

Recommendation	Neutral		BACKGROUND
<b>Price Band</b>	Rs. 3112 – 3276		AEL (Adani Enterprises Ltd.) is one of India's largest listed business incubators in terms of market capitalisation and is driven by the philosophy of incubating businesses in four core sectors - energy and utility, transportation and logistics, consumer, and primary industry. It represents an effective complement of established and developing businesses which address the needs of India. Over the years, the company has seeded new business interests for the Adani group, developed them into sizeable and self-sustaining business verticals and subsequently demerged them into independently listed and scalable platforms, thereby unlocking value for shareholders.
<b>Bidding Date</b>	27 <sup>th</sup> Jan – 31 <sup>st</sup> Jan		
<b>Book Running Lead Manager</b>	I-Sec, Jefferies, SBI, Axis, BOB, IDBI, IIFL, JM, Monarch Network, Elara		
<b>Registrar</b>	Link Intime		
<b>Sector</b>	Diversified		
<b>Minimum Retail Application- Detail At Cut off Price</b>			
Number of Shares	4		<b>Objects and Details of the Issue:</b> The public issue consists of fresh issue of 6.15 Cr equity shares aggregating to Rs. 20,000 Cr. The company will utilize the proceeds towards capex for green hydrogen ecosystem, airports business, construction of greenfield expressways and repayment of debt (Rs. 4165 Cr).
Price on Upper Band	Rs. 3276		
<b>Price on application (50%)</b>	<b>Rs. 1638</b>		
Retail Discount	Rs. 64		
Net Price on Application	Rs. 1574		
Minimum Application Money	Rs. 6296		
Payment Mode	ASBA		
<b>Consolidated Financials (Rs Cr)</b>	<b>FY21</b>	<b>FY22</b>	
Total Income	39537	69420	
EBITDA	2505	3713	
Adj PAT	93	777	
<b>Valuations (FY22)</b>	<b>Upper Band</b>		<b>Investment Rationale:</b> <ul style="list-style-type: none"> <li>• Business incubator with a demonstrated track record of incubating sustainable infrastructure businesses in India with a focus on enhancing stakeholder value</li> <li>• Demonstrated track record and expertise in project execution and management</li> <li>• Tapping on the growing green hydrogen potential in India to build a fully-integrated green hydrogen ecosystem in India</li> <li>• Airport assets of national importance are strategically located and are supported by a stable regulatory framework and concession terms</li> <li>• Leading global player in integrated resource management</li> <li>• Experienced promoters and strong leadership</li> <li>• Scalable financial structure and demonstrated financial performance</li> </ul>
Market Cap (Rs Cr)	3,93,604		
Adj EPS	6.5		
PE	507		
EV/ EBITDA	113		
Enterprise Value (Rs Cr)	4,19,478		
<b>Post Issue Shareholding Pattern</b>			
Promoters	68.9%		<b>Valuation and Recommendation:-</b> AEL's leap into futuristic technologies like green hydrogen with heavy investments can propel the company into a new league or it could bleed the financials if the market dynamics shifts in favor of other alternate fuels. AEL's business model involves high risk with uncertain business outcomes and thus <b>we have a 'Neutral' rating on the issue.</b>
Public	31.1%		
<b>Offer structure for different categories</b>			
QIB (Including Mutual Fund)	50%		
Non-Institutional	15%		
Retail	35%		
Post Issue Equity (Rs. in cr)	120.15		
Issue Size (Rs in cr)	20,000		
Face Value (Rs)	1		
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Financials (Rs Cr)	FY20	FY21	FY22
Net Revenues	43403	39537	69420
<b>Growth</b>	-	<b>-9%</b>	<b>76%</b>
EBIDTA	2284	2505	3713
<b>EBITDA Margins</b>	<b>5.3%</b>	<b>6.3%</b>	<b>5.3%</b>
PBT	1122	1086	952
Adjusted PAT	1138	923	777
EPS	9.5	7.7	6.5
ROCE	8%	7%	5%
EV/Sales	-	-	6.0
EV/EBITDA	-	-	113
P/E	-	-	507

