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Capital goods: Private capex to drive the next leg of growth

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ANAND RATHI

Digitalisation, de-carbonization, de-globalization, these 3Ds constitute the macro themes globally and are especially relevant in India today. These themes have been brewing but factors such as global warming, Covid-19 and the China+1 were catalysts. The effect is that India today is on the path to its next industrial revolution, Industry 4.0. Multi-nationals are either ramping up capacity or setting up plants to transform India into another export hub for their global supply chains; small industries are moving up to mid-size, and mid-size to large, in the process creating momentum in the capex cycle. This capex cycle is expected to be driven by core and new-age industries with impetus from public and private spending. However, till now, demand from many core industries has been subdued (cement, metal, mining, textiles, chemicals, pharma, etc.); meanwhile, demand from power T&D, urban infrastructure and the Railways has been robust. The latter falls under the purview of the government and has seen record investment. This, we believe has created the perfect condition for pulling in private investment

We are seeing the following opportunities for companies in this space (details in subsequent slides)

- Opportunities of Rs300bn in Vande Bharat till FY26. We estimate this based on the FY22 budget target and tenders awarded till now. Of this, we estimate Rs120bn potential for propulsion systems
- Opportunities of Rs1.5trn in inter-state transmission systems till FY27, based on the CEA's latest electrification plan. This includes sub-systems and transmission lines
- Rs4.4trn potential from the PLI scheme till FY28. We estimate total investments under PLI scheme at Rs5.5trn (Rs1.1trn already made)
- \$6bn Industry 4.0 in FY21. NASSCOM estimated the size of this investment for Industry 4.0 technologies in India. Of this, 21% was spent on IoT solutions and 7% on robots and co-bots.
- Opportunities of Rs376bn in data centres till FY26. This is the development cost based on past transactions and an estimated 1,800MW of cumulative capacity by FY26. Of this, 45% would be in power distribution and electrification

While the opportunity is immense, as we have not considered EV ecosystems, hydrogen-fuel cells, battery-storage solutions, etc., India Inc. has a strong enough balance sheet to undertake this investment. In the last 10 years of cumulative gross assets added by India Inc., the highest was in FY23 across sectors, followed by FY22. Thus, we see an upward momentum in investments. We are initiating coverage on Siemens, ABB and Cummins as they have the widest range of products and solutions to cater to the swelling industrial demand and sets base to explore various industrial segments

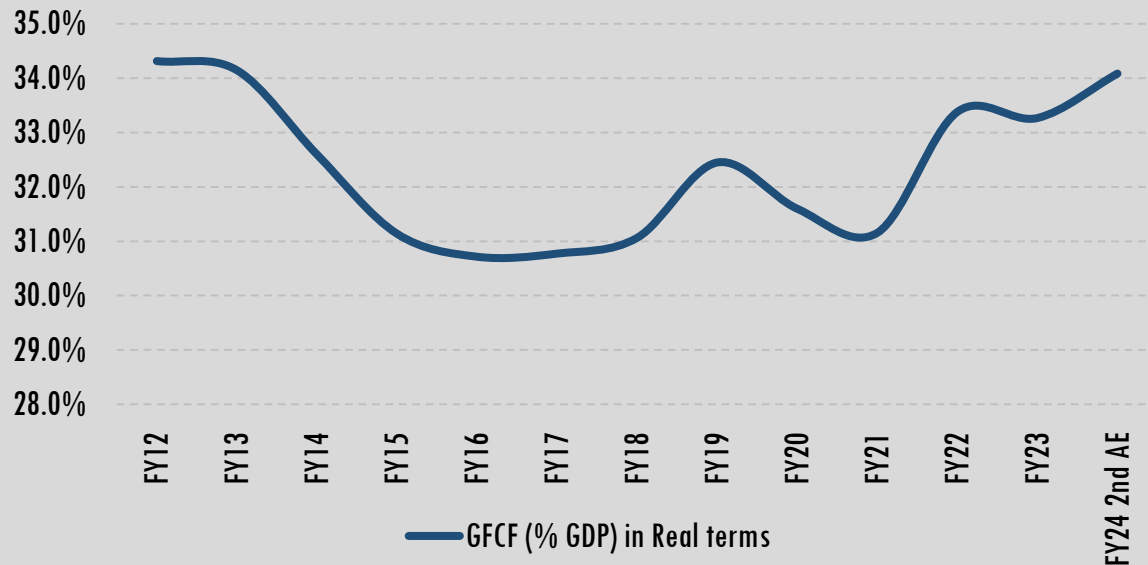
Public capex driving growth in recent years

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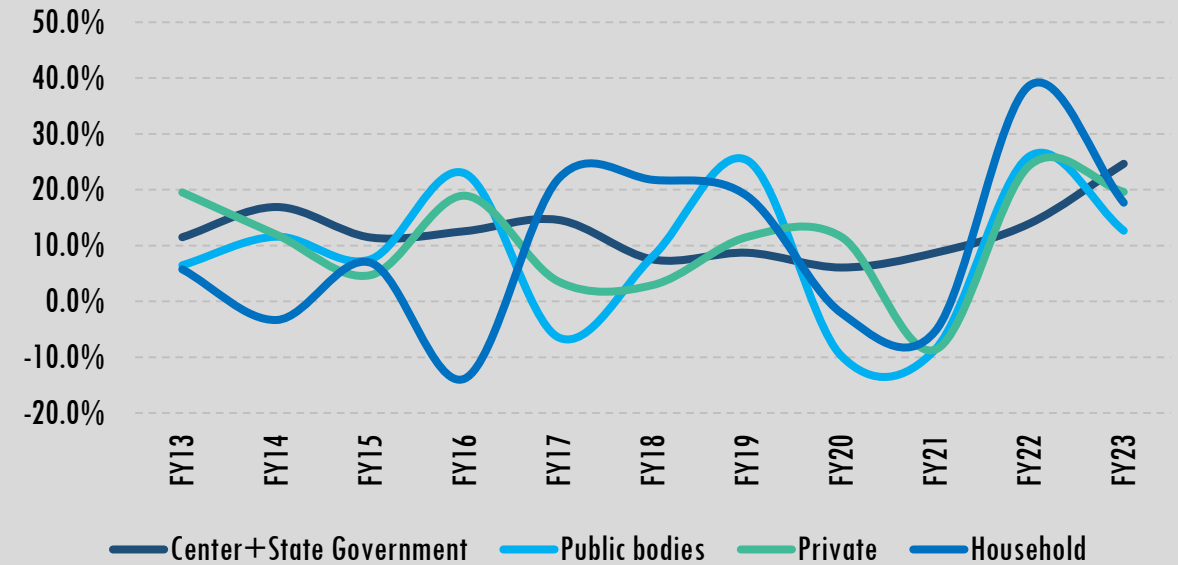
The Indian economy has grown significantly in recent years, growth coming chiefly from higher government spending. Gross Fixed Capital Formation (GFCF), as percent of GDP, touched a many-year high in Q3 FY24. Such higher spending in turn started, in the otherwise soft capital goods sector, a new cycle based on expectation of growth coming not only from traditional core industries but also from new-age ones. The government-induced capex was expected to “crowd-in” private investment, and we are now seeing green-shoots in private capex

We believe that this cycle for capital goods would be of many years and longer than previous ones. This time, growth would also be driven by new-age themes such as energy efficiency, de-carbonisation and digitalisation. These themes, as a result, are driving demand for technologically-advanced products in power transmission, renewables, the Railways and metro-rail, data centres, digital industries, power solutions, etc.

GFCF (as percent of GDP) is at a many-year high



Growth in GFCF has been driven by the Central and state governments

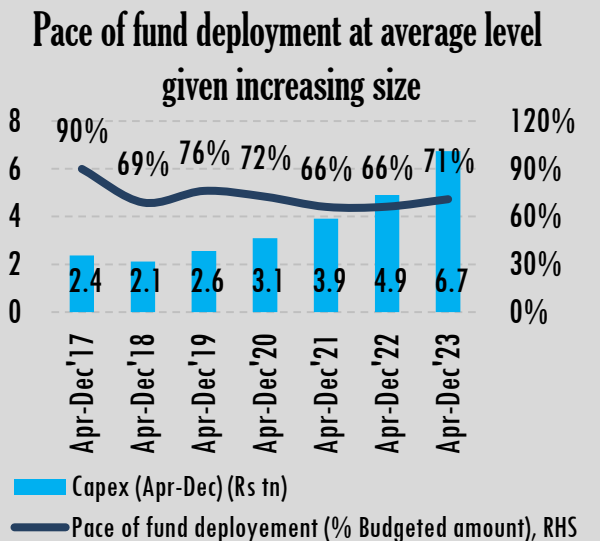
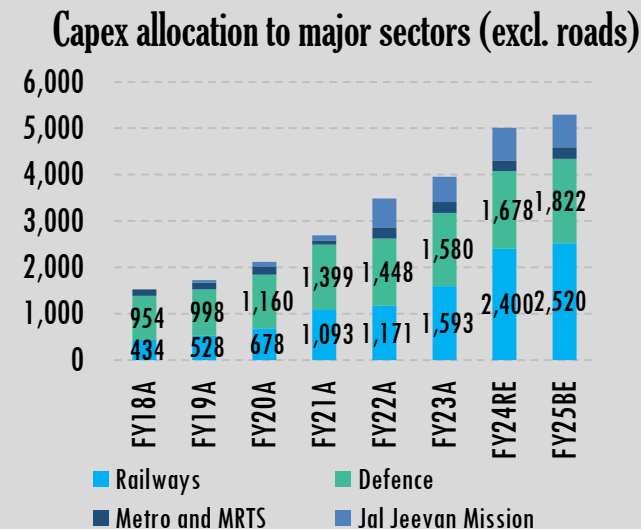
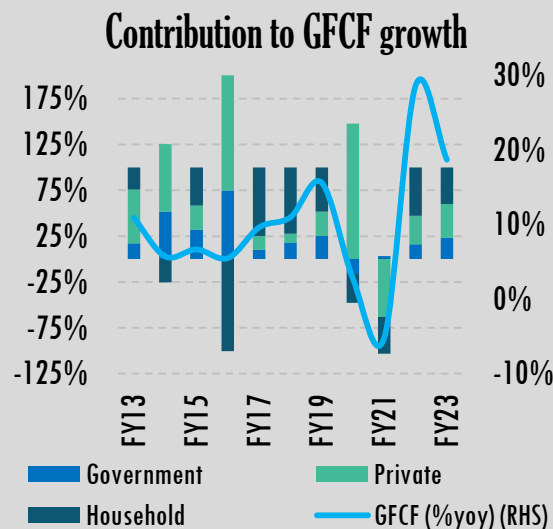
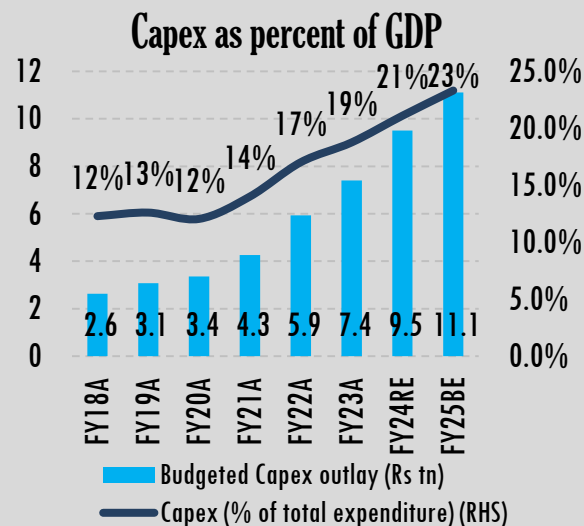


Government spending focused on the Railways and Defence

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- Budgetary capex has increased from 12% of expenditure in FY18 to 23% in FY25. For absolute capex allocated, this translates to a 23% CAGR over FY18-25. The effect on GFCF growth is such that for FY23, the contribution of Government GFCF growth to the overall growth increased the most (7%), followed by Private GFCF growth (6%). These growth came out of the share of Household GFCF growth which in absolute terms forms the highest component.
- In 9M FY24 the government deployed funds faster than in the last few years. Much of it went to the Railways and Defence. This has resulted in more orders across industries. In 9M FY24, cumulative order growth of companies, which are beneficiaries to government spending, was 46% y/y. Excl. L&T, cumulative order growth was 40%.

Orders (Rs bn)	9M FY24	9M FY23	(%.Y/Y)
ABB India	92	77	19
Siemens	158	145	9
Larsen & Toubro	2,307	1,544	49
K E C International	130	155	-16
BEL	268	37	624
BHEL	360	152	137
GE T&D India	45	19	141
Thermax	70	65	8
Voltamp Transformers	14	10	44
Praj Industries	31	41	-25
Bharat Dynamics	17	51	-68
CG Power	70	58	21
Hitachi Energy	41	56	-26
RVNL	83	99	-16
IRCON	5	6	-17
ITES	12	23	-47
Total	3,703	2,538	46%



Railways upgrading in progress

In its National Rail plan, the Indian Railways has talked of expected investment in various components of rail infra. Much of this capex would be directed at rolling stock, with the primary aim of increasing the Railways' share of freight from 27% now to 45% by 2030. As a result, Siemens won one of its largest orders: Rs260bn in CY23 for 1,200 electric locomotives of 9,000 HP.

In the passenger segment, the focus is on Vande Bharat trains. Per Budget FY22, a further 400 train-sets are expected to be operational by FY26. In the past, Alstom as a sole bidder, and the BHEL-Titgargh Wagon JV and Transmash Holding-RVNL JV have won Vande Bharat train-set orders. Medha, Siemens, BEM and Stadler are others that bid in partnerships. We estimate, based on the government's target for FY26, a Rs300bn opportunity for train-sets and, within that, Rs120bn for propulsion systems. For the propulsion system, traction equipment providers such as Siemens, ABB, CG Power, TD Power, etc., stands to benefit.

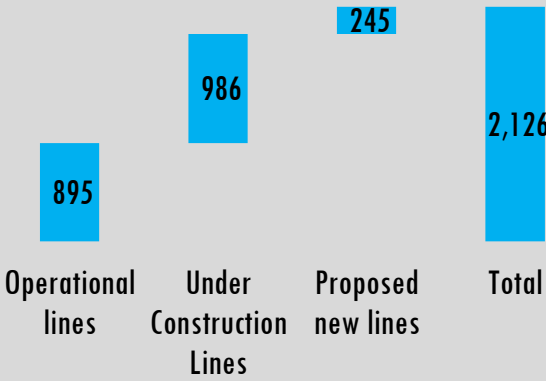
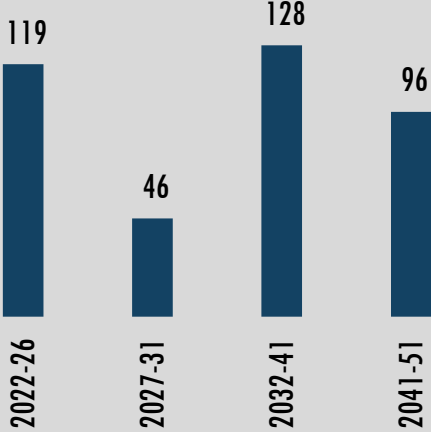
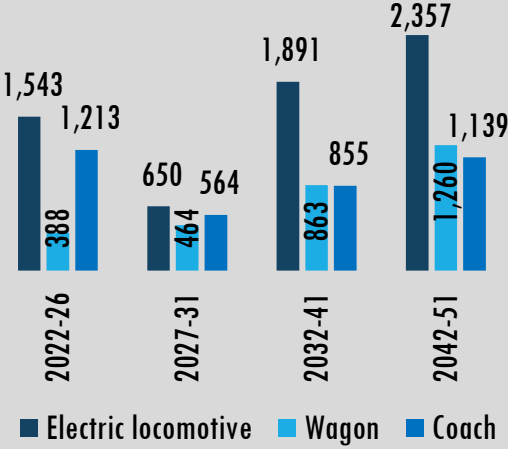
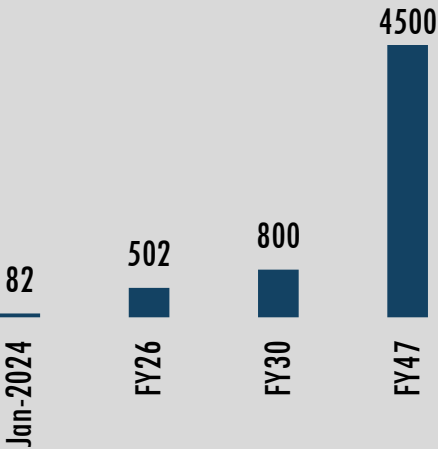
	Amount	Unit
Vande Bharat train tenders awarded till now	302	No.s
Yet to be awarded (based on FY22 Budget announcement)	200	No.s
Expected cost of 200 trains (assuming average Rs1.5bn per train)	300	Rs bn
Propulsion system opportunity; @ 40% of total cost (based on past orders)	120	Rs bn

Vande Bharat trains' cumulative operational target

Rolling stock capex planned (Rs bn)

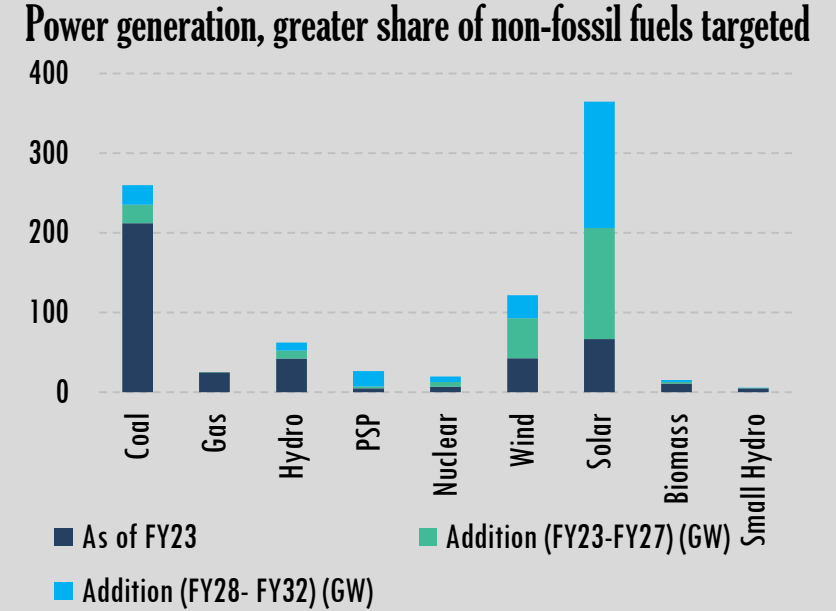
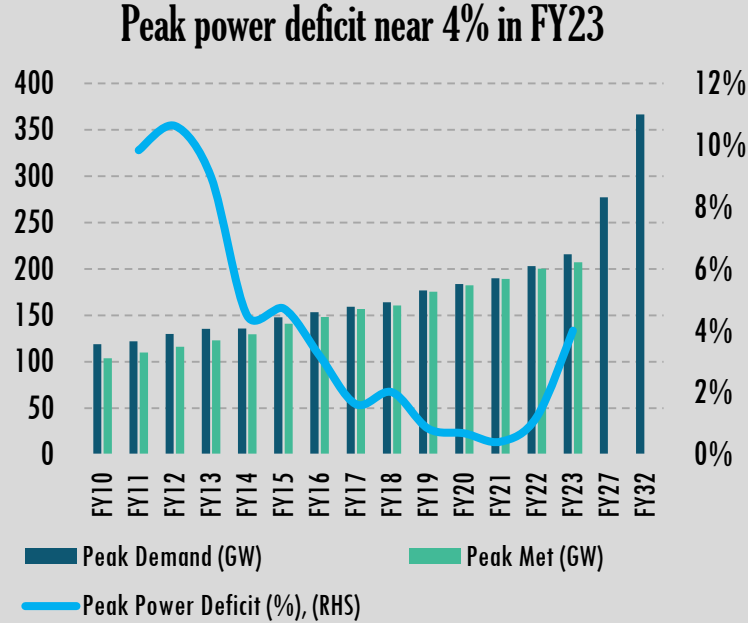
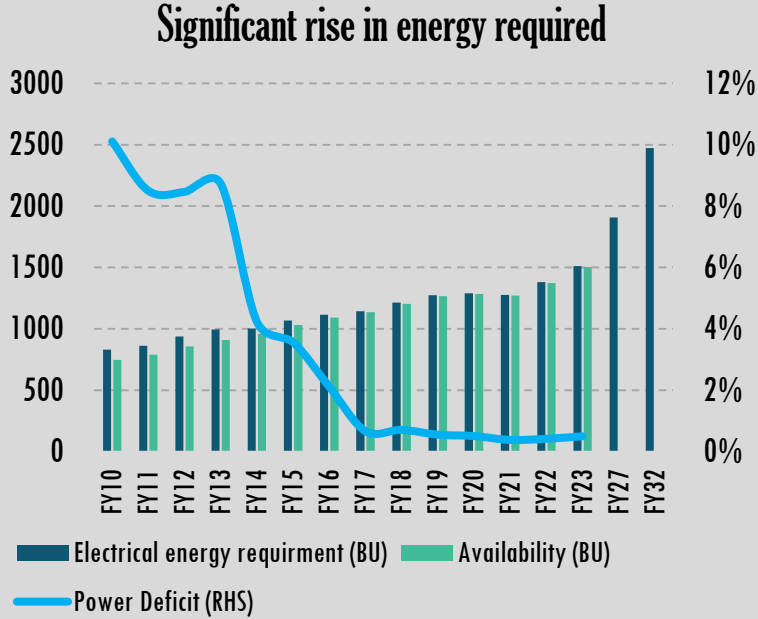
Signalling infra capex (est., Rs bn)

Metro-rail network (km)



Power generation - rising share of renewables

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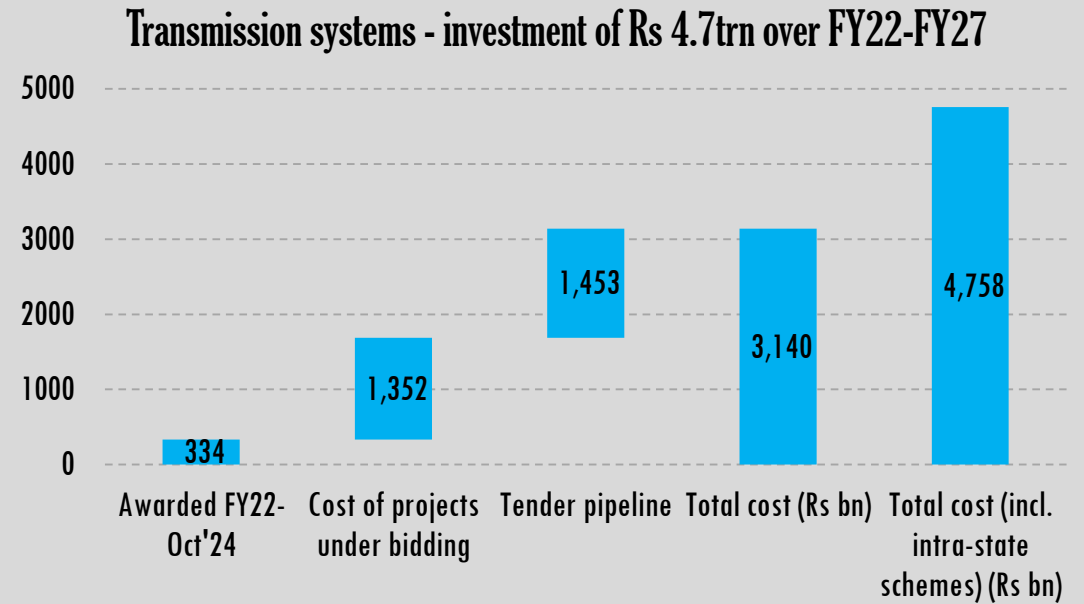
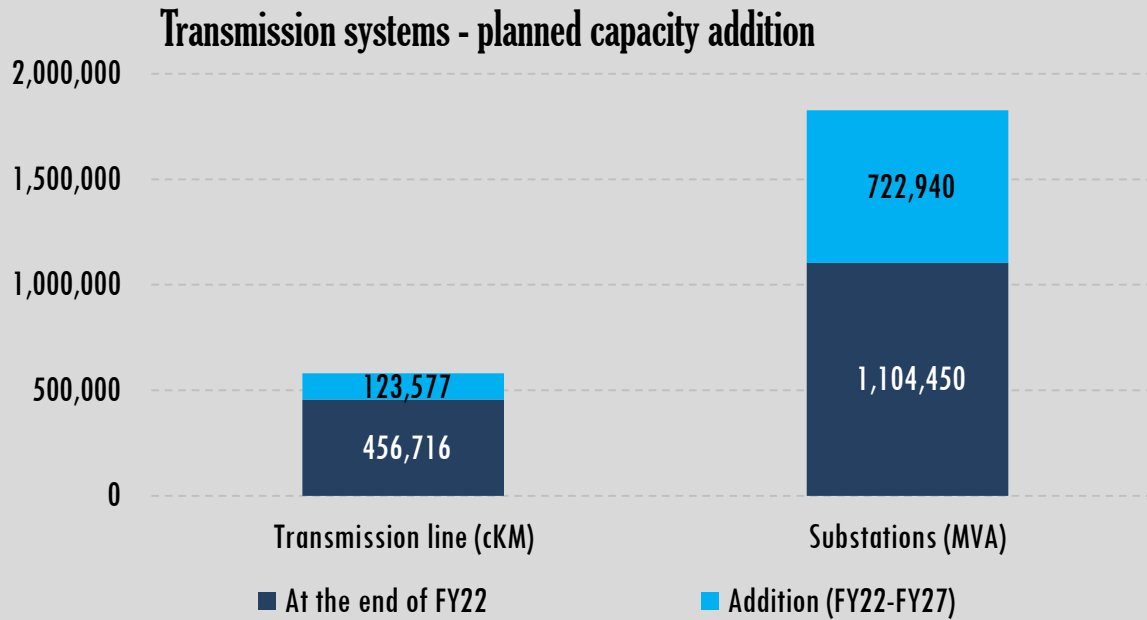
Source: CEA; NEP; Anand Rathi Research

As an economy grows, so does its power consumption. In India, power consumption is increasing on account of growing urbanisation and greater inclusivity. Although, the country's energy requirement is largely being met, the deficit, however, increased to 0.5% in FY23 from 0.4% in FY22. A major concern, however, is peak power deficit, which rose to 4% in FY23 from 1.2% in FY22. This increases the chances of grid failure and, therefore, blackouts. To alleviate this, 250GW generation capacity is to be added by FY27 and 500GW by FY32 according to the National Electricity Plan. Much of the focus has been on renewable energy sources. In Oct'23, RE generation capacity was 178GW (42% of installed capacity), and the plan is to take this to 500GW (i.e., 50%) by 2030. Within RE, solar capacity addition is expected to be the most, in line with India's sustainability goal, supported by its geographical advantage

RE is good for reducing carbon. However, it does pose a critical challenge to grid stability due to unpredictability of sunlight and wind. This problem would increase demand for energy-storage solutions, digitalisation of the grid, and grid-stability and protection devices such as FACTS, transformers, Circuit breakers, Shunt reactors, etc. Companies such as ABB, Siemens, Hitachi Energy, GE T&D are at the forefront of "smart" grid solutions

Power transmission undergoing capacity expansion and modernisation

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Source: CEA; NEP; Anand Rathi Research

To achieve the government's vision of '24x7 power for all', transmission is a crucial link between power generators and consumers. The need to upgrade power infrastructure thus rose due to higher projected electricity demand ahead. This time, the focus is not just on capacity expansion of the grid but also to make it reliable and efficient as almost 321GW of renewable energy would be added to the grid by 2030

Per the draft NEP report, published by the Ministry of Power, transmission lines of 123,577ckm (27% additional) and sub-stations of 722,940 MVA capacity (65% additional) are required by FY27. This translates to Rs4.7trn to be invested over FY22—FY27. Of this, Rs334bn transmission-system projects have been awarded with Rs1.4trn projects at the bidding stage, leaving Rs1.4trn projects pipeline. To make transmission reliable and efficient, smart and secure new technologies are being incorporated in construction: digital sub-stations for protection, control and monitoring; HTLS conductors to increase of power flow per metre of Right-of-Way; VSC-based HVDC to efficiently utilise the transmission network etc. Much of the investment is in the 220-400kV segment; however, growth is highest in the 765kV segment

Power transmission: higher growth in the extremely-high-voltage sub-segment

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		At end-FY22	Additions (FY22-FY27)	At end-FY27	Growth, %
Transmission lines (cable km)					
HVDC \pm 320 kV / 500 kV / 800 kV bi-pole		19,375	4,300	23,675	22
765 kV		51,023	35,005	86,028	69
400 kV		193,978	38,245	232,223	20
230 kV / 220 kV		192,340	46,027	238,367	24
Total		456,716	123,577	580,293	27
Sub-stations (MVA)					
765 kV		257,200	319,500	576,700	124
400 kV		393,113	268,135	661,248	68
230 kV / 220 kV		420,637	123,305	543,942	29
Total		1,070,950	710,940	1,781,890	66
HVDC sub-stations (MV)					
Bi-pole link capacity		30,500	12,000	42,500	39
Back-to-back capacity		3,000	-	3,000	
Total		33,500	12,000	45,500	36

Source: CEA; NEP; Anand Rathi Research

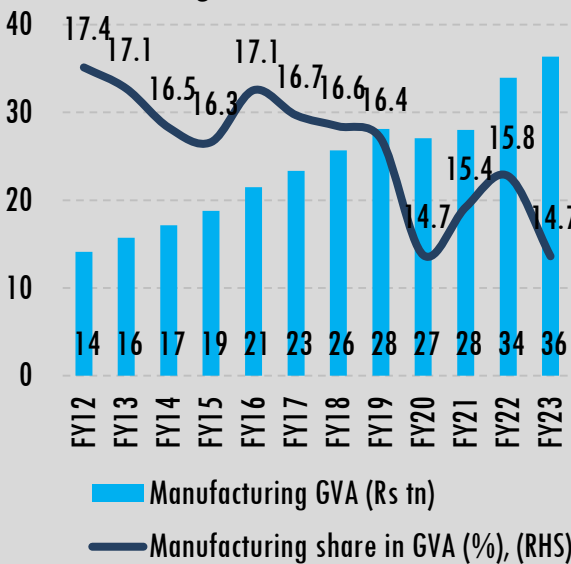
Production-Linked Incentive Scheme: Rs5.5trn investment (est.)

