



*Cummins India Limited*

*- Thriving through innovation*

13 December, 2018

## Cummins India Ltd.

*Leading manufacturer of diesel and natural gas engines*

We initiate coverage on Cummins India Ltd. (KKC) with a 'BUY' rating and a price target of INR 1025, implying a 27% upside potential from current levels. Our view stems on the fact that KKC may benefit from 1)improvement in global economy; 2)decrease in commodity prices; 3)stronger business confidence; 4)post-conflict reconstruction efforts in Africa; and 5)reforms for oil importers.

### Cummins India; key subsidiary for the parent:

The management of KKC remains confident that they wouldn't lose market share despite the parent company Cummins, Inc. outsourcing most of the orders. Indian subsidiary will remain strong because of continuous evolving domestic market coupled with low cost yet quality production. The management expects Coal India to retain exclusivity tag for several global engines portfolio, which will drive exports. Utilisation of the low HP genset manufacturing Phaltan facility remains high at 60% i.e. 25,000 p.a. capacity.

### Exports growth to be led by LHP engines:

The management is positive about the exports market to grow because of fundamental shifts such as change in global demand and make in India initiatives taken by the central government. Also, commodity prices have been moving in the favourable direction for this market to grow. KKC continues to show consistent growth in exports of LHP engines (26% YoY). They have managed to keep the costs in control in spite of high inflationary environment, which has helped them improve overall profitability.

### Growth in key segments:

KKC targets to capture markets of its core segments by 1) Gaining market share in segments like Construction, Commercial Realty, Hospitality and Data Centres; 2) new product innovations like CPCB III (central pollution control board), BS-VI for Future Emission Technologies, Telematics, Electrification, Renewables Alternative Fuels and Advanced Analytics; 3) Content Growth (offering more solutions to a customer instead of just the genset in Railways and Marine)

### Positive change in guidance for FY19:

KKC has raised its FY19 guidance for exports to 3-5% YoY growth, exports registered flat growth in the previous year. Management has been cautious in providing guidance due to the current global market scenario despite healthy export growth in 1HFY19.

On the domestic front, Cummins has raised its future growth guidance to 10-12% from 8-10% for FY19. KKC also expects gross margin to improve by 100bps in FY19 led by better mix (LHP sales expected to grow/ change in product mix in domestic markets) and cost rationalization measures.

Financial Snapshot (INR Crores)	FY16	FY17	FY18	FY19E	FY20E	FY21E
Net sales	4720.2	5106.4	5111.9	5733.9	6027.9	6339.3
<i>YoY</i>		<b>8%</b>	<b>0%</b>	<b>12%</b>	<b>5%</b>	<b>5%</b>
EBITDA	774.9	804.6	732.9	929.7	1029.0	1096.3
<i>YoY</i>		<b>4%</b>	<b>-9%</b>	<b>27%</b>	<b>11%</b>	<b>7%</b>
PAT	721.3	736.3	655.7	816.3	877.0	922.0
<i>YoY</i>		<b>2%</b>	<b>-11%</b>	<b>24%</b>	<b>7%</b>	<b>5%</b>
EPS	26.0	26.6	25.7	29.4	31.6	33.3
P/E	32.4	35.7	27.3	27.4	25.5	24.3
EV/ EBITDA	30.0	32.8	26.7	24.1	21.8	20.4

Source: NSPL Research

\* Read last page for disclaimer & rating rationale

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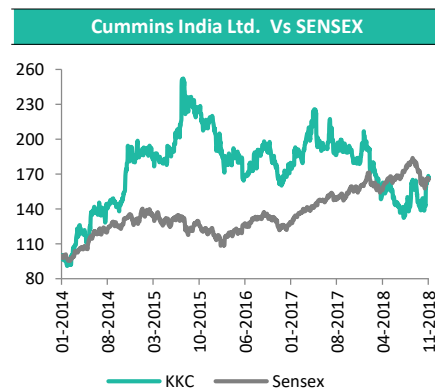
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# STRONG BUY\*

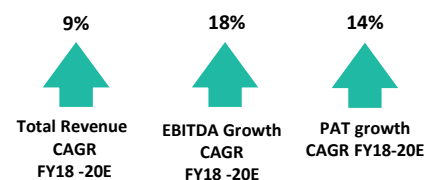


Market Details	
Industry	Capital Goods
Sensex	35,779
Nifty	10,784
Bloomberg Code	KKC:IN
Face Value (INR)	2
52-w H/L	993.45/ 611.75
Market Cap (INR Crores)	22,396

Valuation Data	FY18	FY19E	FY20E
P/E	27.3	27.4	25.5
EV/ EBITDA	26.7	24.1	21.8



	Share Holding Pattern (%)		
	Sept 18	June 18	March 18
Promoters	51	51	51
FIIs	12.38	13.17	14.11
DIIs	23.96	23.14	21.93
Retail	12.66	12.69	12.96





**Valuation:**

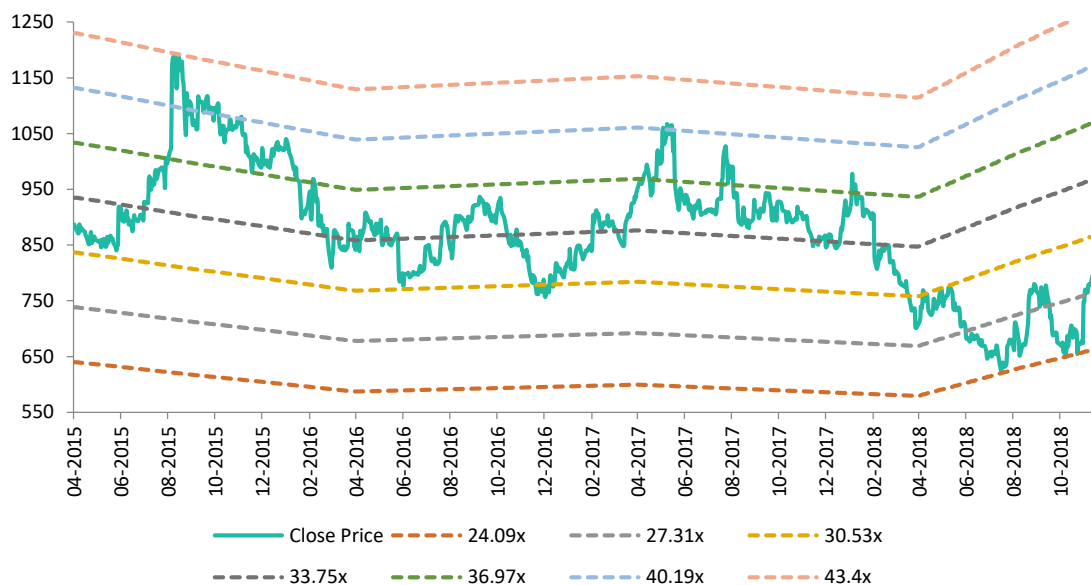
Management perceives uptick in infrastructure, factories and building segment to be growth catalyst for the domestic power generation market. KKC estimates 10-12% domestic revenue growth in FY19 led by improvement in volume growth as well as gain in market share.

