AEGIS

September 17, 2021

To,

The Secretary,
Market Operations Department,
The BSE Ltd.
Phiroze Jeejeebhoy Towers,
Dalal Street, Fort,
Mumbai – 400 023.

Scrip Code: 500003

Capital Market Operations
The National Stock Exchange of India Ltd.
Exchange Plaza, 5th Fl., Plot No.C/1,
G Block, Bandra-Kurla Complex,
Bandra (E),
Mumbai – 400 051.

Scrip Code: AEGISCHEM

Dear Sir,

**Sub. : India Ratings Revises Aegis Logistics' Outlook to Positive; Affirms 'IND AA'**

We would like to inform you that India Ratings and Research (Ind-Ra) has revised Aegis Logistics Limited's (AELL) Outlook to Positive from Stable, while affirming its Long Term Issuer Rating at 'IND AA'. The Credit Rating release is enclosed.

Kindly take the same on your record.

Yours faithfully,
For AEGIS LOGISTICS LTD.

MGandhi

MONICA GANDHI
COMPANY SECRETARY

Encl.: As Above

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India Ratings & Research
A Fitch Group Company

# India Ratings Revises Aegis Logistics' Outlook to Positive; Affirms 'IND AA'

**16**

SEP 2021

By Aishwarya Arora

India Ratings and Research (Ind-Ra) has revised Aegis Logistics Limited's (AELL) Outlook to Positive from Stable, while affirming its Long-Term Issuer Rating at 'IND AA'. The instrument-wise rating actions are as follows:

| Instrument Type | Date of Issuance | Coupon Rate | Maturity Date | Size of Issue (million) | Rating/Outlook | Rating Action |
|---|---|---|---|---|---|---|
| Term loans | - | - | FY22 | INR1,620 (increased from INR1,490) | IND AA/Positive | Affirmed; Outlook revised to Positive from Stable |
| Fund-based working capital facilities | - | - | - | INR98.2 | IND AA/Positive | Affirmed; Outlook revised to Positive from Stable |
| Non-fund-based facilities | - | - | - | INR3659.8 (reduced from INR3,859.8) | IND AA/Positive/IND A1+ | Affirmed; Outlook revised to Positive from Stable |
| Proposed term loans | - | - | - | INR1,820 (increased from INR1,750) | IND AA/Positive | Affirmed; Outlook revised to Positive from Stable |

Ind-Ra continues to take a consolidated view of AELL and its subsidiaries, given the integrated nature of their operations, the strong strategic linkages and the fungibility of cash flows among them.

The Positive Outlook reflects Ind-Ra's expectation of an improvement in the company's scale of operations post the formation of the joint venture (JV) with Royal Vopak N.V (Vopak) and the completion of the ongoing capex.

The JV company, which is to be named Aegis Vopak Terminals Ltd (JVCo, AVTL), will be 51% owned by AELL and 49% by Vopak, and will involve a transfer of a part of operational terminals (detailed below) of AELL and Vopak to the new JV, consolidated under AELL. Ind-Ra has been assessing AELL based on its consolidated financial profile. As per the management, even after the transaction, AELL will consolidate AVTL given the majority ownership. However, given the stake sale, AELL, the holding company is likely to receive INR27.66 billion pre-tax which would shore up the liquidity buffers meaningfully. The management expects AELL to draw upon the expertise of Vopak and see an accelerated growth through investments in new areas such as the handling of new gases and liquids, large-scale industrial storage complexes and renewable energy, among others. AVTL is likely to take up additional projects and could see a higher leverage as the scale of the project increases. Given the growth ambitions, Ind-Ra will continue to monitor the capex developments and the leverage that could follow.

## KEY RATING DRIVERS

**Formation of JVCo by FYE22:** The transaction would involve the transfer of AELL's current portfolio of terminals (operational and under-construction), except for the Mumbai liquid and gas terminals. Vopak's existing 100% subsidiary CRL Terminal Private Limited in Kandla will also become a wholly-owned subsidiary of AVTL. Japan-based ITOCHU Corporation will continue to hold 25% in Haldia gas terminal, while AELL's stake will reduce to 51% as Vopak will own 24%. Also, the liquefied petroleum gas (LPG) retailing and sourcing business ownership will remain unchanged. The deal is likely to be completed by FYE22 and AELL is likely to receive 75% of the consideration by FYE22, and the balance after three years. The companies have received board approvals; however, other statutory approvals including shareholder approvals, transfer of licenses, among others, are pending.

