



November 5th, 2009

To,

The Managing Director  
Aqua Logistics Ltd  
Mumbai

Dear Sir,

Sub: Grading IPO for Rs 150 Crs

Thank you for giving us an opportunity to undertake grading of your company's IPO for Rs 150 Crs. Based on the information provided by you, as well as available in public sources, the matter was placed before our External rating committee.

We are pleased to inform you that Aqua Logistics Ltd IPO for Rs 150 Crs Issue has been assigned **BWR IPO Grade 3** (Pronounced BWR IPO Grade Three) grading by the said committee in its meeting on the 4<sup>th</sup> instant. IPO issue with this grading is considered to offer **average** fundamentals.

Brickwork grading model, has, interalia, factored ownership, management quality financials, nature of industry, business prospects in grading the IPO.

The Grading is valid for Six months from date of mandate. The above Grading is subject to terms and conditions that were agreed in your mandate dated 05/10/09 and other correspondence.

Kindly let us have your acceptance for the above grading. Should you need any clarification please call us.

Please furnish the details of your IPO programme under the above issue.

Best Regards,

A handwritten signature in black ink, appearing to read "V. Nagaraja", written over a horizontal line.

V. Nagaraja  
Head-Rating Administration.

**Brickwork Ratings India Pvt. Ltd.**

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**Aqua Logistics Limited****IPO Grading: BWR IPO Grade 3 (Average Fundamental)**

Brickwork Ratings (BWR) has assigned BWR IPO Grade 3 to the proposed IPO of Aqua Logistics Limited (AL). Brickwork Ratings' BWR IPO Grade 3 indicates average fundamentals for the issue in relation to its peers. BWR assigns IPO grading on a scale of IPO Grade 5 to IPO Grade 1, with Grade 5 signifying strong fundamentals and Grade 1 signifies poor fundamentals of the issue in relation to its peers.

The grading factors Aqua Logistics Limited's (AL) end-to-end logistics solutions and supply chain domain including freight forwarding, 3PL (third-party logistics) services, supply chain consulting, logistics execution and project logistics. The grading is constrained by lack of own assets like warehouses or trucks, highly competitive and unorganized industry with multiple players, company's track record of negative cash flows from operating activities and lower profit margins than peers and creation of 6 group companies in same/ complimentary line of activity.

**Company Profile:**

AL started as a freight forwarding company as Aqua Logistics Private Limited on September 20, 1999. In 2003, AL bagged its first project logistics order from ABB Limited and the first contract logistics order from Tellabs India Private Limited. Over the period the company has increased its presence in various parts of the country by opening branch offices. Internationally AL has arrangement with 3PL partners and vendors. The company's logistic services all three modes of transportation- surface, air and sea.

In 2006, AL acquired the entire business of the firm; M/s. Rajesh G. Uchil & Co., a partnership firm established in the year 1989. AL became a public limited company in March, 2009.

**Management:**

Aqua Logistics is founded by Mr. Gopalkrishna Uchil, aged 72 years. Mr Gopalkrishna Uchil has an experience of over 30 years in the field of Logistics. Prior to being an entrepreneur, he was heading the logistics division of a textile company. His has good experience and understanding of international trade and regulatory environment in India has contributed to the company's growth.

Mr Rajesh G Uchil aged 43 years is the Chairman for AL. He holds Bachelors Degree in Commerce. Mr Rajesh started as an entrepreneur as a custom house agent and then in the logistics industry. He has over 20 years experience in logistics. Mr Rajesh Uchil is the son of Mr Gopalkrishna Uchil.

Mr M.S. Sayad aged 49 years is the Vice Chairman of the Company. Mr Sayad is a commerce graduate. He has 20 years experience in the operations, finance and strategy in steel, finance and electronics.

Mr. Harish G. Uchil, age 40 years, is the Managing Director and Chief Executive Officer of AL. He holds a Bachelors Degree in Engineering from the University of Pune. Mr Harish joined his brother Mr Rajesh G. Uchil freight forwarding business in 2001.

