

Cummins India (KKC)

NOT RATED

Stellar performance owing to robust infra-led demand

Summary

KKC delivered a strong set of results on all key financial parameters in Q3FY23. While Revenue came in at Rs21.8bn (+25% YoY), EBITDA came in at Rs4.1bn registering an impressive growth of 52% YoY. PAT came in at ~Rs 4.1bn clocking a solid growth of 66% YoY. Growth was broad based as all the key segments of Industrials, Distribution, Exports and Powergen exhibited healthy revenue growth. KKC is a 51%-owned subsidiary of Cummins Inc, USA and is the leading manufacturer of diesel and natural gas based engines and gensets in India. Cummins India is slated to benefit from the promising prospects for the domestic market driven by the government's infra push, pent-up demand and ongoing economic growth. The stock trades at PER of 31x FY25E EPS and 28x FY25E EV/EBITDA on consensus estimates. Not rated.

Key Highlights and Investment Rationale

- **Robust demand from infra-led segments:** KKC is benefitting from strong demand from end user industries such as data centres, manufacturing, general infrastructure, rental, hospitality and real estate. The company envisages strong growth in domestic infrastructure to be a multi-year theme. As KKC is a leading player supplying to Data Centres, the robust growth in this segment bodes strongly for KKC. Automotive and Tourism is also bouncing back strongly which will further spur growth prospects.
- **KKC- a strong proxy play on the strengthening capex cycle:** CPCB IV+ emission norms to be rolled out by July'23 will aid KKC to gain market share. Major business segments are slated to drive strong growth, led by huge impetus on infrastructure. Sanguine demand scenario and adept technological capabilities augur well for KKC.

TP	NA
CMP	Rs1,578
Potential upside/downside	NA
Previous Rating	NA

Price Performance (%)			
	-1m	-3m	-12m
Absolute	10.3	18.2	73.9
Rel to Sensex	8.7	18.8	68.7

V/s Consensus			
EPS (Rs)	FY23E	FY24E	FY25E
IDBI Capital	--	--	--
Consensus	--	--	--
% difference	--	--	--

Key Stock Data	
Bloomberg/Reuters	KKC IN / CUMM.BO
Sector	Capital Goods
Shares o/s (mn)	277
Market cap. (Rs mn)	437,338
3-m daily avg Trd value(Rs mn)	23.5
52-week high / low	Rs1,551 / 907
Sensex / Nifty	60,806 / 17,893

Shareholding Pattern (%)	
Promoters	51.0
FII	12.2
DII	23.4
Public	13.4

Financial snapshot

Year	FY18	FY19	FY20	FY21	FY22
Revenue	49,816	55,646	50,959	42,875	60,570
Change (yoy, %)	(0)	12	(8)	(16)	41
EBITDA	7,329	8,691	5,892	5,821	8,881
Change (yoy, %)	(9)	19	(32)	(1)	53
EBITDA Margin(%)	14.7	15.6	11.6	13.6	14.7
Adj.PAT	6,557	7,426	7,255	6,350	8,014
EPS (Rs)	24	27	26	23	29
Change (yoy, %)	(11.0)	13.3	(2.3)	(12.5)	26.2
PE(x)	62.4	55.1	56.4	64	51
Dividend Yield (%)	(1.0)	(1.1)	(1.0)	(1)	(1)
RoE (%)	55.5	46.6	69.5	68.6	44.9
RoCE (%)	17.0	18.0	16.7	14	16

Source: IDBI Capital Research

Concall Highlights

- Price hikes undertaken, better operating leverage benefits and softening commodity prices led to enhanced profitability. KKC is not looking at rolling back any price hikes for the near term expecting an up move in key input prices due to the China re-opening.
- KKC is investing capex towards growth projects in the next year particularly for CPCB IV+ along with new fuels/technologies and inorganic growth. Costs for the CPCB IV+ products will rise substantially on account of technological complexities and hence KKC is trying to localize as much as possible to reduce costs. The transition from CPCB II to CPCB IV+ will be a much bigger and complex transition as compared to the earlier transition.
- Sub-400 HP products will see more adoption of alternative energy whereas 400 HP and above products will see extended usage of fossil fuels and diesel. Hydrogen will take 10 -15 years to be adopted at a larger scale.
- Revenue for the sub segments stood at Industrials:Rs3420mn(+18% YoY); Distribution: Rs5270mn(+17% YoY), Exports: Rs5410mn(+23% YoY) and Powergen:Rs7120mn(+42% YoY)
- Capacity utilization for plants stands at 75-80%. As the railways is focusing on full electrification, KKC is working on products for the same.
- KKC has a cautiously optimistic stance on exports as this segment could be impacted in the event of a recession. Supply chain challenges remain especially for specific electronic and other components
- Pre-buying for CPCB-IV+ has not begun yet and could be seen in Q4FY23. KKC expects a price increase of 30-50% for CPCB IV+ products.

