

India

**HOLD** (no change)

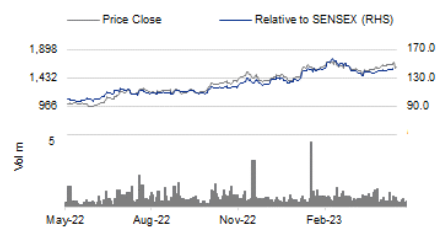
Consensus ratings\*: Buy 16 Hold 7 Sell 7

Current price:	Rs1,618
Target price: ▲	Rs1,740
Previous target:	Rs1,706
Up/downside:	7.5%
InCred Research / Consensus:	10.3%
Reuters:	CUMM.NS
Bloomberg:	KKC IN
Market cap:	US\$5,483m
	Rs448,510m
Average daily turnover:	US\$12.8m
	Rs1046.1m
Current shares o/s:	277.2m
Free float:	49.0%

\*Source: Bloomberg

**Key changes in this note**

- Net sales raised by 2.4/2.2% for FY24F/25F.
- PAT raised by 2.3/2.1% for FY24F/25F.



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	2.5	2.5	63.6
Relative (%)	(0.7)	0.9	44.3

Major shareholders	% held
Promoter (Cummins Inc)	51.0
SBI Mutual Fund	3.7
Kotak Mutual Fund	3.4

**Analyst(s)**



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# Cummins India Ltd

## Higher demand in 4Q led by pre-purchases

- 4QFY23 sales (+29% yoy, -12% qoq) beat our estimates by 11% (4.4% above consensus). Domestic business/exports grew by 33%/17% yoy, respectively.
- Strong underlying demand in the powergen segment, pick-up in key industrial segment, export traction & changes in emission norms are key growth drivers.
- Stock trades at a rich valuation and offers limited upside from the current level. We retain HOLD rating with a higher target price of Rs1,740 (Rs1,706 earlier).

### Higher sales and other income supported PAT on yoy basis

Cummins India or CIL's 4QFY23 sales (+29% yoy, -12% qoq) were 11% above our estimate aided by a strong 33% yoy growth in domestic sales. EBITDA margin at 16.9% (+309 bp yoy, -116bp qoq) was above our estimate of 15.3%, led by operating leverage. Core PAT of Rs3.19bn (+68% yoy) was 22% above our estimate on the back of higher sales and other income (+71% yoy).

### Price hikes to continue

The company went for multiple price hikes, with the last one being taken on 1 Jul 2022. Price hikes recently have been higher than the historical trend in order to offset higher commodity prices. Softening commodity prices and the company's pricing actions would lead to a recovery in margins, in our view, and its aspiration is to normalize gross margin. Margin decline on a qoq basis is mainly due to a change in the product mix. In 4QFY23, the revenue from defence, marine and train segments was low compared to 3QFY23. The pricing actions and prudent cost management resulted in a record profit in FY23.

### Emission norm changes offer positive triggers in coming quarters

The Central Pollution Control Board or CPCB IV+ norms will become effective from Jul 2023 for gensets up to 800KW. The company is ready with its products to meet the new emissions norms and is confident of offering the best-in-class products to its customers, which will continue to deliver a superior performance and meet the new emission norms. For CPCB IV+ norms, CIL's board has allowed the sale of CPCB II generator sets until 31 Dec 2023, after which the power generation market will evolve based on the new emission norms.

### Reiterate HOLD rating with a higher target price of Rs1,740

Strong underlying demand in the powergen segment, pick-up in the key industrial segment, export traction and changes in emission norms are key growth drivers. Long-term growth concerns over the powergen segment persists. We have raised our FY24F/25F EBITDA estimates by 2.4/2.2%, respectively, factoring in healthy demand and higher revenue. Stock trades at a rich valuation of 37x FY24F and 31x FY25F EPS vs. its mean P/E of 30x and offers limited upside from the current level. Therefore, we have retained our HOLD rating on CIL with a higher SOTP-based target price of Rs1,740 (from 1,706 earlier). The upside risks are strong demand and higher margins while the downside risks are lower export demand and higher commodity prices.

