Adani Ports & Special Economic Zone Ltd — Aug 2024 Quarterly Analysis

1. VERDICT & BUSINESS QUALITY SNAPSHOT

The punchline. Read this first — it frames everything below.

Result: Strong Beat **One-line:** APSEZ is successfully decoupling from India's base trade growth (growing 2x market) while simultaneously de-risking the balance sheet and improving governance optics through the removal of auditor qualifications.

Dimension	This Quarter	Signal / Evidence	Sentiment
Beat/Miss vs Guidance / Prior Quarter	Strong Beat	EBITDA grew 29% vs 21% Revenue growth; Cargo growth 8% (13% proforma).	□
Earnings Quality	Mixed (One-off driven PAT)	PAT includes □603.27 Cr gain from stake sale in Mundra CT-3; stripping this shows core strength.	□
Guidance Confidence	Strong	Reaffirmed 460-480 MMT target; Q1 (seasonally lower) hit 23% of upper band despite strike.	□
Management Credibility	Improving	Auditor qualification dropped to 'Emphasis of Matter'; CARE/ICRA upgrade to AAA.	□
Business Quality Signal	Improving	Domestic port EBITDA margins expanded to 72% (+32 bps); market share up to 27%.	□
Key Q&A Exchange	Q#7 - Mundra Container Sustainability	Mgmt confirms Mundra is outgrowing JNPT (23% vs 12.5%) despite Red Sea issues.	□
The Street's Primary Anxiety	Red Sea disruptions and Logistics margin volatility.	Mgmt cited freight/time cost impacts but noted volume growth is decoupled from freight rates.	□
Capital Cycle Stage	Investment / Harvesting (Dual)	Investing □10.5k-11.5k Cr while harvesting mature port ROCE (20%+).	□
Margin / Return Ratio Trajectory	Improving	Domestic Port EBITDA Margin @ 72%; Mundra Margin @ 69% (+400 bps YoY).	□
Pricing Power	Stable	Realizations up 0.6% YoY; growth is primarily volume and efficiency driven.	□
FCF Conversion & Quality	Strong	Historical CFO/EBITDA >70%; Q1 continues de-leveraging trend (Net Debt/EBITDA 2.1x).	□
Competitive Moat Signals	Widening	Vizhinjam commissioning creates a transshipment moat; 4 ports in World Bank Top 100.	□
Balance Sheet Strength	Strong	Net Debt/EBITDA at 2.1x; □9,000 Cr cash balance post $325M bond redemption.	□
Working Capital Efficiency	Stable	No material stress reported; Logistics land bank acquisitions are strategic.	□
Mgmt Guidance Track Record	Reliable	Consistent delivery on volume growth (14% CAGR vs 5% industry over 10 years).	□
Key Vulnerability / Red Flag	Geopolitical Exposure	Haifa volumes dropped (Dry Bulk -42%, Container -22%) due to Israel-linked sanctions.	□
Management Tone	Confident and Operationally Focused	Shifted focus from "recovering from Hindenburg" to "1 Billion MT by 2030".	□

Key Takeaways: * **Positives:** Volume growth (8% reported, 13% adjusted for Gangavaram strike) significantly outpaced the Indian market (4.3%). Port EBITDA margins at 72% remain world-leading, driven by efficiency and container mix. The removal of the auditor qualification is a pivotal moment for institutional credibility. * **Negatives:** International operations remain a drag on margins (11% EBITDA) due to geopolitical friction at Haifa. Logistics margins (25%) are facing a transient headwind from FCI contract step-downs. * **The Street's Concern:** Analysts pressed on the sustainability of Mundra's container growth and the ₹603 Cr "Gain on Infrastructure Development." Management clarified the gain relates to the stake sale to MSC where past losses/depreciation had lowered book value, creating a large accounting gain on sale. * **Watchpoint:** Execution at Vizhinjam (fully operational Oct-24) and the integration of Gopalpur (closing Q2) will be the primary drivers for H2 FY25 to hit the 480 MMT upper-end guidance.

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2. BUSINESS PERFORMANCE

2A. KEY METRICS

DATA SOURCE: PPT figures primary; Concall used for commentary.

