



# Research Report



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# 2020

RetailEquityResearch

## Cummins India Ltd.

Industrial Manufacturing  
(Special Industrial machinery)

BSE CODE: 500480

Bloomberg CODE:KKC: IN

NSE CODE: CUMMINSIND  
SENSEX: 36,674.52

CMP* (Rs)	429.60
Upside/ (Downside) (%)	(10)
Bloomberg Ticker	KKC:IN
Average Volume	1,682,037
PE Ratio (TTM)	15.44

**SELL**

Target Price: Rs. 390

KEY CHANGES:

TARGET ↓

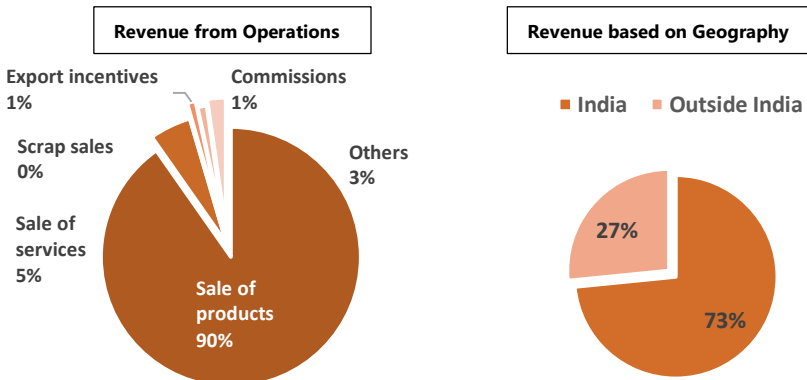
RATING ↔

EARNINGS ↑

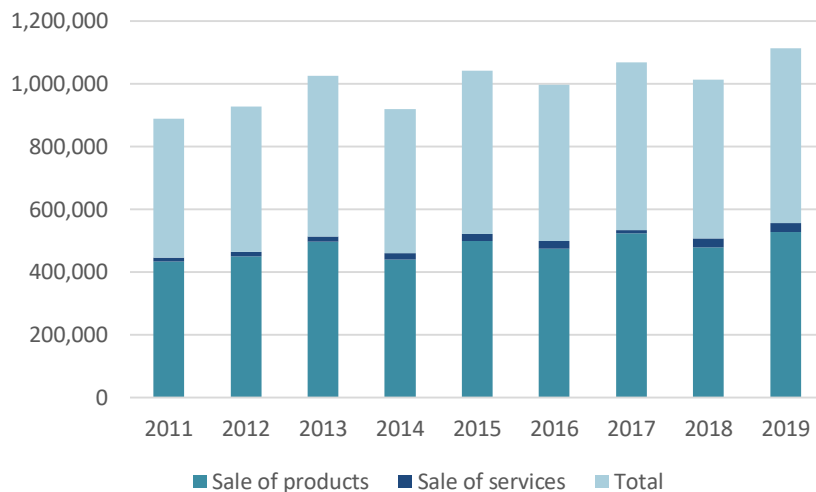
### Company Profile

Cummins India Ltd. (CIL), a 51% subsidiary of Cummins Inc. USA, the World's largest independent designer and manufacturer of Diesel engines above 200 HP, is India's leading manufacturer of Diesel engines. CIL's products include Diesel and natural gas engines in the range of 18 HP to 3,500 HP. CIL operates in four Business sectors: Industrial, Automotive, Power Generation and distribution. Cummins imports products from Cummins Inc, where indigenous production is not available.

### KEY HIGHLIGHTS



### Revenue from Operations



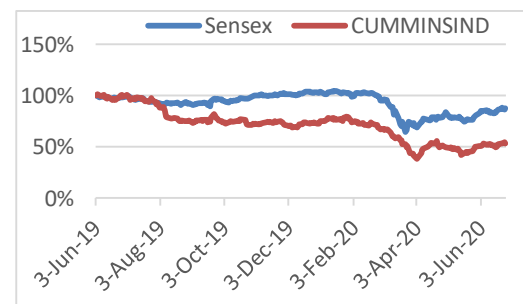
### Company Data

Market Cap (cr)	Rs. 11,947
Outstanding Shares (mn)	227.2
Free Float	12.9%
Dividend Yield	3.94 %
52 week high	Rs. 766.2
52 week low	Rs. 281.6
6m Average volume(Cr)	0.15
Beta	0.44
Face value	Rs. 2

