



## Piramal Glass

*Strong C&P Demand to Drive Growth*

10 May 2011

**Buy**

CMP: INR 128

### Highlights

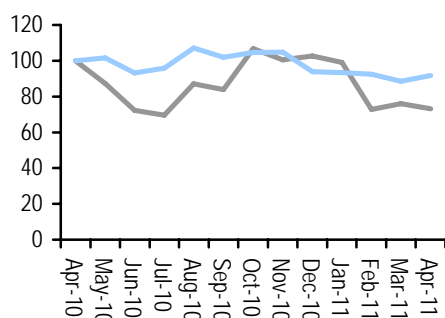
Sector	Flaconnage Glass
Target	INR 190
Market Capitalisation	INR 10,296 mn
Equity Capital	INR 804.3 mn
Free Float (Shares)	21.72 mn
Face Value	INR 10
52 Week H/L	INR 137 / 84
Average Volume (NSE)	58,350
Bloomberg Code	PIRA IN
NSE Code	PIRGLASS
BSE Code	532949

### Share Holding Pattern

Promoter Group	73%
Foreign Institutions	3%
Domestic Institutions	2%
Bodies Corporate	10%
Public	12%

### Price Performance

Prices indexed to INR 100



— Piramal Glass — BSE Sensex 30

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Piramal Glass is a leading producer of glass bottles for various end uses. The industries it caters to are cosmetics & perfumery (C&P), Pharmaceuticals and specialty food & beverages (SF&B).

**Turnaround Complete; Embarking on Growth Phase:** The Company's acquisition in the USA had saddled its balance sheet with a sizable debt. Its American subsidiary was posting losses with an EBITDA of (~15%). However, its performance has been improving with EBITDA margins of ~15% in FY11. We believe that the company has moved from a phase of establishing its base to a phase where it can concentrate on its growth.

**Significant Pricing & Geographic Advantage:** Although the glass industry is highly automated, it still requires skilled man power in inspection and decoration. It gives the Company a cost advantage over its competitors who are largely based out of Europe & America. The Company would be in a better position to pass on any increase in costs to its customers. They are the only major player in this segment in Asia. This puts the company in a prime position to capture market share of companies who are setting up operations in the Asian region due to increased demand of cosmetics in growing economies.

**Strong Customer Profile & Extensive Product Portfolio:** Piramal Glass supplies bottles for C&P to 17 out of the top 20 C&P brands in the world. It currently possesses a 2-3% market share of the supply to these companies and is expected to increase in the future due to added competitiveness. The product portfolio consists of both Mass & Premium segment bottles, including decoration services with a diverse customer base. They have an extensive product portfolio which caters to a wide spectrum of customers.

**Capacity Expansion to Meet Additional Growth:** To meet the additional demand for its C&P bottles, the company is expanding its capacity by 210 TPD from the current 1115 TPD. Most of this capacity will be used to produce Mass C&P bottles.

### OUTLOOK & VALUATION

Piramal Glass has registered a steady growth in its high margin C&P premium segment. C&P contributed nearly 50% to its revenue in FY11. We expect this share to improve further in FY12E. Given these factors along with improving EBITDA margins and strengthening of the balance sheet, we see a robust potential in the company's operations. The stock is currently trading at 6.8x and 8.5x its FY13E and FY12E earnings respectively. We recommend a **'BUY'** on Piramal Glass with a **target price of INR 190**.

In INR Mn.	FY 2010	FY 2011E	FY 2012E	FY 2013E
Sales	11,039	12,185	14,123	16,519
EBITDA Margin (%)	17.53	22.70	22.55	24.30
Net Profit	44	930	1,216	1,511
EPS	0.84	11.57	15.12	18.78
PE (x)	152	11	8.5	7
ROE (%)	3	32	32	33

Source: Company, Derivium Tradition



### Piramal Glass: An Introduction

Piramal Glass, incorporated in 1998, is a manufacturer of niche specialty glass containers for various segments like Cosmetics & Perfumery, Specialty Food & Beverages and Pharmaceuticals. It has sales in excess of INR 12 bn. Global sales accounts for ~74% of the Company's total sales revenue. It markets its products in over 50 countries.

