

Aegis Logistics

BSE SENSEX	S&P CNX
35,322	10,736
Bloomberg	AGIS IN
Equity Shares (m)	334.0
M.Cap.(INRb)/(USD\$)	91.2/1.2
52-Week Range (INR)	300 / 170
1, 6, 12 Rel. Per (%)	-6/10/16
Avg Val, INRm	89.0
Free float (%)	39.5

Financials & Valuations (INR b)

Y/E Mar	2018	2019E	2020E
Net Sales	47.9	63.9	82.0
EBITDA	2.7	4.5	5.6
PAT	2.0	3.0	3.9
EPS (INR)	5.9	9.1	11.6
EPS Gr. (%)	64.5	53.5	27.9
BV/Sh (INR)	36.1	42.9	51.6
RoE (%)	19.4	23.0	24.6
RoCE (%)	17.7	20.7	23.1
P/E (x)	46.1	30.1	23.5
P/BV (x)	7.6	6.4	5.3
EV/EBITDA (x)	34.7	20.1	15.7
EV/Sales (x)	1.9	1.4	1.1

Estimate change	↔
TP change	↔
Rating change	↔

CMP: INR273
TP: INR318 (+16%)
Buy

EBITDA below estimate; Haldia ramp-up on track

AGIS's 4QFY18 reported EBITDA of INR699m (+35% YoY; -3% QoQ), below our estimate of INR765m, led by weak performance of liquid terminal division. PAT grew 62% YoY (declined 10% QoQ) to INR483m, lower than our estimate of INR600m due to higher depreciation of INR133m (our estimate: INR86m; +124% YoY, +48% QoQ) and higher than expected minority interest.

- **Gas division EBITDA grew 39% YoY (declined 9% QoQ)** to INR540m in 4QFY18. While logistics volumes grew 25% YoY (declined 11% QoQ) to 484kmt, sourcing volumes grew 4% YoY (declined 7% QoQ) to 285kmt and distribution volumes grew 35% YoY (2% QoQ) to 21kmt. Logistics volume growth should remain strong led by the ramp-up of Haldia and Pipavav terminals.
- **Liquids division EBITDA declined 5% YoY (1% QoQ)** to INR242m in 4QFY18. While Mumbai, Kochi and Haldia are operating at full capacity, Pipavav is operating at ~25% utilization. Profitability during the quarter was impacted because of shift in product mix. Kandla and Mangalore terminals are expected to start operations in 1QFY19 and 2QFY19, respectively.
- For FY18, EBITDA grew 29% to INR2.7b and PAT grew 64% to INR1.98b. Gas division EBITDA grew 32% to INR2b and Liquids division EBITDA grew 13% to INR1b.
- Management has recommended a final dividend of INR0.75/share, in addition to an interim dividend of INR0.5/share.

Valuation and view

We believe AGIS is a key beneficiary of India's rising LPG consumption. With ramp-up of Haldia and Pipavav LPG terminals, we expect 49% CAGR in AGIS' logistics volumes over FY18-20. We expect a CAGR of 45% in EBITDA and 40% in EPS over FY18-20. We value AGIS using DCF, with WACC of 11.2% and terminal growth of 3.5%. We arrive at a fair value of INR318/share, implying 16% upside. The stock trades at 23.5x FY20E EPS of INR11.6 and 15.7x FY20E EV/EBITDA. Maintain **Buy**.

