



## Cummins India Ltd.

Market Cap.

Rs. 22,557 Cr.

52 Week H/L

Rs. 933/368

CMP

Rs.814

Target Price

Rs. 1,080

### STOCK DATA

#### BUY

Reuters Code	CUMM.BO
Bloomberg Code	KKC IN
BSE Code	500480
NSE Symbol	CUMMINSIND
Face Value	Rs. 2
Shares Outstanding	27.72 Cr.
Avg. Daily Vol. (6m)	16,22,336

#### Price Performance (%)

1M	3M	6M
(4)	(9)	43

200 Days EMA Rs. 695

### SHARE HOLDING (%)

Promoters	51.0
FII	10.9
FI/Bank	26.5
Body Corporate	1.0
Public & Others	10.6

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### Government's capital expenditure plans to drive demand recovery

In pursuit of making India a \$5 Trillion economy, the government of India, during its Union Budget of 2021 announced various capital expenditure initiatives in an attempt to revive the economy. Sectors like construction, railways, roadways, shipping and ports, etc. were allotted hefty budgets. Cummins caters to the power generation needs of all these sectors and we expect demand to recover as execution picks up in the post pandemic scenario.

### Rich technology base presents opportunity for market share growth in an ever-tightening regulatory environment

With the BS VI emission norms being adopted for all vehicles, India is now gearing to adopt the BS IV Construction Equipment Vehicle (CEV) / Central Pollution Control Board (CPCB) IV emission norms for non-highway power generation products. Cummins, through its parent has access to the latest technologies in diesel, gas, electric as well as hydrogen power generation assets. We expect the company to capitalize on this and improve its market share both, domestically as well as internationally.

### Introduction of new technologies to support margin expansion in long term

Cummins has a lot of exciting products for when mainstream diesel/gas power generation assets phase out. The company has operational technologies in battery, hydrogen fuel cell as well as hydrogen production. The company has developed end-to-end zero emission solutions which are seamlessly integrated to work together at the highest level of efficiency.

### OUTLOOK & VALUATION

We have forecasted a revenue growth of 7.7% CAGR over FY20-24E where we expect revenue for FY24E at Rs. 6,988 Cr, EBITDA at Rs. 1,154 Cr at an EBITDA margin of 16.5% and Net Income at Rs. 1,151. We estimate FY24E EPS at Rs. 41.5 and assign a PE multiple of 27x to arrive at a target price of Rs. 1,080, which is an upside of ~32% from yesterday's closing price of Rs. 814. We initiate coverage on Cummins India Ltd. with a BUY rating, over an investment horizon of 24-30 months.

Y/E Mar	Revenue (Rs. Cr)	EBITDA (Rs. Cr)	PAT (Rs. Cr)	NPM (%)	REPS (Rs.)	P/E (x)	P/S (x)	P/BV (x)
FY21	4,360	582	635	14.6%	22.91	36	0.19	4.89
FY22E	5,073	485	601	11.8%	21.67	38	0.16	4.70
FY23E	6,285	820	894	14.2%	32.26	25	0.13	4.39
FY24E	6,988	1,154	1,151	16.5%	41.52	20	0.12	4.03

## INVESTMENT RATIONALE

### “Government’s capital expenditure plans to drive domestic recovery” (1/2)

Cummins’ business suffered a decline in sales as economic activity slowed globally during 2019-2020. FY20 saw a decline of ~9% in sales as a result, along with the pandemic starting to show its effects as the final quarter of the year was about to close. With the pandemic having taken over the world, many industrial activities came to standstill and even now only a handful of them are operating at full capacity. FY21 saw an additional decline of 16% in sales for Cummins.

During the Budget announced in February 2021, the government focused on reviving the economy, along with announcing measures to tackle the pandemic. Domestic manufacturing was given a push with the Aatmanirbhar Bharat Scheme while a Development Finance Institution (DFI) is being set up with a provision of Rs. 20,000 Crore and will accelerate investments in the infrastructure sector by providing low cost long term debt financing options.

The Production Linked Incentive Scheme (PLI) was announced to attract investments in domestic manufacturing thereby boosting the domestic manufacturing sector. Incentives will be provided under the scheme to companies which cross the threshold level in terms of incremental sales of manufactured goods on a year-on-year basis. The scheme aims to improve capacity utilization across manufacturing sectors and bring in investments and create employment.

The National Infrastructure Pipeline is a group of social and economic infrastructure projects in India over a period of five years with an initial sanctioned amount of Rs. 102 lakh crore. The pipeline was first made public by the Prime Minister of India Narendra Modi during his 2019 Independence Day speech. Under the National Infrastructure Pipeline, the number of projects were expanded to 7,400 during the budget.

Under the Bharatmala Pariyojana, projects with more than 13,000 km length of roads, at a cost of Rs. 3.3 Lakh Crore have been awarded, of which 3,800 kms have already been constructed. By March 2022, the government would be awarding another 8,500 kms and complete an additional 11,000 kms of national highway corridors. Overall, the government has provided a capital outlay of Rs. 1.18 Lakh Crore for the Ministry of Road Transport and Highways.

It is expected that the Western Dedicated Freight Corridor (DFC) and the Eastern DFC will commission by June 2022. the government also aims at 100% electrification of Broad Gauge routes by December 2023. The government has announced a sum of Rs. 1.1 Lakh Crore for railways, with Rs. 1.07 Lakh Crore for capital expenditure.

## INVESTMENT RATIONALE

### “Government’s capital expenditure plans to drive domestic recovery” (2/2)

A new scheme based on Public Private Partnership model will be launched at a cost of Rs. 18,000 Crore to support augmentation of public bus transport services. Further, a total of 702 km of conventional metro is operational and another 1,016 kms of metro and Regional Rapid Transit System in under construction in 27 cities. Two new technologies, ‘MetroLite’ and ‘MetroNeo’ will be deployed to provide metro rail systems at much lesser cost.

7 projects worth more than Rs. 2,000 Crore will be offered by the major ports on Public Private Partnership mode to private players to manage their operational services. Ship Recycling capacity of around 4.5 Million Light Displacement Tonne (LDT) will be doubled by 2024, which is expected to generate an additional 1.5 Lakh jobs.

For FY22, a sharp increase in capital expenditure is budgeted with a total of Rs. 5.54 Lakh Crore being allocated for Infrastructure development in the country. As the vaccination drive picks up and India moves past the pandemic, we expect execution of all these plans to pick up speed. With manufacturing, infrastructure development, rail network expansion as well as rail electrification, rural electrification, development of ports and shipping, etc. to pick up, we believe Cummins India will see a strong demand recovery as their products serve all of these industries.

With infrastructure development picking up pace, there will be a recovery in the Commercial Vehicles (CV) industry as well, as is already being seen over the last couple of quarters. This should help the CV engines business of the company. We believe Cummins India, with its technologically advanced product portfolio and diversified base of industries served will be in an advantageous position in the post pandemic Indian economy.

