

**NEAPS/BSE ONLINE**

6<sup>th</sup> February, 2023

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(NSE Symbol: AGI)

Dear Sir/Madam,

**Sub: Transcript of the Earnings Conference Call held on 30<sup>th</sup> January, 2023**

Pursuant to Regulation 30 of SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, please find enclosed herewith the transcript of the Earnings Conference Call held on Monday, 30<sup>th</sup> January, 2023 for discussion of the financial results of the Company for the third quarter and nine months ended 31<sup>st</sup> December, 2022.

The transcript will also be available on the website of the Company i.e. [www.agigreenpac.com](http://www.agigreenpac.com).

You are requested to take the above information on your record.

**For AGI Greenpac Limited (Formerly known as HSIL Limited)**

(Pulkit Bhasin)  
Company Secretary

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“AGI Greenpac Limited  
Q3 FY ‘23 Result Conference Call”

January 30, 2023



Dolat Capital



**MANAGEMENT:** **MR. RAJESH KHOSLA – PRESIDENT AND CHIEF  
EXECUTIVE OFFICER**  
**MR. OM PRAKASH PANDEY – CHIEF FINANCIAL  
OFFICER**  
**MR. SANDEEP SIKKA – GROUP CHIEF FINANCIAL  
OFFICER**

**MODERATOR:** **MR. SACHIN BOBADE – DOLAT CAPITAL**



*AGI Greenpac Limited  
January 30, 2023*

**Moderator:** Ladies and gentlemen, good day, and welcome to the AGI Greenpac Q3 FY '23 Results Conference Call, hosted by Dolat Capital. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing "\*" then "0" on your touchtone phone. Please note that this conference is being recorded.

Before we begin, I would like to remind all participants that some of the statements or comments made on today's call may be forward-looking in nature. These may include but are not necessarily limited to financial projections or other statements of the company's plans, objectives, expectations, or intentions. The Company disclaims any obligation to update these forward-looking statements to reflect future events or developments. Kindly refer to Slide No. 15 of the Earning Presentation for a detailed disclaimer.

I now hand the conference over to Mr. Sachin Bobade from Dolat Capital. Thank you, and over to you, sir.

**Sachin Bobade:** Thank you, Seema. On behalf of Dolat Capital, I welcome you all to the Q3 FY '23 Earnings Conference call of AGI Greenpac. Hope you all and your family members are staying safe and healthy. From the management side, we have with us Mr. Rajesh Khosla, President and Chief Executive Officer, Mr. Om Prakash Pandey, Chief Financial Officer, and Mr. Sandeep Sikka, Group CFO.

Now I hand the floor to the management for their opening remarks, and then we would have a question-and-answer session. Over to you, sir.

**Om Prakash Pandey:** Good Evening, Everyone and Welcome to AGI Greenpac's Q3 FY2023 Earnings Call.

Before we begin our earnings call, it is with great sadness and sorrow that we wish to inform you that our respected Chairman & Managing Director, Dr. R.K. Somany has left for his heavenly abode. Words cannot express the tremendous grief our company is experiencing at the loss of his death. Under his leadership, we grew from strength to strength. We at AGI Greenpac would continue our growth trajectory based on the vision and principles of the late Dr. R. K. Somany and focus on our agile business model and innovation for creating long-term value for all our stakeholders.

The Board of Directors has appointed Mr. Sandip Somany as the Chairman and Managing Director of the company with effect from 27th January, 2023. We hope that you would have gone through the presentation, already available on our website as well as on the stock exchange's website. As we have completely divested the Building Product Division in the fourth Quarter of FY2022 under slump sale, AGI Greenpac is now Packaging Products focused Company. Therefore, all the numbers and comparative figures that we are going to highlight pertain to the continuing operations mainly consisting of the Packaging Products Business.

Now coming to Quarter 3 FY2023 financials, the company delivered a strong performance and reported Revenue from Operations of ₹567 crore, compared to ₹396 crore in the corresponding quarter last year, registering a growth of 43% on a Y-o-Y basis. The company has reported an EBITDA of ₹113 crore, registering a growth of 39% on a Y-o-Y basis with margins of 20%. Net Profit stood at ₹53 crore, with a growth of 81% on a Y-o-Y basis with margins of 9%.

Now, I would hand over the call to Mr. Khosla to talk about the Packaging Products Business Operational Performance.

**Rajesh Khosla:**

Thank you, Mr. Pandey, and good evening to all the participants.

In quarter 3 of financial year 2023, our glass container plant capacity utilization has been around 95% as compared to 92% in the corresponding quarter last year. A rise in demand for the packaged food, non-alcoholic beverages and beer segment continue to propel the growth of our packaging products in this quarter as well.

