Piramal Glass | PIRA IN

4Q results consistent with long-term outlook

- **Solid 4QFY10 results; C&P business drives revenue growth:** Piramal Glass' 4QFY10 results showed a big improvement YoY, driven by increased revenues from the high-margin premium cosmetics & perfumery (C&P) business and by cost cuts, consistent with the company's strategy. Operating EBITDA margins (excluding forex losses) climbed to 23.4%, maintaining the steady upward trend seen throughout FY10 and continuing the march toward the 28% margin levels projected by the company for FY12E. EPS rose to Rs1.42 against a loss of Rs17.37 in the same quarter last year.
- **Premium C&P revenues up 117% YoY:** Piramal Glass' business strategy involves growing its revenues from the high-margin premium segment of the C&P while simultaneously reducing manufacturing costs by shifting production from its US facilities to India. The 4Q results indicate continued progress in implementing this strategy. Premium C&P revenues rose 117% YoY to c.Rs500mn, representing a little under 18% of the company's consolidated net sales for the quarter. This is up from less than 12% in FY09, and the company has projected that it will increase this contribution to 30% by FY12E. Additionally, in FY10 the company shrunk its US facilities from 8 production lines to 6, and plans further shrinkage to 4 lines in FY11E. These steps had the desired effect: Operating EBITDA margins rose to 23.4% in 4Q and 21.1% in FY10 from 14.5% in FY09.
- **Pharma, specialty food & beverages (SF&B) segments post declines:** Pharma business revenues declined 14% in 4Q and 15% in FY10. The decline is directionally consistent with the company's plans to de-emphasize the lower-margin pharma segment in favor of higher-margin businesses. However, the magnitude of decrease was somewhat larger than projected: Company guidance for FY12E calls for a 7% annual rate of decline in pharma revenues between FY09 and FY12E. The SF&B business recorded a 22% decline in revenues, although FY10 revenues were up 15% YoY. Management attributed the revenue decline for the quarter to a bunching up of sales to a major customer around the Christmas period. Longer-term, the SF&B business is a focus area for the company and is expected to post revenue growth in the mid-teens through FY12E.
- **Gross debt down to Rs9.8bn; further debt paydowns planned:** Gross debt decreased from Rs13.6bn at the end of FY09 and Rs10.4bn as of December 31, 2009 to Rs9.8bn as of March 31, 2010. The debt-to-EBITDA ratio now stands at 4.1x, and the company has previously said the ratio could decline to under 2.0x by FY12E. Management said the company will use available free cash flow to make further paydowns on debt.
- **If FY12E guidance is met, EPS could rise sharply over next two years:** The Bloomberg consensus EPS estimates for the company stand at Rs9.75 for FY11E and Rs15.30 for FY12E, up sharply from Rs0.84 in FY10. If the company can meet its FY12E guidance for revenues and EBITDA, it would generate nearly Rs3.7bn in EBITDA, in which case the consensus FY12E EPS of Rs15.30 should be achievable. The shares are currently trading at 6.4x this FY12E consensus EPS estimate. The major risks include an economic downturn in the US and Europe, which would likely hurt the C&P business; delays in winning orders from premium C&P customers or in shifting production to India as scheduled; or equity dilution for any reason including debt paydowns.