Aegis Logistics Limited

January 25, 2023

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long term bank facilities	246.82 (Reduced from 278.82)	CARE AA; Stable	Reaffirmed
Long-term / Short-term bank facilities	190.00 (Reduced from 225.00)	CARE AA; Stable / CARE A1+	Reaffirmed
Short-term bank facilities	327.98 (Enhanced from 260.98)	CARE A1+	Reaffirmed

Details of instruments/facilities in Annexure-1.

Rationale and 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, strong business partnership with Itochu & Royal Vopak, comfortable capital structure and liquidity.

ALL and Royal Vopak, Netherlands (hereinafter referred to as 'Vopak') which is one of the leading multinational tank storage companies have formed a major joint venture for LPG and chemical terminals in India. The JV is named as Aegis Vopak Terminals Ltd. (AVTL), which is 51% owned by ALL and 49% by Vopak. The transaction entails transfer of select assets of ALL's portfolio into the JV company for pre-tax consideration of around ₹2,766 crore. The JV has achieved financial closure in May 2022. The new partnership will operate a network of terminals that are currently located in ports along the east and west coast of India along with exploring long-term business opportunities in the oil & gas sector. The JV embarked on the initial phase of capex amounting to ₹1,250 crore to be completed within 18-24 months.

CARE Ratings Limited (CARE Ratings) also takes cognizance of the fact that the company has commissioned the capex undertaken during the previous years, notably the commissioning of the Kandla LPG terminal & rail gantry at Pipavav. 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. CARE Ratings also notes that ALL has resumed its high-volume-low-margin LPG sourcing business from Q3FY22 onwards after strategically curtailing volumes during the previous quarters due to COVID-19-related uncertainty. Although this has started contributing significantly to the turnover of the company, its overall contribution to profitability remains modest.

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: Factors likely to lead to rating actions

Positive factors

- Substantial scale up of business along with diversification in the business profile in partnership with Royal Vopak on a sustained basis.
- Improvement in EBIDTA margin above 12% on a sustained basis, with enhanced contribution from higher-margin business.

Negative factors

- Time or cost overrun in completion of projects/lower-than-expected utilisation or offtake from the proposed terminals.
- Higher-than-envisaged consolidated debt resulting in deterioration of credit metrics with consolidated overall gearing > 0.50x.
- Any breach in covenanted ratios as agreed in the capital structure of the JV

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**

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

Key strengths

Experienced promoters and management:

ALL is managed by a team of professionals under the guidance of 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. The key management personnel of AVTL also comprises of qualified professionals with vast number of years of experience.

Broad spectrum of logistics services offered in Oil & gas industry, diversification streams to be explored in JV:

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, 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.

In partnership with Vopak, Aegis could enter into the logistics of complicated industrial products (butadiene, ammonia etc.) and move beyond storage & transportation into areas like organising infrastructure for industrial terminals, where Vopak has strong experience.

Strong revenue growth in FY22 & H1FY23 from industry tailwinds & higher LPG sourcing volumes:

Aegis' revenue growth of 20% y-o-y in FY22 was primarily driven by higher terminalling volumes, higher prices and realization. The liquid terminal capacity additions at Mangalore, Kandla and Haldia as well as product mix handled also boosted the revenues. The marginal improvement in profitability was attributable to volumes delivered by high-margin retail business.

The growth momentum in revenue has continued in FY23 as well further supported by higher LPG sourcing volumes. From Q3FY22 onwards secured international sourcing tenders for LPG from national oil companies for the calendar year 2022 for 18 VLGC aggregating to around 800,000 metric tons. Most of ALL' top line is out of LPG sourcing business, i.e. back-to-back contracts for supplying shiploads of LPG, which are done at thin margins. Hence, the PBIT arising out of the sourcing business is very low which is why there is a disparity between the proportional revenue increase and the PBIT increase.

ALL has also received strong tailwinds from the tiles manufacturing industry in Morbi, Gujarat. The Morbi cluster manufactures a significant portion of the tiles manufactured in India. With natural gas prices skyrocketing recently, tile industries in India have started switching to LPG as their main fuel. ALL's gas distribution division thus witnessed a strong growth with surge in volumes, led by industrial LPG growth due to transition to alternate fuels, especially from natural gas by the tiles industry. ALL has benefited from this industrial transition. ALL's own LPG terminal at Kandla which is geographically close to Morbi has been supplying LPG to the Morbi tile cluster at healthy margins. The strategic location of Kandla allows easy access and transportation. The momentum is expected to continue given the significant cost arbitrage and availability of LPG at affordable prices.

Aegis-Vopak deal has achieved financial closure, future growth to be explored in joint partnership:

The Aegis-Vopak transaction has achieved financial closure on May 25, 2022. The transaction entails transfer of select assets of ALL's portfolio and ALL will hold 51% stake in the JV. Given both the 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 ₹2,500 – ₹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 terminals, where Vopak has strong experience.

The Company has embarked on the initial capex of Rs. 1,250 crore which includes setting up of liquid & gas terminalling facilities and adding storage capacity in ports of Pipavav, Mangalore, Haldia & Kochi. This capex is expected to be completed over the next 18-24 months. 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. Improvement in retained earnings, enabled to maintain Overall Gearing (debt including lease liabilities) comfortable at 0.37x as on March 31, 2022 (P.Y. 0.36x). ALL's consolidated Networth has improved to ₹3,832 crore as on September 30, 2022 from ₹2,262 crore as on March 31, 2022 due to equity contribution from Vopak amounting to ₹1,098 crore. The consolidated gross debt stood at ₹688 crore as on September 30, 2022. The debt largely pertains to the debt availed in the JV as payment of part consideration against transfer of assets of ALL into the JV and also debt availed to part-finance recent acquisition of terminals from the Friends group. As per management articulation, debt availed in the JV shall be serviced out of internal accruals generated by the JV and accordingly no explicit support from either of the JV partners has been factored by CARE Ratings.

