

May 31, 2024

Q4FY24 Result Update

☒ Change in Estimates | ☒ Target | ☒ Reco

Change in Estimates

	Current		Previous	
	FY25E	FY26E	FY25E	FY26E
Rating	HOLD		HOLD	
Target Price	3,719		2,480	
Sales (Rs. m)	1,02,589	1,17,980	1,01,489	1,14,866
% Chng.	1.1	2.7		
EBITDA (Rs. m)	19,133	22,593	18,268	20,963
% Chng.	4.7	7.8		
EPS (Rs.)	63.5	74.4	58.6	67.5
% Chng.	8.3	10.3		

Key Financials - Standalone

Y/e Mar	FY23	FY24	FY25E	FY26E
Sales (Rs. m)	77,444	89,586	1,02,589	1,17,980
EBITDA (Rs. m)	12,426	17,614	19,133	22,593
Margin (%)	16.0	19.7	18.7	19.2
PAT (Rs. m)	11,406	16,623	17,604	20,616
EPS (Rs.)	41.1	60.0	63.5	74.4
Gr. (%)	45.2	45.7	5.9	17.1
DPS (Rs.)	25.0	38.0	42.5	49.8
Yield (%)	0.7	1.1	1.2	1.4
RoE (%)	22.3	28.8	26.0	26.4
RoCE (%)	20.0	26.7	25.3	26.1
EV/Sales (x)	12.6	10.8	9.4	8.1
EV/EBITDA (x)	78.6	55.2	50.5	42.5
PE (x)	87.4	60.0	56.6	48.4
P/BV (x)	18.6	16.2	13.5	12.1

Key Data

CUMM.BO | KKC IN

52-W High / Low	Rs.3,900 / Rs.1,590
Sensex / Nifty	73,886 / 22,489
Market Cap	Rs.997bn/ \$ 11,967m
Shares Outstanding	277m
3M Avg. Daily Value	Rs.1985.95m

Shareholding Pattern (%)

Promoter's	51.00
Foreign	17.36
Domestic Institution	22.86
Public & Others	8.78
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	9.8	88.4	104.9
Relative	10.7	70.8	74.6

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Cummins India (KKC IN)

Rating: HOLD | CMP: Rs3,597 | TP: Rs3,719

Strong quarter; healthy outlook remains intact

Quick Pointers:

- FY24 domestic/export mix stood at 81%/19% (vs 73%/27% in FY23).
- Management has guided for double digit revenue growth in FY25.

We revise our FY25/26E EPS estimates by +8.3%/10.3% factoring in robust margin improvement. Cummins India (KKC) reported healthy quarterly performance with revenue growing 20.3% YoY due to strong domestic sales and EBITDA margin expanding by 657bps YoY to 23.5%. The company is expected to grow at 12-15% CAGR in the long term (~2x India's GDP growth) driven by infrastructure-linked investments across data centers, commercial & residential realty, manufacturing, etc. CPCB IV+ is seeing improved offtake as pre-buying for CBCB II has come down and customers' products are better prepared for CBCP IV+. Distribution and Industrial businesses also continue to see healthy growth. Meanwhile, exports may continue to lag in FY25 owing to geopolitical issues in the Middle East, currency problems in Africa, and soft demand in Europe.

We expect Cummins' outlook to remain intact given 1) strong domestic demand in power gen across sectors with CPCB IV+ products witnessing traction, 2) improving margin profile and 3) ample room for growth in the Distribution business. The stock is trading at a P/E of 56.6x/48.4x FY25/26E. We roll forward to FY26E and maintain 'Hold' rating with a revised TP of Rs3,719 (Rs2,480 earlier) valuing it at a P/E of 50x FY26E (38x Dec-25E earlier), factoring in strong improvement in margins and return ratios.

Strong domestic sales and softening RM costs drive outperformance: Standalone revenue grew 20.3% YoY to Rs23.2bn (PLe: Rs22.9bn), driven by continued strong growth in Domestic sales (up ~38% YoY to Rs19.3bn), while Export sales declined by ~30% YoY to Rs3.4bn. Gross margin expanded by 328bps YoY to 36.0% (PLe: 36.7%) aided by a better product mix and holding onto commodity gains. EBITDA rose 66.9% YoY to Rs5.4bn (PLe: Rs4.6bn). EBITDA margin increased by 657bps YoY to 23.5% (PLe: 19.9%) led by gross margin expansion and a sharp fall in other expenses (down 31.8% YoY to Rs1.0bn) on the back of a one-time benefit of ~Rs600mn. Excluding this, EBITDA would have come in at Rs4.8bn (+48.5% YoY) and margin at 20.9% (+398bps YoY). PAT jumped 76.3% YoY to Rs5.6bn (PLe: Rs3.9bn) driven by the strong operating performance and higher other income (+56.5% YoY to Rs2.0bn).

