

Cummins India

HOLD

Poised for Healthy Growth; Fairly Valued

Summary

Cummins India (KKC) delivered performance in Q3FY26 which was broadly in line with our expectations. While Revenue declined by ~1% YoY, EBITDA and Adjusted PAT grew by 6% and 5% respectively. Demand continues to be healthy emanating from verticals such as Quick Commerce, Mission Critical Infrastructure, Real Estate and Data Centres for the PowerGen segment. KKC also clocked in healthy gross margin of ~38% for the quarter. This is a result of the management's assiduous efforts in reducing direct material costs, optimizing product mix and a one-time benefit from the supplier's end. Guidance is of double digit revenue growth in FY26 and FY27 with the strong domestic infrastructure momentum spurring growth. We maintain our HOLD rating on the stock with unchanged TP of Rs 4,401 as we believe valuations have caught up with growth prospects

Key Highlights and Investment Rationale

- **Distribution ramp up spurs growth; Power-Gen sees decline:** Demand momentum continues to be healthy across the power-gen segment (PG). Revenue for the PG segment declined by 16% YoY to Rs 10.7bn albeit from a strong base in Q3FY25. Distribution revenues grew by robust 26% YoY to Rs 9.4bn aided by a growing installed base and enhanced service network. We expect distribution segment to clock in higher growth in FY26 and FY27.
- **Protecting the HHP turf:** The management asserted that the company is taking concrete initiatives to keep the competition at bay in the HHP segment which is the mainstay of the Power-gen vertical for KKC. This includes offering customized and tailored products and solutions for each segment. Competitive intensity has increased in this segment which KKC is mitigating through rigorous cost optimization and reducing product delivery timelines.

TP Rs4,401

CMP Rs4,287

Potential upside/downside 3%

Previous Rating HOLD

Price Performance (%)

	-1m	-3m	-12m
Absolute	(6.3)	(2.7)	47.2
Rel to Sensex	(4.0)	(3.1)	40.6

V/s Consensus

EPS (Rs)	FY26E	FY27E	FY28E
IDBI Capital	88	104	124
Consensus	87	99	112
% difference	1.4	4.9	10.4

Key Stock Data

Bloomberg/Reuters	KKC IN/CUMM.BO
Sector	Capital Goods
Shares o/s (mn)	277
Market cap. (Rs mn)	11,64,476
3-m daily avg. trd. value (Rs mn)	33.9
52-week high / low	Rs4,615 / 2,595
Sensex / Nifty	83,818 / 25,776

Shareholding Pattern (%)

Promoters	51.0
FII	19.4
DII	17.8
Public	11.8

Consolidated Financial Snapshot

(Rs mn)

Year	FY24	FY25	FY26E	FY27E	FY28E
Revenue	88,600	1,02,192	1,18,684	1,40,648	1,66,538
Change yoy, %	16	15	16	19	18
EBITDA	17,697	20,800	25,356	29,876	35,432
Change yoy, %	42	18	22	18	19
EBITDA Margin (%)	20.0	20.4	21.4	21.2	21.3
Adj.PAT	17,223	19,999	24,301	28,884	34,275
EPS (Rs)	62	72	88	104	124
Change yoy, %	39	16	22	19	19
P/E(x)	67.6	58.2	47.9	40.3	34.0
Dividend Yield (%)	0.7	0.9	0.9	1.0	1.0
P/B (x)	65.0	54.8	44.6	37.5	31.2
RoE (%)	27.8	28.2	29.6	29.6	29.3
RoCE (%)	24.8	26.2	28.3	28.3	28.2

Source: IDBI Capital Research, Company

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Exhibit 1: Quarterly Snapshot (Consolidated)

