"Adani Enterprises Limited Q2 FY 2018 Earnings Conference Call"

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**MANAGEMENT:** **MR. RAJIV NAYAR -- EXECUTIVE DIRECTOR, ADANI ENTERPRISES LIMITED AND GROUP CHIEF FINANCIAL OFFICER, ADANI GROUP**
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**MR. VIMAL DHAMI -- MANAGER (INVESTOR RELATION), ADANI ENTERPRISES LIMITED**

**Moderator:** Ladies and Gentlemen, Good Day and Welcome to the Adani Enterprises Limited Q2 FY 2018 Earnings Conference Call.

We have with us today from the management Mr. Rajiv Nayar -- Executive Director, Adani Enterprises Limited and Group CFO, Adani Group; Mr. Vishwas Shah -- General Manager (F&A), Adani Enterprises Limited; and Mr. Vimal Dhami -- Manager (Investor Relation), Adani Enterprises Limited.

Should you need assistance during the conference, 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. Rajiv Nayar. Thank you and over to you, sir!

**Rajiv Nayar:** Hi, Thank You and Good Evening, Everyone. It is Rajiv Nayar -- CFO at the Adani Group.

I will start this call by giving you high levels numbers on our quarterly and half year results. Then spend some time talking about the highlights and each of our business segments and close it out with a Q&A session.

Starting with our quarterly numbers. We had a good quarter. Income from operations was up 20% year-on-year to Rs. 9,083 crores, up 3% quarter-on-quarter as well.

Operating EBITDA was Rs. 689 crores, up 70% year-on-year and 9% quarter-on-quarter.

On a half yearly basis income from operations for the first-half of this year was Rs. 17,862 crores that is up 8% year-on-year with operating EBITDA of Rs. 1,324 crores, up 38% on the first-half of 2017.

So clearly, as you can see from the numbers, we have had a strong second quarter and a pretty good first-half of the year as well.

Moving to business highlights.

I will start with our Coal Trading business. Our Coal Trading volumes were up 10% quarter-on-quarter; 17.5 million metric tonnes this quarter versus 16 million tonnes in the first quarter of this year.

For the first-half of this year our total volumes were 33.5 million tonnes, still 22% lower versus last year on account of the weaker first quarter.

Q2 EBITDA was down 24% to Rs. 143 crores on lower margins around 2% versus 3% in the first quarter. This is on a sequentially basis.

We maintained our leadership position in this quarter as a largest importer of coal in India. And we are on-track and pretty optimistic of achieving full year numbers of about 70 million metric tonnes to 75 million metric tonnes even as India's coal imports are pretty flat or slightly down on a full year basis.

Coal MDO volumes were up 4% in the second quarter to 1.7 million metric tonnes versus 1.6 million metric tonnes in the first quarter and up 68% year-on-year versus 1 million tonnes in the second quarter of last year.

This quarter's performance was to some extent affected by higher excess rainfall and we are optimistic on recovering volumes in the third quarter and fourth quarter of this year. Q2 EBITDA was up 36% Q-on-Q Rs. 114 crores versus Rs. 84 crores in the first quarter of this year.

On a half year basis, Coal MDO volumes were 6% higher versus at 3.35 million metric tonnes versus 3.15 million metric tonnes in the first-half of last year. And H1 EBITDA was Rs. 198 crores, 38% lower on the first-half of last year.

I should point out that last year's EBITDA numbers included an exceptional income of Rs. 212 crores on account of favorable arbitration order proceeds. Adjusted for which EBITDA was comfortably higher on a comparable basis.

In our Renewables business, our operational capacity increased from 808 megawatts at the end of last quarter to 1,088 megawatts at the end of September 2017. Q2 volumes were up 8% Q-on-Q to 394 million KWh versus 363 million KWh in Q1.

Q2 EBITDA was slightly lower at Rs. 180 crores versus Rs. 198 crores in the first quarter.

On a H1 basis EBITDA was Rs. 378 crores as almost 175% higher versus a Rs. 138 crores in the first-half of last year. This obviously benefits as the amount of installed capacity continues to increase through the course of this year. We are targeting to operationalize 2,000 megawatts of capacity this well before March 2018.

As you all know the Board of Directors have approved the scheme of arrangement for the de-merger of Adani Green Energy from AEL. That process is on track and is currently under approval of NCLT.

