

India

REDUCE (no change)

Consensus ratings*: Buy 10 Hold 7 Sell 10

Current price:	Rs1,767
Target price:	Rs1,740
Previous target:	Rs1,740
Up/downside:	-1.5%
InCred Research / Consensus:	0.1%
Reuters:	CUMM.NS
Bloomberg:	KKC IN
Market cap:	US\$5,882m
	Rs489,868m
Average daily turnover:	US\$18.5m
	Rs1543.4m
Current shares o/s:	277.2m
Free float:	49.0%

*Source: Bloomberg



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	3.7	1.9	32.4
Relative (%)	4.5	3.5	24.3

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

Sales fall in 2Q but gross margin improves

- Cummins India posted 2QFY24 revenue of Rs18.99bn, down 2.6% YoY (-14% QoQ), which was 17% below our estimate and 4% below consensus estimate.
- EBITDA at Rs3.4bn (+17% YoY, -1% QoQ) was 1.5% below our estimate but 16% above the consensus estimate. Margins were up 294bp YoY at 17.8%.
- Long-term growth concerns over the powergen segment persist. We retain our REDUCE rating on the stock with a SOTP-based target price of Rs1,740.

Slowdown in 2QFY24 sales growth

Cummins India (CIL) reported 2QFY24 revenue of Rs18.99bn, down 2.6% YoY (-14% QoQ), 17% below our estimate and 4% below consensus estimate. Despite lower revenue, the company witnessed a 17% YoY (flat QoQ) improvement in EBITDA to Rs3.4bn, 1.5% below our estimate and 16% above the consensus estimate. The EBITDA margin improved by 294bp YoY to 17.8% led by lower raw material costs. The operational improvement was largely because of efficient cost management. Raw material costs were down by ~10% YoY (-19% QoQ) to Rs12bn. Meanwhile, other income jumped 55% YoY (+13% QoQ) to Rs1.3bn. PAT stood at Rs3.3bn, up 30% YoY (+4% QoQ), 9% above our estimate and 28% above consensus estimate.

Powergen segment under pressure

The powergen segment's revenue was at Rs4.9bn, down 28% YoY (-44% QoQ). The distribution segment reported a revenue of Rs5.5bn, registering a growth of 23% YoY (-6% QoQ). The industrial segment's revenue was up 20% YoY (+27% QoQ) at Rs3,000m and is likely to witness a further uptick in the coming quarters. Exports, which contributed ~27% to total sales, were down 4% YoY but up 2% QoQ. While the geopolitical problems like the ongoing Israel-Hamas war pose a challenge in the near term, management is positive that demand will remain strong. However, management expects the exports to remain sluggish in 3QFY24F but improve from 4QFY24F or early next financial year.

Maintain REDUCE rating on the stock because of stretched valuation

Strong underlying demand in the powergen segment, a pick-up in the key industrial segment, export traction and changes in emission norms are the key growth drivers, in our view. Management gave revenue growth guidance of 2x India's GDP growth. Recent emission norm changes suggest margin contraction and a low volume after pre-purchases, which are applicable for CIL as well. Further, muted growth in the export market is likely to continue. Long-term growth concerns over the powergen segment persist but the parent company has already started investing in alternative fuel technologies, which CIL could adopt as India gets ready for fuel transition. We retain our REDUCE rating and sum-of-the-parts or SOTP-based target price of Rs1,740 due to lower demand from overseas markets, muted demand in the domestic market post pre-purchases and a rich valuation. The upside risks are strong demand and higher margins.

Financial Summary

	Mar-21A	Mar-22A	Mar-23A	Mar-24F	Mar-25F
Revenue (Rsm)	42,561	60,256	76,123	88,123	100,853
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)	79.29	55.25	42.82	40.03	33.52
DPS (Rs)	14.0	16.0	18.0	19.0	19.0
Dividend Yield	0.79%	0.91%	1.02%	1.08%	1.08%
EV/EBITDA (x)	82.76	53.94	38.59	32.64	26.71
P/FCFE (x)	136.06	84.23	117.50	60.17	39.31
Net Gearing	(23.4%)	(25.6%)	(19.2%)	(23.4%)	(30.4%)
P/BV (x)	11.12	10.09	9.13	7.91	6.87
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

