

Sector: Glass

## Piramal Glass Ltd.

Buy: Rs 92

Target: Rs 116

29 March 2010

*Piramal Glass Ltd is one of the leading mould glass manufacturers in the world. PGL generates more than 2/3rd of its revenue from export and has a 5 Percent market share in premium perfumery segment. The company has recently witnessed a turnaround during the 2nd quarter and has raised Rs180 crore through right issues as a part of its debt restructuring plan and has reduced its overall leverage to approx. 4x from nearly 15x prior to the right issues. We recently visited the plant of Piramal Glass Ltd and following are the key takeaways of the visit.*

### Key takeaways:

#### Market leader in various product categories:

The company has broadly three business segments viz Cosmetic & Perfumery (C&P), Pharmaceuticals and specialty Food and Beverages (F&B). Under C&P division, PGL is the global leader in colour cosmetics (Nail Polish) with a market share of 26 percent whereas it has 5 percent global market share in premium perfumery business; this division contributes nearly 42 percent of the overall sales.

Under pharmaceuticals, the company has a 35 percent market share in India and is amongst 5 global players in USP type-I glass used for pharmaceutical industry and this segment generates nearly 31 percent of revenue. The specialty F&B division contributes nearly 27 percent of revenue and PGL has acquired Ceylon Glass Co., Sri Lanka in 1999 and has 88 percent market share in Sri Lanka.

Going forward, due to attractive margins and robust business outlooks, the revenue contribution from C&P and F&B will increase whereas for pharmaceuticals, it will decrease.

#### High entry for new players in premium C&P segment:

Under C&P division, top 5 customers constitute nearly 50 percent of the market whereas top 20 customers account for nearly 80 percent of market. The company has top 17 customers under its C&P division out of top 20 customers.

Product (glass) design and Quality under premium C&P are very critical for final packaging and therefore it has high rejection rates before a product finally approved. The product supply from new players under the said category has a very long waiting period of 3-4 years and therefore it provides an edge over new and unorganized players. In addition, US and Europe accounts for nearly 60-65 percent of the premium C&P market, hence there is a strict adherence to the quality standard.

PGL, being market leader with 5 percent global market share, is all set to leverage on its large client base.

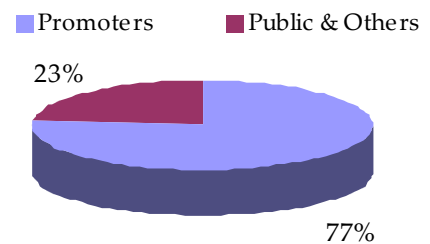
### FINANCIAL SUMMARY

Year	Equity (Rs Cr)	Sales (Rs Cr)	EBITDA (Rs Cr)	PBT (Rs Cr)	PAT (Rs Cr)	EPS (Rs)	BV (Rs)
2009 A	18.00	1015.91	76.20	(125.80)	(103.80)	(57.70)	24.10
2010 E	80.40	1093.83	198.00	20.00	4.50	0.60	29.20
2011 E	80.40	1214.15	279.30	101.70	81.30	10.10	37.90
2012 E	80.40	1347.70	363.90	143.20	114.60	14.20	50.60

### STOCK DATA

Industry Segment	Glass
BSE Code	532949
NSE Code	PIRGLASS
Bloomberg Code	PIRA IN
52 Week High / Low (Rs.)	94 / 13
Face Value (Rs.)	10
Diluted Number of Shares (Crore.)	8.04
Market Cap. (Rs Crore.)	740
Avg. Yearly Volume	16267

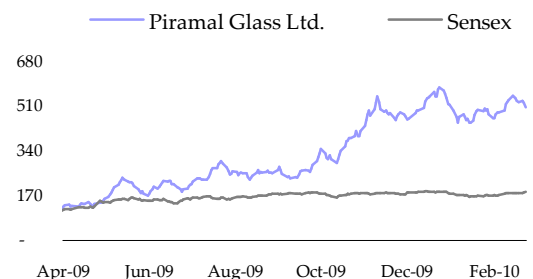
### SHAREHOLDING PATTERN (%)



### FINANCIAL RATIOS

Particulars	2009A	2010E	2011E	2012E
PE (x)	-	164.4	9.1	6.5
P/BV (x)	3.8	3.1	2.4	1.8
EV/EBITDA (x)	19.8	9.0	5.8	3.9
EV/Sales (x)	1.5	1.6	1.3	1.1
Mcap/Sales (x)	0.2	0.7	0.6	0.5
RONW (%)	-	1.9	26.7	28.1
ROCE (%)	0.6	10.5	17.7	22.6

### RELATIVE TO SENSEX:



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**Diversified presence:**

PGL generates more than 2/3rd of its revenue from exports and has a strategic presence in different markets. The company's manufacturing base in India is around 54 Percent whereas for USA and Sri Lanka it stands at 32 and 14 Percent respectively. The company in 2005 acquired Wheaton Glass and that has provided access to the top 17 out of 20 customers in C&P market as US and Europe account for nearly 60-65 Percent of the global premium C&P market.

