

Result Update

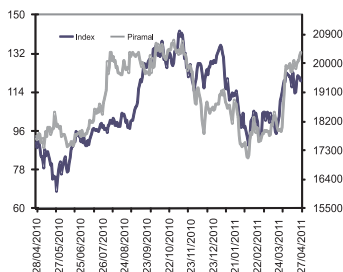
CMP : INR 129
Rating : Buy
Target : INR 160

KEY DATA

Market Cap (INR bn)	10.4
Market Cap (USD mn)	235.8
52 WK High / Low	142 / 79
Avg Daily Volume (BSE)	44680
Face Value (INR)	10
BSE Sensex	19292
Nifty	5785
BSE Code	532949
NSE Code	PIRGLASS
Reuters Code	PRML.BO
Bloomberg Code	PIRA IN

Shareholding %	1Q	2Q	3Q
Promoters	77.0	73.0	73.0
MF/Banks/Indian FIs	0.0	2.0	2.0
FII/ NRIs/ OCBs	0.0	4.0	3.0
Indian Public	23.0	21.0	22.0

Performance Chart



Price Performance (%)

	3 M	6 M	12 M
Absolute	4.1	(2.8)	9.9
Relative	(24.9)	0.4	(31.6)

Financials (INR Mn.)	F11	F12E	FY13E
Net sales	12,185	14,028	17,192
EBITDA	2,851	3,519	4,477
EPS	11.6	15.6	24.8
PE (x)	11.2	8.3	5.2

Sameer Vedak

Analyst
 Tel. : 4000 2667
 svedak@finquestonline.com

Chintan Mewar

Vice President - Research
 Tel. : 4000 2665
 cmewar@finquestonline.com

Piramal Glass Limited

Piramal Glass Limited (PGL) Q4FY11 and FY11 results were better than our expectations. Sales for Q4FY11 and FY11 stood at INR 3,289 mn and INR 12,185 mn and increased by 16% and 10% respectively. Increased contribution from C&P segment led to improvement in Q4FY11 EBITDA and PAT margins by 700 bps and 591 bps to 26% and 10% respectively. We expect increased focus on high value C&P segment and capacity addition of 210 TPA till FY13E, to drive the profitability of the company going ahead. While being cautious on the increasing raw material prices, we maintain our BUY rating on the stock with target price of INR 160.

Sales increase of 10% YoY in FY11, ahead of our expectations

PGL reported net consolidated sales of INR 3,289 mn in Q4FY11 (increase by 16% YoY) and INR 12,185 mn in FY11 (increase by 10% YoY). During FY11, India, US and Sri Lanka accounted for 56%, 30% and 14% of consolidated sales respectively. Increased contribution from C&P segment (to 49% of total sales in FY11 from 44% in FY10) mainly drove the sales for the company. PGL consolidated its leadership position in global nail polish segment during FY11 with increase in its market share to ~50% from ~35% in FY10. We believe C&P segment to continue driving the net revenue till FY13E.

Increased proportion of C&P segment drive margins

EBITDA margin stood at 26% in Q4FY11 (19% in Q4FY10) and 23% in FY11 (18% in FY10). EBITDA margins improved on account of a) increased proportion of premium segment in total C&P sales b) decrease in manpower cost c) price increase of products d) efficient raw material procurement. In FY11, sales of C&P segment increased by ~25% to INR 6,030 mn from INR 4,820 mn in FY10. Also, within the C&P segment, contribution from premium C&P segment increases by 300 bps to 45% in FY11 (42% in FY10). This led to overall increase in profitability as the C&P products command higher margins.

The employee cost as percentage of sales decreased by 60 bps YoY to 18.3% in Q4FY11 from 18.9% in Q4FY10. We believe this is a mainly due to increased focus on production in India as labor cost in India is ~50% to that in the US. PGL procures natural gas (one of the key raw material) from sources like GAIL and Gujarat Gas. Gujarat gas has increased the prices of natural gas by ~20% from April 2011. Also, the LNG prices have increased in the recent past. This has resulted in increase in energy cost as percentage of sales in Q4FY11 to 15.7% (15.1% in Q4FY10). We expect gas prices to be a major concern going ahead as power and fuel accounts for ~15% of total sales. However, we believe, PGL has the ability to pass on the prices in future, helping them maintain their margins. PGL increased its product price in Q4FY11 and would continue to increase it in future (with lag of 1.5-2 months) thus protecting its margins.