The company commenced commercial production of its specialty glass manufacturing plant, set up in Telangana with the installed capacity of 154 tons per day with effect from 1, January 2023. The continuing domestic consumption augurs well for our high-end and value-added products produced from this manufacturing facility. Thank you very much. And now we are ready for your questions.

**Moderator:**

Thank you. Ladies and gentlemen, we will now begin with the question and answer session. Anyone wishing to ask a question, may please press "\*" in "1" on your touchtone telephone. If you wish to remove yourself from the question queue, you may press "\*" and "2". Participants are requested to use handsets while asking a question. Ladies and gentlemen, we will wait for a moment while the question queue assembles. We take the first question from the line of Mr. Darshil Jhaveri from Crown Capital.

**Darshil Jhaveri:**

So congratulations on a great set of numbers, sir. It's very heartening to see a good performance. So I would have a few questions regarding the sustainability of these numbers. So currently, our margins like these margins in the packaging businesses are sustainable or with higher demand, we might even see better margins? So can you have like any comment on what our revenue and margins will be in FY '24?

**Sandeep Sikka:**

We feel that on a medium-term range, these are sustainable margins. But for any business, there are external pressures, which are beyond the control of certain quarters. Like if you see the results one or two quarters before it was impacted by increase in gas prices, which was outside our control. But on a short-term to medium-term range, we feel that the margins are sustainable.

**Darshil Jhaveri:**

And sir, with our new capacity, what peak revenue are we projecting with new Telangana capacity?

**Sandeep Sikka:**

We have added 154 tons new capacity. And Rajesh, can you just talk about that?



- Rajesh Khosla:** This is a specialty glass and it carries a different revenue segment. We expect that in the peak of the time when we will be utilizing almost more than 90% of our capacity, we will be able to add close to anywhere between INR 250 crores to INR 300 crores in our topline.
- Darshil Jhaveri:** So this peak, obviously, the new capacity will gradually increase. Any kind of capacity utilization that you might expect for FY '24? Would it be...
- Rajesh Khosla:** I think so, maybe we are able to reach our capacity, which is more than 90% or I can say, 85% to 90% maybe in the first quarter of the next financial year.
- Darshil Jhaveri:** So with the added new capacity as well as our business that is growing currently strong, so our growth can be above 20%, we might be able to cross INR 2,400 run rate, right? Because currently, that was where we are. So any revenue guidance, you could would help me a lot, sir?
- Rajesh Khosla:** I think with the INR 552 crores of packaging business in the quarter 3, we should be closing close to around on an annualized basis, it will be INR 2,200 crores to INR 2,300 crores, and probably INR 300 crores if we add, we can be a shade below INR 2,500 crores once everything goes on stream.
- Darshil Jhaveri:** And sir, do we see any other risks in the business right now, some other external factors or something that can act as a speed bump to our growth, anything?
- Rajesh Khosla:** In our business, the risk associated with our business are practically same as associated with the other businesses. So the risk is on the demand side, the risk is on the geopolitical side and risk is on the some other parameters. But as far as substitutability, risk is concerned, I don't think so there is any substitutability risk is there. As far as it's not a sunset industry, it's a sunrise industry. So those type of risks are not associated, but the risks which are beyond our control, like geopolitical risk or a recessionary risk which is associated with all the business, it is associated with us.
- Darshil Jhaveri:** Thank you sir, for the detailed answer and all the best for the next quarter.
- Moderator:** We take our next question from the line of Sanjay Shah from KSA Private Limited. Please go ahead
- Sanjay Shah:** Yes, my name is Sanjay Shah. All of our phones get disconnected, so I could not hear your opening commentary. So sorry for any questions which are new to me. So my question was regarding need to understand the volume growth in this quarter. So is this performance led to a volume growth or there was a price advantage coming to our place? That was the purpose to understand the volume of this quarter.
- Rajesh Khosla:** Let me answer with that. Regarding the volume growth, it is close to 7%, we got a volume growth. And rest of the growth is on the product mix and the cost. We have extensively worked on the cost part. A very good advantage when there is a fluctuation or when there is an inflationary trend, you try to work very hard on the cost structure of your business, and that is

exactly what we have also done. So we got both the advantages on the cost structure advantage as well as product mix advantage. Besides that, there is around 7% growth on the volume side.

**Sanjay Shah:** So by product means with the user industry that you mean that is more towards the non-alcoholic customer?

**Rajesh Khosla:** When I say product mix, I'd say, the percentage mix between A, B, C products so that we can get the maximum benefit out of that. And that is what exactly I mean to say.

**Sanjay Shah:** Sir, can you run us through the new plant manufacturing which has started in Telangana, how was the start? How do you see the product coming out from the first batch itself? Our customer – we have sent samples to customers is everything in place? And what opportunity of customers do you see on that side?

