

Adani Ports and Special Economic Zone Ltd.

(APSEZ)

Note on Amalgamation of rail track assets

Process & Rationale - August 2021

SL. No.	Details	Page No.
1.	Objective	2
2.	Process followed	2
3.	Summary of Sarguja asset	6
4.	Rationale for acquiring Sarguja asset	6
5.	Valuation of proposed Sarguja asset	7
6.	Purchase Consideration of Sarguja asset	8
7.	Transfer of the Divestment Business Undertaking (Mundra Rail Business)	10

1. Objective

To develop scale in the integrated logistics space by consolidating all rail assets under one pan India platform and to bring efficiency to overall logistics cost by owning and developing critical assets.

Adani Ports and Special Economic Zone Limited holds a portfolio of 620 kms railway track assets which connects its ports. Currently Sarguja rail (Sarguja) asset of 70 kms is owned by the Promoter's entity. To ensure that no similar businesses amongst Adani portfolio are competing, a proposal for acquisition of Sarguja was mooted.

The Board approved the Composite Scheme of Arrangement between Brahmi Tracks Management Services Private Limited ("Brahmi") and Adani Ports and Special Economic Zone Limited (APSEZ) and Adani Tracks Management Services Private Limited ("Adani Tracks") and Sarguja Rail Corridor Private Limited ("Sarguja") and their respective shareholders and creditors ('**Scheme**').

Due process as stipulated in the **voluntary policy on related party transactions for acquiring and sale of assets** ([Link](#)) was followed.

2. Process followed for considering amalgamation of Brahmi (holding company of Sarguja) with APSEZ

Table – 1

Sl. No.	Activity	Date
1	<p>Pursuant to board approved "policy on related party transactions for acquiring and sale of assets", Executive committee (EC) consisting of three independent board of directors was formed to evaluate the proposal.</p> <p>Members of Executive Committee</p> <ul style="list-style-type: none"> Mr. G. K. Pillai (Chairman of the Audit Committee) Former Indian Administrative Services officer and former Home Secretary of India 	14 October 2020

Process and rationale for considering amalgamation of rail track assets

	<p>and worked in departments like surface transport and defense. (Link to the Profile)</p> <ul style="list-style-type: none"> • Mr. P. S. Jayakumar Former Managing Director & CEO of Bank of Baroda. with domain expertise in Banking Finance. (Link to the Profile) • Mrs. Nirupama Rao Former Foreign Secretary of India, with deep experience in foreign relations in various areas. (Link to the Profile) 	
2	Submission of business case by the internal Business Team to the EC.	14 October 2020
3	First EC meeting held to discuss the proposal.	14 October 2020
4	<p>EC appointed two external agencies each for valuation of the proposed asset and fairness opinion on the valuation, who were selected based on predefine criteria with relevant experience in the field of valuation and merchant banking.</p> <p>The EC also appointed a legal counsel for advice. (Details in Table - 2)</p>	25 November 2020
5	Commencement of due diligence by the Independent valuers.	09 December 2020
6	EC met to discuss valuation methodology and business case with independent valuers.	02 February 2021
7	EC met the appointed valuers to conclude on valuation.	02 March 2021
8	Executive Committee unanimously recommended the final valuation and provided their report to Board of Directors through the Audit Committee.	3 March 2021
9	The Audit committee attended only by independent directors, discussed this proposal on 3 rd March 2021 and recommended for consideration of the board of directors.	3 March 2021

Process and rationale for considering amalgamation of rail track assets

10	The Board of directors in its meeting held on 03 March 2021, discussed the proposal and approved the same unanimously.	03 March 2021
11	Outcome of the board meeting was intimated to the Stock Exchanges, followed by an audio call with Investors (Link to the Transcript).	03 March 2021
12	Report issued by Ernst & Young LLP, in respect of compliance of the "policy on related party transactions for acquiring and sale of assets"	20 March 2021
13	The application along with Composite scheme of arrangement (Scheme) and other documents were submitted to the Stock exchanges for their No Objection Certificate.	31 March 2021
14	No Objection Certificate received from the Stock Exchanges.	09 July 2021
15	Filing of the application with Hon'ble NCLT, Ahmedabad bench, for calling NCLT convened meeting of Equity shareholders, Secured creditors, Unsecured creditors of APSEZ to consider and approve the Scheme.	16 July 2021
16	NCLT passed order for convening meeting of Equity shareholders, Secured creditors, Unsecured creditors of APSEZ to consider and approve the Scheme on 20 September 2021.	09 August 2021

Table – 2 - Details for agencies appointed for valuation, fairness opinion

SL. No.	Name of the Agency	Purpose	Date of Report	Link of report
1	Deutsche Equities India Pvt. Ltd.	Reviewing business Case. Valuation of the transaction	03 March 21	(Link)
2	BDO Valuation Advisory LLP	Valuation of the transaction	03 March 21	
3	J. P. Morgan India Private Limited	Providing a fairness opinion	03 March 21	
4	J M Financial Limited	Providing a fairness opinion	03 March 21	
5	Singhi & Co	Drafting and finalization of Scheme	03 March 21	

3. Summary of Sarguja Asset

Table - 3

Sl. No.	Particulars	Details
1	Length of the Track	70 Kms
2	Track Capacity	16 rakes per day
3	Land Lease period	50 Years
4	Counter Party	RRUVNL
5	Contract Period	30 Years TAU
6	Potential throughput of the vicinity	100 MMTA
7	EBITDA Margin	~85%

It's a Viable, economical & less polluting compared to transport –Road

Table 4 - Sarguja financial numbers

Particulars	FY18	FY19	FY20	FY21
Cargo Volume (MMT)	3.6	10.6	14.4	15
Revenue (Rs. Cr)	50	368	417	452
EBITDA (Rs. Cr)	30	325	357	398
EBITDA Margin	68%	88%	86%	88%

Post completion of the transaction FY22 financials of Sarguja will be consolidated with APSEZ with effect from 1st of April 2021 (appointed date of 1 April 2021 under the Scheme).

