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Rating	Accumulate
Price	Rs464
Target Price	Rs498
Implied Upside	7.3%
Sensex	17,198
Nifty	5,216

(Prices as on August 03, 2012)
Trading data

Market Cap. (Rs bn)	91.9
Shares o/s (m)	198.0
3M Avg. Daily value (Rs m)	150.9

Major shareholders

Promoters	51.00%
Foreign	12.83%
Domestic Inst.	21.56%
Public & Other	14.61%

Stock Performance

(%)	1M	6M	12M
Absolute	1.4	5.5	6.5
Relative	2.7	7.8	10.6

How we differ from Consensus

EPS (Rs)	PL	Cons.	% Diff.
2013	22.6	22.6	-0.2
2014	26.2	26.1	0.5

Price Performance (RIC: CUMM.BO, BB: KKC IN)


Source: Bloomberg

■ **Strong growth in exports and PowerGen business:** Cummins (KKC) reported robust sales growth of 20% YoY to Rs12.5bn, primarily driven by strong export growth of 26% YoY. The domestic growth for the quarter stood at 9% YoY. The strong growth in PowerGen (up 27% YoY) segment and distribution business (up 12% YoY) was partly offset by weak numbers in Industrial (down 15% YoY) and Auto segment (down 30% YoY). EBITDA margins improved by 70bps YoY to 18.5% driven by operating leverage on account of strong volumes and favourable product mix (higher contribution of HHP). Other income was up 1.5x on account of forex gain of Rs130m in the quarter. Adj. PAT was up 27% YoY to Rs1.8bn.

■ **Guidance:** KKC expects domestic market sales and exports to grow by ~10% and ~20% in FY13, respectively. The company believes that despite the weak outlook in overseas market, recent rupee depreciation will improve its competitiveness as against other locations and help achieve strong export growth. Also, KKC has launched new gen-set for the export market which will also aid sales from the export market. The company believes that the new gen-set can contribute ~Rs2bn to sales for FY13. KKC has taken a price hike of 2.5% since June 2012 in the PowerGen segment.

■ **Outlook and Valuation:** The stock is trading at 20.5X FY13E earnings. The stock offers strong long-term potential, given the huge opportunity in PowerGen market in India and export (being the low-cost hub) strong franchises, distribution network and a strong balance sheet. We maintain 'Accumulate' rating on the stock.

Key financials (Y/e March)

	2011	2012	2013E	2014E
Revenues (Rs m)	40,425	41,172	47,010	54,645
Growth (%)	39.4	1.8	14.2	16.2
EBITDA (Rs m)	7,605	6,972	8,462	9,945
PAT (Rs m)	5,910	5,398	6,264	7,265
EPS (Rs)	21.3	19.5	22.6	26.2
Growth (%)	29.6	(8.7)	16.0	16.0
Net DPS (Rs)	10.7	11.0	11.3	13.1

Profitability & Valuation

	2011	2012	2013E	2014E
EBITDA margin (%)	18.8	16.9	18.0	18.2
RoE (%)	35.1	27.7	29.1	30.6
RoCE (%)	35.0	27.6	28.4	28.9
EV / sales (x)	3.2	3.1	2.7	2.4
EV / EBITDA (x)	16.8	18.2	15.3	13.1
PE (x)	21.7	23.8	20.5	17.7
P / BV (x)	7.1	6.1	5.8	5.1
Net dividend yield (%)	2.3	2.4	2.4	2.8

