

**RESULTS FIRST LOOK**

Cummins (KKC) 2QFY12 results were sharply below our and consensus estimates largely due to margin pressure, although sales were also weak. We had highlighted our cautious view on slowdown and margin concerns in our 12 October Anchor report 'Assessing earnings risk'. KKC has now disappointed in earnings trend for over five quarters in a row and the latest disappointment follows on the back of a downward revision in guidance by the company last quarter. We look forward to management commentary on the outlook and further revision of guidance if any. We maintain our near-term caution on the stock.

Price target: 430.0 INR

Price (09 Nov 2011): 368.35 INR

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**Erratum: Cummins India 2QFY12 sharply below estimates yet again**

- Earnings vs. our Forecast: **BELOW**

**Likely Impact:**

- Earnings Estimates: **DOWN**
- Dividend Estimates: **NO CHANGE**
- Price Target: **DOWN**
- Long-term View: **CONFIRMED**

*Erratum: The text at the bottom of the first paragraph should read 'negative' reaction not 'positive' as earlier published. We apologize for any inconvenience caused.*

Cummins India (KKC IN, NEUTRAL) 2QFY12 results are sharply below our and consensus estimates led by lower sales growth as well as margins. Sales are 5% below Nomura and 7% below consensus estimates, while EBITDA is ~25% below estimates. Sales are flat y-y against our estimate of 5% growth. A main disappointment is on margins, which we earlier highlighted as a key risk for Cummins in our 12 October Anchor report (*Assessing earnings risk*). We await data on domestic and export sales break-up – the conference call is scheduled for tomorrow. Management commentary on the outlook and revision in guidance, if any, will be the key watchables. We expect a negative reaction for the stock tomorrow on the back of the results disappointment.

KKC: Actual 2QFY12 Vs Estimates

INR Mn	Sep-11	Nomura Est	Consensus Est	Sep-10	Jun-11
Net Sales	10,698	11,209	11,492	10,675	10,219
Operating EBITDA	1,554	2,014	2,077	1,933	1,623
EBITDA Margin	14.5%	18.0%	18.1%	18.1%	15.9%
Reported PAT	1,286	1,738	1,600	1,679	1,360
Recurring EPS	4.64	6.27	6.41	5.82	4.9

Source: Company, Bloomberg, Nomura Estimates

Detailed Result:

INR mn	Sep-10	Jun-11	Sep-11
<b>Net Sales</b>	<b>10,675.2</b>	<b>10,219</b>	<b>10,698</b>
Total Expenditure	8,742	8,597	9,144
<b>EBITDA</b>	<b>1,933</b>	<b>1,623</b>	<b>1,554</b>
EBITDA Margin %	18.1%	15.9%	14.5%

Other Income	444.2	392	369
Depreciation	93	93.5	98.4
<b>EBIT</b>	<b>2,285</b>	<b>1,921</b>	<b>1,824</b>
<i>EBIT Margin %</i>	<i>21.4%</i>	<i>18.8%</i>	<i>17.1%</i>
Interest	4	4	5
<b>PBT</b>	<b>2,281</b>	<b>1,918</b>	<b>1,819</b>
Tax	602	558	534
<b>Reported PAT</b>	<b>1,679</b>	<b>1,772</b>	<b>1,286</b>
XO Items	65	(412)	
<b>Adj. PAT</b>	<b>1,614</b>	<b>1,360</b>	<b>1,286</b>
<b>Recurring EPS</b>	<b>5.82</b>	<b>4.91</b>	<b>4.64</b>
Raw Material Consumed	6,224	6,241	6,631
Stock Adjustment	365	(180)	(299)
Purchase of Finished Goods	340	652	826
Raw Material	6,928	6,713	7,158
Employee Expenses	672	698	750
Other Expenses	1,141	1,186	1,236
<b>TOTAL EXPENDITURE</b>	<b>8,742</b>	<b>8,596.7</b>	<b>9,144.1</b>
<b>Effective tax rate</b>	<b>26.4%</b>	<b>29.1%</b>	<b>26.5%</b>
<i>Cost as % of sales</i>			
<i>Raw Material</i>	<i>64.9%</i>	<i>65.7%</i>	<i>65.0%</i>
<i>Employee Expenses</i>	<i>6.3%</i>	<i>6.8%</i>	<i>7.0%</i>
<i>Other Expenses</i>	<i>10.7%</i>	<i>11.6%</i>	<i>11.5%</i>
<b>TOTAL EXPENDITURE</b>	<b>81.9%</b>	<b>84.1%</b>	<b>83.6%</b>
<b>YoY Growth %</b>			
<i>Sales</i>	<i>75.7%</i>	<i>12.3%</i>	<i>0.2%</i>
<i>EBITDA</i>	<i>89.4%</i>	<i>-9.6%</i>	<i>-19.6%</i>
<i>PBT</i>	<i>91.2%</i>	<i>-2.8%</i>	<i>-20.2%</i>
<i>Adj. PAT</i>	<i>83.9%</i>	<i>-3.0%</i>	<i>-20.3%</i>
<b>QoQ Growth %</b>			
<i>Sales</i>	<i>17.3%</i>	<i>1.2%</i>	<i>4.7%</i>
<i>EBITDA</i>	<i>7.7%</i>	<i>11.8%</i>	<i>-4.2%</i>
<i>PBT</i>	<i>15.5%</i>	<i>-2.4%</i>	<i>-5.1%</i>
<i>Adj. PAT</i>	<i>15.1%</i>	<i>-5.5%</i>	<i>-5.5%</i>

