

2nd November 2020

CMP – ₹437/-

View – Positive

Quarterly Result Highlights

- **Cost rationalisation in addition to domestic recovery drives decent performance during Q2FY21** – Cummins India Ltd (CIL) topline was at ₹11.6bn (-11% YoY; +133% QoQ). EBIDTA of ₹1.9bn +25% YoY was despite YoY revenue decline, was supported by better revenue mix of high margin Export + distribution business contributing 63% of sales compared to 52% in Q2FY20, which itself led to gross margin expansion of 3.1 bps YoY to 38.1% and cost rationalization measures lead to another 170bps YoY improvement in margins. EBIDTA margins for the quarter stood at 16.4% (+4.8 bps YoY). Adjusted PAT was at ₹1.7bn (-8% YoY). Going ahead with normalization of revenue mix, gross margin gain would narrow down and the current margins of 16.4% seems unsustainable.
- **Domestic business on a gradual recovery path with commercial and residential real estate demand improving** – Domestic business declined 21% YoY to ₹7.4bn recovery in key business segments like Powergen and industrial is slower. During the quarter, decline was seen across segments with Powergen business down 35% YoY to ₹2.6bn, industrial segment down 20% YoY to ₹1.7bn and distribution and spares business down 4% YoY to ₹3.2bn. Going ahead Cummins expects demand to see gradual ramp up as critical demand areas like hospitality and infrastructure are still lagging in demand recovery whereas commercial and residential areas have start to show signs of recovery. There also exists bright spot for the company as demand from data centres, healthcare has seen bounce back. Industrial segment which saw 20% revenue decline is more dependent on pick up in infrastructure spending from government.
- **Exports business grew 18% YoY as sharp improvement as supply chain issues gets sorted** – Post 61% decline in exports revenue during Q1FY21 as Cummins could not ship products on account of stringent lockdown in India, Exports revenue in Q2FY21 showed sharp rebound and registered 18% YoY growth to ~₹4.0bn. Supply chain issue getting addressed as well as demand recovery from regions like Asia Pacific, Europe and Latin America supported the Q2FY21 export growth for the company. Cummins expects the 1HFY21 run rate of ₹5.2bn to be maintained for 2HFY21 and remains optimistic on the long term prospect of the Export business as within the Cummins global group, CIL is one of three entities (UK, China and India) which supplies to global business requirement of Cummins group.

Important Statistics

MCAP (₹ bn)	₹121.14bn
52 Week H/L (₹)	652.8 /281.6
NSE Code	CUMMINSIND
BSE Code	500480

Shareholding pattern (%)	Sep'20
Promoter	50.9
DII	31.2
FII	8.2
Public & Others	11.5

Financials

Particulars	FY19	FY20	1HFY21
Revenues	56,590	51,577	16,584
EBITDA	8,641	5,863	1,935
EBITDA Margin (%)	15.3	11.4	11.7
Adjus.Net Profit	7,226	6,294	2,213
EPS (₹)	26.1	23.4	8.2
DPS (₹)	17	14	
RoE (%)	17.9	15.6	
RoCE (%)	23.8	17.2	
P/E (x)	16.7	18.7	
EV/EBITDA (x)	13.8	20.2	
P/BV (x)	2.9	2.9	

Source: Company Filing, Way2wealth Research

View

Cummins had a decent performance enabled by exports considering the macro environment. There are visible signs of domestic recovery which augers well for the company in the coming quarters. Cummins core business (Powergen and industrial business segment which contributes 48% of sales and 64% of domestic sales) continues to face demand headwind as its end user industry like malls, hospitality and infrastructure segments business outlook remains weak for them in FY21 but as these sectors unlock in 2HFY21 we expect the company's performance to improve. Hence, we **continue** to maintain our **ACCUMULATE** with target range of ₹470-480.

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Financial Performance

(₹ mn)

Particulars	Q1FY20	Q2FY20	Q3FY20	Q4FY20	Q1FY21	Q2FY21	YoY(%)	QoQ(%)	1HFY21	1HFY20	YoY(%)
Sales	13,430	13,084	14,534	10,528	4,982	11,602	(11.3)	132.9	16,584	26,514	(37.5)
EBITDA	1,514	1,525	2,158	667	29	1,906	25.0	6472.4	1,935	3,039	(36.3)
EBITDA Margin (%)	11.3	11.7	14.8	6.3	0.6	16.4	473 bps	1580 bps	11.7	11.5	21 bps
Net Profit	1,415	1,833	1,862	1,183	526	1,687	-8.0	220.7	2,213	3,248	(31.9)

Source: Company Filing, Way2wealth Research

Segment-wise sales breakup

(₹ mn)

Particulars	Q2FY21	Q2FY20	YoY (%)	Q1FY21	QoQ (%)	1HFY21	1HFY20	YoY (%)
Domestic	7,460	9,410	(20.7)	3,590	107.8	11,050	19,230	(42.5)
-Power Generation	2,590	3,940	(34.3)	960	169.8	3,550	7,870	(54.9)
-Industrial	1,700	2,140	(20.6)	800	112.5	2,500	4,600	(45.7)
-Distribution & Spares	3,170	3,330	(4.8)	1,830	73.2	5,000	6,760	(26.0)
Exports	3,980	3,370	18.1	1,260	215.9	5,240	6,640	(21.1)
Segment wise sales	11,440	12,780	(10.5)	4,840	136.4	16,469	26,375	(37.6)
Other operating income	(27)	268	(110.1)	142	(119.0)	115	139	(17.3)
Total Sales	11,602	13,428	(13.6)	4,982	132.9	16,584	26,514	(37.5)

Source: Company Filing, Way2wealth Research

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Disclosure of Interest Statement Cummins India Ltd. as on November 02, 2020

Name of the Security	Cummins India Ltd.
Name of the analyst	Jayakanth Kasthuri
Analysts' ownership of any stock related to the information contained	NIL
Financial Interest	
Analyst :	No
Analyst's Relative : Yes / No	Yes
Analyst's Associate/Firm : Yes/No	No
Conflict of Interest	No
Receipt of Compensation	No
Way2Wealth ownership of any stock related to the information contained	NIL
Broking relationship with company covered	NIL
Investment Banking relationship with company covered	NIL

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