

India

REDUCE (no change)

Consensus ratings*: Buy 11 Hold 6 Sell 9	
Current price:	Rs3,749
Target price: ▲	Rs3,620
Previous target:	Rs3,170
Up/downside:	-3.4%
InCred Research / Consensus:	8.4%
Reuters:	
Bloomberg:	KKC IN
Market cap:	US\$14,310m
	Rs1,039,098m
Average daily turnover:	US\$39.6m
	Rs2878.8m
Current shares o/s:	277.2m
Free float:	49.0%
*Source: Bloomberg	

Key changes in this note

- ▶ For FY25F/26F, we lower our revenue estimates by 6%/7%.
- ▶ For FY25F/FY26F, we increase PAT estimates by 4%/5%.

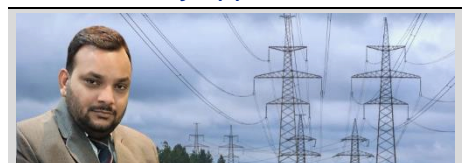


Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	(9.3)	11.2	114.0
Relative (%)	(8.8)	2.8	77.3

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

Muted sales growth due to powergen segment

- 1Q EBITDA jumped 37% YoY (-14% QoQ) to Rs4.7bn, 4% above our estimate & 10% above consensus while the EBITDA margin rose 486bp YoY to 20.3%.
- Gross margin in 1QFY25 stood at 37.8%, at a five-year high. However, rising commodity prices & competition will make it difficult to retain high gross margin.
- We lower our revenue estimates by 6%/7% and increase PAT estimates by 4%/5%. Retain REDUCE rating with a higher TP of Rs3,620 (Rs3,170 earlier).

Muted sales growth in 1QFY25

Cummins India reported a muted revenue growth of ~4% YoY to Rs23bn in 1QFY25, impacted by lower sales in the power generation segment at Rs8bn, (down 8% YoY) and lower exports (down 22% YoY). Despite muted sales growth, EBITDA jumped by 37% YoY (-14% QoQ) to Rs4.7bn, 4% above our estimate and 10% above Bloomberg or BB consensus estimate, while the EBITDA margin expanded by 486bp YoY to 20.3% (-322bp QoQ). Interest costs were down 38% YoY to Rs48m while the other income rose 12.5% to Rs1.3bn. PAT stood at Rs4.2bn, up 33% YoY (25% QoQ), ~4% above our/BB consensus estimates.

Maintains guidance of double-digit revenue growth

Management reiterated its guidance of achieving 2x India's GDP growth, aiming at a revenue growth of 12% to 14% in FY25F with margin expansion. The company is committed to profitable growth, aligning with the infrastructure development trend. It has a strong portfolio of CPCB IV+ emission norms-compliant products to meet customer demand across the entire product range. The average price hike in CPCB IV-compliant products will be in the range of 15-25%.

Higher gross margin unlikely to sustain

Gross margin in 1QFY25 stood at 37.8%, the highest in the last five years, supported by a rising mix of CPCB IV-compliant products, effective pricing strategies, and cost reductions. However, due to rising commodity prices and competition, we believe it will be difficult to maintain a high gross margin in the coming quarters.

Retain REDUCE rating on rich valuation

Effective Jul 2024, there was a complete switchover to CPCB IV+ emission norms-compliant products in the powergen segment. Management expects double-digit revenue growth in FY24F. We lower our revenue estimates by 6%/7% and increase PAT estimates by 4%/5%, factoring in the higher margin at lower sales due to the shift to CPCB IV-compliant products. The stock delivered a strong 117% return in the last one year on robust demand and pre-purchases of CPCB IV-compliant products, which are unlikely to continue. We retain our REDUCE rating on Cummins India with a higher target price of Rs3,620 (Rs3,170 earlier), as we roll forward our valuation to Sep 2026F (from FY26F), valuing the stock at 42x EPS. Upside risks are strong demand for its products and higher margins.

