



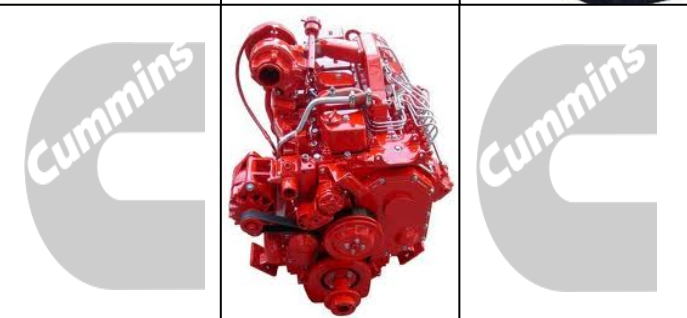
Initiating Coverage Report

CUMMINS INDIA LTD

Recommendation: BUY

Current Price: ₹462

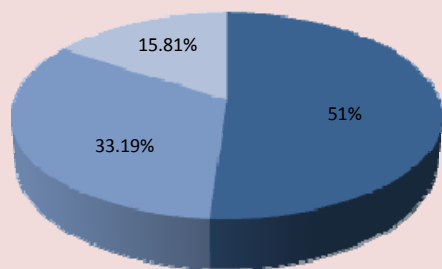
Target price: ₹537



BUY

Market Data

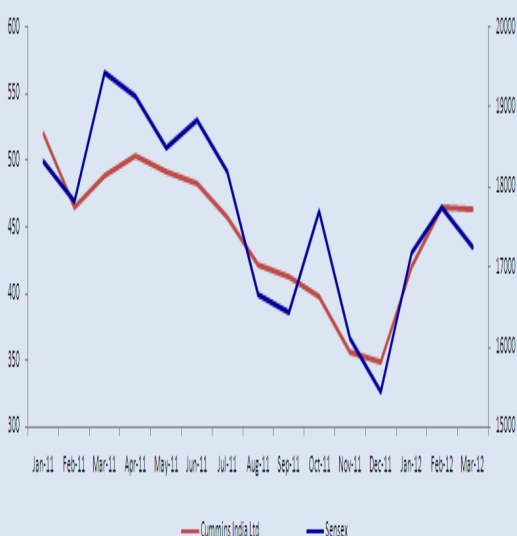
Current Market Price (CMP)	462
Target Price	537
Upside Potential	16.31%
52 Week High Low	322/520.37
Market Cap (INR in Crores)	12,758.13



■ Foreign Promoters ■ Indian Promoters
■ Institutions ■ Non-Institutions

Stock Scan

Scrip ID	Cummins India Ltd
Scrip Code (NSE)	CUMMINSIND
Scrip Code (BSE)	500480
Bloomberg Ticker	KKC IN
Reuters Ticker	CUMM.BO
Industry	Capital Goods
Face Value	INR2.00 per Share
Equity Share Capital (INR Cr)	55.44
Avg 5 years P/E	19.83
Avg daily volume (Last 1 Year)	189,072
Beta Vs Sensex	0.68
Dividend Yield	6.02%
PEG Ratio	NA



Cummins India Limited

Sector-Capital goods

We recommend Cummins India a **"BUY"**. Cummins India is country's leading manufacturer of Diesel and Gas Engines with strong foundation, unmatched technology & products, scale and time tested strategies. The company doubled its revenue in the last five years to INR3945.44 crores and is poised to grow at a CAGR of 14% for the next five years. Cummins India would make headway from the operations at Megasite at Phaltan in coming years which would foster the margin back to the historic levels and contribute around additional of INR1500crores to the revenues by 2015.

Investment Highlights

Substantial Revenue growth despite multiple headwinds: Despite of high interest rates and commodity prices coupled with uncertain global environment, the company has been growing at a CAGR of 16.47% for the last 5 years. It is poised to grow at a CAGR of 14% for the next 5 years with improved outlook on export demand and substantive growth across all segments, particularly in segments like power generation and industrial business which contribute around 45% and 20% to the total revenue respectively.

New products to aid to future growth; Margins bottoming out: Cummins elasticity of adopting the new technology and using the same efficiently will help the margins to bottom out. It will significantly benefit from the enhanced products built-in with new emission power generation norms and industrial engines due to superior product development capabilities. Hence, with the improving demand scenario and correction in commodity prices, there will be an upside in EBITDA margins, going forward.

Expansion at Phaltan Megasite to fuel Cummins future growth Engine: Cummins is well placed with its expansion initiatives at Megasite, Phaltan. It constitutes almost 10 facilities in total, out of which 4 are operational and remaing would be operational by 2016 and contribute additional INR1500 crores to the overall revenue. The 2 operational facilities namely Upfit centre & MIDC SEZ would add up annual capacity of 20,000MW & 51,000MW respectively.

Power Generation Business to act as power booster: The company expects the Power generation business to grow at a CAGR of 12-15% over the next five years. The growth will be mainly driven by 1) market growth 2) LHP export opportunity at MIDC SEZ 3) larger penetration in the domestic LHP market (though might come at lower margins) and 4) tapping the bio mass opportunity. The company anticipates some pre-buying behavior to show up before the change in the emission norms in July 2013 which would contribute heavily to the revenues. Cummins is confident that it will be able to penetrate the market much better post the norm change, given its technology leadership and readiness with the product to meet the revised needs of the customers

Cummins-Cash enriched and Steady Balance Sheet: The Company has enough cash to carry on its future operation and expansions. It has strong balance sheet with healthy reserves and low debt.

Particulars (INR IN Cr)	FY2009A	FY2010A	FY2011A	FY2012E	FY2013E	FY2014E
Net Sales	3274.05	2844.87	3945.44	4102.25	4594.52	5375.59
Growth (%)	40.47%	-13.11%	38.69%	3.97%	12.00%	17.00%
EBITDA	584.11	581.64	779.2	711.24	849.99	994.48
EBITDA Margin (%)	17.84%	20.45%	19.75%	17.34%	18.50%	18.50%
Net Profit	433.65	443.86	590.98	578.39	626.36	712.31
Net Profit Margin (%)	13.25%	15.60%	14.98%	14.10%	13.63%	13.25%
Net Profit Growth(%)	54.49%	2.35%	33.15%	-2.13%	8.29%	13.72%
EPS	21.90	22.42	29.85	20.87	22.60	25.70
Adj. EPS*	15.64	16.01	21.32	20.87	22.60	25.70
Adj. P/E(x)*	8.45	22.90	23.38	22.25	20.55	18.07
Adj. P/BV(x)*	2.63	6.51	7.65	6.34	5.63	4.94
ROE(%)	31.09%	28.43%	32.72%	28.49%	27.40%	27.34%
EV/EBITDA(x)	5.84	15.60	16.02	18.97	15.87	13.61

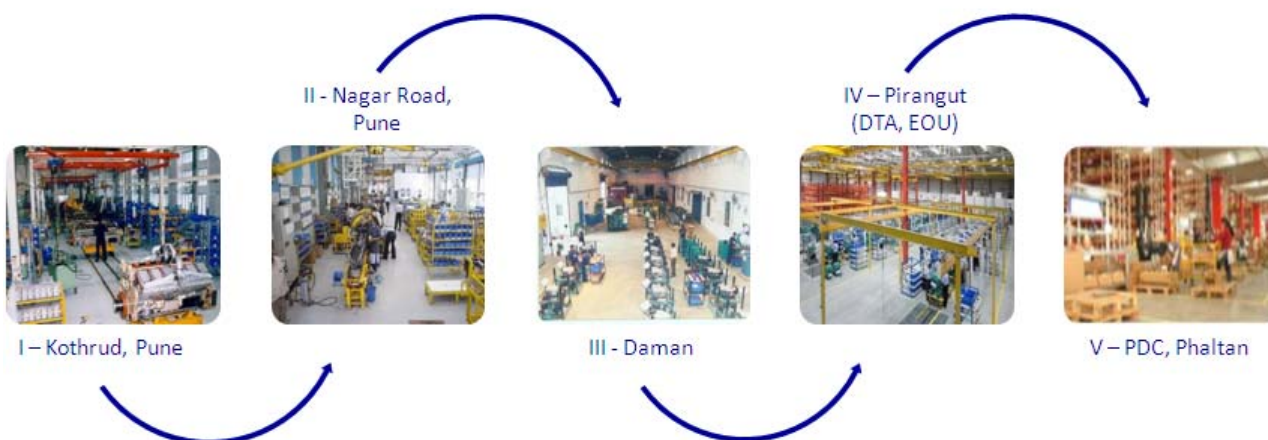
*In Q1FY12, the company issued Bonus Shares in the proportion of 2 (two) Bonus equity shares of Rs. 2/- each for every 5 (five) existing equity shares of Rs. 2/- each fully paid up by capitalization of reserves of the Company.

Source: Company Data, Microsec Research

Company Profile

- Cummins India Limited (CIL), headquartered in Pune since 1962, is the country's leading manufacturer of Diesel and Gas Engines for Power generation, Industrial, Automotive and Distribution markets. CIL is the largest company in Cummins Group in India. Cummins has been associated with Indian sub-continent for close to five decades. It is a consolidated subsidiary of Cummins Inc.
- It started off with a partnership between Kirloskar and Cummins in 1962. But, in late 1997, Kirloskar's sold their ownership; resulting in Cummins Inc. increasing its stake to 51% and the rest being traded on BSE and NSE.
- CIL has manufactured more than 2, 52,000 engines till date in its manufacturing facilities in Pune. Part of the US\$ 13.2billion Cummins Inc., Cummins in India is a group of eight legal entities across 200 locations in India with a combined turnover of INR8500 crores and employing close to 11000 individuals.

Manufacturing Facilities & its Capacity Utilization

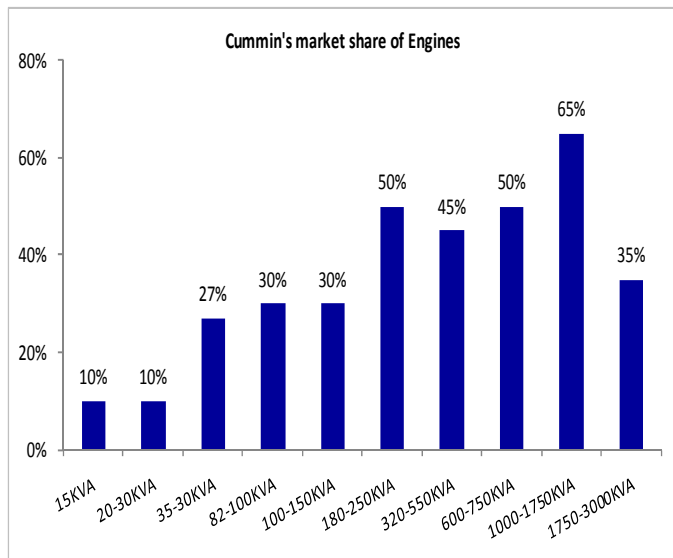


Engines	Installed capacity	Utilized Capacity
HHP Engines	25 engines per day	20 engines per day
8 Ltr Engine-C series	18 engines per day	70% of Installed capacity
14 ltr Engine	21 engine per day	40-50% of Installed capacity
20 ltr Engine	6 engines per day	60-70% of Installed capacity
K90 ltr Engines	7 engines per day	60% of Installed capacity
LHP gensets	40000 units per year	40% of Installed capacity
Exports	15000 gensets per year	Under Utilized

