"Adani Enterprises Limited Q4 FY-19 Earnings Conference Call"

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MANAGEMENT: MR. VINAY PRAKASH – CHIEF EXECUTIVE OFFICER (MINING & ICM), ADANI ENTERPRISES LIMITED
MR. RAMESH NAIR – CHIEF EXECUTIVE OFFICER, MUNDRA SOLAR PV LIMITED
MR. JUGESHINDER SINGH – CHIEF FINANCIAL OFFICER, ADANI ENTERPRISES LIMITED.

Moderator: Ladies and gentlemen, good day and welcome to Adani Enterprises Limited Q4 FY19 Earnings Conference Call. We have with us today from the management Mr. Vinay Prakash – CEO-Mining & ICM; Mr. Ramesh Nair – CEO, Mundra Solar PV Limited & Mr. Jugeshinder Singh – CFO, Adani Enterprises Limited.

As a reminder, all participants' lines will be in the listen-only mode. There will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal for 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. Singh. Thank you and over to you, sir.

Jugeshinder Singh: Thank you. Good afternoon, this is Robie, CFO of Adani Enterprise. As a background, Adani Enterprise is an incubator focusing on establishing new businesses and infrastructure in the energy sector. We have done this consistently since 1994 when we were first established and listed. Post which APSEZ, Adani Power, Adani Transmissions and such businesses were demerged from Adani Enterprise and independently listed on the stock exchange.

In the last two years, consistent with the same model we have demerged Adani Green Energy Limited from Adani Enterprise and Adani Gas Distribution business which were respectively listed in June 2018 and November 2018.

Just in the last two years, the value that has accrued to Adani Enterprise shareholders from the capital returns of these two businesses implies an annual compound growth rate of 65%. In addition, Adani Enterprise is currently developing and incubating significant new infrastructure businesses which are in the transport and utility space. In transportation, we have airports, roads, and rail and metro and in the utility space we are actively pursuing investments in water, and utility of the new age data centers.

I will just briefly take you through the consolidated financial performance for Quarter 4 2019. The income increased by 35% to Rs. 13,237 crores from Rs.

9,767 crores. Consolidated EBITDA broadly in line Rs. 943 crores versus Rs. 994 crores in the same quarter last year. Overall, Adani Enterprise demonstrated strong performance across its ICM, Mining Services, Solar Manufacturing and Agro verticals.

I will hand over to each business CEO who will take you through their respective business highlights. Over to you, Vinay.

Vinay Prakash: So, good afternoon. It is Vinay Prakash. First of all, I will take the Mining and Services businesses. In our Mining and Service businesses the company has the following eight projects in hand now which is the First one is Parsa East and Kanta Basan; Second is Parsa Coal Block; Third is Kente Extension; Fourth is GP3 which is Gare-Palma 3; Fifth is Talabira 2 and 3; Sixth is Jitpur; Seventh is Bailadila 13 and Eight is Suliyari Block.

Out of these eight blocks, seven blocks that are of Coal MDO and one block of iron ore which is with NMDC-CMDC known as NCL Limited. The peak capacity of all these blocks stands at 75 million metric tons per annum and during last quarter 4 2018-19 we have signed the coal mining agreement for Suliyari Block with APMDC and we have signed Iron Ore Mining Agreement for Bailadila 13 project with NCL, which is NMDC-CMDC joint venture company.

Further during the current financial year, we have received the LOI and LOA for the following projects. We got the commission LOI of GP1 coal block from Gujarat State Electricity Board, GSECL. We have got the conditional LOI for GP2 coal block from MAHAGENCO. We got the LOA for Gidhpuri Paturia block from CSPGCL and we have signed the agreement also.

We have got the LOI for Hingula Washery project from MCL. The signing of agreement for this project is expected in financial year 2019-20 and along with this project our total capacity stands at 125.6 million metric tons per annum.

It is a contractual capacity all the projects will come one after another to take the capacity to 125.6 million metric tons per annum. In terms of operation, coal mining volume at PEKB, Parsa East & Kante Basan block increased by

90% to 3.68 million metric tons in Quarter 4 financial year 2019 against 1.94 million metric tons in Quarter 4 FY18. The EBITDA has increased by 152% in line with the higher volumes.

In terms of integrated coal mining business, the company provides end-to-end procurement services with customers and that is how we know this business has integrated coal management. Our ICM business maintains the leadership position as the number one importer of coal in India.

It has continued to deliver industry leading performance with coal trading volume increasing by 53% at 24.68 million metric tons in Quarter 4 financial year 2019 versus 15.13 million metric tons in the same quarter last year. The company has maintained consistency in volumes in the current quarter. Now I will give it to Mr. Ramesh Nair for solar manufacturing.

