

10 February 2025

India | Equity Research | Results update

Cummins India

Capital Goods

Overwhelming revenue performance; limited incremental margin expansion levers

Cummins reported a robust Q3 revenue print; margin remains off its peak levels seen in H2FY24 (though still robust). A sequential revenue jump of 24% was largely driven by the HHP segment of the domestic power gen business (74% contribution to incremental revenue QoQ). While the distribution segment's revenue growth slowed, the industrial segment saw a sharp acceleration led by mining, railway and marine (new product launches in marine – engines and railways – hotel load converter likely contributed). Exports continue to witness sequential improvement on a low base with the LHP segment showing better sequential recovery in the last three quarters. We upgrade Cummins to **HOLD**. Rolling over valuations to FY27E, our SoTP-based revised TP stands at **INR 2,900**. We cut FY26E EPS by 4%. Cummins maintains double-digit FY25 revenue growth guidance.

Revenue growth robust driven by domestic business

Cummins reported revenue of INR 30.9bn (+22% YoY/+24% QoQ). Domestic business continues to be the torch bearer – INR25.8bn (+18% YoY/+28% QoQ); exports recovery is underway from a low base – INR 4.64bn (+43% YoY/+6% QoQ). Exports have reported growth on a YoY-basis, after falling for five straight quarters. Cummins maintained its double-digit FY25 revenue growth guidance.

HHP domestic power gen biggest delta QoQ; margin slows

The High Horsepower (>500kva) segment of the domestic power gen business saw its revenue double QoQ, contributing 74% to incremental increase in revenue for the company. Cummins attributed this to strong demand in data centre business, healthy traction for CPCB4+ compliant products. Both gross (34.8%, -100bps QoQ) and EBITDA margin (19.4%, flat QoQ), however, moderated from its recent peak in H2FY24.

Pricing action in new portfolio of CPCB4+ could be a key risk (both downside or upside)

While Cummins commands a leadership position and a premium positioning in the domestic genset market, the price discovery for the new set of products (CPCB4+ compliant) is still an ongoing process. This could mean pricing action in FY26 could dictate the swing of EPS from current estimated levels and is a key monitorable.

Financial Summary

Y/E Mar-31 (INR mn)	FY24A	FY25E	FY26E	FY27E
Net Revenue	89,586	1,05,706	1,18,384	1,33,029
EBITDA	17,614	20,647	23,359	26,876
EBITDA Margin (%)	19.7	19.5	19.7	20.2
Net Profit	16,623	18,824	20,948	23,716
EPS (INR)	60.0	67.9	75.6	85.6
EPS % Chg YoY	37.3	13.4	11.3	13.2
P/E (x)	47.9	42.3	38.0	33.6
EV/EBITDA (x)	43.2	36.4	31.5	26.7
RoCE (%)	28.1	27.5	25.4	23.9
RoE (%)	28.8	27.5	25.2	23.7

Abhijeet Singh

abhijeet.singh@icicisecurities.com

+91 22 6807 7340

Mohit Kumar

kumar.mohit@icicisecurities.com

Mahesh Patil

mahesh.patil@icicisecurities.com

Abhinav Nalawade

abhinav.nalawade@icicisecurities.com

Nidhi Shah

nidhi.shah@icicisecurities.com

Market Data

Market Cap (INR)	796bn
Market Cap (USD)	9,102mn
Bloomberg Code	KKC IN
Reuters Code	CUMM.BO
52-week Range (INR)	4,172 / 2,372
Free Float (%)	49.0
ADTV-3M (mn) (USD)	25.4

Price Performance (%)	3m	6m	12m
Absolute	(19.2)	(23.4)	19.7
Relative to Sensex	(17.1)	(21.4)	11.7

ESG Score	2023	2024	Change
ESG score	69.8	68.5	(1.3)
Environment	50.8	54.1	3.3
Social	73.2	73.3	0.1
Governance	81.0	78.1	(2.9)

Note - Score ranges from 0 - 100 with a higher score indicating higher ESG disclosures.

