"Aegis Logistics Limited
Q2 FY2019 Earnings Conference Call"

November 06, 2018

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Moderator: Ladies and gentlemen, good day and welcome to the Aegis Logistics Limited Q2 FY2019 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 Chandaria, Vice Chairman and Managing Director. Thank you and over to Sir!

Anish Chandaria: Thank you. I will be presenting the Q2 results for FY2019. It was a static quarter results including a stellar 58% rise in the operating profits in the gas division, but a drop in the profits in the liquid terminal division. Total revenues were Rs.1425.9 Crores for the quarter versus Rs.1240.9 Crores a year earlier. The total segment EBITDA for the consolidated group was Rs.100.57 Crores for the quarter versus Rs.76.87 Crores year earlier. That is a rise of 31%.

Pretax profits for Q2 were Rs.71 Crores versus Rs.59.5 Crores a year earlier which is a rise of 18% and profit after tax for the group was Rs.57.5 Crores versus Rs.56 Crores a year earlier which is a rise of 3% and I will just also report the six-month figure, Q1 plus Q2 or H1 FY2019 was Rs.116.7 Crores versus Rs.102.8 Crores for the same period last year. That is a rise of 13% in the first half profits for the year after tax.

Now I will go through the segment results, starting with the Liquid Terminal Division. The revenues were Rs.44.46 Crores for Q2 versus Rs.40.79 Crores the year earlier which is a rise of 9% and the EBITDA for the division was Rs.20.79 Crores versus Rs.26.29 Crores the year earlier. This drop of 21% is mainly due to the higher lease costs in the Kandla Port which is our new project. Because in Q2, the Kandla Project was not commissioned the 100,000 kiloliters, so obviously we had the full lease cost, but no revenues and no profits in Q2.

However, obviously, this will change from Q3 because now the Kandla project is in full operation as well as the Haldia 4 project is operational, so both these projects 100000 kiloliters in Kandla as well as the 35,000 kiloliter project, liquid terminal project in Haldia what we call Haldia 4 project both are now operational and in full swing, fully occupied in both Kandla as well as Haldia. The only project, which is yet to be commissioned, is the Mangalore 25,000 kiloliters project, which although mechanically has been completed for the last six or seven weeks, we are still waiting for final permit to start operations, so this new capacity will add to the EBITDA in Q3 and Q4 and we expect, therefore, that the profits will bounce back in the Liquid Terminal division, but in Q2, there was a drop of 21%.

As far as the Gas Terminal Division is concerned that continues to power ahead. In fact, as I said at the start of the call really that has been an excellent performance again. Were it not for the drop in the Liquid Terminal Division profits that I mentioned in fact the overall results would have not beena static quarter, but a much better growing quarter, but that was not due to the gas division.

The Gas Division revenues for Q2 were Rs.1381.4 Crores versus Rs.1200 Crores. The EBITDA was Rs.79.8 Crores for the quarter versus Rs.50.6 Crores the year earlier, an excellent and big rise of 58% in the year-on-year EBITDA for the division and this follows Q1 60% rise in EBITDA, so you can see that we are really maintaining the excellent performance in the gas division year-on-year and this gives a H1 total EBITDA of Rs.191.7 Crores. This is a record for this gas division. The first half was EBITDA of Rs.191.7 Crores.

Let me go through the volume analysis underlying the gas division's excellent performance, starting with the LPG volumes handled at our three terminals that is Mumbai, Pipavav and Haldia. For the Q2, the total LPG handled was 663168 metric tons versus 442000 metric tons a year earlier. That is another big rise of 50% in the LPG volumes handled at our terminals and that of course, does certainly reflect continued huge growth in the Haldia terminal and this, I can confirm was a record quarter for the Haldia LPG terminal. We had commissioned this in Q3 of the last financial year and by Q2 of this financial year, which is just nine months later, we are seeing record results and that is a reflection of a very, very strong market in the Northeast for LPG and we expect this to continue and it will continue driving LPG profits.

Now I have some other good news to report, which is also reflected in the Q2 results. In the retail LPG division, our packed cylinder volumes for the Q2 were 4238 metric tons, which is a record since we have taken over the Shell LPG business in India. This is the record after seven years with a record quarterly result of 4238 metric tons versus 3342 metric tons a year earlier. That is a rise of 27% in sales volumes year-on-year and this reflects for the first time a contribution from our entry into the domestic LPG sector with our Chhota SIKANDER brand of 2 kg, 4 kg, 12 kg and now we have introduced 15 kg cylinders for the domestic LPG market. We are now present in nine major cities in Western India from Ahmedabad to Mumbai to Bangalore to Hyderabad, so this is very much an urban city segment and it is still small because we are gradually building up the network, but it is interesting that the record sales results for the first time also represents a contribution from our entry in the domestic LPG segment.

Meanwhile, as far as the pure gas brand in the commercial LPG sector, commercial means the hotels, restaurants and small scale industry that has also been a record as part of that 4238 metric tons. We now have 112 distributors in various parts of the country mostly the South and the West and remember we have yet to really scale up the Northeast now that our Haldia terminal is up. That is the next phase of expansion for both the domestic LPG cylinder segment as well as the pure gas commercial segment, but as of now these 112 distributors are mostly Maharashtra, Gujarat, Karnataka, etc. Also industrial bulk distribution was up 17651 metric tons versus 16590 metric tons that is a rise of 6%. This is where we sell bulk LPG in road tankers to industry and not in the cylinders.