**Rajesh Khosla:** The product is good, because we have invested quite a good amount on a technology part. We have not compromised anything on the substandard quality or the substandard product as our policy and philosophy works in general. And our product is well acceptable in the market. We are getting a very good response from the market. So as such, we do not see any structural challenge from the market.

And just before you, there was a question that what sort of risk is there? Our risk is same as the other businesses risk out there. And regarding, your second part was, what opportunity we are envisaging. The opportunities are, it's a new segment. So, and in India, the cosmetic industry is growing very-very fast. And with this population, which is entering into middle class and putting a lot of money on their self-grooming. So this industry is a sunrise industry. So we hope that we will be riding a wave of the sunrise industry and we'll get the maximum benefit in the future.

**Sanjay Shah:** Sir, will it be possible to you comment on HNG resolution side?

**Sandeep Sikka:** We are still waiting for the necessary approvals and it is pending at various levels including CCI and NCLT and the appropriate disclosure has been made to the results. There is a note to the results. Beyond that, due to confidentiality, it's difficult for us to make any comments.

**Sanjay Shah:** Thank you, for more question I will come in the que.

**Moderator:** We'll take the next question from the line of Mr. Kaushik Poddar from KB Capital Markets. Please go ahead sir.

**Kaushik Poddar:** My question is for the Hindustan National Glass only. Their capacity is multiple of your capacity. Now once you take that over, there may be case of overcapacity. So how do you propose to tackle that? And secondly, how do you propose to finance that?

**Sandeep Sikka:** I think since the HNG resolution plan is confidential and we are bound by the confidentiality clause under this, it will be very difficult for us to make any comment on this. My apologies.

- Kaushik Poddar:** Leave aside the financing plan, but as to the capacity, is that a running plant or it's already a closed plant?
- Sandeep Sikka:** According to the information, one plant is closed and a few of their furnaces are shut down. They have 14 furnaces and around four furnaces are shut down.
- Kaushik Poddar:** So what is the capacity? I mean, their capacity must be some multiple of yours, isn't it?
- Sandeep Sikka:** Capacity usage depends on month-to-month. We don't get that data because that was a part of the data room. As we still don't own it, we don't get any access to data from their side.
- Kaushik Poddar:** Okay. In glass business, what is your market share and what is HNG's market share, say, it was a year back when they were all operational?
- Sandeep Sikka:** If you see, this is a much bigger market. This is an overall packaging product market as most of our products, which we sell, get sold in different forms and different packaging. The overall target market size is approx. more than rupees Rs.30, 000 crores-plus, in which we operate.
- Kaushik Poddar:** You're talking about glass containers only or you're talking about glass as well as plastic?
- Sandeep Sikka:** There's an overall market from glass containers PET also as we do PET bottles also. And there are alternates, which are available to customers like aluminum cans and other sort of packaging. There are different formats.
- Kaushik Poddar:** So, all these put together is 30,000 crores you saying that's?
- Sandeep Sikka:** Our market size is around Rs.30, 000 crores to Rs.32,000 crores as per our information. And exactly, we don't know what percentages will come through with consolidation going on. But on an overall basis, there is ample opportunity for everyone to grow.
- Kaushik Poddar:** And what's the time line for this HNG resolution coming through?
- Sandeep Sikka:** Again, these are all court convened processes and it is very difficult to comment on this. And my apologies, I'm talking again-and-again the same thing, but we are bound by confidentiality.
- Kaushik Poddar:** And this 7% volume growth, you have got this last quarter. Do you see the same continuing? I mean, what is the kind of growth you see in the container market, the 30,000 crores market, what is the percentage volume or value growth you see for the next two, three years?
- Rajesh Khosla:** The volume growth will purely depend on the GDP because traditionally it has been seen when the GDP grows from \$2,000 to \$5,000, typically it is 1x to 1.2x the growth of the GDP. So it all depends upon how the country works out. If the GDP is 10%, the glass can grow by 12%. If the GDP is 5%, the glass will grow by 6%. So it all depends on...
- Kaushik Poddar:** So you're talking of this is volume, this 10% to 12%, say 1.2x. So that is the volume you are talking of?

