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FMCG'S MIDDLE CLASS INFLATION

THE RISE OF SBI'S YONO

INDIA TODAY GROUP

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CRYPTO CURRENCIES

ARE THEY EVIL?

AS THE MODI GOVERNMENT DEBATES WHETHER TO PERMIT OR BAN THEIR USAGE IN INDIA, WHAT THE BIG RISKS ARE FOR INVESTORS AND TRADERS

ILLUSTRATION BY RAJ VERMA

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Gautam Adani,
Chairman, Adani group

PHOTOGRAPH BY UMESH GOSWAMI

Corporate

Adani's Valuation Binge

Stocks of Adani group companies have skyrocketed in the last one year, making Chairman Gautam Adani the second-richest Asian. However, the group's finances are still to catch up, questioning the rationale behind the meteoric rise

BY NEVIN JOHN

In **June 2020,** the board of Adani Power decided to delist the company whose share price was languishing at ₹38 against its August 2009 listing price of ₹100. The low price was affecting fundraising and growth plans. The board set the floor price for delisting at ₹33.82 and has been waiting for approval from stock exchanges. However, over the last seven months — December 2020 to June 2021 — the company's share price surged around 300 per cent, pushing the scrip to ₹166.

Shares of five other Adani group companies grew three to 10 times in the last one year until June 11, 2021. Market value of Adani Green Energy (AGEL) increased to ₹1.9 lakh crore (as on May 31, 2021). Barring Adani Power (₹57,000 crore), each of the other group firms' market cap crossed ₹1.7 lakh crore by June 11. Aggregate market capitalisation of the six entities stood at ₹9.5 lakh crore. The rise in market value propelled group Chairman Gautam Adani (the family owns 56-75 per cent in listed entities) to being Asia's second-richest man, after Reliance Industries' Mukesh Ambani. Adani's wealth shot up to $77 billion.

The spike in Adani group stock prices was, however, highly unusual. They grew 122-819 per cent during January 2020-June 11, 2021, while the Sensex and the Nifty rose 27 per cent and 30 per cent, respectively.

Adani group did not respond to *BT*'s questions on the unusual rise in share prices. But here's how the group reasons out the share price rise. In a recent public statement, it said Adani Ports & SEZ handled 247 million metric tonnes (MMT) of cargo, registering a compounded annual growth rate (CAGR) three times higher than the industry. "It has best in class EBITDA margin of 70 per cent and has registered volume CAGR of 10 per cent during the last five years," the statement said. For Adani Green Energy, the EBITDA margin is 89 per cent. Adani Transmission operates the largest private network in India. Adani Electricity Mumbai, a subsidiary of Adani Power, distributes power to over 3 million homes in Mumbai. Adani Total Gas, which has presence across 38 geographical areas, registered 41 per cent EBITDA. Adani Enterprises, which witnessed 10 times growth in share price in the last one year until early June, incubates new businesses such as airports, roads, data centre and solar manufacturing, besides enhancing its FMCG portfolio.

But, industry experts and observers found it difficult to comprehend the price surge, putting a question mark on the valuation of Adani group companies. Especially when the group's market capitalisation crashed by over ₹1 lakh crore on June 14 on incorrect reports of the National Securities Depository Ltd (NSDL) freezing the accounts of foreign portfolio investors who hold a vast majority of their portfolio in Adani group firms. Even though NSDL later clarified to Adani group about the inaccuracy of the information (it said the three accounts were 'active'), retail investors have since pulled down the prices of Adani Power, Adani Transmission and Adani Total Gas by 18 per cent as on June 18. 2021. Chairman Gautam Adani lost almost $10 billion in the four days of trading since June 14, bringing him down to the third spot in the Asian wealth ranking.

