



CMP Rs. 76

Target Rs. 109

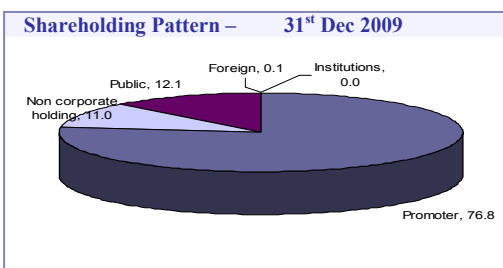
Initiating Coverage- Buy

Key Share Data

Face Value (Rs.)	10.00
Equity Capital (Rs. crs)	80.43
Market Capitalization (Rs. crs)	612.47
52-wk High / Low (Rs.)	94 / 13
Average Yearly Volume	15305
BSE code	532949
NSE code	PIRGLASS
Reuters code	PRML.BO
Bloomberg code	PIRA IN

Company Profile

PGL is a leading glass flaconage manufacturers supplying to the Cosmetics & Perfumery, Pharmaceutical and Food & Beverage industries. Company provides end-to-end solutions which include decoration (colouring, etching, finishing, lacquering etc.), designing, in-house mould design & manufacturing and have third party ancillary units for accessories like caps, cartons and brushes. PGL has its manufacturing facilities in India, US and Sri Lanka with 11 furnaces having a combined capacity of 1120 TPD.

**Investment Rationale****C&P (Cosmetic and Perfumery) business to be a major growth driver**

- PGL has 5% market share in C&P segment and has leadership in color cosmetics (nail polish) with 26% market share globally.
- Currently PGL's main focus is on high margin driven premium segment which derives ROCE of approx 25-30%. Total market size of premium segment is US\$ 1632 million, mostly dominated by EU manufacturers and PGL is the only Asian player with 2% market share.
- We expect C&P segment to grow at a CAGR of 18.3% from FY09 to FY12E.

Financials (Consolidated)	(Rs. crore)			
	FY09	FY10E	FY11E	FY12E
Net Sales	1008.8	1086.2	1189.7	1287.5
Sales Gr	30%	8%	10%	8%
EBIDTA	128.0	209.4	247.8	282.9
PAT	-102.5	1.6	75.6	103.4
PAT Gr	352%	-102%	4656%	37%
EPS (Rs.)	-57.0	0.2	9.4	12.9
CEPS (Rs)	-7.4	11.7	21.8	25.8

US acquisition to turnaround from current financial year

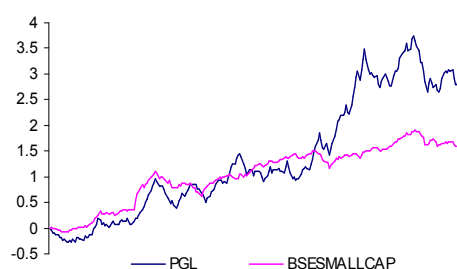
- In 2005, PGL has acquired a glass manufacturing company in US. This acquisition enabled company to have access to the North American and European glass markets and clientele in these locations.
- US manufacturing capacity slowly will be rationalized and a part of its C&P capacity has already been shifted to India.
- PGL through its US acquisition has earmarked sufficient technology to manufacture the bottles with the same quality standard in India. We expect US facility to break even by FY10E.

Key Financial Ratios

	FY09	FY10E	FY11E	FY12E
Div. yield	0.0%	0.0%	0.0%	0.0%
P/E	-	-	8.1	5.9
P/BV	3.2	2.6	2.0	1.5
P/Cash EPS	-	6.5	3.5	2.9
MCap/Sales	0.1	0.5	0.5	0.5
EV/EBIDTA	11.6	7.8	6.2	4.9
ROCE	4%	11%	13%	16%
ROE	-236%	1%	24%	25%
EBITDM(%)	13%	19%	21%	22%
NPM (%)	-10%	0%	6%	8%
Debt-Equity	31.3	4.4	3.0	2.0

Extensive marketing and distribution network

- PGL has its marketing offices in India, USA, UK, Sri Lanka, France, Brazil, Italy, Germany and Turkey and also has its distribution network in 44 countries. With global presence and wide range of products, PGL is increasing its market share constantly.