Ramesh Nair: Hi, good afternoon I am Ramesh. Mundra Solar Private Limited has established the largest solar cell and module manufacturing unit in Mundra SEZ and the largest in India and the plant has been operational from financial year 2018 with the capacity of 1.5 gigawatts and is now fully operational integrated plant.

The Q4 volumes have increased about 29% to a 260 megawatt of module as compared to the corresponding quarter last year. The EBITDA margin primarily has been lower due to fall in wafer prices which has impacted inventory lines at higher prices and price reduction by competitors due to the major fall in the China market. So, that is it. Over to you.

Jugeshinder Singh: We can start Q&A now.

Moderator: Thank you. Ladies and gentlemen, we will now begin with the question-and-answer session.

The first question is from the line of Sumit Kishore from JP Morgan. Please go ahead.

Sumit Kishore: My question is in relation to your emerging businesses. Could you please talk about the potential for growth as well as the investments required over the next three years especially for your Airport and your Defence business and if you could also supplement that for your aspirations in the road, rail and metro space?

Jugeshinder Singh: In relation to Defence, the investments are minor so they are in the context of AEL's investment plan, they are not very significant investment programs. Our significant investment program is in the infra space primarily initially in two key areas which is airports and roads. Airports we are currently L1 subject to final endorsement by the cabinet meeting which we expect in the next two months.

To an extent that the cabinet endorses the L1 status of all six airports, we expect the next seven-year investment plan as submitted which publicly the part of our progress will be in the order of approximately Rs. 10,000 crores. That investment plan is fully included in the estimates of how AEL has planned its finances. In terms of roads currently that is not a big part but it can become an investment that we will of significant size going forward. Beyond that given that some of these will be forward-looking statements I cannot make any other specific statement on these matters.

Sumit Kishore: Sure. And although Defence will not be very CAPEX intensive, but could you speak more about the core businesses that you are targeting and what sort of potential can we expect over the next two to three years?

Jugeshinder Singh: In the Defence, Defence is more of a business where we have JV arrangements. So, the investment sizes are in the order of Rs. 100 crores, Rs. 200 crores etcetera up to Rs. 400 crores. These are long gestation technology based businesses and until and unless formal contracted arrangements are not available we do not expect anything major in the Defence area. Our biggest expert area will be as I mentioned airports and roads.

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

Nirav Shah: Again, continuing with the previous question can you elaborate on what is our scope of work in that data center part, what is the investment that this particular segment will attract?

Jugeshinder Singh: See in the data center business, data center is primarily a two part business. One is provision of infra and utility services and second is the technology which is server, etc. We are not going to be part of the provision of servers or technology. We will purely be focused on the provision of utility and infrastructure which is our core businesses of infrastructure.

This will be expected to be a contracted business, so the scope of investments in the what we have actually flagged in the coming year is only sub Rs. 100 crores, but depending upon contract it will ramp up and from a ramp up point of view, it can ramp up to in the order of Rs. 3,000 crores to Rs. 4,000 crores.

Nirav Shah: Because in the media the number was in billions of dollars so that is more related to the servers' part and not the infra and utility part?

Jugeshinder Singh: No, the media number of Rs. 70,000 crores is over the lifecycle. So, that will be over 10, 15-year period.

Nirav Shah: But it will be part of that Rs. 70,000 crores mean our investment will be over the next ten years to that extent?

Jugeshinder Singh: No, not to that extent but media reports whole heap of numbers that are not part of the overall because there is a CAPEX and there is value aspect so total value of the businesses could reach to that number but beyond that I would just request that you just take our guidance that the first data center would be no more than the numbers that are.

Nirav Shah: And in the presentation it is written that setting up of a 1 Gigawatt of data center capacity so it is related to the power capacity over here the 1 gigawatt?

Jugeshinder Singh: Yes, that is basically where the data centers operate that it is based on its capacity to consume power. This will be 1 Gigawatt hyper, it is called hyper scale and we expect it to be of hyper scale type data center the first purely 100% green data center.

Nirav Shah: Okay so the investment in this will be is part of what you mentioned around Rs. 3,000 crores. Rs. 4,000 crores?

Jugeshinder Singh: Yes, I am only referring to this one which is in the presentation.

Nirav Shah: Okay got it. And the second question is on the MDO front, you did reasonably well in the Q4 and for this financial year 12 million tons, so any guidance that we have for FY20 and FY21 based on the feedback or the requirement?

Vinay Prakash: In fact, Quarter 4 was very good in terms of the requirement at various state levels for ensuring that there is a 24x7 power and definitely we foresee the consumption the requirement to continue like this only. But you can always consider some hiccups here and there. Considering that the Quarter 1 is going to be the period Quarter 1 and Quarter 2 where we will have some impact of monsoon also, so the requirement will come down but on an overall basis we do see import of coal going up by minimum 8% to 10%.

