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India Research

Sector: Capital Goods (Engines)

Cummins Limited (KKC.IN)/(CUMM.BO)

Outperform *CMP: Rs.263, Mkt. Cap: Rs.52.1 bn, Mkt. Cap: $1.18 bn (Mar 26, '07)*
Relevant Index: S&P CNX Nifty: 3820 (Mar 26,'07)

Initiating Coverage

We expect Cummins to record a CAGR of 26% in Sales and a CAGR of 31% in PAT over the period FY06-FY08. CIL trades at 19.9x and 16.0x our FY07E and FY08E EPS and at an EV/EBITDA of 10.8x, making it the cheapest stock in the capital goods space. The valuation disparity is quite staggering. Cummins is quoting at lower EV/EBITDA multiple (10.8x) despite high RoCE and strong earnings growth. Further, according to our DCF model, the stock is quoting at a discount of 40% to its Fair Value. We therefore, initiate our coverage on CIL with a rating of 'Outperform.'

March 27, 2007

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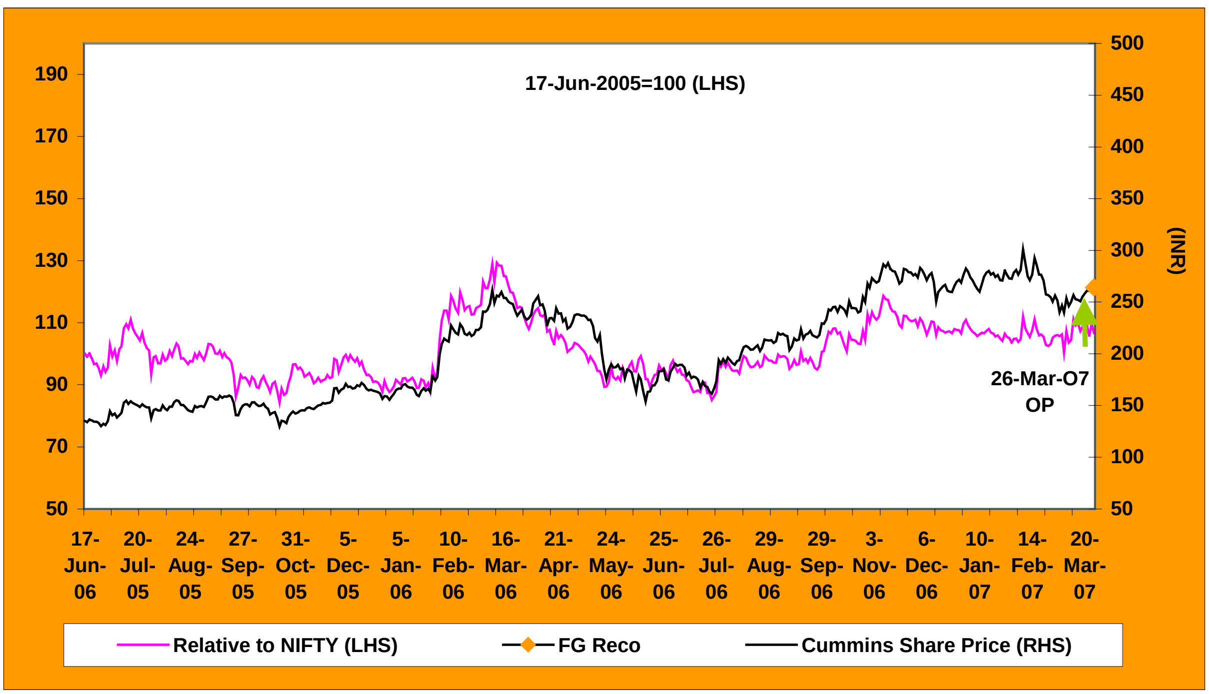
Price and Rating History Chart

Ratings Key

Positive Ratings	B = Buy	BD = Buy at Declines	OP = Outperform
	S-OP = Sector Outperform	M-OP = Market Outperform	MO-OP = Moderate Outperform
Neutral Ratings	H = Hold	MP = Market Perform	SP = Sector Perform
Negative Ratings	S = Sell	SS = Sell into Strength	UP = Underperform
	A = Avoid	MO-UP = Moderate Underperform	S-UP = Sector Underperform

Cummins Ind. (KKC.IN)/(CUMM.BO)



Represents an Upgrade

Represents a Downgrade

Represents Reiteration of Existing Rating

Details of First Global's Rating System given at the end of the report

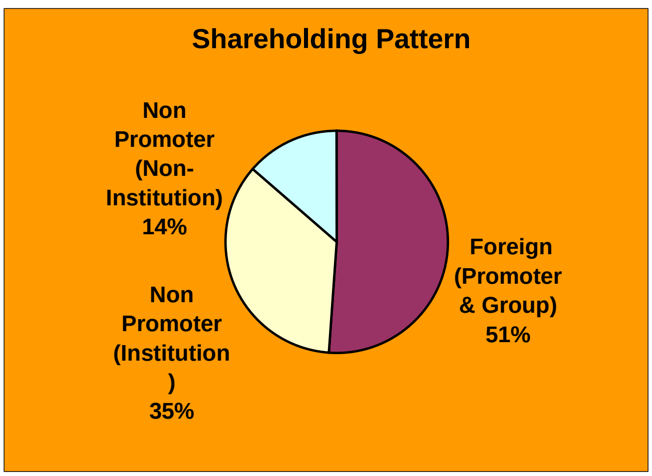
Financial Snapshot*

Key Financials					
(YE March 31st) (Rs. mn)	**2004**	**2005**	**2006**	**2007E**	**2008E**
Total Revenue	**11,851**	**14,944**	**17,909**	**22,822**	**28,527**
Revenue Growth (Y-o-Y)	*11.3%*	*26.1%*	*19.8%*	*27.4%*	*25.0%*
EBIDTA	**1,223**	**1,996**	**2,687**	**3,595**	**4,607**
EBIDTA Growth (Y-o-Y)	*-4.6%*	*63.2%*	*34.6%*	*33.8%*	*28.1%*
Net Profit	**933**	**1,317**	**1,828**	**2,504**	**3,124**
Net Profit Growth (Y-o-Y)	*9.8%*	*41.2%*	*38.8%*	*37.0%*	*24.8%*
Shareholders Equity	**7,239**	**7,637**	**8,526**	**9,719**	**11,207**
Number of Diluted shares(mn)	198	198	198	198	198
Key Operating Ratios					
(YE March 31st) (Rs. mn)	**2004**	**2005**	**2006**	**2007E**	**2008E**
EPS (Rs) (Diluted)	**4.71**	**6.65**	**9.23**	**12.64**	**15.77**
EPS Growth (Y-o-Y)	*9.8%*	*41.3%*	*38.7%*	*37.0%*	*24.8%*
CEPS (Rs.)	6.4	8.7	11.2	14.6	18.1
EBIDTA (%)	10.3%	13.4%	15.0%	15.8%	16.1%
NPM (%)	**7.9%**	**8.8%**	**10.2%**	**11.0%**	**11.0%**
RoE (%)	12.1%	16.7%	21.4%	25.6%	27.7%
RoCE (%)	11.8%	15.7%	20.3%	24.8%	27.0%
Book Value per share (Rs.)	36.5	38.6	43.0	49.1	56.6
Debt/Equity (x)	**0.07**	**0.09**	**0.05**	**0.04**	**0.04**
Dividend Payout Ratio (%)	100%	71%	52%	52%	52%
Valuation Ratios					
(YE March 31st) (Rs. mn)	**2004**	**2005**	**2006**	**2007E**	**2008E**
P/E (x)	**53.5**	**37.9**	**27.3**	**19.9**	**16.0**
P/BV (x)	**6.9**	**6.5**	**5.9**	**5.1**	**4.5**
P/CEPS (x)	39.2	28.9	22.5	17.2	13.9
EV/EBIDTA (x)	41.0	25.3	18.7	13.8	10.8
Market Cap./ Sales (x)	4.2	3.3	2.8	2.2	1.7
Dividend Yield (%)				2%	3%
DuPont Model					
(YE March 31st) (Rs. mn)	**2004**	**2005**	**2006**	**2007E**	**2008E**
EBIDTA/Sales (%)	10%	14%	15%	**16%**	**16%**
Sales/Operating Assets (x)	296%	285%	292%	**361%**	**398%**
EBIDTA/Operating Assets (%)	31%	39%	44%	57%	65%
Operating Assets/ Net Assets(x)	52%	64%	70%	66%	65%
Net Earnings/ EBIDTA (%)	76%	66%	68%	70%	68%
Net Assets/ Equity (x)	100%	102%	101%	**98%**	**97%**
Return on Equity (%)	**12%**	**17%**	**21%**	**26%**	**28%**

