

## Cummins India Ltd.

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### SELL

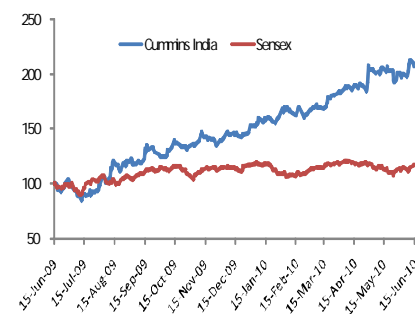
Current Price	Rs 57.9
Target Price	Rs 50.8
% upside	-12%
52 Week Range	Rs.60.0 / Rs.23.5

### Key Share Data

Market Cap	Rs. 116.4 BN / \$2.5 BN
EV/ Sales	3.8
EV/ EBIDTA	16.8
Volume	175,000.0
No. of Shares o/s (mn.)	198.0
Book Value	76.7
BSE/ NSE	500480/ CUMMINSIND
Bloomberg Code	KKC IN Equity

### Share holding (%)

Period	March '10	Dec '09
Promoters	51.0	51.0
M F/Banks/Fis	22.3	22.6
FII's	11.1	10.7
Public & Others	15.6	15.7
Total	100.0	100.0



### Cummins India Ltd. - Visit Note

We attended the analyst meet of Cummins India Ltd (CIL), following are the key takeaways.

In the above 125Kv engines category, CIL continues to maintain its leadership position. The management plans to increase its share in the below 125Kv engines category, where the domestic manufacturers are dominant. The demand from Telecom sector (major demand driver for low Kv engines segment) is expected to slow down, as the sector is trying to cut down on the costs.

CIL has started manufacturing gas based engines, as the availability of cheaper natural gas is expected to increase the market for gas based engines in the next 3 to 5 years time.

On the domestic front the company has witnessed recovery in demand since Feb 2010 as the orders which were held back during the recession are now coming through. In the backdrop of scaled down operations in the industry, the increased demand may lead to supply constraints. On the other hand the continuation of the demand at the same rate is suspected. On a three year cycle management expects the domestic business to grow at 18-19%. However, with the global economy still reeling, we expect the exports to be a drag on the overall growth of the company.

CIL had increased the product prices before the commodity prices corrected, thus was able to attain PAT margins of 16% in FY10. Given that the commodity prices have again moved up, it seems unlikely that these margins will be sustained. Going forward we expect the PAT margins to be at around 13-14%, which will result in muted earnings growth.

### Valuations:

At Rs579, it is discounting FY11E and FY12E EPS by 24.3x and 20.5x, and we believe it fully discounts the growth expected from the domestic sales. Given the fact that earnings growth will be subdued, we recommend **sell**.

Year	Net Sales	%growth	EBIDTA	OPM %	PAT	%growth	EPS	PE(x)
FY08	23,308	26.6	4,296	18.4	2,807	16.0	14.2	40.8
FY09	33,043	41.8	6,472	19.6	4,337	54.5	21.9	26.4
FY10	28,449	(13.9)	6,490	22.8	4,439	2.4	22.4	25.8
FY11E	33,707	18.5	6,236	18.5	4,719	6.3	23.8	24.3
FY12E	39,972	18.6	7,395	18.5	5,596	18.6	28.3	20.5

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### Quarterly Results (including CSS numbers):