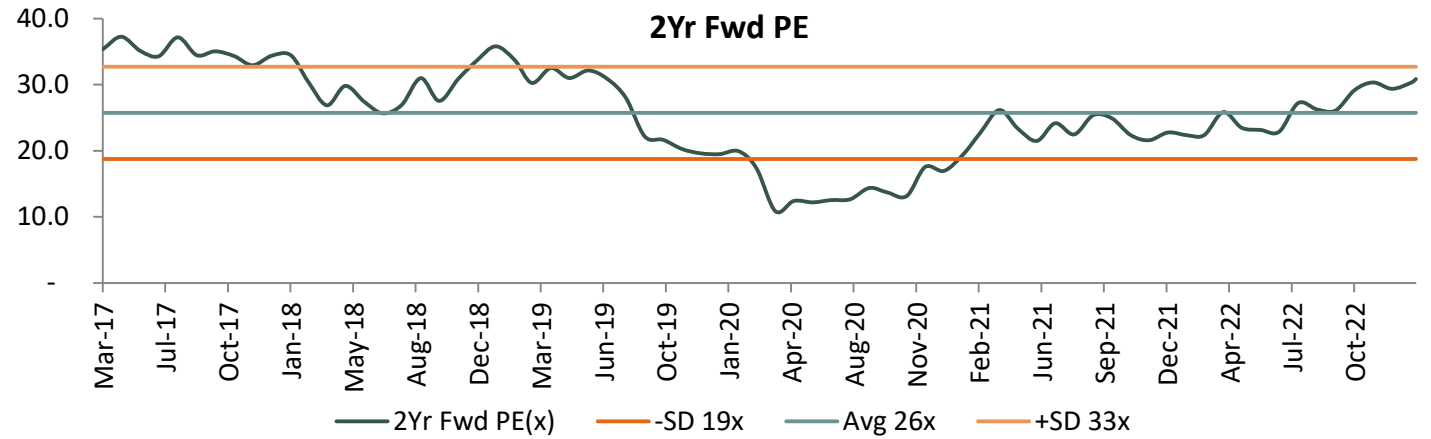
Exhibit 1: Quarterly Snapshot

Standalone (Rs mn)	Q3FY23	Q3FY22	YoY%	Q2FY23	QoQ%
Net Sales	21,850	17,437	25.3	19,573	11.6
Expenditure	17,719	14,711	20.4	16,675	6.3
<i>as % of sales</i>	81.1	84.4		85.2	
Consumption of RM	14,394	11,573	24.4	13,282	8.4
<i>as % of sales</i>	65.9	66.4		67.9	
Employee Cost	1,659	1,657	0.1	1,659	0.0
<i>as % of sales</i>	7.6	9.5		8.5	
Other expenditure	1,667	1,481	12.5	1,735	(3.9)
<i>as % of sales</i>	7.6	8.5		8.9	
EBITDA	4,131	2,726	51.6	2,898	42.5
Depreciation	347	353	(1.5)	356	(2.6)
EBIT	3,784	2,373	59.5	2,542	48.9
Other Income	849	610	39.0	690	23.0
Interest	28	29	(0.4)	47	(39.7)
Share of Profit of Assoc/JVs	723	327	121.4	326	121.7
PBT	5,327	3,281	62.3	3,511	51.7
Total Tax	1,189	786	51.2	838	42.0
Adjusted PAT	4,138	2,495	65.9	2,673	54.8
Extra ordinary items	0	0	NA	0	NA
Reported PAT	4,138	2,495	65.9	2,673	54.8
Adjusted EPS	14.9	9.0	65.9	9.6	54.8
Margins (%)			YoY (bps)		QoQ (bps)
EBIDTA	18.9	15.6	327	14.8	410
EBIT	17.3	13.6	371	13.0	433
EBT	24.4	18.8	556	17.9	644
PAT	18.9	14.3	463	13.7	528
Effective Tax rate	22.3	24.0	(164)	23.9	(154)

