



India

ADD (previously **REDUCE**)

Consensus ratings*: Buy 16 Hold 2 Sell 0

Current price:	Rs1,190
Target price:	Rs1,329
Previous target:	Rs1,329
Up/downside:	11.7%
InCred Research / Consensus:	-24.2%
Reuters:	APSE.NS
Bloomberg:	ADSEZ IN
Market cap:	US\$30,425m
	Rs2,570,673m
Average daily turnover:	US\$80.8m
	Rs6824.2m
Current shares o/s:	2,031.8m
Free float:	6,413.0%

*Source: Bloomberg

Key changes in this note

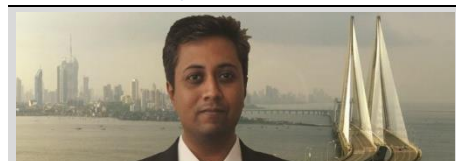
- Upgrade our rating to ADD (from REDUCE earlier).



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	(13.3)	(19.4)	42.4
Relative (%)	(13.4)	(16.6)	20.4

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

Vizhinjam port visit & analyst meet takeaways

- We are impressed by the Vizhinjam port & its unique value proposition.
- Management's five-year vision seems ambitious.
- Maintain our target price (Rs1,329); upgrade to ADD (from REDUCE earlier).

Vizhinjam: Unique value proposition, impressive automation

Vizhinjam is a container port in South India with 18m draft. It will cater to export-import (EXIM) and transshipment cargo. Construction started in Dec 2015 & APSEZ expects commencement of operations in Dec 2024F (~2mt in 4QFY25F). Its capacity is 1mTEU (Rs40bn capex). APSEZ is building a 1.5km road to connect it to NH-66 in six months. The rail link is ~20km away and APSEZ is working on one from the port (by FY28F). Its proximity to Colombo (transshipment hub) will provide shipping liners with an alternative. APSEZ believes that Vizhinjam has a better value proposition for shipping liners vs. Colombo via more EXIM cargo. 10-15% of Colombo's cargo is EXIM while APSEZ aspires to have 40% EXIM cargo (vs. 10-20% in the initial phase) at Vizhinjam. Please note that ships' revenue (at a destination) is linked to EXIM cargo while its port charges are linked to the total cargo.

The need for transshipment – an opportunity for Vizhinjam port

The port drastically reduces time & cost for shipping liners by reducing the number of trips (refer Figs. 1 & 2). 25% of India's container traffic of 330mt (FY24) is transshipped. India doesn't have a dedicated transshipment port, and thus 75% of its transshipped cargo is via ports outside India (Singapore, Jebel Ali & Colombo). 85% each of Singapore & Colombo total cargo (25/8mTEU, respectively, in CY23) comprised transshipment cargo.

APSEZ's five-year vision seems ambitious

While APSEZ expects a 15% organic five-year cargo CAGR, we feel it is ambitious. While cargo rose at a 17% CAGR (FY20-24), this was partly due to acquisitions. Ex-acquisitions, the volume CAGR was 8%. We expect similar organic growth over FY24-26F, especially on a larger base. In 1HFY25, APSEZ's India volume rose by 7-8% yoy. APSEZ's FY25F cargo guidance (460-480mt) implies 6-11% organic yoy volume growth. In 2H, it is likely to benefit from 6mt of Gopalpur (acquisition in 2Q), 6mt of Tanzania & ~3mt from Vizhinjam.

