

Export fall sharply, domestic reviving

30 July 2009

SELL

Price	Target Price
Rs.263	Rs.195

Sensex – 15,173

Price Performance

(%)	1M	3M	6M	12M
Absolute	(9)	31	33	(7)
Rel. to Sensex	(11)	(5)	(19)	(15)

Source: Bloomberg

Stock Details

Sector	Engines
Reuters	CUMM.BO
Bloomberg	KKC@IN
Equity Capital (Rs mn)	396
Face Value (Rs)	2
No of shares o/s (mn)	198
52 Week H/L (Rs)	327/148
Market Cap (Rs bn /USD mn)	52/1,082
Daily Avg Vol (No of shares)	203738
Daily Avg Turnover (US\$ mn)	1.6

Shareholding Pattern (%)

	31/06/09	31/03/09	30/12/08
Promoters	51	51	51
FII/NRI	10.2	10.9	14.8
Institutions	23.3	22.1	17.3
Private Corp	5.7	6.2	6.9
Public	9.8	9.8	10.0

Source: Capitaline

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Cummins India reported its Q1FY10 results which included amalgamation of its two subsidiaries, Cummins Auto Services Limited and Cummins Sales and Services Limited. The results are therefore not comparable. Revenue for the quarter was at Rs.6.2bn, decline of 11.5%. Net profit increased by 2% to Rs.899mn. However, excluding the impact of the amalgamation, revenue for the quarter was at Rs.5bn, decline of 28.3% and PBT declined by 22.5% to Rs.937mn. Exports revenue declined by 66% to Rs.937mn. This is a steeper fall than the management guidance of 50% decline in the last conference call. However, domestic revenue was marginally lower to Rs.4.1bn during the quarter. We believe worst may not be over for Cummins atleast in the export front.

Domestic segment is seeing signs of revival particularly power generation, industrial and on-highway segment. Infact power generation witnessed 30% increase on q-o-q basis. However, exports will still remain under pressure due to global slowdown. We expect the company to report net profit of Rs.3.2bn in FY10 and Rs.3.8bn in FY11. We expect the company to report consolidated EPS of Rs.16.2 in FY10 and Rs.19.4 in FY11. We maintain our SELL rating on the stock with revised target price of Rs.195, based on 10x FY11 earnings.

Comparable results reports sharp decline in revenue and profits

Though the headline results of Cummins India Limited reported revenue decline of 11.5%, the numbers are not comparable due to amalgamation of its two subsidiaries Cummins Sale and Services Limited and Cummins Auto Services Limited. On like to like comparison revenue was at Rs.5bn, decline of 28.5% (q-o-q decline of 20%). PBT declined by 22.5% to Rs.937mn.

Domestic market reviving

The management in the conference call indicated that the domestic markets are seeing signs of improvement. Power generation, mining, on-highway and industrial segments are seeing sings of revival. Power generation (which accounts for 40% of the product portfolio) increased by 30% q-o-q. On sequential quarter basis the domestic revenue grew by 34%.

Exports fall sharper than expected

We believe Cummins was looked at as more defensive play in the engines segment due to its high exports as the Indian arm is more competitive. However due to global slowdown exports during the quarter declined by 66% to Rs.937mn. This is steeper than the management guidance of exports declining by ~50%. We note that Cummins Inc. (the parent company of CIL) has guided for 30% revenue decline in FY10.

Maintain Sell rating with target price of Rs.195

We expect the company to report net profit of Rs.3.2bn in FY10 and Rs.3.8bn in FY11. We expect an EPS of Rs.16.8 and Rs.19.2 for FY10 and FY11 respectively. The stock trades at 15.1x FY10 earnings, which we believe is rich as profitability is expected to decline in FY10. We maintain our Reduce rating on the stock with target price of Rs.195.

Financials

Rs Mn	Q1FY09	Q1FY10	% Change
Net Sales	7070.3	6259.0	-11.5
Total expenditure	6132.8	5219.2	
EBITDA	937.5	1039.8	10.9
OPM%	0.3	-0.1	
Non-Operating Income	376.7	304.2	
Interest	5.5	6.0	
PBDT	1308.7	1338.0	
Depreciation	99.1	88.7	
PBT	1209.6	1249.3	
Prov. for Tax- Cur	320.5	349.6	
PAT	882.5	899.7	1.9
EPS	4.4	4.5	

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