"Adani Ports and SEZ Limited

Q3 FY'24 Earnings Conference Call"

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Moderator: Ladies and gentlemen, good day, and welcome to the Adani Ports and SEZ Q3 FY '24 Earnings Conference Call. 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 this conference, please signal an operator by pressing star then zero on your touchtone phone. Please note that this call is being recorded.

I now hand the conference over to Mr. Alok Deora from Motilal Oswal Financial Services. Thank you, and over to you, sir.

Alok Deora: Thank you, and very good evening to everyone. So I welcome you all to the Q3 and 9-month ended FY '24 Earnings Conference Call of Adani Ports and SEZ Limited.

So today, we have with us Mr. Karan Adani, Managing Director, Adani Ports and SEZ; Mr. Ashwani Gupta, CEO, Adani Ports and SEZ; Mr. Subrata Tripathy, CEO, Ports Business, Adani Ports and SEZ; Mr. Sushant Mishra, CEO of Adani Logistics; Mr. D. Muthukumaran:, CFO, Adani Ports and SEZ; Mr. Charanjit Singh, Head of Investor Relations and ESG, Adani Ports and SEZ.

Without any delay, I would now like to hand over the call to Mr. Karan Adani for his opening remarks. Thank you, and over to you, sir.

Karan Adani: Thank you. Good evening, everyone, and welcome to the conference call for the quarter and 9 months ended 31st December 2023, to discuss the operational and financial performance of APSEZ.

APSEZ delivered its strongest ever quarterly and 9 months performance with record volume -- cargo volumes, revenue and EBITDA. Starting with the financial performance of the quarter, operating revenue for the quarter was at INR6,920 crores, which is a robust 45% year-on-year growth. EBITDA after excluding the forex impact is INR4,186 crores, which is a good 39% year-on-year growth. Constant focus on improving operating efficiency yielded results as the domestic port EBITDA margins improved by around 170 basis points to 71%. Profit after tax increased by 65% year-on-year to INR2,208 crores.

Now moving to the operational highlights for the quarter. We recorded a strong 44% year-on-year increase in cargo handling volume at around 109 million metric tons. The growth was reported across all 3 major cargo categories, with dry bulk registering a 65% year-on-year growth, container 27% year-on-year and liquids which includes gas, 16% year-on-year.

During the initial 9 months of the financial year, we have achieved various operational and business milestones, which include, the first one, APSEZ handling 300 million metric tons of cargo in a record time of 266 days, breaking its previous record of 329 days in FY '23.

Mundra Port recorded highest ever monthly cargo volumes by any Indian port of 16 million metric tons in October of 2023. Our CT3 terminal at Mundra Port handled more than 300,000 TEUs in November '23, the highest ever monthly volume handle at any container terminal in the country. And number 4, extending, we extended our partnership with MSC with a JV for Ennore Container Terminal.

Moving to operational performance of Logistics business. Adani Logistics Limited recorded its highest ever volume across segments with rail volume of around 158,000 TEUs, up 17% year-on-year, while GPWIS volumes were at 5.29 million metric tons, up 53% year-on-year.

During the current financial year, we commissioned the Loni and Valvada ICD, taking the total count of MMLPs to 11. We have added warehouses at Indore and Mumbai. Thereby taking the total warehousing capacity to 2.4 million square feet. We have also added 23 rakes to our existing fleet, thereby taking the total count of trains to 116 as of December end. Order has been placed for another 15 rakes.

This strong operational performance has translated into robust cash flows for the company. As a result, our net debt-to-EBITDA ratio as of 31st December 2023, stood at 2.5x versus 2.8x at the beginning of the quarter.

Recently, the S&P Global Ratings have also revised the credit outlook of APSEZ to stable from negative earlier. Moving forward, we are confident of overachieving our full year volume, revenue and EBITDA guidance provided at the start of the year. We have already revised our FY '24 cargo volume guidance to over 400 million metric tons versus our earlier guided range of 370 million to 390 million metric tons.

With this, we can now open the forum for Q&A.

Moderator: Thank you very much. We will now begin the question-and-answer session.

Charanjit Singh: Moderator?

Moderator: Yes, sir.

Charanjit Singh: Some people are facing an issue with respect to logging in. Can you ask somebody to check it out?