Common Sized Profit & Loss Account					
(YE March 31st) (Rs. mn)	**2004**	**2005**	**2006**	**2007E**	**2008E**
Total Revenues	**100%**	**100%**	**100%**	**100%**	**100%**
Cost of Materials	65.7%	66.3%	65.5%	65.0%	64.5%
Power, Oil & Fuel	1.1%	1.2%	1.1%	1.2%	1.1%
Other Manufacturing Expenses	4.0%	4.1%	3.7%	3.8%	3.8%
Selling and Administration Expenses	1.5%	2.1%	3.2%	2.6%	2.6%
Personnel	11.8%	7.8%	7.8%	7.8%	7.9%
Total Cost	**89.7%**	**86.6%**	**85.0%**	**84.2%**	**83.9%**
EBITDA	**10.3%**	**13.4%**	**15.0%**	**15.8%**	**16.1%**
Depreciation and Amortization	2.9%	2.7%	2.2%	1.7%	1.6%
Interest	0.4%	0.3%	0.3%	0.2%	0.2%
PBT	11.3%	13.2%	15.2%	16.4%	16.3%
PAT	**7.9%**	**8.8%**	**10.2%**	**11.0%**	**11.0%**

**All figures are on Consolidated basis*

Key Statistics



Industry:	**Capital Goods**
52 Week Hi/Lo:	Rs. 305.95/141
CMP:	Rs. 263
Avg Daily Vol (20 days):	0.31 mn
Avg Daily Val (20 days):	Rs.80.17
Performance over 52 weeks:	
KKC:	up 8%
Nifty:	up 16%

*Cummins' Business in Pictures... (FY06)**

Operations/ Value added
Total Revenues: Rs. 17909 mn

Sources
Indigenous suppliers. Minimal percentage of steel, copper & aluminium is imported.

Material:
11729
(65.4%)

Other Manufacturing Expenses: 1542 (8.6%)
Manpower: 1394 (7.8%)
Selling & distn exp: 570 (3.2%)

Exports:
Geographies keep expanding.1/3rd exports to North & South America. Distribution happens through Cummins Network

Finished Products:
Engines in Horse Power Range from 60 to 2700.

Markets
Domestic: Rs 12596 (70.3%)
Exports: - Rs 5313 (29.7%)

Pricing
Price sensitive to global & local macro economic environment.

EBIDTA
2687 (15%)

Interest: 45 (0.3%)
Depreciation: 390.30 (2.2%)
Other Income: 487(2.7%)

Revenue Breakup (FY06)*
Pow-gen: -Rs.5910mn (33%)
Exports:-Rs.5313mn(29.7%)
CDSS: -Rs.4601mn(25.75%)
Indust.: -Rs.1548mn(8.55%)
Auto:-Rs.537mn(3%)

Customers: -
IT, ITES, Auto, Mining, Real Estate, Telecom etc.

Below Operating Line

Profit Before Tax:
2729 (15.2%)

Competition: -
Diesel Engines: Greaves Cotton, Wartsila India, Kirloskar Oil Engines.

Taxes:
902 (5.0%)

Profit After Tax:
1828 (10.2%)

Market Share (FY06)
Leading Player in the Diesel Engine Market

Assets
Rs 13069 mn (100%)

Balance Sheet

Liabilities
Rs 13069 mn (100%)

Fixed Assets: 1836 (14.0%)
Capital work in progress: 94 (0.7%)
Investments: 2724 (20.8%)
L&A: 1449 (11.1%)
Debtors: 4054 (31.0%)
Inventory: 2784 (21.3%)
Cash: 128 (1.0%)

Equity capital : 396 (3.0%)
Reserves: 8130 (62.2%)
Deferred Tax Liab: -1 (-0.01%)
Other Current Liabilities: 703 (5.4%)
Debt & Minority Inte: 431 (3.3%)
Sundry Creditors: 2389 (18.3%)
Provisions: 1021 (7.8%)

The Story…

Too long the Cummins stock has been a stock that has delivered only market returns. It is our firm belief that this is about to change. The stock is amazingly cheap, offers pretty good earnings visibility, is a great macro story and all in all, looks like a stock you want to own in the treacherous markets that we are in.

The Cummins story is simple: demand for captive power continues to be strong in India, particularly from emerging growth sectors like Telecom (for Telecom towers), and IT/ITES Sectors. Plus, construction, realty, hospitality, textiles, auto & auto ancillaries, food processing, govt., pharma, gas and other manufacturing activities. The power generation business has been the main beneficiary of the manufacturing and services sector in India

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Plus, Exports.

Overall, we are reasonably optimistic on the topline numbers coming through.

India is emerging as a great export base for Cummins Inc. One would wonder why Cummins Inc. would even consider India, with its clogged roads and seaports, instead of China's more efficient industrial zones. One of the reasons for choosing India could be because CIL has been designing products for the price conscious Indian market for years now, which provides it with an edge for operating in developing nations. In Cummins Inc.'s global scheme of things, India has emerged as a strategic location for low volume production of complex industrial goods. And the company's efforts to improve efficiency with the help of cost-reduction initiatives are a big positive.

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The contribution from the power generation business in the domestic market is likely to drive CIL's growth. Due to frequent power deficits and increasing demand, the need for alternative power sources, such as DG sets, will continue to propel the segment's growth. While we expect CIL to maintain its market share in the high horsepower range, it could face stiff competition from other players, such as Honda Siel Power, Kirloskar Oil Engines and Greaves Cotton, in the lower horsepower range.

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The growth in the industrial business unit, however, has been mixed. There has been increased sale of engines, which find application in various equipments used in road construction and mining. However, the water well market continues to be in a cyclical downturn and has not revived as yet. This has negatively impacted engine sales in the Compressor segment. Nevertheless, with the increase in outlay towards the NHDP (National Highway Development Project), an increase in the capex of user industries and the Government's thrust on infrastructure development, the division's revenue visibility is likely to improve.

