

RESULT UPDATE

MID CAP

Share Data

| | |
|----------------------------------|---------|
| Reuters code | CUMM.BO |
| Bloomberg code | KKCIN |
| Market cap. (US\$ mn) | 1,588 |
| 6M avg. daily turnover (US\$ mn) | 2.0 |
| Issued shares (mn) | 198 |
| Target price (Rs) | 375 |

Performance (%) 1M 3M 12M

| | | | |
|----------|----|----|----|
| Absolute | 8 | 38 | 93 |
| Relative | 16 | 34 | 10 |

Valuation ratios

| Yr to 31 Mar | FY10E | FY11E |
|--------------------|--------|-------|
| EPS (Rs) | 18.4 | 21.5 |
| +/- (%) | (17.7) | 16.8 |
| PER (x) | 20.4 | 17.5 |
| PBV (x) | 4.6 | 4.1 |
| Dividend/Yield (%) | 2.7 | 2.7 |
| EV/Sales (x) | 2.4 | 2.1 |
| EV/EBITDA (x) | 14.8 | 12.6 |

Major shareholders (%)

| | |
|-----------------|----|
| Promoters | 51 |
| FII's | 10 |
| MF's | 16 |
| BFSI's | 7 |
| Public & Others | 16 |

Financial highlights

| (Rs mn) | 2QFY09 | 2QFY10 | YoY (%) | 1HFY09 | 1HFY10 | YoY (%) | FY08 | FY09 | YoY (%) | FY10E | YoY (%) | FY11E | YoY (%) |
|----------------------|--------|--------|---------|--------|--------|---------|--------|--------|---------|--------|---------|--------|---------|
| Net sales | 8,084 | 6,191 | (23.4) | 15,386 | 12,585 | (18.2) | 26,555 | 35,285 | 32.9 | 31,580 | (10.5) | 36,244 | 14.8 |
| EBITDA | 1,232 | 1,135 | (7.9) | 2,402 | 2,310 | (3.8) | 3,995 | 5,472 | 37.0 | 5,036 | (8.0) | 5,908 | 17.3 |
| Operating margin (%) | 15.2 | 18.3 | - | 15.6 | 18.4 | - | 15.0 | 15.5 | - | 15.9 | - | 16.3 | - |
| Other income | 158 | 165 | 4.1 | 303 | 331 | 9.2 | 1,055 | 1,221 | 15.6 | 732 | (40.1) | 810 | 10.7 |
| Depreciation | 99 | 99 | (0.4) | 198 | 188 | (5.4) | 383 | 482 | 25.7 | 511 | 6.0 | 579 | 13.5 |
| EBIT | 1,291 | 1,201 | (7.0) | 2,506 | 2,453 | (2.1) | 4,667 | 6,211 | 33.1 | 5,257 | (15.4) | 6,138 | 16.8 |
| Interest | 2 | 8 | 406.7 | 7 | 14 | 94.3 | 25 | 34 | 35.0 | 40 | 16.1 | 46 | 15.9 |
| Earnings before tax | 1,290 | 1,193 | (7.5) | 2,499 | 2,439 | (2.4) | 4,642 | 6,176 | 33.1 | 5,217 | (15.5) | 6,092 | 16.8 |
| Tax | 350 | 316 | (9.9) | 678 | 665 | (1.8) | 1,396 | 1,738 | 24.5 | 1,565 | (10.0) | 1,828 | 16.8 |
| PAT | 939 | 877 | (6.6) | 1,822 | 1,774 | (2.6) | 3,246 | 4,438 | 36.7 | 3,652 | (17.7) | 4,264 | 16.8 |
| Extraordinary | - | - | - | - | - | - | - | 192 | - | - | - | - | - |
| Reported PAT | 939 | 877 | (6.6) | 1,822 | 1,774 | (2.6) | 3,246 | 4,246 | 30.8 | 3,652 | (14.0) | 4,264 | 16.8 |
| EPS (Rs) | 4.7 | 4.4 | - | 9.2 | 9.0 | - | 16.4 | 21.4 | - | 18.4 | - | 21.5 | - |

