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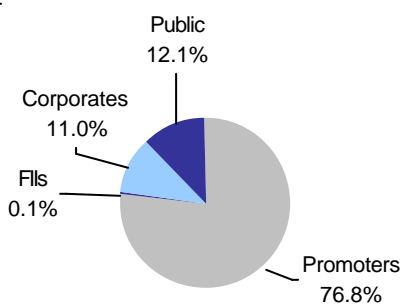
Stock details

BSE code	: 532949
NSE code	: PIRGLASS
Market cap (Rsm)	: 7,320
Free float (%)	: 23.2
52-wk Hi/Lo (Rs)	: 109 / 20
Avg. daily volume BSE	: 49622
Avg. daily volume NSE	: 42560
Shares o/s (mn)	: 80.4

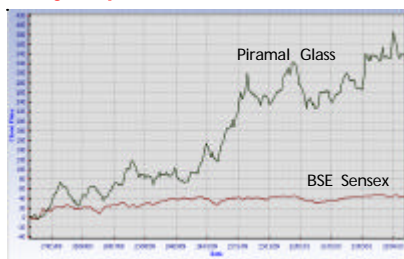
Cons. summary table

(Rs mn)	FY10	FY11E	FY12E
Sales	11,260	12,483	13,401
Growth (%)	11.6	10.9	7.4
EBITDA	2,381	2,844	3,289
EBITDA margin (%)	21.1	22.8	24.5
Net profit	44	692	1,028
Net debt	9,753	8,654	7,319
EPS (Rs)	0.6	8.6	12.8
Growth (%)	(104.3)	1,461.5	48.6
DPS (Rs)	-	-	-
ROE (%)	1.8	20.5	21.4
ROCE (%)	9.2	14.4	16.5
EV/Sales (x)	1.5	1.3	1.1
EV/EBITDA (x)	7.2	5.6	4.5
P/E (x)	165.2	10.6	7.1
P/CEPS (x)	7.7	4.4	3.6
P/BV (x)	2.9	1.7	1.4

Source: Company & Kotak Securities - Private Client Research

Shareholding pattern as on 31 Mar 10

Source: Capitaline

One-year performance (Rel to sensx)

Source: Capitaline

Piramal Glass Ltd. (PGL)

PRICE : Rs.91
TARGET PRICE : Rs.115

RECOMMENDATION : BUY
CONS. FY11E PE: 10.6x

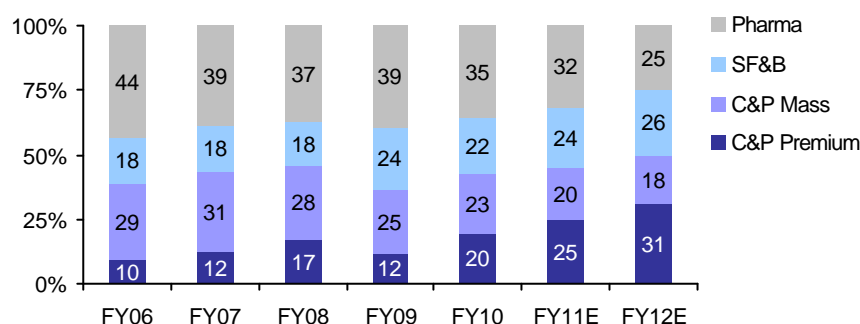
PGL is one of the niche players in the flaconage i.e. small glass bottles industry which caters to segments like Cosmetic and Perfumery (C&P), Pharmaceuticals and Specialty Food and Beverages (SF&B). We expect the company to increase the contribution of high margin premium C&P business from 12% in FY09 to 31% of total revenues by FY12E. Almost 80% of the premium C&P business is controlled by top 20 players and PGL has got itself approved with 17 of them. This segment has customer acquisition cycle of three to four years and PGL is the only qualified player from Asia with 55% cheaper costs than European companies. PGL has successfully turned around the acquisitions of US and Sri Lanka. Focus on high margin business; reduction in interest costs due to positive cash flows and no major capex requirement are likely to lead to significant growth in PAT over next few years. We are positive on the long term growth prospects of PGL. Therefore, we are initiating coverage with a BUY recommendation on PGL with a price target of Rs.115 (26% upside potential) over a 12-month horizon. This is based on the DCF method of valuation, with 13.6% WACC and 3.0% terminal growth rate.

Key Investment Rationale

- **Present in niche value added glass packaging market.** The size of the global glass packaging industry is to the tune of \$30 bn and PGL focuses on 20% of the total market i.e. glass flaconage, which typically enjoys higher operating margins due to high skills involved. The demand for glass containers is expected to be driven by healthy growth of its user industries like C&P, liquor, beer, pharmaceuticals, foods and carbonated drinks. Certain segments of the glass container industry are fairly stable as they are relatively less impacted in an economic downturn like pharmaceuticals, F&B and mass C&P.
- **Focus on high margin C&P business – 5% global market share.** C&P segment typically enjoys superior margins as it involves value added services like design, development, decoration and colors. PGL enjoys 5% market share in the \$2.0 bn global C&P market and it enjoys market leadership with 26% market share in nail polish bottles. In premium C&P segment, top 20 companies control 80% of the market and with US acquisition, PGL is now working with 17 of the top 20 companies thereby giving it visibility in terms of business. The contribution of C&P in total revenues is expected to go up from 37% in FY09 to 49% by FY12E.
- **Share of premium C&P business to grow from 12% in FY09 to 30% in FY12E.** PGL has already successfully matched European quality at Asian costs which are ~55% cheaper. In fact PGL is the only player from Asia who is qualified to supply to most of the premium C&P markets in US and France with 2% market share. PGL has already identified C&P as its key growth driver and thus the contribution of premium C&P in total revenues is expected to go up from 12% in FY09 to 31% by FY12E.

- ❑ **Market leader in domestic pharma sector – shifting capacity to C&P segment.** PGL is the market leader in the domestic pharmaceutical packaging business with 35% market share. However there is increasing conversion from glass to PET bottles for liquid orals. PGL is focusing on high value added injectibles and infusion products for which glass storage is expected to continue due to its advantages over PET. It is focusing on the exports markets, especially on increasing sales to US distribution markets. PGL is in process of shifting 75 TPD of capacity from Pharma to high value added C&P segment.
- ❑ **Operating margins to expand sharply from 7.3% in FY09 to 24.5% in FY12E** Going forward we expect the operating margins of PGL to expand sharply from 7.3% in FY09 to 24.5% by FY12E primarily on the back of increase in share of high margin premium C&P business. This, coupled with turnaround of loss making US operations and ramp up of expanded Sri Lankan facility, would lead to significant jump in profitability going forward, in our view. For FY10 it reported operating margin of 21.1%.
- ❑ **Entry barriers to ensure growth visibility.** PGL has strong relationships with some of the prime customers in France and USA. In premium C&P segment, top 20 companies control 80% of the global market and PGL is working with 17 of them. The premium C&P segment has customer acquisition cycle of three to four years and product development cycle of twelve to eighteen months. High end customers also require specialized skill in design, development, moulds and coloring which PGL has developed in house over a period of time. We feel any new player especially from Asia would take at least three to four years to develop the relationships that PGL has developed since 2005.

Consolidated revenue Breakup (%)



Source: Company, Kotak Securities - Private Client Research

- ❑ **Profits to grow faster than revenues over next two years** Over FY09 to FY12, while revenues are expected to grow at CAGR of 10.0% and the company is expected to turnaround sharply and report NPAT of Rs.1.0 bn in FY12E as against net loss of Rs.1.0 bn in FY09 and net profit of Rs.44 mn in FY10. This is primarily due to the fact that the company is reducing the capacity in high cost areas like US and expected de-growth in the Pharmaceuticals segment due to conversion into PET bottles. However PAT is expected to grow faster due to increasing share of high margins premium C&P business, lower interest costs due to positive cash flows and no major capex requirement over next couple of years.
- ❑ **Attractive valuation.** At the current market price of Rs.91, the stock is trading at attractive valuations of 1.7x P/BV, 10.6x earnings, 4.4x cash earnings, 5.6x EV/EBIDTA, 1.3x EV/sales and RoE of 20.5% based on FY11E estimates. We feel the valuation is attractive due to the promising future potential due to focus on high margin premium C&P business. We believe FY12E would be even better year for PGL on account of increasing focus on high margins premium C&P business.

