



Cummins Inc's Q4CY11 revenue jumped 19% YoY driven by higher demand in truck, construction, power generation and oil & gas markets in North America. Strong growth is witnessed in the global mining markets. Margin surged 130bps to 14.1% on back of strong performance in energy segment. PAT grew a sharp 47% YoY due to robust operating performance. Based on the current forecast, Cummins Inc anticipates revenue to jump ~10% in 2012, with EBIT in the 14.5-15.0% of sales range.

Strong revenue growth, margins improve

Cummins Inc posted strong revenue growth of 19% YoY in Q4CY11 driven by higher demand in truck, construction, power generation and oil & gas markets in North America. It also registered strong growth in global mining markets. All the segments viz., engine components distribution clocked ~20% revenue growth, barring power generation which posted muted revenue growth. The company stated that demand was weak in China's construction market and **India's power generation market during** the quarter. Margin surged 130bps to 14.1% due to strong performance of its energy segment (EBIT margin up 170bps YoY). However, power generation & distribution segment recorded a margin decline. Operating cash flows improved due to better working capital management and higher operating margin. PAT grew a sharp 47% YoY on back of strong operating performance.

Key takeaways for Cummins India

- (1) Volumes in power generation business in the December quarter were subdued, which is likely to impact Cummins India's revenue growth. However, volumes are expected to pick up incrementally owing to an overall pick up in infra spending.
- (2) For CY12, Cummins India's power generation business is likely to grow at ~10% YoY driven by strong government spending on infrastructure, especially roads.

Outlook: Growth visibility improves; revenue guidance increased

Cummins Inc ended CY11 on a strong note despite economic uncertainty in a number of regions that it operates in. the company continues to benefit from its leading position in a number of end markets and geographies. Based on the current forecast, it expects total company revenue to rise ~10% in 2012E, with EBIT in the 14.5-15.0% of sales range. While it estimates ~10% revenue growth in its engine & power generation segment, ~12% and ~20% growth is estimated in components and distribution segments, respectively. It expects ~10% revenue growth in India.

EDELWEISS RATINGS

Not rated

MARKET DATA (B: CMI US)

CMP (USD)	: 113.3
52-week range (USD)	: 79.5 / 121.5
Share in issue (mn)	: 192.8
M cap (USD mn)	: 21,852

PRICE PERFORMANCE (%)

	Stock	S&P500
1 month	24.4	3.8
3 months	9.8	5.1
12 months	5.3	1.4

Amit Mahawar

+91 22 4040 7451
amit.mahawar@edelcap.com

Rahul Gajare

+91 22 4063 5561
rahul.gajare@edelcap.com

Swarnim Maheshwari

+91 22 4040 7418
swarnim.maheshwari@edelcap.com

February 3, 2012

Consolidated financials

(USD mn)

	Q4CY11	Q4CY10	% change	Q3CY11	% change
Net revenue	4,921	4,139	18.9	4,626	6.4
EBITDA	692	525	31.8	639	8.3
Net profit	572	391	46.3	472	21.2

Table 1: Segmental snapshot

(USD mn)	Q4CY11	Q4CY10	% change
Revenue			
Engine	3,102	2,522	23.0
Components	1,105	929	19.0
Power Generation	920	902	2.0
Distribution	834	701	19.0
Total	5,961	5,053	18.0
EBIT			
Engine	368	256	43.8
Components	132	83	59.0
Power Generation	87	92	(5.4)
Distribution	87	82	6.1
Total	674	513	31.4
EBIT margins			
Engine	11.9	10.2	171
Components	11.9	8.9	301
Power Generation	9.5	10.2	(74)
Distribution	10.4	11.7	(127)
Total	11.3	10.2	116

Source: Company, Edelweiss research

Table 2: Engine segment sales by market

	(USD mn)					
Particulars	Q4CY11	Q4CY10	% change	CY11	CY10	% change
Heavy duty truck	865	516	67.6	2,791	1,503	85.7
Medium duty truck & bus	598	436	37.2	2,320	1,435	61.7
Light duty automotive & RV	299	280	6.8	1,176	1,022	15.1
Industrial	1,030	956	7.7	3,850	2,889	33.3
Stationary Power	269	309	(12.9)	1,170	1,039	12.6
Total Sales	3,061	2,497	22.6	11,307	7,888	43.3

