"Aegis Logistics Limited Q4 FY '24 Earnings Conference Call"

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MODERATOR: **MS. PAYAL DAVE– ORIENT CAPITAL**

Moderator: Ladies and gentlemen, welcome to the Aegis Logistics Limited Q4 and FY '24 Earnings Conference Call. 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 call, please signal an operator by pressing star then zero on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Raj Chandaria. Thank you, and over to you, sir.

Raj Chandaria: Okay. Thank you very much. Good afternoon. I'm joined by our Chief Financial Officer, Mr. Murad Moledina, and Ms. Payal Dave from our Investor Relations team, and we will be presenting Q4 and full year results ended 31st March 2024.

Before I move on to discuss the financial performance for the full year FY '24, I'm pleased to inform you that the Board of Directors has recommended a final dividend of INR2 or 200% per share of the face value of INR1. The company has already declared and paid two interim dividends of INR2 in February 2024 and INR2.5 in August of '23 for the financial year ended 31st March. And therefore, the total dividend for the full year amounts to INR6.50 per share or 650% for every share of face value INR1.

As you know, as far as the vision and the mission of this company, the core purpose is to be an enabler in the transition to a more sustainable India. And given that our business lies at the very heart of that necessary transition, our mission to store and distribute bulk liquids and gases in a safe and sustainable manner is ever more critical. And as a company that is building and operating energy infrastructure, we believe that we can play our part in moving India from using dirty fuels to using cleaner fuels.

Now as far as our strategy is concerned, of course, this remains consistent with the mission, and we continue to look for M&A opportunities during the year. We have completed several acquisitions. We continue to expand our distribution footprint by installing more LPG filling plants and signing up more distributors. And we continue the build-out of the capex plan that we kicked off last year, and I'll give you more details of that -- of the progress of that later on in the call.

In financial highlights, I'm delighted to announce that we have reached a significant milestone by surpassing INR1,000 crores in normalized EBITDA for FY '24. And our Liquid Division has also reached record revenues and EBITDA, and our Logistics and Distribution segment has seen its highest-ever volumes. Operating EBITDA for the Liquid division was INR396 crores and for the LPG division, INR612 crores. We also delivered record volumes in our LPG logistics business of 4.1 million metric tons and distribution volumes of 0.56 million tons. And our profits for FY '24 amounted to INR672 crores, marking a 32% year-over-year growth.

The outstanding performance aligns with our guidance of achieving a 25% cumulative average growth in earnings per share over the next 3 years. And I'm pleased to note that we have maintained, in fact, an EPS of 25% since 2022 after our joint venture with Vopak. So I think you'll agree with me that these results are consistent with our quarterly updates during the past year. The main drivers for this have been the continued growth of the volumes in our Kandla terminal, growth in our distribution business, and continued growth in liquids through the addition of new capacity and full utilization of newly commissioned tanks.

Furthermore, as the new projects that are now being implemented are commissioned, we are confident that the positive momentum we saw in FY '24 will be sustained in FY '25 and onwards. As I mentioned in our last call, the group is in the middle of a major expansion program, and I can provide an update on the progress of this program. Let me start with JNPT port. We established a foothold in this port in the second port of Mumbai at JNPT with our new 110,000 kiloliter terminal, which will be commissioned later this year. It's proceeding well on time and on budget.

Moving on to Pipavav. As you may have read in the news last year, Gujarat Pipavav Port revamped its work to handle very large gas carriers, VLGCs. And because of that, we have increased our volumes there, and we have achieved also a major milestone by loading over 1,000 LPG railway rigs at this port. We are now regularly bringing VLGCs to Pipavav Port and achieving these record rail movements to our clients. We're also expanding our LPG capacity at that port by adding 2 cryogenic tanks with a capacity of 45 -- total capacity of 45,000 metric tons, which is expected to be commissioned by Q1 of FY '26.

And they've also commissioned recently an LPG bottling plant there, enhancing both the throughput and distribution capabilities in that port. Additionally, that port has announced its investment in a new liquid berth to meet the growing demand for liquid cargoes, cargoes which are also driving economic growth in Gujarat and beyond. And with the Kandla-Gorakhpur Pipeline expected to connect into Pipavav, this will eventually make Pipavav LPG terminal a really important hub to handle this.

Moving on then to Mangalore. We successfully acquired a specialized storage terminal with a capacity of 44,168 KL in this last year. This acquisition meets the growing demand for specialized storage with the heating arrangements of up to 230 degrees centigrade in our Liquid division. This expands our facilities at Mangalore under the Aegis-Vopak Terminals Limited. The newly acquired capacity is already operational and with additional capacity under construction, expected to come online in phases by the end of FY '25.

Following these expansions, our total liquid capacity at Mangalore will reach 154,000 KL and we are constructing an additional 71,000 KL in liquids that will be operational in the next 12 to 15 months. Our cryogenic LPG project, the 85,000 ton cryogenic LPG project is proceeding well on schedule and expected to be definitely commissioned on time. As far as Kandla Port is concerned, in Q4 of FY '24, we commissioned 35,000 KL of liquid tanks, bringing our total capacity to just shy of 1 million metric tons or 970,000 to be precise. We are additionally constructing 25,000 KL of tankage, which will be operational next year.

Over the past 2 years, we have experienced rapid growth at this port, capturing a significant market share in both our liquids and LPG business. The LPG bottling plant at Kandla has also been commissioned and is now generating revenue. At Kochi, we acquired 16,000 kiloliter liquid storage terminal during the year and the same is performing well. We're also expanding our capacity at this port by another 25,000 KL of liquids. At Haldia port, the expansion at Haldia, to set up an additional 50,000 KL, was also completed during the year.

