



## India

**REDUCE** (previously HOLD)

Consensus ratings\*: Buy 12 Hold 7 Sell 7

Current price:	Rs3,835
Target price:	▲ Rs3,170
Previous target:	Rs2,665
Up/downside:	-17.3%
InCred Research / Consensus:	10.1%
Reuters:	CUMM.NS
Bloomberg:	KKC IN
Market cap:	US\$12,754m
	Rs1,062,965m
Average daily turnover:	US\$21.0m
	Rs1750.1m
Current shares o/s:	277.2m
Free float:	49.0%

\*Source: Bloomberg

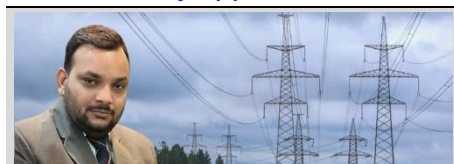
**Key changes in this note**

- ▶ For FY25F, we lower our revenue estimate by 2% and increase PAT estimate by 11%.
- ▶ For FY26F, we raise our revenue/PAT estimates by for 11%/13%.



Price performance	1M	3M	12M
Absolute (%)	17.1	40.0	118.5
Relative (%)	17.0	36.3	84.6

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

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**Cummins India Ltd****Margins at peak; downgrade to REDUCE**

- 4Q EBITDA jumped by 67% YoY (1% QoQ) to Rs5.4bn, 33% above our estimate & 36% above consensus estimate. Margins rose by 657bp to 23.5%.
- The stock saw 100%+ return in the last one year & 32% in last three months on strong demand & pre-purchases of CPCB4+ products, which may not last.
- Downgrade Cummins India to REDUCE (from HOLD) with a higher target price of Rs3,170 (Rs2,665 earlier), valuing the stock at 42x FY26F EPS.

**Strong margin expansion via domestic sales and one-offs**

Cummins India (CIL) reported 4QFY24 revenue of Rs23.1bn, up 20% YoY (-9% QoQ), 6% above our estimate and 7% above consensus estimate, on higher powergen sales (+40% YoY) while exports continued to bleed. EBITDA jumped by 67% YoY (1% QoQ) to Rs5.4bn, 33% above our estimate and 36% above consensus estimate, while margins expanded by 657bp to 23.5% (historical high), above our estimate of 18.7% & consensus estimate of 18.5% led by lower other expenses (down 32% YoY) due to lower freight costs and a one-time gain of Rs600m. PAT stood at Rs5.6bn, up 76% YoY (+23% QoQ), 45% above our estimate & 57% above consensus estimate.

**Powergen sales drive growth**

The powergen segment's revenue stood at Rs9.4bn, up 40% YoY (-12% QoQ). The distribution segment reported a revenue of Rs6bn, registering a growth of 25% YoY (-9% QoQ). The industrial segment's revenue was up 60% YoY (-14% QoQ) at Rs3.5bn, which is likely to witness a further uptick in the coming quarters. Exports, which contributed ~15% to total sales, were down 30% YoY at Rs3.4bn. Management indicated that lower export growth will continue in the near term. The growth of the infrastructure sector to play a major role for the company, with the powergen market expected to witness increased traction for their use in CPCBIV+ engines.

**Downgrade to REDUCE on rich valuation**

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 in the coming quarters. Management expects double-digit revenue growth in FY24F. For FY25F, it reiterates revenue growth target at 2x of India's GDP growth. For FY25F, we lower our revenue estimate by 2% and increase PAT estimate by 11% factoring in the higher margin at lower sales, while for FY26F we raise our revenue/PAT estimates by 11%/13%, respectively. The stock delivered a strong 100%+ return in the last one year and 32% in the last three months on strong demand and pre-purchases of CPCB4+ products, which are unlikely to continue in the near term. Therefore, we have downgraded Cummins India's rating to REDUCE (from HOLD) with a higher target price of Rs3,170 (Rs2,665 earlier), valuing the stock at 42x FY26F EPS. Upside risks are strong demand and higher margins.

