"Adani Enterprise Q2 FY17 Results Conference Call"

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Moderator: Ladies and gentlemen, good day and welcome to Adani Enterprises limited Q2FY17 Results Conference Call. We have with us today Mr. Ameet Desai – CFO and Executive Director, Adani Enterprises; Mr. Vimal Dhami – IR at Adani Enterprises. As a reminder, all participants' line 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. Ameet Desai – CFO and Executive Director, Adani Enterprises. Thank you and over to you, Sir.

Ameet Desai: Thank you and good evening ladies and gentlemen. Pleased to share with you the quarterly results and the half yearly results of Adani Enterprise for FY17. For the quarter our consolidated income stands at Rs. 7,594 crores. Our consolidated EBITDA is at Rs. 580 crores and consolidated PAT on comparable basis is Rs. 63 crores against Rs. 128 crores in the corresponding quarter last fiscal. This is because in last fiscal we also had about Rs. 171 crores of dividend income which post the demerger of different companies is not really there for this year, so, on a comparable like to like 128 down to 63.

On the half-yearly basis consolidated financial performance income stands at Rs. 16,513 crores, EBITDA at Rs. 1387 crores and PAT at Rs. 427 crores.

In terms of volume details on a half yearly basis versus first half previous year, mining volume has registered a growth of 48%, City Gas distribution is up 5% touching close to 200 million standard cubic meters a day and coal trading volume is up almost 10% from 39.5 to 42.8 million ton. We have yet not started showing the renewable results as a separate columnar item, but with the 648 megawatts of solar project now fully operational and 75 megawatts in Punjab operational, we expect that later part of this year, this will also become a significant segment to be reported.

Our long-term debt stands at about Rs. 8,000 crores with net worth of Rs. 13,000 crores we are at 0.5:1 in terms of our debt equity ratio. Our edible oil business we continue with our market leadership position and at City Gas business we expect that with the JV that we have found with Indian Oil Corporation which has been awarded City Gas projects in Allahabad, Chandigarh, Ernakulum, Daman, Panipat, Udham Singh Nagar, and Dharwad, so, almost 7 cities and more are underway, that business will continue to grow and in our agro-storage business, we have almost 8.5 lakhs metric ton storage capacity and implementation work at two new projects, namely at Katihar and Kotkapura with FCI is progressing well.

Our solar manufacturing facility is nearly nearing completion and we expect to roll out the manufacturing starting end of this calendar or beginning of next calendar. All in all, I think we are set to grow our MDO business further, City Gas business with a robust set of margin, agri on its normal growth, but renewable being the next big growth engine for us which may become the largest business in the time to come. Over to you for question.

Moderator: Ladies and gentlemen, we will now begin the question and answer session we will take the first question from the line of Akshay Soni from Morgan Stanley. Please go ahead.

Akshay Soni Thanks. Just a couple of things. One when you mention that solar will actually look to renewables will be basically become the key driver, in there what would be the breakup with both from a between generation and manufacturing, of course in the short term it will be more generation, but when you are thinking 3-5 years out from a driver perspective, what would you think that would look more like, because I am also trying to understand in terms of, in terms of sustainability of revenue, wherein manufacturing is a little more difficult to predict, but of course this is very clear revenue for you in terms of generation. So, just wanted to understand how you are thinking about it.

Ameet Desai Yeah, good question Akshay. I think basic driver will be generation. Manufacturing, as we have explained earlier, is going to be the subsumed strategy within the generation business and therefore it is more a support venture, though it stands out on its own in terms of commercial capability and technical prowess, it would be fair to assume and project that generation would be the key driver. We currently have 734 megawatts of operational assets, 648 in Tamil Nadu and 75 in Punjab and our total pipeline including these two projects is coming to about 2100 megawatts, which includes about 100 of wind and 1250 of additional solar pipelines. So, arguably generation will be the key driver always.

Akshay Soni Understood sir, and two more questions on that side. One, you know there are a lot of players facing, it is more wind today than solar, but we hear from a lot of players that they are facing this challenge in terms of one of course if their bids were high, the governments are coming back to renegotiate and you know, while by law it is not required, if you don't then there is a challenge, as an example wind project in Gujarat have been renegotiated downward two or three times now, the early wind projects.