Domestic growth remains robust, while exports pick up sequentially: Domestic sales rose 38% YoY to Rs19.3bn with strong growth across segments – Powergen business grew 40% YoY to Rs9.4bn; Industrial business was up 60% YoY to Rs3.5bn; and Distribution business rose 25% YoY to Rs6.0bn. Exports continued to fall compared to last year, down 30% YoY, but improved sequentially by 6% QoQ to Rs3.4bn. Low horsepower (LHP) exports declined 42% YoY, but inched up 3% QoQ to Rs1.4bn, and High horsepower (HHP) exports fell 17% YoY, but grew 16% QoQ to Rs1.7bn.

Exhibit 1: Strong domestic sales, better product mix, and one-time benefit in other expenses drive margin expansion

Y/e March (Rs mn)	Q4FY23	Q1FY24	Q2FY24	Q3FY24	Q4FY24	YoY gr. (%)	QoQ gr. (%)	FY24	FY23	YoY gr. (%)
Revenue	19,260	22,087	18,997	25,341	23,162	20.3	(8.6)	89,586	77,444	15.7
Total Revenues	19,260	22,087	18,997	25,341	23,162	20.3	(8.6)	89,586	77,444	15.7
Expenditure	16,000	18,681	15,611	19,961	17,719	10.7	(11.2)	71,972	65,018	10.7
as % of sales	83.1	84.6	82.2	78.8	76.5			80.3	84.0	
Consumption of RM	12,955	14,902	12,023	15,955	14,821	14.4	(7.1)	57,701	52,309	10.3
as % of sales	67.3	67.5	63.3	63.0	64.0			64.4	67.5	
Employee Cost	1,566	1,885	1,929	2,090	1,889	20.6	(9.6)	7,793	6,298	23.7
as % of sales	8.1	8.5	10.2	8.2	8.2			8.7	8.1	
Other expenditure	1,479	1,895	1,659	1,916	1,009	(31.8)	(47.3)	6,479	6,411	1.1
as % of sales	7.7	8.6	8.7	7.6	4.4			7.2	8.3	
EBITDA	3,261	3,406	3,386	5,379	5,443	66.9	1.2	17,614	12,426	41.7
Depreciation	372	358	379	419	420	12.9	0.3	1,576	1,405	12.2
EBIT	2,888	3,048	3,007	4,960	5,022	73.9	1.3	16,037	11,022	45.5
Other Income	1,306	1,175	1,322	1,136	2,045	56.5	80.0	5,678	4,200	35.2
Interest	66	77	67	63	62	(6.0)	(2.1)	268	158	69.7
Extra ordinary items	-	-	-	(17)	-	-	-	(17)	(143)	-
PBT	4,129	4,146	4,263	6,017	7,006	69.7	16.4	21,430	14,921	43.6
Total Tax	944	989	978	1,467	1,390	47.3	(5.2)	4,824	3,623	33.2
Reported PAT	3,185	3,157	3,285	4,549	5,615	76.3	23.4	16,606	11,298	47.0
Adj. PAT	3,185	3,157	3,285	4,562	5,615	76.3	23.1	16,619	11,406	45.7
Adjusted EPS	11.5	11.4	11.9	16.5	20.3	76.3	23.1	60.0	41.1	45.7
Margins (%)	Q4FY23	Q1FY24	Q2FY24	Q3FY24	Q4FY24	bps	Bps	FY24	FY23	bps
Gross	32.7	32.5	36.7	37.0	36.0	328	(103)	35.6	32.5	314
EBITDA	16.9	15.4	17.8	21.2	23.5	657	227	19.7	16.0	362
EBIT	15.0	13.8	15.8	19.6	21.7	669	211	17.9	14.2	367
EBT	21.4	18.8	22.4	23.7	30.2	881	650	23.9	19.3	466
PAT	16.5	14.3	17.3	18.0	24.2	771	624	18.6	14.7	382
Effective Tax rate	22.9	23.9	22.9	24.4	19.8	(302)	(454)	22.5	24.3	(177)

