"Adani Enterprises Limited Q1 FY19 Earnings Conference Call"

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MR. NARESH PODDAR – CFO, ADANI GAS LIMITED
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Moderator: Good day ladies and gentlemen and a very warm welcome to Adani Enterprises Limited Q1 FY19 earnings conference call. We have with us today on the call Mr. Pranav Adani – Director, Adani Enterprises Limited, Mr. Rajiv Nayar – CFO, Adani Group, Mr. Vinay Prakash – CEO, Coal and Mining, Mr. Ramesh Nair – CEO, Mundra Solar PV Ltd, Mr. Rakesh Shah – CFO, Adani Enterprises Ltd, Mr. Ram Patodia – CFO, Mining and ICM, Mr. Shrikant Kanhere – CFO, Adani Wilmar Limited, Mr. Rakesh Tiwary – CFO, Mundra Solar PV Ltd, Mr. Naresh Poddar – CFO, Adani Gas Limited, Mr. Praveen Khandelwal, CFO, Mining Australia.

As a reminder all participant lines will be in the listen-only mode. There will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call please signal an operator by pressing '*' then '0' on your touchtone phone. Please note that this conference is being recorded. I am now glad to hand the conference over to Mr. Rakesh Shah, thank you and over to you sir.

Rakesh Shah: Hi good evening this is Rakesh Shah, CFO of Adani Enterprises. We have had a good quarterly performance by all our businesses. Let me take you through our consolidated financial performance for Q1 FY19. The consolidated income from Operations is Rs 7954 crores in Q1 FY19 versus Rs 8548 crores in Q1 FY18. Consolidated EBITDA is Rs 589 crores in Q1 FY19 on YoY basis, it is up by 17%, Rs 503 crores what was achieved in Q1 FY18 and consolidated PAT stood at Rs 169 crores in Q1 FY19 versus Rs 159 crores in Q1 FY18. Overall Adani Enterprises demonstrated resilient performance across coal trading MDO, City Gas distribution, solar manufacturing and agro vertical.

Now I would request each of the business CEO and the CFO to take you through the respective business highlights.

Naresh Poddar: Good evening, I am Naresh Poddar, Adani Gas Limited. I will take you through the City Gas performance. Just a brief overview, like AGL has four cities operational which is Ahmedabad, Vadodara, Faridabad, Khurja and we have nine cities in our joint venture with Indian Oil where six cities are already operational, one city, Dharwad is going to be operational by next quarter and other two cities like South Goa and Bulandshahr would be operational by next financial year. In this Q1 FY19 our volume on a YoY basis has increased by 14% at 126 MMSCM versus 110 MMSCM in Q1 FY18 and EBITDA has grown by 18%. As you know that demerger is already approved, and the scheme is in process. We are expecting NCLT approval in this month August and consequently listing should happen in the first week of November, somewhere around. Thank you.

Rakesh Tiwary: Hello, I am Rakesh Tiwary – CFO of Adani Solar manufacturing business that is Mundra Solar PV Limited. The plant has been commissioned at a CAPEX of around 2000 crores. It is 1200 megawatt of solar cell and module plant. The performance this quarter was we have sold 81 megawatt, it is slightly less than the Q1 last year, its 25% down. It is mainly because of some strategic call which we had taken.

Shrikant Kanhere: Good evening everyone, this is Shrikant Kanhere – CFO for the Agri business of Adani Group. Adani Wilmar has maintained its leadership position in the edible oil. Its fortune brand continues to dominate the refined oil consumer pack market with more than 20% of market share. We have witnessed steady volume growth of 5% on a year-on-year basis for quarter one. The volume increase was mainly driven by the edible oil as well as the food segment. Food segment includes the rice, besan, atta and other products which we have added to the product portfolio. In Agri logistics business where we operate grain silos, the project implementation for our Punjab silos with a capacity of 300,000 metric tons is going steady and we expect the commissioning of these silos should happen by end of March 2019 and we should go live on all the silos by April 2019. That's it from the Agro.