With all these acquisitions, and expansions, our total storage capacity all over India will be almost 2 million KL. We plan to construct an additional 300,000 KL in this new fiscal year of FY '25 to fulfill our vision of creating a network of terminals throughout the coastline of India. So as far as the expectations for the business in the coming financial year, assuming that the buoyant economic trends continue, we expect also to continue delivering earnings growth in line with the trend of the past couple of years and reaping the benefits of the investments that we have made in both our terminalling business as well as the distribution business.

You may recall that this time last year, we have set out the capex plan of about INR4,500 crores by FY '27, almost 50% of which comprised of these 2 cryogenic LPG terminals in Pipavav and Mangalore as well as the various liquid expansions in Haldia, Mangalore, JNPT, Kandla, and Kochi, which are proceeding on time and on budget. And we expect to commission the Pipavav and Mangalore project terminals in Q1 of FY '26. And pace of capex, the pace of capex spending, we expect this to continue beyond FY '27 as we look at opportunities in the pipeline.

I'm also finally pleased to announce that in the field of new energy and in keeping with our vision, we are, in fact, proceeding with our first -- with the first of our ammonia terminals, which I have mentioned in the past, but we are definitively announcing it now. And this will be located in the state of Gujarat. We expect to commence construction during this fiscal year after receiving all the necessary permits from the regulatory authorities, and we expect to build more ammonia terminals as this business matures. I think we'll endeavor to become vertically integrated in this business just like in the ammonia business just like we are in the LPG business.

So with that, I'm going to hand over to Mr. Moledina, to present the financial performance in detail. Murad, over to you.

Murad Moledina: Good afternoon. Yes, continuing both our divisions delivered a strong performance for the full year ended 31st March 2024 driven by the highest lifetime revenue and profitability in Liquid Division once again, and the highest lifetime profitability and volumes in the Gas division. For the group as a whole, EBITDA for the year ended 31st March '24 was 1,008 crores, an increase of 25% compared to the same period last year. Profit after tax increased by 32% to INR672 crores in FY '24. Earnings per share also increased to 16.22 as compared to 13.19 for the full year ended 31st March '24, an increase of 23%. I would now like to provide you with some more details on the individual segments.

First, Liquid business. Liquid has delivered another record stellar performance for the full year ended 31st March '24. The revenues were INR549 crores, an increase of 31% year-on-year basis. We delivered the highest ever EBITDA at INR396 crores versus INR272 crores in the previous year, which is an increase of 46%. This improved performance can be attributed to the new capacity coming on line as well as acquisitions at Kandla, Kochi and Mangalore.

LPG business. LPG division has also delivered record volumes in our Logistics business, delivering a growth of 23% by handling 4.10 million tons of LPG in the last year. In our

Distribution business, has not only sustained the performance, but has delivered a growth of 13% by distributing 5.6 lakh metric ton of LPG across verticals. The above-mentioned factors has helped us to achieve a record EBITDA crossing INR1,000 crores, a growth of 25% year-on-year. Our PAT has also grown by 32% to INR672 crores. Now let me give you volume details of each subsegment.

Throughput volumes. The LPG volumes for the full year ended 31st March handled at all our 4 terminals: Mumbai, Haldia, Kandla and Pipavav were 4.1 million metric tons versus 3.33 million metric tons same period last year, an increase of 23%. This marks the second consecutive year where we have achieved double-digit growth in this division.

Distribution volumes. We had good growth in our distribution business to full year ended 31st March '24. The volumes increased by 13% as against same period volumes last year. The commercial, industrial and auto segment combined handled 559,700 metric tons versus 494,200 metric tons last year. Additionally, the margins of these divisions have also -- have actually improved.

Sourcing volume. The sales volume of sourcing business for the full year ended 31st March '24 was 798,400 metric tons versus 895,300 metric tons in the same period last year. The financial position of the company remains robust with low debt, strong cash flow and a solid balance sheet.

With this, I now hand over the line to the moderator to start the question-and-answer session.

Moderator: The first question is from the line of Priyankar Biswas from BNP Paribas.

Priyankar Biswas: And congratulations to the entire Aegis' team for such a strong result. So that's first. What I wanted to ask since you have finally taken the step on ammonia. So if you can give some color on it, that what this static capacity represents, let's say, in terms of full year number? I mean, when it is commissioned, like in a 1 million ton quantum.

And after that, what sort of target you have, like in 1 million ton per annum number to scale up the ammonia? And if you can walk through the financials of the project like, essentially, what can be the expected EBITDA per ton of those assets like those sort of things, if you can walk us through?

Murad Moledina: Yes, Priyankar. So ammonia is the first terminal that we are getting into construction of. And this is to be of a starting capacity of 36,000 metric tons. Now in ammonia, it's more like liquid business, so you can turn around at most 3x. So effectively, if you look at 36,000 metric tons, it's like 1.2 million tons, that is the maximum you can go to.

If you take all the 3 turnarounds, then it would be somewhere around INR1,000 revenue like LPG, which you will get. But if you look at static capacity, then it should be around INR3,000. So you start with one turnaround. And then as the business matures, you would likely grow from there on, but the max you can do is 3x.

Priyankar Biswas: So if I understand it correctly, so you can do effectively an EBITDA of something like INR1,000 per ton, right? I mean, ammonia and...

Murad Moledina: Yes.

Priyankar Biswas: So that's correct assessment?

Murad Moledina: It's same like LPG, just a little under INR1,000.