Consolidated - Quarterly Earning Model

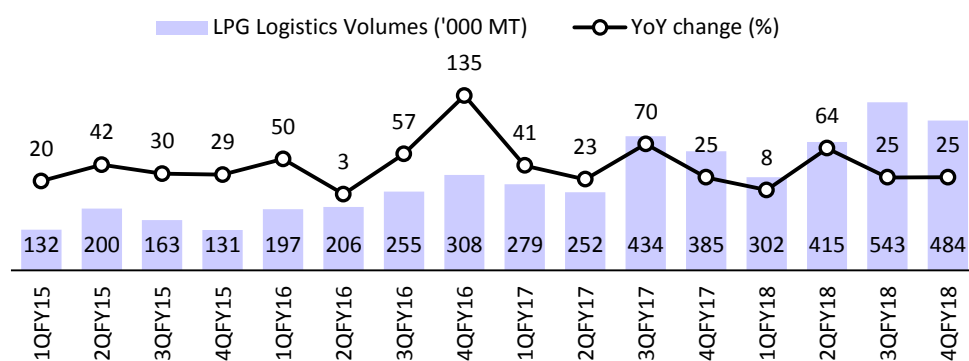
Y/E March	FY17				FY18				FY17	FY18	FY18	Var vs
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q			4QE	est (%)
Net Sales	7,393	6,760	12,481	12,678	8,560	12,409	14,421	12,519	39,311	47,910	16,304	-23%
YoY Change (%)	-1.6	36.3	136.0	190.1	15.8	83.6	15.5	-1.3	77.6	21.9	28.6	
EBITDA	472	462	605	519	566	678	717	699	2,057	2,660	765	-9%
Margins (%)	6.4	6.8	4.8	4.1	6.6	5.5	5.0	5.6	5.2	5.6	4.7	
Depreciation	60	61	61	60	57	63	90	133	241	343	86	55%
Interest	42	42	38	41	34	34	49	36	162	152	53	-33%
Other Income	16	15	9	14	16	14	14	40	54	84	19	116%
PBT	385	374	515	433	491	595	592	570	1,708	2,248	644	-12%
Tax	68	99	93	112	23	36	28	24	372	110	39	-38%
Rate (%)	17.7	26.4	18.1	25.7	4.6	6.0	4.7	4.2	21.8	4.9	6.0	
MI & P/L of Asso. Cos.	42	26	46	24	29	39	29	63	137	160	6	990%
Reported PAT	275	250	376	298	440	521	535	483	1,198	1,978	600	-20%
Adj PAT	275	250	376	298	440	521	535	483	1,198	1,978	600	-20%
YoY Change (%)	8.9	-6.2	25.5	-5.6	59.8	108.5	42.5	62.1	5.7	65.1	101.5	
Margins (%)	3.7	3.7	3.0	2.3	5.1	4.2	3.7	3.9	3.0	4.1	3.7	

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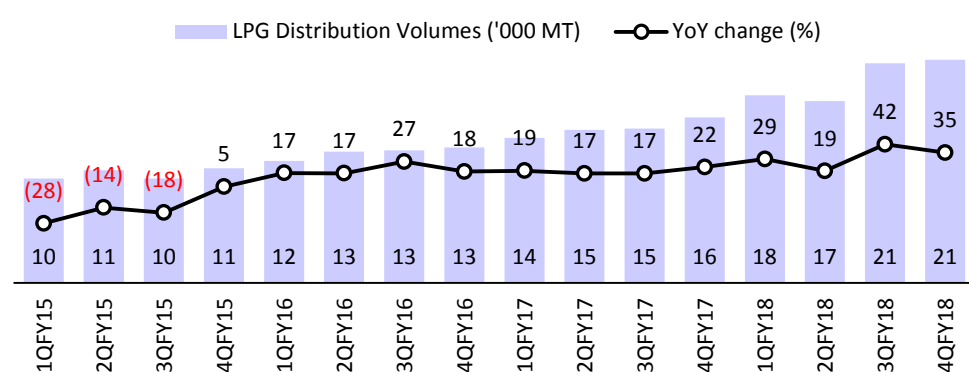
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Investors are advised to refer through important disclosures made at the last page of the Research Report.