Source: SES ESG, I-sec research

Previous Reports

09-11-2024: [Q2FY25 results review](#)

08-08-2024: [Q1FY25 results review](#)

Outlook and valuation

Cummins has seen sharp revenue growth of 16% over FY21–24 (above its 20-year CAGR of 12%) with 9MFY25 revenue growth only accelerating to 19% YoY. This has largely been led by the domestic power gen business (16% CAGR over FY19–24) while exports have been a major drag (revenue of FY24 around similar level to that of FY19). A robust real estate market recovery coupled with substantial data centre demand for back-up power has contributed immensely. Data centre, could incrementally add ~INR 4–5bn p.a. to the overall revenue for Cummins (assuming an annual addition of 200MW data centre capacity). Also, the company's strong presence in railways, marine and construction is expected to drive the industrial segment demand. The margin remains at near high historical levels (though margin has been under pressure sequentially in last three quarters). In the process, the company's RoE (~29% in FY24) and RoCE (~36% in FY24) have reached near all-time high levels. However, given limited scope of margin expansion from current levels (margin pressure already evident in last few quarters), we expect significant moderation in earnings growth over FY25–27E (~12%) compared to FY19–25E (~61%). However, the elevated margin and return ratios are expected to support higher valuation. We have cut our EPS estimates for FY26 by 4% factoring in ~70bps expansion in margin over the next two years. Upgrade to **HOLD** (earlier *Reduce*) with a TP of **INR 2,900** (maintained) based on a SoTP valuation (36x FY27E EPS for standalone + Cummins Valvoline stake + PV value of leased out investment properties).

Risk

- Increased competitive intensity and pricing indiscipline in CPCB4+ suite of products.
- Slowdown in industrial and data centre capex
- Increased geopolitical turbulence leading to weakness in exports.
- Increase in commodity prices especially gray cast iron.

Exhibit 1: Valuation

Valuation Summary (INR mn)	FY27E
PAT (X)	23,716
Tax rate (%)	23.6
Interest & dividend income (Y)	3,293
Rental Income (Z)	1,768
Operating PAT (P=X-Y-Z)	19,851
P/E multiple (Q)	36
Value (R=P*Q)	7,14,654
Cash & Cash Equivalent (S)	46,291
Gross value (R+S)	7,60,944
Cummins Standalone value per share (INR) (A)	2,745
Discounted Lease contribution	9,900
Lease contribution value per share (INR) (B)	36
Valvoline PAT	2,143
PE multiple (x)	30
Valvoline Gross value	64,064
Holding value (50% stake)	32,032
Valvoline value per share (INR) (C)	116
Total value per share (INR) (A+B+C)	2,900

Source: I-Sec research, Company data

Exhibit 2: Consolidated financial highlights

INR mn	Q3FY25	Q3FY24	YoY (%)	Q2FY25	QoQ (%)
Net Sales	30,860	25,341	21.8	24,923	23.8
EBITDA	6,000	5,379	11.5	4,810	24.7
Margin	19.4	21.2	-179bps	19.3	14bps
Depreciation	481	419	14.7	452	6.3
Finance Cost	27	63	(57.9)	26	3.5
Other Income	1,209	1,136	6.4	1,611	(25.0)
Extraordinary income	-	(17)	-	-	-
PBT	6,702	6,017	11.4	5,944	12.7
Tax	1,562	1,467	6.4	1,438	8.6
tax rate	23.3	24.4	-109bps	24.2	-89bps
Reported PAT	5,140	4,549	13.0	4,506	14.1
Adjusted PAT	5,140	4,562	12.7	4,506	14.1
Margin (%)	16.7	18.0	-135bps	18.1	-142bps
EPS	18.5	16.5	-	16.3	-

