**Adani Ports & Special Economic Zone Ltd — FY 2023 Annual Report Analysis**

# Annual Report Analysis (Consolidated)

## Investor Snapshot

| # | Analytical point | Sentiment |
|---|---|---|
| 1 | **Dominant maritime leader with 24% India market share and industry-leading 70% Port EBITDA margins, successfully pivoting toward an integrated "Transport Utility" model.** | Positive |
| 2 | **Revenue grew 21.8% to □20,852 Cr, primarily catalyzed by the strategic inorganic integration of Gangavaram and Haifa ports and 20% volume growth at Krishnapatnam.** | Positive |
| 3 | ***Operating margins remain robust, yet earnings were severely impacted by a  1,273 Cr impairment on the Myanmar terminal, representing an 88% destruction of asset value.*** | Negative |
| 4 | ***Reported PAT is significantly decoupled from cash flows (CFO 2.2x PAT), distorted by massive exceptional losses and aggressive revenue recognition clauses.*** | Negative |
| 5 | ***Net Debt escalated to  53,434 Cr (D/E 1.18x) as aggressive acquisitions and capital expenditure began to outpace internal accruals.*** | Negative |
| 6 | **Cash from Operations remains a core strength at □11,900 Cr, providing a critical buffer for debt servicing despite the high-leverage environment.** | Positive |
| 7 | ***Liquidity position has deteriorated sharply, with cash and equivalents plummeting 59.4% to  0.9k Cr as reserves were depleted to fund inorganic growth.*** | Negative |
| 8 | ***Earnings quality is under pressure as Trade Receivables surged 45.9%—more than double the revenue growth rate—indicating potential collection stress or aggressive booking.*** | Negative |
| 9 | ***Governance is a critical concern following a Qualified Auditor Opinion and identified material weaknesses in Internal Financial Controls regarding Related Party Transactions (RPTs).*** | Negative |
| 10 | ***Significant balance sheet risk exists via a disputed  3,749.65 Cr recoverable from a single EPC contractor, which auditors refuse to clear as a non-related party.*** | Negative |
| 11 | ***Execution and regulatory risks are heightened by the Vizhinjam Port arbitration and ongoing SEBI investigations into group-level transparency.*** | Negative |
| 12 | Investment View: Watch stance; operational excellence and "Vision 2030" targets are currently offset by governance overhang and the need for RPT resolution. | Neutral |

## 1. Business overview (In Bullet Points)

- **Business Segments:** APSEZ is transitioning from a traditional port operator to an integrated **"Transport Utility,"** controlling the entire value chain from "port gate to factory gate" through its ports, logistics (ALL), and marine services (OSL) segments.
- **Revenue Drivers:** Primary growth is driven by containerization (64% of Mundra’s volumes) and inorganic expansion. The "Take-or-Pay" charges and SEIS incentives provide revenue stability.
- **Cost Drivers:** High fixed-cost base with significant operating leverage. Key costs include marine services, dredging, and stevedoring, which are increasingly internalized to capture higher margins.
- **Industry Position:** India’s largest commercial port operator with a 24% national market share; Mundra Port remains the flagship asset (155.4 MMT).

- **Expansion Plans:** Targeting 1,000 MMT (1 billion tonnes) of cargo volume by 2030 ("Vision 2030") and becoming the world's largest port company.
- **Acquisitions:** Aggressive inorganic growth including the acquisition of **Gangavaram Port (□6,204.62 Cr)**, Haifa Port (Israel), and Ocean Sparkle Ltd (98.52% stake) for high-margin annuity income.
- **Capacity Additions:** Focus on "Adani-fying" underperforming assets by implementing proprietary Terminal Operating Systems (TOS) and mechanization to drive EBITDA margins toward 70%.
- **Segment Performance:** Total cargo volume reached 339 MMT (9% YoY growth), outpacing the national average. Krishnapatnam saw 20% YoY volume growth.
- **Geographical Presence:** Achieving "Coastline Parity" with a 61:39 West:East coast split. International expansion includes the "necklace of ports" strategy in Colombo (Sri Lanka) and Haifa (Israel).

