"Aegis Logistics Limited
Q2 FY2021 Earnings Conference Call"

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Moderator: Ladies and gentlemen, good day and welcome to the Aegis Logistics Limited Q2 FY2021 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 date of this call. These statements are not the guarantees of future performance and involved 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 & Managing Director from Aegis Logistics Limited. Thank you and over to you Sir!

Anish Chandaria: Thank you very much. I will be presenting the Q2 results for FY2021. I would say it was a good rise in Q2 results as compared to Q1 of this financial year showing a recovery is underway for this year FY2021 and the total revenues for Q2 was Rs.650.4 Crores versus Rs.1,818 Crores a year earlier mainly due to less sourcing volumes, less buying of gas for the public sector units, which I will explain a little later. The total EBITDA for the group in Q2 was Rs.124.8 Crores versus Rs.118 Crores in the previous quarter of this financial year in Q1 so that is a good rise Rs.124.8 Crores versus Rs.118 Crores in the previous quarter, but it compares to Rs.132 Crores same period a year earlier, Q2 a year earlier, so Rs.124.8 Crores EBITDA this year versus Rs.132 Crores a year earlier and I can also tell you the six-month results so that is Q1 plus Q2 what we call H1 first half of FY2021 versus the same period last year H1 of FY2020 and it was a result the EBITDA was Rs.243 Crores in H1 of FY2021 versus Rs.245 Crores almost the same in terms of the EBITDA for this period compared to last year despite the Coronavirus crisis going on.

Now I will talk about the normalized pretax profits, which excludes the noncash charge of the employee stock plan of Rs.14 Crores that was the charge we had to take this quarter Q2 for the ESPP, so normalized PBT excluding that noncash charge was Rs.101 Crores pretax profit versus Rs.92 Crores in Q1, so again a rise from Rs.92 Crores to Rs.101 Crores in this quarter and it was Rs.105 Crores a year earlier, so a 4% drop year-on-year, but a rise quarter-on-quarter, a normalized profit after tax for the group as a whole Q2 was Rs.78.2 Crores versus Rs.120 Crores a year earlier and normalized profit after tax after minority interest in Q2 was Rs.70.8 Crores versus Rs.112.8 Crores a year earlier. So an increase in profits in Q2 compared to Q1 as I said and I can also report the H1 first half the six months of FY2021 the normalized profit before tax actually was up by 2% versus last year, so this year was Rs.193 Crores pretax profit versus Rs.188 Crores a year earlier. So we are fine for earnings growth in the second half of the year H2 based on the first half of the year, we have been a little 2% up on last year's pretax results, but that is pretty good I think that we can even plan for earnings growth in the second half of the financial year compared to during this Coronavirus crisis.

Now go to the segment analysis, again a strong performance of the Liquid Terminal division that continues, it was good in Q1 and that continues, the good performance continues in Q2, we had revenues in Q2 for the division of Rs.56.4 Crores versus Rs.50 Crores a year earlier that is a rise of 13% year-on-year on revenues and EBITDA for Q2 was Rs.39.5 Crores versus Rs.32.8 Crores a year earlier that is a pleasing rise of 20% year-on-year in the EBITDA for the division. So as I said another good set of results, the Liquid Terminal division continuing the state of growth seen in the last quarter. Despite the COVID crisis going on this as I explained in the last earnings call this division has remained stable and rising revenues and profits because of the business model, which is basically storage-based revenues in our terminals in Mumbai, Haldia, Kochi, Mangalore, Kandla and Pipavav, so we have had very high occupancy levels in all the terminals with an exception of Pipavav, which remains still at about 25% occupancy, but all the other terminals have been strong, which is a good news for this division.

Now coming to the Gas Terminal division, our revenues were Rs.594 Crores in Q2 versus Rs.1,767 Crores, as I said this is primarily because of less sourcing of LPG by the public sector units through our company AGI in Singapore. EBITDA was Rs.85.4 Crores for Q2 versus Rs.99.5 Crores a year earlier a drop of 14% year-on-year although this Rs.85.4 Crores EBITDA in Q2 is still higher than the Rs.78 Crores in Q1, but the division has still not recovered completely due to the impact of COVID and let me now go through the underlying sales volumes by market segments to see exactly what was happening in Q2 in the business.

So I start normally first with the LPG throughput sales volumes in our three LPG terminal in Mumbai, Haldia and Pipavav. In Q2 it was 7,22,514 metric tonnes versus 7,51,025 metric tonnes a year earlier so that is a small drop of 4% year-on-year in the LPG throughput volumes. It is still a rise compared to the Q1 figure of 7,00,349 metric tonnes, but still 4% drop year-on-year still roughly at the level of last year as the business recovers. Then we come to the retail segment, first the industrial sales of LPG in Q2 were 23,621 metric tonnes that is still a sharp recovery from only 7,414 metric tonnes in Q1, so Q1 to repeat was 7,414 metric tonnes it was a sharp increase to 23,621 metric tonnes in Q2, which was still down compared to the previous year pre-COVID, which was 27,790 metric tonnes, but as the factories and industries came back on stream in Q2 July, August, September there was quite sharp rise as I said in the quarterly volumes of industrial sales.

