



Economy News

- ▶ The Centre's corporate tax collections declined 8% in August 2010, to Rs 61.23bn (Rs 66.54bn). However, the personal income-tax collections (including Securities Transaction Tax, residual Banking Cash Transaction Tax and Fringe Benefit Tax) grew 14.76% to Rs 82.77bn (Rs 72.12bn). Securities transaction tax (STT) collections too declined in August 2010 to Rs 5.71bn, against Rs 6.84bn in the same month last year. Net direct tax collections in August 2010 increased by 4% to Rs 144.65bn (Rs 138.98bn). August and November are generally sluggish months for direct tax collections, official sources pointed out. (BL)
- ▶ Power, cement and steel companies may have to spend part of their profit for local area development near their captive coal mines. The ministry of coal is considering a proposal to commit at least 5 per cent of profits from a project for local area development under guidelines being finalised for competitive bidding of captive coal blocks. (BS)

Corporate News

- ▶ **Shree Renuka Sugars** is looking to set up an integrated sugar-cum-ethanol plant with oil marketing company HPCL in Maharashtra. This would be the first such tie-up between a sugar and a petroleum company. Renuka will hold 76% in the JV. It will be a flexible unit, where we can produce up to 50 per cent ethanol and the rest can be sugar. HPCL, which has invested in reviving two sugar mills in Bihar, is looking to take over more such units in some of the southern states to expand its ethanol capacity. (BS)
- ▶ **Reliance Infratel** and **GTL Infrastructure** have abandoned plans to combine their tower operations in a deal that was valued at \$11 billion, or Rs 500bn, due to valuation disputes, raising questions over parent company Reliance Communications' (RCOM) plans to cut debt and raise money by issuing shares. The scrapping of the deal will put a spoke in the wheel in RCOM's plan to retire nearly half of its Rs 300bn debt, including the Rs 84bn the company raised to purchase third-generation airwaves in the recently-concluded auctions. (ET)
- ▶ **ArcelorMittal**, is in talks with **Indiabulls** for setting up a mining JV in India. It would essentially be a mining joint venture to meet our coal requirement for power projects. Iron ore mining can also be looked into, but the JV would not foray into steel production. While Indiabulls did not give details like the location of the proposed mining project or the investment involved, sources said it could be in Rajasthan. (BS)
- ▶ **Aurobindo Pharma**, which has been working to transform itself from a low-margin bulk drugs producer into a high-margin formulations player, has signed a deal with the UK-based AstraZeneca to supply a range of generic drugs. The deal is the second such agreement for the Hyderabad-based drug maker in the past two years. A similar one with US giant Pfizer was signed in March last year. Together, the two deals are expected to produce \$350-\$500-million revenue next year. (ET)
- ▶ **Power Finance Corp (PFC)** top brass is conducting road shows in Japan and China to raise \$240 million (Rs 11.8 bn) through foreign loans in these markets for funding power projects in India. In March, PFC had raised \$300 million from SBI's London branch for funding power generation, transmission and distribution projects in India. Meanwhile, the company is gearing to raise more funds by way of a FPO by the end of the current financial year. (BS)
- ▶ Top Indian tyre firms are looking to increase prices to offset the impact of high commodity prices that has been chipping away their profit margins. **Apollo Tyres**, **MRF**, **JK Tyres** and **Ceat** have all raised prices over 15-20% since January this year and are considering another price hike. While JK Tyres is contemplating another price hike up to 4% by the end of September across product categories, others are yet to decide on the timing of another price revision. (ET)

Equity

	6 Sep 10	% Chg		
		1 Day	1 Mth	3 Mths
Indian Indices				
SENSEX Index	18,560	1.9	2.3	10.6
NIFTY Index	5,577	1.8	2.5	10.8
BANKEX Index	12,729	2.1	7.9	20.2
BSET Index	5,563	1.9	(1.3)	6.9
BSETCG INDEX	14,847	0.8	1.1	9.5
BSEOIL INDEX	10,178	2.0	0.6	2.2
CNXMcap Index	9,021	1.1	5.6	15.9
BSESMCAP INDEX	10,095	1.8	5.3	18.5
World Indices				
Dow Jones	10,448	1.2	(1.9)	5.2
Nasdaq	2,234	1.5	(2.4)	0.7
FTSE	5,439	0.2	2.0	7.3
Nikkei	9,301	2.1	(3.8)	(2.5)
Hangseng	21,356	1.8	(1.5)	10.2