## 2. Management commentary & outlook

- Management is pivoting the business model toward a "Transport Utility" to secure predictable, annuity-like cash flows and decouple valuation from cyclical infrastructure multiples.
- The "Port-to-Doorstep" strategy leverages Adani Logistics Ltd (ALL) to reduce logistical friction by controlling rail tracks, inland depots, and port gates.
- Management targets 1 billion tonnes of cargo volume by 2030, maintaining industry-leading EBITDA margins of approximately 70% for port operations.
- A strict 16% pre-tax IRR threshold has been established for all new capital allocation and projects.
- Future growth is intended to be increasingly funded through internal accruals rather than debt, responding to market concerns regarding group-level leverage.
- The company aims to be Carbon Neutral by 2025 and Net Zero by 2040 to facilitate access to low-cost international "green" capital.
- Strategic JVs with global shipping lines like MSC and CMA CGM are used as risk-sharing mechanisms to ensure captive cargo volumes and insulate against trade volatility.
- Management is heavily emphasizing "Governance" and "Transparency" through tools like 'Legatrix' to address heightened scrutiny on the Adani Group.
- The demand environment remains robust, with APSEZ increasing its Indian market share from 17% to 24% over the last three years.
- **Management Tone:** The management tone is **Aggressively Confident and Execution-Focused.** There is a palpable shift from "growth at any cost" to "disciplined scale," with a clear narrative attempt to position the company as a mission-critical utility ecosystem rather than a mere asset owner.

# 3. Financial analysis

## 3.1 Financial statements

### P&L statement (□Cr)

| Line item | Mar 2023 | Mar 2022 |
|---|---|---|
| Sales | 20,852 | 17,119 |
| Sales Growth % | 21.81 | 36.41 |
| Expenses | 9,905 | 7,591 |
| Material Cost % | 0 | 0 |
| Raw material cost | 0 | 0 |
| Manufacturing Cost % | 27.66 | 28.90 |
| Employee Cost % | 5.66 | 4.57 |
| Other Cost % | 14.18 | 10.88 |
| Operating Profit | 10,947 | 9,528 |
| OPM % | 52 | 56 |
| Other Income | 327 | 1,832 |
| Exceptional items | -1,213 | -409 |
| Other income normal | 1,540 | 2,241 |
| Interest | 2,363 | 2,544 |
| Depreciation | 3,425 | 3,099 |
| Profit before tax | 5,487 | 5,717 |
| Tax % | 2 | 13 |
| Net Profit | 5,391 | 4,953 |
| Profit from Associates | 0 | 0 |
| Minority share | -82 | -67 |
| Exceptional items AT | -997 | -345 |
| Profit excl Excep | 6,388 | 5,298 |
| Profit for PE | 6,291 | 5,227 |
| Profit for EPS | 5,309 | 4,886 |
| Profit Growth % | 20 | 5 |
| EPS (□) | 24.58 | 23.13 |
| Dividend Payout % | 20 | 22 |

**Balance sheet (□Cr)**

| Line item | Mar 2023 | Mar 2022 |
|---|---|---|
| Equity Capital | 432 | 422 |
| Reserves | 44,957 | 41,399 |
| Borrowings | 53,434 | 47,935 |
| Long term Borrowings | 46,517 | 39,691 |
| Short term Borrowings | 4,001 | 6,061 |
| Lease Liabilities | 2,749 | 2,016 |
| Preference Capital | 292 | 282 |
| Other Borrowings | -126 | -115 |
| Other Liabilities | 13,740 | 8,572 |
| Non controlling int | 1,361 | 393 |
| Trade Payables | 2,296 | 1,160 |
| Advance from Customers | 884 | 883 |
| Other liability items | 9,198 | 6,136 |
| Total Liabilities | 112,563 | 98,328 |
| Fixed Assets | 72,224 | 62,553 |
| Land | 11,455 | 10,249 |
| Building | 17,530 | 15,795 |
| Plant Machinery | 17,933 | 14,925 |
| Ships Vessels | 4,613 | 2,777 |
| Equipments | 571 | 194 |
| Computers | 186 | 190 |
| Furniture n fittings | 322 | 294 |
| Railway sidings | 2,911 | 2,325 |
| Vehicles | 1,948 | 286 |
| Intangible Assets | 13,418 | 12,644 |
| Other fixed assets | 16,044 | 14,397 |
| Gross Block | 86,930 | 74,076 |
| Accumulated Depreciation | 14,707 | 11,523 |
| CWIP | 6,637 | 4,023 |
| Investments | 7,432 | 3,161 |
| Other Assets | 26,271 | 28,591 |
| Inventories | 452 | 396 |
| Trade receivables | 3,957 | 2,521 |
| Receivables over 6m | 615 | 587 |
| Receivables under 6m | 3,533 | 2,055 |
| Prov for Doubtful | -191 | -121 |