As of FY23, India manufacturing sector output was Rs36trn contributing 14.7% to overall GVA and 17% to GDP. The government intends to take this to 25% of GDP. Manufacturing growth is crucial since it would start a private capex cycle, which till now has been subdued. Over the years, the government has come out with many policies to ramp up manufacturing across sectors. The PLI scheme was one such, catering to 14 sectors with an outlay of Rs2trn.

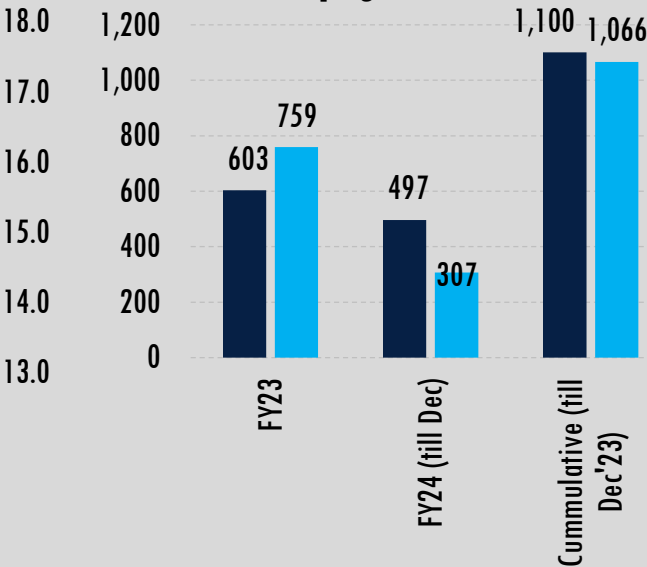
The scheme is a post-facto incentive one (incentives at 4-6% on added sales). We estimate Rs5.5trn investment potential under this scheme. Till now, progress is on track. However, given the FY28 timeline for most sectors, we expect higher private capex by India Inc. to be able to benefit from this scheme. Considering FY28 to be the final year under this scheme, investment of Rs1.2trn would have to be made every year to entirely use the allotted incentive of Rs2trn. This augurs well for companies like Siemens, ABB, Schneider Electric, Honeywell Automation etc. which have solutions for factory electrification and automation

Products	Scheme outlay (Rs bn)
Automobiles and components	259
Drones and components	1
Advanced chemistry cell batteries	181
Large-scale electronics manufacturing and IT hardware	410
IT hardware	170
Food products	109
Medical devices	34
Specialty steel	63
Production of key starting materials and APIs	69
Pharmaceutical manufacturing	150
Telecoms and networking products	122
Textile products	107
White goods	62
High-efficiency solar PV modules	240
Total Outlay	1,979

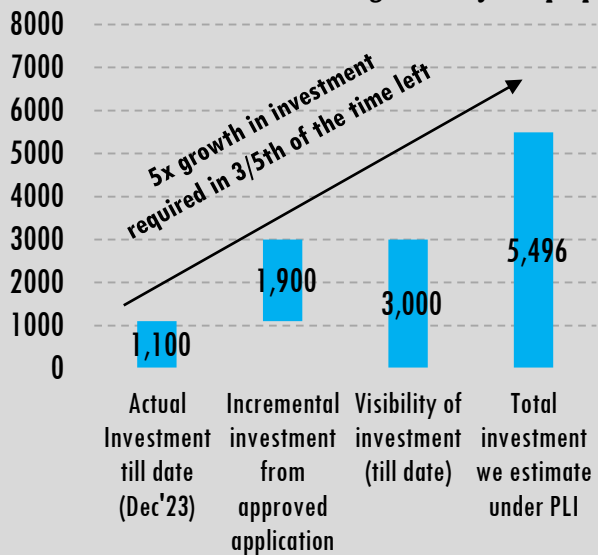
Manufacturing's share in GVA has decreased



PLI progress on track



Investments under PLI can significantly ramp up



We estimate Rs5.5trn investments under PLI

Average incentive under PLI assumed	4.5%
Total outlay (Rs bn)	1,979
Estimated added output (Rs bn)	43,968
Estimated further asset creation assuming 8x gross asset turnover (Rs bn)	5,496

Policy support for manufacturing

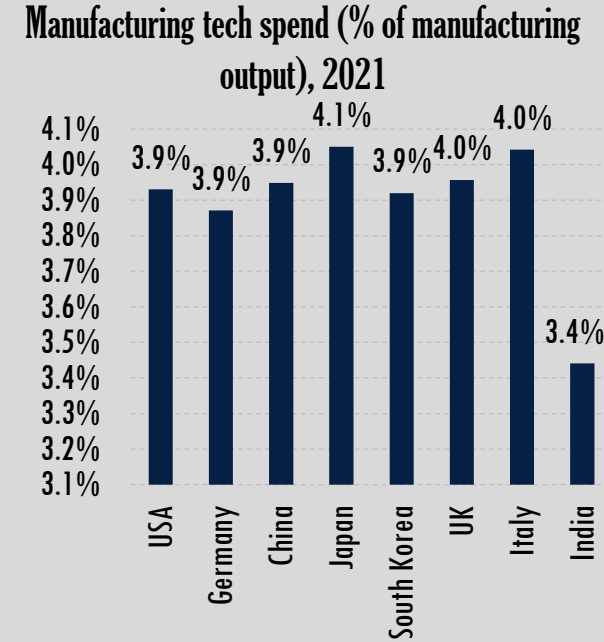
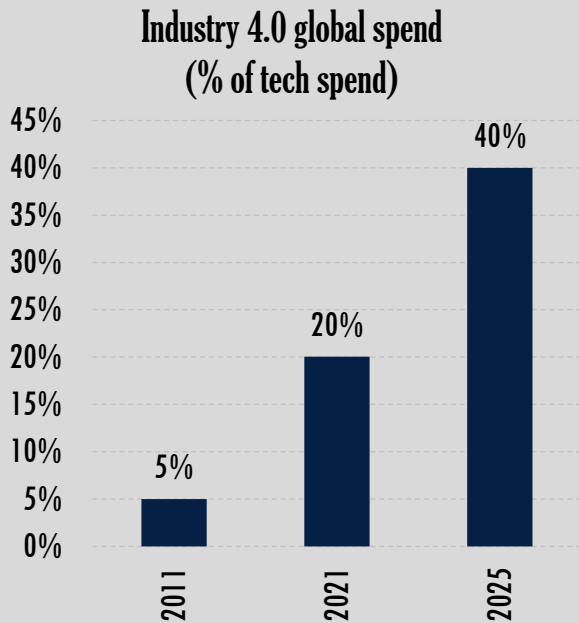
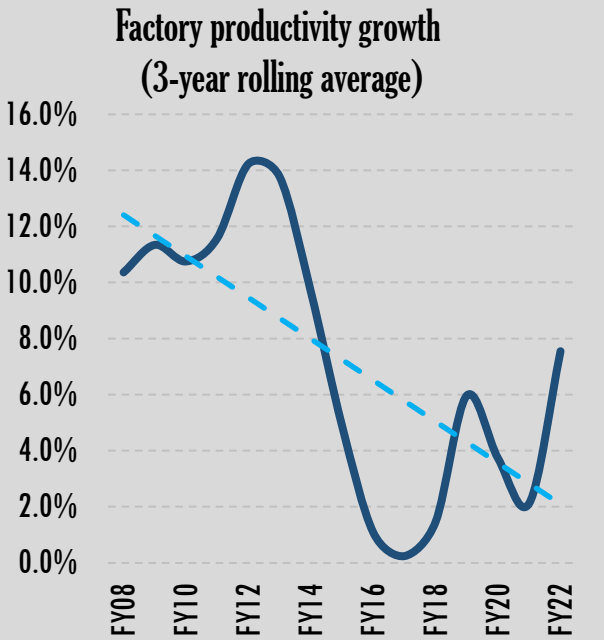
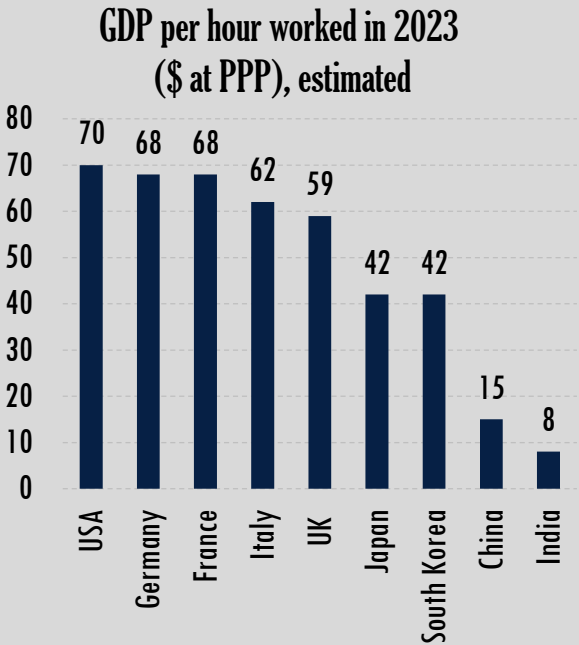
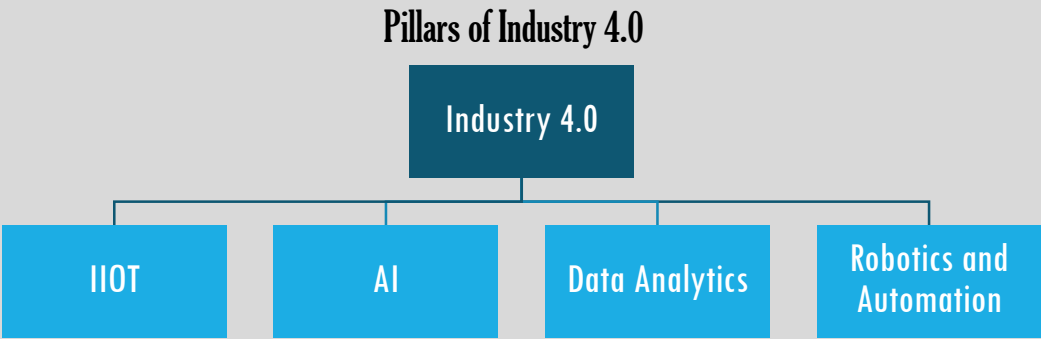
Policy	Major Objective
Make in India	To make India a hub for manufacturing, design and innovation
Industrial Corridor Development Program	To develop greenfield industrial regions with sustainable infrastructure
Ease of Doing Business	Simplification of procedures, rationalisation of legal provisions, digitalisation of government processes and de-criminalisation of minor, technical or procedural defaults
National Single Window System	‘End-to-end’ facilitation and support to investors, incl. pre-investment advisories, providing information related to land banks and facilitating clearances at the Centre and state levels
PM Gati Shakti National Master Plan	To facilitate data-based decisions related to integrated planning of multi-modal infrastructure, thereby reducing logistics costs
National Logistics Policy	To lower the cost of logistics and bring it on par with other developed countries
Production-Linked Incentive scheme	To increase India’s manufacturing abilities and exports
FAME-India Scheme	To promote manufacturing of electric and hybrid-vehicle technology
Udyami Bharat Scheme	To empower micro, small and medium enterprises (MSMEs)

Industry 4.0: key driver of manufacturing productivity

If we define productivity in terms of GDP per hour worked, we see India faring poorly among the top global manufacturers. In terms of factory productivity, the data is not encouraging either. To increase productivity, traditional factors like land, labor and capital have not sufficed, and our industries are now evolving to the next industrial revolution i.e., Industry 4.0. This basically entails digitalising industrial processes

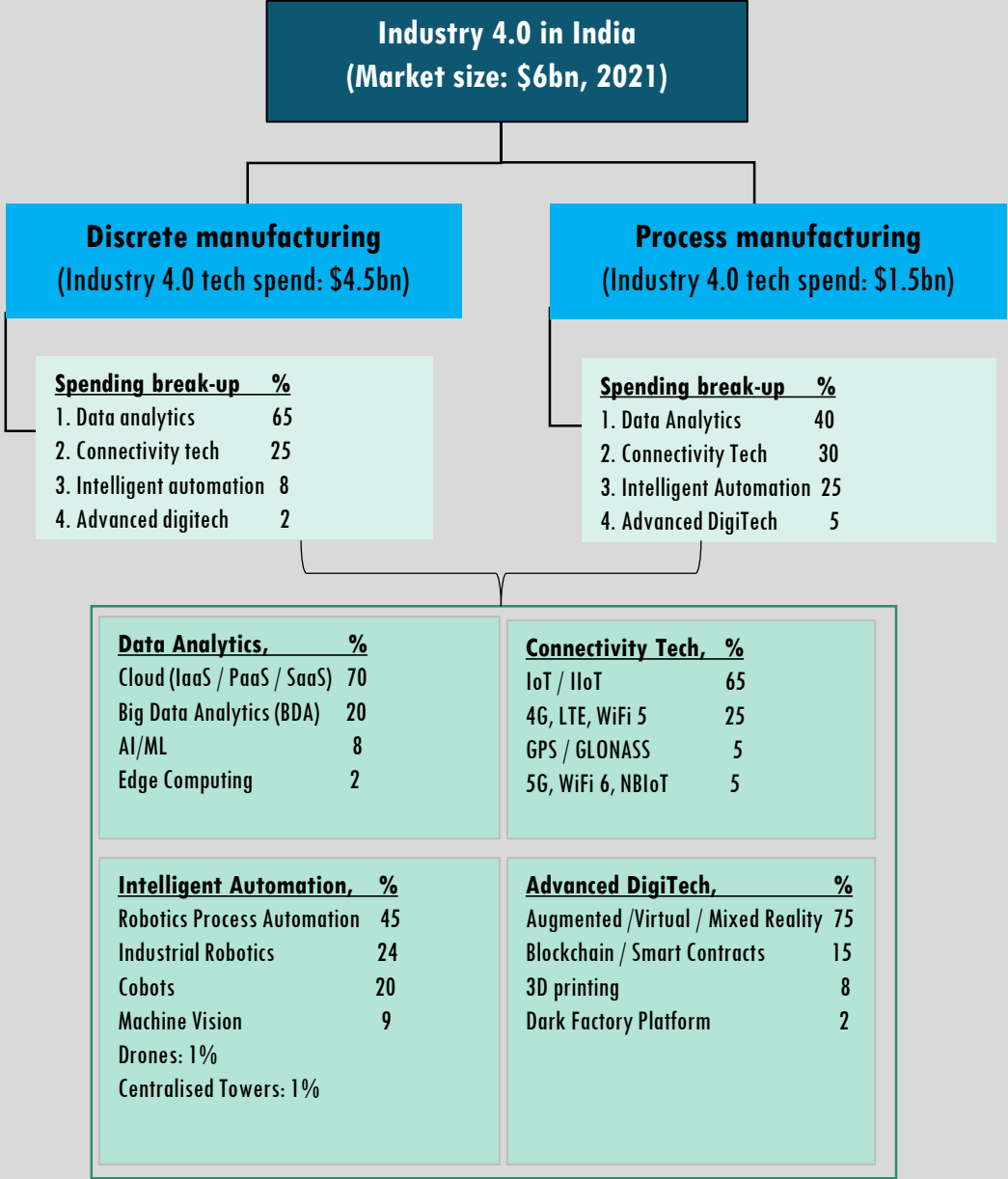
As a result of increasing industrial digitalisation, demand for high-speed data, private 5G, data storage, cloud computing, big data, data centres and cyber-security is increasing. Companies such as Siemens, ABB, Honeywell Automation, Schneider Electric, etc., provide solutions and equipment for digitalising industrial processes

Global spend on Industry 4.0 technologies as percent of spending on technologies has dramatically increased. A NASSCOM report says that India spent 3.4% of manufacturing output on manufacturing technology in FY21, well below those of other manufacturing-focused countries. We expect to see increasing adoption of Industry 4.0 technologies by India Inc., given the focus on manufacturing today

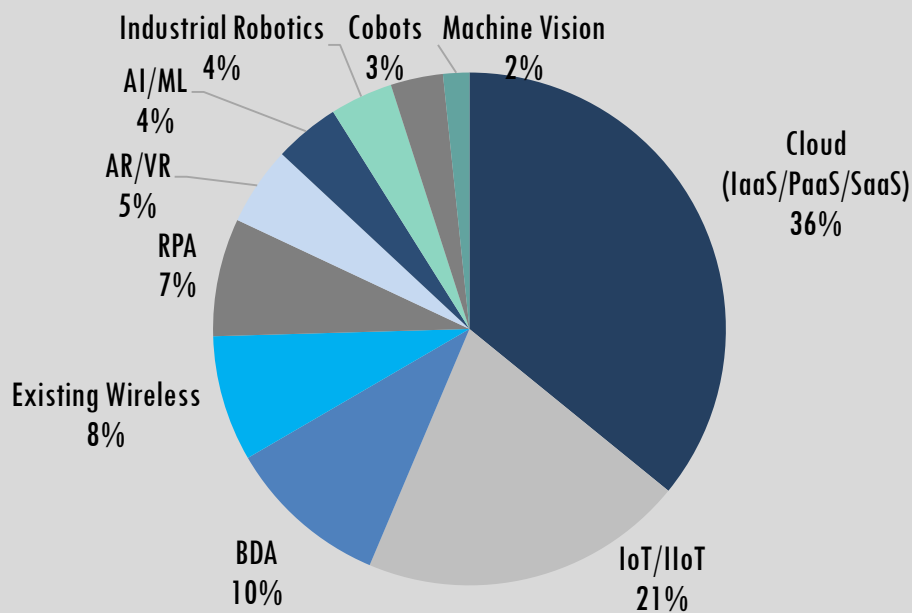


Industry 4.0: Adoption in India

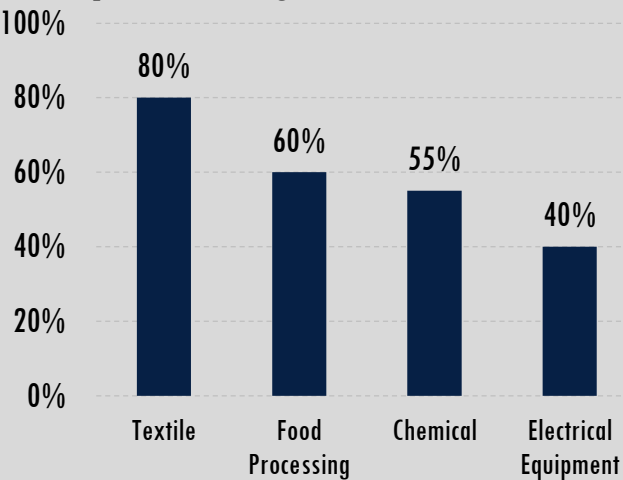
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India's market size of different Industry 4.0 technologies, 2021 (\$ bn)

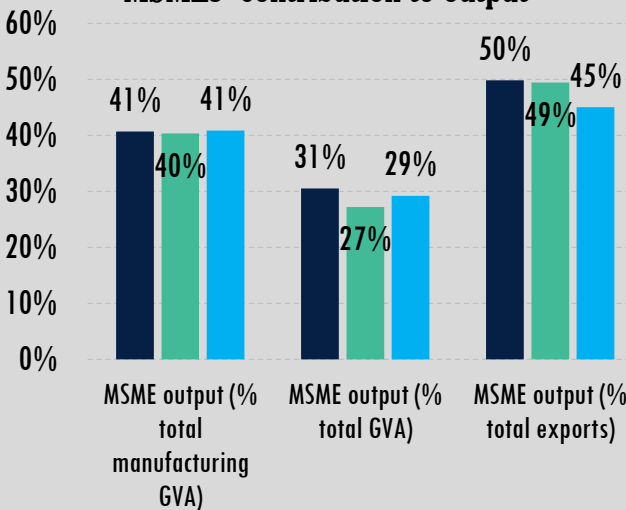


Vast potential of digitalisation in MSMEs



■ Proportion of MSMEs in different sectors

MSMEs' contribution to output



Data centres: many growth drivers in play

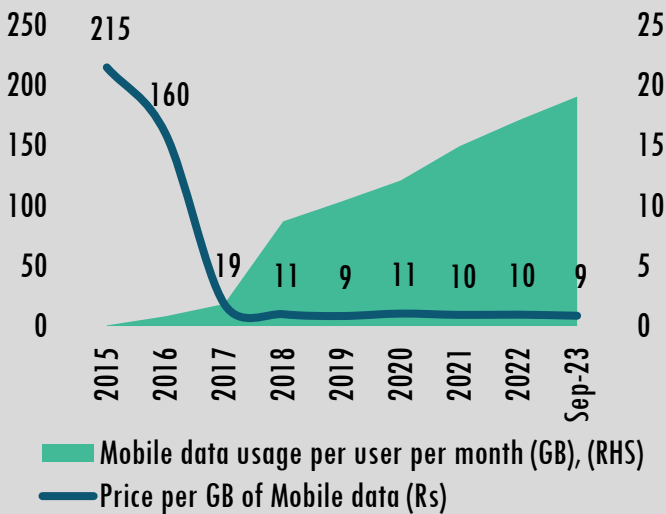
Personal data consumption in India has increased manifold in recent years. At the individual level, growth in e-commerce, greater use of social media, preference for OTT content and government impetus through its ‘Digital India’ program (where e-governance resulted in more data consumption, was supportive, along with the falling price per GB of data

On an industrial level, increasing adoption of digitalised services across industries (ie Industry 4.0) has resulted in more data being generated. Such a huge amount of data (generated and consumed) has resulted in ballooning demand for data centres in India. Also, the government’s policy regarding data localisation catalysed the data-centre boom across the country

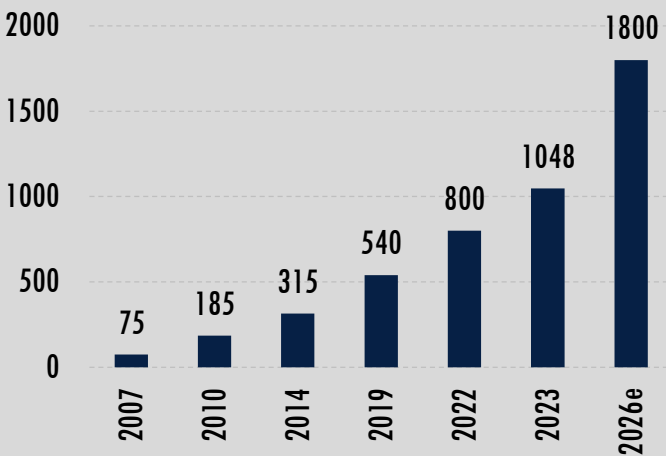
An estimate by The Confederation of Indian Industry puts cumulative data-centre capacity, measured in IT load, at 1,800MW by end-2026, i.e., a 20% CAGR from FY23. This, we estimate, translates to Rs376bn capex for the additional capacity

45% of the cost of constructing a data center pertains to electricals (i.e. cost for gensets, UPSs, lightings, etc.). Companies such as ABB and Siemens are among the top providers of data-centre electrification and automation solutions, while Cummins and Kirloskar Oil Engines are major provider of power-backup solutions for data-centres

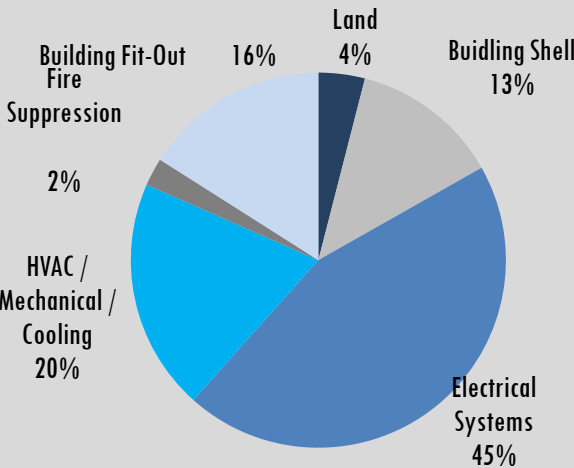
Personal data consumption has risen dramatically



DC capacity (IT load) set to increase considerably



Data centre development cost



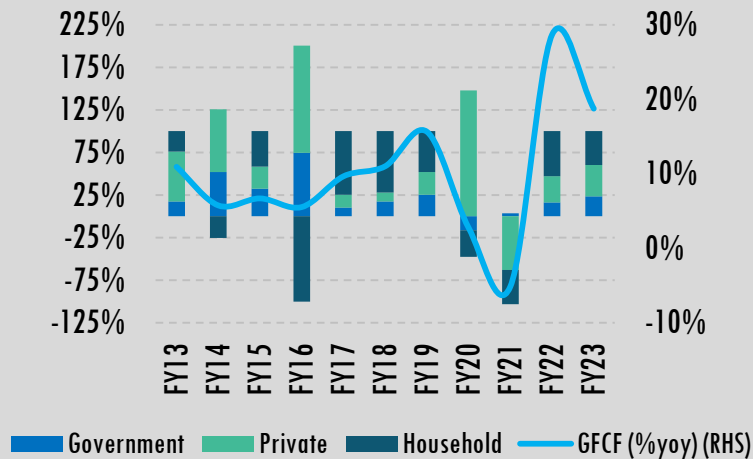
Our estimate of further capex required

Further investment required	
Added capacity (MW) till 2026	752
Capex per MW (Rs bn) (based on past transactions)	0.5
Total capex required (Rs bn)	376

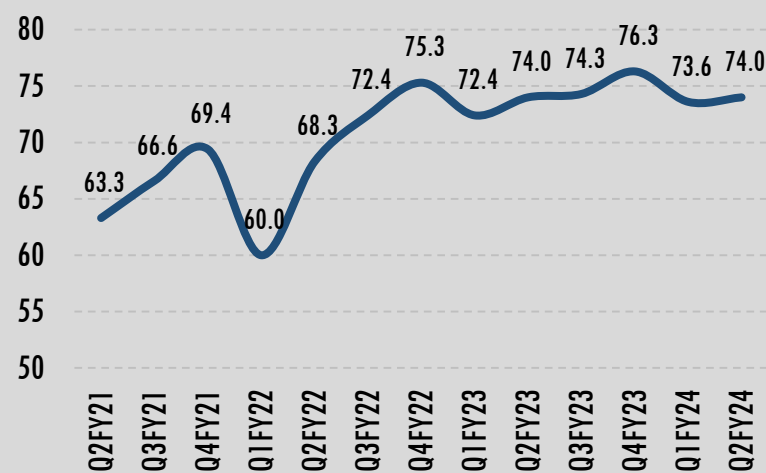
Private capex: signs of green-shoots appearing

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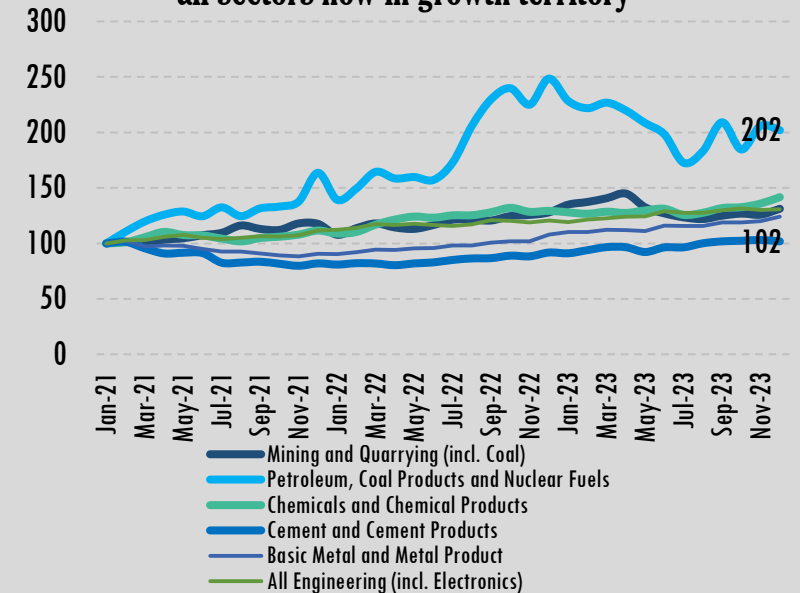
Private contribution to GFCF growth increasing



Capacity utilisation (%) in manufacturing



Outstanding bank credit (re-based to 100): all sectors now in growth territory



- We believe the next leg of earnings growth would be driven by private capital expenditure. Till now, the government has been doing the heavy lifting and its spending and policies have started attracting private expenditure. Private GFCF's contribution to the growth in total GFCF is increasing since past few years
- The latest RBI survey shows the capacity utilisation in manufacturing is near 75%,. As this level nears 80%, companies starts formulating capex plan. Also, balance sheets of companies today support the next leg of capacity expansions. Typically, the first half of any financial year is slower than the second, mainly due to the monsoon. We expect higher level of utilisation in H2 FY24, and thereby, more announcements from India Inc. regarding its capex plans
- As economic theory highlights, any uptick in government spending can lead to “crowding in” or “crowding out” of private spending. We are now seeing early signs of private spending picking up. On tracking outstanding bank credit from CY21 (as GFCF started growing from FY21), we found banking credit to all sectors to be higher than Jan'21 levels, with the cement sector turning positive in CY23. It was particularly higher for petroleum, coal and nuclear.