**Financial Summary**

	Mar-22A	Mar-23A	Mar-24A	Mar-25F	Mar-26F
Revenue (Rsm)	60,256	76,123	89,586	106,329	123,704
Operating EBITDA (Rsm)	8,851	12,426	17,613	20,455	23,970
Net Profit (Rsm)	8,866	11,441	16,466	18,288	20,927
Core EPS (Rs)	28.3	41.3	59.4	66.0	75.5
Core EPS Growth	27.1%	45.7%	43.9%	11.1%	14.4%
FD Core P/E (x)	119.89	92.91	64.56	58.12	50.79
DPS (Rs)	16.0	18.0	19.0	19.0	19.0
Dividend Yield	0.42%	0.47%	0.50%	0.50%	0.50%
EV/EBITDA (x)	118.70	84.72	59.56	51.24	43.52
P/FCFE (x)	182.77	254.97	82.61	195.37	104.17
Net Gearing	(25.6%)	(19.2%)	(22.7%)	(19.9%)	(22.0%)
P/BV (x)	21.90	19.80	17.25	14.24	11.77
ROE	17.0%	22.4%	28.6%	26.8%	25.4%

% Change In Core EPS Estimates

InCred Research/Consensus EPS (x)

SOURCE: INCRED RESEARCH, COMPANY REPORTS

## 4QFY24 conference-call highlights

- **Overview:** Cummins India reported its highest-ever revenue and profit for FY24, led by strong domestic demand and improved cost management. The company witnessed improved margins due to a one-time gain of over Rs600m from favourable input prices. The company was also able to contain costs, hold on to some commodity gains, and benefit from a favourable product mix. The company sees continued strong demand from infrastructure-linked investments in the coming years.
- **Guidance:** The company has maintained its revenue growth guidance of 14-16% over the next few years; ~2x of the country's gross domestic product or GDP growth. Management has maintained its earlier gross margin guidance of 33-35% for FY25F.
- **Segments:** Domestic power generation sales stood at Rs9.43bn, up 40% YoY. Distribution business sales were at Rs6.0bn, up 25% YoY. Industrial domestic business sales at Rs3.4bn were up 60% YoY. In Mar 2024, domestic power generation sales stood at Rs33.25bn, a 32% increase over the previous year. Distribution business sales were at Rs23.49bn, a 25% increase, and industrial domestic business sales were Rs12.96bn, a 24% growth. Exports of high horsepower engines stood at Rs8.17bn, 9% lower compared to the previous year, while low horsepower exports were at Rs6.99bn, down 27%.
- **CPCB IV+ emission norms:** The company said that no major volume impact is expected from the implementation of CPCB IV+ emission norms in power generation from 1 Jul 2024, as significant pre-purchases happened over the last three quarters. CPCB IV+ products contributed ~ 30% to power generation sales in 4QFY24, up from 25% in 3QFY24. The company is aiming to improve the share of localization for CPCB IV+- compliant products.
- Power generation volume grew by ~30% in FY24. Data centres, infrastructure, residential and manufacturing sectors continue to be the major demand drivers. About 10% of the revenue is coming from the data centre sector and demand remains strong in the domestic and international markets.
- The lead time for a data centre is higher at six months to one year, while its 30-90 days for other products, which has come down from 60-90 days last year.
- **New products:** They are being introduced in the rail, mining, marine and construction sectors to drive growth.
- As regards exports, muted growth is likely in the coming quarters.
- **Cash position:** Cummins India has a strong net cash position of ~Rs26bn, which it plans to use for shareholder returns, funding future growth ideas, investing in new products and capacity expansion.