Demand in the company's industrial business unit is buoyant propelled by railways and mining. At the same time, increase in mining output is driving current demand, new mines providing additional volumes.

Exports are expected to pick up on the back of changing global scenario and uptick in crude prices is expected to drive demand from Middle East and Africa.

At the CMP of 807.95, the company is trading at 21.8x FY20E EV/ EBITDA and 25.5x FY20E EPS. We value the company using average of EV/ EBITDA and P.E. multiple valuation with an exit multiple of 28x and 32x respectively giving a target price of INR 1025, a potential upside of 27%.

**P/E Band Chart:**



Source: NSPL Research



**Investment Rationale:**

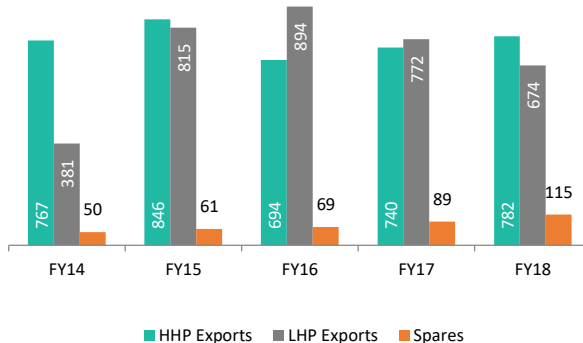
**Focus on LHP segment to accelerate top line growth:**

LHP (Low Horsepower) segment of the company, which constitutes ~43% of the total exports, is expected to be one of the major growth drivers going ahead.

We expect growth on back of 1)demand uptick in developing economies like middle east, south America & Europe; 2)improvement in inventory correction at channel partner level; 3)positive response of new gensets launched in the market; 4)positive future scenario in global market for the next 5 years.

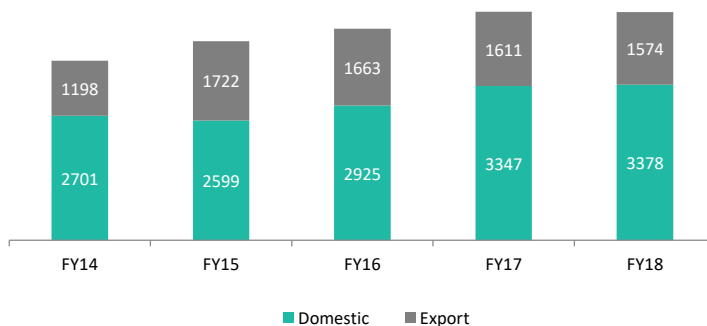
Along with LHP, there has been a demand pick up from HHP and MHP nodes as well. Cummins witnessed a QoQ growth of 21% in Q2 FY19. Exports constitute ~32% of its total revenue.

**Export Revenue: Segment wise (INR Crores)**



Source: NSPL Research, Company

**Domestic vs Exports trend (INR Crores)**



Source: NSPL Research, Company

**Positive trends in domestic markets, exports market improving:**

KKC remains positive on the long term outlook for domestic sales as underlying demand remains positive arising from sustained investments by the government in transforming the infrastructure of the Indian economy. KKC is seeing traction from manufacturing, infrastructure, data centers, IT&ITES etc. KKC highlighted that varying degrees of recovery is taking place in the global economy and commodity markets and believe the improvement in should continue going forward. It has seen revival in LHP exports specially in Middle East and Africa which are its key markets.

KKC has revised FY19E domestic sales growth guidance to 10-12% from 8-10% YoY driven by strong momentum in Powergen (where it expects slightly higher growth than the industry) and industrial segments. The sales will be driven by realty, manufacturing and infrastructure; while data center remains an important yet a small-sized market. It also plans to take a price hike of 3-5% in Q3FY19 given rise in input costs. For exports, company has changed the FY19 sales growth guidance, albeit conservatively, from 0-5% YoY to 3-5% YoY.

KKC has been able to maintain market share and is confident of holding it despite aggressive competitive pricing. Various restructuring projects combined with cost reduction programs, which leverage Six Sigma approach, such as ‘Accelerated Cost Efficiency’ (ACE) V, Accelerated Move towards Zero Defects (AMAZE), have had a significant positive influence on company’s profitability. Competitive activity in Power Generation market is increasing from international players who have established their manufacturing footprint in India as well as from domestic players who have expanded their product portfolio.

KKC has the largest market share in the construction equipment engine segment while rail segment growth outlook is promising. Their distribution business grew significantly over the last year despite challenges on account of GST implementation. New engine sales were bolstered by demand from railways, DBU OEMs, construction and compressor segments. The concentrated efforts coupled with sales initiatives led to the higher growth.



### Capex for expansion of existing plants:

Cummins plans to make a fresh investment in India to manufacture automotive battery packs. Cummins is already building capacities in the battery segment. It recently completed acquisition of British chemicals group Johnson Matthey's automotive battery systems business, which specialises in making high-voltage batteries for electric and hybrid vehicles.

KKC till date has incurred INR 1400 crores towards investments in infrastructure (office complex). Of this, INR 900 crores is towards the India office complex wherein KKC employees occupy 1.5 out of 3 towers with the remaining leased out to third party such as Siemens. KKR has also invested ~INR 500 crores towards technical centre wherein 1/6th of the employees are of KKC. Management highlighted that it is earning a rental yield of ~8% on investment of INR 500 crores.

### Pricing pressure to ease:

Genset manufacturers have not raised prices since July'14 and have absorbed cost escalation by value engineering and cost optimization. However, this has pressurized margin of both Kirloskar Oil (KOEL) and Cummins India. However, KOEL has announced 5-6% price hike from July 1, 2018. This is positive for overall genset market and would ease margin pressure for Cummins India as well if the management also decides to follow the same.

### KKC invests in future to meet ever-changing global demand:

While KKC continues to enjoy leadership in high HP diesel engines across the Power Gen and Industrial product range, it is also actively looking to focus and push new products like CPCB III, Gas Gensets and CEV-BS1V in the Indian markets.

KKC also has undertaken several cost cutting programmes to reduce raw material costs and improve productivity levels leading to margin improvement. Some of the ongoing programmes being implemented include ACE (Accelerated Cost Efficiency), 6 Sigma, Amaze (Accelerated Move Towards Zero Defects), aSCeNT (Accelerated Supply Chain Excellence & Transformation) In terms of new product segments KKC is already researching new areas like Connected And Advanced Analytics – Telematics, Battery Technologies like Renewables, Alternative Fuels, Fuel Cells and Gas Engines.

At Auto Expo 2018, Cummins offered a sneak peek into its electric powertrain technology for commercial vehicle operations. This will complement Cummins' clean-diesel, near-zero natural gas and diesel-hybrid products.

### Other triggers going ahead:

The company is well positioned to leverage on solid domestic prospects which will be a key earnings driver for next 2-3 years. The healthcare and retail segments will also see good demand.

KKC has the potential to upscale operations as domestic demand improves which in turn will improve return on capital and return on equity over the next 2-3 years.

