

Cummins India

BSE SENSEX

28,078

S&P CNX

8,683

CMP: INR858
TP: INR865 (+1%)
Neutral

Motilal Oswal values your support in the Asiamoney Brokers Poll 2016 for India Research, Sales and Trading team. We request your ballot.



Bloomberg	KKC IN
Equity Shares (m)	277.2
M.Cap.(INR b)/(USD b)	229.0 / 3.4
52-Week Range (INR)	1,247 / 747
1, 6, 12 Rel. Per (%)	-1/-25/-65
Avg Val, (INR m)	255
Free float (%)	49.0

Financials & Valuations (INR b)

Y/E Mar	2016	2017E	2018E
Net Sales	47.0	50.8	58.2
EBITDA	7.7	8.6	10.0
Adj PAT	7.5	7.9	8.9
EPS (INR)	27.2	28.6	32.0
EPS Gr. (%)	(4.0)	5.2	11.8
BV/Sh. (INR)	114.4	125.9	138.7
RoE (%)	24.9	24.2	24.2
RoCE (%)	25.2	24.1	24.4
P/E (x)	30.9	29.3	26.2
P/BV (x)	7.3	6.7	6.1

Estimate change

TP change

Rating change



Results disappoint; cutting estimates, maintain Neutral

- Operating performance disappointing:** Cummins India's (KKC) 1QFY17 revenue declined 4% YoY to INR12.6b (below our estimate of INR13.6b). EBITDA declined 7% YoY to INR2.1b (lower than our estimate of INR2.2b). EBITDA margin shrank 50bp YoY to 16.4% (in line with our estimate of 16.5%). PAT declined 14% YoY to INR1.8b (below our estimate of INR2.2b). Net profit miss was also on account of lower dividend income from its JV, Valvoline Cummins (INR140m v/s INR190m in 1QFY16).
- Revenue de-growth led by sharp decline in export revenue:** KKC's revenue decline was primarily due to a 22% YoY decline in export revenue to INR4.1b. Domestic revenue was up 9% YoY, aided by the industrial business (up 33% YoY) and automotive revenue (up 15% YoY). Exports declined on account of depressed demand for LHP/HHP gensets from key markets like LATAM, Africa, the Middle East, China and Europe. KKC has maintained its FY17 guidance for the export segment at flat to negative growth and has marginally raised its domestic revenue growth guidance to 10-12% from earlier guidance of 8-12%.
- Gross margin decline led by weak product mix and decline in exports:** Gross margin declined 50bp YoY to 36.2%, led by adverse product mix and lower exports. Exports contributed 34% of total revenue against 42% in 1QFY16. Exports enjoy better margins than domestic sales.
- Premium valuations; retain Neutral:** Given the weak 1QFY17 results, we are lowering our EPS estimates by 3% for FY17 and by 4% for FY18. The stock trades at 29.3x FY17E EPS of INR28.6 and at 26.2x FY18E EPS of INR32. Given the stock's premium valuations, we maintain **Neutral**, with a revised target price of INR865 (27x FY18E EPS). Key risks to our rating are (a) faster than expected revival in the domestic power generation market, and (b) sharp rise in commodity prices, leading to pick-up in LHP exports.

Quarterly Performance (Standalone)

(INR Million)

Y/E March	FY16				FY17				FY16		FY17		Vs Est. 1Q	Var. (%)
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE	1Q	2Q	3Q	4Q		
Sales	13,101	11,977	11,469	10,614	12,590	13,065	12,419	12,991	47,161	50,811	13,555			
Change (%)	25.3	4.7	5.9	-6.4	-3.9	9.1	8.3	22.4	7.0	7.7	3.1			
EBITDA	2,217	2,007	1,550	1,773	2,063	2,285	2,217	2,327	7,853	8,638	2,237			
Change (%)	23.3	5.7	-18.2	0.8	-6.9	13.8	43.0	31.3	3.7	23.5	2.6			
As of % Sales	16.9	16.8	13.5	16.7	16.4	17.5	17.8	17.9	16.7	17.0	16.5			-0.7%
Depreciation	203	200	201	206	206	245	258	180	810	889	230			
Interest	24	2	2	24	21	24	24	24	96	96	2			
Other Income	595	600	566	513	416	618	600	631	2,279	2,265	619			
PBT	2,585	2,405	1,912	2,056	2,252	2,634	2,535	2,755	9,226	9,919	2,623			-14.1%
Tax	472	419	288	386	440	527	507	510	1,561	1,984	472			
Effective Tax Rate (%)	18.2	17.4	15.1	18.8	19.5	20.0	20.0	18.5	16.9	20.0	18.0			
Adjusted PAT	2,114	1,986	1,624	1,670	1,812	2,107	2,028	2,245	7,665	7,935	2,151			-15.8%
Change (%)	(0.3)	(1.9)	(10.3)	(12.3)	(14.3)	6.1	24.9	34.4	(2.5)	3.5	2.1			
Reported PAT	2,114	1,986	1,624	1,670	1,812	2,107	2,028	2,245	7,665	7,935	2,151			-15.8%
Change (%)	(0.3)	(1.9)	(10.3)	(12.3)	(14.3)	6.1	24.9	34.4	(2.5)	3.5	2.1			

