"Aegis Logistics Limited
Q1 FY2020 Earnings Conference Call"

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Moderator: Ladies and gentlemen, good day, and welcome to the Aegis Logistics Limited Q1 FY2020 Earnings Conference Call. This conference call may contain forward-looking statements about the company, which are based on the beliefs, opinions and expectations of the company as on the date of this call. These statements are not the guarantees of future performance and involve risks and uncertainties that are difficult to predict. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference, please signal an operator by pressing "*" then "0" on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Anish K. Chandaria, Vice Chairman and Managing Director, Aegis Logistics Limited. Thank you, and over to you, Mr. Chandaria!

Anish K. Chandaria: Thank you. I will be presenting the Q1 results for FY2020.

I would describe quarter one as a okay result to start the year. However, there is a lot more to come on profits growth in future quarters this year and we remained bullish on the rest of the year, the next three quarters, Q1 was an okay with results.

Total revenues for Q1 were Rs.1,955 Crores versus Rs.1,017 Crores year earlier that has a rise of 92% year-on-year. Total EBITDA for Q1 was Rs.112.4 Crores versus Rs. 91.1 Crores year earlier that has a rise of 23% year-on-year. Profit before tax was Rs. 84 Crores versus Rs.69 Crores year earlier that has a rise of 22%. Profit after tax was Rs.62.3 Crores versus Rs.59 Crores year earlier that has a rise of 5.3% and profit after tax after minority interest was Rs. 57 Crores versus Rs.51.5 Crores year earlier that is a rise of 10.7%. I can just highlight that the tax rate was slightly high, the effective tax rate was slightly higher at 25% in Q1 due to the company opting to avail past MAT credit, minimum alternative tax credits in future quarters the next three quarters for example the effective tax rate will then come down to lower than 20%, which will improve the profit after tax figures during the rest of the year, obviously this quarter was affected by the one-off slightly higher tax rate.

Now let us go through the segment results starting with the Liquid Terminal Division, revenues for Q1 were Rs. 49.46 Crores versus Rs. 45.5 Crores a year earlier that is a rise of 8.7%. EBITDA was Rs. 32.1 Crores versus Rs. 28.9 Crores a year earlier that is an 11.1% rise. So I am pleased to say that as we have discussed in past earning calls in this division both operating profit and revenues are rising again particularly because of the new Kandla liquid terminal and the new Mangalore terminal, which were commissioned a few months ago contributing more revenues and profits in this division.

I was also pleased to announce that the 40,000 kiloliters expansion at Kandla to take our capacity up to 140,000 from current 100,000 kiloliters should be commissioned in quarter two of this year that means in the current quarter July, August and September and that will start to generate revenues from then in. All tanks are already presold for that 40,000 kiloliters expansion in

Kandla, cargos are lined up and so we expect immediate result from this 40,000 kiloliters expansion in Kandla which will come into the revenues and profits from Q2.

Now as far as Gas Terminal Division is concerned, GTD divisions for Q1 were Rs.1905.8 Crores versus Rs.971.4 Crores a year earlier, that is a rise of 96%. The EBITDA for Q1 for the division was Rs. 80.3 Crores versus Rs. 62.2 Crores a year earlier. That is a rise of 29% year-on-year and that remains healthy rise in operating profits for the gas division.

Now as usual, I will go through the underlying sales volume analysis for the Gas Division. LPG throughput volumes in the three terminals of Mumbai, Pipavav and Haldia together, for quarter one, were 588,066 metric tons versus 576,468 metric tons a year earlier, a rise of only 2% year-on-year. And I have to say that there was a very specific reason for this small rise only, which is that one of the customers in Haldia BPCL got stalled for three months. That means the full three months of quarter one, April, May, June as they were awaiting a permission to renew their contracts. Otherwise, we expected probably around 75,000 metric tons of extra LPG would have been handled at Haldia if it actually happened. So it is a one-off case and I am very pleased to say that that permission has been received by BPCL in July and now again business has bounced back. So there was a specific approval delay for BPCL cargoes in Haldia, which partly accounted for a slow rise in the throughput volumes. And as I said, we expect to make up this during the rest of the year in accordance with the budget.

So although we lost that potential sales volume in Q1 from BPCL, we expect to make that up during the rest of the year in terms of the next three quarters. Now, LPG retail cylinder volumes for the commercial and domestic markets under the Aegis brand name, in Q1, the sales volume was 4,537 metric tons versus 3,900 metric tons year earlier. That is another good rise of 16% in sales volume year-on-year. As I said in the last earnings call, there is a big push by the management to increase the number of dealers and distributors for the cylinder business, especially in the South, and now North East India as well. So we expect to see further increases in volumes as per our budget throughout the year. Industrial Bulk sales of LPG were also very good in Q1, 26,277 metric tons versus 11,188 metric tons year earlier. That is a rise of 135% year-on-year. New industrial customers were added, for example, in the Haldia North East region, resulting in this big increase in sales.