Nirav Shah: So, this 12 million tons will be something like a 14 million tons for FY20 or some guidance from your end would be appreciated?

Vinay Prakash: It will go up but it is something which nobody can predict or give a clear direction.

Nirav Shah: So, I mean it is not that we get a schedule in terms of the requirement and then we accordingly do?

Jugeshinder Singh: Are you talking about ICM or you are talking about mining?

Nirav Shah: I am talking about mining part.

Jugeshinder Singh: Sorry I got confused. So, in mining this volume will continue at the same pace only. The volume which we did last year was 12.13 the same volume will come in this financial year also because it is a peak capacity of the mine. The mine is at the capacity of 15 million tons, out of which the wash coal dispatch is 12.13. Same will continue for this particular mine but since we are planning to add another three mines in this financial year, the volume may go up for those mines. As far as the PEKB mine is concerned, it will remain at the same level.

Nirav Shah: I was more specific I mean on the overall segment front; I mean this 12.1 million ton of volume will go to?

Jugeshinder Singh: It will go up it should go up by minimum 70% to 80%.

Nirav Shah: Fair point, and just one clarification. In the opening remarks you mentioned that the current capacity is 75 million tons and you also mentioned the figure of 125 million tons per annum so that is including the LOIs that we have received?

Jugeshinder Singh: So, there are two different types of arrangements. One is where we have signed contracts which is done agreement. That is of capacity of 71 million metric tons per annum and another is where we have got LOI but we are still waiting for the contract to be signed.

Nirav Shah: Okay so that is incremental 50 million tons?

Jugeshinder Singh: So, that is incremental 50 million tons so if you add up that also then it will go up to 125 million tons.

Moderator: Thank you very much. Next question is from the line of Ashish Shah from Centrum. Please go ahead.

Ashish Shah: Sir, just wanted to touch upon the newer segments you know in terms of the airports and the hybrid annuity projects we have. Can you briefly touch upon where we are in terms of these assets, in terms of getting the concessions or getting all the financing in place and everything?

Jugeshinder Singh: For airports we were declared L1 in the bidding which finished, which concluded in February and because of the code of conduct it was not rectified formally by the cabinet which met on 7th of March. As the new government forms and the cabinet meets, we expect that that rectification to occur and then we would likely have 6 concessions. Everything proceeding smoothly.

The sixth concession for us would entail an initial CAPEX which we have flagged which is just the initial payments to Airport Authority and take over expenses of approximately Rs. 3,500 crores which is budgeted in the planning of AEL.

These airports will have a total, they currently have 35 million passengers, so which will make it a substantial business so whilst they are not metro city airports they are state capital with significant through put. In terms of roads, currently we are expected to be implementing one project and of which financial approvals has been achieved, and it is continuing and we have two more of which we are currently in the process of getting the financial approvals.

For the airports business as the airport and roads they are all fixes with AEL, they are part of AEL's finance plans so it is specific financial close we will do opportunistically but otherwise we are fully catered for in the AEL finance plan.

Ashish Shah: So, sir if I may ask this Rs. 3,500 crores assuming everything goes well we will probably have to pay it within FY20. So, how do we propose to finance this?

Jugeshinder Singh: We currently have available debt capacities within AEL of approximately give or take about $1.5 billion. So, we have debt capacity in AEL of about Rs. 10,000 crores to Rs. 12,000 crores.

Ashish Shah: Okay so you are essentially planning on borrowing, you are not planning any equity raise at least at this juncture?

Jugeshinder Singh: AEL is expected to maintain a certain leverage as per our rating of A which is between 4.5 to 6 even with this borrowing, we will remain comfortably within those limits so we do not expect that there could be any equity raise required.

Ashish Shah: Sure, and beyond this Rs. 3,500 crores when you actually get into the expansion of the airport capacity and modernization, how much do you think will be spent?

Jugeshinder Singh: There is a publicly available plan that we have to put out that will be in the order of about total including base amount will be about Rs. 10,000 crores but rest of the amounts will be raised at the respective SPV levels.

Ashish Shah: Right so Rs. 10,000 crores is including the upfront Rs. 3,500 crores?

Jugeshinder Singh: Yes.

Ashish Shah: Sir, lastly on in terms of the debt movement during the year we see that there has been a substantial reduction in the debt at the ICM level. So, when I look at the profit generated during the year it somehow does not seem to imply that we would have been able to repay so much. So, what exactly has facilitated this reduction in the debt at the ICM level as well as for the entire company from about Rs. 17,500 crores to about Rs. 11,200 crores?