Autogas was 4,756 metric tonnes in Q2 versus 7,369 metric tonnes year earlier obviously the COVID restrictions were being removed on autorickshaws and taxies through our Q2, but business is still not back to 100% at pre-COVID levels. Finally the commercial and domestic segment in terms of retailing was 4,499 metric tonnes versus 6,283 metric tonnes a year earlier again hotels, restaurants still not recovered completely from COVID, people going to hotels and restaurants in Q2 and finally I did mention about sourcing volumes in Q2 1,42,911 metric tonnes versus 5,41,830 metric tonnes a year earlier that is the drop in the PSUs, IOC, HPCL, BPCL, dropping their sourcing from the private sector of tenders to that extent, they did more of their own industry cargos during this quarter, but that is a division where we make only $1 or $2 per tonne EBITDA margin so not really affecting EBITDA that much, but it certainly affected the revenue figures because they bought less gas from our Singapore subsidiary.

Now let me go through the projects update. Well, not much to say is that all projects are on track including the Kandla LPG project, which we expect to commission in Q4 of this FY2021. The Mangalore liquid project is also on track for commissioning at the same full commissioning of 50,000 kiloliters liquid terminal in Q4 of FY2021. The Haldia liquid project of 12,000 liters also is on track for commissioning fully commissioned by Q4 of FY2021. The Pipavav railway gantry project very important project, which I have been talking about for many years is I am pleased to report that we now expect it to be completed next month that is the month of November, obviously at the end of October so we expect to complete that and we are now working for the approval of the railways so that we can start delivering LPG by rail wagons after we complete this project in month of November that is very important for future throughput volume growth in this financial year in Q3 as well as Q4 onwards.

Now that is the project update. As far as the outlook for the second half of the financial year H2 of FY2021 as I said in the previous earnings calls, but to repeat we expect a boost to those LPG throughput volumes of roughly 7,22,000 tonnes in this quarter just completed we expect a boost to LPG throughput volumes in the second half of the year especially because of two projects the maximizing of throughput through that Uran-Chakan LPG pipeline, which was commissioned in June, but it has still not achieved maximum throughput, some technical work is going on to achieve those maximum volumes, we expect that to be completed in this Q3 probably by the end of November, so once that is there then at the moment we expect quite higher boost to throughput volumes in our Mumbai terminal because of the use of that pipeline combined with continued LPG tanker growth movement and so that is going to boost throughput volumes in the second half of this financial year significantly from our Mumbai terminal and also the Pipavav Railway Gantry, which I just mentioned that once that is commissioned we expect to complete the project in November next month then we expect that to also boost Pipavav throughput volumes in the second half of the financial year so we do expect a boost to the kind of run rate of 7,22,000 tonnes in the throughput volumes per quarter in the second half of this financial year and I do want to reemphasize that 80% of the EBITDA of the gas division is based on this metric, which is the throughput sales volumes through the terminal, so if I say that we are going to get a boost in the second half of this financial year from these terminals that obviously means a boost to overall Aegis Group profits from that and neither the Uran-Chakan pipeline or the Pipavav Railway are dependent on COVID, Coronavirus does not affect those and these two projects are within our control and we expect to complete them in the timeframe that I mentioned so that is positive and we expect that to help the bottomline of Aegis group in the second half of the year.

The retail LPG segment first signs of recovery already seen in Q2 in all the segments whether it was the auto gas, whether it was the industrial distribution, whether it was the commercial and hotel segment, we have not yet gone back to pre COVID sales levels, but we expect as the restrictions have been by and large removed throughout the country the COVID restrictions there should be more sales in autogas, there should be more sales in hotels and restaurants, but it would be a gradual recovery I do not think we should expect everything will go back to normal immediately because still people are reluctant to go to hotels and restaurants, but I think we are seeing the first signs of recovery in sales volumes, which is good for the bottomline as well for the second half of the financial year, but whether how soon it will bounce back to pre-COVID levels that remains to be seen.

I think final two points I would like to say is that Aegis remains committed to the execution of our strategy, which is first completing the necklace of LPG terminals with the various connectivity projects like railway connectivity in pipeline into connections, we remain committed to that medium-term strategy of completing the necklace of terminals and we also are committed to building a national retail LPG distribution network with the Aegis brand presence in autogas, the commercial, industrial and domestic market segments so that medium-term plan, which I have explained many times will lead that national retail LPG distribution network with the Aegis brand that continues at pace despite the Coronavirus. We currently have a footprint in 7, 8 states, but we are going to expanding to 20 states, which is almost a national presence and I think we remain committed to executing that plan and it is going at pace and I think once Coronavirus restrictions have completely gone and everyone has confidence in this over the coming years so we remain committed on both fronts on building that necklace of LPG terminals and building that national LPG distribution network, retailing we remain committed to building that throughout this difficult crisis and finally I would like to report on the legal front that the National Green Tribunal case we found out that last Tuesday that the Supreme Court has admitted our appeal and granted a stay on that NGT order of August 10, 2020 so now there is nothing further to do with NGT that the Supreme Court after the hearing on Tuesday has admitted our appeal and seems it to grant a stay on that NGT order of August 13, 2020. That completes my presentation, with that I can take questions.

Moderator: Thank you very much. We will now begin the question and answer session. The first question from the line of Jiten Doshi from Enam Asset Management. Please go ahead.

Jiten Doshi: I have two questions one is that we are building huge capacity we are barely using about 3.6 million or so, we are now going to build much beyond 9.6 so is this too long-term or when do you really think we will utilize all this capacity and secondly I think your blended margins the minute your retail opens up will do far better what are you expecting the blended margins to look like in the second half?

