ENAM Securities
India Research

Rs 93
Target Price: Rs 115
Potential Upside: 23%

Piramal Glass

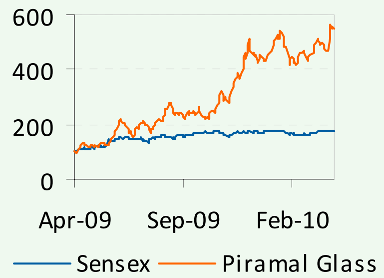
Relative to Sector: **Outperformer** | **Initiating coverage** | **Glass Packaging**

Stock Data

No. of shares	: 80.4m
Market cap	: Rs.7.5 bn
52 week high/low	: Rs. 98/ Rs.16
Avg. daily vol. (6mth)	: 50,300 shares
Bloomberg code	: PIRA IB
Reuters code	: PRML.BO

Shareholding (%)		Dec-09	QoQ chg
Promoters	:	76.8	0.0
FIIs	:	0.0	0.0
MFs / UTI	:	0.0	0.0
Banks / FIs	:	0.0	0.0
Others	:	23.2	(0.0)

Relative Performance



Source: ENAM Research, Bloomberg

A unique play on premium glass packaging

Financial summary

Y/E Mar	Sales (Rs mn)	PAT (Rs mn)	EPS (Rs.)	Change (YoY %)	P/E (x)	RoE (%)	RoCE (%)	EV/EBITDA (x)
2009	10,297	(1,025)	(57.0)	348	-	(72.3)	0.4	-
2010E	10,977	18	0.5	(101)	-	2.1	7.6	9.4
2011E	12,011	799	9.9	1,989	9.4	25.0	13.2	6.2
2012E	12,992	1,189	14.8	49	6.3	28.4	17.5	4.8

Source: Company, ENAM estimates

Rohita Sharma
Sr VP – Life Sciences
rohita.sharma@enam.com (+91 22 6754 7603)

Vihari Purushothaman
Executive Director – Life Sciences
vihari@enam.com (+91 22 6754 7615)

April 5, 2010

Table of contents

Investment summary…

ENAM
It's possible!

Piramal Glass (PGL): A unique and differentiated player on glass packaging

- Strong market share in each of its business segments
  - PGL commands 5% of global market share in the cosmetics & perfumery packaging segment and is the market leader in colour cosmetics (nail polish), with 26% market share—accounting for a third of nail polish bottle sales globally
  - Market leader in the domestic pharma packaging segment with 35% market share (one among only 5 global players in USP Type-1 glass)
  - Sole supplier in the Sri Lankan Specialty Foods and Beverages packaging market with 88% market share; also enjoys a strong presence in India (through Sri Lankan operations) and USA
- Significant capacity expansion and strong customer relationships, leading to attractive business model
  - Incurred a capex of ~ Rs 4.5 bn over the last 30 months for capacity expansion; built relationships with large global customers in the high-margin, premium C&P segment—to improve capital efficiency and profitability metrics
  - Acquisition of The Glass Group, Inc (erstwhile Wheaton Glass, USA)—a niche player in the premium C&P segment in 2006, provided it with strong customer relationships, with 17 out of top 20 players in the premium perfumes segment being its customers
  - PGL has moved 145 products into development in the last 2 years; 89 have been commercialized in select perfumes segments

High barriers to entry in the premium C&P segment ; PGL is the only player from EMs with cost arbitrage

- High skill requirements in glass manufacturing
- Concentrated customer base for premium C&P segment, where top 20 players account for ~ 80% of the market
- Huge lead time for customer acquisition—up to 3-4 years for sales conversion into high-end C&P customers—due to stringent audit and approval procedures
- The only player from Asia and Emerging Markets with manufacturing expertise for premium C&P packaging and relationships with 17 of the top 20 customers
- To benefit from cost arbitrage since most competitors in C&P packaging are based in the developed markets

…Investment summary

- **Turnaround complete; growth beckons**
  - Operations have now stabilized due to successful turnaround of The Glass Group, Inc and an improved product mix. High margin C&P products to contribute 32% of sales in FY12, up from 12% in FY09
  - Significant product mix enhancement - We expect C&P sales to grow at a CAGR of 18% from FY09 to Rs 6.0 bn by FY12E
- **EBITDA margin expansion of ~ 870 bps to 27.0% in FY12E from 18.3% in FY10, driven by**
  - Rising C&P contribution to sales—estimated at 47% in FY12E from 36% in FY09
  - Contribution from higher-margin premium C&P to increase to 68% of overall C&P in FY12E from 32% in FY09
- **Rising internal accruals to allay balance sheet concerns**
  - D/E should fall to 2.8x in FY11E and 1.9x in FY12E, from 15.4x in FY09
  - We expect PGL to generate Rs 1.0 bn and Rs 1.1 bn in free cash in FY11E and FY12E which would be used for debt repayment
- **Risks to our call**
  - As 20% of high-end C&P customers generate 80% of sales, order cancellations / delays can impact earnings negatively and delay debt retirement further
  - Currency risk due to increasing exports
  - Macro-economic slowdown in developed markets can affect discretionary consumer spend in the C&P segment
- **We initiate coverage with a target price of Rs 115 and sector Outperformer rating**
  - Our target price of Rs 115 is based on EV/EBITDA of 5.5x FY12E EBITDA
  - Potential catalysts: Improving earnings profile (~ 870 bps margin improvement, over FY10-12E) and rising return ratios (ROE and ROCE to increase from 2.1% and 7.6% in FY10 to 28.4% and 17.5% in FY12E respectively)

Piramal Glass: A brief overview

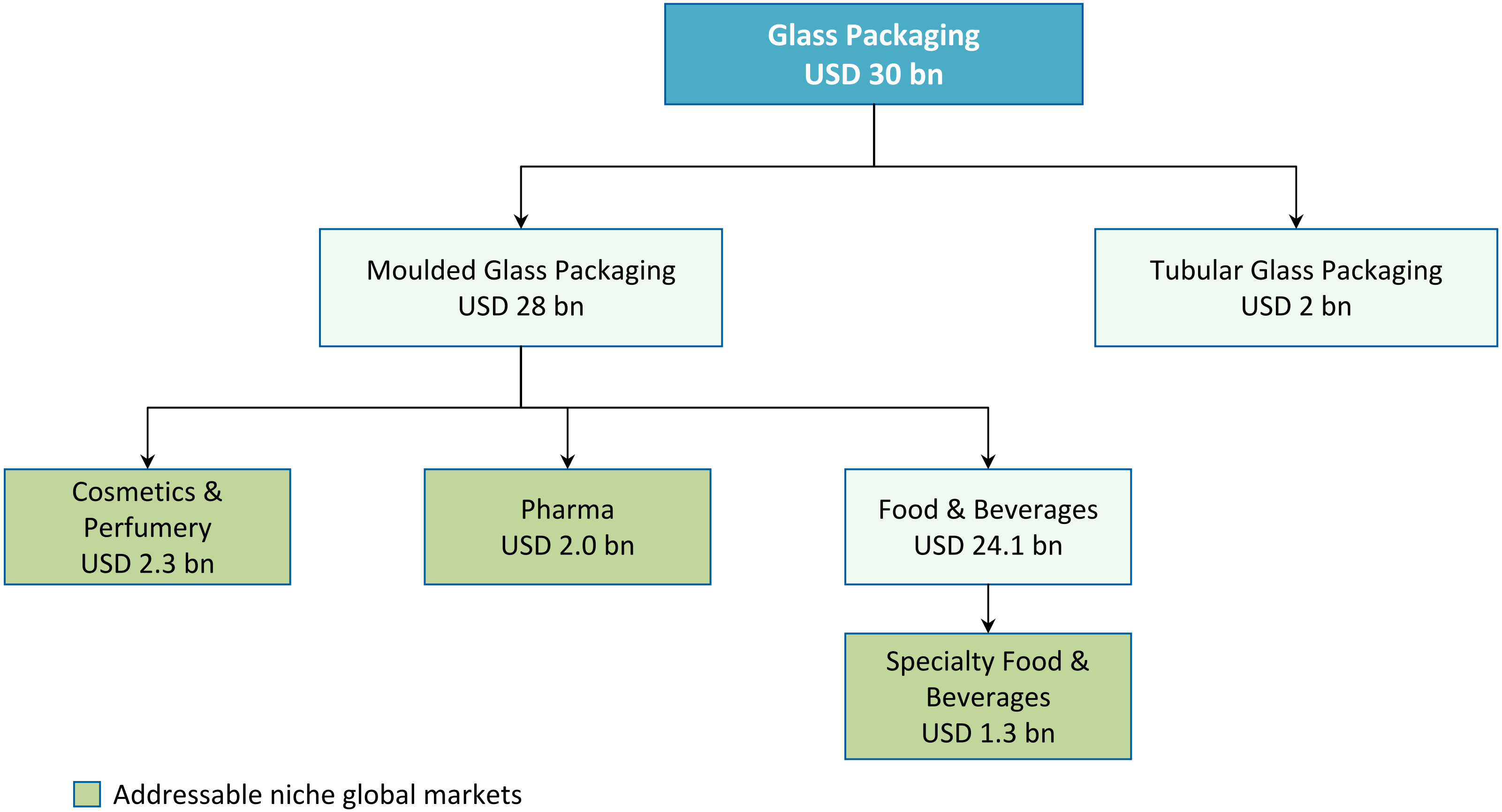
Piramal Glass: Key segmental information