PAT margins improve on lower tax rate

PAT for Q4FY11 and FY11 stood at INR 327 mn and INR 930 mn respectively. PAT margins improved by 591 bps in Q4FY11 to 9.9% and by 723 bps in FY11 to 7.6%. Management has indicated, the tax rate to stay lower as it has tax exemption in Sri Lanka and US till Dec 2012. (Note: Post Dec 2012, tax rate in Sri Lanka would be 10% in CY2013 and CY2014 and 20% there after)

Capacity addition plans on track; to improve contribution from C&P segment

PGL has planned capacity addition of 210 tonnes till FY13E (160 tonnes of new capacity and 50 tonnes from realigning) at total capex of INR 2,600 mn. This would be mainly towards high margin C&P segment. With increasing contribution from C&P segment we expect EBITDA margin to increase from 23.4% in FY11 to 26% in FY13E.

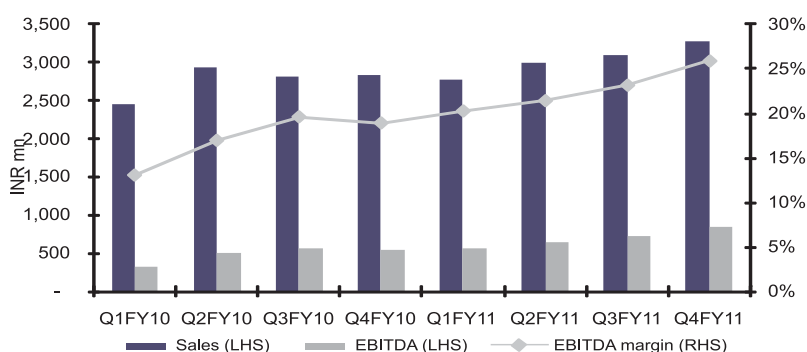
Revise numbers on account of increasing natural gas price. Maintain Buy

Natural gas price has increased significantly in the recent past. We have incorporated increase in raw material prices in our estimates and have revised our profit outlook in FY12E and FY13E. On a conservative basis, we believe PGL to deliver EBITDA margin of 26% and EPS of INR 23.7 in FY13E. At CMP of INR 129, PGL is trading at PE of 5.4x and EV/EBITDA of 4.2x its FY13E earnings. We continue with our BUY rating on the stock with target price of INR 160. At target price of INR 160, PGL is available at PE of 6.8x and EV/EBITDA of 4.8x its FY13E earnings.

Q4FY11 Consolidated Results

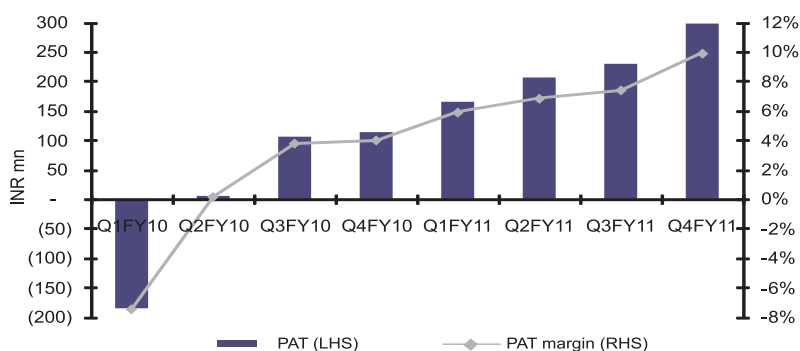
PARTICULARS (INR mn)	Q4FY11	Q4FY10	YoY	FY11	FY10	YoY
Net sales	3,288.6	2,835.5	16.0%	12,184.6	11,039.2	10.4%
Expenditure						
Raw material cost	664.1	564.3	17.7%	2,599.9	2,138.2	21.6%
as % of sales	20.2%	19.9%		21.3%	19.4%	
(Inc)/Dec in finished goods and WIP	64.0	89.1	-28.2%	(189.4)	348.2	-154.4%
as % of sales	1.9%	3.1%		-1.6%	3.2%	
Employee expenses	602.5	537.0	12.2%	2,368.6	2,141.7	10.6%
as % of sales	18.3%	18.9%		19.4%	19.4%	
Power and fuel	514.7	428.6	20.1%	1,884.4	1,693.9	11.2%
as % of sales	15.7%	15.1%		15.5%	15.3%	
Cost of traded goods	11.6	11.2	3.6%	46.6	101.7	-54.2%
as % of sales	0.4%	0.4%		0.4%	0.9%	
Selling, admin and other expenses	578.0	667.9	-13.5%	2,623.2	2,630.1	-0.3%
as % of sales	17.6%	23.6%		21.5%	23.8%	
Total expenses	2,434.9	2,298.1	6.0%	9,333.3	9,053.8	3.1%
EBITDA	853.7	537.4	58.9%	2,851.3	1,985.4	43.6%
EBITDA margin (%)	26.0%	19.0%		23.4%	18.0%	
Depreciation	274.0	263.9	3.8%	1,069.0	1,070.5	-0.1%
as % of sales	8.3%	9.3%		8.8%	9.7%	
EBIT	579.7	273.5	112.0%	1,782.3	914.9	94.8%
EBIT margin	17.6%	9.6%		14.6%	8.3%	
Interest	189.1	177.0	6.8%	720.4	1,049.1	-31.3%
Other income	50.8	64.1	-20.7%	215.4	220.6	-2.4%
PBT	441.4	160.6		1,277.3	86.5	
Tax expense	83.2	38.6	115.5%	243.8	54.2	349.7%
Tax rate (%)	18.8%	24.0%		19.1%	62.7%	
Net Profit	358.2	122.0	193.6%	1,033.5	32.3	3103.7%
Less: Minority interest	31.1	7.5	314.7%	103.3	(12.0)	-960.8%
PAT (reported)	327.1	114.5	185.7%	930.2	44.3	2001.7%
PAT margin (%)	9.9%	4.0%		7.6%	0.4%	
EPS (reported) (INR)	4.1	1.4		11.6	0.8	

