

Adani Ports and SEZ (ADAPOR)

CMP: ₹ 833

Target: ₹ 1000 (20%)

Target Period: 12 months

BUY

November 2, 2022

Bulk expected to grow ahead of container volumes...

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
- In FY22, container, bulk, liquid mix were at 36%, 55%, 9%, respectively

Q2FY23 Results: Higher realisation vs estimates, lifted operational performance.

- Revenues grew 33% YoY to ₹ 5211 crore (15% volume growth supported by 18% realisation growth)
- Absolute EBITDA grew 31% to ₹ 3260 crore (margins remained range bound at 62-63% levels – higher realisation negated by change in product mix)
- PAT grew 69% to ₹ 1678 crore due to exceptional loss in base quarter

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 ₹ 1000 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 ₹ 110

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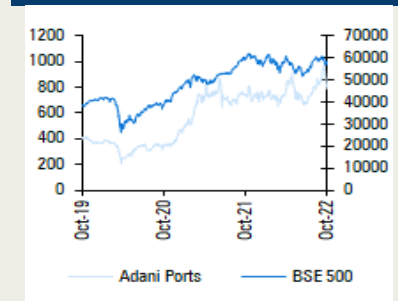
Particulars

Particular	Amount
Market Capitalization (₹ cr)	1,68,635
Total Debt (FY22) (₹ cr)	45,453.0
Cash (FY22) (₹ cr)	10,667.4
EV (₹ cr)	2,03,421.0
52 week H/L	987/651
Equity Capital (₹ cr)	408.4
Face Value (₹)	2.0

Shareholding pattern

(in %)	Dec-21	Mar-22	Jun-22	Sep-22
Promoter	63.8	65.6	66.0	64.6
Others	36.2	34.5	34.0	35.4

Price Chart



Recent event & key risks

- Completion of acquisition of Haifa, Gangavaram port and OSL in H1FY23
- 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	17118.8	15.2	20611.4	24083.8	18.6
EBITDA	7565.4	7983.4	10396.5	13.9	12820.3	15052.4	20.3
EBITDA margin (%)	63.7	63.6	60.7		62.2	62.5	
PAT	3880.4	4994.3	7440.6	13.8	8991.3	8827.3	8.9
P/E (x)	44.8	33.8	34.7		29.0	19.2	
RoCE (%)	11.2	12.7	9.5		11.5	14.7	
RoE (%)	14.5	16.3	10.7		12.5	16.3	

Key takeaways

Q2FY23 Results: Volume guidance kept intact at 350-360 MMT for FY23

- For H2, volume boost expected from a) five new services at Mundra and Hazira (~2 lakh TeUs), b) four bulk contract wins at Gangavaram and Dhamra (~10 MMT potential), c) 0.6 million TeUs container terminal commissioning to provide volume boost, d) scheduled commissioning of 5 MMT LNG terminal in Dhamra by FY23 end
- Completed acquisition of ICD Tumb (Vapi), with capacity of 0.5 mil TeUs (integrated into ALL from October 2022 onwards)
- Total train count is at 81. The order has been placed for 82 trains, which will take the count to 163 trains

Q2FY23 Earnings Conference Call highlights

- The management expects bulk volumes to grow strongly in FY23
- Construction has been initiated on 10 million sq ft of warehousing capacity
- GPWIS cargo volumes in H1 has doubled YoY to 6.27 MMT and APSEZ has ordered more trains under the framework
- APSEZ has adopted a mix of active hedging (\$1.1 billion portion) and designated foreign bonds (\$2.8 billion portion). The move will lower forex loss/gain volatility in P&L (designated bonds will bypass P&L and reported in OC part)
- The management is not seeing any slowdown in any segment and expects its run rate to further improve, going forward
- During Q1, the management took a price hike, renegotiated contracts with its customers and the same flowed in Q2 numbers
- The management has not yet received official communication from the Government of India regarding Concor divestment
- Total 80% of ALL revenues are led by Exim movement and 20% via domestic. The management expects domestic to see higher traction, going forward (led by rail solutions for bulk commodities)