Price comparison PGL v/s BSE Smallcap**Analyst: Kamna Jain**

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Outlook & Recommendation

PGL is a leading player among glass flaconage solution provider and in C&P capacity it is 3rd largest in the world. PGL is best poised to recuperate its profitability with appropriate business mix, superior technology, inferior cost and extensive global presence.

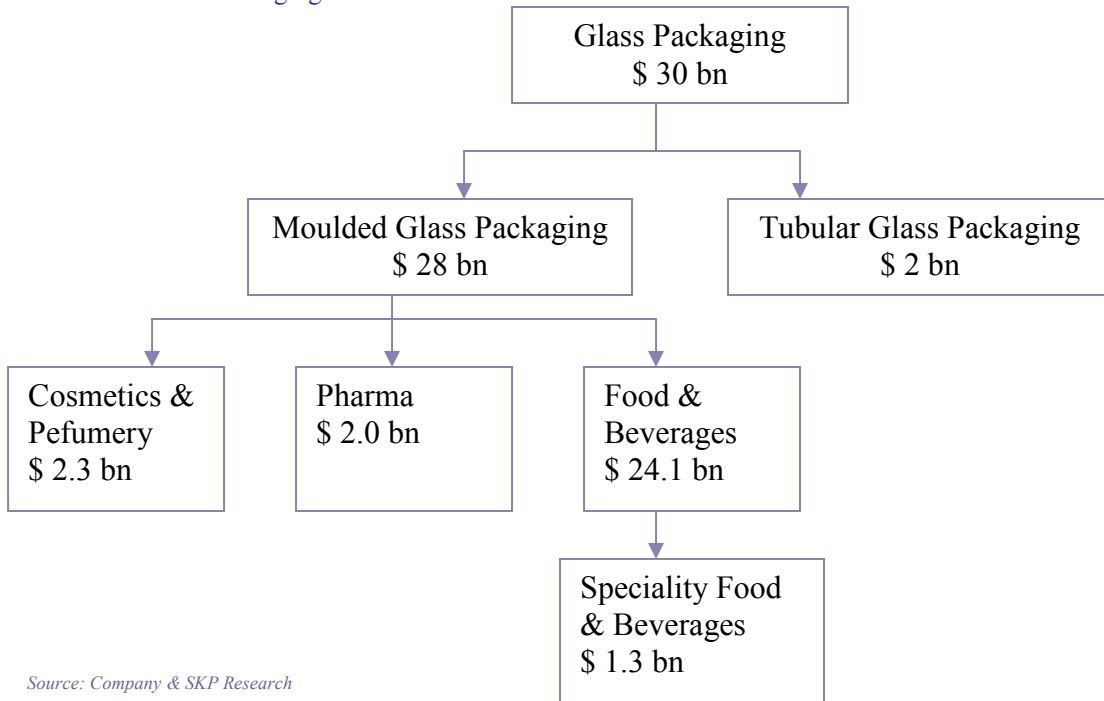
At current market price of Rs. 76/-, PGL is trading at P/E of 8.1x and 5.9x of FY 11E and FY12E earnings of Rs. 9.4 and 12.9 respectively. We hereby initiate coverage on PGL Ltd. and recommend buy rating with a target price of Rs.109 (43% upside) in 18 months, implying a PE of 8.5x to EPS of FY12E.

Industry Overview

Container Glass Industry

According to a study of Fibonacci Technology Services (FTS), the global glass market during 2007-2008 is estimated to be US\$ 84 bn. Glass packaging constitutes about 1/3 of the overall market (US\$ 30 bn).

