



Bull's Eye

Meet your financial targets with our PICK OF THE MONTH

Piramal Glass Limited

April 12, 2010

Buy – Target price Rs.120

Company Background:

Incorporated in the year 1984, Piramal Glass(PGL) is one of the largest manufacturers of flaccage glass for the pharmaceuticals and perfumery businesses, with an installed capacity of 1,115 tonnes per day. The company has five manufacturing facilities spread across India(54%), Sri Lanka(14%) and the USA(32%). PGL has three segments, namely: Cosmetics and Perfumery (42%), Pharmaceuticals (31%) and Speciality Foods & Beverage (27%). The company exports to 52 countries and has marketing offices in ten different locations across the globe.

Change in product mix shall lead to an increase in margins:

PGL is in the process of changing its product mix in favour of the high-margin Cosmetics and Perfumery Segment. The contribution of this segment to the total turnover is expected to increase from the present levels of 42% to 47% in FY'11E. Within this particular segment also, the company is targeting the premium segment compared to the mass segment. This initiative is expected to lead to an overall increase in EBITDA margins from the present levels of 18.49% to 22% in FY'11E. The company is catering to 17 out of 20 eminent clients in the Cosmetics & Perfumery segment.

Benefits to accrue from the expanded capacity:

Over the last 30 months, the company has infused Rs.800 crore to pursue its organic as well as inorganic growth strategies (Rs.350 crore for the US acquisition and Rs.450 crore for expansion of Indian and Sri Lankan facilities). The installed capacity of the company has gone up by 43% on account of the capex of Rs.450 crore. With strong marketing network and marquee list of clients across the globe, the company is geared to leverage on the expanded capacities.

Debt-restructuring exercise to improve the ratios:

The company had funded the entire expansion programme through high cost debt. Not only is the company in the process of reducing the debt but also the cost of funding. The debt has come down from Rs.1357 crore in FY'09 to the present levels of Rs.1015 crore. We expect the company to reduce the debt component significantly on the back of strong free-cash flows going forward. Secondly, the company came out with a rights issue in the month of August 2009 in the ratio of 7:2 and the proceeds were used to repay the debt. In addition, PGL has reduced the cost of debt from around 13%, by 600 bps, to 7%.

Focussed management:

The management of PGL has got significant expertise in the glass industry. The management's focus on the business can be gauged from the fact that the US company acquired from The Glass Group, earlier known as Wheaton Glass, has turned around. Earlier the company had changed hands several times and was still struggling to generate profits.

Financials & Valuations:

In FY'09, the company registered revenues of Rs.1008.83 crore, an increase of 29.56% on a y-o-y basis. The company posted a loss of Rs.102.53 crore in FY'09. The forex loss in FY'09E stood at Rs.53.96 crore. In 9MFY'10, the company registered revenues of Rs.820.36 crore compared to Rs.747.13 crore, registering an increase of 9.80% y-o-y. The company reduced the loss from Rs.62.55 crore to Rs.8.98 crore during the same period. We expect the company to turn around in FY'10E. We expect net sales and net profit of Rs.1102.25 crore and Rs.1.20 crore in FY'10E, translating into an EPS of Rs.0.15. We expect PGL to end FY'11E with revenues of Rs.1187.20 crore and PAT of Rs.77.29 crore. This translates into an EPS of Rs.9.60. At the present price of Rs.91, PGL is trading at 9.48x its FY'11E earnings. For FY'11E, the stock is trading at an EV/EBITDA of 6.68. Considering all these factors, we recommend a "BUY" with a target price of Rs.120 over the next nine months.

(in Rs. Crore)

Particulars	FY 2009(A)	FY 2010(E)	FY 2011 (E)
Revenues	1008.83	1102.25	1187.20
Growth (%)	29.56%	9.26%	7.70%
EBITDA	94.86	203.81	261.18
EBITDA margin(%)	9.40%	18.49%	22%
PAT	-102.53	1.20	77.29
Growth (%)	N.A	N.A	6340%
EPS (Rs.)	-57.02	0.22	9.60
Growth (%)	N.A	N.A	4264%
PER (x)	N.A	414	9.48
EV/EBITDA (x)	18.41	8.57	6.68

(Source: Company, FCH Centrum Research Estimates)

CMP (Rs.) 91.05

Target Price (Rs.) 120

Potential Upside 32%

Market Data

BSE Code 532949

Sensex 17,932

EPS TTM -6.16

Current PE N.A

52 week H/L 100/19

(in Rs.)

Face Value 10

(in Rs.)

Outstanding 8.043

shares (cr)

Market cap 732

(Rs. Cr)

Source: Capitaline

Shareholding Pattern (%)

Promoters 76.79

Institutions 0.04

Foreign Holding 0.09

Other Corp Holding 10.95

Indian Public & 12.13

others

Source: Capitaline

Price Chart:



Source: Capitaline

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