Jugeshinder Singh: So, largely it is due to the fact that one of our clients in the ICM business is Adani Power and what has happened is that over the period of time given the revised orders etcetera the power receivables have gone down significantly and that has what has allowed us to toil with that.

Ashish Shah: Okay so the ICM reduction you will solely attribute to better recoveries from Adani Power?

Jugeshinder Singh: Yes, absolutely.

Ashish Shah: Right and also in terms of the incubating businesses when I look at I mean that debt has gone down from about Rs. 3,500 crores to Rs. 1,700 odd crores. So, what would that be, sir?

Jugeshinder Singh: No, that is largely because some of the businesses went out.

Ashish Shah: Is that the gas impact?

Jugeshinder Singh: Yes.

Moderator: Thank you. The next question is a follow up from the line of Sumit Kishore from JP Morgan. Please go ahead.

Sumit Kishore: In your opening remarks you mentioned about the pricing pressures that you are seeing in your solar manufacturing business and which has sort of weighed on the EBITDA margin performance in this quarter. Could you elaborate a bit on that and how it is likely to be going forward over the next one or two years, what is the outlook and what are your ambitions overall in terms of scaling up the solar manufacturing capacity at Adani Enterprise?

Jugeshinder Singh: Actually the previous year what actually happened was that there was a bit of fall in the demand in the China market and also excessive capacity in the wafers in terms of the solar manufacturing. It was a substantial crash in the prices of wafers across a period of a month. There was a huge inventory losses registered in the business because of the price fall. And that is a one, never seen this kind of a crash which in the near history in terms of the steep fall that happened across the month. But I think the prices if you ask me has almost hit the cost level in terms of wafer manufacturing and we expect it to go down further. Really see this market would go up.

And as for the future of this business with its state Government policies which are very positive at this point of time in terms of recently last six months the government has come out with lot of schemes to promote domestic manufacturing in rooftop, in agricultural land, in central public sector units. So, we expect that this demand will be very robust for the next about five years like as we see now. And as a business we are also diversified quite a bit into the export segment because we wanted to hedge our risk fairly well. So, in the current year of FY20 we will be doing at least about one-fourth or a little lower than one-fourth of our production would actually be earmarked for the US and the export markets.

And as we speak the business has an order book for the next seven, eight months which is very robust and we see that as we go forward, the business will be good and with certain policy support from the government we may look at more and more capacity enhancements as and when we feel it is required in the business.

Sumit Kishore: Sure. And would your export be competitive with China?

Vinay Prakash: Yes. On our cost structure we are competitive with China because we have done various benchmarking with the Chinese companies so we are almost. Barring may be 0.5% to 1% difference; we do not see much of a change from our costing with the Chinese costing.

So, we are very much competitive with them in the US market so and US also has this safeguard duty enforced on Chinese products, so that gives us additional window for us to export into US which is an additional revenue basically because of the duty.

Sumit Kishore: And so this would be exactly the export of what this entire module or?

Vinay Prakash: Module.

Moderator: Thank you. Next question is from Shirish Rane from IDFC. Please go ahead.

Mohit Kumar: This is Mohit Kumar from IDFC Securities. Sir, I have two questions. First what is the volume you are targeting for solar for FY20 and what is the order book like at this point of time?

Jugeshinder Singh: The volumes we are targeting currently is around in the tune of around 1,200 megawatt that is the full capacity that is what we are targeting. And the order book at this point of time at least we have around 850 megawatts. And we have kept it open from the month of December onwards because we do not want to book so much of that because of the vagaries in the market in terms of the pricing. And also the government policy is playing out. So, we have kept about 300 megawatts, 400 megawatts open and that would be booked in the next couple of months we would go ahead and book it.

Mohit Kumar: Sir, my second question is on the road, what is the capital outlay plan for FY20 and FY21 I believe that we have six projects right and have we received appointed date for anyone of them?

Jugeshinder Singh: Sorry I did not get the last part of your question can you please repeat it?

Mohit Kumar: I am speaking specifically about the road projects so what is your capital outlay plan for FY20 and FY21 and have we received an appointed date for any of our HAM projects?

Jugeshinder Singh: Currently what we have is that we have one project which is under way for which we expect the capital outlay to be in the order of Rs. 1,100 crores and two others that have been awarded which has current estimated size of approximately Rs. 2,900 crores. And we have achieved the appointed date on the 8th of March for the first project I mentioned and the construction have started.

Moderator: Thank you. As there are no further questions, I now hand the conference over to Mr. Singh for closing remarks. Over to you, sir.

Jugeshinder Singh: We thank everyone for attending. Thank you so much.

Moderator: Thank you very much, sir. Ladies and gentlemen, on behalf of Adani Enterprises, that concludes today's conference call. Thank you for joining us and you may now disconnect your lines.