Aegis Logistics Notes

By: Ankit George
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Introduction

Our vision is to be India's leading provider of logistics services to the oil, gas, and chemical industry. We aspire to be the industry leader in our business segments by delivering superior customer service and a focus on quality, safety, and environmental standards.

The Group has five distinct but related business segments, and operates a network of bulk liquid handling terminals, liquefied petroleum gas (LPG) terminals, filling plants, pipelines, and gas stations to deliver products and services. Our client base includes many leading industrial companies in India as well as individual retail customers whom we serve at our Aegis Autogas stations.

The Business

- Liquid Logistics
    - **Aegis Group owns and operates a network of shore based tank farm installations for the receipt and handling of bulk liquids.**
    - These terminals are located in Mumbai, Kochi, Pipavav and Haldia, and are connected by pipelines to various berths for handling the export and import of hazardous chemicals, petroleum products, and petrochemicals.

- Gas Logistics
    - **Aegis Group is a leader in the sourcing, shipping, and distribution of LP gases (LPG and propane) into India.** The group handles more than 700,000 MT of LPG per annum and expects this to continue rising as India's demand for energy increases.
    - Services offered include complete supply chain management from product planning, sourcing, and shipping, through to receipt, storage, and despatch by pipeline and tankers to the point of consumption.
    - **Aegis delivers both pressurized and refrigerated cargoes to several major ports on the coastline of India, including at its own LPG terminals in Mumbai and Pipavav**

- EPC Services
    - Aegis launched its Engineering, Procurement, and Construction (EPC) Services Division in response to the growing trend of outsourcing in the oil and gas sector. The mission of this division is to provide to third party clients, the full range of expertise deployed by Aegis in its own Liquid Terminals and Gas Terminals division, but on an outsourced basis. This ranges from building storage and distribution installations, to operating and maintaining them.
    - Aegis is able to offer a turnkey solution for 'new build' oil, products and LPG storage, and distribution installations. We have the required expertise to design, engineer and build facilities to international standards.

- Retail LPG
    - Liquefied Petroleum Gas (LPG) is an excellent energy source because of its availability, portability, environmental benefits, and versatility. The LPG Retail business includes the two distinct business divisions being managed under one roof. These are:
        - **Auto LPG Retailing** through exclusive world class Autogas Dispensing Stations (ADS), and;
        - **Packed LPG Cylinder Distribution** for Commercial, Industrial and Domestic LPG supply direct to accounts and through a network of distributors.

- Marine
    - **Aegis launched its Marine Products Division in January 2012. Its mission is to provide quality bunker fuels to ships calling at Indian ports**, and its Customer Value Proposition is to service the fuel requirements of ships in a timely, environmentally responsible, and cost effective manner, while ensuring high quality standards (conforming to MARPOL Annex VI).
    - A key advantage for Aegis is its ability to leverage its existing tank farm infrastructure and waterfront operations management at various ports in order to provide flexible and timely refueling services to ship owners and charterers.

Financials

Income Statement

- Market Cap – 7431cr
- P/E – 24.97
- ROCE – 16.57% – 6% to 25% from 2010 to Present
- Market Cap/Sales – 1.92
- Sales – 635cr (Sep 21), 678cr (Jun 21) – range of 636cr to 2169cr from Dec 18 to Sep 21
    - *The revenue figures do not account for other revenue, just revenue from operations
- NI – 94cr (Sep 21), 67cr (Jun 21) – range of -41cr to 2169cr from Dec 18 to Sep 21
    - *NI attributable to owners of the company, and does not include non-controlling interest

Balance Sheet

- Cash and cash equivalents – ₹315cr (Sep 21), ₹297cr (FY21), ₹222 cr (FY20)
    - The businesses the company is in, barring any macroeconomic issues, will be consistent positive cash flow generators.
- They don't have much in the way of large borrowings. In fact, their largest non-current liabilities are lease liabilities, not loans.
- Credit Rating - CARE has continued to assign a short term credit rating of CARE 'A1+' and a long term rating to CARE AA. Ind-Ra has continued to assign the short term credit rating of IND 'A1+' and Long Term Issuer Rating of 'IND AA'. The outlook is Stable.

Breakdown by Business

AEGIS LOGISTICS LIMITED

STATEMENT OF UNAUDITED CONSOLIDATED SEGMENT INFORMATION FOR THE QUARTER AND HALF YEAR ENDED SEPTEMBER 30, 2021

(Rs. in Lakhs)