Moderator: Yes, definitely, sir. We have the first question from the line of Bharani Vijayakumar from Avendus Spark.

Bharani Vijayakumar: Congratulations on a very good 9-month performance. Can you highlight...

Karan Adani: Sorry. Can you speak up? We can't hear you. Sir, can you speak up?

Bharani Vijayakumar: Yes. Is this better now?

Karan Adani: This is little better.

Bharani Vijayakumar: Okay. Okay. I just wanted some color on what are the key drivers driving the phenomenal cargo growth in volume terms, say, if you can touch upon drivers for coal, containers, gas and liquid and probably also give an outlook on how do you think this will progress in the next one year?

Karan Adani: Sure. So I think, firstly overall driver is the economy. I think we are seeing strong demand across the board. Also, the second is the strong capex cycle that we are seeing. Because of that, a lot of

-- we are seeing increase in power consumption. We are seeing increase in steel production and -- as well as manufacturing coming in.

So I think overall, what we are seeing is the overall growth in the economy. And because of that, a lot of these factors are playing out. I think from a coal perspective, we are seeing both the steel production as well as the power generation is much higher than what it was in Q2. And we do see that this trend to continue.

For container, again, it is predominantly the manufacturing base, which is increasing and the exports of manufacturing -- manufactured goods are going up. So these are the main reasons. I think we believe that on a medium-term basis, so next year, we expect the country to grow at anything between 6.5% to 7% GDP growth. And I think more importantly, the growth will be more driven by manufacturing and infrastructure. So because of that, we will see a higher growth rate in the overall volumes.

Bharani Vijayakumar: Sure. Okay. That's helpful. My second question is on the Haifa Port. Could you give us some sense on volumes for, of course, volumes are given, but realization and the EBITDA, PAT for this particular port in the 9-month period?

D. Muthukumaran: So you asked for actually volume. We'll start with volume on Haifa Port. This is Muthukumaran. In the quarter, we had a volume of around 3 million, which is a marginal increase compared to what we had in the corresponding period of the previous year. And in terms of EBITDA, again, you've seen a corresponding increase based on the volume.

Bharani Vijayakumar: Can we have the absolute number in terms of revenue, EBITDA and PAT for this quarter?

D. Muthukumaran: Okay. I'll come back to you during the call.

Charanjit Singh: We're currently not reporting it. We're reporting on consolidated basis for our international operations. But at the time of full year results, we could give more color around it.

Moderator: The next question is from the line of Parash Jain from HSBC.

Parash Jain: My question is more around the fact that Adani Port has already achieved its fiscal year and debt-to-EBITDA target of 2.5. And given your strong cash generation north of INR15,000 crores EBITDA. Can you give us a picture of how should we think about your capital structure, growth opportunity, both within India, outside India, logistics and ports? And then or -- you are actually ready to drive net debt-to-EBITDA to even lower level in a scenario of not finding any suitable target.

Karan Adani: Parash, you will have to be a bit louder.

Parash Jain: Dialling from home. Is it any better?

Karan Adani: Yes, okay. Ask questions, one by one.

Parash Jain: Yes. So what I was asking is the fact that the group has already achieved its full year deleveraging cost of 2.5x net debt to EBITDA. Over the next 12 months, given the strong

EBITDA that we are likely to generate, how should we think about capex organic, inorganic within India, outside India, or we -- you will be comfortable driving this net to EBITDA to even lower level?

Karan Adani: I think we would continue to be around 2.5x, net debt to EBITDA. I think from a capital allocation, from a growth perspective, as you know, we would keep looking at overall volume to continue to grow the way we have grown this year. And predominantly, we are very comfortable in terms of our capacity addition that we have done this year to take us -- to carry on with the growth of -- for the next year as well.

Inorganic, it is very hard to give answer to. But I think on a larger picture, broader view, you should consider 2.5x as the milestone that we would look at as main target.

Moderator: The next question is from the line of Asmita Sidhhu from MetLife Investment.

Asmita Sidhhu: I just have a question regarding the whole disruption that's going on in the Red Sea. Have you seen any significant impact to the cargo coming in and out of Haifa? Or have they sort of still been normal BAU?

