

pee Aar

The Financial People
SINCE 1995



AGI GREENPAC

RESEARCH REPORT AS ON 26-12-2022



Mkt cap - 2.08TCr
CMP : 305.5 INR

Common Stocks and Uncommon Profits

BY: HIMANSHI KHOSLA
(FUNDAMENTAL RESEARCH ANALYST)

INTRODUCTION

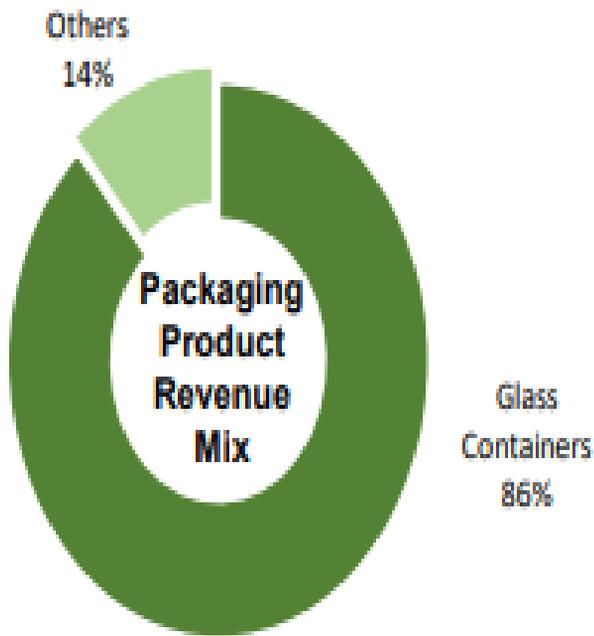
- **AGI Greenpac is formerly known as HSIL Ltd.**
- It was established in 1981 with an opulent manufacturing legacy of packaging products business having a core value of excellence arise in Telangana-Hyderabad.
- AGI Greenpac is one of the **leading glass manufacturers in the country** and the largest glass manufacturer in the South catering to almost 75% of region's demand. It accounts for 20% of total glass production of the country.
- It supplies glass containers in the south Indian region to marquee institutional investors like Coca-Cola, Pepsi, Carlsberg, Himalaya, Dabur, Heinz, Sun Pharma, Bacardi, Glenmark, GlaxoSmithKline, Pfizer, Nestle, Parle, HUL, etc.
- It is engaged in the production of various packaging products including glass containers, speciality glass, polyethylene terephthalate (PET) bottles & products, and security caps & closures. With excellence in manufacturing glass products and 40+ years of experience as India's leading glass container manufacturer.

HISTORY

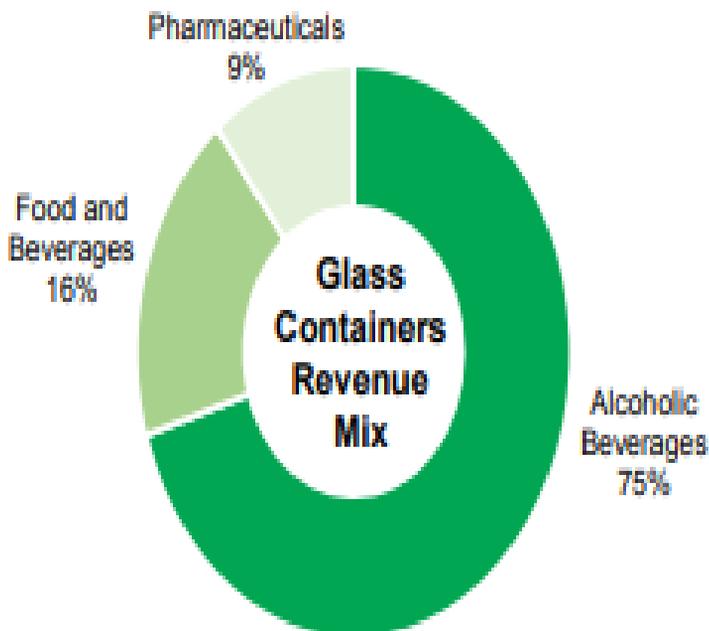
- The Company was incorporated as Hindustan Twyfords Ltd. in 1960 by the Somany family (promoter group) and later expanded to glass bottles and containers manufacturing in 1972 by the acquisition of Associated Glass Industries Ltd. (AGI)
- The Company changed its name to Hindustan Sanitaryware & Industries Limited in 1969 and had since been popularly known as 'HSIL'.
- In March 2009, the company name changed to HSIL Limited. HSIL is engaged in the business of manufacturing, selling and trading of Building products and Packaging products.
- It demerged its Consumer products and Retail business into a new company namely Somany Home Innovations Limited (NSE:SHIL)
- Indian packaging company HSIL Limited has changed its name to AGI Greenpac. The name change is a part of the company's transformational journey and with the completion of the divestment of the Building Products Division in March 2022, the company has become a focused packaging player.

