

CUMMINS INDIA LTD.

Mid-range rev-up...
Q2 FY 2007 update

COMPANY DETAILS

Auditors	Price Waterhouse
Chairman	Mr. Anant Talaulicar
Regd. Office	Kothrud, Pune 411 038
Website	www.cumminsindia.com

SCRIP DETAILS

Market Capitalisation	Rs. 54 bn.
Book Value per share	Rs. 45.5
Equity Shares O/S (F.V. Rs 2)	198 mn.
Median Volumes (12 mths)	611,100 (BSE+NSE)
52 Week High/Low	Rs. 268 / 145
BSE Scrip Code	500480
NSE Scrip Code	CUMMINSIND
Bloomberg Code	KKC@IN
Reuters Code	CUMM.BO

SHAREHOLDING PATTERN (%)

Qtr. Ended	Mar-06	Jun-06	Sep-06
Promoters	51.0	51.0	51.0
MFs/Banks/Fls	14.7	18.7	18.0
FIIIs/NRIs/OCBs	19.1	15.3	16.2
PCBs	2.8	2.6	2.5
Indian Public/Others	12.5	12.5	12.3

KEY FINANCIALS (STANDALONE)

Rs Mn	Quarter Ended			Year Ended		
	Mar-06	Jun-06	Sep-06	2006	2007E	2008E
Net Sales	3,877	3,915	4,674	14,786	17,810	23,017
YoY Gr. (%)	22.4	19.3	30.8	23.5	20.5	29.2
Op. Profits	583	619	786	2,032	2,885	3,775
Op. Marg (%)	15.0	15.8	16.8	13.7	16.2	16.4
Net Profits	541	508	627	1,757	2,272	2,861
Eq. Capital	396	396	396	396	396	396

KEY RATIOS

Year Ended (March)	EPS (Rs.)	ROCE (%)	RONW (%)	P/E (x)	EV/Sales (x)	EV/EBDIT (x)
2006	8.9	32.4	24.5	30.4	3.1	18.2
2007E	11.5	37.6	28.0	23.5	2.6	13.9
2008E	14.4	39.6	30.1	18.7	2.0	11.3

SUMMARY

- Cummins India Ltd. (CIL) reported a 31% YoY growth in net sales to Rs 4.6 bn in Q2FY07 as a result of a surge in revenues in domestic market.
- Domestic revenues surged by 48% to Rs 3.2 bn. However, exports rose by only 4.3% to Rs 1.4 bn.
- Higher offtake from the telecom, mining and oil & gas sectors were the main reason for the surge in volumes.
- The higher proportion of revenues from the domestic market and stable staff costs were beneficial for the company as operating margins expanded by 500 bps to 16.8%. Operating profits consequently rose by 86% to Rs 786 mn.
- An other income component of Rs 195 mn and a lower effective tax rate helped net profits increase by 66% to Rs 627 mn in the quarter.
- The company is also in the process of setting up a new facility at a capex of Rs 3 bn for manufacturing the low horsepower engines. This is expected to be commercially operational over the next 18-20 months.
- The CMP of Rs 270 discounts FY08E EPS of Rs 14.4 by 18.7x. The stock trades at an EV/Sales of 2x and EV/EBIDTA of 11.3x FY08E. The sustained improvement in margins over the last two quarters is a beneficial trend.
- However, stagnation in exports is likely to be temporary as exports to non-emission countries for the 14 litre engines get ramped up. This will impact margin expansion. As a result, margins should stabilise at current higher levels accompanied by the higher volumes. Despite the benefits of the above, the stock is fairly valued and thus, we maintain our 'HOLD' recommendation.

Nov 07,2006

Sensex : 13156

Nifty : 3798

CMP : Rs 270

Recomm : HOLD

CIL's performance once again highlights the benefits of a greater share of domestic business on margins. While revenues from domestic market rose by 48% to Rs 3.2 bn, exports rose by a staid 4.3% to Rs 1.4 bn.

The domestic market affords the company a significantly higher profitability as compared to exports to its parent Cummins Inc and its associates. In the domestic market, CIL's revenues accrue to a large extent from the mid-range of engines (100<300 hp), which account for around 20% of its total sales.

Exports were impacted as a result of implementation of stringent emission norms in the western countries for the 14 litre engines used in the higher-end freight segment. As a result, the company is restricting focus of the same to the non-emission countries.

The continuing investments in expanding the telecom landscape (telecom towers, base stations etc.), mining, oil & gas and construction sectors is fuelling the demand for the engines for power generation as well as prime mover purposes. Further, demand in the mid-range segment has also shifted towards the organised players owing to the implementation of stringent noise & emission control norms.

