

SE Interviews
HD **Our business model is aligned with the national interest: Gautam Adani**
BY R Sriram & Satish John
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Gautam Adani, chairman of the Adani group, spoke to ET's R Sriram & Satish John in Ahmedabad after just having returned from Australia, where he's setting up the \$7-**billion** Carmichael **coal** project. State Bank of India has signed a memorandum of understanding with the group for a \$1-**billion** credit facility, which sparked controversy as Opposition parties sought to link this to Adani's supposed closeness to Prime Minister Narendra Modi. Adani, who was part of Modi's business delegation on his recent trip to Australia, rejected this characterisation and said the group has a 25-year relationship with SBI. Edited excerpts:

Why is it that your group attracts so much criticism? Is it because you are considered close to Narendra Modi?

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We are businessmen. The entire project took more than three years to come to a certain shape. The approval didn't come because of the Indian Prime Minister's visit (to Australia). The approval was given by the ruling party and the opposition party in Australia. They are investing in our project. For Australia, it is a major project.

Domestically, why are you facing this heat?

I think they also want some controversy. The Delhi elections are round the corner. We keep good relations (with all parties). We put up power plants in Maharashtra and Rajasthan when Congress governments were ruling. When you are in the infrastructure sector, you've to work along with the government. I'm a small fry in all this. I always said that our business model is aligned with the national interest. They (SBI) have given more than \$1 **billion**. Is giving a loan a public debate? We have set up more than 10,000 Mw during the last 10 years under the UPA government.

Environmental concerns have been raised over the project.

The controversies are because of the greens. When they (Australia's federal and state governments) gave permission for the port, the process... was very, very stringent. Once they give permission they'll never withdraw like what you see is happening in India. So when we set up a project in Australia, we get a very good interest rate because certainty is very high. We have permission to dredge one **million** cubic metres for the new port and to dump the dredged sand in an area close to the Great Barrier Reef. They (green activists) raised a red flag.

Now, in spite of getting all approvals, we decided to dump the dredged material on land instead of dumping it near the Great Barrier Reef. It will cost us \$25-30 **million** dollars extra. This we hoped will placate the greens. They have now taken a different stance. As the project attains more certainty, their attack is getting more strident. They are now going to every international bank and are raising the ante. And these banks have sustainability departments or boards. They take such representations seriously. They are giving feedback to Indian media. They are fully networked. They are ganging up with Mundra NGOs and creating a problem. They are trying to damage (our) reputation and trying their best to stall the project. The greens are responsible for this. They feed all this information to AAP (Aam Aadmi Party) and the media and to the banks. But these are baseless allegations.

What's your response?

We are saying let us get into a dialogue and discuss an alternative. But they don't have any alternative.

And in Australia?

They all want the project to succeed as it creates 5,000 jobs in Australia and closer home, the government and the opposition should support (it) as it lights up the lives of 100 million people in India. That's the importance of the project. At the country level, this is the only project where the Queensland government has signed to give financial support. The amount has not been finalised but it will be a substantial amount for supporting Adani in creating infrastructure in rail and ports.

Isn't this a huge bet? Mining giants like Glencore, BHP have cancelled projects.

Glencore and BHP are different because they are pure commodity players, whereas we are fully integrated. Glencore doesn't have power plants, nor do they have ports. We are not a pure mining company. We are an integrated energy company.

Have you signed any offtake agreements?

Sixty percent of the production we'll sell in India and the other 40% to Japan, Korea, Taiwan and China. You should understand that the Adani group is currently importing 70 million metric tonnes of coal and supplying to other businesses in India. One of the strengths of Adani is that because we are controlling mines, ships, ports and logistics, we are the cheapest solution provider for end users. And that's why we are importing 70 million tonnes. We are supplying to NTPC, cements plants, private players.

