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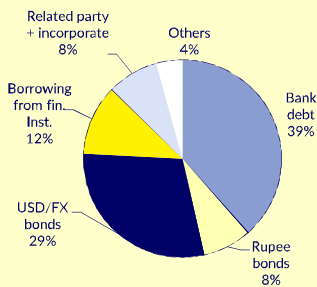
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26 January 2023

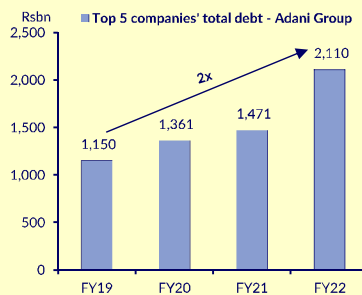
India

Financial services

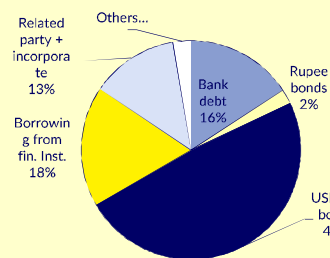
Breakdown of top 5 group companies' debt:



Total debt doubled in past 4 years:



Breakdown of incremental debt (FY19-22):



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Adani – Where does the debt sit?

Exposure of private banks very low

In this report, we examine banks' exposure to Adani group debt. The key message is that Indian banking exposure is less than 40% of total group debt. Within this, private banks' exposure is below 10% of total group debt and most banks (including ICICI/Axis) have indicated that they have largely financed assets with strong cashflows, such as airports/ports. PSU banks do have material exposure (30% of group debt) but this debt has not increased in the past three years. Most of the incremental funding to the group for new businesses and acquisitions has come via overseas sources. To conclude, the ballpark exposure of private banks is 0.3% of FY24 loans and 1.5% of FY24 network. For PSU banks, the exposure is 0.7% of FY24 loans and 6% of FY24 network.

Aggregate debt of top 5 Adani group companies

- We aggregate the consolidated debt of the top-5 Adani group companies: Adani Enterprises, Adani Ports, Adani Power, Adani Green and Adani Transmission.
- While there may be some element of double counting in group debt, we calculate consolidated debt of Rs2.1tn for these companies; excluding inter-group lending, the debt is Rs1.9tn.
- Bank debt (term loans, working capital and other facilities) forms just 38% of the total debt, while bonds/CP constitute 37%, 11% is borrowing from financial institutions and the remaining 12-13% is inter-group lending.
- On an absolute level, we estimate that bank debt is Rs700-800bn of the Rs2tn debt in FY22. While debt levels have doubled from Rs1tn to Rs2tn in the past three years, bank debt has increased by more than 25%. The share of bank debt in overall group debt has reduced materially and we estimate that incrementally banks have only lent Rs150bn, or 15% of the Rs1tn the group companies have borrowed over the past three years.
- Large acquisitions, such as cement, have been fully funded by foreign banks (Figure 11).

Company data corroborates lower share of bank lending especially private banks

- Adani Group's debt disclosures corroborate our findings of a declining share of bank funding in Adani's overall debt mix.
- The group has indicated that the share of PSU banks in its funding mix has dropped from 55% in FY16 to 26% now while the share of private banks has plunged from 31% to 8%. A greater part of the group's funding now comes from bonds at 37% (funding ports and the transmission business) and from foreign banks (18% of debt).
- We are broadly able to corroborate our analysis with the company data, indicating that banks are funding 35-40% of Adani Group debt with private banks funding less than 10% and PSU banks funding 25-30% of the debt.

Exposure levels manageable – very little risk for private banks

- In Figure 9, we estimate that banking exposure to Adani Group is 0.55% of system loans as bank debt stands at less than 40% of total group borrowing. Within this, PSU banks' exposure as a share of their loans is 0.7%, with the figures for some banks potentially at more than 1% of loans, while for private banks the exposure is 0.3% of loans.
- For private banks, our feedback suggests that they have potentially reduced their exposure on aggregate and the residual debt to the group is largely in very strong cashflow businesses, such as power and airports. We estimate the absolute exposure at 1.4% of private banks' FY24 network – any weakness due to concerns over the group's debt would provide an opportunity to BUY, in our opinion.
- For PSU banks, the exposure is more meaningful at 0.6% of loans and 5% of FY24 network. PSU banks have also indicated that their exposure has not meaningfully increased in the past two to three years since the group has expanded into new businesses. Also, most of the recent acquisitions have been financing by foreign entities. One caveat is that we are not aware of non-funded exposures that PSU banks might have extended.

