



“Adani Enterprises Q4 FY-20 Earnings Conference Call”

May 06, 2020



**MANAGEMENT: MR. VINAY PRAKASH – CEO, (MINING & ICM),
ADANI ENTERPRISES LIMITED
MR. RAMESH NAIR – CEO, MUNDRA SOLAR PV
LIMITED
MR. ROBBIE SINGH – CFO, ADANI ENTERPRISES
LIMITED**

Moderator: Ladies and gentlemen good day and welcome to the Adani Enterprises Limited Q4 FY20 Earnings Conference Call. We have with us today on the call Mr. Vinay Prakash – CEO Mining and ICM, Adani Enterprises Limited, Mr. Ramesh Nair, CEO – Mundra Solar PV Limited, Mr. Robbie Singh – CFO, Adani Enterprises Limited.

As a reminder all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing ‘*’ then ‘0’ on your touchtone phone. Please note that this conference is being recorded. I would now like to hand the conference over to Mr. Robbie Singh. Thank you and over to you sir.

Robbie Singh: Thank you. Hi, Good Afternoon. This is Robbie Singh, CFO of Adani Enterprises. Welcome, Board of Directors of Adani Enterprises has adopted the Q4 FY20 results. With COVID19 pandemic, we have prioritized to safeguard the health and well-being of our employees, protecting interest of stakeholders and strictly adhering to government guidelines ensuring minimal impact on our operations. Additionally this also means that we have activated our liquidity management plans consistent with an event like this.

AEL has been a successful incubator since 1994 creating five infrastructure unicorns as independent listed entities with strong businesses. We have a history of successfully converting infrastructure startups into thriving businesses thereby providing shareholders multifold returns and direct exposure to real assets. We are now focused on building new wave of infrastructure and utility business in the area of Airports, Roads, Water, Data Centre and Solar manufacturing. In the process, this model of building new business and creating value has delivered returns at compounded annual growth rate of over 25% to shareholders since inception. In the last 2 years, demerger of Adani Green Energy Limited and Adani Gas Limited has boosted our shareholder returns at the rate of 45% since the announcement.

Coming to this quarter’s performance; it’s been another quarter of resilient operations and financial performance across our core business segments of Mining Services, Integrated Coal Manufacturing, Solar Manufacturing and other businesses. Consolidated revenue for FY ‘20 has increased by 8%. It is now 44,086 crores and EBITDA increased 17% to 2,968 crores. On a quarter on quarter basis, consolidated revenues stood at 13,690 crores and EBITDA stood at 647 crores.

Now I will introduce and hand over to each of the business CEOs to take you through the respective business highlights. First I hand you over to Mining Services CEO, Mr. Vinay Prakash. Vinay please.

Vinay Prakash: Good afternoon. This is Vinay Prakash. In Mining Services business, the company is an MDO for 9 coal blocks with the peak capacity of 100+ million metric tons per annum including two projects at LoA stage where we have got letter of intent and we are still to sign the contract. Further, the company has two MDO projects for iron ore with the peak capacity of 16 million metric tons per annum. These 11 projects are located in the state of Chhattisgarh, Madhya

Pradesh and Odisha. We have also forayed into Washery Service business for Coal India and have received LoI for Hingula Washery project for 10 million metric tons per annum from MCL (Mahanadi Coalfield Limited). ParsaEast Kante Basan which is PEKB mine has been operational since February 2013 and it is the first and the only captive open cast coal mine with washeries in the country producing at a peak capacity of 15 million metric tons per annum. The other mine which we started is GP 3 and it was opened in April 2019. Talabira II & III mine was opened in December 2019. The coal mining production has stood at 4.98 million metric tons in which PEKB is 4.53 million metric tons and GP 3 is 0.45 million metric tons in Q4 FY20 against the production volume of 4.92 million metric tons in Q4 FY19 where the complete tonnage was from PEKB. Further the washed coal dispatch stood at 3.27 million metric tons for PEKB in Q4 FY20 against dispatch of 3.68 million metric tons in Q4 FY19. In FY20, EBITDA was at Rs. 944 crores versus 981 crores in FY19.

Coming to Integrated Coal Management business; the company provides end to end procurement and logistics service to its customers. We have developed business relationship with diversified customers across various end user industries. Our ICM business continues to maintain leadership position as a #1 player in India. It has continued to deliver industry-leading performance with increase in ICM volume by 17% to 78.76 million metric tons in FY20 in comparison to 67.45 million metric tons in FY19. Q4 FY20 volume stood at 23.87 million metric tons versus 24.68 million metric tons in Q4 FY19.

