

Equities

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Adani Enterprises (ADEL.BO)

2Q12 Results – A Mixed Bag

- 2Q12 Recurring PAT - 5% below CIRA** — Despite a beat at the (1) sales level by 12% and (2) EBITDA margin level by 30bps, ADE's Recurring PAT at Rs5.9bn +5% YoY was 5% below CIRA at Rs6.2bn on account of higher-than-expected interest costs at Rs4.1bn v/s CIRA at Rs2.1bn. The debt equity ratio ballooning up to 3.0x end 2Q12 from 1.9x end FY11 is concerning.
- Coal Trading: Strong volumes - margins disappoint again** — Volumes at 9.8m tons were up 45% YoY (ahead of CIRA at 8.45m tons). But EBITDA margins at 7.5% were below CIRA of 8.4%. To meet our FY12E volume assumption of 45m, ADE needs to do 25m tons in 2H12E, up 36% YoY, which we believe is very much achievable.
- Adani Power: Recurring PAT 11% below CIRA** — APL's 2Q12 Recurring PAT at Rs2.0bn (CIRA Rs2.3bn) was +59% YoY/ +13% QoQ. Net sales at 2959 mnkWh were lower than CIRA at 3388 mnkWh on lower generation and high auxiliary consumption. Merchant realizations were high at Rs4.70/kWh on account of sales to UPPCL. Receivable days have moved up from 58 days to 74 days over the last year.
- MPSEZ: Marginally ahead** — PAT of Rs2.73bn, up 29% YoY and marginally ahead of CIRA (Rs2.68bn). Revenues were 9% ahead of CIRA and were up 44% YoY. Although EBITDA margins of 64.4% were weaker than expected (67.6%), the impact was offset by higher-than-expected other operational income. MPSEZ registered a 34% YoY cargo growth, largely driven by strong growth in coal (70% YoY) and liquid cargo (33% YoY). Container growth in 2QFY12 was 17% YoY.
- Target price cut to Rs522** — We lower EPS estimates by 14-31% over FY12E-15E to factor in (1) -3% to +2% change in sales and (2) 238 to 372bps lower EBITDA margins. We also cut our target price to Rs522 (from Rs568 earlier) to factor in our EPS revision and (2) roll forward of all DCF values to Mar12E (Dec11E) and (3) roll forward of all P/BV and EV/EBITDA multiples to Mar13E (Dec12E).

- Company Update
- Target Price Change
- Estimate Change

Buy	1
Price (14 Nov 11)	Rs454.00
Target price	Rs522.00
	from Rs568.00
Expected share price return	15.0%
Expected dividend yield	0.3%
Expected total return	15.2%
Market Cap	Rs499,314M
	US\$9,985M

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)	(%)	(%)
2010A	9,158	18.39	79.0	24.7	3.8	20.3	0.2
2011A	24,409	22.19	20.7	20.5	2.9	20.8	0.2
2012E	29,373	26.71	20.3	17.0	2.5	15.6	0.3
2013E	39,580	35.99	34.7	12.6	2.1	17.9	0.4
2014E	47,472	43.16	19.9	10.5	1.8	18.1	0.4

Source: Powered by dataCentral

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See Appendix A-1 for Analyst Certification, Important Disclosures and non-US research analyst disclosures.

