14.9
Net Interest	115	158	169	203
Other Income	2,875	4,200	4,295	4,618
Profit Before Tax	11,595	14,921	16,809	18,935
Margin (%)	18.9	19.3	19.4	19.5
Total Tax	2,728	3,623	4,236	4,772
Effective tax rate (%)	23.5	24.3	25.2	25.2
Profit after tax	8,867	11,298	12,573	14,163
Minority interest	-	-	-	-
Share Profit from Associate	-	-	-	-
Adjusted PAT	7,854	11,406	12,573	14,163
YoY gr. (%)	27.1	45.2	10.2	12.6
Margin (%)	12.8	14.7	14.5	14.6
Extra Ord. Income / (Exp)	1,012	(108)	-	-
Reported PAT	8,867	11,298	12,573	14,163
YoY gr. (%)	43.5	27.4	11.3	12.6
Margin (%)	14.4	14.6	14.5	14.6
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	8,867	11,298	12,573	14,163
Equity Shares O/s (m)	277	277	277	277
EPS (Rs)	28.3	41.1	45.4	51.1

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Mar	FY22	FY23	FY24E	FY25E
Non-Current Assets				
Gross Block	20,684	23,864	25,064	26,264
Tangibles	20,684	23,864	25,064	26,264
Intangibles	-	-	-	-
Acc: Dep / Amortization	8,848	9,228	10,732	12,400
Tangibles	8,848	9,228	10,732	12,400
Intangibles	-	-	-	-
Net fixed assets	11,836	14,635	14,332	13,864
Tangibles	11,836	14,635	14,332	13,864
Intangibles	-	-	-	-
Capital Work In Progress	1,226	791	413	413
Goodwill	-	-	-	-
Non-Current Investments	10,263	10,680	11,474	12,466
Net Deferred tax assets	(971)	(1,057)	(1,057)	(1,057)
Other Non-Current Assets	1,219	1,316	2,083	2,431
Current Assets				
Investments	5,775	10,479	10,479	10,479
Inventories	7,288	8,862	9,985	10,921
Trade receivables	12,473	15,927	17,532	19,382
Cash & Bank Balance	13,867	13,808	12,062	12,866
Other Current Assets	1,558	1,184	1,996	2,528
Total Assets	68,051	78,104	81,655	87,390
Equity				
Equity Share Capital	554	554	554	554
Other Equity	47,972	53,125	57,400	62,074
Total Network	48,527	53,680	57,955	62,629
Non-Current Liabilities				
Long Term borrowings	151	173	673	1,173
Provisions	-	-	-	-
Other non current liabilities	-	-	-	-
Current Liabilities				
ST Debt / Current of LT Debt	3,972	3,553	3,553	3,553
Trade payables	9,973	11,503	13,075	13,851
Other current liabilities	4,457	5,154	5,342	5,127
Total Equity & Liabilities	68,051	75,120	81,655	87,390

Source: Company Data, PL Research

**Cash Flow (Rs m)**

Y/e Mar	FY22	FY23	FY24E	FY25E
PBT	11,595	14,921	16,809	18,935
Add. Depreciation	1,340	1,405	1,504	1,668
Add. Interest	115	158	169	203
Less Financial Other Income	2,875	4,200	4,295	4,618
Add. Other	(2,753)	(2,262)	-	-
Op. profit before WC changes	10,297	14,221	18,482	20,806
Net Changes-WC	(684)	(2,591)	(3,569)	(4,169)
Direct tax	(2,543)	(3,520)	(4,236)	(4,772)
Net cash from Op. activities	7,070	8,111	10,678	11,866
Capital expenditures	705	(1,540)	(1,473)	(1,869)
Interest / Dividend Income	1,030	1,857	-	-
Others	(7,597)	376	-	-
Net Cash from Inv. activities	(5,862)	694	(1,473)	(1,869)
Issue of share cap. / premium	-	-	-	-
Debt changes	3,777	(433)	500	500
Dividend paid	(4,435)	(6,237)	(8,298)	(9,489)
Interest paid	(74)	(126)	(169)	(203)
Others	(42)	(49)	-	-
Net cash from Fin. activities	(774)	(6,844)	(7,967)	(9,193)
Net change in cash	434	1,961	1,237	804
Free Cash Flow	5,552	6,494	9,855	10,666

