Indiabulls
Institutional Equities

6 December 2010

Initiating Coverage

Piramal Glass Limited

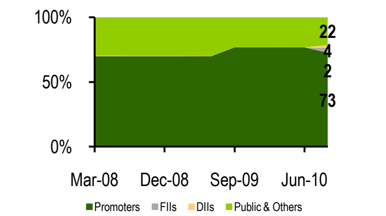
Outperform

A high entry-barrier business

India
Midcaps
Price: ₹113*
Target price: ₹195

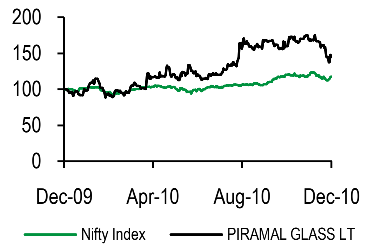
Stock details	
Bloomberg code	PIRA IN
MCap ₹/US$ mn	9,157/204
Outstanding shares (mn)	80
52-wk H/L (₹)	142/66
3m avg trd vol (US$ mn)	1.2
Nifty / Sensex	5993/19967

Shareholding pattern (%)



Stock performance (%)

	1m	3m	1yr
Absolute	(14.2)	(13.9)	44.8
Nifty	(5.1)	9.4	17.3



Source: Bloomberg, Prowess.

**Note: Priced at close of market on Friday, 3 December 2010.*

Piramal Glass Limited (PGL), a leading specialty glass manufacturer for the cosmetic and perfumery (C&P), pharmaceutical, and specialty food and beverage (SF&B) industries, with a global market share of 5% in the high value-added C&P products, is expected to report an EPS CAGR of 221% from FY10 through to FY13. This would be largely attributable to a 740bps expansion in EBIDTA margins on account of improving mix of products for the C&P segment along with rising free cash flows resulting in higher debt repayment and lower interest outgo. At CMP of ₹113, PGL is attractively valued at 4.1x EV/EBIDTA, 6.2x PE, and 1.5x P/BV on FY13 basis. We arrive at a blended valuation of ₹195 per share, an upside of ~73% from current levels. We initiate coverage on PGL with an Outperform rating.

Painful years behind as company comes out of teething problems

The premium cosmetic and perfumery (C&P) segment, apart from being a highly consolidated market, has very high entry-barriers in terms of the customer acquisition cycle which takes three to four years. In addition, the product development cycle takes another 12-18 months. PGL through its US acquisition of "The Glass Group" in FY06 has developed strong relationship with 17 of the world's top 20 customers, which control 37% of the premium C&P market globally. Over the last few years, PGL has already commercialised 200 products in this category with a further 100+ products in the development stage. This in turn has helped PGL attain critical mass and clients, and the momentum is likely to continue further as any new entrant into this segment would take at least three to four years to make inroads.

High-value C&P segment's contribution set to increase

With the aforementioned acquisition, PGL has obtained ready access to global C&P giants. Apart from this, PGL has been able to leverage its cost competitiveness vis-à-vis global majors by gradually shifting the US manufacturing base to its Indian operations. This has resulted in an increasing number of project wins which we believe would continue over the next few years. We expect the C&P segment's contribution to increase from 44% in FY10 to 55% in FY13.

Superior product mix to expand EBIDTA margins

We expect EBIDTA margins to improve from 18.5% in FY10 to 25.9% in FY13 on account of rise in C&P contribution (to come largely from the select perfume segment, the proportion of which would increase from 19% in FY10 to 28% in FY13) and transition of 50% of the US C&P sales to Indian operations resulting in savings in overhead and employee costs.

Figure 1: Key financials

₹ mn unless otherwise stated; year-end March

	FY09	FY10	FY11E	FY12E	FY13E
Revenue	10,088	11,039	12,116	13,063	14,081
EBITDA	948	2,042	2,525	3,272	3,651
PAT	(1,026)	44	811	1,267	1,467
EPS (₹)	(57.0)	0.6	10.1	15.8	18.2
EPS (IBP consensus) (2)	-	-	9.0	17.4	N.A.
EPS growth	349.3	(101.0)	1,728.5	56.2	15.8
RoE (%)	(75.6)	1.8	28.6	34.0	29.9
PE (x)	(2.0)	204.9	11.2	7.2	6.2
EV/EBITDA	16.3	9.2	7.1	5.1	4.1
P/BV (x)	2.9	3.5	2.7	2.0	1.5

Source: Company, Indiabulls research

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Company Background

Piramal Glass Ltd (PGL) is a leading specialty glass manufacturer for the cosmetic and perfumery (C&P), pharmaceutical, and specialty food and beverage (SF&B) industries. It offers an entire gamut of flacconage solutions under one umbrella which 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 such as caps, cartons and brushes.

PGL is among the world's top five glass bottle makers by sales in the pharmaceutical segment, and the third-largest manufacturer of cosmetics bottles by capacity, with combined installed capacity of 1,120 tonnes per day, and sales of US$250mn worldwide. It has its production facilities based out of India, US and Sri Lanka. It manufactures glass bottles of various sizes ranging from 10 ml to 100 ml.

Figure 2: History of events

2010 – PGL turnarounds after three years of consecutive losses

2008 – Kojam merges into Gujarat Glass Limited, which gets relisted as PGL

2005 – Acquires a part of The Glass Group (erstwhile Wheaton Glass) and marks entry into premium C&P market

2003 – NPIL demerges its 54% holding to Kojam Finvest which gets listed

1999 – Acquires Ceylon Glass Company Limited, Sri Lanka, and marks entry into SF&B segment

1998 – Demerges as subsidiary, PE investors buy 45% in the demerged entity

1990 – Merges with group company Nicolas Piramal India Ltd (NPIL) and becomes its division

1984 – Gujarat Glass acquired by Piramal Group

Source: Company, Indiabulls research.

Figure 3: Global player with production facilities across India, US and Sri Lanka

Country	Location	Furnaces	Lines	Capacity (TPD)
India	Kosamba, Gujarat	6	24	340
India	Jambusar, Gujarat	2	12	335
US	Flat River, Missouri	2	8	195
Sri Lanka	Horana	1	5	250
Total		**11**	**49**	**1,120**

Source: Company, Indiabulls research.

Figure 4: Business segments

Particulars	C&P	Pharma	SF&B
Product profile	Perfumery & colour cosmetic bottles	Vials / bottles in amber & flint	Specialty bottles for boutique wine & liquor
Capacity (in TPD)	340	440	335
Key factory locations	India, US	India, US	Sri Lanka, US
Market share	Global market share of 5%, global leader in colour cosmetics (nail polish bottles) with 26% market share	Leading player in India with 35% market share; one of the top 5 players in USP Type-I glass	Single source supplier in Sri Lanka with 88% market share; growing market share in US
Key global players	Pochet, Zignago Vetro, SGD, Heinz, Gerresheimer	Gerresheimer, SGD, Rocco, Hindusthan National Glass	Saver, Anchor Glass, Vitro, Vetri Specialli
Key markets	France, US, BRIC countries	India, South East Asia, US	US, Sri Lanka
Key customers	P&G, L'Oreal, Estee Lauder, Avon, Revlon, Unilever, etc.	Merck, Wyeth, GSK, Novartis, Ranbaxy, Dr Reddy's, Cipla, etc.	Cadbury, Diageo, UB Group, Tone's, Lion Stout, Smucker's, etc.
Key brands	Chevignon, Puma Flowing Dior, Polo, etc.	Taxim-O, Cheston, Silomat, Ketanest, etc.	Rose's, Wilkin, Darbo, Antiquity, Bacardi, etc.
Industry CAGR (%)			
Domestic	35%	-5%	10%
Global	5-7%	3-5%	12-15%
FY10 revenues (in ₹ mn)	3,679	2,830	2,427
FY10 revenue mix (%)	44	31	26
EBIDTA margins (%)	*22.5	20	19

Source: Company, Indiabulls research.

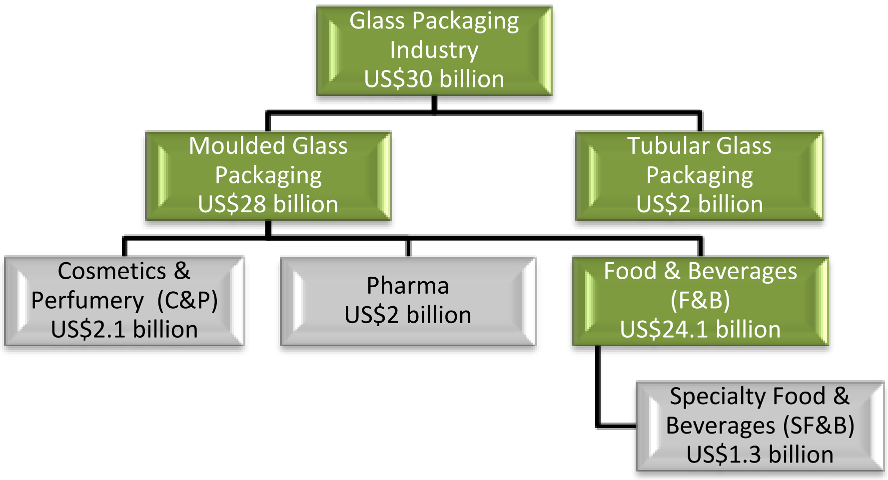
Note: * In the premium C&P segment, PGL's EBIDTA margins are 24.7% while for the mass segment, margins are 21%

Glass packaging industry

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.