The auto gas segment was 6566 metric tons versus 6344 metric tons a rise of 3% however I have to say we are now up to 111 stations. However, the good news is there is a good pipeline of stations under construction not only for this year, but next year as well and these will all be big unified sites, as we call them, which are selling three products auto LPG, but also Essar branded petrol and diesel and there should be another three to four stations opened to the public by March 2019 all of which will result in greater sales and at the time when petrol prices have been very high, the auto gas looks very economical to a lot of people.

As far as the sourcing business is concerned, the sales for Q2 were 269829 metric tons versus 352902 metric tons earlier. As I said in the last earnings call, BP sale this year in 2018 never came out with a tender, so that has resulted in lower volumes. However, I have some really encouraging news to report. For 2019, AGI Aegis Group International, our joint venture with ITOCHU of Singapore has already won two tenders for Indian Oil of 1.5 million tons for 2019 for deliveries to their Kandla Terminal and to their East Coast terminals including Haldia. This now makes AGI one of IOC's largest suppliers of LPG and given that IOC was not a customer of AGI until about three years ago, this is really great news, so 1.5 million metric tonne confirmed orders from IOC alone for 2019 for the sourcing business. We are still awaiting the HPCL and BPCL tenders for 2019. We have been told by both HPCL and BPCL to await those tenders, so we will obviously bid aggressively for that.

Now I have to say that for this IOC order, AGI had to compete against all the big international traders and therefore, although the volumes are large than they have ever been. This is 1.5 million tons with IOC alone is more than we have ever sold into India. We have to be pretty aggressive in terms of bidding for this, so the margins may be in the lower range than in previous years, but the volumes are certainly much higher than we have ever done.

Finally, let me just discuss the outlook for the future particularly the next two quarters of this financial year. LPG volumes are going to continue to power ahead in the second half of the year especially the continued excellent performance in the Haldia Terminal and we also expect continued growth in the retail segment especially in auto gas and the packed cylinder business as I said the domestic segment is growing as well as the pure gas commercial segment, so we expect growth in retail segment and that is a high profit segment.

As far as the future expansion of LPG terminal capacity, work continues intensively on multiple deals and projects, which I had mentioned for several quarters. We are trying to close these as fast as possible, these multiple projects and deals and I have given our management in the gas division, a target of two to three quarters to try and close these deals. We remain confident about these deals because many issues have already been settled, so however, it is worth negotiating the best deals possible as they are transformational in terms of increased LPG terminal capacity and future sales volumes, so I make no apologies for continuing to work hard on these and close them only when we think are the best deals, which are sales and profit maximizing, so that is where we are, but as I said at the moment, I have given our internal management a target of the next two to three quarters to close these deals, which I think is realistic. It is not entirely possible to forecast with any accuracy, but I think based on where we are in these negotiations, the next two to three quarters is probably the most probable to close these deals.

As I said, the operations in the completed Kandla liquid terminal and the Haldia 4 project and hopefully the Mangalore project once we get the final permission to operate, all three of these are going to contribute Crores of additional revenues and profits in the second half of the year, Q3 and Q4, so we do expect profit in the liquid terminal division to bounce back unlike in Q2 where as I said we unfortunately saw a drop because we had not been able to commission these projects by Q2, so we had additional cost, but no revenues coming in from these additional projects, but now that are operational for example Kandla and Haldia 4 are now actually in Q3 are fully occupied and they are producing revenues and profits. We expect the EBITDA to bounce back in the Liquid Terminal division not only in Q3, but Q4, so that is the delay that we had in commissioning these projects by probably a quarter, one quarter in Q3 instead of q2.

The overall summary is our gas division is the one to watch for the continued growth in profits for the company as a whole and for the group as a whole not only for H2 second half of this financial year, but for many, many years to come driven by the increased consumption of LPG all over India and that is why we continue to focus intensively on bringing the next increase in LPG capacity at least to close these deals as fast as possible, so that we can deliver increased LPG capacity for the years to come. I can now take some questions.

Moderator: Thank you very much. We will now begin the question and answer session. Ladies and gentlemen, we will wait for a moment while the question queue assembles. We have the first question from the line of Ayushi Mehta from CD Equisearch. Please go ahead.

Ayushi Mehta: Sir how will you explain the decline in margins in Liquid Terminal last quarter?

Anish Chandaria: Yes as I said in the presentation, the lease costs were there in the Q2 for the Kandla project, so expenses were there, but we did not have any revenues from that project until Q3, so obviously higher lease costs compared to the previous year, but no revenues or profits, so I think that as we have now commissioned the project, you will not see that in Q3 and therefore, there should be a bounce back in the EBITDAs.

Ayushi Mehta: At what capacity do you think it is going to work?

Anish Chandaria: Well, right now, we are fully occupied in Kandla already fully occupied, so every tank is full, so obviously things are going well now. We have only started in Q3, so that is why I said we expect a good bounce back in the profits because now there will be a reflection of that plus the Haldia 4

35000 kiloliter is also fully occupied and everything is sold out. We are going to see greater contribution from these two projects and I hope Mangalore as well although as of November right now, November 6, 2018 unfortunately, we still do not have the permission and I do not know when the next meeting is going to be, but that also the 25000 kiloliters is already presold although the customers are a little upset at the delays, so I think based on another 150000 kiloliters of capacity, that should be a big boost in revenues and profits from this quarter, Q3 onwards and we expect this drop off in Q2 in the liquid terminal profits to be temporary because of these new capacities coming on stream.

