30 May 2024

Cummins

Strong performance; retaining a Buy

Rating: **Buy**
Target Price: Rs.4,166
Share Price: Rs.3,592

With Rs23bn/4.8bn/5.1bn Q4 revenue/EBITDA/PAT, up 20/49/62%, Cummins reported a strong Q4, roundly beating our expectations. Its Q4 EBITDA margin was 20.9%, adjusted for a one-time Rs600m benefit, including a management cross charge and reversal of advance tax paid. The gross margin was a strong 36%, to hold at ~35% ahead. Revenue from data centres, a key growth area, is near 10%. We revise our estimates to account for the higher (sustainable) EBITDA margin and export revival from H2 FY25. We raise our FY25e/26e EPS 1.4%/1.5% and value the stock on a sum-of-parts basis, with standalone PE at 42x (from 36x) and value of partners/Associates/rental property at Rs939/sh. Thus, we retain our Buy and raise our TP to Rs4,166 (earlier Rs3,538).

Revenue to grow twice the GDP growth rate. Management reiterated its near-term annual revenue growth guidance at twice the GDP growth rate, supported by strong demand across segments, especially data centres, infrastructure, realty and manufacturing. Exports at 19% of FY24 revenue slid 18% y/y and are expected to bounce back in H2 FY25, with full recovery in FY26. The long-term plan is for exports of 35% of revenue.

Operating margin to be higher. The FY24 EBITDA margin was 19%, adjusted for a one-time Rs600m benefit. The gross margin was 35.5% and is expected at ~35%. This would be affected by rising commodity prices and boosted by higher realisation in CPCB 4+ gensets.

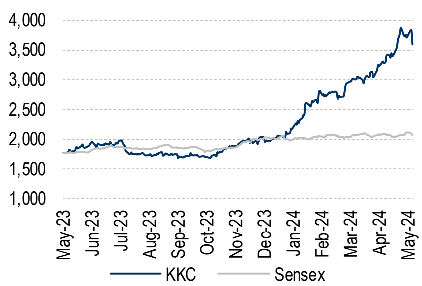
Valuation. We model revenue/EBITA/Adj. PAT clocking 18/17/15% CAGRs over FY24-26. At the CMP of Rs3,592, the stock trades at 56x/47x FY25e/26e EPS of Rs 64/77. We have added the value of partners/Associates and rental property, all contributing Rs939/sh. We maintain a Buy, with a 12-mth TP of Rs4,166. **Risks:** Competition catching up on CPCB 4+ transition faster than expected and undercutting in prices. The company cut prices to maintain its market share due to stiffer-than-anticipated competition. Also, exports being tepid for longer than expected could be a risk.

Key data	KKC IN
52-week high / low	Rs3900 / 1590
Sensex / Nifty	73886 / 22489
3-m average volume	$23.8m
Market cap	Rs997bn / $11967m
Shares outstanding	277m

Shareholding pattern (%)	Mar'24	Dec'23	Sep'23
Promoters	51.00	51.00	51.00
- of which, Pledged			
Free float	49.00	49.00	49.00
- Foreign institutions	17.36	16.51	16.46
- Domestic institutions	23.00	23.56	22.18
- Public	8.64	8.93	10.36

Estimates revision (%)	FY25e	FY26e
Sales	0.0	1.1
EBITDA	2.4	1.2
Adj. PAT	1.4	1.5

Relative price performance



Source: Bloomberg

Key financials (YE Mar)	FY22	FY23	FY24	FY25e	FY26e
Sales (Rs m)	61,404	77,444	89,586	105,131	125,632
Net profit (Rs m)	7,493	11,441	16,023	17,851	21,301
EPS (Rs)	27	41	58	64	77
P/E (x)	42	39	28	56	47
EV / EBITDA (x)	35	36	26	50	42
P / BV (x)	6	8	7	14	13
RoE (%)	*16*	*22*	*28*	*27*	*29*
RoCE (%)	*16*	*21*	*27*	*27*	*28*
Dividend yield (%)	*1.41*	*1.38*	*1.90*	*0.99*	*1.18*
Net debt / Equity (x)	(0.2)	(0.2)	(0.2)	(0.3)	(0.3)

Source: Company, Anand Rathi Research

Manoj Rawat
Research Analyst

Quick Glance – Financials and Valuations (standalone)

Fig 1 – Income statement (Rs m)

