"Adani Enterprises Limited Q1 FY24 Earnings Conference Call"

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MODERATORS: **MR. ADITYA BHARTIA – INVESTEC CAPITAL SERVICES**

Moderator: Ladies and gentlemen, good day and welcome to Adani Enterprises Limited Q1 FY24 Earnings Conference Call hosted by Investec Capital Services.

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 Mr. Aditya Bhartia from Investec Capital Services. Thank you and over to you, sir.

Aditya Bhartia: We are pleased to host the Senior Management Team of Adani Enterprises today. We have with us Mr. Vinay Prakash – Director, Adani Enterprises and CEO, Natural Resources; Mr. Robbie Singh – CFO; Mr. Saurabh Shah – Finance Controller and Mr. Manan Vakharia – Investor Relations. We start the call with opening remarks from Mr. Robbie Singh post which we will move to Q&A. Thank you and over to you, sir.

Robbie Singh: Thank you so much. I welcome you all to the Earnings Call to discuss Q1 FY24 results. As you know AEL's business portfolio comprises both established and incubating assets spread across energy, utility, transport and direct-to-consumer and primary industries.

In services, AEL includes Adani Digital Lab and Shared Services Center **ABEX.** For the sustained long-term value, AEL has made significant progress in our attractive incubation pipeline. This Q1 FY24 is powered by the emergence of green-hydrogen business, Adani New Industries Limited that now contributes over 10% of EBITDA.

Our performance for the quarter reflects our strong operational momentum on the back of ANIL ecosystem and the incubating business performance. The consolidated total income was at Rs.25,810 crores. Consolidated EBITDA increased by 47% year-on-year to Rs.2,896 crores and in line with the increased EBITDA, consolidated PAT increased by 44% to Rs.674 crores. In our commitment of having 1 gigawatt of data center platform in India, I am pleased to inform you that AdaniConneX has secured the largest data center project financing deal in India with USD 213 million construction facility.

Now for update of some of our incubating businesses:

In Adani New Industries our green hydrogen ecosystem, during the quarter the integrated manufacturing division received the provisional certificate of 5.2-megawatt prototype-1 wind turbine. Production of this is expected during this quarter. Further during this quarter, ingot and wafer facility preliminary work has commenced and we will update at the half year results.

Airport portfolio is performing as expected. The passenger number grew 27% and is now tracking at 85 million a year with this quarter's number being closed to 21.3 million.

In the road portfolio, construction is in full swing in our 10 HAM and BOT projects. 3 out of these 10 projects are more than 50% completed construction and the rest of the projects are as scheduled.

In the journey of AEL, our ESG philosophy were embedded into the fundamental plan with the significant mode of CAPEX going into our green hydrogen business and other businesses of similar nature. There are certain awards that highlight the consistent endeavor and those include Adani New Industry Limited, the green hydrogen ecosystem, we won the Aegis Graham Bell award in the category for Innovation in Manufacturing. Adani Road Transport team won Energy Conservation Award Gold category in the road construction.

Now I hand over to my colleague, Mr. Vinay Prakash who will take you through Mining Services and the IRM business highlights. Vinay, over to you.

Vinay Prakash: Thanks Robbie and good evening to all. As far as Adani Enterprises is concerned, it is the pioneer MDO which is Mine Development Operator concept in India with an integrated business model that spans across developing mines as well as entire upstream and downstream activities. It provides a full-service range, right from seeking various approvals, land acquisition, R&R, developing required infrastructure, mining, beneficiation on site and the transportation to the designated consumption plant which is TPS.

The Company is MDO for 8 coal blocks and 2 iron ore blocks. These projects are located in the state of Chhattisgarh, MP and Odisha. The Company has serviced its contracts and the quantity delivered during the quarter were as per the schedules. During the quarter, the revenue from mining services stood at Rs.608 crores and EBITDA at Rs.242 crores.

In terms of the IRM business, -, we have continued to develop business relationships with the diversified customer across various end-user industries. We remain number one player in India and endeavor to maintain this leadership position going forward.

The volume in Q1 FY24 stood at 17.8 million metric ton and EBITDA for the Q1 has increased to Rs.1,000 crores on account of improved realization on yearly basis.

Coming on commercial mining, the Company now has 7 commercial blocks. Blocks are located in the state of Maharashtra, Chhattisgarh, Madhya Pradesh, Jharkhand and Odisha. We already got recommendation of EAC committee for Dhirauli coal block in May 23 and where we have got the vesting order for Northwest of Madheri, Purunga, Gondbahera Ujheni Coal Block by MOC in June 23. Thank you.

