

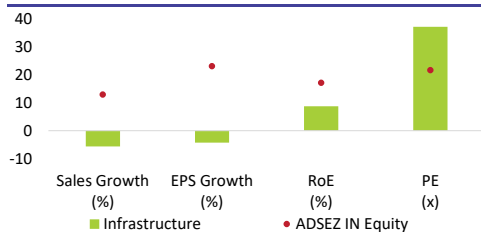
ADANI PORTS & SEZ

COMPANY UPDATE

KEY DATA

Rating	BUY
Sector relative	Outperformer
Price (INR)	499
12 month price target (INR)	600
Market cap (INR bn/USD bn)	1,014/13.9
Free float/Foreign ownership (%)	36.3/3.0
What's Changed	
Target Price	↑
Rating/Risk Rating	—

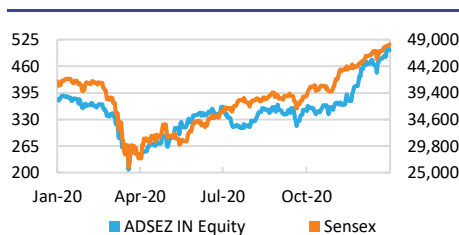
INVESTMENT METRICS



FINANCIALS

Year to March	FY20A	FY21E	FY22E	FY23E
Revenue	1,18,731	1,34,017	1,71,682	1,97,760
EBITDA	59,390	88,811	1,16,304	1,34,592
Adjusted profit	38,218	47,017	60,352	72,090
Diluted EPS (INR)	18.8	23.1	29.7	35.5
EPS growth (%)	(4.1)	23.0	28.4	19.4
RoAE (%)	15.0	17.1	18.9	19.4
P/E (x)	26.5	21.6	16.8	14.1
EV/EBITDA (x)	21.1	14.9	11.2	9.4
Dividend yield (%)	0.6	0.8	1.2	1.4

PRICE PERFORMANCE



Explore:



Financial model



Podcast



Corporate access



Video

Buoyant volumes here to stay

Adani Ports & SEZ's (APSEZ) volume recovery (13% in past six months) symbolises a Nike Swoosh or V shape? Regardless of the semantics, we believe the volume momentum will sustain driven by: 1) external factors like global & local trade momentum; and 2) importantly, internal factors like market share gains, cargo diversification, improved hinterland, cargo stickiness, among others. Regular price hikes further enhance earnings prospects.

Riding a much sharper-than-expected recovery (7% beat on Q3 volume estimates), we raise FY21-23E EPS by 10%. We also roll forward our valuation to Q1FY23E and accordingly raise our TP to INR600 (earlier INR520). Maintain 'BUY'.

Pandemic impact on volumes nullified; robust growth visibility

With a pandemic-driven ~30% YoY dip in Q1 volumes, FY21 was estimated to be a step back for APSEZ's growth story. However, the company has surprised pleasantly with a sharp 13%/20% organic growth in H2CY20/Q3FY21 (22%/37% including KPCL), ending 9mFY21 flat YoY (ex-KPCL). This compares with an industry decline of 11% in similar period, denoting further market share gains for APSEZ. With economic recovery gathering steam, we expect the current demand momentum to sustain. Moreover, APSEZ continues to hike tariff in the marine business (seasonal hike in January) as well as contracted customers (70% volumes; hike in March), in line with WPI inflation of ~3%. Thus, we believe, the pandemic has further entrenched APSEZ's dominance, which will enable this growth juggernaut to continue to roll.

KPCL: A growth driver in the making

The acquisition of Krishnapatnam Port (KPCL) is already delivering ~1,500bps margin expansion in six months. With the approval of industrial area at Krishnapatnam, the opportunity size gets further expanded to 260MT. Additionally, there could be SEZ business as well. We believe the highly scalable KPCL will substantially contribute towards the next leg of APSEZ's growth and margin expansion as it captures India's mineral-rich East coast.

Outlook and valuation: In smooth waters; maintain 'BUY'

APSEZ's volume growth has seen a better-than-expected uptick, and we believe the volume rebound is less attributable to pent-up demand and is sustainable. With global trade momentum on the rise in the wake of economic recovery, APSEZ's scale, leadership and extended gate operations should enable it to exploit the opportunity.