ENAM
It's possible!

	Cosmetics & Perfumery **YTD Dec' 09 Sales** **Rs. 3.5 bn (42%)**	**Pharmaceuticals** **YTD Dec' 09 Sales** **Rs. 2.5 bn (31%)**	**Specialty Food & Beverages** **YTD Dec' 09 Sales** **Rs. 2.2 bn (27%)**
Products/ Segments	❑ Perfumery & Colour cosmetic bottles (Nail Polish)	❑ Vials/bottles in Amber (i.e. dark) & Flint (i.e. transparent) USP Type- I, II & III	❑ Specialty bottles for boutique wine and liquor (Value added and differentiated)
Capacity	❑ Capacity of 340 TPD ❑ **3rd largest installed capacity globally**	❑ Capacity of 440 TPD ❑ **World's largest Amber furnace**	❑ Capacity of 335 TPD
Market Share	❑ Global market share of 5% ❑ **Global leader in Colour Cosmetics (Nail-polish) with 26% market share**	❑ One among 5 global players in USP Type-I glass ❑ **Leaders in India: Market share of 35%**	❑ Single source supplier in Sri Lanka with **88 % market share** ❑ Growing market share in USA
Key mfg locations	❑ India, USA	❑ India, USA	❑ Sri Lanka (primarily), USA
Key markets	❑ **Select Perfumes:** France and USA ❑ **MNC Mass Perfumes:** West Europe, N. America, Latam, India ❑ **Low Mass Perfumes:** India, Middle East ❑ **Colour cosmetics:** Latam, West Europe, Turkey, India	❑ India, Latam, USA, Far East	❑ Sri Lanka, USA, India

Source: Company, ENAM estimates

A USD 5bn+ addressable market



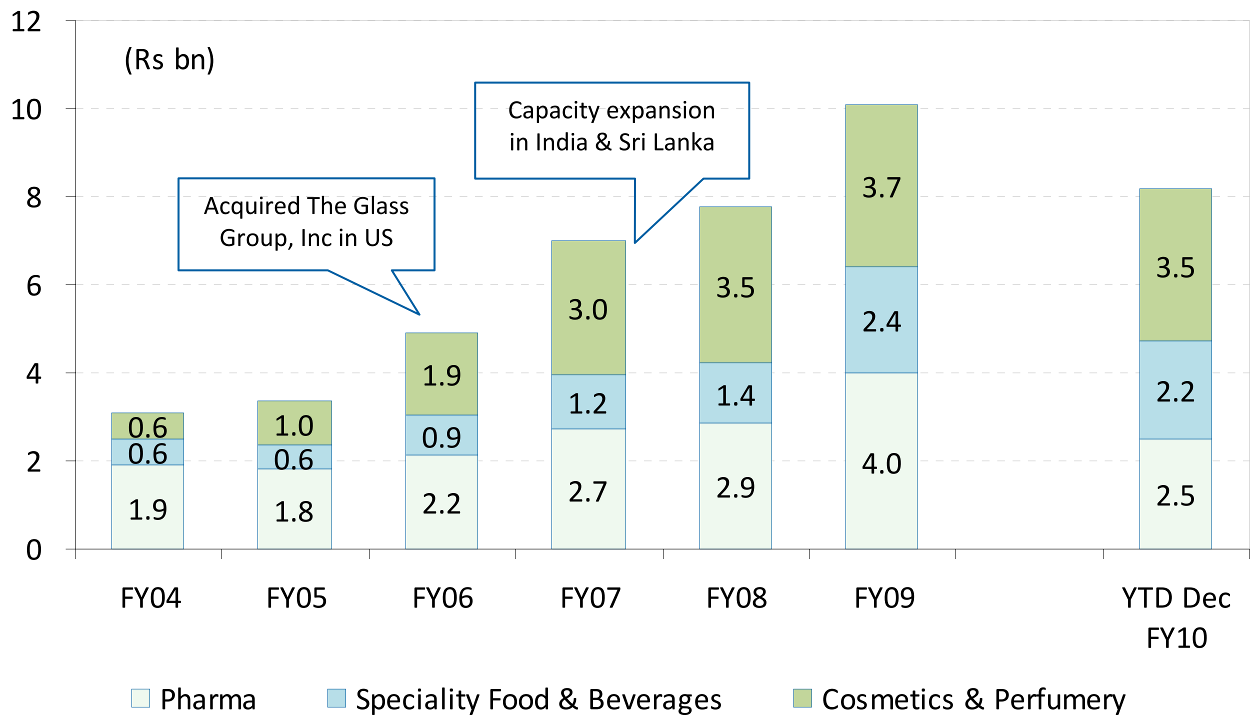
Source: Company, ENAM estimates

Piramal Glass addresses the niche "high value glass" market; Addressable market is ~ 20% of the overall market

Strong sales growth trajectory in last few years

ENAM It's possible!