Private capex: fundamentals supportive

We analysed data of the top-500 companies by market cap (excl. financials) and grouped them according to their GICS classifications.

- With their net D/Es decreasing, most sectors' balance sheets have improved. The improvement accelerated post Covid year. Of all the sectors, Industrials saw the ratio improving the most due to greater operating cash-flow. The healthier balance sheets allow companies to spend more on capacity expansion.
- Fixed-asset addition has picked up momentum across sector; Of the total fixed assets added in the last 10 years, highest proportion of it was added in FY23 followed by FY22. This trend is similar across most sectors. For instance, 16% of fixed assets added by companies in the materials sector was in FY23. Similarly, energy, staples, industrials, healthcare and utilities added 15% / 14% / 13%/12%/11% in FY23. Also, fixed assets added increased for almost all sectors in FY23 over FY22.

Net D/E (x)	FY14	FY15	FY16	FY17	FY18	FY19	FY20	FY21	FY22	FY23
Industrials	1.2	1.2	0.9	0.7	0.6	0.7	0.7	0.6	0.5	0.4
Health care	0.2	0.2	0.3	0.2	0.3	0.3	0.2	0.0	0.0	0.1
Materials	0.8	0.9	0.9	0.8	0.7	0.8	0.7	0.5	0.4	0.5
Utilities	1.2	1.4	1.3	1.4	1.4	1.6	1.6	1.3	1.2	1.1
Consumer staples	0.5	0.4	0.4	0.4	0.3	0.2	0.1	0.1	0.1	0.0
Energy	0.4	0.5	0.4	0.5	0.6	0.6	0.7	0.5	0.4	0.4
Communication services	1.0	1.3	1.2	1.4	1.4	1.6	2.1	5.1	4.6	5.2
Consumer discretionary	0.6	0.6	0.5	0.6	0.5	0.7	0.7	0.6	0.6	0.6
Real estate	0.7	0.8	1.0	1.1	0.8	0.8	0.7	0.5	0.4	0.4
Information technology	(0.3)	(0.3)	(0.2)	(0.1)	(0.1)	(0.1)	(0.1)	(0.2)	(0.1)	(0.1)

How much each year contributed to cumulative fixed assets added in last 10 years	FY14	FY15	FY16	FY17	FY18	FY19	FY20	FY21	FY22	FY23
Industrials	14%	11%	10%	8%	9%	9%	9%	8%	10%	13%
Health care	7%	8%	12%	14%	9%	10%	9%	8%	12%	12%
Materials	11%	9%	7%	7%	8%	10%	11%	9%	12%	16%
Utilities	10%	7%	10%	11%	11%	11%	9%	9%	10%	11%
Consumer staples	10%	7%	9%	10%	9%	10%	9%	11%	11%	14%
Energy	7%	8%	6%	9%	9%	11%	11%	12%	12%	15%
Communication services	7%	9%	11%	13%	10%	11%	9%	10%	11%	10%
Consumer discretionary	8%	10%	10%	10%	12%	12%	11%	8%	8%	11%
Real estate	10%	6%	9%	5%	18%	11%	10%	5%	13%	12%
Information technology	9%	9%	8%	10%	11%	11%	11%	9%	11%	12%

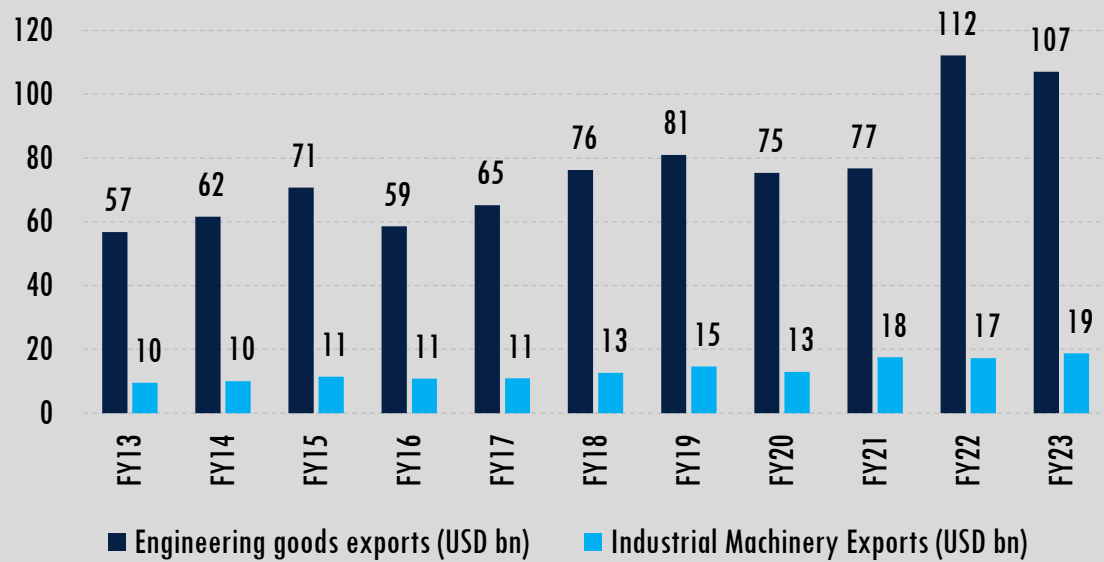
Private capex: some recent announcements

Company	Capex size	Details
IOC	Rs.4trn over the next 10 years	<ol style="list-style-type: none"> Rs.2.4trn to achieve net-zero goal by 2046 Rs.1trn for one-third capacity expansion to 107m tpa Rs.610bn to build a petrochemicals complex at Paradip, Odisha
BPC	Rs.1.5trn—1.7trn over the next five years	<ol style="list-style-type: none"> Part of 'Project Aspire' ie, grow its oil business and expand its renewables portfolio for its net zero goal by 2040 Rs.490bn for an ethylene cracker unit at its Bina refinery Rs.10bn to set up a 50MW wind turbines for captive use Rs.1trn till 2040 for projects in green hydrogen, carbon capture, utilisation and storage (CCUS)
Maruti Suzuki	Rs.1.25trn till FY31	<ol style="list-style-type: none"> To broaden its product range from 17 models to 28 by FY31, and to increase production capacity
ONGC	Rs.1trn over the next five years	<ol style="list-style-type: none"> 5GW solar generation capacity 1m tpa (green) amonia plant
Adani Enterprises	Rs.624bn over the next 10 years	<ol style="list-style-type: none"> Rs 500bn for a 1GW hyperscale data centre in Maharashtra Rs 124bn in Telangana, incl. Rs.50bn for a 100MW data centre, Rs.50bn for two pumped storage projects, Rs.10bn for a drone and missile facility, and one cement plant
Tata Power	Rs.600bn over three years	<ol style="list-style-type: none"> 45% to be spent on renewable-energy-capacity addition
Hyundai	Rs.200bn over the next 10 years	<ol style="list-style-type: none"> Investment in an EV battery assembly unit, developing new vehicle platforms (such as EVs) and new models (internal combustion engines and EVs), and ramping up production capacity
Ultratech	Rs.130bn over next 3 years	<ol style="list-style-type: none"> Brownfield and greenfield capacity expansion by 22m tpa to 187m tpa Additional 30MW waste-to-heat recovery system at Rs.4.5bn taking capacity to 400MW Rs.1.8bn toward alternative fuel
GCMF (Amul)	Rs.115bn to expand operations	<ol style="list-style-type: none"> To set up milk processing and ice-cream manufacturing plants in Goa, Maharashtra, MP, Haryana, UP and West Bengal
Cairn India	Rs.82bn over five years	To ramp up exploration at 12 key project areas

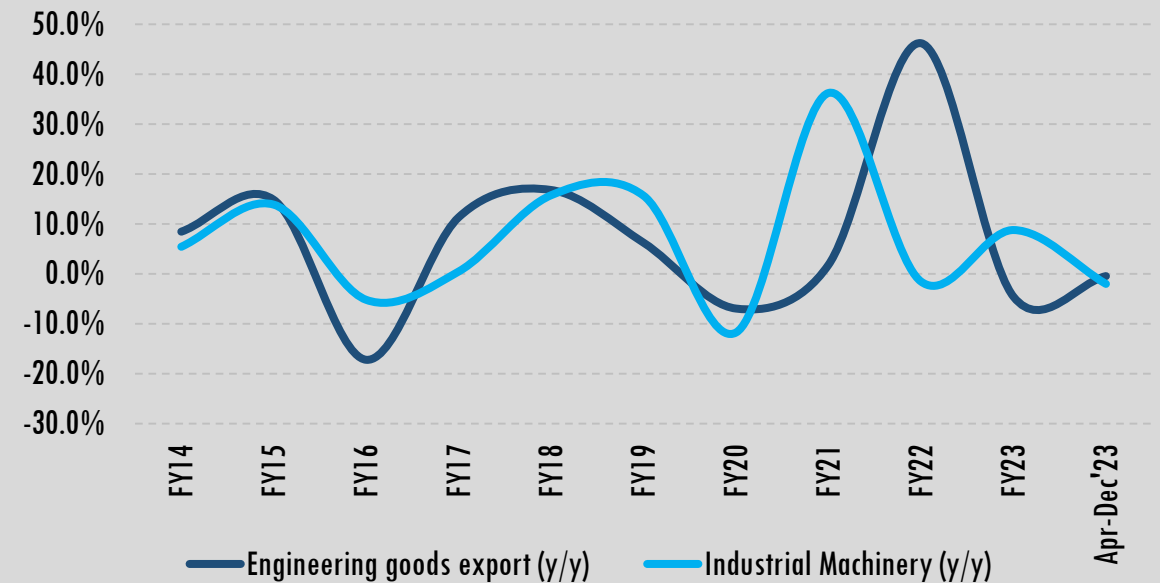
Export of engineering goods has been tepid

ANAND RATHI

North America, EU, West Asia, North Africa and ASEAN account for >60% of engineering goods exports



Industrial machinery and IC engines make up respectively 40% and 20% of the total industrial machinery exports



Rating: HOLD

Target Price: Rs.5,536

Current market price: Rs.4,942

Siemens

A key beneficiary of ongoing macro themes

Key data	SIEM IN
52-week high / low	Rs4974 / 3240
Sensex / Nifty	72748 / 22056
3-m average volume	\$16.8m
Market cap	Rs1722bn / \$20764.4m
Shares outstanding	356m

Shareholding (%)	Dec'23	Sep'23	Jun'23
Promoters	75.00	75.00	75.00
- of which, Pledged	6.67	0.00	0.00
Free float	25.00	25.00	25.00
- Foreign institutions	7.89	7.93	7.59
- Domestic institution	7.71	7.63	8.01
- Public	9.40	9.44	9.40

Siemens, a key beneficiary of ongoing macro themes

ANAND RATHI

Siemens, India, with its broad portfolio of products and solutions is a key beneficiary of the many macro themes currently unfolding in India: digitalisation, sustainability, infra upgradation and modernisation. The Siemens DNA is basically a play on industrial evolution. The parent entity, over the years, has been transformed from a mechanical to electrification to automation to a technology company, each representing various stages of evolution. Now with the broader theme of digitalisation picking up in the country, catalyzed in a way by Covid-19, the company sees a long-term opportunity in this area and has aligned itself like its parent on the path to becoming a leading technology provider in the country

Considering the ongoing public capex cycle and expectation of pickup in private capex, we are building in standalone 20/23/20% revenue/EBITDA/PAT CAGRs over SY23-SY26 (SY-Sep-end). We are expecting the company to expand its EBITDA margin to 13.4% by SY26, from 12.5% in SY23, mainly led by better product mix, an increasing proportion of the products segment (as against the projects segment) and better absorption of fixed cost on higher capacity utilisation. We initiate coverage of Siemens, India, with a Hold rating at a Rs5,075 TP, a PE of 55x on standalone Mar'26 EPS and adding the value (Rs 441) of C&S Electric, its material subsidiary

Investment summary

- **Key beneficiary of public capex, reflected in more orders.** The company's order book is at an all-time high of Rs455bn. This was aided by a Rs260bn order in SY23 from the Indian Railways to supply 1,200 electric locomotives of 9,000HP with a service period of 35 years. The base order inflow is particularly strong in power transmission-related orders, where Siemens is seeing strong traction for substation and related components and for grid stability and protection solutions. In anticipation of higher demand in this segment, it would incur Rs4.2bn capital expenditure to increase its transformer capacity (used on power transmission) and vacuum-interrupter capacity (for medium-voltage switchgear used in power distribution)
- **Broad range of offerings for current macro themes.** The company has the broadest range of products across many business segments compared to its peers. It has operations in the ongoing macro theme. It can cater to the entire power-value chain, from generation to transmission to distribution. It also has HVDC technology available with a select few around the globe; we expect it to win one HVDC order in FY25 from PGCIL. Four HVDC orders are in The National Electrification Plan of 2030, of which one has been allotted to PGCIL (the Ladakh HVDC project). In the past, the company had commissioned India's first VSC-based HVDC project for which PGCIL was the implementing agent

Siemens, a key beneficiary of unfolding macro themes

ANAND RATHI

- **Conditions for private capex in place.** India Inc.'s factory utilisation is nearing 75%. As it nears 80%, companies start making capex plans. Also, balance sheets of companies today support the next leg of capacity expansions. Our analysis shows that leverage ratios of almost all sectors have improved substantially, post-Covid'19, chiefly due to robust cash-flows. Other indicators such as outstanding bank credit and pace of asset addition at the economy level and at the company level have picked up pace. Government spending also has rendered the environment suitable for private spending. We expect the momentum in private capex to pick up pace later this year. Some major companies such as IOC, BPC, ONGC, Maruti Suzuki, Adani Ent., etc., have already announced many-year capex plans
- **Key player in electrification and digital transformation.** The company has transformed along with evolving industries. With the current wave of electrification and digitalisation in the country, it has positioned itself to cater to demand in these areas. In line with this, it started manufacturing locomotives and bogies, eventually winning the largest order in its history. It is expanding capacity in power T&D; it has introduced 'Siemens Xcelerator', a digital platform with hardware and software aimed at hastening the process of digital transformation, an area where it is a technology leader
- **Exits non-core business; acquires business relevant to current themes.** Over the years, Siemens quit many non-core businesses: metal technologies in 2014, healthcare in 2016, Engineering service for Wind business, provided exclusively to a sister entity, in 2016 and its mechanical-driven business in 2021. Recently, it tried selling LV motors and geared motors business to a parent entity on the rationale that firstly, it was a commoditized segment and secondly, SIEMs intends to move Digital Industries business segment to a SaaS model thereby, improving on margins. However, lower valuation concerns of minority shareholders caused the deal to be called off. The company acquired C&S Electric in 2020 with businesses in LV switchgear, LV/MV power busbars and protection & metering devices. In 2023, it acquired Mass-Tech's EV business, which manufactures AC/DC chargers
- **Potential value-unlocking on the hiving off of its energy business.** The Board recently approved the spinning off of its energy business to a separate listed entity. This would not only unlock value for the energy business but also enable the company to focus on its core portfolio. Siemens Energy, a sister entity, will eventually hold a majority stake in this entity
- **Improving prospects of C&S Electric.** The company acquired C&S Electric in SY21. its margin has since improved from 7.1% to 10.9%. The contribution to consolidated revenue has risen from 4% to 9%. C&S is a play on mid-priced LV electric products of the infrastructure market (for similar products, Siemens is a play on the premium industrial market) as well as on exports

Siemens- business segments

Segments	Sub-segment	Product Details	Verticals	Opportunities
Digital Industries:		<ol style="list-style-type: none"> Includes Digital Enterprise, partner ecosystem and Cyber security for the industry. Targets faster adoption of Industry 4.0 	<ol style="list-style-type: none"> Automotive Pharma F&B Chemicals Machine Building Intralogistics Water EV Data Center 	<ol style="list-style-type: none"> PLI scheme for manufacturing Industry 4.0 adoption High end machine building and digitalisation As companies become grow greater for automation, the need for cyber security is going to increase. As there are more attacks coming in, the need for cyber security is a huge opportunity.
	Factory Automation (for discreet industries)			
	Process Automation (for process industries)			
	Motion Control	Electrification, Automation of Machine building used in Motion, Positioning, Processing, Handling and Machining		
	Customer Services			
Smart Infrastructure:		<ol style="list-style-type: none"> Caters to Distribution side of Power. Mainly LV and MV products. Provides Products, Systems, Solutions and Services Under MV component provides - Vacuum Circuit breaker, Contactor and Surge arrester; Under MV Systems provide AIS and GIS for distribution, MV generator switchgear, Outdoor vacuum CB for overhead lines protection and power converter and inverters for grid access; Provides MV Distribution and Traction transformers. LV - component includes Air CB, Miniature CB, Molded Case CB, Residual CB, Surge arresters; LV Switching devices - Disconnectors with Fuse, Transfer control devices, and Distribution Transformers; EV charging; Measuring and Monitoring devices; Switches and Sockets. LV Distribution transformers Under Grid automation and Smart Grid provides solutions Under Building solution provides - Fire safety, HVAC solution, Energy efficiency solution, Security and Automation 	<ol style="list-style-type: none"> T&D Utilities Data Centers Airports Metros Commercial Buildings EV Industries 	<p>Investments in Data Centers, Commercial buildings</p> <p>Industrial infrastructure; growth in Metals, Cement, O&G, E-Mobility</p> <p>Upgradation of distribution utilities</p>
	Electrification and Automation (<33kV)	Deals in MV products		
	Electrical Products	Deals in LV products like MCB, MCCB, RCB		
	Regional Solutions and Services	Energy efficiency, Fire safety and Security		
	Building Products	Energy efficiency, Fire safety and Security		
	Grid Software	Deals in Grid deficiencies in Transmission and Distribution space		
	eMobility	EV charging Infra		

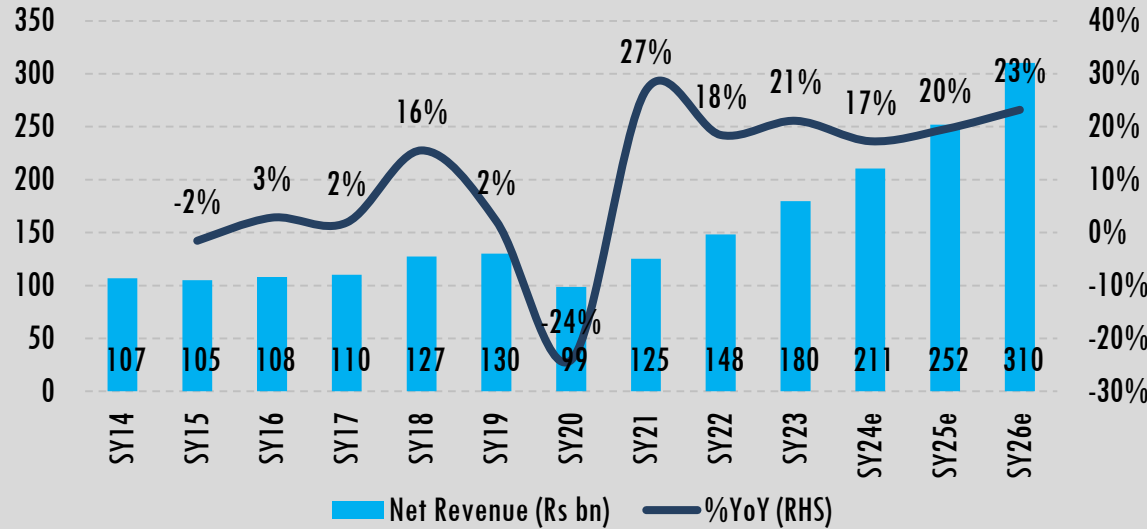
Siemens- business segments

Segments	Sub-segment	Product Details	Opportunities
Mobility:		1. Provides Rolling Stock, Rail services, Rail Infra, Rail electrification and Turnkey Solutions. 2. Rolling Stock->Components->Traction motors, Gear units, Auxilliary converters, Traction converter, Bogies, Pantographs, Brake Systems, Locomotives, Train HVAC Systems 3. Rail Infra->Components->Rail signal, crossing train detection, crossing protection, crossing road control, Axle counting systems, Track circuit, Point operating systems; Onboard components like data recorder, alerter 4. Rail electrification->MV Swithgear, Rectifiers, DC/AC Swithgear	E-locomotives, Propulsion systems, Trainsets, Metro Projects, Bogies
	Rail Infrastructure	Electrification and Signalling	
	Rolling Stock	Hotel load converters, Axle Counters, Traction Motors etc. (Manufactured in Nashik Factory); Bogeys for Metros, EMU etc.; Locomotives and Passanger train	
	Turnkey	Rail Infra + Rolling Stock mainly in Metros	
	Customer Services		
Energy:		Caters to Generation and Transmission side of Power. Mainly HV products.	1. Renewable integration; Growth in transmission network 2. Modernization & Upgrades of ageing Fleet of Large Steam turbines. 3. Doing a lot of modernization and upgradation. Main customers over here are in the area of chemicals, fertilizers, sugar and so on, where they are looking at waste heat recovery, cement plants waste heat recovery is a huge area of opportunity out there.
	Grid Technologies, 66 kV-800 kV	Transmission business mainly includes - HV GIS, HV AIS; HV Power Transformers; HV Substation, AC&DC	
	Transformation of Industry	Generation and automation business includes - Electrification, Automation & Digitalization solutions; Industrial Steam Turbines	
	Gas Services	Aftermarket service both for steam and for gas business. Includes - Gas Turbines; Steam Turbines; Modification & Upgradation	
	Project Management Hub	Engineering hub which is really 1 of 3 hubs at the global parent has in the country. Includes - Generation, Transmission & Industrial projects	

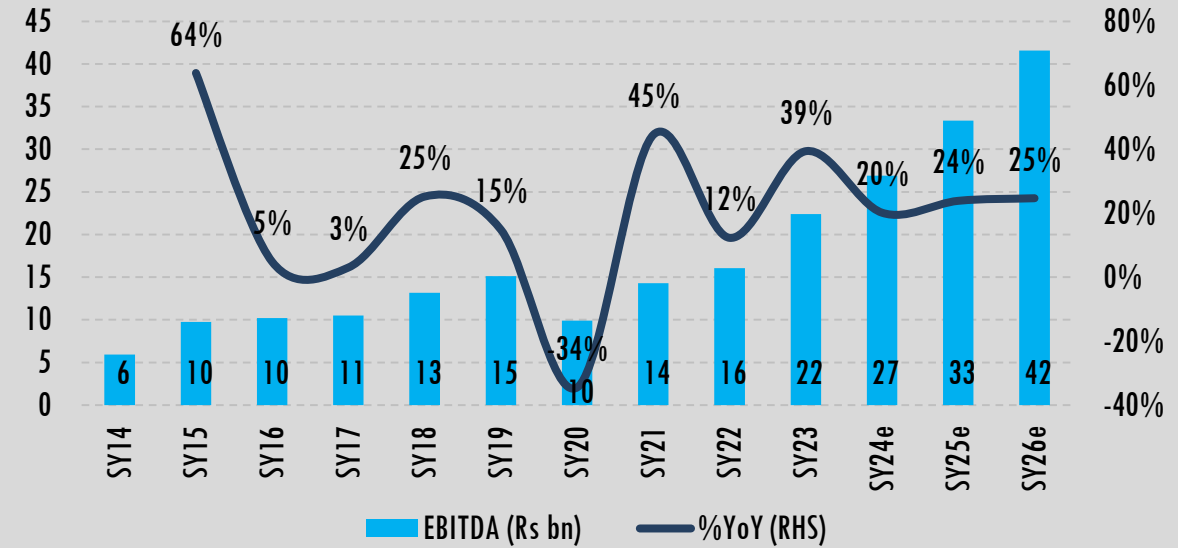
Story in charts

ANANDRATHI

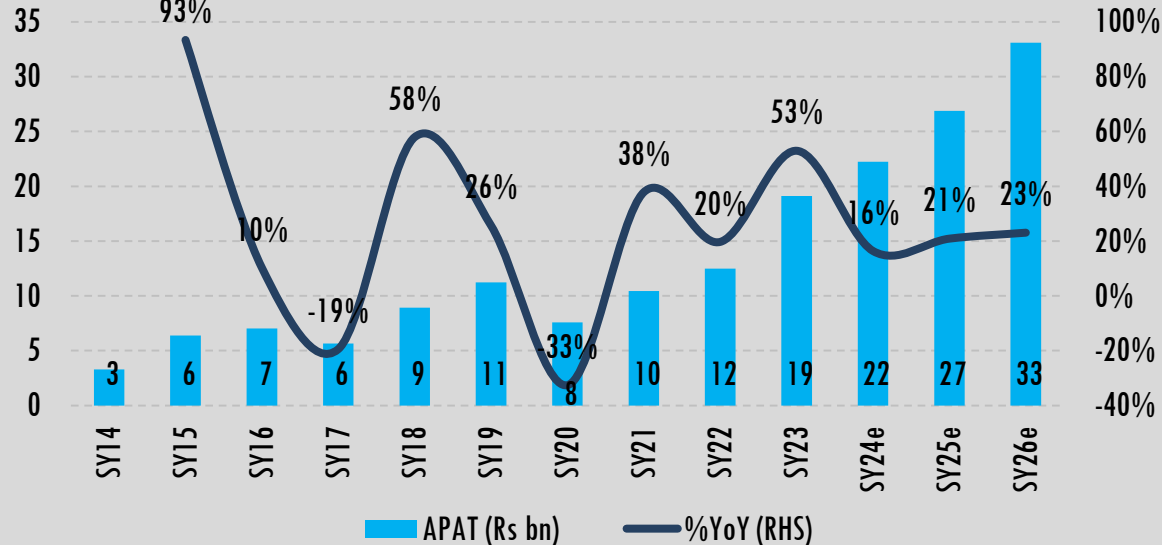
Net revenue expected to record a 20% CAGR over FY23-26, given operations across many macro themes.



