



“Aegis Logistics Limited Q2 FY13 Earnings Conference Call”

October 30, 2012



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Moderator:

Ladies and gentlemen, good day, and welcome to the Aegis Logistics Limited Q2FY13 Earnings Conference call. As a reminder for the duration of this conference, all participants' lines will be in the listen-only mode and there will be an opportunity for you to ask questions at the end of today's presentation. Should you need assistance during this conference call please signal an operator by pressing '*' and then '0' on your touchtone telephone. Please note that this conference is being recorded. At this time I would like to hand the conference over to Mr. Anish Chandaria – Managing Director, thank you and over to you, Sir.

Anish Chandaria:

Thank you very much. I am going to present the quarter 2 results for Aegis Logistics. I will start with net sales, for quarter 2, was Rs. 882.6 crores versus Rs. 998 crores year earlier. Profit before interest and tax EBIT in quarter 2 was Rs. 60.99 crores versus a loss last year of Rs. 12.53 crores, obviously this quarter will include gains on foreign exchange as well as good performance compared to last year where we had suffered mark-to-market losses on foreign exchange in quarter 2. Profit before tax for this quarter was Rs. 44.2 crores versus a loss of Rs. 18.79 crores year earlier again because last year we had mark-to-market losses and profit after tax was Rs. 37.62 crores in this quarter versus a loss of Rs. 18.48 crores last year. Now in the previous earnings calls I had said that we would be winding down overall options book to zero from October 1st onwards, and I am very pleased to say that we have actually stopped all currency options from September 15th for new LPG cargoes. That was a decision taken by the board, that we are going to stop from 1st of October, but we in fact stopped using options for all new LPG cargoes from the 15th of September, so I can confirm that and we have now moved to a generally 15-20 day payment cycle for the LPG cargoes, and taking plain vanilla forward so that there is no hedging risk unlike with currency options, so that is a very significant decision that has been taken and implemented from 15th of September for all new LPG cargoes. For quarter 2 we were able to bank gains on our legacy options book, currency options book, which I will go through the accounting of that a little later in the call. Since, as most of you know the Rupee did rise above 52 after the reforms announcement in September, we were able to take advantage of currency gains on the option and I will explain the account of all that later. Now as far as the old options book that I mentioned, the legacy options book, we will, as I said, wind down to 0 by around February to March 2013, that means in the next four-five months, November, December, January, February, March as those options expire naturally and we will only have to amortize the premium that we have to pay on those options over the next 4 to 5 months, but we do not at the moment expect any mark-to-market losses on this legacy options book over the next 4 to 5 months unless the Rupee falls below 59 to 60. Today the Rupee is around 54, so we think that we have a reasonable chance of avoiding any further issues as far this book is concerned, but the book will return to 0 by March of 2013 in which case that will be the official end of the whole foreign exchange episode, which we have suffered over the last two to three quarters. So, from 15th of September as I reconfirm, of this year, all new LPG cargoes are on full forward cover only, on 15 to 20 days and very little buyers credit etc for these new cargoes, I can confirm that, they are close to the end of the



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whole foreign exchange hedging process that we went through over the last nine months or so. Now let me turn to the underlying analysis of the results for the two segments, first starting with liquid division and then the gas division. As far as the liquid division is concerned, the revenues for quarter 2 were Rs. 26.11 crores versus year earlier Rs. 22.93, and that is a rise of 13.87% in year-on-year, so a very, very healthy increase in the performance of the division, and I believe, I checked with our records that this quarter 2 figure of Rs. 26.11 crores for the quarter, 3 months revenue, is an all time record and I will explain the reasons why. As far as EBITDA is concerned, earnings before interest tax depreciation amortization for this division Rs. 15.22 crores for quarter 2 versus a year earlier Rs. 14.95, so an increase of 1.8%, smaller increase compared to the revenue increase of 13.87%, partly because of product mix and partly because we have actually taken more cargoes into Kochi where we have lower margins, so more revenues, slightly lower margins because of Kochi, but all time record volumes of chemicals in Mumbai, our main facility, and I believe, we are very proud that our operations department has reported a record number of ships handled in 3 months in quarter 2, and tank turnaround, I believe in one day there was 4 ships handled at Mumbai port, which I think is a record for Aegis, that four ships were turned around in one day in one jetty, which is a record, but that is a reflection of the very strong business conditions that we have as far as volumes of chemicals, petroleum, and petrochemicals in Mumbai. I am very pleased to say that even Kochi for the first time since we have acquired this terminal, is 60% full. Most of the time the utilization rate has been 10% or 15% and that is again the result of cargoes coming in to Kochi for the first time. I think as far as second half of the year, that is October to March, we expect this boom in volumes handled to continue for this division, so that is very, very promising.

