

BSE SENSEX
82,366

S&P CNX
25,236

CMP: INR3,745 TP: INR4,300 (+15%)

Buy



Bloomberg	KKC IN
Equity Shares (m)	277
M.Cap.(INRb)/(USDb)	1038 / 12.4
52-Week Range (INR)	4172 / 1590
1, 6, 12 Rel. Per (%)	-3/22/86
12M Avg Val (INR M)	2213

Financials Snapshot (INR b)

Y/E Mar	2025E	2026E	2027E
Net sales	106.6	126.3	147.8
EBITDA	21.8	25.9	30.3
Adj. PAT	20.6	24.7	29.2
EPS (INR)	74.2	89.0	105.5
EPS Gr. (%)	23.7	19.9	18.5
BV/Sh. (INR)	251.4	286.2	327.6

Ratios

RoE (%)	31.3	33.1	34.4
RoCE (%)	29.6	31.3	32.5

Valuations

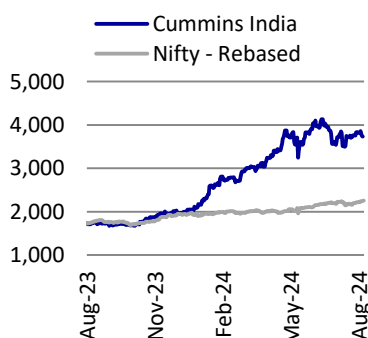
P/E (x)	50.6	42.2	35.6
P/BV (x)	14.9	13.1	11.5
EV/EBITDA (x)	46.9	39.4	33.4
Div Yield (%)	1.1	1.3	1.6

Shareholding pattern (%)

As On	Jun-24	Mar-24	Jun-23
Promoter	51.0	51.0	51.0
DII	22.4	23.0	24.0
FII	18.0	17.4	14.4
Others	8.7	8.6	10.7

FII Includes depository receipts

Stock Performance (1-year)



Witnessing a smoother transition to new norms

From our recent interaction with the management, Cummins India (KKC) appears to be well positioned to benefit from the change in emission norms for diesel gensets. The CPCB 4+ norms have been in effect since 1st Jul'24. Contrary to expectations, demand has so far remained strong despite price hikes of 15-35% across nodes. This demand is being led by the refueling of channel inventory with CPCB 4+ gensets. KKC is striving to maintain high margins as experienced during the last few quarters through cost-rationalization measures and an improved product mix. The industrial segment is benefitting from the strong construction cycle, and the distribution segment is gaining from better market reach. Exports appear to have bottomed out and could witness improvement in the coming quarters. We thus maintain our positive stance on KKC and reiterate our BUY rating on the stock with an unchanged TP of INR4,300 (based on 45x P/E on two-year forward earnings).

Powergen segment's portfolio well accepted in the market

Post-implementation of CPCB 4+ norms from 24th Jul'24, the overall genset market size has expanded 35-40%. The inventory filling exercise, coupled with normal demand across all segments, is leading to improved volumes even in a post-normal transition quarter. During FY24, the powergen segment's demand gained from: 1) pre-buying benefits, 2) higher sales from the project business for the data center, 3) a higher share of nearly 25-30% of CPCB 4+ products, and 4) the lag effect of pricing increases. Going forward, the segment will be driven by strong demand and pricing gains in FY25. In the CPCB 4+ segment, the market will stabilize in the coming quarters, with only CPCB 4+ products being available on the market. Hence, if demand remains strong, the prices of CPCB 4+ products will continue to remain elevated. Demand for data centers is growing in high double digits, and KKC's HHP portfolio is constantly benefiting from this demand. KKC remains a leader in the data center market as the reliability of gensets is being measured up to four decimal points and other local players are yet to catch up. Along with this, KKC also maintained its positive stance on demand sustainability. This was because the demand for gensets as a backup will continue to remain despite government efforts to ramp up power capacity and even with lower prices of batteries as an alternative source of power.

Distribution segment will continue growing rapidly

The distribution business is growing at a healthy pace over the past few years as the installed base is growing each year, coupled with higher utilization leading to improved demand for aftermarket solutions, which is a function of both time and usage of gensets. KKC is also benefiting from strong demand pull as well as its vast distribution network and increased penetration towards Tier 2 and Tier 3 cities. Along with this, the growth momentum of the distribution business will be supported by demand for spares and services of CPCB 4+ gensets which will be more expensive as compared to that of CPCB 2 gensets. KKC has already launched Ashwasan 4+ extended warranty for new gensets. We expect the distribution segment to report a 25% CAGR over FY24-27.