Anish Chandaria: On the capacity issue you are absolutely right that we are building a huge amount of capacity once we take into account the new capacity coming on stream in Kandla, which is going to add 4 million tonnes so I think we are obviously briefing our projections on certain forecast of how much each of these terminals will do so let me go through very quickly. As far as Mumbai is concerned what is absolutely critical to raise our capacity and our sales volumes is the full use of that Uran-Chakan pipeline as I said we are now pretty confident that it will be realized from November onwards, so I said potentially that could raise our throughput on an annualized basis by 0.5 million tonne a year so obviously you can work that out, if you divide by 12 that means potentially another 40000 tonnes a month just from Mumbai from that pipeline so that is we are confident. Pipavav Railway Gantry again I said in our earnings calls as well as in our investor presentation that once that railway gantry is completed, which is November we believe that, that could raise potentially throughput volumes by another something like 0.5 million tonnes annualized a month as well, which means potentially another 40000 tonnes so that is 40000 addition in Mumbai potentially from this pipeline and potentially another 40000 from a month from Pipavav Railway Gantry and then as far as the Kandla LPG terminal is concerned, which will come and really be commissioned in Q4 so that will be in FY2022 we are budgeting for 1 million tonnes in the first year that is what we are basically saying, so another 80,000 tonnes a month so that is how we intent to build up over the second half of this financial year with Pipavav and Mumbai addition to throughput and then FY2022 addition of Kandla. In terms of growing more in Kandla I think we have a capacity of 4 million tonnes in Kandla so if I am saying 1 million tonne how soon could we build that up to that 4 million tonnes. I think probably at the moment our planning is something around 5 to 6 years so from FY2022 5 to 6 years to kind of buildup that and that is based on understanding of the requirements of the three oil companies IOC, HPCL, BPCL their requirement in that territory, which is not just Gujarat is the territory of Uttar Pradesh, Delhi, Punjab the north as well as Rajasthan as well as Gujarat, so I do not think we expect to achieve 9.6 million tonnes of throughput volumes from our current run rate of around I will say 3.5 million tonnes…

Jiten Doshi: No but like you said there has to be one year because this is an abnormal year there has to be one year where it spikes up so basically if you just go by this run rate you should be able to add at least another 2, 2.5 million next year right?

Anish Chandaria: Yes, so I think I guess it is arithmetic.

Jiten Doshi: I am saying if you do the 3.5 this year then you should be at 6 million next year logically because all your capacities are coming on stream.

Anish Chandaria: Yes, I get the arithmetic that I think we can add extra 80000 tonnes a month let us take that as another million tonne from the Mumbai and Pipavav that would be there so that is the thing and then the additional 1 million tonnes from Kandla so I think that answers the question, so another 2 million tonnes by FY2022.

Jiten Doshi: Where do you sort of hope to close this year at least about 3.8 or 4 million this year?

Anish Chandaria: It is obviously very difficult to give exact sales volume target because it depends on when that railway gantry is given permission so it is difficult because with projects and you have to get permission so I do not know exactly, but once we are able to commission the railway gantry in Pipavav and once we are able to commission fully maximize this and that I can say for sure that what date it is then obviously we can get those figures, but I think we will have better idea by the next earnings call in end of January when we will know for sure that those two projects are commissioned.

Jiten Doshi: You are going to be debt free by March 2022 including building up all this capacity am I correct?

Anish Chandaria: Well we still got some capital expenditure so we will take decisions on whether to actually pay off that debt or we will have surplus cash, but yes we will be net debt positive I think because we got that surplus cash we would be in a very strong position.

Jiten Doshi: So you are building a business if I just go by the logic and arithmetic you are building a business that can throw Rs.2000 Crores cash whenever it reaches the capacity and this is a question I have been asking you for the last one or two years, but what next is there on the drawing board because the kind of cash flows that you will earn from this business will be crazy so is the team looking at the next slice of growth beyond this?

Anish Chandaria: Yes look at my answer from the last earnings call it will be same repeat I am not going to mention the same thing I said yes we are building a business, which is going to throw up a lot of cash and obviously I said last time that we are envisaging building up that for future projects, which might not only the LPG it might be other gas storage projects that is what we are looking at nothing to announce at that moment.

Jiten Doshi: Your shareholders will be a smiling lot in FY2022 I assume?

Anish Chandaria: I hope so this year has been tough for everyone because of Coronavirus, but whatever happens with coronavirus we expect FY2022 to be much better than FY2021.

Jiten Doshi: Sure wishing you all the best.

Anish Chandaria: Thank you and you had a second question, which I will just quickly answer about the margins. Yes, you are absolutely right that as the retail LPG business, which has much higher margins particularly autogas and the commercial sectors as they recover due to the less restrictions yes the margin should improve and the first half of this year we have had the worst sales figures for retail for a long, long time because of Coronavirus restrictions so yes naturally, but we will start seeing some evidence of that I think in the second half of the financial year.

Jiten Doshi: I am sure the products once your mix changes you can hit Rs.2000 Crores of EBITDA every year that is the kind of potential over are building and we can clearly see it, the whole thing is about execution and hope the market is there, but we quickly capitalize.

Anish Chandaria: Yes, exactly I think that is fair.

Jiten Doshi: Thank you so much wishing you all the best. Thank you.

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

Shaleen Kumar: I understand you guided in your last quarter that this quarter is going to be soft and now you are guiding that we will see some boost in the second half, but second half is generally strong I am talking about LPG terminal, so for example your previous year second half has almost 1.7 million tonne of LPG terminal so any sense while you do not want to give a exact number can we see a positive growth on a year-on-year basis?