As far as gas division is concerned, the revenues were Rs. 856.6 crores versus Rs. 973.85 crores a year earlier. The EBITDA for the quarter was Rs. 17.26 crores versus Rs. 19.67 crores a year earlier. That is a drop of 12% in the EBITDA. I think the best way of explaining why there was a drop in the EBITDA of 12% for this division is to look first at the volume as I normally do for all the main segments and to see what was the source of the drop in the EBITDA. The total volumes for the quarter I can report was 137,760 metric tonnes, total volume handled of LPG versus 157,496 tonnes a year earlier, that is a drop of about just short of 20,000 tonnes or 12.5%. The main reason for the drop of 20,000, if you look at the five main segments that we have is the public sector throughput that is the off take by the national oil companies dropped by about 37,000 tonnes in the quarter compared to year earlier. In fact, the other segment that is IPCL Reliance grew by 15,400 tonnes, the auto gas as well as the packed cylinder, as well as the industrial distribution was broadly flat or an increase on most of the segment, but the drop of net 20,000 tonnes for the quarter compared to the year earlier was mainly because of a lower off take from the oil companies of 37,000 tonnes compared to the year earlier. Now I would actually like to spend two to three minutes in explaining why was there a drop in the off take from the oil companies, when for the last three years or four years, we have been talking about the boom, a boom in LPG imports, particularly from the oil companies.



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Most of you will remember that in the month of September particularly there was a sudden reform by the Indian Government to restrict all households in India to 6 cylinders, a cap of 6 subsidized cylinders or may be 9 in state, and I can actually tell you from our information from the oil companies that there has been quite a drop in the off take from the oil companies because they have now, been told by the petroleum ministry to do their KYC, know your client, for every single household whether there are multiple connections, how many cylinders they have had, and they have had a rather a chaotic situation in the last few weeks, which is still ongoing, where they are trying to pinpoint how many subsidized cylinders per household they can actually give. I have actually seen a figure from these oil companies, they have actually discovered in the last one-month alone 5 million connections that they have cancelled because they found that they were illegal connections or whatever it is. So obviously this has resulted in what I would call the short term blip in the off take of imports as well as even the domestic production, while the oil companies sort out the exact position regarding the household connections for domestic cooking gas cylinders, and I would expect this to continue for a few months more while the oil companies cleared the registrations and the connections for households. We already know that they are going to restrict households to only three more subsidized cylinders for the second half of the year and then everything else is at market prices, so I think this is something that we will have to expect in the coming two quarters, quarter 3, and possibly also in quarter 4, and before which once they clean up all these registration and connection issues, we do expect a long term trend of LPG demand growth to stay very positive, but when a major reform like this happens, we would expect this to continue. This is in the off take for the oil companies, but as I said, as far as the other segments are concerned, in fact the impact of the cylinder cap is extremely positive, so let me just talk a little bit about two of those segments, first auto gas and then I will come to the commercial cylinders. Now on the auto gas segment, as most of you will recall who have attended the earnings from before; there is a tremendous diversion of illegal cooking gas cylinders as much as 890,000 metric tonnes per year in India of subsidized cooking gas cylinders leaking into auto LPG sales, into the transportation sector. Now we feel that with the restriction to 6 cylinders per household, there is going to be a major impact on the illegal diversion of cooking gas cylinders into auto gas. We have seen the first evidence of this already in the month of October where the auto gas sales have gone up in some stations by as much as 40 to 50%. I can give a couple of examples in Andhra Pradesh and Rajasthan, where the sales in one of our stations in Hyderabad has gone up from 2,000 liters a day to 5,000 liters a day within 10 days of this announcement of this 6-cylinder cap. Similarly in Rajasthan, where there was lot of diversion, the sales for a number of sites that we have has gone up by 34 to 40%. This is within a month of this reform, I think obviously it will take time for the full impact to be seen, the full beneficial impact to be seen, and we will have to see how exactly the final impact on the volume, but it is logical that if there is a restriction of only 6 subsidized cylinders for a household per year, there will be less subsidized cylinders available to divert into the auto gas market, that means that those customers who have already got LPG cars or LPG auto rickshaws will find it difficult to use



