

**CMP: INR 702**

**Rating: BUY**

**Target Price: INR 2,113**

**Stock Info**

BSE	500187
NSE	AGI
Bloomberg	AGIG:IN
Sector	Packaging
Face Value (INR)	2
Mkt Cap (INR Mn)	45,418
52w H/L (INR)	1004/669
Avg Daily Volume (in 000')	167

**Shareholding Pattern %**

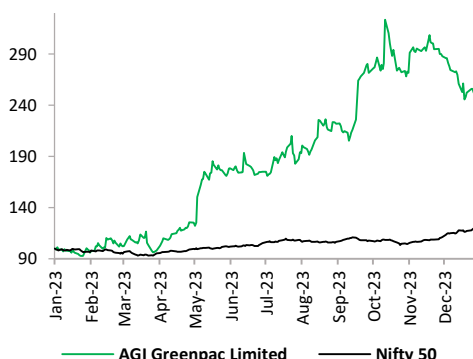
*(As on June, 2023)*

Promoters	60.23
Public & Others	39.77

**Stock Performance (%) 1m 6m 12m**

AGI	-11	43	157
NIFTY	4	11	18

**AGI Vs Nifty**



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We believe there is huge earning upside present in AGI Greenpac as they are in process of acquiring HNG. Post-acquisition, company will become the largest glass manufacturer in India. And once the operations are normalized, the acquisition will provide huge jump to the company's EPS. Based on our preliminary study, company is trading 7.8x FY26EEPS.

There is huge upside potential in the company as HNG's numbers will boost earnings and strengthen AGI's presence in the sector. We believe AGI is an attractive buy with 2-year horizon and a price objective of INR 2,113 (on a base case scenario, stock will trade at 26.11x FY26EEPS), which gives an upside of 197%

**Acquisition:** AGI Greenpac is currently in process of acquiring HNG (Hindustan National Glass) which has **just under 2x operational capacity of AGI**. HNG is currently in IRP and the appeals are being heard in NCLT and NCLAT.

AGI currently has a capacity of 1,854 tpd running at optimum levels. HNG has operational capacity of 3,200 tpd but running at suboptimal levels. **Post-acquisition, the management aims to optimize the utilization levels (increase the volumes) and align the efficiencies (operational and financial) with that of AGI.**

Post-acquisition, the company will become the biggest glass manufacturer in India by capacity. Atop 3,200 tpd capacity, there are additional furnaces with capacity of 1,100 tpd which are not operational. These can be restarted when management feels is the right time.

Brand and scale will help to get better leverage going forward. The company operates on "cost plus absolute" basis which means all the price hikes are passed ahead. Currently, **company has >500 institutional clients including marquee names like Kingfisher, Pepsico, United Spirits, United Breweries, Radico.**

**Recent Highlights:** In Q4, company commenced operations in a new furnace (of 154 tpd) which produces specialty products which has higher realisations and margins as well. In Q1, company underwent relining in one of its furnaces; the furnace is now operational. No existing furnaces are coming up for relining in the next 4-5 years.

**Outlook:** We are positive on the company's standalone performance also. The acquisition will be a big trigger for the company as the size of the company will more than double. The company will work towards improving operational structure and unit economics post acquisition.

With acquisition of HNG, total capacity of AGI will be ~5,050 tpd and utilization will be ~4,454 tpd (excluding 3 shut funaces in HNG with 1100tpd capacity and considering sale of 1 furnace of 400 tpd as required). But with acquisition debt, the total debt will reach INR ~27.3 Bn (excluding capex to be spent later on HNG). Although, as per management, company (HNG) has now turned EBITDA positive. ROI from HNG acquisition is expected in range of 18-24%. No plans to add more capacities in AGI or HNG, stabilization of HNG will take some time. **The only negatives seem to be the debt levels but with the acquisition and the gestation period, company will become #1 in India, #3 in Asia and #5 globally (size wise). We are optimistic on the company. At CMP, company trades 7.8x FY26EEPS**

Link to the Q2FY24 concall KTAs: <https://bit.ly/3H5D2T2>

Link to the Q1FY24 concall KTAs: <https://bit.ly/3E1YbS0>

Link to the Q4FY23 concall KTAs: <https://bit.ly/3veMJvK>

**Management Meet Highlights:****Capacities:**

AGI's current capacities were increased to 1,854 tonnes per day (TPD) from 1,754 due to relining of a furnace. 1,754 tpd includes new specialty glass line of 154 tpd.

