Indiabulls
Institutional Equities

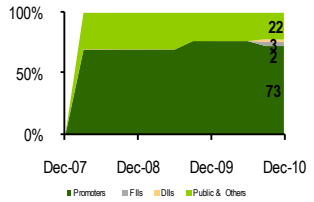
2 May 2011

India
Midcaps

Price: ₹129*
Target price: ₹215

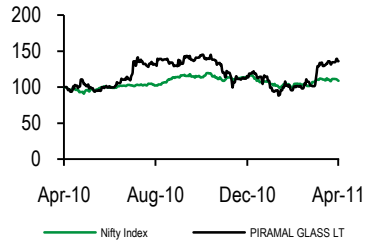
Stock details	
Bloomberg code	PIRA IN
MCap ₹/US$ mn	10,396/235
Outstanding shares (mn)	80
52-wk H/L (₹)	142/79
3m avg trd vol (US$ mn)	0.4
Nifty / Sensex	5,750/19,136

Shareholding pattern (%)



Stock performance (%)

	1m	3m	1yr
Absolute	31.6	37.6	36.3
Nifty	0.2	4.3	8.9



Source: Bloomberg, Prowess.

**Note: Priced at close of market on Friday, 29 January 2011.*

Nehal Shah
nehal.shah@indiabulls.com
+91 22 3045 8075

Piramal Glass

Outperform

Superlative performance

PGL continues to deliver impressive sets of quarterly numbers. For 4QFY11, it has posted record operating performance, with results surpassing our estimates on all counts including the topline (higher by 2%), EBITDA (higher by 12%), and bottomline (higher by 36%). Positive surprise comes in the form of higher EBITDA margin at an impressive 27.5% *vs* our estimated 25% for the quarter, backed by larger contribution from the higher-value C&P segment and forex gains during the quarter (compared to a loss YoY). With the recently announced capex to the tune of ₹2.6bn (now duly factored into our estimates), we are revising upwards our revenue projections for FY12 and FY13 by 8% and 15% respectively. This leads to an upward revision in our earnings estimates by 1.2% and 6.3% to ₹16.3 and ₹20.2 for FY12 and FY13 respectively, and a corresponding revision in our target price upwards by 7.5% to ₹215 (from ₹200). Reiterate Outperform.

Strong operating performance in 4QFY11

For 4QFY11, PGL has reported better-than-expected YoY growth of 16% in revenues at ₹3,288.6mn as compared to ₹2,835.5mn registered in the corresponding quarter of the previous year. Operating profit grew by an impressive 50.4% to ₹904.5mn backed by higher C&P revenues, which contributed 49% to the overall revenues and forex gains of ₹62.7mn as compared to a loss of ₹121.8mn YoY. The premium C&P segment (45% of total C&P revenues), which is the higher-margin segment, grew by a robust ~34% during the quarter.

Capex to aid 15.5% revenue CAGR over the next two years

PGL has announced a capex of ₹1bn in the mass C&P segment by setting up a 160 TPD greenfield plant adjoining its Jambusar facility. Post the commissioning of the said facility (expected by end-CY11), the 120 TPD mass C&P capacity at its Kosamba facility would make way for premium C&P production. Further realigning of four furnaces at a capex of ₹1.6bn would result in incremental addition of 50 TPD capacity and better efficiency. The capex is likely to fade away the topline growth concerns of the company, which is now expected to exhibit a revenue CAGR of 15.5% from ₹12,185mn in FY11 to ₹16,245mn in FY13E.

Revise FY13E earnings upwards by 6%; target price raised to ₹215

Upward revision in revenues aided by capex initiatives has resulted in a revision of our FY12 and FY13 earnings estimates upwards by 1.2% and 6.3% to ₹16.3 and ₹20.2 respectively. Correspondingly, we have revised our target price for the stock upwards by 7.5% to ₹215 (from ₹200).

