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

1. VERDICT & BUSINESS QUALITY SNAPSHOT

Result: Strong Beat **One-line:** APSEZ is successfully decoupling its fundamental performance from group-level sentiment, delivering record volumes and margin expansion while securing high-quality international validation via the U.S. DFC funding.

Dimension	This Quarter	Signal / Evidence	Sentiment
Beat/Miss vs Guidance	Strong Beat	H1 volume (203 MMT) is 53% of FY24 upper-end guidance; Oct volume (37 MMT) implies an exit run-rate >440 MMT.	□
Earnings Quality	High (Core driven)	EBITDA grew 49% YoY; underlying Port EBITDA margins reached a global best-in-class 72%.	□
Guidance Confidence	Strong	Management expects to hit the "higher end" of FY24 revenue and EBITDA targets.	□
Management Credibility	Strong	Executed promised bond buybacks ($325M total) and improved Net Debt/EBITDA to 2.8x.	□
Business Quality Signal	Improving	Transshipment (Vizhinjam) and International (Haifa/Colombo) assets are derisking the India-only profile.	□
Key Q&A Exchange	Q# 1 — Haifa Conflict	Mgmt confirmed October volume of 1.1 MMT at Haifa, proving no impact from current tensions.	□
The Street's Primary Anxiety	Contagion & Capital Access	Resolved via $553M DFC loan for Colombo—a massive "seal of approval" from a US Govt agency.	□
Capital Cycle Stage	Harvesting / Strategic Expansion	Strong OCF (□11,933 Cr in H1) funding both debt reduction and high-IRR international growth.	□
Margin / Return Ratio Trajectory	Improving	Logistics ROCE doubled vs FY22; mature ports hitting ~20% ROCE.	□
Pricing Power	Expanding	Port realizations improved 13% YoY at Mundra, driven by cargo mix and pricing strategy.	□
FCF Conversion & Quality	Strong	CFO-to-PAT ratio is ~3.0x in H1, though distorted by non-cash MAT write-off and tax timing.	□
Competitive Moat Signals	Widening	TAT at 0.7 days vs Indian average of 2 days; market share at 26% (+200bps YoY).	□
Balance Sheet Strength	Strong	Cash balance remains robust; Net Debt/EBITDA tracking to 2.5x target for Mar-24.	□
Working Capital Efficiency	Stable	Inventory and receivables remain under control despite international expansion.	□
Mgmt Guidance Track Record	Reliable	Consistent outperformance on volume growth versus national benchmarks (3x industry growth).	□
Key Vulnerability	Geopolitical Tensions	Potential long-term risk to Israel/Red Sea trade routes, though currently unreflected in data.	□
Management Tone	Disciplined & Strategic	Focus on "non-recourse" funding and "asset-sweating" efficiency.	□

Sentiment: □Positive | □Negative | □Neutral

Key Takeaways (Positives & Negatives): * **Positives:** Volume growth (14% YoY) is significantly outpacing the Indian market (4%); the logistics segment is scaling rapidly with 25% rail volume growth and 29% margins; the $553M DFC loan for Colombo serves as a major geopolitical and financial de-risking event. * **Negatives:** The sale of the Myanmar asset at a significantly reduced price ($30M vs $260M) and the associated □155 Cr impairment; a one-time □455 Cr MAT write-off due to switching to the new tax regime (though non-cash and cash-accretive long-term). * **The Street's Concern:** Analysts remain focused on Haifa's exposure to the Middle East conflict. Management neutralized this by revealing that October was a normal-volume month (1.1 MMT) and that Haifa is actually benefiting from cargo diversions from the closed Ashdod port. * **Forward Watchpoint:** The commissioning of Phase 1 of the Colombo West International Terminal by December 2024, which will provide a major non-Indian revenue stream with high structural protection.

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2. BUSINESS PERFORMANCE

2A. KEY METRICS (H1 FY24)

DATA SOURCE: PPT figures primary. Concall used for Mgmt Commentary.

