



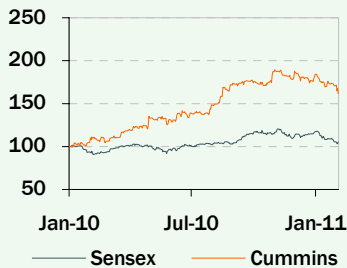
# Cummins India

 Relative to sector: **Outperformer**
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**Relative Performance**


Source: Bloomberg, ENAM Research

**Stock data**

No. of shares	: 198 mn
Market cap	: Rs 128.5 bn
52 week high/low	: Rs 810/ Rs 438
Avg. daily vol. (6mth)	: 187,600 shares
Bloomberg code	: KKC IB
Reuters code	: CUMM.BO

Shareholding (%)	Dec-10	QoQ chg
Promoters	: 51.0	0.0
FIs	: 12.1	0.1
MFs / UTI	: 14.1	(0.1)
Banks / FIs	: 6.4	(0.1)
Others	: 16.3	(0.0)

**Financial Summary**

Y/E Mar	Sales (Rs mn)	Adj. PAT (Rs mn)	Consensus EPS* (Rs)	EPS (Rs)	Change YoY (%)	P/E (x)^	RoE (%)	RoCE (%)	EV/EBITDA (x)^	DPS (Rs)
2010	28,449	4,434	-	22.4	6.5	-	30.0	41.0	-	14.0
2011E	41,006	6,050	32.4	30.6	36.4	20.7	35.0	48.8	15.3	15.2
2012E	49,689	7,260	41.4	36.7	20.0	17.2	34.4	47.7	12.8	15.2
2013E	59,627	8,465	48.2	42.8	16.6	14.8	32.6	45.2	11.0	15.2

Source: \*Consensus broker estimates, Company, ENAM estimates, ^ Adjusted for value for JVs (Rs 18/share)

**Q3 AN ABERRATION; GROWTH & MARGIN RECOVERY FROM Q4**

Cummins India's (CIL) Q3 result was 18% below our estimates due to component shortage which impacted sales by Rs 1.2 bn (~12% of Q3 sales). However, this was not due to lack of demand & the mgmt believes that revenue will revert to normalcy from Q4 onwards. Mgmt expects 8-10% QoQ sales growth in Q4 & 100 bps margin improvement. For FY12, it has guided for ~20% sales growth & flat margins.

**Key Results highlights**

- ❑ **Sales Impacted (~20% growth in Q3 vs 60% in H1)** due to: a) Rs 1.2 bn of lower sales caused by component shortage (esp alternators) with channel partners; b) Rs 1 bn additional sales booked in Q3FY10 on completion of strike at Kothrud factory; & c) some slowdown in end-user mkts caused by inflation & higher interest rates. Domestic sales were down 12% QoQ and Exports sales were down 4% QoQ.
- ❑ **Margins Impacted by commodity price increase:** Gross margins for Q3 were affected due to adverse sales mix (lower high-HP sales) & rise in prices of key input costs (e.g., pig iron & copper). To counter the later, CIL has indicated to its OEM customers about a 3-5% price hike from April'11 onwards. However, if demand growth softens further, price hike would be difficult & would impact margins.
- ❑ **Significant jump in capex – mgmt expects 20%+ growth over 5 yrs:** CIL is significantly stepping up capex from ~Rs 1 bn p.a. to ~Rs 4-5 bn p.a. over the next 3 years (largely towards the Phaltan mega site). With the capex coming on stream, the mgmt expects 20-30% growth over the next 5 yrs. In the near term, however, the mgmt highlighted that 45k unit engine plant at Phaltan (exports) has been delayed by ~1 yr & is now expected to come on stream by 2HCY12.

**Outlook and valuations**

To factor in the mgmt guidance & increased capex we have reduced our FY11/12 EPS by ~5%. Given 24% EPS CAGR over FY10-13E, 45%+ RoCE (despite capex), consistent +ve free cash flows & technology/ cost/ market leadership, we believe CIL could trade at a PE of 20x (0.6x FY12 RoE of 35%). Maintain **HOLD** with TP of Rs 750. The stock may correct further due to muted results & we would look at the correction to Buy.

## Result Update (Standalone)

(Rs mn)	Quarter ended					12 mths ended		
	Dec-10	Dec-09	% Chg	Sep-10	% Chg	Mar-11E	Mar-10	% Chg
<b>Net Sales</b>	<b>9,925</b>	<b>8,279</b>	<b>19.9</b>	<b>10,914</b>	<b>(9.1)</b>	<b>41,006</b>	<b>28,449</b>	<b>44.1</b>
<b>EBITDA</b>	<b>1,796</b>	<b>1,898</b>	<b>(5.3)</b>	<b>2,172</b>	<b>(17.3)</b>	<b>8,156</b>	<b>5,802</b>	<b>40.6</b>
Other income	103	206	(50.1)	205	(50.0)	717	683	4.9
<b>PBIDT</b>	<b>1,899</b>	<b>2,103</b>	<b>(9.7)</b>	<b>2,378</b>	<b>(20.1)</b>	<b>8,873</b>	<b>6,486</b>	<b>36.8</b>
Depreciation	91	76	20.2	93	(2.0)	389	361	7.8
Interest	3	4	-	4	(24.4)	23	21	-
<b>PBT</b>	<b>1,805</b>	<b>2,024</b>	<b>(10.8)</b>	<b>2,281</b>	<b>(20.9)</b>	<b>8,462</b>	<b>6,104</b>	<b>38.6</b>
Tax	504	608	(17.1)	602	(16.2)	2,412	1,670	44.4
<b>Adjusted PAT</b>	<b>1,301</b>	<b>1,416</b>	<b>(8.2)</b>	<b>1,679</b>	<b>(22.5)</b>	<b>6,050</b>	<b>4,434</b>	<b>36.4</b>
Extra ordinary income/ (exp.)	88	65	-	-	-	351	5	-
<b>Reported PAT</b>	<b>1,389</b>	<b>1,482</b>	<b>(6.2)</b>	<b>1,679</b>	<b>(17.3)</b>	<b>6,401</b>	<b>4,439</b>	<b>44.2</b>
No. of shares (mn)	198	198	-	198	-	198	198	-
EBITDA margin (%)	18.1	22.9	-	19.9	-	19.9	20.4	-
PBIDT margin (%)	19.1	25.4	-	21.8	-	21.6	22.8	-
<b>EPS - annualized (Rs.)</b>	<b>26.3</b>	<b>28.6</b>	<b>(8.2)</b>	<b>33.9</b>	<b>(22.5)</b>	<b>30.6</b>	<b>22.4</b>	<b>36.4</b>

Source: Company, ENAM Research

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