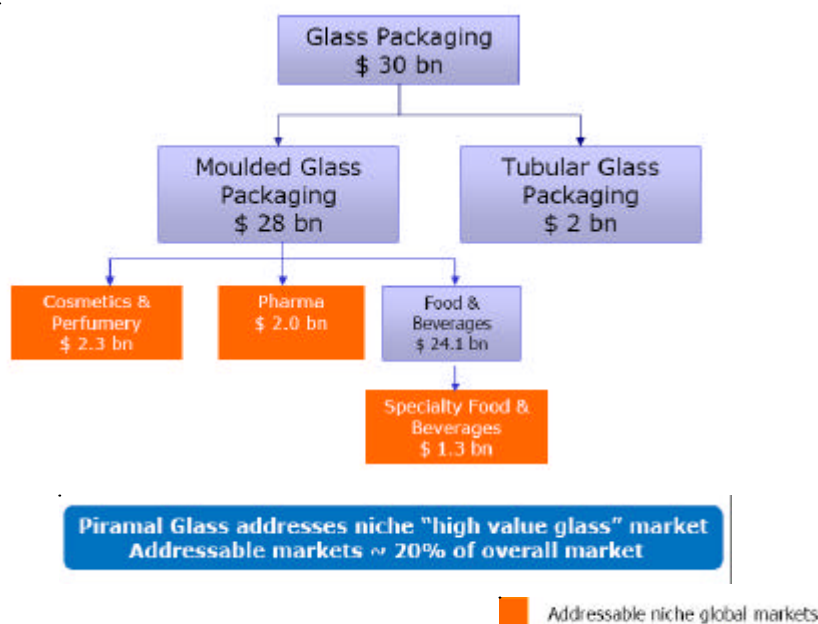
We Initiate Coverage with BUY recommendation on Piramal Glass with a price target of Rs.115

Key Risks

- ❑ **Threat from substitutes.** The substitutes of packaging such as PET bottles and aluminium cans are increasingly being used in the beer, soft-drinks and juices categories. Going forward any new substitute to glass packaging can impact the growth prospects of the company.
- ❑ **Slower than expected turnaround of US operations.** In the past PGL had taken considerable time to turn around US operations. Going forward it will be a key challenge to further ramp up the profitability of the US operations. Otherwise, it would act as a drag on the overall profitability of PGL.
- ❑ **Lower than expected contribution of the high margin premium C&P segment.** Due to focus on the high margin value added products we expect the revenues of the premium C&P segment to grow from 12% of total revenues in FY09 to 31% of the total revenues by FY12E. Its inability to do the same would result in lower-than-expected operating margins. Also the macro economic slowdown in developed markets can impact the discretionary consumer spend in C&P business.
- ❑ **Raw material prices.** Soda ash is the key raw material for PGL and inability of the company to pass on the price hikes can impact the profitability of the company.
- ❑ **PGL gets 40% of gas at APM price.** PGL gets around 40% of its total gas requirements at APM price, which is ~50% cheaper than the discovered price of Reliance KG basin. The government is looking at increasing APM gas prices and inability of PGL to pass on the price hikes would impact the profits of PGL.
- ❑ **Inability to convert product pipeline into business.** The company has 150 products in pipeline out of which 95 have been commercialized till date. Its inability to quickly convert the balance products into business can impact the revenues and profitability of the company.
- ❑ **Currency risk due to rising exports.** Exports account for ~56% of the total revenues of PGL. Thus, the rising rupee can impact the revenues and more importantly its profits. Although the company would look to hedge its currency risk we feel this is a risk to the profits of the company.

GLASS PACKAGING INDUSTRY

Glass packaging: Global market size



Source: Company presentation

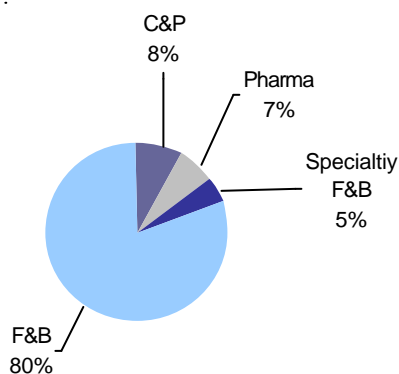
Glass containers have 9% share in packaging industry

■ The global glass packaging industry is about \$30 bn in size and out of this \$28 bn is the moulded glass industry. It can be further divided into Cosmetics and Perfumery (8.2%), Pharma (7.1%) and Specialty F&B (4.6%). Balance 80% is Food and Beverages. PGL is present in the niche high value added flaconage segment and thus it has an addressable market of 20% of the total market size.

Glass container industry growing at 10%

■ As per industry sources, the Indian packaging industry was valued at around \$14 bn in the year 2009 and it registered a growth rate of more than 15% annually in the last few years. Within the packaging industry, glass containers occupy an important position with a share of ~9%. Despite the development of other packaging alternatives, glass, being chemically inert and transparent, is most suitable for liquor, pharmaceutical, life-saving drugs and food articles.

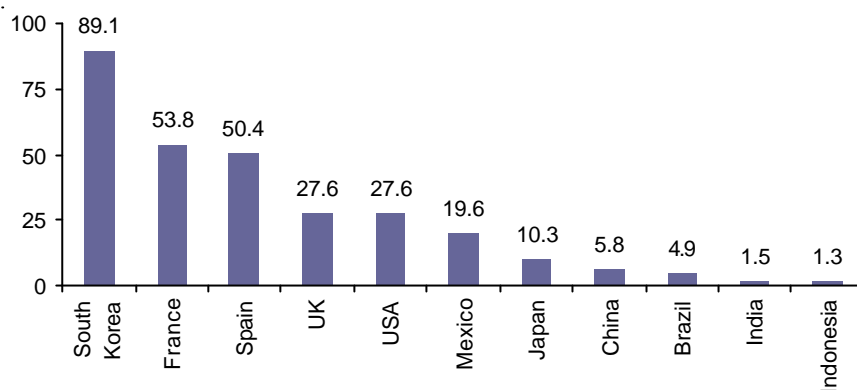
Moulded glass packaging industry (\$28 bn)



Source: Company presentation

- The market for glass containers in India has been growing at more than 10% during the last few years. Despite this growth, India's per capita consumption of glass containers is low at 1.5 kg as against 4.9 kg in Brazil, 5.8 kg in China and 27.6 kg in the US, highlighting the untapped potential of the Indian glass container market.

World glass container per capita consumption



Source: IBEF, Industry Sources

- The demand for glass containers is driven by growth in end user segments such as liquor, beer, pharmaceuticals, food processing and carbonated drinks. The liquor and beer industries are the major users of glass containers, accounting for around 60% of India's glass container production. This is followed by pharmaceuticals with 20% share, food with 10% share, carbonated drinks with 5% share and remaining 5% for cosmetics & others.

Threat of substitutes

- The glass packaging industry is facing various substitutes like flexible packaging laminates, paper and board, plastic containers, and aluminum cans. Bottled drinks are increasingly being sold in aluminum cans and Polyethylene Terephthalate (PET) bottles primarily due to the fragility and weight of glass. Also, it is cost-effective for manufacturers as PET bottles of smaller sizes are cheaper compared to glass.
- However, given certain inherent advantages and characteristics of glass it still remains the most suitable packing medium for C&P, liquor, pharmaceuticals, life-saving drugs and food articles. Glass is the only packaging material for foods and beverages that is chemically inert. It provides a barrier to oxygen and moisture, protecting a product's taste and shielding it for a longer duration than other packaging materials.

BACKGROUND

In 1984, Gujarat Glass was acquired by the Piramal group led by Mr. Ajay Piramal. Subsequently in the year 1990 it was merged with Nicholas Piramal India Ltd. In 1998 it was de-merged into a subsidiary as private equity investors bought 46% in the de-merged entity. In 2003 NPIL de-merged its 54% holding in Kojam Fininvest which got listed and in 2008 it was merged into Gujarat Glass Ltd. which is now PGL. In 2005 PGL acquired the C&P business of US based Glass Group (formerly known as Wheaton Glass) for \$75 mn. PGL acquired the Sri Lanka company Ceylon Glass Company in the year 1999 and currently it own 56% of its equity.

