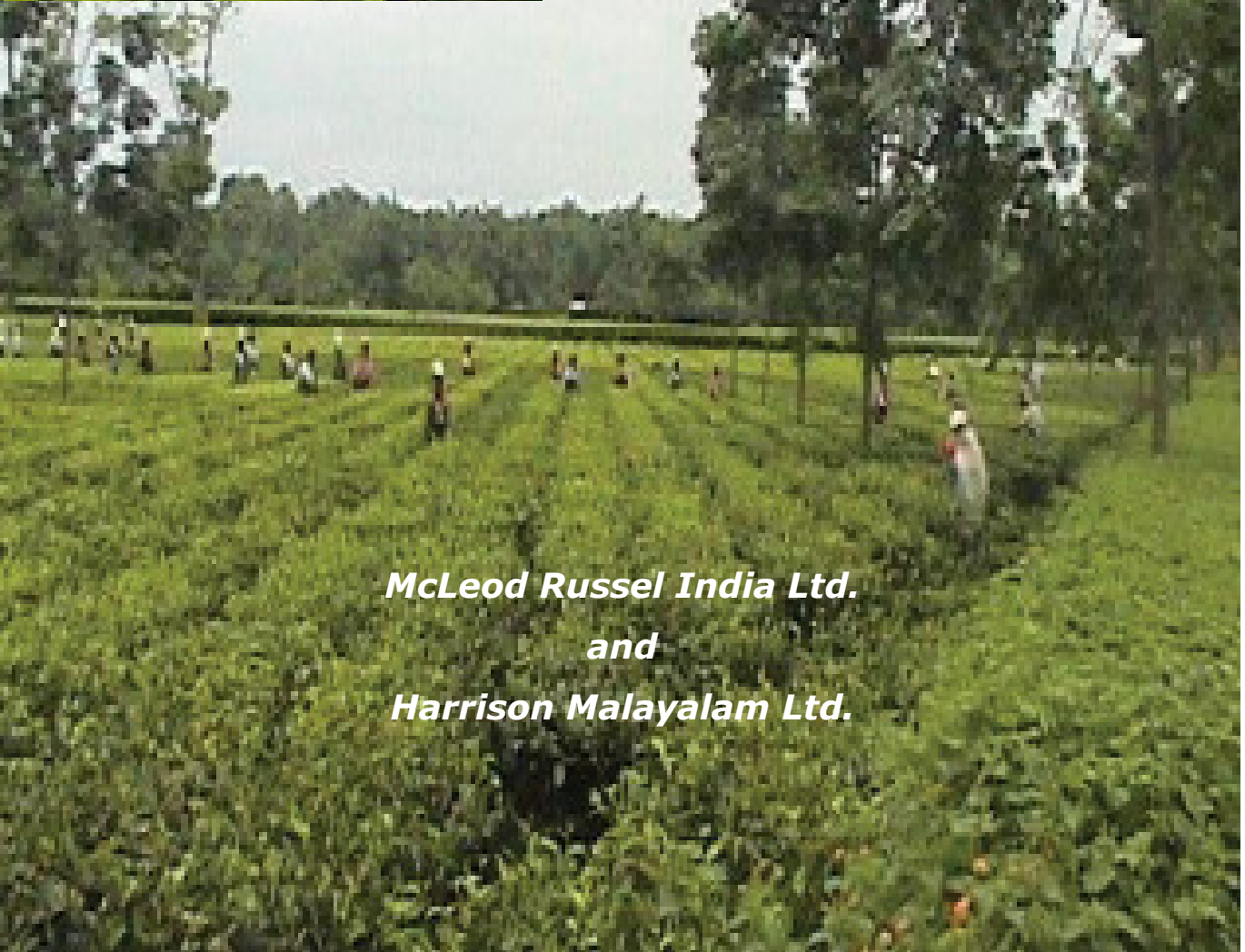




arm research

outperform

TEA INDUSTRY



***McLeod Russel India Ltd.
and
Harrison Malayalam Ltd.***

1 October 2007

TEA INDUSTRY

Importance to Economy

The tea industry has a very prominent place in the Indian economy. Even the poorest of the Indian household buys tea for his daily consumption. Tea is the country's primary beverage (almost 85% of total households in the country buy tea), which makes India the largest consumer of tea in the world.

In terms of employment, it is the second largest industry by employing more than a million people directly and 2 million people indirectly, of which 50% are women.

The tea industry, to a large extent, drives the economies of the regions where the tea gardens are concentrated, for example Assam.

Export Growth

India is largest manufacturer (28 per cent) of tea in the world and an important exporter (13 per cent of world exports). Further, certain varieties of tea (e.g. Darjeeling) are grown only in India and are in great demand across the world.

Tea prices subjective to agroclimatic conditions

Unlike other commodities, tea price cycles have no linkage with the general economic cycles, but with agroclimatic conditions. As per the study by Food and Agriculture Organisation (FAO), of the 27 agricultural commodities studied, tea showed the second lowest variability in prices.

India to tap Russian Market.

Russian delegation comprising of the Association of Russian Tea and Coffee companies and members of Indian Tea Board have signed a MOU for taking appropriate steps **to promote export of Indian Tea into Russian market.**

McLeod Russel India and Harrison Malayalam looks attractive

Currently we have covered **McLeod Russel India Ltd** and **Harrisons Malayalam Ltd** as we feel they are well positioned to capture the emerging opportunities.

The performance of these two companies would largely depend on favourable sector performance and successful capacity ramp up.

Growth potential in Russian Market

If one recollects, prior to the collapse of Soviet Union, India was the leading tea exporter to that country. However post 2000 the share of Indian tea declined to 30000 tn in 2006 from 113,000 tn and this was to the advantage of countries like Sri Lanka, Kenya, Vietnam, China and Indonesia. Traditionally the Russian consumer had acquired a taste for Indian tea and always preferred it over brands from other Asian countries. However India lost the market due to poor quality of tea supplies compared to its Asian counterparts.

