

July 29, 2010

### BUY

Price	Target Price
<b>Rs 115</b>	<b>Rs 142</b>
<b>Sensex</b>	<b>17,992</b>

### Price Performance

(%)	1M	3M	6M	12M
Absolute	16	19	51	205
Rel. to Sensex	14	17	37	160

Source: Bloomberg

### Stock Details

Sector	Ceramics
Reuters	PRML.BO
Bloomberg	PIRA@IN
Equity Capital (Rs mn)	804
Face Value(Rs)	10
No of shares o/s (mn)	80
52 Week H/L	115/35
Market Cap (Rs bn/USD mn)	9/193
Daily Avg Volume (No of sh)	182262
Daily Avg Turnover (US\$m)	0.4

### Shareholding Pattern (%)

	M'10	D'09	S'09
Promoters	76.8	76.8	76.8
FII/NRI	0.1	0.1	0.1
Institutions	0.1	0.0	0.0
Private Corp	10.6	11.0	10.4
Public	12.4	12.1	12.7

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- Strong operational performance - APAT at Rs165 mn compare to a loss of Rs184 mn
- C&P business contribution increased to 48% - in line with the targeted product mix
- Targeted shift from Indian Pharmaceutical business and SF&B business in favor of C&P resulted in better margins
- Maintain 'BUY' rating with revised price target of Rs142/Share

### PGL's APAT increased to Rs165 mn in Q1FY11 compare to a loss of Rs184 mn

Piramal Glass Ltd (PGL) reported a strong 12.6% YoY growth in revenues to Rs2.8 bn in Q1FY11. The growth was led by robust performance in the domestic as well as US and Sri Lanka operations. The domestic business recorded 19% YoY growth whereas the US and Sri Lanka operations recorded 20% and 9% YoY growths during the quarter. The operating profit grew 39.7% YoY to Rs627 mn - in line with our estimates. The growth in operating profit can be attributed to reduction in raw material costs and employee expenses but partially offset by increase in selling expenses and other expenses (as % of revenues). Consequently, operating margins expanded 430 bps YoY to 22.2%. PGL's adjusted net profit increased to Rs165 mn compare to a loss of Rs184 mn in Q1FY10. The company recorded a loss of Rs21.3 mn in Q1FY11 related to currency fluctuation compare to a loss of Rs77 mn in Q1FY10.

### C&P segment continue to post robust growth – Coty is added during the quarter

During Q1FY11, the C&P segment posted a robust 35% YoY growth in sales to Rs1.4 bn. This has led to 700 bps YoY increase in C&P contribution to 48% during the quarter – confirmed our key investment argument mentioned in our initiating coverage – 'Verre Glacé'. We believe that the company is moving in a right direction and hence the C&P segment contribution would continue to remain high, going ahead. Furthermore, in Q1FY11, PGL added Coty as a new customer. Coty has a potential to consume glass worth Euro 100 mn per year. Considering the Q1FY11 performance and addition of new customers we believe that the segment would continue to grow in the coming quarters.

### Satisfactory performance from Pharmaceutical and SF&B business

In Q1FY11, Pharmaceutical segment posted 10% YoY growth whereas SF&B recorded 15% YoY decline. The growth in Pharmaceutical segment was driven by a robust 21% growth in exports. However, domestic Pharmaceutical operations recorded 10% YoY decline – not a surprise – as this was a planned reduction to expand margins. In addition, during Q1FY11, SF&B segment posted de-growth of 15% - as PGL shifted its Indian capacity from low yielding SF&B business to high margin C&P business. This helped the operating margins to expand during the quarter.