Some analysts say the dip in share prices is due to a correction since group firms were highly over-valued compared to peers. For instance, share prices of three Adani group companies in the power sector— Adani Power, Adani Green Energy and Adani Transmisssion — have jumped 200 per cent to 600 per cent in the last one year, and the aggregate market cap of these companies zoomed to ₹4 lakh crore as on June 11, 2021. Rival Tata Power Company

Adani Enterprises

Solar photovoltaic manufacturing at Mundra; road and rail construction; defence and aerospace; edible oil and foods production (850 plants); airports (holds 23.5 per cent stake in Mumbai airport, awarded the rights to modernise and operate six others — Ahmedabad, Lucknow, Mangaluru, Jaipur, Guwahati and Thiruvananthapuram)

Adani Green Energy

Solar power: 3,023 MW in operation; 8,150 MW under construction

Wind power: 497 MW in operation; 1,430 MW under construction

Hybrid power: 2,290 MW under construction

Adani Ports & SEZ

Operates six major ports (Mundra, Dahej, Kattupalli, Krishnapatnam, Hazira and Dhamra) and four terminals

Adani Power

12,400 MW

Of coal-fired capacity in operation; plans to add another 7,000 MW

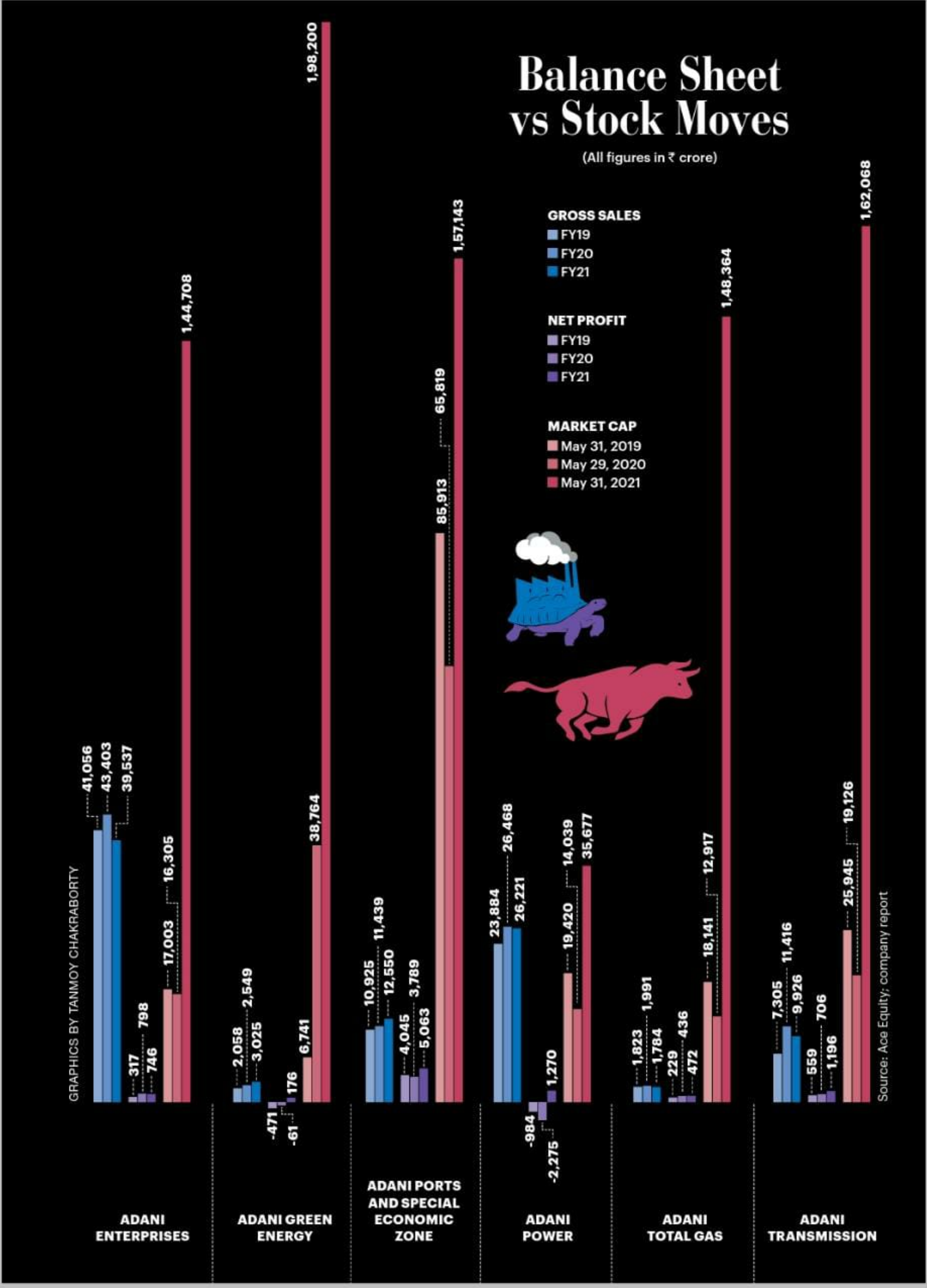
Adani Total Gas

Operates city gas distribution networks in Ahmedabad and Vadodara (Gujarat), Faridabad (Haryana) and Khurja (UP); A consortium of Adani Total Gas and IOC has received distribution rights for Allahabad, Chandigarh, Ernakulam, Panipat, Daman, Dharwad and Udham Singh Nagar

