

## ADANI ENTERPRISES

INFRASTRUCTURE

21 FEB 2017

Quarterly Update

**HOLD**

Target Price: Rs 83

### Coal trading margin, exceptional gains drive Q3

Coal trading profitability rose sharply to ~USD 1.9/t, ahead of recent track record of USD 1.3/t in previous 4 quarters. However, this is still much below historical margin (USD 6-7/t). Volume was strong at 21.8 MT (up 13% YoY).

There have been significant exceptional gains in Q3. ADE received AUD 46 mn (Rs 2.3 bn) from Rio Tinto and will receive another AUD 92 mn (Rs 4.6) over 6 months. Rio Tinto had earlier signed a deal with ADE to use Abbot Point Coal Terminal to export coal (~9.3 MT pa) on take or pay terms. As mining operations by Rio has not taken off yet, Rio and ADE came to an agreement that Rio would pay AUD 138 mn to ADE. Further, in its India MDO business, ADE won arbitration of Rs 2.3 bn in 9MFY17 (Rs 0.2 bn in Q3) regarding non-lifting of contractual coal.

CMP : Rs 91  
Potential Upside : -9%

#### MARKET DATA

No. of Shares : 1,100 mn  
Free Float : 25%  
Market Cap : Rs 100 bn  
52-week High / Low : Rs 100 / Rs 58  
Avg. Daily vol. (6mth) : 3.4 mn shares  
Bloomberg Code : ADE IB Equity  
Promoters Holding : 75%  
FII / DII : 18% / 3%

- ♦ **Adani Green Energy Ltd (51% subsidiary) executed the largest single-location solar project of 648 MW** in Tamil Nadu at a cost of Rs 45 bn. Currently, it has operating capacity of 734 MW of renewable energy. **Management has plans to ramp up renewable capacity to ~2 GW in future**
- ♦ **9MFY17 mining performance:** Domestic coal mining rose 38% YoY to 5.12 MT, while Indonesian Bunyu mine output was 3.11 MT. Indonesia mine faced abnormal rains in Q3; ADE mentioned that there could be some shortfall in its target of ~5.5 MT (FY17). **MDO is a key focus area going forward.** ADE is confident about opportunities, as private power generation companies and some state enterprises are likely to outsource coal mining
- ♦ Depreciation rose sharply to Rs 2.1 bn (Rs 1 bn in Q2) as ADE has moved to WDV method (higher depreciation rate) from Q3, vs. SLM earlier
- ♦ We revise our estimates to factor in exceptional gains (Q3 and money receivable from Rio Tinto over next 6 months) and higher coal trading profitability. **Maintain HOLD with revised TP of Rs 83 (Rs 72 earlier)**

#### Financial summary (Consolidated)

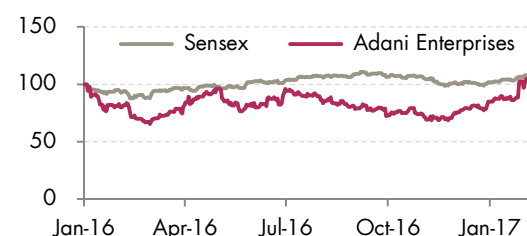
Y/E March	FY15	FY16	FY17E	FY18E
Sales (Rs mn)	645,819	440,229	399,843	449,335
Adj PAT (Rs mn)	19,501	12,949	9,613	10,983
Con. EPS* (Rs)	-	-	7.9	10.2
EPS (Rs)	17.7	11.8	8.7	10.0
Change YOY (%)	(43.6)	(33.6)	(25.8)	14.3
P/E (x)	5.1	7.7	10.4	9.1
RoE (%)	7.9	6.6	6.8	7.2
RoCE (%)	9.0	3.9	6.7	6.4
EV/E (x)	6.9	13.6	13.4	19.0
DPS (Rs)	1.6	1.6	2.8	4.0

