



India

**HOLD** (previously REDUCE)

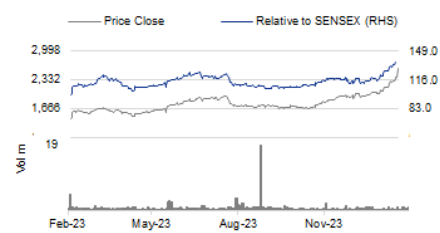
Consensus ratings\*: Buy 11 Hold 6 Sell 10

Current price:	Rs2,585
Target price: ▲	Rs2,665
Previous target:	Rs1,740
Up/downside:	3.1%
InCred Research / Consensus:	36.1%
Reuters:	CUMM.NS
Bloomberg:	KKC IN
Market cap:	US\$8,639m Rs716,631m
Average daily turnover:	US\$17.3m Rs1435.6m
Current shares o/s:	277.2m
Free float:	49.0%

\*Source: Bloomberg

**Key changes in this note**

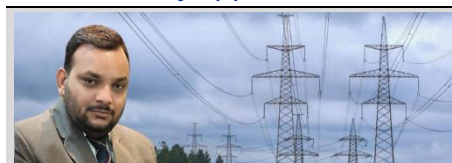
- For FY24F/25F, we raise revenue estimates by 4%/7% and PAT estimates by 20%/13%.
- Introduce FY26F EPS of Rs67.



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	29.0	46.3	75.4
Relative (%)	28.9	32.8	49.3

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

## Strong beat on profitability front in 3Q

- 3Q EBITDA jumped by 31% YoY (59%QoQ) to Rs5.4bn, 29% above our estimate & 39% above consensus estimate. Margins rose by 232bp to 21.2%.
- Management expects the double-digit revenue growth to stay. Reiterates its revenue growth target at 2x of GDP growth. Aims to improve margins by 100bp.
- We roll forward our valuation to FY26F & upgrade the stock's rating to HOLD with a higher target price of Rs2,665, valuing it at 40x FY26F EPS.

**Strong margin expansion on domestic sales**

Cummins India (CIL) reported 3QFY24 revenue of Rs25.3bn, up 16% YoY (33% QoQ), 8.6% above our estimate and 11% above Bloomberg (BB) consensus estimate, on higher powergen sales. With a healthy sales beat, EBITDA jumped by 31% YoY (59% QoQ) to Rs5.4bn, 29% above our estimate and 39% above BB consensus estimate while margins expanded by 232bp to 21.2% (historical high), above our estimate of 17.9% & BB consensus estimate of 17% led by lower raw material costs (down 322 bp YoY). PAT stood at Rs4.5bn, up 26% YoY (+39% QoQ), 29% above our estimate & 31% above BB consensus estimate.

**Powergen sales drive growth**

The powergen segment's revenue stood at Rs10.7bn, up 51% YoY (121% QoQ). The distribution segment reported a revenue of Rs6.6bn, registering a growth of 26% YoY (21% QoQ). The industrial segment's revenue was up 37% YoY (56% QoQ) at Rs4.7bn, which is likely to witness a further uptick in the coming quarters. Exports, which contributed ~13% to total sales, were down 40% YoY to Rs3.3bn. Management indicated that exports have largely bottomed out and are likely to pick up in the coming quarters. The growth in 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.

**Upgrade to HOLD rating with a higher target price of Rs2,665**

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 our view. Management expects a double-digit revenue growth in FY24F. For FY25F, it reiterates revenue growth target at 2x of India's GDP growth and aims to improve profit margin by 100bp. Factoring in a strong 3QFY24 performance and robust guidance, strong growth expected for the powergen segment and a recovery in export business, we raise our revenue estimates by 4%/7% and PAT estimates by 20%/13% for FY24F/25F, respectively, and introduce FY26F EPS of Rs67. We roll forward our valuation to FY26F and upgrade our rating on Cummins India to HOLD (from REDUCE) with a higher target price of Rs2,665 (Rs1,740 earlier), valuing the stock at 40x FY26F earnings. Upside risks are strong demand and higher margins while the downside risks are lower export demand and higher commodity prices.