Exhibit 1: Key financials

₹ mn unless otherwise stated; year-end March

	FY08	FY09	FY10	FY11	FY12E	FY13E
Revenue	7,786	10,088	11,039	12,185	14,055	16,245
EBITDA	1,240	948	2,206	3,067	3,654	4,159
PAT	(228)	(1,026)	44	930	1,315	1,622
EPS (₹)	(12.7)	(57.0)	0.6	11.6	16.3	20.2
EPS (IB consensus) (4)					16.6	21.0
EPS growth	(43.5)	349.3	(101.0)	1998.8	41.4	23.4
RoE (%)	(11.9)	(75.6)	1.8	31.2	33.3	32.1
PE (x)	(10.2)	(2.3)	234.1	11.2	7.9	6.4
EV/EBITDA	10.2	16.6	9.1	6.3	5.1	4.3
P/BV (x)	1.3	3.3	3.9	2.8	2.2	1.7

Source: Company, Indiabulls research.

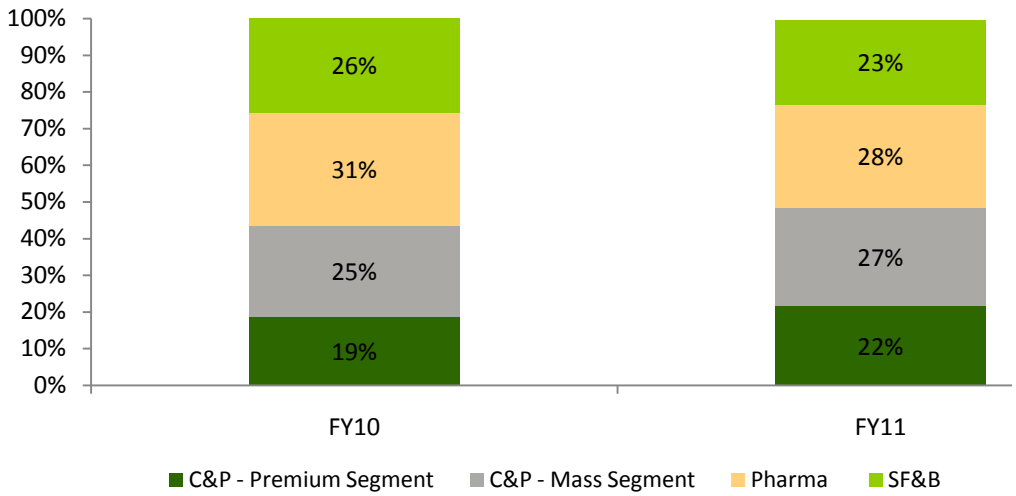
Exhibit 2: 4QFY11 and FY11 results

₹ mn unless otherwise stated; year-end March

	4QFY10	4QFY11	YoY chg.	FY10	FY11	YoY chg.
Net sales	2835.5	3288.6	16%	11039.2	12184.6	10%
Other operational income	64.1	50.8	(21%)	220.6	215.4	(2%)
Total income	2899.6	3339.4	15%	11259.8	12400.0	10%
Total expenditure	2298.1	2434.9	6%	9053.7	9333.3	3%
EBITDA	601.5	904.5	50%	2206.1	3066.7	39%
EBITDA (%)	21.2	27.5	630bps	20.0	25.2	520bps
Depreciation	263.9	274.0	4%	1070.5	1069.0	(0.1%)
Interest	177.0	189.1	7%	1049.1	720.4	(31%)
Other income	0.0	0.0	0%	0.0	0.0	0%
PBT	160.6	441.4	175%	86.5	1277.3	1377%
Total tax	38.6	83.2	116%	54.2	243.8	350%
Tax rate (%)	24.0	18.8	(520bps)	62.7	19.1	(4360bps)
PAT	122.0	358.2	194%	32.3	1033.5	3100%
Minority interest (MI)	7.5	31.1	315%	(12.0)	103.3	NA
PAT after MI	114.5	327.1	186%	44.3	930.2	2000%
Net margin (%)	3.9	9.8	590bps	0.4	7.5	710bps
EPS	1.4	4.1	186%	0.6	11.6	2000%

Source: Company, Indiabulls research.