INDUSTRY OVERVIEW

- The Indian container glass market is expected to register a CAGR of 6.78% during the forecast period of 2022-2027. The glass container's higher content of water-insoluble oxides imparts slightly higher chemical durability against water, which is required to store beverages and food. Low per capita container glass consumption in India provides tremendous growth opportunities.
- The increased alcohol consumption in India has contributed to the significant increase in the growth rate of the container glass market in India. The container glass has the most abundant adoption in the Liquor industry, and thus, the growth rate of the Liquor industry directly impacts the glass container market in India.
- The ban on plastic in regions like India and other countries has also contributed significantly to the container. Due to glass containers being a direct substitute for plastic containers, the ban on plastics has made the industries see glass as the primary replacement as the emerging packaging material.



- AGI Greenpac is the second-largest glass container company in India and account for around 20% market share of India's organised glass packaging industry



- The major revenue of the company comes from Alcoholic Beverages glass container.

Note: Figures as of FY22



AGI Glaspac



Products

Containers and bottles

Soft drink

Beer

Liquor

Wine

Pharma

Chemicals

Retail

FMCG

Cosmetics

Perfumery

Food jars



Industries Served

Beverages

Liquor

Wine

Beer

Pharmaceuticals

Cosmetic

Personal care



Manufacturing Plants

Bhongir, Telangana

Speciality glass
manufacturing facility
at Bhongir, Telangana

Sanathnagar,
Hyderabad, Telangana



Capacities (Per day)

950 tonnes

154 tonnes*

650 tonnes

*Under Trial Production

AGI Plastek

Products

PET bottles

High Density

Polyethylene
(HDPE) bottles

Polypropylene
(PP) products

Industries Served

Alcoholic beverages

Liquor

Pharmaceuticals

Dairy

Agro chemicals

Personal care

Polyvinyl chloride
(PVC) cistern and
seat covers

Manufacturing Plants

Selaqui, Uttarakhand

Sangareddy, Telangana

Dharwad, Karnataka

Capacities (Per annum)

2,659 tonnes

2,313 tonnes

5,284 tonnes

- AGI glaspac established in the year 1972, is engaged in the manufacture of high-quality glass containers to meet the stringent and demanding quality standards for the packaging needs of **Food, Pharmaceuticals, Soft Drinks, Spirits, Beer, Wine, Cosmetics and other industries.**
- With Hyderabad and Bhongir facilities put together, AGI melts 1600+ tonnes of glass per day.
- AGI has played pivotal role in the development of glass containers for many critical packaging applications. Over the many years of operations, the Company has built up an excellent reputation in terms of providing excellent quality products and caters to a large and demanding customer base with a product range covering Flint, Amber and Green containers.
- With four furnaces, today AGI can commit availability of Flint, Amber and Green glass throughout the year. The product range varies from a small 5 ml Pharma bottle to a 4000 ml Chemical / Food jars

AGI PLASTEK

- AGI plastek Formerly know as Garden Polymers acquired by AGI greenpac Ltd in August 2011, it is now part of Packing Product Division of AGI greenpac Ltd.
- AGI Plastek is the leading supplier of PET bottles to the Health Care Industry in India. Almost every major player in Pharma uses PET bottles manufactured by AGI Plastek. In addition, Garden Polymers is the major supplier of PET bottles to the personal care and Alcobeverage industry.
- The global PET bottle market reached a value of US\$39.7 billion in 2021. IMARC Group expects the market to reach US\$ 52 billion by 2027, showing a CAGR of 4.46% during 2022-2027.
- The PET bottle market is fragmented, and several players occupy the market share. PET is used for encasing products such as beverages, food, and others. They weigh lesser than alternate forms of packaging material and are preferred across various end-user industries for reduced transportation emissions and resources in the supply chain.
- However, stringent government regulations and policies on the use of plastics are hindering the single use PET bottle market growth.

