AGI Greenpac Limited

(Formerly known as HSIL Limited)

Q1 FY2023 Earnings Conference Call

August 1, 2022

MANAGEMENT: **MR. RAJESH KHOSLA - PRESIDENT & CHIEF EXECUTIVE OFFICER**

MR. OM PRAKASH PANDEY- CHIEF FINANCIAL OFFICER

MR. SANDEEP SIKKA - GROUP CHIEF FINANCIAL OFFICER

Moderator: Ladies and gentlemen good day and welcome to Q1 FY2023 Earnings Conference Call of AGI Greenpac Limited (formally known as HSIL Limited). 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. I now hand the conference over to Mr. Ravi Gothwal from Churchgate Partners. Thank you and over to you, Sir!

Ravi Gothwal: Thank you Jacob. Good evening everyone and we welcome all the participants to AGI Greenpac Limited formally known as HSIL Limited Q1 FY2023 Earnings Call. Joining us today from the management side, we have Mr. Om Prakash Pandey - Chief Financial Officer, Mr. Rajesh Khosla - President & CEO, Mr. Sandeep Sikka - Group Chief Financial Officer.

Before we begin, I would like to remind all the 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 business plan. The company disclaims any obligation to update these forward-looking statements to reflect future events or developments. Kindly refer to slide #15 of the presentation for a detailed disclaimer. Now I will hand over the call to Mr. Om Prakash Pandey Chief Financial Officer for his opening remarks. Thank you and over to you, Sir!

Om Prakash Pandey: Good evening everyone and welcome to AGI Greenpac's Q1 FY2023 earnings call. We have already circulated our earnings presentation, which is available on our website as well as the stock exchange website. I am sure you would have gone through the presentation and we would be happy to take any question afterwards.

As you all may be aware of, we completed divestment of Building Product division in our last financial quarter. AGI Greenpac now has only one business division, which is packaging products. Therefore all the numbers and comparative figure that we are going to highlight pertains to packaging product business.

Now talking about the first quarter, I am happy to announce that we have begun the year on optimistic note with strong quarterly performance. In Q1 FY2023, the company has delivered a strong performance and reported revenue from operations of Rs. 522 Crores compared to the previous Rs. 293 Crores in the same quarter last year, registering a stellar growth of 77.7% on a year-on-year basis. Sales growth was primarily due to better realization and increase in glass container packaging volumes supported by robust demand from beer and liquor industries.

The company has delivered an EBITDA of Rs.92 Crores registering a growth of 57.1% on year-on-year basis and continues to maintain strong EBITDA margin of 17.6% despite the substantial increase in fuel and other input material prices during the period. The margin were driven by higher sale, better product mix, and inherent operation efficiency present in the manufacturing plant. Net profit stood at Rs.66 Crores compared to Rs.18 Crores in Q1 FY2022, a growth of 257.5% on year-on-year basis with a margin of 12.6%. The Company has a net debt position of Rs.782 Crores at the end of June 2022. Now I would hand over the call to Mr Khosla to talk about Packaging Product Division performance.

Rajesh Khosla: Thank you, Mr. Pandey. In Q1 FY2023, we delivered the great performance on back of strong rebound in demand from the key user industry. The revenue growth was supported by increase in demand from the beer, liquor industry and other allied industries contributed to our revenues in this quarter. The rise in out of home consumption and reduction in taxes by some state government also contributed to the growth along with passing of increased commodity prices to the consumer.

The company delivered growth on both year-on-year and sequential basis driven by sustainable demand, revival and favorable macro economics factor. Glass container capacity utilization during the quarter was 94% as compared to 89% in the same quarter last year and 93% in the previous quarter. We have already begun trial production of our Greenfield specialty glass facility of 154 TPD manufacturing unit at Bhongir Telangana and we will commence the commercial production in Q2 FY2023 onwards. I am further pleased to announce that AGI has forayed into the export markets of European Union, Canada, South Africa for its niche product. With the clear strategic roadmap ahead of us, we are confident in delivering sustainable growth and creating a long-term value for our shareholders. Thank you very much and we are now ready to take the questions.

Moderator: Thank you very much. We will now begin the question-and-answer session. The first is from the line of AM Lodha from Sanmati Consultants. Please go ahead.

AM Lodha: Good afternoon gentlemen. Congratulations for good set of number this quarter also. I have got three questions. The other income element in March 2022 of Rs. 21 Crores and 33 lakhs, which is not in this quarter. Can you tell us what is the nature of the other income in March 2022 of Rs. 21.33 Crores.

