"Adani Enterprises Limited Q1 FY 2021 Earnings Conference Call"

August 06, 2020

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Moderator: Ladies and gentlemen, good day and welcome to the Q1 FY 2021 Earnings Conference Call of Adani Enterprises Limited. We have with us today from the management Mr. Vinay Prakash -- CEO Mining and IRM, Adani Enterprises Limited; Mr. Ramesh Nair, CEO -- Mundra Solar PV Limited; and 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 now hand the conference over to Robbie Singh. Thank you and over to you, sir.

Robbie Singh: Thank you. Hi, good afternoon, my name is Robbie -- I am the CFO of Adani Enterprises. I hope you all are safe, doing well and taking all necessary safety precautions to meet the ongoing health issue.

In relation to how AEL has performed just to give you a bit of background AEL has been a successful incubator since 1994. There are currently five infra unicorns listed. Adani Port, Adani Green Energy, Adani Gas, Adani Transmission, all were part of AEL and subsequently de-merged.

Our constant endeavor to invest in strategic new businesses have always translated into profitable returns for our shareholders. As our core business continues to sustain long-term growth, we are making significant progress in our new business segments comprising Airports, Roads, Water, and Data Center.

The model of building new businesses and creating value has delivered returns at a compounded annual growth rate of 30% to shareholders since inception. In the last three years, de-merger of Adani Green and Adani Gas has boosted our shareholder returns at the rate of 66% since announcement.

As you all know, this quarter has experienced an unprecedented event and was affected by lockdown and restrictions arising from the COVID health emergency. This has impacted revenue and EBITDA across all business segments. Nevertheless, owing to diverse portfolio, good liquidity management, we were able to ensure business sustainability and gradual recovery.

Consolidated revenue of Quarter 1 stood at Rs. 5,500 crores and EBITDA at Rs. 301 crores versus Rs. 896 crores of EBITDA in Quarter 1 FY 2020. This EBITDA difference is largely explained by the slower shipment in our core businesses, which divisional CEO Mr. Vinay Prakash will go through and build-up of inventory at MSPVL, which Ramesh will touch upon.

Profit attributable to owners, therefore declined and it stands at Rs. 30 crores versus Rs. 601 crores in the last quarter, although the last quarter FY 2020 had one-off exceptional income of Rs. 328 crores.

Now, I will pass you on to the CEOs, who will take you through the respective business highlights. Vinay, over to you.

Vinay Prakash: Good evening to you all. I hope you are taking care of your health and your family in this difficult time. As regarding the mining services, the Company is MDO for nine coal blocks at peak capacity of (+100) million metric tonnes per annum, including two projects, which are at the LoA stage. We are hopeful that we will get it converted into contract very soon. The company has two iron ore MDO projects with the capacity of 16 million metric tonnes per annum. These 11 projects are located in the state of Chhattisgarh, Madhya Pradesh, and Odisha. We have also forayed into Washery Service business and also have received LoI for Hingula Washery project for 10 million metric tonnes per annum from MCL, Mahanadi Coalfields.

Parsa East Kante Basan, which is PEKB block has been operational since February 2013 and it is the first and the only captive open cast coal mine with washery in the country producing at a peak rated capacity of 15 million metric tonnes.

GP-III mine was opened in April 2019. Talabira-II and Talabira-III mine was opened in December 2019.

Coal mining production volume has stood at 2.2 million metric tonne with 2 million coming from PEKB, 0.2 million tonne coming from GP-III and 0.02 million metric tonne coming from Talabira mine through our 100% subsidiary Talabira Odisha Mining Private Limited in Quarter 1 FY 2020 against the production volume of 2.9 million tonne in Quarter 1 FY 2020, where the complete tonnage was from PEKB. Further, the coal dispatch stood at 2.5 million metric tonne with 2.2 million tonnes for PEKB mine to Rajasthan, 0.3 million metric from GP-III to CSPGCL and 0.02 million tonnes has been given to NLC at their stockyard, against the dispatch of 2.4 million metric tonne for PEKB in Quarter 1 FY 2020.

In Quarter 1 FY 2021, EBIDTA was about Rs. 215 crores in mining services versus Rs. 335 crores in Quarter 1 FY 2020.