Figure 5: Global Industry size



Source: Company.

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.**

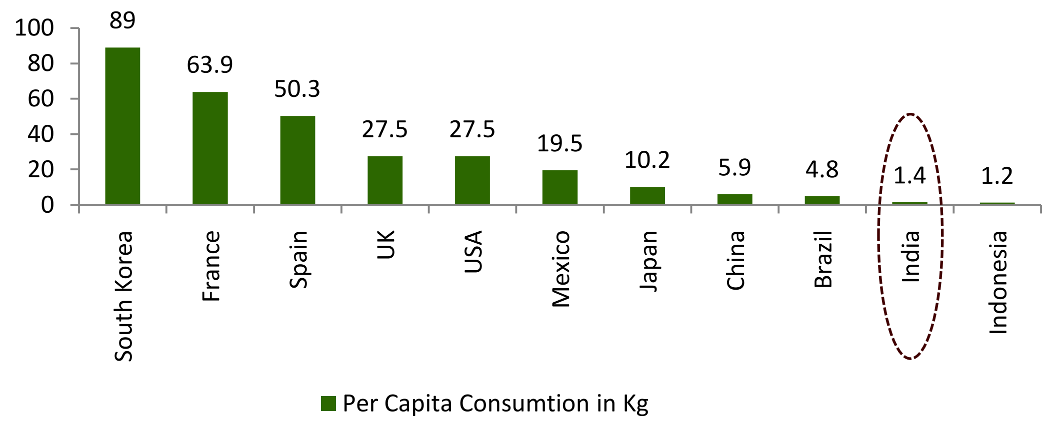
Indian glass packaging industry

The Indian glass packaging industry stood at US$0.9bn in FY10, a growth of ~12% over FY09. The economic drivers for end-user segments such as liquor and beer, pharmaceuticals, food, and cosmetics & perfumery include the following:

- rising disposable incomes
- low per capita consumption of glass containers
- increasing middle-age population
- cultural change, i.e., acceptance of social drinking and growing drinking habits among women

With these drivers likely to remain strong, the Indian glass packaging industry is expected to grow at a CAGR of 12-14% over the next few years.

Figure 6: Per capita consumption of glass containers in different countries



Source: Company, Indiabulls research.

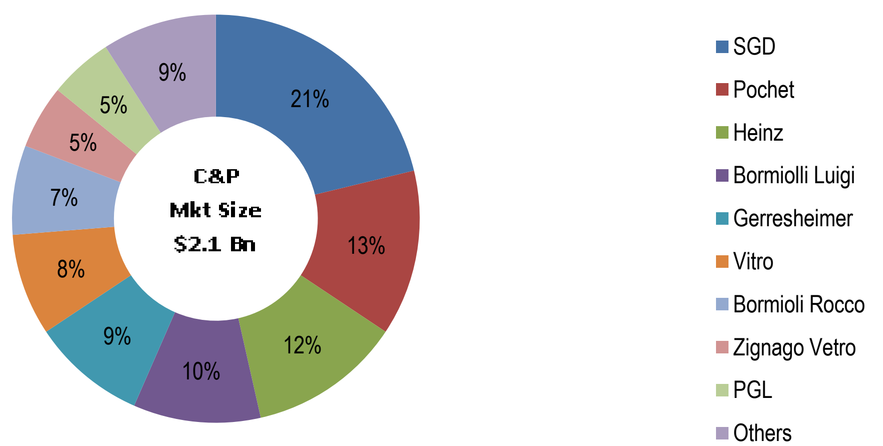
Cosmetics and perfumery (C&P) segment

The global C&P market is estimated at US$2.1bn and has been growing at 3-5% over the past five years. The BRIC nations however have been growing at a healthy rate of 15-20% (PGL supplies over 35% of its output to BRIC nations) while the US and Europe markets have been growing at 2-3%.

It may be noted that the recessionary trend over the last two years adversely impacted the C&P market (being a luxury segment) which de-grew by ~15 to 20%. However with the gradual recovery seen across the globe, the C&P market is expected to grow at a CAGR of 5-7% over the next few years.

PGL is the latest entrant in the C&P space (four years ago) and has grown at a CAGR of 17% over the last three years, thus claiming a global market share of 5% (2.5% market share in the select perfume segment). Going forward we expect PGL to double its market share in the Select Perfume segment to ~5% over the next five years as the company aggressively wrests market share from its competitors in Europe.

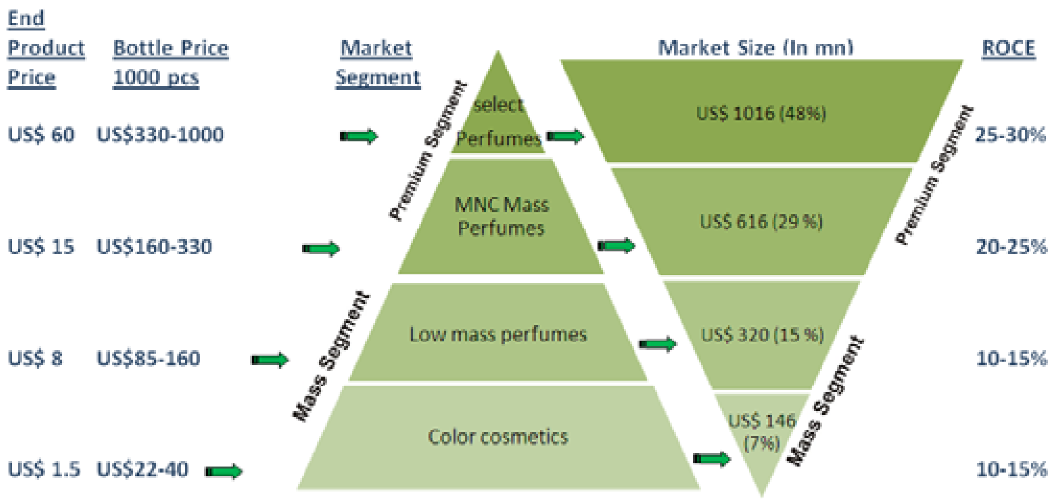
Figure 7: Global C&P market leaders and their market share



Source: Company, Indiabulls research.

The C&P market consists of two broad market segments: **premium segment** and **mass segment**. The premium segment which consists of select perfumes and MNC mass perfumes constitutes nearly 78% of the overall C&P market in terms of its value. On the other hand, the mass segment comprising of low mass perfumes and colour cosmetics constitute 22% of the market.

Figure 8: C&P market segments



Source: Company, Indiabulls research.

Figure 9: Select perfumes segment: Focus area for growth

Key market characteristics

- ✓ High-end perfume segment, produced largely in France and US
- ✓ Constitutes 48% of the C&P market
- ✓ Extremely high entry-barrier due to requirement of strong skill-sets for bottle making
- ✓ Customer acquisition takes up to three years
- ✓ Stringent quality and plant audits from customers at regular intervals
- ✓ High customer-retention levels
- ✓ Concentrated customer base, 20 customers constitute 80% of the market
- ✓ Product development cycle and approval takes 12 to 18 months
- ✓ Highly labour-intensive with multiple process parameters
- ✓ Competition from Europe and US

PGL's presence and strategy

- ✓ Only Asian player in this segment aided by US acquisition
- ✓ Strong relationship with 17 out of 20 key customers globally
- ✓ Retained French technical experts paves way for successful quality and plant audits by key customers
- ✓ Lowest-cost manufacturer globally
- ✓ In-house glass decoration units in India and US
- ✓ 200 products commercialised and over 100 products under development
- ✓ PGL caters to France and US markets in this segment
- ✓ Select entry has facilitated rapid growth with CAGR of ~80% over the last three years
- ✓ Rationalise manufacturing in the US and transition to India

Source: Company, Indiabulls research.