- Rajesh Khosla:** I am saying it is typical glass industry container, glass industry behavior with respect to GDP in the framework of \$2,000 per capita to \$5,000 per capita.
- Kaushik Poddar:** I get that, but when you are talking of say 1.2x the multiples of GDP, suppose the growth is 10% and it is 12% for the...
- Sandeep Sikka:** It's more of a volume growth.
- Rajesh Khosla:** Volume growth.
- Kaushik Poddar:** It is a volume growth. That is what I wanted to know.
- Rajesh Khosla:** The values will only depend upon the commodity pricing and other things. How the fuel, how the oil and crude oil and all these things will be there. So that is the value growth that will come from.
- Kaushik Poddar:** So you are talking maybe 20% more than the GDP growth is the volume growth.
- Rajesh Khosla:** No. This is what they have indicated, the economists have indicated from time-to-time. It can depend upon country-to-country, it can be 0.8x also to 1.2x also. So depending upon country, the behavior of the people, traditions, culture, so many factors are there.
- Moderator:** We take the next question from the line of Mr. Yash Agarwal from JM Financial.
- Yash Agarwal:** Congrats on good set of numbers. I wanted to know what is the improvement in realization on a quarter-on-quarter basis, Q-o-Q for glass business?
- Sandeep Sikka:** If you see on a quarter-to-quarter basis last quarter, the average realization was around Rs.34,000 per ton, which are broad numbers. It has moved to almost around INR 37,000 per ton from INR 34,000 per ton on a quarter-to-quarter basis.
- Yash Agarwal:** And you know, one of the major costs for glass manufacturing is natural gas, globally natural gas has come down and eventually it will even start reflecting in the domestic market. So will we be able to sustain these elevated realizations in the context of higher gas prices or lower gas prices because if we are able to sustain then ideally our margin should expand to above 20% here. So what are your thoughts on this for the next few quarters?
- Sandeep Sikka:** Rajesh, may I request you to answer this?
- Rajesh Khosla:** The beauty of AGI is we are into the multiple fuel system and we work out the most economic model of the fuel consumption. So right now we may not be using any gas at all because it all depends upon the gas prices, the other fuel prices, what we can use it. For example, like LPG or furnace oil and other things. So it is all sustainable. And the economic model works very well. So even the gas prices have come down, but they are still higher than the alternate fuel which is available in the market. So though the prices have come down, but we have not used much of the gas in this quarter.



- Yash Agarwal:** Got it, this was from my end thank you.
- Moderator:** We take our next question from the line of Zaki Nasser, individual investor. Please go ahead sir.
- Zaki Nasser:** So, first of all, heartfelt condolences to the entire Somany family and the management and staff of the company. I would also like to congratulate the management on a wonderfully stable set of numbers. And there are two or three questions. Number one is movement of the input prices, sir. With the soda ash and gas and everything having a life of its own, how do you foresee that? And do you think it's normalized a bit?
- Number two would be regarding the new capacities, sir. What part of the new capacities would be tied up on a long-term basis and what would be available in the market? And as you have indicated a broad trajectory that this year it will be 2.2 and next year 2.5 and margins also would be sustainable. I would like to know what debt levels would you expect this year and next year?
- Sandeep Sikka:** On the debt level, I can guide you. We have a total debt of approx Rs.800 crores. And the debt may increase if the approval of HNG comes through. I can't quantify that amount as we are bound by confidentiality. On your question regarding capacity expansion and the input price, I would request Rajesh to take this, please?
- Rajesh Khosla:** Okay. If I understand properly, the question is you mean to say, the prices of soda ash and natural gas and other things, they are getting.
- Zaki Nasser:** Yes, sir. Your major imports, sir.
- Rajesh Khosla:** Your major inputs. So what is your question exactly if you can repeat it?
- Zaki Nasser:** So what do you see? Your main inputs are maybe sand, soda ash and gas. So do you feel that next year the kind of levels we are seeing now, these would be a normalized kind of levels or would you expect them to soften further?
- Rajesh Khosla:** Okay. See the world is becoming more volatile. The price fluctuations and the cost fluctuations, particularly on the commodity side, is always there. For the last two to three years, we have seen a very consistent volatility in the whole system. And the good part is now, we as a management, we have been tuning ourselves to take care of these fluctuations or volatility. So we may not be much bothered about the volatility. Yes, there can be a time lag between when the things happen and when we settle down in the market, those things can happen. So volatility, I am not able to predict, I cannot say anything on that. But yes, I can say like that, that AGI Glasspac has developed the robust systems of the operations where these volatilities are absorbed properly and the results are delivered accordingly.
- Zaki Nasser:** Would you be comfortable with, I mean in a normalized way, without talking of the HNG thing, the debt would continue at these levels or do you think that will also reduce a bit with the increased cash flows?
- Rajesh Khosla:** You mean the debt level?