Source: I-Sec research, Company data

Exhibit 3: Segmental highlights

INR mn	Q3FY25	Q3FY24	YoY (%)	Q2FY25	QoQ (%)
Revenues					
PowerGen	12,710	10,730	18.5	8,960	41.9
Distribution	7,460	6,620	12.7	6,580	13.4
Industrial	5,110	2,120	141.0	4,060	25.9
Domestic	25,770	21,770	18.4	20,080	28.3
Exports	4,640	3,250	42.8	4,400	5.5
Total	30,410	25,020	21.5	24,480	24.2

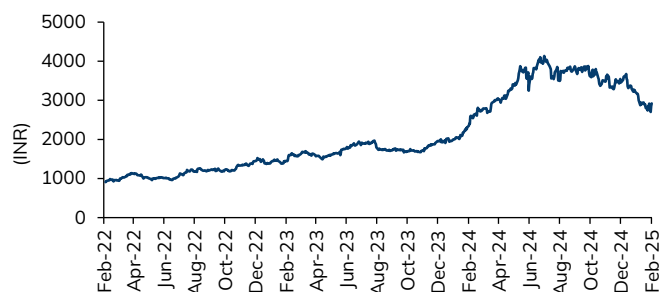
Source: I-Sec research, Company data

Exhibit 4: Shareholding pattern

%	Jun'24	Sep'24	Dec'24
Promoters	51.0	51.0	51.0
Institutional investors	40.4	38.3	37.8
MFs and other	19.4	17.5	16.2
FIs/ Banks	0.0	0.2	0.5
Insurance Cos.	2.7	2.8	3.0
FIIIs	18.3	17.8	18.1
Others	8.6	10.7	11.2

Source: Bloomberg, I-Sec research

Exhibit 5: Price chart



Source: Bloomberg, I-Sec research

Financial Summary

Exhibit 6: Profit & Loss

(INR mn, year ending Mar-31)

	FY24A	FY25E	FY26E	FY27E
Net Sales	89,586	1,05,706	1,18,384	1,33,029
Operating Expenses	14,272	17,090	18,075	19,684
EBITDA	17,614	20,647	23,359	26,876
EBITDA Margin (%)	19.7	19.5	19.7	20.2
Depreciation & Amortization	1,576	1,829	1,902	1,978
EBIT	16,037	18,819	21,457	24,898
Interest expenditure	268	250	250	250
Other Non-operating Income	5,678	6,083	6,227	6,411
Recurring PBT	21,448	24,652	27,434	31,059
Profit / (Loss) from Associates	-	-	-	-
Less: Taxes	4,824	5,828	6,486	7,343
PAT	16,623	18,824	20,948	23,716
Less: Minority Interest	-	-	-	-
Extraordinaries (Net)	(17)	-	-	-
Net Income (Reported)	16,606	18,824	20,948	23,716
Net Income (Adjusted)	16,623	18,824	20,948	23,716

Source Company data, I-Sec research

Exhibit 7: Balance sheet

(INR mn, year ending Mar-31)

	FY24A	FY25E	FY26E	FY27E
Total Current Assets	47,260	59,196	75,378	94,125
of which cash & cash eqv.	15,047	21,187	32,810	46,291
Total Current Liabilities & Provisions	19,357	19,840	21,899	24,247
Net Current Assets	27,902	39,356	53,479	69,878
Investments	21,927	24,284	27,111	30,505
Net Fixed Assets	12,872	11,544	9,742	7,864
ROU Assets	-	-	-	-
Capital Work-in-Progress	968	968	968	968
Total Intangible Assets	-	-	-	-
Other assets	1,824	1,886	1,951	2,020
Deferred Tax Assets	-	-	-	-
Total Assets	65,628	78,172	93,386	1,11,368
Liabilities				
Borrowings	1,000	500	-	(500)
Deferred Tax Liability	941	941	941	941
provisions	1,180	1,180	1,180	1,180
other Liabilities	876	330	330	330
Equity Share Capital	554	554	554	554
Reserves & Surplus	61,077	74,667	90,381	1,08,863
Total Net Worth	61,631	75,221	90,935	1,09,418
Minority Interest	-	-	-	-
Total Liabilities	65,628	78,172	93,386	1,11,368

