

PIRAMAL GLASS LTD (PGL)

BUY

CMP Rs. 128

Target Price: Rs. 180

Time: 12 months

Overview

In view of better than expected results we once again take the liberty to recommend (for the fourth time) Piramal Glass to our investors and expect it to be priced around Rs 180 in a years' time. Just to put the records straight this stock was first recommended (VOL 2 No17) on 14th 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 month's time, we once again recommended it (VOL 2 No 22) this time at Rs 54 with a price target of Rs 80. Having attained this target we for the third time recommended it (VOL 2 No 28) at Rs 84. The stock after attaining a high of Rs 130 on Friday is currently trading above our projected price of Rs 120. Demand for pure, sustainable packaging continues to put the spotlight on glass. Demand for "green" packaging led the glass container industry to focus on educating consumers about the "pure" and "recyclable" advantage of glass containers. Piramal Glass Ltd (PGL) is a leading glass packaging company (third largest capacity in the world) 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.

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) \$22 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. PGLs intentional shift towards the C&P products mix (gone up from 36% of turnover in FY09 to the current 48% in the first qtr of FY11) is expected to see further gain in times to come and the targeted share is 50% by end of the year. This means a decline in the share of the low margin based Pharma segment (from 39% in FY09 to 31% in the current qtr of FY11). This shift in product mix has augured very well for the overall operating margins as it has seen an improvement from 15% in FY09 to 21% in FY10 and has further improved to 22.50% in the first qtr ended June 10. We expect this to improve to 24% by the fourth qtr of FY11 and the management has already given a guideline of the operating margins going to 28% by FY12. 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.

PGL had acquired specific assets of Glass Group (INC) USA a few years back and this had hampered the consolidated performance of the company as it was into losses. However PGL had taken certain steps like reduction of manpower from 500 to 275 and had also discontinued operation of one of the furnace (95 tpd). These actions along with a change in the product mix have enabled the company to turnaround the unit. In the current year in dollar terms USA registered a growth of 20% and has started contributing at operating level in the current qtr. The operating margin from this unit has improved by 1000 basis points over Qtr 1 of FY10. During the last few years the company had increased its capacity 30% (205 tpd in India and 130 tpd in Piramal Glass, Ceylon); the full benefits from these have yet to accrue. It is also heartening to note that PGL has been gaining share both in the premium and mass segment of the C&P market and Coty has been added as a customer which has an annual demand of Euro 100 Mn for Glass.

Investment Concerns

Sharp movement in raw material prices and Foreign exchange fluctuations

Valuation

As expected the company came into the black in FY10 and also rewarded the shareholders with a token dividend of 10%. On a conservative basis under normal circumstances, the EPS for FY11 could be around Rs.10 on the expanded equity base.

Snapshot

52 week H/L:	M Cap (INR Mn):
130 / 35	10296
Face Value: Rs. 10	
BSE Code	NSE Code
532949	PIRGLASS

Annual Performance

(INR mln)	FY 2009A	FY 2010A	FY 2011A
Sales (Net)	10088.3	11039.2	12474.3
EBITDA	740.6	1821.5	2644.3
EBITDA (%)	7.3%	16.5%	21.2%
Other Income	208.7	220.7	125.0
Interest	1313.7	1049.1	783.4
Depreciation	892.5	906.6	907.5
PBT	-1256.8	86.6	1078.4
PAT	-1071.0	44.3	812.7
Equity	179.8	804.4	804.4
EPS (INR)	-62.3	0.6	10.1
EBITDA/Share	41.2	22.6	32.9

Quarterly Performance

(INR mln)	Jun-10	Mar-10	Dec-09	Sep-09
Sales (Net)	2783.2	2835.5	2818.9	2928.1
EBITDA	564.7	493.3	510.1	497.3
EBITDA (%)	20.3%	17.4%	18.1%	17.0%
Interest	169.8	177.0	196.7	309.8
Depreciation	228.7	219.8	228.6	228.6
PAT	164.6	114.5	107.8	5.7
Equity	804.3	804.3	804.3	804.3

Ratio Analysis

Ratio Analysis	FY 2009A	FY 2010A	FY 2011A
EV/EBITDA (x)	21.3	11.0	6.8
EV/Sales (x)	1.6	1.8	1.5
M Cap/Sales (x)	0.2	0.9	0.8
M Cap/EBITDA (x)	3.1	5.7	3.7
Debt/Equity (x)	31.3	4.1	2.9
ROCE (%)	0.3%	3.3%	11.0%
Price/Book Value (x)	5.3	4.3	3.2
Price/CEPS (x)	NA	NA	10.8
P/E (x)	NA	232.4	12.9

Share Holding Pattern as of June, 2010

	No. of Shares	%
Promoters	61,767,996	76.8%
Institutions/MF	70009	0.09%
Public	18,596,731	23.1%
Total	80,434,736	100%



Tata AIG Life Mahalife Gold

Presenting Tata AIG Life Mahalife Gold. A whole life retirement option, that provides you with steady income from 10th year of policy till the age of 100.

Key Features:

- 5% of the sum assured every year for the rest of the term from the 10th policy anniversary.
- Annual cash dividends from the 6th policy anniversary onwards
- Tax benefit under section 80C
- Pay only for a limited term to get whole life benefits

Plan at a glance:

Illustration - High Bonus Rate

Age	30 years
Sum Assured/Death Benefit	Rs.500000
Benefit Period	70 years
Premium Payable	15 years
Premium Amount	Rs.43500 (excl service tax)
Guaranteed Returns	5% of SA from 10th year
Non Guaranteed Returns	From 6th policy year onwards
Maturity Benefit	500000 + 25000 (last coupon)

Regular flow of a guaranteed income every year from 10th policy anniversary, which can serve as annuities for a comfortable lifestyle post retirement.

Regular income to support special events like education, marriage while you are still working.

Insurance protection up to the age of 100.

Policy Years	Premium Payable	Non Guaranteed Returns	Guaranteed Returns	Total Income
30	43500			-43500
31	43500			-43500
32	43500			-43500
33	43500			-43500
34	43500			-43500
35	43500			-43500
36	43500	15500		-28000
37	43500	15500		-28000
38	43500	15500		-28000
39	43500	15500		-28000
40	43500	31000	25000	12500
41	43500	31000	25000	12500
42	43500	31000	25000	12500
43	43500	31000	25000	12500
44	43500	31000	25000	12500
45	0	31000	25000	56000
46	0	31000	25000	56000
47	0	31000	25000	56000
48	0	31000	25000	56000
49	0	31000	25000	56000
50	0	46500	25000	71500
51-100	0	46500	25000	71500
Total	6,52,500	27,43,500	15,25,000	36,16,000

Regular Income up to the age of 100...to enable you to fulfill your dreams even after your retirement.

GEPL Insurance Broking Pvt. Ltd.

D-21, Dhanraj Mahal, CSM Marg, Colaba, Mumbai - 400 001

Tel.: + 91 22 66182400 Fax: + 91 22 22043452 Email: geplinsurance@guptaequities.com