Aegis Logistics Limited

April 06, 2021

Ratings

Facilities/Instruments	Amount (Rs. crore)	Ratings	Rating Action
Long Term Bank Facilities	258.82 (Reduced from 294.82)	CARE AA; Stable (Double A; Outlook: Stable)	Reaffirmed
Long Term / Short Term Bank Facilities	245.00	CARE AA; Stable / CARE A1+ (Double A ; Outlook: Stable/ A One Plus)	Assigned
Short Term Bank Facilities	260.98 (Reduced from 461.98)	CARE A1+ (A One Plus)	Reaffirmed
Total Bank Facilities	**764.80 (Rs. Seven Hundred Sixty-Four Crore and Eighty Lakhs Only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of Aegis Logistics Limited (ALL) continue to derive strength from ALL's established position in the liquid and gas logistics business with diversified operations, healthy growth in operational performance, extensive experience of the management, strategically located facilities, established relationship with key customers and suppliers, comfortable capital structure, debt service coverage indicators and liquidity. CARE notes that the company is going to commission most of its planned facilities in Q1FY22 and that is expected to drive the future growth of the company.

The ratings however, continue to be tempered by low profitability margins on account of majorly fee based revenue model, dependence on import volumes for the gas business, and increasing threat of competition from newly added capacities along with risk related to reduced demand from end user industries.

The ability of the company to optimally utilize the newly commissioned facilities and earn the envisaged revenue from the same in view of increasing competition would remain the key rating sensitivity.

Rating Sensitivities

Positive Factors -

- Robust Improvement in earnings and cash accruals owing to improved operations from newly set up facilities.
- Sustained improvement in consolidated PBILDT margins owing to increasing share of Gas Logistics and Retailing business

Negative Factors-

- Deterioration in overall credit profile with Overall Gearing deteriorating to 0.5x and above on sustained basis

Detailed description of the key rating drivers

<u>Key Rating Strengths</u>

Experienced promoters and management

ALL is managed by a nine-member Board of Directors, including four independent Directors. The day-to-day operations of the company are managed by team of professionals under the guidance of Mr. R. K. Chandaria, Chairman & Managing Director and Mr. Anish K Chandaria, Vice Chairman and Managing Director. The top management of the company has an average industry experience of more than three decades in related field.

Diversified products and services

The business of the Aegis group is diversified and can be broadly divided into two major categories, Liquid Logistics division and Gas Logistics division contributing around ~21% and ~79% respectively to its total PBILT during FY20. The Gas Division comprises of sourcing, logistics and retailing business. The gas division registered significant growth both in revenue and in PBILDT during FY20 on account of higher volumes handled and utilization of newly added capacities. The liquid division also registered improvement in revenue and PBILDT mainly on account capacity addition in Haldia along with higher capacity utilization at all terminals.

Established relationship with key customers with yearly contract providing partial revenue visibility
ALL caters to diverse, strong customer base with established relationship with them. The company 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 specified period. This provides revenue visibility for the said capacity in liquids logistics division.

Back to back contracts with major customers mitigating forex risk
In gas sourcing, ALL acts as an arranger for its customers and suppliers with whom it has enters into back-to-back contracts with common pricing terms, forex rate and credit period terms. The company has adopted the strategy of matching realization from customers and payment to suppliers, thereby eliminating foreign exchange risk.

Strong financial risk profile
The financial risk profile of the company continues to remain strong with comfortable capital structure and consistent improvement in profitability and cash accruals. The debt coverage indicators continued to remain strong with strong PBILDT interest coverage (14.40x in FY20 and 29.61x in 9MFY21); however, overall gearing marginally declined to 0.33x in FY20 from 0.16x in FY19. The company mostly uses short-term borrowings in the form of buyer's credit for LPG sourcing business. Most of the ongoing capex are funded by internal accrual with low reliance on debt. Thus, the credit profile is expected to remain comfortable over the next couple of years.
The profitability margin is however exposed to price volatility of LPG to the extent of inventory maintained by the company. The quantum of inventory maintained is only for its own use of LPG distribution and retailing which is low as compared to its sourcing business.

Completion of ongoing capital expenditure to derive future growth
In the gas logistics division, the company is setting up a new LPG terminal with the capacity of 45,000 MT in Kandla at a cost of Rs. 350 crore. The company is also setting up additional capacity of 3,800 MT at Pipavav at a cost of Rs. 75 crore. The railway gantry at Pipavav terminal has been commissioned in December 2020. These capex are expected to be completed by end of FY21 or Q1FY22. In the Liquid logistics division, ALL is setting up additional capacities at Kochi, Haldia and Mangalore. These expansions once completed is expected to drive the future growth of the company.

Key Rating Weaknesses

Increasing threat of competition
The liquid traffic has been low in ports like Kochi and Haldia as the amount of POL cargo handled is low when compared to ports like Mumbai, Kandla. So, the pricing power at ports like Haldia, Cochin has remained weak due to low demand for storage space. But in Ports like Mumbai, Kandla where the volume of POL traffic is relatively high and storage space availability is low, the company has good pricing power. The increase in available storage space at ports and the entry of large players would add pressure on pricing power of ALL. ALL's ability to utilize the facility depends on its ports to attract liquid cargo. Although the company has physical presence across various ports, the revenue profile of the company remains majorly inclined towards Mumbai port. Further the company is also exposed to risks related to reduction in demand from end user industries.

