# Adani Ports & Special Economic Zone Ltd — Feb 2023 Quarterly Analysis

## 1. VERDICT & BUSINESS QUALITY SNAPSHOT

**Result:** Beat on Financials / Inline on Operations **One-line:** APSEZ is successfully decoupling its financial performance from volume volatility through superior pricing power and a rapid logistics scale-up, while pivoting the strategy toward aggressive deleveraging to insulate against group-level contagion risks.

| Dimension | This Quarter | Signal / Evidence | Sentiment |
|---|---|---|---|
| Beat/Miss vs Guidance | Strong Beat | Revenue (+18%) and EBITDA (+15%) at upper end of guidance despite flat Mundra volumes. | □ |
| Earnings Quality | High (Core driven) | Realization-led growth (+13% YoY per ton); Logistics margins expanded 400bps to 29.3%. | □ |
| Guidance Confidence | Strong | Explicit FY24 EBITDA guidance of □14,000–15,000 Cr with 2.5x leverage target. | □ |
| Management Credibility | Strong | Direct denial of ICDs/group loans; specific commitment to □5,000 Cr debt reduction. | □ |
| Business Quality Signal | Improving | Pivot from "Growth-at-all-costs" to "Utility-Cash-Generator" with pricing power. | □ |
| Key Q&A Exchange | Q# 3 - Group Contagion | Management categorically denied any loans/ICDs to Adani Group companies post-quarter. | □ |
| The Street's Primary Anxiety | Debt & Liquidity | Concern over group risk; Mgmt responded with □5,000 Cr prepayment plan. | □ |
| Capital Cycle Stage | Consolidation | Shifting from aggressive M&A to project completion and deleveraging. | □ |
| Margin / Return Ratio Trajectory | Stable | Port EBITDA margins held at 70%; Logistics margins reaching structural highs. | □ |
| Pricing Power | Expanding | Port realization up □58/ton (□43/ton from mix/yield, □15/ton from FX). | □ |
| FCF Conversion & Quality | Strong | Capex guidance lowered (□4k-4.5k Cr) to prioritize debt retirement. | □ |
| Competitive Moat Signals | Widening | Non-JV container volume up 11% while JVs declined 9%, showing terminal flexibility. | □ |
| Balance Sheet Strength | Adequate | Net Debt/EBITDA at ~3.0x; targeting 2.5x by FY24. | □ |
| Working Capital Efficiency | Stable | Liquidity of □3,000 Cr in FDs + □2,200 Cr unutilized CP limits. | □ |
| Mgmt Guidance Track Record | Reliable | Historically consistent; meeting upper end of FY23 guidance despite macro headwinds. | □ |
| Key Vulnerability / Red Flag | Group Contagion | Potential for "guilt by association" affecting bond yields despite core strength. | □ |
| Management Tone | Reassuring | Focused on transparency, governance, and balance sheet discipline. | □ |

Sentiment: □Positive **Key Takeaways (Positives & Negatives): Positives:** * **Pricing Power over Volume:** Revenue grew 18% despite flat volumes at Mundra, driven by a □43/ton yield improvement from high-paying customers and ₹15/ton from FX gains. * **Logistics Engine:** Revenue up 64%, EBITDA up 80%, and margins hitting 29.3%. The business is no longer just a port operator but a high-margin integrated logistics utility. * **Deleveraging Pivot:** Commitment to prepay ₹5,000 Cr in FY24, targeting a Net Debt/EBITDA of 2.5x. This addresses the primary market concern regarding group-level leverage. * **Asset Rebalancing:** Successfully moving away from JV-dependence in Mundra; non-JV container volumes grew 11% (higher realization).

