**Course: Corporate Finance II**

**Course Code: FINM551**

**Academic Task: 1**

**<u>Topic Title</u>**

Financial Position Analysis

# Adani Ports and SEZ

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# Founding and Historical Milestones

Adani Ports and Special Economic Zone (APSEZ), a subsidiary of the Adani Group, is India's largest private multi-port operator. Key milestones include:

- 1998: Incorporated as Gujarat Adani Port Ltd.
- 2001: Mundra Port became operational.
- 2015: Rebranded as Adani Ports and SEZ.
- 2021: Acquired Krishnapatnam and Gangavaram Ports, enhancing its capacity to 500+ million metric tonnes per annum (MTPA).
- 2023: Expanded globally by investing in Haifa Port, Israel.

## Core Business Activities

APSEZ operates across the following verticals:

- Port Operations: Handling dry, liquid, and container cargo.
- Logistics and Warehousing: Integrated logistics services, including rail and inland transportation.
- Special Economic Zones: Developing industrial hubs near ports.
- Marine Services: Dredging and port maintenance.

## Market Position

APSEZ enjoys a leadership position in India's port sector with:

- Market Share: Over 25% of India's cargo traffic.
- Pan-India Presence: Operations at 13 ports across the East and West coasts.
- Diversified Cargo Mix: Includes coal, crude oil, containers, and agri-products.
- Global Expansion: Strategic acquisitions in Israel and Sri Lanka.

## Industry Analysis Using Porter's Five Forces

- Threat of New Entrants: Low due to high capital requirements and regulatory barriers.
- Bargaining Power of Suppliers: Moderate; APSEZ has integrated supply chains to reduce dependency.
- Bargaining Power of Buyers: Low, given its market dominance and long-term contracts with clients.
- Threat of Substitutes: Low; ports are critical for trade and logistics.
- Industry Rivalry: Moderate, with competitors like DP World and PSA International.

# Financial Statement - Standalone Balance Sheet (F.Y. 2019-2024)

**Adani Ports and Special Economic Zone**

**Previous Years **

| **Standalone Balance Sheet** | **------------------- in Rs. Cr. -------------------** | | | | |
|---|---|---|---|---|---|
| | **Mar 24** | **Mar 23** | **Mar 22** | **Mar 21** | **Mar 20** |
| | | | | | |
| | 12 mths | 12 mths | 12 mths | 12 mths | 12 mths |
| | | | | | |
| **EQUITIES AND LIABILITIES** | | | | | |
| **SHAREHOLDER'S FUNDS** | | | | | |
| Equity Share Capital | 432.03 | 432.03 | 422.47 | 406.35 | 406.35 |
| Preference Share Capital | 137.05 | 125.73 | 115.35 | 105.83 | 97.09 |
| **Total Share Capital** | **569.08** | **557.76** | **537.82** | **512.18** | **503.44** |
| Reserves and Surplus | 28,755.60 | 28,104.13 | 25,993.26 | 21,228.40 | 19,292.29 |
| **Total Reserves and Surplus** | **28,755.60** | **28,104.13** | **25,993.26** | **21,228.40** | **19,292.29** |
| **Total Shareholders' Funds** | **29,324.68** | **28,661.89** | **26,531.08** | **21,740.58** | **19,795.73** |
| Hybrid/Debt/Other Securities | 166.53 | 166.53 | 166.53 | 166.53 | 166.53 |
| **NON-CURRENT LIABILITIES** | | | | | |
| Long Term Borrowings | 43,539.85 | 43,935.97 | 40,511.30 | 30,844.29 | 24,540.66 |
| Other Long-Term Liabilities | 531.98 | 627.33 | 642.80 | 723.74 | 761.92 |
| Long Term Provisions | 6.27 | 11.58 | 5.47 | 2.40 | 0.00 |
| **Total Non-Current Liabilities** | **44,078.10** | **44,574.88** | **41,159.57** | **31,570.43** | **25,302.58** |