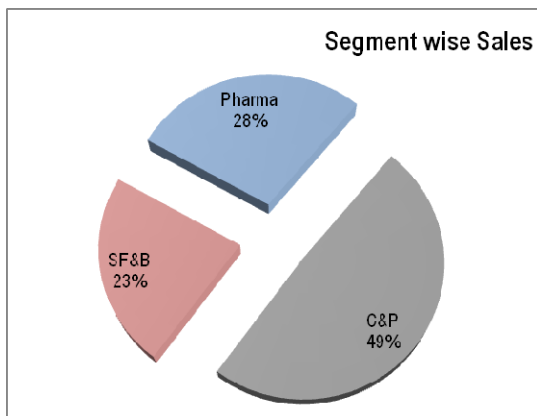
### Operations

Piramal Glass has manufacturing locations in 3 countries:

**India:** 8 furnaces across 2 locations in India at Kosamba and Jambusar in Gujarat. Operations in Gujarat involve 27 lines with a total capacity of 695 TPD. These Operations account for 56% of the global sales.

**America:** Piramal Glass acquired US-based **Glass Group Inc.** in 2005 to get access to the one of the world's largest perfume market as well as to the latest technologies. It was acquired for USD 20 mn. with a further investment of USD 40 mn. since. It has 2 furnaces with 8 lines out of which only 1.5 furnaces are active.

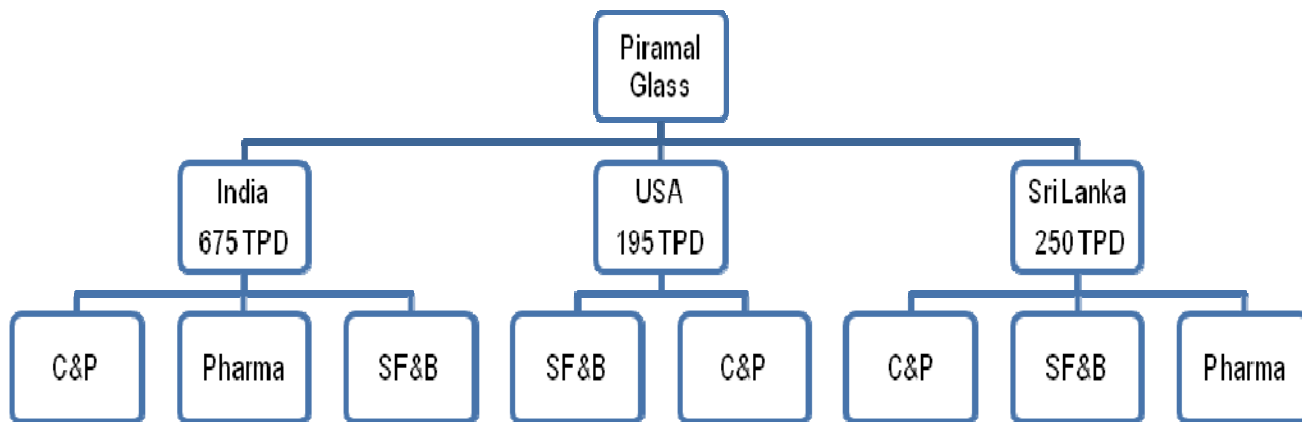
**Sri Lanka:** Its Sri Lankan operations are focused mainly on mass food & beverages bottles and have a capacity of 250 TPD. These bottles are used in the Liquor industry and the company has a monopoly in Sri Lanka. Piramal Glass owns a 56% stake in these operations.



Source: Company

Its pharmaceutical business involves production of vials, bottles for injectables. It is a leader in this segment in India with a market share of ~35%. Within the C&P segment, it produces glass bottles for both the Mass and the Premium Segment. Its products are used in select & low mass perfumes, skin care and colour cosmetics. It has a market share of ~50% in nail polish bottles world wide. It also has a 91% market share in its segment in Sri Lanka.

Piramal Glass is a part of the Piramal Group which has a turnover of USD 650 mn.