Topline growth significantly driven by the C&P segment

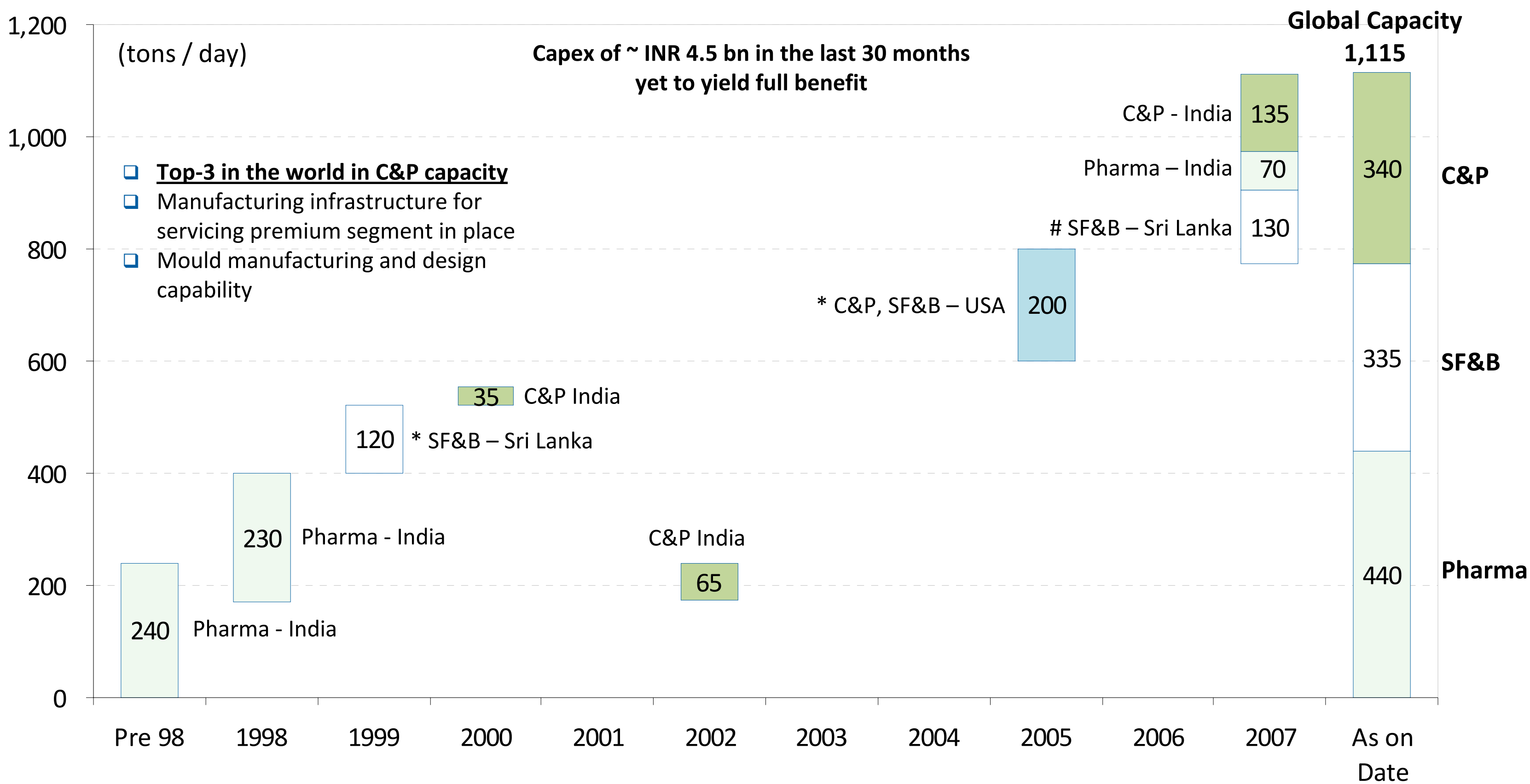


Segment	FY04-09 CAGR (%)
Cosmetics & Perfumery	45
Specialty Food & Beverages	33
Pharma	16
Total	**27**

Source: Company, ENAM estimates

C&P contributed 42% of PGL sales for 9mnths-FY10 and grew at a CAGR of 45% over FY04-09

Large capacities already in place



- **Top-3 in the world in C&P capacity**
- Manufacturing infrastructure for servicing premium segment in place
- Mould manufacturing and design capability

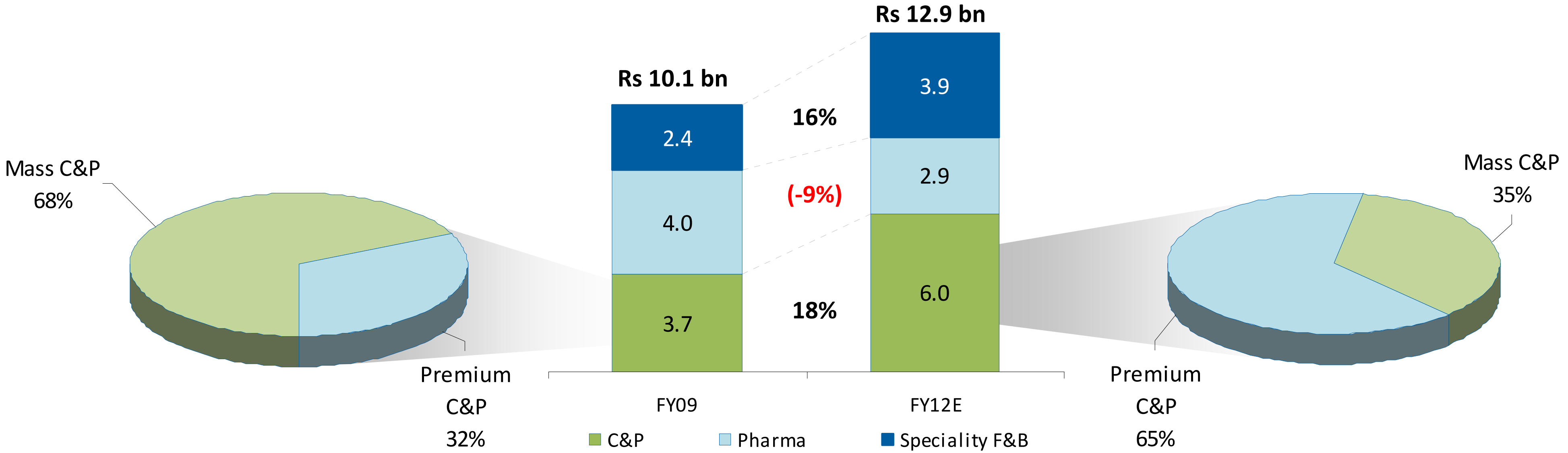
* Acquisitions ; # Indicates only additional capacity

Source: Company, ENAM estimates

Key earnings drivers

Improving sales mix

- **We expect PGL to report a moderate 9% CAGR in sales over FY10-FY12E driven by an improving sales mix towards C&P and reducing pharma sales**
  - C&P sales to grow at a CAGR of 18% to Rs 6.0 bn led by
    - Higher realizations, as the share of premium C&P rises to 32% of sales in FY12E from 21% in FY10E
    - Higher capacity for the C&P segment from reduction in volumes in the pharma segment
  - Pharma sales to decline 9% annually to Rs 2.9 bn in FY12
    - Decline led by reduced tonnage for the pharma segment as C&P capacity increases
  - SF&B sales to grow at 16% CAGR to Rs 3.9 bn led by
    - Greater sales from Sri Lanka that will benefit from a capacity expansion
    - Rising SF&B sales from the US due to capacity transitions from C&P to SF&B

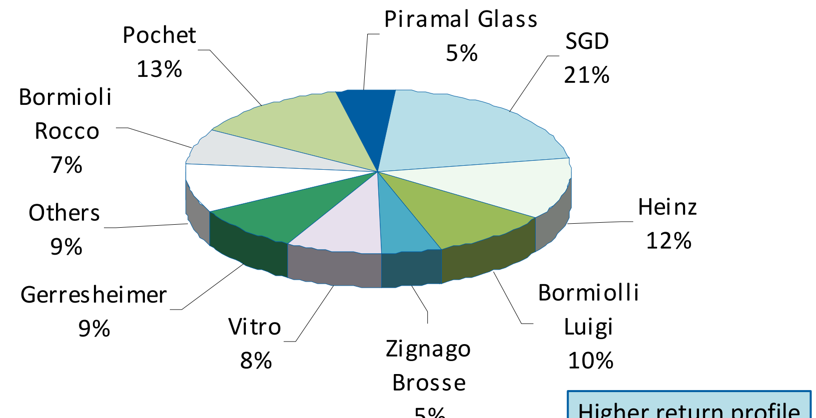


Source: ENAM Research

Cosmetics & Perfumes: Key growth driver

- **A large player in the ‘Mass’ C&P segment**
  - <u>Colour cosmetics</u>: 26% market share globally in colour cosmetics, attaining leadership within 4 years of entry
    - Manufactures ~ 1/3rd of all nail polish bottles in the world
    - Facing competition from the Chinese and Brazilian players
  - <u>Low mass perfumes:</u> 10% market share in perfumes made for the emerging economies
    - Fungible capacity that can be used to cater to higher value added perfumes

Commands 5% of the USD 2.1 bn global market



Higher return profile in premium segment

Increasing focus on premium segment

End Product Price	Bottle Price 1000 Pcs	Market Segment	Market Size Total market : USD 2.1 bn	Market	RoCE
USD 60	USD 330 - USD 1000 +	Select Perfumes	USD 1,016 (48%)	France & USA	25-30%
USD 15	USD 160 - USD 330	MNC Mass Perfumes & Skin Care	USD 616 (29%)	West Europe, N. America & Latam	20-25%
USD 8	USD 85 - USD 160	Low Mass Perfumes	USD 320 (15%)	M. East, Turkey, SE Asia, India	10-15%
USD 1.5	USD 85 - USD 160	Colour Cosmetics	USD 146 (7%)	Across Globe	10-15%

Premium Segment (Select Perfumes; MNC Mass Perfumes & Skin Care)

Mass Segment (Low Mass Perfumes; Colour Cosmetics)

Source: Company

C&P: Rising focus on the premium segment

ENAM
It's possible!