**Negatives:** * **Forex Volatility:** ₹315 Cr M2M impact on PAT due to unhedged USD debt (natural hedge via dollarized revenues didn't offset accounting volatility this quarter). * **Mundra Volume Stagnation:** Overall Mundra container volumes remained flat YoY, showing some sensitivity to global trade slowdowns. * **Acquisition Tail:** Haifa consolidation and Karaikal acquisition (₹1,500 Cr) will keep gross debt levels elevated in the near term despite prepayment plans.

**Forward Watchpoint:** Monitor the execution of the ₹5,000 Cr debt reduction and the successful divestment of the Myanmar asset in Q4/Q1, which remains a key ESG overhang.

---

## 2. BUSINESS PERFORMANCE

### 2A. KEY METRICS

DATA SOURCE: PPT not available — all numbers sourced from concall transcript.

| Metric | Current Qtr (Q3 FY23) | YoY Change (Q3) | QoQ Change | Trend | Mgmt Commentary |
|---|---|---|---|---|---|
| Revenue | ₹4,786 Cr | ↑ 18% | ↓ 8.4% | ↓ | Driven by 13% increase in realization per ton; Port revenue at ₹3,936 Cr. |
| Port Revenue/Ton | ₹515 (Calculated) | ↑ 13% | Not stated | ↑ | ₹15/ton from FX; ₹43/ton from mix/high-paying non-JV customers. |
| EBITDA | ₹3,011 Cr | ↑ 15% | ↓ 7.6% | ↓ | Port EBITDA ₹2,737 Cr; Logistics ₹142 Cr. |
| EBITDA Margin % (Port) | 70% | → | → | → | Maintained despite higher fuel and operating costs. |
| EBITDA Margin % (Log) | 29.3% | ↑ 400 bps | Not stated | ↑ | Mix change between container and bulk improved profitability. |
| PAT | Not stated | Not stated | Not stated | → | Impacted by ₹315 Cr Forex M2M loss. |
| Volume (MMT) | ~90-92 MMT | Not stated | ↓ 13% | ↓ | Q3 impact from macro/externalities (Export duties on iron ore/steel). |
| Container Volume (TEUs) | Flat at Mundra | → | Not stated | → | Non-JV volumes (+11%) offset JV declines (-9%). |
| Net Debt / EBITDA | ~3.0x | → | Not stated | → | Guided to reach 2.5x by March 2024. |
| Net Debt | ₹44,000 Cr (Est) | ↑ 16% (vs Mar'22) | Not stated | ↑ | Includes Haifa, Indian Oil Tanking, and Tumb acquisitions. |
| Cash Balance | ₹3,000 Cr | Not stated | Not stated | → | Parked in Fixed Deposits; additional ₹2,200 Cr unutilized CP limits. |
| Capex (FY24 Guidance) | ₹4,000-4,500 Cr | ↓ vs Hist. | N/A | ↓ | Reduced as major projects reach maturity/completion. |

### 2B. SEGMENT BREAKDOWN

| Segment | Revenue (₹ Cr) | YoY Growth | Margin | Trend | vs Co. Avg | Key Development |
|---|---|---|---|---|---|---|
| Ports | ₹3,936 Cr | 13% (Yield) | 70% | → | Higher | Non-JV container growth at Mundra; realization up 25% at Mundra specifically. |
| Logistics | ₹490 Cr | 64% | 29.3% | ↑ | Lower | 100 new trains ordered for next year; Nagpur MMLP scaling up. |
| SEZ & O&M | ₹360 Cr | Not stated | 36.6% | → | Lower | Guidance excludes land sales; focus on steady O&M income. |