### Financial Summary

	Mar-21A	Mar-22A	Mar-23A	Mar-24F	Mar-25F
Revenue (Rsm)	42,561	60,256	76,123	89,626	102,573
Operating EBITDA (Rsm)	5,795	8,851	12,426	14,564	17,530
Net Profit (Rsm)	6,178	8,866	11,441	12,236	14,612
Core EPS (Rs)	22.3	28.3	41.3	44.1	52.7
Core EPS Growth	(4.3%)	27.1%	45.7%	7.0%	19.4%
FD Core P/E (x)	72.59	50.59	39.20	36.65	30.69
DPS (Rs)	14.0	16.0	18.0	19.0	19.0
Dividend Yield	0.87%	0.99%	1.11%	1.17%	1.17%
EV/EBITDA (x)	75.62	49.27	35.27	29.80	24.35
P/FCFE (x)	124.58	77.12	107.58	55.09	35.99
Net Gearing	(23.4%)	(25.6%)	(19.2%)	(23.4%)	(30.4%)
P/BV (x)	10.18	9.24	8.36	7.24	6.29
ROE	14.4%	17.0%	22.4%	21.2%	21.9%

% Change In Core EPS Estimates

InCred Research/Consensus EPS (x)

SOURCE: INCRED RESEARCH, COMPANY REPORTS

## Higher demand in 4Q led by pre-purchases

### 4QFY23 results

#### Key conference-call highlights >

- **Segment-wise revenue break-up (4QFY23):** Domestic-industrials: Rs2.2bn (+14% yoy), powergen: Rs6.7bn (+43% yoy), distribution: Rs4.8bn (+31% yoy), exports: Rs4.5bn (+7% yoy).

#### Market trend:

- The Indian economy continues to be strong amid high inflation. With softening commodity prices, stable consumption provides optimism for sustaining growth. Government spending on infrastructure is resulting in better capacity utilization and signs of private capex are also visible.
- Global market conditions for exports were good in FY23, while monetary policy actions by various central banks around the world to contain inflation may pose a challenge to consumption. For FY23, CIL reported record revenue for the second financial year in a row, driven by strong domestic and export demand.
- The pricing actions and prudent cost management resulted in a record profit for the year. However, given the emission changes from Jul 2023 and continued supply chain challenges, especially for specific electronic and other components, CIL's management is cautiously optimistic on the short- to medium-term demand outlook.

#### CPCB norms:

- The CPCB IV+ norms will become effective from Jul 2023 for gensets up to 800KW. The company is ready with its products to meet the new emissions norms and is confident of offering the best-in-class products to its customers, which will continue to deliver a superior performance and meet the new emission norms.
- For CPCB IV+ norms, CIL's board has allowed the sale of CPCB II generator sets until 31 Dec 2023, after which the power generation market will evolve based on the new emission norms. Further, the geo-political and supply chain conditions continue to be unpredictable. However, the company is well positioned to tackle any challenges with its strong balance sheet and prudent investments in technology.

#### Pre-purchases and price hike:

- 80% of the powergen segment's sales are in the below 800KW category. Pre-buying was strong in 4QFY23 and will continue in 1QFY24F as well based on CPCB norms. How the market will absorb the pricing trend will be seen in the coming quarters. The trend is not clear in the market, pre-purchases are strong currently and once the deadline is cut, then demand is likely to normalize.
- A 20-25% price hike is expected for gensets below 800KW, depending on the load and complexity. Industrial growth was soft in FY23 as construction activity was slow in 1HFY23, but it recovered in 2HFY23.

**Segment outlook:** Data centre, infrastructure, hospitality and manufacturing continues to remain very strong. Commercial and residential realty also started improving. Current capacity utilization is at 60-65% and there is room to grow further without much capex.

