“Aegis Logistics Limited Q4 FY17 Earnings Conference Call”

May 31, 2017

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Moderator: Ladies and gentlemen, good day and welcome to Aegis Logistics Limited Q4 FY17 Earnings Conference Call. This conference call may contain forward-looking statements about the company, which are based on the beliefs, opinions and expectations of the company as on the date of this call. These statements are not the guarantees of future performance and involve risks and uncertainties that are difficult to predict. 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 In case you need assistance during the conference call, please signal an operator by pressing * then 0 on your touchtone phone. Please note that this conference is being recorded.

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

Anish Chandaria: Thank you very much. Today, I will be presenting the Q4 results for Aegis for FY17, as well as the annual results, and I will also cover the announcement today of a new deal with ITOCHU from Japan for Haldia project.

Total revenues for Q4 were Rs. 1,269 crores versus Rs. 437 crores year earlier, that's a rise year-on-year of 190%. Total segment EBITDA for Q4 was Rs. 64.1 crores versus Rs. 62 crores year earlier, a rise of 3.4%. Profit before tax was Rs. 43.3 crores in Q4 versus Rs. 42.4 crores year earlier and profit after tax for the Group was Rs. 32 crores versus Rs. 34 crores year earlier. So, an overall steady set of results for Q4 rather than anything spectacular, but now we are really waiting for our major projects to come on stream from Q2 FY18, this current year onwards, for the next jump in profits. Let me now discuss the annual figures for FY2016-'17 versus FY16, the year earlier. The revenues for 2016-'17 financial year were Rs. 3,938 crores versus Rs. 2,213 crores year earlier, so that's a rise of 78% year-on-year. Total segment EBITDA for the year was Rs. 246 crores versus Rs. 225 crores year earlier, that's a rise of 9%. Profit before tax was Rs. 172 crores for the year versus Rs. 153 crores year earlier, that's a rise of 12%, and net profit after tax for the year was Rs. 134 crores versus Rs. 126 crores year earlier, rise of 6%.

Going into the underlying figures for the year, we have the two divisions. First, let me start with the liquid terminal division. Liquid terminal division revenues for FY17 were Rs. 154 crores versus Rs. 170.6 crores year earlier. So, there was a drop in revenues of 10% in this division, mainly because of the underperformance of our Pipavav liquid terminal, and the EBITDA was Rs. 90.7 crores for FY17 versus Rs. 102.4 crores year earlier. For our gas division revenues in FY17 were Rs. 3,779 crores versus Rs. 2,043 crores year earlier. EBITDA for the year FY17 was Rs. 155 crores versus Rs. 123 crores, a rise of 26% year-on-year.

Let me now go through the LPG volumes analysis for the year FY17 versus FY16, which gives a very clear picture of what's been going on in our gas division. Let me start with the LPG throughput volumes for the year, for our two terminals Mumbai and Pipavav. In FY17, the total throughput volume for the year was 1.350 million metric tonnes. So, 1.350 million metric tonnes versus 0.979 million metric tonnes a year earlier. That's a year-on-year rise of 38% and this is a record volume for Aegis. With 1.350 million tonnes it really hits the target bang on that we had set at the beginning of the year. At the beginning of the year I had talked about reaching around 1.4 million tonnes and we have almost reached that. Sourcing volumes for gas, we achieved 1.04 million tonnes just over a million tonnes for FY17 versus 0.518 million tonnes year earlier. So, that's a year-on-year rise of 100%. And this also hits the target for the year that I have set of around 1 million metric tonnes, set at the beginning of the year.

As you recall, I said that we had one major contracts with BPCL, HPCL and, of course, all the other customers. So, we hit the target for AGI, Aegis Group International in Singapore of 1 million tonnes. Our Packed LPG Cylinders business under the brand name Aegis Puregas, we achieved 12,521 metric tonnes for the year FY17 versus 11,904 metric tonnes year earlier, that's a rise of 5.2%. These are the large cylinders which mostly go to the commercial LPG market as well as restaurants and small scale industry. Our bulk industrial LPG sales did very well 23,539 metric tonnes versus 16,719 metric tonnes year earlier, that's a rise of 41% in the bulk LPG industrial sales that we do. And the Aegis Auto Gas business, we reached 23,217 metric tonnes versus for the year FY17 versus 21,680 metric tonnes, a rise of 7.1% in sales volume. So, all the LPG segments were growing and contributing to the bottom line, last year, resulting in the good increase in our gas division EBITDA.

Now let me cover the outlook for the year ahead. That is the FY18 and also a project update and also talk about the deal announcement that we made today as far as ITOCHU is concerned. Again, let me start with the outlook for the liquid terminals division for FY18, while this division has seen weaker results last year, as I discussed, the new capacity coming on stream, this year FY18 should boost revenues and earnings. Firstly, out of the new capacity in Kandla port, of 100,000 kiloliters, I can now confirm that the first 37,000 kiloliters of that project, we expect to commission by July 2017. In other words, in the next few weeks. And the balance of the capacity, we expect to commission by the end of quarter two of FY18. There is also Haldia liquid project of 25,000 kiloliters, which we expect to commission by Q2 FY18. And lastly, we are still working hard to generate more petroleum revenues at Pipavav. Unfortunately, we have still not been able to reach an understanding with Gujarat Pipavav Port Limited on the rail connectivity. In principle we have reached an understanding, but the details, particularly the technical details are still being negotiated and we have not been able to conclude those discussions. We're working hard to do that, but that will still take some time, but I think that the Kandla and Haldia capacity expansion along with very strong business in Mumbai terminals and the existing terminal in Haldia and Kochi these are all doing well. So, with the exception of Pipavav liquid, we expect the new capacity in Kandla and extra capacity in Haldia to boost the revenues and earnings for the liquid terminal division.

