

Aegis Logistics

BSE SENSEX
38,140

S&P CNX
11,215

CMP: INR192

TP: INR250 (+30%)

Buy



Stock Info

Bloomberg	AGIS IN
Equity Shares (m)	334
M.Cap.(INRb)/(USDb)	65.1 / 0.9
52-Week Range (INR)	267 / 108
1, 6, 12 Rel. Per (%)	-11/-1/-5
12M Avg Val (INR M)	47
Free float (%)	40.3

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Financials Snapshot (INR b)

Y/E March	2020	2021E	202E
Sales	71.8	81.7	96.2
EBITDA	2.8	5.9	6.9
Adj. PAT	1.0	3.5	4.2
Adj. EPS (INR)	3.0	10.4	12.5
EPS Gr.%	-55.0	249.6	19.7
BV/Sh.INR	49.5	57.6	67.3

Ratios

Net D:E	0.0	-0.2	-0.3
RoE (%)	6.5	19.5	20.0
RoCE (%)	9.0	20.3	20.6
Payout (%)	65.6	22.3	22.3

Valuation

P/E (x)	64.2	18.4	15.4
P/BV (x)	3.9	3.3	2.8
EV/EBITDA (x)	23.0	10.3	8.2
Div. Yld (%)	0.9	1.1	1.3
FCF Yld (%)	-4.3	6.3	8.3

Shareholding pattern (%)

As On	Jun-20	Mar-20	Jun-19
Promoter	59.7	59.6	60.6
DII	2.8	2.7	2.4
FII	12.8	12.5	12.7
Others	24.8	25.3	24.4

FII Includes depository receipts

Reality check on LPG demand v/s imports – favors AGIS

- LPG has been in ever-increasing use as the need for cooking gas increased amid the lockdown and owing to various government schemes. For this reason, LPG consumption growth came in strong at 12–16% YoY over Apr–June, while demand for other fuels tanked to 30–60% of normal during this period. This led to a huge jump in LPG imports at ~65% of total LPG consumption as refineries trimmed their operating rates due to the lack of demand.
- The story for the last three months is similar to that for the last three years – in 2016, the government introduced the Pradhan Mantri Ujjwala Yojana (PMUY), which led to a huge spike in LPG consumption. Although, for AGIS, investors have been wary of capacity utilization amid increasing competition.
- In light of the same, we highlight the potential for increase in LPG imports (by ~2.7x to 36.5mmtpa) despite a rise expected in domestic refining capacity (by ~1.5x to 367mmtpa) by FY31. Moreover, there is huge gap in the per connection consumption of gas by domestic consumers (with expected demand jump of 6.7mmtpa).
- Factoring the above-mentioned fundamentals in favor of the company, we reiterate Buy on AGIS, with target price of INR250.

Longing for LPG imports and...

- Coming decade will mark the period of domestic refineries expansion. Refining capacity, which stands at 250mmtpa in FY20, is expected to grow at a CAGR of 4% and reach 367mmtpa in FY31. Projects of ~117mmtpa (i.e. ~2x FY11–20) are lined up to be commissioned by FY31; however, just one-fourth the capacity has a clear timeline / has seen work commence.
- LPG yield from refineries has been in the range of 4.5–4.9% over the last 10 years, and may decline with increasing focus of refiners on producing petrochemicals.
- LPG consumption in India saw a CAGR of ~7% over FY11–20 (with FY16–20 registering CAGR of 8% owing to the introduction of PMUY in 2016).
- **Assuming LPG yield of 5% and a demand CAGR of 7% over the next decade, our calculation suggests imports could see a CAGR of 10% over FY21–31.**
 - LPG production is expected to increase ~1.5x (to 18.5mmtpa) by FY31, while imports could see an increase of ~2.7x (to 36.5mmtpa) over this period.
 - The above scenario assumes that all of the refinery expansion projects would get commissioned by FY31; although, considering only those projects where work has already commenced, the estimated imports CAGR over FY21–31 could be ~12%.
- Reflecting over FY11-20, despite a ~34% increase witnessed in domestic refining capacity, the percentage import of LPG increased to ~56% in FY20 from ~21% in FY10 (clocking double the CAGR of demand at ~14%). Our calculation highlights a similar story going into the next decade as well.
- This should benefit **AGIS the most as it is very well placed to cater to the huge potential of imports from its various terminals facilitated through pipelines or railway gantry v/s traditional off-lift via trucks (in smaller quantities).**

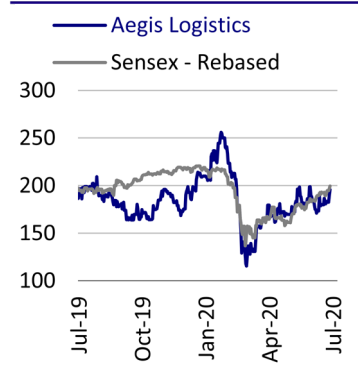
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Investors are advised to refer through important disclosures made at the last page of the Research Report.

