

18<sup>th</sup> August 2020

CMP - ₹455/-

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## Company Background

Cummins India Limited is a 51% subsidiary of Cummins Inc. which manufactures diesel and natural gas engines, generator sets and related services. The Company operates through two segments: **Engines and Lubes**. Its three businesses include Engine business, Power Systems business and Distribution business. The Engine Business manufactures and markets diesel and natural gas engines from 65-500 Horsepower (HP). These engines power heavy and medium-duty trucks, light-duty trucks and buses, in addition to industrial applications, such as construction and military equipment. The **Power Systems** business designs and manufactures high horsepower engines from 700-4,500 HP for marine, railways, defense and mining applications as well as power generation systems comprising of integrated generator sets in the range of 7.5-3,750 kVA including transfer switches, paralleling switchgear and controls for use in standby, prime and continuous rated systems. It caters to the power requirements of a range of individual and institutional customers in various segments, such as infrastructure and hospitality. The **Distribution business**, operating under **Cummins Sales and Service India (CSS)**, provides products, packages, services and solutions for uptime of Cummins equipment. Through its country-wide network of dealership branch offices and service touch points, the business provides parts, new and rebuilt engines, batteries, services and customer support solutions to products manufactured by Cummins.

## Important Statistics

<b>M.Cap (₹bn)</b>	₹126.13bn
<b>52 Week H/L (₹)</b>	652.8 / 281.6
<b>NSE Code</b>	CUMMINSIND
<b>BSE Code</b>	500480

## Investment Thesis

## Financials

- **Q1FY21 Performance** – Sales came in at ₹4,982mn which was impacted as two months of revenue loss due to closure of factories on account of pandemic. EBITDA declined by 98% YoY to ₹29mn with EBITDA margin coming at 0.6% compared to 11.3% in Q1FY20. EBITDA was profitable at ₹876mn due to lower employee cost (-16% YoY, -18% QoQ) and decline in other expenses (-47.8% YoY, -45.7% QoQ). PAT came in at ₹526mn on account of higher other income which grew 32.9% YoY and 13.8% QoQ to ₹1,022mn led by tax reversal of ₹0.3bn and rental income. Post the gradual unlocking, the company's current capacity utilisation stands at 65-70% (compared to 50-55% range in Jun'20) range across factories. During Q1FY21, revenues were impacted due to severe impact of COVID- 19 pandemic resulting into shutdown of factories for nearly two months. In Q1FY20, the company booked deferred revenues of ~₹1.9bn as dispatches had resumed.

Domestic segment – Revenue contribution	
<b>Industrial</b>	<b>₹800mn</b>
Compressor	₹120mn
Construction	₹80mn
Mining	₹150mn
Railways	₹350mn
Marine	₹40mn
others	₹60mn
<b>Distribution</b>	<b>₹1,830mn</b>
<b>Powergen</b>	<b>₹970mn</b>

(₹ mn)

Particulars	FY19	FY20
Revenues	56,590	51,577
EBITDA	8,641	5,863
<i>EBITDA Margin (%)</i>	<i>15.3</i>	<i>11.4</i>
Net Profit	7,226	6,294
EPS (₹)	26.1	23.4
DPS (₹)	17.0	14.0
RoE (%)	17.9	15.6
RoCE (%)	23.8	17.2
P/E (x)	17.5	19.5
EV/EBITDA (x)	14.4	21.1
P/BV (x)	3.0	3.0

Shareholding pattern (%)	Jun'20
Promoter	51.0
DII	30.8
FII	8.6
Public & Others	11.6

