Vijay Shah, Managing Director, Piramal Glass Ltd.

Hemant P. Maradia / 12:19 , Apr 28, 2010

Vijay Shah, Managing Director, Piramal Glass Ltd., He has a first class in B.Com (1980) and is a rank holder of the Institute of Chartered Accountants of India (May 1981). He has also done a Management Education Programme from IIM, Ahmedabad (1987) and the Advanced Management Program (AMP) from the Harvard Business School, Boston, USA (Nov. 1997). From 1982 to 1987, he was a senior associate at Management Structure & Systems Pvt. Ltd. Mr. Shah joined the Piramal Group in 1988. He started as the head of the Corporate Planning function, and then took over as head of its glass packaging business and later the pharma business. In September 1992, he took over as the Managing Director of Gujarat Glass Ltd. (name changed now to Piramal Glass Ltd.). In August 1999, Mr. Shah took over as Executive Director and Chief Operating Officer of Nicholas Piramal India Ltd. (Name changed to Piramal Healthcare Ltd.). With the acquisition of Glass Group Inc., USA (Oct. 2005) by Piramal Glass Ltd., Mr. Shah has once again assumed overall responsibility for the entire glass packaging business, as its Managing Director.

Piramal Glass Ltd. (PGL, erstwhile Gujarat Glass Ltd.) is a leading global manufacturer of flaconnage (glass containers) for pharmaceuticals, foods & beverages and cosmetics and perfumery industries. The Company had revenues of Rs10bn in FY09. PGL has a global footprint, with manufacturing facilities located in USA, Sri Lanka and India. The Company markets its products to more than 54 countries across the globe. The Company is also the largest producer of nail-polish bottles globally, with more than 30% market share. PGL is part of the Piramal Group, led by Ajay G. Piramal. It is one of India’s foremost business conglomerates. The Piramal Group has interests in a myriad of industries that encompass healthcare, drug discovery & research, diagnostics, glass and real estate. The Group’s turnover exceeded US$900mn in FY09.

The top management of Piramal Glass Ltd. interacted with the analysts recently at their plant at Kosamba (Gujarat). **Hemant P. Maradia** of ***IIFL*** was present on the occasion. Given below are the key takeaways from that interaction. "Piramal Glass says it is going in for more profitable growth. Sales are likely to grow by 10-12% in the next two years."

What prompted you to go global?

Gujarat Glass Ltd. was bought by the Piramal group in 1984. The size at that time was a fifth of what it is today. It was predominantly into Pharma packaging. It was only a domestic player. In 1999, it became No.1 in Pharma with 35% market share.

At that time, the promoters decided to make this a global player. We realised that it would be tough to attain that status with exclusive focus on Pharma. So, we decided to move into C&P business as we found there were manufacturing synergies between the two operations. We entered C&P in 2000. We are today moving more towards C&P.

Kosamba is the global Center of Excellence for the global C&P business. Pharma today accounts for 31% of our total sales while C&P is 42%.

Kosamba is the world's largest producer of nail polish bottles; 33% of the world's nail polish bottles come from this location. Close to 1.1bn pieces of nail polish bottles are produced from this plant. We currently hold about 33% market share. Also, 12% of the world's mass market production comes from Kosamba.

Why are you betting so much on cosmetics & perfumery market?
Cosmetics and Perfumery (C&P) is a very concentrated market. Top five customers account for 50% of the market size. Top 20 customers account for 80% of the market size. The objective of the US acquisition was to get access to customers and knowhow for making premium C&P products. The third reason was referencable portfolio.

The US company was under chapter 11. The company was owned by the Wheaton family. In a matter of 12 years there were five management changes. The company had access to all the top customers for C&P products.

The sales of this company at the time of acquisition were US$56mn. We bought the company for US$18mn. We had to invest in this company to turn things around. Till now we have invested US$75mn.

We have retained the customers and have even improved penetration since the acquisition. Our sales turnover this year is expected to be US$75mn.

Indian assets have also been geared up to cater to these customers. We have transferred some of the US production to India. So, out of this year's US$75mn sales, about US$9mn has come from India. Once this process of shifting US operations to India is over, we will be left only with the speciality F&B operation.

The US accounts for 37% of the C&P market.