Motilal Oswal research is available on www.motilaloswal.com/Institutional-Equities, Bloomberg, Thomson Reuters, Factset and S&P Capital.

Stock Performance (1-year)



...huge gap in per connection consumption...

- Since the introduction of PMUY in 2016, LPG coverage in India is said to have reached ~98% currently (from just ~56% in FY15). However, the quick development of the scheme has somewhere failed to address the challenges related to LPG adoption faced by poor households.
- **The per connection consumption of gas fell ~22% to 6 cylinders (of 14.2 kg) per year in FY20 from 7.7 cylinders per year in FY15** (despite a ~47% jump in total LPG consumption over the same period). **Assuming an increase in the per connection usage of LPG to 7.7 cylinders per year, we could easily see a demand jump of ~6.7mmtpa (which is ~25% of FY20 demand).**
- To put the aforementioned factor in perspective, AGIS handled 3mmtpa of LPG imports at the end of FY20 (~20% of total imports). Post the completion of the current expansion at Kandla, the company's LPG throughput capacity is expected to reach 9.2mmtpa. **Thus, AGIS could achieve optimum utilization at its four LPG terminals with increase in per connection consumption to FY15 levels (3 + 6.7 = 9.7mmtpa).** This would also help the company achieve its target market share of 30–33% in the near-to-medium term.

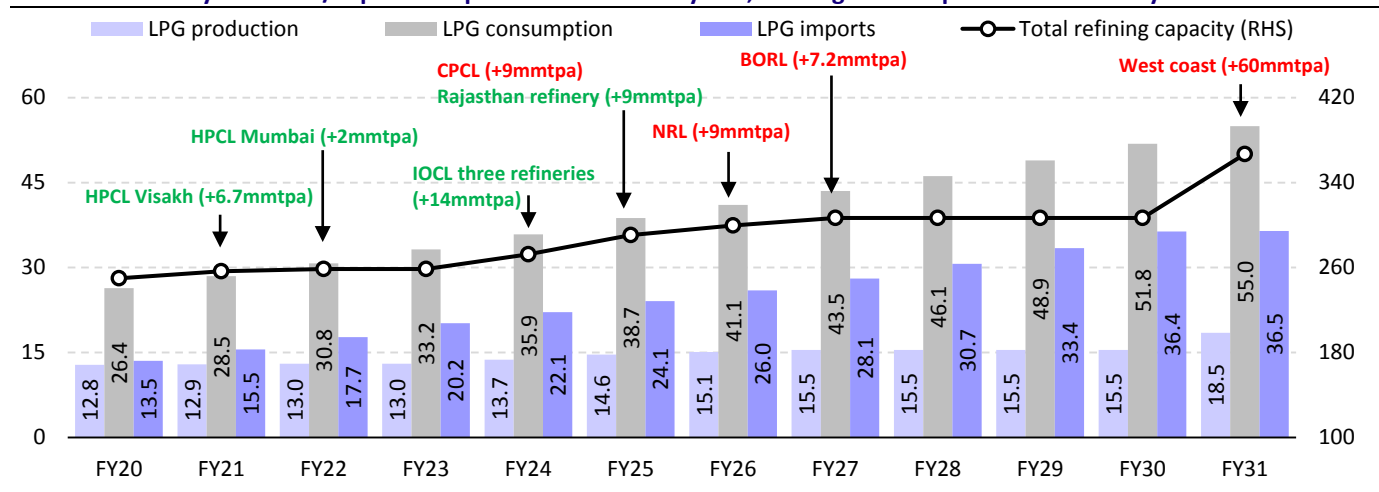
...while competition remains at bay...

- As presented above, despite massive additions to domestic refining capacity, the proposed new LPG terminals are too few to meet the major requirement of LPG imports in the country.
- BPCL's Haldia LPG terminal (with capacity of 30,000mt) is running behind schedule and has a very huge capex of INR12b (v/s AGIS' capex of INR2.5b for 25,000mt for its LPG terminal at Haldia).
- As per our channel checks, Adani Mundra, which was commissioned recently, is operating at just ~20% of its 5mmtpa capacity. We believe volume throughput would see a very slow ramp-up as the company moves volumes only via trucks.
- **Nevertheless, AGIS enjoys a long-standing legacy relationship with OMCs, while concurrently enjoying the strategic positioning of its terminals.**
- Also, the LPG bottling capacity is expected to increase by 54% over the next two years to 25.8mmtpa, and AGIS' terminals are well-placed with enhanced connectivity through pipelines (Mumbai and Kandla) or railways (Pipavav).