Exhibit 1: SOTP valuation

		FY24 EBITDA	multiple (x)	EV per share value	
Ports (ex-JV terminals)	EV/EBITDA	11523	16	188969	926
JV terminals	EV/EBITDA	1517	16	24274	119
Logistics and others	EV/EBITDA	1708	16	27334	134
Less: Net Debt				34786	170
Less: Minority stakes				12137	59
Equity value					948
Land Bank (Mundra SEZ) 21K acres ₹ 5 mil/acre		10500		10500	51
Total					1000

Source: Company, ICICI Direct Research

Exhibit 2: Variance Analysis

Standalone	Q2FY23	Q2FY23E	Q2FY22	YoY (%)	Q1FY23	QoQ (%)	Comments
Revenue	5,210.8	4,414.8	3,922.9	32.8	5,058.1	3.0	Revenues higher than estimates mainly due to higher realisation
Consumption of RM	1,414.7	1,147.8	1,031.3	37.2	1,257.9	12.5	
Employee Expenses	233.1	229.6	199.0	17.1	265.5	-12.2	
Other Expense	302.8	220.7	209.7	44.4	244.3	23.9	
Total Expense	1,950.5	1,598.2	1,439.9	35.5	1,767.6	10.3	
EBITDA (ex-forex gain/loss)	3,260.3	2,816.6	2,483.0	31.3	3,290.5	-0.9	
EBITDA Margin (%)	62.6	63.8	63.3	-73 bps	65.1	-249 bps	EBITDA margins remained rangebound at 62-63% levels
Foreign Exchange Gain/(Loss)	-369.6	0.0	53.2	NA	-1,201.1	NA	Forex loss due to MTM rupee depreciation
Depreciation	854.3	731.0	782.7	9.1	840.4	1.7	
Interest	577.1	617.0	649.2	-11.1	629.2	-8.3	
Other Income	438.1	439.1	569.6	-23.1	468.1	-6.4	
Exceptional Gain/Loss	0.0	0.0	-405.2	NA	0.0	NA	
PBT	1,897.4	1,907.7	1,268.6	49.6	1,087.9	74.4	
Total Tax	162.6	343.4	215.0	-24.4	-72.1	-325.5	
PAT	1,734.8	1,564.3	1,053.7	64.6	1,160.0	49.6	
Profit from Associates	3.0	0.0	-3.5	NA	17.5	-82.7	
Minority Interest	60.3	0.0	54.9	10.0	19.2	214.5	
Adjusted PAT	1,677.5	1,564.3	995.3	68.5	1,158.3	44.8	
Key Metrics	Q2FY23	Q2FY23E	Q2FY22	YoY (%)	Q1FY23	QoQ (%)	
Container volume (MMT)	31.5	30.9	29.7	6.2	31.5	-0.1	Flattish vs. estimates due to gradual revival in global Exim movement
Bulk volume (MMT)	38.5	37.8	29.6	30.1	41.0	-6.1	
Liquid volume (MMT)	8.3	9.2	9.1	-8.9	9.3	-10.9	
Overall volume (MMT)	78.2	77.9	68.3	14.5	81.8	-4.3	

Source: Company, ICICI Direct Research

Exhibit 3: Change in estimates

₹ Crore)	FY23E				FY24E			Comments
	FY22	Old	New	% Change	Old	New	% Change	
Revenue	17,118.8	20,347.0	20,611.4	1.3	23,564.4	24,083.8	2.2	Revenue estimates largely unchanged
EBITDA	10,396.5	12,655.9	12,820.3	1.3	14,727.8	15,052.4	2.2	
EBITDA Margin (%)	60.7	62.2	62.2	0 bps	62.5	62.5	0 bps	
PAT	4,886.0	7,027.1	5,849.9	-16.8	8,709.6	8,827.3	1.4	
EPS (₹)	23.9	34.4	28.7	-16.7	42.7	43.2	1.3	FY23 EPS revised downward due to forex losses in H1

