

February 07, 2019

Cummins India Limited

Q3FY19 Result Update

Cummins India Ltd. (KKC) reported Q3 FY19 net sales at INR 1504 crore; up 1% QoQ and 11% YoY. EBITDA reported by the company stood at INR 227 crore; down 10% QoQ and up 15% YoY. EBITDA margin during the quarter was 15.1% as against 16.9% QoQ and 14.5% YoY. EBIT during the quarter was INR 274 crore; down 9% QoQ and up 23% YoY. EBIT margin during the quarter was 18% as against 20% QoQ and 16.5% YoY. Profit reported by the company stood at INR 187 crore; down 13% QoQ and up 9% YoY. PAT margin during the quarter was 12.4% as against 14% QoQ and 12.7% YoY.

Domestic sales in the current quarter represent the highest achieved at INR 1,022 crore, which grew by 14% YoY and by 2% QoQ. This is primarily on account of strong demand in Industrial & Powergen markets. Exports for the current quarter at INR 441 crore grew 5% YoY and declined by 2% QoQ. Exports revenue declined over the preceding quarter due to lower demand in global Powergen market.

New products to increase market share:

Management expects launch of new product technologies to meet future emission norms like CPCB-III, CEV BS-IV, and gas gensets which will increase its market share in the rail and marine sectors. As well as to sustain its current market share in data centres, commercial real estate, hospitality, and construction sectors as these are most likely to grow faster than the market.

Industrials & Powergen segment offers domestic push:

Management has increased its focus on Industrial segment which accounts 41% of total revenue in 9M FY19 through bundled offerings in construction, railways, mining, marine and defence to capture large share of these segments. The domestic powergen market has shown good growth, amongst this the HHP leads the chart. The powergen market share has increased as compared to the previous year as a result of many new products which have been introduced and accepted well. As well as, government spending on infrastructure has given push to the industrials revenue.

In data center segment, 40% CAGR growth has been achieved. A large datacenter uses as much electricity as a small town. Every data center includes backup power supplies in the form of HHP DG sets. The data center segment contributes ~7-8% to powergen revenues.

Change in guidance:

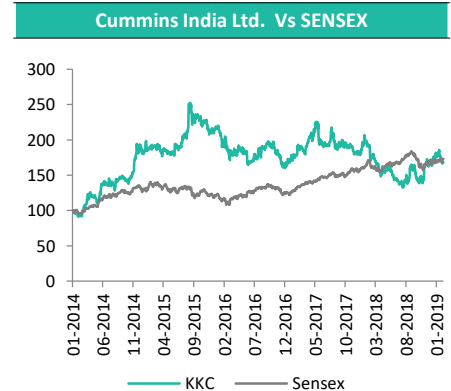
The management has upped the guidance for the domestic segment from 10-12% to 13-15% and guided the exports to be in the range of 4-4.5%. The sales in both these regions are growing at a tremendous rate but the management has also mentioned that in the coming quarter there will be decline in exports because of product change in Europe (which is temporary) and structural changes in Middle East & Africa.

STRONG BUY*

Downside Scenario	Current Price	Price Target	Upside Scenario
	770	988	
		28% ▲	

Market Data	
Industry	Capital Goods
Sensex	36,971
Nifty	11,069
Bloomberg Code	KKC:IN
Face Value (INR)	2
52-w H/L	885/ 611.75
Market Cap (INR Crores)	21,337

Valuation Data	FY18	FY19E	FY20E
P/E (x)	27.3	27.8	25.9
EV/ EBITDA (x)	26.7	24.4	21.0



Shareholding Pattern			
	Dec'18	Sep'18	Jun'18
Promoters	51	51	51
FIIs	11.35	12.38	13.17
DIIIs	24.93	23.96	23.14
Others/ Retail	12.72	12.66	12.69

Financial Snapshot (INR Crores)	FY16	FY17	FY18	FY19E	FY20E	FY21E
Net sales	4720.2	5106.4	5111.9	5747.3	6245.6	6843.7
YoY		8%	0%	12%	9%	10%
EBITDA	774.9	804.6	732.9	871.9	1018.5	1143.7
YoY		4%	-9%	19%	17%	12%
PAT	721.3	736.3	655.7	766.5	823.8	912.2
YoY		2%	-11%	17%	7%	11%
EPS in INR	26.0	26.6	25.7	27.7	29.7	32.9
P/E	32.4	35.7	27.3	27.8	25.9	23.4
EV/ EBITDA	30.0	32.8	26.7	24.4	21.0	18.7

