

Adani Ports and SEZ (ADAPOR)

CMP: ₹ 600

Target: ₹ 800 (33%)

Target Period: 12 months

BUY

February 9, 2023

EBITDA guidance maintained for FY23, ~18% growth in FY24...

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

Q3FY23 Results: Performance largely in line.

- Revenues grew 18% YoY to ₹ 4786 crore (11% volume growth supported by 7% realisation growth)
- Absolute EBITDA grew 15% to ₹ 3011 crore (margins remained range bound at 62-63% levels – higher realisation negated by change in product mix)
- PAT de-grew 16% to ₹ 1316 crore due to forex loss of ₹ 315 crore

What should investors do? In the near term, APSEZ intends to prioritise a healthier balance sheet over growth (although the company has maintained its guidance of reaching 500 MMT by FY25). With lowered capex, its FCF has improved to 7-8% levels, which provides comfort on continued debt repayment beyond FY24.

- 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 ₹ 800 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



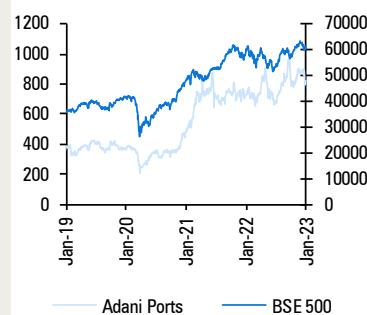
Particulars

Particular	Amount
Market Capitalization (₹ cr)	1,29,608
Total Debt (FY22) (₹ cr)	45,453.0
Cash (FY22) (₹ cr)	10,667.4
EV (₹ cr)	1,64,394.0
52 week H/L	987/395
Equity Capital (₹ cr)	432.0
Face Value (₹)	2.0

Shareholding pattern

(in %)	Mar-22	Jun-22	Sep-22	Dec-22
Promoter	65.6	66.0	64.6	65.1
Others	34.5	34.0	35.4	34.9

Price Chart



Recent event & key risks

- Acquisition of Karaikal Port in FY24
- Key Risk:** (i) Slowdown in Exim trade (ii) Delay in DFC normalisation

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Key Financial Summary

₹ crore	FY21	FY22	5 Years CAGR % (FY17-22)	FY23E	FY24E	FY25E	3-Years CAGR (%)
Net Sales	12549.6	17118.8	15.2	20871.5	24021.9	27936.0	17.7
EBITDA	7983.4	10396.5	13.9	13086.4	14893.6	17320.3	18.5
EBITDA margin (%)	63.6	60.7		62.7	62.0	62.0	
PAT	4994.3	4886.0	4.6	5764.7	7948.4	9645.3	25.4
P/E (x)	24.4	25.1		21.3	15.4	12.7	
RoCE (%)	12.7	9.5		9.3	12.3	13.7	
RoE (%)	16.3	10.7		12.4	14.9	15.6	

Key takeaways

Q3FY23 Results: Ample liquidity to glide through current volatility

- Since major capex is behind APSEZ, the management expects to repay and prepay some bonds, NCDs and maintain debt/EBITDA in the 2.5x range. It has not had incorporate loans and deposits for two to three years
- Total ~18% growth in EBITDA includes current growth deceleration in Exim movement
- ICD Tumb (Vapi) and Haifa port are expected to fully contribute in FY24 in logistics and port vertical, respectively
- QoQ slowdown in the bulk segment is mainly due to higher duties on iron ore, steel, fertiliser, sugar, etc, and ban on wheat, etc

Q3FY23 Earnings Conference Call highlights

- The management has prioritised loan repayment and prepayment over other immediate inorganic growth initiatives (debt/EBITDA to be maintained at 2.5x in the near term). However, strategic initiatives may be evaluated as time comes
- APSEZ has ₹ 3000 crore of cash (FD) and another ₹ 2200 crore of overdraft (not yet utilised). In a hypothetical event, the company can deploy its entire capital base (~₹ 42000 crore) to raise cash
- Also, 22% of gross debt, which amounts to ~₹ 8500 crore, is secured and APSEZ has pledged 1.25x of its assets. The company intends to repay ₹ 1600 crore of this secured debt. In FY24, pledging is expected to reach nil
- Haifa port has been consolidated into APSEZ's book as on Q4FY23
- Of the ₹ 4000-4500 crore capex planned in FY24, ₹ 3500-3800 crore would be utilised in ports division, rest in logistics vertical. Karaikal port acquisition (₹ 1500 crore) is a part of the planned capex
- FY24 capex has been lower as majority of the project based capex has occurred in FY23 and the management expects to ramp up logistics capex as and when demand reaches current capacity
- Total 100 trains would come online for Adani Logistics in FY24
- The management would communicate FY24 volume guidance in Q4FY23 end

