

Buy

Result Update

- Q1 results were higher than our estimates. Revenue declined ~18% YoY to Rs 22.9Bn led by 27% YoY fall in volumes. Port revenue fell 21%YoY/QoQ. Logistics segment grew by 11% account of additional rail capacity usage. Adjusting to Rs 800mn COVID-19 donation and FX gain of Rs 371mn, EBITDA stood at Rs 14.4Bn, down 22% YoY. Margin was 62.7%, versus 66% YoY/56.3% QoQ. APAT was Rs 8Bn, lower 21% YoY driven by lower tax and improvement in cost.
- The management highlighted: (1) Price hikes and contract realignment benefitted realization (2) July volumes are improving MoM basis and expects trend to continue (3) Mundra surpassed JNPT to become largest container handling port in India (4) Container share at 38%.
- We are positive about the long-term prospects given commissioning and ramping up of new ports, sourcing of new cargo, and market share gains. Improvement in the EXIM cargo with opening of economy will boost the volumes further. We remain positive on the stock with the BUY rating and revised our SOTP based target to Rs 400. We have raised FY21E/FY22E EPS by 10%/11% on the back of lower tax rate and improvement in realization.

### Key Highlights

- Acquisitions and New Projects:** (1) Expects Krishnapatnam acquisition to get complete by Q2FY21, received CCI approval (2) Received approval from NCLT for Dighi Port. Expects to get complete by Q3FY21. Acquisition cost at Rs 6.5Bn. (3) Both the parties mutually agreed not to pursue the Snowman Logistics deal (5) Myanmar Port's Phase -1 will commission by Q3/Q4 FY21. Phase-2 will start when Phase -1 will achieve 70% utilization. (6) Vizhinjam Phase -1 is likely to get commission by CY22.
- Port YoY growth:** Dahej reported a decline of -57% YoY followed by Kattupalli (-35% YoY), Mundra (-30% YoY), Hazira (-29% YoY). Dhamra remained flat YoY.
- Q1FY21 Cargo volume** declined by 27% YoY to 41.4MMT led by decline of 45%/41% YoY in Crude/Coal followed by 19% fall in container. Cargo volumes in July stood at 18.30 MMT (Mundra 11.82MT), a growth of 6% YoY and 31% over June. **Cargo mix:** Container 43%, Coal 28%, Crude 10% and Others 19%.

### Q1FY21 Result (Rs Mn)

Particulars	Q1FY21	Q1FY20	YoY (%)	Q4FY20	QoQ (%)
Revenue	22,927	27,945	(18.0)	29,212	(21.5)
Total Expense	8,177	9,481	(13.7)	22,815	(64.2)
EBITDA	14,750	18,464	(20.1)	6,397	130.6
Depreciation	4,547	3,907	16.4	4,496	1.1
EBIT	10,203	14,557	(29.9)	1,901	436.6
Other Income	4,568	4,225	8.1	4,390	4.1
Interest	4,235	4,573	(7.4)	4,629	(8.5)
EBT	10,828	14,212	(23.8)	715	1415.1
Tax	1,851	3,333	(44.5)	(835)	(321.7)
RPAT	8,380	10,224	(18.0)	13,386	(37.4)
APAT	8,380	10,224	(18.0)	13,386	(37.4)
			(bps)		(bps)
Gross Margin (%)	93.9	95.3	(138)	94.8	(97)
EBITDA Margin (%)	64.3	66.1	(174)	21.9	4243
NPM (%)	36.6	36.6	(4)	45.8	(927)
Tax Rate (%)	17.1	23.5	(636)	(116.8)	13390
EBIT Margin (%)	44.5	52.1	(759)	6.5	3799

CMP	Rs 335
Target / Upside	Rs 400 / 19%
BSE Sensex	38,423
NSE Nifty	11,323

### Script Details

Equity / FV	Rs 4,064mn / Rs 2
Market Cap	Rs 681bn
	US\$ 9bn
52-week High/Low	Rs 429/Rs 203
Avg. Volume (no)	4,080,490
NSE Symbol	ADANIPTS
Bloomberg Code	ADSEZ IN

