



“AGI Greenpac Limited  
Q2 FY24 Earnings Conference Call”

**October 27, 2023**



**MANAGEMENT:** **MR. RAJESH KHOSLA – PRESIDENT & CHIEF EXECUTIVE OFFICER, AGI GREENPAC LIMITED**  
**MR. O. P. PANDEY – CHIEF FINANCIAL OFFICER, AGI GREENPAC LIMITED**  
**MR. SANDEEP SIKKA – GROUP CHIEF FINANCIAL OFFICER**

**MODERATORS:** **MR. MIRAJ M. SHAH – ARIHANT CAPITAL MARKETS LIMITED**

**Moderator:** Ladies and gentlemen, good day and welcome to AGI Greenpac Q2 FY24 Earnings Conference Call hosted by Arihant Capital Markets 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 the 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. Miraj M. Shah from Arihant Capital. Thank you and over to you sir.

**Miraj M. Shah:** Thank you Enzo. Hello and good evening, everyone and thank you for joining AGI Greenpac Q2 FY24 Earnings Call.

From the management today we have Mr. Rajesh Khosla – President and Chief Executive Officer, Mr. Om Prakash Pandey – Chief Financial Officer and Mr. Sandeep Sikka – Group Chief Financial Officer.

So, without further delay, I'll hand over the call to management for their opening remarks and commentary. Over to you sir.

**Om Prakash Pandey:** Good evening everyone and welcome to AGI Greenpac’s Q2 FY 2024 Earnings Call.

We have already circulated our Earnings Presentation which is available on our website and the stock exchange’s website. We hope you have gone through the presentation, and we would be happy to answer any questions afterward.

Our financial performance continues to be robust, showcasing significant year-on-year growth.

In Q2 FY24, we reported Revenue from Operations of ₹615 crore, marking a substantial 20% year-on-year growth compared to ₹512 crore in Q2 FY23. Our EBITDA stood at ₹139 crore, with a commendable margin of 22.4%, reflecting a remarkable 59% year-on-year increase from ₹87 crore. Our Profit before Tax reached ₹74 crore from ₹47 crore, showing a corresponding growth of 59% and our PAT grew by 65% to ₹56 crore.

During H1 FY24, we reported Revenue from Operations amounted to ₹1,174 crore, representing a notable 14% year-on-year growth when compared to the ₹1,034 crore reported in the H1 FY23. Our EBITDA, at ₹279 crore, demonstrated a commendable margin of 23.5%, marking an impressive 55% year-on-year increase from the previous fiscal year's ₹179 crore. Furthermore, our Profit before Tax reached ₹160 crore, reflecting a corresponding growth of 57% when compared to the ₹102 crore reported in the same period of the previous fiscal year. Our PAT grew by 20% to ₹120 crore.

Our net debt stood ₹558 crore as on 30th September 2023.

We will continue to maintain our financial discipline, maintain internal efficiencies and uphold our commitment to sustainable business practices.

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. Ladies and gentlemen, I am delighted to share with you the outstanding financial result of AGI Greenpac Limited for the Second Quarter of the Fiscal Year 2024.

We have witnessed remarkable growth, and I would like to highlight a few key points that underpin our continued success. Realigning of one of the furnaces undertaken in Q1 '24 is now complete and our capacity utilization during the quarter exceeds 95% on the back of efficient planning, operational flexibility, optimized production processes and strategic inventory management. Our dedication to enhancing internal efficiencies and ensuring customer loyalty has been the driving force behind our accomplishments.

We firmly believe that these principles are instrumental in propelling AGI Greenpac Limited to greater heights. As we look ahead, we remain committed to these values which we consider fundamental to our future success. Thank you for your trust in AGI Greenpac Limited and I am confident that together we will continue to prosper and meet the ever-evolving demands of our industry.

We are now ready to take any questions from your side.

**Moderator:**

Thank you so much sir. We will now begin the question-and-answer session. Anyone who wishes 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. The first question is from the line of Harsh Shah from Dalal & Broacha Stockbroking Private Limited.

**Harsh Shah:**

A couple of questions from my side. Firstly, on the capacity utilization that you have mentioned of 95%. So, would that be on 1,600 tons capacity or the 1,700 tons capacity?

**Sandeep Sikka:**

New additional capacity had come in the month of June and we are talking basis the overall capacity which is here other than the 154 tons capacity which is right now operating at around 65%-70%.

**Harsh Shah:**

So basically the utilization levels that we are running at, would it be safe to assume that we would be incurring further capex in this year, by the end of this year or next year for further capacity addition or would it be a case wherein we would be focusing more on HNGIL if that acquisition goes through?