The company is facing several issues such as rising domestic competition, focus on larger engines by its peers and changing government norms, however, the management is confident to work around these issues. The potential triggers are tightening emission norms and a strong demand recovery in the domestic market, which over 3-5 years could propel KKC's utilisation levels materially, driving cash flow as well as profitability.

In addition to this, the company has done much better with rising production mandates from parent over the last 2-4 years, which reflects the latter's higher confidence in KKC.

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**Emission Norms:**

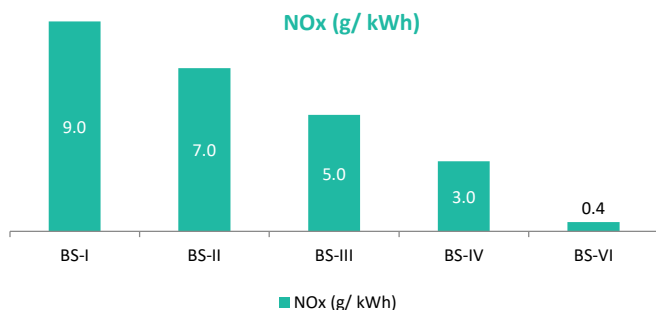
**Bharat Stage emission standards (BSES)** are emission standards instituted by the Government of India to regulate the output of air pollutants from internal combustion engines and spark-ignition engines equipment, including motor vehicles. The standards and the timeline for implementation are set by the Central Pollution Control Board under the Ministry of Environment & Forests and climate change.

The standards, based on European regulations were first introduced in 2000. Progressively stringent norms have been rolled out since then. All new vehicles manufactured after the implementation of the norms have to be compliant with these regulations. Since October 2010, Bharat Stage (BS) III norms have been enforced across the country. In 13 major cities, Bharat Stage IV emission norms have been in place since April 2010 and it has been enforced for entire country since April 2017.

In 2016, the Indian government announced that the country would skip the BS-V norms altogether and adopt BS-VI norms by 2020. In its recent judgment, the Supreme Court has banned the sale and registration of motor vehicles conforming to the emission standard Bharat Stage-IV in the entire country from April 1, 2020.

Petrol vehicles	Unit	BS-IV Norms			BS-VI Norms		
		M & N1 Class I	N1 Class II	N1 Class III	M & N1 Class I	N1 Class II	N1 Class III
C	g/ km	0.5	0.63	0.74	0.5	0.63	0.74
HC	g/ km						
HC+NOx	g/ km	0.3	0.39	0.46	0.17	0.195	0.215
NOx	g/ km	0.25	0.33	0.39	0.08	0.105	0.125
PM	g/ km	0.025	0.04	0.06	0.0045	0.0045	0.0045
<b>Diesel Vehicles</b>							
	Unit						
CO	g/ km	1	1.81	2.27	1	1.81	2.27
HC	g/ km	0.1	0.13	0.16	0.1	0.13	0.16
HC+NOx	g/ km						
NOx	g/ km	0.08	0.1	0.11	0.06	0.075	0.082
PM	g/ km				0.0045	0.0045	0.0045

Source: NSPL Research



**SB 6.7 BS VI Cummins engine**



Source: NSPL Research, Company

**BS-VI :**

The Union Government in October 2016 had decided to skip one stage and migrate to BS-VI directly from BS-IV from April 2020 to fight the growing pollution. At present, all new vehicles being registered are BS- IV-emission compliant. By switching to BS-VI, India will join league of US, Japan and European Union, which follow Euro Stage VI emission norms.

**Implications of BS-VI standard on environment:**

BS-IV fuels contain 50 parts per million (ppm) sulphur, while BS-V and BS-VI grade fuel will have 10 ppm sulphur. It will also bring down NOx emissions from diesel cars by 68% and 25% from petrol engine cars. Cancer causing particulate matter emissions from diesel engine cars will also come down by a phenomenal 80%.

**BS VI norms compliant engines:**

With the success of the BS-IV engines, Cummins is ahead of the curve once again with its BS-VI compliant engines. Cummins has in-depth expertise and understanding of BSVI equivalent norms by virtue of its experience across the globe in geographies like Europe and the United States which has ensured a successful implementation of similar and more stringent emission norms during the past few decades.

**Timeline for emission control regime in India:**

1991-92 - The first stage of mass emission norms came into force for petrol vehicles in 1991 and for diesel vehicles in 1992.

1995 - From April 1995, the government made fitment of catalytic converters compulsory in new petrol fuelled passenger cars sold in four metros of Delhi, Kolkata, Mumbai and Chennai, along with the supply of unleaded petrol (ULP). Availability of ULP was extended to 42 major cities and is now available across the country.

2000-01 - In 2001, passenger cars and commercial vehicles met Euro I equivalent India 2000 norms. Euro II equivalent Bharat stage II norms were enforced from 2001 in four metros – Delhi, Mumbai, Chennai and Kolkata.

2003 - The first auto fuel policy was announced in August 2002. It laid down the emission and fuel road map up to 2010. As part of the policy, four wheelers in 13 metro cities moved to Bharat stage III emission norms from April 2005 and the rest of the country moved to Bharat stage II.

2010 - Bharat stage IV was implemented in 13 metro cities from April 2010 as the rest of the country moved to Bharat stage III. It has now been extended to 50 cities.

2014 - The auto fuel policy 2025 was submitted to the oil and gas ministry. It laid down the emission and fuel road map to 2025 and envisaged Bharat stage IV roll out across the country by 2017, implementation of Bharat Stage V norms in 2021 and Bharat Stage VI from 2024.

2016 – Nitin Gadkari, union minister for road transport and highways, announced that India will skip the intervening Bharat Stage V and advance to Bharat Stage VI implementation from 1 April 2020. On 29<sup>th</sup> March, the Supreme court banned the sale and registration of Bharat Stage III vehicles.

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**About the company:**

Cummins India is a group of complementary business units that design, manufacture, distribute and service engines and related technologies, including fuel systems, air handling, filtration, emission solutions and electrical power generation systems. The company employee strength stands at 3518, mostly at its Pune office and reported a turnover of INR 5112 crores in FY18. The location of plants in India are as follows - Kothrud Engine Plant (Pune), Phaltan Midrange Upfit Centre (Phaltan), Power Generation Business Unit Plant (Phaltan), Distribution Business Unit Plants (Phaltan) and India Parts Distribution Centre (Phaltan).

Part of the US \$20.4 billion Cummins Inc., Cummins in India is a Group of seven legal entities across 200 locations in the country. The seven entities (including four joint ventures), are; Cummins India Ltd., Cummins Generator Technologies India Pvt Ltd., Cummins Technologies India Pvt Ltd., Fleetguard Filters Pvt Ltd., Tata Cummins Pvt Ltd., Valvoline Cummins Pvt Ltd., and Cummins Sales and Service Pvt Ltd. (formerly known as Cummins Svam Sales & Service Private Limited). Collectively, the Group operates 21 manufacturing facilities across India.