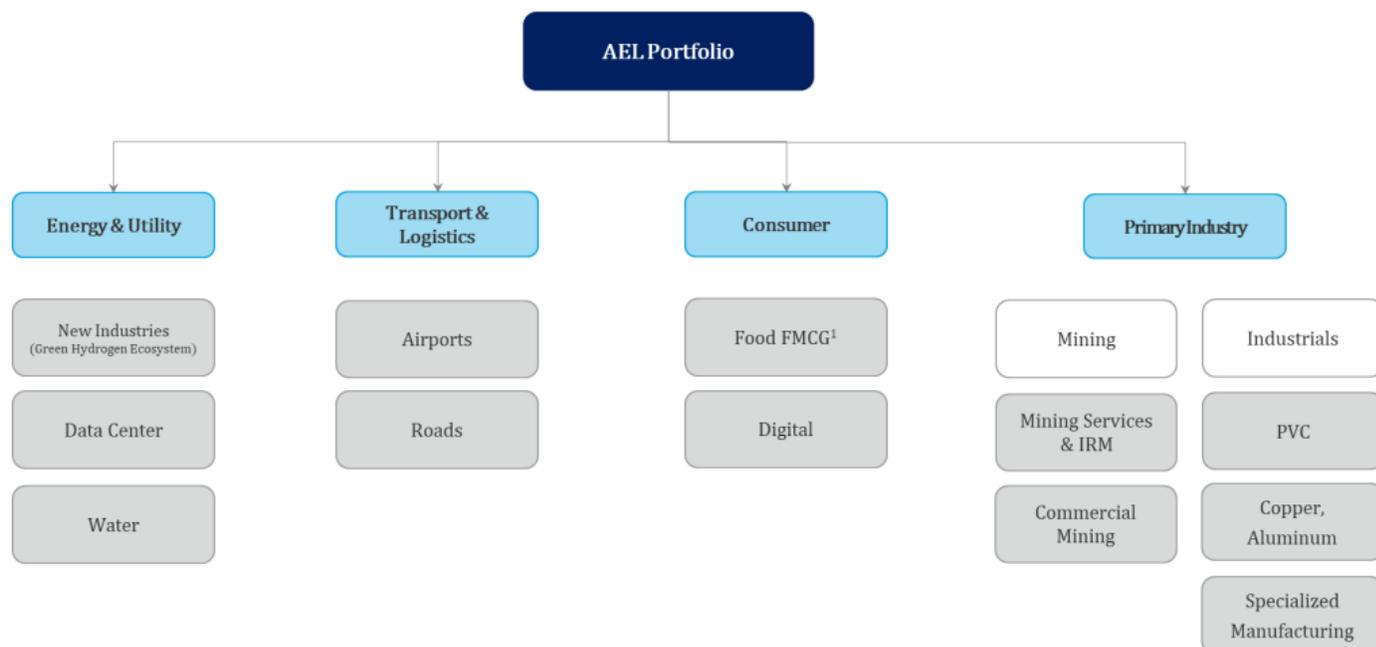
Source: Company data, NBRR

## Company Background

AEL (Adani Enterprises Ltd) is part of the Adani group, which is among India’s top business houses with an integrated energy and infrastructure platform in India and a long track record of successfully executing large-scale projects. Adani Enterprises is one of India’s largest listed business incubators in terms of market capitalisation and is driven by the philosophy of incubating businesses in four core industry sectors - energy and utility, transportation and logistics, consumer, and primary industry. It represents an effective complement of established and developing businesses which address the needs of India.

Over the years, the company has seeded new business interests for the Adani group, developed them into sizeable and self-sustaining business verticals and subsequently demerged them into independently listed and scalable platforms, thereby unlocking value for shareholders. The company has a demonstrated track record of creating sustainable infrastructure businesses since 1993. Since inception, it has incubated six decacorn businesses and successfully listed them, including by way of demergers, as Adani Ports and Special Economic Zone Limited, Adani Power Limited, Adani Transmission Limited, Adani Green Energy Limited, Adani Total Gas Limited and Adani Wilmar Limited. As of December 31, 2022, the Adani group had a market capitalisation of Rs. 18,402 billion (approximately US\$222 billion), and is one of the largest listed group by market capitalization in India.