Shareholding%	Q2FY20	Q3FY20	Q4FY20
Promoters	51.0	51.0	51.0
FII's	8.27	6.28	7.46
MF/Inst.	31.97	33.60	32.44
Others	8.76	9.12	9.10
Total	100.0	100.0	100.0

Price Performance	3Months	6Month	1Year
Absolute Return	28.93%	-27.08%	-47.20%
Absolute Sensex	23.69%	-16.01%	-11.91%
Relative Return*	5.24%	-11.06%	-35.29%

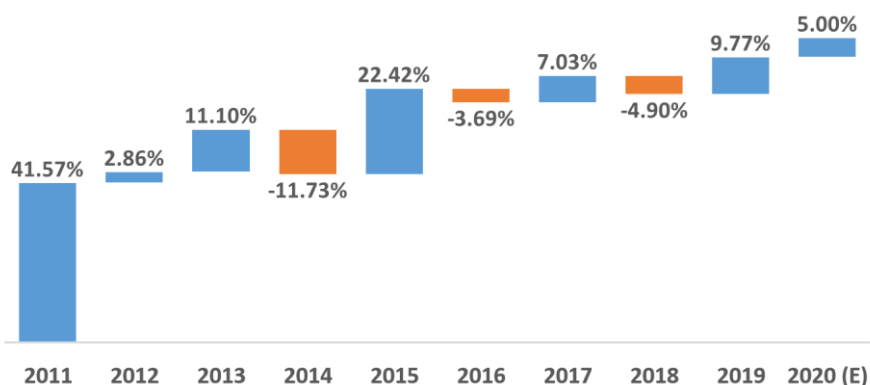
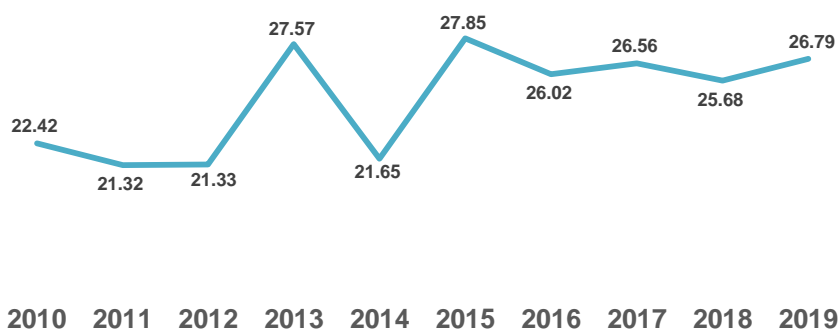
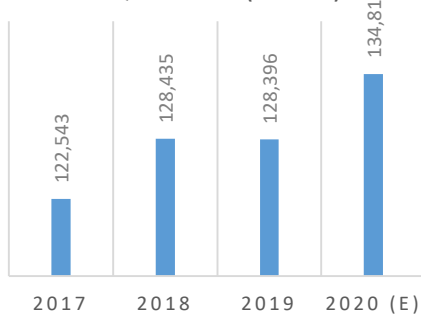
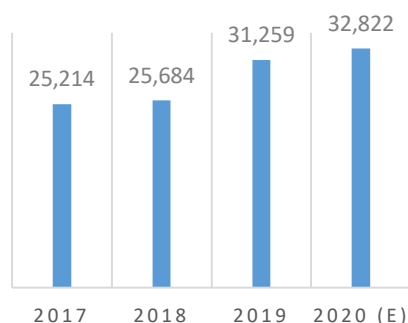
\*over or under performance to benchmark index



Source: Company  
Research Analyst

Mr. Kunal Sipani  
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Internship under  
**Factsheet INC**