Ayushi Mehta: Sir how is the capacity at Pipavavvav Liquid Terminal shaping up?

Anish Chandaria: That remains exactly the same static no change. It is around 25% to 30% depending on what cargos and I do not expect that to improve. It will probably remain at that kind of levels because I have explained many times that if we do not have railway connectivity over there then unfortunately, I do not see any major progress in that. However, we have taken a decision to concentrate instead and work is going on that on rail connectivity for LPG because we see that as obviously a far higher growing area rather than the liquid terminal. We have taken a decision on that. We are not going to concentrate right now on rail connectivity for the liquids, but we are going to concentrate on potential rail connectivity on the LPG. I do not expect things to improve as far as Pipavav Liquid, but that remains the only terminal liquid terminal right now. If I count Kandla Liquid Terminal, Haldia, Mumbai, Kochi all of them are doing very well, so the only terminal that is at 25% to 30% occupancy level is Pipavav, but I expect that to continue.

Ayushi Mehta: Sir what about the Uran-Chakan Pipeline?

Anish Chandaria: Well, we have gone to see HPCL and in fact we have had various meetings at high level with HPCL to ask them on that and they do say it is in the final stages, but I believe the last 25 kilometers is what that I have been told by HPCL, it is the last 25 kilometers that they have to still construct. There are some issues with villages along the way on that last 25 kilometers, so of course different people in HPCL have different forecasts as to when they will be able to complete that. However, I think at the moment if you were to ask me and I have not seen this and none of our people have seen this with our own eyes, but if it is 25 kilometers and there are some issues with villagers in terms of the land, potentially that could be anywhere from six to nine months from now until they finish that. 25 kilometers is not a great distance, but I am taking into account the fact that they have to resolve these matters. However, they have made a huge investment in Chakan, not only HPCL but BPCL as well in terms of the bottling, infrastructure, the bottling plants in Chakan as well as storage and my sense this is a project, which will get done because it is actually really important for the future of their distribution in Maharashtra in fact probably for IOC as well as HPCL and BPCL that is what I have been told, so it is still a very crucial strategic opportunity for us. We have done our bit as most of you know. We have completed our interconnection of our Bombay terminal to this Uran pipeline around almost two years ago now, so we have done our bit, 2.9-kilometer interconnection, which was Rs.15 Crores project, but we have to wait until HPCL finish the project. I think it will get done. The only question is how long. At the moment, if they have 25 kilometers left to do, our best guess is it might take another two to three quarters from now, but look once it is done then I think a lot of LPG is going to flow into that pipeline, which is a 1.2 million tonne capacity pipeline from our Bombay terminal, so we think it is pretty important for the future growth of our LPG volumes handled in our Bombay terminal.

Ayushi Mehta: Sir, what kind of volume do you expect from Haldia Gas Division?

Anish Chandaria: Well, I said in the last earnings call and let me just read it out what I said, so I will stick to that. I said in the last earnings call that our budget when we started this project was 125000 metric tonnes per quarter or around 500000 metric tonnes per year. But I can say that for the last two quarters, that means Q4 of the last financial year and Q1 we had already reached a run rate of 200000 tons per quarter. That is 60% higher than the budget. Now we have just finished Q2 and the run rate was even higher than 200000 tonnes per quarter. I think we are going to continue to see those kind of levels in Q3 and Q4, so let me stick to what I said that instead of 50,0000 tonnes or 125,000 tonnes per quarter, I said that the run rate for the previous two quarters was around 200,000 tonnes per quarter and I said Q2 was even higher, but we expect that to continue. Let us for now assume that it will be an average 200000 tons per quarter or around 60% higher than the budget.

Ayushi Mehta: Thank you so much.

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

Pranav Mehta: Good afternoon Sir and congratulations for a good performance in the gas division. Couple of questions first on the liquid side, so these lease rentals going up, so we have this land in Kandla for quite some time now because we were constructing the terminal on it, so this lease rental cost we would already have been incurring in the past also, right? Why is it hitting the P&L in this quarter?

Anish Chandaria: Well, first of all two issues. One is that there are various plots of land in Kandla and I think we took a total of 30 acres or something like that. Is that correct, Murad?

Murad Moledina: Yes.

Anish Chandaria: The land allotment came in stages and if I compare Q2 of this year versus Q2 of last year, not all the land would have been expensed in Q2 of last year because the allotment came in stages, but this year, obviously, we saw the full cost of all the land, but no revenues and projects, so that explains. This will now drop out in future quarters, including Q3 and Q4. Dropout in the sense that the full lease costs will be there, but obviously, we will actually have some revenues and profits against that, so you will not see such a change year-on-year. That is the main reason and also during the project, there were some capitalization of costs, but now everything will be accounted since the mechanical completion of the project was actually in Q2 although we did not start it because we were waiting for some permissions until Q3, but now you have got full expensing of those lease costs on a quarter-by-quarter basis.