Industrial segment benefitting from growth across all sub-segments

The demand in the industrial segment is fueled by growth visible in all key segments such as construction, railways, mining, marine, and defense. In the railways segment, the demand for Diesel Electric Tower Cars (DETCs) remains strong. However, demand for hotel load converters is yet to kick in for Cummins. The company is also witnessing strong demand from the defense segment. We expect the industrial segment to clock a 14% CAGR over FY24-27.

Exports hit by weak demand and dumping from other countries

The export markets had witnessed dumping from various countries, which led to price disruption. KKC is cautiously trading this market and is trying to position its products well in each market so as to capitalize as and when demand recovers. India is already ahead of other developed countries on emission norms, and hence, KKC will try to position CPCB 4+ products in the US and Europe. We expect an export revenue of INR17.4b/INR19.6b/INR22.1b for FY25/FY26/FY27.

Cost benefits playing out well

KKC continues to remain focused on localizing the costs and intends to take the indigenization level for CPCB 4+ to nearly 75-80%. KKC implemented material cost reduction initiatives in the last few years, and the benefits of these initiatives are now visible. With commodity prices under control, the company intends to either maintain or improve its margins from current levels.

Financial outlook

We retain our estimates and expect revenue/PAT CAGR of 18%/21% over FY24-27. We keep our margin estimates of 20.4%/20.5%/20.5% intact for FY25/FY26/FY27. Our estimates factor in a gross margin of 35.6% vs. 37.8% in 1QFY25, as we expect some parts of the benefit of low-cost RM inventory to wane with the increase in commodity prices of late, particularly copper and aluminum.

Valuation and view

The stock is currently trading at 42.2x/35.6x FY26/27E EPS. We maintain our TP of INR4,300 based on 45x P/E on two year forward earnings. **Reiterate BUY.**

Key risks and concerns

Key risks to our recommendation would come from lower-than-expected demand for key segments, higher commodity prices, increased competitive intensity, and a lower-than-expected recovery in exports.

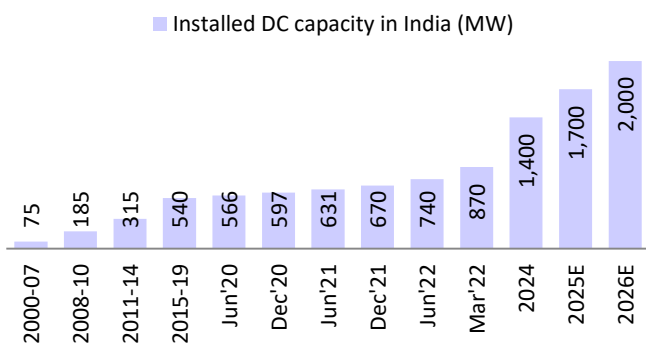
Key exhibits

Exhibit 1: Prices for CPCB 4+ products are higher by 15-35% over CPCB 2 (INR)

Node	Cummins	KOEL
15kva	3,55,000	3,60,000
20kva	4,00,000	3,40,000
30kva	6,78,000	6,25,000
40kva	7,38,000	7,67,000
58.5kva	9,50,000	8,66,000
82.5kva	11,85,000	11,80,000
125kva	12,25,000	12,50,000
160kva	16,00,000	
180kva	17,79,738	13,25,000
200kva	21,51,000	17,00,000
250kva	22,50,000	18,75,326
320kva	28,80,000	23,65,000
500kva	43,00,000	40,00,000

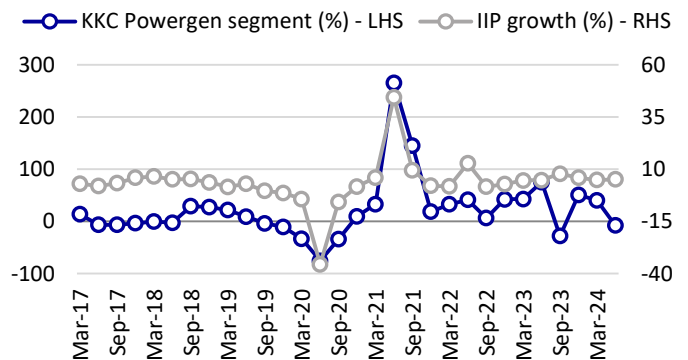
Source: Channel checks, Industry, MOFSL

Exhibit 2: Data center market is witnessing a multi-year growth in capacity ramp-up (MW)



