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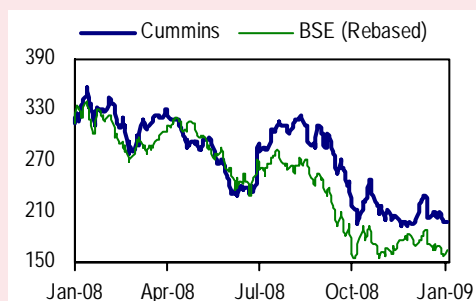
**STOCK DATA**

Market Cap	Rs38.8bn.
Book Value per share	Rs62.3
Eq Shares O/S (F.V. Rs.2)	28mn.
Median Vol (12 mths)	78,322 (BSE+NSE)
52 Week High/Low	Rs358/185
Bloomberg Code	KKC@IN
Reuters Code	CUMM.BO

**STOCK PERFORMANCE (%)**

	1M	3M	12M
Absolute	(6.9)	(6.2)	(37.6)
Relative	(4.2)	(8.7)	22.3

**STOCK PRICE PERFORMANCE**



**Cummins India Ltd's (CIL) Q3FY09 results were significantly higher than estimates largely due to robust margins. Net sales rose by 27% YoY to Rs7.5bn while adjusted OPM expanded 272bps to 17.4%. Net profits before extraordinary items increased by 40% to Rs1bn.**

● **Higher exports, rupee depreciation boost revenues**

Exports continued to surge with a 105% jump to Rs3.7bn on back of volume growth (aided by the new facilities) and an estimated 20-22% rupee depreciation. Domestic revenues dropped 8% to Rs3.8bn on back of declining offtake for back-up power and construction sectors.

● **Bulk of revenues from power generation**

Bulk (>50%) of CIL's revenues accrue from power generation in both domestic and export markets from sectors like IT, real estate and telecom. The industrial, automotive, construction, railways and spares segments collectively account for ~25-30%.

● **Indigenisation, weak rupee aid margins**

OPM expanded 272bps due to benefit of rupee depreciation, a better product mix towards higher HP engines, higher realisations and increased localisation of raw material components.

● **Buoyant margins in Others segment assist growth**

A sharp jump in revenues and segmental margins of the Others segment (after sales, spares etc) helped boost profitability. Revenues of Others segment rose by 73% to Rs818mn while PBIT margins expanded 2.2x to 31.2%. This was a result of the divestment of rentals business and consequent write-back of provisioning of Rs99.3mn. Excluding the same, PBIT margins of the segment would have expanded by 469bps to 19%.

● **A sharp decline in revenues expected**

Bulk of demand for CIL's products is from back up power generation in both domestic and export markets. While the impact of slowdown was witnessed in the 8% decline in domestic revenues, we expect the same to worsen. Similarly, even as exports have been robust (excl. rupee depr.), we expect growth in the same to pare in future.

**VALUATIONS AND RECOMMENDATION**

*The CMP of Rs197 discounts FY10E EPS of Rs17.2 by 11.4x. The stock trades at an EV/Sales of 1x and EV/EBIDTA of 5.5x FY10 estimates. A decline in volumes in FY10 and higher overheads is likely to impact margins going forward. We downgrade our recommendation to 'SELL' with a 12-month price target of Rs150.*

KEY FINANCIALS (CONSOLIDATED)					
Rs mn	Yr Ended (March)				
	2007	2008	2009E	2010E	2011E
Net Sales	21,228	26,555	31,455	27,915	29,521
YoY Gr. (%)	19.6	25.1	18.5	(11.3)	5.8
Op. Profits	3,464	3,744	5,300	4,458	4,552
Op. Marg. (%)	16.3	14.1	16.9	16.0	15.4
Net Profits	2,680	3,249	3,909*	3,408	3,453
Eq Capital	396	396	396	396	396

KEY RATIOS					
	Yr Ended (March)				
	2007	2008	2009E	2010E	2011E
Dil. EPS (Rs)	13.5	16.4	19.7	17.2	17.4
ROCE (%)	40.0	40.8	52.1	35.2	30.5
RONW (%)	27.8	28.7	33.2	22.8	19.6
P/E (x)	14.6	12.0	10.0	11.4	11.3
EV/Sales (x)	1.5	1.1	1.0	1.0	0.9
EV/EBIDT (x)	8.5	7.1	5.4	5.5	5.0

