

## Kosamba plant visit note

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- **Plant visit to Kosamba in Gujarat:** We visited Piramal Glass Ltd's (PGL's) manufacturing facility at Kosamba near Surat in Gujarat on Saturday. The visit was organized by the company to demonstrate its modern manufacturing plants, which it believes are one of its competitive advantages over its predominantly European competitors, most of whom are centuries old and have older facilities. All in all, we came back impressed with the quality of the manufacturing facility as well as the personnel at the factory.
- **Description of the facility:** The Kosamba facility has a total manufacturing capacity of 340 tons per day (TPD) of glass bottles, which represents more than 30% of the company's total production capacity of 1,115 TPD. The plant is dedicated to the manufacture of bottles for the cosmetics and perfumery (C&P) and pharmaceuticals business segments. [The company's third business segment is specialty food and beverages (SF&B), for which manufacturing is carried out mainly in Sri Lanka and the US.] The total production capacity of 340 TPD at Kosamba includes 200 TPD of C&P bottles and 140 TPD of pharma bottles. Bottles produced for the C&P segment include Type 3 glass bottles with sizes ranging from 5 ml to 150 ml for nail polish, perfumes, skin care, etc. For the pharma segment, PGL manufactures USP Type I, II and III amber and flint glass bottles and vials. According to the company's engineers, the Kosamba facility is probably unique in terms of the variety of glass bottles that can be manufactured at one location.
- **Operations at the facility:** The factory comprises 6 furnaces, which feed a total of 23 production lines. These are kept operational throughout the year (24 x 7 x 365), as is customary in glass manufacturing. We witnessed first-hand the cutting of molten glass streaming from furnaces into custom-made moulds, following which the glass gobs are subjected to blowing to form the end-product. The facility incorporates manual as well as automated quality assurance processes, and a six sigma initiative is in place. Additionally, the manufacturing operations are supported by mould designing and manufacturing workshops using the relevant software tools. There are regular customer audits to the facilities (multiple audits per month), which PGL believes have been a valuable source of learning for the company. The plant runs on natural gas sourced mainly from GAIL, with furnace oil as backup. Soda ash, procured from Nirma, is the main raw material in the manufacturing process.
- **Revenue growth and EBITDA margin guidance maintained:** During its analyst presentation at Kosamba, the company reiterated its previous guidance of a 10-12% CAGR in revenues from FY09-12E, and an expansion of EBITDA margins to 28% by FY12E. The two principal drivers of the expansion in margins are: (1) a 49% CAGR in revenues from the premium segment of the C&P business, which carries higher margins, and (2) cost savings realized by shifting manufacturing of C&P bottles from the US to India. The company currently has a market share of only 2% in the premium segment of the C&P market, but believes this can grow to 7-8% of the market by March 2012. On the expected shift of manufacturing to India, the company says it has so far shifted only around 15% of C&P capacity in the US to India. However, customers have already approved the shift of another 35%, and PGL expects this shift to happen gradually by FY12E. Based on the company's revenue growth and EBITDA margins expectations, the shares are trading at an EV/EBITDA multiple of 4.6x FY12E. Please see our visit note on the company published on February 22, 2010 for a more detailed description of future growth drivers.

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