Exhibit 3: Revenue mix: Higher C&P mix leads to margin expansion

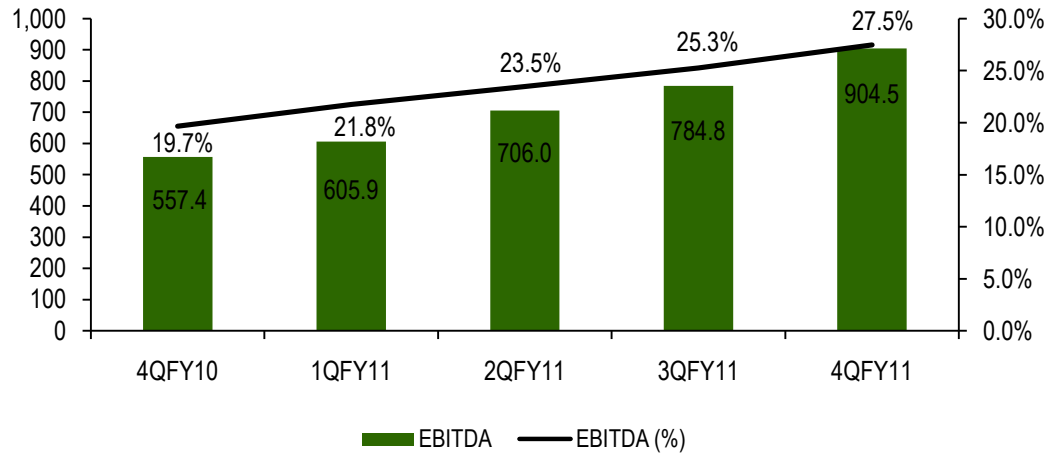


Source: Company, Indiabulls research.

In FY11, C&P (49% of the overall revenues) and pharma (28% of the revenues) grew 25% and 1% respectively while SF&B (23% of the revenues) segment de-grew by 4%. Further, the premium C&P segment (45% of the C&P revenues) grew 35% while the mass C&P segment (55% of the C&P revenues) grew by 18%.

Exhibit 4: EBITDA margins continues to surge

₹ mn unless otherwise stated



Source: Company, Indiabulls research.

After having witnessed a sustainable rise in EBITDA margins over the past five quarters (on account of increasing C&P contribution), we believe that going forward **there are headwinds in terms of rising energy costs** along with the **risks associated with forex**. We thus take a cautious stance in estimating EBITDA margins for FY12 and FY13 at 26% (revised upwards by only 20bps despite factoring-in a 600bps-higher C&P contribution) and 25.6% (revised downwards by 80bps from the earlier estimated 26.4%, despite factoring 300bps incremental contribution from the C&P segment), respectively.

Revision of earlier estimates

Exhibit 5: Rationale behind revision of our earlier estimates

Financial year	EPS then	EPS now	Rationale for revision of estimates
FY12E	16.1	16.3	Upward revision in revenues by 7.6% (backed by higher C&P demand and capex initiatives), and upward revision of EBITDA margin by 20bps to be offset by higher depreciation, interest and tax outgo resulting in 1.2% positive deviation from our earlier EPS estimates
FY13E	19.0	20.2	Upward revision in revenues by 15% (on account of capex initiatives) and downward revision of EBITDA margin by 80bps (from earlier estimated 26.4%) to go with higher depreciation, interest and tax outgo resulting in 6.3% positive deviation to our earlier EPS estimates

Source: Company, Indiabulls research.

Valuation and recommendation

Exhibit 6: Revised blended valuation assigning equal weights

Blended valuation	Earlier target price (₹)	Revised target price (₹)
FY13E EV / EBITDA basis	204	215
FY13E PE basis	209	222
FY13E P/BV basis	176	183
DCF	211	240
Blended valuation assigning equal weights	**200**	**215**

Source: Company, Indiabulls research.

At CMP of ₹129, PGL is attractively valued at 4.3x EV/EBITDA, 6.4x PE, and 1.7x P/BV on FY13E basis. We arrive at a revised blended valuation of ₹215 per share (assigning equal weights to EV/EBITDA, PE, P/BV and DCF models), an upside of ~67% from the current levels. We reiterate our **Outperform** rating on the stock.

