

**IDEA2ACT : Cummins India**

Reco Price	12-months Target Price
BUY @ ₹ 756-788	₹ 914

Cummins India (KKC) is a 51%-owned subsidiary of Cummins Inc, USA and is the leading manufacturer of diesel engines used in generators in India. Cummins has eight manufacturing facilities in Maharashtra and Gujarat. The company produces ~40,000 engines annually for the industrial sector and ~10,000 engines annually for power generation. The product range includes diesel engines from 15kVA to 2,000kVA for various power/industrial uses. The business is organised into four segments: power generation, industrial engines, distribution, and exports.

Well placed to leverage the capex upcycle

Bullish on domestic demand outlook: Cummins is enthused with the sustained improvement in demand across most end-markets which has led to a strong recovery in data-centres, industrial, infra aiding Powergen, while the recovery in construction and mining is driving growth in the industrial segment, offsetting Railways, which is trailing by 6-8 months. Early indicators of revival in capex are stronger than in the previous cycle. Structural tailwinds to data-centres, construction (infra), PLI-linked manufacturing capex and recovery in pockets of real estate, with a relevant and competitive product portfolio, favourably place Cummins to ride the recovery wave in the capex cycle.

Long-term growth levers - Well oiled: Cummins is set to benefit from the rising adoption of emission control across global markets, with its refreshed and cost-competitive portfolio. Strong domestic manufacturing capabilities and consolidation in the engine space are expected to drive long-term growth for Cummins (exports & domestic). Further, access to global technology platforms will enable the company to offer hybrid/green power solutions (battery/hydrogen-led) as & when the domestic market is ready.

Focus on growth with profitability

- The company has completed major capex across all plants and is looking to invest only in new product development over the next couple of years. Cummins will continue with its healthy dividend pay-outs (70-80%).



- The company believes that its differentiated products and focus on the margin profile of products (along with cost-saving programmes like ACE) will enable improvement in return ratios, with recovery in the industry capex.
- The company is aiming for double-digit growth over 5-7 years for the base business (12-14% Cagr), with enough projects to add momentum.

Technically, the stock is trading in a strong higher top higher bottom chart structure, indicating a positive bias according to the dow theory. The stock has given a flag pattern breakout on the daily chart and is showing positive momentum on the MACD Histogram. **If the current impulse move accentuates the way it should, we expect Cummins India trend higher and test our immediate target price of Rs 914 during the next 1-Year. We recommend a Buy Rating on the stock.**

Previous Recommendations:

Date	Stock Name	Reco Price	Target Price	P & L %	Status
26-May-20	Emami Limited	205	241	18%	Target Achieved
2-Jul-20	ITC	201	235	17%	Target Achieved (₹225 + Dividend ₹10.15 exdate 6th Jul 2020)
2-Jul-20	NHPC	19.5	24	23%	Target Achieved
15-Jul-20	HCL Tech	610	695	14%	Target Achieved
30-Jul-20	INDIGO	920	1074	17%	Target Achieved
11-Aug-20	JB Chemicals & Pharmaceuticals	750	867	16%	Target Achieved
13-Aug-20	UPL	480	555	16%	Target Achieved
18-Aug-20	Crompton Consumer	256	299	17%	Target Achieved
28-Aug-20	Sudarshan Chemical	474	557	18%	Target Achieved
14-Sep-20	Apollo Tyres	114.5	138	21%	Target Achieved
1-Oct-20	Manappuram Finance Ltd	155.5	186	13%	Open
16-Oct-20	Cyient Ltd	370	440	19%	Target Achieved
28-Oct-20	Amara Raja Batteries	770	898	17%	Target Achieved
2-Nov-20	SIS (I) Ltd	363	423	17%	Target Achieved
3-Dec-20	Bharat Electronics	112	139.0	24%	Target Achieved
16-Dec-20	RBL Bank	233	273	17%	Target Achieved
6-Jan-21	Alembic Pharmaceuticals	1075	1252	-14%	Open
15-Jan-21	Hindustan Petroleum Corporation Ltd	229	274	6%	Open
5-Feb-21	State Bank of India	351.5	429	11%	Open



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