

Adani Enterprises (ADEL.BO)

Maintain Buy – Target Price Increased to Rs249

- Company Update
- Target Price Change
- Estimate Change

- **Recurring PAT down 42% YoY** — ADE reported 2QFY13 PAT of Rs3.2bn, down 42% YoY and below Citi's Rs4.2bn. However, this was better than 1Q FY13 loss of Rs507mn. While 1Q FY13 was negatively impacted by Rs6.6bn forex losses, 2Q FY13 was positively impacted by Rs3.2bn forex gains.
- **Coal trading – Volumes disappoint, but better margins** — Coal volumes at 8.8m tons were down 10% YoY. Realizations were at Rs4640/ton, down 7% YoY. EBITDA margins were 10.3%, up 282bps YoY, and EBITDA/ton at Rs477, up 28% YoY.
- **Rs3.6bn loss in Adani Power** — Adjusting for Rs1.4bn of derivative MTM, 2Q FY13 recurring loss was Rs3.6bn. Key reasons for poor results are (1) lack of adequate Bunyu coal leading to higher blending of expensive imported coal and (2) continuing low PLFs on account of transmission bottlenecks at Mundra-III and IV
- **Adani Ports: Operationally decent** — 2Q FY13 standalone revenues of Rs6.9bn were up 19%YoY. Reported PAT of Rs4.3bn was up 57%YoY. Cargo growth is commendable given that cargo at major ports declined by 3% for H1FY13.
- **Looking to hike stake in Adani Power** — Adani Enterprise currently has a 70.25% stake in Adani Power, which will get diluted to ~68% post the Growmore amalgamation. Adani Enterprises intends to increase its stake to 75% in the near future to support Adani Power, which was precariously leveraged at end 2Q FY13 at 7.5x net debt/ equity. The company is also evaluating refinancing of existing loans to provide a breather from repayments.
- **Maintain Buy** — Our new TP of Rs249 (from Rs228) factors in (1) EPS cut of 8-16% on lower Adani Port EPS, higher interest cost/ depreciation and lower coal volumes (2) roll forward of EV/EBITDA Mar14E (Dec13E) and DCF to Mar13E (Dec12E) and (3) increase in EV/EBITDA for trading to 5.5x (from 5.0x earlier).

Buy	1
Price (26 Oct 12)	Rs216.65
Target price	Rs249.00
	<i>from Rs228.00</i>
Expected share price return	14.9%
Expected dividend yield	0.5%
Expected total return	15.4%
Market Cap	Rs238,274M
	US\$4,449M

Price Performance (RIC: ADEL.BO, BB: ADE IN)



Statistical Abstract

Year to	Net Profit	Diluted EPS	EPS growth	P/E	P/B	ROE	Yield
31 Mar	(RsM)	(Rs)	(%)	(x)	(x)	(%)	(%)
2011A	25,243	22.95	24.8	9.4	1.3	21.3	0.5
2012A	18,406	16.73	-27.1	12.9	1.2	9.9	0.5
2013E	15,643	14.22	-15.0	15.2	1.1	7.7	0.5
2014E	23,348	21.23	49.3	10.2	1.0	10.4	0.5
2015E	31,742	28.86	36.0	7.5	0.9	12.6	0.5