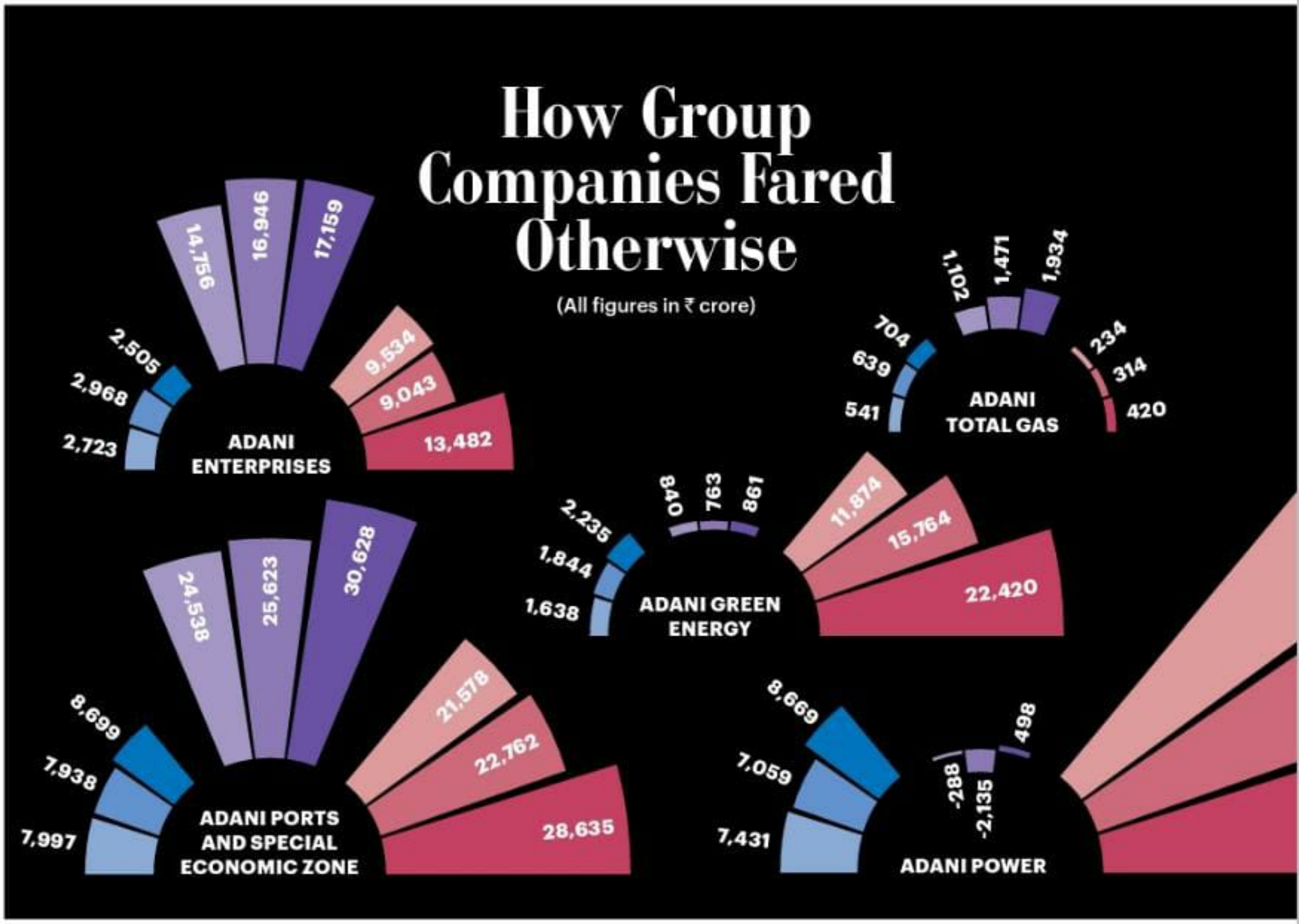
Adani Transmission

17,200 circuit kilometres

Of transmission lines and power distribution in Mumbai



Balance Sheet vs Stock Moves
(All figures in ₹ crore)
GROSS SALES
FY19
FY20
FY21
NET PROFIT
FY19
FY20
FY21
MARKET CAP
May 31, 2019
May 29, 2020
May 31, 2021
GRAPHICS BY TANMOY CHAKRABORTY
ADANI ENTERPRISES
41,056
43,403
39,537
317
798
746
17,003
16,305
1,44,708
ADANI GREEN ENERGY
2,058
2,549
3,025
-471
-61
176
6,741
38,764
1,98,200
ADANI PORTS AND SPECIAL ECONOMIC ZONE
10,925
11,439
12,550
4,045
3,789
5,063
85,913
65,819
1,57,143
ADANI POWER
23,884
26,468
26,221
-984
-2,275
1,270
19,420
14,039
35,677
ADANI TOTAL GAS
1,823
1,991
1,784
229
436
472
18,141
12,917
1,48,364
ADANI TRANSMISSION
7,305
11,416
9,926
559
706
1,196
25,945
19,126
1,62,068
Source: Ace Equity; company report