Value traded (Rs cr)

	6 Sep 10	% Chg - Day
Cash BSE	5,041	13.1
Cash NSE	14,893	19.7
Derivatives	114,399	75.3

Net inflows (Rs cr)

	3 Sep 10	% Chg	MTD	YTD
FII	486	(7.7)	1,161	60,249
Mutual Fund	20	(105.5)	181	(15,339)

FII open interest (Rs cr)

	3 Sep 10	% Chg
FII Index Futures	16,938	5.5
FII Index Options	68,744	4.1
FII Stock Futures	36,790	2.8
FII Stock Options	846	9.3

Advances / Declines (BSE)

	6 Sep 10	A	B	S	Total	% total
Advances	167	1,356	303	1,826	69	
Declines	31	589	106	726	27	
Unchanged	3	76	18	97	4	

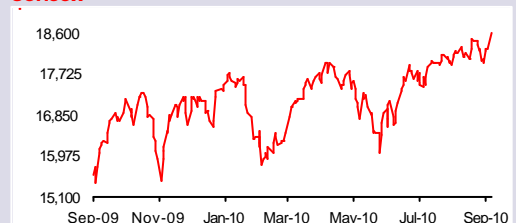
Commodity

	6 Sep 10	% Chg		
		1 Day	1 Mth	3 Mths
Crude (NYMEX) (US\$/BBL)	74	(0.8)	(8.3)	3.6
Gold (US\$/OZ)	1,250	0.3	3.6	0.7
Silver (US\$/OZ)	20	(0.2)	7.5	9.3

Debt / forex market

	6 Sep 10	1 Day	1 Mth	3 Mths
10 yr G-Sec yield %	7.98	7.98	7.83	7.52
Re/US\$	46.54	46.64	46.16	47.10

Sensex



COMPANY UPDATE

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CUMMINS INDIA LIMITED

PRICE: Rs.734

TARGET PRICE: Rs.710

RECOMMENDATION: REDUCE

FY11E P/E: 23x

Company witnessing enormous demand across all business segments mainly driven by robust growth in the domestic markets

- In FY10 CIL revenues have dropped by 14% YoY to Rs 29 bn due to sharp decline in demand for diesel engines in the US and European markets.
- Robust growth in the domestic market driven by 24% YoY growth in the Industrial Engine Business and 144% YoY growth in the Automotive Business helped maintaining PAT at Rs 4.4 bn up 2.5% YoY.
- EBITDA margins increased to 20% up 400 bps in FY10 due to softening in key raw material prices and efficient cost control measures undertaken by the management coupled with ongoing initiatives related to six sigma implementation.
- Management highlights a sustainable thrust in the growth momentum in the domestic market on account of strong performance in the power generation and industrial segment backed with increasing spending on infrastructure projects and considerable improvement in capital expenditure by the corporate India.
- While the management expects meaningful domestic demand, it also expects recovery in the exports earnings between FY11E-12E over the low base of FY10.
- We believe that with the strong debt free balance sheet, efficient management and excellent technological base, company will maintain ROE at current 30% levels and command a premium over broader market.
- While we are sanguine about the company's growth in FY11E; we revise our earning projections and expect a 38% CAGR growth in revenues between FY10-12E translating into a 33% CAGR growth in the net profit for the same period.
- Incorporating the changes in earnings outlook we revise our DCF based price target to Rs 710 (Rs 620 earlier) and maintain '**REDUCE**' rating on the company's stock.

Summary table : Consolidated

(Rs mn)	FY10	FY11E	FY12E
Sales	29,016	41,609	55,752
Growth (%)	(13.9)	44.1	34.3
EBITDA	5,842	8,435	10,826
EBITDA margin (%)	20.1	20.3	19.4
Net profit	4,438	6,129	7,881
Net cash (debt)	1,914	1,739	1,739
EPS (Rs)	22.4	31.0	39.8
Growth (%)	2.5	38.1	28.6
CEPS	24.2	33.1	42.0
DPS (Rs)	9.0	9.0	10.0
ROE (%)	30.0	34.8	35.2
ROCE (%)	41.3	50.0	50.3
EV/Sales (x)	4.8	3.4	2.5
EV/EBITDA (x)	23.6	16.3	12.5
P/E (x)	32.7	23.7	18.4
P/Cash Earnings	30.3	22.1	17.5
P/BV (x)	9.3	7.4	5.8

Source: Company, Kotak Securities - Private Client Research

FY10 Review and future growth drivers of the company's operations

Power Generation Business offers immense growth on account of mandatory emission norms compliance gaining ground coupled with immense thrust for power back up by sectors such as Telecom, Commercial construction, IT, ITES, Retail etc.