Figure 10: MNC mass perfume segment

Key market characteristics

- ✓ Perfume and skin-care primarily produced in developed economies
- ✓ Constitutes 29% of the C&P market
- ✓ Stringent quality and plant audits from customers at regular intervals
- ✓ Product development cycle and approval takes six to eight months
- ✓ Customers include MNCs in developed economies
- ✓ Competition from Europe and US

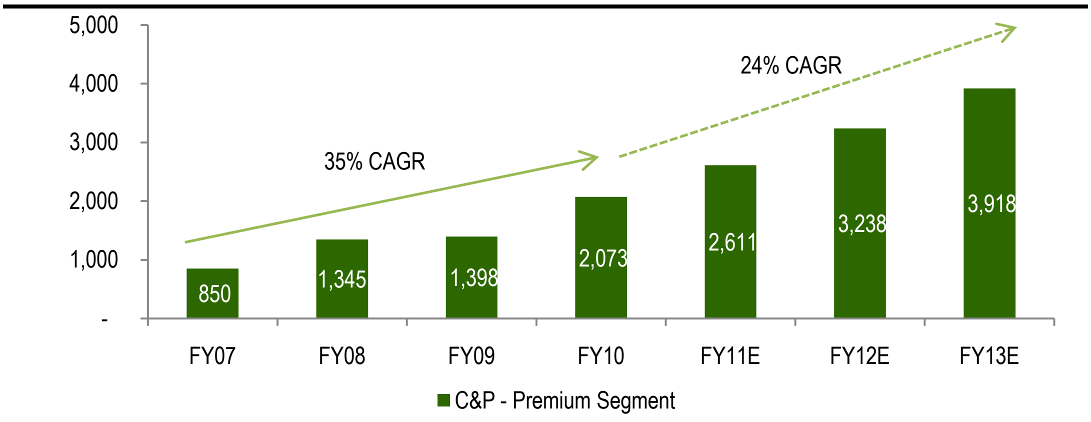
PGL's presence and strategy

- ✓ Though a recent entrant (four years ago) in this segment, PGL has already attained European customer quality standards
- ✓ It is the only qualified vendor to MNCs in India, e.g., HUL, L'Oreal, Revlon, etc.
- ✓ Its major markets include west Europe, North America, and India
- ✓ Revenue CAGR of over 27% over the last three years

Source: Company, Indiabulls research.

Figure 11: Premium segment: Growth momentum to continue

₹ mn



Source: Company, Indiabulls research.

Figure 12: Low mass perfume segment

Key market characteristics

- ✓ Perfumes largely sold in the emerging markets
- ✓ Market fragmented with regional players
- ✓ Constitutes 15% of the C&P market
- ✓ Easiest to produce in terms of quality and higher manufacturing efficiencies
- ✓ Customers include MNCs in developed economies
- ✓ Competition from China and Poland

PGL's presence & strategy

- ✓ Global leadership with 10% market share
- ✓ Has in-house design studio developing own designs averaging ~60 designs per year
- ✓ Its major markets include India, Middle East, Turkey and Russia
- ✓ Revenue CAGR of ~6% over the last three years

Source: Company, Indiabulls research.

Figure 13: Colour Cosmetics

Key market characteristics

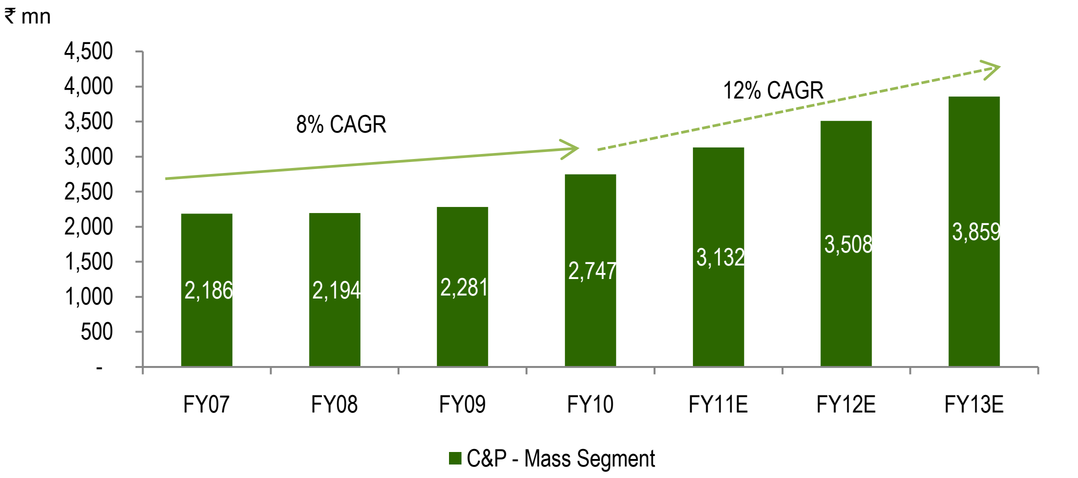
- ✓ Growth mainly driven by emerging economies
- ✓ Very fragmented and regional markets
- ✓ Constitutes 7% of the C&P market
- ✓ Requires integrated packaging including caps
- ✓ Customers include MNCs such as L'Oreal, P&G, etc.
- ✓ Competition from China and Brazil

PGL's presence and strategy

- ✓ Global leadership in nail polish bottles with 26% market share
- ✓ Leaders in launching new designs averaging ~40 designs per year
- ✓ Its major markets include India, Latin America, Turkey and west Europe
- ✓ Revenue CAGR of ~13% over the last three years

Source: Company, Indiabulls research.

Figure 14: Mass segment: A direct play on growth in emerging economies



Source: Company, Indiabulls research.

With PGL focusing more on the premium segment which has higher realisation than the other segments, the C&P premium mix as a percentage of total C&P revenues is expected to move from 43% in FY10 to 50% in FY13.

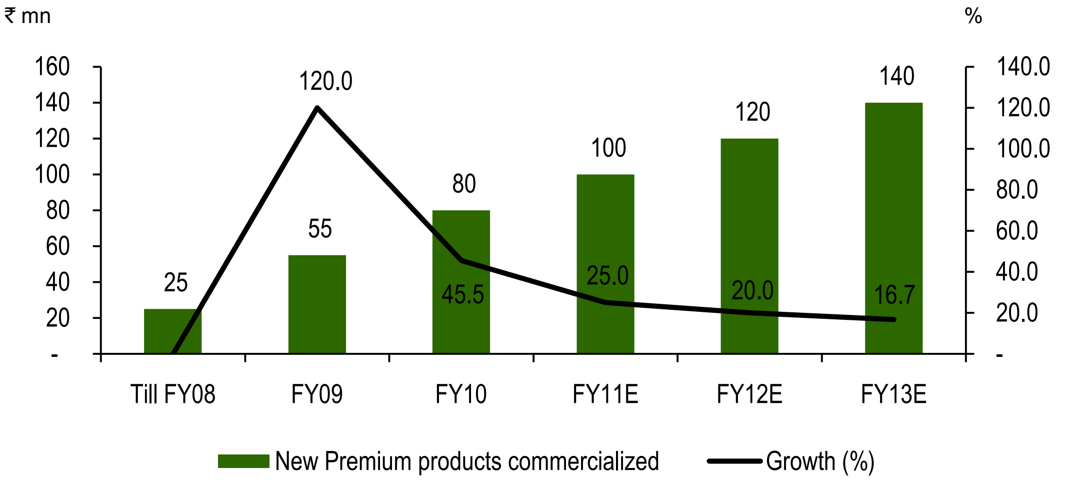
Painful years behind as PGL comes out of initial teething problems

PGL marked its foray into the global C&P market with its acquisition of US-based 'The Glass Group' (the erstwhile Wheaton Glass) in FY06 (November 24, 2005) at a cost of US$18mn. With this acquisition, PGL got ready access to 37% of the global premium C&P market with 17 out of the top 20 clients in the premium C&P market in its kitty. PGL thus acquired established relationships with leading customers like P&G, L'Oreal, Estee Lauder, and others.

However, the acquisition alone was not enough to put the company on the global map. The acquired company was a case under Chapter XI (a chapter of the US Bankruptcy Code, which allows reorganisation of a business under the bankruptcy law of the US without having to cease operations) and thus turning around that company was a big challenge. Thus over the period FY07 to FY09, PGL further infused US$60mn at the US facility not only to fund losses but to also improve operations through technology improvements and workforce reductions.

It may be noted that the premium C&P segment, apart from being a highly consolidated market, has very high entry-barriers in terms of the customer acquisition cycle which takes three to four years. In addition, the product development cycle takes another 12-18 months. Until H1FY11, PGL has commercialised 200 products (at the time of acquisition, the acquired company had only 25 products commercialised and was also losing market share) in this category with a further 100+ products in the development stage.