Capacity details

Country	Location	Furnaces	Lines	Capacity (TPD)
India	Kosamba, Gujarat	6	24	340
India	Jambusar, Gujarat	2	12	335
USA	Flat River, Missouri	2	8	195
USA	Williamstown, New Jersey	Bottle decoration & PVC coating		
Sri Lanka	Horana	1	5	250

Source: Company presentation

BUSINESS PROFILE

PGL is one of the leading players in the moulded glass packaging industry. It manufactures full range of glass packaging products in the C&P segment. For pharmaceuticals segment, it manufactures vials and bottles in amber and flint. In the specialty F&B segment it produces glass bottles primarily for liquor. It manufactures glass bottles of various sizes from 10 ml to 100 ml.

Business segment overview

	Cosmetics and Perfumery YTD Dec' 09 Sales Rs. 348 crs (42%)	Pharmaceuticals YTD Dec' 09 Sales Rs. 252 crs (31%)	Speciality Food & Beverages* YTD Dec' 09 Sales Rs. 220 crs (27%)
Products/ Segments	Perfumery & Colour cosmetic bottles (Nail Polish)	Vials/bottles in Amber & Flint USP Type- I, II & III	Speciality bottles for boutique wine & liquor (Value added & 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) - 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
Consolidated sales YTD Dec' 09: Rs. 820 crs, EBITDA : 21% Consolidated Sales QIII FY10 : 286 crs , EBITDA : 22%			

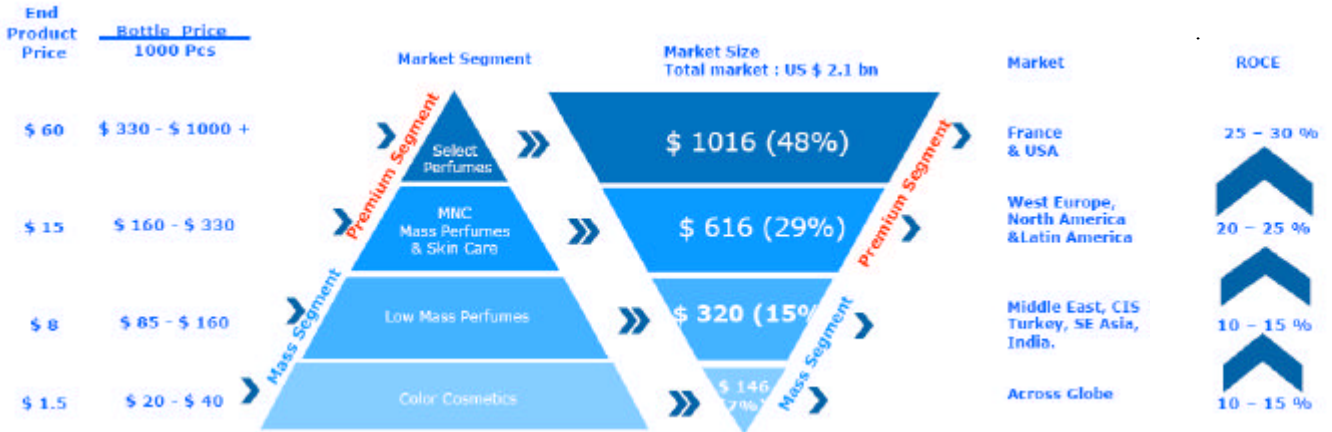
*Speciality Food and Beverages would mean short run decorated bottles used mainly for high end liquor, wines and niche application in food, TPD: Tonnes Per Day, EBITDA margins are operating margins i.e. without considering forex loss

Source: Company presentation

The operations of the company can be divided into three segments

- A) Cosmetics & Perfumery (C&P)
- B) Pharmaceuticals
- C) Specialty Food & Beverage (SF&B)

Market overview - C&P



Source: Company presentation

A) Cosmetics & Perfumery

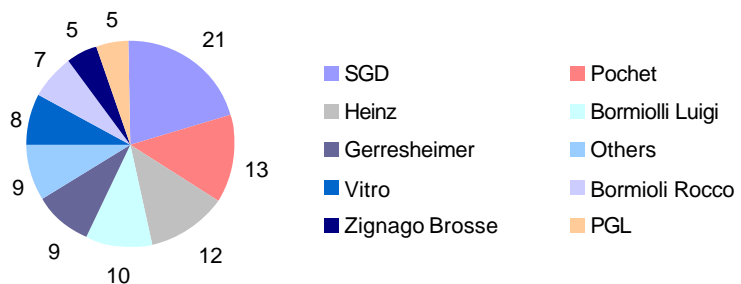
Global C&P market is \$2bn

■ The global market for C&P glass packaging is to the tune of \$2.0 bn. The brand image of the product being sold in the glass bottle is so high that it cannot afford to have any failure in terms of quality. Thus it is primarily supplied by quality manufacturers in Europe from France, Italy and Germany. PGL is the only qualified player from Asia.

5% market share in C&P

■ Over the years PGL has demonstrated its ability to supply quality products and this has made it the only player in Asia to cater to premium C&P business. While PGL enjoys market share of 5%, the market leader i.e. SGD enjoys market share of 21%.

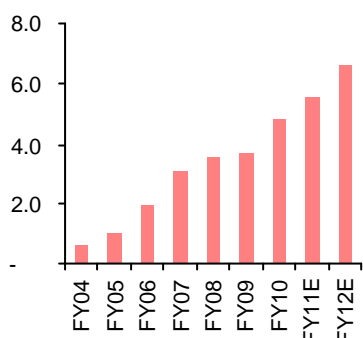
Share in \$2 bn C&P market



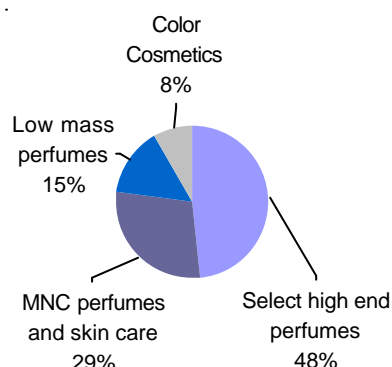
Source: Company presentation

Market leader in nail polish bottles

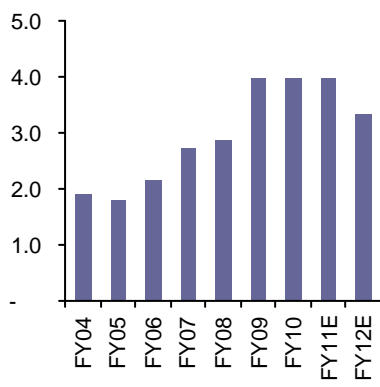
■ PGL initially started with mass products like color cosmetics and nail polish. Here it proved its expertise and achieved global leadership within four years with 26% market share. Currently it supplies to over 44 countries and offers integrated packaging solutions. Currently it enjoys the distinction of producing every third color cosmetic i.e. nail polish bottle in the world. It is also now a leader in terms of launching ~40 new designs per year. However in this segment it faces competition from China and Brazil.