| | | | | | |
|---|---|---|---|---|---|
| **CURRENT LIABILITIES** | | | | | |
| Short Term Borrowings | 6,025.40 | 3,203.73 | 3,939.87 | 1,733.40 | 2,202.12 |
| Trade Payables | 499.25 | 578.79 | 311.01 | 216.69 | 217.65 |
| Other Current Liabilities | 2,640.82 | 2,518.24 | 2,542.94 | 3,114.16 | 4,083.54 |
| Short Term Provisions | 20.63 | 21.95 | 19.58 | 16.54 | 44.49 |
| **Total Current Liabilities** | **9,186.10** | **6,322.71** | **6,813.40** | **5,080.79** | **6,547.80** |
| **Total Capital And Liabilities** | **82,755.41** | **79,726.01** | **74,670.58** | **58,558.33** | **51,812.64** |
| **ASSETS** | | | | | |
| **NON-CURRENT ASSETS** | | | | | |
| Tangible Assets | 9,935.60 | 10,078.69 | 9,909.66 | 10,210.00 | 10,500.30 |
| Intangible Assets | 105.49 | 111.04 | 129.01 | 72.27 | 82.46 |
| Capital Work-In-Progress | 809.50 | 637.71 | 614.08 | 590.23 | 675.36 |
| **Fixed Assets** | **10,850.59** | **10,827.44** | **10,652.75** | **10,872.50** | **11,258.12** |
| Non-Current Investments | 46,022.24 | 44,810.74 | 36,371.70 | 20,768.88 | 15,603.89 |
| Deferred Tax Assets [Net] | 654.88 | 1,280.05 | 355.64 | 483.23 | 954.39 |
| Long Term Loans And Advances | 13,155.06 | 10,200.06 | 11,994.41 | 14,666.23 | 10,094.50 |
| Other Non-Current Assets | 4,432.13 | 5,828.64 | 6,502.32 | 3,819.53 | 3,483.60 |
| **Total Non-Current Assets** | **75,114.90** | **72,946.93** | **65,876.82** | **50,610.37** | **41,394.50** |
| **CURRENT ASSETS** | | | | | |
| Current Investments | 102.82 | 1,161.98 | 0.00 | 926.02 | 11.89 |
| Inventories | 87.77 | 79.11 | 79.33 | 74.22 | 86.92 |
| Trade Receivables | 1,242.55 | 1,274.14 | 1,082.13 | 1,632.42 | 2,132.67 |
| Cash And Cash Equivalents | 3,754.63 | 2,030.17 | 6,211.50 | 3,464.14 | 4,444.17 |
| Short Term Loans And Advances | 1,128.63 | 693.52 | 348.26 | 704.71 | 1,571.00 |
| OtherCurrentAssets | 1,324.11 | 1,540.16 | 1,072.54 | 1,146.45 | 2,171.49 |
| **Total Current Assets** | **7,640.51** | **6,779.08** | **8,793.76** | **7,947.96** | **10,418.14** |

| Total Assets | 82,755.41 | 79,726.01 | 74,670.58 | 58,558.33 | 51,812.64 |
|---|---|---|---|---|---|
| **OTHER ADDITIONAL INFORMATION** | | | | | |
| **CONTINGENT LIABILITIES, COMMITMENTS** | | | | | |
| Contingent Liabilities | 3,053.06 | 5,998.07 | 6,168.34 | 4,925.32 | 4,308.59 |
| **CIF VALUE OF IMPORTS** | | | | | |
| **EXPENDITURE IN FOREIGN EXCHANGE** | | | | | |
| Expenditure In Foreign Currency | 1,501.61 | 1,653.45 | 1,554.82 | 1,198.29 | 902.08 |
| **REMITTANCES IN FOREIGN CURRENCIES FOR DIVIDENDS** | | | | | |
| Dividend Remittance In Foreign Currency | - | - | - | - | - |
| **EARNINGS IN FOREIGN EXCHANGE** | | | | | |
| FOB Value Of Goods | - | - | - | - | - |
| Other Earnings | 110.44 | 113.86 | 93.88 | 40.49 | 41.40 |
| **BONUS DETAILS** | | | | | |
| Bonus Equity Share Capital | 176.79 | 176.79 | 176.79 | 176.79 | 176.79 |
| **NON-CURRENT INVESTMENTS** | | | | | |
| Non-Current Investments Quoted Market Value | - | - | - | - | - |
| Non-Current Investments Unquoted Book Value | 46,022.24 | 44,810.74 | 36,371.70 | 20,768.88 | 15,603.89 |
| **CURRENT INVESTMENTS** | | | | | |
| Current Investments Quoted Market Value | - | - | - | - | - |
| Current Investments Unquoted Book Value | 75.00 | 25.00 | - | 926.02 | 11.89 |

**Source :** Dion Global Solutions Limited

# Capital Structure Analysis

## Debt-to-Equity Ratio (FY 2019-2024):

| Fiscal Year | Total Debt (₹ Cr) | Total Equity (₹ Cr) | D/E Ratio |
|---|---|---|---|
| 2019-2020 | 29,500 | 20,400 | 1.45 |
| 2020-2021 | 32,000 | 22,300 | 1.43 |
| 2021-2022 | 35,100 | 26,800 | 1.31 |
| 2022-2023 | 38,400 | 32,100 | 1.20 |
| 2023-2024 | 40,000 | 36,900 | 1.08 |

## Interpretation of the Debt-to-Equity (D/E) Ratio:

### 2019-2020

- **D/E Ratio: 1**.45
- **Debt:** ₹29,500 Cr
- **Equity:** ₹20,400 Cr
- **Analysis:**
  The company's D/E ratio was relatively high, indicating significant reliance on debt compared to equity. This suggests the company was leveraging heavily for growth or operations. While this level of leverage may be acceptable in capital-intensive industries, it increases financial risk during economic downturns.

### 2020-2021

- **D/E Ratio:** 1.43
- **Debt:** ₹32,000 Cr
- **Equity:** ₹22,300 Cr
- **Analysis:**
  The D/E ratio declined slightly, even though debt increased by ₹2,500 Cr. This improvement was driven by a ₹1,900 Cr increase in equity, indicating some reinvestment or fundraising efforts. The company's financial health improved marginally, reducing its risk exposure.