Coming to our IRM business, which is Integrated Resource 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 in India.

Our IRM business continues to maintain leadership position as the number one player in India. The volume this quarter was severely affected by COVID pandemic and stood at 7.4 million metric tonne in Quarter 1 FY 2021 versus 18.5 million metric tonne in Quarter 1 FY 2020.

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

Ramesh Nair: Thanks, Vinay. Good evening to everybody on the call. So, from Mundra Solar PV Limited as all of you know, it has established the largest vertically Integrated Solar PhotoVoltaic facility of

1.2 gigawatts capacity with R&D facilities within an Electronic Manufacturing Cluster in our Mundra SEZ.

The Q1 solar module volumes sold were at 78 megawatts versus 236 megawatts in the corresponding quarter last year, while EBITDA stood at Rs. 11 crores against Rs. 66 crores in Q1 FY 2020. This steep reduction in quantity and EBITDA was solely on account of the slowdown in the market on account of the pandemic. And so that is all from my side.

Robbie Singh: We can start with the question-and-answer session.

Moderator: Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Nirav Shah from GeeCee Investments. Please go ahead.

Nirav Shah: Firstly, on the IRM segment. Now, Coal India has been aggressively working on towards reducing import dependence of coal and also, auctioning e-auction coal at almost nil premium. So, I mean, how do you see our business getting impacted and what can be the steady state run rate because we have been always around 70 million though last year was a record in terms of our volumes, but now how do you see this business shaping up? That is the first question.

Vinay Prakash: So, I will reply to your first question, I think what you are hearing from Coal India, we are hearing it for last five-six years. And we need to understand, the way the country is shaped as far as geography is concerned, there is always going to be in the coastal belt, where you will find imported coal to be a cheaper option than bringing in Indian coal. Number one, that is for commercial purposes. Secondly, because a lot of plants in the coastal belt have been designed for low ash coal, which is not available in India. So, the way we have been seeing it, that come what may, even if you reach to a very high numbers in terms of domestic production, the import will always be there. And it can always be a discussion point, whether the import it is going to be 200 million tonnes, whether it will go to 300 million tonnes or it will come down to 120 million. As an internal analysis, we are very clear that it is always going to be there between 140 million tonnes to 180 million tonnes and upper side it may go up to 200 million tonnes - 250 million tonnes but 140 million tonne should be a lower number at any given point of time.

Now, coming to our share, that we are an integrated player, we are not buying cargo on FOB and selling on FOB basis, we are doing it on a complete supply management basis. So, with that the way we are present with the complete supply chain, it will always be there with a high market share. And even if import of coal comesdown from a record of 180 million tonnes - 190 million tonnes to maybe 150 million tonnes we will be in a position to maintain our share. So, we are confident about this business continuing for a longer period. Hope it answers your question.

Nirav Shah: Sir, the second question is on our mining operations. We did mine around 2.2 million tonne. Now, in last call, we mentioned that we can mine 25 million tonnes if there is demand, any changes to that thought and how do you see the quarterly ramp up over here in this MDO segment?

Vinay Prakash: So, when we have mentioned 25 million tonnes in last call in sometime in the month of April or May, it was on the basis of 15 million tonnes coming from PEKB, the balance 10 million tonne is coming GP-III and Talabira mine. Now with the less demand coming from the power sector, we can see some impact, but I am not sure whether it is going to be very drastic. **15** million tonnes from PEKB which is our Rajasthan mine should be there on 100% basis, I do not see any cut in there. As far as Talabira and GP-III is concerned, there might be some reduction, but we are hopeful that it will be added by Suliyari and Parsa blocks which we feel that we would be in position to start in this financial year. So, on a net sum basis, 25 (+/-0.50) million tonne should be the figure. Right now, it all depends how we see a recovery in September/ October, whether COVID continues till November or it goes up to January, there are a lot of uncertainties in the market, so I do not think you can give any guidance as such.

Nirav Shah: Absolutely. That is heartening to know because we are largely maintaining our guidance. So, like, I mean, what you are seeing is that we will cover a lot of ground in second half.

