"Aegis Logistics Limited Q2 FY 2020 Earnings Conference Call"

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Moderator: Good day and welcome to the Aegis Logistics Limited Q2 FY 2020 Earnings Conference Call hosted by IDFC Securities Limited. 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.

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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, sir!

Anish K. Chandaria: Thank you. I will be presenting the quarter two results for FY 2020. I am pleased to report that this was an excellent set of results for the quarter and also with the outlook for the rest of the financial year is also looking excellent. So business on all fronts is really strong.

I will be presenting first the underlying profits for the quarter and then I will separately present the accounting treatment of our new Employee Stock Purchase Plan, or ESPP, which is a non-cash accounting entry.

So first, the underlying profits for the quarter. Total revenues for quarter two were Rs. 1,817 crores versus Rs. 1,425 crores a year earlier. The total segment EBITDA for quarter two was a record high of Rs. 132 crores versus Rs. 100 crores a year earlier, that is a rise of 32% year-on-year. And the underlying or normalized profit before tax that is before accounting for the Employee Stock Purchase Plan was Rs. 104.3 crores for quarter two versus Rs. 70.88 crores year earlier. That is a rise of 47% year-on-year in the underlying profit before tax.

And I would like to highlight that this is the first time in the history of Aegis that we have crossed Rs. 100 crores pre-tax profit in the quarter. It is a very significant milestone that I think we should recognize.

The underlying profit after tax that is again before taking into account the Employee Stock Purchase Plan was Rs. 120 crores versus Rs. 57.4 crores a year earlier. That is a rise of 109% year-on-year. And the underlying profit after tax after minority interest was Rs. 112.8 crores versus Rs. 48.7 crores year earlier. That is a rise of 132% year.

So as I said, overall, a very good excellent set of results for quarter two as far as the underlying profit position is concerned.

Now let me go through the segment results. Starting with the liquid terminal division. The revenues for the first time in quarter two hit Rs. 50 crores in the quarter. Again, that is a very significant milestone that first-half quarterly revenues for liquid terminal division have hit Rs. 50 crores versus a year earlier to Rs. 44 crores so that is a rise of 13% year-on-year. EBITDA was also excellent for quarter two in liquid terminal division. It was Rs. 32.5 crores versus Rs. 20.8 crores year earlier. That is a strong rise of 56% year-on-year in the EBITDA for the liquid terminal division. And this is evidence that the new capacity built in Kandla project, the Haldia projects, Mangalore project is now generating good profits for group. And I am also pleased to confirm that the new expansion in Mangalore port, which is the new project of 50,000 kiloliters, which we announced in the last earning call Rs. 35 crores CAPEX, we have now started the project because we have received the consent to start just a few days ago and we are about to start the project. And we expect to complete this by quarter one of FY 2021, the next financial year quarter one. And this will take our total liquid capacity in Mangalore to 75,000 kiloliters that is the existing 25,000 kiloliters and we are adding another 50,000 kiloliters in Mangalore, which is a very strategic location. And I am also pleased to say that the 140,000 kiloliters terminal in Kandla is working well and we have 100% capacity utilization over there. So overall, liquid terminal division is going well and it was an excellent quarter.

Now as far as the gas terminal division is concerned which represents 75% of operating profits, the gas terminal division revenue for quarter two was Rs. 1,768 crores versus Rs. 1,381 crores year earlier and EBITDA for quarter two for the gas division was Rs. 99.05 crores versus Rs. 79.08 crores year earlier, that is a rise of 25% for the division. And it is the first time that the quarterly EBITDA in the gas division almost hit Rs. 100 crores. I would have liked to say Rs. 100 crores but it was Rs. 99.5 crores. But it is first time that we have almost hit Rs. 100 crores in that division in one quarter as well. So it is a good achievement there as well.

Now let me go through the volume analysis for the sales volumes for the gas division, which I normally do. The LPG throughput volumes in our three terminals of Mumbai, Haldia and Pipavav was a record 751,025 metric tonnes versus 6,63,168 metric tonnes year earlier, that is a rise of 13%. All the terminals saw good growth in volumes, especially Haldia and Mumbai. In Mumbai, something to highlight that we saw high growth in quarter two because BPCL, Bharat Petroleum, has now been added as a customer like IOC and HPCL, as they decided to piggyback on industry ships which were coming, which were organized by IOC and HPCL.

So BPCL decided to piggyback on those ships and that obviously, generated big great savings for them. But the good news for us is that has resulted in good volume growth because of the addition of BPCL into our Mumbai terminal. And this is going to be sustained now in future quarters, that is very good and we are already seeing it obviously, in quarter two and this is going to result in good volume growth in Mumbai. But it already was reflected in Q2.