(TPCL), which operates in all the areas of the three Adani companies, witnessed nearly 200 per cent rise in its share price in the one year since June 10, 2020, but its market value was still one fourth at ₹40,000 crore on June 11, 2021. JSW Energy has seen a 235 per cent rise in share price and its market value was ₹27,000 crore during the same period.

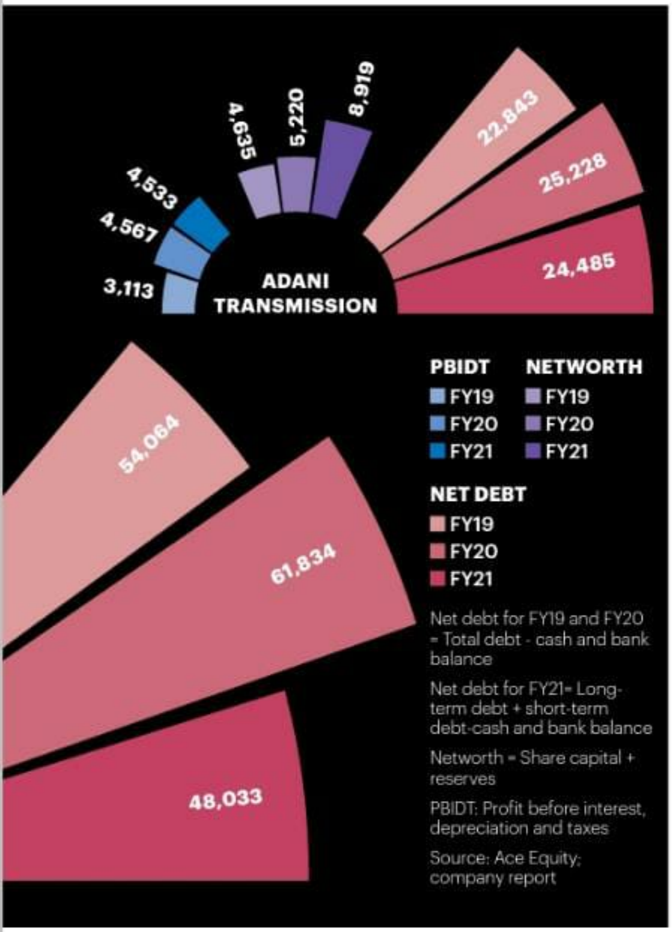
The three Adani companies own coal-fired, solar and wind power projects with around 16,000 mega watt (MW) capacity and 17,200 circuit kilometres (CKm) of transmission lines and distribution rights in Mumbai. The three posted an aggregate net profit of ₹2,642 core on combined revenue of ₹39,172 crore in FY21. But these companies also had gross and net debts of ₹98,853 crore and ₹94,938 crore, respectively, in FY21. Rival Tata Power Company has 12,808 MW of generation capacity (30 per cent from renewable), 3,531 kilometres of transmission network and distribution rights in Delhi, Mumbai, Ajmer and Odisha. The company, which posted a net profit of ₹1,439 crore in 2020/21, has a debt of just ₹36,000 crore.

