

Adani Ports and SEZ (ADAPOR)

CMP: ₹ 740

Target: ₹ 900 (22%)

Target Period: 12 months

BUY

June 1, 2023

Focus on de-leveraging, asset utilisation 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 FY23, container, bulk, liquid mix were at 36%, 55%, 9%, respectively

Q4FY23 Results: The performance was better than estimates on the topline front.

- Revenues grew 40% YoY to ₹ 5797 crore, supported by Haifa consolidation
- Absolute EBITDA grew 27% to ₹ 3271 crore (margins contracted 590 bps to 56.4% due to higher employee and other expenses from Haifa port)
- PAT grew mere 5% to ₹ 1159 crore due to exceptional loss of ₹ 1273 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 a lower capex, its FCF has improved to 5-6% levels, which provides comfort on future expansion and debt levels.

- 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 ₹ 900 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 a 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 like 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
- Container segment comprises ~70% of revenues



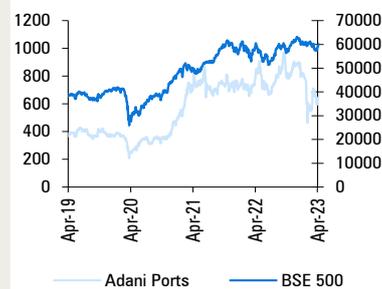
Particulars

Particular	Amount
Market Capitalization (₹ cr)	1,59,850
Total Debt (FY23) (₹ cr)	49,819.2
Cash (FY23) (₹ cr)	4,248.8
EV (₹ cr)	2,05,420.7
52 week H/L	987/395
Equity Capital (₹ cr)	432.0
Face Value (₹)	2.0

Shareholding pattern

(in %)	Jun-22	Sep-22	Dec-22	Mar-23
Promoter	66.0	64.6	65.1	61.0
Others	34.0	35.4	34.9	39.0

Price Chart



Recent event & key risks

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

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Key Financial Summary

₹ crore	FY21	FY22	FY23	5 Years CAGR % (FY18-23)	FY24E	FY25E	2-Years CAGR (%)
Net Sales	12549.6	17118.8	20851.9	13.0	24930.3	29585.7	19.1
EBITDA	7983.4	10396.5	12833.5	12.7	14534.4	17988.1	18.4
EBITDA margin (%)	63.6	60.7	61.5		58.3	60.8	
PAT	4994.3	4886.0	5310.2	6.7	8514.0	10759.3	42.3
P/E (x)	32.0	32.7	30.1		18.8	14.9	
RoCE (%)	12.7	9.5	9.0		12.4	13.8	
RoE (%)	16.3	10.7	8.9		16.1	17.3	

Source: Company, ICICI Direct Research

Key takeaways

Q4FY23 Results: Volumes expected to move from 339 MMT to 380 MMT

- 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
- ICD Tumb (Vapi) and Haifa port are expected to fully contribute in FY24 in logistics and port vertical, respectively
- Rail volumes have crossed 5 lakh TeUs in FY23. GPWIS cargo volumes grew 63% YoY to 14.35 MMT

Q4FY23 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 FY24). However, strategic initiatives may be evaluated as time comes
- APSEZ has ₹ 9800 cash and liquid investments in book in FY23
- Haifa port has been consolidated into APSEZ's book as on Q4FY23
- Of the ₹ 4000-4500 crore capex planned in FY24, ₹ 300 crore would be utilised in the ports division, with the rest in the logistics vertical. Karaikal port acquisition (₹ 1485 crore) was a part of the planned capex
- FY24 capex has been lower as majority of the project based capex has occurred in FY23. The management expects to ramp up logistics capex as and when demand reaches current capacity
- Logistics vertical has 93 rakes (43 – Container, GPWIS – 40, Agri – 7, AFTO – 3). The company has placed order for another 14 GPWIS and 24 container rakes
- APSEZ has won five bids (two in the ports business and three in logistics) in FY23 for mechanisation of Berth 2 at Haldia Port and greenfield construction of Tajpur Port and also, for Loni ICD, Valvada ICD and 70 agri silos with cumulative capacity of 2.8 MMT