E: MOSL Estimates

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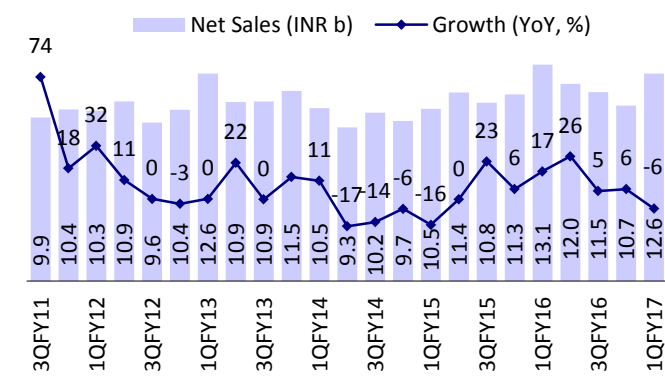
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1QFY17 operating performance below estimates; sluggish exports impacts the results

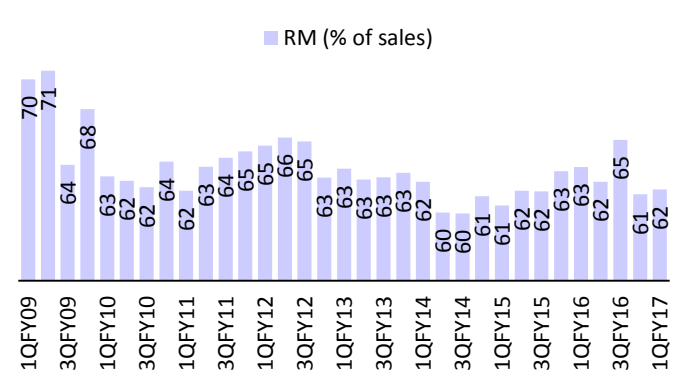
- **Operating performance for 1QFY17 below estimates:** Cummins India's revenue at INR12.6b (-4% YoY) came in below our estimate of INR13.6b and EBITDA at INR2.1b (-7% YoY) was also lower than our estimate of INR2.2b. EBITDA margin stood at 16.4% (down 50bp YoY) in line with our estimate of 16.5%. PAT came in at INR1.8b (-14% YoY) as compared to our estimate of INR2.2b. Net profit miss was also on account lower dividend income from its JV (INR140m vs INR190m in 1QFY16).
- RM cost as % of revenues increased to 63.8% (vs 63.3% YoY), while staff cost increased 4.6% YoY to INR1.0b. RM cost increase was on account of adverse product mix and decline in export revenues. Export revenue decline 22% YoY. Management expects operating margins (excluding other income) to remain stable YoY going ahead.
- Other income declined 30% YoY to INR416m, lower than estimates of INR619m. Decline in other income was on account of lower dividend income from its JV companies (INR140m vs INR285m in 1QFY16)
- Net profit stood at INR1.8b (down 14.3% YoY) led by decline in other income (down 30% YoY) and increase in tax rate (19.5% vs 18.2%). Tax rate increase was primarily on account of increase in sales from domestic segment and decline in exports revenue.