- Zaki Nasser:** I mean let's not talk of if HNG comes through but in our normal course of business.
- Rajesh Khosla:** Mr. Sikka, Can you reply on this question please?
- Sandeep Sikka:** Mr. Zaki, as of today, AGI is a standalone company. All the profits which we generate are retained within the organization because we don't have any subsidiaries or any investments. All the profits go into the first part of the reduction of working capital debt. And thereafter then we look at whether we can repay some of the long term loans. But there is a normal repayment which is happening at approx Rs.100 crores. There are some capex plans as we are already working at a very high capacity utilization of 90% -plus.
- We need to create a futuristic model, with which we have a very minimal amount of de-bottlenecking capacity. There is one of the furnaces which is coming up for relining. We will expand the base of the furnace by adding another 100 tons per day capacity. The debt level more or less, the ex-HNG transaction, should remain in the same level or should come down in the next 12 months.
- Zaki Nasser:** So another 100 tons will be added maybe from the couple of quarters down the line?
- Sandeep Sikka:** Yes.
- Zaki Nasser:** That is fantastic sir, best wishes for the next year thank you.
- Moderator:** We take the next question from the line of Mr. Nikhil Gada from Abakkus AMC. Please go ahead sir.
- Nikhil Gada:** Thanks for the opportunity and congrats on the good set of numbers. Sir, my first question is, could you highlight what has been the price increase if any we have taken in this particular quarter?
- Rajesh Khosla:** Mr. Sikka, okay. The question is, the price increase taken in this quarter vis-à-vis last quarter, do you mean into the Q2 versus Q3?
- Nikhil Gada:** Yes. Because I assume that we have taken somewhere around 28% price hike year-over-year in the previous quarter and 9% quarter-on-quarter. So in this particular quarter, if you can highlight what would have been the price increase?
- Rajesh Khosla:** The approximate price increase which has come to us is approximately around 6.5% to 7%.
- Nikhil Gada:** This is an increase here quarter-on-quarter, right?
- Rajesh Khosla:** Okay. Now let me clear further. This price increase is basically because of the base price increase in our system as well as our product mix. If I divide the two, so I think we got around 3% of our price increase has come from the actual increase and 4% increase has come from our product mix increase.

- Nikhil Gada:** And this is quarter-on-quarter I am assuming?
- Rajesh Khosla:** Quarter-on-quarter. Yes, you are right.
- Nikhil Gada:** Sir, just in terms of the demand scenario, now that we are listening to a lot of commentary where a lot of consumption level slowdown is being witnessed across multiple sectors and we indirectly cater to the consumption demand. So how do you see this panning out in the upcoming quarter and what is your view for FY '24 from that perspective? Do you think there can be any impact on the volumes?
- Rajesh Khosla:** We have not assumed the whole thing. But I think we had develop a system which spread out our risk parameters and we are present in various segment so that we can absorb any fluctuation in the demand side. Now second part is in our products we have also worked out which are the products on the lower side of the spectrum of fluctuation when we see on a recessionary trend of the spectrum, there are the luxury goods which are there which are hit on the first part and there are the necessity goods which have hit on the last part. So some of our segments to whom we are supplying, they fall on the lower side of the spectrum, means they are the last one to get hit in the recessionary trend. So still there is a lot of buffer which still exists to take care of the recessionary trend. So I hope so. Since we have spread our risk, we are on the lower side of the spectrum. So we should be the last one to get hit on the recessionary trend. And the rest is the earthquake is more than nine Richter scale or ten Richter scale, so nothing can be done. But if it is on the lower scale, certainly there is a good amount of savings we have already inbuilt in our system.
- Nikhil Gada:** Sir, just considering this switch from plastic to glass and in this kind of a scenario, do you think that the switch which we have been witnessing from plastic to glass can also reverse because of this kind of an inflationary pressure in your opinion?
- Rajesh Khosla:** It is already there. See, it is very difficult to calculate and to identify the change from glass to PET or PET to glass, it is an ongoing thing which is there. And this, with the increase in the prices of glass, a lot of glass have already switched to the PET and other things. But then there is an overall growth also, so we are not quite concerned about that. It's an ongoing thing which is today and always will be there. But overall the glass market will be okay. It is quite balanced. And we hope that in the future also it will be reasonably balanced.
- Nikhil Gada:** So just then on the EBITDA part, the margins part, if I understand in the previous call you had mentioned that we would be comfortable with an EBITDA per metric of somewhere around 7,500 and if my calculation serves me right I think we have already surpassed that number in this particular quarter. It would be somewhere around 8,200 to 8,500 range. So do you think that this is a new normal and you believe that this is something we should work with in terms of our numbers or you feel that it's more of a benefit where we are getting lower cost structure with a higher realization and that might once again reverse in the upcoming quarters?
- Sandeep Sikka:** It is very difficult to answer this on a long term basis, but I think we answered this in a short to medium term range. We expect that we should be able to maintain this. But if there are changes

in the external environment, like, what happened around almost 6 to 8 months back, with the obnoxious changes in the prices and input raw materials, especially gas, power, soda ash, and availability of materials, then all those quarters may get impacted by this because definitely when you operate in a macro environment, anything happening in the macro environment will impact you. But on a short-term to medium-term range, we feel that we should be able to maintain this range bound EBITDA per ton.