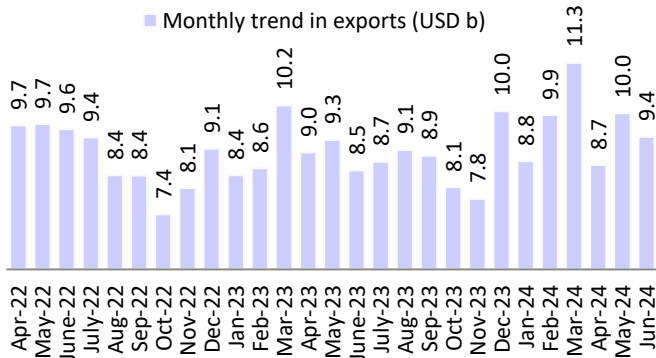
Source: CRISIL, MOFSL

Exhibit 3: Powergen segment sales of KKC have a high correlation with IIP growth (%)



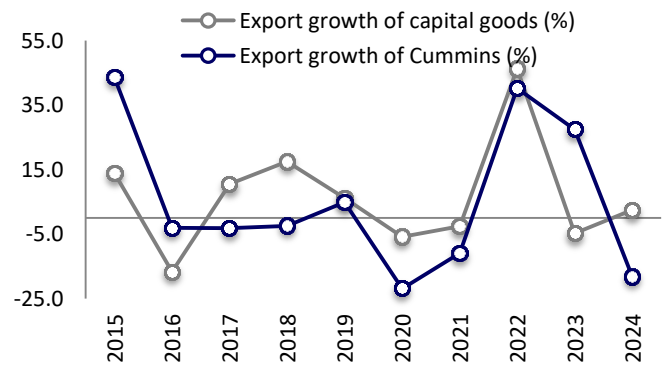
Source: CRISIL, MOFSL

Exhibit 4: Engineering goods exports have started recovering from the lows of Apr'24 and we expect to see a gradual improvement as macro challenges ebb (USD b)



Source: CRISIL, MOFSL

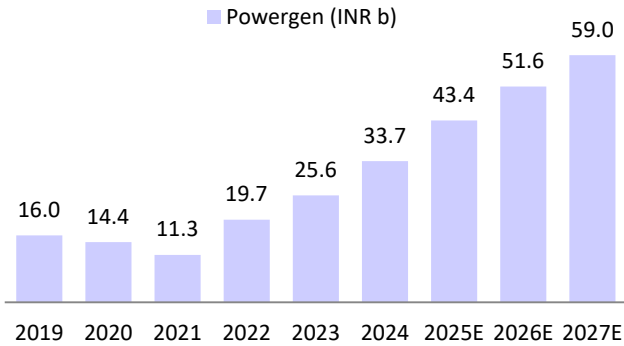
Exhibit 5: KKC's exports have a strong correlation with India's overall exports and have historically mirrored the trend in export of capital goods (%)



Source: CRISIL, MOFSL

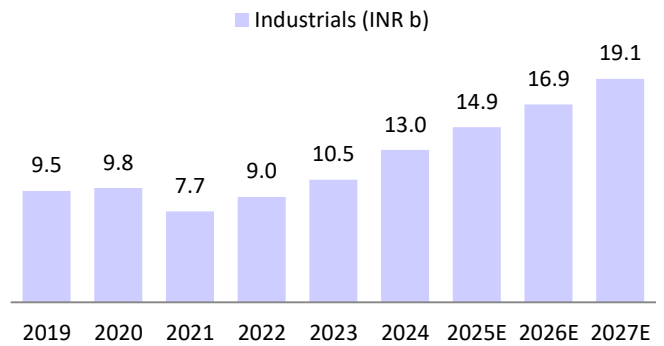
Financial outlook

Exhibit 6: We expect a 21% CAGR in Powergen segment over FY24-FY27 (INR m)



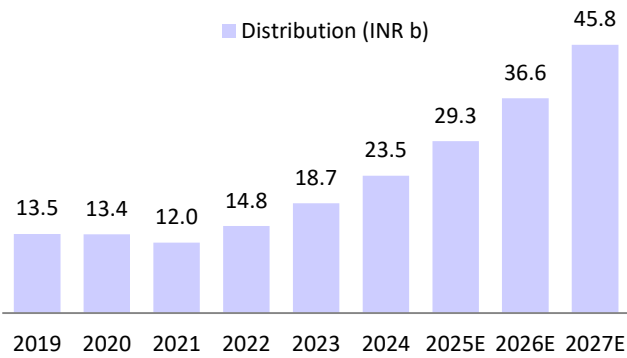
Source: Company, MOFSL

Exhibit 7: We expect a 14% CAGR in Industrial segment over FY24-FY27 (INR m)