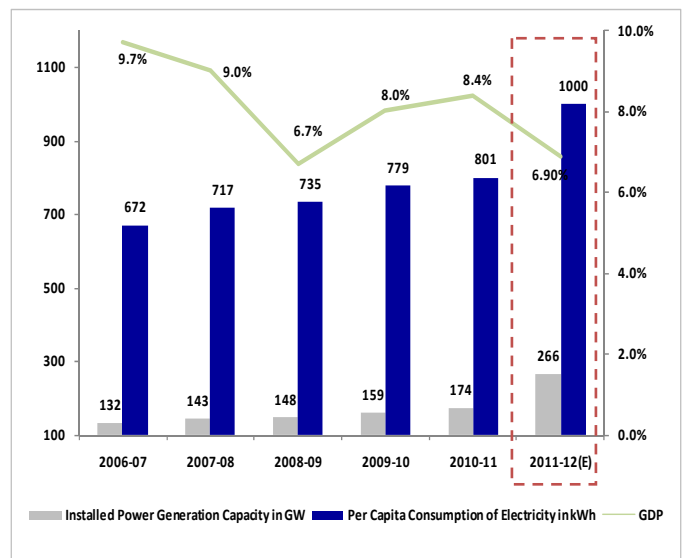
Source: Company Data, Microsec Research

Industry overview & Outlook with respect to Business Segments

Power Generation Overview



Source: Company Data



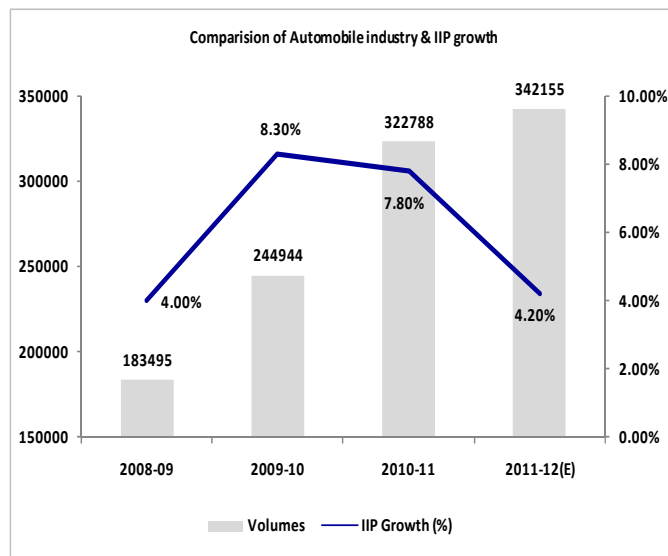
Source: Company Data, CEA, MOSPI

- India continues to move on the path of enhancing its power generation capacity from 173GW at the end of FY2010-11 to 187.55GW till date.
- In FY2010-11, India has an average energy deficit of 8.5% with a peak deficit of 10.3%. Peak Demand/Supply gap continued to be greater than 13% in Jan-12, while average deficit eased to 9.3% from 11.3% in Dec-11.
- The government has detailed plans to reduce the demand supply gap; shortages continue to exist, due to delayed execution of projects. The per capita consumption of electricity is expected to cross 1000kWh by 2012 from the last reported figure of 801kWh in FY2010-11.
- 97% of all capacity addition in last few months (i.e from Sept'11 to Jan'12), came from Coal-based power plants, underscoring immense dependence on Coal. Coal supply situation continues to be weak to at least 39 thermal power plants, as they have less than 7 days of coal stock. However, this is an improvement from Dec-11, when 45 power plants had less than 7 days coal stock. Coal-based power plants have 56% of all installed capacity, while Hydro has 21% by the end of year 2011.
- Indian Diesel Genset (Generator Sets) Market Outlook:** The Indian genset market for 15-2000 kVA gensets is expected to increase from 153305 units in FY10 to 216750 units in FY15E at the CAGR of 7.2%. In FY15, it is estimated that out of the total diesel genset (15 to 2000 kVA) market of 216,750 units, HHP and MHP diesel generator sets will comprise 1,300 units and 7,150 units, respectively.
- Market Drivers & Challenges for the Generator Set Industry in India:** The key market drivers for the Genset Industry in India are a) High Peak Demand Power Shortage b) Investments in Large Projects c) Backup Power for Critical Facilities. The Challenges are a) High Diesel Prices b) Low Cost Imports from China c) Expected Changes in Emissions Norms d) Shortage of Diesel Engines e) Price Competition from Unorganized Sector

- **Overall Outlook:** The power sector is in trouble because of fuel scarcity, sluggish approvals and lack of distribution reforms, pricing issues related to imported coal for power projects, delay in environment and forest clearances, funding problems, worsening health of power distribution companies and a proposal to slap duty on imported power equipment.

Automotive Industry Overview

- The Medium and Heavy Commercial Vehicle Market grew by 38% in 2010-11 over the previous year. Rising interest rates, slowing industrial output, substantial increase in vehicle prices coupled with high-base effect of previous years are the main factors impacting growth in the sector. The Medium and Heavy CV segment, which tends to be more vulnerable to slowdown, is likely to experience a much lower growth.
- In 2010, as India transitioned to BS IV norms in 13 metros and BS III in the rest of country, Cummins' automotive business supported OEMs in transitioning to the new emission norms with the right product and technology.



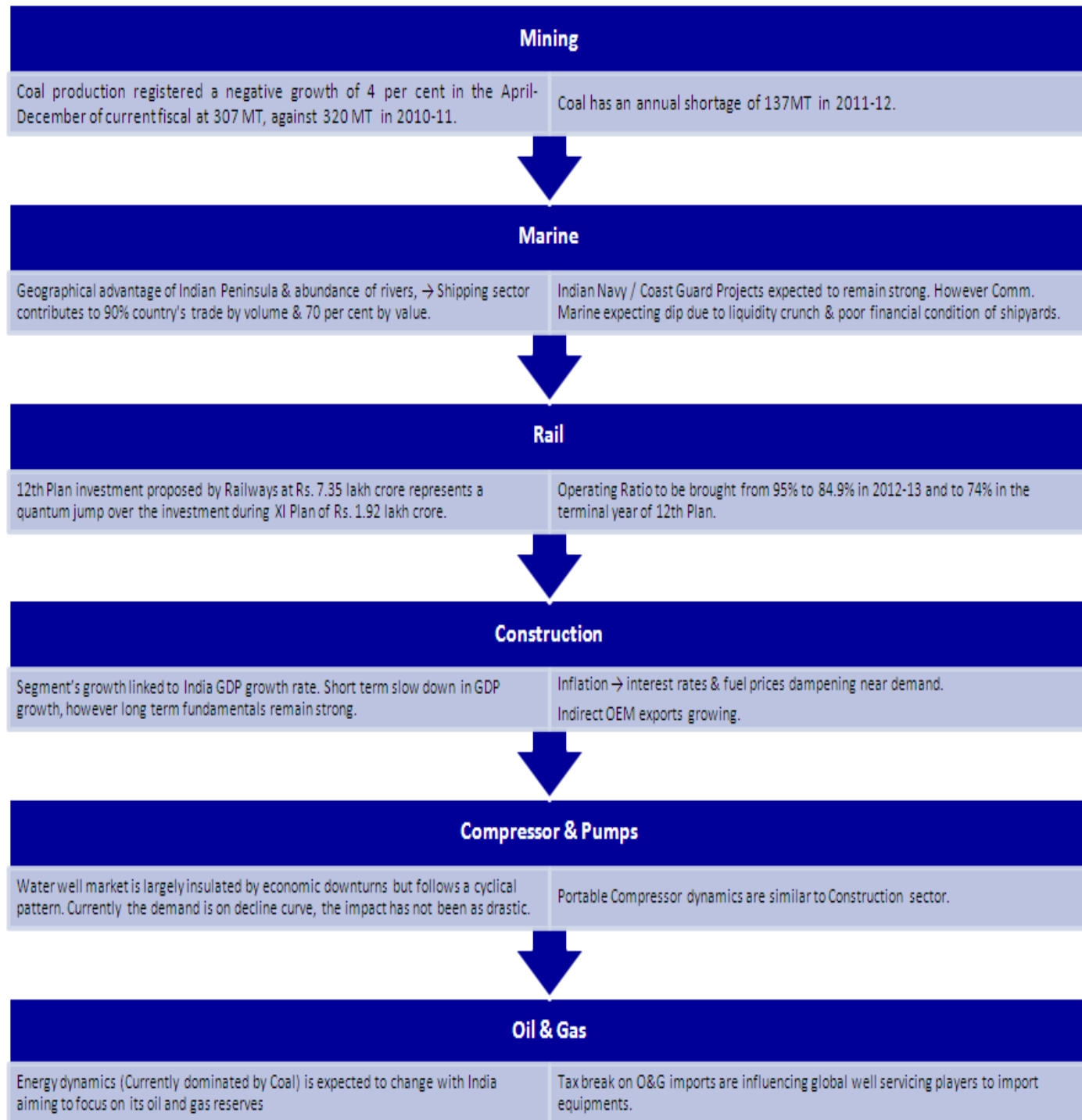
Source: CEA, Company Data Microsec Research

- OEMs have taken successive price increases to pass on the impact of emission norms changes and increase in commodity prices. The rising diesel prices have also impacted the operating economics, being a major part of a freight operators' cost structure. This coupled with higher interest rates (averaging 13% at present for large fleet operators) have substantially increased the cost of vehicle ownership for fleet operators.

Distribution Overview:

- The Distribution Business Unit (DBU) outlook for the coming year remains positive in view of the continued uptrend in industrial activity, demand supply gap in the power sector and expected growth in services over the coming quarters.
- Changing technology, product platforms, fuels and emissions regulations creates new business opportunities of unique solutions for DBU.

Industry Overview:



Cummins-A Low Cost Producer

The Company has always been a low cost producer as it has opted for different strategies like ACE-II, TRIMS, and SIX SIGMA.

ACE-II (Accelerated Cost efficiency)

- ACE-II is a cost reduction strategy, initiated in 2008. It aimed at reducing the total cost of ownership of direct materials by 20% over a three-year period. It is a data based analytical approach to strengthen the business processes and remove waste in the system
- In FY11, ACE-II achieved 96% of its targeted cost reduction, generating accrued savings of Rs.53.8crores.

TRIMS (Total Cost Reduction in Indirect Materials and Services)

- TRIMS was launched in 2009, to reduce the Total Cost of Ownership of Indirect materials by 10% per year over three years. It helps the company maintain low cost leadership position in the domestic markets and remain the preferred source of exports to the parent company Cummins Inc.
- This initiative along with other purchasing projects generated a bottom line savings of Rs.12.4crores and avoidance savings of Rs.39.7crores in the FY11.