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subsidized cylinders and they will have to come and fill up in the gas station. We have a market share of about 10% today, so we are going to benefit from this move and obviously Indian Oil, HPCL, BPCL, the main companies in this market apart from us will also benefit. So I think this is very, very positive impact, and as I said, in the month of October, which is one month after the announcement of this reform, we have already seen a very good sales volume impact; let us see how it continues in the coming months. I can also report that as of end of October, as of today, we have now 85 auto gas stations operational, and we are still expecting about 100 to be operational by March 2013, that means in the next 6 months we aim to commission about 15 stations to take it from 85 to 100, so that network expansion continues. Also I would like to say in the commercial cylinder segment we have seen a change from the Indian Government that they have withdrawn discounts on the commercial cylinders, these are the cylinders, which goes into hotels, restaurants, and small scale industries, so that is all the cost cutting that the oil companies are doing, has resulted in a margin boost of at least Rs. 1,000 per tonne compared to the previous quarter. We have seen that already in October, in other words we did not see it in July, August, or September, because this is only from 1st October, so we will see some benefit of this in the coming quarters if it sticks. At the moment for one month in October it has already stuck, that the margin has been boosted as they have withdrawn the discount. So, I think to summarize on gas division for the future, for the next two quarters at least, while we will see continued drop perhaps in the off take from the oil companies, while they sort out these problems of the illegal connections and the KYC, know your customer, and who has what cylinders. That we probably expect to last for at least three to six months, maybe 3 months, maybe 4 months, but they are not very clear, but it is a short term blip, because ultimately the long term demand for LPG continues to be very strong and for imports, but we will see some impact of that for Aegis results in the next two quarters. That is unavoidable, and we should clarify. However, on the other hand, on auto gas, as well as the commercial cylinder segment, we expect some rather positive developments in the next 6 months and of course the coming years as a result of the report, so some good news and some bad news.

All right, now I will turn to the overall EBITDA figures and then the accounting on the foreign exchange gains for the quarter and then the final, how we arrived at the profit before tax and profit after tax figures. The total EBITDA figure for quarter 2, that is for the two segments; liquid terminal division and gas terminal division, I already quoted individually EBITDA figures for those two segments, the total of liquid terminal division and gas division was Rs. 32.48 crores for quarter 2 versus a year earlier Rs. 34.62 crores, so a drop of about 7% year-on-year. As I said, that was not because of liquid division, it was mainly because of the drop of 37,000 metric tonnes on the off take of the oil companies in this quarter 2, that was the reason for this small drop in the EBITDA, but that is in the gas division.

Let me go through the final accounting for quarter 2. The total EBITDA for the segment as I said, was Rs. 32.48 crores for quarter 2, the foreign exchange gain including the gains on all



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those currency options that I mentioned in quarter 2 as a result of the rupee rising, we were able to liquidate a substantial amount of those options when the rupee rose, we gained Rs. 37.43 crores in quarter 2, that was a substantial gain. We had Rs. 37.43 crores on foreign exchange gains, Rs. 32.48 crores of EBITDA, which means roughly around Rs. 69 crores of total minus interest expenses of Rs. 16.79 crores minus depreciation expenses of Rs. 4.42 crores minus other unallocable expenses, corporate expenses of Rs. 4.5 crores, that gives you a Rs. 44.2 crores profit before tax, tax of Rs. 6.58 crores gives you a profit after tax of Rs. 37.62 crores, that is the total accounting from EBITDA to foreign exchange to interest depreciation and how we get to profit after tax of Rs. 37.62 crores for the quarter.

Finally, I will cover some of the outlook and particularly the growth prospects for Aegis beyond the quarter 2. I mentioned as far as the short term outlook for the next 6 months, second half of liquid terminal division, we expect to be very strong, that is the outlook for that division. As far as gas division, I already mentioned there will be some continued impact of lower volumes, possibly in quarter 3 certainly, and then some costs perhaps in quarter 4 due to the lower off take from the oil companies and the disruption of the cylinder cap, but other segments will be positive, that includes IPCL, auto gas and commercial cylinders, we expect those to be good as far as the second half is concerned. Let me now come to the growth project for the medium term; that is the next three years from this financial year 2012-13 all the way to 2014-15, just to give you an update on the projects and what is happening on that going beyond the day to day operations. I can first talk about the de-bottlenecking project in Mumbai, which will add more capacity, probably we now expect from 2013-14 financial year as we will be able to add more capacity. This project has been going for some time and it is the question of getting certain permissions from the various authorities, we are now very close to receiving those final permissions, so we expect more capacity to be added to the main Mumbai site as our de-bottle necking project in that will generate revenues and profits in financial year 2013-14. We expect Haldia project will also add around 60,000 kilo liters in the next financial year, that means FY13-14, roughly, I am giving very broad numbers, adding around Rs. 6 to Rs. 7 crores additional revenues in the next financial year. Our marketing people are pretty confident of almost full occupancy in utilization for the Haldia terminal given the demand for chemical and petrochemicals in Bengal. For both these projects, that is the Mumbai de-bottle necking project as well as Haldia, the kind of EBITDA margins depending on which location is anywhere from 55 to 60%, if I say Haldia will generate Rs. 6 to Rs. 7 crores of revenue, normally 55 to 60% EBITDA margin on that revenue in terms of profitability. So that is the two projects so far as the terminals are concerned. Marine products division, which I have said in the past that we are targeting and our budget is for Rs. 10-crore profit in that division or segment by 2014-15, that is in the next three years. We only started this division or segment in January of 2012, this year, and I can already tell you that we have generated a small profit in the last few months for this division even though we have started, but some important developments are underway for transforming this into a segment where we are servicing ships with bunker fuel in Mumbai port, in Kochi, and ultimately in Haldia as well as Pipavav, and



