"Adani Enterprises Limited Q2 FY-21 Earnings Conference Call"

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MANAGEMENT: **MR. VINAY PRAKASH – CEO (MINING & IRM), ADANI ENTERPRISES LIMITED.**
MR. RAMESH NAIR – CEO – MUNDRA SOLAR PV LIMITED.
MR. ROBBIE SINGH – CFO, ADANI ENTERPRISES LIMITED.

Moderator: Ladies and gentlemen, good day and welcome to the Adani Enterprises Limited Q2 FY21 Earnings Conference Call. We have with us on the call today. Mr. Vinay Prakash - CEO Mining & IRM, Adani Enterprises Limited, Mr. Ramesh Nair – CEO, Mundra Solar PV Limited, and Mr. Robbie Singh – CFO, Adani Enterprises Limited. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the call, please signal the operator by pressing "*" then "0" on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Robbie Singh. Thank you and over to you sir.

Robbie Singh: Thank you so much. Thank you everyone for joining. Thank you colleagues, Vinay Prakash and Ramesh to join and the team here.

AEL has been a successful incubator since 1994. We've created five infrastructure unicorns as independent listed entities with strong businesses. Our constant endeavor to invest in strategic new businesses has always been translated into profitable returns for our shareholders. As our core businesses continue to sustain long term growth, we are making significant progress in our new business segments comprising airports, roads, water and data center. The model of building new businesses and creating value has delivered returns at a compounded annual growth rate of 30% to shareholders since inception. In the last three years the demerger of Adani Green Energy Limited and Adani Gas Limited has boosted our shareholder returns to 90% since the announcement of those demergers. In continuation to this process of value creation, we have taken over operations, management and development of Mangalore airport on 31st October, Lucknow airport on 2nd November and soon we will take over the operations and running of Ahmedabad airport.

Coming to this quarter's performance:

It has been yet another quarter of stellar operational and financial performance across our core business segments of mining services, integrated resource management, solar manufacturing and others. This quarter witnessed a recovery in volumes and margin due to phased unlocking and momentum in economic activity. Consolidated revenue for Q2 FY21, increased by 8% and is at 9312 crore and EBITDA increased by 76% at Rs.951 crore vs 540 crore in Q2 FY20. The rise in EBITDA was predominantly on account of higher volumes in mining services (my colleague, Vinay Prakash will go through that) and for solar manufacturing (Mr. Ramesh Nair will go through that.)

Profit attributable to owners increased to Rs.362 crore versus 50 crore in Q2 FY20 in-line with higher EBITDA margins. Now, let each business CEO take you through respective business highlights. I hand over to Mr. Vinay Prakash.

Vinay Prakash: Thanks Robbie. Good evening to all, as far as the mining service businesses is concerned the company is an MDO for nine coal blocks with peak capacity of +100 million metric tonne per annum capacity, including two projects which are at a LOA stage. Further, the company has two MDO projects for iron ore, with the peak capacity of 16 billion metric tonne per annum. These

11 projects are located in the states of Chhattisgarh, Madhya Pradesh and Orissa. Along with this, we have also forayed into the washery service business and we have received the LOI for Hingula washery project for 10 million metric tonne for MCL. PEKB which is Parsa-East Kante Basan coal block has been operational since February 2013 and it is the first and the only captive opencast coal mine with the washery in the country producing at its peak rated capacity of 15 MMT per annum. The other mine GP3 was opened in April 2019 and Talabira II and III mine of NLC was opened in December 2019.

The coal mining production volume increased by 17% at 3.5 MMT which had come from PEKB 3.2 MMT, GPIII 0.2 MMT and Talabira II and III, 0.1 MMT in Q2 FY21 against the production volume of 3 MMT in Q2 FY20 which came all from PEKB mine. Further coal dispatches stood at 3.1 MMT, out of which PEKB did 2.6 MMT and GPIII did 0.4 MMT and the TOMPL which is Talabira II and III did 0.1 MMT in Q2 FY21 against dispatch of 2.3 MMT in Q2 FY20 which came from PEKB only. The production volume in H1 FY21 stood at 5.7 MMT versus 5.8 MMT in H1 FY20. In Q2 FY21 EBITDA increased by 66% to Rs.328 crores vs Rs.197 crores in Q2 FY20 in mining service business.

