“Adani Enterprises Limited Q4 FY-21 Earnings Conference Call”

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MANAGEMENT: **MR. VINAY PRAKASH – CEO, MINING & IRM, ADANI ENTERPRISES LIMITED**
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MR. ROBBIE SINGH – CFO, ADANI ENTERPRISES LIMITED

Moderator: Ladies and gentlemen good day and welcome to Adani Enterprises Limited Q4 FY21 Earnings Call. We have with us from the management Mr. Vinay Prakash – CEO Mining Services and IRM, Adani Enterprises Limited, Mr. Ramesh Nair – CEO, Mundra Solar PV Limited, 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. I now hand the conference over to Mr. Robbie Singh. Thank you and over to you sir.

Robbie Singh: Thank you. Hi good afternoon. This is Robbie Singh – CFO Adani Enterprise. Adani Enterprises has been successful incubator since 1994. We have created five infrastructure unicorn companies which are in excess of billion dollars, independently listed with strong businesses. Our constant endeavor is to invest in strategic new businesses which translate into profitable returns for our shareholders. As our core business has continued to sustain long term growth, we are making significant progress in our new business segment comprising airports, roads, and data center. I will comment on that briefly. The model of building new businesses and creating value has delivered returns at a compounded annual growth rate since inception in 1994 of over 32% to shareholders. In the last 4 years to demerger of Adani Green and Adani Total Gas has boosted our shareholder returns with well over 100%. Both Adani Green and Adani Total Gas are also companies in which Total has strategic investments - in Adani Total Gas 37.4% and in Adani Green Energy 20%. In continuation of this process of value creation, we have recently acquired 23.5% stake in Mumbai International Airport. Further we have announced a joint venture AdaniConneX with EdgeConneX to develop and operate data centers throughout India. Third our companies within AEL have signed concession agreements for road projects in the HAM model. We have also received LoA from NHAI for road projects in the state of Orissa, West Bengal, Telangana, and Gujarat. With this our core development of our transport and logistics segment in the form of airports and roads is going well within AEL and also Data Centre business has started, and our first data center will come online over the next 9 months or so.

Coming to this quarter's performance; it has been another quarter of good operational and financial performance across our core business segments of mining services, integrated resources management and solar manufacturing. Consolidated revenue for Quarter 4 'FY21 remained constant at Rs. 30,689 crores and EBITDA increased by 65% to Rs. 1068 crores. The rise in EBITDA was predominantly driven by solar manufacturing on account of increase in sales to DCR segment in the sales mix. Consolidated EBITDA for FY21 increased by 10% at Rs. 3,259 crores, owing to better performance in the solar business. Profit attributable to owners increased to almost 7 times at 413 crores versus 61 crores in Quarter 4 FY20 due to higher EBITDA. Quarter 4 FY21 profit was impacted by one-time exceptional loss of 179 crores. While we still continue to develop new businesses, the company's consolidated debt to equity is comfortable at 0.8 times and external debt to EBIDTA is approximately 3.5 times.

Now I will hand over to my colleagues for each of the business to go through the mining services, integrated resource management and solar. So first to my colleague Vinay Prakash, who heads the mining services and the IRM business. Vinay over to you.

Vinay Prakash: Thanks Robbie. Good afternoon to all of you. I hope that you all are taking care of yourself and your family in this difficult time. As far as the mining services business is concerned, the company is MDO for nine coal blocks with the peak capacity of (+100) million metric ton per annum, including one project which is GP1 at a LoA stage. Further the company has two MDO projects for iron ore with the peak capacity of 60 million metric tons per annum. These 11 projects are located in the state of Chhattisgarh, Madhya Pradesh, and Orissa. We have also forayed into the Washery business and we have received LoI for Hingula Washery project for 10 million metric tons per annum from MCL. The company has also signed coal block development and production agreement for two commercial mines, one Dhirauli 5 million metric ton per annum in the state of MP and Gondulpara which is 4 million metric tons per annum in the state of Jharkhand. PEKB which is Parsa East and Kante Basan block has been operational since Feb 2013 and this is the first and the only captive open cast coal mine with washery in the country. We are seeing the peak annual capacity of 15 million metric tons. The other mine GP3 was opened in April 2019 and Talabira-II and III was opened in December 2019. Also, the company has operationalized the first iron ore mine which is Kumitar on 1st April 2021. Coal mining production volume has increased by 34% at 6.7 million metric tons in Quarter 4 FY21 against the production volume of 5 million metric tons in Quarter 4 FY20. Further the coal dispatch increased by 52% and 5 million metric tons in Quarter 4 FY21 against the dispatch of 3.3 million metric tons in Quarter 4 FY20. The production volume in FY21 increased by 13%. It stood at 17.5 million metric tons versus 15.5 million metric tons in FY20. In FY21 EBITDA has increased by 21% at 1143 crores compared to 944 cores in FY20.