**Nikhil Gada:** And sir, just two questions on the specialty glass division. When we say that we might achieve somewhere around 85%-plus utilization, what would be the EBITDA per metric that we might make? Would it be like, I think you had mentioned it would be 25%, 30% higher than what we make in the current packaging division. So that statement still holds or you think that it can even improve from there?

**Rajesh Khosla:** See because the realization is higher in the specialty glass so obviously on the absolute term this EBITDA will be higher than the normal glass.

**Nikhil Gada:** But can you give a broad range what kind of EBITDA per metric ton? Can be possible from the specialty business?

**Rajesh Khosla:** Little difficult, but I think so it will be on a percentage wise it should be close to what we have been achieving or maybe little better than what we are achieving on a percentage wise. On an absolute term wise obviously, when the realization is higher the number will be much higher accordingly.

**Sandeep Sikka:** EBITDA per ton from the 154 ton plant can be higher around 20% to 30% from what we do right now. This is based on the next 12 to 18 months. But once the furnace will get fully loaded, we have a full flow of orders. Things may be better than this.

**Nikhil Gada:** So we can work with around 11,000-odd EBITDA per metric ton, 10,000 or 11,000?

**Rajesh Khosla:** I think it's just extrapolation of the number of what you are doing. We should be targeting accordingly.

**Nikhil Gada:** So and just lastly on the balance sheet front, looking at the run rate that we are doing in terms of EBITDA, we might close anywhere between 380 to 400 crores of EBITDA on a full year basis and you mentioned that there is a repayment of debt of 100 crores. So just wanted to understand because I think somewhere down the line we will make some free cash of maybe close to, if my numbers serve me right, close to 300 crores, 350-odd crores and if we are just doing that INR 100 crores of payment, this 250-odd crores, are you saying that we are just budgeting it for when HNG comes through? And apart from the realigning of the furnace or do you think if HNG does not happen then the focus would be on a new capex and hence the debt would remain at this level?

- Sandeep Sikka:** Hypothetically, you assume INR 400 crores of EBITDA for the year then, you have to charge for interest, taxes and dividend. And then we have to provide for the core working capital margins, because of the changes in the input raw material prices. The point which I was trying to say is, any surplus key cash flow that we generate, goes towards reduction of the working capital.
- Nikhil Gada:** And that would be right now, the working capital debt?
- Sandeep Sikka:** I don't have the working capital increase number right now. I can get back to you on this.
- Nikhil Gada:** And sir, any increase in the interest rate from the last quarter?
- Sandeep Sikka:** It's almost the same. Because again most of this gets linked to the repo rates. But in the last one year, interest rates have increased by around 2%, to around 30% to 33%.
- Nikhil Gada:** Thank you for answering all my questions, I will get back in the que.
- Moderator:** We'll take the next question from the line of Preet Malde from Centra Advisors. Please go ahead sir
- Preet Malde:** Actually, I wanted to understand what countries do we export to? You mentioned that around approximately 20% of our sales come from exports. So what countries do we export to?
- Rajesh Khosla:** We export to North America, we export to Europe, we export to Africa, and we also export to Middle East. So these are the countries we have been exporting.
- Preet Malde:** And secondly, procurement of raw materials, it is mainly from Kenya and you also said that we also procure from few local players as well. So what is the share? Are we highly dependent on Kenya or is that also diversified?
- Rajesh Khosla:** No, even our raw materials, whichever we import, it is well diversified. And the Kenya plant belongs to Tata, so we are dealing locally and assuring that it is risk-free. So we are covering up like that, say if anything happens in Kenya, tomorrow we have the fallback arrangement in India or elsewhere also. And it's a continuous exercise. We have been doing it in other countries also. So now we are importing from America and other sources also.
- Preet Malde:** So even that is diversified, alright. And do we have any plans of expanding more in the PET and closures business?
- Sandeep Sikka:** The focus is to build on that capacity and increase the turnover and we are focused on there. There can be some machines put into the bottleneck or certain machinery which has a specific purpose. But right now the focus is to utilize the capacity.
- Preet Malde:** That's it from my side thank you very much.