Customers



500+ Diversified institutional clients across industries



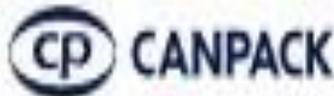
500+ Diversified institutional clients across industries



TO BUILD A FOCUSED PACKAGING COMPANY, AGI GREENPAC SOLD ITS BUILDING PRODUCTS DIVISION

- During the year, AGI Greenpac through a slump sale sold its Building Products manufacturing business undertaking to Hindware Limited (erstwhile Brilloca Limited) for a total consideration of 630 crore (subject to closing date adjustments).
- Now, AGI Greenpac is a focused packaging company. Slump sale proceeds will be utilised towards the prepayment of existing borrowings which will further strengthen the AGI Greenpac balance sheet and create capital to further expand its packaging business.
- 100 crore Advance is received from Hindware limited for slump sale this year.

THE MARKET IN INDIA IS CONSOLIDATED WITH FEW PLAYERS HAVING A MAJOR SHARE OF THE MARKET.



GLASS GROUP Haldyn Glass Limited

GROWTH OPPORTUNITIES

- Increased Liquor Consumption in India is Contributing Significantly to the Market Growth.
- According to WHO, the alcohol consumption per capita (in liters of pure alcohol) in India is 3.12 liters of pure alcohol in 2021 and is expected to reach 3.2 liters of pure alcohol in 2025.
- Moreover, ICRIER (Indian Council for Research on International Economic Relations) said over 70 percent of the growth in alcoholic beverage consumption in India in the next decade would be driven by the lower middle and upper middle-income groups, and there is a growing trend towards product premiumization.
- This states that the demand for alcoholic beverages in India is growing, which will positively impact the demand for Indian container glasses.

- Due to the plastic ban initiatives launched by the Indian Government, the usage of plastic beverage bottles has been restricted. This has led the beverage industry manufacturers to search for alternatives, and most of them have viewed Glass as an ideal replacement.
- Soft drinks are the biggest pillar on which the business of non-alcoholic drinks rests. Glass bottles retain a 35 percent share of sales for Coke in India. In some markets, glass bottles now make up 30% of beverage sales, according to Coca-Cola.
- Moreover, it is expected that many beverages will use glass bottles, especially the drinks of some large manufacturers, which have been decorated with glass bottles. The main factor for the user will be that when glass bottles are used as packaging containers for juice or other drinks, there is almost no dissolution from container materials. Compared with other containers, glass bottles have good chemical stability and durability. All these factors will support growth for the market in the forecast timeframe.

KEY RISKS

- Environmental factor: The main hindrance to the market growth is the higher carbon footprint Glass manufacturing requires a high-temperature, energy-intensive process, with furnace temperatures up to 1,300°C to 1,650°C and flames up to 2,000°C.

The stringent government regulations and policies on the use of plastics are hindering the single use PET bottle market growth.

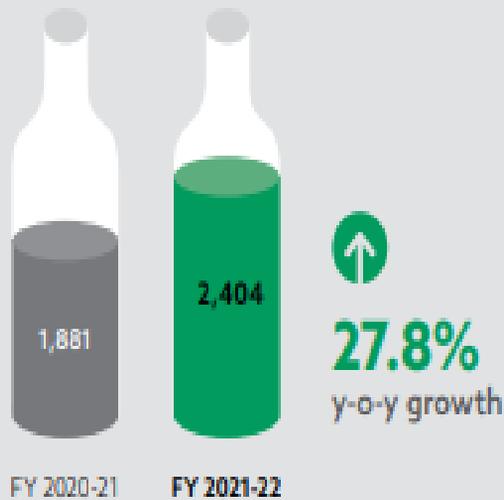
With recent findings of plastic negative effects on the environment and human health, several governments have outlawed its usage. Many portions of the country, particularly the urban areas, have implemented such limits.

- Difficulty in Transportation: Glass bottles were once widely used in India, but the introduction of plastic bottles and containers forced glass bottles to take a second seat. Plastic bottles were less expensive and did not break due to an accidental fall or external impact like brittle glass bottles.
- COVID Impact: Due to the covid scenario, all major clients ran at a reduced capacity of alcohol production in line with Ministry of Home Affairs guidelines. The reduced household income adding to the reduced demand, has affected the demand for container glass, majorly in the beverage segment.