Financial Summary

	Mar-23A	Mar-24A	Mar-25F	Mar-26F	Mar-27F
Revenue (Rsm)	76,123	88,164	99,769	115,027	133,332
Operating EBITDA (Rsm)	12,426	17,613	20,519	23,992	28,637
Net Profit (Rsm)	11,441	16,466	19,010	21,958	25,835
Core EPS (Rs)	41.3	59.4	68.6	79.2	93.2
Core EPS Growth	45.7%	43.9%	15.5%	15.5%	17.7%
FD Core P/E (x)	90.82	63.11	54.66	47.32	40.22
DPS (Rs)	18.0	19.0	19.0	19.0	19.0
Dividend Yield	0.48%	0.51%	0.51%	0.51%	0.51%
EV/EBITDA (x)	82.79	58.20	49.83	42.34	34.95
P/FCFE (x)	249.24	80.76	143.71	87.13	51.97
Net Gearing	(19.2%)	(22.7%)	(22.1%)	(25.4%)	(33.8%)
P/BV (x)	19.36	16.86	13.79	11.29	9.23
ROE	22.4%	28.6%	27.8%	26.2%	25.2%
% Change In Core EPS Estimates			(36.83%)	(15.90%)	
InCred Research/Consensus EPS (x)					

SOURCE: INCRED RESEARCH, COMPANY REPORTS

1QFY25 conference-call highlights

- **Overview:** In 1QFY25, Cummins India's revenue was driven by healthy domestic demand, especially from the industrial sector. The powergen segment's revenue was expectedly softer due to the stoppage of CPCB-II norms on 30 Jun 2024. Domestic sales rose by 12% YoY to Rs18.7bn while export revenue fell by 22% to Rs3.9bn.
- **Guidance:** Management reiterated its guidance of achieving 2x India's GDP growth, aiming at a growth of 12% to 14% in FY25F. Management emphasized its commitment to profitable growth, aligning with the infrastructure development trend in India. Going ahead, investment in infrastructure (both public and private) and broader economic growth are likely to continue driving profitable growth for the company. Effective Jul 2024, there was a complete switchover to CPCB IV+ emission norms-compliant products in the powergen segment. The company has a strong portfolio of CPCB IV+ emission norms-compliant products to meet customer demand across the entire product range.
- **Gross margin:** Gross margin was the highest in the last five years at 37.8%, supported by a rising mix of CPCB-IV-compliant products and lower commodity prices. However, due to rising commodity prices and intense competition, maintaining this kind of margin looks difficult. Management stated that the gross margin was high due to a favourable product mix, effective pricing strategies, and cost reductions.
- **CPCB transition:** The average price hike in CPCB IV-compliant products will be in the range of 15-25%. Historically, low horsepower is largely a commodity play with less value addition and in the past few years, competitors have gained some market share. The CPCB-IV norms are a game changer as they force the market to change from commodity to new tech, which requires investments in R&D and increase the warranty of the products, which puts Cummins India in a sweet spot as it has already moved towards high horsepower products. Management stated that channel inventory for CPCB-II engines has depleted. Going ahead, all sales will come from CPCB-IV-compliant products, which are expected to stabilize the market.
- **Segments:**
 - **Power generation:** In this segment, domestic sales amounted to Rs8bn, a decline of 8% YoY. The break-up of sales in this segment shows low horsepower gensets (LHP) at Rs490m, mid-range at Rs1.5bn, heavy at Rs930m, and high horsepower (HHP) at Rs5bn. The transition from CPCB II to CPCB-IV emissions standards was noted, with ~30% to 40% of sales attributed to CPCB-IV-compliant products during the quarter.
 - **Industrial:** This segment performed well, with domestic sales at Rs3.7bn, up 57% YoY, mainly led by strong demand across various sectors, including construction (Rs1.3bn), railway (Rs1bn), mining (Rs190m), compressors (Rs440m), and marine (Rs330m). The overall positive trend in infrastructure development in India is seen as a key driver for this segment's performance.
 - **Distribution:** The segment garnered Rs6.5bn in sales, up 22% YoY, which reflects the ongoing demand for distribution services and products that are critical in supporting the overall infrastructure growth.
 - **Exports:** They were a mixed bag, with total exports at Rs3.9bn, down 22% YoY. Management indicated that there was a recovery in certain regions, particularly the Middle East and Africa, while other markets remained flat or showed minimal growth. Management indicated that while there could be a minor setback, the overall impact on exports to regions like Bangladesh is likely to be limited due to the relatively small sales volume in that market.

