

**Borosil Glass Works Ltd.: Restructuring Update**

**CMP: INR 993**  
**Rating: HOLD**  
**Target Price: INR 1,015**  
**Upside: 2%**

**Long term Positive, short term blip**

**Borosil Glass Works Ltd. (BGWL) has informed the exchanges regarding a change in its restructuring scheme which is the amalgamation of related entities into one entity and further demerger of Scientific & Industrial products and Consumer products business into a new company. We believe the restructuring scheme is a long term positive for both businesses, however, BGWL has to incur one time hit in its balance sheet of around INR 220cr on account of cancellation of preference shares of Gujarat Borosil Ltd. (GBL) and funding of GBL's capex plans.**

**Long term Positive as it eliminates cross holdings**

The proposed restructuring will result in simplification of the group structure by eliminating cross holdings and related party transactions. The amalgamation and subsequent demerger provides each existing shareholder an opportunity to participate in either/both the businesses i.e. scientific & industrial products & consumer products businesses of BGWL and solar business of GBL. The demerging of two entities will provide an opportunity to shareholders to decide whether to stay invested or monetize their investment in either of the businesses, thereby unlocking value. We believe, its long term positive for the businesses and their respective shareholders.

**One time pay-out from BGWL to GBL**

BGWL has cash & current investments of INR 273cr (by end of FY18) and has non-current investment (9% Non-Cumulative Non-Convertible Redeemable Preference Shares) in Gujarat Borosil Ltd (GBL) of INR 93.6cr. BGWL has planned to partially fund the capex of GBL i.e. around INR 125cr and cancel preference shares. Thus, BGWL has to incur a one-time hit in its balance sheet of around INR 220cr.

**Change from earlier restructuring scheme, promoter holdings to reduce**

The proposed restructuring scheme will result in reduction of shareholding of promoter in BGWL and GBL to 70.5% each from current 72.85% and 74.95%, respectively.

**Outlook and valuations**

We have earlier arrived at the sum-of-the-parts based target price of INR 1,158 for the consolidated entity post earlier restructuring plan (including 58% stake in GBL). With new proposed restructuring scheme, if we remove demerged entity i.e. GBL and around INR 220cr from BGWL cash & investment, our target price is revised to INR 1,015 which gives no upside from the current market price. However, we have not accounted VGWL numbers in our calculation, which we believe will not provide much upside and hence we downgrade the stock to HOLD. At CMP of INR 993, the stock is currently trading at 33x FY19E EPS of INR 30 and 28x FY20E EPS of INR 36 on consolidated numbers.

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52-week range (INR):	1,064.15 / 762.05
Share in issue (cr):	2.3
M cap (INR cr):	2,294
Avg. Daily Vol. BSE/NSE :('000):	270
Promoter Holding (%)	74.85

<b>Year to March (Consolidated)</b>	<b>FY17</b>	<b>FY18</b>	<b>FY19E</b>	<b>FY20E</b>
Revenues (INR cr)	557	633	778	917
Rev growth (%)	34.2	13.6	23.0	17.8
EBITDA (INR cr)	59	89	122	146
EBITDA Margin%	10.7	14.0	15.6	15.9
PAT (INR cr)	133	47	76	92
EPS (INR)	59	21	30	35
P/E (x)	16.9	47.7	33.2	28.0
EV/EBITDA (x)	39.3	26.2	19.1	15.9
RoACE (%)	3.1	5.3	7.6	8.7
RoAE (%)	6.5	6.3	8.2	9.0

Note: Numbers are consolidated including GBL while excluding VGWL

Date: 21<sup>st</sup> June 2018

## Step 1: Amalgamation

Amalgamation of VGWL, FIFPL and GBL with BGWL; following which BGWL will be renamed as Borosil Renewables Limited or any other name as approved by ROC.

### a) Swap ratio on amalgamation (pre-bonus shares issuance)

- VGWL with BGWL: "100 (One Hundred) equity shares of BGWL of INR 1 each fully paid up for every 162 (One Hundred and Sixty Two) equity shares of VGWL of INR 10 each fully paid up"
- FIFPL with BGWL: "100 (One Hundred) equity shares of BGWL of INR 1 each fully paid up for every 218 (Two Hundred and Eighteen) equity shares of FIFPL of INR 10 each fully paid up"
- GBL with BGWL: "1 (One) equity share of BGWL of INR 1 each fully paid up for every 8 (Eight) equity shares of GBL of INR 5 each fully paid up"

### b) Current shareholdings

	Promoter	BGWL	FIFPL	VGWL	Public
BGWL	66.8%		5.37%		27.70%
HTPL		100%	-	-	-
FIFPL	45.85%	45.9%	-	8.3%	-
GBL	16.57%	25.3%	33.1%	-	25.5%
VGWL	100%				

### c) Post amalgamation shareholding

	Promoter	Public
Borosil Renewables Limited	70.5%	29.5%

### d) Details of the assets and turnover of VGWL, FIFPL, GBL, BGWL and HTPL

Entity	Total Assets (INR cr)	Revenue (INR cr)
BGWL	887	296
HTPL	162	102
FIFPL	123	1
GBL	227	200
VGWL	64	79

## Step 2: Demerger details

Demerger of the Demerged Undertaking into HTPL, a wholly owned subsidiary of BGWL - HTPL will be renamed as Borosil Limited or any other name as approved by ROC. This company will comprise of all assets and liabilities of Scientific and Industrial product business and Consumer product business of BGWL and all investments and surplus assets of BGWL (except INR 125 crores required for the purpose of expansion of solar business).

