



“Adani Enterprise Limited Q2 FY20 Earnings  
Conference Call”

**November 13, 2019**



**MANAGEMENT: MR. VINAY PRAKASH – CEO, MINING AND ICM,  
ADANI ENTERPRISES LIMITED  
MR. RAMESH NAIR – CEO, MUNDRA SOLAR PV  
LIMITED  
MR. ROBBIE SINGH – CFO, ADANI ENTERPRISES  
LIMITED**

**Moderator:** Good Morning, Ladies and Gentlemen, welcome to the Adani Enterprises Limited Q2 FY20 Earnings Conference Call. We have with us today on the call Mr. Vinay Prakash – CEO, Mining and ICM 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 ‘\*’ and then ‘0’ on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Robbie Singh – CFO, Adani Enterprises Limited. Thank you and over to you, sir.

**Robbie Singh:** Good Morning this is Robbie Singh – CFO of Adani Enterprise. The board of directors of Adani Enterprise has adopted the Quarter 2 FY20 results. AEL continues to incubate new projects and turning them into successful business ventures on their own right. On demerger of two more business Adani Green Energy Limited and Adani Gas Limited, our shareholder return is at a CAGR of 52% over the past two years. If you go back to 1994 since when we listed, the model of value creation has delivered a returns of a CAGR of over 30% to shareholders. This has been another quarter of resilient performance. Our MDO, integrated coal management, solar manufacturing and other businesses have shown good progress despite contraction in economic activity and global slowdown.

Coming to the financials on a year-on-year basis consolidated revenue for half year FY20 has increased by 14% to Rs. 19,313 crore and EBITDA grew by a very healthy 39% to Rs. 1,436 crores versus Rs. 1,036 crore in HY FY19. For quarter-on-quarter basis consolidated revenue of Quarter 2 FY20 stood at Rs. 8,627 crore and EBITDA at Rs. 540 crore versus Rs. 552 crore in Quarter 2 FY19. The company stays focused on selective incubation opportunity and to that end continues to

make investments in road, water, airports and data centers businesses. I will hand over to Vinay to take you through the business highlights of mining first.

**Vinay Prakash:** Good Morning. As far as the mining and services business is concerned in mining and service business the company is MDO for 10 coal blocks with a peak capacity of 100 plus million metric tons per annum including two projects which are at LOA stage. Further the company has two MDO projects for iron ore with peak capacity of 16 million metric ton per annum. These 12 projects are located in the state of Chhattisgarh, Madhya Pradesh and Orissa. We also forayed in the Washery service business and we have received LOI for Hingula Washery project for 10 million metric ton from MCL. Our mine Parsa East and Kante Basin was developed and – operationalized in record time of 3.5 years after its exploration. Further, it is the first and the only captive coal mine in the country producing at peak capacity of 15 million metric ton.

We have also opened GP3 mine in April 2019 and Talabira-2 and 3 which is at advance stage with all the approvals in hand and we are hoping of starting it at any day now. Coal mining production stood at 2.95 million metric ton whereas dispatch volume of 2.32 million ton in Quarter 2 FY20 against the production volume of 3.19 million metric ton with the dispatch volume of 3.09 million metric ton in Quarter 2 FY19. In H1 FY20 EBITDA rose by 27% to 532 crores versus 418 crores in H1 FY19. The fall in the volume was primarily on account of excessive and extended rain in Chhattisgarh in Quarter 2 as compared to the same period of last year.

Talking on the other business of ICM, the company provides end-to-end procurement and logistics services to its customers. We have developed business relationship with diversified customers across various end user industries. The ICM business continues to maintain a leadership position as the number one player in India. It has continued to deliver the industry

leading performance with the ICM volume increasing by 7% to 15.95 million metric ton in Quarter 2 FY20 versus 14.84 million ton in Quarter 2 FY19. The company maintained the steady volume growth in spite of prolonged monsoon in the current quarter.

Now I will give it to Mr. Ramesh Nair.