...to favor AGIS the most – Reiterate Buy

- AGIS has been a key beneficiary of the government's initiative to boost the penetration of LPG in the country.
- **We expect logistics volumes to record a CAGR of 16% over FY20-FY22 (on a conservative basis), with logistics EBITDA CAGR of ~18% over the same period.**
- The company plans to fund capex through internal accruals. We expect strong free cash flow generation of ~INR9.4b in FY21-FY22 combined (**FCF yield of ~15%**). **Return ratios are likely to hover above 20% over the same period.**
- Also, the non-cash expense overhang of ESOPs at ~INR3.35b is behind, with ~INR2.4b recognized in FY20; only INR0.93b and INR0.17b would be realized in FY21 and 1QFY22, respectively.
- AGIS trades at 15.4x FY22E EPS of INR12.5 and 8.2x FY21E EV/EBITDA. We expect a CAGR (FY19–22) of 23% in EBITDA and EPS. We value AGIS using the DCF methodology to arrive at a fair value of INR250/share. Maintain Buy.

Exhibit 1: Refinery additions/expansions planned for next 10 years; although LPG imports to increase by 2.7x...



Source: PPAC, MOFSL

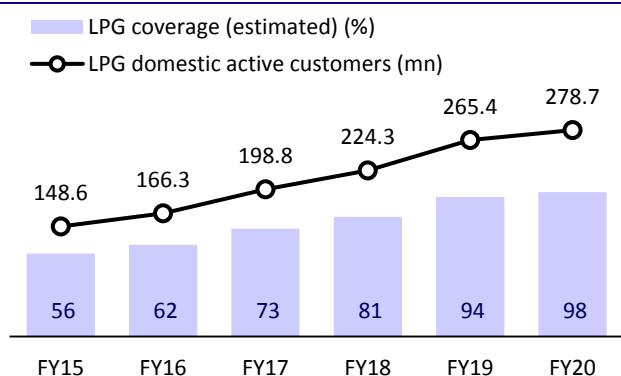
Exhibit 2: ...registering CAGR of 10–12% over the same period

Including all the proposed refinery projects	FY21-25	FY26-31	Remarks
Refining throughput	3.10%	4.80%	
Consumption CAGR	7.00%	7.00%	❖ <--last decade CAGR
Import CAGR	10.50%	10.50%	
Consumption CAGR	8.00%	6.00%	❖ <--last five year CAGR for next five years
Import CAGR	12.20%	8.60%	

Including only work started refinery projects	FY21-25	FY26-31	Remarks
Refining throughput	2.40%	0.00%	❖ <--i.e. excluding projects with unclear timelines
Consumption CAGR	7.00%	7.00%	❖ <--last decade CAGR
Import CAGR	11.00%	12.60%	
Consumption CAGR	8.00%	6.00%	❖ <--last five year CAGR for next five years
Import CAGR	12.60%	10.70%	

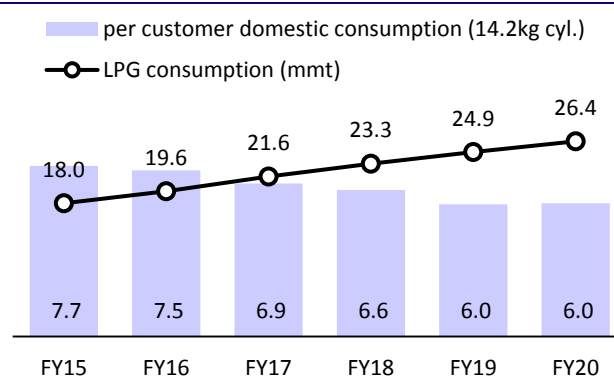
Source: PPAC, MOFSL

Exhibit 3: LPG coverage increases to 97.5% in FY20...