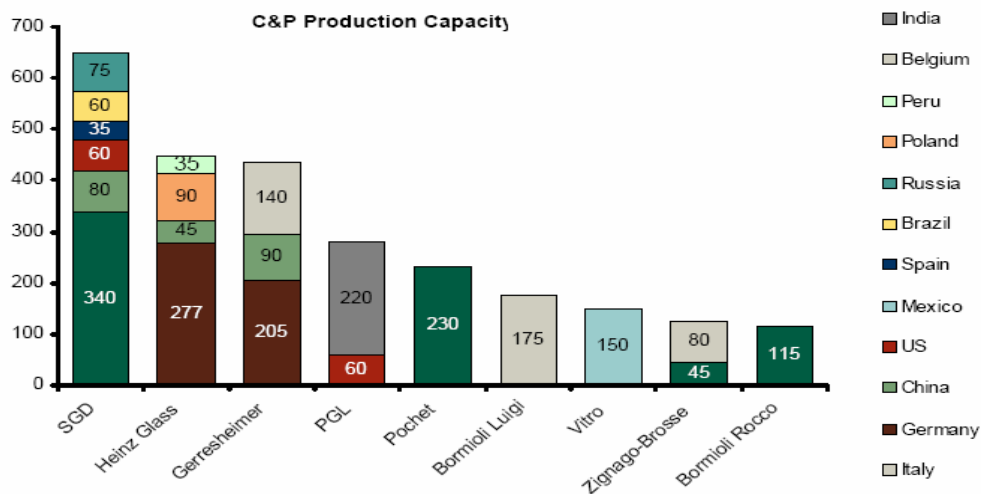
Global Glass Packaging



Source: Company & SKP Research

Cosmetics and Perfumery

World market size for C&P business is estimated to be over US \$ 2 bn in the year 2008, growing at a modest 5% globally. The product range includes glass bottles for fragrances, nail polish, jars for skin care, foundations, aroma oils etc. Piramal Glass Ltd is ranked 4th among all C&P players in terms of production capacity.



Source: Company & SKP Research

Pharmaceutical Segment

The global pharmaceuticals flaconage market is estimated around US\$ 2 billion and the Indian market is estimated around US\$ 122 million. It caters to the requirements of pharmaceuticals industry in the product lines like moulded vials, injectibles and bottles. Pharma market can be divided into Amber and Flint Type I, Type II, Type III. If the bottle is brown in colour it is called Amber, while transparent bottles are called Flint. Type I, II, III refers to the leaching tendency of glass with respect to acid.

Demand for pharmaceutical formulations in India is on the rise. While the growth for tablets and capsules would be higher, the demand for medication in the form of liquid dosages, especially for pediatric formulations, for injectibles, etc would also increase. The generics market globally, which also has liquid formulations, is also growing. Some Indian pharmaceutical companies are scaling up their efforts in major way to become the preferred manufacturer for large global pharmaceutical companies. These factors are expected to result in increased demand for pharmaceutical glass containers.

Speciality Food & Beverages Segment

The Speciality Food & Beverages section is a small sub segment within the overall Food and Beverages industry. According to FTS global market for the Speciality Foods and Beverages market is estimated to around USD \$ 1.1 billion during 2007-2008 and is expected to grow at a rate of 7% p.a. over the coming three years.

Outlook

Container Glass industry, which grew at a CAGR of 8% over five years, is expected to grow at 10% over the foreseeable future. Growth of container glass industry is driven by a growth in down stream user industries like cosmetic & perfumery, processed foods (FMCG), beverages, beer, liquor, pharma and retail.

Glass is facing stiff competition from substitutes like PET bottles, metal cans and paperboard containers. Plastic containers have begun to penetrate into wide-mouth jars and bottles in the food sector. The major substitution has been in the soft drinks market, where plastic packaging has rapidly entered the single serve as well as the large soft drink bottles market.

Indian packaging market (by value)	
Flexible packaging	22%
Rigid plastics	18%
Printed cartons	17%
Glass bottles	12%
Metal cans	8%
Caps & Closure	6%
Labels	3%
Others	14%

Glass is preferred over PET and other packaging alternatives for following reasons:

- Lower cost per life cycle
- Provide better barrier against oxygen/Ultra-violet rays
- Prevents food contamination
- More hygienic
- Visibility of Product

However, Glass bottles are critical for use in prestige fragrance and higher end cosmetic and skin care products. Glass bottles will remain a major application in nail polish bottles due to its chemical resistance, lower cost and clarity. Alcoholic beverages are the major end user of glass containers. The replacement of glass by PET in the pharma segment has not been extensive as there are many products which are not neutral to PET. Hence glass is still one of the preferred flaconage solutions among above mentioned industries.

Source: Company & SKP Research

The Company: A snapshot

Piramal Glass Ltd (PGL),

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PGL has its manufacturing facilities in India, US and Sri Lanka with 11 furnaces having a combined capacity of 1120 TPD. Company manufacture a wide range of glass bottles and jars, in sizes ranging from 2ml to 2.5 litres. Company has marketing offices in India, USA, UK, Sri Lanka, France, Brazil, Italy, Germany and Turkey. PGL also has a bottle decoration and PVC coating facility at Williamstown, New Jersey.