\* Before Extraordinary items

Estimate Changes

Rs mn	FY09			FY10		
	Previous	Revised	% Ch.	Previous	Revised	% Ch.
Net Sales	32,621	31,455	(3.6)	38,267	27,915	(27.1)
Op. Profit	4,681	5,300	13.2	5,461	4,458	(18.4)
Net Profit	3,611	3,909	8.2	4,391	3,408	(22.4)
EPS (Rs)	18.2	19.7	8.5	22.2	17.2	(22.5)

Financial Results for the quarter & nine months ended 31 December 2008 (Standalone)

Particulars (Rs mn)	Quarter Ended			Nine Months Ended			Year Ended
	31/12/08	31/12/07	Gr %	31/12/08	31/12/07	Gr %	31/03/08
<b>Net Sales</b>	<b>7,495</b>	<b>5,902</b>	<b>27.0</b>	<b>22,464</b>	<b>16,608</b>	<b>35.3</b>	<b>23,308</b>
<i>Exports</i>	<i>3,741</i>	<i>1,821</i>	<i>105.4</i>	<i>10,149</i>	<i>5,296</i>	<i>91.6</i>	<i>7,420</i>
<i>domestic</i>	<i>3,754</i>	<i>4,081</i>	<i>(8.0)</i>	<i>12,315</i>	<i>11,312</i>	<i>8.9</i>	<i>15,887</i>
<b>Total Expenditure</b>	<b>6,190</b>	<b>5,035</b>	<b>22.9</b>	<b>19,175</b>	<b>14,275</b>	<b>34.3</b>	<b>20,239</b>
(Inc.)/ Dec.in stock-in-trade	(121)	(77)		(385)	(4)		35
Raw Materials & components	4,746	3,995	18.0	14,982	11,032	32.4	14,943
Purchase of traded goods	145	95	52.7	706	322	119.1	1,247
Staff Cost	498	330	51.0	1,314	991	32.6	1,384
Other expenditure	922	692	33.3	2,558	1,934	32.2	2,629
<b>Operating profit</b>	<b>1,305</b>	<b>867</b>	<b>50.5</b>	<b>3,289</b>	<b>2,333</b>	<b>41.0</b>	<b>3,069</b>
Other operating income	214	146	46.7	632	387	63.1	655
Other Income	128	123	4.5	431	376	14.7	572
<b>PBIDT</b>	<b>1,648</b>	<b>1,136</b>	<b>45.1</b>	<b>4,352</b>	<b>3,096</b>	<b>40.6</b>	<b>4,296</b>
Interest	-	-	-	7	3	176.9	7
Depreciation	110	86	27.2	308	240	28.7	330
<b>PBT</b>	<b>1,537</b>	<b>1,049</b>	<b>46.5</b>	<b>4,036</b>	<b>2,854</b>	<b>41.4</b>	<b>3,960</b>
Provision for tax	498	315		1,192	858		1,170
Provision for deferred tax	(7)	(12)		(19)	(55)		(35)
Provision for FBT	4	-		-	-		18
<b>Net Profit before E/O items</b>	<b>1,042</b>	<b>746</b>	<b>39.7</b>	<b>2,864</b>	<b>2,051</b>	<b>39.6</b>	<b>2,807</b>
Ext. Ord. Inc.	291	-		291	-		-
<b>Net Profit after E/O items</b>	<b>1,333</b>	<b>746</b>	<b>78.8</b>	<b>3,155</b>	<b>2,051</b>	<b>53.8</b>	<b>2,807</b>
Equity Capital (F.V. Rs 2)	396	396		396	396		396
Reserves (excl. rev. res.)	-	-		-	-		10,641
<b>EPS for the period (Rs)</b>	<b>5.3</b>	<b>3.8</b>		<b>14.5</b>	<b>10.4</b>		<b>14.2</b>
Book Value (Rs)	-	-		-	-		55.7
<b>OPM (%)</b>	<b>17.4</b>	<b>14.7</b>		<b>14.6</b>	<b>14.0</b>		<b>13.2</b>
NPM (%)	13.9	12.6		12.7	12.3		12.0
<b>Expend. (% of net sales)</b>							
Materials	61.7	66.4		65.0	66.4		64.3
Purchase of traded goods	1.9	1.6		3.1	1.9		5.3
Staff Cost	6.6	5.6		5.8	6.0		5.9
Other expenditure	12.3	11.7		11.4	11.6		11.3

Segmentwise results for the quarter & nine months ended 31 December 2008 (Standalone)