**Ramesh Nair:** Mundra Solar PV Ltd has the largest integrated solar manufacturing facility in India along with R&D and electronic manufacturing cluster with capacity of 1.2 GW. The plant got operational in FY18. The last quarter and the first half of the current year has been a significant improvement in the performance and a huge growth. In Q2 FY20 the solar module volume increase by 79% to 278 megawatt versus 156 in Q2 FY19 and EBITDA grew to Rs. 92 crores against loss of Rs. 33 crore in Q2 FY19. The EBITDA margin improved due to healthier operation performance and better price realization and a better product mix. In H1 FY20, solar module volumes increase by 117% to 515 megawatt versus 237 megawatt in H1 FY19. EBITDA also grew to Rs. 158 crores against the loss of Rs. 62 crores in H1 FY19.

**Moderator:** Thank you. Ladies and Gentlemen, we will now begin with the question and answer session. We will move on to the next question that is from the line of Nirav Shah from GeeCee Investments. Please go ahead.

**Nirav Shah:** Sir, couple of questions on the MDO business front you mentioned that GP3 and Talabira will come in soon, so how do you see the ramp up of these two mines what is the capacity like combined I mean the first and mining output how do you see the and how much time you see the mine achieving full capacity?

**Vinay Prakash:** So as far as GP3 is concerned GP3 capacity is 4 million ton as per the mine plan and though we have contractual agreement with CSPGCL to take it to 5 million ton this year we are planning to get 0.5 million ton of coal as per mine plan and this mine can be ramped up with the peak

capacity of four or revised five by 21-22. As far as Talabira 2 and 3 is concerned the first year capacity desired as per the milestone of coal is 1.25 million ton and the peak capacity of Talabira 2 and 3 is 20 million ton which is in year five. Now subject to the requirement of customer and the pressure from MOC this peak capacity can be tried in earlier years also, but as of now it is in fourth or fifth year now.

**Nirav Shah:** And sir I mean we see that there can be a significant ramp up in mining output in India from the current 12 to 15 million ton run rate, but what is the kind of investment you will need to require to put in I mean these mines I mean GP3 plus Talabira 2 and 3 plus other mines which will be operational say in FY20 and 21?

**Vinay Prakash:** So when we talk about all these mines which we have in MDO business of coal. The investments varies from 500 crores to 2,000 crores per mine depending on what is the work in these mines because scope of work in the mines varies from one mine to other mines whereas in one mine we have R&R commitment with MDO and with another R&R is with the customer with the owner of the mine. So it varies from one mine to another mine also depending upon the state and also on the basis of the land and the forest land availability and land requirement in the particular block.

**Nirav Shah:** Sir, this 500 to 1,000 crore per mine should be over a period of 3 to 4 years?

**Vinay Prakash:** Yes it will be in next three to four years.

**Nirav Shah:** Sir, on the Australia front I mean you mentioned in the last call that somewhere in the first quarter of next financial year we should get the first output I mean you still maintain that target and the initial capacity will be what I mean around 11 million tons?

**Robbie Singh:** The initial capacity will be around 10 million tons because it depends on the mix of wash coal, if we wash all the coal, it will be about 9.5, if we wash less than that then capacity could be up to 15, but we intend to wash all. So we expect that the rail tonnages will be 10. The first coal is expected actually around 2021. The mine can be ready very quickly it is just the logistics. So we expect the rail logistics connections to be completed by May 2021 and so we expect the first coal to be shipped in August 2021. Last time we mentioned that coal can be taken out next year also, but considering the railway line which is a critical path, you will get coal coming out of Australia only in 2021.

**Nirav Shah:** And no further significant investment requirement for this 10 million ton capacity it is we have invested that?

**Robbie Singh:** We have already invested 1 billion just for the mine side and about further investment of USD 600 million is required and on rail USD 1.1 billion is required to complete the logistic chain and the mine works.

**Nirav Shah:** Further investment required on mine you mentioned?

**Robbie Singh:** I mean approximately USD 600 million and on the rail is USD 1.1 billion.

**Nirav Shah:** That is required to achieve this 10 million ton capacity?

**Robbie Singh:** The capacity is actually then higher, but we will produce at 10 million.

**Nirav Shah:** And this is AUD?

**Robbie Singh:** The CAPEX is in USD.

**Moderator:** Thank you. The next question is from the line of Sumit Kishore from JPMorgan. Please go ahead.

**Sumit Kishore:** The value creation track record for shareholders over the last few years had been mind-boggling, could you please talk about the initiatives that

you are pursuing in transport and logistics and utilities and also focus on difference maybe?

