AGI Greenpac Limited

April 2, 2024

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long Term Bank Facilities	1,077.00 (Reduced from 1,107.00)	CARE A+ (RWD)	Revision in credit watch from "Rating Watch with Negative Implications" to "Rating Watch with Developing Implications"
Short Term Bank Facilities	280.00 (Enhanced from 250.00)	CARE A1+ (RWD)	Revision in credit watch from "Rating Watch with Negative Implications" to "Rating Watch with Developing Implications"

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

CARE Ratings Limited (CARE Ratings) has reaffirmed ratings on bank loan facilities of AGI Greenpac Limited (AGI) while changing the credit watch from "Rating Watch with Negative Implications" to "Rating Watch with Developing Implications".

The rating reaffirmation continues to reflect its large scale of operations supported by strong market position in container glass segment within India supported by its installed container glass manufacturing capacity of 1,854 tonnes per day (tpd). The company has an established as well as moderately diversified customer portfolio. Its customers largely operate in liquor segment although modest presence of aerated water bottles, food and pharmaceuticals manufacturers is also there. Supported by healthy operating efficiencies along with better realization, the company continues to post healthy operating margins. The financial risk profile is strong as reflected in its strong capital structure and debt coverage metrics. These strengths are partly tempered on account of volatile input costs, which is partially covered by pass-through mechanism with 60% of its customers, and its working capital-intensive operations.

CARE Ratings had placed the company's rating on "Rating watch with negative implications" vide press release dated March 27, 2023, post receipt of approval from Hon'ble Competition Commission of India (CCI) 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 its possible negative impact of the same on the credit profile of AGI. The debt-funded acquisition along with operational losses in HNG led to expectation of significant weakening of the debt coverage metrics earlier.

However, the credit watch has been revised to "Rating Watch with Developing Implications" on the basis of expectation of moderate debt coverage metrics in post-acquisition scenario and protracted legal proceedings. AGI's business and financial risk profile had improved in FY23 which continued in 9MFY24. Concurrently in 9MFY24, even HNG has shown significant turnaround in its operational performance with operating profit (profit before interest, lease rentals, depreciation and tax (PBILDT) margin) of ₹269 crore (13.93%) against operational loss of ₹110 crore (-4.46%) in FY23 supported by improved realization and moderation in costs. With expectation of moderate profitability of HNG along with continued strong operational performance of AGI, may lead to consolidated operating profit near to ₹900 crore in the first year of integrated operations, if the deal consummates. Considering the current deal value stands unchanged at enterprise value at ₹2,213 crore, which is expected to be funded largely by debt. The net debt to PBILDT for the combined entity is expected not to be more than 3.3x in the first full year of combined operations, significantly better compared to previous expectation. It should be noted that the litigation with regards to this acquisition is pending in Supreme Court. CARE Ratings will continue to monitor the developments and take necessary action once the exact impact on AGI's credit profile is clear.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- AGI lowering its Net debt to PBILDT to below 2.5x on a sustained basis.

Negative factors

- Any significant deterioration in total debt position or capital structure of AGI owing to any debt-funded capital expenditure (capex) or inorganic expansions/takeover of an asset which may impact the solvency indicators of AGI on sustained basis such that net debt to PBILDT is more than 3.5x on sustained basis.
- Significantly adverse impact on liquidity expected in case the acquisition of HNG is successful.

Analytical approach: Standalone

Outlook: Not applicable

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

Detailed description of the key rating drivers:

Key strengths

Large scale of operations supported by strong market position in container glass: AGI Greenpac is the second-largest player in container glass segment with around 17%-20% market share in the Indian organized glass packaging industry in terms of installed capacity. Resultantly, the company's total operating income (TOI) is large having recorded TOI of ₹2,361 crore in FY23 and estimated at ₹2500-2550 crore in FY24. This is supported by its installed container glass capacity of 1700 tonnes per day (tpd) and specialty glass capacity of 154 tonnes tpd.