Priyankar Biswas: Okay. And on gas sales -- on the gas, what I see is that from 3Q versus 4Q, the volumes were kind of similar, the logistics volumes. And distribution was also broadly less, slightly lower. But yet I see that the EBITDA for the Gas division is meaningfully higher than what was in 3Q. So has there been some margin expansion? And if it is so, where has it happened? Is it in Distribution or is it in, let's say, Logistics, which...

Murad Moledina: It has happened in distribution on account of procurement efficiencies, which we could get in this quarter. So the margins have improved in Q4 as far as distribution volumes are concerned.

Priyankar Biswas: So this procurement efficiency, is it sustaining? So what I mean is like in FY '25, can we like let's say on a per ton basis, expect such sort of margin to sustain?

Murad Moledina: It depends. So I suggest that we should not be comparing quarter-to-quarter. But if you look at yearly average margins, I think those are sustainable, and it may vary quarter-to-quarter, but as the volumes will grow, the procurement efficiencies will be more and more. So it all depends on how much we are able to scale up.

As I've said in the past, when Mangalore cryogenic and Pipavav cryogenic comes up, which is basically in FY '26, you will really see a step-up in distribution volumes as also the procurement efficiencies. But FY '25, we should carry on with the margins, which we have achieved in FY '24 with a normal scale-up in volumes like we always do 20%, 25%, 30%.

Priyankar Biswas: Just a final question. Maybe I'll come back into the queue later. So if you can give us some idea like what sort of logistics and distribution volumes should one reasonably expect in FY '25. You can give a broad range, right, even that will be fine.

Murad Moledina: I think if you take the run rate of the fourth quarter for logistics volume and slight improvement on that, I think, we should achieve 5 million plus for FY '25, if all things are normal as far as all other factors are concerned. Distribution volumes, we have always said that we expect a 25% increase from here on.

Priyankar Biswas: Okay. And can you give us a similar thing in liquids because we have seen the liquid margins also expanding massively in this quarter. So what sort of sustainable rate we should see going forward?

Murad Moledina: Again, please look at the margins on a yearly basis, quarter-to-quarter depends on the type of products we store, sometimes take-or-pay comes in. Sometimes -- so you have to look at the margins for the whole year and then those would be sustainable next year also. Liquid also depends on how soon, how fast your capacities under construction come up and are commissioned as well as, as you are aware, M&A opportunities, which 2 years in succession, we have been able to get and hope so also going forward.

So depending on all of that, you would see. But again, we retain our guidance. The only guidance we gave is the EPS increase year-on-year of CAGR 25%. And if you work back, I think what we have just said about gas and liquid, you would get to those kind of numbers to achieve an EPS CAGR of 25%.

Priyankar Biswas: So even the liquid revenue was very high, I mean, in this quarter. So is this run rate doable, I mean, going forward, let's -- other than the margin?

Murad Moledina: Capacities also have come up in the last quarter as well as, like I said, there are always take-or-pay, sometimes take-or-pays are there, sometimes type of product. But you should see it a year as a whole.

Moderator: And the next question is from the line of Jolyon Loo from Amiral Gestion.

Jolyon Loo: So could you comment on your liquid segment this quarter? I think, the capacity went up 14%, including the M&A, but revenue obviously went up 66% is fantastic result. So is there any one-off here, could you break down the 66% between M&A and the capacity that came online.

Murad Moledina: No. Like we have just answered that. So liquid, you have to see it not quarter-to-quarter, but for the whole year. And during the year, we have increased our capacity. We are almost 2 million now as compared to 1.6 million in the previous year. And of course, sometimes you do get opportunities for take-or-pay contracts where even if the use is not there, you get the revenues. So these -- you have to look at it on a yearly basis.

And we expect the capacity to grow next year also by almost 300,000 CBM. So it's more capex growth that is leading to revenue and EBITDA. And most of the time, this capacity addition is at the existing sites where the expenses remain the same. And the entire increase in the revenue flows down to the EBITDA because you're operating with the same kind of resources as you have expanded in the existing sites.

Jolyon Loo: Okay. So we are 2 million this year, next year, FY '25 will end at 2.3 million is what you are saying.

Murad Moledina: Yes. That is what we will end with hopefully.

Jolyon Loo: Okay. Just one more question. Maybe could you comment on the KGPL or any government-related projects because I think they will be a significant driver of volume in the next 1 to 1.5 years...

Murad Moledina: Again, KGPL is progressing well and is expected to come on line timed with our cryogenic, which is expected by end of FY '25 and Q1 FY '26. So we hope both to commence around the same time. And that will certainly we hope will bring volume upside as far as gas business is concerned.

Jolyon Loo: Okay. So no delays on the government side?

Murad Moledina: So far, so good.

Moderator: The next question is from the line of Yash Dedhia from Maximal Capital.

Yash Dedhia: Congratulations on very good set of numbers. Congratulations to the whole Aegis team. Sir, on the liquid part, I know you clarified that the whole year should be looked as a normalized number for revenue. But I just wanted to understand the take-or-pay, which we get is for not using the facility as per the contract, correct?

Murad Moledina: Yes, those are -- yes, sometimes. When the capacity is higher, yes.

Yash Dedhia: Yes. So our capacity utilization currently is at what level around for liquid, overall.

Murad Moledina: 87%.

Yash Dedhia: 87%. And do we see it dropping or the contracts are long term in nature?

Murad Moledina: No, Liquid contracts are always around 1-year types of contracts, which we have always said in the past. And capacity utilization literally has no meaning as far as liquid storage business is concerned. So you have to look at your realizations per capacity that you have installed and that is how we generally look at, which is like INR3,000 per CBM capacity that you have would be the revenue.