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Fiscal year end 31-Mar	2010	2011	2012E	2013E	2014E
Valuation Ratios					
P/E adjusted (x)	24.7	20.5	17.0	12.6	10.5
EV/EBITDA adjusted (x)	37.2	18.7	14.4	10.1	7.7
P/BV (x)	3.8	2.9	2.5	2.1	1.8
Dividend yield (%)	0.2	0.2	0.3	0.4	0.4
Per Share Data (Rs)					
EPS adjusted	18.39	22.19	26.71	35.99	43.16
EPS reported	18.46	22.51	26.71	35.99	43.16
BVPS	120.97	158.58	183.88	217.98	258.87
DPS	1.00	1.00	1.19	1.60	1.92
Profit & Loss (RsM)					
Net sales	258,899	263,180	387,636	515,501	625,877
Operating expenses	-243,523	-228,673	-335,396	-433,828	-519,647
EBIT	15,376	34,507	52,241	81,673	106,230
Net interest expense	-5,079	-5,131	-13,012	-26,114	-32,400
Non-operating/exceptionals	335	3,006	2,899	2,982	2,973
Pre-tax profit	10,632	32,382	42,128	58,541	76,803
Tax	-937	-4,475	-5,558	-7,951	-12,383
Extraord./Min.Int./Pref.div.	-502	-3,146	-7,197	-11,010	-16,948
Reported net income	9,193	24,761	29,373	39,580	47,472
Adjusted earnings	9,158	24,409	29,373	39,580	47,472
Adjusted EBITDA	16,890	40,093	62,419	97,717	128,670
Growth Rates (%)					
Sales	-1.4	1.7	47.3	33.0	21.4
EBIT adjusted	67.2	124.4	51.4	56.3	30.1
EBITDA adjusted	68.6	137.4	55.7	56.6	31.7
EPS adjusted	79.0	20.7	20.3	34.7	19.9
Cash Flow (RsM)					
Operating cash flow	14,114	24,248	-33,846	72,764	100,864
Depreciation/amortization	1,515	5,586	10,178	16,044	22,439
Net working capital	-2,415	-20,660	-88,513	-14,360	-11,178
Investing cash flow	-93,986	-282,353	-76,919	-74,050	-48,214
Capital expenditure	-91,949	-288,709	-79,436	-76,627	-33,239
Acquisitions/disposals	0	0	0	0	0
Financing cash flow	83,228	257,420	153,949	-15,009	-17,471
Borrowings	53,546	153,240	166,791	9,642	12,205
Dividends paid	-581	-1,304	-1,547	-2,084	-2,500
Change in cash	3,356	-685	43,184	-16,295	35,179
Balance Sheet (RsM)					
Total assets	304,027	635,968	813,569	883,308	965,215
Cash & cash equivalent	29,188	28,503	71,686	55,391	90,571
Accounts receivable	30,264	65,335	54,217	67,162	75,895
Net fixed assets	179,139	462,262	531,521	592,104	602,903
Total liabilities	225,264	426,465	569,042	590,275	610,263
Accounts payable	29,490	49,966	35,302	42,266	46,839
Total Debt	174,389	327,629	494,419	504,061	516,267
Shareholders' funds	78,763	209,503	244,527	293,033	354,952
Profitability/Solvency Ratios (%)					
EBITDA margin adjusted	6.5	15.2	16.1	19.0	20.6
ROE adjusted	20.3	20.8	15.6	17.9	18.1
ROIC adjusted	8.3	8.1	7.7	10.2	12.2
Net debt to equity	184.4	142.8	172.9	153.1	119.9
Total debt to capital	68.9	61.0	66.9	63.2	59.3

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2Q12 consolidated Recurring PAT 5% below CIRA

Figure 1. ADE – High Leverage

Year End Mar31 (Rsmn)	Mar-11	Jun-11	Sep-11
Debt	328	378	567
Equity	175	184	190
D/E	1.9	2.1	3.0

Source: Company and CIRA

■ Despite a beat at the (1) sales level by 12% and (2) EBITDA margin level by 30bps, Adani Enterprise's (ADE) Recurring PAT at Rs5.9bn +5% YoY was 5% below CIRA at Rs6.2bn on account of higher-than-expected interest costs at Rs4.1bn v/s CIRA at Rs2.1bn. The debt equity ratio ballooning up to 3.0x end 2Q12 from 1.9x end FY11 is concerning.

■ Reported PAT was lower at Rs5.5bn and included the following exceptional items (1) Rs400m of old receivables recognized in Adani Power sales (2) associated Rs68m tax (3) Rs230m MTM in MSEZ and (4) Rs558m MTM in Adani Power.

