Aegis Logistics Limited

April 04, 2024

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long-term bank facilities	578.82 (Enhanced from 246.82)	CARE AA; Stable	Reaffirmed
Short-term bank facilities	185.98 (Reduced from 327.98)	CARE A1+	Reaffirmed

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

Ratings assigned to bank facilities of Aegis Logistics Limited (ALL) continue to derive strength from its established position in the liquid and gas logistics business with diversified gamut of services offered, management's vast experience, and strategically located facilities at important ports in India. Ratings also derive strength from ALL's established relationship with key customers and suppliers, comfortable capital structure, debt service coverage indicators, and liquidity. The new joint venture (JV), Aegis Vopak Terminals Limited (AVTL) (with Vopak holding 49% share and ALL holding 51% share) with Royal Vopak, will operate a network of terminals currently located in five strategic ports along the east and west coast of India, and explore new business opportunities in the oil and gas sector.

CARE Ratings Limited (CARE Ratings) takes cognisance of the fact that the company has completed liquid capacity addition at Mangalore, Kandla, and Haldia and commissioned the Kandla LPG terminal. The new rail gantry for LPG at Pipavav has also been completed. The Aegis group has also commenced the capex work in the JV, which will contribute to the company's incremental revenues going forward.

However, ratings continue to be tempered by low margin gas sourcing business which is a major revenue contributor, increasing threat of competition from newly added capacities, and the risk related to reduced demand from end-user industries. ALL's ability to successfully achieve the next phase of growth and diversification of business, in partnership with Royal Vopak leading to sustainable improvement in the operating margins, and a significant improvement in the capacity utilisation while maintaining the credit metrics, would remain key monitorable.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Substantial scale up of business along and diversification in the business profile in partnership with Royal Vopak on a sustained basis.
- Improving earnings before interest, taxes, depreciation, and amortisation (EBITDA) margin above 12% on a sustained basis.

Negative factors

- Higher-than-envisaged consolidated debt resulting in deteriorating credit metrics with consolidated total debt/PBILDT greater than 3.5x.
- Substantially deteriorating scale of operations and operating margins lower than 6% on a sustained basis.

Analytical approach: Consolidated

CARE Ratings has taken a Consolidated view on ALL and its subsidiaries for arriving at the ratings, as the entities are under a common management, have similar line of business, and financial and operational linkages. The subsidiaries considered are attached in **Annexure-6**.

Outlook: Stable

The Stable outlook reflects CARE Ratings' expectation of continuation of strong operating performance, and expected improvement in scale of operations, with stable demand for LPG in the medium-long term.

[1]Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications

Detailed description of the key rating drivers:

Key strengths

Experienced promoters and management

ALL is managed by a team of professionals under the guidance of R. K. Chandaria, Chairman and Managing Director. The company's top management has an average industry experience of more than three decades in the related field. AVTL's key management personnel also comprises qualified professionals with vast relevant experience.

Broad spectrum of services offered in oil and gas industry via throughput capacities across seven major ports

ALL is present mainly in the midstream and downstream components of the oil and gas industry. Its business is diversified and can be broadly divided into two major segments, liquid terminal division and gas terminal division. In liquid division, ALL provides import, export, storage, and logistics services, as well as all types of chemicals, petroleum, oil, lubricant (POL) products and vegetable oils. In gas division, ALL captures the complete logistics value chain starting from sourcing, terminalling to distribution of LPG. Liquid division historically contributes to around 30% of PBILDT with balance around 70% from gas division.
Aegis owns and operates a network of gas terminals across the coastal line of India, which allows it to seamlessly import gas from any location. The consolidated LPG static storage capacity is 115,000 MT, an annual throughput capacity of 9,600,000 MT. The company has a total liquid storage capacity of 1,603,000 KL, to import/export chemicals and petrochemicals, across Mumbai, Haldia, Kochi, Pipavav, Kandla, and Mangalore.