| Line item | Mar 2023 | Mar 2022 |
|---|---|---|
| Cash Equivalents | 4,334 | 10,667 |
| Loans n Advances | 295 | 1,346 |
| Other asset items | 17,233 | 13,662 |
| Total Assets | 112,563 | 98,328 |

## Cash flow statement (□Cr)

| Line item | Mar 2023 | Mar 2022 |
|---|---|---|
| Cash from Operating Activity | 11,900 | 10,420 |
| Profit from operations | 13,621 | 10,621 |
| Receivables | -748 | 230 |
| Inventory | -67 | 605 |
| Payables | 133 | 110 |
| Loans Advances | 0 | 0 |
| Other WC items | -192 | -187 |
| Working capital changes | -874 | 758 |
| Direct taxes | -847 | -960 |
| Cash from Investing Activity | -16,716 | -5,493 |
| Fixed assets purchased | -9,141 | -3,814 |
| Fixed assets sold | 204 | 168 |
| Investments purchased | -321 | -446 |
| Investments sold | 201 | 288 |
| Interest received | 1,461 | 1,819 |
| Dividends received | 0 | 4 |
| Investment in group cos | -1,209 | 0 |
| Redemp n Canc of Shares | 0 | 116 |
| Acquisition of companies | -13,222 | -656 |
| Inter corporate deposits | 0 | 0 |
| Other investing items | 5,310 | -2,974 |
| Cash from Financing Activity | -2,734 | -586 |
| Proceeds from shares | 0 | 800 |
| Redemption of debentures | 0 | 0 |
| Proceeds from borrowings | 7,446 | 9,821 |
| Repayment of borrowings | -7,101 | -2,293 |
| Proceeds from deposits | 0 | 0 |
| Interest paid fin | -2,371 | -2,551 |
| Dividends paid | -1,093 | -1,027 |
| Financial liabilities | -53 | -62 |
| Other financing items | 438 | -5,274 |
| Net Cash Flow | -7,550 | 4,341 |
| Free Cash Flow | 2,962 | 6,774 |
| CFO/OP | 116 | 119 |

### Key ratios

| Line item | Mar 2023 | Mar 2022 |
|---|---|---|
| Debtor Days | 69 | 54 |
| Inventory Days | 0 | 0 |
| Days Payable | 0 | 0 |
| Cash Conversion Cycle | 69 | 54 |
| Working Capital Days | -56 | -85 |
| ROCE % | 10 | 11 |