- Moderator:** The next question is from the line of Kunal Bhatia from Dalal and Broacha Stock Broking. Please go ahead sir.
- Kunal Bhatia:** Thank you for the opportunity. What was the revenue which we generated from the new Telangana plant?
- Sandeep Sikka:** There was no revenue because commercial production has started only on 1st of January 2023. The sales of the new Telangana plant 154 ton has not been recognized. One element of cost has been recognized which is interest on working capital relating to trial run production, recognized as per the accounting standard. From this quarter onwards, revenues from 154 ton furnace will be recognized as a part of the P&L.
- Kunal Bhatia:** Sir, and so this quarter onwards it will be fully utilized towards 80%, 90% or how is it?
- Rajesh Khosla:** I think we have already replied to that. All the efforts have been there to use the capacity utilization around 85%. So we are trying to use 85% capacity utilization. And the product is well established in the market, well acceptable in the market. And now we have to see how the market overall behaves in the overall scenario.
- Kunal Bhatia:** And for this INR 250 odd crores revenue which we expect on peak, what kind of EBITDA margins can this generate?
- Rajesh Khosla:** I think just before that I replied that. As a percentage EBITDA margins, we expect that it is close to what we have been generating right now on a percentage basis.
- Kunal Bhatia:** So, but it won't contain those special products which will have an EBITDA higher by 25%, 30%?
- Rajesh Khosla:** It will come slowly-slowly. It's not like that because once we have started our production, we have started entering in the market. So, slowly-slowly we will be entering to more value-added customers, value-added marketing, adding more of the characteristics to the glass. So, certainly we will be trying to reach to those levels, but because we realization is higher even if the percentage is same so the absolute number is much higher than what we are getting now.
- Sandeep Sikka:** Since the realization would be higher so absolute EBITDA per ton will be higher. So percentages may be in the range bound.
- Kunal Bhatia:** And sir in terms of this, if you could just let us know what is the raw material inflation in this quarter vis-a-vis the last quarter?
- Rajesh Khosla:** The inflation on the raw material is reasonably controlled. Because the majority fuel is there, fuel is well under control. It is not rising as much. It is stabilizing with some numbers. And once the fuel is stabilized, we have seen that the other commodities also stabilized normally. So we hope so that if we see Q2 versus Q3, or Q3 versus Q4, things will be much more stable now. There may not be much of the inflationary trend. Except the dollar, whatever dollar will depreciate, so there can be impact on that part. Other than that, everything will be well under control.

**Kunal Bhatia:** So if you want to compare it to on a Y-o-Y basis or on a Q-o-Q basis, in terms of absolute raw material inflation, what would be the number?

**Rajesh Khosla:** If you see on Y-on-Y basis, we have already discussed that almost if you see around 30% has been the cost increase which has happened and same has been the price on Y-on-Y basis. Q3 versus Q3 basis. So the same price has compensated us. So that is how the whole thing has gone up.

**Kunal Bhatia:** And sir, you mentioned that in terms of fuel, we are using still the alternative of gas. So at what price does gas become viable for you?

**Rajesh Khosla:** See, it all depends. It's a relative term. The price of gas versus price of other alternate fuels. It's a very relative. Every day situation changes. For example, like furnace oil, today the price of furnace oil is close to around 45 rupees and the gas price is around 52 rupees, so it doesn't match up. And looking to the calorific value of the gas and the furnace oil, I think we can always calculate accordingly. All these numbers are well in the public domain. The calorific value of the gas the calorific value of the furnace oil and the prices of the furnace oil and the prices of the gas. They all are in public domain and they are very dynamic in nature. So you have to calculate on a daily or a periodical basis to have a decision.

**Kunal Bhatia:** Do we have any order book in hand?

**Rajesh Khosla:** Order book in hand?

**Kunal Bhatia:** Yes.

**Rajesh Khosla:** What do you mean by order book in hand, please?

**Kunal Bhatia:** So meaning we would be supplying to these OEMs right? Or these 500 players. So do we have any order already in place for the next quarter or are we booked in terms of...

**Rajesh Khosla:** Yes. In our, we are a very integrated supply chain support system. So all our customers, they are dependent on us, on us or even our counterparts, our competitors to have their regular supply chain arrangements. So we have the long term broader understanding with the customers and the orders comes on the month-on-month basis which are basically SKU wise orders, which are being described to us. But on a broader level, we have the understanding on a year-to-year basis. So customers tell us that in this year they are going to lift approximately this much of tonnage and we plan accordingly.

**Kunal Bhatia:** Sir so, any volume guidance would you be able to give for the current year or next year?

**Rajesh Khosla:** We are already running with 95% capacity utilization in quarter 3 and which is quite high as compared to the normal conditions. So I think a few percentage or a small percentage here and there can move out because it's very difficult to achieve even 100% of the capacity utilization. But obviously, when there is a demand in the market, so we will try to achieve maximum capacity utilization. So that is what is the controlling factor on the volume side to us.