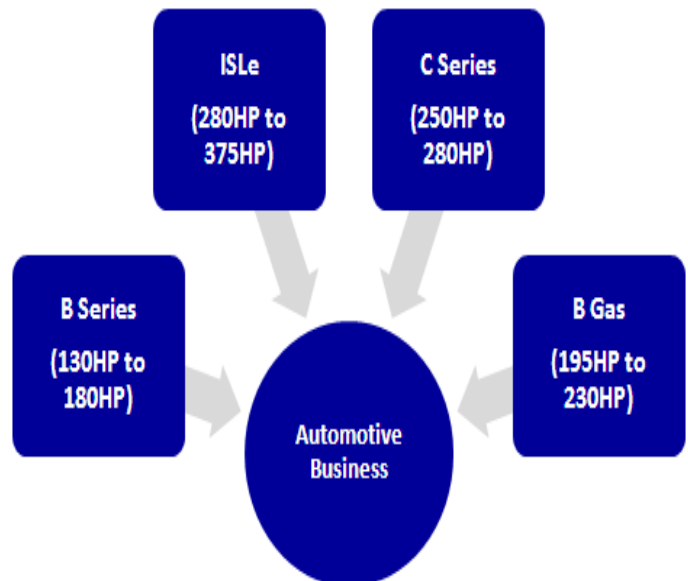
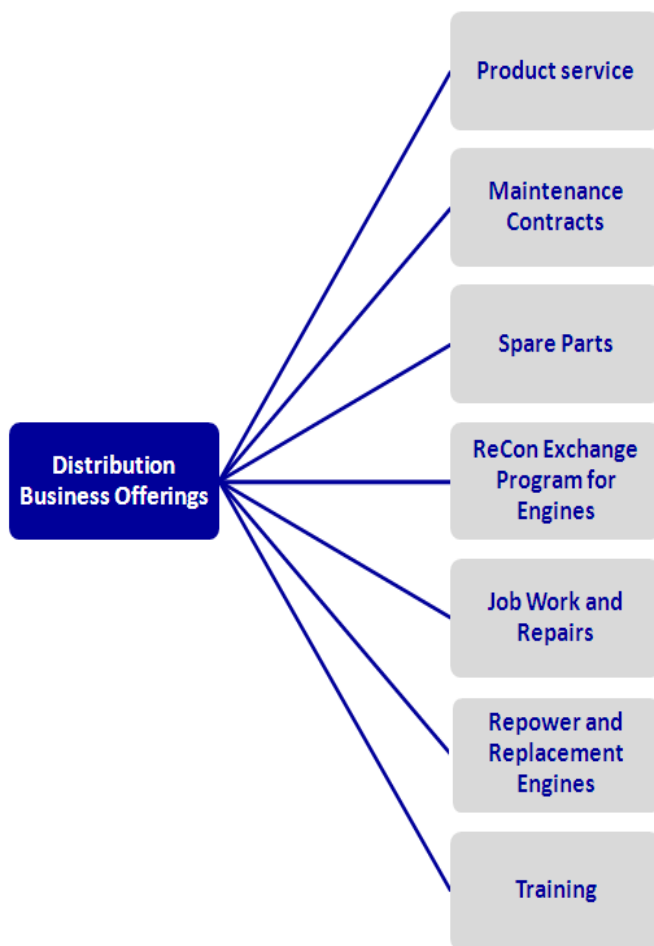
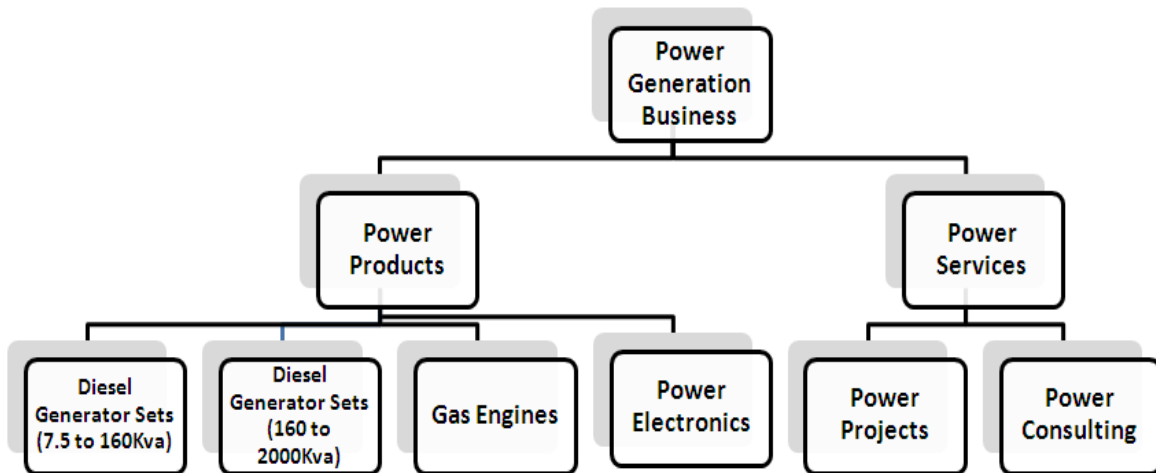
SIX SIGMA

- The Sigma Lite program, renamed as Six Sigma is now in its 11th year. It is again a cost reduction program and is a great way of improving leadership skills, processes and efficiencies.
- Six Sigma, which has become the DNA of the company, has completed 355 projects during the FY11. This resulted in savings of Rs.61.89crores. Out of these projects, 90 projects were Customer Focused Six Sigma (CFSS), where customers are the integral part of the team.

Business Segments

Industrial Business			
Particulars	Market Offering	Key OEMs in the Market	Major Customers
Mining	300HP to 3500HP Diesel engines for earthmoving equipments - dump trucks, dozers, excavators, loaders, shovels, graders, pipe layers, surface miners, blast hole rigs, water Sprinklers, Tyre Handlers, Coal Haulers, Pipe Layer, Cranes, FE Loaders etc. Includes OEM	Domestic: BEML, CAT, Telcon, Revathi, L&T- Kansbahal, L&T, Komatsu, TWL, Volvo etc. Global : Komatsu, Euclid-Hitachi, Unit Rig / Terex, Liebherr, O&K etc.	Coal India subsidiaries, SECL, NLC, TISCO, SAIL, HCL, HZL, KIOCL, NMDC, Cement Industries, Lignite, Iron ore, copper, Zinc, Limestone & other mines, Steel plants, Irrigation projects, Infrastructure projects, quarries & Private contractors like EMTA, G S Atwal etc.
Construction	100 HP to 300 HP Diesel powered engines for Earthmoving Equipment, Construction Machinery & Material Handling Equipment such as Excavators, Wheel Loaders, Compactors, Motor Graders, Cranes, Dumpers, Pavers, Forklifts, Mobile Crushers & Concrete Mixers. Key Segments: Roads, Bridges, Rail, Ports, Airports, Irrigation & Power, Granite & Marble mines, Stone Quarries.	Telcon, L&T-Komatsu, JCB, Hyundai, Volvo, CAT, TIL, TWL, Vectra (VAE), Dynapac, LiuGong, Schwing Stetter, Wirtgen, L&T Case, Terex Vectra, Greaves, Escorts, ACE LiuGong, Schwing Stetter, Wirtgen, L&T Case, Terex Vectra, Greaves, Escorts.	DGBR, Major contractors like L&T, ECC, Punj Lloyd, Jaiprakash, HCC, Gammon, etc* – Marble & granite customers, like R K Marbles, J K Marbles GEM Granites etc* – Cement customers like ACC, Ambuja Cement, Lafarge, Ultratech, Shree Cement, etc
Portable Compressor	60HP to 1600HP Diesel engines for water well drilling rigs, portable compressors, stationary compressors, blast hole rigs, refrigeration compressors etc.	Atlas Copco India Ltd., Doosan, Elgi Equipments Ltd., Kirloskar Pneumatic Company Ltd.	Mines, construction projects, quarries, with Bore well operators, Govt PHE departments, portable compressors etc.
Marine	50HP to 2300HP for main propulsion and auxiliary gensets. Complete line of propulsion, generating sets and auxiliary power solutions from 37-1900 kW, designed specifically for the challenges of commercial marine applications.	GRSE, Goa Shipyard, Sesa Goa, ABG Shipyard, Bharati Shipyard, Tebma, Mazagon Docks, Chowgule & Co., Dempo Shipping, Vipul Shipyard, West Coast Shipyard, Cochin Shipyard.	Indian Navy, Coast Guard, IWA, ONGC, Barge Owners, Fishing Trawler owners, Shipping companies. Commercial (Ports, shipping companies, fishing community, Inland Water transport. etc) as well as Defense (Navy, Coast Guard) market segments.

Water Well	Diesel powered Screw Compressors (450 -1400 cfm /150 - 500 psi) for Water Well Rigs.	Elgi Equipments, Atlas, Copco, Kirloskar Pneumatic, Revathi Equipments, Doosan	Private Water Well Drilling Rig owners, Rig manufacturers, Central Ground Water Board / DGS&D, State Agencies like Public Health Engg Dept, Water supply and Sewerage Board, Ground and minor irrigation department.
Rail	240HP to 3500HP Diesel engines for •Locomotive - Diesel Hydraulic / Diesel Electric, •Rail Cars (DMU) - Diesel Hydraulic / Diesel Electric, Track Maintenance – Over head Equipment crane., Auxiliary Power Car – Under slung Power Car, Accident relief Medical van, break down rail cranes etc.	ICF Chennai, RCF Kapurthala, Plasser Faridabad, BHEL Bhopal & Jhansi, SAN Bangalore, DLW, Phoolta.	Indian Railways, Steel, Cement, Thermal Power, Fertilizer plants, Port Trusts etc.
Pumps	Engine Driven pumps for emergency duty and continuous duty, Blast Furnace and Cooling Tower.	Kirloskar Brothers, Mather & Platt Pumps, Voltas, WPIL, Beacon Wier, Flowmore, Punj Lyod.	Refineries, Multipurpose Chemical Terminals, Ports , Steel Majors (TISCO, Jindal, Bhushan, SAIL), Power Plants, (NTPC,NPCIL, TATA Power, PGCIL)
Oilfield & Defense	100HP to 2700HP Diesel engines and gas engines from 41 hp to 1200 hp for - Drilling - AC SCR Drill rigs, Work Over rigs, Cementing Units, Mud pumps, COD pumps, Crude Oil dispatch Pumps etc.	Jiva International, John Energy, Ramsharan & Co., BHEL, BPCL.	ONGC, Oil India Limited
Gas Compression	For gathering raw natural gas at the wellhead, boosting gas pressure for pipeline transmission or operating a CNG refueling station	Atlas Copco India Ltd., Doosan, Elgi Equipments Ltd., Kirloskar Pneumatic Company Ltd.	DGBR / Major Construction Contractors - L&T-ECC/Punj Lloyd/Gammon India/ Jaiprakash Major Mining / Steel Customers - Coal India Ltd. / TISCO / EMTA /HZL / SAIL Cement – ACC /Gujarat Ambuja / Grasim Major Marble and Granite customers - R K Marbles, GEM granites, Pokarna Granites
Fish Trawler	Propulsion and auxiliary engines from 50 to 2000HP to power vessel- fishing trawlers, persuneirs, gill netters and ferries, yachts and tug boats, fire boats, fishing boats, crew boats, generating sets and pump units	NA	NA



Cummins Megasite Update - Phaltan

- Cummins Megasite is 300-acre projects initiated by Cummins India Ltd at Phaltan-Baramati Area, marking the beginning of a campus that will see nearly 10 facilities operating from one location in the coming few years.
- The project has been awarded by the “Government of Maharashtra”, is designed to house ongoing and future expansions of Cummins. Already 3 facilities have been operational.
- The three plants built on an investment of Rs. 500 crores are the first of several forthcoming facilities at the Megasite. They are as follows:

The center will rebuild the mechanical and electric engines from 19 liters to 60 liters, and repair all Cummins engines helping the Distribution business to meet the requirements of the company's rapidly increasing customer base.

It is built over 7 acres of land and it boasts of concepts such as lean manufacturing, state-of-the-art technology and processes.

It started its operation in March 2011.

High horse power Rebuild Center



This plant is a state-of-the-art manufacturing facility for parts and engines up to 19 liters in size. It would allow the Cummins India's Distribution business to serve its customers with cost effective parts and engines that offer similar warranty as a new part or engine.

The process of remanufacturing requires 85% lesser energy as compared to manufacturing the very same product from new parts.

ReCon India



This project is expansion of the Joint Venture Tata Cummins Limited for manufacturing the B series and ISB electronic engines. It is built to cater to the surging commercial vehicle, power and industrial markets.

The state-of-the-art facility set up over 25 acres of land has been designed to produce approximately 90,000 units annually, with extended capability of up to 120,000 units annually.