Post HNG acquisition, total operational capacity will reach 5,054 tpd and total nameplate capacities will be 6,154 tpd

For AGI, no relining of furnaces coming up in next 4-5 years

For AGI, total available annual capacity utilization is ~560,000 tonnes (at 90% utilization and 92% efficiency) for 1,854 tpd capacity

**HNG Acquisition:**

HNG has 12 furnaces out of which 9 are operational. All furnaces are up for relining (every furnace needs relining after 9-10 years). HNG has capacity of ~4,300 tpd out of which currently ~3,200 tpd is operational and producing only 2600 tpd. This is due to outdated furnaces leading to weaker efficiency (82%) and high costs (fuel requirement is higher due to leakage issues).

Acquisition of HNG would require INR ~20 Bn debt, post acquisition, company will need capex of INR ~5-6 Bn over next 5 years (for relining, increasing efficiency and subsequently utilization).

Debt for acquisition will be taken partially on AGI books (40%) and remainder on HNG books (60%). Cost of debt on borrowings on AGI books will be ~8%, HNG will be higher

By increasing efficiency, company aims to take utilization from 2,600 tpd to 3,000 tpd.

Company will have to sell off one of the operational furnaces (400 tpd) later to abide with CCI requirements. Sale value would be INR ~10 Mn/tonne

HNG furnaces have fuel leakage issues as well. Due to that, they are consuming 1,400 Kcal/Kg while

Company doesn't plan to restart the remainder 3 furnaces for next 3-4 years. The 3 furnaces are shut for ~5 years now. One of the shut furnaces is specialty glass (similar to AGI's 154 tpd) which has capacity of 170 tpd

2 cases were going on in NCLAT against acquisition, 1 is resolved (appellant can approach Supreme court). Other case resolution is expected very soon (and highly likely in company's favor). If all goes through well, acquisition will be completed in 2-3 months

**AGI Greenpac Other KTAs:**

7-8% of total sales from pharma contribution (but operational in lower band of pharma products)

AGI has 92% efficiency, HNG has 82% efficiency. Post acquisition, AGI will work towards bringing HNG efficiency to 90%+

Company spent INR 2.5 Bn for specialty glass line (154 tpd). Current EBITDA per tonne from specialty glass at INR 10,000/tonne which can increase to INR 15,000/tonne as line stabilizes (over 1-2 years)

Currently company has 18% market share in liquor sales in India, post HNG acquisition, it will move up to 55%.

**Other KTAs:**

20-22% of production cost is fuel itself

Replacement cost currently at INR 13 Mn/tonne (for furnace)

Comparative peers are Piramal Glass and Haldyn Glass

Overall market size is INR ~83 Bn (including soft drinks, food, liquor, pharma)

Beer bottles can be recycled 8-9x. Use of tin cans in beer increases as per capita income increases. Growth in liquor segment is 1.3x of GDP growth

Cost to reline 500 tonne furnace will be INR ~1 Bn

Volume wise inputs, to make 1 tonne of glass, 7-8% is soda ash, 20-25% is fuel, ~40% is cullet (recycled glass), sand 7-8%

Pricing with clients currently (for AGI) is 60% contract based and 40% open market. Contract based pricing pass on will take place with 1 quarter lag. Pricing in HNG is 100% open market.

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**Glass Container market:**

The global container glass market size stood at 63.4 USD billion in 2022 and is anticipated to reach USD 78.4 billion by 2026 at a CAGR of 5.46%, predominantly driven by the increasing demand for Alcoholic Beverages, Food and Pharmaceutical. Asia-Pacific excluding the Japan (APEJ) has the largest demand market, followed by Europe and the Americas. In terms of production too, APEJ is the major producer and exporter of glass containers followed by Europe.