Anish Chandaria: Yes, I think that is exactly what I am guiding that you are right that seasonally for example Q3, which is Diwali time and all that and I know that this is not a normal Diwali with Coronavirus, but seasonally it is true that the second half is better than the first half anyway, but I am saying in addition to that seasonal impact there is these two projects, which you know and I have talked to you many times this Uran-Chakan pipeline maximization as well as the Pipavav Railway Gantry, which is why we feel subject to the uncertainty of the precise date when we can commission both those fully, but as I said it looks like the month of November subject to that we will see a boost to the throughput volumes in Mumbai and Pipavav and that I think will come through in the profit figures because it obviously go straight to the bottomline, so in other words not only will demand be stronger in the second half of the financial year the LPG demand in India because of seasonal factors that also these two projects, which are coming on stream in November both factors will boost throughput volumes and then we will have a significant impact on profits in the second half of the financial year and obviously you will see the results coming through in Q3 when we announce them in end of January.

Shaleen Kumar: Any risk for these two projects to commission on time like is there anything that they can be given?

Anish Chandaria: At the moment we are very close so the risk is only a little bit on time not because of mechanical completion for example in Pipavav that how long it takes to get the railway permission to start.

Shaleen Kumar: We have a bad experience with that…

Anish Chandaria: We do but because we have got the permission to kind of establish the railway gantry from the railways our consultants are working along with the Gujarat Pipavav port so that I have learnt and you know exactly that for me to give a definite date is very tricky with getting permissions, but at the moment what I can say is that it appears to be on track in terms of the mechanical work for the railway gantry in Pipavav obviously they are on the ground network and in parallel with the help of the Gujarat Pipavav port people APM we think that we will get the permission from the railways so that is there, but until it is not done that is the uncertainty and similarly as far as the Uran-Chakan pipeline there we do not need any permission but it is just completion of some technical work in our projects people feel reasonably certain that will be completed in November and the commercial discussions for example with HPCL suggested and they can ramp up their throughput through their pipeline to maximum levels, so that is certain as I can get it in November both these projects should be completed and commissioned, if something goes wrong with the railway permission then obviously I will update, but at the moment we have clear guidance I can give that in November it appears to be both these things will happen.

Shaleen Kumar: Uran-Chakan nothing from HPCL side it is from our side right the project which you are talking about?

Anish Chandaria: There is a little bit of work at the HPCL refinery, it has a technical work regarding their infrastructure there and little bit of work at our side so I think none of those are showstoppers I think these are in the final stages, what I have been told by projects people they should know difficultly on that front in month of November.

Shaleen Kumar: 1 million tonne in FY2022 from Kandla is a very strong guidance, so effectively we should be able to complete Kandla before the end of this financial year because there will be some teething issue at least that is we have seen in Haldia like first one, two months are generally weak?

Anish Chandaria: So we expect to commission in the last quarter that is on track obviously every week we monitor those things, but at the moment that is the expectation, procurement is on schedule as the contractors are on schedule so we track week-by-week so at the moment, which means commissioning will happen in Q1 of FY2022 so if the completion is Q4 of FY2021 and then that is our budget, which is 1 million tonne in the first year and of course a very crucial part of that, which I have said several times I will repeat is in terms of the commissioning is also playing the pipeline interconnection to that existing GAIL Jamnagar-Loni pipeline, which is why where we do have the in-principle agreement with GAIL already, which I mentioned one year ago, so at the moment that is the plan if there is any change of course I will update, but we seem to be on track on that front so it is for that reason that we must take about a million tonnes the completion of the terminal plus the pipeline interconnection into that.

Shaleen Kumar: Both would be ready by fourth quarter is that understanding right?

Anish Chandaria: Yes, that is the understanding both the pipeline interconnection as well as the terminal should be completed by fourth quarter of this financial year so that we can fully operate from Q1 of FY2022.

Shaleen Kumar: Who are likely to be the customer to begin with and in Haldia we had an anchor customer but here we do not have an anchor customer, so who is your anchor customer?

Anish Chandaria: We are talking to all three IOC, HPCL, BPCL, so I think it could be all three, it could be one or two, we are in conversation with all three, the way these companies operate sometimes is we would like to see one of them take the first cargo so I do not know exactly which one it will be, but clearly IOC already operates in Kandla so they are already bringing ships to Kandla.

Shaleen Kumar: Why would they use our terminal?

Anish Chandaria: If their terminal is full then obviously what we have been talking with them is they can drop off in our terminal, which is 45000 tonnes, the excess quantity in the ship that is essentially what we are talking about.

Shaleen Kumar: I will get back in queue for rest of my questions.

Moderator: Thank you. The next question is from the line of Rajesh Kothari from AlfAccurate Advisors. Please go ahead.

Rajesh Kothari: First of all great set of numbers I think I must complement management for doing a great job in getting the required capex on line probably from November as you rightly mentioned my question is just like this division can you also give a little bit more insights into how do you see the growth in liquid division over the next two to three years?