Source: \*Consensus broker estimates, Company, Axis Capital

#### Key metrics (coal trading)

	Q3FY17	Q3FY16	Q2FY17
Volumes (MT)	21.8	19.2	18.8

#### Price performance



**Exhibit 1: Results update**

(Rs mn)	Quarter ended					12 months ended		
	Dec-16	Dec-15	% Chg	Sep-16	% Chg	FY17E	FY16	% Chg
<b>Net Sales</b>	<b>85,854</b>	<b>78,954</b>	<b>8.7</b>	<b>75,620</b>	<b>13.5</b>	<b>399,843</b>	<b>440,229</b>	<b>(9.2)</b>
EBIDTA	6,019	3,889	54.8	3,554	69.4	21,456	22,031	(2.6)
Other income	1,476	1,921	(23.2)	1,765	(16.4)	9,000	11,247	(20.0)
<b>PBIT</b>	<b>7,495</b>	<b>5,810</b>	<b>29.0</b>	<b>5,319</b>	<b>40.9</b>	<b>30,456</b>	<b>33,277</b>	<b>(8.5)</b>
Depreciation	2,144	751	185.5	970	121.0	6,538	3,769	73.4
Interest	3,416	2,975	14.8	4,218	(19.0)	14,171	14,980	(5.4)
<b>PBT</b>	<b>1,935</b>	<b>2,084</b>	<b>-</b>	<b>131</b>	<b>-</b>	<b>9,747</b>	<b>14,528</b>	<b>(32.9)</b>
Tax	533	631	-	1,131	-	1,351	1,158	16.7
Share of associates	0	194	-	189	-	-	-	-
Minority Interest	(377)	(204)	-	(268)	-	(1,216)	421	-
Other comprehensive income	1,671	562	-	(1,376)	-	-	-	-
<b>Adjusted PAT</b>	<b>3,451</b>	<b>2,413</b>	<b>43.0</b>	<b>(1,920)</b>	<b>(279.8)</b>	<b>9,613</b>	<b>12,949</b>	<b>(25.8)</b>
Extra ordinary income/ (exp.)	1,620	120	-	1,174	-	8,315	(2,538)	-
Reported PAT	5,071	2,534	-	(746)	-	17,928	10,411	-
No. of shares (mn)	1,100	1,100	-	1,100	-	1,100	1,100	-
EBIDTA margin (%)	7.0	4.9	-	4.7	-	5.4	5.0	-
<b>EPS - annualized (Rs.)</b>	<b>12.6</b>	<b>9.2</b>	<b>-</b>	<b>(2.7)</b>	<b>-</b>	<b>8.7</b>	<b>11.8</b>	<b>(25.8)</b>

Source: Company, Axis Capital

**Exhibit 2: SoTP valuation**

Valuation	(Rs/ sh)	
<b>EV</b>		
Coal Trading	63	Implied EV/ EBITDA of 5.4x FY18E
Others (Adani Wilmar, Adani Gas, etc)	62	6x EV/EBITDA FY18E
Coal - galillee	58	@1x PBV
Coal - Parsa Kente	13	DCF
investment in solar power	7	@ 1x PBV
Coal - Bunyu	10	DCF
Net Debt FY17E	(130)	
<b>Total</b>	<b>83</b>	

Source: Axis Capital

## Financial summary (Consolidated)

### Profit & loss (Rs mn)

Y/E March	FY15	FY16	FY17E	FY18E
Net sales	645,819	440,229	399,843	449,335
Other operating income	-	-	-	-
<b>Total operating income</b>	<b>645,819</b>	<b>440,229</b>	<b>399,843</b>	<b>449,335</b>
Cost of goods sold	(516,227)	(418,199)	(378,386)	(420,872)
Gross profit	129,592	22,031	21,456	28,462
<i>Gross margin (%)</i>	<i>20.1</i>	<i>5.0</i>	<i>5.4</i>	<i>6.3</i>
Total operating expenses	-	-	-	-
<b>EBITDA</b>	<b>129,592</b>	<b>22,031</b>	<b>21,456</b>	<b>28,462</b>
<i>EBITDA margin (%)</i>	<i>20.1</i>	<i>5.0</i>	<i>5.4</i>	<i>6.3</i>
Depreciation	(41,524)	(3,769)	(6,538)	(7,951)
<b>EBIT</b>	<b>88,068</b>	<b>18,261</b>	<b>14,919</b>	<b>20,511</b>
Net interest	(70,790)	(14,980)	(14,171)	(16,657)
Other income	9,380	11,247	9,000	10,500
<b>Profit before tax</b>	<b>26,658</b>	<b>14,528</b>	<b>9,747</b>	<b>14,355</b>
Total taxation	(3,657)	(1,158)	(1,351)	(4,761)
<i>Tax rate (%)</i>	<i>13.7</i>	<i>8.0</i>	<i>13.9</i>	<i>33.2</i>
Profit after tax	23,001	13,370	8,397	9,594
Minorities	(3,500)	(421)	1,216	1,389
Profit/ Loss associate co(s)	-	-	-	-
Adjusted net profit	19,501	12,949	9,613	10,983
<i>Adj. PAT margin (%)</i>	<i>3.0</i>	<i>2.9</i>	<i>2.4</i>	<i>2.4</i>
Net non-recurring items	(21)	(2,538)	8,315	-
Reported net profit	19,481	10,411	17,928	10,983