Karan Adani: Yes. So from Haifa perspective, we have not seen a major impact in terms of our volume. Our volumes have remained steady and marginally increased at Haifa. And so far, we don't see any disruption happening because of that.

Moderator: The next question is from the line of Pulkit Patni from Goldman Sachs.

Pulkit Patni: My question is for Mr. Ashwani Gupta. Sir, you come from a different industry and a country which is obviously known for precision and making things even more perfect. I wanted to just understand what are going to be your key target for the port company over the next few years. If you could give a sense of how should we look at areas of efficiency, etcetera, that you will be focusing on?

Ashwani Gupta: Thank you. That's a great question. When -- I spent 31 years in automotive industry, the things which are in common with automotive industry and the port industry, both are very captive-intensive industries where you need to maximize the return on investments, which means the capital allocation is the key success factor in this industry.

In addition, the product life cycle is also very important. Now what has happened in auto industry in the last 5 years, that supply chain has become the core function of the automotive industry, which means the need for last mile supply chain, end-to-end supply chain using the technology platform will drive this industry in future for the most effective and efficient operations. So that's what I take it, not only from Japan, but the whole industry.

I mean, during the COVID, we went through semiconductor prices, then we went through Suez Canal crisis, then we went through many other crisis. All have taught us that supply chain efficiency and effectiveness drives the business operations whatsoever is the industry, auto or non-auto. That's what is my takeaway.

Pulkit Patni: Sure, sir. My second question, either for Karan or for Subrat. It's good that you've disclosed the volumes on coastal coal shipping. Can you give a sense of how big this opportunity could be, what are our plans in domestic coastal transportation? That would be the second question.

Subrat Tripathy: Well, thank you. You have actually asked a very, very contemporary matter. We have been guiding you that coastal coal is an opportunity in line with what government has been saying about Atmanirbhar and the rise in the coal India's volumes and also private mining coming into India. So we see that our ports on the eastern side, especially when we look at our port in northern most at Dhamra, it's proximity to Talcher and that we have been seeing a volume upsurge at Dhamra consistently, which hitherto was not a feature. And thereafter -- so from Talcher into Dhamra port and into the southern ports of both Krishnapatnam, Karaikal, which is both in our portfolio.

Similarly, we are seeing an alignment between the MCL, subsidiary of Coal India from the coal fields of -- into Gangavaram, where we are best placed and we've been able to get this cargo, again, going towards the southern powerhouses, namely into Tamil Nadu powerhouses. This is at a volume of more than 3.5 million, which hitherto did not exist. Again, we are seeing an upsurge. These are the 2 ports where we will be getting coastal exports out and the port that will receive the coastal imports in, in South India would primarily be Krishnapatnam and Karaikal.

We've also seen for the first time after a long revival, a movement of coastal coal coming on from the eastern -- especially from the Odisha belt going into coastal shipping and into the RSR route into our Goa terminal as well some little volumes consolidating into our Dahej terminal going forward into North Indian powerhouses. So this is certainly a very large upsurge, and we see that consolidating in the future with our appropriate presence both in the proximity of the coastal fields in Eastern India and receiving in Southern India and Western India terminals.

Pulkit Patni: Any numbers, what this number could look like in 2, 3 years?

Subrat Tripathy: Well, at the moment, before we began this year, we are already consolidating 9 months and close to about 2.8 million metric tons and when I look at Q3, it's the first time that we've actually come out, we've seen a consistency about more than about 8 million every year if I look at a quarter basis. In the years to come, next year, we are looking at the volumes of about close to 5 million to begin with as far as coastal exports is concerned.

And whereas coastal imports are concerned, they'll be in the range of more about I should say, beyond about 8 million tons at Krishnapatnam and Karaikal together. And Goa is a terminal which has a capacity to handle only 5 million metric tons. So it will be about close to 1 million over there.

Dahej is a rally that we are looking at resettlement. So I would say coastal exports will be in the range upwards of about 5 million to 6 million next year. Receipts will be in the range of about -- because we receive also from Paradip port, at Krishnapatnam and Karaikal, will be in the upward region of about 8 million to 10 million tons.

Moderator: Thank you. The next question is from the line of Nikhil Nagania from Bernstein. Please go ahead.