C&P Revenues (Rs bn)

Source: Company, Kotak Securities - Private Client Research

Global C&P market breakup

Source: Company presentation

Pharma Revenues (Rs bn)

Source: Company, Kotak Securities - Private Client Research

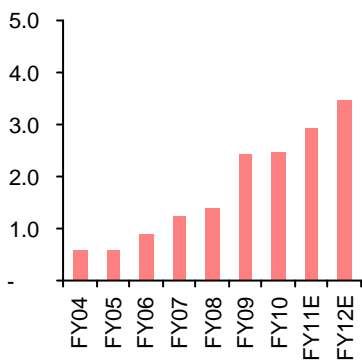
- Then it moved into volume game of mass perfumes and once again attained global leadership with 10% market share. Basically this was used to optimally utilize the capacities till it was able to shift to manufacturing of premium C&P products. This is important in the glass bottles manufacturing industry as once the furnace is heated it needs to be used continuously to reduce the fixed costs. Currently it is the single largest player servicing this segment with in house design studio developing ~60 new designs per year. However in this segment it faces competition from China and Poland.
- Subsequently it forayed into MNC mass perfumes segment and in a span of four years it has achieved the European quality standards. This segment enjoys higher operating margins as it involves product development cycle of around 6-8 months. With this it has become the only qualified vendor to MNC's in India like HUL, L'Oreal and Revlon.
- With the acquisition in US, it gained entry into 17 of the top 20 global companies primarily in France and US. This is critical as this segment has extremely high entry barriers due to skill requirements. Customer acquisition takes three to four years as these are high brand recall products and if the packaging is faulty or lacking in quality, it would be a huge dent on the overall brand image. Thus, the customers do not mind paying a premium and they are very particular about the quality.
- The product development cycle is also longer at almost 12-18 months. Also the production process is audited at every stage by the customers. This segment also involves decoration and quality sorting which are highly labor intensive and costly jobs. Thus the customer is likely to stay with its approved supplier rather than undergo the entire approval process to ensure high quality standards.
- Over the last two years PGL has had 150 products under development and has already commercialized 95 products till date. It is the only player from Asia who is eligible to supply in the premium C&P segment with 2% market share.
- The C&P market can be further distributed into premium and mass C&P markets. Premium segment which is high margin business constitutes ~77% of the overall C&P market. The mass segment constitutes color cosmetics (8%) and low mass perfumes (15%) while the premium segment includes MNC perfumes and skin care (29%) and select high end perfumes (48%).
- The premium products are primarily sold in US and Europe while the others are sold across the globe including Middle East, CIS, Turkey, SE Asia and India.
- The premium C&P segment includes value added products and thus it enjoys higher ROCE of 25% to 30% as compared to mass segment's ROCE of 10% to 15%. PGL is focusing on the premium C&P segment and this is expected to lead to increased profitability going forward.

B) Pharmaceuticals

- PGL is the only player in India which is present across all glass types in pharmaceuticals segment like USP type I, II and III. PGL is market leader in India with over 35% market share primarily due to world class and large manufacturing facilities. PGL exports to over 20 countries with US taking the largest share.
- As per industry sources, the global market size for the pharmaceuticals glass packaging segment is \$2.0 bn and the Indian market size is Rs.5.0 bn. However some of the liquid orals are increasingly being converted to PET bottles as they have advantage of being unbreakable. PGL is in process of shifting 75 TPD of capacity from low margin pharmaceutical business to high margin C&P business.
- With the emergence of contract manufacturing the demand for injectibles i.e. type I is growing in India. This segment has entry barriers primarily due to stringent quality controls.

Reputed customer base

- PGL is one of the key suppliers of glass containers to both national and multi-national pharmaceuticals companies like GlaxoSmithKline, Pfizer, Piramal Healthcare, Ranbaxy, E-Merck and Dr Reddy's Laboratories among others. Some of the competitors in this segment are Hindustan National Glass, Neutral Glass and AGI Haldyn Glass.
- PGL has been awarded Best packaging vendor by OPPI for 6th time in last 12 years which speaks for its consistent high quality standards.

Specialty Food & Beverages (Rs bn)

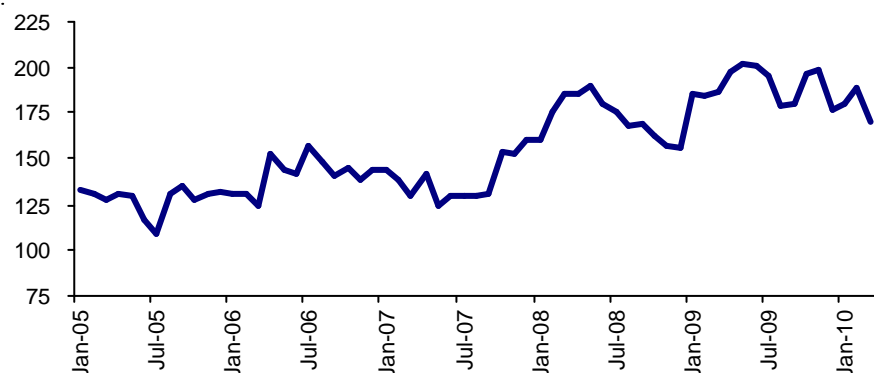
Source: Company, Kotak Securities - Private Client Research

88% market share in Sri Lanka**C) Specialty Food & Beverages (SF&B)**

- PGL serves the niche market of boutique alcoholic drinks. The expertise of the company lies in designing uniquely shaped bottles that can also be used for decoration purposes. This is a value added segment as it involves decoration and feeder coloring. PGL does business in US and Sri Lanka through its subsidiaries. Some of the world class companies like Cadbury Schweppes and United Breweries amongst others are its clients.
- The alcoholic drinks bottle is a very local market as freight is the major cost factor. Thus the company is planning to expand its presence in US by shifting the US capacity to specialty F&B. By doing this it would have significant cost advantage as against European suppliers due to freight and lead time savings. Thus it would position itself as a substitute to the European suppliers.
- Currently it is single source supplier in the Sri Lankan market with ~88% market share. In this segment it faces competition from Saver Glass, France and Vetri Specialty, Italy.
- PGL is looking to export specialty value added liquor and boutique wine bottles from its Sri Lankan facility to neighbouring markets like India, Australia and South Africa.

Soda ash and natural gas are key raw materials**RAW MATERIALS**

The key raw material for PGL is soda Ash. PGL buys soda ash locally from companies like GHCL and Tata Chemicals. Soda Ash prices have increased from \$140/MT in 2007 to \$180/MT currently. The company has already passed on the hike in soda ash prices to its customers. Another important cost is the energy cost which is natural gas for PGL. In India, PGL gets around 40% of its total gas requirements at APM price (Administered Price Mechanism), which is ~50% cheaper than the discovered price of Reliance KG basin. The government is looking to increase the APM gas price and to bring it on par with the market price over a period of time. Some of the other raw materials used are sand, cullet, limestone, dolomite and feldspar. Inability of PGL to pass on the gas price hikes would impact the profits of PGL going forward. However over the years the company has been successful in passing on the raw material price hikes.

Soda ash prices (US\$ / MT)

Source: Bloomberg

KEY INVESTMENT RATIONALE

Presence in niche value added glass packaging market

Serves 20% of the total market

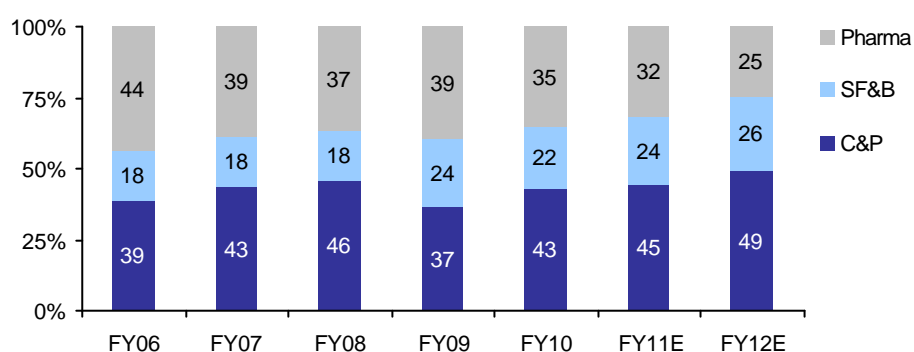
The size of the global glass packaging industry is \$30 bn and out of this \$28 bn is the moulded glass industry. It can be further divided into Cosmetics and perfumery (C&P) (8.2%), Pharma (7.1%) and Specialty F&B (SF&B) (4.6%) and balance 80% is Food and Beverages. PGL is present in the niche high value added flaconage segments and thus it has an addressable market of 20% of the total market. This segment typically enjoys higher operating margins due to high skills involved.