Exhibit 1: SOTP valuation

	FY24 EBITDA	multiple (x)	EV per share value		
Ports (ex-JV terminals)	EV/EBITDA	11155	14	151704	743
JV terminals	EV/EBITDA	1517	14	20633	101
Logistics and others	EV/EBITDA	1836	14	25699	126
Less: Net Debt				34786	170
Less: Minority stakes				10316	51
Equity value					749
Land Bank (Mundra SEZ) 21K acres ₹ 5 mil/acre	10500			10500	51
Total					800

Source: Company, ICICI Direct Research

Exhibit 2: Variance Analysis

Standalone	Q3FY23	Q3FY23E	Q3FY22	YoY (%)	Q2FY23	QoQ (%)	Comments
Revenue	4,786.2	4,724.7	4,072.0	17.5	5,210.8	-8.1	Revenues largely in line with estimates, led by volume growth of 11%
Consumption of RM	1,276.4	1,275.7	1,064.8	19.9	1,414.7	-9.8	
Employee Expenses	227.4	236.2	187.0	21.6	233.1	-2.5	
Other Expense	271.0	283.5	208.3	30.1	302.8	-10.5	
Total Expense	1,774.8	1,795.4	1,460.1	21.6	1,950.5	-9.0	
EBITDA (ex-forex gain/loss)	3,011.4	2,929.3	2,611.9	15.3	3,260.3	-7.6	
EBITDA Margin (%)	62.9	62.0	64.1	-123 bps	62.6	35 bps	EBITDA margins remained rangebound at 62-63% levels
Foreign Exchange Gain/(Loss)	-314.9	0.0	-12.8	NA	-369.6	NA	Forex loss due to MTM rupee depreciation
Depreciation	883.6	847.4	783.8	12.7	854.3	3.4	
Interest	533.9	603.1	667.7	-20.0	577.1	-7.5	
Other Income	265.0	438.1	641.4	-58.7	438.1	-39.5	
Exceptional Gain/Loss	0.0	0.0	0.0	NA	0.0	NA	
PBT	1,544.0	1,917.0	1,789.1	-13.7	1,897.4	-18.6	
Total Tax	227.4	191.7	268.8	-15.4	162.6	39.9	
PAT	1,316.6	1,725.3	1,520.3	-13.4	1,734.8	-24.1	
Profit from Associates	19.9	3.0	15.0	NA	3.0	559.3	
Minority Interest	21.0	60.3	-31.7	-166.1	60.3	-65.2	
Adjusted PAT	1,315.5	1,668.0	1,567.0	-16.0	1,677.5	-21.6	
Key Metrics	Q3FY23	Q3FY23E	Q3FY22	YoY (%)	Q2FY23	QoQ (%)	
Container volume (MMT)	31.5	31.5	30.0	5.1	31.5	0.1	Flattish vs. estimates due to gradual revival in global Exim movement
Bulk volume (MMT)	35.7	34.0	28.2	26.6	46.6	-23.4	
Liquid volume (MMT)	8.4	9.8	9.7	-14.0	8.3	1.3	
Overall volume (MMT)	75.6	75.3	67.9	11.3	86.4	-12.5	

Source: Company, ICICI Direct Research

Exhibit 3: Change in estimates

	FY23E			FY24E			FY25E	Comments
	Old	New	% Change	Old	New	% Change	Introduced	
(₹ Crore)								
Revenue	20,611.4	20,871.5	1.3	24,083.8	24,021.9	-0.3	27,936.0	Revenue estimates largely unchanged
EBITDA	12,820.3	13,086.4	2.1	15,052.4	14,893.6	-1.1	17,320.3	
EBITDA Margin (%)	62.2	62.7	50 bps	62.5	62.0	-50 bps	62.0	
PAT	5,849.9	5,764.7	-1.5	8,827.3	7,948.4	-10.0	9,645.3	PAT impacted due to higher depreciation (Haifa etc) and marginally lower operating leverage
EPS (₹)	28.7	26.7	-7.0	43.2	36.8	-14.8	44.7	

