

Piramal Glass

Story remains intact

Turnaround on track

Piramal Glass reported Q2 FY11 results, largely in line with our estimates. The story of Piramal shifting to the premium segment of the business is panning out well and it has steadily increased revenues from the premium cosmetics and perfumery (C&P). Revenues at INR3,007mn were up, marginally by 3% YoY and 8% QoQ, largely in line with our expectation of INR2911mn. PAT was reported at INR207mn (significantly above INR5mn reported in the corresponding quarter), up 25% on a QoQ, led by improving realization rates, reducing interest burden and savings from forex hedges. The company has diligently utilized operating cash flow to deleverage the balance sheet. In H1FY11, the company repaid debt of INR433mn, reducing the debt equity to 2.9x from 3.5x.

Capex on schedule

The company plans to perform the capacity transition and realignment between Q3FY11E and Q1FY12E. Earlier, we were expecting a quarter's delay, pushing the capex into FY12E. However, led by the robust demand in the C&P segment, the company now plans to execute the capex in FY11E, which will shut down production of 15% capacity for about 30-40 days. We have shifted revenues of INR275mn from FY11E to FY12E on account of the advancement of capex. Thus the PAT expectation for FY11E is being reduced by about INR42mn which is now added into the FY12E earnings.

Undervalued vis-à-vis Global peers

The company has steadily grown its premium C&P business and shifted US operations to India thus improving EBITDA margins consistently over the past 4-6 quarters. We expect the EPS for FY11E and FY12E to be INR8.6 and INR16.1 respectively. The stock is trading at 8.5x its FY12E earnings in comparison to global peers trading above 12x despite lower competitive advantage and reducing market share. Subsequently, we maintain our **'Buy'** rating and reiterate our target price of INR186 per share.

Rating : Buy

Target Price : INR186

Upside : 36%

CMP : INR136 (as on 28 October 2010)

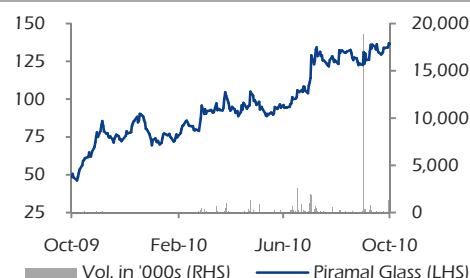
Key data*

Bloomberg /Reuters Code	PIRA IN/PRML.BO
Current /Dil. Shares O/S (mn)	80/80
Mkt Cap (INRbn/US\$mn)	11.0 /246.4
Daily Vol. (3M NSE Avg.)	136,447
Face Value (INR)	10

1 US\$= INR 44.5

Source: Bloomberg; * As on 28 October 2010

Price & Volume



Source: Bloomberg

Share holding (%)	Q3FY10	Q4FY10	Q1FY11	Q2FY11
Promoter	76.8	76.8	76.8	72.7
Institutional Investors	0.1	0.1	0.1	5.8
Other Investors	11.1	11.1	11.8	10.0
General Public	12.1	12.0	11.4	11.5

Source: Bloomberg

Price performance (%)	3M	6M	12M
Sensex	11.0	14.7	22.5
Piramal Glass	22.8	47.7	181.2

Source: Bloomberg

Y/E March (INR mn)	Q2FY11	Q2FY10	YoY(%)	Q1FY11	QoQ (%)	Q2FY11E	Variance (%)
Net Sales	3,007	2,928	2.7	2,783	8.0	2,911	3.3
Operating Expenses	2,361	2,431	(2.9)	2,218	6.4	2,358	0.1
% of Sales	78.5	83.0	(5.4)	79.7	(1.5)	81.0	(3.1)
EBITDA	646	497	29.8	565	14.2	553	16.8
EBITDA Margins (%)	21.5	17.0	26.4	20.3	5.8	19.0	13.1
Depreciation	231	229	1.2	229	1.1	229	1.1
Interest	171.2	309.8	(44.7)	169.8	0.8	204	(16.0)
PBT	304	20	1,387.7	207	46.4	181	68.1
Tax	69	15	372.1	32	118.2	-	-
Effective Tax Rate (%)	22.9	72.1	(68.3)	15.3	49.1	-	-
PAT before Minority	234	6	4,007.0	176	33.4	181	29.7
NPM (%)	7.8	0.2	3,899.8	6.3	23.5	6.2	25.6
PAT after Minority	207	5	3,727.8	165	25.3	170	21.8
EPS	2.6	0.2	1,411.7	2.2	17.9	2.1	21.8