Coming to the integrated resource business, in terms of IRM business the company provides end to end procurement and logistic services to its customer. We have developed business relationship with diversified customers across various end-user industries. Our IRM business continues to maintain the leadership position as the #1 player in India. The volume this quarter stood at 18.8 million metric tons versus 23.9 million metric tons in Q44 FY20. Now I will give it to Mr. Ramesh Nair for solar manufacturing.

Ramesh Nair: Mundra Solar PV Limited has established India's largest vertically Integrated Solar PhotoVoltaic manufacturing facility of 1.4 GW capacity currently after all the debottlenecking having state of the art plant along with R&D facilities in our Electronic Manufacturing Cluster facility at Mundra SEZ. The Q4 FY21 solar module volumes increased by 95% to 376 MW against 193 MW in Q4 FY20 while EBITDA increased to about 3.5 times to Rs. 207 crores against 59 crores in the corresponding quarter last year. The stellar EBITDA performance is supported by increase in DCR proportion in sales. The adverse impact of increasing input cost was also cushioned significantly by huge cost reduction initiatives taken by the business. We are committed henceforth by bringing the cost to the lowest global benchmark and focus on DCR and EPC segments showed us sustainable growth in the coming period. Thank you.

Moderator: Thank you very much. Ladies and gentlemen we will now begin the question-and-answer session. The first question is from the line of Mohit Kumar from IDFC.

Mohit Kumar: My first question is on the airports, have you taken over all the six airports? I can see 41 billion of debt on the airport business. Is it entirely it has gone through paying up fee upfront for all the six airports? That's my first question.

Robbie Singh: No. We have taken over three airports and are in the process of completing the takeover of other three and we are working on the MIAL acquisition process at the moment. The debt is related to the first three airports and for MIAL acquisition that we had highlighted in the last quarter.

Mohit Kumar: First three and for the MIAL acquiring the stake for Bidvest and ACSA. Is it right?

Robbie Singh: Yes, that is correct.

Mohit Kumar: Do you have to apply for determination of tariff orders for all the three airports and what is the regulated base on the airport right now?

Robbie Singh: We are in the process of applying for the changes and we are going through that. That will be done over the coming years because we are already under the current order, we will update based on our own business plan with AERA. And second part of your question was sorry can you please repeat?

Mohit Kumar: What is the regulated base of all these three airports?

Robbie Singh: The regulated asset base of the three airports combined is approximately 1200 crores.

Mohit Kumar: But anything you need to do CAPEX in FY22 given the COVID and, etc., or is there any option to postpone this CAPEX for FY23-FY24?

Robbie Singh: I think we will still do the CAPEX; we have the CAPEX with long lead time. So, the CAPEX, will be as per plan subject to we being able to mobilize and work through the airport business, but the CAPEX will continue because whenever the restrictions on the domestic passengers will ease, the traffic will pick up very quickly within the Indian context and in our market most of our passengers are domestic. It's about rapid ramp up so no specific change in CAPEX will occur in terms of timeline.

Mohit Kumar: Have you budgeted anything for the CAPEX in FY22 for the airport?

Robbie Singh: Our CAPEX plan is about 12,000 crores for the airports.

Mohit Kumar: For all six put together?

Robbie Singh: Yes, six plus Mumbai.

Mohit Kumar: There was exceptional loss of 179 crores in the quarter. What was this? Is it possible to throw some light on that?

Robbie Singh: That was simply an interest claim that we wrote-off during this quarter in the mining business.

Mohit Kumar: I think the solar manufacturing, of course there is a Solar PLI scheme. What's your view on the same and is there any chance the BCD, will not be applicable on the SEZ manufacturing capacity?

Ramesh Nair: I think just to recollect you are talking about two questions. One is the PLI and other one is the BCD on SEZ units, right?

Mohit Kumar: Yes.

