

# Cummins India

BSE SENSEX  
36,443

S&P CNX  
10,987

**CMP: INR 719 TP: INR950 (+32%)**

**Buy**



**Stock Info**

Bloomberg	KKC IN
Equity Shares (m)	277
M.Cap.(INRb)/(USDb)	199.2 / 2.8
52-Week Range (INR)	885 / 612
1, 6, 12 Rel. Per (%)	-10/1/-18
12M Avg Val (INR M)	416
Free float (%)	49.0

**Financials Snapshot (INR b)**

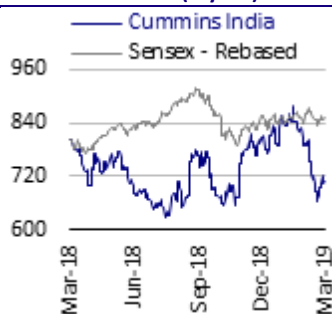
Y/E	March	2019E	2020E	2021E
Net Sales	56.4	63.0	70.0	
EBITDA	8.8	10.1	11.6	
Adj PAT	7.5	8.5	9.6	
EPS (INR)	26.9	30.7	34.8	
EPS Gr. (%)	14.4	13.9	13.4	
BV/Sh. (INR)	155.2	168.1	182.7	
P/E (x)	26.7	23.4	20.7	
P/BV (x)	4.6	4.3	3.9	
RoE (%)	18.0	19.0	19.8	
RoCE (%)	17.2	18.2	19.1	

**Shareholding pattern (%)**

As On	Dec-18	Sep-18	Dec-17
Promoter	51.0	51.0	51.0
DII	24.9	24.0	21.0
FII	11.4	12.4	15.3
Others	12.7	12.7	12.7

FII Includes depository receipts

**Stock Performance (1-year)**



## Focus on developing new growth areas, market share

### Price hikes taken to counter rising raw material prices

We recently met the management of Cummins India Limited. Key highlights from our meeting are as below:

**Price hike of ~5% across multiple nodes:** Starting Nov’18, Cummins India introduced price hikes of ~3-5% across nodes to mitigate the cost pressure due to rising raw material prices. The company expects gross margins to expand by 100bp if the price hike is absorbed by the system. Key point to note — Cummins India has not hiked prices for the last four years.

**Focus on market share and developing new areas for incremental domestic growth:** While it is the market leader in HHP (~60% share) and MHP segment (~50% share), Cummins is focusing on gaining greater market share in few selective nodes in the 750kv and above segment —a key focus area for the company. It has also developed new growth areas in the domestic market; a segment like Railways now contributes INR2.5b to sales. The focus is now to increase its marine market revenue from current INR250m to INR2.5b in a few years. Cummins also expects manufacturing to start contributing to revenue.

**FY20 revenue guidance of 10-12% for Domestic and 0-5% for Exports:** In its guidance for FY20, Cummins India expects 10-12% growth in the Domestic market backed by strong growth across infrastructure segments like Data Centers, Hospitality and Metro. It is also seeing a demand pick-up in the manufacturing segment. However, on the Exports front, it expects growth to remain flattish; hence a weak guidance of 0-5%. Demand for Powergen segment products (major part of its exports business) has witnessed a decline. Even key markets like the Middle East (slowdown in investment) and Africa (payment concerns), which contributes 50% to LHP exports have not picked up. Cummins expects its distribution business to register steady growth of 8-10% growth YoY.

**To launch a refreshed product range after new emission norms are implemented in FY22:** Post implementation of CPCB4 norms, Cummins India will introduce a refreshed range of products. If norms are implemented in entirety, it expects the Indian market’s transition to electrical engines from mechanical engines. This should help Cummins to improve realization and market share given its preparedness to meet the new norms.

**Capex plans mostly complete:** Currently, Cummins intends to do capex of INR1.8b in HHP and CPCB4 related product development; post this it does not have any major capex plans, barring the operational capex incurred on a yearly basis. This would ensure healthy free cash flow generation for the company. Cummins has very strong track record of distributing free cash to shareholders; it distributed ~70% of its profits as dividend to shareholders.

