

Cummins India Update: CPCB - II norms notified - The long wait gets over.....

The wait is finally over for the country's leading diesel engine manufacturer, Cummins India, with the Central Pollution control board (CPCB) notifying the much expected new emission norms. The change in emission norms was one of the key triggers for the company's future earnings and also a reason for its dull performance witnessed in last couple of quarters. The new CPCB – II norms for diesel gensets which was expected to get implemented in last July, 2013 is set to get enacted from 1st April, 2014. As mentioned in the Q2FY14 concall, the management also expected it to get effective from 1st April, 2014 instead of 1st Jan, 2014 (date mentioned in Q1FY14).

Key Highlights:

- ✓ The CPCB – II norms, which is applicable for engines below 800kva constitute ~35-40% of the company's product portfolio and rest is already technologically compliant with the revised emission norms.
- ✓ The company expects ~15-20% hike in the prices of these diesel engines post the emission norms due to 20-25% rise in average cost of engines.
- ✓ On the short run, we believe that due to implementation of new norms from 1st April, 2014 i.e. from Q1FY15e, the company is expected to witness pre-buying in the on-going quarter and in Q4FY14e, which is likely to enhance volume growth. However, post Q4FY15e, the company is envisaged to see material dip in Q1FY15e and Q2FY15e as pricing impact gets absorbed by clients.
- ✓ Hence, we believe that Cummins India being the market leader is set to benefit the most with the change in emission norms as it is the first one to manufacture the CPCB- II norms compliant engines in the market. The history shows that the company has always been very competitive on technological front. Also, this is expected to boost the margins and help gain market share.

Emission Standards for Diesel Engines upto 800 kW for Generator Sets implemented in 2003-05

Capacity of diesel engines	Date of implementation	Emission Limits (g/kw-hr)				Smoke Limit (1/m)
		NOx	HC	CO	PM	
Upto 19 KW	2003-2005	9.2	1.3	3.5	0.3	0.7
> 19 KW upto 176 KW		9.2	1.3	3.5	0.3	0.7
> 176 KW upto 800 KW		9.2	1.3	3.5	0.3	0.7

Source: Company Data, CPCB

Note: NO x - Oxides of Nitrogen, HC - Hydrocarbon , CO - Carbon Monoxide, PM - Particulate Matter

Emission Standards for Diesel Engines upto 800 kW for Generator Sets implemented from 1st April, 2014

Capacity of diesel engines	Date of implementation	Emission Limits (g/kw-hr)				Smoke Limit (1/m)
		NOx	HC	CO	PM	
Upto 19 KW	Implemented from 1st April, 2014	7.5	1.3	3.5	0.3	0.7
> 19 KW upto 176 KW		4.7	1.3	3.5	0.3	0.7
> 176 KW upto 800 KW		4	1.3	3.5	0.2	0.7

Source: Company Data, CPCB

Note: NO x - Oxides of Nitrogen, HC - Hydrocarbon , CO - Carbon Monoxide, PM - Particulate Matter

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