

Aegis Logistics Limited

March 11, 2020

Ratings

Facilities	Amount (Rs. crore)	Rating ¹	Rating Action
Long term Bank Facilities	294.82 (Reduced from Rs.316.68 crore)	CARE AA; Stable (Double A; Outlook: Stable)	Reaffirmed
Short term Bank Facilities	461.98 (Reduced from Rs.496.98 crore)	CARE A1+ (A One Plus)	Reaffirmed
Total Facilities	756.80 (Rs. Seven Hundred Fifty Six Crores and Eighty Lakhs Only)		
Non-Convertible Debentures	8.40 (Rs. Eight Crores and Forty Lakhs only)	CARE AA; Stable (Double A; Outlook: Stable)	Reaffirmed

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, strong financial risk profile and liquidity. CARE notes that the company has commissioned most of its planned facilities and has tied up with customers. Thus cash flows are expected to increase significantly in medium term.

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, exposed to changes in government policies & regulations and increasing threat of competition from newly added capacities along with risk related to reduced demand from end user industries.

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 to 7.50% and above

Negative Factors

- Deterioration in capital structure with Overall Gearing deteriorating to 0.5x and above on sustained basis

Detailed description of the key rating drivers

Key Rating Strengths

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 terminal division and Gas terminal division contributing around 22% and 78% respectively to its total PBILDT during FY19. The gas division registered significant growth both in revenue and PBILDT during FY19 on account of higher volumes and utilization of newly added capacities. Sourcing volumes improved markedly due to sharp increase in demand driven by rationalization of LPG subsidies by the Central Government.

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 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 specified period. This provides revenue visibility for the said capacity in liquids logistics division.

¹Complete definition of the ratings assigned are available at www.careratings.com and other CARE publications

Back to back arrangements with major customers for sourcing mitigating risk related to volatility in commodity prices and forex

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 realization from customers and payment to suppliers, thereby eliminating foreign exchange risk.

Strong financial risk profile

The company continues to have a strong credit profile with comfortable capital structure and strong debt service coverage indicators. The PBILDT interest coverage remained strong at 14.37x during FY19 while overall gearing improved to 0.16x as on March 31, 2019 from 0.24x as on March 31, 2018. The TD/GCA has also improved on back of strong cash accrual to 0.84x during FY19 as compared to 1.47x during FY18. The company uses buyer's credit for its own LPG business; while no working capital is required for the sourcing business undertaken on behalf of its customers. The profitability margin is exposed to price volatility in LPG prices 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 miniscule compared to the sourcing it does for oil marketing companies. The company maintains low inventory of around 2-3 days.

Key Rating Weaknesses**Increasing threat of competition**

The liquid traffic has been low in ports like Kochi and Haldia as 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 presence across various ports, the revenue profile of the company remains inclined towards Mumbai port. Further the company is also exposed to risks related to reduction in demand from end user industries.

Risks related to change in government regulations

The company is also exposed to change in government policies towards import of principle commodities handled by the company. Any adverse change in the same will affect the cash flow of the company due to suboptimal utilization of its facilities.

Liquidity: Strong

The liquidity position remains strong with lean operating cycle and significant cash accruals as compared to the repayment obligations during FY20 and FY21. The company on consolidated basis has free cash balance of Rs. 353.41 cores as on March 31, 2019. This along with undrawn bank lines provide significant liquidity backup.

Analytical approach: Consolidated view on Aegis Logistics Ltd 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:

1. Sea Lord Containers Limited
2. Konkan Storage Systems (Kochi) Private Limited
3. Aegis Gas (LPG) Private Limited
4. Hindustan Aegis LPG Limited
5. Aegis Terminal (Pipavav) Limited
6. Aegis LPG Logistics (Pipavav) Limited
7. Eastern India LPG Company Private Limited
8. Aegis Group International PTE Limited, Singapore
9. Aegis International Marine Services PTE Limited, Singapore

Applicable Criteria**Rating Methodology: Factoring Linkages in Ratings****Financial ratios – Non-Financial Sector****Criteria on assigning Outlook to Credit Ratings****CARE's Policy on Default Recognition****Criteria for Short Term Instruments**

About the Company

Promoted by London based NRI, Late Mr. K. M. 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 and Pipavav port. The gas division is involved in sourcing of LPG/Propane, owning and operating gas storage terminals, industrial & commercial distribution and auto gas retailing. The company also has filling plants, pipelines connectivity to end-users.

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

Brief Financials (Rs. crore)	FY18 (A)	FY19 (A)
Total operating income	4796.92	5621.18
PBILDT	271.96	376.26
PAT	213.80	252.11
Overall gearing (times)	0.24	0.16
Interest coverage (times)	17.86	14.37

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

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	-	-	-	-	461.98	CARE A1+
Fund-based - LT-Term Loan	-	-	-	Jan,2022	88.55	CARE AA; Stable
Fund-based - LT-Term Loan	-	-	-	Jan,2023	196.45	CARE AA; Stable
Debentures-Non Convertible Debentures	INE208C01025	May 25, 2012	10.20%	May 25 2020	8.40	CARE AA; Stable

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 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017
1.	Fund-based - LT-Cash Credit	LT	9.82	CARE AA; Stable	-	1)CARE AA; Stable (28-Dec-18)	1)CARE AA; Stable (20-Dec-17) 2)CARE AA; Stable (21-Nov-17)	1)CARE AA (04-Oct-16)
2.	Non-fund-based - ST-BG/LC	ST	461.98	CARE A1+	-	1)CARE A1+ (28-Dec-18)	1)CARE A1+ (20-Dec-17) 2)CARE A1+ (21-Nov-17)	1)CARE A1+ (04-Oct-16)
3.	Fund-based - LT-Term Loan	LT	88.55	CARE AA; Stable	-	1)CARE AA; Stable (28-Dec-18)	1)CARE AA; Stable (20-Dec-17) 2)CARE AA; Stable (21-Nov-17)	1)CARE AA (04-Oct-16)
4.	Debentures-Non Convertible Debentures	LT	8.40	CARE AA; Stable	-	1)CARE AA; Stable (28-Dec-18)	1)CARE AA; Stable (20-Dec-17) 2)CARE AA; Stable (21-Nov-17)	1)CARE AA (04-Oct-16)
5.	Fund-based - LT-Term Loan	LT	196.45	CARE AA; Stable	-	1)CARE AA; Stable (28-Dec-18)	1)CARE AA; Stable (20-Dec-17) 2)CARE AA; Stable (21-Nov-17)	1)CARE AA (04-Oct-16)

Annexure-3: List of subsidiaries Consolidated

Sr. No.	Name of companies/ Entities	% of holding
1	Sea Lord Containers Limited	100.00
2	Konkan Storage Systems (Kochi) Private Limited	100.00
3	Aegis Gas (LPG) Private Limited	100.00
4	Hindustan Aegis LPG Limited	80.30
5	Aegis Terminal (Pipavav) Limited	100.00
6	Aegis LPG Logistics (Pipavav) Limited	100.00
7	Eastern India LPG Company Private Limited	100.00
8	Aegis Group International PTE Limited, Singapore	60.00
9	Aegis International Marine Services PTE Limited, Singapore	100.00

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

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