Quarterly sales, EBITDA and EBITDA margin trend



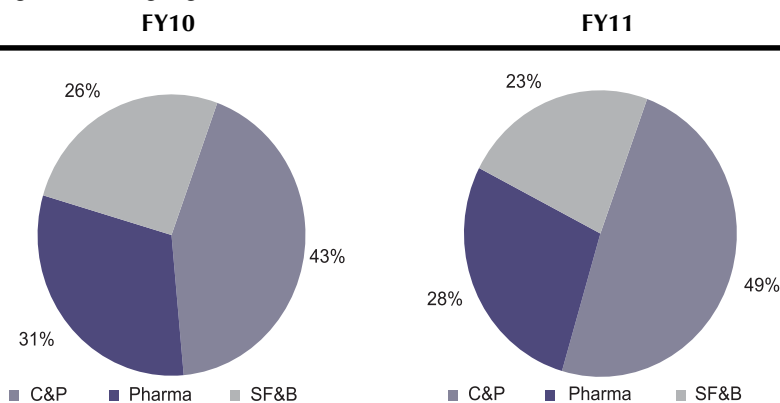
Source: Company, FQ Research

Quarterly PAT and PAT margin trend



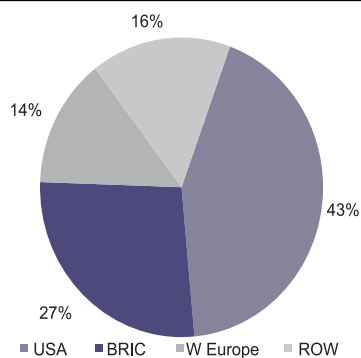
Source: Company, FQ Research

Revenue segregation among segments



Source: Company, FQ Research

Region wise revenue segregation of C&P segment (FY11)



Source: Company, FQ Research

Change in estimates

INR mn	FY12E		FY13E	
	Revised	Previous	Revised	Previous
Sales	14,027.9	14,027.9	17,191.9	17,191.9
EBITDA	3,518.7	3,562.8	4,477.4	4,709.1
EBITDA margin (%)	25.1%	25.4%	26.0%	27.4%
PAT	1,196.7	1,298.6	1,905.1	2,109.4
PAT margin (%)	8.5%	9.3%	11.1%	12.3%
EPS (INR)	14.9	16.1	23.7	26.2

Consolidated Financials

Profit and Loss Statement

Particulars (INR mn)	F10	F11E	F12E	F13E
Net sales	11,039	12,185	14,028	17,192
% chg	9.4	10.4	15.1	22.6
Total expenditure	9,054	9,333	10,509	12,715
Operating profit	1,985	2,851	3,519	4,477
(% of net sales)	18.0	23.4	25.1	26.0
Other income	221	215	225	225
Depreciation & amortisation	1,071	1,069	1,378	1,509
Interest	1,049	720	776	718
PBT	86	1,277	1,590	2,475
(% of net sales)	0.8	10.5	11.3	14.4
Tax	54	244	318	495
(% of PBT)	62.7	19.1	20.0	20.0
PAT	32	1,034	1,272	1,980
Add / (less): minority interest	12	(103)	(75)	(75)
PAT (reported)	44	930	1,197	1,905
% chg	(104.3)	2,001.7	28.7	59.2