Maintain target price (Rs1,329); upgrade to ADD (REDUCE earlier)

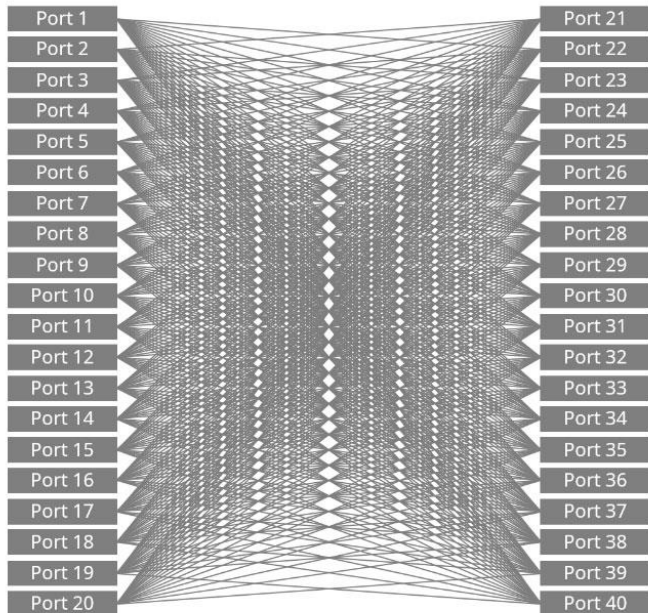
We factor in an EBITDA CAGR of 14% (FY24-26F). After a 20% fall in the CMP in the last three months, APSEZ trades at 12.4x FY26F EV/EBITDA, at a 13% discount to the six-year average. NED/EBITDA was just 2.4x in FY24. In case of a rating downgrade after the recent news flow on the group, APSEZ's cost of debt can rise as ~80% of its debt is in foreign currency. The low NED/EBITDA should ensure that there is only a marginal impact on its earnings. Further, the current valuation is quite comfortable. Listed Adani group finances were healthy in FY24. Ex-Ambuja Cements or ACL, for the listed group, net external debt (NED)/ EBITDA was 3.4x in FY24, much lower (better) than in FY20/23 (5x each). Prolonged economic slowdown is a downside risk.

Financial Summary	Mar-22A	Mar-23A	Mar-24A	Mar-25F	Mar-26F
Revenue (Rsm)	151,390	208,519	267,106	304,693	346,265
Operating EBITDA (Rsm)	95,640	128,335	158,639	183,264	208,162
Net Profit (Rsm)	47,281	53,103	80,292	104,747	129,508
Core EPS (Rs)	26.5	38.1	39.7	48.5	60.0
Core EPS Growth	18.8%	43.8%	4.1%	22.2%	23.6%
FD Core P/E (x)	44.91	31.23	29.99	24.54	19.85
DPS (Rs)	5.0	5.0	6.0	4.9	6.8
Dividend Yield	0.51%	0.51%	0.62%	0.50%	0.70%
EV/EBITDA (x)	29.48	23.46	18.74	15.64	13.17
P/FCFE (x)	76.89	(25.09)	100.78	31.43	27.58
Net Gearing	90.5%	97.1%	70.9%	45.7%	21.7%
P/BV (x)	6.57	5.64	4.86	4.14	3.51
ROE	15.9%	19.4%	17.4%	18.2%	19.1%
% Change In Core EPS Estimates				(0.05%)	(0.11%)
InCred Research/Consensus EPS (x)					

SOURCES: INCRED RESEARCH, COMPANY REPORTS

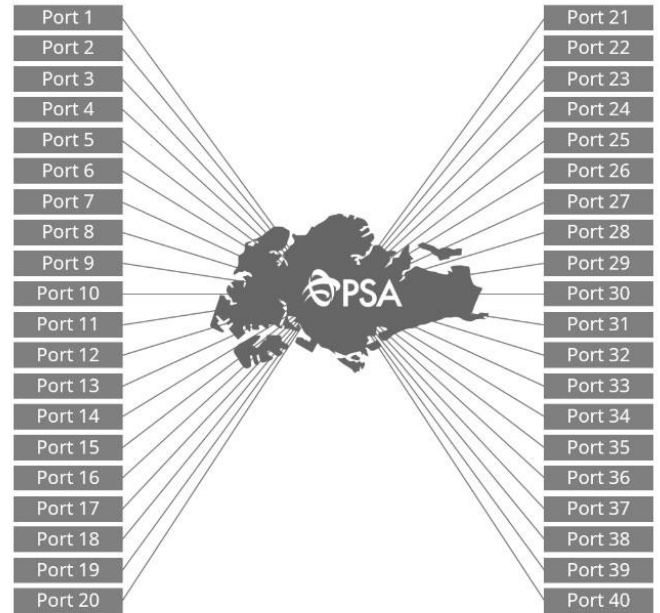
Vizhinjam port visit & analyst meet takeaways