Source: Powered by dataCentral

Venkatesh Balasubramaniam

+91-22-6631-9864
venkatesh.balasubramaniam@citi.com

Deepal Delivala
deepal.delivala@citi.com

Atul Tiwari, CFA
atul.tiwari@citi.com

Vaishnavi G
vaishnavi.g@citi.com

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ADEL.BO: Fiscal year end 31-Mar						Price: Rs216.65; TP: Rs249.00; Market Cap: Rs238,274m; Recomm: Buy					
Profit & Loss (Rsm)	2011	2012	2013E	2014E	2015E	Valuation ratios	2011	2012	2013E	2014E	2015E
Sales revenue	264,055	393,556	489,632	584,833	661,369	PE (x)	9.4	12.9	15.2	10.2	7.5
Cost of sales	-223,128	-343,578	-412,803	-480,605	-538,521	PB (x)	1.3	1.2	1.1	1.0	0.9
Gross profit	40,927	49,978	76,829	104,228	122,848	EV/EBITDA (x)	11.8	14.6	11.9	9.0	7.5
Gross Margin (%)	15.5	12.7	15.7	17.8	18.6	FCF yield (%)	-112.3	-125.7	-5.8	21.5	24.5
EBITDA (Adj)	40,927	49,978	76,829	104,228	122,848	Dividend yield (%)	0.5	0.5	0.5	0.5	0.5
EBITDA Margin (Adj) (%)	15.5	12.7	15.7	17.8	18.6	Payout ratio (%)	4	6	7	5	3
Depreciation	-5,586	-12,240	-22,995	-29,717	-32,966	ROE (%)	20.9	9.9	9.9	10.4	12.6
Amortisation	0	0	0	0	0	Cashflow (Rsm)	2011	2012	2013E	2014E	2015E
EBIT (Adj)	35,342	37,738	53,834	74,511	89,882	EBITDA	40,927	49,978	76,829	104,228	122,848
EBIT Margin (Adj) (%)	13.4	9.6	11.0	12.7	13.6	Working capital	-56,819	-39,239	-38,751	-25,545	-13,091
Net interest	-6,338	-18,256	-35,948	-45,145	-44,398	Other	1,560	14,939	-16,763	-10,834	-13,701
Associates	0	0	0	0	0	Operating cashflow	-14,332	25,679	21,315	67,849	96,056
Non-op/Except	4,213	5,481	8,340	8,048	7,058	Capex	-253,214	-325,145	-35,219	-16,531	-37,784
Pre-tax profit	33,217	24,964	26,226	37,415	52,543	Net acq/disposals	0	0	0	0	0
Tax	-4,475	-4,747	-7,537	-8,973	-12,009	Other	6,210	-828	0	0	0
Extraord./Min.Int./Pref.div.	-3,981	-1,825	1,490	-5,093	-8,791	Investing cashflow	-247,004	-325,973	-35,219	-16,531	-37,784
Reported net profit	24,761	18,392	20,179	23,348	31,742	Dividends paid	-1,304	-1,278	-1,278	-1,278	-1,278
Net Margin (%)	9.4	4.7	4.1	4.0	4.8	Financing cashflow	263,367	348,812	19,836	-50,691	-70,218
Core NPAT	25,243	18,406	15,643	23,348	31,742	Net change in cash	2,031	48,518	5,932	627	-11,946
Per share data	2011	2012	2013E	2014E	2015E	Free cashflow to s/holders	-267,546	-299,466	-13,904	51,318	58,272
Reported EPS (Rs)	22.51	16.72	18.35	21.23	28.86						
Core EPS (Rs)	22.95	16.73	14.22	21.23	28.86						
DPS (Rs)	1.00	1.00	1.00	1.00	1.00						
CFPS (Rs)	-13.03	23.35	19.38	61.69	87.34						
FCFPS (Rs)	-243.26	-272.29	-12.64	46.66	52.98						
BVPS (Rs)	161.18	177.21	194.39	214.46	242.16						
Wtd avg ord shares (m)	1,100	1,100	1,100	1,100	1,100						
Wtd avg diluted shares (m)	1,100	1,100	1,100	1,100	1,100						
Growth rates	2011	2012	2013E	2014E	2015E						
Sales revenue (%)	2.0	49.0	24.4	19.4	13.1						
EBIT (Adj) (%)	129.8	6.8	42.7	38.4	20.6						
Core NPAT (%)	175.6	-27.1	-15.0	49.3	36.0						
Core EPS (%)	24.8	-27.1	-15.0	49.3	36.0						
Balance Sheet (Rsm)	2011	2012	2013E	2014E	2015E						
Cash & cash equiv.	29,715	69,707	75,639	76,266	64,320						
Accounts receivables	61,253	92,944	136,732	165,325	188,377						
Inventory	46,213	52,148	68,441	78,989	85,756						
Net fixed & other tangibles	426,767	739,672	751,896	738,710	743,528						
Goodwill & intangibles	1,504	10,029	10,029	10,029	10,029						
Financial & other assets	70,098	105,337	100,982	98,982	96,982						
Total assets	635,549	1,069,836	1,143,720	1,168,302	1,188,993						
Accounts payable	0	0	0	0	0						
Short-term debt	0	0	0	0	0						
Long-term debt	331,013	694,789	747,000	731,906	697,216						
Provisions & other liab	92,182	145,527	145,251	157,764	173,890						
Total liabilities	423,194	840,315	892,251	889,670	871,106						
Shareholders' equity	177,266	194,898	213,799	235,869	266,334						
Minority interests	35,089	34,623	37,669	42,763	51,554						
Total equity	212,355	229,521	251,468	278,632	317,887						
Net debt	301,298	625,081	671,361	655,639	632,896						
Net debt to equity (%)	141.9	272.3	267.0	235.3	199.1						

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For definitions of the items in this table, please click [here](#).

Maintain Buy – Target Price Rs249

Figure 1. ADE - EPS Change Table

Mar31 (Rsmn)	FY13E	FY14E	FY15E
Sales			
Old	523,171	648,076	745,470
New	489,632	584,833	661,369
Change	-6.4%	-9.8%	-11.3%
EBITDA			
Old	74,187	104,119	124,845
New	76,829	104,228	122,848
Change	3.6%	0.1%	-1.6%
EBITDA Margin %			
Old	14.2%	16.1%	16.7%
New	15.7%	17.8%	18.6%
Change	151	176	183
Interest Cost + Other Income			
Old	(27,406)	(33,835)	(34,437)
New	(27,608)	(37,097)	(37,339)
Change	1%	10%	8%
Depreciation			
Old	(21,945)	(29,375)	(32,351)
New	(22,995)	(29,717)	(32,966)
Change	5%	1%	2%
PAT			
Old	16,932	27,522	37,560
New	15,643	23,348	31,742
Change	-7.6%	-15.2%	-15.5%
FD EPS (Rs)			
Old	15.4	25.0	34.2
New	14.2	21.2	28.9
Change	-7.6%	-15.2%	-15.5%

Source: Citi Research estimates

Figure 2. ADE Sum Of The Parts

Name of Assets	Valuation Approach	ADE Stake	Equity Value	ADE Value	Per Share
Adani Port	Citi TP = Rs143	77.5%	286,485	221,998	202
Adani Power	Citi TP = Rs34	70.3%	81,370	57,163	52
Machhakatta	Not Valued	100.0%	45,859	-	0
Parsa-Kente - PKCL	DCF as of March 2013E	74.0%	2,470	1,828	2
Parsa-Kente - AMPL	DCF as of March 2013E	100.0%	12,400	12,400	11
Parsa	Not Valued	100.0%	2,801	-	0
Chendipada	Not Valued	100.0%	19,895	-	0
Galilee Coal Tenement	Book Value of investments	100.0%	23,660	23,660	22
Coal Mining			107,085	37,888	34
Trading	5.5x FY14E EV/EBITDA	100.0%	106,874	106,874	97
EV of others	4x FY14E EV/EBITDA	100%	12,287	12,287	11
Other debt		100%	(141,940)	(141,940)	(129)
Parent Net Cash/ (Debt)	Mar14E	100%		9,954	9
Fair Value				304,223	277
Conglomerate Discount				(30,422)	(28)
Fair Value Post Discount				273,801	249