Exhibit 1: 1QFY17 revenues down 4% YoY; impacted by sharp decline in export revenue (down 22%)



Source: Company, MOSL

Exhibit 2: RM costs increase led by adverse product mix and decline in exports



Source: Company, MOSL

Revenue de-growth led by sharp decline in export revenues

- KKC's 1QFY17 revenue has registered decline of 4% YoY to INR12.6b impacted by decline in the export revenue (-22% YoY). Exports revenue decline was primarily on account weak global economic scenario. Exports demand from Africa, Middle East, Latin America and China has been impacted significantly. Domestic revenues were up 9% YoY supported by industrial business (up 33% YoY) and automotive business (+15% YoY). Management has increased its FY17 guidance for domestic segment to 10-12% from 8-12% earlier.
- Management sounded positive about the domestic market and expects growth in power gen as well as the industrial segment to remain positive led by economic cycle recovery. Sectors like mining, railways, infrastructure and data center segment have started to pick up.

- Exports decline 22% YoY to INR3.2b led by depressed demand for LHP/HHP gensets from key markets like LATAM, Africa, Middle East, China, and Europe. On the back of weak end markets, it expects exports revenue to remain flat to negative. Management has maintained its guidance for FY17.

Exhibit 3: RM cost as well as staff cost increase YoY whereas other expenses were under control

INR M	1QFY15	2QFY15	3QFY15	4QFY15	1QFY16	2QFY16	3QFY16	4QFY16	1QFY17
Raw Materials	6,382	7,060	6,666	7,159	8,342	7,470	7,351	6,545	8,030
Staff Costs	903	1,017	1,018	998	1,027	1,085	1,091	1,039	1,040
Other Expenses	1,417	1,467	1,244	1,419	1,595	1,416	1,317	1,362	1,457
Total	8,702	9,544	8,927	9,567	10,964	9,970	9,759	8,945	10,527
% of Revenues									
Raw Materials	60.6	61.7	61.6	63.2	63.5	62.4	64.1	61.4	61.8
Staff Costs	8.6	8.9	9.4	8.8	7.8	9.1	9.5	9.8	9.0
Other Expenses	13.6	12.8	11.5	12.5	12.1	11.8	11.5	12.8	12.7
% YoY									
Raw Materials	-1.6	28.1	8.3	20.2	31.7	5.8	10.1	6.5	3.2
Staff Costs	8.7	16.1	16.6	22.2	13.7	6.6	7.3	4.1	4.6
Other Expenses	3.9	11.0	0.1	14.9	12.5	(3.5)	5.8	-4.1	-8.4

Source: Company, MOSL

Valuation and view

- Over the past few years, KKC has seeded various growth levers (like LHP gensets for domestic / exports, Reconditioning and Refurbishment, etc). We expect the revenue contribution of these segments to increase from 11% of in FY14 to 27% in FY19E.
- **Key triggers are:** i) incremental success in LHP genset (both domestic and exports), which contributed INR5.3b to revenues in FY16 / INR8b in FY17; internal targets are ~INR15-20b over the next 3-5 years ii) pick-up in the recon business with CPCB-II implementation (facilities have been recently established in Phaltan) and iii) accelerated indigenization of CPCB-2 compliant products supporting margins.
- Given weak 1QFY17, we are lowering our EPS estimates marginally by 3/4% for FY17/. At CMP, the stock trades at 29.3x/26.2x its FY17E/FY18E EPS of INR28.6/INR32.0. Given the stock's premium valuation, we maintain **Neutral** with a revised target price of INR865 (27x FY18E EPS).

Key Highlights of the concall

- Rail is a big opportunity from the QSK50 series engine which will add INR0.5b in sales each year and also exploring other options with rail.
- Expect industrial segment growth to be much faster than power generation growth over the medium term
- Domestic power gen demand is being driven by Data centers, Infra (road, ports), residential realty (not much in commercial), hospital and Pharma
- While Q117 was a weak quarter(-4% YoY), do expect growth to revive in the coming quarters
- Not seeing any sign of improvement overseas markets - QoQ growth was driven by supply chain initiatives and not reflective of the overall market
- HHP engines exports will remain flat over the medium term as globally capex remains quite weak.

