

India

REDUCE (previously HOLD)

Consensus ratings*: Buy 15 Hold 6 Sell 9

Current price:	Rs1,796
Target price:	Rs1,740
Previous target:	Rs1,740
Up/downside:	-3.1%
InCred Research / Consensus:	4.0%
Reuters:	
Bloomberg:	KKC IN
Market cap:	US\$6,856m
	Rs497,879m
Average daily turnover:	US\$16.8m
	Rs1218.9m
Current shares o/s:	277.2m
Free float:	49.0%

*Source: Bloomberg

Key changes in this note

- Downgrade the rating to REDUCE (from HOLD) with an unchanged target price of Rs1,740.



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	(3.3)	11.8	52.5
Relative (%)	(3.9)	3.8	35.4

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

Emission norm changes drive 1Q growth

- 1Q EBITDA (59% yoy, +4.5% qoq) was below our estimate by 2.3% and consensus estimate by 11%. EBITDA margin was at 15.4% (down 151bp qoq).
- Recent emission norm changes suggest margin contraction and a low volume after pre-purchases. Muted growth in the export market is likely to continue.
- Downgrade our rating to REDUCE (HOLD earlier) while retaining the target price of Rs1,740 on soft demand after pre-purchases and a rich valuation.

Lower margins in 1QFY24 sequentially despite higher revenue

Cummins India or CIL's 1QFY24 sales (+31% yoy, +15% qoq) beat our estimate by 5% (2.4% above consensus estimate). EBITDA (59% yoy, +4.5% qoq) was below our estimate by 2.3% and consensus estimate by 11%. The EBITDA margin at 15.4% (+274bp yoy, -151bp qoq) was below our estimate of 16.6% (consensus estimate of 17.8%). The margin decline on a qoq basis was mainly due to a change in the product mix and higher other expenses. PAT (+59% yoy, -1% qoq) was 3.2% above our estimate and 5.6% above consensus estimate.

Emission norm changes drive growth in 1QFY24

The Central Pollution Control Board or CPCB IV norms became effective from Jul 2023 for gensets up to 800KW capacity. CIL is ready with its products to meet the new emission norms and is confident of providing the best-in-class products to its customers. CPCB IV-compliant gensets can be sold till Jun 2024 for pre-orders received till Jun 2023. CIL is looking to a smooth transition in FY24F. Some of its products in the powergen segment witnessed flat growth and this is likely to continue in the near term. Management has given guidance of double-digit revenue growth in FY24F. Price hike is likely in the range of 20-50%.

Downgrade rating to REDUCE on rich valuation

CIL's growth in 1QFY24 was mainly led by pre-purchases due to the change in CPCB norms. 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 is 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 downgrade our rating on CIL to REDUCE (from HOLD) with an unchanged 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 stock has posted a 50% gain in the past nine months and is trading at a higher valuation currently. 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	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)	80.58	56.15	43.52	40.69	34.07
DPS (Rs)	14.0	16.0	18.0	19.0	19.0
Dividend Yield	0.78%	0.89%	1.00%	1.06%	1.06%
EV/EBITDA (x)	84.14	54.85	39.24	33.19	27.17
P/FCFE (x)	138.29	85.61	119.42	61.16	39.96
Net Gearing	(23.4%)	(25.6%)	(19.2%)	(23.4%)	(30.4%)
P/BV (x)	11.30	10.26	9.27	8.04	6.98
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

Emission norm changes drive 1Q growth

1QFY24 results

Key conference-call highlights ►

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 the signs of private capex are also visible.
- Revenue of the powergen stood at Rs8.7bn, up 73% yoy, that of the power distribution segment was at Rs5.8bn, up 18% YoY, industrial segment at Rs2.4bn, flat YoY, while total exports grew marginally by 3% yoy, indicating the high revenue growth was led by pre-purchases due to the change in CPCB norms.
- In 1QFY24, Europe grew significantly, Africa was flat, while Asia and America started slowing down. China bounced back, but not as per expectation.