Growth in user industries to drive future growth

Relatively less impacted in economic downturn

The demand for glass containers is expected to be driven by healthy growth of its user industries like liquor, beer, pharmaceuticals, foods, carbonated drinks and C&P. The liquor and beer industries are the main users of glass containers with 60% share, followed by pharmaceuticals with 20% share, food with 10% share, carbonated drinks with 5% share, and C&P & others account for the remaining 5% share. On the back of economic growth, favourable demographics and higher disposable incomes we expect that the growth in the user industries would drive the future growth of the glass containers industry. Certain segments of the glass container industry are fairly stable as they are relatively less impacted in an economic downturn like pharmaceuticals, F&B and mass C&P.

Consolidated revenue breakup (%)

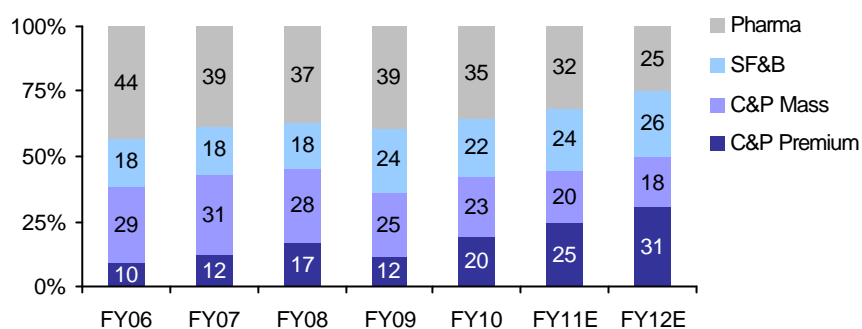


Source: Company, Kotak Securities - Private Client Research

Focus on high margin C&P business - 5% global market share

C&P - 5% global market share

C&P segment typically enjoys superior margins as it involves value added services like design, development, decoration and colors. This segment includes mass segment like color cosmetics and premium segment like hi-end perfumes. PGL enjoys 5% market share in the global C&P market and it enjoys market leadership with 26% market share in nail polish bottles. PGL has already identified C&P as its key growth driver and thus the contribution of C&P in total revenues is expected to go up from 37% in FY09 to 43% in FY10 and further rise to 49% by FY12E.

Consolidated revenue breakup (%)

Source: Company, Kotak Securities - Private Client Research

Premium C&P business to grow faster

Within C&P, premium C&P business to grow faster @52% CAGR

In premium C&P segment, top 20 companies control 80% of the market and with US acquisition, PGL is now working with 17 of the top 20 companies thereby giving it visibility in terms of business. PGL has already successfully matched European quality at Asian costs which are ~55% lower. In fact PGL is the only player from Asia who is qualified to supply to most of the premium C&P markets in US and France with 2% market share. Due to customer acquisition and shifting of US manufacturing to India we expect the revenues of the premium C&P business to grow at CAGR of 52% from FY09 to FY12E. Also the share of premium C&P in total C&P business is expected to grow from 32% in FY09 to 46% in FY10 and to 63% by FY12E. This is positive for PGL as the average realizations for the premium segment is almost three to five times higher than those of the mass segment, which would also translate into increased profitability.

India - Standalone financials

(Rs mn)	FY08	FY09	FY10	FY11E	FY12E
Revenue	4,650	5,818	6,813	7,069	7,593
EBIDTA (%)	20.6	18.8	26.4	28.6	30.6
PAT	163	(543)	158	582	785

Source: Company, Kotak Securities - Private Client Research

35% market share in domestic pharma packaging

Market leader in domestic pharma - Focus on high value added pharma segment

PGL is the market leader in the domestic pharmaceutical packaging business with 35% market share. However there is increasing conversion from glass to PET bottles for liquid orals. However PGL is focusing on high value added injectibles and infusion products which are expected to use glass packaging due to its advantages over PET. It is focusing on the exports market especially increasing sales to US distribution markets. This is expected to maintain its overall market share and profitability going forward despite declining revenues.

PGL to rationalize capacity in favor of high value C&P

Considering the expected de-growth in the overall pharmaceutical segment due to conversion into PET bottles, PGL is in process of shifting 75 TPD of capacity to high value added C&P segment. This is likely to result into higher revenues and more importantly higher profitability for PGL with minimal cost of conversion.

Position PGL, US as a substitute to European suppliers

80% of US requirements are imported

The alcoholic drinks bottles and boutique wine is a very local market as freight is the major cost factor. Currently ~80% of the US requirements are met by imports from Europe. Thus it is looking to expand its presence in US by shifting the US capacity to specialty F&B. By doing this it would have significant cost advantage as against European players due to freight and lead time savings. Thus it would position itself as a substitute to the European suppliers.

US Financials

(Rs mn)	FY08	FY09	FY10	FY11E	FY12E
Revenue	2,745	3,254	3,509	3,691	3,965
EBIDTA %	(1.3)	(2.4)	8.3	9.5	11.0
PAT	(318)	(358)	(35)	47	124

Source: Company, Kotak Securities - Private Client Research

PGL acquired and turned around US operations

10% market share in US

■ PGL acquired the Glass group (erstwhile Wheaton Glass) US in 2005 for \$75 mn and it got access to 37% of the global C&P premium market. The Wheaton group has know-how heritage of more than 100 years in C&P market. It was sold off due to liquidity crunch and its ownership changed almost four times and ultimately it filed chapter 11 bankruptcy. It is one of the only two local manufacturers with 10% market share of US C&P market and ~80% of the requirement is imported into US from Europe.

Reduced costs by \$10mn

■ With this acquisition PGL has established its relationship with leading customers like Elizabeth Arden, Estee Lauder, L'Oreal, Revlon etc. Over the years it has helped to increase the revenues and reduce the costs and it has broken even at cash level after 16 quarters of losses. PGL has already reduced the US employee strength from 800 to 600 and reduced the costs by \$10mn. It has also worked on technology improvements and merger of multiple decoration units to reduce overhead costs.

Gradually shift manufacturing base to India

■ Going forward it is looking to aggressively gain share in the US market. Eventually it wants to shift the manufacturing base to India to further reduce the costs and improve profitability. It is also looking to strengthen its position in US Specialty F&B segment as this business is regional primarily due to high freight costs.

Sri Lanka Financials

(Rs mn)	FY08	FY09	FY10	FY11E	FY12E
Revenue	745	1,277	1,478	1,723	1,843
EBIDTA %	16.8	25.3	24.9	27.3	28.9
PAT	(6)	(107)	(26)	136	259

Source: Company, Kotak Securities - Private Client Research

Capacity expanded at Sri Lanka

Owns 56% equity in Ceylon Glass Company

PGL acquired the Sri Lankan company Ceylon Glass Company in the year 1999 and currently it owns 56% of its equity. The company has expanded its capacity from 120 TPD to 250 TPD in December 2007. Currently it is single source supplier in the domestic Sri Lankan market with ~88% market share. PGL is looking to export specialty value added liquor and boutique wine bottles from its Sri Lankan facility to neighbouring markets like India, Australia and South Africa.

Manufacturing cost advantage (%)

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

Source: Company presentation

55% cost advantage**Low cost manufacturer globally**

If we were to compare the cost of production between Europe and India then there would be substantial savings in terms of labor cost as it is significantly lower in India. Overall due to availability of skilled labor and technology the cost of setting up a glass bottles manufacturing project in India is almost 55% cheaper than the global cost. PGL is the only certified player from the Asian region to capture the cost advantage. We feel any new player especially from Asia would take at least three to four years to develop the relationships that PGL has developed since 2005.

Sharp rise in profitability**Operating margins to expand sharply from 7.3% in FY09 to 24.5% in FY12E**

Going forward we expect the operating margins of PGL to expand sharply from 7.3% in FY09 to 24.5% in FY12E which is primarily expected to be driven by increase in share of high margin premium C&P business. The company has repaid Rs.3.0 bn of debt out of right issue proceeds and internal accruals and it has also restructured its debts at lower rates. PGL has already incurred capex of Rs.4.5 bn in last 30 months and thus it has no major planned capex till FY12E. This coupled with turnaround of US operations and ramp up of expanded Sri Lankan facility would lead to significant jump in profitability going forward, in our view. In FY10 it reported operating margin of 21.1%.