- To be at INR4b in FY17 as they complete the India Technical center and will come down to INR2b thereafter
- Rental income from the India Office Campus to start at INR0.10-12b each
- Cummins Technical Centre - this is being set up jointly with CIL and Cummins Inc. with an investment of INR10b and to be operational from Jan17; will positively impact CIL on margins

Exhibit 4: Change in estimates (INR m)

	New estimates			Old Estimate		% Change in Estimate	
	FY16E	FY17E	FY18E	FY17E	FY18E	FY17E	FY18E
Sales	47,043	50,811	58,249	51,332	59,541	-1%	-2%
EBITDA	7,736	8,638	10,006	8,631	10,244	0%	-2%
Margin (%)	16.4%	17.0%	17.2%	16.8%	17.2%	0.2%	0.0%
PAT	7,543	7,935	8,871	8,153	9,235	-3%	-4%
EPS (INR)	27.2	28.6	32.0	29.4	33.3	-3%	-4%

Source: Company, MOSL

Exhibit 5: Segmental Revenue (INR m)

	FY12	FY13	FY14	FY15	FY16	FY17E	FY18E
Power	12,562	16,065	11,150	10,550	12,500	13,500	15,525
- MHP / HHP	12,562	16,065	10,550	9,800	11,250	11,000	13,024
- LHP		nm	600	750	1,250	2,500	2,501
Industrial	5,673	5,060	5,248	5,070	5,600	7,280	8,736
Auto	2,837	1,659	1,162	1,100	700	1,050	1,575
Distribution	7,699	9,080	9,090	9,050	10,000	10,800	12,420
- Spare Parts	7,699	9,080	9,090	8,800	9,600	10,000	11,619
- Recon		nm	nm	250	400	800	801
Domestic	28,800	32,400	27,001	25,990	28,800	32,630	38,256
Exports	11,720	12,690	11,990	17,253	16,670	16,765	18,517
- HH / HHP	9,520	8,810	8,190	9,003	7,770	6,685	7,317
- MHP / LHP	2,200	3,880	3,800	8,250	8,900	10,080	11,200
Net Sales	41,172	45,894	39,767	44,058	47,043	50,811	58,249
Growth (%)	2%	11%	-13%	11%	7%	8%	15%
Existing Business	38,322	41,210	34,591	33,961	36,493	37,431	43,747
% YoY	-3.0%	7.5%	-16.1%	-1.8%	4.8%	2.6%	16.9%
New Businesses (LHP, Recon)	2,200	3,880	4,400	9,250	10,550	13,380	14,502
% YoY			13.4%	110.2%	14.1%	26.8%	8.4%
RM Costs (%)	64.3%	62.9%	61.0%	61.8%	62.9%	62.8%	62.8%
Contribution Margins (%)	35.7%	37.1%	39.0%	38.2%	37.1%	37.2%	37.2%
EBITDA margin (%)	16.9%	18.2%	17.5%	16.7%	16.4%	17.0%	17.2%
Net Working Capital (Days)	63.4	65.5	81.0	82.9	79.1	79.1	79.1
Net Cash / (Debt), INR M	2,088	3,547	865	799	897	1,459	2,950

Source: MOSL, Company

Financials and valuations

Income Statement							(INR Million)	
Y/E March	2011	2012	2013	2014	2015	2016	2017E	2018E
Total Revenues	40,425	41,172	45,894	39,767	44,058	47,043	50,811	58,249
Change (%)	39.5	1.8	11.5	-13.4	10.8	6.8	8.0	14.6
Raw Materials	25,804	26,454	28,874	24,241	27,225	29,592	31,911	36,583
Staff Cost	2,546	3,039	3,386	3,396	3,936	4,156	4,344	5,190
Other Expenses	4,441	4,706	5,285	5,162	5,547	5,559	5,917	6,471
EBITDA	7,634	6,972	8,349	6,968	7,351	7,736	8,638	10,006
% of Total Revenues	18.9	16.9	18.2	17.5	16.7	16.4	17.0	17.2
Depreciation	366	420	473	528	797	810	889	1,031
Other Income	804	1,234	1,577	1,777	2,866	2,274	2,265	2,351
Interest	48	54	46	42	45	96	96	96
PBT	8,024	7,732	9,407	8,175	9,374	9,104	9,919	11,230
Tax	2,114	2,334	2,774	2,175	1,515	1,561	1,984	2,358
Rate (%)	26.3	30.2	29.5	26.6	16.2	17.1	20.0	21.0
Adjusted PAT	5,910	5,398	6,633	6,000	7,859	7,543	7,935	8,871
Extra-ordinary Income (net)	0	514	1,008	0	0	0	0	0
Reported PAT	5,910	5,913	7,641	6,000	7,859	7,543	7,935	8,871
Change (%)	33.1	0.0	29.2	-21.5	31.0	-4.0	5.2	11.8