Tata Cummins Limited



Upcoming Facilities at Plaltan

Common Parts Center (PDC)

- It will serve all businesses of Cummins India. It will aim to improve supply chain efficiency in aftermarket parts distribution and warehouse operations. It will also offer optimal warehouse space, bringing significant improvement to the company's inventory management. The PDC started in the third quarter of CY2011.

Engine Upfit Plant

- It will cater to the growing businesses of construction, compressor and marine segments. Apart from unfitting mechanical and electrical B and L engine for various applications, the facility will also manufacture C series engines. Upon completion the plant will produce 20000 engines annually. This facility is expected to commence operations by the first half of 2012.

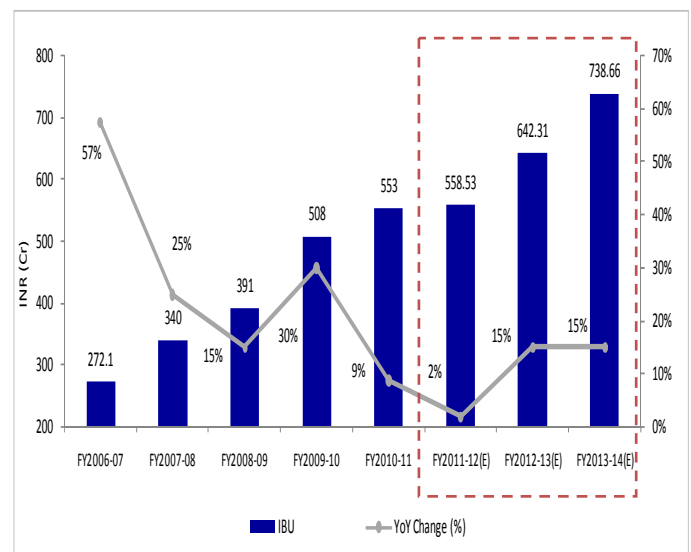
Facility for PGS and G-Drives

- This facility would be for the manufacture of Power generator Sets and G-Drives in the low and medium horse power range. It is expected to commence operation by the mid of 2012 and would have a matured capacity of 51000 units by 2015, mainly for exports market.

Segmental Analysis

Industrial Business Unit (IBU)

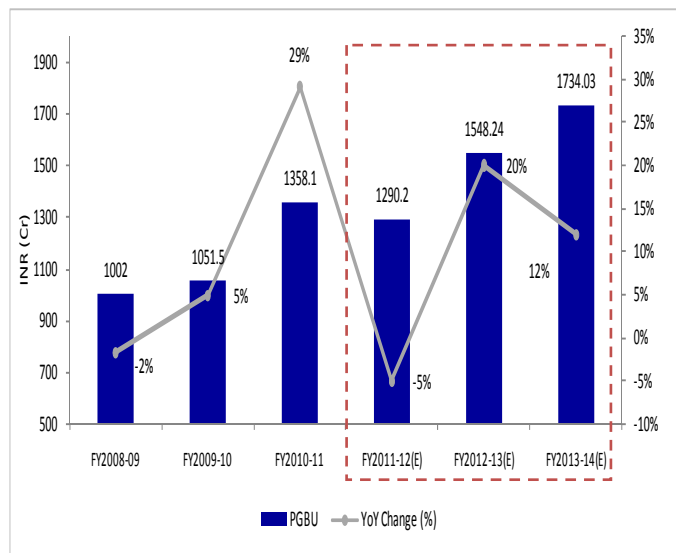
- The IBU which constitutes almost 20% of overall revenue is growing at a CAGR of 15.23% for last 5 years. The CAGR in terms of profit for the period 2005-2011 is 9%. The IBU constitutes 15% of the domestic business of Cummins.
- Under IBU, The compressor segment witnessed a robust growth of more than 42% in FY2010-11 over FY2009-10. This growth was triggered by strong performance in water-well, gas compression and portable compressor segments.
- The water well segment is about 25% of the overall industrial sales and has been cyclically climbing in last 3 years. This segment usually grows for 3-4 years and then undergoes a correction for couple of years. This segment has declined in last three quarters of FY12 and is expected to tumble by 50% this year because of irregular monsoons.
- The Construction segment grew by 43% in FY2010-11 over FY2009-11, on account of increased investment in the infrastructure sector.



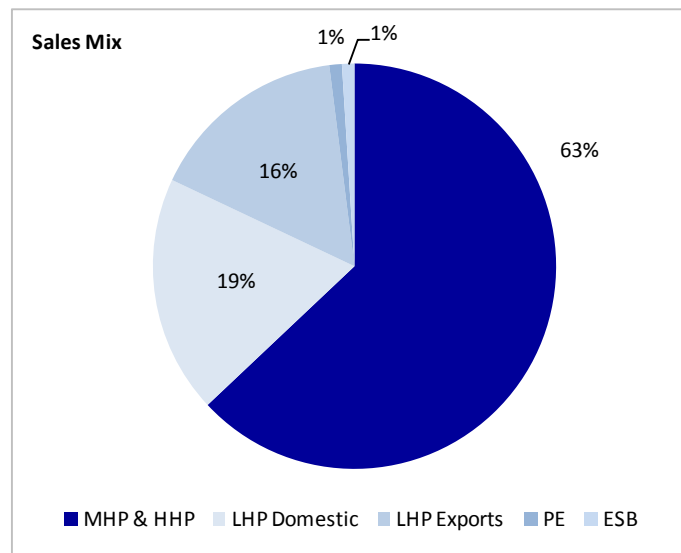
Source: Microsec Research, Company Data, --- represents estimated figures

- Successful implementation of new product programs, introduction of electronic engines on varied applications (e.g. 15 ltr. engines for blast hole drilling application) led to a 26% growth in the Mining segment in FY2010-11 AS compared to FY2009-10. The company sees 10% growth in this segment for FY2011-12.
- The Rail segment grew by 25% in FY2010-11 over last year. The growth was boosted by the execution of major projects like Power Car, HHP DEMU and strong participation in 4-wheeler & 8-wheeler car projects.
- It captured new business in High Horse Power segments by positioning value packages in rail (AC DEMU), marine & pumps segments.
- **The IBU is poised to grow at a CAGR of 12% in the next 5 years. The growth drivers being 1) the upfit centre at Megasite with an annual capacity of 20,000MW which would cater to the requirements of engines for the construction, compressor, marine & fire pumps markets 3) BSIII & IV emission norms engines 3) leading position in the market in the off-highway wheeled construction equipments like pavers, wheel loaders etc.**

Power Generation Business Unit (PGBU)



Source: Microsec Research, Company Data, ---- represents estimated figures



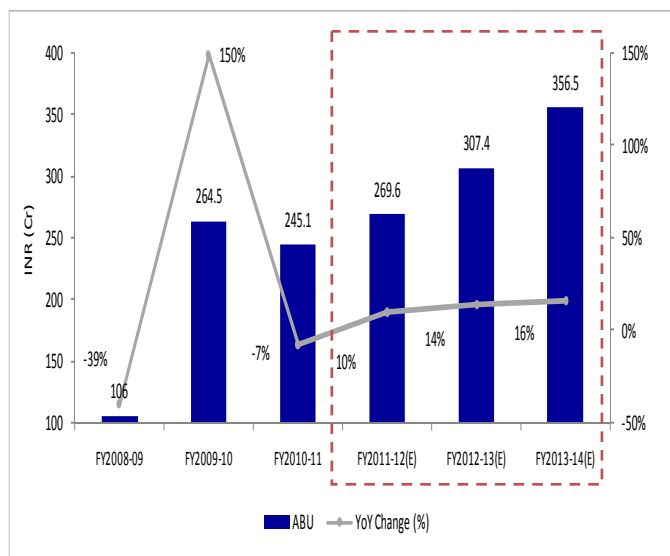
Source: Company Data

- The PGBU which constitutes 45% of the overall revenue is growing at a CAGR of 17% for the period of 2005-2011 in terms of revenue and 20% in terms of profit. It de-grew by 9% for the period of 9MFY12.
- In this segment, the gensets of size below than 160kVA declined by almost 50%, the mid segment of 160Kva to 380Kva declined more than 10%, the 450Kva to 625Kva fell approximately by 20% and the greater than 750kVA, high horse power end de-grew by about 10% in last 9MFY12.
- The segment is likely to perform well in coming quarters as we expect this segment to pick some momentum keeping in view the increasing demand from sectors like manufacturing, retail and commercial realty.

- Gas pricing remains a concern with gas distribution companies increasing prices by 5-40% to existing customers. New gas contracts are being negotiated in Gujarat & North India.
- The PGBU is likely to grow at CAGR of 12% for next 5 years on account of 1) the facility at MIDC SEZ which would cater mainly to the exports (30% of overall revenue); PGBU is 65%-70% of exports. 2) plans to raise prices in April of CY2012 and post emission norms which would boost up the revenue 3) HHP Rebuild centre which will repair & rebuild gensets & combustion engines 4) Tata Cummins Ltd which will manufacture B series engines & ISB electric engines.

Automotive Business Unit (ABU)

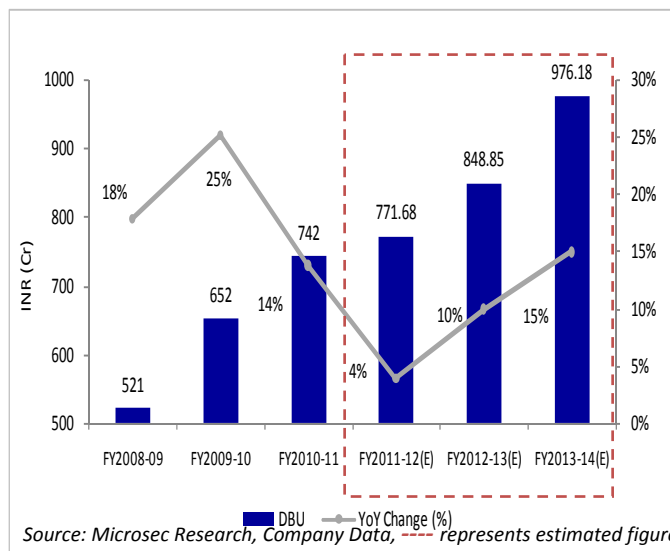
- The ABU which constitutes 25% of the total revenue is growing at a CAGR of 32% for last 3 years.
- Cummins has engineered products compliant with emission norms in India. Starting April 2010, BS-IV norms have been implemented in 13 major cities and starting from October 2010, BS-III norms will be implemented across the country. This positioned the company as a preferred supplier to Indian OEMs for their Domestic and Export applications.
- After securing 100% of the requirements for the Delhi Transport Corporation (DTC) tender for low floor buses, the Company has secured the entire second phase tender. The Company maintained 100% market share in the premium CNG engines through its B series Lean Burn engines.
- The ABU is likely to grow at CAGR of 14% in next 5 years. The growth drivers being 1) leading market position in OEM's (Original Equipment Manufacturer) 2) growing demand in market.