The glass cosmetic bottle market in India is expected to grow at a CAGR of 5.5% between 2022- 2032.

In 2022, the size of the beer market in India was `383.6 billion. The market is expected to grow at a CAGR of 8.1% between 2023 and 2028, reaching `622.4 billion by 2028. It is expected that the Indian alcohol market will experience a CAGR of 7.4%, resulting in a total value of approximately US\$68 billion by the end of 2026. The rise in popularity of pub and cocktail culture in metros has boosted the demand for alcoholic beverages in India, thereby driving the growth of the market.

**The capacity of organized players in the Indian Market stood close to 9,600 tonnes per day. Organised players include Piramal Glass, HNG, AGI Greenpac and Haldyn Glass.**

**AGI Greenpac Q3FY24 Concall Highlights:**

**CMP: INR 855 | Market Cap: INR 55.34 Bn | Promoter: 60.23% | Target: INR 2,113**

**Performance (Consol)**

- Revenue came in at INR 6.22 Bn (+1.1% QoQ) (+9.7% YoY)
- EBITDA came in at INR 1.50 Bn (+11.9% QoQ) (+37.1% YoY)
- EBITDA Margins came in at 24.14% (Vs 21.8% QoQ) (Vs 19.31% YoY)
- PAT came in at INR 671.2 Mn (+19.6% QoQ) (+26.1% YoY)
- PAT Margins came in at 10.7% (Vs 9.1% QoQ) (Vs 9.3% YoY)

**Key Highlights of the call:**

- Net debt stood at INR 5.85 Bn. Total utilization at 95%+
- EBITDA margin expansion due to increase in operating efficiencies, not due to increase in capacities
- Company will undertake debottlenecking of 1 furnace in Q3FY25 through which the total capacity will increase by 80 tonnes. The plant will be shut for 75 days
- Current capex plans of INR 1.5 Bn (mainly for the debottlenecking)
- Realisations peaked earlier, performance coming to normalcy now. EBITDA/tonne to be maintained at INR 9,400-10,000
- YoY 9MFY24 EBITDA per tonne grew 30%
- Price adjustments with customers happen in 4-6 months. 60-70% of pricing with customers is formula based and remainder is based on market conditions (negotiations)
- Current increase in topline due to quantitative (Volume) and qualitative (product mix) debottlenecking
- Company is entering western markets. Soda ash procured from China and Africa

**HNG Acquisition:**

- Next hearing on 9th Feb. Last hearing was on 16th October, no hearing has happened post that.
- Listing dates keep appearing but no hearing till now
- Primarily acquisition through debt
- SBI selling their debt to ARC will not affect the acquisition process

**Specialised plant:**

- No capex planned at the specialized unit right now
- specialized unit utilization at 65-70%
- Furnace will take time to reach optimum utilization (yet to load completely), expect 90% plus utilization by end of FY25 (the costs may also be high)
- No more capacity utilization till plant is at 95% CU

**Outlook:** Plant which is going through debottlenecking process is of 270 tonnes and restart with 340 tonnes capacity. Most of the profits generated will go towards debt payoff. Guidance for current year trimmed to 12-13% from 15-18% earlier. 6-8% volume guidance for FY25. EBITDA margin guidance maintained at 21-23% going forward. We have a target price of INR 2112 for the company which is contingent on successful acquisition of HNG. At CMP, company trades 10.6x FY26EEPS and 10.3x TTM EV/EBITDA

**AGI Greenpac Q2FY24 Concall KTAs****CMP: INR 899 | Market Cap: INR 58.1 Bn | Promoter: 60.24%****Overview: Decent set of results overall, acquisition completion expected in 3-4 months**

- **Revenue** came in at INR 6.15 Bn (+10.2% QoQ) (+20.1% YoY)
- **EBITDA** came in at INR 1.34 Bn (+2% QoQ) (+58% YoY)
- **EBITDA Margins** came in at 21.8% (Vs 23.56% QoQ) (Vs 16.57% YoY)
- **PAT** came in at INR 561.4 Mn (-11.6% QoQ) (+65.4% YoY)
- **PAT Margins** came in at 9.1% (Vs 11.2% QoQ) (Vs 6.6% YoY)