Quarterly P & L Particulars (R s. Mn)	Standalone (inc CSS)			Standalone (inc CSS)		
	Q 4FY10	Q 4FY09	YoY%	FY10	FY09	YoY%
Net Sales	7,724	10,378	-25.6%	28,449	33,043	-13.9%
Other Operating Income	159	437	-63.6%	542	774	-30.0%
<b>Total Income</b>	<b>7,883</b>	<b>10,815</b>	<b>-27.1%</b>	<b>28,990</b>	<b>33,817</b>	<b>-14.3%</b>
Decrease/ Inc.) in Stock in Trade	(29)	(285)	-90.0%	(197)	100	-297.2%
Consumption of Raw Materials	(4,699)	(6,707)	-29.9%	(17,321)	#####	-20.2%
Traded Goods Purchased	(306)	(43)	617.8%	(1,033)	(749)	38.0%
Staff Cost	(509)	(816)	-37.5%	(1,953)	(2,130)	-8.3%
Other Expenditure	(731)	(1,144)	-36.1%	(2,670)	(3,794)	-29.6%
<b>Total Expenditure</b>	<b>(6,274)</b>	<b>(8,994)</b>	<b>-30.2%</b>	<b>(23,174)</b>	<b>#####</b>	<b>-18.0%</b>
<b>PBIDT</b>	<b>1,609</b>	<b>1,821</b>	<b>-11.6%</b>	<b>5,816</b>	<b>5,547</b>	<b>4.9%</b>
Depreciation	(98)	(147)	-33.7%	(361)	(456)	-20.8%
<b>PBIT</b>	<b>1,512</b>	<b>1,674</b>	<b>-9.7%</b>	<b>5,456</b>	<b>5,091</b>	<b>7.2%</b>
Other Income	138	8	1687.0%	674	733	-8.1%
Interest	(3)	(19)	-82.0%	(21)	(26)	-21.5%
<b>PBT before Exceptional Items</b>	<b>1,646</b>	<b>1,663</b>	<b>-1.0%</b>	<b>6,109</b>	<b>5,798</b>	<b>5.4%</b>
Exceptional Items	-	-	-	-	192	-
<b>PBT</b>	<b>1,646</b>	<b>1,663</b>	<b>-1.0%</b>	<b>6,109</b>	<b>5,990</b>	<b>2.0%</b>
Tax	(463)	481	-196.2%	(1,670)	(1,654)	1.0%
<b>Profit After Tax</b>	<b>1,183</b>	<b>2,143</b>	<b>-44.8%</b>	<b>4,439</b>	<b>4,336</b>	<b>2.4%</b>
Minority Interest	-	-	-	-	-	-
<b>Profit After Tax</b>	<b>1,183</b>	<b>1,871</b>	<b>-36.8%</b>	<b>4,439</b>	<b>4,336</b>	<b>2.4%</b>
Equity	396.0	396.0	0.0%	396.0	396.0	0.0%
Face Value	2.0	2.0	0.0%	2.0	2.0	0.0%
<b>Earning Per Share</b>	<b>6.0</b>	<b>9.4</b>	<b>-36.8%</b>	<b>22.4</b>	<b>21.9</b>	<b>2.4%</b>
<b>OPM</b>	<b>20.4%</b>	<b>16.8%</b>		<b>20.1%</b>	<b>16.4%</b>	
<b>PBIT</b>	<b>19.2%</b>	<b>15.5%</b>		<b>18.8%</b>	<b>15.1%</b>	
<b>NPM</b>	<b>15.0%</b>	<b>17.3%</b>		<b>15.3%</b>	<b>12.8%</b>	
<b>PBT</b>	<b>20.9%</b>	<b>15.4%</b>		<b>21.1%</b>	<b>17.7%</b>	
<b>Tax Rate</b>	<b>-28.1%</b>	<b>28.9%</b>		<b>-27.3%</b>	<b>-28.5%</b>	

### Segmental Results

Particulars (R s. In Mn)	Q 4FY10	Q 4FY09	Y-o-Y %	FY10	FY09	Y-o-Y %
<b>Segment Revenue</b>						
Engine Business	7,021	8,863	-20.8%	25,914	31,168	-16.9%
Others	703	1,515	-53.6%	2,535	1,874	35.2%
<b>Total</b>	<b>7,724</b>	<b>10,378</b>	<b>-25.6%</b>	<b>28,449</b>	<b>33,043</b>	<b>-13.9%</b>
Less: Inter Segment sales						
<b>Total Sales</b>	<b>7,724</b>	<b>10,378</b>	<b>-25.6%</b>	<b>28,449</b>	<b>33,043</b>	<b>-13.9%</b>

### Segment Results

Engine Business	1,234	1,203	2.6%	4,523	4,576	-1.2%
Others	278	471	-41.0%	933	516	81.0%
<b>Total</b>	<b>1,512</b>	<b>1,674</b>	<b>-9.7%</b>	<b>5,456</b>	<b>5,091</b>	<b>7.2%</b>
Less: Interest Expense (Net)	(3)	(19)	-82.0%	(21)	(26)	-21.5%
Less: Unallocable Income/ (Exp.)	138	8	1687.0%	674	925	-27.2%
<b>PBT</b>	<b>1,646</b>	<b>1,663</b>	<b>-1.0%</b>	<b>6,109</b>	<b>5,990</b>	<b>2.0%</b>

### PBIT Margin

Engine Business	17.6%	13.6%		17.5%	14.7%	
Others	39.6%	31.1%		36.8%	27.5%	
<b>Total</b>	<b>19.6%</b>	<b>16.1%</b>		<b>19.2%</b>	<b>15.4%</b>	

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