Exhibit 1: SOTP valuation

		FY25 EBITDA	multiple (x)	EV per share value	
Ports (ex-JV terminals)	EV/EBITDA	12264	16	190586	882
JV terminals	EV/EBITDA	1922	16	30753	142
Logistics and others	EV/EBITDA	1144	16	17961	83
Less: Net Debt				40019	185
Less: Minority stakes				15376	71
Equity value					851
Land Bank (Mundra SEZ) 21K acres ₹ 5 mil/acre		10500		10500	49
Total					900

Source: Company, ICICI Direct Research

Exhibit 2: Variance Analysis

Consolidated	Q4FY23	Q4FY23E	Q4FY22	YoY (%)	Q3FY23	QoQ (%)	Comments
Revenue	5,796.9	4,938.3	4,140.8	40.0	4,786.2	21.1	Consolidation of Haifa port numbers and higher volume growth of 11%, led to higher revenues
Consumption of RM	1,677.9	1,323.5	1,103.3	52.1	1,289.6	30.1	
Employee Expenses	452.2	246.9	198.0	128.4	227.4	98.9	
Other Expense	395.4	246.9	258.6	52.9	257.8	53.4	
Total Expense	2,525.5	1,817.3	1,559.8	61.9	1,774.8	42.3	
EBITDA (ex-forex gain/loss)	3,271.3	3,121.0	2,580.9	26.7	3,011.4	8.6	
EBITDA Margin (%)	56.4	63.2	62.3	-590 bps	62.9	-649 bps	EBITDA margins impacted due to higher employee and other expenses due to consolidation of Haifa port numbers
Foreign Exchange Gain/(Loss)	-0.7	-369.6	-523.9	NA	-314.9	NA	Forex loss due to MTM rupee depreciation
Depreciation	844.9	904.6	764.3	10.5	883.6	-4.4	
Interest	622.6	577.1	649.5	-4.1	533.9	16.6	
Other Income	382.3	270.3	598.3	-36.1	265.0	44.3	
Exceptional Gain/Loss	-1,273.4	0.0	0.0	NA	0.0	NA	Exceptional expense led by an impairment generated by sale of Myanmar port asset
PBT	912.1	1,540.1	1,241.6	-26.5	1,544.0	-40.9	
Total Tax	-221.5	154.0	140.1	-258.1	227.4	-197.4	
PAT	1,133.6	1,386.1	1,101.5	2.9	1,316.6	-13.9	
Profit from Associates	7.4	3.0	10.2	NA	19.9	-63.1	
Minority Interest	-17.9	60.3	9.0	-298.6	21.0	-185.4	
Adjusted PAT	1,158.9	1,328.8	1,102.6	5.1	1,315.5	-11.9	

Source: Company, ICICI Direct Research

Exhibit 3: Change in estimates

	FY23		FY24E			FY25E			Comments
			Old	New	% Change	Old	New	% Change	
(₹ Crore)									
Revenue	20,851.9	24,021.9	24,930.3		3.8	27,936.0	29,585.7	5.9	
EBITDA	12,833.5	14,893.6	14,534.4		-2.4	17,320.3	17,988.1	3.9	
EBITDA Margin (%)	61.5	62.0	58.3		-370 bps	62.0	60.8	-120 bps	Higher expenses led by consolidation of Haifa port, expected to stay in near and medium term
PAT	5,310.2	7,948.4	8,514.0		7.1	9,645.3	10,759.3	11.6	Lower interest and depreciation expense expected to benefit PAT
EPS (₹)	24.6	36.8	39.4		7.1	44.7	49.8	11.4	