Central Pollution Control Board's (CPCB) revised norms

- The government has announced that CPCB IV-compliant gensets can be sold till Jun 2024 for pre-orders received till Jun 2023. CIL said the purchase orders received till Jun 2023 will continue to be serviced. Currently, the company has to service two sets of orders.
- In the long run, CIL's revenue is expected to grow at 2x India's gross domestic product or GDP as the market becomes more mature. The powergen market is likely to grow significantly over the next 8-10 years.

Hydrogen production

- The company has plans to enter the hydrogen production business and is currently in talks with various consultants to get some clarity.

Power distribution

- The power distribution segment's growth is largely linked to growth in the powergen and industrial segments. Product offerings in this segment have long-term focus and comprise more maintenance packages. After the warranty cycle gets over, customers approach the aftermarket. The company has added more value-added products to this range and is looking at entering new markets.

Capex

- The parent company has announced an investment of US\$1bn while CIL is planning to invest Rs3-4bn. CIL plans to introduce new products and foray into new segments like railways, mining etc.

Segment outlook:

- Data centre, infrastructure, hospitality and manufacturing segments continue to remain very strong. Commercial and residential realty segments have also started improving. Current capacity utilization is at 60-65% and there is room to grow further without incurring much capex.

Figure 1: Quarterly estimates

YE Mar (Rs m)	1QFY24	1QFY23	YoY	4QFY23	QoQ	FY23	FY22	YoY
Total Revenue	22,087	16,867	31.0%	19,260	14.7%	77,444	61,404	26.1%
Raw Material Cost	14,902	11,621	28.2%	12,955	15.0%	52,309	41,068	27.4%
Employee Cost	1,885	1,513	24.5%	1,566	20.4%	6,298	5,956	5.7%
Other Expenses	1,895	1,593	18.9%	1,479	28.2%	6,411	5,529	15.9%
Total Expenditure	18,681	14,728	26.8%	16,000	16.8%	65,018	52,553	23.7%
EBITDA	3,406	2,138	59.3%	3,261	4.5%	12,426	8,851	40.4%
Depreciation	358	337	6.4%	372	(3.8%)	1,405	1,340	4.8%
EBIT	3,048	1,802	69.1%	2,888	5.5%	11,022	7,511	46.7%
Interest Paid	77	19	295.9%	66	17.3%	158	115	37.2%
Other Income	1,175	1,001	17.4%	1,306	(10.1%)	4,200	2,875	46.1%
PBT	4,146	2,641	57.0%	4,129	0.4%	15,064	11,595	29.9%
Total Tax	989	653	51.6%	944	5%	3,623	2,728	32.8%
PAT	3,157	1,988	58.8%	3,185	(0.9%)	11,441	8,866	29.0%
EPS (Rs)	11.4	7.2	58.8%	11.5	(0.9%)	41.3	32.0	29.0%
Margin Analysis	1QFY24	1QFY23	YoY (bp chg)	4QFY23	QoQ (bp chg)	FY23	FY22	YoY (bp chg)
Raw Material Cost	67.5%	68.9%	-144	67.3%	20	67.5%	66.9%	66
Personnel Cost	8.5%	9.0%	-44	8.1%	40	8.1%	9.7%	-157
Other Expenses	8.6%	9.4%	-87	7.7%	90	8.3%	9.0%	-73
EBITDA Margin	15.4%	12.7%	274	16.9%	-151	16.0%	14.4%	163
EBIT Margin	13.8%	10.7%	312	15.0%	-120	14.2%	12.2%	200
PBT Margin (%)	18.8%	15.7%	311	21.4%	-267	19.5%	18.9%	57
NPM	14.3%	11.8%	251	16.5%	-224	14.8%	14.4%	33
Tax Rate (%)	23.9%	24.7%	-86	22.9%	99	24.0%	23.5%	52