Source: Microsec Research, Company Data, --- represents estimated figures

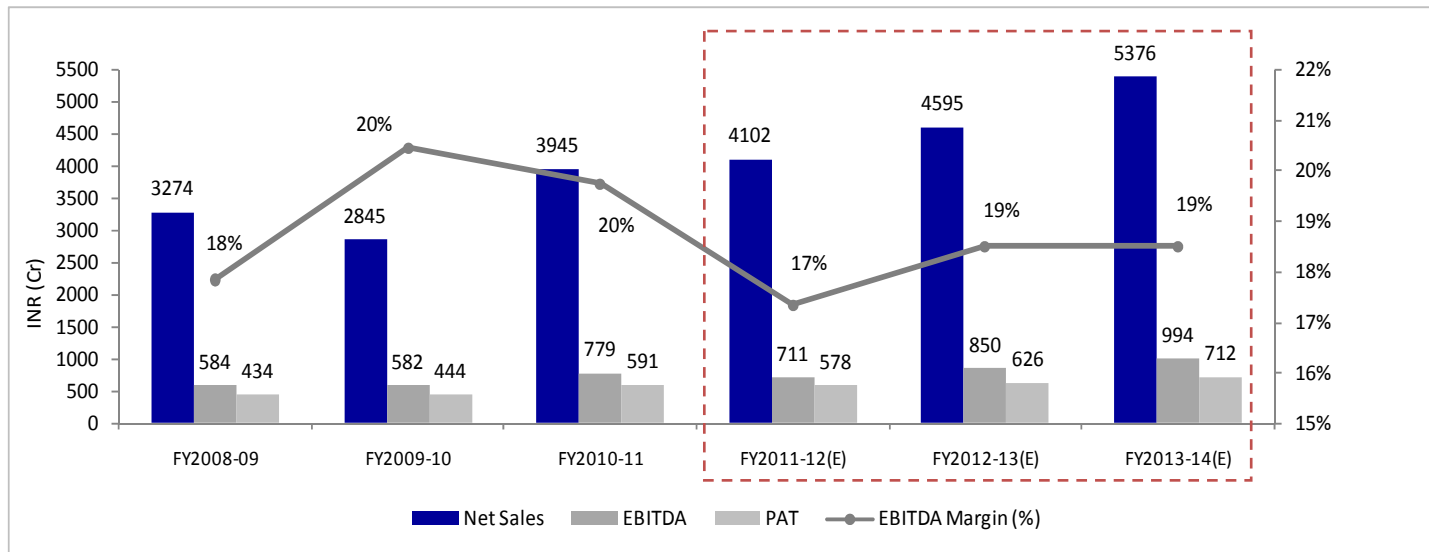
Distribution Unit (DBU)

- The DBU which constitutes around 15-20% of the total revenue is growing at a CAGR of 13% for last 3 years.
- The distribution business maintains a positive outlook with a CAGR of 13% for next 5 years. The growth drivers are 1) several initiatives launched like inaugurating a 'state of the art' High Horse Power (HHP) Engine Rebuild Centre at the Cummins Megastore in Phaltan for its line of HHP mechanical & electronic engines to cater to the growing demand.



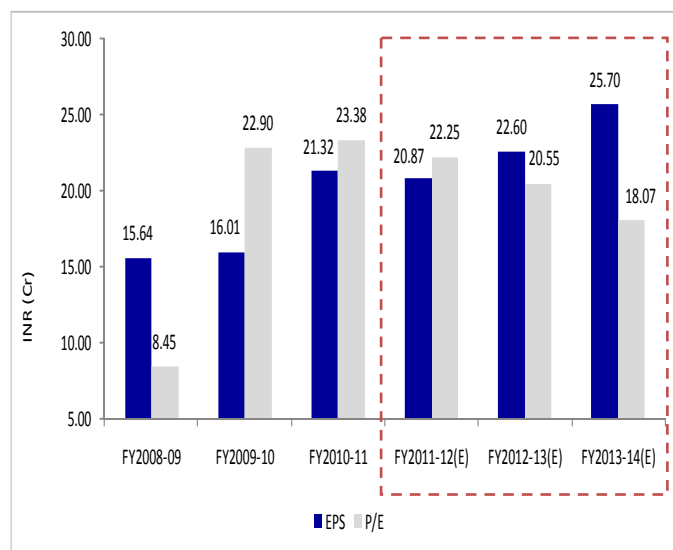
Source: Microsec Research, Company Data, --- represents estimated figures

Financials & Projection at a Glance

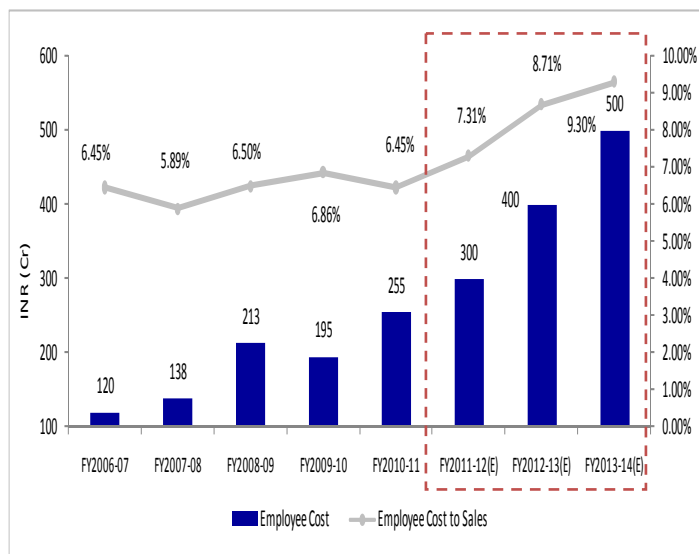
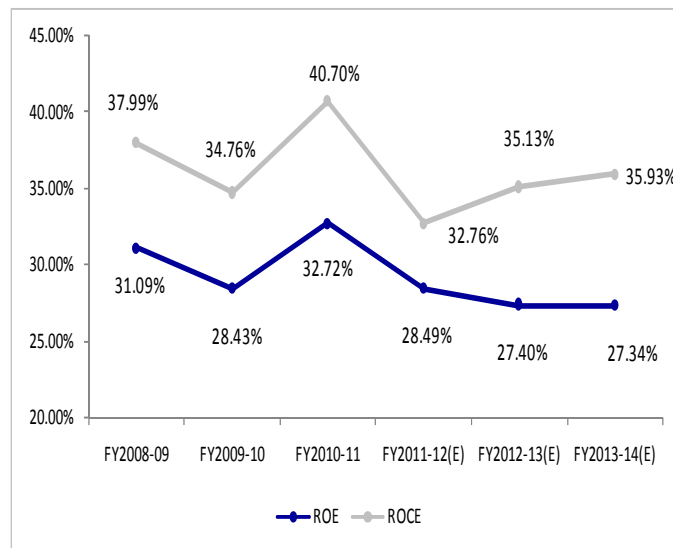
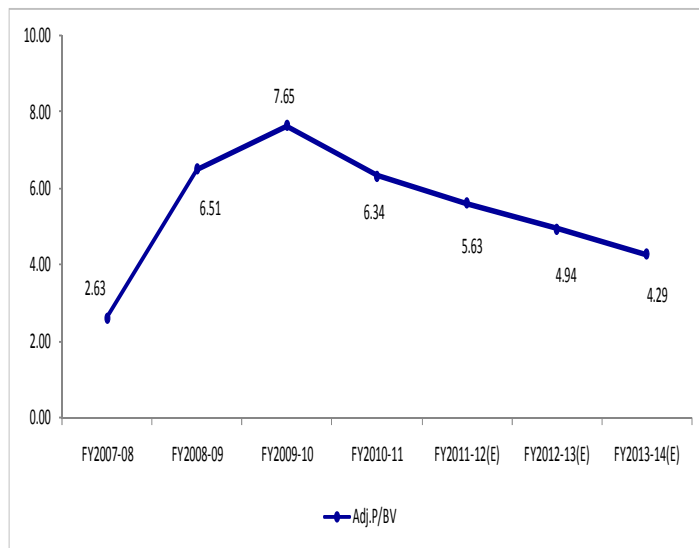


Source: Microsec Research, Company Data, --- represents estimated figures

- Cummins is growing at a CAGR of 16.47% & 15.44% for last 5 years in terms of revenue and EBITDA respectively. The net profit is growing at a CAGR of 19.55% for last 5 years.
- The company is poised to grow at a CAGR of 14% in terms of revenue for the next 5 years with sustainable growth across all segments and expansion at Cummins Megasite, phaltan.
- EBITDA Margins are expected to move back to the historic levels of 19%-20% on account of 1) stabilization of commodity inflation 2) decrease in interest rates 3) pick up in domestic demand 4) introduction of new products 5) Low cost processes like six sigma mitigating raw material pressure & 6) expansion at Cummins Megasite.
- Sustainable PAT Margins on account of 1) low interest because of zero debt & 2) improved other income.
- In Q1FY12, the company issued Bonus Shares in the proportion of 2 (two) Bonus equity shares of Rs. 2/- each for every 5 (five) existing equity shares of Rs. 2/- each fully paid up by capitalization of reserves of the Company.



Source: Microsec Research, Company Data, --- represents estimated figures

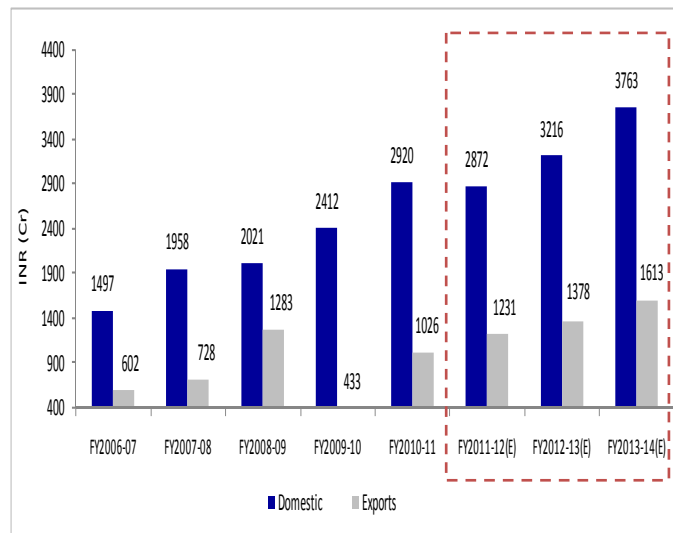


Source: Microsec Research, Company Data, --- represents estimated

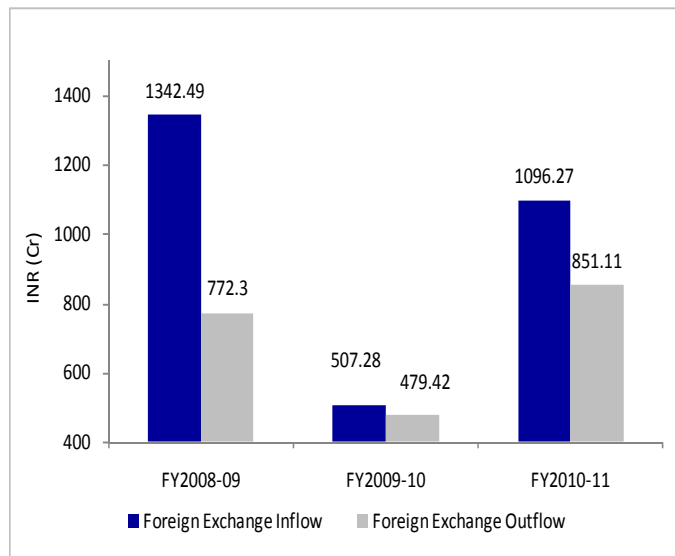
- The company is likely to increase its employee strength to 500 employees by FY2013-14 with its expansion at Megasisite.
- The company saw improved representation of women to 19%, with almost 25% women employed in key leadership roles.
- The company is committed to and is determined towards achieving the target of 30% women representation by 2012.