Source: Company

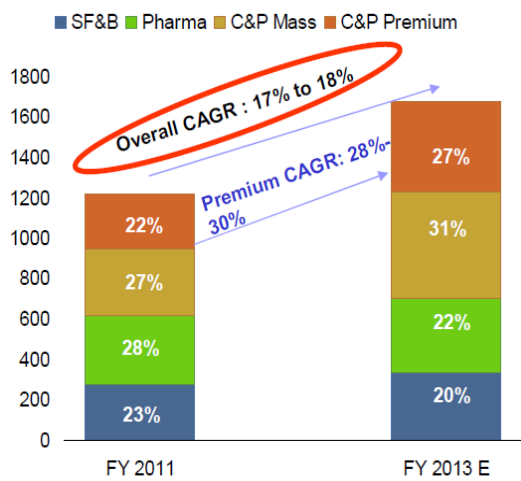


### Turnaround Complete; Strong Demand & Growth Trajectory

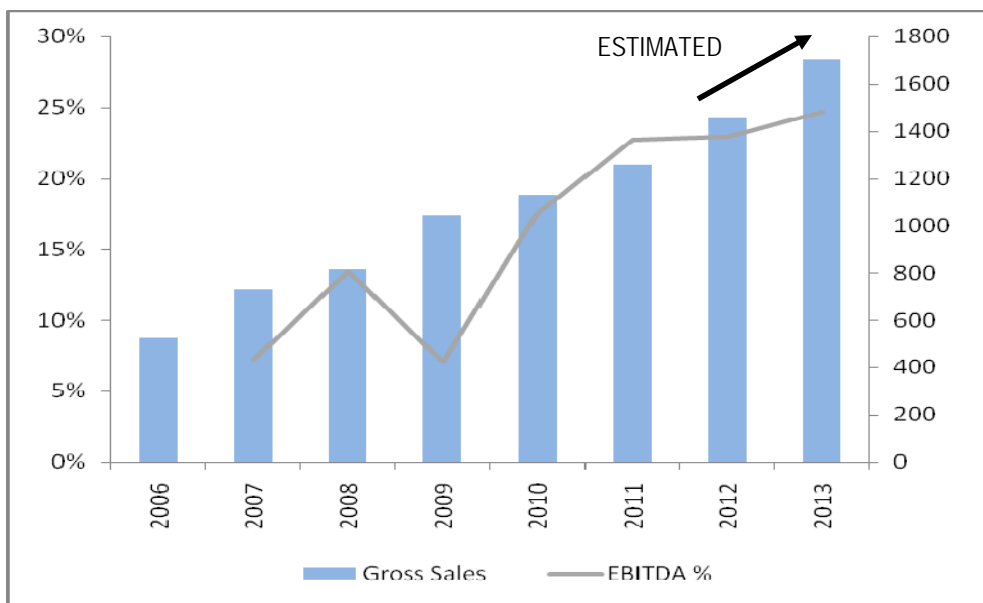
Over the past few years, Piramal Glass suffered heavy losses on a consolidated level due to its foreign acquisitions. However, both its American & Sri Lankan subsidiaries are showing signs of turnaround with a positive bottom-line in the past few quarters. We believe that this marks a new phase in the company's growth and we will see a consistent and steady growth in the coming fiscals.

The American subsidiary was acquired in 2005 as a part of plans to establish Piramal Glass as an international supplier of flaconage glass. **The Glass Group** was a sick unit, with a negative EBITDA and bottom line. Post acquisition, certain operations were shifted over to its Indian plants and synergies created which has now allowed this unit to start producing profits. The subsidiary's sales revenue was USD 82 mn in FY11. With increasing demand and cost efficiencies, it is expected to continue to add to the company's bottom line.

Rs Crores



Source: Company



Source: Company, Derivium Tradition

The Company has a robust demand for its products across segments. Within the C&P Segment, they are suppliers to 17 out of the top 20 brands within the segment. They possess ~2-3% market share among the suppliers to these brands and a 5% share in the overall C&P segment. They are also 50% market share holders in the nail polish bottle segment globally. This gives them a strong base in terms of references and visibility for the company to grow and expand.

Although, major customers in the Cosmetics & Perfumery segment are based out of America and Europe, the final products are used worldwide. With increasing income levels and growth in consumption of mass as well as premium perfumes and cosmetics in Asia and other developing economies, the demand for flaconage glass is expected to remain strong. The total market size of the C&P Bottles is valued at USD 2.1 bn. The expected growth guidance provided by the company is 27% in C&P and 28-30% in the premium C&P segment.