**FINANCIAL HIGHLIGHTS**
**Revenue growth rate (%)**

**Earning per Share**

**PROPERTY PLANT AND EQUIPMENT (₹ LACS)**

**BORROWINGS (₹ LACS)**

**Fundamentals of the Company**

₹ in Lacs	Mar 16	Mar 17	Mar 18	Mar 19	Mar 20 (E)
Revenue	521500	559874	535176	593238	622899.9
Revenue growth	-5.22%	7.36%	-4.41%	10.85%	5.00%
Operating profit	79937	84301	78465	97625	102506.25
Net Profit	72132	73627	71182	74261	77974.05
EPS (₹)	26.02	26.56	25.68	26.79	25.45

**Key Highlights/Comments**

1. Revenue was impacted for Q4FY20 due to Covid-19 and overall growth is estimated to be 5% and de growth for coming terms.
2. Exports are key to Cummins India, but due to lockdown, Revenue has been constrained.
3. Company has maintained an average EPS of approximately ₹ 26.5 over last 5 years.
4. Cummins's Balance sheet figures is progressing over the years as Company plans to manage Cash effectively and rationalize Capex.
5. Company doesn't have an outstanding long-term debt.
6. Industry is being impacted due to lockdown and domestic demand will take time to revive.
7. Cummin India's P/BV ratio is over 2 for last 5 years, which shows price is overvalued.

## KEY FINANCIAL SUMMARY

in (₹)	2015-16	2016-17	2017-18	2018-19	2019-20 (E)
Operating Profit	79,937	84,301	78,465	97,625	1,02,506
CAPEX	7,080	2,769	15,330	11,071	18,085
ROE (%)	19.99	19.02	17.28	17.34	14.43
ROCE (%)	19.18	18.41	16.71	16.41	13.77
ROA (%)	15.47	14.12	12.46	12.25	10.72
P/E Ratio	15.28	14.97	15.48	14.84	14.13
P/BV Ratio	3.05	2.85	2.68	2.57	2.04
EV/ EBITDA	12.26	12.06	12.01	10.42	9.12
Current Ratio	2.54	2.21	2.22	2.23	2.80

Source: Company, FACTSHEET INC Research

## INDUSTRY OVERVIEW

Industrial manufacturing is a major growth Sector for the Indian economy with diverse companies including those engaged in manufacturing of machinery and equipment, electrical and metal products, cement, building, and construction material, rubber and plastic products and automation technology products.

Government aims to achieve 25 percent GDP share from 16 percent and 100 million jobs in the sector by 2022. Gross Value Added from Manufacturing sector in India grew at a CAGR of 4.29 percent during FY12 and FY19. The manufacturing component of IIP stood at 130.8 during April- January, 2019-20. Cumulative FDI in the sector stood at US\$ 89.15 billion during April 2000- Dec 19.



## SWOT ANALYSIS

### STRENGTHS

- 1 Company with low Debt.
- 2 Book Value per share is improving for last 2 years.
- 3 Company with Zero Promoter pledge.
- 4 FII/ FPI or Institutions increasing their Shareholding.

### WEAKNESSES

- 1 Companies with growing costs YoY for long term projects.
- 2 Broker downgrades in price or recommendation in recent times.
- 3 MFs decreased their Shareholding last quarter.
- 4 Inefficient use of Assets to generate profits - ROA declining in the last 2 years.
- 5 Poor cash generated from core business - Declining Cash Flow from Operations for last 2 years.
- 6 Degrowth in Revenue and Profit
- 7 Decline in Net Profit (QoQ)
- 8 Major fall in TTM Net Profit.

### OPPORTUNITIES

1. Brokers upgraded recommendation or target price in the past three months
2. RSI indicating price strength.
3. Companies with current TTM PE Ratio less than 3 Year, 5 Year and 10 Year average PE.