**Rajesh Khosla:**

The capacity utilization is certainly more than 95% and in a glass industry capacity utilization plays a very important role for the techno economic parameters and fortunately, we are running

to the same. As per the business principles when you are reaching this capacity it requires additional capacity addition. But as we have the plans for some organic and inorganic growth that are already there in the pipeline, we may like to fix up those issues first, then rather than putting up anything else.

**Harsh Shah:** And one last question, the margins, are this kind of sustainable over medium to long term say about 20%?

**Rajesh Khosla:** These margins we have been getting for last few quarters and every quarter we have been saying that these are the numbers at which the company is aiming, planning and sustaining and we hope so that these are the numbers at which the company will like to remain there for the times to come.

**Harsh Shah:** Thank you, that's it from my side.

**Moderator:** The next question is from the line of Pritesh Chheda from Lucky Investments.

**Pritesh Chheda:** Just based on the capacity utilization numbers that you've shared between Quarter 4, Quarter 1 and Quarter 2 on whatever capacity that you had, is it fair to assume that there is an 8% to 10% drop in the glass realizations?

**Sandeep Sikka:** It is not 8% to 10% glass realization. There are number of factors which impact realization. Actually, market measures quarter-to-quarter definitely from their perspective. There is a seasonality involved in the overall business, like in hot seasons you have a more demand from beer industry and then rest of the period you have liquor industry and then food industry. There is a seasonality to the overall realization matrices. You will see apple to apple realization mapping on a quarter-to-quarter will not yield anything. We have given a guidance that on a premium term, our margins should be in a range for AGI ranging between 21% - 23% and that's our aim to maintain those margins. Part of our contracts, we have a price adjustment fluctuation formula when we deal with the large multinational brands. There has been some softening of raw material prices. We have given those benefits. But the delta which we accrue in our business and as Rajesh was saying, as we are increasing the capacity utilization there are internal efficiencies which will start building, this whole the growth in margin is more linked to how efficiently we can achieve.

**Rajesh Khosla:** Mr. Sikka, I think for the benefit of all, there are no price reductions but there are price adjustments.

**Pritesh Chheda:** So, then I'll put it the other way. This 1,854 tons capacity that we have after this 100 TPD getting added. These plants run at 99% to 100% utilization, Quarter 4 was a 99% utilization if you had mentioned, Quarter 2 now is 95%. So, the question is at this 1,854 TPD based on whatever is the situation today, what is the maximum revenue possible on glass? Considering the seasonality in our product.

- Sandeep Sikka:** If you see on 31<sup>st</sup> March, we had container glass capacity at 1,600 tons per day but with central relining and the expansion we have de-bottled and increased our capacity on the container last by 100 tons and apart from this is 154 tons specialty glass which has additionally come in. We have given guidance that based on the last year, we should be able to maintain our growth momentum range from 15% to 18% growth. It's difficult for us to comment anything on a quarter-to-quarter basis.
- Pritesh Chheda:** No, I didn't ask you on what number when I just asked you what capacity you have on ground.
- Rajesh Khosla:** As far as this quarter is concerned because the maximum revenue will surely depend upon the prices of the glass which are prevailing in the market and these prices are directly proportional to the raw material prices and the fuel prices which are there because the final prices are adjusted according to that. If you might have seen that after a COVID period when there was an upsurge in the fuel prices, the prices got adjusted automatically and when there will be a softening down so there will be the price adjustment accordingly. So today if we want to tell you what the maximum revenue can be, that is a little, I think it's a very hypothetical thing to talk about. But on the safer side or on a practical side you can easily assume a quarter into 4 times is the number which we can foresee today on that basis.
- Pritesh Chheda:** This quarter into 4x?
- Rajesh Khosla:** Yes, this is the normal thing, but seasonality factor is of course there because Quarter 3, Quarter 4 normally operates little better than Quarter 2. So, these are the seasonality numbers. So, you have to take everything into consideration and do it.
- Pritesh Chheda:** And you have ₹400 crores coming from the PET and the closures annually?
- Rajesh Khosla:** Mr. Sikka, I think we are not giving the breakup normally in the system I think so.
- Pritesh Chheda:** I am not asking for a particular quarter but just looking at the conference calls of Quarter 4 and all those just joining the dots.
- Sandeep Sikka:** So, another ₹220-250 crores in that range.
- Pritesh Chheda:** Is there a swing in realizations between every quarter considering the product mix?
- Rajesh Khosla:** Absolutely. It has happen because each segment has a different realization and the mix basically decides what can be there, it all depends.
- Pritesh Chheda:** So, the richest mix is Quarter 4?
- Rajesh Khosla:** Historically it has happened like that. I hope it is going to happen like that only.
- Pritesh Chheda:** And my last question is, on the expansion side now what is the progress on HNG and any other expansions that should be undertaken in AGI Greenpac?

