



India

HOLD (previously ADD)

Consensus ratings*: Buy 20 Hold 0 Sell 0

| | |
|------------------------------|--------------|
| Current price: | Rs824 |
| Target price: ▲ | Rs868 |
| Previous target: | Rs823 |
| Up/downside: | 5.3% |
| InCred Research / Consensus: | -3.3% |
| Reuters: | APSE.NS |
| Bloomberg: | ADSEZ IN |
| Market cap: | US\$21,510m |
| | Rs1,778,982m |
| Average daily turnover: | US\$71.0m |
| | Rs5872.6m |
| Current shares o/s: | 2,031.8m |
| Free float: | 6,413.0% |

*Source: Bloomberg

Key changes in this note

- Raise FY24F/25F EBITDA by 2% each.
- Raise target price by 5%.
- Downgrade the stock's rating to HOLD.



Source: Bloomberg

| Price performance | 1M | 3M | 12M |
|-------------------|------|------|--------|
| Absolute (%) | 9.0 | 12.2 | (2.2) |
| Relative (%) | 10.8 | 8.6 | (10.5) |

| Major shareholders | % held |
|-------------------------------------|---------|
| Promoter and Promoter Group | 6,513.0 |
| Life Insurance Corporation of India | 9.1 |
| Camas Investments Pvt. Ltd. | 1.2 |

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Adani Ports & Special Economic Zone Ltd

Fairly valued; listed group leverage lower than in FY22

- Net external debt (NED)/EBITDA in FY23 for seven listed Adani companies (SLAC), excl. Adani Wilmar (AWL) & Ambuja Cements, was 5.1x (like in FY20).
- We expect Adani Ports' cargo to grow 25% over FY23-25F. After a 40% rise in the stock's price in the last six months, we downgrade our rating on it to HOLD.

Financial analysis of seven listed Adani companies (SLAC) ex-AWL

SLAC trades at 27.6x FY23 EV/EBITDA, at a premium to Mar 2019/20 levels. Over FY20-23, ex-Ambuja Cements or ACL (acquired in FY23), net external debt (NED) rose 85%, in tandem with EBITDA. Ex-ACL, NED/EBITDA was at 5.1x, like in FY20 and better than that in FY22 (6.4x). Despite FY23 NED/EBITDA (ex-ACL) being similar to the FY20 level, EBITDA/net interest (external) ex-ACL (4x) was better because of a rise in the proportion of under-construction assets for AGEL (interest cost is capitalized) over FY20-23. Ex-ACL, FY23 NED/equity (including debt from the group) was at 1.3x, lower than in FY20/22, partly due to the Rs154bn equity raised from International Holding Company (IHC). Over FY21-23, capex (Rs2.1tr) was funded via cash profit (34%), incremental NED (46%) and others (20%; promoter funding/equity raising). As most of the assets are infrastructure projects, typically funded by 3:1 debt:equity, we feel the funding pattern is reasonable. The Adani group bought Holcim's India cement business in Sep 2022 for Rs502bn (24% of SLAC FY23 NED). We feel that if the cement assets had been acquired by SLAC, the NED/EBITDA ratio would have been at 5.8x.

Encumbered ACL shares raises pledged/encumbered holding

Pledged shares, as a percentage of promoter holding (ex-ACL) in Jun 2023 (6%; Rs357bn market value), was lower than that in Mar 2020 (43%). However, the promoter's entire holding in ACL is encumbered (Jun 2023). Thus, the value of the pledged/encumbered holding of SLAC is Rs910bn (14% of promoter holding). Net related party dues of SLAC to the unlisted Adani group in Mar 2023 were at Rs236bn (14% below the Mar 2022 level). This corresponds to 67% of the current market value of pledged shares (ex-ACL) and stood at 12% of FY23 NED of SLAC.

Marginally raise estimates and target price (TP); downgrade to HOLD

Over FY23-25F, we estimate APSEZ's volume to grow 25% (vs. 15% growth estimated for the sector) driven by a 35% growth in coal (37% of its FY23 cargo) mainly due to 18mt incremental coal at Adani Power & Tata Power's Mundra plants. We expect net debt/EBITDA ratio to be just 2.7x in FY24F. Our volume & EBITDA estimates for FY24F are in line with the company's guidance. We raise FY24F/25F EBITDA by 2% each and our target price by 5% (Rs868). After a 40% rise in CMP over the last six months, we downgrade APSEZ's rating from ADD to HOLD. APSEZ trades at 14.2x FY24F EV/EBITDA (7% premium to the 5-year median). Our SOTP-based TP implies a 12.4x FY24F EV/EBITDA (7% discount to 5-year median). Downside risk: Ramp-up delay at Adani Power & Tata Power's Mundra power plants. Upside risk: Higher-than-expected volume growth.

Financial Summary

| | Mar-21A | Mar-22A | Mar-23A | Mar-24F | Mar-25F |
|-----------------------------------|---------|---------|---------|---------|---------|
| Revenue (Rsm) | 125,496 | 151,390 | 208,519 | 239,082 | 272,703 |
| Operating EBITDA (Rsm) | 79,834 | 95,640 | 128,335 | 148,525 | 167,991 |
| Net Profit (Rsm) | 49,943 | 47,281 | 53,103 | 88,153 | 110,846 |
| Core EPS (Rs) | 22.3 | 26.5 | 38.1 | 40.8 | 51.3 |
| Core EPS Growth | (3.8%) | 18.8% | 43.8% | 7.1% | 25.7% |
| FD Core P/E (x) | 36.91 | 31.08 | 21.61 | 20.18 | 16.05 |
| DPS (Rs) | 5.0 | 5.0 | 5.0 | 0.7 | 2.0 |
| Dividend Yield | 0.74% | 0.74% | 0.74% | 0.11% | 0.29% |
| EV/EBITDA (x) | 24.86 | 21.61 | 17.52 | 14.71 | 12.36 |
| P/FCFE (x) | (33.35) | 53.21 | (17.36) | 36.83 | 27.40 |
| Net Gearing | 92.5% | 92.2% | 101.4% | 72.9% | 44.3% |
| P/BV (x) | 5.46 | 4.55 | 3.90 | 3.28 | 2.75 |
| ROE | 16.1% | 15.9% | 19.4% | 17.7% | 18.6% |
| % Change In Core EPS Estimates | | | | (0.57%) | 0.56% |
| InCred Research/Consensus EPS (x) | | | | | |

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Fairly valued; listed group leverage lower than in FY22

After a 46% decline in market capitalization (since 15 Jan 2023), SLAC trades at 27.6x FY23 EV/EBITDA ►

On 15 Jan 2023, the seven listed Adani group companies or SLAC (ex-Adani Wilmar) together traded at 46.9x FY23 EV/EBITDA and at 10.7x FY23 P/BV. Since then, the market capitalization of SLAC declined by 46%. Thus, SLAC now trades at 27.6x FY23 EV/EBITDA and at 5.8x FY23 P/BV. Despite the decline in market capitalization, SLAC trades at a premium to its valuation in Mar 2020/2019 (11.5x/12.9x FY20/19 EV/EBITDA and 2x/2.2x FY20/19 P/BV, respectively).

Figure 1: SLAC's market capitalization, net external debt (NED), loans from the group, EBITDA and EV/EBITDA

| | Market capitalisation (Rs bn) | | | | Net external Debt (Rs bn) | | | Loans from group (Rs bn) | | |
|--------------------|-------------------------------|---------------|---------------|---------------|---------------------------|--------------|--------------|--------------------------|------------|------------|
| | Mar 21 | Mar 22 | 15 Jan 23 | Latest | Mar 21 | Mar 22 | Mar 23 | Mar 21 | Mar 22 | Mar 23 |
| Total | 7,159 | 12,701 | 18,559 | 10,021 | 1,324 | 1,865 | 2,061 | 123 | 197 | 187 |
| Adani Enterprises | 1,217 | 2,128 | 4,126 | 2,856 | 107 | 254 | 388 | 44 | 132 | 105 |
| Adani Ports | 1,495 | 1,660 | 1,702 | 1,780 | 297 | 356 | 476 | - | - | - |
| Adani Power | 366 | 771 | 1,053 | 1,284 | 447 | 436 | 365 | 61 | 65 | 68 |
| Adani Transmission | 1,100 | 2,663 | 3,068 | 957 | 257 | 289 | 332 | - | - | 0 |
| Adani Green | 1,814 | 3,004 | 3,326 | 1,546 | 212 | 519 | 517 | 17 | 0 | 14 |
| Adani Total Gas | 1,166 | 2,473 | 4,232 | 723 | 5 | 11 | 13 | - | - | 0 |
| Ambuja Cements | - | - | 1,052 | 876 | - | - | (29) | - | - | - |
| | EV/EBITDA (x) | | | | EBITDA (Rs bn) | | | | | |
| | Mar 21 | Mar 22 | 15 Jan 23 | Latest | Mar 21 | Mar 22 | Mar 23 | | | |
| Total | 36.1 | 50.4 | 46.9 | 27.6 | 239 | 293 | 444 | | | |
| Adani Enterprises | 54.6 | 67.7 | 52.3 | 37.9 | 25 | 37 | 88 | | | |
| Adani Ports | 22.5 | 21.1 | 17.0 | 17.6 | 80 | 96 | 128 | | | |
| Adani Power | 14.8 | 18.6 | 19.4 | 22.4 | 59 | 68 | 77 | | | |
| Adani Transmission | 29.9 | 60.4 | 61.2 | 23.2 | 45 | 49 | 56 | | | |
| Adani Green | 91.4 | 100.4 | 78.2 | 42.1 | 22 | 35 | 49 | | | |
| Adani Total Gas | 166.2 | 321.4 | 488.1 | 84.6 | 7 | 8 | 9 | | | |
| Ambuja Cements | | | 27.7 | 22.9 | - | - | 37 | | | |

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Limitations of scope: Our analysis is limited to the Adani group companies listed on stock exchanges (ex-Adani Wilmar). They are Adani Enterprises (ADE), APSEZ, Adani Power (APL), Adani Transmission (ATL), Adani Green Energy (AGEL), Adani Total Gas (ATGL) and Ambuja Cements (ACL). This is only a financial analysis of historical numbers. A business analysis and a view on valuations of these companies (excluding APSEZ) are beyond our scope. We refrain from giving our opinion on the results of our analysis but just present the numbers for your perusal.

