

October 24, 2011

Reco	Previous Reco
Buy	Buy
CMP	Target Price
Rs 123	Rs 160
EPS change FY12E/13E (%)	-21.9/-24.8
Target Price change (%)	-22.0
Nifty	5,098
Sensex	16,939

### Price Performance

(%)	1M	3M	6M	12M
Absolute	(4)	(8)	(5)	(9)
Rel. to Nifty	(8)	1	10	9

Source: Bloomberg

### Relative Price Chart



Source: Bloomberg

### Stock Details

Sector	Ceramics
Bloomberg	PIRA@IN
Equity Capital (Rs mn)	804
Face Value(Rs)	10
No of shares o/s (mn)	80
52 Week H/L	156/79
Market Cap (Rs bn/USD mn)	10/200
Daily Avg Volume (No of sh)	65500
Daily Avg Turnover (US\$m)	0.2

### Shareholding Pattern (%)

	Jun-11	Mar-11	Dec-10
Promoters	72.7	72.7	72.7
FII/NRI	2.2	3.3	3.5
Institutions	3.3	2.4	2.0
Private Corp	9.9	9.6	9.9
Public	11.9	12.0	12.0

Source: Capitaline

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- **Piramal Glass (PGL) Q2FY12 was below expectations – revenue growth at 7.4% yoy to Rs 3.2bn and APAT growth at 11% to Rs 229.5mn**
- **C&P grows 20% yoy, while contribution to revenues rises to 54%. Premium C&P saw strong traction growing by 41%, but mass C&P growth was tepid at 3%**
- **Capacity expansion to aid growth momentum – Greenfield capacity expansion well on track; 2 out of 4 realignments completed. Full impact to be visible in FY13E.**
- **Fine-tuning of earnings, FY12E revised downwards by 21.9% to Rs 13.2 and FY13E by 24.8% to Rs 17.5. Retain BUY with revise target price of Rs160/Share**

### Results below expectations – realignment led to tepid growth

PGL results were below our expectations on all counts. Revenue grew by only 7.4% yoy to Rs 3.2bn due to realignment of 230 TPD amber furnace, which led to sharp drop of 25% yoy in Pharma revenues. C&P segment grew 19% yoy led by lower traction in Mass C&P. SF&B grew 26% yoy led by higher contribution from Sri Lanka and stable growth in USA. EBIDTA grew 11.6% yoy to Rs 729mn with EBIDTA margins expanding by 90bps yoy to 22.6%, being lower than expectations. APAT grew 11% yoy to Rs 229mn.

### Growth in C&P led by Premium segment, while Mass saw muted growth

C&P division posted growth of 19% yoy to Rs 1.7bn, but fell qoq by 2.6%. This growth was the slowest in past 3 quarters owing to stagnation in US C&P operations and low growth in Mass C&P segment, which grew by mere 3% yoy. C&P contributed 54% of revenues in Q2FY12. Mass segment was impacted by lower off-take in Brazil & Turkey. However, this was offset by robust growth in premium C&P segment, which grew by 41% yoy. Demand remains stable in BRIC countries, but US C&P market is facing demand headwinds. US operations may remain a drag for sometime, while future growth would be dependant on Premium C&P.

### Capacity expansion and realignment on track; to fuel growth in FY13E

PGL has completed realignment of its 2 furnaces in H1FY12 and the full impact of these capacities would be visible from H2FY12. The Greenfield capacity of 160TPD is on track and will be commissioned in FY13E. PGL has already invested over Rs 1bn for realignments and new capacity addition.

### FY12E EPS revised -21.9% to Rs 13.2; FY13E remains unchanged

We have revised our revenue estimates down by 5.8% in FY12E and 9.5% in FY13E as 3 out of 4 realignments would be completed in FY12E. Subsequently, we have revised earnings estimates for FY12E to Rs 13.2/Share and FY13E to Rs 17.5/Share.