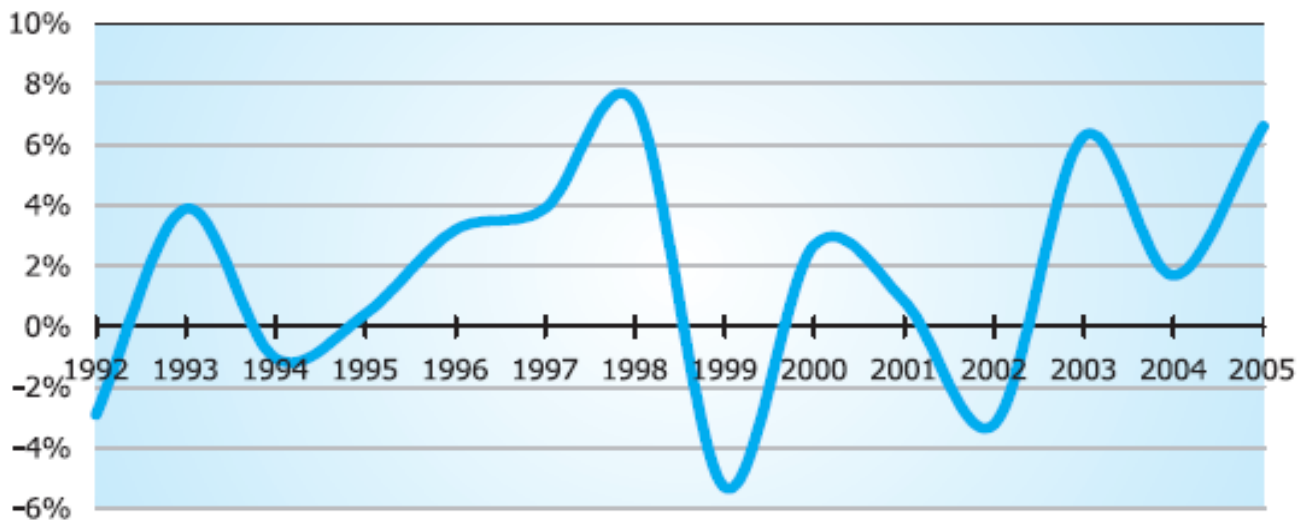
Earlier India lost its share of market to other countries because it imported low quality CTC teas when the purchasing power in Russia tumbled due to collapse of the entire economy in 1990s.

India now aims to improve its tea image in the mind of Russian consumer by marketing new varieties of tea which is something special for the Russians. The Indians are concentrating on a paradigm shift to quality based trade from the earlier quantity based approach. It has plans to promote Assam, Darjeeling and Nilgiri tea brands.

As when exports to Russia commence we see prices of premium quality tea firming up, which may result into better times ahead for growers of premium quality tea.

Recently a Russian delegation comprising of the Association of Russian Tea and Coffee companies and members of Indian Tea Board have signed a MOU for taking appropriate steps to promote export of Indian Tea into Russian market.

Growth in India's Tea Production



Source : ICRA Research Analysis

Company Snapshots

Income Statement (Rs. Mn.)	Harrisons Malayalam Ltd.		Mcleod Russel India Ltd.	
	Audited	Audited	Audited	Audited
Type				
Date Begin	1-Apr-06	1-Apr-05	1-Apr-06	1-Apr-05
Date End	31-Mar-07	31-Mar-06	31-Mar-07	31-Mar-06
Net Sales	2049.71	1509.55	6066.1	5115.2
Expenditure	1812.50	1390.36	5275.5	4865.2
EBITDA	237.21	119.19	790.6	250
Depreciation	29.74	30.47	259.6	106.7
EBIT	207.47	88.72	531	356.7
Interest	113.97	117.16	405.1	367.1
Other Income	66.13	66.42	643.1	336.1
PBT before Extra Ordinary Item	159.63	37.98	769	325.7
Extra Ordinary Item	0.00	* 653.86	0	0
PBT after Extra Ordinary Item	159.63	691.84	0	0
Tax	11.53	8.78	26.7	104.4
PAT	148.10	683.06	795.7	221.3

Note : * The Extra Ordinary Item in Harrison Malayalam, includes the amount from sale of estate Rs.709.66 million; less the adjustment of provision for gratuity liability relating to earlier year. The net realisation is Rs.653.86 million.

Company Snapshots

Financial Ratio (%) (Rs. Mn.)	Harrisons Malayalam Ltd.		Mcleod Russel India Ltd.	
Type	Audited	Audited	Audited	Audited
Date Begin	1-Apr-06	1-Apr-05	1-Apr-06	1-Apr-05
Date End	31-Mar-07	31-Mar-06	31-Mar-07	31-Mar-06
Operating Profit Margin (excl. O.I.)	11.57	7.90	13.03	4.89
Operating Profit Margin (incl. O.I.)	14.34	11.78	21.37	10.75
PBT Margin %	7.54	2.41	11.46	5.97
PAT Margin %	7.00	1.85	11.86	4.06
ROE %	5.33	1.10	13.78	5.13
Interest / Sales %	0.06	0.08	6.68	7.18
Tax / PBT %	0.07	0.23	3.47	32.05
Book Value (Rs.)	150.51	144.24	53.29	43.84
EPS	8.02	37.01	7.78	2.25
Market Price (Rs.)	69.55	87.95	57.00	120.95
Price / Earning Ratio (x)	8.67	2.38	7.33	53.76
Market Cap (Rs. Mn.)	1283.20	1622.68	6175.38	11903.90
Market Capitalisation to Sales (x)	0.63	1.07	1.02	2.33
Market Price to Book Value (x)	0.46	0.61	1.07	2.76
Dividend Yield (%)	2.16	1.14	1.75	0.00
Sales / Mkt Cap (x)	1.60	0.93	0.98	0.43

Industry Characteristics

Around 13 states contribute to total tea production

Tea is grown in 13 Indian states and Assam, West Bengal, Tamil Nadu and Kerala are the largest producers. Though the major part of the tea production comes from big estate gardens, the contribution of the small grower segment has shown an increase in recent years with many small farmers in Assam, North Bengal and Bihar switching over to its production.