## 3.2 Financial analysis summary

- **Revenue** grew by 21.81% to □20,852 Cr, primarily driven by inorganic expansion including the acquisition of Gangavaram Port Limited for □6,204.62 Cr and Haifa Port Company, while Trade Receivables on the Balance Sheet surged by 45.9% to □3,957 Cr, significantly outpacing sales growth and signaling potential credit loosening or collection delays.
- **EBITDA** reached □10,947 Cr, but the EBITDA Margin contracted from 55.66% to 52.50% as Expenses rose by 30.5%, with Employee Cost % increasing to 5.66% due to the consolidation of new acquisitions like Ocean Sparkle and Haifa, while Other Cost % jumped to 14.18% following a net Foreign Exchange Loss of □1,886.32 Cr.
- **Net Profit** of □5,391 Cr was impacted by Exceptional Items totaling □1,213 Cr, mainly representing a massive impairment loss on the Myanmar container terminal where the sale price was re-negotiated down from □2,015 Cr to □246.51 Cr, yet CFO remained strong at □11,900 Cr due to the add-back of these non-cash charges.
- **Total Debt** increased to □53,434 Cr to fund an aggressive Acquisition of companies outflow of □13,222 Cr in the Cash Flow Statement, leading to a Debt / Equity ratio of 1.18 and a Finance Cost of □2,363 Cr, which was partially mitigated by the implementation of hedge accounting to defer □548.50 Cr of FX losses to the Cash Flow Hedge Reserve.
- **Working Capital** efficiency deteriorated as Debtor Days rose from 54 to 69, resulting in a □874 Cr drain on CFO from Working capital changes, while Other asset items on the Balance Sheet include a high-risk recoverable of □3,749.65 Cr from an EPC contractor, which the auditor flagged in a Qualified Opinion regarding related-party status.
- **Fixed Assets** increased to □72,224 Cr following a □9,141 Cr Capex program, but ROCE diluted slightly to 10% from 11%, reflecting the long gestation periods of projects like Vizhinjam Port, which is currently under arbitration due to delays, and the immediate impact of high-cost acquisitions on the asset base.
- **Cash Equivalents** plummeted by 59.4% to □4,334 Cr as the group utilized internal accruals and new Borrowings for massive investing activities, resulting in a Net Cash Flow deficit of □7,550 Cr and reducing the Free Cash Flow to □2,962 Cr from □6,774 Cr in the previous year.
- **Other Income** fell sharply to □327 Cr from □1,832 Cr, largely due to lower non-operating gains, while the group's reliance on "Take-or-Pay" contracts and SEIS incentives provided a floor for Revenue but highlighted a dependency on policy-linked and contractual minimums.
- **Other Assets** surged by 88.6% (Non-Current) primarily due to □3,749.65 Cr tied up with a single EPC contractor and □2,036.63 Cr in security deposits, representing a significant concentration of capital in non-operational, disputed balances.
- **Other Liabilities** were impacted by Non-current provisions which exploded from □34.23 Cr to □1,201.75 Cr, suggesting the Group is bracing for significant long-term obligations or legal settlements.

- **Other Expenses** and Exceptional Items (Impairment of ₹1,273.38 Cr) effectively doubled the non-operating cost burden, wiping out a significant portion of the year's potential profit.
- The dominant financial theme of the year is **aggressive inorganic expansion and "utility" transitioning funded by high leverage and cash depletion, masked by strong operating cash flows but shadowed by significant governance-linked asset impairments.**

### 3.3 Contingent liabilities & commitments

- **Capital Commitments:** ₹961.00 Cr (FY23) vs ₹847.00 Cr (FY22).
- **Vizhinjam Port Delay:** The project missed its scheduled commercial operation date (Dec 2019) and is currently under arbitration. Failure to resolve this could lead to termination of the concession or heavy liquidated damages.
- **Pending Litigations:** Material litigations are ongoing as per Note 36 of the financial statements.
- **Short Seller Allegations:** The auditor issued a Qualified Opinion regarding the lack of independent external examination of allegations, creating an unquantifiable contingent risk regarding regulatory penalties or legal actions.
- **Guarantees:** Various guarantees provided for group companies and port concessions.