Figure 1: Quarterly results snapshot

Y/E Mar (Rs m)	1QFY25	1QFY24	YoY	4QFY24	QoQ	InCred Est.	InCred Diff.	Bloomberg Est.	Bloomberg Diff.
Total Revenue	23,042	22,087	4.3%	23,162	(0.5%)	25,059	(8.0%)	22,602	1.9%
Raw Material Costs	14,341	14,902	(3.8%)	14,821	(3.2%)				
Employee Costs	1,816	1,885	(3.6%)	1,889	(3.8%)				
Other Expenses	2,212	1,895	16.7%	1,009	119.2%				
Total Expenditure	18,369	18,681	(1.7%)	17,719	3.7%				
EBITDA	4,673	3,406	37.2%	5,443	(14.1%)	4,511	3.6%	4,264	9.6%
Depreciation	439	358	22.5%	420	4.4%				
EBIT	4,235	3,048	38.9%	5,022	(15.7%)				
Interest	48	77	(38.0%)	62	(22.7%)				
Other Income	1,322	1,175	12.5%	2,045	(35.3%)				
PBT	5,509	4,146	32.9%	7,006	(21.4%)				
Total Tax	1,311	989	32.6%	1,390	(6%)				
PAT	4,198	3,157	33.0%	5,615	(25.2%)	4,024	4.3%	4,023	4.4%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 2: Margin and cost analysis

(% of sales)	1QFY25	1QFY24	YoY (bp chg)	4QFY24	QoQ (bp chg)
Raw Material Costs	62.2%	67.5%	-523	64.0%	-175
Personnel Costs	7.9%	8.5%	-65	8.2%	-27
Other - Expenses	9.6%	8.6%	102	4.4%	524
EBITDA Margin	20.3%	15.4%	486	23.5%	-322
EBIT Margin	18.4%	13.8%	458	21.7%	-331
PBT Margin (%)	23.9%	18.8%	514	30.2%	-634
NPM	18.2%	14.3%	393	24.2%	-602
Tax Rate (%)	23.8%	23.9%	-6	19.8%	395
Gross Margin	37.8%	32.5%	523	36.0%	175

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 3: Segment revenue mix

Revenue (Rs m)	1QFY25	1QFY24	YoY	4QFY24	QoQ
Powergen	8,030	8,730	(8.0%)	9,430	(14.8%)
Industrial	3,720	2,360	57.6%	3,480	6.9%
Distribution	6,510	5,830	11.7%	6,040	7.8%
Exports	3,890	4,980	(21.9%)	3,440	13.1%
Total Sales	22,150	21,746	1.9%	22,685	(2.4%)

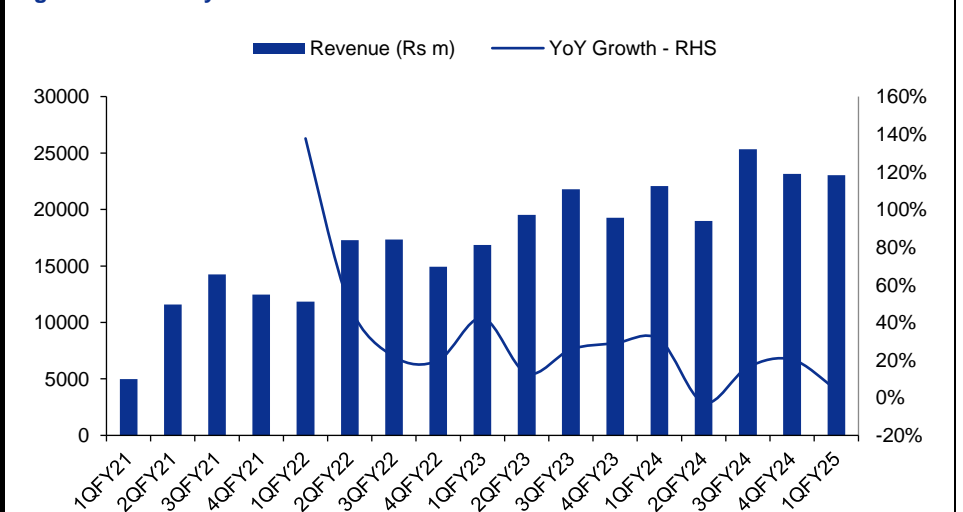
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 4: Export and import mix