## 3. MANAGEMENT OUTLOOK & EXECUTION TRACKER

| Dimension | Category | Management Target / Claim | Required Run-Rate / Mathematical Feasibility | Historical Delivery | Risk Flag |
|---|---|---|---|---|---|
| Guidance | FY24 EBITDA | ₹14,000–15,000 Cr | Needs ~17.5% growth over FY23; feasible given Haifa consolidation. | On track (9M FY23 is strongest ever). | Low |
| Guidance | FY24 Capex | ₹4,000–4,500 Cr | Includes ₹1,500 Cr for Karaikal; implies only ₹2,500-3,000 Cr maintenance. | Revised Down (Prior run-rate was ~₹9k Cr). | Medium |
| Guidance | Leverage | 2.5x Net Debt/EBITDA | Requires ₹5,000 Cr debt reduction alongside EBITDA growth. | New focus. | Low |
| Guidance | Volume | 500 MMT by FY25 | Needs ~15% CAGR; Vizhinjam & Colombo terminals to add capacity. | Consistent. | Low |
| Strategy | Capital Allocation | Prioritizing deleveraging over new acquisitions. | Will only bid for ConCor if leverage stays <2.5x. | Strategy Shift. | Medium |
| Strategy | Group Loans | "No ICDs or advances to group companies." | Management claims zero RPT loans in last 2-3 years. | Verifiable in FY23 Audit. | High |
| Strategy | Asset Sale | Myanmar divestment by Q4/Q1. | Waiting on Myanmar statutory approvals. | Delayed (Target was Dec'22). | Medium |

## 4. ANALYST Q&A

| Q# | Relevance | Analyst / Firm | Theme Cluster | Category | Underlying Concern | Management Response & Investment Implication | Evaded / Not Addressed | Credibility | Verdict |
|---|---|---|---|---|---|---|---|---|---|
| 1 | 4.0 | Sumit Kishore, Axis | Capex | Capex and Allocation | "Is the □40-45 billion Capex for FY24 a reduction from earlier guidance?" | Management clarified this is not a growth reduction but reflects the maturity of current projects (ports at tail-end of completion). This signals a transition from investment to a harvesting/ deleveraging phase. | None | 4.0 | Clear and quantified |
| 2 | 4.5 | Love Sharma, Lombard Odier | Debt Reduction | Financials | "Which specific bonds/loans are you targeting for the □5,000 Cr reduction?" | Management stated they will reduce gross debt by □5,000 Cr but cannot specify which instruments until market conditions are finalized. This confirms a priority for debt retirement but leaves the exact "how" to market timing. | Specific bonds earmarked. | 3.0 | Directiona with evidence |
| 3 | 5.0 | Abhiram Iyer, Deutsche Bank | Group Governance | Governance | "Have any intercompany loans been made post-Dec 2022 to outside the APSEZ group?" | Management categorically denied any ICDs, loans, or advances to group companies in the last 2-3 years. This is a critical statement to decouple APSEZ's credit profile from the wider Adani group. | None | 5.0 | Specific and verifiable |
| 4 | 4.0 | Priyankar Biswas, Nomura | M&A Strategy | Capex and Allocation | "Does the Capex guidance | Management stated deleveraging | None | 4.0 | Specific timeline given |

| Q# | Relevance | Analyst / Firm | Theme Cluster | Category | Underlying Concern | Management Response & Investment Implication | Evaded / Not Addressed | Credibility | Verdict |
|---|---|---|---|---|---|---|---|---|---|
| | | | | | include strategic assets like ConCor?" | to 2.5x is the first priority; ConCor will only be pursued if it doesn't violate this leverage ceiling. This signals a newly disciplined approach to inorganic growth. | | | |
| 5 | 3.5 | Priyankar Biswas, Nomura | Debt Reconciliation | Financials | "Why did gross debt stay flat if you repaid □6,000 Cr?" | Management explained that repayments were offset by a □2,500 Cr M2M non-cash impact, □2,300 Cr short-term debt for acquisitions, and □1,200 Cr buyers credit. This highlights that while cash flows are strong, M2M and M&A continue to bloat gross debt. | Granular breakdown (deferred to offline). | 3.0 | Follow-up forced clarity |
| 6 | 3.5 | Asmeeta Sidhu, MetLife | FX Impact | Financials | "Why was the Forex impact to PAT significantly larger this year?" | Management clarified that $1.3 billion of the $4 billion debt book is not designated for OCI and flows through the P&L as M2M. This exposes earnings to rupee volatility despite the "natural hedge" of dollarized revenue. | None | 4.0 | Directiona with evidence |

