Aegis Logistics Limited

April 05, 2022

Ratings

Facilities/Instruments	Amount (Rs. crore)	Rating[1]	Rating Action
Long-term Bank Facilities	278.82 (Enhanced from 258.82)	CARE AA; Stable (Double A; Outlook: Stable)	Reaffirmed
Long-term / Short-term Bank Facilities	225.00 (Reduced from 245.00)	CARE AA; Stable / CARE A1+ (Double A; Outlook: Stable/ A One Plus)	Reaffirmed
Short-term Bank Facilities	260.98	CARE A1+ (A One Plus)	Reaffirmed
Total Bank Facilities	**764.80 (Rs. Seven hundred sixty-four crore and eighty lakh only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of Aegis Logistics Limited (hereinafter known as 'ALL' or the 'company') continue to derive strength from ALL's established position in the liquid and gas logistics business with diversified gamut of services offered, vast experience of the management, strategically located facilities at important ports in India, established relationship with key customers and suppliers, comfortable capital structure, debt service coverage indicators and liquidity. During FY21 (refers to the period April 1 to March 31), the profitability of the company improved despite reduction in the overall revenue, partly on account of Covid and strategic curtailing of volumes by the company in the low-margin liquefied petroleum gas (LPG) sourcing business during uncertain economic scenario. The operating performance of ALL continues to remain satisfactory during 9MFY22.

CARE notes that ALL and Royal Vopak NV (Netherlands) are also to form a major joint venture (JV) to be named as Aegis Vopak Terminals Ltd. (AVTL), which will be 51% owned by ALL and 49% by Vopak for expansion in gas and chemical terminals in India. The transaction entails transfer of select assets of ALL's portfolio into the JV company for pre-tax consideration of Rs.2,766 crore. The two entities have entered into this agreement with the long-term plans to grow together in the LPG, chemicals storage, handling business and other diversified business in the oil and gas sector. The transaction is expected to be completed shortly. CARE also takes cognizance of the fact that the company has commissioned the capex undertaken during the previous years. Along with these assets, the benefits to be derived from the proposed deal with Royal Vopak NV is expected to drive the future growth phase of the company.

The ratings, however, continue to be tempered by low margin gas sourcing business, increasing threat of competition from newly added capacities along with the risk related to reduced demand from end-user industries. The ability of ALL to successfully achieve the next phase of growth planned along with diversification of business, in partnership with Royal Vopak would be the key rating factor.

Rating Sensitivities

Positive Factors - Factors that could lead to positive rating action/upgrade:

• The ability to successfully scale up business along with diversification in the partnership with Royal Vopak, resulting in annual turnover above Rs.6,500 crore.
• Improvement in EBIDTA margin above 12% on a sustained basis.

Negative Factors- Factors that could lead to negative rating action/downgrade:

• Time or cost overrun in completion of projects/lower-than-expected utilisation or offtake from the proposed terminals. Any change of terms in proposed deal which is unfavourable to Aegis would also be considered negative.
• Higher-than-envisaged consolidated debt resulting in deterioration of credit metrics with consolidated overall gearing > 0.50x.

Detailed description of the key rating drivers

Key Rating Strengths

Experienced promoters and management:

ALL is managed by a team of professionals under the guidance of Mr R. K. Chandaria, Chairman and Managing Director. The top management of the company has an average industry experience of more than three decades in the related field.

Broad spectrum of logistics services offered in the Oil and gas industry:

ALL is present mainly in the midstream and downstream component of the oil and gas industry. The business of Aegis is diversified and can be broadly divided into two major categories, viz., liquid terminal division and gas terminal division. In liquid division,

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

ALL provides import, export, storage, and logistics services, handling Class A, B, and C products as well as all types of chemicals, petroleum, oil, lubricant (POL) products and vegetable oils, whereas in the gas division, it captures the complete logistics value chain starting from sourcing, terminalling to distribution of LPG. Liquid division historically contributes to around 30% of PBILDT with remaining around 70% from gas division.