Cyclical in nature

Being an agricommodity, its fortunes are directly linked to rainfall and temperature. These can cause the quality of the raw material, green leaf, to change from season to season.

Despite being exposed to vagaries of nature, the industry seems to have stabilised in terms of production. In the recent years the industry has developed processes to reduce impact of vagaries of nature on tea production.

Sensitivity of Industry to Government Policies

The tea industry in India is highly regulated. It requires licenses for its import or export.

While The Tea Act, 1953 controls production and distribution activities, the Tea (Marketing) Control Order, 2003 regulates tea sales and stipulates that a defined percentage of tea produced from each garden be sold through the auction system.

In addition to this central cess, States also levy sales tax on sale of tea. Profits from production and sale of tea are subject to agricultural income tax by the states. Thus, the residual income after paying corporate tax is taxed again. This tax is levied on profits accruing to gardens located in respective state.

100% foreign direct investment (FDI) in tea industry is permitted subject to compulsory divestment of 26% equity of the company in favour of an Indian partner / Indian public within five years from the date of investment.

Union Budget 2006-07, positive for tea sector

The Union Budget for 2006-07 has Proposed contribution of Rs 1 billion towards Special Purpose Tea Fund, a 15 year programme, aimed at re-plantation and rejuvenation of tea. Further, the customs duty on packaging machines proposed to be reduced from 15% to 5%. The allocation of Rs 1 billion towards the Special Purpose Tea Fund is likely to be helpful for development of the industry. The reduction in customs duty on packaging machinery is likely to benefit packaged tea manufacturers. Overall the impact of changes in Union Budget 2006-07 is likely to be positive.

Competition

Competitive intensity in the Indian tea industry is on the increase as the sheer number of players has increased.

On account of difficult export market conditions better realisation in packet tea, more number of Indian players prefer to concentrate on domestic market.

Packaged tea has altered the structure of tea market in India. Indian tea which were mostly sold in bulk from earlier, are now sold in branded forms as packet tea and in tea bags. Out of the 0.76 mt of tea consumed in India, around 35-40% is sold in the form of branded products.

Tea sector is dominated by Organised Players

While tea cultivation poses a significant barrier to entry in terms of regulations, limited availability of suitable cultivable area, large investment requirement and a steep learning curve, tea export and marketing of tea in domestic market are relatively low entry barrier areas. It is not surprising therefore that tea cultivation is dominated by the organised corporate sector while tea retailing has attracted a host of local players.

Concerns

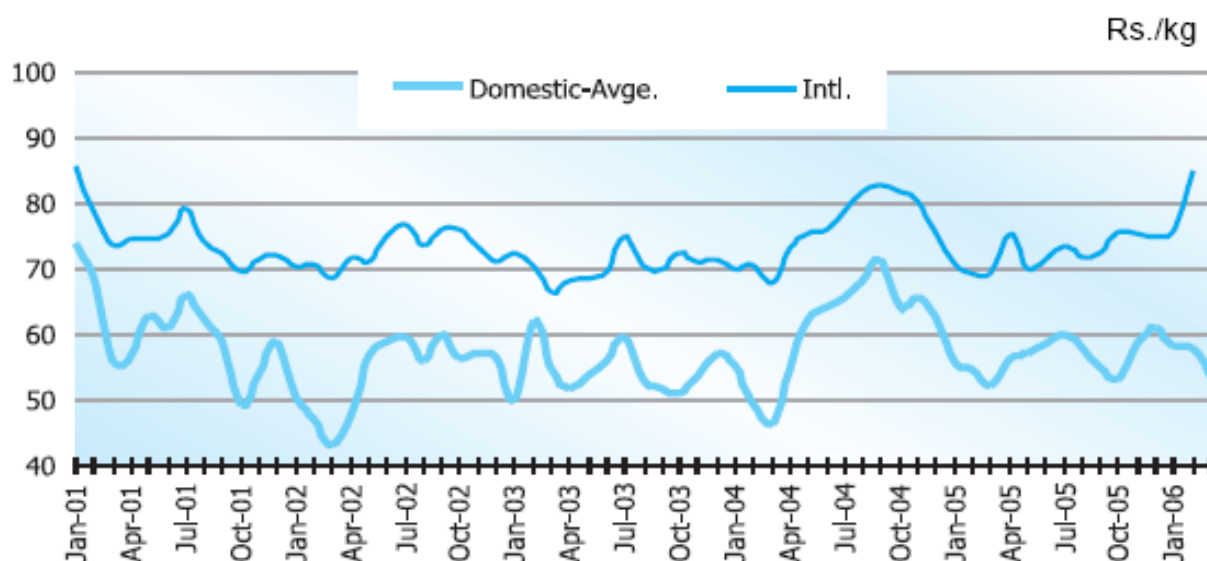
- One of the major constraint facing the Indian tea industry which directly affect production, productivity and quality, include the old age of bushes with more than 30% of the tea area being above the economic threshold age limit. In addition the slower pace of replantation with the rate of replanting being less than 0.5% as against the desired level of 2% and the consistent fall in auction prices during the early-2000 has adversely affected the investment in the plantations.
- Stiff competition from other producing and exporting countries like Sri Lanka, China, Indonesia, Vietnam and Kenya.
- Various tariff and non-tariff measures imposed by some tea importing countries, lower off take by Russia due to change in consumer preferences, lower production of orthodox teas which have a larger demand worldwide.
- Decline in quality of Indian tea which has been caused by mushrooming bought leaf factories which produce cheap quality tea by buying and processing green leaf from small growers.

International & domestic Prices of Tea

Consistent increase in tea production has led to a global oversupply position, which had caused the prices to decline. However, in 2004 and 2005, prices have improved.