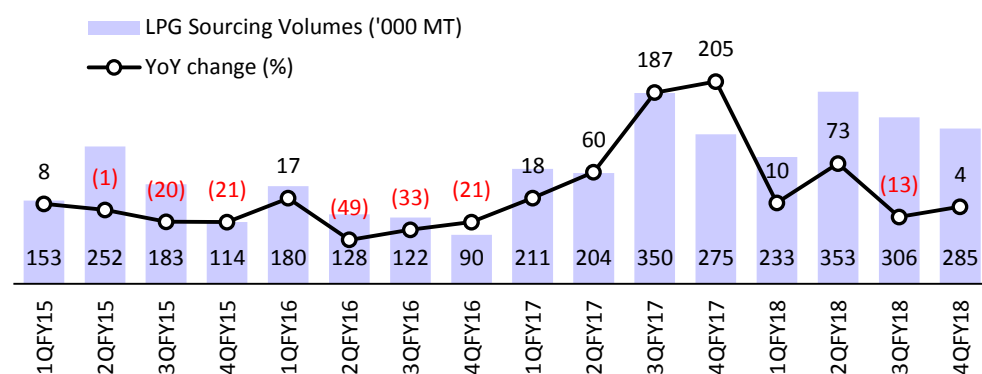
Motilal Oswal research is available on www.motilaloswal.com/Institutional-Equities, Bloomberg, Thomson Reuters, Factset and S&P Capital.