### Shareholding Pattern Jun'20(%)

Promoters	63.6
MF/Banks/FIs	16.7
FII	17.1
Public / Others	2.7

### Valuation (x)

	FY20A	FY21E	FY22E
P/E	12.8	14.0	11.2
EV/EBITDA	11.9	11.1	9.4
ROE (%)	15.0	17.5	18.8
RoACE (%)	13.5	11.8	12.8

### Estimates (Rs mn)

	FY20A	FY21E	FY22E
Revenue	118,731	122,861	139,821
EBITDA	75,654	79,859	92,981
PAT	53,106	48,589	60,511
EPS (Rs.)	26.1	23.9	29.8

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**Exhibit 1: Actual V/s DART estimates**

(Rs mn)	Actual	Estimated	% Variance	Consensus	% Variance	Remarks
Net sales	22,927	20,188	13.6	21,787	5.2	Price hike drove better realization offsetting the 27% volume decline Rs 800mn donation and Rs370mn FX gain along with improvement in cost efficiency drove EBITDA higher
EBITDA	14,379	13,111	9.7	12,842	12.0	
EBITDA margin (%)	62.7	64.9	-223bps	58.9	377bps	
Adj net income	8,380	5,862	43.0	5,863	42.9	Better operating profit, lower tax and higher other income led PAT beat
FDEPS (Rs)	4.0	2.8	43.0	2.8	42.9	

Source: Company, DART

We remain positive on the long-term prospects on the back of revival of growth in Exim trade, commissioning and ramping up of new ports, sourcing of new cargo and market share gains. Further, the consistent improvement in volume & cargo mix and greater utilization along with integration of acquisitions should improve the company's margin and return profile. We remain positive on the stock with the BUY rating and revise our SOTP based target to Rs 400. We have raised FY21E/FY22E EPS by 10%/11%

**Exhibit 2: Change in estimates**

Key parameters	FY21E			FY22E		
	Old	New	% Chg	Old	New	% Chg
Revenue (Rs mn)	1,19,810	1,23,054	2.7	1,35,690	1,40,039	3.2
EBITDA (Rs mn)	77,876	79,985	2.7	90,234	93,126	3.2
EBITDA margin (%)	65.0	65.0	0bps	66.5	66.5	0bps
Net profit (Rs mn)	44,081	48,690	10.5	54,688	60,627	10.9
EPS (Rs)	21.3	23.5	10.5	26.4	29.3	10.9

Source: Company, DART

We have not factored in the financials of Krishnapatnam Port and Dighi port in our numbers as we await completion of these acquisitions.

**Exhibit 3: SOTP**

Ports	Holding (%)	Method	Value INR mn	Value per share
Mundra Port & SEZ	100	DCF	3,05,548	150
Adani Logistics	100	BV	6,500	3
Hazira Port	100	DCF	1,79,919	89
Dhamra Port	100	DCF	1,82,445	90
Dahej Port	74	DCF	93,162	46
Vizag Port	100	DCF	2,591	1
Mormugao Port	74	DCF	13,285	7
Kandla Port	74	DCF	7,437	4
Ennore Port	74	DCF	6,990	3
Kattupalli Port	100	NAV	14,581	7
<b>Total</b>			<b>8,12,458</b>	<b>400</b>