Ramesh Nair: The PLI scheme is totally around 4500 crores for the high efficiency solar modules and that's an outlay. It is not very substantial but it can probably bring around 10 GW of capacity into the country, that's what we expect and not beyond that but then though we are requesting to the government to increase the outlay but they feel enough at this point of time let's see how much comes out in terms of interest. In terms of new manufacturing where the IREDA is the nodal agency for bidding it out and maybe it should come out in the next couple of months and then we will see and if need be, the government may increase the outlay coming out from NITI Aayog. And it's a good scheme definitely in that bring manufacturing into the country. And I feel it should be able to get some interest from the various groups within India and abroad in terms of expansion. BCD is applicable duty on units in SEZ. We have requested the government on something called as an equalization duty on SEZ units so that it can, be applicable to what you clear in domestic. But in case that does not happen then probably we maybe we need to exit SEZ system and go to DTA. So primarily our market will be domestic. That's a part of strategy that we are evaluating, and it will play out in the current year.

Mohit Kumar: On the capacity of course, we had a very good financial year FY21. I think our capacity realization closer to 100%. Is there a chance that we can ramp it up to 1.5 GW? One way we produce more than 100%?

Ramesh Nair: We are actually doing more than nameplate. Nameplate is 1.2 GW, and we are actually doing a 1158 MW is what we did last year, if you account for loss due to COVID last year in the month of April and into May, we lost about 150 MW last year and that is where our EBITDA also dipped for the full year by around 70-80 crores. So, we actually at a nameplate capacity did hit about 1300 MW last year if you add the loss that we incurred and that's why we said 1.4 GW is what we have said in the call while nameplate is 1.2 we are debottleneck to above 1.4. Anything beyond that looks little difficult but then obviously efforts are always on to take it up to the maximum possible at all times.

Mohit Kumar: What is the sustainability of the margin which you achieved in FY21? I think it closer to 30%. Last year it was I think closer to 10% odd or 15% odd?

Ramesh Nair: EBITDA margins this year has been very close to 30%, . Obviously, this margin has been definitely higher on two accounts. One account has been the DCR market which has given us higher margins and the second also with compared to previous year our cost structure and the COPQ, cost of poor quality has been extremely low, and we have hit the global benchmark in terms of various consumption parameters. And there has been a huge reduction in the cost in the organization. While there has been a little bit of raw material costs also which has gone up in the current year but then obviously the cost reduction has been substantial. Factor of these two I would say this is definitely sustainable in the current year and going into the next couple of years because there will be a demand for the domestic market. It may not be 28%, it may fall between 20% to 28%. We will be able to sustain that kind of margins because there is a huge demand for modules and the government has also enacted the ALMM which is called the Advanced List of Module Manufacturers which is basically saying that you have to be listed by the quality department in the country before you can sell modules into the country. Plus, the BCD, itself will give me an additional 40% margin on the modules and a 25% margin on the cells while I don't expect the whole thing to get translated into margins in the system but then obviously it gives me an upside on my import parity pricing. The factor of all these things I would say that very close to these levels we will be able to sustain for a few years more to come.

Mohit Kumar: Now couple of questions on the Mining Services Business. This quarter has the volume of 6.7 million tons but EBITDA margin lower side. Is it to do with something with the new mines which you opened up and what is the sustainable EBITDA given the all the three mines have opened now for FY22 and FY23? And secondly which are the other mines you expect to open in FY22 and how should the ramp up happen in GP 3 and the other mines?

Vinay Prakash: I think you have asked three-four questions.

Mohit Kumar: Let me just rephrase.

Vinay Prakash: Let me try to answer whatever I can remember and anything is left out; then you can again tell me. So, GP 3 is going to ramp up to 4 million tons if not 5 million tons this year. The rated capacity is 4 million tons, with objective to make 5 million tons. It depends on the transportation which GP 3 customer which is Chhattisgarh Power Generation company has to do. If they are able to do 4 million to 5 million tons then the 5 million tons otherwise 4 million tons. We as a mining company are in position to do 4 to 5 million tons as required by the customer. That's the first thing. The second thing is that last year we were having the three mining operations; this year for sure we are going to increase the volume in Talabira from current level to at least up to 6 million tonnes. In GP-III we are foreseeing it to be 4 to 5 million tonnes. PEKB has a peak capacity so we can't increase beyond 15 million tons. We have started Kurmitar so most likely Kurmitar should touch 6 million tons in the first year itself. We are also likely to start Parsa and Sulyari in next quarter or next to next quarter definitely this year. They should add up some volume in this financial year and then they are after their three mines on which we are working very hard to see if we can start at the end of the financial year. But if not this year definitely the first quarter or second quarter of the next year is going to be likely start of those three mines. That's the addition of the capacity. In terms of EBITDA definitely EBITDA percentage in PEKB mine is better than GP 3 and Talabira mine because those mines are small mines where we have not that much activity with the way we have in PEKB. So, when you say average it is lower but in terms of absolute value it is higher than the last year.