2QFY24 conference-call highlights

- Cummins India reported a strong bottom-line, despite lower sales on a YoY and QoQ basis. The company focused on efficient cost management and capital allocation during the quarter due to which raw material costs decreased by ~10% YoY and 19% QoQ. The EBITDA/PAT margins improved significantly by 294bp/436bp YoY to 17.8%/17.3%, respectively.
- Guidance:** Management has given revenue growth guidance of 2x India's gross domestic product or GDP. The company is likely to post a growth of 13-13.5% for the full year.
- Exports, which contributed ~27% to total sales, were down 4% YoY but up 2% QoQ. While geopolitical problems like the ongoing Israel-Hamas war pose a challenge in the near term, management is positive that demand is likely to remain strong.
- Cummins India successfully launched its CPCB IV+ emission norms-compliant products in the market. Some demand shifts were seen as both CPCB II and CPCB IV+ products are allowed to be sold till Jun 2024. Management expects the demand to normalize in FY24F.
- Low horsepower (LHP) demand dropped 60% YoY while medium horsepower (MHP) and high horsepower (HHP) saw a drop of 70% and 2%, respectively. LHP and MHP have corrected from an inventory-level perspective. They are expected to return to steady levels in the coming months. LHP and HHP export revenue stood at Rs2,090m and Rs2,640m, respectively.
- The powergen segment's revenue was at Rs4,860m, registering a decline of 28% YoY (-44% QoQ). The distribution segment's business reported a revenue of Rs5,490m, registering a growth of 23% YoY (-6% QoQ).
- The industrial segment's revenue was up 20% YoY (+27% QoQ) at Rs3,000m and is likely to witness a further uptick in the coming quarters. The construction of roads will boost growth in this segment, as out of the planned 12,000km, only 4,000km has been constructed so far.
- The compressor business and other sectors like defence are likely to post an improvement in the coming quarters. The data centre business has been growing at a CAGR of 25%+ and this trend will continue going ahead.
- Management expects export demand to be sluggish in 3QFY24F but sees an improvement in 4QFY24F.
- The company aims to launch several new products to boost demand in the coming quarters. Moreover, it expects the margins to improve further as the volume of CPCB IV+ products see an uptick. Moreover, Cummins India also plans to sell more products in the railway, marine and mining sectors. Products for Vande Bharat trains are in the final stage of approval.

Figure 1: Quarterly results snapshot

Y/E Mar (Rs m)	2QFY24	2QFY23	YoY	1QFY24	QoQ	InCred Est.	Difference with InCred Est.	Bloomberg Est.	Difference with Bloomberg Est.
Total Revenue	18,997	19,513	(2.6%)	22,087	(14.0%)	22,809	(16.7%)	19,770	(3.9%)
Raw Material Costs	12,023	13,300	(9.6%)	14,902	(19.3%)				
Employee Costs	1,929	1,609	19.9%	1,885	2.4%				
Other Expenses	1,659	1,698	(2.3%)	1,895	(12.5%)				
Total Expenditure	15,611	16,607	(6.0%)	18,681	(16.4%)				
EBIDTA	3,386	2,905	16.5%	3,406	(0.6%)	3,437	(1.5%)	2,925	15.8%
Depreciation	379	353	7.5%	358	5.8%				
EBIT	3,007	2,553	17.8%	3,048	(1.3%)				
Interest Paid	67	46	44.3%	77	(13.4%)				
Other Income	1,322	855	54.7%	1,175	12.6%				
PBT	4,263	3,362	26.8%	4,146	2.8%				
Total Tax	978	838	16.7%	989	(1%)				
PAT	3,285	2,524	30.2%	3,157	4.1%	3,007	9.3%	2,562	28.2%

SOURCE: INCRED RESEARCH, COMPANY REPORTS, BLOOMBERG

Figure 2: Margin analysis snapshot

Margin Analysis	2QFY24	2QFY23	YoY (bp)	1QFY24	QoQ (bp)	YoY (bp)
Raw Material Costs	63.3%	68.2%	-487	67.5%	-418	-297
Personnel Costs	10.2%	8.2%	191	8.5%	162	70
Other Expenses	8.7%	8.7%	3	8.6%	15	-40
EBITDA Margin	17.8%	14.9%	294	15.4%	240	267
EBIT Margin	15.8%	13.1%	275	13.8%	203	277
PBT Margin (%)	22.4%	17.2%	521	18.8%	367	397
NPM	17.3%	12.9%	436	14.3%	300	328
Tax Rate (%)	22.9%	24.9%	-198	23.9%	-92	-144