Figure 1: For direct cargo movement between 20 source and 20 destinations, there are 400 distinct routes



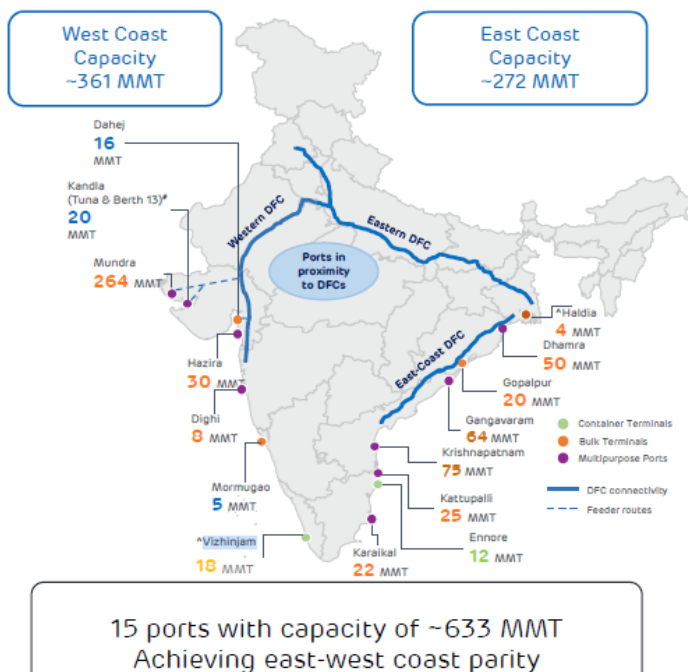
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 2: The number of journeys reduces to 40 if a transshipment port is used; a ship from port 1 can carry cargo for all 20 destinations; at the transshipment port, the cargo can be unloaded, aggregated from various ships & loaded on ships for each different destination.



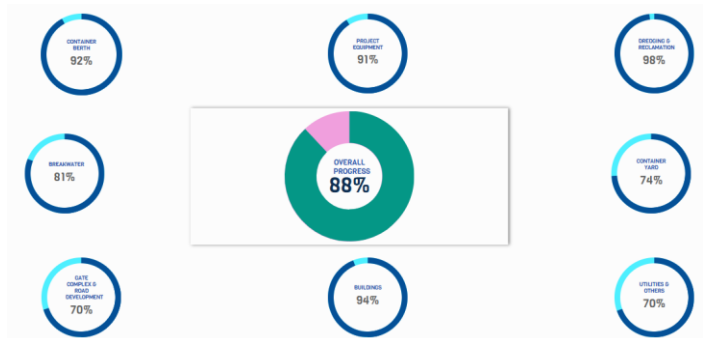
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 3: Portfolio of Adani Ports and Special Economic Zone or APSEZ's India assets