Mohit Kumar: What is the capital expenditure budgeted from mining services business for next couple of years?

Vinay Prakash: So totally for all the blocks which we have currently in hand all the 11-12 blocks the total CAPEX investment is going to be in 10000 crores and it is going to be in a staggered manner. We are trying to see how beautifully we are in position to start the mine first and then invest money which is going to be more into CHP, Washeries and the material handling systems.

Mohit Kumar: Just in that you can share on the Australian coal mines?

Vinay Prakash: Australian mine is going to start in the month of September. We are definitely going to have some tonnes coming out of this mine in this financial year; it may be 3 to 5 million tonnes, but definitely it will come in this financial year.

Mohit Kumar: What is the capital expenditure input till date?

Robbie Singh: The total CAPEX for the project is USD 2.7 billion out of which **USD 2.3 billion** is already spent.

Mohit Kumar: What is the profit of Wilmar in FY21?

Robbie Singh: Wilmar EBIDTAis totally 1430 crores.

Mohit Kumar: And profit, do you have the profit numbers with you?

Robbie Singh: We will come back with the exact numbers.

Moderator: The next question is from the line of Nirav Shah from GeeCee Investments.

Nirav Shah: Most of the questions have been answered, just a one clarification is on the airports you mentioned 12000 crores CAPEX including MIA, but will that includes Navi Mumbai or that is excluded?

Robbie Singh: That includes Navi Mumbai also.

Nirav Shah: And we have incorporated subsidiaries for our copper smelter and also for Petchem, if you can just share some update on likely timings, schedule, and the CAPEX towards in these two segments?

Robbie Singh: It will be too early because we are just going through the business plans at the moment. When we have announcements for that we will come to the market and announce as it’s too early because we don't even have the full information memorandum at this stage.

Nirav Shah: On the data center you mentioned that one data center will be commissioning in the next three quarters say nine months. So, what is the status of it and total CAPEX in the data center part?

Robbie Singh: The CAPEX requirement of this one is not much; we have this year total scheduled CAPEX across the data center business is approximately 770 crores.

Nirav Shah: So, this includes for Chennai and Vizag?

Robbie Singh: Yes, Chennai mainly and Vizag will actually spill over into the next year.

Nirav Shah: What is the nature of tie-up with Flipkart in the data center, is there any partners or are there anchor tenants or anchor customer?

Robbie Singh: That is once the formal announcements are done, Flipkart if you have a referring to the announcement that's more next to the warehouse announcements that are parts of the logistics business.

Moderator: The next question is from the line of Abhinav Bhandari from Reliance Capital.

Abhinav Bhandari: Just trying to understand on this data center. The one of the centers which would be operational as you mentioned in nine months or so just trying to understand the broader roadmap in terms of what are we going to do here? How many centers are we planning in the next few years and broadly what kind of revenue and profitability profile that are looking in this business?

Robbie Singh: Good question, you know we are just in the process of finalizing the overall business plan of the business of data center. We should be able to give you a proper update at the end of the June quarter as part of the June quarter update.

Abhinav Bhandari: The other question was on this recent announcement of a gas discovery in NELP-VII block along with Welspun. Just to understand how much significant it is either in terms of whatever volumes that you have discovered or potential in terms of revenue etc.?

Robbie Singh: That’s too early for the formal announcement. It just been a discovery at the moment. Volume, CAPEX, growth, and potential is sometime away before we can come to market on that.

Abhinav Bhandari: On the airport and mining you already mentioned the CAPEX for the next few years just trying to understand our sources of funding of this CAPEX. I mean broadly in terms of percentage or in terms of guidance if you could help on how much are we envisaging from internal accruals, how much from more debt from here to fund these businesses?

Robbie Singh: These businesses are like you know mining business has its own business plan. We do lot of mining businesses here as mentioned by Vinay in his comments and as we've seen in the past that the mining services businesses are self-funding. Majority of that gets funded from internal accruals and as the business grows the SPV itself will raise the capital that it needs to raise.

Similarly for the airports, they are cash making businesses and they already operate. They have their own capacity to borrow, so from our point of view our commitment is to the equity portion of the airports of which a majority of what equity was required we've already invested. Therefore, we do not see a significant commitment of equity beyond what we have to commit for the development of Navi Mumbai airport and some equity that is required for the next 3 years possibly when we take over.

Abhinav Bhandari: Debt increase could be how much once all these assets are in place in terms of getting operational etc.?