Shareholders will receive: "1 (One) equity share of Borosil Ltd of INR 1 each fully paid up for every 1 (One) equity shares of Borosil Renewables Limited of INR 1 each fully paid up"

	Promoter	Public
Borosil Limited	70.5%	29.5%
Borosil Renewables Limited	70.5%	29.5%

### Bonus shares details

The Board of BGWL has proposed issue of bonus shares in the ratio of 3:1 (i.e. three shares for every one share held in BGWL) which is subject to approval by the shareholders of BGWL. Further, the Board of HTPL has proposed split of face value of equity shares from INR 10 into INR 1 each.

### Entities brief

1. **Vyline Glass Works Limited (VGWL):** VGWL is engaged in the business of manufacturing of glass and glass products. It mainly supplies its products to BGWL
2. **Fennel Investment and Finance Private Limited (FIFPL):** FIFPL is associate company of BGWL and is registered as a Non-Banking Financial Company (NBFC) with the Reserve Bank of India
3. **Gujarat Borosil Limited (GBL):** GBL, a listed company on BSE, is in the business engaged in manufacturing of low iron textured solar glass for application in Photovoltaic panels, Flat plate collectors and Green houses. GBL participates in solar power sector and is a B2B business.
4. **Borosil Glass Works Limited (BGWL):** BGWL, a listed company on BSE and NSE, is in the business of laboratory glassware, microwavable kitchenware and other consumer-ware items. BGWL focuses on building brands and selling through a strong network of distributors and retailers and is a B2C business.
5. **Hopewell Tableware Private Limited (HTPL):** HTPL is a 100% subsidiary of BGWL and is engaged in business of manufacturing and marketing of opal tableware items.

### Valuation

We have earlier arrived at the sum-of-the-parts based target price of INR 1,158 for consolidated entity post the earlier restructuring plan (including 58% stake in GBL). With the new proposed restructuring scheme, if we remove demerged entity i.e. GBL and around INR 220cr from BGWL cash & investment, our target price is revised to **INR 1,015** which gives no upside from current market price. However, we have not accounted VGWL numbers in our calculation, which we believe will not provide much upside for target price and hence we downgrade the stock to HOLD. At CMP of INR 993, the stock is currently trading at 33x FY19E EPS of INR 30 and 28x FY20E EPS of INR 36 on consolidated numbers and at 36x FY19E EPS of INR 28 and 31x FY20E EPS of INR 32 excluding GBL earnings.

Business (FY20E)	Current			Post Event		
	Adj EPS (INR)	Proj Multiple PER (x)	TP	Adj EPS (INR)	Proj Multiple PER (x)	TP
Borosil - CPD	16.4	32x	519	16.4	32x	519
Borosil - SIP	14.6	25x	366	14.6	25x	366
Guj. Borosil	6.0	16x	96			
Cash	176.8		177	129.9		130
<b>Value per share (INR)</b>			<b>1,158</b>			<b>1,015</b>

## Financials

Income statement		(INR crs)			
Year to March	FY17	FY18	FY19E	FY20E	
Income from operations	557	633	778	917	
Direct costs	206	237	291	327	
Employee costs	72	86	93	105	
Other expenses	292	308	366	445	
Total operating expenses	498	544	657	771	
EBITDA	59	89	122	146	
Depreciation and amortisation	32	37	43	49	
EBIT	27	52	78	97	
Interest expenses	8	7	5	5	
Other income	43	31	39	45	
Profit before tax	62	75	113	137	
Provision for tax	19	27	37	45	
Core profit	43	49	76	92	
Extraordinary items	91	-2	0	0	
Profit after tax	133	47	76	92	
Minority Interest	2	1	-7	-10	
Share from associates	0	0	0	0	
Adjusted net profit	136	48	69	82	
Equity shares outstanding (cr)	2.3	2.3	2.3	2.3	
EPS (INR) basic	59	21	30	35	
Diluted shares (Cr)	2.3	2.3	2.3	2.3	
EPS (INR) fully diluted	58.8	20.8	29.9	35.5	
Dividend per share	3.0	2.5	4.7	5.5	
Dividend payout (%)	15.5	11.5	15.6	15.6	

### Common size metrics- as % of net revenues

Year to March	FY17	FY18	FY19E	FY20E
Operating expenses	89.3	86.0	84.4	84.1
Depreciation	5.8	5.8	5.6	5.3
Interest expenditure	1.4	1.1	0.6	0.5
EBITDA margins	10.7	14.0	15.6	15.9
Net profit margins	8.1	7.6	8.9	8.9