**Capacity and Capex:**

- Current capacity utilisation at 95% (of 1700 tpd)
- The specialty line is running at 60-65% CU (154 tpd)
- No plans for organic growth now before completing inorganic growth
- 1 furnace is coming up for relining next year where company can add 50-100 tpd capacity
- For HNG, company won NCLAT order and case is pending to be admitted by supreme court (2 cases)
- Expect another 3-4 months for completion

**Operating & Business Highlights:**

- Realisations are seasonal, company aims to generate 21-23% margins
- RM and input prices have softened so benefits had been passed on to clients (more like price adjustments)
- PETs and closures have capacity of generating INR 2.5-3 Bn in topline annually
- Other expenses were higher in the quarter due to legal expenses (litigation costs) which will not be as high in the coming quarters but will continue till the acquisition
- Post acquisition and relining of HNG furnaces, company will be able to generate revenue of INR 55 Bn (in 2-3 years)
- The debt levels will rise to INR 25 Bn in 2-3 years

**Other KTAs:**

- Unorganised segment is also significant, imports in the country are also decent
- Company has 17-18% market share in organised segment
- Global capacity is 60 Mn tonne which will reach 75 mn tonnes in a few years
- HNG does not have float glass capacity, only container glass
- HNG total output is 2300-2600 tonnes
- Company forayed into export markets such as EU, Canada and South Africa

**Outlook & Valuations:**

Company aims to deliver 15-18% growth in topline with 21-23% margins. Peak debt levels to rise to INR 25 Bn going forward (post acquisition) and company expects topline to be INR 55 Bn in 2-3 years (considering relining). We have no changes in our estimates, we continue to remain positive on the stock with a BUY rating and target price of INR 2,112. At CMP, company trades 11.5x TTM EV/EBITDA and 20.7x TTM EPS

AGI Greenpac – Q1FY24 Concall KTAs

CMP: INR 496 | Market Cap: INR 32 Bn | Promoter: 60.24%

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**Operational Performance:**

Revenues came in at INR 5.6 Bn (-17.9% QoQ) (+7.1% YoY)

EBITDA Margins came in at 23.56% (Vs 26% QoQ) (Vs 17.3% YoY)

**Planned shutdown:**

- The company implemented planned shutdown of its 325 TPD furnace for relining in Q1 because of which the performance was impacted.
- Excluding shut capacity, CU was 90%
- Company lost 25k tonnes production availability due to planned shutdown (equivalent to INR 800 Mn in value)

**Performance Metrics:**

- Realizations of INR 37-38 per Kg and EBITDA margins of INR 10 per Kg
- 50-60% of customers are on formula based pricing (changes in realizations based on changes in input costs)
- Prices of Soda Ash are falling which will impact realizations as they have to pass the cost benefits. Silica sand cost has not come down yet.
- Interest cost of higher on account of loan for new 154 tonne furnace, ECB exchange fluctuation loss and rising interest rate. At present, cost of debt at 7.75%
- Finance cost to remain in same range (increase of INR 10 Mn expected in Q2)

**Value Add:**

- Company has started 154tonne per day furnace which is in high end perfume bottles and high end liquor
- Coloured bottles for global players
- Value add glass bottles have 1.7-1.8x realisations of normal bottles (i.e. INR 37/Kg)
- Specialty glass Capacity utilization at 65-70%

**Other KTAs:**

- Beer bottle is a big part of the portfolio, soft drinks is a smaller portion
- Q1 and Q4 are seasonally strong
- Hindustan Glass acquisition will substantially increase company's capacity. Expectations of deal clearing by Q3
- Net debt levels at INR 5.66 Bn in Q1FY24
- Substantial investments in digitalisation and automation have been made to optimise the operations to improve the efficiency.
- Glass packaging demand arising from beverages, spirits, cosmetics, pharmaceuticals, and gourmet foods
- Many craft distillers & brewers opt for distinctive glass bottles

**Industry outlook:**

- Alcoholic Beverages: Liquor segment is growing at a CAGR of 8-9%. Beer market is expected to grow at 9-10% between FY2022-27
- Food and Soft drink: FMCG market is expected to grow at 14-15% between 2020-25.
- Cosmetic & Perfume: India Cosmetics Market is expected to grow at a CAGR of 16.39% through FY2026 to reach USD 28.9 Bn. Fragrance market in India is expected to expand at a CAGR of ~15.93%, from its 2019 value of INR 66.58 Bn.