Diversified customer profile

The company's products cater to a large reputed diversified customer base (which includes names like Abott, Coca Cola, Bacardi and Carlsberg, among others) with a product range covering flint, amber and green containers. The top 10 customers contribute around 56% of the net sales, reflecting moderate customer diversification considering to business-to-business transactions. 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. Majority of the revenue is derived from domestic market with exports forming only 3.34% of turnover in FY23. However, the company is trying to increase its export markets. The specialty glass segment is also allowing to focus on exports because of its niche product and high realization covering the freight costs.

Healthy profitability margins, expected to be sustained

The company continues to have healthy operating margins in the range of 18%-21% over the last three fiscal years through FY23. In 9MFY24, the company has PBILDT margin of 23.85%. The company in FY24 has continued to benefit from its high capacity utilization, improved operational efficiencies and improved realizations, among others. Furthermore, in FY24, the power & fuel cost moderated post significant spike in FY23. It should be noted that this is despite legal expenses of ₹23 crore in FY23 (1% of TOI) and estimated at similar levels for FY24. This is expected to reduce once the litigation is settled.

However, considering, the revision in input prices come with a lag, the operating margins may slightly moderate in FY25 on account of softer input costs unless the company establishes its customer profile for its specialty glass which may boost overall realization. However, this is without taking into account the merger of HNG. Since, HNG is a larger entity with around 50% capacity utilization, its impact on profitability needs to be observed if the acquisition consummates.

Strong capital structure and debt coverage indicators: The net worth of the company stood at ₹1,606 crore as on March 31, 2023 as against ₹1,391 crore as on March 31, 2022. The company has significantly deleveraged itself in FY23 post divesting its building product division. The overall gearing (including letter of credit (LC)) strengthened from 0.9x as on March 31, 2022 to 0.49x as on March 31, 2023 and is estimated just below 0.5x as on March 31, 2024.

With comfortable debt position and healthy profitability, the company's debt coverage metrics also remained healthy. The interest coverage ratio was 7.92x (9.33x) in FY23 (FY22) and net debt (including LC) to PBILDT was 1.14x (4.57x) in FY23 (FY22). Net debt to PBILDT is estimated near to 1.05x times for FY24. These metrics are expected to remain healthy over the medium term. However, in case of successful acquisition of HNG, the company's overall gearing and debt coverage metrics are expected to moderate with incremental debt and moderate operating profitability of HNG.

Key weaknesses

Volatile input costs partially covered by pass-through mechanism with customers

Soda ash which is a major raw material for manufacturing container glass has been the key contributor to the raw material cost. The soda ash cost has been volatile over the recent past with significant gains in FY23 and partial moderation observed in FY24. 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 allowing multi-fuel usage. The company reviews its fuel mixture regularly to optimize fuel cost.

The company has a pass-through mechanism with around 60% of its clientele allowing it to increase the realizations of its products in case of rise in input costs and vice-versa, though coming with some lag. While the rest of its sales is market driven which partially exposes it to the vagaries of volatile input costs and product pricing.

Working capital intensive operations driven largely by moderate inventory cycle and receivable cycle

The company's operating cycle is around 70-80 days largely on account of inventory cycle of around 60-70 days and receivable cycles of 50-60 days. Since, furnace in glass manufacturing needs to be continuously operated for better economies of production, the company needs to maintain raw material inventory. However, despite this, the company modestly utilizes its fund-based working capital limits.

Liquidity: Strong

AGI's strong liquidity is supported by healthy cash and cash equivalents along with significant generation of gross cash accruals (GCA) and moderate bank limit utilization. The company had generated gross cash accrual of ₹355 crore in FY23 and is estimated to generate gross cash accrual of ₹410-₹430 crore in FY24. The company's repayment obligations in FY25-FY26 are around ₹110 crore annually. These are expected to comfortably be covered through its gross cash accruals. The company had free cash and cash equivalents of ₹244 crore as on March 31, 2023 and ₹214 crore as on December 31, 2023. Over the past 12 months through January 2024, the average fund-based working capital utilization is 11%, signifying significant cushion. AGI has robust capital structure which provides headroom for incremental debt if required.