As far as the gas terminal division outlook is concerned for FY18, clearly this is going to be driven by the new capacity, which is coming on stream, the new projects which are coming on stream in FY18. For example, the Pipavav expansion of six new LPG spheres totaling up to

10,200 metric tonnes of new capacity, we expect to commission this by the end of Q2 of FY18. As far as the Haldia project is concerned, the main big project that we have in Northeast India, the 25,000 metric tonne project, the latest update is that the project is on track to commission at the end of Q1 of this year. In other words, we expect revenues and profits really to kick in for this major new project in quarter two of FY18. So, these two new capacities coming on stream is really expected to be the driver of profit growth, not only for our gas division, but Aegis as a whole given the size and scale of these two projects.

Now let me cover the ITOCHU deal announcement of this morning. You have seen the investor release that we have reached an understanding with ITOCHU of Japan, that they will acquire new shares and take a 19.7% stake in our subsidiary HALPG called Hindustan Aegis LPG, which is the Aegis subsidiary which is developing and building the LPG terminal in Haldia, which I just discussed. So, ITOCHU's interest was to take a equity stake in this project. The deal is still subject to the final agreement and approval by the Aegis Board as well as the normal regulatory approvals. But we expect the deal to complete around July 2017, which is roughly the time that we would be expecting to commission this project. As per the investor release details, ITOCHU, will be investing Rs. 250 crores roughly US$39 million. And Aegis will be using part of these funds from ITOCHU to significantly accelerate the building of our next two LPG terminals, which will most likely be on the West Coast of India. So, that is really the use of this fund that we will be partly using it to significantly accelerate the building of our next two projects. The significance of this deal with ITOCHU is that this is Phase II of the joint venture with ITOCHU. Phase I as some of you remember was in 2014, which was to start a joint venture in Singapore to supply LPG into the Indian market from Singapore, and that was the joint venture that we started in 2014 with ITOCHU in Aegis Group International Singapore. This deal proposal today represents the start of Phase II of our joint venture with ITOCHU where they actually take stake in the Aegis LPG terminal infrastructure in India. In this case, one terminal in Haldia. And this Joint Venture will enable Aegis both in the supply as well as the one of the projects to grow the LPG business in every region of India from the northeast to the northwest and south India. So, this is the significance of the deal that ITOCHU is now going to be actually entering into the Indian LPG infrastructure with Aegis together. And this will enable Aegis to significantly expand the LPG throughput business in the whole country.

Too Juicy A PATTERN !

Future Strategic deals in pipeline ??

Repeatability ??

So, to summarize, this was a steady set of results for Q4 FY17. The next jump in earnings, however is expected from Q2 of FY18 when the new project in Haldia and Kanlda has commissioned and in Q3, we expect to commission the major expansion of LPG at Pipavav with the additional capacity, over there that which I have mentioned. And as I said the proposed deal with ITOCHU for 19.7% stake in the Haldia LPG project. Once this deal is completed, this will significantly speed up Aegis's next phase of expansion in the LPG business specifically for the next two LPG terminals.

I can now take some questions.

Moderator: Thank you very much. Ladies and gentlemen, we will now begin with the question-and-answer session. We have the first question from the line of Sandeep Mathew from SBI CAP Securities. Please go ahead.

Sandeep Mathew: Could you give us some broad contours on the valuation methodology that was used to arrive at the valuation for this particular deal, sir? The reason I ask this is because this will practically sets the benchmark for any future transactions that we may end up doing. So, any color on that would be very helpful?

Anish Chandaria: Yes, I can do that. The negotiation which we carried out with ITOCHU in Haldia on the valuation, was based on discounted future cash flows of this project, taking into account number of years of projections which is around 10 years of future cash flow projections. And as you rightly said if they are taking a 19.7% stake, which was valued at 250 crores, if you use that then you can really see what is the equity value that is being put on this project. I think what I would say is that, it's a good valuation, obviously there was a good amount of negotiation between us and ITOCHU, but I think everybody would agree that this is a good, strong valuation of our business and it is because it's a strategic investor who has fully recognized the kind of growth profile that is going to take place in the Northeast region for LPG and that's why I think they agreed this excellent valuation based on discounted future cash flows.

Unlikely for KANDLA?

8Mn { 4Mn Kandla / 4Mn MUNDRA

Combined Demand?

NE Virgin territory Fastest Growth

Sandeep Mathew: Okay, thank you, sir. The other question was, sir, what is the debt on Aegis Haldia subsidiary level, so this also I'm assuming gets transferred, I mean, yes, what is the debt on the Haldia subsidiary?

Anish Chandaria: Murad, would you like to take that off?

Murad Moledina: Yes, the debt as of the date of balance sheet is Rs. 31 crores.

Sandeep Mathew: This is for Haldia alone, right sir?

Murad Moledina: Yes, this is for Haldia, but then most of the debt, is outside debt. The part would be in current liabilities for the CAPEX purchases. So that would appear in current liabilities.

Sandeep Mathew: Sir, I'm just trying to arrive at an EV, for the deal. So, when you mentioned the equity have you…?

Murad Moledina: This is the EV.

Sandeep Mathew: So, the net debt is Rs. 31 crores on non-Haldia subsidiary?

Murad Moledina: Correct. And that also would be of the holding company. So, no, outside debt as such as of 31st March.

Sandeep Mathew: Okay. Sir, does this include the Liquid Tank farm capacity as well or is that separate?

