

Cummins India Ltd.

ADD

CMP Rs795

Target Rs898

Upside 13%

Result Highlights

- ✓ Revenue grew by 18% yoy to Rs12.6bn, lower than our estimates of Rs.13.2bn. The domestic industrial revenue stood at Rs2.7 bn, Powergen at Rs2.6 bn and Distribution at Rs.3.4 bn. The construction segment under industrials had revenue of Rs1.5 bn while compressor and rail together formed Rs900 mn of sales. The Capacity utilization which stood at 70% in Q4 FY21 dropped to 50% in April and May due to Covid related restrictions. The demand revival is expected as the COVID impact settles.
- ✓ EBITDA saw a sharp jump of 151% yoy to Rs1.7 bn. EBITDA Margin improved by 714bps yoy to 13.5% while contracted by 343bps qoq on account of rising commodity prices. The company continues to focus on cost management and expects to pass on the cost to the end customers where commodity linked contracts are in place. It would also re-negotiate contracts not linked to commodity prices.
- ✓ Higher tax outgo impacted profitability at net levels (tax credit in Q4 FY20). PAT remained flattish yoy to Rs1.7bn.
- ✓ COVID-19 impacted the export business for Cummins. Expects end market will recover fully by FY22 with restarting of the economy and vaccination rate picking up globally. Very gradual recovery of demand is expected in upcoming quarters.

Our view: Cummins India witnessed a healthy demand recovery in industrial and spares segment during Q4 FY21. However, commodity prices continued to rise which impacted the margins on quarterly basis. The margins are expected to stabilize going forward as certain price hikes are implemented. In recent times, there has been steady improvement in demand from overseas markets and momentum is expected to continue. The demand for power gen is also expected to revive backed by strong demand from data centers and telecom. We believe that the positive optimism over exports and infrastructure related solutions that has picked up well for the company should aid growth over next couple of years. We largely retain our FY22/FY23 estimates and retain our ADD rating on the stock for target price of Rs898 (28x FY23 EPS).

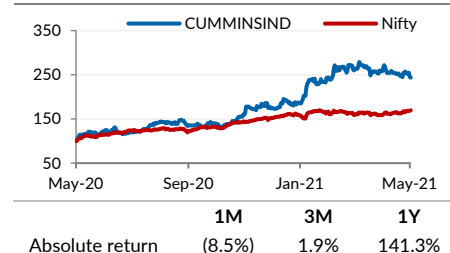
Exhibit 1: Result table (Cons)

Particulars (Rs mn)	Q4 FY21	Q4 FY20	% yoy	Q3 FY21	% qoq
Total sales	12,563	10,625	18.2	14,310	(12.2)
EBITDA	1,694	675	151.1	2,421	(30.0)
EBITDAM (%)	13.5	6.3	714 bps	16.9	(343 bps)
Depreciation	310	313	(0.7)	324	(4.0)
Interest	35	51	(31.9)	48	(28.4)
Other income	585	670	(12.7)	606	(3.3)
PBT	1,934	981	97.1	2,655	(27.1)
Tax	597	(469)	NM	694	(14.1)
Adjusted PAT	1,686	1,740	(3.1)	2,403	(29.9)
Exceptional item	-	38	NM	-	NA
Reported PAT	1,686	1,702	(1.0)	2,403	(29.9)
PATM (%)	13.4	16.4	(296 bps)	16.8	(337 bps)
EPS (Rs)	6.1	6.3	(3.1)	8.7	(29.9)

Stock data (as on May 27, 2021)

Nifty	15,338
52 Week h/l (Rs)	934 / 330
Market cap (Rs/USD mn)	220374 / 3019
Outstanding Shares (mn)	277
6m Avg t/o (Rs mn):	1,151
Div yield (%):	1.7
Bloomberg code:	KKC IN
NSE code:	CUMMINSIND

Stock performance



Shareholding pattern (As of Mar'21 end)