- Sandeep Sikka:** On HNG as you might be aware, there were cases in NCLAT which we have won, there were two cases. There were two underlying issues on which the cases were filed are on 6-7 parties. We have won that, and those parties have now put the appeals against that order, NCLAT orders, into the Supreme Court. Supreme Court has yet to admit these cases. The next hearing is on the 5<sup>th</sup> of December. This is subject to judicial processes where we can't estimate the time schedule but should be 3 to 4 months more.
- Pritesh Chheda:** And on the capacity and the capacity expansion, so first clarifying on the capacity, you said 1,500 TPD at the end of Quarter 4.
- Sandeep Sikka:** 1,600 is now 1,700, another 154 tons we have on the high-end furnace.
- Pritesh Chheda:** So, 1,600 plus 100 and plus one, so it's 1,854 TPD?
- Sandeep Sikka:** It will work through 1,854 TPD.
- Pritesh Chheda:** 1,854 TPD is what we have which was basically 1,500 plus 154 last year, it was 1,654 TPD last year.
- Sandeep Sikka:** Last year it was 1,600 plus 154 TPD and now it is 1,854 TPD.
- Pritesh Chheda:** So, when you say 15% growth which means again by year end you will be fully utilized?
- Sandeep Sikka:** That's the plan.
- Pritesh Chheda:** So, what happens on the capacity expansion in AGI Greenpac?
- Sandeep Sikka:** Basically, as Rajesh has already spoken, the focus is not to invest more money, but we have another furnace coming up for relining next year. We'll also try to debottleneck the capacity there because the market demand is supporting the whole thing. It's not putting a new capex but whatever is coming for the relining. We'll try to make the furnaces of bigger size so that we can give the higher progress.
- Moderator:** The next question is from the line of Virat Pansuriya from SkyRidge Wealth Management.
- Virat Pansuriya:** Congratulations on the good set of numbers. My question is regarding the other expense cost, it has increased significantly as a percentage of sales, so what is the reason for the same and is it a one-time thing or will it sustain?
- Sandeep Sikka:** If you see, in Quarter 2 especially we had many litigations for the purpose of acquisition of HNG and these litigations were at all places which includes NCLT, NCLAT even at High Court and the Supreme Court. It includes a big chunk of legal expenses and as a part of the overall process since the matters are in court, I would not like to disclose what are those legal expenses but definitely once we acquire these expenses will go off.

- Virat Pansuriya:** Got it, any outlook on the raw material prices and the current trend.
- Rajesh Khosla:** You're talking about the outlook on the raw material prices or the input prices, am I right?
- Virat Pansuriya:** Yes.
- Rajesh Khosla:** As you know, the raw material prices of course demand and supply is one part, but the geopolitical situation is another part. The way things are happening in the West Asia part. It is anybody's guess as to what can happen to the fuel and what can happen to the freight charges which are the shipping line because it was next to the Suez Canal. All those aspects are there. I think if I take these things out of picture which should not be there. It probably looks to be a very flat market in the times to come. Besides the geopolitical situation, if rest of the factors I take it in consideration, it looks to be a very flat market. But geopolitical situations are too volatile and can do anything.
- Because fuel prices are directly proportional to the stability factor in the Middle East and thereafter even other products like for example soda ash and other products, they are also directly proportional to the freight charges and the shipping line availability and even the fuel charges to extract the soda ash from the mines and from the lakes or something like that. It is very directly proportional to the geopolitical situation. that's what I say, it looks to be flat except this part.
- Virat Pansuriya:** Thank you very much. That's it from my side.
- Moderator:** The next question is from the line of Darshil from Crown Capital.
- Darshil:** I would just like to maybe guess what your sense is that we are maybe not doing capex on AGI and waiting for the acquisition but due to various litigations that's taking some time. So maybe from what I see by FY24, we'll be at full capacity. So, what timeline do we have for our own internal use? that okay, the litigation is taking its time but then we might just keep on adding significant capacity so that we can keep our journey of growth of 18% - 20% for FY25? So, what would be your color on that like how do you see it because we know that in our country litigations can sometimes take more time than what we intend to?
- Sandeep Sikka:** We have already spoken about the capex. This year one event was we added 100 tons capacity and apart from it on 1<sup>st</sup> January the commercial production on the high-end 154 tons furnace started. Next year, another furnace is coming up for relining and we see an opportunity for further expanding the capacity there by 50 to 100 tons depending on how the whole thing works around. That's how we continue to gain the momentum on sales growth as such. Obviously, the product mix will play a very critical role as we move forward. That can give us a huge opportunity in terms of maintaining our growth, even with the marginal increment in the volumes we can continue the momentum on the sales.
- Darshil:** Is it fair to assume irrespective of when our acquisition goes through for FY25 also we'll be on a similar growth trajectory with our guided margin? Is that fair to assume?

