India Ratings Assigns Aegis Logistics ‘IND AA’; Outlook Stable

18

DEC 2015

By Amit Mital

India Ratings and Research (Ind-Ra) has assigned Aegis Logistics Limited (ALL) a Long-Term Issuer Rating of ‘IND AA’. The Outlook is Stable. A full list of rating actions is at the end of this commentary.

KEY RATING DRIVERS

Presence in Major Ports: The company has a network of liquid storage terminals at major ports including Mumbai, Kochi, Haldia, Pipavav with cumulative capacity of 5,04,310kl. It also has gas storage terminals with cumulative capacity of 25,400MT across Mumbai and Pipavav. The company aims to expand its high margin liquid terminal business presence at Kandla (100,000kl) and Haldia (25,000kl) by FY17. Also, it aims to increase its gas storage capacity by 2,700MT at port Pipavav over the next year. The expansion is in line with ALL’s strategy of building a chain of port terminals across India’s western and eastern coasts.

Unutilised Land Bank: ALL has an unutilised land bank of 114 acres consisting of Pipavav (75 acres), Kandla (20 acres), Haldia (12 acres), Kochi (4 acres) and Mangalore (3 acres). This provides the company scope for expansion.

Strong EBITDA Margin in Liquid Terminalling: The company generates strong EBITDA margin (FY15: 63.5%, FY14: 63.8%) in the liquid terminalling business, driven by high capacity utilisation ranging from 70%-100% and steady rentals. It handles the export and import of hazardous chemicals, petroleum products and petrochemicals, together including over 60 different types of liquids. This provides product diversification in terms of less reliance on the demand-supply dynamics of a few categories of liquids. The company intends to spend INR205m and INR747.6m towards expansion at Haldia and Kandla, respectively, over FY16 and FY17 which would be funded through internal accruals.

Strong Credit Metrics: The company’s net Ind-Ra adjusted net leverage (Ind-Ra adjusted net debt/EBITDAR) improved to 1.1x in FY15 from 2.2x in FY14 because of the EBITDAR growing 32% yoy mainly on the full operationalisation of its Pipavav liquid terminalling facility in 4Q. It had an EBITDAR return on capital employed of 22.4% in FY15 (FY14: 18.8%). The agency expects the net debt/EBITDAR to remain under 1.2x over the medium term, given the absence of debt-led capex. Further, the management posture is to maintain a conservative capital structure.

Take or_Pay Contracts Provide Cash Flow Stability: The company has annual take or pay contracts for the liquid terminalling business worth INR271.5m and for gas terminalling business worth INR190m. All of this translates into an EBITDA of INR310m. These contracts have a remaining tenor of six months to 4.5 years which lends stability to its cash flows. The debt repayments over FY16-FY18 are INR347m, INR327m and INR241.2m, respectively, which can be comfortably met from cash flows from take or pay contracts.

Back-to-back Contracts in LPG Sourcing; Fully Hedged in LPG Distribution: For the liquefied petroleum gas (LPG) sourcing business which accounted for 15% of FY15 gas EBITDA (INR847m), ALL enters into back-to-back contracts with its customers and suppliers with common terms including price, quantity, forex rate and credit period. The company makes a fixed dollar spread per metric tonne and since the contracts are back-to-back in nature stability in terms of cash flows is assured. In the LPG distribution business (around 10% of EBITDA in gas business), the import of LPG is fully hedged by way of forward contracts.

Involvement of ITOCHU in Gas Trading: In September 2014, the company sold a 40% stake in its subsidiary Aegis Group International Pte to Japan's ITOCHU Petroleum Co. (Singapore) Pte Ltd (ITOCHU) for USD5.85m. The involvement of ITOCHU (which is one of the largest global LPG traders by sales volume) will strengthen ALL's competitive position in LPG sourcing, supply and shipping capabilities. The gas sourcing contributed 15% to the gas business EBITDA in FY15.

Major Private Player in LPG Imports: According to Indian Ports Association, the total LPG imports in India were 8.3 million MT in FY15 (FY14: 6.6 million MT) of which ALL accounted for 0.7 million MT (0.77 million MT). The large oil and gas public sector units account for the bulk of LPG imports into the country; however, their imports are for captive purpose. In the private sector, ALL is a major importer of LPG in India.

Proven Track Record; Strong Customer Relationships: The company has an experience and track record of operations of over 40 years in liquid logistics and over 20 years in the gas business. Also, it has longstanding relationships with large clients such as Bharat Petroleum Corporation Limited, Hindustan Petroleum Corporation Limited ('IND AAA'/Stable) and Reliance Industries Ltd ('IND AAA'/Stable). It has also recently signed a terminalling agreement with Indian Oil Corporation Limited ('IND AAA'/Stable) at the Pipavav LPG terminal.

Risks: The risk associated with the terminalling business (both gas and liquid) include competition (including from national oil companies setting up their own captive terminals), future availability of land for expansion at prime locations, a reduction in demand from end-user industries, and regulatory risks.

The gas sourcing and distribution businesses are susceptible to risks such as availability of alternative fuels at lower costs impacting domestic demand, any adverse change in government policies and regulation, an increase in import duty on non-subsidised LPG.

RATING SENSITIVITIES

Negative: Deterioration in the credit metrics with Ind-Ra adjusted net leverage sustaining above 1.5x could result in a negative rating action.

COMPANY PROFILE

The company was incorporated in 1956 and listed in 1978. It operates a network of bulk liquid terminals, LPG terminals, filling plants, pipelines, and gas stations.

ALL's ratings:

- Long-Term Issuer Rating: assigned 'IND AA'/Stable
- INR359.4m term loans: assigned 'IND AA'/Stable
- INR98.2m fund-based working capital facilities: assigned 'IND AA'/Stable
- INR250m non-convertible debentures: assigned 'IND AA'/Stable

- INR4119.8m non-fund-based facilities: assigned ‘IND AA’/Stable and ‘IND A1+’

SOLICITATION DISCLOSURES

Additional information is available at www.indiaratings.co.in. The ratings above were solicited by, or on behalf of, the issuer, and therefore, India Ratings has been compensated for the provision of the ratings.

Ratings are not a recommendation or suggestion, directly or indirectly, to you or any other person, to buy, sell, make or hold any investment, loan or security or to undertake any investment strategy with respect to any investment, loan or security or any issuer.

DISCLAIMER

Rating Outstanding

(As on 18/Dec/2015)

Long Term Issuer Rating	IND AA / Stable	
Fund Based Working Capital Limit	IND AA / Stable	INR 98.2 m
Non Convertible Debenture	IND AA / Stable	INR 250 m
Non-Fund Based Working Capital Limit	IND AA / Stable	INR 4119.8 m
Non-Fund Based Working Capital Limit	IND A1+	INR 4119.8 m
Term loan	IND AA / Stable	INR 359.4 m

Applicable Criteria

Corporate Rating Methodology

Analyst Names

Primary Analyst
Amit Mital

Senior Analyst
India Ratings and Research Pvt Ltd Wockhardt Towers, 4th floor, West Wing Plot C-2, G Block.
Bandra Kurla Complex Bandra (East), Mumbai 400051
+91 22 40001770

Secondary Analyst
Ashoo Mishra

Associate Director
+91 22 40001772

Committee Chairperson
Sudarshan Shreenivas

Director
+91 22 40001783

Media Relation
Mihir Mukherjee

Manager Corporate Communications and Investor Relations
+91 22 40356121