Sharekhan
by BNP PARIBAS

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Stock Update

Result Update

Cummins India

Margins shine; domestic demand to drive growth

Capital Goods	Sharekhan code: CUMMINSIND

Reco/View: Buy	↔	CMP: **Rs. 3,745**	Price Target: **Rs. 4,300**	↑

↑ Upgrade ↔ Maintain ↓ Downgrade

Summary

- Cummins India Ltd (CIL) reported Standalone operating profit/ APAT growth of 37.2%/ 33%, beat our estimates. Revenue was flat with growth of 4% y-o-y to Rs 2.304 crore, hit by a 22% decline in export sales.
- Domestic sales grew 12% to Rs. 1,873 crore, driven by strong demand from data centres, commercial and residential real estate, manufacturing, and continued spending by government on infrastructure.
- For FY2025, the management has maintained its guidance of revenue growth of 2x of GDP. Moreover, with the sale of higher value CPCB-IV gensets, margins will improve.
- We expect a 16%/17% CAGR in revenue/PAT (FY24-27E) and RoE/RoCE of ~28%/36%. Given the domestic demand uptick due to adoption of CPCB-IV emission norms and a gradual recovery in export business we maintain our buy rating on the stock with a revised PT of Rs 4,300, ascribing a multiple of 45x on FY27 earnings estimates.

CIL reported a flattish revenue growth of 4% (in line with our estimates of Rs 2,410 crore) supported by healthy growth in domestic market (12% y-o-y). Due to Geopolitical tensions exports were a spoilsport and declined 22% y-o-y but was up 13% Q-o-Q showing some revival. Domestic demand is expected to be robust as adoption of CPCB-IV norms picks up and exports are expected to recover gradually. Around 40% of the sales have come from CPCB-IV products and is expected to reach 75% of the total sales. EBITDA stood at Rs 467 crore outperforming our estimates of Rs 435 crore leading to margins improvement of 486 bps y-o-y. OPM came in at 20.3% versus 15.4% in the same quarter of last year. Net profit was up ~33% y-o-y to Rs. 420 crore, led by a strong operating performance.

Key positives

- Market is accepting the higher price of CPCB IV products and uptick in adoption is expected. Low channel inventory for CPCB II engines. About 40% of sales are from CPCB IV engines and is expected to reach 75%.
- Domestic sales grew by 12% to Rs. 1,873 crore, driven by strong demand from data centers, commercial and residential real estate, manufacturing, and continued spending by the government on infrastructure.
- Gross margins rose 523 bps y-o-y to 37.8%.

Key negatives

- Exports declined 22% y-o-y leading the revenues to grow marginally by 4%.

Management Commentary

- Domestic sales were strong with demand driven by data centres, commercial & residential real estate, manufacturing, and infrastructure sectors.
- All the company's export markets have seen demand soften. Middle East and Africa is showing some recovery, but Europe is flat y-o-y.
- Company was able to improve margins due to a better product mix and soft commodity prices. The sale of CPCB-IV gensets will help the margins.
- CPCB-IV gensets contributed to 40% sales of the powergen segment.

Revision in estimates – We have revisited our earnings estimates of FY2025-2026 and introduced FY27 estimates.

Our Call

Valuation –Maintain Buy with a revised PT of Rs. 4,300: In the domestic market, Cummins is well-positioned for the transition to CPCB-IV plus norms with favorable long-term implications in terms of revenue and profitability. It would also give a fillip to its distribution business in the long term. In addition, it would benefit from broad-based demand from data centres, healthcare, infrastructure, and real estate. We build in a revenue/PAT CAGR of ~16%/17% over FY2024-FY2027E. We maintain our Buy on the stock with a revised PT of Rs 4,300, ascribing a multiple of 45x on FY27 earnings estimates.

Key Risks

- If there are supply-side issues, it can negatively affect the business outlook and earnings growth.
- Global demand weakness due to geopolitical uncertainties and economic headwinds pose downside risks to exports.