### Financial Snapshot

Rs Mn

YE-	Net	EBITDA		EPS	EPS	RoE	EV/			
Mar	Sales	(Core)	(%)	APAT	(Rs)	% chg	(%)	P/E	EBITDA	P/BV
FY09	10,088	1,289	12.8	-1,038	(57.7)	NA	(108.9)	(2.0)	16.6	4.8
FY10	11,039	2,160	19.6	44	0.5	NA	2.3	210.1	9.3	3.9
FY11E	12,034	2,646	22.0	677	8.4	1,430.8	26.9	13.7	6.8	3.0
FY12E	13,116	3,558	27.1	1,456	18.1	115.1	39.3	6.4	4.6	2.0

**Maintain 'BUY' rating with revised target price of Rs142/Share**

We are impressed by PGL's Q1FY11 performance – (1) revenue growth of 12.6% to Rs2.8 bn (2) operating profit growth of 39.7% to Rs627 mn (3) operating margin expansion of 430 bps to 22.2% and (4) adjusted net profit at Rs165 mn compare to a loss of Rs184 mn. We believe that PGL is heading in a right direction – increasing high margin C&P business contribution and reducing low margins Pharmaceutical and Indian SF&B business contribution. Consequently, we give thumbs up to the company's quarterly performance and revise our target price from Rs117/Share to Rs142/Share – valuing the company on EV/EBITDA multiple of 5.2X – average of domestic and International players.

**Consolidated Quarterly Financials**

Rs Mn	Q1FY10	Q2FY10	Q3FY10	Q4FY10	Q1FY11	YoY Growth	QoQ Growth
Net Sales	25,082.0	29,896.0	28,623.0	28,996.0	28,239.0	12.6%	-2.6%
Expenditure	20593.0	23621.0	22373.0	22204.0	21967.0	6.7%	-1.1%
Material Cost	6186.0	7618.0	5431.0	6646.0	5286.0	-14.5%	-20.5%
% of Sales	24.7%	25.5%	19.0%	22.9%	18.7%	-590 bps	-420 bps
Employee Expenses	5276.0	5304.0	5757.0	5494.0	5819.0	10.3%	5.9%
% of Sales	21.0%	17.7%	20.1%	18.9%	20.6%	-40 bps	170 bps
Power and Fuel Expenses	3949.0	4401.0	4303.0	4286.0	4331.0	9.7%	1.0%
% of Sales	15.7%	14.7%	15.0%	14.8%	15.3%	-40 bps	60 bps
Freight Cost	1208.0	1561.0	2119.0	1940.0	1948.0	61.3%	0.4%
% of Sales	4.8%	5.2%	7.4%	6.7%	6.9%	210 bps	20 bps
Other Expenses	3974.0	4737.0	4763.0	3838.0	4583.0	15.3%	19.4%
% of Sales	15.8%	15.8%	16.6%	13.2%	16.2%	40 bps	300 bps
Operating Profit	4489.0	6275.0	6250.0	6792.0	6272.0	39.7%	-7.7%
Other Income	-766.0	-687.0	-715.0	-1218.0	-213.0	-72.2%	-82.5%
Interest	3656.0	3098.0	1967.0	1770.0	1698.0	-53.6%	-4.1%
Depreciation	2295.0	2286.0	2286.0	2198.0	2287.0	-0.3%	4.0%
PBT	-2228.0	204.0	1282.0	1606.0	2074.0	-193.1%	29.1%
Tax	-143.0	147.0	152.0	386.0	318.0	-322.4%	-17.6%
PAT (Before EOI)	-2085.0	57.0	1130.0	1220.0	1756.0	-184.2%	43.9%
Minority Interest	-250.0	0.0	0.0	75.0	105.0	-142.0%	40.0%
PAT (Before EOI after Minority)	-1835.0	57.0	1130.0	1145.0	1651.0	-190.0%	44.2%
PAT (After EOI after Minority)	-1835.0	57.0	1130.0	1145.0	1651.0	-190.0%	44.2%
Adjusted EPS	-10.2	0.1	1.4	1.4	2.1	-120.1%	44.2%
Reported EPS	-10.2	0.1	1.4	1.4	2.1	-120.1%	44.2%