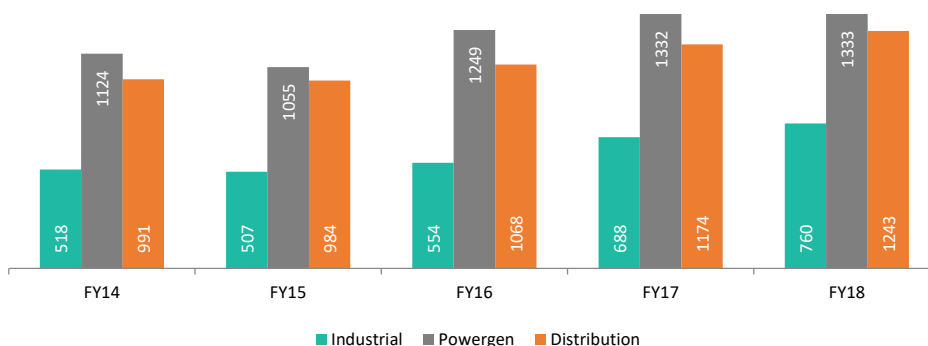
**Cummins India Limited**, the country’s leading manufacturer of diesel and natural gas engines is one of the seven legal entities of the Cummins Group in India. Comprising of three business units - Engine, Power Systems, and Distribution, Cummins India Limited is also the largest entity of the Cummins Group in India.

The Engine Business manufactures engines from 60 HP for low, medium and heavy-duty for on-highway commercial vehicle markets and off-highway commercial equipment industry.

The Power Systems Business designs and manufactures high horsepower engines from 700 HP to 4500 HP for marine, railways, defence and mining applications as well as power generation systems comprising of integrated generator sets in the range of 7.5kVA to 3750 kVA including transfer switches, paralleling switchgear and controls for use in standby, prime and continuous rated systems.

The Distribution Business was acquired in 1967 from Blackwood Hodge, with the objective of providing products, packages, services and solutions for uptime of Cummins’ equipments. Through its country-wide network of 25 authorized dealerships, over 200 branch offices and 450 service touch points, the business provides parts, new and rebuilt engines, batteries, services and customer support solutions to products manufactured by Cummins. This network offers a strong team of more than 3,500 company trained engineers and technicians who handle service events of 3,50,000 engines on the field, serving over 1,00,000 customers across various markets in India, Nepal and Bhutan and also exports its products to various countries across the globe with USA, UK, Mexico, Singapore and China being the top five destinations.

**Domestic Revenue: Segment wise**



Source: NSPL Research, Company

**Other businesses:**

Established in 1987, Fleetguard Filters Pvt Ltd. is India's leading manufacturer of heavy-duty air, fuel, lube and hydraulic filters, air intake systems, coolants and chemicals for commercial engines. Established in 1991, Cummins Generator Technologies India Pvt Ltd. manufactures the world’s broadest range of AC generators from 5 kVA to over 10,000 kVA under the Stamford and AvK product brands, and is backed by a committed customer support network worldwide. Tata Cummins Pvt Ltd. is a 50:50 joint venture between Tata Motors Limited and Cummins Inc., USA and manufactures mid-range (B&L) engines in the 75 to 400 HP range that comply with current and future emission norms and are also serviceable globally.

Cummins Technologies India Pvt Ltd. was formed in 2008. The entity encompasses eight divisions – Cummins Turbo Technologies, Cummins Emission Solutions, Cummins Business Services, Cummins Fuel Systems India, Cummins Technical Center India, Phaltan Engine Plant, Global Analytics Center (GAC), and Central Supply Chain Operations (CSCO). In 1995, the Tata Group and Holset (a Cummins-owned company) collaborated to form a joint venture, Tata Holset Limited, to produce turbochargers. When Cummins rebranded its entities in 2006, Tata Holset Ltd. became part of Cummins Turbo Technologies (CTT). CTT has facilities in Pune, Dewas, Pithampur and Rudrapur.





Cummins Emission Solutions is a designer, integrator, manufacturer and distributor of exhaust treatment systems and components for 'on and off-highway' medium duty, heavy duty and high horsepower engine markets. Cummins Business Services, headquartered in Nashville, Tennessee, USA handles shared services like payroll, travel and customer care around the world, including India.

Cummins Fuel Systems India enables customers to meet increasingly stringent emission requirements while maximizing fuel economy through precise injection of highly pressurized fuel. Caters to mid-range, heavy duty and high horsepower applications in both on and off-highway markets.

Cummins Technical Center India, located at the Kothrud campus in Pune is equipped with laboratories and engineering facilities for designing technologies. Established in July 2014, Global Analytics Center (GAC) is a knowledge processing hub set up to support non-engineering business functions and processes to fulfil the analytical needs of various Cummins businesses globally in an integrated way.

In order to accelerate synergies and value within the purchasing, logistics & planning, parts distribution center, and new & ReCon parts operations, since August 2016, the Central Supply Chain Operations has been established. Cummins Sales and Service Pvt Ltd. (formerly known as Cummins Svam Sales & Service Private Limited) which was incorporated as a 50:50 joint venture between Cummins India Limited and Svam Power Plants Private Limited, became a wholly-owned subsidiary of Cummins India Limited with effect from October 01, 2015. Cummins Sales & Service Private Limited focuses on sales and service of Cummins engines, parts, accessories and providing service support to the engines in Delhi, parts of Uttar Pradesh and Uttarakhand.

#### Valvoline Cummins Pvt Limited:

Valvoline Cummins Pvt Ltd. was formulated in India in 1998. It manufactures a complete range of premium lubricants for engines, equipment and various industrial applications.

In India, Valvoline Cummins Pvt Ltd is a joint venture (50:50) between Valvoline International INC USA (100% subsidiary of Ashland Inc., USA) and Cummins India Ltd. Valvoline is a global producer, distributor and marketer of high quality lubricants and specialized automotive, commercial and industrial solutions. Valvoline reported revenue of INR 1,280 crores from its operations for FY18, as compared to INR 1,254 crores in FY17 (up 2.1% YoY).

The company has a strong team of over 400 employees across the country, more than 450 distributors, 50,000 resellers and 2,000 direct customers. Beyond industry-leading lubricants, Valvoline has an extensive range of professional, appearance and specialized solutions. The Valvoline range of lubricants is approved by many other leading OEMs like BEML, HM, IR, Allison, Detroit Diesels, Terex Mining, HMT Ltd. (Tractor Division), RDSO, Tata Cummins and TELCO.

As a division of Ashland Inc., Valvoline operates a global network of research and development laboratories, distribution and customer services in more than 140 countries.



Source: NSPL Research, Company

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### Tata Cummins:

Tata Cummins Pvt Ltd. is a 50:50 joint venture between Tata Motors Limited and Cummins Inc., USA. The entity manufactures high performance, reliable and durable mid-range (B&L) engines in the 75 to 400 HP range that not only comply with current and future emission norms, but are also serviceable globally. Established in the year 1994, the company started its operations with its state-of-the-art facility at the steel city of Jamshedpur. Expansion plans were finally put in place with the setting up of the second and third manufacturing facilities at the Cummins Megasite in Phaltan, Maharashtra.

### 'B' & 'L' Series diesel engines:

It caters to both on-highway & off-highway applications, supporting a wide segment of business verticals ranging from automotive and industrial to power generation and distribution business. The B5.9 is the only rugged and durable BS III compliant engine with no electronics, ensuring easy serviceability anywhere in India while the advanced B6.7 and L8.9 are the high horse-power electronic engines for the premium heavy duty market segments.