Valuation (Standalone) Rs cr

Particulars	FY23	FY24	FY25E	FY26E	FY27E
Net sales (Rs. crore)	7,744	8,959	10,373	12,182	14,100
OPM (%)	16.0	19.7	20.2	20.8	20.9
Net profit (Rs. crore)	1,144	1,662	1,895	2,266	2,632
EPS (Rs.)	41.3	60.0	68.4	81.7	95.0
EPS growth (%)	44.1	45.3	14.0	19.5	16.2
PER (x)	90.7	62.4	54.8	45.8	39.4
P/B (x)	19.3	16.8	13.8	11.2	9.1
EV/EBIDTA (x)	81.9	57.5	47.6	38.9	32.9
RoE (%)	22.4	28.8	27.7	27.0	25.5
RoCE (%)	27.3	35.7	35.9	35.2	33.4

Source: Company; Sharekhan estimates

3R MATRIX

	+	=	-
Right Sector (RS)	✓		
Right Quality (RQ)	✓		
Right Valuation (RV)		✓	

+ Positive = Neutral – Negative

What has changed in 3R MATRIX

	Old		New
RS		↔	
RQ		↔	
RV		↔	

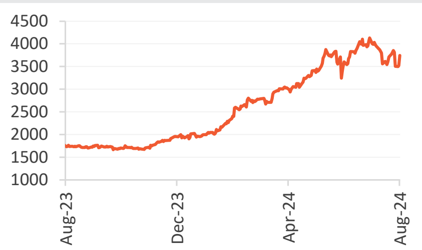
Company details

Market cap:	Rs. 1,03,811 cr
52-week high/low:	Rs. 4,169/1,590
NSE volume: (No of shares)	7.4 lakh
BSE code:	500480
NSE code:	CUMMINSIND
Free float: (No of shares)	13.6 cr

Shareholding (%)

Promoters	51.0
FII	18.0
DII	22.4
Others	8.7

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	-6.4	8.7	56.0	115.0
Relative to Sensex	-4.9	3.1	45.9	95.1

Sharekhan Research, Bloomberg

Q1FY2025 conference call highlights

- **Domestic market:** Demand was driven by data centres, commercial and residential real estate, manufacturing, and infrastructure sectors. Powergen/distribution/industrial segments' revenues rose -8%/21%/57% respectively. In Powergen segment, data centres contribute to almost 10% of revenues.
- **Exports market:** Due to geopolitical tensions, exports played spoilsport and declined 22% y-o-y but was up 13% Q-o-Q showing some revival. Middle East and Africa are showing some recovery, but Europe is flat y-o-y.
- **CPCB-IV sales:** The mix of CPCB-IV gensets in revenue was 40% in the quarter, up from 33% in the previous quarter. The sale of CPCB-II gensets is only allowed till June, so the whole market will transition to the CPCB-IV product. The management expects contribution of CPCB-IV products to reach 60%.
- **Margin:** Company reported improvement in margins due to a better product mix and soft commodity prices. Margins are expected to improve given the contribution of CPCB IV products increases.
- **Guidance:** The management has maintained its approximate guidance of revenue growth 2x of the GDP.

Results (Standalone) Rs cr

Particulars	Q1FY25	Q1FY24	YoY (%)	Q4FY24	QoQ (%)
Net Sales	**2,304**	**2,209**	**4.3**	**2,316**	**(0.5)**
RM Cost	1,434	1,490	(3.8)	1,482	(3.2)
Staff Cost	182	188	(3.6)	189	(3.8)
Other Expenditure	221	190	16.7	101	119.2
Operating Expenses	1,837	1,868	0.9	1,772	3.7
Operating Profit	**467**	**341**	**37.2**	**544**	**(14.1)**
Other Income	132	117	12.5	204	(35.3)
Interest	5	8	(38.0)	6	(22.7)
Depreciation	44	36	22.5	42	4.4
PBT	**551**	**415**	**32.9**	**701**	**(21.4)**
Tax	131	99	32.6	139	(5.7)
Adjusted PAT	**420**	**316**	**33.0**	**562**	**(25.2)**
Exceptional items	-	-		-	
Reported PAT	420	316	33.0	562	(25.2)
Adj. EPS (Rs.)	**15.1**	**11.4**	**33.0**	**20.3**	**(25.2)**
Margins (%)			**bps**		**Bps**
GPM (%)	37.8	32.5	523	36.0	175
OPM (%)	20.3	15.4	486	23.5	(322)
NPM (%)	18.2	14.3	393	24.2	(602)
Tax rate (%)	23.8	23.9	(6)	19.8	395

Source: Company, Sharekhan Research

Outlook and Valuation

■ **Sector view - Continued government focus on infrastructure spending to provide growth opportunities**