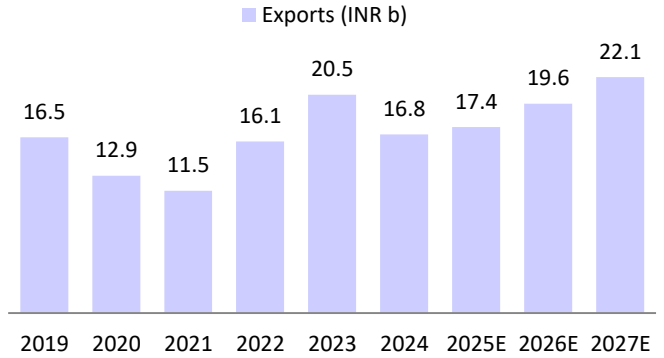
Source: Company, MOFSL

Exhibit 8: We expect a 25% CAGR in Distribution segment over FY24-FY27 (INR m)



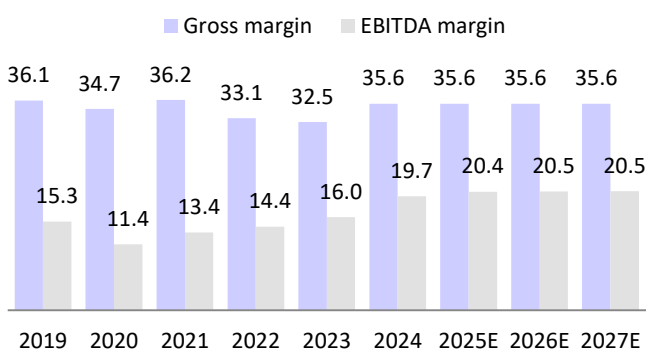
Source: Company, MOFSL

Exhibit 9: Exports to clock 10% CAGR on a low base over FY24-FY27E (INR m)



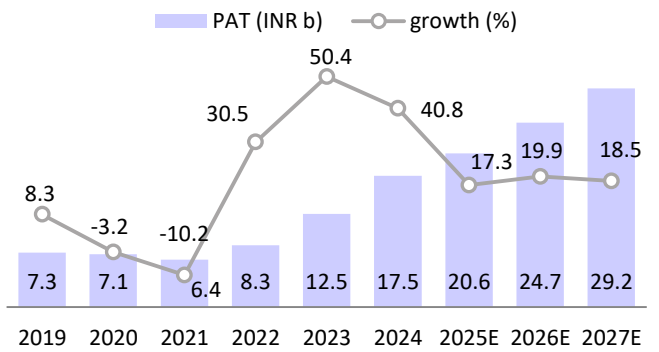
Source: Company, MOFSL

Exhibit 10: We expect stable gross margin over FY25-27 (%)

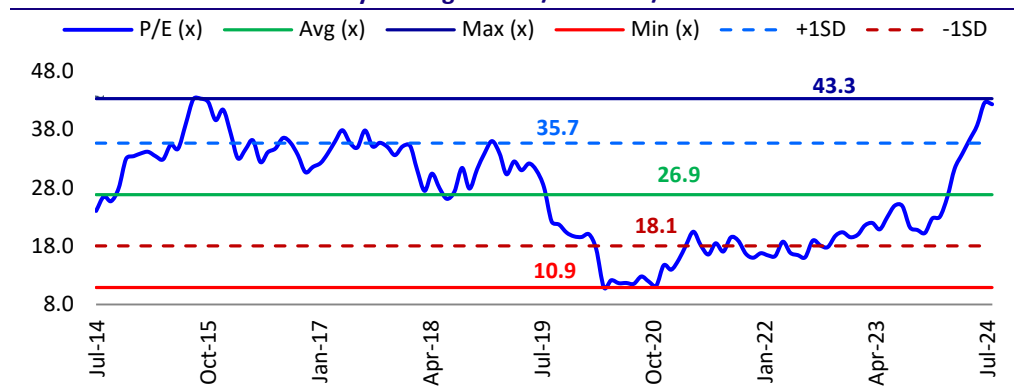


Source: Company, MOFSL

Exhibit 11: PAT to clock 19% CAGR over FY24-27E (INR m)



