

"Adani Enterprises Limited Q3 FY18 Earnings Conference Call"

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MANAGEMENT: Mr. RAJIV NAYAR- EXECUTIVE DIRECTOR, ADANI

ENTERPRISES LIMITED & GROUP CFO

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LIMITED



Moderator:

Ladies and gentlemen good day and welcome to the Adani Enterprises Limited Q3 FY18 Earnings Conference Call.

We have with us on the call today Mr. Rajiv Nayar—ED, Adani Enterprises Limited and Group CFO Adani Group; Mr. Vishwas Shah-GM Adani Enterprises Limited, Mr. Vimal Dhami-Manager, 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 would now like to hand the conference over to Mr. Nayar. Thank you and over to you sir.

Rajiv Nayar:

Thank you very much. Good afternoon everyone and thank you for making the time to dial into our third quarter investor call.

The board of Adani Enterprises met earlier today and approved the third quarter results for the company for the quarter ended December 2017. You would have seen by now the numbers that we circulated earlier, and I am sure you will agree with me that this was a fairly good quarter for the company.

On a consolidated basis third quarter, income from operations was up about 9% sequentially to 9900 crores odd while operating EBITDA was up 38% to 948 crores versus just 689 crores in the second quarter and even lower 557 crores in the third quarter of last year, up 38% and 70% respectively on a sequential and corresponding basis. Profit after tax for the company was a little lower was 350 crores versus flat on 3Q



of last year which was 340 crores, was substantially higher than the sequential Q2 of this year which is only 59 crores.

Moving onto segment wise results; the coal trading business has a very significant improvement with operating EBITDA margins jumping up from 2% in the second quarter to 4.8% in this quarter even as volumes were slightly down. However, compared to the same period in the prior year EBITDA margins were not that significantly moved up, still from 3.8% in the third quarter of last year to 4.8% this year. But given the sheer size of the business even 100 basis points improvement in margins had a very significant impact on EBITDA with third quarter EBITDA coming in at 366 crores versus just 143 crores in second quarter and 275 crores in the last quarter. The company maintained its leadership position in the sector at around 45%. Our coal trading volumes as I said earlier were slightly lower nevertheless it was a pretty strong performance from the coal trading business.

The coal MDO business maintained its volumes at about 1.75 million metric tons, operating EBITDA slightly lower at 92 crores versus 114 crores in second quarter but slightly higher than the same period in the previous year.

The Renewables business also turned in good performance as we continue to expand capacity which at the end of December stood at about 1980 MW. The operating EBITDA for the business was about 185 crores versus 180 crores in the second quarter or more than double from where it was in the third quarter of last year which is 81 crores.

The City Gas business continues to perform well with volumes lower single-digit percentage point higher than the previous year with third quarter EBITDA at about 84, still higher than the same period in the previous year when it was about 69 crores. These numbers don't include the share of the joint-venture at Wilmar which had very strong performance in the third quarter. So while these numbers are not



consolidated in our earning and EBITDA in terms of contribution to the profit after tax which was quite significant where the third quarter contribution of about 133 crores, out of the total profit after tax of about 350 crores. That also includes certain minority interest as well. So overall as you can see the third quarter of this year was fairly strong performance for the company with pretty much all the key operating metrics trending upwards.

In terms of nine months number; nine months operating EBITDA was 2272 crores which is up 50% operating EBITDA is up 50% on 1500 crores for the same period in the previous year. This again aided by strong performance in the coal business, a significant ramp up in contribution from the Renewables business as well which has been ramping up through the course of the year. The Renewables business obviously as it comes on has a significant depreciation and finance cost which as a result resulted in lower profit after tax numbers to about 569 crores for the nine months ending December, so down about 25% versus 767 crores in the same period in the previous year. A substantial portion of this decline is on account of depreciation which went up from 407 crores last year nine months to 939 crores this year.