- Sandeep Sikka:** We have guided that we will continue the momentum of 15% to 18% growth, and we hold it as of now. I think you are asking a question of FY25-26 as I could understand. By that time we feel the acquisition will come and we'll have a bigger play on this.
- Darshil:** My last question, with the acquisition what could be our targeted or had we may be doubled the revenue? What would it add to us, maybe ₹5,000 crores is something that we could look for with the acquisition coming in, how would that play out and will it be similar margin?
- Sandeep Sikka:** Post the acquisition we feel that in the next 2 to 3 years once the acquisition is done and we slowly ramp up the furnaces which are in a not that good situation today, we should have a total combined sales ranging ₹5,500+ crores.
- Darshil:** With similar margins?
- Sandeep Sikka:** No margins at the acquired company may be different because it all depends on how the efficiencies to be built. When we acquire an asset, efficiency doesn't build in the same day. It's wrong to assume that to compare our efficient operations versus theirs. We'll have to invest time, energy, and resources to build those efficiencies, and this will take some time.
- Darshil:** Thank you, sir and all the best.
- Moderator:** The next question is from the line of Nikhil Gada from Abakkus AMC.
- Nikhil Gada:** Congratulations on the great set of numbers. Firstly, would be great if you could provide the production volumes or the production numbers for the second quarter and also the sales volume numbers.
- Sandeep Sikka:** Nikhil we have not been providing this as a matter of practice.
- Nikhil Gada:** Is it fair to assume that when I do the calculation of 95% with the quarterly capacity would more or less get the production numbers?
- Rajesh Khosla:** This can be your calculation method because there are multiple factors which are involved in that. But you being an analyst, I think you can take it for your own calculation. But the company as a policy we are not declaring, and we may not like to share those numbers.
- Nikhil Gada:** But would it be fair to at least give us the volume growth numbers? As for how much we have grown in this particular quarter?
- Rajesh Khosla:** Too difficult to say this part.
- Nikhil Gada:** So, because the reason for asking is when we look at our first quarter numbers and I assume that we had the furnace shutdown as well, so some of the sales were lost which you had also alluded in the first call. And now we are seeing these ₹550-560 odd crores run rate going to ₹615 crores. So around ₹50-60 crores of sales that we have added. So just wanted to understand whether it



was from some pricing action or it was also from the first quarter to second quarter we had seen the bump up in volumes?

**Rajesh Khosla:** Volume also has played, and product mix has also played the role to bring this total number to ₹615 crores what we have declared.

**Sandeep Sikka:** But Nikhil as a part of the process, there is a seasonality involved. In some of the quarters we do production to stock because the demand which is coming from Q3-Q4, when you see the inventory numbers versus the March you will see that increase also happening during those periods. The good part I think the communication to the community is that whatever capex we did, we started utilizing that CAPEX in an efficient manner and 154 tons will load right now that is at 65% -70% capacity utilization which we feel in next 12 to 18 months we should be able to fully load up.

**Nikhil Gada:** Got it sir, But I'm still assuming that specialty glass plant, we have still not been able to generate the specialty sort of volumes. We're still working on let's say the beer business or the other bottling business but not on the cosmetics part of the business. So, we are still awaiting orders for that.

**Rajesh Khosla:** If I understand the question, you meant to say this furnace of 154 is not able to generate the business of cosmetic but they are generating the business of normal glass, is it like that?

**Nikhil Gada:** Yes.

**Rajesh Khosla:** Not really. The business from 154 TPD is on the cosmetic side and the business what you are talking as the normal glass, we cannot produce the normal glass but yes it always happens because sometimes you have also to produce some of the new segments to enter or to develop the new segments. So that may have been mistaken as the normal glass segments but normally 154 produce the cosmetic and they sell the cosmetic only. But within cosmetics there are different spectrums. One is a very high-end cosmetic, and one is a medium end cosmetic. So, there are various segments and we have to address the various segments on the basis of the volume's availability, market availability, price availability and so many other factors.