Adani Wilmar (AWL): We exclude AWL from our analysis ►

AWL is a 50:50 joint venture of Adani Enterprises (AEL) and the Wilmar group formed in FY21. After the Rs42bn initial public offer or IPO in Feb 2022, AEL holds a 44% stake in AWL (via a wholly-owned subsidiary called Adani Commodities LLP).

- Almost the entire holding of the Adani group in AWL was via AEL in FY21-23. Market capitalization of AEL factors in the valuation of the Adani group's holding in AWL.
- AEL's investment in AWL is recorded in AEL's consolidated balance sheet as investments (FY21-23). AEL's proportionate profit from AWL is recorded in AEL's consolidated income statement as a share of profit from joint ventures.

Figure 2: Key financials of AWL

| (Rs bn) | FY21 | FY22 | FY23 |
|-------------|-------|--------|--------|
| Sales | 370.9 | 542.1 | 581.8 |
| EBITDA | 13.3 | 17.4 | 16.6 |
| PAT | 6.5 | 7.7 | 5.5 |
| Net worth | 33.0 | 76.1 | 81.7 |
| Net Debt | 17.6 | (19.3) | (15.0) |
| Net Block | 42.3 | 49.8 | 51.2 |
| NWC | 5.0 | 3.4 | 11.6 |
| Investments | 3.3 | 3.6 | 3.9 |

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 3: Key financial ratios of AWL

| (%) | FY21 | FY22 | FY23 |
|---------------|------|------|------|
| EBITDA margin | 3.6 | 3.2 | 2.9 |
| PAT margin | 1.8 | 1.4 | 1.0 |
| NFA/ Sales | 11.4 | 9.2 | 8.8 |
| NWC/ Sales | 1.3 | 0.6 | 2.0 |
| RoCE | 22.4 | 26.8 | 20.8 |
| RoE | 19.8 | 10.2 | 6.8 |

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 4: Key leverage ratios and valuations of AWL

| | FY21 | FY22 | FY23 |
|----------------------|------|-------|-------|
| Net Debt/ EBITDA (x) | 1.3 | (1.1) | (0.9) |
| EBIT/ Interest (x) | 2.6 | 2.6 | 1.7 |
| Net Debt/ Equity (x) | 0.5 | (0.3) | (0.2) |
| P/E (x) | | | 89.7 |
| P/BV (x) | | | 6.1 |
| EV/EBITDA (x) | | | 29.0 |

SOURCE: INCRED RESEARCH, COMPANY REPORTS

NED/EBITDA in FY23 was reasonable, similar to the FY20 level ➔

Over FY20-23, net external debt (NED) rose by 82% for SLAC while EBITDA rose by 104%. Ex-ACL (acquired in FY23), NED (Rs2.1bn) rose by 85% and EBITDA (Rs407bn) increased in tandem (up 87%). The EBITDA growth was driven by ADE (up 232%), APSEZ (up 80%) and AGEL (up 240%). NED's rise was driven by ADE (up 500%), AGEL (up 277%) and APSEZ (up 115%).

FY23 NED/ EBITDA was at 4.6x. Ex-ACL, NED/ EBITDA was at 5.1x, like that in FY20 (5.2x). Ex-APSEZ and ACL, it was at 5.8x vs. 6.1x in FY20.

In FY23, EBITDA ex-ACL rose by 39% yoy while NED ex-ACL increased by 12% yoy. Thus, NED/ EBITDA ex-ACL improved from 6.4x (FY22) to 5.1x (FY23). The higher FY22 NED/ EBITDA was due to the acquisition of airports (2-3QFY22) and SB Energy (Sep 2021). While NED (Mar 22) included the entire debt of these acquisitions, only a part of their earnings accrued to SLAC's FY22 EBITDA.

FY23 NED/ equity ratio, including the debt from the group, was at 1.1x. Ex-ACL, it was at 1.3x, lower than 1.6x/1.5x in FY20/22, respectively, partly due to the Rs154bn equity raised by SLAC from International Holding Company (IHC) – AGEL (Rs38.5bn), ATL (Rs38.5bn) and ADE (Rs77bn). Ex-APSEZ and ACL, it was at 1.4x (2x in FY20).

Figure 5: Operating EBITDA, net external debt (NED), interest and equity for SLAC

| | EBITDA (Rs bn) | | | | Net external Debt (Rs bn) | | | | Net Interest (Rs bn) | | | |
|--------------------|--|-------------|--------------|--------------|--------------------------------------|--------------|--------------|--------------|---|-------------|-------------|-------------|
| | FY20 | FY21 | FY22 | FY23 | FY20 | FY21 | FY22 | FY23 | FY20 | FY21 | FY22 | FY23 |
| Total | 218 | 239 | 293 | 444 | 1,130 | 1,324 | 1,865 | 2,061 | 78 | 80 | 88 | 108 |
| Adani Enterprises | 27 | 25 | 37 | 88 | 65 | 107 | 254 | 388 | 9 | 6 | 15 | 28 |
| Adani Ports | 71 | 80 | 96 | 128 | 221 | 297 | 356 | 476 | 1 | 2 | 4 | 10 |
| Adani Power | 57 | 59 | 68 | 77 | 484 | 447 | 436 | 365 | 39 | 41 | 29 | 32 |
| Adani Transmission | 43 | 45 | 49 | 56 | 219 | 257 | 289 | 332 | 20 | 16 | 18 | 22 |
| Adani Green | 15 | 22 | 35 | 49 | 137 | 212 | 519 | 517 | 9 | 15 | 22 | 21 |
| Adani Total Gas | 6 | 7 | 8 | 9 | 3 | 5 | 11 | 13 | (0) | (0) | 0 | 0 |
| Ambuja Cements | - | - | - | 37 | - | - | - | (29) | - | - | - | (5) |
| | Net Interest (external) (Rs bn) | | | | Net external Debt/ EBITDA (x) | | | | EBITDA/Net interest (external) (x) | | | |
| | FY20 | FY21 | FY22 | FY23 | FY20 | FY21 | FY22 | FY23 | FY20 | FY21 | FY22 | FY23 |
| Total | 70 | 71 | 76 | 97 | 5.2 | 5.5 | 6.4 | 4.6 | 3.1 | 3.4 | 3.8 | 4.6 |
| Adani Enterprises | 7 | 2 | 9 | 22 | 2.4 | 4.3 | 6.8 | 4.4 | 3.6 | 15.3 | 4.2 | 4.0 |
| Adani Ports | 1 | 2 | 4 | 10 | 3.1 | 3.7 | 3.7 | 3.7 | 79.9 | 50.2 | 23.8 | 12.3 |
| Adani Power | 34 | 37 | 25 | 26 | 8.5 | 7.6 | 6.4 | 4.8 | 1.7 | 1.6 | 2.8 | 3.0 |
| Adani Transmission | 20 | 16 | 17 | 22 | 5.2 | 5.7 | 5.9 | 6.0 | 2.2 | 2.9 | 2.8 | 2.5 |
| Adani Green | 9 | 15 | 21 | 21 | 9.5 | 9.5 | 14.8 | 10.5 | 1.7 | 1.5 | 1.6 | 2.4 |
| Adani Total Gas | (0) | (0) | 0 | 0 | 0.5 | 0.7 | 1.4 | 1.5 | (180.2) | (181.5) | 68.8 | 20.9 |
| Ambuja Cements | - | - | - | (5) | - | - | - | (0.8) | - | - | - | (7.6) |
| | Equity, including debt from group (Rs bn) | | | | Net external Debt/ Equity (x) | | | | | | | |
| | FY20 | FY21 | FY22 | FY23 | FY20 | FY21 | FY22 | FY23 | | | | |
| Total | 717 | 948 | 1,274 | 1,923 | 1.6 | 1.4 | 1.5 | 1.1 | | | | |
| Adani Enterprises | 208 | 234 | 401 | 484 | 0.3 | 0.5 | 0.6 | 0.8 | | | | |
| Adani Ports | 258 | 321 | 386 | 469 | 0.9 | 0.9 | 0.9 | 1.0 | | | | |
| Adani Power | 113 | 236 | 326 | 408 | 4.3 | 1.9 | 1.3 | 0.9 | | | | |
| Adani Transmission | 96 | 100 | 110 | 128 | 2.3 | 2.6 | 2.6 | 2.6 | | | | |
| Adani Green | 27 | 38 | 26 | 88 | 5.0 | 5.6 | 19.8 | 5.9 | | | | |
| Adani Total Gas | 15 | 19 | 24 | 29 | 0.2 | 0.2 | 0.4 | 0.5 | | | | |
| Ambuja Cements | - | - | - | 317 | - | - | - | (0.1) | | | | |

NOTE: NET EXTERNAL DEBT INCLUDES LEASE LIABILITY.

