

May 31, 2011

Reco	Previous Reco
Buy	Buy
CMP	Target Price
Rs 685	Rs 800
EPS change FY12E/13E (%)	-7.5/ NA
Target Price change (%)	NA
Nifty	5,561
Sensex	18,503

Price Performance

(%)	1M	3M	6M	12M
Absolute	(0)	8	(8)	25
Rel. to Nifty	6	5	(1)	17

Source: Bloomberg

Relative Price Chart



Source: Bloomberg

Stock Details

Sector	Engineering & Capital Goods
Bloomberg	KKC@IN
Equity Capital (Rs mn)	396
Face Value(Rs)	2
No of shares o/s (mn)	198
52 Week H/L	810/543
Market Cap (Rs bn/USD mn)	139/3,084
Daily Avg Volume (No of sh)	51308
Daily Avg Turnover (US\$m)	0.8

Shareholding Pattern (%)

	Mar-11	Dec-10	Sep-10
Promoters	51.0	51.0	51.0
FII/NRI	11.7	12.3	12.2
Institutions	21.0	20.6	20.7
Private Corp	6.6	6.4	6.4
Public	9.8	9.7	9.8

Source: Capitaline

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- Cummins Q4FY11 results were below expectations - reports 23.0% yoy growth in APAT to Rs1.43 bn - led by lower revenue growth and consequent impact of operating leverage
- During FY11- Export business grew 140% and Domestic business grew 23% - which in turn had Power Cogen growing at 30% and Industrials growing 23%
- Gradual erosion of Ebidta margins from 23.3% in Q4FY10 to 18.2% in Q4FY11 - tone down in Ebidta margin assumptions for FY12E and FY13E
- Cut FY12E earnings by 7.5% to Rs34.5/Share and Introduce FY13E earnings of Rs40.0/Share - Retain BUY rating with target price of Rs800/Share

Cummins Q4FY11 results were below expectations, attributed to lower then expected revenues and gross margins

Cummins Q4FY11 results were below expectations - reports 23.0% yoy growth in APAT to Rs1.43 bn versus expectation of Rs1.59 bn. Below expected performance is attributed to combination of (1) lower then expected revenues in the quarter & impact of operating leverage and (2) higher then expected decline in gross margins. Cummins reported revenues of Rs10.5 bn, up 32.1% yoy - but lower then expectations of Rs11.3 bn. Consequently, employee and other expenditure as % of sales was 17.8% versus expectation of 15.4%.

Exports continue to benefit from favorable base, Domestic was led by Power Cogen, Industrials and CSS

Cummins continues to gain from favorable base in export business - thereby doubling export revenues and in-turn churning revenue growth of 32.1% yoy in Q4FY11. For FY11, Export business grew 140% to Rs10.6 bn and Domestic business (excluding CSS) grew 23% to Rs23.4 bn. This 23% growth in Domestic business had contribution from Power Cogen and Industrial Engines - which grew 30% and 23% respectively. The CSS business grew approximately 10-12% in the year.

Exit margins for Q4FY11 - warrants tone down of Ebidta margin assumptions

Cummins has seen gradual erosion of Ebidta margins in last 4 quarters - from 23.3% in Q4FY10 to 18.2% in Q4FY11 (includes other operational income). Consistent rise in material costs and reduction in gross margins is partly responsible for gradual erosion of Ebidta margins. Since, exit Ebidta margins for Q4FY11 is on lower side combined with inflationary times for input costs, we have toned down our Ebidta margin assumptions.

Updates on Megasite expansion & Kothrud expansions

Few updates on Megasite expansion at Phaltan - (1) reconditioning and rebuild units commences operations in Q3FY11 - expect ramp-up in ensuing quarters and (2) phase-1 of Tata Cummins JV for CV engines commences operations (3) small generators facility (less than 200 KVA) commences operations in Q4FY12. Whereas, capacity augmentation for high HP Power Cogen is underway at Kothrud plant, which is operating at 90% utilization. Cummins would spent Rs4.0-5.0 bn capex in FY12E, thereafter bring down to Rs1.5-2.0 bn.

Financial Snapshot

YE-	Net Sales	EBITDA (Core)	(%)	APAT	EPS (Rs)	EPS %Chg	ROE (%)	P/E	EV/ EBITDA	P/BV
FY10	28,449	5,278	18.6	4,439	22.4	2.4	30.0	30.6	25.6	8.7
FY11P	39,454	6,634	16.8	5,910	29.8	33.1	34.6	22.9	20.4	7.3
FY12E	46,352	7,801	16.8	6,833	34.5	15.6	33.7	19.9	17.3	6.2
FY13E	54,476	9,176	16.8	7,928	40.0	16.0	33.1	17.1	14.5	5.2

Cummins guides for 20% revenue growth, but sounds caution on Ebidta margins

- Retains revenue growth guidance for FY12E at 20% - Export business expected to grow at 15% and Domestic business to grow at 25% - We believe that Domestic business growth guidance is very aggressive for current business scenario
- Lowers Ebidta margins (including Other operational income) guidance for FY12E from 19% to 18%
- Capex guidance of Rs 4-5 bn in FY12E and Rs2.0 bn in FY13E

Cut FY12E earnings by 7.5% to Rs34.5/Share

With tone down in Ebidta margins for FY12E, we cut FY12E earnings by 7.5% from Rs36.6/Share to Rs34.5/Share. We have introduced FY13E earnings of Rs 40.0/Share and earnings CAGR of 16% in FY11-13E period. We do not expect any further downgrades to FY12E earnings. Cummins remains Relative Outperformer to Capital Goods universe, owing to high earnings growth, strong cash generation and superior capital efficiency. We retain BUY recommendation with price target of Rs800/Share.