## The current business portfolio includes:



# IRM = Integrated Resource Management (Under Mining)

**1) Energy and utility**

AEL is setting up a green hydrogen ecosystem with an objective to incubate, build and develop an end-to-end integrated ecosystem for the manufacture of green hydrogen, which includes manufacturing renewable energy equipment such as wind and solar modules to reduce the cost of renewable power, production of renewable energy and green hydrogen itself, and transformation of a part of the green hydrogen produced into derivatives, including green nitrogenous fertilizers, ammonia and urea, both for the domestic market and exports. AEL is leveraging its facilities at Mundra special economic zone (“SEZ”) to set up this ecosystem. By being present across the manufacturing value chain primarily from a single location, it expects to benefit from reduced costs and efficiencies. AEL develops data centers with an aim to retain and drive India’s internet-derived data in India. AEL is also developing infrastructure projects that enhance water treatment and use efficiency.

**2) Transport and logistics**

As part of AEL’s airports business it manages prominent airports in India. It currently develops, operates and manages seven operational airports across the cities of Mumbai, Ahmedabad, Lucknow, Mangaluru, Jaipur, Guwahati and Thiruvananthapuram, and one greenfield airport in Navi Mumbai. AEL also develops infrastructure projects such as roads in India. As of September 30, 2022, it had 14 road assets in India of which three assets have started commercial operations.

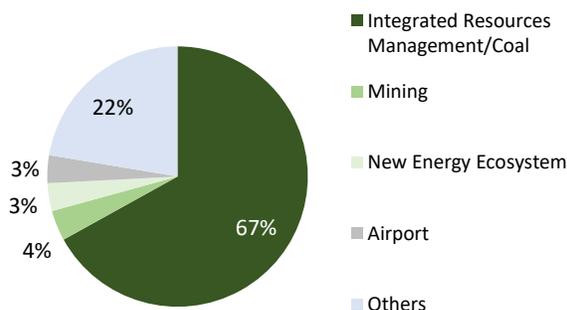
**3) Consumer**

AEL manufactures, markets and brands food FMCG products. Additionally, it is developing a super-app, “Adani One”, as part of its digital business to complement Adani group’s consumer serving businesses.

**4) Primary industry**

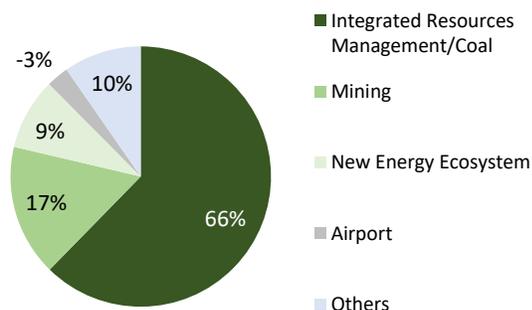
AEL offers mining services which involves contract mining, development, production-related services and other related services to mining customers primarily in the coal and iron ore industries. To cater to the high demand for coal in India, AEL offers integrated resource management services of coal which involves the access of coal from diverse global pockets and providing just-in time delivery to Indian customers. AEL has also recently acquired commercial mines to conduct commercial mining activities. Under industrials, it intends to manufacture petrochemicals, copper and similar metals, and manufacture strategic military and defence products that enhance India’s self-reliance.

**Revenue Mix FY22: (Rs. 69,420 Cr)**



Source: RHP

**EBIT Mix FY22**



Source: RHP

## Investment Rationale

**Business incubator with a demonstrated track record of incubating sustainable infrastructure businesses in India with a focus on enhancing stakeholder value**

AEL is one of India's largest listed business incubators in terms of market capitalisation. It started operations in 1993 and incubated the ports business in 1998, and has since expanded its portfolio to cover diversified businesses across many industry verticals including energy and utilities, transport and logistics, primary industry and consumer. It has, over the years, seeded new business interests for the Adani group, developed them into sizeable and self-sustaining business verticals and subsequently demerged them into independently listed and scalable platforms, thereby unlocking value for shareholders. AEL continues to add new companies to its portfolio with an objective to address the growing needs of India. These businesses possess a complement of scale, strategic importance, sustainable processes and technology sophistication. For example, since inception, AEL has incubated six decacorn businesses and successfully listed them, including by way of demergers, as Adani Ports and Special Economic Zone Limited, Adani Power Limited, Adani Transmission Limited, Adani Green Energy Limited, Adani Total Gas Limited and Adani Wilmar Limited. Each of these companies have large scale operations in India with credible credit ratings. The image below provides an overview of AEL's successful incubations that are now listed on Indian stock exchanges:

INR **150** In November 1994<sup>(1)</sup>  INR **1,066,154** In December 2022<sup>(2)</sup>

Achieved > 37% CAGR  
Versus  
Index<sup>(3)</sup> @ 10%

### Demergers driving shareholder value

Year of listing / demerger	Company	Business	CAGR in market cap since listing
2018		Renewable Power	150% CAGR in market cap since listing
		City gas distribution	158% CAGR in market cap since listing
2015		Transmission and distribution	86% CAGR in market cap since listing

Creating Decacorns			
Company	Overview	Market Cap (US\$ billion) <sup>(4)</sup>	EBITDA (CAGR) <sup>(5)</sup>
	One of the largest solar power developers <sup>(6)</sup>	37.0	52.3%
	A large private transmission and distribution company	34.9	22.3%
	A large private city gas distribution business with presence across 52 GAS	49.1	20.7%
	A large transport utility in India with 29% market share	21.3	13.4%
	A large FMCG food companies in India	9.7	19.4%

# EBITDA CAGR is for the period FY18-22

## Demonstrated track record and expertise in project execution and management

Since AEL's inception in 1993, it has incubated several companies across many verticals in the infrastructure sector and has built a distinctive specialization in project execution and has successfully executed all projects that it has undertaken to date. By leveraging the Adani group's multi-decade pool of managerial experience across a range of competencies for executing projects, AEL recognizes opportunities early, bids for or acquires projects, and aims to successfully execute projects.

## Tapping on the growing green hydrogen potential in India to build a fully-integrated green hydrogen ecosystem in India

India is expected to overtake the European Union as the world's third largest energy consumer by 2030 and will account for nearly one quarter of the global energy demand growth over 2019 to 2040. However, dependence on conventional sources alone to meet this requirement will not only result in higher import expenses but also higher emissions. In 2016, India signed the Paris Agreement to reduce the emissions intensity of its GDP by 45% by 2030.

Under the National Green Hydrogen Mission approved by the Union Cabinet in January 2023, India has set a target of manufacturing 5 million metric tonnes ("MMT") of green hydrogen per annum by 2030 with an associated renewable energy capacity addition of about 125 GW, and related development of renewable energy capacity, cutting approximately 50 MMT of annual greenhouse gas emissions. Hydrogen and ammonia are envisaged to be the future fuels to replace fossil fuels. Production of these fuels by using power from renewable energy is considered critical to achieve environmental sustainability for India. This incentive will help reduce dependence on fossil fuel and reduce crude oil imports and reduce the cost of production. The objective is for India to emerge as an export hub for green hydrogen and green ammonia. For green hydrogen, the Government of India has set a production target of 5 MMT per annum by 2030. This will require an electrolyser installation capacity of 27 GW – 30 GW and nearly 110 GW – 130 GW of renewable capacity.

Tapping on this potential AEL is setting up a fully-integrated green hydrogen ecosystem in India with an objective to incubate, build and develop an end-to-end integrated ecosystem for the manufacture of green hydrogen. AEL's green hydrogen ecosystem covers (i) the manufacture of equipment required for the manufacture of renewable power and green hydrogen, (ii) the manufacture of green hydrogen and the renewable power required for it, and (iii) the manufacture of downstream products.

AEL has completed studies for the development of an electrolyser with an aggregate installed capacity of up to 15 GW per annum to produce green hydrogen. It expects to manufacture the electrolyser in-house at Mundra SEZ and set up the green hydrogen plant in western Gujarat and Rajasthan. To further bolster its green hydrogen ecosystem, in 2022, it partnered with Total Energies pursuant to which they have agreed to acquire 25% minority interest in the green hydrogen business. This partnership is based on the complementarity of the two groups. Adani group's portfolio will contribute its knowledge of the Indian market, execution capabilities, and operations and capital management, and Total Energies will offer its understanding of the global markets, expertise in renewable technologies and large-scale industrial projects, and financial strength.

By being present across the manufacturing value chain primarily from a single location, having a fully backward integration value chain, deploying high efficiency technologies in modules and turbines, and manufacturing most components in-house, AEL expects to benefit from reduced costs and efficiencies.