**Financial Summary**

	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
Revenue (Rsm)	60,256	76,123	91,933	108,037	121,246
Operating EBITDA (Rsm)	8,851	12,426	16,776	20,013	22,644
Net Profit (Rsm)	8,866	11,441	14,749	16,434	18,466
Core EPS (Rs)	28.3	41.3	53.2	59.3	66.6
Core EPS Growth	27.1%	45.7%	28.9%	11.4%	12.4%
FD Core P/E (x)	80.83	62.64	48.59	43.61	38.81
DPS (Rs)	16.0	18.0	19.0	19.0	19.0
Dividend Yield	0.62%	0.70%	0.73%	0.73%	0.73%
EV/EBITDA (x)	79.57	56.84	41.80	34.92	30.68
P/FCFE (x)	123.22	171.90	81.08	93.07	77.02
Net Gearing	(25.6%)	(19.2%)	(23.7%)	(23.5%)	(24.6%)
P/BV (x)	14.77	13.35	11.12	9.48	8.07
ROE	17.0%	22.4%	25.0%	23.5%	22.5%

% Change In Core EPS Estimates

InCred Research/Consensus EPS (x)

SOURCE: INCRED RESEARCH, COMPANY REPORTS

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## 3QFY24 conference-call highlights

- **Business scenario:** Cummins India recorded its highest quarterly revenue and profit for the quarter aided by strong domestic demand across various market segments. Revenue/EBITDA/PAT were up 16%/31%/26% YoY, respectively, in 3QFY24. The company continues to be well-positioned supported by strong brand, diversified product portfolio, exposure to multiple geographies and strong manufacturing infrastructure.
- **Outlook:** Management stated that growth of the infrastructure sector will play a major role for the company. The powergen market is expected to witness increased traction because of their use in CPCBIV+engines. Management expects double-digit revenue growth in FY24F. For FY25F, it reiterates revenue growth target at 2x of India's GDP growth and aims to improve profit margin by 100bp.
- **Domestic:**
  - Overall domestic sales were up 36% YoY at Rs21.8bn. Powergen sales stood at Rs10.7bn, up 51% YoY. Distribution/industrial revenue were up 26%/37% YoY, respectively.
  - Cummins India stated that CPCBIV+ will be fully implemented by Jun 2024F. The company sold 3,000 gensets in 3QFY24 in certain markets. Currently, CPCBIV+-compliant products account for less than 25% of the company's sales but have a better realization compared to CPCBII-compliant products. Post Jun 2024F, CPCBIV+ -compliant products' share will likely rise further. The powergen market witnessed a volume growth of ~20% during the quarter with positive traction from the segments like data centres, commercial and residential real estate, infrastructure, and manufacturing. Higher horsepower (HHP) product sales stood at Rs7.7bn, while lower horsepower (LHP) product sales were at Rs430m. Heavy duty and mid-range product sales were at ~Rs1.3bn each. For the industrial segment, the growth has mainly been on a lower base. It witnessed an uptick in 3QFY24 led by positive momentum in the construction market, which had underperformed earlier. Similarly, the compressor market has also been highly cyclical. The distribution reach has overall grown to ~2x of India's GDP. The company, which had been underserving its customers earlier, now has improved service offerings, type of parts, etc. and its management is confident of a higher growth in this segment in the coming quarters.
- **Exports:** They stood at Rs3.3bn, down 40% YoY. HHP exports were at Rs1.4bn, 38% down YoY. LHP exports were at Rs1.5bn, down 44% YoY. Management stated that exports have largely bottomed out mainly due to softening demand. China is not recovering quickly, and the European market is still weak. Moreover, the turmoil in the Red Sea region has increased lead times by up to two-to-four weeks. Due to this, some export orders are being deferred and there has been an increase in logistics costs and supply chain disruption. These issues are likely to be resolved in the next few quarters.
- **Capacity:** Management stated that capacity utilization is currently at 60-70%. The company has no major investment planned and it can double sales by utilizing less than 100% of its capacity.