SOURCE: INCRED RESEARCH, COMPANY REPORTS

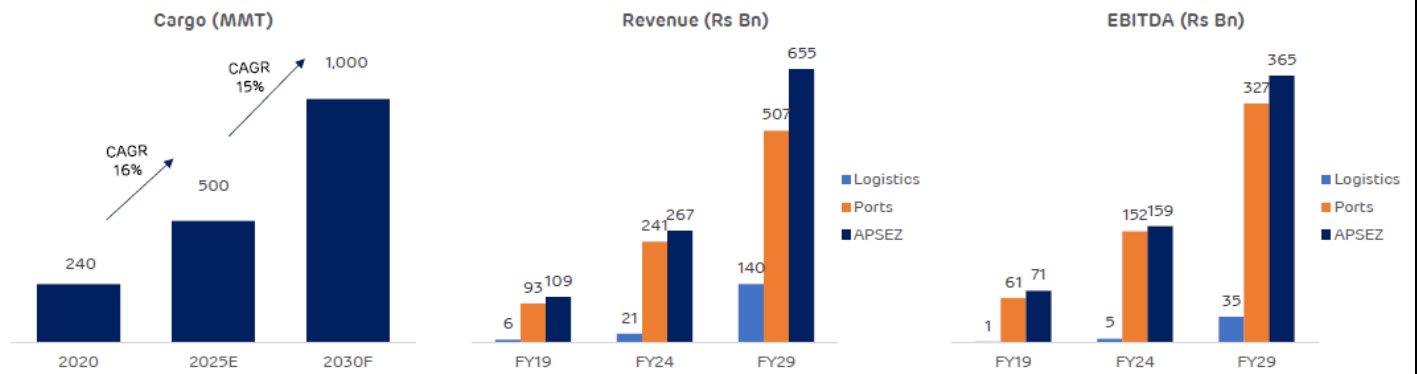
Figure 4: Status update of Vizhimjam port



SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 5: Management's five-year vision

1 BMT cargo volume, 7x revenue growth



SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 6: Sum-of-the-parts or SOTP-based valuation

	(Rs/ share)	(Rs bn)	Basis
EV APSEZ's stake			
Mundra Port	405	856	DCF @ WACC of 10.5% implying EV/E of 12.8x FY26F
SEZ	14	29	DCF @ WACC of 10.5%
Dahej	27	56	@ 14x EV/E FY26F
Hazira	95	200	@ 14x EV/E FY26F
Dhamra	112	236	@ 14x EV/E FY26F
Katupalli	15	33	@ 13x EV/EBITDA FY26F; implied 1.2x acquisition EV
Adani Logistics	82	173	@ 20x EV/EBITDA FY26F; implied 2.6x EV/Assets FY23
Marine Business	205	434	@ 14x EV/E FY26F
Krishnapatnam	177	373	@ EV/E of 14x FY26F; implied 2.7x acquisition EV
Vizhinjam	20	41	@ Capex
Gangavaram	90	190	@ 14x EV/EBITDA FY26F; implied 3.1x acquisition EV
Sarguja	28	60	@ acquisition price; implying EV/E of 10.8x FY26F
Karaikal	36	75	@ 14x EV/EBITDA FY26F
Other assets	140	295	@ 1x Capex
NPV of NWC change	(1)	(2)	
Total EV	1,445	3,052	
Less: Net debt less other investments	(116)	(245)	
Target Price	1,329	2,807	

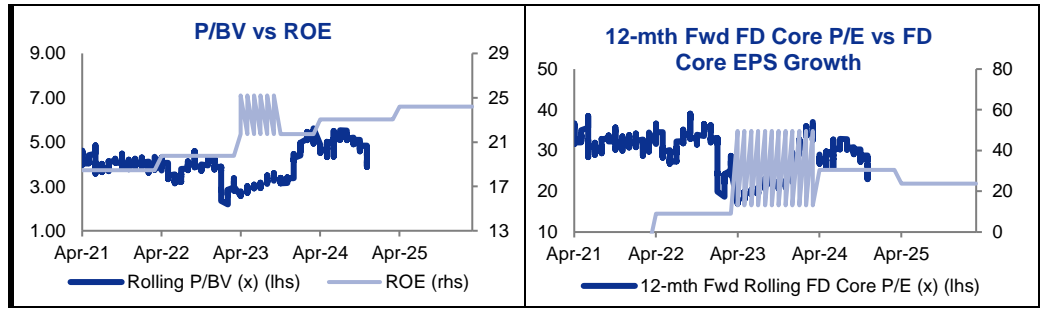
SOURCE: INCRED RESEARCH, BUDGET DOCUMENTS