KKC's product line also offers flexibility in its fit-for-market solutions with the development of the ISBe 5.9 litre concept engine for a healthy mix of product quality and optimal cost.

They operate across three facilities – one at Jamshedpur (Jharkhand) and two at Phaltan (Maharashtra). The combined manufacturing capacity stands at 2,40,000 engines per annum to cater to the growing demands of the M & HCV market. They manufactures 4 and 6 cylinder B Series and L Series of engines.



Source: NSPL Research, Company

Source: NSPL Research

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**Generators:**

KKC is the only single-source manufacturer of engines, diesel generator, alternators, digital controls, transfer switches and digital paralleling systems backed by one of the largest sales, service and support network in the country. With a power range of up to 3000 kW (3750 kVA), KKC offers a full range of diesel generators designed for a broad range of applications and industries.

Cummins Inc., a global power leader offers Natural Gas based generator sets for high-hour base load and Combined Heat & Power (CHP) systems for the energy-intensive industries. Cummins' Gas Generating sets deliver multiple energy from a single source of fuel. The co-generation systems using Cummins gas engines can generate electricity and thermal energy for generating steam, hot water and chilled water, providing substantial savings on total energy expenditure.

Cummins Automatic Transfer Switches (ATS) gives you a range of controls for safe, dependable, and easy-to-use power transfer for these modes:

- Open-transition transfer
- Programmed-transition transfer
- Closed-transition transfer
- Bypass isolation transfer

Cummins Generator Technologies India Private Limited manufactures the world's broadest range of AC Generators.

**Phaltan Megasite:**

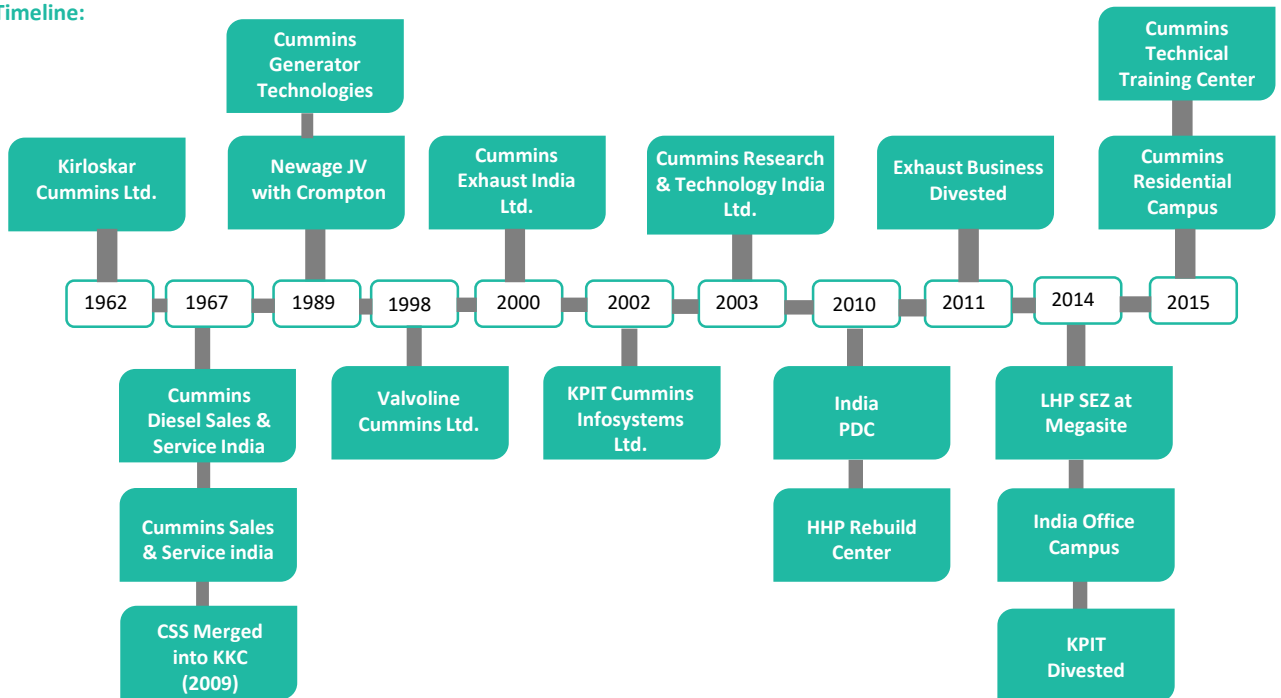
The Cummins Megasite at Phaltan in Maharashtra is a 225-acre campus, conceived in 2007 to consolidate and house all ongoing and future expansions of the Cummins Group in India. In March 2008, three Cummins entities were awarded 'Mega Project' status by the Government of Maharashtra for their projects at the Megasite. Since then, eight projects have become operational at the Megasite.

The Megasite houses two manufacturing facilities for mid-sized mechanical and electronic engines, an engine rebuild center, a reconditioning facility for engines and components, a parts distribution center, a generator set plant, a high horsepower engine plant and a soon to be opened fuel systems and emission solutions plant. The Megasite provides common amenities like two Training Centers, a Health Center and a Child-Care Center for its employees. They have recently added a residential campus for employees working at the Megasite.

Some of the manufacturing plants in Phaltan would include, engine rebuild & reconditioning centre, parts distribution centre, midrange engine uplift centre. Phaltan mega site also comprises manufacturing operations for low and medium kilowatt range for export markets (with a matured capacity of 51,000 units) and high HP engine facility in 19 - 60 litre range.

Mid range factory in the Phaltan mega site, customizes B&C series engines to meet specific industrial requirements coming from industries like construction equipments, mining and other specialized industrial applications. The current manufacturing set up is capable of upgrading 25 engines of B series and 16 engines of C series per day.

**Timeline:**



Source: NSPL Research, Company



**Industry:**

The global off-highway vehicle engine market is valued at USD 27.56 billion and is expected to witness a CAGR of 7.79%, during the forecast period 2018-2023. Off-highway vehicle engines growth is dependent on the growth rate of agricultural and construction machinery industries. Rising agriculture mechanization trend in developing countries and spike in residential and commercial construction projects globally are driving the construction and agricultural machinery markets.

