

# Harrisons Malayalam Ltd

## Q2FY12 first cut – Tea segment disappoints

**Fundamental Grade** 3/5 (Good fundamentals)  
**Valuation Grade** 5/5 (CMP has strong upside)

**Industry** Food Products

Harrisons Malayalam Ltd's (Harrisons') Q2FY12 revenues were in line with CRISIL Research's expectation, while operating profitability and PAT were significantly below expectations. The company reported negative PAT of Rs 44 mn mainly driven by losses in the tea segment, which offset profits from the rubber segment. We may revisit our estimates downwards post interaction with the management. We maintain our fundamental grade of **3/5**.

### Q2FY12 result analysis

- Harrisons' Q2FY12 revenues de-grew by 5.7% y-o-y to Rs 854 mainly due to decline in revenue from the tea segment by 13% y-o-y to Rs 305 mn (37% of revenues). Revenue from rubber grew marginally by 1% y-o-y to Rs 459 mn (55% of revenues) in Q2FY12. The engineering division also witnessed de-growth of 26% y-o-y to Rs 53 mn.
- The company reported negative EBITDA of Rs 12 mn and EBITDA margin was flat y-o-y at negative 1.4%.
- At EBIT level, Harrison incurred a loss of Rs 28 mn as against a loss of Rs 27 mn in the corresponding period last year. The better performance in rubber division was offset by poor performance by tea segment. The tea segment reported a loss of Rs 132 mn at the EBIT levels from loss of Rs 95 mn in Q2FY11. The tea segment's EBIT margin significantly declined from (-)27% in Q2FY11 to (-)43%. We await more clarity from the management on reasons behind deteriorating performance of the tea segment during the quarter post our interaction with the management. The rubber segment's reported better performance as EBIT grew 45% y-o-y to Rs 112 mn as EBIT margin expanded from 17% in Q2FY11 to 24%.
- During the quarter loss for the company declined from Rs 60 mn to Rs 44 mn as it reversed income tax liability provision provided during Q1FY12 in the current quarter.
- Accordingly, EPS was negative Rs 2.4 vis-a-vis negative Rs 3.2 in Q2FY11.

### Valuation: Current market price has strong upside

We continue to use the discounted cash flow method for valuation. We may revisit our valuation post interaction with management. At the current market price of Rs 74, the valuation grade is **5/5**.

### KEY FORECAST

| (Rs mn)            | FY09    | FY10  | FY11   | FY12E | FY13E  |
|--------------------|---------|-------|--------|-------|--------|
| Operating income   | 2,920   | 3,314 | 3,726  | 3,802 | 4,028  |
| EBITDA             | 249     | 268   | 230    | 339   | 227    |
| Adj PAT            | 60      | 74    | 39     | 125   | 62     |
| Adj EPS-Rs         | 3.3     | 4.0   | 2.1    | 6.8   | 3.4    |
| EPS growth (%)     | (258.0) | 64.1  | (59.4) | 215.1 | (49.9) |
| Dividend yield (%) | 4.3     | 1.7   | 2.4    | 1.8   | 0.9    |
| RoCE (%)           | 8.4     | 8.5   | 6.0    | 10.2  | 6.2    |
| RoE (%)            | 3.6     | 4.4   | 2.3    | 7.4   | 3.6    |
| PE (x)             | 12.6    | 33.7  | 34.4   | 11.6  | 23.2   |
| P/BV (x)           | 0.5     | 1.5   | 0.8    | 0.8   | 0.8    |
| EV/EBITDA (x)      | 6.4     | 12.9  | 10.4   | 6.7   | 9.7    |

NM: Not meaningful; CMP: Current market price

Source: Company, CRISIL Research estimate

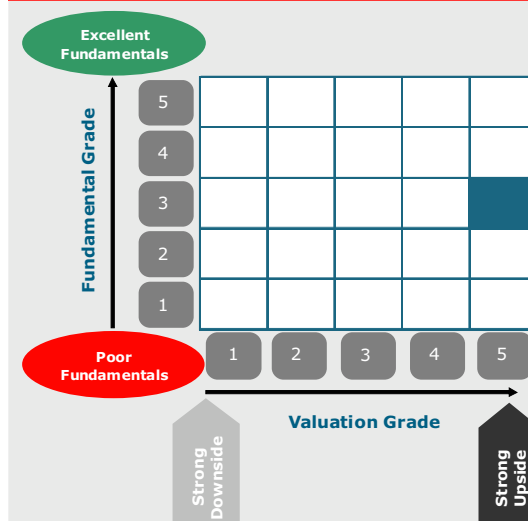


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Fair Value Rs 98

CMP Rs 74

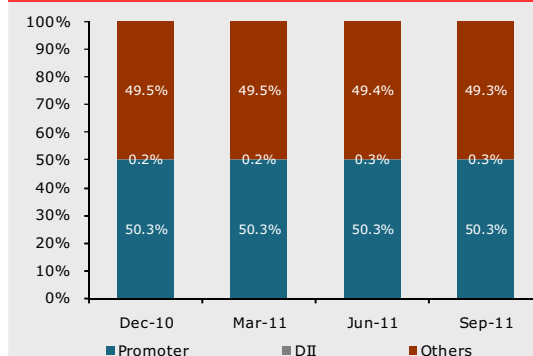
### CFV MATRIX



### KEY STOCK STATISTICS

|                                    |                        |
|------------------------------------|------------------------|
| NIFTY / SENSEX                     | 5069/16883             |
| NSE / BSE ticker                   | HARRMAL/<br>HARRMALAYA |
| Face value (Rs per share)          | 10                     |
| Shares outstanding (mn)            | 18.5                   |
| Market cap (Rs mn)/(US\$ mn)       | 1,359/27               |
| Enterprise value (Rs mn)/(US\$ mn) | 2,402/48               |
| 52-week range (Rs) (H/L)           | 94/58                  |
| Beta                               | 0.8                    |
| Free float (%)                     | 49.7%                  |
| Avg daily volumes (30-days)        | 61,962                 |
| Avg daily value (30-days) (Rs mn)  | 4.5                    |

### SHAREHOLDING PATTERN



### PERFORMANCE VIS-À-VIS MARKET

|           | Returns |       |     |      |
|-----------|---------|-------|-----|------|
|           | 1-m     | 3-m   | 6-m | 12-m |
| Harrisons | -4%     | 6%    | -2% | -16% |
| NIFTY     | -1%     | -0.1% | -9% | -17% |

### ANALYTICAL CONTACT

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