To make India a $5 trillion economy by FY2025 and to continue growing at an escalated trajectory until 2030, it is estimated that India would need to spend $4.5 trillion on infrastructure by 2030. To achieve the desired goal, the government drew up National Infrastructure Pipeline (NIP) through a bottom-up approach, wherein all projects cost more than Rs. 100 crore per project under construction, proposed Greenfield projects, brownfield projects, and those at the conceptualisation stage were captured. Consequently, total capital expenditure in infrastructure sectors in India during FY2020-FY2025 is projected at ~Rs. 111 lakh crore. During the same period, sectors such as energy (24%), roads (18%), urban (17%), and railways (12%) amount to ~71% of the projected infrastructure investments in India. A huge outlay towards the infrastructure sector is expected to provide healthy growth opportunities for infrastructure companies.

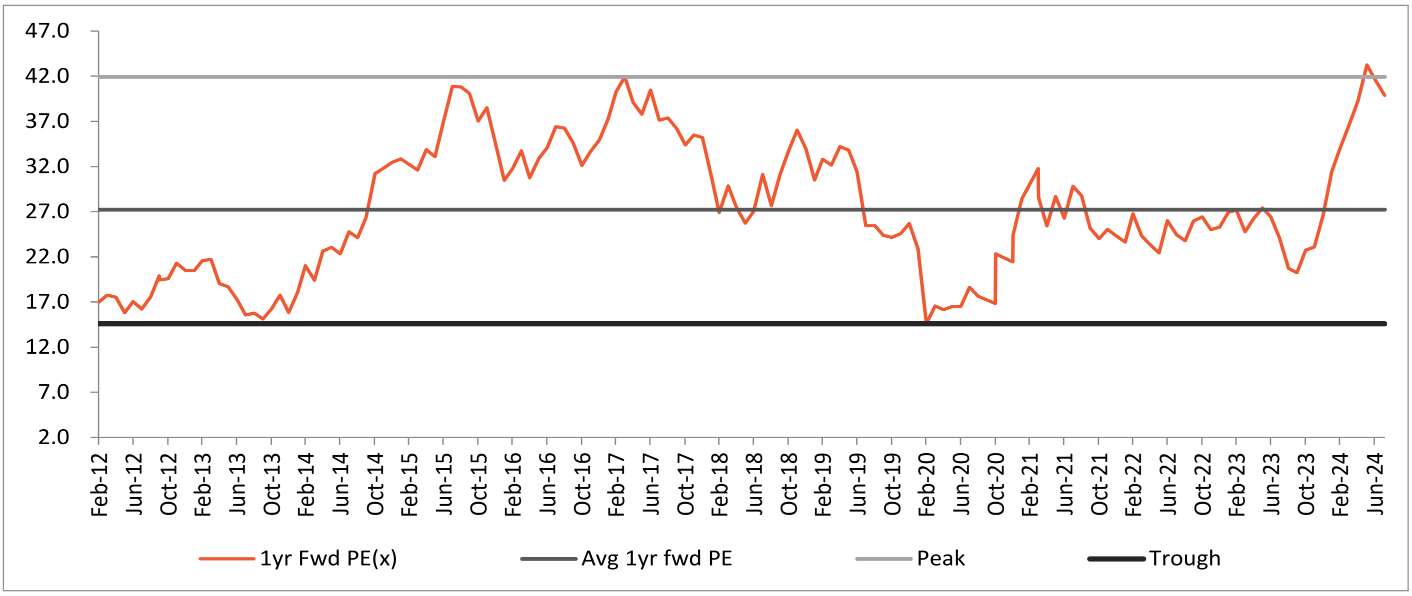
■ **Company outlook - Domestic markets expected to perform well, while exports may be muted for the near to medium term**

Cummins' strong parentage and technological capabilities give it an edge over competitors. The company's innovative products and solutions, market leadership particularly in HHP in the domestic market, and expectations of robust growth in exports and margin expansion make us positive on its prospects. The company has begun to see the benefits arising from a strong revival in key segments such as power generation, construction, and mining, which are expected to sustain going ahead. However, exports demand is softening due to recessionary trends in Europe, Latin America, and Africa. Cost saving initiatives have been yielding benefits in terms of improved OPM from low levels.