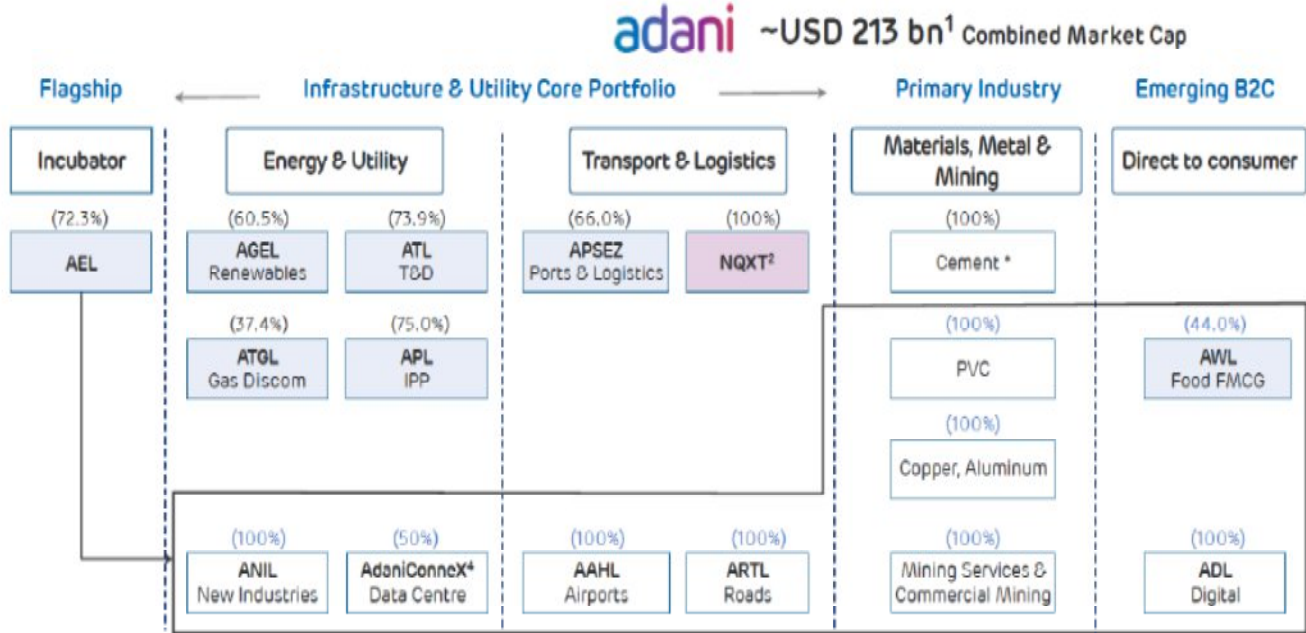
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Adani group – Where does the debt sit?

Figure 1

Adani Group structure – we take a closer look at debt for the larger group companies on the left in the chart below



(%): Promoter equity stake in Adani Portfolio companies (%): AEL equity stake in its subsidiaries

1. Combined market cap of all listed entities as on July 31, 2022, USD/INR – 79.34 | 2. NQXT: North Queensland Export Terminal | 3. ATGL: Adani Total Gas Ltd, JV with Total Energies | 4. Data center, JV with EdgeConnex, AEL: Adani Enterprises Limited; APSEZ: Adani Ports and Special Economic Zone Limited; ATL: Adani Transmission Limited; T&D: Transmission & Distribution; APL: Adani Power Limited; AGEL: Adani Green Energy Limited; AAHL: Adani Airport Holdings Limited; ARTL: Adani Roads Transport Limited; ANIL: Adani New Industries Limited; AWL: Adani Wilmar Limited; ADL: Adani Digital Limited; IPP: Independent Power Producer