Cummins India

Maintain Outperformer

Price: Rs 375

BSE Index: 15,896

31 October 2009

2QFY10 Result – Exports trough

The standalone sales reported by Cummins were 39% lower YoY in 2QFY10 due to an 80% YoY (25% QoQ) drop in exports and the strike at the Kothrud plant of the company. The overall capacity utilisation for Cummins presently stands between 40-50%. The company presently has 10% market share in the low horse power (<200HP) engines, 40% in the medium horse power (200-700 HP) and 60-70% in the high horse power segment. Standalone operating margin improvement of 100 bps was attributed equally to low material cost and cost cutting measures. The working capital scenario has improved with receivables falling to 40 days from 80 days in comparable period last year. In the quarter the company has launched its 7.5 kVA and 10 kVA gensets, priced at Rs 200,000/unit. The engine for this genset has been outsourced to Simpson. The company expects to sell 10,000 of these in the next calendar year. For FY10, capex is budgeted at Rs 1 bn but in FY11 it will be increased to Rs 2 bn, half of which will be at its Phaltan facility to set up a 5.9L CNG engine capacity for medium and heavy commercial vehicles and for expansion of engine rebuilding capacity and a new venture in reconditioning of engine components.

FY10 domestic sales growth is likely in the 10-15% range. Exports are unlikely to fall further from present levels and are expected to grow 10% next year, but are unlikely to reach back the Rs 2.5bn/quarter mark in the next two-three years. Cummins will complete the 2,500 CNG bus order from DTC in this fiscal year. Also, under the JNNURM programme 40,000 state transport corporation buses are expected to be replaced over the next two-three years, giving a significant opportunity to Cummins a significant opportunity for its CNG 6L engines. At the current market price of Rs 375, the stock is trading at 20x FY10E and 17x FY11E earning. Although valuations are fair at these levels, an earnings upside in FY11 is possible. We maintain Outperformer rating on the stock with a target price of Rs 375 based on 17x FY10 earnings.

Standalone highlights

| (Rs mn) | 2QFY10 | 2QFY09 | 1HFY10 | 1HFY09 |
|------------------------|--------|--------|--------|--------|
| Net Sales | 4,804 | 7,898 | 9,873 | 14,967 |
| Other Operating Income | 112 | 186 | 245 | 418 |
| Expenditure | 4,177 | 6,951 | 8,606 | 13,183 |
| Operating Profits | 739 | 1,133 | 1,512 | 2203 |
| OPM (%) | 15.0 | 14.0 | 14.9 | 14.3 |
| Other income | 118 | 158 | 286 | 303 |
| Interest | 3 | 2 | 8 | 7 |
| PBT | 854 | 1,290 | 1,791 | 2,499 |

Segmental results

| (Rs mn) | 2QFY10 | 2QFY09 | YoY (%) | 1HFY10 | 1HFY09 | YoY (%) |
|---------------------------|--------------|--------------|----------------|----------------|--------------|---------------|
| Segmental revenues | | | | | | |
| Engine | 5,374.5 | 7,753.1 | (30.7) | 11,154.8 | 14,717.5 | (24.2) |
| Others | 702.0 | 145.1 | 383.8 | 1,177.9 | 251.0 | 369.3 |
| Revenues from operations | 6,076.5 | 7,898.2 | (23.1) | 12,332.7 | 14,968.5 | (17.6) |
| PBIT | | | | | | |
| Engine | 813.8 | 1,114.9 | (27.0) | 1,740.3 | 2171.9 | (19.9) |
| Others | 222.1 | 18.0 | 1,133.9 | 381.7 | 31.3 | 1119.5 |
| Unallocable income | 164.6 | 158.1 | 4.1 | 330.7 | 302.9 | 9.2 |
| Capital employed | | | | | | |
| Engine | 8,212.1 | 8,598.5 | (4.5) | 8,212.1 | 8,596.5 | (4.5) |
| Others | 184.3 | 102.7 | 79.5 | 184.3 | 102.7 | 79.5 |
| Margins (%) | | | | | | |
| Engine | 15.1 | 14.4 | - | 15.6 | 14.8 | - |
| Others | 31.6 | 12.4 | - | 32.4 | 12.5 | - |

Revenue mix (%)

| | |
|------------|----|
| Exports | 15 |
| Auto | 10 |
| Spares | 10 |
| Power | 50 |
| Industrial | 15 |