SOURCE: INCRED RESEARCH, COMPANY REPORTS

FY23 EBITDA/ net interest (external) was at 4.6x. **Despite FY23 NED/EBITDA (ex-ACL) being similar to the FY20 level, EBITDA/ net interest (external) ex-**

ACL (4x) was better (3.1x in FY20). Despite an 85% rise in NED (ex-ACL) over FY20-23, interest (external) ex-ACL rose by just 38%. We believe this was because of a rise in the proportion of under-construction assets for AGEL (interest cost is capitalized) over FY20-23. AGEL's average capital-work-in-progress (CWIP)/ NED rose from 8% (FY20) to 25% (FY23).

The Adani group acquired Holcim's India cement business in Sep 2022 of 67mt capacity (Ambuja Cements or ACL 31.5mt +ACC 36.1mt). Prior to the deal, Holcim held a 63.2% stake in ACL and 54.5% in ACC (50.05% via ACL). The deal led to Rs502bn cash proceeds for Holcim. Transaction EV was Rs864bn, at 14x CY21 EV/EBITDA.

In FY23, SLAC assets ex-ACL (ex-cash) were at Rs3.7tr. The cash proceeds for the deal stood at 14% of SLAC's FY23 assets and 24% of NED. We believe that if the cement assets had been acquired by SLAC, the NED/ EBITDA ratio would have been at 5.8x, higher than the reported 4.6x.

Figure 6: Details of transaction between Holcim and Adani groups

| | Ambuja | ACC | Total |
|-----------------------------------|--------|-------|-------|
| Offer price per share (Rs) | 385 | 2,300 | |
| 3-month average price (Rs) | 340 | 2,169 | |
| Shares sold (m) | 1,253 | 8 | |
| Holcim ownership (%) | 63.1 | 4.5 | |
| Holcim cash proceeds (Rs bn) | 482 | 19 | 502 |
| Transaction EV (Rs bn) | | | 864 |
| Transaction EV/ EBITDA - CY21 (x) | | | 14.0 |

SOURCE: INCRED RESEARCH ESTIMATES, COMPANY REPORTS

Comments on SLAC financials (ex-ACL) ➤

Over FY21-23, capex (Rs2.1tr) was funded via cash profit (34%), incremental NED (46%) and others (20%; mainly promoter funding and equity raising). As most of the assets are infrastructure projects, typically funded by 3:1 debt:equity, we believe the funding pattern is reasonable (just 46% via debt). Despite the doubling in assets (ex-cash) over FY20-23 to Rs3.7tr and an 85% rise in NED, FY23 NED/ EBITDA ratio was similar to the FY20 level.

FY21: EBITDA rose by 10% yoy and NED increased by 17% yoy. The Rs434bn capex (mainly APSEZ, ADE and AGEL) and Rs25bn incremental net working capital or NWC was funded by Rs166bn cash profit, Rs193bn increase in NED and others (Rs99bn). APL received Rs55bn incremental funding from the promoter group.

FY22: EBITDA rose by 23% yoy and NED increased by 41% yoy. The Rs944bn capex (mainly ADE, APSEZ and AGEL) was funded by Rs218bn cash profit, Rs5bn dip in NWC, Rs541bn increase in NED and others (Rs179bn). ADE received Rs87bn loans from the promoter group and APSEZ issued 70m shares (Rs47bn) for Sarguja rail corridor acquisition.

FY23: EBITDA ex-ACL rose by 39% yoy, and NED ex-ACL increased by 12% yoy. The Rs763bn capex (mainly ADE and APSEZ) was funded by Rs333bn cash profit, Rs53bn dip in NWC, Rs226bn increase in NED and others (Rs151bn). ADE made a preferential issue of 40.2m shares for Rs77bn and AGEL had a preferential issue amounting to Rs38.5bn.

Figure 7: Key sources and application of funds in FY21-23

| (Rs bn) | Capex, acquisition and incremental investments | Incremental NWC | Cash profit | Others - mainly promoter funding | Increase in NED |
|--------------------|--|-----------------|-------------|----------------------------------|-----------------|
| FY21 | 434 | 25 | 166 | 99 | 193 |
| Adani Enterprises | 75 | (2) | 13 | 18 | 42 |
| Adani Ports | 183 | (24) | 72 | 12 | 76 |
| Adani Power | 43 | 31 | 45 | 67 | (38) |
| Adani Transmission | 49 | 6 | 25 | (7) | 37 |
| Adani Green | 76 | 14 | 7 | 9 | 75 |
| Adani Total Gas | 6 | 1 | 5 | (0) | 2 |
| FY22 | 944 | (5) | 218 | 179 | 541 |
| Adani Enterprises | 364 | (37) | 17 | 163 | 147 |
| Adani Ports | 168 | (8) | 75 | 25 | 59 |
| Adani Power | 74 | 6 | 79 | 11 | (10) |
| Adani Transmission | 45 | 11 | 27 | (3) | 32 |
| Adani Green | 284 | 20 | 13 | (17) | 307 |
| Adani Total Gas | 10 | 2 | 6 | (0) | 6 |
| FY23 | 763 | (53) | 333 | 151 | 226 |
| Adani Enterprises | 347 | (105) | 46 | 61 | 134 |
| Adani Ports | 246 | (12) | 88 | 26 | 119 |
| Adani Power | 41 | 35 | 140 | 7 | (72) |
| Adani Transmission | 51 | 25 | 29 | 5 | 43 |
| Adani Green | 66 | 6 | 23 | 52 | (2) |
| Adani Total Gas | 12 | (3) | 6 | (0) | 3 |
| FY21-23 | 2,141 | (34) | 717 | 430 | 960 |
| Adani Enterprises | 787 | (145) | 77 | 242 | 323 |
| Adani Ports | 597 | (44) | 235 | 64 | 254 |
| Adani Power | 158 | 73 | 265 | 86 | (120) |
| Adani Transmission | 146 | 42 | 81 | (5) | 112 |
| Adani Green | 426 | 40 | 43 | 44 | 380 |
| Adani Total Gas | 27 | 0 | 18 | (0) | 10 |

SOURCE: INCRED RESEARCH, COMPANY REPORTS

During 1QFY24, EBITDA of SLAC ex-ACL rose by 40% yoy and PBT, excluding extraordinary income, rose by 17% yoy. We believe this would improve NED/ EBITDA vs. the Mar 2023 level.

Figure 8: Key financials for SLAC ex-ACL, ADE and APL

| (Rs bn) | FY23 | Growth FY20-23 % | 1QFY24 | yoy growth % |
|---|------|---------------------|--------|-----------------|
| Total for SLAC ex Ambuja Cements | | | | |
| EBITDA | 407 | 87 | 135 | 40 |
| PBT ex-extraordinary income | 172 | 139 | 69 | 17 |
| ADE | | | | |
| EBITDA | 88 | 232 | 28 | 28 |
| Airports | 17 | na | 5 | (5) |
| Coal Trading | 38 | 263 | 10 | 5 |
| Coal Mining | 9 | (2) | 2 | (10) |
| New Industries | 4 | 37 | 4 | 745 |
| Others | 20 | 441 | 6 | 85 |
| PBT ex-extraordinary income | 36 | 178 | 13 | 26 |
| Coal trading volume (mt) | 88 | 12 | 18 | (33) |
| APL | | | | |
| EBITDA | 77 | 35 | 35 | 133 |
| Volume (bn units) | 53 | (17) | 18 | 7 |
| PBT ex-extraordinary income | 12 | (196) | 23 | 39 |

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 9: Key financials for ATL, ATGL, AGEL and APSEZ

| (Rs bn) | FY23 | Growth FY20-23 % | 1QFY24 | yoy growth % |
|-----------------------------|------|---------------------|--------|-----------------|
| ATL | | | | |
| EBITDA | 56 | 31 | 13 | 5 |
| PBT ex-extraordinary income | 17 | 55 | 3 | 70 |
| ATGL | | | | |
| EBITDA | 9 | 46 | 2 | 13 |
| PBT ex-extraordinary income | 7 | 31 | 2 | 7 |
| Volume (MMSCM) | 753 | 29 | 198 | 8 |
| AGEL | | | | |
| EBITDA | 49 | 240 | 19 | 53 |
| Volume (bn units) | 15 | 240 | 6 | 70 |
| PBT ex-extraordinary income | 16 | 1,007 | 3 | (48) |
| APSEZ | | | | |
| EBITDA | 128 | 80 | 38 | 14 |
| Volume (mt) | 337 | 51 | 101 | 12 |
| PBT ex-extraordinary income | 84 | 56 | 25 | 9 |

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Analyzing the change in NED/EBITDA over FY20-23 for SLAC ex-ACL:

ADE – NED/EBITDA rose from 2.4x to 4.4x: EBITDA rose by 232% (Rs62bn) due to a Rs27bn increase in coal trading EBITDA and Rs17bn airports EBITDA (nil in FY20). NED rose by 500% (Rs323bn).