## INVESTMENT RATIONALE

**“Rich technology base presents opportunity for market share growth in an ever-tightening regulatory environment”**

Over the last couple of years, we have seen India adopting stricter emission norms with the BS VI emission standards for all vehicles being adopted from April 2020. With the transition to BS VI for vehicles done, India is now preparing for the BS IV/ CPCB IV Construction Equipment Vehicle (CEV) emission norms where all non-highway power generating products will have to adhere to significantly stricter emission limits.

Cummins India is well positioned to capitalize on its rich global technology base to strengthen its leadership position in the power generation products market. Cummins’ ability to access the latest technology from its global parent for a cheap price (~1-1.2% royalty) will enable the company to capitalize on its first mover advantage.

With sectors like construction, compressor and railways expected to grow, fuelled by the government’s infrastructure and railway development plans, we expect Cummins to perform strongly in the near term. Additionally, under the Aatmanirbhar Bharat initiative, the government has taken numerous steps to boost domestic manufacturing/ sourcing for the defence sector, which should help the company further.

With domestic products aligning with the international markets, Cummins Inc. might leverage Cummins India’s cost efficient manufacturing abilities to cater to the global markets. This will drive exports higher for the company and thus help expand margins further.

## INVESTMENT RATIONALE

### “Introduction of new technologies to support margin expansion in long term” (1/2)

Cummins India is a subsidiary of Cummins Inc., USA. This gives the company access to some of the most advanced technologies that are in use today in the power technology business. From advanced diesel and natural gas to the latest hybrid, battery electric, and fuel cell options, Cummins’ solutions push the limits of what’s possible with innovations that can advance the world now and for decades to come.

**Battery Electric Systems-** Cummins cutting-edge battery electric technology has been developed to meet the same standards as their traditional power technology. From energy storage to control software, all of their battery electric solutions are put to the test. This holds true from initial design to lab validation and finally to field use. Systems are integrated for superior performance and reliability from every configuration of the technology.

At the heart of an all-electric, zero-emissions fleet, Cummins PowerDrive allows manufacturers to adopt electric school bus solutions today. The motors are virtually maintenance-free and deliver the highest possible performance. Advanced options like grid-quality power up to 200kW and state-of-the-art controls to track battery usage in real time provide the controls to optimize performance.

Cummins Battery Electric System (BES) is an all-electric powertrain that eliminates emissions and reduces maintenance and fuel costs, all while ensuring peak vehicle performance. The battery electric system has been designed with Cummins’ proprietary lightweight battery packs, an essential part of the integrated power solution. The BES system is compatible with AC or DC charging and comes fitted with onboard telemetry for remote diagnostics.

**Hydrogen Fuel Cells-** Cummins offers the most advanced hydrogen fuel cell technology, powering everything from mobility applications to backup generators. The company is continuously assisting fuel cell programs around the world with equipment, testing and implementation, and systems integration. Their low-pressure, non-humidified cell power modules deliver unrivaled reliability, fuel efficiency, quiet operation, and easy maintenance.

With simple installation and power ranging from 30kW to 180kW, Cummins hydrogen fuel cells are powering vehicles around the world—from buses and trucks to trains and military transport. The technology ensures unrestricted starts and stops, integrated air delivery, advanced controls for optimizing performance, and zero emissions at point of use.

The company is investing in two types of fuel cells, Proton Exchange Membrane (PEM) and Solid Oxide Fuel Cells (SOFC) with a goal to provide seamless start-to-finish solutions for their customers across industries.

## INVESTMENT RATIONALE

### “Introduction of new technologies to support margin expansion in long term” (2/2)

**Hydrogen Production-** Cummins PEM electrolyzers are among the most efficient available, capable of producing greener, renewable hydrogen. They also offer alkaline electrolyzers for proven performance and reliability for smaller-scale hydrogen output. The company is continuing to expand its electrolyzer technology to enable the adoption of hydrogen power across industries—and to fuel the emerging hydrogen economy. When generating cleaner, renewable hydrogen, Cummins electrolysis technology unlocks one of the most important sources of emission-free power available. The company is focusing on both ends of the hydrogen equation, with expertise in hydrogen production as well as hydrogen fuel cells designed for numerous applications.

The electrolyzer splits water into hydrogen and oxygen. The hydrogen generated can then be used in industrial, chemical, or short- and long-term power applications. Cummins offers both alkaline or PEM electrolyzers as core technologies in a range of systems.

Cummins’ above mentioned technologies work seamlessly together and find applications in a variety of industries such as:



Buses



Trucks



Trains



Boats & Ports



Off-Highway

Cummins has spent decades to innovate and perfect these alternate technologies which are expected to become mainstream in the near future as the world moves on from Internal Combustion Engines (ICEs) and Fossil Fuels for its energy requirements. These technologies are a lot more efficient and we believe that adoption of these technologies on a wider scale will benefit Cummins significantly as they are providing the complete solutions from zero emission transportation systems to critical components and expertly integrated battery packs, resulting in maximum performance and power, with reduced motor maintenance, service and fuel fees.

Source: Company, Sushil Finance Research

## COMPANY OVERVIEW



Cummins India is India's leading manufacturer of diesel and natural gas engines. It is a 51% subsidiary of the Cummins Group, the American multinational which is the world's largest independent designer and manufacturer of diesel engines above 200 HP. The company was incorporated in 1962 with the name Kirloskar Cummins Ltd, with Kirloskar Oil Engines Ltd and Cummins Inc., USA promoting the company. The company started its operations in Pune. In 1997, Kirloskar Oil Engines, sold their stake in the partnership to Cummins, leading to the formation of Cummins India Ltd.

