Narnolia™

AEGIS LOGISTICS LTD.

NEUTRAL

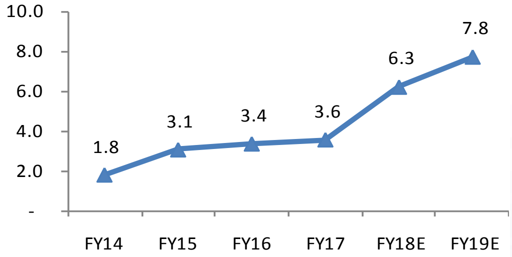
26-Mar-18

INDUSTRY -	OIL & GAS
BLOOMBERG	AGIS IN
BSE Code -	500003
NSE Code -	AEGISCHEM
NIFTY -	9998

Company Data

CMP	248
Target Price	**255**
Previous Target Price	NA
Upside	**3%**
52wk Range H/L	300/170
Mkt Capital (Rs Cr)	8,316
Av. Volume (,000)	29

EPS grows at CAGR of 45% over 7 years

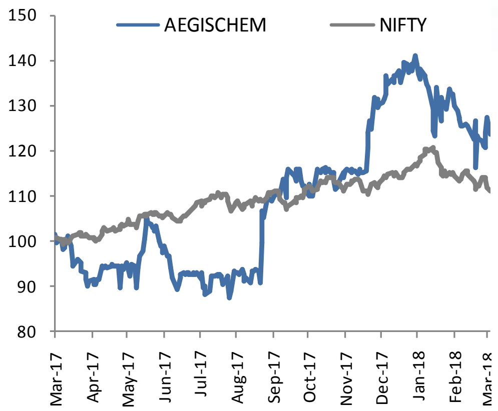


Share Holding patterns %

	3QFY18	2QFY18	1QFY18
Promoters	60.5	60.5	60.5
Public	39.5	39.5	39.5
Total	100	100	100

Stock Performance %

	1Mn	3Mn	1Yr
Absolute	(9.5)	(9.8)	19.9
Rel.to Nifty	(5.6)	(8.9)	9.7



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Key Highlights of the Report:

- ☑ Aegis Logistics is ramping up its capcities in order to reap benefits from the rising LPG imports of our country.
- ☑ India's LPG import is rising at CAGR of 17% over the last 5 years and is expected to continued the momentum in upcoming years. This gives us confidence of double digit volume growth in LPG logistics business in coming years.
- ☑ Domestic LPG production ramp up by the OMC's could impact the LPG volume growth of the company in future.
- ☑ Considering further growth opportunities, we are positive on this stock but at this price level valuations seems quite stretched which gives us limited upside potential. Thus we recommend “NEUTRAL” rating in this stock and we value it at Rs.255 (39x FY19e EPS)

Financials/Valuation	FY15	FY16	FY17	FY18E	FY19E
Net Sales	3,916	2,213	3,933	4,957	5,733
EBITDA	143	185	207	264	370
EBIT	120	162	183	239	340
PAT	103	113	120	209	260
EPS (Rs)	3.1	3.4	3.6	6.3	7.8
EPS growth (%)	69%	10%	6%	74%	24%
ROE (%)	24%	22%	20%	27%	27%
ROCE (%)	24%	22%	20%	27%	27%
BV	13	15	18	23	29
P/B (X)	4.8	6.4	10.8	12.1	9.6
P/E (x)	19.6	28.6	54.0	44.3	35.6

MANAGEMENT HIGHLIGHTS:

- ✓ Management expects bigger revenue from Kandla terminal to be reflected from Q4 FY18.
- ✓ Haldia liquid terminal has contributed significantly in Q3 volumes and is expected to contribute majorly in Q4. Both HPCL and BPCL are has strong uptake in Haldia.
- ✓ Liquid Division- New kandla 100,000 KL terminal will be operational from Q4FY18.
- ✓ Management has indicated for higher dividend payout in second half of FY18.
- ✓ Legal formalities regarding ITOCHU deal is expected to be finalized in next 1-2 months after which funds will be released by ITOCHU.
- ✓ Mumbai and Pipavav ports are at full capacity utilization.