We had earlier argued (refer to, [Besieged, but not adrift](#)) that APSEZ was best prepared to withstand the covid turmoil. We remain 10% higher than consensus and expect them to follow suit. Our revised SOTP-based TP of INR600 implies an exit EV/EBITDA of 11.5x on FY23E earnings, which is reasonable in our view. Promoter pledge and currency fluctuation are key risks, which we have factored through higher COE at 12.0-12.5%. Any material change could impact our earnings and TP. We maintain 'BUY/SO'.

Financial Statements (Consolidated)

Income Statement (INR mn)

Year to March	FY20A	FY21E	FY22E	FY23E
Total operating income	1,18,731	1,34,017	1,71,682	1,97,760
Gross profit	87,758	1,00,905	1,30,672	1,51,426
Employee costs	5,465	5,991	6,821	7,702
Other expenses	22,903	6,103	7,547	9,132
EBITDA	59,390	88,811	1,16,304	1,34,592
Depreciation	16,803	19,557	22,392	22,810
Less: Interest expense	18,131	22,739	27,086	27,284
Add: Other income	18,614	17,664	17,020	16,641
Profit before tax	43,026	64,179	83,847	1,01,139
Prov for tax	4,594	16,687	21,800	26,296
Less: Other adj	(586)	0	0	0
Reported profit	37,631	47,017	60,352	72,090
Less: Excp.item (net)	586	0	0	0
Adjusted profit	38,218	47,017	60,352	72,090
Diluted shares o/s	2,032	2,032	2,032	2,032
Adjusted diluted EPS	18.8	23.1	29.7	35.5
DPS (INR)	3.2	4.0	5.9	7.1
Tax rate (%)	10.7	26.0	26.0	26.0

Important Ratios (%)

Year to March	FY20A	FY21E	FY22E	FY23E
Operating cost (% of rev)	26.1	24.7	23.9	23.4
Employee cost (% of rev)	4.6	4.5	4.0	3.9
Oth. expenses (% of rev)	19.3	4.6	4.4	4.6
EBITDA margin (%)	50.0	66.3	67.7	68.1
Net profit margin (%)	32.2	35.1	35.2	36.5
Revenue growth (% YoY)	8.7	12.9	28.1	15.2
EBITDA growth (% YoY)	(9.9)	49.5	31.0	15.7
Adj. profit growth (%)	(5.8)	23.0	28.4	19.4

Assumptions (%)

Year to March	FY20A	FY21E	FY22E	FY23E
GDP (YoY %)	4.8	(6.0)	7.0	6.0
Repo rate (%)	4.4	3.5	3.5	4.0
USD/INR (average)	70.7	75.0	73.0	72.0
Totl cargo (ex KPCL; MT)	222.7	229.8	257.1	284.6
Mun realisation (INR/t)	293.5	341.3	360.5	367.5
Ports EBITDA margin (%)	53.8	70.8	71.3	71.9
SEZ revenues (INR mn)	9,010.6	7,965.7	8,308.7	8,576.3
ALL revenues (INR mn)	9,641.3	9,841.5	12,491.4	14,756.2
ABPO revenues (INR mn)	5,161.8	5,265.1	5,370.4	5,477.8

Valuation Metrics

Year to March	FY20A	FY21E	FY22E	FY23E
Diluted P/E (x)	26.5	21.6	16.8	14.1
Price/BV (x)	4.0	3.4	3.0	2.5
EV/EBITDA (x)	21.1	14.9	11.2	9.4
Dividend yield (%)	0.6	0.8	1.2	1.4

Source: Company and Edelweiss estimates

Balance Sheet (INR mn)

Year to March	FY20A	FY21E	FY22E	FY23E
Share capital	4,064	4,064	4,064	4,064
Reserves	2,52,171	2,91,065	3,39,347	3,97,019
Shareholders funds	2,56,235	2,95,129	3,43,410	4,01,082
Minority interest	2,196	2,671	4,366	7,119
Borrowings	3,10,616	3,78,988	3,71,044	3,54,336
Trade payables	7,287	5,552	6,801	7,757
Other liabs & prov	23,744	24,735	25,775	26,867
Total liabilities	6,22,037	7,29,033	7,73,354	8,19,121
Net block	2,74,879	3,73,357	3,70,998	3,92,723
Intangible assets	19,404	19,404	19,404	19,404
Capital WIP	32,163	16,253	21,405	1,298
Total fixed assets	3,26,446	4,09,014	4,11,807	4,13,425
Non current inv	11,661	40,411	50,411	60,411
Cash/cash equivalent	73,139	71,227	85,102	97,889
Sundry debtors	25,891	25,967	35,595	48,078
Loans & advances	18,529	19,455	22,374	25,730
Other assets	42,737	44,324	49,431	54,954
Total assets	6,22,037	7,29,033	7,73,354	8,19,121