Source: Company, Elara Securities Estimate

Key Financials	Y/E Mar (INR mn)	Rev	YoY (%)	EBITDA	EBITDA (%)	Rep PAT	YoY (%)	Fully DEPS	RoE (%)	RoCE (%)	P/E (x)	EV/EBITDA (x)
FY08		7,786	11.1	1,017	13.1	(228)	(41.5)	(12.7)	(0.1)	0.0	(10.7)	20.4
FY09		10,088	29.6	1,279	12.7	(1,026)	349.2	(44.5)	(116.4)	(1.1)	(3.1)	16.3
FY10		11,039	9.4	2,160	19.6	44	(104.3)	0.8	1.6	7.2	162.4	9.6
FY11E		11,608	5.2	2,380	20.5	694	1,465.7	8.6	19.5	10.5	15.8	8.7
FY12E		13,273	14.3	3,205	24.2	1,296	86.8	16.1	26.0	15.5	8.5	6.5

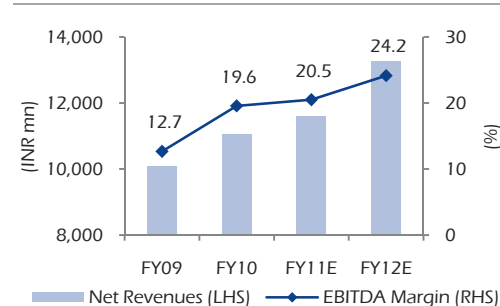
Source: Company, Elara Securities Estimate

Consolidated Financials (Y/E Mar)

Income Statement (INR mn)	FY09	FY10	FY11E	FY12E
Net Revenues	10,088	11,039	11,608	13,273
Operating EBITDA	1,279	2,160	2,380	3,205
Less:- Forex exp	540	339	97	140
OPBITDA	739	1,822	2,283	3,065
Less :- Depreciation & Amortization	892	907	921	973
EBIT	(153)	915	1,362	2,092
Less:- Interest exp	1314	1049	690	599
Add Other income	209	221	221	221
PBT	(1,258)	87	893	1,714
Less :- Taxes	(186)	54	101	291
PAT	(1,072)	32	792	1,422
Add/Less: - Minority Interests	(47)	(12)	98	127
PAT after minority	(1,026)	44	694	1,296
Balance Sheet (INR mn)	FY09	FY10	FY11E	FY12E
Share Capital	180	804	804	804
Reserves	254	1,595	2,288	3,584
Minority Interest	447	376	474	601
Borrowings	13,571	9,824	9,324	8,424
Deferred Tax (Net)	93	113	113	113
Total Liabilities	14,544	12,713	13,004	13,527
Gross Block	14,052	13,673	14,673	15,273
Less:- Accumulated Depreciation	4,490	5,252	6,173	7,146
Net Block	9,562	8,421	8,500	8,126
Add:- Capital work in progress	148	141	141	141
Investments	1	1	1	1
Net Working Capital	4,833	4,150	4,363	5,258
Other Assets	0	-	-	-
Total Assets	14,545	12,713	13,004	13,527
Cash Flow Statement (INR mn)	FY09	FY10	FY11E	FY12E
Cash profit adjusted for non cash items	940	2,008	2,403	2,995
Add/Less : Working Capital Changes	(1,192)	573	(23)	(211)
Operating Cash Flow	(253)	2,580	2,380	2,784
Less:- Capex	(1,645)	(244)	(1,000)	(600)
Free Cash Flow	(1,897)	2,337	1,380	2,184
Financing Cash Flow	1,832	(2,352)	(1,190)	(1,499)
Investing Cash Flow	(1,547)	(208)	(1,000)	(600)
Net change in Cash	32	21	190	685
Ratio Analysis	FY09	FY10	FY11E	FY12E
Income Statement Ratios(%)				
Revenue Growth	29.6	9.4	5.2	14.3
EBITDA Growth	25.7	68.9	10.2	34.7
PAT Growth	369.6	(103.0)	2,347.9	79.7
EBITDA Margin	12.7	19.6	20.5	24.2
Net Margin	(10.6)	0.3	6.8	10.7
Return & Liquidity Ratios				
Net Debt/Equity (x)	15.3	3.5	2.5	1.5
ROE (%)	(116.4)	1.6	19.5	26.0
ROCE (%)	(1.1)	7.2	10.5	15.5
Per Share data & Valuation Ratios				
Diluted EPS (INR/Share)	(44.5)	0.8	8.6	16.1
EPS Growth (%)	NA	NA	926.9	86.8
DPS (INR/Share)	0.0	0.0	0.0	0.0
P/E Ratio (x)	(3.1)	162.4	15.8	8.5
EV/EBITDA (x)	16.3	9.6	8.7	6.5
EV/Sales (x)	2.1	1.9	1.8	1.6
Price/Book (x)	25.3	4.6	3.5	2.5
Dividend Yield (%)	-	-	-	-