Figure 1: Quarterly estimates

Y/E Mar (Rs m)	4QFY23	4QFY22	YoY	3QFY23	QoQ	FY23	FY22	YoY	4QFY23F	Act. vs our Est.
<b>Total Revenue</b>	<b>19,260</b>	<b>14,936</b>	<b>29.0%</b>	<b>21,805</b>	<b>(11.7%)</b>	<b>77,444</b>	<b>61,404</b>	<b>26.1%</b>	<b>17,315</b>	<b>11.2%</b>
Raw Material Cost	12,955	10,156	27.6%	14,432	(10.2%)	52,309	41,068	27.4%	11,687	10.8%
Employee Cost	1,566	1,428	9.6%	1,610	(2.8%)	6,298	5,956	5.7%	1,600	(2.1%)
Other Expenses	1,479	1,285	15.1%	1,641	(9.9%)	6,411	5,529	15.9%	1,385	6.8%
Total Expenditure	16,000	12,869	24.3%	17,683	(9.5%)	65,018	52,553	23.7%	14,672	9.0%
<b>EBITDA</b>	<b>3,261</b>	<b>2,066</b>	<b>57.8%</b>	<b>4,122</b>	<b>(20.9%)</b>	<b>12,426</b>	<b>8,851</b>	<b>40.4%</b>	<b>2,642</b>	<b>23.4%</b>
Depreciation	372	347	7.2%	343	8.4%	1,405	1,340	4.8%	364	2.1%
<b>EBIT</b>	<b>2,888</b>	<b>1,719</b>	<b>68.0%</b>	<b>3,779</b>	<b>(23.6%)</b>	<b>11,022</b>	<b>7,511</b>	<b>46.7%</b>	<b>2,278</b>	<b>26.8%</b>
Interest paid	66	48	35.6%	27	144.4%	158	115	37.2%	51	29.2%
Other Income	1,306	766	70.5%	1,038	25.9%	4,200	2,875	46.1%	843	55.0%
PBT	4,129	2,437	69.4%	4,790	(13.8%)	15,064	11,595	29.9%	3,070	34.5%
Total Tax	944	545	73.1%	1,188	(21%)	3,623	2,728	32.8%	460	105.0%
<b>PAT</b>	<b>3,185</b>	<b>1,892</b>	<b>68.4%</b>	<b>3,601</b>	<b>(11.6%)</b>	<b>11,441</b>	<b>8,866</b>	<b>29.0%</b>	<b>2,609</b>	<b>22.1%</b>
<b>EPS (Rs)</b>	<b>11.5</b>	<b>6.8</b>	<b>68.4%</b>	<b>13.0</b>	<b>(11.6%)</b>	<b>41.3</b>	<b>32.0</b>	<b>29.0%</b>	<b>9.4</b>	<b>22.1%</b>
<b>Margin Analysis</b>	<b>4QFY23</b>	<b>4QFY22</b>	<b>YoY (bp chg)</b>	<b>3QFY23</b>	<b>QoQ (bp chg)</b>	<b>FY23</b>	<b>FY22</b>	<b>YoY (bp chg)</b>	<b>4QFY23F</b>	
Raw Material Cost	67.3%	68.0%	-73	66.2%	108	67.5%	66.9%	66	67.5%	
Personnel Cost	8.1%	9.6%	-144	7.4%	74	8.1%	9.7%	-157	9.2%	
Other Expenses	7.7%	8.6%	-93	7.5%	15	8.3%	9.0%	-73	8.0%	
<b>EBITDA Margin</b>	<b>16.9%</b>	<b>13.8%</b>	<b>309</b>	<b>18.9%</b>	<b>-198</b>	<b>16.0%</b>	<b>14.4%</b>	<b>163</b>	<b>15.3%</b>	
EBIT Margin	15.0%	11.5%	349	17.3%	-233	14.2%	12.2%	200	13.2%	
PBT Margin (%)	21.4%	16.3%	512	22.0%	-53	19.5%	18.9%	57	17.7%	
NPM	16.5%	12.7%	387	16.5%	2	14.8%	14.4%	33	15.1%	
Tax Rate (%)	22.9%	22.4%	48	24.8%	-195	24.0%	23.5%	52	15.0%	

SOURCE: INCRED RESEARCH, COMPANY REPORTS

### 4QFY23 results analysis ➤

- Sales stood at Rs19.3bn (+29% yoy, -12% qoq), 11% above our estimate of Rs17.3bn (4.4% above consensus estimate).
- Domestic sales stood at Rs13.96bn (+33% yoy -13% qoq). Exports were at Rs4.9bn (+17% yoy, -9% qoq).
- EBITDA was at Rs3.3bn (+58% yoy, -21% qoq), 23% above our estimate of Rs2.6bn (11% above consensus).
- EBITDA margin at 16.9% (+309bp yoy, -198bp qoq) was above our estimate of 15.3% (above consensus estimate of 16%), aided by operating leverage.
- Other income was up 71% yoy at Rs1.3bn, above our estimate of Rs843m.
- Core PBT was at Rs4.13bn (+69% yoy), 35% above our estimate, aided by higher other income.
- The tax rate stood at 22.9%.
- Core PAT was at Rs3.19bn (+68% yoy), 22% above our estimate of Rs2.6bn (19% above consensus estimate), led by higher sales and other income.

