AGI Greenpac Limited

March 27, 2023

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long term bank facilities	1,107.00	CARE A+ (RWN)	Placed on Rating Watch with Negative Implications
Short-term bank facilities	250.00	CARE A1+ (RWN)	Placed on Rating Watch with Negative Implications

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

CARE Ratings Limited (CARE Ratings) has placed the ratings of AGI Greenpac Limited (AGI Greenpac) on credit watch with negative implications pursuant to the receipt of approval from Hon'ble Competition Commission of India (CCI) vide a letter dated March 15, 2023 (as informed by AGI Greenpac to the stock exchange in its filing dated March 16, 2023) for acquisition of 100% stake of Hindusthan National Glass and Industries Limited (HNG) in Corporate Insolvency Resolution Process (CIRP) under Insolvency and Bankruptcy Code 2016 and the possible impact of the same on the credit profile of AGI. Earlier, in October, 2022, the appointed Resolution Professional of HNG under CIRP had issued Letter of Intent dated 28th October 2022 (LOI) declaring the company as successful resolution applicant under CIRP with due authorization of committee of creditors of the Corporate Debtor. The company had given its acceptance on the LOI and issued underlying performance-bank guarantees as per requirement of LOI. However, at that time the CCI had not accorded its approval and had sought clarifications and details regarding the acquisition.

Furthermore, CARE Ratings have been apprised by the management the said deal is expected to be largely funded by debt. Accordingly, CARE Ratings expects that the acquisition shall negatively impact the solvency and coverage indicators of AGI Greenpac. However CARE Ratings is in the process of analyzing the exact implications that the said deal will have on the credit profile of AGI Greenpac basis the information being shared by the management in relation to the aforesaid acquisition. CARE Ratings has been appraised by the client that the enterprise value for the deal stood at around ₹2,213 crore which will be largely funded from debt at both AGI and HNG level. Furthermore, the management has also appraised CARE Ratings that the infusion by AGI Greenpac in HNG will largely be towards subordinated debt, but the exact constituents of the infusion and the funding pattern at AGI Greenpac level is in the process of being finalized.

Also, while the company has received the approval of CCI, the effective acquisition of HNG is subject to obtaining necessary regulatory approvals from Hon'ble NCLT and other customary approvals,. CARE Ratings will be closely monitoring the developments in these regards and will resolve the rating watch after analyzing the exact impact of the said deal on AGI Geenpac's credit profile.

The ratings assigned to the bank facilities of AGI Greenpac continues to derive strength from its experienced promoters, its established track record of operations, its strong market position and established relations with its institutional clients in the container glass segment. The operational performance of the company has improved during FY22 (refers to period from April 01 to March 31) and 9MFY23 (refers to period from April 01 to December 31) which has also been considered. The ratings also factor in the diversified presence in the security caps & closures to complement its container glass segment and its comfortable financial risk profile. These rating strengths are, however, partially off-set by capital-intensive nature of the industry, leading to moderate capital structure which may moderate further after the completion of HNG acquisition, susceptibility of AGI Greenpac's financial profile to raw material and fuel price fluctuation risk and foreign exchange fluctuation risk.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Ability of the company to lower its TD/PBILDT to below 3x on a sustained basis post FY23-end.

Negative factors

- Any significant deterioration in total debt position or capital structure of AGI owing to debt-funded acquisition of HNG which may impact the solvency indicators of AGI on sustained basis.
- PBLIDT interest coverage below 4x

[1]Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications

Analytical approach: Standalone

Outlook: Not applicable

Key strengths

Long track record with strong market position
AGI Greenpac, incorporated in February 1960 to introduce vitreous China ceramic sanitaryware in India later diversified into the manufacture of glass containers through the acquisition of Associated Glass Industries Limited (AGI) in 1981. AGI Greenpac holds a leading market share in all the business verticals of its presence. Post Demerger in 2019, AGI Greenpac was housing the entire packaging products division (PPD) and was also engaged in the manufacturing of buildings products for its group company; Hindware Ltd on a cost-plus basis. With the slump sale (with effect from closing of business hours of March 31, 2022), the building products division's entire operating facilities of AGI Greenpac was transferred to Hindware Ltd, leaving apart some land parcels on which Hindware Ltd. Continues to pay lease rentals to AGI Greenpac.
AGI Greenpac is one of the leading manufacturers of glass containers in India in the organised liquid packaging industry, catering marquee clients in the packaged beverages, food, beer, liquor, chemical and pharmaceutical industries.

