

5th February 2021

CMP – ₹785.8/-

View – Accumulate

Quarterly Result Highlights

- **Strong domestic recovery and cost rationalisation enabled margins improvement** – Sales came in at ~₹14.2bn (-2% YoY) lead by better execution. EBITDA increased by 12% YoY to ₹2.4bn with EBITDA margins expanding by 220bps coming at 17% compared to 14.8% in Q3FY20 with sharp rebound in domestic sales reaching 97% of Pre-Covid levels along with cost rationalisation. Higher EBITDA was also enabled by lower employee cost (-12% YoY) & other expenses (-6% YoY). PAT came in at ₹2.3bn, +25.7% YoY. The company declared an interim dividend of ₹7 per share.
- **Export markets gradual recovery** – Exports had begun reviving, but due to the second COVID-19 wave, Latin America and EU region have turned sluggish. Asian markets continue to recover well. The company highlighted that the strong demand from Asia is in the LHP portfolio. For the HHP portfolio, the company has made progress in development of its emission-compliant export product. It expects a decision from the global parent on such count to happen independent of the implementation of CPCB-4 norms in India. MENA region has been lukewarm and lies somewhere in between Asia & EU/Latin regions in terms of recovery.
- **Construction and mining** – Pre-buying for now and healthy growth prospects - Revision in emissions norms has started leading to pre-buying. Construction segment, which has supported growth, is expected to be strong in the near term. Implementation CPCB-4 norms have been delayed by six months. Cummins expects orders in this regard from Q1FY23 and is looking for market share gain on the back of better engine and emissions technology. Railways has been lagging and will take a couple of quarters to normalise. Compressors is a very unpredictable cyclical segment and will keep growing as agriculture powers up further. Mining has rebounded strongly as demand for coal, iron ore and other metals is expected to sustain. New products in the marine segment have been introduced, with focus on capturing market share from global players
- **Management positive on domestic Powergen and Industrial business** – The company clarified on issues related to supply chain (imports) that limited execution for the quarter. It also highlighted growth in select pockets of domestic (data centers, construction) that helped drive double-digit YoY growth in the key Powergen segment in spite of other pockets remaining quite weak (hospitality, commercial realty). The management was very optimistic especially on industrial engines from construction & mining segments and gensets for data center and infrastructure segments
- **Margins are expected to be under pressure** – Due to steep rise in commodity prices, management expects to take price hike in coming quarters. Management remains cautiously optimistic on demand front as things have started improving MoM. Going forward with steep rise in commodity prices, reversal of salary cut announced earlier and high competition intensity, margins are expected to remain under pressure. The company expects to gain healthy market share from its upcoming Hydrogen technology segment and is currently evaluating and bidding for various tenders in Railways and construction segments. On account of pandemic and uncertainty, management has reframed itself from giving any guidance; however, it is optimistic based on gradual recovery in demand witnessed across various sectors.

Important Statistics

MCAP (₹bn)	₹216.92
52week H/L (₹)	799/282
NSE Code	CUMMINSIND
BSE Code	500480

Financials

Particulars	₹ mn		
	FY19	FY20	9MFY21
Revenues	56,590	51,577	30,827
EBITDA	8,641	5,863	4,120
<i>EBITDA Margin (%)</i>	<i>15.3</i>	<i>11.4</i>	<i>13.4</i>
Net Profit	7,226	6,294	4,322
EPS (₹)	26.1	23.4	15.6
DPS (₹)	17	14	7
RoE (%)	17.9	15.6	
RoCE (%)	23.8	17.2	
P/E (x)	30.1	33.6	
EV/EBITDA (x)	24.8	36.3	
P/BV (x)	5.2	5.2	

Source: Company Filing, Way2wealth Research

Shareholding pattern (%)	Dec'20
Promoter	51.0
DII	27.5
FII	9.0
Public & Others	12.5

5th February 2021

CMP – ₹785.8/-

View – **Accumulate****View**

More segments are recovering faster than expected, as India is not hit by a second Covid wave. Powergen has recovered faster fueled by stronger recovery in data centers, industrial business, and construction segment. In summer, Powergen will see an even stronger revival as demand for air conditioning goes up. Residential realty is getting slowly stronger we are likely to see a lagged recovery in commercial real estate and hospitality space. In short term we remain cautious as export market condition remains uncertain on account of second Covid wave. We expect gradual pick-up of demand in domestic market as government's spending for Infrastructure continues. We expect implementation of CPCB-IV norms and upcoming opportunities in Hydrogen Technology could be positive for the company in the long run. **Hence, we continue to maintain our ACCUMULATE stance.**

5th February 2021

CMP – ₹785.8/-

View – Accumulate

Financial Performance

(₹mn)												
Particulars	Q1FY20	Q2FY20	Q3FY20	Q4FY20	Q1FY21	Q2FY21	Q3FY21	YoY(%)	QoQ(%)	9MFY21	9MFY20	YoY(%)
Sales	13,430	13,084	14,534	10,528	4,982	11,602	14,243	(2.0)	22.8	30,827	41,049	(24.9)
EBITDA	1,514	1,525	2,158	667	29	1,674	2,417	12.0	44.4	4,120	5,196	(20.7)
EBITDA Margin (%)	11.3	11.7	14.8	6.3	0.6	14.4	17.0	260bps	254 bps	13.4	12.7	70 bps
Net Profit	1,415	1,833	1,862	1,183	526	1,456	2,341	25.7	60.8	4,322	5,100	(15.3)