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potentially other ports where we don't have terminals. I cannot say more on this today, but I can just say that there is a road map of how to reach that Rs. 10-crore annual profit in this segment and we will have more to say in the coming weeks and months as we develop our plans, but we have come a long way in a short space of time. As far as our next segment is concerned, what we call Aegis EPC Services, these are mainly O&M, operations and maintenance contracts for the oil companies because they are outsourcing the running of those, as we said that this year we expect in this particular segment to be making something like Rs. 3 to Rs. 4 crores of annual profit, these are from consulting fees for running these operations. We already have about three or four contracts. The oil companies HPCL, BPCL, and IOC, have already started tendering out a number of contracts and we expect by 2014-15 that the current profits of Rs. 3 to Rs. 4 crores could double in this segment by another Rs. 4 to Rs. 5 crores of incremental profit from winning a certain amount of tenders and contracts for the O&M contracts.

Next, Pipavav, Phase 1, which is the project where we have been planning for 120,000 kiloliters in Pipavav for the liquids and 2,700 tonnes for the LPG. Again, work which has gone on at length to get certain environmental permissions and many other permissions in Gujarat, and again I am pleased to confirm that we are almost complete with all the permissions now on that project, and we are now intensively planning for this project as well as organization of recruitment is going with site management and all that, so I will have more to say about this soon, but that project is being intensively planned out. As I said many a times before, we expect this to be a significant revenue generator for the liquid terminal division from 18 months construction period from when we start, and therefore at the moment the expectation is 2014-15 for it to be fully commissioned to generate something like Rs. 20 to Rs. 25 crores of annual profits for this division. Retail LPG; let me spend just 2 to 3 minutes on that. I think just to reiterate with the cylinder cap of 6 as well as possibly the most important thing of all, which is the Aadhar, the UID Aadhar scheme where they are talking about de-linking the subsidy from the cylinder and making a cash transfer for the cylinders. We think that is an even bigger reform, which will affect the industry compared to the cylinder cap, because if you de-link the subsidy from the cylinders, and the cylinders become single market price, and then for the first time in this industry for 15 years we will have a level playing field, where the private sector can compete with the public sector for all segments, not only auto gas and commercial cylinders, but even domestic cooking gas. This is not going to happen overnight, but every indication is that the government is moving towards this level playing field with this Aadhar scheme and cash transfer of subsidies. If that is the case, we expect boost to auto gas segment, that we will continue building our network of around 20 stations per year, and I have said in the past, at the moment we have 85 stations, we have expectations of 100 commissioned by March of 2013, and again in the medium term by the financial year 2014-15, at the moment our expectation is 150 auto gas stations to be operational versus 85 today, and roughly in terms of the kind of average sale per station per year of around 300 tonnes, that means from our current sales of around 20,000 to 25,000 tonnes auto gas, we would expect



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that to double by 2014-15, that means 45,000 to 50,000 tonnes based on 150 auto gas stations at 300 tonnes per year, which is the current pattern.

As far as packed LPG is concerned, again we expect to double the current sales of 10,000 metric tonnes per year to about 20,000 metric tonnes per year by 2014-15, based on the current plans of dealers and the push into the South Tamil Nadu and Karnataka, and based on the dealer pipeline network that we have, this is the expectation that we have. I think as far as domestic cooking gas is concerned, nothing planned at the moment, it is too early, but I can say that if it is a level playing field with the Aadhar scheme, we would be reminiscing that we don't have work going on right now to try and see whether we can compete with the public sector for the domestic cooking gas, which after all is 95% of the sales volume of LPG in India. Today, we are competing in 5% of the market, which is commercial LPG auto gas and bulk sales, but we would like to compete for the 95% as well with the oil companies, but that is only possible if there is a market price for domestic cooking gas. Finally, we are still working on our long term projects; this is beyond 2014-15, to build 500,000 kiloliters of liquid terminal in Pipavav. We are negotiating, we continues to negotiate with various multinational companies. We need a joint venture partner, we think, for commissioning these 500,000 kiloliters. This is beyond the 120,000 kiloliter project in Pipavav. The reason we think that it would be good to have a multinational partner is the possibility of working together with them to bring other multinational importers of chemicals and petrochemicals into India, which they could bring in, in addition to the markets that Aegis already has, so we are trying to work that out and see whether this is possible. I think this completes my presentation of the Quarter 2 results as well as the outlook and growth projects for Aegis. I can now take questions.

- Moderator** Thank you very much. We will now begin the question and answer session. We have the first question from the line of Chintan Seth from SKS Capital, please go ahead.
- Chintan Seth** This is regarding some bookkeeping questions, the total EBITDA you said is Rs. 32.48 in quarter 2 and Rs. 34.62 in previous year, what is the EBITDA for the last quarter?
- Anish Chandaria** EBITDA for the last quarter that is quarter 1, the total EBITDA for the last quarter for the two segments was Rs. 46.41 crores.
- Chintan Seth** Can you give the FOREX numbers for the similar quarters, Q1-FY13 and Q2-FY12?
- Anish Chandaria** I would be remit to give you all those figures for the previous quarters, I have given you for quarter 2, we can give that to you offline.
- Chintan Seth** This EBITDA includes the other income item?