Robbie Singh: We open to Q&A.

Moderator: Thank you. Ladies and gentlemen, we will now begin with the question-and-answer session. The first question is from the lines of Mohit Kumar, from ICICI Securities. Please go ahead.

Mohit Kumar: My first question is on Mumbai Airport, I believe that GMR has got a favorable order from TDSAT on the existing contract, and I think that this particular order should be applicable to Mumbai Airport. Is my understanding right?

Robbie Singh: Order generally as a rule from a regulator applies only to the specific order that is sought by the asset owner. However, from precedence point of view, you are correct that in the filing of MIAL also the similar considerations will apply.

Mohit Kumar: But it will take time to get it resolved, what is the time expectation when you think this new thing can get reinterpreted and be a part of our higher tariff?

Robbie Singh: No, I think important thing to realize is that, there is regulatory procedure and I don't want to specifically comment on time because there is lot of these relatively complex considerations that the regulators have to do their work, but I will just highlight to the nature of the regulatory process. The time value of money is always accounted for in the regulatory order, so if there is a delay or if they take some time to evaluate that would be captured in the final order, so there is no economic value loss and that is one of the key aspects of the regulatory business.

Mohit Kumar: Sir, second question there is a sharp improvement in Mumbai Airport EVA-to-EBITDA Q-o-Q, so is this primarily due to non-aero or have you seen this spending per pax increasing very fast in the quarter, Q-o-Q?

Robbie Singh: Largely, the EBITDA growth and EBITDA is driven by two aspects. One, the spending by the passengers and non-passengers at the airport and secondly, the increase in the actual gross spend rate of each of the passenger, so these two aspects contributing for the growth in AEL.

Mohit Kumar: My third question is Carmichael, is it possible to share the revenues and EBITDA for the quarter and the related question is that in the segmental which you have disclosed, commercial mining is one line item, I believe this primarily corresponds to Carmichael? Is my understanding correct?

Robbie Singh: Yes, the understanding is correct.

Mohit Kumar: My last question is on the Solar PV, we have done a very good job in the sense the numbers are very good for the quarter, and I believe the exporting of a large amount to the third countries. Can you please specify which are the countries where we are exporting our modules right now? Some ballpark number?

Robbie Singh: Primarily, US and Europe, overall.

Moderator: Thank you. The next question is from the line of Aditya Bhartia from Investec Capital. Please go ahead.

Aditya Bhartia: Sir could you share some details on the progress on creating green-hydrogen ecosystem? I understand that we have the 4-Gigawatt solar module capacity, but just want to understand how we looking at the timelines for expansion of this facility as well as backward integration? Also has there been any progress on technology sharing for electrolyzer?

Robbie Singh: Like I said in my opening comment, the backward integration is continuing, so wafer and ingot plant is under development, and we will formerly update as to where it is in our half-yearly results. Windtech facility, as I said has already achieved its provisional certificate, so it is up and running and is moving to commercial production. Similarly, all the ancillaries, be it glass, be it aluminum frame, back sheet, EVA, all of that are now in very advanced stages and in majority of the cases, the ancillary system is operating. There is no change in the timelines as we had indicated last year, but I think from a formally full detailed timeline on green hydrogen, the best time to update would be in May next year, but certainly on the ingot wafer and further improvement, we will provide that update with the half yearly results. The other element of it which you refer to being the electrolyzers, all the agreements in relation to the technologies are in place and we expect sometimes towards the end of this quarter or early in the third quarter to start the development and construction work on that, so to have our own integrated facility for electrolyzer manufacturing. Then, the land for the solar and wind plants has been identified and site evaluation, site work, geotech and all of that is going on and we have been in a position to update over the next 6 to 9 months. So, in the ancillary and product system also, the work is underway and site evaluation versus green methanol, green ammonia, green fertilizers, everything is, in that sense, at full speed in that vertical. We will provide a comprehensive update with final year results and an update on the ingot wafer and other facilities on the integrated manufacturing in the half yearly results.

Aditya Bhartia: Sir on the data center business, just wanted to understand what would be the proportion of overall capacity that has been firmed up with the orders already? And if you look at this segment, what do you consider as our biggest competitive advantage versus our peers?

Robbie Singh: We do not specifically look at it like too much on what is the competitive advantage or what is not. India is going to be a very significant data market and it will have lot more than just 1 or 2 players. We would like to be one of the leading players and the full-service data center, and the various data center, edge data centers etc., so in each aspect we would like to be a significant player. So, currently, we have order book, other than the operating order book, of over 110 Megawatt of hyperscalers and we expect that to rise dramatically over the next couple of years. We would be well on the way to completing 1 gigawatt before the end of this decade.