Anish Chandaria: No. This is a pure LPG investment because the liquid terminal of Haldia, we have that in Aegis Logistics Limited. This LPG project is being built by Hindustan Aegis LPG, which is currently 100% subsidiary of Aegis, because ITOCHU has no interest in taking investment in the liquid business. So, they are taking a investment purely in the LPG Terminal in Haldia, which is housed in Hindustan Aegis LPG.

Sandeep Mathew: Sure. That's helpful. Sir, and just coming to your results. So, based on the volume numbers you just disclosed. There seems to be a fairly good jump when I look at just Q4 numbers on the LPG side vis-à-vis last year Q4 FY16, but despite that, we have actually seen our EBITDA decline fairly sharp. So, what explains this divergence?

Anish Chandaria: Well, if I look at the Q4, which I did not read out, but I when I look at the annual results, if I look at the Q4 for the LPG division it was throughput business, you're right, 400,074 metric tonnes versus 308,005 tonnes earlier those margins are stable. As far as the sourcing business is concerned 277,629 metric tonnes which was versus 89,455. Those margins are stable that is from AGI, the sourcing volume, they are roughly $4 per tonne. So, I think it was the Auto Gas business, which is highly profitable. There was actually a change in government pricing for auto LPG and we follow that where they used to have the auto LPG pricing 40% cheaper than petrol. But in this quarter they have now started doing 50% cheaper than petrol. So, that had some impact on the profitability. So, that's the main reason, all the other segments margins were we expect that to continue. So, going forward, as far as the Auto Gas business is concerned, since we followed the pricing policy of the oil companies we expect that to continue with 50% rather than 40% cheaper than petrol.

Policy
Govt Pricing overhang Risks

Sandeep Mathew: Right, sir. So, if my math is right, then this Auto Gas segments had made a fairly meaningful loss this quarter, which is what has been dragging down the overall LPG segment EBITDA number?

Anish Chandaria: It did not make a loss, I can definitely say that. But there was lower margins in the Auto Gas business, and slightly lower margins also in the cylinder business etc., because of what I said. It is not make a loss though. But that's the main reason that we see. But going forward, what is really going to drive the operating profit EBITDA for the gas division, is more of throughput volumes. That's really the key. And it's really going to be a dramatic jump, which will really be boosting the earnings going forward, particularly from Haldia and Pipavav going forward. The margins are stable, as you know, we always talk about roughly Rs. 900 to Rs. 1,000 a tonne. That's been stable for many years. So, that's really what is going to drive the earnings going forward.

Stable 900-1000/T EBITDA
for LPG business

Sandeep Mathew: Right, Sir. And any guidance on the sourcing business. So your last year, mentioned that we would see a 50% jump, which we have actually done. So, it was very good of you to give a very accurate guidance. So, anything that you can highlight for FYI8, sir?

Anish Chandaria: I would not like to do that today, purely because I expect to maintain the kind of business this year for the West Coast India, that is particularly Mumbai, Pipavav and West Coast projects. The reason I will not give guidance today is that the Haldia terminal which is going to be commissioning in end of Q1 and start of Q2, obviously, there will be a negotiation as to what kind of sourcing can come into that. That is not yet done. So that, as you recall, we are talking, let's say from July onwards about possibly in the next nine months somewhere between 400,000 to 500,000 tonnes of throughput volume, how much that translates into sourcing business for AGI is what we will find out in the next few months of negotiations particularly with HPCL. So, it would be wrong for me to give a figure today, but what I'm implying is that the Haldia Northeast businesses is going to start, we would expect to see quite a big increase in the sourcing volumes this year because it's adding to the current base that we have on the West Coast.

B/Model Strength ??

Link between Terminal Capacity & Sourcing Tenders/Agreements

Moderator: Thank you. Mr. Matthew, we request you to join in the question queue for any follow-ups as we have several participants waiting for their turn. Thank you. We have the next question from the line of Pritesh Chheda from Lucky Investments. Please go ahead.

Pritesh Chheda: I want to draw your attention on slide 13 in your presentation which talks about the throughput capacity of about 5 million reported in FY18 and the bar next to it talks about number of…

Moderator: Sir, can you speak a bit loud please. We are unable to hear you clearly.

Pritesh Chheda: Yes, the bar next to it talks about 1.3 million in FY17 and coincidently that 1.3 million reflects your throughput volumes also for FY17. So, I just want to understand that, post the commissioning of capacity in Haldia and your erstwhile thought of reaching 2 - 2.5 million types volume, is that number now doable in FY18 itself. So, is the presentation talking about 5 million volume, possibility in FY18 itself or is it other way?

Anish Chandaria: No, it's the other way. This is my favorite slide of the whole presentation. Page 13, I have it memorized.

Imp.

Pritesh Chheda: Yes, sir, and I have got confused with that slide.

Anish Chandaria: Yes. So, let me explain to everybody who may have similar confusion. This is throughput capacity not actual sales volumes. So, we're not making a forecast of sales volume. Now, let me give you a concrete example. You mentioned 2016-'17. This is the year which we just completed in March. We had put the throughput capacity as 1.3 million tonnes. What I just read out is that actually we beat that. We we ended up doing actual sales volume. We ended up doing over 1.4 million tonnes, between Mumbai and Pipavav. So, the reason why we beat the capacity is that we actually ended up doing greater throughput in Pipavav than we had originally expected. And we ended up doing greater throughput in Mumbai as well than we had originally expected. So, that shows you that these are not sales volume figures, but these are capacities. Now, if you look at FY18, '17-'18, we have put a large jump in that throughput capacity up to 5 million tonnes, particularly because of the rise in throughput capacity of Pipavav once these new spheres come on stream as well as the Haldia terminal, which I just talked about, which from when it is commissioned it will have an in-built capacity to do up to 2.5 million tonnes per year.

