REDUCE (Maintain)

CMP: **INR 3,749** Target Price: **INR 3,280 (INR 3,100)** ▼ -13%

ICICI Securities

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08 August 2024

India | Equity Research | Q1FY25 results review

Cummins India

Capital Goods

Robust margin performance; cautious on sustainability

Cummins India's Q1FY25 print stood impressive (soft revenue growth, stellar margin expansion) with management commentary exuding optimism for domestic business in near term. Export demand, however, remains a concern. While industrial and distribution segments reported robust growth, power generation revenue declined both YoY and QoQ. Transition to CPCB4+ compliance provides a once in a decade realisation jump, but impact on genset demand (<800 Kva) at such elevated prices remains a grey area. The management has maintained guidance for 13-14% revenue growth in FY25 and exercised caution on sustainability of gross margin. We remain cautious on expensive valuation and downside risk to gross margin. Maintain **REDUCE with** revised TP of **INR 3,280** (earlier INR 3,100).

Domestic business continues to heavy lift; exports remain weak

Cummins reported revenue of INR 23bn, up 4% YoY with EBITDA margin of 20.3% (+490bps YoY). Thus, PAT came in at INR 4.2bn, up 33% YoY. Strong margins were a result of better realisation (+15-25% higher prices for CPC4+ products) and benign input costs. Powergen revenue remained soft (-8% YoY, -15% QoQ) but lower channel inventory and higher realisation will likely drive growth henceforth. Its primary growth driver was industrial business where revenue grew 58% YoY to INR 3.7bn while distribution continued its secular growth of 22% YoY. Exports declined 22% YoY on account of soft demand in Europe and other DMs while ME and Africa showed early signs of recovery.

CPCB4+ may start to usher in a new era

Cummins has sold over 5k CPCB4+ gensets over the last two quarters. These gensets come with a price differential of +15-25% and are the leading factor for margin accretion in Q1. The company stated that inventories for CPCB II are depleted and all gensets sold hereon would be CPCB4+. CPCB4+ gensets contributed ~1/3rd to power gen sales in Q1.

Maintain REDUCE at a revised TP of INR 3,280

We increase FY25/26E EPS by 3%/4%, respectively. Maintain **REDUCE** on expensive valuation, downside risk to both volume and gross margin. We arrive at TP of INR 3,280 (INR 3,100 earlier) based on 45x FY26E standalone EPS.

Financial Summary

Y/E March (INR mn)	FY23A	FY24A	FY25E	FY26E
Net Revenue	77,444	89,586	1,01,570	1,17,925
EBITDA	12,426	17,614	20,883	24,769
EBITDA Margin (%)	16.0	19.7	20.6	21.0
Net Profit	12,241	16,623	19,948	22,975
EPS (INR)	44.2	60.0	72.0	82.9
EPS % Chg YoY	60.4	37.3	20.1	15.2
P/E (x)	85.9	62.6	52.1	45.2
EV/EBITDA (x)	81.1	57.0	47.6	39.6
RoCE (%)	21.1	28.1	27.9	26.5
RoE (%)	24.0	28.8	29.1	27.3

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Market Data

Market Cap (INR)	1,039bn
Market Cap (USD)	12,378mn
Bloomberg Code	KKC IN
Reuters Code	CUMM.BO
52-week Range (INR)	4,172 /1,590
Free Float (%)	49.0
ADTV-3M (mn) (USD)	44.1

Price Performance (%)	3m	6m	12m
Absolute	11.2	56.2	114.0
Relative to Sensex	3.0	44.9	93.3