## **Airport assets of national importance are strategically located and are supported by a stable regulatory framework and concession terms**

The expansion of India's population and middle class, low air trips per capita than other developing nations, improving aviation ecosystem in India, a land mass that is the world's seventh largest, India's ideal geographical location between the eastern and western hemisphere, aspiration to travel on leisure, narrowing price differential between air tickets and railway air conditioned second tier tickets, coupled with increased disposable incomes due to an expanding economy are expected to propel growth in the aviation sector. India recorded the highest year-on-year change in domestic passenger traffic growth in 2019 compared to other large domestic markets such as China, United States and Russia.

Tapping on this opportunity, AEL won mandates to modernize and operate six airports in Ahmedabad, Lucknow, Mangaluru, Jaipur, Guwahati and Thiruvananthapuram through the Airports Authority of India's ("AAI") globally competitive tendering process. AEL acquired the Mumbai International Airport Limited in 2021, and thereby won the contract for Navi Mumbai International Airport. As of December 31, 2022, AEL's portfolio comprises seven operational airports and one greenfield airport. AEL has emerged as the largest private operator of airports based on number of airports. The long-term tenor of contracts of 50 or more years provides AEL with operational advantage and gives it an opportunity to implement various long-term plans.

## **One of the leading global players in integrated resource management**

Integrated resource management is one of AEL's core current business activities. It is one of the leading suppliers of imported coal in India with 64.4 MMT of coal volumes sold during FY22. As part of integrated resource management business it provides customers with a one-stop-shop for their energy needs by managing the entire supply chain of services from sourcing of coal, managing the finances for the voyage time, providing port handling services, managing inland transportation of coal and delivery of the coal at customers' doorstep. AEL has a diversified trading portfolio with storage facilities at both outbound and inbound ports along with the requisite infrastructure to efficiently manage sea borne and inland multi-modal logistics movement. AEL's competitive advantage is derived from the synergies between Adani group's various business verticals, including the ports terminals on both the east and west coasts of India, which provide a strong infrastructure for efficient logistics management. Further, its experience spanning several decades in handling commodity trading and long standing business relationship with the coal suppliers in Indonesia, Australia and South Africa further provides the relevant purchasing power to manage such large coal volumes at a competitive price. Some of its major integrated resource management customers include state and central government power utilities as well as private power generators. As imported coal accounts for approximately 20% of India's overall coal demand, AEL continues to leverage its integrated presence in complete supply chain with embedded technologies to drive operational efficiencies. Its integrated resource management business is not capital intensive thereby focusing on enhancing the mined throughput for the mine owner. Accordingly, with this asset-light operating approach, it has enhanced its profitability and lowered its risk.

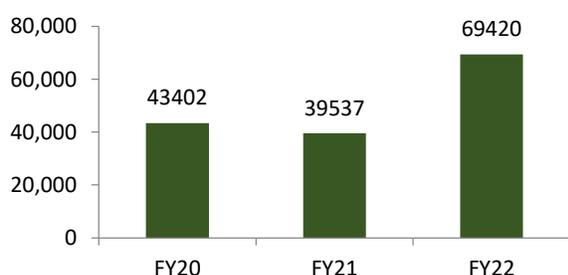
## **Experienced promoters and strong leadership**

AEL is led by its Promoters, Mr. Gautam S. Adani and Mr. Rajesh S. Adani, supported by an able and experienced senior management. It has an experienced management team with experience across sectors such as mining services, manufacturing, green hydrogen, water management, airports and roads, FMCG and digital offerings, among others. The board of directors have a collective experience of over many decades. The highly experienced and professional management team provides AEL with a key competitive advantage. Most members of the senior management have extensive experience in the industries it operates in. This results in effective operational coordination and continuity of business strategies.

**Scalable financial structure and demonstrated financial performance**

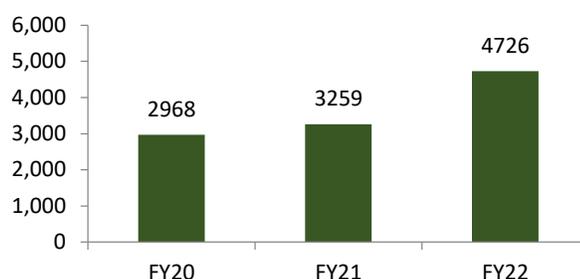
AEL has created a robust financial foundation of owned and borrowed funds. This makes it possible for AEL to mobilize resources from lenders at favorable costs. AEL has demonstrated consistent growth in terms of revenues and profitability. Its consolidated revenue from operations for FY22 was Rs. 69,420 Cr growing at a CAGR of 17% between FY20-22. Its consolidated EBITDA for FY22 was at Rs. 4,725 Cr growing at a CAGR of 17% between FY20-22. AEL focuses on maximizing the utility of its assets to optimize capital efficiency, while ensuring quality of its products and services.