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### Growth metrics (%)

Year to March	FY17	FY18	FY19E	FY20E
Revenues	34.2	13.6	23.0	17.8
EBITDA	166.8	49.2	37.3	20.0
PBT	81.8	22.0	49.5	21.7
Net profit	54.3	14.3	55.2	21.7
EPS	366.2	(64.6)	43.4	18.7

### Ratios

Year to March	FY17	FY18	FY19E	FY20E
ROAE (%)	6.5	6.3	8.2	9.0
ROACE (%)	3.1	5.3	7.6	8.7
Debtors (days)	61	71	60	60
Current ratio	5.4	3.7	3.9	3.7
Debt/Equity	0.1	0.1	0.0	0.0
Inventory (days)	62	51	51	51
Payable (days)	24	36	30	30
Cash conversion cycle (days)	100	86	81	81
Debt/EBITDA	0.9	0.5	0.3	0.3
Adjusted debt/Equity	0.1	0.0	0.0	0.0

### Valuation parameters

Year to March	FY17	FY18	FY19E	FY20E
Diluted EPS (INR)	58.8	20.8	29.9	35.5
Y-o-Y growth (%)	366.2	(64.6)	43.4	18.7
CEPS (INR)	33.5	37.6	48.7	56.6
Diluted P/E (x)	16.9	47.7	33.2	28.0
Price/BV(x)	3.0	2.8	2.6	2.4
EV/Sales (x)	4.2	3.7	3.0	2.5
EV/EBITDA (x)	39.3	26.2	19.1	15.9
Diluted shares O/S	2.3	2.3	2.3	2.3
Basic EPS	58.8	20.8	29.9	35.5
Basic PE (x)	16.9	47.7	33.2	28.0
Dividend yield (%)	0.3	0.3	0.4	0.5

Balance sheet		(INR cr)			
As on 31st March	FY17	FY18	FY19E	FY20E	
Equity share capital	2	2	2	2	
Preference Share Capital	0	0	0	0	
Reserves & surplus	763	816	874	943	
Shareholders funds	765	816	874	943	
Secured loans	51	41	41	41	
Unsecured loans	0	0	0	0	
Borrowings	51	41	41	41	
Minority interest	56	60	60	60	
<b>Sources of funds</b>	<b>872</b>	<b>917</b>	<b>975</b>	<b>1,044</b>	
Gross block	452	563	633	713	
Depreciation	160	197	240	289	
Net block	292	366	392	423	
Capital work in progress	42	16	0	0	
Total fixed assets	351	399	410	441	
Unrealised profit	0	0	0	0	
Investments	264	350	380	395	
Inventories	<b>95</b>	<b>89</b>	<b>109</b>	<b>128</b>	
Sundry debtors	<b>94</b>	<b>123</b>	<b>128</b>	<b>151</b>	
Cash and equivalents	11	14	14	14	
Loans and advances	36	34	32	27	
Other current assets	0	0	0	0	
Total current assets	235	260	282	320	
Sundry creditors and others	<b>37</b>	<b>62</b>	<b>64</b>	<b>75</b>	
Provisions	7	8	9	11	
Total CL & provisions	43	70	73	86	
Net current assets	192	190	209	234	
Net Deferred tax	-74	-79	-94	-108	
Misc expenditure	139	57	71	83	
<b>Uses of funds</b>	<b>872</b>	<b>917</b>	<b>975</b>	<b>1,044</b>	
Book value per share (INR)	330	353	378	408	

### Cash flow statement

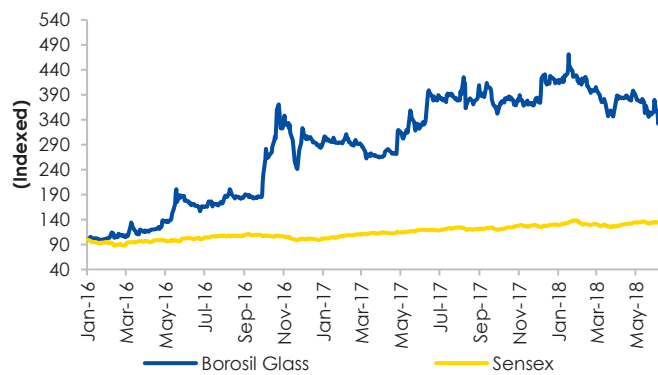
Year to March	FY17	FY18	FY19E	FY20E
Net profit	133	51	76	92
Add: Depreciation	32	37	43	49
Add: Misc expenses written off	-85	82	-13	-13
Add: Deferred tax	4	5	15	14
Add: Others	2	1	-7	-10
Gross cash flow	88	176	114	133
Less: Changes in W. C.	13	-5	20	25
Operating cash flow	75	181	95	108
Less: Capex	35	84	54	80
<b>Free cash flow</b>	<b>40</b>	<b>97</b>	<b>41</b>	<b>28</b>

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Rating	Expected to
Buy	appreciate more than 15% over a 12-month period
Hold	appreciate between 5-15% over a 12-month period
Reduce	Return below 5% over a 12-month period



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