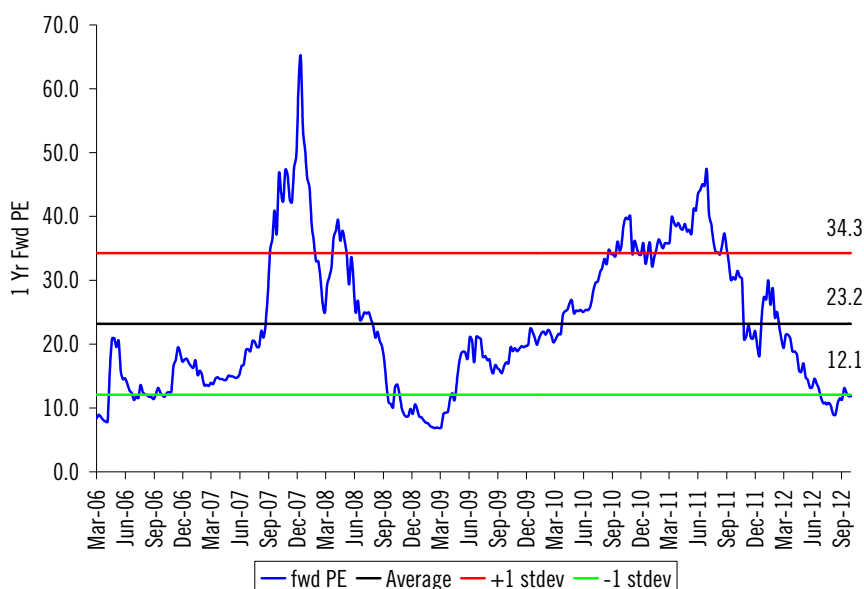
Source: Citi Research estimates

Figure 3. Adani Enterprise Consolidated EPS – Citi v/s Consensus

Mar31 (Rs)	FY13E	FY14E	FY15E
Citi	14.22	21.23	28.86
Consensus	17.22	28.65	34.48
Difference	-17%	-26%	-16%

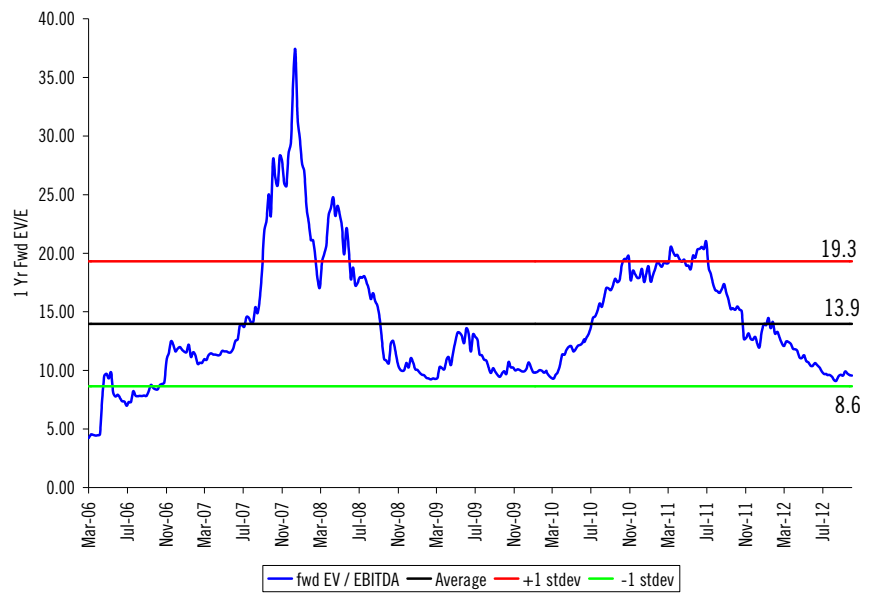
Source: Bloomberg and Citi Research estimates

Figure 4. ADE Consolidated 1 Year Forward P/E



Source: DataCentral and Citi Research

Figure 5. ADE Consolidated 1 Year Forward EV/EBITDA



Source: DataCentral and Citi Research

2Q FY13 Results Review

Recurring PAT down 42% YoY

- ADE reported a PAT of Rs3.2bn, down 42% YoY, which was below Citi's forecast of Rs4.2bn. However, this was better than 1Q FY13 loss of Rs507m. While 1Q FY13 was negatively impacted by Rs6.6bn forex losses, 2Q FY13 was positively impacted by Rs3.2bn forex gains.