Autogas sales were 6,422 metric tons versus 6,895 metric tons year earlier. That is a small drop of 7%. There was no particular reason for this except in June some stations held back purchases as the supply prices were going to steeply drop, the LPG prices is going to drop in July. So they waited until July for placing their orders. But obviously, those sales will come into quarter two. We now have 113 stations operational. And we do, as I said in the last earnings call, expect to add another six to eight stations this year, taking us to about 120 sites. So that business continues to go well, but there was a small issue in June with the prices coming sharply down in July, so some deferment of sales. Sourcing volumes were also very high, 452,471 metric tons in quarter one versus 215,849 year earlier, a rise of 109%. Obviously, this reflects the new IOC contracts, which were won by Aegis Group International. They are doing very well with the deliveries to

Kandla port and Haldia, so conclusion for the Gas Division in Q1. There was continued growth in the LPG Division as a whole, as far as the EBITDA in quarter one was concerned, but some slowdown in Haldia because of the delayed permission for BPCL. But that was a one-off, and we do expect to even stronger sales volumes in the next few quarters in this financial year.

Now I will cover the outlook for the rest of the year, the next three quarters of FY2020 and also give an update on the new projects. There are four projects I would like to just give an update. First, the 45,000 metric ton fully refrigerated Kandla LPG Terminal project is on schedule, work is in full swing. Of course, this will be a major source of profits growth from next financial year onwards. But the project is on track and going well. The second project, I have already said, but I will just repeat 40,000 kiloliters Kandla Liquid Terminal expansion, which will be commissioned in quarter two of this current financial year and will add to the profits from quarter two onwards. The Mangalore Liquid Terminal expansion, an additional 50,000 kiloliters, which we are still awaiting the final consent to establish, which means the final construction has not yet started. Any day now we will get that and then that project will start, and we expect completion in the next financial year.

And finally, the major Pipavav rail gantry project, the rail connectivity project as well as two more spheres that we talked about in the last earnings call that should be completed by FY2021 next year and generate substantial incremental profits next year.

Now let me talk about the earnings outlook for the rest of this financial year FY2020. As I said at the beginning, quarter one was okay results, but we do expect a further jump in earnings in the next three quarters, especially due to the new Kandla liquid capacity and the bounce back in LPG throughput volumes in all three terminals, especially Haldia, which was static in Q1. And this will certainly drive net profits for the current financial year. And we do continue to work on multiple new projects yet to be announced, but which will impact profits in FY2021 and FY2022. In other words, outlook for the next three years, including this year, we expect very good earnings growth in all three years. This year, FY2021 and FY2022, with the implementation of all these projects, especially in the areas of new LPG terminal capacity, new evacuation projects in the LPG terminals, including railway connectivity and the retailing of LPG as we build distributors in this distribution network and continued growth in the liquid terminal capacity so all these things are expected to drive profits, not only in the current financial year, but also the next two financial years.

Now I would like to come to one final announcement regarding an employee share purchase plan, or what we call ESPP. And I would like to announce that for the first time in the history of the company, the company is introducing this employee stock purchase plan from quarter two of this year. That means July, August, September. The company's management, I think, has overseen a tremendous growth over the last five years with results for all to see in great profits growth, sales revenue growth, capacity growth and building the next sets of terminals around the coastline of India. That is the last five years, company has done very well. And obviously, there has been a commensurate impact on the market cap of Aegis and dividend growth.

Now for the next five-year plan, we expect the management to further massively grow the business, particularly in the areas of LPG terminals and the evacuation projects like rail and pipeline connectivity, the retailing of LPG and liquid terminal growth. That is the plan for the next five years. And in order to motivate the key senior staff at the level of President designation. So this scheme is available to only President-level management. So in order to motivate these key people to execute the strategy in a time bar manner, the Board has decided to introduce, for the first time, an employee stock plan. The key features of this plan are 5.6 million new Aegis shares have been granted in FY2020 at face value. The grantees will have to absorb the income tax on these shares. So the cost to them at the current tax rates will be Rs. 87 per share because they have to pay the income tax on these shares upfront. And for the next two years, the similar grant of shares will be implemented under the plan. The entire plan has been worked out under the SEBI regulations and has already been approved by the shareholders and the relevant regulatory authorities. And in the next quarter, that is quarter two, I will be able to give the full detailed numbers once they are worked up for this scheme, and I will be able to announce that in the next earnings call. But the implementation of this growth plan that I mentioned for the next five years, with this employee stock plan, which is there to motivate key management, we believe it will result in substantial shareholder value creation in terms of market cap growth, benefiting both the shareholders and the key management personnel, who are delivering this plan because I think the alignment of interest of management and shareholder value, as many companies do, will ensure the delivery and implementation of the growth plan, which will benefit shareholders, but it will also benefit the key management.