Source: ICICI Direct Research

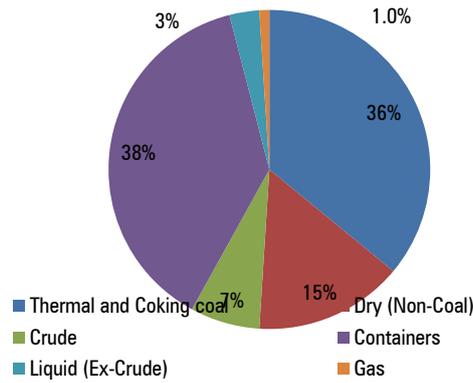
Exhibit 4: Assumptions

	Current			Earlier		Comments
	FY23	FY24E	FY25E	FY24E	FY25E	
Container volume (MMT)	128.7	144.1	165.7	138.6	159.4	
Bulk volume (MMT)	172.8	198.7	222.6	179.6	197.5	
Liquid volume (MMT)	35.0	40.3	46.3	38.9	44.8	
Sarguja volume (MMT)*	17.0	17.0	18.7	22.1	25.4	
Overall volume (MMT)	336.5	400.2	453.4	379.2	427.0	Consolidation of Karaikal port led to better numbers

Source: ICICI Direct Research

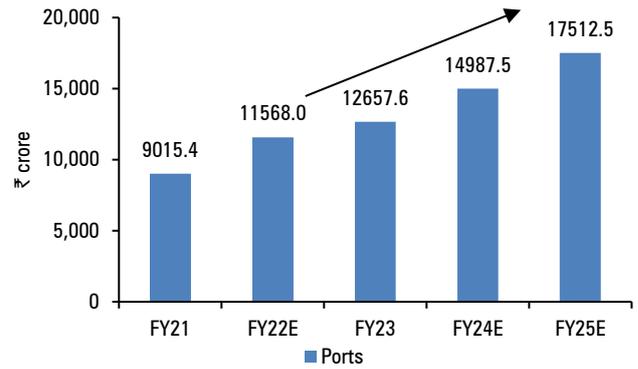
Key Metrics

Exhibit 5: FY23 APSEZ cargo mix



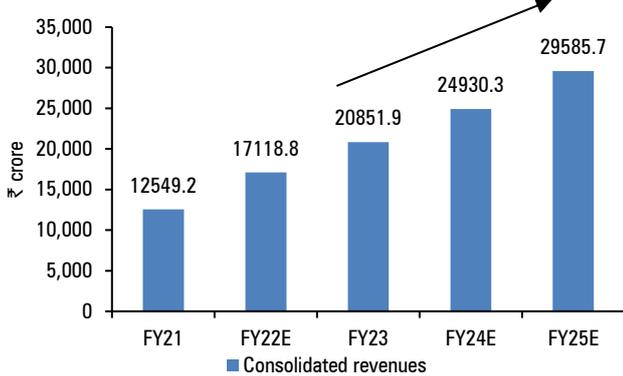
Source: ICICI Direct Research, Company

Exhibit 6: Ports revenues expected to grow at 19% CAGR



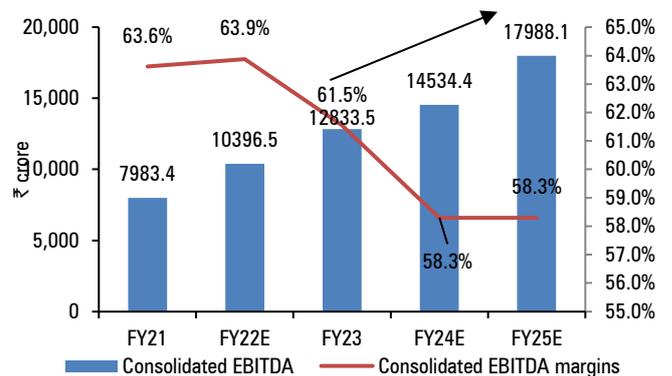
Source: ICICI Direct Research, Company

Exhibit 7: Consolidated revenues to grow at 19% CAGR (FY23-25E)