Aditya Bhartia: And lastly, sir what are our CAPEX plans especially for green hydrogen, airports and data center segments for the next 3 years?

Robbie Singh: Overall in the longer term, the CAPEX plans don't alter for the asset like for green hydrogen full 3-million-ton facility, approximately $50 billion as we have outlined in previous year, so that plan continues forward as it is. Also this year, we would touch just about between 300 million to 400 million and then it rapidly starts rising from next year and the year after. On the airport side, we will have capex this year just about US $1.1 billion, all of this just to clarify we are assuming Rs.80 to a dollar rate, adjust for that, so about US $1.1 billion this year would be the CAPEX on airport. It will broadly remain in that range for the next year then there will be decline, once we complete the first phase of our development plan in airports.

Moderator: Thank you. The next question is from the line of Nikhil Abhyankar from ICICI Securities. Please go ahead.

Nikhil Abhyankar: Congrats on a good set of numbers. What is the guidance for commercial mining this year? And the reason for asking the question is our production has fallen like 10% Y-o-Y, so what is the exact reason for the same?

Vinay Prakash: As for your first question about the commercial mines, we are hopeful of starting the open cut in Dhirauli mine which is the commercial mine in this financial year. We have already got the EC permission, we are hopeful to get both FC Stage-1 and Stage-2 and as soon as we get stage 2, we should be in position to do the box cut in Dhirauli mine. All other mines, **Bijahan** or Gondkhari or **Gondulpara** would take some time because out of seven mines, four are underground mines, so they will take some time to go for the preparation. We have to prepare for shaft, incline and then you have to put machines to take out coal, so that will take time till 2025-2026, but in this financial year we shall start one mine as far as the mine operation is concerned. Coal will come only the next year.

Nikhil Abhyankar: Sir what is the volume guidance for this year?

Vinay Prakash: You are talking about the coal mining volumes?

Nikhil Abhyankar: Yes sir, commercial mining volume.

Vinay Prakash: So, for commercial mining, I don't think will get any volume this year in India.

Nikhil Abhyankar: Sir, we are also developing Talabira mines, so how much do we expect per year out of it, volumes?

Vinay Prakash: Talabira mine is having a PRP of 22 million ton per annum. For this financial year, as per our contractual obligation, we have to do 10 million ton, but on the request of NLC who is our customer, we will be touching 13 million ton this year.

Nikhil Abhyankar: Sir, you have given the production of our Carmicheal Mine, so what is the offtake over there and also the EBIT has been negative, so what will be the trend over there?

Vinay Prakash: So, whatever we are mining, we are able to sell it in different countries. That is because at Adani Group, we have been in this business of IRM for the last 23-24 years. So, we have a good setup in many countries and that is how in the first year, second year itself we are in position to see that all the volume which is going out of our mines are getting loaded into the ships. So, there we are not seeing any problem. We are doing better than what we did last year. As you have seen that Q1 FY23 we did 1.3, doubled in this year by doing 2.6.

Nikhil Abhyankar: And sir, a final question. The margins on our solar manufacturing have been very high. Realizations are also very high when the module prices globally are coming down. So, what exactly must be the trend going forward and also our utilization levels, if I am not wrong, are somewhere around 60%. So, can we see better utilization going ahead as well?

Robbie Singh: Yes, the last question first. The utilization levels will rise because the technology change was taking place across the line to Topcon. That is why the lines were stabilizing, so the utilization rate will rise, margins will not rise, but are expected to stabilize or very slight decline. But we expect that and the reason for the high margin is that technology plus the trade flows mean that there is a demand for product from India and that is what is pushing the margins higher due to the competitive pressures in relation to South East Asia, their cost requirements, their sale costs etc. So, it is an overall global supply-based scenario. We expect that to continue for some time, but over the longer term, we expect the volumes to be high, margins to be slightly tighter than where they are today.

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

Prateek Kumar: My first question is on your CAPEX, as you highlighted CAPEX segment wise, so what will be the overall CAPEX for FY24 for the Company and I mean even we have completed a large M&A in our group Company cement business, and this probably is the first large obviously M&A after the Hindenburg report. Are you looking for accelerating CAPEX in Adani Enterprise as well which was just said to have sort of mild slowdown in past quarter?