## 3.9 Earnings quality & forensic checks

| # | Check | Impact | Status | Notes detail |
|---|---|---|---|---|
| 1 | PAT vs CFO trend | Profit ↑ — non-cash FX losses and impairments of □3,159 Cr widen gap between PAT and CFO. | — | CFO is 2.2x PAT due to add-back of □1,886 Cr FX loss and □1,273 Cr impairment. |
| 2 | Receivables & channel-stuffing signal | Revenue ↑↓ — aggressive credit terms; receivables grew 45.9% vs revenue growth of 21.8%. | — | Growth in receivables is double the revenue growth, suggesting slower collections or inorganic consolidation. |
| 3 | Revenue timing (unbilled / contract assets) | Revenue ↑ — "Take-or-Pay" clauses allow revenue recognition regardless of actual cargo volumes handled. | — | Note 2.3(e): Revenue includes fixed charges for under-utilized capacity, potentially front-loading income. |
| 4 | Revenue from related parties % | Neutral — revenue is largely third-party, but significant capital is tied in RPT contractors. | — | Note 54: Focus is on □3,749 Cr recoverable from EPC contractor rather than operational revenue. |
| 5 | Inventory vs revenue growth | Neutral — inventory is immaterial for a port service provider; growth is negligible. | — | Note 2.3(m): Inventory includes project WIP which remains a small fraction of total assets. |
| 6 | Inventory valuation method change | Neutral — no change in valuation policy; remains lower of cost or NRV. | — | Standard Ind AS 2 compliance maintained for stores and spares. |
| 7 | Exceptional items in operating profit | Profit ↓ — massive impairment on Myanmar terminal sale wipes out 23% of operating profit. | — | Note 40(ii): Myanmar terminal sale price re-negotiated down from □2,015 Cr to □246 Cr. |
| 8 | Depreciation rate vs useful life policy | Profit ↑ — use of "Depreciated Replacement Value" for Gujarat ports creates valuation subjectivity. | — | Note 1: Residual value for Gujarat ports is not currently determinable, relying on management estimates. |
| 9 | Provision reversals boosting PAT | Profit ↓ — massive spike in non-current provisions suggests unrecognized future liabilities. | — | Balance Sheet: 35x increase in provisions indicates preparation for significant legal or operational hits. |
| 10 | Tax rate consistency | Profit ↑ — effective tax rate dropped to 2% from 13% due to tax holidays. | — | P&L: Tax expense is significantly lower than statutory rates due to SEZ benefits and deferred tax. |
| 11 | CWIP age and stalling projects | Profit ↑ — continued capitalization of interest on delayed projects like Vizhinjam avoids P&L hit. | — | Note 46: Vizhinjam Port delayed since 2019; costs continue to be capitalized pending arbitration. |
| 12 | Deferred tax asset recognition adequacy | Neutral — no significant concerns on DTA recoverability given high operating margins. | — | Standard accounting for timing differences in depreciation and carry-forward losses. |
| 13 | RPT quantum and trend | Revenue ↑↓ — □3,749 Cr recoverable from EPC contractor flagged by auditor as potential RPT. | — | Auditor's Qualified Opinion: Unable to verify arm's length nature of transactions with "fellow subsidiary." |
| 14 | Dividend paid vs FCF adequacy | Neutral — dividend payout is well-covered by free cash flow despite heavy acquisitions. | — | Payout ratio of 20% is sustainable relative to operating cash generation. |
| 15 | Auditor Internal Control Weakness | Neutral — material weakness in IFC regarding external examination of third-party allegations. | — | Specifically cites inability to conduct independent examination of Short Seller allegations. |
| 16 | Hedge Accounting Policy Shift | Profit ↑ — deferral of FX losses to OCI instead of P&L impact. | — | Note 34.3: Policy change allows "smoothing" of earnings by moving FX volatility to Equity. |

| # | Check | Impact | Status | Notes detail |
|---|---|---|---|---|
| 17 | Inter-Corporate Deposit Volume | Neutral — massive volume of short-term financing indicates high treasury risk. | — | Note 3: High volume of group-level financing despite being recovered during the year. |

## 4. Management & governance

A. Auditor Report & Key Audit Matters * **Audit Opinion:** Qualified Opinion. * **KAM 1: Short Seller Report:** Auditor concerned over lack of independent external examination regarding allegations of undisclosed related parties and non-compliance. Management maintains allegations have no effect and cites ongoing SEBI investigations. * **KAM 2: Myanmar Asset Sale:** Drastic revision of sale consideration from □2,015.00 Cr to □246.51 Cr. Management recognized a massive impairment loss due to re-negotiation following local conditions. * **KAM 3: Hedge Accounting:** Subjectivity in evaluating hedge effectiveness for FX liabilities. Management implemented this as per updated Risk Management policy to align with USD-linked revenues. * **KAM 4: Gangavaram Acquisition:** Complexity in Purchase Price Allocation (PPA) for the □6,204.62 Cr acquisition. Management engaged independent valuers for fair valuation of intangible port concession rights. * **Material Weakness:** Auditor identified a **material weakness** in Internal Financial Controls (IFC) specifically regarding the system for conducting external examinations of third-party allegations.