Figure 15: New products commercialised



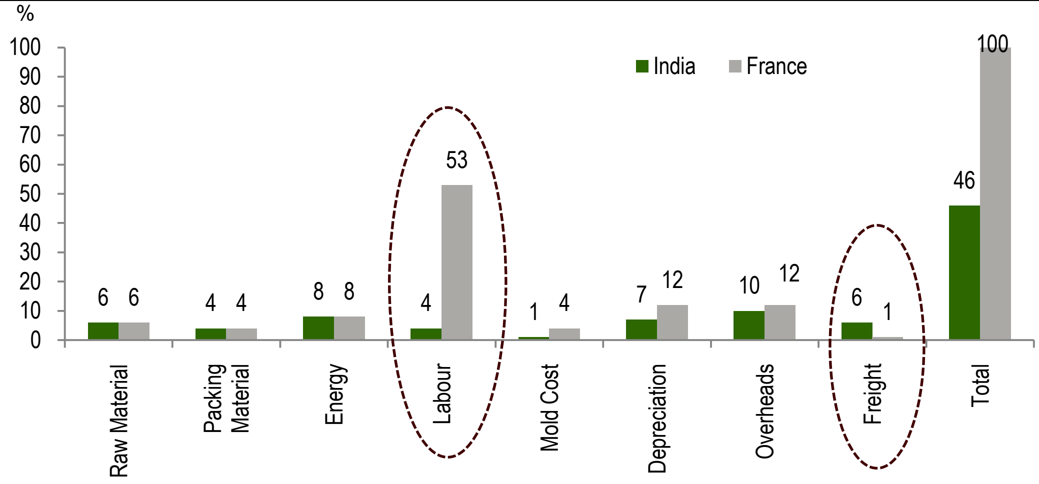
Source: Company, Indiabulls research.

In addition to the above, PGL has also rationalised operations by shifting part of its manufacturing base to India where cost of operations are significantly lower. **This in turn helped PGL attain critical mass and clients, and the momentum is likely to continue for a few more years as any new Asian entrant (PGL being the only Asian player) into this segment would take at least three to four years to make any sort of inroads.**

In FY10, nearly 21% of the company's US sales came from the production base shifted to India, thereby enabling PGL to reduce losses after tax to US$35.5mn in FY10 from US$353.6mn in FY09. By FY13, we expect nearly 50% of the US C&P sales coming from the base shifted to India while the idle capacity in the US (80 TPD) would be utilised for SF&B operations.

PGL has a current market share of 2.5% in the premium C&P market. It expects this share to increase to 5% over the next five years. It may be noted that the company is gaining share from European giants such as Gerresheimer and SGD which are reeling under cost pressures and are hence unable to compete with PGL.

Figure 16: Cost competitiveness of Indian compared to European manufacturers



Source: Company, Indiabulls research.

New customer acquisitions to aid in expanding market share

Over the last 12-18 months, 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:

Premium segment (select perfume and MNC mass segment)

- COTY – US
- Elizabeth Arden – US
- Bell Corp – Columbia
- L'Oreal – India
- Unilever – India
- Mavala – Switzerland
- Beirsdorff – Germany and Thailand

Low mass perfume segment

- Rasasi – UAE
- Beautymatics – UAE
- Park Avenue – India
- DRL – India
- Himalaya – India
- Revoline – Russia
- KPN – Russia

Colour cosmetics

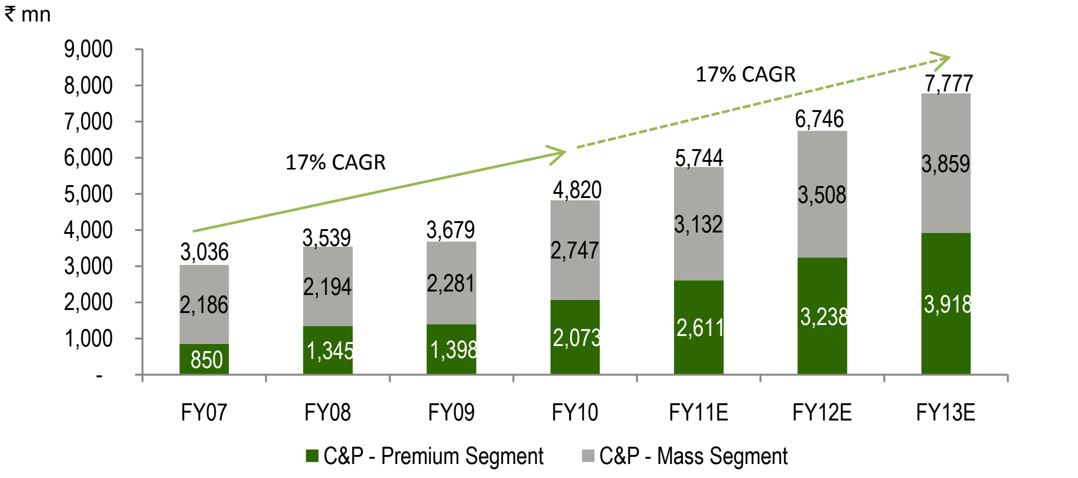
- Raphael Cosmetics – France
- Lakme – India
- Avon – Russia
- L'Oreal – India
- Hunka Cosmetics – Turkey
- House of Fuller – Mexico

MNCs shifting manufacturing base to Asia to reduce operational costs

Over the last few years, many MNC mass perfume companies have shifted their production base to Asia / emerging markets to take advantage of the low cost of operations compared to the developed economies where they are based. PGL thus becomes an obvious choice for these companies being the only Asian company in this segment apart from being the lowest-cost manufacturer globally. In many of these cases, PGL has taken significant lower lead time in client acquisition resulting in faster revenue generation. A few recent examples of MNCs that have shifted their manufacturing base to Asia and have preferred PGL as their bottle supplier, are:

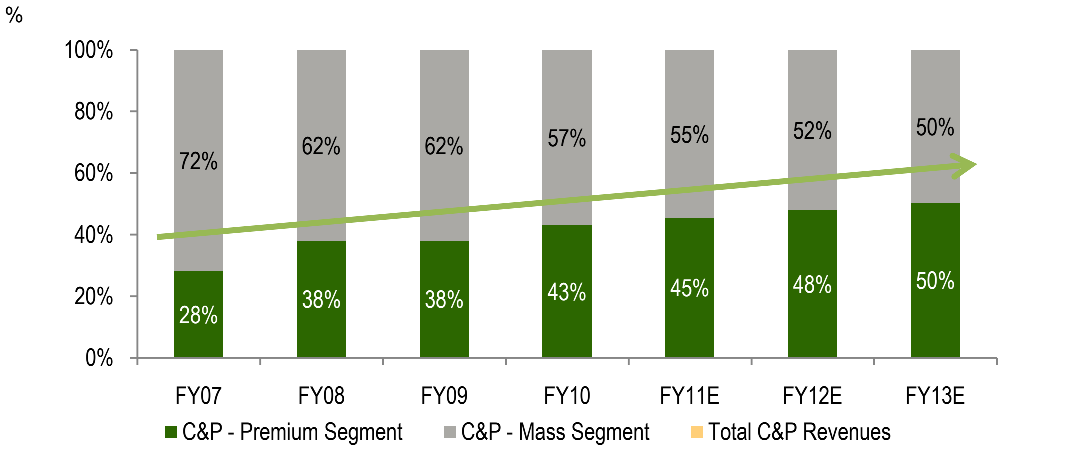
- Beirsdorff – *Nivea* products
- Sara Lee – car perfumes
- Unilever – *Age Miracle*, and *White Magic* (here PGL is the single source supplier)

Figure 17: C&P revenues to grow at 17% CAGR from FY10 to FY13



Source: Company, Indiabulls research.

Figure 18: Premium segment to constitute 50% of C&P revenues by FY13



Source: Company, Indiabulls research.

Pharma segment to see reduced focus with 3% CAGR revenue decline

The global size of the pharmaceutical bottle industry is valued at US$2bn while the domestic market size is pegged at ₹5bn. PGL is the market leader in India with 35% market share followed by Hindusthan National Glass with 32%. PGL manufactures pharma glass bottles through its world-class amber furnace (world's largest furnace) and supplies to domestic pharma and MNC companies in India as well as exports to more than 20 countries, primarily the US.

However, with the polyethylene terephthalate (PET) bottles gradually replacing glass bottles, the Indian market has been declining by over 5%. On the other hand, the demand for injectibles, i.e., USP Type-I (higher value-added product having better margins and realisation), has been growing with India becoming a major hub for injectibles. Further, the injectible segment has entry-barriers due to stringent quality requirements.

PGL has already established itself as one of the top five global players in USP Type-I glass. With the demand likely to remain strong from the domestic pharma companies, PGL plans to ramp up the 25 TPD capacity of Type-I glass to 45 TPD. Further, considering the declining market for pharma bottles, PGL plans to utilise 75 TPD of its pharma furnace capacity for C&P products from Q1FY12, which would result in better profitability.

