

**Q4FY22 Result Highlights**

- **Growth in Domestic and Export markets continues** – Cummins India Q4FY22 Revenue was at ₹14.9bn ~+20% YoY/~-14% QoQ with **Domestic** sales growth of 7.4% YoY (-17% QoQ) to ₹10.3bn. **Powergen** segment grew ~33% YoY to ₹4.7bn driven by data center, industrial, pharma, residential and commercial real estate. Demand is strong for both HHP and LHP nodes while HHP is facing supply-chain issues currently. The company expects data center growth to remain strong for the next 5-8 years. The **Industrial** segment degrew 29% YoY to ₹1.9bn due to slower pickup in construction and compressor segments. The company expects the construction segment to pick up from FY23 along with rail, defense and marine. **Distribution & spares** segment grew ~10% YoY (-18% QoQ) to ₹3.7bn driven by part sales, rebuild engines and service revenues. The company expects this distribution segment to continue to grow in double digits for the next few years as they are also introducing more products beyond products manufactured by itself. **Exports** grew by ~66% YoY to ₹4.23bn defying seasonality. **HHP** was at ₹2,030mn (+50% YoY/+5% QoQ), **LHP** was at ₹1,870mn (+ 97% YoY, -14% QoQ). Geography-wise break up for Q4FY22 – **HHP** – Asia pacific ₹730mn, Latin America – ₹330mn, Middle East – ₹350mn, Europe – ₹460mn, Africa – ₹190mn. **LHP** – Latin America – ₹640mn, Asia pacific – ₹230mn, Europe – ₹460mn, Middle East- ₹360mn, Africa – ₹18mn. The key concern is gross margin, which declined by 117 bps to 32% adversely impact by RM pressure which is a transient phenomenon that would go away by Q2FY23 if commodity prices remain stable as per the management. The company tried to offset the impact to an extent by price increases, mix changes and cost containment activities. However, there is a lag time of 1-1.5 quarters for price hikes to get reflected. The overall environment continues to remain uncertain regarding commodity prices. On a monthly basis, the company is catering to 80-85% of the demand in its order book. It attributed the same to supply-chain constraints in the powergen, exports and distribution segments. The management expects the situation to continue for another 1-2 quarters.
- **Cummins is looking constructively at business opportunity from power ministry's directive** – The management shared early signs of customers considering moving away from diesel gensets and benefitting its LNG/PNG-based gensets. It is also looking forward to higher demand for gensets arising from the move towards renewables becoming larger part of grid capacity, a phenomenon that it has seen happening globally. If the government cannot provide 24x7 power to obviate gensets in the near term, the company expects to benefit from the related prime mover demand for gensets.
- **No impact of global slowdown seen on the business currently** – Cummins has not faced any demand-related issues so far in its domestic as well as exports. Demand has continued to remain strong across end market segments. Cummins has in fact highlighted supply-chain bottleneck to be more of an issue than the demand slowdown. It has already pulled out of Russia and the Indian entity is not much impacted by these.
- The company believes that the current trend of strong demand environment will continue from both domestic and global markets. It is closely watching the impact of higher inflation, supply-chain bottleneck and hence in view of uncertainty regarding these, it refrained from giving any guidance for FY23.

**Important Statistics**

<b>MCAP (₹ bn)</b>	₹285.38
<b>52-week H/L (₹)</b>	1162/772
<b>NSE Code</b>	CUMMINSIND
<b>BSE Code</b>	500480

<b>Shareholding Pattern</b>	<b>Mar'22 (%)</b>
Promoter	51.0
DII	25.4
FII	10.5
Public & Others	13.1

**Financials**

<b>Particulars</b>	<b>(₹ mn)</b>			
	<b>FY19</b>	<b>FY20</b>	<b>FY21</b>	<b>FY22P</b>
Revenues	56,590	51,577	43,292	61,404
EBITDA	8,641	5,863	5,795	8,851
<b>EBITDA Margin (%)</b>	<b>15.3</b>	<b>11.4</b>	<b>13.4</b>	<b>14.4</b>
Adjus.Net Profit	7,226	6,294	6,179	7,543
EPS (₹)	26.1	23.4	22.3	32.0
DPS (₹)	17.0	14.0	15.0	18.5
RoE (%)	17.9	15.6	14.4	17.2
RoCE (%)	23.8	17.2	17.8	21.1
P/E (x)	39.4	44.0	46.2	37.8
EV/EBITDA (x)	32.8	44.0	46.1	30.4
P/BV (x)	6.9	6.8	6.5	5.9

<b>Particulars</b>	<b>FY23E</b>	<b>FY24E</b>
Revenues	68,558	82,391
EBITDA	9,987	13,421
<b>EBITDA Margin (%)</b>	<b>14.6</b>	<b>16.3</b>
Adjus.Net Profit	9,468	12,801
EPS (₹)	34.2	46.2
DPS (₹)	19.0	20.0
RoE (%)	18.6	21.8
RoCE (%)	22.4	23.5
P/E (x)	30.1	22.3
EV/EBITDA (x)	25.3	21.5
P/BV (x)	5.4	5.0