Almost 40-45% market share of coal imported to India is with the Adani group. We source from 50 mines across the world. We have relationships with miners. We know the situation of miners, where the stock is more and we play accordingly. We have our own shipping and have ports and a logistics chain. At any given point of time, we have 10 ships carrying coal and we can manoeuvre depending on the requirement and supply in a day's notice. We have the flexibility. At any given point, we have 60-70 large ships (7 million tonnes) that are available and we have the flexibility to divert ships. That's why we have reliability. We ourselves need 10 million tonnes for our Adani power plants.

What is your view on coal prices?

Any commodity that sees its price going higher will see new mines opening up. When the supply increases, the prices soften. When prices fall, some mines with higher production costs will shut down as they become unviable. It's a cyclical industry. Our cost of mining coal is quite cheap and is in the lowest quartile in terms of cost. Today, the global coal trade accounts for 1,000 million tonnes. And we are in the first quartile in terms of cost. Please remember that every mine has a different cost.

Is this price fall a temporary blip and will it correct?

It will always happen — this is after all a commodity, this is a very common thing.

The other argument is, why are you going to Australia when the Indian government is taking steps to privatise coal mining in India?

Nobody will put all the eggs in one basket. It is definitely a wish list for some to say that we don't have to import any coal in the next three years. Even I wish we don't have to import coal but things don't work like that. In 2000, China removed all price controls. In 2002, they mined 1,200 million tonnes and in 2012, coal production there reached 3,700 million tonnes, which means they raised production by 2,500 million tonnes. We have a production of 465 million tonnes in 60 years and we have the thirdlargest coal reserves in the world.

How does it work on the cost front in terms of logistics?

From an Australian port to freight it to an Indian port will cost about \$14 to \$15 a tonne. That is about Rs 900 a tonne. Whereas, in India it is Rs 1,500 to 2,500 a tonne as railway cost. Also, Australian coal has higher calorific content than Indian coal... around 85% higher.

There are concerns over the high leverage of the company.

We have a 2.2:1 debt-equity ratio. We have put up all the projects in the last four-five years — that's the reason for the high debt profile. Power is the maximum exposure we have. We are the country's largest private sector player with 10,000 Mw capacity. It is all operating and not just on paper. For different reasons, mainly on the fuel cost point of view, we are working with regulators to resolve the tariff issue. That's the only worrying part for the financial investor. Our ports business is doing well. On anticipation

(of a tariff hike resolution) our share price has been re-rated as analysts understand that issues are getting resolved. By the end of the year, we believe the tariff issue will be resolved. This is the cheapest power. If wisdom prevails then it will sorted soon.

There is this fear that you are sitting on a mountain of debt.

The last 10 years, people have been talking about this. But we've been continuously growing. When we were a Rs 5,000-crore **company**, people said we had debt of Rs 10,000 crore. But then we went ahead and borrowed Rs 50,000 crore. What you have to remember is that we put Rs 100,000 crore (into) assets in the last six years. They have apprehensions and we respect and acknowledge that. We have the assets and they are running beautifully.

Analysts say the total debt of the group is about Rs 72,000 crore?

It is actually in the region of Rs 55,000 crore.

Analysts also say operating profit is about Rs 9,000 crore while the interest expense is about Rs 5,800 crore.

The interest coverage ratio is stretched. I can explain that. It is because of our power business, which is making losses. But this will change soon when the tariff issues are resolved.

By when do you think this will be resolved?

By the end of the year.

What according to you would be more profitable — power or ports in long term?

Power is a long-term play. The power is getting consolidated. I think the sector will have five to six players and will get consolidated under them.

Will it be more profitable than the ports business?

Yes. Because it is a large asset. We are having plans to take our existing capacity from 10,000 Mw to 20,000 Mw. We are purchasing power plants. The government will also change the bidding process, then we'll bid for ultra-mega power projects.

How far have you progressed on your ambition to reach \$20-**billion** revenue?

We've acquired the Udupi power plant (from Lanco), we'll add capacity of another 1,000 Mw. In Rajasthan, we'll add capacity.

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