Figure 2. Adani Enterprise 2QFY12 Results

	1QFY11	1QFY12	YoY	2QFY11	2QFY12	YoY	2QFY12E
- Trading	34,761	52,046	50%	29,812	48,891	64%	43,201
- Power	3,531	8,505	141%	3,952	10,679	170%	9,356
- Port	3,611	4,861	35%	3,856	7,607	97%	5,411
- Agro	13,604	21,554	58%	15,854	23,197	46%	23,000
- Real Estate	4	14		-	1		-
- Other	3,484	8,982	158%	4,044	10,070	149%	9,000
Net Sales	58,971	95,961	63%	57,503	100,387	75%	89,969
EBITDA	8,610	11,678	36%	7,243	13,527	87%	11,860
EBITDA margin %	14.6%	12.2%		12.6%	13.5%		13.2%
Depreciation	(1,124)	(2,226)		(1,235)	(2,646)		(2,326)
EBIT	7,486	9,452	26%	6,009	10,881	81%	9,534
EBIT margin %	12.7%	9.9%		10.4%	10.8%		10.6%
- Trading	2,996	3,479	16%	3,072	4,038	31%	
Margin%	8.6%	6.7%		10.3%	8.3%		
- Power	1,851	3,203	73%	1,557	3,819	145%	
Margin%	52.4%	37.7%		39.4%	35.8%		
- Port	2,523	3,154	25%	2,815	4,123	46%	
Margin%	69.9%	64.9%		73.0%	54.2%		
- Agro	(25)	(33)		(211)	(528)		
Margin%	-0.2%	-0.2%		-1.3%	-2.3%		
- Real Estate	(3)	(61)		(6)	(66)		
- Other	351	(232)		359	(401)		
- Unallocable	953	483	-49%	666	1,251	88%	
EBIT	8,645	9,992	16%	8,253	12,237	48%	
Interest	(1,504)	(2,230)		(1,339)	(4,083)		(2,060)
Other income	1,137	539		2,229	1,299		1,000
Other operating income	22	1		15	58		-
PBT	7,141	7,763		6,914	8,154		8,474
Tax	(736)	(942)		(552)	(1,068)		(1,017)
Tax Rate	10.3%	12.1%		8.0%	13.1%		12.0%
Minorities	(798)	(1,123)		(767)	(1,223)		(1,275)
Associates	48	0		6	0		0
PAT	5,655	5,698	1%	5,601	5,863	5%	6,182
Exceptional	(8)	(0)		(513)	(336)		0
Reported PAT	5,647	5,698	1%	5,087	5,527	9%	6,182

Source: Company and Citi Investment Research and Analysis estimates

Figure 3. Adani Enterprise 2QFY12 Operational Data Review

	1QFY11	1QFY12	YoY	2QFY11	2QFY12	YoY
Coal Trading						
Qty (mn tons)	8.27	10.18	23%	6.76	9.80	45%
Sales	34,230	52,046	52%	29,812	48,891	64%
Sales/ton	4,139	5,113		4,410	4,989	
EBITDA	3,450	3,560	3%	2,780	3,650	31%
Margin	10.1%	6.8%		9.3%	7.5%	
EBITDA/Ton	417	350	-16%	411	372	-9%
Power Generation						
Mn kWh	1,030	2,898	181%	1,334	2,959	122%
Sales	3,531	8,505	141%	3,952	10,679	170%
ASP	3.43	2.93		2.96	3.61	
EBITDA	2,200	4,580	108%	2,080	4,794	131%
Rs/kWh	2.14	1.58		1.56	1.62	
Adani Power EBIT	1,852	3,062		1,737	3,741	
Ports						
Cargo (mn tons)	12.62	15.78	25%	12.58	22.37	78%
Sales	3,611	4,861	35%	3,856	7,607	97%
EBITDA	3,110	3,890	25%	3,140	5,360	71%
Margin	86.1%	80.0%		81.4%	70.5%	
EBITDA/Ton	246	247	0%	250	240	-4%
Others						
EBITDA	1,000	190		980	750	
Total Operational EBITDA	9,760	12,220	25%	8,980	14,554	62%
P&L EBITDA + Other operating income	8,632	11,679		7,259	13,584	
Difference	(1,128)	(541)		(1,722)	(970)	

Source: Citi Investment Research and Analysis

Coal Trading: Strong volumes but margins disappoint again

- Coal trading volumes at 9.8m tons were up 45% YoY and were well ahead of CIRA expectations of 8.45m tons. But EBITDA margins at 7.5% was below CIRA expectations of 8.4m tons
- To meet our FY12E coal trading volume assumption of 45m ADE needs to do 25m tons in 2H12E up 36% YoY, which we believe is very much achievable given the severe coal deficits in India.