Sandeep Sikka: We get number of subsidies from the state government. One of the subsidies we get when we set up the plant is SGST refund, if you see the notes to the March 2022 financials account explains there was a odd income, which was credited because we do it this is reasonable certainty, so we got some refunds from the government on account of local sales made and that was in March 2022, the other income, main component was that.

AM Lodha: We are about to commence the production in the new plant in this quarter; will we get the subsidy on this plant also?

Sandeep Sikka: We will get subsidy, but it takes lot of time.

AM Lodha: That is alright because these subsidy belongs to our old plant.

Sandeep Sikka: This is for the old investment, which we have 4-5 years back.

AM Lodha: My second question power and fuel expenses have gone up steeply to Rs.19 Crores to Rs.23 Crores in this quarter, what will be the reason for such steep jump in the power and fuel and what steps the company is taking like green energy, solar to contain the power cost.

Sandeep Sikka: If you see this process, it is fairly fuel-intensive process because what we do is we use raw material or the broken glasses which we call as cullet and then melt it using the fuel. As you would recall that almost all the fuel prices have almost doubled in the last 6 to 7 months, but we have a flexibility to use various kind of fuels. I will request from Mr. Khosla to just elaborate on what are the enablements we have and how we are doing this process more efficient internally.

Rajesh Khosla: The price of fuel and power in Q1 of financial year has already gone up. It has gone up by one rupee per unit and these are being regulated by the state government and we have to follow with that and regarding the fuel part, it is a well known phenomena all over the world that the fuel prices are just jumping sky rocketing everywhere and these fuel prices are directly linked with the crude prices and crude prices are directly linked with the geo political situation, which is arising all over the world. Because of these reasons prices have gone up, so what we are doing in that case: Number one is green energy what you are talking about. Yes we are already doing a lot of green energy almost 18.5 mega watt of solar electricity is being produced by us and we are doing much more but we have some regulations of the state government where we cannot pass that and we are constantly in touch with the state government to permit us for the further use of the green energy and once we get the permission we will be able to do it.

Regarding the overall fuel prices to be controlled a lot of things are happening where the energy audit and other things are being done where we are trying to reduce the consumption of energy by moving more efficient and more productive manner that is ongoing exercise and that is the part of the operation excellence, which we are doing it regularly and that is the reason we are able to sustain with our numbers.

AM Lodha: My last question, then I will join the queue. I got three more questions. Have we received the full consideration from Hindware Home Innovation Limited for Rs.700 Crores.

Sandeep Sikka: Some part is still pending around Rs.90 Crores. What had happened since most of the LC is for procurement of raw material and other things were open as on the effective date so there is settlement procedure under the agreement, which is being done and some land parcel of plants to be transferred so pending that we expect that within next 30 to 60 days another Rs.90 Crores should flow from Hindware Limited to AGI Greenpac so that the full settlement happens for the transaction.

AM Lodha: In this connection this time in presentation, we have not given that figure. In last presentation, the gross debt and net debt figure had been given in the presentation so as per the indication in the last con call, the total loan book of the company would have been Rs. 560 or Rs.570 odd Crores something after getting the money from Hindware Home Innovation Limited, but what I could guess from the opening of con call, the loan book is more 700 Crores. Can you put some light on it?

Sandeep Sikka: It is Rs.782 Crores. As I said we will get Rs.90 Crores more so it will go around Rs.700 Crores so also to consider that we are currently undergoing an expansion plan and the money is being spent on the expansion plan there in both in terms of rebuilding and expanding the capacity, what we do is we use long term loans for the long-term purpose,. Accordingly, that debt component has slightly increased and the terms loan disbursements have also happened during the quarter.

AM Lodha: Thank you I will rejoin the queue.

Moderator: Thank you. The next question is from the line of Nikhil Gada from Abakkus AMC. Please go ahead.

Nikhil Gada: Thanks for the opportunity and congrats on a very great set of numbers. First question is could you breakup this growth into how much would be the volume and how much will be the value growth please.

Sandeep Sikka: Basically if you see we got various price hikes during the quarter. Price hikes, which we have got based on the input price increases range from customer to customer, but this in a range of Rs.3000 to Rs.5000 per tonne, but it is not that all the benefit has accrued during the entire quarter, so when you see the overall price benefit which is coming to us is around odd 5 to 6% and overall volume is around 12 to 13% which overall revenue number grew by 18% which means that in this current quarter based on the price increases some impact, the positive impact of increase realization you will also see during the Q2 of the current financial year.

