

Cummins India

Estimate change	↔
TP change	↔
Rating change	↔

Bloomberg	KKC IN
Equity Shares (m)	277
M.Cap.(INRb)/(USDb)	1039.1 / 12.4
52-Week Range (INR)	4172 / 1590
1, 6, 12 Rel. Per (%)	-9/45/90
12M Avg Val (INR M)	2157

Financials Snapshot (INR b)

Y/E Mar	2025E	2026E	2027E
Net sales	106.6	126.3	147.8
EBITDA	21.8	25.9	30.3
Adj. PAT	20.6	24.7	29.2
EPS (INR)	74.2	89.0	105.5
EPS Gr. (%)	23.7	19.9	18.5
BV/Sh. (INR)	251.4	286.2	327.6

Ratios

RoE (%)	31.3	33.1	34.4
RoCE (%)	29.6	31.3	32.5

Valuations

P/E (x)	50.4	42.0	35.4
P/BV (x)	14.9	13.1	11.4
EV/EBITDA (x)	46.7	39.2	33.2
Div Yield (%)	1.1	1.3	1.6

Shareholding pattern (%)

As On	Jun-24	Mar-24	Jun-23
Promoter	51.0	51.0	51.0
DII	22.4	23.0	24.0
FII	18.0	17.4	14.4
Others	8.7	8.6	10.7

FII Includes depository receipts

CMP: INR3,749 TP: INR4,300 (+15%)

Buy

Demand remains strong across segments

Cummins India (KKC)'s 1QFY25 results exceeded our and consensus estimates, with 4%/37%/33% YoY growth in revenue/EBITDA/PAT. Revenue growth was driven by strong growth in the industrial and distribution segments, while powergen and exports remained weak. EBITDA margin expanded to 20.3%, driven by improved gross margin and consistent cost reductions. The decline in powergen revenue was in line with our estimate; however, industrial and distribution segments outperformed our estimates. Export markets too appear to have bottomed out with a sequential recovery seen during 1QFY25. We continue to maintain our positive stance on Cummins, led by: 1) its strong market positioning across all segments, 2) positive underlying demand drivers, 3) the ability to sustain margins at higher levels, and 4) the ability to benefit from the fast-growing data center market. We maintain our estimates and reiterate BUY on the stock with a TP of INR4,300.

Beat across all parameters

Cummins reported a better-than-expected performance in 1QFY25, with revenue/EBITDA/PAT growth of 4%/37%/33% YoY. The company's revenue was 11% ahead of our estimates. The strong EBITDA margin trajectory is maintained with margins at 20.3%, witnessing a jump of nearly 490 bps YoY. This was driven by 520bp gross margin improvement. We had estimated an EBITDA margin of 19.9% for the quarter. This resulted in a PAT outperformance too at INR4.2b. Domestic sales grew 12% YoY, while exports declined 22% YoY.

Demand remains positive for powergen, with near-term caution on transition

KKC is positive on the long-term demand scenario for the powergen market, as it continued to benefit from the power deficit situation in the country and increasing demand for backup power. Several segments, such as manufacturing, data center, infrastructure, and commercial realty continued to provide support to demand. The decline in powergen segment's revenue in 1Q was due to the high base of last year because of pre-buying. During the quarter, CPCB 4+ contributed nearly 30-40% of powergen sales. With channel inventory of CPCB 2 nearly over, KKC can benefit from its wide range of product portfolio in the CPCB 4+ market, which is in effect from 1st Jul'24. KKC has an edge over other smaller players in the LHP category in terms of technology, offerings, and distribution network. It is already a leader in the HHP category, where demand is improving from the fast-growing data center market. We expect 2QFY25 to be a little sluggish in demand on account of the transition to CPCB 4+, while we anticipate the genset market to stabilize from 3QFY25.

Strong growth in the industrial segment driven by improved construction activities

The industrial segment has continued its growth momentum and saw a sharp growth of 55% YoY during 1QFY25. This was fueled by growth seen in all key segments such as construction, railways, mining, marine, and defense. Demand continues to remain strong for these segments. Growth in the construction segment is linked to road infrastructure, the railways segment is linked to improved traction of new products introduced by the company, and the mining segment is linked to overall growth in metals and mining sector. Defense is a long gestation segment but is witnessing strong demand.