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The automotive segment, which has more than doubled its revenue contribution, is in a sweet spot. Currently, a majority of the segment's revenues come from engines that power the Tata Novus series of M&HCVs. There is good reason to be optimistic about the automotive segment's business prospects. One of the reasons is the positive demand environment for engines powering higher tonnage trucks, given the Supreme Court directive for enforcement against overloading. CIL's partnership with Tata Motors for providing engines for the latter's heavy trucks is likely to remain the key growth driver for this segment. In addition to this, the company's efforts to consolidate its position in the CNG (compressed natural gas) bus market have been positive.

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The demand on the export front is primarily for heavy duty and high horsepower products. Management has indicated an export order execution over the calendar year 2007 for 300 engines in the 38-litre category for marine application. CIL is expected to generate higher revenues from Cummins Inc., due to the parent's initiative to cut costs through outsourcing. An appreciation of the Indian Rupee (INR) could exert pressure on the company's export earnings.

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Fitting into the global jig saw…

China and India now account for over $2 bn of CIL's annual sales of $11.36 bn and are expected to reach $5 bn by 2010. CIL made an early entry into both China and India, which has helped the company play its cards well in these countries. The Indiana-based company opened its first diesel engine venture in India in 1962. For the first three decades, sales were limited by bureaucratic controls on product lines and pricing.

The company's persistence has paid off and sales from these two countries now account for around 20% of Cummins Inc.'s global sales. In India, CIL's engineering centre has assumed a vital role in designing engines, power generators and components. In fact, ***CIL's Indian partner, Tata Motors, is***

its third largest global customer. The company is also making inroads into niche segments. One such area is fitting buses with hybrid engines that burn liquefied natural gas.

China and India are progressively seen as the largest growth opportunities for Cummins Inc. In North America, its potential market for big truck engines is shrinking, as customers, such as Chrysler and Volvo, shift orders to their own affiliates. ***Cummins Inc. has succeeded in nations renowned for being tough for foreign investors. It has pursued a strategy of localized manufacturing, nurturing solid partnerships, minimizing capital costs and gaining a marketing edge.*** Historically, Cummins Inc. has accorded priority on training and empowering local managers. Cummins Inc. has also moved several Asian managers and their families to Columbus in order to provide them with a more holistic perspective.

Comparative Valuations

		P/E(x)		P/S(x)		P/BV(x)	EV/EBITDA(x)		EV/Sales(x)		ROE %	ROCE %	Annual EPS Growth (08/07)	Annual Sales Growth (08/07)
Company	YE	FY07E	FY08E	FY07E	FY08E	FY07E	FY07E	FY08E	FY07E	FY08E	07E	07E		
ABBINDIA	Dec	42.3	30.1	3.4	2.4	9.0	28.8	20.0	3.2	2.3	33%	33%	41%	42%
L&T	Mar	27.2	21.2	2.1	1.6	7.5	19.2	15.2	2.3	1.7	30%	18%	29%	33%
BHEL	Mar	23.0	19.4	3.2	2.6	6.1	16.0	12.9	3.0	2.5	29%	28%	19%	22%
Thermax	Mar	23.7	17.9	2.1	1.6	7.3	15.3	11.5	2.1	1.6	33%	33%	33%	28%
Crompton	Mar	23.4	19.0	1.3	1.0	6.8	15.4	12.8	1.3	1.1	33%	25%	23%	21%
Cummins	Mar	19.9	16.0	2.2	1.7	5.1	13.8	10.8	2.2	1.7	26%	25%	25%	25%

Source: FG Estimates, Bloomberg

Stunning Valuation Gap

The valuation gap is quite stunning, as the table above shows. Cummins is right at the bottom of the valuation food-chain, despite having terrific growth and return numbers. This has to change.

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We expect CIL to record a CAGR of 26% in sales and a CAGR of 31% in PAT over the period FY06-FY08. CIL trades at 19.9x and 16.0x our FY07E and FY08E EPS and at an EV/EBITDA of 10.8x, making it the most attractive stock in the capital goods space. We have assumed that for FY07 and FY08, CIL's EBITDA margin would improve marginally over the FY06 level. CIL is quoting at lower valuation multiples despite the high growth expectations for the company over the next few years. Further, according to our DCF model, the stock is quoting at a discount of 40% to its current Fair Value. We therefore, initiate our coverage on CIL with a rating of 'Outperform.'

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Cummins - Business Mix & the Lollapalooza effect…

Cummins Inc. is the world's largest designer and manufacturer of diesel engines of above 200 horse power. The key markets for Cummins' engines are on-highway vehicles, industrial equipments, and power generation. In addition to this, Cummins provides filtration and acoustic systems, natural gas engines, engine components and electronic systems.

Cummins India Limited (CIL) is a 51% subsidiary of Cummins Inc. USA. CIL, which was set up in 1962, and is India's leading manufacturer of diesel engines in the range of 60-2700 HP and value packages serving the Power Generation, Industrial and Automotive markets. CIL also caters to the growing market for gas and dual fuel engines. It manufactures a variety of engines (60-2700 HP) operating on diesel, natural gas and dual fuel for the widest range of applications: power generation, construction & mining, compressors, locomotives, marine, oilfields, fire pumps & cranes, automotive and special applications.

In the absence of the financials for the various businesses, the same has not been provided. However, in the last conference call, management had indicated that the nine-month growth rate was 40% in power, 15% in industrial, 100% in auto and 8% in exports.

Power Generation Business

Cummins' Power Generation Business – It is the market leader in Diesel and Gas power systems. It is a single window provider for complete energy and power solutions, offering top-of- the-line products (diesel & gas) and services. The company has been in the power generation business for over four decades, with over 25,000 MW of installed captive power across various industry sectors, such as telecom, construction, IT/ITES, realty, hospitality, textiles, auto & auto ancillaries, food processing, govt., pharma, gas and manufacturing. The power generation business has been the main beneficiary of the industrial revival in India.

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The power generation division includes businesses in all the segments, since the range produced by CIL offer power back up for industrial and businesses units of all sizes. The important sectors for power generation solutions are call centres, malls, hospitality, textile, auto, engineering, chemicals and pharmaceuticals, IT, etc. Kindly refer to Annexure

Industrial Business

The Cummins Industrial Business – It markets diesel & gas engines in the range of 65-2,700HP. These engines are available on a variety of mobile and stationary equipments. Some of the applications are listed in annexure at the end of this report.

Automotive Business

Cummins' Automotive business caters to the growing automotive segment in India. In FY06, CIL launched the "C" series engine in the range of 300 HP for automotive applications. The company is set to benefit from an increase in demand for higher horsepower trucks and engines due to the Supreme Court directive for enforcement against overloading.

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Exports

For FY06, exports grew by around 35% and touched an all time high of Rs.5313 mn. The demand on the export front is primarily for heavy duty and high horsepower products. Exports constitute roughly 30% of the company's overall revenues. Management has indicated an export order execution over the calendar year 2007 for 300 engines in the 38-litre category for marine application. Marine constitutes around 15% of the overall exports, with power generation been the dominant constituent.