Source: Company, Way2Wealth

**View**

Cummins has seen robust demand and inquiry pipeline across segments in both domestic and export markets. Demand for power gensets has been good so far due to coal shortage and frequent power outages despite the government notification in Apr'22 to dissuade the use of diesel generator sets. LHP is witnessing good demand due to peak summer and power outages. CPCB-4 plus are the tightest emission norms and Cummins has invested in the technology and therefore expects to be a front runner when the norms are implemented in 2023. Cummins' strong parentage and technological capabilities give it an edge over competitors. The company's innovative products and solutions, market leadership particularly in HHP in the domestic market, and expectations of robust growth in exports make us positive on its prospects. The company has begun to witness the benefits arising from a strong revival in key segments such as power generation, construction, and mining, which are expected to sustain going forward. Cost initiatives undertaken by the company have been yielding benefits in terms of improved OPM. The company expects healthy demand from data centres, healthcare, commercial realty, pharma and manufacturing industries. The company expects double-digit growth from data centres for the next 5-8 years as the company is strongly positioned in this space. The company is planning to become carbon neutral by 2050 versus India's target by 2070. The company expects demand for diesel to rise for few years before moving towards alternate technologies. It expects higher disruption in the low KV segment where the company has no major presence. We expect an upside as emission table rating change in Powergen to drive market share gains, new product launches especially in railways and minimal capex requirement to drive free cash flows. Hence, we continue to view it as **ACCUMUALTE** stock trading at **P/E 22.3x FY24E EPS of ₹46.2.**

31<sup>st</sup> May 2022

CMP - ₹1,029.5/-

View - ACCUMUALTE

**Financial Performance Standalone**

(₹ mn)

Particulars	Q4FY22	Q4FY21	YoY (%)	Q3FY22	QoQ (%)	FY22	FY21	YoY (%)
<b>Operating Income</b>	<b>14,936</b>	<b>12,465</b>	<b>19.8</b>	<b>17,350</b>	<b>(13.9)</b>	<b>61,404</b>	<b>43,292</b>	<b>41.8</b>
Cost of materials consumed	9,385	6,921	35.6	9,523	(1.4)	35,946	23,446	53.3
Purchase of Stock in trade	1,322	1,885	(29.9)	1,494	(11.5)	5,484	4,347	26.2
Changes in Inventories, WIP & SIP	(551)	(476)	15.9	556	(199.1)	(362)	(186)	94.5
<b>Total Raw Material Cost</b>	<b>10,156</b>	<b>8,330</b>	<b>21.9</b>	<b>11,573</b>	<b>(12.2)</b>	<b>41,068</b>	<b>27,606</b>	<b>48.8</b>
Staff Expenditure	1,428	1,336	6.9	1,609	(11.2)	5,956	4,926	20.9
Other Expenses	1,285	1,124	14.3	1,463	(12.1)	5,529	4,965	11.4
<b>EBITDA</b>	<b>2,066</b>	<b>1,675</b>	<b>23.4</b>	<b>2,705</b>	<b>(23.6)</b>	<b>8,851</b>	<b>5,795</b>	<b>52.7</b>
Other Income	766	1,116	(31.4)	866	(11.5)	2,875	3,702	(22.3)
Depreciation	347	306	13.5	349	(0.4)	1,340	1,255	6.8
<b>EBIT</b>	<b>2,485</b>	<b>2,485</b>	<b>0.0</b>	<b>3,222</b>	<b>(22.9)</b>	<b>10,386</b>	<b>8,241</b>	<b>26.0</b>
Interest	48	33	48.2	27	78.9	115	162	(28.9)
Exceptional items	-	-	-	-	-	1,324	-	NM
<b>PBT</b>	<b>2,437</b>	<b>2,452</b>	<b>(0.6)</b>	<b>3,195</b>	<b>(23.7)</b>	<b>11,595</b>	<b>8,080</b>	<b>43.5</b>
Tax	545	595	(8.4)	786	(30.6)	2,728	1,901	43.5
<b>Net profit</b>	<b>1,892</b>	<b>1,857</b>	<b>1.9</b>	<b>2,410</b>	<b>(21.5)</b>	<b>8,867</b>	<b>6,179</b>	<b>43.5</b>
<b>Adjus.Net Profit</b>	<b>1,892</b>	<b>1,857</b>	<b>1.9</b>	<b>2,410</b>	<b>(21.5)</b>	<b>7,543</b>	<b>6,179</b>	<b>22.1</b>
Reported EPS	6.8	6.7		8.7		32.0	22.3	