Key market characteristics in premium C&P

- Extremely high skill sets required as bottle making becomes more of an art rather than science
- Customer acquisition can take upto 3 - 4 years for high-end perfumes
- Concentrated customer base: top 20 customers account for 80% of the market
- Producer base concentrated in France, Italy and Germany
- Product development cycle of 6-8 months for MNC mass perfumes and 12-18 months for select high-end perfumes
- Decoration cost at ~ 40% of bottle cost at high-end
- High labour intensity in decoration and quality sorting

PGL's achievements

- Relationships with 17 out of top 20 customers in the select perfumes segment aided by the US acquisition
- Only Asian player in the select perfumes segment
- Retained French technical experts for quality
- 145 products under development in last 2 years & 89 commercialised in select perfumes segment
- Only qualified vendor to MNCs in India

Increased focus on premium C&P post US acquisition

- Acquired The Glass Group, Inc (erstwhile Wheaton Glass) a 100+ year old US firm, in FY06 to establish foothold in the premium C&P market
  - Acquisition cost of USD 18 mn with ~ USD 60 mn further infused to fund losses & improve operations
- Gave access to 37% of the global C&P premium market (i.e. USD 370 mn)
- Acquired established relationships with leading customers like Elizabeth Arden, Estee Lauder etc.
- US sales growth at 9% to USD 72 mn over FY06-FY09
- Cost base reduced through
  - Merger of multiple locations (decoration units)
  - Technology improvements
  - Employee workforce reduction
- EBITDA margins in the US at ~ 10%

To increase market share in the premium segment

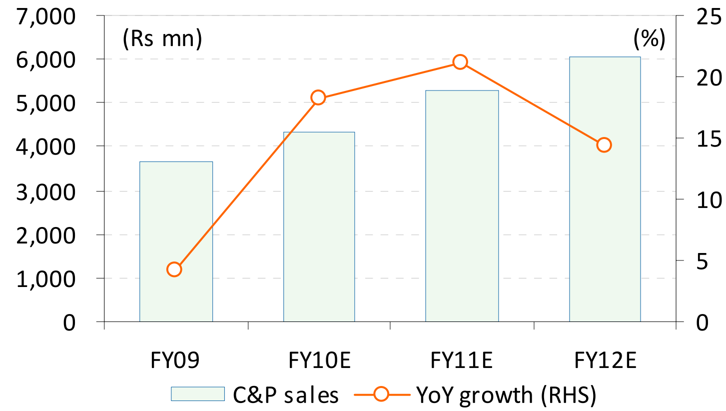
- Current premium segment market share of ~ 2%
- Focus is on acquiring mature perfumes (4+ years old) where client's aim to reduce costs and prolong product life cycle

C&P: 18% CAGR in sales over FY10-FY12E

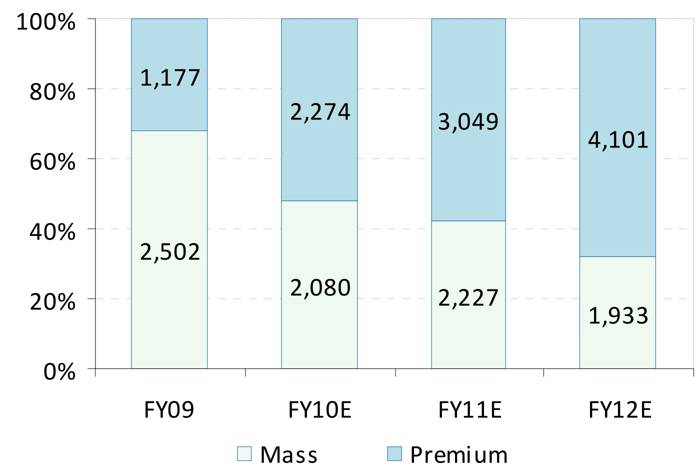
ENAM
It's possible!

- **We expect C&P sales to grow at a CAGR of 18% over FY10-FY12E to Rs 6.0 bn**
  - Shift in capacity towards C&P
    - PGL will convert 75 tons of its pharmaceutical capacity (where the market is shrinking) at Kosamba towards the C&P segment
  - Traction from existing and new relationships
    - US sales, which were falling at pre-acquisition stage (USD 56 mn in FY06), rose to USD 72 mn in FY09
- **Premium C&P to grow at 34% CAGR over FY10-FY12E, contributing ~ 68% of C&P sales (32% of total sales by FY12 v/s 12% in FY09)**
  - 145 products in the premium C&P pipeline under development in the last 2 years with ~ 90 products already commercialised
  - We expect PGL's revenue growth in the premium C&P segment to be led by an increasing market share
    - Growth aided by PGL's significant value proposition in terms of costs of manufacturing
    - Market share gains driven growth implies lower risks to topline even if market growth is slow

Strong C&P growth



C&P Premium contribution increasing



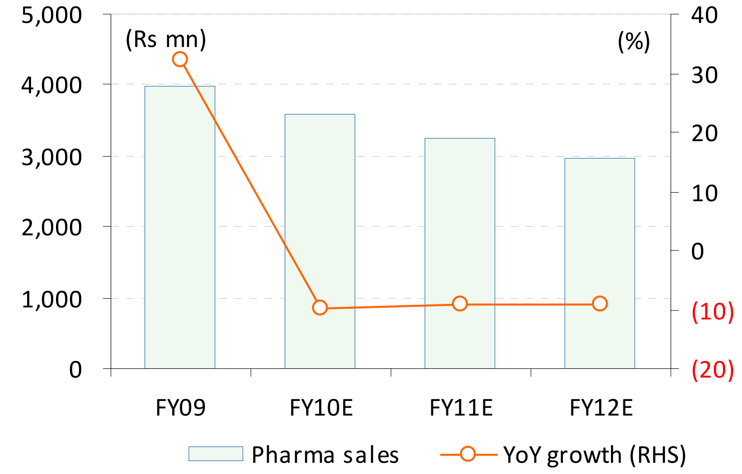
Source: Company, ENAM estimates

Pharma: Defocusing gradually

- **Leading supplier in the Indian pharma market**
  - 35% share of the Rs 5 bn annual Indian market
    - Along with competitor Hindustan National Glass, controls ~ 67% of the Indian market
  - However, market in India is shrinking due to shift to PET bottles for liquid orals
  - Consequently, shift of production taking place towards higher value added products like injectables (Type-I glass) and export markets
    - India becoming a hub for manufacture of injectables
    - The Glass Group, Inc acquisition to provide distribution reach for the US market

- **We expect pharma sales to decline 9% annually over FY10-FY12E**
  - Reduction in the market opportunity in India
  - Rationalisation of capacity towards C&P, wherein 75 tons/ day furnace would manufacture C&P products from 2011 onwards