Source: Company, NSPL Research

* Read last page for disclaimer & rating rationale



Quarterly Results (INR Crores)	Q3 FY19	Q2 FY19	Q-o-Q	Q3 FY18	Y-o-Y
Sales	1,503.8	1,487.0	1%	1,355.0	11%
Expenses	1,277.0	1,236.0	3%	1,158.0	10%
EBITDA	226.7	251.0	-10%	197.0	15%
EBITDA Margin	15%	17%	-200 bps	15%	-
Other Income	75.5	78.0	-3%	50.0	51%
Depreciation	27.9	27.0	3%	24.0	16%
EBIT	274.3	302.0	-9%	223.0	23%
EBIT Margin	18%	20%	-200 bps	16%	200 bps
Interest	4.1	4.0	3%	3.0	38%
Profit before tax	270.2	298.0	-9%	220.0	23%
Tax	83.1	86.0	-3%	48.0	73%
PAT	187.1	212.0	-12%	172.0	9%
PAT Margin	12%	14%	-200 bps	13%	-100 bps

Source: Company, NSPL Research

Valuation:

Cummins India is pure capital goods play given its scale of business, strong parentage support and healthy financials. As the demand in industrial segment has started to pick up which is already reflected in Q3FY19 numbers, management has revised their FY19 revenue growth guidance to higher trajectory.

KKC has, over the years, developed (a) strong product portfolio with superior technology to meet domestic demand, (b) wide distribution network to provide superior after sales service to customers, and (c) cost-effective products to maintain leadership in a fiercely competitive market. Though the concern of global trade war would persist, we believe Cummins India's domestic business has the ability to overcome such constrains.

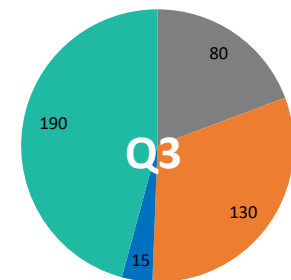
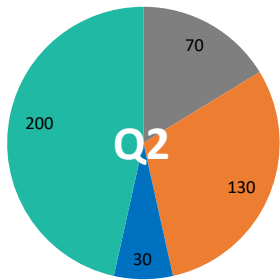
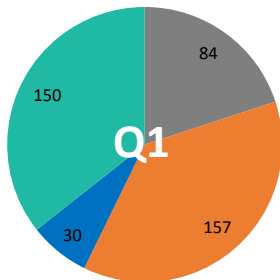
At CMP of INR 769.75, the company is trading at 21x FY20E EV/ EBITDA and 26x FY20E EPS. We value the company using average of EV/ EBITDA and P.E. multiple methodology. We have given an exit multiple of 28x for EV/EBITDA and 32x for PE to arrive at an average target price of INR 988 which is an upside of 28%.



Conference call highlights:

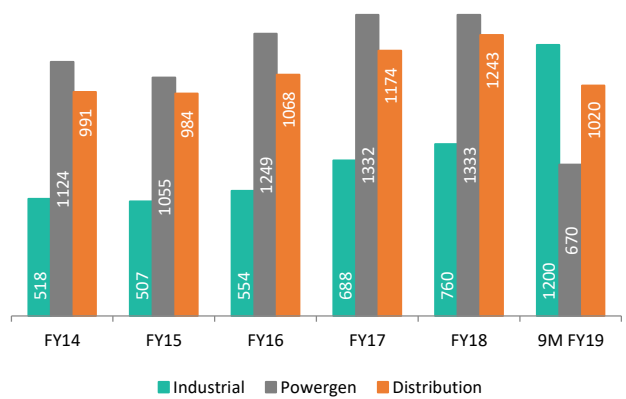
- The management highlighted that the company has completed 100 years of operations and will go strong in the future with good product offerings.
- KKC has taken some price action specially in powergen segment in Q3 FY19
- During the quarter Powergen sales stood at INR 430 crore, Industrial at INR 250 crore and Distribution at INR 350 crore.
- In the exports segment; HHP exports were at INR 215 crore, LHP at INR 200 crore and spares at INR 30 crore.
- Amongst the Industrials segment; construction segment contributed INR 110 crore, rail segment INR 70 crore, mining INR 20 crore and compressor segment INR 20 crore.
- The tax rate has now been increased to 28-30% as full exemption on LHP exports is no longer available.
- In Powergen domestic sales of LHP were INR 40 crore, Mid range at INR 125 crore, Heavy duty at INR 20 crore and HHP at INR 230 crore and exports of LHP were at INR 80 crore, mid range at INR 130 crore, heavy duty at INR 15 crore, HHP at INR 190 crore and spares at INR 33 crore.
- The management mentioned that during the next quarter, the exports are expected to decline by 25-26%.
- This is due to product change in Europe which is a temporary situation and is expected to bounce back in the next quarter, some inventory correction and structural issues in Middle East and Africa.
- The rail segment continues to do well and KKC has been able to provide value products which are been able to increase the functionality and overall performance.
- 35-40% LHP exports is mostly to Africa and and 15-20% HHP to Europe.
- In data centres, 1500-2500 kva range of gensets are used and 5-10% is the powergen exposure to this segment.

Powergen Exports

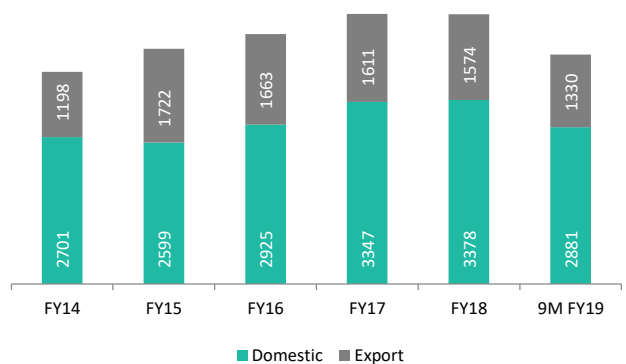


- LHP
- Mid Range
- Heavy Duty
- HHP

Segment wise performance



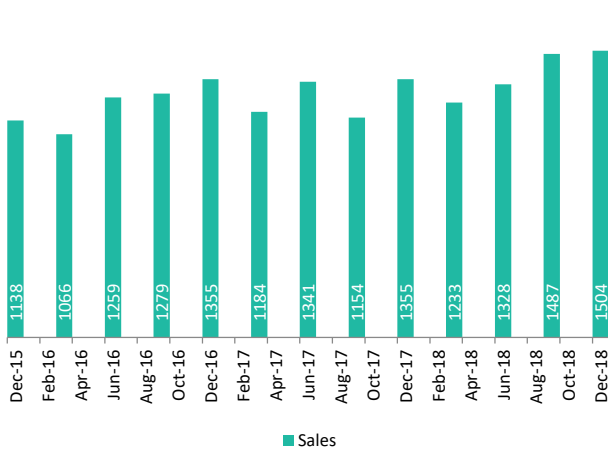
Sales (INR Crores)