### Financial Snapshot

Rs Mn

YE-	Net	EBITDA		EPS	EPS	RoE	EV/			
Mar	Sales	(Core)	(%)	APAT	(Rs)	% chg	(%)	P/E	EBITDA	P/BV
FY10	11,039	2,324	21.1	44	0.6	NA	2.3	222.8	8.9	4.1
FY11E	12,185	2,781	22.8	930	11.6	NA	38.1	10.6	6.2	3.3
FY12E	13,330	3,068	23.0	1,063	13.2	14.3	34.6	9.3	5.6	2.6
FY13E	14,873	3,552	23.9	1,406	17.5	32.3	35.3	7.0	4.7	2.1

**Minor hiccups, but growth remains intact; Maintain BUY with TP of Rs 160**

PGL saw a muted quarter as revenues were impacted by capacity realignment and mass C&P segment saw muted growth. However, growth in premium C&P division continues to remain robust, while SF&B has healthy growth led by traction in Sri Lanka operations. Two realignments have been completed and remaining two would be done by Q1FY13E, while Greenfield capacity expansion is on track to be commissioned in FY13E. Despite demand sluggishness in US C&P operations and slow growth reported in mass C&P segment, we believe premium C&P would be the key growth driver for PGL. We maintain BUY rating with revised target price of Rs 160/Share, which translates into 5.5x FY13E EV/EBIDTA.

**Quarterly Results**

Consolidated YE-Mar (INR mn)	Q2FY11	Q3FY11	Q4FY11	Q1FY12	Q2FY12	YoY (%)	QoQ (%)	YTD'12	YTD'11	YoY (%)
Net Sales	3007	3106	3289	3172	3229	7.4%	1.8%	6401	5790	10.6%
Expenditure	2353	2389	2498	2455	2500	6.2%	1.8%	4955	4517	9.7%
Material Cost	560	629	740	637	687	22.8%	7.9%	1324	1088	21.7%
% of Sales	18.6%	20.3%	22.5%	20.1%	21.3%	270 bps	120 bps	20.7%	18.8%	190 bps
Employee Expenses	604	580	603	635	610	1.0%	-3.9%	1244	1178	5.6%
% of Sales	20.1%	18.7%	18.3%	20.0%	18.9%	-120 bps	-110 bps	19.4%	20.3%	-90 bps
Power and Fuel Expenses	472	465	515	518	531	12.6%	2.6%	1049	905	15.9%
% of Sales	15.7%	15.0%	15.7%	16.3%	16.4%	80 bps	10 bps	16.4%	15.6%	80 bps
Freight Cost	240	233	191	200	206	-14.3%	3.1%	406	435	-6.8%
% of Sales	8.0%	7.5%	5.8%	6.3%	6.4%	-160 bps	10 bps	6.3%	7.5%	-120 bps
Other Expenses	478	481	450	466	466	-2.6%	-0.1%	932	911	2.3%
% of Sales	15.9%	15.5%	13.7%	14.7%	14.4%	-150 bps	-30 bps	14.6%	15.7%	-120 bps
EBITDA	653	717	791	717	729	11.6%	1.7%	1446	1273	13.6%
Depreciation	264	270	274	247	264	0.2%	7.2%	511	526	-2.8%
EBIT	390	447	517	471	465	19.4%	-1.1%	936	747	25.2%
Other Income	85	68	114	107	67	-21.7%	-37.7%	174	105	66.2%
Interest	171	190	189	172	164	-4.4%	-4.7%	336	341	-1.6%
PBT	304	325	441	406	368	21.3%	-9.3%	774	511	51.5%
Tax	69	59	83	91	94	34.9%	3.4%	184	101	81.9%
Adjusted PAT	234	266	358	315	275	17.3%	-12.9%	590	410	44.0%
(Profit)/Loss from JV's/Ass/MI	27	34	31	25	45	64.2%	78.6%	70	38	85.2%
APAT After MI	207	231	327	290	230	11.0%	-20.9%	520	372	39.8%
Extra-Ordinary Items	0	0	0	0	0			0	0	
Reported PAT	207	231	327	290	230	11.0%	-20.9%	520	372	39.8%
Reported EPS	2.6	2.9	4.1	3.6	2.9	11.0%	-20.9%	6.5	4.6	39.8%