Operating Cost as a % of Sales	Q4FY22	Q4FY21	BPS	Q3FY22	BPS	FY22	FY21	BPS
Raw Material Cost	68.0	66.8	117	66.7	129	66.9	63.8	312
Staff Cost	9.6	10.7	(115)	9.3	29	9.7	11.4	(168)
Other Expenses	8.6	9.0	(41)	8.4	17	9.0	11.5	(247)

Margins (%)	Q4FY22	Q4FY21	BPS	Q3FY22	BPS	FY22	FY21	BPS
EBITDA	13.8	13.4	40	15.6	(176)	14.4	13.4	103
EBIT	5.1	9.0	(382)	5.0	14	4.7	8.5	(387)
PBT	2.3	2.5	(13)	2.0	31	2.2	2.9	(72)
NPM	16.6	19.9	(329)	18.6	(193)	16.9	19.0	(212)

Source: Company, Way2Wealth

**Segmental Revenues**

(₹ mn)

Particulars	Q4FY22	Q4FY21	YoY (%)	Q3FY22	QoQ (%)	FY22	FY21	YoY (%)
<b>Domestic</b>	<b>10,310</b>	<b>9,600</b>	<b>7.4</b>	<b>12,420</b>	<b>(17.0)</b>	<b>43,900</b>	<b>31,102</b>	<b>41.1</b>
-Power Generation	4,710	3,550	32.7	5,010	(6.0)	19,580	11,320	73.0
-Industrial	1,910	2,680	(28.7)	2,910	(34.4)	9,480	7,740	22.5
-Distribution & Spares	3,690	3,370	9.5	4,500	(18.0)	14,840	12,042	23.2
<b>Exports</b>	<b>4,230</b>	<b>2,550</b>	<b>65.9</b>	<b>4,400</b>	<b>(3.9)</b>	<b>16,100</b>	<b>12,224</b>	<b>31.7</b>
Segment wise sales	14,540	12,150	19.7	16,820	(13.6)	60,000	43,326	38.5
Other operating income	396	315	25.5	530	(25.3)	1,404	(34)	4,278.6
<b>Total Sales</b>	<b>14,936</b>	<b>12,465</b>	<b>19.8</b>	<b>17,350</b>	<b>(13.9)</b>	<b>61,404</b>	<b>43,292</b>	<b>41.8</b>

Source: Company, Way2Wealth

31<sup>st</sup> May 2022

CMP - ₹1,029.5/-

View - ACCUMUALTE

Quarterly Trend

(₹ mn)

Particulars	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q	Q2	Q3	Q4	YoY(	QoQ(	FY22	FY21	YoY(
	FY20	FY20	FY20	FY20	FY21	FY21	FY21	FY21	1FY22	FY22	FY22	FY22	%)	%)			%)
Sales	13,430	13,084	14,534	10,528	4,982	11,602	14,243	12,465	11,845	17,274	17,350	14,936	19.8	(13.9)	61,404	43,292	41.8
EBITDA	1,514	1,525	2,158	667	29	1,674	2,417	1,675	1,488	2,592	2,705	2,066	23.4	(23.6)	8,851	5,795	52.7
EBITDA Margin (%)	11.3	11.7	14.8	6.3	0.6	14.4	17.0	13.4	12.6	15.0	15.6	13.8	40	(176)	14.4	13.4	103
Net Profit	1,415	1,833	1,862	1,183	526	1,456	2,341	1,857	1,043	2,199	2,410	1,892	1.9	(21.5)	8,867	6,179	43.5

Source: Company, Way2Wealth

Financials & Valuations

(₹ mn)

Particulars	FY19	FY20	FY21	FY22P	FY23E	FY24E
Revenues	56,590	51,577	43,292	61,404	68,558	82,391
EBITDA	8,641	5,863	5,795	8,851	9,987	13,421
EBITDA Margin (%)	15.3	11.4	13.4	14.4	14.6	16.3
Adjus.Net Profit	7,226	6,294	6,179	7,543	9,468	12,801
EPS (₹)	26.1	23.4	22.3	27.2	34.2	46.2
DPS (₹)	17.0	14.0	15.0	18.5	19.0	20.0
RoE (%)	17.9	15.6	14.4	17.2	18.6	21.8
RoCE (%)	23.8	17.2	17.8	21.1	22.4	23.5
P/E (x)	39.4	44.0	46.2	37.8	30.1	22.3
EV/EBITDA (x)	32.8	44.0	46.1	30.4	25.3	21.5
P/BV (x)	6.9	6.8	6.5	5.9	5.4	5.0
Net Debt/Equity (x)	0.1	0.1	0.0	0.1	0.1	0.1
Cash Balances	7,379	4,538	9,652	14,267	17,526	19,897
FCF	2,767	3,623	6,738	(7,533)	5,387	9,236

Source: Company, Way2Wealth

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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	
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
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