Anish Chandaria: Yes, sure, we have been very happy with all the capacity expansion we have already done in the liquid terminal division and if I am just going to refer to our slide if you do not have in front our investor presentation and page #29 shows you the buildup of capacity in our liquid terminal division and you can see that the results so far of the expansion we done in Kandla of the 1,40,000 kiloliters the expansion we have done in Haldia, etc., that is all paid off well, which has resulted in this 20% rise in our EBITDA in Q2, which continues and as I mentioned in the early part of the presentation you see in yellow we have the following expansion coming 50,000 kiloliters in Mangalore, we have 12,000 in Haldia and we are working on 20,000 more in Kochi. I am very pleased to say that both the Mangalore 50,000 kiloliters is already presold and the 12,000 in Haldia is also presold so that indicates that once those two projects are completed by Q4 of this financial year FY2021 they will start to generate revenues immediately after that in FY2022 will get the full benefit of that expansion. So once that is over we will have expanded to 8,11,000 kiloliters in this necklace of terminals and what I have mentioned before that I repeat is that we have further land available in Kandla, which could we have not taken decision to do that expansion, but we could build another 1,00,000 kiloliters on that land in Kandla of liquid capacity. We have further land available in Haldia to build more over there, which we could do as well. Now I am not going to say exactly when we will decide to build that extra capacity in Kandla of 1,00,000 and when we could build more capacity in Haldia. By the way the capacity in Haldia would be I think another 20,000 to 30,000 kiloliters something like that so possibly another 1,30,000 kiloliters we could build between Kandla and Haldia to take us to around just a short of a million kiloliters it would be around over 9,00,000, 9,30,000, 9,40,000 kiloliters possibly that we could build that is probably fair to forecast that we would do that in the next three years or so, but no decision has been taken on that expansion obviously it is subject to demand being sufficient over there, but that is about it, at the moment we do not expect any further growth in capacity beyond that 1,30,000 over the next three years. So I think it is a more steady growth in the liquid terminal division subject to demand being there. Probably at the moment we are not actively looking at any other Greenfield projects, any other ports beyond the ones that are listed here, so it is never say never and the potential of acquisitions also with certain distressed terminals if they come up subject to valuations never say never, but at the moment it is limited growth from going from 8,11,000 to possibly 9,30,000. 9,40,000 kiloliters within the next three years something like that, but obviously those decisions have not been made.

Rajesh Kothari: Sure and currently we are seeing a very strong growth of 18%, 20% is it more to do with very strong pricing growth because of the urgent requirements due to COVID by the customer or you think it will be more like a sustainable kind of a number?

Anish Chandaria: Well I would say it is more to do with as we have commissioned this capacity in Kandla. For example over Haldia, it is more to do with change in product mix, which means that we are able to or even Mangalore for example the phase II we are building for example bitumen storage in that phase II 50,000, which has already been presold where the margins are high, this is for road building, so as you build capacity in these terminals as mentioned many times that it is one, two, three years kind of process of changing the kind of products that you handle, the first year you kind of handle more bulk products where the margins are little lower just to get the tankage utilization rates, but by year three generally the pattern is terminal by terminal that you are able to handle more specialty products where the margins are high so I think it is consistent with that pattern that we are actually squeezing up more revenues per kiloliter because of handling different products as time goes on I think that is what we are seeing and we expect that to continue until we can build some more capacity in the next three years.

Rajesh Kothari: So when you say that over a year two and year three as your product mix become more richer the margins improves typically in year three versus year one what are the difference in margins?

Anish Chandaria: Well each terminal is different but just to give you a sense the kind of rates the storage rates that we offer for specialty chemicals can be something like Rs.250 to Rs.300 per kiloliter versus a bulk petroleum, which might be Rs.160, Rs.170 per kiloliter so it is a doubling in the rate for handling specialty chemical versus the bulk Petroleum, but generally we have a mix of specialty chemicals, bulk petroleum, petrochemicals we have a mix and the job ultimately is to squeeze more revenues and profit rather than every kiloliter of tankage so our sales team is always looking to handle different types of products. So I think that is generally the pattern that we see that what I am saying is I think now based on the capacity that we have increased over the last two, three years in Kandla and Haldia we are probably now achieving maximum kind of rates or realization based on the product mix.

Rajesh Kothari: Coming to your gas division you talked about Pipavav and Mumbai and Kandla, but you did not mention much about Haldia so how do you see the Haldia ramp up over the next two, three years?

Anish Chandaria: Haldia has been going very well I think it was even the month of September we saw record throughput levels in Haldia so it is going very well and that is particularly based on demand of LPG in the north east region is very strong so despite COVID everything it remain very strong in terms of the penetration of LPG in the north east particularly by HPCL our anchor customer. Now most of you are aware that BPCL is going to be commissioning their terminal in Haldia do not know the exact dates, but we would expect possibly by December or January or this December 2020 or January 2021 if they will commission their terminal so to that extent BPCL's volumes will go out of our terminal, it may not be completely out because they will take some time to commission their terminal, but it is something like that so there maybe some drop in the Haldia throughput volumes to that extent of BPCL currently is going to their own terminal not only in Q4, but January, February, March that also beyond that, but to some extent that will be outweighed by the normal growth of HPCLs marketing volumes in north east and they are being very aggressive in terms of their distribution network, so we will see the balance of how much BPCL volumes go down, but then how much HPCLs own volumes will increase we will see how that balances out. It is very difficult to forecast exactly, but we will see, but right now we remain reasonably confident that HPCLs own volumes because they are moving so aggressively with this appointing distribution and marketing plans and all that we think that to a large extent that will compensate for BPCLs throughput going over to their own terminal so we will be able to maintain good volumes in Haldia.

Rajesh Kothari: Correct me if I am wrong, capacity for Haldia is 2.5 Mn MT right so over a period of say two years or so do you think it will work at its optimum utilization, what will be your three year period because right now I think it will be still under utilization right probably right now it is like 1.5?

