

Adani Ports and SEZ (ADAPOR)

CMP: ₹ 807

Target: ₹ 950 (18%)

Target Period: 12 months

BUY

August 9, 2022

Coal volumes expected to be strong in FY23...

About the stock: Adani Ports and Special Economic Zone (APSEZ) is the largest commercial port operator in India with 25% share of port cargo movement in India. The company has evolved from a single port dealing in a single commodity to an integrated logistics platform.

- Total ~70% of APSEZ's revenues is contributed by its port operations. Rest is led by harbour (11%), logistics (7%) and others
- Of the total 247 MT cargo volume in FY21, container volumes were at 105 MT (43%), bulk at 110 MT (44%) and rest liquid at 32 MT (13%)

Q1FY23 Results: Higher realisation, bulk volume lifted operational performance.

- Revenues remained flat YoY at ₹ 4638 crore (8% volume growth negated by one-off SEZ land transaction in base quarter)
- However, absolute EBITDA grew 13% to ₹ 3006 crore (margins expanded 777 bps to 64.8% due to higher realisation)
- However, PAT de-grew 19% to ₹ 1072 crore due to forex loss of ₹ 1201 crore

What should investors do? Strong organic growth coupled with efficient assimilation of inorganic acquisition into APSEZ fold (margin improvement) and integrating logistics operations both vertically and horizontally, has built a strong moat around the business.

- We remain positive on the long term growth prospects of the stock and maintain our **BUY** recommendation

Target Price and Valuation: We value the stock at ₹ 950 on an SOTP basis.

Key triggers for future price performance: As APSEZ embarks on becoming India's largest integrated transport utility company by 2030, it is strengthening its capabilities in all logistics segments (ports, CTO, warehousing, last mile delivery, ICDs, etc.) Hence, it will offer end to end service to its customers thereby capturing higher wallet share and also making the cargo sticky in nature.

- DFC connectivity to Mundra (normalisation in the medium term) to provide faster port evacuation, quicker transit time
- Inorganic opportunities such as acquisition of Concor [~67% market share (MS) in CTO business]

Alternate Stock Idea: Apart from Adani Ports, we remain positive on GPPL.

- Gujarat Pipavav is a South-West Gujarat based port with an MNC promoter (Maersk Group). The port container capacity is at 1.35 million TeUs
- We have a BUY rating on the stock, with a target price of ₹ 100



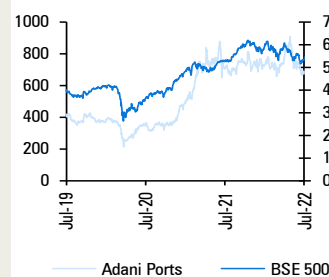
Particulars

Particular	Amount
Market Capitalization (₹ cr)	1,42,223
Total Debt (FY22) (₹ cr)	45,453.0
Cash (FY22) (₹ cr)	10,492.1
EV (₹ cr)	1,77,183.6
52 week H/L	924/638
Equity Capital (₹ cr)	408.4
Face Value (₹)	2.0

Shareholding pattern

(in %)	Sep-21	Dec-21	Mar-22	Jun-22
Promoter	63.8	63.8	65.6	66.0
Others	36.2	36.2	34.5	34.0

Price Chart



Recent event & key risks

- Acquisition of Gangavaram port in Q4
- Key Risk:** (i) Slowdown in Exim trade (ii) Delay in DFC normalisation

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Key Financial Summary

₹ crore	FY20	FY21	FY22	5 Years CAGR % (FY17-22)	FY23E	FY24E	2-Years CAGR (%)
Net Sales	11873.1	12549.6	15934.0	13.6	20347.0	23564.4	21.6
EBITDA	7565.4	7983.4	9751.0	12.5	12655.9	14727.8	22.9
EBITDA margin (%)	63.7	63.6	61.2		62.2	62.5	
PAT	3880.4	4994.3	7282.6	13.3	7027.1	8709.6	9.4
P/E (x)	43.6	32.8	34.8		23.4	18.9	
RoCE (%)	11.2	12.7	9.6		13.3	14.7	
RoF (%)	14.5	16.3	11.3		15.9	16.9	

Source: Company, ICICI Direct Research, *EBITDA does not include Gnagavaram and Haifa port numbers

Key takeaways

Q1FY23 Results: Haifa port, OSL acquisition, strong volume growth along logistics vertical