Metric	Current Qtr (H1)	YoY Change	QoQ Change	Trend	Mgmt Commentary
Cargo Volume (MMT)	203	+14%	First entry	↑	Growth across all categories: Container (+18%), Liquids (+21%), Dry (+10%).
Revenue (□Cr)	12,894	+26%	First entry	↑	Driven by volume growth and improved realization (up 13% at Mundra).
EBITDA (□Cr)	7,634	+49%	First entry	↑	Excludes FX loss of □206 Cr.
EBITDA Margin %	59.2%	+200 bps	First entry	↑	Consolidated margin impacted by lower-margin international mix but core ports up.
Port EBITDA Margin %	72%	+220 bps	First entry	↑	Operational excellence and cost efficiency at domestic ports.
Logistics Margin %	29%	→	First entry	→	Best-in-class efficiency despite aggressive asset addition (11 rakes added).
PAT (□Cr)	3,881	+33%	First entry	↑	Impacted by one-time □455 Cr MAT write-off.
ROCE (%)	12% - 33%	+200 bps avg	First entry	↑	Varies by port; mature ports (Mundra/Hazira) at 20-33%.
Cash Flow (OCF) (□Cr)	11,933	+112%	First entry	↑	Massive conversion efficiency; used for debt repayment.
Net Debt / EBITDA	2.8x	↓	First entry	↑	Improved from 3.1x in Mar-23.
Rail Volume (TEUs)	279,177	+25%	First entry	↑	Increased market share in hinterland transport.
Bulk Rail (MMT)	8.92	+42%	First entry	↑	Driven by GPWIS wagon scheme growth.

2B. SEGMENT BREAKDOWN (H1 FY24)

Segment	Revenue (□ Cr)	YoY Growth	Margin	Trend	vs Co. Avg	Key Development
Domestic Ports	9,963	+11%	72%	↑	Higher	Krishnapatnam EBITDA margin expanded to 73%.
Logistics	1,566	+34%	29%	→	Lower	Total rakes reached 104; 2.4 mn sq ft warehouse capacity.
International Ports	Not split*	N/A	27%-30%	→	Lower	Haifa handled 6.3 MMT in H1.
SEZ & Port Dev.	Not split*	N/A	11%	↓	Lower	Transaction-based revenue, inherently lumpy.

**Note: PPT provides specific port-level revenue for Mundra (2,956 Cr) and Krishnapatnam (1,506 Cr) but lacks a full segmental consolidated revenue table for all minor segments.*

3. MANAGEMENT OUTLOOK & EXECUTION TRACKER

Dimension	Category	Management Target / Claim	Required Run-Rate / Mathematical Feasibility	Historical Delivery	Risk Flag
Guidance	Volume	370 - 390 MMT	Needs 83-93 MMT/qtr for H2. Oct did 37 MMT; highly feasible.	Met H1 targets	Low
Guidance	Leverage	2.5x Net Debt/EBITDA	Needs further EBITDA growth and □1,500-2,000 Cr debt reduction.	Improved to 2.8x	Low
Guidance	Capex	□4,000 - □4,500 Cr	Spent □3,800 Cr (Gross) in H1. On track.	On track	Low
Strategy	Int'l Strategy	Hub-and-spoke in high-growth nations (Vietnam, E. Africa).	Opportunistic; requires local partners.	Delivered Haifa	Execution
Strategy	Renewables	100% RE by 2025	250MW plant under construction.	15% currently	Execution
Balance	Debt Repayment	Repay □5,000 Cr in FY24	□3,200 Cr bond buybacks done.	On track	Low

4. ANALYST Q&A

Q#	Relevance	Analyst / Firm	Theme Cluster	Category	Underlying Concern	Management Response & Investment Implication	Evaded / Not Addressed	Credibility	Verdict
1	5.0	Imtiaz Shefuddin / Barclays	Haifa Operations	Business Overview	"Would you be able to provide an update on your Haifa operations post... any impact from the ongoing tensions in the Middle East?"	Management confirmed Haifa is currently seeing a diversion of traffic from the closed Ashdod port, resulting in 1.1 MMT volume in October. This eliminates near-term revenue concerns regarding the Israel conflict and highlights the asset's strategic location.	None	5.0	Specific and quantified
2	4.5	Abhiram Iyer / Deutsche Bank	Colombo Funding	Capex and Allocation	"What's the time line for these [Colombo]? How are you sort of putting in capex for these...?"	Phase 1 of the Colombo project is expected to operationalize by December 2024, supported by $553M in non-recourse project financing. The US-government funding (DFC) acts as a significant geopolitical de-risking signal for the entire group.	None	5.0	Clear and quantified
3	4.0	Priyankar Biswas / BNP Paribas	IMEC Strategy	Management Commentary	"Would that [IMEC] change Haifa's potential than what you had said probably during the acquisition...?"	Management believes the IMEC corridor will be a "game changer" by reducing transit times/costs, although not currently built into their base case. This	None	4.0	Directional with evidence