Declining sales trend in Pharma

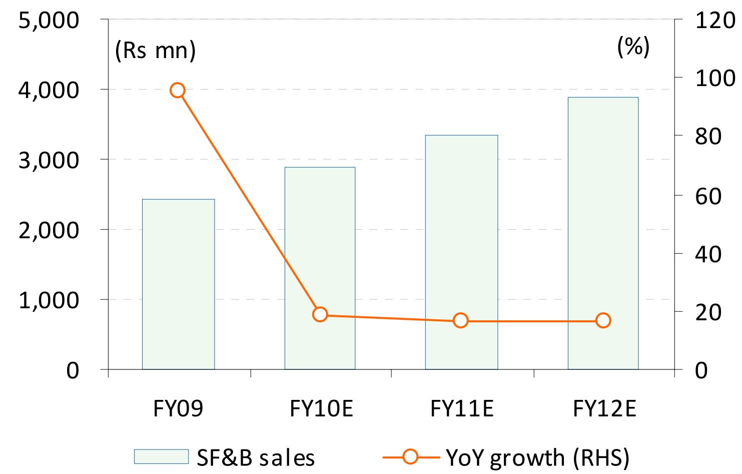


Source: Company, ENAM estimates

Specialty F&B: Rising capacity, higher US sales

- **Leading player in the Sri Lankan F&B market**
  - PGL operates through a 56% owned subsidiary in Sri Lanka
  - Single source supplier in Sri Lanka with an 88% market share
  - Strong operational performance with 30%+ EBITDA margins
- **Does not compete with other Indian F&B players**
  - Most Indian competitors make plain vanilla bottles for beer and soft-drinks while PGL makes wine, liqueur and other liquor bottles
- **Capacity expansion in Sri Lanka provides room for growth**
  - SF&B capacity in Sri Lanka expanded to 250 tpd in FY08 from 100 tpd
  - Export sales of liquor bottles and boutique wine bottles to countries such as India, Australia and South Africa will result in revenue growth
- **USA to make a transition from C&P to SF&B**
  - 200 tpd capacity in the US to be reduced to 120 tpd in FY11
  - US C&P capacity to be cut to make way for higher SF&B production
    - *PGL USA to act as a substitute to the European suppliers as freight costs from US supply base would be lower*
    - Will aid in better inventory management
- **We expect SF&B sales to grow at 16% CAGR over FY10-FY12E**
  - Growth to be led by higher capacity in Sri Lanka and higher US focus on the SF&B segment

Growth aided by increased capacity



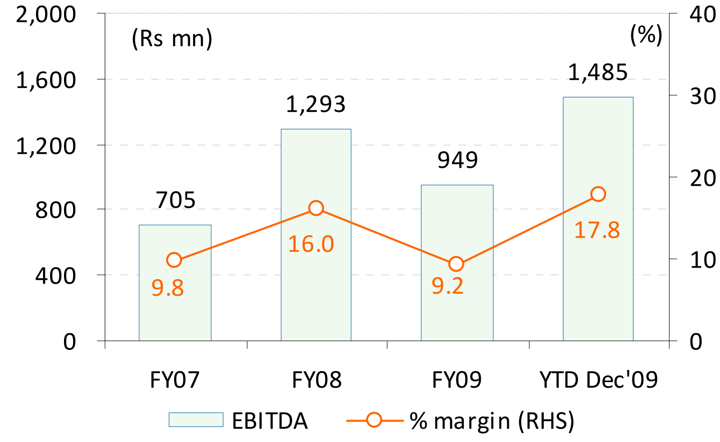
Source: Company, ENAM estimates

Improving product mix to drive rise in margin

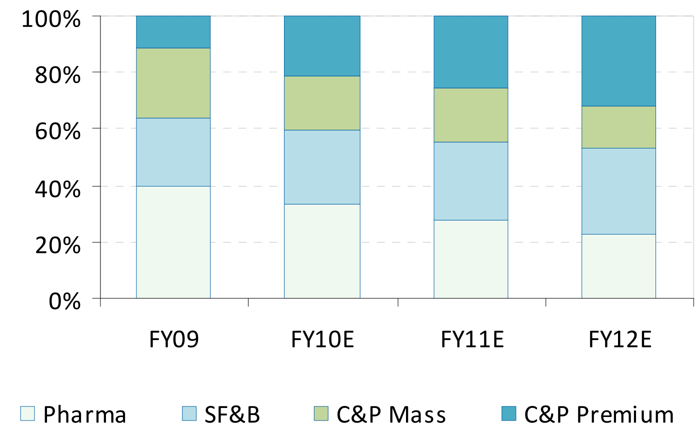
ENAM
It's possible!

- **We expect PGL's EBITDA margins to expand 1,780 bps over FY09-FY12E led by**
  - Rising contribution of C&P sales (high margin) from India
    - C&P contribution to sales to rise to 47% in FY12E from 36% in FY09
    - In C&P, higher margin premium C&P contribution to increase to 68% in FY12E from 32% in FY09 further boosting margins
  - Margins in US expected to be stable beyond FY10
    - FY09-FY10 cost savings of upto USD 10 mn on workforce reduction and technology improvement
    - Margin improvement to happen from capacity transition to India
  - We assume an increase in energy costs from FY10-FY12E
    - ~ 60% of gas requirement is sourced through non-APM price mechanism while the remainder is at APM gas price
    - We assume that APM gas prices would rise on the back of the recent proposal by the Petroleum Ministry
- **Margin decline over FY06-FY09 due to acquisition of low margin US business & huge capacity addition**
  - EBITDA % in the US business -ve till FY09; Currently operating at ~ 10% margin due to increased turnover and reduction in manpower
  - Rs 8 bn spent over FY06-FY08 towards the US acquisition cost and loss funding, capacity expansion in India and Sri Lanka put further pressure on margins

Expanding EBITDA margins after decline



Improving product mix driving margins



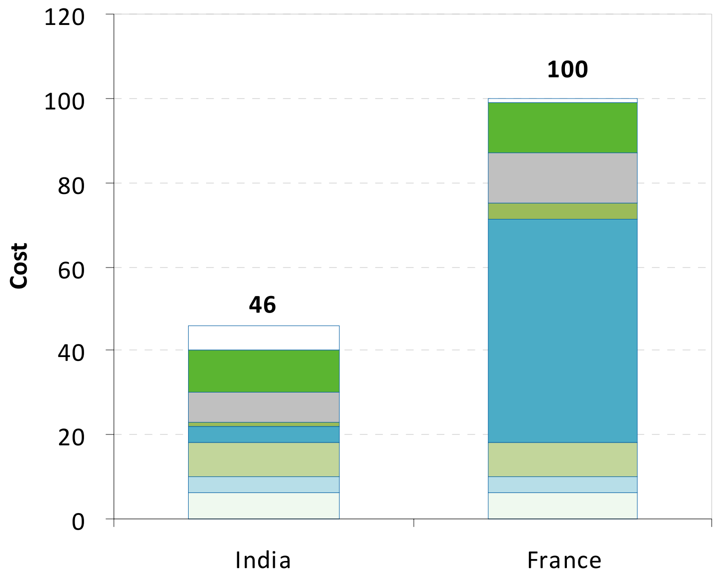
Source: Company, ENAM estimates

Cost arbitrage from the Indian operations

ENAM
It's possible!

- **Indian operations provide a significant cost arbitrage in the C&P segment**
  - Labour costs account for >50% of overall product costs in France for C&P manufacturing v/s <10% of product cost in India providing a significant cost arbitrage
  - Also, unlike other players who purchase moulds for glass bottles, PGL has an in-house mould design and manufacturing setup in place
  - PGL has to incur higher freight costs v/s Western European players due to its presence in India

Sustainable cost advantage



Cost	India	France
Freight	6	1
Overheads	10	12
Depreciation	7	12
Mold Cost	1	4
Labour	4	53
Energy	8	8
Packing Material	4	4
Raw Material	6	6
Total	**46**	**100**

Source: Mckinsey study on C&P industry , January 2007

Financials

- **Revenues: We expect 9% CAGR, led by increasing contribution from the C&P and SF&B segments while pharma revenues decline. Contribution of Premium C&P would increase the fastest at 34% CAGR**