Client acquisition cycle of 3-4 years**Entry barriers to ensure growth visibility**

The premium C&P segment has customer acquisition cycle of three to four years. Around 80% of the market is controlled by top 20 players and PGL is already working with 17 of them. Once someone is approved by the top global players then they are expected to remain with you for reasonable period of time. High end customers also require specialized skill in design, development, moulds and coloring which PGL has developed in house over a period of time. PGL already has 150 products under development out of which 95 have actually been commercialized. This is significant positive as product development could take anywhere between twelve to eighteen months. We feel any new player especially from Asia would take at least three to four years to develop the relationships that PGL has developed since 2005.

In C&P top 20 companies control 80% of market share

Key customers and marketing network

PGL has strong relationships with some of the prime customers in France and US. In premium C& P segment, top 20 companies control 80% of the global market and PGL is working with 17 of the top 20 companies thereby giving it visibility in terms of business. It has offices in 10 countries and distribution network across 44 countries. This would ensure steady growth in revenues for the company going forward.

State-of-the-art facilities

Superior Mould manufacturing and designing capability

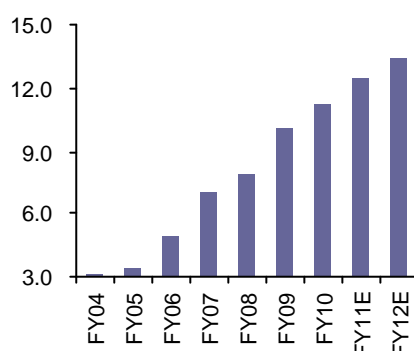
The company has created in house mould manufacturing and designing capability of world class standards. Mould is the key item of which the bottles are going to take the shape and its design and appeal is the key thing to attract and retain key clients. Some of the top global clients have already seen and approved the mould facilities of PGL and thus they are likely to give more bouquet of products to PGL in future.

Certified by top customers

Modern manufacturing capacity - approved by high end clients

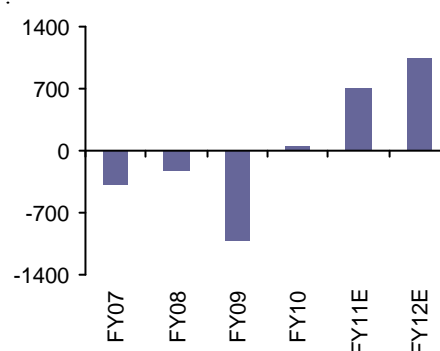
Over last 30 months, PGL has spent Rs.4.5 bn to enhance its capacity by 43% to 1115 TPD. This has made it one of the top three C&P capacities in world. Also the manufacturing facilities of PGL are certified by its customers in terms of quality and with this it can service the high end customers and thereby enjoy superior operating margins. We feel any new player especially from Asia would take at least three to four years to develop the relationships that PGL has developed since 2005.

Cons. Revenues (Rs bn)



Source: Company, Kotak Securities - Private Client Research

Cons. Profits (Rs. mn)



Source: Company, Kotak Securities - Private Client Research

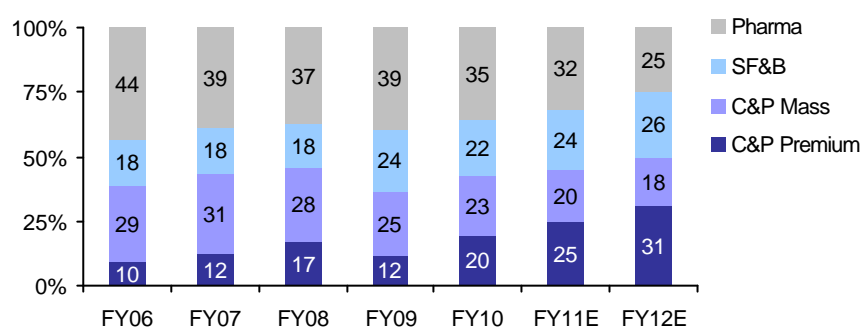
Profits to grow faster than revenues over next two years

Over FY09 to FY12E, while revenues are expected to grow at CAGR of 10.0% and the company is expected to turnaround sharply and report PAT of Rs.1.0 bn in FY12E as against net loss of Rs.1.0 bn in FY09 and net profit of Rs.44 mn in FY10. This is primarily due to the fact that the company is reducing the capacity in high cost areas like US and exposure to Pharmaceuticals segment due to conversion to PET bottles. However PAT is expected to grow faster due to increasing the share of high margins premium C& P business, lower interest cost due to positive cash flows and debt reduction and no major capex for next couple of years.

Attractive valuation

- At the current price of Rs.91, the stock is trading at attractive valuations of 1.7x P/BV, 10.6x earnings, 4.4x cash earnings, 5.6x EV/EBIDTA, 1.3x EV/sales and RoE of 20.5% based on FY11E estimates.
- We feel the valuation is attractive due to the promising future potential due to focus on high margin premium C&P business. This is expected to lead to significant growth in profitability, going forward.
- We are positive on the medium to long term growth prospects of PGL. Therefore, we are initiating coverage on PGL with a BUY recommendation.
- We are assigning a price target of Rs.115 (26% upside potential) over a 12-month horizon. This is based on DCF method of valuation with 13.6% WACC and 3.0% terminal growth rate.
- We believe FY12E would be even better year for PGL on account of increasing focus on high margin C&P business.

Consolidated revenue composition (%)



Source: Company, Kotak Securities - Private Client Research

FINANCIALS

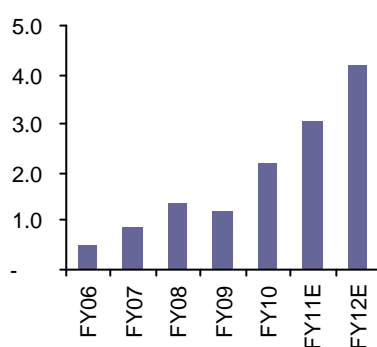
FY10 financials - turnaround in operations

For FY10, PGL reported revenues of Rs.11.2 bn (up 11.6%), operating margin of 21.1% (as against 7.3%) and NPAT of Rs.44 mn (as against net loss of Rs.1.0 bn). This is primarily due to turn around in US operations and increase in contribution of high margin C&P business.

Revenue Composition

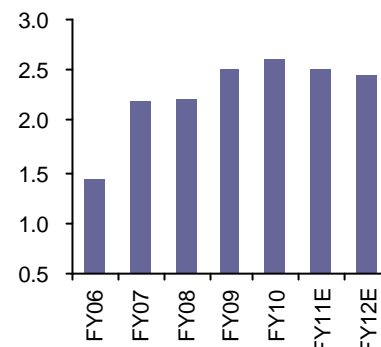
- PGL has identified C&P as its key growth driver and thus we expect the contribution of C&P in total revenues to go up from 37% in FY09 to 43% in FY10 and further rise to 49% by FY12E.
- The contribution of SF&B in total revenues is expected to go up from 24% in FY09 to 26% by FY12E.

Premium C&P revenues (Rs. bn)



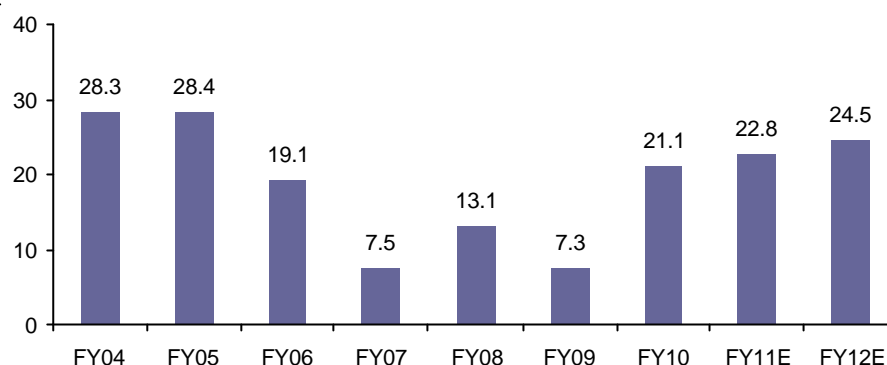
Source: Company, Kotak Securities - Private Client Research

Mass C&P revenues (Rs. bn)



Source: Company, Kotak Securities - Private Client Research

- The contribution of Pharma in total revenues is expected to go down from 39% in FY09 to 35% in FY10 and further fall to 25% by FY12E.
- The contribution of Premium C&P in total C&P revenues is expected to go up from 32% in FY09 to 46% in FY10 and further rise to 63% by FY12E.
- The contribution of mass C&P in total C&P revenues is expected to fall from 68% in FY09 to 54% in FY10 and further fall to 37% by FY12E.