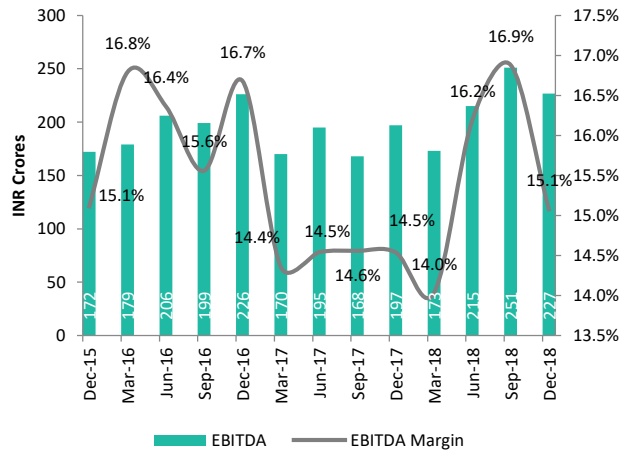
Source: Company, NSPL Research



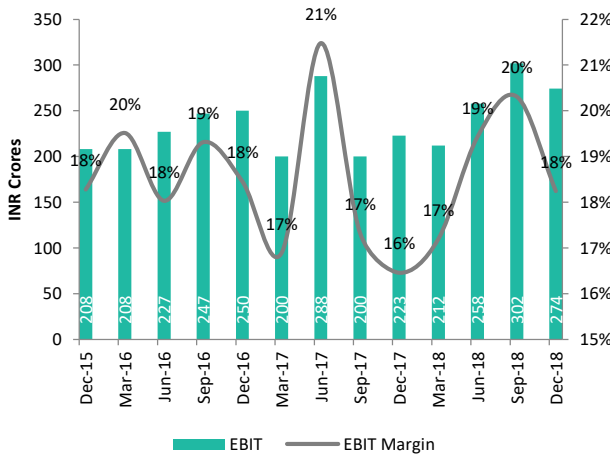
Quarterly Revenues (INR Crores)