Year-end: Mar	FY22	FY23	FY24	FY25e	FY26e
Net Revenues	**61,404**	**77,444**	**89,586**	**105,131**	**125,632**
Growth (%)	*42*	*26*	*16*	*17*	*20*
Material Cost	41,068	52,309	57,701	68,335	81,912
Employee & other expenses	11,535	12,709	14,872	17,136	20,478
EBITDA	**8,802**	**12,426**	**17,014**	**19,659**	**23,242**
EBITDA margins (%)	*14.3*	*16.0*	*19.0*	*18.7*	*18.5*
Depreciation	1,340	1,405	1,576	1,587	1,677
Other income	2,875	4,200	5,678	5,836	6,913
Interest expense	115	158	268	233	227
PBT (before Exce. Item)	**10,221**	**15,064**	**20,848**	**23,676**	**28,251**
Effective tax rate (%)	*24*	*24*	*23*	*25*	*25*
+ Associates/(Minorities)	-	-	-	-	-
Net Income	**8,867**	**11,298**	**16,606**	**17,851**	**21,301**
Adjusted net income	**7,493**	**11,441**	**16,023**	**17,851**	**21,301**
Exceptional Item	**1,373**	**(143)**	**583**	**-**	**-**
WANS	277	277	277	277	277
FDEPS (Rs/share)	27	41	58	64	77
EPS growth (%)	*12*	*15*	*18*	*17*	*17*

Fig 2 – Balance sheet (Rs m)

Year-end: Mar	FY22	FY23	FY24	FY25e	FY26e
Share capital	554	554	554	554	554
Net worth	48,527	53,680	61,631	69,664	79,250
Debt	3,933	3,500	1,000	1,500	2,000
Minority interest	-	-	-	-	-
Deferred tax Liability/(Asset)	971	1,057	941	941	941
Other non-current liability	1,229	1,630	2,056	2,056	2,056
Capital employed	**54,660**	**59,867**	**65,628**	**74,161**	**84,246**
Net block (incl. intangible)	12,254	12,030	13,178	13,591	13,414
CWIP (tang. and intang.)	608	413	968	968	968
Investments	10,164	10,563	11,797	11,797	11,797
Current Assets (ex-C&CE)	30,758	38,307	43,995	49,406	56,784
Cash	14,267	13,808	15,047	21,560	28,722
Current Liabilities	13,391	15,253	19,357	23,161	27,439
Working capital	17,367	23,054	24,638	26,245	29,346
Capital deployed	**54,660**	**59,867**	**65,628**	**74,161**	**84,246**

Fig 3 – Cash-flow statement (Rs m)

Year-end: Mar	FY22	FY23	FY24	FY25e	FY26e
PBT	9,051	11,401	16,459	17,851	21,301
+ Non-cash items	1,340	1,405	1,576	1,587	1,677
Oper. profit before WC changes	10,391	12,805	18,035	19,439	22,978
- Incr. / (decr.) in WC	-683.5	-2,591	-1844.6	-1,607	-3,101
Others including taxes	-2,637	-2,104	-3,390	-5,603	-6,686
Operating cash-flow	7,071	8,111	12,801	12,228	13,192
- Capex (tangible + Intangible)	705.1	-1,540	-2,790	-2,000	-1,500
Free cash-flow	7,776	6,571	10,010	10,228	11,692
Acquisitions	-7,597	376.4	-2966.9	0	0
- Div. (incl. buyback & taxes)	-4,435	-6,237	-8,593	-9,818	-11,716
+ Equity raised	0	0	0	0	0
+ Debt raised	3,777	-432.7	-2500.4	500	500
- Interest expense	-73.7	-125.8	-172.6	-233.2	-226.6
- Misc. Items (CFI and CFF)	987.8	1,808	3,024	5,836	6,913
Net cash-flow	434.4	1,961	-1,198	6,513	7,162