Distribution segment has the potential to continue growing at a fast pace

The distribution segment reported a growth of 23% YoY, led by higher demand for services, spare parts, warranty, and AMCs. This segment reported a CAGR of nearly 25% over FY21-24, and the company expects a similar growth trajectory to continue for nearly a decade. This is because KKC is gaining from improved penetration across Tier 2 and Tier 3 cities, better services, and better quality. We expect it to gain further on the demand for CPCB 4+ related services, which would start getting reflected after two years. We expect the distribution segment to continue reporting 25% CAGR over FY24-27.

Exports started recovering sequentially

Export revenues, though down 22% YoY, were up 13% YoY. Sequential improvement in exports has come from geographies like the Middle East and Africa, while other regions such as Europe, South East Asia, and Latin America stood largely at the same levels of 4QFY24. Export markets are currently struggling with low demand in key countries and thereby witnessing dumping in the select markets. KKC is trying to position its products well in each market so as to capitalize as and when demand recovers. We expect export revenues of INR17.4b/INR19.6b/INR22.1b for FY25/FY26/FY27.

Financial outlook

We maintain our estimates and expect revenue/PAT CAGR of 18%/21% over FY24-27. We maintain our margin estimates of 20.4%/20.5%/20.5% for FY25/26/27. Our estimates factor in a gross margin of 35.6% vs. 37.8% in 1QFY25, as we expect some part of the benefit of low-cost RM inventory to wane with the increase in commodity prices of late, particularly copper and aluminum.

Valuation and view

The stock is currently trading at 42x/35x on FY26/27E EPS. We maintain our target price of INR4,300 on KKC based on 45x Jun'26E EPS. **Reiterate BUY.**

Key risks and concerns

Key risks to our recommendation would come from lower than expected demand for key segments, higher commodity prices, increased competitive intensity, and a lower-than-expected recovery in exports.

Cummins India

Quarterly Earnings Model

(INR m)

Y/E March	FY24				FY25E				FY24	FY25E	FY25E	Est
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE			1QE	Var. (%)
Net Sales	22,087	18,997	25,341	23,162	23,042	22,388	29,850	31,328	89,586	1,06,607	20,788	11
YoY Change (%)	31.0	-2.6	16.2	20.3	4.3	17.8	17.8	35.3	15.7	19.0	-5.9	
Total Expenditure	18,681	15,611	19,961	17,719	18,369	17,934	23,644	24,872	71,972	84,818	16,653	
EBITDA	3,406	3,386	5,379	5,443	4,673	4,453	6,206	6,456	17,614	21,789	4,135	13
Margins (%)	15.4	17.8	21.2	23.5	20.3	19.9	20.8	20.6	19.7	20.4	19.9	
Depreciation	358	379	419	420	439	387	396	403	1,576	1,625	378	16
Interest	77	67	63	62	48	70	72	105	268	295	69	(31)
Other Income	1,175	1,322	1,136	2,045	1,322	1,378	1,411	1,675	5,678	5,786	1,345	(2)
PBT before EO expense	4,146	4,263	6,034	7,006	5,509	5,374	7,149	7,623	21,448	25,656	5,034	9
Extra-Ord expense			17						17	0		
PBT												
Tax	4,146	4,263	6,017	7,006	5,509	5,374	7,149	7,623	21,431	25,656	5,034	9
Rate (%)	989	978	1,467	1,390	1,311	1,292	1,719	1,847	4,824	6,170	1,211	
Reported PAT	3,157	3,285	4,549	5,615	4,198	4,082	5,430	5,776	16,606	19,486	3,824	10
Adj PAT	3,157	3,285	4,562	5,615	4,198	4,082	5,430	5,776	16,619	19,486	3,824	10
YoY Change (%)	50.6	30.2	26.7	76.3	33.0	24.2	19.0	2.9	45.7	17.2	21.1	
Margins (%)	14.3	17.3	18.0	24.2	18.2	18.2	18.2	18.4	18.6	18.3	18.4	