- The company comprehends a sharp recovery in power generation business and expects the resurrection of USD 15 bn market size (before economic meltdown in FY08) going forward given the enormous demand stimulated by sectors such as Telecom, Commercial construction, IT, ITES, Retail etc.
- Moreover, company has reiterated its positive outlook for the segment from long term perspective mainly driven by 1) implementation of stringent emission norms inducing demand for Tier II emission compliant power generators 2) increasing cost of power increases viability for alternate sources of power 3) tremendous potential demonstrated by Indian infrastructure development programme.
- Demand for company's low HP products has picked up and manufacturing in Pirangut and Daman has witnessed increase in utilization levels in 2HYFY10 onwards. The Automatic Transfer Switches (ATS) that have found acceptance in the market place and the Company is steadily improving its presence in this market.

- The management expects to maintain its dominant market presence in higher KV (600KV+) segment that accounts for nearly 60% of segment sales composition. Demand for these products remains strong and we expect that Cummins has an inherent advantage by having a local manufacturing capability over its peer group which is mainly dominated by multinational corporations.
- CIL has been constantly deploying capacity in sub KV (125KV-600KV) segment where competition is mainly established by local manufacturers. We expect that the company would sustain the pricing premium over domestic peer group, given its strong brand perception and superior value proposition offerings in terms of product quality; compliant with laid emission norms and superior post sales services to the end users.
- Post Q1FY11, management has cited its intensions of increasing presence in cost competitive low KVA generator market which is highly fragmented. Management expects to build market and achieve economies of scale in next two years.

Demand in construction, mining and railway space augers well for the Industrial segment

- The Industrial Engine Business grew 24% YoY during 2009-10. The Construction segment, for being directly related to the industrial activity and GDP growth, posted recovery in the later half of the year to grow by 30% on an annual basis.
- While the mining segment grew by 16%YoY during 2009-10 driven by implementation of new product programs, introduction of electronic engines on varied applications, the compressor segment witnessed a robust growth of more than 50% over last year triggered by strong performance in the Water Well, Gas Compression and Portable compressor segments.
- Massive investments in road construction activity with increasing interest of global OEMs in the Indian market auger well for company's 130-150 HP engines due to probable increase in the market potential for 20T/21T class excavators by the construction sector and 450 CFM portable compressor market.
- We expect that impetus would continue to persist in strengthening of railway infrastructure giving boost to demand for 500 KVA generator sets and 40-50 liter engine sets.
- Recent developments indicate emphasis on vertical integration by the major OEMs adding to their in house manufacturing capacity for the critical components including few products that are manufactured by companies like CIL.
- From the technical view point and in accordance with the regulatory perspective, we opine that given the technological edge provided by company's long standing position in the industry with constant emphasis on enhancing product quality through various R&D initiatives would act as a key differentiator for the company's products.
- Management expects that with the implementation of freight corridor project and increased focus on safety by the Indian Railways would lead to an increase in demand for track maintenance machines and maintenance rail cranes.

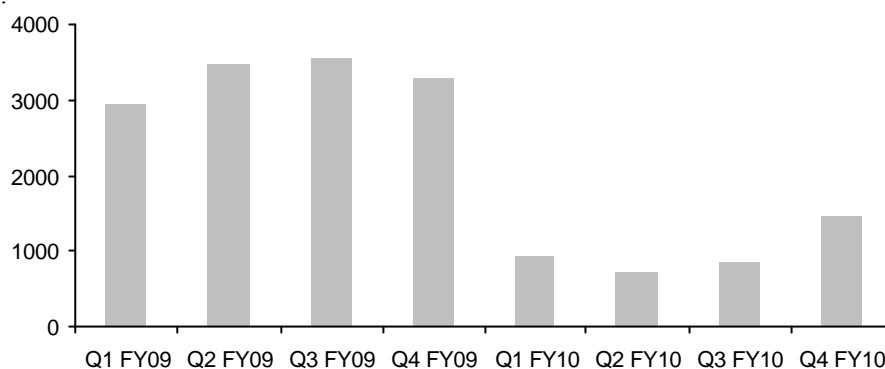
Automotive Business grew by 144% in 2009-10 mainly on back of requirements for the Delhi Transport Corporation (DTC) tender for low floor buses.

