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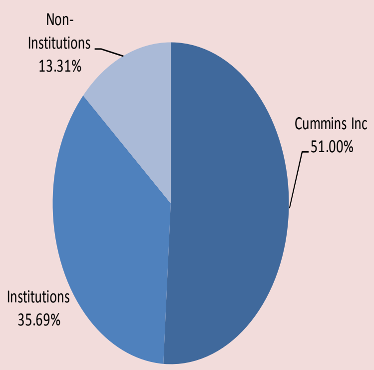
Cummins India Ltd - Weak Macro Factors spoiling the game

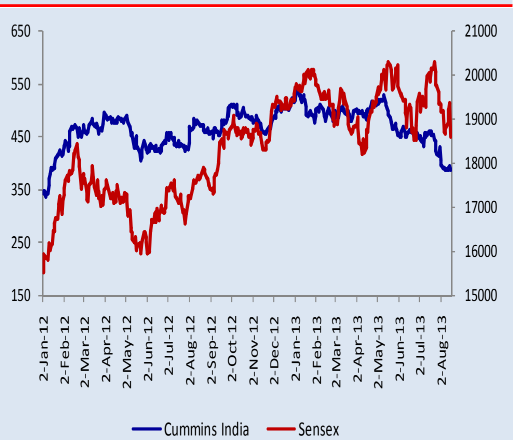
Q1FY14 Result Update: BUY

Sector – Diesel Engines

Market Data	
Current Market Price (CMP)	374
Target Price	451
Upside Potential	20%
52 Week High Low	550/372
Market Cap (INR in Cr)	10367



Stock Scan	
Scrip ID	Cummins India Ltd
Scrip Code (NSE)	CUMMINSIND
Scrip Code (BSE)	500480
Bloomberg Ticker	KKC IN
Reuters Ticker	CUMM.BO
Industry	Diesel Engines
Face Value	INR2 per Share
Equity Share Capital (INR in Cr)	55.44
Avg 5 years P/E	19.14
Avg daily volume (Last 1 Year)	223,728
Beta Vs Sensex	0.71
Dividend Yield	3.48%



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We are recommending the stock a **"BUY"** at current level on account of growth visibility in domestic revenue supported by powergen business and recovery in industrial business, growth in exports though in low teens, volume growth due to post-buying on change of emission norms, 15-20% price hike post emission norms, and stable margins due to its cost control efficiencies. We continue to see Cummins India as a fundamentally strong company with its long-term growth visibility intact. But given the worsening of the macro environment with tightening of liquidity in the market by RBI, sharp depreciation of INR, uncertainty in implementation of CPCB norms, our confidence on near-term earnings has reduced. As a result, we have lowered our valuation multiple from 19x to 17x.

Key Highlights

- **Cummins India posts weak earnings; misses estimates:** CIL reported below than expected weak Q1FY14 earnings with topline (at INR1028 crore) declining by 17% YoY and 9% QoQ, thus, arising as a negative surprise to our as well as consensus estimates. The sharp plunge in the topline was driven by 8% YoY fall in domestic revenue (at INR753 crore vs INR810 crore) and 35% YoY fall in exports (at INR276 crores vs INR431 crore). Indeed, the drop of 17% YoY was the worst fall witnessed by Cummins India in its topline in last 12 quarters. The management has significantly cut its overall revenue growth guidance for FY14e from earlier growth of 8-10% to flat YoY. This was followed by a cut in Domestic revenue growth guidance to 0% to 5% YoY (earlier growth guidance 8-10%) and also a cut in exports revenue growth guidance to 0% to –ve 5% YoY (earlier growth guidance 3-5%).

- **Topline dragged EBITDA down by 24.47% YoY and 9.41% QoQ:** EBITDA for the quarter arrived at INR175.6 crore, which was down by 24.47% YoY and 9.41% QoQ, which again missed our as well as street's estimates by a wide margin largely driven by drop in revenue. The EBITDA margins slipped by 174bps YoY due to operating leverage loss on back of 12% lower volume growth and change in product mix, particularly in exports.

- **Understanding the fall in power-genset business: It is not the improvement in power deficit, but the fall in the power requirement:** Domestic PowerGen business slipped by 19% YoY and 27% QoQ. Despite the improving power deficit we believe that the slowdown in business activities (which is due to less demand), which resulted in plunge of power demand. The improvement in power deficit in Q1FY14 was not due to better power availability but due to lack of requirement. When the power availability increases and power requirement falls, the gap (i.e. the power deficit) automatically reduces, and we have witnessed the same scenario in Q1FY14. For further details, visit page no. 4.

- **Change in Emission norms to have insignificant effect in FY14e:** Management expects CPCB-II norms to be implemented soon as all the regulatory approvals are done. Management expects pre-buy in Q3FY14, but a post-buy in Q4FY14, which would not make any significant impact in the year as a whole.

- **Exports to witness fall in growth in FY14e; to continue with the traction of growing at low teens in future**

Financial Performance of Cummins India Ltd (All figures in INR Crores except % and per share data)