The business of this company was earlier owned by the erstwhile Gujarat Glass Ltd; thereafter it has merged with Piramal group. PGL is a part of Piramal group, which is into diversified business and has interest in pharmaceuticals, healthcare, life sciences, financial services and real estate.

Production facilities

Plant Location	No. of furnaces	Product lines	Installed capacity (Tonnes per day)
Kosamba, Gujarat	6	24	340 TPD
Jambusar, Gujarat	2	12	335 TPD
Missouri, USA	2	8	195 TPD
Horana, Srilanka	1	5	250 TPD
Total	11	49	1120 TPD

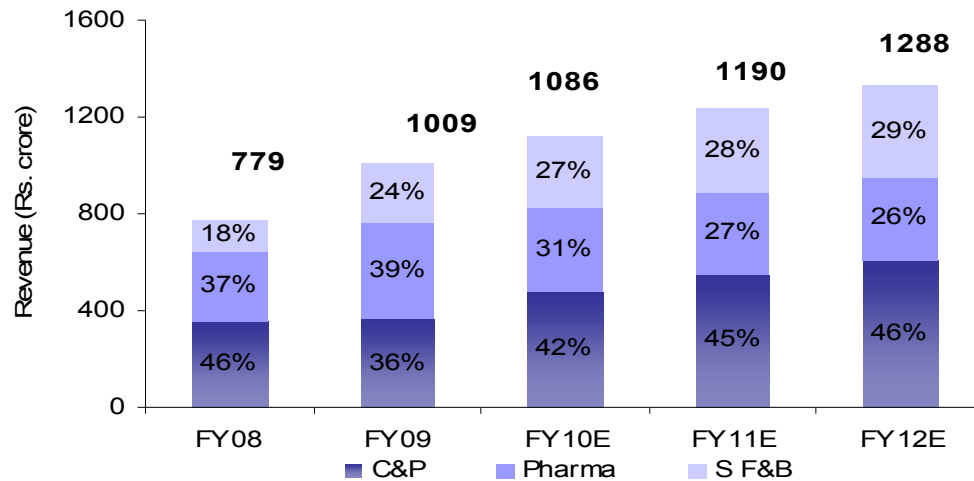
Source: Company & SKP Research

Business segment overview

Segment	Products	Capacity	Presence
C&P	Perfumery and color cosmetic bottles (Nail Polish, skin care creams)	340 TPD	5% market share globally
Pharmaceuticals	Glass bottles for injectibles, vials, ampules etc.	440 TPD	35% market share in India
Speciality F&B	Glass bottles for high end alcoholic and non alcoholic beverages, miniature food served in airlines	335 TPD	88% market share in Sri Lanka

Source: Company & SKP Research

Revenue Mix of various segments

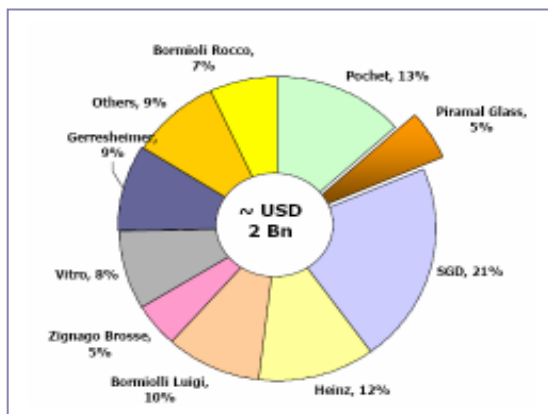


Source: Company & SKP Research

Investment Arguments

C&P (Cosmetic and Perfumery) business to be a major growth driver

PGL has 5% market share in C&P segment and has leadership in color cosmetics (nail polish) with 26% market share globally. PGL caters to multinational customers like Unilever, Revlon, L’Oreal, Avon, Estee lauder, LVMH etc.



Source: Company & SKP Research

C&P market size - (US \$ mn)		
Segment	Market size	ROCE
Select Perfumes	1016	25-30%
MNC mass perfumes & skin care	616	20-25%
Low mass perfumes	320	10-15%
Colour cosmetics (Nail polish)	146	10-15%
Total	2098	

Earlier, company has catered to mass segment of C&P business, which is dominant by many organized and unorganized players. Currently PGL’s main focus is on high margin driven premium segment which derives ROCE of approx 25-30%. Total market size of premium segment is US\$ 1632 million, mostly dominated by EU manufacturers and PGL is the only Asian player with 2% market share.