Source Company data, I-Sec research

Exhibit 8: Cashflow statement

(INR mn, year ending Mar-31)

	FY24A	FY25E	FY26E	FY27E
Operating Cashflow	18,223	16,947	12,679	22,957
Working Capital Changes	1,733	(1,876)	(8,269)	(759)
Capital Commitments	(2,265)	(500)	(100)	(100)
Free Cashflow	20,488	17,447	12,779	23,057
Other investing cashflow	-	-	-	-
Cashflow from Investing Activities	(2,265)	(500)	(100)	(100)
Issue of Share Capital	(2,229)	0	0	-
Interest Cost	(268)	(250)	(250)	(250)
Inc (Dec) in Borrowings	(2,500)	(500)	(500)	(500)
Dividend paid	(6,542)	(5,234)	(5,234)	(5,234)
Others	(3,181)	(4,323)	5,027	(3,393)
Cash flow from Financing Activities	(14,720)	(10,307)	(956)	(9,377)
Chg. in Cash & Bank balance	1,239	6,140	11,623	13,480
Closing cash & balance	15,047	21,187	32,810	46,291

Source Company data, I-Sec research

Exhibit 9: Key ratios

(Year ending Mar-31)

	FY24A	FY25E	FY26E	FY27E
Per Share Data (INR)				
Reported EPS	59.9	67.9	75.6	85.6
Adjusted EPS (Diluted)	60.0	67.9	75.6	85.6
Cash EPS	65.7	74.5	82.4	92.7
Dividend per share (DPS)	23.6	18.9	18.9	18.9
Book Value per share (BV)	222.3	271.4	328.0	394.7
Dividend Payout (%)	39.4	27.8	25.0	22.1
Growth (%)				
Net Sales	15.7	18.0	12.0	12.4
EBITDA	41.7	17.2	13.1	15.1
EPS (INR)	37.3	13.4	11.3	13.2
Valuation Ratios (x)				
P/E	47.9	42.3	38.0	33.6
P/CEPS	43.7	38.5	34.8	31.0
P/BV	12.9	10.6	8.8	7.3
EV / EBITDA	43.2	36.4	31.5	26.7
P / Sales	8.9	7.5	6.7	6.0
Dividend Yield (%)	0.8	0.7	0.7	0.7
Operating Ratios				
Gross Profit Margins (%)	35.6	35.7	35.0	35.0
EBITDA Margins (%)	19.7	19.5	19.7	20.2
Effective Tax Rate (%)	22.5	23.6	23.6	23.6
Net Profit Margins (%)	18.6	17.8	17.7	17.8
NWC / Total Assets (%)	19.6	23.2	22.1	21.2
Net Debt / Equity (x)	(0.6)	(0.6)	(0.7)	(0.7)
Net Debt / EBITDA (x)	(2.0)	(2.2)	(2.6)	(2.9)
Profitability Ratios				
RoCE (%)	28.1	27.5	25.4	23.9
RoE (%)	28.8	27.5	25.2	23.7
RoC (%)	28.1	27.5	25.4	23.9
Fixed Asset Turnover (x)	7.3	8.7	11.1	15.1
Inventory Turnover Days	41	41	40	40
Receivables Days	91	92	89	90
Payables Days	61	57	54	53

Source Company data, I-Sec research

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Name of the Compliance officer (Research Analyst): Mr. Atul Agrawal, Contact number: 022-40701000, **E-mail Address** : complianceofficer@icicisecurities.com

For any queries or grievances: [Mr. Bhavesh Soni](#) Email address: headservicequality@icicidirect.com Contact Number: 18601231122