Adani Power: Recurring PAT 11% below expectations

- **Recurring PAT 11% below CIRA** — APL's 2Q12 Recurring PAT at Rs2.0bn (CIRA Rs2.3bn) was +59% YoY/ +13% QoQ. Reported PAT was Rs1.8bn due to (1) Rs558m loss on derivative MTM and (2) Rs332m on recovery of old receivables net of taxes.
- **Lower sale units - Higher merchant rates** — Net sales at 2959m kWh was lower than CIRA at 3388m kWh on lower generation and high auxiliary consumption. Merchant realizations were high at Rs4.70/kWh on account of sales to UPPCL. APL also made some opportunistic purchases in the UI market at Rs2.53/kWh and sold the same at higher rates in the merchant market.
- **Other takeaways** — (1) APL is not providing cash MAT taxes (Rs902m in 1H12) yet and is disputing the amendments in the Budget. Taxes in the P&L are deferred in nature, and (2) Receivable days have moved up from 58 days to 74 days over the last year.
- **Fuel costs - Higher than expected** — Fuel costs were at Rs1.33/kWh of generation on account of (1) rupee depreciation and (2) the company has

provided for outstanding costs of imported coal. Ex the above two reasons, fuel costs were in line at Rs1.04/kwh of generation.

- **Update on capacity addition** — APL has commissioned (CoD) 2640MW of Mundra capacity. The 6th unit of 660MW could not supply power because of a transmission constraint. The 7th unit of 660MW has also been CoD. The 8th unit will be CoD in next 1.5 months. The 9th unit of Mundra will be CoD by Feb12. APL also expects 2 units of Tiroda to be synchronized by Apr12.

Target price Rs86 — We revise down EPS estimates by 7-25% over FY12E-20E to factor in: (1) lower PLFs (2) higher fuel costs & (3) higher O&M costs. We adjust our target price to Rs86 (Rs87) to factor in (1) EPS revision and (2) roll forward of target P/BV of 2.0x to Mar13E (Dec12E).

Figure 4. Adani Power 2QFY12 Results Review

Year End Mar31 (Rsmn)	FY10	1QFY11	2QFY11	3QFY11	4QFY11	FY11	1QFY12	2QFY12	2QFY12E
Generation (mu)	1,335	1,153	1,495	1,931	3,007	7,586	3,190	3,298	3,724
Sales (mu)	1,221	1,030	1,336	1,717	2,729	6,812	2,898	2,959	3,388
Auxiliary Consumption	8.5%	10.7%	10.7%	11.0%	9.3%	10.2%	9.2%	10.3%	9.0%
GUVNL Sales (mn kWh)		850	1,200	1,543	2,409	6,002	2,628	2,134	2,700
Merchant sales (mn kWh)		180	135	174	320	809	121	1,073	688
UI (mn kWh)							149	(248)	
Merchant % of total sales		17.5%	10.1%	10.1%	11.7%	13.5%	4.2%	36.3%	20.3%
GUVNL Custom Duty		0	34	155	239	428	263	213	270
Sales Break Up									
- GUVNL Duty Recoverable							263	213	
- Others							26	88	
- GUVNL Sales		2,370	3,291	4,347	6,936	16,945	6,859	5,610	7,412
GUVNL Tariff (Rs/kWh)		2.79	2.74	2.82	2.88	2.82	2.61	2.63	2.75
- Merchant Sales		1,161	660	679	1,431	3,931	532	5,040	1,944
Merchant Tariff (Rs/kWh)		6.45	4.88	3.90	4.47	4.86	4.40	4.70	2.82
- UI							507	(627)	
UI Tariff (Rs/kWh)							3.40	2.53	
Net Sales	4,349	3,531	3,952	5,026	8,367	20,876	8,187	10,324	9,356
Rs/kWh per unit sold	3.56	3.43	2.96	2.93	3.07	3.06	2.82	3.49	2.76
Overall Fuel Cost	(1,667)	(1,098)	(1,576)	(1,790)	(2,580)	(7,044)	(3,333)	(4,377)	(3,890)
Rs/kWh per unit generated	1.25	0.95	1.05	0.93	0.86	0.93	1.04	1.33	1.04
- Fuel Cost		(1,286)	(1,518)			(7,329)	(3,354)	(3,439)	
Rs/kWh per unit generated ex FX		1.12	1.02			0.97	1.05	1.04	
- FX fluctuation		188	(58)			286	21	(939)	
O&M Cost	(243)	(301)	(281)	(506)	(851)	(1,939)	(752)	(1,153)	(813)
Rs/kWh per unit sold	0.20	0.29	0.21	0.29	0.31	0.28	0.26	0.39	0.24
EBITDA	2,438	2,132	2,095	2,730	4,937	11,893	4,102	4,794	4,653
EBITDA margin	56.1%	60.4%	53.0%	54.3%	59.0%	57.0%	50.1%	46.4%	49.7%
Rs/kWh per unit sold	2.00	2.07	1.57	1.59	1.81	1.75	1.42	1.62	1.37
Depreciation	(353)	(279)	(359)	(455)	(711)	(1,804)	(1,040)	(1,053)	(1,120)
Rs/kWh per unit sold	0.29	0.27	0.27	0.26	0.26	0.26	0.36	0.36	0.33
EBIT	2,085	1,852	1,737	2,275	4,225	10,089	3,062	3,741	3,533
EBIT margin	48%	52%	44%	45%	50%	48%	37%	36%	38%
Net Interest	(377)	(433)	(455)	(532)	(962)	(2,381)	(886)	(1,336)	(910)
- Gross Interest		(511)	(773)			(3,247)	(1,341)	(1,848)	
- Interest Income		79	318			866	455	512	
Other income	319	79	188	15	60	341	81	6	200
PBT	2,027	1,499	1,469	1,758	3,323	8,049	2,256	2,411	2,823
Tax	(327)	(354)	(211)	(667)	(1,768)	(3,000)	(488)	(410)	(565)
Rate%	16.1%	23.6%	14.3%	37.9%	53.2%	37.3%	21.6%	17.0%	20.0%
PAT	1,700	1,145	1,258	1,091	1,555	5,049	1,769	2,001	2,258
PAT margin	39.1%	32.4%	31.8%	21.7%	18.6%	24.2%	21.6%	19.4%	24.1%
2Q and 3Q GUVNL Duties	0	0	0	0	188	188	0	0	0
Old receivables recovered								400	
Tax on receivables								(68)	
MTM on Derivatives								(558)	
Reported PAT	1,700	1,145	1,258	1,091	1,743	5,237	1,769	1,775	2,258