The slow increase in prices was mainly because of an expected increase in world tea production, which is estimated to have reached an all-time high. Slightly higher tea prices are also due to steady demand in major importing countries, such as Pakistan, Russia, Ukraine, South Africa, and Turkey. In India, average tea prices increased till December 2005, before declining in January-March 2006.

International and Domestic Prices of Tea



PRICES OF TEA AT DIFFERENT WORLD AUCTIONS (JANUARY TO JULY)

Countries	Prices in respective countries					In US \$			
	Currency	2007	2006	(+) or (-)	(+) / (-) %	2007	2006	(+) or (-)	(+) / (-) %
North India	INR	71.99	72.47	-0.48	-0.66	1.70	1.61	0.09	5.59
South India	INR	51.68	49.52	2.16	4.36	1.22	1.10	0.12	10.91
All India	INR	65.65	64.73	0.92	1.42	1.55	1.44	0.11	7.64
Colombo	SL Rs	254.62	189.84	64.78	34.12	2.32	1.85	0.47	25.41
Chittagang	Taka	79.65	83.44	-3.79	-4.54	1.15	1.21	-0.06	-4.96
Mombassa	US \$	1.63	2.02	-0.39	-19.31	1.63	2.02	-0.39	-19.31
Jakarta	US \$	1.43	1.28	0.15	11.72	1.43	1.28	0.15	11.72
Limbe	US \$	1.02	1.20	-0.18	-15.00	1.02	1.20	-0.18	-15.00

Worldwide Growth Potential

Indian black tea production to grow by 1.6% pa in 2004-14

World black tea production is projected to grow by 1.7% per annum to 2.7 mt in 2014, mainly due to improvements in yields. In India, output is expected to grow by 1.6% per annum between 2004-14 to 1.01 mt.

Among the other major black tea producing countries, output in Sri Lanka is expected to increase 1.9% pa to 0.37 mt in 2014. However, black tea production in China is expected to decline, as the balance of production shifts to other teas with stronger market prospects.

World green tea production is expected to grow at a faster rate than black tea at 2.3% per annum to 0.98 mt in 2014. China is expected to account for more than 75% of world green tea output with an output of 0.74 mt in 2014.

The growth rate in world black tea consumption is expected to be reduced from 2.2% per annum during 1993-2003 to 1.2% during 2004-14 to 2.67 mt in 2014. The main reason is the slow-down in consumption in producing countries, as the production growth rate outpaces the growth in demand for exports. Global tea consumption is divided into net imports for non-tea producing countries, and domestic consumption in producing countries, measured by production less exports.

World net imports of black tea, a proxy for consumption in importing countries, are projected to increase annually by 1.2% to reach 1.34 mt in 2014, as compared with 1.2 mt in 2004. In 2014, the quantity of black tea consumed in producing countries is expected to grow by 1.3% pa to 1.33 mt. The largest increase in domestic consumption would occur in the Far East, as tea-producing countries in Africa are expected to continue to export most of their output.

Global Scenario – Tea Production

(Figs. In M.Kgs)

Country	January to	2007 (E)	2006	(+) / (-)
India	July	459.79	460.50	(-) 0.71
Kenya	June	198.80	134.13	64.67
Sri Lanka	June	143.64	164.55	(-) 20.91
Bangladesh	June	15.71	11.61	4.10
Indonesia	June	45.08	40.52	4.56
Malawi	June	32.66	31.15	1.51
Tanzania	June	20.78	17.23	3.55
Uganda	April	5.56	9.67	(-) 4.11
Zimbabwe	June	10.04	10.81	(-) 0.77
Total	-----	932.06	880.17	51.89

Indian Scenario

Growth in tea production

In India, tea production increased 3.9% in 2005 to 0.93 mt, as compared with a 3-year compound average growth rate (CAGR) of 3.9%. The growth was driven by robust tea production in Assam, the largest tea growing state in the country. However, declines were reported from West Bengal, while a modest increase in output was reported from South India. Tea production has grown at a slow rate over the last few years, because of the closure of up to 70 tea gardens in Assam due to the widespread recession in the industry. The downturn was further exacerbated by unfavorable weather.

India's Tea Production

	2001	2002	2003	2004	2005	3-year CAGR
Assam	450	433	435	436	474	3.1%
West Bengal	191	190	201	215	215	4.2%
Others	10	9	13	12	12	9.0%
North India	651	632	648	662	701	3.5%
Tamil Nadu	131	129	167	163	155	6.2%
Kerala	66	60	58	62	67	3.9%
Karnataka	5	6	5	6	5	-2.3%
South India	203	194	230	231	227	5.3%
Total	854	826	878	893	928	4.0%

Thousand tonnes

Production of tea in India : 2006-07

- Tea production during 2006-07 (April 2006 to March 2007) increased by 1.4 % (13.77 Million Kilograms) over the year 2005-06 and was estimated at 944.62 Million Kilograms as against 930.85 Million Kilograms during 2005-06.
- Decline in tea production during March 2007 (50.66 M.Kgs as against 58.12 M.Kgs during March 2006).
- Tea production during the first three months of 2007 registered a decline of 11.29 M.Kgs as compared to the corresponding period of 2006.
- North Indian tea production declined by 7.37 M.Kgs during January to March 2007 over the same period of 2006 and registered an increase of 18.33 M.Kgs during the financial year 2006-07 as against 2005-06.
- South Indian tea production declined by 3.92 M.Kgs during January to March 2007 over the same period of 2006 and registered a decline of 4.56 M.Kgs during the financial year 2006-07 as against 2005-06.

World Production of tea : 2006-07

- World tea production during the first three months of 2007 stood at 319.14 Million Kilograms as against 273.79 Million Kilograms during the corresponding period of 2006.
- Kenya has improved by 59.23 Million Kilograms during Jan-March 2007 over same period of 2006.

