"Adani Enterprises Limited Q3 FY-20 Earnings Conference Call"

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

Moderator: Ladies and gentlemen good day and welcome to the Adani Enterprises Limited Q3 FY20 Earnings Conference Call. We have with us on the call today 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 '*' then '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Robbie Singh. Thank you and over to you sir.

Robbie Singh: Good afternoon all. The Board of Directors of Adani Enterprises has adopted the Quarter 3 FY20 results. AEL has been a successful incubator since 1994 and this model of incubation has created five infrastructure unicorns as independent listed entities with strong business. We are poised for a building a new wave of infrastructure and utility businesses in the areas of Airports, Road, Water, Data Centers, Solar Manufacturing and Defence. In this process of value creation and building new businesses, we have given a compounded annual growth rate of 30% to all the shareholders since its inception. In the last 2 years, on demerger of Adani Green Energy Limited and Adani Gas Limited from Adani Enterprises, it has boosted our shareholders' return at a compounded annual growth rate of 72%.

Coming to this quarter's performance, it has been yet another quarter of stellar operational and financial performance across our core business segments of Mining Services, Integrated Coal Management, Solar Manufacturing and other businesses. On a quarter-on-quarter basis, the consolidated revenue for Q3 FY20 has increased by 5% to Rs. 11,075 crores and the EBITDA has increased by healthy 58% at Rs. 884 crores versus 562 crores in Quarter 3 FY19. On a year-on-year basis, the consolidated revenue for nine-month FY20 increased by 11% to Rs. 30,388 crores and the EBITDA grew at a healthy 45% to Rs. 2,321 crores versus 1,597 crores in nine-months FY19. Now I will hand over to the CEO Mr. Vinay Prakash to highlight Mining Services and ICM.

Vinay Prakash: Good afternoon. This is Vinay Prakash. In Mining Service Business, the company is MDO for 9 coal blocks with the capacity of 100+ million metric tons per annum including two projects at LoA stage. Further the company has two MDO projects for iron ore with the peak capacity of 16 million metric tons per annum. These 11 projects are located in the state of Chhattisgarh, Madhya Pradesh and Odisha. We have also forayed into Washery Service Business and have received LoI from MCL, for Hingula Washery project for 10 million metric tons per annum.

Parsa-East & Kante Basan coal block has been operational since February 2013 and it is the first and the only captive open cast coal mine with washery in the country producing at a peak capacity of 15 million metric tons per annum. GP 3 mine was opened in April 19 and Talabira II & III mine was opened in December 2019.

The coal mining production volumes stood at 4.77 million metric tons, out of which PEKB did 4.71 million metric tons and GP 3 did 0.06 million metric tons in Quarter 3 FY20 against production volume of 3.74 million metric tons in Quarter 3, FY19 which was completely from PEKB. Further, washed coal dispatch stood at 3.27 million metric tons for PEKB in Quarter 3 FY20 against dispatch of 3.22 million metric tons in Quarter 3 FY19. In nine-month FY20 EBITDA rose by 41% to 875 crores versus 621 crores in nine-month of FY19.

Moving to Integrate Coal Management business; the company provides end to end procurement and logistics service to its customers. We have developed business relationship with diversified customers across various end user industries. Our ICM business continues to maintain leadership position as #1 player in India. It has continued to deliver industry-leading performance with the ICM volume increasing by 24% to 20.42 million metric tons in Quarter 3 FY20 versus 16.41 million metric tons in Quarter 3 FY19. Now I will give it to Mr. Ramesh Nair for Solar Manufacturing.

Ramesh Nair: Hi I am Ramesh. At Mundra Solar PV Limited we have established India's largest vertically integrated solar manufacturing facility of 1.2 GW capacity of both cells and modules along with research and development facilities within an Electronic Manufacturing Cluster in Mundra SEZ. This plant got operational in financial year 18. In Q3 FY20, solar module volumes increased by 102% to 283 MW versus 140 MW in Q3 FY19, while EBITDA has more than doubled to Rs. 84 crores against Rs. 25 crores in Q3 FY19. The EBITDA margins improved due to healthier operation performance and better price realization. In the nine-months of FY20 solar module volumes increased by 115% to 797 MW versus corresponding 377 MW in the nine-months of financial year 19. EBITDA also grew to 242 crores against the loss of 37 crores in the previous nine-months. So that's about all from Solar Manufacturing.