Domestic	18,730	16,766	11.7%	19,245	(2.7%)
Exports	3,890	4,980	(21.9%)	3,917	(0.7%)

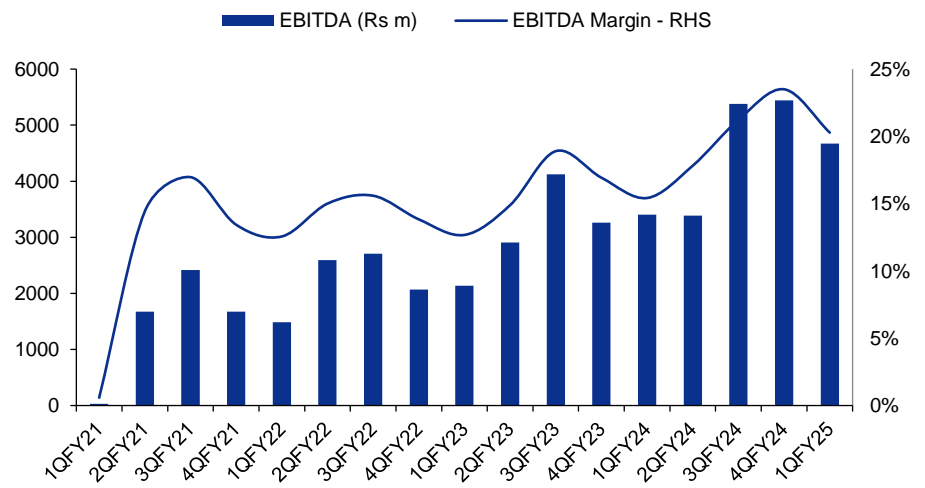
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 5: Quarterly revenue trend



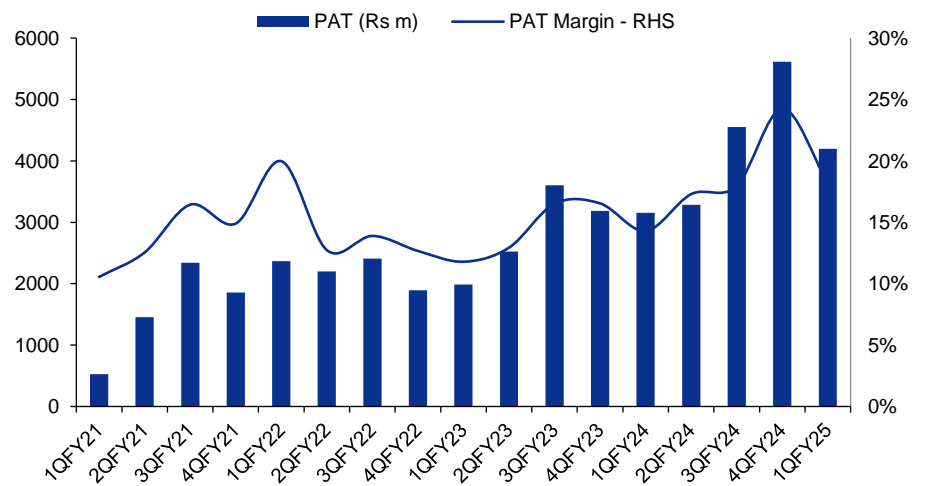
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 6: Quarterly EBITDA trend



SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 7: Quarterly PAT trend



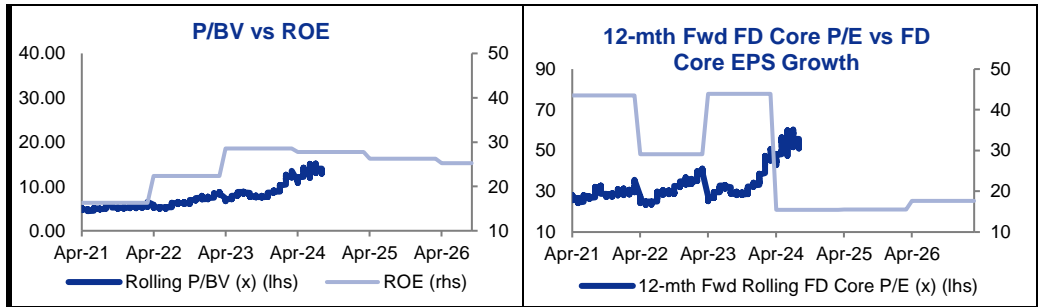
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 8: Our revised earnings estimates

Rs m	New		Old		Change (%)		FY27F
	FY25F	FY26F	FY25F	FY26F	FY25F	FY26F	
Revenue	99,769	1,15,027	1,06,329	1,23,704	-6.2%	-7.0%	1,35,450
EBITDA	20,519	23,992	20,455	23,970	0.3%	0.1%	28,637
PAT	19,010	21,958	18,288	20,927	3.9%	4.9%	25,835

SOURCE: COMPANY REPORTS, INCRED RESEARCH

BY THE NUMBERS



Profit & Loss

(Rs mn)	Mar-23A	Mar-24A	Mar-25F	Mar-26F	Mar-27F
Total Net Revenues	77,444	89,586	101,365	116,859	135,450
Gross Profit	25,135	31,886	36,998	43,004	50,117
Operating EBITDA	12,426	17,613	20,519	23,992	28,637
Depreciation And Amortisation	(1,405)	(1,576)	(1,609)	(1,700)	(1,786)
Operating EBIT	11,021	16,037	18,910	22,292	26,851
Financial Income/(Expense)	(158)	(268)	(297)	(327)	(359)
Pretax Income/(Loss) from Assoc.					
Non-Operating Income/(Expense)	4,200	5,678	6,132	6,623	7,153
Profit Before Tax (pre-EI)	15,063	21,447	24,745	28,588	33,644
Exceptional Items					
Pre-tax Profit	15,063	21,447	24,745	28,588	33,644
Taxation	(3,623)	(4,982)	(5,735)	(6,630)	(7,810)
Exceptional Income - post-tax					
Profit After Tax	11,441	16,466	19,010	21,958	25,835
Minority Interests					
Preferred Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
Net Profit	11,441	16,466	19,010	21,958	25,835
Recurring Net Profit	11,441	16,466	19,010	21,958	25,835
Fully Diluted Recurring Net Profit	11,441	16,466	19,010	21,958	25,835