	FY24				FY25E				FY24	FY25E	YoY (%)
INR m	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE			
Segmental revenue											
Powergen	8,700	4,860	10,730	9,420	8,030	8,030	12,149	15,181	33,710	43,391	28.7
Industrial	2,400	3,000	4,104	3,480	3,720	3,388	3,764	4,065	12,984	14,937	15.0
Distribution	5,300	5,490	6,620	6,040	6,510	6,753	7,812	8,238	23,450	29,313	25.0
Exports	5,000	5,070	3,250	3,440	3,890	4,046	4,531	4,980	16,760	17,446	4.1
Other	346	295	314	305	470	7	9	-454	1,260	32	-97.5
Total	21,746	18,715	25,018	22,685	22,620	22,223	28,265	32,010	88,164	1,05,119	19.2

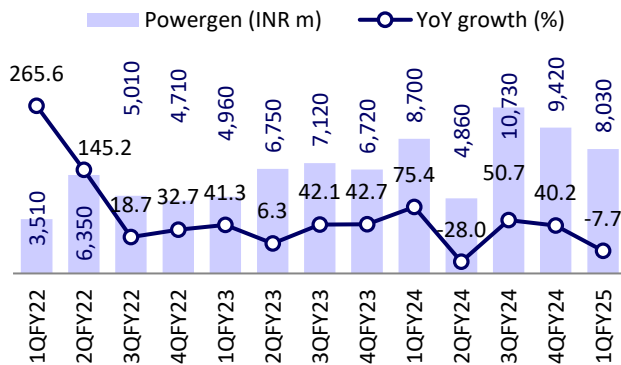


Conference call highlights

- **Domestic powergen:** Management is confident on the long-term sustainability of demand as investments in infrastructure will continue for the foreseeable future. Sectors such as data centers, infrastructure, real estate (commercial and residential), and manufacturing, continue to drive demand. Even though India has managed to sharply narrow the power deficit, inelastic demand for uninterrupted power will continue to propel demand for gensets as a backup, and price hikes will not act as a deterrent. While KKC has been weak in the LHP nodes, the advent of CPCB4+ is expected to provide a fillip to the company owing to its tech-led offerings.
- **Exports:** There are nascent signs of a bottoming out, as the Middle East and African markets are seeing an uptick while other geographies are largely flattish. This has resulted in a sequential improvement of 13%. Due to tepid local demand, certain countries are resorting to dumping their excess inventory in LatAm, South Asia, Africa, etc.
- **Industrial segment:** Reported 55% YoY growth on the back of robust activity in the construction space, as well as railways, mining, marine and compressors. The company expects this momentum to continue owing to the government's thrust on infrastructure, manufacturing and defense.
- **CPCB 4+ transition:** CPCB 4+ accounted for ~30-40% of Powergen revenue during 1QFY25. There is no channel inventory for CPCB 2 products owing to strong demand traction. With a healthy order backlog, KKC will try to replenish the depleted inventory in coming quarters. While there is no imminent pricing war, further clarity will emerge as to how various players try to position themselves in the market in due course of time. Price hikes so far have been in the 15-25% range.
- **Margin:** Stellar margin performance during the quarter was supported by various factors, such as product mix, favorable pricing, and benign commodity costs. However, copper and aluminum have now started inching up. Such high margins will not be sustainable going ahead once the commodity cycle turns.
- **1QFY25 revenue breakup:** Industrial – INR3.14b (+55% YoY), Powergen – INR8.03b (-8% YoY), Distribution – INR3.89b (+23% YoY), HHP exports – INR1.55b (-25% YoY) and LHP exports – INR2.02b (-17% YoY).

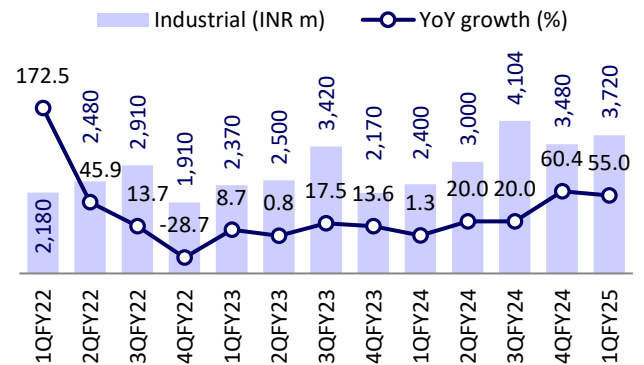
Key exhibits

Exhibit 1: Powergen revenue declined on a high base (INR m)