Consolidated (Rs mn)	Q3FY26	Q3FY25	YoY (%)	Q2FY26	QoQ (%)
Net Sales	30,549	30,962	(1.3)	31,703	(3.6)
Expenditure	-24,205	-24,986	(3.1)	-24,755	(2.2)
<i>as % of sales</i>	-79.2	-80.7		-78.1	
Consumption of RM	-18,985	-20,170	(5.9)	-20,123	(5.7)
<i>as % of sales</i>	-62.1	-65.1		-63.5	
Employee Cost	-2,003	-2,397	(16.4)	-1,986	0.9
<i>as % of sales</i>	-6.6	-7.7		-6.3	
Other expenditure	-3,216	-2,419	33.0	-2,646	21.6
<i>as % of sales</i>	-10.5	-7.8		-8.3	
EBITDA	6,345	5,976	6.2	6,948	(8.7)
Depreciation	-504	-493	2.2	-492	2.4
EBIT	5,841	5,483	6.5	6,456	(9.5)
Other Income	1,160	1,114	4.1	1,228	(5.5)
Interest	-48	-30	58.3	-26	87.5
Exceptional	568	569	(0.3)	582	(2.5)
PBT	6,255	7,136	(12.3)	8,240	(24.1)
Total Tax	-1,395	-1,551	(10.1)	-2,017	(30.9)
Reported PAT	4,861	5,585	(13.0)	6,223	(21.9)
Extraordinary Items	-1,265	0		0	
Adjusted PAT	5,844	5,585	4.6	6,223	(6.1)
Adjusted EPS	21	20	4.6	22	(6.1)
Margins (%)			Yoy (bps)	QoQ (bps)	
EBIDTA	20.8	19.3	147	21.9	(115)
EBIT	19.1	17.7	141	20.4	(124)
EBT	20.5	23.0	(257)	26.0	(552)
PAT	15.9	18.0	(213)	19.6	(372)
Effective Tax rate	(22.3)	(21.7)	(56)	(24.5)	218

Source: Company, IDBI Capital

Exhibit 2: Change in estimates

	FY26E			FY27E		
	Old	New	(%) Chg	Old	New	(%) Chg
Revenue (Rs mn)	1,22,573	1,18,684	(3.2)	1,44,478	1,40,648	(2.7)
EBITDA (Rs mn)	26,036	25,356	(2.6)	30,358	29,876	(1.6)
EBITDA margin (%)	21.2%	21.4%	1	21.0%	21.2%	2
Net profit (Rs mn)	25,189	24,301	(3.5)	29,757	28,884	(2.9)
EPS (Rs)	91	87	(3.7)	107	104	(2.6)

Source: Company; IDBI Capital Research

Conference call highlights

■ Demand Outlook:

- Domestic sales stood at Rs25.3Bn, a marginal decline of 2% YoY.
- In the power gen segment, the revenue decreased 16% YoY to Rs10.69Bn. This was attributed to the "lumpy" nature of data center executions, which saw high activity in the previous quarter but none in Q3.
- The distribution business grew 26% YoY to Rs9.39Bn. Conversely, the industrial segment declined 9% YoY to Rs4.64Bn, hampered by a slowdown in road construction and delayed monsoons affecting excavator sales.
- The data centres segment contributes approximately 25% of powergen revenue on average. High Horsepower (HHP) demand (2,500 kVA and above) remains the standard for both hyperscalers and co-located players.
- The export sales were broadly stable at Rs4.71Bn (up 2% YoY), though demand remains "choppy" across global markets.

■ Capex:

- The company is focusing R&D on Battery Energy Storage Systems (BESS), having launched 10-foot and 20-foot container solutions.
- Following the transition to CPCB IV+ emission norms, management expects no further regulatory-driven capital investment for several years in the sub-800 kW range.
- Cummins India continues to invest in customized product development for the marine sector and is eyeing capacity to meet new budget outlays for railways.

■ Future Guidance:

- Cummins India management is targeting double-digit revenue growth for both FY2026 and FY2027, supported by a positive domestic economic environment.

- The outlook for the data centre segment is positive for the next 3–4 years, bolstered by recent government tax incentives for data centers.
- While the inquiries are high, the management noted that commercial sales are currently slow as customers evaluate how BESS fits into their backup power mix.
- **Others:**
 - The Gross margins of Cummins India reached a historic high of approximately 38%, driven by material cost reductions, product mix, and one-time supplier benefits.
 - The current quarter included a one-time Rs500Mn expense related to a true-up of management cost charges.
 - Cummins India management is watchful of inflationary pressures in copper, which impacts the associate company's alternator business, while iron and steel remain stable.

Financial Summary

Consolidated Profit & Loss Account

(Rs mn)

