

31 March 2011

Horizon – 12-18 months

**Turnaround story**

### Piramal Glass

Price (Rs.)	106
Market Cap (Rs.Crs.)	785
52 High / Low (Rs.)	142/79.15
Mcap/Sales TTM	0.77
Book Value (Rs.)	28
TTM PE	10.9
TTM EPS	8.9
P/BV	3.5
FV	10
BSE	532949
NSE	PIRGLASS

#### Shareholding Pattern

(%)	Sep-10	Dec-10	chg
Foreign	3.68	3.45	-0.23
Institutions	2.16	2	-0.16
Corp. Holding	9.33	9.88	0.55
Promoters	72.7	72.7	0.00
Public&Others	12.15	11.97	-0.18

#### Financial Projections

(in crs)	FY11E	FY12E	FY13E
Net Sales	1209.6	1330.6	1490.22
EBIDTA	302.4	345.9	387.5
PAT	84.7	119.7	156.47
PAT Margin %	7.0	9.0	10.5
EPS	10.5	14.9	19.5
Equity	80.4	80.4	80.4
FV	10.0	10.0	10.0
PE @ CMP	10.1	7.1	5.4

CMP:106

Target:146

View: Buy

### Investment Rationale

- ~ Geo Graphically Disseminated player
- ~ Major Revenue Driver;
  - Cosmetics & Perfumery Segment
  - Market Leader in Pharma Segment
  - Food & Beverage Segment
- ~ Decoration Services:
- ~ Significant Cost Advantages among global players
- ~ Continuous customer acquisitions enhancing market share globally
- ~ Global glass packaging industry

### Company Description

Piramal Glass is among the global leader in delivering packaging solutions for the perfumery and pharmaceuticals businesses. PGL offers an entire gamut of flaconage solutions under one umbrella, making it a one-stop-shop for all the needs of customers. PGL end-to-end flaconage solutions include full bottle design capabilities, in-house mould design, CNC machines for mould manufacturing, high quality glass manufacturing and dedicated ancillaries for decoration and accessories like caps, cartons and brushes.

PGL is one of the largest manufacturers of flaconage glass for the pharmaceuticals and perfumery businesses today, with an installed capacity of 1,115 tonnes per day, and sales of more than \$200 million worldwide. PGL also manufacture glass bottles for specialty food and beverages. PGL has invested more than \$110 million in creation of significant new capacity, and is among the top five manufacturers of perfumery bottles in the world PGL has a large geographic footprint, with a sales and distribution presence in most major markets across the globe.

Indian Operations		International Operations		
 <p><b>Indian Operations</b> 55%</p>		 <p><b>USA Operations</b> 32%</p>	 <p><b>Srilankan Operations</b> 13%</p>	
				
<p>Location: Kosamba, Gujarat</p>	<p>Location: Jambusar, Gujarat</p>	<p>Location: Flat River, Missouri</p>	<p>Location: Williamstown New Jersey</p>	<p>Location: Horana.</p>
<p>6 furnaces, 24 lines Capacity: 340 t.p.d</p>	<p>2 furnace, 12 lines, Capacity: 335 t.p.d.</p>	<p>2 furnaces, 8 lines Capacity: 195 t.p.d.</p>	<p>Bottle Decoration and PVC Coating Facility</p>	<p>1 furnace, 5 lines, Capacity: 250 t.p.d</p>

## Investment Rationale

### ~ Geo Graphically Disseminated player

Piramal Glass has a large geographic footprint, with a sales and distribution presence in most major markets across the globe. Company distribution network presence in Europe, USA and South America enables them to build more intimate relationships with customers, and respond to their needs quickly and efficiently. Currently PGL Export to 50 countries.

Manufacture facilities: Largest 6 furnace in India, 1 furnace in Sri Lanka, 2 Furnace in US.