Although, the original blueprint for growth outlined reduction of proportionate sales in the Mass C&P segment, the company has revised its decision and is now expected to grow its sales share in this segment from 27% of sales currently to 31% by FY12e. This decision was taken after consultation with its customers from the mass segment and recognition of the tremendous growth potential within this segment which is primarily driven by the unorganized market.

#### Select C&P Customers



Source: Company



### Select Pharmaceutical Clients



### Indian Pharma Clients



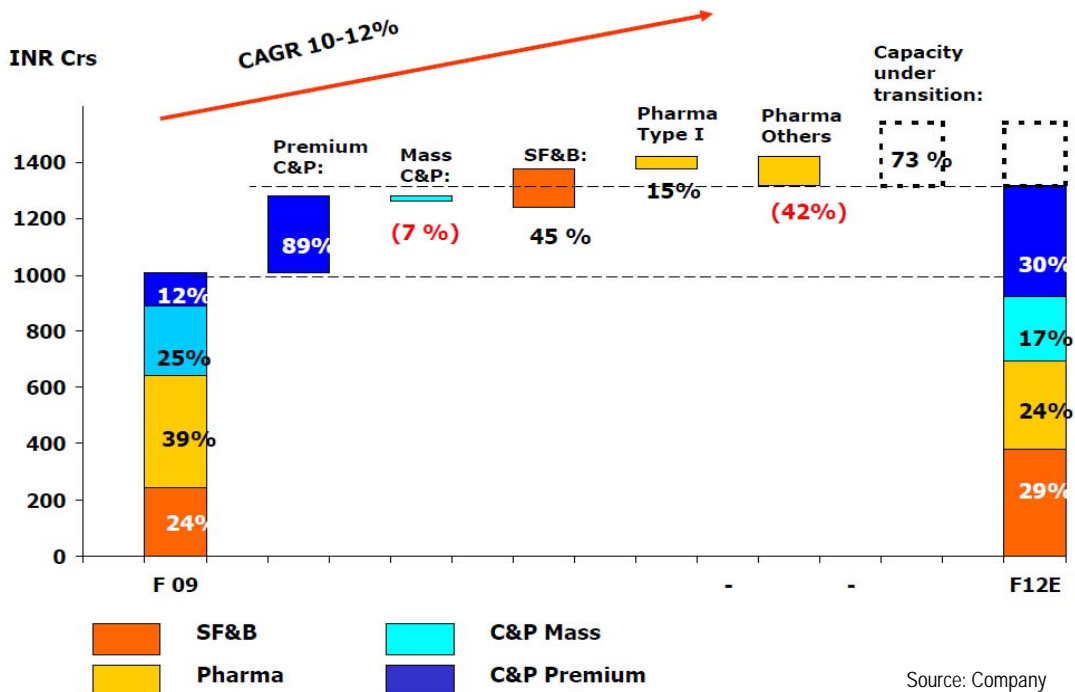
Source: Company

The Pharmaceutical segment is facing problems of substitutes, especially from PET bottles. This segment is also not easy to export on a mass scale due to various differing criterion for different countries with regard to shape, size, bottom thickness and composition. Hence, the company is looking to shrink its capacity in Pharmaceuticals and transfer it to C&P which is experiencing fast growth. The remaining Pharmaceuticals capacity will be focused on high end export products.

### Capacity Addition

Due to high demand for its products, especially in the C&P segment, Piramal Glass plans to add new capacity to boost production. This new capacity will add 210 TPD to the current capacity of 1115 TPD. Out of the additional 210 TPD, 160 TPD will be added via Greenfield for production of Mass C&P products. The extra 50 TPD will be added by re-aligning the furnaces which will further add to premium C&P production. The capital expenditure involved in this exercise is roughly estimated at INR 2600 mn. This outlay is expected to be met via internal accruals.

