# Adani Ports & Special Economic Zone Ltd — Oct 2024 Quarterly Analysis

## 1. VERDICT & BUSINESS QUALITY SNAPSHOT

**Result:** Strong Beat **One-line:** The thesis is strengthening as APSEZ evolves from a port operator to an integrated logistics utility, with volume growth consistently outpacing the Indian market by 2x while maintaining world-class 70%+ margins.

| Dimension | This Quarter | Signal / Evidence | Sentiment |
|---|---|---|---|
| Beat/Miss vs Guidance / Prior Quarter | Strong Beat | H1 EBITDA up 21% YoY; upper end of FY25 EBITDA guidance now likely. | □ |
| Earnings Quality | High (Core driven) | Core port margins at 72.5%; one-offs from Q1 (stake sale) absent in Q2 core ops. | □ |
| Guidance Confidence | Strong | Reaffirmed 460-480 MMT cargo; Gopalpur & Vizhinjam to drive H2 ramp-up. | □ |
| Management Credibility | Strong | Delivered AAA rating across 4 agencies; Net Debt/ EBITDA lowered to 2.0x. | □ |
| Business Quality Signal | Improving | Logistics segment growing 47% (domestic rail) vs competition's 15%. | □ |
| Key Q&A Exchange | Q#1 - International Ramp-up | Haifa is operational 24/7 despite conflict; Astro acquisition completed. | □ |
| The Street's Primary Anxiety | Logistics margin compression | Mgmt explained lag in cost pass-through; Q2 margins improved to 27%. | □ |
| Capital Cycle Stage | Investment / Harvesting | □10.5k-11.5k Cr Capex plan while harvesting 20%+ ROCE at mature ports. | □ |
| Margin / Return Ratio Trajectory | Stable/Improving | Domestic port margins held at 72%; Kattupalli margins expanded to 68%. | □ |
| Pricing Power | Expanding | Revenue per MMT up YoY (□535 vs □550 in Q1 is a recovery in realizations). | □ |
| FCF Conversion & Quality | Strong | CFO/EBITDA historical >70%; Net debt lowered despite high H1 Capex. | □ |
| Competitive Moat Signals | Widening | Vizhinjam handling 10k+ TEU vessels; first-mover in Indian transshipment. | □ |
| Balance Sheet Strength | Strong | Net Debt/EBITDA at 2.0x; Cash/FFO covers all near-term debt. | □ |
| Working Capital Efficiency | Stable | No stress noted; land advances are strategic for logistics bank. | □ |
| Mgmt Guidance Track Record | Reliable | Consistent outperformance of India's cargo growth (9% vs 4-5%). | □ |
| Key Vulnerability / Red Flag | Geopolitical disruption | Haifa volume mix shift; reliance on Vizhinjam H2 ramp-up for guidance. | □ |
| Management Tone | Confident and Operational | Focused on "India Growth Pillars" and rail-over-road conversion. | □ |

**Key Takeaways (Positives & Negatives):** * **Positives:** APSEZ handled 220 MMT in H1 FY25 (up 9%), outperforming the national cargo growth significantly. Mundra achieved the 100 MMT milestone in record time (181 days). Domestic port margins remain elite at 72.5%. The Logistics business is successfully converting road cargo to rail, with domestic volumes up 47% YoY. * **Negatives:** Gangavaram volumes were down 22% in Q2 due to prior strikes and working capital issues at its anchor client (RINL). Logistics margins, while recovering (27% vs 25% in Q1), remain below historical peaks of 28-30% due to "busy season" surcharge lags. * **Street Concern:** Analysts remain focused on the sustainability of Mundra's volume and the potential threat of the new Vadhavan mega-port. Management effectively reframed Vadhavan as a collaboration opportunity required for India's 2047 trade goals rather than a direct threat. * **Watchpoint:** Commercial operations at Vizhinjam (Dec '24) and the full-quarter integration of Gopalpur will be the key determinants for hitting the 480 MMT upper-end volume guidance.

