Cummins India Ltd. – Investment BUY Call Thesis

Dear Bajaj Capital Investors,
New Stock Recommendations for BUY on 11 Oct 2026

CMP -> 4825
Buying Range -> up to 4925
Upside Potential-> 16%
Investment Horizon -> 9 to 12 Months
Target price -> 5600

1. Business Overview, Business Model and Competitive Positioning

1. Established engine manufacturing & technology platform: Cummins India Ltd. is a listed Indian subsidiary of Cummins Inc., USA, with a legacy dating to 1962 and its headquarters in Pune. The company designs, manufactures and services diesel and natural-gas engines, generator sets and associated power solutions. Its business model combines proprietary technology from the global parent with Indian manufacturing, localisation, domestic distribution and lifecycle servicing, enabling it to participate in both initial equipment sales and recurring aftermarket expenditure.

2. Diversified operating segments and product portfolio: The company's principal business activities span Power Generation, Distribution, Industrial and Exports. Its portfolio includes diesel and natural-gas generator sets, high- and low-horsepower engines, spare parts, lubricants, service contracts, emission-control solutions, dual-fuel kits, rail propulsion packages, hotel-load converters, marine engines and specialised industrial power systems. Battery Energy Storage Systems (BESS) represent an emerging adjacent opportunity, although commercial contribution remains unproven at scale.

3. End-user industries, geographies and competitive advantages: Cummins India serves data centres, commercial real estate, manufacturing, hospitals, telecom infrastructure, mining, construction, railways, defence, marine, oil and gas and other industrial applications. Its products are sold domestically and exported to 58 countries, including markets across North and Central America, Europe, the Middle East, Africa, Latin America and Asia Pacific. Technology access, high localisation, established customer relationships, an extensive service network and the installed engine base collectively strengthen its competitive positioning.

2. Latest Financial Performance: Record FY26 Followed by Strong Q1FY27 Revenue Growth

1. FY26 delivered double-digit revenue and profit growth: Cummins India reported FY26 revenue of INR 11,950 crore, up 18% YoY from INR 10,166 crore. Domestic revenue increased 19% to INR 9,961 crore, while exports rose 12% to INR 1,989 crore. Profit before tax (PBT) before exceptional items grew 24% to INR 3,104 crore, while post-exceptional PBT increased 22% to INR 3,054 crore. The faster growth in pre-exceptional PBT than revenue indicates favourable underlying earnings growth, although the contribution from operating margins and individual cost components cannot be fully quantified from the supplied figures.

2. Q4FY26 established a strong exit rate: Q4FY26 revenue increased 23% YoY to INR 2,963 crore. Domestic revenue rose 30% to INR 2,513 crore, offsetting a 6% decline in exports to INR 450 crore. Pre-exceptional PBT increased 20% to INR 820 crore, while post-exceptional PBT rose 25% to INR 852 crore. Power Generation was the principal domestic growth contributor, with Q4 revenue of INR 1,294 crore, up 48% YoY. Distribution revenue increased 21% to INR 766 crore, while Industrial revenue grew 1% to INR 381 crore.

3. Q1FY27 sustained growth, but profitability faced cost pressure: Q1FY27 revenue increased 18% YoY and 14% sequentially to INR 3,375 crore. Domestic revenue rose 22% YoY to INR 2,854 crore, while exports remained broadly flat at INR 521 crore. Pre-exceptional PBT was INR 721 crore, down 0.7% YoY and 12% sequentially, reflecting higher steel, pig iron, aluminium and copper prices, increased freight costs, supplier labour shortages and supply-chain friction. The implied pre-exceptional PBT margin was 21.4%, compared with 27.7% in Q4FY26. These are PBT margins, not operating margins and are affected by all items between revenue and PBT. The key positive is that revenue momentum remains strong; the critical earnings variable for the next few quarters is the pace at which pricing actions and cost-control initiatives offset inflation.