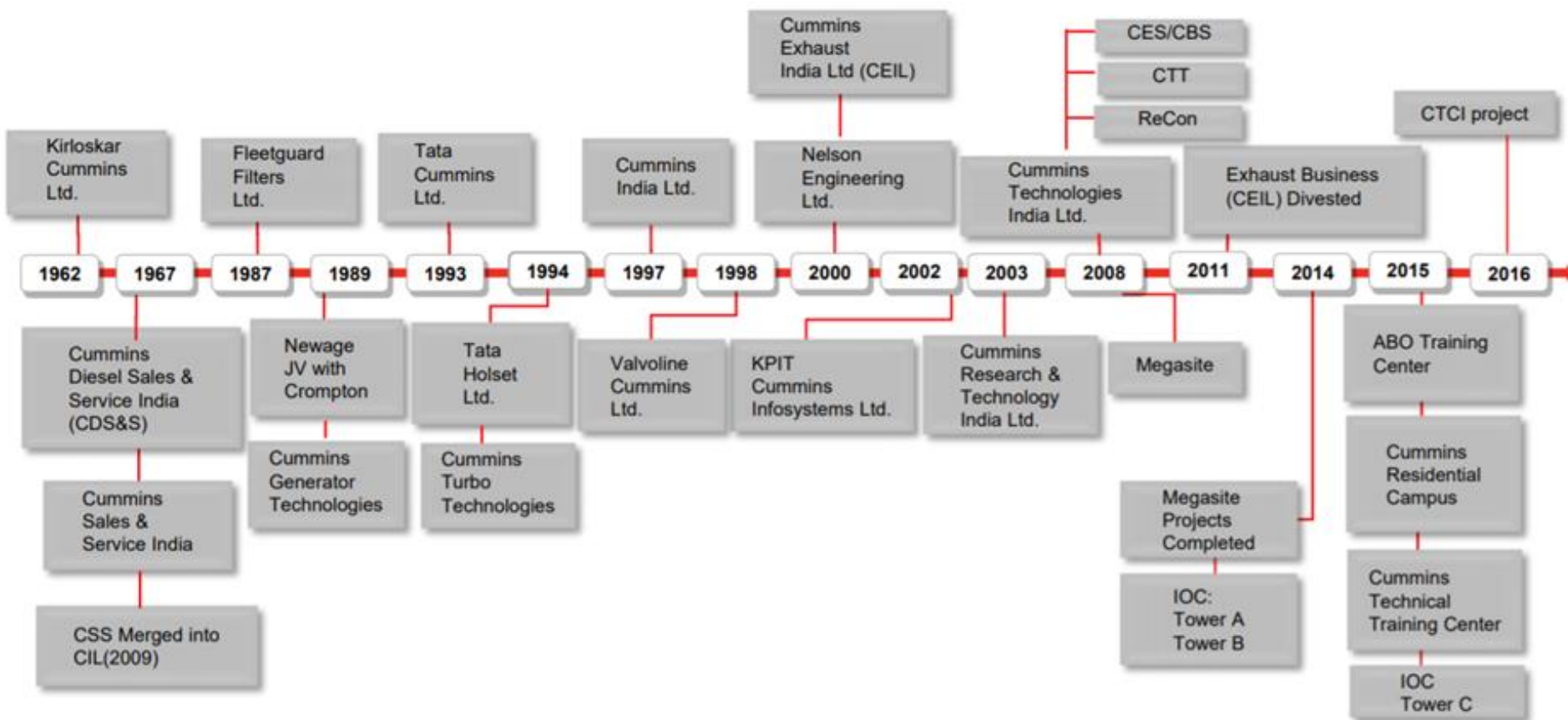
The company's business is classified into 3 units; Engine, Power Systems and Distribution. The **Engine Business** manufactures engines from 60 HP for low, medium and heavy-duty on-highway commercial vehicle markets and off-highway commercial equipment industry spanning construction and compressor. The **Power Systems Business** designs and manufactures high horsepower engines from 700 HP to 4,500 HP for marine, railways, defense and mining applications as well as power generation systems comprising of integrated generator sets in the range of 7.5 kVA to 3750 kVA including transfer switches, paralleling switchgear and controls for use in standby, prime and continuous rated systems. The **Distribution Business** provides products, packages, services and solutions for uptime of Cummins equipment. Through its country-wide network of over 120 dealership branch offices and 450 service touch points, the business provides parts, new and rebuilt engines, batteries, services and customer support solutions to products manufactured by Cummins. This network offers a strong team of more than 3,500 company trained engineers and technicians who handle service events of 5,25,000 engines on the field, serving over 2,00,000 customers across various markets in India, Nepal and Bhutan in off-highway segments.

For FY21 the company reported revenue of Rs. 4,360 Cr, a de-growth of 16% over the previous year. The company reported EBITDA of Rs. 582 Cr, translating to an EBITDA margin of 13.3% and brought in a net income of Rs. 635 Cr at a net margin of 14.6%. The company delivered an EPS of Rs. 23 and paid a dividend of Rs. 15.

Source: Company, Sushil Finance Research

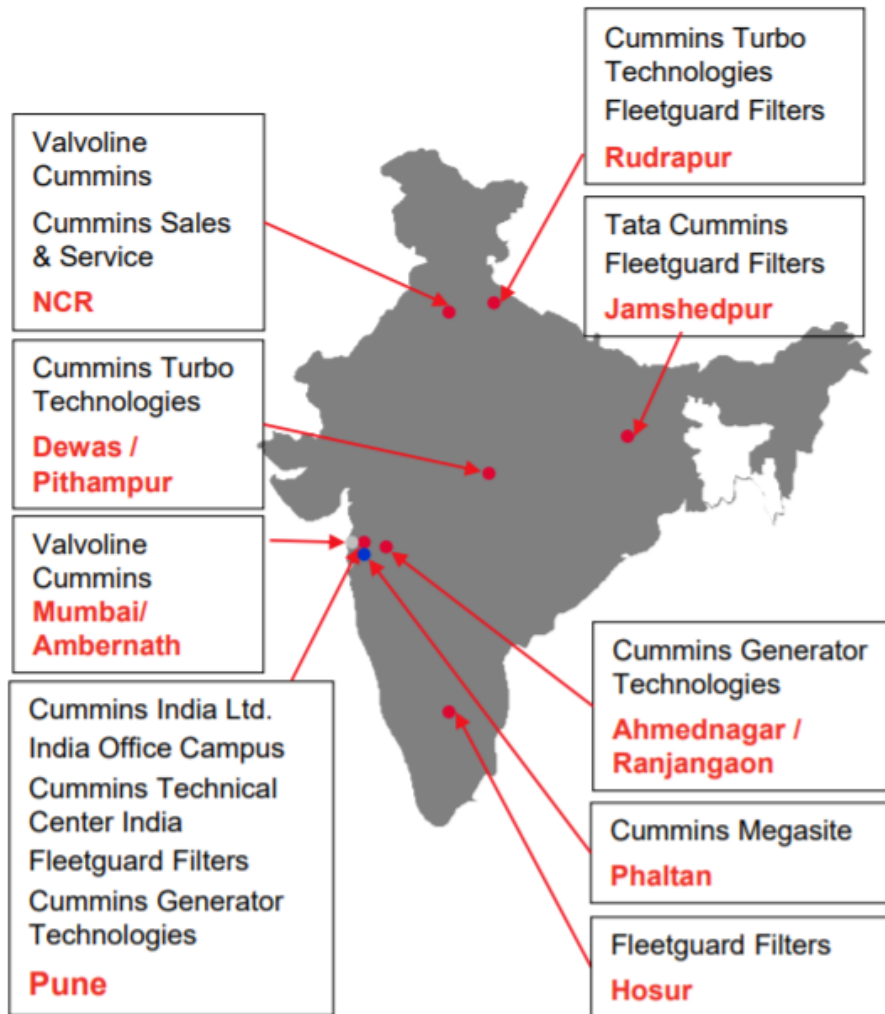


**BUSINESS OVERVIEW: Company History**



Source: Company, Sushil Finance Research

**BUSINESS OVERVIEW: Cummins' footprint in India**



- The **Cummins Megasite at Phaltan** in Maharashtra is a 225 acre campus and was built to consolidate and house all ongoing and future expansion plans of Cummins. Eight plants have become operational at the Megasite since 2011.
- **Valvoline Cummins Pvt. Ltd.** was formulated in India in 1994 and is a pioneer of global technology, manufacturing a complete range of premium lubricants for engines, equipment and various industrial applications. Ever-evolving professional and consumer markets trust Valvoline because we offer a better formula for businesses and consumers through innovative products, services and tools. In 1998, Valvoline Cummins Pvt. Ltd became a joint venture between Valvoline International Inc USA and Cummins India Ltd., and is one of the fastest growing lubricant companies in India.
- Established in 1993, **Tata Cummins Pvt. Ltd.** is a 50:50 joint venture between Tata Motors Limited, India's largest automobile manufacturer and Cummins Inc., USA, world leaders in design and manufacture of diesel engines. The entity manufactures high performance, reliable and durable mid-range (B&L) engines in the 75 to 400 HP range that not only comply with current and future emission norms, but are also serviceable globally.
- Established in 1987, **Fleetguard Filters Pvt. Ltd.** is India's leading manufacturer of heavy-duty air, fuel, lube and hydraulic filters, air intake systems, coolants and chemicals for commercial engines, catering to a wide variety of applications in markets including Automotive, Industrial equipment for construction, mining, agriculture, Marine application and Power generation.