Yash Dedhia: Yes. So the tons which we get are pretty much normal every quarter-on-quarter.

Murad Moledina: Most of the time, yes. But it depends on what types of products you store in a particular...

Yash Dedhia: The margin could be different because of the type of product, which is stored.

Murad Moledina: Volumes generally remain the same.

Yash Dedhia: Volumes generally remain the same. And the revenue has -- the realization as well. So in realization, is there a very vast difference in terms of product differentiation or the differences...

Murad Moledina: Yes. For example, vegetable oil could be INR125 or INR150 a month, whereas a specialty chemical or an acid could be INR600, INR700, INR1,000. Could be 10x -- 8x, 10x.

Yash Dedhia: So what we are guiding is for, say, for example, in this quarter, we got a revenue of INR193 crores from liquid, and this could be the reason -- the reason could be, say, because of better product mix in the liquid, which was there.

Murad Moledina: Various reasons, not just product type, various reasons.

Yash Dedhia: So one of the reason is that.

Murad Moledina: Yes, one of the reasons, but you have to look at the whole year because sometimes you -- things come in one particular quarter, but that's how you plan things. So you have to look at the whole year.

Yash Dedhia: Yes. But majorly, the tons wouldn't change then -- and the take-or-pay is also based on the tons, say, for example, if the capacity was booked and was not utilized and they will pay take-or-pay.

Murad Moledina: Correct, correct. So that is how...

Yash Dedhia: Then the major variance should be the product mix.

Murad Moledina: Yes, but if there are spot contracts, then the volumes also matter because if they evacuate faster, the next set of products will get you additional revenue.

Yash Dedhia: So the more tons will happen.

Murad Moledina: More tons will happen. See it's a combination of many things, which is why you cannot pinpoint to one particular thing.

Yash Dedhia: And so this quarter's product mix, which was there, do we expect it to sustain? Or that also we should look at on a whole year?

Murad Moledina: Whole year revenue of liquid has to be seen, and we see a growth from there in the next year because of capacity addition, because of type of products that we would store may change and also because of the tons or the number of tons, the evacuation of products faster. So all the factors put together is what makes us believe that next year also we'll see a healthy growth in liquid business.

Yash Dedhia: So around 10% to 15% would be the growth from capex that the capacity, which we are adding.

Murad Moledina: Yes, definitely 10%, 15% on account of the capacity addition.

Yash Dedhia: And more could come, say, as a result of better product mix, which would be approximately how much?

Murad Moledina: We cannot predict that. But what we always guide is that we -- with whatever levers we have, the range of business that we have liquid, gas, in gas throughput, distribution, etcetera, we try our best to have a growth in our profits, which is basically boiled down to EPS, and that's what we advise that we are quite confident of delivering a 25% EPS growth year-on-year. It could be a combination of many things. Sometimes liquid growth, sometimes gas, throughput, distribution. But the end result would definitely -- the confidence is there of the management that we would be able to deliver a 25%.

Yash Dedhia: Okay. Got it. And just one more on EBITDA per ton for Logistics division. Was it similar? Or was there a spike in it?

Murad Moledina: Yes, around INR1,100.

Yash Dedhia: Around INR1,100 only. And the distribution EBITDA burden was more because of procurement efficiency?

Murad Moledina: Correct. Yes.

Moderator: And the next question is from the line of Dhruv Bhatia from Bank of India Investment Managers.

Dhruv Bhatia: My first question, if you could just -- you talked about a little bit about the ammonia terminal and the commercials. Could you -- I mean, I didn't get the exact number, you said it's INR1,000 per ton on 3x tons that you're looking at?

Murad Moledina: No. So you take it like this, that the revenues are between INR2,500 to INR3,500 per stacking capacity metric ton.

Dhruv Bhatia: Okay. That's the revenue.

Murad Moledina: Yes. So -- but if you take the number of tons 3x then you have to divide by 3, which is why I said INR1,000.

Dhruv Bhatia: Okay. And what about the profitability, sir, here?

Murad Moledina: Yes, that's like LPG, 90% EBITDA.

Dhruv Bhatia: Because the -- when I am doing the calculation, it's coming to roughly about INR10 crores, INR12 crores of EBITDA, right? Sorry, INR120 crores of EBITDA.

Murad Moledina: You missed one 0.

Dhruv Bhatia: INR120 crores of EBITDA is what we're looking at from -- at full or 3x asset turn.

Murad Moledina: Yes. Again, a 25% IRR kind of a thing.

Dhruv Bhatia: And who would be -- I mean, like an LPG business where the LPG is getting imported and you are storing on behalf of the customer. In this case, could you just talk about a little bit on the industrial landscape? Who would be the type of customers that you're looking at? And generally, each business that you enter into or any new capacity that you add? You always have a customer, anchor customer or a customer who's telling you probably start -- can you put up an X capacity in a certain location. So in this case, could you give you a little more color about it?

Murad Moledina: Yes. This ammonia terminal, please understand will come on stream in 24 months, right? So it's 2026, number one. Number two, this ammonia terminal would be equipped to handle import as well as exports. So effectively, it means that it can store gray, blue, green, any type of ammonia because the molecule is the same.

Therefore, we believe with the kind of marketing, internal marketing research that we have done, that there will be enough demand either of gray ammonia, which would be more of imports or green ammonia for exports by the time our terminal is commissioned, which is why we have announced the first out of many more that are expected to come in our company going forward.