Source: ICICI Direct Research

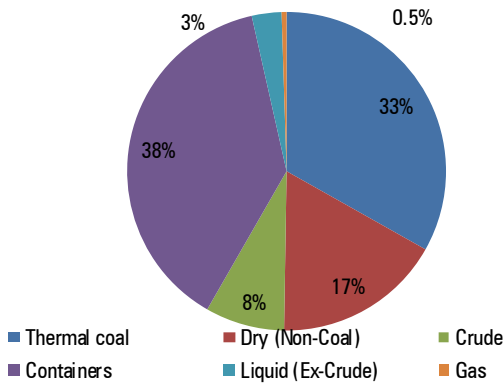
Exhibit 4: Assumptions

	Current			Earlier		Introduced	Comments
	FY22	FY23E	FY24E	FY23E	FY24E	FY25E	
Container volume (MMT)	120.0	126.0	138.6	131.1	157.9	159.4	
Bulk volume (MMT)	156.2	163.2	179.6	189.4	201.0	197.5	
Liquid volume (MMT)	36.1	35.4	38.9	39.5	44.3	44.8	
Sarguja volume (MMT)*	17.0	20.1	22.1	20.1	22.1	25.4	
Overall volume (MMT)	312.3	344.7	379.2	360.0	403.2	267.7	Volumes impacted due to weakness in Exim movement

Source: ICICI Direct Research

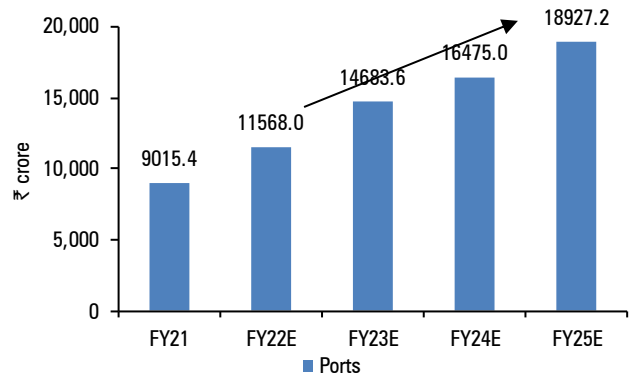
Key Metrics

Exhibit 5: FY22 APSEZ cargo mix



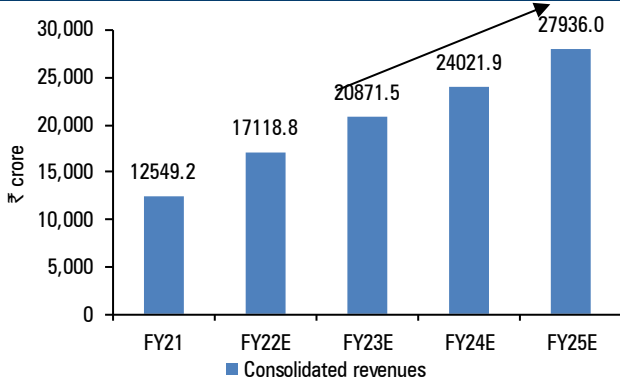
Source: ICICI Direct Research, Company

Exhibit 6: Ports revenues expected to grow at 18% CAGR



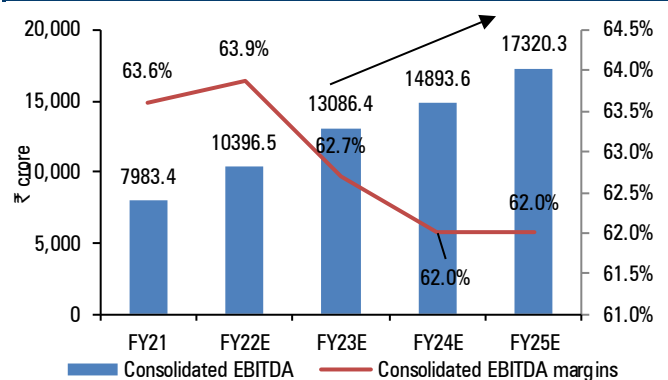
Source: ICICI Direct Research, Company

Exhibit 7: Consolidated revenues to grow at 18% CAGR (FY22-25E)