Figure 2: Earnings revision summary

Rs m	Old Estimates		New Estimates		Change (%)	
	FY24F	FY25F	FY24F	FY25F	FY24F	FY25F
Revenue	87,498	1,00,367	89,626	1,02,573	2.4	2.2
EBITDA	14,216	17,146	14,564	17,530	2.4	2.2
PAT	11,965	14,311	12,237	14,612	2.3	2.1

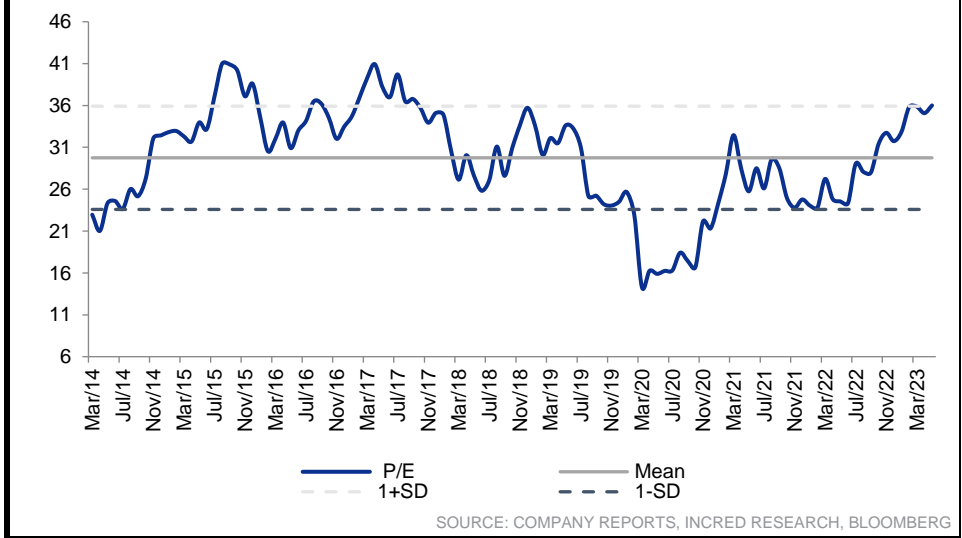
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 3: SOTP-based target price

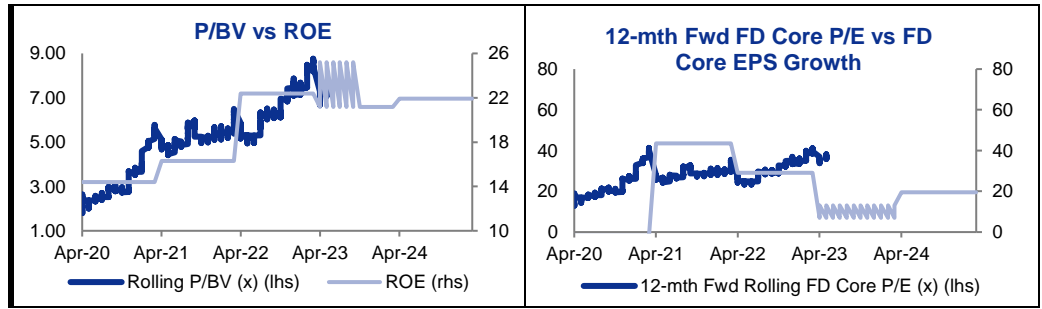
Segment	Basis	Multiple (x)	EBITDA/ PAT (Rs m)	Value (Rs m)	Stake (%)	Cummins' stake value (Rs m)	Value per share (Rs)
Core business	Long-term average EV/EBITDA	25x FY25F EBITDA	17,530	4,38,250	100.0%	4,38,250	1,580
Valvoline	P/E in line with peers	12x FY25F EPS	1,814	21,767	50.0%	10,884	39
Cummins Generator Technologies	P/E multiple discount to standalone	12x FY25F EPS	616	7,392	48.5%	3,585	13
Cash		1x FY22 net cash		18,189		18,189	66
Investment property		1x FY22 BV	11,641	11,641		11,641	42
<b>Total value per share</b>							<b>1,740</b>

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 4: Cummins India trades at 1+SD level



