

# Cummins

## Recovery in sight

Cummins India's (CIL) 3QFY21 strong financial performance is underpinned by positive commentary on (1) calibrated demand normalisation, (2) likely stabilisation of exports market, barring COVID-19 waves, (3) pick-up on power gen viz. data centres, etc., (4) being open to various long term corporate action pertaining to CITL + CIL, and (5) new technology like Hydrogen being routed via the listed entity. We believe this will support long-term valuation rerating. Management clarified that the new hydrogen technology will be rolled out in the medium term via CIL in product/market segments, where it has good scale. We roll forward to FY23E and revise FY21E/22E/23E EPS upwards by 8.2%/12.8%/11.8%, given strong margin recovery. Maintain BUY with increased TP of Rs 810 vs Rs 724 earlier (SOTP).

- 3QFY21—domestic segment recovery, margins surprise:** Revenue: Rs 14.2bn (-2%/+23% YoY/QoQ, 11% beat). EBITDA: Rs 2.5bn (+12/+26% YoY, beat of 20%). EBITDA margin: 17% (+213/+48bps YoY/QoQ) vs est. of 14.2%. While depreciation and interest expenses were in line, other income saw a sharp jump of 36%/70% YoY/QoQ to Rs 984mn, driven by dividend income and forex gains. This drove even higher RPAT beat. Consequently, RPAT: Rs 2.34bn (+26/61% YoY/QoQ, 38% beat). Domestic: Exports split – 73:27, vs 65:35 QoQ and 75:35 YoY. BoD declared an interim dividend of Rs. 7 per equity share (277mn shares). High EBITDA margin is not likely to sustain, as costs will rise when business activity picks up steam. Moreover, there was a large high-value domestic order that skewed mix favorably.
- Segmental commentary strong:** Construction segment, which has supported growth, is expected to be strong in the near term. Implementation CPCB-4 norms have been delayed by six months. CIL expects orders in this regard from 1QFY23E and is looking for market share gain on the back of better engine and emissions technology. Railways has been lagging and will take a couple of quarters to normalise. Compressors is a very unpredictable cyclical segment and will keep growing as agriculture powers up further. Mining has rebounded strongly as demand for coal, iron ore and other metals is expected to sustain. New products in the marine segment have been introduced, with focus on capturing market share from global players.
- Export markets gradual recovery:** Exports had begun reviving, but due to the second COVID-19 wave, Latin America and EU region have turned sluggish. Asian markets continue to recover well. MENA region has been lukewarm and lies somewhere in between Asia & EU/Latin regions in terms of recovery.
- Return ratios to expand, all-round cyclical recovery:** We expect key segments—Infra, Data Centers, Healthcare, Residential—to see strong cyclical recovery. This shall coincide with lagged recovery in commercial real estate, hospitality and exports. Growth pick-up with better pricing should lead to RoE expansion from 14.2% in FY21E to 18.5% in FY23E.

### Standalone Financial summary

(Rs mn)	Q3FY21	Q3FY20	YoY (%)	Q2FY21	QoQ (%)	FY20	FY21E	FY22E	FY23E
Net Revenues	14,243	14,534	(2.0)	11,602	22.8	51,577	45,331	55,115	62,643
EBITDA	2,417	2,158	12.0	1,913	26.4	5,863	6,540	8,951	10,152
APAT	2,341	2,023	15.7	1,695	38.1	6,492	6,037	7,925	8,991
Diluted EPS (Rs)	8.4	7.3	15.7	6.1	38.1	23.4	21.8	28.6	32.4
P/E (x)						28.2	30.3	23.1	20.3
EV/EBIDTA (x)						29.9	26.7	19.1	16.7
RoE (%)						15.6	14.2	17.6	18.5

Source: Company, HSIE Research

## BUY

CMP (as on 29 Jan 2021)	Rs 666
Target Price	Rs 810
NIFTY	13,635

KEY CHANGES	OLD	NEW	
Rating	BUY	BUY	
Price Target	Rs 724	Rs 810	
EPS	FY21E	FY22E	FY23E
change %	+8.2	+12.8	+11.8

### KEY STOCK DATA

Bloomberg code	KKC IN
No. of Shares (mn)	277
MCap (Rs bn) / (\$ mn)	185/2,532
6m avg traded value (Rs mn)	767
52 Week high / low	Rs 690/280

### STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	50.9	66.3	10.8
Relative (%)	34.4	44.7	(1.5)

### SHAREHOLDING PATTERN (%)

	Sep-20	Dec-20
Promoters	51.00	51.00
FIs & Local MFs	31.29	27.50
FPIs	8.17	8.97
Public & Others	11.54	12.53
Pledged Shares	-	-

Source : BSE

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