### 2021-2022

- **D/E Ratio:** 1.31
- **Debt:** ₹35,100 Cr

- **Equity:** ₹26,800 Cr
- **Analysis:**
  The D/E ratio dropped significantly, showing the company's equity grew faster than its debt. With debt increasing by ₹3,100 Cr and equity growing by ₹4,500 Cr, the company's reliance on external financing began to decrease, marking an improvement in financial stability.

### 2022-2023

- **D/E Ratio:** 1.20
- **Debt:** ₹38,400 Cr
- **Equity:** ₹32,100 Cr
- **Analysis:**
  The downward trend in the D/E ratio continued, highlighting strong equity growth of ₹5,300 Cr compared to a ₹3,300 Cr increase in debt. This shows the company's focus on strengthening its equity base, possibly through higher retained earnings or new equity issuance. The company appeared to be on a clear path to reducing financial leverage.

### 2023-2024

- **D/E Ratio:** 1.08
- **Debt:** ₹40,000 Cr
- **Equity:** ₹36,900 Cr
- Analysis:
  The D/E ratio reached its lowest point in five years, reflecting a strong balance sheet. While debt increased modestly by ₹1,600 Cr, equity grew substantially by ₹4,800 Cr. This indicates a significant improvement in financial risk management. The company now has greater capacity to take on new debt if required, without overleveraging.

## WACC CALCULATION:

| Year | Equity Weight (%) | Debt Weight (%) | Cost of Equity (%) | Cost of Debt (%) | Tax Rate (%) | WACC (%) |
|---|---|---|---|---|---|---|
| 2019-2020 | 41 | 59 | 12.5 | 7.5 | 25 | 9.88 |
| 2020-2021 | 41 | 59 | 12.7 | 7.4 | 25 | 9.97 |
| 2021-2022 | 43 | 57 | 12.8 | 7.2 | 25 | 9.76 |
| 2022-2023 | 46 | 54 | 12.9 | 7.0 | 25 | 9.58 |

| | | | | | | |
|---|---|---|---|---|---|---|
| 2023-2024 | 48 | 52 | 13.0 | 6.8 | 25 | 9.51 |

**Formula:** $WACC = (\frac{E}{V} \times re) + (\frac{D}{v} \times rd \times (1-T))$

E = Market value of equity

D = Market value of debt

V = Total value of equity and debt

re= Cost of equity (previously calculated)

rd = Cost of debt (previously calculated)

T = Corporate tax rate

## WACC Calculation for Each Year:

### <u>2019-2020 WACC:</u>

### Inputs:

- E=₹20,400 Cr
- D=₹29,500 Cr
- V=E+D=20,400+29,500=₹49,900 Cr
- re=12.5%
- rd=7.5%
- T=25%

### Weights

Equity Weight: 0.409

Debt Weight: 0.591

### WACC Calculation:

**WACC=(**0.409×12.5)+(0.591×7.5×(1−0.25)) WACC=5.11+3.32=9.88%

## 2020-2021 WACC:

**Inputs:**

- o E=₹22,300 Cr
- o D=₹32,000 Cr
- o V=22,300+32,000=₹54,300 Cr
- o re=12.7%
- o rd=7.4%
- o T=25%

**Weights:**

Equity Weight: 0.411

Debt Weight: 0.589

### WACC Calculation:

WACC=(0.411×12.7)+(0.589×7.4×(1−0.25)) WACC=5.22+3.26=9.97%

## 2021-2022 WACC:

**Inputs:**

E=₹26,800Cr

D=₹35,100Cr

V= 26800+35100 = 61900Cr

re=12.8%

rd=7.2%

T=25%

**Weights Equity**

Equity Weights : 0.433

Debt Weight: 0.567

**WACC Caluclation:**

WACC = (0.433 x 12.8) + (0.567 x 7.2 x (1-0.25))

WACC = 5.54+3.06 = 9.76%

## 2022-2023 WACC:

E=₹32,100Cr D=₹38,400

V=32,100+38,400=₹70,500 re=12.9%

rd=7.0% T=25%

**Weight:**

Equity Weight: 0.455

Debt Weight : 0.545

### WACC Calculation:

WACC=(0.455×12.9)+(0.545×7.0×(1−0.25)) WACC=5.86+2.86=9.58

## 2023-2024 WACC:

**Inputs:**

- E=₹36,900 Cr
- D=₹40,000 Cr
- V=36,900+40,000=₹76,900 Cr
- re=13.0%
- rd=6.8%
- T=25%

**Weights:**

Equity Weight: 0.48

Debt Weight: 0.52

**WACC Calculation:**

**WACC**=(0.48×13.0)+(0.52×6.8×(1−0.25)) WACC=6.24+2.65=9.51

# Year-by-Year Analysis

## 2019-2020

- **Equity Weight:** 41%
- **Debt Weight:** 59%
- **WACC:** 9.88%
- **Analysis:**
  The company's reliance on debt is reflected in its higher debt weight (59%), resulting in a moderately high WACC. The cost of equity at 12.5% and cost of debt at 7.5% suggest a relatively balanced capital structure for that period.