Source: Company, PL

Conference Call Highlights

- **Guidance:** Double digit revenue growth in FY25, and 12-15% CAGR (~2x India GDP growth of 6-8%) over the next 6-8 years. No new market segments have emerged; infrastructure-linked investments will continue to drive demand from existing market segments for the next ~5 years.
- **Q4FY24 EBITDA margin was aided by a one-time benefit of ~Rs600mn in other expenses,** better product mix, and holding onto commodity gains despite commodity costs inching up. Management aspires to maintain current gross margin level of ~35%, but it is challenged by rising prices in copper, nickel, platinum, oil, steel, etc. Other expenses should remain at current levels as % of sales (excluding Q4FY24).
- **Powergen business saw volume growth of ~30% in FY24.** Growth will continue in FY25 at ~2x GDP growth. Demand remains healthy across major segments including data centers, infrastructure, commercial & residential realty, manufacturing, etc. Customers that seek reliability & durability in LHP go for Cummins' products. Meanwhile, Cummins has lower market share in segments that are primarily cost driven, such as Telecom.
- **CPCB IV+ accounted for ~1/3rd of powergen sales in Q4.** Higher complexity & technology should translate to better margins in CPCB IV+, but in reality it depends on competitive pressures as players will seek to grab market share when the market fully transitions to CPCB IV+.
- Data centers now account for close ~10% of powergen sales, and continue to see significant demand both in India and globally.
- **Exports declined ~18% in FY24 with de-growth seen across geographies.** Sales to Europe fell nearly ~50% in FY24. Exports have not fully bottomed out yet, and may continue to see some correction in Q1FY25, as geopolitical concerns remain in Middle East and Africa continues to struggle with currency problems. Cummins' ambition is to get exports back to 30-35% of sales (vs 19% in FY24), but this will not happen in FY25.
- **Distribution business is seeing growth across parts, service contracts, etc.** Demand for reconditioning depends on the market segment. It is standard to recondition gensets instead of buying new ones in areas such as mining, industrials, etc., where utilization is high. Meanwhile, segments where utilization is low prefer to purchase new gensets with the latest technologies rather than reconditioning the older ones. Reconditioning is very good for the environment with regards to GHG emissions.
- **Construction was a major growth driver for Industrial business.** It had been lagging for a few years but has now bounced back. Compressor and Marine segments have also started to bounce back strongly. The company has made a lot of progress in launching new products for the Industrial segment, especially in Railways, where it has introduced CPCB IV+ compliant products.
- **Cummins Group has 3 major manufacturing hubs across the world – 1)** North America (USA, Canada, Mexico) serves North America and other specialized markets, 2) India serves most of the global markets (especially in LHP), and 3) China primarily serves internal consumption purposes.

Financials

Income Statement (Rs m)

Y/e Mar	FY23	FY24	FY25E	FY26E
Net Revenues	77,444	89,586	1,02,589	1,17,980
YoY gr. (%)	26.1	15.7	14.5	15.0
Cost of Goods Sold	52,309	57,701	65,862	75,507
Gross Profit	25,135	31,886	36,727	42,473
Margin (%)	32.5	35.6	35.8	36.0
Employee Cost	6,298	7,793	8,874	9,969
Other Expenses	3,692	2,716	4,411	4,955
EBITDA	12,426	17,614	19,133	22,593
YoY gr. (%)	40.4	41.7	8.6	18.1
Margin (%)	16.0	19.7	18.7	19.2
Depreciation and Amortization	1,405	1,576	1,728	1,868
EBIT	11,022	16,037	17,405	20,725
Margin (%)	14.2	17.9	17.0	17.6
Net Interest	158	268	88	80
Other Income	4,200	5,678	6,155	6,843
Profit Before Tax	14,921	21,448	23,472	27,488
Margin (%)	19.3	23.9	22.9	23.3
Total Tax	3,623	4,824	5,868	6,872
Effective tax rate (%)	24.3	22.5	25.0	25.0
Profit after tax	11,298	16,623	17,604	20,616
Minority interest	-	-	-	-
Share Profit from Associate	-	-	-	-
Adjusted PAT	11,406	16,623	17,604	20,616
YoY gr. (%)	45.2	45.7	5.9	17.1
Margin (%)	14.7	18.6	17.2	17.5
Extra Ord. Income / (Exp)	(108)	-	-	-
Reported PAT	11,298	16,623	17,604	20,616
YoY gr. (%)	27.4	47.1	5.9	17.1
Margin (%)	14.6	18.6	17.2	17.5
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	11,298	16,623	17,604	20,616
Equity Shares O/s (m)	277	277	277	277
EPS (Rs)	41.1	60.0	63.5	74.4