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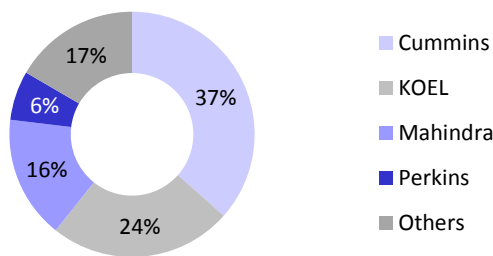
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**Valuation and view:** We are positive with a long-term view on the stock given its market leadership in the HHP and MHP segment, strong after-sales service & distribution, and its preparedness to take advantage of the upcoming CPCB4 emission norm change. Exports is still a bleak spot in the near term given the decline in demand for HP engines from its parent. But, we are upbeat on the long-term prospects of Exports as we expect capex cycle recovery in the key markets of Europe and Africa, post firming up of oil and base metal prices. We maintain a Buy rating on the stock with target price of INR950 (28x Dec'20 EPS of INR34).

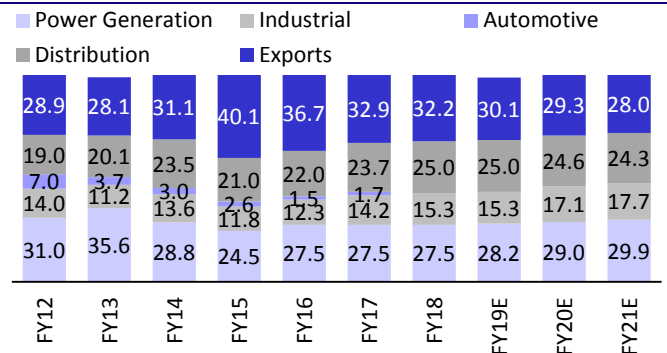
Story in charts

Exhibit 1: Cummins — leader in the domestic market with healthy 37% share



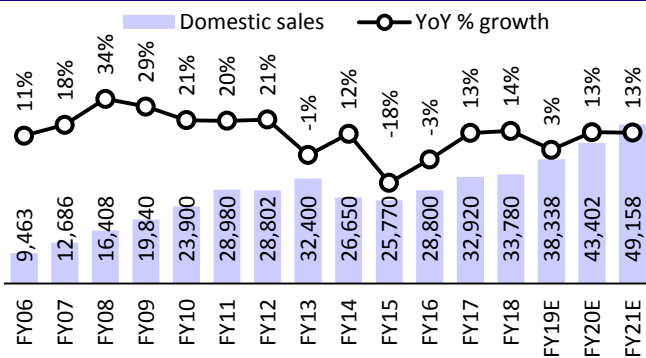
Source: MOSL, Company

Exhibit 2: Powergen to stay as dominant revenue contributor on healthy growth in Data Center segment (%)