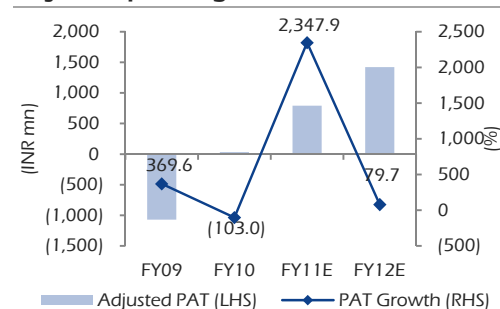
Source: Company, Elara Securities Estimates

Revenue & margins growth trend



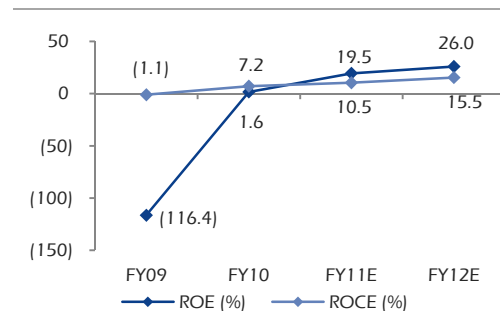
Source: Company, Elara Securities Estimates

Adjusted profits growth trend



Source: Company, Elara Securities Estimates

Return ratios



Source: Company, Elara Securities Estimates

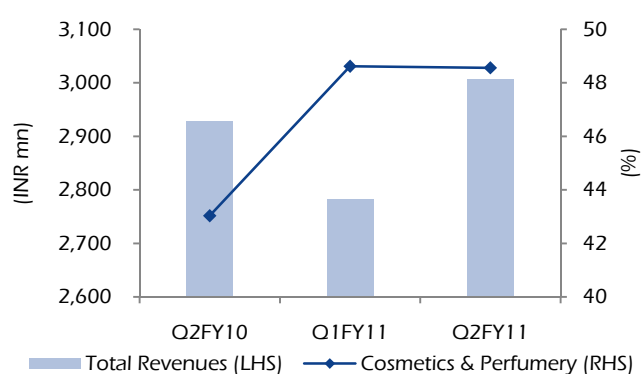
Story remains intact

Turnaround on track

Piramal Glass reported Q2 FY11 results, largely in line with our estimates. The story of Piramal shifting to the premium segment of the business is panning out well and it has steadily increased the premium cosmetics and perfumery (C&P) revenues.