Improvement in the operating profitability during FY21 despite reduction in turnover:
The overall economic scenario remained muted during the year due to Covid. Although liquid terminalling volumes remained steady, there was a moderation in LPG distribution and retailing volumes since commercial, industrial and transport use of LPG was affected temporarily during the lockdown. LPG sourcing business volume carried out by Aegis in FY21 was substantially lower at 870 TMT vis-à-vis 1861 TMT in FY20. The management articulated that Aegis strategically did not participate in the high-volume-low-margin LPG sourcing tenders mainly due to the Covid-related uncertainty and shipping crisis. Along with cost savings on other fronts, although the company reported a y-o-y decline of 46% in the total operating income, the PBILDT improved by 37% y-o-y. The sourcing volume is expected to improve since, with respect to sourcing business, Aegis has secured international sourcing tenders for LPG from the national oil companies for the calendar year 2022 of 18 VLGCs aggregating to 800,000 metric tons of LPG. With partial easing of economy post Covid, the 9MFY22 performance has also remained stable.

Long-term growth plans to be explored in partnership with Royal Vopak, Netherlands:
Aegis shall be forming a JV with Royal Vopak N.V. (Netherlands) which shall be known as Aegis Vopak Terminals Limited (AVTL). Vopak is the world's leading independent tank storage company storing oil, chemicals, gases, biofuels and edible oils. In the proposed JV, ALL shall be holding 51%, whereas Vopak shall be holding 49%. ALL will consolidate the proposed JV given its majority ownership.
As part of the deal, Vopak's existing CRL terminal entity in Kandla will become a wholly-owned subsidiary of AVTL. Aegis' network of terminal assets at five different locations in Kandla, Pipavav, Mangalore, Kochi and Haldia covering the west and east coast of India will be added to the JV asset base. The Hindustan Aegis LPG Ltd entity, in which Vopak will acquire a 24% shareholding is currently a JV between Aegis and Itochu. After the transaction, Aegis will own 51% and Itochu will continue to hold 25%. Aegis will continue to retain 100% ownership of its Mumbai Liquid and LPG terminals and its LPG retailing business and would receive Rs.2,766 crore pre-tax consideration for its stake in the JV and the Haldia terminal. Furthermore, 75% of the proceeds would be given at the time of closure of the deal, whereas balance 25% would be paid over a span of three years.
Given both entity's complimentary skill sets, the strategic partnership is expected to provide a pathway for future growth. Aegis can leverage Vopak's technical capabilities and global relationships to enter new chemical segments with new and existing customers. The combined JV is likely to invest Rs.2,500 – Rs.4,500 crore over the next five years in key projects such as VLGC jetties, expansion in dedicated industrial liquid terminals, multi-modal LPG transportation, and inland LPG logistics. Aegis also plans to enter into the logistics of complicated industrial products (butadiene, ammonia, etc) and move beyond storage into areas like organising infrastructure for industrial complexes, where Vopak has strong experience. AVTL's future capex shall be funded by mix of internal accruals, debt or equity infusion by partners, as per requirement. The detailed capex plans and other modalities are, however, yet to be disclosed by ALL and Vopak. The ability of ALL to successfully achieve the next phase of growth planned along with diversification of business in partnership with Royal Vopak would be the key rating factor.

Established relationship with key customers with yearly contract providing revenue visibility:
ALL caters to diverse, strong customer base with established relationship with them. The company also enters into yearly fixed price contracts with some (around 50%) of its customers. These are take-or-pay contracts whereby the customer fixes the volumes/storage capacity to be made available to them during the specified period. This provides revenue visibility for the said capacity in liquid logistics division. In gas sourcing, ALL acts as an arranger for its customers and suppliers with whom it has entered into back-to-back contracts with common pricing terms, forex rate and credit period terms. The company has adopted the strategy of matching realisation from customers and payment to suppliers, thereby eliminating foreign exchange risk.