Figure 1: Quarterly results snapshot

Y/E Mar (Rs m)	3QFY24	3QFY23	YoY	2QFY24	QoQ	9MFY24	9MFY23	YoY	InCred Est.	InCred Diff.	Bloomberg Est.	Bloomberg Diff.
<b>Total Revenue</b>	<b>25,341</b>	<b>21,805</b>	16.2%	<b>18,997</b>	<b>33.4%</b>	<b>66,425</b>	<b>58,184</b>	14.2%	<b>23,343</b>	<b>8.6%</b>	<b>22,800</b>	<b>11.1%</b>
Raw Material Costs	15,955	14,432	10.6%	12,023	32.7%	42,880	39,354	9.0%				
Employee Costs	2,090	1,610	29.8%	1,929	8.4%	5,904	4,733	24.8%				
Other Expenses	1,916	1,641	16.8%	1,659	15.5%	5,470	4,932	10.9%				
Total Expenditure	19,961	17,683	12.9%	15,611	27.9%	54,253	49,019	10.7%				
<b>EBIDTA</b>	<b>5,379</b>	<b>4,122</b>	30.5%	<b>3,386</b>	<b>58.9%</b>	<b>12,171</b>	<b>9,166</b>	32.8%	<b>4,176</b>	<b>28.8%</b>	<b>3,870</b>	<b>39.0%</b>
Depreciation	419	343	22.1%	379	10.6%	1,156	1,032	12.0%				
<b>EBIT</b>	<b>4,960</b>	<b>3,779</b>	31.3%	<b>3,007</b>	<b>65.0%</b>	<b>11,015</b>	<b>8,133</b>	35.4%				
Interest Paid	63	27	134.7%	67	(5.4%)	206	92	123.4%				
Other Income	1,136	1,038	9.5%	1,322	(14.1%)	3,633	2,894	25.6%				
PBT	6,017	4,790	25.6%	4,263	41.1%	14,425	10,792	33.7%				
Total Tax	1,467	1,188	23.5%	978	50%	3,434	2,679	28.2%				
<b>PAT</b>	<b>4,549</b>	<b>3,601</b>	26.3%	<b>3,285</b>	<b>38.5%</b>	<b>10,991</b>	<b>8,113</b>	35.5%	<b>3,530</b>	<b>28.9%</b>	<b>3,470</b>	<b>31.1%</b>

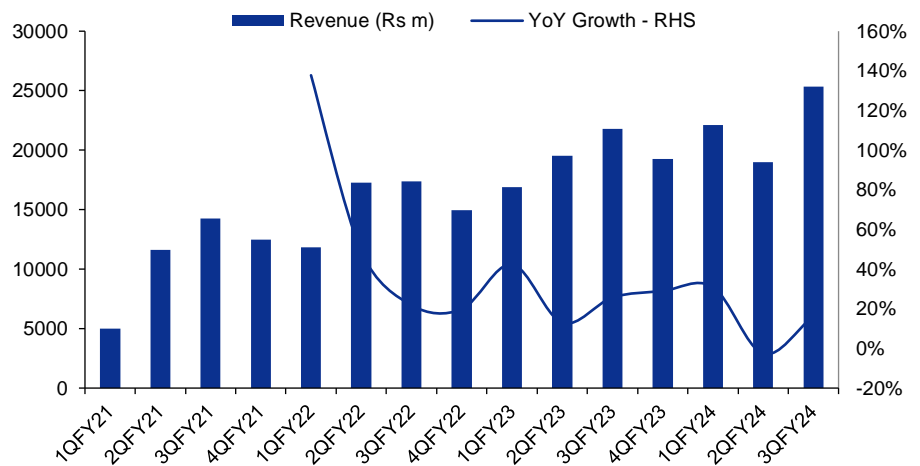
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 2: Margin analysis