Source: Company Data; PL Research

**Exhibit 1: Q1FY13 Result Overview (Rs m)**

Y/e March	Q1FY13	Q1FY12	YoY gr. (%)	Q4FY12	FY13E	FY12	YoY gr. (%)
Net Sales	12,588	10,453	20.4	10,404	47,010	41,172	14.2
Expenditure							
Raw Material	7,972	6,061	31.5	6,521	34,973	30,322	15.3
<i>% of Net Sales</i>	<i>63.3</i>	<i>58.0</i>		<i>62.7</i>	<i>74.4</i>	<i>73.6</i>	<i>1.0</i>
Personnel Cost	847	698	21.4	810	3,244	3,039	6.7
<i>% of Net Sales</i>	<i>6.7</i>	<i>6.7</i>		<i>7.8</i>	<i>6.9</i>	<i>7.4</i>	<i>(6.5)</i>
Others	1,444	1,838	(21.4)	1,125	4,983	4,706	5.9
<i>% of Net Sales</i>	<i>11.5</i>	<i>17.6</i>		<i>10.8</i>	<i>10.6</i>	<i>11.4</i>	<i>(7.3)</i>
Total Expenditure	10,263	8,597	19.4	8,456	43,200	38,067	13.5
EBITDA	2,325	1,856	25.2	1,948	8,462	6,972	21.4
<i>Margin (%)</i>	<i>18.5</i>	<i>17.8</i>	<i>0.7</i>	<i>18.7</i>	<i>18.0</i>	<i>16.9</i>	<i>6.3</i>
Other income	385	159	142.8	242	938	1,233	(23.9)
Depreciation	114	94	21.8	119	532	420	26.8
EBIT	2,596	1,921	35.1	2,071	8,868	7,786	13.9
Interest	14	4	285.7	21	168	54	211.1
PBT	2,582	1,918	34.6	2,049	8,700	7,732	12.5
Total Taxes	777	661	17.6	604	2,436	2,334	4.4
<i>ETR (%)</i>	<i>30.1</i>	<i>34.4</i>		<i>29.5</i>	<i>28.0</i>	<i>30.2</i>	<i>(7.2)</i>
PAT	1,806	1,771	1.9	1,446	5,398	5,398	-
Exceptional Item	-	-		-	-	(514)	
Reported PAT	1,806	1,771	1.9	1,446	6,264	5,913	5.9

Source: Company Data, PL Research

Income Statement (Rs m)

Y/e March	2011	2012	2013E	2014E
Net Revenue	40,425	41,172	47,010	54,645
Raw Material Expenses	25,808	26,454	30,322	34,973
Gross Profit	14,618	14,718	16,689	19,672
Employee Cost	2,546	3,039	3,244	3,552
Other Expenses	4,466	4,706	4,983	6,175
EBITDA	7,605	6,973	8,462	9,945
Depr. & Amortization	366	420	532	690
Net Interest	19	54	168	218
Other Income	804	1,747	938	1,054
Profit before Tax	8,024	8,246	8,700	10,091
Total Tax	2,114	2,334	2,436	2,825
Profit after Tax	5,910	5,912	6,264	7,265
Ex-Od items / Min. Int.	—	(514)	—	—
Adj. PAT	5,910	5,398	6,264	7,265
Avg. Shares O/S (m)	276.9	277.2	277.2	277.2
EPS (Rs.)	21.3	19.5	22.6	26.2

Cash Flow Abstract (Rs m)

Y/e March	2011	2012	2013E	2014E
C/F from Operations	4,179	4,425	7,326	7,672
C/F from Investing	(788)	77	(5,003)	(3,966)
C/F from Financing	(2,913)	(3,506)	(2,234)	(3,896)
Inc. / Dec. in Cash	478	996	88	(190)
Opening Cash	559	156	1,152	1,241
Closing Cash	1,037	1,152	1,241	1,050
FCFF	3,854	3,462	1,657	3,487
FCFE	4,036	3,426	3,193	3,987