Vinay Prakash: It always happens, if you see our Quarter 1 and Quarter 2 performance for last years also, even for one mine, there is always reduction in the month of April, May, June and then further getting into monsoon, you see a reduction in the tonnages. And it picks up from September onwards to March. From September to March we actually cover the ground in PEKB mine. Similarly, in GP-III Talabira mine, considering that all these three mines are far cheaper than Coal India mining related cost, the competition will not be a concern for us.

Nirav Shah: Got it. Sir, third question is on our Adani Wilmar operations. Now, if I look at the historical quarters, we always used to be in the 4.5% plus-minus few bps EBITDA margin range, but last two quarters, we have done about 6.5% or 6.2%. So, any structural change over here and are these margins sustainable because the performance is excellent over here.

Robbie Singh: I think for Adani Wilmar those margins are sustainable as largely because of the supply chain efficiencies and the continuing capture of the market. So broadly these margins will remain in line. They might dip a little bit, but they will remain in line.

Moderator: Thank you. The next question is from the line of Mohit Kumar from IDFC. Please go ahead.

Mohit Kumar: Sir, a few questions, first I will start with MDO business, which are the mines, which are likely to open apart from Talabira and GP-III in the next couple of years? And can you throw some tentative timelines?

Vinay Prakash: So, we have three operational mines now which is PEKB, Talabira and GP-III. After that, we are hopeful to get Suliyari and Parsa getting operationalized this financial year, if all goes well and we are not getting impacted by COVID. we are trying to mitigate all risks as much as possible. But next year definitely Kurmitar will start in early April and we are hopeful of starting one more mine, which we will be getting in FY 2022. The other mines GP-I, GP-II will take some time because these are difficult projects.

Mohit Kumar: And secondly, sir, in Kanta Basin do we have some minimum quantity throughput which the mine owner has guaranteed for us and in case the offtake is lower, he will compensate in a particular year?

Vinay Prakash: So, all this mining business works in a manner that we get an EC permission, basis which we can do the mining. Currently, we have an agreement with our RRUVNL for 7 million per annum, but the way we have got the results through our effective exploration, we have projected volumes to be more than 7 million tonne per annum capacity in a financial year and considering that this coal is cheaper on a landed basis with quality and quantity in case of RRUVNL we are sure that they will give the first preference to this mine taking the full tonnages compared to any other option available with them.

Mohit Kumar: Okay, sir. Coming on to Carmichael mine, are you maintaining the timeline, or you believe that this timeline could be extended given the COVID-19 situation?

Robbie Singh: The Carmichael is on track, the COVID does not have a significant impact on the timeline of the mine.

Mohit Kumar: So, we can say that by January 2021 or February 2021 Q4 FY 2021, the mines will open, am I right?

Robbie Singh: That is correct.

Mohit Kumar: Okay, sir. Coming on to the Solar Business, Solar business of course was highly impacted basically from COVID. How do you see this thing panning out in next three quarters and are the spot markets affected very-very badly and it will continue to impact in the rest of the year and secondly, on the Solar is there any plans to tie-up with Adani Green for the capacity of 2 gigawatts, which they are planning?

Ramesh Nair: See this quarter definitely demand was less because basically installations were not happening and there was a total lull in the market. So, while we sold 78 megawatts, we did have a production of over 180 megawatts. So, the lull in the EBITDA or in the performance has been because we could not sell what we made. But then, we expect that to be recovered in the current quarter that is going on and in the next three quarters. We are very positive because we have sizable orders of (DCR) domestic content requirement which we bid and that is coming through and, we are fulfilling those EPC contracts. So, we expect to perform well in the subsequent quarters. So, this particular dip in Q1 will be recovered as we go forward, because there was no dip in production. So, it is a shifting of the EBITDA number basically in the subsequent quarters. What was the next question you had?

Mohit Kumar: Sir, Adani Green has won 2 gigawatts of solar manufacturing capacity in SECI bid. Do we have any plans to tie-up with Adani Green for the capacity or it is we have no connection?

Ramesh Nair: No, there is obviously a connection and it is part of the group. So, the manufacturing would be done by the existing team, but the structuring and how to do it, is being worked upon, as we speak. But it is the existing team, which will be executing the whole thing, and running operations. It has bid through Adani Green, but the manufacturing set-up would be structured differently.