Mr. V. S. Narayanan, Independent, Director holds a Bachelors degree in Commerce and Law from the University of Mumbai. He has over three decades of experience in the field of investment banking, legal and compliance. Mr Narayanan joined the board as additional director in May 2009.

Mr. B.S. Radhakrishnan, Independent Director holds a Bachelors degree in Science from the University of Madras. He has a long standing experience of over two decades in the media and entertainment industry. Mr Radhakrishnan joined the board as additional director in March 2009.

Mr. Ravi Sharma, Independent Director holds a Masters Degree in Commerce from the University of Rajasthan and has a Post Graduate Diploma in Management from Institute of Management Development and Research, Pune. He has over 6 years of experience in the financial services sector. Mr Sharma joined the board as additional director in March 2009.

### Objectives of the Issue:

Aqua Logistics is raising equity funds to purchase cranes, trailers, LCV, barge, tug and other equipments needed for executing logistic operations for heavy and over sized cargoes. The company plans to open new offices in Dubai and Kolkata, Mumbai and Delhi.

AL expansion plans include acquisition of a company based out of SE Asia at a cost estimated at Rs 35 crores. For the FY 2010, the company has estimated working capital gap at Rs 103.6 crs. The gap is partially funded by Rs 30 crores limit by Bank of India and Rs 45 crores from the present IPO proceeds. AL has not tied up the balance working capital requirement of Rs 26.64 crores and plans to fund it by bill discounting.

**Table 1: Breakup of total project cost**

Particulars	Total Amount (in Rs. crores)
Purchase of Specialized Equipments	30.51
Expansion and Establishment of Offices	17.12
Proposed Acquisitions	35.00
Additional Working Capital Requirement	45.00
General corporate purposes	10.37
Public Issue Expenses	12.00
<b>Total</b>	<b>150.00</b>

The project is in a preliminary stage with AL having spent Rs 15.87 Lacs towards the project implementation. The company has neither placed order for the specialized equipment nor identified specific acquisition target.

## Project Funding:

To meet the funding requirements, AL plans to raise Rs. 150 Crores by issue of equity shares having FV of Rs.10/- at a premium to be decided later and internal accrual. The promoters are not participating in the public issue.

The funds requirement for the project is neither appraised nor funded by any term lending / financial institution. In absence of participation by term lending / financial institution the utilization of issue proceeds will be by the company.

The promoters and promoter group' Pre- Issue equity holding is at 65.62 % of the issued capital. Post-issue no of shares is to be decided later after on face value of Rs 10 per share. The details are as follows.

**Table 2: Shareholding Pattern**

	<b>Pre-Issue (%)</b>	<b>Pre-Issue No. of Shares</b>	<b>Post Issue* No. of Shares</b>	<b>Post issue holding cost/share (Rs.)</b>
Mr. Rajesh G. Uchil	14.32	19,50,634	19,50,634	1.87
Mr. M. S. Sayad	10.57	14,40,800	14,40,800	7.61
Mr. Harish G. Uchil	15.09	20,56,534	20,56,534	2.16
Mr. Gopalkrishna G. Uchil	15.23	20,75,332	20,75,332	1.74
Mrs. Priti Rajesh Uchil	2.57	3,50,000	3,50,000	-
Mrs. Nisha Sayad	2.57	3,50,000	3,50,000	-
Employees	1.34	1,82,000	1,82,000	-
Venture Capital Holding	33.05	<b>45,03,303</b>	[.]	-
<b>GRAND TOTAL</b>	<b>100</b>	<b>1,36,25,270</b>	[.]	-

\*The final Post Issue Shareholding pattern will be determined after the Book-Building Process.