- The Government has announced funds under the JNNURM for cities to purchase 15,000 buses. We opine that the company is well positioned to gain business for CNG engines under this scheme given its superior B series gas technology engines compliant with stringent emission norms such as the BS III and BS IV
- Cummins has already secured business in the Delhi Transport Corporation requirements for 2500 CNG low floor buses demonstrating its competence and traction in this segment.

- The heavy commercial segment of 300 HP and above remained nascent during the Financial Year 2009-10. However, with the increase in infrastructural activities company expects this segment to pick up in medium term.

Exports fell by 65% YoY to Rs 4.3 bn in FY10 due to the global credit crisis; recovery in exports market is the key variable to monitor in FY11E-12E

Quarterly exports (Rs mn)



Source: Company

- Due to the credit crisis in the developed markets viz. US and Europe, demand from the parent company Cummins Inc that meets its global requirement from the company fell sharply in FY10.
- Prior to FY10 exports has been contributing close to 50% to the revenue pie which got reduced to 15% in FY10. Company reported a 14% decline in revenues for FY10 but maintained profits due to robust growth in the domestic market.
- As inferred from the above figure, exports have started to inch up from 2HYFY10. For Q1FY11 company has reported a 130%YoY increase in exports mainly due the lower base of previous year. Management expects the growth momentum to continue and believes that the earnings from exports should normalize by FY12E.
- We believe that exports could post a meaningful recovery in FY11E and FY12E on account of 1) Lower base of FY10 and 2) increase in guidance by the parent company for CY10 by leveraging on its operations in India and other developed markets.
- In our projections we have build a 65% CAGR growth between FY10-12E in export revenues for the company.

Capacity expansion at Phaltan

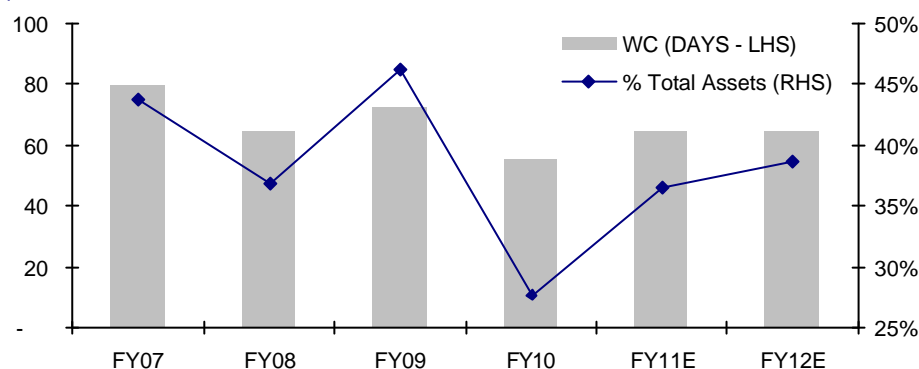
- CIL is getting ready to establish another incremental capacity of 60,000 of 5.9 litre. engines (mainly used in medium to heavy trucks) and this facility should be in place by roughly October-December quarter of next year
- The company is also contemplating setting up a rebuild center for complete overhaul, repairs, and upgrades for engines.
- Aside from that, CIL is also investing in a reconditioning operation, that of engines, generators as well as components, engine components.