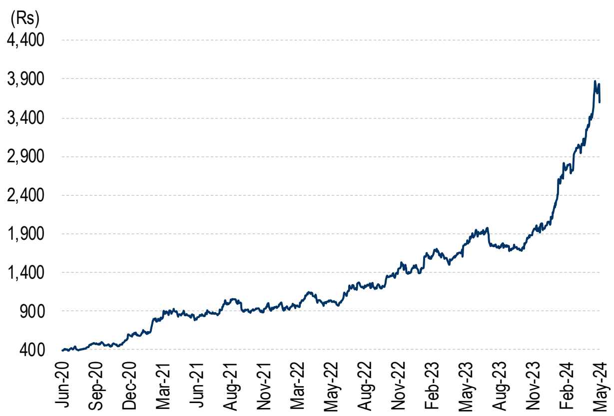
Source: Company, Anand Rathi Research

Fig 4 – Ratio analysis

Year-end: Mar	FY22	FY23	FY24	FY25e	FY26e
P/E (x)	42	39	28	56	47
EV/EBITDA (x)	35	36	26	50	42
EV/sales (x)	5	6	5	9	8
P/B (x)	6	8	7	14	13
RoE (%)	*16*	*22*	*28*	*27*	*29*
RoCE (%) - After tax	*16*	*21*	*27*	*27*	*28*
RoIC (%) - After tax	*20*	*25*	*32*	*34*	*38*
DPS (Rs per share)	16	23	31	35	42
Dividend yield (%)	*1.4*	*1.4*	*1.9*	*1.0*	*1.2*
Net debt/equity (x)	(0.2)	(0.2)	(0.2)	(0.3)	(0.3)
Receivables (days)	74	75	85	77	77
Inventory (days)	43	42	38	39	39
Payables (days)	59	54	57	52	52
CFO:PAT%	*96*	*108*	*66*	*61*	*78*

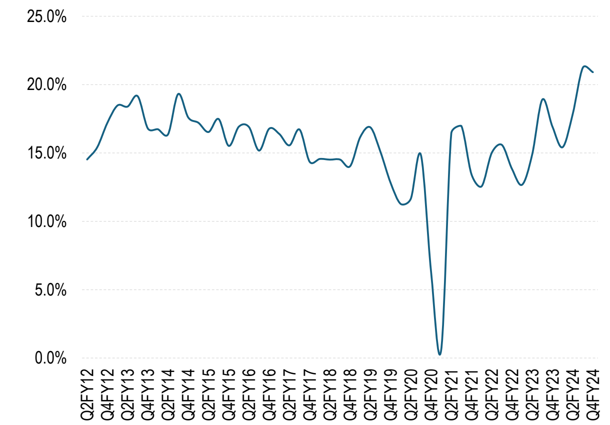
Source: Company, Anand Rathi Research

Fig 5 – Price movement



Source: Bloomberg

Fig 6 – EBITDA margins



Source: Company

Q4 FY24 Concall KTAs

- A one-time Rs600m cost benefit in other expenses related to a reversal of advance taxes and management cross charge.
- Growth is expected at twice the GDP growth rate, ie ~15% for the next five years on the doubling of capacity in core infra across the country.
- The CPCB 4+ powergen contribution was 33% in Q4 (25% in Q3).
- Pre-buy of CPCB 2 is unlikely in Q1 FY25, because the cost of CPCB 2 plus the retro-fitted devices is more than that of CPCB 4+, as around six companies now have CPCB 4+ portfolios.
- Dealers inventory of CPCB 2 gensets are below average.
- Volume growth in FY24 was 30% y/y. This is the highest and includes the effect of pre-buy.
- Data centre contribution is near 10% of revenue. This is a high-growth segment, with greater opportunities when the export market recovers fully.
- Exports are expected to be weak and to recover from H2 FY25. Full recovery is expected from FY26, and the long-term plan is to take the export contribution to 35%, from 19% in FY24.
- Industrial sub-segments such as construction, compressors and marine bounced back from low growth; overall growth in the industrials segment was 24% y/y.
- The powergen segment's growth was a strong 32% y/y, supported by strong growth in data centres, infrastructure, real estate, and manufacturing.
- The distribution segment grew 25% y/y, supported by strong growth in spares and after-market parts, AMCs, and other sub-segments.
- Capacity utilisation: installed 50%; manned 90%.
- Due to greater capacity, the average lead time fell to 30 days in FY24 from 60 earlier.
- Localisation is >75% as a few electronic items and parts are not yet being manufactured in India.
- Commodity prices are inching up. The gross margin would hold at ~35%.
- Within the rail sub-segment, progress was seen in CPCB 4+ compliant products used in hotel load converters, power cars, DETC propulsion sets, etc.
- Liquidity of ~Rs27bn would be used for dividends, investing in future products and as a war chest for new products.
- The company has a very low share from telcos, which use low-rated genset. It intends to increase market share there.
- The impact of CPCB4+ on the gross margin would be clear after Q2FY25.