Source: Company data

Figure 2

Debt of the top-5/6 companies of Adani Group – Rs1.9tn excluding inter-group lending

Rsm	Adani Power	Adani Green	Adani Ports	Adani Enterprises	Adani Transmission	Top-5 Adani
Bank debt	323,284	206,640	51,828	179,445	51,149	812,347
Bonds						
Rupee	-	6,000	93,733	68,405	1,109	169,246
USD/others	-	118,880	302,099	-	197,393	618,372
Borrowing from fin. Inst.	82,650	107,620	-	28,819	24,367	243,456
Related party + incorporate	65,014	30	-	88,673	23,235	176,952
Others	7,216	37,820	-	44,895	-	89,931
Total	478,164	476,990	447,660	410,238	297,253	2,110,304
Total (ex-RPT/IC debt)	413,150	476,960	447,660	321,565	274,018	1,933,352

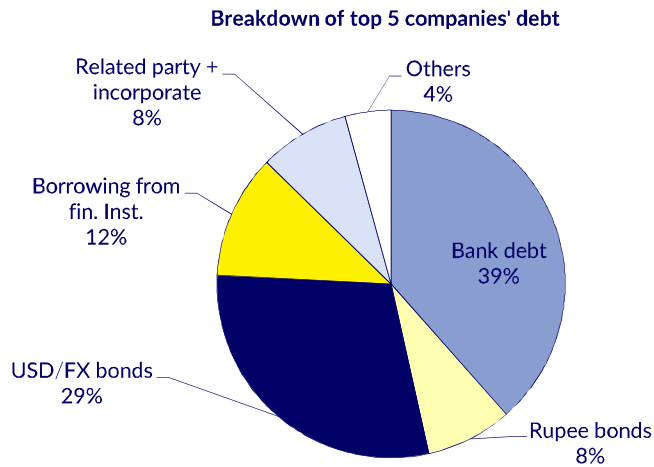
Source: Companies, CLSA

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Great
Solid
OK

Our bottom up analysis ties in well with the group's disclosures

Figure 3

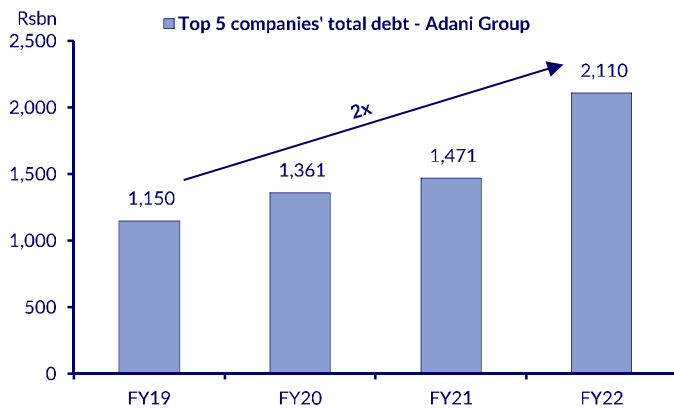
Our estimate of the where the debt sits - <40% with the banks