Balance Sheet							(INR Million)	
Y/E March	2011	2012	2013	2014	2015	2016	2017E	2018E
Share Capital	396	554	554	554	554	554	554	554
Reserves	17,667	19,877	23,313	25,097	28,311	31,159	34,341	37,899
Net Worth	18,063	20,432	23,867	25,652	28,865	31,713	34,895	38,454
Loans	183	147	0	0	0	0	0	0
Deferred Tax Liability	-187	-70	328	465	631	817	817	817
Capital Employed	18,058	20,509	24,195	26,117	29,496	32,530	35,712	39,271
Gross Fixed Assets	9,144	9,703	10,415	15,120	18,830	19,917	23,917	25,417
Less: Depreciation	4,734	5,054	5,480	5,928	6,491	7,301	8,189	9,221
Net Fixed Assets	4,411	4,649	4,934	9,192	12,340	12,616	15,728	16,196
Capital WIP	0	497	1,208	958	1,706	5,470	5,470	5,470
Investments	7,255	5,976	6,276	4,954	4,650	3,354	2,354	2,354
Curr. Assets	16,804	19,826	24,278	22,625	24,521	24,327	26,061	31,226
Inventory	5,190	5,676	5,304	5,513	6,823	6,003	6,303	7,244
Debtors	7,182	6,783	8,550	7,820	9,355	9,506	9,981	11,472
Cash & Bank Balance	1,037	2,235	3,547	865	799	897	1,459	2,950
Loans & Advances	3,297	5,082	6,788	8,405	7,472	7,363	7,731	8,886
Other Assets	98	50	90	22	73	559	587	674
Current Liab. & Prov.	10,411	10,438	12,501	11,611	13,721	13,238	13,900	15,976
Current Liabilities	7,109	6,702	7,719	6,910	8,520	8,294	8,708	10,009
Provisions	3,302	3,736	4,782	4,701	5,202	4,944	5,191	5,967
Net Current Assets	6,393	9,388	11,777	11,014	10,800	11,090	12,161	15,250
Application of Funds	18,058	20,509	24,195	26,117	29,496	32,530	35,713	39,271

E: MOSL Estimates

Financials and valuations

Ratios

Y/E March	2011	2012	2013	2014	2015	2016	2017E	2018E
Basic (INR)								
Adj EPS	21.3	19.5	23.9	21.6	28.3	27.2	28.6	32.0
Cash EPS	22.6	21.0	25.6	23.5	31.2	30.1	31.8	35.7
Book Value	65.2	73.7	86.1	92.5	104.1	114.4	125.9	138.7
DPS	10.7	10.7	13.0	13.0	14.0	14.0	14.7	16.5
Payout (incl. Div. Tax.)	50.3	50.0	47.2	60.1	49.4	51.5	51.5	51.5

Valuation (x)

P/E				37.3	28.5	30.9	29.3	26.2
Cash P/E				34.3	25.9	27.9	26.4	23.5
EV/EBITDA				32.0	30.4	30.0	26.8	23.0
EV/Sales				5.7	5.2	5.1	4.7	4.0
Price/Book Value				8.7	7.8	7.3	6.7	6.1
Dividend Yield (%)				1.6	1.7	1.7	1.8	2.0

Profitability Ratios (%)

RoE	35.1	30.7	34.7	24.2	28.8	24.9	24.2	24.2
RoCE	35.0	28.0	30.0	24.4	29.0	25.2	24.1	24.4
RoIC	58.0	41.2	44.4	29.1	26.4	25.4	25.2	25.8

Turnover Ratios

Debtors (Days)	65	60	68	72	78	74	74	74
Inventory (Days)	47	50	42	51	57	47	47	47
Creditors. (Days)	64	46	46	45	51	44	44	44
Asset Turnover (x)	2.2	2.0	1.9	1.5	1.5	1.4	1.4	1.5

Leverage Ratio

Debt/Equity (x)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
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Cash Flow Statement

(INR Million)