Now please note that the promoters are not eligible for this scheme, it is for President-level employees only of Aegis Logistics. So I would like to reiterate that the promoters are not involved in the scheme at all. It is only for key senior President-level staffs who are contributing to the implementation of the strategy.

And with that, I can take questions.

Moderator: Thank you very much. We will now begin the question and answer session. The first question is from the line of Rajesh Kothari from Alfaccurate Advisors.

Rajesh Kothari: Good afternoon Sir. I have three questions. First question is, even if I adjust for the BPCL loss of 75,000 then the adjusted number comes to roughly around 663,000 compared to fourth quarter of 710,000. So I am just trying to understand the ramp-up from the customer perspective, is it in line with your estimates? Because I understand there can be seasonality in the volumes. So if you can give some color on how do you see next nine months from the production perspective? That is question number one. Question number two is, if I look at your revenue of course, one needs to look at EBITDA per ton, but the gap between your revenue and EBITDA this time is too high in this division. So any insights from that perspective and the third question is with reference to the liquid division, which I will ask later on, first can you answer the 1st two questions?

Anish K. Chandaria: Yes. So the first question was LPG throughput volume seasonality and all that. So yes, I already said about the one-off issue regarding BPCL at Haldia, which has been rectified. Things do fluctuate from time to time, but basically, as we see the next nine months, quarter two, of course, we have good visibility because we are already in July and Q3 also, we have good visibility. So generally speaking, Indian LPG demand in India is growing around 7% in this financial year, that is the expectation of the oil companies. And we are actually seeing a really good bounce back in quarter two and quarter three in all three terminals, Pipavav, Mumbai and Haldia. So I think we are going to see good results in terms of LPG throughput volumes, which will be much better than Q1. So that is basically the scenario.

Rajesh Kothari: No sir my question is with reference to even if I adjust BPCL. So 588,000 plus 75,000, I get 663,000 compared to the 710,000.

Anish K. Chandaria: So what I was saying was that Q1, apart from the BPCL thing, their other customers also was a little less growth than maybe normal. There was a general election in May, there are fluctuations. So they bought more inventory, and then they run down the stock. So there are a few adjustments like that, apart from the BPCL. But I think the general trend, which is what you really care about rather than one month here or there. The general spend is for a good growth in the next nine months, three quarters that is what the visibility is

Rajesh Kothari: So ramp-up is in line with your estimate. This is what you are trying to say that ramp-up is in line with your estimate.

Anish K. Chandaria: We may expect to hit the budget, even though the Q1 was a little below budget, but we expect to make it up in the next three quarters. And that is already what we are seeing in quarter two. So no reasons for anything but optimism, let me say, on that front. As far as the EBITDA and sales revenue is concerned, as you rightly said, you have to be very careful with the sales revenue figure because this year, we are selling like double, it is not only the LPG price because we are selling double the sourcing volume in terms of metric tons. I think this year, we probably will end up at 2 million tons. compared to 1 million ton last year. So the sales revenues are much higher because we have got those new IOC contracts compared to last year. So therefore, the EBITDA on that, if you take it as a potential that will look lower, but that is not because markets are lower, just because the enormous doubling of the top line in terms of volume as well as prices. So as I always say, just look at the EBITDA figure per ton rather than compare it with sales revenue, that is the nature of our business.

Rajesh Kothari: Sure. And my third question was the LPG volume significantly increase. You mentioned some reason, which I did not get. What is the reason for significant volume growth on LPG side? I am talking about the division two, , the LPG volume distribution.

Anish K. Chandaria: The industrial distribution. Yes, we just added more customers. Obviously, there are more customers that have been won, particularly in Haldia, new customers. So as we add more customers, the volumes have increased, because now not only industrial customers in Gujrat, Maharashtra, but now obviously in Northeast region as well. So that is good. And wherever we are able to service more industrial customers with Bulk LPG, obviously, we see. So there was a sharp price increase in the year-on-year industrial sales. I think I had mentioned it was 135% increase in the bulk sales of LPG through industry in quarter one compared to last year because new customers were added. And it is looking positive for the future. We are negotiating for all the time for new customers in Haldia. So things are going on, on that front. So we expect that to continue to do well.

Rajesh Kothari: If I can squeeze in my last question. How do you see the liquid division performance going forward? Do you see the ramp-up in your second quarter once this terminal comes into play? Do you see significant increase in your liquidity, which was not doing that great in last couple of years?