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## 2. BUSINESS PERFORMANCE

### 2A. KEY METRICS

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

| Metric | Current Qtr | YoY Change | QoQ Change | Trend | Mgmt Commentary |
|---|---|---|---|---|---|
| Total Cargo (MMT) | 110.9 | +9% | +1.7% | ↑ | Growth driven by containers (+18%); offset by Gangavaram strike recovery. |
| Revenue (□Cr) | 7,067.02 | +6% | +1.6% | ↑ | Driven by volume growth and improved realizations at Mundra/Hazira. |
| EBITDA (□Cr) | 4,369 | +13% | +1.2% | ↑ | Excludes FX loss of □132 Cr. Core port efficiency remains high. |
| EBITDA Margin % | 61.8% | +340 bps | -50 bps | ↑ | Port segment margin @ 72%; overall margin diluted by Logistics/International. |
| PAT (□Cr) | 2,412.54 | +37% | -22.4% | ↑ | YoY up on ops; QoQ down due to Q1's □603 Cr stake sale one-off. |
| ROCE (%) | 13% | → | → | → | Mundra @ 21%, Hazira @ 21%, Dhamra @ 16%. Target 20% for new assets. |
| Cash Flow (OCF) | 7,725 | First entry | First entry | First entry | H1 CFO @ □7,725 Cr (from Cash flow statement in PPT). |
| Net Debt / EBITDA | 2.0x | ↓ | ↓ | ↑ | Improved from 2.3x at FY24 end. De-leveraging ahead of targets. |
| Interest Coverage | 6.5x | ↑ | ↑ | ↑ | Strong debt servicing capability; FFO coverage of interest is robust. |
| Port Realization/ MT | □535 | +0.6% | -2.7% | → | Realizations up YoY; slight QoQ dip on commodity mix (more coal). |

### 2B. SEGMENT BREAKDOWN

| Segment | Revenue (□ Cr) | YoY Growth | Margin | Trend | vs Co Avg | Key Development |
|---|---|---|---|---|---|---|
| Domestic Ports | 5,642 | +12% | 72% | ↑ | Above | Mundra Revenue □1,803 Cr; EBITDA □1,266 Cr (70% margin). |
| Logistics | 596 | +22% | 27% | ↑ | Below | Rail volumes +11% YoY; Warehouse capacity up to 3.1 Mn sq ft. |
| SEZ & Port Dev | 170 | -82% | 100% | ↓ | Above | Q2 lacks the stake sale one-offs present in Q1 FY25. |
| International Ops | 659 | -20% | 13% | ↓ | Below | Haifa impacted by geopolitics; Tanzania added 3 MMT in Q2. |

## 3. MANAGEMENT OUTLOOK & EXECUTION TRACKER

| Dimension | Category | Management Target / Claim | Required Run-Rate / Mathematical Feasibility | Historical Delivery | Risk Flag |
|---|---|---|---|---|---|
| Guidance | Revenue | □29,000 - 31,000 Cr | Needs □14,977 Cr in H2 (□7.5k/qtr). Very feasible. | Reliable | Low |
| Guidance | EBITDA | □17,000 - 18,000 Cr | Needs □8,783 Cr in H2 (□4.4k/qtr). Highly likely. | Reliable | Low |
| Guidance | Volume / Capacity | 460 - 480 MMT | Needs 240-260 MMT in H2. Feasible with Vizhinjam/Gopalpur. | Reliable | Medium |
| Guidance | Capex Plan | □10,500 - 11,500 Cr | □4,400 Cr spent in H1. Needs □6.1k-7.1k Cr in H2. | On track | Low |
| Strategy | Capital Allocation | Net Debt/EBITDA 2.2-2.5x | Currently at 2.0x. Below target; room for acquisitions. | Strong | Low |
| Strategy | Competitive Positioning | 1 Billion MT by 2030 | Requires 12-14% CAGR. H1 growth 9% is a slight lag. | Leading | Medium |
| Macro | Red Sea Disruption | "Manageable" | Mundra container growth (18%) outpaces peers despite this. | Confirmed | Low |
| Balance | Debt Maturity | No refinance risk | FFO + Cash (□22,784 Cr) vs FY25 debt (□4,803 Cr). | Strong | Low |