Y/E March	2011	2012	2013	2014	2015E	2016	2017E	2018E
PBT before EO Items	8,024	7,732	9,407	8,175	9,374	9,104	9,919	11,230
Depreciation	366	420	473	528	797	810	889	1,031
Interest	-76	-126	46	-432	-172	96	96	96
Direct Taxes Paid	-2,181	-2,155	-2,377	-2,308	-1,853	-1,561	-1,984	-2,358
(Inc)/Dec in WC	(1,356)	(825)	(1,562)	(1,607)	(815)	(287)	(605)	(1,694)
CF from Operations	4,777	5,046	5,987	4,356	7,331	8,162	8,314	8,304
EO Income	-485	-621	0	-746	-1,993	0	0	0
CF from Oper. Incl. EO Items	4,293	4,425	5,987	3,611	5,338	8,162	8,314	8,304
(Inc)/Dec in FA	(1,486)	(2,288)	(1,469)	(4,678)	(3,304)	(5,500)	(4,000)	(1,500)
Free Cash Flow	2,807	2,137	4,518	-1,068	2,035	2,662	4,314	6,804
Investment & Others	1,041	3,448	138	5,528	2,458	2,132	1,000	0
CF from Investments	-445	1,160	-1,331	850	-846	-3,368	-3,000	-1,500
(Inc)/Dec in Network	0	0	998	0	0	(178)	0	0
(Inc)/Dec in Debt	0	0	0	0	0	0	0	0
Interest Paid	-48	-54	0	-42	-45	0	0	0
Dividend Paid	-3,002	-3,452	-4,195	-4,216	-4,216	-4,518	-4,752	-5,313
Others	0	0	-147	0	0	0	0	0
CF from Fin. Activity	(3,049)	(3,506)	(3,344)	(4,258)	(4,261)	(4,695)	(4,752)	(5,313)
Inc/Dec of Cash	798	2,079	1,312	203	231	99	562	1,491
Add: Beginning Balance	239	156	2,235	662	568	799	898	1,459
Closing Balance	1,037	2,235	3,547	865	799	898	1,459	2,950

Corporate profile

Company description

Cummins India is a 51 % subsidiary of Cummins Inc. USA. Cummins India is the country's leading manufacturer of diesel and natural gas engines for power generation, industrial and automotive markets. Cummins in India is a group of eight legal entities (including Cummins India) across 200 locations in the country with a combined turnover of USD1.5b in 2013 and employing close to 9,000 individuals.

Exhibit 1: Sensex rebased

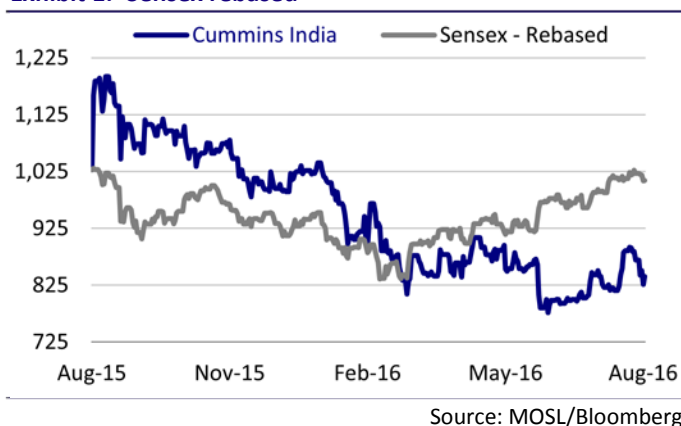


Exhibit 2: Shareholding pattern (%)

	Jun-16	Mar-16	Jun-15
Promoter	51.0	51.0	51.0
DII	19.4	18.3	18.2
FII	16.3	16.5	16.9
Others	13.3	14.2	13.9

Note: FII Includes depository receipts

Source: Capitaline

Exhibit 4: Top management

Name	Designation
Anant J Talaulicar	Chairman & Managing Director
K Venkata Ramana	Company Secretary

Source: Capitaline

Exhibit 3: Top holders

Holder Name	% Holding
Life Insurance Corporation Of India	4.3
Franklin Templeton Investment Funds	2.5
PineBridge Investments GF Mauritius Limited	1.4
Reliance Capital trustee Co. Ltd A/C Relianceequity Opportunities Fund	1.4
General Insurance Corporation Of India	1.0