Source: Company, DART

## Ports wise

- **Mundra:** (1) Revenue declined 34% YoY driven by 30%/5% drop in volumes and realization. The SEZ income for the quarter was just Rs70mn. Company maintains the view to receive Rs 8-10Bn SEZ income in FY21. Adjusting Rs 600mn towards COVID1-9 EBITDA came lower 51% to Rs 3.8Bn. with margins at 48.5% vs average run-rate of 65-68%.
- **Dhamra Port:** (1) Revenue declined by 4% YoY driven by 4% realization drop while volumes remained stable. This revenue fall was due to increase in STS cargo. EBITDA margins stood at 61%. Port remained shut for 2 days due to cyclone.
- **Kattupalli Port:** Increase in liquids handling, diversification of cargo resulted in revenue and EBITDA increase despite 35% decline in cargo volume primarily of auto ancillary. Change in cargo mix and improvement in operational efficiency resulted in 360 bps increase in EBITDA margin to 63%.
- **Hazira:** Higher liquid realization and forex realizations cushioned decrease in revenue in spite of 29% decline in cargo volume. EBITDA margin came higher at 79% (~580bps QoQ/+260bps YoY) on account of change in cargo mix.
- **Dahej:** The revenue fall of 53% YoY was driven by -57% fall in volumes. Margins came at 58% vs 63% YoY/57% QoQ as fixed cost remained same while volume decreased.
- **Adani Logistics:** (1) Revenue increased by 10% YoY/lower 30% QoQ to Rs 2Bn due 37% YoY growth in rail volume, new routes and addition of B2B. EBITDA stood at Rs 430mn, down 20% YoY/ -20% QoQ on account of Rs 45mn setup expenses for inland waterways and Rs80mn for accounting of lease revenue for AALL. Rail volume under Logistics increased by 37% from 56,060 TEUs to 76,925 TEUs ALL. Currently operates 60 rakes and 5 logistics park. ALL is also developing logistics park in Nagpur and warehouses in Taloja and Mundra which will be operational in H2FY21. AALL has 8 silos construction under different stages.
- **Adani Harbour:** Revenue and EBITDA declined lower than cargo volume decline due to increase in tariff and depreciation of rupee. Adjusting to Rs 200mn paid for COVID-19 donation, margins came lower at 76% vs 92% YoY/87% QoQ.

## Acquisitions

- **Krishnapatnam:** The company has received CCI approval for KPCL acquisition and is expected to complete by Sept-20 (Q2FY21). Seeing improvement in July.
- **Dighi Port:** Mumbai NCLT approved resolution plan of APSEZ, completion expected by Q3FY21. Current capacity at 8MMT and targets to handle 3-3.5MMT by FY22. Additional Rs 1.5Bn will be required for operational over Rs 6.5Bn cost.
- **Snowman Logistics:** Both the parties mutually agreed not to pursue the deal further. ALL will continue to be a minority shareholder with 26% holding
- **Myanmar Port:** Phase -1 will commission by Q3FY21 or Q4FY21. Phase-2 will start when Phase -1 will achieve 70% utilization.
- **Vizhinjam Port:** Phase -1 is likely to get commission by CY22

## Other concall highlights

- (1) Raised \$750mn bonds in July, Can raise maximum \$1.25Bn and will be utilized for repayment of existing debts. This bonds will be issued on private placement basis. (2) Mr. P. S. Jayakumar has been appointed as Additional Director (Non-Executive, Independent) of the Company for a period of 5years (3) APSEZ is the

only Port in the country and 7<sup>th</sup> port in the world to sign the commitment letter to Science Based Targets initiative (SBTi) (4) Has also signed commitment as a support to the Taskforce on Climate Related Financial Disclosure (TCFD) (5) Adani Logistics Limited has successfully completed its first ever containerized cargo export from India to Bangladesh utilizing Inland Waterways

- **DFC:** Connectivity to get complete latest by December 2020 vs earlier expectation of August.
- **East: West coast parity** in terms of distribution of assets and hinterland reach stood at 20:80% vs 17:83% YoY.
- Earlier **Import: Export mix** stood at 80:20% which has shifted to 40:60% favoring more exports (July). Shipping line realigning empty containers came as a surprise. Good growth seen in exports to US/middle East from Mundra and Hazira.
- **US-China trade war:** Shifting of companies out from China should benefit India, however shift still 3-6months away. The trade war should benefit Mundra by higher Petro-chem products exports along with few other commodities, Kattupalli with white goods and electronics and Dhamra with fisheries and agriculture products. Container volumes from China remains lower at ~5%.