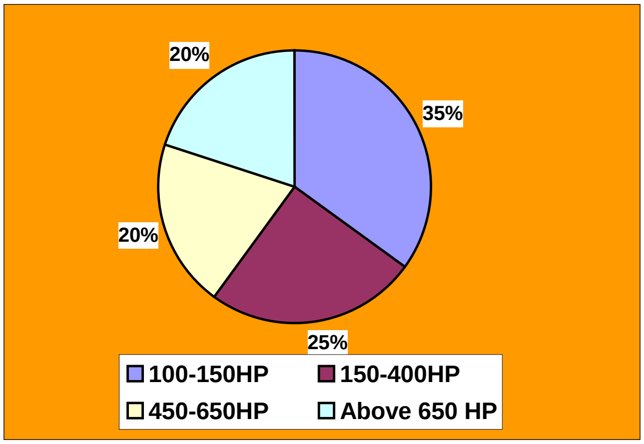
Going forward, CIL is expected to generate higher revenues from Cummins Inc., due to the parent's initiative to cut costs through outsourcing.

Cummins Diesel Sales and Service India Limited (CDS&S)

CDS&S is engaged in the business of sale of spare parts and providing after sales service to engines and generators manufactured by CIL. The subsidiary clocked revenues of Rs.4601 mn in FY06.

Product profile, Capacity expansion, Demand triggers & the Lollapalooza effect

HP- wise product mix for FY06



Source: Company

In CY06, CIL had a capex programme of Rs.300 mn and management has indicated a capex programme of Rs.1000 mn for CY07. In the last conference call, management had indicated a capacity increase of 30-40% in the higher horsepower side. In the mid range, which is basically its C series 8-litre engine, it had guided for a 50% growth in capacity. On the low HP front, CIL is upgrading its Daman plant. It is building another facility at Pirangut that should be up and running by October 2007. As a result, the company's capacity would double in the low HP range by the end of CY07. The new plant at Pirangut is for below 300 horsepower with a capacity of approximately 50,000-60,000 units per year. According to management, peak revenues from the new plant should be in the region of Rs.3000 mn. All this capacity expansion would help sustain a 30-40% growth on the power generation front.

With the planned capacity increases, CIL should be able to maintain its No 1 or No 2 position in the industries where it operates. Overall, the company has gained ground in power generation. For instance in power generation in the small generator segment, CIL has a 30% market share. On the higher HP side for power generation, the company has a market share in excess of 50%. In the auto segment at the heavy commercial vehicle end, CIL's market share stands at over 60%. The growth has been aided by the addition of two more OEM customers, specifically Eicher and Asia Motor, who are using CIL's engines, in addition to Tata Motors. On the industrial front in the mining market, the company's share is approximately 50%. In the water well compressor segment within industrial, CIL's market share stands at over 60%. Therefore, strong market shares and capacity increases augur well for CIL in the foreseeable future.

A historical perspective - Partnership as a mantra…

CIL manufactures a variety of engines (60-2700 HP) operating on diesel, natural gas and dual fuel, for the widest range of applications: power generation, construction & mining, compressors, locomotives, marine, oilfields, fire pumps & cranes, automotive and special applications. CIL commenced operations in India at Pune in 1962 (as Kirloskar Cummins Limited) and has pioneered diesel engine technology to meet the diverse power requirements of the country and its regions. Today, CIL powers hundreds of installations and equipments in India, Nepal and Bhutan.

When Cummins Inc. entered India in 1962, it formed a joint venture with the Kirloskar to make heavy engines and power generators in Pune and owned a 50% stake initially. However, following Kirloskar's sale of most of its stake in the mid-90s, more liberal investment rules allowed Cummins Inc. to boost its share to 51% in CIL. With clear management control and more flexibility to invest in new opportunities, the team at CIL got down to some serious work.

The Investment Rationale

The Export leg

Cummins Inc. is an $11 bn plus company with material cost in the $5.5 bn range. It is looking at increasing sourcing from low cost countries, such as China and India. So basically, one is looking at a $1.5 bn plus opportunity. Given that India having displayed better engineering quality, it is only fair to assume that 20% of this $1.5 bn will accrue to India on a recurring basis, which works out to around $300 mn. Currently, CIL's total exports stand at around $120 mn. Therefore, the potential growth accruing as a result of sourcing from the parent is a big opportunity. And more importantly, it would be recurring business. However, not all of this potential business will accrue to CIL from the manufacturing perspective. Cummins Inc. has a purchasing office in India that may do some of the sourcing to cut costs for the parent company.

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The Domestic Leg

Management has indicated a higher rate of growth on the domestic front for the next few years and the demand triggers, as we see, are as follows:

Power Generation Business

With over 30% of CIL's total revenues coming from this division, the growth drivers in the power generation business are important. The government has widened its policy to include the use of diesel engine as base power generating units. Hence, the demand trigger will come from manufacturing firms that are setting up captive diesel power plant, as they are economical and have a short gestation period.

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There are a number of reasons why diesel power systems are so widespread. Diesel generators are by far the lowest capital cost electric generation technology in the sub-MW size range. It is a well-established and well-understood technology and there is worldwide support infrastructure in place. When properly operated and maintained, diesel generators are also very robust and reliable. However, they also have some major disadvantages, as they are noisy and emit significant air pollution.
(Source: Stephen Drouilhet National Renewable Energy Laboratory, a US Department of Energy Laboratory).

Exhibit 3: AES - Project cost *		
Source	Capital Cost	Estimated Cost of generation
	(cr of Rs /MW)	(Rs /Kwh)
Small Hydro Power	5.00 - 6.00	1.50-2.50
Wind power	4.00-5.00	2.00-3.00
Biomass power	4.00	2.50-3.50
Biogases Cogeneration	3.5	2.50-3.00
Biomass Gasifier	1.94	2.50-3.50
Solar	26.5	15.00-20.00
Photovoltaic Energy from Waste	2.50-10.00	2.50-7.50

Source: Ministry of Non Conventional Energy Sources (MNES)

Similarly, there is a strong demand for the traditional users of DG sets as back up power, mainly from the IT and ITES sector, telecom, malls, hospitals, etc. We expect the power generation business to become the key growth driver for CIL over the next twelve months.

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Industrial Business

CIL has developed biomass-based generators targeting the rural market, which could prove to be a healthy growth trigger due to the government's ongoing rural electrification programme. Similarly, the National Highway Development Project has witnessed an increase in outlay to Rs.107 bn. This would lead to an increase in the demand for CIL's engines used in road construction equipment. CIL has currently entered into tie-ups with leading companies in the road construction equipment space, such as BEML and Tata Motors.

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Auto

The company is set to benefit from an increase in the demand for higher horsepower trucks and engines due to the Supreme Court directive for enforcement against overloading. Also, the demand is increasing for engines in buses with higher load carrying capacity and lean fuel in select pockets of India.

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Financial Performance

CIL is in the middle of a growth phase and sourcing from Cummins Inc. is an important leg of this process. The same is reflected in CIL's top line growth. There has also been an improvement in the EBITDA margin. Based on our interaction with the CIL team, we have learned that the company was able to benefit from cost savings to the extent of Rs.500 mn due to its various initiatives, including Six Sigma.