Environment, social, and governance (ESG) risks

CareEdge Ratings believes the ESG profile of AGI supports the company's strong credit risk profile. AGI has continuously focused on mitigating its environmental and social impact.

Environment risks: Packaging has become pervasive in our daily life. Increasingly, there has been scrutiny by the people with regards to impact on environment from different types of packaging. Currently, packaging, particularly liquid products are done either through glass bottles or PET bottles/recycled PET Bottles. Glass bottles are more recyclable than PET during their lifetime. The glass bottles also do not lead to harmful carcinogens or pollutes water. However, the heating involved in manufacturing per unit of glass bottle and transportation of glass bottle adversely impacts the environment. Some of the measures undertaken to mitigate the impact was –

- Across four sites, in FY23, the company has an installed capacity of 16.76 MW of rooftop and ground-mounted solar power.
- In FY23, the company has tied up for procurement of environmentally friendly natural gas in its production process as a substitute for petroleum-based inputs.

Social risks: Effective management of manpower is essential is smooth running of the operations. AGI has been undertaking various initiatives for the same. The company has arranged workshops, leadership arrangement programmes, training sessions, and comprehensive feedback to the employees. The company has also launched online executive MBA programmes for its employees and conducted Kaizen.
Similarly, strong relationship with the community residing near its operations is also key to strife-free operations. The company also has undertaken initiatives to improve the lives of society around its plant. The company partnered with Dilasa Janvikas Pratisthan to enhance the income of local farmers in the Bhongir area of Telangana, benefitting 250+ farmers in FY23. The company also provided support to improve school infrastructure near its Bhongir plant as well as offering free basic medical services to local communities.

Governance: The company has complied with statutory conditions of corporate governance as required.

Applicable criteria

Definition of Default
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Rating Watch
Manufacturing Companies
Financial Ratios – Non financial Sector
Short Term Instruments

About the company and industry

Industry classification

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

AGI, formerly known as HSIL Limited and incorporated in February 1960, currently manufactures packaging products. The promoter, Sandip Somany, is the chairman and managing director of the company. 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, 2022 (A)*	March 31, 2023 (A)*	9MFY24 (UA)
Total operating income	1435	2361	1812
PBILDT	262	452	432
PAT from continuing operations	111	232	187
PAT	193	262	187
Overall gearing (times)	0.90	0.49	-
Interest coverage (times)	9.33	7.92	6.98

A: Audited UA: Unaudited; Note: 'the above results are latest financial results available'
*Owing to the slump sale of the Building Product (BPD) manufacturing division, the results of the company reflect only the results of the continuing operation and profit from the BPD segment is shown towards discontinuing operation.

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

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

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

Complexity level of various instruments rated: Please refer to Annexure-4

Lender details: Please refer to 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		-	-	-	450.00	CARE A+ (RWD)
Fund-based - LT-Term Loan		-	-	30-09-2029	627.00	CARE A+ (RWD)
Non-fund-based - ST-BG/LC		-	-	-	280.00	CARE A1+ (RWD)

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 2023-2024	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
1	Fund-based - LT-Term Loan	LT	627.00	CARE A+ (RWD)	-	1)CARE A+ (RWN) (27-Mar-23) 2)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)
2	Commercial Paper-Commercial Paper (Carved out)	ST	-	-	-	-	-	1)Withdrawn (25-Feb-21)
3	Fund-based - LT-Cash Credit	LT	450.00	CARE A+ (RWD)	-	1)CARE A+ (RWN) (27-Mar-23) 2)CARE A+; Stable (28-Feb-23)	1)CARE A+; Stable (22-Mar-22) 2)CARE A+; Stable (04-Jan-22)	1)CARE A+; Stable (03-Mar-21)

							3)CARE A+; Stable (26-Jul-21)	
4	Non-fund-based - ST-BG/LC	ST	280.00	CARE A1+ (RWD)	-	1)CARE A1+ (RWN) (27-Mar-23) 2)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)

LT: Long term; ST: Short term; LT/ST: Long term/Short term

Annexure-3: Detailed explanation of covenants of the rated instruments/facilities: Not Applicable

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.

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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.

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