Coming to IRM which is integrated resource management business. The company provides here end-to-end procurement as a logistic service to its customer. We have developed business relationships with diversified customer across various end user industries. Our IRM business continues to maintain the leadership position as the number one player in India. The volume this quarter stood at 15.7 MMT which is Q2 FY21 vs 16 MMT in Q2 FY20. With this I'll give it to now Mr. Ramesh Nair. Ramesh, over to you.

Ramesh Nair: Thank you Vinay. Good afternoon everybody, Mundra Solar PV Limited had established India's largest vertically integrated solar photovoltaic manufacturing facility of 1.2 GW having the state-of-the-art plant along with R&D facilities within its electronic manufacturing cluster facility in Mundra SEZ. The company has staged a strong recovery in Q2 FY21 from the pandemic effect and has shown a robust growth in terms of volumes and profitability. Q2 FY21 solar module volumes stood at 418 MW increasing 1.5x against 278 MW module of volume in Q2 FY20 and while EBITDA increased almost four times at 350 crore versus 92 crore in Q2 FY20. The stellar EBITDA performance was supported by off take of spilled over volumes of lockdown affected Q1 FY21. The adverse impact of increasing input costs were cushioned by significant cost reduction initiatives taken by the business. So we are committed on bringing the cost of lowest global benchmarks and focus on DCR and EPC segments to have sustainable growth in the coming period. Thank you.

Moderator: Thank you very much.

Robbie Singh: We can now start with the question and answer session.

Moderator: Yes. We will now begin the question and answer session. The first question is from the line of Mohit Kumar from IDFC. Please go ahead.

Mohit Kumar: Good evening, Sir and congratulations for the good set of numbers. Sir, my first question is on Adani airports business. Since we have taken over the airport, what is the kind of upfront money we have paid and what is the status of all the other three airports and can we discuss the CAPEX layout for 2-3 years?

Robbie Singh: Yes, it's Robbie here. So, effectively our airport CAPEX is in three parts. Part one is the six airports that we have acquired under the government program of divestment In those, over the next five years we expect a total CAPEX of about Rs.15,000 crores. Then we are also in the process of completing the acquisition of MIAL and Navi Mumbai and in those airports we will have a CAPEX of around Rs.20,000 crores including acquisition cost, so there would be a total CAPEX of about Rs.35,000 crores over the next five years across our airports business.

Mohit Kumar: My question is how much upfront payment we have made right now and how are you going to fund this?

Robbie Singh: Upfront payments are due to be paid in February and the total upfront payments are segregated into three parts which we have to make which is for the existing works in progress, which we will know the final figure when we complete the process based on the contracts given out by AAI, we have to make RAB related payments, the regulated asset base of the three airports that we are acquiring is approximately Rs.525 crores.

Mohit Kumar: And sir what about the other three airports any status update which you can provide?

Robbie Singh: On the other three airports we are currently in the LOA stage and we would be receiving COD in February. So, we would be able to update the numbers then.

Mohit Kumar: Secondly, in your coal mining sir, given that we won a mine yesterday in a coal auction, is it through Adani Enterprises or is it through other arm?

Robbie Singh: I will let Vinay answer this, Vinay, please can you answer?

Vinay Prakash: Yes, so this is by a company called **Stratatech** which is the 100% subsidiary of Adani Enterprises.

Mohit Kumar: Okay, sir so is it possible for you to provide some details of the mine and when do you expect and what kind of volume it can add in the coming future?

Vinay Prakash: So, this is a open cast mine in MP which is having a reserve of around 580 million tonne and this mine is fully explored mine. It is in initial stage so we have to go for the mine plan preparation and go for EC and FC permission. So, this will take minimum three years' time to get this mine operationalized. The current capacity which has been envisaged is 3 million tonne p.a., but based on our technical knowledge in the system we may increase from 3 to 5 or 5 to 8 million tonne going forward. But that all will come in the next few quarters depending on how we can revise the mine plan. But as of now it is 3 million tonne capacity mine which is there in

MP adjacent to the mine which is already there with us called Suliyari mine which we intend to start in this financial year.