Exhibit 1: LPG logistics volumes grew 25% YoY in 4QFY18

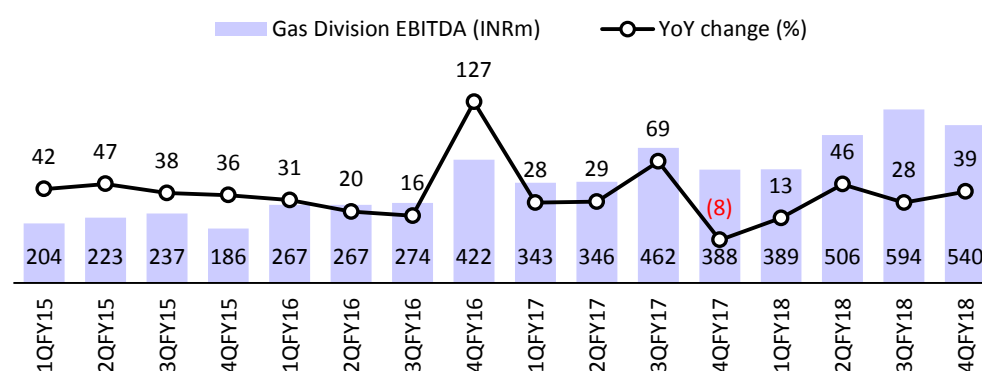
Source: Company, MOSL

Exhibit 2: LPG distribution volumes grew 35% YoY in 4QFY18

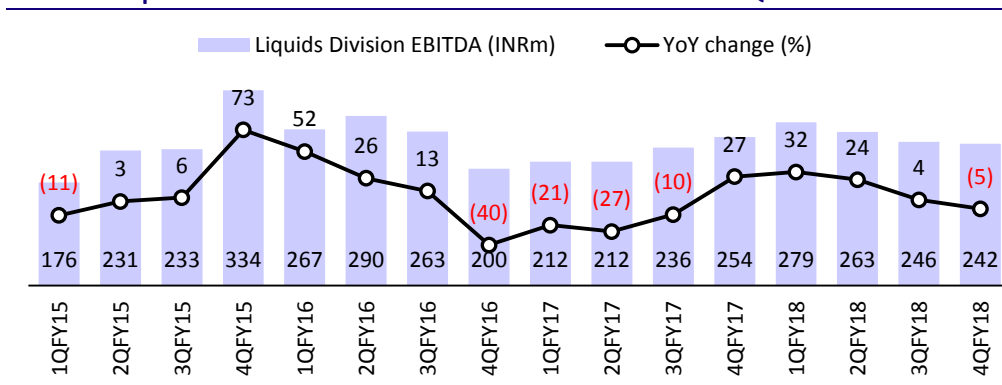
Source: Company, MOSL

Exhibit 3: LPG sourcing volumes grew 4% YoY in 4QFY18

Source: Company, MOSL

Exhibit 4: Gas division EBITDA grew 39% YoY to INR540m in 4QFY18

Source: Company, MOSL

Exhibit 5: Liquids division EBITDA declined 5% YoY to INR242m in 4QFY18

Source: Company, MOSL

Valuation and view

- AGIS has been a key beneficiary of the government's thrust on increasing penetration of LPG. We expect a CAGR of 45% in EBITDA and 40% in EPS over FY18-20.
- With major capex behind, we expect strong free cash flow generation of ~INR7b over FY19-20. Return ratios are expected to improve, going ahead: RoE is likely to improve from 19% in FY18 to 25% in FY20, while RoCE is expected to improve from 18% to 27% over the same period.
- In our view, the significant re-rating of AGIS' stock price over FY14-18 can be attributed to the pick-up in LPG throughput and greenfield expansion plans of the Haldia LPG terminal.
- While management is expected to announce a new gas terminal in the coming days, we are not factoring in capacity expansion until FY20E in our numbers. Further capacity expansion before FY20 can pose an upside risk to our earnings estimates.
- We expect a CAGR of 45% in EBITDA and 40% in EPS over FY18-20. We value AGIS using the DCF methodology with WACC of 11.2% and terminal growth of 3.5% to arrive at fair value of INR318/share, implying 16% upside. The stock trades at 23.5x FY20E EPS of INR11.6 and 15.7x FY20E EV/EBITDA. Maintain **Buy**.

Exhibit 6: DCF summary

AGIS - DCF Valuation	FY18	FY19E	FY20E	FY21E	FY22E	FY23E	FY24E	FY25E	FY26E	FY27E	FY28E	FY29E	FY30E
AGIS EBITDA (INRm)	2,681	4,360	5,408	7,247	8,546	9,665	11,020	12,222	13,791	15,498	17,368	18,571	20,520
Depreciation	343	435	460	487	589	589	725	725	725	725	725	725	725
EBIT	2,338	3,925	4,948	6,759	7,957	9,075	10,295	11,497	13,066	14,773	16,643	17,846	19,796
Tax rate (%)	5	22	22	22	22	22	22	22	22	22	22	22	22
Capital expenditure	3,797	500	500	1,500	1,000	1,000	1,000	300	300	300	300	300	300
Change in WC	-258	275	232	232	159	199	228	263	302	415	378	368	332
FCFF (INRm)	-972	2,722	3,588	4,028	5,637	6,469	7,526	9,130	10,314	11,533	13,029	13,976	15,534
Year		1	2	3	4	5	6	7	8	9	10	11	
Discount factor		0.90	0.81	0.73	0.65	0.59	0.53	0.48	0.43	0.39	0.35	0.31	
PV(FCFF)		2,448	2,903	2,932	3,692	3,812	3,989	4,353	4,424	4,450	4,523	4,364	

Source: Company, MOSL

Exhibit 7: WACC of 11.2% and TGR of 3.5%

WACC Calculation	
Debt/Equity	23%
Tax rate	27%
Risk free rate	7.6%
Beta	0.80
Market risk premium	13.5%
Cost of equity	12.3%
Cost of debt	8.5%
WACC	11.2%

Source: Company, MOSL

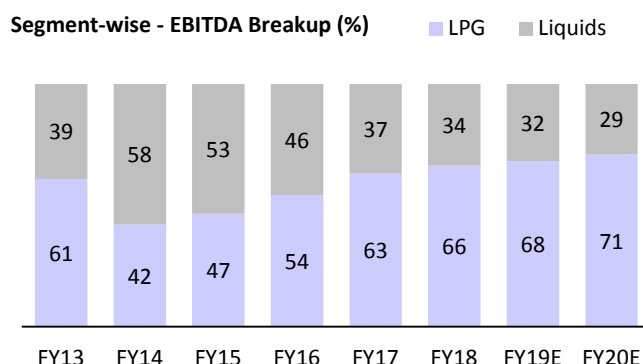
Exhibit 8: We arrive at a fair value of INR318/share