Particulars (Rs mn)	Quarter Ended			Nine Months Ended			Year Ended
	31/12/08	31/12/07	Gr %	31/12/08	31/12/07	Gr %	31/03/08
<b>Segment Revenue</b>							
Engines	6,730	5,447	23.5	19,943	15,168	31.5	21,298
Others	818	474	72.5	2,723	1,574	73.0	2,224
<b>Gross Sales</b>	<b>7,548</b>	<b>5,921</b>	<b>27.5</b>	<b>22,665</b>	<b>16,742</b>	<b>35.4</b>	<b>23,522</b>
<b>Segment Profits</b>							
Engines	1,254	859	46.0	3,012	2,262	33.1	3,109
Others	255	68	275.3	700	218	220.6	286
<b>PBIT</b>	<b>1,509</b>	<b>927</b>	<b>62.8</b>	<b>3,712</b>	<b>2,481</b>	<b>49.6</b>	<b>3,394</b>
Less: Interest	-	-		7	3		7
add: other unallocable inc	320	123		623	376		572
<b>PBT</b>	<b>1,829</b>	<b>1,049</b>	<b>74.3</b>	<b>4,328</b>	<b>2,854</b>	<b>51.6</b>	<b>3,960</b>
<b>Capital Employed</b>							
Engines	8,415	6,205	35.6	8,415	6,205	35.6	6,541
Others	1,334	459	191.0	1,334	459	191.0	684
<b>Total</b>	<b>9,749</b>	<b>6,663</b>	<b>46.3</b>	<b>9,749</b>	<b>6,663</b>	<b>46.3</b>	<b>7,225</b>
<b>PBIT Margins (%)</b>							
Engines	18.6	15.8		15.1	14.9		14.6
Others	31.2	14.3		25.7	13.9		12.8
<b>Total</b>	<b>20.0</b>	<b>15.7</b>		<b>16.4</b>	<b>14.8</b>		<b>14.4</b>
<b>ROCE (%)</b>							
Engines	59.6	55.4		47.7	48.6		47.5
Others	76.4	59.2		70.0	63.5		41.8
<b>Total</b>	<b>61.9</b>	<b>55.6</b>		<b>50.8</b>	<b>49.6</b>		<b>47.0</b>
<b>Sales Mix (%)</b>							
Engines	89.2	92.0		88.0	90.6		90.5
Others	10.8	8.0		12.0	9.4		9.5
<b>PBIT Mix (%)</b>							
Engines	83.1	92.7		81.1	91.2		91.6
Others	16.9	7.3		18.9	8.8		8.4

Year Ended March (Figures in Rs mn)

<b>Income Statement</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>	<b>2009E</b>	<b>2010E</b>	<b>2011E</b>
<b>Revenues</b>	<b>17,751</b>	<b>21,228</b>	<b>26,555</b>	<b>31,455</b>	<b>27,915</b>	<b>29,521</b>
<i>Growth (%)</i>	<i>20.7</i>	<i>19.6</i>	<i>25.1</i>	<i>18.5</i>	<i>(11.3)</i>	<i>5.8</i>
<b>Total Expenditure</b>	<b>15,213</b>	<b>17,764</b>	<b>22,811</b>	<b>26,155</b>	<b>23,457</b>	<b>24,969</b>
<b>Operating Profit</b>	<b>2,538</b>	<b>3,464</b>	<b>3,744</b>	<b>5,300</b>	<b>4,458</b>	<b>4,552</b>
<i>Growth (%)</i>	<i>14.3</i>	<i>16.3</i>	<i>14.1</i>	<i>16.9</i>	<i>16.0</i>	<i>15.4</i>
Interest & dividend income	492	708	68	1,051	1,205	1,233
<b>EBIDT</b>	<b>3,030</b>	<b>4,172</b>	<b>4,800</b>	<b>6,351</b>	<b>5,663</b>	<b>5,785</b>
(-) Interest	45	65	25	25	20	20
(-) Depreciation	390	381	383	449	518	572
<b>Profit before tax</b>	<b>2,585</b>	<b>3,717</b>	<b>4,386</b>	<b>5,878</b>	<b>5,125</b>	<b>5,193</b>
(-) Tax provision and minority int.	1,055	1,444	1,655	1,969	1,717	1,740
<b>Net Profits</b>	<b>1,836</b>	<b>2,680</b>	<b>3,249</b>	<b>3,909</b>	<b>3,408</b>	<b>3,453</b>
<i>Growth (%)</i>	<i>38.0</i>	<i>45.9</i>	<i>21.3</i>	<i>29.3</i>	<i>(18.8)</i>	<i>1.3</i>
Fully diluted Eq. sh. O/s (mn no)	198.0	198.0	198.0	198.0	198.0	198.0
Book Value (Rs)	43.1	51.5	62.3	76.2	88.8	101.6
Basic EPS (Rs)	9.3	13.5	16.4	19.7	17.2	17.4
<b>Diluted EPS (Rs)</b>	<b>9.3</b>	<b>13.5</b>	<b>16.4</b>	<b>19.7</b>	<b>17.2</b>	<b>17.4</b>