Mohit Kumar: So, how do you see the volume from Parsa Kente and GPIII and Talabira II and III mine in FY21, and what is the volume expect in FY22, put all together?

Vinay Prakash: So, in FY21 PEKB will be 15 million tonne which is the peak capacity, GPIII we can do big volumes at around 4-4.5 million tonne but there is a logistic constraint by the customer. So, I do see a volume of around 3 million tonne in GPIII. Same in Talabira we can do 6 million tonne but customer is having issue in terms of arranging the logistics. So there also it will be between 2 to 3 million tonne in FY21. Now going into FY22 PEKB will remain at 15 million tonne, our GPIII can go from 3 to 4 or 5 million tonne. Talabira can go from 2 to 6 million tonne or even to 8 million tonne also. More mines like Parsa and Suliyari will add few more tonnages.

Mohit Kumar: Okay. Sir lastly on the solar modules, this quarter volume has been very high. Is it primarily due to shifting of our volume from Q1 to Q2 and can we expect a 500 crore kind of run rate for the balance of the year? And sir the profitability also has been pretty high in this quarter, Is there something which you can throw the colors on the profitability and the volume numbers for FY21 and FY22 and the domestic and export mix?

Ramesh Nair: Yes, you are right. There was a spillover of volume from the Q1 to Q2. What we have also mentioned that due to lockdown in Q1, we had the production going on but the volume did spill over. So, that's part of the story. The second thing about the run rate of the second half of the year, it should be very close to what we have done in the first half and I don't want to say exactly how much but it could be definitely better than what we've done in the H1, no doubt about it. And in terms of margins, yes margins are better because we got CPSC orders from NTPC and the DCR segment have taken up quite well on Kusum,CPSC orders and roof tops. So we are completely focused on DCR segment in the current year and then we are trying to bag whatever orders are possible on the DCR segment. So that was all about volumes and on cost, we have hit the lowest cost possible in the history of the company in the first quarter and in the second quarter.. And it is very close to global benchmark and is completely in line with the Chinese cost which are reported in PV infolink. So we have been able to sort of do well on all fronts in the first half of the current year. So that's a good point.

Mohit Kumar: So how much domestic and export mix in the H1 and what is the order book right now?

Ramesh Nair: The order book is in excess of about 600 MW at this point of time so, we are completely booked for the year, so there is no issue till March 2021 and what was the first question I just missed it?

Mohit Kumar: You have answered my questions. Thank you and best of luck.

Moderator: Thank you. The next question is from the line of Nirav Shah from GeeCee Investments. Please go ahead.

Nirav Shah: Good evening Sir and congratulations for very strong set of numbers. Sir few questions, one is if I look at the performance of Wilmar on the margins, sir, it's slightly impacted, it's now down to around 3% compared to what 6% we used to do in the first half any specific reason due to seasonality or there is any one off over here?

Robbie Singh: It is largely driven by M-to-M hedging which is non-cash movement. So, it will reverse out. as the hedging positions are volatile , so there's no cash outflow actually but unfortunately, we have to report it that way.

Nirav Shah: Okay, got it. So, second question is on the airport's front, any timeline for the take over of Mumbai airport and any transaction value we are disclosing there?

Robbie Singh: No, our transaction was completed from an overall perspective, and what we had agreed with the investors prior to COVID period, so, we have continued that value. In terms of formal disclosures as we complete the overall transaction, which we have announced to the market, , this requires us to invest close to in aggregate about 20,000 crore over the next five years, of which about 8600 will be in the first year.

Nirav Shah: Okay, got it. And the initial payments for all the six airports total will remain in the range of 2600 crores or is there any change in that number for the existing six airports?

Robbie Singh: No, they broadly remain in that range. There could be some, 3% to 5% variation as we actually complete them. But that range is correct.

Nirav Shah: Got it and sir on the Australia coal mine commissioning, any changes scheduled and what are the pending investments over there, commissioning timelines and on the costing front any more clarity if you can share for Australia?

Robbie Singh: Our cost as indicated in the previous disclosure remain valid. We expect that the first coal will be ready in May to June as scheduled and shipment should be ready from August.

Nirav Shah: May to June of 21?

Robbie Singh: Yes.