- Capex (FY21-23) was at Rs787bn (mainly Rs288bn for airports in FY22 and Rs154bn for mining in FY23). NWC declined by Rs145bn.
- Cash profit (FY21-23) was at Rs77bn. Fund raising (ex-NED) was at Rs242bn, mainly Rs77bn (40.2m shares) from IHC in FY23 and Rs88bn of incremental loans from the promoter group in FY22.

APL – NED/EBITDA improved from 8.5x to 4.8x: EBITDA grew by 35%, despite a 17% lower volume, due to a 65% higher tariff. NED declined by 25% (Rs120bn).

- Capex (FY21-23) was at Rs158bn (including the Rs43bn acquisition of Essar Power's 1.2GW power plant in Mar 2022) and incremental NWC stood at Rs73bn.
- Cash profit (FY21-23) was at Rs265bn (including Rs160bn prior-period income). Incremental funding from the promoter group was at Rs66bn (mainly in FY21).

ATL – NED/EBITDA rose by a tad from 5.2x to 6x: EBITDA grew by 31%. NED rose by 51% (Rs112bn).

- Over FY21-23, capex stood at Rs145bn. Incremental NWC was at Rs42bn.
- Cash profit over FY21-23 was at Rs81bn. While ATL issued 15.6m shares (Rs38.5bn) to IHC in May 2022, this was offset by repayment of Rs31bn of perpetual securities to the Adani group.

AGEL – NED/EBITDA was high (9.5x/ 10.5x in FY20/23): EBITDA grew by 240%, in line with the volume. NED rose by 277% (Rs380bn).

- Over FY21-23, capex stood at Rs426bn, including the acquisition of SB Energy, at Rs260bn EV in Sep 2021 – AGEL expects 7.5-7.8x transaction EV/EBITDA post commissioning of the entire 5GW capacity (1.4GW operational at the time of acquisition). Incremental NWC stood at Rs40bn.
- Cash profit over FY21-23 was at Rs43bn. AGEL issued 20m shares (Rs38.5bn) to IHC in May 2022.

ATGL – NED/EBITDA is benign (0.5x/1.5x in FY20/23): EBITDA rose by 46%, driven by a 29% volume growth. NED rose by 326% (Rs10bn).

- Over FY21-23, capex stood at Rs27bn.
- Cash profit over FY21-23 was at Rs18bn.

Encumbrance of ACL shares led to a rise in pledged/encumbered shares, as a percentage of promoter holding (Mar 2022 to Jun 2023) ➤

Over Mar 2000-22, pledged shares, as a percentage of promoter holding, in SLAC declined from 43% to 6%, driven by an 813% rise in the value of promoter holding in SLAC. The value of pledged holding rose by 38% over Mar 2020-22. Promoter holding in SLAC declined from 67% (Mar 2020) to 63% (Mar 2022) due to the fall in promoter holding in AGEL.

Note: In Jan 2021, Total Holdings bought a 20% stake in AGEL from the promoter and acquired a 50% stake in a 2.35GW portfolio of AGEL's operating solar assets, in a deal worth ~Rs180bn. Of this, Rs140bn accrued to the promoter.

Figure 10: Promoter holding and pledged/encumbered holdings over Mar 2020 to Jun 2023

| | Market capitalisation (Rs bn) | | | | Promoter holding (%) | | | | Value of promoter holding (Rs bn) | | | |
|--------------------|--|---------------|---------------|---------------|--|---------------|---------------|---------------|-----------------------------------|--------------|--------------|--------------|
| | Mar 20 | Mar 21 | Mar 22 | Latest | Mar 20 | Mar 21 | Mar 22 | Latest | Mar 20 | Mar 21 | Mar 22 | Latest |
| Total | 1,293 | 7,159 | 12,701 | 10,393 | 67 | 62 | 63 | 61 | 872 | 4,421 | 7,966 | 6,386 |
| Adani Enterprises | 142 | 1,217 | 2,128 | 2,856 | 75 | 75 | 72 | 68 | 106 | 912 | 1,538 | 1,932 |
| Adani Ports | 512 | 1,495 | 1,660 | 1,780 | 63 | 64 | 66 | 63 | 321 | 953 | 1,088 | 1,119 |
| Adani Power | 104 | 366 | 771 | 1,284 | 75 | 75 | 75 | 75 | 78 | 275 | 578 | 963 |
| Adani Transmission | 203 | 1,100 | 2,663 | 957 | 75 | 75 | 75 | 68 | 152 | 824 | 1,995 | 653 |
| Adani Green | 241 | 1,814 | 3,004 | 1,546 | 75 | 56 | 61 | 56 | 180 | 1,021 | 1,841 | 870 |
| Adani Total Gas | 92 | 1,166 | 2,473 | 723 | 37 | 37 | 37 | 37 | 34 | 436 | 925 | 270 |
| ACC | - | - | - | 372 | - | - | - | 7 | - | - | - | 25 |
| Ambuja Cements | - | - | - | 876 | - | - | - | 63 | - | - | - | 553 |
| | Pledged/ encumbered holding (Rs bn) | | | | Pledged/ encumbered holding (% of promoter holding) | | | | | | | |
| | Mar 20 | Mar 21 | Mar 22 | Latest | Mar 20 | Mar 21 | Mar 22 | Latest | | | | |
| Total | 373 | 398 | 515 | 910 | 43 | 9 | 6 | 14 | | | | |
| Adani Enterprises | 53 | 59 | 58 | 10 | 50 | 6 | 4 | 1 | | | | |
| Adani Ports | 187 | 152 | 146 | 45 | 58 | 16 | 13 | 4 | | | | |
| Adani Power | 25 | 80 | 158 | 241 | 32 | 29 | 27 | 25 | | | | |
| Adani Transmission | 81 | 99 | 134 | 27 | 54 | 12 | 7 | 4 | | | | |
| Adani Green | 27 | 9 | 18 | 33 | 15 | 1 | 1 | 4 | | | | |
| Adani Total Gas | - | - | - | - | - | - | - | - | | | | |
| ACC | - | - | - | 3 | - | - | - | 12 | | | | |
| Ambuja Cements | - | - | - | 553 | - | - | - | 100 | | | | |

SOURCE: INCRED RESEARCH, COMPANY REPORTS

From Mar 2022 till now, the value of promoter holding in SLAC ex-ACL declined by 27%. The decline over 15 Jan 2023 till now is steeper (46%). Despite this, pledged shares, as a percentage of promoter holding (ex-ACL), was like that in Mar 2022. The value of pledged holdings (ex-ACL) declined from Rs515bn to Rs357bn. **However, the promoter's entire holding in ACL is encumbered. Thus, the value of pledged/encumbered holding of SLAC is Rs910bn (14% of promoter holding).**

Related-party dues of SLAC ➤

Net related party dues of SLAC to the unlisted Adani group rose by 36% over Mar 2020-23 but declined by 14% over Mar 2022-23. APL has the highest dues to the group. Of the Rs236bn dues of SLAC to the unlisted Adani group in Mar 2023, Rs146bn was equity/quasi-equity from the group (mainly APL).

Current value of the promoter's pledged holding in SLAC ex-ACL (Rs357bn) stood at 1.5x of the total net dues owed to the unlisted group. Note: Total net dues to the unlisted group (Rs236bn) was at 12% of FY23 NED of SLAC.

Figure 11: Net dues to group companies, equity/ quasi-equity from the group

| | Net dues to group companies (Rs bn) | | | | Equity/ quasi equity from group (Rs bn) | | | | Total (Rs bn) | | | |
|--------------------|-------------------------------------|-----------|-----------|-----------|---|------------|------------|------------|---------------|------------|------------|------------|
| | Mar 20 | Mar 21 | Mar 22 | Mar 23 | Mar 20 | Mar 21 | Mar 22 | Mar 23 | Mar 20 | Mar 21 | Mar 22 | Mar 23 |
| Total | 38 | 57 | 99 | 90 | 136 | 169 | 177 | 146 | 174 | 226 | 276 | 236 |
| Adani Enterprises | 15 | 10 | 44 | 26 | - | - | - | - | 15 | 10 | 44 | 26 |
| Adani Ports | (30) | (19) | (16) | (19) | - | - | - | - | (30) | (19) | (16) | (19) |
| Adani Power | 66 | 79 | 72 | 69 | 86 | 126 | 132 | 132 | 152 | 205 | 205 | 202 |
| Adani Transmission | (22) | (13) | (5) | 7 | 33 | 28 | 31 | - | 11 | 15 | 26 | 7 |
| Adani Green | 6 | 0 | 38 | 42 | 17 | 14 | 14 | 14 | 23 | 14 | 53 | 56 |
| Adani Total Gas | 3 | 0 | (35) | (35) | - | - | - | - | 3 | 0 | (35) | (35) |

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Contingent liabilities and commitments of SLAC ➤

Contingent liabilities of SLAC were at Rs177bn in Mar 2023 (up Rs89bn yoy). These were at 9% of the NED of SLAC (Mar 2023). Ex-ACL, contingent liabilities were at Rs107bn (up by Rs19bn yoy). The commitments of SLAC in FY23 were at Rs702bn (up Rs368bn yoy). These stood at 17% of the assets (ex-cash) and 34% of NED.