Anish K. Chandaria: Yes. I really do because particularly the addition of this new capacity in Kandla and the Mangalore port as we said. The margin, the volumes in Kandla are really good, healthy. Also some new capacity that we commissioned in Haldia. So all of this should come through not only in quarter two, quarter three but in quarter four also, so as I said, the sign that things are very healthy is that this new 40,000 kiloliters in Kandla has already been presold with chemicals and petrochemicals. So I think we are actually going to see a good growth in Liquid Terminal Division. Revenues and profits already grown 11% EBITDA growth in Q1, but we are going to see further increase in the next three quarters as a result of all this new production. But we will not stop there. Obviously, we are constructing the next project, 50,000 kiloliters in Mangalore. So the idea for Liquid Terminal Division is not only this year's earnings growth, but in the next couple of years as well that we expect to see further increases in profit and revenues.

Rajesh Kothari: Great. Thank you Sir. Wish you all the best.

Moderator: Thank you. The next question is from the line of Pritesh Chheda from Lucky Investment Managers. Please go ahead.

Pritesh Chheda: Sir, just a clarification. The EBITDA growth that we see in the LPG division, despite a 2% growth in sourcing. So is it that the bulk of that EBITDA growth is on account of sourcing volumes and not because the throughput growth is just 2%? So if you could just give some more highlights on how the EBITDA growth rate comes through.

Anish K. Chandaria: Yes. So thank you, it is a good question. I am glad you raised it. The EBITDA growth for the division as a whole was 29%. So that is pretty respectable. Despite the 2% rise only in the LPG throughput volumes because of Haldia and some other factors that I mentioned. So you are absolutely right. However, the reason for that was particularly the LPG retail division has done very well. Actually that is a main contributor this quarter for the rise in the EBITDA that the LPG retailing in the cylinders, in the industrial distribution and the Autogas has actually powered the 29% rise in EBITDA. It was not the throughput volumes this time. It was the retail division. And obviously, sourcing which is $2 to $3 per ton on margin grew 109% in metric tons. But if you look at the actual breakup, it is the retailing of LPG, which has been really far in the EBITDA this year. And you know what? When the LPG throughput volumes do bounce back, as I said, will bounce back in quarter two and quarter three and quarter four, the retailing LPG is still going strong. So hopefully, we will see all cylinders firing, and the sourcing continues to do well. So we will see all cylinders firing in the next three quarters, not just the retail.

Pritesh Chheda: And how much do we make on the throughput? So if you make on sourcing $2 to $3, throughput is how much per ton?

Anish K. Chandaria: Yes. So we normally say that, obviously, different pricing for different customers. But you can take an EBITDA roughly of Rs. 1,000 per ton weighted average for the throughput volumes.

Pritesh Chheda: Rs. 1,000 per ton?

Anish K. Chandaria: Yes.

Pritesh Chheda: It is about $15?

Anish K. Chandaria: Yes. And I can quote again, as far as the retailing margins, they are much higher, roughly between Rs. 2,000 and Rs. 3,000 per tons for the cylinder business, paying for the Bulk Industrial business and maybe around Rs. 6,000 to Rs. 7,000 a ton on the Autogas business. So higher margins, and more volumes you get obviously close to the bottom line.

Pritesh Chheda: Okay. And you said $2 to $3 in case of…

Anish K. Chandaria: Yes. Which is in our Singapore subsidiary, roughly it is depending on which contract, but let us say an average of $2 to $3 per ton and as I said, we are selling double the volumes this year compared to last year. So you can make the math very easily, 2 million tons is what we have been trying to sell annualized this year. Multiply it by that $2 to $3, it will give you the profit.

Pritesh Chheda: And this is our gross level, right? These are gross profit?

Anish K. Chandaria: Gross Profit, but very little as there is just some employee costs and rent cost of our office in Singapore. And there will be some tax, but the EBITDA will be like 95% on this because very few fixed cost except from employees and rent cost. And of course, the tax in Singapore is 17%, much lower than India.

Pritesh Chheda: So it is gross profits for all, right? It is for throughput also, these are gross profit level numbers, which you have...

Anish K. Chandaria: The EBITDA, what we call EBITDA.

Pritesh Chheda: Okay. EBITDA numbers. Perfect.

Anish K. Chandaria: Yes. EBITDA.

Pritesh Chheda: Okay. Thank you very much Sir.

Moderator: Thank you. The next question is from the line of Lokesh Manik from Vallum Capital Advisors. Please go ahead.

Lokesh Manik: Good afternoon Sir. Just a couple of questions. One is a clarification for the results for this quarter. We have not included any changes arising from Ind-AS that has been accounted for in the retained earnings on the equity side. Am I correct on that?

Anish K. Chandaria: Yes we will have and I will hand it over to the CFO to explain.

Murad M. Moledina: So we have adopted Ind-As 116 from April 1, 2019, that is what we have said. But it has got a very marginal impact as it is not big.

Lokesh Manik: But we have not seen any impact in this quarter's results on the income statement.

Murad M. Moledina: Very marginal.

Lokesh Manik: My next question was in about FY2016, we saw good utilization in Pipavav Liquid Terminal, mainly due to import of ethanol from Brazil. So now that the policy in India has changed regarding ethanol, are you seeing any impact out there?