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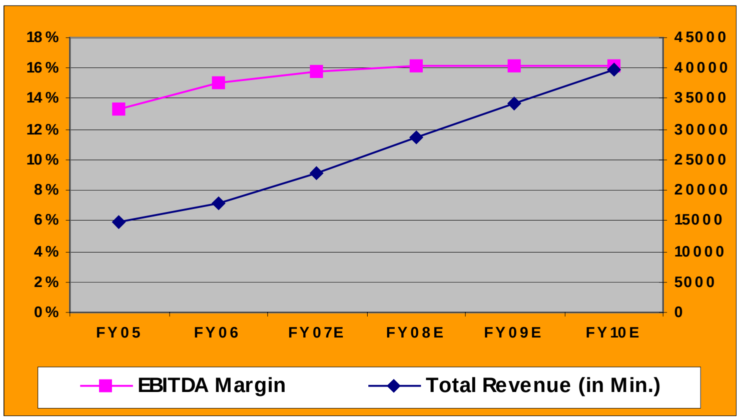
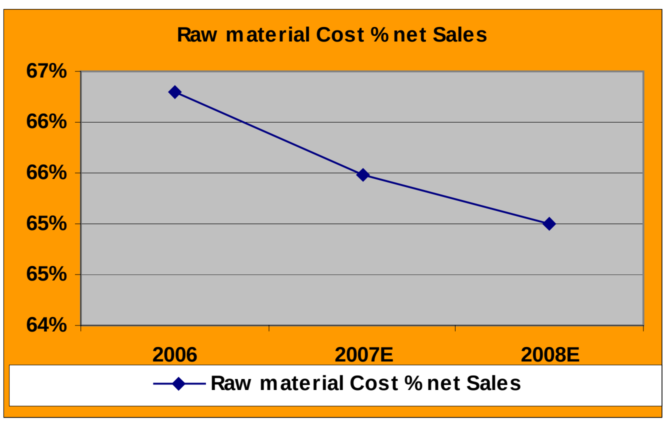
EBITDA Margin & Total Revenues



Steel, Copper and Aluminium constitute the major component of the overall company's raw material costs. ***CIL has constituted teams of twenty people from various departments to improve its overall efficiencies. Bulk sourcing and a lull in the commodity cycle are expected to enable better raw material cost management.***

Raw Material Cost as a % of Net Sales



❑ *Key Financial Ratios*

DuPont Ratio					
(YE March 31)	**2004**	**2005**	**2006**	**2007E**	**2008E**
EBIDTA/Sales (%)	10%	14%	15%	**16%**	**16%**
Sales/Operating Assets (x)	296%	285%	292%	**361%**	**398%**
EBIDTA/Operating Assets (%)	31%	39%	44%	57%	65%
Operating Assets/ Net Assets (x)	52%	64%	70%	66%	65%
Net Earnings/ EBIDTA (%)	76%	67%	68%	70%	68%
Net Assets/ Net Worth (x)	100%	102%	101%	**98%**	**97%**
Return on Equity (%)	**12%**	**17%**	**21%**	**26%**	**28%**

CIL in the midst of a capex cycle and not all these new assets will become operational immediately. Hence, the company's operating assets/net assets ratio is expected to decline in the near-term.

Working Capital Numbers

YE Mar	FY04	FY05	FY06	FY07 E	FY08 E
Inventory Days	73	79	67	71	72
Debtors Days	73	77	75	68	69
Creditors Days	88	70	74	72	70

CIL's working capital management is fairly healthy. Inventory days are expected to increase marginally, with no significant change anticipated in creditor days, while debtor days are expected to improve.

❑ *Free Cash Flow Analysis*

CIL's improving fortunes are reflected in its cash flows. The company's operating profit is increasing and it will have sufficient cash flows to increase capacities.

*Free Cash Flow – Consolidated**

(Rs. Million YE 31 March)	2,004	2,005	2,006	2007E	2008E
EBITA	**883**	**1,590**	**2,297**	**3,198**	**4,151**
Less: Adjusted Taxes	270	527	759	1,055	1,370
NOPLAT	**613**	**1,063**	**1,538**	**2,143**	**2,781**
Depreciation	340	406	390	396	456
Gross Cashflow	**953**	**1,469**	**1,928**	**2,539**	**3,237**
Increase in Working Capital	184	1,832	427	826	1,634
Operating Cashflow	**769**	**-363**	**1,501**	**1,713**	**1,603**
Net Capex	389	406	191	407	700
Increase in Net Other Assets	481	-112	-1	-652	-352
FCF From Operation	**-100**	**-658**	**1,311**	**1,959**	**1,255**
Less: Inc./(Dec.) in Investment	-313	-1,060	423	500	0
FCF after Investment	**212**	**402**	**888**	**1,459**	**1,255**
Plus: Gain/(loss) on Extraordinary Items	233	197	213	214	201
Plus: Foreign currency Translation Effect	0	0	0	0	0
Total FCF	**446**	**599**	**1,102**	**1,673**	**1,456**

Latest Quarterly Analysis

YE March 31st Figures in Rs mn	2007 Q3	2006 Q3	*Y-o-Y Change*	2007 Q2	*Seq Change*
Total Revenue	**5,030**	**4,096**	23%	**4,869**	3%
Net Raw Materials	2,541	2,541	0%	2,404	6%
Power & fuel	0	0		0	
Personnel	296	276	7%	287	3%
Other Exp	562	493	14%	547	3%
Total Cost	**4,051**	**3,311**	22%	**3,889**	4%
EBIDTA	**978**	**785**	25%	**981**	0%
Less: Depreciation	77	88	-13%	94	-18%
EBIT	**901**	**697**	29%	**886**	2%
Less: Interest	2	1	217%	0	375%
Power & Fuel	0	0		0	
PBT	**899**	**696**	29%	**886**	1%
Less: Total Tax	270	212	28%	259	4%
Profit After Tax	**629**	**485**	30%	**627**	0%
Fully Diluted E P S (Rs.)	**3.18**	**2.45**		**3.17**	
No. of Shares- Diluted mn	**198**	**198**		**198**	
EBIDTA Margin (%)	19.4%	19.2%		20.1%	
EBIT (%)	17.9%	17.0%		18.2%	
PBT Margin (%)	17.9%	17.0%		18.2%	
NPM (%)	12.5%	11.8%		12.9%	
Effective Tax Rate (%)	30.1%	30.4%		29.2%	

Key Highlights

- In Q3 FY07, CIL's revenues jumped by 23% from Rs.4096 mn in Q3 FY06 to Rs.5030 mn. The growth in the top line was aided by a strong growth in the power generation and auto segments.
- The EBITDA margin growth of 28 bps Y-o-Y was subdued due to a larger percentage of low HP engines in the company's sales mix.
- However, the NPM margin recorded a healthier growth of 67 bps, aided by a growth in Other income due to a higher dividend payout from CIL's subsidiary, Cummins Diesel Sales and Service Limited.