Figure 19: Pharma segment

Key market characteristics

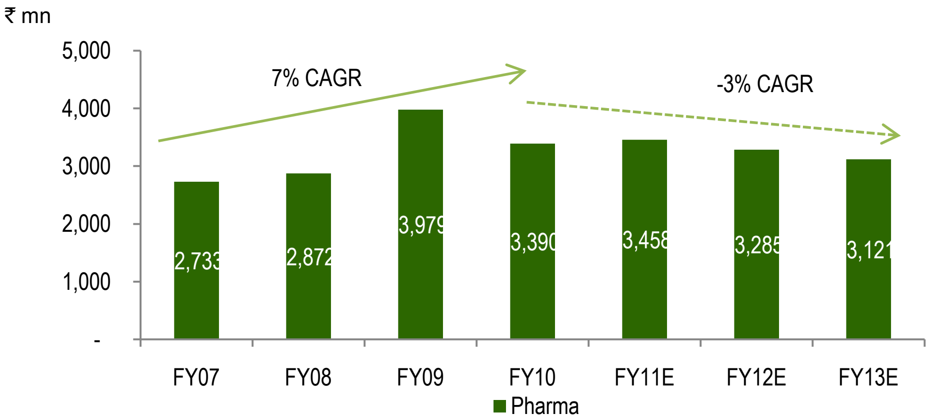
- ✓ High entry-barriers and stringent quality requirements for exports
- ✓ Consolidated supplier base
- ✓ Emergence of contract manufacturing; injectible (Type-1) demand growing in India
- ✓ Threat of conversion to PET for liquid orals remain
- ✓ Major players include Hindusthan National Glass, Haldyn Glass, Neutral Glass, and PGL

PGL's presence and strategy

- ✓ Market leader in India for over a decade, with a share of 35%
- ✓ Its major markets include India, US, Latin America, Far East, and west Europe
- ✓ Ramping up Type-1 borosilicate glass capacity and rationalisation of capacity towards the high-value C&P segment
- ✓ Revenue CAGR of 7% over the last three years
- ✓ Currently, pharma segment accounts for 31% of overall revenues, which is expected to reduce to 22% by FY13

Source: Company, Indiabulls research.

Figure 20: Pharma segment: Revenues to de-grow at CAGR of 3%



Source: Company, Indiabulls research.

Specialty food and beverages (SF&B) segment to grow at 4% CAGR

PGL operates in this segment through its manufacturing facilities in the US and Sri Lanka. Currently, the SF&B segment contributes 26% of the company's total revenues. Over the last three years, this segment has grown at an impressive CAGR of 32%, which was largely attributed to the capex initiated at the Sri Lankan facility in FY08.

Sri Lankan operations: PGL is a single source supplier of SF&B bottles in Sri Lanka with 88% market share. The company, which operates in Sri Lanka through a 56% subsidiary, had expanded its SF&B capacity from 120 TPD to 250 TPD leading to strong revenue growth from ₹745mn in FY08 to 1,478mn in FY10. With the facility now nearing 100% capacity utilisation, we expect flat growth of 2% over the next three years. Going forward, PGL plans to export value-added liquor and boutique wine bottles from this facility to neighbouring markets such as India, Australia and South Africa.

US operations: PGL's C&P capacity in the US, which is to be curtailed from 200 TPD to 120 TPD by FY11, is expected to make way for higher SF&B production. Currently, most of the US customers import SF&B glass bottles from Europe due to few players present in the US market. PGL thus plans to assign its 80 TPD US facility for SF&B manufacturing. This would give significant cost advantage to PGL as compared to its European counterparts due to savings in freight & lead time.

Figure 21: SF&B segment

Key market characteristics

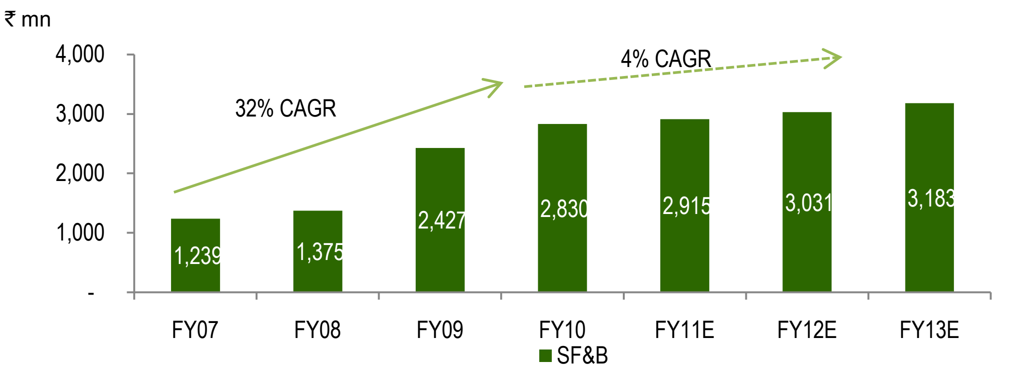
- ✓ Increasing health consciousness with shift from traditional unpackaged foods to packaged foods
- ✓ Increasing disposable income augurs well for this industry
- ✓ Increase in penetration of glass containers – currently at 10-12% in India compared to 40-50% in developed in markets
- ✓ Cultural change (liquor) – acceptance of social drinking and growing drinking habits in women
- ✓ Major players include Saver Glass, SGD, Vetri Specialty, Hindusthan National Glass

PGL's presence and strategy

- ✓ Operations mainly in the US and Sri Lanka, serving niche market for boutique alcoholic drinks
- ✓ Single-source supplier in Sri Lankan market with 88% market share
- ✓ Exports specialty value-added liquor and boutique wine bottles to India, Australia and South Africa
- ✓ US facility to pave way for higher SF&B output by cutting C&P capacity
- ✓ Revenue CAGR of 32% over the last three years
- ✓ Currently, SF&B accounts for 26% of the overall revenues, which is expected to reduce to 23% by FY13

Source: Company, Indiabulls research.

Figure 22: SF&B segment to grow at revenue CAGR of 4% from FY10 to FY13

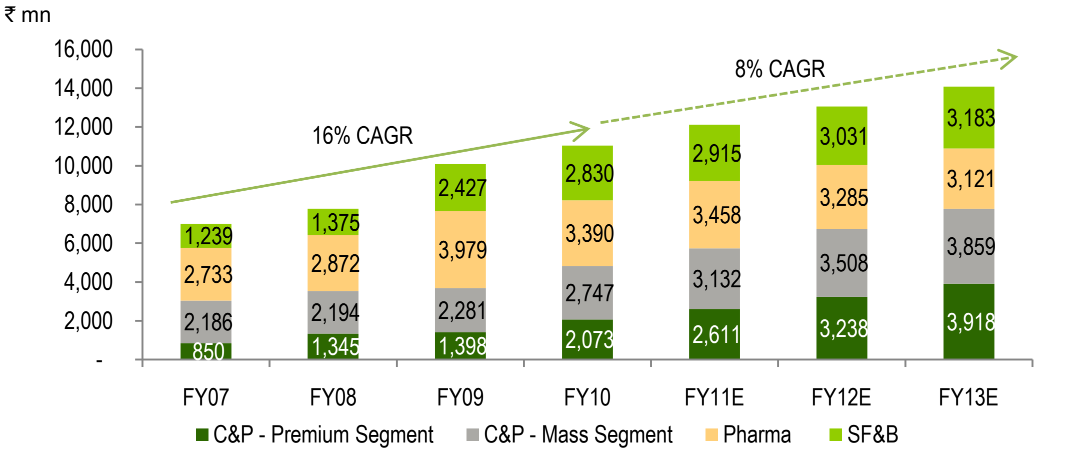


Source: Company, Indiabulls research.

