

# ADANI ENTERPRISES

## All eyes on coal mining

India Equity Research | Power



AEI's Q2FY13 adj. PAT of INR2.3bn was in line with our estimate. Coal trading volume at 8.8 MT was down 10% YoY but management remains confident of 40MT coal trading and 116MT of port cargo targets. While power business has near term challenges, domestic and overseas coal mining would be the next trigger. Maintain 'BUY' with a TP of INR377.

### Coal trading volumes subdued, expect pick-up in H2

AEI reported consolidated PAT (after adjusting for INR3.2bn of forex gain and INR2.2bn of deferred tax) at INR2.3bn was in line with our estimate. Despite a correction in international coal prices (drop in average realisation from USD95/t to USD87/t QoQ), AEI traded 8.8 MT of coal, down 10% YoY in volumes while EBITDA margin of 10.3% improved from 8.2% in Q1FY13. The management, however, remains confident of a full year trading volume of 40 MT (our estimates of 36 MT) taking comfort from the existing orders for H2 and new tenders being floated for the current fiscal.

### Port delivers, power needs hand holding, mining takes baby steps

Ports under APSEZ accounted for 45% of EBITDA by handling an aggregate 25.34MT of cargo (with a target of 116MT for FY13) given the strong take-or-pay contracts at various ports. The power entity sustained losses for the fourth straight quarter on transmission bottlenecks and lower coal supplies. AEI has approved equity infusion (INR15bn of loans to be converted into equity) into APL to support near term cash flow. Mine ramp-up at Bunyu, Indonesia, is likely to be much gradual at ~4-5 MT in FY13 (from ~5-6 MT earlier). MDO at the ParsaKante block is set to begin pending a State Pollution Control Board clearance expected anytime soon. The USD4.2bn (1/3<sup>rd</sup> each of ECB, Project debt and equity) Galilee project is on track for financial closure by Mar 2013.

### Outlook and Valuation: Coal mining, the next trigger; Maintain 'BUY'

While the power business has challenges in the near term, the port and trading verticals continue to deliver robust profits. Given the likely start of domestic MDO business and the environmental clearance in Australia, coal mining is likely to be the next trigger for the company. At CMP of INR222/share, the stock has significant upside potential to our SOTP TP of INR377/share (excluding coal mining business). Maintain 'BUY/Performer' rating on the stock.

Financials (Consolidated)						(INR mn)		
Year to March	Q2FY13	Q2FY12	Y-o-Y%	Q1FY13	Q-o-Q%	FY12	FY13E	FY14E
Revenue	102,647	100,845	1.8	110,356	(7.0)	393,556	427,035	529,569
EBITDA	14,045	13,984	0.4	10,799	30.1	49,978	67,607	117,805
Net profit	2,260	5,527	(59.1)	2,001	12.9	18,392	12,328	26,603
Dil. EPS (INR)	2.1	5.0	(59.1)	1.8	12.9	16.7	11.2	24.2
Dil. P/E (x)						13.3	19.8	9.2
EV/EBITDA (x)						17.2	12.4	6.7
ROAE (%)						10.0	6.1	12.2

#### EDELWEISS 4D RATINGS

Absolute Rating	BUY
Rating Relative to Sector	Performer
Risk Rating Relative to Sector	Medium
Sector Relative to Market	Equalweight

#### MARKET DATA (R: ADEL.BO, B: ADE IN)

CMP	: INR 222
Target Price	: INR 377
52-week range (INR)	: 487 / 152
Share in issue (mn)	: 1,099.8
M cap (INR bn/USD mn)	: 244/ 4,606
Avg. Daily Vol.BSE/NSE('000)	: 2,365.9

#### SHARE HOLDING PATTERN (%)

	Current	Q1FY13	Q4FY12
Promoters*	80.0	80.0	78.3
MF's, FI's & BK's	0.9	0.8	0.8
FII's	15.1	15.3	15.5
others	4.1	4.0	5.4
* Promoters pledged shares (% of share in issue)			8.6

#### PRICE PERFORMANCE (%)

	Stock	Nifty	EW Power Index
1 month	10.3	(0.0)	3.7
3 months	16.8	11.2	2.8
12 months	(51.5)	12.7	(7.6)

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Table 1: SOTP valuations

Business segment	Value (INR mn)	Stake (%)	Value to AEL (INR mn)	Value per share (INR)	Methodolgy
Adani Power	112,249	64.0	71,830	65	NPV
APSEZ	310,089	77.5	240,295	218	NPV
Trading	37,038	100.0	37,038	34	6x FY14E PAT
Cash	65,470		65,470	60	H1FY13 cash
<b>SOTP</b>			<b>414,632</b>	<b>377</b>	
Mining business	Option value			121	