Robbie Singh: We can move to question and answer session.

Moderator: Thank you. 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: Firstly on the solar business; is it possible to share the profit number for nine-month FY20 and what is our interest cost for this solar business for the full year?

Ramesh Nair: EBITDA for the nine-months of the current year is 242 crores.

Mohit Kumar: Can you give the profit number?

Robbie Singh: Mohit, as regards solar manufacturing business, EBITDA for the nine-months was Rs. 242 crores against a loss of 37 crores while Profit before Tax comes to Rs. 42 crores against a loss of 302 crores in the last nine-months.

Mohit Kumar: My second question pertains on the solar business, do we have the clarity on the custom duty post July '20 and the secondly I understand that we have tied up with Adani Green for 2 GW solar linked manufacturing tender. My question is that we believe that 2 GW of volume will find a place in this country or outside, you will be able to sell over in a year? Because this is a large volume compared to our current capacity.

Ramesh Nair: What you said is right; we are looking at additional about 2 GW which is 1:4 ratio into the development side. In this country, if you actually have noticed in the last 6 months, they have had policies on various fronts including rooftops, KUSUM and CPSU which totals to an excess of 55 GW of capacity addition in the country from these three schemes till about 2023-24, they said 2022 but then we feel it may slip by a year or two. There was an addition to whatever you have seen in the global market where US markets are growing and plus the MENA markets also are supposed to grow, African markets and the Middle East and the North African markets. So we feel this volume definitely would have enough buyers and this 55 GW of volume that I'm talking in the country is in addition to the utility requirement which would come through the SECI tenders and other things so this is in addition to that. So we expect India to be at least in the next year about 12-13-14 GW of capacity addition to happen in solar at healthy CAGR which is expected to grow further in the country. So if you actually see beside this, there are some more capacity additions that is happening in the country through various other entrepreneurs and companies. So India is definitely seen as a important market in solar as the country shifts more and more to renewable. Plus, the manufacturing tender gives you a certain hedge with the AGEL also absorbing some part of the manufacturing if required, if need be. We are not looking at that as the option but it is actually a certain hedge that the government has given that you put up the manufacturing, you get the offtake also within next 5 years. There is sort of the development arm around BCD obviously. BCD of 20% is basically supporting the Solar Manufacturing Industry. So it is going to be there and it is going to be the way, it's going to be around the country and they basically split the customs tariff into two segments on cells and modules both. Around both they have put 20%, you import cell or you import module we will have to pay 20% which obviously would make mostly imports not very competitive and you will have to push manufacturing into the country. So it is the government's way of incentivize the manufacturing in India.

Mohit Kumar: Coming to the MDO business, I think most of the 4.8 million tons, most of it has come from Parsa East Kante Basan and I think you opened the Talabira II & III and GP3. The fourth main block which was Parsa which was supposed to open in 2019, has it been opened or what is the timeline and what is the volume guidance for FY21 and FY22 based on all these three mines.

Vinay Prakash: In this financial year, we have started two more mines which is Talabira II & III and GP3. So, we have these three mines where PEKB is already at the rated capacity of 15 million tons that's peak capacity. GP3 peak capacity is 4 million tons and Talabira II & III has the peak capacity of 20 million metric tons, but as per our production plan understanding with the customer; next year and next to next year which is FY21 and FY22, we have to do 5 million tons. So you can add 4 million metric tons of GP3 and 5 million metric tons of Talabira II & III for '21 and '22 to 15 million tons of PEKB. So that will give you a volume of close to 25 million tons. The Parsa mine which we were planning to start in this financial year is delayed because of some statutory approvals delay at the state level. We are hopeful to start this mine somewhere in the month of August and September and should be in position to produce 3 to 4 million tons in next financial year time. Other than that we will start other mine which is in MP which is Suliyari and the iron ore mine which is in Chhattisgarh called Bailadila. So combining all, we expect the MDO volume to be on 30 million metric tons in FY21 and definitely in '22 will add up some more tonnages on the basis of starting of one or two mines or winning another one or two mines. So it has to be 30+ million tons.

Mohit Kumar: You expect both the iron ore mines to be operational by FY21?

Vinay Prakash: So, one mine which is Bailadila 13 should get operational by next financial year FY21. Kurmitar as per our agreement, we can take over the mine only in FY22 which is 1st April '21 when we will get the mine in our hands for the operation. It's a Brownfield mine, so we don't have to get worried about the approvals and all. Our approvals are getting in place so that mine will take over in 1st April '21.