But we wait as the business will mature, we would announce more such investments. For now, we are announcing only one at our existing site. So as you can understand, most of the infrastructure is in place in Pipavav. So there is a Jetty. We have our people, etcetera. So the only cost is the capex and the power. So EBITDA margins would also be very high. The lease is also already been absorbed. So that is the reason we have decided to go ahead with this ammonia terminal.

Dhruv Bhatia: Like every other capacity that you build, you generally do everything in-house, in this case also because you've got...

Murad Moledina: Absolutely in-house. Yes.

Dhruv Bhatia: Everything will be done in-house.

Murad Moledina: Because the infrastructure is similar to that of LPG.

Dhruv Bhatia: Understood. And sir, just 2 bookkeeping questions. You did mention throughput EBITDA per ton in FY '24 was INR1,100, which generally was INR1,000 on a steady basis. So one is, is this sustainable? And what has led to the improvement?

Murad Moledina: So as the capacity utilization will increase, like I said, the revenue will flow down to the EBITDA and the percentage statistics. So we would definitely see an upside in that manner. So it is not that the expenses are getting reduced, it is just that the revenue is increasing and the expenses are not increasing at that pace at which the utilization of the terminal increases, which is why you will see a better EBITDA margins per ton as the utilization of the capacity goes up.

Dhruv Bhatia: Okay. And what was the distribution EBITDA per ton in FY '24?

Murad Moledina: It has increased. So it would be somewhere around between INR4,500 to INR5,000.

Dhruv Bhatia: Okay. And sir, last question because this year, I think, this year, the minority contribution to the profit was somewhere about 15-odd percent, though this quarter, it was on the higher side at I think about 17% to 18%. Again, you've explained in the past about how it's structured. But going forward, should it be considered at about 17%, 18% just for modelling purpose?

Murad Moledina: I will not be able to help you all on that. But yes, I think the way it has been structured and the way -- at present, it can change going forward. But we expect minority interest to be between 15% to 20%, yes.

Moderator: And the next question is from the line of from Chirag from Budhrani Finance.

Chirag: I just wanted to get an update on this cryogenic ammonia project that you are talking about. Sir, you are doing a capex of -- at Pipavav and Mangalore. So is it the same or is it different?

Murad Moledina: We expect because there are some additional facilities which will be needed for ammonia. So at present, we have said that it will cost us up to approximately INR500 crores, but we'll come up with -- as we finalize everything with the permit getting in place, we will keep updating the numbers as we go.

Chirag: So these 5,000 tons and 85,000 tons of LPG -- cryogenic LPG tons, they are different from the ammonia, right?

Murad Moledina: Yes, yes.

Raj Chandaria: Yes, yes, that's completely different.

Chirag: Okay. Second thing is, sir, when you were explaining the metrics, you said 36,000 metric tons. So that is the capacity for ammonia tons you are saying, right?

Murad Moledina: Yes, the static capacity.

Chirag: Static capacity and then the churn of 3x, INR1,000 EBITDA per ton.

Murad Moledina: That is a maximum that can happen. We are not saying it will happen from day 1.

Chirag: At max, correct?

Murad Moledina: Yes.

Chirag: Okay. Okay. And for that, we are looking at a INR500 crores kind of a number, right?

Murad Moledina: Yes. As of now.

Moderator: And the next question is from the line of Ankur Shah from Quasar Capital.

Ankur Shah: Congratulations on a very good set of numbers. Sir, just one question on the distribution business. Have you read the announcement that Gujarat Gas has announced an EOI to link natural gas sales with propane pricing. And even on the recent con call, we heard the commentary that they are very keen and aggressive to get the volume market share. So sir, any comments on the competitive landscape with respect to this?

Murad Moledina: We have always been saying that for us, Morbi is not be-all end-all of the whole world. So we -- there is a lot of market beyond Morbi also, but we continue selling in Morbi in spite of whatever steps, it's been now about 18 months. There have been various steps taken by Gujarat Gas to -- I should not say Gujarat Gas, but natural gas to keep -- to dominate the market of Morbi, but that has not been the case.

Today, 40% to 50% of Morbi is being catered to by propane. Even the ceramic -- you see propane is also having a unique advantage in ceramic and glass where there are many chemical reactions and different temperatures are needed. So it's not just the money, it's also the quality and the use of the gas that is available for the industry.

So we are not saying that it will only be propane nor are we saying that it will only be natural gas as far as Morbi is concerned. Even the industries out there would want alternatives because suddenly, there could be a volatility and then like we experienced last year, they were in deep trouble because of volatility that happened to natural gas. So I think both will keep supplying to Morbi and other industrial clusters and keep growing. The issue here is to replace dirty fuels like furnace oil, coal, etcetera, which is still very much prevalent in industries, more so in small and medium-scale industries. So we are also very keen to expand this distribution, which we call bulk industrial distribution. And yes, so that -- all those industrial customers like MIDC, GIDC, KIDC, RIDC, whatever they are.

They have a lot of small- and medium-scale units, which are still on dirty fuels, like diesel, furnace oil, coal, etcetera. So there is a huge wide world out there where I think both NG and propane should push and replace and grow. So it's okay. Let them link it to anything. It's finally the procurement price that matters, right?

So we'll see going forward how today, even today, in spite of all of that, we can -- we are competing well with NG price. And as you know, LPG, the biggest advantage is portability that you can go by rate -- road, rail, etcetera, but NG can only be supplied by pipeline. And wherever pipeline network is there, only there it can reach out.

