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# UPSTREAM PICK

December 2019

| | | |
|---|---|---|
| Company Name | : | **AEGIS LOGISTICS LTD** |
| BSE Code | : | **500003** |
| Time Duration | : | **2 years** |
| CMP | : | **₹191.75 (as on 05 Dec., 2019)** |
| Target Price | : | **₹265** |

Our Upstream Pick for December is Aegis Logistics Limited. The company is engaged in providing logistics and supply chain services to the oil, gas and chemical industry. Its main business is the sale of liquefied petroleum gas (LPG), wholesale of solid, liquid, and gaseous fuels and related products. It is also engaged in the storage and warehousing of products, such as general merchandise warehouses and warehousing of furniture, automobiles, gas, and oil, chemicals, and textiles. The company's revenue mix includes Gas (75 per cent) and Liquid (25 per cent).

## Liquid segment expansion: Funded via internal accruals

The company's Liquid segment contributes nearly 25 per cent of the total revenue. In Q2FY20, the EBIDTA of this segment grew 55 per cent YoY.

Under Liquid segment, the company has planned majorly three expansions:

- ✓ Haldia port expansion by adding 12,000KL capacity (Rs. 10 crores). It would be completed by H1FY21.
- ✓ Kochi port expansion by adding 20,000KL capacity (Rs. 15 crores). It would be completed by Q4FY20.
- ✓ Mangalore port expansion by adding 50,000KL capacity (Rs. 35 crores). It would be completed by FY21.

All these expansions will be done via internal accruals, making the balance sheet healthy. Also, the completion of the abovementioned expansions would further drive the company's growth, going ahead.

## The gas segment to remain positive

The gas segment contributes nearly 75 per cent of the total revenue. In Q2FY20, the EBIDTA from this segment grew 24 per cent YoY. LPG logistics volume increased by 13 per cent YoY. LPG distribution volumes rose 46 per cent YoY. The LPG sourcing volumes increased 101 per cent YoY.

HPCL's Uran-Chakan pipeline is finally completed and is charged with gas. The company expects to push gas through its Mumbai terminal starting January 2020, which should aid the revenue, significantly. Two new LPG projects would be completed in FY21, which would drive the revenue. Going ahead, the increased LPG penetration and the rising household consumption of LPG would drive the LPG demand.

Also, In the LPG terminal and distribution businesses, Aegis Logistics lacks competition from other private players in India which, puts the company in a sweet spot.

## Opportunity to meet the demand-supply gap

Looking from a broader perspective, India's LPG demand is expected to grow to 26 million metric tons by FY2025 from the current 21 metric million tons. Further, India's domestic supply is expected to grow to 14 metric million tons from 11 million metric tons at present. The gap between demand and domestic supply is expected to come from imports. This gives enough visibility on under penetration of LPG supply in the Indian economy and strong potential in LPG import.

## Financial Performance

In the recent quarter Q2FY20, the consolidated revenue came in at Rs. 1,817.69 crores from Rs. 1,425.87 crores in the corresponding quarter last year, registering a 27.5 per cent YoY increase. The operating loss stood at Rs. 28.11 crores from an operating profit of Rs.

88.72 crores in the corresponding quarter last year. The company has come up with Rs. 150 crores of ESOPs, which led to a loss on the operational front. Adjusted EBIDTA grew by 10 per cent YoY. The net loss for the quarter came in at Rs. 34.16 crores from a profit of Rs. 57.52 crores in the corresponding quarter last year.

Looking at the full year, the consolidated revenue for FY19 came in at Rs. 5,615.82 crores from Rs. 4,790.96 crores in FY18, registering a 17.2 per cent YoY increase. The EBITDA grew by 39.4 per cent YoY to Rs. 370.87 crores in FY19 with a corresponding margin expansion of 105 bps. PAT for FY19 came in at Rs. 252.11 crores from Rs. 213.81 crores in FY18, YoY increase of 17.9 per cent.

### Outlook

The stock is trading at TTM P/E of 48.18x. Expansions under the Gas and Liquid segments are likely to drive the growth going ahead. The company has done the expansions via internal accruals, leaving low D/E 0.2x, which gives enough solvency comfort. Also, company's spending on building new facilities is one of the lowest in the industry and the operational cost is expected to be low due to its connectivity to existing and upcoming pipelines rather than road transport. Considering the above factors, we see a potential upside of 40 per cent with a target price of Rs. 265 over two years.

**Inc/Exp Statement(Consolidated) (Rs in Crore)**

| Description | 201903 | 201803 | 201703 | 201603 | 201503 |
|---|---|---|---|---|---|
| Net Sales | 5615.82 | 4790.96 | 3930.29 | 2213.22 | 3916.00 |
| Total Income | 5626.15 | 4799.31 | 3936.04 | 2221.65 | 3958.25 |
| Total Expenditure | 5247.09 | 4524.96 | 3726.75 | 2027.88 | 3772.57 |
| PBIDT | 379.06 | 274.35 | 209.29 | 193.78 | 185.68 |
| PAT | 252.11 | 213.80 | 132.97 | 126.14 | 112.31 |
| Dividend % | 140.00 | 125.00 | 105.00 | 90.00 | 75.00 |
| Adj. EPS(Rs) | 6.63 | 5.92 | 3.57 | 3.39 | 3.10 |

**Quarter On Quarter (Consolidated) (Rs in Crore)**

| Particulars | 201909 | 201906 | Q on Q Var% | 201809 | Y on Y Var% |
|---|---|---|---|---|---|
| Net Sales | 1817.69 | 1955.28 | -7.04 | 1425.87 | 27.48 |
| Total Expenditure | 1845.80 | 1853.27 | -0.40 | 1337.15 | 38.04 |
| PBIDT (Excl OI) | -28.11 | 102.01 | -127.56 | 88.72 | -131.68 |
| PAT | -34.16 | 62.32 | -154.81 | 57.52 | -159.39 |
| PBIDTM% (Excl OI) | -1.55 | 5.22 | -129.69 | 6.22 | -124.92 |
| PBIDTM% | -1.41 | 5.54 | -125.45 | 6.37 | -122.14 |
| PATM% | -1.88 | 3.19 | -158.93 | 4.03 | -146.65 |
| Adj. EPS(Rs) | 0.00 | 1.71 | -100.00 | 1.46 | -100.00 |


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