Mohit Kumar: On the EBITDA number, it varies very wide on quarter-on-quarter there is a very wide variation in the Coal MDO business. In fact even looking at last 3 quarters, though the volume has gone up but EBITDA has not gone up substantially. In fact the EBITDA per ton number which we track, it was Rs. 1400 per ton in Q1 FY20, Rs.949 per ton in Q2 and Rs. 719 per ton in Q3. Is there any specific reason for that this wide volatility?

Vinay Prakash: In MDO business we need to see what is the regular profitability which is coming because of some clearances of some issues which has been pending with them for the last 2 or 3 years or adding up like we won case of Supreme Court which have also added…..

Mohit Kumar: The wide volatility in the EBITDA number I think you spoke about there was some kind of Supreme Court order I believe in Q1, that's the reason the EBITDA per ton is higher. Is it right?

Vinay Prakash: One more reason is that earlier we were reporting only the washed coal dispatches which was not the true picture for us because we get washed coal and rejects both. Just to give you little insight, we mine ROM coal which is run-of-mine coal and after that from Washery we get washed coal which goes to RRVUNL and there is a reject also which is also having the value and goes to the local market. Earlier we actually were reporting only the washed coal and that's how you are seeing a high per ton EBITDA level but now considering that the reject is at a low you are seeing lower EBITDA per ton.

Mohit Kumar: The debt number, the debt has gone up quarter-on-quarter by 820 crores odd and most of the debt I think has gone in the new business from 1000 crores odd in Q2 FY20 to 2790 crores in Q3 FY20. Can you please tell us which segment where the loan has been taken?

Robbie Singh: Mainly one of the segment is the Defence segment where because of Alpha Design acquisition the debt has increased and secondly is the Road business where because of the Bilaspur-Pathrapali project being started the debt has come in…

Management: We started growing the debt for the new road projects.

Moderator: The next question is from the line of Neerav Shah from Geecee Investments.

Neerav Shah: Just missed your FY21 guidance for your MDO business. You mentioned the existing blocks peaked to 15 million tons plus GP3 of 4 million tons plus 5 million tons of Talabira II & III and Parsa of 5 million tons.

Vinay Prakash: I said Parsa 3 million tons.

Neerav Shah: That is 25 and plus Iron Ore would be how much in FY21?

Vinay Prakash: We are expecting Iron Ore to be on 2 million tons and we are expecting Suliyari to do 3 million tons.

Neerav Shah: FY22 any more mines the ramp up, Talabira II & III will remain the same but any other mines commissioning?

Vinay Prakash: The Parsa we should reach to the peak of 5 million tons, Suliyari should reach to the peak of 5 million tons and Bailadila should go up to 5 million tons.

Neerav Shah: On the Airport verticals anymore update as to when we are expecting the handover of the Airports and what is the initial investment? How will the buildup in the regulated asset-based look like for our Airports vertical in FY21 and 22?

Robbie Singh: From the Airport business right now the stage is that for the three airports that is Ahmedabad Lucknow and Mangalore we have received the security clearance. Now the concession agreement will be signed and post concession agreement within three months we will take over the airports and then there will be a period of joint control for another six months. So that's how we are looking at the timeline. So the concessions should be all signed in the first quarter of FY21 and as was informed even in the last quarter the current CAPEX which we are looking for are upfront payments and we are looking at 3000 to 4000 crores for the total six airports.

Neerav Shah: These three, it's there in the presentation around 1200 or 1300 crores?

Robbie Singh: Yes.

Neerav Shah: And immediately this upfront investment will be calculated as RAB or that will be a different number?

Robbie Singh: It is for RAB only. There are assets which are already with AAI which we are taking over. So it's a RAB asset for which we are paying. This will vary from airport to airport and also vary from time to time. So exactly when we get the airport, the RAB and CWIP will be calculated.

Moderator: As there are no further questions from the participants, I would now like to hand the conference over to Mr. Robbie Singh for closing comments.

Robbie Singh: Thank you all for participating in the Investor call for the current quarter. Let's meet in the next quarter. Thank you.

Moderator: Thank you very much sir. Ladies and gentlemen on behalf of Adani Enterprises Limited that concludes this conference. Thank you for joining us and you may now disconnect your lines.