Anish Chandaria: That is right we have not yet reached 2.5 million throughput, but yes you are right our current expectation and we just discussed that in the LPG board meeting literally yesterday our current expectation is that we will be able to reach the figures of maximum capacity 2.5 million within the next two to three years primarily based on HPCL on volumes.

Rajesh Kothari: So basically do you see next year any major challenge because of the BPCL going out for nine months whereas HPCL may become a little bit slow so instead of 1.5 we see probably only 1.1 and then 2023 become a normal or do you think it will be enough for HPCL?

Anish Chandaria: Again I do not want to overstep the very exact forecast, but our current guidance is that we expect HPCL because of their own growth in marketing distribution we expect to maintain at least to be able to maintain the kind of high levels of throughput that we have currently and then grow on that over the next two, three years towards that 2.5 million figure.

Rajesh Kothari: My last question is Sir, what is your policy and do you see any change in payout kind of thing as your free cash flow becomes higher and higher?

Anish Chandaria: Yes we discussed this quarter-by-quarter in the Board meeting on our dividends we do not have an exact policy, but I would say we are currently the way the Board works is currently looking at dividend growth so every year that there is a sustainable dividend growth and we do look at the payout ratio, these are not exact polices we do kind of look at the payout ratio of around 20% to 25% of after tax income available to each shareholders, so these are the kind of two rules of thumb that we work on, but we also expect what is going on in terms of the cash amounts, which have been generated, we also look at the wider world in terms of what is happening with coronavirus and whether for security during these crisis we should have hold more cash, we take into account all those things but rules of some of around 20% to 25% of after tax net profits is one thing and we do look at kind of having a sustainable dividend growth rate year-by-year and then look at the overall economic situation.

Rajesh Kothari: Wish you all the best. Thank you very much.

Moderator: Thank you. The next question is from the line of Kashyap Jhaveri from Emkay Investment Managers. Please go ahead.

Kashyap Jhaveri: I just have one question, our throughput volumes are down about less than 4% Y-on-Y and this business contributes max of our profitability in the gas division whereas if I look at EBITDA that is down about 15% on Y-on-Y basis so in any business that is contraction in EBITDA per unit this is versus let us say last year or previous quarter?

Anish Chandaria: No, actually the margins have remained stable, one of the good things about our gas business is our EBITDA margins have remained stable for a long time, but the reason for the drop in the total EBITDA in the gas division beyond that 4% drop is retail where they have very high margins, but obviously it has been the most badly affected by Coronavirus so pretty much the whole reason for that drop in EBITDA compared to last year was because of the lower sales volumes in auto gas where the margins at Rs.10,000 a tonne so it is purely sales volumes lower in the retail division, which is the main reason for the drop in EBITDA, but as I said the first signs of recovery in that already there in Q2 and hopefully that will continue into Q3 and Q4 in terms of sales volumes in the retail as the COVID restrictions are lifted, but still I was cautious I said that expecting hotels and restaurants particularly to go back to where they were pre-COVID in the next few months, probably I am not ready to say that yes because people are still not going to restaurants as much they used to, etc., so that we are seeing some recovery already for example in the month of October since we have already seen some recovery already so that in September as COVID restrictions are lifted that there is some recovery now in retail volume including in autogas for example as people are moving about more with using taxies and autorickshaws and all that. So that is the main yes you are absolutely right the main reason for the drop in EBITDA for the gas division as a whole little bit was 4% was the drop in sales in the throughput volumes, but mostly it was the impact of retail LPG sales.

Kashyap Jhaveri: What would be the EBITDA per tonne in non-auto segment?

Anish Chandaria: Around between Rs.2,000 and Rs.3,000 a tonne.

Kashyap Jhaveri: That is it from my side. Thank you.

Moderator: Thank you. The next question is from the line of Amar Maurya from AlfAccurate Advisors. Please go ahead.

Amar Maurya: My first question is what would be the utilization of our liquid gas terminal in this particular quarter?

Anish Chandaria: You said liquid gas terminal?

Amar Maurya: I am saying liquid division what would be the capacity utilizations?

Anish Chandaria: So almost every terminal except Pipavav was about 90% to 95%, Mumbai was 100% as usual, Haldia was 95%, almost every terminal was operating at 90% to 95% in one case in Mumbai it was 100%, so very high level with the exception of Pipavav, which I have said they consistently has been operating at around 25% capacity unitization because we said we do not have enough cargos over there, but all are the terminals were almost completely full.

Amar Maurya: The capacity expansion you are saying is going to come by the end of the Q4 right in the liquid division?

Anish Chandaria: Yes, in Q4 January, February, March, some may come in January, some may come in March, but yes.

Amar Maurya: So basically additional 82,000 kiloliters capacity will be available for the next year of the growth?

Anish Chandaria: That is our current expectation the Kochi project which is 20,000 is going a little slower but at the moment confirm this Mangalore 50,000 and the 12,000 in Haldia, which is 62,000 is completely confirmed. At the current time we are going little more slow on the Kochi, but 62,000 is confirmed for Q4 FY2021 commissioning.

Amar Maurya: In terms of the retail gas division how do you see the recovery in the next two quarters like because I believe the volume in retail overall LPG distribution business was down by around 20% so can we expect at least high double digit growth for the second half of the year?

