

Pick of the week



Cummins India Ltd

Recommendation

BUY

Time Period

12 Months

Current Price

₹ 881

Target Price

₹ 1030

Potential Upside

16.9%

Investment Argument

- We note prospects of CIL gaining in terms of margin and market share in the domestic market once CPCB-IV norms get implemented.
- The impending transition in emission norms would boost pricing power of CIL as transition to CPCB-IV is much steeper than the transition to CPCB-II and peers to CIL do not have margin to cede this time.
- Data center market envisaged to accelerate over CY21-23. We note that CIL has a dominant market share in the segment both in India and globally.
- The recent disclosure of related party transactions suggests that royalty has declined by 70 bps of sales in FY21. This boosts prospects of margin recovery by 70 bps.
- We increase near-term estimates by 5% led by initial benefit of CP-CB-IV transition for domestic and datacenter sales. We assign higher 24x multiple (on Sept 2023E EPS) to factor in benefits of CPCB-IV transition on exports starting FY24.