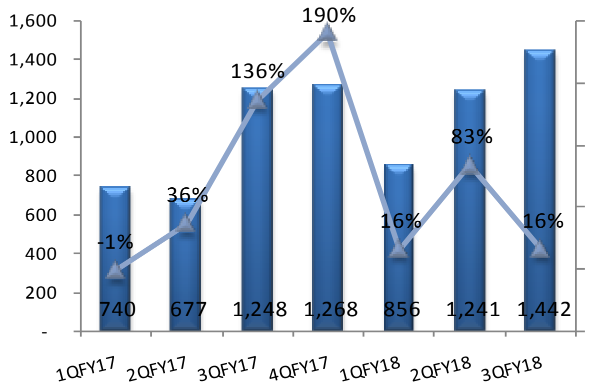
Quarterly Performance

Financials	2QFY17	3QFY17	4QFY17	1QFY18	2QFY18	YoY %	QoQ%	FY16	FY17	YoY %
LPG sourcing vol	350	278	233	353	306	-13%	-13%	519	1,043	101%
LPG logistics vol	434	400	302	442	521	20%	18%	979	1,365	39%
Auto gas vol	6	5	6	6	6	1%	-5%	22	22	3%
Bulk LPG	6	7	9	8	12	104%	49%	17	24	41%
Commercial LPG	3	3	3	3	3	9%	2%	12	13	5%
Net Sales	1,248	1,268	856	1,241	1,442	16%	16%	2,213	3,933	78%
Other Income	1	1	2	1	1	48%	-3%	8	5	-38%
COGS	1,150	1,172	760	1,137	1,326	15%	17%	1,874	3,567	90%
Employee Cost	10	13	12	9	11	1%	16%	47	46	-1%
Other Expenses	27	32	28	27	33	22%	25%	107	113	5%
EBITDA	60	52	57	68	72	19%	6%	185	207	12%
Depreciation	6	6	6	6	9	48%	43%	23	24	4%
Interest	4	4	3	3	5	28%	41%	18	16	-9%
PBT	51	43	49	60	59	15%	0%	153	172	12%
Tax	9	11	2	4	3	-70%	-22%	27	38	42%
PAT	38	30	40	52	54	43%	3%	113	120	6%

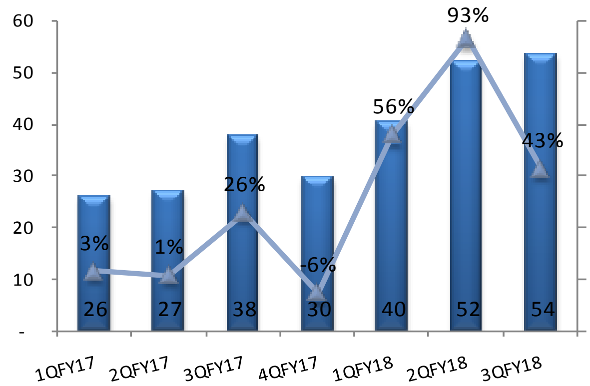
Revenue improvement backed by the volume growth

- ✓ LPG sourcing volume has now normalized to 306,000 MT, a decline of 13% YoY. In the past few quarters demand was slated due to the temporary higher volume offtake by the fertilizer plants which is now normalized.
- ✓ LPG logistics volume has increased by 20% in Q3 FY18 to 521,000 MT. Volume of the LPG logistics business is growing at CAGR of 28% over last 4 years. This is attributed to the rising LPG imports of our country.
- ✓ EBITDA in Q3 has improved by 19% to Rs.72 Cr due to the improvement in the revenue and stable margins.
- ✓ Depreciation has increased from Rs. 6 Cr to 9 Cr. on account of commissioning of various gas and liquid terminals.
- ✓ PAT has also improved by 42.5% YoY to Rs.54 due to the tax benefit availed by the company. The tax is lower on account of write back of deferred tax which will be available till march 2018.