| Q# | Relevance | Analyst / Firm | Theme Cluster | Category | Underlying Concern | Management Response & Investment Implication | Evaded / Not Addressed | Credibility | Verdict |
|---|---|---|---|---|---|---|---|---|---|
| 7 | 4.0 | Sherry Chen, GaoTeng | Haifa Financing | Capex and Allocation | "What is the financing structure for the Haifa acquisition?" | The $1.2 billion acquisition involved $300m local debt, $475m mezzanine (APSEZ guaranteed), and the balance as equity ($230m from APSEZ, $110m partner). This reveals a high degree of leverage within the Haifa SPV. | None | 5.0 | Clear and quantified |
| 8 | 3.5 | Himanshu Porwal, Seaport Global | Liquidity | Financials | "What is the total liquidity and unutilized facility currently?" | Management confirmed □3,000 Cr in FDs and □2,200 Cr in unutilized CP limits. This provides a clear "survival" buffer against near-term credit tightening. | None | 5.0 | Specific and verifiable |
| 9 | 3.0 | Imtiaz, Barclays | Secured Debt | Financials | "How much of the debt is secured and what assets are pledged?" | 22% of debt is secured (□8,500 Cr NCDs); asset pledge is roughly 1.25x of that. This leaves ~78% of the balance sheet unencumbered for future financing needs if required. | None | 4.0 | Directiona with evidence |
| 10 | 4.0 | Luke Chua, Pictet | Buybacks | Financials | "Will you buy back dollar bonds at a discount | Management stated there are currently no plans for | Why buybacks aren't preferred | 2.0 | Deflected Hedged |

| Q# | Relevance | Analyst / Firm | Theme Cluster | Category | Underlying Concern | Management Response & Investment Implication | Evaded / Not Addressed | Credibility | Verdict |
|---|---|---|---|---|---|---|---|---|---|
| | | | | | since yields are high?" | bond buybacks/ tenders, preferring to focus on scheduled prepayments. This might be seen as a missed opportunity to reduce debt cheaply given market pricing. | over prepayments. | | |
| 11 | 4.0 | Aditya Mongia, Kotak | Leverage Strategy | Management Commentary | "Is the 2.5x leverage target a one-year phenomenon or medium-term?" | Management indicated 2.5x is the current "dashboard" target based on strong cash flows; they will remain dynamic if future growth opportunities arise. This suggests leverage could rise again if M&A markets thaw. | Medium-term commitment. | 3.0 | Vague but consistent |
| 12 | 3.5 | Achal Lohade, JM Financial | Volume Realization | Business Overview | "Why did volume drop 13% QoQ while realizations improved?" | Management attributed volume drops to government export duties on iron ore/ steel and grain bans, which are external "macro" factors. The focus has shifted to maximizing non-JV container yields to offset these volume hits. | Exact volume loss per commodity. | 3.0 | Vague but consistent |
| 13 | 4.5 | | | Governance | | | None | 4.0 | |

| Q# | Relevance | Analyst / Firm | Theme Cluster | Category | Underlying Concern | Management Response & Investment Implication | Evaded / Not Addressed | Credibility | Verdict |
|---|---|---|---|---|---|---|---|---|---|
| | | Parag Jain, HSBC | Promoter Pledge | | "Is there a timeline for unwinding promoter-level pledges?" | Management stated that pledges are already coming down (following a payment made yesterday) and are targeted to go toward zero in FY24. This is a vital signal for group-level credit sentiment. | | | Specific timeline given |
| 14 | 3.0 | Matthew Zheng, PIMCO | Negative Pledge | Governance | "How can you raise more secured debt without violating US bond negative pledges?" | Management clarified that the negative pledge only applies to other *bonds*; bank loans or private placements can still be secured by assets. This reveals a loophole that allows APSEZ to tap secured lending even if bond markets are shut. | None | 4.0 | Directiona with evidence |
| 15 | 3.0 | Yixi Yang, Macquarie | Capex Efficiency | Capex and Allocation | "Why is Capex lower now—is it cheaper or just pushed back?" | Management claims they are completing projects faster/ cheaper and the "tail-end" of current projects requires less capital. This justifies the lower Capex without necessarily signaling a growth slowdown. | None | 3.0 | Vague bu consisten |

