

September 18, 2023

## Management Meet Update

■ Change in Estimates | ■ Target | ■ Reco

### Change in Estimates

	Current		Previous	
	FY24E	FY25E	FY24E	FY25E
Rating	HOLD		HOLD	
Target Price	1,788		1,788	
Sales (Rs. m)	86,771	97,224	86,771	97,224
% Chng.	-	-	-	-
EBITDA (Rs. m)	14,187	16,188	14,187	16,188
% Chng.	-	-	-	-
EPS (Rs.)	45.4	51.1	45.4	51.1
% Chng.	-	-	-	-

### 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	2.0
RoE (%)	17.0	22.3	22.5	23.5
RoCE (%)	15.5	20.0	21.2	22.4
EV/Sales (x)	7.5	5.9	5.3	4.7
EV/EBITDA (x)	52.3	36.9	32.5	28.4
PE (x)	61.0	42.0	38.1	33.8
P/BV (x)	9.9	8.9	8.3	7.6

### Key Data

CUMM.BO | KKC IN

52-W High / Low	Rs.1,981 / Rs.1,125
Sensex / Nifty	67,597 / 20,133
Market Cap	Rs.479bn/ \$ 5,749m
Shares Outstanding	277m
3M Avg. Daily Value	Rs.1967.97m

### 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	(0.2)	2.8	45.0
Relative	(4.1)	(11.8)	26.2

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## Near term domestic demand intact

We met with Mr. Ajay S. Patil (CFO) and Mr. Abhijit Sarkar (Head Treasury) of Cummins India Ltd. who highlighted that demand scenario continues to remain strong in domestic market with continued sales of CPCB-II (time extended till Jun'24) and CPCB-IV variant products from regions like NCR. However, in exports market demand remains healthy only in selected geographies. The imported components of CPCB-IV variant product will be localized and accordingly aid in improved product margins. Management maintained its guidance of 2x GDP growth over next couple of years (double digit sales growth in FY24) and guidance of 100bps improvement in margins, given sharp focus on cost management.

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/ PAT CAGR of 12%/11.4%. The stock is trading at PE of 38.1x/33.8x FY24/25E. Maintain 'Hold' rating on stock with TP of Rs1,788 (same as earlier), valuing it at 35x on FY25E EPS (same as earlier).

## Key management meet takeaways

- **Demand scenarios continues to remain strong** for domestic power gen market with continued sales of CPCB-II and CPCB-IV variant products in geographies like NCR. Demand is seen in sectors such as Data center, Infrastructure, Commercial & Residential Real Estate, Railways etc.
- **Extended timeline for sale of CPCB-II variant product till Jun-24:** Witnessed healthy pre-buying of CPCB-II products in Q1FY24. Company is ready with new products (CPCB-IV) to meet demand.
- **Exports:** Long term outlook continues to remain healthy, while in short term management remains cautiously optimistic for geographies like Africa, Middle East, Latin America and APAC. Initiatives such as Fit to Market is gaining traction. Except North America, Cummins supplies products across globe.
- **Guidance Maintained:** Guiding for double digit sales growth in FY24; expecting top line to grow at 2x GDP growth for next 8-10 years. Maintaining guidance of 100bps improvement in margins, given sharp focus on cost management. Focus will be on increasing wallet share from existing customers and addition of new customers.
- **CPCB-IV products:** Over a period of time will localize the components which are currently imported for CPCB-IV products, thereby improving margins. Some region such as NCR has adopted CPCB-IV products quickly.
- **Industrial Segment:** Demand continues to remain healthy from sectors such as Railways, Mining's, infrastructure etc.
- **Distribution & Services:** Seeing strong traction from last 8 quarters, company will continue to focus on expanding its services business.
- **Pricing Action:** Has taken price hikes in last 18-24 months to offset raw material price rise.