Prior to the US acquisition, PGL had acquired Ceylon Glass Company, Sri Lanka in 1999 and currently is a single source supplier in the domestic market of Sri Lanka with a market share of close to 88 Percent. The company further intends to export specialty value added liquor and boutique wine bottles to neighboring countries like India, Australia and South Africa.

**Change in the product mix to enhance the margins:**

The company presently generates nearly 42 Percent of its revenue from C&P division whereas pharmaceuticals and specialty F&B division contribute 31 and 27 Percent respectively.

Within C&P division, premium perfumery is the most lucrative segment and currently contributes nearly 46 percent of total C&P business. The company entered this segment in 2005 with the US acquisition. The premium C&P market constitutes nearly 78 Percent of the total \$2.1 bn market and has very high EBITDA and ROCE. PGL will focus more such markets going forward and expects the revenue from this segment to jump from 46 to 63 Percent in next 2 years. The company at same time is shifting a part of its US operation back to India owing to high operating cost and is expected to further lift the operating efficiency of the company.

Pharmaceutical business is likely to be subdued whereas the specialty F&B segment's contribution to its revenue is likely to increase.

**Turnaround story:**

The company has returned into the black since Q2 FY2010 owing to increased business and debt restructuring. PGL has raised Rs180 crore through right issues resulting into lowering of its leverage ratio from 15x to 4x at present. We expect the overall business restructuring in Indian and US operations coupled with a change in product mix to help PGL to come out of difficult times.

The company expects to grow at 10-12 percent CAGR between 2010 and 2012 with better operating margins going forward.

**Financials & Valuations:**

We expect the net sales of the company to grow between 10-12 percent whereas the company would start making profit from FY10 onwards. At current price of Rs92 the stock is trading at 9.1x and 6.5x of its FY11E and FY12E earnings respectively whereas it is trading at 5.8x and 3.9x on EV/EBITDA multiple as per the estimates based on company disclosure

We recommend a buy on the stock with price target of Rs116 based on our EV/EBITDA multiple implying an upside potential of 26 percent from current market price level.

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~ The premium C&P market constitutes nearly 78% of total \$2.1 bn market and has very high EBITDA and ROCE

~ PGL has raised Rs180 crore through right issues resulting into lowering of its leverage ratio from 15x to 4x at present

## Company Background & Business Model:

Piramal Glass Limited (PGL) is a manufacturer of glass containers for Pharmaceuticals, Cosmetics & Perfumery and Specialty Food & Beverage industries. PGL manufactures a wide range of glass bottles and jars, in sizes ranging from 2 ml to 2.5 litres

### Cosmetics & Perfumery (C&P):

Cosmetics and Perfumery glass container division of PGL caters to multinational customers like P&G, Unilever, Revlon, L'Oreal, Avon, Estee Lauder, LUMH etc. These glass containers are used for packaging of nail polish, make-up foundations, perfumes, skin care creams, etc.

The C&P market is broadly classified as Select Perfumes, MNC Mass Perfume & Skin Care, Low Mass Perfumes and Color Cosmetics. The first two categories are classified under premium whereas the latter is classified under mass segment. Global C&P market is pegged at \$2.1 bn out of which the premium segment accounts for nearly 78 Percent of the market and has very high EBITDA and ROCE. The ROCE in the premium segment ranges between 20-30 Percent whereas for mass segment it is at 10-15 Percent.

#### C&P MARKET OVERVIEW

Segment	ROCE (Percent)	Avg. Price of bottles (\$ Per 1000 Pcs)
Select Perfumes	25-30	330-1000
MNC Mass Perfume & Skin Care	20-25	160-330
Low Mass Perfumes	10-15	85-160
Color Cosmetics	10-15	20-40

Source: Company

The company globally has a 5 Percent market share under premium C&P category whereas it has a 26 Percent market share with presence in 44 countries and over 40 new designs under the color cosmetics segment.