Source: Company and Citi Investment Research and Analysis estimates

Figure 5. Adani Power 2QFY12 Balance Sheet

Year End Mar31 (Rsmn)	FY10	2QFY11	FY11	2QFY12
Share capital	21,800	21,800	21,800	21,800
Reserves and surplus	36,196	38,593	41,427	44,970
Networth	57,996	60,393	63,227	66,771
Loan Funds	97,641	156,221	173,461	232,522
DTL	120	685	3,120	4,086
Total Liabilities	155,757	217,299	239,808	303,379
Fixed assets	134,363	169,508	204,657	231,380
Investments	7,466	19,661	16,706	28,134
Inventories	95	308	2,763	2,513
Debtors	2,563	2,494	4,165	8,366
Cash	10,267	6,947	8,569	25,855
Loans and Advances	13,425	34,911	19,423	26,348
Current Assets	26,350	44,660	34,919	63,082
CL	12,391	16,493	16,462	19,188
Provisions	31	37	12	28
CL & Provisions	12,422	16,531	16,474	19,217
NCA	13,928	28,130	18,445	43,866
Total Assets	155,757	217,299	239,808	303,379
Inventory Days	8	7	48	22
Receivable Days	215	58	73	74
D/E	1.7	2.6	2.7	3.5
Net Debt/ Equity	1.5	2.5	2.6	3.1

Source: Company and Citi Investment Research and Analysis

MPSEZ: 2QFY12 Marginally Ahead

- **Headline numbers marginally ahead** – Mundra Port reported a PAT of Rs2.73bn, up 29% YoY and marginally ahead of CIRA (Rs2.68bn). Revenues were ~9% ahead of CIRA expectations, and were up 44% YoY.
- **EBITDA margin decline compensated by other operational income** – Although EBITDA margins of ~64.4% were weaker than expected (~67.6%), the impact was offset by higher-than-expected other operational income of Rs320m (CIRA at Rs140m). This comprised of (1) SEZ income of Rs65m pertaining to small incremental plots of earlier customers and (2) construction income of Rs220m. Interest expenses and depreciation were also higher than expected. Interest costs this quarter included an MTM provisioning of Rs230m due to rupee depreciation, and were also impacted by lower interest income due to lesser investible surplus.
- **Coal drives cargo growth** – Mundra Port registered a ~34% YoY cargo growth, largely driven by strong growth in coal (~70% YoY) and liquid cargo (~33% YoY). Container growth in 2QFY12 was 17% YoY.