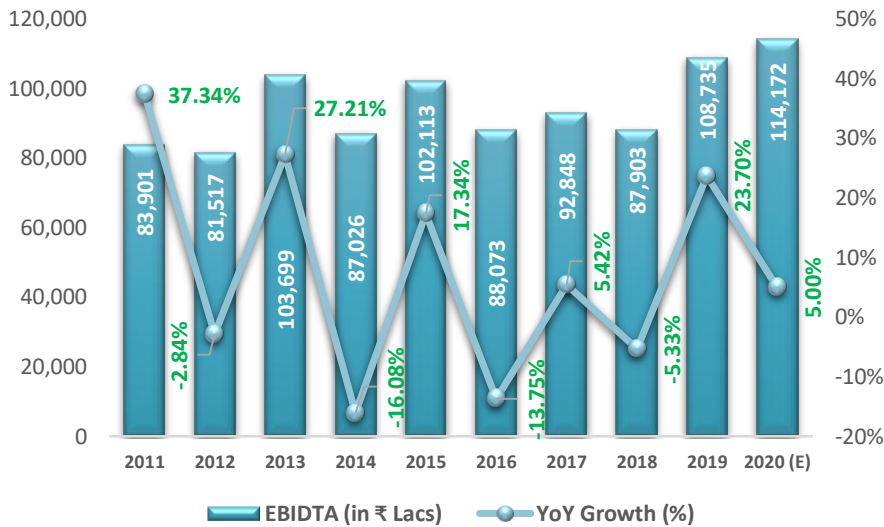
### THREATS

- 1 Degrowth in Revenue, profits, and Operating profit margin in recent results (QoQ).
- 2 Increasing trend in Non-core Income.
- 3 Intense competitive pressure.
- 4 Having an International presence, Economic fluctuations and currency devaluations affect the company.