Ameet Desai Which one?

Akshay Soni: A couple of early wind projects in Gujarat have been renegotiated down twice or thrice.

Ameet Desai: In wind or solar?

Akshay Soni: Wind sir, wind, wind, not solar yet. So, that's why I said that we are hearing this a lot more in wind rather than in solar at the moment, but you know, is there a challenge that you foresee because bids have fallen quite a bit, now they have stabilized. So, from here maybe it is a little bit less, but you know, for early bidders do you see that as a challenge in solar? That is first and I will let you answer that and then come to the next one.

Ameet Desai: So, Akshay, I would check my own data, but I am not aware of anything having been negotiated down in Gujarat. Gujarat Utility had expressed its desire to negotiate down the solar tariff where we have 40 megawatts out of 1000 or 1200 that they have contracted and that was not allowed by the state regulator and the appeal was also disposed off at the center. So, I am not aware of Gujarat, I am aware of in case of wind where there is tariff regime is feed in tariff. Some states have refused to sign PPAs for the capacities created, but these are not many, many instances that can really cloud your business decisions. I think more states are very responsible in their outlook and they do recognize that with the cost of technical and technology inputs falling drastically, eventually as they contract more and more capacity, the tariff will continue to fall. I think these are the lessons that people have learnt from countries like Germany etc. So, I think it's not such a situation at the regulatory or state level that a few news items are making it out to be.

Akshay Soni: Fair point sir. As usual we keep searching for the outlier, so I take your point, it is not widespread. Secondly, just if you look, let us say five years out again and I am only looking for something fairly rough, not at the revenue level, but more at the EBITDA or at profit level, how would you think your business mix would look like?

Ameet Desai: I will be able to tell you either top line or EBITDA, but I am sure if you are talking of five years out, we would be certainly northwards of 5000 megawatts of renewable and we would be certainly close to 100 million tons and more of our MDO business. In terms of contracts, it could be more, but in terms of operations which are ongoing where the peak capacity can be close to 100 million tons and I think these are the two biggest growth drivers as far as Adani Enterprise is concerned.

Moderator: Thank you. We have the next question from Lokesh Garg/Vaibhav Jain from Credit Suisse. Please go ahead.

Lokesh Garg: Yes sir, you just obviously answered that manufacturing is the subsume within the generation business and you expect solar or renewable business to be largely driven by generation, but I was wanting to understand within manufacturing, what is the scope, scale we are envisaging over a two-year time frame, five-year time frame?

Ameet Desai: So, hard for me to say over two years because I think we are just about commence our 1.2 Gigawatts facility end of this calendar or beginning of next calendar. I think over five years this 1.2 can easily grow 50% to 70% depending upon how the actual generation business pans out.

Lokesh Garg: Okay, and what is the scope of the facility? Scope in terms of vertical integration or what this does facility aiming to achieve?

Ameet Desai: See, we are currently at the cell and module level and we are looking at different opportunities where we can go even further backwards, but I think that's pretty much at exploratory stage, so, it would be most appropriate not to really get into that as of now.

Lokesh Garg: So, what is coming up at the end of this calendar year is essentially a module manufacturing which uses the cells brought on from outside, right?

Ameet Desai: Yeah, cells and modules. It brings the wafers from outside and cells and modules are manufactured.

Lokesh Garg: By the sound of it you seem to sound as if it would be primarily devoted to Adani Enterprises own plant?

Ameet Desai: Not necessarily. I didn't give that sound effect. There was no question to that effect. So where would be sound effect coming, but if it did, it is my mistake. I would tend to correct that effect and say it would be for all and we would continue to obviously rely much on the manufacturing facility that we are sure about the quality, but having said that there is right now not very clear arithmetic available for me to share with you.

Lokesh Garg: So, basically what I understand is you want to start this facility and see how it goes before you chart the next plan of course for this?

Ameet Desai: Absolutely because just so you know, we have the huge opportunity in terms of DCR projects which is Domestic Content Requirement in India and that would be one big segment and then given the restrictions some of the Chinese players face in Europe and US, we also have very good prospects in the export market.