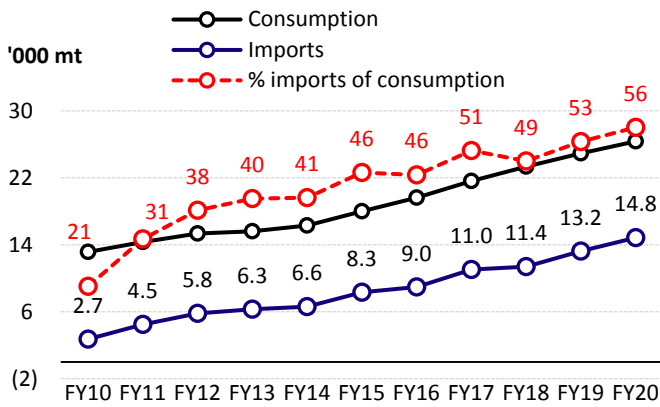
Source: PPAC, MOFSL

Exhibit 4: ...while per connection consumption decreases



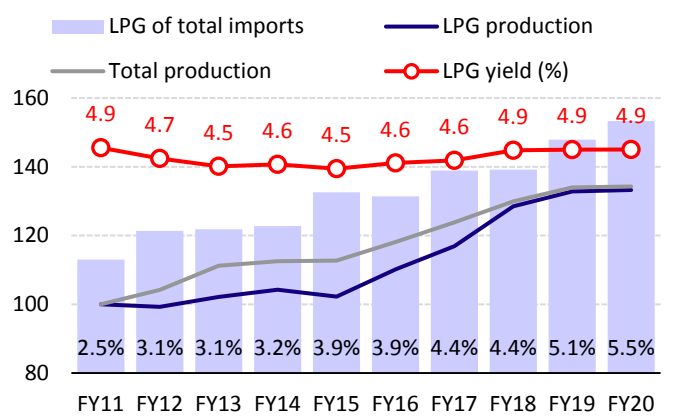
Source: PPAC, MOFSL

Exhibit 5: LPG imports constitute 56% of total consumption



Source: PPAC, MOFSL

Exhibit 6: ...despite ~34% increase in refinery production

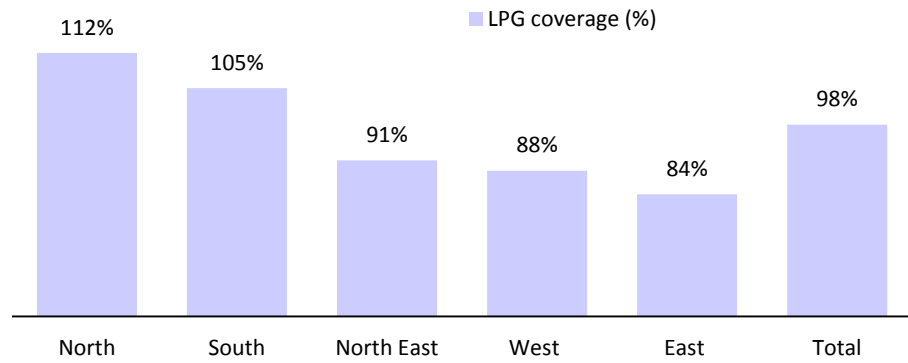


*Total and LPG production are indexed Source: PPAC, MOFSL

Exhibit 7: LPG coverage by regions – Northeastern and eastern being least prolific

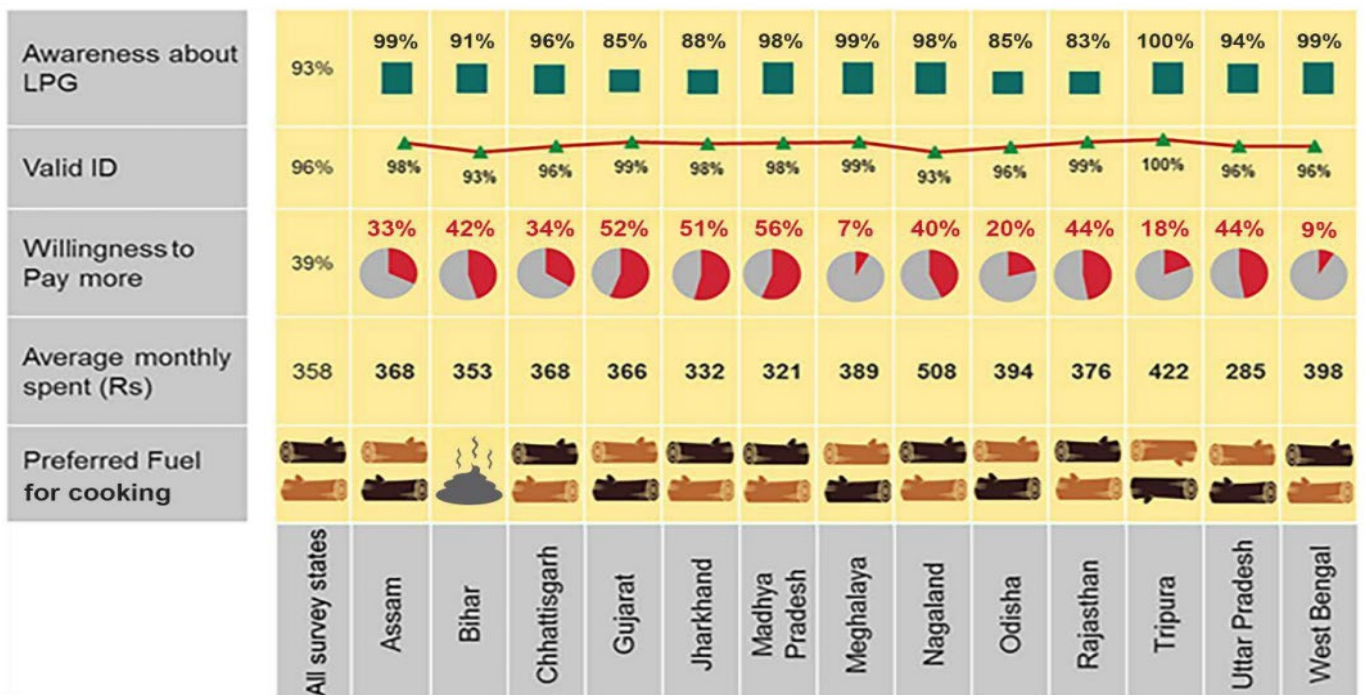
India currently has only ~6.1m PNG connections v/s ~278m LPG connections.