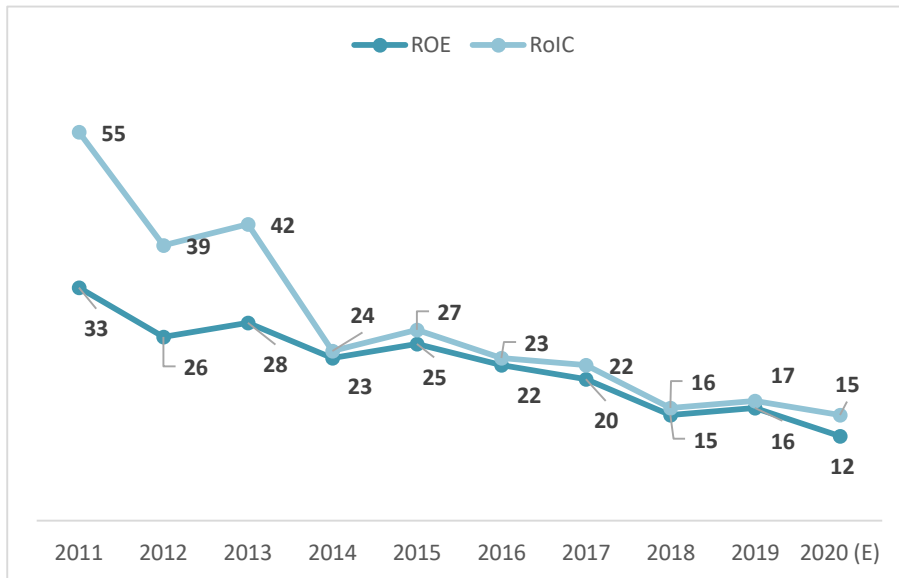
**STORIES IN CHARTS**

**EBIDTA CAGR at 3.13% over FY10-FY20E**



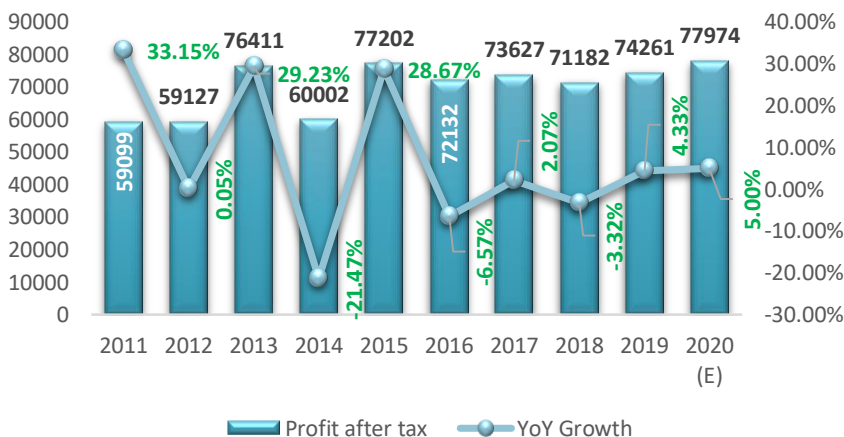
Source: Company, Annual Report

**ROE/RoIC declined gradually over FY10-20E**



Source: Company, Annual Report

**PAT Growth over 10 years**



Source: Company, Annual Report

**Key Highlights/Comments**

- As per the pattern of growth rate of EBITDA, numbers are quite upside-down due to Management's effort to reduce cost as much as possible and decline of 25% from 30% in Export revenue for FY19. Company is also projected to grow over 3.13% CAGR over FY10-20E.
- ROE and ROIC, both have declined significantly over the years and is expected to remain under pressure until the present scenario stabilizes.
- There we steady rise in 'Other Income' (non-core business) in profits for the company over last few years. Due to Covid-19 pandemic, industry will face difficulty to get back to pre-Covid level, Government support will help industries to stabilize in coming term.

**PEER COMPARISON**

	CMP	Market Cap (₹ Cr)	Revenue (₹ Cr)	P/E Ratio	EPS (₹)	ROA %	ROCE%
<b>Cummins India</b>	<b>393.10</b>	<b>10896.73</b>	<b>5191</b>	<b>14.84</b>	<b>26.79</b>	<b>12.25</b>	<b>16.41</b>
<b>Greaves Cotton</b>	<b>87.45</b>	<b>2021.90</b>	<b>1911</b>	<b>17.72</b>	<b>6.74</b>	<b>11.31</b>	<b>23.69</b>
<b>Kirloskar Oil</b>	<b>110.60</b>	<b>1599.28</b>	<b>3383</b>	<b>7.17</b>	<b>15</b>	<b>8.43</b>	<b>11.72</b>
<b>Siemens</b>	<b>1137.65</b>	<b>40521.90</b>	<b>12886</b>	<b>35.46</b>	<b>31</b>	<b>7.16</b>	<b>11.74</b>
<b>Swaraj Engines</b>	<b>1438.50</b>	<b>1745.21</b>	<b>773</b>	<b>24.56</b>	<b>67.96</b>	<b>22.50</b>	<b>39.29</b>

**INVESTMENT THESIS**

Hitherto weak business scenario due to economy slowdown has been affected more due to Covid-19 and Lockdown has also impacted global supply chain. Board members expects the current situation to get worsen more. Domestic demand is expected to take more than 9 months to recover. Revenue growth for the year has come down to 5% from 10% on previous year, due to economic slowdown and Sales during March,20 has also fallen to a greater extent due to Pandemic and lockdown.

Cummin India's Q4 earnings were significantly lower and has lost revenue by ₹1.9 bn due to lockdown. This has also an impact on margins and profitability. With ROE and ROCE at 14x/13x, stock may appear to be cheaper in coming time, due to Covid-19, industry is expected to get affected more and PAT has also grown at 5% for the year and figure is expected to reduce more in the near future. In comparison to Siemens, ROE of Cummins has deteriorated. Dividend payout has increased over the years and company is also one of the best payouts in the Sector. But, due to current situation and very less Business operation, there would be further decrease in Revenue and Balance Sheet figure will reduce.

**Trends**

**Industrial Structure and development in Economic trends:** In financial year 2018-19, the Indian economy continued to grow due to focus in investments in Infrastructure, stabilization in structural reforms. Government of India pushed towards infrastructure with all time high on allocation to roads and railways.

**New Business initiatives:** Company has introduced and installed underslung solutions for various rail applications. For the power car segment, Company has introduced innovative cost-effective noise attenuation solutions for comfortability. To strengthen its position in Marine business, Company has entered the fishing boat segments with 180hp and 240 hp engines.

**Distribution:** Company's onsite service delivery has gone digitized with the launch of Field Service Management application to optimize the performance of field service engineers. A rapid Response team is also created to address field critical issues.

**Strong Partnership:** Company provides propulsion engines along with diesel generator set offerings to Indian Navy and major Shipyards.

**Future Outlook**

Although the current year is quite a weak, management expects to gain competitive advantage over peers, with their strong Net cash balance and superior Technology support from their Parent company. As per financials, Power generators would be the last to recover, as it is witnessing downtrend prior to Covid-19 and lockdown impact.