Figure 6. Adani Enterprises Consolidated 2QFY13 Results Review

Year End Mar31 (Rsmn)	1QFY12	1QFY13	YoY	2QFY12	2QFY13	YoY	2QFY13E
- Trading	52,046	45,971	-12%	48,891	40,833	-16%	61,715
- Power	8,505	14,934	76%	10,679	14,268	34%	13,783
- Port	4,861	8,362	72%	7,607	8,306	9%	8,413
- Agro	21,554	24,887	15%	23,197	24,405	5%	25,000
- Real Estate	14	23	60%	1	-	NM	-
- Other	8,982	16,180	80%	10,070	14,835	47%	17,000
Net Sales	95,961	110,246	15%	100,787	102,619	2%	125,911
FX Fluctuations Above EBITDA	(162)	(3,592)		(1,151)	1,299		
EBITDA	11,553	10,689	-7%	13,657	14,016	3%	12,819
EBITDA margin %	12.0%	9.7%		13.6%	13.7%		10.2%
Depreciation	(2,226)	(4,794)		(2,646)	(5,008)		(4,800)
EBIT	9,327	5,895	-37%	11,011	9,008	-18%	8,019
EBIT margin %	9.7%	5.3%		10.9%	8.8%		6.4%
- Trading	3,479	2,980	-14%	4,038	4,246	5%	
Margin%	6.7%	6.5%		8.3%	10.4%		
- Power	3,203	(3,606)		3,819	(83)		
Margin%	37.7%	-24.1%		35.8%	-0.6%		
- Port	3,154	5,958	89%	4,123	5,223	27%	
Margin%	64.9%	71.2%		54.2%	62.9%		
- Agro	(33)	198	-693%	(528)	(583)	11%	
Margin%	-0.2%	0.8%		-2.3%	-2.4%		
- Real Estate	(61)	(28)		(66)	-		
- Other	(232)	504		(401)	233		
- Unallocable	483	6,403		1,251	2,123		
EBIT	9,992	12,408	24%	12,237	11,159	-9%	
Interest	(3,175)	(6,242)		(3,531)	(6,949)		(4,500)
FX Fluctuations In Interest Cost	NA	(3,030)		(1,070)	1,850		
Other income	539	1,867		1,299	2,123		1,000
Other operating income	1	110		58	29		100
PBT	6,693	(1,400)	-121%	7,767	6,061	-22%	4,619
Tax	(942)	(1,072)		(1,136)	(2,827)		(554)
Tax Rate	14.1%	-76.6%		14.6%	46.6%		12.0%
Minorities	(1,123)	1,964		(1,104)	(31)		148
Recurring PAT	4,628	(507)	-111%	5,527	3,202	-42%	4,213
Exceptionals	0	4,536		0	0		
Adani Power MTM on derivatives	0	0		0	0		
Reported PAT	4,628	4,029	-13%	5,527	3,202	-42%	4,213

Source: Company and Citi Research estimates

Figure 7. ADE 1QFY13 Consolidated Operational Data

Year End Mar31 (Rsmn)	1QFY12	1QFY13	YoY	2QFY12	2QFY13	YoY
Coal Trading						
Qty (mn tonnes)	10.18	8.76	-14%	9.80	8.80	-10%
Sales	52,046	45,971	-12%	48,891	40,833	-16%
Sales/ton	5,113	5,248	3%	4,989	4,640	-7%
EBITDA	3,560	3,790	6%	3,650	4,200	15%
Margin	6.8%	8.2%	1.40%	7.5%	10.3%	2.82%
EBITDA/Ton	350	433	24%	372	477	28%
Power Generation						
Kwh (mn)	2,898	4,564	57%	2,959	4,131	40%
Sales	8,187	14,625	79%	10,324	14,331	39%
ASP	2.82	3.20	13%	3.49	3.47	-1%
EBITDA	4,123	(1,210)	nm	4,794	3,034	nm
Rs/kWh	1.42	(0.27)	nm	1.62	0.73	nm
Ports						
Cargo (mn tons)	17.92	22.49	26%	23.27	25.34	9%
Sales	4,861	8,362	72%	7,607	8,306	9%
EBITDA	3,890	7,940	104%	5,360	7,260	35%
Margin	80.0%	95.0%		70.5%	87.4%	
EBITDA/Ton	217	353	63%	230	287	24%
Others						
EBITDA	60	1,170	1850%	480	850	77%
Total EBITDA	11,633	11,690		14,284	15,344	

Source: Company and Citi Research

Excessive leverage – Continues to be a worry

- Foreign currency exposure (supplier credit, packing of credit forward contract, foreign letter of credit, foreign currency loan, trade payables, other payables, trade receivables, EEFC accounts, other receivables and preference share investments) not covered by derivative instruments or otherwise was at Rs372bn end FY12, up 71% YoY.
- Out of gross debt of Rs747bn end 1QFY13, Rs123bn is working capital loans.

Figure 8. ADE Leverage and Debt Break Up

	Dec-12	Mar-11	Jun-11	Sep-11	Dec-11	Mar-12	Jun-12	Sep-12
D/E	1.6	1.9	2.1	3.4	3.4	3.6	3.7	3.7
Net D/E		1.7		3.1	3.1	3.2	3.4	3.3
Equity	165	177	184	190	194	195	199	204
Debt	267	331	378	652	660	695	746	747
Cash		30		56	60	70	60	65
Net Debt		301		596	600	625	686	681
Break Up Of Gross Debt								
Adani Power Consolidated Debt		245		317	350	386	406	398
Adani Ports Consolidated		40		150	170	176	203	207
MDO + Galilee		na		28	28	33	36	40
Others		46		157	112	100	101	102
- Real Estate		na		13	13	13	0	0
- Agro		na		23	20	21	24	20
- Others + Working Capital		46		121	79	66	77	82

Source: Company and Citi Research

Realized almost 100% of proceeds of real estate business sales

- ADE had sold its real estate subsidiary Adani Infrastructure Development Pvt Ltd to the promoters for an enterprise value of Rs22.69bn (Rs3.02bn equity +

Rs19.67bn of debt). ADE had provided loans and advances of Rs19.67bn to the subsidiary

- Promoters had paid Rs3.02bn of equity value (v/s equity on the books of Rs0.5mn) and Rs6bn of debt end 1QFY13. Almost all of the remaining Rs13.67bn of debt has been paid by promoters by the end of 2QFY13. This will reduce loans and advances on ADE books.

Coal trading business – Volumes disappoint, but better margins

- Coal trading volumes at 8.8 mn tons were down 10% YoY. Realizations at Rs4640/ton down -7% YoY. EBITDA margins were 10.3% up 282bps YoY and EBITDA/ton at Rs477/ton was up 28% YoY.

