

## Aegis Logistics Limited

November 21, 2017

### Ratings

Facilities	Amount (Rs. crore)	Rating <sup>1</sup>	Remarks
Long term Bank Facilities	32.29	CARE AA (Double 'A')	Reaffirmed
Short term Bank Facilities	411.98	CARE A1+ (A One Plus)	Reaffirmed
<b>Total Facilities</b>	<b>444.27</b> <b>(Rs. Four Hundred and Forty Four Crore and Twenty Seven Lakhs Only)</b>		
Non-Convertible Debentures	25.00	CARE AA (Double 'A')	Reaffirmed

### Detailed Rationale & Key Rating Drivers

The ratings reaffirmed to the bank facilities and NCD issue of Aegis Logistics Limited (ALL) continue to derive strength from the established position of the company in the liquid and gas logistics business, experienced management, strategic location of its facilities, diversified service offerings, established relationship with key customers and suppliers, comfortable capital structure and debt service coverage indicators.

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 emerging capacities at nearby ports.

The ability of the company to execute and optimally utilize the newly commissioned facility and earn the envisaged revenue from the same thereby reducing its revenue concentration in Mumbai is the key rating sensitivity.

### Detailed description of the key rating drivers

#### Key Rating Strengths

##### **Experienced promoters and management**

ALL is managed by a ten-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 34% and 66% to its total PBILD during FY17. Thus profitability wise the company is fairly diversified.

##### **Established relationship with key customers with yearly contract providing partial revenue visibility**

<sup>1</sup>Complete definitions of the ratings assigned are available at [www.careratings.com](http://www.careratings.com) and in other CARE publications.

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.

#### **Comfortable capital structure and debt coverage indicators**

ALL continues to maintain its healthy financial risk profile with comfortable capital structure and debt service coverage indicators. The PBILDT interest coverage has improved from 10.86x in FY16 to 13.05x in FY17. However, overall gearing has deteriorated marginally to 0.46x as on March 31, 2017 from 0.36x as on March 31, 2016 and TD/GCA to 1.76x during FY17 from 1.23x during FY16 on account of increase in short term borrowings.

#### **Equity investment by ITOCHU in new LPG terminal at Haldia**

ALL has signed a deal with ITOCHU Petroleum Co. (Singapore) wherein the latter will take up at 19.7% equity stake in Hindustan Aegis LPG (HALPG), a wholly owned subsidiary of ALL, which is building and developing the new LPG terminal at Haldia at a total consideration of Rs.250 crores. The project is expected to operationalize by H2FY18.

#### **Change in sourcing contracts with major customers mitigating forex risk**

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

#### **Key Rating Weaknesses**

##### **Increasing threat of competition on account of additional capacities at nearby ports; susceptibility to concentration risk**

The liquid traffic has been historically 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 of 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. But the increase in available storage space at ports and entry of local players will 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.

##### **Risks related to ongoing/planned capex**

The company is executing the projects at various ports with the major one being setting up of fully refrigerated LPG terminal at Haldia and liquid terminal expansion project at Kandla port. The total combined cost of the project is around Rs. 450 crore and is expected to funded by equity of Rs. 250 crore (stake sale in Hindustan Aegis LPG) and remaining by internal accrual. In addition to that the group also has a planned capex of Rs. 400 crore which is planned to be funded by term loan of Rs. 250 crore and remaining by internal accrual. The ability of the company to execute these projects without any time/cost overrun and optimally utilize the new/expanded capacity is the key rating sensitivity.

**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.

#### **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, 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.

Brief Financials (Rs. crore)	FY16 (A)	FY17 (A)
Total operating income	2219.97	3936.65
PBILDT	192.10	210.77
PAT	126.14	134.00
Overall gearing (times)	0.36	0.46
Interest coverage (times)	10.86	13.06

**Status of non-cooperation with previous CRA:** Not Applicable

**Rating History (Last three years):** Please refer Annexure-2

**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](http://www.careratings.com). Investors/market intermediaries/regulators or others are welcome to write to [care@careratings.com](mailto:care@careratings.com) for any clarifications.

### Analyst Contact

Name: Mr. Arunava Paul

Tel: 022-67543667

Mobile : 9820904584

Email: [arunava.paul@careratings.com](mailto:arunava.paul@careratings.com)

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### About CARE Ratings:

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In case of partnership/proprietary concerns, the rating /outlook assigned by CARE is based on the capital deployed by the partners/proprietor and the financial strength of the firm at present. The rating/outlook may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor in addition to the financial performance and other relevant factors.

**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	-	-	-	411.98	CARE A1+
Fund-based - LT-Term Loan	-	-	-	14.39	CARE AA; Stable
Fund-based - LT- Proposed Term Loan	-	-	-	8.08	CARE AA; Stable
Debentures-Non Convertible Debentures	-	-	-	25.00	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 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016	Date(s) & Rating(s) assigned in 2014-2015
1.	Fund-based - LT-Cash Credit	LT	9.82	CARE AA; Stable	-	1)CARE AA (04-Oct-16)	1)CARE AA- (26-Oct-15)	1)CARE AA- (17-Oct-14)
2.	Non-fund-based - ST-BG/LC	ST	411.98	CARE A1+	-	1)CARE A1+ (04-Oct-16)	1)CARE A1+ (26-Oct-15)	1)CARE A1+ (17-Oct-14)
3.	Fund-based - LT-Term Loan	LT	14.39	CARE AA; Stable	-	1)CARE AA (04-Oct-16)	1)CARE AA- (26-Oct-15)	1)CARE AA- (17-Oct-14)
4.	Debentures-Non Convertible Debentures	LT	25.00	CARE AA; Stable	-	1)CARE AA (04-Oct-16)	1)CARE AA- (26-Oct-15)	1)CARE AA- (17-Oct-14)
5.	Fund-based - Proposed LT-Term Loan	LT	8.08	CARE AA; Stable	-			