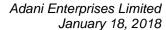
In addition to the approval of the results for the third quarter the board of the company earlier today also met and approved the scheme of arrangement between Adani Enterprises Limited and Adani Gas and Adani Gas Holdings for the demerger of our gas sourcing, trading and distribution business of AEL with AGL. As you know AGL currently has been so far 100% subsidiary of AEL and has grown steadily and consistently over the last many years to what today contributes to a very significant 20% of the profit after tax of Adani Enterprises Limited. During this period the company is expanded to 4 cities even as a joint venture with IOC in which it owns 50% has expanded its limit to cover currently now going up to 9 cities. The company has pretty much run independently for some time without much support



from the parent and we believe it is an appropriate for it to be spun off into a separate listed company and this I am sure you will recognize is quite consistent with the group's track record in history of incubating businesses in AEL and spinning them out at a point in time when it's considered right. As you will all agree a spinoff and a separate listing of AGL will create a company with its own benefit in terms of access to market both equity as well as debt markets, it will provide strategic focus to the business as it builds out his business into what is appearing to be, what is looking to be a very-very exciting opportunity in the entire energy space. This transaction we believe will unlock shareholders value that is currently embedded in AEL.

In terms of highlights of the business AGL will issue and allot one new share of Rs.1 each of AGL for every equity share of Rs. 1 each to the shareholders of AEL which is currently 74% odd with the promoters and about 26% odd with the public. Adami Gas Limited will be listed on both the Bombay Stock Exchange and the National Stock Exchange pursuant to the necessary regulatory approvals. The broad timeline for the transaction is approval of shareholders, creditors and NCRT approval in the month of April and May and we are targeting and listing and creating of these shares in the month of June or July. In terms of the process we had appointed BSR & Associates to provide an independent evaluation of AGL business as well as a fairness opinion by JM Financial Services.

I close my comments by pointing out that this Adani Enterprises has over the last 25 years since it was listed has had a very strong record of incubating and spinning out businesses as they reach the right stage of maturity. AEL has over the last 25 years delivered a CAGR of almost 32% to its original shareholders and this compares very attractive and favorably versus Sensex and Nifty CAGR of approximately 10% for this period. This transaction is just a continuation of a process that we have commenced many years back and which I am sure I expect we





will continue in the future as well. Thank you. I have no other comments; I will open it up for the questions.

Moderator:

Thank you very much sir. Ladies and gentlemen, we will now begin with the question and answer session. We will take the first question from the line of Shirish Rane from IDFC. Please go ahead.

Ashish Shah:

My first question on the Renewables energy business, power generation business. Now we would have seen an increase in capacity which is operating in this quarter vis-à-vis the last quarter but we don't see a similar reflection in the amount of power generated or the revenue which is reported for the segment, so if you could please explain that?

Rajiv Nayar:

I think much of the increase in capacity that was operational has happened in the backend of the quarter around December. Shirish I would expect you would see the full benefit of this incremental capacity reflected in the fourth quarter of this year.

Ashish Shah:

On an average could you help us with what sort of utilization I mean what is the PLF of the operating plants, could one build in like 30%-35% or higher PLFs for the solar plants that we have?

Rajiv Nayar:

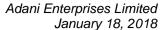
My colleague will respond to that question Shirish.

Ashish Shah:

On the solar manufacturing part, we have operationalized our new capacity so any outlook you can share as in what should be the kind of output from that plant, what is the capacity that will get delivered, what is the revenue that one could expect from the solar manufacturing capacity and also in the context of the safeguard duty which is been contemplated by the government, how does that impact us?

Rajiv Nayar:

I think the plant was operationalized at the end of the second quarter. In the third quarter and nine-month EBITDA was about 225 crores, so





you would expect the fourth quarter performance to be equally.... you should probably look at EBITDA in the (+) 400 area for the full-year.

Ashish Shah: Any sense on the safeguard duty part I mean how do we exactly

benefit by that?

Rajiv Nayar: The safeguard duty will certainly help the business to the extent that

competition that is largely from imports tends to be at lower prices. So

we are waiting for the announcements and the specifics of the duty to

be announced on the back of which we would expect some relief and

some support in terms of prices. We have better handle on this after the

actual mechanics and the details of this duty are announced.

Moderator: We will take the next question from the line of Mithun from GeeCee

Investments. Please go ahead.

Mithun: In the coal trading business if we say that these margins what we have

done in the quarter are these sustainable in this range or should we take

it as a little bit of a one-off in this quarter?