Source: Edelweiss research

**Financial snapshot**
**(INR mn)**

Year to March	Q2FY13	Q2FY12	% Change	Q1FY13	% Change	FY12	FY13E	FY14E
Net revenues	102,647	100,845	1.8	110,356	(7.0)	393,556	427,035	529,569
Raw material	78,684	80,657	(2.4)	88,151	(10.7)	310,075	332,520	375,102
Raw material consumed	73,230	83,232	(12.0)	91,110	(19.6)	310,075	332,520	375,102
Employee expenses	1,678	1,107	51.6	1,383	21.3	4,596	5,644	7,273
Other expenses	8,240	5,097	61.7	10,023	(17.8)	28,907	21,264	29,389
Total expenditure	88,602	86,861	2.0	99,557	(11.0)	343,578	359,428	411,764
EBITDA	14,045	13,984	0.4	10,799	30.1	49,978	67,607	117,805
Other income	2,123	1,299	63.4	1,867	13.7	5,481	1,506	2,132
Depreciation	5,008	2,646	89.3	4,794	4.5	12,240	21,873	32,183
EBIT	11,160	12,637	(11.7)	7,872	41.8	43,220	47,239	87,754
Interest	5,099	4,871	4.7	9,272	(45.0)	18,256	31,014	46,005
Profit before tax	6,061	7,766	(22.0)	(1,400)	(533.0)	24,964	16,225	41,749
Tax	2,827	1,136	148.9	1,072	163.8	4,761	3,129	6,640
Extraordinary items		(1)	(100.0)	(4,536)	(100.0)			
PAT	3,202	5,527	(42.1)	4,029	(20.5)	18,392	12,328	26,603
Minority interest	31	1,104	(97.2)	(1,964)	(101.6)	1,811	767	8,505
Adjustments	943	-		2,028	(53.5)	-	-	-
Net profit	2,260	5,527	(59.1)	2,001	12.9	18,392	12,328	26,603
Equity capital (FV INR 1)	1,100	1,100		1,100		1,100	1,100	1,100
No. of shares (mn)	1,100	1,100		1,100		1,100	1,100	1,100
Adj. EPS (INR)	2.1	5.0		1.8		16.7	11.2	24.2

**As % of net revenues**

Raw material	76.7	80.0		79.9		78.8	77.9	70.8
Employee cost	1.6	1.1		1.3		1.2	1.3	1.4
Other expenditure	8.0	5.1		9.1		7.3	5.0	5.5
EBITDA	13.7	13.9		9.8		12.7	15.8	22.2
Reported net profit	3.1	5.5		3.7		4.7	2.9	5.0
Tax rate	46.6	14.6		NA		19.1	19.3	15.9

**Change in estimates**

	FY13E			FY14E			Comments
	New	Old	% change	New	Old	% change	
Net Revenue	427,035	430,875	(0.9)	529,569	528,075	0.3	
EBITDA	67,607	71,171	(5.0)	117,805	118,667	(0.7)	
EBITDA Margin	15.8	16.5		22.2	22.5		
Core profit	13,096	17,092	(23.4)	35,109	37,853	(7.2)	Due to numbers revised downwards for subsidiary Adani Power
PAT Margin	3.1	4.0		6.6	7.2		
Capex	12,064	20,113	(40.0)	17,945	17,923	0.1	Revising APL capex on higher capex in FY12

## Company Description

The Adani Group, founded in 1988, is one of the fastest growing business houses in India. It has its roots in its flagship company, Adani Enterprises (erstwhile Adani Exports), which was established by Mr. Gautam S. Adani in 1988 as a partnership firm with an initial capital of INR 0.5 mn. The company is currently involved in multiple business lines including trading, power generation, coal mining, ports and real estates.

## Investment Theme

AEL has embarked on an ambitious business diversification and expansion plan. Its business diversification, among various initiatives, includes entry into power generation, infrastructure development, coal mining, and also developing and managing agro silos. The company's diversification plan is an initiative to enhance margins, profitability and return on assets.

- The company is scaling up operations of and expanding its subsidiaries Adani Power and Mundra Port with intent to make them one of the leading players in their respective sectors.
- The company is planning to leverage its success in India by pursuing port and mining assets in Australia and Indonesia.
  - AEL is awarded the Preferred Proponent status for development of port in Dudgeon, Queensland, Australia.
  - AEL, under its subsidiary company MPSEZ, acquired the Abbot point terminal (eventual capacity of 80 mtpa) in Australia for AUD 1.8 bn
  - It entered into a tri-partite agreement to develop a port cum rail project connecting a coal mine in Indonesia which will also entitle it to coal purchase rights.
- These initiatives are part of vision 2020 wherein AEL will mine 200 mt of coal, Adani Ports and SEZ will handle 200 mt of cargo, and Adani Power will have a generation capacity of 20 GW.