- Commodity risk : The Company is exposed to the movement in the price of key raw material in the domestic and international markets.
- Alcoholic beverages, which traditionally relied on glass packaging are slowly moving to PET and tetra packs because of convenience and sustainability reasons. Tetra Pack emerging as preferred packaging for alcohol in Karnataka. After states like Karnataka, Andhra Pradesh and Maharashtra, Delhi has also started selling liquors in tetra packs.
- Between FY'18 and FY'22 the share of glass has dropped as the market witnessed a paradigm shift from glass to other materials particularly metal and tetrapack.
Shift in the Trend: Customer Preference is shifting from glass packaging to Tetra pack packaging and is expected to shift further in forthcoming years.
- The market is expected to witness enhancing use of Tetra Pak over long term as well as it is also one of the fastest growing packaging segments.

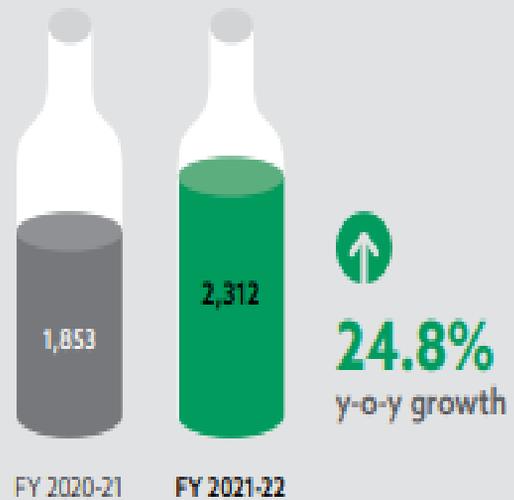
TOTAL INCOME

(₹ in crore)



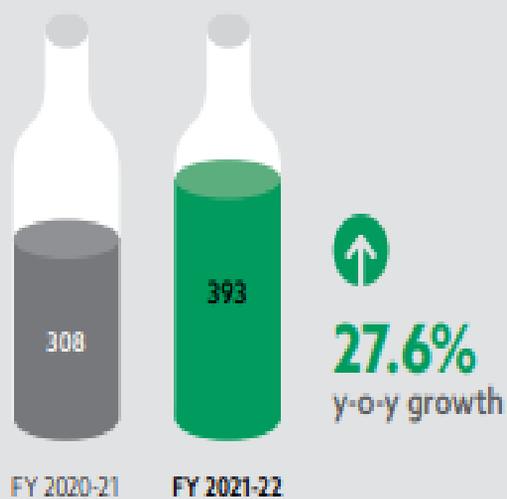
REVENUE FROM OPERATIONS

(₹ in crore)



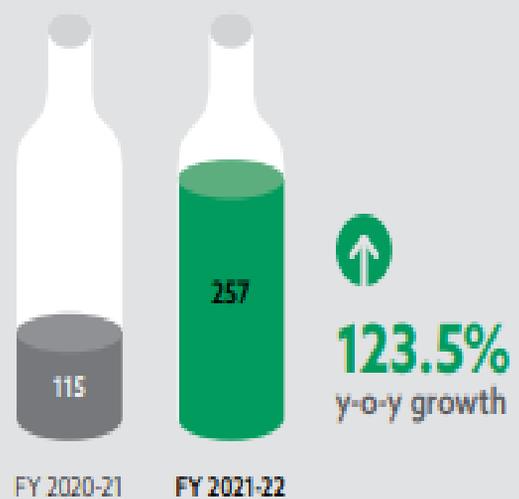
EBITDA

(₹ in crore)



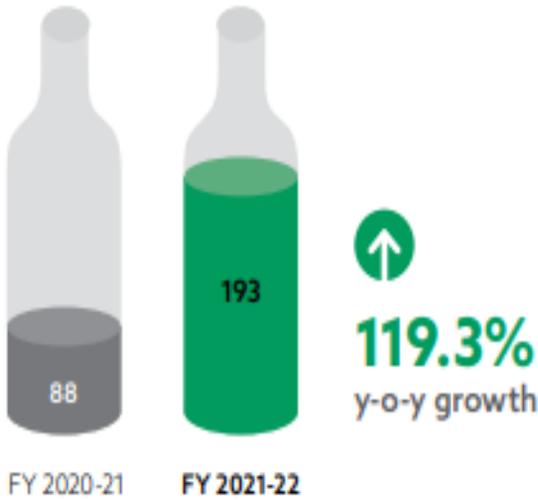
PROFIT BEFORE TAX

(₹ in crore)