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- Anish Chandaria** If this EBITDA numbers are the correct underlying ones of the segment, so this would exclude any other income, this is pure business EBITDA.
- Chintan Seth** The press release which we are seeing that is a consolidated loss of Rs. 48.86 crores which we add back the depreciation of Rs. 4.54 per quarter, it will still be a loss, so I am not getting how the EBITDA computation has arrived at?
- Anish Chandaria** For quarter 2?
- Chintan Seth** For the current quarter, like current quarter the consolidated revenue is Rs. 882.72 crores, there are expenses like purchase of stock Rs. 846 crores and inventories, employees and other expenses of Rs. 88.62 crores.
- Anish Chandaria** In a very nutshell, the problem is if we look at the statutory numbers some of the foreign exchange are figures in there like in other expenses, so that is why the figures that I gave you on EBITDA is the true underlying figures and we have tried to strip out what exactly is the FOREX gain, etc.
- Chintan Seth** But if there is a gain, then the reported operating profit number should be positive, if we have a gain of Rs. 37 crores this quarter?
- Anish Chandaria** It all depends where you account certain parts of FOREX gains, hedging cost, etc., interest income, etc., so when we call FOREX gain that includes for example interest income on buyers credit which comes below the line, so it is difficult to say where it should be, but I repeat what we have tried to do here is strip out exactly what is the FOREX gain, what is the underlying profit. So let me repeat the figures and these are the correct figures from the audited accounts. Rs. 32.48 crores is the EBITDA for the two segments in total, Rs. 32.48 crores which is what we call the normalized EBITDA for the two segments, liquid thermal division and gas division which we can see every quarter. The foreign exchange gain, which includes the interest on buyers credit, which includes the hedging cost, which includes any currency gain, etc., is Rs. 37.43 crores, so I can add Rs. 32.48 crores plus the gain on foreign exchange of Rs. 37.43 minus interest expense of Rs. 16.79, is the same as the statutory figure, minus depreciation of Rs. 4.42 crores and minus other corporate expenses, etc., which we are not allocated to the corporate heads, etc., of Rs. 4.5 crores then you come to Rs. 44.24 crores profit before tax. Now the reason why it is confusing sometimes to strip out the foreign exchange gain from the statutory numbers which is why I gave a very clear presentation now that it is some of the foreign exchange gain might be in different aspects of it or some of the expenses for example might be the hedging cost might be in other expenses so it is very confusing, so I have tried my best to give you the true picture of what is the so called EBITDA figures for the segment, what is the foreign exchange gain, what is the interest expense, what is depreciation, and that is how the figures are.



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- Chintan Seth** Our concern has always remained on how to read the numbers on what you are presenting. Like in last quarter or so, we had a very hard time to understand how the revenue has gone up around 50% from the previous year?
- Anish Chandaria** I can only say two things then I will let move on. Whatever questions you have, I do agree with you that it is difficult, we try our best, please come along and we will try and explain, but the good news is the numbers will become a lot simpler because the foreign exchange story is coming to an end so we will not see this too much in the future, but in the past if you would like to see how exactly the accounting was done for quarter 1 or quarter 2 or whatever it is, we will be able to do that extracting the figures from the accounts.
- Chintan Seth** My second question regarding the volumes on both segments, can we get volume numbers so that we can understand better?
- Anish Chandaria** I don't obviously commercially sense to give out every single figure as to how much we sold, but I have given you the total figure of 137,716 for the quarter 2, which includes total LPG volumes as I have told you our auto gas volumes roughly per year which is about 20,000 to 25,000 tonnes, so for the quarter you can see that and cylinder I already said is about 10,000 tonnes per year, you can see what is the quarterly figure. The two figures, which I don't give you is exactly how much is the off take from the oil companies and how much exactly is the off take from IPCL because those people have told us very clearly do not give these figures out, but I did tell you at least the change in the volume. While IPCL has continued to do extremely well and is operating almost at full stretch, the drop of 37,000 tonnes in the quarter was whole from off take from the oil companies.
- Chintan Seth** That can be understandable. How much CAPEX have been incurred for this particular quarter and what is the outline of the remaining period and next year?
- B.I. Gosalia** I think CAPEX incurred for the ongoing project, which is at Haldia, by September we have already incurred Rs. 33 crores.
- Chintan Seth** By September Rs. 33 crores for Haldia itself?
- B.I. Gosalia** For your other questions you can visit our website we have a put an analyst presentation which will give probably more details, probably answer all your balance questions.
- Moderator** We have the next question from the line of Ashok Damani from Ramesh Damani Finance, please go ahead.
- Ashok Damani** I had a few questions; I will just take them in order. The first one is that you amortized premium cover the next four months, please tell me broadly what is this number? The second



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one is in the gas division we have the commercial cylinder segment as well, what approximately would be our volumes in that segment? Third is, I think it is a question that a lot of people have asked in the past. On our balance sheet we have certain amount of cash and a certain amount debt as well, which obviously continued every quarter, can you explain that to us as well?