Rs3.6bn consolidated recurring loss in Adani Power

- Adjusting for Rs1.4 bn of derivative MTM, Adani Power's 2QFY13 recurring loss was Rs3.6 bn. Key reasons for the poor results are (1) lack of adequate Bunyu coal leading to higher blending of expensive imported coal and (2) continuing low PLFS on account of transmission bottlenecks at Mundra-III and IV
- Management has also lowered its guidance on Bunyu coal supply in FY13E from 5-6 mn tons to 4-5 mn tons now. The management expects to synchronize units of Tiroda III and Kawai by May 2013, but these capacities have not been granted a linkage by Coal India and are not included in the list of projects that are eligible for FSAs as per the directive of the PMO.
- CERC has admitted Adani Power's petition to adjudicate its dispute with utilities from Gujarat and Haryana over their PPA. In its petition, Adani Power raised several issues relating to the effect of Indonesian Regulations on its obligations to supply power at the rate discovered through the competitive bidding process and deviations in the fuel supply agreement (FSA) signed with Coal India.

Adani Enterprise looking to hike stake in Adani Power

- Adani Enterprise currently has a 70.25% stake in Adani Power which will get diluted to ~68% post the Growmore amalgamation. Adani Enterprises intends to increase its stake to 75% in the near future to support the Adani Power which is precariously leverage end 2QFY13 at 7.5 net debt/ equity. The company is also evaluating refinancing of existing loans to provide a breather from repayments.

Figure 9. Adani Power Fuel Source

Year End Mar31 (Rsmn)	1QFY13	2QFY13
Domestic Linkage		
- Qty (mn tons)	0.00	0.06
- CIF Cost	nm	Rs2100/t
Bunyu Coal		
- Qty (mn tons)	0.90	0.80
- CIF Cost	US\$36/t	US\$36/t
Imported Spot Coal		
- Qty (mn tons)	1.80	1.75
- CIF Cost	US\$90-110/t	US\$80-81/t
Total Qty	2.70	2.61

Source: Company and Citi Research

Figure 10. Adani Power Consolidated 2QFY13 Results Review

Year End Mar31 (Rsmn)	FY10	FY11	1QFY12	2QFY12	3QFY12	4QFY12	FY12	1QFY13	2QFY13
CEA Generation	1,607	7,622	3,193	3,298	3,693	4,030	14,213	5,063	4,704
Company Generation (mu)	1,355	7,586	3,190	3,298	3,381	3,852	13,721	5,063	4,701
Company Sales (mu)	1,221	6,810	2,898	2,959	3,018	3,475	12,350	4,546	4,131
Auxiliary Consumption	9.9%	10.2%	9.2%	10.3%	10.7%	9.8%	10.0%	10.2%	12.1%
Sales Break Up									
GUVNL Sales (mu)		6,001	2,628	2,134	1,885	2,454	9,101	2,700	2,398
Merchant sales (mu)		809	121	1,073	949	883	3,026	1,621	1,733
merchant % of total		13.5%	4.2%	36.3%	31.5%	25.4%	33.2%	35.7%	42.0%
UI (mu)			149	(248)	184	138	223	225	
- Contracted Sales (mu)		16,945	6,859	5,610	5,300	6,307	24,076	6,939	6,307
Contracted ariff		2.82	2.61	2.63	2.81	2.57	2.65	2.57	2.63
- Merchant Sales		3,930	532	5,040	3,810	3,001	12,383	6,808	7,625
Merchant Tariff		4.86	4.40	4.70	4.01	3.40	4.09	4.20	4.40
- UI			522	(627)	1,054	563	1,511	1,026	
UI Tariff			3.50	2.53	5.73	4.08	6.78	4.56	
Net Sales	4,349	20,876	8,187	10,324	10,595	9,983	39,089	14,625	14,331
Net ASPs	3.56	3.07	2.82	3.49	3.51	2.87	3.17	3.22	3.47
Fuel Cost	(1,667)	(6,758)	(3,311)	(4,377)	(7,364)	(7,593)	(22,645)	(14,224)	(9,293)
Rs/kWh per unit generated	1.23	0.89	1.04	1.33	2.18	1.97	1.65	2.81	1.98
- Fuel Cost (EX FX)		(7,044)	(3,332)	(3,439)	(6,044)	(8,404)	(21,219)	(11,782)	(10,833)
Rs/kWh per unit generated		0.93	1.04	1.04	1.79	2.18	1.55	2.33	2.30
- FX fluctuation		286	21	(939)	(1,320)	812	(1,426)	(2,442)	1,540
O&M Cost	(243)	(1,863)	(752)	(1,153)	(1,110)	(1,434)	(4,449)	(1,611)	(2,004)
Rs/kWh per unit sold	0.20	0.27	0.26	0.39	0.37	0.41	0.36	0.35	0.49
EBITDA	2,438	12,255	4,123	4,794	2,120	957	11,995	(1,210)	3,034
EBITDA margin	56.1%	58.7%	50.4%	46.4%	20.0%	9.6%	30.7%	-8.3%	21.2%
Rs/kWh per unit sold	2.00	1.80	1.42	1.62	0.70	0.28	0.97	(0.27)	0.73
Depreciation	(353)	(1,804)	(1,040)	(1,053)	(1,570)	(1,851)	(5,515)	(2,308)	(2,528)
Rs/kWh per unit sold	0.29	0.26	0.36	0.36	0.52	0.53	0.45	0.51	0.61
EBIT	2,085	10,451	3,084	3,741	550	(895)	6,480	(3,518)	506
EBIT margin	48%	50%	38%	36%	5%	-9%	17%	-24%	4%
Net Interest	(377)	(2,303)	(886)	(1,336)	(1,387)	(2,524)	(6,133)	(1,662)	(2,395)
- Gross Interest		(3,168)	(1,341)	(1,848)	(2,163)	(2,524)	(7,877)	(2,809)	(3,738)
- Interest Income		866	455	512	777	0	1,744	1,146	1,343
Other income	319	13	1	6	21	1,137	1,165	13	10
PBT	2,027	8,161	2,198	2,411	(815)	(2,281)	1,513	(5,180)	(1,879)
Tax	(327)	(3,000)	(488)	(410)	(719)	(1,218)	(2,835)	(704)	(1,711)
Rate%	16.1%	36.8%	22.2%	17.0%	-88.2%	-53.4%	187.4%	-13.6%	-91.1%
PAT	1,700	5,161	1,710	2,001	(1,535)	(3,499)	(1,322)	(5,885)	(3,590)
PAT margin	39.1%	24.7%	20.9%	19.4%	-14.5%	-35.0%	-3.4%	-40.2%	-25.0%
Tax on receivables		0	0	(68)	0	0	(68)	0	0
MTM on Derivatives		(112)	59	(558)	(2,047)	597	(1,949)	(2,058)	1,336
Reported PAT	1,700	5,237	1,769	1,775	(3,581)	(2,902)	(2,939)	(7,943)	(2,254)