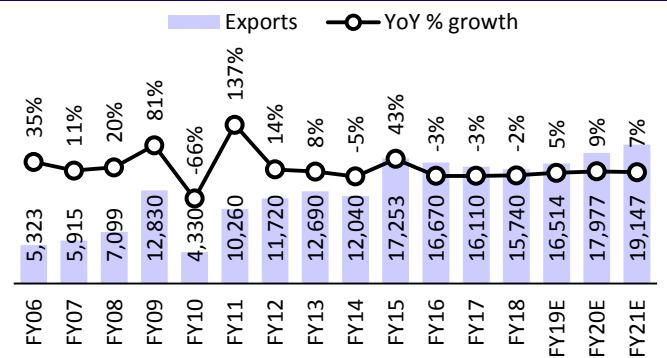
Source: MOSL, Company

Exhibit 3: Domestic sales to see healthy 13% growth over FY19-21E



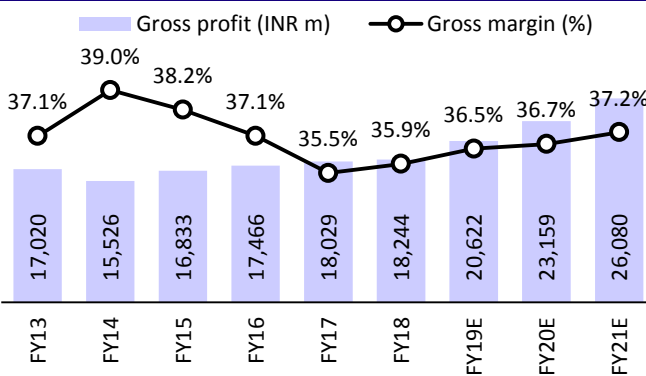
Source: MOSL, Company

Exhibit 4: Exports to see 7% CAGR over FY19-21E given weak demand in end market



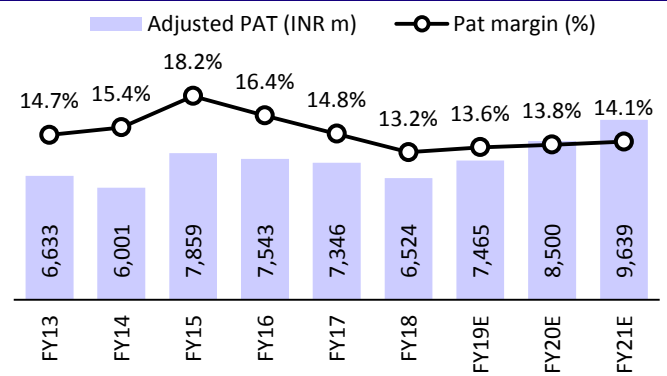
Source: MOSL, Company

Exhibit 5: Gross profit margin expected to improve post recent price hikes taken by Cummins



Source: MOSL, Company

Exhibit 6: PAT margin to improve on better cost control measures



Source: MOSL, Company

## Financials & Valuation

Income Statement							(INR m)
Y/E March	2015	2016	2017	2018	2019E	2020E	2021E
<b>Total Revenues</b>	<b>44,058</b>	<b>47,088</b>	<b>50,773</b>	<b>50,825</b>	<b>56,427</b>	<b>63,024</b>	<b>70,021</b>
Change (%)	10.8	6.9	7.8	0.1	11.0	11.7	11.1
Raw Materials	27,225	29,622	32,745	32,581	35,806	39,865	43,941
Staff Cost	3,936	4,156	4,334	4,979	5,331	5,967	6,653
Other Expenses	5,547	5,559	5,677	5,940	6,518	7,129	7,801
<b>EBITDA</b>	<b>7,351</b>	<b>7,751</b>	<b>8,018</b>	<b>7,325</b>	<b>8,773</b>	<b>10,062</b>	<b>11,626</b>
% of Total Revenues	16.7	16.5	15.8	14.4	15.5	16.0	16.6
Depreciation	797	810	848	938	1,111	1,229	1,339
Other Income	2,866	2,259	2,080	2,285	3,000	3,121	3,249
Interest	45	96	168	148	148	148	148
<b>PBT</b>	<b>9,374</b>	<b>9,104</b>	<b>9,082</b>	<b>8,523</b>	<b>10,514</b>	<b>11,806</b>	<b>13,388</b>
Tax	1,515	1,561	1,736	2,000	3,049	3,306	3,749
Rate (%)	16.2	17.1	19.1	23.5	29.0	28.0	28.0
<b>Adjusted PAT</b>	<b>7,859</b>	<b>7,543</b>	<b>7,346</b>	<b>6,524</b>	<b>7,465</b>	<b>8,500</b>	<b>9,639</b>
Extra-ordinary Income (net)	0	0	0	561	3	0	0
<b>Reported PAT</b>	<b>7,859</b>	<b>7,543</b>	<b>7,346</b>	<b>7,085</b>	<b>7,468</b>	<b>8,500</b>	<b>9,639</b>
Change (%)	31.0	-4.0	-2.6	-3.6	5.4	13.8	13.4

