

Cummins India

BUY

Delivers on the Conviction

Summary

Cummins India (KKC) delivered robust performance in Q1FY26 which surpassed our estimates. Revenue, EBITDA and Adjusted PAT for the quarter was higher by 26%, 32% and 28% YoY on consolidated basis. The key positive of the management commentary was demand continuing to remain strong and also being broad based across key growth verticals such as Quick Commerce, Government led infra, manufacturing and pharma. KKC also clocked in healthy gross margin of 37% for the quarter. This is a result of the management's assiduous efforts in reducing direct material costs, optimizing product mix and suitable pricing. Guidance is of double digit revenue growth in FY26 with the strong domestic infrastructure momentum spurring growth. We reiterate our positive stance on the stock and maintain our BUY rating with TP of Rs4,401.

Key Highlights and Investment Rationale

- **Sanguine demand momentum to continue:** Demand momentum continues to be healthy across the power-gen and the industrial segment. Power-gen segment is exhibiting healthy demand traction across the board with sectors such as quick commerce, roads, hospitals, airports, manufacturing and pharma leading the way. Within the industrial vertical, the construction segment and the compressor segment is exhibiting steady demand while the railways segment performed well in terms of sales of DETC and power cars
- **Protecting the HHP turf:** The management asserted that the company is taking concrete initiatives to keep the competition at bay in the HHP segment which is the mainstay of the Power-gen vertical for KKC. This includes offering customized and tailored products and solutions for each segment. Competitive intensity has increased in this segment which KKC is mitigating through rigorous cost optimization and reducing product delivery timelines.

TP Rs4,401

CMP Rs3,680

Potential upside/downside 20%

Previous Rating BUY

Price Performance (%)

	-1m	-3m	-12m
Absolute	7.0	29.4	(1.7)
Rel to Sensex	10.4	29.5	(3.2)

V/s Consensus

EPS (Rs)	FY26E	FY27E
IDBI Capital	84	100
Consensus	79	91
% difference	7.0	10.4

Key Stock Data

Bloomberg/Reuters	KKC IN/CUMM.BO
Sector	Capital Goods
Shares o/s (mn)	277
Market cap. (Rs mn)	1,020,013
3-m daily avg. trd. value (Rs mn)	33.9
52-week high / low	Rs3,927 / 2,595
Sensex / Nifty	80,623 / 24,596

Shareholding Pattern (%)

Promoters	51.0
FII	17.5
DII	19.9
Public	11.6

Consolidated Financial Snapshot

(Rs mn)

Year	FY23	FY24	FY25	FY26E	FY27E
Revenue	76,414	88,600	1,02,192	1,20,985	1,43,415
Change yoy, %	26	16	15	18	19
EBITDA	12,477	17,697	20,800	23,820	28,158
Change yoy, %	41	42	18	15	18
EBITDA Margin (%)	16.3	20.0	20.4	19.7	19.6
Adj.PAT	12,425	17,223	19,999	23,372	27,810
EPS (Rs)	45	62	72	84	100
Change yoy, %	55	39	16	17	19
P/E(x)	82.1	59.2	51.0	43.6	36.7
Dividend Yield (%)	0.6	0.8	1.0	1.1	1.1
P/B (x)	80.9	56.8	47.8	41.5	34.8
RoE (%)	22.8	27.8	28.2	28.6	29.0
RoCE (%)	18.7	24.8	26.2	26.6	27.0

Source: IDBI Capital Research, Company

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Exhibit 1: Quarterly Snapshot (Consolidated)

Consolidated (Rs mn)	Q1FY26	Q1FY25	YoY (%)	Q4FY25	QoQ%
Net Sales	29,068	23,156	25.5	24,704	17.7
Expenditure	-22,833	-18,423	23.9	-19,452	17.4
<i>as % of sales</i>	-78.6	-79.6		-78.7	
Consumption of RM	-18,316	-14,304	28.1	-15,431	18.7
<i>as % of sales</i>	-63.0	-61.8		-62.5	
Employee Cost	-1,994	-1,879	6.2	-1,712	16.5
<i>as % of sales</i>	-6.9	-8.1		-6.9	
Other expenditure	-2,523	-2,240	12.6	-2,308	9.3
<i>as % of sales</i>	-8.7	-9.7		-9.3	
EBITDA	6,235	4,733	31.7	5,252	18.7
Depreciation	-479	-443	8.1	-465	3.1
EBIT	5,756	4,290	34.2	4,787	20.2
Other Income	1,339	1,037	29.1	1,265	5.8
Interest	-27	-50	(46.6)	-53	(49.9)
Exceptional	653	673	(3.1)	904	(27.8)
PBT	7,847	5,951	31.9	6,903	13.7
Total Tax	-1,808	-1,325	36.5	-1,608	12.4
Reported PAT	6,039	4,626	30.5	5,295	14.1
Discontinued Ops	126	0		0	
Adjusted PAT	5,942	4,626	28.4	5,295	12.2
Adjusted EPS	21	17	28.4	19	12.2
Margins (%)					
EBIDTA	21.4	20.4	101	21.3	19
EBIT	19.8	18.5	128	19.4	42
EBT	27.0	25.7	130	27.9	(95)
PAT	20.8	20.0	80	21.4	(66)
Effective Tax rate	(23.0)	(22.3)	(78)	(23.3)	26