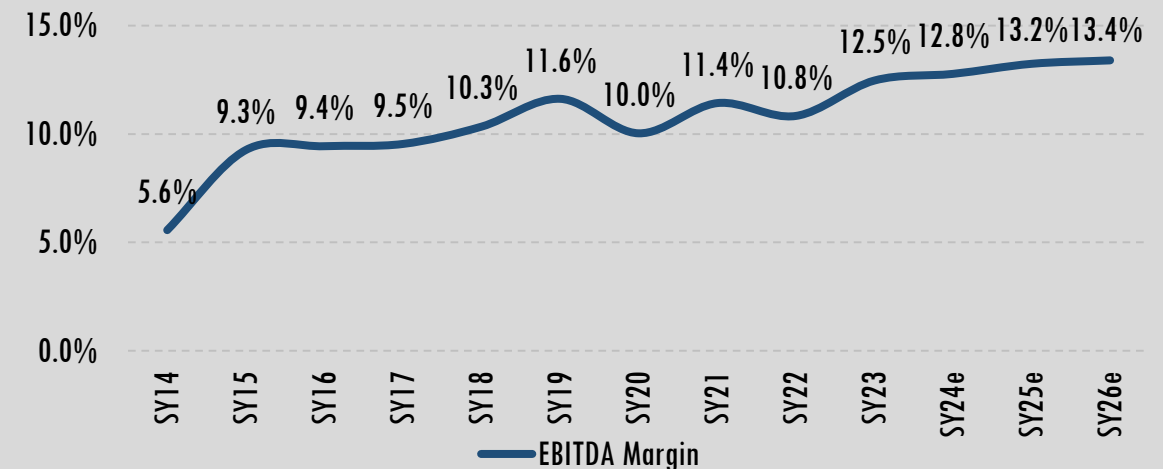
EBITDA expected to register a 23% CAGR over FY23-26



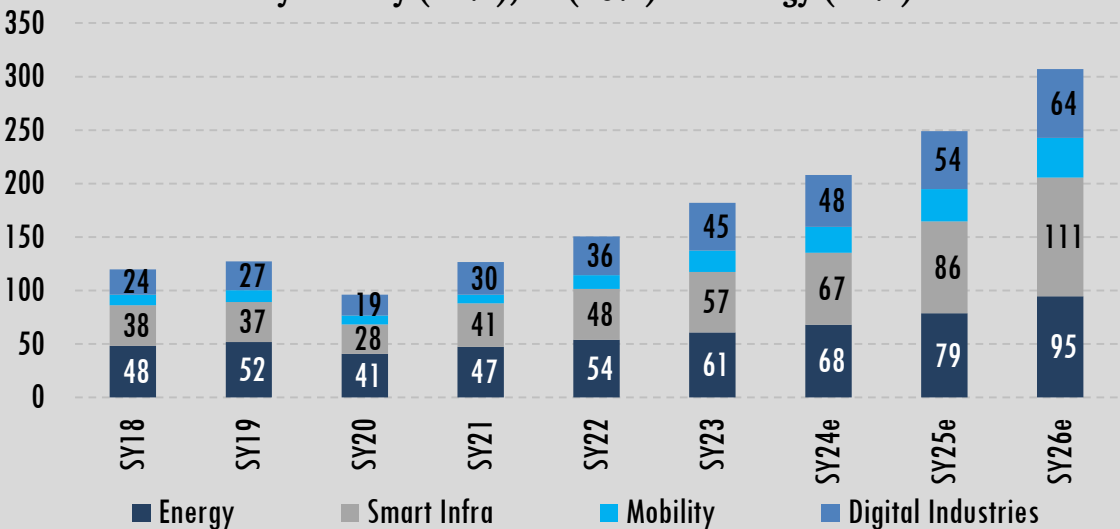
Net profit expected to clock a 20% CAGR over FY23-26



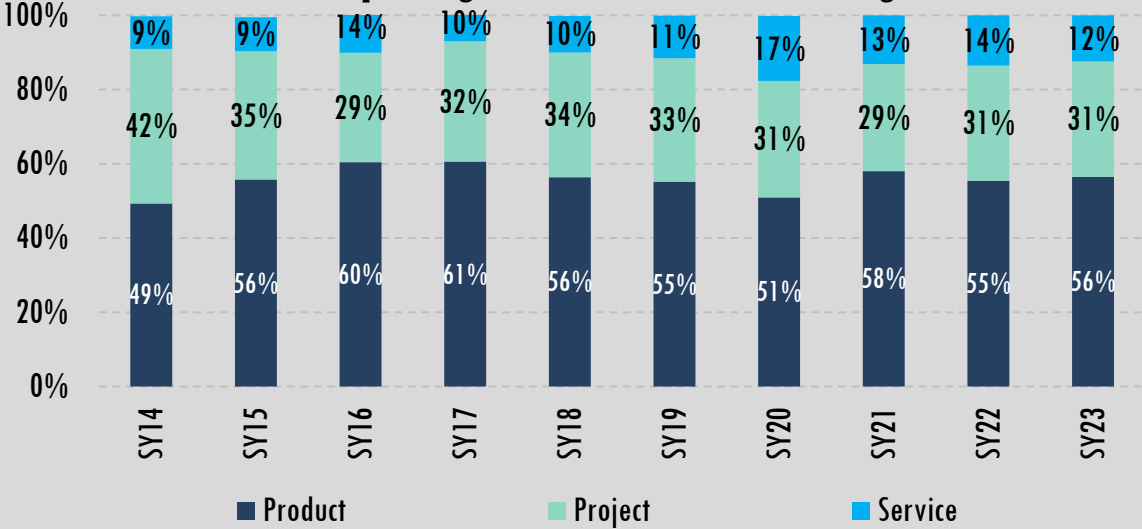
EBITDA margin expected to improve on the better product mix, rising share of products vs. projects and better fixed-cost absorption on higher utilisation



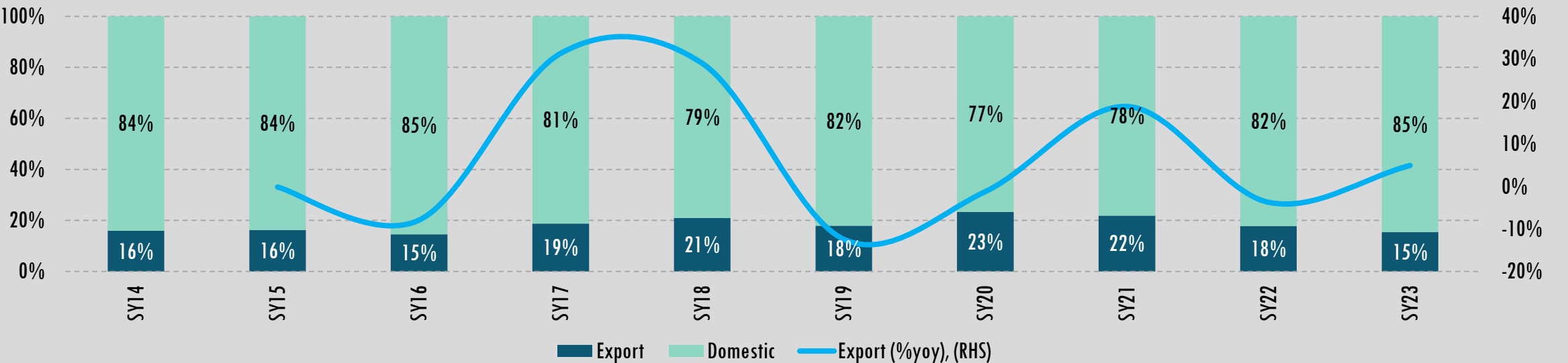
Smart infra segment expected to record a 25% CAGR, followed by mobility (23%), DI (16%) and energy (13%)



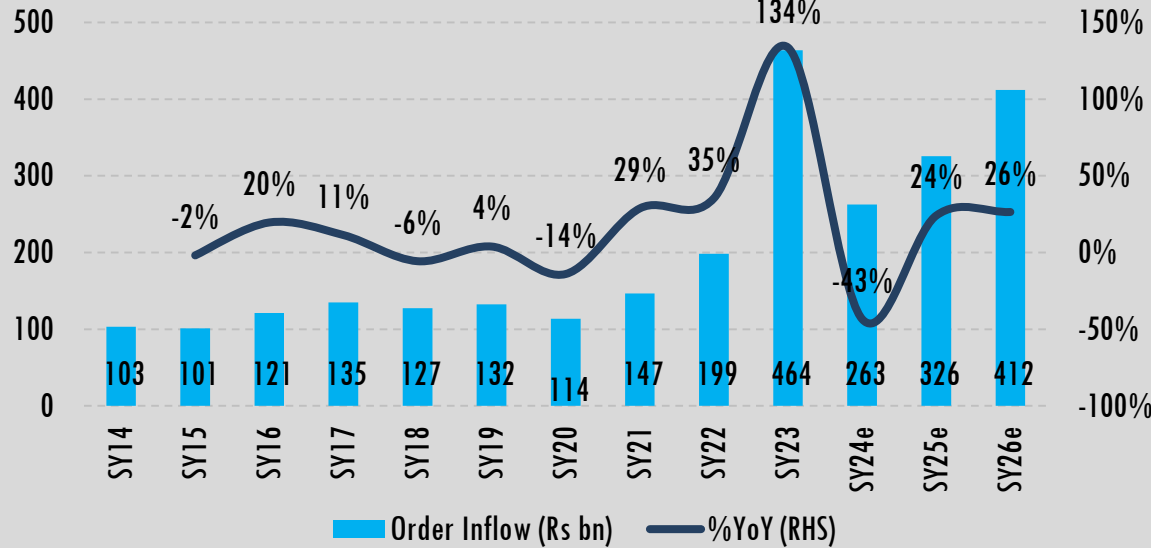
Share of projects in revenue mix fell while that of products rose; this helps in higher execution and a better margin



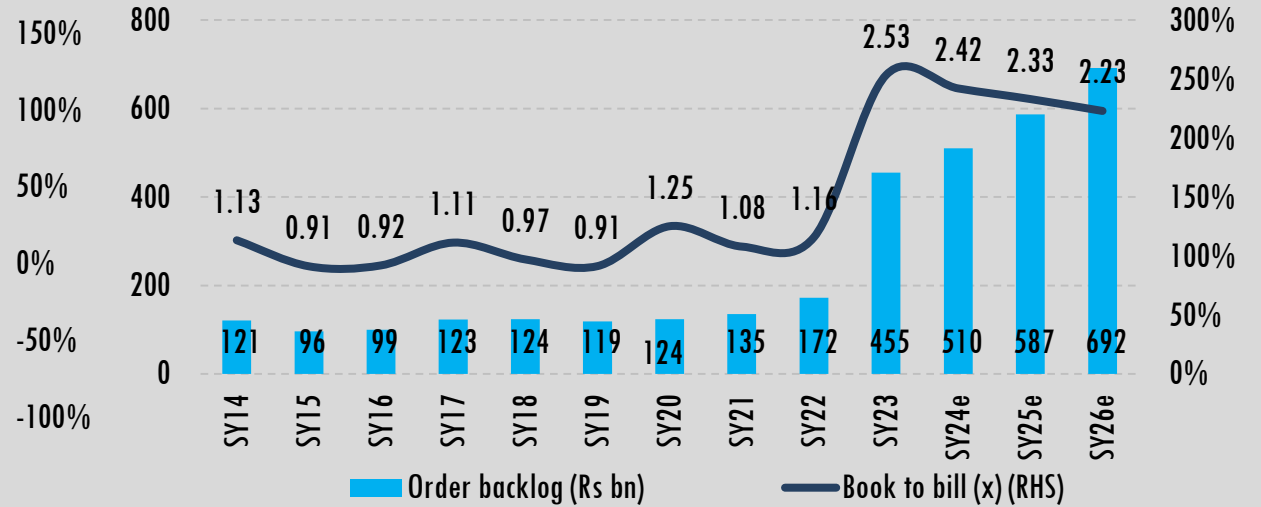
Exports soft due to the subdued global market. However, it increased in absolute terms in SY23, hinting at bottoming exports



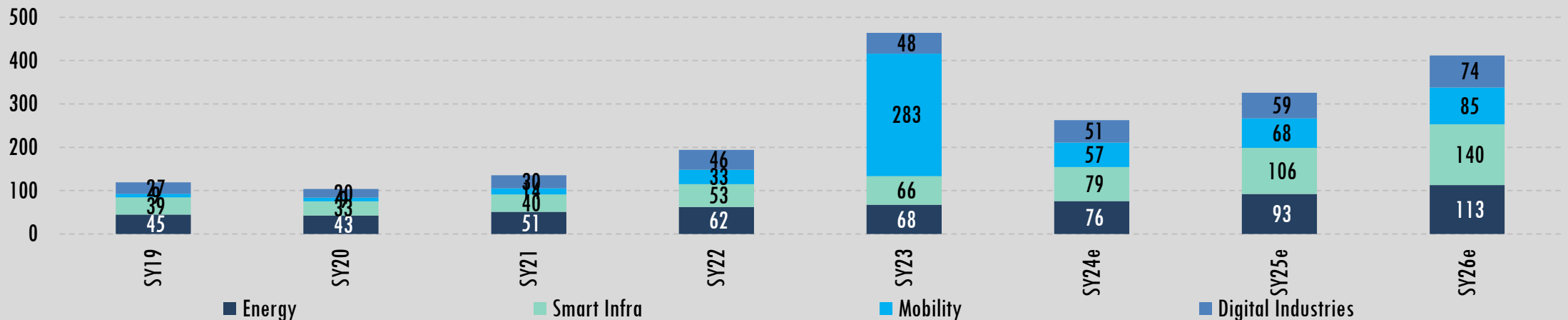
Orders expected to be supported by the strong base order and large orders in power and the Railways



Order backlog at an all-time high in SY23 at Rs455bn on a large order in the motions segment



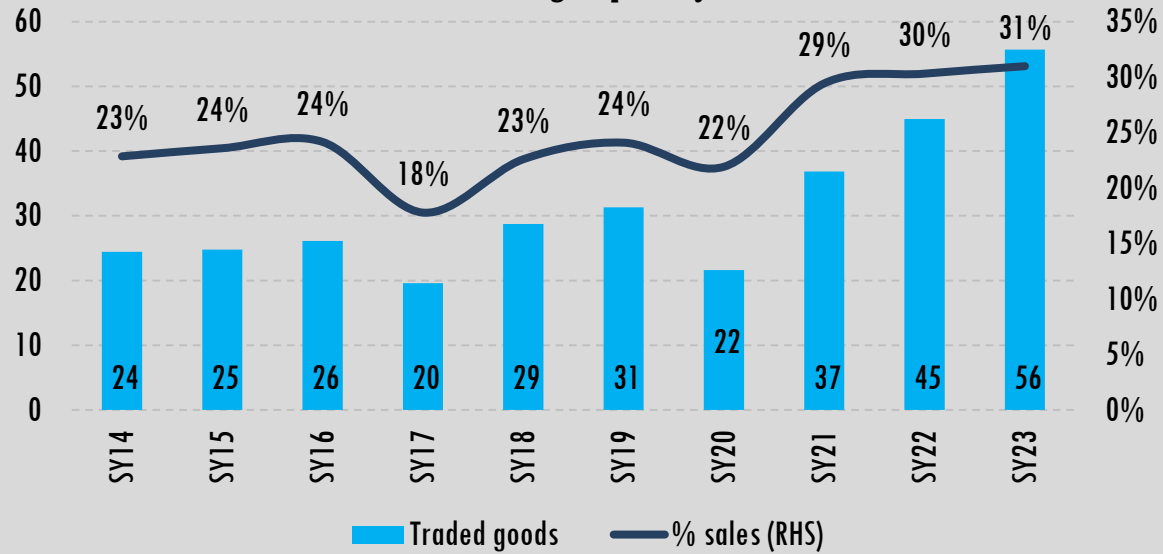
Segment-wise orders: Growth in digital industries was the lowest at 4%, which we expect to be ramped up by FY26. Motions registered locomotive orders of Rs260bn from the Indian Railways in SY23. Smart infra and energy would continue to grow, mainly due to power T&D, data centres and urban infra



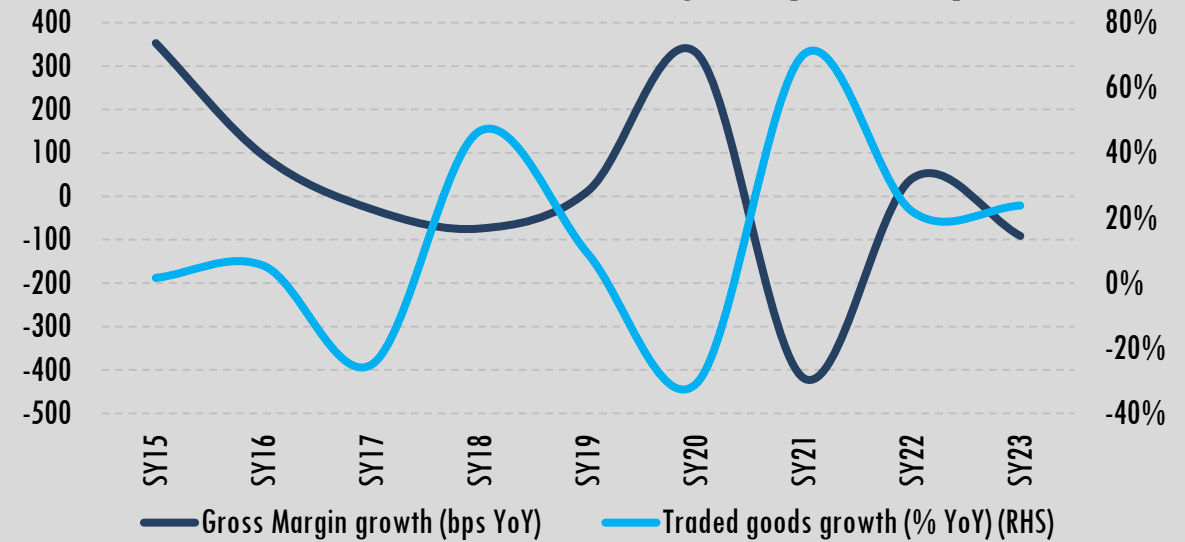
Story in charts

ANANDRATHI

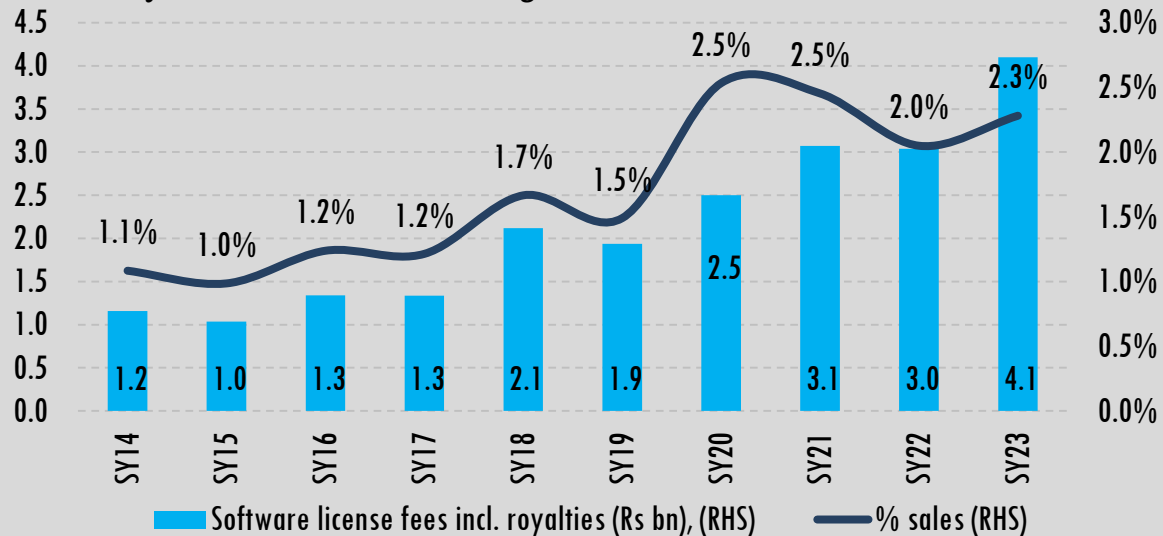
Traded goods as percent of sales rose over the years. They are generally imported from group entity



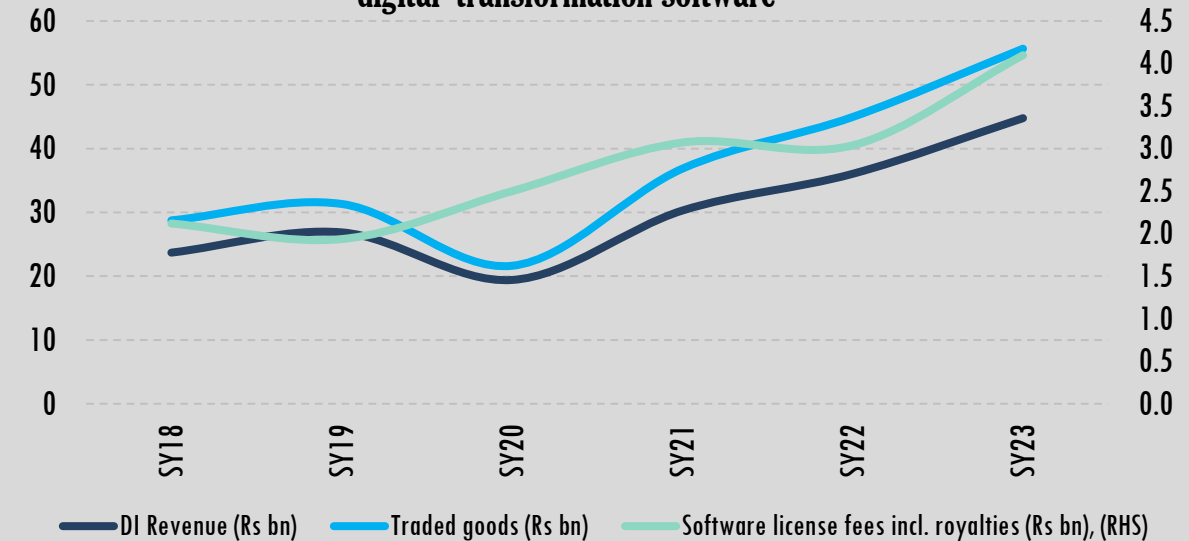
Growth in traded goods is inversely proportional to growth in gross margin. As the extent of localisation increases, margin is expected to improve



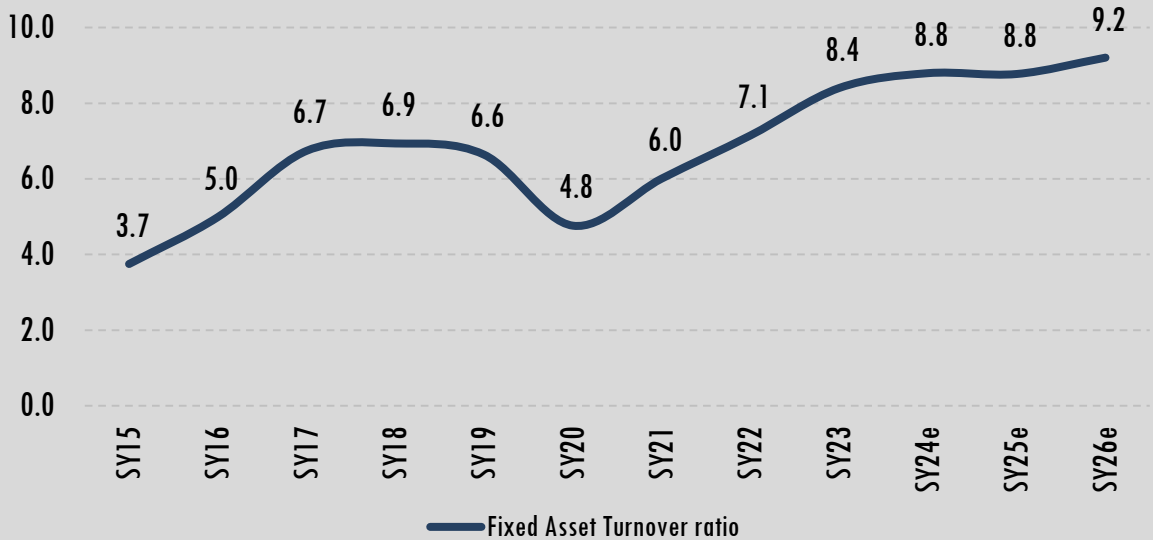
Royalties and software licensing fees were a low 2.3% of sales



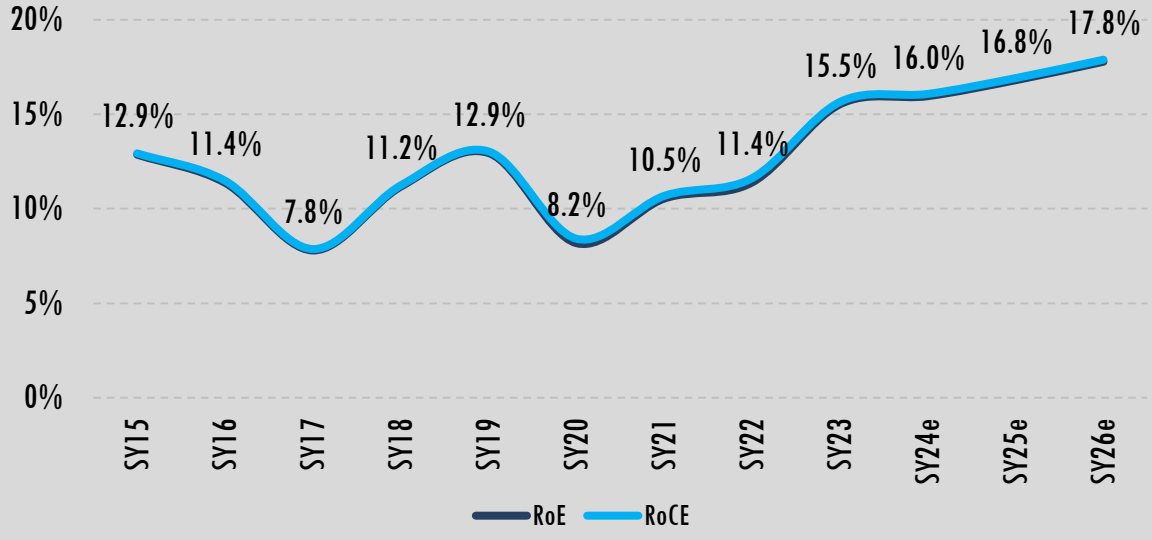
In the digital industries, siemens pays fees to its parent for using the latter's digital transformation software



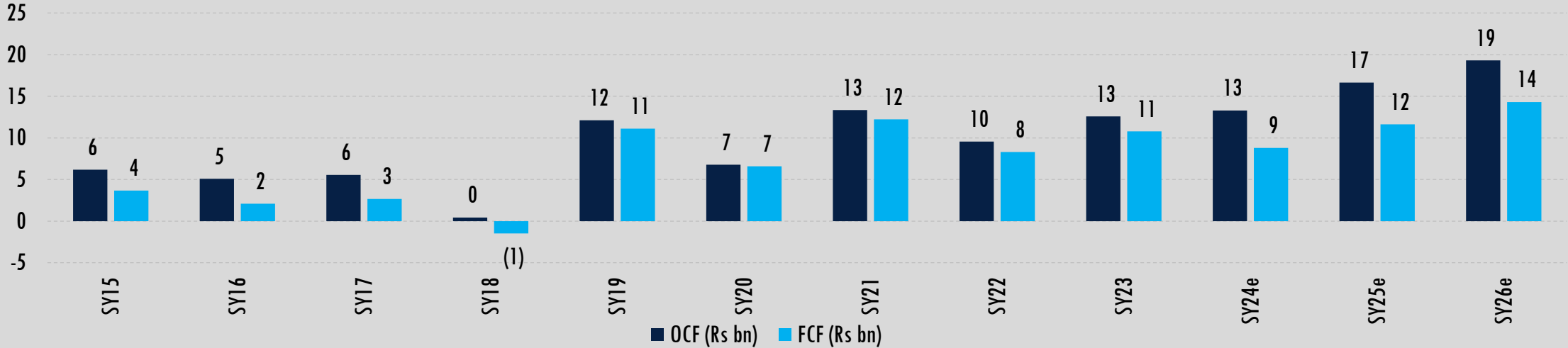
Fixed-asset turnover to improve



Return profile expected to improve on higher EBITDA margins



OCF and FCF expected to ramp up due to higher execution. We build in Rs14.5bn cumulative capex till SY26, to be capitalised mainly by the Railways and Power T&D



Initiating with TP of Rs 5,536

ANAND RATHI

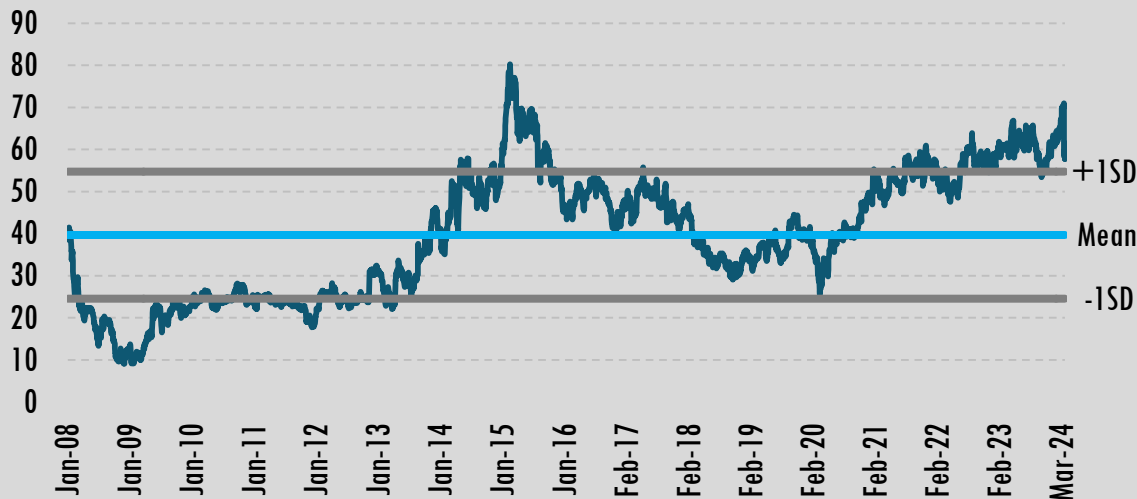
We tried to map the annual price return component and found that, for most of the last 10 years, price returns were mainly driven by expectations of improving fundamentals than by multiples re-rating.