Cash Flow

(Rs mn)	Mar-23A	Mar-24A	Mar-25F	Mar-26F	Mar-27F
EBITDA	12,426	17,613	20,519	23,992	28,637
Cash Flow from Invt. & Assoc.	2,638	3,834	4,226	4,597	5,008
Change In Working Capital	(2,661)	(1,569)	(10,815)	(9,329)	(5,195)
(Incr)/Decr in Total Provisions					
Other Non-Cash (Income)/Expense	1,405	1,576	1,609	1,700	1,786
Other Operating Cashflow	(4,042)	(5,410)	(5,835)	(6,296)	(6,793)
Net Interest (Paid)/Received	(158)	(268)	(297)	(327)	(359)
Tax Paid	(3,550)	(5,081)	(5,735)	(6,630)	(7,810)
Cashflow From Operations	6,057	10,697	3,673	7,707	15,273
Capex	(1,386)	(2,205)	(2,103)	(1,913)	(1,922)
Disposals Of FAs/subsidiaries					
Acq. Of Subsidiaries/investments					
Other Investing Cashflow	(503)	4,375	5,661	6,133	6,643
Cash Flow From Investing	(1,888)	2,170	3,558	4,220	4,721
Debt Raised/(repaid)					
Proceeds From Issue Of Shares					
Shares Repurchased					
Dividends Paid	(4,990)	(5,267)	(5,267)	(5,267)	(5,267)
Preferred Dividends					
Other Financing Cashflow	(158)	(268)	(297)	(327)	(359)
Cash Flow From Financing	(5,147)	(5,535)	(5,564)	(5,594)	(5,626)
Total Cash Generated	(978)	7,332	1,667	6,333	14,368
Free Cashflow To Equity	4,169	12,867	7,230	11,926	19,994
Free Cashflow To Firm	4,327	13,134	7,527	12,253	20,354

SOURCE: INCRED RESEARCH, COMPANY REPORTS

BY THE NUMBERS...cont'd

Balance Sheet					
(Rs mn)	Mar-23A	Mar-24A	Mar-25F	Mar-26F	Mar-27F
Total Cash And Equivalents	13,808	14,985	17,744	24,553	39,442
Total Debtors	15,927	20,776	23,606	28,815	33,399
Inventories	8,862	9,369	13,886	17,609	20,410
Total Other Current Assets	4,857	3,720	8,331	11,206	12,988
Total Current Assets	43,454	48,850	63,567	82,182	106,239
Fixed Assets	22,633	23,262	23,756	23,969	24,105
Total Investments	10,852	12,154	12,626	13,116	13,625
Intangible Assets					
Total Other Non-Current Assets					
Total Non-current Assets	33,485	35,416	36,381	37,084	37,730
Short-term Debt					
Current Portion of Long-Term Debt					
Total Creditors	11,503	14,024	14,441	16,008	18,555
Other Current Liabilities	7,198	7,328	8,054	8,965	10,391
Total Current Liabilities	18,701	21,352	22,495	24,973	28,946
Total Long-term Debt	3,500	1,000	1,100	1,210	1,331
Hybrid Debt - Debt Component					
Total Other Non-Current Liabilities					
Total Non-current Liabilities	3,500	1,000	1,100	1,210	1,331
Total Provisions	1,057	941	979	1,018	1,058
Total Liabilities	23,259	23,293	24,573	27,200	31,335
Shareholders Equity	53,680	61,631	75,374	92,066	112,634
Minority Interests					
Total Equity	53,680	61,631	75,374	92,066	112,634

Key Ratios					
	Mar-23A	Mar-24A	Mar-25F	Mar-26F	Mar-27F
Revenue Growth	26.3%	15.8%	13.2%	15.3%	15.9%
Operating EBITDA Growth	40.4%	41.7%	16.5%	16.9%	19.4%
Operating EBITDA Margin	16.3%	20.0%	20.6%	20.9%	21.5%
Net Cash Per Share (Rs)	37.19	50.45	60.04	84.21	137.48
BVPS (Rs)	193.65	222.33	271.91	332.13	406.33
Gross Interest Cover	69.84	59.88	63.67	68.23	74.72
Effective Tax Rate	24.0%	23.2%	23.2%	23.2%	23.2%
Net Dividend Payout Ratio	43.6%	32.0%	27.7%	24.0%	20.4%
Accounts Receivables Days	66.93	74.77	79.91	81.86	83.82
Inventory Days	56.34	57.66	65.93	77.82	81.31
Accounts Payables Days	74.93	80.74	80.71	75.24	73.92
ROIC (%)	25.2%	34.4%	30.1%	29.5%	32.5%
ROCE (%)	19.7%	26.3%	26.8%	26.0%	25.7%
Return On Average Assets	15.9%	20.7%	20.9%	20.3%	19.8%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

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