(Rs mn)	FY10E	FY11E	FY12E	CAGR (%) FY10-FY12E	Growth Drivers
C&P	**4,354**	**5,276**	**6,034**	**17.7**	**Higher capacity allocations, traction in new and existing clients**
- Mass	2,080	2,227	1,933	(3.6)	Shift to higher-end C&P, competition in low-end cosmetics
- Premium	2,274	3,049	4,101	34.3	Rising market share in premium segment through new client acquisitions
Pharma	3,581	3,255	2,959	(9.1)	Shift to injectibles, Type-I bottles, de-focus from liquid orals
SF&B	2,882	3,351	3,897	16.3	Rising exports from Sri Lanka, higher capacity in the US facility
Other op. income	160	128	102	(20.0)	
Net Sales	**10,977**	**12,011**	**12,992**	**8.8**	

Source: ENAM Research

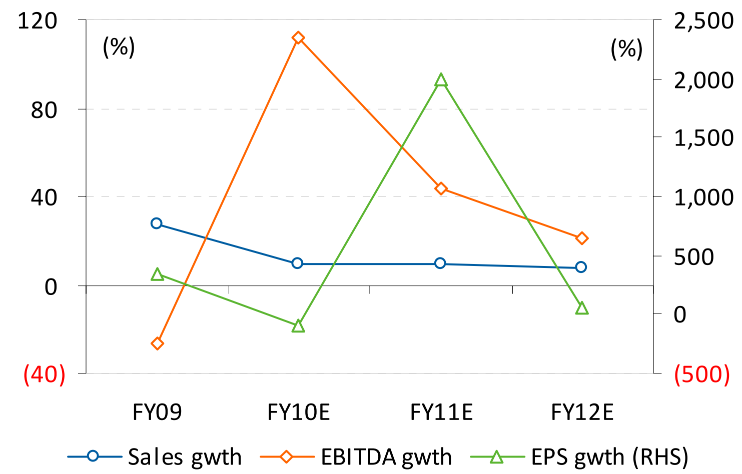
We expect PGL to record CAGRs of 9% and 708% in sales and net profit respectively over FY10E-FY12E

PAT growth to exceed EBITDA, sales growth

ENAM
It's possible!

- **We expect PGL's PAT to grow at a CAGR of 708% over FY10-FY12E, much higher than the 9% sales and 32% EBITDA CAGR over the same period**
- **Interest cost – We expect PGL's interest expense to fall due to**
  - Raised Rs 1.87 bn from the rights issue in mid-FY10, which was used to retire debt
  - Current debt on books is ~ Rs 10.3 bn as of Dec-09
  - Payment of debt of Rs 2.6 bn in FY10E and ~ Rs 1 bn annually over FY11-FY12E as PGL generates free cash
- **Tax rate – We expect PGL's tax rate at 5% in FY11 as it has carry forward losses in its US operations and tax benefits in Sri Lanka. However, we expect a tax rate of 16% in FY12 on rising profitability at its US subsidiary.**

EPS growth to outpace sales, EBITDA growth

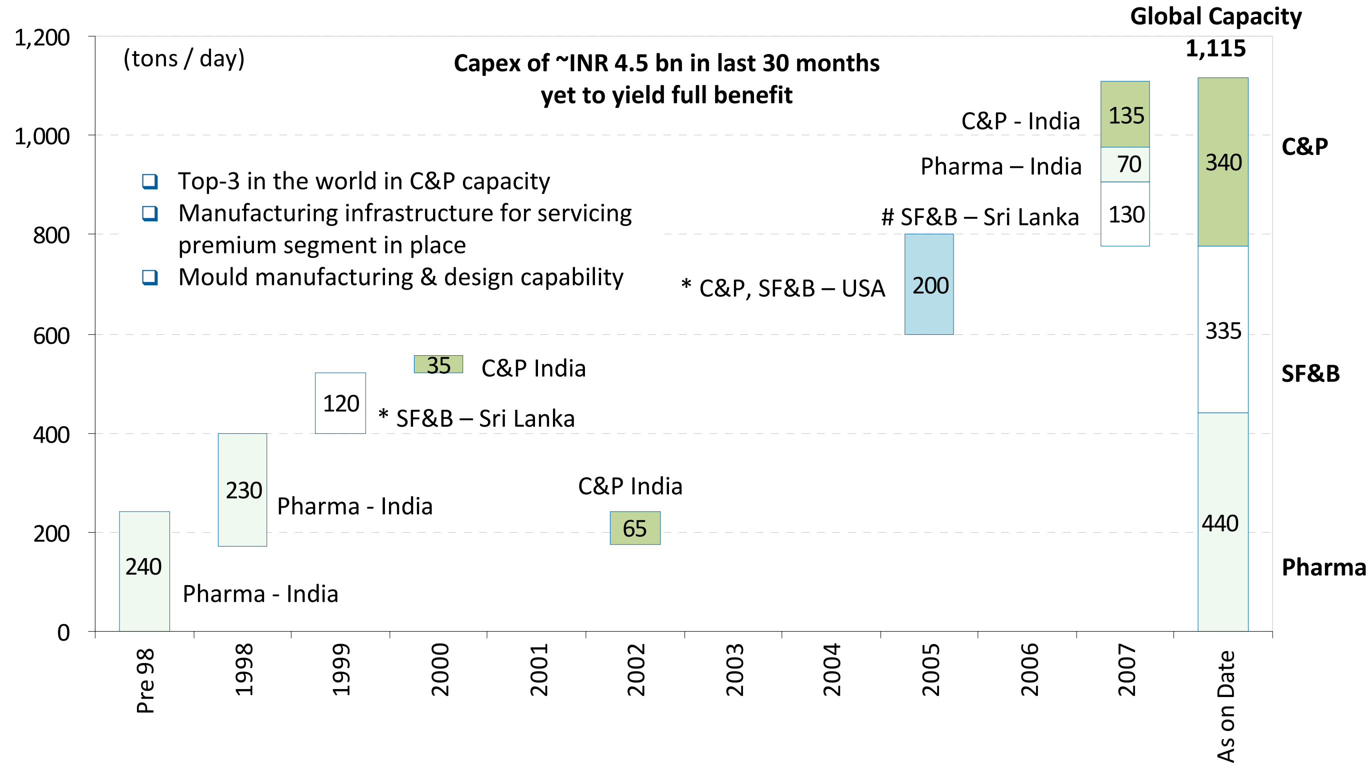


Source: ENAM Research

Major capex already completed

- **Rs 8 bn capex since FY06…**
  - Rs 3.5 bn spent on acquisition and technology improvement in the US
  - Rs 4.5 bn capex for capacity expansion yet to see full benefits
    - Expansion over FY07-08 to increase C&P, Pharma and SF&B capacity
    - No large capex needed for next few years

- **… but only Rs 2.2 bn capex over FY10-FY12E**
  - Capex to be only ~ 60% of depreciation over the same period