Also, the northern and northeastern parts of the country remain least prolific – the prime retail focus area for Aegis Logistics.



Source: PPAC, MOFSL

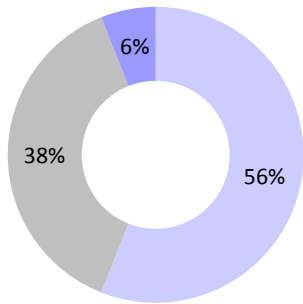
Exhibit 8: PPAC primary survey snapshot



Source: PPAC, MOFSL

Modes of bulk LPG transportation

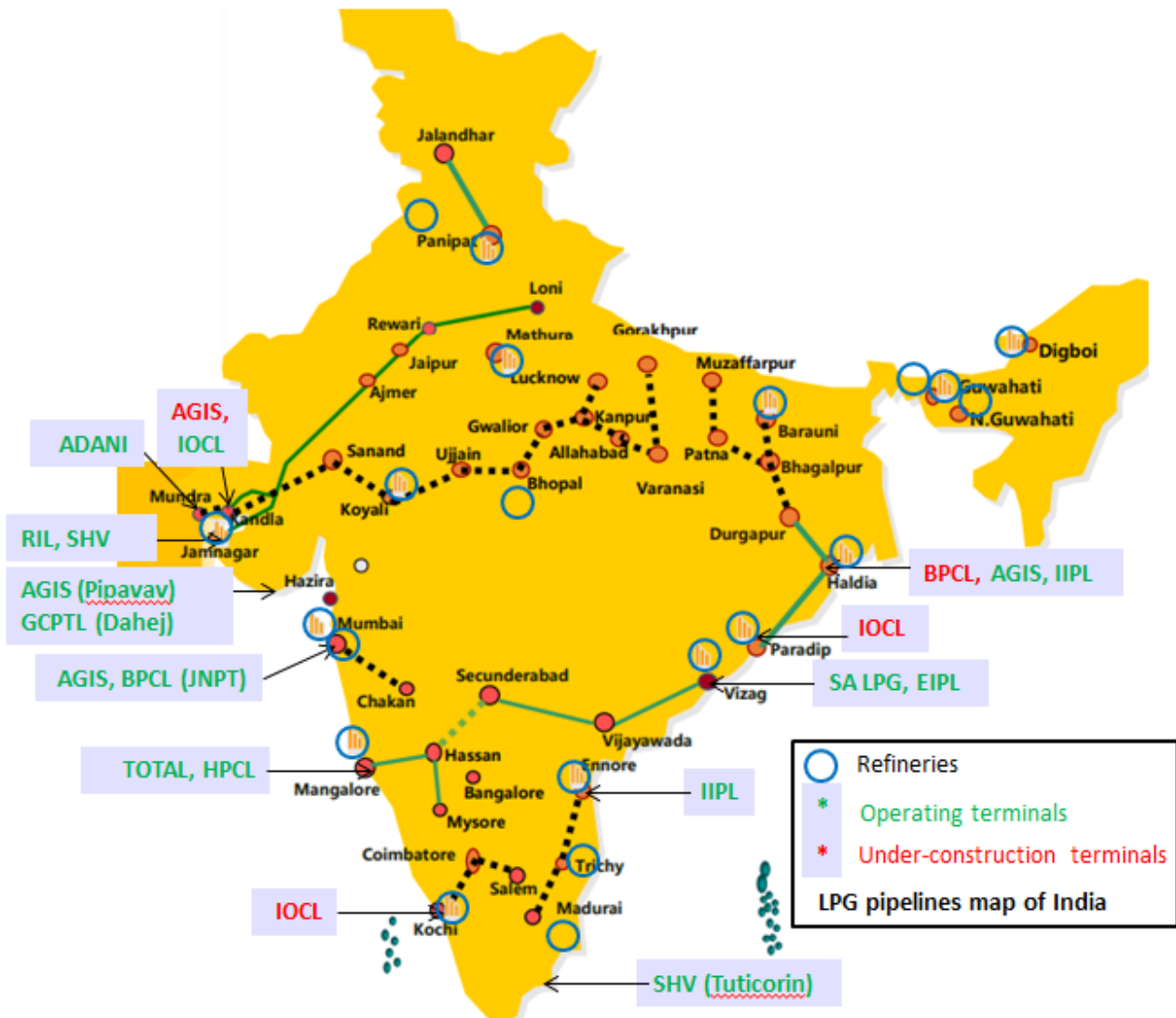
Road Pipelines Railways



Three ports driving AGIS' pragmatic growth potential

- MUMBAI** – The long-awaited (HPCL) Uran–Chakan pipeline is finally complete, and the first gas in the pipeline started flowing from June. **AGIS expects incremental annualized volumes of ~500,000mtpa** (taking the total throughput to 1.2mtpa) through this pipeline at its full utilization.
- PIPAVAV** – AGIS is building a railway gantry (and two additional spheres of 1,900mt each). Nationwide lockdown led to operational closure at Pipavav for six weeks; thus, the project is expected to be delayed by three months and would be commissioned in 3QFY21. **AGIS expects incremental throughput of 300,000–500,000mtpa via the rail route.** The Pipavav Gantry project would be cost-lucrative for OMCs' bottling plants in northern India.
