

October 28, 2010

Reco	Previous Reco
Hold	Hold
CMP	Target Price
Rs776	Rs 820
EPS change FY11E/12E (%)	+4 / +5
Target Price change (%)	5
Nifty	5,988
Sensex	19,941

Price Performance				
(%)	1M	3M	6M	12M
Absolute	3	26	34	112
Rel. to Nifty	4	14	18	71

Source: Bloomberg

Relative Price Chart



Source: Bloomberg

Stock Details

Sector	Engineering & Capital Goods
Bloomberg	KKC@IN
Equity Capital (Rs mn)	396
Face Value(Rs)	2
No of shares o/s (mn)	198
52 Week H/L	793/358
Market Cap (Rs bn/USD mn)	154/3,460
Daily Avg Volume (No of sh)	232924
Daily Avg Turnover (US\$m)	3.7

Shareholding Pattern (%)

	S'10	J'10	M'10
Promoters	51.0	51.0	51.0
FII/NRI	12.2	11.8	11.1
Institutions	20.7	21.0	22.3
Private Corp	6.4	6.3	5.9
Public	9.8	9.9	9.7

Source: Capitaline

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- **Cummins reported strong performance – revenue growth 76% yoy to Rs10.7 bn and APAT growth of 91% yoy to Rs1.7 bn**
- **All-round performance - Domestic business grew 45% yoy to Rs7.9 bn and Export business grew 280% yoy to Rs2.8 bn**
- **Management outlook comforting for capacity constraints, export business momentum and operating margins**
- **Factoring 4-5% earnings upgrade for FY11E (Rs32/Share) and FY12E (Rs37.3/Share) – Maintain ‘HOLD’ rating with revised target price of Rs820/Share**

Cummins Q2FY11 performance exceeds expectations – APAT 32% ahead of expectations

Cummins Q2FY11 performance exceeds expectation – APAT being 32% ahead of expectation. Key highlights of the Q2FY11 performance is as under (1) revenue growth of 76% yoy to Rs10.7 bn – driven strong growth in domestic and export business (2) Ebitda growth of 89% yoy to Rs1.9 bn and (3) APAT growth of 91% yoy to Rs1.7 bn. Cummins reported 130 bps yoy expansion in Ebitda margins to 18.1% - more importantly held on to 18-20% range defying fears of decline in margins.

All-round performance- contribution from Domestic business and Export business

It was all round performance with strong growth recorded by both domestic and export business -

- ‘Domestic’ business grew by 45% yoy in the quarter to Rs7.9 bn – with robust growth in all product segments. It was power cogen which lead the growth, followed by industrial engines, off-highways and automotive segment. Domestic business has already surpassed the peak revenue run-rate.
- ‘Export’ business moves along expected lines posting revenue of Rs2.8 bn, growth of 280% yoy. Cummins is just 20% lower then the peak run-rate- which it would surpass in ensuing quarters.

Addresses concerns on capacity, export business and operating margins

Management outlook is positive, attempts to address few impending concerns – (1) On capacity constraints – current capacity utilization combined with expansion at megasite would lead to 20% addition in installed capacity every year (2) on export business – would maintain current run-rate for next 2 quarters, quite positive and (3) operating margins could possibly in 17-19% range, factoring cost reduction and marginal rise in material prices.

Financial Snapshot

Rs Mn

YE-	Net Sales	EBITDA (Core)	EBITDA (%)	APAT	EPS (Rs)	EPS % chg	RoE (%)	P/E	EV/EBITDA	P/BV
FY09	35,588	5,301	14.9	4,629	21.5	42.5	31.3	36.1	29.0	10.3
FY10	28,449	5,278	18.6	4,439	22.4	4.2	30.0	34.6	29.0	9.8
FY11E	40,419	8,044	19.9	6,340	32.0	42.8	36.3	24.2	19.1	7.9
FY12E	48,464	9,582	19.8	7,390	37.3	16.6	34.4	20.8	15.8	6.5