**Robbie Singh:** In transport and logistics we are focused in two key areas. One is AEL has airport holding subsidiary company which will develop our airports business and then we also have the road transport subsidiary which will develop our road projects. So those are two very lively projects. We continue to explore our opportunities in metro and rail which are related and also upgradation of rail stations if and when that comes. So we continue to work with relevant authorities on these three as well, but key focus is airport and roads. On the utility side, we have a small water project of Prayagraj for which we have won the concession and it is a part of the clean Ganga program. We will continue to develop our water business as we go along. The other aspect and we call it in the utility space because it is measured in that way is our hyper scale data centers and data centers business. So those are the two areas in the utility space that are progressing, and they are progressing well. In the data center you would have heard that we have an understanding with one of the leading data center providers in the world which Digital Realty. We will develop that business jointly with them at early stage, but we are continuing to work on these, and we are very excited about airport, roads, data centers and water business going forward.

**Sumit Kishore:** So one follow up questions here what could be the total investments is that are envisaged in these areas from the projects that you have on hand right now?

**Robbie Singh:** Our biggest CAPEX investment as far as our concession requirement is in the airport which is approximately Rs. 10,000 crores spread out over the next seven years and that is public. The road projects CAPEX initially is not very large it is in the order of Rs. 1,500 crores. The data center is early stage. We expect initial capex of say about Rs. 1,500 cr similar to our current road capex. The bigger two will be a road and

airports. The roads we expect based on the pipelines that it will be actually 3x in size. So we expect the road CAPEX to reach about 4,000 from the current number. Also in terms of water it is small capex about Rs. 400 crores, it is already committed. One of the road projects is also already committed and the new Greenfield CAPEX is about 10,000 in airports.

**Sumit Kishore:** And my last question sir in defense there is an operational manufacturing facility, could you please update what exactly we are doing there and what is the outlook for the next couple of years?

**Robbie Singh:** In Defense currently we are just focused on developing the ecosystem you know so India does not have defense manufacturing ecosystem. So these are small investment just to encourage local manufacturing. We expect our total commitment on sort of these investments should be in the region of about 400 crores approximately, but there is nothing large because defense works in a very particular way that is in terms of defense contract. So what we are to develop is an ecosystem that you can deliver a contract and we are just focused on that at the moment and primarily in smart technologies on air side the helicopter plane engines etcetera, but mainly focused in creating the ecosystem by which we can then participate in these tenders.

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

**Nirav Shah:** A CAPEX it seems that the first half it was somewhere around (+1,000) crore, so what is the target for full year and if you can just breakup it between the segments I mean large part can be on the MDO, but if you can just break it up segments that would be very helpful?

**Robbie Singh:** You like CAPEX segment wise.



**Nirav Shah:** Firstly a broad number for how much we intend to spend in 20 and 21 and just a broad color on I mean how much will be there in MDO and the incubating businesses?

**Robbie Singh:** The majority of the CAPEX will be the incubating business, MDO is not that heavy. Vinay's areas is not a CAPEX heavy area because there is significant cash flow that is generated from these businesses, so that is not a very large CAPEX area. The majority program is around incubating businesses airports about 10,000 cr, roads currently about 1,500 cr will go to about 4,000 cr as the road projects kick along and our data center business close to about 1,500 cr and the defense ecosystem development expenditures of around 400. So those are the major CAPEX that are expected to unwind over a period of next five to seven years. There is no massively huge CAPEX in terms of significant amount over the next five years other than what has been committed in terms of Australian mine and rail projects.

**Nirav Shah:** And sir last question on the solar manufacturing front I mean we have seen excellent performance in the first half and the current margins are around 16%. So two questions are over here I mean what is the order book coverage like I mean do we have visibility of this 250 to 275 megawatt of run rate for at least say couple of years and what is the coverage of orders in hand?