## Share holders' agreements:

AL had shareholders agreement with Carwin Mercantiles (P) Limited ("Carwin") dated October 26, 2007. According to said agreement Carwin has agreed to subscribe at a price per share of Rs. 100, aggregating to Rs 10 Crores. As per the agreement condition AL assures the Carwin that the initial public issue of shares would come at a price not less than that Rs. 200 per share and if in case the issue prices is below Rs. 200 per share then the Carwin has the option to sell the shares at any time prior to the IPO to the Company at a price of Rs. 200 per share. AL has Vide letter dated September 18, 2009 with Carwin, accorded their no-objection for the Issue, further as per the letter Carwin has waived all special rights, privileges and restrictive covenants granted to AL as per the said Agreement.

AL has Share Subscription Agreement with HT Media Limited dated August 28, 2008. According to said agreement AL has agreed to issue and allot to HT Media on a preferential basis 1,00,000 (one Lac) Equity Shares of Rs. 10 each fully paid up (the "Subscription Shares") at a price per share of Rs. 500 aggregating to Rs 5 crores constituting 0.86% of the issued and paid-up equity share capital of the Company. In the event that the Company issues any further shares or any convertible instrument in its proposed IPO at a price lower than the Subscription Price, then the Promoters shall, jointly and severally within a period of 45 days of the allotment of shares in such Fresh Offering at such lower price, transfer such number of Shares held by the

Promoters to HT Media at zero consideration, as may be required, in a manner that would render the average price of the HT Media Subscription Shares and Shares transferred by Promoters to be equal to the price at which the Shares are issued and allotted at the Fresh Offering by the Company.

Further, HT Media vide their letter dated September 18, 2009, have issued a no-objection certificate for the Issue.

### **Corporate Governance:**

AL is compliant with provisions of Clause 49 of the Listing Agreement. Aqua Logistics has an optimum combination of executive and nonexecutive Directors. The company has six Directors on the Board that includes three promoter directors and three Independent Directors. The Board members have expertise in different sectors which fit the company's needs.

Aqua logistics has 6 group companies. Group companies like Aqua Management Consulting, Aqua Specialized Transport support the logistics business of AL. The extent of related party transaction has grown significantly and was at Rs 11.57 crs as of 2009. These transactions generally represent compensation for services, loans and advances.

### **Industry Risk:**

Logistics as any industry has different parts of value chain. The transporters and freight forwarding business is highly un-organised and has multiple players across the country. Hence, the intensity of the competition is very high. However, in 3PL (third-party logistics) services has only organised players. 3PL segment faces significant competition from MNCs like AFL, DHL and Indian big companies like Reliance Logistics, Patel logistics which own warehouses and have transport fleet. The 3PL competition is expected intensify. However, some of the business lines like specialized transport and consulting for Supply Chain Management still has lower competition.

Internationally, the logistics industry is a very fragmented. In 2006, the world's largest share was maintained at 6.2 percent by DHL Exel Supply Chain. All other major providers had market shares of between 1 percent and 2 percent.

The annual logistics cost of the world is INR 90 trillion globally and INR 4 trillion in India. Automotive, IT hardware and FMCG have emerged as the major users of 3PL services. Information Technology helps in the precise monitoring of cargo at every stage of its journey. Multi-modal services help in providing turnkey solutions to clients. The consistent 8% p.a growth rate that India is likely to witness in the near future will help the logistics sector to reach a size of \$125 bn in 2010 and \$180 bn in 2012.

The warehousing industry is a crucial component of the logistics value chain. Warehousing is typically used for stockpiling for managing demand-supply gaps over a long period. The Indian warehousing sector will be worth \$55 billion by 2010-11 with around 45 million sq ft warehousing space expected to be developed in the country in next five years supplemented by around 110 logistics parks.

### **Business Risk:**

Aqua logistics is headquartered in Mumbai and has presence in major locations such as New Delhi, Chennai, Bangalore, Ludhiana, Baroda, Cochin and Pune. They have three main lines of business viz. freight services, contract and project logistics. Aqua Logistics's business model is

not being followed by listed logistics companies in India. Most of the other listed peers own assets like warehouses or trucks.

Aqua logistics top five clients contribute approximately 30% of their revenues for FY 2009. Any decline in quality standards, growing competition and any change in the demand for services by these customers may adversely affect their ability to retain them.