You look at our presentation, which we have added a few slides on the LPG advantage, which is there. We have tried to explain. We suggest all other fuels that are there and these are unique advantages and will not be easily to replace, especially for a country like India.

Ankur Shah: Sir, see, this question is primarily because like I would say that Aegis had taken a very massive lead in the distribution business and the propane distribution, which Aegis started, the adoption was very quick because of a very major price differential and a real right to win. And obviously, both the fuels have, like you mentioned, different procurement, but like even I'm seeing in this quarter, once the natural gas price comes closer to propane pricing, I've seen natural gas win in volumes versus propane, which may be one of the reasons why the distribution business has degrown in the fourth quarter. Sir, any comments on that?

Murad Moledina: Do not look at quarter-to-quarter. We, again, I reiterate. It's not just Aegis, which supplies propane to Morbi. IOC, BPCL, HPCL and all of them supply and I think in Q4 also 40%, at least, I believe, was supplied by -- was propane gas, which was supplied to Morbi. So things have not changed too much and, LPG prices, as you know, have fallen in the month of May onwards because winter is over. So now it will be the other way round. So how far can NG go down as the propane and LPG prices will slide.

Raj Chandaria: Just to answer, if I can just say so. We are comfortable with competition. We're not concerned about -- both fuels will coexist. And I think the fact that Gujarat Gas is forced to make announcements about how they are linking their price to propane and this, that, probably speaks more to their concerns than our concerns. So...

Murad Moledina: Also, let me highlight one more thing. Just look at, if you are in Mumbai, I don't know where you are based. Just look at the PNG price, INR51 is what you will see in your bill per SCM versus Morbi INR41, okay? In spite of INR41, we are competing. Just imagine PNG being sold at INR51 to common man and the industry is being supplied at INR41 to survive. So that's how far propane has pushed NG, if you look at Morbi.

But as I said, it's not only Morbi that we supply, we continue supplying to Morbi. We have not stopped. We are still supplying quite good quantities in Morbi along with other PSUs, NOCs. But there are other -- we supply industrial distribution from Mumbai, from Haldia, from Pipavav all over.

And as I again repeat, there is a whole wide world of dirty fuel, which is there to be tapped by both NG and propane and continue to grow from here on because the volumes, which these 2 clean fuel have, are very, very low compared to the dirty fuel that is presently being consumed in the country by the industries.

Ankur Shah: Sir, second question is on the liquid business. Considering a very like very above expectation quarter. Like you said, we should ideally look at it on a yearly basis. So sir, on the liquid business, whenever we are setting up because recently, we have commissioned a lot of new storage terminals.

How is the customer buildup and the capacity utilization -- sorry, the capacity -- how is the customer buildup happening? And what is the IRR, which is expected? Like you have mentioned a normally stabilized IRR of 25%. But in general, like does the capacity come up and before that the customer signing happens, how is it?

Murad Moledina: So there's nothing like customer signing, but we only go where there is a demand. So we follow the demand. We don't wait for the demand to follow us. We don't believe in flag planting. So whenever our terminals are commissioned, they are put to use from day 1 most of the time. Therefore, we always have a technical, I can say, 100% utilization because we realize the expected revenues and EBITDA, which we plan for. And therefore, like I said, we expect the money to be back in our kitty between 3 to 4 years on an IRR of around 25%.

Ankur Shah: Sure, sir. And sir, on the ammonia front, sorry sir, I missed the capex number.

Murad Moledina: Capex number, we have said approximately INR500 crores for 36,000 metric tons capacity.

Ankur Shah: Okay. Sure. And sir, would you know the market size of ammonia, the import market size of ammonia? Just to understand the size of opportunity.

Murad Moledina: Please -- as of now in India, so the users have their own terminals and they are importing as of now. But we see quite a few of demand, which is coming up from chemical and fertilizer companies and we easily expect this first one, which is in very ideal location. It will be more so for green ammonia when it comes.

But green ammonia will give a step-up in the revenues, which I have just said. It will not be 3,000 or it will not be 3,500, it will be much more, but it will take some time green ammonia. We still believe. So it cannot be in 2026 when we commission that we will start straight away with green ammonia. We may start with gray, which we have on ground seen enough demand for our terminal use as we have planned.

But going forward, we'll see quite a few upside. And we have said that like LPG, when we started only with storage, ammonia also, we can get vertically integrated after a few years, sourcing and distributing ammonia also. But that would take a few years more.

Moderator: The next question is from the line of Yogesh Patil from Dolat Capital.

Yogesh Patil: So quick question on Morbi side. How much is the pricing gap between the propane and natural gas at Morbi? That's one, which one is the cheaper nowadays? And what is your in-house estimate about next 2 to 3 quarters, the propane demand in the Morbi region? And lastly, how many ceramic units have already installed the propane receiving infrastructure at Morbi.

Murad Moledina: That is very difficult. We don't have it on hand, but the price differential between the 2 would still be between 7% to 10%, with propane being cheaper and I've already said 40% propane, we believe, is what is being consumed in Morbi from -- out of their total gas demand as of now.

Yogesh Patil: Any ballpark number to support how much MMSCMD propane is getting consumed and how much is the natural gas. Any ballpark figure you have.

Murad Moledina: No, I think the total demand is around over 1 million tons in a year. So you can calculate that 40% would be propane, 60% would be NG.

Yogesh Patil: And, sir, you are suggesting propane is cheaper by 7%, 8%, right?

Murad Moledina: Propane is cheaper, yes, even today.

Yogesh Patil: Even today. And lastly, just any in-house estimates from your side for the next 2 to 3 quarters, the propane demand in the Morbi region.

