

Cummins India

BSE SENSEX	S&P CNX
39,435	11,844
Bloomberg	KKC IN
Equity Shares (m)	277
M.Cap.(INRb)/(USDb)	208.6 / 3
52-Week Range (INR)	885 / 612
1, 6, 12 Rel. Per (%)	1/-15/-9
12M Avg Val (INR M)	410
Free float (%)	49.0

Financials & Valuations(INR b)

Y/E Mar	2019	2020E	2021E
Net Sales	56.6	63.4	71.0
EBITDA	8.6	9.6	11.2
PAT	7.2	7.9	9.0
EPS (INR)	26.1	28.6	32.6
Gr. (%)	10.8	9.6	14.1
BV/Sh (INR)	149.0	160.5	173.7
RoE (%)	17.8	18.5	19.5
RoCE (%)	16.9	17.5	18.5
P/E (x)	27.7	25.3	22.2
P/BV (x)	4.9	4.5	4.2

Estimate change

TP change

Rating change



CMP: INR752

TP: INR910 (+21%)

Buy

Below expected margins impact 4Q performance; Weak export outlook to keep margins under pressure

- Operating performance below expectations:** 4QFY19 revenue was in line growing 9% YoY to INR13.4b (our est. INR13.1b). EBITDA stood muted YoY at INR1.7b (our est. INR1.9b). Operating margin declined 120bp YoY to 12.8%, impacted by lower gross margin (-70bp YoY; 34.2%) and higher employee expenses (10% v/s 9.6% in 4QFY18). Adj. PAT declined 13% YoY to INR1.4b (our est. INR1.7b), impacted by lower-than-estimated other income of INR692m (our est. INR814m) and higher-than-estimated tax rate of 32.4% (our est. 29.5%). For FY19, Sales/EBITDA/PAT increased 11%/24%/2% YoY.
- Domestic business shines; but exports decline sharply:** Domestic business grew a robust 22% YoY to INR13.3b, on strong growth in Power Generation (+21% YoY) and Industrial (+37% YoY) segments. Demand from Data center, Construction and Infrastructure segments supported domestic growth. Distribution & Services segment registered moderate growth of 13% YoY to INR3.4b. Exports declined sharply (17% YoY) due to weak demand in key markets of Africa and South America. KKC expects domestic business to deliver healthy growth in FY20 on strong demand in the Infrastructure space; but outlook on exports remain bleak given the weak demand in end markets.
- Pressure on margins to continue given weak outlook for exports business:** Exports has been a superior margin business for KKC contributing 34% to sales. With global markets expected to remain soft and low visibility in the key markets of Africa and South America, exports are expected to remain flat to negative in FY20. The domestic business (weak margins) should drive growth for the company in FY20, thus, operating margins are expected to remain under pressure. KKC expects to maintain margins by undertaking cost reduction exercises. To factor in the potential adverse revenue mix in FY20, we have scaled down our margin estimates by 100bp for KKC (15.2% v/s 16.2% earlier).
- Healthy guidance for domestic business; Exports remain weak:** KKC has provided healthy FY20 guidance for its domestic business at 10-15% YoY, while guidance for Exports remain weak (flat to negative), due to lack of clarity and weakness prevailing in key markets of Africa and South America.
- Maintain Buy:** We cut our earnings estimate by 8%/6% for FY20/21E to factor in (a) pressure on margins, given the intense competition and inability to take price hikes, and (b) muted exports outlook. We maintain Buy with a TP of INR910 (28x FY21E EPS, in line with its 10-year average multiple).

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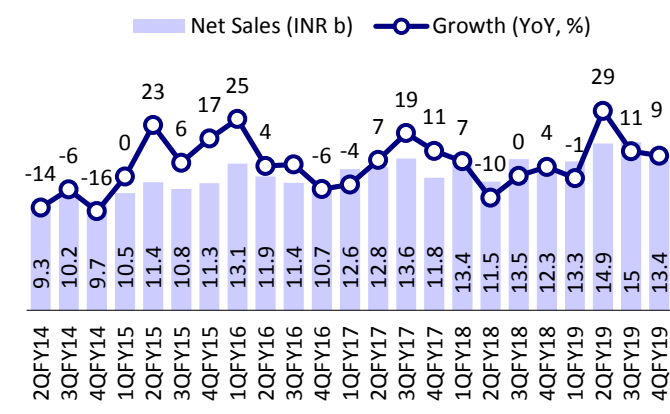
Quarterly Perf. (Standalone)

