‘We aim to become the largest player in our segments’

VIJAY SHAH, managing director of Piramal Glass, talks to ***P B Jayakumar*** *about the company’s turnaround and how it is poised to become a top player in its areas of operations in the coming years, besides discussing the sale of Piramal’s formulation business, which he had built up. Edited excerpts:*

Q&A

Vijay Shah
MD, Piramal Glass

Piramal Glass had to go through a tough time for the past two-three years. What was the reason?
In 2005, we made an acquisition in the US to access 37 per cent of the global cosmetics and perfumery (C&P) premium market, where 80 per cent of requirement is imported. The company we acquired was only one of the two local manufacturers with 10 per cent market share and it was in losses, with a turnover of $56 million with an inventory of $15 million. We acquired this company for $18 million and had to invest heavily. We knew the turnaround time and integration would be long and it was not easy. Also, we had to invest over Rs 450 crore to create more capacities in India, the US and Sri Lanka, targeting future growth.

The efforts of the past two-three years are now showing and we posted profits in the last financial year. Sales of the US business has grown to $73.1 million in 2009-10 and we have reduced the cost base from $66 million to $56 million.

What will be the future strategy for the US business?
Now we are in a position to aggressively gain share in local markets and will rationalise manufacturing in the US and transition to India. We will also focus on the speciality food and beverage business there, as it is a regional business due to freight.

Piramal Glass has high debts. How will you reduce this?
Our debt at the end of 2009-10 was Rs 982 crore; it was Rs 1,357 crore a year earlier. Our debt to equity ratio has come down to 3.4:1, from 15.4:1 in the previous year. Ebitda (earnings before interest, taxes, depreciation and amortisation) has improved to 21.6 per cent as against 14.8 per cent earlier. We will generate more cash in the coming years, as the company is poised to reap the benefits of our investments in the past. If required, we will raise another Rs 150 crore from a rights issue.

What will be the growth drivers in future?
The premium segment of C&P will be the major growth driver, with an overall growth rate of 10-12 per cent for the company, with a premium segment growth of 40 per cent by 2012. We are the lowest-cost manufacturer globally and the only player from Asia with a marquee client base. We have the manufacturing infrastructure in place and can leverage the investments. In the pharmaceutical and food and beverage space, we will have a right product mix improvement to expand margins and realisations.

What are the growth opportunities in this sector?
The glass packaging market is about $30 billion globally and the areas where we operate are C&P with $2.3 billion, pharmaceuticals with $2 billion, and speciality food and beverages with $1.3 billion. Now we have a share of five per cent in the areas we operate and our aim is to become the largest player in the segments we operate. We are the latest entrant and the fastest growing, with a compounded annual growth rate of 16 per cent over three years.

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You have been with the group for 22 years and played a key role in building the domestic formulation business of Piramal Healthcare. Was it a wise decision to sell the flagship business to Abbott Laboratories?
We realised that survival and future growth for domestic pharma will be difficult in the future, after India implemented the product patent regime in 2005. It would be difficult for generic companies to introduce generic drugs in future. Competition is increasing in the domestic market, with many companies selling volumes at thin margins and many new companies adopting unethical marketing practices to corner market share. Our focus was on the domestic market and it is not easy to suddenly build a branded generic business outside India. It was a great decision to sell off the formulation business for Rs 17,500 crore, at nine times the value of the business.