Revenues at INR3,007mn have grown marginally by 3% YoY and 8% QoQ, largely in line with our expectation of INR2911mn. The glass business operates at full utilizations, and has minimal volume growth opportunity. But Piramal Glass continues to transform the product mix from low-end pharma and food and beverage segment to premium C&P segment, garnering better realization rates.

Exhibit 1: Revenue mix



Source: Company

Piramal Glass has sustained the improvement in EBITDA margins at 21.5%, an improvement of 350bps YoY and 120bps QoQ. Higher realization rates have directly flowed into the profitability. Subsequently, Piramal has refrained from taking longer term complex forex bets, enabling it to mitigate losses seen in the past. PAT has been reported at INR207mn, significantly above the INR5mn reported in the corresponding quarter while it showed a 25% growth on QoQ. Apart from the EBITDA margin improvement, reduction in interest burden played a key role in reducing interest expenses by 45% on YoY due to the decreasing interest cost and debt burden.

Capex on schedule

Piramal Glass is witnessing a serious traction from the C&P segment, and has been maintaining its strategy of shifting capacities from low demand pharma to C&P segment. The company plans to perform the capacity transition and realignment between Q3 FY11E and Q1FY12E. Earlier, we were expecting a quarter's delay, pushing the capex into FY12E. However, led by the robust demand in the C&P segment, the company now

plans to execute the capex in FY11E, which will shut down production of 15% capacity for about 30-40 days.

This will reduce the sales volume in the current fiscal on account of lower production days though it remains in the interest of the company's strategy to scale up the premium C&P segment - which will translate into higher earnings in FY12E.

Exhibit 2: Capex plan

Segment	Current Capacity*	Expected Capacity*	Timeline	capacity shut down
Pharma	75	65	Q3FY11-Q1FY12	30 days
C&P	25	40	Q3FY11-Q1FY12	40-60 days
C&P	65	95	Q3FY11-Q1FY12	40-60 days

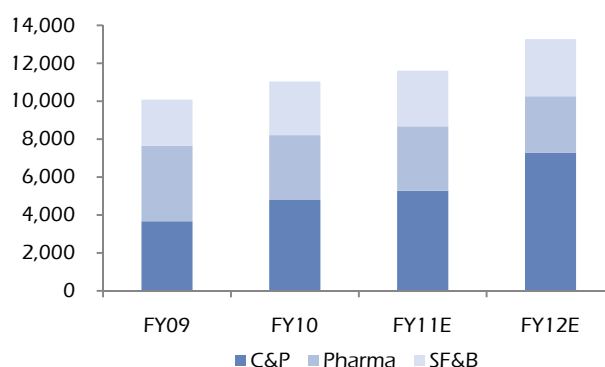
*Tonnes per day

Source: Company

Robust outlook

The company has steadily grown its premium C&P business and shifted US operations to India thus improving EBITDA margins consistently over the past 4-6 quarters. We believe that the company has gained a strong foothold in the premium C&P segment while the demand looks robust with about 150 new products in the pipeline. Being the sole Asian player in the business, the company has a limited competitive threat.

Exhibit 3: Revenues Estimations (INR mn)



Source: Company, Elara Securities

Deleveraging under process

On the balance sheet front, the company is strengthening its liquidity position. It is diligently utilizing the operating cash flow to deleverage the balance sheet. In the last two quarters, the company has repaid debt of INR433mn, reduced the debt equity to 2.9x from 3.5x in Q1FY11. This has enabled Piramal Glass to reduce its interest cost to about 7.25%. This is expected to move down further by 50bps and cut down the interest expense significantly.