Now let me come to the LPG retail cylinder volumes for the commercial market segment under the Aegis pure gas brand as well as the domestic market segment under the Aegis Chhota

CIKANDER brand, very good figures for quarter two. It was 6,253 metric tonnes for the quarter versus 4,238 metric tonnes a year earlier. That is a big rise of 47.5% in sales volume year-on-year. We are really pleased to see this big push in building the dealer network in the South and the Northeast is now paying off in sales volumes and profits. And again, just like in terms of LPG throughput volumes, we expect this to continue in future quarters as well. So it is not just a one-off but this big rise in the dealer network is going to see a big rise in sales volumes not only in quarter two but as we have just seen but also in future quarters. So that is really good news.

Autogas sales also hit a record in quarter two 7,400 metric tonnes in the quarter versus 6,566 metric tonnes a year earlier. That is a rise of 12.7%. Three important points I would like you to note, as far as the Autogas segment is concerned. Profit margins, EBITDA profit margins have increased close to around Rs. 10,000 per metric tonnes from an earlier Rs. 6,000 per metric tonnes over the last year. I am reporting this now because this has been sustained over a year. It is not just one quarter. So we are now confirming that actually profit margins have risen from Rs. 6,000 per metric tonnes in the Autogas segment to around Rs. 10,000 a tonne and this is because the oil marketing companies are keeping auto LPG prices around 40% cheaper than petrol. And right now, with the way that the international LPG price are this translates to around Rs. 10,000 per tonnes margin. So that is really a high margin. Second thing I would like you to note is we have now confirmed that except for the cities of Mumbai and Delhi, Auto LPG is now cheaper than CNG in all other markets in India, except for the cities of Mumbai and Delhi on a rupees per kilometer basis. First time this has happened, and this is a result of increased CNG prices due to the steady withdrawal of the subsidy on natural gas. Every six months, they are revising the price and basically, also less subsidized, not they have withdrawal of the subsidy on natural gas but less domestic APM gas available at more imported LNG price the free market means that the price of natural gas for CNG have been rising. And this is very important for the future market for Auto LPG, particularly in this three-wheeler auto rickshaw market that today, Auto LPG is the cheapest fuel in India, and this is good news for the future.

And third thing to note on Autogas is we are on track to take the number of operational Autogas stations to around 120 stations by the end of this financial year. We are currently at 114 stations, so we expect to hit around 120 stations by the end of FY 2020 end of the current financial year. And there is a good pipeline for future network expansion, as we are offering dealers to sell three products: petrol, diesel as well as Auto LPG and we are expanding our footprint into the Northeast territory, along with our Haldia LPG terminal, we are now able to expand our dealer network as far as Autogas stations into the Northeast. So we are at the early stages of that but this will result in greater sales volumes and obviously, I mentioned high margins that we have in this segment.

Now industrial bulk LPG sales. This is the industrial LPG distribution. Sales were 27,790 metric tonnes for the quarter versus 17,651 metric tonnes a year earlier, that is a big rise of 57% in sales volume in this segment. As we add new customers but especially in the Northeast this is adding to our sales volumes. So 57% rise in sales volumes. And as far as gas sourcing volumes are concerned for the quarter, it was 541,800 metric tonnes versus 269,829 metric tonnes a year earlier that is a rise of 100% in sales volumes, as we continue to service the contract of Indian Oil and other customers. So in other words, we have already sold just under 1 million tonnes of gas in the first-half of the financial year.

So the conclusion is all segments of the gas division are going very strong. LPG consumption in India this year is growing at around a rate of 7% to 8% and Aegis is certainly benefiting hugely from this demand growth.

In fact, I can state that the throughput volumes for the second half of this financial year that means Q3 and Q4 are looking really good going forward. So not only Q2 has been excellent, but I can confirm that we believe and expect that the second half of the financial year are also looking really good in all three terminals of Mumbai, Pipavav and Haldia.

Now let me finally cover the outlook for the rest of the financial year FY 2020 and the projects update. So as I was saying, the outlook for Q3 and Q4 is very good. It is going to be driven mainly by two factors, what I just said, LPG throughput volumes in Mumbai, Haldia, and Pipavav terminals and do look out for the next earnings call for the reported quarterly volumes for Q3. We are already in the middle of November, so I think I am stating that this will be a very good figure that we will be reporting in the next earnings call almost certain. And also do look out for continued growth in sales in our retail division, which is becoming an important contributor to the bottom line. So the outlook for the second half, Q3 and Q4 is strong.

As far as the project update is concern, let me go through one-by-one. Our biggest project is the new Kandla LPG terminal project, which we are building in Kandla, 45,000 tonnes, 4 million tonnes capacity LPG terminal. The project is in full swing and we remain on track for completion in FY 2021 and therefore, we expect to generate profits in full year FY 2022.

Secondly, the Pipavav Railway Gantry project, railway connectivity project in Pipavav is ongoing and we expect to complete that in the first-half of FY 20221 and generate profits in that year in the second half of that year FY 2021, that is next year. And this really is strategic that I have said many times. This is really strategic because this railway connectivity secures a big increase in volumes in Pipavav for the future, because the cost of transporting LPG by rail versus road is so much significantly cheaper and that it really benefits the customers in terms of landed cost of LPG at the bottling plant, if you move by rail and that really secures a big increase in volumes in Pipavav for the future.