Anish Chandaria

I think on the amortization of the premiums for the old book, the legacy option over the next 6 months or I would say of the next two quarters, it will be roughly about Rs. 20 crores will be the amortization of those premiums.

Ashok Damani

Rs. 20 crores over two quarters, roughly Rs. 10 crores each?

Anish Chandaria

It depends on when the options are, but let us say for the second half of the year we bought Rs. 20 crores. Those are the premiums which already we know the premium. And obviously there are no fresh premiums because we stopped currency options from 15th of September.

Ashok Damani

Would it be safe to say what the next two quarters this Rs. 20 crores assuming rupee does not cross 60 should be the number and nothing more?

Anish Chandaria

Yes that is our expectation. I just repeat that this is the business we have acquired from Shell. At the moment annually we are selling about 10,000 to 12,000 tonnes per year of LPG which goes into the commercial cylinders and the third one as far as the cash and debt is concerned, essentially this is the big numbers as far as cash and debt is concerned is related to this foreign exchange hedging. On the one side, there is buyers credit which is the credit for buying the LPG which is what you called the borrowing and on the other side is the cash that we collect from selling the LPG, so it is almost with the same bank we take a buyers credit and with the same bank we deposit cash as we collect the receivables. Now what I would like to say is that if we look at the balance sheet for 30th September, we will probably see something like buyers credit around 2,500 crores and similarly you will see a cash amount. What I would like to say is that that amount since the board has taken a decision to stop for future cargos all this model of hedging, we would probably be coming down by March to almost zero. There will be coming very close to zero for buyers' credit and very close to zero for the deposits. So all that will remain in terms of the cash would be the normal treasury that we have, the cash and liquid assets, etc., which I think as of 30th September, you can see the figures would be somewhere around Rs. 100 crores plus.

Ashok Damani

I actually have one more question as well. Obviously our turnover has gone up a lot over the last few quarters because of the bunker division, could you just tell me broadly the FOREX cover that you will be taking for 15 days 20 days? On what turnover will that be?



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- Anish Chandaria** Well, let me correct you. The bunker division has hardly any sales. It is the LPG division which produces roughly 90% plus of the revenue, bunker division is still small way.
- Ashok Damani** I mean the throughput division basically.
- Anish Chandaria** It is the LPG division and when right now with the new cargo that we started from 15th of September, we are paying for the cargos, normally the LPG price today is roughly about \$1000 per tonne CIF into India and then the volumes that I mentioned, so that is the volumes which come in and we are now at the moment paying for these cargos with this to the supplier within 15 to 20 days without taking buyers credit, we just collect the money and pay it and it is all covered by plain vanilla forward the day the cargo enters India, we take a plane vanilla forward so it is not in the exchange, that is why there is now no need for using currency options as far as the foreign exchange is concerned.
- Moderator** We have the next question from the line of Rahul Harlalka from BHH Securities Private Limited, please go ahead.
- Rahul Harlalka** What is the next year EPS projected to be roughly?
- Anish Chandaria** I am not going to be able to give out a guidance today in this con-call. I will tell you the reason why I am not just saying it. We have got those figures internally but the major change that has come with this in the LPG industry with this 6 cylinder cap has made us revise some of those figures, so I will probably only be able to give you some kind of proper revised figures for guidance for next year probably in the next quarter in January, February, March.
- Rahul Harlalka** This new business which has opened up of commercial distribution of LPG cylinders, what kind of an upside should we expect from it. I was just trying to build into my model?
- Anish Chandaria** I can quote you the figure which will help you. This is as per our existing budget that by the year 2014-15, two and a half years from now, is what we call our medium term target, we are expecting to double the current sales of 10,000 metric tonnes per year to 20,000 metric tonnes per year of commercial LPG and you can take a rough margin of around Rs. 3,000 to Rs. ,4000 a tonne as a kind of growth margin on that. If not huge, but as I said, that is our current kind of model. If we see some more benefits from the cylinder cap, there will be less diversion of domestic cooking gas eating into the commercial LPG cylinders and we will have some upside on that, but we are not ready with our analysis on that yet.
- Rahul Harlalka** We are looking at basically slow and steady growth?



