SANJIT KUNDU

AEGIS LOGISTICS

Bharat Gosalia
Chief financial officer

CONCEPT IN A NUTSHELL

The only listed player in the gas and liquid fuels market, Aegis Logistics provides total supply chain management services to major customers, including oil Public sector undertakings. Aegis' strategic location, indispensable services and steady diversification make it worth watching

Stepping on gas

Revving up on both logistics and autogas business, Aegis Logistics may not coast along quietly for much longer

Lalitha Sridhar

Today, everywhere we go, it's pollution, pollution, pollution," says N Krishnamurthy, owner of Aegis Auto gas' bestselling station in Bangalore's Cottonpet Main Road, a good vantage from which to get a sense of the city's infamous traffic snarls. "Autogas does not harm the environment, costs less, gives more mileage. Tell me, why would everybody not want to switch over to it?"

If Krishnamurthy's enthusiasm is well-founded, Aegis Logistics, till now a successful but low-key player in gas logistics and industrial gas distribution, will have a far more visible and profitable presence on the bourses and off them. Aegis, which got into the auto liquid petroleum gas (LPG) retail business about four years back, now has 69 stations, mainly in western and southern India. Another 30 are underway and the company is promising 300 by 2013-14.

But that's not why we are talking about Aegis. Though the LPG sector was opened up in 1994, it's yet to reach its inflection point. On the other hand, the gas logistics market gathered considerable momentum in the post-1991 liberalisation years. "Aegis is a unique company in the logistics space," says Siddhartha Khemka, equity research analyst, Centrum. "Its strategic location in Mumbai makes its facilities indispensable for oil and gas companies, and assures it a regular flow of business."

Liquid assets

The company provides total supply chain management services to major customers, including oil PSUs, in the booming oil, gas and chemicals industry in India. It takes care of unloading and storage of gases and petrochemicals, the related paperwork, and delivery to the customer's site by pipeline or road tanker, on a contractual or spot basis.

The only listed player in the liquid logistics market, Aegis has three liquid terminals, two at the Mumbai Port and one at Kochi Port, which have the combined capacity to store 288,000 kilolitres (kL) of liquids. It operates large tank farms capable of handling and storing a variety of petroleum products and specialty chemicals like naphtha, low sulphur heavy stock (LSHS) and caustic soda. Already, Aegis handles around 2 million metric tonnes (MT) of liquid products per annum, which is the highest among terminal-operating companies in the private sector.

Aegis' marquee clients include oil PSUs like BPCL and HPCL, large private oil companies such as Reliance Industries, and chemical companies such as the Noble Group, HUL and Supreme Industries. Its clients save demurrage by evacuating products to and from ships faster. State of the art facilities keep handling losses low. Flowing smoothly onwards with its three decades of experience in the sector, Aegis expects its liquid logistics capacity to increase to 508,000 KL by FY14.

Gaseous nature

Aegis' foothold in the gas (LPG) logistics space is also well-established. It built India's first fully refrigerated cryogenic LPG import terminal, the only one in Mumbai and still the largest in the private sector, in Trombay, at a cost of Rs 110 crore in 1997. The 20,000 MT facility is connected to the Pir Pau jetty by 12" low temperature steel pipelines. There's also a 2,750 MT terminal at Pipavav.

Apart from offering gas storage and handling services to bulk LPG suppliers on an open user terminal basis, Aegis also imports, markets and distributes LPG on its own account for bulk industrial distribution, as commercial cylinders and for autogas retailing. Aegis is one of the largest private suppliers of bulk LPG and propane to a variety of industrial customers in sectors such as steel, ceramics, glass and pharmaceuticals, chiefly in western India.

Aegis handles around 2 million MTs of liquid products per annum, which is the highest among terminal-operating companies in the private sector

"Gas distribution is a relatively higher margin business compared with gas logistics, where income is fee-based," says Bharat Gosalia, CFO, Aegis Logistics. "We are focusing on augmenting our aggregate volumes across gas distribution and logistics." Gas distribution is a niche market in India but it comes with a growth rate of over 30-40 per cent per annum.

Khemka says: "We believe Aegis provides a good investment opportunity due to its unique infrastructure, which creates a high entry barrier for others while it operates the only LPG terminal at Mumbai."

High energy stakes

In India, compressed natural gas (CNG) and auto LPG are the two gas-based alternatives to petrol. Worldwide, auto LPG is generally preferred to CNG because its much safer and cheaper.

The dismantling of the administered pricing mechanism (APM) has clearly established LPG's cost advantage over petrol.

However, "The challenge," Gosalia admits, "is to make LPG available nearer to the users. The bigger challenge is the illegal diversion of subsidised cooking gas as auto fuel. More than 50 per cent of what passes off as autogas consumption is actually cooking gas."

Aegis' rollout plan for gas stations is progressing at a slower pace than expected because of constraints in obtaining the necessary regulatory approvals for setting up the stations.

Moreover, "We have now changed our focus from the number of stations to the quality of stations," says Gosalia. "This came about after we realised that the volume of sales in our Tier 1 city stations, even if they are in suburbs and not at central locations, far exceed sales volume achieved by stations in Tier 2 and 3 cities."