Balance Sheet							(INR m)
Y/E March	2015	2016	2017	2018	2019E	2020E	2021E
Share Capital	554	554	554	554	554	554	554
Reserves	28,311	34,259	36,867	39,306	42,455	46,038	50,102
<b>Net Worth</b>	<b>28,865</b>	<b>34,813</b>	<b>37,422</b>	<b>39,861</b>	<b>43,009</b>	<b>46,593</b>	<b>50,657</b>
Loans	0	0	2,508	2,515	2,515	2,515	2,515
Deferred Tax Liability	631	128	24	299	324	324	324
<b>Capital Employed</b>	<b>29,496</b>	<b>34,941</b>	<b>39,953</b>	<b>42,675</b>	<b>45,848</b>	<b>49,432</b>	<b>53,496</b>
Gross Fixed Assets	18,830	19,917	22,705	28,665	32,165	35,165	38,165
Less: Depreciation	6,491	7,023	7,703	8,445	9,556	10,785	12,124
<b>Net Fixed Assets</b>	<b>12,340</b>	<b>12,894</b>	<b>15,001</b>	<b>20,193</b>	<b>22,609</b>	<b>24,380</b>	<b>26,041</b>
Capital WIP	1,706	5,192	4,631	380	380	380	380
Investments	4,650	3,336	7,074	5,487	5,487	5,487	5,487
<b>Curr. Assets</b>	<b>24,521</b>	<b>23,483</b>	<b>23,702</b>	<b>29,253</b>	<b>31,011</b>	<b>34,448</b>	<b>38,572</b>
Inventory	6,823	6,003	5,621	5,375	5,801	6,491	7,223
Debtors	9,355	9,381	9,557	13,263	9,805	10,972	12,210
Cash & Bank Balance	799	897	1,291	4,709	9,031	9,851	11,200
Loans & Advances	7,472	1,287	1,287	1,287	1,389	1,554	1,729
Other Assets	73	5,915	5,948	4,621	4,987	5,580	6,210
<b>Current Liab. &amp; Prov.</b>	<b>13,721</b>	<b>9,964</b>	<b>10,455</b>	<b>12,637</b>	<b>13,639</b>	<b>15,262</b>	<b>16,984</b>
Current Liabilities	8,520	8,843	9,036	11,114	11,995	13,422	14,936
Provisions	5,202	1,121	1,419	1,523	1,644	1,840	2,047
<b>Net Current Assets</b>	<b>10,800</b>	<b>13,519</b>	<b>13,247</b>	<b>16,616</b>	<b>17,373</b>	<b>19,186</b>	<b>21,588</b>
<b>Application of Funds</b>	<b>29,496</b>	<b>34,941</b>	<b>39,953</b>	<b>42,675</b>	<b>45,848</b>	<b>49,432</b>	<b>53,496</b>

## Financials & Valuation

### Ratios

Y/E March	2015	2016	2017	2018	2019E	2020E	2021E
<b>Basic (INR)</b>							
<b>Adj EPS</b>	<b>28.3</b>	<b>27.2</b>	<b>26.5</b>	<b>23.5</b>	<b>26.9</b>	<b>30.7</b>	<b>34.8</b>
Cash EPS	31.2	30.1	29.6	26.9	30.9	35.1	39.6
Book Value	104.1	125.6	135.0	143.8	155.2	168.1	182.7
DPS	14.0	14.0	14.0	15.0	13.4	15.2	17.3
Payout (incl. Div. Tax.)	49.4	51.5	52.8	58.7	49.7	49.7	49.7
<b>Valuation (x)</b>							
P/E	25.4	26.4	27.1	30.6	26.7	23.4	20.7
Cash P/E	23.0	23.9	24.3	26.7	23.2	20.5	18.2
EV/EBITDA	27.0	25.6	25.0	26.9	22.0	19.1	16.4
EV/Sales	4.6	4.3	4.0	4.0	3.5	3.1	2.8
Price/Book Value	6.9	5.7	5.3	5.0	4.6	4.3	3.9
Dividend Yield (%)	1.9	1.9	1.9	2.1	1.9	2.1	2.4
<b>Profitability Ratios (%)</b>							
RoE	28.8	23.7	21.2	18.3	18.0	19.0	19.8
RoCE	29.0	23.9	20.0	16.1	17.2	18.2	19.1
RoIC	26.4	24.0	22.1	16.6	17.3	19.7	21.1
<b>Turnover Ratios</b>							
Debtors (Days)	78	73	69	95	65	65	65
Inventory (Days)	57	47	40	39	39	39	39
Creditors. (Days)	51	43	44	54	54	54	54
Asset Turnover (x)	1.5	1.3	1.3	1.2	1.2	1.3	1.3
<b>Leverage Ratio</b>							
Debt/Equity (x)	0.0	0.0	0.1	0.1	0.1	0.1	0.0