Source: Companies, CLSA

Figure 4

Debt levels over the past four years

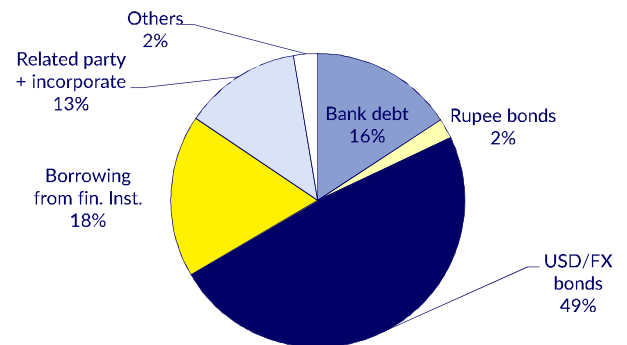


Source: Companies, CLSA

Figure 5

Small part of the debt increase funded by banks in past three years

Breakdown of incremental top 5 companies' debt: FY19-22

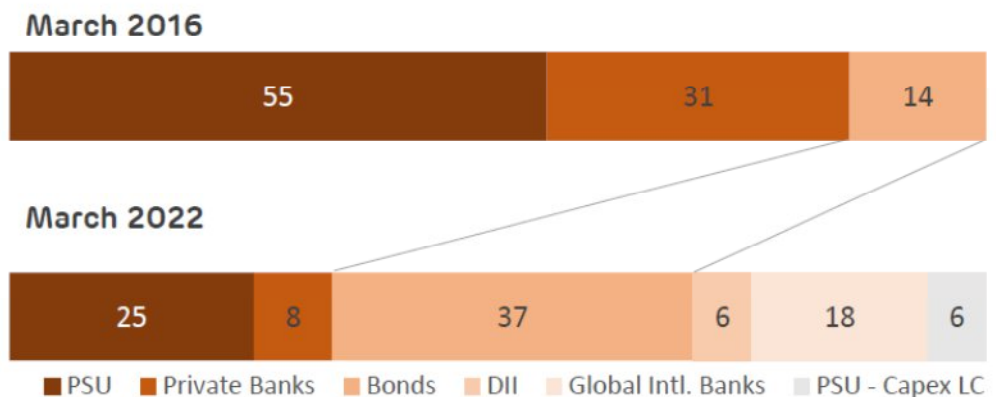


Source: Companies, CLSA

Share of bank funding in overall Adani Group debt has come down from 86% in FY16 to less than 40% in FY22

Figure 6

Company data also indicate similar trends (%)



Source: Companies, CLSA

Debt of the top Adani companies has increased from Rs1tn to Rs2tn over the past three to four years

Within this, bank funding is less than 40%, we estimate, while bonds, financial institutions and foreign banks form a larger part of the group debt

Bank funding to the group has not materially increased in the past few years

Private banks' exposure quite low at below 2% of net worth

Figure 7

Group level debt by source based on Adani companies' annual reports						
Adani Group debt	Power	Green	Ports	Enterprises	Transmission	Total (Top-5)
Total debt (Rsbn)	478	477	448	410	297	2,110
Bank debt	323	207	52	179	51	812
Rupee bonds	-	6	94	68	1	169
USD/FX bonds	-	119	302	-	197	618
Borrowing from fin. Inst.	83	108	-	29	24	243
Related party + incorporate	65	0	-	89	23	177
Others	7	38	-	45	-	90
Composition						
Bank debt	68%	43%	12%	44%	17%	38%
Rupee bonds	0%	1%	21%	17%	0%	8%
USD/FX bonds	0%	25%	67%	0%	66%	29%
Borrowing from fin. Inst.	17%	23%	0%	7%	8%	12%
Related party + incorporate	14%	0%	0%	22%	8%	8%
Others	2%	8%	0%	11%	0%	4%

Source: Companies, CLSA

Figure 8

Group debt movement over past three to four years				
Top 5 cos' agg. debt (Rsbn)	FY19	FY20	FY21	FY22
Bank debt	661	540	543	812
Rupee bonds	148	68	94	169
USD/FX bonds	151	424	461	618
Borrowing from fin. Inst.	72	140	189	243
Related party + incorporate	53	81	142	177
Others	65	108	40	90
Total	1,150	1,361	1,471	2,110
Total (ex-RPT/IC debt)	1,097	1,281	1,329	1,933
Bank debt	57%	40%	37%	38%
Rupee bonds	13%	5%	6%	8%
USD/FX bonds	13%	31%	31%	29%
Borrowing from fin. Inst.	6%	10%	13%	12%
Related party + incorporate	5%	6%	10%	8%
Others	6%	8%	3%	4%

Source: Companies, CLSA

Figure 9

Exposure of private banks is quite low			
Rsbn	PSU banks	Private banks	Total banks
Adani exposure (estimate)	550	175	725
% of Adani Group debt	28.6%	9.5%	38.1%
FY22 loans	70,000	45,000	115,000
FY24 loans - estimate	87,745	60,030	147,775
Exposure (% of FY24 loans)	0.63%	0.29%	0.49%
FY22 net worth (ex revaluation reserves)	7,300	8,300	15,600
FY24 net worth (ex revaluation reserves)	9,404	10,977	20,381
Exposure (% of FY24 net worth)	5.8%	1.6%	3.6%
Exposure (% of FY24 net worth - post tax)	4.4%	1.2%	2.7%