Particulars	FY08A	FY09A	FY10A	FY11A	FY12A	FY13A	FY14E	FY15E
Net Sales	2655.52	3304.28	2844.87	3945.44	4117.22	4509.00	4263.70	4800.00
Growth	*25.1%*	*24.4%*	*-13.9%*	*38.7%*	*4.4%*	*9.5%*	*-5.4%*	*12.6%*
EBITDA	479.42	627.97	649.05	840.90	820.58	1055.69	891.62	1083.64
EBITDA Margin	*17.36%*	*18.18%*	*21.88%*	*20.40%*	*19.35%*	*21.95%*	*20.12%*	*21.65%*
Net Profit excl Exceptional Items	324.91	414.43	443.87	591.00	539.83	716.61	587.40	734.76
Net Profit Margin (excl Exceptional Items)	*11.77%*	*12.00%*	*14.96%*	*14.33%*	*12.73%*	*14.90%*	*13.25%*	*14.68%*
Net Profit Growth	*11.57%*	*27.55%*	*7.10%*	*33.15%*	*-8.66%*	*32.75%*	*-18.03%*	*25.09%*
Adjusted EPS	11.72	15.64	16.01	21.32	21.33	27.57	22.96	26.51
Adjusted EPS excl Exceptional Items	11.72	14.95	16.01	21.32	19.47	25.85	21.19	26.51
Adjusted P/E(x)	19.37	8.48	22.91	22.93	23.29	18.10	16.29	14.11
Adjusted P/E(x) excl Exceptional Items	19.37	8.87	22.91	22.93	25.51	19.30	17.65	14.11
P/BV(x)	3.64	1.77	4.65	5.36	6.74	5.80	3.88	3.36
ROE	26.33%	29.20%	28.43%	32.72%	28.94%	32.01%	23.81%	23.83%
EV/EBITDA(x)	9.38	4.14	11.12	11.41	16.51	12.74	11.24	9.36

Source: Microsec Research, Company Data

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Cummins India Ltd Q1FY14 Standalone Results					
Particulars	Q1FY14A	Q1FY13A	Q4FY13A	YoY(%)	QoQ(%)
Net Sales	**1028.7**	**1241.4**	**1128.0**	**-17.13%**	**-8.80%**
Other Operating Income	20.6	17.4	26.3	18.46%	-21.61%
Total Operating Income	**1049.3**	**1258.8**	**1154.3**	**-16.64%**	**-9.09%**
Raw Material Cost	654.3	797.2	727.6	-17.92%	-10.07%
as a % of sales	*63.6%*	*64.2%*	*64.5%*		
Employee Cost	83.1	84.7	88.5	-1.85%	-6.13%
as a % of sales	*8.1%*	*6.8%*	*7.8%*		
Other Expenses	136.3	144.4	144.4	-5.59%	-5.56%
as a % of sales	*13.3%*	*11.6%*	*12.8%*		
Total Expenditure	873.7	1026.3	960.4	-14.86%	-9.03%
as a % of sales	*84.9%*	*82.7%*	*85.1%*		
EBITDA	**175.6**	**232.5**	**193.9**	**-24.47%**	**-9.41%**
EBITDA Margin (%)	*16.73%*	*18.47%*	*16.79%*	*(174)bps*	*(6)bps*
Other Income	17.7	38.5	33.3	-53.99%	-46.80%
Operating Profit	193.3	271.0	227.1	-28.66%	-14.89%
Depreciation	11.7	11.4	12.4	3.07%	-5.09%
PBIT	181.6	259.6	214.8	-30.06%	-15.46%
Interest	1.2	1.4	1.1	-9.63%	8.93%
Exceptional Items	49.1	0.0	49.1	NA	NA
PBT	229.4	258.2	262.7	-11.16%	-12.67%
Tax	63.2	77.7	74.2	-18.60%	-14.76%
PAT	166.2	180.6	188.5	-7.95%	-11.85%
PAT Margin (%)	*15.84%*	*14.34%*	*16.33%*	*150bps*	*(49)bps*
PAT excluding Excep Items	117.1	180.6	139.5	-35.14%	-16.03%
PAT Margin (%)	*11.16%*	*14.34%*	*12.08%*	*(318)bps*	*(92)bps*
Equity Capital	55.4	55.4	55.4		
Face Value	2.0	2.0	2.0		
No. of Outstanding shares	27.7	27.7	27.7		
EPS	6.0	6.5	6.8	-7.95%	-11.85%
EPS excluding Excep Items	4.2	6.5	5.0	-35.14%	-16.03%

Source: Company Data, Microsec Research. All data in INR crores unless specified.

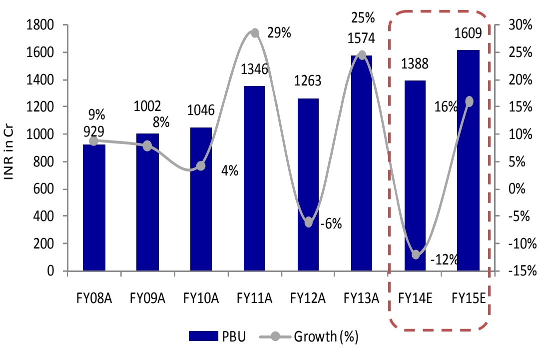
Key Conference Call Highlights:

- *The management has significantly cut its overall revenue growth guidance for FY14e from earlier growth of 8-10% to flat YoY. This was followed by a cut in Domestic revenue growth guidance to 0% to 5% YoY (earlier growth guidance 8-10%) and also a cut in exports revenue growth guidance to 0% to –ve 5% YoY (earlier growth guidance 3-5%). This was due to sluggish demand in powergen and weak exports. The management also mentioned that the overall sales can grow by about 5% in an optimistic scenario and in a more pessimistic scenario decline by 5%.*
- On the back of the lowering of sales, operating profits were down 10% QoQ, and 26% YoY. However, operating profit margins were held sequentially at 16% of revenue. But they did drop 2bps YoY due to the leverage loss on the back of 17% lower volume.