4. Rationale for acquiring Sarguja Asset

- The transaction will create value for all stakeholders from the day one as it is EPS accretive.

Process and rationale for considering amalgamation of rail track assets

- All rail assets are under one entity, with no competing business within the group.
- Significant growth potential is available as the business is yet to mature.
- Secured long-term contracts with sovereign equivalent counterparty providing earnings stability.
- Improved inter-company capabilities for development, O & M efficiency with high EBIDTA margins.
- The asset is a critical and environment friendly part of the transport infrastructure to connect the mines in the basin to the nearest nodal point.
- The asset is well placed to capture the opportunity of non-Adani mines in the basin as well in future to be potential customers with visibility of 40 MMTPA of capacity.

As an annuity business with a constant stream of cash flows and with a sovereign equivalent counterparty, the risk of the business is minimum at the same time the growth opportunity is immense thus making it a value accretive deal for the shareholders of APSEZ.

5. Valuation of proposed Sarguja asset.

Table - 5

Valuers	Method of Valuation	Date of Report	Derived value of assets
Deutsche Bank	Discounted Cash Flow WACC assumed 10.3%	03 March 21	EV in the Rs.5,931 cr (Range of Rs.5,662 cr to Rs.6,200 cr.)
BDO Valuers	Discounted Cash Flow WACC assumed 10.5%-11%,	03 March 21	EV Rs.5,977 cr.

This amalgamation will not only integrate all the rail assets under one roof, but also create immense value for all shareholders as this acquisition will be value accretive from day one.

The asset is going to add immense value to APSEZ as it is EPS accretive from day one.

6. Purchase Consideration for Sarguja

The purchase consideration will be paid by issuing common equity shares of APSEZ to the outgoing ultimate shareholders of Sarguja (Brahmi) as under:

For 708 equity shares of Brahmi, APSEZ will issue 100 equity shares to the member of Brahmi as consideration.

With this transaction 7.06 cr of new equity shares will be issued to the members of Brahmi, thus increasing the total outstanding equity shares of APSEZ to 211.23 cr shares.

As this transaction is done through an equity swap, there will be no cash outflow from APSEZ and no impact on its leverage position.

A detailed presentation ([Link](#)) on the asset to be acquired was disclosed to all stake holders through stock exchange notification dated 03 March '21, which was also uploaded on the website of APSEZ and was shared with all the stake holders.

Apart from the amalgamation of Brahmi (holding company of Sarguja) with APSEZ, as a part of internal restructuring (outside the purview of “policy on related party transactions for acquiring and sale of assets”) to consolidate all rail assets under one roof the following external agencies were also appointed.

Table 6 – Amalgamation of Adani Tracks with Sarguja & Transfer of the Divestment Business Undertaking (Mundra Rail Business) from APSEZ to Sarguja

Sl. No.	Name of the Agency	Purpose	Date of Report	Link of report
1	BDO Valuation Advisory LLP	Valuers for amalgamation of Adani Tracks with Sarguja and Divestment Business Undertaking (Mundra Rail Business)	03 March 21	(Link)
2	Y. K. Mehta & Associates, Chartered Accountant	Lump sum consideration for transfer of the Divestment Business Undertaking (Mundra Rail Business)	03 March 21	
3	Vivro Financial Services Private Limited (“Vivro”),	fairness opinion on the report of valuers	03 March 21	

Based on the above valuation reports and fairness opinion, composite scheme of arrangement of amalgamation of rail track assets was initiated on 03 March '21 .

In order to consolidate the various rail assets, the following transactions are proposed under composite scheme of arrangement which will result in

- Brahmi (parent of Sarguja) to be amalgamated with APSEZ
- Divestment of Mundra rail busines from APSEZ to Sarguja.
- Adani Tracks to be amalgamated with Sarguja.

Details of share swap for:

1. The amalgamation of Adani Tracks with Sarguja:

100 Sarguja Shares, credited as fully paid-up, for every 2,522 equity shares of the face value of Rs. 10/- (Rupees ten) each fully paid-up held by the member in Adani Tracks. Sarguja Shares to be issued by Sarguja to the shareholders of Adani Tracks.

2. Transfer of the Divestment Business Undertaking (Mundra Rail Business)

Sarguja shall pay a lump sum consideration of Rs. 188.65 crores (Rupees one hundred eighty-eight cores and sixty-five lakhs only) to APSEZ for transfer and vesting of the Mundra Rail Business, by APSEZ to Sarguja, by way of Slump Sale basis.

Conclusion

- The transaction is value accretive from the day one.
- It will help accelerate our journey to 750 Kms track length by 2025.
- Significant synergies in cost will be derived by consolidation of knowledge and resources.
- Kick starts the annuity platform that we envisioned.
- It gives APSEZ significant strength to participate in next rounds of PPP projects of Indian Railways.

The amalgamation of rail assets will ensure that no similar businesses amongst Adani portfolio are competing and confirm full alignment of equity interest with minority shareholders which will ultimately create immense value for all the stakeholders.