Margins (%)						(bps)	(bps)
EBIDTA	17.9%	21.0%	21.8%	23.4%	22.2%	430	-120
EBIT	5.7%	11.0%	11.4%	11.6%	13.4%	770	170
EBT	-8.9%	0.7%	4.5%	5.5%	7.3%	1620	180
PAT	-7.3%	0.2%	3.9%	3.9%	5.8%	1320	190
Effective Tax rate	6.4%	72.1%	11.9%	24.0%	15.3%	890	-870

## Key Financials

## Income Statement

Y/E, Mar (Rs. m)	FY09	FY10	FY11E	FY12E
<b>Net Sales</b>	<b>10,088</b>	<b>11,039</b>	<b>12,034</b>	<b>13,116</b>
Growth (%)	29.6	9.4	9.0	9.0
<b>Expenses</b>	<b>8,799</b>	<b>8,879</b>	<b>9,388</b>	<b>9,558</b>
Growth (%)	30.1	0.9	5.7	1.8
Raw Materials	2,136	2,588	2,624	2,713
% Of Sales	21.2	23.4	21.8	20.7
Employee Cost	2,352	2,184	2,263	2,119
% Of Sales	23.3	19.8	18.8	16.2
Manufacturing Exps	2,646	2,450	2,653	2,754
% Of Sales	26.2	22.2	22.0	21.0
Admin Expenses	921	935	1,062	1,115
% Of Sales	9.1	8.5	8.8	8.5
Selling & Distribn Exp	744	722	787	857
% Of Sales	7.4	6.5	6.5	6.5
<b>Ebidta</b>	<b>1,289</b>	<b>2,160</b>	<b>2,646</b>	<b>3,558</b>
Growth (%)	25.8	67.6	22.5	34.5
Ebidta%	12.8	19.6	22.0	27.1
Other Income	-353	-118	-20	0
Interest	1,314	1,049	809	653
Depreciation	893	907	1,033	1,100
PBT	-1,271	87	784	1,805
Tax	-186	54	39	271
<b>PAT (Before EO Item)</b>	<b>-1,085</b>	<b>32</b>	<b>745</b>	<b>1,534</b>
Growth (%)	-391.9	103.0	2213.7	105.9
Net Margin%	-10.8	0.3	6.2	11.7
Minority Interest	-46.5	-12.0	68.4	78.7
<b>PAT (Before EO Item &amp; after MI)</b>	<b>-1,038</b>	<b>44</b>	<b>677</b>	<b>1,456</b>
E/O Item	13	0	0	0
<b>Reported PAT</b>	<b>-1,025</b>	<b>44</b>	<b>677</b>	<b>1,456</b>

## CashFlow

Y/E, Mar (Rs. m)	FY09	FY10	FY11E	FY12E
<b>Pre-Tax Profit</b>	<b>-1,258</b>	<b>87</b>	<b>784</b>	<b>1,805</b>
Depreciation	893	907	1,033	1,100
Non Cash	-21	552	0	0
Chg in Working Cap	-1,193	573	-114	-450
Tax Paid	4	-40	-39	-271
<b>Operating Cash Flow</b>	<b>-1,574</b>	<b>2,078</b>	<b>1,663</b>	<b>2,185</b>
Capex	-1,547	-208	-450	-600
<b>Free Cash Flow</b>	<b>-3,121</b>	<b>1,870</b>	<b>1,213</b>	<b>1,585</b>
Investments	0	0	0	0
Change in Equity Capital	0	1,232	0	0
Loans	3,158	-3,150	-1,000	-1,300
Dividend	-4	0	-4	-4
Others	1	2	3	4
<b>Net Change in Cash</b>	<b>33</b>	<b>-48</b>	<b>209</b>	<b>281</b>
<b>Opening Cash Position</b>	<b>86</b>	<b>119</b>	<b>71</b>	<b>280</b>
<b>Closing Cash Position</b>	<b>119</b>	<b>71</b>	<b>280</b>	<b>561</b>