Source: Capitaline

Exhibit 5: Directors

Name	Name
Antonio Leita	Edward Phillip Pence*
Mark Smith	Nasser Munjee*
P S Dasgupta	Prakash M Telang*
Rajeev Bakshi	Suzanne Wells*
Venu Srinivasan	Nicole McDonald
Pradeep Kumar Bhargava*	

*Independent

Exhibit 6: Auditors

Name	Type
Price Waterhouse	Statutory

Source: Capitaline

Exhibit 7: MOSL forecast v/s consensus

EPS (INR)	MOSL forecast	Consensus forecast	Variation (%)
FY17	28.6	28.3	1.1
FY18	32.0	33.5	-4.5

Source: Bloomberg

Our recent reports on Cummins India

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18 November 2014

Cummins India

MOTILAL Oswal

The InSights

Phalanx Mega Site Visit Update

We recently visited Cummins Phalanx mega site. Our key takeaways:

Power Generation segment plays a critical role in the Indian Power Generation Business Unit (PGBU) at Phalanx manufactures the S, S & L and L-series (30-330kva) diesel engines (DGG). It has an installed capacity of 24,000 engine. Cummins has 20% share of exports to over 120 countries from this S&L and L-series. It is designated as the parent's sole sourcing hub. Monthly production has declined over the last 2 years to 2,040 DGG units. Cummins exports units only on order basis. Cummins is a very mature key and market. The company expects revenue growth to increase to 3,500 units from March 2014, but there is unlikely to be a new growth opportunity in the near term. Cummins has a total capacity of 140,000 to 175,000, up from 100,000 in FY14. The management expects FY15 to increase by 10% to give it 20% growth of K&C's exports in FY14, which could be at the risk given the said position (10% of total exports) in this S&L and L-series.

■ **Tata Cummins Unit (TCU)** played a support in **PTPL Mega Power Generation, Automotive and Industrial** segments, TCU is a 50:50 of Tata Motors and Cummins Inc. has two facilities at Phalanx. These manufacture the L and L-series of engines (30-330kva). TCU has worked closely with K&C and played a key role in supporting CP&C's consistent expansion in India. Engines from this unit are used in both the export and domestic segments. Cummins and Tata Motors are the top 2 suppliers in the Power Generation, Power Generation and Industrial segments. We understand that given the large capacity (12.1m for the S-series in Phase I and 65,000 for L-series / 65,000 units for B-Series in Phase II), TCU is amongst the lowest cost manufacturers of these engines in India. As per our interactions, we are given to understand that while there has been a pickup in the domestic automotive and industrial segments, the Power Generation segment remains subdued.

■ **India Parts Distribution Center (PTDC)** to increase efficiencies in sourcing: This is a warehousing and logistic facility for Cummins and for Cummins products. It is spread over 100,000 and distributes genuine spare parts across the country via over 100 dealers (70% of sales) and direct sales (15%) and direct OEM's (15%). The facility focgs PTDC priority, including the one in Phalanx. The facility works as a cost center for the Distribution Business Unit and serves to reduce the cost of spare parts from vendors, thereby ensuring the competitive advantage and ensuring quality of the spare parts. We note that the services (ARC) Arcus is the replacement of the Distribution BU.

■ **Valuation and FY15** We expect to report revenue growth of 33% in FY17 and 17% in FY18 largely supported by 20% CAGR in export revenues in FY17/FY18. Margins are seen improving to 18.2% in FY17 / 19.3% in FY18, versus the 16.5% in FY14 (FY15 FY16 FY17 FY18) and based on the cost effective and innovation initiatives. We have a **Neutral rating** with a target price of INR 552.

The Cummins Phalanx mega site in Maharashtra is one of the largest and oldest of 232 retrofitted and also converted to Cummins engines and has been the largest and oldest of 232 retrofitted and also converted to Cummins engines and has been the largest and oldest of 232 retrofitted and also converted to Cummins engines.