#### Exhibit 4: Ports/segment Revenue

Particulars (Rs mn)	Q1FY20	Q2FY20	Q3FY20	Q4FY20	Q1FY21	YoY (%)	QoQ(%)
Mundra	12,043	10,840	11,830	11,850	7,977	(33.8)	(32.7)
Dhamra	3,140	3,670	3,740	3,750	3,029	(3.5)	(19.2)
Hazira	2,990	3,320	3,410	3,012	2,780	(7.0)	(7.7)
Dahej	840	820	820	813	395	(53.0)	(51.4)
Kattupalli	550	730	670	702	576	4.8	(17.9)
Adani Logistics Ltd	1,810	2,560	2,400	2,860	2,001	10.6	(30.0)
Harbour Service	3,342	3,870	3,510	3,696	2,803	(16.1)	(24.2)

Source: Company, DART

#### Exhibit 5: Ports/segment EBITDA

Particulars (Rs mn)	Q1FY20	Q2FY20	Q3FY20	Q4FY20	Q1FY21	YoY (%)	QoQ(%)
Mundra	7,948	7,210	8,130	7,000	3,838	(51.7)	(45.2)
Dhamra	1,920	2,370	2,380	2,315	1,849	(3.7)	(20.2)
Hazira	2,270	2,590	2,490	2,192	2,183	(3.8)	(0.4)
Dahej	530	490	460	463	229	(56.9)	(50.6)
Kattupalli	330	470	370	437	361	9.3	(17.5)
Adani Logistics Ltd	540	720	580	490	430	(20.4)	(12.2)
Harbour Service	3,062	3,480	3,080	3,208	2,135	(30.3)	(33.5)

Source: Company, DART

#### Exhibit 6: Ports/segment EBITDA Margin

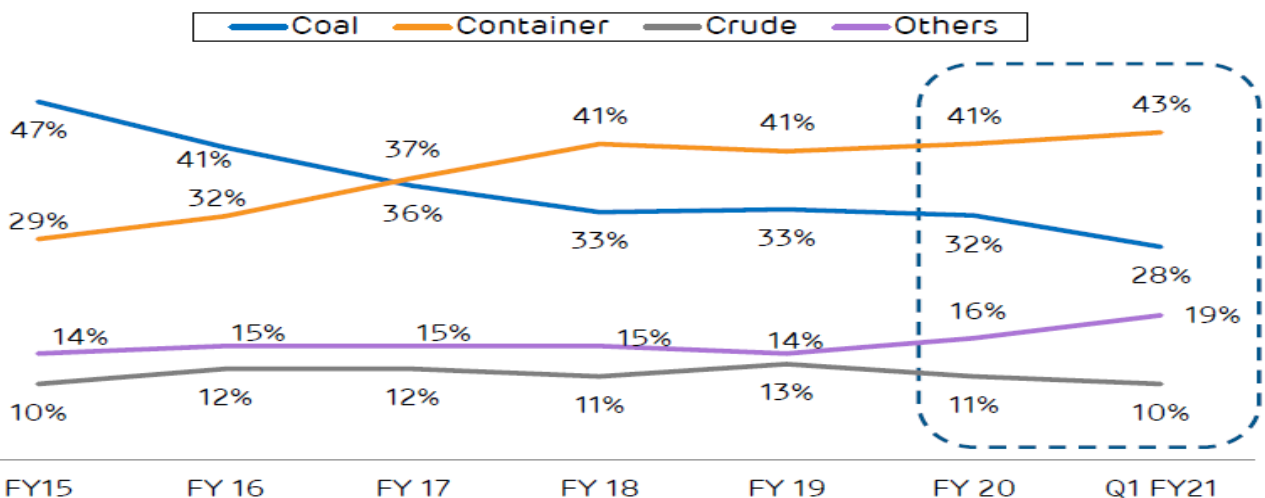
Particulars (%)	Q1FY20	Q2FY20	Q3FY20	Q4FY20	Q1FY21	YoY (%)	QoQ(%)
Mundra	66.0	66.5	68.7	59.1	48.1	-1788bps	-1096bps
Dhamra	61.1	64.6	63.6	61.7	61.0	-11bps	-71bps
Hazira	75.9	78.0	73.0	72.7	78.5	263bps	580bps
Dahej	63.1	59.8	56.1	56.9	57.8	-526bps	92bps
Kattupalli	60.0	64.4	55.2	62.3	62.6	257bps	27bps
Adani Logistics Ltd	29.8	28.1	24.2	17.1	21.5	-835bps	435bps
Harbour Service	91.6	89.9	87.7	86.8	76.2	-1545bps	-1064bps