Thirdly, I am very pleased to officially announce for the first time that the Uran-Chakan pipeline, which was being built by HPCL, we have now got it confirmed that it is complete. This has been a long, long pending item I think I have been talking about it for the last three years and I am saying I do not know when it will be complete. But I can now confirm and this is actually confirmed by HPCL that it is now complete. And in fact, I will say more about the volumes and all that in the next earnings call that we expect, it is too premature because obviously, the project is just complete but we will have more indications from HPCL as to the volumes. But as investors know, when this starts, it is not yet operational but it is mechanically complete. When this starts, this is going to give another big boost to volumes and profits in our Mumbai LPG terminal and just like the Pipavav Railway Gantry, this pipeline connection, all the way to Chakan on the outskirts of Pune, will secure long-term volumes for Mumbai over the coming years. So I think we will see, be able to give a little bit more feedback as to the kind of incremental volumes in the next earnings call in January. But we can now expect this to happen and then it will result in incremental sales volumes in Mumbai.

I think I already talked about the Mangalore 50,000 kiloliters project and that is now liquid project is now already received consent was established last week and so, we are starting with construction and we will target the completion of that in FY 2021.

So a summary of the outlook and the projects update, the business outlook for the rest of the financial year current financial year is very strong. And the good news is that because of the new LPG capacity and the imminent railway connectivity and pipeline connectivity in Pipavav and Mumbai, respectively, the outlook for profit is really looking very positive in the medium-term to not only the prior financial year FY 2020. But in the medium-term, the outlook for profit because of those two projects connectivity projects, railway in Pipavav and pipeline the Chakan pipeline in Mumbai, the outlook for profits is good going forward in the medium-term as well.

I would like to finally announce a new project, an expansion of 12,000 kiloliters in Haldia, which is good the CAPEX, was approved by the Board of Directors, it will be a Rs. 10 crores project, this is an ongoing increase expansion in Haldia, another 12,000 kiloliters. Our current capacity is 120,000 kiloliters in Haldia and yes, it is really more for specialty chemicals and all that is a sign that this is strong in Haldia as well.

And just summarizing the medium-term outlook, I would like to say a couple of last comments on this, the medium-term outlook not just for the current financial year. I remind investors that with all these projects that I just mentioned on LPG, that Aegis planning to increase our LPG handling capacity to 9 million tonnes by FY 2021, our current 5 million tonnes then obviously, adding another 4 million tonnes with the Kandla LPG project. And I want to say that our LPG throughput volumes was 2.5 million tonnes last year in FY 2019. So with the addition of the Railway Gantry in Pipavav and this Chakan pipeline project is now ready, this is going to drive our LPG volumes for years to come. So from 2.5 million up to the 9 million tonne capacity figure that is a lot of growth that we envisage to build after that capacity figure. So we are building this capacity. But we have a very clear plan on how to take up the sales volume to meet this kind of capacity.

And that, obviously, has very positive outlook for earnings growth in the medium-term. I am going to say one last thing, which we have not discussed before. But I think I am not going to go into the detail but I would like investors and analysts to also note this one very important last thing. We are investigating at one more evacuation option. I have been talking for our LPG business. I have been talking for a number of years about evacuating by road and by pipeline and by rail. We are now seriously investigating and have been for some months - movements of LPG by barge and this is being done all over Europe, moving LPG by barge in Europe, in China, in the United States, in Argentina. But right now, there is zero movement of LPG in India by barges that is river traffic moving in the rivers. And we are now early stages I would not like to say that we are anywhere near, but we are early stages where Aegis is taking the lead in investigating the possibility of moving LPG by barge traffic in rivers. And this is going to add ability to move LPG into areas of India which have not been adequately serviced so far. So it can have an impact on our future sales volumes. I will have more detail to say when we are ready, it is obviously premature. But I just like to give this indication officially to investors that it shows the way we are working is to make these LPG terminals truly multimodal, rail, pipeline, road and now, we are investigating, still in investigation stage but we are investigating seriously moving by barging through rivers. And India has lots of rivers as you know. So this is a positive development, more details will be forthcoming as we get closer to conclusion.

Now, I will conclude by going through the accounting treatment for our new Employee Stock Purchase Plan. I have concentrated so far on the operating profit and underlying profit but I said we will I will go through the accounting treatment. I announced this in the last earnings call that we were implementing ESPP and we actually, therefore, have introduced this in quarter two. And we are required to make the accounting disclosures in the quarter two profit and loss statement which has been shown.

And let me just step back before going through the figures. I said last time, I am really repeating it to remind people that the company’s management has always seen huge growth over the last five years in profitability and sales growth and building this necklace of LPG in liquid terminals around coastal that was in the last five years.