Nikhil Gada: Understood, when you say 18% you are saying the sequential from 4Q to Q1.

Sandeep Sikka: Quarter on quarter.

Nikhil Gada: Quarter on quarter; 5% to 6% would have been the value as in the price hike and 12 to 13% would be the volume growth. I understood.

Sandeep Sikka: I am saying for the glass.

Nikhil Gada: Got it and that is like close to 90% of the total revenues. Understood. Just continuing on that now since we are close to now full utilization in this capacity and the debottlenecking that we are planing I am assuming it would be in the glass itself, so how much more capacity can we sort of gain from this.

Rajesh Khosla: You mean to say in the quarter what we are mentioning, how much capacity has been added up or how much debottlenecking has been added up or what will be there in the future so what is the question.

Sandeep Sikka: Are you talking about the future opportunity available on the expansion is that the question.

Moderator: We have lost the line for the participant. We move to the next question. The next question is from the line of Vivek Gautam from GS Investment. Please go ahead.

Vivek Gautam: I just wanted to know why is the ROC of our company so low and for large number of years and what can be done to improve it number one and is it our sort of sunset industry because of that valuation given to our sector is also quite low and there was related party transaction is that that impacting our price running and valuation. Real estate something is still lying with us and how is the opportunity size for us.

Sandeep Sikka: The first question which you are asking why is the ROC low. If you see glass is a very capital-intensive procedure, although today we are the most profitable company in terms of container glass because of our internal efficiencies, which we have been to build over last five to six years, but still the glass furnaces require proper maintenance and you need to continuously repair them, rebuild them.

One reason why you are seeing ROC slightly down because we have recently invested around Rs.250 Crores into 154 tonne speciality glass furnace, for which the benefits are yet to come to the P&L, so this furnace is under trial run production and the benefits will improve over a period of time. Apart from this, there are some additional expansion, which is being done as we talk about 100 tonnes per capacity debottlenecking is being done so there is a capital work in progress, these are the reasons where in the ROC is right now under pressure slightly, but as you move forward you see the EBITDA margins are in very good trajectory, so we feel that ROCs should improve over a period of time.

Second question as far as the related-party transaction, almost majority of the related party transaction wherein, we initially had the manufacturing plants of building products, which we sold out to Hindware and has been divested. Today major related-party transaction is at certain land and building, which we have not transferred because of their intrinsic values. We are taking rentals, but these rentals have been approved and they are based on third party evaluation. They are on arm length basis. They have been duly approved by the shareholders of both the companies, so there is not much other related-party transaction as of March 2022. Now going forward, they will be very less.

Vivek Gautam: I believe our plant is running at a very high capacity and the biggest plant, which is also on the block is running at a very high capacity so do not we have the pricing power to have a decent margin, decent ROC with our customers or the competition intensity is to tough and more and more players are coming in wherein we are not able to take the price hike and pricing power.

Rajesh Khosla: Let me explain you about the pricing power in the glass industry. Number one, glass is one of the packaging materials. We have the alternate packing material also for example cans, PET, Tetra Pak and besides others, so beyond a point if the things are being stretched on the pricing part then probably there is a chance that glass can transfer back to the PET or any other packaging material that is one part.

Second is majority of our glass packaging materials goes to the liquor industry and liquor industry is a regulated industry where the pricing power is not at all there and the government decides the pricing power of that, so there is a big constraint with the customers that whenever there is an increase in the cost or in the price, we are not able to pass on to the customers to their consumers I mean to say that is another thing.

Third is there are lot of dormant capacities which are available all across India; dormant capacities which are not viable. Beyond a point if the things are being stretched, immediately those dormant capacities will become active and once they become active then they will be permanently active or semi-permanently active. They cannot die down just like that, so all those factors are to be considered when the pricing is being considered or decided or being passed on to the customers.

Vivek Gautam: How much investment we require again for making the glass furnaces after average tenure and before than that and how much can the ROC equal to and how much can be the growth rate also in the sector depending and how is the opportunity size.

Sandeep Sikka: On the glass side, we can reach high ROCE. We have plastic business and security caps and closure business, PET business, plastic business where again the ROC are low but on the glass side we can definitely get 18% plus ROCE going forward and with the investment into high end furnaces which will sell premium product. We further feel that it should move from 18 to 20 over next few more years.