CARE Ratings notes that the quantum of capex to be undertaken by Aegis in partnership with Vopak would be annually around ₹ 600 – 700 crore over the next five years resulting in a cumulative capex of ₹4500 crore. This is significantly higher compared to the- average annual capex of ₹ 200-Rs. 300 crore which the company has been incurring historically. The Company would avail debt to incur part of the while the balance shall be funded by internal accruals generated by the Company and contribution from the JV partners.

The covenanted overall gearing of the JV would be less than 0.6x and the Total Debt/PBILDT shall be <3.50x. Although CARE Ratings draws comfort from the conservative debt covenants, nevertheless CARE Ratings would continue to monitor the impact of capex on Aegis' debt metrics. Achieving these debt metrics is also contingent on ability to 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. Further, as illustrated, Morbi tailwinds are expected to continue.

Key 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 notes that the quantum of capex to be undertaken by Aegis in partnership with Vopak would be annually around ₹600 – 700 crore over the next five years, which is significantly higher compared with the average annual capex of around ₹300 crore, which the company has been executing historically. Nevertheless, CARE Ratings 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
Aegis has strong liquidity profile as depicted by strong cash and investments balance which stood at ₹1,300 crore as on September 30, 2022. The high liquidity balance was due to equity contribution from Vopak, debt raised at the JV company amounting and proceeds from 24% stake sale of Hindustan Aegis which operates the gas terminal at Haldia. The proceeds from asset sale have although improved the liquidity substantially, nevertheless a portion of the resultant cash balance would be earmarked for undertaking future capex in Aegis standalone as well as consolidated.
Against this, as on September 30, 2022, consolidated gross debt stands at ₹688 crore (excluding lease liabilities) resultantly the company being net debt negative. Majority of the debt outstanding is at the JV level which is consolidated in ALL. Total scheduled debt repayments at consolidated level for FY24 & FY25 is modest at ₹38 crore and ₹4 crore respectively. Aegis has CC limits of ₹9.82 crore which remains unutilized.

Applicable criteria

Policy on default recognition
Consolidation
Factoring Linkages Parent Sub JV Group
Financial Ratios – Non financial Sector
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Credit Watch
Short Term Instruments
Service Sector Companies
Policy on Withdrawal of Ratings

About the company

Promoted by London-based NRI, R. K. Chandaria and family, 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 also formed 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 aforementioned JV, ALL holds 51%, whereas Vopak holds 49%. The JV is set up with the objective to grow together in the LPG, chemicals storage and handling business.

Brief Financials (₹ crore)	March 31, 2021 (A)	March 31, 2022 (A)	HYE Sept 30, 2022 (UA)
Total operating income	3,843	4,631	4,386
PBILDT	504	548	347
PAT	249	385	209
Overall gearing (times)	0.36	0.37	0.40
Interest coverage (times)	22.63	24.64	17.35

A: Audited; UA: Unaudited
Note: Total Debt includes lease liabilities under Ind-As 116

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

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	-	-	-	-	9.82	CARE AA; Stable
Fund-based - LT-Term Loan*	-	-	-	-	237.00	CARE AA; Stable
Fund-based/Non-fund-based-LT/ST	-	-	-	-	190.00	CARE AA; Stable / CARE A1+
Non-fund-based - ST-BG/LC	-	-	-	-	327.98	CARE A1+

*Proposed Term Loan

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-Cash Credit	LT	9.82	CARE AA; Stable	1)CARE AA; Stable (05-Apr-22)	1)CARE AA; Stable (06-Apr-21)	-	1)CARE AA; Stable (11-Mar-20)
2	Non-fund-based - ST-BG/LC	ST	327.98	CARE A1+	1)CARE A1+ (05-Apr-22)	1)CARE A1+ (06-Apr-21)	-	1)CARE A1+ (11-Mar-20)
3	Fund-based - LT-Term Loan	LT	88.55	CARE AA; Stable	1)CARE AA; Stable (05-Apr-22)	1)CARE AA; Stable (06-Apr-21)	-	1)CARE AA; Stable (11-Mar-20)
4	Debentures-Non Convertible Debentures	LT	-	-	-	-	1)Withdrawn (25-Jun-20)	1)CARE AA; Stable (11-Mar-20)
5	Fund-based - LT-Term Loan	LT	148.45	CARE AA; Stable	1)CARE AA; Stable (05-Apr-22)	1)CARE AA; Stable (06-Apr-21)	-	1)CARE AA; Stable (11-Mar-20)
6	Fund-based/Non-fund-based-LT/ST	LT/ST*	190.00	CARE AA; Stable / CARE A1+	1)CARE AA; Stable / CARE A1+ (05-Apr-22)	1)CARE AA; Stable / CARE A1+ (06-Apr-21)	-	-

*Long term/Short term.

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

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

Annexure -6: List of entities consolidated

Sr. No.	Name of companies/ Entities as on September 30, 2022	% of holding
1	Sea Lord Containers Limited	100%
2	Aegis Gas (LPG) Private Limited	100%
3	Konkan Storage Systems (Kochi) Private Limited	51%
4	Hindustan Aegis LPG Limited	51%
5	Aegis Vopak Terminals Limited formerly known as Aegis LPG Logistics (Pipavav) Limited	51%
6	Aegis Terminal (Pipavav) Limited	96%
7	Eastern India LPG Company Private Limited	100%
8	Aegis Group International PTE Limited, Singapore	60%
9	Aegis International Marine Services PTE Limited, Singapore	100%
10	CRL Terminals Private Limited (w.e.f. May 31, 2022)	51%

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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