But for the next five year plan, we have directed the management to focus on further capacity increases, especially in new LPG terminals increases in LPG evacuation through rail, pipeline and road of course and now as I said barge. These are the things that we told them to focus on, so that we can increase the LPG sales throughput volumes which can then obviously, generate profits. And thirdly, we have told our management to massively increase our retail LPG distribution network and go and really target a national distribution network. So that, in essence, is the next five year plan that we have tasked the management. Now in order to align and motivate the employees with the shareholder goal in this five year plan, like many companies the Board has decided to introduce this Employee Stock Option Plan or Stock Purchase Plan, which we have implemented in quarter two of FY 2020. And the accounting for this plan is as follows which we are required to under the accounting policies of India, we are required to treat it as follows - so 5.66 million new Aegis shares have been granted under this employee plan to employees in quarter two in FY 2020 at face value and we have taken a large part of that accounting entry in quarter two.

In the next financial year FY 2021, another 5.66 million shares and in FY 2022, the following year another 5.66 million shares will be granted. So this is the three year plan a total of 17 million new shares therefore, in these three years this year next year and the year after a total 17 million new shares will be issued which I mentioned in the last earnings call. And this will take our number of shares outstanding from the current 334 million and we add 17 million new shares over the next three years.

Now as per the accounting rules, the company has taken a non-cash charge of Rs. 154 crores in the profit and loss statement of quarter two with a corresponding credit to the reserves. So there will be no impact on the net worth of the company because on the one hand, you have to take an item in the profit and loss statement of Rs. 154 crores I repeat, which is a non-cash charge and on the other part of the balance sheet here you have take a corresponding credit to the reserves.

So the networth does not change and it has no impact on cash flow, but this is the way and as for the accounting policy, although the shares are issued over a period of three years the bulk of a lot of the accounting process is taken in the quarter that it was granted that is quarter two.

So there will be some smaller accounting entries for the next two quarters in this financial year for Q3 and Q4. But as per the accounting policy, you have to take upfront most of the entry. But people should still appreciate that this is not a cash expense or which has an impact on cash flow, this is a non-cash accounting entry. So that is why I concentrated on the underlying profits or what we have said in our presentation, normalized profit before the Employee Stock Purchase Plan and then, we take this accounting entry.

And we will be pleased to answer any questions in Q&A, which we have now.

And one more time to repeat that, please note that the promoters are not eligible for this Employee Stock Purchase Scheme. It is for senior employees only of the company. And we think it is very, very great motivational tool as many companies have to align the senior employees of the company to align the goal in this next five year plan that we have.

That completes my presentation. I think we can take questions.

Moderator: Sure. Thank you very much. We will now begin with the Question-and-Answer Session. The first question is from the line of Rajesh Kothari from AlfAcurate Advisors. Please go ahead.

Rajesh Kothari: Just two important questions from my side. One is, like last time, this time also you have mentioned separately about LPG retail performance cylinder and industrial. But I think I am not able to see that in presentation. So if possible, if you can put it from next quarter in presentation itself because we do not have that separate data here. So is it possible for you to just, what is the otherwise volume growth of Gas division if I take out LPG retail performance?

Anish K. Chandaria: Well, I think I quoted the figures and we can certainly do that in the next presentation. But I think I quoted the exact figures for every segment including the LPG throughput volumes, which you have the figures, I can quote it again. And I have even broke up the cylinder volumes from the bulk industrial. So all the figures are broken up. Even though in the presentation it was not broken up, I have given you even more detail. So I do not think I can break it down any further.

Rajesh Kothari: No, my question was on that. My question is on the Gas division, what kind of ramp-up we witness in 2Q in volume terms?

Anish K. Chandaria: Yes. LPG throughput volumes this is not the cylinders or retailing. This is the non-retailing part. So this is the record figure of 751,025 metric tonnes for the quarter.

Rajesh Kothari: Okay. And the second question was with reference to your presentation slide where you are going the port-wise traffic and the red circles where we are present, Haldia, Kandla, Mumbai and new Mangalore. Is this seen any change in trends in this five ports where you are present, whether they are able to gain more market share or less market share or something like that?

Anish K. Chandaria: No, real change in trend. I think Kandla is a very busy port and we are doing very well in Kandla. Mumbai remains a very busy port. So they are all thriving, Haldia is thriving. Mangalore is thriving. They are all present, these are major ports. So I think no change in traffic. I think they just continued. I think that the key has been that we built in the right locations, which is why these are not one quarter trend. These are multiyear trend that may continue to be busy because we built it at the right locations. So that has been always our approach, not to just build a terminal in the middle of nowhere but to build in a key location. So there remain very strong traffic in all the ports.

Moderator: Thank you very much. The next question is from the line of Rounak Vora from AUM Fund Advisor. Please go ahead.

Rounak Vora: Two questions. One is on the Gas division, LPG throughput division basically. If you can just directionally tell us what would the Chakan- Uran pipeline, now getting commission? What sort of volume impacts do you see this year and next year? And Haldia, if you can directionally tell us what was the Q-on-Q growth in Haldia throughput volumes, if you give us the exact number but at least the Q-on-Quarter directionally, how is Haldia ramping up? And on Kandla, if you have been able to sign up any anchor customers? Or is it too early for that?