Revenue CAGR at 8% on the back of capex initiatives taken over the last four years

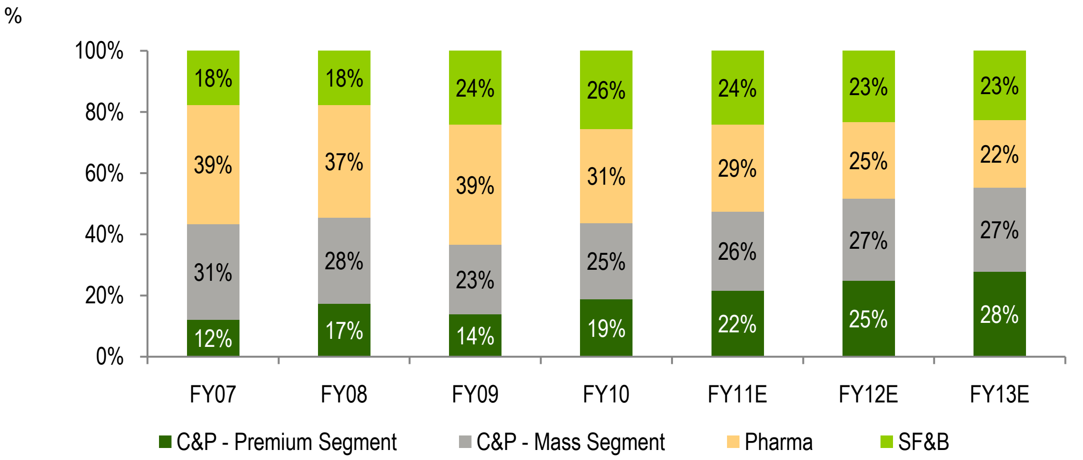
During the last four years, PGL incurred capex to the tune of ₹8bn which includes acquisition and upgradation of its US facility (to the tune of ₹3.5bn), and capacity addition at its: i) Indian operations (addition of 135 TPD C&P capacity and 70 TPD in pharma segment), and ii) and Sri Lankan operations (addition of 130 TPD SF&B capacity). With these initiatives, revenues have grown at 16% CAGR over the last three years and are expected to post a CAGR of 8% over the next three years without incurring any additional capex.

Figure 23: Net revenues to grow at 8% CAGR



Source: Company, Indiabulls research.

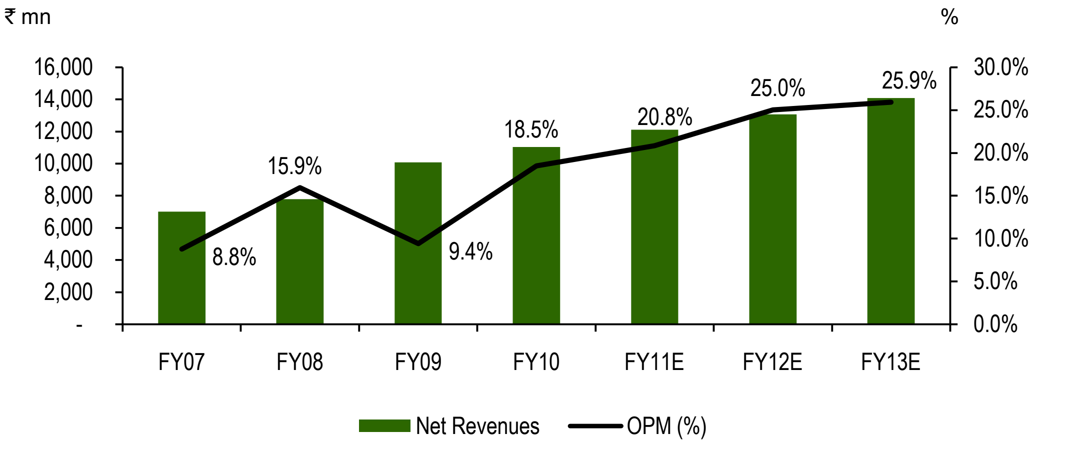
Figure 24: Revenue mix: C&P to contribute 55% by FY13



Source: Company, Indiabulls research.

Margin expansion on cards

Figure 25: EBIDTA margins to increase 740 bps by FY13



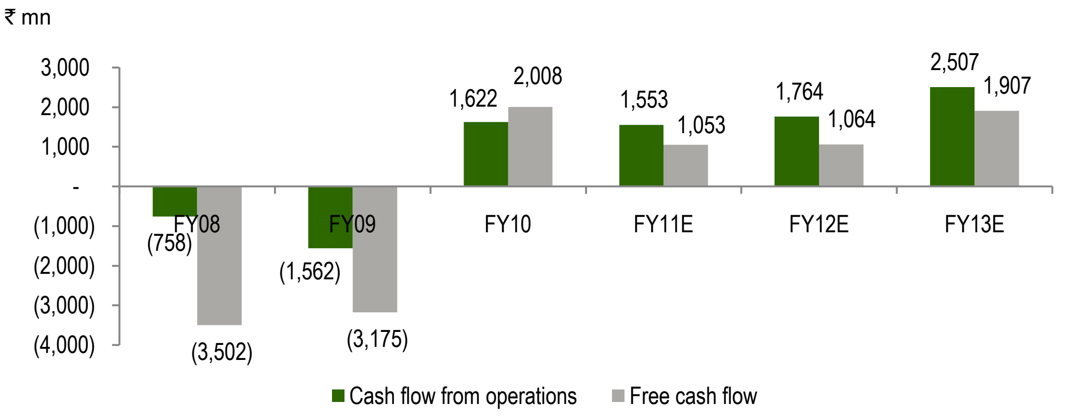
Source: Company, Indiabulls research.

Expect EBIDTA margins to improve from 18.5% in FY10 to 25.9% in FY13 on account of following factors:

- Rise in C&P contribution from 44% of overall revenues in FY10 to 55% in FY13
- Increase in C&P premium segment's contribution to total C&P revenues from 43% in FY10 to 50% in FY13, *and*
- 50% of the US C&P sales coming from the manufacturing base shifted to Indian operations resulting in savings in overhead and employee costs as compared to US operations.

Rising free cash flow to finance reduction in debt

Figure 26: Free cash flow from operations

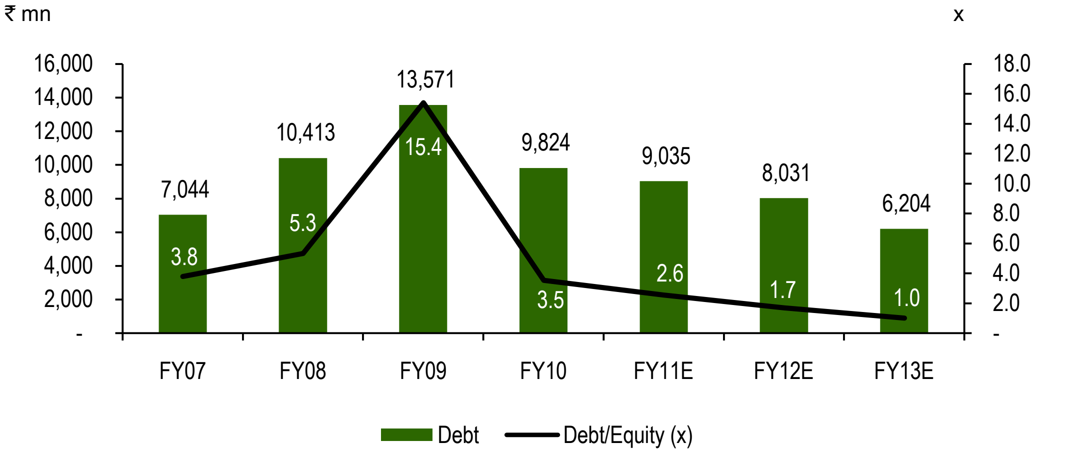


Source: Company, Indiabulls research.

With the turnaround in overseas operations including the US and Sri Lanka, PGL would witness healthy free cash flow which would be deployed in reducing its debt (currently on the higher side at 3.5x). Free cash flow over the next three years would bring down debt levels from ₹9,824mn in FY10 to ₹6,204mn in FY13. Consequently, this would also correct the debt/equity of the company from 3.5x in FY10 to 1.0x in FY13.

Debt/Equity position to be brought under control by FY13

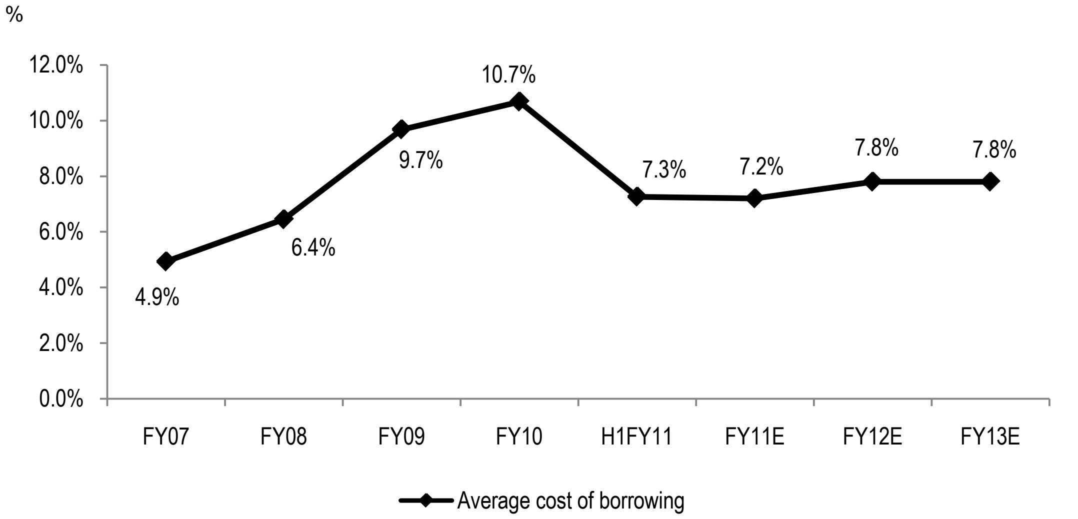
Figure 27: Falling debt/equity from FY10 to FY13



Source: Company, Indiabulls research.