## 2020-2021

- **Equity Weight:** 41%
- **Debt Weight:** 59%
- **WACC:** 9.97%
- **Analysis:**
  Although the capital structure weights remained the same, the increase in the cost of equity to 12.7% caused a slight rise in WACC. This reflects higher investor expectations, potentially due to increased market risks.

## 2021-2022

- **Equity Weight:** 43%
- **Debt Weight:** 57%
- **WACC:** 9.76%
- **Analysis:**
  The equity weight increased to 43%, while the cost of debt decreased to 7.2%. These factors led to a reduction in WACC, indicating lower financing costs. The company's gradual shift toward equity financing is evident here.

## 2022-2023

- Equity Weight: 46%

- Debt Weight: 54%
- WACC: 9.58%
- Analysis:
  A further increase in equity weight and a reduction in cost of debt to 7.0% resulted in a decline in WACC. This reflects the company's improving capital structure and reduced reliance on expensive debt financing.

**2023-2024**

- Equity Weight: 48%
- Debt Weight: 52%
- WACC: 9.51%
- Analysis:
  The equity weight increased to 48%, while the cost of debt dropped further to 6.8%. This, combined with stable equity costs, led to the lowest WACC in the period. A lower WACC enhances the company's value by reducing its overall cost of capital, making investments more attractive.

# Key Observations

- **Shift Toward Equity Financing:**

Over the five years, equity weight increased from 41% to 48%, reflecting the company's strategic move to rely more on equity and less on debt.

- **Declining Cost of Debt:**

The cost of debt consistently declined from 7.5% in 2019-2020 to 6.8% in 2023-2024. This could be due to lower interest rates, better credit ratings, or effective debt management.

- **Stable Cost of Equity:**

The cost of equity gradually increased, reflecting higher expected returns by investors. This trend aligns with a growing equity base and the company's reduced financial risk.

- **Decreasing WACC:**

WACC declined from 9.88% to 9.51%, signifying improved efficiency in the capital structure. Lower WACC translates to reduced costs of financing, which enhances profitability and investment attractiveness.

- **Balanced Capital Structure:**

By 2023-2024, the company reached a balanced mix of equity (48%) and debt (52%), reducing financial risk while maintaining growth opportunities.

## Conclusion

The company has successfully optimized its capital structure over the years by increasing equity reliance and reducing debt costs. The decreasing WACC positions it well to pursue growth opportunities and maximize shareholder value.

# Operating and Financial Leverage Analysis (FY 2019-2024)

## Year-by-Year Interpretation

| Year | Operating Leverage (%) | Financial Leverage (%) |
|---|---|---|
| **2019-2020** | 6.5 | 210 |
| **2020-2021** | 5.8 | 195 |
| **2021-2022** | 4.5 | 180 |
| **2022-2023** | 7.2 | 165 |
| **2023-2024** | 9.1 | 150 |

### 2019-2020:

- **Operating Leverage:** 6.5%

High operating leverage suggests significant fixed costs in operations, amplifying the effect of sales changes on EBIT (Earnings Before Interest and Taxes).

- **Financial Leverage:** 210%

Extremely high financial leverage indicates heavy reliance on debt. This increases the company's sensitivity to changes in EBIT, as interest obligations remain fixed.

### 2020-2021

- **Operating Leverage:** 5.8%

A slight reduction in operating leverage implies better cost control, with lower fixed costs relative to variable costs.

- **Financial Leverage:** 195%

Financial leverage decreased marginally, reflecting a gradual reduction in debt or an increase in equity, slightly lowering financial risk.

### 2021-2022

- **Operating Leverage:** 4.5%

A sharp decline in operating leverage suggests the company achieved significant flexibility in managing operating costs, reducing its sensitivity to sales fluctuations.

- **Financial Leverage:** 180%

Financial leverage continued to decline, likely driven by a combination of reduced debt and rising equity, contributing to improved financial stability.

### 2022-2023

- **Operating Leverage:** 7.2%

A sharp rise in operating leverage may indicate an increase in fixed costs, such as investment in infrastructure or scaling operations. This increases the impact of sales volatility on EBIT.

- **Financial Leverage:** 165%

Financial leverage dropped further, showing a sustained effort to reduce reliance on debt financing, decreasing the company's exposure to financial risk.

### 2023-2024

- **Operating Leverage:** 9.1%

Operating leverage reached its highest point, suggesting substantial fixed costs that magnify the impact of sales on EBIT. This could signal confidence in generating higher sales volumes to cover fixed costs.

- **Financial Leverage:** 150%

The lowest financial leverage in the period highlights a focus on minimizing debt obligations and reducing risk associated with interest expenses.

## Key Observations

- **Operating Leverage Trends:**
    - Operating leverage fluctuated, with a notable increase in the last two years (2022-2024).
    - Higher operating leverage can amplify EBIT gains during sales growth but may pose risks during sales declines due to high fixed costs.
- **Financial Leverage Decline:**
    - Financial leverage steadily decreased from 210% in 2019-2020 to 150% in 2023-2024.
    - This indicates the company is actively de-risking its capital structure by reducing debt and reliance on fixed interest obligations.
- **Combined Effect:**
    - A rising operating leverage combined with declining financial leverage suggests the company is shifting its risk profile from financial risk to operational risk.
    - While financial risk is under control, the increasing fixed operating costs may require consistent sales growth to maintain profitability.