PARTICULARS	Quarter ended			Half year ended		Year ended
	30.09.2021	30.06.2021	30.09.2020	30.09.2021	30.09.2020	31.03.2021
	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	Audited
Segment Revenue						
Liquid Terminal Division	6,432	6,603	5,644	13,035	11,182	23,428
Gas Terminal Division	57,092	61,203	59,392	118,295	117,494	360,918
Net Sales / Income from Operations	**63,524**	**67,806**	**65,036**	**131,330**	**128,676**	**384,346**
Segment Results						
Liquid Terminal Division	3,655	3,924	3,028	7,579	6,111	13,609
Gas Terminal Division	9,305	5,673	7,678	14,978	14,581	32,627
	12,960	**9,597**	**10,706**	**22,557**	**20,692**	**46,236**
Less: Finance Cost	355	406	407	761	873	1,731
Less: Other un-allocable expenditure (net)	1,025	872	2,177	1,897	7,124	13,141
Add : Interest Income	811	714	562	1,525	999	2,196
Profit before tax	**12,391**	**9,033**	**8,684**	**21,424**	**13,694**	**33,560**
Segment Assets						
Liquid Terminal Division	128,300	130,368	126,520	128,300	126,520	135,179
Gas Terminal Division	164,412	149,617	131,969	164,412	131,969	140,614
Unallocable	31,572	33,124	31,889	31,572	31,889	32,422
Total	**324,284**	**313,109**	**290,378**	**324,284**	**290,378**	**308,215**
Segment Liabilities						
Liquid Terminal Division	17,833	18,733	27,851	17,833	27,851	29,586
Gas Terminal Division	31,282	29,948	38,948	31,282	38,948	20,838
Unallocable	14,494	13,942	11,668	14,494	11,668	11,597
Total	**63,609**	**62,623**	**78,467**	**63,609**	**78,467**	**62,021**
Capital employed						
Liquid Terminal Division	110,467	111,635	98,669	110,467	98,669	105,593
Gas Terminal Division	133,130	119,669	93,021	133,130	93,021	119,776
Unallocable	17,078	19,182	20,221	17,078	20,221	20,825
Total	**260,675**	**250,486**	**211,911**	**260,675**	**211,911**	**246,194**

- Clearly, the focus and future opportunities for growth is in the gas terminal division

External

https://theprint.in/economy/for-the-first-time-lpg-sold-more-than-petrol-in-india-in-2020/583731/

- For the first time, LPG sold more than petrol in India in 2020
- India has been encouraging wider adoption of LPG to replace the more polluting coal and firewood in a bid to clean up one of the world's most toxic air.
- Motor fuel demand, however, is expected to regain its long-standing position this year as India's second most consumed oil product after diesel as drivers hit the roads again.

https://www.financialexpress.com/industry/indian-oil-expects-100-refinery-run-in-a-quarter-as-fuel-demand-returns/2355265/

- Petrol and cooking gas LPG demand is already above pe-Covid levels and diesel — the most consumed fuel in the country — is inching back to normalcy

https://www.woodmac.com/press-releases/india-to-overtake-china-as-worlds-largest-lpg-residential-market-by-2030/

- India to overtake China as world's largest LPG residential market by 2030

- LPG demand in the residential sector will continue to see sustainable growth at a cumulative annual growth rate (CAGR) of 3.3%, reaching 34 million tonnes (Mt) in 2030 as households' dependence on solid biomass diminishes in the long run supported by rising average household incomes and urban population.

https://www.spglobal.com/platts/en/market-insights/latest-news/electric-power/071321-aegis-vopak-to-jointly-operate-8-lpg-terminals-in-india

- Aegis, Vopak to jointly operate 8 LPG terminals in India
- Aegis Group and Dutch tank storage company Royal Vopak is forging a joint venture to operate a network of eight terminals in five strategic ports on India's east and west coasts with total capacity of around 960,000 cu m, making it one of the country's largest independent tank storage companies for LPG and chemicals
- **This joint venture with Vopak will accelerate the growth of Aegis in the terminals business and has the potential to allow Aegis to diversify into new areas of gas storage such as LNG** and other energy projects, **including renewables** in partnership with the world's leading independent tank storage company

Thoughts

On a very high level, I would avoid companies like this. Personally, I have sworn off commodity companies, whether they're upstream (extraction/mining/drilling) or midstream/downstream (refining/transportation/distribution) because of the cyclicality of the industry which includes supply and demand variations, price and margin variations, and upper limits on margins. The only exception is if it's a recession, and you're buying at the bottom, so to speak.

Additionally, in this industry, integrated oil companies have their toes in every business that Aegis operates in, and though they might not go in deep, there's nothing specifically unique that Aegis does. For example, to satiate the LPG demand in India, Shell and Reliance could collaborate on a new LPG terminal and distribution network tomorrow, and wouldn't need Aegis for any inputs. And given how large oil and gas companies are making inroads into "cleaner fuels," like LPG and LNG, this is something to watch out for.

That being said, I really like that Vopak, a giant in the independent tank storage industry is partnering with Aegis. It's a sign that they have assets and future opportunities that Vopak considers worth buying into. Companies in this industry differentiate themselves by:

- Being excellent negotiators
- Being super-efficient operators,
- The quality of their overall asset base (including their distribution network), and
- The stability/growth of their customer relationships

So there's something that Aegis is doing well, though to be honest I can't specifically pinpoint what that may be at this stage. What is clear is that with this partnership Aegis will have a bigger war-chest to dip into for expansion, will enjoy better economies of scale, and will be able to enjoy a bit of margin expansion in their business.

Financially, their valuation isn't crazy, and I didn't see any cause for concern in their balance sheet. However, they really have to hit 1500cr or higher in quarterly revenue, somewhat consistently, if they want to see a stock price in the high 300s range again (which I believe they will). But what I am unsure about is their ability to generate a consistent 10-15%

revenue CAGR and a 20-30% profit CAGR in the medium term, the foundations for a textbook “multi-bagger.”

If I were you (and I don’t know your cost basis), I would hold, since I don’t see any red flags so to speak, but I have questions about the upside as well, given that Aegis is in many ways in “yesterday’s businesses”. However, with the recovery in hydrocarbon demand, sustained future LPG demand growth, and with the possible synergies, margin expansion and new business opportunities with Vopak, I can see you getting back to your cost basis, and enjoying moderate growth after that.