Murad Moledina: Look, we have said that you have to look at the year, not quarter-to-quarter. And for the year, we see that the distribution volumes overall. I'm again repeating, the world doesn't begin and end with Morbi, but overall, looking at our entire portfolio of distribution, we expect a 25% to 30% rise in the ensuing year as compared with the previous one.

Raj Chandaria: Sorry, can I just add just -- because I know that everybody is concerned about Morbi, just to reinforce what Murad has said. We have actually 4 LPG terminals. And they don't only serve Morbi, right? So we do serve other markets as well and to reinforce what he said that there are plenty of other industrial customers that we are also servicing. So that's it.

Moderator: And the next question is from the line of [Dhruv Shiv Rohira] from CWC Advisors.

Dhruv Shiv Rohira: So firstly, congratulations on the results. Just had a couple of questions. One was on the Liquid division. So typically, at least from what I've understood, ROCE numbers seem a bit lower than the Gas segment. So I just wanted to ask where do you see the return on capital employed at least as of FY '24 for liquids. And do you see it expanding over the next few years? And what do you think would give you confidence that, that number will grow over time?

Raj Chandaria: Sorry, did you say that the Liquid division numbers are low?

Dhruv Shiv Rohira: No, no. The return on capital employed numbers are lower than the Gas segment is what my understanding is.

Murad Moledina: So both the businesses are different. The gas business is vertically integrated. We just do not only store, we also distribute and source LPG, which have no investments, but you get the EBITDA coming out of those business. They are franchise-driven, so therefore, the EBITDA margins and the return will definitely be more in gas as compared to liquid. But when you are calculating return on capital employed for the segments, you have to keep in mind the CWIP, which -- and the assets, which are under construction, but not yet put to use as well as there are assets, which are put to use, but at various intervals during the year.

And we also are carrying a huge amount of cash. So if you make adjustments on all of that. And in addition, always keep in mind, Liquid division has got freehold land at Mumbai, which you have to also make adjustment for. Once you do that, you will see the return on capital employed as we say, 25% IRR in Liquid and around close to 50% IRR in LPG when it stands vertically integrated.

Dhruv Shiv Rohira: Understood. Understood. And secondly, so could you comment on, in the longer term, what you expect LPG demand in India to be like? I know that's a little bit far-fetch, but so say that demand in India is around...

Murad Moledina: If you look at our presentation, the presentation talks about import of 25 million in 2034, 2035. Whereas in the current year, the imports of LPG have already crossed 20 million. So we are really very conservative as far as our presentation is concerned. It is growing and we believe, again, the story going forward will be definitely for cooking gas.

But in addition to cooking gas, there will be an energy transition story where we will see a transition. Do you know 17% of energy requirement of India is still unprocessed biomass? 17%, still. And the easiest thing to substitute unprocessed biomass is LPG because it is portable. You can reach it anywhere without any great investment.

You have seen how LPG replaced kerosene, right, in past with government's push, and really focused incentives and a plan. This is what is going to happen going forward that, in energy, requirement where the present mix is completely tilted towards dirty fuel and the growing energy requirement, which the country is seeing on account of growing GDP, you -- there is going to be a huge demand for all clean fuels, whether it is natural gas, LPG, hydrogen, ammonia, renewables. All of them will see very healthy growth because their base is very, very low at present.

Raj Chandaria: And I'd just like to remind you that LPG is not just a fuel but it also is used in pet chem manufacturing as well -- exactly, yes. So there are plenty of applications of LPG, which are not just for burning or cooking. So we expect -- I think this year, the total demand of LPG in the country was about 31 million tons, that's going to continue rising over the next few years.

Murad Moledina: And I think I'll just give you a very simple example of diesel run gensets, okay? If you look at diesel at INR90, and you get by burning diesel only 3 energy units, the cost of generating energy is INR30, whereas if you look at -- if you can convert it to propane-run, then the cost of propane is around INR50. And the units of energy you get is somewhere around 12, the cost is only INR4 or INR5 compared to INR30. So there are so many applications, so many areas where yet this application of clean fuel has yet to happen and it's going to happen going forward.

The only question is the pace. So the amount of time that it is going to take is the only question mark. Otherwise, there is no question about the transition of energy that will happen from dirty fuel to clean fuel, and all these clean fuels, which are very, very low in volume as on today, including natural gas will grow.

Dhruv Shiv Rohira: No, of course. So I mean I agree with you completely. But just if you have -- if you can give me some kind of ballpark estimate because today I know that demand is at 31 million tons. And where will you see this reaching in 3 to 4 years and also how much do you expect to terminal of that? So I know...

Murad Moledina: It's a combination of a lot of factors where you should have the capacity, you should have the distribution network, you should have the product, you should have the shipping. There are hundreds of things, which have to be aligned for any energy product for that matter. And there's the demand also to mature. It depends on the income effect. As the income effect is going to happen, there will be less resistance to switch to clean fuel. So there are a number of factors. But what can be for sure is that there will be a healthy growth year-on-year going forward for several decades now.

And as far as propane, also know one thing, the availability will not be an issue for coming 2 or 3 decades because of shale gas, that is there -- that is happening and that is going to ensure abundant availability of LPG going forward. And looking at the portability of the product, looking at almost zero greenhouse effect potential, GHP, if you look at, as far as propane is concerned, it's almost zero. And you look at the Environment Pollution Board, what stand they are taking? If you go for a renewal now, they will ask from you that how -- what is your plan to substitute diesel from the genset, etcetera.