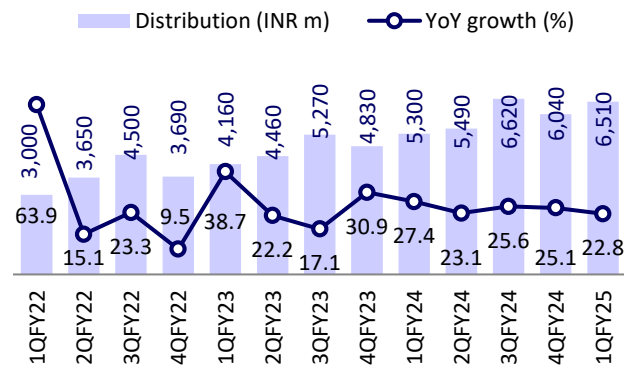
Source: Company, MOFSL

Exhibit 2: Industrial revenue grew 55% YoY (INR m)



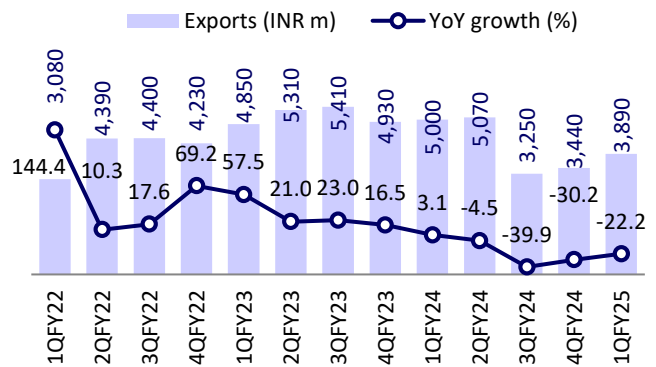
Source: Company, MOFSL

Exhibit 3: Distribution revenue grew 23% YoY (INR m)



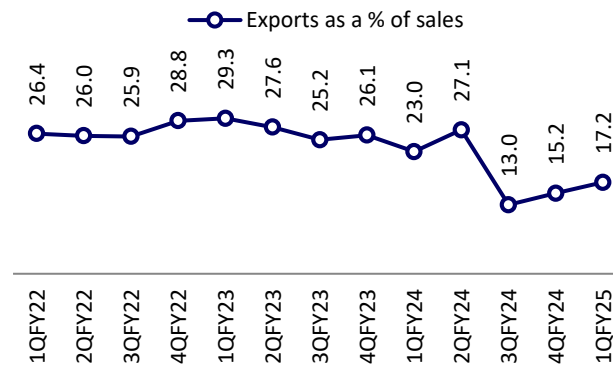
Source: Company, MOFSL

Exhibit 4: Export revenue up sequentially (INR m)



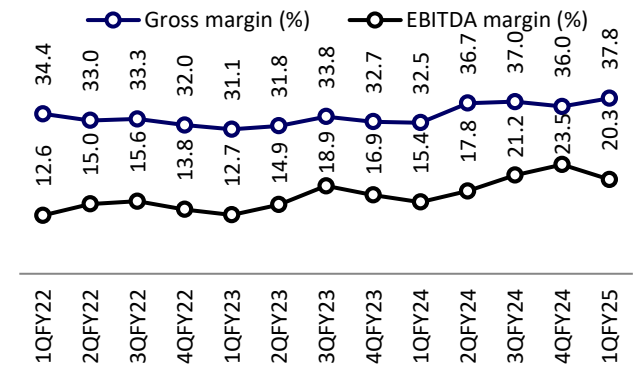
Source: Company, MOFSL

Exhibit 5: Share of exports has inched up to 17.2% (%)