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- **Domestic business slows down across segments** – Domestic business declined 64% YoY to ₹3.6bn as severe national lockdown hampered business operations. Decline was seen across segments with Powergen business down 76% YoY to ₹960mn, industrial segment down 68% YoY to ₹800mn and distribution and spares business down 47% YoY to ₹1.8bn. Going ahead the company expects demand to see gradual ramp up in demand as critical demand areas like commercial reality, hospitality, manufacturing are witnessing demand slowdown. There also exists bright spot for the company as demand from data centres, healthcare has seen bounce back in the Powergen segment. Industrial segment which saw 68% revenue decline is more dependent on pick up in infrastructure spending from government. The company expects construction, Mining and Railway segments will bounce back faster than Compressors with new products being developed by the company. Railways would help maintain current run rate of revenues. As government's focus on Aatmanirbhar increases, marine segment could see good traction in orders from defense segment.
- **Exports business impacted by supply chain issues, declined ~62% YoY; To bounce back faster** – Export business declined ~62% YoY to ~₹1.3bn impacted by supply chain issues rather than demand slow down. The company faced logistical and business operation challenges that led to decline in exports as company could not ship products for two of the three months in the quarter. Stringent lockdown in India restrained its ability to ship products overseas which led to sharp revenue decline. Management expects markets like China and North America to bounce back quickly as compared to other geographies and remains optimistic on the long term prospect of the Export business as within the Cummins global group, Cummins India is one of three entities (UK, China and India) which supplies to global business requirement of Cummins group.
- **CPCB IV norms implementation likely to be delayed** –Exports can potentially benefit once CPCB IV products are developed – CPCB IV which was earlier likely to be implemented by mid-2020 is expected to be deferred to mid-2021. Given the current business challenges prevailing in the economy, industrial engines norms of CEV IV implementation has been delayed by three quarters and on similar lines CPCB IV implementation is expected to be postponed by similar time line, however Cummins is on track on development of CPCB IV products and will target export market as with CPCB-IV products it will be able to cater to markets like US and Europe where it exports products of CPCB II. However this is medium to long term trigger for the company as technical trials and approvals will have to be procured before final dispatch begins.
- **Q4 & FY20 Performance** – Company reported sales decline of 22% YoY to ₹10.3bn during the quarter, as both domestic sales and exports declined over 20%. Domestic sales declined by ~35% during the fiscal year, though it would have clocked a 2% growth but for the COVID-19 induced lockdown in Mar'20. Exports declined by 22% for the fiscal. Exports at ₹12.9bn was now at FY13/14 levels and clearly was been impacted by poor growth in key export regions like Africa, Middle East etc. Sales was muted for the company even before COVID-19 impact with lower exports and margin contraction being the key reasons.

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View - **ACCUMULATE****Outlook**

The company saw decent performance in the pandemic quarter with cost control measures and higher other income boosting profitability. Execution was weak on account of severe impact as factory sites were in containment zone. The management remains positive on medium to long term outlook on domestic sales, especially from the infrastructure sector. Few sectors such data centers, healthcare, rentals, railways are expected to drive growth in short run. On Export markets, China and particularly North America has witnessed a sharp recovery while other markets are likely to revive from H2FY21 onwards as demand environment improves. With improved utilisation levels, initiatives taken in domestic to substitute for weakness expected in select business verticals and being ahead of others within the Cummins ecosystem to expand exports after the impending emission norms revision in India, we view it as an **ACCUMULATE** stock with target range of **₹470-480**

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## Financial &amp; Operating Parameters

(₹mn)

Particulars	Q1FY20	Q2FY20	Q3FY20	Q4FY20	Q1FY21	YoY (%)	QoQ (%)	FY19	FY20	YoY (%)
Sales	13,430	13,084	14,534	10,528	4,982	(62.9)	(52.7)	56,590	51,577	(8.9)
EBITDA	1,514	1,525	2,158	667	29	(98.1)	(95.7)	8,641	5863	(32.1)
EBITDA Margin (%)	11.3	11.7	14.8	6.3	0.6	(1070) bps	(570) bps	15.3	11.4	(390) bps
Net Profit	1415	1833	1862	1183	526	(62.8)	(55.5)	7,226	6,294	(12.9)

Source: Company Data, Way2Wealth Inst Equity

## Segment-wise sales breakup

(₹ mn)

Particulars	Q1FY21	Q1FY20	YoY (%)
Domestic	3,590	9,890	(63.7)
-Power Generation	960	3,930	(75.6)
-Industrial	800	2,500	(68.0)
-Distribution & Spares	1,830	3,460	(47.1)
Exports	1,260	3,270	(61.5)
Segment wise sales	4,850	13,160	(63.1)
Other operating income	141	268	(47.4)
Total Sales	4,991	13,428	(62.8)

Source: Company Data, Way2Wealth Inst Equity

(₹ mn)

Particulars	Q1FY21	Q1FY20	YoY (%)
<b>Power Gensets - Domestic</b>			
LHP	40	450	(91.1)
MHP	210	1,100	(80.9)
HD	130	250	(48.0)
HHP	590	2,150	(72.6)
Total	970	3,950	(75.4)
<b>Industrial - Domestic</b>			
Compressors	120	450	(73.3)
Construction	80	900	(91.1)
Mining	150	100	50.0
Rail	350	850	(58.8)
Marine & others	100	200	(50.0)
Industrials Total	800	2,500	(68.0)
<b>Power Gensets -Exports</b>			
LHP	210	500	(58.0)
MHP	360	800	(55.0)
HHP	410	1,400	(70.7)
HD	140	300	(53.3)
Spares	140	270	(44.0)
Power Gensets - Exports	1,260	3,270	(61.2)

Source: Company Data, Way2Wealth Inst Equity

(₹ mn)

Particulars	FY18	FY19	FY20
Power generation	13,540	16,000	14,350
Industrials	7,733	9,500	9,750
Distribution	12,190	13,500	13,400
Exports	15,740	16,500	12,890
Revenues	50,825	56,590	51,577

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**Disclosure of Interest Statement Cummins India Ltd. as on August 18<sup>th</sup>, 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
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