

# Adani Ports & SEZ

BSE SENSEX 73,649 S&P CNX 22,336

**CMP: INR1,321 TP: INR1,590 (+20%)**

**Buy**



### Stock Info

|                       |               |
|-----------------------|---------------|
| Bloomberg             | ADSEZ IN      |
| Equity Shares (m)     | 2160          |
| M.Cap.(INRb)/(USDb)   | 2853.8 / 34.2 |
| 52-Week Range (INR)   | 1425 / 656    |
| 1, 6, 12 Rel. Per (%) | 2/52/73       |
| 12M Avg Val (INR M)   | 5723          |
| Free float (%)        | 34.1          |

### Financials Snapshot (INR b)

| Y/E March         | 2024E | 2025E | 2026E |
|-------------------|-------|-------|-------|
| Net Sales         | 269.7 | 311.5 | 350.8 |
| EBITDA            | 160.9 | 185.5 | 213.7 |
| Adj. PAT          | 89.2  | 104.9 | 125.9 |
| EBITDA Margin (%) | 59.6  | 59.6  | 60.9  |
| Adj. EPS (INR)    | 41.3  | 48.6  | 58.3  |
| EPS Gr. (%)       | 18.0  | 17.5  | 20.0  |
| BV/Sh. (INR)      | 243.2 | 279.6 | 323.3 |

### Ratios

|             |      |      |      |
|-------------|------|------|------|
| Net D/E (x) | 0.8  | 0.6  | 0.4  |
| RoE (%)     | 18.2 | 18.6 | 19.3 |
| RoCE (%)    | 11.0 | 11.7 | 12.7 |
| Payout (%)  | 23.5 | 25.0 | 20.8 |

### Valuations

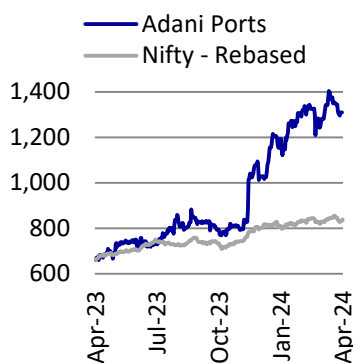
|                |      |      |      |
|----------------|------|------|------|
| P/E (x)        | 32.0 | 27.2 | 22.7 |
| P/BV (x)       | 5.4  | 4.7  | 4.1  |
| EV/EBITDA (x)  | 20.3 | 17.4 | 14.8 |
| Div. Yield (%) | 0.7  | 0.9  | 0.9  |
| FCF Yield (%)  | 3.2  | 3.6  | 4.4  |

### Shareholding pattern (%)

| As On    | Mar-24 | Dec-23 | Mar-23 |
|----------|--------|--------|--------|
| Promoter | 65.9   | 65.9   | 61.0   |
| DII      | 11.8   | 12.0   | 13.0   |
| FII      | 15.0   | 14.7   | 18.0   |
| Others   | 7.3    | 7.4    | 8.0    |

FII Includes depository receipts

### Stock's performance (one-year)



## Volume growth trajectory to continue

- We released our Initiating Coverage (IC) report on Adani Ports & SEZ Ltd (APSEZ) in Oct'23 ([LINK](#)). In this report, we highlighted that the company's improving utilization levels at its current ports, along with its ramping up of volumes at newly acquired ports, will position the company to exceed its FY24 volume guidance and expand its market share in cargo handling. We reiterated our strong conviction with APSEZ being one of our top ideas for 2024 ([LINK](#)).
- APSEZ ended FY24 with 24% volume growth in FY24 volumes, taking the total volumes to 420 MMT, well surpassing even its revised guidance of 400 MMT. In FY24, ~25% of all-India cargo volumes was routed through APSEZ ports. For FY25, the company is targeting cargo volumes of 500 MMT.
- APSEZ is continuously investing in building infrastructure for its logistics business. With 11 multi-modal logistics parks, 116 trains, 2.4 million sq. ft. of warehousing space, and 1.1 million metric tons of grain silos, ALL aims to establish a nationwide presence by further developing logistic parks and warehouses.
- APSEZ continues to gain market share while generating strong cash flows and maintaining its leverage position, with a net debt-to-EBITDA ratio of 2.5x as of Dec'23. We expect APSEZ to register 10% volume growth and a CAGR of 14%/15%/19% in revenue/EBITDA/PAT over FY24-26. With consistent outperformance in cargo volumes, we reiterate our BUY rating with a TP of INR1,590.