Vivek Gautam: Opportunity size for us? How much in India and exports any positive things happening to India export story or China plus one story.

Rajesh Khosla: Yes, there are lot of opportunities which are there, but problem is every opportunity whatever is coming out or being countered by so many global factors for example the growth opportunity or the export opportunity against China has come up, but the freight rates have skyrocketed and they are diluting this opportunity. Then comes the other thing for example the opportunities in Europe are very limited because Europe being a compact country where the local transportation is much lower than the ocean transportation, so there these opportunities are diluted there so we have already assessed. Our export department are continuously accessing about that opportunities. Yes there are opportunity, which exist in America and that already people are doing it. In my address in fact I said that we have started exporting in a reasonable manner to Canada, America, and some other countries, so these opportunities are already there. In India, the local transportation is also very high and that is also restricting the opportunity. The Ministry of Transportation is working out, how to make ease of doing business and to make other cost comparatively as compared to China, so once these factors will start coming in our favor, the export opportunities will grow up more and more and we are in center of the land, we are not port-based company, so local transportation also plays a very big role, which comes out to be almost Rs.5000 a tonne and today it comes out to be almost 16 to 17% of the price that is the reason.

Vivek Gautam: Okay Sir. Thank you.

Moderator: Thank you. The next question is from the line of Nikhil Gada from Abakkus AMC. Please go ahead.

Nikhil Gada: What would be the capex and how much capacity expansion would happen because of the debottlenecking?

Sandeep Sikka: On the debottlenecking side, the total planned capex is odd Rs.100 Crores and there is a rebuild cost also, which is around Rs. 60 to Rs. 65 Crores, which we will spend in terms of both rebuilding and making the furnace on a new basis and doing 100 tonnes expansion on this. With which now the overall capacity on the container glass right now it is 1600 tonnes per day will go to 1700 tonnes per day and another 154 tonnes high end furnace will come so that will make it 1854 tonnes per day. Once the commercial operation on 154 tonnes also starts which we are expecting in another three to four months.

Nikhil Gada: Understood Sir and for this debottlenecking, how many days we will have to keep the plant shut.

Rajesh Khosla: Almost 90 days.

Nikhil Gada: When are we planning to do this.

Rajesh Khosla: Maybe early next financial year.

Nikhil Gada: Next financial year, early. Okay understood. The peak capacity that we can achieve is 100% over here.

Rajesh Khosla: It can be 103%.

Nikhil Gada: 103% okay understood. My second question is on the gross margin front, you know now that we are looking at like-to-like comparison last year 1Q, if my numbers are not wrong we did close to around 80% gross margins and this year it is around 68% so this 12% drop if you can help explain, I mean what has really increased the soda ash prices or the sand prices if you can help why the impact has been so large.

Sandeep Sikka: In all the input prices material have undergone a change Nikhil. As you know, the fuel price which used to be of 15% is now running at around 25% to 26%. Similar soda ash prices which last year was almost let us say Rs.20 a kilo is now available at Rs.40 a kilogram, so when you read percentages it will give to a higher %. We run our operations based on overall EBITDA per tonne and the focus is on that. It is not that when the raw material prices double, the absolute margins will double so all this ratio will show the abnormality of numerator and denominator.

Nikhil Gada: Understood. In case of when we look at 4Q number as well. Sorry to just get into the percentage terms again, but we are still seeing some amount of decline and when we have taken the price hikes, I assumed that it would have taken care of some of this RM inflations so just coming from that point.

Sandeep Sikka: Majority of the price hikes have happened in Q1 of this financial year not the last. The Q4 in fact has the price increase has happened and after that we started negotiating with our customers and after the lap of two to three months, we started getting upward price increases.

Nikhil Gada: Okay, in that context if you could help me with a just a full year perspective; let us say for FY2023 now that first quarter is done and we have taken some amount of price hikes, is it fair to say that the last year's margin we could better than, it was around 18.5% on EBITDA level?

Sandeep Sikka: We should be around the level, but again percentages are abnormal because as I told you when the input prices increases, the customer does not give a percentage to sales and discussion happen on Rupees per tonne of glass made

Rajesh Khosla: And secondly in such a situation when there is an exponentially increase in costs, which is simply which is once in a lifetime type of scenario, there, we have protected our margins at the first instance and rather than looking to the percentage, because the dominator of the whole calculation is changed now and in these circumstances, it will be very important to stabilize the market if we are able to pass on the costs, that is a good sign.

