

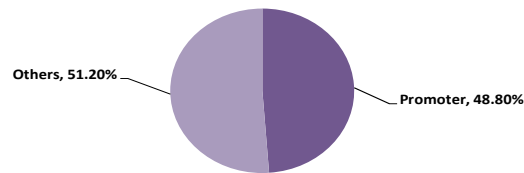


PG Foils Ltd

8th August, 2011

BSE Code	526747
BSE Group / Index	B
CMP	Rs.101.00 (8 Aug 11)
Market Capitalization	Rs.81 Cr
Face Value	Rs.10
EPS (TTM)	Rs.12.41
Book Value per Share (TTM)	Rs.92.67
52 Wk High (BSE)	Rs.112.50 (8 Nov,2010)
52 Wk Low (BSE)	Rs.46.00 (3 Sep,2010)
Accumulation Level	Rs. 95 – 100
Target Price & Potential upside	Rs.190 (88 %)

Shareholding Pattern % as of June 2011

**Public holding more than 1% of the Total No. of Shares as of June, 2011**

Sl.No	Name of the Shareholder	No. of Shares	Shares as % of Total No. of Shares
1	Tirumala Irons Pvt Ltd	622,097	7.67
2	Thunderbird Ind Inc	375,000	4.62
3	Sharekhan Ltd	245,275	3.02
4	Param Capital Research Pvt Ltd	100,000	1.23
5	Synchem Chemicals India Pvt Ltd	100,000	1.23
6	Sharekhan Ltd	81,411	1.00
	Total	1,523,783	18.79

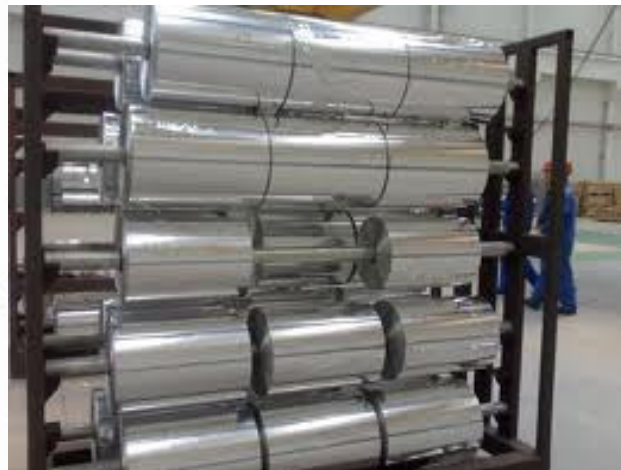


Company Profile

P G Foils Ltd is the first wholly Indian plant, having latest modern machinery and technical know-how. The company had the unit for manufacturing AAC/ACSR (Aluminum Conductor Steel Reinforced) conductors used for overhead transmission of power was installed in the village Pipalia-Kalan in the year 1962 when it was not even electrified. PG Foils is an acknowledged aluminum foils manufacturer. PG Foils products are used as a pouch material multiple laminates and used for storage of solids, liquids, powders, granules of drugs, foods, oils, chemicals, spices etc. PG Foils is the third largest aluminum foil capacity in India. This company has a total capacity of ~ 5000 MTPA.

Manufacturing Facilities

PG Foils Ltd's production facility at Pipalia- Kalan, Rajasthan is capable of meeting the manifold demands made by industry and offers its customers a range of products made with combination of Aluminum foil, Paper, PET (Polyethylene terephthalate), PE, BOPP (Biaxially Oriented Polypropylene) etc. of varied thickness, width and different coatings.





Product Range

PG Foils produces, plain and printed aluminum foils, foil laminates and flexible packaging material for various uses in the packaging for the products:

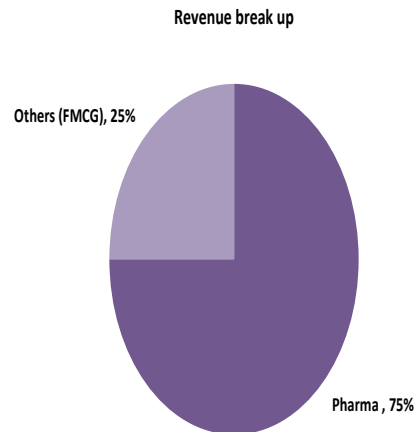
- Aseptic Packaging for Milk, Fruit juice, Cooking Oil
- Cigarettes foil Tobacco, Cigarettes and mouth fresheners
- Decoration foil
- Label foil
- Closure Caps/ PP Caps for glass or plastic bottles, resale boxes etc.
- Food Packaging
- Soup, pouches, flow wrap for biscuit, coffee wrap etc.
- Lids for yogurt, confectioners
- Bottle neck decoration
- Pharma foil
- Tea
- House Hold foil and kitchen foil
- Insulation
- Semi rigid container/ Casserole/ Tagger
- Cable Wrap for Telecommunication
- Bakery & confectionery Wraps
- Contraceptive Wrap
- Toiletry and cosmetic products
- Lamitube for collapsible tubes for toothpaste, skin care, ointments etc.



Major Clients

- Aventis Ltd.
- Pfizer Ltd.
- Cadila Pharmaceuticals Ltd.
- Dr. Reddy's Laboratories
- Dabur India Ltd.
- German Remedies
- Amul
- Medimet Pharmaceuticals Ltd.
- Globe Pharmaceuticals Ltd.
- Nestle
- Hindustan Tin
- Air India
- Thai Airways
- Indian Railways
- Sterlite Optical Technologies Ltd.
- Finolex Cables & Associated Capsules etc





Packaging Industry Overview

- India as a nation has lower manufacturing costs; hence India is fast becoming a preferred hub for packaging production. On the global scene ruled by the World Trade Organization, it is essential for India to upgrade its packaging standards through innovative technologies in order to be on par with the world's best practice. Packaging labels must inform consumers about the ingredients of the product, the nutritional value, and the manufacturing and expiry dates of the products; something which is being made mandatory by the government. Almost all the major players were seen to expand their existing capabilities to tap into the fast growing export market for Indian packaging products.
- The Indian packaging industry is expected to grow to Rs 82,500 Cr by 2015 from the current Rs 65,000 Cr.
- India stands at the 11th position in the world packaging industry, which is \$550-billion, and with the rising consumer demand and new technologies, it is expected to grow at 18-20 % from the current 15 %.
- As per Indian Institute of Packaging everything needs a packaging. Last year, India GDP growth was 8.5 % while the packaging industry grew 15 %.



- According to a report published by market research firm RNCOS in April 2010, titled 'Indian Food and Drinks Market: Emerging Opportunities' the Indian food and beverages market is expanding rapidly and is projected to grow at a compound annual growth rate (CAGR) of about 7.5 per cent during 2009-13 and would touch US\$ 330 billion by 2013.
- The large and fast growing Indian middle class population and the growth of organized retail sector are the key catalysts for growth in packaging. The Indian middle class population is above 50 million and is expected to reach 583 million by (*Source: McKinsey Report*)
- Thus Packaging industry in India is one of the fast growing industries which have its influence on all industries directly or indirectly. Packaging fulfils the needs of the Pharma Industry and consumers on the three crucial parameters namely presentation, protection and preservation.
- Currently the pharmaceutical industry is currently growing at the rate of 12 %, but this will accelerate soon. The sale of all types of medicines in the country stands at US\$ 9.61 billion, which is expected to reach around US\$ 19.22 billion by 2012. (*Source: All India Organization of Chemists and Druggists (AIOCD)*)

**Improvement in CARE Rating for PG foils as of January 2011**

Facilities	Amount (Rs. Crore)	Rating	Remark
Long-term Bank Facilities	45.79	'CARE A-' (Single A Minus)	Revised from 'CARE BBB+' (Triple B Plus) and credit watch removed
Long/short-term Bank Facilities	25.00	'CARE A-/PR1' (Single A Minus, PR One)	Revised from 'CARE BBB+/PR2+' (Triple B Plus, PR Two Plus) and credit watch removed
Short-term Bank Facilities	5.00	'PR1' (PR One)	Revised from 'PR2+' (PR Two Plus) and credit watch removed
Total Facilities	75.79		