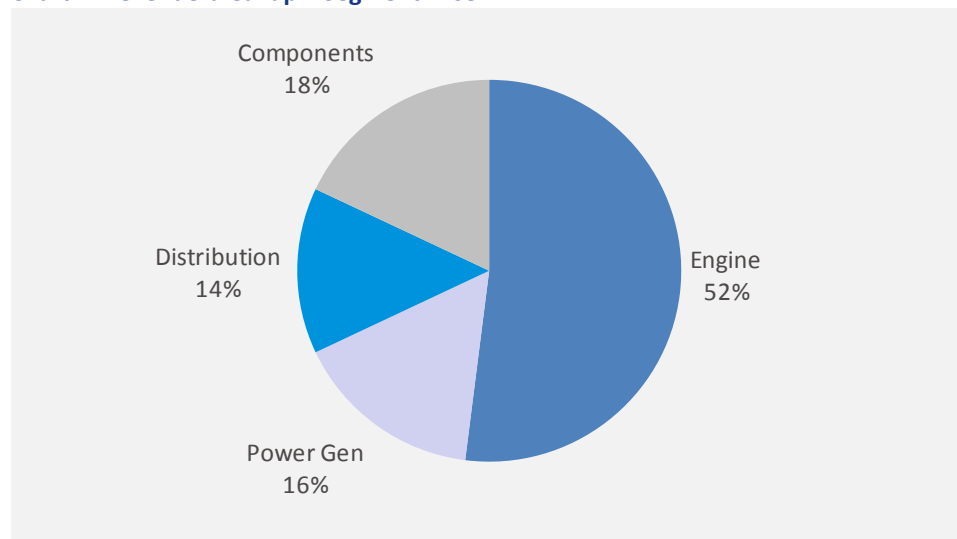
Source: Company, Edelweiss research

Table 3: Unit shipments by engine classification (including unit shipments to Power Generation)

Particulars	Q4CY11	Q4CY10	% change	CY11	CY10	% change
Mid range	138,100	115,800	19.3	509,400	368,900	38.1
Heavy duty	35,300	22,800	54.8	116,300	61,200	90.0
High Horse- power	5,400	5,400	-	21,600	18,500	16.8
Total Sales	178,800	144,000	24.2	647,300	448,600	44.3

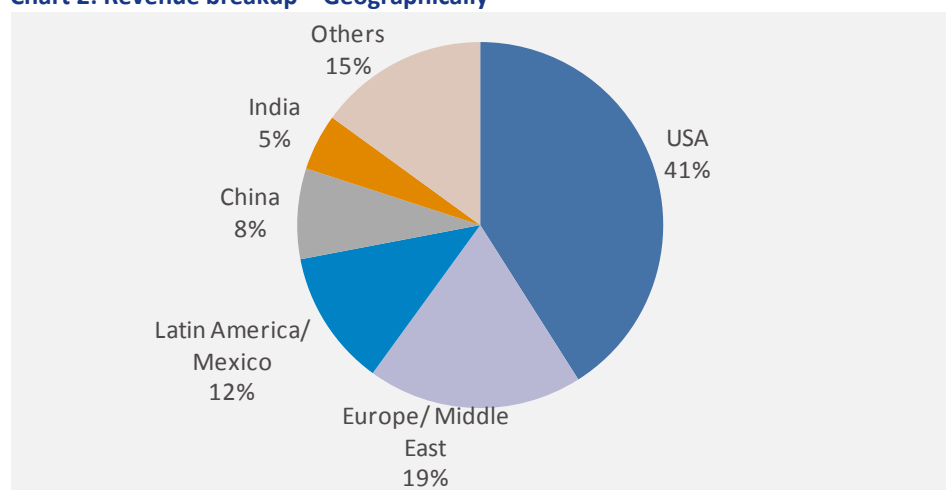
Source: Company, Edelweiss research

Chart 1: Revenue breakup – Segment wise



Source: Company, Edelweiss research

Chart 2: Revenue breakup – Geographically



Source: Company, Edelweiss research

Engineering & Capital Goods

Financial snapshot (consolidated)

(USD mn)

	Q4CY11	Q4CY10	% change	Q3CY11	% change	CY11	CY10	% change
Revenue	4,921	4,139	18.9	4,626	6.4	18,048	13,226	36.5
COGS	3,680	3,155	16.6	3,438	7.0	13,459	10,058	33.8
R&D expenses	179	123	45.5	164	9.1	629	414	51.9
Selling & administrative exp.	496	423	17.3	489	1.4	1,837	1,487	23.5
Other operating expenses	(25)	3	NM	(2)	1,150.0	(21)	16	NM
Royalty income	101	90		102	(1.0)	416	351	
EBITDA	692	525	31.8	639	8.3	2,560	1,602	59.8
Interest expense(net)	1	4	(75.0)	2	(50.0)	10	19	(47.4)
other income	14	9	55.6	(8)	(275.0)	-	34	(100.0)
Gain on sale of business	53	0	NM	-	NM	121	0	NM
PBT	758	530	43.0	629	20.5	2,671	1,617	65.2
Taxes	186	139	33.8	157	18.5	725	477	52.0
PAT from continuing operations	572	391	46.3	472	21.2	1,946	1,140	70.7
Total Number of shares	191	192		197		191	192	
Diluted EPS from continuing operations	3.0	2.0	47.4	2.4	24.9	10.2	5.9	72.0
As a % of sales								
Cost of goods sold	75	76		74		75	76	
R&D expenses	3.6	3.0		3.5		3.5	3.1	
Selling & administrative exp.	10.1	10.2		10.6		10.2	11.2	
Other operating expenses	(0.5)	0.1		(0.0)		(0.1)	0.1	
EBITDA	14.1	12.7		13.8		14.2	12.1	
PAT	11.6	9.4		10.2		10.8	8.6	