**Nikhil Gada:** And then you mentioned that we have not done any price reductions but price adjustments. I really did not get that. Are you trying to say that the spot prices?

**Rajesh Khosla:** Price reduction is a one-sided story where the manufacturer or the company, they reduce the price to match with the market requirement and the price adjustment, it is a two-way understanding between a buyer and a seller on the basis of some predefined formulas or predefined requirements.

**Nikhil Gada:** I understand that this would be on our contract business. But in the spot business we would have to pass on the price decline that we have seen in the raw material?

**Rajesh Khosla:** Yes, when we have enjoyed the upside, we have to enjoy the downside also.

- Nikhil Gada:** So just on that perspective, have we been able to pass on all the price decline or we think that we'll be further...?
- Rajesh Khosla:** Not really because in a contract, it is the way the prices are captured that is the way it has to be adjusted. It is not the prices as available; it is prices as defined.
- Nikhil Gada:** Understood and Sandeep sir, you mentioned that this litigation costs were there in the second quarter. Do we expect them to even come in the 3rd and the 4th Quarters?
- Sandeep Sikka:** Not to that extent. This cost us more in Q1 and Q2. But Q3 right now one litigation, there are two litigations in Supreme Court which is going on. It is not that it will become zero but definitely not as quantum as we had in Q2 because in Q2 we had NCLT, NCLAT, High Court and Supreme Court all of them.
- Nikhil Gada:** Understood, just last couple of questions on the P&L and balance sheet side, we have seen a sharp increase in finance cost. Is it commensurate with the increase in debt that we have seen or is there a further increase in the cost of debt as well?
- Sandeep Sikka:** It's more related to the increase in debt. The cost of debt has not increased substantially and primarily it is coming from the fact that we recently did this capex of capacity expansion and relining, so there is a depreciation and the interest charge towards that.
- Nikhil Gada:** So, we are looking at FCF close to the way we are going currently, close to in the range of ₹300-400 crores. So, is it something which we are going to keep it for the acquisition purpose, or we plan to reduce the debt meaningfully?
- Sandeep Sikka:** Basically, I don't think we have given guidance for reduction of debt. Our acquisition is primarily debt led here and we'll see those opportunities once we have the entity with us, we may raise some equity and then normalize the debt level, but the initial level of debt will rise with the FCF.
- Nikhil Gada:** Thank you sir, for answering all my questions and all the best.
- Moderator:** The next question is from the line of Kaushik Poddar from KB Capital Markets Private Limited.
- Kaushik Poddar:** I just wanted to find out on market share, what is your current market share in glass containers?
- Rajesh Khosla:** It's difficult to answer this question on the market share because there are so many capacities which have come up on the unstructured market side and from the demand side also, import side also, so very difficult to answer on this question right now.
- Kaushik Poddar:** At least on the organized sector, can't you answer this question?
- Rajesh Khosla:** I think it is these we can take it on the similar level what we have been defined earlier some time back.

- Kaushik Poddar:** Which is what is the number you had given?
- Rajesh Khosla:** Around 18% or something like that, 17% -18% we used to define. That is the same one.
- Kaushik Poddar:** Once you get also HNG, what will be your market share?
- Rajesh Khosla:** That's what I say, it will be very difficult to say like that because some of the capacities of the HNG may not be operating that is one part and some of the capacities of the other people, they may start operating because something is in pipeline. So difficult to say on this matter. It is too personally opinioned on the capacity on the market share.
- Kaushik Poddar:** As I understand HNG capacity was much higher than yours?
- Rajesh Khosla:** But how much they will be operating that is a question, not like a rated one but how much they are operating
- Kaushik Poddar:** You're talking of the effective capacity?
- Rajesh Khosla:** Yes, effective capacity.
- Kaushik Poddar:** So since right now your turnover is around ₹2,500 crores and you are speaking of something like ₹5,000 crores by FY26 or FY27. In that case will you have something like 36% -37% or 40% market share by that point of time? Can I take it that way?
- Rajesh Khosla:** I think I have to work out on this. I'm sorry that I'm not able to answer.
- Kaushik Poddar:** You have to give a thumb rule number. Will it be 35% - 40%?
- Sandeep Sikka:** Usually when we work out these numbers basically it's not a question of how much market share, we have. We don't work or we don't strategize our plans according to that. The strategy is always from customer service and how we are able to fully load our capacity.
- Kaushik Poddar:** My question is with a different motive. I mean tomorrow can the CCI come in the way of your takeover because you are clearly over a thousand crore and gaining market share, can CCI come up with something like that, can CCI put a problem?
- Sandeep Sikka:** We have got approval from CCI, and you can visit their website and have a copy of the order.
- Kaushik Poddar:** So, you have got an approval before this takeover, is it?
- Sandeep Sikka:** Yes.
- Rajesh Khosla:** We have got the approval. So, it is a pre-requirement to operate to the next level.
- Kaushik Poddar:** And the ruling in your case is there in the CCI website is it, that's what you are saying?