## Market share gains driven by operational efficiencies and cargo diversification

- APSEZ achieved a notable 2x industry growth, elevating its market share to ~25% in FY24 from 10% in FY13. The incorporation of new cargo classes at Mundra and Dhamra ports, pickup in coal and coastal coal cargo at Gangavaram and Dhamra, supported by robust economic growth has contributed to this growth. Additionally, the advantages of an integrated port-cum-logistics service has significantly helped gain market share.
- Further, the company's strategic sensitivity to specific cargo classes, such as thermal coal and iron ore, is proving beneficial as volume levels normalize in select ports such as Mundra, Gangavaram, and Krishnapatnam.

## Building infrastructure for strong future growth in logistics business

- As APSEZ embarks on becoming India's largest integrated transport utility company by 2030, it is strengthening its capabilities in all logistics segments (ports, CTO, warehousing, last mile delivery, ICDs, etc). Hence, it offers end-to-end service to its customers, thereby capturing a higher wallet share and also making the cargo sticky in nature.
- Further, DFC connectivity to Mundra will provide faster port evacuation and quicker transit time, improving the overall efficiency.

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**Investors are advised to refer through important disclosures made at the last page of the Research Report.**

Motilal Oswal research is available on [www.motilaloswal.com/Institutional-Equities](http://www.motilaloswal.com/Institutional-Equities), Bloomberg, Thomson Reuters, Factset and S&P Capital.

**Consistently improving balance sheet position; backed by strong cash flow generation**

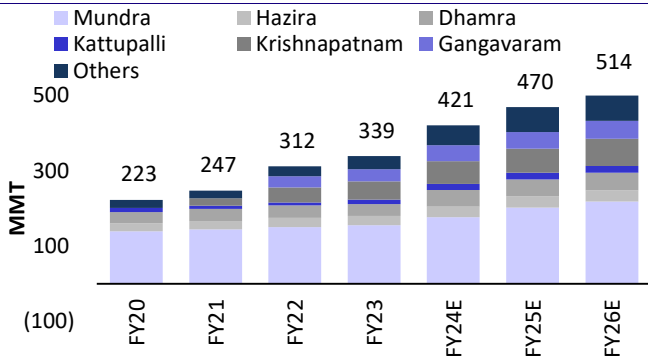
- APSEZ has consistently generated strong cash flow from operations (CFO) over FY18-23 (cumulative CFO of ~INR433b at a CAGR of 16%). During this period, APSEZ had embarked on an acquisition spree. Going ahead, APSEZ is expected to concentrate on optimizing the assets it has acquired, ensuring consistent robust cash flows in the upcoming years.
- We estimate CFO to register a CAGR of 13% over FY24-26. This, we believe, will be used to fund capex and reduce debt. APSEZ continues to be on the lookout for opportunities outside India via the joint venture (JV) mode with a strong local partner, either in South Asia, Southeast Asia, Middle East, and Africa.

**Valuation and view**

- Going forward, APSEZ targets to become India’s largest integrated transport utility and world’s largest private port company by 2030. APSEZ has a diversified cargo mix and is looking to increase cargo share of port on the east coast. The operational ramp-up at the recently acquired ports is expected to drive a 10% growth in cargo volumes over FY24-26. This would drive a revenue/EBITDA/PAT CAGR of 14%/15%/19% over FY24-26.
- We reiterate our BUY rating with a TP of INR1,590 (premised on 17x FY26E EV/EBITDA).

