# Potential still to be fully realised by glass packaging sector

Despite steady growth in the local beer, spirits, food and pharmaceuticals markets, India's glass container sector continues to register low growth rates, suffering from low capacity utilisation as a number of factors limit glass bottle usage. With an estimated installed capacity of 11,500-12,000 tons/day, the industry is operating at a capacity utilisation of between 72% and 75%. Originally published in *Glass Worldwide*, preferred AIGMF international journal in association with *KANCH*, Sunder Singh presented an overview and pinpointed some of the factors affecting performance.

With an economic growth of approximately 7%, India registered the highest growth rate among the world's major economies. Most of the glass container consuming markets also registered healthy growth rates, ranging from 5% to 14%. Pharmaceuticals, with an overall 14% growth registered, was the healthiest.

Despite, the growth among end-users, the local glass industry registered almost zero growth. India's central government's decision to demonetise the currency, which sucked about 87% of the cash was the single biggest reason. Due to demonetisation, a large section of the population was deprived of cash for a period of more than two months, which impacted the purchase of liquor, soft drinks and packaged food products.

Liquor prohibition in the state of Bihar (110 million people) and a liquor ban on the highways also had a major bearing on the industry's performance, because liquor and beer constitute about 73% of the nation's total glass bottle market in volume terms. In fact, the industry's performance is largely dependent on this market. The high reuse of bottles for beer, spirits and soft drinks was another important factor. And the soft drinks sector, for years an important pillar for Indian glass container producers is shifting towards PET to cut production costs.

## INDUSTRY OVERVIEW

The Indian glass container industry continues to be dominated by four large producers. Hindustan National Glass, AGI Glasspac, Piramal Glass and Can Pack India account for more than 60% of total production. About a dozen mid-scale producers, with capacities ranging between 150 and 300 tons/day, cater for niche segments and regions. In the past 18 months, no major capacity expansion took place. The entry of Heinz Glas and commencement of a second production facility by Gerresheimer were the only bright spots of a lean period.

| Company | 2016-17 | 2015-16 | 2014-15 | 2013-14 | 2012-13 |
|---|---|---|---|---|---|
| HNGL | 20,533 m | 21,620 m | 25,049 m | 19,683 m | 19,843 m |
| Piramal Glass | NA | 13,001 m | 11,922 m | 10,963 m | 10,122 m |
| Haldyn Glass | 1762 m | 1440 m | 1591 m | 1642 m | 1511 m |

Financial performance of three listed glass container producers in India.

## LACKLUSTRE GROWTH

India's economic growth story has led to an expanding middle class, with higher disposable incomes in the hands of a larger section of the population. Much of this shift is resulting in unprecedented consumption, extending from metro cities to second and third tier cities and towns.

There is no doubt that a 1.3 billion strong country with steady economic growth in the last decade represents significant potential for glass container industry development. But the industry has failed to achieve the desired results, particularly in the last three years.

In a report prepared by FICCI and Tata Strategic Management Group (TSMG), the packaging industry in India is expected to reach US$73 billion by 2020 from US$32 billion in 2015. In the same report, the packaging industry is projected to register an 18% annual growth rate.

In 2015, per capita consumption of packaging materials was just 8.6kg, compared to 20kg in China, 42kg in Germany and 71kg in the USA. With India's e-commerce revenues expected to jump from $30 billion in 2016 to $120 billion in 2020, the offtake of well-packaged products is expected to gain momentum. The surge in organised retail and e-commerce is expected to drive this industry, with some 75% of the shoppers between the ages of 15 and 34, who pay close attention to packaging appearance.

## BEER FOCUS

Although the alcohol sector in India has been dominated by spirits in the past, beer is expected to be the largest component for the glass container industry in the future. Currently, beer comprises about 11% of total alcohol consumed in India. It is the preferred alcoholic beverage for young people and has a bright future. It has registered robust growth in the last decade, with consumption having more than doubled.

In 2016, beer consumption stood at 4.6 litres per capita against more than 50 litres per capita in other fast growing economies of Asia. However, a young, burgeoning middle class with rising disposable incomes will lead to greater spending on alcoholic drinks and in particular, beer. This is expected to translate into growing demand for glass bottles.

For beer packaging, glass faces limited competion in the country. Beer consumed in cans has a share of a mere 1.3 % of total volume. However, the high reuse of existing bottles by beer producers is a cause for concern.

## GOODS AND SERVICES TAX

On 1 July 2017, India implemented its biggest tax reform since independence via the Goods and Service Tax. GST is expected to rationalise tax rates for the country's organised sector and enhance business costs for the country's unorganised sector. Its implementation will also result in India emerging as one seamless market from an inter-state tax perspective.

It is too early to quantify the impact of GST on the glass container industry. In fact, the industry is not affected directly but its largest customers, liquor and beer producers, will be impacted due to a rise in input costs. So, in the short and medium term, some pain is expected, as increased input cost for liquor and beer will have a negative bearing on demand for glass packaging.

"Any big, drastic change in the tax structure takes time for people to understand the actual implications" says Shekhar Ramamurthy, Managing Director of India's largest beer maker, United Breweries Ltd. "You know that only once you start operating in the new system."

## BRISK PHARMACEUTICAL DEMAND

Glass packaging consumption for pharmaceuticals is expected to play a major role in the country's glass container industry in the coming years. A number of new investments by different players and expansions by existing producers illustrate this trend.