Hence it provides a room to company to enlarge its market presence. PGL is poised to become a strong entity among its competition through economy of scale, strong clientele and superior quality manufacture with technology modernization.

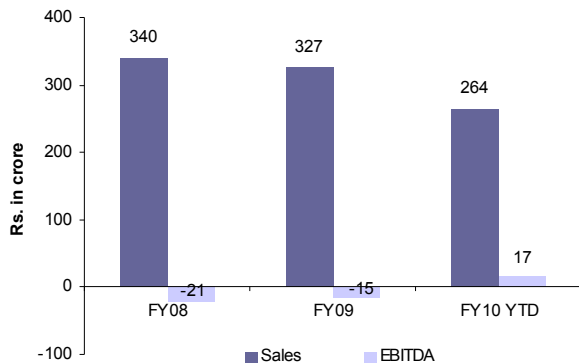
Company has strong relationship with 17 out of 20 key customers in France & US, which constitute about 80% of the premium market. PGL has 145 products under development in last 2 years & 89 commercialized. **We expect C&P segment to grow at a CAGR of 18.3% from FY09 to FY12E.**

US acquisition to turnaround from current financial year

In 2005, PGL has acquired a glass manufacturing company in US. This acquisition enabled company to have access to the North American and European glass markets and clientele in these locations. This acquisition has also enabled PGL the necessary technology know-how to manufacture premium C&P bottles as Premium C&P segment is very quality stringent and demand high skill requirement.

This subsidiary has been incurring significant losses over the past few years, due to various factors such as manufacturing facilities functioning at below optimum capacity, high fixed overheads, decline in demand in the US markets due to recession, etc.

US facility to break even by FY10E



Source: Company & SKP Research

US manufacturing capacity slowly will be rationalized and a part of its C&P capacity has already been shifted to India. In current year close to 15% of sales of USA is manufactured in India. The US capacity will be used for F&B bottles as in US there is only one manufacturer for F&B business and the rest largely comes from EU and Asian countries.

PGL through its US acquisition has earmarked sufficient technology to manufacture the bottles with the same quality standard in India. According to the management even after considering the freight cost, the cost of production in India works out to be cheaper by more than 40%. We expect US facility to break even by FY10E.

Extensive marketing and distribution network

PGL has its marketing offices in India, USA, UK, Sri Lanka, France, Brazil, Italy, Germany and Turkey and also has its distribution network in 44 countries. With global presence and wide range of products, PGL is increasing its market share constantly.

Competitive cost advantage

Catering to the packaging needs of the fast-growing cosmetics and perfumery sector, the company is steadily gaining market share in the overseas market on account of being a low-cost manufacturer.

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

Source: Company & SKP Research

As per Mckinsey study there is enormous disparity in cost structure of container glass in India and France. Given the higher cost for manpower in the developed countries, India has a competitive advantage over developed countries.

Key Concerns

- Growing competition: Growing competition among domestic and international players may affect the margin.
- Substitute threat: Glass packaging face the risk of replacement by other packaging solutions such as plastic, metal can etc.
- Changes in C&P product mix: We have forecasted the growth in revenue and margin of PGL for coming years owing to increased focus towards premium C&P business. Any changes in business mix may adversely affect company's profitability.

Valuations & Outlook

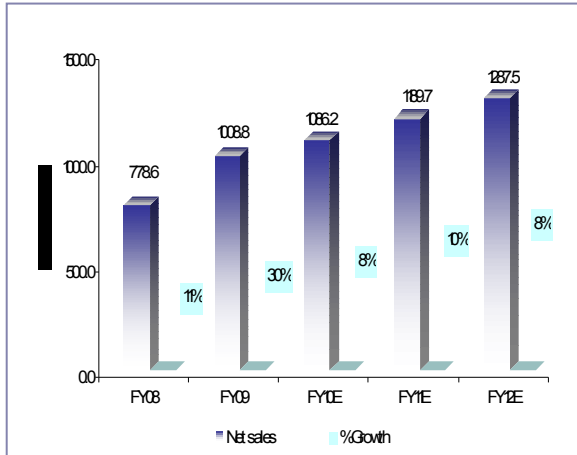
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At current market price of Rs. 76/-, PGL is trading at P/E of 8.1x and 5.9x of FY 11E and FY12E earnings of Rs. 9.4 and 12.9 respectively. ***We hereby initiate coverage on PGL Ltd. and recommend buy rating with a target price of Rs. 109 /- (43 % upside) in 18 months, implying a PE of 8.5 x to EPS of FY12E.***