Key Financial Metrics

Y/e March	2011	2012	2013E	2014E
Growth				
Revenue (%)	39.4	1.8	14.2	16.2
EBITDA (%)	30.7	(8.3)	21.4	17.5
PAT (%)	29.6	(8.7)	16.0	16.0
EPS (%)	29.6	(8.7)	16.0	16.0
Profitability				
EBITDA Margin (%)	18.8	16.9	18.0	18.2
PAT Margin (%)	14.6	13.1	13.3	13.3
RoCE (%)	35.0	27.6	28.4	28.9
RoE (%)	35.1	27.7	29.1	30.6
Balance Sheet				
Net Debt : Equity	—	(0.1)	—	—
Net Wrkng Cap. (days)	38	46	40	33
Valuation				
PER (x)	21.7	23.8	20.5	17.7
P / B (x)	7.1	6.1	5.8	5.1
EV / EBITDA (x)	16.8	18.2	15.3	13.1
EV / Sales (x)	3.2	3.1	2.7	2.4
Earnings Quality				
Eff. Tax Rate	26.3	28.3	28.0	28.0
Other Inc / PBT	10.0	16.0	10.8	10.4
Eff. Depr. Rate (%)	4.0	4.3	3.5	3.6
FCFE / PAT	68.3	63.5	51.0	54.9

Source: Company Data, PL Research.

Balance Sheet Abstract (Rs m)

Y/e March	2011	2012	2013E	2014E
Shareholder's Funds	18,063	20,930	22,178	25,266
Total Debt	183	147	1,683	2,183
Other Liabilities	—	—	—	—
Total Liabilities	18,245	21,077	23,861	27,449
Net Fixed Assets	4,411	5,146	9,617	12,893
Goodwill	—	497	—	—
Investments	7,255	5,976	5,976	5,976
Net Current Assets	6,393	9,388	8,032	8,344
<i>Cash & Equivalents</i>	<i>1,037</i>	<i>2,235</i>	<i>1,241</i>	<i>1,050</i>
<i>Other Current Assets</i>	<i>15,767</i>	<i>17,591</i>	<i>18,531</i>	<i>20,916</i>
<i>Current Liabilities</i>	<i>10,411</i>	<i>10,438</i>	<i>11,740</i>	<i>13,622</i>
Other Assets	187	70	236	237
Total Assets	18,245	21,076	23,861	27,449

Quarterly Financials (Rs m)

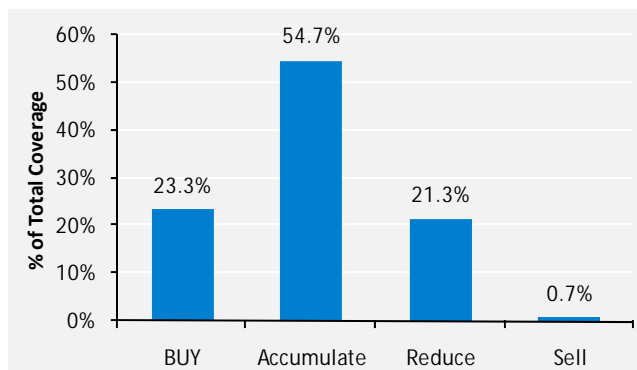
Y/e March	Q2FY12	Q3FY12	Q4FY12	Q1FY13
Net Revenue	10,903	9,998	10,404	12,588
EBITDA	1,759	1,789	1,948	2,325
<i>% of revenue</i>	<i>16.1</i>	<i>17.9</i>	<i>18.7</i>	<i>18.5</i>
Depr. & Amortization	98	109	119	114
Net Interest	5	3	21	14
Other Income	163	269	242	385
Profit before Tax	1,819	1,945	2,049	2,582
Total Tax	534	536	604	777
Profit after Tax	1,286	1,410	1,446	1,806
Adj. PAT	1,286	1,410	1,446	1,806

Source: Company Data, PL Research.



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Rating Distribution of Research Coverage



PL's Recommendation Nomenclature

BUY	: Over 15% Outperformance to Sensex over 12-months	Accumulate	: Outperformance to Sensex over 12-months
Reduce	: Underperformance to Sensex over 12-months	Sell	: Over 15% underperformance to Sensex over 12-months
Trading Buy	: Over 10% absolute upside in 1-month	Trading Sell	: Over 10% absolute decline in 1-month
Not Rated (NR)	: No specific call on the stock	Under Review (UR)	: Rating likely to change shortly

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