Anish K. Chandaria: Yes. So as far as the Chakan volumes are concerned, I said I will be able to give a better update in the next earnings call in January, so please be present because we have just heard that the

Chakan pipeline is mechanically complete just now. So obviously, we are in discussions with the customers there too. But let me tell you, it will be good news, we know the capacity that pipeline is 1.2 million tonnes. So that is good news. But I think it will be premature to give more precise guidance. The only thing I can say today, and we will wait till January end of January when we have our next earnings call. But it is going to be positive development. I have been saying it for three years, so nobody should be surprised. But I will be able to get a better feel for it because we are obviously in discussions with how many tonnes per day and all that with the customers, so we will have a better feel. But that discussion is going on right now, but it will be very positive, that is why I explain that. As far as Haldia is concerned, Haldia LPG, I do not give the breakup of every tonne in every quarter of every terminal. But I can tell you, you asked for directionally, as far as given quarter-on-quarter Q2 versus Q1, Q2 was massively up on Q1. When I say massively, I am saying as much as 50% up on Q1 quarter-on-quarter because there was particular special factors in Q1 why BPCL, for example, did not have permission, so they brought zero cargoes in Q1. So obviously, Q2 was going to be a big bounce back. But I can add one more thing, which our marketing people told me that, if you remember that one of the big HPCL bottling plants, this Haldia terminal is feeding is a plant called Panagarh, which is the largest bottling plant in Asia and that was commissioned last year by HPCL. So the capacity of that plant the consumption of LPG's is 0.5 million tonne, 1 plant 0.5 million tonne but last year, they were only operating because they just commissioned it, they are operating at 25% capacity utilization. But I am pleased to say that by this financial year, in quarter two, which is one of the reasons why there has been also a big increase in volumes in Haldia, which is going to be sustained. They have now taking it to 50% capacity utilization. In other words, annualized 250,000 out of that 500,000. But there is room to go up to the 100% capacity utilization. But that is the result that is why Haldia volumes have been so much of a big increase in quarter two compared to quarter one. And we think that is sustainable going forward into the next two quarters as well and then next year obviously, as well. So Panagarh is a very important factor. Kandla commercial, it is too early. We are still about a year away from commissioning. All I can say, great amount of work is going in as far as tying up the commercial side of Kandla. So nothing more to day, it's too premature. But...

Rounak Vora: If I can interfere, Anish sir, what would be the pipeline evacuation? Your presentation mentions about that one pipeline already there and one potential pipeline to be built. Do you expect that to sync in with your commercial operations?

Anish K. Chandaria: It is a very crucial part of the reason why we are putting up this large project in Kandla. So what I have said publicly and I will repeat is that the pipeline connectivity of Kandla is a very crucial part. So one pipeline which is there already has been there for a long time. It is called the Jamnagar-Loni pipeline, which is operated by GAIL, Gas Authority of India. They are currently expanding that to 3.5 million tonnes per year capacity, it was 2.5 million tonne. So they are putting more booster pumps and all that. That process will unfold during this year, so by the time we commission our Kandla terminal, we feel that that will be a 3.5 million tonnes capacity pipeline. And the next pipeline, which is not yet built but is being planned by the public sector is called the Kandla-Gorakhpur pipeline, which is a 2,700 kilometer pipeline going for 45 of their bottling plants, which would be a 6.5 million tonnes capacity pipeline. So 6.5 million tonnes plus 3.5 million tonnes means that Kandla in principle, could be connected to 10 million tonnes capacities of pipeline. Now that my friend has not yet started, the construction has not yet started. That will take a number of years. I think that was the envisaged. But at least the first step is connectivity into the existing Loni pipeline that I just mentioned, 3.5 million tonnes capacity. So it is not secret, I have mentioned it many times that this is a key part of the commercials that we are working on. but we are making good progress. That is all I would say it for now.

Rounak Vora: But will you make enough capacity on this existing pipeline even if it is expanded to 3.5 million tonnes? Because I am presuming it is already being used for their imports currently.

Anish K. Chandaria: Yes, it is being used. I mean if we solve these issues of connectivity, then it would be enough there will be other modes of traffic beyond that pipeline, but it is a key part of it. And there will be other uses of that pipeline as well. It is commonly user pipeline. But if the commercials work out, that is important part, because it would not be enough, that is why there will be further modes of transport, which will be there. But it is obviously one part of our throughput from Kandla in the future. That is something which I have said publicly and in the years ahead, if they are able to build this Kandla-Gorakhpur pipeline obviously, 6.5 million tonnes it will add. But from day one, when we commissioned then obviously pipeline connectivity is I repeat one important part of the commercial part of this Kandla opportunity.

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

Pritesh Chheda: Sir, I have three questions, two on LPG. First, the higher unit margins in LPG, which we are seeing, sir, if you could explain the reason? Second, within LPG, we are seeing some slowdown in volume growth for you. So what were you growing at and the run rate that we are going now despite huge capacity that has come in and that we are planning, sir, if you could give some comments there?