We initiate coverage of the company, with a Hold rating at a TP of Rs.5,536. We value it at 60x P/E on Mar'26e EPS. We have estimated a 20% EPS CAGR (SY23-SY26) while incorporating a 20% revenue CAGR) and the EBITDA margin expanding from 12.5% to 13.4%. We expect the RoE to improve from 15.5% to 17.8%

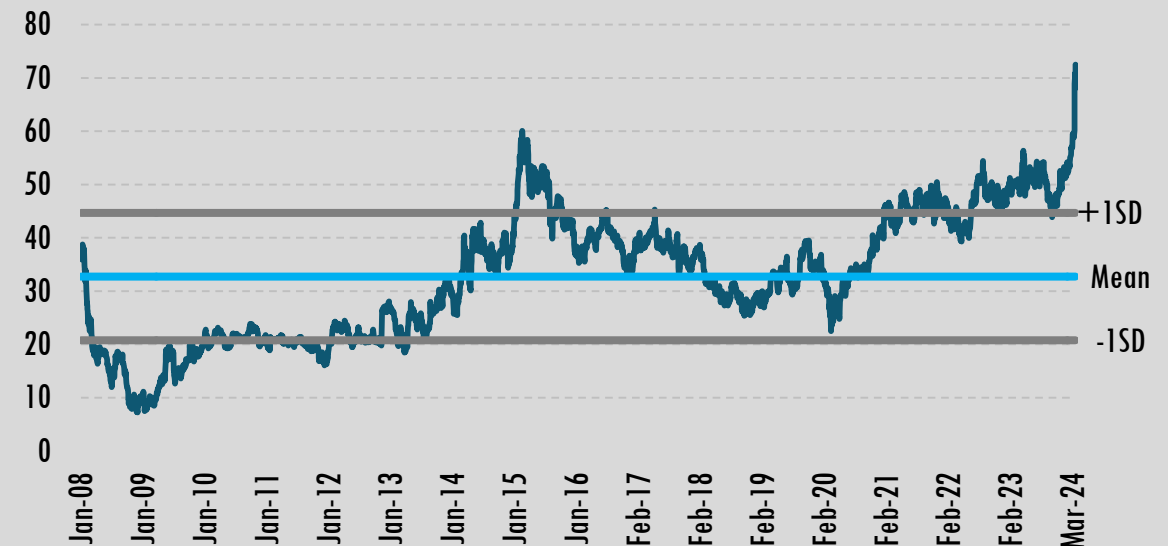
On consensus basis, the stock is currently trade at 1Y/2Y forward PE of 61x/71x much above its LT mean of 33x/40x

	Price growth (y/y)	2y fwd. EPS growth (y/y)	2y fwd. P/E growth (y/y)
SY09	42%	-1%	43%
SY10	49%	9%	37%
SY11	2%	26%	-18%
SY12	-15%	-25%	14%
SY13	-32%	-43%	20%
SY14	75%	30%	34%
SY15	61%	23%	31%
SY16	-4%	12%	-14%
SY17	-4%	12%	-14%
SY18	-20%	-6%	-15%
SY19	62%	24%	30%
SY20	-16%	-9%	-7%
SY21	69%	29%	31%
SY22	31%	20%	9%
SY23	33%	30%	2%

1-year forward PE is 1SD above the long-term mean



2-year forward PE is 1SD above the long-term mean



We expect the following risks to our thesis

- Slowdown in public spending, thereby affecting large orders in the key segments of power and Railways.
- Private capex delayed or investment under PLI not meet government's annual targets
- Factory utilization below the threshold level, thereby delaying capacity-expansion plans
- Hiving off of the energy business at a lower valuation
- Keener competition in key segments to weigh on margins
- Exports tepid for longer than anticipated

Siemens - financial summary

ANAND RATHI

Income statement (Rs m)	SY22	SY23	SY24e	SY25e	SY26e
Closing Order Book	171,830	455,277	509,951	586,916	691,787
Order Inflow	198,509	463,829	262,525	325,793	411,908
Net Revenues	148,315	179,651	210,657	251,815	310,230
<i>Growth (%)</i>	<i>18</i>	<i>21</i>	<i>17</i>	<i>20</i>	<i>23</i>
Material Cost	100,601	123,497	142,378	170,448	210,320
Employee & other expenses	31,644	33,752	41,362	48,024	58,337
EBITDA	16,070	22,402	26,917	33,343	41,573
<i>EBITDA margins (%)</i>	<i>10.8</i>	<i>12.5</i>	<i>12.8</i>	<i>13.2</i>	<i>13.4</i>
Depreciation	2,096	2,235	2,560	3,092	3,652
Other income	3,161	5,487	5,592	5,928	6,568
Interest expense	333	203	223	246	270
PBT (before Exceptional Item)	16,802	25,451	29,725	35,934	44,219
<i>Effective tax rate (%)</i>	<i>26</i>	<i>25</i>	<i>25</i>	<i>25</i>	<i>25</i>
+ Associates/(Minorities)	-	-	-	-	-
Net Income	12,497	19,113	22,243	26,889	33,089
Adjusted net income	12,497	19,113	22,243	26,889	33,089
Exceptional Item	-	-	-	-	-
WANS	356	356	356	356	356
FDEPS (Rs/share)	35	54	62	76	93
<i>EPS Growth (%)</i>	<i>20</i>	<i>53</i>	<i>16</i>	<i>21</i>	<i>23</i>

Balance sheet (Rs m)	SY22	SY23	SY24e	SY25e	SY26e
Share capital	712	712	712	712	712
Net worth	115,959	130,245	148,571	171,543	200,715
Total debt	-	-	-	-	-
Minority interest	-	-	-	-	-
Deferred tax Liability/(Asset)	(2,392)	(2,826)	(2,826)	(2,826)	(2,826)
Other non-current liability	4,468	5,736	6,023	6,324	6,640
Capital employed	118,035	133,155	151,768	175,041	204,529
Net block (incl. intangible)	9,486	9,561	11,501	13,409	14,757
CWIP (tangible and intangible)	493	476	476	476	476
Investments	22,954	22,855	22,855	22,855	22,855
Other non-current assets	14,305	12,326	12,836	12,836	12,836
Current Assets (ex-C&CE)	82,732	93,933	109,379	130,870	157,277
Cash	62,763	72,179	81,903	95,308	111,996
Current Liabilities	74,698	78,175	87,182	100,713	115,669
Working capital	8,034	15,758	22,197	30,157	41,608
Capital deployed	118,035	133,155	151,768	175,041	204,529

Siemens - financial summary

ANAND RATHI

Cash Flow (Rs m)	SY22	SY23	SY24e	SY25e	SY26e
PBT	20,502	25,451	29,725	35,934	44,219
+ Non-cash items	2,096	2,235	2,560	3,092	3,652
Operating profit before WC changes	22,598	27,686	32,285	39,025	47,871
- Incr./ (decr.) in WC	(2,934)	(4,427)	(6,152)	(7,659)	(11,135)
Others including taxes	(10,116)	(10,683)	(12,850)	(14,727)	(17,428)
Operating cash-flow	9,548	12,576	13,283	16,640	19,307
- Capex (tangible + Intangible)	(1,256)	(1,788)	(4,500)	(5,000)	(5,000)
Free cash-flow	8,292	10,788	8,783	11,640	14,307
Acquisitions	(6,641)	(10,780)	-	-	-
- Dividend (incl. buyback & taxes)	(2,849)	(3,561)	(3,917)	(3,917)	(3,917)
+ Equity raised	-	-	-	-	-
+ Debt raised	(739)	(798)	-	-	-
- Interest expense	(239)	(43)	(223)	(246)	(270)
- Misc. Items (CFI and CFF)	7,807	5,198	5,082	5,928	6,568
Net cash-flow	5,631	804	9,724	13,405	16,688

Ratio analysis	SY22	SY23	SY24e	SY25e	SY26e
P/E (x)	79	68	77	64	52
EV/EBITDA (x)	57	55	61	49	39
EV/sales (x)	6	7	8	6	5
P/B (x)	9	10	12	10	9
RoE (%)	11	16	16	17	18
RoCE (%) - After tax	12	16	16	17	18
RoIC (%) - After tax	30	43	43	44	45
DPS (Rs per share)	8	10	11	11	11
Dividend yield (%)	0.3	0.3	0.2	0.2	0.2
Net debt/equity (x)	(0.5)	(0.6)	(0.6)	(0.6)	(0.6)
Receivables (days)	90	91	93	95	95
Inventory (days)	47	46	47	50	50
Payables (days)	95	82	80	80	75
CFO: PAT%	76	66	60	62	58

ABB India

Premiumisation to sustain margins

Rating: HOLD
Target Price: Rs.6,438
Current market price: Rs.5,865

Key data	ABB IN
52-week high / low	Rs5936 / 3137
Sensex / Nifty	72641 / 22012
3-m average volume	\$28.1m
Market cap	Rs1243bn / \$14946.1m
Shares outstanding	212m

Shareholding (%)	Dec'23	Sep'23	Jun'23
Promoters	75.00	75.00	75.00
- of which, Pledged	0.00	0.00	0.00
Free float	25.00	25.00	25.00
- Foreign institutions	10.72	10.17	9.46
- Domestic institution	6.92	7.36	8.06
- Public	7.36	7.47	7.48

ABB India: Premiumisation to uphold margins

ANAND RATHI

ABB India, like Siemens, is also a key beneficiary of the unfolding macro themes and ongoing capex. While Siemens' strength lies in digital transformation, ABB's lies in electrification and automation. Siemens' strength is providing integrated solutions, ABB is more seasoned in its products. ABB after selling its power grid business as part of its strategy to focus on its growing segments now operates in the LV/MV spectra. Siemens on the other hand operates across the voltage spectrum (LV/MV/HV/EHV). ABB is seeing a shift in consumer preference toward premium products, chiefly on the electrification side due to sustainability concerns and consumer demand for reliable products and services. ABB, last year, expanded its MV production capacity anticipating higher demand from segments such as data centres, the Railways and metro-rail.

Considering the ongoing public capex, expectation of pick up in private capex and sustainable demand for premium products, we build in standalone 23/24/23% revenue/EBITDA/PAT CAGRs over CY23-CY26 (CY-Dec-end). We expect ABB to expand its EBITDA margin to 14.6% by CY26 (from 14.3% in CY23), chiefly on the persistent trend of premiumisation, value-based selling and better absorption of fixed costs on higher utilisation. We value it at a higher multiple than Siemens due to its better margins and return profile, which in turn is mainly a function of the greater proportion of product-based orders and lower service-based order, higher level of localization which is margin-accretive, and a growing customer preference for its energy-efficient products. We initiate coverage of ABB with a Hold rating, at a TP of Rs6,438, 70x PE on Mar'26e EPS.

Investment summary

- **Key beneficiary of ongoing capex cycle reflected in more orders.** The company's post-Covid order inflow recorded a 28% CAGR with an Rs84bn order backlog. Most of these are short cycle. The current orderbook's book-to-bill is 0.6x with ~70% constituting products, which are generally fulfilled within a quarter. The company stands to benefit from opportunities in electrification, data centres and the Railways, which are part of its high-growth segment (>15% annually). Its domestic orders since Covid have been increasing every year, reflected in its domestic revenue (90% in CY23, vs. 82% in CY19).
- **Conditions for private capex in place.** Factory utilisation of India Inc. is nearing 75%. As it nears 80%, companies start making capex plans. Also, balance sheets of companies today support the next leg of capacity expansion. Our analysis shows that leverage ratios of almost all sectors improved substantially, post-Covid, chiefly due to robust cash-flows. Other indicators such as outstanding banking credit and the pace of asset addition at the economy and company levels have picked up pace. Government spending also has rendered the environment suitable for private spending. We expect the momentum in private capex to pick up pace later this year. Some companies such as IOC, BPC, ONGC, Maruti Suzuki and Adani Enterprises have already announced many-year capex plans.

ABB India: Premiumisation to uphold margins

ANAND RATHI

- **Premiumisation to support margins.** Post-Covid, customers have started paying premiums for reliable products and services, pushed up by sustainability related concerns, giving an impetus to energy-efficient products like Drives and IE4 rated motors. ~40% of power is consumed by industrial sectors; of this, ~70% is consumed by motors and drives. Given such high levels of power consumption, it is imperative for industries to make added investment in more energy-efficient products. Another demand driver is growth in data centres, where the degree of reliability and availability is extremely high.
- **High level of localisation.** For ABB, traded goods as percent of sales were 8.2% in CY22 (CY23 annual report not yet available), which, compared to Siemens is very low (30% in SY23/22). Much of these traded goods are transactions with its global group entity. With such a seemingly high level of localisation, ABB gross margin considerably improved (37% in CY23 vs. 32% in SY23 for Siemens). In the past, traded goods were less than 4% of sales. We believe that, with the integrated factory opening in Nashik in CY23 which doubled the GIS capacity, and with Rs10bn likely to be invested in the next four years, further localisation has more room.
- **Proportion of large orders increasing, more revenue assurance.** The proportion of large orders in the current orderbook has risen to 15% in CY23 (from ~8% in CY22). Large orders are executed in 18-24 months. ABB expects more large orders ahead mainly in power, the Railways and Data centre segments. Large orders offer revenue assurance, result in less earnings volatility but at the same time have lower margins than smaller orders.
- **Expansion in high-growth segment.** Data centres, the Railways, metro-rail and electrification are high-growth areas (>15%), where the company has expanded capacity. Like this, it has identified 23 segments which are either in high growth, moderate growth or low-growth phases. For now, core industries are part of the low-growth phase (<10%); however, with private capex picking up, this segment would have a larger impact in absolute terms. These form part of its process-automation business (DI segment of Siemens), both of which are subdued.

ABB India - Business segments

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Electrification	Motion	Process Automation	Robotics & Discrete Automation
Distribution solutions (LV and MV)	IEC LV Motors	Energy Industries	Robotics
Smart power	Large Motors & Generators (MV)	Process Industries	Machine automation
Smart buildings	NEMA Motors (LV)	Marine & Ports	
Installation products	Drive Products	Measurement & Analytics	
Power conversion	System Drives		
Service	Service		
	Traction		

(Rs m)	CY19	CY20	CY21	CY22	CY23
<u>Electrification</u>					
Orders	29,690	23,250	27,250	37,160	45,040
<i>% of total orders</i>	<i>42</i>	<i>39</i>	<i>35</i>	<i>36</i>	<i>36</i>
Revenue	30,190	22,220	27,520	35,300	41,772
<i>% of total revenue</i>	<i>40</i>	<i>38</i>	<i>39</i>	<i>41</i>	<i>39</i>
EBIT	2,970	2,340	3,060	4,880	7,746
<i>EBIT margins</i>	<i>9.8</i>	<i>10.5</i>	<i>11.1</i>	<i>13.8</i>	<i>18.5</i>
<u>Motion</u>					
Orders	23,380	23,140	28,780	36,620	51,590
<i>% of total orders</i>	<i>33</i>	<i>39</i>	<i>37</i>	<i>36</i>	<i>41</i>
Revenue	26,180	22,380	25,920	33,670	37,851
<i>% of total revenue</i>	<i>35</i>	<i>38</i>	<i>37</i>	<i>39</i>	<i>36</i>
EBIT	2,420	2,420	3,240	4,120	6,014
<i>EBIT margins</i>	<i>9.2</i>	<i>10.8</i>	<i>12.5</i>	<i>12.2</i>	<i>15.9</i>
<u>Process Automation</u>					
Orders	15,740	12,080	19,330	25,030	24,710
<i>% of total orders</i>	<i>22</i>	<i>20</i>	<i>25</i>	<i>25</i>	<i>20</i>
Revenue	15,630	12,850	14,030	15,730	22,361
<i>% of total revenue</i>	<i>21</i>	<i>22</i>	<i>20</i>	<i>18</i>	<i>21</i>
EBIT	960	(570)	1,280	2,010	2,749
<i>EBIT margins</i>	<i>6.1</i>	<i>-4.4</i>	<i>9.1</i>	<i>12.8</i>	<i>12.3</i>
<u>Robotics & Discrete Automation</u>					
Orders	2,690	1,470	2,590	3,200	3,900
<i>% of total orders</i>	<i>4</i>	<i>2</i>	<i>3</i>	<i>3</i>	<i>3</i>
Revenue	2,720	1,550	2,550	2,330	4,161
<i>% of total revenue</i>	<i>4</i>	<i>3</i>	<i>4</i>	<i>3</i>	<i>4</i>
EBIT	240	50	200	290	530
<i>EBIT Margins</i>	<i>8.8</i>	<i>3.2</i>	<i>7.8</i>	<i>12.4</i>	<i>12.7</i>

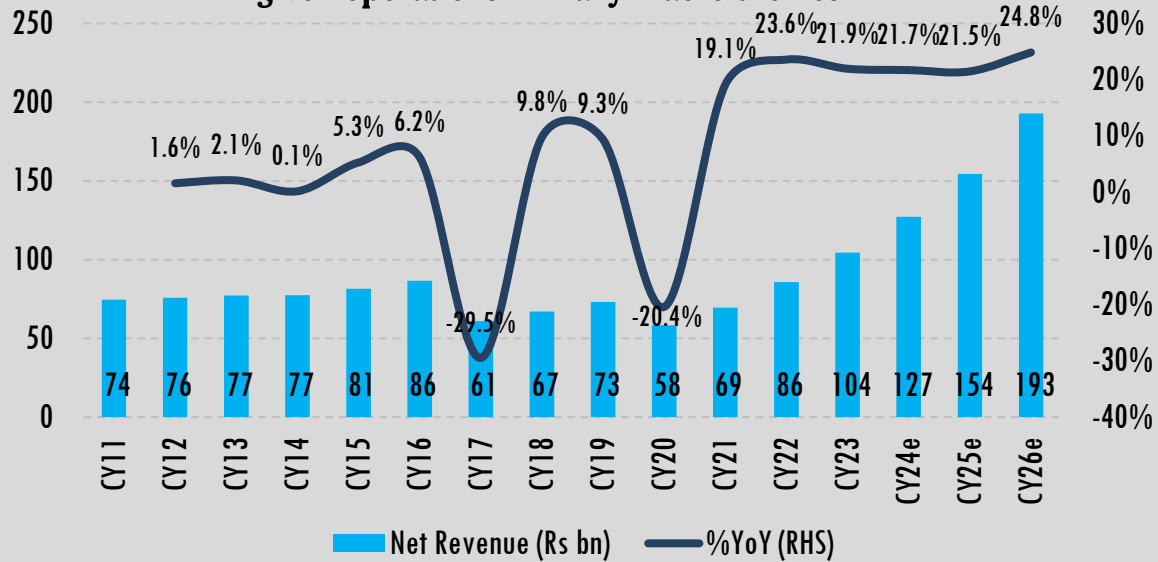
ABB India - product portfolio

Drives	LV Products and Systems	MV Products	Motors and Generators	Power Converters and Inverters	Robotics	PLC Automation	Metallurgy Products	Measurement and Analytics	Industrial Software
LV AC Drives	Busway	GIS	HV induction motors	Traction Converter	Robotics	PLCs	<u>Solutions for:</u>	<u>Devices for:</u>	Operational excellence
MV AC Drives	Cable accessories and apparatus	AIS	IEC LV motors	Auxiliary Converters	Controllers	Modules	Alum. Furnace	Temperature measurement	Process Performance
DC Drives and Controller	Cable distribution cabinets	Motor Control centers	NEMA LV motors	Traction Motors		Control Panels	Arc Furnace	Gas analyser	Asset Performance
PLC Automation	Circuit breakers	Railway switchgear	Generators	Wind-turbine converters		Automation Builder S/W	Ladle Furnace	Spectrometer	Sustainability solution
Connectivity	Earthing & lighting protection	DC traction power supply	Synchronous condenser	Hydrokinetic converters			Slab Casting	Photometer	Connected workforce
Software Tools	Enclosed switches	Substations	Synchronous motors	Converters for grid interconnections			Billet & Bloom casting	Gas Chromatographs	Cyber security
Mobile Tools	Lighting & Emergency lighting	Energy Storage Solution					Tundish	Level measurement	TCMS Software
Motion Services	Enclosures	Contactors						Water Flowmeter	
	Building and Home Automation Soln Modular DIN-Rail products Fusegear Fieldbus devices Motor protection and control Motor controller Power Supplies Safety Products Switches Wire & Cable management Arrancar fuertes Wiring accessories Contactors and relays Motor and Transformer protection Arc guard Electronic relays and control	Disconnectors Isolators Fuses Circuit Breakers Vaccum Interrupters Arc Protection Relays Surge Arrester Protection and Control for - Busbar, Capacitor, Grid Auto, Motor, Transformer, Power generator						Transmitter	

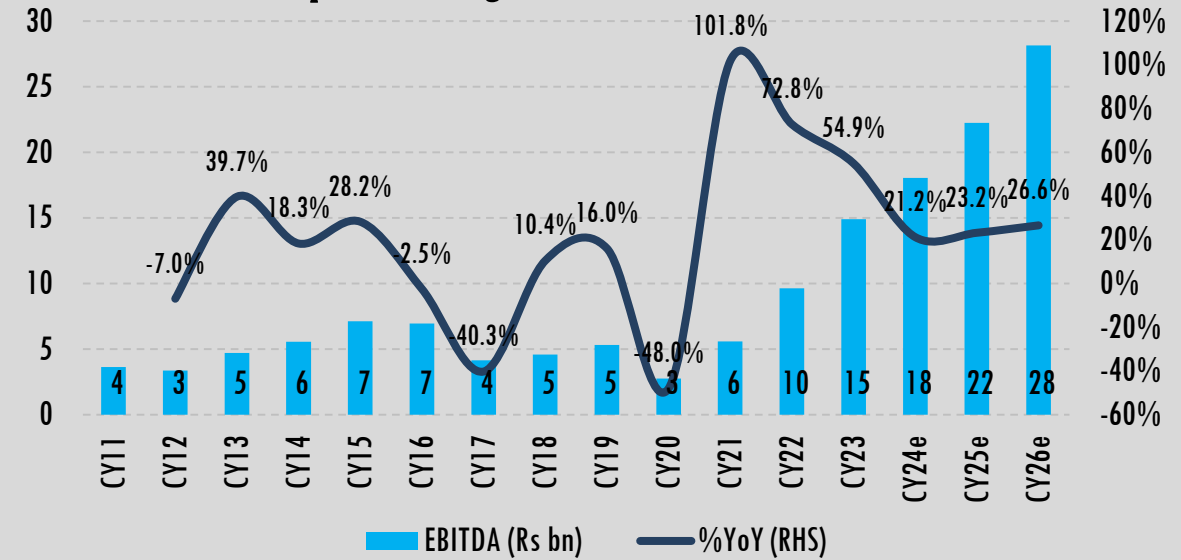
ABB India - Story in charts

ANANDRATHI

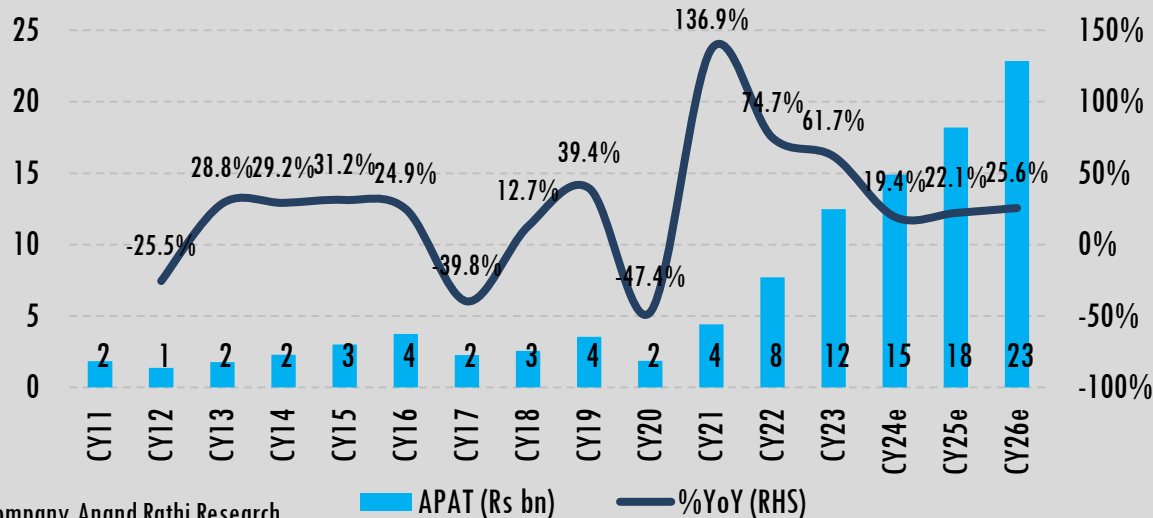
Net revenue expected to record a 23% CAGR over CY23-CY26,
given operations in many macro themes