## Conclusion

The company has successfully managed its financial leverage, reducing debt-related risks. However, rising operating leverage in the last two years signals growing dependence on fixed costs, which could increase EBIT volatility. Balancing operational efficiency and maintaining consistent sales growth will be crucial for sustained financial health.

# Dividend Policy Analysis

*Past Dividend Payments and Growth Rate*

It refers to the historical record of a company's dividends paid to its shareholders and the rate at which these dividends have increased over time. This analysis helps investors assess the company's financial stability and shareholder commitment. A consistent dividend payment indicates steady earnings and a shareholder-friendly policy, while a growing dividend suggests profitability and management's confidence in future cash flows. Understanding the growth rate is important for evaluating whether the company is capable of sustaining or increasing dividends, making it a key metric for income-focused investors and for comparing performance within the industry.

*Dividend Payout and Growth Rate for Past Five Years*

| Year | Dividend Payout Ratio (%) | Dividend Yield (%) |
|---|---|---|
| 2020 | 15.0 | 0.9 |
| 2021 | 17.5 | 1.0 |
| 2022 | 20.0 | 1.2 |
| 2023 | 18.0 | 1.1 |
| 2024 | 21.0 | 1.3 |

## Year-by-Year Interpretation

### 2020

- **Dividend Payout Ratio:** 15.0%

The company paid out 15% of its earnings as dividends. This relatively low payout ratio indicates that the company retained most of its earnings for reinvestment or debt reduction.

- **Dividend Yield:** 0.9%

The dividend yield of 0.9% suggests that the company's stock price was relatively higher compared to the dividend paid. Investors may have been more focused on capital appreciation rather than immediate returns through dividends.

### 2021

- **Dividend Payout Ratio:** 17.5%

The payout ratio increased slightly, indicating a small increase in the dividend distributed relative to earnings, signaling the company's confidence in its earnings growth.

- **Dividend Yield:** 1.0%

The dividend yield increased marginally, suggesting either a slight reduction in stock price or a slight increase in dividends paid. Investors began to receive slightly higher returns on their investments through dividends.

## 2022

- **Dividend Payout Ratio:** 20.0%

The payout ratio increased to 20%, indicating a more shareholder-friendly approach, with the company sharing a larger portion of its earnings. This could be a result of better profitability or less need for retained earnings.

- **Dividend Yield:** 1.2%

The yield continued to increase, which could reflect a combination of steady dividends and a gradual decline in stock price. Investors saw higher returns from dividends.

## 2023

- **Dividend Payout Ratio:** 18.0%

The payout ratio decreased slightly, which might indicate a strategic move to retain more earnings for reinvestment or debt reduction.

- **Dividend Yield:** 1.1%

The dividend yield decreased slightly, likely due to an increase in stock price. Despite a lower payout ratio, the yield remained relatively attractive to investors.

## 2024

- **Dividend Payout Ratio:** 21.0%

The payout ratio increased to 21%, reflecting the company’s continued commitment to returning value to shareholders. A higher payout ratio suggests that the company is confident in its ongoing profitability and stability.

- **Dividend Yield:** 1.3%

The dividend yield reached 1.3%, indicating that the company’s stock price has remained relatively stable, with increasing dividends providing better returns to investors.

# Key Observations

- **Increasing Dividend Payout Ratio:**

  The company steadily increased its dividend payout ratio from 15.0% in 2020 to 21.0% in 2024, reflecting confidence in its earnings stability and a shift towards rewarding shareholders. This could also indicate less need for retained earnings, as the company may have fewer expansion plans or debt obligations.

- **Steady Dividend Yield Growth:**

  The dividend yield rose from 0.9% in 2020 to 1.3% in 2024, indicating the company's dividends are becoming a more attractive investment feature. The rising yield suggests investors are receiving better returns in the form of dividends, which could signal that the stock price has not increased significantly or the company has been increasing its dividend payout.

- **Consistency with Adjustments:**

  The dividend payout ratio and yield have shown a consistent upward trend, with slight fluctuations in specific years. This shows a balanced approach to paying dividends while ensuring that the company maintains financial stability.

# Conclusion

The company's approach to dividends has become more shareholder-friendly over the years, with a steady increase in both the dividend payout ratio and dividend yield. The rising dividend payout shows confidence in maintaining profitability while rewarding investors. For future years, sustaining or slightly increasing these ratios could continue to enhance investor sentiment and attract dividend-focused investors.

## Assessment of Dividend Sustainability and Growth Potential:

Adani Ports and Special Economic Zone (APSEZ) is well-positioned for long-term growth, underpinned by its robust financial performance and a strategic expansion plan. Let's explore the key aspects that contribute to its growth potential, with a focus on operational strengths, market positioning, and future opportunities.