Revision in Earning Estimates

Y/E, Mar (Rs. mn)	FY12E		
	Earlier	Revised	% Change
Net Sales	48,464	46,352	-4.4
EBITDA	9,582	7,801	-18.6
EBITDA Margin (%)	19.8	16.8	-290 bps
APAT	7,390	6,833	-7.5
EPS (Rs)	37.3	34.5	-7.5

Result Table

Rs mn	Q4FY10	Q1FY11	Q2FY11	Q3FY11	Q4FY11	YoY (%)	QoQ (%)	YTD'11	YTD'10	Gr (%)
Revenue	7,935	9,279	10,914	9,925	10,484	32.1	5.6	40,612	28,990	40.1
Expenditure	6,346	7,305	8,742	8,129	8,644	36.2	6.3	32,821	23,174	41.6
<i>as % of sales</i>	<i>80.0</i>	<i>78.7</i>	<i>80.1</i>	<i>81.9</i>	<i>82.5</i>			<i>80.8</i>	<i>79.9</i>	
Consumption of RM	4,915	5,726	6,928	6,367	6,782	38.0	6.5	25,804	18,023	43.2
<i>as % of sales</i>	<i>61.9</i>	<i>61.7</i>	<i>63.5</i>	<i>64.1</i>	<i>64.7</i>			<i>63.5</i>	<i>62.2</i>	
Employee Cost	509	530	672	643	701	37.7	9.0	2,546	1,953	30.4
<i>as % of sales</i>	<i>6.4</i>	<i>5.7</i>	<i>6.2</i>	<i>6.5</i>	<i>6.7</i>			<i>6.3</i>	<i>6.7</i>	
Other expenditure	921	1,049	1,141	1,119	1,161	26.0	3.7	4,470	3,199	39.7
<i>as % of sales</i>	<i>11.6</i>	<i>11.3</i>	<i>10.5</i>	<i>11.3</i>	<i>11.1</i>			<i>11.0</i>	<i>11.0</i>	
EBITDA	1,589	1,975	2,172	1,796	1,840	15.8	2.4	7,791	5,816	34.0
Depreciation	98	93	93	91	89			366	361	
EBIT	1,491	1,882	2,080	1,705	1,750	17.4	2.6	7,425	5,456	36.1
Other Income	138	97	205	103	213			617	674	-8.5
Interest	3	4	4	3	8			18	21	-12.2
PBT	1,626	1,974	2,281	1,805	1,955	20.3	8.3	8,024	6,109	31.3
Total Tax	463	572	602	416	525			2,114	1,670	
Adjusted PAT	1,163	1,402	1,679	1,389	1,431	23.0	3.0	5,910	4,439	33.1
Extra ordinary items	0	0	0	0	0			0	0	
Reported PAT	1,163	1,402	1,679	1,389	1,431	23.0	3.0	5,910	4,439	33.1
Adjusted EPS	5.9	7.1	8.5	7.0	7.2	23.0	3.0	29.8	22.4	33.1

Margins (%)	(bps)		(bps)		(bps)	
EBIDTA	20.0	21.3	19.9	18.1	17.5	-250
EBIT	18.8	20.3	19.1	17.2	16.7	-210
EBT	20.5	21.3	20.9	18.2	18.6	-180
PAT	14.7	15.1	15.4	14.0	13.6	-100
Effective Tax rate	28.5	29.0	26.4	23.0	26.8	-160

Key Financials

Income Statement

Y/E, Mar (Rs. m)	FY10	FY11P	FY12E	FY13E
Net Sales	28,449	39,454	46,352	54,476
Growth (%)	-20.1	38.7	17.5	17.5
Total Expenditure	23,170	32,821	38,552	45,300
Materials Cost	18,555	25,804	30,316	35,629
Power & Fuel Cost	1,953	2,546	2,991	3,516
Manpower Exps	2,663	4,470	5,244	6,155
Other Operating Exps	5,278	6,634	7,801	9,176
Others	-0.4	25.7	17.6	17.6
EBIDTA	18.6	16.8	16.8	16.8
Growth (%)	361	366	466	577
EBIDTA Margin (%)	4,918	6,267	7,335	8,599
Depreciation	17.3	15.9	15.8	15.8
EBIT	1,212	1,774	1,960	2,182
EBIT margin (%)	21	18	18	18
Other Income	6,109	8,024	9,276	10,763
Interest	1,670	2,114	2,444	2,836
EBT	27.3	26.3	26.3	26.3
Tax	4,439	5,910	6,833	7,928
Effective tax rate (%)	4.2	33.1	15.6	16.0
Adjusted PAT	15.6	15.0	14.7	14.6
Growth (%)	0	0	0	0
Net Margin (%)	4,439	5,910	6,833	7,928
E/O items	0	0	0	0
Reported PAT	4,439	5,910	6,833	7,928
Growth (%)	-4.1	33.1	15.6	16.0