Pranav Mehta: If I see the quarter-on-quarter EBITDA, it has dropped by around Rs.8 Crores, so entire Rs.8 Crores is explained by these lease costs or there is something else?

Anish Chandaria: Not the entire, there were some one off additional costs in Mumbai regarding some extra port charges and way leave charges for pipelines, so it will be the combination of those additional costs, but that is a one off cost in Q2 and I would estimate that Murad to be about Rs.2 Crores additional one off costs for Mumbai.

Murad Moledina: Yes.

Anish Chandaria: So in other words that is a one off that will dropout in Q3. It is a combination of some, one off costs, which we had to take in Mumbai some holding and some additional pipelines to the second chemical berth that is a one off when the port has done a rate revision. That was about a couple of Crores and then this additional lease costs, but that is one off as I said in the Mumbai case, so as a result of both of those factors, expenses were higher, but revenues were not much higher. This will fall away now in coming quarters.

Pranav Mehta: On our gas throughput volumes, so for Haldia you said that the current run rate is much higher than the 2 lakh tonnes per quarter, which you had said last quarter, so if we see the throughput number, there is around 15% jump QoQ, so the entire jump is attributable to Haldia or have we seen some improvement in our Mumbai and Pipavav numbers too?

Anish Chandaria: No. You are absolutely right. Obviously, the big jump is in Haldia. That is booming. For example in Mumbai, we are seeing things are stable and in Pipavav things are stable. We are not seeing great increases in either those. Mumbai for example until this Uran-Chakan pipeline is commissioned we probably will not see great growth. We did see a huge growth in both Mumbai and Pipavav last year, so we are currently stable over there, but yes, absolutely the massive growth is in Haldia, our new terminal and as I said, the Q2 was even higher than the run rate of 200000 tons. Yes, it is Haldia, which is really driving the growth, but in future years, I think you will see both Mumbai and Pipavav growing again beyond the current rates today, so it will not be only be Haldia. That is the good news. For example, I said about the Uran-Chakan line of course that is not in our control, but it is done, it is going to give a good uptake in the Mumbai LPG terminal volumes, which are already running at very high levels and we are working on, I have mentioned many times before we are working on the rail connectivity project in Pipavav and that means, obviously, we have got certain indications from the customers that if we are able to provide a rail connectivity in Pipavav, then there will be additional volumes in Pipavav and you will hear more. That is one of the deals and opportunities I was talking about for future increase in sales volumes. We are working on all these. It takes a little bit of time, but we are well on track as far as that is concerned, but right now in terms of the throughput volumes yes, absolutely Haldia is the one, which is powering ahead and in fact again I said was talking to HPCL and they are also very, very excited and quite aggressive in their marketing plans for the Northeast region and so we expect there to be great growth even going forward not only for the second half of this year, but also in the next year because there is so much work going on in terms of marketing and distribution in the Northeast. As we have always said that Haldia is going to be a star project and it really has turned out that way.

Pranav Mehta: Sir last question from my side, so the realization and profitability in Haldia now with the increase in utilization how is that panning out and how does it compare to our two terminals?

Anish Chandaria: Well actually better than our other terminals and certainly better than Mumbai because the costs are much lower in Haldia. The port costs and other costs are much lower in Haldia, so as we get greater revenues and I should say that we are getting close to the stage and I do not want to give the exact figure yet, but because I should not just base Haldia on two or three quarters, but let there be a consistent performance over many quarters, but we are getting to the stage where I actually believe the Haldia Terminal will be the most profitable terminal of Aegis LPG terminal and that means higher volumes than Mumbai or Pipavav. That is where we are heading towards. We have not quite achieved that yet, which is great news, so I think Haldia will really be the jewel in the crown so far as far as the Aegis Network of LPG terminals.

Pranav Mehta: Thank you and all the best.

Moderator: Thank you. The next question is from the line of Shaelen Kumar from UBS. Please go ahead.

Shaleen Kumar: Thanks for the opportunity and congratulations on a good set of numbers. Sir since we do not have any sense on the realization of the new liquid terminal can you give us a ballpark revenue contribution on a full utilization basis that it can generate?

Anish Chandaria: Look as far as each terminal is a little different, but just to give you a ballpark number and of course, it is early days yet, but as far as Kandla is concerned, which is 100000 kiloliters, the current weighted average headline rate that is rate per kiloliter per month are around 180. That is the current kind of expectation, which is pretty much the budget and as far as the Haldia is concerned, it is probably around Murad around Rs.125 per kiloliter from Haldia 4?

Murad Moledina: Rs.125 yes.

Anish Chandaria: Yes, so these are about the weighted average and then obviously you can multiply the kiloliters and the occupancy rate percentage. That will give you a revenue figure then obviously we will have EBITDA percentage and all the rest.

Shaleen Kumar: That is fine and we are already hitting almost the full utilization level you are saying.