Source: Company, MOFSL

Exhibit 12: The stock is currently trading at ~42x/35x FY26/27E EPS

Source: Bloomberg, MOFSL

Valuation and view

The stock is currently trading at 42.2x/35.6x FY26/27E EPS. We maintain our TP of INR4,300 based on 45x P/E on two year forward earnings. **Reiterate BUY.**

Key risks and concerns

- **Faster energy transition toward cleaner sources.** A sooner-than-expected transition toward clean sources of fuel in India and the company's inability to keep pace with new products. However, the company is continuously working on new products and has access to technology for products related to natural gas gensets or hydrogen-based gensets.
- **Slowdown in exports.** Its margins have a high correlation with exports. A prolonged slowdown in export markets can impact margins adversely.
- **Increasing competition.** Increased competition from domestic and international players can result in pricing pressure, thereby impacting margins over the medium to long term.

Financials and valuations

Income Statement							(INR m)
Y/E March	FY21	FY22	FY23	FY24	FY25E	FY26E	FY27E
Total Income from Operations	43,292	61,404	77,444	89,586	1,06,607	1,26,343	1,47,755
Change (%)	-16.1	41.8	26.1	15.7	19.0	18.5	16.9
Total Expenditure	37,497	52,553	65,018	71,972	84,818	1,00,466	1,17,427
% of Sales	86.6	85.6	84.0	80.3	79.6	79.5	79.5
EBITDA	5,795	8,851	12,426	17,614	21,789	25,877	30,328
Margin (%)	13.4	14.4	16.0	19.7	20.4	20.5	20.5
Depreciation	1,255	1,340	1,405	1,576	1,625	1,942	2,284
EBIT	4,540	7,511	11,022	16,037	20,164	23,935	28,044
Int. and Finance Charges	162	115	158	268	295	295	295
Other Income	3,702	2,875	4,200	5,678	5,786	7,150	8,754
PBT bef. EO Exp.	8,080	10,271	15,064	21,448	25,656	30,791	36,503
EO Items	0	1,059	-143	-17			
PBT after EO Exp.	8,080	11,330	14,921	21,431	25,656	30,791	36,503
Total Tax	1,901	2,463	3,623	4,824	6,170	7,404	8,778
Tax Rate (%)	23.5	21.7	24.3	22.5	24.0	24.0	24.0
Reported PAT	6,179	8,866	11,298	16,606	19,486	23,386	27,725
Adjusted PAT	6,350	8,284	12,460	16,623	20,567	24,663	29,234
Change (%)	-10.2	30.5	50.4	33.4	23.7	19.9	18.5
Margin (%)	14.7	13.5	16.1	18.6	19.3	19.5	19.8

Balance Sheet							(INR m)
Y/E March	FY21	FY22	FY23	FY24	FY25E	FY26E	FY27E
Equity Share Capital	554	554	554	554	554	554	554
Total Reserves	43,513	47,972	53,125	61,077	69,124	78,794	90,260
Net Worth	44,068	48,527	53,680	61,631	69,678	79,348	90,814
Total Loans	156	3,933	3,500	1,000	1,000	1,000	1,000
Deferred Tax Liabilities	823	971	1,057	941	941	941	941
Capital Employed	45,047	53,430	58,237	63,572	71,619	81,289	92,755
Gross Block	20,337	22,278	23,458	26,183	30,213	35,147	40,500
Less: Accum. Deprn.	8,684	10,024	11,429	13,005	14,505	16,447	18,731
Net Fixed Assets	11,654	12,254	12,030	13,178	15,708	18,700	21,769
Capital WIP	1,275	608	413	968	608	608	608
Total Investments	13,892	15,939	21,042	21,927	21,036	21,036	21,036
Curr. Assets, Loans & Adv.	29,950	39,230	41,625	48,884	57,488	68,464	81,525
Inventory	5,578	7,288	8,862	9,369	12,209	14,469	16,921
Account Receivables	10,745	12,473	15,927	20,776	21,925	25,984	30,387
Cash and Bank Balance	9,652	14,267	13,808	15,047	19,336	23,250	28,648
Loans and Advances	1,517	2,646	539	505	601	712	833
Other Current Assets	2,459	2,556	2,488	3,188	3,417	4,050	4,736
Curr. Liability & Prov.	11,922	14,621	16,883	21,413	23,220	27,518	32,182
Other Current Liabilities	9,723	12,362	14,497	18,602	19,949	23,642	27,648
Provisions	2,199	2,258	2,386	2,810	3,271	3,877	4,534
Net Current Assets	18,029	24,609	24,741	27,472	34,268	40,946	49,343
Misc Expenditure	199	21	11	27	0	0	0
Appl. of Funds	45,047	53,430	58,237	63,572	71,619	81,289	92,755