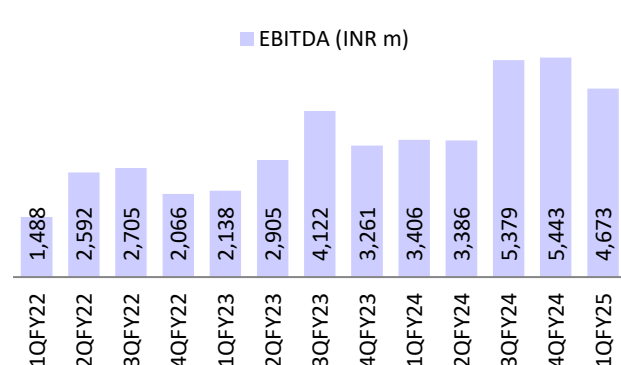
Source: Company, MOFSL

Exhibit 6: Healthy EBITDA margin at 20.3%



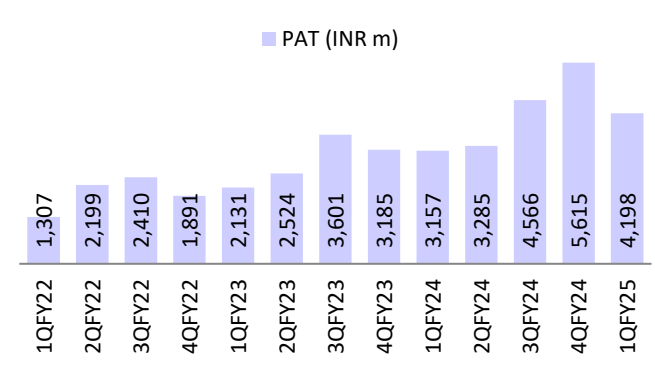
Source: Company, MOFSL

Exhibit 7: EBITDA at INR4.7b grew 37% YoY (INR m)



Source: Company, MOFSL

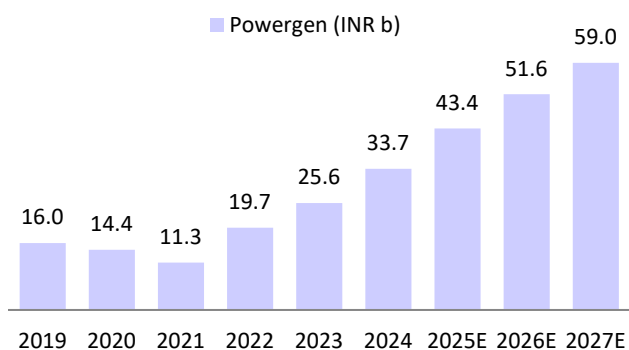
Exhibit 8: PAT grew 33% YoY (INR m)



Source: Company, MOFSL

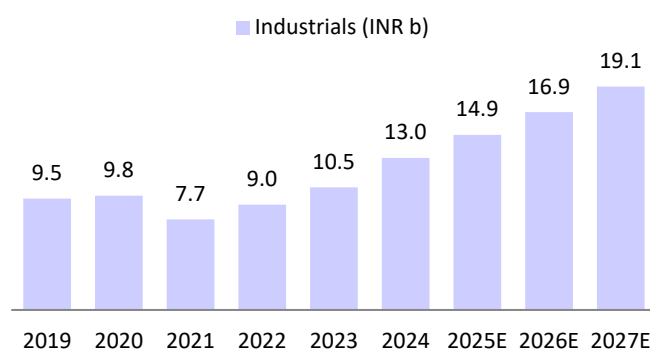
Financial outlook

Exhibit 9: We expect a 21% CAGR in Powergen segment over FY24-FY27 (INR m)



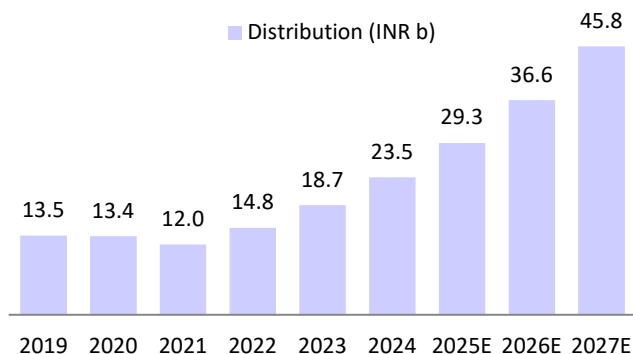
Source: Company, MOFSL

Exhibit 10: We expect a 14% CAGR in Industrial segment over FY24-FY27 (INR m)