- Kunal Bhatia:** And sir, if you could just give some understanding on the current working capital cycle?
- Sandeep Sikka:** We use the cycle of around 90 days which includes inventories, receivables and trade payables. As a part of our industry, in many quarters we make orders to stock with basis the visibility of our customers' demands. And in some quarters, like when the beer season comes, it's not that we produce bottles only during the season. We keep producing the bottles and when the customers demand, we offload those bottles. But the overall cycle is around 90 days. There is an opportunity here but we can reduce it by another 10 - 15 days. But that again depends on quarter-to-quarter.
- Moderator:** We take the next question from the line of Mr. Sanjay Shah from KSA Securities. Please go ahead sir.
- Sanjay Shah:** Sir, it was like to have some basic understanding from you regarding HNG assets. And as you said that few furnaces are closed and maybe I understand few may be insufficiently run because of loss making. So how long these assets are good for us to acquire because it takes lot of time from authorities. So is it that machinery, equipment get worn out or don't give that efficiency what we require? So is there any timeline what we feel that we should wait for that?
- Sandeep Sikka:** It's very difficult for us to answer anything on HNG as all these are part of the resolution plans. We can't put a time and a date when the acquisition will happen because these are all under the proceedings of the courts under the National Companies Law Tribunal. The assets when we acquire will be more or less "as is where is basis" of the furnace condition of that particular time. I know that I can't fully answer your question as there are confidentiality clauses that constrained us to talk about this.
- Sanjay Shah:** Look, I appreciate I don't want anything which is confidential but just to need basic understanding when furnaces are closed for such a long time are they viable to get operated with some small capex for any acquirer?
- Sandeep Sikka:** For making glass, you require a furnace and you require molding machines and packing machines. A furnace has a life and once you restart the furnace, you can do a cold repair or you can do a full level of repair, depending on what is the condition of the furnace. But you can definitely upgrade it. But again, it is all linked to what quantum of efficiency you want to build in the furnace. That is convenient. I'm not talking per se, for HNG, I'm talking in general.
- Sanjay Shah:** Sir, after this HNG going into difficulty, was it possible to gain market share from the customers from that side? Because they are also very large player, I suppose. And we both command a very large...
- Sandeep Sikka:** I can't take that question please. Thank you.
- Sanjay Shah:** Thank you



- Moderator:** We take the next question from the line of Mr. Nikhil Gada from Abakkus AMC. Please go ahead sir.
- Nikhil Gada:** Thanks for the follow up. So, just I think you already alluded to this point, but just wanted some amount of confirmation on the same. So in a declining price scenario both in terms of RM as well as power cost, how prudent would we be in terms of keeping certain part of it with us and passing on? Or is it because I generally believe that it happens with a lag of maybe two, three months, but do you think that we have to pass on all the benefits that we have achieved because of this power and RM as and when they go down?
- Sandeep Sikka:** Nikhil, it's fair that on a short term to medium term range, this is sustainable. Because it's not that everything is coming from the selling price. Many things are coming from a better product mix. We are working with more-and-more customers, which is creating more value for us. Given the fact that we are constrained on the capacity side, we are talking to more customers, to sell more value added material to them or higher realization material to them.
- A major chunk of when we make a decision that we should be able to sustain it based on the fact that we should be further able to enrich our product mix. Definitely, if there is a substantial price reduction based on our contracts with our customers, we will have to do those adjustments over a period of time.
- Nikhil Gada:** And sir, just on the capex front, what kind of a capex cost would be there for FY '23 and FY '24 now that we are also planning for realigning of the furnace?
- Sandeep Sikka:** Mr. Khosla, you have that figure or Mr. Pandey?
- Om Prakash Pandey:** Can you repeat your question?
- Nikhil Gada:** Sir, I need a capex cost for FY '23 and if we have any budget for FY '24 as well?
- Sandeep Sikka:** We will be spending around INR 150 crores to INR 175 crores. This includes the relining cost as well as upgrading the furnace by another 100 tons. But this is on the horizon for next 12 months. But with all this machinery, we keep investing into further upgrading as Mr. Khosla said that the majority of our initiatives are focused on creating internal efficiencies.
- And like historically, we have invested money in the fuel mix. And today we are getting those benefits out of the fuel mix. There are a number of projects which are internally benchmarked and a few of them will require capex. But our guidance is that on the cash spent basis maybe INR 150 crores to INR 175 crores in the next 12 months in terms of realigning of the furnace and the expansion of 100 tons per day.
- Nikhil Gada:** Got it sir. Thank you very much.



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**Moderator:** Thank you sir. Ladies and gentlemen, that was the last question for today. I would now like to hand the conference over to the management for closing comments. Thank you, and over to you, sir.

**Sandeep Sikka:** I'd like to thank everybody who joined us today. I think a very good set of questions asked. A few of them, we couldn't answer due to our constraints, especially relating to HNG. Maybe once the deal is get approved, we'll talk more extensively on this. Thank you everybody for joining us today. Thanks.

**Moderator:** Thank you, sir. On behalf of Dolat Capital, that concludes this conference call. Thank you for joining us, and you may now disconnect your lines.

**Notes:**

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