Adani Ports & Special Economic Zone Ltd — May 2023 Quarterly Analysis

1. VERDICT & BUSINESS QUALITY SNAPSHOT

Result: Beat on Financials / Inline on Operations **One-line:** APSEZ is successfully transitioning from a high-growth "aggregator" to a "harvesting" utility, using record cash flows to aggressively deleverage (targeting 2.5x Net Debt/EBITDA) while proving its pricing power through tariff hikes.

Dimension	This Quarter	Signal / Evidence	Sentiment
Beat/Miss vs Guidance / Prior Quarter	Strong Beat	FY23 Revenue (□20,852 Cr) and EBITDA (□12,833 Cr) both exceeded the top end of prior guidance.	□
Earnings Quality	High (Core driven)	CFO-to-PAT ratio exceeds 1.6x; growth driven by a 13% yield improvement in port operations.	□
Guidance Confidence	Strong	FY24 EBITDA guidance (□14.5k-15k Cr) implies ~15% growth, supported by Haifa/Karaikal consolidation.	□
Management Credibility	Strong	Delivered on Myanmar exit, pledge reduction (17% to 4%), and hit the upper end of growth targets.	□
Business Quality Signal	Improving	Logistics margins hit 28%; Mundra maintains 70% port margins despite macro headwinds.	□
Key Q&A Exchange	Q# 3 - Related Party / Auditor Qual	Mgmt defended EPC contractor "Howe" as non-related; auditor qualification remains a watchpoint.	□
The Street's Primary Anxiety	Debt & Group Contagion	Analysts pressed on bond buybacks and leverage; Mgmt committed to 2.5x Net Debt/EBITDA.	□
Capital Cycle Stage	Harvesting / Consolidation	Organic capex is moderating; focus shifted to debt retirement and sweating acquired assets.	□
Margin / Return Ratio Trajectory	Stable	Port EBITDA margins held at 70%; Logistics margins reaching structural highs.	□
Pricing Power	Expanding	3-4% tariff hike implemented for FY24; realization-led growth outpaced volume growth.	□
FCF Conversion & Quality	Strong	Transformation of EBITDA to OCF is >70%; Capex guidance remains disciplined (□4k-4.5k Cr).	□
Competitive Moat Signals	Widening	Market share in containers rose to 42.5% (Domestic); TAT at 0.7 days vs 2 days for major ports.	□
Balance Sheet Strength	Adequate	Net Debt/EBITDA at 3.1x; Cash of □9,819 Cr (as per balance sheet breakdown).	□
Working Capital Efficiency	Stable	Gross debt to fixed asset ratio improved from 80% (FY19) to 59% (FY23).	□
Mgmt Guidance Track Record	Reliable	Consistently meets or exceeds annual volume and financial guidance.	□
Key Vulnerability / Red Flag	Auditor Qualification	Qualification regarding transactions with "Howe" suggests lingering governance scrutiny.	□
Management Tone	Disciplined & Defensive	Highly focused on deleveraging, balance sheet health, and decoupling from group risks.	□

Sentiment: □Positive

Key Takeaways (Positives & Negatives):

Positives: * **Financial Outperformance:** APSEZ delivered its strongest-ever year, with revenue (+22%) and EBITDA (+21%) beating guidance despite a complex macro environment. * **Pricing Power:** Port realization grew 13% YoY, proving APSEZ can raise tariffs (3-4% scheduled for FY24) to offset volume volatility. * **Logistics Scalability:** The logistics segment is now a major profit engine, with EBITDA margins expanding to 28% and volume growth (Bulk +63%, Rail +24%) significantly outpacing ports. * **Deleveraging Commitment:** Management's shift to a 2.5x Net Debt/EBITDA target by Mar-24, backed by a ₹5/share dividend and bond buybacks, addresses the primary long-term investor concern. * **Asset Clean-up:** Finalized the sale of the Myanmar asset and received $30m consideration, removing a major ESG and operational overhang.

Negatives: * **Auditor Qualification:** The qualification regarding the EPC contractor "Howe" keeps governance risks on the table, as the auditor awaits SEBI/Supreme Court findings. * **Volume Guidance:** FY24 volume guidance (370-390 MMT) includes ~10 MMT from the newly acquired Karaikal port, implying a slightly more moderate organic growth rate than prior years. * **Forex Headwinds:** Despite "natural hedges," FX losses impacted PAT, and the company is now designating bonds against future revenue to move MTM losses to OCI.

