

Management Discussion and Analysis Report

Overview

This was a year of two halves, with H1 net profits at Rs.18.09 crores being 9% down on the year earlier, mainly due to a plant shutdown of a key petrochemicals customer for the gas division during a de-bottlenecking of their plant. H2 net group profits, however, grew strongly by 25.7% compared to a year earlier, as gas profits were boosted by the start in September of propane gas supplies to the petrochem client, plus a number of other expansions in the gas division. As a result, net profit for the year as whole rose to Rs.47.09 crores, up by 9.4%. EPS (after adjusting for a 2:3 bonus issue of shares during the year), rose to Rs.15.02 and the annual dividend was hiked to a record Rs. 4 per share.

The Company's strategy of building a "necklace" of port terminals around India's coastline from Pipavav to Haldia to Kochi, inland oil terminals to service the national oil companies and developing a retail distribution network for the LPG business is proceeding at a steady pace.

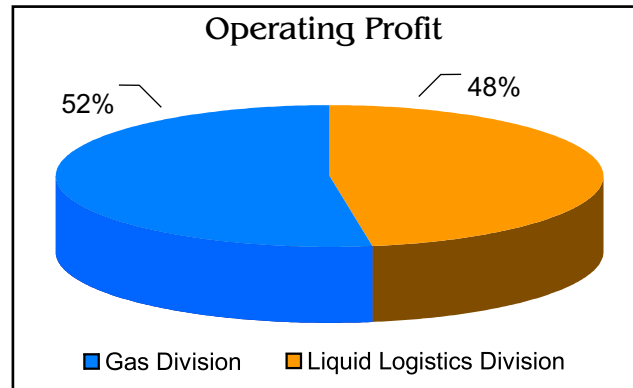
Industry Structure and Development

The Third Party Logistics (3PL) sector provides supply chain management services to customers in the Oil, Gas and Chemicals Industry. As consumption of petroleum products, petrochemicals and chemicals continue to rise, imports and exports of these products is increasing and the need for logistics services is expected to also increase further. The liquefied petroleum gas (LPG) business has a large potential.

Segment-wise Analysis

Liquid Logistics Division

Revenues were Rs. 87.50 crores for the year, a 7.4% increase on the year earlier. Operating profit margins were steady at 45.8% from 45.4% in the year earlier. Operating profits in the division were Rs.40.10 crores for the year, a rise of 8.4%. The division is at full capacity in Mumbai port, as all product segments chemicals, petrochemicals and petroleum were healthy. New capacity expansion is urgently needed to boost revenues further in future years. Kochi operations remained at a low utilisation, due to customers being unwilling to bring small cargoes at the existing SCB berth. The Company received in principle approval by the Port



to lay three new pipelines to a larger jetty, Q4, which after completion, should allow a more attractive draft and larger ships.

The modernization of the Company's Mumbai operations is nearing completion, with the installation of state of the art equipment and implementation of lean six sigma processes throughout the operations. Large scale productivity improvements are being seen in cycle times and turnaround times. The goal is to reach world-class standards of operational excellence. A comprehensive analysis of safety is also being carried out at all the Company's sites in order to strengthen a group wide OHSE code of conduct.

Gas Division

LPG revenues were Rs.1724.50 crores (Rs.224.20 crores year earlier). The steep increase in sales was due to the activation of a subsidiary in Singapore, Aegis Gas International (AGI), which is now sourcing LPG for sale to the national oil companies as well as Aegis's own distribution. These procurement activities generate a small sourcing fee for AGI, but more importantly, allow Aegis to benefit from economies of scale by lower shipping freight costs for gas.

Total sales volumes for the division were up by a strong 57.3% for the year. Despite a slow 5 months from April – August due to a shutdown of a key customer's plant (during a de-bottlenecking and expansion of their gas delivery system), the second half saw very large volume increases. The petrochemicals segment in particular saw a rise for the year as a whole of 85% in sales volumes, as the second half of the year saw a big jump in propane volumes following the de-bottlenecking.

The industrial gas segment volumes were down quite sharply, due to many customers switching to cheaper natural gas. This is now a minor segment for the gas division. Thruput volumes for the national oil companies were up by a large 63% as their requirement for LPG increased. With a continued boom in LPG consumption in the rural areas, this strong trend appears to be set to be maintained.

Autogas sales rose by 12% in the year as more stations were commissioned. 74 stations are now operating. While average sales volume per station were stable, margins did improve following the



Shree Krishna Autogas, Bangalore

deregulation of petrol. Autogas pricing have remained 40% cheaper compared to petrol. In order to increase the average sales per station, a greater focus on opening "flagship" stations in city centres was pursued. Four city sites in Bangalore are now in operations, with more flagship stations expected to open in FY12 in cities such as Hyderabad, Chennai and Nashik as well as more openings in Karnataka. The Company's alliance with Essar Oil is beginning to pick up pace despite a very slow start. Around 20 sites have so far been jointly selected with Essar to install Aegis Autogas dispensers and sell Aegis Autogas.

The acquisition of Shell Gas (LPG) India was completed in April 2010. Since then, the Pipavav LPG terminal has reached 100% capacity utilization and a push to expand the "Aegis puregas"



Pipavav LPG Terminal

commercial cylinder brand in the South has begun. The Company now sells LPG cylinders in three states: Maharashtra, Gujarat and Karnataka with an entry into AP and Tamil Nadu expected in the next two years.

Opportunities and Threats

Although there may be a temporary slowdown in India's economy, trend growth of 8% appears to be assured for the medium term. Oil and gas demand growth is likely to be substantial and much of that will likely be imports as India's domestic production cannot keep pace. Aegis is well placed to benefit through its network of import terminals at major ports around the coast of India. Competition from low quality local terminals remains a threat. LPG domestic sector subsidies continue to eat into margins and sales as domestic cooking gas gets illegally diverted into other market segments such as autogas and commercial cylinders.

Future Business Outlook

The Oil and Gas logistics business continues to show great potential as India's consumption of petroleum, LPG and chemicals increases.

The Company is pursuing a high growth strategy in both the logistics and LPG businesses through the building of a national storage and distribution network.

Internal Control Systems and their 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 audit 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.

Human Resources Development

The Company employs 353 people. As the Company is growing fast, new senior managers are being recruited to build up the Senior Executive Team. In addition, staffing is boosted at all levels of the group.

Risk and Concerns

The Company continues to derive most of its revenues from cargo volumes handled through two Pir Pau oil and chemical jetties at Mumbai port. Port congestion at Pir Pau remains poor as the number of ships continues to increase year after year. Mumbai Port Trust has assured that they will be building a new chemical berth which should alleviate this concern and allow continued growth in traffic. Aegis is seeking to diversify by building terminals at a number of other ports.

Aegis is exposed to specific risks that are particular to its businesses and environment within which it operates, including the business cycle, environmental risk, credit risk etc. Aegis manages these risks by following prudent business and risk management practices.

Government policy changes with respect to excise duty, customs duty, or regulation in the oil sector are inherently unpredictable.

The oil subsidy regime and continued large-scale diversion of cooking gas cylinders into autos does adversely impact sales growth of autogas and commercial cylinders.

Corporate Social Responsibility

During the year, Aegis has supported rural



development initiatives throughout India through Anarde Foundation. The focus remains poverty

Housing Project



alleviation. Programmes such as water management and house building were the main thrusts.

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.