Financial Outlook

Top-line is estimated to grow at a CAGR of 8.47% over FY09-12E

PGL Ltd recorded revenue of Rs.1008.8 cr in FY09, registering a growth of 29.6% Y-o-Y basis. PGL is constantly increasing focus towards premium C&P segment that will fuel growth to its revenue. We expect by FY12E C&P will constitute about 46% of total sales; Pharma about 26% and about 29% sales will come from Speciality F&B business.



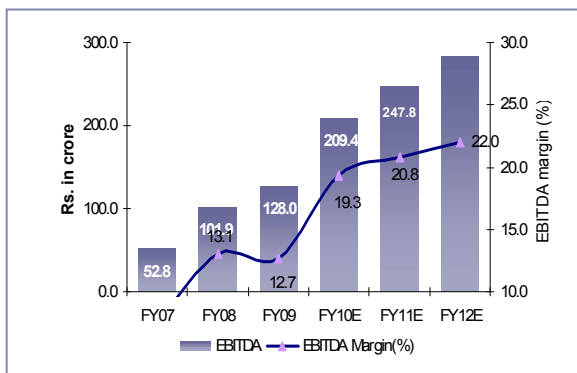
Source: Company & SKP Research

We expect, revenue from C&P segment to grow at a CAGR of 18% from FY09 to FY12E, this will be driven by premium segment. Pharma Business is expected to show a de-growth of 5% through FY12E, owing to rationalizing capacity as the overall pharma market is shrinking by 10% Y-o-Y. Revenue from Speciality Food & Beverages business is expected to grow at a CAGR of 16.5% mainly due to increased demand from US and EU countries.

Improved realization, widen global presence, strong distribution network are likely to give boost to PGL's top line in coming years and we expect top line to grow at a CAGR of 8.47% over FY09-FY12E.

EBITDA to grow at a CAGR of 30.3%, over FY2009- FY12E

PGL has witnessed an EBITDA margin of 12.7% in FY09, against an EBITDA margin of 13.1% in FY08.

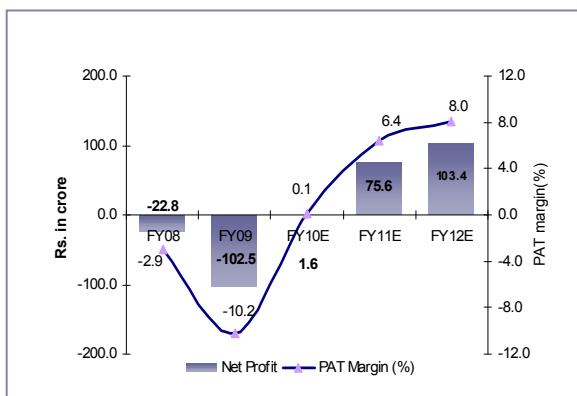


Source: Company & SKP Research

We expect, EBITDA margin to be 22% by FY12E mainly due to company shifting its gear towards premium C&P business. PGL is shifting C&P capacities of its US facility in India that will help in reduce the cost.

PAT margin is expected to be in the range of 7-8% by FY12E

In FY09 company has recorded net loss of Rs. 107.17 crore. Piramal Glass Ltd has suffered in the past because of the huge forex losses, large capacity expansions and the US acquisition that took more time to turnaround due to recession in US and EU.



Source: Company & SKP Research

With operational efficiency, reduced interest burden, available tax regime, we expect PGL to maintain PAT margin of 6.4% and 8.0% for FY11E and FY12E respectively.