Forward Watchpoint: Monitoring the "Net Debt/EBITDA" trajectory; if management can reach 2.5x while sustaining 15%+ EBITDA growth, the stock is likely to undergo a significant valuation re-rating as group-risk premiums fade.

---

2. BUSINESS PERFORMANCE

2A. KEY METRICS

DATA SOURCE: PPT figures used as primary source. Concall used for Mgmt Commentary and granular breakdowns.

Metric	Current Qtr (Q4 FY23)	YoY Change (Q4)	QoQ Change	Trend	Mgmt Commentary
Total Income (□ Cr)	6,179.12	↑ 30.4%	↑ 22.3%	↑	Growth driven by Haifa consolidation and strong realization gains.
EBITDA (□Cr)	3,271	↑ 26.7%	↑ 8.6%	↑	Port EBITDA □3,066 Cr; Logistics □137 Cr.
EBITDA Margin %	56.4%	↓ 5.8%	↓ 7.4%	↓	Consolidated margin impacted by lower-margin Haifa operations and opex.
Port EBITDA Margin	70%	↑ 100 bps	→	→	Maintained 70% despite higher fuel costs and employee costs at new ports.
Logistics Margin %	25%	↓ 400 bps	↓ 430 bps	↓	Q4 margin lower due to business mix; full-year margin was record 28%.
PAT (□Cr)	1,158.89	↑ 5.1%	↓ 11.9%	↓	Impacted by □1,273 Cr write-off on Myanmar asset sale.
Volume (MMT)	86.29	↑ 10.5%	↑ 11.8%	↑	Includes first full quarter of Haifa contribution.
Net Debt (□Cr)	39,989	↑ 26.3%	↓ 9.1%	↓	Net Debt reduced QoQ (from ~□44k Cr) as cash flows were used for debt.
Net Debt / EBITDA	3.1x	↑ 0.1x	↓ 0.2x	→	Targeting 2.5x by March 2024 via scheduled repayments.
Cash Balance (□Cr)	9,819	↑ 204%	↑ 227%	↑	Cash includes bank deposits and liquid investments for debt retirement.
Interest Coverage (x)	3.6x	↑ 0.1x	Not stated	↑	Improved FFO interest coverage; well within IG rating requirements.
ROCE (Mundra)	20%	↑ 100 bps	N/A	↑	Mundra ROCE remains the gold standard; Logistics ROCE doubled in FY23.

2B. SEGMENT BREAKDOWN

Segment	Revenue (□ Cr)	YoY Growth	Margin	Trend	vs Co. Avg	Key Development
Ports (Domestic)	17,304	↑ 22%	70%	→	Higher	Realization up 13% YoY; Container market share up to 42.5%.
Logistics	1,744	↑ 44%	28%	↑	Lower	93 trains operational; Rail volumes up 24% to 0.5M TEUs.
Haifa (Int'l)	557	New	Not stated	New	Lower	Port consolidation started in Q4; cargo handled: 2.6 MMT (FY23).
SEZ & Port Dev	1,308	Not stated	49%	→	Lower	Guidance lowered to □500 Cr for FY24 (conservative stance).

3. MANAGEMENT OUTLOOK & EXECUTION TRACKER

Dimension	Category	Management Target / Claim	Required Run-Rate / Mathematical Feasibility	Historical Delivery (Last Q Promise)	Risk Flag
Guidance	Revenue	□24,000–25,000 Cr	Needs 15-20% growth; Haifa/ Karaikal add □2.5k Cr.	**Delivered** (FY23 Beat)	Low
Guidance	EBITDA	□14,500–15,000 Cr	Needs □3,600+ Cr per quarter; feasible.	**Delivered** (FY23 Beat)	Low
Guidance	Volume / Capacity	370–390 MMT (FY24)	Requires ~10% organic growth.	**Delivered** (339 MMT in FY23)	Medium
Guidance	Capex Plan	□4,000–4,500 Cr	Massive drop from FY23 (□9,000 Cr).	**Revised Down** (Strategy pivot)	Low
Strategy	Capital Allocation	Prioritize deleveraging	Target 2.5x Net Debt/EBITDA.	**In Progress** (Pledge down)	Low
Strategy	Asset Monetization	Myanmar Exit	$30m received; deal completed.	**Delivered** (Post-delay)	Low
Balance	Debt / Leverage Target	Net Debt/EBITDA ~2.5x	Requires □4,000-5,000 Cr reduction.	**New Target** (Dashboard focus)	Low