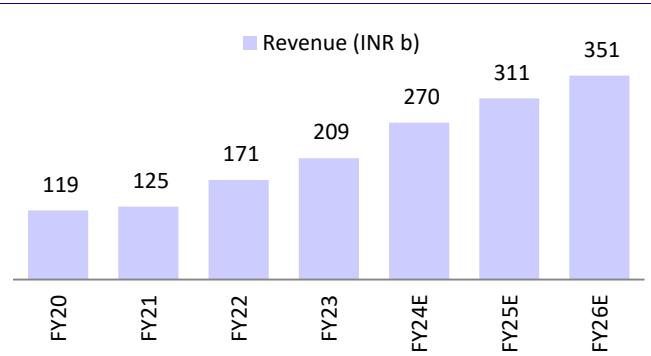
**Story in charts**

**Exhibit 1: APSEZ – volumes (MMT)**



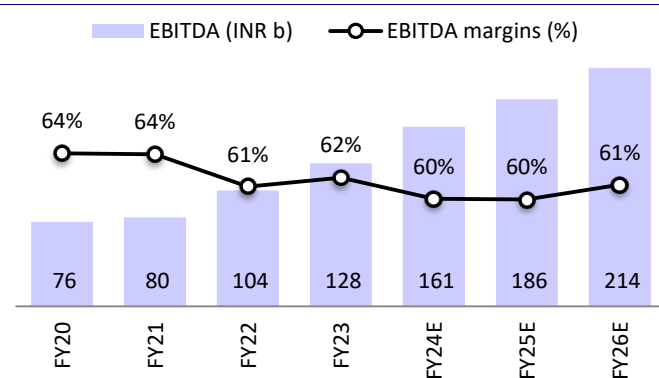
Source: Company, MOFSL

**Exhibit 2: Revenue growth to remain strong**



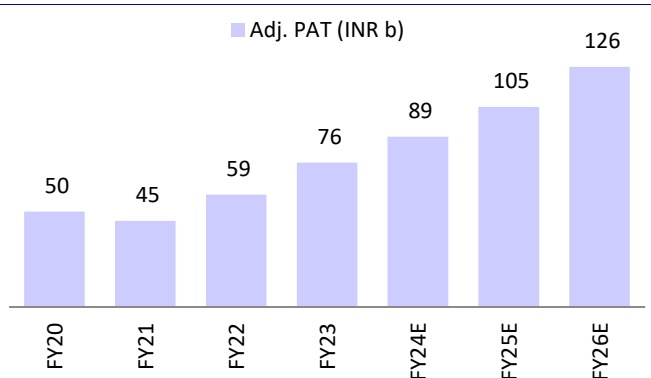
Source: Company, MOFSL

**Exhibit 3: Margin to stabilize at ~60%**



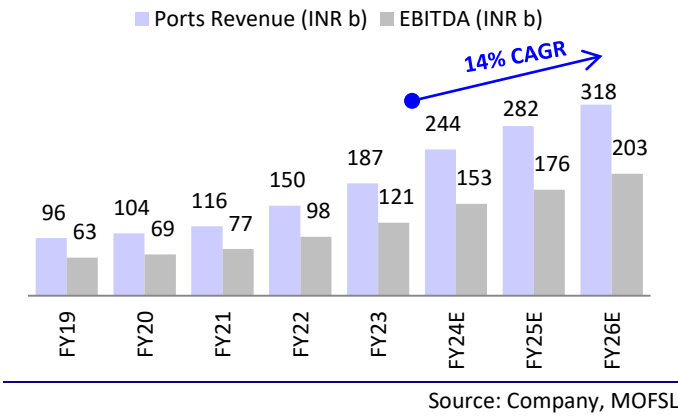
Source: Company, MOFSL

**Exhibit 4: Strong operating performance to drive PAT**

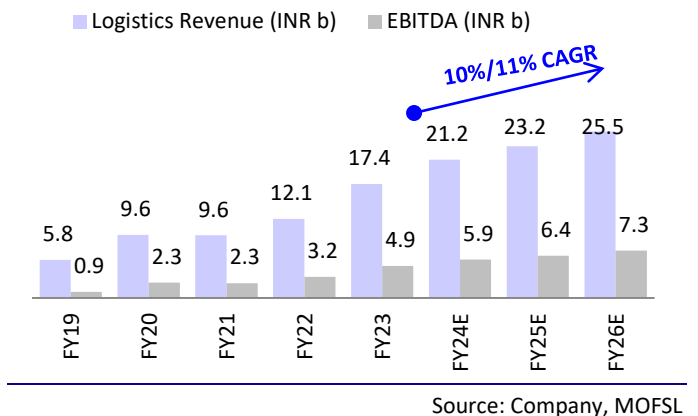