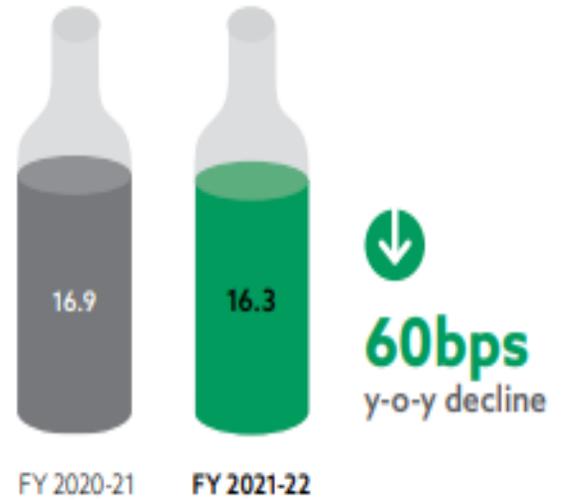
PROFIT AFTER TAX

(₹ in crore)



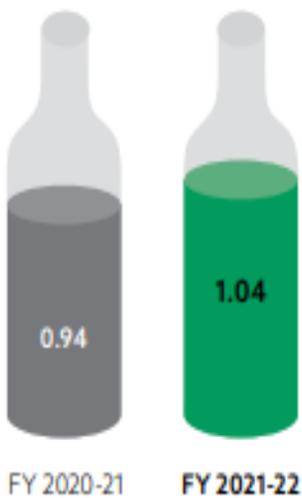
EBITDA MARGIN

(%)



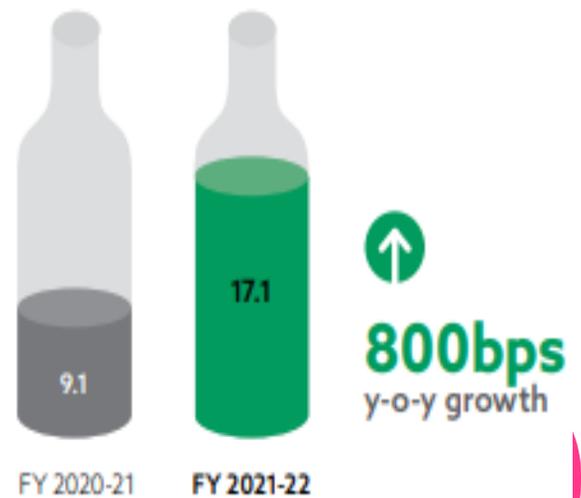
DEBT EQUITY RATIO

(times)



RETURN ON NET WORTH

(%)



KEY RATIOS

S No. Particulars	As at 31 March 2022	As at 31 March 2021	Variance (%)
(i) Current Ratio (times) Total current assets / Total current liabilities	1.84	1.34	38
(ii) Total Debts to Equity Ratio (times) (Non-current borrowings + Current borrowings) / Net worth Non Current borrowings includes deferred government grant Net worth = Equity share capital + Securities premium account + General reserve + Retained earnings+ Capital redemption reserve+Actuarial gain/(loss)	1.04	0.94	10
(iii) Debt Service Coverage Ratio (times)* (Profit after Tax + Depreciation + Interest on loan + Loss/(gain) on sale of property,plant and equipment) / (Interest on loan + Loan and lease repayment)	2.47	2.17	14
(iv) Return on Equity (%) (Profit for the year / Net worth) Net worth = Equity share capital + Securities premium account + General reserve + Retained earnings+ Capital redemption reserve+Actuarial gain/(loss)	17.14	9.18	87
(v) Inventory Turnover (times)^ (Cost of goods sold / Average inventories)	1.53	1.82	-16

S No. Particulars	As at 31 March 2022	As at 31 March 2021	Variance (%)
(vi) Trade Receivables Turnover (times) [^] (Revenue from Operations / Average trade receivables)	4.70	6.07	-23
(vii) Trade Payables Turnover (times) [^] (Total Purchases / Average trade payables)	5.57	5.94	-6
(viii) Net Capital Turnover (times) [^] (Revenue from Operations / Average working capital) Working capital = Current assets - Current liabilities	3.67	7.42	-51
(ix) Net Profit Ratio (%) [*] (Profit for the year / Revenue from operations)	8.36	4.75	76
(x) Return on Capital Employed (%) [*] (Earnings before interest and tax / Capital employed) Capital employed = Net worth + Borrowings + Deferred tax liability - Other intangible assets	12.64	8.81	43