<b>Balance Sheet</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>	<b>2009E</b>	<b>2010E</b>	<b>2011E</b>
<i>Equity Share Capital</i>	396	396	396	396	396	396
<i>Reserves &amp; Surplus</i>	8,130	9,811	11,945	14,687	17,185	19,727
<b>Net worth</b>	<b>8,526</b>	<b>10,207</b>	<b>12,341</b>	<b>15,083</b>	<b>17,581</b>	<b>20,123</b>
Total Debt	442	353	344	-	-	-
<b>Capital Employed</b>	<b>8,968</b>	<b>10,560</b>	<b>12,685</b>	<b>15,083</b>	<b>17,581</b>	<b>20,123</b>
Fixed Assets	1,930	2,105	2,748	4,545	4,277	4,205
Net current assets	4,313	5,161	4,919	6,740	8,031	9,671
Investments	2,723	3,191	4,867	3,667	5,167	6,167
<b>Total Assets</b>	<b>8,968</b>	<b>10,560</b>	<b>12,685</b>	<b>15,083</b>	<b>17,581</b>	<b>20,123</b>

<b>Cash Flow Statement</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>	<b>2009E</b>	<b>2010E</b>	<b>2011E</b>
<b>PBT &amp; extra-ordinary items</b>	<b>2,585</b>	<b>3,717</b>	<b>4,386</b>	<b>6,169</b>	<b>5,125</b>	<b>5,193</b>
Depreciation	390	381	383	449	518	572
Interest & dividend inc.	(100)	(183)	(246)	(1,051)	(1,205)	(1,233)
Interest paid	45	65	25	25	20	20
Tax paid	(1,008)	(1,123)	(1,503)	(1,949)	(1,692)	(1,715)
(Inc/Dec in working capital	(290)	(756)	(236)	(1,294)	526	(423)
<b>Cash from operations</b>	<b>1,633</b>	<b>2,140</b>	<b>2,786</b>	<b>2,348</b>	<b>3,292</b>	<b>2,414</b>
Net capital expenditure	(206)	(592)	(942)	(2,246)	(250)	(500)
Net investments	(318)	(307)	(1,469)	1,200	(1,500)	(1,000)
Interest recd	170	254	325	1,051	1,205	1,233
<b>Cash from investing activities</b>	<b>(354)</b>	<b>(645)</b>	<b>(2,085)</b>	<b>5</b>	<b>(545)</b>	<b>(267)</b>
Issue of eq. shares	-	-	-	-	-	-
Change in debt	(267)	(92)	(9)	(288)	-	-
Dividend paid	(946)	(52)	(974)	(1,457)	(911)	(911)
Interest paid	(45)	(927)	(25)	(25)	(20)	(20)
<b>Cash from financing activities</b>	<b>(1,258)</b>	<b>(1,070)</b>	<b>(1,008)</b>	<b>(1,770)</b>	<b>(931)</b>	<b>(931)</b>
<b>Inc/Dec. in cash</b>	<b>21</b>	<b>425</b>	<b>(308)</b>	<b>583</b>	<b>1,816</b>	<b>1,216</b>

<b>Key Ratios</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>	<b>2009E</b>	<b>2010E</b>	<b>2011E</b>
OPM (%)	14.3	16.3	14.1	16.9	16.0	15.4
ROACE (%)	31.3	40.0	40.8	52.1	35.2	30.5
ROANW (%)	21.4	27.8	28.7	33.2	22.8	19.6
Sales/Total Assets (x)	2.2	2.3	2.4	2.6	1.8	1.7
Debt:Equity (x)	0.1	0.0	0.0	0.0	0.0	0.0
Current Ratio (x)	2.1	2.0	1.7	1.8	2.1	2.3
Debtors (days)	74.1	66.6	68.9	72.0	72.0	72.0
Inventory (days)	65.9	69.3	60.0	61.9	63.0	62.3
Net working capital (days)	78.8	77.0	58.3	68.6	92.2	105.1
EV/Sales (x)	1.9	1.5	1.1	1.0	1.0	0.9
EV/EBIDT (x)	12.1	8.5	7.1	5.4	5.5	5.0
P/E (x)	21.2	14.6	12.0	10.0	11.4	11.3
P/BV (x)	4.6	3.8	3.2	2.6	2.2	1.9

## T E A M

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