Source: Company, DART

### Cargo-wise

- APSEZ handled 1.23 mn TEUs out of 3.22 mn TEUs of all India container volume taking the market share to 38%. Mundra handled 0.97mn TEUs, down 18% YoY.
- Total cargo handled in Q1FY21 was 41.41 MMT (-27% YoY).** This was led by fall of 45%/41% in crude and coal followed by 19% YoY in container and -6%YoY in others cargos. The cargo composition as follows: Container 43%, Coal 28%, Crude 10% and Others 19%.
- Mundra:** Mundra Port (0.97 mn TEUs) surpassed JNPT (0.85 mn TEUs) to become largest container handling port in India. The company handled 25.75 MMT, down 30% YoY/ down 27% QoQ of which coal volumes was 5.2MMT, down 49% YoY. This was on account of decline in coal share from 16% to 12%. The Lower PLF of Adani Power (48% vs.81%) and Tata Power (69% vs. 80%) along with lower demand of trading coal drove the fall. Crude share decreased to 15% from 16% due to lower imports by IOCL and HMEL. Container segment saw decline of 18% YoY/-22% QoQ to 14.2MMT. Containers share increased to 55% from 47%. Newer services like Rock Phosphate (Midgulf Service India Pvt. Ltd) and Container for UIG Service were started in Q1. CT1 terminal witnessed a sharp decline of 41% YoY followed by CT4/CT2 with -27%/-25% YoY fall. CT3 reported a growth of 6% YoY. Transshipment volumes were higher at 24% vs 18%. Mundra volume in July 2020 handles 11.82 MMT, a growth of 6%.
- Kattupalli** cargo volumes (1.48 MMT) declined by 35% YoY driven by fall of 40% in container and sharp uptake in other cargos. Container volume impacted due to shutdown of auto ancillary units in the hinterland. However, the port has been able to maintain its market share in the region.
- Hazira** cargo volumes (3.86 MMT) declined by 30% YoY driven by weak demand in coal (-50% YoY) followed by container (-8% YoY) and Liquid (-4% YoY). Liquid tanks capacity -Phase III operationalized (45,631 KL). Share of container increased from 38% to 49% YoY.
- Dahej** cargo volumes (0.7 MMT) declined by 57% YoY driven by -55% coal due to reduction in coal import. Other cargos witnessed 63% YoY fall.
- Dhamra** cargo volumes (6.36 MMT) remained stable YoY driven by 16% drop in coal offset by 20% YoY growth on other cargos. Nickel plate (for L&T Hydrocarbon) added as new cargo along with new customers.