Source: ICICI Direct Research

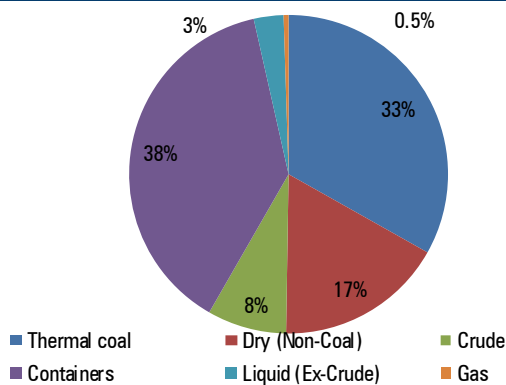
Exhibit 4: Assumptions

	Current			Earlier	
	FY22	FY23E	FY24E	FY23E	FY24E
Container volume (MMT)	120.0	131.1	157.9	131.1	157.9
Bulk volume (MMT)	156.2	189.4	201.0	195.1	202.2
Liquid volume (MMT)	36.1	39.5	44.3	39.5	44.3
Overall volume (MMT)	312.3	360.0	403.3	365.7	404.4

Source: ICICI Direct Research

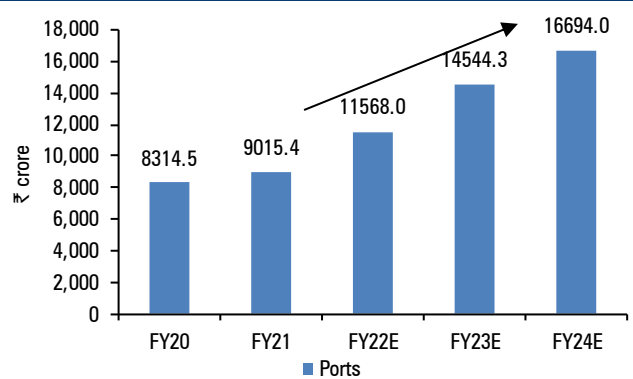
Key Metrics

Exhibit 5: FY22 APSEZ cargo mix



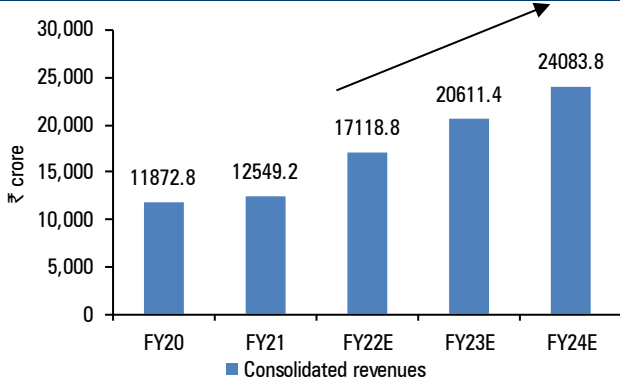
Source: ICICI Direct Research, Company

Exhibit 6: Ports revenues expected to grow at 23% CAGR



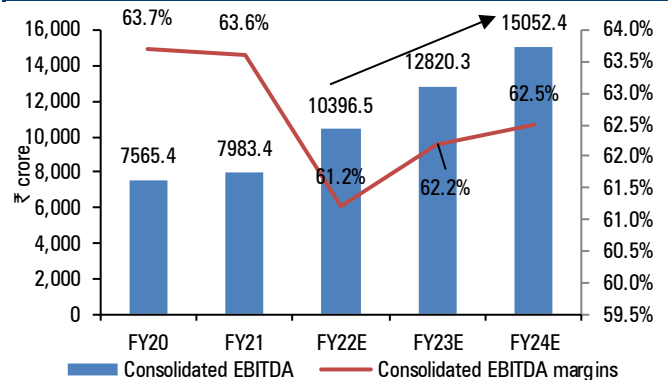
Source: ICICI Direct Research, Company

Exhibit 7: Consolidate revenues to grow at 19% CAGR (FY22-24E)