CIL is also investing in a facility for mid-range (<300 hp) engines at a capex of Rs 3 bn. This is expected to become operational in the next 18-20 months and will help CIL focus better on the mid-range horsepower segment.

However, the proportion of revenues from the domestic market is not expected to shift significantly from current levels. As a result, the improvement in margins is expected to peak around the current levels and any growth in exports will impact the same.

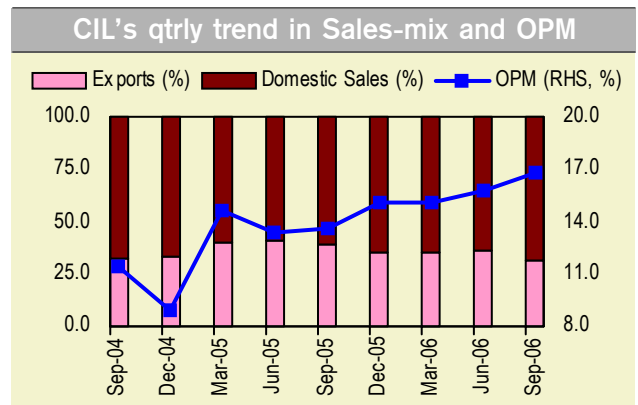
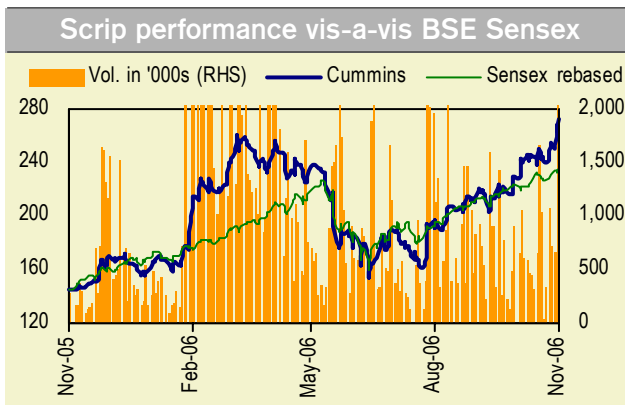
We expect stand-alone revenues to grow by 20.5% and by 29% in FY07 & FY08 to Rs 17.8 bn and Rs 23 bn respectively. The higher volume growth will be accompanied by margin improvement in the FY07. We expect operating margins to improve by 245 bps to 16.2% in FY07 and by 20 bps to 16.4% in FY08. Operating profits should consequently rise by 42% and by 30.8% to Rs 2.9 bn and Rs 3.8 bn respectively.

Net profits should consequently grow by 29% and 26% in FY07 and FY08 to Rs 2.3 bn and Rs 2.9 bn respectively.

On a consolidated basis, we expect net sales to grow by 23% to Rs 21.8 bn in FY07. A paring of loss making operation in its subsidiaries viz. Cummins Auto Services Ltd (CASL) and Cummins Diesel Sales and Services (CDS&S) will boost margins. Thus, consolidated operating margins should expand by 307 bps to 12.1% in FY07. Net profits should accordingly grow by 34% to Rs 2.4 bn led by the higher margins.

The CMP of Rs 270 discounts stand-alone FY08E EPS of Rs 14.4 by 18.7x. The stock trades at an EV/Sales of 2x and EV/EBIDTA of 11.3x FY08E. The sustained improvement in margins over the last two quarters following a higher share of domestic revenues is a beneficial trend.

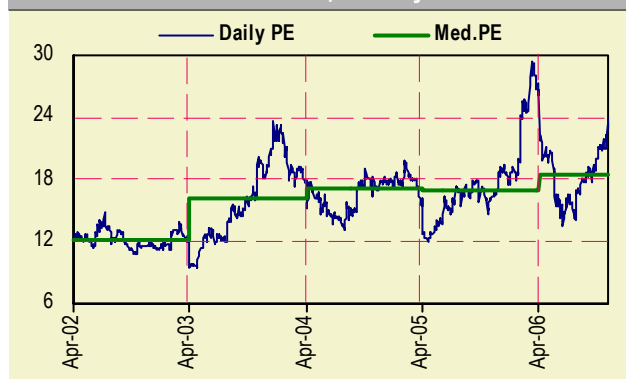
However, stagnation in exports is likely to be temporary as exports to non-emission countries get ramped up. This is expected to impact further margins expansion, which are likely to stabilise around current levels. We believe that the stock is fairly valued and thus, we maintain our 'HOLD' recommendation.