### ~ Major Revenue Driver

#### - Cosmetics & Perfumery Segment:

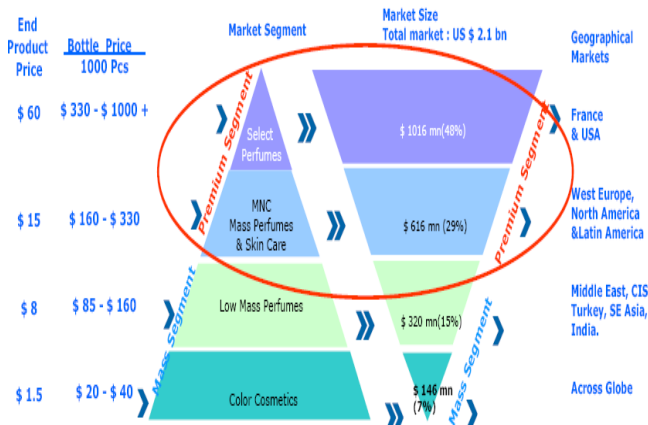
The glass containers in cosmetics & Perfumery used to fill nail polish, perfumes, foundations, etc. As per an estimate the total global market size of C&P segment is \$1.9bn growing at 5% with demand in emerging market growing at >10%.

The market classified into two-segment i.e **Premium & Mass**. The segmental bifurcation based on the end bottle price. Premium segment further divided into Select Perfumes and MNC Mass perfumes & Skin care, as per the study realization in this segments are \$330-1000 per 1000 & \$160-330 per 1000 respectively with a ROCE range from 20-30% . The markets for this segment are France, USA, West Europe, North America & Latin America.

Mass Segment further divided into low mass perfumes & Nail Paint or Color Cosmetics, as per the study realization in this segments are \$85-160 per 1000 & 20-40 per 1000 respectively with a ROCE range from 10-13%. The markets for this segment are Middle East, CIS, Turkey, SE Asia, India etc.



### C&P : Market Segment



Currently the High premium end C&P market is mainly catered to by the players based in Europe and the US with Asian players having a smaller market share. PGL is the largest manufacturer of the Premium segment in Asia with a market share of 4% Global C&P market. The entry barriers are high as the customer is extremely particular about quality & also stringent approval process which take 1-2 years to approve facility by customer. In Mass segment PGL is now among global leader produce every third color cosmetic bottle in the world.

PGL currently derives 76% of total C&P sales from mass and rest 24% from premium segment's is in process of moving up in the value chain by increasing share of premium segment to 55%-60%, we expect that the change in the sales mix would lead to an increase in revenue, as realization improve & should also improve operating margin.

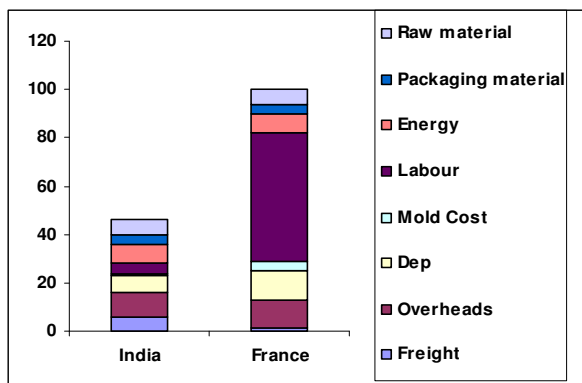
#### - Market Leader in Pharma Segment:

The Pharmaceutical segment constitutes 36% of company sales, which is growing at a CAGR of 14%. PGL is Market leader for over a decade with market share of 44%, with strong bonding and share pie with top 20 pharmaceutical companies in India. PGL is looking to rationalize product mix & customer, shift from domestic to high value export & leverage US distribution network. Management is expecting that in coming two year this segment will constitute 30% of company sales.

#### - Specialty food & Beverage Segment

The SF&B segment constitute 24% of company sales, which is growing at a CAGR of 32%. The Sri Lankan operation is the single source supplier to the growing local food & beverage market, Strengthen position of exclusive supplier to India for high value added specialty bottles (boutique wines and colored liquor bottles, eg. Antiquity Blue )

Cost	India	France
Freight	6	1
Overheads	10	12
Dep	7	12
Mold Cost	1	4
<b>Labour</b>	<b>4</b>	<b>53</b>
Energy	8	8
Packaging material	4	4
Raw material	6	6
<b>Total</b>	<b>46</b>	<b>100</b>



### ~ Decoration Services:

The revenue from Decoration is Rs 65 crore in FY09, As per estimate decoration constitute 40% of bare bottle value in Premium segment & 25% in mass. with a focus of venturing to premium segment PGL have ventured into several trusted partnerships that have enabled them to become a one-stop flacconage solution provider for customers.