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						represents a massive optionality "free call" on the Haifa asset valuation long-term.			
4	3.5	Priyankar Biswas / BNP Paribas	Coal Dynamics	Business Overview	"Can you just throw some light on the competitive dynamics... especially East on the coal."	APSEZ is gaining volume via the Rail-Sea-Rail (RSR) route from Mahanadi Coalfields, adding 2.5 MMT at Gangavaram and 1.5 MMT at Krishnapatnam. This demonstrates APSEZ's ability to take market share from traditional major ports like Paradip.	None	4.0	Directional with evidence
5	4.0	Asmeeta Sidhu / MetLife	Tax Regime	Financials	"Could I just have any clarification on what this tax regime is and why the subsidiary has decided to change...?"	The switch to the 25% regime for Krishnapatnam (AKPL) caused a 455 Cr MAT write-off but will result in structurally higher FCF over the asset's life. This trade-off prioritized long-term cash generation over short-term accounting profits.	None	5.0	Specific and quantified
6	3.0	Mohit Kumar / ICICI Sec	Rake Addition	Business Overview	"How much rakes... you are looking to add in FY '24 and FY '25?"	APSEZ will reach 128 rakes by the end of FY24 (up from 104 in H1), but	None	4.0	Specific timeline given

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						addition will slow to only 3-4 rakes in FY25. This suggests the logistics segment is moving from a high-investment phase to a high-utilization/ sweating phase.			
7	4.0	Aditya Mongia / Kotak	Inorganic Growth	Capex and Allocation	"Could we expect the next few years to also have an inorganic component of, let's say, 4% to 5% of growth?"	Management is prioritizing brownfield expansion of existing ports (at 30-40% of greenfield cost) over expensive privatization bids. This signals a more disciplined, high-ROCE approach to capital allocation going forward.	Specific FY25 guidance	3.0	Vague but consistent
8	4.5	Sharon Chen / Bloomberg	Debt Recourse	Financials	"Just to confirm the loan that you got from DFC that's presumably nonrecourse to Adani ports?"	Management explicitly confirmed the $553M Colombo loan is non-recourse to the parent APSEZ. This protects the company's credit profile from international project risks and validates their ability to secure isolated financing.	None	5.0	Clear and quantified
9	3.5	Aditya Mongia / Kotak	Dighi Strategy	Business Overview	"Do you believe you may need to	Dighi is viewed as a long-term (10-20 year)	None	3.0	Vague but consistent

Q#	Relevance	Analyst / Firm	Theme Cluster	Category	Underlying Concern	Management Response & Investment Implication	Evaded / Not Addressed	Credibility	Verdict
					add more asset... to become more relevant in Maharashtra?"	alternative gateway to JNPT, with current focus on building rail connectivity and industrial parks. Investors should view Dighi as a long-duration call option rather than an immediate EBITDA driver.			

PATTERN FLAGS & SENTIMENT * **Theme: International De-risking.** Analysts were heavily focused on Haifa (geopolitical risk) and Colombo (funding). Management's posture was highly confident, using the DFC loan and October volume data to neutralize the "group contagion" and "war zone" narratives. The concern over Haifa appears resolved for now, given the data provided. * **Theme: Strategic Capital Allocation.** There is a clear shift in management tone toward brownfield growth. Multiple questions on inorganic growth and privatization were met with a preference for "sweating existing assets" due to much lower incremental costs. This is a positive signal for long-term ROCE. * **Theme: Logistics as a Standalone Engine.** The logistics business is no longer just a "support" for ports; questions on rakes and ICDs show analysts are valuing it as a high-margin (29%) growth driver. The shift from aggressive rake addition to utilization-focus in FY25 is the key transition to watch.

Analyst Sentiment Verdict: Overall sentiment was **Strongly Positive**. The friction regarding the Hindenburg/ Adani-Group-discount is rapidly fading as APSEZ delivers hard data and secures US-govt backing. Management's credibility was bolstered by the bond buybacks and the specific, data-backed defense of Haifa's operations.

5. WHAT CHANGED vs PRIOR QUARTER

What Changed	Prior Quarter (Q1)	This Quarter (Q2)	Direction
Volume Run-rate	101 MMT / Qtr	102 MMT (Q2) + 37 MMT (Oct)	↑ Improving
Net Debt/EBITDA	3.1x (Mar-23)	2.8x (Sep-23)	↑ Improving
Bond Buybacks	$130M completed	Additional $195M completed	↑ Improving
Port Margin (H1)	~70%	72%	↑ Improving
International De-risking	Concerns over Haifa conflict	$553M DFC loan secured (Colombo)	↑ Improving
Tax Structure	Old Regime (AKPL)	New Regime (AKPL) - MAT write-off	↓ (One-off) / ↑ (Long-term cash)
Logistics Scaling	93 trains	104 trains	↑ Improving
Asset Utilization	GPWIS Vol +40%	GPWIS Vol +42% (H1)	↑ Improving

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