Diversified product portfolio with long standing reputed client base
The company has over the years built a wide-ranging portfolio of packaging products for both glass and PET, along with synergic product business of security caps and closures. The company is positioned as one of the significant glass container manufacturers in the country, offering packaging solutions to multiple sectors. The company's products cater to a large reputed diversified customer base (which includes names like Abott, Coca Cola, Bacardi, Carlsberg etc.) with a product range covering flint, amber and green containers. The company's plants are equipped to manufacture 5 ml to 4,000 ml of glass bottles and 10 ml to 10 ltrs of PET bottles in various shapes, sizes and colours. The company is selling packaging products as a brand portfolio; under AGI Brand for Glass Containers, GP Brand for PET bottles and plastic products and AGI Clozures for security Caps and Closures.

Improved operational performance
During FY22 the revenue from the PPD division witnessed a growth of 16.2% over the previous year. The sales volume witnessed a 3.62% growth and stood at 433,596 MT as against 418,429 MT on the back of growing demand for glass bottles from the high-end liquor industry. Along with the robust sales volume growth, the capacity utilisation also increased from 76% in FY21 to 85% in FY22. The sales realization also improved by 7.11% from ₹26,291 per MT to ₹28,161 per MT in FY22. The PBILDT margin of the company has marginally declined from 21.91% in FY21 to 20.93% in FY22 on account of rising fuel cost in H2FY22. However, the company has passed on the increase raw material price to the its customer with a lag of a quarter.
In 9MFY23, the revenue of the company reported a growth of around 60% on a Y-o-Y basis and stood at ₹1,601 crore (consists only PPD division as BPD manufacturing is discontinued). The substantial growth was on account of 25.66% increase in sales volume and a 21.52% improvement in sales realisation on a Y-o-Y basis. The capacity utilisation also remained heightened at 96%. However, on profitability front, the PBILDT margin deteriorated slightly to 17.78% against 19.26% in 9MFY22. The decline was largely on account of increase in soda ash and input and fuel costs but the same was restricted as the increase in the raw material price was passed on to the customers with a lag of a quarter.

Comfortable financial risk profile
The company has sold the BPD manufacturing segment to Hindware Limited with effect from closing of business hours of March 31, 2022 for a consideration of around ₹700 crore. Out of the total amount Hindware Ltd has paid ₹109 crore in FY22 and the balance ₹591 crore has been paid in Q1FY23 which was utilized to prepay term loan to the extent of ₹368 crore and the balance ₹223 crore was utilized to pay the outstanding working capital limits.
The sale of the BPD division should have a positive effect on the profit margin of the company as the BPD manufacturing division had lower margins compared to the PPD segment. Owing to the slump sale there shall be loss of revenue and EBIT contribution of BPD segment in AGI Greenpac but the overall income from the PPD segment is expected to increase on account of completion of the specialty glass project and continuous de-bottlenecking that the company has been doing to increase its efficiencies & capacity utilizations.
The overall gearing as on March 31, 2022 stood at 0.9x (PY:0.83x). The increase in the overall gearing ratio is on account of increased debt level availed for capex requirements of the company. The total debt as on March 31, 2021 stood at ₹898 crore which increased to ₹1,163 cr as on March 31, 2022.
The TD/PBILDT increased marginally to 4.11 years as against 3.65 years in FY21 but with improved profitability and repayment of debt, this ratio is expected to improve by FY23-end to below 3x levels. However, funding pattern of the HNG deal remains a key credit monitorable and any significant debt-funded acquisition shall be a credit negative for the company.

The company is undertaking a capex for increasing its capacity of container glass segment, PET segment and cap closure segment and also in doing regular capex for debottlenecking the existing capacities.

Experienced promoters
AGI Greenpac is promoted by late Dr. R K Somany who had an extensive experience of around 65 years in the industry. With the demise of Dr. R K Somany, his son Sandip Somany has been appointed as the Chairman and Managing Director of the company. Sandip Somany actively manages the overall operations of the company and has around 35 years of experience in the ceramics and container glass industry. The extensive experience of the promoter in the business has helped in developing the AGI brand and also establish relationship with their customers and suppliers. The board of the company is broad-based and has several independent professional members having vast industry experience in diverse backgrounds. The operations of the company are managed by well-qualified and experienced senior management team.