- KANDLA** – A static capacity project of 45,000mmt is expected to be completed by 4QFY21. The project is on the grids of the **Jamnagar–Loni Pipeline (JLPL)** and the proposed Kandla–Gorakhpur LPG Pipeline (KGPL). **Throughput of ~700,000mtpa is expected in the first full year of operation (FY22)**, and another ~700,000mtpa would be OMCs' potential off-take once the pipeline is commissioned.

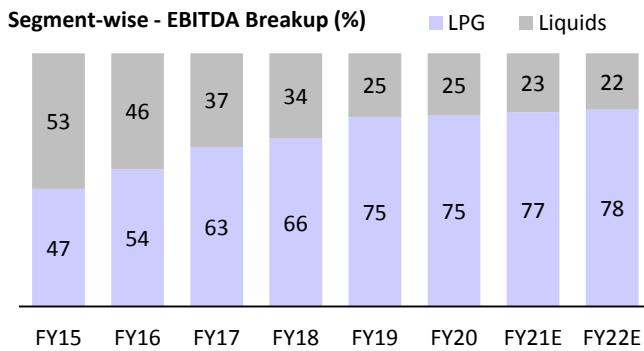
Exhibit 9: LPG terminals, pipelines, and refineries – Snapshot of India



Source: IOCL, PPAC, MOFSL

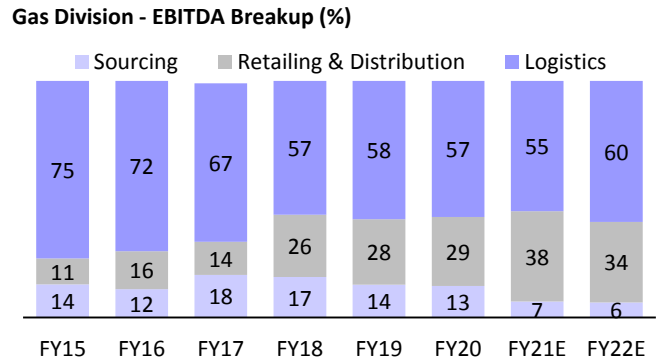
Story in charts

Exhibit 10: Gas division's EBITDA mix to improve...



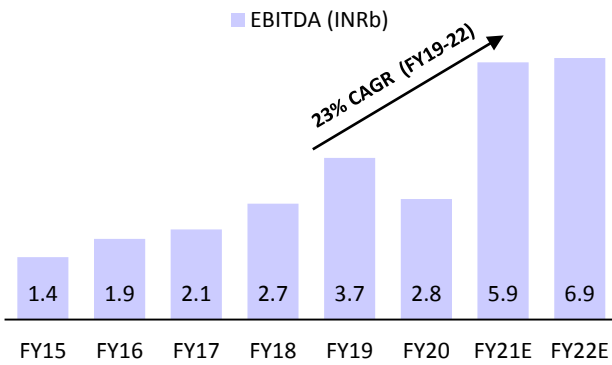
Source: Company, MOFSL

Exhibit 11: ...with logistics contributing 60% to Gas business



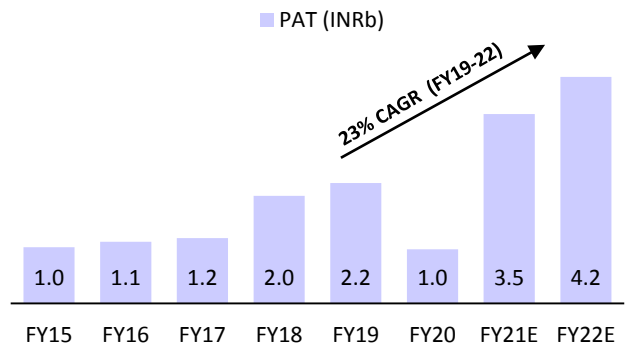
Source: Company, MOFSL

Exhibit 12: EBITDA CAGR of 23% over FY19–22...