With this I give it to Mr. Ramesh Nair for Solar Manufacturing.

Ramesh Nair:

Hi good afternoon everyone, I am Ramesh Nair. Mundra Solar PV (PhotoVoltaic) Limited has established the largest vertically Integrated Solar PhotoVoltaic manufacturing integrated facility of 1.2+ GW capacity along with state of the art R&D facilities within an Electronic Manufacturing Cluster which is in our SEZ at Mundra. The plant got operational in FY18. In Q4 FY20, the solar module volumes were at 193 MW vs 260 MW of the corresponding quarter of the previous year. Basically because of the COVID issues, the sale dipped in the month of March. While EBITDA stood at 59 crores against Rs. 75 crores in Q4 FY19. In FY20, solar module volumes increased by 55% to 990 MW vs corresponding 647 MW in FY19 and EBITDA grew to Rs. 301 crores against the previous year's number of 37 crores in FY19. Thank you.

Robbie Singh:

We can start the question and answers now.

Moderator:

Thank you very much Ladies and Gentleman, we will now begin the question and answer session. We take the first question from the line of Nirav Shah.

Nirav Shah:

Looking at the presentation, in our MDO we have reported a sharp dip in EBITDA to 69 crores primarily because there is a note reading that the impact of reversal of debit notes from compensation cess of Rs.290 crores. So logically can you just give a brief background about this particular case and is there a possibility that this can be reversed in the future?

Vinay Prakash: Thanks for the question, in fact this compensation cess has been earlier there also and we were paying it and taking the reimbursement from RRVUNL who is the customer and the buyer of this coal. But in 2018, the government of India has changed the policy to take it from ROM rather than on the dispatch of coal where RRVUNL has started creating an issue and then they took various legal opinions also but somehow the issue is still getting prolonged and it is there in the discussion with RRVUNL. So if you really ask me on my confidence level, this is a very strong case where the amount needs to be paid by them as per the various clauses mentioned in the contract. So this entry has been done only because this has been a delayed payment and as per the accounting standards we have reversed it. But we stand at a very strong foot to recover this from them and definitely then it will get reversed.

Nirav Shah: So this 290 crores of disputed amount, we are even yet to receive the cash inflow for this particular adjustment. We had booked it as revenues in the past in the 2018s era and we just reversed that right now. But the cash impact is yet to happen and are we yet to receive this 290 crores?

Vinay Prakash: We are still to receive the amount against this 290 crores that's why we have reversed this. This matter has gone into the arbitration now, they have already appointed the arbitrator day before yesterday and considering this is a small case we are considering maximum 6 months for the arbitration to get closed and as soon as it gets closed they will be making the payment and then we will be reversing the entry. Cash has not come as of now.

Nirav Shah: In terms of our outlook for FY21 and FY22 because again we have mines which will be commissioned in this year and next year, how do you see the mining plan on the ROM basis because this 5 million tons of Q4 volume is on ROM basis, right?

Vinay Prakash: Yeah, it is on ROM basis.

Nirav Shah: So on a ROM basis only, what's our target for FY21 and FY22 and the incremental production will be contributed by which mines?

Vinay Prakash: Let us talk about the PEKB mines; there will not be any incremental tonnages in PEKB mines because this is a peak capacity. Going to the GP 3, GP 3 is 0.5 million tons in FY20, in FY21 it has a potential to go up to the 4 million tons of the contractual capacity. Talabira, it has started operating now, again the contractual capacity of Talabira is 6 million tons. But it all depends is how much buyer will consume coal in terms of a poor power demand. If the customer is ready to take coal—and I'm saying ready to take coal in sense that on a competitive term with Coal India—considering that they will always give the first preference to this being their own coal, if they are in the position to consume the coal you can see this much of the increment in the three mines in this FY21. In FY22, since GP 3's peak capacity is 4 million tons, it will continue at the same number. PEKB will continue at the same number. Talabira has a potential to go to 20 million tons, still I think in FY22 also, the rated capacity is 6 million tons only. Apart from this, we can see one or two mines like Suliyari and Parsa also getting started in FY21. So we will

have some volumes coming from these two mines in this FY21 and definitely we will be pushing them to reach to their contractual capacity by FY22.

Nirav Shah: So total in best case basis FY21 can be 24 million tons, 15+4+ the best case Talabira at 6 million tons?

Vinay Prakash: Yeah, so it can be 6+4+15, 25 million tons but that all depend upon the demand till September in view of this COVID19, The demand is actually going down.