## Financials

### Income Statement (Rs m)

Y/e Mar	FY22	FY23	FY24E	FY25E
<b>Net Revenues</b>	<b>61,404</b>	<b>77,444</b>	<b>86,771</b>	<b>97,224</b>
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
<b>EBITDA</b>	<b>8,851</b>	<b>12,426</b>	<b>14,187</b>	<b>16,188</b>
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
<b>EBIT</b>	<b>7,511</b>	<b>11,022</b>	<b>12,683</b>	<b>14,520</b>
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
<b>Profit Before Tax</b>	<b>11,595</b>	<b>14,921</b>	<b>16,809</b>	<b>18,935</b>
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
<b>Profit after tax</b>	<b>8,867</b>	<b>11,298</b>	<b>12,573</b>	<b>14,163</b>
Minority interest	-	-	-	-
Share Profit from Associate	-	-	-	-
<b>Adjusted PAT</b>	<b>7,854</b>	<b>11,406</b>	<b>12,573</b>	<b>14,163</b>
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)	-	-
<b>Reported PAT</b>	<b>8,867</b>	<b>11,298</b>	<b>12,573</b>	<b>14,163</b>
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
<b>Equity Shares O/s (m)</b>	<b>277</b>	<b>277</b>	<b>277</b>	<b>277</b>
<b>EPS (Rs)</b>	<b>28.3</b>	<b>41.1</b>	<b>45.4</b>	<b>51.1</b>

Source: Company Data, PL Research

### Balance Sheet Abstract (Rs m)

Y/e Mar	FY22	FY23	FY24E	FY25E
<b>Non-Current Assets</b>				
<b>Gross Block</b>	<b>20,684</b>	<b>23,864</b>	<b>25,064</b>	<b>26,264</b>
Tangibles	20,684	23,864	25,064	26,264
Intangibles	-	-	-	-
<b>Acc: Dep / Amortization</b>	<b>8,848</b>	<b>9,228</b>	<b>10,732</b>	<b>12,400</b>
Tangibles	8,848	9,228	10,732	12,400
Intangibles	-	-	-	-
<b>Net fixed assets</b>	<b>11,836</b>	<b>14,635</b>	<b>14,332</b>	<b>13,864</b>
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
<b>Current Assets</b>				
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
<b>Total Assets</b>	<b>68,051</b>	<b>78,104</b>	<b>81,655</b>	<b>87,390</b>
<b>Equity</b>				
Equity Share Capital	554	554	554	554
Other Equity	47,972	53,125	57,400	62,074
<b>Total Network</b>	<b>48,527</b>	<b>53,680</b>	<b>57,955</b>	<b>62,629</b>
<b>Non-Current Liabilities</b>				
Long Term borrowings	151	173	673	1,173
Provisions	-	-	-	-
Other non current liabilities	-	-	-	-
<b>Current Liabilities</b>				
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
<b>Total Equity &amp; Liabilities</b>	<b>68,051</b>	<b>75,120</b>	<b>81,655</b>	<b>87,390</b>

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)
<b>Net cash from Op. activities</b>	<b>7,070</b>	<b>8,111</b>	<b>10,678</b>	<b>11,866</b>
Capital expenditures	705	(1,540)	(1,473)	(1,869)
Interest / Dividend Income	1,030	1,857	-	-
Others	(7,597)	376	-	-
<b>Net Cash from Inv. activities</b>	<b>(5,862)</b>	<b>694</b>	<b>(1,473)</b>	<b>(1,869)</b>
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)	-	-
<b>Net cash from Fin. activities</b>	<b>(774)</b>	<b>(6,844)</b>	<b>(7,967)</b>	<b>(9,193)</b>
<b>Net change in cash</b>	<b>434</b>	<b>1,961</b>	<b>1,237</b>	<b>804</b>
Free Cash Flow	5,552	6,494	9,855	10,666

Source: Company Data, PL Research

**Key Financial Metrics**

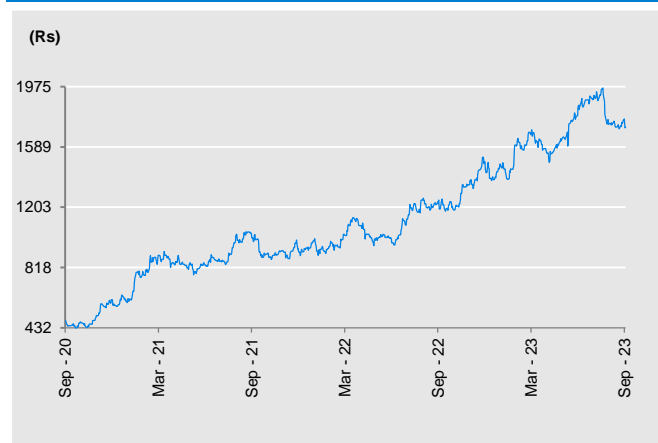
Y/e Mar	FY22	FY23	FY24E	FY25E
<b>Per Share(Rs)</b>				
EPS	28.3	41.1	45.4	51.1
CEPS	33.2	46.2	50.8	57.1
BVPS	175.1	193.7	209.1	225.9
FCF	20.0	23.4	35.6	38.5
DPS	10.5	25.0	29.9	34.2
<b>Return Ratio(%)</b>				
RoCE	15.5	20.0	21.2	22.4
ROIC	19.9	27.1	25.5	26.2
RoE	17.0	22.3	22.5	23.5
<b>Balance Sheet</b>				
Net Debt : Equity (x)	(0.3)	(0.4)	(0.3)	(0.3)
Net Working Capital (Days)	58	63	61	62
<b>Valuation(x)</b>				
PER	61.0	42.0	38.1	33.8
P/B	9.9	8.9	8.3	7.6
P/CEPS	52.1	37.4	34.0	30.2
EV/EBITDA	52.3	36.9	32.5	28.4
EV/Sales	7.5	5.9	5.3	4.7
Dividend Yield (%)	0.6	1.4	1.7	2.0