Source: Company, Sushil Finance Research

## BUSINESS OVERVIEW: Cummins' footprint in India

- Established in 1991, **Cummins Generator Technologies India Pvt Ltd.** manufactures the world's broadest range of AC generators from 5 kVA to over 10,000 kVA under the Stamford and AvK product brands, and is backed by a committed customer support network worldwide.
- **Cummins Technologies India Pvt Ltd.** was formed in 2008. The entity encompasses eight divisions- Cummins Turbo Technologies, Cummins Emission Solutions, Cummins Business Services, Cummins Fuel Systems India, Cummins Technical Center India, Phaltan Engine Plant, Global Analytics Center (GAC), and Central Supply Chain Operations (CSCO).
- In 1995, the Tata Group and Holset (a Cummins owned company) collaborated to form a joint venture, **Tata Holset Ltd.**, to produce turbochargers. When Cummins rebranded its entities in 2006, Tata Holset Ltd became part of **Cummins Turbo Technologies (CTT)**. CTT has facilities in Pune, Dewas, Pithampur and Rudrapur.
- **Cummins Emission Solutions** is a designer, integrator, manufacturer and distributor of exhaust treatment systems and components for 'on and off highway' medium duty, heavy duty and high horsepower engine markets Cummins Business Services, headquartered in Nashville, Tennessee, USA handles shared services like payroll, travel and customer care around the world, including India.
- **Cummins Fuel Systems India** enables customers to meet increasingly stringent emission requirements while maximizing fuel economy through precise injection of highly pressurized fuel Caters to mid range, heavy duty and high horsepower applications in both on and off highway markets.
- **Cummins Technical Center India**, located at the Kothrud campus in Pune is equipped with laboratories and engineering facilities for designing technologies Established in July 2014 Global Analytics Center (GAC) is a knowledge processing hub set up to support non engineering business functions and processes to fulfill the analytical needs of various Cummins businesses globally in an integrated way.
- In order to accelerate synergies and value within the purchasing, logistics planning, parts distribution center and new ReCon parts operations, since August 2016 the Central Supply Chain Operations has been established.
- **Cummins Sales and Service Pvt Ltd.**(formerly known as Cummins Svam Sales Service Private Limited) which was incorporated as a 50:50 joint venture between Cummins India Limited and Svam Power Plants Private Limited, became a wholly owned subsidiary of Cummins India Limited with effect from October 01, 2015. Cummins Sales Service Private Limited focuses on sales and service of Cummins engines, parts, accessories and providing service support to the engines in Delhi, parts of Uttar Pradesh and Uttarakhand.

Source: Company, Sushil Finance Research

**BUSINESS OVERVIEW: Products**

Engines		Generator & Power Systems	
On-Highway	Off-Highway	Solutions	Industries
Defence Trucking: Medium-Duty Trucks Heavy-Duty Trucks	Compressor Engines Construction G-Drive Engines Marine Mining Oil & Gas Pump Engines Rail- Horizontal Rail Engines	Diesel Generators Producer Gas Generator Sets Turnkey Gas Generator Products Natural Gas and CBM Power Command Alternators Alternators and Other Components Integrated Power Systems Paralleling Controls Transfer Switches Genset Battery  Radiator, Heat Exchanger, Silencer, Alternators, Turbochargers	Commercial Power Data Centers Hospitality Realty Healthcare Infrastructure Manufacturing

Components			
Turbochargers & Air Handling	After Treatment	Electronics & Fuel Systems	Filtration
Holset Turbochargers Power Turbines Two-Stage Systems Turbo Componentry Holset Aftermarket Holset Reman	Cummins Emission Solutions Core Technologies: On-Highway Off-Highway Off-Highway Products > 750 HP Engineered Components	Electronics Fuel Systems Aftermarket & Remanufacturing	Air Filtration Crankcase Ventilation Coolants & Chemicals Fluid Analysis Fuel Filtration Hydraulic Filtration Transmission Filtration