Source: Company, MOFSL

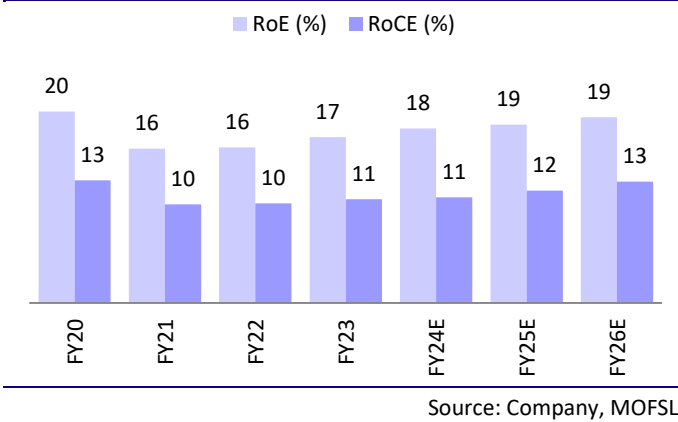
**Exhibit 5: Ports revenue to report 14% CAGR**



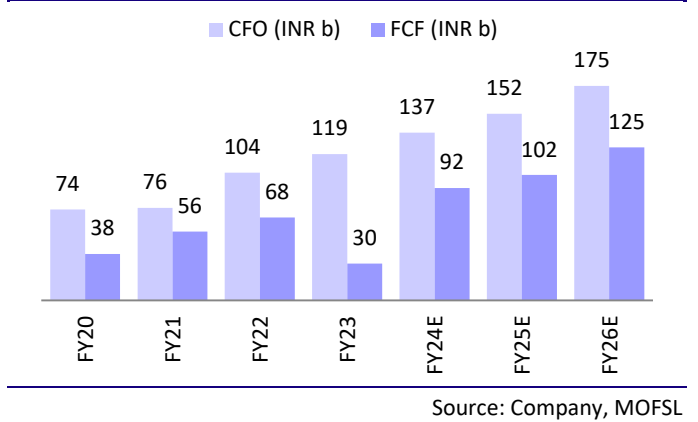
**Exhibit 6: Logistics segment to report 10% CAGR in revenue**



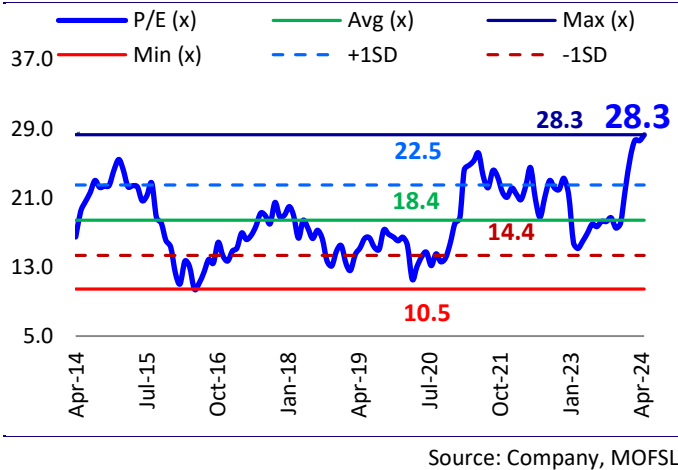
**Exhibit 7: Return ratios to remain stable**



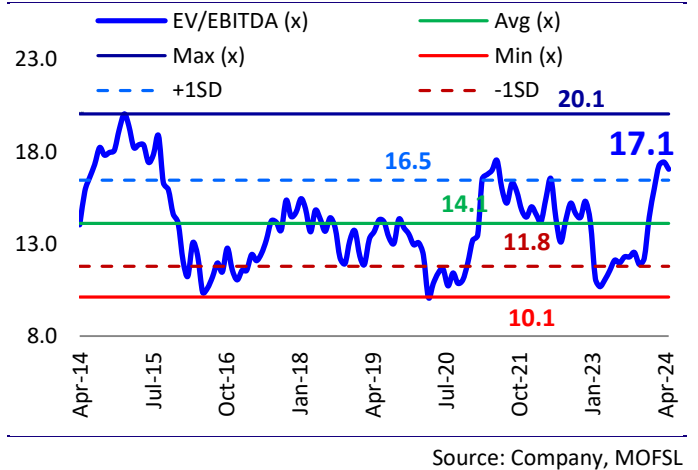
**Exhibit 8: CFO and FCF generation to pick up**