Nirav Shah: And on the COVID ICM front, we did around 79 million tons odd in FY20 and our run rate used to on an average be between 60 to 70 million tons, so you see this normalizing in FY21 to that data or was FY20 there was some exceptional volumes because of maybe lower mining in India, with similar reasons in logistics issues but you see this run rate settling down to again 70 million tons in FY21?

Vinay Prakash: If you talk about economics, the international coal market is at the lowest level now. It's almost touching the bottom, so ideally there should be lot of imports in India but when you see the demand factor, power sector is running at a very low PLF, so that is going to have an impact again on the demand also. So to give any guidance for FY21 is going to be a real challenge for us also. So we are trying to remain as secured and as hedged as possible to avoid getting into a zone where we have tonnages and we don't have customers. So we are working in a very cautious manner in this year, so this is the tonnages of the target. We want to be as secured as possible.

Nirav Shah: In terms of our new businesses if you can just again update on how much of equity we have put in, in the HAM projects as of March, how much is pending and what are the plans for putting up in terms of equity outflow for the Airport business in this particular financial year FY21?

Robbie Singh: Our HAM businesses already are fully funded, so there is very limited or no equity is required for any of our Road businesses.

Nirav Shah: How much is it in this year sir?

Robbie Singh: It's not project by project. We have bid and won three projects, for which in aggregate requirement is of about 500 crores of equity. That is already set aside in previous years, so we don't need to do anything this year. In relation to the Airport business overall, contractually we are obliged to put in 2700 crores of equity and for that we have put up the relevant liquidity lines that we need but that will be done over the next 18 months.

Moderator: Next question is from the line of Mohit Kumar.

Mohit Kumar: We have taken an enabling resolution today of around 20-25 billion odd. Is there something in mind in near term or is it just a provision which we are enabling resolution taking for the entire year? Is something there in the near term or in the 6-7 months?

Robbie Singh: We have taken two enabling provisions; one is for equity capital of 2,500 crores and other one for NCD and the reason why we have done that is we are in the process of continuing to refine the capital planning and investment planning for AEL. We just wanted that flexibility to be available to us if we wanted to sign up the deal or we wanted to expedite some of our work but nothing is on the horizon for the next 6 months and in the coming year. The only thing we will be exercising is a small refinancing program of about 400 crores but that will not change any numbers. It will give you a refinancing option.

Mohit Kumar: Secondly on the ICM, coal trading business, is it possible to have some sense of sector wise coal imports and how do we see FY21 given that the demand will be really challenging for the next one quarter?

Vinay Prakash: So to answer it on a very specific manner, it is going to be really tough to estimate the demand right now. I think it is going to be a really dull demand if you talk about the State Electricity Board like NTPC. But definitely there is some demand coming from the industry where they are only dependent on imported coal, certain IPPs which are dependent on imported coal. Sponge iron industry is now opening up but there is still a fear in industry as of now and in fact we are talking to all customers to understand what is happening at their place. They are opening but they have an issue of getting the migrant labor coming back to their own areas and therefore they are not getting into a position to start. So in this financial year, already April-May is gone and the way things are happening I am sure that first quarter is gone. The first quarter is gone and you are still having so much inventories lying at the port. That's why I said earlier also that it's going to be really difficult for us to give any guidance or any indication as to what is going to happen in FY21. This is the first year where we are not indicating the numbers. It is going to be definitely lower than the number which we got in FY20 for sure.

Mohit Kumar: Is it possible to give a break up of 78 million tons broadly in sector wise, which are the sector which imported how much in last year FY20?

Vinay Prakash: I am not in office but if you talk generally, I think more than 60% is in the power sectors, then certain tonnages are in sponge iron sector which I believe is 15% to 20% mainly the companies on the east coast of India. Then certain volumes is in the markets of Hazira where we have customers like textile manufacturers and caustic soda manufacturers and fertilizer manufacturers and almost 5% to 8% has gone to the big manufacturers in Punjab, Haryana and UP areas. This is a broad estimate. I don't have the numbers as of now.

Mohit Kumar: Second in the MDO business you said about the starting new mines like Talabira and Gare Pelma III. Is there margin different compared to PEKB mines or we should assume the similar margins?

Vinay Prakash: No the margins are different. You will have a different margin in PEKB, you will have a different margin in Talabira and you will have totally different margin GP 3. All the mines there have different scope of work. All the mines have been quoted in a different time zone and depending on the competition we have taken the mine at a different timing. So per ton margin will be different in all three mines.