Lokesh Garg: Yeah, even without DCR, even in domestic market module manufacture in India, even using cells from abroad should be competitive, right?

Ameet Desai: Absolutely, if you set up your facilities now, with capital efficient cost. The earlier projects because of their capital inefficiency may not be as competitive.

Moderator: Thank you. We have the next question from Akshay Soni from Morgan Stanley. Please go ahead.

Akshay Soni: Ameet bhai, this is to do with the business that is going forward of course going to be less important to you, but from a top line perspective remains the key business today. Just coal trading and I am not going to get into that the Power Ministry and the Coal Ministry views, but just wanted to understand, you continue to see fairly reasonable growth in terms of it's a bit less than last quarter, that I assume is a bit of a quarterly aberration rather than anything from a cyclicality perspective, but you continue to see fairly strong volume growth and even if I strip out Adani Power itself, you are still doing extremely well. So, this is would you given that you continue to have a large market share, would you just say whether this is representative of overall coal imports into India also or it is not? And plus if you could also if you could also shed a bit of light on whether there has been any change in terms of coastal and whether it has become any more important over the last quarter or it continues to remain small, but of course you have strong views on it.

Ameet Desai: I think coastal movements of coal is something that we will cover tomorrow when we talk under the aegis of Adani Ports & SEZ limited, not appropriate therefore for me to talk about it now. Having said that we have never given a sound effect, to borrow that phrase from another participant on the call, that we see this as sort of decaying business. We see this as mature business and mature business has its own challenges in terms of commodity cycle, which has turned positive now. We have always held and maintained and believed that dependence on imported coal for Indian coastal plants and proximal plant to the coast to imported coal will continue to remain high and therefore you are seeing 8% growth in the volume on a first-half-to-first-half basis and we have maintained EBITDA per ton at about $1.4 per ton. Yes, that has come down compared to what it used to be last year, 2.25 and 2.5, but we think carefully crafted strategy and continued focus on very, very demanding efficiency standards in terms of handling cost, procurement, we would continue to remain in this business.

Akshay Soni: And should I assume that your first half number is also to some extent representative of the market or do you think that despite your size you have gained market share?

Ameet Desai: I won't readily have the market share number, but we seem to be growing that shows we are seeing some growth in market and some growth in our market share, both factors are at play.

Moderator: Thank you. We have the next question from Santosh Hiredesai from Edelweiss. Please go ahead.

Santosh Hiredesai: Sir, I was just trying to get some sense around what is happening with scheduling of power in the 648 megawatt in Tamil Nadu because we read that there have been some challenges in few states in scheduling this solar power. So, what are we experiencing till date there?

Ameet Desai: I think we just stabilized, just about a month ago and the grid is also stabilized, so it would be only fair for us to see 3-6 months' track record and look at how it is behaving, but this is currently pretty good, is what I can definitely tell you.

Santosh Hiredesai: Fair enough. And also there were those talks of some slippages in terms of getting the plant commercial because of which tariffs were to get renegotiated. Where do we stand on that sir, right now?

Ameet Desai: That's work-in-progress.

Santosh Hiredesai: So, it is still with the regulator, is it?

Ameet Desai: The first 360 is clearly at Rs. 7 only it is the rest that we are talking about.

Santosh Hiredesai: The 360 megawatts is at Rs. 7 and the rest is being still kind of with the regulator for clearance.

Ameet Desai: Yeah.

Moderator: Thank you. As there are no further questions from the participants, I now hand the conference over to Mr. Ameet Desai for closing comments.

Ameet Desai: So, I think just to recap as I answered to some of the questions of our growth diverse going forward remain MDO and renewable generation and renewable generation to be supported by solar manufacturing, but solar manufacturing can stand on its own in Indian market as much as for exports and coal remains an important contributor, though in the overall scheme of things as MDO and solar generation and renewable in particular grows, rest of the things will start looking much smaller. Any other questions that any one of you may have please contact Vimal or me and we would be happy to answer. Thank you for joining the call.

Moderator: Thank you. Ladies and gentlemen, on behalf of Adani Enterprises limited that concludes this conference call for today. Thank you for joining us and you may now disconnect your lines.