Industry outlook
The Indian economy is a net importer of almost all forms of energy. This fact, coupled with the country's growing energy demand, has intensified the need for actively seeking private participation in the energy chain to bring in the required investment and technologies. There is therefore a huge potential for the expansion of pipelines, transportation, and infrastructure. LPG demand continues to rise due to the rural penetration of LPG on a pan-India basis and the full impact of expected policy reforms curbing illegal diversion of cooking gas and deregulation of diesel and petrol prices. Additional infrastructure for handling of LPG needs to be built. The main threat and opportunity to the LPG industry arise from changes in government policy with regards to subsidized pricing of LPG and its substitutes. The main threat to the port-based liquid terminalling business arises from 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.
However, the demand for LPG continues to rise, and domestic supply (approximately 12.8 million MT) is not enough to fulfil the demand which was ~26.3 million MT in FY21. The demand is projected to reach ~43 million MT in FY35, which indicates the need for increased terminal capacity.

Liquidity: Strong
At a standalone level, the company has a cash and bank balance of Rs. 103 crore as on March 31, 2020. Out of this Rs. 65.80 crore is free cash balance without any encumbrance. In FY20, Rs. 31.99 crore have been placed as fixed deposits with banks

against an overdraft of Rs. 32.91 crore. The company has not utilized its fund based limits in the past 12 months of Rs. 9.82 crore. This provides liquidity backup.
On a consolidated level, the free cash and bank of the company stood at Rs. 222.47 cores as on March 31, 2020. This is over and above earmarked deposits of Rs. 40.96 crore as on the said date. As on December 31, 2020, the company had ~Rs. 316 crore as cash and bank balance.

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. Following subsidiaries have been considered while taking consolidated approach:

Sr. No.	Name of companies/ Entities	% 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	80.30%
5	Aegis Terminal (Pipavav) Limited	100%
6	Aegis LPG Logistics (Pipavav) Limited	100%
7	Eastern India LPG Company Private Limited	100%
8	Aegis Group International PTE Limited	60%
9	Aegis International Marine Services PTE Limited	100%

Applicable Criteria
Criteria on assigning 'outlook' and 'credit watch' to Credit Ratings
CARE's Policy on Default Recognition
Liquidity Analysis of Non-Financial Sector Entities
Financial ratios – Non-Financial Sector
Rating Methodology - Service Sector Companies
Rating Methodology: Consolidation and Factoring Linkages in Ratings
Criteria for Short Term Instruments
Complexity Levels of Rated Instruments

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 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 sourcing of LPG/Propane/Butane, owning and operating gas storage terminals, industrial & commercial distribution and auto gas retailing. The company also has filling plants, pipelines connectivity to end-users.

Brief Financials (Rs. crore)	FY19 (A)	FY20 (A)
Total operating income	5621.18	7213.30
PBILDT	376.26	545.68
PAT	252.11	133.97
Overall gearing (times)	0.16	0.33
Interest coverage (times)	14.37	16.48

A: Audited

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	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	-	-	Jan 2022	88.55	CARE AA; Stable
Fund-based - LT-Term Loan	-	-	Jan 2023	160.45	CARE AA; Stable
Fund-based/Non-fund-based-LT/ST	-	-	-	245.00	CARE AA; Stable / CARE A1+

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 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018
1.	Fund-based - LT-Cash Credit	LT	9.82	CARE AA; Stable	-	1)CARE AA; Stable (11-Mar-20)	1)CARE AA; Stable (28-Dec-18)	1)CARE AA; Stable (20-Dec-17) 2)CARE AA; Stable (21-Nov-17)
2.	Non-fund-based - ST-BG/LC	ST	260.98	CARE A1+	-	1)CARE A1+ (11-Mar-20)	1)CARE A1+ (28-Dec-18)	1)CARE A1+ (20-Dec-17) 2)CARE A1+ (21-Nov-17)
3.	Fund-based - LT-Term Loan	LT	88.55	CARE AA; Stable	-	1)CARE AA; Stable (11-Mar-20)	1)CARE AA; Stable (28-Dec-18)	1)CARE AA; Stable (20-Dec-17) 2)CARE AA; Stable (21-Nov-17)
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)	1)CARE AA; Stable (20-Dec-17) 2)CARE AA; Stable (21-Nov-17)
5.	Fund-based - LT-Term Loan	LT	160.45	CARE AA; Stable	-	1)CARE AA; Stable (11-Mar-20)	1)CARE AA; Stable (28-Dec-18)	1)CARE AA; Stable (20-Dec-17) 2)CARE AA; Stable (21-Nov-17)
6.	Fund-based/Non-fund-based-LT/ST	LT/ST	245.00	CARE AA; Stable / CARE A1+	-	-	-	-

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

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

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

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

Contact us

Media Contact
Mradul Mishra
Contact no. - +91-22-6754 3573
Email ID - mradul.mishra@careratings.com

Analyst Contact
Group Head Name - Arunava Paul
Group Head Contact no.- +91 98209 04584
Group Head Email ID - arunava.paul@careratings.com

Relationship Contact
Name - Saikat Roy
Contact no. - 022 6754 3404
Email ID - saikat.roy@careratings.com

About CARE Ratings:
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