## Balance Sheet

Y/E, Mar (Rs. m)	FY09	FY10	FY11E	FY12E
Equity Share Capital	180	804	804	804
Reserves	254	1,595	2,336	3,866
<b>Networth</b>	<b>434</b>	<b>2,399</b>	<b>3,140</b>	<b>4,670</b>
Secured Loans	5,321	8,266	8,266	6,966
Unsecured Loans	8,249	1,558	558	558
<b>Loan Funds</b>	<b>13,571</b>	<b>9,824</b>	<b>8,824</b>	<b>7,524</b>
<b>Deffered Tax</b>	<b>93</b>	<b>113</b>	<b>113</b>	<b>113</b>
<b>Minority Interest</b>	<b>447</b>	<b>376</b>	<b>376</b>	<b>376</b>
<b>Capital Employed</b>	<b>14,544</b>	<b>12,713</b>	<b>12,454</b>	<b>12,684</b>
Gross Block	14,052	13,673	14,123	14,723
Less: Depreciation	4,490	5,252	6,284	7,385
<b>Net Block</b>	<b>9,562</b>	<b>8,421</b>	<b>7,838</b>	<b>7,338</b>
Capital Work In Progress	148	141	141	141
<b>Investments</b>	<b>0</b>	<b>1</b>	<b>1</b>	<b>1</b>
<b>Current Assets</b>	<b>6,535</b>	<b>6,027</b>	<b>6,365</b>	<b>7,123</b>
Inventories	2,960	2,696	2,753	2,970
Debtors	2,688	2,635	2,572	2,838
Cash & Bank	119	71	280	561
Loans & Advances	769	625	759	754
<b>Current Liabilities &amp; Prov</b>	<b>1,701</b>	<b>1,877</b>	<b>1,892</b>	<b>1,918</b>
<b>Net Current Assets</b>	<b>4,835</b>	<b>4,150</b>	<b>4,474</b>	<b>5,204</b>
Miscellaneous Expenditure	0	0	0	0
<b>Capital Deployed</b>	<b>14,544</b>	<b>12,713</b>	<b>12,454</b>	<b>12,684</b>

## Key Ratios

Y/E, Mar	FY09	FY10	FY11E	FY12E
<b>Profitability %</b>				
Ebidta Mgn	12.8	19.6	22.0	27.1
PAT Mgn	-10.8	0.3	6.2	11.7
ROCE	0.3	8.3	12.7	19.6
ROE	-108.9	2.3	26.9	39.3
<b>Per Share Data</b>				
EPS	-57.7	0.5	8.4	18.1
CEPS	-17.9	4.6	21.5	30.7
BVPS	24.1	29.8	39.0	58.1
DVPS	0.2	0.0	0.0	0.0
<b>Valuations (X)</b>				
PER	-2.0	210.1	13.7	6.4
CPER	-6.4	25.1	5.4	3.8
P/BV	4.8	3.9	3.0	2.0
Ev/Sales	1.5	1.7	1.5	1.2
Ev/Ebidta	16.6	9.3	6.8	4.6
Dividend Yield (%)	0.0	0.0	0.0	0.0
<b>Turnover X Days</b>				
Debtor TO Days	85.1	88.0	79.0	75.3
Inventory TO Days	92.9	93.5	82.6	79.6
<b>Gearing Ratio</b>				
Net Debt/Equity	31.0	4.1	2.7	1.5
Total Debt/Equity	31.3	4.1	2.8	1.6

**Recommendation History: Piramal Glass Ltd – PIRA IN**

Date	Reports	Reco	CMP	Target
11.05.2010	<a href="#">Piramal Glass Ltd - Initiating Coverage</a>	Buy	92	117

**Recent Research Reports**

Date	Reports	Reco	CMP	Target
29.07.2010	<a href="#">Hindustan Unilever Q1FY11 Result Update</a>	Hold	252	257
29.07.2010	<a href="#">Asian Paints Q1FY11 Result Update</a>	Hold	2,585	2,510
26.07.2010	<a href="#">GCPL Q1FY11 Result Update</a>	Accumulate	341	371
03.06.2010	<a href="#">GCPL Company Update</a>	Accumulate	327	371

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