

Bouncing back

Having staged a turnaround, Piramal Glass now aspires to be a top flaconnage glass maker



PHOTOS: SANJAY BORADE

Piramal: on way to the top

On 12 August 2011, Piramal Glass Ltd (PGL), part of the ₹4,600 crore Ajay Piramal group, announced its results for the first quarter of FY12. While the net sales increased by 14 per cent to ₹317.2 crore from ₹278.3 crore achieved during the corresponding period of the previous year, PGL's (erstwhile Gujarat Glass Ltd) net profit recorded a 78.97 per cent increase to ₹31.5 crore (₹17.6 crore).

For the ninth consecutive quarter, the company has been displaying improved working results. "Our record run has continued to the

quarter ended June 2011 as well. The focus on cosmetics & perfumery (C&P), especially premium, has helped in achieving this result. With a revamp in the capacity, PGL will be the world's second largest C&P bottle producer. We are truly on our way to be among the top three global flaconnage glass companies," says Ajay Piramal, chairman Piramal group. PGL entered the C&P space in 2000 with a foray into the nail polish market and later low mass perfumes. Within a few years, PGL became a dominant player in the nail polish glass bottle market. In FY11, PGL manufactured 1.72 billion pieces,

making one out of every two nail polish bottles manufactured globally. It was in 2007, that PGL entered the premium segment of C&P.

"When, in 1984, we entered the glass business by taking over Gujarat Glass, the company was a laggard," adds Piramal, talking about his early entry into glass. Till the late '90s, the company had a turnover of ₹250 crore mainly with an India focus supplying to the pharma industry. In 1999, Piramal acquired a glass unit – Ceylon Glass in Sri Lanka – which sowed the seeds for him to think of making it an international business and look at exports. "The advantage was that the unit was close to India, but not in India," says Piramal.

The real opportunity came in October 2005, when PGL was a ₹335 crore company. "We got a chance to acquire a US manufacturer, The Glass Group, which was in Chapter 11," explains the 45-year-old Vijay Shah, MD, PGL. Shah, as a young CA, joined the Piramals in 1988 as an executive assistant at the group level. In 1992, he took charge of the Gujarat Glass division of Piramal Healthcare (then Nicholas Piramal), a group company. The turnover of this division (now PGL) was ₹26 crore. In November 1997, he was elevated to the board of Piramal Healthcare, as ED of the glass division. It was this division that was spun off into a separate company in 1998. After having been with the group's glass (1992-99) and the pharma (2000-06) businesses, Shah returned to PGL as MD, at the time of its \$18 million (\$15 million for working capital and the rest towards capital cost) acquisition of Glass Group of the US.

US acquisition

"This acquisition gave us access to new technology, as well as a large customer base in the premium C&P segment (like Elizabeth Arden, Estee Lauder, L'Oreal, Revlon, etc), while also enabling the company's entry into the developed markets," says Shah. Funding the US acquisition was a cakewalk for Piramal, as he viewed the deal as a 'stepping stone' to the US, which was a 'difficult market'.

Contrary to expectations, the very

next year, this acquisition pulled down the balance sheet of PGL. "The integration boosted the top line, but the operational profit margin (EBIDTA-to-sales ratio) dropped and, at net levels, we were in the red," recalls Shah. "The productivity in the US was low and cost was high. We had to turn it around," says Piramal, who was convinced that more investments, an increase in capacity and focus on the niche market together will steer the company out. Despite rising sales, the margins dwindled and, on a consolidated basis, on net sales of ₹778 crore, PGL posted a loss of ₹22 crore in 2007-08. The following year (2008-09) was no better; while sales increased to ₹1,008 crore, the loss widened to ₹107 crore.

"It was a turbulent year (2008-09) in terms of the global economic environment. With an exposure of 74 per cent of our sales to global markets, PGL had to take the brunt. We continued to build on the strategy of developing a strong front end in Western markets, while building a robust manufacturing base in low-cost regions – India and Sri Lanka," says Shah. Simultaneously, as PGL



Shah: value added products pay off

was totting up losses, it had already embarked on a ₹450 crore expansion plan back home.