Source: Company

**Valuation Methodology and Investment Risks:** We value the stock at 15x Sep 13F EPS of INR28.6 to arrive at our target price of INR430, which is in line with the stock's mid-cycle trading range. Risks that may impede the achievement of the target price Downside risk include appreciation of the rupee; diesel prices pose a risk to demand for back-up power; competition from Chinese players; Upside risks include raw material costs could pose negative or positive upside depending on commodity price movements; export recovery could continue to surprise in the near term.

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### Mentioned companies

Issuer name	Ticker	Price	Price date	Stock rating	Disclosures
Cummins India	KKC IN	368.35 INR	09 Nov 2011	Neutral	

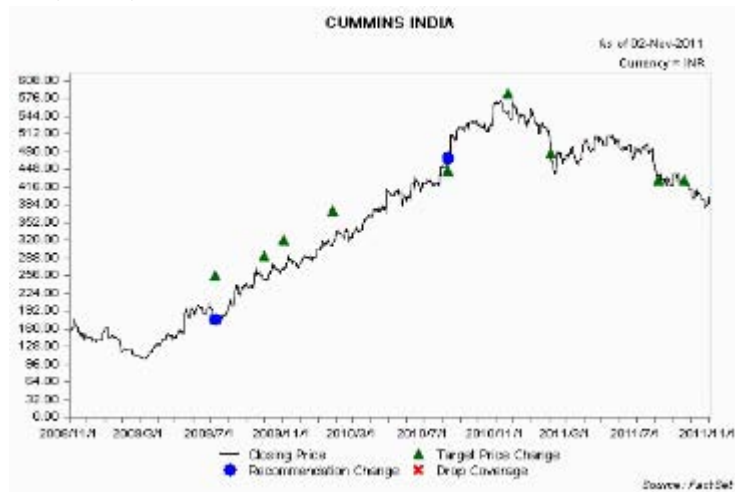
### Previous Rating

Issuer name	Previous Rating	Date of change
Cummins India	Buy	12 Aug 2010

### Cummins India (KKC IN)

368.35 INR (09 Nov 2011) Neutral

Rating and target price chart (three year history)



Date	Rating	Target price	Closing price
20-Sep-2011		430.00	426.25
08-Aug-2011		428.57	436.86
04-Feb-2011		478.57	463.43
22-Nov-2010		585.71	550.14
12-Aug-2010		446.43	469.93
12-Aug-2010	Neutral		469.93
27-Jan-2010		375.00	317.46
03-Nov-2009		321.43	271.79
01-Oct-2009		292.86	250.50
09-Jul-2009		257.14	177.46
09-Jul-2009	Buy		177.46

For explanation of ratings refer to the stock rating keys located after chart(s)

**Valuation Methodology** We value the stock at 15x Sep 13F EPS of INR28.6 to arrive at our target price of INR430, which is in line with the stock's mid-cycle trading range.

**Risks that may impede the achievement of the target price** Downside risk include appreciation of the rupee; diesel prices pose a risk to demand for back-up power; competition from Chinese players; Upside risks include raw material costs could pose negative or positive upside depending on commodity price movements; export recovery could continue to surprise in the near term.

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## Explanation of Nomura's equity research rating system for Asian companies under coverage ex Japan published from 30 October 2008 and in Japan from 6 January 2009

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