Company Description

Cummins Inc, a global power equipment leader, is a corporation of complementary business units that design, manufacture, distribute and service engines and related technologies, including fuel systems, controls, air handling, filtration, emission solutions and electrical power generation systems. Headquartered in Columbus, Indiana, (USA) Cummins serves customers in approximately 190 countries and territories through a network of more than 500 company-owned and independent distributor locations and approximately 5,200 dealer locations. Cummins reported a net income of \$1.9 billion in 2011.

Edelweiss Securities Limited, Edelweiss House, off C.S.T. Road, Kalina, Mumbai – 400 098.
Board: (91-22) 4009 4400, Email: research@edelcap.com

Vikas Khemani	Head Institutional Equities	vikas.khemani@edelcap.com	+91 22 2286 4206
Nischal Maheshwari	Co-Head Institutional Equities & Head Research	nischal.maheshwari@edelcap.com	+91 22 6623 3411

Access the entire repository of Edelweiss Research on www.edelresearch.com

This document has been prepared by Edelweiss Securities Limited (Edelweiss). Edelweiss, its holding company and associate companies are a full service, integrated investment banking, portfolio management and brokerage group. Our research analysts and sales persons provide important input into our investment banking activities. This document does not constitute an offer or solicitation for the purchase or sale of any financial instrument or as an official confirmation of any transaction. The information contained herein is from publicly available data or other sources believed to be reliable, but we do not represent that it is accurate or complete and it should not be relied on as such. Edelweiss or any of its affiliates/ group companies shall not be in any way responsible for any loss or damage that may arise to any person from any inadvertent error in the information contained in this report. This document is provided for assistance only and is not intended to be and must not alone be taken as the basis for an investment decision. The user assumes the entire risk of any use made of this information. Each recipient of this document should make such investigation as it deems necessary to arrive at an independent evaluation of an investment in the securities of companies referred to in this document (including the merits and risks involved), and should consult his own advisors to determine the merits and risks of such investment. The investment discussed or views expressed may not be suitable for all investors. We and our affiliates, group companies, officers, directors, and employees may: (a) from time to time, have long or short positions in, and buy or sell the securities thereof, of company (ies) mentioned herein or (b) be engaged in any other transaction involving such securities and earn brokerage or other compensation or act as advisor or lender/borrower to such company (ies) or have other potential conflict of interest with respect to any recommendation and related information and opinions. This information is strictly confidential and is being furnished to you solely for your information. This information should not be reproduced or redistributed or passed on directly or indirectly in any form to any other person or published, copied, in whole or in part, for any purpose. This report is not directed or intended for distribution to, or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject Edelweiss and affiliates/ group companies to any registration or licensing requirements within such jurisdiction. The distribution of this document in certain jurisdictions may be restricted by law, and persons in whose possession this document comes, should inform themselves about and observe, any such restrictions. The information given in this document is as of the date of this report and there can be no assurance that future results or events will be consistent with this information. This information is subject to change without any prior notice. Edelweiss reserves the right to make modifications and alterations to this statement as may be required from time to time. However, Edelweiss is under no obligation to update or keep the information current. Nevertheless, Edelweiss is committed to providing independent and transparent recommendation to its client and would be happy to provide any information in response to specific client queries. Neither Edelweiss nor any of its affiliates, group companies, directors, employees, agents or representatives shall be liable for any damages whether direct, indirect, special or consequential including lost revenue or lost profits that may arise from or in connection with the use of the information. Past performance is not necessarily a guide to future performance. The disclosures of interest statements incorporated in this document are provided solely to enhance the transparency and should not be treated as endorsement of the views expressed in the report. Edelweiss Securities Limited generally prohibits its analysts, persons reporting to analysts and their family members from maintaining a financial interest in the securities or derivatives of any companies that the analysts cover. The analyst for this report certifies that all of the views expressed in this report accurately reflect his or her personal views about the subject company or companies and its or their securities, and no part of his or her compensation was, is or will be, directly or indirectly related to specific recommendations or views expressed in this report.

For recipients in the United States: This report was prepared by Edelweiss Securities, which is not a FINRA member nor a broker-dealer registered with the SEC. US persons receiving this research and wishing to effect any transactions in any security discussed in the report should contact an SEC-registered broker-dealer. In order to conduct business with Institutional Investors based in the U.S., Edelweiss Securities has entered into a chaperoning agreement with a U.S. registered broker-dealer, Marco Polo Securities Inc. ("Marco Polo").

Copyright 2009 Edelweiss Research (Edelweiss Securities Ltd). All rights reserved