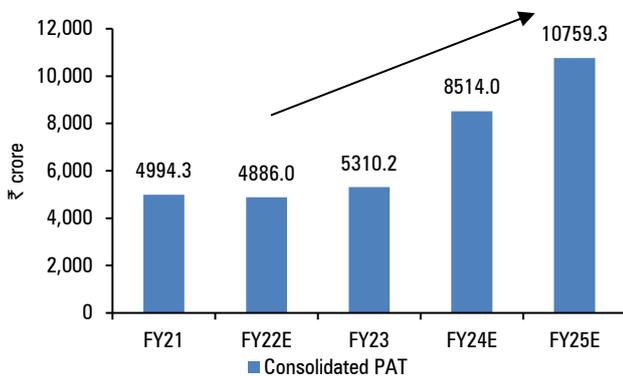
Source: ICICI Direct Research, Company

Exhibit 8: Consolidated EBITDA to grow at 12% CAGR (FY23-25E)



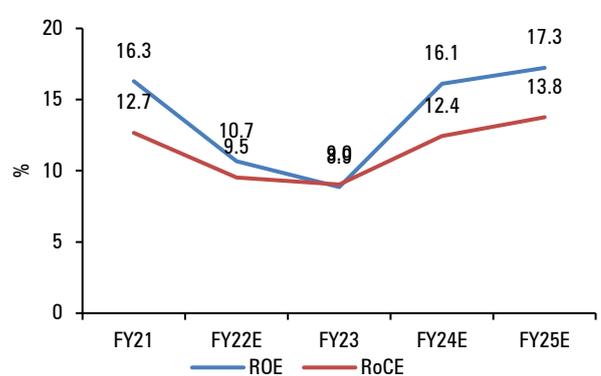
Source: ICICI Direct Research, Company

Exhibit 9: PAT to grow at 42% CAGR (FY23-25E)



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	23.1	34.8	32.0	21.5	12.7	12.7
FY22	17118.8	36.4	20.7	-10.3	32.7	20.2	9.5	9.5
FY23	20851.9	21.8	18.7	-9.9	30.1	18.7	9.0	9.0
FY24E	24930.3	19.6	39.4	110.9	18.8	13.5	16.1	12.4
FY25E	29585.7	18.7	49.8	26.4	14.9	10.6	17.3	13.8

Source: Company, ICICI Direct Research

Financial Summary

Exhibit 12: Profit and loss statement		₹ crore			
(Year-end March)/ (₹ crore)	FY22	FY23	FY24E	FY25E	
Total Operating Income	17,118.8	20,851.9	24,930.3	29,585.7	
Growth (%)	36.4	21.8	19.6	18.7	
Operating Expenses	4,842.0	5,654.6	7,105.1	8,136.1	
Gross Profit	12,276.8	15,197.4	17,825.2	21,449.6	
Gross Profit Margins (%)	71.7	72.9	71.5	72.5	
Employee Expenses	779.4	1,178.2	1,745.1	1,834.3	
Other Expenditure	1,100.8	1,185.7	1,545.7	1,627.2	
Total Operating Expenditure	6,722.3	8,018.5	10,396.0	11,597.6	
EBITDA	10,396.5	12,833.5	14,534.4	17,988.1	
Growth (%)	30.2	23.4	13.3	23.8	
Foreign Exchange Gain/(Loss)	872.1	1,886.3	0.0	0.0	
Interest	2,543.9	2,362.6	1,891.0	1,965.5	
Depreciation	3,099.3	3,423.2	3,980.0	4,388.0	
Other Income	2,223.7	1,553.5	1,398.1	1,537.9	
PBT before Exceptional Items	6,104.9	6,714.7	10,061.5	13,172.5	
Less: Exceptional Items	-405.2	-1,273.4	0.0	0.0	
PBT after Exceptional Items	5,699.8	5,441.4	10,061.5	13,172.5	
Total Tax	764.0	96.4	1,509.2	2,371.0	
PAT before MI	4,935.8	5,345.0	8,552.3	10,801.4	
Minority Interest & Ojth ad	67.2	82.6	90.8	99.9	
Profit from Associates	17.4	47.8	52.6	57.8	
PAT	4,886.0	5,310.2	8,514.0	10,759.3	
Growth (%)	-2.2	8.7	60.3	26.4	
EPS (Adjusted)	20.7	18.7	39.4	49.8	