### ~ Significant Cost Advantages among the global players

Flacconage is a labour and skill intensive industry. Though the manufacturing of glass itself is highly automated, critical functions such as quality control need large teams of skilled professionals. Not surprisingly, the total cost of production in India, where manpower is among the cheapest in the world, is less than 50% of that in France and almost half of that in the US (Source: Mckinsey). With manufacturing facilities in India and Sri Lanka, Piramal Glass is able to produce glass at significantly lower costs than its competitors in other parts of the world and deliver a sustainable cost advantage to customers.

### ~ Continuous customer acquisitions enhancing market share globally

Over the last 2 years, PGL has witnessed significant number of client acquisitions in the C&P space, which has resulted in the rising contribution from this segment. PGL has done several client acquisitions across the C&P space, which includes: COTY (US), L'Oreal & Unilever (India), Mavala (Switzerland), Rasasi (UAE), DRL & Himalaya (India), Avon (Russia) etc.

#### MNC Clients



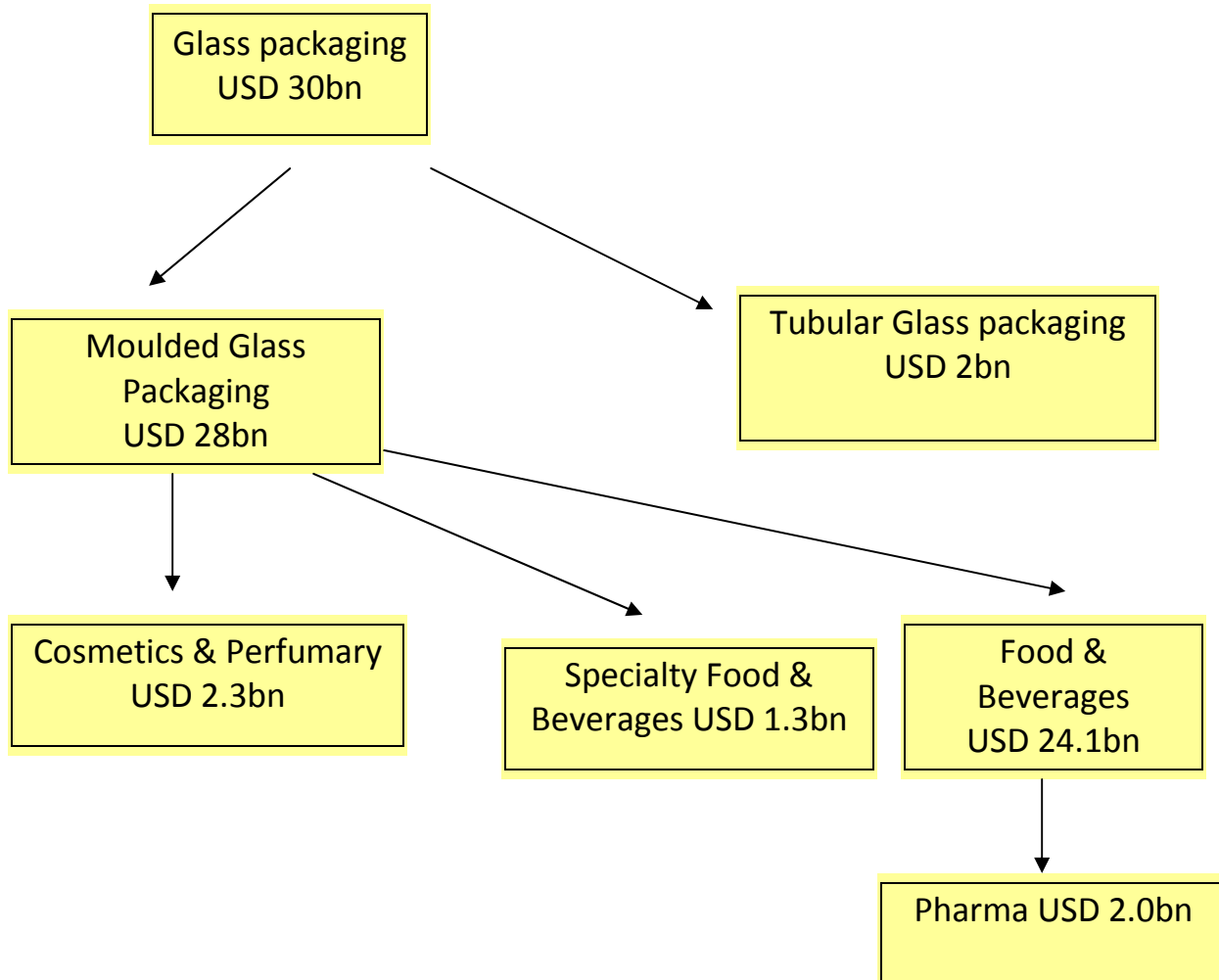
#### Indian Pharma Clients



### ~ Global glass packaging industry

The global market size of the glass packaging industry is currently valued at US\$30bn dominated by the moulded glass packaging industry to the extent of US\$28bn while the balance is being contributed by the tubular glass packaging industry.

Further, of the moulded glass packaging industry, food and beverage (F&B) glass constitute majority of the market (more than 85%), while the balance is contributed equally by the pharma, and cosmetics and perfumery (C&P) segments. On the other hand, the SF&B market size is pegged at US\$1.3bn (5% of the F&B market). The addressable market for PGL (which has presence in C&P, pharma, and SF&B segments) is thus ~20% of the moulded glass packaging market.



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Financials			
(Rs. in Cr.)	March, 2010	March, 2009	% Change
Net Sales	1110.89	1015.91	9
PBIDT	206.87	97.07	113
Depreciation	90.65	89.25	15
PBIT	116.22	7.82	1386
Interest	107.56	133.58	-19