**Ramesh Nair:** The order coverage in hand is probably in excess of about 700-800 megawatt at this point of time We are building a pipeline of orders with the focus on value addition segment. So we have lot of order book on exports, we have a 150 plus MW order book on EPC solutions in the next six months plus the domestic order and the DCR is supposed to come. So the order book is very healthy, and you could see that the H2 itself would be better than the H1 because of the pipeline that we have.

**Nirav Shah:** And we did margin of around 15 odd percent, is this a sustainable run rate at the current realizations?

**Ramesh Nair:** Yes, it is sustainable because partly coming from shifting as part of the business solutions mode also various DCR this year are in pipeline that has come up by the government and also an excellent cost structure that we are relentlessly focused on for reduction of cost. Combination of all these factors we expect that the margins should remain at that level.

**Moderator:** Thank you. The next question is from the line of Mohit from IDFC Securities. Please go ahead.

**Mohit Kumar:** Sir, I have three questions. First is sir what is the status of three road project have we received appointed date for all three and what is the status of financial closure of each one of them?

**Robbie Singh:** So which project are we referring to?

**Mohit Kumar:** The road portfolio sir the appointed date, financial closure.

**Robbie Singh:** In Road portfolio, one project is under construction, Its financial closure is already achieved. The other two project we are currently going through the financial close process, negotiations with the banks, but they remain fully funded. So we anticipate that they would be on schedule on time.

**Mohit Kumar:** when do you see the appointed date for other two?

**Robbie Singh:** So in terms of the first project which is under development, financial closure is completed with L&T finance and Yes Bank. It should complete in the next financial year. The second project is about two and half year construction period, financial closure done with L&T finance, also rating of A- is received. For the next project, financial closure, because the concession agreement is just signed in end September, we expect to see financial closure by May next year on that project.

**Mohit Kumar:** Is it right to say that you expect all three the works to commence on the other two projects the next two one to two months?

**Robbie Singh:** We expect the second project construction to come out shortly. On the last one, construction would probably commence from about May, June next year.

**Mohit Kumar:** Secondly on the airports so what is the status of all the airport have all the six airport been handed over to you

**Robbie Singh:** No, we currently are just going through various statutory matters and agreement on the concession. So we expect the handover process to commence probably in April to May next year.

**Mohit Kumar:** And have you received the clearances to sign all the concession for all the six airports or is there some hiccup right now?

**Robbie Singh:** So currently we have clearances for three airport, we expect other two as well. Working on negotiations for concession. there is only one airport that will take probably longer.

**Mohit Kumar:** Sir, thirdly on the MDO sir you have set the target for the full fiscal at 15 million ton, are we on track to achieve those numbers and what could be the possible numbers for FY21 and FY22 we are looking at?

**Vinay Prakash:** So as far as this 15 million ton of the PEKB is concern the mine which is operational we are confident that we will achieve 15 million ton capacity in this year 19-20, 20-21As far as FY22 is concerned I believe we will have four or five mine operational and one mine will remain at the peak capacity, but other three mine will be ramping up for the peak capacity.

**Mohit Kumar:** What were your possible capacity production FY22 as per your plans as of now?

**Vinay Prakash:** So we believe it would be in excess of 30 million ton in FY22.

**Mohit Kumar:** Do you expect any of the iron ore mines to contribute to this 30 million ton?

**Vinay Prakash:** No, we have two iron ore mine - one is in Orissa where we have to take over the mine from April 21 so that will not come in FY22 and second mine is B13 where we can start the operation within three months of the clearance from the state government. So we are waiting for the state government to give the clearance. So we are still having a doubt on these for getting clearance in this financial year. If we get the clearance than we can start this mine also.

**Mohit Kumar:** Last thing on solar business strong volumes for the H1, but how to expect to plan out in H2 and do you think this particular business will make profit in FY20 and how is the pricing playing out in the segment and what was the export volumes achieved in solar business in the first half?

