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

1. VERDICT & BUSINESS QUALITY SNAPSHOT

Result: Strong Beat **One-line:** APSEZ has successfully transitioned from a single-port operator to a diversified "Transport Utility," hitting its deleveraging targets ahead of schedule while capturing massive market share in a buoyant Indian macro environment.

Dimension	This Quarter	Signal / Evidence	Sentiment
Beat/Miss vs Guidance	Strong Beat	Revised FY24 volume guidance upward to >400 MMT (from 370-390 MMT).	□
Earnings Quality	High (Core driven)	EBITDA growth (+39%) mirrors volume growth (+44%); FX impact is now a minor tailwind/headwind vs prior volatility.	□
Guidance Confidence	Strong	9M volume (311 MMT) makes the 400 MMT target easily achievable (needs <90 MMT in Q4).	□
Management Credibility	Strong	Achieved 2.5x Net Debt/EBITDA target early; successfully integrated Karaikal and Haifa without operational hiccups.	□
Business Quality Signal	Improving	Domestic Port EBITDA margins hit 72% (+203 bps YoY), showing extreme operating leverage.	□
Key Q&A Exchange	Q# 11 — Red Sea Disruption	Mgmt confirmed 10% volume exposure to Red Sea but noted no Jan-24 drop yet.	□
The Street's Primary Anxiety	Capital Allocation & Returns	Analysts pressed on buybacks vs dividends given the hitting of leverage targets.	□
Capital Cycle Stage	Growth & Consolidation	Heavy capex in Logistics (Rakes/Warehousing) while harvesting cash from mature Ports.	□
Margin Trajectory	Improving	Concurrent expansion in Port (72%) and Logistics (29%) margins.	□
Pricing Power	Expanding	Realization at Mundra up 10% in 9M FY24 due to mix and pricing.	□
FCF Conversion & Quality	Strong	9M OCF at □11,933 Cr represents ~88% conversion of Consolidated EBITDA.	□
Competitive Moat Signals	Widening	Market share at 26%; Mundra turnaround time (0.7 days) is 3x faster than Indian major ports.	□
Balance Sheet Strength	Strong	Net Debt/EBITDA at 2.5x; Average debt maturity at 5 years.	□
Working Capital Efficiency	Stable	No material divergence noted; OCF remains robust.	□
Mgmt Guidance Track Record	Reliable	Consistent "beat and raise" pattern over the last three quarters.	□
Key Vulnerability	Global Supply Chain	Red Sea-induced container shortages could impact H1 FY25 volumes.	□
Management Tone	Confident/Growth-Oriented	Focused on the "300 rakes by FY28" target and doubling the economy by 2030.	□

Key Takeaways * **Positives:** Volume growth (+44% YoY) is vastly outperforming the Indian port industry (+5-7%). The "parity" strategy (East vs West coast) is realized, with Non-Mundra ports now contributing 56% of volumes. Logistics EBITDA margins (29%) are leading listed peers, and the segment is being positioned as the primary growth engine for the next 5 years. * **Negatives:** International port margins (27%) remain a drag compared to domestic levels (72%), and the ROIC on the Logistics business (6%) is currently subpar compared to the group average. * **The Street's Concern:** Investors remain cautious about the Red Sea impact and the stickiness of coal volumes. Management mitigated this by highlighting the shift to "Coastal Coal" (Atmanirbhar India), which creates a more predictable, domestic-led revenue stream for South Indian ports. * **Forward Watchpoint:** The commissioning of the Vizhinjam Port by FY24-end, which will be India's first transshipment hub, potentially rerouting cargo currently handled in Colombo or Singapore.

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2. BUSINESS PERFORMANCE

2A. KEY METRICS *DATA SOURCE: PPT figures are primary. Concall used for Capex and market share commentary.*

Metric	Current Qtr (Q3)	YoY Change	QoQ Change	Trend	Mgmt Commentary
Cargo Volume (MMT)	108.62	+44%	+7%	↑	Growth led by dry bulk (+65%) and containers (+27%).
Revenue (□Cr)	6,920	+45%	+4%	↑	Driven by volume surge and 10% realization gain at Mundra.
EBITDA (□Cr)	4,186	+39%	+11%	↑	Normalized EBITDA excluding FX gain of □107 Cr.
EBITDA Margin %	60.5%	-300 bps	+200 bps	↑	Consolidated margin slightly diluted by Haifa (lower margin).
Domestic Port Margin %	71%	+170 bps	→	→	Sustained high efficiency; TAT at 0.7 days.
Logistics Margin %	28%	+100 bps	-100 bps	→	Scale benefits in rakes; offset by warehousing ramp-up.
PAT (□Cr)	2,208	+65%	+25%	↑	Higher operational profits and lower FX losses YoY.
ROCE (%)	14%	+200 bps	+100 bps	↑	H1 FY24 annualized; driven by matured port utilization.
Cash Flow (OCF)	11,933	+113%	N/A	↑	9M figure; reflects high quality of earnings/ collections.
Net Debt (□Cr)	37,907	-5.2%	-5.2%	↑	Deleveraging target achieved (2.5x Net Debt/ EBITDA).
Interest Coverage (x)	6.0	+5%	+5%	↑	Strong FFO; debt maturity profile is comfortable.
Working Capital (9M)	Stable	→	→	→	No forensic triggers in DSO; OCF/EBITDA ~88%.