Source: Company, IDBI Capital

Conference call highlights

■ Demand Outlook:

- Power gen segment: The segment reported 30%+ growth and the growth was broad-based across all end-user segments. The management believes the growth and the EBITDA margins both are sustainable as the quarter did not include any one-off project's off takes. The volumes have returned to pre-CPCB IV+ levels. The key end-users include Quick Commerce, mission critical segments such as roads, hospitals, airports, manufacturing and pharma. Data centers is a high-growth segment which contributed about 15-20% of the overall power gen segment sales. The demand here is steady and growing.
- Industrials: The rail segment performed very well owing to diesel cars and power cars demand. Growth across construction segment was somewhat muted due to the early onset of monsoons, which hampers any and all construction activity. Demand from compressor segment was steady.
- Distribution: The segment grew by 19%, driven by better penetration in traditional power gen and railways; and improved after-market solutions.
- Exports: The management stays cautiously optimistic due to the volatile geopolitical situation. Despite this, the company has registered growth on the exports front as well. This growth has been a result of focused efforts on end market customer needs and specific projects, rather than a broad market recovery. LATAM and Europe showed better performance in this quarter.

■ Capex:

- The company has been consistently investing in line upgrades and expansion plans over the last few years. These investments are expected to translate to export growth and support the domestic consumption.
- The current capacity utilization stands at 65-70%.

■ **Future Guidance:**

- The management's outlook is for double-digit growth. The company is bullish on domestic demand, and cautiously optimistic on exports.
- BESS has been launched for the C&I customers. The management allays any cannibalization concerns and considers the BESS products, as an addition to its existing portfolio, particularly for solar energy based customers.
- Flexible fuel engines are under development by the parent. Dual fuel kits have already been introduced to the market. Hydrogen fuel cells are deemed to be more than a decade away by the management.

■ **Others:**

- The management endeavors to hold on to the current margins. By using leverage and maintaining the current pricing, the profitability should be defended.
- The management acknowledges the presence of competition across all nodes, several times during the call. There are both domestic and foreign players in the market.
- About 60% of domestic power gen revenue came from CPCB IV+ engines. Pricing in the market has settled down for these products.

Financial Summary

Consolidated Profit & Loss Account

(Rs mn)

Year-end: March	FY22	FY23	FY24	FY25	FY26E	FY27E
Net sales	60,570	76,414	88,600	1,02,192	1,20,985	1,43,415
<i>Change (yoy, %)</i>	41	26	16	15	18	19
Operating expenses	(52,829)	(65,244)	(72,305)	(83,107)	(97,165)	(1,15,257)
EBITDA	8,881	12,477	17,697	20,800	23,820	28,158
<i>Change (yoy, %)</i>	53	41	42	18	15	18
<i>Margin (%)</i>	14.7	16.3	20.0	20.4	19.7	19.6
Depreciation	(1,356)	(1,420)	(1,592)	(1,851)	(1,843)	(1,997)
EBIT	7,524	11,057	16,105	18,950	21,976	26,160
Interest paid	(122)	(162)	(274)	(159)	-	-
Other income	3,343	5,161	6,232	7,137	8,324	9,894
Pre-tax profit	12,070	15,913	22,046	25,928	30,300	36,055
Tax	(2,732)	(3,631)	(4,840)	(5,929)	(6,928)	(8,244)
<i>Effective tax rate (%)</i>	22.6	22.8	22.0	22.9	22.9	22.9
Minority Interest	-	-	-	-	-	-
Net profit	9,337	12,282	17,206	19,999	23,372	27,810
Exceptional items	1,324	(143)	(17)	-	-	-
Adjusted net profit	8,014	12,425	17,223	19,999	23,372	27,810
<i>Change (yoy, %)</i>	26	55	39	16	17	19
EPS	28.9	44.8	62.1	72.1	84.3	100.3
Dividend per sh	16.0	22.5	31.0	38.0	39.9	41.9
<i>Dividend Payout %</i>	55.3	50.2	50	53	47	42

Consolidated Balance Sheet

(Rs mn)