Operating Margins (%)

Source: Company, Kotak Securities - Private Client Research

Acquisition of loss making US facility

Margin decline over FY04 to FY09

Over the years the operating margin of the company has steadily declined primarily due to acquisition of US facility which was loss making. The company had to re-structure the operations, reduce labor and other expenses. All this is process which the company has gone through over the years. Also the company was in capex mode as it had increased capacities to be able to capture the market share of the C&P segment. PGL also worked with various customers to get its facilities and products approved and the cost was built in without any significant revenues. This led to decline in operating margins over FY04 to FY09.

US operations posted profits after 16 quarters of losses

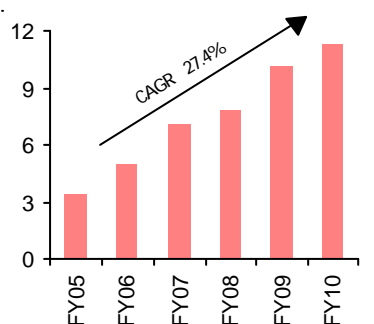
However operating margins to improve to 24.5% in FY12E

Since the company has already turned around US operations and is working with 17 of the top 20 companies who control 80% of the premium C&P market we expect sharp improvement in operating profits going forward. US operations have turned around after posting losses for last 16 quarters at the operating level and in fact now it has also turned positive at the cash profit level. PGL has already incurred capex to ramp up the capacity. Initially for the want of customers it was deployed in low end segment to keep the furnace running. Now with access to some of the top clients it is shifting the production from low margin low end products to value added high margin products like premium C&P. Thus we expect the operating margins to increase significantly from 7.3% in FY09 to 24.5% in FY12E. The company reported operating margins of 21.1% in FY10.

Forex losses affected profitability

In FY10 the company had taken plain vanilla forex cover to hedge against the exports receivables with the opinion that the rupee would appreciate and thus it had sold US dollars @ Rs.41. Since then the rupee depreciated and thus it and to incur forex loss of Rs.339 mn in FY10. However post this all the forex forward cover is over and thus it would not have any further forex losses from Q1FY11 onwards.

Cons. Revenues (Rs. bn)



Source: Company, Kotak Securities - Private Client Research

Revenue CAGR of 27.4% form FY05 to FY10

The revenues of the company have grown at CAGR of 27.4% from Rs.3.4 bn in FY05 to Rs.11.3 bn in FY09. This was primarily due to capacity expansions, acquisitions and foray into C&P and SF&B business. Shift from low end to high value added business has also helped to improve the realizations per MT.

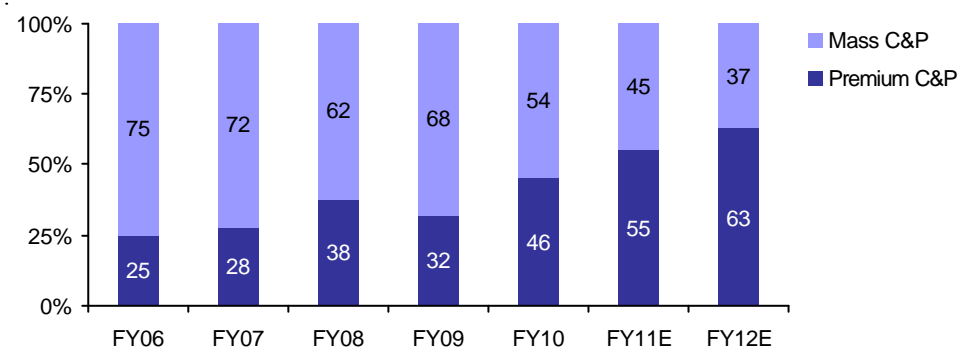
Consolidated revenue breakup (Rs mn)

	FY06	FY07	FY08	FY09	FY10	FY11E	FY12E	CAGR % FY09-12
C&P Premium	475	851	1,349	1,178	2,215	3,062	4,173	52.5
C&P Mass	1,425	2,189	2,201	2,502	2,600	2,505	2,451	(0.7)
Pharma	2,150	2,730	2,870	3,970	3,975	3,976	3,325	(5.7)
SF&B	880	1,240	1,370	2,430	2,469	2,939	3,452	12.4
Total	4,930	7,010	7,790	10,080	11,260	12,483	13,401	10.0

Source: Company, Kotak Securities - Private Client Research

Premium C&P to lead revenue growth

- We expect the revenues of the C&P segment to grow at CAGR of 21.6% from Rs.3.7 bn in FY09 to Rs.6.6 bn in FY12E.
- We expect the revenues of the Premium C&P segment to grow at CAGR of 52.5% from Rs.1.2 bn in FY09 to Rs.4.2 bn in FY12E. PGL has identified this as its clear growth trigger going forward.
- We expect the revenues of the Mass C&P segment to de-grow at CAGR of 0.7% from Rs.2.5 bn in FY09 to Rs.2.5 bn in FY12E. This is primarily due to shifting of capacity from low margin mass C&P to high margin premium C&P business.
- We expect the revenues of the SF&B segment to grow at CAGR of 12.4% from Rs.2.4 bn in FY09 to Rs.3.5 bn in FY12E. This is primarily due to ramp up in capacity utilization of Sri Lankan facility and focus on SF&B markets in US.
- We expect the revenues of the Pharma segment to de-grow at CAGR of 5.7% from Rs.4.0 bn in FY09 to Rs.3.3 bn in FY12E. This is primarily due to shifting of capacity from Pharma to high margin C&P business.

Consolidated C&P revenue breakup (%)

Source: Company, Kotak Securities - Private Client Research

Cons. PGL - Financials

(Rs mn)	FY08	FY09	FY10	FY11E	FY12E
Revenue	7,786	10,088	11,260	12,483	13,401
EBIDTA (%)	13.1	7.3	21.1	22.8	24.5
NPAT	(228)	(1,025)	44	692	1,028
EPS (Rs.)	-	-	0.6	8.6	12.8

Source: Company, Kotak Securities - Private Client Research

Profits to grow faster than revenues over next two years

Over FY09 to FY12E, while revenues are expected to grow at CAGR of 10.0%, PGL is expected to turnaround sharply and report PAT of Rs.1.0 bn in FY12E as against Net Loss of Rs.1.0 bn in FY09 and net profit of Rs.44 mn in FY10. This is primarily due to the fact that the company is reducing the capacity in high cost areas like US and expected de-growth in the Pharmaceuticals segment due to conversion into PET bottles. However PAT is expected to grow faster due to increase in the share of high margins premium C&P business, lower interest costs due to debt repayment, no major capex and strong cash flows going forward.

Low average tax rates

PGL as a consolidated entity is expected to have a low average tax rate of 21.3% in FY11E and 21.5% in FY12E. This is due to the fact that Sri Lankan operations are tax free till FY12E and US and Indian operations have carried forward losses which would set off the profits.

Capex & its funding

Over last 30 months, PGL has spent Rs.4.5 bn to enhance its capacity by 43% to 1115 TPD. It has also invested Rs.3.5 bn to acquire, improve and grow the US operations. Thus total it has already spent Rs.8.0 bn since the year 2006. Going forward we see only minor capex as the company would look to fully utilize the existing capacities. Also it is going to shift 75 TPD of pharma capacity to high margin C&P segment and thus there is no need to set up capacities for next two to three years, in our view. PGL would easily be able to meet the running capex with its expected strong cash flows.