* Includes discontinued operations

[^] Current year ratio is based upon continuing operations only

FINANCIALS

- As of September 2022, company promoters held 60.24% stake in AGI GREENPAC, with no shares having been pledged.
- Over the last one year, AGI GREENPAC share price has moved up from Rs 211.0 to Rs 319.6, registering a gain of 108.6 or around 51.48%.
- The Revenue growth was supported by an increase in glass containers packaging volume of 23% compared to Q2 FY22. The demand from the beer and liquor industries contributed around 74% to revenue in this quarter.
- The weighted average cost of debt on 31st March was somewhere around 5.38% and which is now at 6.33%. This is a mix of Rupee and forex both because even the effective LIBOR rate has started firming up now. And still, if the trajectory of the repo rate increase is still there, it will further increase with this because most of AGI Greenpac Limited rupee term loans are linked with the repo rate and even working capital facilities, they ultimately get linked to the short-term interest rates.
- Quarterly Net Profit at Rs. 33.96 crore in September 2022 up 11.67% from Rs. 30.41 crore in September 2021.
- EBITDA stands at Rs. 87.39 crore in September 2022 down 3.71% from Rs. 90.76 crore in September 2021.

BORROWINGS

(₹ in lakh)

Particulars	As at 31 March 2022	As at 31 March 2021
Measured at amortised cost		
Secured:		
Term loans from banks:		
Foreign currency loans*	23,500.20	26,461.69
Rupee loans**	74,455.09	47,691.18
	97,955.29	74,152.87
Unsecured:		
Deferred payment liabilities^#	2,249.57	2,564.46
	2,249.57	2,564.46
	1,00,204.86	76,717.33
Less: Current maturities of long term borrowings	13,839.91	9,177.62
	86,364.95	67,539.71

Debt to Equity Ratio of AGI has grown by 10% compared to previous Financial year.

Debt to Equity Ratio shows the relationship between the company 's total debt and shareholder fund. And it indicates the ability of a company's shareholder equity to pay its debt obligations in a tough time. Lower the ratio, better it is. Generally Debt to Equity Ratio below 1 is considered good. AGI has Debt to Equity Ratio of 1.04 which needs to be improved.

CONCLUSION

BUY

- Despite the low per capita consumption, with the downstream demand from local beverage, alcohol, food, pharmaceuticals, and cosmetics industries, the market is experiencing robust growth.
- Beer is packaged in dark-colored glass bottles to preserve contents, which are prone to spoilage when exposed to UV light. The increased alcohol consumption in India has contributed to the significant increase in the growth rate of the container glass market in India. The container glass has the most abundant adoption in the Liquor industry, and thus, the growth rate of the Liquor industry directly impacts the glass container market in India.
- A rise in out-of-home consumption and reduction of taxes by some state governments also contributed to the growth along with the passing of increased commodity prices to the customers. The glass container business continues to see strong traction owing to improved realizations, better product mix, increased sales volume, and improved efficiency.

RATINGS AND DISCLOSURES

- Definitions of ratings
 - BUY. We expect this stock to deliver more than 15% returns over the next 12 months.
 - ADD. We expect this stock to deliver 5-15% returns over the next 12 months.
 - REDUCE. We expect this stock to deliver -5-+5% returns over the next 12 months.
 - SELL. We expect this stock to deliver <-5% returns over the next 12 months.
- Our Ratings System does not take into account short-term volatility in stock prices related to movements in the market. Hence, a particular Rating may not strictly be in accordance with the Rating System at all times.

© 1995 - 2021, Pee Aar Securities Ltd.
All rights reserved.

Corporate head office:

AG 05

Shalimar Bagh

Delhi 110088

Ph. 011- 40072251-56

web: <https://peeaar.in/research.php>

Disclaimer : We are not accountable for any loss or gains that might occur to you from this or any analysis on the website. The information should not be construed as investment advice. Both Thesis and Anti-thesis points are mentioned about the company. Do your own research before investing.