Anish K. Chandaria: No, we are not seeing impact in Pipavav. I think you asked me this yesterday in the AGM. I would have said it. No, no changes in ethanol right now. Look our marketing people all the time are pursuing various customers and all that. But really, no change at the moment as far as Pipavav is concerned. It continues to operate around 25% to 30% capacity utilization. No major change expected right now.

Lokesh Manik: Okay. And sir, in the sourcing business, like you just mentioned that our commission is about $2 to $3. Is this fixed in nature or just more like a trading commission that we earn. I mean, we decide the purchase?

Anish K. Chandaria: No. You know when the oil companies when they tender. So it is fixed for the whole year because once you won the tenders that are contract, which is in-built, that commission. So then it is fixed for the term of that contract.

Lokesh Manik: Alright. Sir, the purchase cost, are we insulated from it as such?

Anish K. Chandaria: Yes, we are. Because we will pass that on. And if we just include the mark up, so we are insulated from the ups and downs of the international gas prices. We just make our $2 to $3 per ton as a markup.

Lokesh Manik: Alright. I understood. Thank you Sir. I will come back for any more questions.

Moderator: Thank you. The next question is from the line of Chirag Vakharia from Budhrani Finance. Please go ahead.

Chirag Vakharia: Good afternoon Sir, 1.2 million ton contract, is it for year or is it spread over two years? How is it?

Anish K. Chandaria: It is actually 1 million tons is for IOC Kandla, which is for calendar year 2019. And there is an additional second contract for 0.5 million tons, which is to Haldia and Ennore IOC. So all of them are calendar year 2019 and then there are some other contracts, which could be fourth quarter or whatever. So that is why it comes to 2 million tons. But those major ones from IOC are spread over 12 months of 2019.

Chirag Vakharia: And did not get the second one, IOCL was 1 million ton and the other one was?

Anish K. Chandaria: That is the second one of IOCL of 0.5 million ton, so Haldia and Ennore, which is East India so a total of IOC for 2019 is 1.5 million tons.

Chirag Vakharia: Okay and any other such contracts are in pipeline or how is it?

Anish K. Chandaria: Not right now, but there are others, which are more spot in nature. So that and other Aegis is on retail distribution. So when you add it all up, it comes to about 2 million is what we project this year, of which majority is IOC, but that goes on. Our marketing team has always tried to see whether, so those are not those annual contracts, there may be more spot tenders.

Chirag Vakharia: Okay Sir. Thank you.

Moderator: Thank you. The next question is from the line of Pritesh Chheda from Lucky Investment Managers. Please go ahead.

Pritesh Chheda: Sir, some guidelines on the improvement in profitability and ROCE in the liquids business, if you could throw light as to when should it happen?

Anish K. Chandaria: Yes. So I think we have discussed this before. So I am just going to reiterate what I said in the previous meeting, that the improvement in profitability in this liquid terminal business comes particularly from two things. One is an increase in capacity, like what we have done in Kandla and Mangalore, etc., but also from margins. And margins do depend on a few things, for example, which products we handle. So the more products we handle, which are, let us say, high-value chemicals and petrochemicals, those are generally higher margin than if you do bulk petroleum or, let us say, edible oils. So often when we start terminals, just to get revenues in, we will start with the lower value products. And then our marketing people slowly buildup the customer base towards chemicals and petrochemicals. That is exactly what happened in Kandla.

So let us say, we commission Kandla in October of 2018, the first quarter that is in October, November, December, we had lower revenues and lower margins although we have achieved full occupancy by December, so that is not bad. But I saw in quarter four of last financial year, that is January, February, March 2019 and now even more so in April, May, June, which is quarter one now that they have got higher margins because they have got many more chemical customers, etc. So we expect that process to continue going forward in Kandla. For example, the next 40,000 kiloliters is, as far as I recall from the briefing they gave me last week, is all chemicals customers already because we have already commissioned Kandla. So In other words, there is going to be better profitability, we forecast in the Liquid Terminal Division, both from new capacity coming on stream but higher margins in places like Kandla, but also Mangalore. Right now, we have started the first 25,000 in Mangalore is particularly servicing customers like Nayara Energy with motor spirits, that is petrol and diesel, that is how we started the first thing, which is, let us say, slightly bulk, but looks like lower margin. But now the next 50,000, which we are going to construct, there are many more chemical customers in that. So margins improve and profitability will improve from the capacity that we have buildup. Haldia also, our business is strong in terms of petrochemicals oven there. So I think we will see that coming to the bottom line as far as Liquid Terminals Division profitability is concerned, not only in this current financial year, but the next one or two years that we forecast.

Pritesh Chheda: Hinting that new capacity, which will come will be where your liquids will be handled, which will drive up your profitability?