Source: Company, ICICI Direct Research

Exhibit 13: Cash flow statement		₹ crore			
(Year-end March)/ (₹ crore)	FY22	FY23	FY24E	FY25E	
Profit/(Loss) after taxation	4,886.0	5,310.2	8,514.0	10,759.3	
Add: Depreciation & Amortization	3,099.3	3,423.2	3,980.0	4,388.0	
Add: Interest Paid	2,543.9	2,362.6	1,891.0	1,965.5	
Net Increase in Current Assets	1,468.6	-5,735.0	1,092.3	-1,054.6	
Net Increase in Current Liabilities	775.0	4,713.0	467.8	519.6	
Others	-2,352.6	1,859.1	0.0	0.0	
CF from Operating activities	10,420.1	11,933.3	15,945.1	16,577.9	
(Purchase)/Sale of Fixed Assets	-3,645.8	-8,921.0	-4,318.6	-7,386.7	
Long term Loans & Advances	414.9	-1,017.4	-31.8	-32.4	
Investments	-876.8	-2,918.3	470.0	-2,030.0	
Others	-8,693.4	-6,266.2	46.3	21.5	
CF from Investing activities	-12,801.1	-19,122.9	-3,834.1	-9,427.6	
(inc)/Dec in Loan	12,117.5	4,366.2	-12,000.0	4,000.0	
Dividend & Dividend tax	-1,242.1	-1,242.1	-1,242.1	-1,242.1	
Less: Interest Paid	-2,543.9	-2,362.6	-1,891.0	-1,965.5	
Other	16.1	9.6	0.0	0.0	
CF from Financing activities	8,347.6	771.0	-15,133.0	792.4	
Net Cash Flow	5,966.6	-6,418.6	-3,022.0	7,942.7	
Cash and Cash Equivalent at the	4,700.8	10,667.4	4,248.8	1,226.8	
Cash	10,667.4	4,248.8	1,226.8	9,169.5	

Source: Company, ICICI Direct Research

Exhibit 14: Balance Sheet		₹ crore			
(Year-end March)	FY22	FY23	FY24E	FY25E	
Equity Capital	422.5	432.0	432.0	432.0	
Reserve and Surplus	41,565.8	45,151.6	52,423.5	61,940.8	
Total Shareholders funds	41,988.2	45,583.6	52,855.5	62,372.8	
Minority Interest	392.8	1,338.5	1,365.3	1,392.6	
Total Debt	45,453.0	49,819.2	37,819.2	41,819.2	
Deferred Tax Liability	3,010.9	3,186.4	3,250.1	3,315.1	
Long-Term Provisions	34.2	1,201.8	1,225.8	1,250.3	
Other Non Current Liabilities	1,215.8	1,471.7	1,501.1	1,531.1	
Source of Funds	92094.9	102601.1	98017.0	111681.1	
Gross Block - Fixed Assets	62,056.6	73,039.8	78,039.8	86,039.8	
Accumulated Depreciation	6,215.1	9,638.3	13,618.4	18,006.4	
Net Block	55,841.5	63,401.4	64,421.4	68,033.4	
Capital WIP	4,022.9	6,814.0	6,132.6	5,519.4	
Fixed Assets	59,864.4	70,215.4	70,554.0	73,552.7	
Goodwill	6,711.4	6,963.4	7,033.0	7,103.4	
Investments	3,113.0	6,031.2	5,561.2	7,591.2	
Other non-Current Assets	13,235.7	14,600.0	14,628.0	14,682.9	
Inventory	395.6	452.0	540.4	641.3	
Debtors	2,521.1	3,940.8	4,711.6	5,591.4	
Loans and Advances	1,921.6	6,025.6	4,057.4	4,114.2	
Other Current Assets	1,255.5	2,427.9	2,476.5	2,526.0	
Cash	10,667.4	4,248.8	1,226.8	9,169.5	
Total Current Assets	16,761.4	17,095.1	13,012.6	22,042.4	
Creditors	1,159.6	1,828.2	2,185.8	2,594.0	
Provisions	107.5	548.0	559.0	570.2	
Other Current Liabilities	6,323.8	9,927.7	10,026.9	10,127.2	
Total Current Liabilities	7,590.9	12,303.9	12,771.8	13,291.4	
Net Current Assets	9,170.4	4,791.2	240.9	8,751.0	
Application of Funds	92,094.9	1,02,601.1	98,017.0	1,11,681.1	

