



Mcleod Russel India Ltd

STOCK INFO.	BLOOMBERG
BSE Sensex : 16,900	MCLR@IN
S&P CNX : 5,191	REUTERS CODE
	MCLE.BO

28 October 2011

BUY*Initiating Coverage*

₹251

(Consolidated)	₹ CRORES		
Y/E MARCH	FY11A	FY12E	FY13E
Total Income (₹Cr)	1,299	1,505	1,552
EBITDA (₹ Cr)	390	460	469
PAT (₹Cr)	249	305	325
BV/Share (₹)	87	108	127
EPS (₹)	22.39	27.87	29.68
EPS growth (%)	6	24	6
P/E (x)	11.2	9.0	8.5
P/BV (x)	2.9	2.3	2.0
EV/EBITDA (x)	7.7	6.5	6.4
Div yld (%)	2	4	4
ROE (%)	28	29	25

KEY FINANCIALS

Shares Outstanding (cr)	10.9
Market Cap. (₹ cr)	2,747
Market Cap. (US\$ m)	549
Sales CAGR 3 Yrs to FY11 (%)	22
PAT CAGR 3 Yrs to FY11 (%)	74

STOCK DATA

52-W High/Low Range (₹)	295/191
Major Shareholders (as of March 2010)	
Promoter	46
Domestic Inst & Govt.	7
Foreign	31
Public & Others	16
Average Daily Turnover(6 months)	
Volume	305,452
Value (₹Cr)	8
1/6/12 Month Rel. Performance (%)	-6/2/16
1/6/12 Month Abs. Performance (%)	-8/-13/-3

Maximum Buy Price : ₹258

We recommend to BUY Mcleod Russel India Ltd with one year price target of ₹320(11x FY12E).

INVESTMENT ARGUMENT:

World's Largest Producer of Black Tea: MRIL is the world's largest producer of black tea (96m kg in FY11), accounting for ~8% of India's and 2.5% of the world's total black tea production. The area under its cultivation exceeds 38,000 hectares, spread across India (Assam and West Bengal), Vietnam, Rwanda and Uganda.

Growing domestic consumption; high entry barriers: India's tea consumption has grown at CAGR of 2.5% whereas production has grown at 1.8% over FY02-11E. Export surplus has continuously declined since 2002 (-2% CAGR), leading to 9% CAGR in tea prices. Availability of cultivable land for tea is very limited, which acts as a huge entry barrier. During YTD 2011, India's total production has increased marginally and prices have moved up by 10% YoY. Even a little supply disruption leads to high price increases. (See exhibits 1 and 2 on page 2)

High operating leverage: Tea production has high operating leverage, which ensures disproportionate profits in case of increase in prices. MRIL's production cost/kg and operating profits have grown at a CAGR of 7% and 65%, respectively since 2006, while prices have increased at a pace of 13%. We expect production cost and prices to grow 6% and 9%, respectively in FY12.

Payouts likely to increase: MRIL has used the surge in its net profit to deleverage itself. It has reduced debt-equity from 54% in FY06 to 17% in FY11, resulting in a 6x improvement in return ratios and 5x increase in dividends during the period. We expect payouts to increase further, as the company will become debt-free in FY12.

Upside from treasury stock: MRIL has 2.7 crore treasury shares (market value: ~₹675 crore), held in a trust controlled by the CFO, which is shown as part of promoter shareholding. We are neither factoring in any cash from this share sale nor any valuation upside due to this.

Valuations and View: MRIL is available at 11x/9x of FY11/FY12E EPS and at an EV of ~₹300/kg, which is attractive since the global benchmark for such assets is ~₹400/kg. We believe that the downside to the stock is limited, given the company's low leverage and firm tea prices. **We recommend Buy, with a 12-month price target of ₹320 (11x FY12E EPS).**

About the company

MRIL has been cultivating tea since 1869 and is a part of the BM Khaitan Group. It demerged from Eveready in CY04. In CY05, MRIL purchased Borelli Tea Holdings Limited (Borelli) and 17 estates in Assam, India. MRIL further acquired 100% stake in Phu Ben Tea Company Limited, Vietnam in CY09 and the Rwenzori Tea Investments Limited, Uganda in CY10 through Borelli. Borelli purchased 60% controlling stake in Gisovu Tea Company Limited, Rwanda during FY11.