Anish K. Chandaria: Yes. Newer liquids meaning more chemicals traffic. Now, Mumbai, which is obviously our oldest terminal, the terminals in Mumbai where actually is most, I think, 70% is chemicals and petrochemicals currently. So that is, obviously, very high profitability. So it is a question of other terminals like Kandla, like Mangalore, like Haldia particularly. Therefore, in those terminals, shift more to those higher value, higher margin product, and that is happening. No one expect that to happen within three months, it takes a period of time. But that is how we squeeze out more profitability from these terminals and that is happening, and I am pleased to say that. You could see some evidence of that already in Q1.

Pritesh Chheda: Sir, I am just reiterating, it will happen on incremental capacity and incremental volumes? It will not happen in terms of existing volumes getting replaced with higher value-added chemicals?

Anish K. Chandaria: No actually, it is the latter. It is a combination of both. It will be existing capacity will be also moving towards the higher value as well as the new capacity. As these terminals get settled and as the customers can be persuaded that this terminal is a good one, etc.

Pritesh Chheda: So what would be out and out ROCE target on this business and your in which you would achieve that ROCE target.

Anish K. Chandaria: Well, I am glad you asked that because I asked the financing to give me that data in case it came up. So I think it is safe to say, the CFO's here with me, so I can confirm what I said. But basically our budget and target is around 20% ROCE for this Liquid Terminal Business. We are a little bit below that right now. I think it is currently, they showed me the figures, it is about 16%. So we are a little bit below that. And that the first target is I think to get a 20%. I believe the chances are good that this year it seems to go well, as I said that this year, we will actually hit that or close to 20%. So let us at least get back to that, which is the budget for this year. And then let us see if we can improve a little bit in future years. But that is where we are. And there is one thing, which I am going to bring up right now, which we discovered just to complicate things a little bit more. Sometimes when analysts work out the capital employed in this business, they have, by mistake, included a revaluation that we have done, for example of the freehold lands in Mumbai. Now that is just an accounting entry, the revaluation of that land because that land was already valued at historic cost at Rs. 4 lakhs in the balance sheet, so land in Mumbai, which my father decides to buy. And I think the revaluation is something at Rs. 300 Crores. So I do not think it is fair to take that if the capital employed, because the land is still the same, we have not deployed additional cash, it is just a valuation, we should probably exclude that, not probably should exclude that Rs. 300 Crores so that is valuation exercise. That is a fair reflection of the true profitability on capital, our return on invested capital in this business.

Pritesh Chheda: So this happened in FY2018, this revaluation?

Anish K. Chandaria: Yes, FY2018. I had actually forgotten about this. When I did this exercise with the finance team, they pointed it out that. So you should exclude that Rs. 300 Crores in any normal calculation of return on invested capital because what most people would like to know is that, okay, if I have invested, if I had done capital expenditure of Rs. 100 Crores then what is the return on that? Yes, that is the confusion. But obviously, that should not include a land valuation. That has nothing to do with actual capital employed.

Pritesh Chheda: Okay. I understood Sir. Thank you very much.

Moderator: Thank you. The next question is from the line of Pranav Mehta from ValueQuest Investment Advisors. Please go ahead.

Pranav Mehta: Good afternoon Sir. Couple of questions. Sir firstly, if you can provide an update on this completion of the Uran-Chakan pipeline and what are the time lines as of now? And so far, specifically for Mumbai in the past also, like, we have carried out few debottlenecking projects to increase our throughput. So is there a similar plan on the anvil as of now? And second question is on the employee stock purchase plan. If you can just help us understand what kind of impact it will have on our P&L this year and going forward? Thank you.

Anish K. Chandaria: Yes. So as far as the Uran-Chakan line is concerned, the latest information from HPCL is that they are gradually making progress on completing the last 25 kilometers, which is left of that line, where there were some arguments with the villagers and all that, but they are making progress. And I am only reporting what we have been told by HPCL, the current expectation and that may change. I am just reporting what HPCL has told us is October, November, December is when they think that they will be able to complete this Uran-Chakan pipeline, which means it will be in 2020, when it will have an impact in terms of the incremental volumes as far as Aegis is concerned. So that is the current expectation. You can ask me in every earnings call, I will give you a further update that is what they told me. Now also regarding this Uran part of it, let me tell you, which I think is significant. But even before the Chakan line is completed, at the operating level of HPCL there has been now serious discussions for the last few weeks with us that they may like to start moving LPG through at least up to Uran in the next coming weeks even before Chakan itself. Now that is good. That may not mean immediate incremental volumes because, obviously, they will shift some of the road traffic into the pipeline.

But it is a good sign that okay they are getting gearing up for the extension of Chakan. And we can say that Indian Oil as well has expressed strong and keen interest on using this pipeline, especially when the Chakan part is ready. So I think that is just a little signal there. They appear to be gearing up to use this pipeline. But I think as far as analysts are concerned, you should probably expect impact on the Aegis Mumbai terminal, incremental volumes and revenues from next year onwards, rather than this year because it will take some time, but that is good because once it has done, then we do expect to see significant growth in volumes in Mumbai.

