"Adani Enterprises Ltd Q3FY19 Earnings Conference Call"

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MANAGEMENT: **MR. VINAY PRAKASH – CEO (MDO & ICM)**
MR. RAMESH NAIR – CEO, MSPVL
MR. RAJIV NAYAR – GROUP CFO, ADANI GROUP
MR. MANISH SAXENA – CFO, MDO & ICM
MR. SANJEEV BAFNA – CFO, MSPVL
MR. SHRIKANT KANHERE – CFO, ADANI WILMAR
MR. RAKESH SHAH – CFO, ADANI ENTERPRISES
MR. PRAVEEN KHANDELWAL – CFO, AUSTRALIA MINING

Moderator: Ladies and gentlemen, good day and welcome to the Adani Enterprises Ltd Q3 FY19 Earnings Conference Call. We have with us on the call today Mr. Vinay Prakash – CEO, MDO and ICM, Mr. Ramesh Nair – CEO, MSPVL, Mr. Rajiv Nayar – Group CFO, Mr. Sanjeev Bafna – CFO, MSPVL, Mr. Shrikat Kanhere – CFO, Adani Wilmar, Mr. Rakesh Shah – CFO, Adani Enterprises and Mr. Praveen Khandelwal – CFO, Australia Mining.

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 conference call, please signal an 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. Rakesh Shah – CFO Adani Enterprises. Thank you and over to you sir.

Rakesh Shah: Hi, good afternoon. This is Rakesh Shah, CFO of Adani Enterprises. Let me take you through our consolidated financial performance for nine months ended for the financial year 2019. Consolidated income from operations increased 4% to Rs. 27478 crores in 9 months ended for financial 2019-20 versus Rs. 26410 crores in 9 months ended FY18. The consolidated EBITDA stood at Rs. 1597 crores in 9 months for FY19 versus Rs. 1633 crores in 9-months FY18. Overall, Adani Enterprises demonstrated strong performance across Integrated Coal Management, Coal MDO, Solar manufacturing an agro vertical in spite of rising exchange rates and competition. Now let each business CEO and CFO take you through the respective business highlights.

I would now request Mr. Vinay Prakash to brief you on Coal MDO first.

Vinay Prakash: Good afternoon. In Mine Development & Operation Business, which is MDO, the company has six coal blocks that is Parsa East-Kante Basin, Parsa, Kente Extension, GP3 which is Gare Pelma III, Talabira 2 and 3 and Jitpur. With the peak contractual capacity of 56 mn metric ton per annum, the Parsa Kente Coal block was the first MDO to be operationalized in the country.

Coal mining volume at Parsa Kente had increased by 83% at about 3.2 million metric ton in Q3 FY19 against 1.75 million metric ton in Q3 FY18. The EBITDA has increased by 114% in line with the higher volumes. The company has also participated in the MDO tender floated by, NMDC, CMDC JV which is called NCL for development of Bailadila Deposit 13 Iron Ore block located in the state of Chhattisgarh and had emerged as the lowest bidder to reverse auction. Subsequently company has signed the iron ore mine service agreement on 6th December, 2018.

As far as the integrate coal management business is concerned the company provides end to end procurement and the logistic services to its customers. Our ICM business maintained the leadership position as #1 importer of coal in India. It has continued to deliver industry leading performance with ICM volume of 16.41 million metric ton in Q3 FY19 versus 16.4 million metric ton in Q3 FY18. The company has maintained the consistency in volume in the current quarter.

Ramesh Nair: So for solar manufacturing it is Mundra Solar PVL, MSPVL has established India's largest solar cell in module manufacturing unit in Mundra SEZ. The commercial date of operation was 24th May, 2017. The plant has an installed capacity of 1.2 Gigawatt fully integrated cell and module manufacturing. Q3 volume has decreased 15% to 140 MW modules YoY versus 165 MW modules in Q3 FY18 due to stiff competition. The EBITDA margins have been lower mainly due to fall in wafer prices which has impacted the inventory lying at high prices and the price reduction by competitors impacting sales realization. I will now put on this to Mr. Shrikant Kanhere for agro.

Shrikant Kanhere: Hi good afternoon all. This is Shrikant. Adani Wilmar maintained its leadership position in the edible oil market with brands Fortune maintained #1 position in the country with market share in excess of 20%. Company is also into an expansion mode and as a part of that company operationalized edible oil refinery at Krishnapatnam Port which was acquired from Louis Dreyfus. This refinery has capacity of 1000 metric tons per day. In terms of volume the business operation clocked a volume of 11,20,000 tons which is pretty good in terms of the growth. On margin front quarter on quarter, same time quarter, margins were a little bit impacted because of duty hike which was announced in the month of October and November. And some impacts are due to depreciation of rupee. In terms of the other businesses, which is agri-logistics business where we operate grain silos for FCI and other government agencies. This business is steady being a rental model. Company 1 bids from Food Corporation of India to build silos at Samastipur and Bihar with a capacity of 50,000 tons during this quarter. These new capacities would get operationalized in next 1-1.5 years. That is all from agro. We can move to question and answers.