## Key Risks

- **Execution challenge**

The biggest challenge for AEL is the execution risk of its projects in the pipeline. While the company has demonstrated excellent execution skills in India the future projects being developed in Australia/overseas remain key for the growth of the company.

- **Internal risk management**

AEL's core business of commodity trading is exposed to market risks in a completely unregulated environment. Monitoring of such risks requires stringent internal risk management systems that are technology savvy. AEL's trading portfolio is not only exposed to market swings in exchange rates and prices, but is also exposed to local government tariff policies and changes in trade restrictions.

## Financial Statements

### Key Assumptions

Year to March		FY10	FY11	FY12	FY13E	FY14E
Macro -	GDP(Y-o-Y %)	8.4	8.4	6.5	5.8	6.5
	Inflation (Avg)	3.6	9.9	8.8	7.8	6.0
	Repo rate (exit rate)	5.0	6.8	8.5	7.5	6.8
	USD/INR (Avg)	47.4	45.6	47.9	53.5	52.0
Sector -	New Castle 6700 Kcal (USD/t)	78	108	117	105	113
Company -	Coal trading volume (MT)	28.8	33.5	35.7	36.0	40.0
	Coal trading margin (%)	-	10.0	8.4	6.5	6.0

### Income statement

(INR mn)

Year to March	FY10	FY11	FY12	FY13E	FY14E
Income from operations	258,899	264,055	393,556	427,035	529,569
Direct costs	229,636	208,166	310,075	332,520	375,102
Employee costs	1,205	3,867	4,596	5,644	7,273
Other Expenses	11,167	11,090	28,907	21,264	29,389
Total operating expenses	242,008	223,123	343,578	359,428	411,764
EBITDA	16,891	40,932	49,978	67,607	117,805
Depreciation & Amortization	1,515	5,586	12,240	21,873	32,183
EBIT	15,376	35,347	37,738	45,733	85,622
Other income	335	4,213	5,481	1,506	2,132
Interest expenses	5,079	6,338	18,256	31,014	46,005
Profit before tax	10,632	33,222	24,964	16,225	41,749
Provision for tax	945	4,472	4,761	3,129	6,640
Net profit	9,687	28,750	20,203	13,096	35,109
Extraordinary income/ (loss)	43	(491)	-	-	-
Profit after minority interest	9,193	24,761	18,392	12,328	26,603
Shares outstanding (mn)	498	1,100	1,100	1,100	1,100
Diluted EPS (INR)	18.5	22.5	16.7	11.2	24.2
Dividend per share (INR)	1.0	1.0	1.0	0.6	1.2
Dividend payout (%)	5.4	4.4	6.0	5.0	5.0

### Common size metrics - as % of net revenues

Year to March	FY10	FY11	FY12	FY13E	FY14E
Operating expenses	93.5	84.5	87.3	84.2	77.8
EBITDA margins	6.5	15.5	12.7	15.8	22.2
Net profit margins	3.7	10.9	5.1	3.1	6.6

### Growth ratios (%)

Year to March	FY10	FY11	FY12	FY13E	FY14E
Rev. growth (%)	(1.4)	2.0	49.0	8.5	24.0
EBITDA	68.6	142.3	22.1	35.3	74.3
Net profit	91.0	196.8	(29.7)	(35.2)	168.1
EPS growth (%)	80.3	22.0	(25.7)	(33.0)	115.8