Source: Company, Sushil Finance Research

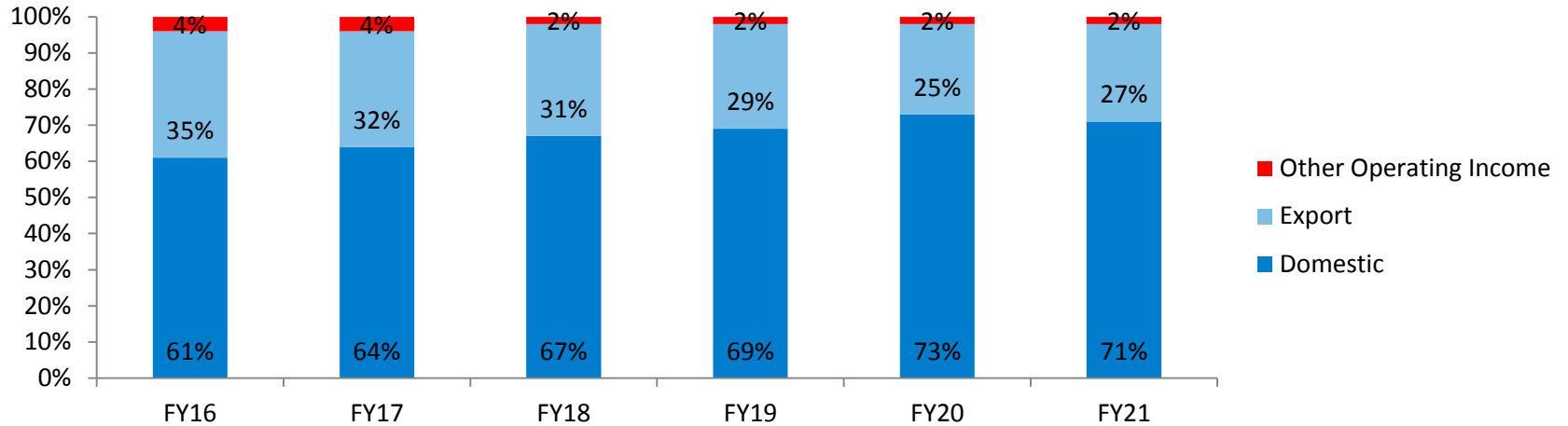
**BUSINESS OVERVIEW: Products**



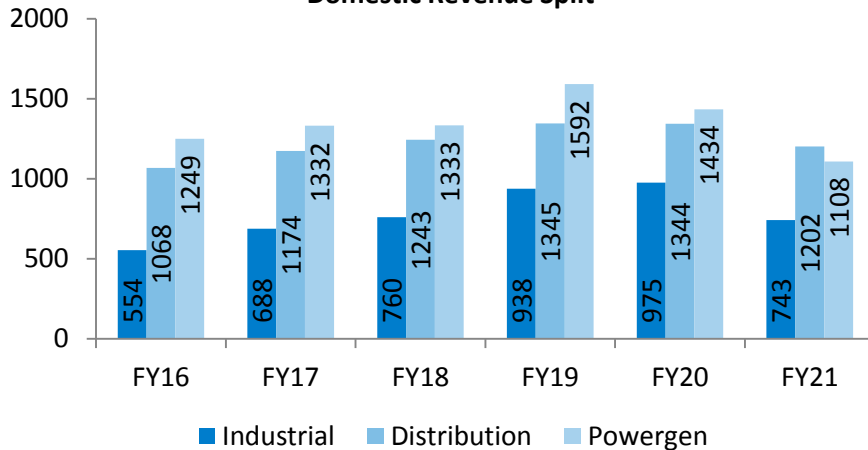
Source: Company, Sushil Finance Research

**BUSINESS OVERVIEW: Revenue Trends**

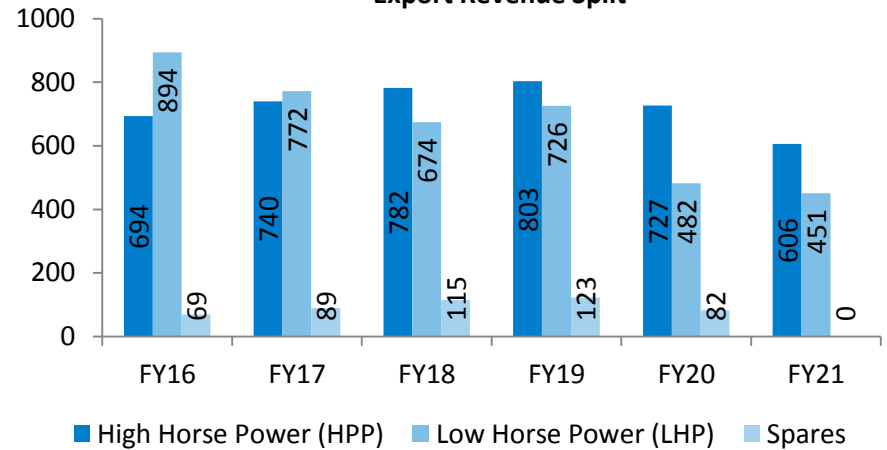
Revenue Split



Domestic Revenue Split

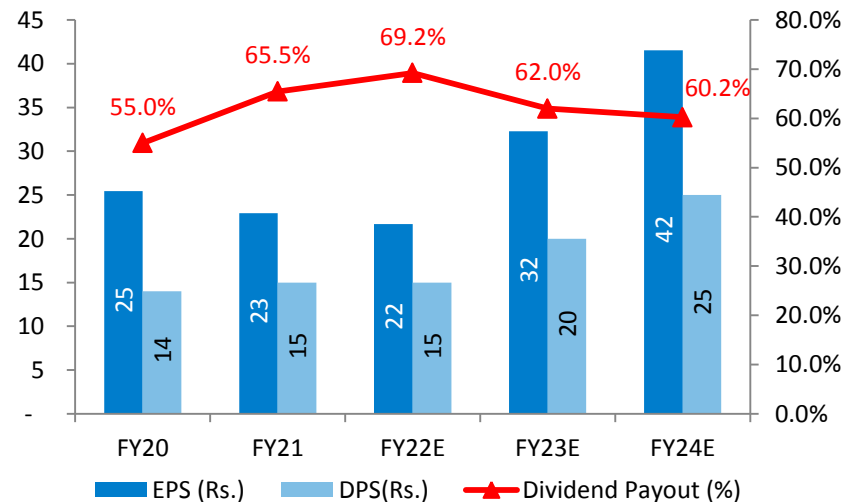
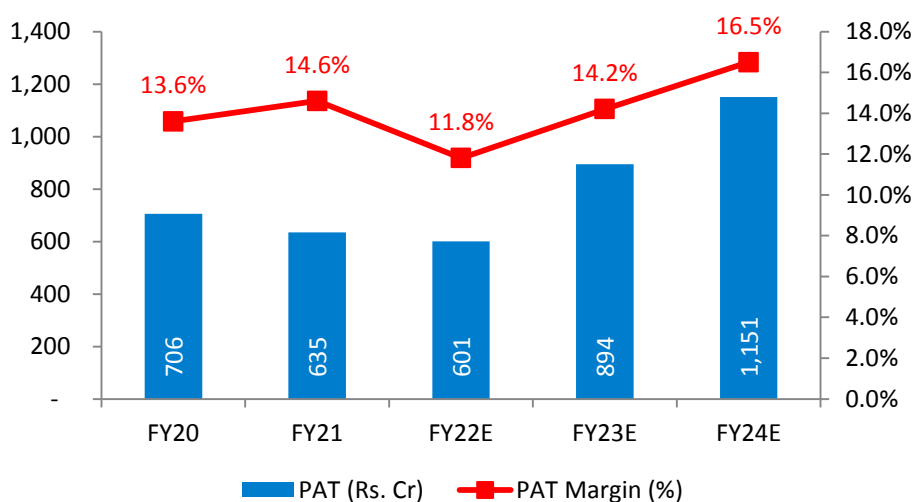
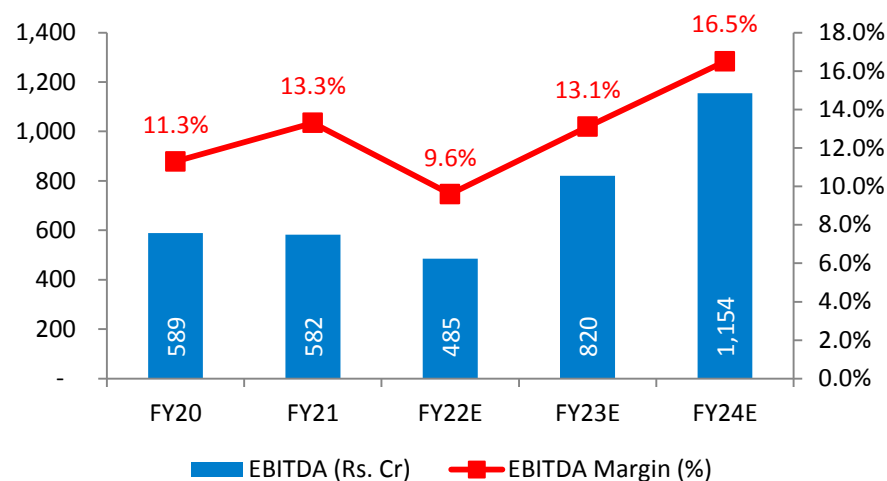
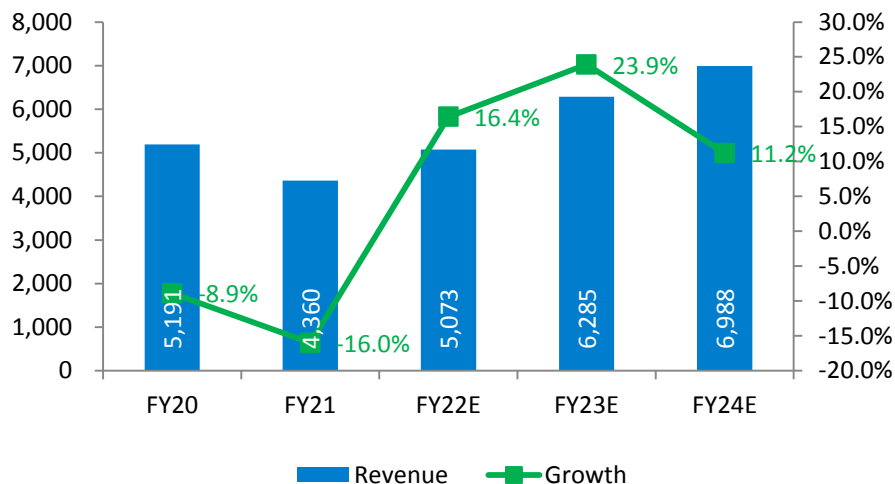