Financials and valuation

Ratios							
Y/E March	FY21	FY22	FY23	FY24	FY25E	FY26E	FY27E
Basic (INR)							
EPS	23	30	45	60	74	89	105
Cash EPS	27.4	34.7	50.0	65.7	80.1	96.0	113.7
BV/Share	159.0	175.1	193.7	222.3	251.4	286.2	327.6
DPS	14.0	10.5	25.0	35.2	41.3	49.5	58.7
Payout (%)	62.8	32.8	61.3	58.7	58.7	58.7	58.6
Valuation (x)							
P/E	163.9	125.6	83.5	62.6	50.6	42.2	35.6
Cash P/E	136.8	108.1	75.1	57.2	46.9	39.1	33.0
P/BV	23.6	21.4	19.4	16.9	14.9	13.1	11.5
EV/Sales	23.8	16.8	13.3	11.5	9.6	8.1	6.9
EV/EBITDA	177.9	116.4	82.9	58.3	46.9	39.4	33.4
Dividend Yield (%)	0.4	0.3	0.7	0.9	1.1	1.3	1.6
FCF per share	24.3	28.1	23.7	36.0	54.6	64.7	79.2
Return Ratios (%)							
RoE	14.8	17.9	24.4	28.8	31.3	33.1	34.4
RoCE	13.9	16.8	21.0	28.1	29.6	31.3	32.5
RoIC	15.9	27.4	36.6	51.1	54.4	54.2	54.0
Working Capital Ratios							
Fixed Asset Turnover (x)	2.1	2.8	3.3	3.4	3.5	3.6	3.6
Asset Turnover (x)	1.0	1.1	1.3	1.4	1.5	1.6	1.6
Inventory (Days)	47	43	42	38	42	42	42
Debtor (Days)	91	74	75	85	75	75	75
Creditor (Days)	82	73	68	76	68	68	68
Leverage Ratio (x)							
Current Ratio	2.5	2.7	2.5	2.3	2.5	2.5	2.5
Interest Cover Ratio	28.1	65.3	69.8	59.9	68.5	81.3	95.2
Net Debt/Equity	-0.5	-0.5	-0.6	-0.6	-0.6	-0.5	-0.5

Cash Flow Statement								(INR m)
Y/E March	FY21	FY22	FY23	FY24	FY25E	FY26E	FY27E	
OP/(Loss) before Tax	8,711	9,614	11,631	17,773	25,068	30,263	36,083	
Direct Taxes Paid	-832	-2,543	-3,520	-4,972	-6,170	-7,404	-8,778	
CF from Operating incl EO	7,879	7,071	8,111	12,801	18,898	22,859	27,305	
(Inc)/Dec in FA	-1,140	705	-1,540	-2,812	-3,768	-4,934	-5,353	
Free Cash Flow	6,738	7,776	6,571	9,989	15,131	17,925	21,952	
(Pur)/Sale of Investments	-75	-7,597	376	-2,967	892	0	0	
Others	1,371	1,030	1,857	3,106	0	0	0	
CF from Investments	155	-5,862	694	-2,673	-2,876	-4,934	-5,353	
Dividend Paid	-3,881	-4,435	-6,237	-8,593	-11,438	-13,717	-16,259	
Others	-4,844	3,661	-607	-2,733	-295	-295	-295	
CF from Fin. Activity	-8,724	-774	-6,844	-11,326	-11,733	-14,011	-16,553	
Inc/Dec of Cash	-691	434	1,960	-1,198	4,289	3,914	5,398	
Opening Balance	4,538	9,652	14,267	13,808	15,047	19,336	23,250	
Other adjustments	5,804	4,181	-2,420	2,437				
Closing Balance	9,652	14,267	13,808	15,047	19,336	23,250	28,648	

Investment in securities market are subject to market risks. Read all the related documents carefully before investing

NOTES

Explanation of Investment Rating	
Investment Rating	Expected return (over 12-month)
BUY	>=15%
SELL	< - 10%
NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

*In case the recommendation given by the Research Analyst is inconsistent with the investment rating legend for a continuous period of 30 days, the Research Analyst shall be within following 30 days take appropriate measures to make the recommendation consistent with the investment rating legend.

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