3. Balance Sheet, Debt Position and Cash-Flow Conversion

1. Cash conversion demonstrates meaningful earnings-to-cash discipline: Cash-flow conversion ratios indicate that Cummins India converted a substantial proportion of its reported earnings and operating profits into operating cash flow across FY24–FY26. These ratios support a constructive assessment of cash generation and earnings quality, particularly when considered alongside the company's established manufacturing platform and recurring aftermarket business.

Cash-flow conversion ratio	FY24	FY25	FY26
CFO / PAT	75%	84%	73%
CFO / Operating Profit	101%	109%	91%

2. Operating cash-flow conversion remains a financial strength: CFO-to-operating-profit conversion exceeded 100% in FY24 and FY25 before moderating to 91% in FY26. This indicates that operating cash flow broadly tracked operating profitability over the three-year period, notwithstanding annual movements in working capital and other cash-flow components. The FY26 ratio remains close to operating-profit parity and is consistent with a business capable of generating substantial internal funding. CFO-to-PAT moderated from 84% in FY25 to 73% in FY26, making the next annual cash-flow statement important for evaluating working-capital discipline, receivable collection and the sustainability of cash generation as revenue expands.

3. Debt, liquidity and financial flexibility require quantified balance-sheet confirmation: The supplied draft does not provide closing borrowings, cash and cash equivalents, net debt, net worth, debt-to-equity, interest coverage or current-ratio figures. Consequently, the company should not be labelled debt-free or assigned an exact net-cash position without verification from the FY26 audited balance sheet. Nevertheless, the combination of strong reported profitability, substantial operating cash generation and a measured capex approach supports a constructive assessment of its capacity to fund routine investments internally. The balance-sheet investment case would be stronger with confirmation of gross debt, surplus cash, contingent liabilities and working-capital movements from the complete audited statements.

4. Growth Catalyst 1: Data Centres and High-Horsepower Power Generation

1. Data centres have become a major revenue driver: Data centres accounted for ~40% of domestic Power Generation revenue in Q1FY27, compared with 23% in Q1FY26. For FY26, the corresponding contribution was 30–35%, rising to around 35% in Q4FY26. This progression establishes data centres as a major demand driver rather than a peripheral opportunity. Hyperscalers, colocation operators and other data-centre customers require dependable backup power to protect uptime, making equipment reliability and service readiness important competitive factors.

2. Strong inquiry momentum supports forward revenue visibility: Management reported that inquiry activity had accelerated since October 2025, particularly among colocation operators and that customers were discussing requirements extending into the following year and beyond. Rather than witnessing broad-based project postponements, the company indicated that certain customers were seeking earlier deliveries. As per Q4FY26 concall summary approx. INR 250 crore of hyperscaler-related revenue or value for the quarter. As orders are generally placed six to twelve months before site readiness and revenue is recognised as gensets are installed, the inquiry pipeline provides a potentially meaningful medium-term catalyst, subject to conversion and execution.

3. Capacity availability, reliability and product localisation create an opportunity: The QSK60 platform remains central to near-term Indian data-centre requirements, while incremental interest in larger QSK78 and QSK95 engines may create future product-mix opportunities. Management has not committed to immediate domestic capacity for these larger platforms and continues to evaluate requirements as volumes develop. Its competitive proposition extends beyond equipment pricing to delivery lead times, installation, reliability and lifecycle support. The opportunity is particularly attractive if Cummins can convert strong demand into revenue while maintaining price discipline and subsequently capture aftermarket contracts as installed equipment moves beyond warranty.

5. Growth Catalyst 2: Distribution, Aftermarket and Higher-Value Service Solutions

1. Distribution provides a recurring revenue stream: FY26 Distribution revenue increased 22% to INR 3,278 crore, while Q1FY27 revenue rose 14% YoY and 16% sequentially to INR 886 crore. The business supports a large installed base through spare parts, lubricants, maintenance, rebuilds, extended warranties and service contracts. Unlike original equipment sales, which can fluctuate with project commissioning and investment cycles, servicing and replacement demand can recur throughout an engine's operating life. This provides a structural opportunity to broaden revenue visibility and reduce dependence on new equipment sales alone.