**Revenue CAGR over FY20-22 at 17% (Rs Cr)**



Source: RHP

**EBITDA CAGR over FY20-22 at 17% (Rs Cr)**



Source: RHP

**Concerns**

**The limited operating history of some businesses may not serve as an adequate basis to evaluate future prospects**

Some of the businesses, such as green hydrogen ecosystems, airports, roads, digital, data centers, water management, commercial mining, industrials manufacturing, defence, among others have limited operating histories. For example, its first data center was commissioned only in October 2022 in Chennai. AEL ventured into the airports business in 2019 and have since won the mandate to modernize six operational airports in India. AEL started its roads business in 2018 and has recently operationalised three road assets and has recently acquired mines in India for its commercial mining business. The limited operating history of some of these businesses may therefore not serve as an adequate basis to evaluate its future prospects.

**Integrated resource management business primarily depends on an increasing demand for imported coal in India and AEL's ability to maintain a diverse supplier base**

Despite having abundant reserves of coal, domestic coal production in India has consistently lagged due to various issues such as delays in getting environment and forest approvals, hurdles in land acquisition, construction delays, among others. Consequently, India has had to increasingly rely on coal imports to meet domestic coal demand. Any material change in the demand for imported coal, could have an adverse impact on AEL's operations and financial condition. AEL's ability to offer coal to customers as part of its integrated resource management business depends upon its ability to obtain adequate coal supply from its suppliers. As of September 30, 2022, AEL engaged with suppliers in Indonesia, South Africa and Australia. The loss of, or substantial decrease in the availability of coal from its suppliers, could adversely impact the financial condition of AEL.

**Fluctuations in coal prices can lead to volatility in earnings**

Since integrated resource management (coal trading) business forms almost two-third of the company's earnings, the performance of the company was positively impacted during H1FY23 wherein profits increased by 140%. This was led by an increase in coal prices which was due to the Russia-Ukraine war leading to elevated natural gas prices which prompted many nations to opt for coal as a fuel source in place of natural gas. The reverse scenario could also play out in future which could impact AEL negatively.

## Valuation and Recommendation

AEL's leap into futuristic technologies like green hydrogen with heavy investments can propel the company into a new league or it could bleed the financials if the market dynamics shifts in favor of other alternate fuels. AEL's business model involves high risk with uncertain business outcomes and thus **we have a 'Neutral' rating on the issue.**

## Financials

P&L (Rs. Cr)	FY20	FY21	FY22	H1FY23	H1FY23 Ann
Net Revenue	43403	39537	69420	79019	158039
<b>% Growth</b>		-9%	76%	206%	128%
Raw Materials	34660	30248	53718	62995	125990
<b>% of Revenues</b>	79.9%	76.5%	77.4%	79.7%	79.7%
Employee Cost	682.5	829.3	1180.6	955.8	1912
<b>% of Revenues</b>	1.6%	2.1%	1.7%	1.2%	1.2%
Other expenses	5775	5955	10809	11457	22914
<b>% of Revenues</b>	13.3%	15.1%	15.6%	14.5%	14.5%
<b>EBITDA</b>	2284	2505	3713	3612	7223
<b>EBITDA Margin</b>	5.3%	6.3%	5.3%	4.6%	4.6%
Depreciation	472	537	1248	948	1897
Other Income	684	754	1013	488	977
Interest	1572	1377	2526	1849	3698
Exceptional item	199	(259)	-	-	-
<b>PBT</b>	1122	1086	952	1303	2605
Tax	324	340	477	453	906
<b>Tax rate</b>	29%	31%	50%	35%	35%
Minority interest	340	176	301	81	162
<b>Adj. PAT (norm. Tax)</b>	1138	923	777	930	1861
<b>% Growth</b>		-19%	-16%	92%	140%
<b>EPS (Post Issue)</b>	9.5	7.7	6.5	7.7	15.5