Do you expect C&P's share going up in total sales?
C&P's share has gone up, from 19% in FY04 to 37% last year (FY09). It will be 42% this fiscal year and touch 47% in FY12. Within that the mix of premium would be much higher. Premium was 32% in FY09 and in FY10 we are hoping for it to touch 44%.

Give us a sense of the glass packaging market opportunity?
The global market opportunity in glass is US$30bn. But we don't operate in the overall commodity glass space. We address only about US$5.5bn of the total worldwide glass market. We are not in the me-too market but in a very niche market.

What is your USP?
Piramal Glass is the only Asian player while the rest are mostly European, barring a US company. Customers are looking at us as we have the cost advantage. They are also looking at India as an emerging market to sell their products as matured markets like USA and Europe are stagnating.

We feel that our kind of model is not easy to replicate. We have marketing network in about 44 countries, including 10 own offices. Physical capacity is already in place.

Seventeen out of the top 20 customers in the C&P space are buying from us. Around 145 products are at various stages of commercialisation in India and the US. Out of that, 80 plus products have already been commercialized.

We have a huge cost advantage vis-à-vis players in Europe or the US, led by lower labour costs. It is a highly labour-intensive operation and thus we have the advantage of working out of India. High-end skill sets is another plus for us.

To put up new capacity that we have from scratch it will take about five years. Entry barriers are huge. Customer acquisition is one.

What is the outlook going forward?
We have a capacity of 1115 tons per annum across the globe, predominantly in India and close to 200 tons in the USA. We are going for more profitable growth. Sales are likely to grow by 10-12% in the next two years with the existing capacity. Sales in FY10 are estimated to come in at around Rs11bn.

However, in the system we have a reduction to the tune of 80 tons as we are reducing the capacity in the USA.

Our focus is on margin expansion. We are hoping that the EBIDTA margin will go up to 28% from around 8-9% about three years ago. Operating EBIDTA margins for FY10 increased to 21.6% from 14.8% in FY09.

How is your Sri Lankan operation doing?
Sri Lanka acquisition is non-strategic to the company. We bought this public sector, loss-making company in 1999. We acquired this company in Sri Lanka counting on our ability to efficiently run a glass-making plant. We turned around this company in 2002. That company has monopoly in Sri Lanka with 90% market share.

From 2002 to 2005, we did not increase capacity there. But, in 2007 we doubled the capacity to 250 tons from 120 tons. Also, we have shifted from city to an SEZ. So, we have a tax holiday till 2012. The tax will be 10% in 2014.

It is a listed company in Sri Lanka called Piramal Glass Ceylon. We hold about 56% in that company as against 83% at the time of acquisition. We have divested part of the stake. Currently, the enterprise value of that company is close to Rs2.6-2.7bn in the Sri Lankan stock market.

While we shifted to a SEZ, we were left with a parcel of land measuring 21 acres. We are exploring various possibilities. The Sri Lankan arm is into speciality food and beverages segment. After catering to the domestic market in Sri Lanka, we are left with some volume, which we export to India. UB and some wineries are our customers in India.

What are your plans for the Indian operations?
The Indian operation was predominantly catering to the Pharmaceutical industry and was enjoying a 35% market share in the domestic market and 30% EBIDTA margin at some point of time. It is now coming under some strain due to a shift to some other forms of packaging. Also, products like Type 3 Amber glass has become more of a commodity and competition has also increased.

We will gradually scale down the pharma business and focus on exports more. We will try to leverage the US network. After the reduction in the Pharma operations in India, we will be left with about 75 tons of capacity. This will be used up for the C&P business. India will become the hub for C&P business and the entire US operation for C&P will be shifted to India. We have also developed the European business by cashing on the Indian operations.

Indian assets account for 54% of the sales, Sri Lankan assets 14% and USA 32%.

How do you plan to manage the high debt?

The capex of Rs8bn (Rs4.5bn in India and Rs3.5bn in the USA) was funded through debt. Overall, the debt reached Rs13.57bn in FY09. The debt to equity ratio touched 15:1. We launched a rights issue in Sept. 2009 and raised about Rs1.85bn. We have cleared about Rs3.3bn of debt in FY10. So, the net debt in FY10 is expected to come down to Rs10.15bn. The debt-equity has dropped to 4:1. This will fall further in FY12 to 1.8:1.

Have you managed to turn around the US operations?

The US company achieved EBIDTA breakeven as at December 2009. For the full fiscal year (FY10) it will turn cash breakeven.