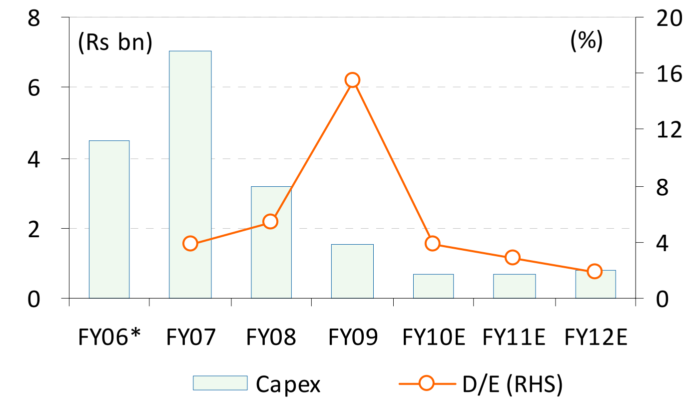


* Acquisitions ; # Indicates only additional capacity

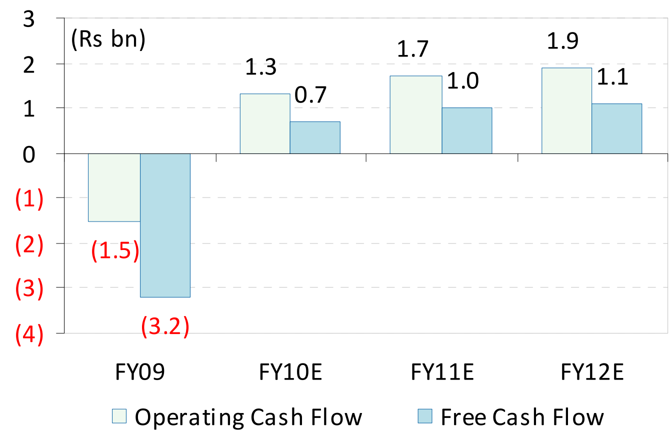
Balance sheet quality to improve

- **Expansion funded by debt resulted in a highly leveraged balance sheet**
  - Rs 8 bn capex for the US acquisition and capacity expansion over FY06-FY08 all funded by debt
  - Debt at end FY09 was Rs 13.6 bn with a D/E at 15.4x. However, with the rights issue in mid FY10 of Rs 1.87 bn and internal accruals used to retire debt , debt as of Dec-09 is at Rs 10.3 bn, implying a D/E of ~ 4x
- **We expect PGL's D/E to come down to 1.9x by FY12E**
  - Operating cash flow to increase to Rs 1.3 bn, Rs 1.7 bn and Rs 1.9 bn in FY10E, FY11E and FY12E respectively from Rs (1.6) bn in FY09 aided largely by the rising business profitability
  - Since major capex has already been completed, capex till FY12 will be only at 60% of depreciation
  - We expect PGL to generate Rs 677 mn, Rs 1.0 bn and Rs 1.1 bn in free cash in FY10E, FY11E and FY12E respectively which would be used for debt repayment
  - Payment of debt of Rs 2.6 bn in FY10E and ~ Rs 1 bn annually over FY11-FY12E as PGL generates free cash

Capex fuelled by debt; to decrease going fwd



Strong cash generation will reduce D/E

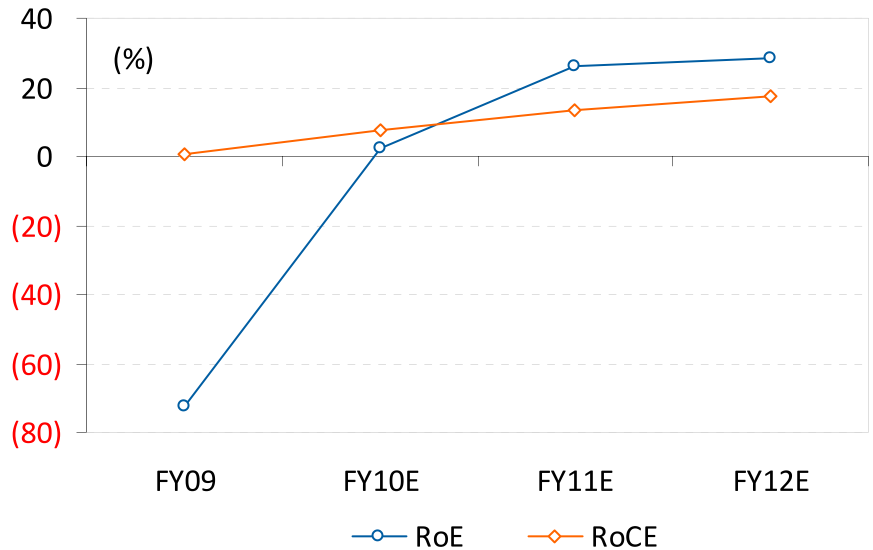


*Source: ENAM Research; * FY06 Capex ENAM estimate*

Return ratios to improve significantly

- **We expect PGL's RoE and RoCE to rise to 28.4% and 17.5% in FY12E from 2.1% and 7.6% in FY10E**
  - Margin improvement to come from better product mix
  - Asset turns to increase from FY09-FY12E as product mix shift towards higher value added products and assets get sweated out
  - Interest burden falls from reducing leverage

Marked improvement in return ratios



Source: ENAM Research;

Valuations

ENAM
It's possible!

- **We use the EV/EBITDA method to value PGL given the significant amount of debt on its books**
  - Rs 10.3 bn debt on books currently, with a D/E of ~ 4x
  - PGL will only turn marginally profitable in FY10
- **Initiate with a sector Outperformer rating with a target price of Rs 115**
  - FY12E Target EV/EBITDA of 5.5x, in-line with its most comparable peer Gerresheimer, as the smaller size of PGL is compensated by the superior margin profile
  - EBITDA CAGR of 32% to far exceed sales growth of 9%
  - Debt reduction by Rs 2 bn over FY11-FY12E will improve financials

PGL: Target price of Rs 115

Valuation (EV/EBITDA)	
FY12E EBITDA (Rs mn)	3,508
EV/EBITDA Multiple (x)	5.5
EV @FY12E (Rs mn)	**19,293**
Less: Net Debt @FY12E (Rs mn)	8,781
Equity Value @FY12E (Rs mn)	**10,512**
Cost of Equity	14.1%
PV of Equity Value (Rs mn)	9,213
No. of shares outstanding (mn)	80.43
Value per share (Rs)	**115**

Cost of equity calculation

Risk free rate	8.0%
Beta	1.1
Risk Premium	5.5%
Ke	14.1%

Source: ENAM Research;

Relative valuations

Company Name	CMP (USD)	Mcap (USD mn)	P/E (x) CY10/ FY11E	P/E (x) CY11/ FY12E	EV/EBITDA (x) CY10/ FY11E	EV/EBITDA (x) CY11/ FY12E	EV/SALES (x) CY10/ FY11E	EV/SALES (x) CY11/ FY12E	P/B (x) CY10/ FY11E	P/B (x) CY11/ FY12E	EPS CAGR FY10-FY12E	ROE (%) CY10/ FY11E
Zignago Vetro SpA	6.0	482	13.2	11.9	6.7	6.1	1.8	1.7	3.5	3.2	2	27
Gerresheimer AG	31.4	986	14.2	11.5	6.1	5.5	1.2	1.1	1.6	1.4	231	9
Piramal Glass Ltd	2.1	167	9.4	6.3	6.2	4.8	1.5	1.3	2.1	1.6	458	25
Essel Propack Ltd	1.1	176	9.5	8.6	5.6	4.8	1.1	1.1	1.1	1.0	-	12

Company Name	Sales (USD mn) CY10/ FY11E	Sales (USD mn) CY11/ FY12E	EBITDA (USD mn) CY10/ FY11E	EBITDA (USD mn) CY11/ FY12E	EBITDA Margin (%) CY10/ FY11E	EBITDA Margin (%) CY11/ FY12E
Zignago Vetro SpA	334	353	89	97	26.5	27.5
Gerresheimer AG	1,368	1,446	266	292	19.5	20.2
Piramal Glass Ltd	266	288	64	78	24.1	27.0
Essel Propack Ltd	334	333	67	79	20.2	23.8

Source: Bloomberg

Risks to call

- **Customer concentration**
  - Top 20 C&P customers account for ~ 80% of the premium C&P industry and PGL plans to increase sales to such selected customers; going forward, any large account / brand losses could lead to an adverse impact on revenues and profitability
- **Lower than anticipated / delay in transition to premium C&P sales**
  - PGL aims to increase its premium C&P sales from 21% of revenues in FY10 to 32% of revenues in FY12 which depends on increased sales volumes to existing / new customers and is expected to be a key margin driver for the Company. Typically, sales conversions from selected customers involves a high lead time and significant marketing effort. Any slippage / delays on this front may stifle future growth
- **Threat of substitutes in the pharmaceutical segment**
  - The pharmaceutical glass packaging market has seen a gradual contraction due to substitution from glass to PET bottles because of increased industry preference / safety requirements. A faster than anticipated substitution from glass to PET may adversely affect revenues and profitability
- **High dependence on exports**
  - PGL's export sales will rise as C&P sales rise and pharma sales decline. However, most of the costs are rupee denominated due to Indian manufacturing operations and PGL will not currently follow a practice of hedging its revenues once current hedges expire. Hence, adverse currency fluctuations may negatively impact earnings
- **Macro-economic factors**
  - C&P sales are affected by change in macro economic conditions due to discretionary consumer spend. Consequently, a general slowdown in economic conditions (particularly in USA and Europe where PGL expects to derive a significant proportion of incremental profits) may adversely impact its revenues and profitability

Company Financials

ENAM
It's possible!

