

Q2FY22 Result Highlights

- **Growth in Domestic and Export markets enabled topline growth of ~49% YoY** – Cummins India Q2FY22 revenue was at ₹17.3bn ~+49% YoY/~46% QoQ (+36% excluding one-time large order) surpassing Q1FY20 levels. It was led by domestic sales which grew by 68% YoY, as Powergen segment grew by 90% YoY (excl. ₹1.5bn project order for datacenters- 100 MW), Industrials grew by 46% and distribution grew by 15%, as sales activity picked up after Covid 2nd wave. Exports grew by 10% YoY as management highlighted that several export markets saw a revival. Government push on infrastructure, investments in healthcare, realty and data centres are likely to drive growth, but supply chain issues continue to impact operations. Significant price hike taken to support margins. Gross margins saw a sharp compression of 340bps due to an adverse mix, but management highlighted that 60% of RM inflation is already passed on to consumers, while balance will be passed with a lag of 1-1.5 months. EBITDA margins came in at 15% (+58bps YoY). EBITDA grew by 55% YoY/74.2% to ₹2.6bn. Adjus.Net profit grew by 51% YoY/111% QoQ to ₹2.2bn.
- **Exports business registers +10% YoY growth even as supply chain challenges prevails** – On a healthy base of Q2FY21, Exports registered modest growth of 10% YoY to ₹4.4bn. Although demand remains healthy on export front, challenges do prevail on the supply chain on the electronic component side which Cummins expects to normalise by end of FY22. Growth has been healthy in key geographies like Latin America, Africa, Middle East and Europe. Cummins remains optimistic on the long term prospect of the Export business as within the Cummins global group, Cummins India is one of three entity (UK, China and India) which supplies to global business requirement of Cummins group. Also with CPCB IV compliant product portfolio now in place which is acceptable across countries, Cummins is confident of export business bouncing back to growth trajectory in the medium to long term.
- **Large gensets seeing an uptrend; being localized** – Investments in areas like data centres, airports, large commercial realty parks, large hospitals are leading to faster growth in >1,000kVA genset category. The competition in this space is limited between 2-3 global players, of which Cummins has higher indigenisation vs peers. The 50L engine is 85% localised, 60L engines is 50% localised (will reach 80% in 18 months), 78L and 95L variants are being imported currently and localisation will commence as volumes pick up in these ranges.
- **Data centers are large and growing market for the next decade** – Meaningful part of the growth in exports at present for the company is being led by increasing use of data and requirement of such and other infrastructure requirements. On the domestic front, Cummins India already has a very high localized content in the 50-liters diesel gensets and expects to increase localized content of higher KVA nodes over time. The data center market would be dependent on gensets for the next 15 years as per Cummins and thus suggests a strong runway to growth. All of this growth may not fully come to the listed entity and may get divided with unlisted entities.

Important Statistics

MCAP (₹bn)	₹248.15
52week H/L (₹)	1065/429
NSE Code	CUMMINSIND
BSE Code	500480

Shareholding Pattern	Sep'21 (%)
Promoter	51.0
DII	24.6
FII	12.0
Public & Others	12.4

Financials

	(₹ mn)			
Particulars	FY19	FY20	FY21	1HFY22
Revenues	56,590	51,577	43,292	29,119
EBITDA	8,641	5,863	5,795	4,080
EBITDA Margin (%)	15.3	11.4	13.4	14.0
Adjus.Net Profit	7,226	6,294	6,179	3,242
EPS (₹)	26.1	23.4	22.3	16.5
DPS (₹)	17.0	14.0	15.0	
RoE (%)	17.9	15.6	14.4	
RoCE (%)	23.8	17.2	17.8	
P/E (x)	34.3	38.3	40.2	
EV/EBITDA (x)	28.5	38.3	40.1	
P/BV (x)	6.0	5.9	5.7	