Mohit Kumar: Okay. So, we intend to tie-up, am I right?

Ramesh Nair: Yes.

Mohit Kumar: Okay. And sir, on the Solar Business, what was the export domestic mix in the FY 2020?

Ramesh Nair: In the last year you are talking?

Mohit Kumar: Yes, FY 2020.

Ramesh Nair: FY 2020 the mix was about one-third is exports i.e. about 400 megawatt is exported to U.S. and remaining was sold in India.

Mohit Kumar: Lastly, on the Airport business, that the takeover is expected to happen in three months, is there any change in some concession agreement or some compensation given the COVID situation, the base is really low for the particular year, how are we looking at the business?

Robbie Singh: There is no change in the concession agreement because of COVID, it is just that due to force majeure delay, the takeover was pushed back by about six months. Aside from that, there is no change.

Mohit Kumar: Lastly, on the remaining three Airports, is it still on, is there something happening out there or is it a shell for now?

Robbie Singh: No, the remaining three Airports will also be completed once the first three Airports are done this follows shortly thereafter.

Mohit Kumar: Okay, on the road business, when do you expect the first road to be completed and what is the plan in this road business, do you want to exit this business by selling it out? Because given the nature of the business of annuity, so there is nothing left after the roads are built.

Robbie Singh: On the first question, we are halfway done. So, we expect that the completion is likely to be in the middle of June next year. And in terms of the business, it is a small business at the moment, so we are evaluating and as we go through this we will develop a full-fledged plan and there is no sort of specific plan to exit this business at this stage because we are still trying to evaluate the long-term opportunity here.

Moderator: Thank you. The next question is from the line of Nirav Shah from GeeCee Investments. Please go ahead.

Nirav Shah: Sir, my question is on our Carmichael project, how much have you invested till date and what is the balance pending over there for the coal project?

Robbie Singh: We have invested approximately $1.3 Billion, and the balance expected is about $1.24 billion.

Nirav Shah: U. S. dollars?

Robbie Singh: Yes.

Nirav Shah: And how much have we invested? I just missed the number, you mentioned 1 point something…

Robbie Singh: $1.3 billion.

Nirav Shah: So we have done 50% of our targets spend.

Robbie Singh: Yes.

Nirav Shah: And sir, to the Newcastle benchmark, our grade of coal will be at what discount?

Vinay Prakash: Robbie, I think I will take it. The Newcastle investment is 6,000 NAR which is NCV normally they call, and coal will range from 5,200 to 5,500. So discount depends on the availability of high CV and low CV. So you cannot benchmark against the Newcastle's grade until we get the demand supply balancing. We are hopeful, there will be some discounts with the Newcastle GCV but it will keep varying as per the demand supply.

Nirav Shah: Fair point. And I mean, any broad clarity on our mining cost and what will be the break-up of that between hard core mining cost and royalties, so that we can get a fair handle on the performance of that company?

Robbie Singh: I think that would be probably closer to March, once we have the full configurations outlined of the construction, so, we come and update accordingly in six months' time.

Nirav Shah: Perfect not an issue. And last question is on the CAPEX, total CAPEX for the current year, I mean, I read a comment by you that we will be spending around Rs. 10,000 crores in the FY 2021. So, if you can just give a broad breakup of that number?

Robbie Singh: In the business segment wise you wanted?

Nirav Shah: Yes, I mean how much will go towards Airports, Roads.

Robbie Singh: See majority of it will be towards the Airports.

Nirav Shah: So, there our outgo is approximately Rs. 1,500 crores for the first three Airports.

Robbie Singh: Other three will also be taken up, so it will end up.

Nirav Shah: Rs. 2,700 crores.

Robbie Singh: Yes. Yeah.

Moderator: Thank you. As there are no further questions, I would now like to turn the conference over to Mr. Robbie Singh for closing comments.

Robbie Singh: Thank you so much for coming in this time, I know in Bombay it is tough today or yesterday. So hope everything's okay. Well, thanks very much for attending.

Moderator: Thank you. On behalf of Adani Enterprises Limited, that concludes this conference. Thank you all for joining. You may now disconnect your lines.