Undervalued vis-à-vis Global peers

We have reduced our FY11E revenue estimates by INR275mn and shifted it to FY12E on account of the advancement of capex. Thus FY11E PAT expectation is being reduced by about INR42mn which has largely added on to the FY12E earnings. We expect FY11E and FY12E EPS of INR8.6 and INR16.1 respectively. The stock is trading at 8.5x its FY12E earnings in comparison to global peers trading above 12x despite lower competitive advantage and reducing market share. Subsequently, we maintain our Buy rating and reiterate our target price of INR186 per share.

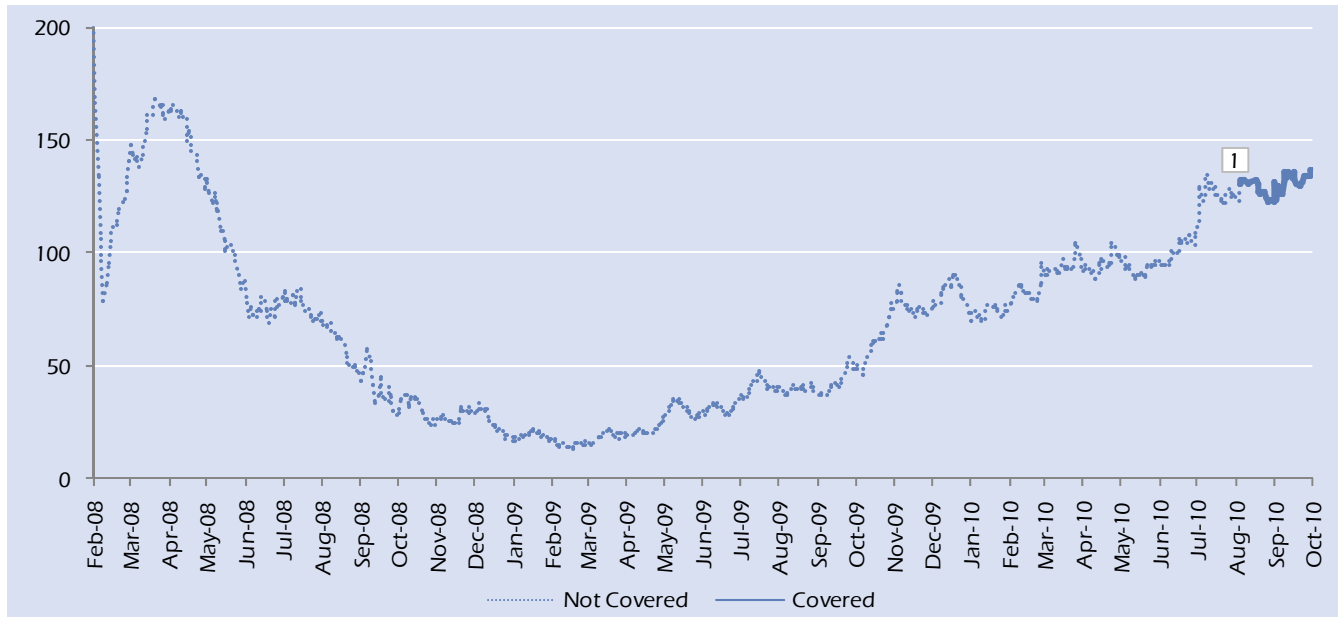
Exhibit 4: Valuation Summary

EV/EBITDA Based Valuation	INRmn
Operating EBITDA*	3,205
Target Multiple assigned (x)	7.0
Enterprise Value	22,438
Net Debt	7,478
Market Cap	14,960
No of Diluted shares (mn)	80.4
Target Price (INR)	186.0
Upside (%)	36.4

* Excluding forex gains/losses

Source: Elara Securities

Coverage History



Date	Rating	Target Price	Closing Price
1 3-Sep-2010	Buy	INR186	INR132

Guide to Research Rating

BUY	Absolute Return >+20%
ACCUMULATE	Absolute Return +5% to +20%
REDUCE	Absolute Return -5% to +5%
SELL	Absolute Return < -5%

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