Indian Scenario

Tea Export by India for 2006-07

- Tea exports for the financial year 2006-07 (April 2006 to March, 2007) increased by 3.2% in quantity terms and 1.7% in value terms (US\$). Exports for the year 2006-07 was 202.95 Million Kilograms for a value of US\$ 412.90 Million as against 196.67 Million Kilograms for a value of US\$ 405.82 Million during the corresponding period of 2005-06.
- During March 2007, tea exports from India registered an increase both in volume and export earnings by 5.47 M.Kgs and Rs.51.71 Crores over March, 2006. Exports during March, 2007 was estimated at 19.16 Million Kilograms for a value of Rs. 172.22 Crores with an unit price of Rs.89.87 per Kg., as against 13.69 Million Kilograms for a value of Rs. 120.51 Crores with an unit price of Rs. 88.06 per Kg during March 2006.
- Increase in export of tea from India during 2006-07 was noticed to countries like Iraq (6.04 M.Kgs.), Afghanistan (5.83 M.Kgs.), Kenya (5.64 M.Kgs.), Pakistan (3.36 M.Kgs.), A.R.E (2.34 M.Kgs.). A marginal improvement was also noticed in the countries like Ukraine, Ireland and Turkey during 2006-07 as compared to the corresponding period of 2005-06.
- During 2006-07 there was a decline in exports to CIS countries including Russia (4.08 M.Kgs), UAE (3.18 M.Kgs), UK (2.16 M.Kgs), USA (1.58 M.Kgs), Iran (1.13 M.Kgs). In addition, marginal decline in exports to Germany, Canada, Poland, Saudi Arabia, Singapore, Japan, Sri Lanka and Australia was also noticed as compared to the corresponding period of 2005-06.

World Tea Export

WORLD EXPORTS :

- World tea exports during January to March 2007 stood at 230.98 M.Kgs as against 214.89 M.Kgs during 2006 showing a decline of 16.09 M.Kgs.

Indian Scenario

Price and consumption trend moves upward

The Indian tea industry, after having faced the vagaries of weather during 1999-2002, is now appears to be on the journey to recovery in terms of production. Price and consumption trend continues to be unsupportive, if not unfavourable.

Consumption of tea increased 2.9% during 2005 to 757 mt, as compared with a growth of 2.9% during 2004. Black tea dominates consumption, with an estimated 80% of production and consumption. Domestic consumption of black tea in India is expected to increase by 1.5% per annum from 0.7 mt in 2004 to 0.81 mt in 2014.

The domestic consumption is on increase due to greater urbanisation, increase in disposable income etc.

MONTH WISE PRICES OF TEA AT INDIAN AUCTIONS

Months	(Price in Rs / Kg)					
	North India		South India		All India	
	2007 (P)	2006	2007 (P)	2006	2007 (P)	2006
January	63.81	61.85	53.67	46.28	61.56	58.72
February	59.31	59.32	54.35	52.79	57.54	56.91
Up to Feb	62.62	60.91	53.95	50.05	60.35	57.95
March	56.42	55.23	54.60	49.81	55.34	51.68
Up to March	62.13	60.41	54.11	49.98	59.68	56.90
April	82.33	80.57	53.58	48.34	69.73	65.13
Up to April	65.04	63.52	53.99	49.57	61.41	58.44
May	73.69	77.72	52.42	48.86	66.83	65.63
Up to May	67.15	67.09	53.62	49.26	62.73	60.41
June	81.97	82.70	48.68	49.25	69.27	71.84
Up to June	69.72	70.79	52.58	49.26	63.94	62.97
July	78.77	77.68	46.99	50.98	71.62	71.28
Up to July	71.99	72.47	51.68	49.52	65.65	64.73

PRICES OF ALL TEA AT DIFFERENT INDIAN AUCTIONS (Provisional)

Auction Centre	January to July				Inc/Dec in 2007 over 2006 in Price
	2007 (Prov)		2006		
	Qty (Th.Kg)	Avg. Pr. (Rs/Kg)	Qty (Th.Kg)	Avg. Pr. (Rs/Kg)	
Kolkata	61899	79.55	58770	79.46	0.09
Guwahati	56627	67.90	56815	69.16	-1.26
Siliguri	36616	65.55	35843	66.26	-0.71
Jalpaiguri	78	66.13	98	64.22	1.91
North India	155220	71.99	151526	72.47	-0.48
Cochin	31727	57.68	36046	52.46	5.22
Coonoor	19202	46.41	20831	46.88	-0.47
Coimbatore	11893	49.14	12827	48.00	1.14
Tea Serve	7631	43.93	7342	45.18	-1.25
South India	70453	51.68	77046	49.52	2.16
All India	225673	65.65	228572	64.73	0.92

(P) Provisional and subject to revision,

Note :: Figure does not include Amritsar sale due to non-availability of information.

Industry Financials

ROCE and Operating Margins

Operating margins in the Indian tea industry also mirror the trend in tea prices and have declined in FY2003, but after that it start increasing. In FY2005, the industry has reported an improvement in operating margins because of rising tea prices. In addition, lower interest costs and rising other income resulted in a significant improvement in net margins and ROCE. Improvement in profitability and reduction in debt levels resulted in an improvement in debt-equity ratio from 0.33 in FY2004 to 0.30 in FY2005.

Margins and Returns for Major Players

	FY2003	FY2004	FY2005
Operating Margins	3.95%	6.07%	9.52%
Net Margins	2.81%	5.45%	10.19%
ROCE	6.14%	7.43%	11.35%

During FY2005, on account of high tea prices, the tea industry showed a strong financial performance. However, during first nine months of FY2006, the industry has shown small decline in operating margins which is on account of decline in tea prices. Operating margins of a sample of 35 companies declined from 17.1% in 9MFY2005 to 16.4% in 9MFY2006. Although, on account of rise in other income of some companies, there has been an improvement in financial performance at the net level.