Financial performance for FY10; revenues dropped 14% YoY margin expansion of 400 bps helped maintaining profits, effective working capital management aided to FCF generation

We upgrade EKC to BUY with a revised price target of Rs.135

- Benign raw material prices and efficient cost control measures undertaken by the management helped expanding EBITDA%. Raw material costs as a percentage to sales decreased by 570 bps in FY10.
- While we attribute a key proportion of margin expansion in FY10 to the softening of steel prices, we opine that on going efficiency improvement programs would help maintaining margins in FY11E.
- Company reduced its working capital to 55 days in FY10 vis-à-vis 72 days in the previous year on the back of reduction of debtor days to 67 days. As a proportion to total assets, total working capital stood at 28% in FY10 against 46% in FY09.
- We believe that with improvement in the business outlook and earnings, working capital would tend to increase in future. In our projections we build working capital of 64 days in FY11E with debtors normalizing to 70 days.

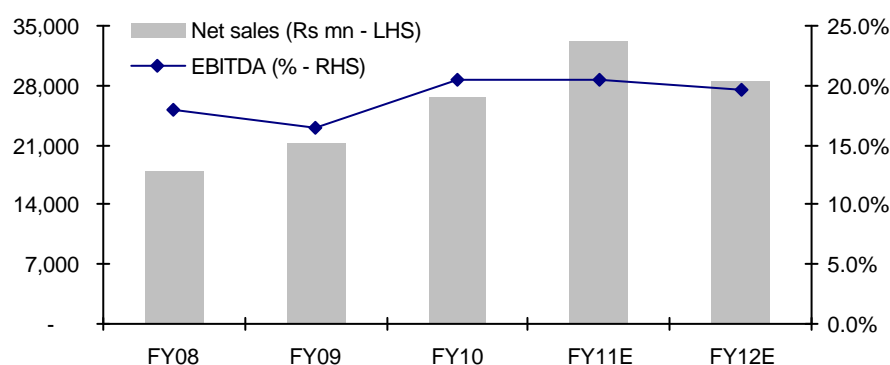
Working Capital



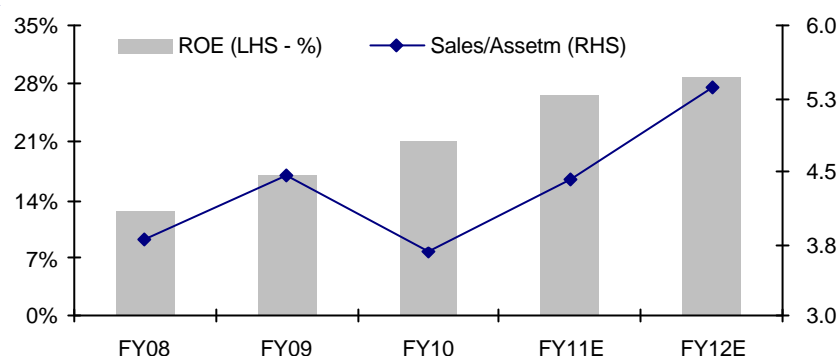
Source: Company, Kotak Securities - Private Client Research

- We believe that the company with the commissioning of its new capacity at Phaltan in 2HYFY11E and development of new market for sub KV segment is well poised to benefit from the ongoing domestic demand. This along with the resurgence of export demand in FY11E-12E would help the company maintaining ROE at +30% levels by FY12E.

Revenue trend



Source: Company, Kotak Securities - Private Client Research

RoE trend

Source: Company, Kotak Securities - Private Client Research

- Management has guided for a capex of USD300 mn by FY15E on the Greenfield facility at Phaltan near Pune which will include engine rebuilding and reconditioning center. The company has also guided for spending Rs 1.5 bn for low KVA capacity.

Earnings outlook

- We slightly tweak our earning estimate for FY11E upward for factoring the positive outlook given by the parent company. We also believe that the outlook for FY12E seems to be improving with respect to the meaningful recovery in exports earnings.
- Our earnings outlook has improved in view of the recovery in domestic and export market, sanguine margins outlook and favorable working capital due to various implemented cost cutting measures.
- We project a 38% CAGR growth in revenues between FY10-12E (29% earlier) mainly driven by growth in domestic market. The table below highlights the changes we have now build in our earnings forecast for FY11E.

FY11E Estimates

(Rs mn)	Old	New	Chg (%)
Revenues	40,907	41,609	2.0
EBITDA	8,036	8,435	4.0
PAT	6,022	6,129	1.7
EPS (Rs)	30.4	31.0	1.9

Source: Kotak Securities - Private Client Research

Valuation

- In view of the significant earnings revision of 38% CAGR growth between FY10-12E (against 29% earlier) effected by us and the improved growth outlook, we have arrived at a price target of Rs 710 based on DCF.
- On an EV/EBITDA basis, the stock is trading at 16.3x FY11E.
- We recommend **REDUCE** on the stock in view of rich valuations implied by the DCF based methodology.