Source: Companies, banks, RBI, CLSA

Aggregate debt levels have improved over the years

Holcim acquisition financing of Rs420bn entirely by foreign banks

Figure 10

Leverage levels of Adani Group companies (aggregate of top five companies)						
Rsm	FY17	FY18	FY19	FY20	FY21	FY22
Adani Group						
Debt	1,082,305	1,121,304	1,200,976	1,274,406	1,519,209	2,119,822
Net worth	386,451	423,299	454,087	462,527	678,300	903,128
EBITDA	168,668	166,597	174,815	213,054	282,777	384,280
Interest	101,058	98,723	112,221	118,810	125,153	141,603
Dep. & Amort.	53,751	56,734	64,580	67,272	76,610	93,811
PBT	74,422	101,911	107,837	100,320	103,702	162,225
Gross Debt/Ebitda	6.42	6.73	6.87	5.98	5.37	5.52
Ebitda/ interest	1.67	1.69	1.56	1.79	2.26	2.71

Source: Companies, CLSA

Figure 11

Company disclosure of Holcim funding by overseas banks	
3	
Holcim Acquisition	
Underwriter Barclays, DB & SCB – INR 42,000 Cr.	
Underwriter Hold	8,100
DBS	6,000
MUFG	4,800
Intesa	3,600
SMBC	2,800
FAB	2,800
Mizuho & others	13,900

Source: Companies, CLSA

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Companies mentioned

Adani Airport Holdings (N-R)
Adani Digital (N-R)
Adani Enterprises (N-R)
Adani Green Energy (N-R)
Adani Group (N-R)
Adani New Industries (N-R)
Adani Ports (ADSEZ IB - RS712.9 - O-PF)
Adani Power (N-R)
Adani Road Transport (N-R)
Adani Total Gas (N-R)
Adani Transmission (N-R)
Adani Wilmar (N-R)
AdaniConnex (N-R)
Axis Bank (AXSB IB - RS891.7 - BUY)
Barclays (N-R)
DBS (DBS SP - S\$35.51 - BUY)
EdgeConnex (N-R)
FAB (N-R)
Holcim (N-R)
ICICI Bank (ICICIBC IB - RS855.3 - BUY)
Intesa San (N-R)
Mizuho (N-R)
MUFG (N-R)
North Queensland Export Terminal (N-R)
SMBC (N-R)