Nikhil Nigania: My first question is the developments around Red Sea. How do they impact your volume? Have you seen any impact on port volumes in January due to that?

Karan Adani: Roughly 10% of our total volume travels through Red Sea. So as of now, we have not seen any major drop and we keep an eye on it. But so far in January, we've not seen any major drop.

Nikhil Nigania: Understood. Thank you. The second question I had was around the Tajpur port in West Bengal. Any developments or updates on that front?

Subrat Tripathy: We continue to hold the position that we received the LOI and we are expecting the West Bengal government to award the LOA, letter of award to us. And consequent to that, we will begin redevelopment of the port. We continue with the stand that we had guided last time.

Nikhil Nigania: Got it. That's helpful. One more question, on the capex guidance, if you could share -- good to see the numbers up for volume and revenue. If you could share the guidance for capex for this year as well?

Charanjit Singh: For the current year, in the 9 months, we have done close to INR5,500 crores of capex. For the full year, you can go on a pro-rata basis largely. For the next year, we will guide at the time of our full year results.

Nikhil Nigania: Understood. Thank you so much. Those are my questions.

Moderator: Thank you. The next question is from the line of Achal Lohade from JM Financial. Please go ahead.

Achal Lohade: Two questions. One is on the coal. I see that, obviously, this quarter is also positively driven by the coal volumes. Does this coal volume come at a lower margin, same margin, better margins than the India port margins?

Karan Adani: Sorry, I didn't understand your question.

Achal Lohade: So what I'm saying is that there is a fair amount of delta which is playing out with respect to the coal mix, right? What I wanted to check, the handling of the coal cargo, is it margin dilutive, margin accretive or it's a similar margin?

Karan Adani: It's similar margins. Coal roughly gives us anywhere between 68% to 72% depending on port...

Achal Lohade: Even for the coastal...

Karan Adani: Yes, yes, yes. I'm giving you a blended. So including the coastal, it is giving us a -- port to port, it gives us anywhere between 68% to 72%.

Achal Lohade: Great. The second question I had was with respect to the rail logistics. We've been showing our fantastic growth on this -- the container train operation business. Can you help us understand what is the market share, as of now we have or for third quarter, we have and how do you see it evolving over the next, let's say, 2 or 3 years? What are the plans here in terms of -- apart from the existing MMLPs? What else in terms of the container mix or what we could see in the logistics segment?

Karan Adani: I'll request Sushant sir to answer on the market share and then I'll answer the other part.

Sushant Mishra: Our present market share is 12% in the EXIM business and which is the major part. And for the long term, Karan Adani will answer it.

Karan Adani: On the long term, as you know, there are 3 parts to our logistics business that is container logistics, agri-logistics, silo business. And the fourth is the bulk logistics, which is GPWIS. As mentioned earlier, and if you have seen our 5-year guidance, our target is we want to take up our rake count from roughly which is today at 115, we want to take it up to 300 by FY'28. And predominantly, it will be driven by GPWIS followed by container business.

Our target is from a container point of view, we want to add 2 more MMLPs, one more in North India and one in Mumbai region that we will be looking to commission in the coming 3 to 4 years' time. Apart from that, on the bulk volume, as you remember, we started this business because to give surety of supply chain to large customers, from our ports into their plants. And we are very confident that this business will continue to grow in the same fashion as what we have been growing for the coming 5 to 6 years' time. So that's how we look at the logistics business right now.

Achal Lohade: Understood. I think this is very helpful. I'll come back for follow-up questions. Thank you.

Moderator: Thank you. The next question is from the line of Atul Tiwari from Citigroup. Please go ahead.

Atul Tiwari: Congrats on a very strong set of results. Just a question on your capital return policy. Now that things have substantially improved, both in terms of the profitability of the company and the underlying cash flows, and you have achieved your targeted leverage. So would you kind of look to return back some capital through buybacks, etcetera, to the shareholders? Any thoughts along that line over next...

Karan Adani: As you know, we have in our capital policy, we have dividend of 22%, 25% of our PAT. So we will look to stick to that policy, sir. We will figure out what is tax efficient, whether it is buyback or dividend, that we will see. But otherwise, it is predominantly what we have given in our policy.

Atul Tiwari: Okay, thanks.