Margins (%)						(bps)	(bps)				(bps)
EBIDTA	21.7%	23.1%	24.1%	22.6%	22.6%	90	0	22.6%	22.0%		60
EBIT	13.0%	14.4%	15.7%	14.8%	14.4%	140	-40	14.6%	12.9%		170
EBT	10.1%	10.5%	13.4%	12.8%	11.4%	130	-140	12.1%	8.8%		330
PAT	6.9%	7.4%	9.9%	9.1%	7.1%	20	-200	8.1%	6.4%		170
Effective Tax rate	22.9%	18.3%	18.8%	22.3%	25.4%	260	310	23.8%	19.8%		400

**Earnings Change**

Y/E, Mar (Rs. mn)	FY12E			FY13E		
	Earlier	Revised	%Change	Earlier	Revised	%Change
Revenues	14143.4	13329.7	-5.8%	16442.5	14873.1	-9.5%
EBITDA	3396.3	3067.5	-9.7%	4135.8	3552.1	-14.1%
EBITDA Margin (%)	24.0%	23.0%	-1.0%	25.2%	23.9%	-1.3%
APAT	1361.4	1063.3	-21.9%	1870.1	1406.4	-24.8%
EPS	16.9	13.2	-21.9%	23.3	17.5	-24.8%

## Financials

## Income Statement

Y/E, Mar (Rs. m)	FY10	FY11	FY12E	FY13E
<b>Net Sales</b>	<b>11,039</b>	<b>12,185</b>	<b>13,330</b>	<b>14,873</b>
Growth (%)	9.4	10.4	9.4	11.6
<b>Expenses</b>	<b>8,715</b>	<b>9,404</b>	<b>10,262</b>	<b>11,321</b>
Growth (%)	-1.0	7.9	9.1	10.3
Raw Materials	2,588	2,457	2,724	2,997
% Of Sales	23.4	20.2	20.4	20.2
Employee Cost	2,142	2,369	2,526	2,882
% Of Sales	19.4	19.4	18.9	19.4
Manufacturing Exps	2,327	2,597	2,966	3,201
% Of Sales	21.1	21.3	22.3	21.5
Admin Expenses	937	1,079	1,165	1,258
% Of Sales	8.5	8.9	8.7	8.5
Selling & Distribn Exp	721	903	881	983
% Of Sales	6.5	7.4	6.6	6.6
<b>Ebidta</b>	<b>2,324</b>	<b>2,781</b>	<b>3,068</b>	<b>3,552</b>
Growth (%)	80.3	19.7	10.3	15.8
Ebidta%	21.1	22.8	23.0	23.9
Other Income	-118	286	286	286
Interest	1,049	720	697	697
Depreciation	1,071	1,069	1,122	1,217
PBT	87	1,277	1,534	1,925
Tax	54	244	353	404
<b>PAT (Before EO Item)</b>	<b>32</b>	<b>1,033</b>	<b>1,181</b>	<b>1,520</b>
Growth (%)	103.0	-3101.5	-14.3	-28.7
Net Margin%	0.3	8.5	8.9	10.2
Minority Interest	-12.0	103.3	118.1	114.0
<b>PAT (Before EO Item &amp; after MI)</b>	<b>44</b>	<b>930</b>	<b>1,063</b>	<b>1,406</b>
E/O Item	0	0	0	0
<b>Reported PAT</b>	<b>44</b>	<b>930</b>	<b>1,063</b>	<b>1,406</b>

## CashFlow

Y/E, Mar (Rs. m)	FY10	FY11E	FY12E	FY13E
<b>Pre-Tax Profit</b>	<b>87</b>	<b>1,277</b>	<b>1,534</b>	<b>1,925</b>
Depreciation	907	1,069	1,122	1,217
Non Cash	-4	16	118	114
Chg in Working Cap	573	265	-626	-532
Tax Paid	-40	-137	-353	-404
<b>Operating Cash Flow</b>	<b>1,522</b>	<b>2,491</b>	<b>1,796</b>	<b>2,319</b>
Capex	-208	-1,502	-1,339	-1,000
<b>Free Cash Flow</b>	<b>1,314</b>	<b>989</b>	<b>456</b>	<b>1,319</b>
Investments	0	0	0	0
Change in Equity Capital	625	0	0	0
Loans	-3,150	-624	0	0
Dividend	0	-92	-399	-519
Others	0	0	0	0
<b>Net Change in Cash</b>	<b>21</b>	<b>272</b>	<b>57</b>	<b>801</b>
<b>Opening Cash Position</b>	<b>119</b>	<b>71</b>	<b>133</b>	<b>190</b>
<b>Closing Cash Position</b>	<b>71</b>	<b>133</b>	<b>190</b>	<b>991</b>

