

# LM's Trade Mantra

04 Dec 2018



# Trading Ideas

## NIFTYIT (Dec) - BUY

CMP: 14816  
Target: 15300  
Stop-loss: 14575

*The index has closed comfortably above its 50 day EMA coupled with buy crossover signal on momentum oscillators*

## HINDZINC - BUY

CMP: 272.70  
Target: 286  
Stop-loss: 266

*Bullish price/momentum divergence on RSI has been confirmed by a breakout from a month long consolidation range*

## GAIL (Dec) - BUY

CMP: 355.30  
Target: 374  
Stop-loss: 346

*Large bullish candlestick following a long-legged 'doji' on above average volumes and buy crossover on daily MACD*

## CGPOWER - BUY

CMP: 41.10  
Target: 46  
Stop-loss: 39

*Healthy accumulation has been witnessed and a breakout from a stiff resistance of 40 signals a convincing buy.*



# Fundamental Idea

## CUMMINS INDIA LTD

**CMP:** Rs 809

**Target Price:** Rs 943

**Potential Upside:** 16%

**Time Horizon:** 3 months

**Recommendation:** Buy

### Overview

Formed in 1962, the largest entity, Cummins India Limited, is the country's leading manufacturer of diesel and natural gas engines. One of the eight legal entities of the Cummins Group in India, Cummins India Limited comprises of three business units - Engine, Power Systems, and Distribution.

- The **Engine Business** manufactures engines from 60 HP for low, medium and heavy-duty on-highway commercial vehicle markets and off-highway commercial equipment industry spanning construction and compressor.
- The **Power Systems Business** designs and manufactures high horsepower engines from 700 HP to 4500 HP for marine, railways, defense and mining applications as well as power generation systems comprising of integrated generator sets in the range of 7.5 kVA to 3750 kVA including transfer switches, paralleling switchgear and controls for use in standby, prime and continuous rated systems.



# Fundamental Idea

The **Distribution Business** was acquired in 1967, with the objective of providing products, packages, services and solutions for uptime of Cummins equipments. Through its country-wide network of 31 authorized dealerships, over 200 branch offices and 450 service touch points, the business provides parts, new and rebuilt engines, batteries, services and customer support solutions to products manufactured by Cummins.

**Revises guidance upwards for both domestic and export revenues**

## Key Highlights

- Domestic revenue stood at around Rs 1003 crore was up by 34%. All segments performed well. The company was able to gain market share as well.
- Of the total domestic sales, Rs 410 crore from power gen segments, industrial around Rs 240 crore, Rs 350 distribution for the quarter and rest from others.
- Exports stood at Rs 448 crore grew by 21% YoY.
- Lot of new products are in the pipeline which will drive the future growth.
- Exports for both HHP and LHP segment did well in Sep 18 quarter. HHP has grown by 12% YoY.
- Power gen segment has seen growth in all HP capacities in the domestic market as well.
- The company has revised domestic sales growth to 10-12% compared to earlier 8-10% for FY 19.

- Company's SEZ plant's 100% exemption got over and moved to 50% exemption for next 5 years. So going forward tax rate will be around 27%-28%.
- New products, addition of value components on industrial front, higher after market sales and sale of system solutions will help in increasing margins and drive sales going forward.

### **Valuation**

We expect Cummins India Ltd to report revenues of Rs 6361 crore for FY20 and net profit of Rs 943 crore. The Earnings per share works out to Rs 31.4. The EPS of Rs 31.4 which when discounted 30 times translates into a target price of 943 implying an upside of 16% from current levels.

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