Source: Microsec Research, Company Data, --- represents estimated figures

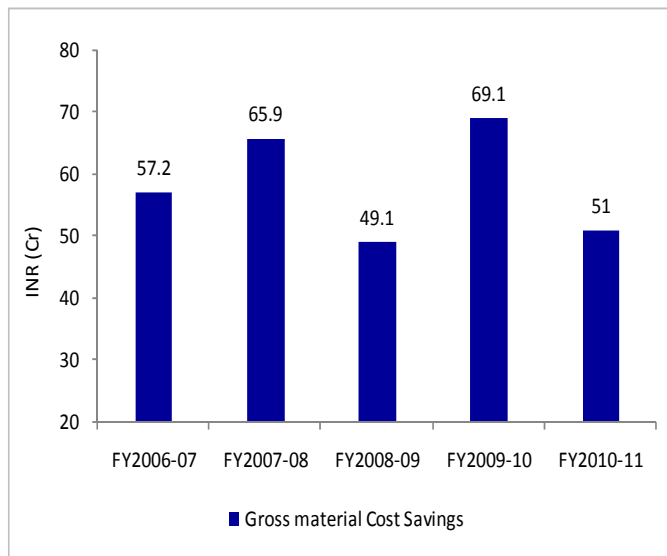
- The company's exports are likely to grow in the range of 10%-15% in coming years. The growth drivers would be 1) The plant at MIDC SEZ which will manufacture >200KVA(LHP) and start up with annual capacity of 15000 units and will ramp up to 51000 units in coming years. It would be substantial upside to company's topline and bottom line growth 2) export mix which is pretty well spread across geographically.
- The company's focus on HHP (High Horse power) engines which comprises 65-70% of exports



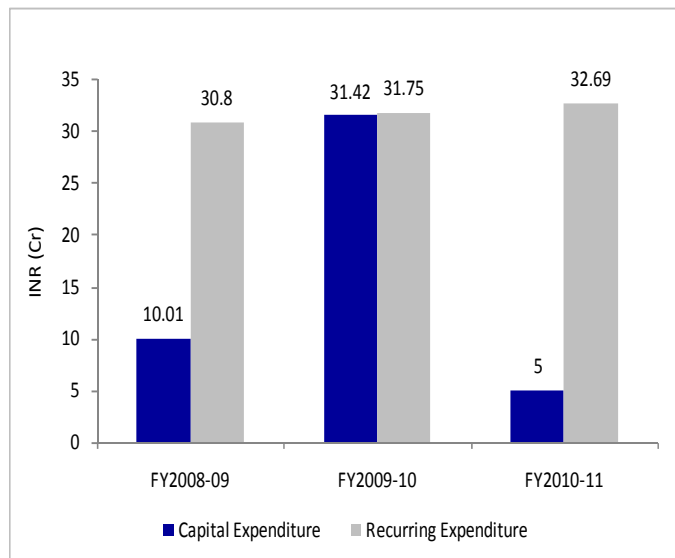
Financials at a Glance (Cont.....)



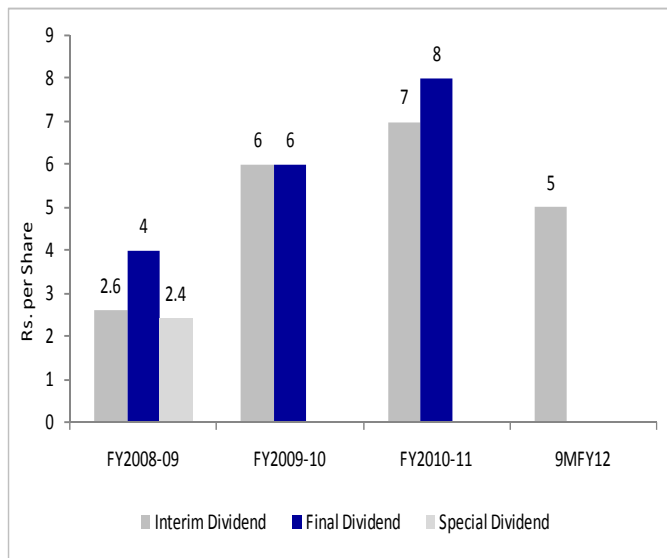
Source: Microsec Research, Company Data



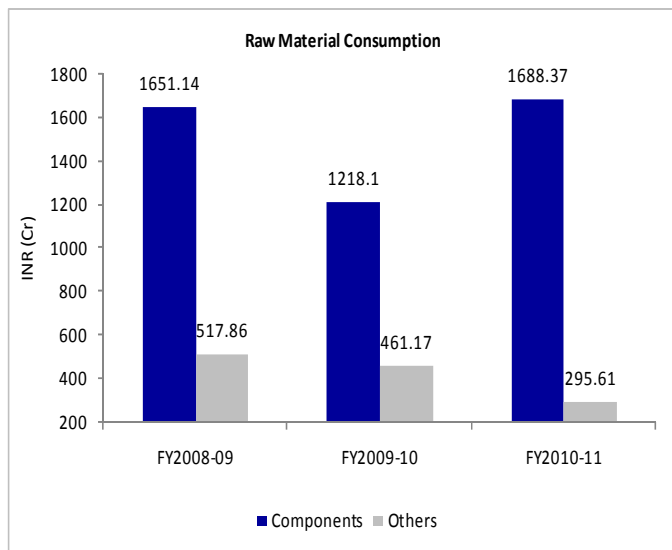
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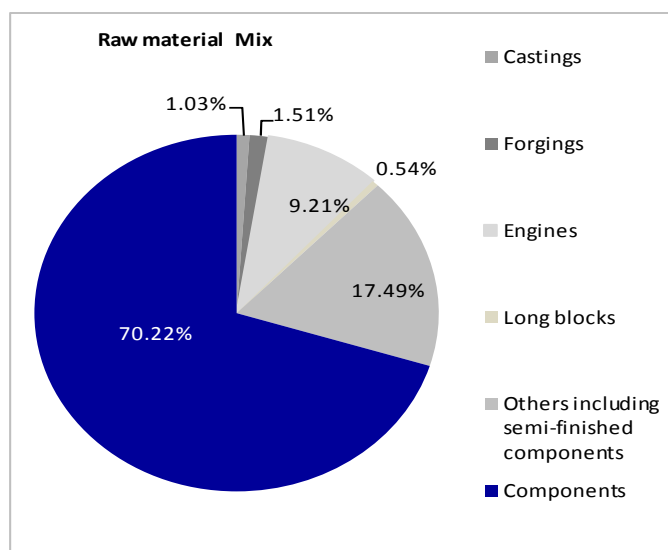
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Source: Microsec Research, Company Data

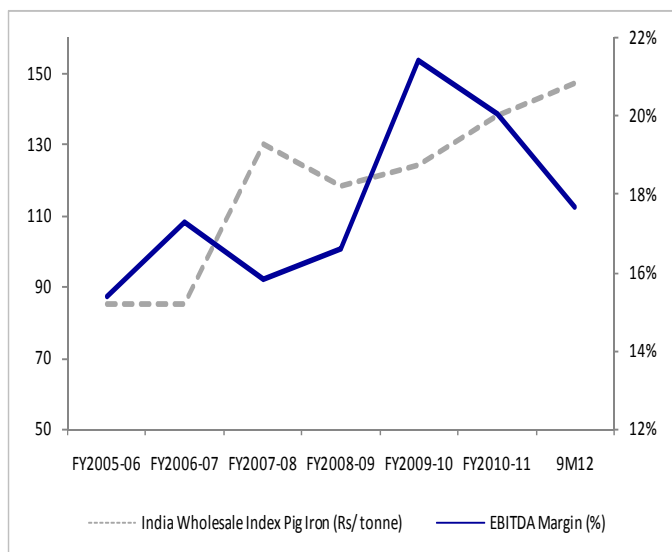


Source: Microsec Research, Company Data

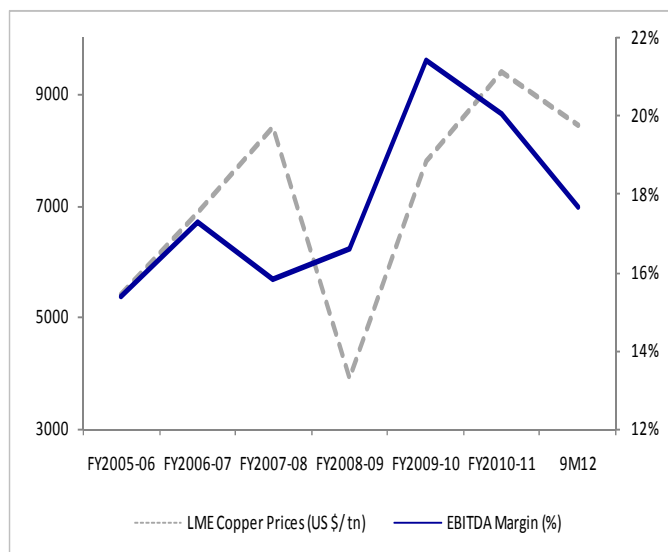


Source: Microsec Research, Company Data

Cummins India Ltd EBITDA Margin Trend Vs. Copper & Pig Iron Prices Movement



Source: Microsec Research, Company Data, Bloomberg



Source: Microsec Research, Company Data, Bloomberg

Note: Copper and Pig Iron form 60%-65% of Cummins India's Total Raw Material Cost