Anish Chandaria: I am afraid I have really uncomfortable of forecasting that, obviously it will be lovely for me to know rather than I can share with you because I am just uncertain about the COVID restrictions, today is one thing they say in one particular city or one particular state things are open up, but tomorrow is something different, so it is very difficult to forecast, but if things carry on in terms of very low restrictions, which is the current state of affairs then I would expect I think the first stage is we would want sales to recover to pre-COVID levels that is what I am hoping for, I am not guiding it but I am hoping for sales to at least return to pre-COVID levels for autogas and for hotels and restaurants that is what our hope is not our expectation. The reason I cannot say expectation is because we just do not know, the history of this Coronavirus crisis is different towns, different municipalities, different cities, different states have taken different decisions so if you can forecast what those are going to be over the next six months please do go ahead, but at the current time assuming status quo in terms of almost all restrictions are removed then our hope is we would return to pre-COVID levels of sales volumes, which would mean a reversal of the 20% drop, so that is our hope but it is not a total forecast.

Amar Maurya: Sir one last from my side so like in overall gas division if I see the volume growth in the first half was around average 4.8% and you indicated that the second half is going to be better than first half just wanted to know your thoughts on that?

Anish Chandaria: I think I have said it enough in terms of the LPG throughput volumes, which is 80% of the gas division operating profit I expect that once we are able to commission this Uran-Chakan pipeline as well as the Pipavav Railway Gantry those two projects, which I expect in the month of November I cannot give you exact date in November then we expect the volumes to increase in Mumbai by about 40,000 tonnes a month from then onwards and we expect Pipavav also to be around 40,000 tonnes a month once those two projects are over so that is specific if I can get and then obviously when Kandla is commissioned in Q1 of FY2022 the kind of 80,000 tonnes a month of budget is what we have that is specific as I can get, but I cannot give you an exact date of when those projects will be completed so it is obviously it will depend on that, but that is much I can give, but we do expect therefore a growth in the second half of Q3 and Q4 in the LPG throughput volumes to that extent and I have already answered what we think could happen in the retail I hope in terms of the retail.

Amar Maurya: That is it. Thank you Sir. Thanks a lot.

Moderator: Thank you. The next question is from the line of Manish Dhariwal from Fiducia Capital Advisors. Please go ahead.

Manish Dhariwal: I wanted to understand a little bit about our LPG bottling plants where the target is about 37 bottling plants is the target and I think we have about 13 of them so how many are owned, how does it kind of work out?

Anish Chandaria: It is work in progress I think most of them are not owned their contract filling agreement because there are lots of LPG plants all over the country they are a small handful that we are actually acquiring when I say small handful I am talking about 2 that we are in the process of acquiring those distressed assets from financial institutions, but the bulk of them and we have also bought some land in certain locations again it will be a handful maybe two or three places so you can say that plan of 37 bottling plants the vast majority will be just commercial agreements with existing bottling plant in various states and maybe handful three to five will be our own either we acquire them or we are doing Greenfield projects, but the gross bulk of them will be about 37 bottling plants, by the way of this 13 that we have currently I think that exception of three which are our own bottling plants 10 of them are also contract filling so that gives you sense.

Manish Dhariwal: These are basically used for our non-autogas place right?

Anish Chandaria: Yes every one of that is for filling our cylinders therefore hotels, restaurants and domestic segments and possibly industrial sales depending on whether they take bulk LPG or whether they take large cylinders as well.

Manish Dhariwal: We do not have any investments in the tankers that are the road tankers?

Anish Chandaria: That is the business which we obviously outsource to specialist road tanking companies so we have 0 investment in that and we have 0 plans of investing in that, there is no great wisdom in that business it is just a very basic business, so we do not invest in that.

Manish Dhariwal: That is it. Thank you so much and all the best.

Moderator: Thank you. The next question is from the line of Hiten Lathia from Fractal Capital. Please go ahead.

Hiten Lathia: Sir how much of your Kandla terminal utilization depends upon the Kandla-Gorakhpur pipeline coming through?

Anish Chandaria: Yes, that is a good question. At the moment that Kandla-Gorakhpur pipeline has not even started and it is going to be 6.5 million tonnes a year capacity that pipeline. What I have said is that in the first phase we expect to connect up to this GAIL's Jamnagar- Loni pipeline, which has been boosted to 3.5 million tonnes capacity from the current 2.5 million tonnes so that is our first phase. Essentially when I said budget of 1 million tonnes in the first year etc., and then going forward from there, but yes the latest update that we have on the Kandla-Gorakhpur pipeline is that the PSUs are taking seriously and they fully expect to commission that now, they are talking about three years, which means FY2025 I do not know I never respect any forecast of timeframes, but I think that project is large we are working on it financially, technically, etc., etc. So let us take a five-to six-year timeframe at more realistic and therefore we expect perhaps in five to six years time that our terminal in Kandla will be delivering into that Kandla-Gorakhpur pipeline, but that is five to six years from now so the first phase is very much dependent on that GAIL pipeline interconnection Loni pipeline and that is there, but in the longer-term that means perhaps from five, six years or whenever the Kandla-Gorakhpur pipeline is interconnected yes this is an essential part of our 4 million tonne capacity that we feed into that pipeline and I remind you that pipeline is 2,700 kilometers going past 45 of the existing bottling plants of the PSUs IOC, HPCL and BPCL, which is why it is so crucial, which is why we located our terminal in Kandla because the origin of that Kandla-Gorakhpur pipeline in Kandla so it is very much in part of the prospects of that 6.5 million tonne capacity pipeline and yes it is, but it will take some time it will not happen immediately even if you believe it will be three years that is wonderful, but I think probably our expectation is five to six years that is for the long-term and these terminals are there for 30, 40 years we expect this Aegis Kandla terminal to be very much feeder into that Kandla-Gorakhpur pipeline and it will be important, but probably it will take a few years that maybe five to six years is our forecast for that to be ready, it is a big project, and it is very much the future of Kandla.