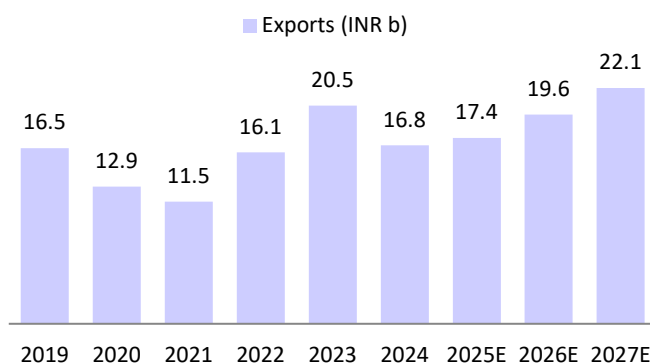
Source: Company, MOFSL

Exhibit 11: We expect a 25% CAGR in Distribution segment over FY24-FY27 (INR m)



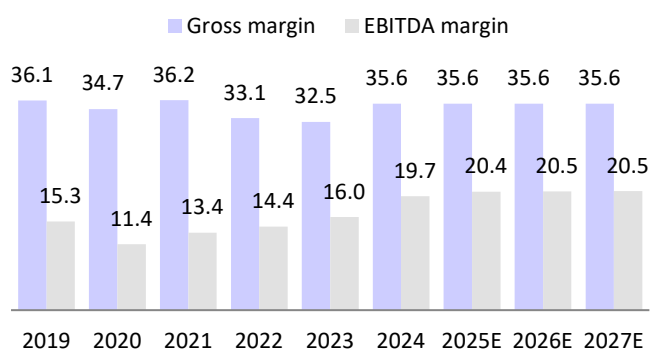
Source: Company, MOFSL

Exhibit 12: Exports to clock 10% CAGR on a low base over FY24-FY27E (INR m)



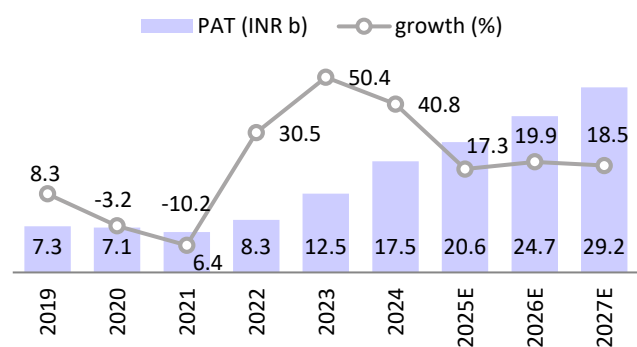
Source: Company, MOFSL

Exhibit 13: We expect stable gross margin from FY25-27 (%)

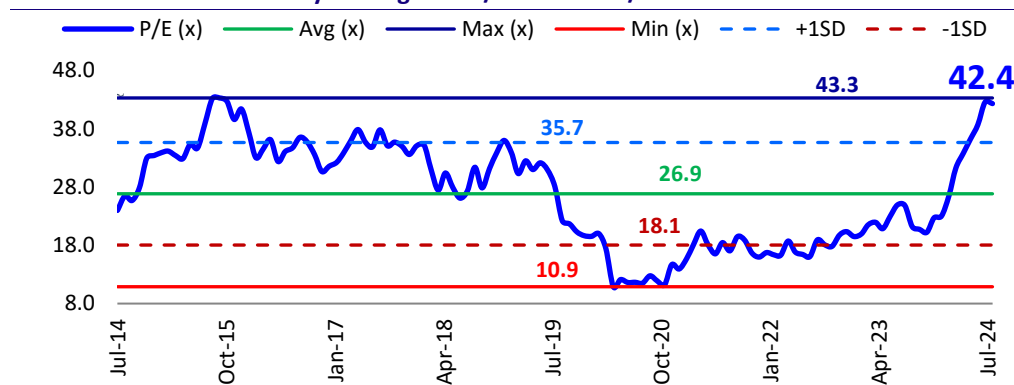


Source: Company, MOFSL

Exhibit 14: PAT to clock 19% CAGR over FY24-27E (INR m)