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- Anish Chandaria** I think so, slow and steady because that is the current expectation, but as I said we will give further feedback once we see this settling down of the cylinder cap and the impact on this segment as well as auto gas and the other segments.
- Rahul Harlalka** Is there any chance of competition from bigger players like Reliance in this particular sector?
- Anish Chandaria** Well, we have the biggest competition of Indian Oil, HPCL, BPCL as well as one or two other private companies like Total, so we are all in the market together and at the moment, we are more the merry if Reliance would like to join, no problem, but at the moment we don't see them at all in the LPG cylinder business, they are really concentrating on natural gas, but right now we have acquired this business from Shell as you know and we compete with the giants HPCL, BPCL, IOC and there is a very, very large LPG market in India as I said, so it is a large growing market and I think we will keep our market share and maybe we will try and increase our market share.
- Moderator** Thank you. The next question is from the line of Abhit Pandit from Parag Parikh. Please go ahead.
- Abhit Pandit** My question is related to the throughput by the oil PSUs. How much reduction have you taken in your estimates of LPG off take for the second half?
- Anish Chandaria** It is a good question and I must say that we actually find it difficult to forecast. I wish I could give you a good answer, because this was extremely unexpected, it is sudden reform of the cylinder cap and for example we did not expect to see this drop of 37,000 tonnes in the quarter, which is quite a large drop when for the last so many years, things have been going well, so our conversations with the oil companies suggest that it is a temporary situation while they work out household by household how many cylinders they have already delivered for the year, whether they have multiple connection, you know all those so called KYC things. I mentioned the figure which we have been quoted that even in one month, they have actually cancelled five million connections in India, so you can see that there is a bit of chaos going on if not really within our control. All I will give you a feel is that I think based on the conversation that we have about their order book the next two quarters and I am saying it for the first time in this thing the next two quarters for Aegis in terms of this segment, the off take from the oil companies will be affected by this and if it drops 37,000 tonnes in quarter 2, I would expect that there will be some impact. I think more of the impact will be in quarter 3, but you would expect that quarter 4 will be less impact as they get to grips of the issue, but I think I want to make the point that this will not be forever. Once they stabilize the situation, the continued trend of boom in LPG demand, because more people are getting connected will carry on. I don't think there is any other issue, but we should make it clear that there is going to be a short-term effect. I am very happy actually that the cylinder cap is there for the long term because of the positive impact on our retail LPG business that I mention, but this is expected and we will



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see some impact in the second half of the year as far as the Aegis results of gas division are concerned.

Abhit Pandit

Okay. My second question is related to the Kochi division. I am very happy to know that the Kochi division has finally started delivering so could you just give me any update on the orders and probably the impact of these 60% utilization going ahead.

Anish Chandaria

Yes, I am also very happy, we are also very happy because we are in a bit of struggle as you know in Kochi. Let me tell you two-three things. Today 60% occupancy mostly chemicals and petrochemicals have come in and that is good and the future of this terminal is not only going to be these chemicals, but is also going to be the marine products and so therefore we would expect another possibly 20% of the terminal in terms tankage would become occupied ultimately by the bunker fuel for the ships, so that means 60% potentially could rise to 80%. Finally, if we really want to make a go ahead, the old story of, we need this terminal to be connected to the Q4-Jetty where we have laid three pipelines and the port is developing the fire fighting facilities. The port is claiming that that will be ready by April of next year. I don't know whether it will be April or whether it will be May or whether it will be June, but ultimately the tender has been, I believe, awarded, so once they have put the firefighting then ships can start coming to the Q4-Jetty and I believe we have an excellent chance of raising the utilization rate for Kochi even further, but it is a small terminal, but if we can generate 100% occupancy into that terminal, it can just to give you a rough idea, it can certainly generate something like Rs. 3 to Rs. 4 crores of extra profit for Aegis if it is at 100% occupancy.

Abhit Pandit

What are we seeing the hit in the drop due to the oil PSU in throughput how much you think will it compensate by from our retail and our commercial LPG division.

Anish Chandaria

Difficult to say. I know you would love me to predict the future. I can only tell you what has happened in one month in October. We have seen something like 30 to 40% increase in the sales volume in the month of October that is one month after the cylinder cap, so that one month I am not saying that will be sustained and all that, but that is a very positive thing to one month after this reform, so I think that is good and it has an impact on margin because the volumes are still small in auto gas, but you know the retail margin is much higher, so that will compensate to some extent. Secondly, the withdrawal of the discounts and the increase to Rs. 1,000 per tonne is the margin for the commercial, so I would say that the best guess is that it will not fully compensate for any expected drop in the offtake of the oil companies, but it will to some extent.

Moderator

Thank you. We have a question from the line of Hansal Thakur from Lalkar Securities. Please go ahead.



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Hansal Thakur

This is Hansal. I am little foggy with you know couple of numbers with reference to you know the cancellations like you mentioned. You said 5 million for example were cancelled in the month and also your estimation that all the cylinders that are being sold illegal, so technically the over and above numbers that you are telling me like these 5 million connections, are they not present on the top line of any of these major players including Aegis or they are and if they are cancelled then what would be the impact on the top line and finally once they go from unofficial to official connections, when can we expect you know the entire impact of these connections to come.