(INR M)

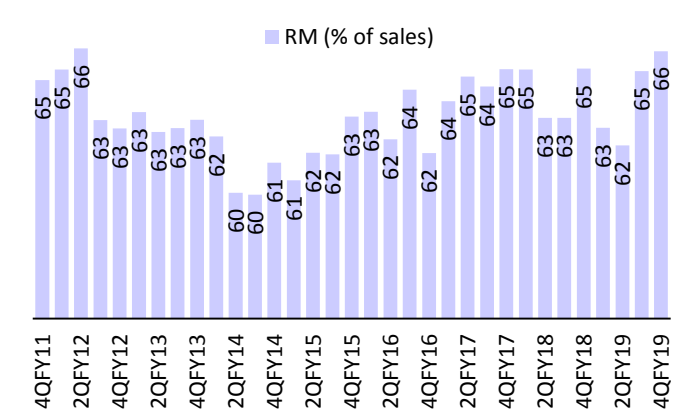
Y/E March	FY18				FY19				FY18	FY19	Vs Est. 4QE	Var. (%)
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q				
Sales	13,408	11,539	13,547	12,332	13,280	14,869	15,038	13,404	50,825	56,590	13,134	2.1
Change (%)	6.5	-9.8	0.0	4.1	-1.0	28.9	11.0	8.7	0.1	11.3	6.5	
EBITDA	1,953	1,675	1,967	1,731	2,147	2,509	2,267	1,718	7,325	8,641	1,870	-8.1
Change (%)	-5.4	-15.8	-13.2	1.8	9.9	49.8	15.3	-0.7	-12.3	24.0	8.0	
As of % Sales	14.6	14.5	14.5	14.0	16.2	16.9	15.1	12.8	14.4	15.3	14.2	
Depreciation	208	220	237	273	271	274	279	280	938	1,103	287	
Interest	42	38	34	34	36	40	41	45	148	162	32	
Other Income	583	536	501	664	696	785	755	692	2,285	2,928	814	
PBT	2,286	1,953	2,197	2,088	2,536	2,980	2,702	2,085	8,523	10,304	2,365	-11.8
Tax	625	424	475	475	706	865	831	676	2,000	3,078	698	
Effective Tax Rate (%)	27.4	21.7	21.6	22.8	27.8	29.0	30.8	32.4	23.5	29.9	29.5	
Adjusted PAT	1,660	1,529	1,722	1,612	1,830	2,116	1,871	1,409	6,524	7,226	1,667	-15.5
Change (%)	(8.4)	(22.3)	(13.1)	1.7	10.2	38.4	8.7	(12.6)	(11.2)	10.8	3.4	
Extra-ordinary Income (net)	561.2	-	-	-	-	-	-	-	561.2	-	-	
Reported PAT	2,222	1,529	1,722	1,612	1,830	2,116	1,871	1,409	7,085	7,226	1,667	-15.5
Change (%)	22.6	(22.3)	(13.1)	1.7	(17.6)	38.4	8.7	(12.6)	(3.6)	2.0	3.4	

Exhibit 1: Revenue growth at 9% YoY supported by pick-up in domestic business

Exhibit 2: RM costs up 70bp YoY given adverse revenue mix



Source: Company, MOFSL



Source: Company, MOFSL

Revenue growth supported by domestic business

- Domestic business grew by a robust 22% YoY to INR13.3b, supported by strong growth in the power generation (+21% YoY) and industrial (+37% YoY) segments. Demand from Data center, construction and infrastructure segments supported domestic growth.
- Distribution & service segment registered moderate growth of 13% YoY to INR3.4b.