Source: Company, MOFSL

Exhibit 15: Stock is currently trading at 42x/35x on FY26/27E EPS

Source: Bloomberg, MOFSL

Valuation and view

The stock is currently trading at 42x/35x on FY26/27E EPS. We maintain our target price of INR4,300 on KKC based on 45x Jun'26E EPS. **Reiterate BUY.**

Key risks and concerns

- **Faster energy transition toward cleaner sources.** A sooner-than-expected transition toward clean sources of fuel in India and the company's inability to keep pace with new products. However, the company is continuously working on new products and has access to technology for products related to natural gas gensets or hydrogen-based gensets.
- **Slowdown in exports.** Its margins have a high correlation with exports. A prolonged slowdown in export markets can impact margins adversely.
- **Increasing competition.** Increased competition from domestic and international players can result in pricing pressure, thereby impacting margins over the medium to long term.

Financials and valuations

Income Statement					(INR m)		
Y/E March	FY21	FY22	FY23	FY24	FY25E	FY26E	FY27E
Total Income from Operations	43,292	61,404	77,444	89,586	1,06,607	1,26,343	1,47,755
Change (%)	-16.1	41.8	26.1	15.7	19.0	18.5	16.9
Total Expenditure	37,497	52,553	65,018	71,972	84,818	1,00,466	1,17,427
% of Sales	86.6	85.6	84.0	80.3	79.6	79.5	79.5
EBITDA	5,795	8,851	12,426	17,614	21,789	25,877	30,328
Margin (%)	13.4	14.4	16.0	19.7	20.4	20.5	20.5
Depreciation	1,255	1,340	1,405	1,576	1,625	1,942	2,284
EBIT	4,540	7,511	11,022	16,037	20,164	23,935	28,044
Int. and Finance Charges	162	115	158	268	295	295	295
Other Income	3,702	2,875	4,200	5,678	5,786	7,150	8,754
PBT bef. EO Exp.	8,080	10,271	15,064	21,448	25,656	30,791	36,503
EO Items	0	1,059	-143	-17			
PBT after EO Exp.	8,080	11,330	14,921	21,431	25,656	30,791	36,503
Total Tax	1,901	2,463	3,623	4,824	6,170	7,404	8,778
Tax Rate (%)	23.5	21.7	24.3	22.5	24.0	24.0	24.0
Reported PAT	6,179	8,866	11,298	16,606	19,486	23,386	27,725
Adjusted PAT	6,350	8,284	12,460	16,623	20,567	24,663	29,234
Change (%)	-10.2	30.5	50.4	33.4	23.7	19.9	18.5
Margin (%)	14.7	13.5	16.1	18.6	19.3	19.5	19.8

Balance Sheet					(INR m)		
Y/E March	FY21	FY22	FY23	FY24	FY25E	FY26E	FY27E
Equity Share Capital	554	554	554	554	554	554	554
Total Reserves	43,513	47,972	53,125	61,077	69,124	78,794	90,260
Net Worth	44,068	48,527	53,680	61,631	69,678	79,348	90,814
Total Loans	156	3,933	3,500	1,000	1,000	1,000	1,000
Deferred Tax Liabilities	823	971	1,057	941	941	941	941
Capital Employed	45,047	53,430	58,237	63,572	71,619	81,289	92,755
Gross Block	20,337	22,278	23,458	26,183	30,213	35,147	40,500
Less: Accum. Deprn.	8,684	10,024	11,429	13,005	14,505	16,447	18,731
Net Fixed Assets	11,654	12,254	12,030	13,178	15,708	18,700	21,769
Capital WIP	1,275	608	413	968	608	608	608
Total Investments	13,892	15,939	21,042	21,927	21,036	21,036	21,036
Curr. Assets, Loans & Adv.	29,950	39,230	41,625	48,884	57,488	68,464	81,525
Inventory	5,578	7,288	8,862	9,369	12,209	14,469	16,921
Account Receivables	10,745	12,473	15,927	20,776	21,925	25,984	30,387
Cash and Bank Balance	9,652	14,267	13,808	15,047	19,336	23,250	28,648
Loans and Advances	1,517	2,646	539	505	601	712	833
Other Current Assets	2,459	2,556	2,488	3,188	3,417	4,050	4,736
Curr. Liability & Prov.	11,922	14,621	16,883	21,413	23,220	27,518	32,182
Other Current Liabilities	9,723	12,362	14,497	18,602	19,949	23,642	27,648
Provisions	2,199	2,258	2,386	2,810	3,271	3,877	4,534
Net Current Assets	18,029	24,609	24,741	27,472	34,268	40,946	49,343
Misc Expenditure	199	21	11	27	0	0	0
Appl. of Funds	45,047	53,430	58,237	63,572	71,619	81,289	92,755