### Balance sheet (Rs mn)

Y/E March	FY15	FY16	FY17E	FY18E
Paid-up capital	1,100	1,100	1,100	1,100
Reserves & surplus	256,178	133,057	147,883	154,473
Net worth	257,278	134,157	148,983	155,572
Borrowing	840,311	220,906	206,222	454,633
Other non-current liabilities	8,645	(234)	-	-
<b>Total liabilities</b>	<b>1,147,252</b>	<b>355,681</b>	<b>359,580</b>	<b>614,580</b>
Gross fixed assets	964,860	195,423	226,767	484,107
Less: Depreciation	(126,520)	-	(6,538)	(14,489)
Net fixed assets	838,340	195,423	220,229	469,618
Add: Capital WIP	71,974	-	-	-
Total fixed assets	910,315	195,423	220,229	469,618
Other Investment	1,532	1,340	8,653	12,223
Inventory	40,817	28,434	40,000	40,000
Debtors	153,192	105,429	74,199	82,286
Cash & bank	36,510	20,585	19,003	12,958
Loans & advances	158,908	98,923	83,967	94,360
Current liabilities	159,930	94,452	86,470	96,865
Net current assets	229,496	158,918	130,698	132,739
Other non-current assets	-	-	-	-
<b>Total assets</b>	<b>1,147,252</b>	<b>355,681</b>	<b>359,580</b>	<b>614,580</b>

Source: Company, Axis Capital

### Cash flow (Rs mn)

Y/E March	FY15	FY16	FY17E	FY18E
Profit before tax	26,658	14,528	9,747	14,355
Depreciation & Amortisation	41,524	3,769	6,538	7,951
<i>Chg in working capital</i>	<i>(89,228)</i>	<i>56,941</i>	<i>26,138</i>	<i>(8,087)</i>
<b>Cash flow from operations</b>	<b>33,452</b>	<b>75,452</b>	<b>57,625</b>	<b>21,765</b>
<i>Capital expenditure</i>	<i>(84,884)</i>	<i>841,411</i>	<i>(31,344)</i>	<i>(257,340)</i>
<b>Cash flow from investing</b>	<b>(80,062)</b>	<b>858,759</b>	<b>(29,656)</b>	<b>(250,410)</b>
<i>Equity raised/ (repaid)</i>	<i>-</i>	<i>(168,352)</i>	<i>-</i>	<i>-</i>
<i>Debt raised/ (repaid)</i>	<i>115,906</i>	<i>(619,405)</i>	<i>(14,684)</i>	<i>248,411</i>
<i>Dividend paid</i>	<i>(1,330)</i>	<i>(4,695)</i>	<i>(3,101)</i>	<i>(4,394)</i>
<b>Cash flow from financing</b>	<b>45,909</b>	<b>(950,137)</b>	<b>(29,551)</b>	<b>222,600</b>
Net chg in cash	(701)	(15,926)	(1,582)	(6,045)

### Key ratios

Y/E March	FY15	FY16	FY17E	FY18E
<b>OPERATIONAL</b>				
FDEPS (Rs)	17.7	11.8	8.7	10.0
CEPS (Rs)	55.5	12.9	22.2	17.2
DPS (Rs)	1.6	1.6	2.8	4.0
Dividend payout ratio (%)	9.3	17.4	17.3	40.0
<b>GROWTH</b>				
Net sales (%)	19.1	(31.8)	(9.2)	12.4
EBITDA (%)	40.6	(83.0)	(2.6)	32.7
Adj net profit (%)	(43.6)	(33.6)	(25.8)	14.3
FDEPS (%)	(43.6)	(33.6)	(25.8)	14.3
<b>PERFORMANCE</b>				
RoE (%)	7.9	6.6	6.8	7.2
RoCE (%)	9.0	3.9	6.7	6.4
<b>EFFICIENCY</b>				
Asset turnover (x)	0.6	0.6	1.2	1.0
Sales/ total assets (x)	0.5	0.5	0.9	0.8
Working capital/ sales (x)	0.2	0.4	0.3	0.3
Receivable days	86.6	87.4	67.7	66.8
Inventory days	28.9	24.8	38.6	34.7
Payable days	-	-	-	-
<b>FINANCIAL STABILITY</b>				
Total debt/ equity (x)	2.9	1.0	1.4	2.9
Net debt/ equity (x)	2.7	0.9	1.3	2.8
Current ratio (x)	2.4	2.7	2.5	2.4
Interest cover (x)	1.2	1.2	1.1	1.2
<b>VALUATION</b>				
PE (x)	5.1	7.7	10.4	9.1
EV/ EBITDA (x)	6.9	13.6	13.4	19.0
EV/ Net sales (x)	1.4	0.7	0.7	1.2
PB (x)	0.4	0.7	0.7	0.6
Dividend yield (%)	1.8	1.8	3.1	4.4
Free cash flow yield (%)	(51.5)	918.1	26.3	(235.9)

Source: Company, Axis Capital

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SELL	Less than -10%

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