Moderator: Sure sir, thank you. Ladies and gentlemen, we will now begin the question and answer session. The first question is from the line of Ashish Shah from IDFC. Please go ahead.

Ashish Shah: Just wanted to discuss on the MDO business, where we have seen an increase in the volume for Q3 vis-à-vis Q1 and Q2 but the revenue and the EBIT that we have generated in the segment seems to be actually lower. Revenue seems to be like flattish versus Q1 and EBIT actually seems to have come down. So could you explain what is happening in that segment, in the mining segment?

Vinay Prakash: What happens in the mining business is that in quarter 1 you normally get a higher volume because at that time you are in a dry spell. But when you get into quarter 2 your monsoon starts and where you cannot do much of OB work and you get coal because there is always a pre-stripping done in quarter 4 and quarter 1. So what happens in quarter 1 and quarter 2, in quarter 1 you always get more OB and more coal, so you have a reasonably high strip ratio but once you come in quarter 2 your coal continues but your OB comes down and your strip ratio goes down. Whereas when you get into quarter 3 you again start preparing for a pre-stripping in which case your OB again goes up. So on an annual basis you will see number growing but on a quarter to quarter, you will see quarter 3 numbers being lower than quarter 2.

Ashish Shah: So basically, when the volume is actually lower in Q2 – but sir actually in this case somehow you know the volume, if I understood you correctly you are saying that the OB volume is lower in Q2 but the coal dispatch volume is similar or higher.

Vinay Prakash: Yes, so you are seeing a volume which is coal whereas the volume which you are not seeing on the paper is OB also which actually is your cost. In Quarter 2 OB is lower and Quarter 3 OB is higher because you have a dry spell.

Ashish Shah: Sir secondly in the coal trading part of the business, what would have been the EBITDA on a per ton basis for Q3?

Vinay Prakash: So in ICM business on a per ton basis we have got – so we have done a volume of 16.4 million ton. So we have done a volume of 16.41 million ton and the profit, if you see the EBITDA level it is Rs. 148 crores, so almost Rs. 90-95 per ton, so $1.3 per ton.

Ashish Shah: Sir how do you see this margin because I mean in a period when we have actually done very good volumes but we do not seem to be really making the kind of margins that we used to make earlier and be even up to $3 if I were to not go higher than that but at least around $3 is what we did make at some point. So do you see this margin going up? Are these any temporary reasons or this is how it is going to be?

Vinay Prakash: Yes, so as I have told last time also, our ICM business is basically an integrated coal mine business in which we are making these margins on the basis of services which we are rendering in the complete supply chain. So if you ask me maintaining a few dollars is very likeable and is reasonable. What we have seen is an incident of having the loss because of the foreign exchange variation, because of which, and this is one of the incidents which happened in quarter 2 and quarter 3 because of which our margin has come down from $3 to $1.3 per ton. But this is something which I believe we will be in position to come back to the same levels in coming quarters.

Moderator: The next question is from the line of Shirish Rane or Ashish Shah from IDFC, please go ahead.

Ashish Shah: So in the interest cost there seems to have been a very sharp jump on a sequential basis as well. So any particular reason why there has been such a sharp jump?

Management: See in the interest cost the partial increase is on account of some working capital charges which were incurred in terms of amount as well as raised by 1% in the interest cost at the total level, at the Singapore level. So there was an increase in the rate by 1%. That is mainly the reason on account of which this cost has come up.

Ashish Shah: So what is this rate after it has increased? What is the current applicable rate in the Singapore borrowings?

Management: Roughly you can say an average rate of 3-4%. It has happened only on the partial of some drawings that we had so we have been able to arrest it but then it has happened by 1% which has increased the cost.

Ashish Shah: Sir any particular reason because 1% on a base of maybe 3% of what it was earlier seems to be like a quite a sharp increase, so any specific reason or that is how maybe the market has moved there?

Management: There is nothing very specific but then maybe you know depending upon how the funds were required or how the banks were lending at a particular point of time this could have happened.

Ashish Shah: Lastly on the depreciation side I mean we have explained that we have had a change in the depreciation policy but can you just explain like a little bit more about that as in, in which business is that and what really prompted that change in the policy?

Management: See it is mainly in the solar business and as you would know in the earlier GAAP the rates of depreciation is defined. Now under the IndAS the converse standards to IFRS the depreciation rate is a derivative depending upon the life of the asset which has to be examined or reviewed at the end of each financial year. So as you see that solar has started last year only and initially we were thinking in terms of the technological obsolescence or the way the plant was going to function, the obsolescence as we had expected was a little more as compared to what we thought at that point of time. But then on review we found out that it is not going the way we had anticipated and since the volumes and the usage of the plant was also not the way in which we had expected and then there is initial – as we were required and we reviewed probably these technological changes since then were not going as obsolete as fast as they were expected. The life of the asset was revised from 10 years to 15 years. And then we have changed the method of depreciation from WDV to straight line. That has resulted into a write back of depreciation or a lower depreciation by Rs. 130 crores.

Ashish Shah: Right, so now going forward we are using depreciating the asset on a 15-year basis on an SLM basis?

