Management Discussion & Analysis Report

Overview

Despite the challenges of GST introduction, the Indian economy grew at a reasonable rate during FY17-18, buoyed by consumer spending, good rains and robust FDI. The sustained revival of GDP growth of 7% and confidence boosting measures such as the long awaited GST have improved business sentiment. Despite a rising oil price, both imports and exports of bulk liquids such as bitumen and other petrochemical products have continued to grow. The demand for LPG continued to show robust growth boosted by the LPG PMUY (Pradhan Mantri Yojna Ujjwala) scheme, and the Group benefited from the capital investments in new LPG capacity made in the previous financial year at Pipavav and partially from the commissioning of the new LPG terminal at Haldia. In addition, continued growth in the Liquids capacity utilization and new capacity resulted in an excellent performance which improved from last year with Profit after Tax rising to Rs. 213.80 Cr. (previous year Rs. 132.97 Cr.).

The liquid terminalling business of the Group benefited from additional capacity at its facilities in Haldia and higher capacity utilisation at all terminals, but the Pipavav liquids terminal remained under-utilized. The gas terminalling business performed extremely well with the addition excellent throughput at both Pipavav and Mumbai, and with initial throughput at Haldia.

With the rationalization of LPG subsidies resulting in a decrease in the diversion of subsidized LPG to the transport and commercial sector, the volume performance of the gas retail and distribution business continues to grow.

With full year revenues from the new Haldia LPG terminal, and new liquid projects nearing commissioning, both liquid and gas terminals operating at higher utilization, the Group is poised for higher growth in the medium term.

Newly commissioned Haldia LPG Terminal

Industry Structure and Development

The Group is engaged in the terminalling of oil products, chemicals and liquefied gases, sourcing of LPG and retailing and distribution of LPG. These sectors require specialized infrastructure at key ports such as specialized berths, fire-fighting equipment, pipelines, transit storage and handling facilities and above all, safe and environmentally responsible handling practices.

The terminalling, retail, and distribution industry in India has many participants, but only a select few possess the necessary technical and safety credentials, as well as the infrastructure to benefit from the long-term prospects for an increase in Indian imports and exports of oil products, chemicals and liquefied gases. Fortunately, the Aegis Group is positioned well for this.

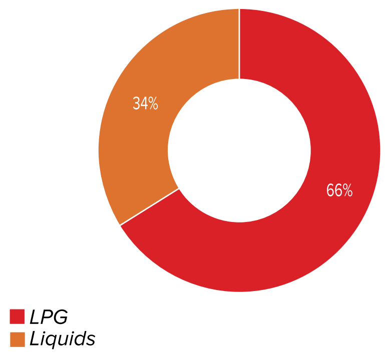
The oil and gas industry comprises three major components: upstream, midstream and downstream. The upstream segment comprises Exploration and Production (E&P) activities, the midstream segment is involved in storage and transportation of crude oil and gas, and the downstream segment is engaged in refining, production of petroleum products and processing, storage, marketing, and transportation of the commodities such as crude oil, petroleum products, and gas. The Group is engaged in both the midstream and downstream segments.

As energy consumption increases in India, growth in demand is likely to require sophisticated and safe logistics services. Deregulation of the oil sector will lead to new entrants in petroleum retailing and bulk marketing — requiring the need for integrated logistics services. The Group also services the terminalling requirements of bulk liquid chemical importers and exporters through its five bulk liquids terminals.

The increasing importance of new private ports such as Pipavav in Gujarat and several new ones along the east coast of India will continue to challenge the dominance of older, less efficient ports. As importers and exporters face ever increasing cost pressures, those ports which have made investments in infrastructure will benefit from the increase in traffic arising from India's imports and exports of oil products, chemicals, and liquefied gases.

Segment-wise Analysis

Segment Result (EBITDA)



Newly commissioned tanks at Kandla Liquids Terminal

Liquid Logistics Division

Liquid terminalling revenues were at Rs. 168.28 Cr. (previous year Rs. 153.88 Cr.) for the year, an increase of 9.36%. Normalized EBITDA of the division was Rs 102.82 Cr. for the year (previous year Rs. 90.70 Cr.), an increase of 13.36 %. This was primarily due to additional capacity at its facilites in Haldia and higher capacity utilization at major terminals. The performance of the Kochi terminal has improved and is expected to perform even better with the coastal movement of petrol and diesel. Future growth in this division will come from the additional capacity of 35000 KL at Haldia (expected to be commissioned in FY 2019), new products being handled at Haldia and Kochi, and the new 100,000 KL liquid terminal project recently commissioned at Kandla. The Mumbai terminals continue to function at full capacity.