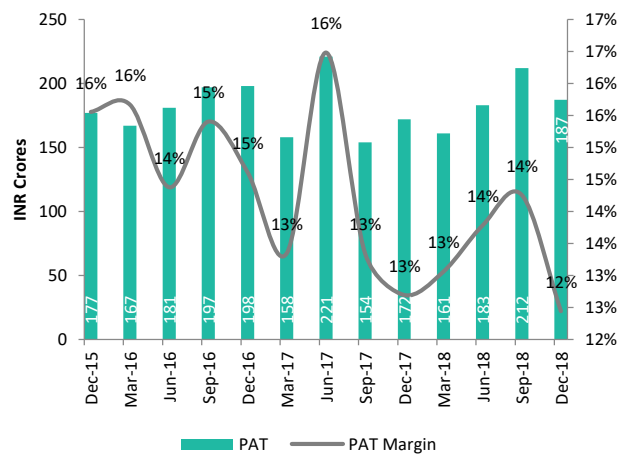
Quarterly EBITDA & EBITDA Margin



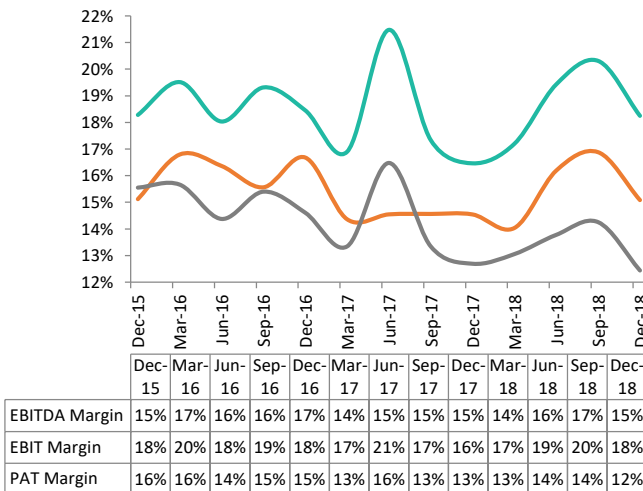
Quarterly EBIT & EBIT Margin



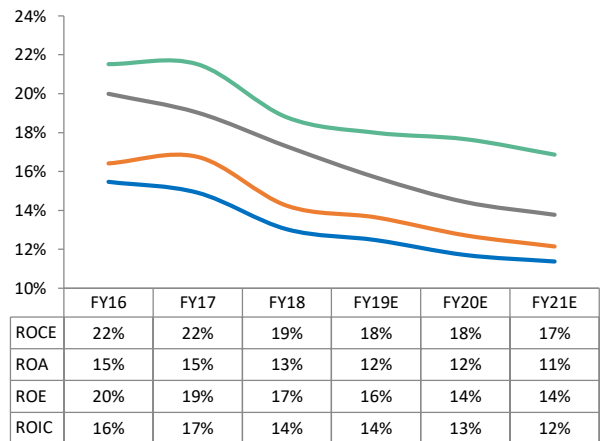
Quarterly PAT & PAT Margin



Quarterly Margin Comparison



Return Ratios



EBITDA Margin EBIT Margin PAT Margin

ROCE ROA ROE ROIC

Source: Company, NSPL Research

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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	5,747.3	6,245.6	6,843.7
COGS	2,963.0	3,281.6	3,264.5	3,644.8	3,823.1	4,089.6
Employee Expenses	421.1	445.3	511.3	586.0	669.3	780.8
Other Expenses	561.2	574.9	603.3	644.6	734.7	829.6
EBITDA	774.9	804.6	732.9	871.9	1,018.5	1,143.7
D&A	81.4	85.5	94.4	114.3	137.1	159.8
Other income	115.6	141.0	161.3	147.7	152.7	159.0
EBIT	809.2	860.1	799.8	905.3	1,034.2	1,142.8
Interest Expense	9.8	17.1	15.2	18.0	18.6	20.7
PBT	799.4	843.0	784.6	887.3	1,015.5	1,122.2
Tax	171.0	187.8	214.7	212.7	288.0	318.6
Share of profit/ (loss) of JV's	93.0	81.1	85.8	91.9	96.3	108.6
PAT	721.3	736.3	655.7	766.5	823.8	912.2
EPS in INR	26.0	26.6	25.7	27.7	29.7	32.9

Balance Sheet	FY16	FY17	FY18	FY19E	FY20E	FY21E
ASSETS						
Non-current assets						
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
Financial assets						
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
Current assets						
Inventories	606.6	569.8	544.4	599.1	618.0	672.3
Financial assets						
Investments	284.1	663.2	506.0	524.6	624.3	619.8
Loans			128.7	128.7	128.7	128.7
Trade receivables	945.8	963.7	1338.2	1413.8	1453.3	1563.1
Cash and cash equivalents	85.4	124.0	152.3	321.3	225.5	285.2
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
Total Assets	4662.5	5214.3	5714.8	6581.4	7498.6	8551.7

EQUITY AND LIABILITIES

Equity share capital	55.4	55.4	55.4	55.4	55.4	55.4
Shareholders' Equity	3608.9	3871.1	4118.6	4885.1	5708.9	6621.1
Non-current liabilities						
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
Current liabilities						
Financial liabilities						
Borrowings	3.0	252.1	256.8	283.3	303.6	331.4
Trade payables	556.4	608.7	759.5	848.8	890.3	952.4
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
Total Liabilities	4662.5	5214.3	5714.8	6581.4	7498.6	8551.7

Source: Company, NSPL Research

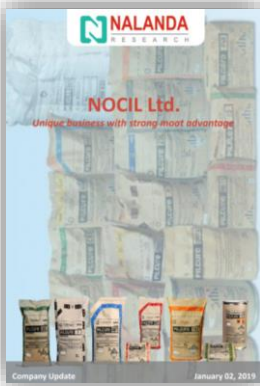


Cash Flow (INR Crores)	FY16	FY17	FY18	FY19E	FY20E	FY21E
PBT	799.4	843.0	840.8	979.2	1,111.8	1,230.8
Operating profit before working capital changes	59.7	55.3	13.8	82.1	105.6	126.5
Operating profit after working capital changes	65.3	92.3	-25.4	240.8	115.5	63.6
Less income tax paid	-169.1	-187.2	-183.5	-212.7	-288.0	-318.6
Cash Flow from Operating	695.5	748.2	631.9	1,007.3	939.3	975.8
(Incr)/ Decr in Gross PP&E	-492.1	-245.4	-191.0	-878.4	-987.1	-981.8
Cash Flow from Investing	-212.4	-486.8	-134.0	-846.8	-1,036.8	-923.2
Cash Flow from Financing	-471.0	-226.5	-469.6	8.5	1.7	7.1
Incr/(Decr) in Balance Sheet Cash	12.2	35.0	28.3	169.0	-95.8	59.7
Cash at the Start of the Year	75.5	85.4	124.0	152.3	321.3	225.5
Cash at the End of the Year	85.4	124.0	152.3	321.3	225.5	285.2