Year-end: March	FY22	FY23	FY24	FY25	FY26E	FY27E
Shareholders' funds	51,450	57,582	66,123	75,614	87,925	1,04,122
Share capital	554	554	554	554	554	554
Reserves & surplus	50,895	57,028	65,569	75,060	87,371	1,03,568
Total Debt	3,947	3,500	1,000	-	-	-
Other liabilities	935	1,008	872	862	862	862
Curr Liab & prov	14,788	17,095	21,710	25,209	27,928	31,338
Current liabilities	12,495	14,671	18,864	21,632	24,351	27,761
Provisions	2,293	2,424	2,847	3,577	3,577	3,577
Total liabilities	19,670	21,604	23,582	26,071	28,790	32,200
Total equity & liabilities	71,120	79,186	89,705	1,01,685	1,16,716	1,36,322
Net fixed assets	12,147	12,119	13,854	14,736	15,092	15,295
Investments	18,709	24,765	26,188	24,174	27,174	30,174
Other non-curr assets	333	362	366	398	398	398
Current assets	39,931	41,941	49,298	62,377	74,051	90,455
Inventories	7,375	9,037	9,497	10,041	11,783	13,968
Sundry Debtors	12,581	15,971	20,854	22,778	26,521	31,438
Cash and Bank	14,268	13,862	15,128	25,103	31,291	40,594
Loans and advances	5,707	3,071	3,820	4,456	4,456	4,456
Total assets	71,120	79,186	89,705	1,01,685	1,16,716	1,36,322

Consolidated Cash Flow Statement

(Rs mn)

Year-end: March	FY22	FY23	FY24	FY25	FY26E	FY27E
Pre-tax profit	12,070	15,913	22,046	25,928	30,300	36,055
Depreciation	1,356	1,420	1,592	1,851	1,843	1,997
Tax paid	(2,546)	(3,521)	(5,012)	(5,647)	(6,928)	(8,244)
Chg in working capital	(637)	(3,245)	(3,382)	(1,549)	(2,767)	(3,692)
Other operating activities	(3,124)	(2,371)	(2,390)	(3,735)	-	-
Cash flow from operations (a)	7,119	8,197	12,853	16,849	22,449	26,116
Capital expenditure	704	(1,543)	(2,821)	(2,299)	(2,200)	(2,200)
Chg in investments	(7,597)	376	(2,967)	3,040	(3,000)	(3,000)
Other investing activities	1,031	1,858	3,106	(6,558)	-	-
Cash flow from investing (b)	(5,863)	691	(2,682)	(5,817)	(5,200)	(5,200)
Equity raised/(repaid)	-	-	-	-	-	-
Debt raised/(repaid)	3,693	(506)	(2,571)	(1,087)	-	-
Dividend (incl. tax)	(4,435)	(6,237)	(8,593)	(10,534)	(11,060)	(11,613)
Chg in minorities	-	-	-	-	-	-
Other financing activities	(80)	(130)	(179)	(59)	-	-
Cash flow from financing (c)	(823)	(6,873)	(11,343)	(11,680)	(11,060)	(11,613)
Net chg in cash (a+b+c)	434	2,015	(1,171)	(648)	6,188	9,303

Financial Ratios

Year-end: March	FY22	FY23	FY24	FY25	FY26E	FY27E
Book Value (Rs)	186	208	239	273	317	376
Adj EPS (Rs)	28.9	44.8	62.1	72.1	84.3	100.3
Adj EPS growth (%)	26	55	39	16	17	19
EBITDA margin (%)	14.7	16.3	20.0	20.4	19.7	19.6
Pre-tax margin (%)	19.9	20.8	24.9	25.4	25.0	25.1
Net Debt/Equity (x)	-0.2	-0.2	-0.2	-0.3	-0.4	-0.4
ROCE (%)	14	19	25	26	27	27
ROE (%)	16	23	28	28.2	28.6	29.0
DuPont Analysis						
Asset turnover (x)	0.9	1.0	1.0	1.1	1.1	1.1
Leverage factor (x)	1.3	1.4	1.4	1.4	1.3	1.3
Net margin (%)	13.2	16.3	19.4	19.6	19.3	19.4
Working Capital & Liquidity ratio						
Inventory days	44	43	39	36	36	36
Receivable days	76	76	86	81	80	80
Payable days	69	65	71	69	69	69

Valuations

Year-end: March	FY22	FY23	FY24	FY25	FY26E	FY27E
PER (x)	127.3	82.1	59.2	51.0	43.6	36.7
Price/Book value (x)	19.8	17.7	15.4	13.5	11.6	9.8
EV/Net sales (x)	16.7	13.2	11.4	9.7	8.2	6.8
EV/EBITDA (x)	113.7	80.9	56.8	47.8	41.5	34.8
Dividend Yield (%)	0.4	0.6	0.8	1.0	1.1	1.1

Source: Company; IDBI Capital Research

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Key to Ratings Stocks:

BUY: 15%+; **HOLD:** -5% to 15%; **SELL:** -5% and below.

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