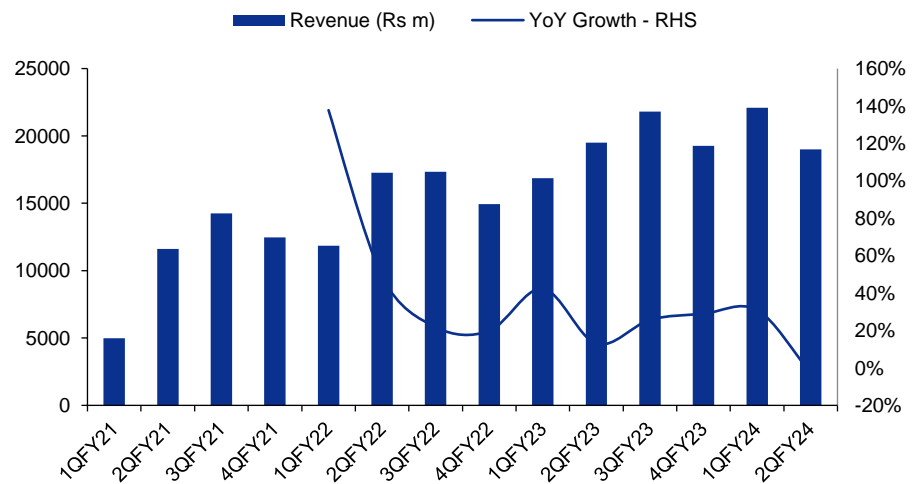
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 3: Segmental revenue mix

Revenue (Rs m)	2QFY24	2QFY23	YoY	1QFY24	QoQ
Powergen	4,860	6,750	(28.0%)	8,730	(44.3%)
Industrial	3,000	2,500	20.0%	2,360	27.1%
Distribution	5,490	4,460	23.1%	5,830	(5.8%)
Exports	5,070	5,310	(4.5%)	4,980	1.8%
Other	295	204	44.1%	-154	NA

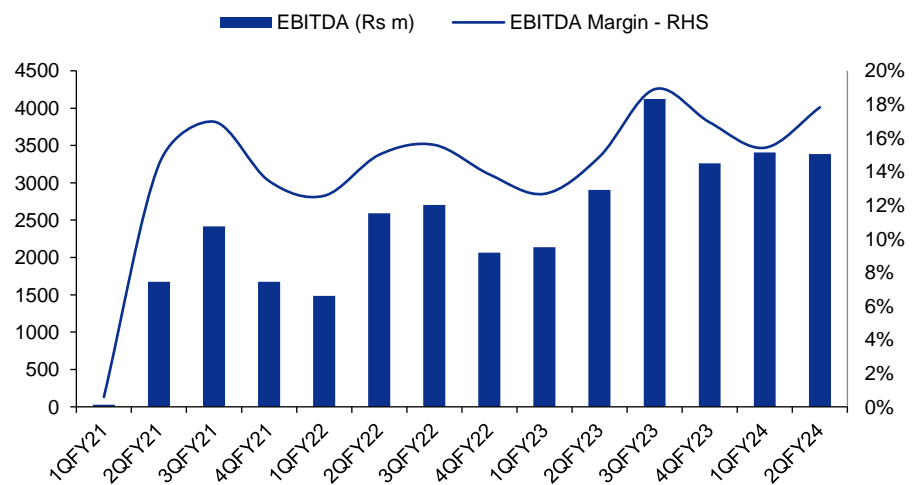
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 4: Quarterly revenue trend