Exhibit 3: Quarterly Cost structure analysis

INR M	3QFY17	4QFY17	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19
Raw Materials	8,722	7,707	8,435	7,282	8,546	8,031	8,330	9,217	9,771	8,817
Staff Costs	1,101	1,069	1,226	1,257	1,317	1,180	1,265	1,468	1,379	1,346
Other Expenses	1,462	1,368	1,506	1,326	1,717	1,391	1,538	1,676	1,620	1,523
Total	11,285	10,144	11,455	9,864	11,580	10,602	11,133	12,360	12,770	11,686
% of Revenues										
Raw Materials	64.2	65.1	65.1	63.1	63.1	65.1	62.7	62.0	65.0	65.8
Staff Costs	8.1	9.0	9.1	10.9	9.7	9.6	9.5	9.9	9.2	10.0
Other Expenses	10.8	11.5	11.2	11.5	12.7	11.3	11.6	11.3	10.8	11.4
% YoY										
Raw Materials	19.0	14.0	8.6	-12.1	-2.0	4.0	-4.5	-1.1	14.3	6.6
Staff Costs	1.8	6.3	17.9	13.5	19.6	10.4	3.2	-1.0	4.7	14.1
Other Expenses	15.8	6.0	3.5	-9.0	17.4	1.6	2.0	-0.2	-6.0	9.5

Source: Company, MOFSL

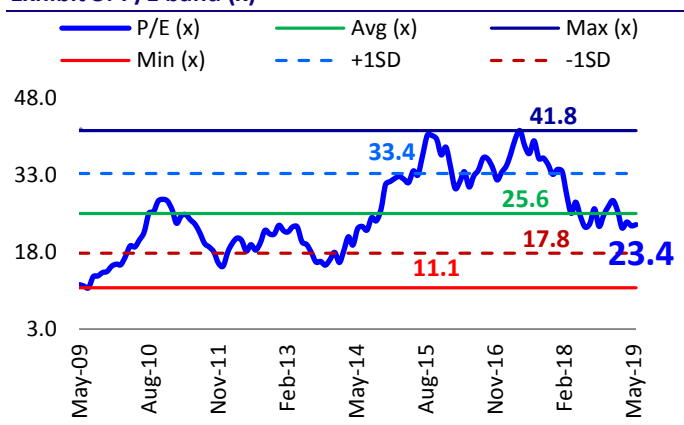
Valuation and view

- We cut our earnings estimate by 8%/6% for FY20/21E to factor in (a) pressure on margins given intense competition and inability to take price hikes and (b) muted exports outlook. We maintain Buy with a TP of INR910 (28x FY21E EPS, in line with its 10-year average multiple).

Exhibit 4: Change in estimates

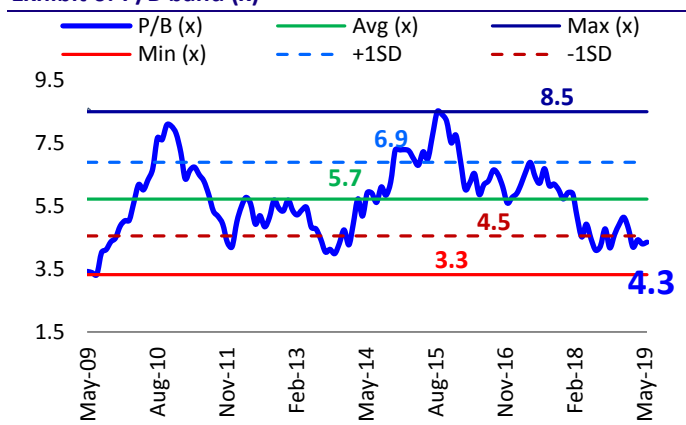
Earnings Change	Old		New		Change	
	FY20E	FY21E	FY20E	FY21E	FY20E	FY21E
Revenue	63,024	70,021	63,362	71,044	1%	1%
EBITDA	10,201	11,569	9,607	11,188	-6%	-3%
EBITDA margin	16.2%	16.5%	15.2%	15.7%	-1.0%	-0.8%
Reported PAT	8,638	9,638	7,918	9,032	-8%	-6%
Adj. PAT	8,638	9,638	7,918	9,032	-8%	-6%

Exhibit 5: P/E band (x)



Source: Company, MOFSL

Exhibit 6: P/B band (x)