Newly commissioned LPG spheres at Pipavav

Gas Division

Aegis Group captures the complete logistics value chain starting from sourcing, terminalling to retail distribution of LPG. In 2017-18, the division recorded revenues of Rs. 4622.68 Cr. (previous year Rs. 3776.41 Cr.) an increase of 22.4% on account of higher volumes and the new capacity addition. Sourcing volumes also improved markedly due to the sharp increase in demand driven by the successful implementation of the LPG Subsidy PMUY Scheme in rural areas, and gas throughput volumes increased significantly at both Mumbai and Pipavav on the back of this demand. Distribution volumes also improved compared with the previous year. The normalized EBITDA for the gas division increased to Rs. 203.34 Cr. compared with the previous year Rs. 156.84 Cr. an increase of 29.65% as the higher throughput and sourcing volumes resulted in stronger margins. The same applied in the distribution business. The commissioning of an additional 10200 MT of LPG storage capacity at Pipavav during 2017-18 and the commissioning of the Haldia LPG terminal contributed to the rise in throughput of LPG during FY 2018.

New Developments

Aegis Group, through its subsidiary company Hindustan Aegis LPG Limited, commissioned a fully refrigerated LPG terminal, along with associated infrastructure at its facilities at Haldia Dock Complex, West Bengal. The unit has a static storage capacity of 25,000 MT with a throughput capacity of 2,500,000 MT per annum, and an LPG bottling plant which is expected to be commissioned in the Q1 of FY 2018/19.

Aegis Group has announced implementation of a liquid terminal at New Mangalore port with a capacity of 25000 KL which is being implemented in phases. Phase 1 will be completed in Q3 of 2018-19 and phase 2 thereafter.

The Kandla liquids terminal has been recently commissioned.

Opportunities & Threats

The Indian economy is a net importer of almost all forms of energy. This fact, coupled with the country's growing energy demand, has intensified the need for actively seeking private participation in the energy chain to bring in the required investment and technologies. There is therefore a huge potential for the expansion of pipelines, transportation, and infrastructure.

LPG demand continues to rise at the rate of 7-10% per annum due to the rural penetration of LPG on a pan-India basis and the full impact of expected policy reforms curbing illegal diversion of cooking gas and deregulation of diesel and petrol prices. Additional infrastructure for handling of LPG needs to be built and Aegis intends to participate in this process.
The main threat and opportunity to the LPG industry

arise from changes in government policy with regards to subsidized pricing of LPG and its substitutes. The main threat to the port-based liquid terminalling business arises from changes to government policies on coastal regulations and inadequate port infrastructure.

Future Business Outlook

Terminalling and handling of liquids and gases is the main expertise of the Aegis Group and provides an important and stable source of Group profits by way of terminalling fees. This pattern is expected to continue in the future. With several projects planned in both Liquid and LPG terminals, the future business outlook is positive.

Internal Controls Systems and Adequacy

The Company has a proper and adequate system of internal controls to ensure that all the assets are safeguarded, protected against loss from unauthorized use or disposition, and that transactions are authorized, recorded, and reported correctly. The company conducts audits of various departments based on an annual audit plan through an independent internal auditor, and reports significant observations along with 'Action Taken Reports' to the Audit Committee from time to time. The views of the statutory auditors are also considered to ascertain the adequacy of the internal control system.

Dual LPG Marine Loading arm at Haldia Dock Complex

Pump house at Kandla Liquids Terminal

The Company regularly updates its risk management policy to protect the property, earnings, and personnel of the Company against losses and legal liabilities that might be incurred due to various risks.

Occupational Health, Safety, and Environment

The emphasis on OHSE continues at all of the operations of the Group throughout India. The Company is committed to the best standards in safety and continuously monitors matters related to this. In addition to monthly reviews by the management, the Company has formed a high level committee comprising of five directors and other Company executives, wherein matters concerning the subject are discussed. Safety drills are regularly carried out at all the Group's main facilities.

Human Resources Development

Aegis Group employs about 700 people. As the Company is growing fast, the emphasis is now on competence development of young managers and recruitment of middle management in specific areas to take care of the future growth envisaged in the business.

Risks and Concerns

Inordinate delays in renewing licenses and permits take a significant amount of time and resources which could be deployed more productively. Project timelines could be extended due to the lengthy and complex process for securing environmental permits.

Corporate Social Responsibility

Aegis Group sponsors ANaRDe Foundation, a government accredited NGO. Acting through this Foundation, Aegis has continued to work actively in the area of rural development and poverty alleviation.

The Foundation has been engaged in a focused initiative for the benefit of rural communities in India, including rural housing and sanitation, water resource management, and financial inclusion. The Group contributes about Rs. 2.3 Crores per annum to ANarDe Foundation in order to fulfill its corporate social responsibility.

Forward Looking Statements

This report contains forward looking statements, which may be identified by their use of words like 'plans, 'expects', 'will', 'anticipates', 'believes', 'intends', 'projects', 'estimates' or other words of similar meaning. All statements that address expectations or projections about the future, including but not limited to statements about the Company's strategy for growth, product development, market position, expenditures and financial results, are forward looking statements. Forward looking statements are based on certain assumptions and expectations of future events.

The Company cannot guarantee that these assumptions and expectations are accurate or will be realised. The Company's actual results, performance or achievements could thus differ materially from those projected in any such forward looking statements. The Company assumes no responsibility to publicly amend, modify or revise any forward looking statements, on the basis of any subsequent developments, information or events.

Inaugural LPG shipment at Haldia