**Exhibit 9: APSEZ – P/E trend**



**Exhibit 10: APSEZ – EV/EBITDA trend**



## Financials and valuation

### Consolidated Income Statement

| Y/E March (INR m)         | FY20            | FY21            | FY22            | FY23            | FY24E           | FY25E           | FY26E           |
|---------------------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|
| <b>Net Sales</b>          | <b>1,18,731</b> | <b>1,25,496</b> | <b>1,71,188</b> | <b>2,08,519</b> | <b>2,69,695</b> | <b>3,11,467</b> | <b>3,50,770</b> |
| Change in Net Sales (%)   | 8.7             | 5.7             | 36.4            | 21.8            | 29.3            | 15.5            | 12.6            |
| Total Expenses            | 43,077          | 45,662          | 67,223          | 80,185          | 1,08,826        | 1,25,934        | 1,37,109        |
| <b>EBITDA</b>             | <b>75,654</b>   | <b>79,834</b>   | <b>1,03,965</b> | <b>1,28,335</b> | <b>1,60,869</b> | <b>1,85,533</b> | <b>2,13,660</b> |
| Margin (%)                | 63.7            | 63.6            | 60.7            | 61.5            | 59.6            | 59.6            | 60.9            |
| Depn. & Amortization      | 16,803          | 21,073          | 30,993          | 34,232          | 39,019          | 41,323          | 43,748          |
| <b>EBIT</b>               | <b>58,851</b>   | <b>58,761</b>   | <b>72,972</b>   | <b>94,102</b>   | <b>1,21,850</b> | <b>1,44,210</b> | <b>1,69,912</b> |
| Net Interest              | 19,507          | 21,292          | 25,596          | 25,936          | 28,007          | 27,724          | 27,442          |
| Other income              | 18,614          | 19,702          | 22,237          | 15,535          | 17,088          | 17,943          | 18,840          |
| <b>PBT</b>                | <b>57,958</b>   | <b>57,172</b>   | <b>69,613</b>   | <b>83,701</b>   | <b>1,10,931</b> | <b>1,34,428</b> | <b>1,61,311</b> |
| EO expense                | 15,475          | -5,891          | 12,930          | 33,907          | -1,191          | 0               | 0               |
| PBT after EO              | 42,483          | 63,063          | 56,684          | 49,794          | 1,12,123        | 1,34,428        | 1,61,311        |
| Tax                       | 4,594           | 12,433          | 7,640           | 964             | 24,143          | 29,574          | 35,488          |
| Rate (%)                  | 10.8            | 19.7            | 13.5            | 1.9             | 21.5            | 22.0            | 22.0            |
| <b>PAT before JV, MI</b>  | <b>37,889</b>   | <b>50,630</b>   | <b>49,044</b>   | <b>48,830</b>   | <b>87,980</b>   | <b>1,04,854</b> | <b>1,25,822</b> |
| Share of loss from JV, MI | -258            | -687            | -498            | -348            | -1,868          | 37.0            | 80.9            |
| <b>Reported PAT</b>       | <b>37,631</b>   | <b>49,943</b>   | <b>48,547</b>   | <b>48,482</b>   | <b>86,112</b>   | <b>1,04,891</b> | <b>1,25,903</b> |
| <b>Adjusted PAT</b>       | <b>50,011</b>   | <b>45,230</b>   | <b>58,890</b>   | <b>75,608</b>   | <b>89,234</b>   | <b>1,04,891</b> | <b>1,25,903</b> |
| Change (%)                | 13.9            | -9.6            | 30.2            | 28.4            | 18.0            | 17.5            | 20.0            |
| Margin (%)                | 42.1            | 36.0            | 34.4            | 36.3            | 33.1            | 33.7            | 35.9            |