Anish Chandaria: Yes. I had our review with our liquid marketing team the previous week and I was very pleasantly surprised that both the new Kandla terminal 100000 kiloliters as well as Haldia 4 capacities is fully occupied. Every tank is full. I would say we should let things stabilize. Obviously, it has only been increasing since October, so it is now November. It is barely 40 days or 36 days or whatever it is, so let us at least wait for this to be sustained and of course there are different products, which are handled in Kandla. There are different products, which are handled and some products give a higher rate than 180 for example. The product mix is important and it is too early after just 36 days for example in Kandla, so let things settle down in terms of how profitable Kandla for example is in terms of what are the kind of exact product mix of chemicals, petrochemicals, edible oils and all that that we handle, but what the good news is look if they are already within 30 days and if they are already fully occupied that is excellent news in terms of our customer acceptance and we expect this to continue, but obviously our marketing people have a job to squeeze out as much revenue from these terminals as possible and as much profit therefore, so we will give them some more time, but definitely it is going to add to the EBITDA of the liquid division in Q3, Q4 and years ahead. I am very hopeful of Mangaluru as well. It is frustrating for us that the 25000-kiloliter project is frustrating in the sense that there are customers already who want to come there and we constantly have to delay. The project has been completed for six to seven weeks. It is very frustrating in Karnataka. I thought some states were better than others. For example, there was supposed to be a meeting on last Friday, which has already been postponed for some reason and suddenly they canceled the meeting and we do not have an update. The reason Mangaluru is important is that there is a second phase of this project, which still has to go through environmental clearances and all that, so Mangaluru will not only be 25000 kiloliters. There is a second phase of the project, which we have not yet announced because we are still going for permissions, but that will be an additional, something like 60000 to 70000 kiloliters more, so Mangaluru is going to be an important port for us in the future, but it is kind of slow the way that they are giving permission. All I am saying is the Liquid Terminals division, which has been a great source of stable revenues and profits for Aegis for the last 30 to 40 years will continue to bounce back from one disappointing quarter, Q2 where we had not been able to commission this new capacity, but we did have the additional costs, as I said, but I think some of those costs are one off. As I said, I think this Liquid Terminal Division will bounce back and be a source of incremental profits for the group as a whole in the coming quarters and years although as I have said at length, I think the star division will be the Gas LPG Division for many years to come.

Shaleen Kumar: Sure. I agree with you Sir and definitely this kind of utilization is very, very encouraging for liquid division. I want to touch base on the Pipavav LPG terminal, despite a substantial increase in the capacity, we are not seeing the ramp up in the utilization, so if we still basically are stuck because of nonavailability of a rail line or is there something else to it?

Anish Chandaria: Yes, it is exactly right that we are not able to really get incremental volumes in Pipavav even though we have commissioned additional capacity last year and the reason is that, that the customers have told us that look if you want to get additional volumes, you need to be able to lower the delivered costs to their bottling plants, wherever their bottling plants are. We have a very good idea of which bottling plants that these customers have, which have rail sidings, so that we can actually deliver those costs and the good news is, although it is not there yet, those kinds of incremental volumes could be in the hundreds of thousands of tonnes. These bottling plants are large the ones, which have rail sidings, so this is why we have been concentrating for quite some time, quite some months on this railway connectivity and I do not want to give more details until it is done and because I think it is wrong of me to claim that everything is ready, but where I can say that we are already working with the port, Gujarat- Pipavav Port intensively with the Indian Railways for example to get NOCs. It is a question of permits now for example from Indian Railways, so we have already got the explosives approval, so that we can actually start this project of a rail gantry, but that is a relatively straightforward project and once it is done, as I said, we have got indications from the customers that they will be able to use Pipavav and that means incremental hundreds of thousands of tonnes of volumes, so that is the future for Pipavav, but we have to kind of wait to get this rail connectivity project done. Once it is done, then it is there for the next 20 to 30 years and just to give you an indication for the future, do not be surprised at that stage if we do not come back not only with a rail project, but we might even consider additional storage capacity and additional tankage in Pipavav. That is how things will work, but obviously, we do not start constructing them until we have the rail connectivity and really we have customer commitments, but right now, while Pipavav is not growing and neither is Mumbai because I said the Uran-Chakan line is not ready and the great contribution is from Haldia and as I said nobody can argue with 50% increase in volumes for the year-on-year for the division as a whole in terms of LPG volumes. Obviously, most of that is coming from Haldia.

Shaleen Kumar: Sure. Sir my understanding was that like even in Pipavav we are facing the same issue for more than a year so by having the rail gantry over there, will we be able to solve both the issues?

Anish Chandaria: No, we will not be. What I said to another questioner is that you have to have a separate railway gantry for the LPG and you would have to have a separate one for liquid and initially and actually now I am going back two years ago, maybe a bit longer, two and a half years ago, initially we were pursuing with the port that let us build a railway gantry for liquids, but there were lots and lots of issues including with the other two companies that are there other two liquid companies, which is IMC and Gulf Petrochem because obviously then that got stuck into discussions about let there be a common railway gantry and then who would build it and who will run it and all sorts of things like that, so however when this opportunity came up for LPG, we took a decision that since we are the only people who can use the LPG railway gantry in Pipavav, nobody else has LPG storage in Pipavav andno one else will because there is no other land, we decided having talked to the customers that this was a much more urgent and important priority, so we decided to focus on that and not at this stage, do anything on the liquid railway gantry because that will be an alternative site, which means you have to go and find an alternative land in the port and all the rest of it. So I think there is no early solution on the liquids, but I think in terms of profitability, it was much more sensible to concentrate on LPG rail connectivity.

Shaleen Kumar: Sure sir, also there was a recent article about the IOCL pipeline that is connecting Paradip to Durgapur will there be any benefit for us commissioning of that pipeline?