- APSEZ Gadot consortium (70:30) won a 100% stake in Haifa Port Company for US\$1.13 billion (net of HPC cash: US\$0.53 billion transaction) at 7.5x EV/EBITDA
- Adani Ports acquired 100% stake in Ocean Sparkle Ltd at 5.7x EV/EBITDA. OSL is a leading third party marine services provider with 94 seaworthy vessels (includes 75 tugs)
- Total 31% YoY growth in rail volumes to 1.1 lakh TeUs and 54% growth in terminal volumes to 0.99 lakh TeUs

Q1FY23 Earnings Conference Call highlights

- The management expects thermal and coking coal volumes to grow strongly in FY23 in spite of comfortable thermal coal inventory levels in power plants
- Construction has been initiated on 4.5 million sq ft of warehousing capacity at Mundra, Moraiya, Ranoli and Palwal
- GPWIS cargo volumes has doubled YoY to 3.11 MMT and APSEZ has ordered more trains under the framework (total order count at 37)
- Gangavaram NCLT approval is expected to be completed by the current quarter post which the numbers would be consolidated with APSEZ, retrospectively from April 1, 2021
- The management is not seeing any slowdown in any segment and expects its run rate of 30 MMT per month to continue in FY22
- During Q1, the management took a price hike, renegotiated contracts with its customers and expects the same to flow from Q2 onwards
- Overall, the management has guided for 1 to 1.5 pp of incremental rise in EBITDA margins in the medium to long term
- In spite of strong growth in its rail Exim volumes, the management is still keen on the Concor acquisition as it expects higher penetration and more Exim movement, going forward
- The management would soon come out with its strategy around last mile logistics and acquisition of own fleet of trucks

Exhibit 1: SOTP valuation

	FY24 EBITDA	multiple (x)	EV per share value		
Ports (ex-JV terminals)	EV/EBITDA	11212	16	178951	876
JV terminals	EV/EBITDA	1517	16	24274	119
Logistics and others	EV/EBITDA	1708	16	27334	134
Less: Net Debt				34961	171
Less: Minority stakes				12137	59
Equity value					899
Land Bank (Mundra SEZ) 21K acres ₹ 5 mil/acre	10500			10500	51
Total					950

Source: Company, ICICI Direct Research

Exhibit 2: Variance Analysis

Standalone	Q1FY23	Q1FY23E	Q1FY22	YoY (%)	Q4FY22	QoQ (%)	Comments
Revenue	4,638.0	4,533.8	4,671.2	-0.7	3,845.0	20.6	YoY one-off in base quarter (SEZ land transaction), led to flattish revenues. Cargo grew 8% YoY
Consumption of RM	1,172.9	1,224.1	1,588.5	-26.2	1,044.2	12.3	
Employee Expenses	232.9	172.3	164.9	41.2	170.0	37.0	
Other Expense	226.7	263.0	253.8	-10.7	248.2	-8.7	
Total Expense	1,632.5	1,659.4	2,007.1	-18.7	1,462.4	11.6	
EBITDA (ex-forex gain/loss)	3,005.5	2,874.4	2,664.0	12.8	2,382.7	26.1	EBITDA margins expanded to 65% levels due to higher-than-expected realisation hike Forex loss due to MTM rupee depreciation
EBITDA Margin (%)	64.8	63.4	57.0	777 bps	62.0	283 bps	
Foreign Exchange Gain/(Loss)	-1,201.1	0.0	-388.7	NA	-523.9	NA	
Depreciation	723.8	684.0	608.8	18.9	675.0	7.2	
Interest	616.9	657.6	576.8	6.9	648.8	-4.9	
Other Income	461.3	680.1	402.3	14.7	572.8	-19.5	
Exceptional Gain/Loss	0.0	0.0	0.0	NA	0.0	NA	
PBT	925.0	2,212.9	1,492.1	-38.0	1,107.9	-16.5	
Total Tax	-61.1	557.0	171.0	-135.7	137.4	-144.5	
PAT	986.1	1,655.9	1,321.1	-25.4	970.5	1.6	
Profit from Associates	105.4	0.0	39.1	NA	62.6	68.6	
Minority Interest	19.2	0.0	35.0	-45.2	9.0	112.6	
Adjusted PAT	1,072.4	1,655.9	1,325.3	-19.1	1,024.0	4.7	
Key Metrics	Q1FY23	Q1FY23E	Q1FY22	YoY (%)	Q4FY22	QoQ (%)	
Container volume (MMT)	31.5	29.8	30.6	3.2	29.8	5.9	YoY flattish due to disruption in global Exim movement (in base as well as current quarter, however, reason varies)
Bulk volume (MMT)	41.0	41.8	36.3	12.8	32.0	27.9	Higher imports of coal for captive usage by power plants, led to higher bulk volumes
Liquid volume (MMT)	9.3	10.3	8.8	5.7	8.6	8.4	
Overall volume (MMT)	81.8	81.8	75.7	8.1	70.4	16.2	