B. Related Party Transactions | Party | Relationship | Nature | Amount (□Cr) | Concern | | ------- | ---------- | -------- | ---------- | --------- | | EPC Contractor | Fellow Subsidiary | Recoverable Balance | 3,749.65 Cr | ***Auditor unable to verify arm's length nature; management denies RPT status*** | | EPC Contractor | Fellow Subsidiary | Security Deposits | 2,036.63 Cr | ***High concentration of capital (8% interest) with a single disputed entity*** | | EPC Contractor | Fellow Subsidiary | Capital Advances | 1,680.23 Cr | ***Project-linked advances to a party under auditor scrutiny*** | | Group Companies | Various | Loans/ICDs Given | 19,966.48 Cr | ***Massive volume of short-term financing indicates high treasury/leakage risk*** |

- **RPT Verdict:** Governance Concern. The auditor's inability to confirm the "Related Party" status of the EPC contractor holding □3,749.65 Cr is a critical failure. Management's contradiction of the auditor's assessment suggests potential tunneling. RPT Exposure (□7,466.51 Cr) represents 35.81% of Revenue and 62.74% of CFO.

C. Shareholding * **Promoter Holding:** [Not disclosed in provided snippet] * **Pledged Shares:** [Not disclosed in provided snippet]

D. Board Composition + KMP Compensation * **Total Directors:** 10 | **Independent %:** 50.00% | **Women Directors:** 1 (10.00%). * **KMP Compensation:** * **Karan Adani (CEO):** □5.40 Cr (0.05% of EBITDA). * **Gautam S. Adani (Chairman):** Not disclosed. * **Rajesh S. Adani (Director):** Not disclosed. * **Analysis:** High promoter-family concentration (Karan, Gautam, and Rajesh Adani). CEO pay is conservative relative to EBITDA. YoY growth analysis is limited by lack of prior-year individual KMP data in the report.

F. Capital Allocation & Capex | Action | FY current (□Cr) | FY prior (□Cr) | % of CFO | Signal | | -------- | ------------------- | ----------------- | ---------- | -------- | | Dividends | 1,093.00 Cr | 1,027.00 Cr | 9.18% | — | | Capex | 9,141.00 Cr | 3,814.00 Cr | 76.82% | — | | Acquisitions | 13,222.00 Cr | 656.00 Cr | 111.11% | — | | Net Debt Change | 5,499.00 Cr | 12,654.00 Cr | 46.21% | — | | Interest Payments | 2,371.00 Cr | 2,551.00 Cr | 19.92% | — |

- **CAPEX Analytical Notes:**
  - **CFO Coverage:** CFO/Capex ratio is 1.30. However, total investment (Capex + Acquisitions) of **□22,363 Cr** is nearly double the CFO, leading to a □7,550 Cr net cash deficit.
  - **Nature:** Primarily growth-oriented inorganic expansion (Gangavaram, Haifa) and mechanization.

- **Efficiency:** Revenue grew 21.81% while Gross Block increased 17.35%. Efficiency is stable, but the **₹1,273.38 Cr impairment** on Myanmar assets indicates high execution risk.
- **Takeaway:** Aggressive expansion is being funded by depleting cash reserves (which fell from ₹8,653 Cr to ₹931 Cr) and increasing leverage.

H. Risks * **Short Seller Allegations (High):** Potential for severe regulatory penalties and loss of investor confidence due to lack of independent examination. * **Myanmar Divestment (High): ₹1,273.38 Cr impairment loss**; 88% value destruction on the asset due to geopolitical re-negotiation. * **Vizhinjam Port Delay (High):** Project missed 2019 deadline; failure in arbitration could lead to concession termination. * **FX Volatility (Medium):** Net Foreign Exchange loss of **₹1,886.32 Cr** indicates high vulnerability despite hedge accounting. * **Receivable Divergence (Medium):** Receivables grew 45.9% vs Revenue 21.8%, signaling deteriorating cash conversion. * **Concentration Risk (High): ₹3,749.65 Cr** recoverable from a single disputed EPC contractor.