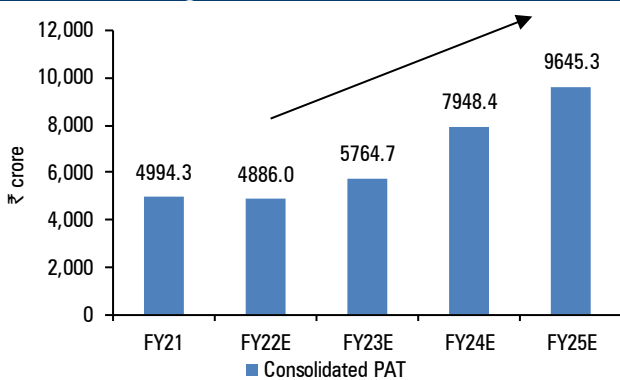
Source: ICICI Direct Research, Company

Exhibit 8: Consolidated EBITDA to grow at 19% CAGR (FY22-25E)



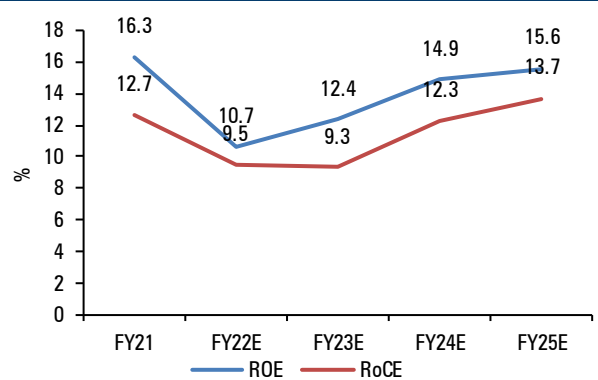
Source: ICICI Direct Research, Company

Exhibit 9: PAT to grow at 25% CAGR (FY22-25E)



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 (%)
FY21	12549.6	5.7	24.6	34.8	24.4	17.2	12.7	12.7
FY22	17118.8	36.4	21.9	-10.7	25.1	16.2	9.5	9.5
FY23E	20871.5	21.9	28.2	28.7	21.3	14.7	9.3	9.3
FY24E	24021.9	15.1	38.9	37.9	15.4	10.7	14.9	12.3
FY25E	27936.0	16.3	47.2	21.3	12.7	9.0	15.6	13.7

Source: Company, ICICI Direct Research

Financial Summary

Exhibit 12: Profit and loss statement		₹ crore			
(Year-end March)/ (₹ crore)	FY22	FY23E	FY24E	FY25E	
Total Operating Income	17,118.8	20,871.5	24,021.9	27,936.0	
Growth (%)	36.4	21.9	15.1	16.3	
Operating Expenses	4,842.0	5,635.3	6,606.0	7,682.4	
Gross Profit	12,276.8	15,236.2	17,415.9	20,253.6	
Gross Profit Margins (%)	71.7	73.0	72.5	72.5	
Employee Expenses	779.4	1,001.8	1,201.1	1,396.8	
Other Expenditure	1,100.8	1,147.9	1,321.2	1,536.5	
Total Operating Expenditure	6,722.3	7,785.1	9,128.3	10,615.7	
EBITDA	10,396.5	13,086.4	14,893.6	17,320.3	
Growth (%)	30.2	25.9	13.8	16.3	
Foreign Exchange Gain/(Loss)	872.1	1,885.6	0.0	0.0	
Interest	2,543.9	2,713.4	2,547.2	2,427.2	
Depreciation	3,099.3	3,460.9	3,991.5	4,193.2	
Other Income	2,223.7	1,445.4	1,300.9	1,431.0	
PBT before Exceptional Items	6,104.9	6,472.0	9,655.7	12,130.9	
Less: Exceptional Items	-405.2	0.0	0.0	0.0	
PBT after Exceptional Items	5,699.8	6,472.0	9,655.7	12,130.9	
Total Tax	764.0	647.2	1,448.4	2,183.6	
PAT before MI	4,935.8	5,824.8	8,207.4	9,947.4	
Minority Interest & Oth ad	67.2	100.5	301.4	346.7	
Profit from Associates	17.4	40.4	42.5	44.6	
PAT	4,886.0	5,764.7	7,948.4	9,645.3	
Growth (%)	-2.2	18.0	37.9	21.3	
EPS (Adjusted)	21.9	28.2	38.9	47.2	