Nikhil Gada: Understood, and just a couple of questions more. Firstly since we are starting this specialty glass plant in Q2 or at the end of Q2, we have not booked any revenues per se right in the specialty business?

O.P. Pandey: Yes we have not booked any revenue from it.

Nikhil Gada: Understood, then on the export strategy specifically, you mentioned about it, but is this largely going to be for our core glass container portfolio or we are mainly looking at it from the specialty glass plant?

Rajesh Khosla: No. We are looking for a sustainable portfolio because we have already put our footprints all around the world. We were not exporting for the sake of exporting in any country at any price. We are just picking up the markets, which are sustainable and there it makes sense for us on a long-term basis. That is the reason you might have seen that our export percentage is not very large purposely. There is a local demand and we have to cater to our local demand at the first instance and export is only the balance quantity, but looking to the opportunities, which are available so we are putting and catering to these markets which are on sustainable business. Regarding 154 tonnes, yes the opportunities are much more in 154 tonnes as a percentage of the total business and presently once the things get stabilized much more is about to come.

Nikhil Gada: Understood. This specific call out in this quarter regarding the export strategy, I mean because our capacities are already largely at peak utilization, so just wanted to understand from that perspective. If something has changed in the export market the reason we are sort of exploring it now and is it going to be better than what we make in domestic in terms of margins just on that perspective?

Rajesh Khosla: These are very short things, which are there. Say for example like today because of the Ukraine war, there are some capacities which has gone off because of the limited availability of the gas there are some plants which have been stopped there so there are some opportunities which are coming as a spot opportunity and some opportunities which are coming on a long-term opportunity. So catering spot opportunities with the spot prices, which are you can exploit the situation and there are long-term opportunities which you have to make it on a stabilized basis, so both strategies are very different and both the targets are very different. We are doing in the best interest of the company and working out with all business strategies, which can maximize our revenues and profitability.

Nikhil Gada: Understood and lastly two questions bookkeeping if I can ask please. Then on this capex cost of the debottlenecking Rs.150 Crores to Rs.160 Crores, is this going to be largely debt funded or there is some internal accruals which will be used for this?

Sandeep Sikka: As a method of discipline, what we do is generally if the capex is there, we take a long-term loan of around 70% to 75% of the total capex, so this helps us maintain a good financial discipline that any long-term investment which is to be done has to be funded by long-term debt at any particular time, but most of our loans they have a prepayment clause and like with a slump sale we just prepaid the debt without incurring prepayment penalties, so this gives us a good discipline. Any surplus, which is generated is parked in working capital which is there so which goes an unutilized working capital.

Nikhil Gada: Second on the tax expense, so now we will completely shifted to the new regimen right so now we will see 25% tax rate?

Sandeep Sikka: Yes 22% plus 1% surcharge.

Nikhil Gada: That will be all from my side. Thank you for answering all my questions.

Moderator: Thank you. The next question is from the line of Darshil Jhaveri from Crown Capital. Please go ahead.

Darshil Jhaveri: Congratulations on a good set of numbers. I just wanted to ask with the new capacity coming, how much additional revenue will that be able to generate? What are we planning in terms of capacity utilization in this year and next year? How will this scale up?

Rajesh Khosla: Regarding the capacity utilization for the new expansion debottlenecking that will be close to 100 tonnes per day that can generate the topline of close to Rs.90 Crores over the year and regarding 154 tonnes furnace, we hope that we will have close to around Rs.250 Crores to Rs.260 Crores of business on an annualized basis.

Darshil Jhaveri: That is for this year or peak utilization?

Rajesh Khosla: I am saying annualized basis so the day we start going for commercial production and commercial sale talking from that perspective.

Darshil Jhaveri: Thank you and the next year for the debottlenecking till keep the operations shut for 90 days, so how much will that impact the revenue next year?

Rajesh Khosla: Our 90 days if the operation is shut down, practically the furnace is around 325 tonnes, so 325 tonnes furnace and 100 tonnes of the capacity will be added up so practically it will be scaling of both the things together.

Sandeep Sikka: Generally what happens, during this rebuilding time, although there is some loss of turnover, but majority we have inventory in our stocks; we plan our inventory and we dilute our inventories also during this interim period, so the customer service ability is kept on.