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Mar	FY23	FY24	FY25E	FY26E
Non-Current Assets				
Gross Block	20,880	22,686	24,686	26,686
Tangibles	20,880	22,686	24,686	26,686
Intangibles	-	-	-	-
Acc: Dep / Amortization	9,228	10,805	12,533	14,401
Tangibles	9,228	10,805	12,533	14,401
Intangibles	-	-	-	-
Net fixed assets	11,652	11,881	12,153	12,285
Tangibles	11,652	11,881	12,153	12,285
Intangibles	-	-	-	-
Capital Work In Progress	791	2,265	2,265	2,265
Goodwill	-	-	-	-
Non-Current Investments	10,680	10,279	10,993	12,120
Net Deferred tax assets	(1,057)	(941)	(941)	(941)
Other Non-Current Assets	1,316	1,518	1,847	2,124
Current Assets				
Investments	10,479	11,782	13,782	15,782
Inventories	8,862	9,369	11,524	13,253
Trade receivables	15,927	20,776	22,684	25,451
Cash & Bank Balance	13,808	15,047	19,005	22,220
Other Current Assets	1,184	1,697	2,052	2,360
Total Assets	75,120	84,985	97,126	1,09,039
Equity				
Equity Share Capital	554	554	554	554
Other Equity	53,125	61,077	73,137	81,958
Total Network	53,680	61,631	73,691	82,513
Non-Current Liabilities				
Long Term borrowings	173	144	144	144
Provisions	-	-	-	-
Other non current liabilities	-	-	-	-
Current Liabilities				
ST Debt / Current of LT Debt	3,553	1,061	1,061	1,061
Trade payables	11,460	14,024	15,178	17,455
Other current liabilities	5,198	7,184	6,111	6,926
Total Equity & Liabilities	75,120	84,985	97,126	1,09,039

Source: Company Data, PL Research



Cash Flow (Rs m)

Y/e Mar	FY23	FY24	FY25E	FY26E
PBT	14,921	21,431	23,472	27,488
Add. Depreciation	1,405	1,576	1,728	1,868
Add. Interest	158	268	88	80
Less Financial Other Income	4,200	5,678	6,155	6,843
Add. Other	(2,262)	(3,657)	-	-
Op. profit before WC changes	14,221	19,617	25,288	29,436
Net Changes-WC	(2,591)	(1,845)	(5,136)	(2,371)
Direct tax	(3,520)	(4,972)	(5,868)	(6,872)
Net cash from Op. activities	8,111	12,801	14,285	20,193
Capital expenditures	(1,540)	(3,631)	(4,694)	(5,104)
Interest / Dividend Income	1,857	3,106	-	-
Others	376	-	-	-
Net Cash from Invt. activities	694	(526)	(4,694)	(5,104)
Issue of share cap. / premium	-	-	-	-
Debt changes	(433)	(2,500)	-	-
Dividend paid	(6,237)	(8,593)	(5,544)	(11,795)
Interest paid	(126)	(173)	(88)	(80)
Others	(49)	(60)	6,251	2,018
Net cash from Fin. activities	(6,844)	(11,326)	619	(9,856)
Net change in cash	1,961	949	10,209	5,233
Free Cash Flow	6,494	9,950	12,285	18,193

Source: Company Data, PL Research

Key Financial Metrics

Y/e Mar	FY23	FY24	FY25E	FY26E
Per Share(Rs)				
EPS	41.1	60.0	63.5	74.4
CEPS	46.2	65.7	69.7	81.1
BVPS	193.7	222.3	265.8	297.7
FCF	23.4	35.9	44.3	65.6
DPS	25.0	38.0	42.5	49.8
Return Ratio(%)				
RoCE	20.0	26.7	25.3	26.1
ROIC	27.1	37.3	36.2	37.6
RoE	22.3	28.8	26.0	26.4
Balance Sheet				
Net Debt : Equity (x)	(0.4)	(0.4)	(0.4)	(0.4)
Net Working Capital (Days)	63	66	68	66
Valuation(x)				
PER	87.4	60.0	56.6	48.4
P/B	18.6	16.2	13.5	12.1
P/CEPS	77.8	54.8	51.6	44.3
EV/EBITDA	78.6	55.2	50.5	42.5
EV/Sales	12.6	10.8	9.4	8.1
Dividend Yield (%)	0.7	1.1	1.2	1.4