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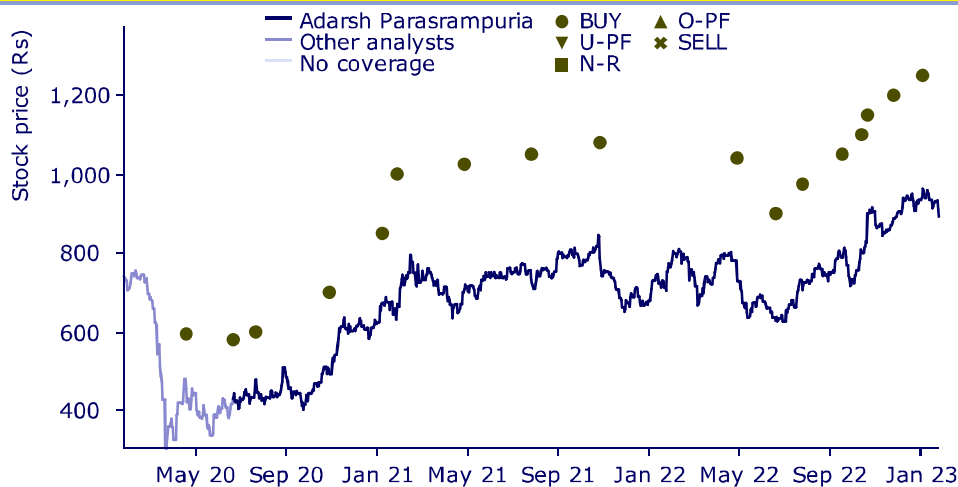
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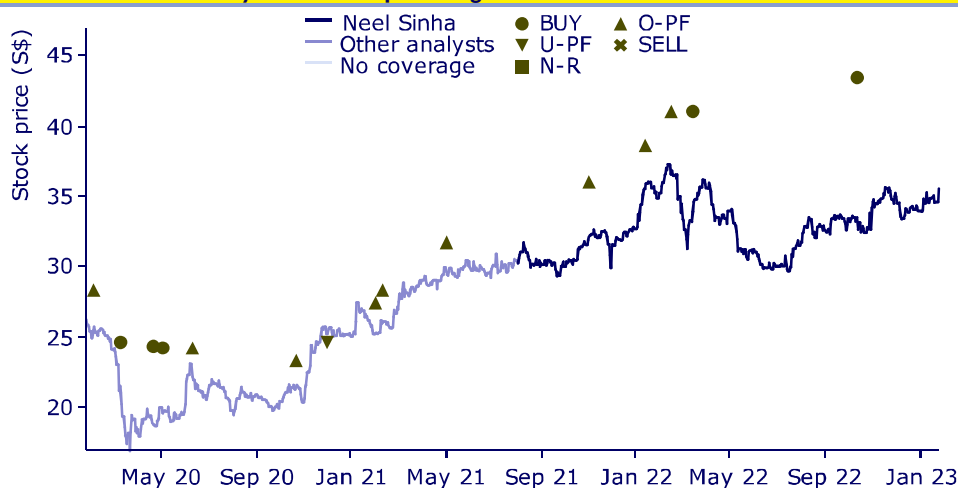
Recommendation history of Axis Bank Ltd AXSB IB



Date	Rec	Target	Date	Rec	Target
03 Jan 2023	BUY	1,250.00	27 Jul 2021	BUY	1,050.00
25 Nov 2022	BUY	1,200.00	28 Apr 2021	BUY	1,025.00
21 Oct 2022	BUY	1,150.00	28 Jan 2021	BUY	1,000.00
13 Oct 2022	BUY	1,100.00	08 Jan 2021	BUY	850.00
17 Sep 2022	BUY	1,050.00	29 Oct 2020	BUY	700.00
26 Jul 2022	BUY	975.00	22 Jul 2020	BUY	600.00
20 Jun 2022	BUY	900.00	22 Jun 2020	BUY	580.00
29 Apr 2022	BUY	1,040.00	20 Apr 2020	BUY	595.00
27 Oct 2021	BUY	1,080.00			

Source: CLSA

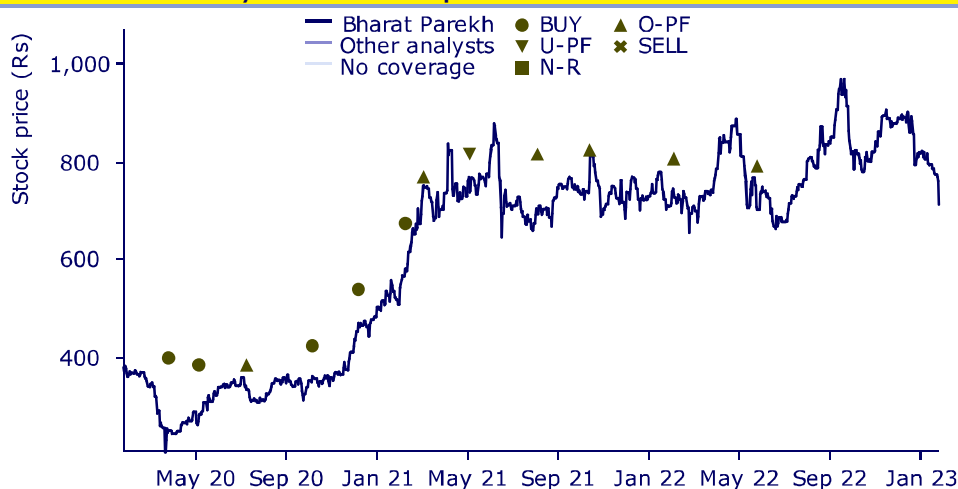
Recommendation history of DBS Group Holdings Ltd DBS SP