Figure 7: Last six years' median EV/EBITDA at 14.2x



SOURCE: INCRED RESEARCH, BUDGET DOCUMENTS

BY THE NUMBERS



Profit & Loss

(Rs mn)	Mar-22A	Mar-23A	Mar-24A	Mar-25F	Mar-26F
Total Net Revenues	151,390	208,519	267,106	304,693	346,265
Gross Profit	111,174	151,974	195,942	222,855	252,151
Operating EBITDA	95,640	128,335	158,639	183,264	208,162
Depreciation And Amortisation	(27,396)	(34,232)	(38,885)	(40,800)	(42,120)
Operating EBIT	68,244	94,103	119,755	142,464	166,042
Financial Income/(Expense)	(4,015)	(10,401)	(12,850)	(9,958)	(2,193)
Pretax Income/(Loss) from Assoc.					
Non-Operating Income/(Expense)					
Profit Before Tax (pre-EI)	64,229	83,701	106,905	132,507	163,850
Exceptional Items	(8,817)	(28,809)	(6,782)		
Pre-tax Profit	55,412	54,892	100,122	132,507	163,850
Taxation	(7,459)	(964)	(19,897)	(27,826)	(34,408)
Exceptional Income - post-tax					
Profit After Tax	47,952	53,928	80,225	104,680	129,441
Minority Interests	(672)	(826)	67	67	67
Preferred Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
Net Profit	47,281	53,103	80,292	104,747	129,508
Recurring Net Profit	54,911	81,406	85,726	104,747	129,508
Fully Diluted Recurring Net Profit	54,911	81,406	85,726	104,747	129,508

Cash Flow

(Rs mn)	Mar-22A	Mar-23A	Mar-24A	Mar-25F	Mar-26F
EBITDA	95,640	128,335	158,639	183,264	208,162
Cash Flow from Invt. & Assoc.					
Change In Working Capital	3,732	25,421	11,393	5,314	1,658
(Incr)/Decr in Total Provisions					
Other Non-Cash (Income)/Expense	(8,817)	(28,809)	(6,782)		
Other Operating Cashflow					
Net Interest (Paid)/Received	(4,015)	(10,401)	(12,850)	(9,958)	(2,193)
Tax Paid	(7,513)	(12,661)	(18,887)	(16,819)	(34,408)
Cashflow From Operations	79,027	101,884	131,513	161,802	173,219
Capex	(130,882)	(230,622)	(103,581)	(30,000)	(30,000)
Disposals Of FAs/subsidiaries					
Acq. Of Subsidiaries/investments					
Other Investing Cashflow	(37,250)	(16,254)	32,979		
Cash Flow From Investing	(168,132)	(246,876)	(70,603)	(30,000)	(30,000)
Debt Raised/(repaid)	121,175	43,663	(35,401)	(50,000)	(50,000)
Proceeds From Issue Of Shares					
Shares Repurchased					
Dividends Paid	(12,394)	(12,885)	(13,177)	(28,764)	(17,952)
Preferred Dividends					
Other Financing Cashflow	38,236	51,781	(5,771)	(165)	34
Cash Flow From Financing	147,018	82,559	(54,349)	(78,929)	(67,918)
Total Cash Generated	57,914	(62,433)	6,561	52,873	75,302
Free Cashflow To Equity	32,071	(101,329)	25,509	81,802	93,219
Free Cashflow To Firm	(63,542)	(119,055)	88,754	158,070	166,487

