

Aegis Logistics Limited December 20, 2017

Ratings

Facilities	Amount (Rs. crore)	Rating ¹	Remarks
Long term Bank Facilities	274.21 (Enhanced from Rs.32.29 crore)	CARE AA (Double 'A')	Reaffirmed
Short term Bank Facilities	421.98 (Enhanced from Rs.411.98 crore)	CARE A1+ (A One Plus)	Reaffirmed
Total Bank Facilities	696.19 (Rs. Six Hundred Ninety six crore and nineteen Lakhs Only)		
Non-Convertible Debentures	25.00	CARE AA (Double 'A')	Reaffirmed

Detailed Rationale & Key Rating Drivers

The ratings reaffirmed to the enhanced 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 T during FY17. Thus profitability wise the company is fairly diversified.

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.

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 PBILD T interest coverage has improved from 10.86x in FY16 to 13.05x in FY17. However, overall gearing

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

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. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.

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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	-	-	-	421.98	CARE A1+
Fund-based - LT-Term Loan	-	-	-	19.56	CARE AA; Stable
Fund-based - LT-Term Loan	-	-	-	244.83	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; Stable (21-Nov-17)	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	421.98	CARE A1+	1)CARE A1+ (21-Nov-17)	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	19.56	CARE AA; Stable	1)CARE AA; Stable (21-Nov-17)	1)CARE AA (04-Oct-16)	1)CARE AA- (26-Oct-15)	1)CARE AA- (17-Oct-14)
5.	Fund-based - LT-Term Loan	LT	244.83	CARE AA; Stable				

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CIN - L67190MH1993PLC071691