Metric	Current Qtr	YoY Change	QoQ Change	Trend	Mgmt Commentary
Total Cargo (MMT)	109.0	+8%	First entry	↑	Proforma growth 13% excluding Gangavaram strike (5.7 MMT loss). Volume driven growth.
Revenue (₹Cr)	7,560.32	+21%	First entry	↑	Growth driven by container volumes and SEZ infra development gain.
EBITDA (₹Cr)	4,848	+29%	First entry	↑	Excludes FX; Q1 FY25 had ₹31 Cr FX loss vs ₹11 Cr gain in Q1 FY24.
EBITDA Margin %	64.1%	+400 bps	First entry	↑	Domestic ports business margin expanded to 72% (+32 bps).
PAT (₹Cr)	3,107.23	+47%	First entry	↑	Includes ₹603.27 Cr one-off gain on terminal stake sale.
EPS (₹)	14.41	+47%	First entry	↑	Growth in line with PAT.
ROCE (%)	13%	First entry	First entry	→	Mundra @ 23%, Hazira @ 19%, Dhamra @ 11%. Acquired assets ramping to 20% target.
Net Debt / EBITDA (x)	2.1x	Improved	First entry	↑	Down from 2.3x at FY24 end. Rating upgraded to AAA (Domestic).
Port Realization/ MT	Not stated	+0.6%	First entry	→	Growth is 95%+ volume-led; pricing power remains stable.
Container Vol (TEU)	2.9 Mn	+18%	First entry	↑	Mundra handled 2.1 Mn TEUs (+25% competitive gap).

2B. SEGMENT BREAKDOWN

Segment	Revenue (₹ Cr)	YoY Growth	Margin	Trend	vs Co Avg	Key Development
Domestic Ports	5,536	+13%	72%	↑	Above	Mundra handled highest ever quarterly cargo (51.1 MMT).
Logistics	536	+10%	25%	↓	Below	Rail cargo +19%; margin hit by FCI contract repricing.
SEZ & Port Dev	967	+326%*	100%	↑	Above	*Includes ₹603 Cr gain on stake sale to MSC.
International	825	-2%	11%	↓	Below	Haifa impacted by geopolitical trade sanctions (Dry bulk -42%).

3. MANAGEMENT OUTLOOK & EXECUTION TRACKER

Dimension	Category	Management Target / Claim	Required Run-Rate / Mathematical Feasibility	Historical Delivery	Risk Flag
Guidance	Revenue	₹29,000 - 31,000 Cr	Needs ₹7,146 Cr/avg in next 3 Qtrs. On track.	Delivered FY24.	Low
Guidance	EBITDA	₹17,000 - 18,000 Cr	Needs ₹4,050 Cr/avg in next 3 Qtrs. High visibility.	Delivered FY24.	Low
Guidance	Volume / Capacity	460 - 480 MMT	Needs 123 MMT/avg for Q2-Q4. Feasible with Vizhinjam/Gopalpur.	Consistently Beats.	Low
Guidance	Capex Plan	₹10,500 - 11,500 Cr	Spent ₹2,000 Cr in Q1. Typically back-ended.	High investment.	Low
Strategy	Capital Allocation	Net Debt/EBITDA < 2.5x	Currently 2.1x. Room for ₹5k-10k Cr M&A.	Adhering strictly.	Low
Strategy	Competitive Positioning	1 Billion MT by 2030	Requires ~12% CAGR. Currently hitting 14%.	Outpacing market.	Medium
Macro	Red Sea / Geopolitics	"Manageable" on margins	Impact seen in Haifa (-42% dry bulk).	New risk layer.	High
Balance	Debt Maturity	Paid 2024 $325M Bond	Successfully retired from cash reserves.	Credibility boost.	Low

4. ANALYST Q&A

Q#	Relevance	Analyst	Theme Cluster	Category	Underlying Concern	Management Response & Investment Implication	Evaded	Credibility	Verdict
1	4.0	Parash Jain, HSBC	International Projects	Capex & Allocation	What is the progress on Tanzania, Colombo, and Vizhinjam capex?	Mgmt confirmed Tanzania deal concluded in June; Colombo is on track for late FY25 start. Investment is balanced across efficiency, expansion, and new projects to reach 1B MT.	None	4.5	Clear timeline
2	4.5	Pulkit Patni, Goldman Sachs	Vizhinjam Guidance	Business Overview	What are the volume expectations for Vizhinjam and Gopalpur this year?	Vizhinjam (1M TEU capacity) to be fully operational in Oct-24 with full utilization expected in FY26. Gopalpur will contribute for 3 quarters of FY25.	None	4.0	Specific targets
3	4.0	Pulkit Patni, Goldman Sachs	Logistics Margins	Financials	Why do logistics margins fluctuate (25% this qtr)?	Mgmt cited FCI contract step-down pricing (post 10 years) and busy season surcharges as primary drivers. Expect margins to improve in coming quarters as surcharges pass through.	None	3.5	Seasonal/ Contractual
4	3.5	Achal Lohade, Nama	Coal Volumes	Business Overview	Coal volume growth appears weak; is the growth thesis now container-only?	Mgmt argued coal market share actually increased by 1% despite "normal" industry growth. Thesis is balanced: Container for industrialization, Coal for energy, Steel for infra.	None	4.0	Strategic mix