EBITDA expected to register a 24% CAGR over CY23-CY26



Net profit expected to clock a 23% CAGR over CY23-26



EBITDA margin expected to be high on better product-mix, value-based
selling and more fixed-cost absorption from higher capacity utilisation

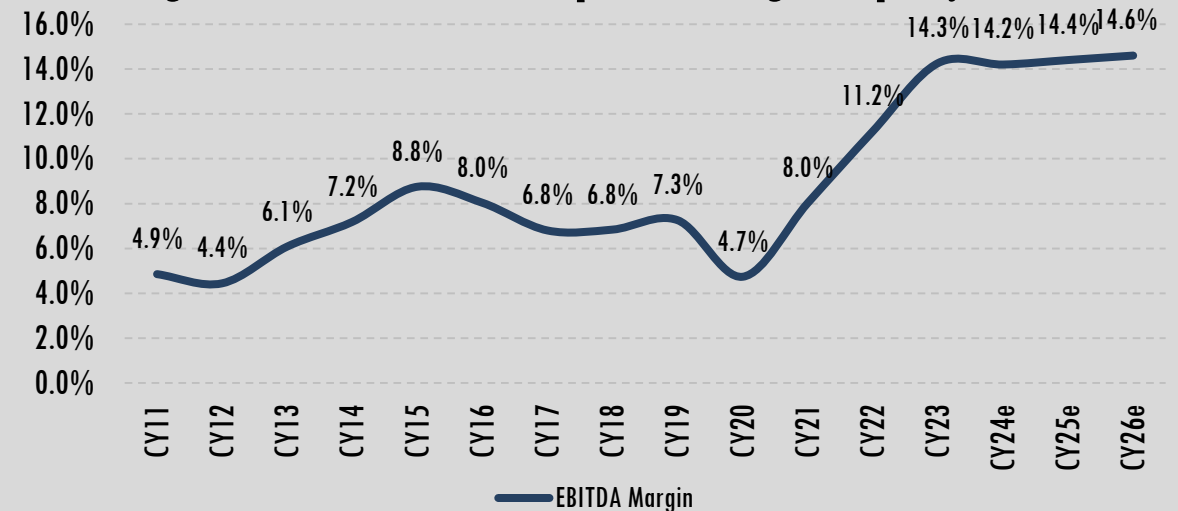
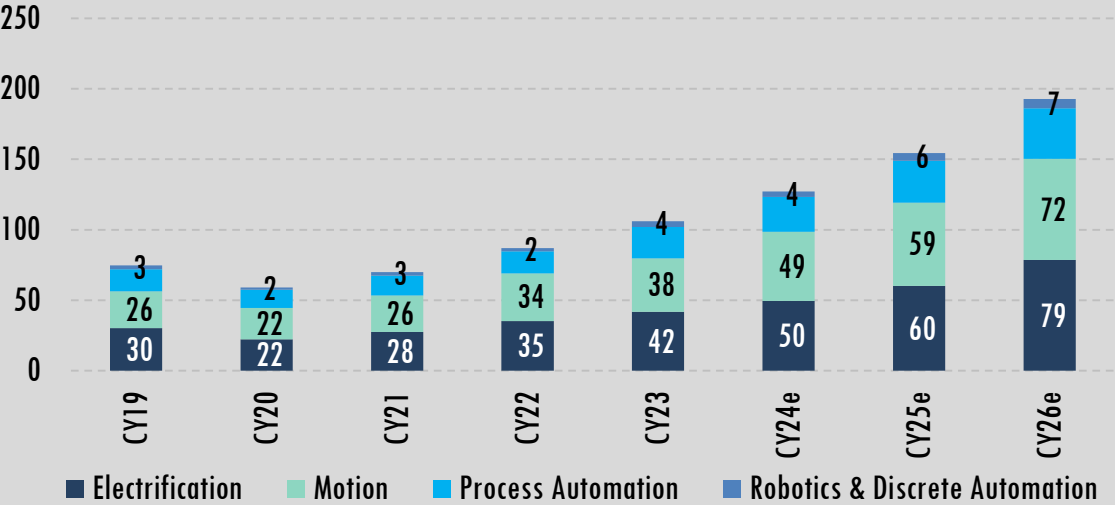
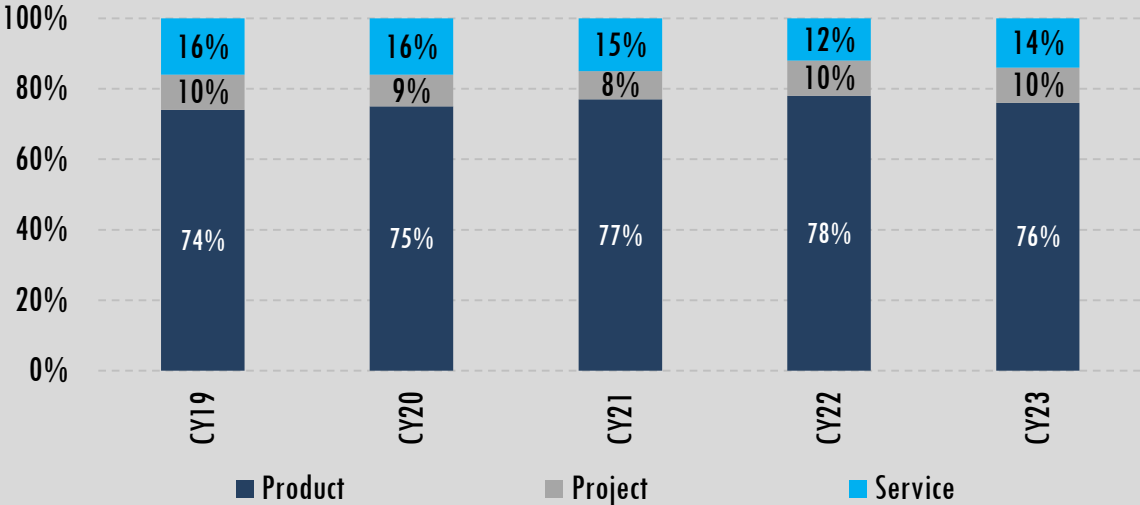


ABB India - Story in charts

Segment-wise revenue (Rs bn): motion/electrification/R&DA/PA to register 23/24/17/17% CAGRs over CY23-CY26



Proportion of product revenue in the mix much more than Siemens', resulting in a better margin profile



Exports soft due to subdued global market. ABB is more focused on domestic market than exports (contribution expected to be low)

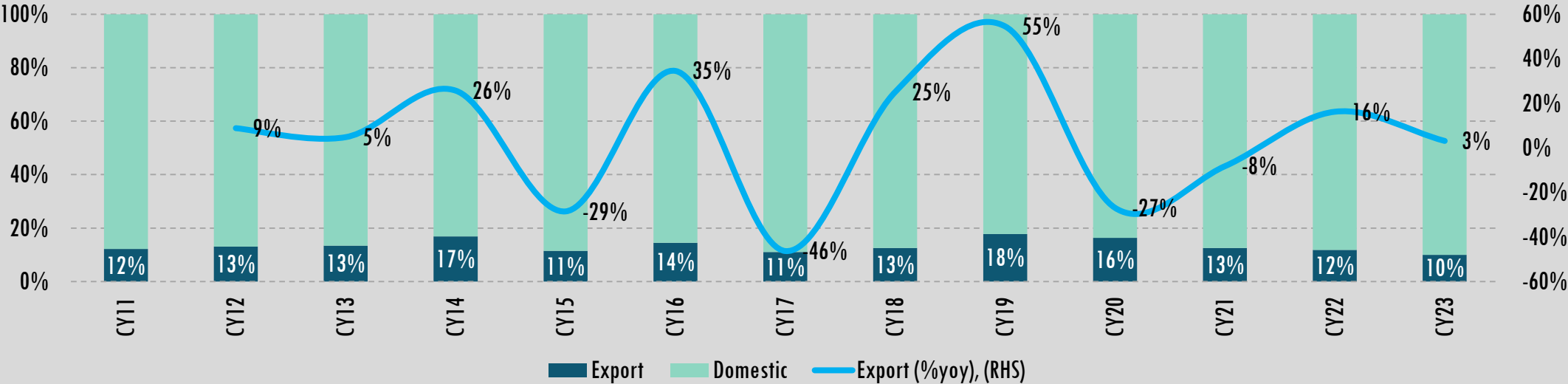
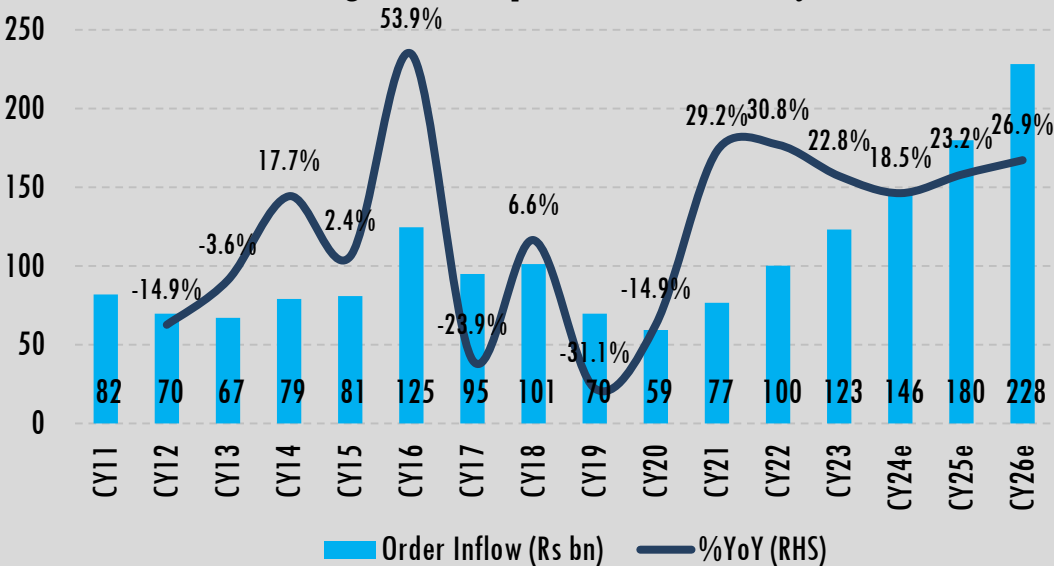


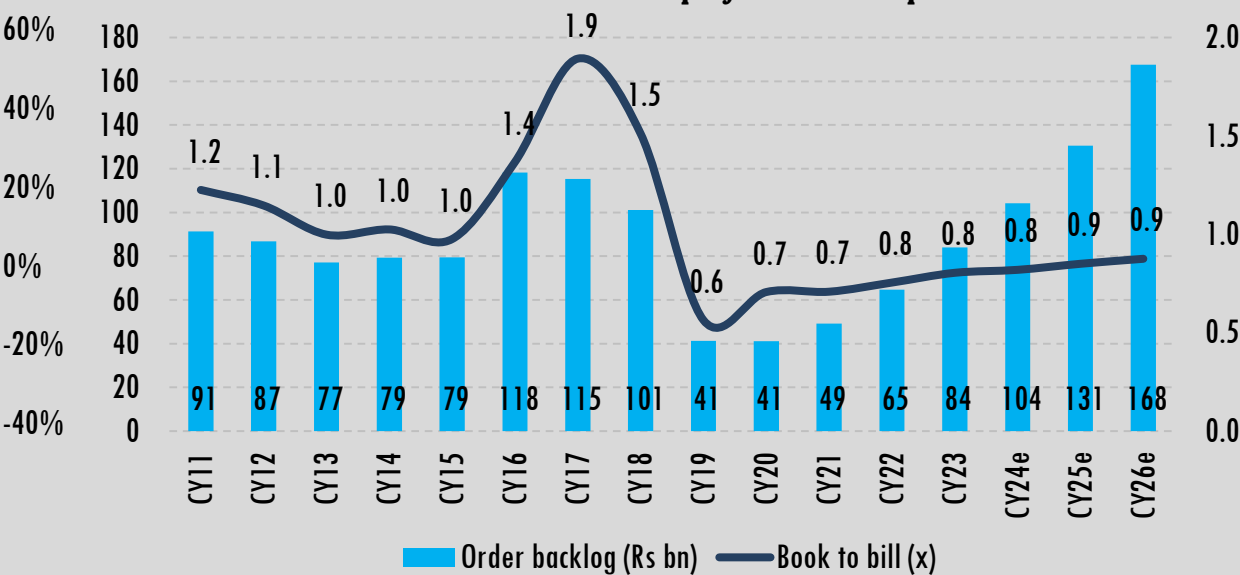
ABB India - Story in charts

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Order inflow expected to be supported by strong base orders as well as large orders in power and the Railways



Order backlog strong, offer revenue assurance. Orderbook-to-bill expected at 1x on account of more project orders expected



Motion and electrification orders robust. Process automation orders subdued; expected to pick up with growing capex in core industries. R&DA orders would be driven by capex uptick in modern plants coming under the PLI and Make-in-India schemes

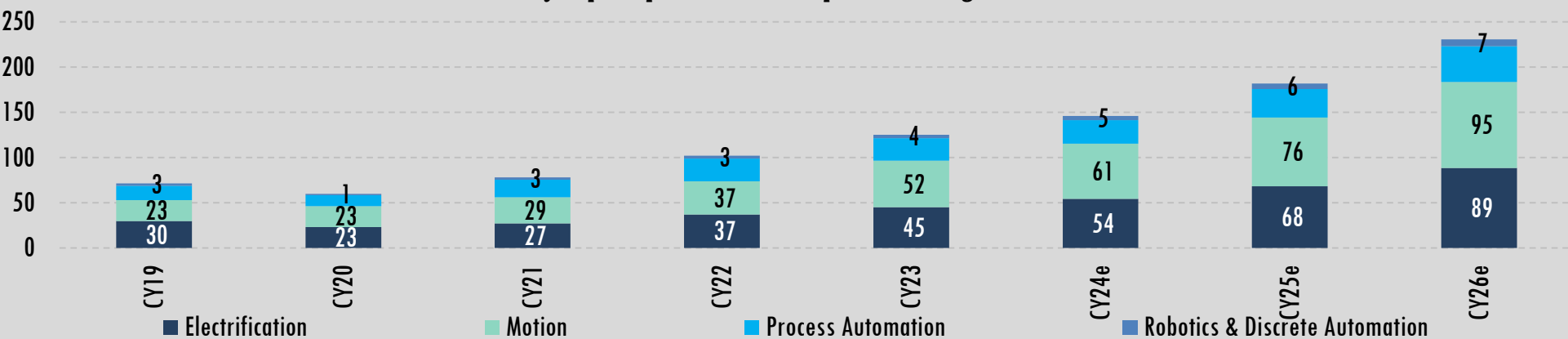
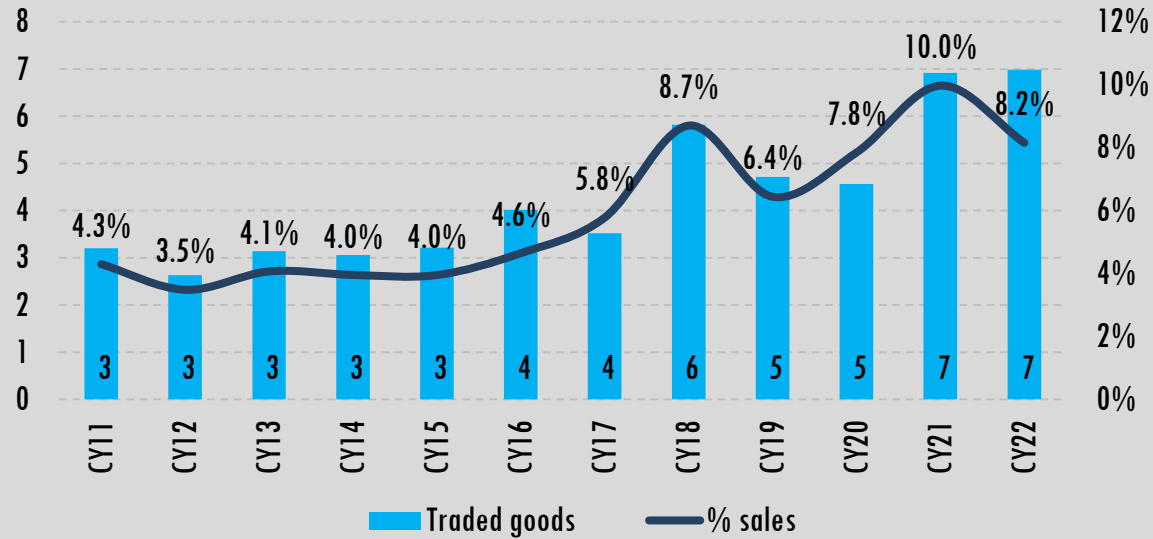


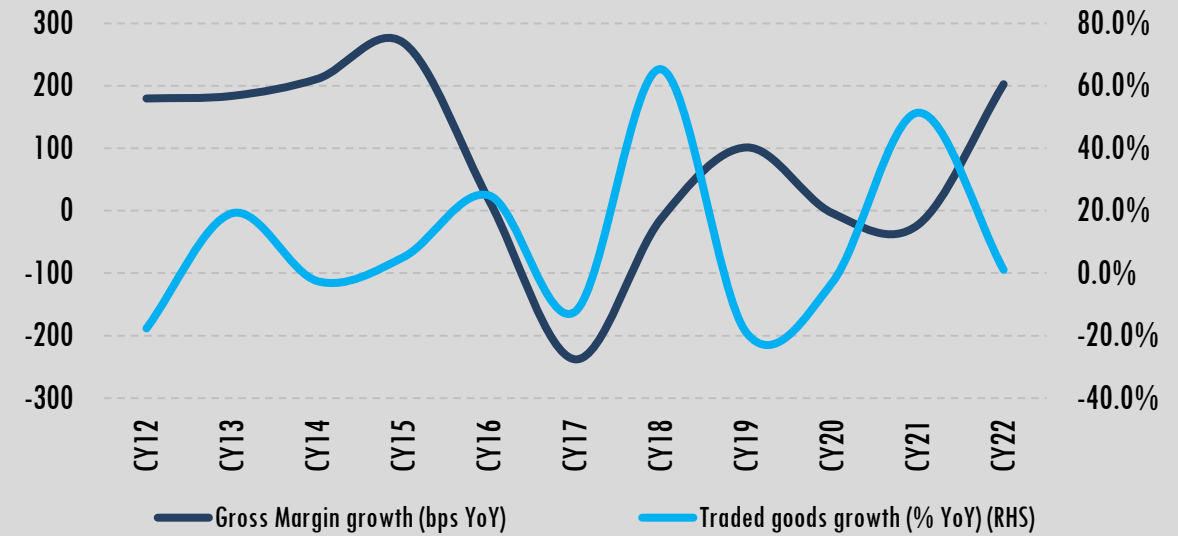
ABB India - Story in charts

ANANDRATHI

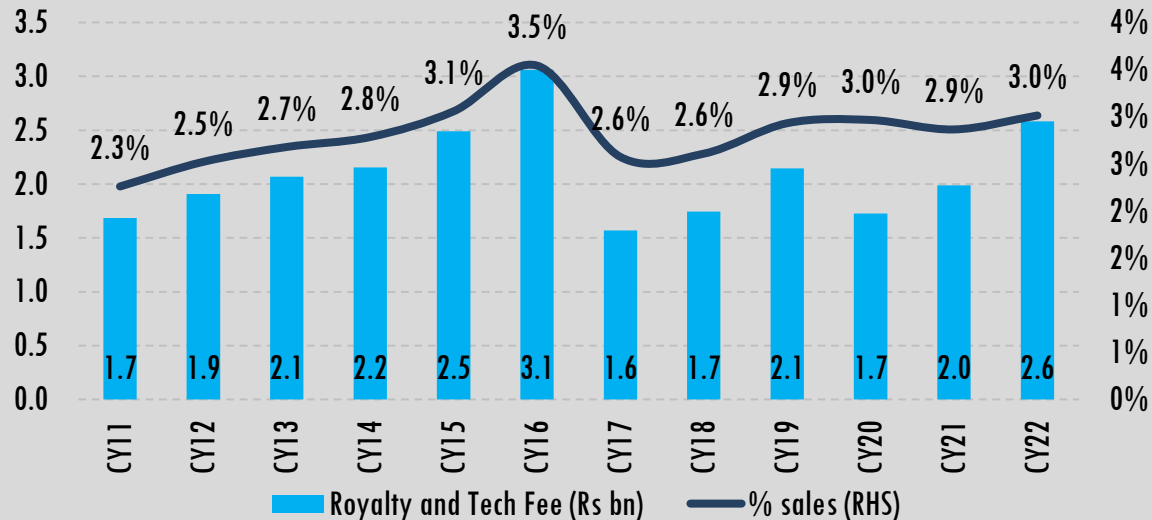
Traded goods as percent of sales decreased in CY22 on the sharper focus on localisation. This is much lower level than Siemens' 31% in SY23



Growth in traded goods is inversely proportional to growth in gross margin



Royalties and tech fees were 3% in CY22, more than Siemens' 2% in SY22



Royalty and tech fees: In the past, ABB has paid more royalties than peer Siemens

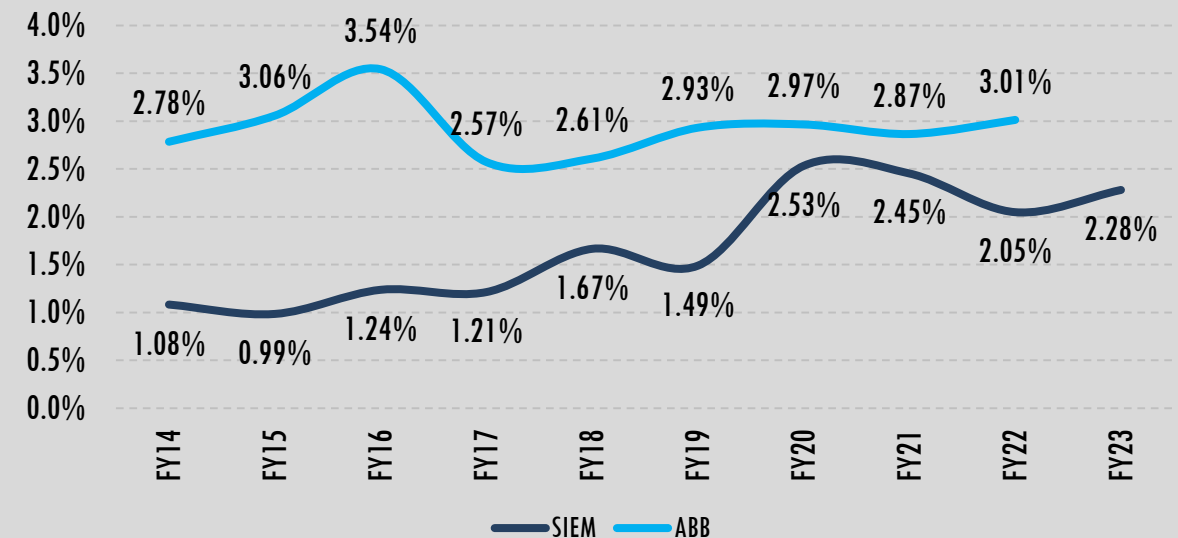
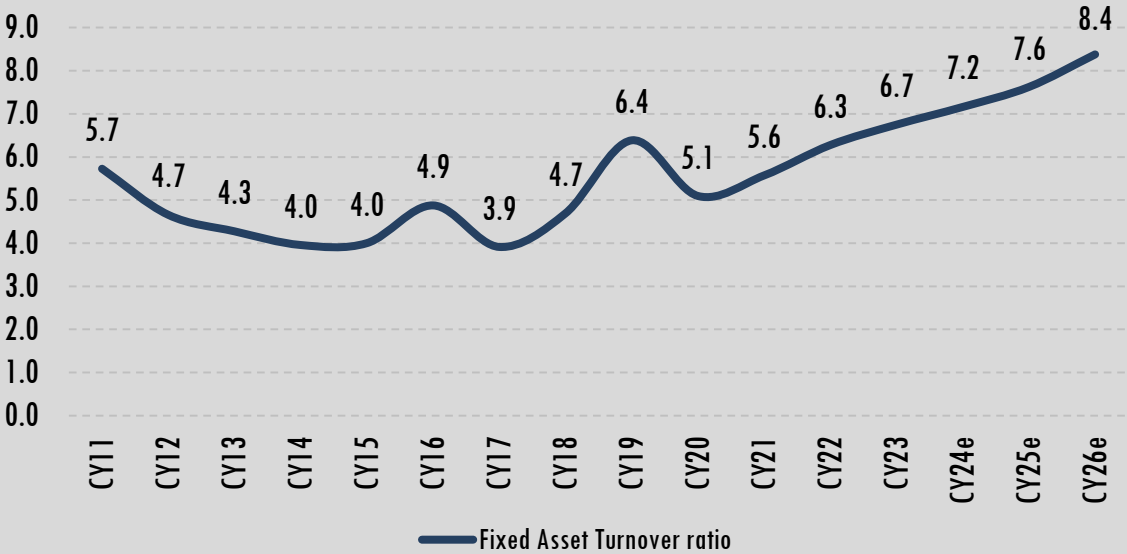
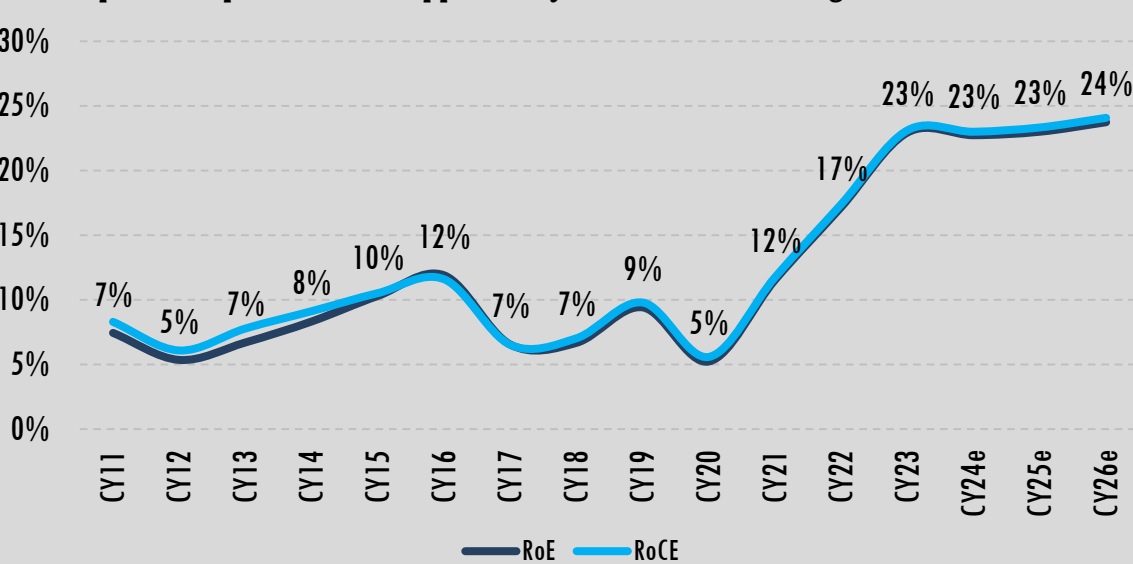


ABB India - Story in charts

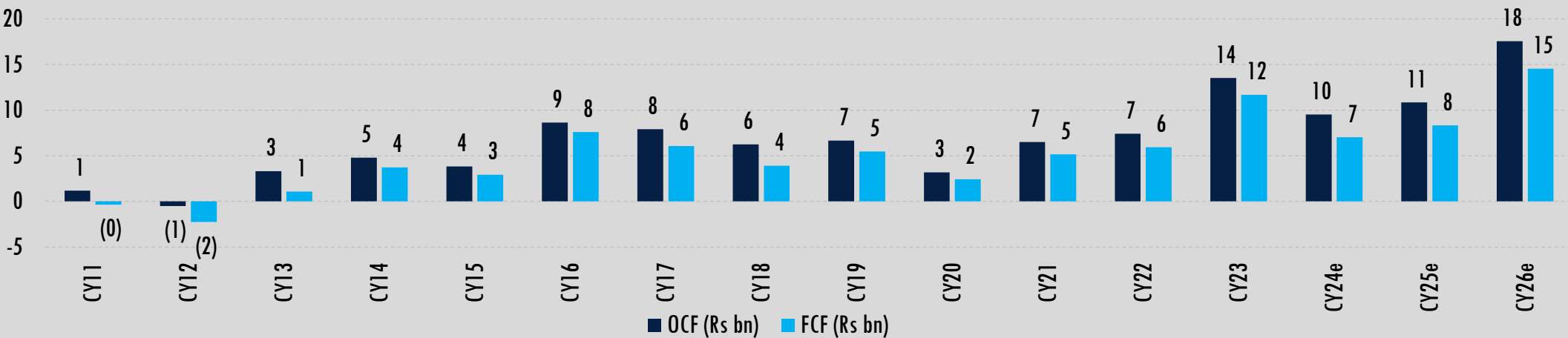
Fixed-asset turnover to improve due to higher execution