Quarterly Results

Rs mn	Q2FY10	Q3FY10	Q4FY10	Q1FY11	Q2FY11	YoY (%)	QoQ (%)	YTD'11	YTD'10	Gr (%)
Revenue	6,193	8,279	7,883	9,279	10,914	76.3	17.6	20,194	12,587	60.4
Expenditure	5,056	6,381	6,274	7,305	8,742	72.9	19.7	16,047	10,275	56.2
<i>as % of sales</i>	<i>81.6</i>	<i>77.1</i>	<i>79.6</i>	<i>78.7</i>	<i>80.1</i>			<i>79.5</i>	<i>81.6</i>	
Consumption of RM	4,044	5,284	5,034	5,726	6,928	71.3	21.0	12,655	8,234	53.7
<i>as % of sales</i>	<i>65.3</i>	<i>63.8</i>	<i>63.9</i>	<i>61.7</i>	<i>63.5</i>			<i>62.7</i>	<i>65.4</i>	
Employee Cost	479	451	509	530	672	40.5	26.9	1,202	992	21.1
<i>as % of sales</i>	<i>7.7</i>	<i>5.4</i>	<i>6.5</i>	<i>5.7</i>	<i>6.2</i>			<i>6.0</i>	<i>7.9</i>	
Other expenditure	533	646	731	1,049	1,141	114.0	8.8	2,190	1049	108.7
<i>as % of sales</i>	<i>8.6</i>	<i>7.8</i>	<i>9.3</i>	<i>11.3</i>	<i>10.5</i>			<i>10.8</i>	<i>8.3</i>	
EBITDA	1,137	1,898	1,609	1,975	2,172	91.1	10.0	4,147	2,312	79.4
Depreciation	99	76	98	93	93			186	188	
EBIT	1,038	1,822	1,512	1,882	2,080	100.4	10.5	3,961	2,124	86.5
Other Income	165	206	138	97	205			302	331	-8.8
Interest	8	4	3	4	4			8	14	-39.7
PBT	1,195	2,024	1,646	1,974	2,281	90.9	15.5	4,255	2,441	74.3
Total Tax	316	543	463	572	602			1,173	665	
Adjusted PAT	879	1,482	1,183	1,402	1,679	90.9	19.7	3,081	1,776	73.5
Extra ordinary items	0	0	0	0	0			0	-	
Reported PAT	879	1,482	1,183	1,402	1,679	90.9	19.7	3,081	1,776	73.5
Reported EPS	4.4	7.5	6.0	7.1	8.5	90.9	19.7	15.6	9.0	73.5

Margins (%)						(bps)	(bps)			(bps)
EBIDTA	18.4	22.9	20.4	21.3	19.9	150	-140	20.5	18.4	220
EBIT	16.8	22.0	19.2	20.3	19.1	230	-120	19.6	16.9	270
EBT	19.3	24.5	20.9	21.3	20.9	160	-40	21.1	19.4	170
PAT	14.2	17.9	15.0	15.1	15.4	120	30	15.3	14.1	110
Effective Tax rate	26.4	26.8	28.1	29.0	26.4	-	-260	27.6	27.2	30

Factoring for strong traction in domestic business- upgrade FY11E and FY12E earnings by 4-5%

Q2FY11 have positive surprises – with strong traction in domestic business and adequate comfort on export business. Consequently, we have upgraded our FY11E and FY12E earnings by 4-5% to Rs32/Share and Rs37.3/Share respectively. We reiterate that Cummins would see stronger traction in domestic business and maintain 'HOLD' rating with revised target price of Rs820/Share.

Financials

Income Statement

Y/E, Mar (Rs mn)	FY09	FY10	FY11E	FY12E
Net Sales	35,588	28,449	40,419	48,464
<i>Growth (%)</i>	32.2	-20.1	42.1	19.9
Expenditure	30,287	23,170	32,374	38,882
Materials Consumed	23,750	18,555	26,766	32,336
Employee Cost	2,301	1,953	2,572	3,084
Other Exp	4,236	2,663	3,036	3,462
EBITDA	5,301	5,278	8,044	9,582
<i>Growth (%)</i>	41.6	-0.4	52.4	19.1
EBITDA margin (%)	14.9	18.6	19.9	19.8
Depreciation	487	361	399	464
EBIT	4,813	4,918	7,645	9,117
EBIT margin (%)	13.5	17.3	18.9	18.8
Other Income	1,220	1,212	1,212	1,212
Interest expenses	34	21	21	21
PBT	5,999	6,109	8,837	10,309
Tax	1,738	1,670	2,497	2,918
<i>Effective tax rate (%)</i>	29.0	27.3	28.3	28.3
Adjusted PAT	4,260	4,439	6,340	7,390
<i>Growth (%)</i>	42.5	4.2	42.8	16.6
Net Margin (%)	12.0	15.6	15.7	15.2
(Profit)/loss from JVs/Ass/MI	0	0	0	0
Adjusted PAT After JVs/Ass/MI	4,260	4,439	6,340	7,390
E/O items	369	0	0	0
Reported PAT	4,629	4,439	6,340	7,390
<i>Growth (%)</i>	42.5	-4.1	42.8	16.6