Source: Company, MOFSL

Financials and valuations

Income Statement					(INR Million)
Y/E March	2017	2018	2019	2020E	2021E
Total Revenues	50,773	50,825	56,590	63,362	71,044
Change (%)	7.8	0.1	11.3	12.0	12.1
Raw Materials	32,745	32,581	36,135	40,776	45,648
Staff Cost	4,334	4,979	5,458	5,989	6,560
Other Expenses	5,677	5,940	6,356	6,991	7,648
EBITDA	8,018	7,325	8,641	9,607	11,188
% of Total Revenues	15.8	14.4	15.3	15.2	15.7
Depreciation	848	938	1,103	1,179	1,293
Other Income	2,080	2,285	2,928	3,046	3,169
Interest	168	148	162	162	162
PBT	9,082	8,523	10,304	11,311	12,903
Tax	1,736	2,000	3,078	3,393	3,871
Rate (%)	19.1	23.5	29.9	30.0	30.0
Adjusted PAT	7,346	6,524	7,226	7,918	9,032
Extra-ordinary Income (net)	0	561	0	0	0
Reported PAT	7,346	7,085	7,226	7,918	9,032
Change (%)	-2.6	-3.6	2.0	9.6	14.1

Balance Sheet					(INR Million)
Y/E March	2017	2018	2019	2020E	2021E
Share Capital	554	554	554	554	554
Reserves	36,867	39,306	40,750	43,947	47,593
Net Worth	37,422	39,861	41,305	44,501	48,147
Loans	2,508	2,515	3,092	3,092	3,092
Deferred Tax Liability	24	299	988	988	988
Capital Employed	39,953	42,675	45,384	48,580	52,227
Gross Fixed Assets	22,705	28,665	29,676	32,676	35,676
Less: Depreciation	7,703	8,445	9,548	10,727	12,020
Net Fixed Assets	15,001	20,193	20,128	21,949	23,656
Capital WIP	4,631	380	1,585	1,585	1,585
Investments	7,074	5,487	2,853	2,853	2,853
Curr. Assets	23,702	29,253	33,970	36,548	40,256
Inventory	5,621	5,375	6,254	6,825	7,666
Debtors	9,557	13,263	12,727	13,890	15,602
Cash & Bank Balance	1,291	4,709	7,379	7,526	7,658
Loans & Advances	1,287	1,287	0	0	0
Other Assets	5,948	4,621	7,610	8,306	9,329
Current Liab. & Prov.	10,455	12,637	13,152	14,354	16,123
Current Liabilities	9,036	11,114	11,450	12,497	14,037
Provisions	1,419	1,523	1,702	1,857	2,086
Net Current Assets	13,247	16,616	20,818	22,194	24,132
Application of Funds	39,953	42,675	45,384	48,580	52,227

Financials and valuations

Ratios

Y/E March	2017	2018	2019	2020E	2021E
Basic (INR)					
Adj EPS	26.5	23.5	26.1	28.6	32.6
Cash EPS	29.6	26.9	30.0	32.8	37.2
Book Value	135.0	143.8	149.0	160.5	173.7
DPS	14.0	15.0	13.0	14.2	16.2
Payout (incl. Div. Tax.)	52.8	58.7	49.7	49.7	49.7

Valuation (x)

P/E	27.3	30.7	27.7	25.3	22.2
Cash P/E	24.5	26.9	24.1	22.0	19.4
EV/EBITDA	25.1	27.1	22.7	20.4	17.5
EV/Sales	4.1	4.0	3.5	3.2	2.8
Price/Book Value	5.4	5.0	4.9	4.5	4.2
Dividend Yield (%)	1.9	2.1	1.8	2.0	2.2

Profitability Ratios (%)

RoE	21.2	18.3	17.8	18.5	19.5
RoCE	20.0	16.1	16.9	17.5	18.5
RoIC	22.1	16.6	16.1	16.8	18.1

Turnover Ratios

Debtors (Days)	69	95	82	82	82
Inventory (Days)	40	39	40	40	40
Creditors. (Days)	44	54	53	53	53
Asset Turnover (x)	1.3	1.2	1.2	1.3	1.4

Leverage Ratio

Debt/Equity (x)	0.1	0.1	0.1	0.1	0.1
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Cash Flow Statement

(INR Million)