- Rajesh Khosla:** Yes absolutely.
- Sandeep Sikka:** You can see the CCI order on the CCI website and you can visit the NCLAT website to have the order against the petition filed against the CCI.
- Kaushik Poddar:** Thank you.
- Moderator:** The next question is from the line of Vivek Gautam from GS Investment.
- Vivek Gautam:** Just wanted to know about the opportunity size and premiumization of liquor market which is happening in India on our company. And basically, what's the expected growth rate we can have over next 2-3-4 years? which we can expect in between and the impact of raw material soda ash prices on us.
- Rajesh Khosla:** If I understand your question properly, you say the premiumization in the liquor segment is going to grow. So, what is our comment for the next 2-3 years, am I right like this?
- Vivek Gautam:** Correct.
- Rajesh Khosla:** So, in this case Indian economy is today 3.6-3.8 trillion economy with a population of 1.4 billion people. The per capita income comes out to be close to \$2,500. On the other side when we are moving towards the 5 trillion or 5.5 or 5.6 trillion. Our per capita consumption or per capita income is going to grow to \$4,000. So, in this \$4,000 income level on a global scale what we have seen historically in other part of the world, the premiumization on the liquor part grows very fast because the consumption pattern of the behavior or the consumption behavior of the customers is very different in \$4,000 and \$2,200 because everything goes to the lifestyle, and this is what we start feeling also in the market now. So, under this feeling so certainly the premiumization is to grow. All the big customers will be launching, the whiskey's to attract the customers with those pockets with those income levels and certainly the glass is going to play a very big role. So, we have already geared up to that level where we are going to address this premiumization and the aspiration of the customer and the consumer and even the manufacturers to that level and that is also 154 this new business is also in line with that. So, we also have a new experience center, design center, we have the people who can take care of our patents, they can register our designs. So, all those activities have been addressed and this is certainly going to add up, help in premiumization. If you take it my personal opinion, it's not my official stand but I think so 20% to 30% of the Indian whisky will be moving towards a premiumization and you will see a good amount of churning in this segment in the times to come.
- Vivek Gautam:** Any hindrances which we will have to overcome and what has been the impact of soda ash prices for us?
- Rajesh Khosla:** Soda ash is a commodity, it's purely on the demand and supply. So, there is a total soda ash consumption or a production of around 60 million tons in whole of the world which is certainly going to grow up to around 75 million tons in the times to come with the new capacities which are being added in Turkey in USA and in China. So, these capacities are being added and the

supply is going to go up. Now it all depends upon the demand how it's going to match. So as on today it looks like that these numbers looks to be little flattened. There is not going to be much change and it will remain at the same level, which is already, I think, it's a reasonably good level. But again, it will all depend on how the geopolitical situation happens. If the demand goes down in the world, the soda ash prices may go down further. If the demand goes up, the prices may little strengthen. So, it all depends on the demand side because demand is a linear curve and supply is a step curve. So, the step curve is already taken action and capacities are being added up.

**Vivek Gautam:**

Thank you.

**Moderator:**

The next question is from the line of Niharika from Equitas Investment.

**Niharika:**

My first question is on the employee cost side. So, we have seen almost 20% quarter-on-quarter increase from ₹44 to ₹52 crores. So, is it like a one off or is it like a normal level at ₹50 crores per quarter?

**Rajesh Khosla:**

I think Mr. Pandey will be able to address it properly.

**Om Prakash Pandey:**

Actually, as you know our capacity of 154 TPD Cosmetic Glass Furnace was capitalized from the last quarter of the previous financial year. So, there was no expenses booked related to 154 TPD operations during corresponding period of the previous year for comparison purpose of employee cost. Apart from this the annual increase in the salary and wages given to the employee is included in the Q2 of 2023-24. So, these are the normal numbers which are expected in the future for current operation.

**Niharika:**

And I couldn't hear at the initial part of the call but when we say 95% capacity utilization it is on 1,854 or is it excluding the 154 specialty?

**Rajesh Khosla:**

It is excluding 154 TPD.