## 5. Scorecard & verdict

### Part a: scorecard

| Dimension | Rating (1–5) | Delta | Key evidence | One-line rationale |
|---|---|---|---|---|
| Business quality | 5 | → | 24% India market share; 70% Port EBITDA margins. | Dominant moat with integrated logistics ecosystem and high pricing power. |
| Financial health | 3 | ↓ | D/E 1.18x; Cash fell from ₹8.6k Cr to ₹0.9k Cr. | Strong CFO but aggressive acquisitions have depleted liquidity and increased leverage. |
| Earnings quality | 2 | ↓ | CFO 2.2x PAT; Receivables growth 2x Revenue growth. | Distorted by massive impairments and aggressive revenue recognition clauses. |
| Management & governance | 1 | ↓ | Qualified Auditor Opinion; Material IFC weakness. | Significant red flags regarding RPTs and lack of independent external examinations. |
| Capital allocation & earnings visibility | 3 | → | ROCE 10%; ₹13k Cr acquisition spend. | High visibility via "Vision 2030" but current capex is value-neutral with high execution risk. |

**Business positives (for this company this year)** * **Market Leadership:** Increased Indian cargo market share from 17% to 24% in three years. * **Strong Cash Generation:** Generated **₹11,900 Cr** in Cash from Operations, providing a 2.2x cover over PAT. * **Strategic Acquisitions:** Successfully integrated Krishnapatnam (20% volume growth) and acquired Haifa Port to diversify geographically. * **Operational Efficiency:** Maintained industry-leading port EBITDA margins of approximately 70% at flagship Mundra. * **Asset-Light Pivot:** Successful expansion into multi-modal logistics parks and marine services (OSL) to enhance customer stickiness.

**Business negatives / concerns (for this company this year)** * **Governance Red Flags:** Auditor issued a **Qualified Opinion** and noted a material weakness in Internal Financial Controls. * **Asset Impairment:** Suffered a **₹1,273.38 Cr impairment** on the Myanmar terminal, representing an 88% value destruction. * **Liquidity Drain:** Cash and equivalents plummeted by **59.4%** to fund aggressive inorganic growth. * **RPT Concentration: ₹3,749.65 Cr** recoverable from a single EPC contractor whose related-party status is disputed by management. * **Working Capital Stress:** Trade receivables grew at **45.9%**, more than double the revenue growth rate of 21.8%. * **Project Delays:** Vizhinjam Port remains in arbitration after missing its 2019 deadline, risking concession termination.

**Overall scorecard summary** APSEZ exhibits a "Jekyll and Hyde" profile: a world-class infrastructure business with a dominant market moat and robust operating cash flows, shadowed by severe governance and transparency concerns. While the transition to a "Transport Utility" is strategically sound and volume growth is industry-leading, the depletion of cash reserves and the qualified auditor's opinion regarding related-party

transactions introduce significant tail risk. The business is on a **stable-to-deteriorating** trajectory from a credit and governance perspective, despite its improving operational dominance.

## Part b: governance check matrix

| # | Check | Status |
|---|---|---|
| 1 | Audit opinion clean? | — |
| 2 | Promoter pledge = 0? | — |
| 3 | KMP pay < 5% of PAT? | — |
| 4 | RPT quantum < 5% of revenue? | — |
| 5 | Board > 50% independent? | — |
| 6 | At least 1 woman director? | — |
| 7 | No statutory dues outstanding? | — |
| 8 | No fraud reported? | — |
| 9 | Audit trail enabled? | — |
| 10 | Frequent Auditor change | — |

Final line: "Total: 6/10 — Governance Rating: 2"

## Part c: investor verdict

**Thesis:** APSEZ is a high-moat national champion in maritime logistics whose superior operational cash flows are currently being utilized to fund aggressive, high-risk inorganic expansion amidst significant governance scrutiny. **Overall stance:** Watch **Rationale:** The underlying business is exceptional, but the qualified audit opinion and RPT disputes create a valuation ceiling that requires resolution of SEBI investigations. **Re-evaluate when:** Trade Receivables growth aligns with Revenue growth (<25%) AND the auditor removes the qualification on RPTs. **BULL CASE:** Successful turnaround of Haifa and Gangavaram ports drives ROCE above 15% and 1 billion tonne target is front-loaded. **BEAR CASE:** Regulatory penalties or adverse SEBI findings regarding the disputed □3,749 Cr EPC recoverable lead to a massive write-off and credit rating downgrade. **Key monitorable:** Cash and Equivalents: □4,334 Cr → Watch threshold: <□2,000 Cr (Liquidity risk).