Balance sheet					(INR mn)
As on 31st March	FY10	FY11	FY12	FY13E	FY14E
Equity capital	498	1,100	1,100	1,100	1,100
Reserves & surplus	59,879	174,041	193,798	205,408	230,465
Shareholders funds	60,377	175,141	194,898	206,508	231,565
Minority interest (BS)	18,518	35,089	34,623	35,390	43,896
Secured loans	119,012	297,128	564,237	575,813	555,776
Unsecured loans	55,377	30,501	88,072	73,860	80,947
Borrowings	174,389	327,629	652,309	649,673	636,723
Deferred tax (net)	699	7,065	23,042	23,042	23,042
Deferred revenue	-	6,121	25,910	25,910	25,910
<b>Sources of funds</b>	<b>253,983</b>	<b>551,045</b>	<b>930,783</b>	<b>940,524</b>	<b>961,137</b>
Gross block	49,603	190,503	407,662	627,414	747,140
Depreciation	3,831	17,929	30,169	52,042	84,225
Net block	45,773	172,574	377,493	575,372	662,915
Capital work in progress	133,366	289,689	372,207	164,519	62,738
Total fixed assets	179,139	462,262	749,701	739,891	725,653
Investments	6,990	3,224	5,421	5,421	5,421
Inventories	33,855	45,003	52,148	47,762	52,961
Sundry debtors	30,264	65,335	92,944	101,599	121,867
Cash and equivalents	29,188	28,503	65,139	87,408	125,866
Loans and advances	24,591	31,641	82,030	82,030	82,030
Other current assets	-	-	22,454	22,454	22,454
Total current assets	117,898	170,481	314,715	341,253	405,179
Sundry creditors and others	46,964	79,572	129,252	142,328	167,066
Provisions	3,212	6,079	9,937	3,848	8,186
Total current liabilities & provisions	50,176	85,650	139,190	146,177	175,252
Net current assets	67,722	84,831	175,525	195,076	229,927
Others	132	728	136	136	136
<b>Uses of funds</b>	<b>253,983</b>	<b>551,045</b>	<b>930,783</b>	<b>940,524</b>	<b>961,137</b>
Book value per share (INR)	121.2	159.2	177.2	187.8	210.6

Free cash flow					(INR mn)
Year to March	FY10	FY11	FY12	FY13E	FY14E
Net profit	9,193	24,761	18,392	12,328	26,603
Depreciation	1,515	5,586	12,240	21,873	32,183
Others	4,048	8,342	7,905	767	8,505
Gross cash flow	15,131	42,195	42,443	34,969	67,292
Less: Changes in WC	2,189	14,205	38,079	(2,718)	(3,608)
Operating cash flow	12,942	27,990	4,364	37,686	70,900
Less: Capex	92,144	297,222	299,678	12,064	17,945
<b>Free cash flow</b>	<b>(79,202)</b>	<b>(269,232)</b>	<b>(295,314)</b>	<b>25,623</b>	<b>52,954</b>

Cash flow metrics					
Year to March	FY10	FY11	FY12	FY13E	FY14E
Operating cash flow	12,942	27,990	4,364	37,686	70,900
Investing cash flow	(92,085)	(244,693)	(348,272)	(12,064)	(17,945)
Financing cash flow	83,868	202,183	349,135	(3,354)	(14,496)
Net cash flow	4,725	(14,520)	5,227	22,269	38,458
Capex	(92,144)	(297,222)	(299,678)	(12,064)	(17,945)
Dividends paid	(581)	(1,282)	(1,282)	(719)	(1,546)
Share issuance/(buyback)	22,131	93,283	3,328	-	-

**Profitability & efficiency ratios**

Year to March	FY10	FY11	FY12	FY13E	FY14E
ROAE (%)	20.3	21.5	10.0	6.1	12.2
ROACE (%)	7.7	8.9	5.1	4.9	9.1
Inventory day	46	55	45	43	35
Debtors days	45	66	73	83	77
Payable days	71	111	123	149	151
Cash conversion cycle (days)	20	10	(4)	(23)	(39)
Current ratio	2.3	2.0	2.3	2.3	2.3
Debt/EBITDA	10.3	8.0	13.1	9.6	5.4
Average working capital turnover	4.5	3.5	2.8	2.6	3.4
Average capital employed turnover (x)	1.3	0.7	0.5	0.5	0.6
Debt/Equity	2.9	1.9	3.3	3.1	2.7
Adjusted debt/equity	2.9	1.9	3.3	3.1	2.7
Net Debt/Equity	2.4	1.7	3.0	2.7	2.2

**Operating ratios**

Year to March	FY10	FY11	FY12	FY13E	FY14E
Total asset turnover	1.3	0.7	0.5	0.5	0.6
Fixed asset turnover	8.0	2.4	1.4	0.9	0.9
Equity turnover	5.7	2.2	2.1	2.1	2.4

**Valuation parameters**

Year to March	FY10	FY11	FY12	FY13E	FY14E
Diluted EPS (INR)	18.5	22.5	16.7	11.2	24.2
Y-o-Y growth (%)	80.3	22.0	(25.7)	(33.0)	115.8
CEPS (INR)	22.2	31.2	31.4	31.1	53.5
Diluted PE (x)	12.1	9.9	13.4	19.8	9.2
Price/BV (x)	1.8	1.4	1.3	1.2	1.1
EV/Sales (x)	1.0	2.2	2.2	2.0	1.5
EV/EBITDA (x)	15.9	14.1	17.3	12.4	6.7
Dividend yield (%)	0.4	0.4	0.4	0.3	0.5