Ratios & Others	FY20	FY21	FY22	H1FY23	H1FY23 Ann
Debt / Equity	0.7	0.9	1.6	0.7	0.7
EBITDA Margin (%)	5.3%	6.3%	5.3%	4.6%	4.6%
PAT Margin (%)	2.6%	2.3%	1.1%	1.2%	1.2%
ROE (%)	6%	5%	3%	-	3%
ROCE (%)	8%	7%	5%	-	7%

Turnover Ratios	FY20	FY21	FY22	H1FY23	H1FY23 Ann
Debtors Days	111	111	72	148	
Inventory Days	22	16	36	93	
Creditor Days	99	109	62	163	
Asset Turnover (x)	0.9	0.8	0.7	1.3	

Valuation Ratios	FY20	FY21	FY22	H1FY23	H1FY23 Ann
Price/Earnings (x)			506.7	-	211.4
EV/EBITDA (x)			112.9	-	59.8
EV/Sales (x)			6.0	-	2.7
Price/BV (x)			14.6	-	6.9

Source: Company Data, NBRR

Balance Sheet (Rs. Cr)	FY20	FY21	FY22	H1FY23
Share Capital	110	110	110	114
Reserve & Surplus	16,837	17,049	22,147	31,438
Non controlling Interest	1,263	1,751	4,672	4,624
<b>Networth</b>	<b>18,210</b>	<b>18,910</b>	<b>26,928</b>	<b>36,176</b>
<b>Total Loans</b>	<b>13,511</b>	<b>16,784</b>	<b>43,402</b>	<b>42,416</b>
Other non-curr liab.	1,884	1,726	10,179	11,525
Trade payable	11,814	11,756	17,648	28,555
Other Current Liab	1,480	2,466	3,603	4,419
<b>Total Equity &amp; Liab.</b>	<b>46,898</b>	<b>51,643</b>	<b>1,01,760</b>	<b>1,23,091</b>
Fixed Assets & CWIP	13,710	14,365	39,210	47,081
Goodwill	139	152	301	301
Right-of-use-asset & Other	3,974	5,146	14,156	11,703
Other Tax Assets	1,101	1,106	532	540
Inventories	2,562	1,757	6,788	10,021
Other non Curr. assets	3,792	10,910	16,616	19,716
Cash	2,125	666	912	1,144
Bank	1,252	1,145	3,004	2,807
Debtors	13,147	11,983	13,712	15,974
Other Current assets	5,097	4,413	6,529	13,804
<b>Total Assets</b>	<b>46,898</b>	<b>51,643</b>	<b>1,01,760</b>	<b>1,23,091</b>

Cash Flow (Rs. Cr)	FY20	FY21	FY22	H1FY23
EBITDA	2,284	2,505	3,713	3,612
Provisions & Others	897	(150)	409	484
<b>Op. profit before WC</b>	<b>3,182</b>	<b>2,355</b>	<b>4,122</b>	<b>4,096</b>
Change in WC	(461)	1,850	(2,532)	2,124
Less: Tax	(267)	(112)	(205)	(473)
<b>CF from operations</b>	<b>2,454</b>	<b>4,094</b>	<b>1,385</b>	<b>5,746</b>
Addition to assets	(2,975)	(6,847)	(13,493)	(6,760)
(Purchase)/Sale of invst.	193	(1,377)	(4,815)	(4,831)
Int & Div Received	459	322	821	201
<b>CF from Investing</b>	<b>(2,323)</b>	<b>(7,902)</b>	<b>(17,487)</b>	<b>(11,390)</b>
Proceeds/repayment of b	1,538	4,288	18,720	(1,503)
Proceeds from issuance	-	-	-	7,700
Lease Liabilities	(40)	(18)	(107)	(80)
Int & Div Paid	(1,718)	(1,212)	(2,711)	(1,571)
<b>CF from Financing</b>	<b>(221)</b>	<b>3,059</b>	<b>15,901</b>	<b>4,545</b>
<b>Net Change in cash</b>	<b>(90)</b>	<b>(750)</b>	<b>(201)</b>	<b>(1,099)</b>
Cash & Bank at beginning	974	2,125	666	912
Forex	1,241	(708)	447	1,330
Cash & Bank at end	2,125	666	912	1,144

## Disclosure:

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