Financials

Earnings Model - Standalone

	2006	2006	2006	2006	2006	2007	2007	2007	2007	2007E	2008E
Rs. Million	Q1	Q2	Q3	Q4	FY06	Q1	Q2	Q3	Q4	FY07E	FY08E
Total Revenue	3,441	3,789	4,096	4,074	15,400	4,077	4,869	5,030	5,433	19,409	24,261
Net Raw Materials	2,160	2,404	2,541	2,596	9,702	2,160	2,404	2,541	2,596	9,702	2,519
Power & fuel	0	0	0	0	0	0	0	0	0	0	0
Personnel	244	285	276	255	1,059	270	287	296	338	1,190	1,512
Other Exp	437	462	493	443	1,835	507	547	562	573	2,188	2,759
Total Cost	2,841	3,151	3,311	3,293	12,596	3,295	3,889	4,051	4,428	15,664	19,867
EBIDTA	600	638	785	781	2,804	782	981	978	1,005	3,745	4,394
Less: Depreciation	83	83	88	82	336	81	94	77	111	363	402
EBIT	518	555	697	698	2,468	700	886	901	894	3,382	3,992
Less: Interest	2	2	1	5	9	0	0	2	7	9	10
Extraordinary Expense	0	0	0	0	0	0	0	0	0	0	0
PBT	516	553	696	694	2,459	700	886	899	887	3,373	3,982
Less: Total Tax	162	175	212	153	702	192	259	270	257	978	1,115
Profit After Tax	354	378	485	541	1,757	508	627	629	630	2,395	2,867
Fully Diluted E P S (Rs.)	1.79	1.91	2.45	2.73	8.88	2.56	3.17	3.18	3.19	12.11	14.50
No. of Shares- Diluted mn	198	198	198	198	198	198	198	198	198	198	198
EBIDTA Margin (%)	17.4%	16.8%	19.2%	19.2%	18.2%	19.2%	20.1%	19.4%	18.5%	19.3%	18.1%
EBIT (%)	15.0%	14.6%	17.0%	17.1%	16.0%	17.2%	18.2%	17.9%	16.5%	17.4%	16.5%
PBT Margin (%)	15.0%	14.6%	17.0%	17.0%	16.0%	17.2%	18.2%	17.9%	16.3%	17.4%	16.4%
NPM (%)	10.3%	10.0%	11.8%	13.3%	11.4%	12.5%	12.9%	12.5%	11.6%	12.3%	11.8%
Effective Tax Rate (%)	31.4%	31.7%	30.4%	22.0%	28.5%	27.4%	29.2%	30.1%	28.9%	29.0%	28.0%

Source: Company reports, FG Estimates

Key Assumptions

- We expect the EBITDA margins of Cummins to hover in the 15-16% range.
- Top line growth of marginally over 25% over the next two years aided by strong demand for engines for power generation and exports.
- Capex of marginally above Rs.1000 mn during CY07.

Profit & Loss A/c

Rs. Million YE 31 March)	**2004**	**2005**	**2006**	**2007E**	**2008E**
Total Revenue	11851.1	14944.1	17909.4	22821.7	28527.2
Less					
Cost of Materials	7789.9	9907.8	11728.8	14833.5	18400.3
Power, Oil & Fuel	135.6	177.8	205.2	271.8	311.4
Other Manufacturing Expenses	471.0	609.1	651.2	860.6	1075.7
Selling and Administration Expenses	174.2	313.1	570.3	588.8	736.0
Personnel	1401.4	1171.9	1394.4	1789.1	2264.7
Miscellaneous Expenses	656.2	791.2	685.3	883.2	1132.3
Less: Pre-operative Expenses Capitalised	0.4	23.0	13.1	0	0
Total Cost	10627.9	12947.9	15222.1	19226.9	23920.4
EBIDTA	1223.2	1996.2	2687.3	3594.8	4606.7
Other Non-Operating Income	169.9	126.0	159.1	263.9	261.3
Interest Paid	44.5	41.3	45.2	45.3	49.6
Less: Depreciation	340.1	406.4	390.4	396.3	455.9
Extraordinary Income	370.0	312.7	327.5	330.0	310.0
Extraordinary Expense	34.0	17.4	8.9	10.0	10.0
Profit before Tax	1344.5	1969.8	2729.4	3737.1	4662.5
Profit before Tax (Excl.Extra-ordinaries)	1008.5	1674.5	2410.8	3417.1	4362.5
Total Tax	411.7	652.9	901.9	1233.2	1538.6
Profit after minority int	932.8	1316.9	1827.5	2503.9	3123.8
Minority Interest	0.0	0.0	0.0	0.0	0.0
Profit after Tax	932.8	1316.9	1827.5	2503.9	3123.8

Source: Company reports, FG Estimates

Common sized Profit & Loss A/c

(Rs. Million YE 31 March)	**2004**	**2005**	**2006**	**2007E**	**2008E**
Total Revenue	**100%**	**100%**	**100%**	**100%**	**100%**
Less	0%	0%	0%	0%	0%
Cost of Materials	66%	66%	65%	65%	65%
Power, Oil & Fuel	1%	1%	1%	1%	1%
Other Manufacturing Expenses	4%	4%	4%	4%	4%
Selling and Administration Expenses	1%	2%	3%	3%	3%
Personnel	12%	8%	8%	8%	8%
Miscellaneous Expenses	6%	5%	4%	4%	4%
Less: Pre-operative Expenses Capitalised	0%	0%	0%	0%	0%
Total Cost	90%	87%	85%	84%	84%
EBIDTA	**10%**	**13%**	**15%**	**16%**	**16%**
Other Non-Operating Income	1%	1%	1%	1%	1%
Interest Paid	0.4%	0.3%	0.3%	0.2%	0.2%
Less: Depreciation	3%	3%	2%	2%	2%
Extraordinary Income	3%	2%	2%	1%	1%
Extraordinary Expense	0.3%	0.1%	0.1%	0.0%	0.0%
Profit before Tax	**11%**	**13%**	**15%**	**16%**	**16%**
Profit before Tax (Excl.Extra-ordinaries)	9%	11%	13%	15%	15%
Total Tax	3%	4%	5%	5%	5%
Profit after minority int	8%	9%	10%	11%	11%
Minority Interest	0%	0%	0%	0%	0%
Profit after Tax	**8%**	**9%**	**10%**	**11%**	**11%**

Source: Company reports, FG Estimates

Balance Sheet

(Rs. Million YE 31 March)	2004	2005	2006	2007E	2008E
LIABILITIES					
Equity Capital	396	396	396	396	396
Reserves and Surplus					
General Reserves	6270	6771	7248	7248	7248
Profit & Loss Account	566	463	875	2068	3556
Other Reserves	7	7	7	7	7
Total Reserves	6843	7241	8130	9323	10811
Net Worth	7239	7637	8526	9719	11207
Minority Interest	0	0	0	0	0
Total Loans	497	665	431	431	431
Deferred Tax Liability (Net)	91	55	-1	0	0
Capital Employed	7826	8357	8956	10150	11639
ASSETS					
Gross Block	5209	5399	5505	6005	6705
Less: Depreciation	3137	3309	3669	4065	4521
Net Block	2073	2091	1836	1940	2184
Capital WIP	57	38	94	0	0
Investments	3361	2301	2724	3224	3224
Current Assets					
Inventories	2112	2806	2784	3718	4716
Sundry Debtors	2578	3363	4054	4662	5913
Cash and Bank Balance	186	107	128	661	794
Normal Cash	59	75	90	114	285
Excess Cash	127	32	38	547	509
Loans and Advances	729	1258	1449	1449	1449
Operating Loans and Advances	705	1235	1427	1427	1427
Non-Op.Loans & Advances	24	23	23	23	23
Total	5605	7534	8415	10490	12873
Less: Current Liabilities and Provisions					
Sundry Creditors	1875	1965	2389	2931	3524
Provisions	0	0	0	0	0
Provision for Tax and Others	421	568	625	1121	1399
Provision for Dividend	396	396	396	551	625
Others	576	678	703	901	1095
Operating Other Current Liabilities	576	678	703	901	1095
Total	3268	3607	4113	5504	6642
Net Current assets	2337	3927	4303	4987	6231
Capital Applied	7826	8357	8956	10150	11639