Ratios	FY16	FY17	FY18	FY19E	FY20E	FY21E
Growth Ratios						
Revenue Growth	0	6%	15%	15%	14%	17%
EBITDA Growth	0	4%	-9%	19%	17%	12%
EBIT Growth	0	6%	-7%	13%	14%	11%
PAT Growth	0	2%	-3%	8%	7%	11%
Margins						
EBITDA Margins	15%	15%	14%	15%	16%	17%
PAT Margins	14%	13%	14%	13%	13%	13%
Gross Margins	42%	40%	37%	37%	39%	40%
EBIT Margins	16%	16%	15%	16%	17%	17%
Return Ratios						
ROCE	22%	22%	19%	18%	18%	17%
ROA	15%	15%	13%	12%	12%	11%
ROE	20%	19%	17%	16%	14%	14%
ROIC	16%	17%	14%	14%	13%	12%
Debt Ratios						
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
Valuation Ratios						
P/E	32.4	35.7	27.3	27.8	25.9	23.4
EPS	26.0	26.6	25.7	27.7	29.7	32.9
BPS	130.2	139.7	148.6	176.2	205.9	238.9
EV/ EBITDA	30.0	32.8	26.7	24.4	21.0	18.7
P/BV	6.5	6.8	4.7	4.4	3.7	3.2

Source: Company, NSPL Research

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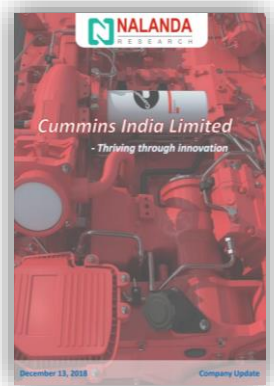
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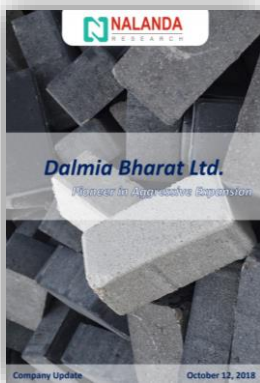
JK Cement Ltd.



Suprajit Engineering Ltd.



Cummins India Ltd.



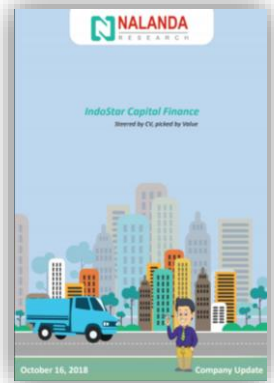
Dalmia Bharat



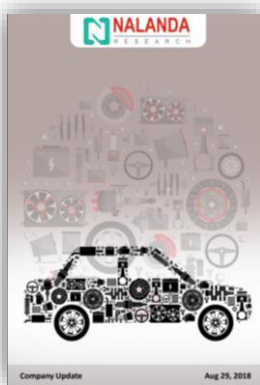
Coromandel International



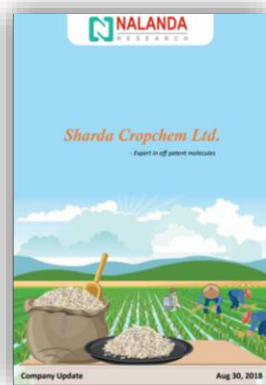
Meghmani Organics



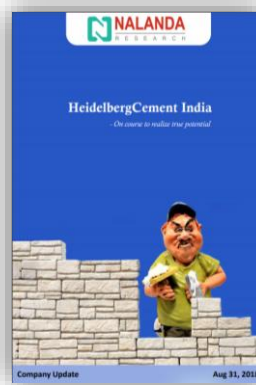
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Cummins India Ltd.				Rating Legend	
Date	CMP (INR)	Target Price (INR)	Recommendation	Strong Buy	More than 15%
February 07, 2019	770	988	Strong Buy	Buy	5% - 15%
December 13, 2018 (Company Update)	808	1025	Strong Buy	Hold	0 - 5%
				Reduce	-5% - 0
				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"> NSPL is a Stock Broker registered with BSE, NSE and MCX - SX in all the major segments viz. Cash, F & O and CDS segments. Further, NSPL is a Registered Portfolio Manager and is registered with SEBI SEBI Registration Number: INH000004617
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
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