Exhibit 7: Cargo Composition



Source: Company, DART

**Profit and Loss Account**

(Rs Mn)	FY19A	FY20A	FY21E	FY22E
<b>Revenue</b>	<b>109,254</b>	<b>118,731</b>	<b>122,861</b>	<b>139,821</b>
<b>Total Expense</b>	<b>38,580</b>	<b>43,077</b>	<b>43,001</b>	<b>46,840</b>
COGS	27,608	30,973	31,329	34,256
Employees Cost	5,298	5,465	5,529	6,292
Other expenses	5,674	6,639	6,143	6,292
<b>EBIDTA</b>	<b>70,675</b>	<b>75,654</b>	<b>79,859</b>	<b>92,981</b>
Depreciation	13,735	16,803	18,737	19,315
<b>EBIT</b>	<b>56,940</b>	<b>58,851</b>	<b>61,122</b>	<b>73,666</b>
Interest	9,265	19,506	19,324	18,331
Other Income	13,623	18,614	18,614	19,916
Exc. / E.O. items	(5,018)	(15,475)	0	0
<b>EBT</b>	<b>56,280</b>	<b>42,483</b>	<b>60,411</b>	<b>75,251</b>
Tax	10,815	4,594	12,082	15,050
RPAT	39,902	37,631	48,589	60,511
Minority Interest	(545)	(258)	260	310
<b>Profit/Loss share of associates</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>APAT</b>	<b>44,920</b>	<b>53,106</b>	<b>48,589</b>	<b>60,511</b>

**Balance Sheet**

(Rs Mn)	FY19A	FY20A	FY21E	FY22E
<b>Sources of Funds</b>				
Equity Capital	4,142	4,064	4,064	4,064
Minority Interest	2,099	2,196	2,196	2,196
Reserves & Surplus	241,240	252,171	294,116	342,487
<b>Net Worth</b>	<b>245,382</b>	<b>256,235</b>	<b>298,180</b>	<b>346,550</b>
Total Debt	271,879	294,627	291,879	276,879
Net Deferred Tax Liability	2,160	2,870	2,870	2,870
<b>Total Capital Employed</b>	<b>521,521</b>	<b>555,928</b>	<b>595,124</b>	<b>628,495</b>

**Applications of Funds**

Net Block	<b>270,026</b>	<b>326,101</b>	<b>331,375</b>	<b>347,745</b>
CWIP	44,835	32,163	32,163	32,163
Investments	7,823	11,780	21,780	31,780
<b>Current Assets, Loans &amp; Advances</b>	<b>231,403</b>	<b>250,948</b>	<b>268,679</b>	<b>296,302</b>
Inventories	8,067	2,883	6,395	7,278
Receivables	24,319	25,891	28,611	32,561
Cash and Bank Balances	59,673	73,139	84,466	86,660
Loans and Advances	139,344	149,036	149,206	169,802
Other Current Assets	0	0	0	0
<b>Less: Current Liabilities &amp; Provisions</b>	<b>43,754</b>	<b>66,109</b>	<b>55,906</b>	<b>60,843</b>
Payables	42,722	64,964	54,779	59,561
Other Current Liabilities	1,032	1,145	1,126	1,282
sub total				
Net Current Assets	187,649	184,840	212,773	235,458
<b>Total Assets</b>	<b>521,521</b>	<b>555,928</b>	<b>595,124</b>	<b>628,495</b>