Source: Company, ICICI Direct Research

Exhibit 15: Key ratios		FY22	FY23	FY24E	FY25E
Per share data (₹)					
Reported EPS		20.7	18.7	39.4	49.8
Cash EPS		15.0	12.9	33.7	44.1
BV per share		194.4	211.0	244.7	288.7
Cash per Share		49.4	19.7	5.7	42.4
Dividend per share		5.8	5.0	5.0	5.0
Operating Ratios (%)					
Gross Profit Margins		71.7	72.9	71.5	72.5
EBITDA margins		55.6	52.5	58.3	60.8
PAT Margins		26.2	19.4	34.2	36.4
Inventory days		8.4	7.9	7.9	7.9
Debtor days		53.8	69.0	69.0	69.0
Creditor days		24.7	32.0	32.0	32.0
Asset Turnover		0.3	0.3	0.3	0.3
Return Ratios (%)					
RoE		10.7	8.9	16.1	17.3
RoCE		9.5	9.0	12.4	13.8
RoIC		8.7	8.5	12.0	14.7
Valuation Ratios (x)					
P/E		32.7	30.1	18.8	14.9
EV / EBITDA		20.2	18.7	13.5	10.6
EV / Net Sales		11.3	9.8	7.9	6.4
Market Cap / Sales		9.3	7.7	6.4	5.4
Price to Book Value		3.8	3.5	3.0	2.6
Solvency Ratios					
Debt / EBITDA		4.8	4.6	2.6	2.3
Debt / Equity		1.1	1.1	0.7	0.7

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		FY23E	FY24E	FY25E	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E
APSEZ	740	900	BUY	1,59,850	18.7	39.4	49.8	7.7	6.4	5.4	3.5	3.0	2.6	30.1	18.8	14.9	0.0	0.0	0.0
Container Corporation	675	680	HOLD	33,146	19.3	20.6	25.1	35.0	32.7	26.9	5.4	5.3	4.5	10.7	10.5	12.1	10.3	10.2	11.4
Transport Corp. of India	700	810	BUY	5,106	42.5	44.3	51.1	16.5	15.8	13.7	11.1	10.0	8.7	19.4	18.3	18.1	19.3	17.1	16.7
TCI Express	1,520	1,850	BUY	5,818	36.4	45.4	57.3	41.8	33.5	26.5	29.9	23.9	19.1	31.0	33.1	33.6	24.6	26.2	26.4
Mahindra Logistics	362	410	HOLD	2,596	3.7	7.7	15.1	98.8	47.2	23.9	10.8	8.6	6.8	22.2	25.6	30.5	4.7	9.2	15.9
Gateway Distriparks	64	75	HOLD	3,198	3.4	3.8	4.7	18.8	16.7	13.6	9.2	7.8	6.7	14.5	16.8	19.1	9.9	10.5	11.9

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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