Ratios

Particulars	F10	F11E	F12E	F13E
Valuation Ratio (x)				
P/E	153.6	11.2	8.7	5.4
P/CEPS	6.1	5.2	4.0	3.0
P/BV	4.3	3.1	2.4	1.7
EV / Sales	1.8	1.6	1.4	0.6
EV / EBITDA	10.1	6.8	5.5	4.2
MCap/Sales	0.9	0.9	0.7	0.6
Leverage Ratio (x)				
Debt-Equity	4.1	2.7	2.0	1.4
Interest coverage -on EBIT	0.9	2.5	2.8	4.1
Per Share Data (INR)				
Diluted EPS	0.8	11.6	14.9	23.7
Diluted cash EPS	21.1	24.9	32.0	42.5
DPS	1.5	3.5	2.0	2.0
Book value	29.8	41.6	54.2	75.5
Returns %				
ROE	3.1	32.4	31.1	36.5
ROCE	2.6	11.6	13.2	16.7
Dividend payout (%)	181.7	30.3	13.4	8.4
Du-Pont Analysis				
Operating margin (EBIT/Sales) (%)	8.3	14.6	15.3	17.3
Interest burden (PBT/EBIT) (%)	9.5	71.7	74.3	83.4
Tax burden (PAT/PBT) (%)	0.5	0.7	0.8	0.8
Asset turnover (Sales/assets) (x)	1.3	1.4	1.6	2.0
Margin Ratios(%)				
EBITDA margin	18.0	23.4	25.1	26.0
PBT margin	0.8	10.5	11.3	14.4
PAT margin	0.4	7.6	8.5	11.1
Growth Ratios (%)				
Net Sales	9.4	10.4	15.1	22.6
EBITDA	168.3	43.6	23.4	27.2
EBIT	-699.6	94.8	20.1	38.7
PAT	-104.3	2001.7	28.7	59.2
Operating Cycle				
Debtors days	87	83	85	90
Inventory days	84	75	90	100
Creditors days	35	40	40	40

Balance Sheet

Particulars (INR mn)	F10	F11E	F12E	F13E
SOURCES OF FUNDS				
Equity share capital	804	804	804	804
Reserves & surplus	1,595	2,543	3,551	5,268
Shareholders funds	2,399	3,347	4,356	6,073
Total loans	9,824	9,200	9,050	8,900
Minority interest	376	499	499	499
Deffered tax liability	113	143	143	143
Total Liabilities	12,713	13,189	14,047	15,614
APPLICATION OF FUNDS				
Gross block	13,673	15,317	16,217	17,757
Less: acc. depreciation	5,252	6,321	7,699	9,209
Net block	8,421	8,996	8,517	8,548
Capital work-in-progress	141	-	100	160
Investments	1	1	1	1
Current assets	5,873	6,349	7,903	9,403
Current liabilities	1,723	2,157	2,474	2,498
Net current assets	4,150	4,192	5,429	6,905
Total Assets	12,713	13,189	14,047	15,614

Cash Flow Statement

Particulars (INR mn)	F10	F11E	F12E	F13E
PAT	32	930	1,197	1,905
Depreciation	1,071	1,069	1,378	1,509
Chg in working capital	(636)	(19)	1,125	1,419
Other current assets	(1,832)	(336)	-	-
CF from operations	3,571	2,355	1,450	1,996
Capital expenses	385	(1,503)	(1,000)	(1,600)
CF from investing	385	(1,503)	(1,000)	(1,600)
Free cash flow	3,957	852	450	396
Debt raised/(repaid)	(3,746)	(624)	(150)	(150)
Dividend(Incl tax)	(94)	(329)	(188)	(188)
CF from financing	(3,840)	(954)	(338)	(338)
Net change in cash	116	(102)	112	57
Opening cash balance	118	235	133	244
Closing cash balance	235	133	244	302

Recommendation Summary

Event	Date	Price	Rating	Target
Initiating Coverage	06-04-2011	125	Buy	160
Result Update (Q4F11)	29-04-2011	129	Buy	160

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FINQUEST Securities (P) Ltd.

602 Boston House, Next to Cinemax, Suren Road, Andheri (East) Mumbai 400 093.

Tel.: 91-22-4000 2600 • Fax: 91-22-4000 2605 • Email: info@finquestonline.com

Website: www.finquestonline.com

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BUY

More than 10% return

HOLD

Between 5-10% return

SELL

Less than 5% return