Key weaknesses

Probable debt-funded acquisition of HNG
The company had submitted Resolution Plan for acquisition of 100% stake of Hindusthan National Glass and Industries Limited in CIRP under Insolvency and Bankruptcy Code 2016. The appointed Resolution Professional under CIRP had issued Letter of Intent dated 28th October 2022 (the "LOI") declaring the company as successful resolution applicant under CIRP with due authorization of committee of creditors of the Corporate Debtor. The company had given its acceptance on the LOI and issued underlying performance bank guarantees as per requirement of LOI. The company has now received an approval from CCI vide a letter dated March 15, 2023 (as informed by AGI Greenpac to the stock exchange in its filing dated March 16, 2023) for acquisition of 100% stake of HNG. However, the effective acquisition of HNG is subject to obtaining necessary regulatory approvals from Hon'ble NCLT and other customary approvals.

Furthermore, CARE Ratings have been apprised by the management the said deal is expected to be largely funded by debt. Accordingly, CARE Ratings expects that the acquisition shall negatively impact the solvency and coverage indicators of AGI Greenpac. However CARE Ratings is in the process of analyzing the exact implications that the said deal will have on the credit profile of AGI Greenpac basis the information being shared by the management in relation to the aforesaid acquisition. CARE Ratings has been appraised by the client that the enterprise value for the deal stood at around ₹2,213 crore which will be largely funded from debt at both AGI and HNG level. Furthermore, the management has also appraised CARE Ratings that the infusion by AGI Greenpac in HNG will largely be towards subordinated debt, but the exact constituents of the infusion and the funding pattern at AGI Greenpac level is in the process of being finalized.

CARE Ratings will be closely monitoring the developments in these regards and will resolve the rating watch after analyzing the exact impact of the said deal on AGI Geenpac's credit profile. Any significant debt-funded acquisition without any major equity support coming through shall be a credit negative as the same will result in debt levels increasing significantly and consequent deterioration of the solvency indicators of AGI Greenpac at a consolidated level.

Exposure to material cost and power price fluctuation
Soda ash which is a major raw material for manufacturing container glass has been the key contributor to the raw material cost. Power and fuel cost is another significant cost-item for the company. The company in the past has regularly done capex to reduce the power cost by substitution of high-cost fuel by alternate fuel. In H2FY22 and 9MFY23 owing to the high prices of natural gas the company has switched to more economic fuels namely pet coke & furnace oil, to fire the glass furnaces.
In 9MFY23 the company has witnessed a steep increase in the prices of soda ash. The prices of soda ash have increased by 60% over FY22 and 6% over the H1FY23 price. However, the profit margins are protected as the company is able to pass on the same to the customers with a lag of a quarter. Accordingly, any further adverse movement in the commodity prices can keep the operating margins of the company under pressure and may negatively impact the profitability margins of the company.
With established presence in the container glass segment, AGI Greenpac has been able to pass-on the increase in costs to consumers either fully or partially but with a lag, depending upon the demand and the competitive scenario; nevertheless, managing the fluctuation in prices of inputs shall remain critical.

Foreign currency risk
Limited exports relative to imports along-with foreign currency borrowings, exposes AGI Greenpac to exchange rate fluctuation risks. Although, AGI Greenpac partially hedges its forex exposure, in the absence of complete natural hedge and un-hedged forex position, it remains exposed to risks emanating from volatility in exchange rate. Although, AGI Greenpac has a practice to hedge its forex exposure from time to time to mitigate the risk attached with foreign currency fluctuation risk. The company is having

two foreign currency loans amounting ₹212 cr as on December 31, 2022 (₹245.20 cr as on December 31, 2021). Furthermore, the company had booked forward contracts for hedging purpose.

Industry outlook

The global packaging market is estimated at US$1,002.48 billion in 2021. Glass packaging is premium and one of the most trusted forms of packaging for health, taste, and environmental safety. This ensures its continuous usage worldwide, across a range of end-user industries, despite the heavy competition from other packaging materials. Increased focus on sustainability and environmental issues, especially in the developed countries, has resulted in the trend of new innovations in the plastic packaging segment with the aim to reduce carbon footprint. In India, the packaging industry is estimated to report a CAGR of 26.7% during 2022-2027. The factors driving the demand for packaging can be attributed to the rising population, growing income levels, changing lifestyles and increased internet penetration. The Indian industry is incrementally driven by the rise of the middle-class category, strong growth in organised retail, surging exports, and the country's expanding e-commerce sector.

Liquidity: Adequate

The average working capital utilization for the 12 months ending on December 31, 2022 stood at 58%, leaving sufficient liquidity buffer. As on March 14, 2023 the surplus drawing power available with the company was ₹424.85 crore. The non-fund based utilization as on March 14, 2023 stood at ₹120.69 crore. However, the liquidity of the company may witness a drawn down if the acquisition of HNG is completed in upcoming months.