SOURCES: INCRED RESEARCH, COMPANY REPORTS

BY THE NUMBERS...cont'd

Balance Sheet

(Rs mn)	Mar-22A	Mar-23A	Mar-24A	Mar-25F	Mar-26F
Total Cash And Equivalents	104,921	42,488	76,319	125,373	201,506
Total Debtors	24,697	32,417	36,669	48,751	55,402
Inventories	3,812	4,520	4,375	6,094	6,925
Total Other Current Assets	108,415	125,835	113,856	130,572	144,295
Total Current Assets	241,845	205,259	231,220	310,790	408,129
Fixed Assets	575,146	761,080	826,341	815,541	803,421
Total Investments	59,611	75,865	42,887	42,887	42,887
Intangible Assets	59,179	69,634	69,069	69,069	69,069
Total Other Non-Current Assets					
Total Non-current Assets	693,936	906,579	938,297	927,497	915,377
Short-term Debt					
Current Portion of Long-Term Debt					
Total Creditors	56,217	93,612	93,154	167,581	190,446
Other Current Liabilities	7,537	9,422	11,777		
Total Current Liabilities	63,754	103,034	104,931	167,581	190,446
Total Long-term Debt	454,530	498,193	462,792	412,792	362,792
Hybrid Debt - Debt Component					
Total Other Non-Current Liabilities	5,732	6,331	7,032	6,532	6,032
Total Non-current Liabilities	460,263	504,524	469,824	419,324	368,824
Total Provisions	25,335	35,059	49,332	22,512	22,512
Total Liabilities	549,353	642,617	624,087	609,417	581,781
Shareholders Equity	382,500	455,836	529,448	621,242	732,799
Minority Interests	3,928	13,385	15,982	7,628	8,926
Total Equity	386,428	469,221	545,430	628,870	741,725

Key Ratios

	Mar-22A	Mar-23A	Mar-24A	Mar-25F	Mar-26F
Revenue Growth	20.6%	37.7%	28.1%	14.1%	13.6%
Operating EBITDA Growth	19.8%	34.2%	23.6%	15.5%	13.6%
Operating EBITDA Margin	63.2%	61.5%	59.4%	60.1%	60.1%
Net Cash Per Share (Rs)	(165.51)	(210.96)	(178.91)	(133.06)	(74.66)
BVPS (Rs)	181.08	211.02	245.10	287.59	339.24
Gross Interest Cover	2.67	3.63	4.30	5.42	7.14
Effective Tax Rate	13.5%	1.8%	19.9%	21.0%	21.0%
Net Dividend Payout Ratio	16.2%	12.7%	11.8%	7.8%	8.8%
Accounts Receivables Days	65.04	49.99	47.20	51.16	54.89
Inventory Days	62.31	26.89	22.81	23.35	25.25
Accounts Payables Days	530.48	483.58	478.96	581.44	694.27
ROIC (%)	11.2%	13.3%	13.4%	15.1%	18.4%
ROCE (%)	11.9%	12.0%	13.4%	15.2%	17.1%
Return On Average Assets	8.1%	9.2%	10.5%	11.8%	13.0%

Key Drivers

	Mar-22A	Mar-23A	Mar-24A	Mar-25F	Mar-26F
Mundra Port volume growth (% chg)	4.1	3.3	16.1	12.9	6.3
Adani Ports volume growth (% chg)	14.3	19.2	24.8	9.9	7.0

SOURCES: INCRED RESEARCH, COMPANY REPORTS

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Definition:

- Add** The stock's total return is expected to exceed 10% over the next 12 months.
- Hold** The stock's total return is expected to be between 0% and positive 10% over the next 12 months.
- Reduce** The stock's total return is expected to fall below 0% or more over the next 12 months.

The total expected return of a stock is defined as the sum of the: (i) percentage difference between the target price and the current price and (ii) the forward net dividend yields of the stock. Stock price targets have an investment horizon of 12 months.

Sector Ratings

Definition:

- Overweight** An Overweight rating means stocks in the sector have, on a market cap-weighted basis, a positive absolute recommendation.
- Neutral** A Neutral rating means stocks in the sector have, on a market cap-weighted basis, a neutral absolute recommendation.
- Underweight** An Underweight rating means stocks in the sector have, on a market cap-weighted basis, a negative absolute recommendation.

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Definition:

- Overweight** An Overweight rating means investors should be positioned with an above-market weight in this country relative to benchmark.
- Neutral** A Neutral rating means investors should be positioned with a neutral weight in this country relative to benchmark.
- Underweight** An Underweight rating means investors should be positioned with a below-market weight in this country relative to benchmark.