Anish K. Chandaria: I thought you had one more question?

Pritesh Chheda: Yes, that is for liquids, I will ask after you answer the LPG question.

Anish K. Chandaria: Okay. So Autogas margins, which I have been able to give a very positive thing that they have risen over the last year from Rs. 6,000 a tonnes to close to Rs. 10,000 a tonne, this is a factual situation that I am reporting, not projection. I did not mention it every quarter because I said that sustained. It is as a result of the price period in this obviously are the National Oil Companies, IOC, HPCL and BPCL and they have basically followed a pricing formula, which is that there the Auto LPG price in rupees per liter will be 40% cheaper than petrol, whatever the petrol price which fluctuates I think daily now. But the Autogas price is changed only once a month and it is 40% cheaper than petrol price. So that is one part. Now on the cost side. As you know, international gas prices have fallen a lot over the last few years. So when you fix the price and minus the lower cost that is why the margin is practically Rs. 10,000 a tonne and we cannot forecast every year from now to the future as to what the market will be. I am just telling you the fact that actually we are now making more margins. And we, at the moment, expect that to be sustained because they are not changing that formula they have done it for quite some time now. So the pricing I think, will remain stable that means 40% cheaper than petrol. And we believe that international LPG prices are not going to rise because there is such amount of supply from American Shale Gas as well and American LPG export therefore and the amount of LPG that is available in the Middle East. Let me say, the world is awash with LPG. This is a structural change which has taken place over the last few years. So I think margins are very positive and that means the more we can sell in our retail Autogas division, the more we can sell even in our cylinder division and the more profits we make. I think it is important for me to highlight, this is an important practice and we believe we will be driving earnings growth in Aegis in the years ahead not just few quarters.

Pritesh Chheda: Sir, I will just ask here. There is no unit margin increase in the logistics side, right? Whatever unit margin increase that we are seeing is in the distribution?

Anish K. Chandaria: A little there is throughput charge. Is that what you are talking about, right?

Pritesh Chheda: Yes.

Anish K. Chandaria: Yes. I mean depending on which customer, we are able to negotiate a little bit here and there, but no major change. But yes there has been some increase in that. For example, because of Haldia, we had a higher charge in some of the older terminals etc so obviously, the weighted average will increase because of more volumes in Haldia at a higher rate. So there has been some increase in that, yes. Now your next question I am puzzled because in my whole presentation, where did I talk about slowdown in LPG? Everything you said is quite opposite in whole growth out there Can you explain to me.

Pritesh Chheda: No, so the growth that we are seeing in the first-half is about 8% in throughput or logistics and about 13% for the quarter. We are growing much faster than this. And…

Anish K. Chandaria: Look, first-half, but said several factors in Q1. But if you look at Q2 where there was a bigger growth and that we assure you that Q3 and Q4 are looking very, very promising. So if you look at the trend it is going to be a stellar year for LPG throughput. Do not get too tangle to just one quarter or three months. But Q2 is just a taste of what is to come. Look, we are in the middle of the November, we know. So the order book is very-very strong for LPG throughput and you will see the results, but it is looking very good, I cannot tell anymore. But please vanish the word slowdown. This is not a slowdown as far as Aegis is concerned, I have done my best to try and explain that things are looking very bullish.

Pritesh Chheda: Okay. My question is on liquids. Here we were operating at a certain EBITDA for quite long, and since the last two quarters, we are seeing the margins improving and your EBITDA run rates are about Rs. 30 crores - Rs. 33 crores. So it has been long that we were at about Rs. 100 crores annually, so about Rs. 25 crores per quarter. So first of all, is this sustainable now? Because if you recall, we have added a lot of capacity in the last four years - five years, we were waiting for these EBITDAs to improve. So if you could give some highlight here and the sustainability and the growth here.

Anish K. Chandaria: Okay. I am glad you raised it because I wanted somebody to raise it. So I am glad you raised it. Look, I said in my presentation that finally this quarter two where we achieved Rs. 32.5 crores and you are right. It is a much higher EBITDA margin compared to the run rate of Rs. 25 crores despite building over there. So I said this is the first evidence that this new capacity that we built in Kandla, Haldia and Mangalore is now actually generating this greater return. And what I have explained to in many investor meetings is that when you start these terminal, the first objective is to get that to 80% - 90% capacity utilization and so the product that you handle at the start are not necessarily the higher value chemical products or revenues. So you just start with bulk product. But as time goes on and as the terminals become established in the particular location, you start handling higher value and therefore, higher margin chemicals. Now let me give an example of Kandla. In fact, I had the same question to my own marketing team when we had a review few days ago and I am really pleased they gave a summary of what kind of products we are handling in Kandla. They are much different to where we started about a year ago. They are much higher value chemicals. The rates that we charge are higher for those chemicals handling those products. So that is the reason now and that is not back just one year after commissioning Kandla. So I said we are having higher value chemicals. So I think, I will not of course make exact forecast quarter-by-quarter but I believe that this higher EBITDA rates and margins that we are seeing in liquid terminals is sustainable and I think this is a long awaited kind of returns that we would expect to see. And we have more capacity coming on the stream in Mangalore, the new 50,000 kiloliter project which is about to start. And the new 12,000 kiloliters project in Haldia that I just mentioned that the Board approve yesterday. These are all going to add to the EBITDA in this division. So at long last, we are now seeing the first evidence as quarter two was there. You will be able to see in quarter three -quarter four and going forward as to whether these figures at the moment our expectation is that we will be able to sustain these type of profitability in the liquid terminal division going forward.