Average cost of borrowing to reduce on loan restructuring

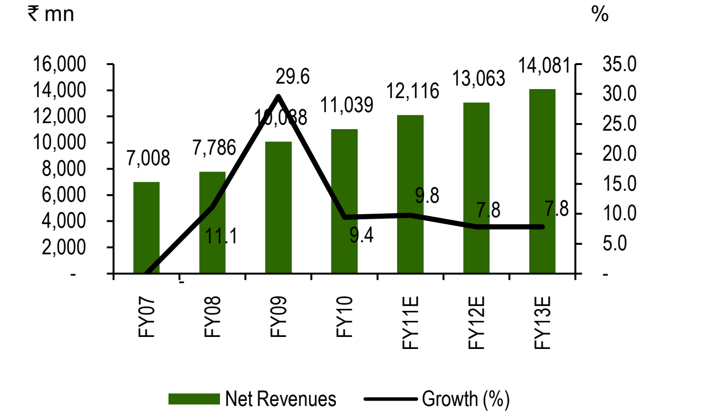
Figure 28: Average cost of borrowing to come down



Source: Company, Indiabulls research.

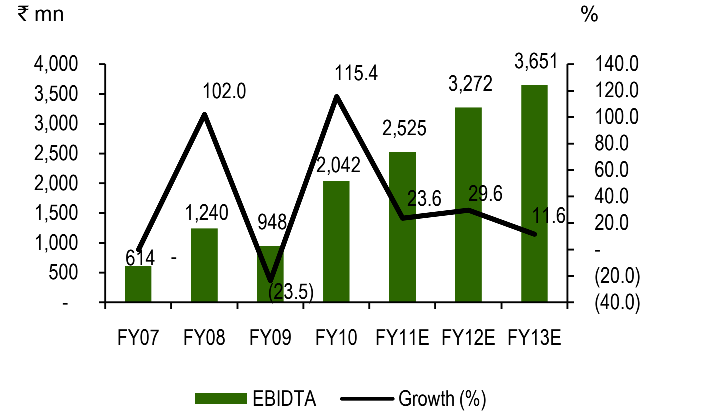
Financials to improve significantly on turnaround in operations

Figure 29: Net revenue trend and YoY growth



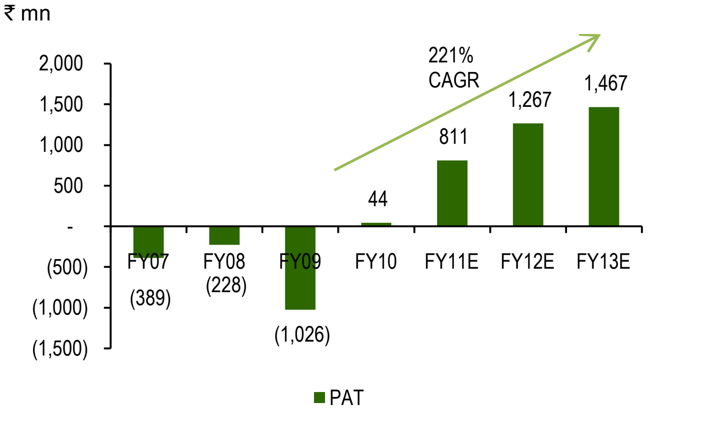
Source: Company, Indiabulls research.

Figure 30: EBIDTA trend and YoY growth



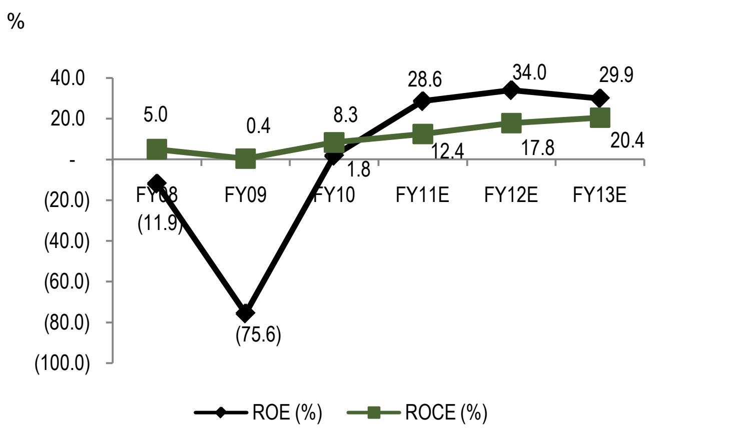
Source: Company, Indiabulls research.

Figure 31: Profit after tax (PAT) trend



Source: Company, Indiabulls research.

Figure 32: Improving return ratios



Source: Company, Indiabulls research.

H1FY11 financial performance

Figure 33: H1FY11 financial snapshot

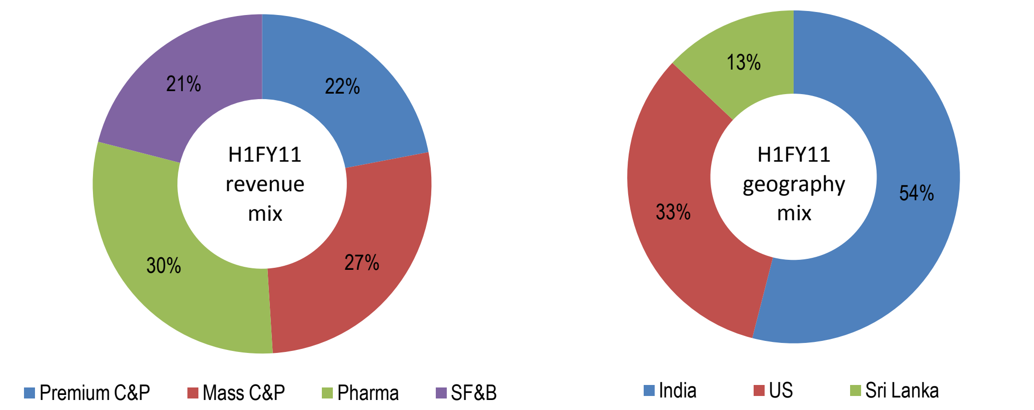
₹ mn unless stated otherwise

Particulars	H1FY11	H1FY10	Var (%)
Net sales	5,789.8	5,384.7	7.5
EBIDTA	931.1	1311.9	40.9
EBIDTA (%)	22.7	17.3	540 bps
Interest	341.0	675.4	(49.5)
Depreciation	460.0	458.1	0.4
PBT	510.9	(202.4)	*LP
Tax	101.2	0.4	25,200
PAT	409.7	(202.8)	*LP
Minority interest (MI)	37.9	(24.7)	*LP
PAT after MI	371.8	(178.1)	*LP
EPS (₹)	4.6	-2.2	*LP

Source: Company, Indiabulls research.
Note: *LP: Loss to Profit

Net sales for H1FY11 grew 7.5% at ₹5,789.8mn largely attributed to 24% growth in the C&P segment which constituted 49% of the overall revenues. Within the C&P segment, the premium segment (44% of C&P revenues) grew 24% while the mass segment (56% of C&P revenues) grew 22%. On the other hand, while the pharma segment grew 5%, SF&B showed a de-growth of 14% for the period under review.

Figure 34: H1FY11 revenue and geography mix



Source: Company, Indiabulls research.

EBIDTA margins witnessed a jump of 540bps from 17.3% in H1FY10 to 22.7% in H1FY11 on the back of an improving C&P mix, which stood at 49% in H1FY11 as compared to 44% in H1FY10.

Interest outgo reduced by 49.5% to ₹341mn from ₹675.4mn partly on account of reduction in overall debt from ₹10,770mn to ₹9,603mn and fall in the average cost of borrowing which stood at 7.3% in HYFY11 as against 10.7% witnessed in the entire FY10.

Riding on the improving product mix towards higher-value products and reduction in the interest cost, PGL registered a PAT of ₹371.8mn in H1FY11 compared to a loss of (₹178.1mn) in H1FY10. EPS for H1FY11 stood at ₹4.6.