Free Cash Flow (INR mn)

Year to March	FY20A	FY21E	FY22E	FY23E
Reported profit	37,631	47,017	60,352	72,090
Add: Depreciation	16,803	19,557	22,392	22,810
Interest (net of tax)	16,195	16,827	20,044	20,190
Others	(2,621)	(11,277)	(8,283)	(6,794)
Less: Changes in WC	6,009	1,665	(15,364)	(19,313)
Operating cash flow	74,018	73,789	79,140	88,982
Less: Capex	(36,149)	(1,02,125)	(25,185)	(24,427)
Free cash flow	37,869	(28,335)	53,955	64,555

Key Ratios

Year to March	FY20A	FY21E	FY22E	FY23E
RoE (%)	15.0	17.1	18.9	19.4
RoCE (%)	11.1	14.0	15.9	17.3
Inventory days	65	33	31	32
Receivable days	77	71	65	77
Payable days	77	71	55	57
Working cap (% sales)	39.5	37.5	38.2	42.9
Gross debt/equity (x)	1.2	1.3	1.1	0.9
Net debt/equity (x)	0.9	1.0	0.8	0.6
Interest coverage (x)	2.3	3.0	3.5	4.1

Valuation Drivers

Year to March	FY20A	FY21E	FY22E	FY23E
EPS growth (%)	(4.1)	23.0	28.4	19.4
RoE (%)	15.0	17.1	18.9	19.4
EBITDA growth (%)	(9.9)	49.5	31.0	15.7
Payout ratio (%)	17.3	17.3	20.0	20.0

Exhibit 1: World trade was dealt a severe blow in 2020



Source: Comtrade, Edelweiss Research

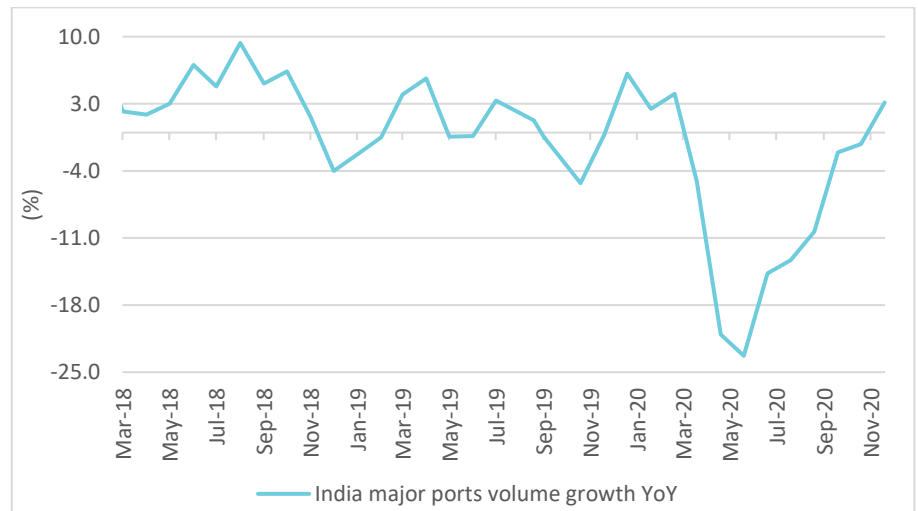
Exhibit 2: Exports led the recovery in India with imports picking up recently

While Q2 cargo growth was led by exports, Q3 growth was majorly led by imports.