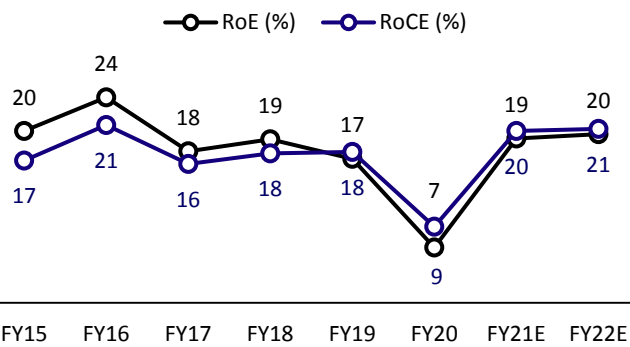
Source: Company, MOFSL

Exhibit 13: ...followed by a similar PAT CAGR



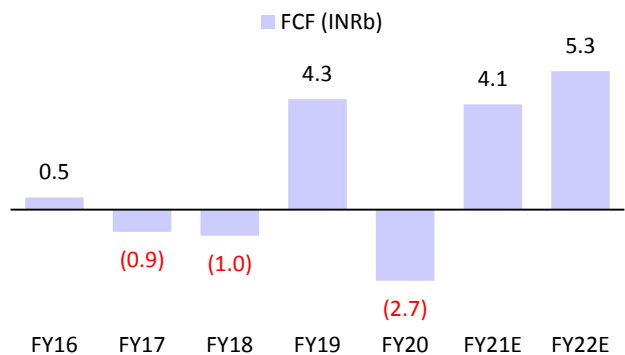
Source: Company, MOFSL

Exhibit 14: Return ratios to hover at +20%



Source: Company, MOFSL

Exhibit 15: Strong FCF yield (~15%)



Source: Company, MOFSL

Financials and valuations

Consolidated - Income Statement								(INR Million)
Y/E March	FY15	FY16	FY17	FY18	FY19	FY20	FY21E	FY22E
Total Income from Operations	39,160	22,132	39,328	47,910	56,158	71,833	81,709	96,230
Change (%)	-22.2	-43.5	77.7	21.8	17.2	27.9	13.7	17.8
EBITDA	1,435	1,853	2,069	2,660	3,709	2,765	5,901	6,861
Margin (%)	3.7	8.4	5.3	5.6	6.6	3.8	7.2	7.1
Depreciation	230	234	243	343	505	687	781	845
EBIT	1,205	1,619	1,826	2,317	3,203	2,078	5,120	6,017
Int. and Finance Charges	205	177	161	152	262	331	379	427
Other Income	114	85	52	84	82	328	374	440
PBT bef. EO Exp.	1,114	1,527	1,717	2,248	3,023	2,076	5,114	6,030
EO Items	309	0	0	0	0	0	0	0
PBT after EO Exp.	1,422	1,527	1,717	2,248	3,023	2,076	5,114	6,030
Total Tax	299	265	377	110	502	736	1,289	1,519
Tax Rate (%)	21.0	17.4	22.0	4.9	16.6	35.5	25.2	25.2
Minority Interest	89	128	137	160	307	344	344	344
Reported PAT	1,034	1,133	1,203	1,978	2,214	996	3,482	4,166
Adjusted PAT	790	1,133	1,203	1,978	2,214	996	3,482	4,166
Change (%)	29.5	43.4	6.1	64.5	11.9	-55.0	249.6	19.7
Margin (%)	2.0	5.1	3.1	4.1	3.9	1.4	4.3	4.3

Consolidated - Balance Sheet								(INR Million)
Y/E March	FY15	FY16	FY17	FY18	FY19	FY20	FY21E	FY22E
Equity Share Capital	334	334	334	334	334	340	340	340
Total Reserves	3,940	4,711	8,038	11,739	13,579	16,206	18,912	22,150
Net Worth	4,274	5,045	8,372	12,073	13,913	16,546	19,252	22,490
Minority Interest	264	393	292	697	748	906	906	906
Total Loans	2,181	1,883	2,548	2,824	1,865	2,156	2,446	2,736
Deferred Tax Liabilities	189	229	879	705	834	309	309	309
Capital Employed	6,908	7,550	12,092	16,299	17,361	19,917	22,913	26,441
Gross Block	6,540	6,951	10,078	15,756	16,728	21,116	21,116	21,116
Less: Accum. Deprn.	2,139	2,371	2,614	2,957	3,463	4,150	4,931	5,775
Net Fixed Assets	4,401	4,580	7,464	12,799	13,265	16,966	16,185	15,340
Goodwill on Consolidation	137	137	19	25	22	21	21	21
Capital WIP	339	734	3,127	1,256	1,207	2,201	2,884	3,271
Curr. Assets, Loans&Adv.	4,276	3,537	9,743	8,059	9,688	9,946	14,157	19,998
Inventory	204	115	218	260	338	421	462	545
Account Receivables	2,012	972	7,059	3,469	2,285	4,540	5,165	6,082
Cash and Bank Balance	1,054	967	623	1,620	4,129	2,634	5,857	10,223
Loans and Advances	1,007	1,482	1,844	2,710	2,936	2,350	2,673	3,148
Curr. Liability & Prov.	2,459	1,442	8,264	5,841	6,926	9,290	10,408	12,262
Account Payables	1,979	894	6,778	3,788	4,853	4,016	4,407	5,196
Other Current Liabilities	379	402	1,374	1,918	1,927	5,096	5,796	6,826
Net Current Assets	1,817	2,095	1,480	2,218	2,762	655	3,750	7,736
Appl. of Funds	6,908	7,550	12,092	16,299	17,360	19,917	22,913	26,441