BY THE NUMBERS



Profit & Loss

(Rs mn)	Mar-21A	Mar-22A	Mar-23A	Mar-24F	Mar-25F
<b>Total Net Revenues</b>	<b>43,292</b>	<b>61,404</b>	<b>77,444</b>	<b>89,626</b>	<b>102,573</b>
<b>Gross Profit</b>	<b>15,687</b>	<b>20,336</b>	<b>25,135</b>	<b>29,738</b>	<b>34,383</b>
<b>Operating EBITDA</b>	<b>5,795</b>	<b>8,851</b>	<b>12,426</b>	<b>14,564</b>	<b>17,530</b>
Depreciation And Amortisation	(1,255)	(1,340)	(1,405)	(1,453)	(1,514)
<b>Operating EBIT</b>	<b>4,539</b>	<b>7,511</b>	<b>11,021</b>	<b>13,111</b>	<b>16,016</b>
Financial Income/(Expense)	(162)	(115)	(158)	(158)	(158)
Pretax Income/(Loss) from Assoc.					
Non-Operating Income/(Expense)	3,702	2,875	4,200	3,463	3,755
<b>Profit Before Tax (pre-EI)</b>	<b>8,079</b>	<b>10,271</b>	<b>15,063</b>	<b>16,417</b>	<b>19,613</b>
Exceptional Items		1,324			
<b>Pre-tax Profit</b>	<b>8,079</b>	<b>11,594</b>	<b>15,063</b>	<b>16,417</b>	<b>19,613</b>
Taxation	(1,901)	(2,728)	(3,623)	(4,181)	(5,001)
Exceptional Income - post-tax					
<b>Profit After Tax</b>	<b>6,178</b>	<b>8,866</b>	<b>11,441</b>	<b>12,236</b>	<b>14,612</b>
Minority Interests					
Preferred Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
<b>Net Profit</b>	<b>6,178</b>	<b>8,866</b>	<b>11,441</b>	<b>12,236</b>	<b>14,612</b>
Recurring Net Profit	6,178	7,854	11,441	12,236	14,612
<b>Fully Diluted Recurring Net Profit</b>	<b>6,178</b>	<b>7,854</b>	<b>11,441</b>	<b>12,236</b>	<b>14,612</b>

Cash Flow

(Rs mn)	Mar-21A	Mar-22A	Mar-23A	Mar-24F	Mar-25F
<b>EBITDA</b>	<b>5,795</b>	<b>8,851</b>	<b>12,426</b>	<b>14,564</b>	<b>17,530</b>
Cash Flow from Invt. & Assoc.	2,285	2,744	2,638	1,853	2,084
Change In Working Capital	1,028	(684)	(2,661)	(4,048)	(2,166)
(Incr)/Decr in Total Provisions	(15)	(62)			
Other Non-Cash (Income)/Expense	1,255	1,340	1,405	1,453	1,514
Other Operating Cashflow	(1,595)	(1,153)	(4,042)	(3,306)	(3,597)
Net Interest (Paid)/Received	(162)	(115)	(158)	(158)	(158)
Tax Paid	(832)	(2,543)	(3,550)	(4,181)	(5,001)
<b>Cashflow From Operations</b>	<b>7,759</b>	<b>8,378</b>	<b>6,057</b>	<b>6,178</b>	<b>10,206</b>
Capex	(778)	(1,519)	(1,386)	(1,500)	(1,500)
Disposals Of FAs/subsidiaries	22	1,747			
Acq. Of Subsidiaries/investments					
Other Investing Cashflow	1,295	(6,567)	(503)	3,463	3,755
<b>Cash Flow From Investing</b>	<b>539</b>	<b>(6,339)</b>	<b>(1,888)</b>	<b>1,963</b>	<b>2,255</b>
Debt Raised/(repaid)	(4,697)	3,777			
Proceeds From Issue Of Shares					
Shares Repurchased					
Dividends Paid	(3,881)	(4,435)	(4,990)	(5,267)	(5,267)
Preferred Dividends					
Other Financing Cashflow	(146)	(116)	(158)	(158)	(158)
<b>Cash Flow From Financing</b>	<b>(8,724)</b>	<b>(774)</b>	<b>(5,147)</b>	<b>(5,425)</b>	<b>(5,425)</b>
Total Cash Generated	(427)	1,265	(978)	2,716	7,036
<b>Free Cashflow To Equity</b>	<b>3,600</b>	<b>5,816</b>	<b>4,169</b>	<b>8,141</b>	<b>12,461</b>
<b>Free Cashflow To Firm</b>	<b>8,459</b>	<b>2,154</b>	<b>4,327</b>	<b>8,299</b>	<b>12,618</b>