EPS revised downwards

Figure 6. Adani Enterprise – Consolidated EPS Revision Table

Year End Mar31 (Rsmn)	FY12E	FY13E	FY14E	FY15E
Sales				
Old	379,545	529,449	637,523	741,514
New	387,636	515,501	625,877	727,107
Change	2.1%	-2.6%	-1.8%	-1.9%
EBITDA				
Old	70,142	116,509	154,794	180,160
New	62,419	97,717	128,670	150,909
Change	-11.0%	-16.1%	-16.9%	-16.2%
EBITDA Margin %				
Old	18.5%	22.0%	24.3%	24.3%
New	16.1%	19.0%	20.6%	20.8%
Change	-238	-305	-372	-354
PAT				
Old	34,253	51,768	66,806	80,060
New	29,373	39,580	47,472	55,153
Change	-14.2%	-23.5%	-28.9%	-31.1%
FD EPS (Rs)				
Old	31.1	47.1	60.7	72.8
New	26.7	36.0	43.2	50.1
Change	-14.2%	-23.5%	-28.9%	-31.1%

Source: Citi Investment Research and Analysis estimates

Figure 7. Adani Enterprise Consolidated EPS – CIRA vs Consensus

Year End Mar31 (Rs)	FY12E	FY13E	FY14E
PAT			
CIRA	29,373	39,580	47,472
Consensus	34,395	46,822	63,158
Difference	-15%	-15%	-25%
FD EPS			
CIRA	26.71	35.99	43.16
Consensus	31.01	41.90	58.30
Difference	-14%	-14%	-26%

Source: Bloomberg and Citi Investment Research and Analysis estimates

Target price cut to Rs522 (from Rs568 earlier)

Figure 8. Adani Enterprise – Sum Of The Parts

Name of Assets	Valuation Approach	CoE/Multiple	ADE Stake	Equity Value	ADE Value	Per Share
Mundra Ports	10% discount To CIRA TP = Rs185	13%-14%	77.5%	333,565	258,480	235
Adani Power	At CIRA TP = Rs86	13%	64.0%	205,819	131,699	120
Machhakatta	DCF as of March 2012	13%	100.0%	52,209	52,209	47
Parsa-Kente - PKCL	DCF as of March 2012	13%	74.0%	2,589	1,916	2
Parsa-Kente - AMPL	DCF as of March 2012	13%	100.0%	12,838	12,838	12
Parsa	DCF as of March 2012	13%	100.0%	2,846	2,846	3
Chendipada	DCF as of March 2012	13%	100.0%	27,408	27,408	25
Galilee Coal Tenement	Book Value		100.0%	20,475	20,475	19
Coal Mining				118,365	117,692	107
BKC	DCF as of March 2012	13%	95.0%	19,777	18,788	17
SEMPPL	DCF as of March 2012	13%	71.3%	14,759	10,516	10
Khatau-Byculla	DCF as of March 2012	13%	57.0%	4,130	2,354	2
Khatau-Borivalli	DCF as of March 2012	13%	57.0%	4,288	2,444	2
Land Bank			100.0%	1,850	1,850	2
Real Estate	Discount of 40% to NAV			26,882	21,571	20
Trading	March 13E EV/EBITDA multiple	6x	100.0%	121,697	121,697	111
Edible Oil - Adani Wilmar	March 13E EV/EBITDA multiple	2x	50.0%	4,204	2,102	2
Agri-Fresh	March13E P/BV multiple	1x	100.0%	939	939	1
Adani Agri Logistics	March13E P/BV multiple	1x	100.0%	1,629	1,629	1
Agriculture				6,772	4,670	4
City Gas Distribution	DCF as of March 2012	13%	100.0%	7,309	7,309	7
Shipping	DCF as of March 2012	13%	100.0%	3,523	3,523	3
Bunkering	DCF as of March 2012	13%	50.0%	1,191	596	1
Parent Net Cash/ (Debt)					(29,835)	(27)
Fair Value					637,402	580
Conglomerate Discount		10%			(63,740)	(58)
Fair Value Post Discount					573,662	522

Source: Citi Investment Research and Analysis estimates

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, the company 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

We rate ADE Buy for the following reasons: ADE has taken some very ambitious steps in the recent past: 1) purchase of a 100% interest in the Galilee coal tenement for US\$455mn; 2) coal purchase agreement with Regional Government of Sumatra Selatan and PT Bukit Asam; and 3) MPSEZ winning the AU\$1.8bn bid for Abbott Point. At the heart of this strategy is forward / backward integration and exploiting the synergies in its ports, power, contract coal mining, coal ownership coal and coal trading businesses. We are in consonance with the company's strategy and believe that recent fall in share price provides a good entry point for investors.