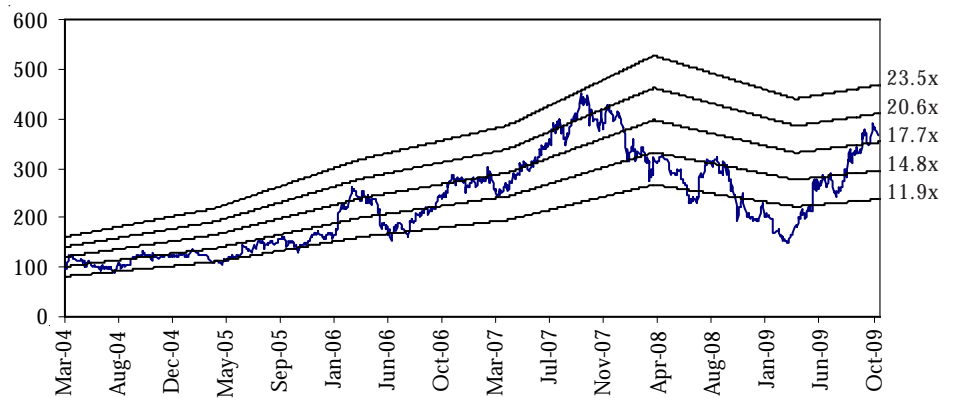
Break up of power sales (%)

| | |
|------------|-------|
| <160 KVA | 15-20 |
| 160-380KVA | 25 |
| 450-625KVA | 10 |
| >750KVA | 45 |

Break-up of Industrial sales (%)

| | |
|------------------------------|----|
| Mining | 25 |
| Compressors (road Const) | 10 |
| Compressors (well water rig) | 20 |
| Railways | 15 |
| Construction | 15 |
| Marine | 10 |
| Oil & Gas | 5 |

PER Band



Source: B&K Research

Income Statement

| Yr end 31 Mar (Rs mn) | FY08 | FY09 | FY10E | FY11E |
|---------------------------------|---------------|---------------|---------------|---------------|
| Net sales | 26,555 | 35,285 | 31,580 | 36,244 |
| <i>Growth (%)</i> | <i>25.1</i> | <i>32.9</i> | <i>(10.5)</i> | <i>14.8</i> |
| Operating expenses | (22,820) | (29,990) | (26,703) | (30,519) |
| Operating profit | 3,736 | 5,295 | 4,876 | 5,725 |
| Other operating income | 259 | 177 | 159 | 183 |
| EBITDA | 3,995 | 5,472 | 5,036 | 5,908 |
| <i>Growth (%)</i> | <i>9.2</i> | <i>37.0</i> | <i>(8.0)</i> | <i>17.3</i> |
| Depreciation | (383) | (482) | (511) | (579) |
| Other income | 1,055 | 1,221 | 732 | 810 |
| EBIT | 4,667 | 6,211 | 5,257 | 6,138 |
| Interest paid | (25) | (34) | (40) | (46) |
| Pre-tax profit | 4,642 | 6,176 | 5,217 | 6,092 |
| (before non-recurring) | | | | |
| Non-recurring items | - | 192 | - | - |
| Pre-tax profit | 4,642 | 6,368 | 5,217 | 6,092 |
| (after non-recurring) | | | | |
| Tax (current + deferred) | (1,396) | (1,738) | (1,565) | (1,828) |
| Net profit (before Minority) | 3,246 | 4,630 | 3,652 | 4,264 |
| Interest, Pref. Dividend, etc.) | | | | |
| Reported PAT | 3,246 | 4,630 | 3,652 | 4,264 |
| Adjusted net profit | 3,246 | 4,438 | 3,652 | 4,264 |
| <i>Growth (%)</i> | <i>21.2</i> | <i>36.7</i> | <i>(17.7)</i> | <i>16.8</i> |

