



RESEARCH REPORT CUMMINS INDIA LTD



PREPARED BY:

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About

Cummins India Ltd is a part of the Cummins Inc. Group USA. It designs, manufactures, distributes and services diesel and alternative fuel engines from 2.8 to 100 liters, diesel and alternative-fueled power generator sets of up to 3000 kW (3750 kVA), as well as related components and technology.

Key Business

Engines Business Division
Lubes Business Division

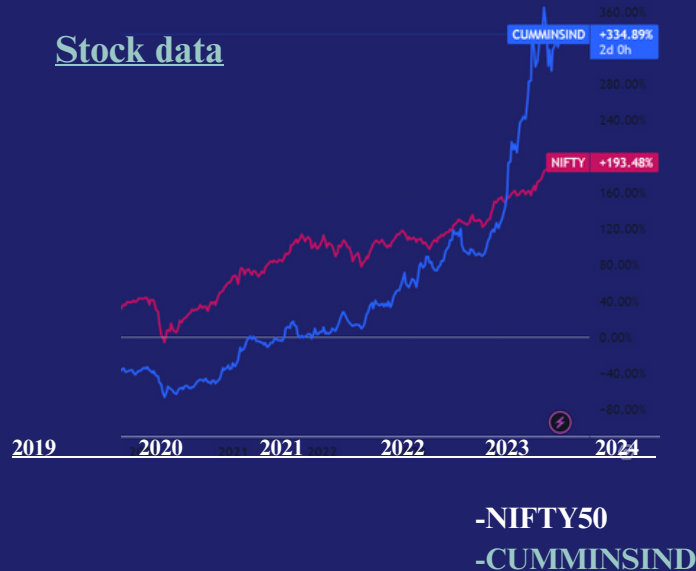
Synopsis of Financials

- Q1 FY24-25 sales at ₹2,262 crores, a 4% increase from ₹2,175 crores in the same quarter last year.
- Domestic sales rose by 12% to ₹1,873 crores; however, export sales fell by 22% to ₹389 crores.
- Profit before tax increased by 33% to ₹551 crores compared to the same quarter last year.
- Compared to the previous quarter, sales were almost flat, with domestic sales declining by 3% and exports increasing by 13%.
- Profit before tax decreased by 21% from the previous quarter.

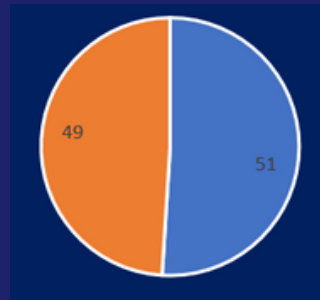
Stock data (as 04th Sep 2024)

Nifty Price : 25,128.95
52 week High (in Rs.) : 4,172
52 week Low (in Rs.) : 1,590
Market Cap. (in Crore) : 1,06,389 Cr.
NSE Code : CUMMINSIND

Stock data



Shareholding Pattern (March 2024)



-PUBLIC GROUP
-PROMOTER GROUP

Financial Summary

Particulars	March 2022	March 2023	March 2024
Sales	6,140	7,744	8,959
Sales Growth %	41.84%	26.12%	15.68%
Expenses	5,260	6,502	7,197
Operating Profit	880	1,243	1,761
OPM %	14%	16%	20%
Net Profit	887	1,130	1,661
EPS in Rs	31.99	40.76	59.91

Quarterly Results



Particular	Sep-22	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24
Sales	1,951	2,181	1,926	2,209	1,900	2,534	2,316
Expenses	1,661	1,768	1,600	1,868	1,561	1,996	1,772
Operating Profit	291	412	326	341	339	538	544
OPM %	15%	19%	17%	15%	18%	21%	24%
Other Income	85	104	131	117	132	112	204
Interest	5	3	7	8	7	6	6
Depreciation	35	34	37	36	38	42	42
Profit before tax	336	479	413	415	426	602	701
Tax %	25%	25%	23%	24%	23%	24%	20%
Net Profit	252	360	318	316	329	455	562