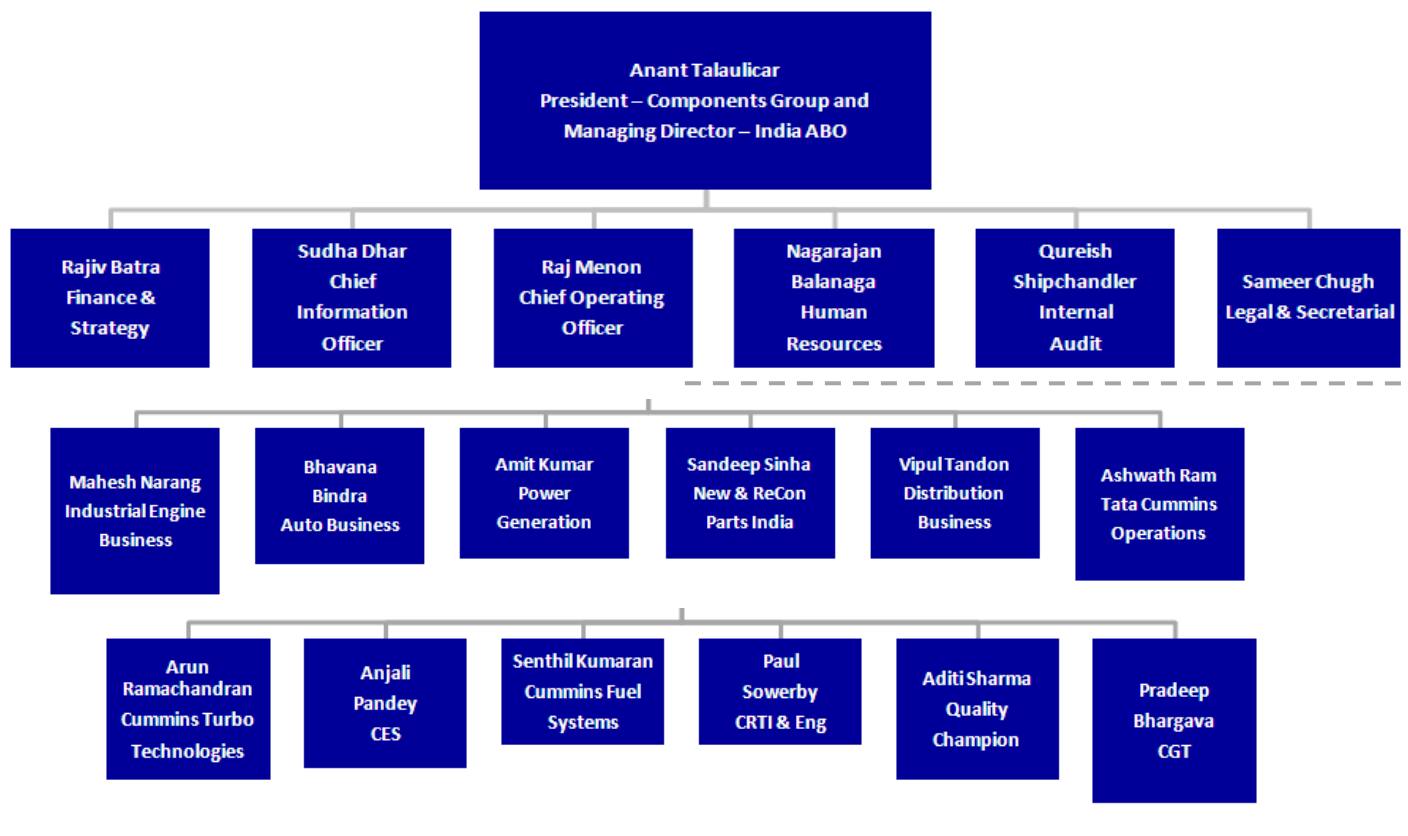
Quarterly Analysis

Particulars (INR in Crores)	Q3FY12	Q3FY11	Q2FY12	YoY (%)	QoQ (%)	9MFY12	9MFY11	% Change of 9M
INCOME								
Net Sales	970.51	958.35	1069.81	1.27%	-9.28%	3062.25	2935.88	4.30%
Other Operating Income	29.27	34.17	20.51	-14.34%	42.71%	73.16	76.01	-3.75%
Total Income from Operation	999.78	992.52	1090.32	0.73%	-8.30%	3135.41	3011.89	4.10%
TOTAL EXPENDITURE	820.89	812.88	914.41	0.99%	-10.23%	2594.97	2417.53	7.34%
<i>as a % of sales</i>	84.58%	84.82%	85.47%					
EBITDA Margin (%)	18.43%	18.74%	16.44%	(31)bps	199bps	17.65%	20.24%	(259)bps
EBITDA	178.89	179.64	175.91	-0.42%	1.69%	540.44	594.36	-9.07%
Depreciation	10.92	9.1	9.84			30.11	27.7	
EBIT Margin (%)	17.31%	17.80%	15.52%	23bps	179bps	16.67%	19.30%	(263)bps
EBIT	167.97	170.54	166.07	-1.51%	1.14%	510.33	566.66	-9.94%
Interest	0.3	0.31	0.48	-3.23%	-37.50%	1.13	1.13	0.00%
Other Income	26.86	10.26	16.34	161.79%	64.38%	59.05	40.42	46.09%
PBT before exceptional items	194.53	180.49	181.93	7.78%	6.93%	568.25	605.95	-6.22%
exceptional items	0	0	0			51.44	0	
PBT Margin (%)	20.04%	18.83%	17.01%	121bps	303bps	20.24%	20.64%	(40)bps
PBT after exceptional items	194.53	180.49	181.93	7.78%	6.93%	619.69	605.95	2.27%
Tax	53.58	41.59	53.35	28.83%	0.43%	172.99	158.93	8.85%
<i>as a % of PBT</i>	27.54%	23.04%	29.32%			27.92%	26.23%	
PAT before extraordinary items	140.95	138.9	128.58	1.48%	9.62%	446.7	447.02	-0.07%
Extraordinary item	0	0	0			0	0	
PAT after extraordinary items	140.95	138.9	128.58	1.48%	9.62%	446.7	447.02	-0.07%
Share in profit of associates	0	0	0			0	0	
PAT Margin (%)	14.52%	14.49%	12.02%	3bps	250bps	14.59%	15.23%	(64)bps
PAT after minority interest	140.95	138.9	128.58	1.48%	9.62%	446.7	447.02	-0.07%
Paid -up Equity Share Capital	55.44	39.6	55.44			55.44	39.6	
Basic EPS	5.08	7.02	4.64	-27.52%	9.58%	16.11	22.58	-28.62%
Adjusted EPS	5.08	5.01	4.64	1.48%	9.62%	16.11	16.13	-0.07%

Source: Microsec Research, Company Data

- The Net sales for Q3FY12 was INR970.51 crores, down by 9.28% sequentially and 1.27% up on YoY basis. Domestic sales were down 10% and exports were down 8% sequentially. The decline in domestic sales has been largely driven by the power generation segment which has been down about 27% sequentially and 9% year to date. Within the power generation segment, company has been observing huge demand from retail and ITES. Telecom that used to be one of the major growth drivers for the segment has been observing sluggish demand.
- The industrial business however has actually picked up and was up 30% sequentially and about flat year to date. The Automotive business was down 37% sequentially but has been growing 24% on a year to date basis. Distribution business continued to grow at approximately 3% to 4% levels both as compared to last year as well as sequentially.
- The EBITDA for Q3FY12 was INR178.89 crores, which remained flat on YoY basis and up by 1.69% sequentially. The EBITDA Margin was 18.43%, which was almost flat sequentially and up by 199bps on YoY basis. The improvement in margins sequentially was mainly due to a positive exchange rate of ₹/\$ (company earns in dollars for a majority of exports), cost reduction activities, favourable revenue mix and commodities to some extent.
- Management has indicated that the company is likely to maintain margins at current levels going ahead mainly on back of various ongoing cost rationalizing measures being implemented.
- In this quarter, employee cost has increased by 21.6% YoY. We believe that the company is increasing its labour force in view of the successive commissioning of new capacity at Phaltan.
- The company reported a Net Profit of INR140.95 crores for Q3FY12, showing a sharp increase of 9.62% sequentially and 1.48% on YoY basis.
- Exports business grew by nearly 15% in Q3FY12. Lower base of exports in Q3FY11 coupled with improved demand for high HP engines in US aided to the growth in exports revenue for the quarter.
- On 9month basis, the Net sales arrived at INR3062.25 crores, depicting an increase of 4.30%. The domestic power business declined by 9% on YoY basis and industrial segment observed muted revenue growth. Also, water-well business which accounts for a majority of industrial segment sale continued to be in the declining mode. Our industry interaction implies that the water-well industry is going through the cyclical slowdown.
- Automotive segment grew by 24% in 9MFY12 with meaningful growth in commercial vehicle segment. The distribution segment grew by 4% for the same period.
- The Net profit in 9MFY12 was INR446.70 crores, showed muted growth as compared to the same period of last financial year.

Key Management Personnel



Peer Comparison

Particulars (INR in Cr)	Cummins India Ltd	Greaves Cotton Ltd
Net Sales (INR-Cr)	4,071.81	2314.91
EBITDA (INR-Cr)	725.29	245.13
EBITDA Margin (%)	17.81%	10.59%
PAT (INR-Cr)	590.67	154.41
PAT Margin (%)	14.51%	6.67%
Market Capitalization	12,758.13	2075.76
Market cap to Sales	3.13	0.90
EPS	25.19	7.84
Adj. EPS	21.30	7.84
ROE	27.97%	30.59%
P/E	21.69	10.84
CMP	462.00	85

*All figures are calculated on TTM basis

Source: Microsec Research

Key Risks & Concerns

- The risks due to interest rates being hiked to curb rising inflation, could dampen industrial activity. Rising commodity prices could also put pressure on Company margins.
- Key international players are making their foray into India. Private players are also entering so-called Government domains like mining and exploration. This will see the intensity of the competitive landscape rising to new levels.
- The cyclical downturn in the water-well market which began in Q1FY11 is likely to continue for the rest of the year.
- Lack of immediate visible demand for CNG buses is likely to affect demand for CNG engines in near future.
- Steady increases in commodity inflation, increases in interest rates and declines in domestic demand in certain segments.

Valuation

We followed consolidated approach to value Cummins India Limited based on Discounted Cash Flow (DCF) and Comparative valuation methodologies. In comparative valuation, we pursued Price-to-Earnings (P/E) and Price-to-Book Value (EV/EBITDA) methods. In addition, to arrive at a final valuation, we provided different weights to each of our valuation methods. A description of valuation through each of the adopted technique and consolidated valuation is as follows:

Discounted Cash Flow (DCF)

We utilized Weighted Average Cost of Capital (WACC) of 10.23% to discount the future earnings of Cummins India. In addition, we applied a terminal growth rate of 2.00% for the earnings beyond FY2016E. We arrived at the WACC with a Cost of Equity of 10.25%, post tax Cost of Debt of 8.28%, and Debt-to-Equity of 0.01x. By adopting Capital Asset Pricing Model (CAPM), we arrive at Cost to Equity based on Market Return of 11.13%, Risk Free Rate of 8.47% and Beta of 0.67x. Furthermore, the Cost of Debt represents expected interest cost after deducting the tax impact. With this, our DCF valuation reflects a target price of ₹594.41 for the stock, which reflects an upside of 28.66% from the CMP of ₹462.

Price-to-Earnings (P/E)

Based on a targeted P/E multiple of 19.83x on FY2014E EPS of ₹25.70 per share, we arrived at a target price of ₹509.48 per share for the company, with the CMP of ₹462.00

EV/EBITDA

Based on the last 3 years average of EV/EBITDA i.e ₹12.49 and EBITDA of FY2013-14 i.e ₹994.48, we arrived at a target price of ₹451.06.

Consolidated Valuation

Considering future earnings growth visibility and current market scenario, we assigned 50% weight to the DCF approach followed by 25% weight each to P/E and EV/EBITDA methodologies. With this, we arrived at a target price of ₹537.34 per share for Cummins India, 16.31% upside from CMP of ₹462.00 per share.

Consolidated Valuation			
Particulars	Target Price	Weight	Share in Target Price
Value based on DCF approach	594.41	50%	297.21
Value based on P/E approach	509.48	25%	112.76
Value based on EV/EBITDA approach	451.06	25%	127.37
Consolidated Value			537.34

Income Statement

Year ended March,31st						
Particulars	FY2008-09A	FY2009-10A	FY2010-11A	FY2011-12E	FY2012-13E	FY2013-14E
INCOME						
Net Sales	3274.05	2844.87	3945.44	4102.25	4594.52	5375.59
Growth in sales (%) -YoY	40.47%	-13.11%	38.69%	3.97%	12%	17%
Other Operating Income	106.87	54.16	115.73	93.16	114.86	134.39
as % of sales	3.26%	1.90%	2.93%	2.27%	2.50%	2.50%
Total Income from Operation	3380.92	2899.03	4061.17	4195.41	4709.38	5509.98
Growth (%) -YoY	37.80%	-14.25%	40.09%	3.31%	12.25%	17.00%
TOTAL EXPENDITURE	2796.81	2,317.39	3,281.97	3484.17	3859.40	4515.49
as % of sales	85.42%	81.46%	83.18%	84.93%	84.00%	84.00%
EBITDA Margin (%)	17.84%	20.45%	19.75%	17.34%	18.50%	18.50%
EBITDA	584.11	581.64	779.2	711.24	849.99	994.48
Growth (%)	60.60%	-0.42%	33.97%	-8.72%	19.51%	17.00%
Depreciation	45.56	36.08	36.64	40.11	41.30	52.31
EBIT Margin (%)	16.45%	19.18%	18.82%	16.36%	17.60%	17.53%
EBIT	538.55	545.56	742.56	671.13	808.68	942.18
Interest	2.61	2.05	1.9	1.53	1.73	1.93
Other Income	43.88	67.4	61.7	79.05	63	63
PBT before exceptional items	579.82	610.91	802.36	748.65	869.95	1003.25
exceptional items	19.2	0	0	51.44	0	0
PBT Margin (%)	18.30%	21.47%	20.34%	19.50%	18.93%	18.66%
PBT after exceptional items	599.02	610.91	802.36	800.09	869.95	1003.25
Tax	165.37	167.05	211.38	221.70	243.59	290.94
Tax (%)	27.61%	27.34%	26.34%	28%	28%	29%
PAT before extraordinary items	433.65	443.86	590.98	578.39	626.36	712.31
Extraordinary item	0	0	0	0	0	0
PAT after extraordinary items	433.65	443.86	590.98	578.39	626.36	712.31
Share in profit of associates	0	0	0	0	0	0
PAT Margin (%)	13.25%	15.60%	14.98%	14.10%	13.63%	13.25%
PAT after minority interest & shrs in associates	433.65	443.86	590.98	578.39	626.36	712.31
Paid -up Equity Share Capital (Face Value of Rs.2.00)	39.6	39.6	39.6	55.44	55.44	55.44
EPS*	21.90	22.42	29.85	20.87	22.60	25.70
Adjusted EPS	15.64	16.01	21.32	20.87	22.60	25.70

*In Q1FY12, the company issued Bonus Shares in the proportion of 2 (two) Bonus equity shares of Rs. 2/- each for every 5 (five) existing equity shares of Rs. 2/- each fully paid up by capitalization of reserves of the Company.