SOURCE: INCRED RESEARCH, COMPANY REPORTS

**BY THE NUMBERS...cont'd**

<b>Balance Sheet</b>					
<b>(Rs mn)</b>	<b>Mar-21A</b>	<b>Mar-22A</b>	<b>Mar-23A</b>	<b>Mar-24F</b>	<b>Mar-25F</b>
Total Cash And Equivalents	10,483	16,346	13,808	17,981	25,175
Total Debtors	10,745	12,473	15,927	19,644	22,482
Inventories	5,578	7,288	8,862	11,050	12,646
Total Other Current Assets	3,343	3,143	4,857	4,588	5,251
<b>Total Current Assets</b>	<b>30,149</b>	<b>39,250</b>	<b>43,454</b>	<b>53,263</b>	<b>65,553</b>
Fixed Assets	23,128	22,652	22,633	22,680	22,666
Total Investments	3,692	6,149	10,852	10,852	10,852
Intangible Assets					
Total Other Non-Current Assets					
<b>Total Non-current Assets</b>	<b>26,820</b>	<b>28,801</b>	<b>33,485</b>	<b>33,532</b>	<b>33,518</b>
Short-term Debt					
Current Portion of Long-Term Debt					
Total Creditors	7,293	9,973	11,503	13,505	15,456
Other Current Liabilities	4,629	4,648	7,198	6,784	7,764
<b>Total Current Liabilities</b>	<b>11,922</b>	<b>14,621</b>	<b>18,701</b>	<b>20,289</b>	<b>23,220</b>
Total Long-term Debt	156	3,933	3,500	3,500	3,500
Hybrid Debt - Debt Component					
Total Other Non-Current Liabilities					
<b>Total Non-current Liabilities</b>	<b>156</b>	<b>3,933</b>	<b>3,500</b>	<b>3,500</b>	<b>3,500</b>
Total Provisions	823	971	1,057	1,057	1,057
<b>Total Liabilities</b>	<b>12,902</b>	<b>19,525</b>	<b>23,259</b>	<b>24,847</b>	<b>27,777</b>
Shareholders Equity	44,068	48,527	53,680	61,948	71,294
Minority Interests					
<b>Total Equity</b>	<b>44,068</b>	<b>48,527</b>	<b>53,680</b>	<b>61,948</b>	<b>71,294</b>

<b>Key Ratios</b>					
	<b>Mar-21A</b>	<b>Mar-22A</b>	<b>Mar-23A</b>	<b>Mar-24F</b>	<b>Mar-25F</b>
Revenue Growth	(15.9%)	41.6%	26.3%	15.8%	14.4%
Operating EBITDA Growth	(1.2%)	52.7%	40.4%	17.2%	20.4%
Operating EBITDA Margin	13.6%	14.7%	16.3%	16.5%	17.4%
Net Cash Per Share (Rs)	37.25	44.78	37.19	52.24	78.19
BVPS (Rs)	158.97	175.06	193.65	223.48	257.19
Gross Interest Cover	28.07	65.31	69.84	83.09	101.49
Effective Tax Rate	23.5%	23.5%	24.0%	25.5%	25.5%
Net Dividend Payout Ratio	62.8%	58.8%	43.6%	43.0%	36.0%
Accounts Receivables Days	93.00	69.00	66.93	72.43	74.95
Inventory Days	74.75	57.18	56.34	60.68	63.42
Accounts Payables Days	94.25	76.73	74.93	76.21	77.51
ROIC (%)	11.5%	18.1%	25.2%	25.9%	30.2%
ROCE (%)	9.8%	15.3%	19.7%	21.0%	22.5%
Return On Average Assets	10.8%	12.2%	15.9%	15.1%	15.9%

<b>Key Drivers</b>					
	<b>Mar-21A</b>	<b>Mar-22A</b>	<b>Mar-23A</b>	<b>Mar-24F</b>	<b>Mar-25F</b>
Segmental Revenues (Rs m)	N/A	N/A	N/A	N/A	N/A
Powergen	11,080	19,590	25,550	30,609	34,955
Industrial	7,430	8,990	10,460	12,134	13,226
Auto					
Distribution	12,020	14,840	18,720	21,528	25,403
Domestic	30,883	44,161	55,545	65,126	74,483
Exports	11,530	16,100	20,093	22,997	26,370
Revenue growth					
Powergen	(23)	77	30	20	14

SOURCE: INCRED RESEARCH, COMPANY REPORTS

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