

Result update Neutral

CMP	301
Target Price	-
Previous Target Price	-
Upside	-
Change from Previous	-

Market Data

BSE Code	532654
NSE Symbol	MCLEODRUSS
52wk Range H/L	387/267
Mkt Capital (Rs Crores)	1945
Average Daily Volume	248428
Nifty	6083

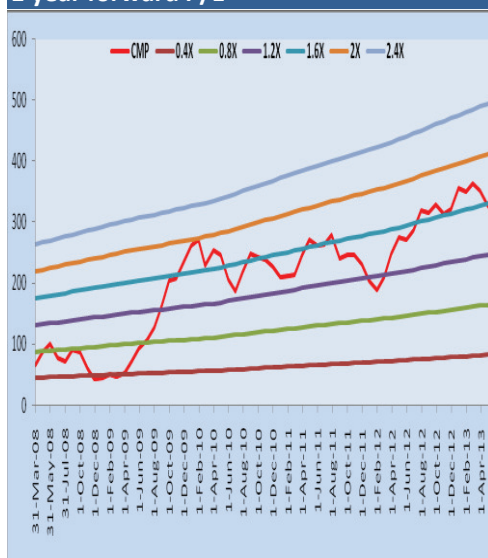
Stock Performance

	1M	1yr	YTD
Absolute	-5.75	9.46	-5.83
Rel. to Nifty	-8.33	-14.14	-21.63

Share Holding Pattern-%

	Current	4QFY13	3QFY13
Promoters	45.71	45.71	45.71
FII	34.98	33.57	33.82
DII	3.59	4.96	5.31
Others	15.72	15.76	15.16

1 year forward P/E



Realization uptick, normalized volume, stable cost/kg imply a profitability boost in FY14E:

For the FY13, Company's sales grew by 15% and PAT was down by 5%. EBITDA is lower at Rs381cr against the Rs389cr on consolidated basis, adversely impacted by loss of production in India and Uganda.

Tea output in FY14 is expected to be better because of favourable weather conditions. Management says that normal weather conditions in most leading black tea producing countries have led to better production in the first quarter.

The fourth quarter of a fiscal is seasonally weak for Mcleod Russel India Ltd (MRIL). Along with the regular operating cost, the company builds up inventory for the new season, which leads to a loss at the operating level in Q4 of every fiscal.

Q4FY 13 numbers: McLeod Russel, world's largest tea grower witnessed inline numbers than street estimates in 4QFY13, reported 10.7% (YoY) sales growth. It narrowed its net loss to Rs.147.07 crore for the quarter ended March 31, 2013, compared to Rs.157.39 crore registered in the corresponding period the previous year. Kenya has seen a 61.8% increase in production.

Average realization: Average realization per kg increased by 19% (YoY) to Rs158 and for the year ended FY13, Average realization per kg increased by 26% (YoY) to Rs174. **Tea Prices during the quarter had been Rs 25-26 higher as compared to last year.**

Tea Prices outlook: McLeod has reported that tea prices are ruling soft but it expects the trend to change as the quality of tea offered in auctions improves as the season progresses. In India, it expects prices to stabilize because of a combination of a lower inventory and a strong consumption.

Outlook and Valuation: We expect that the company will get a significant profitability boost driven by a realization uptick, assumption of a normalized production and stable cost/kg. Lower tea production might lead to flat sales volume, but we expect the higher anticipated sales realization to boost the top line growth and the margins in FY14E. However, any significant drop in tea production for McLeod could act as a key risk. At a CMP of Rs 349, stock trades at 9.2x FY14E earnings. We rate the stock "Neutral" with meaningful upsides in volume and continued uptrend in tea prices key upside risks to our view.

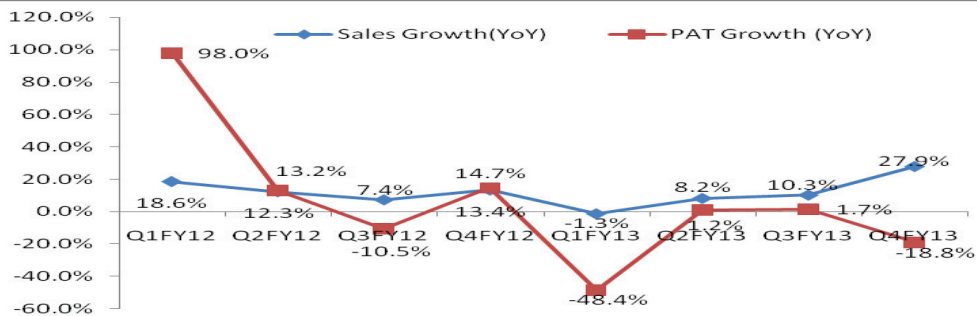
Financials

	4QFY13	3QFY13	(QoQ)-%	4QFY12	Rs, Crore (YoY)-%
Revenue	323	434.1	(25.6)	252.55	27.9
EBITDA	-110.25	136.42	(180.8)	-104.82	5.2
PAT	-115.55	123.15	(193.8)	-157.4	-26.6
EBITDA Margin	-34.1%	31.4%	-	-41.5%	-
PAT Margin	-35.8%	28.4%	-	-62.3%	-

(Source: Company/Eastwind)