Figure 12: Contingent liabilities of SLAC

| (Rs bn) | FY21 | FY22 | FY23 |
|---|--------------|-------------|--------------|
| Total of SLAC | 106.5 | 88.4 | 176.9 |
| Adani Enterprises | 66.5 | 45.6 | 56.2 |
| Income Tax | 2.0 | 19.7 | 34.4 |
| Custom Duty | 10.2 | 10.2 | 12.8 |
| Others (including Stamp Duty on Demerger) | 0.7 | 7.2 | 1.1 |
| Balance | 7.7 | 8.5 | 7.9 |
| Adani Ports | 5.1 | 6.2 | 10.6 |
| Bank Guarantees | 3.5 | 3.4 | 3.4 |
| Adani power | 14.4 | 14.7 | 16.8 |
| Custom Duty | 12.2 | 12.2 | 12.2 |
| Adani Transmission | 19.4 | 19.4 | 21.8 |
| Claims by Vidarbha Industries Power | 13.8 | 13.8 | 13.8 |
| Adani Green | 0.7 | 1.8 | 1.1 |
| Adani Total Gas | 0.5 | 0.7 | 1.0 |
| Ambuja Cements | - | - | 69.4 |

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 13: Commitments of SLAC

| (Rs bn) | FY21 | FY22 | FY23 |
|----------------------|------------|------------|------------|
| Total of SLAC | 383 | 334 | 702 |
| Adani Ports | 131 | 114 | 136 |
| Adani Enterprises | 60 | 152 | 371 |
| Adani Green | 80 | 22 | 32 |
| Adani Power | 47 | 22 | 87 |
| Adani Total Gas | 42 | 7 | 5 |
| Adani Transmission | 24 | 18 | 57 |
| Ambuja Cements | - | - | 15 |

SOURCE: INCRED RESEARCH, COMPANY REPORTS

APSEZ: Change in auditor following the resignation of Deloitte ➤



In Aug 2023, APSEZ appointed M/s. MSKA & Associates as its auditor. MSKA is an independent member firm of BDO International, a Top-6 global audit firm.

Background: Since May 2017, Deloitte was APSEZ's auditor, and the firm was reappointed for a period of five years in Jul 2022. As per APSEZ, in recent meetings with Deloitte, the firm indicated a lack of wider audit role as auditor of other listed Adani group companies. It was conveyed to Deloitte that it is not within the remit of APSEZ to recommend group-wide appointments. Following this, Deloitte was not willing to continue as APSEZ's auditor and it was agreed to end the client-auditor relationship. In the resignation letter, Deloitte has mentioned the same.

Figure 14: Auditors of SLAC (ex-ACL) over FY17-23

| | FY17 | FY18 | FY19 | FY20 | FY21 | FY22 | FY23 |
|--------------------|--------------------------|------|----------------------------------|--------------------------|------|------------------------------------|------|
| Adani Enterprises | Dharmesh Parikh & Co | | | Shah Dhandharia & Co | | | |
| Adani Ports | S R B C & Co | | | Deloitte Haskins & Sells | | | |
| Adani Power | Deloitte Haskins & Sells | | | S R B C & Co | | | |
| Adani Transmission | Dharmesh Parikh & Co | | | Deloitte Haskins & Sells | | | |
| Adani Green | NA | | Dharmesh Parikh & Co; B S R & Co | | | Dharmesh Parikh & Co; S R B C & Co | |
| Adani Total Gas | NA | | | Shah Dhandharia & Co | | | |

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Main auditor's qualifications in 1QFY24/ 4QFY23 results and APSEZ's replies to the same (4QFY23):

Auditor's qualification: APSEZ entered into EPC contracts with fellow subsidiary (contractor) of a party identified in the allegations in the short-seller report or SSR. As of Jun 2023-end, Rs38.7bn (2.5% of APSEZ CMP) was recoverable (Rs20.4bn security deposits, Rs17bn capital advances). The entire security deposit was given prior to Apr 2023, of which Rs9.1bn relates to projects not commenced.
Company's reply: APSEZ has been working with the contractor for >10 years and it has obtained independent opinion from a reputed law firm that the contractor is an unrelated party.

Auditor's qualification and APSEZ's reply: In prior periods, financing transactions (including equity) with certain other parties identified via the allegations made in the SSR, which APSEZ represented, were not related parties. As of Mar 2023-end, all such receivable/payables were settled and there are no outstanding balances.

Auditor’s qualification: In May 2023, APSEZ renegotiated the terms of the sale of container terminal in Myanmar with Solar Energy Ltd (incorporated in Anguilla). APSEZ represented that the buyer is not a related party. The carrying amount of net assets was Rs15.2bn. The sale value was revised from Rs20.2bn to Rs2.5bn and it was received in 1QFY24. The impairment loss was at Rs12.7bn (0.8% of CMP). **Company’s reply:** Solar Energy is an unrelated party. Given the US sanctions on Myanmar and the resulting urgency to divest the asset, APSEZ re-evaluated the asset via two independent valuers. APSEZ explored other potential buyers, but its efforts did not bear fruit.

Our view: While the resignation of Deloitte is disappointing, we believe the appointment of MSKA as the auditor alleviate the concerns to some extent.

Current valuation of SLAC is at a discount to FY21/22 but at a premium to FY20/19 ➤

SLAC trades at 27.6x FY23 EV/EBITDA and at 5.8x FY23 P/BV. While this is at a discount to SLAC’s FY21/22 valuations, it is at a premium to the valuations in Mar 2020/ 2019. RoCE of SLAC stood at 8% in FY23. EBIT has grown at a 17% CAGR over FY18-23.

Figure 15: Valuation of SLAC

| (x) | RoCE (%) | | EBIT CAGR (%) | EV (Current)/ EBITDA (FY23) | EV (Mar 21)/ EBITDA (FY21) | Price (Current)/ Book value (FY23) | Price (Mar 21)/ Book value (FY21) |
|--------------------|------------|------------|---------------|--------------------------------|-------------------------------|---------------------------------------|--------------------------------------|
| | FY23 | FY21 | | | | | |
| Adani Enterprises | 7.3 | 5.8 | 36 | 37.9 | 54.6 | 7.5 | 6.4 |
| Adani Ports | 10.0 | 9.5 | 9 | 17.6 | 22.5 | 3.8 | 4.7 |
| Adani Power | 6.0 | 4.2 | 10 | 22.4 | 14.8 | 3.8 | 2.1 |
| Adani Transmission | 8.6 | 9.0 | 23 | 23.2 | 29.9 | 7.5 | 11.0 |
| Adani Green | 6.0 | 7.0 | 66 | 42.1 | 91.4 | 21.0 | 85.3 |
| Adani Total Gas | 17.7 | 26.6 | 20 | 84.6 | 166.2 | 24.6 | 60.3 |
| Ambuja Cements | 9.7 | na | 6 | 22.9 | | 2.8 | |
| Total | 8.0 | 7.2 | 17 | 27.6 | 36.1 | 5.8 | 8.7 |

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Main shareholders in SLAC constituents ➤

Figure 16: Main shareholders of ATL

| | % holding |
|------------------------------------|-----------|
| Promoter | 68.3 |
| Life Insurance Corp of India | 3.7 |
| Elara India Opportunities Fund Ltd | 3.6 |
| Jefferies India Pvt Ltd | 3.0 |
| APMS Investment Fund Ltd | 1.9 |
| LTS Investment Fund Ltd | 1.6 |
| Asia Investments Pvt Ltd | 1.6 |
| Cresta Fund Ltd | 1.5 |
| Green Transmission Inv Hldg | 1.4 |
| Vanguard Group Inc/The | 1.0 |
| Others | 12.4 |

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 17: Main shareholders of AGEL

| | % holding |
|-------------------------------|-----------|
| Promoter | 56.3 |
| Totalenergies Se | 19.8 |
| Goldman Sachs Trust Co NA/The | 2.2 |
| Goldman Sachs Group Inc/The | 1.4 |
| Life Insurance Corp of India | 1.4 |
| Green Energy Inv Hldg Rsc Ltd | 1.3 |
| Vanguard Group Inc/The | 1.0 |
| GQG Partners LLC | 0.9 |
| BlackRock Inc | 0.8 |
| Others | 15.0 |

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 18: Main shareholders of ATGL

| | % holding |
|------------------------------------|-----------|
| Promoter | 37.4 |
| Totalenergies Se | 37.4 |
| Life Insurance Corp of India | 6.0 |
| APMS Investment Fund Ltd | 2.7 |
| Elara India Opportunities Fund Ltd | 1.5 |
| Vanguard Group Inc/The | 0.9 |
| Others | 14.1 |

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 19: Main shareholders of ADE

| | % holding |
|--------------------------------|-----------|
| Promoter | 67.7 |
| LIC | 4.3 |
| Green Enterprises Investment | 3.5 |
| Vishvapradhan Commercial | 2.1 |
| LTS Investment Fund Ltd | 1.7 |
| Goldman Sachs Trust Co | 1.6 |
| Elara India Opportunities Fund | 1.4 |
| Vanguard Group | 1.2 |
| GQG Partners Emerging Markets | 1.1 |
| Green Vitality Rsc Ltd | 1.0 |
| Others | 14.5 |

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 20: Main shareholders of APSEZ

| | % holding |
|-------------------------------|-----------|
| Promoter | 62.9 |
| LIC | 9.1 |
| Vanguard Group | 1.9 |
| Goldman Sachs Group | 1.8 |
| Dandu Corporate Svcs Pvt Ltd | 1.2 |
| GQG Partners Emerging Markets | 1.1 |
| Camas Inv Pte Ltd | 1.0 |
| GQG Partners LLC | 1.0 |
| SBI Funds Management Ltd | 0.9 |
| Others | 19.1 |