### EBITDA Expansion



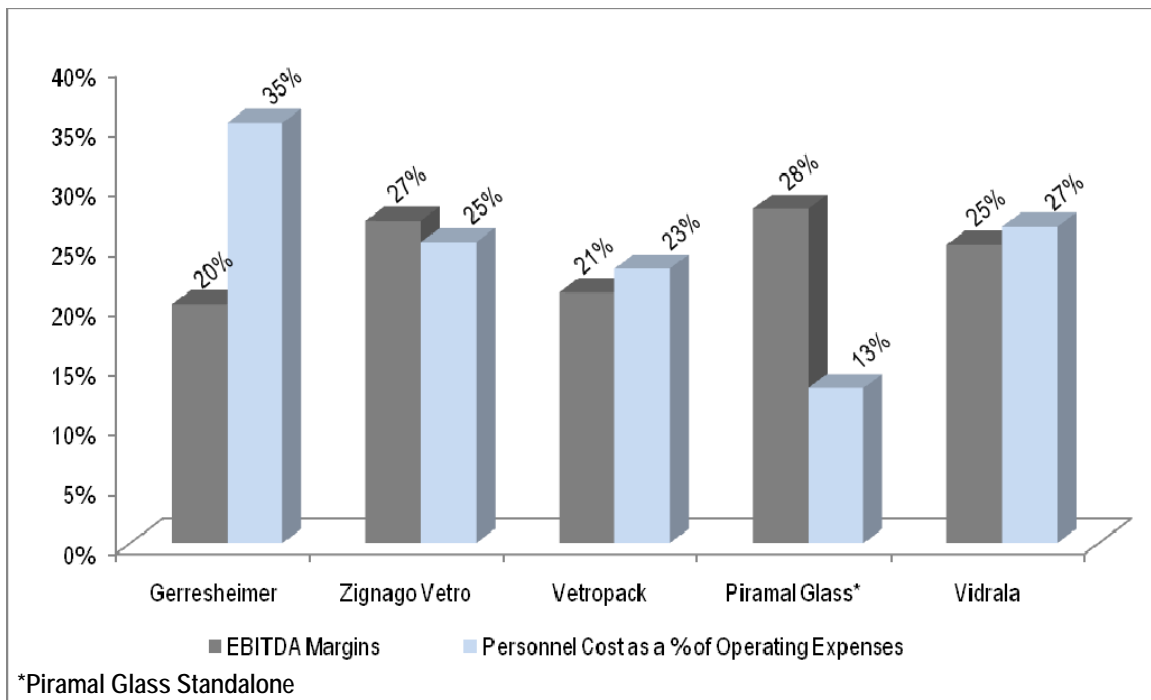
### Pricing & Geographical Advantage

Piramal Glass has a significant cost advantage over its western competitors. Unlike glass panel manufacturing, which is highly automated, flaconage glass requires human involvement at two important steps in the production process – Inspection and decoration. Inspection involves a large working force to physically handle and inspect each bottle, to ensure consistency and quality. Decoration requires the same. This allows the company to gain a great pricing advantage over its competitors. This also allows them to pass on rises in cost over to its customers. The company also plans to transition its American C&P Operations to India to give itself a further cost advantage. The SF&B Division will, however, remain in America due to freight costs outweighing benefits of transitioning.



Many European & American cosmetics manufacturers are slowly turning their attention to Asia and other developing economies due to rapid increase in demand and cheaper production costs. Piramal Glass being the only organised player in this segment in Asia has a massive advantage in leveraging not only its cost advantage but also its geographical location in adding customers who are looking to establish Asian manufacturing facilities. As can be noted from the table below, Piramal Glass has one of the lowest personnel costs.

### Cost Comparison



Source: Bloomberg, Derivium Tradition

### Balance Sheet Clean Up

Acquisition of The Glass Group had led to heavy debt burdens on Piramal Glass' balance sheet. The debt level stood at Rs. 13570 mn in FY09( D/E ratio: 30x). Since the American acquisition was a sick unit, Piramal Glass had to raise debt from India bearing an interest cost of around 11% which compressed the margins further. Once the American acquisition showed signs of a turnaround, the Company refinanced its loans at a much lower cost of ~7%.