2. CPCB IV+ equipment creates a future service monetisation cycle: The installed base of CPCB IV+ gensets is expected to create incremental aftermarket opportunities as units move beyond their initial warranty periods. Management commentary indicates that this process begins from June 2026, with more comprehensive service monetisation expected in 2 years after installation for data-centre equipment. Management highlighted extended-warranty packages, predictive maintenance, emission-control retrofits, dual-fuel kits and engine rebuilds as key growth levers. The greater electronic complexity of CPCB IV+ equipment may support higher service requirements per unit, although realised benefit will depend on customer retention, equipment utilisation & company's ability to win service contracts.

3. Service reach and digital tools strengthen customer retention: Company has ~3,500 trained service engineers and 450 service touchpoints, with response-time commitments of two hours for critical customers and four hours for other customers, as per Q1FY27 concall. During FY26, it handled 877,569 service orders and achieved a 90% Net Promoter Score. Telematics, predictive-maintenance tools, the Cummins Care App and other digital initiatives can help improve uptime, identify maintenance requirements and increase the share of customer expenditure captured by the company. Management indicated that Distribution could grow at 20% over FY27 and the following few years, while cautioning against extrapolating a single quarter mechanically.

6. Growth Catalyst 3: Railways, Marine and Defence

1. Railways offer opportunities in electrified propulsion & specialised equipment: Management described railway demand as strong over the preceding 2 to 3 quarters, supported by power cars, diesel-electric tower cars and related applications. FY26 delivered record railway revenue, while hotel-load converters received serial-production approvals and a developmental order was secured for High-Speed Self-Propelled Accident Relief Train propulsion systems. These opportunities may diversify growth beyond conventional generator sets, although the timing of orders and revenue recognition remains dependent on railway procurement and execution schedules.

2. Marine demand & defence programmes could expand the industrial portfolio: Marine recorded its highest-ever annual sales and record order intake in FY26, across applications including Green Tugs, Offshore Patrol Vessels and Fleet Support Ships. The company also secured a maiden submarine-genset application order, indicating progress in a technically demanding market. In defence, the company is developing engine platforms for specialised applications, including the Light Tank ZORAWAR programme and other military vehicles. These markets can benefit from domestic manufacturing, indigenisation and long-duration equipment requirements, although orders may be lumpy and programme qualification cycles lengthy.

3. Government-led infrastructure and maritime initiatives provide structural support: FY26 AR highlights Maritime Development Fund of INR 25K cr. and the 2030 Green Tugs programme as potential multi-year demand drivers. Railway modernisation, specialised propulsion requirements and defence indigenisation may create opportunities for higher-specification products and lifecycle services. The investment case rests on converting technical approvals, development orders and order intake into repeatable production and profitable revenue. Execution, qualification timelines, procurement decisions and customer concentration should therefore remain important monitoring variables.

7. Growth Catalyst 4: Mining, Construction and Industrial Recovery

1. Mining order recovery a potential cyclical earnings catalyst: Management reported mining tender activity started to recover after 2 weak years, with the order book beginning to build over the preceding 6 months. New product introductions for underground mining trucks & dozers, together with readiness to serve dump trucks exceeding 190 tonnes, provide avenues for increasing participation in specialised equipment. Demand depends on coal production, mine development, fleet replacement, commodity economics & tender conversion. A sustained recovery in orders could improve Industrial segment's growth trajectory after its broadly flat-to-negative FY26 performance.

2. Construction remains a near-term constraint but retains longer-term potential: Construction demand was described as broadly flat in the Q1FY27, with limited new national-highway tender activity and a seasonal monsoon-related slowdown expected. As per FY26 AR, higher-tonnage excavators and products designed for future CEV BS V or Stage V requirements as development priorities. A revival in public infrastructure spending, road construction and private-sector capital expenditure could improve demand over time. However, the near-term thesis should remain selective because weak tender velocity and slower equipment utilisation may delay the expected recovery.