Previous Reports

01-06-2024: Q4FY24 results review

10-11-2023: Q2FY24 results review

Q1FY25 conference call highlights

Segment commentary

- Revenue for power generation segment was INR 8.1bn, down 8% YoY (35% of revenue as opposed to 40% in Q1FY25).
  - The end-use of these gensets is mainly in data centres, commercial realty, manufacturing and infrastructure.
  - Q1 was a transition quarter from CPCB2 to CBCP4+, a possible factor for lower revenue.
  - CBCP4+ contributed 30-40% of power gen sales.
  - The revenues from LHP, MHP and HHP segments stood at INR 0.5bn, 1bn and 5bn, respectively.
- Revenue for distribution segment was INR 6.5bn, up 22% YoY.
- Revenue for industrial segment was INR 3.7bn, up 58% YoY.
  - Construction business had revenue of INR 1.3bn. This segment is likely to remain strong for foreseeable future.
  - Rail business had revenue of INR 1.1bn, and the business is at the cusp of a slowdown due to migration of a large number of diesel-driven locomotives, to electrification.
  - Mining, compressor and marine businesses had revenues of INR 0.2bn, 0.4bn and 0.3bn, respectively.
- Revenue for domestic segment was INR 18.7bn, up 12% YoY.
- Revenue for exports segment was INR 3.9bn, down 22% YoY.
  - Export revenue fell 22% YoY but rose 13% QoQ.
  - Low demand in export market for the last four quarters was on account of dumping in South Asia, Latin America and African markets.
  - The Middle Eastern and African markets are already showing strong signs of recovery, while European markets are still largely flat.
  - Management believes slowdown in these markets is bottoming out.
- Data centre segment contributed ~10% of Cummins revenue.

Margin commentary

Margin this quarter saw a bump of 490bps YoY on account of:

- Lower input prices as seen over the last three quarters, the cycle for which seems to be coming to the end.
  - Copper and aluminium, the two biggest components used in gensets are seeing price increases, a cause for concern for Cummins.
  - Commodities like iron were cheaper which have temporarily offset the increase in copper and aluminium prices.
- Product mix with higher contribution from CPCB4+ gensets. Q2FY25 onwards, CPCB4+ will be the only gensets sold by Cummins.
  - The competition is soon going to enter the CPCB4+ market. This could lead to price pressures due to competition.

Valuation and outlook

Cummins' Q1FY25 performance testifies strong industrial business demand environment with railways, construction, real estate, data centre providing strong levers. Exports remain subdued at absolute level and may remain at ~20% in revenue mix. A full transition to CPCB4+ (from Jul'24) and the ensuing price volume dynamic would be key monitorables. We remain cautious on expensive valuation and likely moderation in growth.

Thus, we maintain **REDUCE** on the stock with a revised TP of **INR 3,280** (earlier INR 3,100 per share).

Downside risks

- Slower-than-expected capex in real estate, construction and railways.
- Pressure on margin due to competitive pressure with competitions increasing the presence of higher Kva gensets.
- High commodity prices for iron, copper and nickel.

Upside risks

- Improved margins due to an upward surprise in export recovery.

Exhibit 1: Standalone quarterly result highlights (INR mn)

INR mn	Q1FY25	Q1FY24	YoY (%)	Q4FY24	QoQ (%)	FY24	FY23	YoY (%)
Net Sales	**23,042**	**22,087**	**4.3**	**23,162**	**(0.5)**	**89,586**	**77,444**	**15.7**
EBITDA	**4,673**	**3,406**	**37.2**	**4,834**	**(3.3)**	**17,005**	**11,202**	**51.8**
Margin (%)	*20.3*	*15.4*	486bps	*20.9*	-59bps	*19.0*	*14.5*	452bps
Depreciation	439	358	22.5	420	4.4	1,576	1,405	12.2
Finance Cost	48	77	(38.0)	62	(22.7)	268	158	69.7
Other Income	1,322	1,175	12.5	2,045	(35.3)	5,678	4,200	35.2
Extraordinary income	-	-		(806)		(774)	(129)	
PBT	5,509	4,146	32.9	7,203	(23.5)	20,064	13,710	46.3
Tax	1,311	989	32.6	1,596	(17.9)	4,982	2,956	68.5
Tax rate (%)	*23.8*	*23.9*	-6bps	*22.2*	163bps	*24.8*	*21.6*	326bps
Reported PAT	**4,198**	**3,157**	**33.0**	**5,606**	**(25.1)**	**15,083**	**10,754**	**40.3**
Adjusted PAT	**4,198**	**3,157**	**33.0**	**5,002**	**(16.1)**	**15,663**	**10,851**	**44.4**
Margin (%)	*18.2*	*14.3*	393bps	*21.6*	-338bps	*17.5*	*14.0*	347bps
EPS	15.1	11.4		18.0		56.5	39.1	44.4
Segmental Revenues	**Q1FY25**	**Q1FY24**	**YoY (%)**	**Q4FY24**	**QoQ (%)**	**FY24**	**FY23**	**YoY (%)**
PowerGen	8,030	8,730	(8.0)	9,430	(14.8)	33,750	25,550	32.1
Distribution	6,510	5,340	21.9	6,040	7.8	23,490	18,720	25.5
Industrial	3,720	2,360	57.6	3,480	6.9	12,960	10,460	23.9
Others	18,730	16,770	*11.7*	19,250	(2.7)	70,200	55,600	26.3
Domestic	**3,890**	**4,980**	**(21.9)**	**3,440**	**13.1**	**16,730**	**20,500**	**(18.4)**
Exports	22,620	21,750	4.0	22,690	(0.3)	86,930	76,100	14.2
Total	**8,030**	**8,730**	**(8.0)**	**9,430**	**(14.8)**	**33,750**	**25,550**	**32.1**