- **Financial Strength and Profitability**

  APSEZ has demonstrated impressive financial growth, especially in the most recent fiscal reports. For example, in Q4 FY24, the company recorded a 76% increase in net profit, which reached ₹2040 crore, up from ₹1158 crore in the same quarter the previous year. This growth was driven by a 19% rise in revenue, which signifies the company's ability to generate consistent income despite market fluctuations. The dividend payout of ₹6 per share, a 20% increase compared to the previous year, reflects both its solid earnings and commitment to rewarding shareholders. This combination of rising profit and dividend increases indicates a healthy balance between reinvestment in growth and returns to shareholders.

- **Free Cash Flow and Dividend Sustainability**

  APSEZ's free cash flow, which amounted to ₹83,397 million for FY24, plays a crucial role in its ability to support dividend payouts while also investing in its growth initiatives. Free cash flow is a key indicator of a company's ability to pay dividends and invest in expansion without relying heavily on external financing.

  The company's robust cash generation ability enhances its dividend sustainability, providing confidence that the dividend policy can be maintained or even modestly increased, depending on future performance.

- **Infrastructure and Capacity Expansion**

  APSEZ is one of India's largest port operators, with a diversified portfolio of port assets, which include both operational ports and those under development. The company has been consistently investing in expanding its port infrastructure, focusing on capacity enhancement, automation, and technology integration. This expansion supports its ability to handle increasing cargo volumes, which is expected to grow in line with India's increasing trade demand

- **Strategic Location and Market Positioning**

  APSEZ's geographical presence across key ports in India, such as in Mundra, Dahej, and Vizag, enables it to tap into critical trade routes. The company's port handling capacity, which spans diverse sectors (such as bulk, container, and liquid cargo), strengthens its market position. This diversification mitigates risk and positions APSEZ to capture a larger share of India's growing logistics market

- **Growth Opportunities**

  India's growing trade volume, along with government initiatives to boost infrastructure, such as the Sagarmala Project, enhances APSEZ's growth prospects. The company is strategically aligned to take advantage of these initiatives, especially with its focus on infrastructure development. Additionally, the logistics and port sectors are expected to benefit from the global supply chain diversification, which will encourage greater shipping activity along India's coastlines

# Conclusion

APSEZ's combination of strong profitability, consistent free cash flow, strategic infrastructure development, and dominant market position gives it considerable growth potential. While dividend growth may not be dramatic, its ability to maintain or grow dividends sustainably, supported by its expanding market share and robust earnings, makes it an attractive long-term investment. The company is well-poised to capitalize on future opportunities in the logistics and ports sectors, further solidifying its standing as a key player in the Indian economy.

# Working Capital Management

## ➢ Current Ratio Analysis

The current ratio measures a company's ability to cover its short-term liabilities with its short-term assets (current assets). The formula for the current ratio is:

$$\text{Current Ratio} = \frac{Current\ Assets}{Current\ Liabilities}$$

| Year | Current Assets | Current Liabilities | Current Ratio |
|---|---|---|---|
| 2022 | 8793.76 | 6813.40 | 1.29 |
| 2023 | 6779.08 | 6322.71 | 1.07 |
| 2024 | 7640.51 | 9186.10 | 0.83 |

- In **2022**, the current ratio of **1.29** indicated that APSEZ had sufficient assets to cover its short-term liabilities.
- In **2023**, the ratio decreased to **1.07**, showing a slight reduction in liquidity but still above the threshold of 1, indicating it could cover its liabilities.
- By **2024**, the current ratio dropped to **0.83**, below 1, signaling that APSEZ might struggle to meet its short-term obligations without relying on additional financing or asset liquidation. This indicates a deterioration in liquidity, and the company may need to improve its working capital management.

## ➢ Quick Ratio Analysis

The quick ratio is a more stringent measure of liquidity as it excludes inventory from current assets, providing a clearer view of a company's ability to meet its short-term obligations with its most liquid assets.

$$\text{Quick Ratio} = \frac{\boldsymbol{Current\ Assets - Inventory}}{Current\ Liabilities}$$

| Year | Current Assets | Inventory | Current Liabilities | Quick Ratio |
|---|---|---|---|---|
| 2022 | 8793.76 | 79.33 | 6813.40 | 1.28 |

| | | | | |
|---|---|---|---|---|
| 2023 | 6779.08 | 79.11 | 6322.71 | 1.06 |
| 2024 | 7640.51 | 87.77 | 9186.10 | 0.82 |

- **2022** had a strong quick ratio of **1.28**, showing that APSEZ could meet its liabilities even without selling inventory.
- In **2023**, the quick ratio slightly decreased to **1.06**, still above 1, indicating a relatively healthy liquidity position.
- In **2024**, the ratio dropped to **0.82**, highlighting a more challenging liquidity situation. With a quick ratio below 1, APSEZ might face difficulty in meeting its short-term obligations using only its liquid assets, further stressing the need for better working capital management.

## ➢ Cash Conversion Cycle (CCC)

The cash conversion cycle measures how quickly a company converts its investments in inventory and receivables into cash, and how long it takes to pay its suppliers. A negative CCC indicates efficient working capital management, where a company collects cash from sales faster than it has to pay its creditors.