Valuation

Our Rs522 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 power and port businesses using a DCF model in which FCFE is discounted at a cost of equity of 12-14%. The next biggest contributors to the "value pie" are Coal Mining (valued using a DCF and CoE discount rate of 13%) and Trading (Mar13E EV/EBITDA of 6x). Real Estate, Agri and City Gas also contribute to an overall fair value of Rs631/share (excluding net debt). We also attribute a 10% conglomerate discount to arrive at a target price of Rs522.

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.

Appendix A-1

Analyst Certification

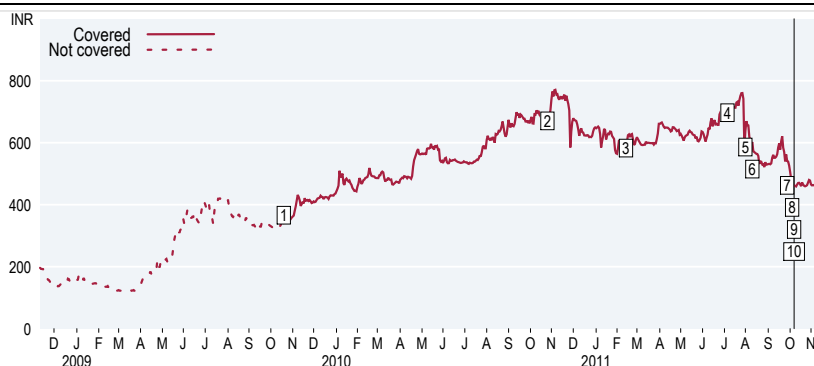
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Adani Enterprises (ADEL.BO)

Ratings and Target Price History Fundamental Research

Analyst: Venkatesh Balasubramaniam
Covered since October 20 2009



	Date	Rating	Target Price	Closing Price
1	20-Oct-09	*1M	*448.00	340.20
2	26-Oct-10	*2L	*706.00	678.35
3	14-Feb-11	2L	*661.00	603.55
4	6-Jul-11	2L	*724.00	698.45

* Indicates change

	Date	Rating	Target Price	Closing Price
5	31-Jul-11	*2M	*653.00	586.10
6	10-Aug-11	2M	*644.00	601.95
7	28-Sep-11	2M	*600.00	541.45
8	5-Oct-11	2M	*568.00	470.05

	Date	Rating	Target Price	Closing Price
9	7-Oct-11	Stock rating system changed		
10	7-Oct-11	*1	568.00	462.45

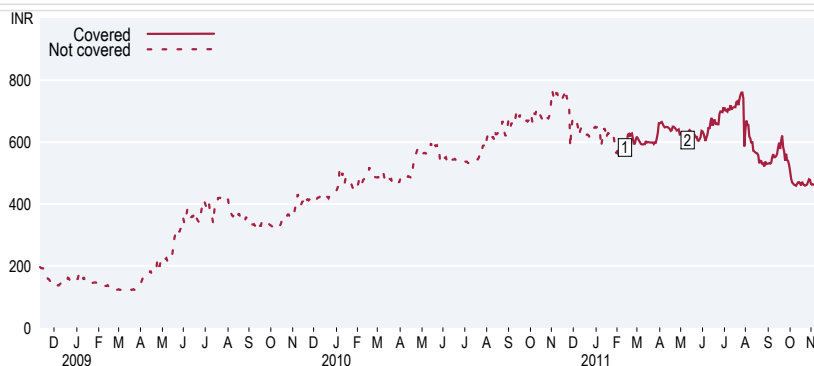
Rating/target price changes above reflect Eastern Standard Time

Adani Enterprises (ADEL.BO)

Ratings and Target Price History Best Ideas Research

Relative Call (3 Month)

Analyst: Venkatesh Balasubramaniam
Covered since October 20 2009



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

* Indicates change

	Date	Rating	Target Price	Closing Price
2	11-May-11	*REM LP	-	626.05

Rating/target price changes above reflect Eastern Standard Time

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