As far as the ESPP is concerned, employee stock purchase plan impact on P&L, I did say that we will be able to give you all the detailed numbers in quarter two, if the scheme has just been approved in early July. And so we will be able to work those numbers out and give that to you in the quarter two earnings call. But I should hasten to tell you that it is a non-cash accounting entry. So this will not have an impact on cash flow.. So when we announced the impact in quarter two, you will seek, you just bear in mind the non-cash accounting entry in the P&L, but it will be disclosed once we work up the figures in quarter two.

Pranav Mehta: Right Sir and so your comments on that question on debottlenecking projects in Mumbai?

Anish K. Chandaria: Yes. We have completed all the debottlenecking projects in Mumbai long ago. So there is nothing what we have done. As soon as this pipeline is ready, we are ready to ramp it up, and we are at albeit of debottlenecking projects from our end has been ready and are absolutely waiting for this pipeline to be done. And as I said in every extra ton of LPG that is handled by the Mumbai terminal goes straight to the bottom line because there is very little additional cost involved in that. So that is why that will be highly profitable once it is ready. And as I said, HPCL has already given signals that they want to start using the line up to Uran, which is a good news.

Pranav Mehta: All right Sir. Thank you and all the best.

Moderator: Thank you. The next question is from the line of Vikram Suryavanshi from Phillip Capital. Please go ahead.

Vikram Suryavanshi: Good evening Sir. I joined call little bit later. Can you tell what was the volume in this package cylinder for this quarter?

Anish K. Chandaria: Yes, sure. The LPG cylinder volumes, packed cylinder for the commercial and domestic market was 4,537 metric tons versus 3,900 metric tons a year earlier, rise of 16%.

Vikram Suryavanshi: And at our gas and industrial bulk?

Anish K. Chandaria: Yes. Industrial bulk sales were 26,277 metric tons versus 11,188 metric tons year earlier that is a rise of 135% year-on-year.

Vikram Suryavanshi: Okay and Autogas Sir?

Anish K. Chandaria: By the way I should tell all of you, most of these figures are in the investor presentation that SGA produced along with that. But I agree, that they do not give the breakup between all the three. So I can tell you that. But anyway Autogas sales were 6,422 metric tons versus 6,895 metric tons year earlier.

Vikram Suryavanshi: Okay. Got it. That was helpful Sir. Thank you.

Moderator: Thank you. The next question is from the line of Ankit Gupta from IndiaNivesh Fund Managers. Please go ahead.

Ankit Gupta: My question is regarding diversification of our risk-based CNG. Can you please throw some light. I think last concall also this question was raised, but I still have some doubt.

Anish K. Chandaria: I am sure you will have doubts. Anyway, yes, okay. So it comes up a lot. Now I am going to start by discussing something else, which was news to me. Would you believe that our retail team has now made a survey of all the CNG prices in all the major territories in India. And except for the cities of Mumbai and Delhi, would you believe that Auto LPG, Autogas is currently cheaper than CNG for first time. And I noticed because 10 years ago, 12 years ago, 13 years ago, when we started the Auto LPG business, CNG, which was much more subsidized in those days, had not gone through even determined pricing for the imported LNG.

In those days, CNG used to be 50% cheaper than Auto LPG. So it is a very significant thing that because of the new pricing regime for natural gas, which is a mix of the subsidized domestic APM gas and the imported LNG thing it is a mix, depending on how much availability of domestic gas. Even though that is still subtype. But for the first time because this proportion of domestic gas is going down and the proportion of import in LNG is going up, which obviously is more expensive. For the first time in, I have seen that, except for the two cities of Mumbai and Delhi, in every other market, whether it was Gujarat or wherever CNG is available the Auto LPG is actually cheaper than CNG as long as it continue. So that is one thing.

Now I think your question is also related to the competition between piped natural gas, not CNG was really more to do with transportation, we are looking in at way, now piped natural gas versus LPG for cooking. So what my answer to that is that today piped natural gas is very, very small percentage of the use in terms of households. So today, LPG is obviously become a very high percentage of the households in India, 240 million households. If you will look at government statistics, it might even be somewhere between 85% and 90% of households out already using LPG for cooking fuel, whereas piped natural gas is not more than about 2% today.

Now going forward in the future, if you look at government policy, even Modi government too has made it clear that they want to achieve Universal LPG, that means every household in India to have access to LPG cylinder within the next two or three years. By the way, they have also said every household, even in the rural areas to have access to clean water, also to have electricity, etc., and cooking gas LPG is part of it.