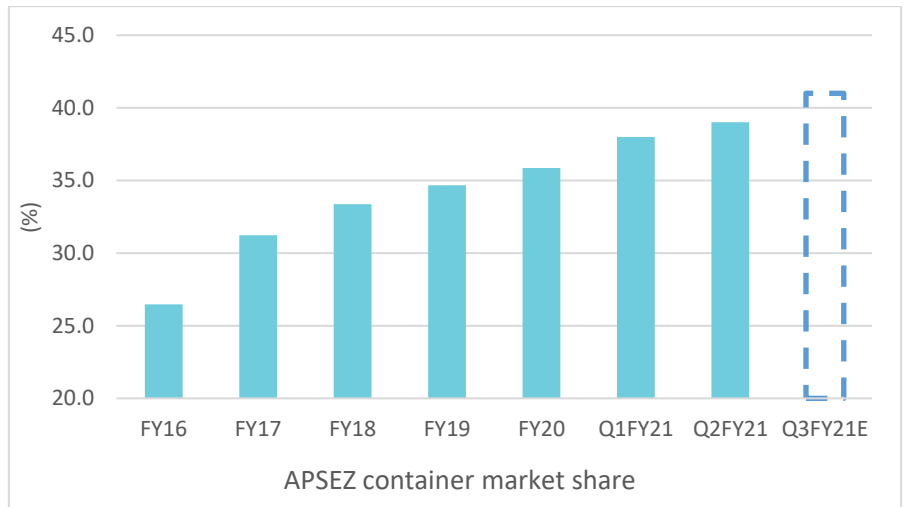
Source: CMIE, Edelweiss Research

Exhibit 3: Ports participated in the recovery, in a typical V-shape



Source: IPA, Edelweiss Research

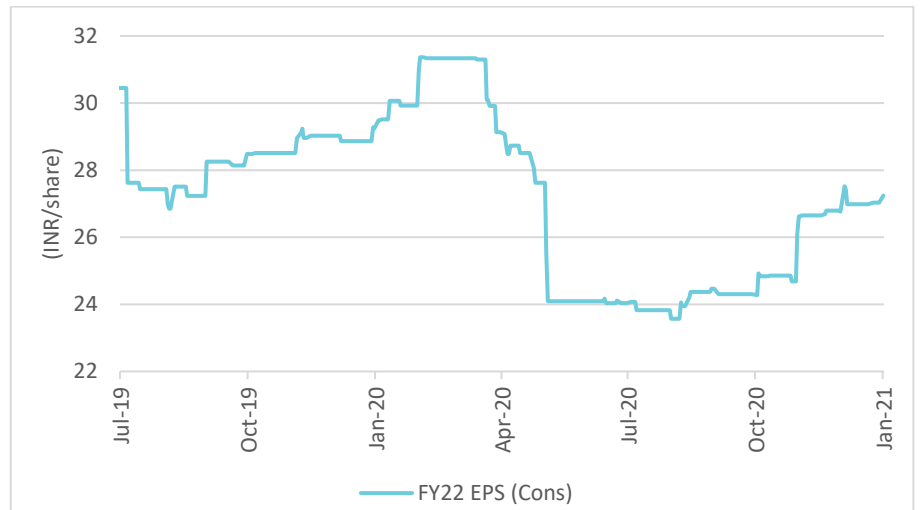
Exhibit 4: APSEZ further strengthened its leadership amid the crisis



Our calculations indicate that APSEZ has gained 100bps market share in Q3FY21.

Source: Edelweiss Research, Company

Exhibit 5: Robust performance has seen earnings upgrades



Source: Bloomberg, Edelweiss Research

Exhibit 6: However, we believe there is further upside to consensus earnings

(INR mn)	Consensus			Edel			Edel versus Consensus		
	FY21	FY22	FY23	FY21	FY22	FY23	FY21	FY22	FY23
Revenues (net)	1,28,142	1,59,492	1,78,910	1,34,017	1,71,682	1,97,760	5%	8%	11%
EBITDA	80,613	1,01,847	1,18,524	88,811	1,16,304	1,34,592	10%	14%	14%
EBITDA Margins (%)	62.9	63.9	66.2	66.3	67.7	68.2			
Net profit	46,019	56,769	65,554	47,017	60,352	72,090	2%	6%	10%

Source: Bloomberg, Edelweiss Research

Exhibit 7: SoTP valuation

	Method	CoE (%)	Value (INR mn)	Stake (%)	Value of stake (INR mn)	Price per share (INR)	% age of SOTP (%)
Mundra Port	DCF	12.3	3,45,286	100.0	3,45,286	170	28.3
CT3/4/5....	DCF	12.5	1,23,774	50.0	61,887	30	5.1
Harbour busniess	DCF	12.3	2,55,715	100.0	2,55,715	126	21.0
SEZ	DCF	12.5	61,216	100.0	61,216	30	5.0
Hazira Port	DCF	12.5	84,562	100.0	84,562	42	6.9
Dhamra Port	DCF	12.5	1,52,631	100.0	1,52,631	75	12.5
Katupalli Port	DCF	12.5	9,809	100.0	9,809	5	0.8
Myanmar port	DCF	12.5	15,303	100.0	15,303	8	1.3
Krishnapatnam port	NPV	12.2	1,38,662	75.0	1,03,997	51	8.5
Other ports	DCF	13.0	36,552		36,552	18	3.0
Cash & Investments	BV	H1FY21	92,000	100.0	92,000	45	7.5
Total			13,46,061		12,42,201	600	100.0