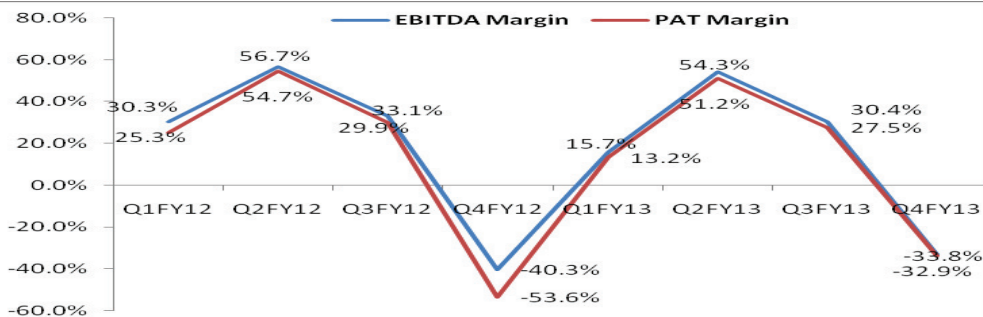
McLEOD RUSSEL .

Sales and PAT growth-%(QoQ)



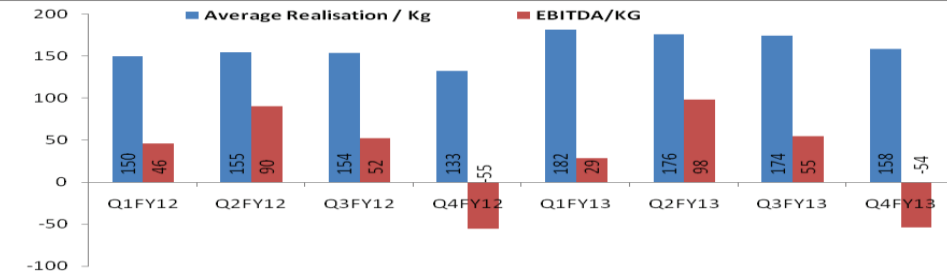
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Margin-%

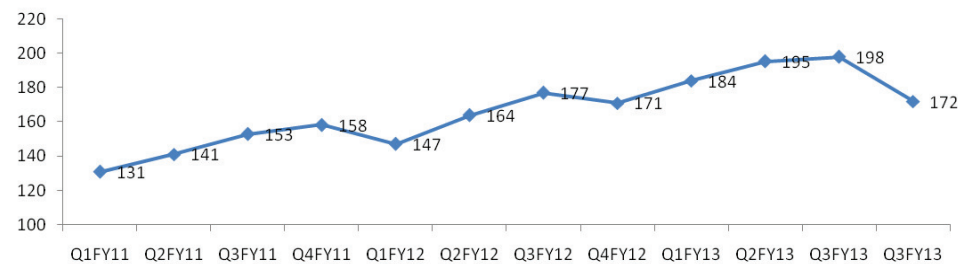


(Source: Company/Eastwind)

Average Realisation and EBITDA/KG



Average Tea Price(Rs)



(Source: Company/Eastwind)

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Key facts from Management;

- > Management is very confident to report 25-30% growth in profitability and EBITDA in FY14E,
- > Company expects to be favorable monsoon in FY14E. At same time, company is looking to recover last year's 10% loss on crop production.
- > Production target for FY14 at 114-115 million kilograms, and price per kg are expected to be around Rs 180.
- > Company expects overall production in Kenya to be normal. It will be 30-40 million kilograms higher than last year, but the prices should inch up by another 5-10% per kilogram.
- > Expectation of normal weather conditions in most leading black tea producing countries have led to better production in the first quarter.
- > In India, it expects prices to stabilize because of a combination of a lower inventory and a strong consumption.
- > On the cost front, it expects a more normal year in FY14 due to a 6% increase in wages and normal increase in input costs.

Financials;

Rs, Cr	FY10	FY11	FY12	FY13	FY14E	FY15E
Volume (mn)kg	83	95	103	102	112	115
Realization/Kg	133	130	138	159.71	167.70	184.47
Realisation growth-%	1.20	0.98	1.06	1.16	1.05	1.1
Revenue	1103.90	1235.00	1421.40	1629.04	1878.19	2121.35
Employee Cost	365.85	413.18	458.87	520.19	619.80	700.04
EBITDA	361.38	360.30	389.40	381.31	476.64	524.30
PAT	233.89	249.18	249.18	325.17	406.46	434.91
Growth-%						
Sales-%	32.6%	11.9%	15.1%	14.6%	15.3%	12.9%
EBITDA-%	72.6%	-0.3%	8.1%	-2.1%	25.0%	10.0%
PAT-%	173.2%	6.5%	0.0%	30.5%	25.0%	7.0%
Margin-%						
EBITDA Margin	32.7%	29.2%	27.4%	23.4%	25.4%	24.7%
PAT Margin	21.2%	20.2%	17.5%	20.0%	21.6%	20.5%
Valuation						
CMP	64.55	270.75	252.2	301	301	301
OS	10.9	10.9	10.9	10.95	10.95	10.95
BV	1370.08	1516.48	1746.65	1950.93	2280.74	2628.06
EPS	21.46	22.86	22.86	29.70	37.12	39.72
BVPS	125.70	139.13	160.24	178.17	208.29	240.01
RoE-%	17.1%	16.4%	14.3%	16.7%	17.8%	16.5%
Dividend Payout-%	9.9%	18.5%	20.0%	23.5%	18.9%	20.1%
P/E	3.01	11.84	11.03	10.14	8.11	7.58
P/BV	0.51	1.95	1.57	1.69	1.45	1.25

(Source: Company/Eastwind)