Source: MOFSL, Company

### Consolidated Balance Sheet

| Y/E March (INR m)                  | FY20            | FY21            | FY22            | FY23            | FY24E            | FY25E            | FY26E            |
|------------------------------------|-----------------|-----------------|-----------------|-----------------|------------------|------------------|------------------|
| Share Capital                      | 4,064           | 4,064           | 4,225           | 4,320           | 4,320            | 4,320            | 4,320            |
| Reserves                           | 2,52,171        | 3,02,219        | 4,15,658        | 4,51,516        | 5,21,009         | 5,99,677         | 6,94,104         |
| <b>Net Worth</b>                   | <b>2,56,235</b> | <b>3,06,283</b> | <b>4,19,882</b> | <b>4,55,836</b> | <b>5,25,329</b>  | <b>6,03,997</b>  | <b>6,98,425</b>  |
| Minority Interest                  | 2,196           | 14,685          | 3,928           | 13,385          | 16,045           | 16,930           | 17,906           |
| Total Loans                        | 2,94,630        | 3,44,010        | 4,54,530        | 4,98,193        | 4,93,193         | 4,88,193         | 4,83,193         |
| Deferred Tax Liability             | -9,227          | 3,214           | 16,530          | 9,865           | 9,865            | 9,865            | 9,865            |
| <b>Capital Employed</b>            | <b>5,43,834</b> | <b>6,68,191</b> | <b>8,94,871</b> | <b>9,77,279</b> | <b>10,44,431</b> | <b>11,18,985</b> | <b>12,09,388</b> |
| Gross Block                        | 3,62,512        | 5,51,805        | 7,00,208        | 7,82,018        | 8,27,018         | 8,77,018         | 9,27,018         |
| Less: Accum. Deprn.                | 68,229          | 1,10,800        | 1,41,793        | 1,48,004        | 1,87,023         | 2,28,346         | 2,72,093         |
| <b>Net Fixed Assets</b>            | <b>2,94,283</b> | <b>4,41,005</b> | <b>5,58,415</b> | <b>6,34,014</b> | <b>6,39,995</b>  | <b>6,48,672</b>  | <b>6,54,924</b>  |
| Capital WIP                        | 32,163          | 36,971          | 40,229          | 68,140          | 68,140           | 68,140           | 68,140           |
| Investments                        | 11,780          | 22,362          | 31,607          | 1,00,599        | 1,20,599         | 1,40,599         | 1,60,599         |
| <b>Curr. Assets</b>                | <b>2,71,715</b> | <b>2,44,083</b> | <b>3,53,029</b> | <b>3,24,299</b> | <b>3,70,834</b>  | <b>4,20,374</b>  | <b>4,87,970</b>  |
| Inventories                        | 2,883           | 9,919           | 3,956           | 4,520           | 5,846            | 6,751            | 7,603            |
| Account Receivables                | 25,891          | 23,859          | 22,219          | 32,417          | 41,927           | 48,421           | 54,531           |
| Cash and Bank Balance              | 73,139          | 47,008          | 1,06,674        | 42,488          | 77,245           | 1,18,424         | 1,78,081         |
| -Cash and cash equivalents         | 71,955          | 41,980          | 86,530          | 9,320           | 44,077           | 85,256           | 1,44,913         |
| -Bank balance                      | 1,184           | 5,027           | 20,144          | 33,168          | 33,168           | 33,168           | 33,168           |
| Loans & advances                   | 31,173          | 20,691          | 18,738          | 19,970          | 20,174           | 20,388           | 20,613           |
| Other current assets               | 1,38,630        | 1,42,607        | 2,01,441        | 2,24,905        | 2,25,643         | 2,26,389         | 2,27,143         |
| <b>Curr. Liability &amp; Prov.</b> | <b>66,106</b>   | <b>76,229</b>   | <b>88,409</b>   | <b>1,49,774</b> | <b>1,55,137</b>  | <b>1,58,800</b>  | <b>1,62,246</b>  |
| Account Payables                   | 7,287           | 10,139          | 11,596          | 18,282          | 23,646           | 27,308           | 30,754           |
| Provisions                         | 1,145           | 1,224           | 1,418           | 17,498          | 17,498           | 17,498           | 17,498           |
| Other current liabilities          | 57,674          | 64,867          | 75,396          | 1,13,994        | 1,13,994         | 1,13,994         | 1,13,994         |
| <b>Net Curr. Assets</b>            | <b>2,05,608</b> | <b>1,67,854</b> | <b>2,64,619</b> | <b>1,74,525</b> | <b>2,15,697</b>  | <b>2,61,574</b>  | <b>3,25,725</b>  |
| <b>Appl. of Funds</b>              | <b>5,43,834</b> | <b>6,68,191</b> | <b>8,94,871</b> | <b>9,77,279</b> | <b>10,44,432</b> | <b>11,18,985</b> | <b>12,09,388</b> |