Vinay Prakash: Hello, I am Vinay Prakash – CEO for Mining and ICM. As far as the Coal MDO business is concerned the company has six coal blocks now which are Parsa-Kante, Kente Extension, GP3 which is Gare-Palma 3, Talabira 2 and 3 and Jitpur with the peak capacity of 56 million tons. PKEB was the first MDO to be operationalized in the country and we have been the pioneer in the MDO business. Coal mining volume at PKEB increased by 31% at about 2.15 million tons in quarter one financial year 2019 against 1.64 million tons in quarter one financial year 2018. The EBITDA has increased by 92% on account of higher volumes. This financial year we expect to start mining operation in three blocks which are Parsa, which is for Rajasthan, GP3 which is for Chhattisgarh Generation Company and Talabira 2 and 3 which is for NLC. And we've planned to have MDO order book of 200 million metric ton in next 3-5 years. As far as our ICM business is concerned the company provides end to end procurement and logistics services to its customers. Our ICM business maintained the leadership position as the number one importer for coal in India for more than last 10 years. It has continued to deliver industry-leading performance with coal trading volume of 11.5 million metric ton in quarter one FY19 versus 15 million metric ton in quarter one FY18. The decline in coal volume is due to the lower APL requirement, running power requirement and the cautious approach by the company due to extraordinary increase in the global coal price. We can move to Q&A now.

Moderator: Ladies and gentlemen, we will now begin the question and answer session. The first question is from the line of Shirish Rane from IDFC. Please go ahead.

Ashish Shah: I am not sure whether you gave the number for the coal trading volume.

Vinay Prakash: Coal trading volume for the quarter one FY19 is 11.5 million metric tons versus 16 million metric tons for quarter one FY18.

Ashish Shah: You did comment about the fact that you are being cautious, but I am saying generically when we look at the imported coal volumes especially at the ports it seems like there has been a good recovery in the last few months and the ports are actually reporting good growth, so in that environment why our volumes have gone down. I understand we might have lost maybe a couple of million tons to the Adani Power Mundra plant but apart from that also why is the volumes significantly down?

Vinay Prakash: You are rightly taken that. All this port had actually got good amount of coal imports but if you see the evacuation plan there, the coal inventory it has gone up drastically and had we gone for a bigger volume than 11.5 million tons all this would have actually turned into the inventory at various ports. So all this coal which came on these ports are actually lying in these ports only.

Ashish Shah: Is that because of shortage of wagons or anything or it's because probably people have over ordered and are not taking the delivery?

Vinay Prakash: It is poor rake availability, in Paradip we are seeing a number of rakes in close to 600, in Dhamra we are seeing 400, in Gangavaram it is again 350 to 400, so everywhere we have very huge numbers of rake in demand and they are getting very low numbers of rakes.

Ashish Shah: In this environment what will be your guidance for FY19 how much would you target, in terms of coal trading volumes?

Vinay Prakash: If you see Quarter 2 for last 5-6 years it has been always bad because this has been monsoon time in India, but we are confident that in Quarter 3 and Quarter 4 we will have a good recovery to achieve our business target.

Ashish Shah: Probably around 70-75 million tons, is that the target you have in mind?

Vinay Prakash: I can't give the number but definitely it is going to be a good…

Ashish Shah: Second question is more on the P&L side, there has been a very sharp increase when one sees in the other expenses, from 688 to 910 and this is when the overall revenues have actually been lower, so what would be driving this increase in other expenses?

Vishwas Shah: This is Vishwas, so other expenses if you see compared to Quarter 1 of the last year which was 688 crores to 910 crores which is in the current quarter, now this is exceptionally bit more amount as compared to the previous quarter because of the two factors, one is the solar manufacturing where you don't see the revenue up but the cost is as a fixed cost it is being there. Secondly there were certain expenses includes shipping businesses which they have probably put into our P&L in this quarter and also certain expenses into our Singapore entity which has given rise into this expense. But I see these expenses as a one-time expense and probably would even up into the rest of three quarters.