- For exports, US markets remains a bright spot particularly data centres which continue to grow based upon the fact that internet usage and cloud usage continues to grow worldwide, while demand environment is expected to remain tepid in EU, China and Africa (demand potential impacted by lower commodity prices). While HHP markets are depressed, LHP have more room for upside potential.
- At the domestic side, the power generation business declined 19% and 27% on YoY and QoQ basis. The industrial business declined 4% QoQ, but up by 13% YoY. The auto segment grew 9% QoQ as well as YoY. And distribution business grew 2% and 19% YoY and QoQ.
- Cross Charges clocked at INR15 crore for the quarter.
- Management expects CPCB-II norms to be implemented soon as all the regulatory approvals are done. Management expects pre-buy in Q3FY14, but a post-buy in Q4FY14, which would not make any significant impact in the year as a whole.
- Powergen business saw a huge YOY decline this quarter because of the drought conditions and delayed monsoon etc, and significant shortages in power particularly in the southern part of India last year. This year monsoon started early, so that particular phenomenon didn’t play out in terms of demand. So, what drove power generation demand in Q1FY14 was more of the GDP related factors. And GDP is on a slowdown mode currently, so it’s having a negative impact on overall power generation demand in the country.
- Management expects no impact of hike in diesel prices on genset demand as majority of CIL’s gensets are backup generators, not prime powered gensets.
- For Industrial business, declined 4% QoQ, but up by 13% YoY. The management sees some hope in construction and railways systems segments.
- Low HP. which is about 15kVA-62.5kVA grew by 4% QoQ. The mid range which is 82.5kVA-250kVA de-grew by 34%. The heavy duty which is 320Kva-380KVA has de-grown by 10% and HHP fell by 30%.
- Phaltan Megasite Update: It has commissioned six facilities and the seventh one will get commission towards the tail end of Q2FY14. There are three Cummins legal entities that are investing on Megasite which is CIL, Tata Cummins, and Cummins Technologies India limited. So CIL has already invested almost INR250 crores on the Megasite and balance will be from CTIL and Tata Cummins.
- Capex: In India Office Campus, it had invested INR90 crore, and expects to invest INR300 crore in FY14e and balance of INR340 crore in FY15e & FY16e.
- For FY14e, on the distribution business, it expects ~ 10% growth.
- Out of the Other Income of INR66.78 crore, Valvoline Cummins (subsidiary) declared a dividend of INR14 crores. Secondly, there was Foreign Exchange gain of INR7 crores because of the slight devaluation in the Rupee from INR54.4-59.4/$ QoQ. Thirdly, there was INR13 crore of interest on income tax refund.
- Management expects that price hikes of 2-3% taken on gensets get negated as it provides a price reduction to the same extent to its parent Cummins Inc. It would be mainly the cost reductions that would improve the gross margins.
- Management expects that Auto not able to compensate the fall in powergen business as it is a small business. The industrial, also, is not expected to compensate as again the power generation business if observed, the mix of total business is the largest piece.

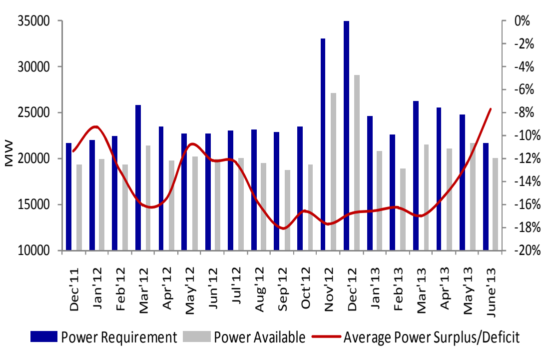
Understanding the fall in power-genset business: It is not the improvement in power deficit, but the fall in the power requirement….

Domestic PowerGen business slipped by 19% YoY and 27% QoQ on back of improved power scenario in India, especially in South India from where ~30-40% of demand is met by the company. The company saw the highest fall (QoQ fall of 27%) ever in last 12 quarters. We believe that the improvement in power deficit along with slowdown in industrial capex due to over capacities, tight liquidity condition in market, deceleration in expansion in various sectors has led to sluggish demand in power segment. Also, the macro factors or the GDP related factors like inflation; high interest rates add the list of weakening powergenset demand in India. Other important factors like monsoons also play a vital role in power demand. For example, in FY13e there was drought conditions and delayed monsoon, which led to higher power deficit and thus, resulted in higher power demand. On the contrast, in FY14e, the monsoon was normal which impacted the demand.

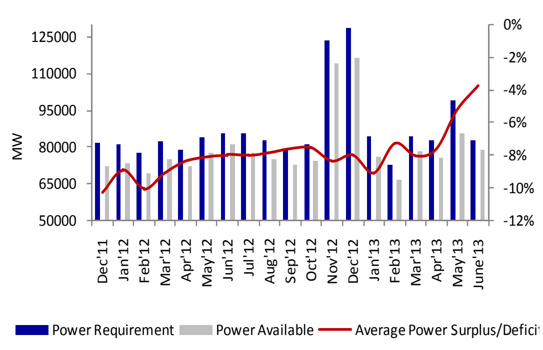


Source: Microsec Research, Company Data

In Q1FY14, the average peak power deficit in India fell to 6% as compared to 8% in Q1FY13 and Q4FY13. Also, in southern region from where Cummins India meets ~30% of its power genset demand slipped to 12% as compared to 17% in Q4FY13 and 13% in Q1FY13. We believe this was due to slowdown in business activities (which is due to less demand), which resulted in plunge of power demand. The improvement in power deficit in Q1FY14 was not due to better power availability but due to lack of requirement. When the power availability increases and power requirement falls, the gap (i.e. the power deficit) automatically reduces, and we have witnessed the same scenario in Q1FY14. The lower power deficit in 1QFY14 for south (and for all-India basis) shows that Cummins' can report weak volume numbers in the near-term if demand continues to remain subdued due to weak macroeconomic environment. Hence, assuming the weak scenario to continue in coming quarters, we expect powergen business to de-grow by 12% in FY14e, but with investments in various sectors picking up momentum post FY14e and power deficit traction to continue, this segment is expected to grow immensely by 16% in FY15e (higher growth because of low base).