The scheduled repayment obligations for FY23 are ₹85 crore and AGI Greenpac has paid ₹64.29 crore till December 31, 2022. AGI Greenpac has also made a prepayment of loan to the extent of ₹368 crore from the ₹591 crore received as proceeds of slump sale of the BPD segment, balance ₹223 crore was utilized to pay the outstanding working capital limits.

The GCA for FY23 at AGI Standalone level is expected to be in the range of ₹300 crore - ₹315 crore, on account of improved operational performance and improved sales realization.

ESG profile:

The glass manufacturing industry is energy intensive and the manufacturing process results in higher carbon emissions and other environmental risks. On the social front the company is exposed to health and safety effects of its operations on the society and its employees and changing preference of the end-user requiring investments in the form of support and contribution to the community affected in and due to the manufacturing process. The annual report for FY22 highlights the below initiatives undertaken by the company:

Environmental

- The company has undertaken various measures to reduce energy consumption in the manufacturing process. Stated below are the few initiatives undertaken:
  - Recycled glass cullet utilisation increased from 35% to 41% which resulted in reduction of energy consumption
  - Reduction in pressure drop by optimisation of compressed air line sizes
  - 45 KW Cooling tower motor VFD installed
  - Elimination of direct air jets and replaced pulse control air jets to reduce the consumption of compressed air
- During the year the company has installed more than 6.1MW of solar roof top plants at various company locations to increase its green energy capacity
- During FY22, the company has reused 14.5 million tonnes of raw material, reused 1.3 lakh tonnes of cullet which saved 20,000 tonnes of CO_2

Social

- To ensure the safety of its employees and their families, the company ran vaccination camps across all our manufacturing plants and offices.
- The company has conducted training and development programs for its employees online and in person on regular basis
- The company through HSIL CSR Foundation has contributed to the PHD Rural Development Foundation (PHDRDF) for organising Mobile Health Camps led by Doctors and health experts.
- The company has also donated an ambulance to the District Collector of Sangareddy District, Telangana.

Governance
The company has put in place a robust corporate governance framework to ensure that the best interests of its stakeholders are always upheld. Its Board and its committees together with a strong executive leadership helps it maintain the highest standards of transparency, accountability, awareness and equity in its operations.

Applicable criteria

Policy on default recognition
Financial Ratios – Non financial Sector
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Credit Watch
Short Term Instruments
Manufacturing Companies
Policy on Withdrawal of Ratings

About the company and industry

Industry Classification

Macro Economic Indicator	Sector	Industry	Basic Industry
Consumer Discretionary	Consumer Durables	Consumer Durables	Glass - Consumer

AGI Greenpac Ltd, formerly HSIL Ltd, incorporated in February 1960, was promoted by Kolkata-based Somany brothers and, currently, the management control vests with Sandip Somany. AGI Greenpac diversified into the manufacture of glass containers through the acquisition of Associated Glass Industries Limited (AGI) in 1981. PET bottles business was added through the acquisition of Garden Polymers Private Limited (GPPL) in 2011. Packaging Products Division further expanded its business and launched counterfeit-resistant caps and closures under the brand 'AGI Clozure'.

Post the slump sale of the BPD segment to Hindware Ltd the entire operating facilities of AGI Greenpac have been transferred to Hindware Ltd leaving apart some land parcels on which Hindware Ltd. continues to pay lease rentals to AGI Greenpac. Going forward, in the packaging division, the company is having two glass container facilities at Sanathnagar and Bhongir in Telangana, one speciality glass manufacturing plant at Bhongir in Telangana, three PET bottles and products facilities at Selaqui in Uttarakhand, Dharwad in Karnataka, and Sangareddy in Telangana and one security caps and closures facility at Sangareddy in Telangana. The installed capacity of the company currently stands at 1,754 TPD for its glass packaging division, 10,256 TPA for its plastic packaging division, 780 million of small cap pieces and 132 million of large cap pieces.