The revision in the ratings takes into account improvement in financial risk profile of PG Foils Ltd.(PGFL) marked by improvement in profitability, leverage ratios and coverage indicators. The ratings continue to draw strength from experience of promoters with more than 25 years of operational track record and comfortable financial risk profile of PGFL. The ratings also factor in the cushion available from the liquid investment pledged with bank, comfortable liquidity position marked by low utilisation of limits, good clientele and stable outlook for end user industries. The ratings are constrained by working capital intensive operations, exposure to raw material price fluctuation risk, high level of inter-group transactions and delay in project implementation. Ability of PGFL to sustain its present profit margins and maintain its comfortable leverage position would be the key rating sensitivity. Further, maintenance of its comfortable liquidity profile, marked by liquid investments would also a key rating sensitivity.

The ratings were earlier placed on 'Credit watch' on account of the proposed merger of one of its group company, Prem Cable Private Limited (PCPL), with PGFL. However, as the proposed merger has been called off, the 'Credit watch' on the above ratings has been removed.



KEY STRENGTHS

- **Domestic V/s Exports**

PG Foils is exporting ~5-10% of its total production since they have a huge demand from the domestic market. The company has its esteemed presence in the international market like Bangladesh, Ukraine, Iran, Kenya, Mexico, Nepal, Nigeria, Russia, Sudan; Thailand & U.A.E. Increase in export sales remains its major thrust. The company has exports all over the world and will get more aggressive after the new plant gets commissioned at Pipalia Kalan, Rajasthan. Contribution from exports to the revenue is 5-10% and 90-95% is the domestic market.

- **Capacity Utilization**

Currently PG foils have an operative production capacity of 5000MT for manufacturing aluminum foils. In FY10 the company has achieved the highest production of 5200 tons and installed capacity is ~ 5000 tons, so it is running on 110% capacity and last year the turnover, quantity wise was 4700 tons, so almost a 10% increase. Thus the prospects and the demand for company's products are robust.

- **New Expansion Undertaken**

The company is currently undergoing an expansion programme wherein the capacity will increase about 6,000 tonne per annum. This expansion will go on-stream fully in the month of November-December 2011 and this will take the total capacity of the company to about 11,000 tonne per annum.



PG foils to benefit from Gutka Booster in coming months.

- The Supreme Court's landmark decision to ban the use of plastic in sachets for storing or selling tobacco, gutka and pan masala came into effect across the country from March 1, 2011. This is basically a part of the environment ministry's revised plastic waste management's rules.
- This ban is significant because this will change the consumption pattern and maybe reduce it, Polypropylene is the material used in making the pouches, which has a very small amount of plastic which is responsible for preserving the tobacco product in these pouches. Pouches made from biodegradable plastic films will have to meet BIS (Bureau of Indian Standards) specifications.
- The bans on plastic usage in gutka sachets have given opportunity for aluminum foils manufacturers.
- The current demand from the gutka industry for aluminum foils is about 36000 tonnes per month whereas the supply is only about 8000 to 9000 tonnes per month. Thus there is a huge demand – supply gap which the company can take advantage.
- PG foils intends to use its upcoming capacity addition of 6000 tonnes plant to meet the gutka pouch demand.
- Due to the demand – supply gap the company enjoys pricing power which will help in improving the margins which translates into higher profits.



Investment Rationale

- **Highest Market Share:** PG Foil commands the highest market share in the Pharma industry~ 35-40% in aluminum foils. It supplies to all the major Indian as well as the multinational companies.
- **Expansion Plans:** Company is increasing capacity by 6000 tonne This expansion will go on-stream fully in the month of November-December 2011 and this will take the total capacity of the company to ~11,000 MTPA. After the expansion, PG Foils will become the single largest manufacturing plant of Aluminium foil and foil laminate in India
- **Quality Aluminum Foils:** Today the usages of aluminum foil in packaging is growing by leaps and bounds & plays a key role in packaging industry. In case of barrier properties and shelf life are must, aluminum based special packaging products are a necessity. The aluminum foil is mainly used as packaging material and has proved to be the best of its kind because of its unique protective properties. It is moisture proof, gas proof, light proof and hygienic. It reflects 96% of light and gives a point of sale appeal. Hence these properties makes company's product in great demand among the food packaging & Pharma industry.
- **Moving up the Value Chain:** The company remains focused on selling end-to end packaging solutions and not just products & is continuously innovating with quality products.
- **Pharma Sector Opportunities :** PGF to benefit from the opportunities arising due to installation of many Pharma units in Himachal Pradesh which are in close proximity to its existing site as compared to other competitors.