Higher input cost would lead to Manufacturing, Real Estate, Hospitality and retail under pressure with a low growth over coming 2 years. Private Capex is also weakening due to low capacity utilization.

Exports are key to growth for Cummins India. Due to Lockdown in majority of countries, Exports are likely to struggle in this year and may normalize by 2022. And, due to Border tensions with China, exports are likely to be impacted. Company expects to reduce Revenue from Exports figure by 25%.

**Income statement (₹ Lacs)**

Y/e March	FY17	FY18	FY19	FY20E
<b>Total Revenue</b>	<b>5,59,874</b>	<b>5,35,176</b>	<b>5,93,238</b>	<b>6,22,900</b>
<b>Expenses:</b>				
Cost of materials consumed	2,70,017	2,51,699	2,68,883	2,82,327
Purchases of traded goods	56,139	70,662	97,109	1,01,964
Change in inventories	2,001	4,084	-4,001	-4,201
Excise duty on sale of goods	35,141	7,856		
Employee benefits expense	44,528	51,125	56,191	59,001
Finance costs	1,707	1,519	1,677	1,761
Depreciation and amortization expense	8,547	9,438	11,110	11,666
Other expenses	57,493	60,328	64,644	67,876
<b>Total expenses</b>	<b>4,75,573</b>	<b>4,56,711</b>	<b>4,95,613</b>	<b>5,20,394</b>
Profit before exceptional items	84,301	78,465	97,625	1,02,506
Profit after exceptional items	84,301	84,077	97,625	1,02,506
<b>Profit before tax</b>	<b>92,411</b>	<b>92,655</b>	<b>1,06,889</b>	<b>1,12,233</b>
Total tax expense	18,784	21,473	32,628	34,259
<b>Profit after tax</b>	<b>73,627</b>	<b>71,182</b>	<b>74,261</b>	<b>77,974</b>

**Balance Sheet (₹ Lacs)**

Y/e March	FY17	FY18	FY19	FY20E
<b>Assets</b>				
<b>Non-Current Assets</b>				
Net Fixed Assets	195,657	205,413	217,051	227,904
Intangible Assets	837	547	314	330
Other Non-Current Assets	56,124	42,509	45,805	48,095
<b>Total Non-Current Assets</b>	<b>2,52,618</b>	<b>2,48,469</b>	<b>2,63,170</b>	<b>2,76,329</b>
<b>Current assets</b>				
Inventories	56,979	54,438	63,285	66,449
Investments	66,324	50,601	24,272	25,486
Loans		12,866		
Trade receivables	96,367	1,33,818	1,28,359	1,34,777
Cash and cash equivalents	12,395	15,232	19,546	1,11,342
Other bank balances	535	31,857	54,259	56,972
Other current assets	3,621	24,197	53,136	55,793
<b>Total Current Assets</b>	<b>2,68,816</b>	<b>3,23,009</b>	<b>3,42,857</b>	<b>4,50,818</b>
<b>TOTAL ASSETS</b>	<b>5,21,434</b>	<b>5,71,478</b>	<b>6,06,027</b>	<b>7,27,147</b>
<b>Equity &amp; Liabilities</b>				
Equity Share Capital	5,544	5,544	5,544	5,544
Other Equity	381,566	406,316	422,754	534,987
<b>Total Equity</b>	<b>3,87,110</b>	<b>4,11,860</b>	<b>4,28,298</b>	<b>5,40,531</b>
<b>Non-Current Liabilities</b>	<b>12,732</b>	<b>14,020</b>	<b>24,316</b>	<b>25,532</b>
<b>Current Liabilities</b>				
Borrowings	25,214	25,684	31,259	32,822
Trade payables	60,867	75,953	82,541	86,668
Other Current Liabilities	35,511	43,961	39,613	41,594
<b>Total Current Liabilities</b>	<b>1,21,592</b>	<b>1,45,598</b>	<b>1,53,413</b>	<b>1,61,084</b>
<b>Total Equity &amp; Liabilities</b>	<b>5,21,434</b>	<b>5,71,478</b>	<b>6,06,027</b>	<b>7,27,147</b>