Source: Company Data, PL Research

Key Financial Metrics

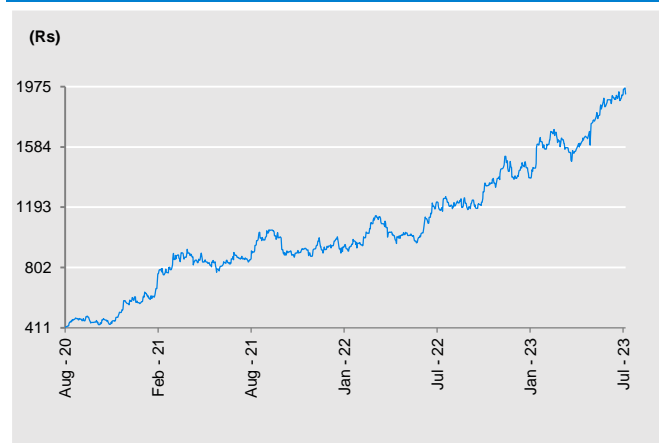
Y/e Mar	FY22	FY23	FY24E	FY25E
Per Share(Rs)				
EPS	28.3	41.1	45.4	51.1
CEPS	33.2	46.2	50.8	57.1
BVPS	175.1	193.7	209.1	225.9
FCF	20.0	23.4	35.6	38.5
DPS	10.5	25.0	29.9	34.2
Return Ratio(%)				
RoCE	15.5	20.0	21.2	22.4
ROIC	19.9	27.1	25.5	26.2
RoE	17.0	22.3	22.5	23.5
Balance Sheet				
Net Debt : Equity (x)	(0.3)	(0.4)	(0.3)	(0.3)
Net Working Capital (Days)	58	63	61	62
Valuation(x)				
PER	63.4	43.6	39.6	35.2
P/B	10.3	9.3	8.6	7.9
P/CEPS	54.1	38.9	35.4	31.4
EV/EBITDA	54.5	38.4	33.8	29.6
EV/Sales	7.9	6.2	5.5	4.9
Dividend Yield (%)	0.6	1.4	1.7	1.9

Source: Company Data, PL Research

Quarterly Financials (Rs m)

Y/e Mar	Q2FY23	Q3FY23	Q4FY23	Q1FY24
Net Revenue	19,513	21,805	19,260	22,087
YoY gr. (%)	13.0	25.7	29.0	31.0
Raw Material Expenses	13,300	14,432	12,955	14,902
Gross Profit	6,212	7,373	6,305	7,186
Margin (%)	31.8	33.8	32.7	32.5
EBITDA	2,905	4,122	3,261	3,406
YoY gr. (%)	12.1	52.4	57.8	59.3
Margin (%)	14.9	18.9	16.9	15.4
Depreciation / Depletion	353	343	372	358
EBIT	2,553	3,779	2,888	3,048
Margin (%)	13.1	17.3	15.0	13.8
Net Interest	46	27	66	77
Other Income	855	1,038	1,306	1,175
Profit before Tax	3,362	4,790	4,129	4,146
Margin (%)	17.2	22.0	21.4	18.8
Total Tax	838	1,188	944	989
Effective tax rate (%)	24.9	24.8	22.9	23.9
Profit after Tax	2,524	3,601	3,185	3,157
Minority interest	-	-	-	-
Share Profit from Associates	-	-	-	-
Adjusted PAT	2,524	3,601	3,185	3,157
YoY gr. (%)	14.8	49.5	68.4	50.6
Margin (%)	12.9	16.5	16.5	14.3
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	2,524	3,601	3,185	3,157
YoY gr. (%)	14.8	49.5	68.4	58.8
Margin (%)	12.9	16.5	16.5	14.3
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	2,524	3,601	3,185	3,157
Avg. Shares O/s (m)	277	277	277	277
EPS (Rs)	9.1	13.0	11.5	11.4

Source: Company Data, PL Research

Price Chart
Recommendation History


No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	06-Jul-23	Accumulate	1,750	1,916
2	25-May-23	Accumulate	1,750	1,649
3	11-Apr-23	Accumulate	1,708	1,587
4	09-Feb-23	Accumulate	1,708	1,578
5	04-Jan-23	Accumulate	1,514	1,396
6	07-Nov-22	Accumulate	1,514	1,335
7	04-Oct-22	Accumulate	1,296	1,214
8	11-Aug-22	Accumulate	1,296	1,238

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	ABB India	Accumulate	4,119	4,400
2	Apar Industries	Accumulate	4,100	3,782
3	Bharat Electronics	Accumulate	140	130
4	BHEL	Reduce	67	93
5	Carborundum Universal	BUY	1,501	1,203
6	Cummins India	Accumulate	1,750	1,916
7	Engineers India	Accumulate	116	120
8	GE T&D India	Hold	184	216
9	Grindwell Norton	BUY	2,604	2,191
10	Harsha Engineers International	Accumulate	474	432
11	Kalpataru Projects International	BUY	625	555
12	KEC International	Accumulate	578	598
13	Larsen & Toubro	BUY	2,955	2,560
14	Praj Industries	BUY	475	416
15	Siemens	Accumulate	4,018	3,731
16	Thermax	Hold	2,613	2,602
17	Triveni Turbine	Accumulate	419	398
18	Voltamp Transformers	Hold	3,961	4,069

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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3rd Floor, Sadhana House, 570, P. B. Marg, Worli, Mumbai-400 018, India | Tel: (91 22) 6632 2222 Fax: (91 22) 6632 2209

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