Financials and valuation

Ratios

Y/E March	FY21	FY22	FY23	FY24	FY25E	FY26E	FY27E
Basic (INR)							
EPS	23	30	45	60	74	89	105
Cash EPS	27.4	34.7	50.0	65.7	80.1	96.0	113.7
BV/Share	159.0	175.1	193.7	222.3	251.4	286.2	327.6
DPS	14.0	10.5	25.0	35.2	41.3	49.5	58.7
Payout (%)	62.8	32.8	61.3	58.7	58.7	58.7	58.6
Valuation (x)							
P/E	163.1	125.0	83.1	62.3	50.4	42.0	35.4
Cash P/E	136.2	107.6	74.7	56.9	46.7	38.9	32.9
P/BV	23.5	21.3	19.3	16.8	14.9	13.1	11.4
EV/Sales	23.7	16.7	13.2	11.4	9.5	8.0	6.8
EV/EBITDA	177.1	115.9	82.5	58.0	46.7	39.2	33.2
Dividend Yield (%)	0.4	0.3	0.7	0.9	1.1	1.3	1.6
FCF per share	24.3	28.1	23.7	36.0	54.6	64.7	79.2
Return Ratios (%)							
RoE	14.8	17.9	24.4	28.8	31.3	33.1	34.4
RoCE	13.9	16.8	21.0	28.1	29.6	31.3	32.5
RoIC	15.9	27.4	36.6	51.1	54.4	54.2	54.0
Working Capital Ratios							
Fixed Asset Turnover (x)	2.1	2.8	3.3	3.4	3.5	3.6	3.6
Asset Turnover (x)	1.0	1.1	1.3	1.4	1.5	1.6	1.6
Inventory (Days)	47	43	42	38	42	42	42
Debtor (Days)	91	74	75	85	75	75	75
Creditor (Days)	82	73	68	76	68	68	68
Leverage Ratio (x)							
Current Ratio	2.5	2.7	2.5	2.3	2.5	2.5	2.5
Interest Cover Ratio	28.1	65.3	69.8	59.9	68.5	81.3	95.2
Net Debt/Equity	-0.5	-0.5	-0.6	-0.6	-0.6	-0.5	-0.5

Cash Flow Statement

Y/E March	FY21	FY22	FY23	FY24	FY25E	FY26E	FY27E
OP/(Loss) before Tax	8,711	9,614	11,631	17,773	25,068	30,263	36,083
Direct Taxes Paid	-832	-2,543	-3,520	-4,972	-6,170	-7,404	-8,778
CF from Operating incl EO	7,879	7,071	8,111	12,801	18,898	22,859	27,305
(Inc)/Dec in FA	-1,140	705	-1,540	-2,812	-3,768	-4,934	-5,353
Free Cash Flow	6,738	7,776	6,571	9,989	15,131	17,925	21,952
(Pur)/Sale of Investments	-75	-7,597	376	-2,967	892	0	0
Others	1,371	1,030	1,857	3,106	0	0	0
CF from Investments	155	-5,862	694	-2,673	-2,876	-4,934	-5,353
Dividend Paid	-3,881	-4,435	-6,237	-8,593	-11,438	-13,717	-16,259
Others	-4,844	3,661	-607	-2,733	-295	-295	-295
CF from Fin. Activity	-8,724	-774	-6,844	-11,326	-11,733	-14,011	-16,553
Inc/Dec of Cash	-691	434	1,960	-1,198	4,289	3,914	5,398
Opening Balance	4,538	9,652	14,267	13,808	15,047	19,336	23,250
Other adjustments	5,804	4,181	-2,420	2,437			
Closing Balance	9,652	14,267	13,808	15,047	19,336	23,250	28,648

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NOTES

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Investment Rating	Expected return (over 12-month)
BUY	>=15%
SELL	< - 10%
NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
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