PBT	8.66	-125.76	
Adjusted Net Profit	4.45	-101.57	
EPS	<b>0.23</b>	<b>0</b>	
Cash EPS	0.23	-59.61	
PBIDTM(%)	18.62%	9.55%	
PBITM(%)	10.46%	0.77%	
PATM(%)	0.40%	-10%	

### Financials

Year over year, Piramal Glass Ltd has been able to grow revenues from 1016 Cr. to 1110 Cr. Most impressively, the company has been able to reduce the percentage of sales devoted to selling, general and administrative costs from 44.01% to 25.96%. This was a driver that led to a bottom line growth from a loss of 102 Cr. to a gain of 4.45 Cr..

Compared to the same quarter last year, Piramal Glass Ltd has been able to grow revenues from 282 Cr. to 310 Cr.. Most impressively, the company has been able to reduce the percentage of sales devoted to selling, general and administrative costs from 27.94% to 26.19%.

This was a driver that led to a bottom line growth from 11.3 cr to 26.56 cr.

Cash flow from operating activities clearly confirmed turnaround taking place. This is because of aggressive marketing strategy and Cash flow generated by subsidiaries.

Latest Quarterly results			
(Rs. in Cr.)	Q3,2011	Q3,2010	% Change
Net Sales	310.62	281.89	10
PBDIT	78.48	59.72	31
Depreciation	26.95	27.23	-1
PBIT	51.53	32.49	5.8
Interest	19.03	19.67	-3
PBT	32.5	12.82	154
Adjusted Net Profit	26.56	11.3	135
EPS	2.88	2.57	
Cash EPS	6.65	5.79	
PBIDTM(%)	25.27	21.19	
PBDTM(%)	19.14	14.21	
PATM(%)	8.55	4.01	

### Valuations

At CMP 106 company is trading at 7.1x and 5.4x for FY12E and FY13E earnings of Rs. 15 and ~Rs. 19.5 respectively. We expect the company to grow at 10% and 12% for FY12 & FY13 respectively. Hence we expect the conservative PE band of 7-8x for a target of Rs. 146.

### Concern

Forex fluctuations

Any global slowdown may lead to less expenditure toward s luxury items like cosmetics.

Cash Flow Summary	201003	200903
Cash and Cash Equivalents at Beginning of the year	11.85	8.56
Net Cash from Operating Activities	251.22	-25.17
Net Cash Used in Investing Activities	-20.77	-154.72
Net Cash Used in Financing Activities	-235.2	183.18
Net Inc/(Dec) in Cash and Cash Equivalent	-4.75	3.29
Cash and Cash Equivalents at End of the year	7.1	11.85

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