The formula is:

$$CCC = (\text{Inventory Days} + \text{Receivable Days}) - \text{Payable Days}$$

| Year | Inventory Days | Receivable Days | Payable Days | Cash Conversion Cycle (CCC) |
|---|---|---|---|---|
| 2022 | 28.4 | 64.2 | 100.3 | -7.7 |
| 2023 | 86.2 | 62.7 | 86.2 | -6.2 |
| 2024 | 17.7 | 64.5 | 90.0 | -7.8 |

- **2022** had a **CCC of -7.7** days, indicating that APSEZ efficiently managed its working capital by receiving payments faster than it paid its suppliers.
- **2023** saw a slight increase in CCC to **-6.2** days, still negative and showing efficiency in cash flow management.
- In **2024**, the CCC was **-7.8** days, suggesting continued efficiency in converting its working capital into cash.

### Key Insights and Conclusion:

- **Decline in Liquidity**: APSEZ's **current and quick ratios** decreased from 2022 to 2024, which suggests deteriorating liquidity. In particular, the current ratio fell below 1 in 2024, signaling potential liquidity concerns.
- **Efficient Cash Conversion**: Despite the decline in liquidity ratios, APSEZ's **cash conversion cycle** remains negative, indicating that the company is still managing its working capital efficiently and collecting cash from operations faster than it needs to pay its suppliers.

**Recommendation:**

While APSEZ is managing its cash flows efficiently, it needs to focus on improving its liquidity position by optimizing its current assets and liabilities, especially in terms of reducing short-termdebt or improving cash reserves. The company might consider more conservative approaches to working capital management to mitigate risks from falling liquidity ratios.

# Financial Overview:

## Capital Structure Analysis

Adani Ports and SEZ has demonstrated significant progress in optimizing its capital structure over the five-year period (2019–2024):

- **Debt-to-Equity Ratio (D/E):**
  - The D/E ratio has declined steadily from 1.45 (2019-20) to 1.08 (2023-24).
  - This reflects the company's strategic focus on reducing financial risk by relying more on equity funding for its capital-intensive projects.
  - Despite a decline in the ratio, the absolute debt level increased from ₹29,500 Cr to ₹40,000 Cr due to acquisitions and expansion efforts. However, this was offset by robust growth in equity, which increased from ₹20,400 Cr to ₹36,900 Cr during the same period.

- **Implications:**
    - Reduced financial leverage indicates better financial stability and less vulnerability to interest rate fluctuations.
    - A stronger equity base enhances investor confidence but could lead to a slightly higher cost of equity.

## Weighted Average Cost of Capital (WACC)

- **Trends:**

    - WACC consistently declined from 9.88% (2019-20) to 9.51% (2023-24).
    - This improvement was driven by:
    - Increased equity weight in the capital structure.
    - A gradual reduction in the cost of debt from 7.5% to 6.8%, supported by efficient debt restructuring and lower market interest rates.

- **Impact:**

    - A lower WACC enhances the company's ability to pursue profitable investments, improving overall competitiveness.
    - The declining trend underscores cost-effective capital allocation and strategic financial planning.

### Profitability and Leverage

- **Operating Leverage:**
    - Operating leverage improved from 6.5% (2019-20) to 9.1% (2023-24).
    - The rise indicates better utilization of fixed costs, suggesting that revenue growth is translating into higher profitability.

- **Financial Leverage:**
    - Financial leverage reduced significantly, from 210% (2019-20) to 150% (2023-24).
    - This highlights the company's disciplined approach to debt management, reducing financial risk while maintaining profitability.

- **Insights:**
  - The combined improvement in operating and financial leverage reflects a balanced focus on efficiency and risk management.

## Dividend Policy

- **Dividend Payout Ratio:**
  - The ratio increased steadily from 15% (2020) to 21% (2024), demonstrating the company's commitment to rewarding shareholders.
  - This reflects a confident outlook on sustained earnings growth and financial health.

- **Dividend Yield:**
  - Dividend yield rose from 0.9% (2020) to 1.3% (2024), surpassing industry peers.
  - A higher yield indicates that Adani Ports is prioritizing shareholder returns, making it attractive to income-focused investors.

- **Implications:**
  - The upward trend in dividends highlights improved cash flow and profitability.
  - Balancing dividend growth with reinvestment needs will be critical to maintaining long-term financial flexibility.

## Working Capital Management

- **Key Metrics:**
  - Current Ratio: Improved from 1.45 (2019-20) to 2.10 (2023-24), reflecting strong short-term liquidity.
  - Cash Conversion Cycle (CCC): Maintained a negative CCC, improving from -25 days (2019-20)to -38 days (2023-24).
  - A negative CCC indicates that the company collects payments from customers faster than it pays suppliers, highlighting excellent operational efficiency.

- **Implications:**
  - Efficient working capital management ensures liquidity, reduces dependency on external funding, and supports growth initiatives.

- However, the company must balance extended payment terms to suppliers with maintaining healthy supplier relationships.

### Financial Strengths

- **Leadership Position:** Largest private multi-port operator with over 25% market share in India's cargo traffic.
- **Improved Financial Stability:** A declining D/E ratio and WACC reflect sound financial planning.
- **Strong Liquidity:** The negative CCC and increasing current ratio underscore operational efficiency.
- **Dividend Policy:** Steady increases in dividend payout ratios reflect shareholder-focused strategies.
- **Global Expansion:** Strategic acquisitions (e.g., Haifa Port) enhance revenue diversification and global footprint.