During these years to 2009, PGL had increased its plant capacity. It commissioned two new furnaces in March and December 2007, at a cost of ₹235 crore, entirely funded through debt. Glass is a continuous process industry and, once the furnace is fired, glass has to continuously be drawn for moulding. Till the market develops, the profitability follows a lopsided curve in which, during the initial period of installation, the contribution would be lower, as glass may be required to be sold to the low end market. However, after some months, the furnaces start yielding better contribution through better product mix and efficiencies.

The manufacturing of flaconage glass is a niche business. It involves small runs and highly specialised technical know-how. This is one of the central reasons which prompted Piramal to acquire The Glass Group.

"On account of the acquisition and the expansion, the debt on the balance sheet was built up," explains Chunduru Srinivas, VP, strategic

Cleaning up

In the financial restructuring process, there was a replacement of debt funds with equity. For this purpose, PGL came out with a rights issue of equity shares in 2009, aggregating ₹188 crore at a price of ₹30 per share (CMP: ₹139) in the ratio of 7:2. This, along with internal cash generation, was used to retire ₹375 crore of debt and thus reduced the interest burden on PGL. "Besides, the business cash flows improved and the company started renegotiating with the lenders, reduced the forex loans and relied more on domestic institutions. From a peak rate of 13 per cent, the borrowing has reduced to around 7.1 per cent," adds Srinivas. Lower gearing as well as a

positive change in the mix of rupee and forex loans helped PGL keep its interest rates under control, despite the high interest rate scenario.

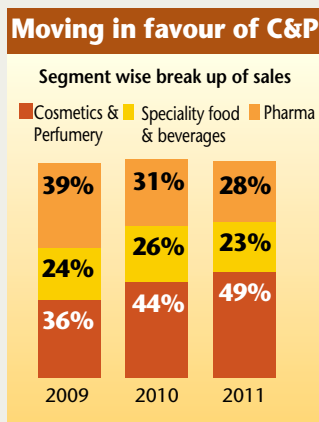
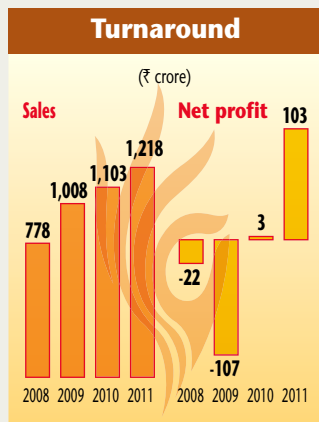
Looking back, Piramal describes FY11 as the year of 'robust performance'. He feels the investments made in the last couple of years have started bearing fruits. The

numbers bear a testimony to Piramal's claim. For the year ended March 2011, on a sales of ₹1,218 crore (up by a mere 10.4 per cent), PGL has posted an operating profit of ₹306 crore, up from ₹220 crore last year, registering a growth of 39 per cent. However, at net levels, the profit has moved at a blistering pace to ₹103.35

crore, from a meagre ₹3.23 crore last year.

The key financial ratios at PGL also mirror the turnaround. Debt to equity has improved to 2.6:1. While the return on capital employed is 15.6 per cent, the return on net worth is 32.4 per cent and asset turnover ratio stands at 1.4 times.

"Led by its strategy of shifting from the low-end pharma segment to the high-margin C&P segment, PGL has turned around its operations in the last two years. Its C&P segment commands an EBIDTA margin of 30 per cent, as compared to 22 per cent in pharmaceutical and 25 per cent in SF&B segments," observes Rohit Agarwal, research analyst, SPA Securities. He feels that, going forward too, C&P revenues would continue to drive the growth of PGL. ♦