Source: MOFSL, Company

## Financials and valuation

### Ratios

|                               | FY20  | FY21  | FY22  | FY23  | FY24E | FY25E | FY26E |
|-------------------------------|-------|-------|-------|-------|-------|-------|-------|
| <b>Basic (INR)</b>            |       |       |       |       |       |       |       |
| EPS                           | 24.6  | 22.3  | 27.9  | 35.0  | 41.3  | 48.6  | 58.3  |
| EPS Growth                    | 16.1  | -9.6  | 25.2  | 25.5  | 18.0  | 17.5  | 20.0  |
| Cash EPS                      | 32.9  | 32.6  | 42.6  | 50.8  | 59.4  | 67.7  | 78.5  |
| BV/Share                      | 126.1 | 150.7 | 198.8 | 211.0 | 243.2 | 279.6 | 323.3 |
| Payout (%)                    | 13.0  | 22.5  | 17.9  | 14.3  | 23.5  | 25.0  | 20.8  |
| Dividend yield (%)            | 0.4   | 0.6   | 0.6   | 0.6   | 0.7   | 0.9   | 0.9   |
| <b>Valuation (x)</b>          |       |       |       |       |       |       |       |
| P/E                           | 53.7  | 59.3  | 47.4  | 37.7  | 32.0  | 27.2  | 22.7  |
| Cash P/E                      | 40.2  | 40.5  | 31.0  | 26.0  | 22.3  | 19.5  | 16.8  |
| P/BV                          | 10.5  | 8.8   | 6.6   | 6.3   | 5.4   | 4.7   | 4.1   |
| EV/EBITDA                     | 40.5  | 39.2  | 29.9  | 25.0  | 20.3  | 17.4  | 14.8  |
| Dividend Yield (%)            | 0.2   | 0.4   | 0.4   | 0.4   | 0.7   | 0.9   | 0.9   |
| <b>Return Ratios (%)</b>      |       |       |       |       |       |       |       |
| RoE                           | 19.9  | 16.1  | 16.2  | 17.3  | 18.2  | 18.6  | 19.3  |
| RoCE (post-tax)               | 12.8  | 10.3  | 10.4  | 10.8  | 11.0  | 11.7  | 12.7  |
| RoC (post-tax)                | 12.7  | 9.5   | 9.9   | 12.5  | 12.4  | 14.3  | 16.6  |
| <b>Working Capital Ratios</b> |       |       |       |       |       |       |       |
| Fixed Asset Turnover (x)      | 0.4   | 0.3   | 0.3   | 0.3   | 0.4   | 0.5   | 0.5   |
| Asset Turnover (x)            | 0.2   | 0.2   | 0.2   | 0.2   | 0.3   | 0.3   | 0.3   |
| Debtor (Days)                 | 80    | 69    | 47    | 57    | 57    | 57    | 57    |
| Creditors (Days)              | 22    | 29    | 25    | 32    | 32    | 32    | 32    |
| Inventory (Days)              | 9     | 29    | 8     | 8     | 8     | 8     | 8     |
| <b>Leverage Ratio (x)</b>     |       |       |       |       |       |       |       |
| Current Ratio                 | 4.1   | 3.2   | 4.0   | 2.2   | 2.4   | 2.6   | 3.0   |
| Interest Cover Ratio          | 4.0   | 3.7   | 3.7   | 4.2   | 5.0   | 5.8   | 6.9   |
| Net Debt/EBITDA               | 2.9   | 3.7   | 3.3   | 3.6   | 2.6   | 2.0   | 1.4   |
| Net Debt/Equity               | 0.9   | 1.0   | 0.8   | 1.0   | 0.8   | 0.6   | 0.4   |