**Scale of Operations to Improve Substantially; Diversification to Improve:** AELL's management has highlighted that the JVCo, over FY23-FY27, will incur a cumulative capex of INR25 billion-45 billion, indicating an annual capex run rate of over INR6 billion-7 billion which is much higher than the historical levels (FY21: INR3.6 billion, FY20:INR1.5 billion). The higher capex could be towards large projects such as new LPG terminal in South India, significant capacity expansion at the existing terminals, inland depots, and multi-modal evacuation infrastructure at ports or for setting up large industrial terminals. Additionally, the JVCo will explore storage of new gases such as ammonia, butadiene, liquified natural gas (LNG), and propylene, among others, which Vopak has expertise in handling. Over the long term, the company could explore other opportunities in renewables. Ind-Ra believes that upon operationalisation, the scale of operations will improve materially. Additionally, the operations will be further diversified, which would bode well for the overall business profile of AELL.

AELL operates in the liquid logistics (LL) and gas business segments. The gas business is further subdivided in to sourcing (GS), logistics (GL) and distribution (GD) segments. While the GS business contributes the highest to the overall revenue (about 80%), it is the lowest-margin generating business, earning a fixed dollar spread.

In contrast, the LL and GL businesses operate on service revenue and margins, which depend on the nature of liquids handled and the throughput generated from a terminal, respectively. Furthermore, AELL has plans to increase the GD business by incurring capex for additional bottling plants and new auto LPG stations by way of franchising.

Ind-Ra believes the growth areas highlighted by the company have sound growth potential over the medium-to-long term; however, the agency will assess these more closely once firm capex plans are disclosed by the company. Additionally, the impact of the capex on the credit metrics will continue to be a key monitorable.

**Favourable Industry Dynamics with Competitive Advantage:** India consumed around 27 million tonne (mmt) of LPG in FY21, of which around 55% was imported. AELL catered to around 20% of the total imported LPG volumes. Ind-Ra expects a bulk of the incremental demand in LPG to be fulfilled by imports as the domestic production has stagnated at 12mmt-13mmt. AELL's competitive advantage stems from a high throughput of 90x-100x its static capacity in the LPG handling business, which ensures a low per metric tonne (mt) capex of INR850-1,000 calculated on the throughput capacity. Even in the LL segment, the capex/kilo litre remains low at around INR700. Furthermore, the strategic location of the terminals and the availability of evacuation modes enable the company to continue to attract traffic to the company's terminals. Ind-Ra expects the future capex also to be cost competitive given the experience of both AELL and Vopak.

AELL also has longstanding ties with large clients including oil marketing companies. Moreover, the company's association with ITOCHU Corporation helps it in the GS division.

EBITDA to Improve: AELL's EBITDA (excluding the non-cash employee stock option expenses) remained robust at INR1.05 billion during 1QFY22 (1QFY21: INR674 million; FY21: INR4.9 billion; FY20: INR5.1 billion), despite the impact of the second wave of COVID-19 that resulted in lower volumes handled by the gas segment at 870 thousand metric tonnes (tmt) in FY21 (FY20: 1,861tmt), 2,913tmt (3,025tmt); 115tmt (165tmt) for GS,GL and GD, respectively. AELL's EBITDA margin, excluding the expense related to employee stock purchase plan, expanded to 12.6% in FY21 (FY20: 7.2%), driven by a decline in the share of low-margin GS businesses. The margins were aided by margin expansion in the liquid terminalling segment to 74% (FYE20: 67%), and the gas segment to 10% during FYE21 (FYE20:6.1%).AELL enters into back-to-back contracts with customers and suppliers for the GS segment; these contracts have common price, quantity, forex rate and credit period terms. In the GD segment, LPG imports are fully hedged by way of forward contracts.

Ind-Ra expects the EBITDA level to improve to around INR6 billion in FY22, driven by the improvement in the GD business and the operationalisation of the under construction terminals - Kochi (2HFY22) and Pipavav (2QFY22). With the completion of the transaction, an additional EBITDA of around INR200 million could also be added from Vopak's CRL terminal. The management has indicated that post the deal completion, AELL will be able to generate a total EBITDA of INR7 billion (assuming full year operations of the current under construction terminals), of which INR3.5 billion will be from AELL standalone (FY21: INR2.9 billion) and INR2.5 billion will be from the assets transferred to the JVCo (INR1.9 billion). However, the agency believes delays in new capacities coming on stream or a lower-than-expected pickup in the demand or utilisation of terminals could impact the margin profile. EBITDA growth drivers over the medium-to-long-term will remain dependent on the nature and timelines of the future capex.