Source: Company Filing, Way2wealth Research

1st November 2021

CMP – ₹895.2/-

View – Buy

- **Targeting ₹20bn of exports** – Exports sales are witnessing improved demand momentum in Asia Pac and Middle East region due to infrastructure investments, led by higher oil prices, while other markets like Latin America, EU and Africa are still lagging behind and are likely to catch up as post-Covid normalcy is yet to return in these regions. Exports backlog is running above the earlier peak of 30 days. Cummins is facing some challenges due to trade barriers created by some countries, akin to Atma Nirbhar Bharat, but management is working towards its goal of achieving ₹20bn of exports.
- **Cummins has 4-pronged strategy to counter regulatory pressure** – Ministry of Power's draft notification guidance on shift from Diesel gensets to cleaner technologies will not have any material impact on gensets sales until 2030 as per the management. Given its experience in other countries the company has a 4-pronged strategy to deal with this: a) policy initiatives: implementation of CPCB-4 norms and introduction of scrappage policy, b) Cummins has a zero emission footprint goal committed by 2050, c) identifying localisation in battery technology as 100% RM is being imported currently and d) total emission to be considered for transition to cleaner fuel as 70% of power generation in India is still coal based. Cummins has faced similar pressure in other countries and believes lack of viable alternate technology and prohibitive costs will lead to a conversion only in sub 10kVA gensets to battery solutions. Its parent has invested in alternate solutions like hydrogen fuel cells, which are unlikely to see meaningful pick up in current decade.
- **Cummins considers itself the solution and not the problem when it comes to emission reduction** – Cummins India shared the steps it is taking to reduce level of emissions now. In essence, it is arguing with the ministry to incentivize a scrappage policy for old gensets and timely commissioning of the CPCBIV regime, both of which would be positives for its business as well. It sees prospects of introducing natural gas based gensets as a lower emission intensity substitute to diesel gensets over the next three years as availability of gas improves. Over the long term, it expects solid oxide fuel cells to be a better solution for data centers versus the battery storage solution based on the total cost of ownership. The global parent is investing into the technology and thus already has skin in the game.
- **Hydrogen viable alternative to diesel technology** – As per the management hydrogen is the best viable alternative to diesel technology, but they are present across all alternatives including gas gensets, hydrogen fuel cells and battery systems (automotive). Management believes the transition to batteries or hydrogen fuel cells may not take place before 2030 given the wide cost differential (on TCO basis), technology gaps and complexity of applications. However, government is rapidly expanding the gas distribution infrastructure, which can lead to improved volumes for Cummins India over next 3 years. Hence, subsidies or incentives are unlikely to accelerate adoption of battery solutions.
- **Simplifying corporate structure in India** – There is considerable progress made on discussions to simplify the multi-holding structure in India, but management would not comment anything specifically on this.

View

During the quarter, the Powergen business growth was supported by revenue booking from a large data centre project in the quarter and recovery in end markets like real estate, infrastructure, even industrial and distribution business registered strong growth supported by weak business and increased spending in the infrastructure segment. The company is likely to be beneficiary of the domestic infrastructure capex cycle and CPCB norm changes which is expected to get implemented from Oct'22. Segments like infrastructure (roads and construction) and exports (Asia Pac and Middle East) are expected to drive growth over medium term as sales are still significantly below pre-Covid level. Incrementally it can also benefit from the Export market revival and can play vital role in global supply chain. Going ahead Cummins expects demand to remain healthy given the domestic market witnessing demand bounce back from key end markets. It is well placed to take advantage of business demand recovery given its preparedness on the technology front and market leadership position. Hence, we view it as a **BUY** stock trading at **P/E 28.6x FY23E EPS of ₹31**.

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View – Buy

Standalone Financial Performance

(₹ mn)								
Particulars	Q2FY22	Q2FY21	YoY(%)	Q1FY22	QoQ(%)	1HFY22	1HFY21	YoY (%)
Operating Income	17,274	11,602	48.9	11,845	45.8	29,119	16,584	75.6
Cost of materials consumed	9,609	6,878	39.7	7,430	29.3	17,038	9,484	79.7
Purchase of Stock in trade	1,469	737	99.4	1,200	22.4	2,668	949	181.1
Changes in Inventories, WIP & SIP	494	(428)	215.6	(861)	157.4	(367)	(319)	15.2
Total Raw Material Cost	11,571	7,187	61.0	7,768	49.0	19,339	10,114	91.2
Staff Expenditure	1,569	1,189	32.0	1,349	16.3	2,919	2,339	24.8
Other Expenses	1,541	1,552	(0.7)	1,240	24.3	2,781	2,428	14.5
EBITDA	2,592	1,674	54.8	1,488	74.2	4,080	1,703	139.6
Other Income	694	580	19.8	549	26.5	1,243	1,601	(22.4)
Depreciation	336	327	2.7	309	8.6	645	630	2.3
EBIT	2,951	1,927	53.1	1,728	70.8	4,679	2,675	74.9
Interest	22	40	(44.8)	18	26.9	40	83	(52.3)
Exceptional items	-	-	NA	1,324	(100.0)	1,324	-	NA
PBT	2,929	1,887	55.2	3,034	(3.5)	5,962	2,591	130.1
Tax	730	431	69.1	668	9.3	1,397	610	129.0
Net profit	2,199	1,456	51.1	2,366	(7.1)	4,565	1,981	130.4
Adjus.Net Profit	2,199	1,456	51.1	1,043	110.9	3,242	1,981	63.6
Reported EPS	7.9	5.3		8.5		16.5	7.1	