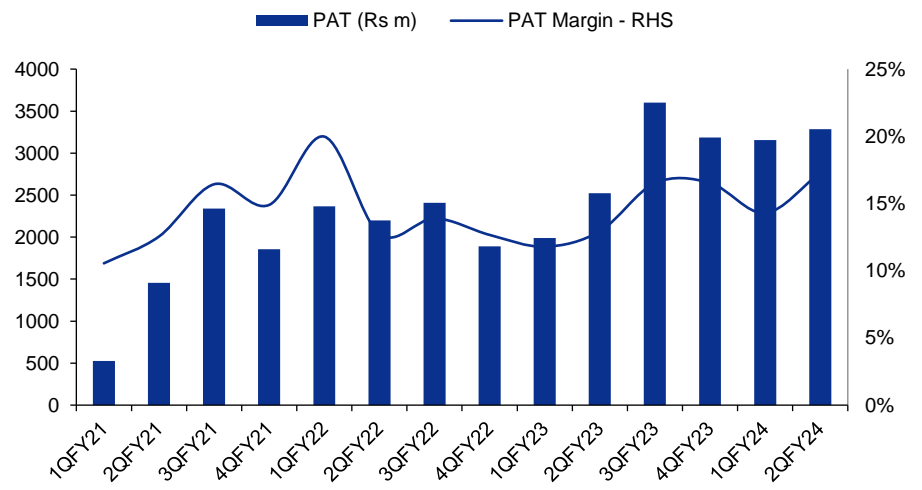
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 5: Quarterly EBITDA trend



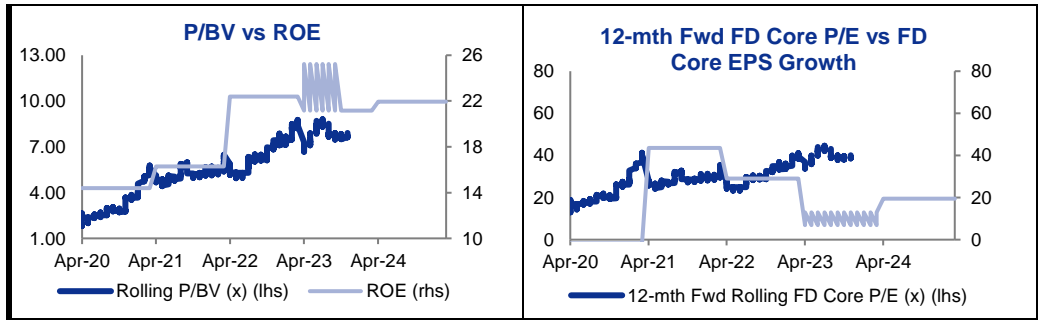
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 6: Quarterly PAT trend



SOURCE: INCRED RESEARCH, COMPANY REPORTS

BY THE NUMBERS



Profit & Loss

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

Cash Flow

(Rs mn)	Mar-21A	Mar-22A	Mar-23A	Mar-24F	Mar-25F
EBITDA	5,795	8,851	12,426	14,564	17,530
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)
Cashflow From Operations	7,759	8,378	6,057	6,178	10,206
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
Cash Flow From Investing	539	(6,339)	(1,888)	1,963	2,255
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)
Cash Flow From Financing	(8,724)	(774)	(5,147)	(5,425)	(5,425)
Total Cash Generated	(427)	1,265	(978)	2,716	7,036
Free Cashflow To Equity	3,600	5,816	4,169	8,141	12,461
Free Cashflow To Firm	8,459	2,154	4,327	8,299	12,618

SOURCE: INCRED RESEARCH, COMPANY REPORTS

BY THE NUMBERS...cont'd

Balance Sheet					
(Rs mn)	Mar-21A	Mar-22A	Mar-23A	Mar-24F	Mar-25F
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
Total Current Assets	30,149	39,250	43,454	53,263	65,553
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					
Total Non-current Assets	26,820	28,801	33,485	33,532	33,518
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
Total Current Liabilities	11,922	14,621	18,701	20,289	23,220
Total Long-term Debt	156	3,933	3,500	3,500	3,500
Hybrid Debt - Debt Component					
Total Other Non-Current Liabilities					
Total Non-current Liabilities	156	3,933	3,500	3,500	3,500
Total Provisions	823	971	1,057	1,057	1,057
Total Liabilities	12,902	19,525	23,259	24,847	27,777
Shareholders Equity	44,068	48,527	53,680	61,948	71,294
Minority Interests					
Total Equity	44,068	48,527	53,680	61,948	71,294

Key Ratios					
	Mar-21A	Mar-22A	Mar-23A	Mar-24F	Mar-25F
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%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

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any other material conflict of interest at the time of publication of the research report or at the time of public appearance	NO	NO
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been engaged in market making activity for the subject company	NO	NO

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