**Increase in new construction and renovation activities:**

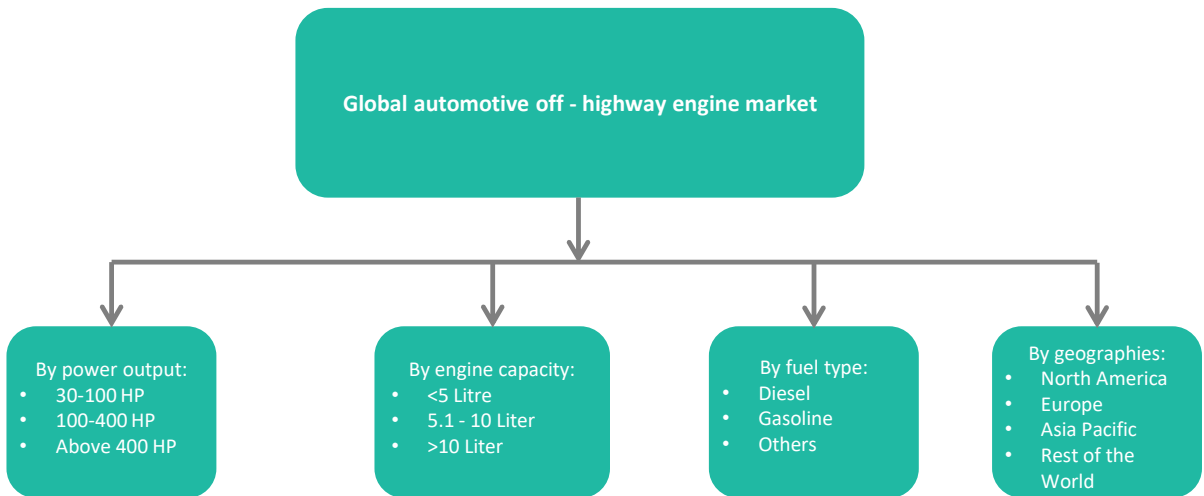
The global construction industry is expected to witness significant growth in the coming years, with good opportunities in infrastructure, residential, and non-residential sectors. Some of the major factors driving the market are increasing construction of multi-family houses (with the growing trend of nuclear families); and increasing investments in construction of roads, highways, smart cities, metros, bridges, and expressways due to growing population and urbanization.

Construction is anticipated to be one of the most profitable sectors over the next decade, and is absolutely essential for the development of societies, across the world. Thus, these factors are expected to offer a significant boost to the market studied.

**Construction machinery of power output 100 - 200 HP expected to dominate the market:**

In 2017, the market for 100 - 200 HP for construction machinery was valued at USD 6.81 billion. The current rise in road construction has increased the demand for motor grader market from a modest 830 units in 2016 to 1000 units in 2017 and is expected to reach 1200 units by 2019 in India. Demand is being seen across both the heavier (170-200 HP) and lighter class (140-150 HP) of motor graders.

The emerging markets, where the farm sector is relatively less capitalized, are expected to lead the global agricultural equipment market. India, one of the biggest markets for agricultural equipment, has become highly labor-intensive and is expected to witness higher growth during the forecast period. The global agricultural machinery market is set to grow considerably in the Asia-Pacific region, and countries like Vietnam, Philippines, India, and China will be the main drivers of the market.



Source: NSPL Research, Company



Category of Shareholders	No. of Shares	Total as a % of Total Voting right
Mutual Funds	20,32,22,225	8.47
Alternate Investment Funds	10,78,815	0.04
Foreign Portfolio Investors	40,26,34,853	16.78
Financial Institutions/ Banks	2,02,54,569	0.84
Insurance Companies	16,95,76,498	7.07
Any Other (specify)	23,79,623	0.1
<b>Total*</b>	<b>79,91,46,583</b>	<b>33.31</b>

\*As on September 2018

Source: NSPL Research, Company

### Management Profile:

#### Sandeep Sinha:

Mr. Sandeep Sinha has been Managing Director and Additional Director of Cummins India Limited since February 1, 2018 and served as its Chief Operating Officer since January 2015 to January 31, 2018. Mr. Sinha served as Vice President of India ABO (Area Business Organization) at Cummins India Limited since 2018. Prior to this, Mr. Sinha was the Vice President of the Industrial Engine Business in India, where he focused on several key areas like safety, quality, operational and supply-chain excellence. He played a key role in the start-up of multiple plants at the Cummins Megasite in Phaltan, India. With more than 15 years of experience with Cummins, Mr. Sinha has assumed various leadership roles across entities, including the New and ReCon Parts business in India and Corporate Strategy in the U.S. After graduating as an Engineer from the Manipal Institute of Technology, he joined Saint Gobain India for 6 years and became the National Sales Manager. He then pursued his graduate degree in Business Administration from the Kelley School of Business, Indiana University.

#### Rajiv Batra:

Mr. Rajiv Batra, C.A., serves as Chief Financial Officer and Head – Internal Audit, Government Relations & Facilities at Cummins India Limited. Mr. Batra served as Head of Facilities of Cummins India Limited and served as its Compliance Officer since June 2014. Mr. Batra has been a Director of Fleetguard Filters Private Limited since June 06, 2011. He is a Chartered Accountant from ICAI.

#### Bhavana Bindra:

Ms. Bhavana Bindra has been Head - Distribution Business at Cummins India Ltd since 2018 and also served as its Vice President of Distribution Business until 2018. Ms. Bindra serves as Vice President of Business Research and Analytics of Boston Analytics. Ms. Bindra heads Boston Analytics' Business Research and Analytics practice in India. She began her career at Boston Consulting Group in India where she helped clients across the financial services and healthcare sectors in strategic decision making. Ms. Bindra served as General Manager at Cummins India, she was instrumental in setting up the automotive business unit. She started as head of corporate planning at Cummins and later led business development at the automotive unit. Ms. Bindra received her MBA from the Indian Institute of Management, Bangalore, and is an Economics Honors graduate from Sri Ram College of Commerce, New Delhi.

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#### ANALYST

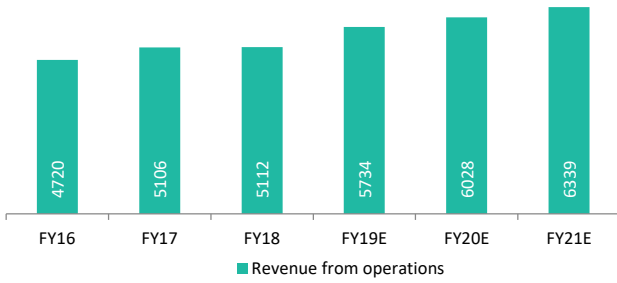
Harmish Desai  
[harmish.desai@nalandasecurities.com](mailto:harmish.desai@nalandasecurities.com)

#### NALANDA SECURITIES PRIVATE LIMITED

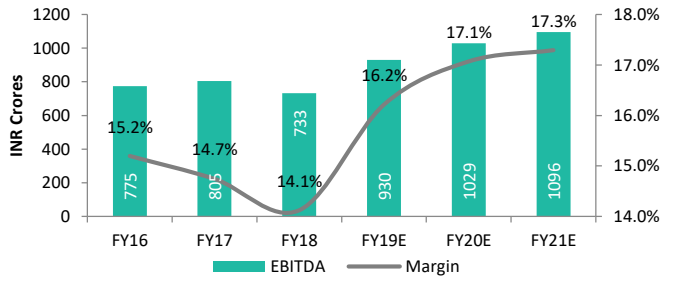
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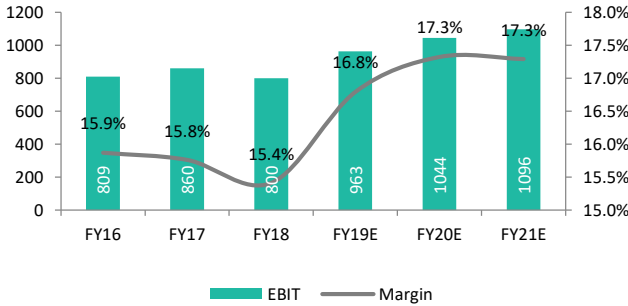
### Revenue from operations in INR Crores