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 21: Main shareholders of APL

| | % holding |
|--------------------------|-----------|
| Promoter | 75.0 |
| Opal Investment Pvt Ltd | 4.7 |
| APMS Investment Fund Ltd | 1.3 |
| Vanguard Group | 1.0 |
| BlackRock Inc | 0.6 |
| Others | 17.5 |

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 22: Main shareholders of Ambuja Cements

| | % holding |
|-----------------------------------|------------------|
| Promoter | 63.1 |
| LIC | 6.3 |
| Vanguard Group Inc/The | 1.5 |
| BlackRock Inc | 1.0 |
| Kotak | 0.9 |
| HDFC Asset Management Co Ltd | 0.8 |
| ICICI Prudential Asset Management | 0.7 |
| Others | 25.8 |

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 23: Main shareholders of ACC

| | % holding |
|--|------------------|
| Promoter | 56.7 |
| LIC | 6.4 |
| SBI Funds Management Ltd | 2.0 |
| ICICI Prudential Asset Management | 1.9 |
| Vanguard Group Inc/The | 1.7 |
| Tata Asset Management Pvt Ltd | 1.7 |
| Franklin Resources Inc | 1.6 |
| Aditya Birla Sun Life Asset Management | 1.3 |
| BlackRock Inc | 1.1 |
| Others | 25.6 |

SOURCE: INCRED RESEARCH, COMPANY REPORTS

1QFY24 volume growth of APSEZ was ahead of major ports ➤

Cargo at major ports (MPs) + APSEZ together grew by 4% yoy in 1QFY24, driven by coal cargo (up 10% yoy). Container cargo grew by 4% yoy while crude oil cargo declined by 5% yoy.

APSEZ's 1QFY24 domestic volume growth (up 8% yoy) was higher than that of major ports (up 2% yoy). Its coal cargo (39% of volume) rose by 10% yoy, similar to the 9% yoy rise for major ports [MPs]. Domestic container cargo (34% of the volume) rose by 7% yoy, much higher than the 2% yoy rise for MPs.

Figure 24: Major ports and Adani Ports volume – Jul 2023 and 1QFY24

| | Volume (mt) | | Growth % | | |
|----------------------------------|-------------|-----------|----------|----------|--------------|
| | 1QFY24 | Jul 23 | 1QFY24 | | Jul 23 (mom) |
| | | | (yoy) | (yoy) | |
| Major Ports | 200 | 66 | 2 | 4 | (0) |
| POL | 59 | 21 | (1) | 4 | 1 |
| Iron Ore | 14 | 4 | 18 | 90 | 2 |
| Fertilizer | 5 | 2 | 37 | 41 | 5 |
| Coal-Thermal | 35 | 9 | 10 | (35) | (19) |
| Coal-Coking | 15 | 5 | 7 | 22 | 6 |
| Container | 44 | 15 | 2 | 11 | 9 |
| Others | 29 | 11 | (13) | 18 | 0 |
| Adani Ports (ex-GPL) | 89 | 30 | 9 | 5 | (0) |
| Container | 34 | | 7 | | |
| Crude | 6 | | (34) | | |
| Coal | 34 | | 12 | | |
| Others | 16 | | 41 | | |
| Major Ports + Adani Ports | 289 | 96 | 4 | 5 | (0) |
| Container | 78 | | 4 | | |
| Crude | 66 | | (5) | | |
| Coal | 83 | | 10 | | |
| Others | 63 | | 6 | | |

SOURCE: INDIAN PORTS ASSOCIATION, INCRED RESEARCH, COMPANY REPORTS

We expect APSEZ's cargo to grow by 25% over FY23-25F ➤

For APSEZ, we estimate the volume to grow by 25% over FY23-25F vs. our estimate of a 15% growth for the ports sector and a 22% growth for private ports. We expect APSEZ's volume growth to be driven by the following:

- 35% growth in coal (37% of APSEZ FY23 cargo) mainly due to 18mt incremental coal at Adani Power and Tata Power's Mundra plants.
- 20% growth in container cargo (38% of APSEZ FY23 cargo), a tad higher than our estimated 14% growth for the sector's container cargo.

Figure 25: Detailed volume breakdown of APSEZ over FY20-25F

| | Volumes (MT) | | | | | | yoy growth % | | | | | |
|----------------------|--------------|------------|------------|------------|------------|------------|--------------|-------------|-------------|------------|-----------|-----------|
| | FY20 | FY21 | FY22 | FY23 | FY24F | FY25F | FY20 | FY21 | FY22 | FY23 | FY24F | FY25F |
| Total | 223 | 247 | 282 | 337 | 383 | 419 | 7 | 11 | 14 | 19 | 14 | 9 |
| Mundra | 139 | 144 | 150 | 155 | 181 | 202 | 1 | 4 | 4 | 3 | 17 | 12 |
| Container | 70 | 83 | 95 | 100 | 107 | 114 | 6 | 18 | 15 | 5 | 7 | 7 |
| LNG & LPG | 1 | 3 | 3 | 3 | 7 | 7 | | 257 | 20 | - | 133 | - |
| Adani Power | 17 | 14 | 6 | 6 | 11 | 17 | 38 | (19) | (56) | (7) | 96 | 53 |
| Tata Power | 11 | 10 | 4 | 5 | 8 | 11 | (1) | (11) | (56) | 12 | 63 | 38 |
| Crude Oil | 22 | 21 | 23 | 23 | 26 | 27 | (17) | (2) | 10 | - | 14 | 3 |
| Others | 19 | 14 | 18 | 19 | 22 | 26 | (13) | (22) | 27 | 2 | 16 | 18 |
| Katupalli | 11 | 9 | 7 | 11 | 13 | 14 | 22 | (19) | (16) | 55 | 10 | 10 |
| Dhamra | 30 | 32 | 33 | 31 | 38 | 39 | 44 | 9 | 3 | (6) | 20 | 5 |
| Hazira | 22 | 22 | 25 | 25 | 27 | 28 | 10 | 1 | 13 | 2 | 5 | 5 |
| Dahej | 6 | 6 | 8 | 11 | 11 | 13 | (30) | (8) | 37 | 41 | - | 10 |
| Krishnapatnam | | 20 | 40 | 48 | 59 | 66 | | | 103 | 20 | 22 | 12 |
| Gangavaram | - | - | - | 32 | 34 | 36 | | | | na | 5 | 5 |
| Others | 15 | 14 | 18 | 21 | 21 | 21 | 22 | (9) | 31 | 17 | - | - |

SOURCE: INCRED RESEARCH ESTIMATES, COMPANY REPORTS

Mundra port: Over FY23-25F, we expect a 30% volume growth driven by (a) 18mt incremental coal for Adani Power and Tata Power's plants at Mundra, and (b) container cargo which should get boosted by connectivity to the Dedicated Freight Corridor or DFC.

Dhamra, Hazira, Dahej and Krishnapatnam or KPCL (116mt cargo in FY23, up 9% yoy): We factor in a 25% growth over FY23-25F. This is because coal

comprised 62% of the cargo in FY23 and we expect a 25-30% growth in the port sector's coal volume over FY23-25F.

GPL (30mt in FY23; up 8% yoy): We factor in a 10% growth over FY23-25F.

Despite capex, balance sheet is healthy ➤

FY22: Net debt rose by Rs59bn yoy, despite a Rs74bn cash profit and a Rs8bn reduction in NWC, because of the Rs131bn capex (including Rs94bn of acquisitions) and a rise in investments (Rs37bn).

- **Capex:** Acquisition of Sarguja rail corridor (Rs60bn EV), Krishnapatnam port (Rs28bn for the remaining 25% stake) and Dighi port (Rs7bn). Further, capex at Mundra was at Rs4bn and that by Adani Logistics was at Rs20bn.
- **Incremental investment:** Rs28bn in GPL and Rs5bn in Adani Total Pvt Ltd. In Mar 2022, APSEZ had a 41.9% stake in GPL, and the remaining acquired in FY23.
- NWC (ex-cash) stood at 44% of sales. It decreased by Rs8bn yoy. Related party dues dipped by Rs3bn yoy to Rs16bn.