Source: Citi Research

Adani Ports operationally decent

- 2QFY13 standalone revenues of Rs6.9bn up 19%YoY. Reported PAT of Rs4.3bn was up 57%YoY. Dry and container cargo grew strongly (up 27%/16%YoY respectively), liquid cargo declined by 6%YoY. Cargo growth is commendable given that cargo at major ports declined by 3% for H1FY13.

- Adani Ports reported 2QFY13 consolidated PAT of Rs2.75bn, implies a loss of Rs1.5bn in subsidiaries. Dahej port reported a profit of Rs170mn, Abbott Point incurred a loss of Rs540mn (though lower than Q1 loss of Rs1.3bn), other subs incurred losses of Rs490mn.
- Standalone net debt has increased by Rs18.5bn, primarily driven by an increase in fixed assets by Rs16.8bn. Adani International Container Terminal (1.5mn TEUs) has started trial operations and mechanization of coal terminal is complete. Hazira and Mormugao ports will start operations by 4QFY13/1QFY14. We believe that bulk of capex at Adani Port is behind us and do not expect leverage to increase further.
- Loans and advances up 41% since FY12 on which management clarified that Adani Port has invested in ICDs to non-related entities and hasn't lent money to other group companies.

Figure 11. Adani Ports 2QFY13 Results Review

Year End Dec31 (Rsmn)	STANDALONE			CONSOLIDATED		CONS - STANDALONE	
	Q212A	Q213A	YoY	Q212A	Q213A	Q212A	Q213A
Net Sales	5878	6976	19%	8559	10184	2681	3208
EBITDA	3787	5042	33%	4766	6590	979	1548
EBITDA Margin	64%	72%		56%	65%	37%	48%
Depreciation	-679	-810		-1062	-1829	-383	-1019
EBIT	3108	4232	36%	3704	4761	596	529
Gross Interest Outgo	-464	-911		-994	-2429	-530	-1518
Derivative gain/ loss		386				0	-386
Other Income	67	306		244	432	177	126
Other Operating Income	320	667		231	319	-89	-348
PBT	3030	4680	54%	3185	3083	155	-1598
Total Tax	-296	-385		-340	-288	-44	96
Tax Rate	9.8%	8.2%	37.0%				
Recurring PAT	2,734	4296	57%	2845	2794	111	-1501
Recurring PAT Margin	47%	62%		33%	27%	4%	-47%
Minority				21	-39	21	-39
PAT after MI	2734	4296	57%	2866	2756	132	-1540

Source: Company and Citi Research

Adani Enterprises

Company description

Adani Enterprises (ADE), founded in 1988 as a partnership firm, has interests in trading, coal mining, real estate development, shipping, bunkering, city gas distribution, power generation, edible oil refining, grain storage and food processing. The company went public in 1994. In the initial years of operation, it focused on trading activities including trading of agro products, mineral oils, metal scrap, precious metals, textile products and fertilizers. With the onset of the infrastructure development cycle in the earlier part of this decade, ADE moved away from being a pure trader to being an infrastructure asset developer to reduce the risk from fluctuating trading volumes. Today, it has interests in coal mine development, power generation, city gas distribution, real estate development, and food storage and processing. Apart from moving into infrastructure asset development, the company has diversified into the trading of coal (coal imports into India) and power trading. Recently Mundra Ports and SEZ has also been amalgamated into ADE.

Investment strategy

Though we do worry about Adani Enterprise's excessive risk-taking and an overleveraged balance sheet, we have a Buy rating on the stock given (1) its deep underperformance vs the BSE Sensex over the last year, (2) the stock is currently trading close to 1 standard deviation below historical mean on both P/E and EV/EBITDA multiples and (3) we take some comfort from the fact that the company has sold its real estate subsidiary to the promoters to start the deleveraging process.

Valuation

Our Rs249 target price for Adani Enterprises is derived using a sum of the parts (SOTP) methodology given the conglomerate nature of the business. We value group's port businesses using a DCF model in which FCFE is discounted at a cost of equity of 12-14%. The power business is valued using a P/BV multiple of 1.2x. The other contributors to the "value pie" are Coal MDO (valued using a DCF and CoE discount rate of 15%) and Trading (Mar14E EV/EBITDA of 5.5x). Agri and City Gas also contribute to an overall fair value of Rs277/share (excluding net debt). We also attribute a 10% conglomerate discount to arrive at a target price of Rs249.

Risks

Key downside risks include: (1) poor project execution; (2) commodity trading; (3) financial closure; (4) environmental and legal clearance; (5) coal license in Bunyu; (6) real estate volumes; (7) resource estimation risk; and (8) inadequate coal in Bunyu to fire the Mundra project. If any of these risk factors has a greater downside impact than we anticipate, the share price will likely have difficulty attaining our target price.