Financial Performance of Tea Companies

Rs Million	Q3 FY2006	Q3 FY2005	% Change	9M FY2006	9M FY2005	% Change
Net Sales	10,002	8,755	14.2%	24,544	23,141	6.1%
Total Expenses	8,917	7,678	16.1%	20,519	19,174	7.0%
OPBDIT	1,086	1,077	0.8%	4,025	3,967	1.5%
Interest	347	254	36.3%	927	825	12.4%
Depreciation	241	236	2.1%	698	697	0.2%
PBT	969	809	19.7%	4,713	3,660	28.8%
Other Income	470	222	111.8%	2,313	1,216	90.3%
Tax	112	100	11.5%	410	372	10.1%
Fringe Benefit Tax	13	0		37	0	
Deferred Tax	-29	15	-300.0%	-34	11	-417.8%
PAT	873	695	25.7%	4,300	3,277	31.2%

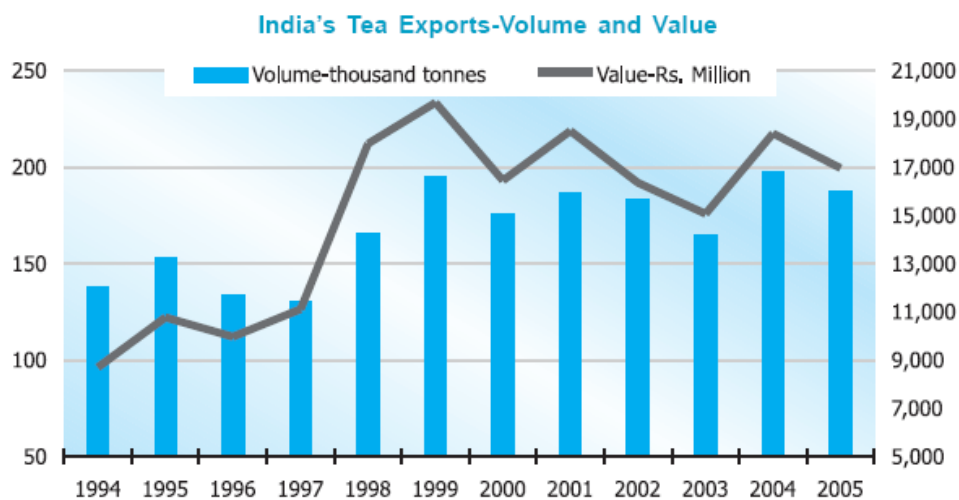
* - Sample of 35 companies

Compiled by ICRA

International competitiveness

India's international competitiveness has been on a decline. From being a pre-eminent supplier of the world's tea, India has lost ground in virtually every export market. In the early 1980s, Indian tea exports accounted for around 40% of the domestic production. By the end of 1980s, the share of the tea exports fell to 30%. The decline continued till 1994 when exports accounted for only 20% of the domestic production of tea. Thereafter, the proportion of exports improved to around 24% of the domestic production.

Export		(Figs in M Kgs)		
Country	January to	2007	2006	(+)/(-)
India	July	86.03	106.59	-20.56
Sri Lanka	June	136.94	153.03	-16.09
Kenya	June	183.28	147.58	35.7
Indonesia	March	19.52	25.88	-6.36
China	June	143.39	136.73	6.66
Tanzania	June	18	13.81	4.19
Uganda	April	6.72	9.04	-2.32
Argentina	May	32.77	33.91	-1.14
Zimbabwe	June	5.9	8.84	-2.94
Bangladesh	May	2.62	3.36	-0.74
Malawi	January	6.49	6.09	0.4
Total		641.66	644.86	-3.2