Source: Company Data, Microsec Research

Balance Sheet

Balance Sheet as on 31st, March						
Particulars	FY2008-09A	FY2009-10A	FY2010-11A	FY2011-12E	FY2012-13E	FY2013-14E
SOURCES OF FUNDS:						
Share Capital	39.6	39.6	39.6	55.44	55.44	55.44
Reserves & Surplus	1355.05	1521.39	1766.67	1974.72	2230.75	2549.57
Shareholder's Funds	1394.65	1560.99	1806.27	2030.16	2286.19	2605.01
Secured Loans	21.2	8.62	18.26	18.26	15.76	17.26
Unsecured Loans	0.04	0.01	0	0.01	0	0.24
Loan Funds	21.24	8.63	18.26	18.27	15.76	17.5
Finance Lease Liability	1.67	0	0	0	0	0
Total	1417.56	1569.62	1824.53	2048.43	2301.95	2622.51
APPLICATION OF FUNDS						
Fixed Assets						
Gross Block	699.52	738.40	829.76	1114.45	1314.45	1514.45
(-) Accumulated Depreciation	432.36	443.96	473.38	513.49	554.79	607.10
Net block	267.16	294.44	356.38	600.96	759.66	907.35
Capital Work in Progress	41.86	39.22	84.69	100.00	100.00	80.00
Investments	399.27	732.92	725.44	725.44	725.44	725.44
Net Deferred Taxation	23.06	16.99	18.74	18.74	18.74	18.74
Fixed Assets & Investments	731.35	1083.57	1185.25	1445.14	1603.84	1731.53
Inventories	467.97	409.67	518.96	555.01	599.78	664.67
Sundry Debtors	682.11	522.9	718.16	792.27	875.15	934.88
Other Current assets	8.32	9.27	9.84	9.84	9.84	9.84
Cash & Bank balance	32.31	55.91	103.73	78.41	84.72	34.16
Loans & Advances	266.32	269.49	329.72	369.20	459.45	537.56
Total Current Assets, Loans & Advances	1457.03	1267.24	1680.41	1804.73	2028.94	2181.12
Current Liabilities	597.66	520.92	710.88	841.01	931.58	903.10
Provisions	173.17	260.28	330.25	360.43	399.25	387.04
Less: Total Current Liabilities & Provisions	770.83	781.2	1041.13	1201.44	1330.83	1290.14
Net Current Assets	686.2	486.04	639.28	603.29	698.11	890.98
Miscellaneous Expenditure	0	0	0	0	0	0
TOTAL	1417.55	1569.61	1824.53	2048.43	2301.95	2622.51

Source: Company Data, Microsec Research

Cash Flow Statement

Cash Flow For the Year Ended Mrch,31st

Particulars	FY2008-09A	FY2009-10A	FY2010-11A	FY2011-12E	FY2012-13E	FY2013-14E
A. Cash Flow From Operating Activities						
Net Profit Before Tax	599.02	610.91	802.36	800.09	869.95	1003.25
Depreciation	45.56	36.08	36.64	40.11	41.30	52.31
Loss/(Profit) on assets sold or discarded	1.98	-0.84	0.24			
Profit on sale of assets	0	0	0			
profit on sale of investments	-2.25	0.36	-0.03			
Profit on Power Generation power rental business	-19.2	0	0			
Provision for Doubtful debts	8.67	2.44	1.79			
Bad debts written off	0	0	0			
Unrealized exchange gain(net)	0	0	0			
Interest Expenses	2.61	2.05	1.9	1.53	1.73	1.93
Interest Income	-3.83	-3.15	-11.12			
Dividend Income	-24.08	-60.61	-50.47			
Operating Profit before WC changes	608.48	587.24	781.31	841.73	912.99	1057.48
(Increase)/Decrease in Inventories	-72.98	58.31	-109.3	-36.05	-44.76	-64.90
(Increase)/Decrease in Sundry Debtors	-115.72	156.76	-197.04	-74.11	-82.88	-59.74
(Increase)/ Decrease in loans and advances	-54.69	-5.3	-55.26	-39.48	-90.25	-78.11
Increase/ (Decrease) in Current & Liabilities	41.1	-66.05	216.94	160.31	129.39	-40.69
(Increase)/Decrease in Other Current Assets	2.4	-0.08	-0.57	0.00	0.00	0.00
Cash generated from operations	406.19	730.88	636.08	852.39	824.48	814.06
Direct taxes paid	185.04	154.95	218.09	221.70	243.59	290.94
Net Cash from Operating Activities	221.15	575.93	417.99	630.69	580.90	523.11
B. Cash Flow From Investing Activities						
Purchase of Fixed Assets	-90.82	-66.45	-148.58	-300.00	-200.00	-180.00
Sale of Fixed Assets	1.25	4.64	0.66	0.00	0.00	0.00
Sale consideration for power generation rental power business	30	0	0	0	0	0
(Purchase)/Sale of Investments	41.25	-334.02	7.5	0	0	0
Interest Received	4.61	2.29	11.12			
Dividend Received	24.08	56.71	50.47			
Net Cash used in Investing Activities	10.37	-336.83	-78.83	-300	-200	-180
C. Cash Flow From Financing Activities						
Bank Overdraft (Net)	-7.51	-12.57	9.64	0.01	-2.51	1.74
Finance Lease Liability	-3.11	-1.67	0	0	0	0
Loan repaid	-0.05	-0.03	-0.01			
Interest Paid	-2.61	-2.05	-1.89	-1.53	-1.73	-1.93
Dividend Paid (including tax on dividend)	-209.86	-199.18	-299.08	-354.50	-370.34	-393.49
Net Cash from/(Used) in financing activities	-223.14	-215.5	-291.34	-356.02	-374.58	-393.67
Net (Increase)/Decrease in cash & cash equivalents	8.38	23.6	47.82	-25.32	6.32	-50.56
Cash & Cash Equivalents at beginning	23.93	32.31	55.91	103.73	78.41	84.72
Cash & Cash Equivalents at End	32.31	55.91	103.73	78.41	84.72	34.16

Source: Company Data, Microsec Research

Ratio Analysis

Ratios	FY2008-09A	FY2009-10A	FY2010-11A	FY2011-12E	FY2012-13E	FY2013-14E
Profitability Ratios (%)						
Return on Assets (ROA)	30.59%	28.28%	32.39%	28.24%	27.21%	27.16%
Return on Capital Employed (ROCE)	37.99%	34.76%	40.70%	32.76%	35.13%	35.93%
Return on Equity (ROE)	31.09%	28.43%	32.72%	28.49%	27.40%	27.34%
Per Share						
Earnings Per Share	21.90	22.42	29.85	20.87	22.60	25.70
Adj. Earnings Per Share	15.64	16.01	21.32	20.87	22.60	25.70
Dividend Per share	9.00	12.00	15.00	16.00	16.00	17.33
Cash Earnings Per Share	24.20	24.24	31.70	22.31	24.09	28.11
BVPS	70.44	78.84	91.23	73.24	82.47	95.77
Adj. BVPS	50.31	56.31	65.16	73.24	82.47	93.98
Valuation Parameters						
Adj. P/E ratio	8.45	22.90	23.38	22.14	20.45	17.98
P/CEPS	5.46	15.13	15.73	20.71	19.18	16.43
Normalized P/BVPS	1.88	4.65	5.46	6.31	5.60	4.82
Adj. P/BVPS	2.63	6.51	7.65	6.31	5.60	4.92
Market Cap/Sales	1.12	3.57	3.44	3.11	2.78	2.37
EV/EBITDA	5.84	15.60	16.02	18.97	15.87	13.61
Liquidity Ratios						
Current Ratio	1.89	1.62	1.61	1.50	1.52	1.69
Acid Test Ratio	1.28	1.10	1.12	1.04	1.07	1.18
Debt-Equity Ratio	0.02	0.01	0.01	0.01	0.01	0.01
Efficiency Ratios (%)						
Asset turnover Ratio	2.83	1.90	2.32	2.12	2.11	2.18
Working Capital Turnover Ratio	5.37	4.15	8.12	6.42	7.62	7.70
Inventory Turnover Ratio	8.95	6.48	8.50	7.64	7.96	8.50
Margin Ratios (%)						
EBITDA Margin	17.84%	20.45%	19.75%	17.34%	18.50%	18.50%
EBIT Margin	16.45%	19.18%	18.82%	16.36%	17.60%	17.53%
PBT Margin	18.30%	21.47%	20.34%	19.50%	18.93%	18.66%
Net Profit Margin	13.25%	15.60%	14.98%	14.10%	13.63%	13.25%

Source: Company Data, Microsec Research

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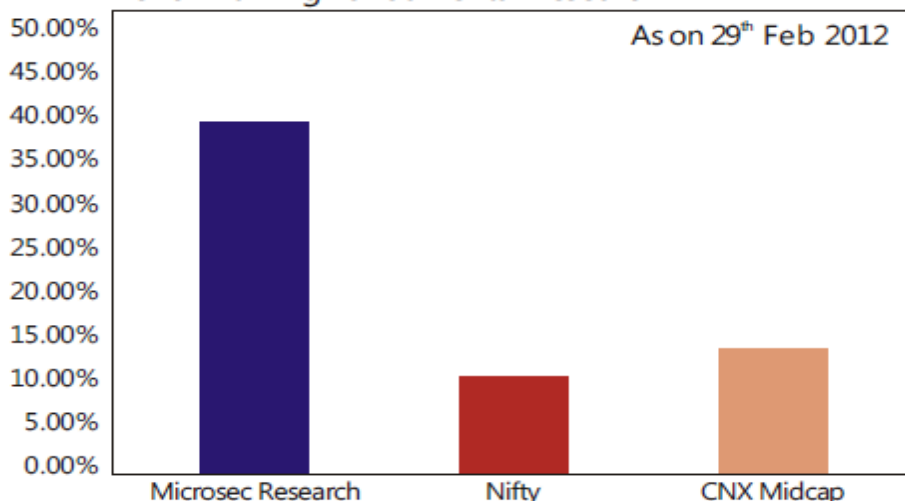
Recommendation	Expected absolute returns (%) over 12 months
Strong Buy	>20%
Buy	between 10% and 20%
Hold	between 0% and 10%
Underperform	between 0% and -10%
Sell	< -10%

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An amount of Rs 1,00,000 invested individually in all 139 stocks ie, 13,90,000 investment as and when recommended has appreciated to Rs 1,94,75,419 giving a return of 40.1 percent. On the same basis Nifty has given a return of 10.6 percent and CNXMID CAP has given a return of 14 percent.

Microsec benchmark its Research and the same is updated on our website at www.microsec.in. Come, strike the right balance through Benchmarking Research.

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