Moderator: Thank you. The next question is from the line of Priyankar Biswas from BNP Paribas. Please go ahead.

Priyankar Biswas: So I would harp back on the logistics part of the business. So like -- would it be possible to share what is the, let's say, the EBITDA of the containers and the -- sorry, the AALL business out of the entire EBITDA that you are reporting for logistics? And what is the outlook for this specific segment, if you can give some numbers?

Charanjit Singh: So Priyankar, as you know, that we have been reporting consolidated numbers only for individual business segment wise. So we'll continue that stand for the time being. And probably next year, we will analyse whether it is useful for us to give the subsegment numbers. But at this point in time, no change in our position with respect to the reporting standards.

Priyankar Biswas: Sir, if you can give the direction for AALL. So where we are and where we should be seeing, let's say, in a 2-, 3-year horizon, if you can throw some color on that?

Charanjit Singh: So if you look into our overall logistics EBITDA numbers, margins in FY2017-18 were around 17%-18%, and today, we are at 29%. So there has been a good 11% increase, which is also contributed by AALL segment, given that we have commissioned 1.1 million metric ton of silo capacity.

Looking forward, by FY'26, based on the bids that we have currently won, the silo capacity should be at 4 million metric tons. So with the increase in the weight of agri silo business, the margin should ideally improve from the current levels. Our overall expectation is more towards, you can say closer to 50% when the whole logistics business segment has stabilized.

Priyankar Biswas: So does this include a potential ramping up of the commercial warehousing business also? Does that include that as well?

Management: It includes all the different segments. And of course, warehousing, agri silo and bulk trains are very important components in terms of driving that margin.

Priyankar Biswas: And if I can squeeze one more question in. So our port in Mundra is already connected to the Western DFC so has there been any noticeable shift from road to rail? And is this a reason why we are getting some advantage vis-a-vis other ports in terms of market share? If you can comment something on that?

Subrat Tripathy: You would recollect, we had clarified, and I wish to once again get the statistics right. Mundra's distance to the NCR region has an advantage of about 100 kilo meters above Pipavav and close to about 330 kilo meters over JNPT. And also the fact that Mundra has got the continuous DFC advantage of the dedicated freight corridor on which we can also run the double-stack trains, so we're actually seeing an upsurge.

So in the double-stack ratio, which was earlier at about close to 54%, we are now seeing an upsurge on the double stack to beyond 63% in double stack. The -- so the rail coefficient is at a level of about 33%, 34% at Mundra per se. But the double-stack ratio, which has significantly grown up from the level of 54% last year to about 63%, and that's only accruing out of the continuous DFC which has since been connected, both on the main line as well as the subsidiary feeder route through the JV company in which we have participated.

So this gives us an advantage of double stacking as well as the relative distance advantage over the main competitors of Pipavav and JNPT. And it's also the fact that between Mundra and Patli and through the ALL rakes that we are able to operate, so we make a very clinching evidence of being -- getting the rail share and the percentage of advantage accruing to us.

Priyankar Biswas: Okay. That's very clear. And if I just add on this aspect, so I'm also aware that probably DP World is probably trying to develop a large container terminal at Kandla and there may be expansions on Salaya port as well SR. So is there enough cargo in the hinterland to accommodate such increases? If you can comment on that.

Karan Adani: Yes. So I think if you see overall, if the country has to reach -- as to double the economy by 2030, end of the day, that means you are doubling your overall trade and if you see on the West Coast, the kind of capacity addition that is possible from existing port, that will not take us to where the country wants to reach. Eventually in our view, there is enough space for everybody to continue to grow.

Priyankar Biswas: Thank you so much. That's very clear.

Moderator: Thank you. The next question is from the line of Aditya Mongia from Kotak Securities. Please go ahead.

Aditya Mongia: I had 2 questions from my side. The first question was on the overall logistics business that while we've seen a lot of capex being spent, it's not reflecting the same amount in EBITDA, the value of the company. The ROIC of 6% today for that portfolio, by what time can you see that coming up to par with the ROIC of the company?

Karan Adani: So I think on logistics, we should expect in next 3 years, the ROIC should come closer to what the company level is because we are in the growth stage, we are in the build state. So a lot of assets are being built and then the ramping up will take 2 to 3 years. So I think 3 years' time is what we should -- you should expect.