2B. SEGMENT BREAKDOWN

Segment	Revenue (□ Cr)	YoY Growth	Margin	Trend	vs Co. Avg	Key Development
Domestic Ports	5,535	+41%	71%	↑	Higher	Mundra record 16 MMT in Oct; Krishnapatnam realization up.
Logistics	521	+17%	28%	↑	Lower	Added 23 rakes in 9M; Rail volumes +17% YoY.
International	590	N/A	27%	→	Lower	Haifa steady at 3 MMT/qtr; margin drag from manpower.
SEZ & Port Dev.	274	-18%	10%	↓	Lower	Land lease timing-related volatility.

3. MANAGEMENT OUTLOOK & EXECUTION TRACKER

Dimension	Category	Management Target / Claim	Required Run-Rate / Feasibility	Historical Delivery	Risk Flag
Guidance	Volume	>400 MMT (FY24)	Needs 89 MMT in Q4; Q3 was 109 MMT.	Over-delivered	Low
Guidance	Revenue	~□25,000 Cr	Needs ~□5,186 Cr in Q4; 9M at □19,814 Cr.	On track	Low
Guidance	EBITDA	~□15,000 Cr	Needs ~□3,180 Cr in Q4; 9M at □11,820 Cr.	On track	Low
Guidance	Capex	~□7,000-7,500 Cr	9M at □5,500 Cr; implies □2k Cr Q4 spend.	Consistent	Medium
Strategy	Leverage	2.5x Net Debt/EBITDA	Achieved 2.5x in Dec-23 (3 months early).	Met	Low
Strategy	Rake Count	300 Rakes by FY28	Currently 116; needs ~45 additions annually.	Accelerating	Execution
Macro	Red Sea Impact	10% exposure	No Jan-24 drop; monitoring container supply.	N/A	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	Bharani V. / Avendus	Demand Drivers	Business Overview	"What are the key drivers driving the phenomenal cargo growth... for coal, containers, gas and liquid?"	Management cited a strong capex cycle, high power consumption, and manufacturing growth as the structural tailwinds. Sustained volume growth is now decoupled from global trade and linked to India's domestic infrastructure cycle.	None	4.0	Directional with evidence
2	3.5	Bharani V. / Avendus	Haifa Financials	Financials	"Can we have the absolute number in terms of revenue, EBITDA and PAT for [Haifa] this quarter?"	Management stated they are only reporting international operations on a consolidated basis for now, with full year results providing more color. This suggests Haifa's profitability is still in a ramp-up phase and not yet ready for standalone scrutiny.	Standalone PAT for Haifa	2.0	Deflected — key signal
3	4.5	Parash Jain / HSBC	Capital Allocation	Capex and Allocation	"How should we think about capital structure... or are you ready to drive net debt-to-EBITDA	Management confirmed 2.5x as the long-term milestone they would look to maintain, with excess cash	None	4.0	Clear and quantified

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					to even lower level?"	used for growth or debt maintenance. This signals a halt to aggressive deleveraging in favor of growth-oriented capex or shareholder returns.			
4	4.0	Pulkit Patni / Goldman Sachs	New Leadership	Management Commentary	"What are going to be your key target for the port company over the next few years... area of efficiency etc.?"	CEO Ashwani Gupta emphasized supply chain efficiency and last-mile connectivity using technology platforms to maximize ROI. This indicates a pivot toward "Digital Logistics" as a core differentiator versus traditional port operators.	None	3.0	Vague but consistent
5	4.5	Pulkit Patni / Goldman Sachs	Coastal Coal	Business Overview	"How big this opportunity [coastal coal shipping] could be... plans in domestic coastal transportation?"	Management expects coastal exports of 5-6 MMT and receipts of 8-10 MMT next year, driven by Odisha coal moving to South India power plants. Coastal coal is a high-margin, sticky revenue	None	5.0	Specific timeline given