Year-end: March	FY23	FY24	FY25	FY26E	FY27E	FY28E
Net sales	76,414	88,600	1,02,192	1,18,684	1,40,648	1,66,538
<i>Change (yoy, %)</i>	26	16	15	16	19	18
Operating expenses	(65,244)	(72,305)	(83,107)	(93,328)	(1,10,772)	(1,31,106)
EBITDA	12,477	17,697	20,800	25,356	29,876	35,432
<i>Change (yoy, %)</i>	41	42	18	22	18	19
<i>Margin (%)</i>	16.3	20.0	20.4	21.4	21.2	21.3
Depreciation	(1,420)	(1,592)	(1,851)	(1,843)	(1,997)	(2,151)
EBIT	11,057	16,105	18,950	23,512	27,879	33,281
Interest paid	(162)	(274)	(159)	-	-	-
Other income	5,161	6,232	7,137	7,992	9,567	11,155
Pre-tax profit	15,913	22,046	25,928	31,504	37,446	44,435
Tax	(3,631)	(4,840)	(5,929)	(7,204)	(8,562)	(10,161)
<i>Effective tax rate (%)</i>	22.8	22.0	22.9	22.9	22.9	22.9
Minority Interest	-	-	-	-	-	-
Net profit	12,282	17,206	19,999	24,301	28,884	34,275
Exceptional items	(143)	(17)	-	-	-	-
Adjusted net profit	12,425	17,223	19,999	24,301	28,884	34,275
<i>Change (yoy, %)</i>	55	39	16	22	19	19
EPS	44.8	62.1	72.1	87.7	104.2	123.6
Dividend per sh	22.5	31.0	38.0	39.9	41.9	44.0
<i>Dividend Payout (%)</i>	50.2	50	53	46	40	36

Consolidated Balance Sheet

(Rs mn)

Year-end: March	FY23	FY24	FY25	FY26E	FY27E	FY28E
Shareholders' funds	57,582	66,123	75,614	88,854	1,06,125	1,28,206
Share capital	554	554	554	554	554	554
Reserves & surplus	57,028	65,569	75,060	88,300	1,05,570	1,27,651
Total Debt	3,500	1,000	-	-	-	-
Other liabilities	1,008	872	862	862	862	862
Curr Liab & prov	17,095	21,710	25,209	27,155	30,583	34,457
Current liabilities	14,671	18,864	21,632	23,579	27,006	30,880
Provisions	2,424	2,847	3,577	3,577	3,577	3,577
Total liabilities	21,604	23,582	26,071	28,018	31,445	35,319
Total equity & liabilities	79,186	89,705	1,01,685	1,16,872	1,37,570	1,63,524
Net fixed assets	12,119	13,854	14,736	15,092	15,295	15,343
Investments	24,765	26,188	24,174	27,174	30,174	33,174
Other non-curr assets	362	366	398	398	398	398
Current assets	41,941	49,298	62,377	74,207	91,703	1,14,609
Inventories	9,037	9,497	10,041	11,288	13,484	15,966
Sundry Debtors	15,971	20,854	22,778	26,017	30,832	36,507
Cash and Bank	13,862	15,128	25,103	32,447	42,931	57,680
Loans and advances	3,071	3,820	4,456	4,456	4,456	4,456
Total assets	79,186	89,705	1,01,685	1,16,872	1,37,570	1,63,524

Consolidated Cash Flow Statement

(Rs mn)

Year-end: March	FY23	FY24	FY25	FY26E	FY27E	FY28E
Pre-tax profit	15,913	22,046	25,928	31,504	37,446	44,435
Depreciation	1,420	1,592	1,851	1,843	1,997	2,151
Tax paid	(3,521)	(5,012)	(5,647)	(7,204)	(8,562)	(10,161)
Chg in working capital	(3,245)	(3,382)	(1,549)	(2,540)	(3,583)	(4,284)
Other operating activities	(2,371)	(2,390)	(3,735)	-	-	-
Cash flow from operations (a)	8,197	12,853	16,849	23,604	27,298	32,143
Capital expenditure	(1,543)	(2,821)	(2,299)	(2,200)	(2,200)	(2,200)
Chg in investments	376	(2,967)	3,040	(3,000)	(3,000)	(3,000)
Other investing activities	1,858	3,106	(6,558)	-	-	-
Cash flow from investing (b)	691	(2,682)	(5,817)	(5,200)	(5,200)	(5,200)
Equity raised/(repaid)	-	-	-	-	-	-
Debt raised/(repaid)	(506)	(2,571)	(1,087)	-	-	-
Dividend (incl. tax)	(6,237)	(8,593)	(10,534)	(11,060)	(11,613)	(12,194)
Chg in minorities	-	-	-	-	-	-
Other financing activities	(130)	(179)	(59)	-	-	-
Cash flow from financing (c)	(6,873)	(11,343)	(11,680)	(11,060)	(11,613)	(12,194)
Net chg in cash (a+b+c)	2,015	(1,171)	(648)	7,344	10,484	14,749