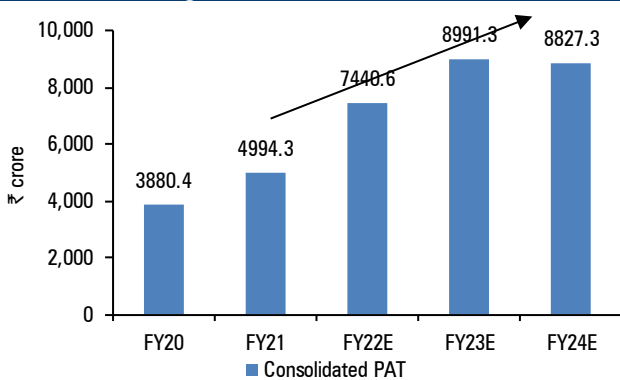
Source: ICICI Direct Research, Company

Exhibit 8: Consolidated EBITDA to grow at 20% CAGR (FY22-24E)



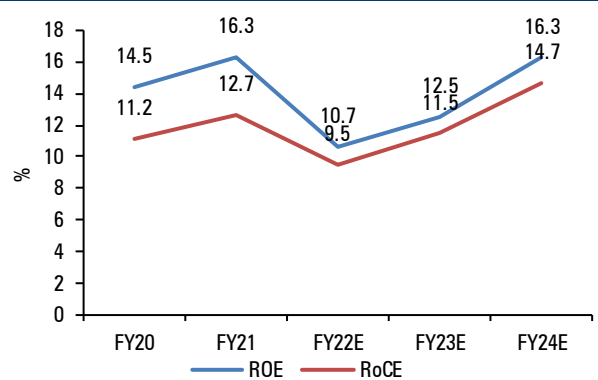
Source: ICICI Direct Research, Company

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	44.8	31.8	11.2	11.2
FY21	12549.6	5.7	24.6	34.8	33.8	22.5	12.7	12.7
FY22	17118.8	36.4	21.9	-10.7	34.7	21.2	9.5	9.5
FY23E	20611.4	20.4	28.7	30.6	29.0	18.4	11.5	11.5
FY24E	24083.8	16.8	43.2	50.9	19.2	13.6	16.3	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	17,118.8	20,611.4	24,083.8	
Growth (%)	5.7	36.4	20.4	16.8	
Operating Expenses	3,259.5	4,842.0	5,668.1	6,623.1	
Gross Profit	9,290.1	12,276.8	14,943.3	17,460.8	
Gross Profit Margins (%)	74.0	71.7	72.5	72.5	
Employee Expenses	615.1	779.4	989.3	1,204.2	
Other Expenditure	691.6	1,100.8	1,133.6	1,204.2	
Total Operating Expenditure	4,566.2	6,722.3	7,791.1	9,031.4	
EBITDA	7,983.4	10,396.5	12,820.3	15,052.4	
Growth (%)	5.5	30.2	23.3	17.4	
Foreign Exchange Gain/(Loss)	715.2	872.1	1,570.7	0.0	
Interest	2,255.3	2,543.9	2,867.9	2,735.9	
Depreciation	2,107.3	3,099.3	3,051.6	3,387.6	
Other Income	1,970.2	2,223.7	2,557.3	2,940.9	
PBT before Exceptional Items	6,306.3	7,849.1	11,028.8	11,869.8	
Less: Exceptional Items	0.0	-405.2	0.0	0.0	
PBT after Exceptional Items	6,306.3	8,254.3	11,028.8	11,869.8	
Total Tax	1,243.3	764.0	1,985.2	2,987.6	
PAT before MI	5,063.0	7,490.3	9,043.6	8,882.2	
Minority Interest & Oth ad	54.4	67.2	70.5	74.0	
Profit from Associates	-14.3	17.4	18.3	19.2	
PAT	4,994.3	7,440.6	8,991.3	8,827.3	
Growth (%)	28.7	49.0	20.8	-1.8	
EPS (Adjusted)	24.6	21.9	28.7	43.2	