Return profile expected to be supported by stable EBITDA margins and better asset utilisation



OCF and FCF expected to ramp up on higher execution. We build in Rs8bn capex for the next three years. ABB announced Rs10bn capex till FY27



We expect the following risks to our thesis

- Slowdown in public spending, thereby affecting large orders in the key segments of power and the Railways
- Private capex delayed or investment under PLI not meeting the government's annual target
- Factory utilization below the threshold level delaying capacity expansion plans
- Premiumisation trend proving to be short-lived and unsustainable
- With ABB focusing on providing integrated solutions, the risk arises in large orders coming in at the cost of margins
- Keener competition in key segments to weigh on margin
- Exports tepid for longer than anticipated

Initiating with TP of Rs 6,438

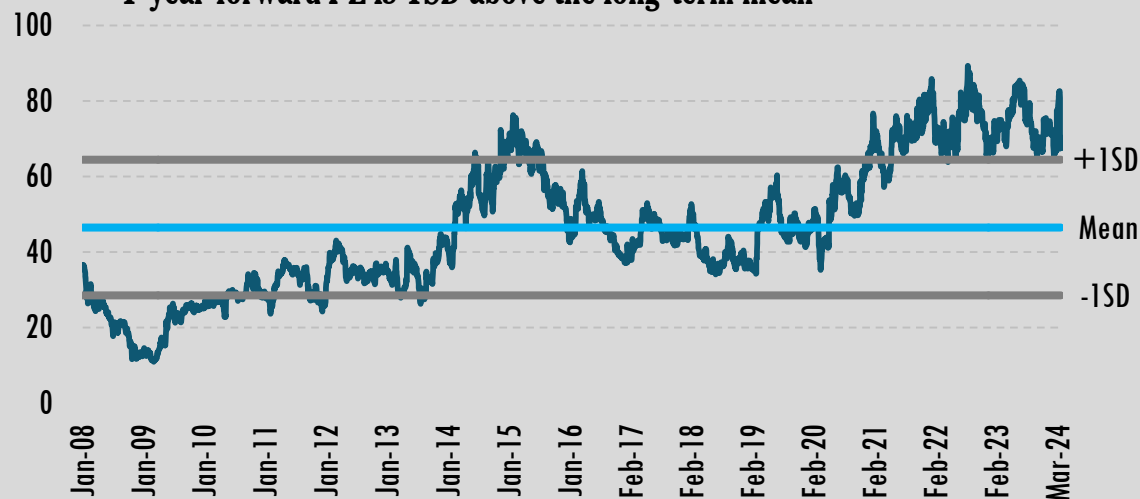
We tried to map the annual price return component and found that, for most of the last 10 years, price returns were mainly driven by expectations of improving fundamentals than by multiples re-rating

We are initiating coverage of the company, with a Hold rating at a TP of Rs.6,438. We value it at 70x P/E on Mar-26e EPS. We estimate a 22% EPS CAGR (CY23-CY26) while incorporating a 23% revenue CAGR and the EBITDA margin expanding from 14.3% to 14.6%. We expect the RoE to improve from 22.9% to 23.7%

On consensus basis, the stock trade at 1Y/2Y forward PE of 70x/82x much above its LT mean of 46x/37x

	Price growth (y/y)	2y fwd. EPS growth (y/y)	2y fwd. P/E growth (y/y)
CY09	70%	-15%	99%
CY10	4%	-2%	6%
CY11	-27%	-16%	-13%
CY12	21%	-9%	32%
CY13	0%	-22%	28%
CY14	87%	31%	42%
CY15	-13%	8%	-20%
CY16	-6%	19%	-21%
CY17	35%	15%	17%
CY18	-4%	6%	-10%
CY19	7%	-4%	12%
CY20	-5%	-31%	37%
CY21	85%	44%	29%
CY22	20%	43%	-16%
CY23	75%	50%	17%

1-year-forward PE is 1SD above the long-term mean



2-year-forward PE is 1SD above the long-term mean

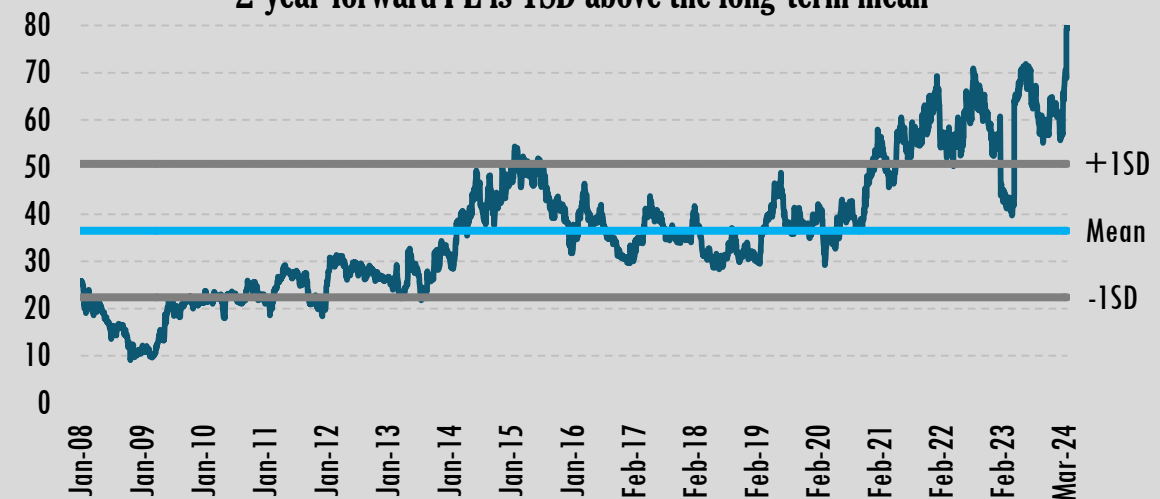


ABB India - Financial summary

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Income statement (Rs m)	CY22	CY23	CY24e	CY25e	CY26e
Closing Order Book	64,680	84,040	102,908	130,216	168,018
Order Inflow	100,280	123,190	146,000	181,722	230,558
Net Revenues	85,675	104,465	127,132	154,414	192,756
<i>Growth (%)</i>	<i>24</i>	<i>22</i>	<i>22</i>	<i>21</i>	<i>25</i>
Material Cost	55,426	66,025	80,729	98,053	122,015
Employee & other expenses	20,630	23,542	28,350	34,125	42,599
EBITDA	9,619	14,898	18,053	22,236	28,142
<i>EBITDA margins (%)</i>	<i>11</i>	<i>14</i>	<i>14</i>	<i>14</i>	<i>15</i>
Depreciation	1,047	1,199	1,372	1,572	1,792
Other income	1,795	3,017	3,468	4,012	4,641
Interest expense	131	127	128	195	262
PBT (before Exceptional Item)	10,235	16,589	20,020	24,480	30,729
<i>Effective tax rate (%)</i>	<i>25</i>	<i>25</i>	<i>25</i>	<i>25</i>	<i>25</i>
+ Associates/(Minorities)	-	-	-	-	-
Net Income	10,256	12,482	14,981	18,318	22,995
Adjusted net income	7,717	12,482	14,981	18,318	22,995
Exceptional Item	3,393	-	-	-	-
WANS	212	212	212	212	212
FDEPS (Rs/share)	36	59	71	86	109
<i>EPS Growth (%)</i>	<i>75</i>	<i>62</i>	<i>20</i>	<i>22</i>	<i>26</i>

Balance sheet (Rs m)	CY22	CY23	CY24e	CY25e	CY26e
Share capital	424	424	424	424	424
Net worth	49,394	59,446	71,730	86,751	106,297
Total debt	-	-	-	-	-
Minority interest	-	-	-	-	-
Deferred tax Liability/(Asset)	(898)	(1,027)	(1,027)	(1,027)	(1,027)
Other non-current liability	285	424	424	424	424
Capital employed	48,781	58,843	71,128	86,149	105,694
Net block (incl. intangible)	8,992	9,940	11,067	11,995	13,202
CWIP (tangible and intangible)	693	599	599	599	599
Investments	-	-	-	-	-
Other non-current assets	3,614	2,971	2,971	2,971	2,971
Current Assets (ex-C&CE)	47,495	47,313	62,695	80,380	100,339
Cash	31,491	48,162	55,717	64,459	80,171
Current Liabilities	43,503	50,142	61,923	74,255	91,588
Working capital	3,992	(2,828)	773	6,124	8,751
Capital deployed	48,781	58,843	71,128	86,149	105,694

ABB India - Financial summary

ANAND RATHI

Cash Flow (Rs m)	CY22	CY23	CY24e	CY25e	CY26e
PBT	13,503	16,507	20,020	24,480	30,729
+ Non-cash items	1,047	1,199	1,372	1,572	1,792
Operating profit before WC changes	14,550	17,706	21,392	26,053	32,522
- Incr./ (decr.) in WC	-194.1	1,696	-3,601	-5,352	-2,626
Others incuding taxes	-6,936	-5,887	-8,378	-9,979	-12,114
Operating cash-flow	7,419	13,515	9,413	10,722	17,782
- Capex (tangible + Intangible)	-1,479	-1,831	-2,500	-2,500	-3,000
Free cash-flow	5,940	11,684	6,913	8,222	14,782
Acquisitions	15,299	-74,893	0	0	0
- Dividend (incl. buyback & taxes)	-1,102	-2,331	-2,697	-3,297	-3,449
+ Equity raised	0	0	0	0	0
+ Debt raised	0	0	0	0	0
- Interest expense	-112.9	-77.3	-128.2	-194.7	-261.6
- Misc. Items (CFI and CFF)	4,256	42,916	3,468	4,012	4,641
Net cash-flow	24,280	-22,701	7,556	8,742	15,712

Ratio analysis	CY22	CY23	CY24e	CY25e	CY26e
P/E (x)	58	79	83	68	54
EV/EBITDA (x)	43	63	66	53	41
EV/sales (x)	5	9	9	8	6
P/B (x)	9	17	17	14	12
RoE (%)	17	23	23	23	24
RoCE (%) - After tax	17	23	23	23	24
RoIC (%) - After tax	43	74	96	83	84
DPS (Rs per share)	5	11	13	16	16
Dividend yield (%)	0.2	0.2	0.2	0.3	0.3
Net debt/equity (x)	(0.6)	(0.8)	(0.8)	(0.7)	(0.8)
Receivables (days)	89	89	95	100	100
Inventory (days)	61	55	60	65	65
Payables (days)	112	109	110	110	110
CFO:PAT%	96	108	63	59	77

Cummins India

Ready for the coming transition

Rating: BUY
Target Price: Rs.3,538
Current market price: Rs.2,898

Key data	KKC IN
52-week high / low	Rs2908 / 1481
Sensex / Nifty	72641 / 22012
3-m average volume	\$19.9m
Market cap	Rs803bn / \$9661.6m
Shares outstanding	277m

Shareholding (%)	Dec'23	Sep'23	Jun'23
Promoters	51.00	51.00	51.00
- of which, Pledged	0.00	0.00	0.00
Free float	49.00	49.00	49.00
- Foreign institutions	16.51	16.46	14.37
- Domestic institution	23.56	22.18	23.97
- Public	8.93	10.36	10.66

Cummins India - Ready for the coming transition

ANAND RATHI

Cummins India is a leader in powergen with superior technology and reach than peers. The powergen industry will transition from 1st Jul'24 to a new set of 'CPCB 4+' emission norms, the most stringent in the world, applicable to diesel gensets of power output up to 800kW (~70% of Cummins' products). Per CPCB, as of 2022, 95% of gensets in the country had <800kW power output. This new norm aims to reduce particulate matter (PM) and nitrogen oxide (NOx) by 90% from exhausts, compared to a CPCB 2 genset. Also, technological requirement from a manufacturer for a CPCB 4+-compliant diesel genset is more challenging. We believe, as the company is already a tech leader in this space, it would expand its margins and hold onto them for a few years before others catch up.

Demand is robust in data centres, commercial and residential realty, infrastructure and manufacturing. Given the momentum in data centres, the company is expecting orders of Rs5bn yearly. Accordingly, we have built in a 23% CAGR over FY23-26 for its powergen business. Demand for spare parts and after-market parts are set to increase on implementation of the new norm as this requires installation of retro-fitted emission-control devices (RECD) for gensets already in use; with the company's' expanding distribution network and reach in tier-2/-3 cities, its distribution segment is expected to see higher growth. We have built in a 25% CAGR over FY23-26 for this segment. The company's industrial vertical is subdued with end-user segments such as construction and mining underperforming, compressors showing signs of revival and the Railways doing well, though from a lower base. Key export markets have been weak till now and the company believes them to have bottomed out. We expect 20/20/21% revenue/EBITDA/PAT CAGRs over FY24-FY26. We initiate coverage on the company with a Buy rating at a TP of Rs3,538, 36x PE on Mar'26e EPS and adding the value (Rs 813) of its subsidiaries and associates.

Investment summary

- **Prime beneficiary of transition to CPCB 4+.** The company is expected to benefit the most once the country transitions to the new norm from 1st Jul'24. This expectation is based mainly on advanced technology required for controlling emissions such as electronic fuel systems, advanced after-treatment systems (ATS), and exhaust-gas re-circulation (EGR) systems. The company is more technologically advanced than peers and, given the complexity of technology this time, we expect it to hold off competition for some time. CPCB 2 was implemented in Apr'14; the emission-control required for this norm was basic, and competition quickly caught up with the technology required, earlier than anticipated. CPCB 1 and 2 transitions were mechanical-to-mechanical engines. CPCB 4+, on the other hand, is mechanical-to-electronic engines; hence, it would be difficult for smaller companies to catch up quickly. Also, since the CPCB 4+ norm is the most stringent in the world, developed markets' demand for such products is expected to be supportive.

Cummins India - Ready for the coming transition

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- **Expected to maintain pricing power, EBITDA margins.** In Q3 FY24, the company sold 25% CPCB 4+ compliant units. Since launch, it has sold 3,000 units cumulatively. Though these products are up to 40% more costly than their CPCB 2 counterparts; the company was able to pass on prices to end-customers. Post-implementation of the norm later this year, depending on competition undercutting Cummins' price, it would have to decide if it is willing to compromise on margins by cutting prices or compromise market share by keeping prices unchanged. During the last transition to the CPCB 2 norm, Cummins had to compromise margins to maintain market share. Its margin from FY15 declined continuously for a few years. This time around, we believe, given the technological challenges in emission control, the company would hold margins at 18%. Support would also come from greater demand in its distribution business segment ie, greater demand for services and spare parts. Distribution is generally a better-margin business for the company.
- **Sharper focus now on distribution.** According to the new norm, it is compulsory for in-use gensets with power output of up to 800kW to reduce 70% emissions, for which a retro-fitted emission-control device would have to be installed. Also, given the mechanical-to-electronic engine transmission, servicing of a genset by a company-certified technician is expected to be preferred. Also, customers have become more sensitive to downtime with more power deficit in the country and the company is providing them more assurance for guaranteed uptime and longer product warranty than before. According to it, it has been underserving customer needs and in recent years has more deeply penetrated smaller cities with more spare parts and components launched (RECD kits, brake linings, funnel fuel filter, power-booster kits, etc.). Another growth area, still at a nascent stage, is the re-conditioning market (North America accounts for 25% of aftermarket sales of the group entity). In India, the company has technological and manufacturing abilities and expects the re-conditioning market to grow.
- **Segment drivers in place.** The powergen segment is supported by data centres, commercial and residential realty, infrastructure and manufacturing demand. Given the high growth in data centres, the company is expecting to clock orders of Rs5bn yearly. Its industrial segment is subdued with end-user segments like construction and mining underperforming, compressors showing signs of revival and the Railways doing well, though from a lower base. Its distribution growth would be led by higher demand for services and spare parts, given the renewed focus on reach and availability. Key export markets have been weak till now and the company believes them to have bottomed out.

Cummins India - Business segments

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Segments	FY18	FY19	FY20	FY21	FY22	FY23	Key end-users / Market
PowerGen	13,330	15,920	14,340	11,309	19,196	25,550	Data centres, real estate, manufacturing, infrastructure
<i>% of total revenue</i>	<i>27</i>	<i>29</i>	<i>28</i>	<i>26</i>	<i>33</i>	<i>34</i>	
Industrial	7,600	9,380	9,750	7,690	9,800	10,470	Railways, Mining, Marine, Defence, Pumps, Oil & Gas, Construction
<i>% of total revenue</i>	<i>15</i>	<i>17</i>	<i>19</i>	<i>17</i>	<i>17</i>	<i>14</i>	
Distribution	12,430	13,450	13,440	12,020	14,709	18,720	
<i>% of total revenue</i>	<i>25</i>	<i>24</i>	<i>27</i>	<i>27</i>	<i>25</i>	<i>25</i>	
Total domestic revenues	33,360	38,750	37,530	32,042	43,131	54,143	
<i>% of total revenue</i>	<i>68</i>	<i>70</i>	<i>74</i>	<i>72</i>	<i>73</i>	<i>73</i>	
Exports	15,740	16,520	12,910	12,210	15,873	20,500	The US, Europe, APAC, LatAM, The Middle East, Africa
<i>% of total revenue</i>	<i>32</i>	<i>30</i>	<i>26</i>	<i>28</i>	<i>27</i>	<i>27</i>	

Cummins India - Wider range of products

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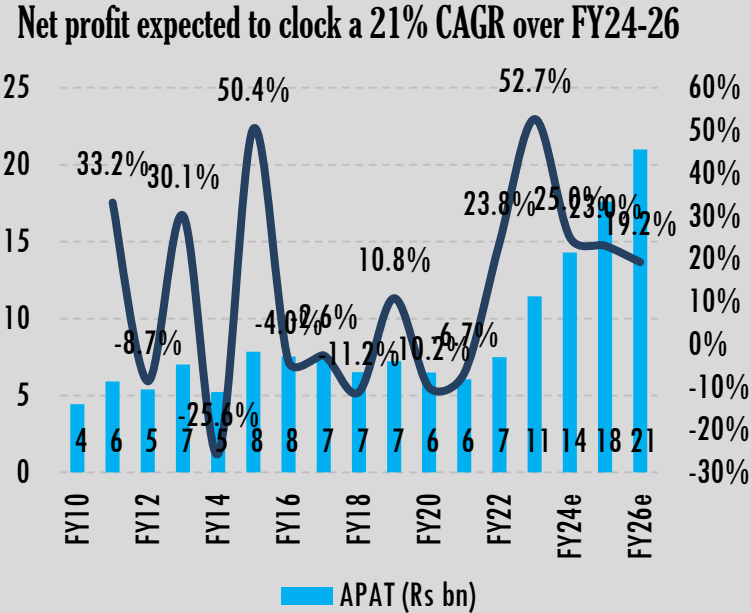
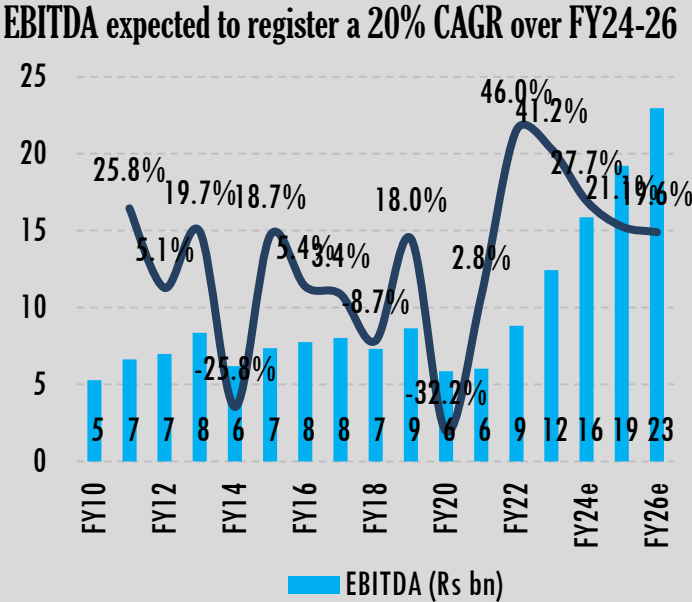
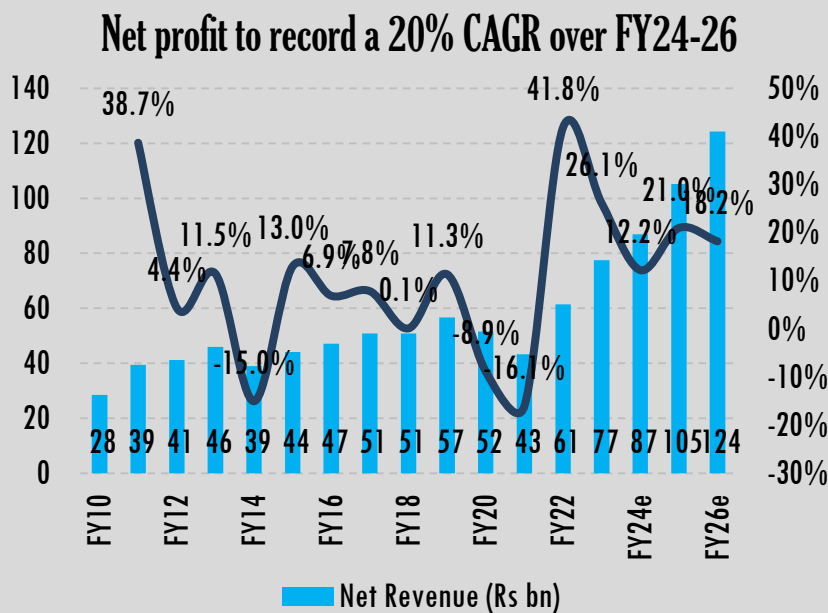
70% of products under CPCB 4+ purview
(40% in 2014)

Diesel genset nodes (kVA)
7.5-15
20-30
35-40
50-62.5
70-82.5
100-125
140-160
180-225
250-320
365-400
500
600-650
750-810
1010
1250-1500
1750-1800
1875-2250
2750-3000
2750-3750

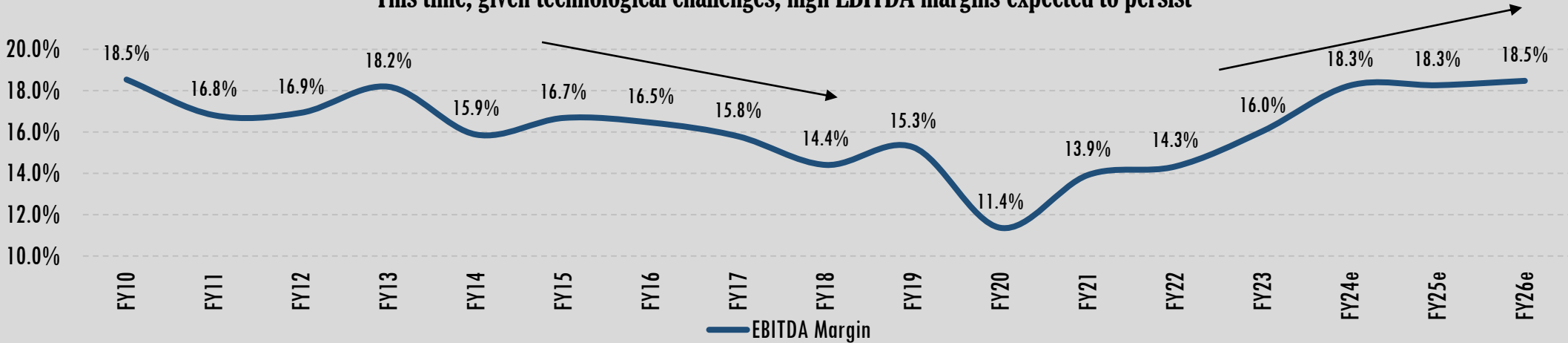
Cummins has more nodes under CPCB 4+ products than its nearest competitor Kirloskar Oil Engines.
Also, its price for a similar node genset is 5-20% higher

CPCB 4+ genset nodes (kVA)	No. of models – Cummins	No. of models - KOEL	Price (Rs '000) - Cummins	Price (Rs '000) - KOEL	Cummins price premium to KOEL
2.8	0	1			
7.5	2	2		260	
10	2	1			
15	2	1	355	315	13%
18.5	1	0			
20	1	1	415	355	17%
25	2	1	515	455	13%
27.5	1	0			
30	1	1	545	475	15%
35	2	0			
40	1	1	645	565	14%
41	1	0			
50	2	0			
58.5	1	1	716	625	15%
82.5	1	1	1020	925	10%
100	1	1			
125	1	1	1220	1040	17%
140	1	0	1351		
160	1	1	1651	1475	12%
180	1	0	1851		
200	1	1	2151	1850	16%
225	1	0	2251		
250	1	1	2310	2150	7%
320	1	1	2700	2450	10%
380	1	0	3710		
400	1	1	3810		
500	1	1	4351	4150	5%
625	0	1			
650	1	0	6751		
750	1	1	6900	6400	8%
Total	34	21			

Cummins India - Story in charts



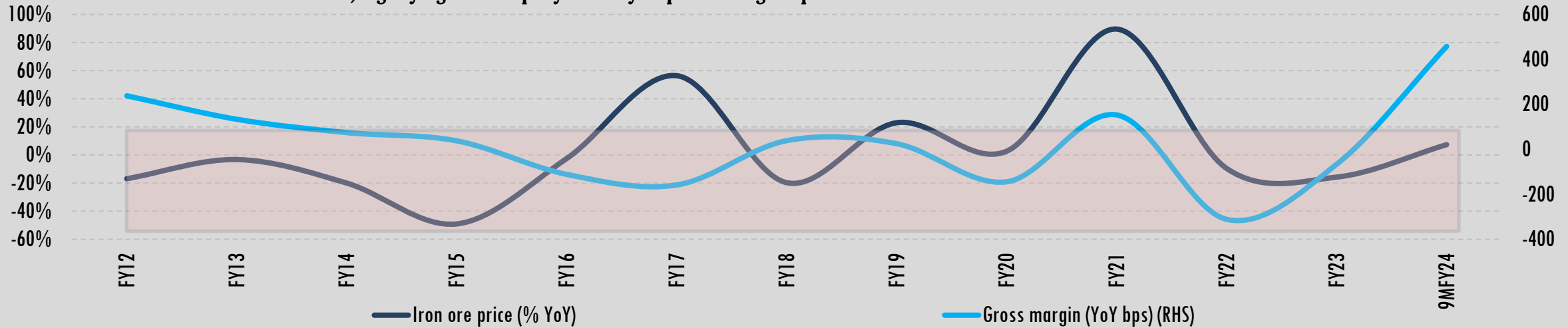
EBITDA margins, post-CPCB 2 implementation, slid due to price cuts to save market share.
This time, given technological challenges, high EBITDA margins expected to persist