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						stream that offsets the volatility of imported thermal coal.			
6	3.0	Nikhil Nigania / Bernstein	Tajpur Port	Management Commentary	"Any developments or updates on [Tajpur Port]?"	Management is waiting for the West Bengal government to issue the Letter of Award (LOA) after receiving the LOI. This project remains a potential long-term volume driver but is currently stalled by state-level bureaucracy.	None	3.0	Vague but consistent
7	4.0	Achal Lohade / JM Financial	Coal Margins	Financials	"The handling of the coal cargo, is it margin dilutive, margin accretive or it's a similar margin?"	Management confirmed coal margins remain healthy at 68% to 72% depending on the port. This alleviates fears that the shift toward coal-led growth would compress the overall 70%+ domestic port margin profile.	None	5.0	Clear and quantified
8	4.0	Achal Lohade / JM Financial	Logistics Strategy	Business Overview	"What is the market share... and how do you see it evolving over the next, let's say, 2 or 3 years?"	Current EXIM market share is 12%, with a target to reach 300 rakes by FY28 across GPWIS and containers. Massive	None	4.0	Directional with evidence

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						investment in the "bulk logistics" (GPWIS) segment is the primary engine to hit the ₹5,000 Cr+ Logistics EBITDA target by FY28.			
9	3.5	Atul Tiwari / Citi	Shareholder Returns	Capex and Allocation	"Would you kind of look to return back some capital through buybacks... now that you have achieved your targeted leverage?"	Management will stick to the existing policy of 20-25% of PAT as dividends, choosing the most tax-efficient route. This effectively rules out special buybacks in the near term, prioritizing growth capex and regular dividends.	None	4.0	Directional with evidence
10	4.0	Priyankar / BNP Paribas	Logistics Margins	Financials	"What is the outlook for [AALL] segment... in a 2-, 3-year horizon?"	Management expects overall Logistics margins to move toward 50% as silo capacity hits 4 MMT and asset utilization stabilizes. A 2,000+ bps margin expansion target in 3 years is highly ambitious and suggests a shift toward	None	3.0	Vague but consistent

Q#	Relevance	Analyst / Firm	Theme Cluster	Category	Underlying Concern	Management Response & Investment Implication	Evaded / Not Addressed	Credibility	Verdict
						higher-margin agri-silo business.			
11	4.5	Alok Deora / Motilal	Red Sea Risk	Management Commentary	"How much volumes could be impacted in the worst-case scenario [from Red Sea]?"	Roughly 10% of total container volume moves through the Red Sea; management warned that prolonged disruption could lead to container shortages. This is the primary risk factor for Q1 FY25 container volume growth.	Exact volume loss estimate	3.0	Follow-up forced clarity

PATTERN FLAGS & SENTIMENT * **The Transition to Logistics:** A clear pattern of questions centered on the ROIC and margin profile of the Logistics business. Management is aggressively pitching the "300 rakes" and "agri-silo" story to move investor focus from the mature port business to the high-growth logistics arm. □□□□□□□□ 29% margins (vs 18% historically) has significantly improved credibility here. * **Capital Allocation Pivot:** With the 2.5x leverage target met, the anxiety shifted from "debt repayment" to "where does the cash go?" Management's firm stance on the 20-25% dividend policy suggests they are not yet ready to return excess cash but will instead deploy it into the aggressive rake and warehouse build-out. * **Haifa Transparency:** Analysts are still somewhat skeptical about Haifa's financials, evidenced by the push for absolute numbers. Management's deflection to "year-end reporting" keeps this as a minor transparency overhang for the next quarter.

Analyst Sentiment Verdict: Highly Positive. Skepticism regarding the Hindenburg-era "contagion risk" has almost entirely vanished, replaced by operational questions on coal mix and logistics scale. Credibility has peaked this quarter due to hitting leverage targets early and raising guidance simultaneously.

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5. WHAT CHANGED vs PRIOR QUARTER

vs Prior Quarter summary (Q1 FY24 baseline)

What Changed	Prior Quarter	This Quarter	Direction
Volume Guidance	370 - 390 MMT	> 400 MMT	↑
Leverage Status	Tracking toward 2.5x (Net D/E)	Achieved 2.5x	↑
Port Margins	70%	71% - 72%	↑
Logistics Volume	131k TEU (Rail)	158k TEU (Rail)	↑
Red Sea Risk	Not discussed	10% volume exposure identified	↓
Credit Outlook	Negative (S&P)	Revised to "Stable"	↑
Logistics ROIC	6%	Targeting co. average in 3 yrs	↑
Haifa Union Status	Negotiations ongoing	Volume steady; integration complete	→

STOP HERE.