**Ramesh Nair:** The volume in the first half was in excess of 600 megawatt and in terms of the second half of the year we expect that we should be at the same level or slightly better. We are targeting to do it better, but we definitely should be at the level of first half. The price realization is basically about margins and so the price realization is broadly should be at the level of - in the module sale it should be at the level of 26 to 27 cents and on the EPC side we expect that the top line will be at least about 4 Cents higher because of the solution mode. So a combination of these two factors would be determining the top line.

**Mohit Kumar:** And how much is the export in domestic out of 600 megawatt which you did in H1 and do you expect export to pick up in FY21 or do you expect this entire thing to be domestic sales?

**Ramesh Nair:** In the first half of the current year about 40% of the volume was an export and in the second half you would be roughly maintaining the same level and in the next year we would actually do an evaluation. We

want to be in this kind of level in export because the various domestic consumption requirement, the CPSU Scheme, KUSUM Schemes and Rooftop Schemes announced by the government. The decision should be basically to be more domestic, but then we would be at a range of around 20%25% in exports, which would be possible number that we look at to maintain. Our presence in the US markets provided that we are able to get this current levels of realizations in margins in the business in exports obviously the aim is always to maximize the EBITDA and then wherever we feel that it can be maximized I think the focus would shift for that area as the segment and need to keep changing in that fashion.

**Mohit Kumar:** And will the domestic realization improve given the fact of DCR requirements?

**Ramesh Nair:** Yes with DCR we expect it to improve definitely by about two to three cents. It all depends upon how it plays out and how many players actually get in and the whole market plays out, but then definitely this year it would give additional realizations of about 3 cents to 4 cents that is what we are expecting.

**Mohit Kumar:** And sir out of the domestic orders , what was the portion of EPC work you do?

**Ramesh Nair:** Current year say for example if you look at 1,200 megawatt of volume we would be at about 250 of EPC, a little less than 20% of the volumes would be going into EPC. As we move forward this would actually keep increasing and we are here to see how it plays out, but I expect about 30%, 35% of the volumes as we go forward.

**Mohit Kumar:** Last question sir on the airport business sir what is the timeline for bidding for Jewar airport and what is the bidding parameter?

**Robbie Singh:** No, bidding parameter for Greenfield airport are very different. Bidding parameters are currently confidential and it is still going through and we are one of the shortlisted party. But once we are in a position to discuss how we bid for, we will discuss with the market at the right moment. This is under bid so we cannot really talk much about it.

**Mohit Kumar:** So what is the CAPEX expansion requirement for airport business in FY21 and FY22?

**Robbie Singh:** It is approximately in the first year at about 3,600 which is primarily the payment we have to make to AAI and then there would be some CAPEX requirement as we prepare the master plan of the airports. We expect the master plan to be complete in 12 months, but overarching we expect over next five years and are committed to about 7,000 crore of CAPEX.

**Moderator:** Thank you. The next question is from the line of Ashish Shah from Centrum. Please go ahead.

**Ashish Shah:** I am not sure if this would have been covered because I have joined in a little late, but any update that you could share on what they are doing in terms of the Australia coal mines?

**Robbie Singh:** Yeah Australia is under development, it has got all its approval, the rail project is going on, the mine is not on critical path the rail is on critical path. We expect the rail to complete around May 2021 and after testing etcetera we expect the first coal in August 2021, but the mine can be ramped up very quickly.

**Ashish Shah:** If you could share on the funding tie-up for the same for the rail what is the total CAPEX that we will have to incur by May 2021?