Source: Company, ICICI Direct Research

Exhibit 13: Cash flow statement		₹ crore			
(Year-end March)/ (₹ crore)	FY22	FY23E	FY24E	FY25E	
Profit/(Loss) after taxation	4,886.0	5,764.7	7,948.4	9,645.3	
Add: Depreciation & Amortization	3,099.3	3,460.9	3,991.5	4,193.2	
Add: Interest Paid	2,543.9	2,713.4	2,547.2	2,427.2	
Net Increase in Current Assets	1,468.6	-2,739.4	-887.2	-1,093.4	
Net Increase in Current Liabilities	775.0	592.0	320.6	383.0	
Others	-7,439.3	0.0	0.0	0.0	
CF from Operating activities	5,333.5	9,791.5	13,920.5	15,552.2	
(Purchase)/Sale of Fixed Assets	-1,938.6	-16,197.7	-4,137.9	-7,674.1	
Long term Loans & Advances	414.9	-11.4	-11.7	-11.9	
Investments	-876.8	1,000.0	-60.0	-60.0	
Others	-5,382.0	-344.3	-377.5	-410.3	
CF from Investing activities	-7,782.6	-15,553.4	-4,587.1	-8,156.3	
(inc)/Dec in Loan	12,117.5	3,000.0	-6,000.0	-2,000.0	
Dividend & Dividend tax	-1,174.0	-1,174.0	-1,174.0	-1,174.0	
Less: Interest Paid	-2,543.9	-2,713.4	-2,547.2	-2,427.2	
Other	16.1	0.0	0.0	0.0	
CF from Financing activities	8,415.7	-887.4	-9,721.2	-5,601.2	
Net Cash Flow	5,966.6	-6,649.3	-387.8	1,797.7	
Cash and Cash Equivalent at the	4,700.8	10,667.4	4,018.2	3,630.3	
Cash	10,667.4	4,018.2	3,630.3	5,428.0	

Source: Company, ICICI Direct Research

Exhibit 14: Balance Sheet		₹ crore			
(Year-end March)	FY22	FY23E	FY24E	FY25E	
Equity Capital	422.5	422.5	422.5	422.5	
Reserve and Surplus	41,565.8	46,156.5	52,930.9	61,402.2	
Total Shareholders funds	41,988.2	46,579.0	53,353.4	61,824.6	
Minority Interest	392.8	400.6	408.6	416.8	
Total Debt	45,453.0	48,453.0	42,453.0	40,453.0	
Deferred Tax Liability	3,010.9	3,071.1	3,132.5	3,195.1	
Long-Term Provisions	34.2	34.9	35.6	36.3	
Other Non Current Liabilities	1,215.8	1,240.1	1,264.9	1,290.2	
Source of Funds	92094.9	99778.7	100648.0	107216.1	
Gross Block - Fixed Assets	62,056.6	78,656.6	83,156.6	91,156.6	
Accumulated Depreciation	6,215.1	9,676.0	13,667.5	17,860.7	
Net Block	55,841.5	68,980.6	69,489.1	73,295.9	
Capital WIP	4,022.9	3,620.6	3,258.5	2,932.7	
Fixed Assets	59,864.4	72,601.2	72,747.6	76,228.6	
Goodwill	6,711.4	7,047.0	7,399.4	7,769.3	
Investments	3,113.0	2,113.0	2,173.0	2,233.0	
Other non-current Assets	13,235.7	13,337.5	13,457.6	13,594.7	
Inventory	395.6	1,649.6	1,898.6	2,207.9	
Debtors	2,521.1	3,968.0	4,567.0	5,311.1	
Loans and Advances	1,921.6	1,946.6	1,971.8	1,997.5	
Other Current Assets	1,255.5	1,280.7	1,306.3	1,332.4	
Cash	10,667.4	4,018.2	3,630.3	5,428.0	
Total Current Assets	16,761.4	12,863.0	13,374.0	16,277.0	
Creditors	1,159.6	1,686.2	1,940.7	2,256.9	
Provisions	107.5	109.7	111.9	114.1	
Other Current Liabilities	6,323.8	6,387.1	6,450.9	6,515.5	
Total Current Liabilities	7,590.9	8,182.9	8,503.5	8,886.4	
Net Current Assets	9,170.4	4,680.1	4,870.5	7,390.5	
Application of Funds	92,094.9	99,778.7	1,00,648.0	1,07,216.1	