Quarterly Summary

Fig 7 – Quarterly

Particulars (Rs m)	Q4 FY24	Q4 FY23	% Y/Y	Q3 FY24	% Q/Q	FY24	FY23	% Y/Y
Revenues	**23,162**	**19,260**	***20***	**25,341**	***-9***	**89,586**	**77,444**	***16***
Material costs	14,821	12,955	*14*	15,955	*-7*	57,701	52,309	*10*
Employee costs	1,889	1,566	*21*	2,090	*-10*	7,793	6,298	*24*
Other expenses	1,609	1,479	*9*	1,916	*-16*	7,079	6,411	*10*
EBITDA	**4,843**	**3,261**	***49***	**5,379**	***-10***	**17,014**	**12,426**	***37***
Depreciation	420	372	*13*	419	*0*	1,576	1,405	*12*
EBIT	**4,422**	**2,888**	***53***	**4,960**	***-11***	**15,437**	**11,022**	***40***
Finance costs	62	66	*-6*	63	*-2*	268	158	*70*
Other income	2,045	1,306	*57*	1,136	*80*	5,678	4,200	*35*
EO items	600	-		(17)		583	(143)	
PBT	**7,006**	**4,129**	***70***	**6,017**	***16***	**21,431**	**14,921**	***44***
Tax	1,390	944	*47*	1,467	*-5*	4,824	3,623	*33*
Rep. PAT	**5,615**	**3,185**	***76***	**4,549**	***23***	**16,606**	**11,298**	***47***
Adj. PAT	**5,165**	**3,185**	***62***	**4,562**	***13***	**16,170**	**11,405**	***42***
Margin analysis, %			**y/y (bps)**		**q/q (bps)**			**y/y (bps)**
Gross margins	*36.0*	*32.7*	*328*	*37.0*	*(103)*	*35.6*	*32.5*	*314*
Employee cost (% of sales)	*8.2*	*8.1*	*3*	*8.2*	*(9)*	*8.7*	*8.1*	*57*
Other expenses (% of sales)	*6.9*	*7.7*	*(73)*	*7.6*	*(61)*	*7.9*	*8.3*	*(38)*
EBITDA margins	***20.9***	***16.9***	***398***	***21.2***	***(32)***	***19.0***	***16.0***	***295***
Tax rates	*19.8*	*22.9*	*(302)*	*24.4*	*(454)*	*22.5*	*24.3*	*(177)*
Adj. PAT margins	***22.3***	***16.5***	***576***	***18.0***	***430***	***18.0***	***14.7***	***332***

Source: Company, Anand Rathi Research

Valuation

We model revenue/EBITA/Adj. PAT clocking 18/17/15% CAGRs over FY24-26. At the CMP of Rs3,592, the stock trades at 56x/47x FY25e/26e EPS of Rs64/77. We have added the value of partners/Associates and rental property, all contributing Rs939/sh. We maintain a Buy, with a 12-mth TP of Rs4,166.

Fig 8 – Change in estimates

	FY25e			FY26e		
(Rs m)	New	Old	% change	New	Old	% change
Net sales	105,131	105,131	*0.0*	125,632	124,261	*1.1*
EBITDA	19,659	19,204	*2.4*	23,242	22,962	*1.2*
EBITDA margins %	*18.7*	*18.3*	*43bps*	*18.5*	*18.5*	*2bps*
Adj. PAT	17,851	17,601	*1.4*	21,301	20,984	*1.5*
Adj. PAT margins	*17.0*	*16.7*	*24bps*	*17.0*	*16.9*	*7bps*
EPS	64	63	*1.4*	77	76	*1.5*