Now, that totals up to 5 million tonnes, if you add up all the three terminals. That does not mean that we will do 5 million tonnes of sales volume that is just how much capacity we have available in these three terminals.

Pritesh Chheda: How much is doable in FY18 in your opinion and how much…?

Anish Chandaria: So, I won't give a very exact figure right now, because we are still obviously evaluating particularly with Haldia. But I would say that the Mumbai figure of around 1 million tonnes or 1.1 million tonnes that kind of capacity. I think we will end up doing that kind of volume. I think as far as Pipavav is concerned, at the moment we are probably looking at 1.4 million tonnes, we are probably somewhere in the range of 800,000 to 1 million tonnes. And as far as Haldia is concerned, I think, as I said, it's a little uncertain because we have to start the project. But, let's say, if we take it from July, which means essentially nine months, I think the indication we have from the main customer HPCL is somewhere in the region of half a million, 0.5 to 0.6 something like that.

So, but then, you can see year-on-year. That, for example, Haldia can't build-up to that kind of 2.5 million ton capacity over the coming years. But in the first year, which is really 9 month of operation, indication at the moment is around 0.5 million tonnes.

Pritesh Chheda: Okay. It still means that you are expecting about 2.5 to achieve in FY20 that's actually happening in FY18 about 2.5 to 2.6?

Anish Chandaria: Yes, I mean, what I guess, if you add up all the figures, we are expecting a big another dramatic jump in throughput volumes in FY18 because of Haldia coming on stream, because of greater throughput in Bombay and in Pipavav for sure and that means more profits. But that's not only for FY18, we expect it going up to 5 million tonnes, the year is more of a throughput volume increases going up towards that 5 million tonnes, but then I expect to build more terminal capacity as well, so that 5 million tonnes capacity will not remain static either.

Pritesh Chheda: So, you would do FY19, 5 million tonnes as a probability?

Anish Chandaria: Again, I would not want to speculate right now on exact volume figures going out so far ahead. What I'm saying is that, we are building in capacity in Haldia for 2.5 million tonnes. What year we exactly reach that 5 million tonnes is difficult to forecast because it very much depends, particularly on the oil companies marketing ramp up and distribution etc. But I would say that what we have been indicated by HPCL is that they would expect to reach that kind of 2.5 million tonne in Haldia within the next four or five years from today which means, I'm not making exact forecast, but giving you a rough idea, we're talking about probably reaching this kind of capacities in terms of sales volumes, probably about 4-5 years from now.

Pritesh Chheda: Okay. And second question, I wanted to draw your attention to slide number 10 and try to read it with Slide 13, where we have a certain import into the India number, which is at about 8.8. And we are building capacity already of five. And I was quite surprised you talked about another two terminals on West?

Anish Chandaria: I think, it's good that you have picked up on that, because I think.

Pritesh Chheda: Because then your market shares and all really look fairly large so?

Anish Chandaria: Yes, that's right. However, I think, that we will now possibly for the next time will be upgrading the import demand in this graph. Actually since this graph was made, I think, all figures have to be increased including the demand and import figures. And that is why based on the new demand forecast and the new import forecast, which are not in page 10 right now and I think, by the time we do this again, we will update it, which is why there is enough demand for the next two terminals to come up, and that's actually the oil companies request that, these terminals come up because they need it. So, the good news is that all of the demand forecast for India are much higher than was projected earlier because the penetration of LPG is increasing at a much more rapid pace because of new government schemes like the Ujjwala scheme for below the poverty line. And even in the Northeast, I have put down here 2.5 million tonnes capacity, even one year ago, we were not expecting this kind of capacity. It was one year ago, it was probably the HPCL was talking about maximum of 1.5 million tonnes imports into Northeast. However, things have changed. And so, I think, we would be probably looking to maintain around 25% to 30% market share of imports going ahead. And we will certainly update the forecast of demand in imports for the next investor presentation because, I think, whole industry is now upgrading.

Wow! PATTERN! CUSTOMERS asking you to put up capacity

25-30% M share imports

Moderator: Thank you. We have the next question from the line of Ashish Shah from Goldman Sachs. Please go ahead.

Ashish Shah: Sir, just wanted to understand two things. One, what would be the total construction cost of the Haldia LPG terminal, which ITOCHU is buying, 19% stake in the terminal?

Anish Chandaria: I think we have said very clearly that we had budgeted Rs. 250 crores for this Haldia LPG project.

Ashish Shah: Okay. And we have sold that 19% stake itself at Rs. 250. So, basically we have recovered the entire construction cost. Is it fair to say that?

Anish Chandaria: Yes, it is fair to say that. Exactly, right. But that's the valuation I talked about. Valuations are based on future discounted cash flows and obviously they have attached the strategic investor who know this business, has attached after a lot of negotiation with us and has attached a very high valuation on this project for the reasons, I gave.

Ashish Shah: Got it, got it. Sir, just one more thing. We have heard that OMCs are spending Rs. 20,000 to Rs. 30,000 crores on LPG and some of them are also planning to set up terminals. So, any view on the competitive intensity in the industry?

Anish Chandaria: Yes, I think, obviously all those announcements just show two things. One, is that the whole industry starting from the oil national companies is in a rush to build this LPG import capacity. Lots of announcements are being made because otherwise India is going to be short of import capacity, but I can tell you very clearly which I say every time, announcements are one thing, actual construction on the ground and what is realistic in terms of where people have land. I'm talking, including the national oil companies and how fast they are going etc. And including even in the private sector at the moment really Aegis is the only company, which is not only making announcement, it is actually building the capacity.