### Cash Flow Statement

(INR m)

Y/E March	2015	2016	2017	2018	2019E	2020E	2020E
<b>PBT before EO Items</b>	<b>9,374</b>	<b>9,104</b>	<b>9,082</b>	<b>9,084</b>	<b>10,514</b>	<b>11,806</b>	<b>13,388</b>
Depreciation	797	810	848	938	1,111	1,229	1,339
Interest	-172	96	-9	-35	148	148	148
Direct Taxes Paid	-1,853	-1,561	-1,867	-1,823	-3,049	-3,306	-3,749
(Inc)/Dec in WC	(815)	(2,716)	371	(370)	3,417	(1,141)	(1,202)
<b>CF from Operations</b>	<b>7,331</b>	<b>5,732</b>	<b>8,426</b>	<b>7,795</b>	<b>12,141</b>	<b>8,737</b>	<b>9,925</b>
EO Income	-1,993	0	-983	-903	0	0	0
<b>CF from Oper. Incl. EO Items</b>	<b>5,338</b>	<b>5,732</b>	<b>7,443</b>	<b>6,892</b>	<b>12,141</b>	<b>8,737</b>	<b>9,925</b>
(Inc)/Dec in FA	(3,304)	(5,500)	(2,315)	(905)	(3,500)	(3,000)	(3,000)
<b>Free Cash Flow</b>	<b>2,035</b>	<b>232</b>	<b>5,128</b>	<b>5,987</b>	<b>8,641</b>	<b>5,737</b>	<b>6,925</b>
Investment & Others	2,458	1,461	(2,538)	2,763	0	0	0
<b>CF from Investments</b>	<b>-846</b>	<b>-4,039</b>	<b>-4,853</b>	<b>1,858</b>	<b>-3,500</b>	<b>-3,000</b>	<b>-3,000</b>
(Inc)/Dec in Networth	0	2,922	0	0	0	0	0
(Inc)/Dec in Debt	0	0	0	0	0	0	0
Interest Paid	-45	0	-90	-100	0	0	0
Dividend Paid	-4,216	-4,518	-4,663	-4,639	-4,319	-4,916	-5,576
Others		0	2,508	8	0	0	0
<b>CF from Fin. Activity</b>	<b>(4,261)</b>	<b>(1,595)</b>	<b>(2,245)</b>	<b>(4,731)</b>	<b>(4,319)</b>	<b>(4,916)</b>	<b>(5,576)</b>
<b>Inc/Dec of Cash</b>	<b>231</b>	<b>98</b>	<b>344</b>	<b>4,019</b>	<b>4,322</b>	<b>821</b>	<b>1,349</b>
Add: Beginning Balance	568	799	897	1,239	4,709	9,031	9,851
<b>Closing Balance</b>	<b>799</b>	<b>897</b>	<b>1,241</b>	<b>5,258</b>	<b>9,031</b>	<b>9,851</b>	<b>11,200</b>

Explanation of Investment Rating	
Investment Rating	Expected return (over 12-month)
BUY	>=15%
SELL	< - 10%
NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

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