A big surprise is Adani Total Gas, valued at ₹1.48 lakh crore on June 18, 2021. It reported ₹471-crore profit in FY21. In comparison, its much-larger peer and the more profitable Gujarat Gas had a market cap of ₹36,921 crore, though it generated a profit of ₹1,275 crore. Indraprastha Gas, which posted a profit of ₹1,249 crore, had a market cap of ₹37,000 crore.

Valued at ₹9.5 lakh crore before the crash, the Adani group reported an aggregate net profit of ₹8,922.93 crore in FY21. Its gross and net debt stood at ₹1.48 lakh crore and ₹1.37 lakh crore. Mukesh Ambani's Reliance Industries (RIL), which generated a profit of ₹53,739 crore in FY21 and has zero net debt, is valued at ₹14.7 lakh crore. India's third most valuable firm, HDFC Bank, which posted ₹31,116-crore profit in FY21, is valued just above ₹8 lakh crore.

Why The Difference?

Arun Kejriwal, Director, investment advisory firm, KRIS, says market cap is a function of perception and comparison between two companies. "When you compare two companies from the same business, you compare the promoters and management, quality of assets and performance track record. Adani firms tend to get higher valu-



ation because of their business approach, high promoter shareholding in the companies, better financial performance and projects in pipeline," he adds.

Since promoters have a high shareholding in all Adani group firms, fewer shares are available for trade. In a demand-supply situation, when demand rises, prices of shares with lower float in public tend to rise faster. In Adani Enterprises, Adani Power, Adani Total Gas and Adani Transmission, promoters hold nearly 75 per cent stake, the upper limit permitted by the Securities and Exchange Board of India. In Adani Ports, they hold 63.74 per cent. Promoter stake in Adani Green Energy has been reduced to 55 per cent from 75 per cent in the March quarter following the sale of 20 per cent stake to French oil and energy group Total SE.

Deven R. Choksey, Managing Director, KR Choksey Investment Managers, says the Adani group is the only pure-play infrastructure conglomerate in the country. "Global investors look for longer visibility for revenue and cash flow. The group is cash surplus and generated EBITDA (earnings before interest, taxes, depreciation and amortisation) of ₹32,000 crore," he says. Investors are also attracted to the high internal rate of return (IRR) of 14-15 per cent in these companies, which is only 2-4 per cent in utility/infra companies in developed countries, he adds.

Sources, however, are concerned about a trend where promoters work with friends and friendly organisations to generate demand for shares of target companies. "Promoters usually assure a particular return to friendly associates to buy the shares of their companies. They also compensate if there are losses incurred due to the purchase," says an operator in the market. Kejriwal of KRIS says such a practice is prevalent in the market.

Sanjay Sethi, Managing Partner, Nestor Capital Consulting, believes the high momentum in the shares of Adani group firms is primarily due to the herd mentality of retail investors. "However, the market believes that the group is well funded... It is the largest acquirer of infrastructure assets even in a down market," he says.

The group is also building assets, besides acquisitions. Recently, it set up Adani Cement Industries to cash in on the construction boom. An IPO for the airport business is also on the cards, according to sources. "The group plans to hive off the airport business from Adani Enterprises to kickstart the process," a company insider said.

In short, the market value in absolute terms is misleading at least in the case of Adani companies. While analysts feel the companies are overvalued, they agree that Adani has moved at a lightning speed to find new opportunities and ink quick deals.

On The Cards, But...

Fifty eight-year-old Gautam Adani, who started off as a diamond sorter in Mumbai's Zaveri Bazar, earned the millionaire tag in just three years of working as a diamond broker in his early 20s. He returned to Ahmedabad to run his elder brother's plastic unit and began building infrastructure assets in the midst of India's economic liberalisation. The Adani group, which was established in 1988, saw an unprecedented jump in share prices during the 2014 general elections. Group firms' share prices jumped 100-300 per cent in the belief that Adani's meteoric rise during the then Gujarat chief minister Narendra Modi's tenure could be replicated nationally with Modi as Prime Minister.