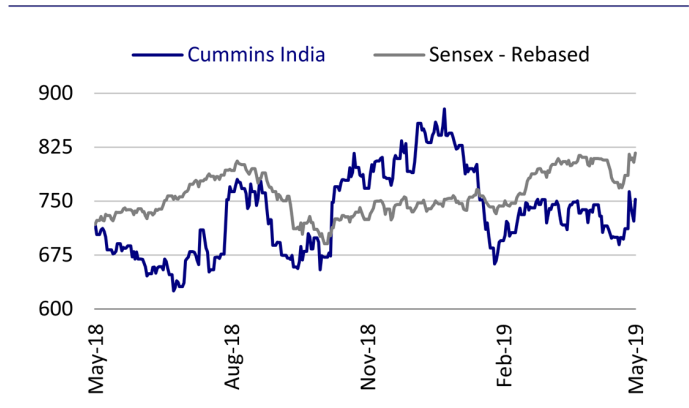
Y/E March	2017	2018E	2019E	2020E	2020E
PBT before EO Items	9,082	9,084	10,304	11,311	12,903
Depreciation	848	938	1,103	1,179	1,293
Interest	-9	-35	162	162	162
Direct Taxes Paid	-1,867	-1,823	-3,078	-3,393	-3,871
(Inc)/Dec in WC	371	(370)	(1,694)	(1,390)	(1,970)
CF from Operations	8,426	7,795	6,797	7,868	8,517
EO Income	-983	-1,464	662	0	0
CF from Oper. Incl. EO Items	7,443	6,331	7,459	7,868	8,517
(Inc)/Dec in FA	(2,315)	(905)	(2,217)	(3,000)	(3,000)
Free Cash Flow	5,128	5,426	5,242	4,868	5,517
Investment & Others	(2,538)	2,763	2,634	0	0
CF from Investments	-4,853	1,858	417	-3,000	-3,000
(Inc)/Dec in Network	0	0	(1,473)	(0)	0
(Inc)/Dec in Debt	0	0	0	0	0
Interest Paid	-90	-100	0	0	0
Dividend Paid	-4,663	-4,639	-4,309	-4,721	-5,385
Others	2,508	8	576	0	0
CF from Fin. Activity	(2,245)	(4,731)	(5,206)	(4,721)	(5,385)
Inc/Dec of Cash	344	3,458	2,671	147	131
Add: Beginning Balance	897	1,239	4,709	7,379	7,526
Closing Balance	1,241	4,696	7,379	7,526	7,658

Corporate profile

Company description

Cummins India is a 51 % subsidiary of Cummins Inc. USA. Cummins India is the country's leading manufacturer of diesel and natural gas engines for power generation, industrial and automotive markets. Cummins in India is a group of eight legal entities (including Cummins India) across 200 locations in the country with a combined turnover of USD1.5b in 2013 and employing close to 9,000 individuals.

Exhibit 1: Sensex rebased



Source: MOFSL/Bloomberg

Exhibit 2: Shareholding pattern (%)

	Mar-19	Dec-18	Mar-18
Promoter	51.0	51.0	51.0
DII	27.2	24.9	21.3
FII	9.1	11.4	14.7
Others	12.7	12.7	13.0

Note: FII Includes depository receipts

Source: Capitaline

Exhibit 3: Top holders

Holder Name	% Holding
Life Insurance Corporation Of India	4.5
Axis Mutual Fund Trustee Limited A/C Axis Mutual Fund A/C Axis Long Term Equity Fund	3.4
Sbi Blue Chip Fund	3.3
Reliance Capital Trustee Co Ltd.A/C Reliance Multi Cap Fund	2.7
Franklin Templeton Mutual Fund A/C Franklin India Equity Fund	1.9

Source: Capitaline

Exhibit 4: Top management

Name	Designation
Mark A Levett	Chairman
Sandeep Sinha	Managing Director
Antonio Leitao	Director
Norbert Nusterer	Director
Suzanne Wells	Director

Source: Capitaline

Exhibit 5: Directors

Name	Name
Anjuly Chib Duggal	Rajeev Bakshi
Nasser Munjee	Venu Srinivasan
P S Dasgupta	J M Barrowman
Prakash M Telang	Donald G Jackson

*Independent

Exhibit 6: Auditors

Name	Type
Ajay Joshi and Associates	Cost Auditor
K R Chandratre	Secretarial Audit
S R B C & Co LLP	Statutory

Source: Capitaline

Exhibit 7: MOFSL forecast v/s consensus

EPS (INR)	MOFSL forecast	Consensus forecast	Variation (%)
FY20	28.6	30.8	-7.2
FY21	32.6	34.4	-5.3

Source: Bloomberg

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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