Aqua logistics is relatively new in 3PL business with no established brand presence. This may require competitive pricing for the services. The company follows 'asset light' approach and has depends on outsourcing the services to third parties for equipment and to services its clients. This constrains the ability of the AL to competitively price its services compared to its peers. The dependence on third party services may also result in delays, claims etc by its clients.

### Financial Performance:

AL has notched more than 100% growth each of the previous 4 years. It compares favorably with the sales growth of its peers. In FY2009, sales growth was 96% to Rs 213.4 crore compared to Rs 108.9 crore in FY2008, is significantly higher than its peers. However, a high percentage of their income is in form of book debts which hampers their cash generation ability. Net profit increased by 99% from Rs 5.6 crores in FY08 to Rs 11.1 crores in FY09.

In FY 2009 the return on capital employed (ROCE) is 20%. The company expects to maintain ROCE not below 15%. This is due to asset light model adopted by AL. AL has a total debt to total equity (D/E) ratio of 0.75 which is in line with its peers. AL has negative Cash Flow from Operation (CFO) in the past 5 years. Its CFO is negative due to significant increase in Working Capital (WC) requirements which has mostly been funded through stake sale by the promoters. During FY2008, AL has received WC funding line from Bank of India. They expect to utilize part of IPO proceeds to fund their growing WC needs. AL's Operating Profitability Margins (OPM) and Net Profitability Margins (NPM) slightly below its peers.

**Table 3: Profit and Loss (Consolidated) Amount in Rs Crores**

	2009	2008	2007
<b>Sales:</b>			
Income from Operations	213.4	109	43
Operation Cost	175.5	84.3	33.3
Personnel Cost	10.6	7.6	2.9
Administrative Expenses	5.0	4.0	2.0
<b>Earnings Before Depreciation Interest &amp; Tax</b>	<b>22.3</b>	<b>13.0</b>	<b>4.8</b>
Other Income	0.7	0.2	0.0
Less: Depreciation	1.1	0.6	0.1
Less : Interest & Financial Charges	4.7	3.8	0.8
<b>Net Profit before tax</b>	<b>17.1</b>	<b>8.8</b>	<b>3.9</b>
<b>Profit after Tax (PAT)</b>	<b>11.1</b>	<b>5.6</b>	<b>2.9</b>

**Table 4: Financial Performance Amount in Rs Crores**

	2009	2008	2007	2006
<b>Sales Growth</b>	<b>96%</b>	<b>153%</b>	<b>350%</b>	<b>160%</b>
NPM	5.2%	5.2%	6.8%	-9.0%
OPM	10.2%	11.6%	11.0%	0.4%



RoCE	21.8%	25.8%	26.6%	5.7%
PBIT	218.61	126.21	47.36	3.913
Debt/Equity	0.75	0.24	1.24	0.56
Interest Coverage	4.71	3.41	6.07	7.58
CFO	(23.83)	(11.09)	(6.21)	(1.18)
DSO (Days of Sales Outstanding)	100.76	108.54	114.38	120.5

#### Other factors:

#### Changes in the accounting policy:

In FY2006, AL changed the method of Depreciation from written down value method to straight line method. Straight line method back loads depreciation charges reflecting higher profits in earlier years as compared to WDV. A sum of Rs. 6.92 lacs was written back to profit and loss account and charge of depreciation for 2006 was lower by Rs. 9.00 lacs. Besides that there have been no significant changes in accounting policy.

#### Compliance and Litigation:

Litigations with government bodies:

- AL has been issued Notice of Demand for the assessment year 2006-07 under Section 156 of the Income Tax Act, 1962 ("IT Act"), together with assessment order dated May04, 2008 under Section 143(3) of the IT Act, from the Income Tax Officer 8(1)1, Mumbai. The said notice is for demand of Rs. 8, 29,547.

Litigations with business associates:

- AL has Two Litigation by Business associates, with a total claim of Rs 57 Lacs.

Analysts	Media
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