Anish Chandaria: Yes, I said many years ago, in fact, that there was a plan for IOC to build this Paradip to Durgapur via Haldia pipeline and yes, I also saw the same article in the Internet that just a few weeks ago. As ever, the detail is a little different to what you read in the newspaper, but from our sources at IOC, they have made great progress. It is certainly true for that pipeline, but it is still not ready. There are still parts of that pipeline, which are still not ready, so I am afraid it is not quite true. Now for the future, yes, we have requested that the Haldia LPG terminal, this is actually a request by HPCL, our anchor customer that there is a tap off point into that pipeline once it is ready, so two things. First, the pipeline is not actually ready or commissioned and there are patches still to be done and secondly yes in future, it potentially is possible that we can start feeding LPG into that pipeline at the request of customers like HPCL and that can benefit us in the future in terms of greater volumes if we can evacuate not only by road. Today, we are only doing road evacuation, but in future, once that pipeline is ready and if you are going to ask me when is that pipeline going to be ready, again it is difficult to tell because like HPCL story in Uran-Chakan, it is very difficult to tell, but yes, it looks like it is probably months away from full commissioning rather than years away, as far as I can tell from our conversation with IOC, but until it is done, it is not usable.

Shaleen Kumar: Sure. Sir, I have two more questions. I am not sure about the line behind me. Can I go ahead?

Anish Chandaria: Yes just go ahead. I will answer them quickly. Go ahead.

Shaleen Kumar: This is more of a bookkeeping question. I had noticed that in the segment results, the unallocated expenditures have gone up pretty much somewhere from Rs.7 Crores to Rs.7.5 Crores to Rs.10 Crores any specific reason for that?

Anish Chandaria: Murad can you take that?

Murad Moledina: I think that is also because our new terminals have come up and whatever unallocable expenditures are there would be in relation to the hiring of more people and more manpower on a company level for control and monitoring the business, so nothing exceptional. Plus I think this 8 Crores you are comparing it with may not necessarily be normal unallocable expenditures. It is normally Rs.8 Crores odd per quarter. That comes to Rs.32 Crores per year is the unallocable expenditures, so if you look at that it is not.

Shaleen Kumar: What is our total debt and total cash standing?

Murad Moledina: The balance sheet is already given, so our debt, if you look at, is 181 plus 83, so that is 264 versus cash of 220. So that is net debt of Rs.43 Crores versus Rs.1356 Crores net worth.

Anish Chandaria: Why do not we retire short-term debt because it is largely short-term debt, which we have on our balance sheet?

Murad Moledina: Yes, but that is more of a working capital of buyers credit for LPG purchases, so as to match the working capital; we do take those short-term buyers credit debts.

Shallen Kumar: Thank you so much. That is it from my side.

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

Chirag Vekaria: Good afternoon Sir. Sir just had a query on the noncontrolling interest. If I am looking at quarter-on-quarter, the share of noncontrolling interest is moving up, so what is that trend going ahead and if you can give the breakup of this Rs.62 Crores of noncontrolling interest with subsidiary constitutes what if that would be helpful?

Anish Chandaria: Murad you want to take that?

Murad Moledina: Yes, it is obviously because the Haldia terminal is doing well and 19.7% of Q2. So that is the big chunk of Rs.8.62 Crores. The other is, of course, Sea Lord, which is now down to around 5-odd percent. So that's not much. The major component is this, and I think Rs.8.62 Crores around is what would continue going forward.

Chirag Vekaria: Rs.8.62 Crores, Sir, incrementally?

Murad Moledina: Yes, it is higher as the profitability and throughput increases of Haldia terminal going forward.

Chirag Vekaria: Right. And also the sourcing one, right?

Murad Moledina: Yes. Sourcing still is a very small component in any case because margins are less over there, as you are aware, $2 to $3.

Chirag Vekaria: So from Rs.8.62 Crores, roughly how much would be Hindustan Aegis?

Murad Moledina: I can give that to you off-line, so just to be more specific rather than guessing yes or trying to so I don't have the breakup here at the moment.

Chirag Vekaria: Okay, I will touch base afterwards.

Anish Chandaria: But the point he is trying to make, and he can give you the exact figures, but the majority, the bulk of it would be from the contribution from Haldia to ITOCHU for the equity stake of 19.7% in the Haldia project company.

Chirag Vekaria: Okay. And second bookkeeping question is the other expenses have shored up. So what explains that?

Murad Moledina: We have just answered that, unallocable.

Chirag Vekaria: That was it that is it from my side. Thank you.

Moderator: Thank you. The next question is from the line of Deepak Shinde from SBICap Securities. Please go ahead.

Deepak Shinde: Good afternoon Sir. Congratulation for a good state of numbers. So sir, if you look at Gujarat Pipavav liquid volumes were down for the quarter significantly. So for us, was it for due to the liquid division or the LPG division?