## Balance Sheet

Y/E, Mar (Rs. m)	FY10	FY11E	FY12E	FY13E
Equity Share Capital	804	804	804	804
Reserves	1,595	2,216	2,998	4,000
<b>Networth</b>	<b>2,399</b>	<b>3,020</b>	<b>3,802</b>	<b>4,804</b>
Secured Loans	8,266	6,947	6,947	6,947
Unsecured Loans	1,558	2,253	2,253	2,253
<b>Loan Funds</b>	<b>9,824</b>	<b>9,200</b>	<b>9,200</b>	<b>9,200</b>
<b>Deferred Tax</b>	<b>113</b>	<b>143</b>	<b>143</b>	<b>143</b>
<b>Minority Interest</b>	<b>376</b>	<b>499</b>	<b>617</b>	<b>731</b>
<b>Capital Employed</b>	<b>12,713</b>	<b>12,861</b>	<b>13,762</b>	<b>14,878</b>
Gross Block	14,300	15,174	15,774	17,774
Less: Depreciation	5,496	6,580	7,702	8,919
<b>Net Block</b>	<b>8,804</b>	<b>8,594</b>	<b>8,072</b>	<b>8,855</b>
Capital Work In Progress	141	402	1,141	141
<b>Investments</b>	<b>1</b>	<b>1</b>	<b>1</b>	<b>1</b>
<b>Current Assets</b>	<b>5,490</b>	<b>6,349</b>	<b>6,689</b>	<b>8,243</b>
Inventories	2,159	2,504	2,869	3,201
Debtors	2,635	2,779	2,867	3,199
Cash & Bank	71	133	190	991
Loans & Advances	625	933	764	853
<b>Current Liabilities &amp; Prov</b>	<b>1,723</b>	<b>2,484</b>	<b>2,141</b>	<b>2,362</b>
<b>Net Current Assets</b>	<b>3,767</b>	<b>3,865</b>	<b>4,548</b>	<b>5,881</b>
Miscellaneous Expenditure	0	0	0	0
<b>Capital Deployed</b>	<b>12,713</b>	<b>12,862</b>	<b>13,762</b>	<b>14,878</b>

## Key Ratios

Y/E, Mar	FY10	FY11E	FY12E	FY13E
<b>Profitability %</b>				
Ebidta Mgn	21.1	22.8	23.0	23.9
PAT Mgn	0.3	8.5	8.9	10.2
ROCE	8.3	15.6	16.8	18.3
ROE	2.3	38.1	34.6	35.3
<b>Per Share Data</b>				
EPS	0.6	11.6	13.2	17.5
CEPS	5.4	23.6	25.4	30.9
BVPS	29.8	37.5	47.3	59.7
DVPS	0.0	1.1	5.0	6.4
<b>Valuations (X)</b>				
PER	222.8	10.6	9.3	7.0
CPER	22.8	5.2	4.8	4.0
P/BV	4.1	3.3	2.6	2.1
Ev/Sales	1.8	1.6	1.4	1.2
Ev/Ebidta	8.9	6.2	5.6	4.7
Dividend Yield (%)	0.0	0.9	4.0	5.3
<b>Turnover X Days</b>				
Debtor TO Days	88.0	81.1	81.1	81.1
Inventory TO Days	84.6	69.8	69.8	69.8
<b>Gearing Ratio</b>				
Net Debt/Equity	4.1	3.0	2.4	1.7
Total Debt/Equity	4.1	3.0	2.4	1.9

**Recommendation History: Piramal Glass – PIRA IN**

Date	Reports	Reco	CMP	Target
16/08/2011	<a href="#">Piramal Glass Q1FY12 Result Update</a>	Buy	139	205
28/04/2011	<a href="#">Piramal Glass Q4FY11Result Update</a>	Buy	130	220
21/01/2011	<a href="#">Piramal Glass Q3FY11 Result Update</a>	Buy	109	160
28/10/2010	<a href="#">Piramal Glass Q2FY11 Result Update</a>	Buy	137	160

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