Strong revenue growth in FY23 and 9MFY24 led by improvement in volumes, though moderation in margins

ALL's total operating income (TOI) increased by 86% y-o-y in FY23, primarily driven by higher terminalling volumes, higher prices, and service fees. The liquid terminal capacity additions at Mangalore, Kandla and Haldia as well as product mix handled also boosted the revenues. Revenue contribution from the gas segment is around 95% and from liquid segment is around 4.8%-5% in FY23. However, the liquid division contributed to 34% (33%) of the company's PBILDT for FY23, and 36% in 9MFY24, whereas the gas division contributed to 66% (P.Y.67%) for FY23 and 63% for 9MFY24.
Alongside higher throughput volumes, the company's sourcing business grew by 61% over the previous year with sourcing volumes at around 895,000 MT. Operating margins in the sourcing business are wafer-thin at around USD 0.50-1.50 per tonne, which led to the overall PBILDT margin to moderate to 7.85% for FY23 (PY: 11.58%).

Established relationship with key customers

ALL caters to diverse and strong customer base with established relationship with them. The company also enters annual fixed-price contracts with some of its customers. These are take-or-pay contracts whereby the customer fixes the volumes/storage capacity to be made available to them during the specified period. This provides revenue visibility for the said capacity in liquid logistics division. In gas sourcing, ALL acts as an arranger for its customers and suppliers with whom it has entered back-to-back contracts with common pricing terms, forex rate, and credit period terms. The company has adopted the strategy of matching realisation from customers and payment to suppliers, thereby eliminating foreign exchange risk.

Strong financial risk profile, moderation expected given debt-funded capex in AVTL

The company's financial risk profile continues to remain strong with comfortable capital structure and consistent improvement in profitability and cash accruals. On a standalone level, the company had total debt (including lease liabilities) of ₹111.90 crore as on March 31, 2023. However, on a consolidated level, total debt (including lease liability) rose to ₹1,916.31 crore as on March 31, 2023. Excluding the lease liability, which is due to the applicability of IndAS 116 the debt largely pertains to the debt availed in AVTL as payment of part consideration against transfer of assets of ALL into the JV and debt availed to part-finance recent acquisition of terminal assets from the Friends group. This increase in debt has slightly impacted the overall gearing moderating it 0.48x as on March 31, 2023 (PY: 0.37x).
CARE Ratings notes that the quantum of capex to be undertaken by ALL in partnership with Vopak would be annually around ₹600 – ₹700 crore over the next five years resulting in a cumulative capex of ₹4,500 crore. This is significantly higher compared to the average annual capex of ₹200-₹300 crore which the company has been incurring historically. The company would avail debt to incur part of the while the balance shall be funded by internal accruals generated by the company and contribution from the JV partners.
The covenanted overall gearing (debt/equity) of the JV would be less than 0.6x and the total debt/PBILDT shall be <3.50x. CARE Ratings draws comfort from the conservative debt covenants and will continue to monitor the impact of capex on ALL's debt metrics. Achieving these debt metrics is also contingent on ability to generate strong cashflows from the assets.

Favourable industry scenario:
Given the growing demand for LPG in India and its wide application in household and industrial activities, there is a great opportunity for India's downstream and midstream oil and gas logistics service providers such as ALL, who offer specialised services. Further tailwinds from the Tile industry in Morbi is expected to continue.

Key weaknesses

Susceptible to regulatory risks and competition
The main threat to the LPG industry arises from the changes in the government policy regarding subsidised pricing of LPG and its substitutes. The main threat to the port-based liquid terminalling business arises from the changes to government policies on coastal regulations and inadequate port infrastructure as well as geo-political instability, leading to uncertainty on pricing and affects customers for the liquid logistics business. India's growing energy demand has intensified the need for actively seeking private participation in the energy chain, resulting in presence of many participants which could lead to a competitive landscape.

Moderate capex risk
CARE Ratings notes that the quantum of capex to be undertaken by ALL in partnership with Vopak would be annually around ₹600 – ₹700 crore over the next five years, which is significantly higher compared with the average annual capex of around ₹300 crore, which the company has been executing historically. Nevertheless, CARE Ratings expects project execution risk to be moderate considering the established credentials of both ALL and Vopak in undertaking projects in the oil and gas segment. ALL's ability to undertake the capex without time or cost overrun while maintaining the credit metrics would be monitorable.