Income Statement

Particulars (Rs.Cr)	FY10	FY11	FY12 (E)
Net Sales	142.27	139.77	188.68
Other Operating Income	0	0	0
Total Income	142.27	139.77	188.68
Expenditure			
a) (Inc)/dec in stock-in-trade	2.39	(1.48)	-6.04
b) RMC	100.05	108.28	141.51
c) Purchase of traded goods	3.83	4.50	5.25
d) Employees cost	4.33	4.68	6.04
e) Other expenditure	13.07	10.37	14.10
Total	123.67	126.35	160.86
EBIDTA	18.60	13.41	27.82
Depreciation	2.09	3.35	5.50
EBIT	16.51	10.06	22.32
Interest	2.26	3.03	4.40
Other Income	(1.92)	6.78	6.40
EBT before exceptional item	12.33	13.82	24.32
Exceptional Item	7.00	2.50	1.50
PBT	5.33	11.32	22.82
Tax	0.76	1.35	2.97
PAT	4.57	9.97	19.86
Extraordinary Item	(1.71)	0.09	0.42
PAT	2.86	10.05	20.28

Balance sheet

Particulars (Rs.Cr)	FY 10	FY 11 (E)	FY 12(E)
Liabilities			
Share Capital (A)	8.11	8.11	8.11
Share Warrant & Outstanding (B)	0.47	0.47	0.47
Reserves & Surplus (C)	57.51	66.48	86.76
Net worth (D) (A+B+C)	66.09	75.06	95.34
Loan Funds (E)	49.31	56.04	61.64
Deferred Tax Liability (Net) (F)	0.00	2.60	0.00
Total G (D+E+F)	115.40	133.70	156.98
Assets			
Gross Block	37.78	60.89	71.90
Less: Depreciation	30.63	35.91	41.41
Net Block (H)	7.15	24.98	30.49
CWIP (I)	13.61	1.01	0.00
Investments (J)	26.62	22.75	25.03
Net Current Assets (K)	67.27	85.14	100.97
Deferred Tax Assets (L)	0.74	-0.18	0.49
Misc Expenses (M)	0.005	0.003	0.004
Total (N) (H+I+J+K+L+M)	115.40	133.70	156.98

Ratios

Particulars	FY10	FY11	FY12 (E)
EPS (Rs.)	3.53	12.41	25.03
P/E (x)	28.59	8.14	4.03
BVPS (Rs.)	81.59	92.67	117.70
ROE (%)	4.33%	13.39%	21.27%
ROCE (%)	14.30%	7.67%	14.22%
EBIDTA Margin (%)	13.07%	9.60%	14.75%
PAT Margin (%)	2.01%	7.19%	10.75%
Interest Coverage (x)	7.30	3.32	5.07
Debt/Equity (x)	0.75	0.75	0.65
Asset Turnover (x)	1.23	1.05	1.20
Market Cap/Sales (x)	0.57	0.58	0.43

Comparison with peers

As of March 2011	PG Foils	Gujarat Foils	Bhoruka Aluminium
Market Cap (Rs. in Cr.)	81	55	61
EPS	12.41	4.31	0.55
P/E(x)	8.10	18.08	42.24
ROE%	13.39%	7.1%	5.3%
ROCE%	7.67%	9.0%	16.0%
Debt/Equity (x)	0.75	1.42	6.16

Recommendation

Given the capacity expansion due in next few months time and also the maturity amount to be received from Keyman insurance policy, PG foils is very much undervalued and expected to grow in the future.

At CMP of Rs. 101 the stock is trading at 8.10x FY 11 EPS of Rs. 12.41 and 4.03x FY 12 (E) EPS of Rs. 25.03. We advise buying the stock at current levels for a possible upside of Rs.190 (7.60x FY 12[E] EPS) within 12 – 18 months.



Disclaimer:

Analyst Holding : Yes
Recommended to Clients : Yes
Director Holding : Yes
Relationship with Management : Yes

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