Debt / Equity brought down with rights issue

As of 31st March 2010, the consolidated debt of the company stands at Rs.9.8 bn. The debt was primarily taken over the years to fund the capex and US acquisition. However the company has already retired Rs.3.0 bn of debt in middle of FY10 out of proceeds of rights issue. In August 2009, PGL had done the rights issue of 62.5 mn shares @ Rs.30 per share (includes premium of Rs.20 per share). Going forward due to sharp jump in profitability and turnaround of US operations we expect Debt / Equity to go down from 3.9x in FY10 to 2.1x in FY11E and further go down to 1.6x in FY12E.

No major capex requirement for couple of years

Debt / Equity expected to come down from 3.9x in FY10 to 1.6x by FY12E

PEER VALUATION

Peer Valuation												
	CMP (Rs)	Mktcap (Rs bn)	Revenues (Rs bn)		EBIDTA (%)		PAT (Rs mn)		EPS (Rs)		P/E (x)	
			FY11E	FY12E	FY11E	FY12E	FY11E	FY12E	FY11E	FY12E	FY11E	FY12E
			PGL	91	7.3	12.5	13.4	22.8	24.5	692	1028	8.6
HNG	226	19.7	16.9	19.6	24.9	25.5	1775	2017	25.4	28.9	8.9	7.8

Source: Bloomberg, Industry, Kotak Securities - Private Client Research

- Strictly speaking it is incorrect to compare PGL with any other Indian or Asian player as it is a unique play on the high value added C&P and SF&B glass containers. PGL is the only qualified player from Asia to supply to the high end premium C&P market.
- However for the sake of comparison we have compared PGL with Hindustan National Glass (HNG). HNG is its competitor in the domestic pharmaceutical segment. However HNG has also forayed into float glass business which is primarily used in automobiles and real estate.
- Globally there is no player who focuses on all the segments like premium C&P, mass C&P, Pharmaceuticals and SF&B. A lot of players focus only one or maximum two verticals and thus it would be improper to compare them with PGL.

VALUATION & RECOMMENDATION

We Initiate Coverage with BUY recommendation on Piramal Glass with a price target of Rs.115

- At the current price of Rs.91, the stock is trading at attractive valuations of 1.7x P/BV, 10.6x earnings, 4.4x cash earnings, 5.6x EV/EBIDTA, 1.3x EV/sales and RoE of 20.5% based on FY11E estimates.
- We are positive on the growth prospects of the company. Hence, we are initiating coverage with a BUY recommendation on PGL with a price target of Rs.115 over a twelve month horizon.
- We have derived our target price based on two-stage DCF valuation methodology, with a WACC of 13.6% and terminal growth rate of 3.0%.
- At the current market price of Rs.91, the stock offers an upside potential of 26% based on FY11 earning estimates. We believe FY12E would be even better year for PGL on account of increasing focus on high margins premium C&P business. We recommend BUY on Piramal Glass Ltd.

DCF valuation (Rs mn)

FCFF	10,722
Terminal value	5,846
Total FCFF	16,568
Less: Net Debt	7,319
Shareholders' Value	9249
Value per share (Rs)	115
Terminal value as % FCFF	35

Source: Kotak securities - Private Client Research

Assumptions

Adjusted Beta	2.0
Risk free Rate (%)	8.00
Risk Premium (%)	6.00
Cost of Equity (%)	20.3
Cost of Debt (%)	12.00
WACC (%)	13.6
Equity (Rs mn)	7,320
Debt (Rs mn)	9,428
Total (Rs mn)	16,748

Source: Kotak securities - Private Client Research

Free Cash Flow to Firm

	2011E	2012E	2013E	2014E	2015E	2016E	2017E	2018E
PAT	692	1028	1148	1280	1416	1557	1702	1852
Depreciation	975	1019	1044	1069	1094	1119	1144	1169
Interest (1-Tax)	592	516	495	462	429	396	363	330
Capex	-590	-590	-500	-500	-500	-500	-500	-500
Change in NWC	-594	-312	-235	-245	-257	-268	-281	-294
FCFF (Rs mn)	1076	1662	1953	2066	2182	2303	2428	2558
Discounted Value	978	1330	1375	1280	1191	1106	1027	952

Source: Kotak securities - Private Client Research

Sensitivity Analysis

WACC (%)	13.1%	13.6%	14.1%
2.0%	116	108	100
3.0%	125	115	106
4.0%	135	123	113

Source: Kotak securities - Private Client Research

CONSOLIDATED FINANCIALS

Profit and Loss Statement (Rs mn)			
Year end March	FY10	FY11E	FY12E
Revenues	11,260	12,483	13,401
% change YoY	11.6	10.9	7.4
EBITDA	2,381	2,844	3,289
% change YoY	221.8	19.5	15.6
Other Income	(339)	-	-
Depreciation	907	975	1,019
EBIT	1,136	1,869	2,270
% change YoY	1,923.2	64.6	21.5
Net interest	1,049	897	782
Profit before tax	87	972	1,488
% change YoY	(106.9)	1,023.8	53.0
Tax & minority interest	42	280	460
as % of EBIT	3.7	15.0	20.2
Net income	44	692	1,028
% change YoY	(104.3)	1,461.5	48.6
Shares outstanding (m)	80.4	80.4	80.4
EPS (Rs)	0.6	8.6	12.8
CEPS (Rs)	11.8	20.7	25.5

Source: Company, Kotak Securities - Private Client Research

Balance Sheet (Rs mn)			
Year end March	FY10	FY11E	FY12E
Cash and cash equivalents	71	774	1,108
Accounts receivable	2,635	3,183	3,388
Inventories	2,542	2,619	2,703
Others	625	1,092	1,150
Current assets	5,873	7,667	8,349
Investments	1	-	-
Net fixed assets	8,562	8,323	7,891
Total assets	14,436	15,990	16,241
Payables	1,071	1,844	1,875
Others	559	283	289
Current liabilities	1,630	2,127	2,163
LT debt	9,824	9,428	8,428
Other liabilities(deferred tax)	489	173	313
Equity	804	804	804
Reserves	1,688	3,458	4,533
Total liabilities	14,436	15,990	16,241
BVPS (Rs)	31.0	53.0	66.3

Source: Company, Kotak Securities - Private Client Research

Cash Flow Statement (Rs mn)			
Year end March	FY10	FY11E	FY12E
EBIT	1,136	1,869	2,270
Depreciation	907	975	1,019
Change in working capital	403	149	(260)
Changes in other net current assets	141	(743)	(52)
Operating cash flow	2,586	2,250	2,977
Interest	(1,049)	(897)	(782)
Tax	(42)	(280)	(460)
Cash flow from operations	1,494	1,073	1,735
Capex	(313)	(590)	(590)
(Increase)/decrease in investments	(1)	1	-
Dividends	-	-	-
Cash flow from investments	(314)	(588)	(590)
Proceeds from equity issue	1,874	-	-
Increase/(decrease) in debt	(3,746)	(397)	(1,000)
Deferred tax credit /other adj.	645	615	188
Cash flow from financing	(1,228)	218	(812)
Opening cash	118	71	774
Closing cash	71	774	1,108

Source: Company, Kotak Securities - Private Client Research

Ratio Analysis			
Year end March	FY10	FY11E	FY12E
EBITDA margin (%)	21.1	22.8	24.5
EBIT margin (%)	10.1	15.0	16.9
Net profit margin (%)	0.4	5.5	7.7
Adjusted EPS growth (%)	(104.3)	1,461.5	48.6
Receivables (days)	85.4	85.1	89.5
Inventory (days)	82.4	75.5	72.5
Sales/assets (x)	1.3	1.5	1.7
Interest coverage (x)	1.1	2.1	2.9
Debt/equity ratio (x)	3.9	2.2	1.6
ROE (%)	1.8	20.5	21.4
ROCE (%)	9.2	14.4	16.5
EV/ Sales (x)	1.5	1.3	1.1
EV/EBITDA (x)	7.2	5.6	4.5
Price to earnings (x)	165.2	10.6	7.1
Price to book value (x)	2.9	1.7	1.4
Price to Cash Earnings (X)	7.7	4.4	3.6

Source: Company, Kotak Securities - Private Client Research

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