Robbie Singh: No, I think that was probably more media than anything else. We had always said around 28th, 29th of January. We had said that in the core businesses the CAPEX will continue. There is absolutely no reason for any of that to happen. That whole frenzy of half-baked articles and stories were related to people's perception rather than what we had actually said. So, what you are seeing is basically the core CAPEX, be it Adani Green, be it Adani Transmission, be it Adani Ports, be it Adani Total Gas, be it AEL, be it Airports, be it the Green Hydrogen Ecosystem, be it Datacenter, everything is continuing as normal. So, it was only the perception outside that something is going to be a slowdown in the core, that was never the case. We never said that.

And what you are seeing here is naturally when the opportunity came along, it was a key opportunity for our portfolio Company, Ambuja to acquire a great asset available for which is synergistic to its portfolio, synergistic from a logistics point of view, massively positive in terms of earnings. They did that. If any asset like this comes available to us in a core portfolio, we will acquire it. And therefore, total CAPEX as we had indicated even last year, this year was around $3.7 billion across Adani Enterprise and will continue that way. Another on the utility portfolio, with the utility portfolio that we have, and transport and logistics portfolio we have and the core asset portfolio we have which is in the primary industry. They are driven by the fundamentals of the users and consumers in India plus the demands in India which is not changing. So, a report of which we have said, and our chairman said in the year report that was malicious, half baked**,** half-truth, misquoting of our own disclosures, that would not change the business. It just causes market volatility and that is all it was, and I think we should not get too excited by market volatility because that is our investment horizon is 30 plus years. So, this volatility will pass, and it is our obligation to ensure the volatility is manageable, but beyond that it has no implication on our core business portfolio.

Prateek Kumar: So, $3.5 billion - $4 billion kind of CAPEX for this year also, is there any update on commissioning of copper project and financial closure of coal to PVC project?

Robbie Singh: Copper project is on schedule for first calendar quarter next year. We pretty much, it's just right on schedule. So, there is no change and no update and if there is any update, we will naturally bring it to the market. Coal-to-PVC, we are just working through on the various reports preparation, site work etc. which are ongoing, but at the moment we don't have an update beyond the fact that all the prep work is going on and if there is an update, we will highlight to the market, otherwise we will certainly be updating as to where we are post the half year results.

Prateek Kumar: Third question on airports, the timeline for Navi Mumbai Airport was like December 24. Due to heavy monsoon, was there any impact on construction process, like in the last month is there any change in timelines. I know it's like, still like 15-month to end, so it should not hardly would have mattered?

Robbie Singh: We committed to complete, we will complete as committed.

Prateek Kumar: And lastly, so last quarter we talked about this Total Energy investment to be in hydrogen project. So, that seems like off table now, right, irrespective of that equity investments from that group?

Robbie Singh: No, it was like I said, we signed a MoU with them last year, that MoU is still there, they have to complete their DD which they have to complete. The project is not dependent on that equity as we are going ahead with the project as it is and at the same pace. So, that was never the case. If our partner requests us to look at a project that we are doing, we always welcome our partners to participate. So, the basic philosophy of the group is that investor should invest in the majority of our portfolio. So, Total is a very respected partner. We have a great relationship with them. They invest in two public companies; they invest in one private Company with us and another private Company with us in terms of marketing. So, we have four investments with them and if they express an interest in the fifth investment, we will naturally say, sure, no problems, but that does not mean that, that investment is a joint investment decision. Investment decision is still Adani Enterprises' and Adani Enterprise is continuing with that investment and we do not anticipate, or we do not think anything that we report in relation to the change of schedule on that.

Prateek Kumar: And one more question or just a clarification. We have given one more segmental commercial mining and mining services this quarter. So, this commercial mining which will start in India, so that will be clubbed with Carmicheal mining in commercial mining segment?

Robbie Singh: Commercial mining will be separate because we have very highly profitable, very solid, longstanding mining services business where we are a service provider to various state-owned enterprises and possibly serves in the future to other non-state enterprises as well. So, it is a specific business, and we want to make sure that it is understood that way and commercial mining is, all our commercial mining activities, be it India or overseas will fall under the commercial mining which fall under our natural resources region of which my colleague Vinay is the CEO.

Moderator: Thank you. The next question is from the line of Gaurav Singhal from Aspex Management Limited. Please go ahead.

Gaurav Singhal: Two questions from me. So, one is, can you help give a breakup of the $3.7 billion CAPEX plan for this year across the different segments? Thank you.

Robbie Singh: Approximately about $300 million for Green Hydrogen, $1.1 billion for airports, approximately $1.7 billion for the road network, just under $100 million for water, just under $200 million for the Data Center, and then small completion cost for the copper project just under $200 million.

Gaurav Singhal: And then secondly in terms of financing the CAPEX, the board had passed resolution to allow the group to raise about 12,500 crores in equity, in that part of the financing for this CAPEX?