Anish Chandaria: Well, I have not given the breakup of each terminal. But look, I said that there was as far as the liquids are concerned, there, already the occupancy is 25% to 30% kind of range, so not contributing very much to the Liquid Terminal division. And as far as the Pipavav is concerned in terms of the LPG volumes, I said that it is not growing because we need to have the rail connectivity that we are working on right now. So this is basically what the situation is as far as Pipavav. But the future of Pipavav is bright, particularly for LPG, if and I should not say if, I think when more likely, we can do this railway project because we have already been told that, look, much greater volumes and ships will come into Pipavav once we are able to provide a lower delivered cost to the bottling plants. So we have to wait, we have to be a little patient. And I am talking months rather than years until we are able to do that. Then if things go very well, I'm already indicating that we may even expand Pipavav storage LPG storage capacity from its current rate of around 20000 metric tons because we are so confident that Pipavav has a big future ahead if we can start moving large volumes by rail. So that's really the future. I don't think I have much more to say on Pipavav right now until that we can build that project.

Deepak Shinde: Sir, just wanted to understand better where the growth was coming from. So you're basically saying, we understand that Pipavav evacuation you have highlighted in previous quarters as well is we are not able to increase the evacuation capacity.

Anish Chandaria: Yes. So there will be quarter-by-quarter, there will be swings of how many ships came in, in Pipavav, there will but what I am saying is if you want to see consistent kind of upswing in the volumes in Pipavav, you will have to wait. We're not going to see much positive figures coming out of Pipavav volumes until we do rail connectivity, but then it is a real steep jump. But as I said, fortunately, if you look at overall, 50% increase, Haldia is more than compensating for

Pipavav and Bombay, which is also static. And nobody can argue a 50% increase in the volumes handled in the terminals part of the LPG segment. But that is coming from Haldia. Good that we have Haldia. until we build this additional infrastructure in Pipavav, which will come, and we are very confident about that. But until that time, Haldia will continue to be the star, which is driving the whole division's profits and volumes.

Deepak Shinde: Sir, another question, the distribution business for the last 4 quarters, we have seen very strong growth. So just wanted to understand like what exactly is driving this number then how sustainable we are seeing this going into the future.

Anish Chandaria: Well, I am really glad you brought that up because we do not talk about distribution, the retail distribution that much. But for the first time, in the early part of the presentation, I said that we had a record 4238 metric tons in the packed cylinder volumes, which is an all-time record. I have said for the first time, we are starting to see a small contribution, but a contribution nevertheless, from our entry into the domestic LPG sector. We have been in the LPG business for 25 years, and for the first time, we are selling into the domestic LPG sector, competing with IOC, HPCL, BPCL, but in a different segment of the market, which is the urban market with these 2-kg, 4-kg, 12-kg. And now we have just introduced, I believe this quarter, the 15-kg cylinders. And these are going to domestic customers. Plus our commercial brand, which is Puregas, which is going into hotels and restaurants and small-scale industry, these are the largest cylinders, the 19-kg and above, that is also we are adding dealers. Today, we have 112 distributors and dealers. So we are adding dealers and distributors. So that is profitable, good margins, and we are adding volumes over there. So I am quite excited about that business. It is a gradual process. And for example, I mentioned that today we are present majorly in the West and South of India. But now with the Haldia terminal coming up or have come up, we are going to be expanding our footprint into the Northeast of India in terms of dealers and distributors and then the whole thing. We are going to replicate. So I think this business has a future and then Autogas already mentioned. So I think this business has a future in terms of long-term, sustainable growth, but it is a gradual, gradual increase. It takes time. But even if I look at the near term, Q3 as well as Q4 from the retail LPG team, they have some quite encouraging numbers as to what they expect, which I will not reveal to you today, and it is too early to do that, but in terms of the number of Autogas stations, in terms of the amount of dealers that we have in this packed cylinder business. So I think there are some encouraging news. And given that it is a high-margin business, it not only has good impact on sales volumes, but it has a very good impact on profitability going forward, not only for the next 2 quarters but for coming years. And that is one of the key strategies of Aegis going forward, not only to build the necklace of terminals that you've all heard about but also to build our retail distribution footprint for LPG. That is definitely a key growth initiative for the next 10 to 15 to 20 years.

Deepak Shinde: Sir, if I may, what kind of spreads are we earning on these volumes for just...

Anish Chandaria: Yes. So I always have mentioned these figures, which have remained very stable for many years, that the kind of EBITDA rupees per metric ton margins that we see in the kind of packed cylinder business, the commercial as well as the domestic, is around Rs.2000 to Rs.3000 a ton, per metric ton, which is as opposed to the kind of Rs.1000 EBITDA margin ballpark per metric ton for the throughput business, okay? So you can see it is about 3x the margins. Today, of course, much lower volumes but 3x margin. And in Autogas, generally, Rs.6000 per metric ton plus is the kind of EBITDA margin. So both are profitable, and the idea is to try and scale up as much as we can, for example, going to Northeast India. So these are profitable businesses, and retailing is definitely something that we want to expand.

Deepak Shinde: Thank you Sir.

Moderator: Thank you. Due to time constraints we will be able to take one last question. Take the last question from the line of Dhruv Bhatia from BOI AXA Mutual Fund. Please go ahead.

Dhruv Bhatia: Good afternoon. Sir, my first question is on the tender you spoke about you won from IOC for sourcing of LPG of 1.5 million tons. So is the pricing similar to what you used to make $4 the spreads?