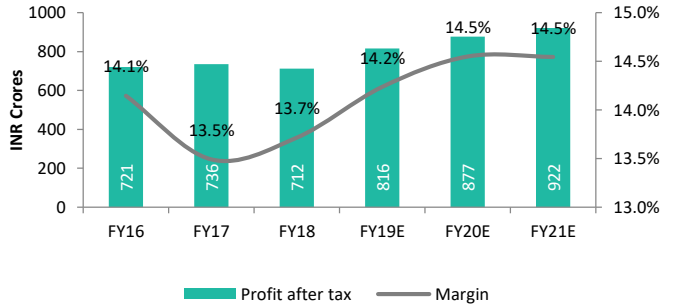
### EBITDA and EBITDA Margin



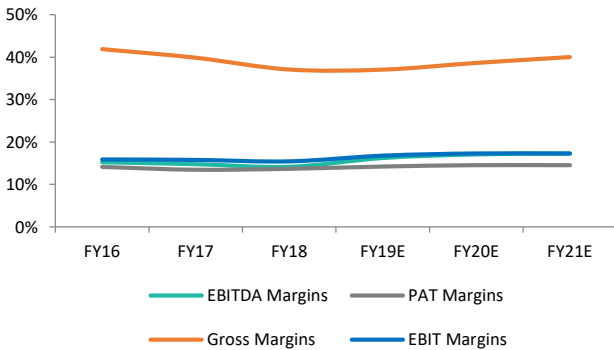
### EBIT and EBIT Margin



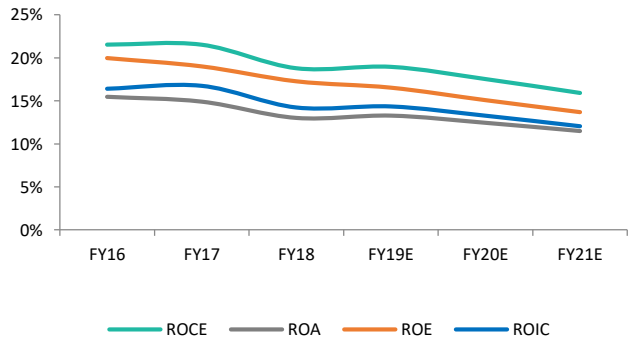
### PAT and PAT Margin



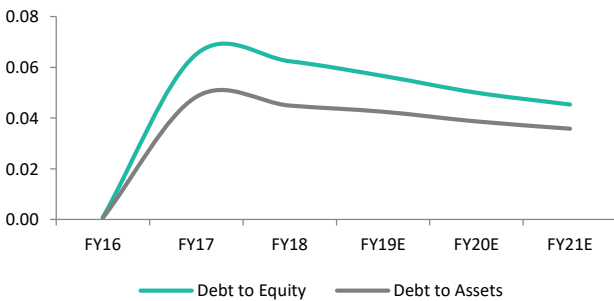
### Margins



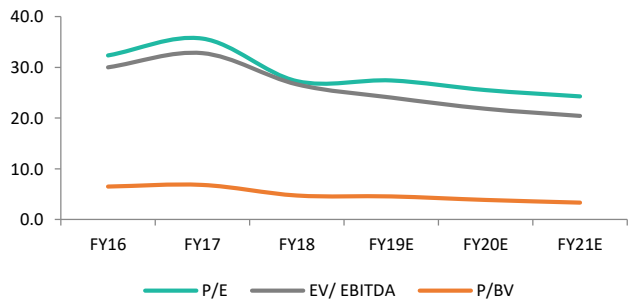
### Profitability Ratios



### Debt Ratios



### Valuation Ratios



Source: NSPL Research, Company

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Profit & Loss (INR Crores)	FY16	FY17	FY18	FY19E	FY20E	FY21E
Net sales	4,720.2	5,106.4	5,111.9	5,733.9	6,027.9	6,339.3
COGS	2,963.0	3,281.6	3,264.5	3,607.6	3,697.3	3,801.9
Employee Expenses	421.1	445.3	511.3	583.0	665.1	774.5
Other Expenses	561.2	574.9	603.3	613.6	636.5	666.5
<b>EBITDA</b>	<b>774.9</b>	<b>804.6</b>	<b>732.9</b>	<b>929.7</b>	<b>1,029.0</b>	<b>1,096.3</b>
D&A	81.4	85.5	94.4	114.3	137.1	159.8
Other income	115.6	141.0	161.3	147.4	152.2	159.6
<b>EBIT</b>	<b>809.2</b>	<b>860.1</b>	<b>799.8</b>	<b>962.8</b>	<b>1,044.2</b>	<b>1,096.1</b>
Interest Expense	9.8	17.1	15.2	17.7	17.8	19.0
<b>PBT</b>	<b>799.4</b>	<b>843.0</b>	<b>784.6</b>	<b>945.1</b>	<b>1,026.4</b>	<b>1,077.1</b>
Tax	171.0	187.8	214.7	226.7	251.9	264.9
Share of profit/ (loss) of JV's and associate	93.0	81.1	85.8	97.9	102.5	109.8
<b>PAT</b>	<b>721.3</b>	<b>736.3</b>	<b>655.7</b>	<b>816.3</b>	<b>877.0</b>	<b>922.0</b>
<b>EPS in INR</b>	<b>26.0</b>	<b>26.6</b>	<b>25.7</b>	<b>29.4</b>	<b>31.6</b>	<b>33.3</b>