Darshil Jhaveri: Thank you so much and thanks for answering my questions. All the best.

Moderator: Thank you. The next question is from the line of Pushkar Jain from Sequent Investments. Please go ahead.

Pushkar Jain: Congratulations on a good set of numbers and my question is you partly answered it what is the asset turn for the new capacity that we are having for Rs.260 Crores topline that has been generated? How much we would have invested for capacity?

Sandeep Sikka: It is almost one time 154 tonnes furnace with an investment of about Rs.260 Crores should lead to one time the turnover.

Pushkar Jain: Okay, it is more in line with our existing asset turn?

Sandeep Sikka: Yes, but the absolute EBITDA per tonne is higher here.

Pushkar Jain: Okay thanks.

Moderator: Thank you. The next question is from the line of Zaki Nasser an Individual Investor. Please go ahead.

Zaki Nasser: Congrats on a phenomenal topline growth at least for this quarter. I have a couple of questions. Would this kind of topline be sustainable for the year in addition to whatever six months of operation for the new furnace; that is my question number one. In terms of gas pricing, do you think this quarter would be our peak fuel cost?

Rajesh Khosla: Okay first is the topline, whether it is sustainable or not or if I put it mathematically you mean to say this topline can be multiplied by four on an annualized basis or not am I right.

Zaki Nasser: Yes.

Rajesh Khosla: As on this quarter, we are moving as per our budgeted numbers and the budgeted numbers suggest us that we will be able to sustain this topline throughout the year, so there is no issue at all. There is a seasonality effect, but that will be taken care in the subsequent other quarters, so rest assured I think if everything goes normal we will be able to sustain these numbers. Number two is what I have not understood properly.

Zaki Nasser: Number two is gas pricing? Our fuel prices of Rs.126 Crores in the quarter and we have furnace where which can be shifted from actual gas to may be some other fuels as the management as said, so do you think this Rs.126 Crores would go down from here or how do you feel the fuel cost will pan out?

Rajesh Khosla: The question is interesting but I think it is beyond my capacity to answer this because the forecasting of the fuel is beyond anybody's imagination as many multiples are there.

Zaki Nasser: At least can I just rephrase the question. In terms of how is our gas price what we consumed linked with the international gas prices or whatever the Government of India announces on April 1 and October 1?

Rajesh Khosla: Unfortunately, all the companies which are dealing in gas or fuel, they are government run companies. They do not arrive with any logics at least which is known to us. They announce the prices. They do not arrive at the price. They announce the prices and you can very well and after the announcement we have no other choice except to work out our internal efficiency, internal productivity, which we are doing it continuously. I hope so, it is anybody's guess which is beyond the corporate forecasting. I hope everything should remain same. That is our wishful thing, but if somebody says forecasting it is beyond anybody capacity to do it.

Zaki Nasser: We are supposed to receive the rents from Somany Homes to the tune of Rs.29 Crores. How will this be accounted on a quarterly basis or at the end of the year?

Sandeep Sikka: It is not Rs.29 Crores. It is around Rs.21 Crores to Rs.22 Crores for the year and if you see the segmental results, so we are showing the values.

Zaki Nasser: On a quarterly basis?

Sandeep Sikka: The rent is on a quarterly basis.

Zaki Nasser: Interesting and last time we announced a furnace shut down was in August sometime last year I guess, but as told by you although our production was affected the sales were not affected because as you just explained we had inventory buildup, so I guess the next furnace shut down will we have the same kind of a scenario hopefully?

Sandeep Sikka: Can you just repeat your question please. We just lost the voice in between.

Zaki Nasser: Last time we had a furnace shutdown, although our production was affected our sales for that was not affected. The next shutdown which we are going to take do you hope that the same kind of thing repeats are inventory will take care of our sales?

Rajesh Khosla: Yes we hope so because our budgeted numbers they are as per that, though we were able to reduce our inventory substantially in this quarter those numbers may not be exactly same. It may be a little bit here and there.

Zaki Nasser: Okay fantastic and by the end of this year hopefully that 154 tonnes plant will be fully operational. Next year on the current year what kind of growth do you project going on 2023 to 2024?

Sandeep Sikka: The growth will come from two factors. One is the product mix improvement, which we are continuously doing. Our focus is to move more into the high end. 154 tonnes furnace will yield the turnover which is there. We have already stated the quantum. We will have additional 100 tonnes per day once that additional capacity also comes up, so these are the key three core drivers which we can envisage for over next 18 to 24 months, which will help us grow the business and also improve the margins.