3. Industrial diversification creates opportunities beyond Power Generation: The Industrial segment includes rail, marine, mining, construction, compressors, defence and oil-and-gas applications. Q1FY27 domestic Industrial revenue grew 10% YoY to INR 458 crore and 20% sequentially. Within the quarter, construction contributed INR 148 crore, rail INR 145 crore, compressors INR 52 crore and marine INR 50 crore, with the balance attributable to mining, defence and other applications. This portfolio creates several potential recovery levers, but segment growth will depend on the mix and timing of individual project orders. The principal upside would be a broader recovery across rail, mining and specialised industrial applications rather than reliance on one end market.

8. Growth Catalyst V: Exports, New Products, Manufacturing Efficiency and Operating Leverage

1. Exports can benefit from localisation and product development: FY26 export revenue increased 12% to INR 1,989 crore. High-horsepower exports rose 20% to INR 984 crore, while low-horsepower exports increased 3% to INR 807 crore. The company exports to 58 countries and is expanding its portfolio of products tailored to different market requirements. The supplied draft highlights a 500 kVA emissionised genset introduced for Chile, uprated 38-litre and 50-litre electronic engines for the Americas and commencement of exports of a Euro Stage V-compliant product line to the European Union. Successful execution could improve geographic diversification and factory utilisation, although export demand remains sensitive to trade policy and geopolitical conditions.

2. Capacity utilisation and disciplined capex offer operating leverage: Management reported manufacturing capacity utilisation of 70–75% in Q1FY27, with utilisation consistently increasing. It also indicated that capex would remain broadly in line with the company's recent investment pattern, focused on existing plants and targeted capacity additions rather than a major step-change expansion. As per Q4FY26 concall- more than INR 1,000 crore had been invested over the preceding 5 years, with current priorities centred on extracting greater output from the installed manufacturing base. If revenue expands faster than fixed costs, incremental production can improve fixed-cost absorption; however, the benefit may be partly offset by input inflation, labour costs, freight and any additional investment needed to resolve high-horsepower bottlenecks.

3. Product innovation & strategic initiatives create incremental options: Company has launched BESS demonstrations, advanced alternate-fuel and hybrid-engine development, expanded emission-control offerings and continued development of specialised rail and marine products. As per Q4FY26 concall- captive renewable-energy investment intended to supply solar and wind power to manufacturing facilities, potentially supporting energy-cost management and emissions objectives. The divestment of Cummins Sales & Service Private Limited, effective April 2025, simplified the group structure and refocused the company on core power systems and distribution. BESS remains an early-stage opportunity: management reported customer interest and inquiries but did not provide a material revenue contribution or firm commercial guidance. These initiatives should be treated as incremental options rather than included as established earnings drivers until order conversion and financial contribution become visible.

9. Short-Term Headwinds and Risks: Inflation, Margins, Competition and Policy

1. Commodity inflation and delayed pricing recovery could constrain earnings: Management described the current increase in input costs as unprecedented, specifically citing steel, pig iron, aluminium and copper, alongside rising freight expenses and supplier labour shortages. A price increase was implemented at the beginning of Q2FY27, but management explicitly indicated that it would not fully recover all commodity inflation and that price realisation typically takes at least one quarter because of the existing order backlog. Accordingly, revenue growth may remain strong while profit growth lags in the near term. Margin recovery will depend on the durability of pricing, cost optimisation, value engineering and the pace at which supply-chain pressures moderate. A return to historical peak margins has not been committed to by management.

2. Demand, regulatory and competitive risks may affect individual segments: Power Generation faces intensifying price competition from domestic and global entrants, particularly in lower-cost products. Inflation could affect customer order velocity, while weak construction tenders and a historically subdued mining cycle could delay Industrial recovery. Regulatory transitions, including CPCB IV+ and future construction-equipment emission standards, create product-development and compliance requirements; the timing of notifications and customer adoption may affect demand. Rail electrification also limits conventional diesel applications, although specialised propulsion, power cars and maintenance equipment remain relevant. Distribution growth could be moderated by low standby-equipment utilisation and competition from non-genuine or will-fit parts. These risks do not negate the growth opportunity but make product mix, pricing discipline and execution critical to the investment outcome.