Margin (%)	3QFY24	3QFY23	YoY (bp chg)	2QFY24	QoQ (bp chg)	9MFY24	9MFY23	YoY (bp chg)	InCred Est.
Raw Material Costs	63.0%	66.2%	-322	63.3%	-32	64.6%	67.6%	-308	
Personnel Costs	8.2%	7.4%	86	10.2%	-191	8.9%	8.1%	75	
Other Expenses	7.6%	7.5%	4	8.7%	-117	8.2%	8.5%	-24	
<b>EBITDA Margin</b>	<b>21.2%</b>	<b>18.9%</b>	<b>232</b>	<b>17.8%</b>	<b>340</b>	<b>18.3%</b>	<b>15.8%</b>	<b>257</b>	17.9%
EBIT Margin	19.6%	17.3%	224	15.8%	375	16.6%	14.0%	260	
PBT Margin (%)	23.7%	22.0%	178	22.4%	130	21.7%	18.5%	317	
NPM	18.0%	16.5%	144	17.3%	66	16.5%	13.9%	260	15.1%

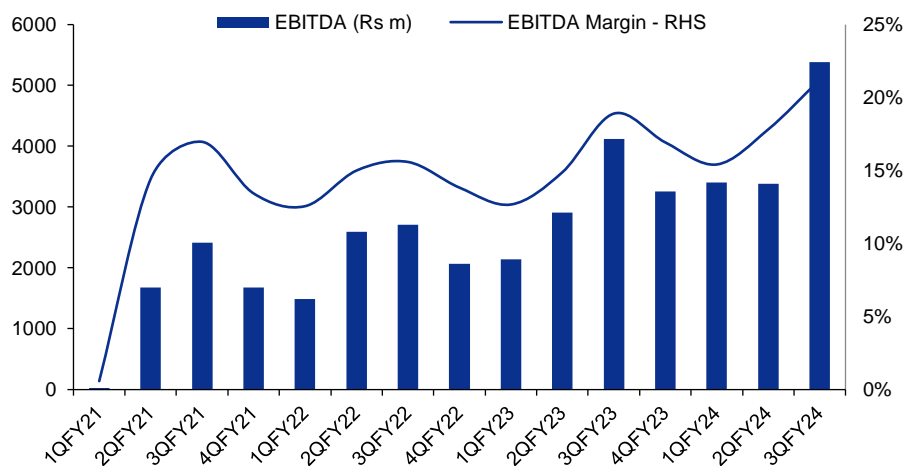
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 3: Quarterly revenue trend



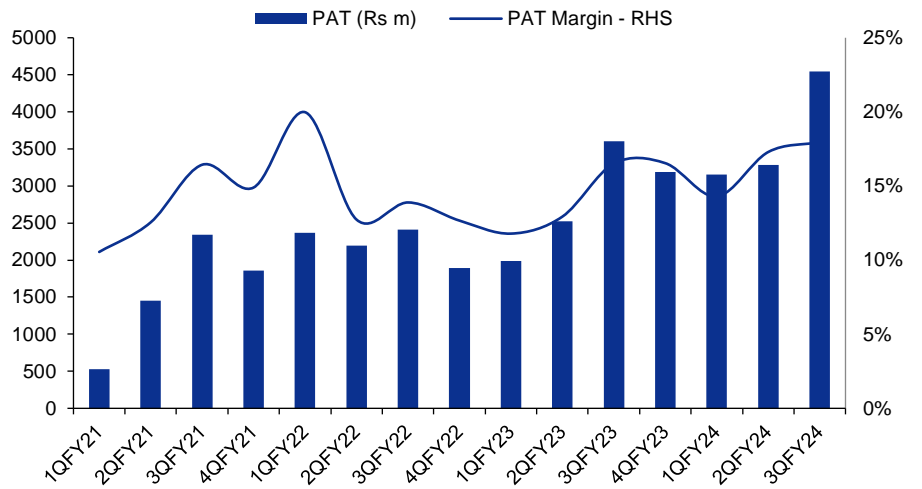
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 4: Quarterly EBITDA trend