Source: Screener

Key Ratios

No.	Name of the Ratio	Numerator	Denominator	March 31, 2024	March 31, 2023	Variance %
1	Current Ratio	Current assets	Current liabilities	2.89	2.70	7.11%
2	Debt Equity Ratio	Short term debt + Long term debt	Shareholders' funds	0.02	0.06	-75.12%
3	Debt Service Coverage Ratio	Net profit after taxes + Depreciation + Interest	Interest + Lease payments + Principal repayments	76.29	73.56	3.71%
4	Return on Equity Ratio *	Net profits after taxes	Average shareholders funds	28%	23%	22.18%
5	Inventory Turnover Ratio	Cost of goods sold	Average inventory	6.23	6.36	-2.15%
6	Trade Receivable Turnover Ratio	Revenue from operations (gross)	Average trade receivable	4.89	5.44	-10.21%
7	Trade Payable Turnover Ratio	Net credit purchases	Average trade payable	4.97	5.47	-9.15%
8	Net Capital Turnover Ratio	Revenue from operations (gross)	Current assets - Current liabilities	2.32	2.42	-4.38%
9	Net Profit Ratio *	Net profits after taxes	Revenue from operations (gross)	19%	16%	19.70%
10	Return on Capital Employed *	Earning before interest and taxes	Total tangible assets - (current liabilities + non-current liabilities)	35%	28%	22.42%
11	Return on Investment *	Earning before interest and taxes	Total assets	25%	20%	21.30%

Source: Annual Report

Yearly Results

Particulars	March 2022	March 2023	March 2024
Equity Capital	55	55	55
Reserves	4,797	5,313	6,108
Borrowings	412	373	120
Other Liabilities	1,540	1,771	2,215
Total Liabilities	6,805	7,512	8,498
Fixed Assets	2,204	2,222	2,295
CWIP	61	41	97
Investments	615	1,085	1,215
Other Assets	3,925	4,164	4,891
Total Assets	6,805	7,512	8,498

Synopsis Quater Results

Con-Call Aug 24: Key Highlights

Segment Performance:

Domestic power generation sales:

- Power generation domestic sales at ₹803 crores, down 8% YoY and 15% QoQ.
- Distribution business sales increased by 22% YoY and 8% QoQ to ₹651 crores.
- Industrial domestic business sales surged by 57% YoY and 7% QoQ to ₹372 crores.

Export performance:

- High horsepower exports at ₹202 crores, a 17% decrease YoY but an 18% increase QoQ.
- Low horsepower exports at ₹155 crores, down 23% YoY but up 9% QoQ.

Guidance and Outlook:

- Management anticipates double-digit growth over the fiscal year 2024-25, aiming for growth at 2x the GDP rate.
- The company is optimistic about maintaining strong domestic demand driven by infrastructure development.

Market Dynamics:

The industrial segment showed strength across various sectors:

- Construction, rail, mining, and marine are all performing well, correlating with ongoing infrastructure projects in India.
- The company expects continued demand due to increased infrastructure spending and economic growth.

Transition to CPCB-IV:

- The transition from CPCB-II to CPCB-IV is underway, with approximately 30%-40% of sales in the last quarter attributed to CPCB-IV products.
- Channel inventory for CPCB-II is zero, indicating a complete transition to CPCB-IV products.

Margin Insights:

Gross margins reached a 5-year high of 37.8%, attributed to:

- A favorable product mix with increased sales of CPCB-IV+ products.
- Successful pricing strategies and cost reduction efforts.
- Management cautions that while current margins are strong, increasing commodity prices may exert pressure in the future.

Export Challenges:

- Export markets have shown signs of recovery, particularly in the Middle East and Africa, but remain flat in Europe and other regions.
- The company is dealing with geopolitical uncertainties affecting global demand.

New Developments:

- The company is involved in a significant GAIL project for hydrogen power generation, with some phases already commissioned.
- The distribution business continues to grow, driven by service and parts revenue, with a focus on increasing market penetration.

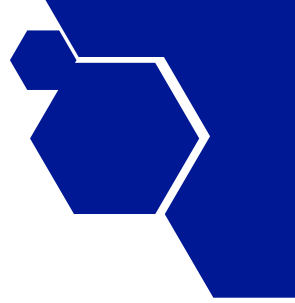
Competitor Landscape:

- Management acknowledges that competition is increasing with more players entering the CPCB-IV market, which may lead to price adjustments.
- Cummins India maintains a premium positioning based on product quality and features, which may help sustain margins.