Source: Company Data, PL Research

**Quarterly Financials (Rs m)**

Y/e Mar	Q2FY23	Q3FY23	Q4FY23	Q1FY24
<b>Net Revenue</b>	<b>19,513</b>	<b>21,805</b>	<b>19,260</b>	<b>22,087</b>
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
<b>EBITDA</b>	<b>2,905</b>	<b>4,122</b>	<b>3,261</b>	<b>3,406</b>
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
<b>EBIT</b>	<b>2,553</b>	<b>3,779</b>	<b>2,888</b>	<b>3,048</b>
Margin (%)	13.1	17.3	15.0	13.8
Net Interest	46	27	66	77
Other Income	855	1,038	1,306	1,175
<b>Profit before Tax</b>	<b>3,362</b>	<b>4,790</b>	<b>4,129</b>	<b>4,146</b>
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
<b>Profit after Tax</b>	<b>2,524</b>	<b>3,601</b>	<b>3,185</b>	<b>3,157</b>
Minority interest	-	-	-	-
Share Profit from Associates	-	-	-	-
<b>Adjusted PAT</b>	<b>2,524</b>	<b>3,601</b>	<b>3,185</b>	<b>3,157</b>
YoY gr. (%)	14.8	49.5	68.4	50.6
Margin (%)	12.9	16.5	16.5	14.3
Extra Ord. Income / (Exp)	-	-	-	-
<b>Reported PAT</b>	<b>2,524</b>	<b>3,601</b>	<b>3,185</b>	<b>3,157</b>
YoY gr. (%)	14.8	49.5	68.4	58.8
Margin (%)	12.9	16.5	16.5	14.3
Other Comprehensive Income	-	-	-	-
<b>Total Comprehensive Income</b>	<b>2,524</b>	<b>3,601</b>	<b>3,185</b>	<b>3,157</b>
Avg. Shares O/s (m)	277	277	277	277
<b>EPS (Rs)</b>	<b>9.1</b>	<b>13.0</b>	<b>11.5</b>	<b>11.4</b>

Source: Company Data, PL Research

**Price Chart**
**Recommendation History**


No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	04-Aug-23	Hold	1,788	1,796
2	06-Jul-23	Accumulate	1,750	1,916
3	25-May-23	Accumulate	1,750	1,649
4	11-Apr-23	Accumulate	1,708	1,587
5	09-Feb-23	Accumulate	1,708	1,578
6	04-Jan-23	Accumulate	1,514	1,396
7	07-Nov-22	Accumulate	1,514	1,335
8	04-Oct-22	Accumulate	1,296	1,214

**Analyst Coverage Universe**

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	ABB India	Accumulate	5,013	4,511
2	Apar Industries	Accumulate	5,418	5,047
3	Bharat Electronics	Accumulate	140	130
4	BHEL	Reduce	67	93
5	Carborundum Universal	BUY	1,482	1,259
6	Cummins India	Hold	1,788	1,796
7	Engineers India	Accumulate	165	155
8	GE T&D India	Hold	260	273
9	Grindwell Norton	BUY	2,604	2,215
10	Harsha Engineers International	Accumulate	474	432
11	Kalpataru Projects International	BUY	732	635
12	KEC International	Hold	645	658
13	Larsen & Toubro	BUY	3,302	2,944
14	Praj Industries	BUY	475	416
15	Siemens	Accumulate	4,241	3,779
16	Thermax	Hold	2,613	2,721
17	Triveni Turbine	Accumulate	419	398
18	Voltamp Transformers	Hold	4,611	4,802

**PL's Recommendation Nomenclature (Absolute Performance)**

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



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