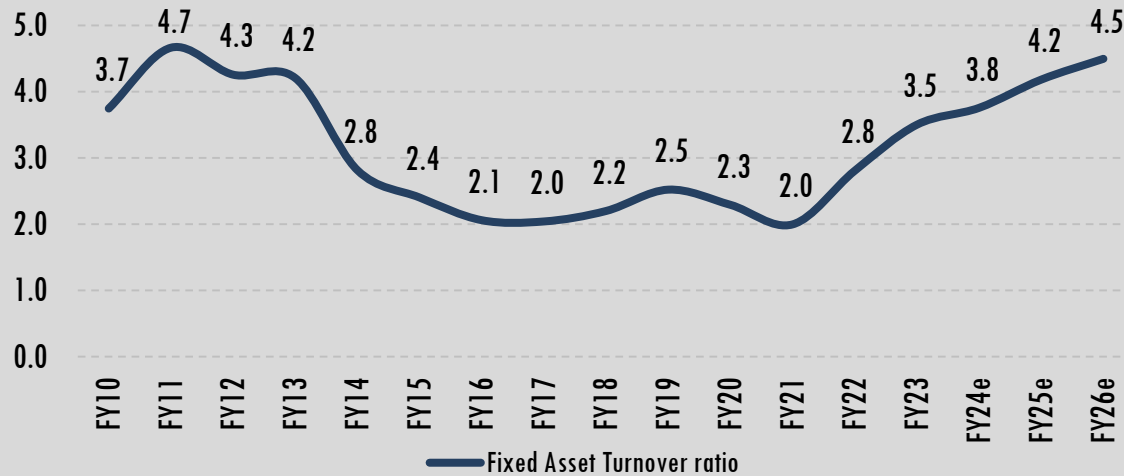
Cummins India - Story in charts

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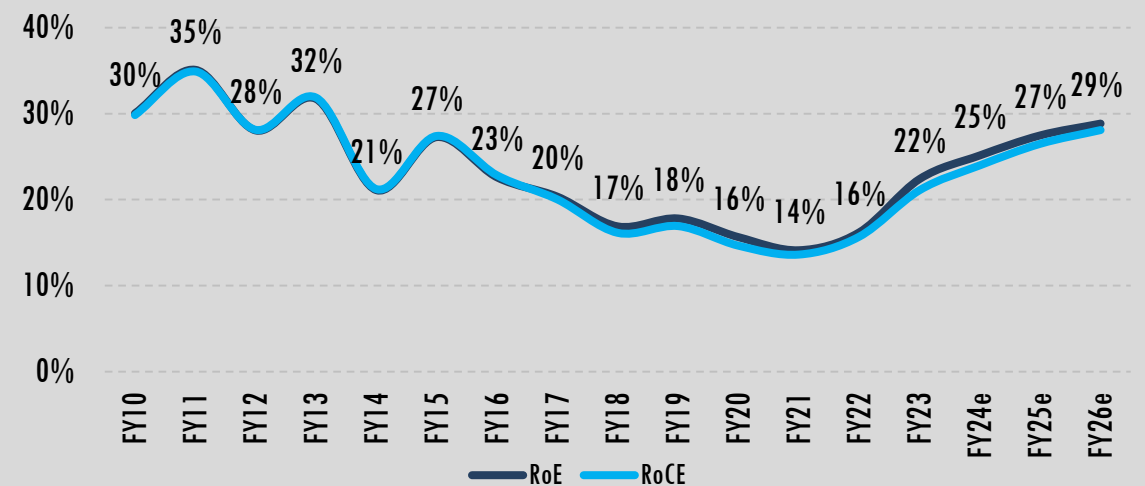
Cummins' gross margins used to be inversely proportional to prices of iron (the cylinder block of an engine is made of cast iron). In recent years, we are seeing a direct relation between the two, signifying the company's ability to pass on higher prices to customers



Fixed-asset turnover to increase on higher execution



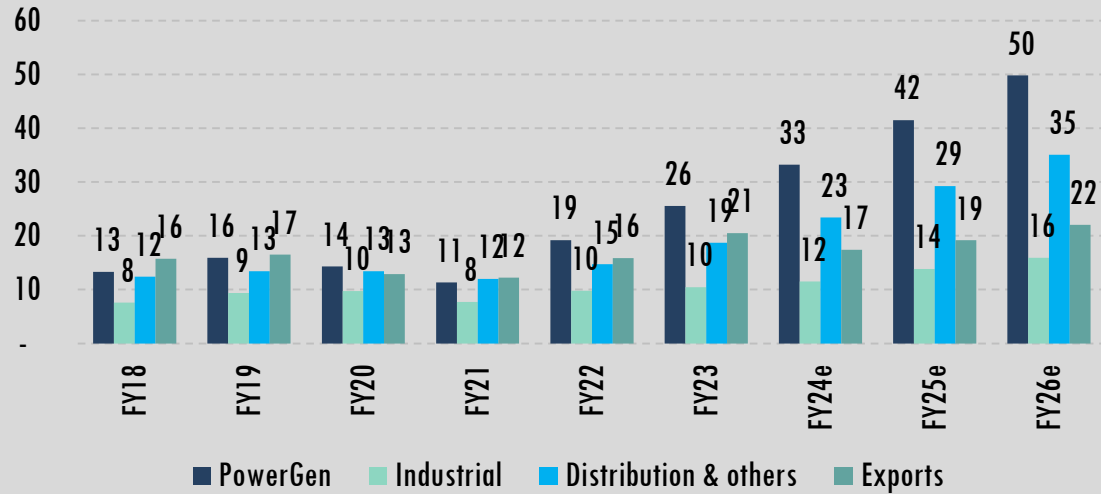
Return profile expected to rise due to higher EBITDA margins and better asset utilisation



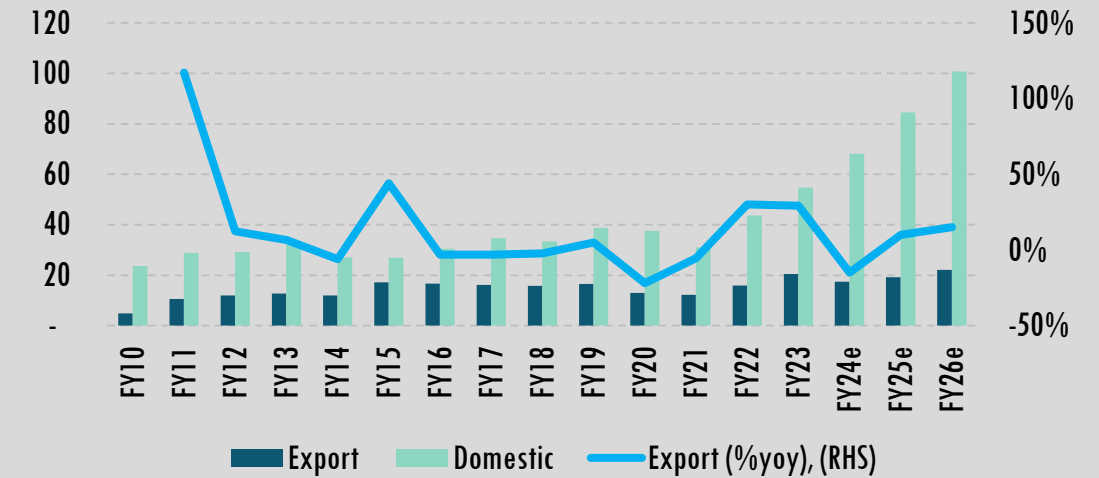
Cummins India - Story in charts

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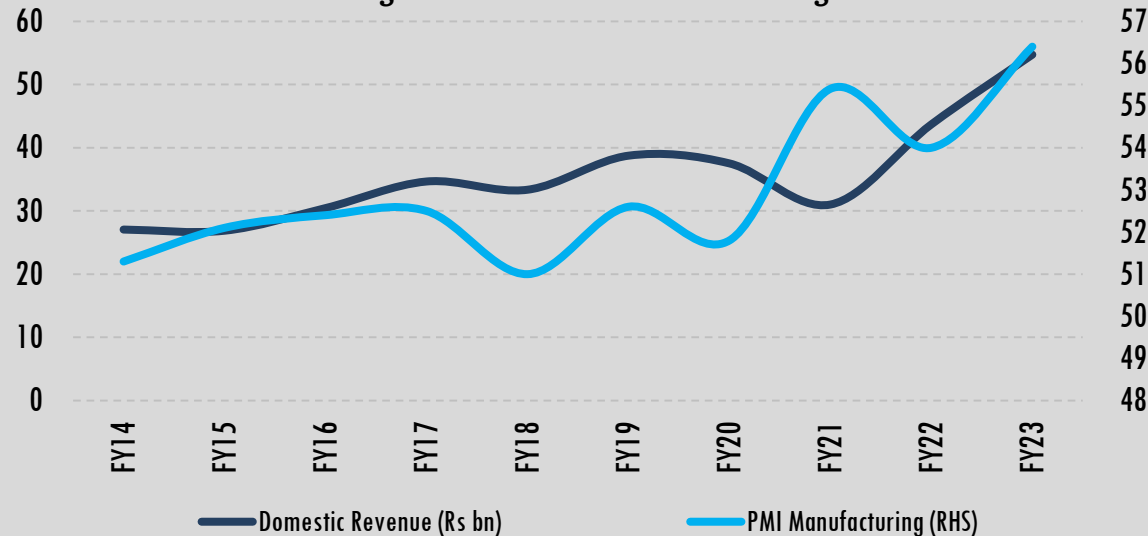
Powergen and distribution contributions to revenue to increase, mainly from the share of exports



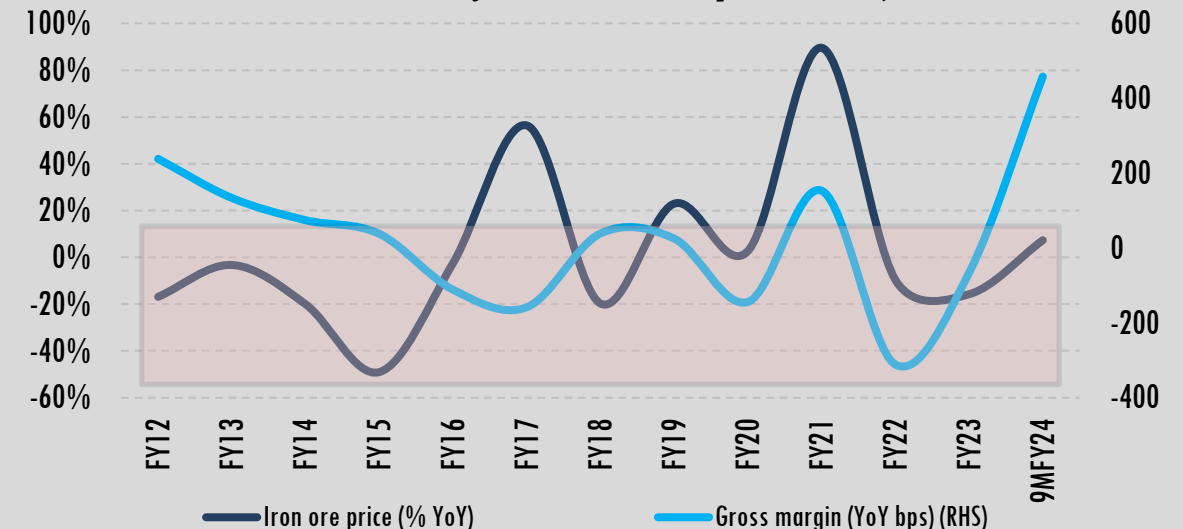
Exports expected to decline in FY24 while gradually picking up in subsequent years



Domestic revenue has high correlation with manufacturing PMI



Export revenue is correlated with India's industrial machinery exports (*representation here is in transactional currency to remove the impact of forex*)



We expect the following risks to our thesis

- More than anticipated slowdown in public spending owing to the elections
- Private capex delayed or investment under PLI not meeting the government's annual target
- Competition catching up on CPCB 4+ transition faster than expected, and undercutting on pricing
- Cutting pricing to maintain market share owing to stiffer-than-anticipated competition
- Further delay in implementing CPCB 4+, giving competition time to catch up on technology required
- Competition under-cutting on after-parts and spare parts for RECD devices, thereby affecting its distribution business
- Exports tepid for longer than anticipated

Initiating with TP of Rs 3,538

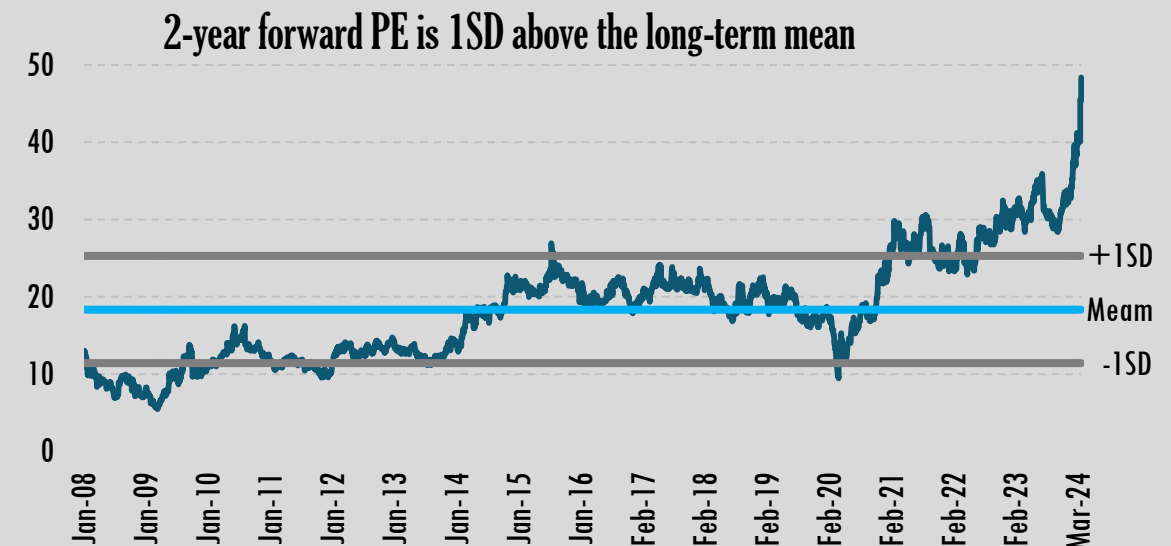
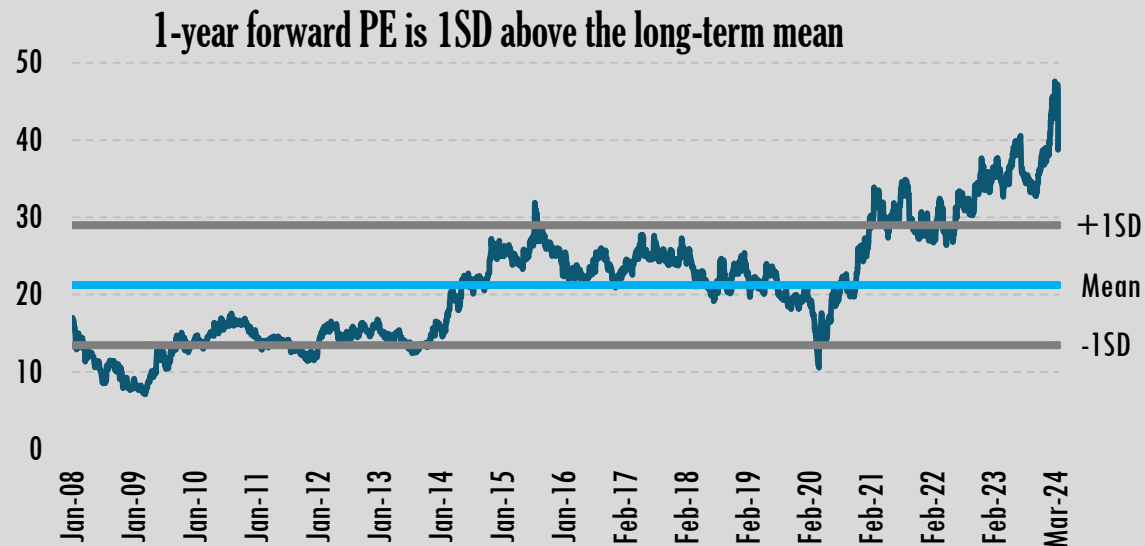
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We tried to map the annual price return component and found that, for most of the last 10 years, price returns were mainly driven by expectations of improving fundamentals than by multiples re-rating

We initiate coverage of the company with a Buy rating at a TP of Rs.3,538. We valuing it at 36x P/E on Mar'26e EPS. We estimated a 21% EPS CAGR (FY24-FY26) while incorporating a 20% revenue CAGR (FY24-FY26) and the EBITDA margin improving from 16% to 18.5%. We expect the RoE to improve from 22.4% to 28.8%

On a consensus basis, the stock trade at 1-yr/2-yr forward-PEs of 42x/48x, much above its LT mean of 21x/18x

	Price growth (y/y)	EPS growth (y/y)	2y fwd P/E growth (y/y)
FY09	-40%	6%	-43%
FY10	185%	55%	84%
FY11	39%	18%	18%
FY12	2%	-13%	16%
FY13	3%	39%	-26%
FY14	23%	-31%	77%
FY15	51%	26%	20%
FY16	-3%	6%	-8%
FY17	15%	38%	-17%
FY18	-25%	-13%	-14%
FY19	9%	-5%	15%
FY20	-55%	-51%	-9%
FY21	189%	91%	51%
FY22	24%	11%	12%
FY23	48%	95%	-24%



Cummins India - Financial summary

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Income statement (Rs m)	FY22	FY23	FY24e	FY25e	FY26e
Net Revenues	61,404	77,444	86,905	105,131	124,261
<i>Growth (%)</i>	<i>42</i>	<i>26</i>	<i>12</i>	<i>21</i>	<i>18</i>
Material Cost	41,068	52,309	56,895	68,998	81,701
Employee & other expenses	11,535	12,709	14,146	16,929	19,597
EBITDA	8,802	12,426	15,863	19,204	22,962
<i>EBITDA margins (%)</i>	<i>14</i>	<i>16</i>	<i>18</i>	<i>18</i>	<i>18</i>
Depreciation	1,340	1,405	1,542	1,544	1,724
Other income	2,875	4,200	4,838	5,999	6,916
Interest expense	115	158	163	138	113
PBT (before Exceptional Item)	10,221	15,064	18,996	23,521	28,042
<i>Effective tax rate (%)</i>	<i>24</i>	<i>24</i>	<i>25</i>	<i>25</i>	<i>25</i>
+ Associates/(Minorities)	-	-	-	-	-
Net Income	8,867	11,298	14,304	17,601	20,984
Adjusted net income	7,493	11,441	14,304	17,601	20,984
Exceptional Item	1,373	(143)	-	-	-
WANS	277	277	277	277	277
FDEPS (Rs/share)	27	41	52	63	76
<i>EPS Growth (%)</i>	<i>12</i>	<i>15</i>	<i>16</i>	<i>17</i>	<i>17</i>

Balance sheet (Rs m)	FY22	FY23	FY24e	FY25e	FY26e
Share capital	554	554	554	554	554
Net worth	48,527	53,680	60,117	68,037	77,480
Total debt	3,933	3,500	3,000	2,500	2,000
Minority interest	-	-	-	-	-
Deferred tax Liability/(Asset)	971	1,057	1,057	1,057	1,057
Other non-current liability	1,229	1,630	1,630	1,630	1,630
Capital employed	54,660	59,867	65,804	73,224	82,167
Net block (incl. intangible)	12,254	12,030	12,487	12,944	14,220
CWIP (tangible and intangible)	608	413	413	413	413
Investments	10,164	10,563	10,563	10,563	10,563
Current Assets (ex-C&CE)	30,758	38,307	41,631	48,258	55,213
Cash	14,267	13,808	20,006	25,102	29,989
Current Liabilities	13,391	15,253	19,296	24,055	28,231
Working capital	17,367	23,054	22,335	24,203	26,982
Capital deployed	54,660	59,867	65,804	73,224	82,167

Cummins India - Financial summary

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Cash Flow (Rs m)	FY22	FY23	FY24e	FY25e	FY26e
PAT	9,051	11,401	14,304	17,601	20,984
+ Non-cash items	1,340	1,405	1,542	1,544	1,724
Operating profit before WC changes	10,391	12,805	15,846	19,145	22,708
- Incr./ (decr.) in WC	-683.5	-2,591	718	-1,868	-2,779
Others	-2,637	-2,104	-4,676	-5,861	-6,803
Operating cash-flow	7,071	8,111	11,889	11,415	13,125
- Capex (tangible + Intangible)	705.1	-1,540	-2,000	-2,000	-3,000
Free cash-flow	7,776	6,571	9,889	9,415	10,125
Acquisitions	-7,597	376.4	0	0	0
- Dividend (incl. buyback & taxes)	-4,435	-6,237	-7,867	-9,681	-11,541
+ Equity raised	0	0	0	0	0
+ Debt raised	3,777	-432.7	-500	-500	-500
- Interest expense	-73.7	-125.8	-162.52	-137.52	-112.52
- Misc. Items (CFI and CFF)	987.8	1,808	4,838	5,999	6,916
Net cash-flow	434.4	1,961	6,198	5,096	4,887

Ratio analysis	FY22	FY23	FY24e	FY25e	FY26e
P/E (x)	42	39	56	46	38
EV/EBITDA (x)	35	36	50	41	34
EV/sales (x)	5	6	9	7	6
P/B (x)	6	8	13	12	10
RoE (%)	16	22	25	27	29
RoCE (%) - After tax	16	21	24	26	28
RoIC (%) - After tax	20	25	30	36	40
DPS (Rs per share)	16	23	28	35	42
Dividend yield (%)	1.4	1.4	1.0	1.2	1.4
Net debt/equity (x)	(0.2)	(0.2)	(0.3)	(0.3)	(0.4)
Receivables (days)	74	75	77	77	77
Inventory (days)	43	42	39	39	39
Payables (days)	59	54	52	56	56
CFO:PAT%	96	108	63	59	77

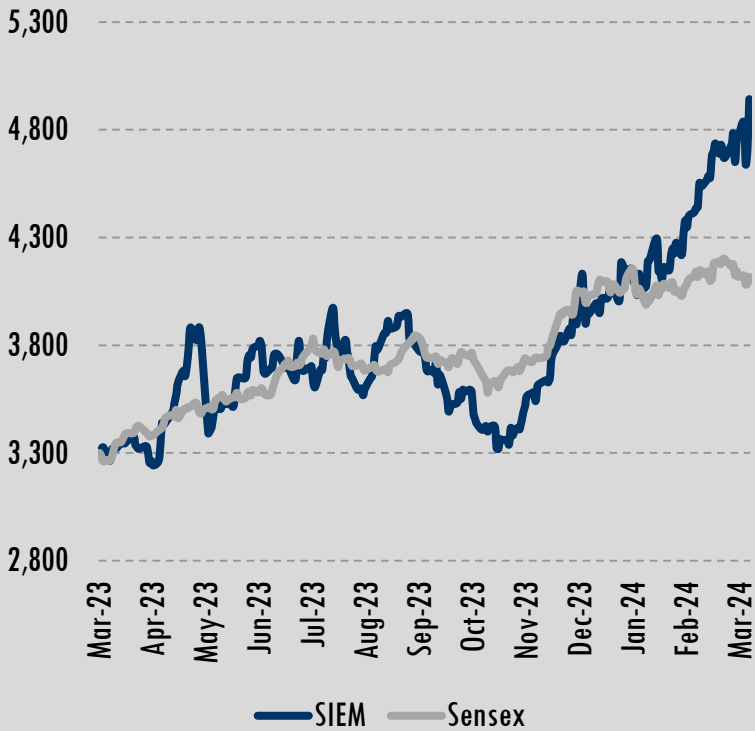
Peers' valuation table

						PE (x)		EV EBITDA (x)		RoE (%)	
Companies	Mcap (Rs m)	CMP (Rs)	TP (Rs)	Rating	Upside (%)	FY25	FY26	FY25	FY26	FY25	FY26
Siemens Ltd	1,760,071	4,942	5,536	HOLD	12	65	53	50	40	17	18
ABB India Ltd	1,242,821	5,865	6,438	HOLD	10	68	54	53	41	23	24
Cummins India Ltd	803,395	2,898	3,538	BUY	22	46	38	41	34	27	29
CG Power & Industrial Solution	826,898	541		NR		96	96	70	70	38	38
Honeywell Automation India Ltd	328,021	37,100		NR		67	67	53	53	14	14
GE T&D India Ltd	223,426	873		NR		136	136	79	79	14	14
Schneider Electric Infrastruct	148,077	619		NR		66	66	53	53	83	83
Kirloskar Oil Engines Ltd	123,988	855		NR		36	36	23	23	14	14
Voltamp Transformers Ltd	86,074	8,508		NR		30	30	27	27	21	21
Techno Electric & Engineering	70,765	658		NR		31	31	24	24	11	11

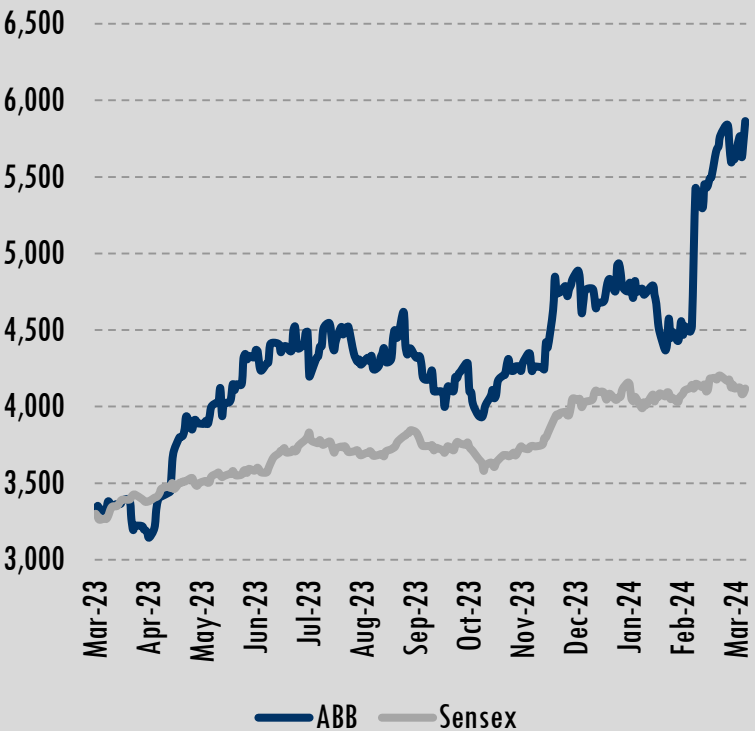
Note: Siemens year end is September; ABB year end is December; Bloomberg consensus values for Not Rated companies

Relative price performance

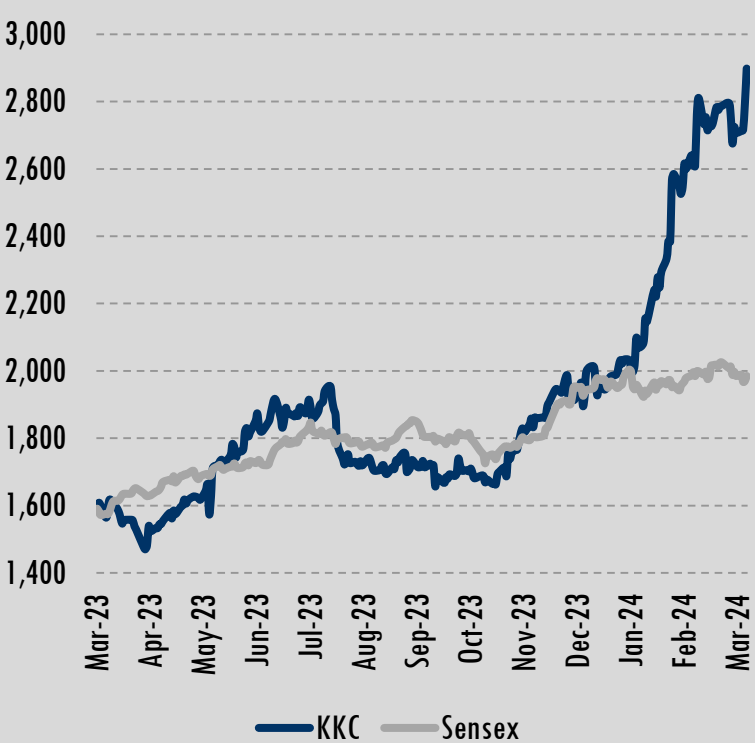
Siemens



ABB



Cummins



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Large Caps (Top 100 companies)	>15%	0-15%	<0%
Mid Caps (101 st -250 th company)	>20%	0-20%	<0%
Small Caps (251 st * company onwards)	>25%	0-25%	<0%

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