Peer comparison

Figure 35: Comparison with global peers

₹ mn unless otherwise stated

Financials	Net Sales	EBIDTA	PAT	EBIDTA (%)	ROE (%)	*Sales CAGR (%)	*PAT CAGR (%)
Gerresheimer (Germany)	70,726	14,722	5,021	20.8	13.8	4%	**22%**
Zignago Vetro (Italy)	17,585	4,711	2,176	26.8	28.4	7%	**8%**
PGL (India)	14,081	3,651	1,467	25.9	29.9	8%	**221%**

** Note: Sales & PAT CAGR estimated for three years from CY09/FY10 to CY12/FY13*

Valuation	CMP (€ /₹)	EPS (€/₹)	PE (x)	P/BV (x)	EV/EBIDTA (x)	EV/Sales (x)	Mcap/Sales (x)
Gerresheimer (Germany)	28.3	2.6	**10.9**	**1.5**	**5.5**	1.1	0.8
Zignago Vetro (Italy)	4.8	0.4	**11.0**	**3.0**	**6.0**	1.2	1.4
PGL (India)	113.0	18.2	**6.2**	**1.5**	**4.1**	1.1	0.6

Source: Bloomberg, Indiabulls research.

Valuation matrix

Figure 36: Valuation on EV/EBIDTA basis

₹ mn unless stated otherwise; year-end March

Particulars	FY13E
EBIDTA	3,651
Target multiple (x)	6
EV	21,906
Total debt	6,204
Cash & cash equivalents	304
Market capitalisation	16,006
Diluted equity (number of shares)	80.4
Target price (₹)	199

Source: Company, Indiabulls research.

Figure 37: Valuation on PE basis

year-end March

Particulars	FY13E
EPS (₹)	18.2
Target PE multiple (x)	11.0*
Target price (₹)	200

Source: Company, Indiabulls research.

Note: * Global peers trading at 11x on CY12E earnings basis (lower size of PGL to get compensated by its higher return ratios and higher growth trajectory in profitability as compared to its peers)

Figure 38: Valuation on P/BV basis

year-end March

Particulars	FY13E
BV (₹)	74.6
Target PE multiple (x)	2.3*
Target price (₹)	172.0

Source: Company, Indiabulls research.
Note: * Global average P/BV of peers

Figure 39: Valuation on DCF basis

₹ mn unless otherwise stated; year-end March

Particulars	
Sum of PV of FCFF	17,548
PV of terminal value	9,215
Enterprise value	26,762
Add: Investments	1
Less: Net debt	9,753
NPV – Equity	17,009
Shares outstanding (number of shares)	80
NPV / Share (₹ per share)	211
Key assumptions	
WACC	13%
Terminal growth	3%

Source: Company, Indiabulls research.

Figure 40: Sensitivity analysis

		Weighted average cost of capital (WACC)			
Terminal growth	11%	12%	13%	14%	15%
5%	356	291	243	205	176
4%	320	266	225	193	166
3%	292	247	**211**	182	158
2%	271	232	200	174	152
1%	254	219	191	166	146

Source: Company, Indiabulls research.

Figure 41: Blended valuation assigning equal weights

year-end March

Blended valuation	Target price (₹)
FY13E EV / EBIDTA basis	199
FY13E PE basis	200
FY13E P/BV basis	172
DCF	211
Blended valuation assigning equal weights	**195**

Source: Company, Indiabulls research.

At CMP of ₹113, PGL is attractively valued at 4.1x EV/EBIDTA, 6.2x PE & 1.5x P/BV on FY13 basis. We arrive at a blended valuation of ₹195 per share assigning equal weights to EV/EBIDTA, PE, P/BV & DCF models, an upside of ~73% from the current levels. We initiate coverage on PGL with an **Outperform** rating.

Key risks

Lower-than-expected increase in C&P contribution

In our estimates, we have factored-in the increase in C&P mix as a percentage of overall revenues from 44% in FY10 to 55% in FY13. Failure to increase such contribution (having higher margins) would dent the profitability of the company.

Rising exports pose currency risk

Significant proportion of PGL's revenues (74% of overall revenues) comes from exports. Any wild fluctuation in currency would have a significant impact on the bottom line of the company.

Macro-economic factors

C&P products are high-value luxury products and are purely a reflection of discretionary consumer spending. Any economic slowdown especially in the developed economies would dent C&P revenues which in turn would adversely impact the company's profitability.

Fluctuation in raw material prices

Soda ash is the key raw material (27% of the raw material cost) for PGL. Sharp rise in prices of this material would adversely impact the company's profitability if it is unable to pass on the price rise to the customers.

Figure 42: Summary financials

₹ mn unless otherwise stated; year-end March

Profit and loss	FY09	FY10	FY11E	FY12E	FY13E
Revenues	**10,088**	**11,039**	**12,116**	**13,063**	**14,081**
Expenses	9,349	9,218	9,834	10,052	10,711
EBITDA	**948**	**2,042**	**2,525**	**3,272**	**3,651**
Other income	-	-	-	-	-
Depreciation	892	907	945	998	1,058
Interest	1,314	1,049	679	666	555
PBT	**(1,258)**	**87**	**901**	**1,608**	**2,038**
Taxes	(186)	54	-	201	408
Minority interest	(47)	(12)	90	141	163
Net profit	**(1,026)**	**44**	**811**	**1,267**	**1,467**
Extraordinary items	0	0	0	0	0
Reported PAT	**(1,026)**	**44**	**811**	**1,267**	**1,467**
EPS	(57.0)	0.6	10.1	15.8	18.2
Dividend per share	0.0	1.0	1.5	2.0	2.5
Dividend payout ratio	0.0	289.6	15.7	13.4	14.4
Balance sheet					
Total liabilities	**14,544**	**12,713**	**12,684**	**12,899**	**12,467**
Net worth	434	2,399	3,069	4,148	5,380
Equity (A)	180	804	804	804	804
Reserves (B)	254	1,595	2,264	3,343	4,575
Debt	13,571	9,824	9,035	8,031	6,204
Deferred tax liability	93	113	113	113	113
Minority interest	447	376	466	607	770
Others	-	-	-	-	-
Total assets	**14,544**	**12,713**	**12,684**	**12,899**	**12,467**
Net fixed assets	9,562	8,421	7,917	7,619	7,161
CWIP	148	141	200	200	200
Investments	1	1	1	1	1
Working capital (excl cash)	4,715	4,079	4,282	4,783	4,801
Cash & cash equiv.	118	71	284	296	304
Others	-	-	-	-	-

Source: Company, Indiabulls research.

Summary financials (*cont'd*)

₹ mn unless otherwise stated; year-end March

Cash flow	FY09	FY10	FY11E	FY12E	FY13E
Sources	**2,838**	**(1,069)**	**916**	**1,213**	**626**
Retained earnings (PAT-div.)	(1,026)	(49)	670	1,079	1,232
Non cash items (incl. dep.)	892	907	945	998	1,058
Equity issuance	-	1,856	-	-	-
Increase in borrowings	3,158	(3,746)	(789)	(1,005)	(1,827)
Others	(186)	(36)	90	141	163
Application	**2,838**	**(1,069)**	**916**	**1,213**	**626**
Capital expenditure					
Maintenance	483	(116)	150	210	180
New investment	1,128	(270)	350	490	420
Investments	1	(0)	(0)	-	-
Change in working capital (excl cash)	1,193	(636)	203	501	18
Change in cash	33	(47)	213	12	8
Ratios					
Revenue growth (%)	29.6	9.4	9.8	7.8	7.8
EBIDTA growth (%)	-23.5	115.4	23.6	29.6	11.6
EPS growth (%)	349.3	(101.0)	1,728.5	56.2	15.8
EBITDA margin (%)	9.4	18.5	20.8	25.0	25.9
PAT margin (%)	(10.6)	0.3	7.4	10.8	11.6
Asset turnover					
Inventory days	103.3	84.1	90.0	95.0	95.0
Debtor days	97.3	87.1	87.0	93.0	95.0
Net working capital days	173.5	141.6	137.0	148.0	145.0
Sales/net block	1.1	1.2	1.5	1.6	1.9
RoCE	0.4	8.3	12.4	17.8	20.4
Debt/equity	15.4	3.5	2.6	1.7	1.0
Tax rate	14.8	62.6	-	12.5	20.0
RoE (%)	(75.6)	1.8	28.6	34.0	29.9
Valuation					
P/E	(2.0)	204.9	11.2	7.2	6.2
EV/EBIDTA	16.3	9.2	7.1	5.1	4.1
P/BV	2.9	3.5	2.7	2.0	1.5
EV/sales	1.5	1.7	1.5	1.3	1.1
Dividend yield (%)	0.0	0.9	1.3	1.8	2.2

Source: Company, Indiabulls research.

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Key to Indiabulls Institutional Equities recommendations:
Outperform= Expected total return is more than 15%
Neutral= Expected total return is less than 15% but more than zero.
Underperform= Expected total return is negative

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