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Analyst Sharma (anusha.sharma@MotilalOswal.com) or 011 2622 3840

Amish Shah (Amish.Shah@MotilalOswal.com) or 011 2623 5120

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Hanging for All
 Energy Efficiency
 Distribution
 Power Availability
 7th Pay Commission
 Rising Disposable Income
 Brand Extension
 Aesthetic
 Product Sourcing

Change is in the air

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The advertisement features a central tree graphic with a grey trunk and branches. The tree is divided into three main colored sections: a red section on the left for 'WINDOW AC', a light blue section in the center for '5 STAR / INVERTER', and a purple section on the right for 'SPLIT AC'. Each section contains several leaves, each representing a different brand of air conditioner. The brands listed are: Voltas, LG, Samsung, Hitachi, Daikin, Pioneer, Panasonic, Gree, Electrolux, Toshiba, Videocon, Carrier, Blue Star, and Lloyd Electrical. A white window air conditioner is shown in the red section, and a white split air conditioner is shown in the purple section. The central light blue section contains a white inverter unit. At the top right, the text 'Thematic | April 2020' is visible. At the bottom, the text 'Room air conditioners | At an inflection point' is written in a large, bold, green font. Below this, the contact information for Anshu Sharma is provided: 'Anshu Sharma (Anshu@Sharma@MotilalOswal.com) | +91 22 3982 5449'. At the very bottom, a disclaimer states: 'Investors are advised to refer through Important disclosures made at the last page of the Research Report. Motilal Oswal research is available on www.motilaloswal.com/ResearchDisclosures, Bloomberg, Thomson Reuters, Factset and S&P Capital.

MOTILAL OSWAL

December 2024
Update | Sector: Capital Goods

Capital Goods

India Transmission

Ankur Sharma (ankursharma@MotilalOswal.com), +91 22 3982 5449
Amit Shah (Amit.Shah@MotilalOswal.com), +91 22 3029 5126

Our recent reports on other Capital Goods companies

MOTILAL OSWAL

20th EDITION
HAVELIS INDIA
The InSites

High degree of automation across production lines

Key value drivers – **innovative, stringent quality checks, process improvements**

We visited **four** **assembly and switches plant** in **Bangal, Visnadi, Purnia**. The unit manufactures the entire range of **switches, cables, and wires** for the power sector.

High degree of automation, stringent quality checks, continuous process improvements and in-house sourcing of goods, modules and components are the key focus areas. The unit has **invested in manufacturing and testing** and **its design engineers are key contributors to its market share gains and industry-leading margins.** We return **ROI**, **WACC** and **NPV** of **₹102.20, 10.20% and 10.20%** respectively.

Market Value added in the **Assembly Business** is **₹1,000 crore** and **₹1,000 crore** in the **Switches Business**. **₹1,000 crore** in the **Assembly Business** and **₹1,000 crore** in the **Switches Business**. **₹1,000 crore** in the **Assembly Business** and **₹1,000 crore** in the **Switches Business**.

We organised an investor visit to **Haveli's Bangal plant in Himachal Pradesh**. The plant manufactures **segmental switchgear** and **switches**, which are (i) **flexibly** **more profitable** **segmental** **(39% margin contribution in switchgear)**, and (ii) **only export** **wherever** **Shouras** **is the market leader** **(MCCB)**. **ROI** and **NPV** **₹102.20, 10.20% and 10.20%** respectively.

High degree of automation visible across assembly and switchgear plants in India. The **Bangal plant** is among the most automated **switchgear/switches plants** in India.

60-70% of the **switchgear manufacturing process** is **automated**, with **only the test and packing** **requiring** **manual intervention**. **Automation** **has** **enabled** **the** **unit** **to** **achieve** **high** **quality** **standards** **and** **high** **productivity** **and** **low** **costs** **of** **production**.

Highly **flexible** **three** **fully** **automated** **switchgear assembly machines**, which have made the **process** **faster** **and** **reduced** **leadtime** **by** **15** **employees**.

High **quality** **control** **and** **stringent** **quality** **checks** **are** **critical** **to** **maintain** **product** **quality** **and** **reliability**. The **"Haveli"** **brand** **command** **a** **premium** **and** **its** **products** **are** **considered** **reliable** **and** **durable**. This is **reflected** **in** the **strict** **quality** **checks** **put** **in** **place** **on** the **final** **product**. **In** **case** **of** **switchgear**, **checks** **are** **done** **for** **switchgear** **as** **well** **as** **for** **potential** **fires** **in** **mechanical** **and** **electrical** **parts** **during** **the** **manufacturing** **process**.

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[illegible]

MOTILAL OSWAL

CG Consumer Electricals

Quality Management

Wide Distribution Network

Robust Product Portfolio

Established Brands

Geared for growth

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