Piramal Glass came out with a rights issue in August 2009 which helped raising INR 1830 mn. This cash along with internal accruals was used to pay off debt worth INR 3750 mn. which has further strengthened the balance sheet



### High Barriers to Entry

The business of flaconage glass is a niche industry which is different from production of other glass products. There are close to 70-80 different jobs carried out at each plant every month. The process is highly specialized with the technical know-how and expertise in the hands of a few, mainly European companies. This was one of the central reasons which led to the acquisition of The Glass Group in 2005. The Company has been able to harness Glass Group's knowledge and references to establish itself in the C&P segment.

The process of getting accepted by a customer is a long and comprehensive one. The flaconage glass manufacturer is put through a variety of stringent audits over many months. Labour Audits, Infrastructure Audits are carried out over 6-8 months. A detailed copy audit is undertaken where in the company's glass mould library is re-checked to ensure no copying of moulds has been done. This is done to ensure the cosmetics company's patents are protected.

Building an adequate infrastructure along with acquiring technical expertise and customer references make the gestation period in this industry a long one. Apart from that, ensuring integrity standards by avoiding any copies make entry barriers in this industry very high.

The customer also has a significant investment in the form of time in its suppliers. This creates strong ties between the customer and supplier ensuring long standing relationships.

### Major Competitors

Zignago Vetro



Country: Italy

Revenues: EUR 264 mn

Segments:  
Food & Beverages  
Cosmetics & Perfumery

Listed: Yes

Gerresheimer



Country: Germany

Revenues: EUR 1025 mn

Segments:  
Pharmaceuticals  
Cosmetics & Perfumery

Listed: Yes

Vetropack



Country: Switzerland

Revenues: EUR 643 mn.

Segments:  
Food & Beverages

Listed: Yes

Source: Derivium Tradition





### Investment Risks:

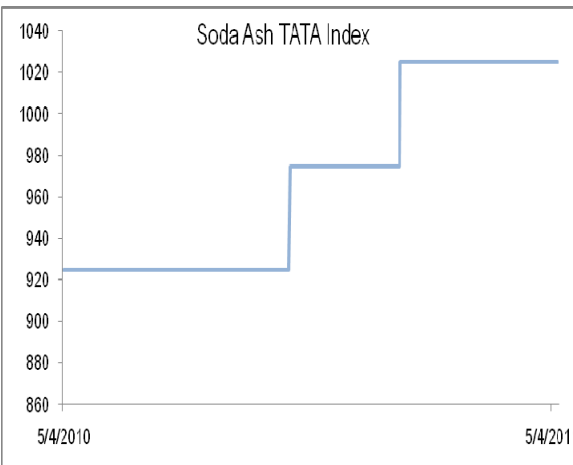
#### Commodity & Input Costs

The chief raw material used in the production of flaconage glass is Soda Ash. Major input costs are those of energy and power requirements of the furnaces. While the cost of Soda Ash was stable all through last year, power cost went up by ~20% and non Soda Ash raw materials went up by ~30%. Input price is also highly dependent on gas prices. Power and Gas costs are as high as 15% of sales. One of the supplier of gas to the Company, Gujarat Gas, hiked its prices last year and although revisions have already been made, volatility remains a concern. The Company was able to pass a bulk of the price rise onto its customers. However, the margins will remain under pressure in case of a rise in prices of any of the major input costs.