Source: Company, Way2Wealth

Segmental Revenues

(₹ mn)								
Particulars	Q2FY22	Q2FY21	YoY (%)	Q1FY22	QoQ (%)	1HFY22	1HFY21	YoY (%)
Domestic	12,480	7,460	67.3	8,690	43.6	21,170	11,050	91.6
-Power Generation	6,350	2,590	145.2	3,510	80.9	9,860	3,550	177.7
-Industrial	2,480	1,700	45.9	2,180	13.8	4,660	2,500	86.4
-Distribution & Spares	3,650	3,170	15.1	3,000	21.7	6,650	5,000	33.0
Exports	4,390	3,980	10.3	3,080	42.5	7,470	5,240	42.6
Segment wise sales	16,870	11,440	47.5	11,770	43.3	28,640	16,469	73.9
Other operating income	404	162	149.4	75	439.1	479	115	316.3
Total Sales	17,274	11,602	48.9	11,845	45.8	29,119	16,584	75.6

Source: Company, Way2Wealth

Quarterly Trend

(₹ mn)															
Particulars	Q1 FY20	Q2 FY20	Q3 FY20	Q4 FY20	Q1 FY21	Q2 FY21	Q3 FY21	Q4 FY21	Q1 FY22	Q2 FY22	YoY(%)	QoQ(%)	1H FY22	1H FY21	YoY(%)
Sales	13,430	13,084	14,534	10,528	4,982	11,602	14,243	12,465	11,845	17,274	48.9	45.8	29,119	16,584	75.6
EBITDA	1,514	1,525	2,158	667	29	1,674	2,417	1,675	1,488	2,592	54.8	74.2	4,080	1,703	139.6
EBITDA Margin (%)	11.3	11.7	14.8	6.3	0.6	14.4	17.0	13.4	12.6	15.0	58	244	14.0	10.3	374
Net Profit	1,415	1,833	1,862	1,183	526	1,456	2,341	1,857	1,043	2,199	51.0	110.9	3,242	1,982	63.6

Source: Company, Way2Wealth

Past Performance & Future Forecasting

(₹ mn)

Particulars	FY19	FY20	FY21	FY22E	FY23E
Revenues	56,590	51,577	43,292	56,265	63,980
EBITDA	8,641	5,863	5,795	7,623	9,516
EBITDA Margin (%)	15.3	11.4	13.4	13.5	14.9
Adjus.Net Profit	7,226	6,294	6,179	7,260	8,679
EPS (₹)	26.1	23.4	22.3	26.2	31.3
DPS (₹)	17.0	14.0	15.0	15.0	16.0
RoE (%)	17.9	15.6	14.4	17.9	18.2
RoCE (%)	23.8	17.2	17.8	20.1	24.1
P/E (x)	34.3	38.3	40.2	34.2	28.6
EV/EBITDA (x)	28.5	38.3	40.1	31.3	25.5
P/BV (x)	34.3	38.3	40.2	5.3	4.9
Net Debt/Equity (x)	0.1	0.1	0.0	0.0	0.0
Cash Balances	7,379	4,538	9,652	7,897	8,943

Source: Company, Way2Wealth Research

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View – Buy

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Disclosure of Interest Statement Cummins India Ltd. as on 1st November, 2021

Name of the Security	Cummins India Ltd.
Name of the analyst	Jayakanth Kasthuri
Analysts' ownership of any stock related to the information contained	
Financial Interest	No
Analyst :	No
Analyst's Relative : Yes / No	No
Analyst's Associate/Firm : Yes/No	No
Conflict of Interest	No
Receipt of Compensation	No
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