Source: Company; IDBI Capital Research

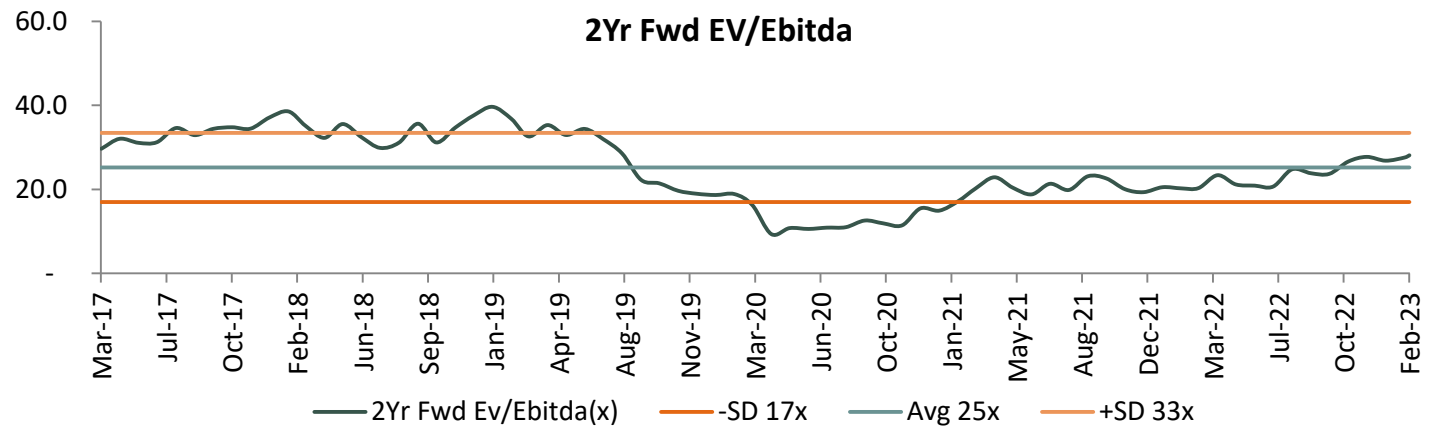
KKC's valuation

Exhibit 2: KKC valuation band – PER



Source: Bloomberg

Exhibit 3: KKC valuation band – EV/EBITDA



Source: Bloomberg

Financial Summary

Profit & Loss Account

(Rs mn)

Year-end: March	FY17	FY18	FY19	FY20	FY21	FY22
Net sales	49,876	49,816	55,646	50,959	42,875	60,570
<i>Change (yoy, %)</i>	8.4	(0.1)	11.7	(8.4)	(16)	41
Operating expenses	(43,018)	(43,790)	(48,283)	(46,023)	(37,780)	(52,829)
EBITDA	8,046	7,329	8,691	5,892	5,821	8,881
<i>Change (yoy, %)</i>	3.8	-8.9	18.6	-32.2	(1)	53
<i>Margin (%)</i>	16.1	14.7	15.6	11.6	13.6	14.7
Depreciation	(855)	(944)	(1,111)	(1,206)	(1,272)	(1,356)
EBIT	7,191	6,385	7,580	4,686	4,549	7,524
Interest paid	(171)	(152)	(168)	(210)	(168)	(122)
Other income	2,221	2,471	3,277	3,798	3,869	3,343
Pre-tax profit	9,241	9,266	10,689	8,075	8,250	12,070
Tax	(1,878)	(2,147)	(3,263)	(1,019)	(1,900)	(2,732)
<i>Effective tax rate (%)</i>	20.3	23.2	30.5	12.6	23.0	22.6
Minority Interest	-	-	-	-	-	-
Net profit	7,363	7,118	7,426	7,056	6,350	9,337
Exceptional items	-	561	-	(199)	-	1,324
Adjusted net profit	7,363	6,557	7,426	7,255	6,350	8,014
<i>Change (yoy, %)</i>	2.1	(10.9)	13.3	(2.3)	(12)	26
EPS	26.6	23.7	26.8	26.2	22.9	28.9
Dividend per sh	14.0	15.1	16.9	14.1	14.9	18.6
<i>Dividend Payout %</i>	52.8	63.8	63.3	53.8	65.2	64.2

Balance Sheet

(Rs mn)