Cash Flow

Y/E, Mar (Rs mn)	FY09	FY10	FY11E	FY12E
PBT (Ex-Other income)	5,999	6,109	8,837	10,309
Depreciation	482	361	399	464
Interest Provided	34	21	21	21
Other Non-Cash items	292	-28	0	0
Chg in working cap	-2,040	1,436	-3,394	-668
Tax paid	-1,952	-1,549	-2,497	-2,918
Operating Cashflow	2,814	6,349	3,366	7,207
Capital expenditure	-808	-618	-1,250	-1,500
Free Cash Flow	2,006	5,731	2,116	5,707
Other income	0	0	0	0
Investments	433	-3,340	0	0
Investing Cashflow	433	-3,340	0	0
Equity Capital Raised	0	0	0	0
Loans Taken / (Repaid)	-85	-142	0	0
Interest Paid	-34	-21	-21	-21
Dividend paid (incl tax)	-2,114	-1,992	-2,612	-3,044
Income from investments	0	0	0	0
Others	50	0	0	0
Financing Cashflow	-2,183	-2,154	-2,632	-3,065
Net chg in cash	255	237	-517	2,642
Opening cash position	244	323	560	43
Closing cash position	500	560	43	2,686

Balance Sheet

Y/E, Mar (Rs mn)	FY09	FY10	FY11E	FY12E
Equity share capital	396	396	396	396
Reserves & surplus	14,456	15,214	18,942	23,288
Net worth	14,852	15,610	19,338	23,684
Finance Lease Liability	19	0	0	0
Secured Loans	260	86	86	86
Unsecured Loans	0	0	0	0
Loan Funds	261	86	86	86
Net deferred tax liability	-235	-170	-170	-170
Total Liabilities	14,897	15,526	19,255	23,601
Gross Block	7,572	7,776	9,026	10,526
Less: Depreciation	4,423	4,440	4,839	5,303
Net block	3,149	3,337	4,187	5,223
Goodwill	3	0	0	0
Investment	4,417	7,329	7,329	7,329
Current Assets	15,313	12,673	16,884	22,028
Inventories	4,971	4,097	5,415	6,322
Sundry debtors	7,067	5,229	8,143	9,107
Cash & bank balance	500	559	43	2,685
Loans & advances	2,681	2,695	3,190	3,821
Other current assets	94	93	93	93
Current lia & Prov	7,985	7,812	9,146	10,980
Current liabilities	6,243	5,178	6,814	8,033
Provisions	1,742	2,634	2,332	2,947
Net current assets	7,328	4,861	7,738	11,048
Misc. exp	0	0	0	0
Total Assets	14,897	15,526	19,255	23,601

Key Ratios

Y/E, Mar	FY09	FY10	FY11E	FY12E
Profitability (%)				
EBITDA Margin	14.9	18.6	19.9	19.8
Net Margin	12.0	15.6	15.7	15.2
ROCE	44.0	41.6	50.9	48.2
ROE	31.3	30.0	36.3	34.4
ROIC	55.4	57.0	78.3	71.6
Per Share Data (Rs)				
EPS	21.5	22.4	32.0	37.3
CEPS	23.9	24.2	34.0	39.7
BVPS	75.0	78.8	97.7	119.6
DPS	9.0	12.0	13.2	15.4
Valuations (x)				
PER	36.1	34.6	24.2	20.8
P/CEPS	32.4	32.0	22.8	19.6
P/BV	10.3	9.8	7.9	6.5
EV / Sales	4.3	5.4	3.8	3.1
EV / EBITDA	29.0	29.0	19.1	15.8
Dividend Yield (%)	1.2	1.5	1.7	2.0
Gearing Ratio (x)				
Net Debt/ Equity	0.0	0.0	0.0	-0.1
Net Debt/EBITDA	0.0	-0.1	0.0	-0.3
Working Cap Cycle (days)	59.4	53.2	60.9	55.7

Recommendation History: Cummins India – KKC IN**Recent Research Reports**

Date	Reports	Reco	CMP	Target
20/10/2010	Greaves Cotton Q1FY11 Result Update	Buy	465	505
24/09/2010	ECI Strategy	-	-	-

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