So the awareness and environment becoming a very sensitive issue, look at the climate change that is happening, the heat that we are facing is all because of greenhouse effect, etcetera, that is there. But everything takes time, everything has to happen in some time. It cannot happen overnight. And the pace, no one can project or predict as such. But I think for us, whatever we are doing, we feel there is sufficient -- there would be sufficient demand to get us where we want to be as far as throughput is concerned, as far as profitability is concerned. So if we compress it and look at only our company, I think, we have enough on our plate as opportunities in this sector to grow and thrive going forward.

Dhruv Shiv Rohira Understood. Just a last quick one on that.

Moderator: Sorry to interrupt, Shiv sir. Can you come in the queue for the follow-up question. The next question is from the line of Lavanya from UBS.

Lavanya Tottala: Congratulations, sir, on great set of numbers and announcement of ammonia plant. So most of my questions are answered. Just one clarity. I wanted to check on liquids, which you have mentioned, it's better to look on yearly basis. But a sudden spike this quarter compared to any other quarter historically, so can we expect such kind of things happening next year or -- I just wanted to understand if there's a significant one-off in this.

Murad Moledina: Sorry, I did not get your question right.

Lavanya Tottala: So liquids, the performance this quarter, you mentioned that we need to look at a yearly basis, right?

Raj Chandaria: Sorry, Lavanya, obviously, we can't predict a particular spike in any one particular quarter. So I think Murad has explained that a combination of things like product mix, spot contracts that might turn up and so on. So obviously, we can't predict the future in so much detail. So rather than focusing on one particular quarter, if we take the full year and extrapolate next year, what do we think with the additional capacity coming on stream and so on. I think we should get a pretty solid performance. So I wouldn't take 1 quarter's numbers and multiply by 4, but I think it's a little more complex modelling of taking the extra capacity, our normal guidance on INR3,000 per kiloliter and we know what the EBITDA margins are that we've talked about. That's probably the better way to approach it.

Lavanya Tottala: Okay. Got it, sir. Also, just on the distribution part, I wanted to check one thing. So this time, I think gas distribution EBITDA was much better than last quarter. Is it the right way of looking at it? Last quarter, I think it was slightly softer in terms of EBITDA contribution.

Murad Moledina: Yes, you're right. In this quarter, we got procurement efficiencies. So again, I have always said that for distribution, you have -- if you are modelling and if you are trying to project, please take INR3,000 as a standard EBITDA margin in Distribution business because quarter-to-quarter, it might change. Sometimes it is INR2,500, sometimes INR3,000, INR4,000. So it depends on what kind of efficiencies you are able to unlock in one particular quarter. But overall, if you look at the year, I think, INR3,000 is a very good number to look at as far as distribution business is concerned. As far as throughput is concerned, I think now is the time for us to take INR1,100 as the weight of EBITDA.

Lavanya Tottala: Throughput is clear. Just the Distribution part, if you look at the overall yearly basis, how much would it be? INR3,000 is the number, is it right?

Murad Moledina: Yes, that's correct.

Moderator: And the next question is from the line of Deep Mehta from Bank of India Mutual Funds.

Deep Mehta: Congratulations for a very robust set of numbers. Two questions. First is regarding our economics of our new ammonia plant. Correct me if I'm wrong, but we have roughly 36,000 MT of capacity. And with 3x throughput, we can do 108,000 tons of volumes. And if I multiply it by 1,000, the number comes around 11 crores. So where are we missing in the calculation?

Murad Moledina: Yes, you're right.

Deep Mehta: So revenue potential is around INR11 crores, correct?

Murad Moledina: Per month, not per year.

Deep Mehta: Okay. This is per month number. Okay, very clear.

Murad Moledina: Sorry. Yes, it's per month.

Deep Mehta: And second question is regarding slightly top-down question. Recently, the ruling government has announced that they are planning to supply natural gas to each and every household via pipeline. Is it even possible? What percentage of it is possible?

Murad Moledina: You tell me. I am not in that business, so I will not be able to help you out on that.

Deep Mehta: But as an insider, you -- obviously, you interact with the clients and you have a better idea about the...

Murad Moledina: No, no, we are focused on propane, and we see enough -- again, I'm saying, repeating, that energy transition, what you are talking about is cooking, right?

Deep Mehta: Yes, but that is still 90% of India...

Murad Moledina: We are actually talking about many wide applications of LPG as a gas where the government is doing it utmost. It is the only gas where government writes you a check. It is the only gas where government gives you first-time user first cylinder-free. It is the only gas where government is investing 100% in pipeline grids.

So there is enough push, enough, more than enough push. In fact, last 10 years has led to a fantastic change in the LPG growth story because of various initiatives taken by the government. So that's where I rest my case as far as propane is concerned. Enough on the ground, enough potential to grow and enough push by the government, continuous push, not onetime push.

Moderator: In the interest of time, this was last question. I would now like to hand the conference over to Mr. Raj Chandaria for closing comments.

Raj Chandaria: Thank you very much, and thank you for all your questions. I hope we have been able to answer most of them. Now in summary, all the developments that I outlined in terms of our expansion programs and the tanks that -- and storage facilities that we have brought online and we expect to bring online in the next year, really position us extremely well to continue executing on our mission, which is to store and distribute these bulk liquids and gases in a safe and sustainable manner. And while we do so, we also remain confident that we can deliver good financial results in FY '25 as well and into FY '26 as well.

So thank you so much to all of you for participating in this call, and we will speak next quarter. Thank you.

Murad Moledina: Thank you.

Moderator: On behalf of Orient Capital, that concludes this conference. Thank you for joining us, and you may now disconnect your lines.