Figure 1: Results snapshot

Y/E Mar (Rs m)	4QFY24	4QFY23	YoY	3QFY24	QoQ	FY24	FY23	YoY
<b>Total Revenue</b>	<b>23,162</b>	<b>19,260</b>	20.3%	<b>25,341</b>	<b>(8.6%)</b>	<b>89,586</b>	<b>77,444</b>	<b>15.7%</b>
Raw Material Costs	14,821	12,955	14.4%	15,955	(7.1%)	57,701	52,309	10.3%
Employee Costs	1,889	1,566	20.6%	2,090	(9.6%)	7,793	6,298	23.7%
Other Expenses	1,009	1,479	(31.8%)	1,916	(47.3%)	6,479	6,411	1.1%
Total Expenditure	17,719	16,000	10.7%	19,961	(11.2%)	71,972	65,018	10.7%
<b>EBIDTA</b>	<b>5,443</b>	<b>3,261</b>	66.9%	<b>5,379</b>	<b>1.2%</b>	<b>17,614</b>	<b>12,426</b>	<b>41.7%</b>
Depreciation	420	372	12.9%	419	0.3%	1,576	1,405	12.2%
<b>EBIT</b>	<b>5,022</b>	<b>2,888</b>	73.9%	<b>4,960</b>	<b>1.3%</b>	<b>16,037</b>	<b>11,022</b>	<b>45.5%</b>
Interest Paid	62	66	(6.0%)	63	(2.1%)	268	158	69.7%
Other Income	2,045	1,306	56.5%	1,136	80.0%	5,678	4,200	35.2%
PBT	7,006	4,129	69.7%	6,017	16.4%	21,431	14,921	43.6%
Total Tax	1,390	944	47.3%	1,467	(5%)	4,824	3,623	33.2%
<b>PAT</b>	<b>5,615</b>	<b>3,185</b>	<b>76.3%</b>	<b>4,549</b>	<b>23.4%</b>	<b>16,606</b>	<b>11,298</b>	<b>47.0%</b>
<b>EPS (Rs)</b>	<b>20.3</b>	<b>11.5</b>	<b>76.3%</b>	<b>16.4</b>	<b>23.4%</b>	<b>59.9</b>	<b>40.8</b>	<b>47.0%</b>

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 2: Margin analysis

(% of Sales)	4QFY24	4QFY23	YoY (bp chg)	3QFY24	QoQ (bp chg)	FY24	FY23	YoY (bp chg)
Raw Material Costs	64.0%	67.3%	-328	63.0%	103	64.4%	67.5%	-314
Personnel Costs	8.2%	8.1%	3	8.2%	-9	8.7%	8.1%	57
Other Expenses	4.4%	7.7%	-332	7.6%	-320	7.2%	8.3%	-105
<b>EBITDA Margin</b>	<b>23.5%</b>	<b>16.9%</b>	<b>657</b>	<b>21.2%</b>	<b>227</b>	<b>19.7%</b>	<b>16.0%</b>	<b>362</b>
EBIT Margin	21.7%	15.0%	669	19.6%	211	17.9%	14.2%	367
PBT Margin	30.2%	21.4%	881	23.7%	650	23.9%	19.3%	466
NPM	24.2%	16.5%	771	18.0%	629	18.5%	14.6%	395
Tax Rate	19.8%	22.9%	-302	24.4%	-454	22.5%	24.3%	-177
Gross Margin	36.0%	32.7%	328	37.0%	-103	35.6%	32.5%	314

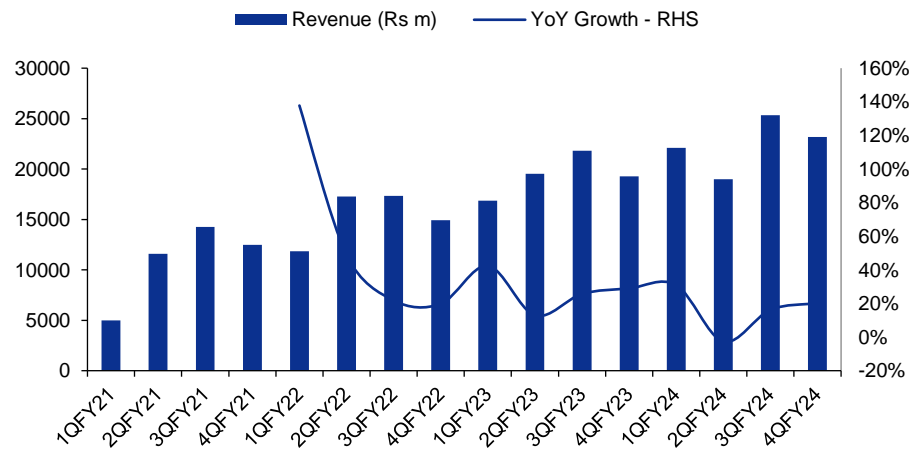
SOURCE: COMPANY REPORTS, INCRED RESEARCH