Robbie Singh: That would be a 3-to-5-year plan, but in the three-to-five-year plan we would have a total CAPEX in the airports of about 30,000 crores estimated and the debt from that will be approximately 20,000 to 21,000 crores.

Abhinav Bhandari: This would be the biggest chunk across all the business is it, in terms of debt?

Robbie Singh: Yes, across airport businesses that's the debt we have. For AEL businesses this will be the biggest chunk.

Abhinav Bhandari: Just one final question on as of 31st March how much would be the outstanding exposure to Adani Power in terms of loans, advances, or perpetual instrument?

Robbie Singh: It is insignificant, it is just a normal ordinary course of business is about 700 crores exposure. Nothing outstanding beyond the ordinary course of business.

Moderator: The next question is a follow up question from the line of Nirav Shah from GeeCee Investments.

Nirav Shah: Regarding the other **three airports,** I mean what will be the upfront payment that we will need to make and is it for Q1 only?

Robbie Singh: They will fall into most likely the second quarter of this year. The total will be in the order of just touch less than 1500 crores.

Nirav Shah: So total for all the 6 airports is close to 2700 crores?

Robbie Singh: Correct.

Nirav Shah: What is your roadmap for the mining business for the next three years? I mean this year you mentioned that you will be doing approximately 30 to 35 million tons broadly. How does this ramp up to our capacity of 100 million tons coal and iron ore?

Vinay Prakash: So, you see currently we have a capacity of around 160 to 170 million tons, and we have set a plan to achieve all to reach to the peak capacity in all the mining block in the next five-year time. Previous we said in next 5 years' time, we'll be touching 110-115 million tons from the mining.

Nirav Shah: Just FY23 can we possibly that 45 million tons or it's more back ended the ramp-up?

Vinay Prakash: Let discuss this one by one, PEKB is 15 million tons, so it is fixed. GP 3 will achieve 4 or 5 it is going to be fixed at 5 then. Talabira is having a potential to go up to 20 million tons. This year they are seeing 5 million tons. If they do 25 million tons next year which is a FY23, it can add 20 million tons because the mine is fully operational, and we are having the capacity to 25 million tons. Going to Parsa in the first year itself we can do 5 million tons if the customer is ready to take the cargo. Kurmitar 6 million tons, it is iron ore where iron ore prices are at sky high so they will take 6 million tons for sure, so 6 million tons will get added. Talk about Sulyari, first year is going to be 1.5 million tons next year is 3.5 million tons and then 6 million tons. So, in FY23 this will to be 3.5 million tons. GP 2, Gidhmuri, Paturia and Kente will get added but they all have a very small tonnage in FY23.

Nirav Shah: On a commercial mining I mean 12,000 crores CAPEX on mining is mentioned that includes the commercial mining or it excludes that?

Vinay Prakash: It includes commercial mining also.

Nirav Shah: Just last question I mean how is the profitability different on iron ore mining vis-à-vis coal?

Vinay Prakash: The profitability of all these mines depends on what is the scope of work? What is the area where you are doing the mining? What is the strip ratio and how your contract is structured, whether you have only mining activity? Whether you have mining plus washing activity? Whether you have mining plus washing plus transporting activity, so it varies from mine to mine. So, we cannot have a fixed EBITDA numbers per tonne on a mine basis. We can't give a direction on a percentage EBITDA basis also and how you're going to improve up on your productivity reducing your cost per tonne, it's something which will help you increasing your profitability in all these mines. This comes year after another, we can't see it for the first year itself.

Moderator: The next question is from the line of Mohit Kumar from IDFC.

Mohit Kumar: Two questions, first is on the airport business are we postponing the CAPEX for Navi Mumbai airport and when we expected to be commission?

Robbie Singh: We are not postponing the CAPEX. We are starting in the 2 months' time and it will finish in 3 years.

Mohit Kumar: With the debt fully tied up now?

Robbie Singh: Just finalizing, in the final stages.

Mohit Kumar: On the road business I think we had a good run in this year. I think we won a number of contracts. What is the capital layout over 2 to 3 years and where do you see yourself in the road sector?

Especially we have won all kinds of road projects HAM, BOT, TOT. So can you just throw some color on that.

Robbie Singh: We expect over the next five years road CAPEX to be in the order of what 12,000 crores of which about 6,000 crores will be in the next 14 to 18 months.

Moderator: Thank you ladies and gentlemen that will be the last question for today. I now hand the conference over to Mr. Robbie Singh for closing comments. Thank you and over to you sir.

Robbie Singh: We thank the investors for participating, my colleagues also and we also wish people well during this time and stay safe and take all precautions where it's necessary. Thank you so much.

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