Promoter	51.00%
FII+DII	36.17%
Others	12.83%

Δ in stance

(1-Yr)	New	Old
Rating	ADD	ADD
Target Price	898	720

Financial Summary (Cons)

(Rs mn)	FY21	FY22e	FY23e
Revenue	43,601	50,111	56,911
YoY	(16.0)	14.9	13.6
EBIDTA	5,821	7,172	8,342
Margin	13.3	14.3	14.7
PAT	6,350	7,797	8,895
YoY	(12.5)	22.8	14.1
ROE	14.0	16.2	17.1
EPS	22.9	28.1	32.1
P/E	34.5	28.1	24.6

Δ in earnings estimates

	FY21	FY22e	FY23e
EPS (New)	22.9	28.1	32.1
EPS (Old)	22.9	27.2	31.5
% change	-	3.4	1.9

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CON-CALL HIGHLIGHTS

- ✓ **Segmental revenue break-up:** (1) Q4 FY21 revenue breakup: Domestic: Industrials – Rs.2.7 bn, Powergen – Rs.3.5 bn, Distribution – Rs.3.4 bn. Exports: HHP – Rs.1.3 bn, LHP – Rs.950 mn. (2) FY21 revenue breakup: Domestic: Industrials – Rs.7.4 bn, Powergen – Rs.11.1 bn, Distribution – Rs12 bn. Exports: HHP – Rs.6 bn, LHP – Rs.4.5 bn. (3) Q4FY21 Powergen breakup: HHP – 1.85 bn, MHP – Rs.700 mn, LHP – Rs.880 mn. Q4FY21 Industrial breakup: Compressor – Rs.400 mn, Construction -Rs.1.45 bn, Rail – Rs.480 mn, Marine & others – Rs. 190 mn and Mining – Rs.160 mn.
- ✓ **Utilisation:** The capacity utilisation for the company has dropped to 50% in April and May 2021 due to covid related restriction as compared to utilization of ~70% in Q4 FY21.
- ✓ **Powergen segment:** The demand for power gen globally which has been declining for the last 3-4 years is now bottomed out and is witnessing uptick on the back of rising opportunities from Data Centres and Telecom. Overall management remains optimistic about the demand for power gen globally.
- ✓ **Domestic segment:** Hospitality, Residential & Commercial Real estate were worst affected during the last year. Manufacturing & Infra segment recovered during later part of the year. Data Centres, IT, Pharma, and Hospitals performed the best during the year. Going forward, management stated barring Hospitality & some part of real estate, all other segment has started showing recovery.
- ✓ **Exports:** (1) Typically Q4 is weaker than Q3 for exports business as global players try to ramp up their capacities. However, the demand is reviving and expected to do better in coming years. (2) Asia Pacific had sales of Rs3.3 bn, marginally higher yoy led by China and other countries that recovered faster. Latin America slowed as it has Covid impact, Middle east was flat while Africa was very slow. Currently, China is growing strongly while parts of North America is growing faster than Europe. Latin America, Africa and Middle East are growing at slow pace. Overall Africa and Latin America are amongst the slow growing nations globally.
- ✓ **Commodity price:** The prices of commodity has been on rise which impacted the margins. The company continues to focus on cost management and plans to pass on the cost to the end customers where commodity linked base contracts are available and will re-negotiate where contracts are not linked to commodity prices. The company is targeting to implement sufficient price hikes to offset the rising cost.
- ✓ **Capex:** The company' major capex will be utilized for product and technology upgradation. Capex will be lower than the previous years.
- ✓ **Manufacturing Hub:** Cummins Inc's major manufacturing hubs are India, China and North America. The company believes India as a manufacturing hub is well placed on 3 key parameters of cost, quality and delivery and would reap the benefits of global demand. The company has also started to witness the same with improved global orders. The company was able to supply 50% of the demand in electronics products due to the shortage in chips and ICs.
- ✓ **CPCB regulation:** (1) The company don't expect much change to happen on the timelines from that mentioned in the draft notification that came in July on emission norms which are amongst the most stringent globally. (2) Historically whenever there were changes in emission norm, the company was able to improve its margins. (3) The company is well placed to benefit from the alternative energy like gas, hydrogen etc as it has strong capabilities in these segments.
- ✓ **Other Highlights** (1) Export incentives: The MEIS had an impact of Rs300-400mn at bottomline in FY21. The company has not taken any impact of RoDTEP scheme in its Q4 financials. (2) Construction activities have pickup strongly and expects to continue. The company has market leadership in terms of products and solution in this segment. Rail