Exhibit 7: Summary financials

₹ mn unless otherwise stated; year-end March

Profit and loss	FY09	FY10	FY11	FY12E	FY13E
Revenues	**10,088**	**11,039**	**12,185**	**14,055**	**16,245**
Expenses	9,349	9,054	9,333	10,625	12,313
EBITDA	**948**	**2,206**	**3,067**	**3,654**	**4,159**
Other income	-	-	-	-	-
Depreciation	892	1,071	1,069	1,163	1,276
Interest	1,314	1,049	720	688	629
PBT	**(1,258)**	**87**	**1,277**	**1,804**	**2,253**
Taxes	(186)	54	244	343	451
Minority interest	(47)	(12)	103	146	180
Net profit	**(1,026)**	**44**	**930**	**1,315**	**1,622**
Extraordinary items	0	0	0	0	0
Reported PAT	**(1,026)**	**44**	**930**	**1,315**	**1,622**
EPS	(57.0)	0.6	11.6	16.3	20.2
Dividend per share	0.0	1.0	3.5	4.0	4.5
Dividend payout ratio	0.0	289.9	31.9	25.8	23.5
Balance sheet					
Total liabilities	**14,544**	**12,713**	**13,189**	**13,504**	**14,157**
Net worth	434	2,399	3,347	4,286	5,485
Equity (A)	180	804	804	804	804
Reserves (B)	254	1,595	2,543	3,481	4,680
Debt	13,571	9,824	9,200	8,431	7,704
Deferred tax liability	92.62	113	143	143	143
Minority interest	447.29	376	499	645	825
Others	-	-	-	-	-
Total assets	**14,544**	**12,713**	**13,189**	**13,504**	**14,157**
Net fixed assets	9,562	8,421	8,893	8,730	9,054
CWIP	148	141	103	200	200
Investments	1	1	1	1	1
Working capital (excl cash)	4,715	4,079	4,059	4,384	4,794
Cash & cash equiv.	118	71	133	189	108
Others	-	-	-	-	-

Source: Company, Indiabulls research.

Summary financials (*cont'd*)

₹ mn unless otherwise stated; year-end March

Cash flow	FY09	FY10	FY11	FY12E	FY13E
Sources	**2,838**	**(1,069)**	**1,545**	**1,478**	**1,929**
Retained earnings (PAT-div.)	(1,026)	(49)	601	939	1,199
Non-cash items (incl. dep.)	892	1,071	1,069	1,163	1,276
Equity issuance	-	1,856	-	-	-
Increase in borrowings	3,158	(3,746)	(624)	(769)	(727)
Others	(186)	(200)	500	146	180
Application	**2,838**	**(1,069)**	**1,545**	**1,478**	**1,929**
Capital expenditure					
Maintenance	483	(116)	451	329	480
New investment	1,128	(270)	1,052	768	1,120
Investments	1	(0)	(0)	-	-
Change in working capital (excl cash)	1,193	(636)	(19)	325	410
Change in cash	33	(47)	62	57	(81)
Ratios					
Revenue growth (%)	29.6	9.4	10.4	15.3	15.6
EBITDA growth (%)	(23.5)	132.7	39.0	19.2	13.8
EPS growth (%)	349.3	(101.0)	1998.8	41.4	23.4
EBITDA margin (%)	9.4	20.0	25.2	26.0	25.6
PAT margin (%)	(10.6)	0.3	8.5	10.4	11.1
Asset turnover					
Inventory days	103.3	84.1	75.0	75.0	75.0
Debtor days	97.3	87.1	83.3	80.0	80.0
Net working capital days	173.5	141.6	118.5	115.0	115.0
Sales/net block	1.1	1.2	1.4	1.6	1.8
RoCE	0.4	8.3	15.4	18.7	20.8
Debt/equity	15.4	3.5	2.4	1.7	1.2
Tax rate	14.8	62.6	19.1	19.0	20.0
RoE (%)	(75.6)	1.8	31.2	33.3	32.1
Valuation					
P/E	(2.3)	234.1	11.2	7.9	6.4
EV/EBITDA	16.6	9.1	6.3	5.1	4.3
P/BV	3.3	3.9	2.8	2.2	1.7
EV/sales	1.6	1.8	1.6	1.3	1.1
Dividend yield(%)	0.0	0.8	2.7	3.1	3.5

Source: Company, Indiabulls research.

Key to Indiabulls Institutional Equities recommendations:
Outperform= Expected total return is more than 15%
Neutral= Expected total return is less than 15% but more than zero.
Underperform= Expected total return is negative

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