Rajiv Nayar: There is an element difficult to make that statement whether it's a one

off or not I think it is the 5% or 4.8% we have not seen that for some

time. So there is some element of one offs given that there was a sharp

pickup in imports in the third quarter, so some of our positions that we

had obviously turned very attractive. But I think the margins of the 4%

area we have achieved quite comfortable in the past, so I would say

that probably somewhere between 4% and 5% looks to me like kind of

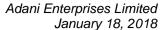
number that we should be shooting for.

Mithun: In the MDO how should we look at the ramp-up in the volumes we had

done about 1.93 then we had done about 1.75 million tons odd this

quarter, so how we should look at the ramp-up for Q4 and for next

year?





Rajiv Nayar:

I expect a significant ramp up in next year. I think there is a pipeline so far this year certainly in the third quarter we were impacted by shortfall or shortages in the availability of rakes from the railways. We are optimistic that will go away. We also had some bottlenecks in our rail corridor in Chhattisgarh, the Sarguja rail project I think that comes on stream that one big bottleneck will be removed. So next year we are expecting a significant pickup in MDO volumes ramping up of that business.

Mithun:

I missed your initial comments where you shared the EBITDA in the City gas distribution for the quarter; can you please share it again?

Rajiv Nayar:

The EBITDA in the third quarter for the City gas business was 84 crores which compares with 69 crores in the same period of the previous year.

Mithun:

And in case of the demerger, so both this part of the business what we are doing as well as the JV which is a 50-50 JV with IOC both of them as they get demerged what will be the combined debt of these two entities as of now?

Rajiv Navar:

The JV numbers are not consolidated because under new Indian accounting standard rules we don't consolidate JV numbers. I don't have them in front of me. Adani Gas Limited has debt of about 475 crores at this point in time. Its immediate parent Adani Gas Holdings which is an intermediary entity that sits between AEL and Adani Gas has debt of about 1000 crores. Some of that debt as part of this transaction Adani Gas Holdings and Adani Gas will be merged but it's not as if the entire 1000 crores will set in Adani Gas. Some small portion of that we expect will stay with the merged Adani Gas company. But a significant portion of that will be refinanced the way.

Mithun:

So final debt of the Adani Gas should we take in the range of about 500 crores odd?



Rajiv Nayar: I would expect it wou

I would expect it would be a little higher for an intermediate period of 1 to 2 years. But long-term business-related debt is yes, it will be at that level. So transaction related debt will sit there till it gets taken out in the next 1 or 2 years but beyond that I would expect the company's

core debt is as I said 475-500 crores.

Mithun: In both the businesses what sort of CAPEX we should estimate?

Rajiv Nayar: In Adani Gas our CAPEX has been somewhere 100 crores a year and

this is four cities. Again, the JV which sits below Adani Gas is not

included in these numbers.

Mithun: This is only for the one which is 100% entity.

Moderator: We take the next question from the line of Ashish Shah from IDFC.

Please go ahead.

Ashish Shah: When I look at the consolidated numbers five see the interest cost in

Q3 actually going a bit down vis-à-vis Q2 and the depreciation also going down vis-à-vis Q2. Now it sounds a little strange because we have been commissioning incremental capacities on the solar side, so why would the interest and depreciation kind of go down, so is there

any accounting adjustments that we need to be aware of?

Vishwas Shah: First I will just take up with the finance cost, now finance cost do have

an element of the FOREX fluctuation with a moving dollar from 65

from the last reported quarter to current reporting quarter which is 63

exchange rate, we have gained onto an exchange rate. So to that extent

the part which is considered as the finance cost out of an FOREX

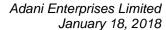
fluctuation has reduced and that so you can see the finance cost on to a

lower side in this quarter compared to the previous quarter. Now

coming to the depreciation, now depreciation as we had a discussion in

the last quarter that Mundra Solar manufacturing had recourse to a

WDV method in Quarter 2 itself. So they had a 5 months of a backlog





which they had to account for a higher depreciation in Quarter 2 which now is consistent. So going forward in Quarter 4 you won't see any skewness in the depreciation, maybe the finance cost would be impacted on either side which exchange rate differing on a period to period basis.

Ashish Shah:

But with more capacity is getting commission we would expect some

increase?

Vishwas Shah:

Yes that would be in line of the capacity operationalized that depreciation will increase.

Ashish Shah:

Also in terms of the trading business, actually I missed out on the number that initially you gave out in terms of the revenue and the EBITDA if you could give that?