E – Estimates

**Important Ratios**

Particulars	FY19A	FY20A	FY21E	FY22E
<b>(A) Margins (%)</b>				
Gross Profit Margin	74.7	73.9	74.5	75.5
EBIDTA Margin	64.7	63.7	65.0	66.5
EBIT Margin	52.1	49.6	49.7	52.7
Tax rate	19.2	10.8	20.0	20.0
Net Profit Margin	36.5	31.7	39.5	43.3
<b>(B) As Percentage of Net Sales (%)</b>				
COGS	25.3	26.1	25.5	24.5
Employee	4.8	4.6	4.5	4.5
Other	5.2	5.6	5.0	4.5
<b>(C) Measure of Financial Status</b>				
Gross Debt / Equity	1.1	1.1	1.0	0.8
Interest Coverage	6.1	3.0	3.2	4.0
Inventory days	27	9	19	19
Debtors days	81	80	85	85
Average Cost of Debt	3.8	6.9	6.6	6.4
Payable days	143	200	163	155
Working Capital days	627	568	632	615
FA T/O	0.4	0.4	0.4	0.4
<b>(D) Measures of Investment</b>				
AEPS (Rs)	22.1	26.1	23.9	29.8
CEPS (Rs)	28.9	34.4	33.1	39.3
DPS (Rs)	1.7	3.2	4.1	4.1
Dividend Payout (%)	7.9	12.2	17.1	13.8
BVPS (Rs)	120.8	126.1	146.8	170.6
RoANW (%)	17.5	15.0	17.5	18.8
RoACE (%)	12.6	13.5	11.8	12.8
RoAIC (%)	13.2	12.5	12.3	14.0
<b>(E) Valuation Ratios</b>				
CMP (Rs)	335	335	335	335
P/E	15.2	12.8	14.0	11.2
Mcap (Rs Mn)	680,636	680,636	680,636	680,636
MCap/ Sales	6.2	5.7	5.5	4.9
EV	892,842	902,125	888,049	870,855
EV/Sales	8.2	7.6	7.2	6.2
EV/EBITDA	12.6	11.9	11.1	9.4
P/BV	2.8	2.7	2.3	2.0
Dividend Yield (%)	0.5	1.0	1.2	1.2
<b>(F) Growth Rate (%)</b>				
Revenue	(3.5)	8.7	3.5	13.8
EBITDA	(1.1)	7.0	5.6	16.4
EBIT	(4.4)	3.4	3.9	20.5
PBT	(9.0)	(24.5)	42.2	24.6
APAT	22.3	18.2	(8.5)	24.5
EPS	22.3	18.2	(8.5)	24.5
<b>Cash Flow</b>				
(Rs Mn)	FY19A	FY20A	FY21E	FY22E
CFO	60,294	74,018	51,171	57,439
CFI	(44,242)	(7,505)	(11,387)	(10,084)
CFF	14,062	(53,165)	(28,457)	(45,162)
FCFF	30,889	24,139	31,171	37,439
Opening Cash	29,675	59,790	73,139	84,466
Closing Cash	59,789	73,138	84,466	86,659

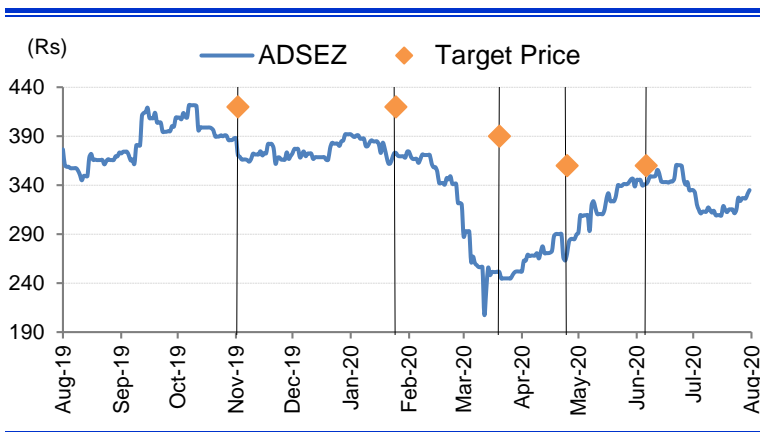
E – Estimates

### DART RATING MATRIX

Total Return Expectation (12 Months)

<b>Buy</b>	<b>&gt; 20%</b>
<b>Accumulate</b>	<b>10 to 20%</b>
<b>Reduce</b>	<b>0 to 10%</b>
<b>Sell</b>	<b>&lt; 0%</b>

### Rating and Target Price History



Month	Rating	TP (Rs.)	Price (Rs.)
Nov-19	Accumulate	420	371
Feb-20	Accumulate	420	373
Mar-20	Buy	390	251
May-20	Accumulate	360	270
Jun-20	Buy	360	341

Price as on recommendation date

### DART Team

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