

## 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 ₹1,933 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.

## 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 ₹07 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 ₹9,814 Cr.     | On track            | Low       |
| Guidance  | EBITDA         | ~₹15,000 Cr               | Needs ~₹3,180 Cr in Q4; 9M at ₹1,820 Cr.     | On track            | Low       |
| Guidance  | Capex          | ~₹4,000-7,500 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

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| 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 |

| Q# | Relevance | Analyst / Firm          | Theme Cluster       | Category             | Underlying Concern                                                                                                          | Management Response & Investment Implication                                                                                                                                                                                      | Evaded / Not Addressed | Credibility | Verdict                   |
|----|-----------|-------------------------|---------------------|----------------------|-----------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------|-------------|---------------------------|
|    |           |                         |                     |                      |                                                                                                                             | 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.

## 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.**