E: MOFSL Estimates

Financials and valuations

Ratios

Y/E March	FY15	FY16	FY17	FY18	FY19	FY20	FY21E	FY22E
EPS	2.4	3.4	3.6	5.9	6.6	3.0	10.4	12.5
Cash EPS	3.1	4.1	4.3	6.9	8.1	5.0	12.8	15.0
BV/Share	12.8	15.1	25.1	36.1	41.7	49.5	57.6	67.3
DPS	0.8	0.9	0.7	1.5	1.4	1.7	2.0	2.4
Payout (%)	24.5	31.9	22.4	28.8	24.3	65.6	22.3	22.3
Valuation (x)								
P/E	80.9	56.4	53.2	32.3	28.9	64.2	18.4	15.4
Cash P/E	62.7	46.8	44.2	27.6	23.5	38.0	15.0	12.8
P/BV	15.0	12.7	7.6	5.3	4.6	3.9	3.3	2.8
EV/Sales	1.7	2.9	1.7	1.4	1.1	0.9	0.7	0.6
EV/EBITDA	45.4	35.0	31.8	24.5	16.6	23.0	10.3	8.2
Dividend Yield (%)	0.4	0.5	0.4	0.8	0.7	0.9	1.1	1.3
FCF per share	2.2	1.4	-2.6	-3.0	12.7	-8.2	12.1	16.0
Return Ratios (%)								
RoE	20.3	24.3	17.9	19.4	17.0	6.5	19.5	20.0
RoCE	16.8	21.0	16.4	17.7	17.9	9.0	20.3	20.6
RoIC	18.5	24.0	20.1	20.3	21.1	10.0	26.3	33.4
Working Capital Ratios								
Fixed Asset Turnover (x)	6.0	3.2	3.9	3.0	3.4	3.4	3.9	4.6
Asset Turnover (x)	5.7	2.9	3.3	2.9	3.2	3.6	3.6	3.6
Inventory (Days)	2	2	2	2	2	2	2	2
Debtor (Days)	19	16	66	26	15	23	23	23
Creditor (Days)	18	15	63	29	32	20	20	20
Leverage Ratio (x)								
Current Ratio	1.7	2.5	1.2	1.4	1.4	1.1	1.4	1.6
Interest Cover Ratio	5.9	9.2	11.3	15.2	12.2	6.3	13.5	14.1
Net Debt/Equity	0.2	0.2	0.2	0.1	-0.2	0.0	-0.2	-0.3

Consolidated - Cash Flow Statement

Y/E March	FY15	FY16	FY17	FY18	FY19	FY20	FY21E	FY22E
OP/(Loss) before Tax	1,422	1,527	1,717	2,248	3,023	2,076	5,114	6,030
Depreciation	230	234	243	343	505	687	781	845
Interest & Finance Charges	123	122	135	69	180	3	5	-13
Direct Taxes Paid	-110	-405	-287	-110	-502	-736	-1,289	-1,519
(Inc)/Dec in WC	-118	-76	-250	258	1,966	612	129	379
CF from Operations	1,547	1,402	1,558	2,808	5,172	2,641	4,741	5,721
CF from Operating incl EO	1,223	1,384	1,544	2,808	5,172	2,641	4,741	5,721
(Inc)/Dec in FA	-474	-916	-2,401	-3,813	-919	-5,381	-683	-387
Free Cash Flow	750	468	-858	-1,005	4,253	-2,740	4,058	5,334
(Pur)/Sale of Investments	260	215	5	2	-104	31	0	0
CF from Investments	-128	-641	-2,354	-1,206	-597	-4,292	-310	53
Inc/(Dec) in Debt	-229	-298	982	276	-959	290	290	290
Interest Paid	-199	-177	-205	-152	-262	-331	-379	-427
Dividend Paid	-339	-356	-311	-569	-538	-654	-776	-928
CF from Fin. Activity	-767	-831	467	-605	-2,066	155	-1,208	-1,409
Inc/Dec of Cash	329	-87	-344	997	2,509	-1,495	3,223	4,365
Opening Balance	725	1,054	967	623	1,620	4,129	2,634	5,857
Closing Balance	1,054	967	623	1,620	4,129	2,634	5,857	10,223

E: MOFSL Estimates

Explanation of Investment Rating	
Investment Rating	Expected return (over 12-month)
BUY	>=15%
SELL	< - 10%
NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

*In case the recommendation given by the Research Analyst is inconsistent with the investment rating legend for a continuous period of 30 days, the Research Analyst shall within following 30 days take appropriate measures to make the recommendation consistent with the investment rating legend.

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