

Harrisons Malayalam Ltd

Q3FY12 First Cut – Rubber segment driving profits

Fundamental Grade 3/5 (Good fundamentals)

Valuation Grade 4/5 (CMP has upside)

Industry Food Products

Harrisons Malayalam Ltd's (Harrisons') Q3FY12 revenues were below our expectations while profitability was ahead of our estimates. Revenues were flat compared to Q3FY11, as growth in the tea segment was offset by de-growth in the rubber and engineering divisions. We may revise our estimates post interaction with the management. We maintain the fundamental grade of **3/5**.

Q3FY12 result analysis

- Revenues declined 1% y-o-y to Rs 941 mn due to dip in rubber and engineering divisions' revenues. While the rubber segment's revenues declined by 4% y-o-y, the engineering segment's revenues decreased by 34%. This was partially offset by 13% growth in the tea segment.
- EBITDA margins expanded by 534 bps y-o-y on account of the decline in raw material costs which were lower by 1,306 bps as a percentage of sales
- Harrisons posted EBIT margin of 12%, 529 bps expansion over the corresponding period last year. This is primarily on account of the rubber segment, where operating profit margin increased by 373 bps y-o-y. While the tea segment continued to report a loss, EBIT loss decreased from 23% in Q3FY11 to 10% in Q3FY12.
- PAT margin grew by ~186 bps y-o-y to 7.7%. Consequently, EPS for Q3FY12 was Rs 4.0 compared to Rs 3.0 in Q3FY11, implying a y-o-y growth of 30.5%.

Key developments

Harrisons' board of directors approved the demerger and vesting of six rubber estates and seven tea estates of Harrisons into Harrisons Plantations Ltd either directly or indirectly with effect from April 1, 2012. Further, shareholders of Harrisons will be entitled to shares in Harrisons Plantations Ltd in the same proportion as their current shareholding in Harrisons. The scheme is subject to shareholder and regulatory approvals. We await more clarity from the company on this development.

Valuations: Current market price has upside

We continue to use the discounted cash flow method for valuation. At the current market price of Rs 76, the valuation grade is **4/5**.

KEY FORECAST

(Rs mn)	FY09	FY10	FY11	FY12E	FY13E
Operating income	2,920	3,314	3,726	3,783	4,004
EBITDA	249	268	230	228	201
Adj PAT	60	74	39	30	15
Adj EPS-Rs	3.3	4.0	2.1	1.6	0.8
EPS growth (%)	(258.0)	64.1	(59.4)	(26.1)	(49.6)
Dividend yield (%)	2.3	3.1	2.3	0.5	0.2
RoCE (%)	8.4	8.5	6.0	5.7	4.8
RoE (%)	3.6	4.4	2.3	1.7	0.8
PE (x)	23.3	19.1	35.6	47.3	93.8
P/BV (x)	0.8	0.9	0.8	0.8	0.8
EV/EBITDA (x)	9.0	8.9	10.6	10.6	11.9

NM: Not meaningful; CMP: Current market price

Source: Company, CRISIL Research estimate

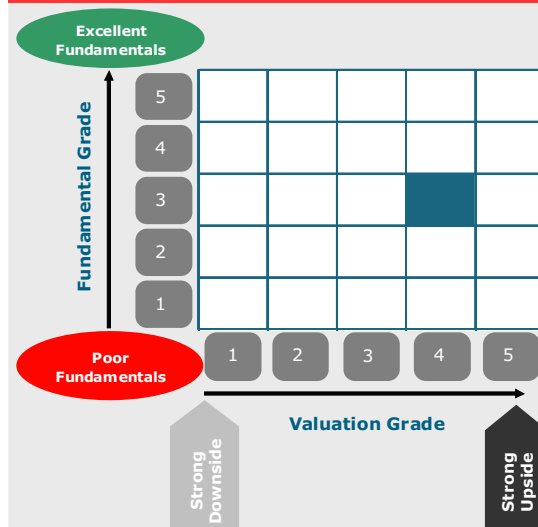


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Fair Value Rs 86

CMP Rs 76

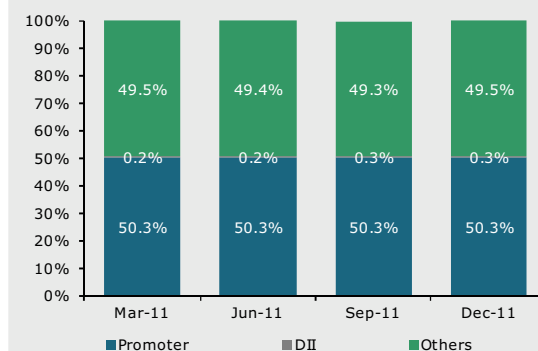
CFV MATRIX



KEY STOCK STATISTICS

NIFTY / SENSEX	5381/17749
NSE / BSE ticker	HARRMAL/HARRMALAYA
Face value (Rs per share)	10
Shares outstanding (mn)	18.5
Market cap (Rs mn)/(US\$ mn)	1,406/29
Enterprise value (Rs mn)/(US\$ mn)	2,406/49
52-week range (Rs) (H/L)	90/50
Beta	1.2
Free float (%)	49.7
Avg daily volumes (30-days)	106,252
Avg daily value (30-days) (Rs mn)	8.0

SHAREHOLDING PATTERN



PERFORMANCE VIS-À-VIS MARKET

	Returns			
	1-m	3-m	6-m	12-m
HARRISONS	7%	-6%	11%	13%
NIFTY	11%	3%	4%	3%

ANALYTICAL CONTACT

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