Export Revenue Split



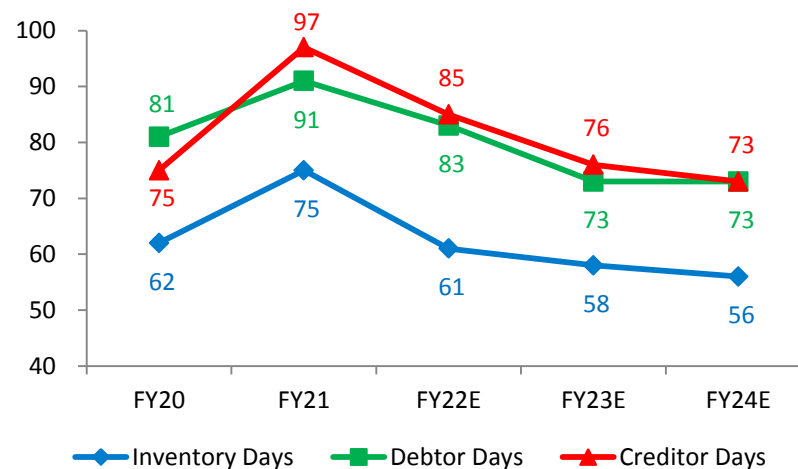
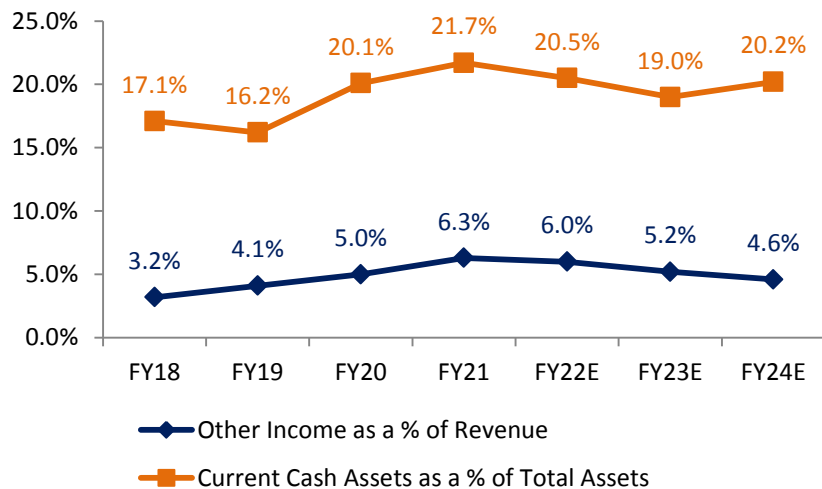
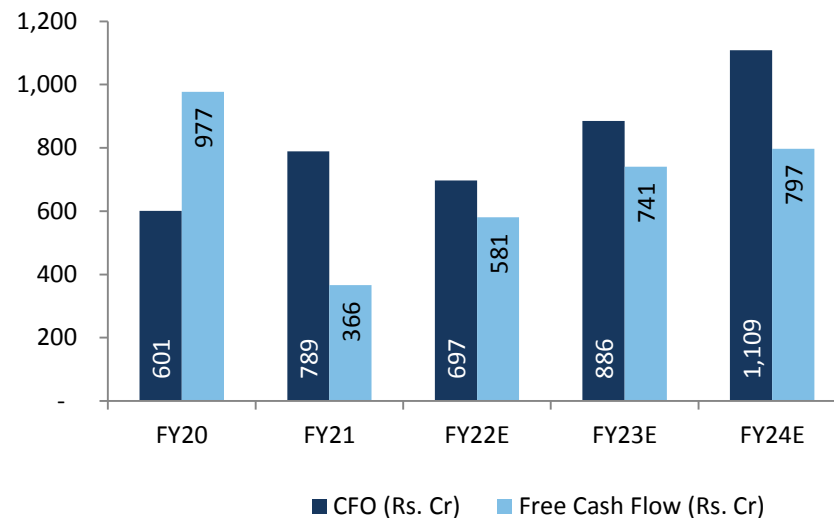
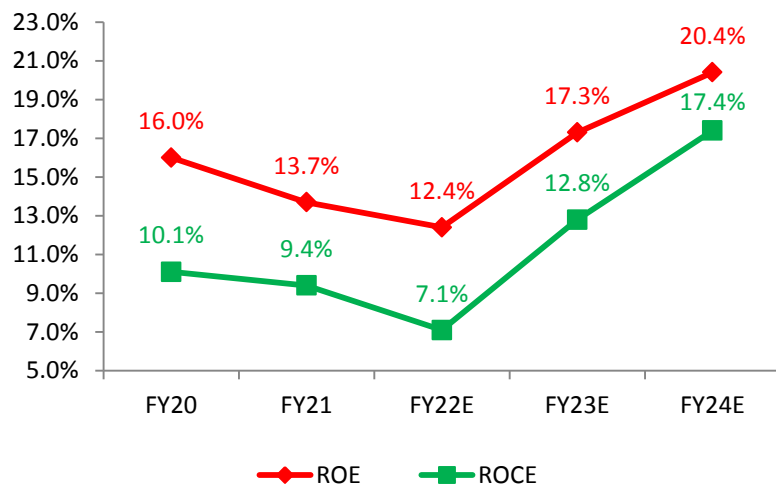
Source: Company, Sushil Finance Research