So that is clear government policy, which we are seeing that even in this second Modi government, they are absolutely ramping up their efforts, which the Indian Oil, HPCL and BPCL to make sure that LPG goes into every household in every village and every town and the big problem with piped natural gas, why we feel very strongly that it is not going to be a major cooking fuel in India. It is commercially unviable to lay a pipeline to every village because you need to carry natural gas by pipeline, unlike LPG, which can be carried in cylinders. It is commercially unviable to lay a pipeline to every village, I do not think I need to explain that but I can if you want to. It is also commercially unviable and I explained why in one second, to lay a pipeline even in a big city like Mumbai or major metros because, ultimately, you have to spend all the money to dig up the road, lay the pipeline, and then go into every apartment block and do that. Now the capital cost over there, can only be justified if the amount of cooking gas in terms of natural gas will justify the capital expenditure on the pipeline. Do you agree with me on that?

Ankit Gupta: Yes, definitely.

Anish K. Chandaria: Okay. We have done a lot of work on this. The big issue is the amount of cooking that people do using natural gas. It is simply that amount of fuel, which, let us say, you cook breakfast in over half an hour or 20 minutes in the morning, and then you cook dinner at night, 1 hour, 1.5 hour the amount of fuel that they use simply arithmetically cannot justify the capital expenditure for laying all those pipelines. I am not even talking about cross-country pipelines for village. I am even talking about laying it to every apartment block. And so that is the problem. Now why is it that in Europe, people can justify a national gas grid. It is because most people in Europe use natural gas for central heating, because it is a cold climate. And because 24 hours or 12 hours a day, they have the heating on. So that is what justifies putting that expenditure. But if you have only for cooking, it does not justify. So that is the central truth, why pretty much the whole LPG world knows, that LPG will be the main cooking fuel in India, a huge country like India and not natural gas. Because the economics just does not work for laying pipeline. So you are going to hear a lot of hype about city wide, gas distribution and all the rest of it, my advice is to ignore it

Ankit Gupta: Thank you Sir.

Moderator: Thank you. The next question is from the line of Sarfraz Bhimani from Motilal Oswal. Please go ahead.

Sarfraz Bhimani: Thank you so much for the opportunity. Just couple of questions in line of Ind-As again so here the depreciation and interest cost grew by 30% Y-o-Y and 20% Q-o-Q. So if you could say, this is in line with the Ind As adjustment that we have done.

Anish K. Chandaria: Yes.

Sarfraz Bhimani: And secondly, in the annual report for FY2019, the lease rentals were around 17% of the other expenses. But then the total expenditure for the quarter grew 6% Q-o-Q, so any light there? And why is the other income so higher on Q-o-Q? Thank you.

Anish K. Chandaria: I will hand it over to the CFO to discuss the accounting on depreciation, lease expenditure treatment and other comments.

Murad M. Moledina: Yes, so you are right. The depreciation and expenditure increase is on account of the implementation of Ind AS 116. As far as your other expenses increase, you will have to see it not only by YOY but if you see Q-o-Q reduction, so there is an improvement. So there are much more units now operating than which were in the last year's Q1. So you please compare the expenses Q-o-Q rather than Y-o-Y and that kind of an increase.

Sarfraz Bhimani: Okay. Any other income jump in other income is led by?

Murad M. Moledina: That is very insignificant and it will even out sometimes, you get kind of in or some kind of one-off entries would come. I do not have it specific right here, but we can see you offline. But it will get evened out as the year moves ahead.

Sarfraz Bhimani: Okay. Thank you so much.

Moderator: Thank you. The next question is from the line of Lokesh Manik from Vallum Capital Advisors. Please go ahead.

Lokesh Manik: Yes Sir actually, my question has been answered satisfactorily by you it was regarding LPG versus pipe natural gas just one more thing on that front, if you could share any industry data or a thumb rule, which can just give us some quant idea in terms of the difference between the costing of laying the pipeline versus the benefit of LPG.

Anish K. Chandaria: You have to go and ask your friends in the pipe natural gas industry, not me. I do not have those figures.. I am only involved in the LPG business.

Lokesh Manik: No problem Sir. Thank you so much.

Moderator: Thank you. Ladies and gentlemen, that was the last question for today. I would like to hand the conference over to Mr. Anish Chandaria for closing comments.

Anish K. Chandaria: Thank you for good set of questions today. As I said we are bullish about Aegis' earnings this year, in FY2020. Q1 was okay, but I think there will be a good bounce back, particularly, in the LPG volumes, throughput volumes and in the liquid terminals division, continued growth and profitability, which will reflect into Q2 and Q3, etc. So I think we remain bullish. It was a little slow start for year for the reasons I gave but in no way does that shake or belief that this is going to be a good year for Aegis as far as FY2020. Thank you very much.

Moderator: Thank you. On behalf of Aegis Logistics Limited, that concludes this conference. Thank you for joining us, and you may now disconnect your lines.