Management: That is right.

Moderator: The next question is from the line of Rakesh Vyas from HDFC Mutual Fund, please go ahead.

Rakesh Vyas: First question is on the consolidated debt, so if I look at the trading business our last 9-month debt both on account of long term and virtual capital has reduced reasonably. So should we expect this trajectory to continue and if you can just highlight as to what steps we have taken to achieve this particular, almost Rs. 1600 crores of debt reduction on that particular business, because volumes per se have been higher YoY?

Rajiv Nayar: Some of the measures that we have taken to reduce debt also relate to certain support that AEL has provided which is now being transferred to promoter group entity. So you will see the debt profile of AEL.

Rakesh Vyas: And on the mining business if you can just give an outlook on how we see volumes going forward, I think this year given how the run rate is we should be able to achieve almost 12 million ton. So what is the trajectory for the next couple of years? Which mines are we expected to start and any color on the new bid that we have won, will also help sir.

Management: See we have six mines out of which only one mine is operational which is Parsa East Kante Basin and we are hoping that every year we will have at least two or three mines which will come into the operations. So definitely the volume will continue to grow with a very high growth rate.

Rakesh Vyas: Sir this Parsa, should we expect almost 15 million ton volume next year given how we are progressing and is there any scope to increase it further? I just want to understand that and secondly if you can just tell us which mines we will be starting production in FY20?

Management: So Parsa East Kante Basin approved capacity is 15 million ton and in this financial year we will be doing 15 million tons of coal mining itself which is the maximum capacity. Out of 15 million tons we are dispatching 12 million tons as a wash coal. So when you say 12 million tons it is at the yield of 80% and the volume is 15 million ton. So we will be reaching the peak capacity of PKEB in this financial year itself 2018-19. Whereas the block Parsa, GP3 and Talabira 2 & 3 stands good chances to get operational in FY20.

Rakesh Vyas: Sir any color on the recent iron ore bid that you won?

Management: So we got this iron ore block which is contact of MDO where the mine belongs to the joint venture of NMDC, the central PSU and CMDC is state PSU and we have to do, this is a 30-year contract for 10 million ton per annum where we have to start this mine latest by FY21. And we are working hard to see if we can start it earlier.

Rakesh Vyas: But this mine has all land and approval in place already or you will have to get it?

Management: So in this mine they have FC and EC approval which is required to start the mine. But FC and EC approvals are in the name of NMDC which now we have to get it changed to NCL, which is an easy process but will take a time of another 1-2 months' time. Some small operation has already started at this mine but to get it fully operational and take out the iron ore from where we can get the revenue, we will take some more time.

Rakesh Vyas: And your contract will be just to mine it and deliver at the mine site or you have to deliver it at a particular location for each evacuation infrastructure you have to put in place?

Management: So some infrastructure has to be put in place by us. It is a hilly train and from where you have to bring it down and then you have to transport it to the railway siding. So you have to put infrastructure to bring it down to the ground level and from ground level to the railway siding.

Rakesh Vyas: Lastly sir on this mining side, so to achieve 10 million ton run rate, what kind of CAPEX do we need to do in next 2 years?

Management: As a ballpark figure I think we will be needing somewhere around Rs. 2000 crores of CAPEX – to start the mine we do not need the full CAPEX but to have the complete scope of work done we would be needing around Rs. 2000 crores of CAPEX in this project.

Moderator: The next question is from the line of Rakesh Vyas from HDFC Mutual Fund, please go ahead.

Rakesh Vyas: Can you comment on the bid of Ruchi Soya as to where is it, we keep reading in newspapers about you are now not interested etc. So if you can just highlight as to where, what the status is and what should we look at our interest level?

Management: The matter is already sub-judice so I do not know I would be able to dwell much information on this subject line, most of the information is otherwise available in the media but to answer your question, which we have been adjudged as a successful bidder in the month of August as approved by the CoC, our plan still is there in the NCLT for an approval. However, there is a litigation which is going in and around the approved plan filed by the Patanjali. We are waiting for that litigation to get over, however we have filed our concerns with the CoC as well as RP and NCLT citing our concerns on the delaying the process, but it is almost more than now 7-8 months since our plan got approved. But the plan is yet to be approved by the NCLT.

Rakesh Vyas: So just out of curiosity, as a part of process, is it allowable to exit the process once the firm bid has been made and it has not been approved?

I am just trying to understand because I thought the bids are firm in nature so it is difficult for a bidder to exit midway.

Management: Yes, so that is what I am saying. As per the IBC code once the plan is approved by the CoC and LOI is accepted by the bidder the plan is firm and as such cannot be withdrawn. Plan can be withdrawn only before it is filed with the NCLT. So we have expressed our concerns on this whole delay in the process, however our plan stays in NCLT for approval.

Moderator: Ladies and gentlemen, as there are further questions from the participants, I would now like to hand the conference over to Mr. Rakesh Shah for closing comments.

Rakesh Shah: So thank you all for having attended the conference and ask the relevant questions. We are committed to doing as what we have been doing and we are on our growth path. We shall talk to you in the next quarter. Thank you all.

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