DCF Valuation - Valued at the end of FY18	
Terminal cash flow (INRm)	15,534
Terminal growth rate	3.5%
Terminal value (INRm)	209,869
PV (Terminal Value)	65,537
PV (CF over FY19-23E)	41,891
Enterprise value (INRm)	107,428
Net debt (INRm)	1,204
Equity value (INRm)	106,224
Equity Shares (m)	334
Target price (INR)	318

Source: Company, MOSL

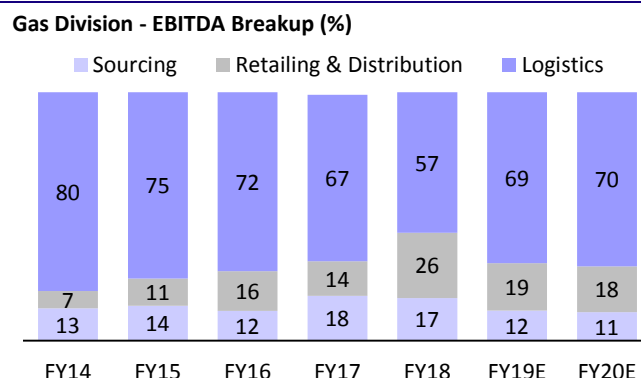
Story in charts

Exhibit 9: Gas division contribution to increase



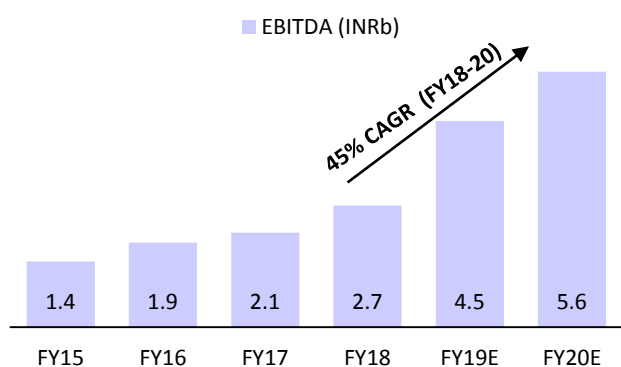
Source: Company, MOSL

Exhibit 10: Logistics segment to lead gas division



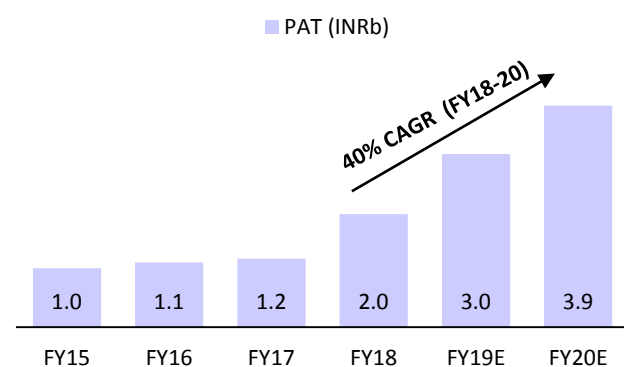
Source: Company, MOSL

Exhibit 11: We expect AGIS' EBITDA to grow at 45% CAGR over FY18-20, led by strong growth of LPG division