**Cash Flow Statement (₹ Lacs)**

Y/e March	FY17	FY18	FY19	FY20E
<b>Cash Generated from Operations</b>				
<b>Profit before Tax</b>	<b>84,301</b>	<b>92,655</b>	<b>1,06,889</b>	<b>1,12,233</b>
Total Adjustments before W.C changes	5,529	-7,199	-4,337	-35
<b>Working Capital changes</b>				
Trade receivables	-3,225	-36,916	4,873	-6,418
Inventories	3,684	2,542	-8,847	-3,164
Other current and non-current assets	-362	9,674	-22,651	-7,285
Trade payables	5,772	14,636	6,889	4,127
Current and non-current financial liabilities	-1,910	6,643	-6,667	1,273
Current and non-current provisions	-254	-497	2,515	1,225
<b>Total Adjustments</b>	<b>9,234</b>	<b>-11,117</b>	<b>-28,225</b>	<b>-10,278</b>
<b>Cash generated from Operations</b>	<b>93,535</b>	<b>81,538</b>	<b>78,664</b>	<b>1,01,956</b>
Tax paid	-18,715	-18,348	-23,743	231
<b>Net cash from operating activities</b>	<b>74,820</b>	<b>63,190</b>	<b>54,921</b>	<b>1,02,187</b>
<b>Cash flows used in Investing activities</b>				
Purchase of PPE and investment property	-24,544	-19,104	-28,302	-10,853
Proceeds from sale of PPE	1,313	9,929	892	
Interest received	1,782	1,350	3,381	
Other Investing Activities	-27,229	-5,574	25,653	-1,103
<b>Net Cash from Investing Activities</b>	<b>-48,678</b>	<b>-13,399</b>	<b>1,624</b>	<b>-11,954</b>
<b>Cash flows used in Financial Activities</b>				
Proceeds from borrowings, net	24,913	470	5,575	1,563
Finance costs	-928	-1,039	-1,269	
Dividend Paid	-46,631	-46,387	-56,409	
<b>Net Cash from Investing Activities</b>	<b>-22,646</b>	<b>-46,956</b>	<b>-52,103</b>	<b>1,562.95</b>
<b>Net change in cash and cash equivalents</b>	<b>3,496</b>	<b>2,835</b>	<b>4,442</b>	<b>91,796</b>
Net foreign exchange difference	362	2	-128	
<b>Cash and cash equivalents at the beginning of the year</b>	<b>8,537</b>	<b>12,395</b>	<b>15,232</b>	<b>19,546</b>
<b>Cash and cash equivalents at the end of the year</b>	<b>12,395</b>	<b>15,232</b>	<b>19,546</b>	<b>1,11,342</b>

**Ratios**

Y/e March	FY17	FY18	FY19	FY20E
ROE %	19.02	17.28	17.34	14.43
ROCE %	18.41	16.71	16.41	13.77
ROA %	14.12	12.46	12.25	10.72
P/ E Ratio	14.97	15.48	14.84	14.13
P/ BV Ratio	2.85	2.68	2.57	2.04
EV/EBIDTA	12.06	12.01	10.42	9.12
Current Ratio	2.21	2.22	2.23	2.80
NP Margin (%)	13.15	13.30	12.52	12.52

**ANALYST CONSENSUS**

SN	Company Name	Rating	TP (Rs)	SharePrice(Rs)
1	Axis Bank	BUY	609	419
2	Bandhan Bank	Subscribe	-	-
3	Bank of Barodra	BUY	83	50
4	Bank of India	Reduce	58	70
5	Federal	BUY	73	41
6	HDFC	BUY	1406	1278
7	HDFC Bank	BUY	1124	895
8	HDFC Life Insurance Company	Hold	579	616
9	ICICI Bank	BUY	509	331
10	ICICI Prudential Life Insurance Company	Accumulate	529	498

**Investment Rating Criteria**
**Large Cap Stocks;**

Buy	-	Upside is above 10%
Hold	-	Upside is between 0% - 10%
Reduce	-	Downside is more than 0%
Neutral	-	Not Applicable

**Mid Cap and Small Cap**

Buy	-	Upside is above 15 %
Accumulate	-	Upside is between 10% - 15%
Hold	-	Upside is between 0% - 15%
Reduce/Sell	-	Downside is more than 0%

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