

October 28, 2010

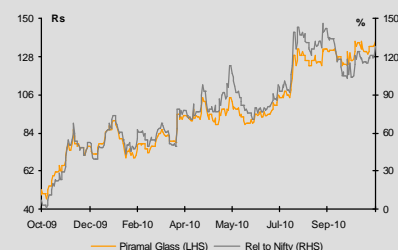
Reco	Previous Reco
Buy	Buy
CMP	Target Price
Rs 137	Rs 160
EPS change FY11E/12E (%)	10/3
Target Price change (%)	13
Nifty	6,013
Sensex	20,005

Price Performance

(%)	1M	3M	6M	12M
Absolute	12	26	48	178
Rel. to Nifty	12	13	29	124

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	141/46
Market Cap (Rs bn/USD mn)	11/247
Daily Avg Volume (No of sh)	495705
Daily Avg Turnover (US\$m)	1.4

Shareholding Pattern (%)

	S'10	J'10	M'10
Promoters	72.7	76.8	76.8
FII/NRI	3.7	0.1	0.1
Institutions	2.2	0.1	0.1
Private Corp	9.3	11.3	10.6
Public	12.2	11.8	12.4

Source: Capitaline

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- **Piramal Glass (PGL) Q2FY11 performance exceeds expectation – revenue growth at 2.6% yoy to Rs3.1 bn and APAT up 3700% yoy to Rs206 mn**
- **C&P contribution improves from 43% of revenues to 48% of revenues – C&P register revenue growth of 14.6% yoy to Rs1.4 bn**
- **Fine-tune assumptions on interest expenditure and material costs – upgrade FY11E earnings by 9.9% (Rs9.3/Share) and FY12E earnings by 3.0% (Rs18.7/Share)**
- **Maintain BUY with revised target price of Rs160/Share**

PGL Q2FY11 performance exceeds expectation- APAT at Rs207 versus expectation of Rs155 mn

PGL Q2FY11 performance exceeds expectations. The key highlights of the quarter are as under (1) revenue growth 2.6% yoy to Rs3.1 bn (2) Ebidta growth of 8.6% yoy to Rs0.7 bn and (3) APAT growth of 3700% to Rs206 mn. The Ebidta margins stood at 22.2% flat on qoq bases and 120 bps improvement on yoy basis. PGL continues to gain from renegotiation of interest costs and repayment of borrowed funds – resulting in 44.7% yoy reduction in interest expenditure from Rs309 mn to Rs171 mn.

Progress on expected lines – C&P glass shows traction and increases contribution to revenues

Progress was on expected lines – with 14.6% yoy growth in C&P business from Rs1.3 bn to Rs1.4 bn. Whereas, Pharma business declined by 0.1% yoy to Rs0.9 bn in the quarter. C&P contribution has risen from 43% of revenues to 48% of revenues – in line PGL's strategy to improve high-value and high-margin C&P business. Incrementally, C&P's contribution to revenues should improve- amidst shift of Pharma capacities in favor of C&P in India.

Upgrade earnings estimates for FY11E and FY12E by 9.9% and 3% respectively

H1FY11 performance is ahead of estimates – driven by (1) lower-then expected interest expenditure and (2) better-then expected operating performance- driven by rising share of C&P in total revenues. We fine-tune our assumptions on interest expenditure and material costs – align with H1FY11 performance. We upgrade FY11E earnings by 9.9% and FY12E earnings by 3.0% to Rs9.3/Share and Rs18.7/Share respectively.

Maintain 'BUY' rating with revised target price of Rs160/Share

PGL is heading on right path and on expected lines – rising contribution of high margin C&P business and lowering contribution from low margin Pharma business. We give thumbs up to the progress achieved in H1FY11- and effect earnings upgrades. We maintain 'BUY' rating and revise target price from Rs142/Share to Rs160/Share – valuing the company on EV/EBITDA multiple of 5.2X – average of domestic and International players. Financial Snapshot

Financial Snapshot

Rs Mn

YE-	Net Sales	EBITDA (Core)	EBITDA (%)	APAT	EPS (Rs)	EPS % chg	RoE (%)	P/E	EV/ EBITDA	P/BV
Mar										
FY09	10,088	1,289	12.8	-1,038	(57.7)	NA	(108.9)	(2.4)	17.0	5.7
FY10	11,039	2,160	19.6	44	0.5	NA	2.3	249.3	10.2	4.6
FY11E	12,034	2,663	22.1	745	9.3	1,585.4	29.2	14.8	7.4	3.4
FY12E	13,116	3,576	27.3	1,505	18.7	102.1	39.7	7.3	5.0	2.3