Figure 3: Segment-wise revenue

(Rs m)	4QFY24	4QFY23	YoY	3QFY24	QoQ	FY24	FY23	YoY
Powergen	9,430	6,720	40.3%	10,730	(12.1%)	33,750	25,550	32.1%
Industrial	3,480	2,170	60.4%	4,037	(13.8%)	12,877	10,460	23.1%
Distribution	6,040	4,830	25.1%	6,620	(8.8%)	23,980	18,720	28.1%
Exports	3,440	4,510	(23.7%)	3,250	5.8%	16,740	20,080	(16.6%)
Other	295	256	15.4%	381	(22.6%)	817	907	(10.0%)
<b>Total Sales</b>	<b>22,685</b>	<b>18,486</b>	<b>22.7%</b>	<b>25,018</b>	<b>(9.3%)</b>	<b>88,164</b>	<b>75,717</b>	<b>16.4%</b>

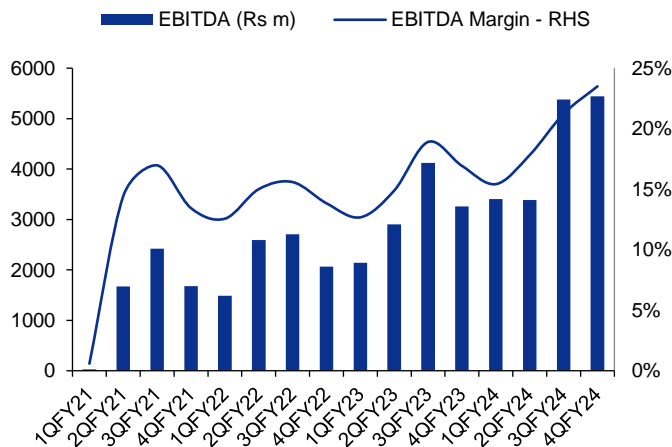
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 4: Quarterly revenue trend



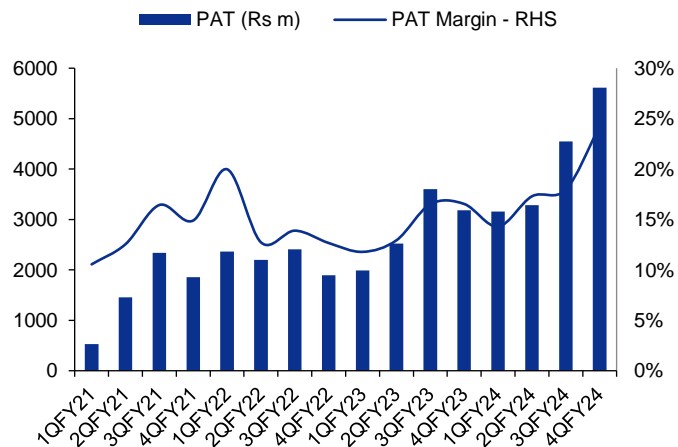
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 5: Quarterly EBITDA trend



SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 6: Quarterly PAT trend



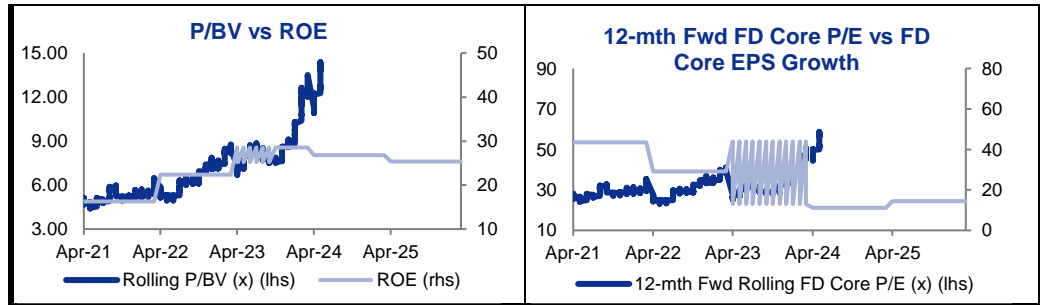
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 7: Key revisions in our earnings estimates

Rs m	Old		New		Change (%)	
	FY25F	FY26F	FY25F	FY26F	FY25F	FY26F
Revenue	1,08,037	1,21,246	1,06,329	1,23,704	-1.6%	2.0%
EBITDA	20,013	22,644	20,456	23,971	2.2%	5.9%
PAT	16,434	18,466	18,288	20,927	11.3%	13.3%