## 4. ANALYST Q&A

| Q# | Relevance | Analyst / Firm | Theme Cluster | Category | Underlying Concern | Management Response & Investment Implication | Evaded | Credibility | Verdict |
|---|---|---|---|---|---|---|---|---|---|
| 1 | 4.5 | Parash Jain, HSBC | New Assets | Management Commentary | Status of Sri Lanka, Vizhinjam, Astro, and Haifa? | Management confirmed Vizhinjam phase 1 is complete and phase 2 (□20k Cr) has started; Haifa is busy 24/7 with car cargo offsetting bulk losses. Colombo terminal to start in Q4 FY25; Vizhinjam ready to take more vessels as efficiency ramps. | None | 5.0 | Specific timeline |
| 2 | 4.0 | Asmeeta Sidhu, MetLife | US Port Strike | Macro | Implications of US labor strikes on Adani Ports? | Management stated there was zero impact from the US labor strikes on their operations. This de-risks concerns regarding global port contagion for the stock. | None | 5.0 | Clear and quantified |
| 3 | 4.5 | Achal Lohade, Nuvama | Gangavaram | Business Overview | When will Gangavaram normalize (down 22% in Q2)? | Management expects Q3/ Q4 normalization as the strike impact is fully behind them and cargo (coal/fertilizer) returns. Gangavaram remains a key eastern hub for steel/ power despite | None | 4.0 | Reassuring |

| Q# | Relevance | Analyst / Firm | Theme Cluster | Category | Underlying Concern | Management Response & Investment Implication | Evaded | Credibility | Verdict |
|---|---|---|---|---|---|---|---|---|---|
| | | | | | | the temporary H1 setback. | | | |
| 4 | 4.0 | Achal Lohade, Nuvama | Logistics Mix | Financials | Why is logistics domestic volume growing so fast (47%)? | Growth is driven by an aggressive shift from road to rail, specifically in the Mundra-NCR belt for agri-commodities. This validates the integrated transport utility thesis where port control drives rail volume. | None | 4.5 | Strategic proof |
| 5 | 3.5 | Priyankar Biswas, BNP | Tanzania | Financials | Quarterly volume and profitability of Tanzania (CT2)? | Tanzania handled ~3 MMT in Q2; management declined to share specific EBITDA but noted it is "above the 15% ROCE threshold." Asset integration is complete, contributing immediately to the 480 MMT goal. | Profitability | 3.0 | Hedges on EBITDA |
| 6 | 3.5 | Priyankar Biswas, BNP | RINL Exposure | Business Overview | Impact of RINL's financial crisis on Gangavaram volumes? | RINL contributes only 10% of Gangavaram's total volume; management expects them to recover with government support. The concentration risk is lower than market | None | 4.0 | Quantified risk |

| Q# | Relevance | Analyst / Firm | Theme Cluster | Category | Underlying Concern | Management Response & Investment Implication | Evaded | Credibility | Verdict |
|---|---|---|---|---|---|---|---|---|---|
| | | | | | | perception, providing a margin of safety for the port. | | | |
| 7 | 4.0 | Alok Deora, Motilal Oswal | Volume Guidance | Management Commentary | Is 460-480 MMT guidance too high given the H1 start? | Management is confident because H2 seasonally benefits from fertilizers, agri-cargo, and the addition of Gopalpur/ Vizhinjam. Required run-rate of 120-130 MMT per quarter is achievable given new capacity. | None | 4.0 | Confident tone |
| 8 | 3.5 | Alok Deora, Motilal Oswal | Logistics Margins | Financials | Why are logistics margins (27%) lower than historical levels? | Margins are recovering from 25% (Q1) to 27% (Q2) as cost increases are passed on to customers with a lag. Reversion to ~28-30% is expected in H2 as the "busy season surcharge" takes effect. | None | 3.5 | Pass-through lag |
| 9 | 4.5 | Ketan Jain, Avendus Spark | Growth Drivers | Business Overview | What drove Mundra's outperformance this quarter? | Mundra's growth (12% volume) was driven by container handle and liquid cargo, outperforming peers like JNPT. The port handles 1 out of 2 | None | 5.0 | Quantified data |