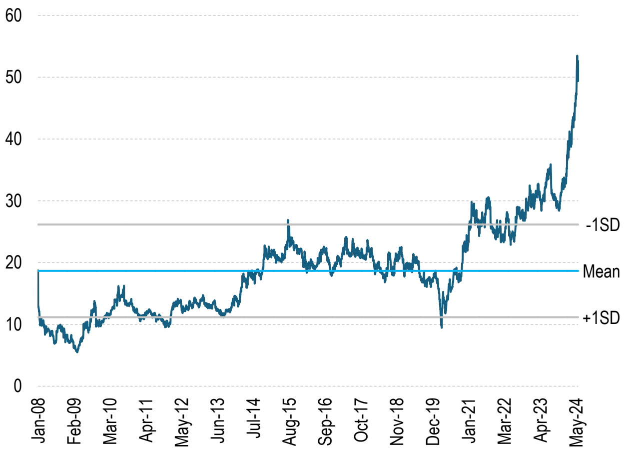
Source: Anand Rathi Research

Fig 9 – Valuation Table

Entity	Valuation Method	Mulitple (x)	Stake (%)	Core EPS (Rs / sh)	Core EPS- CIL share (Rs)	Value Rs/sh
Cummins, India (standalone)	P/E	42	100	76.8	76.8	3,227
Cummins sales & service	P/E	42	100	0.3	0.3	15
Valvoline Cummins JV	P/E	42	50	15.2	7.6	318
Cummins Generator Technologies	P/E	42	48.5	26.8	13.0	546
Rental income, captive	Cap rate	8.5%	100			60
Sum-of-parts (Rs / sh)						**4,166**

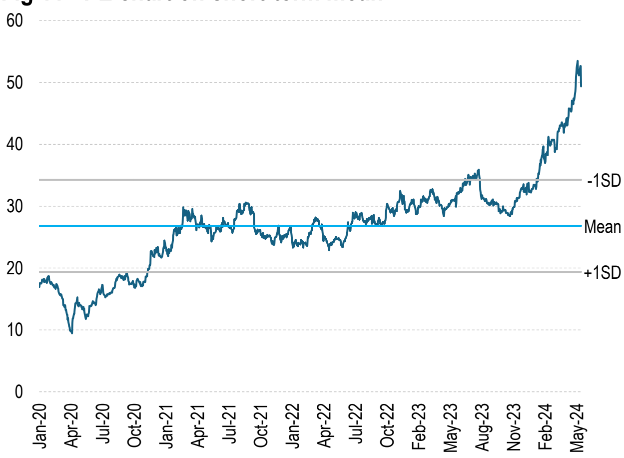
Source: Anand Rathi Research

Fig 10 - PE chart on long-term mean



Source: Bloomberg

Fig 11 - PE chart on short-term mean



Source: Bloomberg

Risks

- Competition catching up on CPCB 4+ transition faster than expected and undercutting of prices.
- The company cutting prices to maintain market share owing to stiffer-than-anticipated competition.
- Exports remaining tepid for longer than expected.

Appendix

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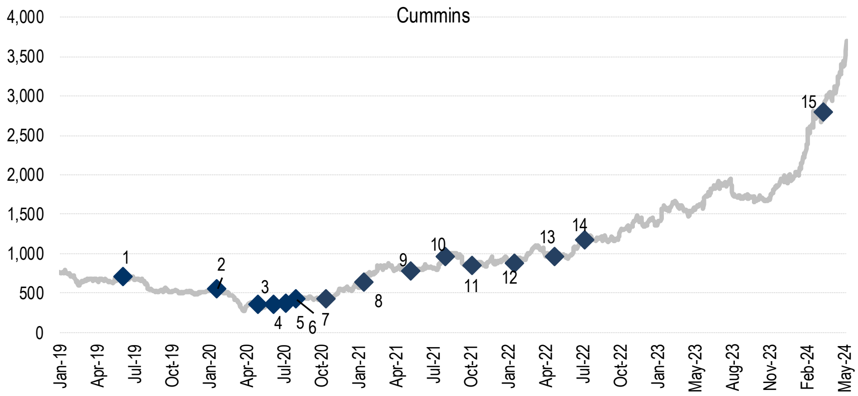

	Date	Rating	TP (Rs)	Share Price (Rs)
1	10-Jun-19	**Buy**	955	783
2	29-Jan-20	**Hold**	649	601
3	11-May-20	**Sell**	327	366
4	19-Jun-20	**Sell**	308	379
5	20-Jul-20	**Sell**	308	395
6	14-Aug-20	**Sell**	336	437
7	31-Oct-20	**Sell**	348	434
8	31-Jan-21	**Hold**	718	667
9	27-May-21	**Hold**	867	772
10	13-Aug-21	**Hold**	1,045	975
11	28-Oct-21	**Buy**	1,061	893
12	12-Feb-22	**Buy**	1,156	937
13	27-May-22	**Hold**	1,183	1,015
14	16-Aug-22	**Hold**	1,271	1,249
15	22-Mar-24	**Buy**	3,538	2,898

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