SOURCE: COMPANY REPORTS, INCRED RESEARCH

BY THE NUMBERS



Profit & Loss

(Rs mn)	Mar-22A	Mar-23A	Mar-24A	Mar-25F	Mar-26F
<b>Total Net Revenues</b>	<b>61,404</b>	<b>77,444</b>	<b>89,586</b>	<b>106,329</b>	<b>123,704</b>
<b>Gross Profit</b>	<b>20,336</b>	<b>25,135</b>	<b>31,886</b>	<b>37,322</b>	<b>43,544</b>
<b>Operating EBITDA</b>	<b>8,851</b>	<b>12,426</b>	<b>17,613</b>	<b>20,455</b>	<b>23,970</b>
Depreciation And Amortisation	(1,340)	(1,405)	(1,576)	(1,684)	(1,779)
<b>Operating EBIT</b>	<b>7,511</b>	<b>11,021</b>	<b>16,037</b>	<b>18,771</b>	<b>22,192</b>
Financial Income/(Expense)	(115)	(158)	(268)	(297)	(327)
Pretax Income/(Loss) from Assoc.					
Non-Operating Income/(Expense)	2,875	4,200	5,678	5,791	5,907
<b>Profit Before Tax (pre-EI)</b>	<b>10,271</b>	<b>15,063</b>	<b>21,447</b>	<b>24,265</b>	<b>27,772</b>
Exceptional Items	1,324				
<b>Pre-tax Profit</b>	<b>11,594</b>	<b>15,063</b>	<b>21,447</b>	<b>24,265</b>	<b>27,772</b>
Taxation	(2,728)	(3,623)	(4,982)	(5,977)	(6,845)
Exceptional Income - post-tax					
<b>Profit After Tax</b>	<b>8,866</b>	<b>11,441</b>	<b>16,466</b>	<b>18,288</b>	<b>20,927</b>
Minority Interests					
Preferred Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
<b>Net Profit</b>	<b>8,866</b>	<b>11,441</b>	<b>16,466</b>	<b>18,288</b>	<b>20,927</b>
Recurring Net Profit	7,854	11,441	16,466	18,288	20,927
<b>Fully Diluted Recurring Net Profit</b>	<b>7,854</b>	<b>11,441</b>	<b>16,466</b>	<b>18,288</b>	<b>20,927</b>

Cash Flow

(Rs mn)	Mar-22A	Mar-23A	Mar-24A	Mar-25F	Mar-26F
<b>EBITDA</b>	<b>8,851</b>	<b>12,426</b>	<b>17,613</b>	<b>20,455</b>	<b>23,970</b>
Cash Flow from Invt. & Assoc.	2,744	2,638	3,834	3,811	3,802
Change In Working Capital	(684)	(2,661)	(1,569)	(11,957)	(10,099)
(Incr)/Decr in Total Provisions	(62)				
Other Non-Cash (Income)/Expense	1,340	1,405	1,576	1,684	1,779
<b>Other Operating Cashflow</b>	<b>(1,153)</b>	<b>(4,042)</b>	<b>(5,410)</b>	<b>(5,494)</b>	<b>(5,581)</b>
Net Interest (Paid)/Received	(115)	(158)	(268)	(297)	(327)
Tax Paid	(2,543)	(3,550)	(5,081)	(5,977)	(6,845)
<b>Cashflow From Operations</b>	<b>8,378</b>	<b>6,057</b>	<b>10,697</b>	<b>2,224</b>	<b>6,700</b>
Capex	(1,519)	(1,386)	(2,205)	(2,103)	(1,913)
Disposals Of FAs/subsidiaries	1,747				
Acq. Of Subsidiaries/investments					
Other Investing Cashflow	(6,567)	(503)	4,375	5,320	5,417
<b>Cash Flow From Investing</b>	<b>(6,339)</b>	<b>(1,888)</b>	<b>2,170</b>	<b>3,217</b>	<b>3,504</b>
Debt Raised/(repaid)	3,777				
Proceeds From Issue Of Shares					
Shares Repurchased					
Dividends Paid	(4,435)	(4,990)	(5,267)	(5,267)	(5,267)
Preferred Dividends					
Other Financing Cashflow	(116)	(158)	(268)	(297)	(327)
<b>Cash Flow From Financing</b>	<b>(774)</b>	<b>(5,147)</b>	<b>(5,535)</b>	<b>(5,564)</b>	<b>(5,594)</b>
Total Cash Generated	1,265	(978)	7,332	(123)	4,610
<b>Free Cashflow To Equity</b>	<b>5,816</b>	<b>4,169</b>	<b>12,867</b>	<b>5,441</b>	<b>10,204</b>
<b>Free Cashflow To Firm</b>	<b>2,154</b>	<b>4,327</b>	<b>13,134</b>	<b>5,738</b>	<b>10,531</b>