Source: Microsec Research, Company Data



Source: Microsec Research, Company Data

Change in Emission norms to have insignificant effect in FY14e

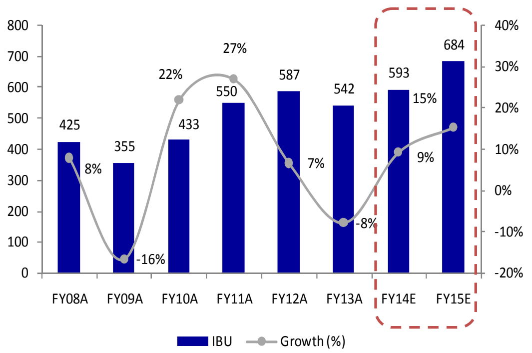
The company expects CPCB – II norms to be effective post 3QFY14e (around 1st January, 2014). The change in emission norms will be applicable for engines below 800kva, which contribute ~18-20% to the total revenue. Management expects pre-buying of engines just one or two quarters before the new CPCB-II norms. So, assuming the

CPCB-II to be applicable in Q4FY14e, Cummins will witness slightly higher volume growth in Q3FY14e because of pre-buying and then see a decline in Q4FY14e, which means it will negate each other and result in insignificant impact. Howbeit, company expects ~15-20% hike in the prices of these diesel engines post the emission norms due to 20% rise in average cost of engines. However, FY15e sales growth is expected to be more on higher prices post CPCB – II norms. However, uncertainty with respect to margins may arise from the change in norms as it would be a cost-led price increase. We believe KKC is well equipped to comply with the changing norms and also be the first one to actively launch new emission backed products in the market. Also, the company is not expecting any significant threat from its competitors.

Industrial Business to witness recovery in FY15e

The industrial business Unit (IBU) which caters to engine requirements for sectors like mining, construction, Oil & Gas, compressors, marine engines, and rail locomotives has been growing at the CAGR of 4.98% over FY08-13. It grew by 13% on YoY basis, but fell by 4% on QoQ basis in Q1FY14 led by strong growth in compressors, railway, marine etc, which is likely to sustain. The industrial business had been under-performing in last few quarters due to slowdown in industrial capex, iron ore mining ban in various states, and various other macro-economic factors like higher interest rates and GDP growth. Management expects industrial business to recover in coming quarters in anticipation of mining sector bottoming out (Mining had been a huge disappointment last year), increasing trend for electronic engines for dozers and excavators and entry in high offshore oil & gas market. Demand in compressors, a cyclical market, was good due to voltage shortage issues, but expects not to sustain at the same rate. Construction, again, depends on GDP but is envisaged to be a growth area in future.

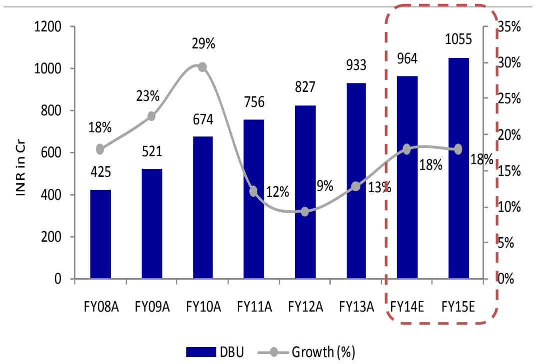
IBU had declined by 8% in FY13 due to factors mentioned above. The compressor segment which constituted ~33% of the total IBU segment, grew by a fast pace of 18% on YoY basis in FY13 (from INR147 crore in FY12 to INR175 crore in FY13) due to water shortage in places like Maharashtra, Karnataka, etc. Management assumes the rainfall to be normal this year, which leaves much scope for the under performance of the compressor segment. Management expects IBU business to come back and recover from the fall witnessed last year. It envisages the decline in compressor segment to be offset by the recovery in construction, marine, rail, mining and various segments which together form the remaining ~75-78% of the total IBU business. Hence, we reckon the IBU business to grow at a CAGR of 4.84% over FY14-15e on back of growth in various segments and improvement in macro-economic factors. We foresee growth of 9% and 15% in FY14e and FY15e in the IBU business.



Source: Microsec Research, Company Data

Distribution to perform consistently at an average rate of 18% over FY15e; Auto to recover in FY15e

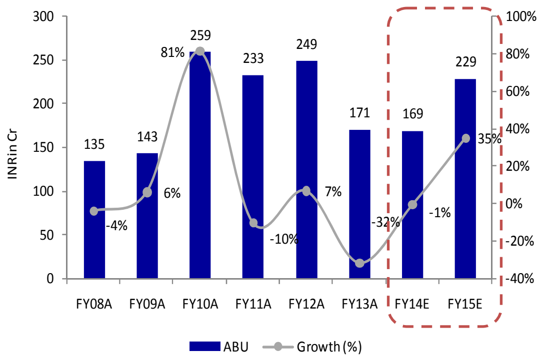
In Q1FY14, the distribution business grew by 2% on YoY basis and 19% on QoQ basis. Cummins distribution business Unit (DBU) which consists of sale of spare parts and engines to small OEMs has been growing at a CAGR of 17.04% over FY08-13, is the only segment giving the highest compounded annualized return, after power generation segment which has given annualized return of 11.11% over the same period of time. Management expects distribution to perform consistently in next couple of years on basis of



Source: Microsec Research, Company Data

increase in product line and by encouraging its current channels to use their outlets as sales points as well as working to develop new retail sales state by state. The company has focused on three states till now in South and it is expecting to increase its density state by state. Management indicated that since, this has started last quarter itself, so it would take two more quarters to start seeing the impact of the sales density. Hence, we expect DBU to grow consistently by 18% in FY14e and FY15e.

Automotive business grew by 7% on YoY and 8% on QoQ basis. Auto Business Unit (ABU) which contributes merely ~4-5% to the overall business de-grew by 32% in FY13A due to slowdown witnessed in auto industry. ABU, which sells to a few OEMs only, grew at a CAGR of 4.82% over FY08-13. After seeing a depressed year (FY13), management expects to see some recovery in the auto market mostly in the second half of FY15e. We expect ABU to de-grow by 1% in FY14e, but witness a recovery of 35% in FY15e (growth rate of 35% looks higher as its growing on a lower base).