And this is very, very important because right now in this boom time it is the time to build import capacity. So, you will see lots of announcements including from the public sector. The question is how fast they build that capacity, whether they built that capacity and many other questions, but at least what we have tried to do as far as Aegis is concerned is we make announcements and then we actually build it in a very, very quick speed that is what Aegis has now become very well known for not only liquid terminals, but also LPG terminals and that's really why we are getting so much advantage in this LPG business because we are actually implementing our strategy very fast. And sometimes these other projects actually do not come up because if have built the LPG capacity already then sometimes we're able to persuade them, saying look, why don't you just use our terminals rather than building another one, something like that.

So, at the moment, of course, competition is always there, but at the moment, I think, Aegis is very much years ahead of the competition. In terms of getting land at the right price, the deep-water ports where the LPG can come in and getting the environmental permits in place and then going ahead with the construction. The significance of the ITOCHU deal announcement that we are saying today is that this is going to speed up Aegis's process even further because the infusion of these funds is only going to speed up our process of building the next couple of LPG terminals. And that is why we were also interested for ITOCHU to come in over here.

Ashish Shah: Got it,. It makes sense. Just one thing, sir you had also mentioned that you're looking on the West Coast to build a couple of more terminals. So, any specific location or it would be a brownfield or a greenfield project?

Anish Chandaria: They will both be greenfield projects. And, in fact, as I have often said, in earnings calls as well as in one-on-one investor meetings that we have already identified where those terminals are going to be in terms of which ports. But since the negotiations are not over with the marketing company, oil companies. I'm not ready to disclose those locations today. But at least I can say they're going to be on the West Coast.

West Coast
New Terminals

Moderator: Thank you. We have the next question from the line of Shaleen Kumar from UBS. Please go ahead.

Shaleen Kumar: So, my question sir, if I read it correctly. So, this money which is coming in lieu of fresh equity share, which effectively means that money is coming into the subsidiary. Is my understanding, correct?

Anish Chandaria: Murad, do you want to explain how exactly how it is structured?

Murad Moledina: Yes. The money will come into the subsidiary because it's subscription of shares.

Shaleen Kumar: Right, sir. So, does that mean that this subsidiary will be doing the CAPEX, and hence the new project, which will be coming it also will be part of those project as well?

Murad Moledina: No. This subsidiary has got only Haldia project housed in. So, future projects may not necessarily come into the same subsidiary.

Shaleen Kumar: So, how will we using these proceeds for future projects?

Murad Moledina: No. Whatever the holding company has funded the money through the subsidiary we will be receiving it back. And then it would go into the projects, the future projects in whichever subsidiary they are housed in.

Shaleen Kumar: Sir, the capacity utilization for the liquid terminals Kandla and Haldia?

Anish Chandaria: Kandla has not started yet. Yes, Kandla, as I said is going to be starting in the next few weeks.

Shaleen Kumar: And Pipavav and Haldia, sorry, my mistake.

Anish Chandaria: Yes. Haldia is that over 90% capacity utilization. And Pipavav unfortunately is still weak. I believe in the Q4 or even currently it's below 20% capacity utilization.

Shaleen Kumar: Okay. Sir, then, how do you see demand for Kandla, I mean, any kind of guidance or what gives the confidence for this utilization to pick up at Kandla?

Anish Chandaria: Yes. Good question, which, of course, I ask our marketing team as well, our liquid marketing team that look Pipavav has been weak for last two, three quarters then why you are so confident. But I think what they have given a very clear picture to me in terms of products as well as customers that Kandla, which is the busiest port in India is a completely different to a new port like Pipavav. In other words, Kandla is a huge amount of ships, huge amount of cargos for chemicals, petroleum, petrochemicals and vegetable oils as well. So, actually, they have already lined up letters of intent with lots of customers, which are our regular Aegis customers in Bombay, for example, who has been dealing with us for 40 years. Most of them operate in Kandla, and that's where the customer base is as far as Kandla is concerned. Pipavav is a new port, we are finding it difficult or taking some time to actually persuade customers to start out in Pipavav, and start diverting ships to Pipavav port rather than Kandla, but Kandla from every indication we have, we expect this 100,000 kiloliters when it is commissioned from day one to be fully occupied.

Shaleen Kumar: Right, sir. I just also want to understand from you and its little bit on the technical side about the turns, right where we understand that optimal turn is 24, but if I see your throughput volume and your throughput and your starting capacity, we are talking about sort of 40-50 turns. Sir, first thing, I believe, it's sustainable, but is it applicable for the capacity coming up at Pipavav?

Anish Chandaria: Well, we are talking about LPG. If you look at page 13 of our Investor Presentation someone was referring to it. In fact, we are planning 100 turns a year in Haldia, which is 100 times, 25,000 comes to 2.5 million tonnes. And we are already achieving in Mumbai. We are already achieving in Pipavav somewhere like 60-70 turns and that's actually happening. And so we are sustaining that. It's all a function of logistics, that's why we call Aegis Logistics. And one of the core strengths of Aegis is its ability to actually maximize the number of turns and that takes a whole host of things, which we don't have time to go into. How we're able to deliver it, I have gone into it a lot in the past, you can read past earnings calls. How are we going to deliver 100 turns in Haldia for example, I have explained that there are six or seven different things that we are going to be doing, which is why we are, we have actually guaranteed to HPCL that we will be actually able to deliver this kind of figure of 2.5 million tonnes. So, I won't go through all of that again, it's in past earnings calls, but believe in me, this is what Aegis does. This is whether we call it debottlenecking, but we are actually delivering right now in Pipavav and Mumbai very, very high number of turns and Haldia will be even on a different level. So, that's actually pure profits ultimately, you're making the asset sweat as much as you can and this is all because LPG imports are flooding in and the demand is growing so much in India.