Quarterly Results

	Q2FY10	Q3FY10	Q4FY10	Q1FY11	Q2FY11	YoY Gr	QoQ Gr	YTD'11	YTD'10	Gr (%)
Net Sales	2,989.6	2,862.3	2,899.6	2,823.9	3,067.0	2.6	8.6	12,034.4	11,259.7	6.9
Expenditure	2362.1	2237.3	2220.4	2196.7	2385.8	1.0	8.6	71,051.3	8,879.1	700.2
Material Cost	761.8	543.1	664.6	528.6	559.5	-26.6	5.8	2,607.0	2,588.1	0.7
% of Sales	25.5	19.0	22.9	18.7	18.2	-720 bps	-50 bps	21.7	23.0	-130 bps
Employee Expenses	530.4	575.7	549.4	581.9	603.8	13.8	3.8	2,263.0	2,183.1	3.7
% of Sales	17.7	20.1	18.9	20.6	19.7	190 bps	-90 bps	18.8	19.4	-60 bps
Power and Fuel Expenses	440.1	430.3	428.6	433.1	471.5	7.1	8.9	1,828.4	1,693.9	7.9
% of Sales	14.7	15.0	14.8	15.3	15.4	70 bps	0 bps	15.2	15.0	10 bps
Freight Cost	156.1	211.9	194.0	194.8	240.4	54.0	23.4	755.4	682.8	10.6
% of Sales	5.2	7.4	6.7	6.9	7.8	260 bps	90 bps	6.3	6.1	20 bps
Other Expenses	473.7	476.3	383.8	458.3	510.6	7.8	11.4	1,720.0	1,731.2	-0.6
% of Sales	15.8	16.6	13.2	16.2	16.6	80 bps	40 bps	14.3	15.4	-110 bps
Operating Profit	627.5	625.0	679.2	627.2	681.2	8.6	8.6	2,663.3	2,380.6	11.9
EBIDTA (%)	21.0	21.8	23.4	22.2	22.2	5.8	-120 bps	22.1	0.8	6200 bps
Other Income	-68.7	-71.5	-121.8	-21.3	24.8	-136.1	-216.4	-20.0	-338.6	-94.1
Interest	309.8	196.7	177.0	169.8	171.2	-44.7	0.8	747.3	1,049.1	-28.8
Depreciation	228.6	228.6	219.8	228.7	231.3	1.2	1.1	1,032.6	906.5	13.9
PBT	20.4	128.2	160.6	207.4	303.5	1387.7	46.3	863.4	86.4	899.3
Tax	14.7	15.2	38.6	31.8	69.4	372.1	118.2	43.2	54.2	-20.3
APAT (Before EI & MI)	5.7	113.0	122.0	175.6	234.1	4007.0	33.3	820.2	32.2	2447.3
APAT (Before EI & After MI)	5.4	113.0	114.5	165.1	206.7	3727.8	25.2	744.9	49.4	1408.0
APAT (%)	0.2	3.9	3.9	5.8	6.7	660 bps	90 bps	6.2	0.4	580 bps
EPS (Before Exceptional Items)	0.1	1.4	1.4	2.1	2.6	3727.8	25.2	9.3	0.5	1585.4
EPS (After Exceptional Items)	0.1	1.4	1.4	2.1	2.6	3727.8	25.2	9.3	0.5	1585.4

Margins (%)	Q2FY10	Q3FY10	Q4FY10	Q1FY11	Q2FY11	(bps)	(bps)	YTD'11	YTD'10	(bps)
EBIDTA	21.0	21.8	23.4	22.2	22.2	120	0	22.1	21.1	100
EBIT	11.0	11.4	11.6	13.4	15.5	440	210	13.4	10.1	330
EBT	0.7	4.5	5.5	7.3	9.9	920	260	7.2	0.8	640
PAT	0.2	3.9	3.9	5.8	6.7	660	90	6.2	0.4	580
Effective Tax rate	72.1	11.9	24.0	15.3	22.9	-4920	750	5.0	62.7	-5770