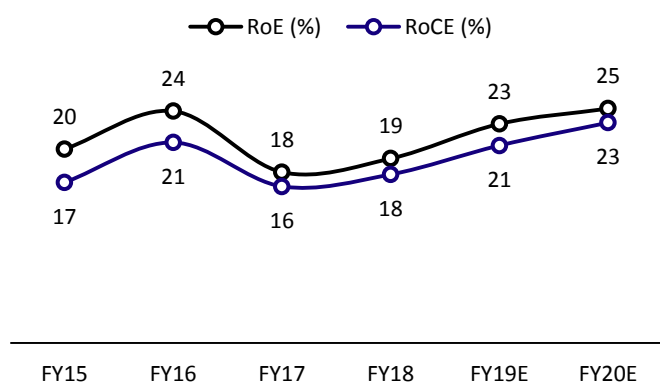
Source: Company, MOSL

Exhibit 12: PAT to grow at 40% CAGR over FY18-20



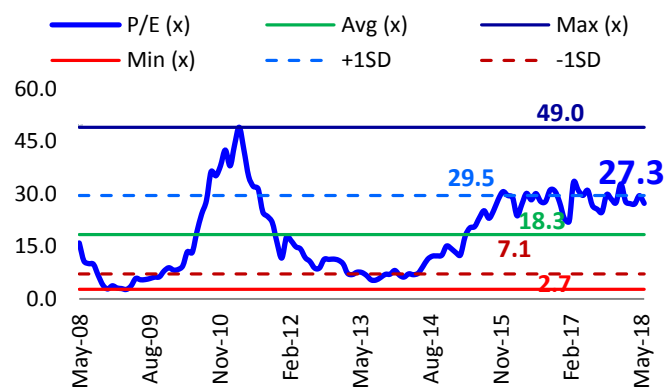
Source: Company, MOSL

Exhibit 13: Return ratios to improve further; RoE/RoCE to hover above 20%



Source: Company, MOSL

Exhibit 14: AGIS 1-year forward P/E



Source: Company, MOSL

Financials and Valuations

Consolidated - Income Statement

(INR Million)

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E
Total Income from Operations	50,309	39,160	22,132	39,328	47,910	63,907	81,987
Change (%)	26.4	-22.2	-43.5	77.7	21.8	33.4	28.3
Purchases of Stock-in-Trade	48,038	36,352	18,739	35,669	43,545	56,238	72,148
Employees Cost	350	409	469	462	471	504	539
Other Expenses	844	964	1,071	1,128	1,234	2,656	3,711
Total Expenditure	49,232	37,725	20,279	37,259	45,250	59,398	76,398
% of Sales	97.9	96.3	91.6	94.7	94.4	92.9	93.2
EBITDA	1,077	1,435	1,853	2,069	2,660	4,509	5,589
Margin (%)	2.1	3.7	8.4	5.3	5.6	7.1	6.8
Depreciation	222	230	234	243	343	435	460
EBIT	855	1,205	1,619	1,826	2,317	4,074	5,128
Int. and Finance Charges	185	205	177	161	152	145	113
Other Income	129	114	85	52	84	111	143
PBT bef. EO Exp.	799	1,114	1,527	1,717	2,248	4,041	5,158
EO Items	0	309	0	0	0	0	0
PBT after EO Exp.	799	1,422	1,527	1,717	2,248	4,041	5,158
Total Tax	112	299	265	377	110	889	1,135
Tax Rate (%)	14.1	21.0	17.4	22.0	4.9	22.0	22.0
Minority Interest	76	89	128	137	160	116	141
Reported PAT	611	1,034	1,133	1,203	1,978	3,036	3,882
Adjusted PAT	611	790	1,133	1,203	1,978	3,036	3,882
Change (%)	81.7	29.5	43.4	6.1	64.5	53.5	27.9
Margin (%)	1.2	2.0	5.1	3.1	4.1	4.7	4.7

Consolidated - Balance Sheet

(INR Million)