Strong financial risk profile, higher debt/lower return from proposed capex could constrain debt metrics:
The financial risk profile of the company continues to remain strong with comfortable capital structure and consistent improvement in profitability and cash accruals. The improvement in retained earnings notwithstanding lower revenue base in FY21 enabled the overall gearing to be comfortable at 0.36x as on March 31, 2021 (P.Y. 0.33x). The JV would avail debt to incur the capex. The overall gearing of the JV would be less than 0.60x and the total debt/PBILDT shall not exceed 3.50x. Future debt metrics of ALL (considering consolidation of AVTL debt) is contingent on optimum mix of debt and equity usage to fund the capex and generate strong cashflows from the assets.

Favourable industry scenario:
Given the growing demand for oil and gas in India and its wide application in household and industrial activities, there is a great opportunity for India's downstream and midstream oil and gas logistics service providers such as Aegis, who offer specialised services.

Key Rating Weaknesses
Susceptible to regulatory risks and competition:
The main threat to the LPG industry arises from the changes in the government policy with regards to subsidised pricing of LPG and its substitutes. The main threat to the port-based liquid terminalling business arises from the changes to government policies on coastal regulations and inadequate port infrastructure as well as geo-political instability, which leads to uncertainty on pricing

and affects customers for the liquid logistics business. India's growing energy demand has intensified the need for actively seeking private participation in the energy chain, resulting in presence of many participants which could lead to a competitive landscape.

Moderate capex risk:
CARE Ratings Limited notes that the quantum of capex to be undertaken by Aegis in partnership with Vopak would be annually around Rs.600 – 700 crore over the next five years, which is significantly higher compared with the average annual capex of around Rs.300 crore, which the company has been executing historically. Nevertheless, CARE Ratings Ltd expects project execution risk to be moderate considering the established credentials of both Aegis and Vopak in undertaking projects in the oil and gas segment. The ability to undertake the capex without time or cost overrun while maintaining the credit metrics would be monitorable.

Liquidity: 'Strong'
On a consolidated level, Aegis maintained free cash balance of Rs.315 crore as on September 30, 2021. The company has not utilised its fund-based limits in the past 12 months of Rs.9.82 crore. Scheduled debt repayment for the next four quarters is Rs.51 crore and would be serviced through internal accruals. The quantum of repayment obligations is expected to increase since debt would be availed in the JV for capex as a part of Vopak deal. The proceeds from stake sale to Vopak would enhance the liquidity considerably, nevertheless a portion of the resultant cash balance would be earmarked for undertaking future expansion within ALL.

Analytical approach:
Consolidated view on Aegis Logistics Limited and all its subsidiaries has been taken for arriving at the ratings as the entities are under a common management, have similar line of business and financial linkages. The list is given separately in Annexure-6

Applicable Criteria
Policy on default recognition
Consolidation
Financial Ratios – Non financial Sector
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Credit Watch
Short Term Instruments
Rating Methodology - Service Sector Companies

About the Company
Promoted by London-based NRI, Mr R. K. Chandaria and family, Aegis Logistics Ltd (ALL), formerly known as Aegis Chemical Industries Limited (ACIL), was incorporated in June 1956. ALL, along with its subsidiaries, provides logistic solutions for oil, gas, chemicals and petrochemical industries. The business of the company can be divided into two broad segments, viz., liquid logistics division and gas division. The liquid division owns and operates a network of bulk liquid storage terminals at Mumbai, Kochi, Haldia, Mangalore, Kandla and Pipavav port. The gas division is involved in the sourcing of LPG/propane, owning and operating gas storage terminals, industrial and commercial distribution and auto gas retailing. The company also has filling plants, pipelines connectivity to end-users. ALL has announced that they shall be forming a JV with a leading tank storage company named Royal Vopak N.V. (Netherlands), which shall be known as Aegis Vopak Terminals Limited (AVTL). In the proposed JV, ALL shall be holding 51%, whereas Vopak shall be holding 49%. The JV shall be set up with the objective to grow together in the LPG, chemicals storage and handling business. This transaction is expected to achieve financial closure shortly.