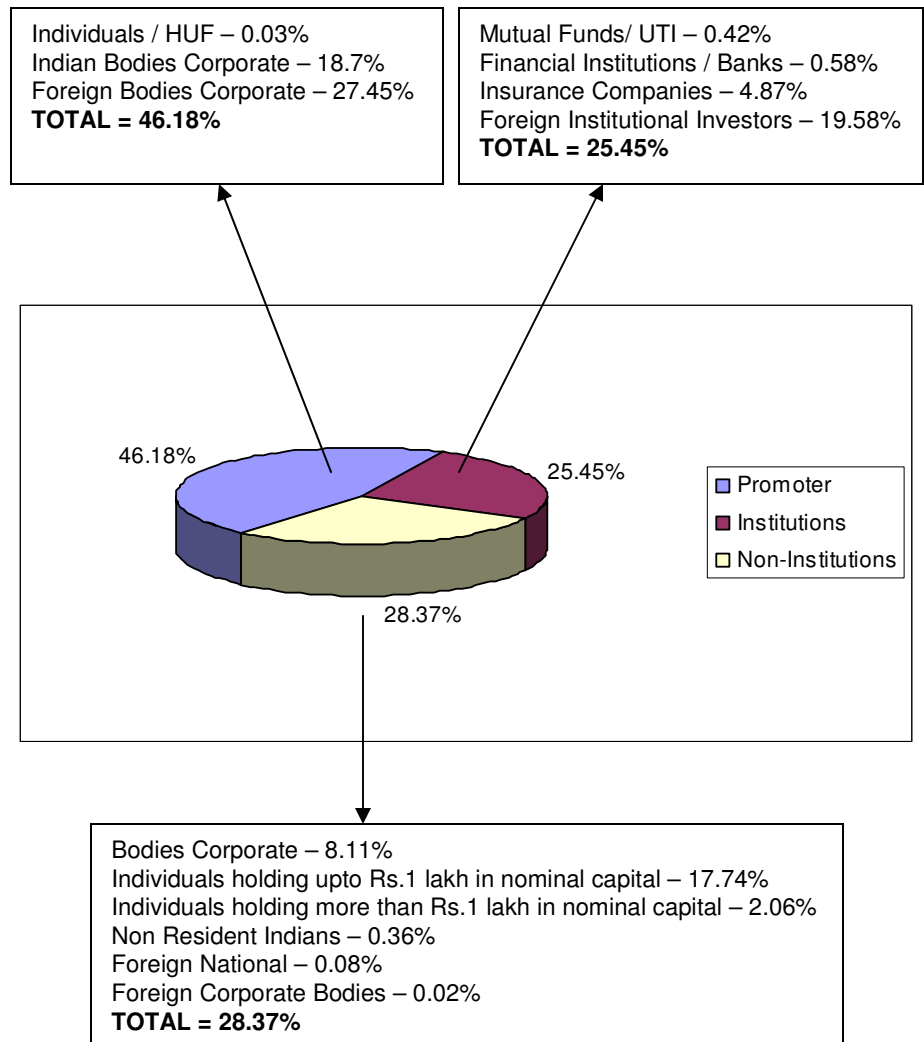
Opportunities to export growth

- Reports of a drought in Kenya, largest producer of tea with “all export” has led to a tight global supply, thus opening up a huge export opportunity.
- Kenya is also the competitor for India in CTC tea. As two-third of India’s tea production is of CTC tea, India can fill the supply gap in all major export destinations of Kenya, which include Pakistan, Egypt, and UK.
- India’s export to Pakistan have risen from 5.8 million kgs in 2003 to 9.5 million kg in 2003. By comparison, Kenya’s exports were 98 million kgs in 2005. The other major importer of tea from Kenya is Egypt. It imported 77.9 million kg of tea from Kenya in 2005. Egypt was traditionally a buyer of Indian tea till it imposed 30% duty on Indian tea imports. However, recently the import duty for Indian tea has been reduced to 5%.
- The UK is also importing a sizeable quantity of Indian tea, and is the second major importer of tea in the world. In 2004, Kenyan exports to UK were 53 million kgs as compared with 18 million kgs in India. As Indian tea quality is almost on par with Kenyan tea, it can take advantage of the market.

Mcleod Russel India Ltd.

Stock Details	
BSE Code	532654
NSE Code	MCLEODRUSS
Face Value (Rs)	5.00
52 Wk High (BSE)	132.70
52 Wk Low (BSE)	52.25

Key Statistics		
Rs. In Mn.	FY07	FY06
Sales	6066.1	5115.2
PAT	795.7	221.3
Equity	541.7	279.5
Mkt Cap.	6175.4	11903.9
Book Value Rs.	53.3	43.8
Sales/Mkt Cap	0.9	0.4
P/B	1.1	2.8



Year (Rs. Mn.)	Sales	EBIDTA	PAT	EPS	P/E	Book Value
FY07	6066.10	790.60	795.70	7.78	7.33	53.29
FY06	5115.20	250.00	221.30	2.25	53.76	43.84

Mcleod Russel India Ltd.

Mcleod Russel is a Khaitan group company, engaged in growing, manufacturing and selling bulk tea. The has tea estates in Assam.

On Acquisitions & Amalgamations...

During the year the company acquired 1.52 mn shares of Moran Tea Co. (I) Ltd. from Moran Holdings Plc at Rs.273 per share amounting to Rs.414.96 mn being the consideration for 72.38% stake in equity and the remaining .03 mn shares were acquired in open offer @ Rs. 316.15 per share for a total consideration of Rs.95 mn.

Williamson Tea Assam Ltd. amalgamated with the company pursuant to allotment of 42.55 mn shares of Rs.5 each in the company.

During the year company issued 9.90 mn shares of Rs.5/- each @ a premium of Rs.115/- per share to QIB.

OPPORTUNITIES...

India is the largest consumer of Tea with 3% growth on annual consumption. The domestic consumption in CY2007 is likely to touch 830 mn kgs. Considering a near stagnant production scenario in last 3 – 5 years and higher consumption levels we expect tea prices to firm up in the near future. On the export front, although Kenya's production has increased by 50 mn kgs there are new opportunities arising out creation of fresh demand of orthodox tea, duty reduction by Egypt and lower production by Sri Lanka augur well for a case for a future rise in exports.

The Special Purpose Tea Fund (SPTF) set up by commerce ministry to implement uprooting and replanting programme would help in improving productivity and yield and thereby reduce cost in coming years.

RISKS...

- The tea industry is largely dependant on vagaries of nature. The industry is highly labour and is also subject to stringent labour laws.
- Steep appreciation of Indian rupee in the recent times remains a cause for concern in times ahead.

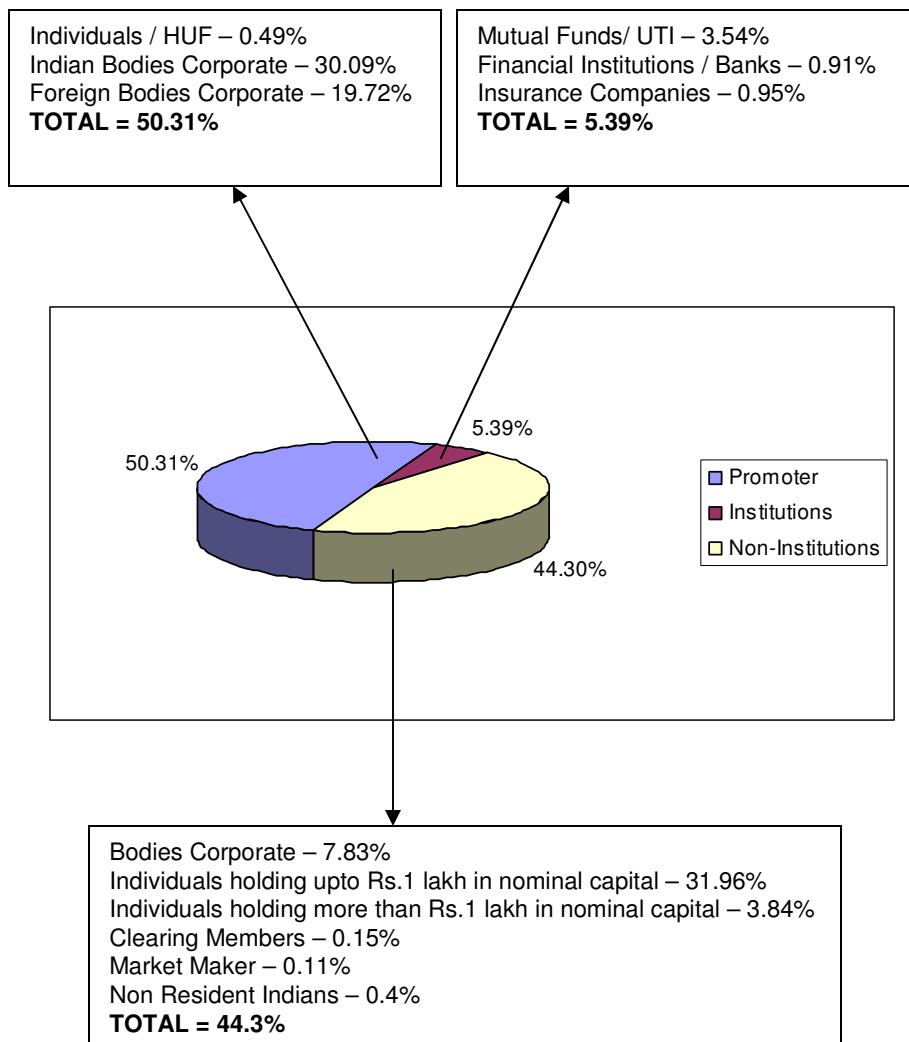
Comments...

