# "Adani Enterprises Limited Q3 FY16 Earnings Conference Call"

## February 1, 2016

**MANAGEMENT:** **MR. AMEET DESAI – EXECUTIVE DIRECTOR & CHIEF FINANCIAL OFFICER, ADANI ENTERPRISES LIMITED**
**MR. VIMAL DHAMI – INVESTOR RELATIONS, ADANI ENTERPRISES LIMITED**

**Moderator:** Ladies and Gentlemen, Good Day and welcome to the Adani Enterprises Limited Q3 FY16 Earnings Conference Call. We have with us today from the management of Adani Enterprises, Mr. Ameet Desai – Executive Director and Group CFO at Adani Enterprises Limited and Mr. Vimal Dhami – Investor Relations. 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 '*' and then '0' on your touchtone telephone. Please note that this conference is being recorded. I now hand the conference over to Mr. Ameet Desai. Thank you and over to you, sir.

**Ameet Desai:** Thank you. Good afternoon everybody, welcome to this call. I would briefly touch upon the financial highlights for the nine months' results ended 31st December, 2015. At the outset, I just would like to point out that the published results last year for the same period was prior to the de-merger and therefore as all of you would appreciate, are not comparable with the results which have been published today. However, we have already provided the comparable like-to-like nine months and three months' analysis which covers the consolidated income, EBITDA and PAT. Would be happy to take questions after I give an overview of the financial performance.

The financial performance backed by coal mining volume growth of 76% year-over-year for nine months to 3.7 million ton, coal trading volume growth of 6% to close to 59 million ton and agri business volume growth of about 7%, plus city gas distribution volume at nearly the same levels as last year has given us consolidated income at Rs 33,000 crores plus which is marginally down on a comparable basis compared to Rs 35,700 crores plus in the corresponding nine months period last year. EBITDA, however, is down less than 5% compared to

7% down in income and PAT is down 21% from Rs 1110 crores to Rs 874 crores.

The growth in the MDO business and growth in other businesses have been very robust, but the value decline based on the global commodity cycle softening has reduced the realization and consequently the profit per ton of coal and that is the primary reason why the EBITDA has registered 5% decline on a comparable basis. However, going forward, our growth drivers are going to be MDO business where we have 3.7 million tons of output in the first nine months and our current run rate has really improved over past 31 days, so this quarter is expected to be even better than the average of past three quarters and we would soon complete our solar generation capacity implementation in different phases in Tamil Nadu. As some of you would remember, this is 648 megawatt solar power project which is progressing on schedule and we have a further robust pipeline of 250 megawatt collectively in Uttar Pradesh, Punjab and Andhra Pradesh.

We have also put to use and commenced commercial operation for additional 3 lakh ton agro storage business under 30-year concession in Madhya Pradesh and this is yet another addition to the agri infrastructure business that we have, it is for the MP warehousing Corporation.

So all in all, dip in coal but very profitable growth in mining, profitable growth in agri which was not there last year and other businesses holding up like city gas business and yet to get added is the renewable business hopefully in the next quarter onwards, maybe some part of it in this quarter.

So over to you for questions if any that you may have.

**Moderator:** Thank you very much. We will now start with the question-and-answer session. Our first question is from the line of Akshay Soni and Robin Narang from Morgan Stanley. Please go ahead.

**Akshay Soni:** Just two questions, both little more macro than just focused. You did say that of course the coal scenario is impacting you and volumes however have come off very marginally, so you continue to see extremely robust volumes now for the nine months right, in the coal business. Just wanted to get a perspective of one, the volumes that you see going forward because we are being told constantly on television that coal imports is going to come to an end, I know you have answered the question before but if you could again trouble yourself with the next 12 months perspective. And also if you could tell us, now it is a couple of quarters that we are around $1.5 to $2 mark on EBITDA per ton, is that something that we should be thinking of as the new number to focus on?

**Ameet Desai:** So I think in absence of any credible benchmark other than the empirical, if I were you I will pin my number working on what is the current profitability and maybe slightly improved because everybody is better prepared for at least some foreseeable time in terms of margin. So I had a shorter answer to your second question which I have tried to answer. I was just reading the November 16th statement of Honorable Minister where he said, I have been on record to say that I judged that by 2017 India should not need to import coal except for those coastal plants where it is very difficult to transmit coal. Now therefore I think sometimes most of us read one sentence but forget the updation and I think Minister has been very kind to update the issue, but some of us are still retaining the older memory as to the imports will come to a standstill, that is part one of my answer. Part two is, economically and I think I have said this earlier also, for a commodity which is Rs.800 or Rs.900 or Rs.700 a ton it would not make sense to pay freight of Rs.1,500-plus and therefore we believe when we discuss the strategic aspects of coal business that going forward it would not be just coastal plants but even those within the coastal hinterland of 500 kilometers will continue to be economically better placed to import coal, and that is something that I think every part of the play is sold on. If you add the differential in cost on a calorific value basis, then what you are paying freight is much higher on calorific basis and therefore it would make abundant sense for people to import as long as they are in 500-600 kilometers or even a little more from the coastal import destination. So to round up my answer to your question whether imports are said to doom and to come to an end, very resounding no, I am not taking away any part of the claims that Coal India will grow, rail infrastructure will become better, coastal movement will continue blah-blah-blah, but I think still the matter of fact is with even enhanced coastal movement the immediate vicinity hinterland plants will be better placed to use the imported coal. So we see our business model from that perspective. If I have answered your question?