Financials

Income Statement

Y/E, Mar (Rs. m)	FY09	FY10	FY11E	FY12E
Net Sales	10,088	11,039	12,034	13,116
Growth (%)	29.6	9.4	9.0	9.0
Expenses	8,799	8,879	9,371	9,540
Growth (%)	30.1	0.9	5.5	1.8
Raw Materials	2,136	2,588	2,607	2,695
% Of Sales	21.2	23.4	21.7	20.5
Employee Cost	2,352	2,184	2,263	2,119
% Of Sales	23.3	19.8	18.8	16.2
Manufacturing Exps	2,646	2,450	2,653	2,754
% Of Sales	26.2	22.2	22.0	21.0
Admin Expenses	921	935	1,062	1,115
% Of Sales	9.1	8.5	8.8	8.5
Selling & Distribn Exp	744	722	787	857
% Of Sales	7.4	6.5	6.5	6.5
Ebidta	1,289	2,160	2,663	3,576
Growth (%)	25.8	67.6	23.3	34.3
Ebidta%	12.8	19.6	22.1	27.3
Other Income	-353	-118	-20	0
Interest	1,314	1,049	747	603
Depreciation	893	907	1,033	1,100
PBT	-1,271	87	863	1,873
Tax	-186	54	43	281
PAT (Before EO Item)	-1,085	32	820	1,592
Growth (%)	-391.9	103.0	2447.3	94.1
Net Margin%	-10.8	0.3	6.8	12.1
Minority Interest	-46.5	-12.0	75.3	86.6
PAT (Before EO Item & after MI)	-1,038	44	745	1,505
E/O Item	13	0	0	0
Reported PAT	-1,025	44	745	1,505

CashFlow

Y/E, Mar (Rs. m)	FY09	FY10E	FY11E	FY12E
Pre-Tax Profit	-1,258	87	863	1,873
Depreciation	893	907	1,033	1,100
Non Cash	-21	552	0	0
Chg in Working Cap	-1,193	573	-118	-448
Tax Paid	4	-40	-43	-281
Operating Cash Flow	-1,574	2,078	1,735	2,244
Capex	-1,547	-208	-450	-600
Free Cash Flow	-3,121	1,870	1,285	1,644
Investments	0	0	0	0
Change in Equity Capital	0	1,232	0	0
Loans	3,158	-3,150	-1,000	-1,300
Dividend	-4	0	-4	-4
Others	1	2	3	4
Net Change in Cash	33	-48	281	340
Opening Cash Position	86	119	71	352
Closing Cash Position	119	71	352	692

Balance Sheet

Y/E, Mar (Rs. m)	FY09	FY10	FY11E	FY12E
Equity Share Capital	180	804	804	804
Reserves	254	1,595	2,411	3,999
Networth	434	2,399	3,215	4,803
Secured Loans	5,321	8,266	8,266	6,966
Unsecured Loans	8,249	1,558	558	558
Loan Funds	13,571	9,824	8,824	7,524
Deferred Tax	93	113	113	113
Minority Interest	447	376	376	376
Capital Employed	14,544	12,713	12,529	12,817
Gross Block	14,052	13,673	14,123	14,723
Less: Depreciation	4,490	5,252	6,284	7,385
Net Block	9,562	8,421	7,838	7,338
Capital Work In Progress	148	141	141	141
Investments	0	1	1	1
Current Assets	6,535	6,027	6,437	7,254
Inventories	2,960	2,696	2,753	2,970
Debtors	2,688	2,635	2,572	2,838
Cash & Bank	119	71	352	692
Loans & Advances	769	625	759	754
Current Liabilities & Prov	1,701	1,877	1,888	1,917
Net Current Assets	4,835	4,150	4,549	5,337
Miscellaneous Expenditure	0	0	0	0
Capital Deployed	14,544	12,713	12,529	12,817

Key Ratios

Y/E, Mar	FY09	FY10E	FY11E	FY12E
Profitability %				
Ebidta Mgn	12.8	19.6	22.1	27.3
PAT Mgn	-10.8	0.3	6.8	12.1
ROCE	0.3	8.3	12.8	19.5
ROE	-108.9	2.3	29.2	39.7
Per Share Data				
EPS	-57.7	0.5	9.3	18.7
CEPS	-17.9	4.6	22.4	31.4
BVPS	24.1	29.8	40.0	59.7
DVPS	0.2	0.0	0.0	0.0
Valuations (X)				
PER	-2.4	249.3	14.8	7.3
CPER	-7.6	29.8	6.1	4.4
P/BV	5.7	4.6	3.4	2.3
Ev/Sales	1.6	1.9	1.6	1.4
Ev/Ebidta	17.0	10.2	7.4	5.0
Dividend Yield (%)	0.0	0.0	0.0	0.0
Turnover X Days				
Debtor TO Days	85.1	88.0	79.0	75.3
Inventory TO Days	92.9	93.5	82.6	79.6
Gearing Ratio				
Net Debt/Equity	31.0	4.1	2.6	1.4
Total Debt/Equity	31.3	4.1	2.7	1.6

Recommendation History: Piramal Glass – PIRA IN

Date	Reports	Reco	CMP	Target
29/07/2010	Piramal Glass Q1FY11 Result Update	Buy	115	142
11/05/2010	Piramal Glass Ltd - Initiating Coverage	Buy	92	117

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