Overall Sentiment:

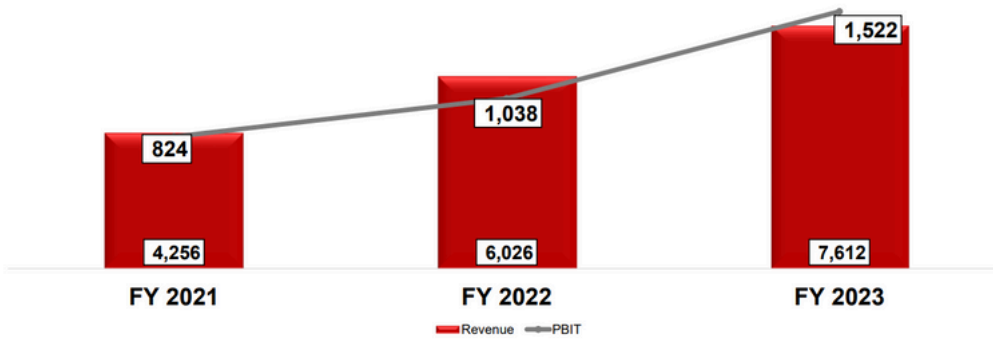
- Management remains cautiously optimistic about short-term demand while being highly confident in long-term growth prospects due to strong domestic infrastructure initiatives and a solid order book.