**Niharika:**

And on a general understanding perspective as a percentage of cost what would be percentage of soda ash and what would be percentage of power on a very broader?

**Rajesh Khosla:**

We have no problem in answering but the problem is the soda ash consumption depends upon so many factors. Whether you are using natural soda ash or you are using synthetic soda ash. And the other factor which is also very important is, it also depends upon how much percentage of cullet which is a scrap you can say which is being used. So, it is very directly proportional and the availability of scrap or cullet which we call it in our language, the availability is very dicey, very fluctuating, very seasonal and it all depends. So, the percentage of soda ash consumption per ton of glass, they change very drastically from one month to the other month. So that's the reason this one number is not very accurate or giving a right picture for that.

**Niharika:**

For FY23 what was the percentage, just for understanding that out of say 100 how much will say soda ash form?

- Rajesh Khosla:** Again, I'm saying typically whatever batch you use it, it consumes almost around 18% whatever batch. But then it all depends upon the cullet percentage also. So, if you put together maybe around 14% -15% or something like that.
- Niharika:** And power would form how much?
- Rajesh Khosla:** I think so, we do not intend to give the breakup of our cost because of the strategic intent and that's the reason we are not sharing to that level.
- Niharika:** And my last question is what is the cost of debt for weighted average cost of debt for us for this quarter?
- Sandeep Sikka:** That's around 7.8%.
- Niharika:** It has not increased substantially quarter-on-quarter?
- Sandeep Sikka:** No, not much.
- Niharika:** One more question. I understand that HNG acquisition, the margins would be lower than our or compared to AGI but 2 years down the line will HNG acquisition be EPS accretive for us? I understand ₹5,000-₹5,500 crores of turnover, but do you feel based on your preliminary calculation that it will be EPS accretive?
- Sandeep Sikka:** That's the reason we are acquiring it.
- Niharika:** Understood, thank you very much.
- Moderator:** The next question is from the line of Amnish Aggarwal from Prabhudas Lilladher Private Limited.
- Amnish Aggarwal:** I have a couple of questions mainly on the HNG acquisition. The first being that how much is the capacity of HNG and secondly the acquisition, does it include both the bottled glass as well as the float glass which HNG used to make?
- Sandeep Sikka:** HNG doesn't have a float glass today, they only have a container glass. And HNG today is effectively operating at a capacity ranging 2,300 tons per day to around 2,600 tons per day. A few of the furnaces are already shut for many years and rest of the furnaces need capex for improved efficiency. That's the status of the HNG furnaces.
- Amnish Aggarwal:** And Sir, how much money we are going to pay for that because you said that it will be entirely debt funded and do they still continue to operate those furnaces on furnace oil or they have over the years changed them to you can say your natural gas and all?
- Sandeep Sikka:** We cannot disclose the acquisition price because we have gone by the confidentiality and other regulation plan. We have data on HNG which is public data since this is an acquisition under the

IBC and the data available in the data room. They are operating in furnace oil and mix of other fuels also.

**Rajesh Khosla:** In this case the natural gas and furnace oil again also depend upon the prices. And in the last few quarters we have seen there is a huge fluctuation on the prices of natural gas. Sometimes the natural gas is competitive and sometimes they are beyond even any justification of the prices because of the Ukraine-Russia war, the availability of cases. So, they are interchangeable but depend purely on the economics.

**Amnish Aggarwal:** Just one bit, finally used that post this acquisition is consummated you are looking at ₹5,500 crores sort of a top line. So, if I analyze your current top line and HNG because it's a publicly listed company, a top line of around ₹2,500 crores. Don't you think ₹5,500 crores is too conservative or it factors in that you might have to close down some furnaces for the time being and then refurbish them or relay them and all that stuff?

**Sandeep Sikka:** The guidance which we have given on ₹5,500 crores is not immediate as soon as we acquire. There will be definitely time lapse because we'll have to invest money, resources in terms of relining those furnaces. Whatever is a market demand to a certain extent that only we can sell. It's not that if they have a capacity of 6,000 tons or 7,000 tons, we will start producing 7,000 tons. Ultimately the product has to be sold in the market. There is a natural demand in the market growth and growth in the volumes. We will be able to cater for that over a period of time. But this is the guidance for the next almost 2 years once we acquire it.

**Moderator:** The next question is from the line of Akshat from Amara Capital.

**Akshat:** My question is very simple. Once that acquisition has gone through, if you have all approval from NCLT and Supreme Court, how much time according to you it will take for the integration between AGI and the other company?