Balance Sheet (INR Crores)	FY16	FY17	FY18	FY19E	FY20E	FY21E
<b>ASSETS</b>						
<b>Non-current assets</b>						
Property, plant and equipment	1283.2	1225.4	1284.4	1571.8	1936.6	2278.6
Capital work-in-progress	519.2	463.3	38.7	47.7	56.1	56.1
Investment property	0.0	267.9	731.1	1202.8	1679.3	2159.2
Intangible assets	7.8	8.4	5.5	4.7	4.5	3.8
Investments in joint ventures and an associate	192.4	192.1	197.2	193.9	194.4	195.1
<b>Financial assets</b>						
Investments	12.1	6.8	5.3	5.3	5.3	5.3
Loans	128.7	128.7	0.0	0.0	0.0	0.0
Other financial assets	7.1	12.2	4.8	8.0	8.4	7.1
Income tax assets (net)	73.3	79.8	89.6	88.6	95.4	102.9
Other non-current assets	148.0	141.7	128.2	139.3	136.4	134.6
<b>Current assets</b>						
Inventories	606.6	569.8	544.4	593.0	607.8	625.0
<b>Financial assets</b>						
Investments	284.1	663.2	506.0	524.6	624.3	619.8
<b>Loans</b>						
Trade receivables	945.8	963.7	1338.2	1413.8	1486.3	1563.1
Cash and cash equivalents	85.4	124.0	152.3	315.1	212.6	300.0
Other bank balances	4.6	5.4	318.6	6.2	6.7	7.1
Other current financial assets	50.2	49.0	70.6	62.2	67.5	75.6
Other current assets	276.6	267.7	167.2	259.1	254.0	253.0
Assets classified as held for sale	37.6	45.5	4.1	4.1	4.1	4.1
<b>Total Assets</b>	<b>4662.5</b>	<b>5214.3</b>	<b>5714.8</b>	<b>6569.0</b>	<b>7508.5</b>	<b>8519.2</b>
<b>EQUITY AND LIABILITIES</b>						
Equity share capital	55.4	55.4	55.4	55.4	55.4	55.4
Shareholders' Equity	3608.9	3871.1	4118.6	4934.9	5811.9	6733.9
<b>Non-current liabilities</b>						
Other financial liabilities	30.4	30.3	28.4	32.6	33.7	35.5
Provisions	69.7	57.1	44.4	62.6	60.2	62.4
Deferred tax liabilities (net)	47.9	37.2	65.3	50.1	50.9	55.4
Other non-current liabilities	3.1	2.7	2.1	2.6	2.5	2.4
<b>Current liabilities</b>						
<b>Financial liabilities</b>						
Borrowings	3.0	252.1	256.8	279.2	290.4	305.1
Trade payables	556.4	608.7	759.5	790.7	810.4	833.3
Other current financial liabilities	161.3	139.8	225.6	193.5	207.7	236.8
Other current liabilities	69.4	73.0	61.6	74.4	76.9	79.6
Provisions	112.4	142.3	152.5	148.4	163.9	174.7
<b>Total Liabilities</b>	<b>4662.5</b>	<b>5214.3</b>	<b>5714.8</b>	<b>6569.0</b>	<b>7508.5</b>	<b>8519.2</b>

Source: NSPL Research, Company



Cash Flow (INR Crores)	FY16	FY17	FY18	FY19E	FY20E	FY21E
PBT	799.4	843.0	840.8	1,043.0	1,128.9	1,186.9
Operating profit before working capital changes	59.7	55.3	13.8	82.1	105.3	124.2
Operating profit after working capital changes	65.3	92.3	-25.4	188.8	64.4	92.3
Less income tax paid	-169.1	-187.2	-183.5	-226.7	-251.9	-264.9
<b>Cash Flow from Operating</b>	<b>695.5</b>	<b>748.2</b>	<b>631.9</b>	<b>1,005.2</b>	<b>941.4</b>	<b>1,014.4</b>
(Incr)/ Decr in Gross PP&E	-492.1	-245.4	-191.0	-878.4	-987.1	-981.8
<b>Cash Flow from Investing</b>	<b>-212.4</b>	<b>-486.8</b>	<b>-134.0</b>	<b>-847.0</b>	<b>-1,037.3</b>	<b>-922.6</b>
<b>Cash Flow from Financing</b>	<b>-471.0</b>	<b>-226.5</b>	<b>-469.6</b>	<b>4.6</b>	<b>-6.5</b>	<b>-4.4</b>
Incr/(Decr) in Balance Sheet Cash	12.2	35.0	28.3	162.8	-102.5	87.4
Cash at the Start of the Year	75.5	85.4	124.0	152.3	315.1	212.6
<b>Cash at the End of the Year</b>	<b>85.4</b>	<b>124.0</b>	<b>152.3</b>	<b>315.1</b>	<b>212.6</b>	<b>300.0</b>

Ratios	FY16	FY17	FY18	FY19E	FY20E	FY21E
<b>Growth Ratios</b>						
Revenue Growth	0	6%	15%	14%	14%	16%
EBITDA Growth	0	4%	-9%	27%	11%	7%
EBIT Growth	0	6%	-7%	20%	8%	5%
PAT Growth	0	2%	-3%	15%	7%	5%
<b>Margins</b>						
EBITDA Margins	15%	15%	14%	16%	17%	17%
PAT Margins	14%	13%	14%	14%	15%	15%
Gross Margins	42%	40%	37%	37%	39%	40%
EBIT Margins	16%	16%	15%	17%	17%	17%
<b>Return Ratios</b>						
ROCE	22%	22%	19%	19%	18%	16%
ROA	15%	15%	13%	13%	12%	12%
ROE	20%	19%	17%	17%	15%	14%
ROIC	16%	17%	14%	14%	13%	12%
<b>Debt Ratios</b>						
Debt to Equity	0.00	0.07	0.06	0.06	0.05	0.05
Debt to Assets	0.00	0.05	0.04	0.04	0.04	0.04
<b>Valuation Ratios</b>						
P/E	32.4	35.7	27.3	27.4	25.5	24.3
EPS	26.0	26.6	25.7	29.4	31.6	33.3
BPS	130.2	139.7	148.6	178.0	209.7	242.9
EV/ EBITDA	30.0	32.8	26.7	24.1	21.8	20.4
P/BV	6.5	6.8	4.7	4.5	3.9	3.3

Source: NSPL Research, Company





Cummins India Ltd.				Rating Legend	
Date	CMP (INR)	Target Price (INR)	Recommendation	Strong Buy	More than 15%
December 13, 2018	808	1025	Strong Buy	Buy	5% - 15%
				Hold	0 – 5%
				Reduce	-5% - 0
				Sell	Less than -5%

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Following table contains the disclosure of interest in order to adhere to utmost transparency in the matter;

Disclosure of Interest Statement	
Details of Nalanda Securities Pvt. Limited (NSPL)	<ul style="list-style-type: none"> <li>NSPL is a Stock Broker registered with BSE, NSE and MCX - SX in all the major segments viz. Cash, F &amp; O and CDS segments. Further, NSPL is a Registered Portfolio Manager and is registered with SEBI</li> <li><b>SEBI Registration Number: INH000004617</b></li> </ul>
Details of Disciplinary History of NSPL	No disciplinary action is / was running / initiated against NSPL
Research analyst or NSPL or its relatives’/associates’ financial interest in the subject company and nature of such financial interest	No (except to the extent of shares held by Research analyst or NSPL or its relatives’/associates’)
Whether Research analyst or NSPL or its relatives’/associates’ is holding the securities of the subject company	NO
Research analyst or NSPL or its relatives’/associates’ actual/beneficial ownership of 1% or more in securities of the subject company, at the end of the month immediately preceding the date of publication of the document	NO
Research analyst or NSPL or its relatives’/associates’ any other material conflict of interest at the time of publication of the document	NO
Has research analyst or NSPL or its associates received any compensation from the subject company in the past 12 months	NO
Has research analyst or NSPL or its associates managed or co-managed public offering of securities for the subject company in the past 12 month	NO
Has research analyst or NSPL or its associates received any compensation for investment banking or merchant banking or brokerage services from the subject company in the past 12 months	NO
Has research analyst or NSPL or its associates received any compensation for products or services other than investment banking or merchant banking or brokerage services from the subject company in the past 12 months	NO
Has research analyst or NSPL or its associates received any compensation or other benefits from the subject company or third party in connection with the document.	NO
Has research analyst served as an officer, director or employee of the subject company	NO
Has research analyst or NSPL engaged in market making activity for the subject company	NO
Other diSHCRosures	NO