

Aggressive on volumes, competitive in margins

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 %

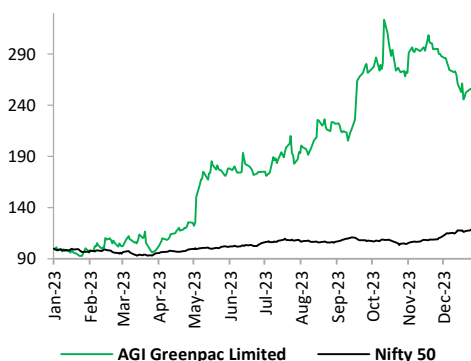
(As on June, 2023)

| | |
|-----------------|-------|
| 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 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 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/3E1YbSO>

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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Stock Rating Scale

| | |
|------------|-------------|
| BUY | >20% |
| ACCUMULATE | 12% to 20% |
| HOLD | 5% to 12% |
| NEUTRAL | -5% to 5% |
| REDUCE | -5% to -12% |
| SELL | <-12% |

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