Source: Microsec Research, Company Data

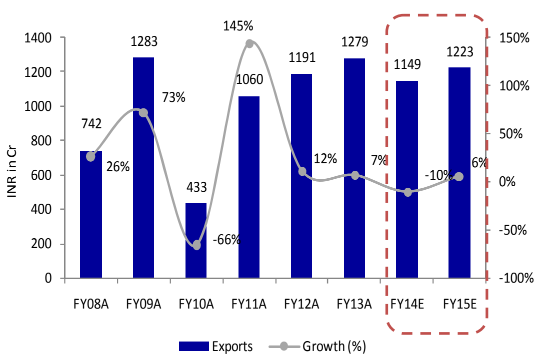
Exports to witness fall in growth in FY14e; to continue with the traction of growing at low teens in future

Exports, which are primarily to its global parent (Cummins Inc) and constitute ~27% of the Cummins total revenue plunged by 36% on YoY basis and 7% on QoQ basis in Q1FY14. This was on back of 50% YoY fall in High Horse power (HHP) sales, which contributes ~60-65% to the overall exports revenue. The fall in HHP exports was on back of the slowdown in markets like Africa, Europe, China, Latin America and Middle East except US which has been relatively a bright spot and is showing some signs of strength given that the demand for data centres and cloud solutions is gaining acceptance. Management expects US to recover much faster than Europe, China and Middle East and notably US contributes ~15-20% to the Cummins exports and is also a significant market for exports. LHP contributed greater share of revenue (INR90 crore) i.e. 32% to the total exports.

Management expects exports to de-grow by 5% in FY14e; Maintained long term growth guidance of low teens:

Exports have been growing at a CAGR of 11.51% for last six years. We expect exports to grow at a revised CAGR of 2.07% (earlier 2.56%) over FY15e following a de-growth of 10% in FY14E and 6% in FY15e (earlier growth of 3% and 8% in FY14e and FY15e). We expect growth in exports to be largely supported by following factors:

- *LHP to be the growth driver:* We expect growth in LHP (Low Horsepower) segment, which constitutes ~30% of the total exports. In FY13, the LHP was INR388 crore, almost double of INR200 crore in FY12. We expect growth on back of a) demand revival in developing economies like Middle east, South America & Europe b) improvement in ongoing inventory correction at channel partner level c) Production start-up of the new powergen factory (for Urja Gensets) which will be commissioned post HIFY14e, with an initial capacity of 15,000-20,000 engines p.a. and expected be ramp up to 50,000 engines in next 2-3 years and d) encouraging response of new gensets launched in the market and e) pick up in market share globally from the current 5% to 20% in a span of next 5 years.
- *Decline in growth in HHP (High Horsepower):* HHP which constitutes ~60-65% of the total exports is expected to fall in FY14e. It is also expected that the new export facility for LHP in Phaltan might replace exports, thus, leading to a decline in HHP in FY15e, also.

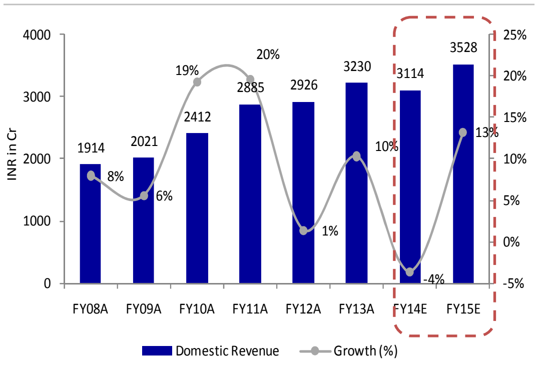


Source: Microsec Research, Company Data

Management has counted on additional INR300-400 crores to appear in LHP exports in next 5 years. However, we assume an addition of ~INR80-90 crores each in FY14e and FY15e, with HHP and MHP to decline in FY14e and remain flat in FY15e. Hence, despite huge growth in LHP, exports would grow only by 6% over FY15e due to its low base and HHP remaining flat on higher base.

Domestic Revenue to de-grow by 4% in FY14e, but show a robust growth of 13% in FY15e

Management Guidance: CIL expects domestic revenue to grow between 0-5% in FY14e (earlier 8-10%) led by improvement in power deficit and slow recovery in industrial business. Domestic revenue has been growing at a CAGR of 11.04% over FY18-13. We expect domestic revenue to grow at CAGR of 4.20% over FY14-15e.



Source: Microsec Research, Company Data

Peer Analysis

Particulars	CMP	M-cap	TTM Net Sales	TTM EBITDA	TTM PAT	EBITDA Margin (%)	PAT Margin (%)	TTM EPS	TTM P/E (x)	BV	TTM P/BV (x)	TTM EV/EBITDA(x)	ROE (%)	D/E
Cummins India	374	10367	4296	978	750	22.8%	17.5%	23.6	15.9	86.1	4.3	12.74	31.4%	0.00
Kirloskar Oil Engines Ltd	160	2314	2307	341	213	14.8%	9.2%	14.7	10.9	79.8	2.0	5.65	18.4%	0.00
Greaves Cotton Ltd	59	1441	1870	242	138	12.9%	7.4%	5.66	10.4	30.0	2.0	6.45	18.8%	0.02

Source: Microsec Research, Company data

Particulars	CMP	P/E(x)			EV/EBITDA(x)			ROE		
		FY13	FY14E	FY15E	FY13	FY14E	FY15E	FY13	FY14E	FY15E
Cummins India	374	15.9	17.6	14.1	12.7	11.2	9.4	31.4%	23.8%	23.8%
Kirloskar Oil Engines Ltd	160	10.9	10.1	8.9	5.7	5.1	4.6	18.4%	18.0%	18.0%
Greaves Cotton Ltd	59	10.4	8.7	7.6	6.5	5.0	4.4	18.8%	20.4%	20.5%