Zaki Nasser: Fantastic thank you and if I might ask the last question. I read a kind of an article saying AGI is one of the three bidders for the Hindusthan National Glass Plant, not going into the nitty-gritty and when do you think this process will be completed and the result known for this?

Sandeep Sikka: These are processes under NCLT and unfortunately we are bound by the confidentiality clauses under the whole process, so it is very difficult for us to comment anything on this. My apologies for that.

Zaki Nasser: Thanks a lot and best of luck for the year.

Moderator: Thank you. The next question is from the line of Keshav from RakSan Investors. Please go ahead.

Keshav: For higher value products, what would be the target markets for us going forward?

Sandeep Sikka: For 154 tonnes?

Keshav: Yes.

Rajesh Khosla: 154-tonnes is primarily for cosmetic, perfumery, high-end foods, high-end pharmaceutical, and high-end liquor industry, so the market for these products are available in domestic as well as exports. If you talk about the exports for example like perfumery and cosmetic out of India, the major market is in Europe. If you talk about high-end liquor the major market is in USA. If you talk pharmaceuticals the major market is still within India and if we are talking about other things like food and all the market is spread out all over the world, so all those markets will be tapped as per the requirement going forward. It all depends upon what type of avenues and what kind of pockets are being opened to us.

Keshav: Sure. If we take a five-year horizon, what would be your aspirational product mix in terms of alcohol versus other industries?

Rajesh Khosla: Since in a glass industry, we have an opportunity to change over from one product to the other very conveniently. As far as aspiration is concerned, we want a good basket of all the products together, but besides our aspiration it also depends upon what type of market the things will open up.

In India, the market in is more from alcoholic beverages industry. They are very skewed. They are close to around 75% of the market in the alcohol segment, but the same market in the West Country or the developed country is slightly less. It is close to around 50% or even less than 50%. We look forward that once the GDP of the country grows and India becomes 5 trillion market, so obviously there are other segments which are going to open up because of the increase in the purchasing power of the people besides the alcohol, so obviously we will go by the flow and we will be tapping all those markets which are yet to come up. As far as attractiveness of the market is concerned, it is purely on demand and supply, which can be spotted out on the spot basis only rather than here, but our aspiration is for a healthy growth should be spread out evenly in all the segments.

Keshav: Sure. If we look two to three years back, have we seen any demand shifting from HNG to us? Have we gained market share there?

Rajesh Khosla: Indian glass market because of the glass typical business, they have to operate at close to their capacities otherwise it becomes very inefficient operations and glass market demand and supply is very, very poised, and it is a very localized market also where geography plays a very important role. We have been supplying to our customers which are in our catchment area and things have been according to that, but yes once HNG is on a different route probably yes there may be some customers, which may like to shift the demand there and there but more or less it is a very well stabilized market, which are being served by the regional players, so I do not think so much of the things shifting here and there.

Keshav: Lastly, you had mentioned about the EBITDA per tonne being higher for the new furnace, so what kind of value add we would be achieving from it, if we compare it the earlier furnaces?

Sandeep Sikka: If you see today our average price realization on the container glass are around Rs. 33,000 to Rs.35,000 per tonne, so in these high-end furnaces, our target is that we should get around Rs.60,000 per tonne plus, which right now with the trial runs, which we are doing the average is coming in that range around Rs.55,000 per tonne to Rs.60,000 per tonnes, so the target is that as we build the business over a period of time this should go beyond Rs.60,000 per tonne.

Keshav: Is it a function of the furnace or is it the function of the application areas we are getting into? Is it enabling you to get into better products higher-value products?

Rajesh Khosla: It is combined for example, let me say in case of liquor, we initially supplied from a normal furnace also and we also supplied from the specialty furnace also. Specialty furnace has their own demand and their own realization and own EBITDA and a normal furnace of their own. The same thing is in the foods. The same thing is the pharmaceuticals, so there is a segment and within the segment specialty glasses have their own market share segment.

Keshav: Sure, that is all from me Sir. Thank you and all the best.

Moderator: Thank you. The next question is from the line of Binod Modi from Sharekhan. Please go ahead.

Binod Modi: Thank you for the opportunity. My questions pertain to depreciation amount. Can you share how much depreciation we would have booked in this quarter from our new 154 TPD plant?