Revenue and growth



PAT and growth



Investment Arguments:

- ✓ **Government initiatives to boost demand:** Government has extended "Pradhan Mantri Ujjwala Yojana"(PMUY) for providing LPG connections to 8 Cr women from 5 Cr earlier belonging to Below poverty line(BPL) till 2020. This will maintain the growth momentum at CAGR of 17% over next 5 years.
- ✓ **Healthy return ratios**: ROE of the company has improved from 7% in FY12 to 20% in FY17 and is expected to grow to 27% in FY19.
- ✓ **Volume expansion-** Considering the rise in the LPG and crude imports, company is ramping up its capacities at various ports. Major expansion plans :

  ♦Greenfield Liquid Terminal Expansion at Kandla Port – 100,000 KL project cost of Rs. 750 Million, Project is expected to complete by Q4 FY18.

  ♦Greenfield Liquid Terminal Expansion at Mangalore Port – 25,000 KL project cost of Rs. 180 Million, Project is likely to be commissioned in Q1 FY19

  ♦Liquid Terminal Expansion at Haldia Port – 35,000 KL Project cost of Rs.350 Million, Project is likely to be commissioned in Q1 FY19.
- ✓ **LPG imports:** India imports about 51% of total PLG consumption and this imports is rising at CAGR of 17% over last 5 years. Total LPG imports are likely to reach at 17000K MT by FY20. This gives enough opportunity for Aegis logistics to expand its network and grow its volume at the CAGR of ~ 15-18% for the next 2-3 years.
- ✓ **Limited risk from domestic producers:** Domestic producers like ONGC is ramping up various oil exploration fields but they are unable to meet the rapid growing demand of LPG. In near to medium term risk is limited because fields of ONGC will take next 2-3 yeras for ramp-up their production.
- ✓ **LPG sourcing-** The company has entered into a joint venture with one of the largest sourcing companies in the world – ITOCHU (Japan) – through its Singapore subsidiary in 2012. The purpose of this JV is to use ITOCHU's expertise for sourcing LPG at competitive rates.

View & Valuation

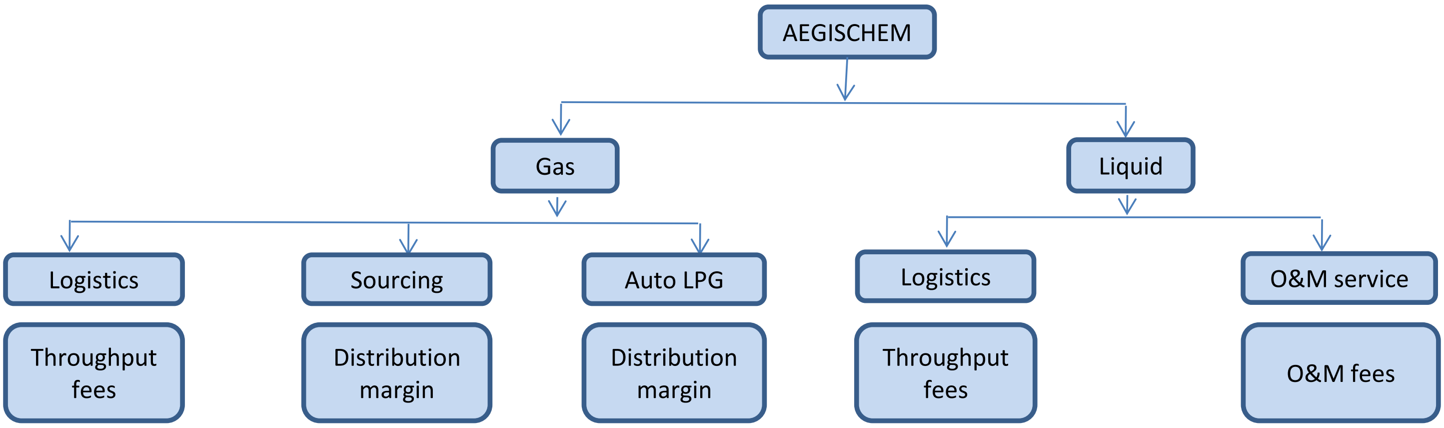
Aegis logistics is one of the major players in LPG and crude logistics chain with operations ranging from sourcing, shipping, storage and distribution. It operates through nameplate static capacity of 63K MT LPG division and 612,000 KL of liquid division. The company is the major beneficiary of rising crude and LPG imports in our country. LPG and crude imports of our country has grown at CAGR of 17% and 4% respectively over last 5 years and expected to be in similar line in coming years. Keeping view on the rising demand of LPG, the company is in the process of ramping up capacities at different phases in both divisions.