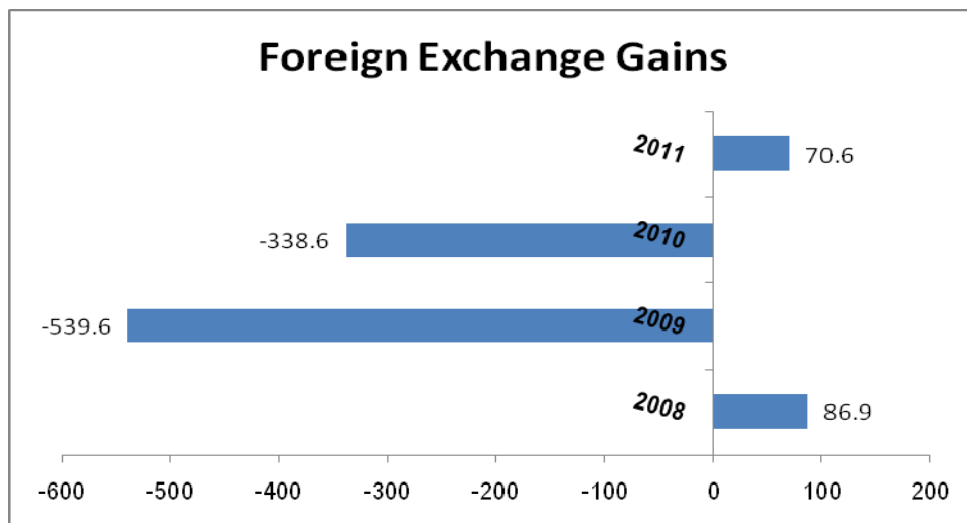
#### Currency Exposure

Piramal Glass manufactures flaconage glass to be supplied mainly to its customers in America & Europe. This makes the company very susceptible to cross currency exposure losses. With the transitioning of the American C&P operations to India, the little natural hedge the company possessed has been further reduced.

Piramal Glass' hedging policy is of periodic hedging of its exposure. Most of its contracts are in USD.



Source: NNS, Bloomberg



Source: Company



### Summary Table

Investment Rationale	Concerns	Major Ratios (FY13E)
<ul style="list-style-type: none"><li>• Strong Demand</li><li>• Pricing Power</li><li>• Geographic Advantage</li><li>• High Barriers to Entry in the Industry</li></ul>	<ul style="list-style-type: none"><li>• Rising Commodity Prices &amp; Input Costs</li><li>• Foreign Currency Exposure</li></ul>	<ul style="list-style-type: none"><li>• RoE: 33%</li><li>• RoCE: 12%</li><li>• EV/ EBITDA: 4.58x</li><li>• Debt / Equity: 1.71</li></ul>





## FINANCIALS

### Profit & Loss Account

In INR Mn.	Mar-10	Mar-11	Mar-12E	Mar-13E
Net Sales	11039	12185	14123	16519
Growth (%)	9.34%	10.38%	15.91%	16.96%
Expenditure				
Raw material Cost	2588	2457	2966	3980
% to Gross sales	23%	20%	20%	23%
Employee Cost	2142	2369	2487	2611
% to Gross sales	19%	19%	17%	15%
Power & fuel Cost(Gas major component)	1694	1884	2475	2725
% to Gross sales	15%	15%	17%	16%
Other Expenses	2630	2623	2912	3065
% to Gross sales	23%	21%	20%	18%
EBITDA	1985	2851	3283	4138
EBITDA %	17.53%	22.70%	22.55%	24.30%
Other income	221	215	291	85
Depreciation	1071	1069	1233	1441
EBIT	1136	1998	2341	2782
Interest Expense	1049	720	675	660
% to Gross sales	9.27%	5.74%	4.64%	3.88%
EBT	86	1277	1667	2122
Tax	54	244	300	424
<i>Tax rate (%)</i>	63%	19%	18%	20%
PAT (Before EO item)	32	1034	1367	1698
PAT %	0%	8%	9%	10%
Extraordinary item( Net of tax)	0	0	0	0
Profit/ (Loss) before Minority interest	32	1034	1367	1698
Minority interest	-12	103	150	187
Reported PAT	44	930	1216	1511
Basic diluted EPS after Extraordinary item	0.84	11.57	15.12	18.78



## Balance Sheet

In INR Mn.	Mar-10	Mar-11	Mar-12	Mar-13
<b>SOURCES OF FUNDS:</b>				
Share Capital	804	804	804	804
Share Warrants & Outstandings	0	0	0	0
Total Reserves	1595	2543	3336	4352
Shareholder's Funds	2399	3347	4140	5157
Minority Interest	376	500	650	837
Total Debts	9824	9200	9000	8800
Total Liabilities	12599	13047	13790	14793
<b>APPLICATION OF FUNDS :</b>				
Gross Block	13673	15310	15410	18010
Less: Accumulated Depreciation	5252	6314	7547	8988
Net Block	8421	8997	7863	9022
Capital Work in Progress	141	0	1100	0
Investments	1	1	1	1
<i>Current Assets, Loans &amp; Advances</i>				
Inventories	2696	2504	3191	3873
Sundry Debtors	2635	2779	3151	3686
Cash and Bank	71	133	164	166
Other Current Assets	39	0	0	0
Loans and Advances	586	933	827	888
Total Current Assets	6027	6349	7334	8612
<i>Less : Current Liabilities and Provisions</i>				
Current Liabilities	1070	1326	1675	1960
Provisions	807	831	689	740
Total Current Liabilities	1877	2157	2365	2699
Net Current Assets	4150	4192	4969	5913
Miscellaneous Expenses not written off	0	0	0	0
Deferred Tax Assets / Liabilities	-113	-143	-143	-143
Total Assets	12599	13047	13790	14793