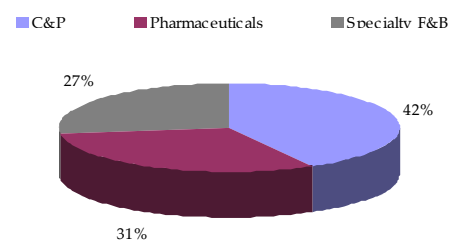
These are beauty products and increasing fashion-consciousness and awareness are the critical drivers for this industry. The growing young population, working women and their increasing disposable income will provide a major fillip to the industry particularly in the emerging markets. The entry/availability of major international brands and setting up of large retail stores across the country will also result in higher demand for these products

### Pharmaceuticals:

Pharmaceutical glass container division manufactures amber bottles, amber and flint vials for liquid oral formulations, injectibles, etc. Products manufactured conform to US, Indian and European pharmacopeia in Type I, Type II and Type III formulations. PGL is a leading supplier of glass containers to both multinational and Indian pharmaceutical companies like Glaxo Smith Kline, Pfizer, Piramal Healthcare, Cipla, Abbott, Alembic, Ranbaxy, E-Merck, Aventis, Dabur (India), Himalaya drugs, Dr. Reddy's Laboratories etc.

The estimated market size for pharmaceutical packaging is \$2 bn with Indian share pegged at Rs500 crore. It has a market share of over 35 percents in India and exports to over 20 countries.

#### SEGMENT WISE REVENUE.



Source: Company

#### C&P MARKET SIZE

Segment	Market Size (\$ Million)
Select Perfumes	1016
MNC Mass Perfume & Skin Care	616
Low Mass Perfumes	320
Color Cosmetics	146
<b>Total</b>	<b>2098</b>

Source: Company

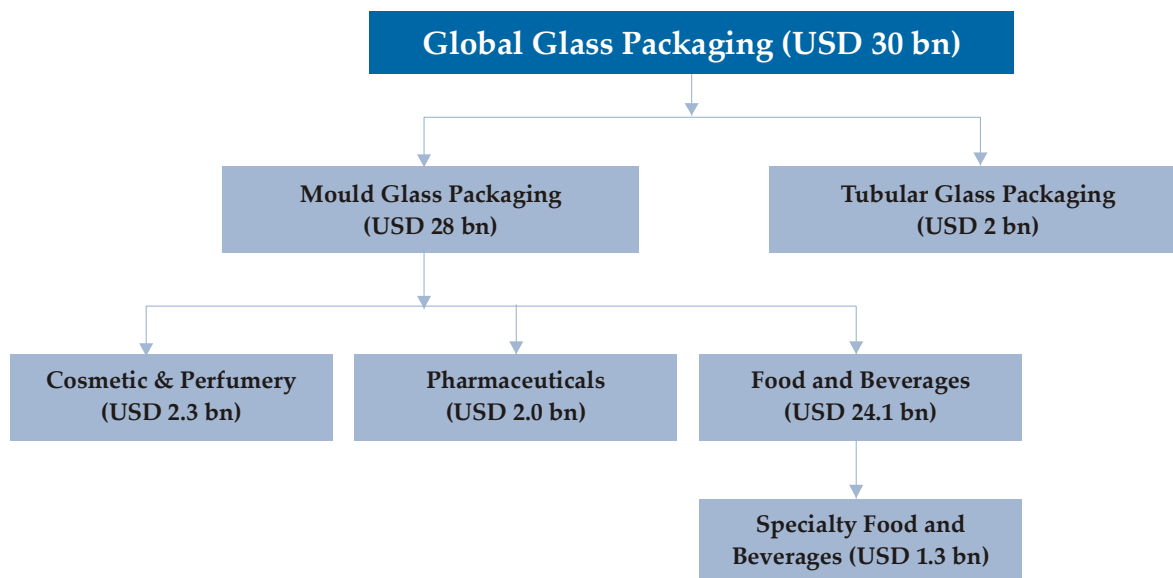
**Specialty Food & Beverages:**

Specialty Food & Beverages division provides bottles for wine, liquor and food particularly in the emerging markets which are often unique in design and decoration. Piramal Glass Ceylon PLC is a dominant player in Sri Lanka and has a significant presence in USA. The company caters to multinational players like Cadbury Schweppes, Diageo, Smucker's, UB group etc.

~ The F&B division contributes nearly 27% of revenue and PGL has acquired Ceylon Glass Company, Sri Lanka in 1999 and has 88 percent market share in Sri Lanka

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**GLASS PACKAGING: GLOBAL MARKET SIZE**



Source: Company

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Date	Scrips	Recom. on INR	Rating	Target Price INR	Time Frame
10-Mar-10	Sabero Organics Gujarat Ltd.	80.00	Buy	97.00	12 Months
29-Jan-10	Ankur Drugs & Pharma	195.00	Buy	239.00	12 Months
12-Jan-10	Kirloskar Brothers	248.00	Buy	297.00	12 Months
29-Dec-09	Om Metals Infraprojects	30.00	Buy	39.00	12 Months

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