Robbie Singh: No, that doesn't relate to the current projects. Current projects are fully funded, and we have seen in the last 3 years, we as a portfolio have raised over $9.2 billion of equity from long only investors. That is a continuing program for actually for the past 3.5 odd years. Under the same program last year also, we have shown something similar, this year also. We are passing the same enabling resolution because our ongoing normal equity programs of about $2.5 billion to $3 billion across the portfolio will continue this year also. But that is meant for the next 3 years projects. The current projects are fully funded. There is nothing required for the current projects.

Gaurav Singhal: Just one last thing. Based on the, I guess overall debt is right now about 38,000 crores or 40,000 crores or near abouts based on the debt-to-equity ratio that has been disclosed. So, can you share like a split roughly of how much of that would be just Indian banks and non-Indian banks and also is this composition expected to change a lot over the next 3-4 years?

Robbie Singh: So, normally the balance sheet is not provided in this quarter results, so all I will say is that other than what disclosed at the annual AGM results, we don't expect any significant variation from what's been highlighted in those results, neither does the mix changed dramatically for our assets. Overall, at a portfolio level also, we are very stable debt structures. But more certainly in the half year, the update will be provided on this.

Moderator: Thank you. The next question is from the line of Dhananjay Mishra from Sunidhi Securities. Please go ahead.

Dhananjay Mishra: Sir, all my questions are now answered already. In road segment because quite of your projects we have achieved 50%-60% in terms of construction. So, how many projects we are expecting to be operational this year or next year? And secondly, in terms of new project bidding pipelines, how we have placed in terms of new projects in the road sector? Thank you.

Robbie Singh: We expect three projects to complete this year. And on the bidding and all, we don't specifically ever flag our interest. To an extent that meets our guidelines for rate of return guidelines for HAM and BOT projects, then naturally we are interested. But beyond that, I can't really say anything. But out of our 10 projects that we have on stream today plus the BOT assets and one TOT project, three of the HAM projects will be completed within this financial year.

Dhananjay Mishra: And all other except for Ganga Expressway will be completed in FY25?

Robbie Singh: Not all others, but more certainly the majority, yes.

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

Prateek Kumar: Sir, just one question on your guidance. Historically you sometimes give figures for expected volumes in IRM and mining services for the full year, what would be the number for FY24 which you would expect?

Vinay Prakash: As far as IRM is concerned, it all depends on the demand supply of coal in India. If I see the current market and current situations in India, we should definitely cross 70 million tons in IRM, but it all depends on the demand of coal in India as far as the coal is concerned. As far as the mining services is concerned, we are targeting to do about 35 million tons in India.

Prateek Kumar: And the solar modules, this 614 MW, so we should expect like what would be the number for solar module segment in terms of MW?

Robbie Singh: We expect the run rate to continue on broadly in these, from a quarter-to-quarter it is not expected to change, but you can expect the run rate at the same level.

Prateek Kumar: Okay, so there was like particularly as an adjustment on the base number which we had from earlier presentation for the module segment, what is that related to?

Robbie Singh: Until and unless you can specifically point out, we don't quite understand your question.

Prateek Kumar: So, module segment, so we have done like the 614 number this quarter, last year same quarter has been reported as 328 from the presentation, we had this December as around 260 from prior year's presentation. So, there seems some restatement of that number. So, what is that related to?

Robbie Singh: Actually, that is Q1 FY 2023, not December, it is a quarter-on-quarter comparison. There is no restatement that has occurred. This is Q1, because the numbers are split into domestic and export and the domestic number in Q1 FY 2023 was 309 and export volumes were approximately 19. This Q1, the domestic is 227 and export volumes are 387. There is no restatement of anything at all. It is just mix of sales have changed and that is what is reflected in the presentation on page 18.

Moderator: Thank you. Ladies and gentlemen, that was the last question. I now hand the conference over to Mr. Aditya Bhartia for his closing comments.

Aditya Bhartia: We would like to thank the Management Team of Adani Enterprises for giving us the opportunity to host the call. We would also like to thank all the participants for logging in. Sir, do you have any closing remarks?

Robbie Singh: No, we just want to thank the investors for the questions and thank you for the words regarding the results. And we expect to speak to you at the half yearly results.

Saurabh Shah: And thank you Investec for ensuring that this call happens. Thank you.

Aditya Bhartia: Thank you everyone.

Moderator: Thank you members of the Management Team. Ladies and gentlemen, on behalf of Investec Capital Services that concludes this conference call. Thank you for joining us and you may now disconnect your lines. Thank you.