**Peer comparison valuation**

	Price	Market cap (INR mn)	P/BV(x)		EV/EBITDA(x)		RoE (%)	
			2013E	2014E	2013E	2014E	2013E	2014E
GMR Infrastructure	21	82,520	0.9	0.9	19.8	13.7	(1.6)	1.2
GVK Power and Infra	13	20,925	0.6	0.6	20.8	15.1	(6.6)	(0.4)
Reliance Infrastructure	500	133,454	0.7	0.6	2.9	2.7	6.7	6.4
<b>Average</b>			<b>0.8</b>	<b>0.8</b>	<b>14.0</b>	<b>9.6</b>	<b>1.2</b>	<b>4.9</b>
<b>Adani Enterprises</b>	<b>222</b>	<b>243,936</b>	<b>1.2</b>	<b>1.1</b>	<b>12.4</b>	<b>6.7</b>	<b>6.1</b>	<b>12.2</b>

Source: Edelweiss research

Company	Absolute reco	Relative reco	Relative risk	Company	Absolute reco	Relative reco	Relative Risk
Adani Enterprises	BUY	SP	M	Adani Ports and Special Economic Zone	BUY	SO	M
Adani Power	REDUCE	SU	M	CESC	BUY	SU	H
Essar Ports	BUY	None	None	GMR Infrastructure	BUY	SO	H
Gujarat Pipavav Port	REDUCE	None	None	GVK Power and Infra	HOLD	SU	H
JSW Energy	HOLD	SP	H	Lanco Infratech	BUY	SU	H
Marg	BUY	None	None	Navabharat Ventures	BUY	None	None
NTPC	HOLD	SU	L	Power Grid Corp of India	BUY	SO	L
PTC India	BUY	None	None	Reliance Infrastructure	BUY	SO	M
Tata Power Co	BUY	SO	L				

## ABSOLUTE RATING

Ratings	Expected absolute returns over 12 months
Buy	More than 15%
Hold	Between 15% and - 5%
Reduce	Less than -5%

## RELATIVE RETURNS RATING

Ratings	Criteria
Sector Outperformer (SO)	Stock return > 1.25 x Sector return
Sector Performer (SP)	Stock return > 0.75 x Sector return
	Stock return < 1.25 x Sector return
Sector Underperformer (SU)	Stock return < 0.75 x Sector return

Sector return is market cap weighted average return for the coverage universe within the sector

## RELATIVE RISK RATING

Ratings	Criteria
Low (L)	Bottom 1/3rd percentile in the sector
Medium (M)	Middle 1/3rd percentile in the sector
High (H)	Top 1/3rd percentile in the sector

Risk ratings are based on Edelweiss risk model

## SECTOR RATING

Ratings	Criteria
Overweight (OW)	Sector return > 1.25 x Nifty return
Equalweight (EW)	Sector return > 0.75 x Nifty return
	Sector return < 1.25 x Nifty return
Underweight (UW)	Sector return < 0.75 x Nifty return





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**Coverage group(s) of stocks by primary analyst(s):**

Adani Power, Adani Enterprises, Adani Ports and Special Economic Zone, CESC, Essar Ports, GMR Infrastructure, Gujarat Pipavav Port, GVK Power and Infra, JSW Energy, Lanco Infratech, Marg, Navabharat Ventures, NTPC, PTC India, Power Grid Corp of India, Reliance Infrastructure, Tata Power Co

**Recent Research**

Date	Company	Title	Price (INR)	Recos
22-Oct-12	<b>Adani Power</b>	Short on fuel; <i>Result Update</i>	48	Reduce
22-Oct-12	<b>Adani Ports and SEZ</b>	Higher cargo volume lifts profits; <i>Result Update</i>	130	Buy
16-Oct-12	<b>Essar Ports</b>	Cargo visibility to sustain earnings growth; <i>Result Update</i>	98	Buy

**Distribution of Ratings / Market Cap**

Edelweiss Research Coverage Universe

	Buy	Hold	Reduce	Total
Rating Distribution*	113	53	19	186
* 1 stocks under review				
	> 50bn	Between 10bn and 50 bn	< 10bn	
Market Cap (INR)	114	58	14	

**Rating Interpretation**

Rating	Expected to
<b>Buy</b>	appreciate more than 15% over a 12-month period
<b>Hold</b>	appreciate up to 15% over a 12-month period
<b>Reduce</b>	depreciate more than 5% over a 12-month period

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