Bulk deals

Trade details of bulk deals

Date	Scrip name	Name of client	Buy/ Sell	Quantity of shares	Avg. price (Rs)
6-Sep	Aravali Sec	Anita Rakeshkumar Ranka	S	90,432	16.1
6-Sep	Arvind Intl	Hemali Atul Gupta	B	35,000	14.1
6-Sep	Arvind Intl	Padamram Karnaji Chaudhary	B	35,500	14.1
6-Sep	Arvind Intl	Santosh Gupta	B	50,000	14.1
6-Sep	Arvind Intl	Tejas J Tanakhia	B	35,000	14.1
6-Sep	Arvind Intl	Mihir Bharatkumar Shah	B	69,264	14.1
6-Sep	Arvind Intl	Nirmal Kumar Agarwal	S	80,000	14.0
6-Sep	Arvind Intl	Hema Agarwal	S	80,000	14.1
6-Sep	Arvind Intl	Shashi Agarwal	S	45,000	13.9
6-Sep	Bhoruka Alum	Shreyanshnath Shares and Finan Ser	B	46,729	38.2
6-Sep	Bhoruka Alum	Rajkumar Aggarwal	S	56,000	38.2
6-Sep	Bhuwarka Steel	Surya Prakash Heda	S	36,551	59.4
6-Sep	Dazzel Conf	Sajjanraj Baboothmal Jain	B	75,000	32.9
6-Sep	Dazzel Conf	Hemant Suresh Lokhande	S	30,000	32.8
6-Sep	Ecoboard Inds	Gottumukkala Rama Krishna Raju	B	606,700	11.0
6-Sep	Ecoboard Inds	Lalitha Rajeswari Penmetsa	S	610,000	11.0
6-Sep	Elnet Tech	Sar Auto Products Limited	S	28,481	79.7
6-Sep	Frontier Spr	Nirmal Investments	S	70,000	58.1
6-Sep	Genesys Intl	Amas India Inv Mauritius Ltd	B	192,000	240.5
6-Sep	Genesys Intl	India Max Investment Fund Limited	S	192,651	240.5
6-Sep	Golden Sec	Sensitive Agency Private Ltd	B	15,000	14.0
6-Sep	Golden Sec	Gemini Vinimay Pvt Ltd	S	25,000	13.8
6-Sep	Gujarat Hotels	Orange Mauritius Investments Limited	B	55,558	83.5
6-Sep	Hittco Tools	Afjalbhai Kasambhai Lakhani	B	36,334	40.3
6-Sep	Hittco Tools	Pancha Asaraf M	S	25,000	38.3
6-Sep	Jaihind Syn	Amit Arvindkumar Shah	B	31,552	45.6
6-Sep	Kailash Ficom	Mandvi Dyes And Chemicals Pvt Ltd	B	192,936	44.2
6-Sep	Kailash Ficom	Bhanwarlal Mishrimal Sanghvi	S	100,000	44.0
6-Sep	KAY Power	Kaushalya Garg	S	258,582	17.4
6-Sep	Kinetic Motor	Vimla Devi Jain	B	200,000	23.4
6-Sep	Kinetic Motor	Kinetic Engineering Ltd	S	200,000	22.8
6-Sep	MASTER	Mallikhar Junarao V	S	72,442	48.3
6-Sep	National Plast	Enpee Credit & Capital India Limited	B	64,985	22.0
6-Sep	National Plast	Rashesh Manharbhai Bhansali	S	65,000	22.0
6-Sep	NCL Research	Raima Equities Private Limited	B	40,001	172.9
6-Sep	Omkar Overs	Shailesh Karanraj Sakaria Vishesh Corp	S	100,000	31.4
6-Sep	Omkar Overs	Falguniben Mahavirbhai Gohil	S	30,000	30.9
6-Sep	Oregon Com	Amul Gagabhai Desai	B	9,050	282.1
6-Sep	Oregon Com	Sanjay Jethalal Soni	S	23,927	281.5
6-Sep	Oregon Com	Bhavesh Shantilal Trivedi	S	10,000	278.3
6-Sep	Parekh Alum	Ashoka Finstock Ltd	S	66,981	345.8
6-Sep	Parichay Invest	Dhirenkumar Dharamdas Agarwal	B	20,000	59.0
6-Sep	Parichay Invest	Dharmeshkumar Jayeshkumar Soni	S	7,450	59.0
6-Sep	Parichay Invest	Bharat A Panchal	S	44,400	59.0
6-Sep	Passari Cellu	Dynamic Stock Broking India Pvt Ltd	B	23,491	72.5
6-Sep	Passari Cellu	Satshri Multitrade Pvt Ltd.	B	27,000	72.8
6-Sep	Piramal Health	Piramal Managementservices Pvt Ltd	B	6,592,410	514.0
6-Sep	Piramal Health	Nandini Ajay Piramal	S	3,856,277	514.0
6-Sep	Piramal Health	Anand Ajay Piramal	S	2,736,133	514.0
6-Sep	PM Telelinnks	Pranav P Vora HUF	B	100,000	12.5