Rajiv Nayar:

Coal trading?

Ashish Shah:

Yes.

Rajiv Nayar:

The EBITDA in the coal trading was 366 crores out of margin of 4.8% on volumes of 16.4 million metric tons and revenues of 7673. The 4.8% which is a key number compares with 3.8% in the same period of the prior year and 2% in the second quarter sequentially. Second quarter is usually soft anyway on volumes is low. So I think the biggest impact and one-offs like GST in the second quarter and of course the monsoon, which is a seasonal issue. I think you would have picked up in the press that there has been a spike up in coal imports starting from the third quarter which obviously had a significant positive benefit for this business.

Ashish Shah:

We also have another block called Gare Palma now, so what is the development timeframe expected for that block?

Rajiv Nayar:

Full ramp-up in FY20, 4 million tons that is what we are saying.



Ashish Shah: And it should start operations sometimes in next year FY19?

Rajiv Nayar: Correct. I think somebody had a question earlier about MDO volumes

as well. FY17 volume about 7.3 million tons so there will be a pick up and we expect a big pick up in volumes within 18 and 19 once the blockage around the Sarguja rail corridor gets addressed which is

March 18 target.

Ashish Shah: Just coming back to Gare Palma what would be the broad economics

of this in terms of what is the price at which we supply the coal and what could be the estimated mining cost CAPEX, any details that you

could share?

Rajiv Nayar: I think I have will have to get my MDO CFO to answer some of the

specifics questions which we will arrange.

Moderator: We take the next question from the line of Mithun from GeeCee

Investments. Please go ahead.

Mithun: If you can share what was the EBITDA we did in the MDO business?

Rajiv Nayar: MDO business Q3 EBITDA was 92 crores.

Mithun: What was it in last year?

Rajiv Nayar: Same period last year was 88.

Mithun: In case of the Solar manufacturing if you can share some details that

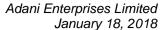
how much megawatts and revenue we would have done.

Rajiv Nayar: Q3 166 MW modules versus 101 in Q2 and Q3 EBITDA was 74

versus 116 in Q2.

Mithun: What was the realization per megawatt or revenue?

Rajiv Nayar: It should be close to 45 cents.





Mithun: Coming to Renewables the total operational capacity would be about

1648 MW, is it right?

Vishwas Shah: Yes.

Mithun: We would have capitalized the same during the quarter?

Vishwas Shah: Yes.

Mithun: So to that extent the depreciation would have been provided or not yet

because the depreciation to that extent should have been increase,

right?

Vishwas Shah: Right. Since this is the WDV, so if you ask me if it's on 20th of

December, so 10 days depreciation proportionately would have gone

into the numbers of the total depreciation reported.

Mithun: So it will still be a very small number?

Vishwas Shah: Yes, so it depends upon the day of the capitalization or COD.

Mithun: Now the balance of the capacity what we are left with, by when do we

expect to be ready, the balance 550 MW?

Rajiv Nayar: By March 31.

Mithun: The impact of that would now come straight in the first quarter next

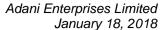
financial year?

Rajiv Navar: In the books of Adani Green Energy Limited.

Mithun: In the sense they should start giving the output from 1st of April or post

of that?

Rajiv Nayar: Right.





Moderator: We take the follow-up from the line of Mithun from GeeCee

Investments. Please go ahead.

Mithun: I just missed one question. What would be our gross debt and cash

position right now?

Rajiv Nayar: Total debt as of 31st of December, consolidated total debt as of 31st

December was 24,800 crores against which the cash was about 2200

crores.

Mithun: The debt for the Adani Green? You would be taking 100% of that,

right?

Rajiv Nayar: As of now yes that is about 6200 crores.

Moderator: Thank you. As there are no further questions from the participants I

would now lead to hand the conference over to Mr. Nayar for closing

comments.

Rajiv Nayar: Thank you all very much. I must acknowledge that the Q&A and the

number of participants have been very encouraging, and we very much

appreciate your renewed interest in our business and the various

segments of the businesses. What we are going to do is take a note

from this and make sure going forward that we invite some of our

operational CFOs to join these calls so that we can provide you the

more detailed information that you are seeking on these calls itself.

Thank you again for your time.

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.