Mohit Kumar: Thirdly on the Airport business, what is the CAPEX requirement for FY21 and FY22 and of course Concession Agreement has been signed for three, what is happening to the other three Concession Agreements and what is the timeline for handing over these three Airports where we have signed the Concession Agreement?

Robbie Singh: Mohit on your question on the Airports Concession Agreement being signed, the general timeline is 6 months after the Concession Agreement gets signed. We have to take the handover of all the three airports for which the CAs are signed.

Mohit Kumar: So most likely by September we will have the three airports?

Robbie Singh: Yes. On the CAPEX side, the overall equity, requirement would be about 2700 crores over a period of 4 to 5 years. So for the firm plans which are being made for these three airports the equity requirement should be in the range of about 1500 crores over the next 2 to 3 years.

Mohit Kumar: One clarification you have to pay 1400 crores odd for all these three airports upfront, am I right?

Robbie Singh: Yes.

Mohit Kumar: The solar business of course we have done 990 MW in FY20, given the COVID situation what is the kind of volume for FY21 and are we seeing any weakness in the market in general? Can you just give broad commentary?

Ramesh Nair: I think as per planning we would see like for example in the month of April we already have got hit by around 70 MW but then we have an overall capacity of about 1200+ about, or 1300 if we push it hard. So there is a possibility that these volumes could get made up because there is lot of DCR market and lot of government schemes that has been announced last year which is actually fructifying in the different forms in the current year. So we will have to see how this whole thing, COVID plays out and at this point of time yes, we have had a hit in the month of April; we may have a little bit of hit in the month of May and if it starts normalizing by June we possibly could be able to make up majority of the losses that we have had, at least hold onto this number or do a little better than this.

Mohit Kumar: How is the pricing behaving, pricing in general or has it changed over last 3-4 months?

Ramesh Nair: Pricing is actually coming down a little bit. There is a lot of pressure but then obviously the raw material prices are also falling because there is supply-demand glut in the market. So the margins are almost remaining constant as we talk. So there is not much of the hit on the margins per se because the wafers which is the raw material also have the prices fallen down and similarly the model prices and cell prices also are. Everything is coming down a little bit because China has got a huge supplies and huge stock and there is general demand from the world is less at this point of time. So as of now the prices are down but then the margins are almost the same and secure so we don't see much of a threat to the business on that.

Mohit Kumar: One last question, what should I see on the solar business how much the export versus domestic and which are the main export markets for us?

Ramesh Nair: Last year out of 990 we had exported nearly 370 MW so that is quite sizeable nearly one-third of it but then this year we don't expect that kind of exports and that is mainly to US because the US market was favorable in terms of the duty structure in the current year. My expectation would be lesser, export will be lesser than domestic because domestic market is expected to be and is already looking better than what it was last year. So we may push more to domestic and reduce the exports in the current year.

Mohit Kumar: Are we expecting better pricing in this year market?

Ramesh Nair: Yes. We are expecting.

Mohit Kumar: One more on the question I want to know on Carmichael mines. Can you just explain how much has been spent till date on Carmichael mines and how much is remaining?

Robbie Singh: Can you please repeat the question ?

Mohit Kumar: We are trying to see how much you have spent till date and how much is remaining and is the timeline which you have given is June '21 I believe. Is there any change in the timeline of opening the mines?

Vinay Prakash: No, there is no change in timelines. The work is proceeding well. Actually there is no change from the numbers of January presentation as well so pretty much on schedule as per the original forecast. So up-to-date in terms of the run-rate of expense on the mine is somewhere between \$56-\$70 million on a monthly basis so each year the construction expenditure compared to the general numbers will be round about \$840 million and then there will be some payment at the very end. But there is nothing new to the report and in fact it is continuing well as planned and this COVID situation has not affected the construction because the regional area is in our favor.

Moderator: Thank you. Mr. Robbie Singh you may please go ahead with your closing comments.

Robbie Singh: We just like to thank the investors for the Q&A and also we just like to reiterate that we are actually with Vinay, Ramesh and team, we continue to work to manage the threat we are in. From a liquidity point of view the company is adequately funded, so we don't see any issue on our lines and our **position** remains resilient. We expect not to have too much of a surprise in the coming 12 months but at this point in time we are not making a forecast because we will like to review the situation so that we will be able to give you a much better visibility in the June quarter results. But other than that, we are very pleased with the results and we are very pleased that you continue to follow the company. Thank you.

Moderator: Thank you very much. On behalf of Adani Enterprises Limited we conclude today's conference. Thank you all for joining. You may now disconnect your lines.