We remain confident that this company AGEL will be de-listed and start trading as an independent identity by 1st April of next year.

Our Solar Manufacturing Business which came on stream in May of this year sold 101 megawatts of modules and generated revenue and EBITDA of Rs. 652 crores and Rs. 151 crores respectively in this quarter.

City Gas business remains steady stable performer with volumes up 6% and EBITDA up 7%; EBITDA was Rs. 98 crores for the quarter, up 7% quarter-on-quarter and up 53% year-on-year versus last year.

For the full year, the company is targeting to achieve sales in excess of 430 MMSCM versus 408 MMSCM that we achieved last year.

That is a brief overview of our business highlights as well as our financial performance. I will now pass it back to the operator and open up the call for any questions.

**Moderator:** Thank you very much. We will now begin the Question-and-Answer Session. The first question is from the line of Shirish Rane from IDFC. Please go ahead.

**Ashish Shah:** Hi, sir, this is Ashish from IDFC. Sir, just a question on the coal trading business you gave, I probably miss the number of the EBITDA which you gave out for Q2 as well as for H1.

**Rajiv Nayar:** The Q2 EBITDA for this year was Rs. 143 crores and for the first-half EBITDA was Rs. 332 crores.

**Ashish Shah:** Sure. There has been a contraction in the margin in this business. Any particular reason you would want to attribute it to besides the loss of lower volumes of course, on a year-on-year basis?

**Rajiv Nayar:** I think, see, generally speaking, you know that traded import levels of coal had generally been on a down swing over the last couple of years. And there are two ways in which you can address that by: one is product mix which of course, speaks for itself and also the ability to maintain customer relationship while accepting a slightly lower margin and that is pretty much what we have done.

**Ashish Shah:** Right. Though I would say the increase in coal prices, imported coal prices would that be of sort of any help going forward in terms of having better margins?

**Rajiv Nayar:** I would not think that. I think, it is a fairly transparent and open market I would think it is more the overall market volumes, I think that come into play here.

**Ashish Shah:** Sure. In terms of the Renewable business, it could help if you could give the total capital expenditure that is still to be incurred in the projects, we have commissioned about 1 gigawatt and probably there is another 1 gigawatt to go by the end of this year. So, what is the capital cost to be incurred and what is the investment in terms of equity that will have to go in from our side?

**Rajiv Nayar:** We will have to come back to you with these numbers. We have about 1,100 megawatts that was operational by September. Much of the rest balance 900 megawatts will be coming on-stream in the next three months - four months, so well before March. So, we will come back to you with these numbers.

**Ashish Shah:** Sure. I have one query on the reported financials, if I look at the reported number there is a Rs. 15 crores loss prior to comprehensive income other comprehensive income and then there is an item C which says that items that will be re-classified to profit and loss. And after which then we have like a reasonable a very strong profit in terms of total comprehensive income. So what is this? If you could explain this a little bit, it will help, sir.

**Rajiv Nayar:** Vishwas?

**Vishwas Shah:** Yes, I will take it. Okay. So just one question, which statement you are looking at, consolidated financials?

**Ashish Shah:** Yes, I am looking at the consolidated financials in the SEBI format. And I am looking at item 10(C).

**Vishwas Shah:** 10(C)?

**Ashish Shah:** Yes.

**Vishwas Shah:** Okay, this is 108.80.

**Ashish Shah:** Yes. No, my basic point is that prior to this there is actually a reported loss for the quarter but once you include this there is a big change and the profit number seems pretty huge.

**Vishwas Shah:** Okay. So I will tell you, we do have our foreign subsidiaries, right?

**Ashish Shah:** Right.

**Vishwas Shah:** Okay. So now foreign subsidiaries are converted, if we understand, it is converted at the rates at a historic rate. Okay? Now, that difference in our balance sheet because their profit and loss account has been drafted as on the date which we convert to the current exchange rate. But any investment which has gone that is gone on an historic basis. So, this is translation difference typically parked into an OCI, so this represents the number of a reserve, which at the time of discontinuing as my subsidiary or I hive it off, this will come as a profit to my AEL but if that happens, if so not, it will consider as in other comprehensive income.