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E
Equity Share Capital	334	334	334	334	334	334	334
Total Reserves	3,168	3,940	4,711	8,038	11,739	14,006	16,905
Net Worth	3,502	4,274	5,045	8,372	12,073	14,340	17,239
Minority Interest	126	264	393	292	697	697	697
Total Loans	2,410	2,181	1,883	2,548	2,824	2,274	1,724
Deferred Tax Liabilities	164	189	229	879	705	705	705
Capital Employed	6,202	6,908	7,550	12,092	16,299	18,016	20,365
Gross Block	6,003	6,540	6,951	10,078	15,740	16,994	17,645
Less: Accum. Deprn.	1,879	2,139	2,371	2,614	2,941	3,376	3,836
Net Fixed Assets	4,124	4,401	4,580	7,464	12,799	13,618	13,809
Goodwill on Consolidation	137	137	137	19	25	25	25
Capital WIP	354	339	734	3,127	1,256	501	350
Total Investments	113	213	4	2	0	0	0
Curr. Assets, Loans&Adv.	4,134	4,276	3,537	9,743	8,059	11,581	16,088
Inventory	249	204	115	218	260	341	439
Account Receivables	2,058	2,012	972	7,059	3,469	4,628	5,937
Cash and Bank Balance	726	1,054	967	623	1,620	2,997	5,074
Loans and Advances	1,102	1,007	1,482	1,844	2,710	3,615	4,638
Curr. Liability & Prov.	2,660	2,459	1,442	8,264	5,841	7,711	9,908
Account Payables	2,096	1,979	894	6,778	3,788	4,973	6,396
Other Current Liabilities	366	379	402	1,374	1,918	2,558	3,282
Provisions	198	101	145	112	135	180	231
Net Current Assets	1,474	1,817	2,095	1,480	2,218	3,870	6,179
Appl. of Funds	6,201	6,908	7,550	12,092	16,299	18,015	20,365

E: MOSL Estimates

Financials and Valuations

Ratios

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E
Basic (INR)							
EPS	1.8	2.4	3.4	3.6	5.9	9.1	11.6
Cash EPS	2.5	3.1	4.1	4.3	6.9	10.4	13.0
BV/Share	10.5	12.8	15.1	25.1	36.1	42.9	51.6
DPS	0.5	0.8	0.9	0.7	1.3	2.0	2.6
Payout (%)	33.6	24.5	31.9	22.4	25.3	25.3	25.3
Valuation (x)							
P/E		115.4	80.5	75.9	46.1	30.1	23.5
Cash P/E		89.4	66.7	63.1	39.3	26.3	21.0
P/BV		21.3	18.1	10.9	7.6	6.4	5.3
EV/Sales		2.4	4.2	2.4	1.9	1.4	1.1
EV/EBITDA		64.4	49.7	45.0	34.7	20.1	15.7
Dividend Yield (%)	0.2	0.3	0.3	0.3	0.5	0.7	0.9
FCF per share	2.6	2.2	1.4	-2.6	-3.0	8.5	11.1
Return Ratios (%)							
RoE	18.5	20.3	24.3	17.9	19.4	23.0	24.6
RoCE	13.7	16.8	21.0	16.4	17.7	20.7	23.1
RoIC	17.0	18.5	24.0	20.1	20.3	22.7	27.2
Working Capital Ratios							
Fixed Asset Turnover (x)	8.4	6.0	3.2	3.9	3.0	3.8	4.6
Asset Turnover (x)	8.1	5.7	2.9	3.3	2.9	3.5	4.0
Inventory (Days)	2	2	2	2	2	2	2
Debtor (Days)	15	19	16	66	26	26	26
Creditor (Days)	15	18	15	63	29	28	28
Leverage Ratio (x)							
Current Ratio	1.6	1.7	2.5	1.2	1.4	1.5	1.6
Interest Cover Ratio	4.6	5.9	9.2	11.3	15.2	28.2	45.2
Net Debt/Equity	0.4	0.2	0.2	0.2	0.1	-0.1	-0.2

Consolidated - Cash Flow Statement

(INR Million)