Nirav Shah: Okay. And any final agreement with the local government or in terms of any royalty deferments because that was in the news, so just wanted an update whether are there any royalty deferments that we have been able to negotiate?

Robbie Singh: No, the standard agreement that normally the government in Australia executes for projects like this has been executed and signed and so we have no further approval signatures that are required from government or other party, and then the ordinary course of construction related work that you do.

Nirav Shah: Okay, got it. And sir finally on the module manufacturing front. Now, you partly answered that in the previous question but our EBITDA per MW this quarter was somewhere around 8.4 million per megawatt, it used to be in the 3 million range. So what is the forward assumption that we can take, should it revert back to 3-3.5 now because of higher DCR ? is that on a sustainable basis that we will achieve?

Robbie Singh: Ramesh?

Ramesh Nair: This particular margin would almost remain or maybe down by a cent or something for the next about six months to one year or two years, as there is a whole lot of DCR demand. I am sure you have been following the Kusum, rooftop, DCR, and the CPSU schemes. So, with these we expect at least six to seven million per mw,. So, we do not see it softening at all in the next about a year and a half or two years. This would remain, because the DCR is coming basically into solar manufacturing, and our biggest forte today is that we are into cell manufacturing and integrated manufacturing we are giving us the value. If you are in plain module manufacturing, obviously you will not get those margins.

Nirav Shah: And sir final question is on the CAPEX front, you did share on the airports but excluding airports, how much are we planning to spend in this year , next year and what's the CAPEX number pending for Australia, that's all from my side, thank you.

Robbie Singh: We can give you guidance about our Capex investment over the next five years for Adani Enterprise which will be in the order of about Rs.50,000 crores, of which in this year we expect to spend about Rs.18,000 crores and that includes up to date spending plus whatever is left to complete the COD.

Nirav Shah: Okay, And the Australia pending CAPEX?

Robbie Singh: For this year, approximately about 4600 crores.

Nirav Shah: And this is the final number itself because not much will spill over to next year?

Robbie Singh: Next year it's more related to mine operations, development, etc. which is part of normal cash flow.

Nirav Shah: Got it sir. And there will be CAPEX towards the rail part.

Robbie Singh: Correct.

Moderator: Thank you. The next question is from the line of Rohit from Geecee Investments. Please go ahead.

Rohit Kothari: Just wanted to learn a little more about your strategy on the data center business and how you are looking at it over the next three to five years, this is number one. Number two is that Fortune brand and Adani Wilmar is a very valuable asset and how do you see progress of this business over the next two years and we are seeing a lot of investment in packaged foods and how big that business could be. Third on a very broad level for the solar business if I can get clarity that what could be volumes in 2022 and 23 and an approximate EBITDA because this business has significantly scaled up and will be probably the most meaningful part of the EBITDA in the medium run. And when do you plan to achieve the 100 million tonne minning mark, so these are the four questions across the team and an excellent set of numbers and an excellent incubator that you all have built so congratulations to the entire team.

Robbie Singh: Rohit, thank you so much. Thanks for your comments. In relation to data centers we have the business in nascent stage. Anyways going into it, so key locations in terms of land, key connectivity in terms of power, possibility of making sure some of these data centers have green power and they source green power or how have offset to green power. So, that work is progressing well, we expect to get into the thick of the things over the next three to six months and our objective as always is to firstly to have benchmark performance, world class assets and with the world class service standards. So, in terms of investments, the data center business will not actually require very significant investment profile over the next two years, but it is expected to then ramp up as the data consumption requirements and the laws in India alter. And then we would expect that over the following seven years, it will be a significant part of our investment program.

In relation to Wilmar as you know it already has about 20% market share in the consumer market. We continue to build on that brand and continue to also utilize brand recall with relevant customer base. So, one thing that I have missed out and also by a lot of analysts and we ourselves also have not commented on it a lot is that, Wilmar actually, our brand actually reaches over 100 million consumers. So what we are also starting to do now is to build the backbone of our information and data architecture system, which will allow us to have access, which will allow us to have information, which allow us to serve the 100 million consumers better and so, the business which is expected to continue to grow robustly and in a strong manner We will have increasing focus on the consumer side which will also be a big driver of value of this business because the touch point of this business is 100 million consumers. I will get Ramesh to comment on the MSPVL part please, Ramesh over to you.