SOURCE: INCRED RESEARCH, COMPANY REPORTS

1QFY24 results analysis ➤

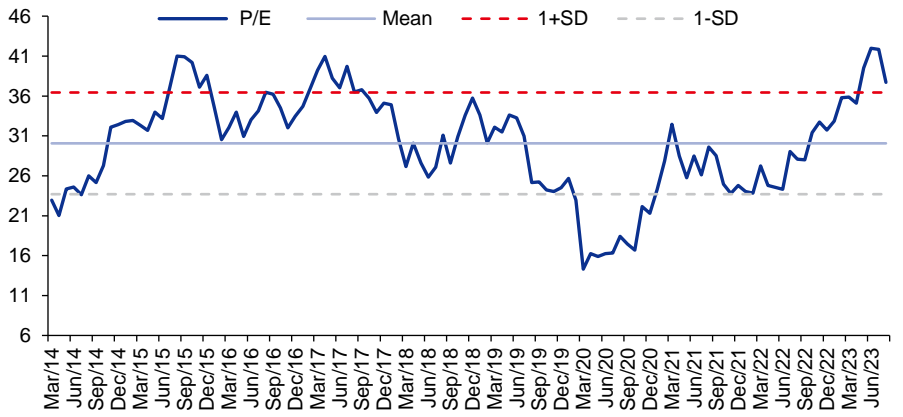
- Sales at Rs22.1bn (+31% yoy, +15% qoq) were 5% above our estimate of Rs21.1bn (2.4% above consensus estimate).
- EBITDA was at Rs3.4bn (+59% yoy, +4.5% qoq), 2.3% below our estimate of Rs3.48bn (11% below consensus estimate).
- The EBITDA margin at 15.4% (+274bp yoy, -151bp qoq) was below our estimate of 16.6% (consensus estimate of 17.8%).
- Other income was up 17% yoy at Rs1.18bn, above our estimate of Rs1.1bn.
- PBT at Rs4.15bn (+57% yoy) was 2.6% above our estimate, aided by higher other income.
- The tax rate stood at 23.9% vs. 24.7% YoY.
- PAT stood at Rs3.16bn (+59% yoy, -1% qoq), 3.2% above our estimate of Rs3.06bn (5.6% above consensus estimate), led by higher sales and other income.

Figure 2: 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 FY23 net cash		18,189		18,189	66
Investment property		1x FY23 BV	11,641	11,641		11,641	42
Total value per share							1,740

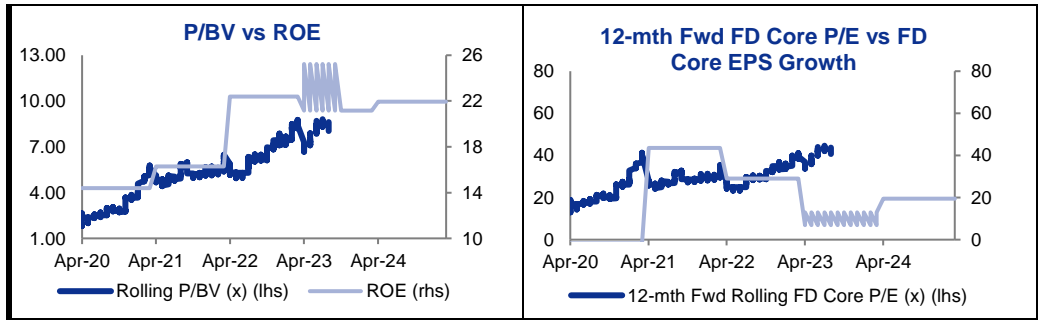
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 3: Cummins India trades above the 1+SD level



SOURCE: COMPANY REPORTS, INCRED RESEARCH, BLOOMBERG

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%

Key Drivers					
	Mar-21A	Mar-22A	Mar-23A	Mar-24F	Mar-25F
Segmental Revenues (Rs m)					
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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