| Q# | Relevance | Analyst / Firm | Theme Cluster | Category | Underlying Concern | Management Response & Investment Implication | Evaded | Credibility | Verdict |
|---|---|---|---|---|---|---|---|---|---|
| | | | | | | containers in India, cementing its "gateway" status. | | | |
| 10 | 3.0 | Aditya Mongia, Kotak | Cash Flow | Financials | What is the ₹850 Cr line for "payment for subsidiaries"? | This pertains to the acquisition of the Tanzania terminal and land parcels for future MMLPs/ICDs. Management is buying land 2-3 quarters ahead of development to lock in industrial cluster access. | None | 4.5 | Asset building |
| 11 | 3.5 | Luke Chua, Pictet | De-leveraging | Financials | Why target 2.5x leverage if you are currently at 2.0x? | The 2.5x is a "medium-term ceiling" to allow for large acquisitions or aggressive expansion; current low leverage is a temporary artifact of strong cash flow. Signals massive headroom for a "war chest" if M&A opportunities arise. | None | 4.0 | Strategic intent |
| 12 | 3.5 | Nidhi Shah, ICICI Sec | Vadhavan Port | Strategy | Is the mega-port at Vadhavan a competitor to Hazira/Dighi? | Management views Vadhavan as necessary capacity for India's 2.5B MT trade goal and an opportunity for collaboration | None | 3.5 | Collaborative |

| Q# | Relevance | Analyst / Firm | Theme Cluster | Category | Underlying Concern | Management Response & Investment Implication | Evaded | Credibility | Verdict |
|---|---|---|---|---|---|---|---|---|---|
| | | | | | | via PPP. Reframes a potential threat as an expansion opportunity for the group. | | | |

**PATTERN FLAGS & SENTIMENT**

- **Logistics Margin Pivot:** Analysts were skeptical of the 27% logistics margin. Management was firm that this is a "timing issue" of passing through railway surcharges. The recovery from 25% (Q1) to 27% (Q2) gave management enough credibility to satisfy most questions, but this remains a monitoring point for H2.
- **Asset Monetization/Allocation:** The "War Chest" theme emerged. With leverage at 2.0x (vs. target 2.5x), analysts are looking for the next big move. Management's posture was one of "disciplined readiness"—they are buying land and completing terminal deals (Tanzania, Astro) without stressing the balance sheet.
- **Geopolitical Resilience:** Management used the Haifa discussion to showcase operational agility. By shifting focus to "car cargo" when dry bulk fell, they turned a geopolitical risk into a story of resilient management. Skilful framing neutralized what could have been a hostile line of questioning.

**Analyst Sentiment Verdict:** Skeptically Bullish. Analysts are impressed with the domestic port resilience (Mundra/72% margins) but remain watchful of the "Logistics transformation" and international headaches. Credibility improved as Net Debt/EBITDA hit 2.0x earlier than expected. The single unresolved risk is the speed of Vizhinjam's commercial ramp-up, which must be flawless to hit the upper end of FY25 guidance.

## 5. WHAT CHANGED vs PRIOR QUARTER

| What Changed | Prior Quarter | This Quarter | Direction |
|---|---|---|---|
| Net Debt / EBITDA | 2.1x (Q1 FY25) | 2.0x | ↑ Improving |
| Net Debt / EBITDA Target | 2.2x - 2.5x | Reaffirmed (Current 2.0x) | ↑ Room for M&A |
| Port Revenue Realization | Not stated | ₹535 / MMT | ↑ Improving |
| Logistics Margin | 25% (Q1 FY25) | 27% | ↑ Improving |
| Strategic Asset Status | Vizhinjam Trials | Vizhinjam Final Phase (₹20k Cr) Kicked Off | ↑ Improving |
| M&A Portfolio | Gopalpur Pending | Gopalpur Completed; Astro Completed | ↑ Improving |
| Auditor Status | Qualification Dropped (Q1) | Emphasis of Matter (Stable) | → Stable |
| Credit Rating | AAA Upgrades (Q1) | CRISIL/India Ratings AAA confirmed | → Stable |
| Haifa Cargo Mix | Dry Bulk/Containers | Shift to "overflowing" Car Cargo | → Pivot/Agile |

**Note on Cash Flow:** CFO/PAT ratio for H1 stands at ~1.4x (CFO ₹7,725 Cr / PAT ₹5,520 Cr), indicating extremely high earnings quality. The divergence is driven by the non-cash nature of the Q1 stake sale gain and efficient working capital management. Management is using this surplus primarily for land acquisition (₹850 Cr in Q2) to build out the logistics moat.