Year-end: March	FY17	FY18	FY19	FY20	FY21	FY22
Shareholders' funds	37,422	39,861	42,830	44,020	46,514	51,449
Share capital	554	554	554	554	554	554
Reserves & surplus	36,867	39,306	42,275	43,466	45,959	50,895
Total Debt	2,508	2,515	3,126	4,893	202	3,947
Other liabilities	2,532	2,814	4,523	5,658	988	4,882
Curr Liab & prov	12,432	14,590	15,700	14,800	10,881	12,581
Current liabilities	10,456	12,637	13,250	12,282	12,061	14,789
Provisions	1,976	1,952	2,450	2,518	2,231	2,293
Total liabilities	12,987	15,451	17,773	17,940	13,048	19,671
Total equity & liabilities	50,409	55,312	60,603	61,961	59,562	71,120
Net fixed assets	16,954	13,261	14,456	12,790	12,657	12,571
Investments	9,753	12,798	11,962	20,741	16,190	18,709
Other non-curr assets	-	-	-	344	306	333
Current assets	23,702	29,254	34,184	28,085	30,410	39,507
Inventories	5,621	5,375	6,329	5,772	5,642	7,375
Sundry Debtors	9,557	13,263	12,836	11,458	10,881	12,581
Cash and Bank	1,291	4,709	7,381	4,646	9,653	14,268
Loans and advances	1,287	1,287	-	-	-	-
Total assets	50,409	55,312	60,603	61,961	59,562	71,120

Cash Flow Statement

(Rs mn)

Year-end: March	FY17	FY18	FY19	FY20	FY21	FY22
Pre-tax profit	9,241	9,266	10,689	8,075	8,250	12,070
Depreciation	630	645	586	(243)	74	507
Tax paid	(2,333)	(1,872)	(2,165)	(1,650)	(1,880)	(2,583)
Chg in working capital	(511)	(1,278)	1,373	966	486	(705)
Other operating activities	-	-	-	-	-	-
Cash flow from operations (a)	7,026	6,759	10,482	7,149	6,929	9,289
Capital expenditure	518	3,048	(1,781)	1,909	60	(421)
Chg in investments	(3,580)	(3,045)	836	(8,779)	4,551	(2,519)
Other investing activities	-	-	-	-	-	-
Cash flow from investing (b)	(3,062)	3	(946)	(6,870)	4,611	(2,940)
Equity raised/(repaid)	-	-	-	-	-	(0)
Debt raised/(repaid)	2,478	7	611	1,767	(4,690)	3,745
Dividend (incl. tax)	(3,890)	(4,180)	(4,697)	(3,901)	(4,140)	(5,143)
Chg in minorities	-	-	-	-	-	-
Other financing activities	-	-	-	-	-	-
Cash flow from financing (c)	(1,413)	(4,173)	(4,086)	(2,135)	(8,830)	(1,399)
Net chg in cash (a+b+c)	2,552	2,589	5,450	(1,856)	2,710	4,950

Financial Ratios

Year-end: March	FY17	FY18	FY19	FY20	FY21	FY22
Book Value (Rs)	135.1	143.8	154.5	158.8	168	186
Adj EPS (Rs)	26.6	23.7	26.8	26.2	22.9	28.9
Adj EPS growth (%)	2.1	-11.0	13.3	-2.3	-12	26
EBITDA margin (%)	16.1	14.7	15.6	11.6	13.6	14.7
Pre-tax margin (%)	18.5	18.6	19.2	15.8	19.2	19.9
Net Debt/Equity (x)	0.0	-0.1	-0.1	0.0	-0.2	-0.2
ROCE (%)	18.8	15.5	16.8	9.7	9	14
ROE (%)	20.0	17.0	18.0	16.7	14	16

DuPont Analysis

Asset turnover (x)	1.0	0.9	1.0	0.8	0.7	0.9
Leverage factor (x)	1.3	1.4	1.4	1.4	1.3	1.3
Net margin (%)	14.8	13.2	13.3	14.2	14.8	13.2

Working Capital & Liquidity ratio

Inventory days	41	39	42	41	48	44
Receivable days	70	97	84	82	93	76
Payable days	52	63	62	55	71	69

Valuations

Year-end: March	FY17	FY18	FY19	FY20	FY21	FY22
PER (x)	55.5	62.4	55.1	56.4	64.4	51.0
Price/Book value (x)	10.9	10.3	9.5	9.3	8.8	7.9
EV/Net sales (x)	8.2	8.2	7.3	8.0	9.3	6.6
EV/EBITDA (x)	50.9	55.5	46.6	69.5	68.6	44.9
Dividend Yield (%)	1.0	1.0	1.1	1.0	1.0	1.3

Source: Company; IDBI Capital Research



Notes

Dealing

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Key to Ratings Stocks:**BUY:** 15%+; **HOLD:** -5% to 15%; **SELL:** -5% and below.**IDBI Capital Markets & Securities Ltd.****Equity Research Desk**

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