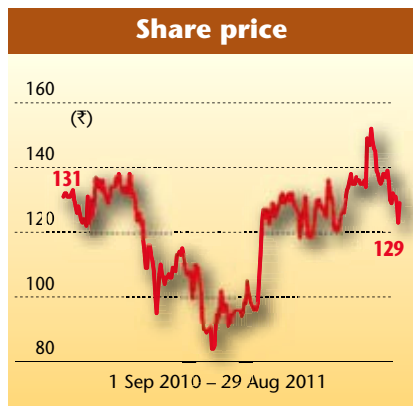
Dedicated to flacommage glass

planning, PGL. By 2008, PGL's debt-to-equity ratio had touched an alarming 15.4:1. The debt was availed from a host of banks like Allahabad Bank, Bank of Baroda, HDFC Bank and ICICI Bank. These banks lent to Piramal, apparently without personal or other corporate guarantees, mainly because he was one of those who had not defaulted even during the time when the textile industry was in the doldrums. However, the US acquisition had saddled PGL's balance sheet with a sizeable debt. The balance sheet required a clean up (see box).

The growth drive

In 2009, the break-up of PGL's topline of ₹1,008 crore was 39 per cent: pharma; 24 per cent: SF&B; and 36 per cent: C&P. Since then, the pattern has changed in favour of C&P, which now constitutes 49 per cent of the 2011 sales of ₹1,218 crore, followed by pharma (28 per cent) and SF&B (23 per cent). "Juggling with the product mix and moving towards value added products in C&P had paid off," says Shah

"Within C&P, the growth driver, also, we have emphasis on marquee global brands in the premium segment. In the last three-four years, we have built a good customer base," adds Piramal. In terms of geographical spread, Asia and the emerging economies (BRIC) contributed 45 per



cent of the sales, while the US's share was 35 per cent and Western Europe's, 20 per cent.

The global market size for glass packaging is estimated at \$30 billion, with moulded glass having the lion's share (\$28 billion) and tubular version the rest (\$2 billion). PGL caters to the \$28 billion market, in which C&P is estimated to be \$2.3 billion, pharma another \$2 billion and SF&B \$1.3 billion.

Traditionally, the C&P glass bottle market has been dominated by European glass majors like SGD (market share: 21 per cent), Pochet (13 per cent), Heinz (12 per cent), and Bormioli Luigi (10 per cent). Most of these players are more than 100 years old. PGL has been able to enter this market, thanks to its US acquisition.

However, in a short span, PGL has come to enjoy a market share of 5 per cent in C&P and is the only player from Asia. It caters to customers like LVMH, Yves Rocher, YSL and Coty, to name a few.

In line with its long-term strategy to shift from commoditised glass packaging to high end, PGL is converting part of its pharma capacity to C&P. The demand is there because C&P are packed in glass and lesser use of plastics, unlike in SF&B. Meanwhile, during the last quarter, a 75 tonne per day (tpd) furnace in Surat was converted, which currently, at 55 tpd, is dedicated to C&P.

"With a view to further enhance C&P sales, we are setting up a ₹100 crore greenfield furnace of 160 tpd by the end of FY12 to meet the increasing demand from this segment. Further, we are realigning four furnaces of pharma to C&P, thereby adding 50 tpd capacity to it at a cost of ₹160 crore. After this, our total capacity for C&P will be 600 tpd, making PGL the second largest manufacturer in the world in terms of capacity," says Shah. Over the next two years, he has planned a capex of ₹260 crore to add 210 tpd of the manufacturing capacity. "The funding will be mainly through internal generation," he says.

Currently, PGL's wholly-owned subsidiary in the US operates two furnaces, with a combined capacity of 195 tpd, catering to SF&B and C&P segments. PGL intends to shift the 85 tpd of C&P to India, as employee cost in the US is much higher than that of India. "This will lead to considerable saving in the operating cost, even after considering the freight cost," he adds. What could act as a dampener and put pressure on margins is the fact that, to produce glass, one of the key raw material is natural gas, which PGL procures from sources like GAIL and Gujarat Gas. In recent times, the price has been rising and a lot depends on PGL's ability to pass it on to the customer.

Lastly, Shah pegs PGL's sales growth at 17-18 per cent CAGR during FY11-13, with EBIDTA margins going over 26 per cent and a debt-to-equity ratio of 1.5:1 by FY13.

♦ LANCELOT JOSEPH