Balance Sheet

| Yr end 31 Mar (Rs mn) | FY08 | FY09 | FY10E | FY11E |
|---------------------------------------|---------------|---------------|---------------|---------------|
| Cash & Marketable securities | 246 | 500 | 2,728 | 3,393 |
| Other current assets | 11,880 | 14,813 | 13,418 | 15,400 |
| Investments | 4,867 | 4,417 | 4,417 | 4,417 |
| Net fixed assets | 2,744 | 3,150 | 3,369 | 3,801 |
| Other non-current assets | 355 | 456 | - | - |
| Total assets | 20,093 | 23,335 | 23,932 | 27,011 |
| Current liabilities | 7,206 | 7,984 | 7,190 | 8,183 |
| Total debt | 288 | 261 | 497 | 576 |
| Other non-current liabilities | 261 | 239 | - | - |
| Total liabilities | 7,755 | 8,484 | 7,687 | 8,759 |
| Share capital | 396 | 396 | 396 | 396 |
| Reserves & surplus | 11,942 | 14,455 | 15,849 | 17,856 |
| Shareholders' funds | 12,338 | 14,851 | 16,245 | 18,252 |
| Total equity & liabilities | 20,093 | 23,335 | 23,932 | 27,011 |
| Capital employed | 12,887 | 15,350 | 16,742 | 18,828 |

Cash Flow Statement

| Yr end 31 Mar (Rs mn) | FY08 | FY09 | FY10E | FY11E |
|-----------------------------------|----------------|----------------|----------------|----------------|
| Pre-tax profit | 4,642 | 6,368 | 5,217 | 6,092 |
| Depreciation | 383 | 482 | 511 | 579 |
| Change in working capital | (240) | (2,191) | 581 | (989) |
| Total tax paid | (1,444) | (1,823) | (1,330) | (1,828) |
| Cash flow from oper. (a) | 3,341 | 2,836 | 4,978 | 3,855 |
| Capital expenditure | (977) | (593) | (730) | (1,008) |
| Change in investments | (1,677) | 451 | - | - |
| Others | (45) | (294) | (0) | (3) |
| Cash flow from inv. (b) | (2,699) | (436) | (730) | (1,011) |
| Free cash flow (a+b) | 642 | 2,401 | 4,249 | 2,844 |
| Debt raised/(repaid) | 24 | (27) | 236 | 79 |
| Dividend (incl. tax) | (976) | (2,117) | (2,257) | (2,257) |
| Cash flow from fin. (c) | (952) | (2,145) | (2,021) | (2,178) |
| Net change in cash (a+b+c) | (310) | 256 | 2,228 | 665 |

Key Ratios

| Yr end 31 Mar (%) | FY08 | FY09 | FY10E | FY11E |
|-----------------------|------|-------|--------|--------|
| Adjusted EPS (Rs) | 16.4 | 22.4 | 18.4 | 21.5 |
| Growth | 21.2 | 36.7 | (17.7) | 16.8 |
| Book NAV/share (Rs) | 62.3 | 75.0 | 82.0 | 92.2 |
| Dividend/share (Rs) | 4.6 | 9.0 | 10.0 | 10.0 |
| Dividend payout ratio | 34.4 | 47.7 | 61.8 | 52.9 |
| Tax | 30.1 | 27.3 | 30.0 | 30.0 |
| EBITDA margin | 14.9 | 15.4 | 15.9 | 16.2 |
| EBIT margin | 17.4 | 17.5 | 16.6 | 16.9 |
| RoCE | 39.5 | 44.0 | 32.8 | 34.5 |
| Net debt/Equity | 0.3 | (1.6) | (13.7) | (15.4) |

Valuations

| Yr end 31 Mar (x) | FY08 | FY09 | FY10E | FY11E |
|-------------------|------|------|-------|-------|
| PER | 23.0 | 16.8 | 20.4 | 17.5 |
| PCE | 20.6 | 15.2 | 17.9 | 15.4 |
| Price/Book | 6.1 | 5.0 | 4.6 | 4.1 |
| Yield (%) | 1.2 | 2.4 | 2.7 | 2.7 |
| EV/Net sales | 2.8 | 2.1 | 2.4 | 2.1 |
| EV/EBITDA | 18.6 | 13.6 | 14.8 | 12.6 |

Du Pont Analysis - ROE

| Yr end 31 Mar (x) | FY08 | FY09 | FY10E | FY11E |
|----------------------|------|------|-------|-------|
| Net margin (%) | 12.2 | 12.6 | 11.6 | 11.8 |
| Asset turnover | 1.5 | 1.6 | 1.3 | 1.4 |
| Leverage factor | 1.6 | 1.6 | 1.5 | 1.5 |
| Return on equity (%) | 28.8 | 32.6 | 23.5 | 24.7 |

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 2. **OUTPERFORMER:** 0 to +25%
 3. **UNDERPERFORMER:** 0 to -25%
 4. **SELL:** Potential downside of < -25% (absolute returns)
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