Gautam Adani was the 10th-richest Indian with $12 billion in wealth in 2018, thanks to the listing of Adani Green Energy and Adani Gas in June that year. In 2019, he became the second-richest Indian with $16-billion wealth.

The group recently shifted focus to new opportunities such as green energy, power distribution, airports, defence, data center and city gas distribution. Most of these segments are driven by government orders/projects. To strengthen his consumer portfolio, Adani has also become aggressive in the fast-moving consumer goods (FMCG) business, which comes under joint venture Adani Wilmar.

It continued to invest when the economy was strug-

Adani Ports has raised its capacity to 500 MT from 245 MT in the last six years

[redacted]

gling after Covid 1.0. In October 2020, Adani Port completed a ₹12,000-crore acquisition of 75 per cent stake in Krishnapatnam Port in Andhra Pradesh, and later received the Competition Commission of India's approval to acquire the additional 25 per cent from Vishwasamudra Holdings for ₹2,800 crore. The company plans to acquire 31.5 per cent stake in Gangavaram Port in Andhra Pradesh from PE investor Warburg Pincus for ₹1,954 crore. Group firms took over Dighi Port in Mumbai for ₹705 crore and Alipurduar Transmission for ₹1,300 crore during the pandemic.

The group also announced a plan to buy a majority stake in Mumbai and Navi Mumbai airports. Adani Airport Holdings (AAHL), a wholly owned subsidiary of Adani Enterprises, has acquired 23.5 per cent stake in the Mumbai International Airport (MIAL) from foreign investors for ₹1,685 crore in February. It is also acquiring GVK Airport Developers' 50.50 per cent stake in MIAL. In mid-2018, Adani Transmission took over the Mumbai electricity distribution business from Reliance Infrastructure.

However, growing through high-value acquisitions is not a good idea when there is uncertainty in the economy and demand is dipping. Airports have been empty across the world during lockdowns. The power business has been struggling for the last one decade and big power projects announced were either non-starters or ended as bankrupt. It was the infrastructure-focused companies that went bankrupt in the last three years — Jaypee, Bhushan, Reliance Communications, Lanco and ABG Shipyard to name a few.

But Gautam Adani remained unfazed. Adani Ports has raised its capacity to 500 million tonnes (MT) from 245 MT in the last six years, thanks to acquisitions. Adani Green expanded capacity to 5,000 MW from 300 MW, while Adani Transmission has more than doubled its capacity to 17,000 CKm from 7,000 CKm. Adani Total Gas caters to 38 geographical areas now, against five in 2015.

Insiders say the group's infrastructure and real asset portfolio registered an EBIDTA growth of 22 per cent in FY21, despite the pandemic impacting economic growth. The group's net debt to EBIDTA is around 3.88, which is in the first quartile among global peers in the utility and infra sector. "Timely execution, operational excellence and prudent capital management are the key pillars of the group's growth. The group attracted large pool of foreign institutional investors, who constitute a significant part of our share register. Our register also includes significant strategic investors, including Total of France and QIA (Qatar Investment Authority)," they add.

The group's EBITDA stood at ₹32,300 crore in FY21. "We expect similar growth this fiscal. While Adani Ports has given a guidance for a 11-12 per cent cargo volume growth, Adani Green's operational capacity will increase 10,000 MW by March 2022. Similarly, Adani Transmission will add 2,500 CKm by then," according to company insiders.

Adani Green recently bagged a contract for building a large solar project of 8,000 MW at an investment of ₹45,000 crore. The company aims to become the world's largest renewable energy major by 2030. It has an installed renewable capacity of 2,800 MW and wants to raise it to 25,000 MW by 2025. However, the 8,000-MW solar project announced in June last year is yet to get dedicated buyers as the fixed power purchase agreement (PPA) tariff for the project is at the higher side of ₹2.92 per kilowatt hour (kwh) for 25 years, against the going rate of ₹2.3-2.4 per Kwh. But it may expose the company to higher financial risks, say experts.

The group plans to invest $5-7 billion annually to achieve its growth targets. It will entail raising huge debt additionally on existing loans. In such a situation, group companies cannot afford cash flow disruptions. As a group depending heavily on public utility businesses, Adanis are also exposed to policy disruptions.

Investors are now awaiting the next chapter of the Adani story. BT

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