**BUSINESS OVERVIEW: Financials**



Source: Company, Sushil Finance Research

**BUSINESS OVERVIEW: Financials**



Source: Company, Sushil Finance Research



## RECENT QUARTER

Particulars (Rs. Cr)	Q4FY21	Q4FY20	YoY	Q3FY21	QoQ	FY21	FY20	YoY
Revenue	1,256	1,062	18%	1,431	(12%)	4,360	5,191	(16%)
Cost of Goods Sold	834	687	21%	917	(9%)	2,764	3,372	(18%)
Employee Benefit Expenses	138	145	(5%)	129	7%	510	578	(12%)
Other Expenses	115	163	(30%)	143	(20%)	505	653	(23%)
<b>EBITDA</b>	<b>169</b>	<b>67</b>	<b>151%</b>	<b>242</b>	<b>(30%)</b>	<b>582</b>	<b>589</b>	<b>(1%)</b>
<i>EBITDA margin</i>	<i>13.5%</i>	<i>6.3%</i>	714 Bps	<i>16.9%</i>	(343 Bps)	<i>13.3%</i>	<i>11.3%</i>	200 Bps
Depreciation	31	31	(1%)	32	(4%)	127	121	5%
Interest expense	3	5	(32%)	5	(28%)	17	21	(20%)
PBT	228	123	85%	310	(26%)	825	807	2%
<i>PBT margin</i>	<i>18.2%</i>	<i>11.6%</i>	656 Bps	<i>21.6%</i>	(348 Bps)	<i>18.9%</i>	<i>15.6%</i>	337 Bps
Tax expense	60	(47)	NA	69	(14%)	190	102	86%
<b>PAT</b>	<b>169</b>	<b>170</b>	<b>(1%)</b>	<b>240</b>	<b>(30%)</b>	<b>635</b>	<b>706</b>	<b>(10%)</b>
<i>PAT margin</i>	<i>13.4%</i>	<i>16.0%</i>	(261 Bps)	<i>16.8%</i>	(337 Bps)	<i>14.6%</i>	<i>13.6%</i>	97 Bps
<b>EPS</b>	<b>6.08</b>	<b>6.14</b>	<b>(1%)</b>	<b>8.67</b>	<b>(30%)</b>	<b>22.91</b>	<b>25.45</b>	<b>(10%)</b>

Source: Company Data, Sushil Finance Research

## Profit & Loss Statement

(Rs. Cr)

Y/E Mar.	FY21	FY22E	FY23E	FY24E
<b>Revenue</b>	<b>4,360</b>	<b>5,073</b>	<b>6,285</b>	<b>6,988</b>
Cost of Materials Consumed	2,330	2,778	3,409	3,721
Purchase of Stock in Trade	455	730	857	802
Changes in Inventories of FG, WIP & SIT	(21)	25	44	70
Employee Expenses	510	604	661	707
Other Expenses	505	452	493	535
<b>EBITDA</b>	<b>582</b>	<b>485</b>	<b>820</b>	<b>1,154</b>
<i>EBITDA Margin</i>	<i>13.3%</i>	<i>9.6%</i>	<i>13.1%</i>	<i>16.5%</i>
Depreciation	127	128	132	140
Finance Cost	17	15	19	21
Other Income	274	304	326	325
Share of Profits from Associates & JV	113	155	196	216
<b>Profit Before Taxes</b>	<b>825</b>	<b>801</b>	<b>1,192</b>	<b>1,535</b>
Tax Expenses	190	200	298	384
<b>Profit After Taxes</b>	<b>635</b>	<b>601</b>	<b>894</b>	<b>1,151</b>
<i>Net Margin</i>	<i>14.6%</i>	<i>11.8%</i>	<i>14.2%</i>	<i>16.5%</i>
<b>EPS</b>	<b>23</b>	<b>22</b>	<b>32</b>	<b>42</b>

## Balance Sheet Statement

(Rs. Cr)

Y/E Mar.	FY21	FY22E	FY23E	FY24E
PP&E (incl. CWIP)	1,217	1,241	1,278	1,313
Other Non-Current Assets	1,484	1,639	1,811	1,900
Inventories	564	589	684	707
Trade Receivables	1,088	1,153	1,257	1,398
Cash and Bank Balances	965	925	896	1,027
Other Current Assets	638	705	755	823
<b>Total Assets</b>	<b>5,956</b>	<b>6,251</b>	<b>6,682</b>	<b>7,168</b>
Equity Share Capital	55	55	55	55
Other Equity + Non-Controlling Int.	4,596	4,781	5,121	5,579
Borrowings (ST)	20	25	31	35
Other Non-Current Liabilities	196	197	197	198
Trade Payables	731	822	898	918
Other Current Liabilities	357	371	379	383
<b>Total Liabilities</b>	<b>5,956</b>	<b>6,251</b>	<b>6,682</b>	<b>7,168</b>

Source: Company, Sushil Finance Research

## Cash Flow Statement

(Rs. Cr)

Y/E Mar.	FY21	FY22E	FY23E	FY24E
PBT	825	801	1,192	1,535
Depreciation	127	128	132	140
Interest Expense	17	15	19	21
<b>CF Before Working Capital Changes</b>	<b>969</b>	<b>944</b>	<b>1,343</b>	<b>1,695</b>
Chg. in Inventories	13	(25)	(95)	(22)
Chg. in Investments	455	(28)	(22)	(42)
Chg. in Trade Receivables	58	(65)	(104)	(141)
Chg. in Other Current Financial Assets	67	(13)	(18)	(5)
Chg. in Other Current Assets	40	(25)	(11)	(21)
Chg. in Borrowings	(469)	5	6	4
Chg. in Trade Payables	34	91	76	20
Chg. in Other Current Financial Liabilities	(50)	9	5	1
Chg. in Other Current Liabilities	34	5	3	4
Income Taxes Paid	(190)	(200)	(298)	(384)
Other Adjustments	(159)	-	-	-
<b>Cash Flow From Operations</b>	<b>789</b>	<b>697</b>	<b>886</b>	<b>1,109</b>
Chg. in Non-Current Liabilities	2	1	0	0
Interest Paid	(17)	(15)	(19)	(21)
Dividend Paid	(416)	(416)	(554)	(693)
Other Adjustments	(410)	-	-	-
<b>Cash Flow From Financing</b>	<b>(873)</b>	<b>(430)</b>	<b>(573)</b>	<b>(714)</b>
Capital Expenditure	(77)	(152)	(170)	(175)
Chg. in Investment Property	17	(147)	(153)	(78)
Chg. in Investments	0	0	(1)	(1)
Chg. in Other Non-Current Assets	12	(7)	(15)	(8)
Other Adjustments	30	-	-	-
<b>Cash Flow From Investing</b>	<b>15</b>	<b>(307)</b>	<b>(342)</b>	<b>(264)</b>
<b>Changes in Cash</b>	<b>(69)</b>	<b>(40)</b>	<b>(30)</b>	<b>132</b>
<b>Opening Cash Flow</b>	<b>181</b>	<b>122</b>	<b>82</b>	<b>52</b>
<b>Closing Cash Flow</b>	<b>122</b>	<b>82</b>	<b>52</b>	<b>184</b>