Anish Chandaria

I think it is a very good question and to be honest, I ask our marketing people the same question and let me give you their response. Of course, everything is hazed with nobody really knows, but this figure of 5 million, which I just heard yesterday, it is quite a big number that they have found that they have cancelled 5 million household connections, because they were illegal or multiple or whatever it is, plus there is an impact, there are not going to give more than three more subsidized cylinders for the second half of the year, so I think the main impact we are seeing is that you can even say that 5 million connections each cylinder is 14.2 kg of gas and let us that every year they were doing at an average of 12 cylinders that will give you some math about how much that means in tonnage, right, but that is as far as India is concerned. That means, the three oil companies are concerned. What is the direct impact of that plus the kind of KYC and upheaval as far as while they work out, who is entitled with what cylinder, which is another impact apart from cancellation. That is what is effected the offtake of imports as well as even offtake from the refineries of LPG, which in our case is at 37,000 metric tonne drop, so very difficult to estimate exactly, but is the impact of cancellation, registering, who has what cylinders and all that. How long will it take, I think my gut feeling is the next three months, that means October, November, and December probably they would be bulk of the issues and disruptions I would get from again my conversation and my people conversation with your companies would get satisfied. There may be some lingering effect into quarter 4 that is January, February and March, but I think within six months, it would be reasonable to expect that this would all be washed out and then we will get back on track.

Moderator

We have a follow-up question from the line of Abhit Pandit from Parag Parikh, please go ahead.

Abhit Pandit

Could you give me the volumes of the gap PSU gas offtake which we have this quarter and probably for the last quarter.

Anish Chandaria

I think I said to somebody else before that we are not permitted by our customers particularly IPCL and the public sector to give those figures out. All I said was that we saw a drop of 37,000 tonnes year-on-year. They do not allow us to give everything, but I told you roughly how much we are able sell in Auto Gas and how much we are selling in commercial cylinders, what was the total volume for Aegis which was handled 137,760 that is all I could say.



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Moderator

Thank you. As there are no further questions, I would now like to hand the conference over to Mr. Anish Chandaria for closing comments.

Anish Chandaria

Yes, my closing comments are thank you very much for attending the Conference Call. I would like to say two to three things:

1. As far as the foreign exchange story hedging gains etc, etc. I think it is a story which is coming to an end and I am very happy to say. The story which started quarter to last year and I am pleased to say that quarter two of this year we have shown an excellent gain and also decision to seize and stop all hedging using options and buyers credit in the main from 15th of September, so I think this is a story which is coming to an end. I think we have probably to a large extent made back any losses that we had suffered mark-to-market losses, but the most important thing is that that score is coming to an end and since 15th of September we are moving to what we have been doing for many years, which is just a simple plain vanilla forward for 15 to 20 days like any other importer, so that is one.
2. I think, let me reiterate the significance of the reforms in the LPG industry, which were announced by the government in September. There is a short-term blip, which we will see for the next two quarters, which is not within our control. It is related to cylinder connections of the oil companies, etc., which I explained at length, but let me not beat around the bush. We are extremely excited for the future for the LPG industry not only because of the six cylinder cap and the impact of less illegal domestic cooking gas cylinder, subsidized cylinders leaking into Auto Gas segment as well as commercial LPG, but also because if they go to an Aadhar scheme of cash subsidies and single market pricing of LPG cylinders, then the big game of domestic cooking gas, which is 95% of the 15 million tonnes of LPG, which is being sold every year, if it is a level playing field, we have like all private sector, a possibility in the future of completing within that segment, which is really the future. And the growth of LPG in India, the Prime Minister said it very well, the penetration of LPG in India is only 50%, 50% of the households of India 240 million households are yet to get LPG, these are the Tier-2, Tier-3 towns as well as villages and I am very excited for the next 15 to 20 years that if there is now a move towards less subsidies for the LPG business, we are very well-positioned in the private sector having been in this business for 50 years to take advantage in Auto Gas, commercial cylinders, as well as domestic cooking gas, this will all unfold in the long term. Finally, I am also very please to say as far as the liquid division is concerned, which is a very nice business with 55 to 60% EBITDA margins not only our existing business in Mumbai and Kochi going great guns and record in the history of the whole division with the number of cargos that are coming in for chemicals, petrochemicals, and petroleum and we expect that to continue not only in the next six months, but for the coming years because of India's own requirement, but we are now back as far as expansion



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of projects whether it is Haldia, which is coming on stream next year whether it is a de-bottlenecking project in Mumbai, which we will be able to commission next year and also the major project of Pipavav, which is for the future, so I think on whole front, we are getting back on track after two quarters of issues as far as our foreign exchange is concerned, but I believe, we are getting back on track. Thank you very much.

Moderator

Thank you sir. On behalf of Aegis Logistics Limited that concludes this conference. Thank you for joining us. You may now disconnect your lines.