**Ashish Shah:** Right. So it comes into our P&L or it crystallizes after you have sold this

**Vishwas Shah:** Yes, it does not make a sense show that as a regular profit, right? So as per accounting standard we have to classify this any foreign translation reverse, we have to classify this as the OCI other comprehensive income.

**Ashish Shah:** Sure, sir, got that. Now, Rajiv, in terms of the overall numbers, we have done like the reported numbers is a loss of about Rs. 15 crores, you would expect this to improve as we go along, or you think, it is probably going to remain somewhere here?

**Rajiv Nayar:** I do not think specific adjustment you are referring to but at a high level see, the biggest impact on the P&L statement is a significantly increased depreciation on the renewable business as it comes on-stream. The benefits in terms of income statement, in terms of EBITDA and earnings are not fully captured here. Now, of course, so there is a bit of a timing element here. But of course, going forward from next year the Renewable numbers will be going out of this income statement adjusted for which if you take out the depreciation related to the Renewable business I think this company will go back to its earlier levels of profitability. A big swing factor in P&L is really depreciation related to the renewable business.

**Ashish Shah:** Sure. I think, Shirish has a question to ask.

**Shirish Rane:** Sir, one question. If I look at the other segment that has a EBIT loss of Rs. 61 crores, which earlier if I look at the previous quarter it was a profit of Rs. 20 crores and last year same quarter it is a loss of Rs. 5 crores. So, what is this on account of?

**Vishwas Shah:** Okay. This is on account of Solar manufacturing what Rajiv just recently mentioned, right? So this mainly on account of depreciation because what you see is the PBIT, okay? This takes cares of the depreciation provided on a WTD basis.

**Rajiv Nayar:** Sorry, it is depreciation for both the Renewables as well as the Solar manufacturing business that is driving the P&L which also even as solar manufacturing is now fully on stream and its earnings will start kicking into the earnings line. You will see that benefit coming through.

**Vishwas Shah:** And one more thing, the COD was in May 2017, right? So if you see comparative last quarter, only component of one month was a part of those losses in terms of notional loss this is three months, right? So on a comparison, on a sequential quarter basis, you would see it high.

**Rajiv Nayar:** And the top-line is still to kick in full. So you will see that will also adjust over the next one or two quarters as the manufacturing business revenues and EBITDA also step-up.

**Shirish Rane:** So essentially what you are saying is that the console depreciation of Rs. 387 crores which partially is on account of this other segment which includes the Solar manufacturing module business that has translated into that EBIT loss mainly. Sir, in the second question, we have read a lot about this Australian mine progress in the newspapers. If you could care update us and what is the status and what kind of CAPEX you would like to undertake over the next 12 months on that account?

**Rajiv Nayar:** Sorry, just ask that question. Your voice faded-off.

**Shirish Rane:** Yes, I will repeat. I said, we have read a lot about the Australian Coal Mines in the press recently. So, we plan to start the CAPEX on the on the Australian Coal Mines now as we read. So, what will be the CAPEX for the next 12 months - 24 month and the modes of funding it.

**Rajiv Nayar:** I think. You are right, a lot has been written about that project in the press and otherwise. We have obtained all major Environmental approvals and Government approvals as we speak. We are now in the process of working through the financial closure of the project and placing of orders that we expect will happen between now and March of 2018. The total amount of CAPEX is about $2.9 billion total Phase-I which is 27.5 million metric tonnes is already AUSSIE $2.9 billion, we have invested from an equity standpoint about $1.3 billion. At this point, it is difficult to say how much more will be spend out of equity, I expect a substantial portion of the residual amount will come from debt and whereas leasing. We will only the actual balance equity if any once we have financial completion. The plan is for the project, the first coal, to come out by March 2020. So it will be invested over a period of at least two years or so.

**Shirish Rane:** Okay. Sir, just one clarification, this Aussie $2.9 billion CAPEX includes the Rail line as well or that is over and above?

**Rajiv Nayar:** This is just the mine.

**Shirish Rane:** And Rail CAPEX will be over and above this?

**Rajiv Nayar:** The Rail will be separate.

**Moderator:** Thank you. As there are no further questions from the participants, I now hand the conference over to Mr. Rajiv Nayar for closing comments.

**Rajiv Nayar:** Thank you. If there are no further questions, I will now conclude this call. Thank you,

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