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

Shaleen Kumar: Just on the ESOP bit, I want to ask you how many employees are going get benefit because of this ESOP scheme?

Anish K. Chandaria: That has to be decided by us, the managing director depending on performance. So obviously, we will select that but it will be the senior staff at a certain level. So they will be senior staff. It would be obviously all the employees of the company. So they will be senior staff. But I think it obviously, it does depends on who deserves and who does not. So those decisions will be made by us. But it will be a small number of senior staff, let me say. It would not be like 100 people or whatever. But it will be senior staff, who we really feel are the key people who are driving the execution of the strategies that we have outlined. We will reward accordingly.

Shaleen Kumar: All right. Great. So we are planning to give 17 million, around 17 million ESOP, right at face value that non-cash expense of around Rs. 280 crores at the current share price.

Anish K. Chandaria: Which will be spread out over the three years. Obviously, we have taken Rs. 154 crores of that in quarter two that amounting entry and there will be some in quarter three, some in quarter four and then obviously, the rest of it. But the bulk of it would actually be in this financial year and then there will be smaller amounts in the next two financials. But the bulk of it, as per the accounting policy we apparently take most of it upfront rather than it is not an approach, it is not equal division over the tree years. But yes, your calculation is correct.

Shaleen Kumar: No, I appreciate that you are really taking care of your employees. Just considering your annual employee cost is around Rs. 50 crores and sudden Rs. 280 crores, it is pretty good. I appreciate it. I just want to understand like what happened, this is like a pretty big jump considering the current employee cost you have. So is it more of a retainer thing you think, competition is coming in?

Anish K. Chandaria: It is a good point and I would like to actually explain this. Actually, we should have done it earlier to be very honest with you. Many companies have done the Employee Stock Purchase Plan obviously, for many years. So we have been considering it but we never did it. So some of this to be fair, we should have done early because performance of the last five years has been so good, but people were just getting a normal salary. So I think there is some element of reward for last five years. But really, the bulk of it is going forward because we do want to retain these key staff, key managers, senior managers because they are the ones who are executing on the ground every day. And what we are asking them for the next five years is far better than what they did in the previous five years. Let me explain, I mean you get the price of the work all over India. And I think, actually, it is positive not just as a reward for senior employees who are delivering it, but as I said, it is very, very key that to incentivize the senior management to actually achieve it because shareholders will benefit, if we are able to achieve this next five year plan, what we have in detail then I think the shareholders will be very happy in terms of impact on capital gains and market capital and all the rest of it. But the reward can also be to the key management who is delivering this. And therefore, they incentivized also. In fact, it is quite interesting that for the first time since we announced it in quarter two, I can see that people already working hard for that. I mean people are even paying attention to the share price. So I think it is good that shareholders and key management are looking at the same similar goals. But as I said, I think our belief is give a strong portion, strong incentive to key management who are delivering this five year plan to actually achieving on time bound manner. And that part is very crucial because the more that they achieve in a faster way, it is good for shareholders, it is good for them as well. And of course, there is a standard locking period you know that. So retention is important that, look, you stay with the company and you will keep these rewards. That is obviously important because some of these key staff that we have in Aegis, they are very key, we do not want to lose them.

Shaleen Kumar: Sure. No, fair point. I just wanted to understand the rationale behind it. One last question, if I can squeeze in, is with is for Murad sir. In terms of CWIP plus asset, I could see that it is a decent jump and I believe a lot of it will be putting into Kandla, so how much of the CAPEX is left? Or what kind of CAPEX is there for the next two years in terms of the quantum or cash also will happen?

Murad M. Moledina: For the CAPEX are you saying?

Shaleen Kumar: Yes.

Murad M. Moledina: CWIP its already there. We have announced close to I think around Rs. 500 crores of CAPEX, out of which I think Rs. 400 crore will still come into the books in this year and the next year.

Moderator: Thank you. The next question is from the line of Sandeep Matthew from SBICAP Securities. Please go ahead.

Sandeep Matthew: Sir, just based on the numbers you mentioned on the LPG's retail distribution of Rs. 10,000 per metric tonne, would it be fair to say that about 42% of our LPG EBITDA this quarter was from this segment alone, I mean this subdivision alone?