Valuation

Recommend a "BUY" rating - target price of INR451; upside of 20%

We are recommending the stock a "BUY" at current level on account of growth visibility in domestic revenue supported by powergen business and recovery in industrial business, growth in exports though in low teens, volume growth due to post-buying on change of emission norms, 15-20% price hike post emission norms, and stable margins due to its cost control efficiencies. We continue to see Cummins India as a fundamentally strong company with its long-term growth visibility intact. But given the worsening of the macro environment with tightening of liquidity in the market by RBI, sharp depreciation of INR, uncertainty in implementation of CPCB norms, our confidence on near-term earnings has reduced. As a result, we have lowered our valuation multiple from 19x to 17x. We have scaled down our revenue estimates by 12% to INR4869.72 crore in FY14e and by 10% to INR4800 crore in FY15e. We have cut adjusted earnings by 20% to INR587.40 crore in FY14e and by 9% to INR734.76 crore in FY15e. We have lowered our TP to INR451 per share (from INR556 per share) led by downward revision in the earnings over FY14e/FY15e by 20%/10% and reduction in assigned P/E multiple to 17x (from 19x earlier).

At the current price of INR379, the stock is trading at adjusted P/E of 17.65x its FY14e EPS of INR21.19 per share and P/E of 14.11x its FY15e EPS of INR26.51 per share. We believe that CIL will continue to enjoy premium valuations due to its dominant market positioning, improved long-term growth outlook, healthy balance-sheet, strong ROE as compared to its peers and dividend yield of 3.48%. The average P/E of CIL has been trading in the range of 8x-26x in last 10 years. It is now trading at a P/E of 15.9x, which is at a premium of ~50% to its peer group. Hence, we expect this trend to continue over FY15e. We have valued the stock by assigning a P/E multiple of 17x its FY15e EPS of 26.51 and arrived at a target price of INR451 per share .i.e. an upside of 20% from the current market price of INR379 per share.

Particulars (INR in Cr)	FY14e			FY15e		
	Earlier	Revised	Var	Earlier	Revised	Var
Sales	4869.72	4263.70	-12%	5356.69	4800.00	-10%
Net Income	5039.72	4432.01	-12%	5526.69	5005.00	-9%
EBITDA	1091.1	891.62	-18%	1202.06	1083.64	-10%
EBITDA Margin	*21.7%*	*20.1%*	*(160)bps*	*21.8%*	*21.7%*	*(10)bps*
PAT	738.34	587.40	-20%	811.79	734.76	-9%
PAT Margin	*14.7%*	*13.3%*	*(140)bps*	*14.7%*	*14.7%*	*0bps*
EPS	26.64	21.19	-20%	29.29	26.51	-10%

Income Statement

Particulars (INR in Crores)	FY08A	FY09A	FY10A	FY11A	FY12A	FY13A	FY14E	FY15E
Net Sales	2655.52	3304.28	2844.87	3945.44	4117.22	4509.00	4263.70	4800.00
Growth (%)	*25.09%*	*24.43%*	*-13.90%*	*38.69%*	*4.35%*	*9.52%*	*-5%*	13%
Other Operating Income	105.54	150.74	121.56	177.43	123.33	301.19	168.31	205.00
Total Income	2761.06	3455.02	2966.43	4122.87	4240.55	4810.19	4432.01	5005.00
Growth (%)	*25.87%*	*25.13%*	*-14.14%*	*38.98%*	*2.85%*	*13.43%*	*-7.86%*	*12.93%*
TOTAL EXPENDITURE	2281.64	2827.05	2317.38	3281.97	3419.97	3754.50	3540.39	3921.37
as % of sales	*82.64%*	*81.82%*	*78.12%*	*79.60%*	*80.65%*	*78.05%*	*79.88%*	78.35%
EBITDA	479.42	627.97	649.05	840.90	820.58	1055.69	891.62	1083.64
EBITDA Margin (%)	*17.36%*	*18.18%*	*21.88%*	*20.40%*	*19.35%*	*21.95%*	*20.12%*	*21.65%*
Depreciation	38.3	45.56	36.08	36.63	41.98	47.25	48.54	51.40
EBIT	441.12	582.41	612.97	804.27	778.60	1008.44	843.08	1032.24
EBIT Margin (%)	*15.98%*	*16.86%*	*20.66%*	*19.51%*	*18.36%*	*20.96%*	*19.02%*	*20.62%*
Interest	2.54	2.61	2.05	1.89	5.41	4.61	4.97	4.6
Other Income	0	0	0	0	0	0	0	0
PBT	438.58	579.80	610.92	802.38	773.19	1003.83	838.11	1027.64
PBT Margin (%)	*15.88%*	*16.78%*	*20.59%*	*19.46%*	*18.23%*	*20.87%*	*18.91%*	*20.53%*
Tax	139.6	165.37	167.05	211.38	233.36	287.22	250.71	292.88
Tax (%)	*31.83%*	*28.52%*	*27.34%*	*26.34%*	*30.18%*	*28.61%*	*29.91%*	*28.50%*
PAT	298.98	414.43	443.87	591.00	539.83	716.61	587.40	734.76
Exceptional Items	0	19.2	0	0	51.44	47.5	49.08	0
PAT (inc. EI)	298.98	433.63	443.87	591.00	591.27	764.11	636.48	734.76
Minority Interest	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Shares of Associates	25.93	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Consolidated PAT	324.91	433.63	443.87	591.00	591.27	764.11	636.48	734.76
PAT Margin (%)	*11.77%*	*12.55%*	*14.96%*	*14.33%*	*13.94%*	*15.89%*	*14.36%*	*14.68%*
PAT Growth (%)	*11.57%*	*45.04%*	*2.36%*	*33.15%*	*0.05%*	*29.23%*	*-16.70%*	*15.44%*
Basic EPS	16.41	21.90	22.42	29.85	21.33	27.57	22.96	26.51
Adjusted EPS	11.72	15.64	16.01	21.32	21.33	27.57	22.96	26.51
Excl Exceptional Items	0	19.2	0	0	51.44	47.5	49.08	0
PAT excl Exceptional Items	324.91	414.43	443.87	591.00	539.83	716.61	587.40	734.76
PAT Margin (%)	*11.77%*	*12.00%*	*14.96%*	*14.33%*	*12.73%*	*14.90%*	*13.25%*	*14.68%*
PAT Growth (%)	*11.57%*	*27.55%*	*7.10%*	*33.15%*	*-8.66%*	*32.75%*	*-18.03%*	*25.09%*
EPS	16.41	20.93	22.42	29.85	19.47	25.85	21.19	26.51
Adjusted EPS	**11.72**	**15.64**	**16.01**	**21.32**	**21.33**	**27.57**	**22.96**	**26.51**
Adjusted EPS excl Exceptional Items	**11.72**	**14.95**	**16.01**	**21.32**	**19.47**	**25.85**	**21.19**	**26.51**