Brief Financials (₹ crore)	March 31, 2021 (A)*	March 31, 2022 (A)*	9MFY23 (UA)
Total operating income	1272	1478	1601
PBILDT	279	305	285
PAT from continuing operations	115	116	153
PAT from discontinuing operations	-27	77^	0
Total PAT	88	193	153
Overall gearing (times)	0.83	0.90	NA
Interest coverage (times)	8.40	10.86	8.87

A: Audited, UA: Un-audited, NA: Not available. Note: 'the above results are latest financial results available'
*Owing to the slump sale of the BPD manufacturing division, the results of the company have been revised to reflect only the results of the continuing operation and profit from the BPD segment is shown towards discontinuing operation
^ Includes Profit on slump sale (transfer of BPD undertaking to Hindware Ltd of Rs. 57.75 crore

Status of non-cooperation with previous CRA: NA

Any other information: NA

Rating history for the last three years: Please refer Annexure-2

Covenants of the rated instruments/facilities: Detailed explanation of the covenants of the rated instruments/facilities is given in Annexure-3

Complexity level of the various instruments rated: Annexure-4

Lender details: Annexure-5

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based - LT-Cash Credit		-	-	-	400.00	CARE A+ (RWN)
Fund-based - LT-Term Loan		-	-	30-09-2029	707.00	CARE A+ (RWN)
Non-fund-based - ST-BG/LC		-	-	-	250.00	CARE A1+ (RWN)

Annexure-2: Rating history for the last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021	Date(s) and Rating(s) assigned in 2019-2020
1	Fund-based - LT-Term Loan	LT	707.00	CARE A+ (RWN)	1)CARE A+; Stable (28-Feb-23)	1)CARE A+; Stable (22-Mar-22) 2)CARE A+; Stable (04-Jan-22) 3)CARE A+; Stable (26-Jul-21)	1)CARE A+; Stable (03-Mar-21)	1)CARE A+; Stable (27-Feb-20)

2	Commercial Paper-Commercial Paper (Carved out)	ST	-	-	-	-	1)Withdrawn (25-Feb-21)	1)CARE A1+ (27-Feb-20)
3	Fund-based - LT-Cash Credit	LT	400.00	CARE A+ (RWN)	1)CARE A+; Stable (28-Feb-23)	1)CARE A+; Stable (22-Mar-22) 2)CARE A+; Stable (04-Jan-22) 3)CARE A+; Stable (26-Jul-21)	1)CARE A+; Stable (03-Mar-21)	1)CARE A+; Stable (27-Feb-20)
4	Non-fund-based - ST-BG/LC	ST	250.00	CARE A1+ (RWN)	1)CARE A1+ (28-Feb-23)	1)CARE A1+ (22-Mar-22) 2)CARE A1+ (04-Jan-22) 3)CARE A1+ (26-Jul-21)	1)CARE A1+ (03-Mar-21)	1)CARE A1+ (27-Feb-20)

*Long term/Short term.

Annexure-3: Detailed explanation of the covenants of the rated instruments/facilities - NA

Annexure-4: Complexity level of the various instruments rated

Sr. No.	Name of the Instrument	Complexity Level
1	Fund-based - LT-Cash Credit	Simple
2	Fund-based - LT-Term Loan	Simple
3	Non-fund-based - ST-BG/LC	Simple

Annexure-5: Lender details

To view the lender wise details of bank facilities please click here

Note on the complexity levels of the rated instruments: CARE Ratings has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for any clarifications.

Contact us

Media Contact	Analytical Contacts
Contact Name: Mradul Mishra Director **CARE Ratings Limited** Phone: +91-22-6754 3596 E-mail: mradul.mishra@careedge.in **Relationship Contact** Name: Dinesh Sharma Director **CARE Ratings Limited** Phone: +91-11-4533 3200 E-mail: dinesh.sharma@careedge.in	Name: Pulkit Agarwal Director **CARE Ratings Limited** Phone: +91-22-6754 3505 E-mail: pulkit.agarwal@careedge.in Name: Ravleen Sethi Associate Director **CARE Ratings Limited** Phone: +91-11-4533 3251 E-mail: ravleen.sethi@careedge.in Name: Mayank Sanghvi Lead Analyst **CARE Ratings Limited** E-mail: mayank.sanghvi@careedge.in

About us:

Established in 1993, CARE Ratings is one of the leading credit rating agencies in India. Registered under the Securities and Exchange Board of India, it has been acknowledged as an External Credit Assessment Institution by the RBI. With an equitable position in the Indian capital market, CARE Ratings provides a wide array of credit rating services that help corporates raise capital and enable investors to make informed decisions. With an established track record of rating companies over almost three decades, CARE Ratings follows a robust and transparent rating process that leverages its domain and analytical expertise, backed by the methodologies congruent with the international best practices. CARE Ratings has played a pivotal role in developing bank debt and capital market instruments, including commercial papers, corporate bonds and debentures, and structured credit.

For the detailed Rationale Report and subscription information, please visit www.careedge.in