■ **Valuation - Maintain Buy with a revised PT of Rs. 4,300**

In the domestic market, Cummins is well-positioned for the transition to CPCB-IV plus norms with favorable long-term implications in terms of revenue and profitability. It would also give a fillip to its distribution business in the long term. In addition, it would benefit from broad-based demand from data centres, healthcare, infrastructure, and real estate. We build in a revenue/PAT CAGR of ~16%/17% over FY2024-FY2027E. We maintain our Buy on the stock with a revised PT of Rs 4,300, ascribing a multiple of 45x on FY27 earnings estimates.

One-year forward P/E (x) band



Source: Sharekhan Research

About company

Cummins is a subsidiary of Cummins Inc., USA – a global manufacturer of engines and other power-generation products. The company comprises three businesses – Engine Business (serving the Construction and Compressor markets with Heavy, Medium, and Light Duty engines), Power Systems Business (serving Mining, Marine, Rail, Oil and Gas, Defense, and Power Generation), and Distribution Business. Cummins has eight manufacturing facilities in Maharashtra and Gujarat. The company's product range primarily includes diesel engines/gensets from 15kVA to 2,000kVA for various power/industrial uses. Cummins also manufactures alternators, digital controls, transfer switches, etc. Cummins is the leader with a 40% market share in the diesel engines/gensets industry. Further, Cummins has a strong presence in high-value and high-margin HHP gensets. The company's domestic business is divided into power generation, industrial, and distribution segments, contributing 80% to its sales. Exports contributes around 20% to sales. The company exports to over 40 countries comprising the Middle East and Africa, which contribute 90% to its exports.

Investment theme

Cummins is the largest standby genset player in India with a lead market share in medium and large gensets. The company has a strong technology/innovation track record, well supported by its parent, which helps it stay ahead of peers across changes in emission norms. The company's diversified business presence across power generation, industrial BU, exports, and distribution contribute reasonably to its long-term growth prospects with a healthy return/ cash flow profile. However, the recent drop in demand in exports is a near-term concern, which could weigh on the stock's performance.

Key Risks

- If there are supply-side issues, it can negatively affect the business outlook and earnings growth.
- Global market demand weakness due to the current geopolitical crisis between Russia and Ukraine poses a key downside risk to exports

Additional Data

Key management personnel

Ashwath Ram	Managing Director
Rajiv Batra	Vice President – Finance Special Projects
Ajay Patil	Chief Financial Officer

Source: Bloomberg

Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	ICICI Prudential Asset Management	2.42
2	SBI Funds Management Ltd	2.31
3	Kotak Mahindra Asset Management Co	2.05
4	BlackRock Inc	1.86
5	Axis Asset Management Co Ltd/India	1.84
6	HDFC Asset Management Co Ltd	1.76
7	Vanguard Group Inc/The	1.39
8	SBI Life Insurance Co Ltd	1.11
9	Tata Asset Management Pvt Ltd	0.88
10	Nippon Life India Asset Management	0.85

Source: Bloomberg

Understanding the Sharekhan 3R Matrix

Right Sector	
Positive	Strong industry fundamentals (favorable demand-supply scenario, consistent industry growth), increasing investments, higher entry barrier, and favorable government policies
Neutral	Stagnancy in the industry growth due to macro factors and lower incremental investments by Government/private companies
Negative	Unable to recover from low in the stable economic environment, adverse government policies affecting the business fundamentals and global challenges (currency headwinds and unfavorable policies implemented by global industrial institutions) and any significant increase in commodity prices affecting profitability.
Right Quality	
Positive	Sector leader, Strong management bandwidth, Strong financial track-record, Healthy Balance sheet/cash flows, differentiated product/service portfolio and Good corporate governance.
Neutral	Macro slowdown affecting near term growth profile, Untoward events such as natural calamities resulting in near term uncertainty, Company specific events such as factory shutdown, lack of positive triggers/events in near term, raw material price movement turning unfavourable
Negative	Weakening growth trend led by led by external/internal factors, reshuffling of key management personal, questionable corporate governance, high commodity prices/ weak realisation environment resulting in margin pressure and detoriating balance sheet
Right Valuation	
Positive	Strong earnings growth expectation and improving return ratios but valuations are trading at discount to industry leaders/historical average multiples, Expansion in valuation multiple due to expected outperformance amongst its peers and Industry up-cycle with conducive business environment.
Neutral	Trading at par to historical valuations and having limited scope of expansion in valuation multiples.
Negative	Trading at premium valuations but earnings outlook are weak; Emergence of roadblocks such as corporate governance issue, adverse government policies and bleak global macro environment etc warranting for lower than historical valuation multiple.

Source: Sharekhan Research

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