Cash Flow

Y/E, Mar (Rs. m)	FY10	FY11P	FY12E	FY13E
PBT (Ex-Other income)	6,109	8,024	9,276	10,763
Depreciation	361	366	466	577
Interest Provided	21	18	18	18
Other Non-Cash items	-28	0	0	0
Chg in working cap	1,436	-2,768	-607	-1,145
Tax paid	-1,549	-2,114	-2,444	-2,836
Operating Cashflow	6,349	3,527	6,710	7,377
Capital expenditure	-618	-1,000	-3,500	-1,500
Free Cash Flow	5,731	2,527	3,210	5,877
Other income	0	0	0	0
Investments	-3,340	0	0	0
Investing Cashflow	-3,340	0	0	0
Equity Capital Raised	0	0	0	0
Loans Taken / (Repaid)	-142	0	0	0
Interest Paid	-21	-18	-18	-18
Dividend paid (incl tax)	-1,992	-2,970	-3,434	-3,984
Income from investments	0	0	0	0
Others	0	0	0	0
Financing Cashflow	-2,154	-2,988	-3,452	-4,002
Net chg in cash	237	-461	-242	1,875
Opening cash position	323	560	99	-143
Closing cash position	560	99	-143	1,732

Balance Sheet

Y/E, Mar (Rs. m)	FY10	FY11P	FY12E	FY13E
Equity Share Capital	396	396	396	396
Reserves & Surplus	15,214	18,154	21,553	25,496
Shareholders Funds	15,610	18,550	21,949	25,892
Secured Loans	0	0	0	0
Unsecured Loans	86	86	86	86
Loan Funds	0	0	0	0
Net Deferred Taxes	86	86	86	86
Capital Employed	-170	-170	-170	-170
	15,526	18,466	21,865	25,809
Gross Block				
Less: Depreciation	7,776	8,776	12,276	13,776
Net Block	4,440	4,806	5,272	5,849
Lease Adjustments	3,337	3,970	7,004	7,927
Capital WIP	0	0	0	0
Investment	7,329	7,329	6,329	6,329
Current Assets	12,673	16,439	19,397	24,483
Inventories	4,097	5,286	6,066	7,184
Sundry Debtors	5,229	7,949	8,734	10,146
Cash and Bank	559	98	856	2,732
Loans and Advances	2,695	3,014	3,648	4,329
Current Liab & Prov	93	93	93	93
Current Liabilities	7,812	9,272	10,865	12,930
Provisions	5,178	6,908	7,951	9,324
Net Current Assets	2,634	2,365	2,914	3,606
Miscellaneous Exps	4,861	7,167	8,532	11,552
Capital Deployed	0	0	0	0

Key Ratios

Y/E, Mar	FY10	FY11P	FY12E	FY13E
Profitability (%)				
EBITDA Margin	18.6	16.8	16.8	16.8
Net Margin	15.6	15.0	14.7	14.6
ROCE	41.6	47.3	46.1	45.2
ROE	30.0	34.6	33.7	33.1
RoIC	57.0	67.1	57.0	54.7
Per Share Data (Rs)				
EPS	22.4	29.8	34.5	40.0
CEPS	24.2	31.7	36.9	43.0
BVPS	78.8	93.7	110.9	130.8
DPS	12.0	15.0	17.3	20.1
Valuations (x)				
PER	30.6	22.9	19.9	17.1
P/CEPS	28.3	21.6	18.6	15.9
P/BV	8.7	7.3	6.2	5.2
EV / Sales	4.8	3.4	2.9	2.4
EV / EBITDA	25.6	20.4	17.3	14.5
Dividend Yield (%)	1.8	2.2	2.5	2.9
Gearing Ratio (x)				
Net Debt/ Equity	0.0	0.0	0.0	-0.1
Net Debt/EBIDTA	-0.1	0.0	-0.1	-0.3
Working Cap Cycle (days)	53.2	58.5	53.9	53.6

Recommendation History: Cummins India – KKC IN

Date	Reports	Reco	CMP	Target
04/02/2011	Cummins India Q3FY11 Result Update	Buy	649	800
28/10/2010	Cummins Q2FY11 Result Update	Hold	776	820
24/09/2010	ECI Strategy			
30/07/2009	Cummins Q1FY10 Result Update	Sell	263	195

Recent Research Reports

Date	Reports	Reco	CMP	Target
27/05/2011	Havells India Q4FY11 Result Update	Buy	399	470
26/05/2011	Blue Star Q4FY11 Result Update	Buy	318	360
23/05/2011	BHEL Q4FY11 Result Update	Hold	1,936	2,150
20/05/2011	Voltas Q4FY11 Result Update	Buy	162	200

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