**Robbie Singh:** Total CAPEX on rail will be 1.1 billion USD and on mine would be about 600 million USD.

**Ashish Shah:** This is to get the mine started essentially?

- Robbie Singh:** Yes.
- Ashish Shah:** And how is the funding tie-up for the same, how is the funding tie-up for rail and mine, how have we tied up the funding for the CAPEX?
- Robbie Singh:** Funding is part of the AEL's plan which was disclosed last year after annual results. So AEL has additional lines to fund raise and in relation to rail the AEL's proportion of the rail also is part of AEL financial capacity and then rail also is partly funded by the family.
- Ashish Shah:** Just to get the numbers you said about \$1.1 billion will be the rail?
- Robbie Singh:** Yes.
- Ashish Shah:** So we are seeing predominantly its internally funded as well as from the funding line of AEL which are available to tap?
- Robbie Singh:** Correct.
- Ashish Shah:** In terms of the ICM business integrated coal management has been business you know we have seen a very sharp increase in the volume in the first half as compared to the overall picture for the country which has been pretty bleak, so can you just share what has been really driving this outperformance or massive outperformance to the industry?
- Vinay Prakash:** You might have seen the reports of Coal India performance going down because of their mines in SCL area, MCL area there is an affected lot of the customers and the demand of the country has gone up in Quarter 2 because of that and that has helped us to improve on our volumes.
- Ashish Shah:** So what is the estimate that you would like to guide for the full year first half you have done 34.5 so what would be looking at like what 70 for the year or higher?
- Vinay Prakash:** If you see our first half, it has been at around 35 million ton. Last year it was around 67 million ton so we are definitely going to be more than 67

million ton. It should be in the range of 70-72 million ton for sure, but it all depends as how much requirement you get from the customers. So this is overall business where you know that this import is actually a signal to the overall requirement of customers. So there can be some variations, but we are hopeful of crossing the last year's number.

**Moderator:** Thank you. The next question is from the line of Shirish Rane from IDFC. Please go ahead.

**Shirish Rane:** Couple of questions first on data center what stage we are in as in have we identified locations, have we sort of prepared ourselves completely to roll out to business or is it still early stages?

**Robbie Singh:** It is still early stage we have one location identified we have few locations underway and these are driven by whether it is going to be a hyper scale or smaller data center. But our main focus is on hyper ones. We also have few sides as amplifier for two smaller data centers, but it is little bit early stage. We will have a much better clarity next year and will update you in about April, May next year.

**Shirish Rane:** And we have been tied up with any customers as such so far?

**Robbie Singh:** That is under way. More importantly we wanted to get the right JV partner. We have heads up agreement with Digital Realty and as we work through the business plan we will work it out over the next three to five months.

**Shirish Rane:** So tie-up with digital reality helps you in what area getting sustainable?

**Robbie Singh:** They have very extensive and large relationships in the US and also obviously very significant operating experience and coupled with our Adani's infrastructure capability, so it is a very good strategic mix.

**Shirish Rane:** So they get you the operations and customers and you basically build data centers and that is the way the business functions?



**Robbie Singh:** But data center operations is relatively straight forward it is more of the utility aspect so we obviously bring great expertise in the utility aspect.

**Shirish Rane:** The second part was a bit of clarification on the solar business there are two parts in your revenue, one is the module thing and the second is the EPC so how do you book revenue it is more from accounting standpoint. So the EPC revenue is also booked when the project is complete or you book the revenue as and when I mean a certain milestone are achieved?

**Ramesh Nair:** It is basically on milestone basis on percentage completion basis.

**Shirish Rane:** The third part is on the airports the Jewar airport as well as whatever litigation you are having within the Mumbai airport case, are they both in Adani Enterprises or the Mumbai airport is not in Adani Enterprises?

**Robbie Singh:** No, Mumbai airport or whatever we do would be on the airport company which is owned by Adani Enterprises.

**Shirish Rane:** So both of them are in Adani Enterprises?

**Robbie Singh:** As part of the bidding strategy and discussions, we are using up privately held company for Mumbai airport, but once we are successful in what we are trying to do then airport will be under our airport holding company.

**Shirish Rane:** And the last part was in terms of this road business you do not intend to get into the construction part of the roads as an pure EPC business, so far what we have done is purely BOT kind of business where you are putting your capital and building something for future revenue?

**Robbie Singh:** We are staying away from EPC yes you are correct.

**Moderator:** Thank you. Ladies and Gentlemen that was the last question. I now hand the conference over to the management for their closing comments. Sir that was the last question would you like to add any closing comments.



*Adani Enterprises Limited  
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**Robbie Singh:** We appreciate the questions and thank you very much everyone.

**Moderator:** Thank you. Ladies and Gentlemen on behalf of Adani Enterprises Limited that concludes this conference call. Thank you for joining us and you may disconnect your lines. Thank you.