Source: Company Data, PL Research

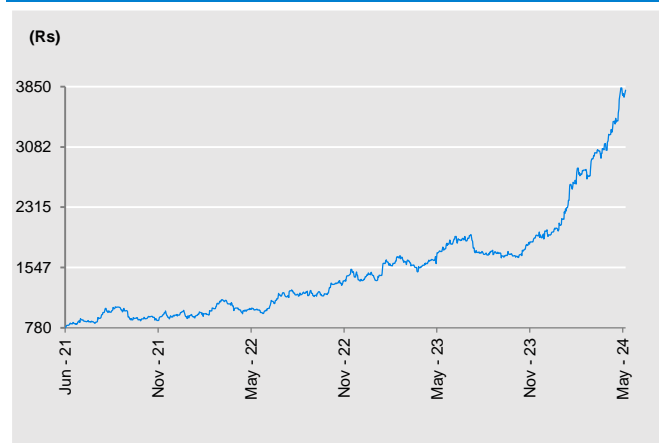
Quarterly Financials (Rs m)

Y/e Mar	Q1FY24	Q2FY24	Q3FY24	Q4FY24
Net Revenue	22,087	18,997	25,341	23,162
YoY gr. (%)	31.0	(2.6)	16.2	20.3
Raw Material Expenses	14,902	12,023	15,955	14,821
Gross Profit	7,186	6,974	9,385	8,341
Margin (%)	32.5	36.7	37.0	36.0
EBITDA	3,406	3,386	5,379	5,443
YoY gr. (%)	59.3	16.5	30.5	66.9
Margin (%)	15.4	17.8	21.2	23.5
Depreciation / Depletion	358	379	419	420
EBIT	3,048	3,007	4,960	5,022
Margin (%)	13.8	15.8	19.6	21.7
Net Interest	77	67	63	62
Other Income	1,175	1,322	1,136	2,045
Profit before Tax	4,146	4,263	6,017	7,006
Margin (%)	18.8	22.4	23.7	30.2
Total Tax	989	978	1,467	1,390
Effective tax rate (%)	23.9	22.9	24.4	19.8
Profit after Tax	3,157	3,285	4,549	5,615
Minority interest	-	-	-	-
Share Profit from Associates	-	-	-	-
Adjusted PAT	3,157	3,285	4,562	5,615
YoY gr. (%)	50.6	30.2	26.7	76.3
Margin (%)	14.3	17.3	18.0	24.2
Extra Ord. Income / (Exp)	-	-	(13)	-
Reported PAT	3,157	3,285	4,549	5,615
YoY gr. (%)	58.8	30.2	26.3	76.3
Margin (%)	14.3	17.3	18.0	24.2
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	3,157	3,285	4,549	5,615
Avg. Shares O/s (m)	277	277	277	277
EPS (Rs)	11.4	11.9	16.5	20.3

Source: Company Data, PL Research

Price Chart

Recommendation History



No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	12-Apr-24	Hold	2,480	3,001
2	09-Feb-24	Hold	2,480	2,585
3	09-Jan-24	Hold	1,811	2,005
4	08-Nov-23	Hold	1,811	1,767
5	05-Oct-23	Hold	1,788	1,691
6	18-Sep-23	Hold	1,788	1,727
7	04-Aug-23	Hold	1,788	1,796
8	06-Jul-23	Accumulate	1,750	1,916

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	ABB India	Accumulate	8,400	7,984
2	Apar Industries	Accumulate	8,877	8,340
3	BEML	Hold	4,520	4,549
4	Bharat Electronics	Hold	290	284
5	BHEL	Reduce	264	302
6	Carborundum Universal	Accumulate	1,631	1,516
7	Cummins India	Hold	2,480	3,001
8	Engineers India	Hold	257	223
9	GE T&D India	Reduce	1,100	1,430
10	Grindwell Norton	Accumulate	2,512	2,196
11	Harsha Engineers International	Hold	436	438
12	Hindustan Aeronautics	Hold	4,515	4,715
13	Kalpataru Projects International	Hold	1,211	1,188
14	KEC International	Hold	750	737
15	Larsen & Toubro	BUY	4,047	3,487
16	Praj Industries	BUY	636	520
17	Siemens	Accumulate	7,030	6,660
18	Thermax	Reduce	3,923	4,609
19	Triveni Turbine	Hold	653	631
20	Voltamp Transformers	Hold	10,018	9,985

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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