SOURCE: INCRED RESEARCH, COMPANY REPORTS

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

<b>Balance Sheet</b>					
<b>(Rs mn)</b>	<b>Mar-22A</b>	<b>Mar-23A</b>	<b>Mar-24A</b>	<b>Mar-25F</b>	<b>Mar-26F</b>
Total Cash And Equivalents	16,346	13,808	14,985	15,955	21,041
Total Debtors	12,473	15,927	20,776	24,762	30,502
Inventories	7,288	8,862	9,369	14,566	18,640
Total Other Current Assets	3,143	4,857	3,720	8,739	11,862
<b>Total Current Assets</b>	<b>39,250</b>	<b>43,454</b>	<b>48,850</b>	<b>64,021</b>	<b>82,046</b>
Fixed Assets	22,652	22,633	23,262	23,681	23,815
Total Investments	6,149	10,852	12,154	12,626	13,116
Intangible Assets					
Total Other Non-Current Assets					
<b>Total Non-current Assets</b>	<b>28,801</b>	<b>33,485</b>	<b>35,416</b>	<b>36,306</b>	<b>36,930</b>
Short-term Debt					
Current Portion of Long-Term Debt					
Total Creditors	9,973	11,503	14,024	15,148	16,946
Other Current Liabilities	4,648	7,198	7,328	8,448	9,490
<b>Total Current Liabilities</b>	<b>14,621</b>	<b>18,701</b>	<b>21,352</b>	<b>23,596</b>	<b>26,435</b>
Total Long-term Debt	3,933	3,500	1,000	1,100	1,210
Hybrid Debt - Debt Component					
Total Other Non-Current Liabilities					
<b>Total Non-current Liabilities</b>	<b>3,933</b>	<b>3,500</b>	<b>1,000</b>	<b>1,100</b>	<b>1,210</b>
Total Provisions	971	1,057	941	979	1,018
<b>Total Liabilities</b>	<b>19,525</b>	<b>23,259</b>	<b>23,293</b>	<b>25,675</b>	<b>28,663</b>
Shareholders Equity	48,527	53,680	61,631	74,652	90,313
Minority Interests					
<b>Total Equity</b>	<b>48,527</b>	<b>53,680</b>	<b>61,631</b>	<b>74,652</b>	<b>90,313</b>

<b>Key Ratios</b>					
	<b>Mar-22A</b>	<b>Mar-23A</b>	<b>Mar-24A</b>	<b>Mar-25F</b>	<b>Mar-26F</b>
Revenue Growth	41.6%	26.3%	17.7%	18.7%	16.3%
Operating EBITDA Growth	52.7%	40.4%	41.7%	16.1%	17.2%
Operating EBITDA Margin	14.7%	16.3%	19.7%	19.2%	19.4%
Net Cash Per Share (Rs)	44.78	37.19	50.45	53.59	71.54
BVPS (Rs)	175.06	193.65	222.33	269.31	325.80
Gross Interest Cover	65.31	69.84	59.88	63.20	67.93
Effective Tax Rate	23.5%	24.0%	23.2%	24.6%	24.6%
Net Dividend Payout Ratio	58.8%	43.6%	32.0%	28.8%	25.2%
Accounts Receivables Days	69.00	66.93	74.77	78.16	81.53
Inventory Days	57.18	56.34	57.66	63.30	75.60
Accounts Payables Days	76.73	74.93	80.74	77.15	73.07
ROIC (%)	18.1%	25.2%	34.4%	29.2%	28.5%
ROCE (%)	15.3%	19.7%	26.3%	26.8%	26.2%
Return On Average Assets	12.2%	15.9%	20.7%	20.1%	19.3%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

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