Anish Chandaria: I did say that, actually, we have to bid very aggressively. We were competing against the world's community of international traders. So the margin will be lower than that because we had to bid aggressively, and we won the tenders. But obviously, we have never had this kind of volume before, 1.5 million tons. The maximum, I believe, we have ever sold is somewhere like 1 million tons or in a year. So this is one customer, IOC, 1.5 million tons confirmed for 2019 to so it would not be the kind of margins, which I will not reveal the exact margin, but it will be lower than the kind of margins we have had in the past, but the volumes will be far, far greater.

Dhruv Bhatia: And has competition increased in the sourcing business?

Anish Chandaria: Yes, I think it has, to be honest. Unfortunately, that is the world we live in. The world of international LPG community is looking at India and absolutely because it has become such a big and growing market. So where we were five years ago, where there were only a few people who are bidding for this, including us, it has now increased. That is absolutely the case. For example, to my knowledge, we have never seen BP, British Petroleum, bidding until the last few months. But suddenly, they have come in. So the world's traders are definitely eyeing up India. However, as far as AGI is concerned, Aegis Group International is concerned, we have some advantages, competitive advantages. First of all, we have been with these oil companies, main oil companies in India, we have been their suppliers for some years. We are not new, so that always helps. Also, the way the tenders are written in terms of actual details, tender conditions, what you have to do and what you can do and so they are sometimes not easy for others to follow. Once they actually go into it, these are complex conditions. So in other words, the needs of the customers are complex in terms of delivery arrangements and dates and all that, but because we are familiar, and we are on the ground in India, unlike we are not just sitting in Singapore, we are able to compete aggressively. Third is, yes, we do have a necklace of terminals. We have terminals in Haldia, Pipavav, Bombay so far. And that gives us some ability to play around with the shipping routes and the ships, which, ultimately, is what counts in terms of the bidding. So let us say we have some advantages, but the competition is definitely there. And why do we continue to do this business, because in the long-term, even if it is lower margins, there are higher volumes, which are going to be imported. And it also helps our own business because if we are bringing cargoes for IOC, for example, then it is quite possible on our own ships that we have hired through AGI, then it is quite possible that we can also take advantage and add our own cargoes and other customers' cargoes, etc. So that is the whole game that we are playing. But I think I am really, really pleased that we have become one of the largest suppliers to IOC in the world. That is quite an achievement and good for us and good for ITOCHU for being we work closely together, for being able to achieve that.

Dhruv Bhatia: Sir, my second to the last question is National Green Tribunal had imposed a fine on MPCB relating to pollution caused by Sea Lord Containers, a recent article had mentioned. So just wanted an update, have you found anything where, therefore, there had been a pressure on you to probably shift or probably shut down any part of the plant? Anything on that, Sir?

Anish Chandaria: No, let me just clarify. In the National Green Tribunal, the reason that MPCB was fined Rs.1 Crore was that they are doing they formed a committee to study all the industries, including Sea Lord Containers, all the industries in the area, including BPCL refinery, HPCL refinery, regarding air pollution. So the reason MPCB was fined was that they did not produce that report on time. That's the only reason. So that is what is going on. But they are supposed to produce this report to the National Green Tribunal. The report is obviously, it cannot be done in just a few weeks, so that is why they were fined. That's basically the reason. But Sea Lord is in operations.

Dhruv Bhatia: You don't see any risk of...

Anish Chandaria: Yes. I mean, look, at the moment, I do not see any risk in the sense that Sea Lord Containers is a storage terminal. We do not produce anything. We do not manufacture anything. We do not have air pollution. We believe that will be shown, and the work is going on right now by this committee to see whether there is any air pollution or whatever. But I mean, already that data is starting to come in. So we don't think so because but look, there may be other industries who are manufacturing product let me not go into that, but see if the committee fines. But obviously, we know what is going on. We only have storage terminals. It is highly unlikely that, that is producing emissions or anything. So we are pretty confident. But the reason MPCB was fined was not to do with Sea Lord, it was to do with they didn't deliver the report on time, and NGT was quite unhappy about that. So let them deliver the report.

Dhruv Bhatia: Thank you so much all the best.

Moderator: Thank you very much. We will take that as the last question. I would now like to hand the conference back to Mr. Anish Chandaria for closing comments.

Anish Chandaria: Thank you very much for spending the time on Aegis and lots of questions. I just want to summarize again that, look, despite a static quarter overall in Q2, mainly because of the drop in the Liquid Terminal division profits in Q2, we expect that division to bounce back in coming quarters, including Q3, because of this large increase in the new capacity in Kandla as well as Haldia and perhaps in Mangalore in future quarters. So we do not expect that to be repeated drop of 21% in the EBITDA. However, the good news is that the star-performing division, the Gas division, which has continued to perform so well, continues to grow from strength to strength. And as I reported, a 58% increase in the EBITDA for the quarter for Gas division just shows the kind of growth that we have. So we really expect and so far a 14% increase in the first half for the profit after-tax for the group. So we really expect the future to continue like that, that the Gas division is going to continue to perform very well and supporting the overall growth and profits for Aegis Group, but we expect that the Liquid Terminal division will start to contribute to additional profit growth as well from this quarter on, quarter 3, and I think that will come out in the figures when we announce it. So thank you very much for listening, and we will look forward to the future earnings calls. Thank you.

Moderator: Thank you very much. On behalf of Aegis Logistics limited that concludes this conference. Thank you for joining us ladies and gentlemen. You may now disconnect lines.