SOURCE: INCRED RESEARCH, COMPANY REPORTS

**Figure 5: Quarterly PAT trend**



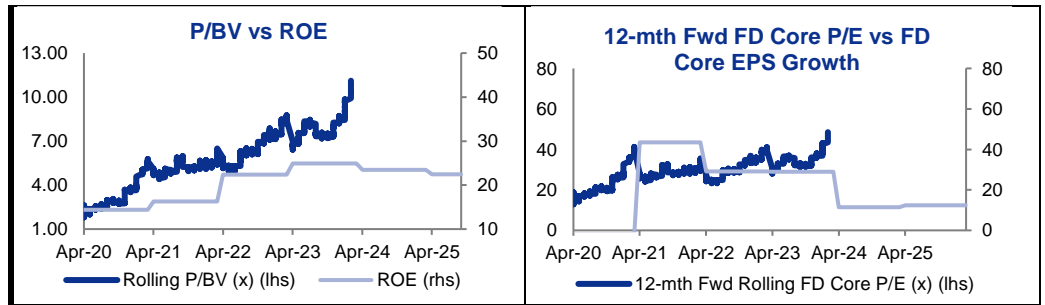
SOURCE: INCRED RESEARCH, COMPANY REPORTS

**Figure 6: Earnings revision summary**

Rs m	Old Estimates		New Estimates		Change (%)		Introduce
	FY24F	FY25F	FY24F	FY25F	FY24F	FY25F	
Revenue	88,123	1,00,853	91,933	1,08,037	4.3	7.1	1,21,246
EBITDA	14,564	17,530	16,777	20,013	15.2	14.2	22,644
PAT	12,265	14,612	14,750	16,434	20.3	12.5	18,466

SOURCE: INCRED RESEARCH, COMPANY REPORTS

BY THE NUMBERS



Profit & Loss

(Rs mn)	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
<b>Total Net Revenues</b>	61,404	77,444	91,933	108,037	121,246
<b>Gross Profit</b>	20,336	25,135	31,926	38,029	43,042
<b>Operating EBITDA</b>	8,851	12,426	16,776	20,013	22,644
Depreciation And Amortisation	(1,340)	(1,405)	(1,617)	(1,707)	(1,777)
<b>Operating EBIT</b>	7,511	11,021	15,159	18,306	20,867
Financial Income/(Expense)	(115)	(158)	(270)	(268)	(257)
Pretax Income/(Loss) from Assoc.					
Non-Operating Income/(Expense)	2,875	4,200	4,690	3,755	3,906
<b>Profit Before Tax (pre-EI)</b>	10,271	15,063	19,579	21,793	24,516
Exceptional Items	1,324				
<b>Pre-tax Profit</b>	11,594	15,063	19,579	21,793	24,516
Taxation	(2,728)	(3,623)	(4,830)	(5,359)	(6,050)
Exceptional Income - post-tax					
<b>Profit After Tax</b>	8,866	11,441	14,749	16,434	18,466
Minority Interests					
Preferred Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
<b>Net Profit</b>	8,866	11,441	14,749	16,434	18,466
Recurring Net Profit	7,854	11,441	14,749	16,434	18,466
<b>Fully Diluted Recurring Net Profit</b>	7,854	11,441	14,749	16,434	18,466

Cash Flow

(Rs mn)	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
EBITDA	8,851	12,426	16,776	20,013	22,644
Cash Flow from Invt. & Assoc.	2,744	2,638	2,803	1,781	1,873
Change In Working Capital	(684)	(2,661)	(5,427)	(8,492)	(9,019)
(Incr)/Decr in Total Provisions	(62)				
Other Non-Cash (Income)/Expense	1,340	1,405	1,617	1,707	1,777
Other Operating Cashflow	(1,153)	(4,042)	(4,420)	(3,487)	(3,649)
Net Interest (Paid)/Received	(115)	(158)	(270)	(268)	(257)
Tax Paid	(2,543)	(3,550)	(4,903)	(5,359)	(6,050)
<b>Cashflow From Operations</b>	8,378	6,057	6,177	5,894	7,318
Capex	(1,519)	(1,386)	(1,609)	(1,513)	(1,467)
Disposals Of FAs/subsidiaries	1,747				
Acq. Of Subsidiaries/investments					
Other Investing Cashflow	(6,567)	(503)	4,271	3,319	3,453
<b>Cash Flow From Investing</b>	(6,339)	(1,888)	2,662	1,806	1,987
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)	(270)	(268)	(257)
<b>Cash Flow From Financing</b>	(774)	(5,147)	(5,537)	(5,535)	(5,524)
Total Cash Generated	1,265	(978)	3,302	2,165	3,780
<b>Free Cashflow To Equity</b>	5,816	4,169	8,839	7,700	9,304
<b>Free Cashflow To Firm</b>	2,154	4,327	9,108	7,968	9,562