**Outlook:** Capacity utilization is expected to be at optimum levels which translates to volume growth to be approx. 10% in FY24. Revenue growth of 15-20% expected in FY24. We believe with the acquisition of Hindustan Glassworks, the total capacity will increase significantly for the company. The new facility which went online in Q1 is in specialty products which have higher realisations and the relining of 325tpm furnace is completed as well. As per our understanding, the performance will improve QoQ from here on although keeping in mind the input cost movement. At CMP, the company trades 15.9x TTM EPS of INR 40.08.

AGI Greenpac – Q4FY23 Concall KTAs

CMP: INR 496 | Market Cap: INR 32 Bn | Promoter: 60.24%

[Arihant Capital]

**Operational Performance:**

**Revenues** came in at INR 6,803 Mn (+19.9% QoQ) (+57.6% YoY)

**EBITDA Margins** came in at 26% (Vs 19.3% QoQ) (Vs 16.6% YoY)

**PAT Margins** came in at 13.7% (Vs 9.33% QoQ) (Vs 8.4% YoY)

**Company posted a strong set of numbers on back of strong operational efficiencies. Volumes were driven by Alcoholic and Non Alcoholic beverages glass container segment doing good.**

**Bhongir Plant:**

- Specialised glass unit has capacity of 154 tonnes per day and started production on 1<sup>st</sup> Jan 2023. **Utilisation** for the quarter stood at 60%. Plant will cater to pharma, cosmetics, high end liquor etc in export market (North America, Europe and South Africa). **Plant is profitable at current utilization levels.**
- Company cannot increase capacity of specialized glass significantly as the market is still small and they still have to assess the scope. Moreover, due to technicality, they cannot install a large facility yet.

**Margins:**

- Company expects to maintain the current margins. Strong performance was credited to better operating efficiencies, improved product mix and constant cost optimization.

**Capex:**

- Company has planned capex for FY24 to the tune of INR 2 Bn to debottleneck and increase capacity in 1 of its furnace. **This will increase capacity from 1,754 tonnes per day to 1,854 tonnes per day.**

**Other KTAs:**

- **Realizations** keep changing daily and weekly. Company operates on fixed based pricing system with price revision 3-6-12 months depending on the clients.
- **Average realizations** currently at 35,000 – 37,000 per tonne (for container glass). Aspire to have realisations of INR 50,000 per tonne with specialized glass.
- **RM** includes Furnace Oil (not correlated to crude oil prices), Silica Sand (prices gone up), Soda Ash (minor fall in prices), Coal, Gas.
- Declared INR 5 **dividend**.
- Company sold its building products segment in Q4FY22
- Glass containers contributed 92% of revenues for FY23. Alcoholic Beverages contributed 75% of glass container revenues.
- For the full year, **capacity utilization** was at 96%. Q4 Capacity Utilization was at 99%
- Liquor Vs non-liquor segment has 1-2% difference in EBITDA per tonne
- Company can't discuss on HNG acquisition due to confidentiality. Case is still pending in NCLT.

**Outlook:** Due to debottlenecking procedure, 1 furnace (of capacity 325 tpd) will be available in Q1FY24 and will come back online in Q2. But it is expected for the remainder capacities to run at 100% utilization with improved margins. Company still aims to grow 15-20% every year. At CMP, company trades 12.27x FY23EPS.

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Stock Rating Scale	Absolute Return
BUY	>20%
ACCUMULATE	12% to 20%
HOLD	5% to 12%
NEUTRAL	-5% to 5%
REDUCE	-5% to -12%
SELL	<-12%

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