Hiten Lathia: In the meantime what would be the slack available on the Jamnagar-Loni line per se?

Anish Chandaria: Well they are expanding into 3.5 million tonnes, which means that there will be some slack available, it is very much depends on how much reliance Jamnagar feeds into that pipeline, currently they are feeding in around a million tonnes, but they have already informed the PSUs that they want to reduce the amount of LPG that they produce in Jamnagar because they want to go for more higher value addition so that is one of the reasons why imports are going to increase from Kandla, so there will be sufficient slack should we say with this 3.5 million capacity boost that and that is our initial planning for our terminal in Kandla that we will take up that slack and then going forward yes this Kandla-Gorakhpur pipeline, which has the capacity of 6.5 million tonnes so it will be a combination of both these pipelines.

Hiten Lathia: In the interim can any other terminals feed into the Jamnagar-Loni line as such it passes through almost all the refiners?

Anish Chandaria: Right now no terminal is connected into that Jamnagar to Loni pipeline, we hope to be the first one to connect up into that pipeline, but no other terminal is connect with us because obviously it goes via Kandla so that is why we are closer by to that pipeline, but any other terminal in Gujarat, which includes the Pipavav is far away and Pipavav would be 150 kilometers away whatever, so we are not going to lay a pipeline of course we do not do that it is not our business, so unless someone else lays a cross country pipeline, which is yet to happen they would not be connected to that pipeline and that is one of the reasons why we again choose Kandla that look there is a possibility of the interconnecting a short distance to that Loni pipeline. That is one of the competitive launches of our Kandla terminal.

Hiten Lathia: Thank you Sir.

Moderator: Thank you. We take the next question is from the line of Rajesh from Moneyore. Please go ahead.

Rajesh: Sir what has been our auto LPG margins for the current quarter?

Anish Chandaria: It remains Rs.10,000 a tonne the volumes had been I think I said was 4,746 tonnes, but the margin did remains stable around Rs.10,000 a tonne on average so a stable margin but we need to increase the sales volumes to take advantage of that and as I said I am hoping for a recovery to pre-COVID levels in the next six months as people start moving around and start using autorickshaws and taxies in all the various states.

Rajesh: Are the volumes improving month-to-month?

Anish Chandaria: They have improved on Q1 that has clearly been dependent on removal of COVID restrictions and confidence to get back and start traveling around the city so at the moment we expect there to be some continued recovery in autogas volumes in Q3 and Q4, already seen that in the month of October, but our first wish is to get back to pre-COVID levels of sales volumes and our hope is that we will achieve that in the next six months and then go on from there, but obviously that is totally dependent on what happened in this Coronavirus crisis.

Rajesh: No, our throughput volume has not increased in the first quarter because of only Covid or maybe any other reasons?

Anish Chandaria: Yes the throughput volumes have not increased, they have been basically at a run rate of around 7,00,000 to 7,22,000 tonnes a quarter in the first half you can say it is an average of 7,10,000 or 7,15,000 tonnes the reason is because do not forget even the PSUs they have got less volumes in their own retail in terms of hotels and restaurants and autogas so it has all been cooking gas, when there should be some positive impact of volumes for them as well the PSUs just like us in terms of hotels, restaurants and autogas so that should improve and yes in the second half of the year as industry also recovers we have seen the industrial volumes will recover sharply in Q2 compared to Q1 where people brought their requirements, their factories back, so their industry is also recovering, so we expect that and then seasonally Q3 and Q4 winter months in the north and all that normally there is higher LPG throughput anyway and then as I said we have this Chakan pipeline and the Pipavav railway gantry project, so all of these factories together we should get a boost in those LPG throughput volumes so that is what we expected.

Rajesh: Did we get any volumes from the Uran-Chakan pipeline in this quarter or it was not operational?

Anish Chandaria: Yes, it has been operating since June, or July and September quarter they have been getting LPG every other day through that pipeline HPCL so not every day that is every other day.

Rajesh: What was the technical issue?

Anish Chandaria: There are certain booster pumps that we have to put and the in tank pumps that we have in our tanks in Mumbai had to be increased ,the pumping rate those type of things and the that HPCL has in the refinery to enable more storage and those type of technical issues were there, they are able to take every other day from the month of June onwards, which they have been doing and now the idea is to take it every day and increase that pumping rate so those will be over as I said in the month of November and those technical improvements at our end and at the HPCL end and therefore we have sufficient confidence that once that is over and I have made a lot of statements in detail, but that should happen in the month of November then HPCL will be able to take every day that throughput through that pipeline along with the road tanker movement and we should be able to achieve those kind of maximum levels that we talked about.

Rajesh: What is the reason our outsourcing volumes have reduced?

Anish Chandaria: The sourcing volumes reduced in the first half of the year because the PSUs did not concentrate so much on the tenders, they just concentrate on bring their own cargos. I think that was probably also because of high stock levels and all the rest of it, so they have started to increase now again the tenders going out so we will see what happens, but it is a small business.

Rajesh: Thank you Sir.

Moderator: Thank you. Ladies and gentlemen due to time constraint that was the last question. I now hand the conference over to Mr. Anish Chandaria for closing comments.

Anish Chandaria: I hope we are able to say whatever you want and hopefully we will be able to continue this highest growth. The things are improving slowly all the way so thank you very much and see you in the next earnings call in January.

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