Guarantee to HPCL 9 2.5 Mn T

DIG OUT ?

That's why we're utilizing these terminals to this extent. But these are what we feel are sustainable long-term year-in year-out kind of a throughputs and turns.

Shaleen Kumar: Right, sir. So, basically, sir, what I want to understand, definitely, I agree with you that, we able to achieve it. But then is it possible to achieve the similar kind of debottlenecking on the existing capacity not withdrawn just with the Aegis, but the industry capacity. And then we basically saying that we may not need a large amount of strategic capacity going forward in the future. Just debottleneck existing capacity and you can utilize that capacity.

Anish Chandaria: The issue is with the older terminals, particularly the older terminals which are there right now, which have been there for many years. If you go, we don't have time now, but if you go terminal by terminal, port by port, you will find that actually they would not be able to do this kind of a turn. Then it really is a kind of 24 turns etc. There are various specific factors in each particular older terminal. For example, some of those terminals are very shallow ports. If you have shallow ports and congested ports then you simply can't bring in the size of ships. If you can bring in the size of ships then you simply can't do that kind of throughput. And that is not going to change because those ports are what they are, they are not going to suddenly miraculously become deep-water ports. The point about the new capacity that we are building is as far as Aegis is concerned we are actually building it right from the start. The new capacity, the new terminals go into deep-water ports. We actually laid pipelines. We try and get rail connectivity. These are all the various ways in which the new terminals that are going to come up are going to be far higher throughput than the old terminal that were put over the last 20 years.

LIST

Which are the SHALLOW Ports & DEEP-WATER Ports?

Moderator: Thank you. We have the next question from the line of Dhruv Bhatia from AUM Advisors. Please go ahead.

Dhruv Bhatia: The first question is an accounting question. Your receivables and your payables have gone up dramatically. So, could you just explain what the reason of that is?

Anish Chandaria: I will ask Murad to comment, but before I do, receivables and payables is all on gas, basically because we are selling much more gas. We have doubled the amount of gas. We sell 1 million tonnes versus 0.5 million tonnes earlier. So, naturally, you will have more receivables than payables. Murad, do you want to add?

Murad Moledina: Yes, absolutely. That's the correct answer because our sourcing business has doubled. So, and these are back-to-back credit of one month. So, accordingly, there will be receivables and payables outstanding.

Dhruv Bhatia: So, would it be fair to say that the amount which is there in receivables and the amount which is there in payables is actually good, which is already in transit, the gap which is already in transit and you probably see this in the coming quarters as a sourcing volumes?

Murad Moledina: No. How it goes is that when we sell it's a 30 day credit to the customer and we get 30 days credits from our vendors, suppliers, back-to-back. So, these are gases supplied already and the credit period is still not over. So, there are outstanding both ways receivables as well as the payables.

Dhruv Bhatia: Okay. The second thing is on, could you tell us the status on the Uran-Chakan pipeline?

Anish Chandaria: Yes, I can do that, again I'm happy that people remember these things. We have completed this pipeline interconnection last December that is four - five months ago. However, it is still not being used by HPCL because they are still completing the connection to Chakan from Uran that means when I say connection that means the pipeline as we extended from Uran all the way to Chakan in Pune as well as all the infrastructure in Chakan for storage of LPG because if they start pumping through huge amount of LPG through this pipeline then they have to have enough storage infrastructure in land as Chakan to be able to actually store on a daily basis. All that is still under construction as well as the bottling plants because ultimately they have to, they are going to be filling this LPG into cylinders, etc. So, that infrastructure is still being built by HPCL as well as the pipeline, but I can say based on our information from HPCL that the latest update that they have given us which I can share with you is that the project is delayed by HPCL, but they have told us that they expect it to be completed by March 2018 which is basically nine months' time. So, I think that is when they will start using this Uran, Aegis interconnections into that Uran-Chakan pipeline once that infrastructure is ready at Chakan. So, the total capacity of pipeline is 1.2 million tonnes a year. So that is why we built that interconnection. But since they are delayed with the Chakan infrastructure, they told us they will start using it closer to the time when they are commissioning. But then it is therefore next 20, 30, 40 years. So that was the significance of why we said, okay, let's go ahead and build this interconnection. So it's ready but they are a little delayed. Their project was supposed to be completed by actually right now around March, April. They are delayed by one more year, but at least our interconnection is ready, we have spent 15 crores on it, but we think we will get LPG going through closer to the time when the Chakan project is finished.

Moderator: Thank you. We have the next question from the line of Rajesh Kothari from AlfAccurate Advisors. Please go ahead.

Rajesh Kothari: My question is if you would have retained it rather than selling because I think balance sheet is very strong. So what made you to sell 20% stake apart from good valuations?

Anish Chandaria: Yes. I like your question. It's a good question. We also thought why did we sell. No, but, jokes aside, the answer is that when we had signed the joint venture with ITOCHU in 2014, this is for the supply business in Singapore. They had a part of that deal in the shareholders agreement. They had requested a call option to be able to buy stakes in future Aegis LPG terminals, because they had a very clear intention. As I said what I call it Phase II that's not only they would be supplying gas into India with our joint venture Aegis Group International from Singapore, but they actually wanted to take long-term minority position in a in the infrastructure in India. So, now three years later, they have come to us and we came to them and said, look, we would actually now like to look at some of these terminals and they picked Haldia as the most attractive at the moment because of the huge capacity that we are building in that 2.5 million tonnes. And it is a region of India where actually neither Aegis or ITOCHU has really been playing that much of apart which is Northeast India. So, it was their option and therefore we negotiated in good faith as per our agreement. And finally they came up that, okay, this is how much they wanted to commit. And we negotiated long and hard, and I think as I have been stating today, all of you will agree it's a very good valuation something that was constructed for Rs. 250 crores, but ultimately it comes to Rs. 1,200 plus crores in terms of the actual valuation of the project as a whole. So a very good valuation. And taking a minority stake 19.7%, which means that Aegis continues to hold roughly 80% of this future cash flows, which I think is a fair thing, but our presence as a joint venture Aegis and ITOCHU in the LPG market in India is definitely strengthened by them coming into Northeast and we go together as in any joint venture to expand our presence in India. And I think, so it makes strategic sense for both companies and it also makes financial sense in the sense that it's a good valuation, and we will use part of this money Rs. 250 crores to invest in other Aegis projects like the two LPG terminals that I talked about and that this injection of funds will be most welcome.