Aditya Mongia: Understood. And let's say, post reaching that stage, would logistics still continue to command a fairly large part of our capex? How should we kind of think about it?

Karan Adani: I think it's difficult to answer that right now, to be honest. I can only give you a three year view.

Aditya Mongia: Understood. The second question that I had was more -- so investors do kind of think through a risk that JNPT poses to Mundra post the commissioning of the western DC. This is something that the company believes isn't as significant or what is the view of the company on the resurgence of JNPT, if any, after the DFC comes up?

Karan Adani: So to be honest, our view is JNPT capacity addition is actually behind their demand. So we don't see impact of it on Mundra. Rather, we think that with this addition, it will help -- I mean this additional capacity is needed because right now, JNPT is running at a much higher utilization. They are running at a utilization, which is not sustainable. So in our view, it will just help in taking the growth of Maharashtra and sought Gujarat and we don't believe that DFC will actually end up -- DFC commissioning will actually end up hampering the volumes of Mundra. So we don't see any risk posing out of it.

Aditya Mongia: Understood. Those are my questions and thanks, Karan, for your response. Thank you.

Moderator: Thank you. We have the next question from the line of Alok Deora from Motilal Oswal. Please go ahead.

Alok Deora: So my question is more on the logistics business. So we have seen phenomenal growth, which is much higher than what the industry has grown. In fact, in this year, most of the industry is struggling and still we have kind of delivered a pretty solid growth. So how do we see this growth moving ahead because this is one business where we see a lot of these unorganized players also being present in this segment. So how are we looking at the growth? Has the shift happened or it's still 3, 4 years away where we actually continue to grow at pretty decent growth rates?

Karan Adani: No, I think for us, logistics business minimum next 5 years, we continue to grow at the current pace or if not current pace, even higher than the current pace. That is our target. There is a lot of opportunity, both on container bulk, agribusiness. So we continue to -- we are very bullish on it, and we believe that the current growth rate is the bare minimum that we will be doing. Actually, we'll be doing even more than what we have been doing so far.

Alok Deora: Sure. And also when we kind of started this business, and we were looking to provide it as an integrated solution to customers, so just any ballpark proportion as to how much of the customers are taking our blended service versus customers who are only taking the port services. So is it like customers are kind of taking it as a combined solution so that our logistics business is also doing well and port business and which was doing well?

Karan Adani: Yes. So if you see our GPWIS business, which is roughly 5 million tons per quarter that is a fully integrated solution. So that is linked with the ports and then last-mile delivery all the way to their plants. And that will continue to be a fully integrated solution as we keep growing. On the container side, roughly 20% of our volume is a fully integrated solution. Rest, 80% depends on the port and depends on the other intermediaries who operate.

Alok Deora: Sure. But just last question from my side. Also you briefly touched upon the Red Sea, not much impact actually coming through. So if the issue kind of sustains for one more quarter, do we see any impact because we believe the freight rates have actually gone up after this issue has come up and it's taking longer time for ships to kind of complete the journey? So any color on that, please?

Karan Adani: Yes. So more than the freight rate, it is the supply chain disruption. We do -- if this does continue, we do foresee shortages of containers, which will happen and shipping lines missing their schedule and more disruption on the overall supply chain. We do believe that if this continues for a longer term, it will have a marginal impact on the overall volumes, especially for India.

Alok Deora: How much could be the impact for us? If any number you could indicate, how much volumes could be impacted in the worst-case scenario?

Karan Adani: As I said, 10% of our total container volume moves through this route. So not necessarily full 10% will get impacted, but part of it can be impacted.

Alok Deora: Got it. That's all from my side. Thank you, sir.

Moderator: Thank you.

Charanjit Singh: Operator, if -- in case there are no further questions, then we can end the call.

Moderator: Sir, we do not have any participants in the queue at the moment.

Charanjit Singh: So okay, then we'll end the call. So ladies and gentlemen, thank you very much for taking out the time and joining the call. We will be connecting again at the time of our full year results. Have a nice evening, everyone. Thank you.

Moderator: Thank you. On behalf of Motilal Oswal Financial Services, that concludes this conference. Thank you all for joining us. You may now disconnect your lines.