10. Short-Term Headwinds & Risks: Geopolitics, Middle East Disruption, Freight and Supply Chains

1. Middle East disruption may affect exports and delivery execution: Q1FY27 management summary explicitly states that the West Asia crisis redirected certain expected Middle East export flows. Management also cautioned that delayed Gulf orders should not automatically be assumed to convert into later shipments, because customers may source equipment elsewhere. Geopolitical instability can affect shipping routes, transit times, insurance, freight rates and the timing of customer installations. The risk is particularly relevant to export-oriented products and projects with fixed delivery schedules. Europe and Asia Pacific were identified as comparatively stronger export markets, but their contribution may not fully offset weakness in disrupted geographies.

2. Trade policy, foreign exchange and supplier disruption could sustain volatility: Changes in tariffs, government trade policies, import restrictions, freight availability and foreign-exchange rates may influence export competitiveness and imported-component costs. The company has meaningful localisation in CPCB IV+ and data-centre products, which can reduce—but does not eliminate—exposure to external supply shocks. Management cited ongoing supply-chain issues and supplier labour shortages, while noting that higher fuel and freight costs were contributing to cost pressure. Mitigation measures include dual sourcing, long-term supplier agreements, cost and Six Sigma programmes, digital supply-chain controls and access to the wider Cummins global manufacturing network. Nevertheless, prolonged disruptions could delay deliveries, raise working-capital requirements, reduce margins and defer the earnings benefits of a strong order pipeline. Government policy changes affecting infrastructure spending, defence procurement, emission standards or international trade also warrant monitoring.

11.Conclusion & BUY Investment Thesis: Strong Structural Demand with Margin Recovery Potential

1. Multiple growth engines support the medium-term investment case: Data centres are an increasingly important Power Generation driver, Distribution offers a growing lifecycle-services opportunity and rail, marine, defence and mining provide additional avenues for expansion. Export product development and the company's established manufacturing footprint further broaden the opportunity set. These drivers support a constructive medium-term view, provided demand translates into executable orders and profitable revenue.

2. Cash generation and operating leverage strengthen the quality of the thesis: CFO-to-operating-profit conversion of 101%, 109% and 91% in FY24, FY25 and FY26, respectively, demonstrates that operating cash generation has broadly tracked reported operating profitability. CFO-to-PAT of 75%, 84% and 73% also indicates meaningful cash conversion, although the FY26 moderation merits monitoring. Manufacturing utilisation of 70–75%, a measured capex approach and potential growth in higher-value service and specialised-engine applications create scope for better fixed-cost absorption and product-mix improvement. The balance-sheet case remains constructive but should be confirmed with exact audited debt and liquidity figures, which are not included in the supplied summary.

3. BUY conviction depends on demand conversion and stabilising profitability: The principal catalysts over the coming quarters are sustained data-centre demand, improved high-horsepower availability, CPCB IV+ aftermarket monetisation, rail and marine order conversion, a mining tender recovery and selective export growth. The main risks are persistent commodity inflation, delayed pricing recovery, freight and supply-chain disruption, Middle East-related export weakness, competitive pricing pressure and uneven Industrial demand. Overall, a BUY call for medium-term investment duration of 9–12 months, based on structural domestic demand, recurring service opportunities, diversified industrial applications and the potential for operating leverage. The conviction should be reviewed against quarterly margins, cash-flow conversion, debt disclosures, order execution and management's evolving assessment of inflation and geopolitical risk.

Historical Financial Performance:

	YoY	QoQ	Jun 2026	Mar 2026	Jun 2025
Revenue Cr	17.9%	13.8%	3,426	3,011	2,907
Operating Profit Cr	-1.2%	-4.0%	616	642	624
OPM %			18.0	21.3	21.4
PAT Cr	0.9%	-6.2%	609	649	604
EPS ₹	0.9%	-6.2%	22.0	23.4	21.8

Happy Investing!

Thank you and best regards,

On behalf of Bajaj Capital's Research Team