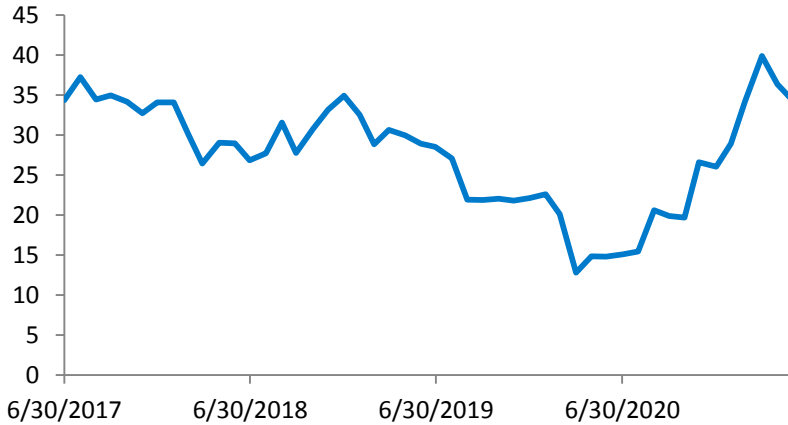
## Financial Ratio Statement

Y/E Mar.	FY21	FY22E	FY23E	FY24E
<b>Growth (%)</b>				
Revenue	(16.0%)	16.4%	23.9%	11.2%
EBITDA	(1.2%)	(16.7%)	69.2%	40.7%
Net Profit	(10.0%)	(5.4%)	48.9%	28.7%
<b>Profitability (%)</b>				
EBITDA Margin	13.3%	9.6%	13.1%	16.5%
Net Profit Margin	14.6%	11.8%	14.2%	16.5%
ROCE	9.4%	7.1%	12.8%	17.4%
ROE	13.7%	12.4%	17.3%	20.4%
<b>Per Share Data (Rs.)</b>				
EPS	23	22	32	42
BVPS	168	174	187	203
<b>Valuation (x)</b>				
P/E	35.5	37.6	25.2	19.6
P/BV	4.9	4.7	4.4	4.0
EV/EBITDA	38.6	46.4	27.5	19.4
P/SALES	0.2	0.2	0.1	0.1
<b>Turnover</b>				
Inventory days	75	61	58	56
Debtor days	91	83	73	73
Creditor days	97	85	76	73
<b>Gearing Ratio</b>				
Debt/Equity	0.004	0.005	0.006	0.006
<b>Free Cash Flow to the Firm</b>	<b>366</b>	<b>581</b>	<b>741</b>	<b>797</b>
<b>Free Cash Flow to Equity</b>	<b>(116)</b>	<b>575</b>	<b>733</b>	<b>785</b>

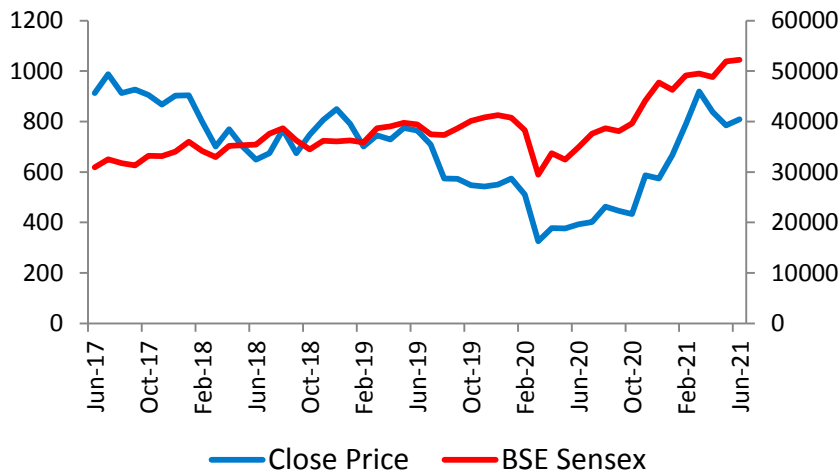
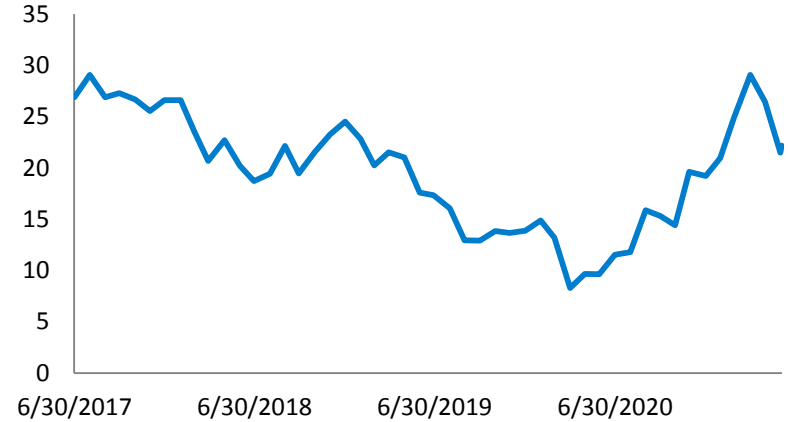
Source: Company, Sushil Finance Research

MARKET INFORMATION

Price to Earning



EV / EBITDA



Source: Company, Sushil Finance Research

## OUTLOOK & VALUATION

Cummins India is a well established player in the diesel power generation market. The company is backed by a strong parentage that enables it to bring forth the latest and greatest technologies in the power generation industry. The company is well equipped to meet the new emission norms which are expected to come into play in the next couple of quarters, as well as with more futuristic technologies like battery packs, electric power generation and hydrogen fuel cells. The company has a consistent export business, which we anticipate will grow steadily going forward.

With the Covid-19 pandemic impacting the demand, the company had to take several measures to improve efficiency and control costs to protect margins in a declining demand environment. With the cost efficient measures in place, we expect the company's margins to improve as pressure from raw material prices eases off. This, coupled with increases in prices of products due to the new emission standards, should be margin accretive.

We have forecasted a revenue growth of 7.7% CAGR over FY20-24E where we expect revenue for FY24E at Rs. 6,988 Cr, EBITDA at Rs. 1,154 Cr at an EBITDA margin of 16.5% and Net Income at Rs. 1,151. We estimate FY24E EPS at Rs. 41.5 and assign a PE multiple of 27x to arrive at a target price of Rs. 1,080, which is an upside of ~32% from yesterday's closing price of Rs. 814. We initiate coverage on Cummins India Ltd. with a BUY rating, over an investment horizon of 24-30 months.

## Risks & Concerns

- Competition is intensifying in the domestic power generation business with local manufacturers expanding their product lines.
- Rising geopolitical tension between nations could adversely impact the export business.
- Shift to electric power generation assets from diesel assets could trigger a competitive environment with global battery technology heavyweights.

**Rating Scale :** This is a guide to the rating system used by our Institutional Research Team. Our rating system comprises of three rating categories.

**Total Expected Return Matrix (Rating and Return)**

**BUY : Over 20%**

**HOLD : 0% to 20%**

**SELL : 0% to -20%**

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Analyst Stock Ownership	No
Stock Recommended to Clients	Yes
Remuneration/Benefits received from company in 12 months	No
Merchant Banking Market Making activities / projects	No
Sushil Financial Services Pvt. Ltd and Group Companies Holding	No
Sushil Financial Services Pvt. Ltd and Group Directors Holding	No
Broking Relationship with the company covered	No