Anish K. Chandaria: No, you are mixing up things. I said Rs. 10,000 a tonne was Autogas, okay?

Sandeep Matthew: Only for Autogas, is it?

Anish K. Chandaria: Only for Autogas. The other one stays the same, around Rs. 2,500 a tonne to Rs. 3,000 a tonne for the cylinder business and for the bulk industrial. So I have given you the margin is very easy to work out, what contributed to each segment, contributed to EBITDA.

Sandeep Matthew: No. Perfect, that is helpful. Sir, the second thing was there has been talk about, obviously, BPCL privatization. Considering that they are one of the largest importers of LPG in the country, do you see any change in dynamics longer-term in risk to commercials that we have ongoing with them? Should there be a change in management?

Anish K. Chandaria: There are many ways of answering this. First of all, your gas is as good as mine when this so called privatization will happen. I think it will take a little longer than people expect. People think it will happen by March 2020. But anyway look, main thing is whoever is the owner of

BPCL, they would like to sell more LPG because it seems to be growing very well, etc. So I think they will want to have the cheapest delivered LPG. In other words, the owner of BPCL does not really matter. This is really a commercial matter. Whoever is the owner wants to make as much profit as possible. Therefore, they want the cheapest LPG as possible. What we have been trying to explain over the last five years I think successfully is that Aegis now is the cost leader in LPG imports because of all the infrastructure we have built vis-à-vis the large terminals the VLGC's and the evaluation all that. So it is not because a change of ownership will change that. Whoever is the owner want to make as much profit as possible and it is not because they like our face but it is because we have the infrastructure to give them the cheapest LPG delivered that is what makes the difference. I do not think that changes. In fact, if you want me to be positive about it, I am always optimistic perhaps it will mean more expansion and faster decision making, the public sector is little slow. So I think that is the best way to do business. That does not depend on the owner, but it depends on maximizing the customer profits and that is what Aegis is here to do as far as logistics is concerned.

Sandeep Matthew: Sure. And just on Itochu ROFR expiry, if I remember correctly the date was sometime in 2020, have you heard back from them on any ROFR proposal for any of the other IPG terminals?

Anish K. Chandaria: Interesting you mentioned that. I had a three hour dinner with them last night. The question did not even come up at that dinner. So at the moment, we are completely focused on enjoying, if I can say that the excellent performance of the Haldia LPG terminal where they have a 19.7% stake. They are very excited that we are double the budget and their senior management in Tokyo is saying that this is the most successful venture they have done in India. So that is what happens when you joint venture with Aegis. But at the moment, no further decision from them on taking any other stakes because I think their Tokyo management is basically saying, let us see how the Haldia performs for some more time before they take any decision. I believe the date is 2022 for the expiry of that right of first refusal, so still another 2.5 years or something like that. And so they are in no hurry at all. And quite frankly, I can just say that we are very happy to keep more of the earnings rather than diluted

Sandeep Matthew: No, perfectly understandable, sir. And just one final question, did we bid for the KGPL tender that was floated by BPCL last year? And do we know anything at all if at all on what is the status of that tender? Because that will be a very, very important part of demand visibility for us for the Kandla terminal as such.

Anish K. Chandaria: The answer is no.

Sandeep Matthew: We did not bid, is it?

Anish K. Chandaria: No.

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

Chirag Vekaria: Sir, just wanted to understand, since you have announced the expansion of Haldia liquid terminal, what is the current utilization for the current facility?

Anish K. Chandaria: It is 100%. We have run out of capacity, which is why we are building another 12,000 kiloliters. So it is full utilization and has been for some time and that is what triggered the next expansion and the beauty of our position is that we can on a modular approach in terms of number of times we can actually increase it like this. So it is business is strong.

Chirag Vekaria: If you were to expand to another 10,000 is there space enough to expand there?

Anish K. Chandaria: Yes, there is. But right now, we are only expanding by 12,000 so there is more space.

Chirag Vekaria: Okay. And sir, what is the utilization of Pipavav liquid?

Anish K. Chandaria: It remains exactly pretty much as it was last earnings call which is around 25% utilization, no change.

Chirag Vekaria: Okay. And sir, one last question on accounting. There is a jump in other financial liabilities to Rs. 307 crores from Rs. 20 crores. So what is that on account of?

Anish K. Chandaria: I will give it to the CFO.

Murad M. Moledina: That is account of change in accounting for lease, so IndAS 116.

Moderator: Thank you very much. That was the last question in the queue. I would now like to hand the conference back to the management team for closing comments.

Anish K. Chandaria: Thank you all for the interesting questions as ever. I hope I have been able to really indicate to investors that not only have we had an excellent set of results for quarter two, but the outlook is looking strong for the next two quarters and also in the medium-term as a result of the projects that we have undertaken all seem to be coming on the stream now. And even projects that we have been waiting for which are not under our Chakan pipeline is ready. So I think outlook is very good and I hope that you will be able to see that quarter-by-quarter in all the earnings results. Thank you very much for attending. Bye.

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