Liquidity: Strong

ALL has strong liquidity as depicted by strong cash and investments balance which stood at over ₹1,450 crore as on March 31, 2023. The high liquidity balance was due to equity contribution from Vopak, debt raised at the JV company, and from 24% stake sale of Hindustan Aegis, which operates the gas terminal at Haldia. Although the proceeds from asset sale have improved the liquidity substantially, a portion of the resultant cash balance would be earmarked for undertaking future capex in ALL standalone as well as in the JV.
Against this, as on March 31, 2023, consolidated gross debt stands at ₹978 crore (excluding lease liabilities) resultantly, the company being net debt negative. As on December 31, 2023, the company has bank debt of around ₹1,200 crore and around ₹1,700 crore in cash. Majority of the debt outstanding is at the JV level. Total scheduled quarterly debt repayments at consolidated level is at modest of around ₹12 crore per quarter for the next four quarters. ALL has fungible CC limits of around ₹420 crore which remains unutilised.

Environment, social, and governance (ESG) risks

ALL has implemented various measures to reduce carbon footprint, including optimising transportation routes, adopting energy-efficient technologies, and investing in renewable energy resources. ALL is committed to minimising waste generation and promoting recycling and reuse practices across our operations. The company's waste management initiatives focus on reducing landfill waste and promoting responsible disposal methods. ALL actively manages water resources to minimise consumption and reduce water wastage.
The company prioritises the health, safety, and well-being of their employees. Its comprehensive employee welfare programmes encompass safety training, healthcare facilities, and initiatives promoting work-life balance and diversity.
ALL is committed to transparent and accountable reporting practices. The company adheres to international standards and guidelines in reporting sustainability performance, providing stakeholders with accurate and reliable information. The company ranks 143 out of 207 by Morningstar Sustainalytics in the Refiners & Pipelines industry.

Applicable criteria

Consolidation
Definition of Default
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Rating Watch
Financial Ratios – Non financial Sector
Service Sector Companies
Short Term Instruments

About the company and industry

Industry classification

Macro-economic Indicator	Sector	Industry	Basic Industry
Services	Services	Transport Services	Logistics solution provider

Promoted by London-based NRI, R. K. Chandaria and family, and formerly known as Aegis Chemical Industries Limited (ACIL), ALL was incorporated in June 1956. ALL and its subsidiaries provide logistic solutions for oil, gas, chemicals, and petrochemical industries. The company's business can be divided into two broad segments, liquid logistics division and gas division. The liquid division owns and operates a network of bulk liquid storage terminals at Mumbai, Kochi, Haldia, Mangalore, Kandla, and Pipavav ports. The gas division is involved in the sourcing of LPG/propane, owning and operating gas storage terminals, industrial and commercial distribution, and auto gas retailing. The company also has filling plants, and pipeline connectivity to end-users. ALL has also formed a JV with a leading tank storage company named Royal Vopak N.V. (Netherlands), named as Aegis Vopak Terminals Limited (AVTL), with ALL holding 51% and Vopak holding 49%. The JV is set up with the objective to grow together in the LPG, chemicals storage, and handling business.

Brief Financials (₹ crore)	March 31, 2022 (A)	March 31, 2023 (A)	9MFY24 (UA)
Total operating income	4,626.17	8,624.08	5,335.19
PBILDT	535.82	676.74	742.42
PAT	387.31	510.70	434.92
Overall gearing (times)	0.37	0.48	NA
Interest coverage (times)	24.64	7.67	8.58

A: Audited; UA: Unaudited; NA: Not available; Note: 'these are latest financial results available'

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for last three years: Please refer to Annexure-2

Covenants of rated instrument / facility: Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3

Complexity level of various instruments rated: Annexure-4

Lender details: Annexure-5

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based - LT-Cash credit		-	-	-	9.82	CARE AA; Stable
Fund-based - LT-Term loan		-	-	Proposed	469.00	CARE AA; Stable
Fund-based - LT-Term loan		-	-	-	100.00	CARE AA; Stable
Non-fund-based - ST-BG/LC		-	-	-	185.98	CARE A1+