CONCERNS

Labor intensive business: The tea industry is labor intensive - labor constitutes 50% of total production cost. Disruption in labor activities can lead to an abrupt fall in production.

Volatile tea prices: Unusual fall in tea prices will lead to lower than expected sales and profits. Tea prices are a function of demand and supply in the global as well as domestic markets. Tea production is subject to the vagaries of weather.

Increasing prices of Tea (Exhibit)

India					MRIL	
IN MN KG	PRODUCTION	CONSUMPTION	SURPLUS	PRICE ₹/KG	PRODUCTION	PRICE ₹/KG
2002	838	693	145	56	-	-
2003	878	714	164	56	-	-
2004	893	735	158	65	-	-
2005	946	757	189	58	40	80
2006	982	771	211	66	65	80
2007	986	786	200	67	70	86
2008	981	802	179	87	74	87
2009	979	822	157	106	75	111
2010E	966	843	124	104	77	137
2011E	985	864	121	118	96	129

Increasing prices of Tea (Chart)

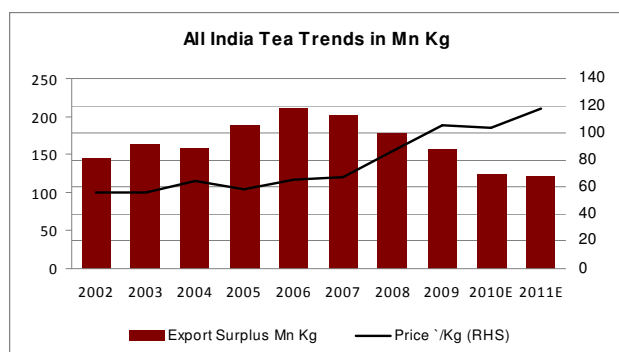
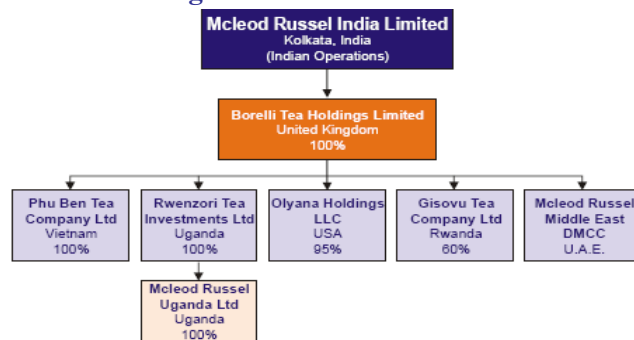


Exhibit 3: Organisation Structure



McLeod Russel India Ltd - Financials & Valuation

INCOME STATEMENT (Consolidated)		(₹ CRORES)				
Y/E MARCH	2009A	2010A	2011A	2012E	2013E	
Net Sales	827	1,106	1,241	1,456	1,500	
<i>Change(%)</i>	27	34	12	17	3	
Stock Adjustments	-5	2	-10	0	0	
Raw Materials	43	89	114	117	121	
Power & Fuel Cost	89	95	112	123	123	
Employee Cost	322	366	425	509	541	
Other Manufacturing Exp.	86	95	129	143	145	
Selling and Administration Exp.	91	101	115	127	128	
Miscellaneous Expenses	17	26	24	26	26	
Operating Profit	183	332	333	411	416	
<i>% of Net Sales</i>	22	30	27	28	28	
Other Income	34	41	57	49	53	
Interest	83	36	39	31	13	
Depreciation	33	32	38	43	46	
PBT	101	305	313	385	410	
Tax	16	71	64	77	82	
<i>Rate(%)</i>	15	23	20	20	20	
Minorities & Ass. Profit/Loss	(2)	(3)	(3)	(3)	(3)	
Extraordinaries Income/(Expense) (1)	(1)	(1)	1	-	-	
Adjusted PAT	84	232	245	305	325	