Income statement

(Rs mn)

Y/E March	2009	2010E	2011E	2012E
Net sales	**10,297**	**10,977**	**12,011**	**12,992**
Other operating income	0	0	0	0
Total income	**10,297**	**10,977**	**12,011**	**12,992**
Cost of goods sold	6,147	6,345	6,558	6,730
Contribution (%)	*40*	*42*	*45*	*48*
Advt/Sales/Distrn O/H	3,201	2,623	2,564	2,754
Operating Profit	**949**	**2,009**	**2,889**	**3,508**
Other income	0	0	0	0
	9.2%	18.3%	24.1%	27.0%
PBIDT	**949**	**2,009**	**2,889**	**3,508**
Depreciation	892	935	1,085	1,123
Interest	1,314	1,045	890	802
Other pretax	0	0	0	0
Pre-tax profit	**(1,258)**	**30**	**914**	**1,583**
Tax provision	(186)	1	46	253
(-) Minority Interests	(47)	(10)	70	140
Associates	**0**	**0**	**0**	**0**
Adjusted PAT	**(1,025)**	**18**	**799**	**1,189**
E/o income / (Expense)	0	0	0	0
Reported PAT	**(1,025)**	**18**	**799**	**1,189**

Key ratios

(%)

Y/E March	2009	2010E	2011E	2012E
Sales growth	**27.7**	**6.6**	**9.4**	**8.2**
OPM	**9.2**	**18.3**	**24.1**	**27.0**
Oper. profit growth	(26.6)	111.8	43.8	21.4
COGS / Net sales	59.7	57.8	54.6	51.8
Overheads/Net sales	31.1	23.9	21.3	21.2
Depreciation / G. block	6.4	6.4	7.0	6.9
Effective interest rate	11.0	8.5	8.5	8.5
Net wkg.cap / Net sales	0.4	0.4	0.4	0.4
Net sales / Gr block (x)	0.78	0.76	0.80	0.82
RoCE	**0.4**	**7.6**	**13.2**	**17.5**
Debt / equity (x)	15.4	3.9	2.8	1.9
Effective tax rate	14.8	5.0	5.0	16.0
RoE	**(72.3)**	**2.1**	**25.0**	**28.4**
Payout ratio (Div/NP)	0.0	0.0	0.0	0.0
EPS (Rs.)	**(57.0)**	**0.5**	**9.9**	**14.8**
EPS Growth	348.5	(100.8)	1,988.6	48.9
CEPS (Rs.)	(7.4)	19.8	23.4	28.7
DPS (Rs.)	0.0	0.0	0.0	0.0

Source: ENAM Research

Company Financials

Balance sheet

(Rs mn)

Y/E March	2009	2010E	2011E	2012E
Total assets	**14,452**	**13,788**	**13,527**	**13,723**
Gross block	14,052	14,717	15,415	16,218
Net fixed assets	9,562	9,292	8,906	8,586
CWIP	148	148	148	148
Investments	0	0	0	0
Wkg. cap. (excl cash)	4,716	4,347	4,506	4,921
Cash / Bank balance	119	94	61	161
Others/Def tax assets	(93)	(93)	(93)	(93)
Capital employed	**14,452**	**13,788**	**13,527**	**13,723**
Equity capital	180	804	804	804
Reserves	701	1,988	2,787	3,976
Borrowings	13,571	10,995	9,936	8,942
Others	0	0	0	0

Cash flow

(Rs mn)

Y/E March	2009	2010E	2011E	2012E
Sources	**2,887**	**271**	**824**	**1,319**
Cash profit	(367)	963	1,953	2,452
(-) Dividends	0	0	0	0
Retained earnings	(367)	963	1,953	2,452
Issue of equity	0	1,874	0	0
Borrowings	3,158	(2,576)	(1,059)	(994)
Others	96	10	(70)	(140)
Applications	**2,887**	**271**	**824**	**1,319**
Capital expenditure	1,560	665	698	803
Investments	0	0	0	0
Net current assets	1,194	(369)	159	415
Change in cash	133	(25)	(33)	100

Source: ENAM Research

ENAM Securities Pvt. Ltd.

7, Tulsiani Chambers, Free Press Journal Marg, Nariman Point, Mumbai – 400 021, India..

Tel:- Board +91-22 6754 7600; **Dealing** +91-22 2280 0167;

Fax:- Research +91-22 6754 7679; **Dealing** +91-22 6754 7575

CONFLICT OF INTEREST DISCLOSURE

We, at ENAM, are committed to providing the most honest and transparent advice to our clients. However, given the nature of the capital markets, from time to time we are faced with situations that could give rise to potential conflict of interest. In order to provide complete transparency to our clients, before we make any recommendations, we are committed to making a disclosure of our interest and any potential conflict IN ADVANCE so that the interests of our clients are safe- guarded at all times. In light of this policy, we have instituted what we believe to be the most comprehensive disclosure policy among leading investment banks/brokerages in the world so that our clients may make an informed judgment about our recommendations. The following disclosures are intended to keep you informed before you make any decision- in addition, we will be happy to provide information in response to specific queries that our clients may seek from us.

Disclosure of interest statement (As of April 1, 2010)

1. Analyst ownership of the stock	No
2. Firm ownership of the stock	No
3. Directors ownership of the stock	Yes
4. Investment Banking mandate	Yes
5. Broking relationship	No

We are committed to providing completely independent and transparent recommendations to help our clients reach a better decision.

This document is provided for assistance only and is not intended to be and must not alone be taken as the basis for an investment decision. Nothing in this document should be construed as investment or financial advice, and nothing in this document should be construed as an advice to buy or sell or solicitation to buy or sell the securities of companies referred to in this document. The intent of this document is not in recommendary nature

Each recipient of this document should make such investigations as it deems necessary to arrive at an independent evaluation of an investment in the securities of companies referred to in this document (including the merits and risks involved), and should consult its own advisors to determine the merits and risks of such an investment. The investment discussed or views expressed may not be suitable for all investors

Enam Securities Private Limited has not independently verified all the information given in this document. Accordingly, no representation or warranty, express or implied, is made as to the accuracy, completeness or fairness of the information and opinions contained in this document

The Disclosures of Interest Statement incorporated in this document is provided solely to enhance the transparency and should not be treated as endorsement of the views expressed in the report. This information is subject to change without any prior notice. The Company reserves the right to make modifications and alternations to this statement as may be required from time to time without any prior approval

Enam securities Private Limited, its affiliates, their directors and the employees may from time to time, effect or have effected an own account transaction in, or deal as principal or agent in or for the securities mentioned in this document. They may perform or seek to perform investment banking or other services for, or solicit investment banking or other business from, any company referred to in this report. Each of these entities functions as a separate, distinct and independent of each other. The recipient should take this into account before interpreting the document

This report has been prepared on the basis of information, which is already available in publicly accessible media or developed through analysis of ENAM Securities Private Limited. The views expressed are those of analyst and the Company may or may not subscribe to all the views expressed therein

This document is being supplied to you solely for your information and may not be reproduced, redistributed or passed on, directly or indirectly, to any other person or published, copied, in whole or in part, for any purpose. Neither this document nor any copy of it may be taken or transmitted into the United State (to U.S.Persons), Canada, or Japan or distributed, directly or indirectly, in the United States or Canada or distributed or redistributed in Japan or to any resident thereof. The distribution of this document in other jurisdictions may be restricted by law, and persons into whose possession this document comes should inform themselves about, and observe, any such restrictions

Neither the Firm, not its directors, employees, agents or representatives shall be liable for any damages whether direct or indirect, incidental, special or consequential including lost revenue or lost profits that may arise from or in connection with the use of the information.