Figure 26: Consolidated balance sheet

| (Rs bn) | FY20 | FY21 | FY22 | FY23 | Chg (FY23/22) |
|--------------------------|------------|------------|------------|------------|---------------|
| Shareholders' funds | 256 | 306 | 383 | 456 | 73 |
| Non-current liabilities | 221 | 321 | 378 | 506 | 127 |
| Net Debt | 221 | 297 | 356 | 476 | 119 |
| Others | (0) | 24 | 22 | 30 | 8 |
| Total Liabilities | 478 | 628 | 761 | 961 | 201 |
| Net Fixed assets | 337 | 490 | 575 | 761 | 186 |
| Goodwill | 33 | 40 | 59 | 70 | 10 |
| Investments | 12 | 22 | 60 | 76 | 16 |
| NWC Ex cash | 96 | 74 | 67 | 55 | (12) |
| Total Assets | 478 | 628 | 761 | 961 | 201 |

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 27: Break-up of the change in net debt

| Particulars | (Rs bn) |
|----------------------|------------|
| Net Debt FY22 | 356 |
| Less PAT FY23 | (53) |
| Less Depreciation | (34) |
| Other Equity chg | (20) |
| Add Capex | 220 |
| Add Goodwill change | 10 |
| Add NWC change | (12) |
| Investment changes | 16 |
| Other liabilities | (8) |
| Net Debt FY23 | 476 |

SOURCE: INCRED RESEARCH, COMPANY REPORTS

FY23: Net debt rose by Rs119bn, despite a Rs87bn cash profit and Rs12bn reduction in NWC, because of Rs230bn capex (included Rs166bn of acquisitions) and a Rs16bn rise in investment. **59% of gross debt (Rs518bn) is forex debt (Rs306bn) vs. Rs302bn in FY22.**

- **Capex:** Acquisition of Haifa port (Rs88bn EV), Ocean Sparkle (Rs17bn EV) and GVL (Rs61bn). Capex by Adani Logistics stood at Rs40bn.
- APSEZ gave FY24F capex guidance (ex-acquisitions) of ~Rs40bn. We believe this will not stretch the balance sheet and expect 2.7x FY24F net debt/EBITDA.
- NWC (ex-cash) was at 26% of sales. It decreased by Rs12bn yoy. Related party dues rose by Rs3bn yoy to Rs19bn. While the improvement in NWC/sales from 84% in FY20 to 26% in FY23 is encouraging, we believe there is room for improvement as Gujarat Pipavav's NWC/sales stood at (-)23% in FY23.

Figure 28: Related-party balances – Mar 2021

| (Rs bn) | JV | Others | Total |
|---------------------------|----------|-----------|-----------|
| Receivables | 1 | 7 | 7 |
| Loans | 8 | - | 8 |
| Other Fin/ Non-Fin assets | 2 | 7 | 9 |
| Others | (3) | (2) | (5) |
| Total | 7 | 12 | 19 |

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 29: Related-party balances – Mar 2022

| (Rs bn) | JV | Others | Total |
|---------------------------|----------|----------|-----------|
| Receivables | 1 | 5 | 6 |
| Loans | 5 | - | 5 |
| Other Fin/ Non-Fin assets | 1 | 5 | 6 |
| Others | (0) | (1) | (1) |
| Total | 8 | 9 | 16 |

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 30: Related-party balances – Mar 2023

| (Rs bn) | JV | Others | Total |
|---------------------------|----------|-----------|-----------|
| Receivables | 1 | 10 | 11 |
| Loans | 3 | - | 3 |
| Other Fin/ Non-Fin assets | 0 | 5 | 6 |
| Others | - | (1) | (1) |
| Total | 4 | 15 | 19 |

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Marginally raise estimates and TP; downgrade rating to HOLD ▶

Over FY23-25F, we forecast a 15% EBITDA CAGR driven by a 12% volume CAGR. APSEZ gave guidance of 370-390mt cargo, Rs240-250bn revenue and Rs145-150bn EBITDA for FY24F. This is in line with our estimates of 383mt cargo (up 14% yoy) and Rs146bn EBITDA. Our volume growth estimate for APSEZ in FY24F is higher than our estimate for the sector (up 7% yoy).

Figure 31: Consolidated income statement and balance sheet

| | FY20 | FY21 | FY22 | FY23 | FY24F | FY25F |
|---------------------------------|------|------|------|------|-------|-------|
| Income statement (Rs bn) | | | | | | |
| Port volume (MT) | 223 | 247 | 282 | 337 | 383 | 419 |
| Sales | 114 | 125 | 151 | 209 | 239 | 273 |
| EBITDA | 71 | 80 | 96 | 128 | 149 | 168 |
| Interest | 20 | 21 | 26 | 26 | 35 | 31 |
| Depreciation | 17 | 21 | 27 | 34 | 34 | 35 |
| Adjusted PAT | 48 | 45 | 55 | 81 | 88 | 111 |
| Balance sheet (Rs bn) | | | | | | |
| Net Worth | 256 | 306 | 383 | 456 | 542 | 648 |
| Minority Interest | 2 | 15 | 4 | 13 | 6 | 8 |
| Net Debt | 221 | 297 | 356 | 476 | 400 | 290 |
| Net Fixed assets | 337 | 490 | 575 | 761 | 767 | 762 |
| Net working capital | 96 | 74 | 67 | 55 | 51 | 54 |
| Goodwill | 33 | 40 | 59 | 70 | 70 | 70 |
| Investment & others | 14 | 13 | 42 | 60 | 60 | 61 |

SOURCE: INCRED RESEARCH ESTIMATES, COMPANY REPORTS

Figure 32: Key financial ratios and valuations

| | FY20 | FY21 | FY22 | FY23 | FY24F | FY25F |
|--|------|------|------|------|-------|-------|
| Financial Ratios (x) | | | | | | |
| RoCE % | 12 | 10 | 10 | 11 | 13 | 15 |
| RoE % | 19 | 15 | 14 | 18 | 16 | 17 |
| EBITDA Margin % | 62 | 64 | 63 | 62 | 62 | 62 |
| Net debt/ EBITDA | 3.1 | 3.7 | 3.7 | 3.7 | 2.7 | 1.7 |
| Net debt/ Equity including Minority Interest | 0.9 | 0.9 | 0.9 | 1.0 | 0.7 | 0.4 |
| EBIT/ Interest | 2.8 | 2.8 | 2.7 | 3.6 | 3.3 | 4.3 |
| Valuations (x) | | | | | | |
| P/BV | | | | | 3.9 | 3.3 |
| EV/ EBITDA | | | | | 17.0 | 14.2 |
| P/E | | | | | 21.9 | 20.2 |

SOURCE: INCRED RESEARCH ESTIMATES, COMPANY REPORTS

Figure 33: Our revised earnings estimates

| (Rs m) | FY24F | | FY25F | |
|----------|----------|----------|----------|----------|
| | Old | New | Old | New |
| Sales | 2,31,235 | 2,39,082 | 2,61,960 | 2,72,703 |
| % change | | 3 | | 4 |
| EBITDA | 1,45,760 | 1,48,525 | 1,64,065 | 1,67,990 |
| % change | | 2 | | 2 |
| PAT | 86,699 | 88,153 | 1,07,786 | 1,10,846 |
| % change | | 2 | | 3 |

SOURCE: INCRED RESEARCH ESTIMATES, COMPANY REPORTS

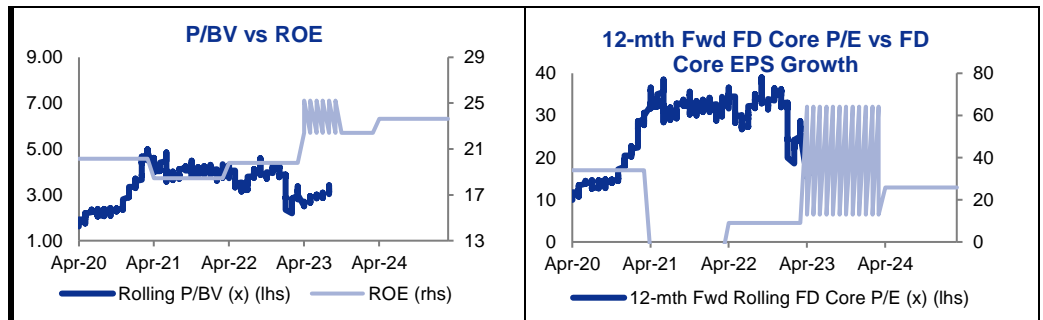
We raise our FY24F/25F EBITDA by 2% each and our target price by 5% (Rs868). After a 40% rise in CMP over the last six months, we downgrade APSEZ's rating to HOLD (ADD earlier). APSEZ trades at 14.2x FY24F EV/EBITDA, at a 7% premium to its five-year median (13.3x). Our sum-of-the-parts or SOTP-based target price implies a 12.4x FY25F EV/EBITDA (7% discount to its five-year median). We believe the discount is warranted as 6% of our target EV is from recent acquisitions/under-construction assets and are valued at acquisition price/capex (Haifa, Ocean Sparkle, Dighi).