**Akshay Soni:** You have sir, if I could rephrase the second one to which you gave a very short answer, so let me put it this way, if you are to see stable pricing on coal, would that help profitability, to some extent is this $1.5 - $2 per ton a function of the volatility that we had seen or the fall that we have seen, because to some effect you will carry some level of risk either in FOREX or to some extent on pricing even when you are doing back to back contracts because you still carry a little bit of the risk. So would a stable environment help it or would that not really matter per say to you?

**Ameet Desai:** See, I think I would call the market volatile it is going up and down, here it is almost seeming like a secular trend for some quarters and maybe not hopefully for long but at least for some more quarters. Therefore, I think our hedging strategies in FOREX and on the procurement pricing side, both are very well placed to ensure that our margins are not really impacted significantly and we also do our contract management fairly effectively to ensure this. And also there is a certain predictability of demand because there are plants which are designed for only imported coal, in other words, not being able to accept certainly anything more than 30% to 40% of the domestic coal which is high ash. So there is a certain predictability of demand that also gives us the comfort in terms of making a forecast which is high fidelity forecast and base our business model thereon.

**Moderator:** Thank you. Our next question is from the line of Shirish Rane and Ashish Shah from IDFC. Please go ahead.

**Ashish Shah:** Sir, just wanted to know a bit more about the 100% equity stake which has been sold by us in Adani Infra India, so if you can just highlight a little bit more about the transaction, as in what is the value of the transaction and to whom it has been sold and anything more that you can highlight on this sir, Thank you.

**Ameet Desai:** It is a small transaction of Rs. 45 crores and therefore we have not really highlighted.

**Ashish Shah:** Actually, I read as the gain being Rs. 45 crores, so I just thought maybe what was the value of the transaction.

**Ameet Desai:** The equity was I think very-very small, Rs. 5 lakhs so the entire value is a profit and I think there is a note which is note number 8 which says during the quarter the company has divested its 100% equity holding in its subsidiary resulting gain of Rs. 45.25 crores, that means you are right, actually Rs. 5 lakhs equity. So it must have been done at Rs. 45.30 crores.

**Moderator:** Thank you. Our next question is from the line of Akshay Soni and Robin Narang from Morgan Stanley. Please go ahead.

**Akshay Soni:** Sir, if you could also just share the next 12 months CAPEX plan over the various businesses for Adani Enterprises as well as the subsidiaries? Of course the subsidiaries that now exist under Adani Enterprises that would be very helpful.

**Ameet Desai:** So broadly, current Tamil Nadu project about Rs. 4500 crores of which Rs. 3200 odd crores is debt, we have significant tie up of debt already done. Next 250 megawatt, the details are at the drawing board but you can take anywhere between Rs. 6 crores to Rs. 6.5 crores per megawatt as a guiding figure anywhere from Rs.17 billion to Rs.18 billion we will continue to fund this in 70:30 debt equity. For both these numbers the corresponding fact that I would like to bring out is these are relatively short cycle implementation projects, less than one year, so generation starts pretty much in one year after you start putting your CAPEX from the first rupee to the revenue cycle. We have already also started working on wind and we are building a small pipeline there, but I do not have any ready numbers right now and it is much smaller compared to solar generation. Solar manufacturing, 1.2 gigawatt, Rs. 1920 crores, 70:30 debt equity and of course it will be further sub-intended for certain eligible item for CAPEX for 20% subsidy from the central government. So these are the three major CAPEX items that we in keep in mind.

**Akshay Soni:** And the status on Australia stays the same, you are looking at the coal prices and based on that would be taking a decision?

**Ameet Desai:** Absolutely.

**Moderator:** Thank you. As there are no further questions, I would now like to hand the floor over to Mr. Ameet Desai for his closing comments. Over to you, sir.

**Ameet Desai:** So friends, thank you very much for your patient listening and questions, if anyone of you have any other question please feel free to write to Vimal or me and would be very happy to answer back.

**Moderator:** Thank you very much members of the management. Ladies and Gentlemen, on behalf of Adani Enterprises that concludes this conference call. You may now disconnect your lines.