4. ANALYST Q&A

Q#	Relevance (1–5)	Analyst / Firm	Theme Cluster	Category	Underlying Concern	Management Response & Investment Implication	Evaded / Not Addressed	Credibility (1–5)	Verdict
1	4.0	Mohit Kumar, ICICI Sec	Volume Guidance	Management Commentary	"Are you baking in Karaikal volumes in the guidance, and have you taken tariff hikes?"	Management confirmed Karaikal (8-12 MMT) is included and a 3-4% tariff hike is being implemented across ports. This implies pricing power remains the primary driver to offset global macro-economic volume volatility.	None	5.0	Clear and quantified
2	4.5	Abhiram Iyer, Deutsche Bank	Auditor Qualification	Governance	"Know who the contractor [in the qualified opinion] is and is this a related party?"	Management identified the contractor as 'Howe Engineering' and categorically denied related-party status, citing a decade-long relationship. The auditor's qualification persists pending SEBI/ Supreme Court findings, maintaining a governance overhang on the credit profile.	None	4.0	Directiona with evidence
3	4.0	Abhiram Iyer, Deutsche Bank	Growth vs Leverage	Capex and Allocation	"Will investments in Vietnam elevate leverage back to 3.5x?"	Management reiterated the 2.5x leverage target and clarified that Vietnam is in "work in progress" with no immediate capex impact in FY24. This	Exact Vietnam investment size.	3.0	Vague bu consisten

Q#	Relevance (1–5)	Analyst / Firm	Theme Cluster	Category	Underlying Concern	Management Response & Investment Implication	Evaded / Not Addressed	Credibility (1–5)	Verdict
						signals a transition from "growth at all costs" to balance sheet protection.			
4	3.5	Abhishek Nigam, B&K Sec	Demand Trends	Business Overview	"How do you see FY24 evolving given the overwhelming sentiment of weak recovery?"	Management expects 7-7.5% pan-India trade growth and aims for 10-12% APSEZ growth by gaining market share. This targets a 1.5x outperformance of the national GDP-trade multiplier, reinforcing their competitive moat.	None	4.0	Directiona with evidence
5	4.0	Abhishek Nigam, B&K Sec	Dhamra LNG	Business Overview	"What is happening with the Dhamra LNG terminal ramp-up?"	Management expects 2.5 MMT volume in FY24, scaling to 4.5 MMT in FY25, backed by take-or-pay contracts with IOCL and GAIL. This provides high-visibility, annuity-like revenue that de-risks the merchant port business.	None	5.0	Clear and quantified
6	4.5	Asmeeta Sidhu, MetLife	Share Pledges	Governance	"What is the timeline for reducing remaining share pledges to zero?"	Management noted pledges have already dropped from 17% to 4% and will reach zero within a year. This is a critical liquidity signal intended to decouple the	Exact month of zero-pledge.	4.0	Specific timeline given

Q#	Relevance (1–5)	Analyst / Firm	Theme Cluster	Category	Underlying Concern	Management Response & Investment Implication	Evaded / Not Addressed	Credibility (1–5)	Verdict
						operating company from promoter-level financing pressures.			
7	3.5	Achal Lohade, JM Financial	Commodity Mix	Business Overview	"How do you see coal growth specifically playing out?"	Management anticipates 14-15% growth in domestic coastal coal and 7-8% in imported coal, with coking coal growing at 15-18%. This shows that despite "green" headlines, thermal and coking coal remain the backbone of the volume engine.	None	4.0	Directiona with evidence
8	4.0	Vikram Suryavanshi, PhillipCap	Logistics Strategy	Management Commentary	"Why such aggressive train additions (24 trains) during a slowdown?"	Management explained the additions serve new MMLPs and focus on road-to-rail conversion where they currently operate at 95% utilization. This highlights that logistics growth is capacity-constrained, not demand-constrained, justifying the aggressive FY24 fleet expansion.	None	5.0	Clear and quantified
9	4.0	Himanshu Porwal, Seaport Global	Liquidity	Financials	"What is your current liquidity and do you have any	Management confirmed □9,800 Cr in cash/ investments and stated they	None	5.0	Specific and verifiable