Cummins India Ltd.

segment has been impacted as they are operating at a very low capacity for more than a year and expects revival to take some more time. Mining is at near to highs (3) The company is in the process of continuously launching, innovating, and developing new products for export markets. Earlier it used to supply one product type for every market globally. In last 2 years it has created product for each region and for certain market segments. (4) Other income was higher due to the dividend from JV.

FINANCIALS

Exhibit 1: Balance sheet (Consolidated)

Y/e 31 Mar (Rs mn)	FY20	FY21	FY22E	FY23E
Share capital	554	554	554	554
Reserve & Surplus	43,466	45,959	49,468	53,471
Total shareholder's funds	44,020	46,514	50,022	54,025
Minority Interest	-	-	-	-
Debt	4,893	202	-	-
Deferred tax liabilities/(assets)	2,265	1,962	1,751	1,988
TOTAL	51,178	48,678	51,773	56,013
Net block	22,700	21,886	21,575	21,225
Capital WIP	800	1,275	1,373	1,559
Long term investments	2,560	2,724	2,608	2,963
Other long-term assets	2,077	1,121	1,373	1,559
Inventories	5,772	5,642	5,766	6,549
Debtors	11,458	10,881	11,258	12,786
Cash & cash equivalents	12,460	12,920	14,959	17,480
Loans & advances	4,133	3,113	3,432	3,898
Total current liabilities	10,783	10,885	10,571	12,006
Net current assets	23,040	21,671	24,844	28,707
TOTAL	51,178	48,678	51,773	56,013

Exhibit 2: Income statement (Consolidated)

Y/e 31 Mar (Rs mn)	FY20	FY21	FY22E	FY23E
Revenue	51,915	43,601	50,111	56,911
Operating profit	5,892	5,821	7,172	8,342
Depreciation & Amortization	1,206	1,272	1,311	1,349
PBIT	4,686	4,549	5,861	6,993
Interest expense	210	168	-	-
Other income	2,575	2,738	2,929	3,135
Exceptional items	199	-	-	-
Profit before tax	7,051	7,119	8,790	10,127
Taxes	1,019	1,900	2,215	2,552
Minorities	1,223	1,131	1,222	1,319
Adj. Net profit	7,255	6,350	7,797	8,895