Source: Company, ICICI Direct Research

Exhibit 3: Change in estimates

₹ Crore)	FY23E				FY24E			Comments
	FY22	Old	New	% Change	Old	New	% Change	
Revenue	15,934.0	20,064.7	20,347.0	1.4	23,144.4	23,564.4	1.8	Revenue estimates largely unchanged
EBITDA	9,751.0	12,981.8	12,655.9	-2.5	15,020.7	14,727.8	-2.0	
EBITDA Margin (%)	61.2	62.0	62.2	20 bps	62.0	62.5	50 bps	
PAT	4,728.1	8,048.7	7,027.1	-12.7	9,312.9	8,709.6	-6.5	
EPS (₹)	23.2	39.4	34.4	-12.7	45.6	42.7	-6.5	EPS revised downward due to higher depreciation in near term

Source: ICICI Direct Research

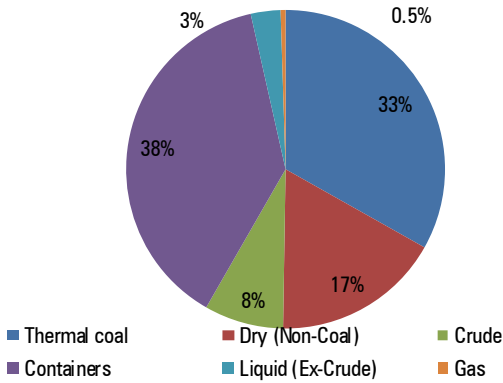
Exhibit 4: Assumptions

	Current			Earlier		Comments
	FY22	FY23E	FY24E	FY23E	FY24E	
Container volume (MMT)	120.0	131.1	157.9	135.3	155.1	
Bulk volume (MMT)	156.2	195.1	202.2	185.1	203.4	Coal volumes improved
Liquid volume (MMT)	36.1	39.5	44.3	40.5	45.3	
Overall volume (MMT)	312.3	365.7	404.4	360.9	403.9	