Consolidated Financials for FY March (figs. in crore)
Income Statement

Financial Year	FY09	FY10E	FY11E	FY12E
Net Sales	1008.8	1086.2	1189.7	1287.5
Growth (%)	29.6%	7.7%	9.5%	8.2%
Total Expenditure	880.9	876.8	941.9	1004.7
Operating profit	128.0	209.4	247.8	282.9
Growth (%)	25.6%	63.6%	18.4%	14.1%
Depreciation	89.2	92.4	99.9	104.0
EBIT	38.7	117.0	147.9	178.8
Interest	131.4	107.9	92.0	73.0
Interest Coverage (x)	0.3	1.1	1.6	2.4
Other Income	20.9	22.1	23.0	23.9
PBT	-71.8	31.2	78.9	129.7
Forex losses	54.0	27.0	0.0	0.0
Tax	-18.6	0.0	0.0	22.1
PAT	-107.2	4.2	78.9	107.7
Growth (%)	372.6%	103.9%	1770.0%	36.5%
Less : Minority interest	-4.7	2.6	3.3	4.3
Adjusted PAT	-102.5	1.6	75.6	103.4
O/S shares	1.8	8.0	8.0	8.0
EPS (Rs.)	-57.0	0.2	9.4	12.9
Cash EPS (Rs.)	-7.4	11.7	21.8	25.8

Balance Sheet

Year End March	FY09	FY10E	FY11E	FY12E
Equity capital	18.0	80.4	80.4	80.4
Reserves & Surplus	25.4	152.8	228.5	330.9
Shareholder's Fund	43.4	233.3	308.9	411.3
Total debt	1357.1	1030.3	938.7	802.2
Deferred tax liability	9.3	9.3	9.3	9.3
Minority interest	44.7	47.4	50.6	54.9
Sources of funds	1454.4	1320.1	1307.5	1277.7
Net Block	971.0	913.5	872.5	831.1
Investments	0.0	0.0	0.0	0.0
Total Current Assets	643.0	606.8	665.2	695.7
Inventories	285.5	276.8	272.9	280.5
Debtors	268.8	231.7	291.8	300.0
Cash & Bank Balance	11.8	15.6	11.7	19.0
Loans & Advances	76.8	82.8	88.9	96.2
Total Current Liabilities	159.5	200.2	230.2	249.2
Net Current Assets	483.4	406.6	435.0	446.5
Misc. Expenses	0.0	0.0	0.0	0.0
Uses of funds	1454.4	1320.1	1307.5	1277.7
Book value per share	24.1	29.0	38.4	51.1

Ratios

Year End March	FY09	FY10E	FY11E	FY12E
Valuation Ratios				
Price Earning (P/E)	-	-	8.1	5.9
Price / Book Value	3.2	2.6	2.0	1.5
Price / Cash EPS	-	6.5	3.5	2.9
EV / EBIDTA	11.6	7.8	6.2	4.9
Market Cap / Sales	0.1	0.5	0.5	0.5
Earning Ratios				
OPM (%)	12.7%	19.3%	20.8%	22.0%
NPM (%)	-10.2%	0.1%	6.4%	8.0%
RoNW (%)	-236.5%	0.7%	24.5%	25.1%
RoCE (%)	4.1%	10.5%	13.1%	15.9%
Balance Sheet ratios				
Debt-Equity	31.3	4.4	3.0	2.0
Current Ratio	4.0	3.0	2.9	2.8
Debtors Days	84.0	82.9	79.2	82.7
Creditors days	115.2	132.6	148.5	151.1
Inventory Days	85.8	89.9	80.2	74.7
FA/Turnover	1.1	1.2	1.4	1.5

Year End March	FY09	FY10	FY11E	FY12E
Profit before tax	-125.7	4.2	78.9	129.7
Add: Depreciation, Int. & other expenses	219.3	200.3	191.9	177.0
Net changes in working capital	-119.2	80.5	-32.2	-5.3
Direct taxes paid	0.4	0.0	0.0	-22.1
Cash Flow from Operating activities	-25.2	285.0	238.6	279.5
Capital expenditure	-154.7	-34.9	-58.9	-62.7
Change in Investments	0.0	0.0	0.0	0.0
Dividend, Interest & others	0.0	0.0	0.0	0.0
Cash flow from investing activities	-154.7	-34.9	-58.9	-62.7
Cash Flow from Financing activities	183.2	-246.4	-183.6	-209.5
Cash Flow during the year	3.2	3.7	-3.9	7.3
Opening Cash	8.6	11.8	15.6	11.7
Cash & cash equivalent	11.8	15.6	11.7	19.0

The above analysis and data are based on last available prices and not official closing rates. SKP Research is also available on Bloomberg, Thomson First Call & Investext Myiris, Moneycontrol, Tickerplant and ISI Securities

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Entities

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