Common sized Balance Sheet

	2004	2005	2006	2007E	2008E
LIABILITIES					
Equity Capital	5%	5%	4%	4%	3%
Reserves and Surplus					
General Reserves	80%	81%	81%	71%	62%
Profit & Loss Account	7%	6%	10%	20%	31%
Other Reserves	0%	0%	0%	0%	0%
Total Reserves	87%	87%	91%	92%	93%
Net Worth	92%	91%	95%	96%	96%
Minority Interest	0%	0%	0%	0%	0%
Total Loans	6%	8%	5%	4%	4%
Deferred Tax Liability (Net)	1%	1%	0%	0%	0%
Capital Employed	100%	100%	100%	100%	100%
ASSETS					
Gross Block	67%	65%	61%	59%	58%
Less: Depreciation	40%	40%	41%	40%	39%
Net Block	26%	25%	21%	19%	19%
Capital WIP	1%	0%	1%	0%	0%
Investments	43%	28%	30%	32%	28%
Current Assets					
Inventories	27%	34%	31%	37%	41%
Sundry Debtors	33%	40%	45%	46%	51%
Cash and Bank Balance	2%	1%	1%	7%	7%
Normal Cash	1%	1%	1%	1%	2%
Excess Cash	2%	0%	0%	5%	4%
Loans and Advances	9%	15%	16%	14%	12%
Operating Loans and Advances	9%	15%	16%	14%	12%
Non-Op.Loans & Advances	0%	0%	0%	0%	0%
Total	72%	90%	94%	103%	111%
Less: Current Liabilities and Provisions					
Sundry Creditors	24%	24%	27%	29%	30%
Provisions	0%	0%	0%	0%	0%
Provision for Tax and Others	5%	7%	7%	11%	12%
Provision for Dividend	5%	5%	4%	5%	5%
Others	7%	8%	8%	9%	9%
Operating Other Current Liabilities	7%	8%	8%	9%	9%
Total	42%	43%	46%	54%	57%
Net Current assets	30%	47%	48%	49%	54%
Capital Applied	100%	100%	100%	100%	100%

Key Ratios

(Rs. Million YE 31 March)	2004	2005	2006	2007E	2008E
EBITDA Margin	10%	13%	15%	16%	16%
Proforma NPM	8%	9%	10%	11%	11%
Material / Total Revenue (%)	66%	66%	65%	65%	65%
Other Income / PBT (%)	13%	6%	6%	7%	6%
Tax / PBT (%)	31%	33%	33%	33%	33%
RoE (%)	12%	17%	21%	26%	28%
RoCE (%)	12%	16%	20%	25%	27%
Debt / Equity (x)	0.07	0.09	0.05	0.04	0.04
Interest Coverage (x)	27.49	48.33	59.45	79.38	92.88
Interest / Debt (%)	12%	7%	8%	11%	12%
Growth in Gross Block (%)	6%	4%	2%	9%	12%
Net Sales Growth (%)	11%	25%	21%	28%	25%
EBIDTA Growth (%)	-5%	63%	35%	34%	28%
Proforma PAT Growth (%)	10%	41%	39%	37%	25%
Debtors Days	73	77	75	68	69
Creditors Days	88	70	74	72	70
Inventory Days	73	79	67	71	72
Current Ratio (x)	1.71	2.09	2.05	1.91	1.94
Dividend Payout Ratio (%)	100%	71%	52%	52%	52%
Adjusted diluted E P S (Rs.) #	3.01	5.16	7.62	11.02	14.25
EPS Growth (%)	10%	41%	39%	37%	25%
Fully diluted C E P S	6.43	8.70	11.20	14.64	18.07
Book Value per share	36.54	38.58	43.04	49.06	56.57

Source: Company reports, FG Estimates

Cash Flow Statement

(Rs. Million YE 31 March)	2004	2005	2006	2007E	2008E
From Operations					
Profit Before Tax	1344.5	1969.8	2729.4	3737	4662
Depreciation	340.1	406.4	390.4	396	456
Less:					
Dividend Payout	933	935.5	947.1	1311	1636
Tax Paid	411.7	652.9	901.9	1233	1539
Operating cashflow	339.9	787.8	1270.8	1589	1944
Changes in Capital Structure					
Increase in Equity Share capital	0	0	0	0	0
Increase in Share premium	0	0	0	0	0
Increase in other reserves	34.2	16.7	8.9	0	0
Increase in Pref Capital	0	0	0	0	0
Increase in Others	-41.9	-36.1	-56	1	0
Inc/(Dec) in Loans	247.3	168.5	-233.9	0	0
Inc/(Dec) in Minority Interest	0	0	0	0	0
Inc/(Dec) in Equity/Loans/MI	239.6	149.1	-281	1	0
	0	0	0	0	0
Adjustments	0	0	0	0	0
Prior Period Adjustments	0	0	0	0	0
Diff.in Dep.	-124.6	-234.2	-30.5	0	0
Total Inflows	454.9	702.7	959.3	1590	1944
CASH OUTFLOWS					
Working Capital Changes					
Inc/(Dec) in Provisions	-450.5	147.3	56.6	651	352
Inc/(Dec) in Current Liabilities	439.7	191.8	448.6	740	787
Less:					
Inc/(Dec) in Inventory	138.6	694.3	-22	934	998
Inc in Debtors	229.5	785	690.8	608	1251
Inc/(Dec) in Loans & Adv.	237.9	529	191.5	0	0
Inc/(Dec) in other Current Assets	0	0	0	0	0
Inc/(Dec) in Working Capital	616.8	1669.2	355.1	151	1111
Capex/Investments					
Inc/(Dec) in Investments	-312.9	-1059.6	422.5	500	0
Addition to Gross Block	277.6	190.3	105.7	500	700
Inc/(Dec) in Capital WIP	-13.7	-18.4	55.2	-94	0
Inc/(Dec) in other assets	0	0	0	0	0
Inc. in Misc. Assets	0	0	0	0	0
Inc/(Dec) in Fixed assets/ Investments	-49	-887.7	583.4	907	700
Inc/(Dec) in Cash/Bank Balance	-112.9	-78.8	20.8	533	133
Total Outflows	454.9	702.7	959.3	1590	1944