The company has not fixed any date by which to have 100 stations but officials say they expect to get there within a year. Aegis' long-term target is 300 autogas stations in ten states, although the description of 'long-term' has to be taken very seriously given Aegis' slow growth on this expansion.

Already, Krishnamurthy's 3-month-young Shri Krishna Autogas averages 12-13,000 litres of gas sales per day, a figure its owner expects to double in the coming months.

Aegis' key figures for FY10 appear to reflect his optimism: net sales stood at

Feeling the pinch

Though RIL has renewed its contract now, volume growth too a hit earlier

₹ cr	FY08	FY09	FY10
Sales	389	386	305
Change (%)	62	-1	-21
EBITDA	70	56	75
Change (%)	125	-20	34
Net profit	38	27	43
Change (%)	78	-29	39
EPS (Rs)	11.57	8.29	13.33
Book value (Rs)	46.62	61.59	58.96
ROE (%)	28.31	16.91	24.32

Source: Bloomberg

Margins in the gas business are generally stable but, since gas prices are linked to global oil and gas prices, Aegis' margins are vulnerable to volatility as well

BLOOMBERG

Aegis is also spending Rs 40 crore on the 'debottlenecking' and modernisation of its liquid logistic facilities

Rs 305 crore, Ebitda is up 34 per cent to Rs 75 crore and PAT is up by an impressive 59 per cent to Rs 43 crore. Earnings per share stood at Rs 13.33, debt to equity ratio is 0.69 and dividend increased to 57.5 per cent (from 45 per cent in FY09).

High and low, far and wide

Aegis' is relying on both organic growth as well as acquisitions to scale up all three of its principal divisions: liquid and gas logistics, industrial gas distribution, and auto gas retail.

Aegis' throughput contract with RIL (previously IPCL) on a take or pay basis continued unbroken for ten years but ended in 2008 when the volume-driven arrangement took a hit in the economic downturn. Gosalia says that situation corrected itself when the turnaround fell fully into place. The contract has now been renewed for two years. It's true that the end of the economic slowdown stabilised Aegis' overall performance and, by mid-FY10, volumes were back to the pre-crash period, Aegis' annual report says.

Additionally, in November 2009, Aegis announced a strategic alliance with Essar Oil for six states. Once it comes fully into play, selected Essar stations will sell Aegis' autogas and certain Aegis stations will sell Essar's branded petrol and diesel.

However, Aegis is treading very slowly and cautiously on its marketing alliance with Essar. A due diligence exercise to determine the suitability, and technical and commercial viability of Essar's station sites is underway. "At present this exercise is restricted to a few states where Aegis autogas is present," says Gosalia. "This is a long process and the shortlisting of Essar stations is taking time." Only one such site, in Kalyan, a Mumbai suburb, is now operative. Gosalia says it's difficult to estimate the number of stations that will be eventually available to implement a cross-selling arrangement. Aegis also acquired Shell Gas in April 2010 with a total outlay of less than Rs 25 crore. This gives the company a foothold in a Gujarat port (Pipavav) and kicks off synergies in gas distribution through the use of two separate terminals at Trombay and Pipavav. Shell's wholesale bottling and marketing of packed LPG to the industrial and commercial sectors brings Aegis a ready-to-go network of dealers and distributors, and also provides the chance to scale up in a new sector.

Slow burn

Margins in the gas business are generally stable over a constant price but, since gas prices are linked to global oil and gas prices, Aegis' margins are vulnerable to volatility as well. Gas prices are revised on a month-to-month basis, in line with import parity pricing by PSUs which are, naturally, the price leaders. Aegis maintains inventory for less than 30 days by importing 2-3 consignments in a month and follows the industry practice of passing on the increase in costs to its customers. This sort of nimble-footedness is necessary to keep the margin stable in rupee terms.

Aegis' plans of building a necklace of port terminals around India's coastline and developing a retail distribution network of gas stations in western and southern India is moving on at a steady if not thrilling pace. Aegis is also spending Rs 40 crore on the 'debottlenecking' and modernisation of its liquid logistic facilities at Trombay. Gosalia says: "We try to de-risk our exposure to specific products, customers and sectors by spreading out our logistics operations with over 50 products across 40 different customers." The company has more reasons to be upbeat. Not only is the Indian economy firmly on the growth track, 60 per cent of the increase in the global demand for chemicals is expected be centred in the Asia-Pacific region. Moreover, India is the fifth largest energy consumer in the world. That there are very few private liquid logistics players in India works to Aegis' advantage.

"However, the key risk (for Aegis) is the high business concentration at Mumbai Port," says Centrum's Khemka. The Mumbai Port, long favoured by importers of petroleum and chemical products, thanks to its proximity to two refineries and Maharashtra's significant chemical manufacturing zones, is facing severe congestion issues. By Mumbai Port Trust's own estimates, a new berth that can take care of additional volumes, will be ready only in 2014. This limits Aegis as well.

Still, right now, with a market cap of Rs 905 crore, Aegis looks robust and healthy. In fact, as opposed to 17.1 per cent in FY09, it's return on equity is set to rise to 28.7 per cent by FY13. Analysts expect high growth at 28 per cent CAGR over FY10-13. Khemka says, "We expect Aegis to benefit immensely from India's high import dependence for energy consumption as it would require logistics support for all these activities." Hold on. □