Glass containers are increasingly preferred by the pharmaceutical sector due to their neutral nature and recyclability. These qualities make them ideal for the storage of medicines, without risking contamination or spoilage. The need for providing improved medical care for a growing population will allow the domestic pharmaceutical sector to clock an annual growth rate of approximately 16% to reach US$55 billion by 2020, which in turn will lead to more demand for glassware.

## GERRESHEIMER STARTS SECOND PLANT

Leading global pharmaceutical glass producer, Gerresheimer has opened its second production facility at Kosamba in the state of Gujarat to make vials and ampoules for local and international customers.

The company's first manufacturing facility (Gerresheimer acquired existing producer, Neutral Glass in 2012) in Kosamba produces primary packaging for the pharmaceuticals industry, while the recently opened factory next door produces vials and ampoules from tubular glass.

## BOROSIL ENTERS SECTOR

India's leading domestic glassware and solar glass producer Borosil entered the container packaging business in 2016 by acquiring a 60.3% shareholding in Nasik-based pharmaceutical glass producer, Klasspack Pvt Ltd. With manufacturing facilities at Nashik, Maharashtra, Klasspack is a producer of glass ampoules and tubular glass vials.

Borosil is a global brand, synonymous with high quality glassware. The company is the market leader for laboratory glassware for India's leading pharmaceutical companies, with plans to combine its technological expertise in specialty glass production with Klasspack's experience in world class glass ampoule and tubular glass vial production to offer customers a reliable partner to source their primary glass packaging.

## VITRUM GLASS MODERNISATION PLANNED

Specialist pharamaceutical glass producer, Vitrum Glass is to undertake a major modernisation exercise. The company has set aside a sum of INR 500 million for the project. Vitrum Glass is a mid-sized producer of amber glass bottles for customers in India and abroad. More than one million bottles/day are produced, in sizes ranging from 5ml to 500ml.

The Vitrum Glass manufacturing facility is located at Vikhroli, Mumbai. The company claims to have a clientele of the best multi-national pharmaceutical companies in India, including Glaxo Smith Kline Pharmaceuticals, Pfizer Ltd, Merck Ltd, Wardex Pharmaceuticals and Cipla Ltd. During 2016-17, Vitrum Glass achieved a total turnover of INR 1395.9 million. The company's exports increased to INR 240.6 million from INR 186.1 million.

## AGI GLASSPAC

One of India's four leading glass container producers, AGI Glasspac has streamlined operations of its recently commissioned production line, which employs NNPB technology. The company introduced 55 new designs and 35 lightweight glass containers during 2016. HSIL invested in a dedicated line for coloured containers and initiated the export of such containers to liquor manufacturers. The company also added two lines for manufacturing small-sized containers, which are registering rapid consumption.

Bucher Emhart Glass and Bottero were among the leading technology suppliers involved in this modernisation exercise.

Discussing current performance, AGI's management commented: "Despite reporting good results in the first half of FY 2016-17, our container glass division could not maintain the growth momentum during the latter part of the year owing to external factors like a continued subdued demand from major soft drinks and liquor manufacturers, demonetisation and the Supreme Court's order banning liquor vending on national highways that affected sales of our container glass products."

In order to offset the downturn in sales, the company is focusing on improving operational efficiencies, the use of value-added products like NNPB, improving and diversifying its product portfolio and customer base to boost sales and profitability.

## HALDYN HEINZ GLASS JOINT VENTURE

Premium glass container producer, Heinz Glas GmbH entered the Indian market during the first half of 2017. Haldyn Heinz Glass is a 50:50 joint venture with existing local producer, Haldyn Glass. The joint venture, which produces premium bottles for the cosmetics industry commenced commercial production in April 2017 from recently established facilities in Kosamba, in the state of Gujarat.

Heinz Glas is a leading premium glass producers for the perfumery and cosmetics industry. Founded in 1622 in Tettau, Germany, Heinz Glas offers customised and decorative flacons and jars, as well as crystal-white, opal and coloured glass containers.

Production equipment for the newly established facility was imported from Heinz Glas headquarters in Kleintettau and the company's manufacturing facilities in Piesau and Działdowo, Poland.

## JANTA GLASS CLOSES FOR MODERNISATION

Mid-sized Janta Glass has recently shut down its glass container operations. Speaking to *Glass Worldwide,* Niraj Mehta, a key executive commented: "The general slowdown in the glass container industry and overcapacity in the market has forced us to shut our operations. We will be restarting in 2018 after modernisation. Currently, we have not finalised the design capacity."

## THE ROAD AHEAD

With a low per capita usage of container glass, increasing purchasing power and rapid rise in the Indian middle classes, the glass container industry is expected to register steady growth in the coming years. India's overall economic outlook is expected to remain in the range of 7% growth for the current and next year (source: Economic Survey of India).

This optimism is based on adoption of the Goods & Service Tax, which promises to make India one unified market. GST will enhance the efficiency of production and movement of goods and services. According to the IMF, India's critical fiscal policy could make an important contribution to bring the nation's medium-term GDP growth momentum to over 8%. GST implementation, India's steady growth and changing lifestyle could prove to be an inflection point for the country's glass container industry.

The entry of multi-national companies in recent years in the packaged foods, beverages and pharmaceutical sectors has led to premieumisation of glass bottles to a significant degree. The adoption of state-of-the-art glass manufacturing technology and supplying at consistent quality will be the key issues for Indian glass container producers, not only to cater for domestic demand but also to increase exports. ■

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