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	4,886.0	5,849.9	8,827.3	
Add: Depreciation & Amortization	2,107.3	3,099.3	3,051.6	3,387.6	
Add: Interest Paid	2,255.3	2,543.9	2,867.9	2,735.9	
Net Increase in Current Assets	503.1	1,468.6	-2,669.4	-973.9	
Net Increase in Current Liabilities	663.6	775.0	571.0	346.6	
Others	-3,014.5	-7,439.3	0.0	0.0	
CF from Operating activities	7,509.1	5,333.5	9,670.9	14,323.5	
(Purchase)/Sale of Fixed Assets	-1,949.7	-1,938.6	-10,197.7	-7,637.9	
Long term Loans & Advances	278.1	414.9	-11.4	-11.7	
Investments	-1,058.2	-876.8	-30.0	-30.0	
Others	-3,552.6	-5,382.0	-344.3	-377.5	
CF from Investing activities	-6,282.3	-7,782.6	-10,583.4	-8,057.1	
(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	-2,543.9	-2,867.9	-2,735.9	
Other	0.0	16.1	0.0	0.0	
CF from Financing activities	-3,839.8	8,415.7	-6,041.9	-5,909.9	
Net Cash Flow	-2,613.1	5,966.6	-6,954.5	356.5	
Cash and Cash Equivalent at the	7,313.9	4,700.8	10,667.4	3,713.0	
Cash	4,700.8	10,667.4	3,713.0	4,069.4	

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	41,565.8	46,241.6	53,894.9	
Total Shareholders funds	30,628.3	41,988.2	46,664.1	54,317.4	
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	3,010.9	3,071.1	3,132.5	
Long-Term Provisions	26.7	34.2	34.9	35.6	
Other Non Current Liabilities	1,845.7	1,215.8	1,240.1	1,264.9	
Source of Funds	68507.8	92094.9	94863.8	100612.0	
Gross Block - Fixed Assets	52,879.1	62,056.6	72,656.6	80,656.6	
Accumulated Depreciation	8,778.6	6,215.1	9,266.7	12,654.3	
Net Block	44,100.5	55,841.5	63,389.9	68,002.3	
Capital WIP	3,697.1	4,022.9	3,620.6	3,258.5	
Fixed Assets	47,797.6	59,864.4	67,010.5	71,260.9	
Goodwill	4,036.4	6,711.4	7,047.0	7,399.4	
Investments	2,236.2	3,113.0	3,143.0	3,173.0	
Other non-Current Assets	8,575.4	13,235.7	13,337.5	13,457.6	
Inventory	991.9	395.6	1,629.0	1,903.5	
Debtors	2,385.9	2,521.1	3,918.6	4,578.8	
Loans and Advances	2,069.1	1,921.6	1,946.6	1,971.8	
Other Current Assets	2,530.5	1,255.5	1,280.7	1,306.3	
Cash	4,700.8	10,667.4	3,713.0	4,069.4	
Total Current Assets	12,678.1	16,761.4	12,487.8	13,829.8	
Creditors	1,013.9	1,159.6	1,665.1	1,945.7	
Provisions	95.8	107.5	109.7	111.9	
Other Current Liabilities	5,706.4	6,323.8	6,387.1	6,450.9	
Total Current Liabilities	6,816.0	7,590.9	8,161.9	8,508.5	
Net Current Assets	5,862.2	9,170.4	4,325.9	5,321.3	
Application of Funds	68,507.8	92,094.9	94,863.8	1,00,612.0	