**PATTERN FLAGS & SENTIMENT** Analyst questions were dominated by **governance and liquidity** (ICDs, promoter pledges, and debt reconciliation). There was an underlying anxiety about APSEZ being used to support other Adani group entities; management's posture was exceptionally defensive but prepared, with Karan Adani and the CFO providing categorical denials of any inter-corporate leakage. The concern remains "live" until the FY23 audit is released, but the commitment to prepay ₹5,000 Cr and the pledge reduction timeline significantly calmed the room.

**Analyst Sentiment Verdict:** Analysts were generally convinced by the **operational performance** (logistics margins) but remained skeptical about the **debt waterfall**, leading to multiple follow-ups on how ₹6,000 Cr repayment resulted in flat gross debt. Management's credibility was bolstered by the "cash-first" strategy and the refusal to chase ConCor at any cost. The single greatest risk remains the **Forex M2M volatility**, which continues to distort PAT despite the underlying business hitting record EBITDA levels.

**GUIDANCE GAPS REVEALED IN Q&A**

| Topic | What Mgmt Claimed (Opening) | What Q&A Revealed | Gap / Walk-back | Risk to Thesis |
|---|---|---|---|---|
| Capex | Growth targets unchanged | Capex guided lower (₹4k Cr) | Management is prioritizing the balance sheet over expansion for the first time in years. | Low (Good for credit, Neutral for growth). |
| Debt Reduction | ₹5,000 Cr Prepayment | Gross debt remains high due to M2M/Short-term loans | The "reduction" is net of new debt for acquisitions; gross deleveraging is slower than headlines suggest. | Medium (Execution risk). |
| ConCor Bid | Strategically important | Only if leverage < 2.5x | The bid is now conditional; prior quarters suggested it was an absolute priority. | Low (Prudent discipline). |

## 5. WHAT CHANGED vs PRIOR QUARTER

*Note: Comparing Q3 FY23 (current) vs Q3 FY22 context provided.*

| What Changed | Prior Quarter (Q3 FY22) | This Quarter (Q3 FY23) | Direction |
|---|---|---|---|
| **Volume Outlook** | Volatility in coal (9 MMT loss); guidance revised down. | Volatility in commodities; guidance met through realization gains. | ↑ Improving |
| **Strategic Focus** | Aggressive M&A (Gangavaram/ Krishnapatnam integration). | Deleveraging and project completion (Prepaying ₹5,000 Cr). | ↑ Improving (Prudence) |
| **Logistics Margin** | 25% EBITDA Margin. | 29.3% EBITDA Margin. | ↑ Improving |
| **Capital Allocation** | Cash held for ConCor/Growth. | Cash to be used to retire debt. | ↑ Improving (Credit) |
| **Group Risk** | Indonesia coal policy / Market share focus. | Inter-corporate governance / Pledge reduction focus. | ↓ Risk Awareness Up |
| **Myanmar Asset** | Divestment target Dec 2022. | Pushed to Q4 FY23 / Q1 FY24 (Awaiting approvals). | ↓ Delay |
| **Port Realization** | "Stable" (₹457/ton run-rate). | Increased to ~₹515/ton (+13% YoY). | ↑ Improving |
| **Leverage Target** | 3.0x - 3.5x range acceptable. | Explicit target of 2.5x by March 2024. | ↑ Improving |