Source: ICICI Direct Research

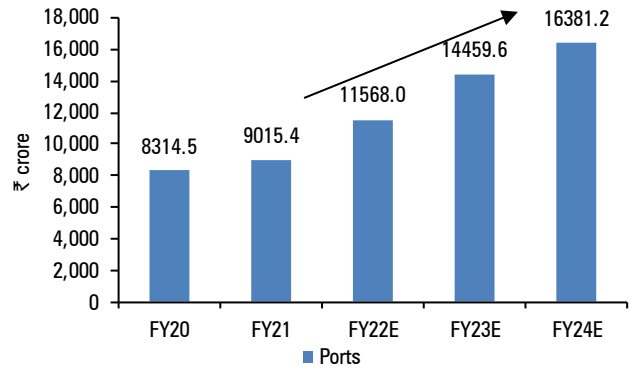
Key Metrics

Exhibit 5: FY22 APSEZ cargo mix



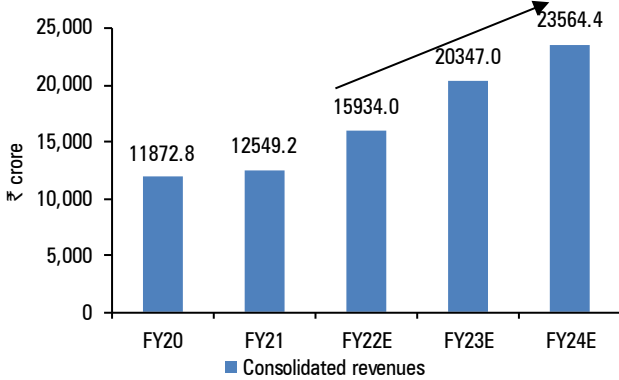
Source: ICICI Direct Research, Company

Exhibit 6: Ports revenues expected to grow at 22% CAGR



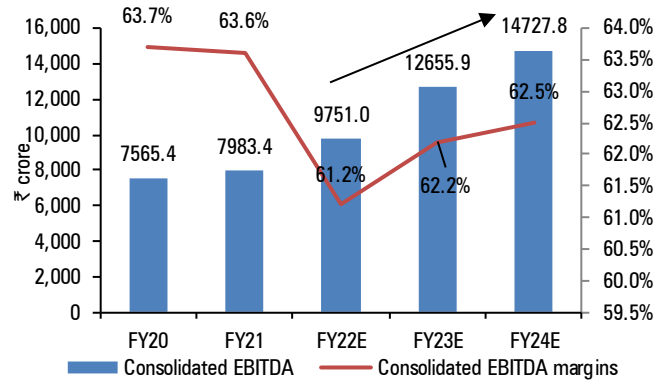
Source: ICICI Direct Research, Company

Exhibit 7: Consolidated revenues to grow at 22% CAGR (FY22-24E)



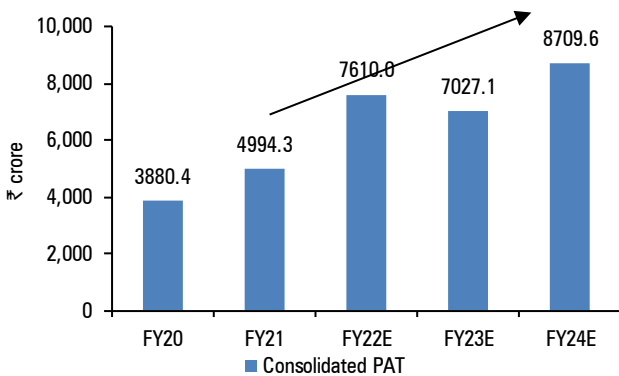
Source: ICICI Direct Research, Company

Exhibit 8: Consolidated EBITDA to grow at 23% CAGR (FY22-24E)



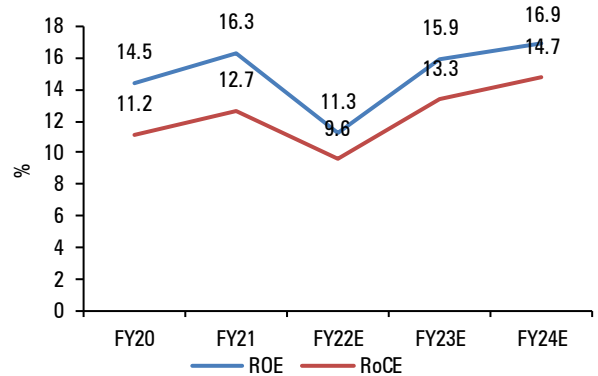
Source: ICICI Direct Research, Company

Exhibit 9: PAT to grow at 9% CAGR (FY22-24E)



Source: Company, ICICI Direct Research

Exhibit 10: Return ratios trend



Source: Company, ICICI Direct Research

Exhibit 11: Valuation parameters

	Sales (₹ cr)	Sales Growth (%)	EPS (₹)	EPS Growth (%)	PE (x)	EV/EBITDA (x)	RoNW (%)	RoCE (%)
FY20	11873.1	8.7	18.2	-7.2	43.6	31.0	11.2	11.2
FY21	12549.6	5.7	24.6	34.8	32.8	22.0	12.7	12.7
FY22	15934.0	27.0	21.2	-13.9	34.8	22.4	9.6	9.6
FY23E	20347.0	27.7	34.4	62.6	23.4	16.0	13.3	13.3
FY24E	23564.4	15.8	42.7	23.9	18.9	13.6	16.9	14.7