Source: Company, ICICI Direct Research

Exhibit 15: Key ratios		FY22			
		FY22	FY23E	FY24E	FY25E
Per share data (₹)					
Reported EPS		21.9	28.2	38.9	47.2
Cash EPS		16.2	22.5	33.2	41.5
BV per share		205.6	228.1	261.3	302.8
Cash per Share		52.2	19.7	17.8	26.6
Dividend per share		5.8	5.8	5.8	5.8
Operating Ratios (%)					
Gross Profit Margins		71.7	73.0	72.5	72.5
EBITDA margins		55.6	53.7	62.0	62.0
PAT Margins		26.2	27.6	33.1	34.5
Inventory days		8.4	28.8	28.8	28.8
Debtor days		53.8	69.4	69.4	69.4
Creditor days		24.7	29.5	29.5	29.5
Asset Turnover		0.3	0.3	0.3	0.3
Return Ratios (%)					
RoE		10.7	12.4	14.9	15.6
RoCE		9.5	9.3	12.3	13.7
RoIC		8.7	8.6	12.0	13.6
Valuation Ratios (x)					
P/E		25.1	21.3	15.4	12.7
EV / EBITDA		16.2	14.7	10.7	9.0
EV / Net Sales		9.0	7.9	6.6	5.6
Market Cap / Sales		7.1	5.8	5.1	4.4
Price to Book Value		2.9	2.6	2.3	2.0
Solvency Ratios					
Debt / EBITDA		4.8	4.3	2.9	2.3
Debt / Equity		1.1	1.0	0.8	0.7
Current Ratio		0.7	1.0	1.1	1.2
Quick Ratio		0.7	0.8	0.9	0.9

Source: Company, ICICI Direct Research

Exhibit 16: ICICI Direct coverage universe (Logistics)

Sector / Company	CMP		Rating	M Cap			EPS (₹)			P/E (x)			EV/EBITDA (x)			RoCE (%)			RoE (%)		
	(₹)	TP(₹)		(₹ Cr)	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E		
APSEZ	600	800	BUY	3,191	24.6	21.9	28.2	32.4	24.4	25.1	24.0	17.2	16.2	11.2	12.7	9.5	14.5	16.3	10.7		
Container Corporation	645	700	HOLD	34,121	17.3	20.8	20.6	97.2	77.8	37.2	6.2	9.7	5.6	10.9	4.5	10.2	12.1	5.4	9.6		
Transport Corp. of India	630	810	BUY	4,596	37.3	42.5	44.3	34.4	33.3	16.9	20.5	18.3	11.2	12.4	13.3	20.3	14.0	12.9	20.5		
Gujarat Pipavav	94	110	BUY	4,544	4.1	5.6	6.7	23.0	16.8	14.1	8.9	7.5	6.4	12.1	15.7	18.6	8.6	11.7	13.8		
TCI Express	1,435	2,150	BUY	5,493	33.5	37.6	48.4	42.9	38.1	29.6	31.5	27.3	21.2	33.4	30.7	32.4	26.6	24.4	25.6		
Mahindra Logistics	445	500	HOLD	3,191	5.2	5.0	9.0	86.1	88.7	49.3	15.1	12.2	10.2	12.2	26.2	31.8	6.3	5.9	9.8		
BlueDart Express	6,800	8,000	HOLD	16,157	160.9	202.8	246.8	158.7	42.3	33.5	22.9	15.3	13.6	40.7	77.5	71.2	12.8	39.7	40.8		
Gateway Distriparks	66	75	HOLD	3,298	4.5	3.4	3.8	32.0	35.0	14.7	12.7	12.0	9.8	9.9	11.7	15.4	5.6	6.4	13.7		

Source: Company, ICICI Direct Research

RATING RATIONALE

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Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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