Extremely nice to have

Likely to Repeat in future Projects

Rajesh Kothari: So, just going back to what you mentioned, you said, there is a call option in the agreement to buy stakes. So, that time also the LPG terminal, was it identified to be Haldia or was it like open-ended thing that whatever they like at then to be decided valuation. Just trying to understand the contours of the agreement, which actually triggered this. Had it not been the way it is today, then probably you would not have sold them, right?

Growth Projection NOT so exciting as NORTH EAST??

Anish Chandaria: Yes, well, that's a different question. Let me answer the first question. Yes, it was Haldia terminal which was very much envisaged in 2014. So, they were actually expecting to invest let's put it that way. So, it was, in fact, in a annexure in the agreement, which are the projects that Aegis is going to do. So, I think it was expected, but what was not settled at that time was the valuation because obviously we said that will only be negotiated at the time which is right now 2017. So, that's the way we left it, but the actual option for them to take equity stakes in Aegis LPG terminals including Haldia that was negotiated at that time, but there is a time limit of around four more years I believe 2021. Am I right Murad? 2021 is that what we did it or is it 2022?

KANDLA has to deliver well in 2021 for option to be executed

2 More Years

Murad Moledina: Around that, yes, 2022.

Rajesh Kothari: So, do you think in the new terminal, whichever you're putting you think considering you have a very now strong strategic partner in one of your subsidiary and considering their interest in the growing market like India, and, of course, their IRR returns, are different being a Japanese player compared to you being a Indian player. Can this going forward probably can be taken to leverage the relationship and sell part of stake in old terminals and invest that money in developing the new terminals and again generate huge return on capital employed?

Anish Chandaria: Well, anything is possible and that is currently on the books as far as our agreement, but there is a time limit for that four more years, 2021.

Rajesh Kothari: So, they can still take stake in any other terminal as well as part of that agreement?

Anish Chandaria: Yes, up to a maximum of 40% equity stake, but only up to 2021, after that, that option expires.

Rajesh Kothari: Okay. So, the terminals are already defined, I mean, whether Pipavav, Mumbai everything is already part of the deal?

Anish Chandaria: Everything is defined, but right now, I would say, just to give you a good sense of where it is going. Right now they have looked at all the projects and realized that the Haldia one is a jewel, it's a great project. And they will then be able to actually start selling gas into Northeast India through our joint venture in Singapore AGI, which they weren't doing before, we were not going together. So, right now, I would think that since they are looking at this, I think, they will probably presumably wait and see how it goes, and let it get commissioned etc. And then they will take their decision next as to which if any other projects they want to participate in. But there is a time limit as I said four more years. And after that, so if they decide on other projects that's their call, not my call. I'm sure they will decide but I think we have a model exactly what we have done with Haldia as this is the first one. We will see what happens over the next 3-4 years. Everyone can see what kind of valuations are being put by an important, wellknown second largest LPG company in the world ITOCHU, everybody can see what they feel about it and what valuation they are putting in and what credibility they feel about the whole Aegis strategy. And I think that should give all of you a lot of confidence on the Aegis growth plan.

External Validation of AEGIS Strategy

Rajesh Kothari: No doubt about it. I think anyway we have good confidence on you and therefore that goes without saying that the business potential is huge. Just last question from my side, what is the total CAPEX over next two to three years?

Anish Chandaria: Right now, I can tell you that there is no further CAPEX, which the Board has even approved as of yesterday. So and the reason for that is obviously we are still evaluating those next two projects the next two LPG projects. So, I don't think I can right now.

Rajesh Kothari: But any upper limit? More, I mean, net-net, broadly?

Anish Chandaria: Look one LPG project in Haldia was Rs. 250 crores. So, and I'm saying two more are likely in the next, let's say, 18 months. So, but, as I said, I can't give you a definite figure because neither the projects are yet at the stage where we have done those configurations on what capacity and all that. And the Aegis Board has not approved it, but at least that gives you a ballpark number, we are unlikely to be above that.

Rajesh Kothari: Great. And it takes about two years kind of that, am I right?

Anish Chandaria: 18 months to 24 months, yes.

Rajesh Kothari: 18 to 24 months. So, maybe simultaneously also you may do it am I right with the similar capacity?

Anish Chandaria: Yes, I have been saying throughout today that we are trying to speed up. So, this is the time in the industry where things are booming like you have never seen, at least we have never seen.

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Rajesh Kothari: So, what is the risk? Do you think this huge demand growth what industry is seeing, can there be any risk to that?

Anish Chandaria: Look there are always risks to any business marketing. All that we can say is that when you actually go into the detail of evaluating the market risk, it's a no-brainer. In the sense that you ask anybody in the LPG world not only in India, you ask anybody in the LPG world including the Japanese for that matter, I think, there is a complete consensus that India is one of the fastest growing LPG market for the next 15 years. I think that's good enough for us. So, I think it should be good enough for you.