Annexure-2: Rating history for last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2023-2024	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021
1	Fund-based - LT-Cash credit	LT	9.82	CARE AA; Stable	-	1)CARE AA; Stable (25-Jan-23) 2)CARE AA; Stable (05-Apr-22)	1)CARE AA; Stable (06-Apr-21)	-
2	Non-fund-based - ST-BG/LC	ST	185.98	CARE A1+	-	1)CARE A1+ (25-Jan-23) 2)CARE A1+ (05-Apr-22)	1)CARE A1+ (06-Apr-21)	-
3	Fund-based - LT-Term loan	LT	469.00	CARE AA; Stable	-	1)CARE AA; Stable (25-Jan-23) 2)CARE AA; Stable (05-Apr-22)	1)CARE AA; Stable (06-Apr-21)	-
4	Debentures-Non-convertible debentures	LT	-	-	-	-	-	1)Withdrawn (25-Jun-20)
5	Fund-based - LT-Term loan	LT	100.00	CARE AA; Stable	-	1)CARE AA; Stable (25-Jan-23) 2)CARE AA; Stable (05-Apr-22)	1)CARE AA; Stable (06-Apr-21)	-

LT: Long Term; ST: Short Term; LT/ST: Long Term/Short Term

Annexure-3: Detailed explanation of covenants of the rated instruments/facilities: Not applicable

Annexure-4: Complexity level of various instruments rated

Sr. No.	Name of the Instrument	Complexity Level
1	Fund-based - LT-Cash credit	Simple
2	Fund-based - LT-Term loan	Simple
3	Non-fund-based - ST-BG/LC	Simple

Annexure-5: Lender details

To view the lender wise details of bank facilities please click here

Annexure-6: List of all the entities consolidated

Sr. No.	Name of companies/ Entities as on December 31, 2023	% of holding
1	Sea Lord Containers Limited	100%
2	Aegis Gas (LPG) Private Limited	100%
3	Konkan Storage Systems (Kochi) Private Limited*	51%
4	Hindustan Aegis LPG Limited	51%
5	Aegis Vopak Terminals Limited	51%
6	Aegis Terminal (Pipavav) Limited	96%
7	Eastern India LPG Company Private Limited	100%
8	Aegis Group International PTE Limited, Singapore	60%
9	Aegis International Marine Services PTE Limited, Singapore	100%
10	CRL Terminals Private Limited*	51%

*step-down subsidiary of ALL

Note on the complexity levels of the rated instruments: CARE Ratings has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for any clarifications.

Contact us

Media Contact	Analytical Contacts
Mradul Mishra Director **CARE Ratings Limited** Phone: +91-22-6754 3596 E-mail: mradul.mishra@careedge.in **Relationship Contact** Saikat Roy Senior Director **CARE Ratings Limited** Phone: 91 22 6754 3404 E-mail: saikat.roy@careedge.in	Ranjan Sharma Senior Director **CARE Ratings Limited** Phone: 9122-6754 3453 E-mail: ranjan.sharma@careedge.in Pulkit Agarwal Director **CARE Ratings Limited** Phone: 9122-6754 3505 E-mail: pulkit.agarwal@careedge.in Arti Roy Associate Director **CARE Ratings Limited** Phone: 912267543657 E-mail: arti.roy@careedge.in

About us:

Established in 1993, CARE Ratings is one of the leading credit rating agencies in India. Registered under the Securities and Exchange Board of India, it has been acknowledged as an External Credit Assessment Institution by the RBI. With an equitable position in the Indian capital market, CARE Ratings provides a wide array of credit rating services that help corporates raise capital and enable investors to make informed decisions. With an established track record of rating companies over almost three decades, CARE Ratings follows a robust and transparent rating process that leverages its domain and analytical expertise, backed by the methodologies congruent with the international best practices. CARE Ratings has played a pivotal role in developing bank debt and capital market instruments, including commercial papers, corporate bonds and debentures, and structured credit.

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