Source: Company, ICICI Direct Research

Exhibit 15: Key ratios					
(Year-end March)	FY21	FY22	FY23E	FY24E	
Per share data (₹)					
Reported EPS	24.6	21.9	28.7	43.2	
Cash EPS	18.8	16.2	22.9	37.5	
BV per share	150.7	205.6	228.5	266.0	
Cash per Share	23.1	52.2	18.2	19.9	
Dividend per share	5.8	5.8	5.8	5.8	
Operating Ratios (%)					
Gross Profit Margins	74.0	71.7	72.5	72.5	
EBITDA margins	69.3	55.6	54.6	62.5	
PAT Margins	39.8	26.2	28.4	36.7	
Inventory days	28.8	8.4	28.8	28.8	
Debtor days	69.4	53.8	69.4	69.4	
Creditor days	29.5	24.7	29.5	29.5	
Asset Turnover	0.2	0.3	0.3	0.3	
Return Ratios (%)					
RoE	16.3	10.7	12.5	16.3	
RoCE	12.7	9.5	11.5	14.7	
RoIC	11.3	8.7	9.7	12.9	
Valuation Ratios (x)					
P/E	33.8	34.7	29.0	19.2	
EV / EBITDA	22.5	21.2	18.4	13.6	
EV / Net Sales	15.6	11.8	10.0	8.5	
Market Cap / Sales	13.4	9.9	8.2	7.0	
Price to Book Value	5.5	4.0	3.6	3.1	
Solvency Ratios					
Debt / EBITDA	3.8	4.8	3.9	2.8	
Debt / Equity	1.1	1.1	0.9	0.8	
Current Ratio	1.0	0.7	1.0	1.1	

Source: Company, ICICI Direct Research

Exhibit 16: ICICI Direct coverage universe (Logistics)

Sector / Company	CMP			M Cap (₹ Cr)	EPS (₹)			P/E (x)			EV/EBITDA (x)			RoCE (%)			RoE (%)		
	(₹)	TP(₹)	Rating		FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E
APSEZ	830	1,000	BUY	1,68,635	21.9	28.7	43.2	33.8	34.7	29.0	22.5	21.2	18.4	12.7	9.5	11.5	16.3	10.7	12.5
Container Corporation	690	890	BUY	43,382	17.3	30.2	36.6	83.2	39.8	22.9	10.5	6.1	4.7	4.5	10.2	12.1	5.4	9.6	14.7
Transport Corp. of India	670	890	Buy	4,888	37.3	42.4	50.8	35.4	18.0	15.8	19.5	11.9	10.6	13.3	20.3	20.2	12.9	20.5	19.1
Gujarat Pipavav	86	110	BUY	4,158	4.1	5.6	6.7	21.1	15.4	12.9	8.0	6.7	5.7	12.1	15.7	18.6	8.6	11.7	13.8
TCI Express	1,860	2,250	BUY	7,120	26.2	33.5	37.5	79.9	71.1	55.6	58.6	53.0	40.9	36.3	31.9	33.4	29.5	26.1	26.6
Mahindra Logistics	545	610	BUY	3,908	5.2	9.0	14.9	105.4	60.9	36.7	18.7	14.1	10.7	12.2	33.1	38.4	6.3	10.1	14.6
BlueDart Express	7,420	8,000	Reduce	21,075	135.3	211.0	275.7	199.9	65.6	42.0	30.2	21.4	16.5	50.5	69.7	68.8	13.5	38.0	38.2
Gateway Distriparks	71	85	BUY	3,547	4.5	3.5	4.4	37.6	15.9	20.2	12.8	10.5	9.0	11.7	15.4	16.2	6.4	13.7	10.2

Source: Company, ICICI Direct Research

RATING RATIONALE

ICICI Direct endeavours to provide objective opinions and recommendations. ICICI Direct assigns ratings to its stocks according to their notional target price vs. current market price and then categorizes them as Buy, Hold, Reduce and Sell. The performance horizon is two years unless specified and the notional target price is defined as the analysts' valuation for a stock

Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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