## Cash Flow Statement

IN INR Mn.	Mar-10	Mar-11	Mar-12	Mar-13
Cash flow from operating activities:- ( A )				
PAT ( <i>after minority</i> )	44	930	1216	1511
Adjustment for:				
Add / (Less)				
Depreciation	1071	1069	1233	1441
Investment income	-221	-215	-291	-85
Interest paid	1049	720	675	660
Misc. Exp written off	0	0	0	0
Deferred Tax	53	-30	0	0
Others	-340	52	0	0
Operating profit before working capital changes	1656	2526	2833	3526
Adjustment for changes in working capital:				
(Increase) / Decrease in inventories	264	192	-687	-681
(Increase) / Decrease in debtors	53	-144	-372	-535
(Increase) / Decrease in loans & advances	144	-347	105	-60
(Increase) / Decrease in other current Assets	-3	39	0	0
Increase / ( Decrease) in liabilities	37	256	349	284
Increase / ( Decrease) in other provisions	140	24	-141	50
Change in working capital	636	19	-746	-942
Net cash from operating activities	2292	2546	2087	2585
Cash flow from investing activities:- ( B )				
Change in Fixed Assets ( including WIP )	385	-1496	-1200	-1500
Change in investment	0	0	0	0
Investment income	221	215	291	85
Net cash from investing activities	-2945	-1203	-1148	-1167
Cash flow from financing activities:- ( C )				
Change in Equity	2015	347	0	0
(Repayment) / Proceeds from borrowings	-3746	-624	-200	-200
Change in Minority Interest	-71	124	150	187
Interest paid	-1049	-720	-675	-660
Equity dividend paid ( including) Tax	-94	-329	-423	-494
Net cash from financing activities	-2945	-1203	-1148	-1167
Net increase in cash & cash equivalents ( A + B + C )	-47	62	30	3
Cash & cash equivalent ( Opening balance )	118	71	133	164
Cash & cash equivalent ( closing balance )	71	133	164	166



## Important Ratios

Ratios	Mar-10	Mar-11	Mar-12	Mar-13
<b>Valuation Ratios</b>				
P/E	152.39	11.07	8.46	6.81
P/BVPS	4.29	3.08	2.49	2.00
EV (INR mn)	20063	19377	19146	18944
EV/EBITDA	10.11	6.80	5.83	4.58
EV/Sales	1.77	1.54	1.31	1.11
Mcap/Sales	0.09	0.08	0.07	0.06
<b>Leverage Ratios</b>				
Debt/Equity	4.10	2.75	2.17	1.71
Interest coverage	1.08	2.77	3.47	4.22
<b>Per Share Data</b>				
EPS	0.84	11.57	15.12	18.78
DPS	1	3.5	4.5	5.25
BVPS	29.82	41.61	51.47	64.11
<b>Return Ratios</b>				
ROE	3%	32%	32%	33%
ROCE	0.26%	8%	10%	12%
Dividend payout ratio	119%	30%	30%	28%
<b>Margin Ratios ( as % to Gross sales)</b>				
EBITDA	18%	23%	23%	24%
Operating Profit (Including O.I)	19%	24%	25%	25%
PBT	1%	10%	11%	12%
PAT	0.29%	8%	9%	10%
<b>Growth Ratios (%)</b>				
Net Sales	8%	11%	16%	17%
EBITDA	168%	44%	15%	26%
PAT	-103%	3102%	32%	24%
<b>Operating cycle</b>				
Debtors days	86	79	79	79
Inventory days	91	76	80	83
Creditors days	34	35	42	42



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