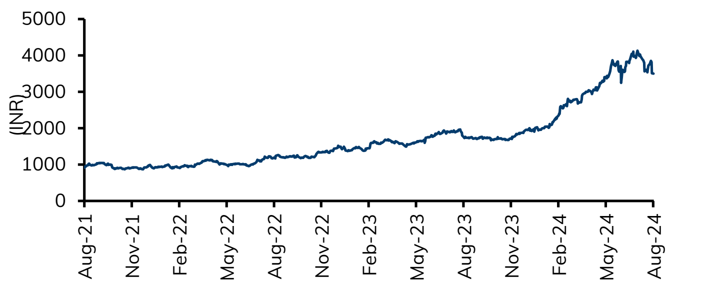
Source: I-Sec research

Exhibit 2: Shareholding pattern

%	Dec'23	Mar'24	Jun'24
Promoters	51.0	51.0	51.0
Institutional investors	40.1	40.4	40.4
MFs and other	18.6	18.6	19.4
FIs/ Banks	0.0	0.0	0.0
Insurance Cos.	2.7	2.6	2.7
FIIs	18.7	19.2	18.3
Others	8.9	8.6	8.6

Source: Bloomberg, I-Sec research

Exhibit 3: Price chart



Source: Bloomberg, I-Sec research

Financial Summary

Exhibit 4: Profit & Loss

(INR mn, year ending March)

	FY23A	FY24A	FY25E	FY26E
Net Sales	**77,444**	**89,586**	**1,01,570**	**1,17,925**
Operating Expenses	12,709	14,272	15,682	17,684
EBITDA	**12,426**	**17,614**	**20,883**	**24,769**
EBITDA Margin (%)	16.0	19.7	20.6	21.0
Depreciation & Amortization	1,405	1,576	1,639	1,705
EBIT	11,022	16,037	19,243	23,064
Interest expenditure	158	268	250	250
Other Non-operating Income	4,200	5,678	6,083	6,227
Recurring PBT	**15,064**	**21,448**	**25,077**	**29,041**
Profit / (Loss) from Associates	**800**	**-**	**800**	**800**
Less: Taxes	3,623	4,824	5,929	6,866
PAT	11,441	16,623	19,148	22,175
Less: Minority Interest	-	-	-	-
Extraordinaries (Net)	(143)	(17)	-	-
Net Income (Reported)	**12,098**	**16,606**	**19,948**	**22,975**
Net Income (Adjusted)	**12,241**	**16,623**	**19,948**	**22,975**

Source Company data, I-Sec research

Exhibit 5: Balance sheet

(INR mn, year ending March)