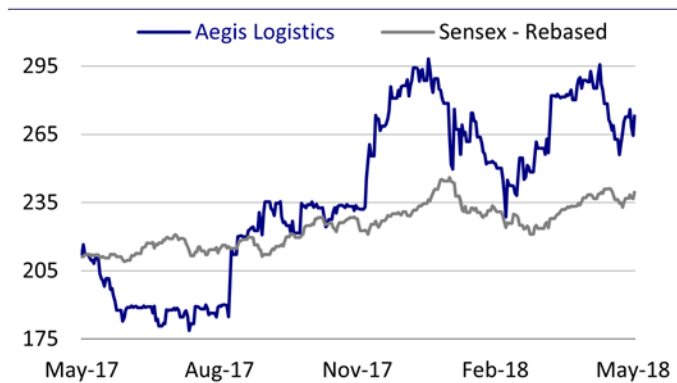
Y/E March	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E
OP/(Loss) before Tax	799	1,422	1,527	1,717	2,248	4,041	5,158
Depreciation	222	230	234	243	343	435	460
Interest & Finance Charges	88	123	122	135	69	33	-30
Direct Taxes Paid	-225	-110	-405	-287	-110	-889	-1,135
(Inc)/Dec in WC	4	-118	-76	-250	258	-275	-232
CF from Operations	888	1,547	1,402	1,558	2,808	3,345	4,222
Others	-9	-324	-18	-14	0	0	0
CF from Operating incl EO	879	1,223	1,384	1,544	2,808	3,345	4,222
(Inc)/Dec in FA	0	-474	-916	-2,401	-3,797	-500	-500
Free Cash Flow	879	750	468	-858	-989	2,845	3,722
(Pur)/Sale of Investments	43	260	215	5	2	0	0
Others	-960	85	60	42	2,521	111	143
CF from Investments	-917	-128	-641	-2,354	-1,275	-389	-357
Issue of Shares	0	0	0	0	0	0	0
Inc/(Dec) in Debt	-909	-229	-298	982	276	-550	-550
Interest Paid	-190	-199	-177	-205	-152	-145	-113
Dividend Paid	-183	-339	-356	-311	-501	-769	-983
Others	0	0	0	0	-160	-116	-141
CF from Fin. Activity	-1,282	-767	-831	467	-537	-1,579	-1,787
Inc/Dec of Cash	-1,320	329	-87	-344	996	1,377	2,078
Opening Balance	2,045	725	1,054	967	623	1,619	2,997
Closing Balance	725	1,054	967	623	1,619	2,997	5,074

Corporate profile

Company description

Aegis Group plays a key role in India's downstream oil and gas sector, and its flagship company, Aegis Logistics Limited, is India's leading oil, gas, and chemical logistics company. Our vision is to be the industry leader in our business segments by delivering superior customer service with a focus on quality, safety, and environmental standards.

Exhibit 1: Sensex rebased



Source: MOSL/Bloomberg

Exhibit 2: Shareholding pattern (%)

	Mar-18	Dec-17	Mar-17
Promoter	60.5	60.5	61.5
DII	2.6	2.8	2.4
FII	11.4	11.3	12.5
Others	25.5	25.5	23.6

Note: FII Includes depository receipts

Source: Capitaline

Exhibit 3: Top holders

Holder Name	% Holding
Government Pension Fund Global	3.0
L&T Mutual Fund Trustee Limited-L&T Emerging Businesses Fund	1.6

Source: Capitaline

Exhibit 4: Top management

Name	Designation
Raj K Chandaria	Chairman & Managing Director
Anish K Chandaria	Vice Chairman & M.D.

Source: Capitaline

Exhibit 5: Directors

Name	Name
A M Chandaria	Jaideep Dinesh Khimasia
K S Nagpal	Tanvir Koreishi
Rahul Asthana	
Raj Kishore Singh	

*Independent

Exhibit 6: Auditors

Name	Type
Deloitte Haskins & Sells LLP	Statutory
P D Kunte & Co	Statutory
Prasen Naithani	Secretarial Audit

Source: Capitaline

Exhibit 7: MOSL forecast v/s consensus

EPS (INR)	MOSL forecast	Consensus forecast	Variation (%)
FY19	9.1	8.3	9.0
FY20	11.6	11.5	1.3

Source: Bloomberg

NOTES

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 becomes inconsistent with the investment rating legend, the Research Analyst shall within 28 days of the inconsistency, take appropriate measures to make the recommendation consistent with the investment rating legend.

Disclosures:

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