BALANCE SHEET (Consolidated)		(₹ CRORES)				
Y/E MARCH	2009A	2010A	2011A	2012E	2013E	
Share Capital	55	55	55	55	55	
Total Reserves (A)	1,142	1,315	1,462	1,694	1,896	
Revaluation Res (out of A)	573	568	564	564	564	
Net Worth	1,197	1,370	1,516	1,749	1,951	
Loans	417	402	316	166	66	
SOURCES OF FUNDS	1,614	1,772	1,833	1,915	2,017	
Gross Fixed Assets	2,058	2,271	2,285	2,380	2,460	
Less: Depreciation	416	508	539	582	628	
Net Fixed Assets	1,642	1,763	1,746	1,799	1,833	
Capital WIP	17	17	20	-	-	
Curr. Assets	295	396	457	571	659	
Inventories	69	80	97	96	104	
Debtors	26	27	22	27	30	
Cash & Investments	59	88	65	133	176	
Loans & Advances	141	201	274	315	350	
Liabilities and Provision	287	333	319	382	403	
Net Current Assets	8	64	138	189	257	
Net Deferred Tax Assets	-53	-72	-72	-72	-72	
APPLICATION OF FUNDS	1,614	1,772	1,833	1,915	2,017	

RATIOS		(₹ CRORES)				
Y/E MARCH	2009A	2010A	2011A	2012E	2013E	
EPS (₹)	8	21	22	28	30	
<i>Growth(%)</i>	311	175	6	24	6	
Cash EPS	5	18	19	24	25	
Book Value (Adj for Reval Res)	57	73	87	108	127	
DPS	2	4	5	10	10	
Payout (incl. Div. Tax.)(%)	30%	22%	29%	40%	40%	
Valuation (x)						
P/E	-	-	11	9	8	
Cash P/E	-	-	13	10	10	
EV/EBITDA	-	-	8	7	6	
EV/Sales	-	-	2	2	2	
Price/Book Value	-	-	3	2	2	
Dividend Yield (%)	-	-	2	4	4	
Return Ratios (%)						
RoE (Adj for Reval Res)	14	33	28	29	25	
OPM	22	30	27	28	28	
NPM	10	20	19	20	21	

CASH FLOW STATEMENT (Consolidated)		(₹ CRORES)				
Y/E MARCH	2009A	2010A	2011A	2012E	2013E	
Op Profit Before WC Changes	206	368	372	460	469	
Working Capital Changes:						
Inventories	(20)	6	(17)	1	(8)	
Debtors	7	(32)	(64)	(46)	(38)	
Current Liab & Provi	21	(2)	3	62	21	
Total working capital changes	8	(28)	(78)	17	(25)	
Direct Taxes Paid	(12)	(53)	(77)	(77)	(82)	
Cash from Operations	203	287	217	400	362	
(Inc)/Dec in FA	(52)	(197)	(59)	(75)	(80)	
Other Miscellaneous Items	(13)	(40)	(0)	0	0	
Cash from Investments	(65)	(237)	(59)	(75)	(80)	
Equity Issuance/Repayment	0	0	0	0	0	
Debt Issuance/Repayment	(56)	22	(83)	(153)	(103)	
Dividend Paid	(8)	(16)	(60)	(72)	(123)	
Interest Paid	(54)	(42)	(37)	(31)	(13)	
Cash from Financing	(118)	(36)	(180)	(257)	(239)	
Inc/Dec of Cash	19	14	(21)	68	43	
Add: Beginning Balance	20	39	53	31	99	
Closing Balance	39	53	31	99	142	



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Mcleod Russel India Ltd

1. Analyst ownership of the stock	No
2. Group/Directors ownership of the stock	Yes
3. Broking relationship with company covered	No
4. Investment Banking relationship with company covered	No

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