Q#	Relevance	Analyst	Theme Cluster	Category	Underlying Concern	Management Response & Investment Implication	Evaded	Credibility	Verdict
5	5.0	Achal Lohade, Nama	Stake Sale Gain	Financials	Clarify the ₹603 Cr gain vs ₹95 Cr in standalone books.	₹603 Cr is an accounting gain in consolidated books because past ramp-up losses reduced the carrying value of the asset. Standalone ₹95 Cr is the actual transaction gain.	None	4.5	High Transparency
6	4.0	Asmeeta Sidhu, MetLife	Land Recovery/ Audit	Governance	What is the status of the Gujarat land recovery case and auditor qualification?	Mgmt called the land case "frivolous" and is contesting in Supreme Court. Auditor qualification was dropped following an independent legal/ accounting review.	None	4.0	Credibility boost
7	4.5	Priyankar Biswas, BNP	Mundra Containers	Business Overview	Is Mundra's container growth sustainable given Red Sea issues?	Mundra grew 23% YoY vs JNPT's 12.5%. Red Sea impacts cost and time, not underlying demand from the robust Indian economy.	None	4.0	Market dominance
8	3.5	Aditya Mongia, Kotak	Port Margins	Financials	Can port margins reach 75-76% through digitalization?	Mgmt focused on "improving every day" rather than giving a ceiling. Cost growth was only 0.6% while volumes surged.	Ceiling target	3.0	Conservative
9	4.0	Aditya Mongia, Kotak	Logistics Land Bank	Capex & Allocation	Is the high logistics capex just for land or	Strategic land acquisition for MMLPs/ Warehousing to offer last-mile	None	4.0	Asset building

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					immediate EBITDA?	delivery. It is a mid-to-long term investment to replicate the "Marine Services" moat.			
10	3.0	Jayesh Shah, OHM	Vadhavan Port	Strategy	Is the upcoming Vadhavan mega-port a threat to Mundra?	Mgmt welcomed the capacity as India's trade will reach 2,500 MMT. They are open to "potential collaboration" as it's a PPP model.	None	3.5	Collaborative tone
11	4.0	Imtiaz, Barclays	Bond Repayment	Financials	How was the $325M bond funded and will you tap USD markets again?	Funded via internal cash reserves. No current plans to tap USD markets; cash balance remains strong at ₹9,000 Cr.	None	5.0	De-leveraging

PATTERN FLAGS & SENTIMENT * **The "Gain" Skepticism:** Analysts were highly focused on the ₹603 Cr gain in the SEZ segment. Management successfully explained this as an accounting artifact of deconsolidation (stake sale to MSC) where book value was depressed by past losses. This resolved the concern, though it flags that Q1 PAT is "inflated" by one-offs. * **Logistics Margin Anxiety:** Multiple questions targeted the 25% margin. Management's defense was defensive-yet-rational, blaming structural contract step-downs at FCI. This concern will likely resurface until margins cross the 28% mark again. * **Credibility Pivot:** The tone regarding governance has shifted. Management was assertive about the independent review that led to the auditor's "Emphasis of Matter" status, signaling they believe the "Hindenburg-era" reporting overhang is over.

Analyst Sentiment Verdict: Analysts were generally bullish on the port operations but remained inquisitive about "earnings quality" due to the terminal stake sale gain. Management’s credibility improved significantly due to the rating upgrades (AAA) and the successful $325M bond retirement. The greatest unresolved risk remains the Haifa Port's performance, which is hostage to regional geopolitics.

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5. WHAT CHANGED vs PRIOR QUARTER

First entry — no prior quarter to compare.

What Changed	Prior Quarter	This Quarter	Direction
Auditor Status	Not available	Qualification dropped to EOM	↑ Improving
Credit Rating	Not available	Upgraded to AAA (CARE/ICRA)	↑ Improving
Net Debt/EBITDA	Not available	2.1x (from 2.3x)	↑ Improving
Strategic Assets	Not available	Vizhinjam operational start	↑ Improving
Regional Mix	Not available	Haifa volume decline (Geopolitics)	↓ Deteriorating
Portfolio	Not available	Tanzania Concession Signed	↑ Improving