Mcleod has in last 3 years has acquired many tea estates from the main players in branded tea segment and has also amalgamated Williamson Tea and Doom Dooma Tea within its fold it has occupied no.2 position in terms of revenue in the industry (next to Tata Tea)

Harrisons Malayalam Ltd

Stock Details	
BSE Code	500467
NSE Code	HARRMALAYA
Face Value (Rs)	10.00
52 Wk High (BSE)	96.20
52 Wk Low (BSE)	58.00

Key Statistics		
Rs. In Mn.	FY07	FY06
Sales	2049.7	1509.6
PAT	148.1	29.2
Equity	184.5	184.5
Mkt Cap.	1283.2	1622.7
Book Value Rs.	150.5	144.2
Sales/Mkt Cap	1.6	0.9
P/B	0.5	0.6



Year (Rs. Mn.)	Sales	EBIDTA	PAT	EPS	P/E	Book Value
FY07	2049.71	237.21	481.10	8.02	8.67	150.51
FY06	1509.55	119.19	683.06	37.01	2.38	144.24

Note : * The Extra Ordinary Item in Harrison Malayalam, includes the amount from sale of estate Rs.709.66 million; less the adjustment of provision for gratuity liability relating to earlier year. The net realisation is Rs.653.86 million.

Harrisons Malayalam Ltd

Harrisons Malayalam Limited (HML) is part of RPG Enterprises, one of the largest business conglomerates in India. The company is listed on the National, Bombay and Cochin stock exchanges.

Subsidiary Companies

- Harrisons Malayalam Financial Services Ltd,
- Sentinel Tea and Exports Ltd,
- Harrisons Agro Products Ltd and
- Harrisons Rubber Products Ltd

About the Business

HML is mainly a producer of rubber, Tea. Besides this, the company also produces smaller quantities of a variety of other exotic horticultural crops like Areca nut, Banana, Cardamom, Cocoa, Coffee, Coconut, Pepper and Vanilla as well as limited quantities of Organic tea and Spices. The company also has an Engineering Division which takes up independent civil and electrical projects.

The company has integrated agricultural operation in South India. It has over 20 Estates, 8 rubber factories and 12 tea factories along with a number of blending and processing units in the three southern states of Kerala, Karnataka and Tamil Nadu. The company also operates tissue culter laboratory for its own use as well as for production and sale of both crop and exotic ornamental plants.

Company sells its own brand of tea

In the local market the company sells its own brands of tea, "Harrison's Gold", "Mountain Mist", "Surya" and "Spencer's" have a significant market share in the states of Kerala, Tamil Nadu and Karnataka.

Sale of Estates

Sale of Tea Estates

In the **FY 2005-06**, the company has booked total Rs.709.65 millions profit on sale of Estates.

It includes the rubber estates situated in Erumeli and Manimala villages, Kottayam District, Kerala, has been sold for Rs.630.00 millions

In the year **FY 2006-07**, the company has an Agreement for sale of Kaliyar Estate situated in Kodikulam, Idukki District, Kerala, for Rs.530 million; was entered into with the prospective buyer. The transaction, however is not completed during the year. The company has received an interest free advance of Rs.220 million from the buyer in the interim. The sale consideration is likely to be materialise in FY2007-08.

Harrisons Malayalam Ltd

Growth Prospects for tea segment of the company...

- Auction prices across all tea producing regions were higher indicating an overall growth in demand. South Indian prices improved by 15.5% in the calendar year 2006 though even at these levels they are about the lowest in the world. Better demand for South Indian orthodox teas contributed to a 24.8% price surge in 2007.
- The company continued its efforts in producing high quality teas. During the year 2006-07, the Company was a recipient of three awards in the Golden Leaf India Awards 2007 organized by UPASI and Tea Board of India.

Comments...

Company achieved all time high turnover :-

The Company achieved an all-time record turnover of Rs.2104.6 million for the financial year 2006-07, which is 38% higher than Rs.1526.8 millions achieved during the previous year. During the year the Company exported 2864 MT of Tea and 244 MT of Rubber. The tea was exported mainly to **Russia**, UK, Pakistan and Netherland

Production of tea has been improved from the 15903 Mt of 2005-06 to 16266 Mt in 2006-07. In current year, the rubber production has also shown upward graph with the production of 8977 Mt compare to 7545 Mt of last year. Prices for both tea and rubber improved over the previous year. Good progress was made in the manufacture of both tea and rubber through bought raw materials which contributed in enhancing the turnover and profits.

The Engineering Division registered a turnover of Rs. 105.2 millions as against Rs. 80.0 millions in the previous year.

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