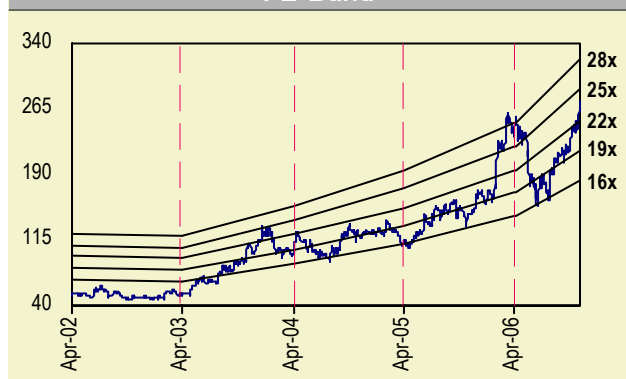
Financial results for the quarter & half year ended Sep 30, 2006 (Standalone)

Particulars (Rs mn)	Quarter Ended			Half Year Ended			Yr Ended
	30/09/06	30/09/05	Gr %	30/09/06	30/09/05	Gr %	31/03/06
Net Sales	4,674	3,573	30.8	8,589	6,853	25.3	14,628
Exports	1,471	1,410	4.3	2,873	2,757	4.2	5,449
Domestic	3,204	2,163	48.1	5,716	4,096	39.6	9,179
Expenditure	3,889	3,151	23.4	7,184	5,992	19.9	12,596
(Inc.)/ Dec.in stock-in-trade	5	(45)		(43)	(47)		54
Materials	3,050	2,450		5,616	4,612		9,648
Staff Cost	287	285	0.7	557	528	5.4	1,059
Other expenditure	547	462	18.5	1,054	899	17.2	1,835
Operating profit	786	422	86.2	1,405	861	63.1	2,032
Other Income	195	216	(9.7)	357	377	(5.2)	772
PBDIT	981	638	53.7	1,762	1,238	42.3	2,804
Interest	0	2	(74.2)	1	4	(76.9)	9
Depreciation	94	83	13.1	175	166	5.8	336
PBT	886	553	60.2	1,586	1,069	48.4	2,459
Provision for tax	276	190		500	364		749
Provision for deferred tax	(17)	(15)		(49)	(27)		(47)
Net Profit	627	378	66.0	1,135	731	55.2	1,757
Equity Capital (FV Rs 2)	396	396		396	396		396
Reserves (excl. rev. res.)	-	-		-	-		7,447
EPS for the period (Rs)	3.2	1.9		5.7	3.7		8.9
Book Value (Rs)	-	-		-	-		39.6
OPM (%)	16.8	11.8		16.4	12.6		13.9
NPM (%)	13.4	10.6		13.2	10.7		12.0
Expend. (% of net sales)							
Materials	65.4	67.3		64.9	66.6		66.3
Staff Cost	6.1	8.0		6.5	7.7		7.2
Other expenditure	11.7	12.9		12.3	13.1		12.5
Exports	31.5	39.5		33.4	40.2		37.3
Domestic	68.5	60.5		66.6	59.8		62.7

Median PE v/s Daily PE



PE Band



Segmentwise results for the quarter and half year ended Sep'30, 2006 (Standalone)

Particulars (Rs mn)	Quarter Ended			Half Year Ended			Yr Ended
	30/09/06	30/09/05	Gr %	30/09/06	30/09/05	Gr %	31/03/06
Segment Revenue							
Engines	4,377	3,387	29.2	8,075	6,474	24.7	13,751
Other products	358	227	57.5	611	455	34.3	1,044
Gross Sales	4,735	3,614	31.0	8,685	6,928	25.4	14,795
Profits							
Engines	715	393	82.1	1,313	793	65.6	1,885
Other products	44	23	90.1	53	46	14.3	101
PBIT	759	416	82.5	1,366	839	62.8	1,987
Less: Interest	0	2	(74.6)	1	4	(77.1)	9
add: other unallocable inc	127	137	(7.7)	221	297	(25.7)	481
PBT	886	552	60.5	1,586	1,133	40.0	2,459
Capital Employed							
Engines	4,801	4,873	(1.5)	4,801	4,873	(1.5)	5,432
Other products	313	262	19.2	313	262	19.2	222
Total	5,114	5,136	(0.4)	5,114	5,136	(0.4)	5,654
PBIT Margins (%)							
Engines	16.3	11.6		16.3	12.2		13.7
Other products	12.4	10.3		8.7	10.2		9.7
Total	16.0	11.5		15.7	12.1		13.4
ROCE (%)							
Engines	59.6	32.2		54.7	32.5		34.7
Other products	56.7	35.5		33.9	35.3		45.6
Total	59.4	32.4		53.4	32.7		35.1

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