Financial Ratios

Year-end: March	FY23	FY24	FY25	FY26E	FY27E	FY28E
Book Value (Rs)	208	239	273	321	383	463
Adj EPS (Rs)	44.8	62.1	72.1	87.7	104.2	123.6
Adj EPS growth (%)	55	39	16	22	19	19
EBITDA margin (%)	16.3	20.0	20.4	21.4	21.2	21.3
Pre-tax margin (%)	20.8	24.9	25.4	26.5	26.6	26.7
Net Debt/Equity (x)	-0.2	-0.2	-0.3	-0.4	-0.4	-0.4
ROCE (%)	19	25	26	28	28	28
ROE (%)	23	28	28.2	29.6	29.6	29.3

DuPont Analysis

Asset turnover (x)	1.0	1.0	1.1	1.1	1.1	1.1
Leverage factor (x)	1.4	1.4	1.4	1.3	1.3	1.3
Net margin (%)	16.3	19.4	19.6	20.5	20.5	20.6

Working Capital & Liquidity ratio

Inventory days	43	39	36	35	35	35
Receivable days	76	86	81	80	80	80
Payable days	65	71	69	69	69	69

Valuations

Year-end: March	FY23	FY24	FY25	FY26E	FY27E	FY28E
PER (x)	93.7	67.6	58.2	47.9	40.3	34.0
Price/Book value (x)	20.2	17.6	15.4	13.1	11.0	9.1
EV/Net sales (x)	15.1	13.0	11.1	9.5	8.0	6.6
EV/EBITDA (x)	92.5	65.0	54.8	44.6	37.5	31.2
Dividend Yield (%)	0.5	0.7	0.9	0.9	1.0	1.0

Source: Company; IDBI Capital Research

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Key to Ratings Stocks:

BUY: 15%+; **HOLD:** -5% to 15%; **SELL:** -5% and below.

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2. The fee charged by RA to the client will be subject to the maximum of amount prescribed by SEBI/ Research Analyst Administration and Supervisory Body (RAASB) from time to time (applicable only for Individual and HUF Clients).
 Note:
 - 2.1. The current fee limit is Rs 1,51,000/- per annum per family of client for all research services of the RA.
 - 2.2. The fee limit does not include statutory charges.
 - 2.3. The fee limits do not apply to a non-individual client / accredited investor.
3. RA may charge fees in advance if agreed by the client. Such advance shall not exceed the period stipulated by SEBI; presently it is one quarter. In case of pre-mature termination of the RA services by either the client or the RA, the client shall be entitled to seek refund of proportionate fees only for unexpired period.
4. Fees to RA may be paid by the client through any of the specified modes like cheque, online bank transfer, UPI, etc. Cash payment is not allowed. Optionally the client can make payments through Centralized Fee Collection Mechanism (CeFCOM) managed by BSE Limited (i.e. currently recognized RAASB).
5. The RA is required to abide by the applicable regulations/ circulars/ directions specified by SEBI and RAASB from time to time in relation to disclosure and mitigation of any actual or potential conflict of interest. The RA will endeavor to promptly inform the client of any conflict of interest that may affect the services being rendered to the client.
6. Any assured/guaranteed/fixed returns schemes or any other schemes of similar nature are prohibited by law. No scheme of this nature shall be offered to the client by the RA.
7. The RA cannot guarantee returns, profits, accuracy, or risk-free investments from the use of the RA's research services. All opinions, projections, estimates of the RA are based on the analysis of available data under certain assumptions as of the date of preparation/publication of research report.
8. Any investment made based on recommendations in research reports are subject to market risks, and recommendations do not provide any assurance of returns. There is no recourse to claim any losses incurred on the investments made based on the recommendations in the research report. Any reliance placed on the research report provided by the RA shall be as per the client's own judgement and assessment of the conclusions contained in the research report.
9. The SEBI registration, Enlistment with RAASB, and NISM certification do not guarantee the performance of the RA or assure any returns to the client.
10. For any grievances,
 Step 1: the client should first contact the RA using the details on its website or following contact details:
 (RA to provide details as per 'Grievance Redressal / Escalation Matrix')
 Step 2: If the resolution is unsatisfactory, the client can also lodge grievances through SEBI's SCORES platform at www.scores.sebi.gov.in
 Step 3: The client may also consider the Online Dispute Resolution (ODR) through the Smart ODR portal at <https://smartodr.in>
11. Clients are required to keep contact details, including email id and mobile number/s updated with the RA at all times.
12. The RA shall never ask for the client's login credentials and OTPs for the client's Trading Account Demat Account and Bank Account. Never share such information with anyone including RA.