Ramesh Nair: I presume you're asking FY22 and FY23 numbers?

Rohit Kothari: Yes.

Ramesh Nair: So FY22 that is FY 21-22 we expect we should be around 1500 megawatt as a volume and FY23 that is FY 22-23, we expect that we would be expanding as part of the volume that we have got out of the manufacturing-linked tender and with respect to that, we expect that we should be at least about 2.5 gigawatt i.e. about 2000-2500 megawatts of volume in FY 22-23.

Rohit Kothari: So, Ramesh indirectly what you're saying is the business has a potential to do an EBITDA between Rs.1500 to 2000 crores over the next two years on an annualized basis as and when you are in the execution mode toward the orders which you have got?

Ramesh Nair: You can say that, but obviously, we should also understand that the DCR is the segment which is giving you this maximum growth value and that value would remain for the next two to three years at least or even more than that, depending upon how the government lays it out. Now, definitely there is a volume for the next two to three years. So that is something we can lock in that kind of volumes, and that kind of margins. But beyond that, I cannot comment now on numbers, but obviously it has to be seen how the market actually plays out.

Rohit Kothari: Thank you, that will be helpful. And the last question was on the mining front where idea on when do you plan, what is the ramp up plan and would you be able to maintain the current Rs.600-700 EBITDA per tonne which you have been doing in the last several quarters?

Vinay Prakash: So in terms of the plan, as I was telling that in this year we have started, we have now three mines which are operational and by next year, we'll have another three mines which are going to be operational so we can always push that to reach to their peak capacity, provided the customer is read to take the cargo and they're also now working on this logistic segment. So they will also be taking it in a year or two to take it to the full capacity. So we should be in the range of +100 million by 2025. Or we'll try to see if we can be a year earlier to that. Now, in terms of per tonne EBITDA, we are definitely working on our cost part to see that we continue to have it at a higher number, but maintaining it at Rs.600-700 per tonne on an average, which is going to be a challenge. But again difference is what type of innovation we can bring it in terms of bringing more technological changes and moving from diesel to electric equipment also, and putting lot of digital transformation in mine to take it to a lower cost, because the revenue is fixed with the contract which you've already signed. So, Rs.600-700 is going to be a challenging number but we will definitely try to reach to that number as much as possible in all the mines.

Rohit Kothari: Thank you very much, and Robbie a last question for you. So, Robbie your team I have seen across the other group companies has done a very commendable job in raising long term money at a very significantly competitive rates for large tracts of time. Across Adani Port, Adani Transmission, almost 5 billion last year, do you see using those instruments for the airport business here or the data center business because the group already has their expertise which you have developed to finance the long term needs, so that you can be away from the banking clutches and gain more meaningful long term money.

Robbie Singh: Rohit absolutely, for airports and for data center business and for our roads business, that is exactly the plan. And the capital management plan is already in place, and the background work has commenced, we are very advanced in formulating those plans and as and when those businesses are in management and full grip we will commence that exercise and similarly, we are working very closely with my colleague Vinay's team in mining as well. And eventually mining services business will also benefit from this as we go, as that business matures and we go through a similar capital management plan. I must say I'm very pleased to inform you, that Ramesh hasn't mentioned that MSPVL has continued to improve its credit profile. So it will become more consistent as a solar and technology manufacturing company in its capital plan. So it's actual free cash flow is going to significantly alter aside from what the business does. Because this year we've started on the capital management plan of MSPVL as well, and with Ramesh's team we are continuing to develop that. Over the next two years you will see a significantly higher free cash flow generation because of the capital management plan being put into place for AEL as well.

Robbie Singh: If there are no further questions, we can close.

Moderator: Yes, that was the last question in queue. I would now like to hand the conference over to Mr. Robbie Singh for closing comments.

Robbie Singh: Thank you so much. Thank you to everyone who asked questions and thank you to my colleagues Vinay and Ramesh plus the team here and our IR team for organizing all of this and thanks for all the support and thank you for organizing this call in a seamless manner. Thank you.

Moderator: Thank you very much. On behalf of Adani Enterprises Limited, that concludes this conference. Thank you for joining us ladies and gentlemen. You may now disconnect your lines.