### Cash Flow Statement (INR m)

|                                     | FY20           | FY21             | FY22            | FY23             | FY24E           | FY25E           | FY26E           |
|-------------------------------------|----------------|------------------|-----------------|------------------|-----------------|-----------------|-----------------|
| <b>OP/(Loss) before Tax</b>         | <b>42,439</b>  | <b>62,920</b>    | <b>57,171</b>   | <b>54,891</b>    | <b>1,17,228</b> | <b>1,35,351</b> | <b>1,62,367</b> |
| Depreciation                        | 16,803         | 21,073           | 30,993          | 34,232           | 39,019          | 41,323          | 43,748          |
| Direct Taxes Paid                   | -8,496         | -8,728           | -9,597          | -8,339           | -24,143         | -29,574         | -35,488         |
| (Inc)/Dec in WC                     | 9,909          | 4,084            | 7,584           | -8,546           | -6,415          | -4,697          | -4,494          |
| Other Items                         | 13,363         | -3,791           | 18,050          | 47,094           | 10,918          | 9,781           | 8,602           |
| <b>CF from Operations</b>           | <b>74,018</b>  | <b>75,558</b>    | <b>1,04,201</b> | <b>1,19,333</b>  | <b>1,36,607</b> | <b>1,52,184</b> | <b>1,74,734</b> |
| (Inc)/Dec in FA                     | -35,584        | -19,497          | -36,458         | -89,210          | -45,000         | -50,000         | -50,000         |
| <b>Free Cash Flow</b>               | <b>38,434</b>  | <b>56,061</b>    | <b>67,743</b>   | <b>30,123</b>    | <b>91,607</b>   | <b>1,02,184</b> | <b>1,24,734</b> |
| Acquisitions/Divestment             | -2,735         | -1,49,912        | -6,538          | -1,44,291        | 0               | 0               | 0               |
| Change in Investments               | 10,961         | 6,350            | -28,056         | 22,851           | -20,000         | -20,000         | -20,000         |
| Others                              | 19,854         | 21,632           | 18,233          | 14,614           | 17,088          | 17,943          | 18,840          |
| <b>CF from Investments</b>          | <b>-7,504</b>  | <b>-1,41,427</b> | <b>-52,818</b>  | <b>-1,96,036</b> | <b>-47,912</b>  | <b>-52,057</b>  | <b>-51,160</b>  |
| Share issue                         | -19,707        | 0                | 9,093           | 9,455            | 0               | 0               | 0               |
| Inc/(Dec) in Debt                   | 4,015          | 54,909           | 75,276          | 3,453            | -5,000          | -5,000          | -5,000          |
| Interest                            | -19,239        | -19,558          | -25,505         | -23,710          | -28,007         | -27,724         | -27,442         |
| Dividend                            | -8,446         | -212             | -10,267         | -10,929          | -20,932         | -26,223         | -31,476         |
| Others                              | 821            | 0                | -54,455         | -5,607           | 0               | 0               | 0               |
| <b>Cash from financing activity</b> | <b>-42,556</b> | <b>35,139</b>    | <b>-5,858</b>   | <b>-27,338</b>   | <b>-53,939</b>  | <b>-58,947</b>  | <b>-63,917</b>  |
| Net change in cash & equi.          | 23,958         | -30,730          | 45,526          | -1,04,042        | 34,757          | 41,180          | 59,656          |
| Opening cash balance                | 47,982         | 71,955           | 43,118          | 86,714           | 9,320           | 44,077          | 85,256          |
| change in control of subs.          | 15             | 756              | -2,113          | 26,648           | 0               | 0               | 0               |
| <b>Closing cash balance</b>         | <b>71,955</b>  | <b>41,980</b>    | <b>86,530</b>   | <b>9,320</b>     | <b>44,077</b>   | <b>85,256</b>   | <b>1,44,913</b> |

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NOTES

| Explanation of Investment Rating |  |
|----------------------------------|--|
| Investment Rating                | Expected return (over 12-month)  |
| BUY                              | >=15%  |
| SELL                             | < - 10%  |
| NEUTRAL                          | < - 10 % to 15%  |
| UNDER REVIEW                     | Rating may undergo a change  |
| NOT RATED                        | We have forward looking estimates for the stock but we refrain from assigning recommendation |

\*In case the recommendation given by the Research Analyst is inconsistent with the investment rating legend for a continuous period of 30 days, the Research Analyst shall be within following 30 days take appropriate measures to make the recommendation consistent with the investment rating legend.

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