

AGI Greenpac - Management Meet KTAs (15.09.2023)
CMP: INR 702 | Market Cap: INR 45.4 Bn | Promoter: 60.24%

[Arihant Capital]

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 This is due to outdated furnaces leading to weaker efficiency (82%) and high costs (fuel requirement is higher due to leakage issues).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.

Outlook:

With acquisition of HNG, total capacity of AGI will be ~5,050 tpd and utilization will be ~4,454 tpd (excluding 3 shut furnaces 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 cautiously optimistic on the company. At CMP, company trades 18.4x TTM EPS**