Ashish Shah: So we would say that in these 910 crores there is some sort of a one-off expenses is there?

Vishwas Shah: Yes.

Ashish Shah: How much would that be if you can just quantify?

Vishwas Shah: I think 90 to 100 crores I mean I would be very approximate onto those numbers but that would be 100 crores out of that is like a one-time expenses, what we are probably plugged in this quarter.

Ashish Shah: On the profits on the joint ventures which we have reported about 77 crores for the quarter, can you just broadly give from which entity has this profit come?

Vishwas Shah: This is our Adani Wilmar which is 50-50 JV, so on a standalone basis they have reported a profit of 145 crores for this quarter, a 50% of which amounts to close to 77 crores which has reported into our shares from joint venture.

Ashish Shah: So this almost entirely from Adani Wilmar, there is no other businesses?

Vishwas Shah: Yes because we do not have any other significant JV except of that which is as of now not giving any sort of profit, so this is only Wilmar.

Ashish Shah: In terms of the recent award that we have for the new areas for the CGD business, any light that you would like to give on what is their plan, what is the kind of capital expenditure that you will incur and any details that you can give on that?

Naresh Poddar: In this round where 86 geographical areas were on offer, we have bidded for 32 GA as AGL standalone and 20 GA through our joint venture IOAGPL, so total we have put bids in 52 GA. So far we have been declared winner for 6 GA in AGL and 3 in IOAGPL, so 9 are confirmed. Based on the trend line we are expecting that AGL should close at around 15 geographical areas and IO-joint venture should do at 9, so in total we would be getting around 24-25 GA the way things are evolving. CAPEX etc. on a very broad portfolio basis you can see these are 8-year minimum work program this project where we have to complete the minimum work program in next 8 years. On each GA on a very approx basis at a portfolio level you can see the CAPEX would be around Rs. 500 crores per GA. So, for AGL we would be doing significant CAPEX in next 8 years. Though this CAPEX are slow and staggered over the minimum work program, not bunched kind of and still we are sometime away because first year etc. goes into permission, network planning etc. So, once we have clear-cut with numbers in hand we will do a detail CAPEX analysis and we will come back to you on exact numbers.

Moderator: Next is a follow up question from the line of Ashish Shah from IDFC.

Ashish Shah: Also, if you can just share some light on the profitability of each of the verticals especially the coal trading business, what is the kind of EBITDA that we would have made for Q1? I'm not sure if it is there in the presentation but somehow, I didn't get a chance to look at it because I just came few minutes prior to the call.

Vishwas Shah: I think what I understood is your asking about the EBITDA of our coal trading business, right?

Ashish Shah: Yes or EBITDA of the each of the key segments and maybe starting with the coal trading.

Vishwas Shah: Broadly coal has contributed close to 240 crores, MDO has contributed close to 175 crores, CGD is close to 100 crores. Solar manufacturing is on breakeven except of the FOREX fluctuation contributing to a negative 30 because of FOREX fluctuation while the contribution if you really ask EBITDA its almost breakeven. And from the other business the EBITDA is 96 crores, close to 100 crores. So, all in all if you see the total EBITDA at consolidated level is 590 crores approximately.

Ashish Shah: And this is without the other income, right?

Vishwas Shah: No this would be inclusive of other income because when I say others that include my interest income. But when it comes to a business they have their own operational income which is and other income which can be a part as a delayed payment charges which is purely a business income.

Moderator: Thank you. As there are no further questions, I now hand the conference over to Mr. Rakesh Shah for closing comments.

Rakesh Shah: Thank you all for your active participation. I would like to thank everyone for their presence and participation on this conference. Thank you.

Moderator: Thank you very much. Ladies and gentlemen on behalf of Adani Enterprises Limited that concludes this conference call for today. Thank you for joining us and you may now disconnect your lines.