Adani Port And Special Economic Zone

(APSE.BO; Rs127.10; 1)

Valuation

Our Rs143 target price for MPSEZ is based on a sum-of-the-parts (SOTP) methodology. We value Mundra Port at Rs103/share on a discounted cash flow to equity basis, using a cost of equity of 13%. The SEZ is valued at Rs8/share, using a cost of equity of 14% and assigning a 30% discount to the calculated NAV (consistent with how we value the smaller Indian real estate companies). We value Dahej Port at Rs7/share on a discounted cash flow to equity basis, using a cost of equity of 13%. We value Hazira Port at Rs9/share on a discounted cash flow to equity basis, using a cost of equity of 14%, and Mormugao port at Rs1/share on a discounted cash flow to equity basis, using a cost of equity of 14%. We also value the Abbott Point port at Rs10/share on a discounted cash flow to equity basis, using a cost of equity of 14%.

Risks

The key downside risks to our target price include: 1) lower-than-expected traffic growth; 2) lower-than-expected demand for the land in the SEZ; and 3) lower-than-expected lease income for the SEZ.

Adani Power

(ADAN.BO; Rs47.60; 3)

Valuation

The Indian power sector has seen a sea-change over the last 4-5 years from an era of: (1) assured RoE where fuel cost was a pass-through; (2) Coal India honored its coal linkages most of the time; (3) imported coal was a small quantum of India's requirement; (4) analysts/ investors did not have to bother about merchant prices/fuel costs; and (5) though SEBs were making losses, they were not asking generators to back down generation to an era where (1) case 1 and case 2 are becoming more common than assured RoE; (2) concerns are rising as to whether Coal India will honor its coal linkage contracts; (3) imported coal is becoming increasingly important; (4) analysts/investors have to bother about merchant prices/fuel costs; and (5) SEBs are asking generators to back down generation. This means valuation approaches have to be adapted to keep up with the sudden changes in operating outlook for companies. As a consequence, we now use a pure P/BV multiple set on Dec13E at 1.2x. Our target multiple is well supported by average RoE of 6.4% over FY13-15E.

Risks

Upside risks that could cause the stock to trade above our target price include: 1) Better-than-expected operating parameters; 2) Faster-than-expected execution; 3) Higher-than-expected merchant tariffs; 4) Pass through of costs in low priced PPAs; 5) Significant fall in international coal prices; 6) Allocation of coal mine for Tiroda.

Appendix A-1

Analyst Certification

The research analyst(s) primarily responsible for the preparation and content of this research report are named in bold text in the author block at the front of the product except for those sections where an analyst's name appears in bold alongside content which is attributable to that analyst. Each of these analyst(s) certify, with respect to the section(s) of the report for which they are responsible, that the views expressed therein accurately reflect their personal views about each issuer and security referenced and were prepared in an independent manner, including with respect to Citigroup Global Markets Inc and its affiliates. No part of the research analyst's compensation was, is, or will be, directly or indirectly, related to the specific recommendation(s) or view(s) expressed by that research analyst in this report.

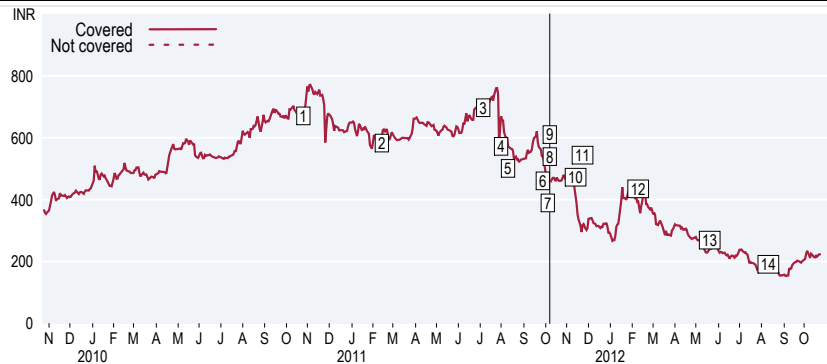
IMPORTANT DISCLOSURES

Adani Enterprises (ADEL.BO)

Ratings and Target Price History

Fundamental Research

Analyst: Venkatesh Balasubramaniam



	Date	Rating	Target Price	Closing Price
1	26-Oct-10	*2L	*706.00	676.75
2	14-Feb-11	2L	*661.00	604.50
3	6-Jul-11	2L	*724.00	709.50
4	31-Jul-11	*2M	*653.00	586.10
5	10-Aug-11	2M	*644.00	572.15

	Date	Rating	Target Price	Closing Price
6	28-Sep-11	2M	*600.00	538.95
7	5-Oct-11	2M	*568.00	470.05
8	7-Oct-11	Stock rating system changed		
9	7-Oct-11	*1	568.00	462.45
10	14-Nov-11	1	*522.00	411.40

	Date	Rating	Target Price	Closing Price
11	23-Nov-11	1	*418.00	317.60
12	9-Feb-12	1	*436.00	393.95
13	21-May-12	1	*315.00	241.45
14	10-Aug-12	1	*228.00	177.40

* Indicates change

Rating/target price changes above reflect Eastern Standard Time

Adani Enterprises (ADEL.BO)

Ratings and Target Price History

Best Ideas Research

Relative Call (3 Month)

