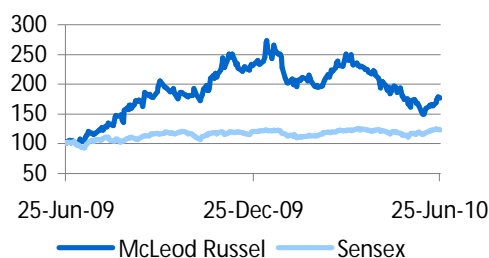


**CMP Rs. 197**

June 25, 2010

BSE Code	532654
BSE ID	MCLEOD
High/Low 1Y (Rs.)	311 / 107
Avg. vol (3m)	204,160
Market Cap (Rs Cr)	2,159
Net IB Debt (Rs Cr)	359
Enterprise value(Rs Cr)	2,518

Shareholding %	Dec-09	Mar-10
Promoters	45.36	45.36
MFs/ Fis/ Banks	12.09	10.11
FII's	25.25	27.57
Public & Others	17.30	16.96

**Stock Chart ( Relative to Sensex)**


Stock Perfm.(%)	1M	6M	1Yr
Absolute	6.9%	-23.7%	76.2%
Rel. to Sensex	-0.3%	-25.8%	53.7%

Financials (Rs.Cr)	03/08	03/09	03/10
Revenue	673	856	1,137
y-o-y	2.7%	27.2%	32.8%
EBITDA	84	209	363
y-o-y	-34.2%	149.0%	73.2%
PAT	46	83	231
EPS (Dil.)	4.2	7.6	21.1
y-o-y	-45.5%	80.0%	176.5%
EBITDA Margin	12.5%	24.5%	31.9%
PAT Margin	6.9%	10.0%	20.6%
D/E(x)	0.40	0.35	NA
P/E(x)	46.5x	25.9x	9.3x
EV/EBITDA(x)	29.9x	12.0x	6.9x
ROCE	3.7%	10.9%	NA
ROE	4.1%	7.0%	NA

Financial Year ends at March 31

Qtry Fin	06/09	09/09	12/09	03/10
Revenue	122	351	347	347
PAT	31	192	138	(121)
EPS	3	18	13	(11)

 All figures in Rs. crores except for per share data  
 Qtry fig. shows standalone results

**McLeod Russel India Limited**
**Company Overview**

McLeod Russel India Limited (MRIL) is the largest tea plantation company in the world; it owns 63 Tea Estates globally with total productive area of 38,964 hectares. In FY10, the company produced 96.5 million kgs of tea. The company is primarily a producer of CTC tea, which accounts for nearly 90 per cent of its total production. The company changed its name to its current form in 2005.

**Key Business Highlights**
**High yield tea estates**

The company owns 54 Tea Estates in India in high yielding locations of Assam and West Bengal with a total crop cultivated area of about 34,000 hectares. The yield per hectare is at 2,200kg which is significantly higher than the Indian tea industry average of 1,700kg per hectare.

**Demand growth of tea to surpass supply**

Indian tea production has stagnated over the past five years and has been range bound between 928 million kgs and 982 million kgs, at the same time domestic consumption has increased from 780 million kgs in CY2005 to 850 million kgs in CY2009, resulting in an escalation in the selling price. The demand and supply gap will widen in the coming years as production levels have not increased due to limited scope of increasing acreage under cultivation and insufficient investment in replenishing low yielding plants.

**Strategic growth through Inorganic route**

During the past five years, the company has increased its production capacity from 40 million kg (FY05), to 96.5 million kg (FY10) primarily through aggressive acquisitions of domestic and foreign tea estates. The overseas acquisitions of small and medium companies are primarily funded by internal accruals thus mitigating some of the acquisition risks.

**Re-plantation results in higher productivity**

McLeod has a favourable age constitution of its bushes, with around 75 per cent of its bushes being within the age bracket of 4-50 years. McLeod has a policy to undertake annual re-plantation of 1.5 per cent of the land under tea cultivation in order to maintain a favourable age profile of its bushes.

**Key Risks**

- Tea plantation is dependent on the vagaries of nature as cultivation needs humid weather and high rainfall for better production.
- Employee cost constitute a substantial portion of McLeod's costs, any further appreciable rise in labour costs would affect margins.
- MRIL exports nearly 40 per cent of its production, any major fluctuations in currency will negatively impact the profitability of the company.

**Valuations**

The stock is currently trading at a P/E multiple of 9.3x on its FY10 EPS of Rs. 21.1 and 6.9x EV/EBITDA multiple based on FY10 EBITDA of Rs. 363 crores.