Figure 34: SOTP-based valuation

| | (Rs/ share) | (Rs bn) | Basis |
|---------------------------------------|--------------|--------------|--|
| EV APSEZ's stake | | | |
| Mundra Port | 266 | 561 | DCF @ WACC of 11.8% implying EV/E of 11.6x FY25F |
| SEZ | 12 | 26 | DCF @ WACC of 11.8% |
| Dahej | 16 | 34 | @ 10x EV/E FY25F |
| Hazira | 78 | 166 | @ 12x EV/E FY25F |
| Dhamra | 75 | 158 | @ 12x EV/E FY25F |
| Katupalli | 14 | 29 | @ 12x EV/EBITDA FY25F; implied 1x acquisition EV |
| Adani Logistics | 51 | 108 | @ 15x EV/EBITDA FY25F; implied 1.6x EV/Assets FY23 |
| Marine Business | 160 | 337 | @ 12x EV/E FY25F |
| Krishnapatnam | 144 | 305 | @ EV/E of 12x FY25F; implied 2.2x acquisition EV |
| Vizhinjam | 20 | 41 | @ Capex |
| Gangavaram | 69 | 145 | @ 12x EV/EBITDA FY25F; implied 2.4x acquisition EV |
| Sarguja | 28 | 60 | @ acquisition price; implying EV/E of 11.5x FY24F |
| Other assets | 95 | 202 | @ Capex |
| NPV of NWC change | (7) | (15) | |
| Total EV | 1,021 | 2,157 | |
| Less: Net debt less other investments | (153) | (324) | |
| Target Price | 868 | 1,833 | |

SOURCE: INCRED RESEARCH ESTIMATES, COMPANY REPORTS

BY THE NUMBERS



Profit & Loss

| (Rs mn) | Mar-21A | Mar-22A | Mar-23A | Mar-24F | Mar-25F |
|---|----------------|----------------|----------------|----------------|----------------|
| Total Net Revenues | 125,496 | 151,390 | 208,519 | 239,082 | 272,703 |
| Gross Profit | 92,901 | 111,174 | 151,974 | 174,055 | 197,922 |
| Operating EBITDA | 79,834 | 95,640 | 128,335 | 148,525 | 167,991 |
| Depreciation And Amortisation | (21,073) | (27,396) | (34,232) | (34,029) | (35,394) |
| Operating EBIT | 58,761 | 68,244 | 94,103 | 114,497 | 132,597 |
| Financial Income/(Expense) | (1,589) | (4,015) | (10,401) | (1,866) | 8,760 |
| Pretax Income/(Loss) from Assoc. | | | | | |
| Non-Operating Income/(Expense) | | | | | |
| Profit Before Tax (pre-EI) | 57,172 | 64,229 | 83,701 | 112,631 | 141,357 |
| Exceptional Items | 5,748 | (8,817) | (28,809) | | |
| Pre-tax Profit | 62,920 | 55,412 | 54,892 | 112,631 | 141,357 |
| Taxation | (12,433) | (7,459) | (964) | (23,653) | (29,685) |
| Exceptional Income - post-tax | | | | | |
| Profit After Tax | 50,487 | 47,952 | 53,928 | 88,979 | 111,672 |
| Minority Interests | (544) | (672) | (826) | (826) | (826) |
| Preferred Dividends | | | | | |
| FX Gain/(Loss) - post tax | | | | | |
| Other Adjustments - post-tax | | | | | |
| Net Profit | 49,943 | 47,281 | 53,103 | 88,153 | 110,846 |
| Recurring Net Profit | 45,330 | 54,911 | 81,406 | 88,153 | 110,846 |
| Fully Diluted Recurring Net Profit | 45,330 | 54,911 | 81,406 | 88,153 | 110,846 |

Cash Flow

| (Rs mn) | Mar-21A | Mar-22A | Mar-23A | Mar-24F | Mar-25F |
|----------------------------------|------------------|------------------|------------------|-----------------|-----------------|
| EBITDA | 79,834 | 95,640 | 128,335 | 148,525 | 167,991 |
| Cash Flow from Invt. & Assoc. | | | | | |
| Change In Working Capital | 21,871 | 7,520 | 12,049 | 3,283 | (2,139) |
| (Incr)/Decr in Total Provisions | | | | | |
| Other Non-Cash (Income)/Expense | 5,748 | (8,817) | (28,809) | | |
| Other Operating Cashflow | | | | | |
| Net Interest (Paid)/Received | (1,589) | (4,015) | (10,401) | (1,866) | 8,760 |
| Tax Paid | (12,617) | (7,513) | (12,661) | (11,635) | (29,685) |
| Cashflow From Operations | 93,248 | 82,815 | 88,513 | 138,308 | 144,927 |
| Capex | (182,219) | (130,882) | (230,622) | (40,000) | (30,000) |
| Disposals Of FAs/subsidiaries | | | | | |
| Acq. Of Subsidiaries/investments | | | | | |
| Other Investing Cashflow | (10,582) | (37,250) | (16,254) | | |
| Cash Flow From Investing | (192,800) | (168,132) | (246,876) | (40,000) | (30,000) |
| Debt Raised/(repaid) | 49,382 | 117,387 | 57,034 | (50,000) | (50,000) |
| Proceeds From Issue Of Shares | | | | | |
| Shares Repurchased | | | | | |
| Dividends Paid | (7,867) | (12,394) | (12,885) | (15,076) | (5,200) |
| Preferred Dividends | | | | | |
| Other Financing Cashflow | 31,906 | 38,236 | 51,781 | (7,060) | (250) |
| Cash Flow From Financing | 73,421 | 143,230 | 95,930 | (72,136) | (55,450) |
| Total Cash Generated | (26,131) | 57,914 | (62,433) | 26,172 | 59,477 |
| Free Cashflow To Equity | (50,170) | 32,071 | (101,329) | 48,308 | 64,927 |
| Free Cashflow To Firm | (78,261) | (59,754) | (132,427) | 132,848 | 145,967 |

SOURCE: INCRED RESEARCH, COMPANY REPORTS

BY THE NUMBERS...cont'd

| Balance Sheet | | | | | |
|--------------------------------------|----------------|----------------|----------------|----------------|----------------|
| (Rs mn) | Mar-21A | Mar-22A | Mar-23A | Mar-24F | Mar-25F |
| Total Cash And Equivalents | 47,008 | 104,921 | 42,488 | 68,660 | 128,136 |
| Total Debtors | 29,257 | 24,697 | 32,417 | 38,253 | 43,632 |
| Inventories | 9,919 | 3,812 | 4,520 | 4,782 | 5,454 |
| Total Other Current Assets | 103,891 | 108,415 | 125,835 | 139,958 | 154,537 |
| Total Current Assets | 190,075 | 241,845 | 205,259 | 251,652 | 331,759 |
| Fixed Assets | 490,475 | 575,146 | 761,080 | 767,051 | 761,657 |
| Total Investments | 22,362 | 59,611 | 75,865 | 75,865 | 75,865 |
| Intangible Assets | 40,364 | 59,179 | 69,634 | 69,634 | 69,634 |
| Total Other Non-Current Assets | | | | | |
| Total Non-current Assets | 553,200 | 693,936 | 906,579 | 912,550 | 907,157 |
| Short-term Debt | | | | | |
| Current Portion of Long-Term Debt | | | | | |
| Total Creditors | 50,026 | 49,351 | 73,374 | 131,495 | 149,987 |
| Other Current Liabilities | 6,030 | 7,537 | 9,422 | | |
| Total Current Liabilities | 56,056 | 56,888 | 82,796 | 131,495 | 149,987 |
| Total Long-term Debt | 344,010 | 461,397 | 518,431 | 468,431 | 418,431 |
| Hybrid Debt - Debt Component | | | | | |
| Total Other Non-Current Liabilities | 6,367 | 5,732 | 6,331 | 5,831 | 5,331 |
| Total Non-current Liabilities | 350,377 | 467,129 | 524,762 | 474,262 | 423,762 |
| Total Provisions | 15,875 | 25,335 | 35,059 | 9,865 | 9,865 |
| Total Liabilities | 422,308 | 549,353 | 642,617 | 615,622 | 583,613 |
| Shareholders Equity | 306,283 | 382,500 | 455,836 | 542,090 | 647,736 |
| Minority Interests | 14,685 | 3,928 | 13,385 | 6,491 | 7,567 |
| Total Equity | 320,967 | 386,428 | 469,221 | 548,581 | 655,303 |

| Key Ratios | | | | | |
|---------------------------|----------------|----------------|----------------|----------------|----------------|
| | Mar-21A | Mar-22A | Mar-23A | Mar-24F | Mar-25F |
| Revenue Growth | 9.7% | 20.6% | 37.7% | 14.7% | 14.1% |
| Operating EBITDA Growth | 12.0% | 19.8% | 34.2% | 15.7% | 13.1% |
| Operating EBITDA Margin | 63.6% | 63.2% | 61.5% | 62.1% | 61.6% |
| Net Cash Per Share (Rs) | (146.18) | (168.76) | (220.33) | (185.07) | (134.39) |
| BVPS (Rs) | 150.75 | 181.08 | 211.02 | 250.95 | 299.86 |
| Gross Interest Cover | 2.76 | 2.67 | 3.63 | 3.31 | 4.27 |
| Effective Tax Rate | 19.8% | 13.5% | 1.8% | 21.0% | 21.0% |
| Net Dividend Payout Ratio | 17.5% | 16.2% | 12.7% | 1.4% | 3.0% |
| Accounts Receivables Days | 89.11 | 65.04 | 49.99 | 53.94 | 54.80 |
| Inventory Days | 71.67 | 62.31 | 26.89 | 26.10 | 24.98 |
| Accounts Payables Days | 539.52 | 450.97 | 396.10 | 574.97 | 686.95 |
| ROIC (%) | 12.2% | 11.0% | 13.2% | 12.6% | 14.9% |
| ROCE (%) | 12.8% | 11.8% | 11.8% | 14.5% | 16.3% |
| Return On Average Assets | 8.6% | 8.1% | 9.2% | 10.1% | 11.0% |

| Key Drivers | | | | | |
|-----------------------------------|----------------|----------------|----------------|----------------|----------------|
| | Mar-21A | Mar-22A | Mar-23A | Mar-24F | Mar-25F |
| Mundra Port volume growth (% chg) | 3.7 | 4.1 | 3.3 | 16.7 | 11.8 |
| Adani Ports volume growth (% chg) | 10.8 | 14.3 | 19.2 | 13.9 | 9.3 |

SOURCE: INCRED RESEARCH, COMPANY REPORTS

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