Source: Microsec Research, Company Data

Balance Sheet

Particulars (INR in Crores)	FY08A	FY09A	FY10A	FY11A	FY12A	FY13A	FY14E	FY15E
SOURCES OF FUNDS								
Share Capital	39.60	39.60	39.60	39.60	55.44	55.44	55.44	55.44
Reserves & Surplus	1194.45	1445.63	1521.40	1766.67	1987.71	2331.29	2617.79	3028.50
Shareholder's Funds	1234.05	1485.23	1561.00	1806.27	2043.15	2386.73	2673.23	3083.94
Secured Loans	28.71	26.03	8.62	18.26	0.00	0.00	0.00	0.00
Unsecured Loans	0.10	0.04	0.01	0.00	0.00	0.00	0.00	0.00
Loan Funds	28.81	26.07	8.63	18.26	0.00	0.00	0.00	0.00
Finance Lease Liability	5.60	1.93	0.00	0.00	0.00	0.00	0.00	0.00
Total	1268.46	1513.23	1569.63	1824.53	2043.15	2386.73	2673.23	3083.94
APPLICATION OF FUNDS								
Gross Block	697.96	757.24	777.62	914.44	970.30	1166.90	1646.90	2146.90
(-) Accumulated Depreciation	423.58	442.32	443.96	473.38	505.39	552.68	601.22	652.62
Net block	274.38	314.92	333.66	441.06	464.91	614.22	1045.68	1494.28
Capital Work ion Progress	0.00	0.00	0.00	0.00	49.67	0.00	0.00	0.00
Goodwill	0.40	0.32	0.00	0.00	0.00	0.00	0.00	0
Investments	486.74	441.73	732.92	725.45	597.55	627.56	708.17	751.42
Net Deferred Taxation	15.06	23.49	16.98	18.74	6.95	-32.78	-32.78	-32.78
Fixed Assets & Investments	776.58	780.46	1083.56	1185.25	1119.08	1209.00	1721.07	2212.92
Inventories	379.92	497.10	409.67	518.96	567.61	530.35	490.08	551.72
Sundry Debtors	581.35	706.66	522.90	718.16	678.34	854.99	775.22	872.73
Other Current assets	11.93	9.43	9.27	9.82	4.96	9.03	4.96	4.96
Cash & Bank balance	24.45	50.02	55.93	103.75	223.50	354.65	308.44	193.83
Loans & Advances	214.82	268.07	269.49	329.72	508.19	678.82	660.87	756.00
Total Current Assets,Loans & Advances	1212.47	1531.28	1267.26	1680.41	1982.60	2427.84	2239.58	2379.24
Current Liabilities	568.84	624.32	517.77	710.88	684.91	771.94		
Provisions	151.75	174.19	263.42	330.25	373.62	478.17		
Less:Total Current Liabilities & Provisions	720.59	798.51	781.19	1041.13	1058.53	1250.11	1287.42	1508.22
Net Current Assets	491.88	732.77	486.07	639.28	924.07	1177.73	952.16	871.02
Miscellaneous Expenditure	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
TOTAL	1268.46	1513.23	1569.63	1824.53	2043.15	2386.73	2673.23	3083.94

Cash Flow Statement

Particulars (INR in Crores)	FY08A	FY09A	FY10A	FY11A	FY12A	FY13A	FY14E	FY15E
A. Cash Flow From Operating Activites								
Net Profit Before Tax	**438.58**	**599.00**	**610.92**	**802.38**	**773.19**	**1003.83**	**838.11**	**1027.64**
Operating profit before working capital	**452.44**	**609.77**	**587.25**	**781.31**	**740.42**	**1055.69**	**891.62**	**1083.64**
(Increase)/Decrease in Inventories	-38.08	-89.55	58.31	-109.29	-48.65	37.26	40.27	-61.64
(Increase)/Decrease in Sundry Debtors	-140.23	-119.19	156.76	-197.04	36.28	-176.65	79.77	-97.51
(Increase)/ Decrease in loans and advances	-44.86	-40.54	-5.30	-55.26	-59.88	-170.63	17.95	-95.13
Increase/ (Decrease) in Current & Liabilities	198.82	43.37	-66.05	216.94	-10.21	191.58	37.31	220.80
(Increase)/Decrease in Other Current Assets	0.76	1.92	-0.08	-0.57	0.00	-4.07	4.07	0.00
Cash generated from operations	**428.85**	**405.78**	**730.89**	**636.09**	**657.96**	**933.18**	**1070.98**	**1050.16**
Direct taxes paid	150.26	195.19	154.95	218.09	215.47	287.22	250.71	292.88
Net Cash from Operating Activities	**278.59**	**210.59**	**575.94**	**418.00**	**442.49**	**645.96**	**820.27**	**757.28**
B. Cash Flow From Investing Activities								
Net Cash used in Investing Activities	**-208.54**	**10.66**	**-336.83**	**-78.84**	**7.74**	**-176.94**	**-560.61**	**-543.25**
C. Cash Flow From Financing Activities								
Net cash used for financing activities	**-100.85**	**-223.32**	**-215.50**	**-291.35**	**-350.59**	**-229.59**	**-305.87**	**-328.65**
Net (Increase)/Decrease in cash & cash equivalents	**-30.80**	**-2.07**	**23.61**	**47.81**	**99.64**	**239.43**	**-46.21**	**-114.61**
Cash & Cash Equivalents at beginning	55.25	29.43	32.32	55.93	15.58	115.22	354.65	308.44
Cash & Cash Equivalents at End	**24.45**	**27.36**	**55.93**	**103.74**	**115.22**	**354.65**	**308.44**	**193.83**