Source: Company Filing, Way2wealth Research

Segmental Performance

(₹mn)									
Particulars	Q3FY21	Q3FY20	YoY (%)	Q2FY21	QoQ (%)	9MFY21	9MFY20	YoY (%)	
Domestic	10,430	10,680	(2.3)	7,460	39.8	21,480	29,910	(28.2)	
-Power Generation	4,220	3,850	9.6	2,590	62.9	7,770	11,720	(33.7)	
-Industrial	2,560	2,700	(5.2)	1,700	50.6	5,060	7,300	(30.7)	
-Distribution & Spares	3,650	4,130	(11.6)	3,170	15.1	8,650	10,890	(20.6)	
Exports	3,740	3,370	11.0	3,980	(6.0)	8,980	10,340	(13.2)	
Segment wise sales	14,170	14,050	0.9	11,440	23.9	30,460	40,250	(24.3)	
Other operating income	(172)	(95)	81.1	(27)	537.0	(208)	44	(572.7)	
Total Sales	13,998	13,955	0.3	11,413	22.6	30,252	40,294	(24.9)	

Source: Company Filing, Way2wealth Research

5th February 2021

CMP – ₹785.8/-

View – Accumulate

Disclaimer

Analyst Certification: I, Jayakanth Kasthuri, the research analyst and author of this report, hereby certify that the views expressed in this research report accurately reflect our personal views about the subject securities, issuers, products, sectors or industries. It is also certified that no part of the compensation of the analyst(s) was, is, or will be directly or indirectly related to the inclusion of specific recommendations or views in this research. The analyst(s), principally responsible for the preparation of this research report, receives compensation based on overall revenues of the company (Way2Wealth Brokers Private Limited, hereinafter referred to as Way2Wealth) and has taken reasonable care to achieve and maintain independence and objectivity in making any recommendations.

It is confirmed that Jayakanth Kasthuri, the author of this report has not received any compensation from the companies mentioned in the report in the preceding 12 months. Our research professionals are paid in part based on the profitability of Way2Wealth, which include earnings from other business. Neither Way2Wealth nor its directors, employees, agents or representatives shall be liable for any damages whether direct or indirect, incidental, special or consequential including lost revenue or lost profits that may arise from or in connection with the use of the information contained in this report.

This report is for the personal information of the authorized recipient and does not construe to be any investment, legal or taxation advice to you. Way2Wealth is not soliciting any action based upon it. Nothing in this research shall be construed as a solicitation to buy or sell any security or product, or to engage in or refrain from engaging in any such transaction. The contents of this material are general and are neither comprehensive nor appropriate for every individual and are solely for the informational purposes of the readers. This material does not take into account the specific objectives, financial situation or needs of an individual/s or a Corporate/s or any entity/s.

This research has been prepared for the general use of the clients of the Way2Wealth and must not be copied, either in whole or in part, or distributed or redistributed to any other person in any form. If you are not the intended recipient, you must not use or disclose the information in this research in any way. Though disseminated to all the customers simultaneously, not all customers may receive this report at the same time. Way2Wealth will not treat recipients as customers by virtue of their receiving this report. The distribution of this document in other jurisdictions may be restricted by the law applicable in the relevant jurisdictions and persons into whose possession this document comes should inform themselves about, and observe any such restrictions.

The report is based upon information obtained from sources believed to be reliable, but we do not make any representation or warranty that it is accurate, complete or up to date and it should not be relied upon as such. Way2Wealth or any of its affiliates or employees makes no warranties, either express or implied of any kind regarding any matter pertaining to this report, including, but not limited to warranties of suitability, fitness for a particular purpose, accuracy, timeliness, completeness or non-infringement. We accept no obligation to correct or update the information or opinions in it. Way2Wealth or any of its affiliates or employees shall not be in any way responsible for any loss or damage that may arise to any person from any inadvertent error in the information contained in this report. The recipients of this report should rely on their own investigations. In no event shall Way2Wealth be liable for any damages of any kind, including, but not limited to, indirect, special, incidental, consequential, punitive, lost profits, or lost opportunity, whether or not Way2Wealth has advised of the possibility of such damages.

This material contains statements that are forward-looking; such statements are based upon the current beliefs and expectations and are subject to significant risks and uncertainties. Actual results may differ from those set forth in the forward-looking statements. These uncertainties include but are not limited to: the risk of adverse movements or volatility in the securities markets or in interest or foreign exchange rates or indices; adverse impact from an economic slowdown; downturn in domestic or foreign securities and trading conditions or markets; increased competition; unfavorable political and diplomatic developments; change in the governmental or regulatory policies; failure of a corporate event and such others. This is not an offer to buy or sell or a solicitation of an offer to buy or sell any security or instrument or to participate in any particular trading strategy. No part of this material may be copied or duplicated in any form by any means or redistributed without the written consent of Way2Wealth. In no event shall any reader publish, retransmit, redistribute or otherwise reproduce any information provided by Way2Wealth in any format to anyone. Way2Wealth and its affiliates, officers, directors and employees including persons involved in the preparation or issuance of this report may from time to time have interest in securities / positions, financial or otherwise in the securities related to the information contained in this report.

To enhance transparency, Way2Wealth has incorporated a Disclosure of Interest Statement in this document. This should, however, not be treated as endorsement of the views expressed in the report.

Disclosure of Interest Statement Cummins India Ltd. as on 05 February 2021

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

This information is subject to change without any prior notice. Way2Wealth reserves at its absolute discretion the right to make or refrain from making modifications and alterations to this statement from time to time. Nevertheless, Way2Wealth is committed to providing independent and transparent recommendations to its clients, and would be happy to provide information in response to specific client queries.