Trade details of bulk deals

Date	Scrip name	Name of client	Buy/ Sell	Quantity of shares	Avg. price (Rs)
6-Sep	PM Telelinnks	Utsav Nitinbhai Shah	B	100,000	12.5
6-Sep	PM Telelinnks	Surana Gulab Chand Pukhraj	S	85,000	12.5
6-Sep	PM Telelinnks	Dipin Surana	S	70,000	12.5
6-Sep	PM Telelinnks	Priyanka Surana	S	85,000	12.5
6-Sep	Raj Packaging	Harsha Mayurbhai Sheth	B	25,000	74.3
6-Sep	Raj Packaging	J Shah Sangita	B	30,000	74.1
6-Sep	Raj Packaging	Mihir Bharatkumar Shah	S	25,000	67.3
6-Sep	Raj Packaging	Chimanlal Maneklal Securities Pvt.Ltd	S	20,031	74.1
6-Sep	Raj Packaging	Arjunbhai Haribhai Dubasia	S	25,000	74.3
6-Sep	Ram Kaashyap	Action Commodities Ltd	B	50,000	10.1
6-Sep	Ram Kaashyap	Bakul Ramniklal Parekh	S	50,000	10.1
6-Sep	Ranklin Sol	Mallikhar Junarao V	S	25,700	127.4
6-Sep	Roselabs Inds	Jayshree Shankar Bhosle	B	354,248	35.0
6-Sep	Rossell Tea	M/S M & M E Systems Private Ltd.	B	40,000	250.0
6-Sep	Rossell Tea	Vinita Gupta	S	100,000	250.3
6-Sep	Saboo Sodium	Bags Registry Services Pvt. Ltd.	B	75,599	31.0
6-Sep	Sacheta Metals	Sanjay Popatlal Shah	B	53,455	46.3
6-Sep	TGF Media sys	Regent Finance Corp Pvt Ltd	B	40,000	15.0
6-Sep	TGF Media sys	Vivekanandan	S	39,000	15.0
6-Sep	Tutis Tech	Mandvi Dyes And Chemicals Pvt Ltd	S	244,064	37.2
6-Sep	Vaghani Tech	Hitesh Dhirubhai Tailor	B	50,021	63.7
6-Sep	Vaghani Tech	Kirtiben Govindbhai Vaghani	S	45,000	63.7
6-Sep	Valuemart Info	Samir Ashok Bhanushali	S	477,552	27.4
6-Sep	Varun Inds	Swati Rajesh Shah	S	134,444	174.2
6-Sep	Venus Ventures	Vesta Solutions Private Limited	S	50,000	10.5

Source: BSE

Gainers & Losers

Nifty Gainers & Losers

	Price (Rs)	chg (%)	Index points	Volume (mn)
Gainers				
Reliance Ind	953	2.9	15.7	7.8
ICICI Bank	1,039	3.8	14.8	4.8
Infosys Tech	2,832	2.0	9.0	0.8
Losers				
Hero Honda Motors	1,703	(1.9)	(1.1)	0.9
Hindustan Unilever	272	(0.5)	(0.5)	1.2
L&T	1,834	(0.1)	(0.2)	0.7

Source: Bloomberg

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