**CONTACT****Head Office Mumbai**

**Ms. Meenal Sikchi**  
 Cell: + 9198190 09839  
 E-mail: [meenal.sikchi@careratings.com](mailto:meenal.sikchi@careratings.com)

**Mr. Ankur Sachdeva**  
 Cell: + 9198196 98985  
 E-mail: [ankur.sachdeva@careratings.com](mailto:ankur.sachdeva@careratings.com)

**Ms. Rashmi Narvankar**  
 Cell: + 9199675 70636  
 E-mail: [rashmi.narvankar@careratings.com](mailto:rashmi.narvankar@careratings.com)

**Mr. Saikat Roy**  
 Cell: + 9198209 98779  
 E-mail: [saikat.roy@careratings.com](mailto:saikat.roy@careratings.com)

**CARE Ratings Limited****(Formerly known as Credit Analysis & Research Ltd.)**

Corporate Office: 4th Floor, Godrej Coliseum, Somaiya Hospital Road, Off Eastern Express Highway, Sion (East), Mumbai - 400 022  
 Tel: +91-22-6754 3456 | Fax: +91-22-6754 3457 | E-mail: [care@careratings.com](mailto:care@careratings.com)

**AHMEDABAD**

**Mr. Deepak Prajapati**  
 32, Titanium, Prahaladnagar Corporate Road,  
 Satellite, Ahmedabad - 380 015  
 Cell: +91-9099028864  
 Tel: +91-79-4026 5656  
 E-mail: [deepak.prajapati@careratings.com](mailto:deepak.prajapati@careratings.com)

**JAIPUR**

**Mr. Nikhil Soni**  
 304, Pashupati Akshat Heights, Plot No. D-91,  
 Madho Singh Road, Near Collectorate Circle,  
 Bani Park, Jaipur - 302 016.  
 Cell: +91 – 95490 33222  
 Tel: +91-141-402 0213 / 14  
 E-mail: [nikhil.soni@careratings.com](mailto:nikhil.soni@careratings.com)

**BENGALURU**

**Mr. V Pradeep Kumar**  
 Unit No. 1101-1102, 11th Floor, Prestige Meridian II,  
 No. 30, M.G. Road, Bangalore - 560 001.  
 Cell: +91 98407 54521  
 Tel: +91-80-4115 0445, 4165 4529  
 Email: [pradeep.kumar@careratings.com](mailto:pradeep.kumar@careratings.com)

**KOLKATA**

**Ms. Priti Agarwal**  
 3rd Floor, Prasad Chambers, (Shagun Mall Bldg.)  
 10A, Shakespeare Sarani, Kolkata - 700 071.  
 Cell: +91-98319 67110  
 Tel: +91-33- 4018 1600  
 E-mail: [priti.agarwal@careratings.com](mailto:priti.agarwal@careratings.com)

**CHANDIGARH**

**Mr. Anand Jha**  
 SCF No. 54-55,  
 First Floor, Phase 11,  
 Sector 65, Mohali - 160062  
 Chandigarh  
 Cell: +91 85111-53511/99251-42264  
 Tel: +91-0172-490-4000/01  
 Email: [anand.jha@careratings.com](mailto:anand.jha@careratings.com)

**NEW DELHI**

**Ms. Swati Agrawal**  
 13th Floor, E-1 Block, Videocon Tower,  
 Jhandewalan Extension, New Delhi - 110 055.  
 Cell: +91-98117 45677  
 Tel: +91-11-4533 3200  
 E-mail: [swati.agrawal@careratings.com](mailto:swati.agrawal@careratings.com)

**CHENNAI**

**Mr. V Pradeep Kumar**  
 Unit No. O-509/C, Spencer Plaza, 5th Floor,  
 No. 769, Anna Salai, Chennai - 600 002.  
 Cell: +91 98407 54521  
 Tel: +91-44-2849 7812 / 0811  
 Email: [pradeep.kumar@careratings.com](mailto:pradeep.kumar@careratings.com)

**PUNE**

**Mr. Pratim Banerjee**  
 9th Floor, Pride Kumar Senate,  
 Plot No. 970, Bhamburda, Senapati Bapat Road,  
 Shivaji Nagar, Pune - 411 015.  
 Cell: +91-98361 07331  
 Tel: +91-20- 4000 9000  
 E-mail: [pratim.banerjee@careratings.com](mailto:pratim.banerjee@careratings.com)

**COIMBATORE**

**Mr. V Pradeep Kumar**  
 T-3, 3rd Floor, Manchester Square  
 Puliakulam Road, Coimbatore - 641 037.  
 Tel: +91-422-4332399 / 4502399  
 Email: [pradeep.kumar@careratings.com](mailto:pradeep.kumar@careratings.com)

CIN - L67190MH1993PLC071691

**HYDERABAD**

**Mr. Ramesh Bob**  
 401, Ashoka Scintilla, 3-6-502, Himayat Nagar,  
 Hyderabad - 500 029.  
 Cell : + 91 90520 00521  
 Tel: +91-40-4010 2030  
 E-mail: [ramesh.bob@careratings.com](mailto:ramesh.bob@careratings.com)