Sandeep Sikka: Rs.10 Crores to Rs.12 Crores per annum.

Binod Modi: Why I am asking this question; I remember in previous quarter you had mentioned that your deprecation amount would be lower by Rs.30 Crores to Rs.35 Crores from this fiscal but looking at Rs.29 Crores kind of deprecation it does not look like that is why I was asking this question?

Sandeep Sikka: You are comparing continued operation to the discontinued operation.

Binod Modi: Yes.

Sandeep Sikka: There is a depreciation in this continued operation so that needs to be checked.

Binod Modi: Fine. My second question pertains to margin. Given the fact that you have already taken price hike in the previous quarters and in addition to that you will have volume flowing from high margin this specialty glass side, so given all these things you still maintain that the margin would be by and large to the extent of 18% to 18.5% of last year, so any sense on that? Can there be any sort of surprise can be seen going forward?

Sandeep Sikka: We have already discussed that the margins should remain same.

Binod Modi: Okay fine and my last question; given the fact that you are also spending in organically. Let us say even if you are looking for inorganic expansion going forward, as a company level what kind of debt EBITDA you are working on at the end of this scenario that is what my question?

Sandeep Sikka: That depends on what is an opportunity and how much the incremental benefit is out of the same, but our intent is always that the company should be adequately leveraged also. It is not that the company should not be leveraged because the cost of debt on a pretax basis is still less than 7%, so it creates a lot of opportunity for us as such, so ideally the leverage debt to EBITDA should be around three times or less than that.

Binod Modi: Thanks a lot.

Moderator: Thank you. The next question is from the line of Vivek Gautam from GS Investment. Please go ahead.

Vivek Gautam: Although you are participating in the bid, but I believe the biggest player in the glass sector is HNG, which is on the glass side, so what were the reasons and what does it tell on the sector?

Sandeep Sikka: I could not understand your question clearly.

Vivek Gautam: If the leader of a company of the biggest player of the sector goes into liquidation on NCLT, just wanted to understand the reason behind it?

Sandeep Sikka: The overall sector is doing good as such, but if one company is not doing we cannot talk about that particular company as such.

Vivek Gautam: A positive impact on the sector post consolidation and post NCLT decision and can it help be positive change for the sector and our company?

Sandeep Sikka: This is difficult for us to comment on this. Our apologies because this question has many elements, which are bound by confidentiality so it is difficult for us to answer my apologies for the same.

Vivek Gautam: The raw material, freight and everything is at the peak currently and they should correct from here and what positive impact can it have for us in terms of margins. Gas, I believe the prices are very, very high, but they should come down from here from peak size?

Sandeep Sikka: The increase in the input raw materials like fuel and other things have been steep over the last six months. Our in-house we wish that it should get slightly ironed out now, but again it depends on the number of macroeconomic global factors like fuel price will still be gone by what is happening in Europe. The other raw material again depends on how the freight cost behaves globally, so the view is that right now the thing should stabilize for some time and that is the view for the next six to nine months, after which we have to see and evolve. Nobody can make a guess out of it. It will be a very wild guess whether the commodity prices will get down or move up and how the whole global economic factors will merge from here.

Vivek Gautam: Freight I believe has started already coming down.

Sandeep Sikka: Yes. It has slightly dipped.

Rajesh Khosla: The freight cost is up so one of the factors is the fuel prices or the oil prices. If the oil prices become stable, so freight will automatically get stabilized and neutralized I hope so.

Vivek Gautam: Thank you.

Moderator: Thank you. As there are no further questions, I would now like to hand the conference back over to the management for closing comments.

Sandeep Sikka: I would like to thank everybody who joined us on the call today. I hope we have been able to answer your queries wherever we could. Some of the questions we could not answer because of certain confidentiality that is one excuse we will take. Other than that thank you very much.

Moderator: Thank you. On behalf of AGI Greenpac Limited that concludes this conference. Thank you for joining us and you may now disconnect your lines.

Notes:
1. This transcript has been edited for readability and does not purport to be a verbatim record of the proceedings
2. Figures have been rounded off for convenience and ease of reference
3. No part of this publication may be reproduced or transmitted in any form or by any means without the prior written consent of AGI Greenpac Limited

For further information, please contact

Ravi Gothwal / Atul Modi
Churchgate Partners

+91 22 6169 5988
agi@churchgatepartners.com