**Sandeep Sikka:** What do you mean by integration?

**Akshat:** Means that you will be able to manage their capacity and run it according to you as you want.

**Rajesh Khosla:** This integration is a multifaceted issue. Integration of selling, integration of operations, integration of raw material procurement, integration of IT, integration of HR facilities or accounting systems and other things. So, this is the multifaceted, so probably what is going to happen is after the acquisition completes, some of the integration will happen in a short span of say around 2 weeks or 3 weeks' time particularly on the selling side of that and then subsequently on the purchase side. The manufacturing side is a matter which is going to take some time, maybe around a few weeks or a few months and accounting is a legal issue where we have to integrate. There is no other chance of doing it and the rest of the practices they will have their own course of time. So, this is the thing and we have also prioritized one by one how things are to be integrated.

- Akshat:** And given that this acquisition went through, how much deterioration in the margin you are expecting after the merger because that other company might not have the same efficiencies to play for the same margin?
- Rajesh Khosla:** We are expecting a good amount of synergies. So, on the one side deterioration can happen because of you might have seen. But on the other side, there is a balancing act of some sort of synergies, some sort of integration, some sort of best practices in the manufacturing what we are doing here, some knowledge transfer will be there and then the cost reduction because of the common facilities, common jobs which we are going to do, rearrangement of the jobs and producing in the best possible economical manner. So, these are also the factors which are certainly going to push the margins. So, our wishful thinking is to make things at par but there is a time lag between what we expect and what we are there. The easiest way is both are listed companies. Somebody can add up the two numbers and work it out. So that is the starting point of any discussion.
- Akshat:** Given that synergy works out, can you lose some of your clients? Are there some common clients which you have to sacrifice or some volume, something like that some business gone?
- Rajesh Khosla:** We are there to serve the market, we are there to serve the customers and all our revenue profit, everything will come from the customer. So those are the people who are to be taken care and they are the people who will be in the focus. Our first strategy is to make sure that the whole market is fed properly with the right material and with the right quality, so that our industries, all the downstream industries they are able to get the exact material what they are looking for and they should be able to add to the economy, whether through the exports or through the domestic sale. I don't think there is any sacrifice or anything but A+B model is to be operated.
- Akshat:** Just the last question, you have mentioned in the beginning there is a hearing going on in Supreme Court in the beginning of the call. So, can you put some light on that? Which is the other party who is opposing?
- Sandeep Sikka:** There are many parties who are opposing. You can check the Supreme Court website by name of HNG so you can see those.
- Akshat:** Thank you so much and my best wishes.
- Moderator:** The next question is from the line of Mr. Abhishek Dixit from Hem Securities.
- Abhishek Dixit:** Congratulations on the good set of numbers. As you said, in next 2 to 3 years you are expecting a revenue of ₹5,000 to ₹5,500 crores. So how much can we expect from coming from HNG out of these ₹5,000 crores?
- Sandeep Sikka:** If you see these ₹5,500 crores revenue will be expected post acquisition which is subject to the current litigations and acquisition under the IBC process. We have given for AGI standalone that we will continue our momentum of 15% -18% growth. I'm talking of momentum. That means next year also we should expect a growth from the standalone. This is how the whole



number looks like. When we acquire HNG, we have stated that it's not that we'll get the full production on day one. We may have to reline certain furnaces, shut down certain furnaces for the time being so that we can do capex. The total number is based on the overall mix of everything, one, we are acquiring secondly, we are stabilizing and third market demand that we should be able to fully load those furnaces.

**Abhishek Dixit:** Any figure in the initial years how much can we expect like any amount?

**Sandeep Sikka:** No that's a market estimate.

**Abhishek Dixit:** And what will be our over debt level after acquisition of HNG?

**Sandeep Sikka:** We have given guidance on our media that post acquisition right now this whole acquisition is happening with the debt initially. But in 2 years from post-acquisition, we feel the debt level should be ranging from ₹2,000 to ₹2,500 crores.

**Abhishek Dixit:** So, are we funding this full acquisition from debt only?

**Sandeep Sikka:** To start with.

**Abhishek Dixit:** Thank you and best wishes.

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

**Sandeep Sikka:** I'll just like to thank everybody. I think this has been a very interactive session and I hope we were able to satisfy the queries. If anything, else is there you can get back to us or to our investor relation agencies and we'll be very happy to answer. Thank you again for joining us.

**Moderator:** Thank you so much. On behalf of Arihant Capital Markets Limited that concludes this conference. Thank you for joining us and you may now disconnect your lines.

**Notes:**

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