Source: Company, ICICI Direct Research

Financial Summary

Exhibit 12: Profit and loss statement					₹ crore
(Year-end March)/ (₹ crore)	FY21	FY22	FY23E	FY24E	
Total Operating Income	12,549.6	15,934.0	20,347.0	23,564.4	
Growth (%)	5.7	27.0	27.7	15.8	
Operating Expenses	3,259.5	4,629.6	5,595.4	6,480.2	
Gross Profit	9,290.1	11,304.4	14,751.6	17,084.2	
Gross Profit Margins (%)	74.0	70.9	72.5	72.5	
Employee Expenses	615.1	663.9	976.7	1,178.2	
Other Expenditure	691.6	889.5	1,119.1	1,178.2	
Total Operating Expenditure	4,566.2	6,183.0	7,691.2	8,836.7	
EBITDA	7,983.4	9,751.0	12,655.9	14,727.8	
Growth (%)	5.5	22.1	29.8	16.4	
Foreign Exchange Gain/(Loss)	715.2	872.1	0.0	0.0	
Interest	2,255.3	2,540.6	2,867.9	2,735.9	
Depreciation	2,107.3	2,739.6	3,051.6	3,387.6	
Other Income	1,970.2	2,154.8	2,478.0	2,849.7	
PBT before Exceptional Items	6,306.3	7,497.6	9,214.4	11,454.0	
Less: Exceptional Items	0.0	-405.2	0.0	0.0	
PBT after Exceptional Items	6,306.3	7,902.8	9,214.4	11,454.0	
Total Tax	1,243.3	745.9	2,319.3	2,883.0	
PAT before MI	5,063.0	7,156.9	6,895.1	8,571.0	
Minority Interest & Ojth ad	54.4	67.2	70.5	74.0	
Profit from Associates	-14.3	192.9	202.5	212.6	
PAT	4,994.3	7,282.6	7,027.1	8,709.6	

Source: Company, ICICI Direct Research

Exhibit 13: Cash flow statement					₹ crore
(Year-end March)/ (₹ crore)	FY21	FY22	FY23E	FY24E	
Profit/(Loss) after taxation	4,994.3	4,728.1	7,027.1	8,709.6	
Add: Depreciation & Amortization	2,107.3	2,739.6	3,051.6	3,387.6	
Add: Interest Paid	2,255.3	2,540.6	2,867.9	2,735.9	
Net Increase in Current Assets	503.1	-270.7	-3,006.0	-948.6	
Net Increase in Current Liabilities	663.6	510.8	728.7	325.1	
Others	-3,014.5	-448.5	0.0	0.0	
CF from Operating activities	7,509.1	9,800.0	10,669.3	14,209.6	
(Purchase)/Sale of Fixed Assets	-1,949.7	-3,594.2	-10,201.4	-7,641.3	
Long term Loans & Advances	278.1	414.9	-11.4	-11.7	
Investments	-1,058.2	-3,725.0	-30.0	-30.0	
Others	-3,552.6	-5,523.4	-295.5	-322.2	
CF from Investing activities	-6,282.3	-12,427.7	-10,538.4	-8,005.2	
(inc)/Dec in Loan	-739.9	12,117.5	-2,000.0	-2,000.0	
Dividend & Dividend tax	-844.6	-1,174.0	-1,174.0	-1,174.0	
Less: Interest Paid	-2,255.3	-2,540.6	-2,867.9	-2,735.9	
Other	0.0	16.1	0.0	0.0	
CF from Financing activities	-3,839.8	8,419.0	-6,041.9	-5,909.9	
Net Cash Flow	-2,613.1	5,791.3	-5,911.0	294.5	
Cash and Cash Equivalent at the	7,313.9	4,700.8	10,492.1	4,581.1	
Cash	4,700.8	10,492.1	4,581.1	4,875.6	

Source: Company, ICICI Direct Research

Exhibit 14: Balance Sheet					₹ crore
(Year-end March)	FY21	FY22	FY23E	FY24E	
Equity Capital	406.4	422.5	422.5	422.5	
Reserve and Surplus	30,221.9	37,827.5	43,680.6	51,216.2	
Total Shareholders funds	30,628.3	38,250.0	44,103.1	51,638.7	
Minority Interest	1,468.5	392.8	400.6	408.6	
Total Debt	33,335.5	45,453.0	43,453.0	41,453.0	
Deferred Tax Liability	1,203.2	2,207.3	2,251.5	2,296.5	
Long-Term Provisions	26.7	32.0	32.7	33.3	
Other Non Current Liabilities	1,845.7	1,215.8	1,240.1	1,264.9	
Source of Funds	68507.8	87551.0	91481.0	97095.1	
Gross Block - Fixed Assets	52,879.1	62,056.6	72,656.6	80,656.6	
Accumulated Depreciation	8,778.6	11,163.5	14,215.0	17,602.6	
Net Block	44,100.5	50,893.1	58,441.6	63,054.0	
Capital WIP	3,697.1	3,985.8	3,587.2	3,228.5	
Fixed Assets	47,797.6	54,878.9	62,028.7	66,282.4	
Goodwill	4,036.4	5,917.9	6,213.8	6,524.5	
Investments	2,236.2	5,961.1	5,991.1	6,021.1	
Other non-Current Assets	8,575.4	9,794.6	9,871.2	9,961.2	
Inventory	991.9	381.2	1,608.1	1,862.4	
Debtors	2,385.9	2,170.4	3,868.3	4,480.0	
Loans and Advances	2,069.1	1,873.8	1,898.3	1,923.1	
Other Current Assets	2,530.5	3,407.7	3,475.9	3,545.4	
Cash	4,700.8	10,492.1	4,581.1	4,875.6	
Total Current Assets	12,678.1	18,325.3	15,431.7	16,686.5	
Creditors	1,013.9	979.6	1,643.8	1,903.7	
Provisions	95.8	104.8	106.9	109.1	
Other Current Liabilities	5,706.4	6,242.4	6,304.8	6,367.8	
Total Current Liabilities	6,816.0	7,326.8	8,055.5	8,380.6	
Net Current Assets	5,862.2	10,998.5	7,376.2	8,305.9	
Application of Funds	68,507.8	87,551.0	91,481.0	97,095.1	