Analyst: Venkatesh Balasubramaniam



	Date	Rating	Target Price	Closing Price
1	11-Feb-11	*ADD LP	-	585.25

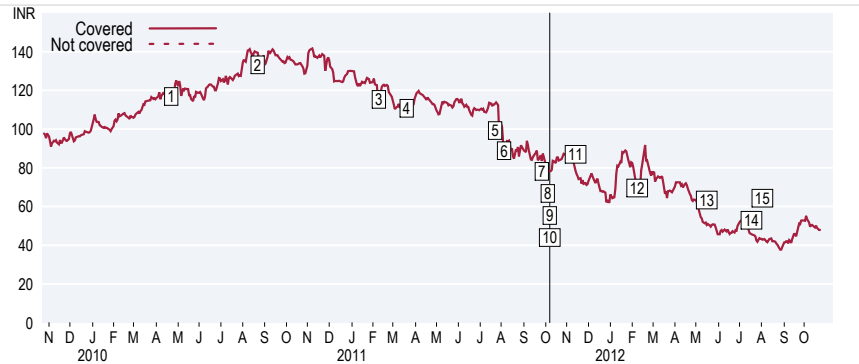
	Date	Rating	Target Price	Closing Price
2	11-May-11	*REM LP	-	635.20

* Indicates change

Rating/target price changes above reflect Eastern Standard Time

Adani Power (ADAN.BO)
Ratings and Target Price History
Fundamental Research

Analyst: Venkatesh Balasubramaniam



	Date	Rating	Target Price	Closing Price
1	22-Apr-10	3M	*106.00	118.75
2	23-Aug-10	*1L	*159.00	139.50
3	9-Feb-11	1L	*130.00	116.50
4	21-Mar-11	1L	*125.00	110.90
5	22-Jul-11	1L	*131.00	112.65

* Indicates change

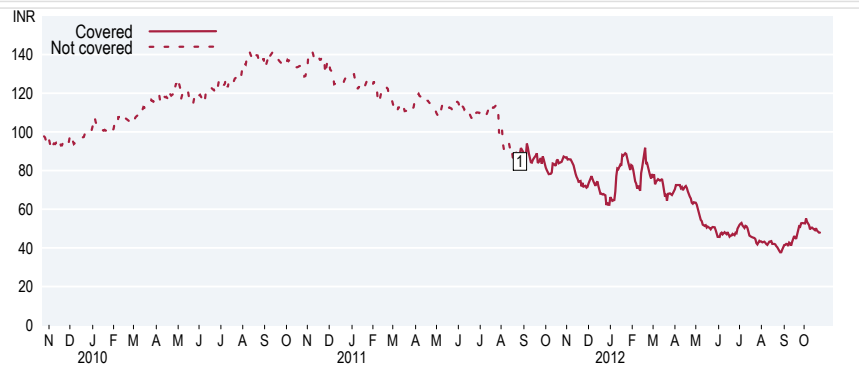
	Date	Rating	Target Price	Closing Price
6	4-Aug-11	*2L	*105.00	90.55
7	27-Sep-11	2L	*96.00	83.50
8	5-Oct-11	2L	*87.00	80.25
9	7-Oct-11	Stock rating system changed		
10	7-Oct-11	*2	87.00	78.15

	Date	Rating	Target Price	Closing Price
11	14-Nov-11	2	*86.00	78.35
12	8-Feb-12	*3	*70.00	70.70
13	16-May-12	3	*51.00	50.50
14	18-Jul-12	3	*40.00	45.70
15	2-Aug-12	3	*34.00	42.85

Rating/target price changes above reflect Eastern Standard Time

Adani Power (ADAN.BO)
Ratings and Target Price History
Best Ideas Research
Relative Call (3 Month)

Analyst: Venkatesh Balasubramaniam



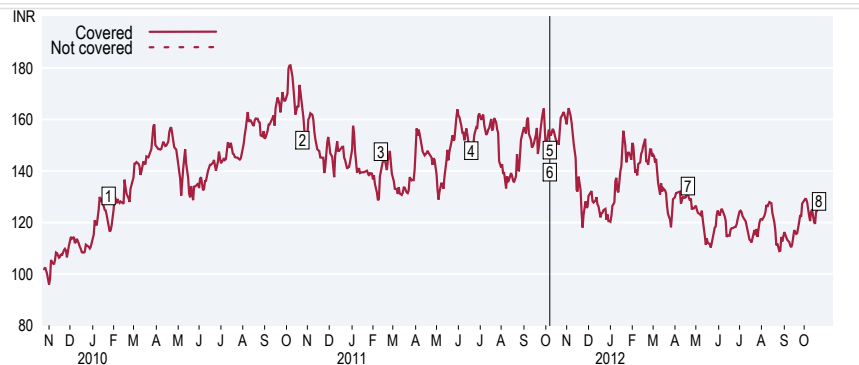
	Date	Rating	Target Price	Closing Price
1	26-Aug-11	*ADD LP	-	85.90

* Indicates change

Rating/target price changes above reflect Eastern Standard Time

Adani Port And Special Economic Zone (APSE.BO)
Ratings and Target Price History
Fundamental Research

Analyst: Deepal Delivala



	Date	Rating	Target Price	Closing Price
1	25-Jan-10	*2M	*131.80	122.94
2	25-Oct-10	*3L	*164.00	164.10
3	11-Feb-11	*1L	*163.00	137.90

* Indicates change

	Date	Rating	Target Price	Closing Price
4	19-Jun-11	1L	*185.00	148.00
5	7-Oct-11	Stock rating system changed		
6	7-Oct-11	*1	185.00	156.05

	Date	Rating	Target Price	Closing Price
7	19-Apr-12	1	*159.00	130.80
8	21-Oct-12	1	*143.00	124.60

Rating/target price changes above reflect Eastern Standard Time

Adani Port And Special Economic Zone (APSE.BO)

Ratings and Target Price History

Best Ideas Research

Relative Call (3 Month)

Analyst: Deepal Delivala



* Indicates change

Rating/target price changes above reflect Eastern Standard Time

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Data current as of 5 Oct 2012

	12 Month Rating			Relative Rating		
	Buy	Hold	Sell	Buy	Hold	Sell
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Venkatesh Balasubramaniam; Deepal Delivala; Atul Tiwari, CFA; Vaishnavi G

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