

## PIRAMAL GLASS LTD (PGL)

BUY

CMP Rs. 78

Target Price: Rs. 120

Time: 12 months

### Overview

This stock was recommended (VOL 2 No17) on 14<sup>th</sup> September at the then price of Rs 40 and was projected to be priced at Rs 60 in a years' time. Having attained this price in a months' time, we once again recommended it (VOL2 No 22) this time at Rs 54 with a price target of Rs 80. The stock is currently trading close to our projected price and in view of better than expected results we once again take the liberty to recommend it now with a target price of Rs120. Demand for pure, sustainable packaging continues to put the spotlight on glass. Piramal Glass Ltd (PGL) is a leading glass packaging company that provides packaging solutions for pharmaceutical and perfumery industry. The company is a one stop shop providing flaconage solutions like full bottle and mould designing and glass manufacturing and decorative ancillaries and accessories like caps, cartons and brushes. PGL today is one of largest manufacturer of flaconage glass; through its manufacturing facilities located in India, USA, and Sri Lanka having a total capacity of 1115 tonnes per day it is the third largest capacity in the world.

### Investment Rationale

According to Fibonacci Technology Services the global glass market currently is estimated at \$84 Bn and almost one third (\$28 Bn) is accounted for by glass packaging which in turn is accounted by Pharma segment \$2 Bn, Cosmetic and Perfumery (C&P) \$2 Bn, Food and Beverages (F&B) \$2 Bn and Tubular Glass \$2 Bn. PGL which ranks fourth in terms of capacities towards C&P has almost 5% market share. Under the pharma segment where the Indian market is around \$130 Mn PGL has a major share. PGL's turnover which currently is shared 55% by pharma products and 45% by C&P products is expected to see a shift towards C&P in the near future. As C&P has better operating margins one can expect overall EBIDTA margins of PGL to improve significantly going forward. The company's specialty F&B recorded a strong growth in the September qtr with revenues growing by 63% primarily due to increased demand from Sri Lanka. In the first half of the current year C&P contributed Rs 2269 Mn, Pharma contributed Rs 1682 Mn and Food and Beverages contributed Rs 1434 Mn to the turnover of the company. PGL is also the largest producer of nail-polish bottles globally, with more than 33% market share and this is targeted to be scaled up to 50% market share in the future.

Out of the total capacity of 1115 tpd, 30% was added in the recent past (205 tpd in India and 130 tpd in Piramal Glass, Ceylon), the full benefits from these have yet to accrue to the company. The performance of PGL has not been good in the last couple of years primarily due to the significant debt on the books (higher interest burden) and expansion of capacities (higher depreciation provision) which unfortunately coincided with the recession internationally which is the main market for its products. The company has concluded its rights issue (7:2 at Rs 20 premium) which shall increase its equity to Rs 809 Mn and the proceeds of Rs18882 Mn from this issue has gone to reduce its debts thus bringing down the debt equity and this is expected to be 4:1 by FY'10 still very high. During the qtr ended September '09 the company has clearly signaled its turnaround as it was able to achieve its highest ever EBIDTA margins in the last three years which are expected to be maintained for the second half. The company expects to better the operating margins further by 300 basis points going forward thanks to the like change in the product mix.

### Investment Concerns

Sharp movement in raw material prices and Foreign exchange fluctuations

### Valuation

We expect the company to attain break even in FY '10 and on a conservative basis under normal circumstances, the EPS for FY '11 could be in Rs 6/8 range on the expanded equity base. PGL is strictly recommended for those investors who have patience and long term view on investments. One can thus add this stock slowly and discreetly to their portfolio for long term gains only.

### Snapshot

52 week H/L:	M Cap (INR Mn):
94 / 27	6319
<b>Face Value: Rs. 10</b>	
BSE Code	NSE Code
532949	PIRGLASS

### Annual Performance

(INR mln)	FY 2008A	FY 2009A	FY 2010E
Sales (Net)	7786.2	10088.3	11721.0
EBITDA	1017.2	740.6	2064.5
EBITDA (%)	13.1%	7.3%	17.6%
Other Income	275.7	208.7	120.0
Interest	724.5	1313.7	1202.5
Depreciation	693.2	892.5	897.1
PBT	-124.8	-1256.8	84.9
PAT	-226.9	-1071.0	44.9
Equity	179.8	179.8	804.3
EPS (INR)	-12.7	-62.3	0.6
EBITDA/Share	56.6	41.2	25.7

### Quarterly Performance

(INR mln)	Sep-09	Jun-09	Mar-09	Dec-08
Sales (Net)	2928.1	2508.2	2655.5	2760.2
EBITDA	497.3	372.3	85.8	155.2
EBITDA (%)	17.0%	14.8%	3.2%	5.6%
Interest	309.8	365.6	398.4	362.8
Depreciation	228.6	229.5	226	230
PAT	5.7	-208.5	-406.2	-382.2
Equity	804.3	179.8	179.8	179.8

### Ratio Analysis

Ratio Analysis	FY 2008A	FY 2009A	FY 2010E
EV/EBITDA (x)	11.5	20.1	8.0
EV/Sales (x)	1.5	1.5	1.4
M Cap/Sales (x)	0.2	0.1	0.5
M Cap/EBITDA (x)	1.4	1.9	3.1
Debt/Equity (x)	6.7	31.3	4.4
ROCE (%)	8.6%	0.3%	5.1%
Price/Book Value (x)	0.9	3.2	2.7
Price/CEPS (x)	0.2	NA	271.6
P/E (x)	8.6	NA	10.7

### Share Holding Pattern as of Sept, 2009

	No. of Shares	%
Promoters	61,767,996	76.8%
Institutions/MF	32002	0.04%
Public	18,634,738	23.2%
Total	80,434,736	100%