Common sized Cash Flow Statement

(Rs. Million YE 31 March	2004	2005	2006	2007E	2008E
From Operations					
Profit Before Tax	296%	280%	285%	235%	240%
Depreciation	75%	58%	41%	25%	23%
Less:					
Dividend Payout	205%	133%	99%	82%	84%
Tax Paid	91%	93%	94%	78%	79%
Operating cashflow	75%	112%	132%	100%	100%
Changes in Capital Structure					
Increase in Equity Share capital	0%	0%	0%	0%	0%
Increase in Share premium	0%	0%	0%	0%	0%
Increase in other reserves	8%	2%	1%	0%	0%
Increase in Pref Capital	0%	0%	0%	0%	0%
Increase in Others	-9%	-5%	-6%	0%	0%
Inc/(Dec) in Loans	54%	24%	-24%	0%	0%
Inc/(Dec) in Minority Interest	0%	0%	0%	0%	0%
Inc/(Dec) in Equity/Loans/MI	53%	21%	-29%	0%	0%
Adjustments					
Prior Period Adjustments					
Diff.in Dep.	-27%	-33%	-3%	0%	0%
Total Inflows	100%	100%	100%	100%	100%
CASH OUTFLOWS					
Working Capital Changes					
Inc/(Dec) in Provisions	-99%	21%	6%	41%	18%
Inc/(Dec) in Current Liabilities	97%	27%	47%	47%	40%
Less:					
Inc/(Dec) in Inventory	30%	99%	-2%	59%	51%
Inc in Debtors	50%	112%	72%	38%	64%
Inc/(Dec) in Loans & Adv.	52%	75%	20%	0%	0%
Inc/(Dec) in other Current Assets	0%	0%	0%	0%	0%
Inc/(Dec) in Working Capital	136%	238%	37%	9%	57%
Capex/Investments					
Inc/(Dec) in Investments	-69%	-151%	44%	31%	0%
Addition to Gross Block	61%	27%	11%	31%	36%
Inc/(Dec) in Capital WIP	-3%	-3%	6%	-6%	0%
Inc/(Dec) in other assets	0%	0%	0%	0%	0%
Inc. in Misc. Assets	0%	0%	0%	0%	0%
Inc/(Dec) in Fixed assets/ Investments	-11%	-126%	61%	57%	36%
Inc/(Dec) in Cash/Bank Balance	-25%	-11%	2%	34%	7%
Total Outflows	100%	100%	100%	100%	100%

Source: Company reports, FG Estimates

ANNEXURE

Cummins High Horse Power Business Unit	Cummins High horse power Business Unit manufactures and supplies active engines in the range of 140 KVA to 2000KVA in prime power ,emergency, standby, mobile portals units, marine shipboard, Peak shaving systems and co- generation systems. Solutions to address basic and economical power to emerging and expanding industries.
Cummins Power Energy Solution	Offer signal -face integrated support powerhouse solution by providing com prehensive support commencing firm power house designs to implementation and operation to buy back of existing sets, total installation of powerhouse, project management and, operations and maintenance.
Cummins Power House consulting	Provide a Variety of services to optimise on- site diesel power generation and Utilization by carrying out site audits using reliable techniques and tools.
Cummins Power Rent Business Unit	Is the market leader in India and offer an unmatched range (15-1500KVA) with flexibility of tenure.
Cummins Low Horse Power Business Unit	Cummins low horsepower business unit commenced production on December 31, 1999. It is engaged in the manufacture of engine & generator sets for power generation (15 - 125 KVA) and Construction Equipment (< 200 HP).

Major Activities of the Power Generation Business

Source:Company

Range & Applications of Various Engines of Industrial Business

Construction	Range: 65 - 525 HP Applications: Excavator, Tipper, Backhoe Loader, Front end Loader, Grader, Paver, Portable Compressor, Finisher, Compactor, Dozer, Skid Steer Loader, Crane, Forklift, Reach Stacker etc.
Mining	Range: 200 - 2700 HP Applications: Dumper, Dozer, Grader, Excavator, Loader, Blast Hole Rig, Coal Hauler, Surface Miner, Tyre Handler etc.
Compressor	Range: 80 - 1000 HP Applications: Water Well Drill Rig, Portable Compressor, Blast Hole Drill Rig, Reciprocating Compressor, Gas Compressor, Refrigeration Compressor, Hydrofracturing Unit, Cable Layer etc.
RAIL/Locomotive	Range: 100-2600 HP Applications: Diesel Electric and Diesel Hydraulic locomotive, Diesel Multiple Unit, Rail Bus, Shunting Locomotive, End on Generation Car, Overhead Equipment Maintenance Car, Track Laying & Maintenance Machines etc.
Marine	Range: 100-2300 HP Applications: ollard Pull Tug, Barge, Mini Bulk Carrier, Fishing Trawler, Ferry, Pilot Launch, Patrol Boat and auxiliary power generation sets on Warship, Frigate, Missile Launcher, Fast Attack Vessel, Patrol Vessel, Tug, Commercial Vessel etc.
Fire Fighting & Industrial Pump	Range : 92-1425 HP Applications: Fire Fighting Emergency Duty Pump, Industrial Continuous Duty Pump, Ballast Pump, Dredge Pump, Fire Float Pump, Fire Crash Truck, Rapid Intervention Vehicle etc.
Oil Field	Range : 93-1200 HP Applications: (Onshore/Offshore) Work Over Rig, Mud Pump, Crane, Genset, Drilling Rig Power Pack, Well Servicing Rig, Compressor etc.
Defence	Range: 93-525 HP Applications: Main Battle Tank, Truck, Gun Towing Truck, Multi-Axle Bridge Carrying Vehicle, Amphibious Personnel Carrier, Gensets (Indian Defence Forces) etc.

Source: Company

IMPORTANT DISCLOSURES

Price Target /Investment Thesis

Price targets (if any) are derived from a subjective and/or quantitative analysis of financial and non financial data of the concerned company using a combination of P/E, P/Sales, earnings growth, discounted cash flow (DCF) and its stock price history.

The risks that may impede achievement of the price target/investment thesis are -

- **Economic Slowdown either at a global or local level**
- **Policy Environment for Power and consequent impact on the demand supply equation**
- **Demand from user industries like IT, ITES, telecom, real estate, mining, auto etc. Any slowdown in the user industries could impact our growth projections.**
- **Slow down in industry capex**
- **Abnormal rise in crude prices**
- **Further reduction in import duty**

Rating system of First Global

Our rating system consists of three categories of ratings: Positive, Neutral and Negative. Within each of these categories, the rating may be absolute or relative. When assigning an absolute rating, the price target, if any, and the time period for the achievement of this price target, are given in the report. Similarly when assigning a relative rating, it will be with respect to certain market/sector index and for a certain period of time, both of which are specified in the report.

Rating in this report is relative to: S&P CNX Nifty

Positive Ratings

(i) Buy (B) *– This rating means that we expect the stock price to move up and achieve our specified price target, if any, over the specified time period.*

(ii) Buy at Declines (BD) *– This rating means that we expect the stock to provide a better (lower) entry price and then move up and achieve our specified price target, if any, over the specified time period.*

(ii) Outperform (OP) *– This is a relative rating, which means that we expect the stock price to outperform the specified market/sector index over the specified time period.*

Neutral Ratings

(i) Hold (H) *– This rating means that we expect no substantial move in the stock price over the specified time period.*

(ii) Marketperform (MP) *– This is a relative rating, which means that we expect the stock price to perform in line with the performance of the specified market/sector index over the specified time period.*

Negative Ratings

(i) Sell (S) *– This rating means that we expect the stock price to go down and achieve our specified price target, if any, over the specified time period.*

(ii) Sell into Strength (SS) *– This rating means that we expect the stock to provide a better (higher) exit price in the short term, by going up. Thereafter, we expect it to move down and achieve our specified price target, if any, over the specified time period.*

(iii) Underperform (UP) *– This is a relative rating, which means that we expect the stock price to underperform the specified market/sector index over the specified time period.*

(iv) Avoid (A) *– This rating means that the valuation concerns and/or the risks and uncertainties related to the stock are such that we do not recommend considering the stock for investment purposes.*

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