Source: Edelweiss Research

Additional Data

Management

CMD	Mr. Gautam S. Adani
CEO & WTD	Mr. Karan Adani
WTD	Dr. Malay Mahadevia
CFO	Deepak Maheswari
Auditor	Deloitte Haskins & Sells

Holdings – Top 10*

	% Holding		% Holding
Life Insurance	10.91	NEW WORLD FUND	2.30
Capital Group C	6.93	CAMAS INVS PTE	1.33
EMERGING MARKET	4.21	Vanguard Group	1.22
Universal Tradi	3.98	SBI Funds Manag	1.22
WORLDWIDE EMERG	3.89	BlackRock Inc	1.03

*Latest public data

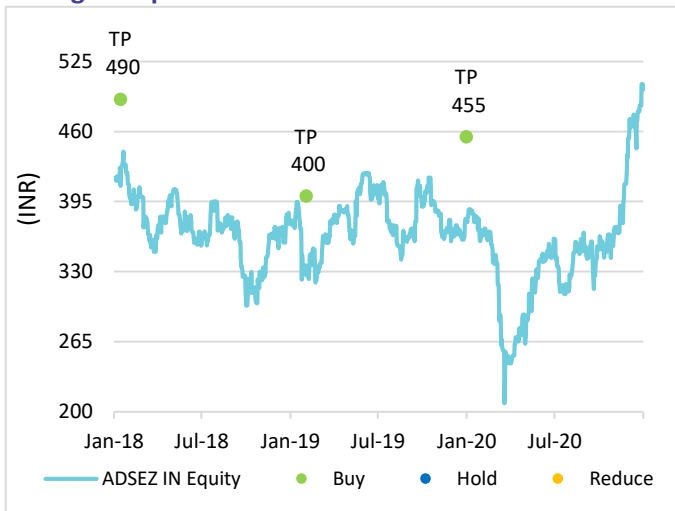
Recent Company Research

Date	Title	Price	Reco
04-Dec-20	Strong outlook anchors confidence; <i>Company Update</i>	450.7	Buy
03-Nov-20	Strong showing, pledge overhang stays; <i>Result Update</i>	353.9	Buy
06-Oct-20	KPCL takeover: The pearl sews the string; <i>Company Update</i>	350.35	Buy

Recent Sector Research

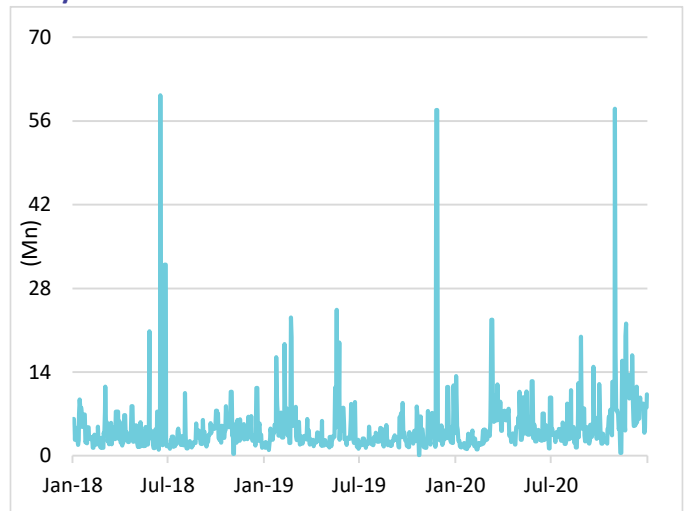
Date	Name of Co./Sector	Title
18-Nov-20	Ahluwalia Contracts	Execution bounces back smartly; <i>Result Update</i>
13-Nov-20	KNR Constructions	Balance sheet on the mend; <i>Result Update</i>
13-Nov-20	Capacite Infraprojects	Strong performance; <i>Result Update</i>

Rating Interpretation



Source: Bloomberg, Edelweiss research

Daily Volume



Source: Bloomberg

Rating Distribution: Edelweiss Research Coverage

	Buy	Hold	Reduce	Total
Rating Distribution*	162	64	14	240
	>50bn	>10bn and <50bn	<10bn	Total
Market Cap (INR)	186	57	5	248

* stocks under review

Rating Rationale

Rating	Expected absolute returns over 12 months
Buy:	>15%
Hold:	>15% and <-5%
Reduce:	<-5%

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