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-24F</b>	<b>Mar-25F</b>	<b>Mar-26F</b>
Total Cash And Equivalents	16,346	13,808	18,969	21,299	25,241
Total Debtors	12,473	15,927	20,150	25,159	29,896
Inventories	7,288	8,862	11,334	14,800	18,270
Total Other Current Assets	3,143	4,857	6,297	8,880	11,626
<b>Total Current Assets</b>	<b>39,250</b>	<b>43,454</b>	<b>56,749</b>	<b>70,138</b>	<b>85,033</b>
Fixed Assets	22,652	22,633	22,625	22,431	22,120
Total Investments	6,149	10,852	11,271	11,707	12,160
Intangible Assets					
Total Other Non-Current Assets					
<b>Total Non-current Assets</b>	<b>28,801</b>	<b>33,485</b>	<b>33,895</b>	<b>34,137</b>	<b>34,281</b>
Short-term Debt					
Current Portion of Long-Term Debt					
Total Creditors	9,973	11,503	13,349	15,392	16,609
Other Current Liabilities	4,648	7,198	8,060	8,584	9,301
<b>Total Current Liabilities</b>	<b>14,621</b>	<b>18,701</b>	<b>21,409</b>	<b>23,975</b>	<b>25,910</b>
Total Long-term Debt	3,933	3,500	3,675	3,528	3,387
Hybrid Debt - Debt Component					
Total Other Non-Current Liabilities					
<b>Total Non-current Liabilities</b>	<b>3,933</b>	<b>3,500</b>	<b>3,675</b>	<b>3,528</b>	<b>3,387</b>
Total Provisions	971	1,057	1,099	1,143	1,189
<b>Total Liabilities</b>	<b>19,525</b>	<b>23,259</b>	<b>26,184</b>	<b>28,647</b>	<b>30,486</b>
Shareholders Equity	48,527	53,680	64,461	75,628	88,828
Minority Interests					
<b>Total Equity</b>	<b>48,527</b>	<b>53,680</b>	<b>64,461</b>	<b>75,628</b>	<b>88,828</b>

<b>Key Ratios</b>					
	<b>Mar-22A</b>	<b>Mar-23A</b>	<b>Mar-24F</b>	<b>Mar-25F</b>	<b>Mar-26F</b>
Revenue Growth	41.6%	26.3%	20.8%	17.5%	12.2%
Operating EBITDA Growth	52.7%	40.4%	35.0%	19.3%	13.1%
Operating EBITDA Margin	14.7%	16.3%	18.2%	18.5%	18.7%
Net Cash Per Share (Rs)	44.78	37.19	55.17	64.11	78.84
BVPS (Rs)	175.06	193.65	232.54	272.83	320.45
Gross Interest Cover	65.31	69.84	56.20	68.27	81.06
Effective Tax Rate	23.5%	24.0%	24.7%	24.6%	24.7%
Net Dividend Payout Ratio	58.8%	43.6%	35.7%	32.0%	28.5%
Accounts Receivables Days	69.00	66.93	71.62	76.54	82.87
Inventory Days	57.18	56.34	61.42	68.13	77.17
Accounts Payables Days	76.73	74.93	75.58	74.92	74.68
ROIC (%)	18.1%	25.2%	29.1%	29.0%	27.9%
ROCE (%)	15.3%	19.7%	23.8%	24.5%	24.0%
Return On Average Assets	12.2%	15.9%	17.8%	17.1%	16.7%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

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