LPG Demand
CAGR
2020-2030
fall much
below
18% of earlier?

Moderator: Thank you. We have the next question from the line of Chirag Vekaria from Budhrani Finance. Please go ahead.

Chirag Vekaria: Just wanted to get a sense ITOCHU maybe that you are talking about. You said ITOCHU wants to build terminal. Can they built it alone or they have to do it with you for this work?

Anish Chandaria: The way the deal is structured is that it has to be with us for India.

Chirag Vekaria: What happens after 2021?

Anish Chandaria: What happens after 2021 is that they still have to do business only with us in India that remains, but just the option for them, the call option that means they have a right to invest in our projects expires, but they still have to do business of LPG in India only with Aegis.

Chirag Vekaria: Okay. And sir just to understand this thing correctly, you said, that the funds would be flowing to the Haldia subsidiary and then that would come back to Aegis, the parent Aegis and then we will utilize that fund for expansion, right? Is the understanding right?

Anish Chandaria: Yes. Broadly speaking, that's correct, yes.

Moderator: Thank you. We have the next question from the line of Pranav Mehta from ValueQuest Investments. Please go ahead.

Pranav Mehta: Sir, a question on your debt number. So, the short-term borrowings have increased this year, but so just wanted an outlook on the overall debt position going forward, especially now that we are receiving this 250 crores of cash from ITOCHU. So, next year should we expect some substantial reduction in debt?

Anish Chandaria: So, as far as long-term debt is concerned, I think, what we have been following a policy for the last few years and this will only be strengthened by this money from ITOCHU is that we are actually not taking long-term debt at all for our expansions. In other words, the capital expenditure is being funded in-house and obviously these ITOCHU funds will also go partly towards that. So, that continues to be our policy that we will keep long-term debt very, very low. I think the debt to equity is something like 0.2 to 1, so you can see it's a very, very strong balance sheet already and we will maintain that. As far as short-term, those are buyer's credit etc. which are really related to the LPG business. It's not really interest-bearing debt in the way that you think. So that's just a function of back to back contracts. Murad, do you want to add anything to that?

V. Low long-term Debt

B/MODEL Strength ?

Murad Moledina: Yes, in addition to what Mr. Anish just said short-term borrowings include the buyer's credit for the LPG sourcing business. There are also some supplier's credit for the CAPEX we do. So vendor's credit, letter of credit and then the bill discounting, so, it gets paid off once the project is complete. So, these won't be outstanding going forward unless new projects come up. So, what you would see short-term borrowings only be restricted to buyer's credit of around Rs. 50 crores, Rs. 60 crores a year. The balance would get knocked off once the project is complete.

Cap on short-term borrowing

Moderator: Thank you. We have the next question from the line of Dixit Doshi from Whitestone Financial Advisors. Please go ahead.

Dixit Doshi: Yes, most of the questions has been asked. Just one question, so we sold this 19% stake in Hindustan Aegis LPG. So, apart from the new terminals, which we build at Haldia for Rs. 250 crores, what is the other business in that subsidiary?

Anish Chandaria: There is no other business in that subsidiary. It's a clean LPG terminal business, which is the way ITOCHU wanted it because clearly they want to have. So, that was the reason that they took the 19.7%. By the way I should still repeat that, that deal is not yet completed. It has been announced as today it is still undergoing all the final thing. So, it probably will be completed in the next few months, probably by July that's what we expect. But there is no other business in Hindustan Aegis LPG, it is a pure LPG terminal in Haldia and that's what they have taken a stake in.

Dixit Doshi: So, if I see, if I was just seeing your FY16 annual report there was a subsidiary called Hindustan Aegis LPG Limited having a top line of Rs. 1,216 crores and a Rs. 12 crores EBIT, PBT so that subsidiary is different?

Anish Chandaria: It is the same subsidiary. Murad, do you want to just clarify how we have restructured HALPG.

Murad Moledina: Yes. Last year Hindustan Aegis was also part of the sourcing business chain. So, it was the local indenting Company, but from the current year and which we have said in past, in past quarters from '16-'17 Aegis Group International Singapore is now directly doing the sourcing business. So, there was no more businesses in Hindustan Aegis and the only business now is the Haldia LPG terminal.

Dixit Doshi: Okay. Understood. And just one more thing, if you can just update about the Sealord Containers acquisition in rest of the remaining stake?

Anish Chandaria: Yes, I think, we are, Murad we are up to 92%, a little above 92%. Is that correct?

Murad Moledina: Yes, we are above 92% and I think we have some few more months to go and get to 100%, we expect that to happen.

Moderator: Thank you. Ladies and gentlemen, that was the last question. I would now like to hand the conference over to Mr. Anish Chandaria, Management Director and CEO for closing comments. Thank you, and over to you, sir.

Anish Chandaria: Yes. Thank you very much for all the questions. I think high number of questions, but good quality questions, well, if I may say. So, thank you very much for taking interest in Aegis, and a very significant moment, I think, with this announcement today of our expansion of our LPG business, and how it is the Phase II of our joint venture with ITOCHU. So, I think there were a lot of questions on that and hope I was able to answer them. But we have a lot more things coming up over the next few quarters. The most important of all is to commission our terminals, but our projects particularly the Haldia LPG 1, particularly Pipavav LPG, and also the liquid terminals. I think that ultimately that's the phase we're in now for the next two, three months commission, commission, commission that will result in the next jump in earnings once we actually commission it. So that will be the next phase, but then going after that we will then be probably in future quarters we will be bringing forward some other projects when they're ready for announcement. Thank you very much.

Moderator: Thank you very much. Ladies and gentlemen, on behalf of Aegis Logistics, that concludes this conference. Thank you for joining us and you may now disconnect your lines.