**Liquidity Indicator – Superior:** AELL continued to have a high cash and cash equivalent of INR2.97 billion in FY21 (FY20: INR2.3 billion). The gross debt increased to INR4.1 billion at FYE21 (FYE20: INR2.5 billion), in line with the higher capex. The total debt at FYE21 comprised a long-term loan of INR884 million (FYE20: INR860 million), a short-term borrowing of INR1.3 billion (INR731.9 million), supplier's credit of INR1.34 billion (INR246 million) and buyer's credit of INR585 million (INR692 million). AELL has scheduled repayments of INR2.5 billion in FY22, including the short-term loans. The company also has a lease liability of INR28.8 billion (INR28.8 billion) with annual lease rental of INR36 million. AELL's cash flow from operations improved to INR4.4 billion in FY21 (FY20: INR1.5 billion), led by an improvement in the receivables, which reduced to INR942 million (INR4.5 billion), despite a reduction in payables to INR747 million (INR4.02 billion). The dividend payout was lower at INR486 million in FY21 (FY20: INR866 million). AELL's liquidity is also supported by the availability of INR98.2 million fund-based working capital lines which remain unutilised at end-July 2021.

Ind-Ra expects the liquidity to improve further in FY22, led by the cash inflows from the execution of the JV deal. However, given the growth ambitions, the liquidity will be dependent upon the capex developments and the future debt tie-ups for the same.

**High Capex to impact Credit Metrics over Medium Term:** AELL's credit metrics remained strong with the net leverage (net debt including lease/EBITDA) of 0.9x in FY21 (FY20: 0.5x) and the interest coverage(operational EBITDAR/finance cost) of 28x (15.6x). The debt/equity also remained conservative at 0.4x in FYE21 (FY20: 0.3x). Additionally, the credit metrics at FYE22 are likely to improve substantially due to a limited capex of around INR1.5 billion, which includes the balance capex on ongoing projects and some capex on the GD business network expansion and the availability of around INR20 billion cash balances from the deal.

Ind-Ra expects the company's capex plans FY23 onwards to have a negative impact on its credit metrics over the medium term. However, Ind-Ra draws comfort from the agreement between AELL and Vopak, specifying that the JVCo's gross leverage(gross debt/EBITDAR) will not exceed 3.5x and it will maintain a debt/equity ratio of less than 0.6x. Ind-Ra will monitor the impact of the capex on the company's credit profile.

## RATING SENSITIVITIES

**Positive:** A sustainable improvement in the consolidated margins, driven by AELL's business profile shifting to higher-margin business, along with a significant improvement in the capacity utilisation and geographical spread, while maintaining the credit metrics could be positive for the ratings.

**Negative/Outlook Revision:** Significant delays in the ongoing project completion, and/or delays in the pick-up in volumes and/or lower-than-expected margins, impacting EBITDA generation from the ongoing business and/or significant debt-led capex leading to higher-than-expected deterioration in the credit metrics could lead to the Outlook being revised back to Stable.

## COMPANY PROFILE

Incorporated in 1956 and listed in 1978, AELL operates a network of bulk liquid and LPG terminals, filling plants, pipelines and gas stations.

**FINANCIAL SUMMARY**

| Particulars | FY21 | FY20 |
|---|---|---|
| Revenue (INR billion) | 38.4 | 71.8 |
| EBITDA (INR billion) | 4.8 | 5.2 |
| EBITDA margin (%) | 12.6 | 7.2 |
| Gross interest coverage (x) | 28 | 16.0 |
| Net financial leverage (x) | 0.92 | 0.59 |
| Source: AELL (consolidated), Ind-Ra | | |

## RATING HISTORY

| Instrument Type | Current Rating/Outlook | | | Historical Rating/Outlook | | |
|---|---|---|---|---|---|---|
| | Rating Type | Rated Limits | Rating | 31 August 2020 | 24 June 2019 | 9 April 2018 |
| Issuer rating | Long-term | - | IND AA/Positive | IND AA/Stable | IND AA/Stable | IND AA/Stable |
| Term loans | Long-term | INR3,440 | IND AA/Positive | IND AA/Stable | IND AA/Stable | IND AA/Stable |
| Fund-based working capital facilities | Long-term | INR98.2 | IND AA/Positive | IND AA/Stable | IND AA/Stable | IND AA/Stable |
| Non-fund-based facilities | Long-term/Short-term | INR3,659.8 | IND AA/Positive/IND A1+ | IND AA/Stable/IND A1+ | IND AA/Stable/IND A1+ | IND AA/Stable/IND A1+ |

## BANK WISE FACILITIES DETAILS

Click here to see the details

## COMPLEXITY LEVEL OF INSTRUMENTS

| Instrument Type | Complexity Indicator |
|---|---|

| | |
|---|---|
| Term loans | Low |
| Fund-based working capital facilities | Low |
| Non-fund-based facilities | Low |

For details on the complexity levels of the instruments, please visit https://www.indiaratings.co.in/complexity-indicators.

## SOLICITATION DISCLOSURES

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## Applicable Criteria

Corporate Rating Methodology
Short-Term Ratings Criteria for Non-Financial Corporates

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