In Kandla, company has commissioned 83000 KL liquid terminal in Q3 FY18, and is about to commission 17K KL in March 2018. Further, recently commissioned Haldia terminal has contributed significantly in volume growth in Q3. We expect further volume growth of 10-15% in upcoming quarters.

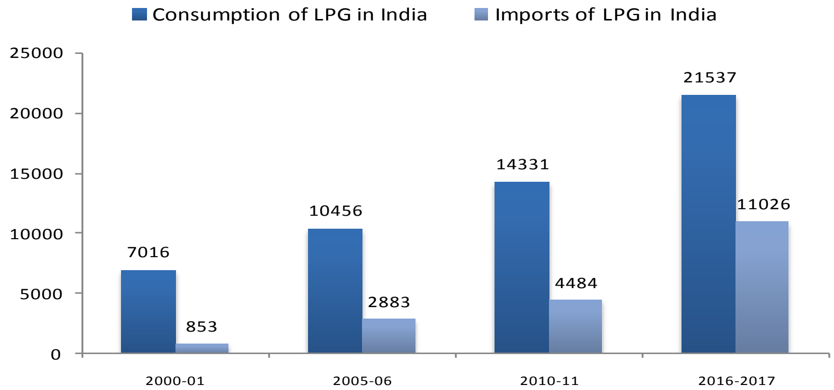
As far as the gas division is concerned, the company has commissioned its Haldia 250,000 KL terminal which could boost the volume by 10% annually in coming years.

Considering further growth opportunities, we are positive on this stock but at this price level valuations seems quite stretched which gives us restricts upside potential. Thus we recommend "NEUTRAL" rating in this stock and we value it at Rs.255 (39x FY19e EPS)

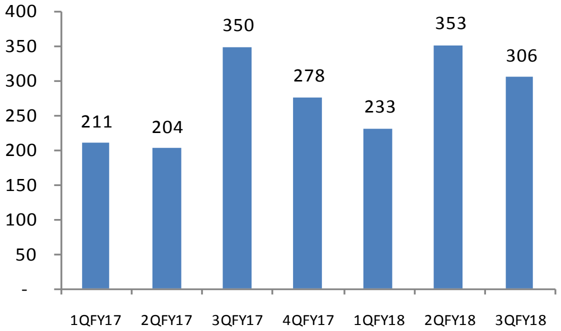
Business segment:



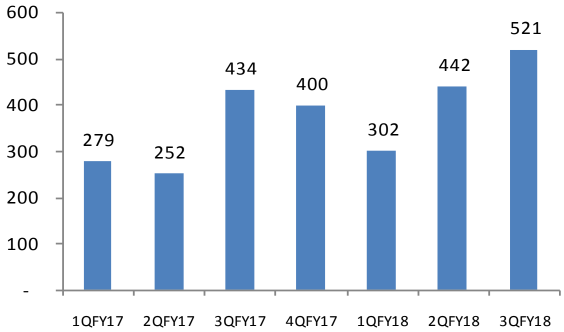
LPG imports and consumption



LPG sourcing volume '000 MT



LPG Volume - Logistics '000 MT



Financials Snap Shot

Income Statement

Rs in Crores

Y/E March	FY16	FY17	FY18E	FY19E
Revenue from Operation	2,213	3,933	4,957	5,733
Change (%)	*-43%*	*78%*	*26%*	*16%*
EBITDA	185	207	264	370
Change (%)	*29%*	*12%*	*27%*	*40%*
Margin (%)	8%	5%	5%	6%
Depr & Amor.	**23**	**24**	**24**	**30**
EBIT	*162*	*183*	*239*	*340*
Int. & other fin. Cost	18	16	16	14
Other Income	*8*	*5*	*21*	*34*
EBT	153	172	227	329
Exp Item	-	-	-	-
Tax	**27**	**38**	**11**	**69**
Minority Int & P/L share of Ass.	(13)	(14)	(6)	-
Reported PAT	126	134	215	260
Adjusted PAT	*126*	*134*	*215*	*260*
Change (%)	**10%**	**6%**	**74%**	**24%**
Margin(%)	*6%*	*3%*	*4%*	*5%*

Key Ratios

	FY16	FY17	FY18E	FY19E
ROE	22%	20%	27%	27%
ROCE	26%	27%	0%	0%
Asset Turnover	2.5	2.3	2.4	2.4
Debtor Days	16	66	66	66
Inv Days	2	2	2	2
Payable Days	13	63	63	63
Int Coverage	0.11	0.09	-	-
P/E	29	54	44	36
Price / Book Value	6.4	10.8	12.1	9.6
EV/EBITDA	*18*	*31*	-	-
FCF per Share	1	(3)	8	9
Div Yield	1%	0%	0%	0%

Balance Sheet

Rs in Crores

Y/E March	FY16	FY17	FY18E	FY19E
Share Capital	33	33	33	33
Reserves	471	569	729	928
Networth	**505**	**602**	**762**	**961**
Debt	*156*	*255*	*253*	*221*
Other Non Cur Liab	14	15	15	15
Total Capital Employed	*614*	*680*	*808*	*975*
Net Fixed Assets (incl CWIP)	*531*	*783*	*758*	*729*
Non Cur Investments	*0*	*0*	*0*	*0*
Other Non Cur Asst	-	-	-	-
Non Curr Assets	**652**	**899**	**875**	**845**
Inventory	12	22	27	32
Debtors	*97*	*706*	*890*	*1,029*
Cash & Bank	97	61	240	392
Other Curr Assets	9	6	8	9
Curr Assets	**247**	**838**	**1,220**	**1,526**
Creditors	77	681	858	993
Provisons	7	*12*	*15*	*17*
Other Curr Liab	71	107	135	156
Curr Liabilities	**155**	**799**	**1,007**	**1,165**
Net Curr Assets	92	39	213	361
Total Assets	***899***	***1,738***	***2,095***	***2,371***

Cash Flow Statement

Rs in Crores

Y/E March	FY16	FY17	FY18E	FY19E
PBT	153	172	227	329
(inc)/Dec in Working Capital	187	208	248	362
Non Cash Op Exp	23	24	24	30
Int Paid (+)	18	16	16	14
Tax Paid	40	29	11	69
others	(8)	(25)	19	14
CF from Op. Activities	**138**	**154**	**255**	**308**
(inc)/Dec in FA & CWIP	*(92)*	*(240)*	*(0)*	*(0)*
Free Cashflow	*47*	*(86)*	*255*	*307*
(Pur)/Sale of Inv	22	(3)	-	-
others	6	(3)	-	-
CF from Inv. Activities	**(64)**	**(246)**	**(0)**	**(0)**
inc/(dec) in Debt	(30)	98	(2)	(32)
Div Paid (inc tax)	(36)	(31)	(49)	(61)
others	(18)	(20)	(16)	(14)
CF from Fin. Activities	**(83)**	**47**	**(67)**	**(107)**
Inc(Dec) in Cash	(9)	(45)	188	201
Add: Opening Balance	105	105	61	240
Closing Balance	**97**	**61**	**249**	**441**

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