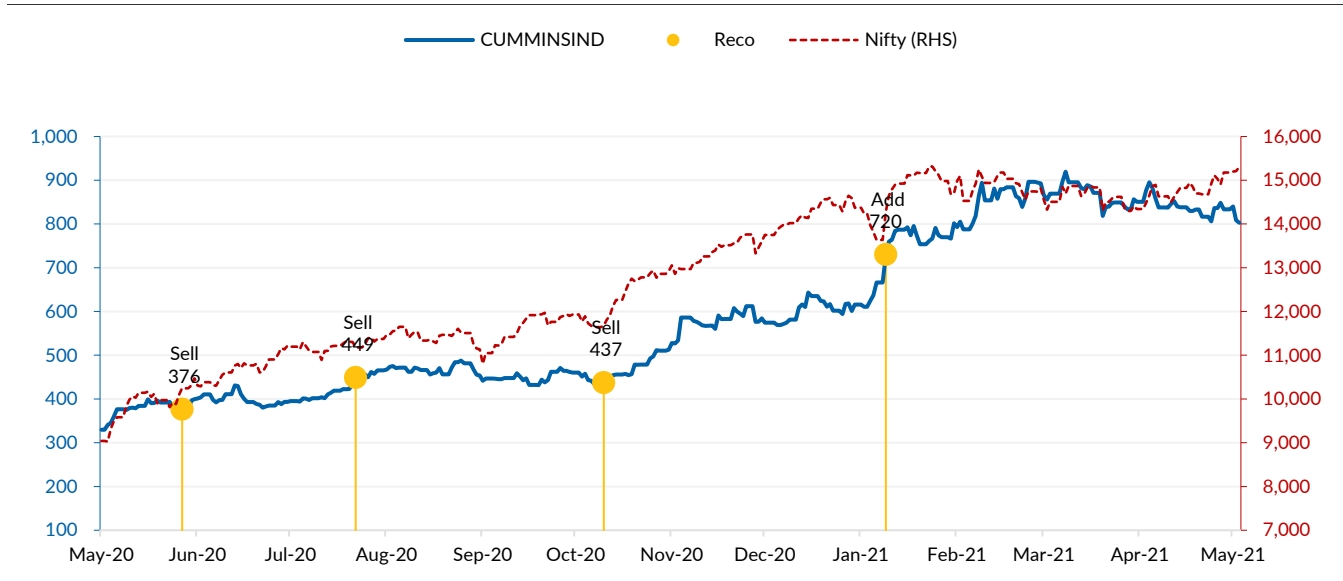
Exhibit 3: Cash flow statement (Consolidated)

Y/e 31 Mar (Rs mn)	FY20	FY21	FY22E	FY23E
PBT	8,075	7,119	8,790	10,127
Depreciation	1,206	1,272	1,311	1,349
Others	(1,783)	1,131	1,222	1,319
Tax Paid	1,623	1,900	2,215	2,552
Changes in Working Capital	133	1,828	(1,133)	(1,342)
Net Cash from Operations	6,007	9,450	7,975	8,903
Capex	(2,371)	(458)	(1,000)	(1,000)
Change in Investment	(1,163)	(638)	18	(540)
Others	1,395	653	(463)	51
Net Cash from Investing	(2,139)	(443)	(1,445)	(1,489)
Change in debt	1,767	(4,690)	(202)	0
Change in Equity	0	0	0	0
Others	(5,890)	(4,158)	(4,288)	(4,892)
Net Cash from Financing	(4,123)	(8,547)	(4,491)	(4,892)
Net Change in Cash	(255)	459	2,039	2,522

Exhibit 4: Ratio analysis (Consolidated)

Y/e 31 Mar	FY20	FY21	FY22E	FY23E
PROFITABILITY RATIOS				
EBITDA Margin (%)	11.3	13.3	14.3	14.7
Adjusted net margin (%)	13.6	14.6	15.6	15.6
Return on equity (%)	16.7	14.0	16.2	17.1
EFFICIENCY RATIOS				
Asset Turnover	2.2	1.9	2.2	2.5
Debt to equity	0.1	0.0	-	-
Net debt to equity	(0.2)	(0.3)	(0.3)	(0.3)
Debtor days	81	91	82	82
Inventory days	41	47	42	42
Payable days	49	61	50	50
PER SHARE DATA				
Diluted EPS (Rs)	26.2	22.9	28.1	32.1
Book value per share (Rs)	158.8	167.8	180.5	194.9
DPS (Rs)	14.0	12.8	13.2	15.0
VALUATION RATIOS				
P/E	30.4	34.7	28.3	24.8
P/BV	5.0	4.7	4.4	4.1
EV/EBITDA	36.1	35.7	28.6	24.3
Dividend Yield (%)	1.8	1.6	1.7	1.9

Recommendation Tracker



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