Brief Financials (Rs. crore): Consolidated	31-03-2020 (A)	31-03-2021 (A)	9MFY22 (UA)
Total operating income	7213.30	3870.49	2552.64
PBILDT	306.89	413.37	416.52
PAT	133.97	249.22	282.82
Overall gearing (times)	0.33	0.36	-
Interest coverage (times)	9.27	27.88	-

A: Audited; UA: Unaudited

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating History for last three years: Please refer 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 for this company: Annexure 4

Annexure-1: Details of Instruments / Facilities

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Cash Credit	-	-	-	-	9.82	CARE AA; Stable
Non-fund-based - ST-BG/LC	-	-	-	-	260.98	CARE A1+
Fund-based - LT-Term Loan	-	-	-	Dec-24	269.00	CARE AA; Stable
Fund-based/Non-fund-based-LT/ST	-	-	-	-	225.00	CARE AA; Stable / CARE A1+

[Note: Out of term loan rated, Rs.233 crore is proposed facility]

Annexure-2: Rating history of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2021-2022	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019
1	Fund-based - LT-Cash Credit	LT	9.82	CARE AA; Stable	1)CARE AA; Stable (06-Apr-21)	-	1)CARE AA; Stable (11-Mar-20)	1)CARE AA; Stable (28-Dec-18)
2	Non-fund-based - ST-BG/LC	ST	260.98	CARE A1+	1)CARE A1+ (06-Apr-21)	-	1)CARE A1+ (11-Mar-20)	1)CARE A1+ (28-Dec-18)
3	Fund-based - LT-Term Loan	LT	88.55	CARE AA; Stable	1)CARE AA; Stable (06-Apr-21)	-	1)CARE AA; Stable (11-Mar-20)	1)CARE AA; Stable (28-Dec-18)
4	Debentures-Non Convertible Debentures	LT	-	-	-	1)Withdrawn (25-Jun-20)	1)CARE AA; Stable (11-Mar-20)	1)CARE AA; Stable (28-Dec-18)
5	Fund-based - LT-Term Loan	LT	180.45	CARE AA; Stable	1)CARE AA; Stable (06-Apr-21)	-	1)CARE AA; Stable (11-Mar-20)	1)CARE AA; Stable (28-Dec-18)
6	Fund-based/Non-fund-based-LT/ST	LT/ST*	225.00	CARE AA; Stable / CARE A1+	1)CARE AA; Stable / CARE A1+ (06-Apr-21)	-	-	-

* Long Term / Short Term

Annexure-3: Detailed explanation of covenants of the rated instrument / facilities: Not available

Annexure 4: Complexity level of various instruments rated for this company

Sr. No	Name of 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: Bank Lender Details for this Company

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

Annexure 6: List of subsidiaries

Sr. No.	Name of companies as on December 31, 2021	% of holding
1	Sea Lord Containers Limited	100%
2	Aegis Gas (LPG) Private Limited	100%
3	Konkan Storage Systems (Kochi) Private Limited	100%
4	Hindustan Aegis LPG Limited	75%
5	Aegis Terminal (Pipavav) Limited	100%
6	Eastern India LPG Company Private Limited	100%
7	Aegis Group International PTE Limited, Singapore	60%
8	Aegis International Marine Services PTE Limited, Singapore	100%
9	Aegis Vopak Terminals Limited (Formerly known as Aegis LPG Logistics (Pipavav) Ltd.)	100%*

*proposed to become 51% post completion of transaction with Royal Vopak NV

Note on complexity levels of the rated instrument: CARE Ratings Ltd. 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 CARE Ratings Limited:
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With an established track record of rating companies over almost three decades, we follow a robust and transparent rating process that leverages our domain and analytical expertise backed by the methodologies congruent with the international best practices. CARE Ratings Limited has had a pivotal role to play in developing bank debt and capital market instruments including CPs, corporate bonds and debentures, and structured credit.

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