Revenue Highlights



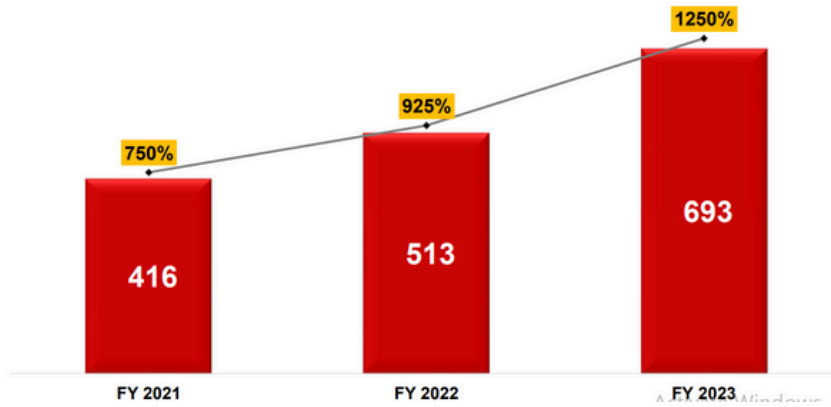
REVENUE AND PBIT TREND

Revenue CAGR: 34%



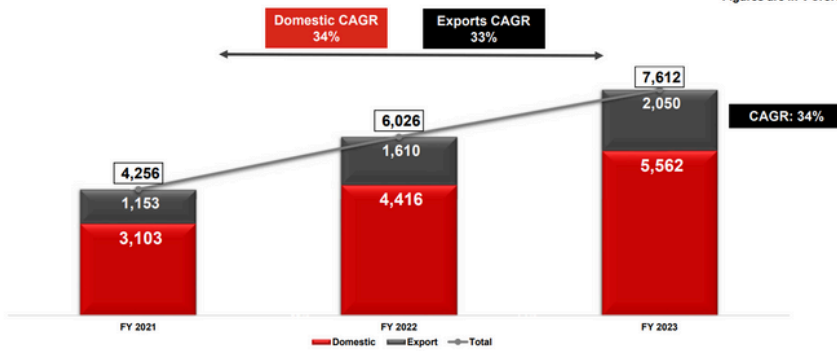
DIVIDEND TREND

Figures are in ₹ Crores



DOMESTIC VS EXPORTS TREND

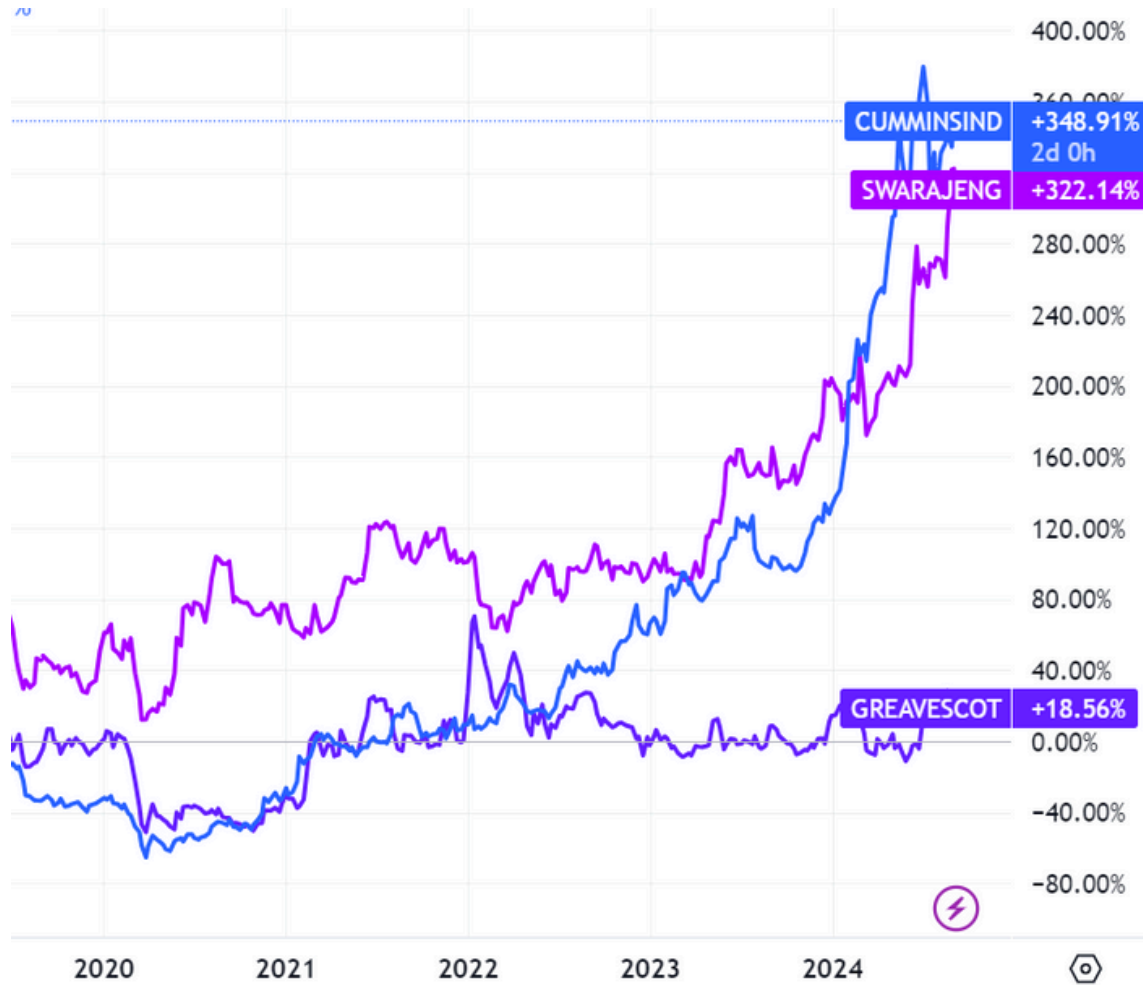
Figures are in ₹ Crores



Peer Comparison



Peer Stock Performance (5Y) Indexed



Source: Trading View

Peer Financial Performance

Name	CMP Rs.	P/E	Mar Cap Rs.Cr.	Div Yld %	NP Qtr Rs.Cr.	Qtr Profit Var %	Sales Qtr Rs.Cr.	Qtr Sales Var %	ROCE %
Cummins India	3874.00	60.86	107387.27	1.00	419.80	32.99	2304.19	4.32	35.23
Swaraj Engines	3400.00	29.41	4130.06	2.79	43.19	5.55	417.99	4.54	51.64
Greaves Cotton	162.60		3780.07	1.21	-0.16	96.80	639.70	12.51	3.72

Source: Screener

Final Outlook

CUMMINSIND : BUY | LTP: 3838

We expect Cummins' outlook to remain intact given

- 1) strong domestic demand in power gen across sectors with CPCB-IV product witnessing traction.
- 2) improving margin profile and
- 3) ample room for growth in distribution business. The stock is trading at a good P/E
- 4) Powergen business saw volume growth of 20%+, led by demand from data centers, commercial & residential realty
- 5) CPCB IV+ offtake has been slow as CPCB II is allowed to be sold until June24, but demand should pick up Q1FY25 onwards
- 6) Data centers will be a key growth driver, presenting a Rs5bn+ annual opportunity for Cummins. CPCB IV+ is not applicable to gensets used here.

I will be giving **Buy/Hold** Recommendation for this stock.