Source: Company, ICICI Direct Research

Exhibit 15: Key ratios				
(Year-end March)	FY21	FY22	FY23E	FY24E
Per share data (₹)				
Reported EPS	24.6	21.2	34.4	42.7
Cash EPS	18.8	15.4	28.7	36.9
BV per share	150.7	187.3	216.0	252.9
Cash per Share	23.1	51.4	22.4	23.9
Dividend per share	5.8	5.8	5.8	5.8
Operating Ratios (%)				
Gross Profit Margins	74.0	73.0	72.5	72.5
EBITDA margins	69.3	55.7	62.2	62.5
PAT Margins	39.8	27.1	34.5	37.0
Inventory days	28.8	8.7	28.8	28.8
Debtor days	69.4	49.7	69.4	69.4
Creditor days	29.5	22.4	29.5	29.5
Asset Turnover	0.2	0.3	0.3	0.3
Return Ratios (%)				
RoE	16.3	11.3	15.9	16.9
RoCE	12.7	9.6	13.3	14.7
RoIC	11.3	8.5	11.7	12.9
Valuation Ratios (x)				
P/E	32.8	34.8	23.4	18.9
EV / EBITDA	22.0	22.4	16.0	13.6
EV / Net Sales	15.3	12.5	10.0	8.5
Market Cap / Sales	13.1	10.3	8.1	7.0
Price to Book Value	5.4	4.3	3.7	3.2
Solvency Ratios				
Debt / EBITDA	3.8	5.1	3.4	2.8
Debt / Equity	1.1	1.2	1.0	0.8
Current Ratio	1.0	1.0	1.3	1.3

Source: Company, ICICI Direct Research

Exhibit 16: ICICI Direct coverage universe (Logistics)

Sector / Company	CMP			M Cap			EPS (₹)			P/E (x)			EV/EBITDA (x)			RoCE (%)			RoE (%)		
	(₹)	TP(₹)	Rating	(₹ Cr)	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E		
APSEZ	807	950	BUY	1,63,962	21.2	34.4	42.7	32.8	34.8	23.4	22.0	22.4	16.0	12.7	9.6	13.3	16.3	11.3	15.9		
Container Corporation	685	810	BUY	39,483	17.3	30.6	37.2	82.6	39.6	22.4	10.4	6.0	4.6	4.5	10.2	12.3	5.4	9.6	14.9		
Transport Corp. of India	720	860	BUY	5,252	37.3	42.4	50.8	38.0	19.3	17.0	20.9	12.8	11.4	13.3	20.3	20.2	12.9	20.5	19.1		
TCI Express	1,690	1,950	BUY	6,507	26.2	33.5	37.5	73.1	65.0	50.8	53.6	48.5	37.4	36.3	31.9	33.4	29.5	26.1	26.6		
Mahindra Logistics	475	550	BUY	3,406	5.2	9.0	14.9	91.9	53.1	32.0	16.2	12.2	9.2	12.2	33.1	38.4	6.3	10.1	14.6		
Gateway Distriparks	70	85	BUY	3,498	4.5	3.5	4.4	37.1	15.6	19.9	12.6	10.3	8.9	11.7	15.4	16.2	6.4	13.7	10.2		

Source: Company, ICICI Direct Research

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Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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