Q#	Relevance (1–5)	Analyst / Firm	Theme Cluster	Category	Underlying Concern	Management Response & Investment Implication	Evaded / Not Addressed	Credibility (1–5)	Verdict
					fundraising plans?"	have no requirement for fresh fundraises as they focus on deleveraging. This "fortress balance sheet" posture is a direct response to credit market skepticism post-January.			
10	3.5	Abhishek Nigam, B&K Sec	ConCor Strategy	Capex and Allocation	"Are you still interested in the ConCor divestment?"	Management stated they will evaluate it only if the Net Debt/ EBITDA remains below the 2.5x threshold. This is a significant walk-back from prior quarters where ConCor was an absolute priority, showing a new fiscal discipline.	None	3.0	Deflected — key signal
11	3.0	Nikhil, Bernstein	Project Timelines	Business Overview	"What is the update on Vizhinjam and Sri Lanka terminals?"	Vizhinjam is expected to berth the first vessel in Oct '23 and be fully commissioned by May '24; Colombo Phase I is due by Dec '24. These transshipment hubs are the primary drivers for the "500 MMT by 2025" target.	None	5.0	Clear and quantified

PATTERN FLAGS & SENTIMENT

The analyst Q&A was characterized by a pivot from "macro-volume" concerns to **"micro-governance and liquidity"** concerns. Multiple analysts probed the auditor's qualification regarding "Howe Engineering," reflecting the market's underlying anxiety about related-party leakage. Management's posture was exceptionally firm, providing specific names and history to distance the transactions from the promoter group. The concern remains "live" due to the ongoing regulatory investigations, but management's transparency in the call likely provided a temporary floor to sentiment.

Analyst Sentiment Verdict: The room was skeptical but respectful, with intense focus on the **pledge reduction and the auditor's note**. Management's credibility improved as they provided concrete proof of deleveraging (Net Debt/EBITDA at 3.1x vs guidance) and the completion of the Myanmar sale. The single greatest unresolved risk is the **outcome of the SEBI/SC investigation** mentioned in the auditor's qualification, which continues to prevent a full valuation re-rating despite the core business outperforming on every financial metric.

GUIDANCE GAPS REVEALED IN Q&A

Topic	What Mgmt Claimed (Opening)	What Q&A Revealed	Gap / Walk-back	Risk to Thesis
ConCor Bid	Strategically vital asset.	Only if leverage stays < 2.5x.	Growth via ConCor is now secondary to balance sheet health.	Low (Prudent)
SEZ Revenue	Historically ₹800-1,000 Cr.	Guided to only ₹500 Cr.	Management is being extremely conservative on land sales to avoid chunky volatility.	Low (Conservative)
Vietnam Port	"Expanding the footprint."	"No immediate capex in FY24."	International growth is being slowed down to prioritize domestic deleveraging.	Neutral

---

5. WHAT CHANGED vs PRIOR QUARTER

What Changed	Prior Quarter (Q3 FY23)	This Quarter (Q4 FY23)	Direction
Leverage Focus	3.0x Net Debt/EBITDA.	Explicit 2.5x target for FY24.	↑ Improving (Credit)
Share Pledges	17% of promoter stake.	4% of promoter stake.	↑ Improving
Myanmar Asset	Sale in progress (Overhang).	Sale completed; $30m received.	↑ De-risked
Organic Capex	High growth run-rate.	Guidance cut to ₹4,000-4,500 Cr.	↓ Conservative
Auditor Posture	No specific qualification.	Qualification on EPC contractor.	↓ Governance Risk
M&A Environment	Aggressive (Haifa/Karaikal).	Pause/Evaluating (ConCor conditional).	→ Stabilization
Logistics Margin	29.3% (Q3 run-rate).	28.0% (FY23 actual).	→ Sustainable
Port Realization	₹515/ton (Calculated).	~₹530/ton (Implying 3-4% hike).	↑ Improving (Pricing)