	FY23A	FY24A	FY25E	FY26E
Total Current Assets	40,203	47,260	57,562	74,069
of which cash & cash eqv.	13,808	15,047	21,040	31,666
Total Current Liabilities & Provisions	15,253	19,357	19,071	21,824
Net Current Assets	**24,950**	**27,902**	**38,491**	**52,244**
Investments	21,042	21,927	24,284	27,111
Net Fixed Assets	11,698	12,872	12,733	12,528
ROU Assets	-	-	-	-
Capital Work-in-Progress	413	968	968	968
Total Intangible Assets	-	-	-	-
Other assets	1,647	1,824	1,886	1,951
Deferred Tax Assets	-	-	-	-
Total Assets	**59,867**	**65,628**	**78,496**	**94,937**
Liabilities				
Borrowings	**3,500**	**1,000**	**500**	**-**
Deferred Tax Liability	**1,057**	**941**	**941**	**941**
provisions	1,016	1,180	1,180	1,180
other Liabilities	614	876	330	330
Equity Share Capital	554	554	554	554
Reserves & Surplus	53,125	61,077	74,991	91,932
Total Net Worth	**53,680**	**61,631**	**75,545**	**92,486**
Minority Interest	-	-	-	-
Total Liabilities	**59,867**	**65,628**	**78,496**	**94,937**

Source Company data, I-Sec research

Exhibit 6: Cashflow statement

(INR mn, year ending March)

	FY23A	FY24A	FY25E	FY26E
Operating Cashflow	**12,137**	**16,853**	**15,834**	**20,937**
Working Capital Changes	752	363	(3,314)	(1,238)
Capital Commitments	192	(3,306)	(1,500)	(1,500)
Free Cashflow	**11,945**	**20,159**	**17,334**	**22,437**
Other investing cashflow	**-**	**-**	**-**	**-**
Cashflow from Investing Activities	192	(3,306)	(1,500)	(1,500)
Issue of Share Capital	483	(2,229)	-	0
Interest Cost	(158)	(268)	(250)	(250)
Inc (Dec) in Borrowings	(433)	(2,500)	(500)	(500)
Dividend paid	(6,542)	(6,542)	(5,234)	(5,234)
Others	(6,139)	(769)	(2,356)	(2,828)
Cash flow from Financing Activities	(12,788)	(12,309)	(8,340)	(8,811)
Chg. in Cash & Bank balance	**(459)**	**1,239**	**5,994**	**10,625**
Closing cash & balance	13,808	15,047	21,040	31,666

Source Company data, I-Sec research

Exhibit 7: Key ratios

(Year ending March)

	FY23A	FY24A	FY25E	FY26E
Per Share Data (INR)				
Reported EPS	43.6	59.9	72.0	82.9
Adjusted EPS (Diluted)	44.2	60.0	72.0	82.9
Cash EPS	49.2	65.7	77.9	89.0
Dividend per share (DPS)	23.6	23.6	18.9	18.9
Book Value per share (BV)	193.7	222.3	272.5	333.6
Dividend Payout (%)	54.1	39.4	26.2	22.8
Growth (%)				
Net Sales	26.1	15.7	13.4	16.1
EBITDA	40.4	41.7	18.6	18.6
EPS (INR)	60.4	37.3	20.1	15.2
Valuation Ratios (x)				
P/E	85.9	62.6	52.1	45.2
P/CEPS	76.1	57.1	48.1	42.1
P/BV	19.4	16.9	13.8	11.2
EV / EBITDA	81.1	57.0	47.6	39.6
P / Sales	13.4	11.6	10.2	8.8
Dividend Yield (%)	0.6	0.6	0.5	0.5
Operating Ratios				
Gross Profit Margins (%)	32.5	35.6	36.0	36.0
EBITDA Margins (%)	16.0	19.7	20.6	21.0
Effective Tax Rate (%)	24.0	22.5	23.6	23.6
Net Profit Margins (%)	14.8	18.6	18.9	18.8
NWC / Total Assets (%)	18.6	19.6	22.2	21.7
Net Debt / Equity (x)	(0.6)	(0.6)	(0.6)	(0.6)
Net Debt / EBITDA (x)	(2.5)	(2.0)	(2.1)	(2.4)
Profitability Ratios				
RoCE (%)	21.1	28.1	27.9	26.5
RoE (%)	24.0	28.8	29.1	27.3
RoIC (%)	21.1	28.1	27.9	26.5
Fixed Asset Turnover (x)	6.5	7.3	7.9	9.3
Inventory Turnover Days	47	41	41	41
Receivables Days	84	91	90	91
Payables Days	60	61	55	55

Source Company data, I-Sec research

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