Date	Rec	Target	Date	Rec	Target
12 Oct 2022	BUY	43.40	01 Dec 2020	U-PF	24.60
15 Mar 2022	BUY	41.00	22 Oct 2020	O-PF	23.30
15 Feb 2022	O-PF	41.00	11 Jun 2020	O-PF	24.20
13 Jan 2022	O-PF	38.60	04 May 2020	BUY	24.20
02 Nov 2021	O-PF	36.00	22 Apr 2020	BUY	24.30
03 May 2021	O-PF	31.70	11 Mar 2020	BUY	24.60
10 Feb 2021	O-PF	28.30	05 Feb 2020	O-PF	28.30
01 Feb 2021	O-PF	27.40			

Source: CLSA

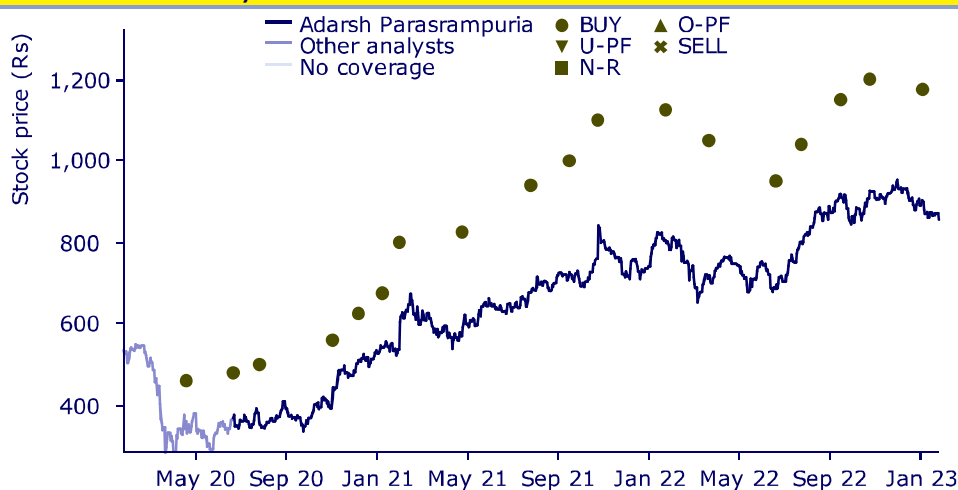
Recommendation history of Adani Ports & Special Economic Zone Ltd ADSEZ IB



Date	Rec	Target	Date	Rec	Target
26 May 2022	O-PF	792.00	08 Feb 2021	BUY	675.00
03 Feb 2022	O-PF	807.00	07 Dec 2020	BUY	540.00
13 Oct 2021	O-PF	825.00	06 Oct 2020	BUY	425.00
04 Aug 2021	O-PF	816.00	10 Jul 2020	O-PF	386.00
05 May 2021	U-PF	816.00	07 May 2020	BUY	386.00
04 Mar 2021	O-PF	770.00	27 Mar 2020	BUY	400.00

Source: CLSA

Recommendation history of ICICI Bank Limited ICICIB IB



Date	Rec	Target	Date	Rec	Target
03 Jan 2023	BUY	1,175.00	26 Jul 2021	BUY	940.00
24 Oct 2022	BUY	1,200.00	25 Apr 2021	BUY	825.00
15 Sep 2022	BUY	1,150.00	31 Jan 2021	BUY	800.00
24 Jul 2022	BUY	1,040.00	08 Jan 2021	BUY	675.00
20 Jun 2022	BUY	950.00	07 Dec 2020	BUY	625.00
22 Mar 2022	BUY	1,050.00	02 Nov 2020	BUY	560.00
23 Jan 2022	BUY	1,125.00	27 Jul 2020	BUY	500.00
24 Oct 2021	BUY	1,100.00	22 Jun 2020	BUY	480.00
16 Sep 2021	BUY	1,000.00	20 Apr 2020	BUY	460.00

Source: CLSA

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