Source: Microsec Research, Company Data

Ratio Analysis

Particulars (INR in Crores)	FY08A	FY09A	FY10A	FY11A	FY12A	FY13A	FY14E	FY15E
Profitability Ratios								
Return on Assets (ROA)	26.80%	28.32%	35.03%	35.17%	29.82%	31.47%	28.42%	30.88%
Return on Capital Employed (ROCE)	25.61%	28.66%	28.28%	32.39%	28.94%	32.01%	23.81%	23.83%
Return on Equity (ROE)	26.33%	29.20%	28.43%	32.72%	28.94%	32.01%	23.81%	23.83%
Per Share								
Adj. EPS	11.72	15.64	16.01	21.32	21.33	27.57	22.96	26.51
Adjusted EPS excl Exceptional Items	11.72	14.95	16.01	21.32	19.47	25.85	21.19	26.51
Dividend Per share	4.60	9.00	12.00	15.00	11.00	13.00	12.00	14.00
Cash Earning Per Share	14.48	19.60	20.60	28.00	19.82	25.86	21.21	24.65
BVPS	62.33	75.01	78.84	91.23	73.71	86.10	96.44	111.25
Valuation Parameters								
Adj. P/E (x)	19.37	8.48	22.91	22.93	23.29	18.10	16.29	14.11
Adjusted P/E(x) excl Exceptional Items	19.37	8.87	22.91	22.93	25.51	19.30	17.65	14.11
P/CEPS(x)	15.68	6.77	17.81	17.46	25.07	19.30	17.63	15.17
P/BV(x)	3.64	1.77	4.65	5.36	6.74	5.80	3.88	3.36
Market Cap/Sales(x)	1.69	0.79	2.55	2.45	3.35	3.07	2.43	2.16
EV/EBITDA(x)	9.38	4.14	11.12	11.41	16.51	12.74	11.24	9.36
Liquidity Ratios								
Current Ratio	1.68	1.92	1.62	1.61	1.87	1.94	1.74	1.58
Acid Test Ratio	1.16	1.30	1.10	1.12	1.34	1.52	1.36	1.21
Debt-Equity Ratio	0.02	0.02	0.01	0.01	0.00	0.00	0.00	0.00
Efficiency Ratios (%)								
Asset turnover Ratio	2.19	2.16	2.24	2.35	2.08	1.86	1.90	2.02
Working Capital Turnover Ratio	5.40	4.51	5.85	6.17	4.46	3.83	4.48	5.51
Inventory Turnover Ratio	6.99	6.65	6.94	7.60	7.25	8.50	8.70	8.70
Margin Ratios (%)								
EBITDA Margin	17.36%	18.18%	21.88%	20.40%	19.35%	21.95%	20.12%	21.65%
EBIT Margin	15.98%	16.86%	20.66%	19.51%	18.36%	20.96%	19.02%	20.62%
PBT Margin	15.88%	16.78%	20.59%	19.46%	18.23%	20.87%	18.91%	20.53%
Net Profit Margin	11.77%	12.55%	14.96%	14.33%	13.94%	15.89%	14.36%	14.68%

Source: Microsec Research, Company Data

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Recommendation	Expected absolute returns (%) over 12 months
Strong Buy	>20%
Buy	between 10% and 20%
Hold	between 0% and 10%
Underperform	between 0% and -10%
Sell	< -10%

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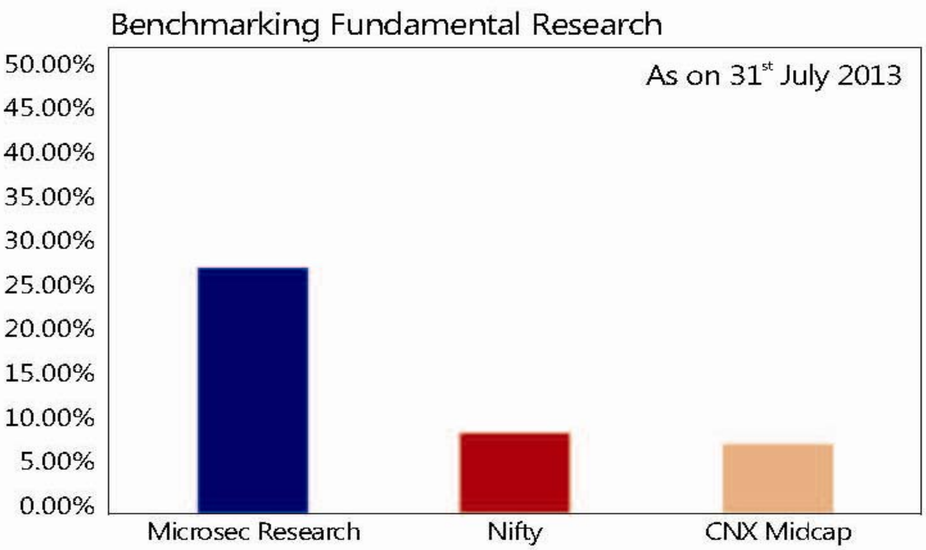

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