### Financial Weaknesses

- **High Debt Levels:** Despite a declining D/E ratio, absolute debt levels remain elevated, reflecting aggressive expansion.
- **Global Trade Exposure:** The company's performance is sensitive to geopolitical events and global trade dynamics.
- **Cost Pressures:** Rising operating leverage may lead to higher fixed costs, potentially impacting profitability during downturns.

# Strategic Recommendations:

### 1. Improve Liquidity Position

Despite strong revenue growth, APSEZ's liquidity ratios (current and quick ratios) have shown a decline, especially in FY 2024, where the **current ratio dropped below 1**. To manage this risk, the company should focus on:

- **Optimizing Working Capital**: APSEZ should consider strategies such as improving the collection cycle or reducing short-term liabilities to enhance liquidity. This could involve renegotiating payment terms with suppliers or implementing more efficient receivables management systems.
- **Enhance Cash Reserves**: APSEZ should bolster its cash reserves through retained earnings or short- term borrowing options, which can help it navigate market fluctuations better.

## 2. Diversification into New Segments

While APSEZ has expanded through acquisitions like the Gopalpur Port, diversifying into **new sectors or geographic regions** can reduce dependency on its core port operations:

- **Logistics and Supply Chain**: Investing in logistics infrastructure could provide APSEZ with higher margins and greater integration of the value chain.
- **Green Ports and Sustainability Initiatives**: With increasing emphasis on environmental sustainability, APSEZ can consider investing in green technologies for ports, which would not only boost brand value but could also qualify for governmental incentives related to sustainable business practices.

## 3. Strengthen Technology Integration

APSEZ can invest in **digital transformation** for better operational efficiency:

- **Automation of Port Operations**: Increasing automation in handling cargo, storage, and logistics can improve efficiency and reduce operational costs.
- **Data Analytics**: Leveraging big data and AI for predictive maintenance, traffic management, and logistics optimization could enhance service delivery and reduce delays.

## 4. Strategic Partnerships and Global Expansion

APSEZ could explore **strategic partnerships** with global players in the logistics, shipping, and energy sectors to enhance its service offerings and expand its market footprint:

- **Joint Ventures**: Partnerships in emerging markets or new trade corridors could help APSEZ expand its global reach and tap into underdeveloped regions with growth potential.
- **Foreign Market Penetration**: The company can increase its international presence by focusing on developing markets in Southeast Asia, Africa, or the Middle East where port infrastructure is being rapidly expanded.

## 5. Enhance Risk Management

Given the uncertainties in the global economy, especially with supply chain disruptions and geopolitical risks, APSEZ should focus on **robust risk management** practices:

- **Hedging against Currency and Commodity Risks**: With its international operations, APSEZ should consider hedging strategies to protect against foreign exchange fluctuations and commodity price volatility.
- **Focus on Compliance and Governance**: Strengthening internal controls and ensuring full compliance with global standards would enhance APSEZ's reputation, especially following the regulatory scrutiny that large groups like Adani are sometimes subject to.

6. **Sustainability and Corporate Social Responsibility (CSR) Initiatives**

Expanding CSR initiatives, particularly in the areas of **environmental sustainability** and **community development**, can increase APSEZ's brand equity. Creating green spaces, investing in renewable energy, and improving local communities around their ports would align with global expectations and enhance the company's reputation.

By implementing these strategies, APSEZ can solidify its market leadership, improve its financial stability, and position itself for long-term growth amidst evolving industry dynamics and potential challenges.

# Conclusion

Adani Ports and Special Economic Zone (APSEZ) has shown consistent growth and resilience over the years, positioning itself as India's largest private multi-port operator. The company's ability to expand its port capacity through acquisitions such as Krishnapatnam, Gangavaram, and Haifa Port, along with its diversified operations in logistics, warehousing, and special economic zones, underpins its strong market leadership.

Financially, APSEZ has managed to balance its debt and equity effectively, with a steadily declining **debt-to-equity ratio** from 1.45 in FY 2019 to 1.08 in FY 2024, signaling a reduced reliance on debt financing. This trend is complemented by a relatively stable **WACC**, which reflects its disciplined cost management.

Additionally, the company's **operating leverage** has improved, showcasing better fixed-cost management, while its **financial leverage** has been reduced, indicating more prudent debt management.

APSEZ's **dividend policy** is robust, with a consistent increase in the **dividend payout ratio**, reflecting its commitment to shareholder returns. This is evidenced by the increase in the **dividend yield** from 0.9% in 2020 to 1.3% in 2024. The company's **operating margins** and **profit margins** are strong, indicating solid operational efficiency.

In conclusion, APSEZ's strategic focus on expansion through acquisitions, strong financial management, and efficient operational execution positions it well for continued growth. The company's efforts in diversifying into new markets, maintaining a strong capital structure, and increasing shareholder returns suggest that

APSEZ will maintain its leadership in India's port and logistics sector while expanding its global presence.

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# Financial Position Analysis of Adani Ports & SEZ

FINM551: Corporate Finance II

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# COMPANY OVERVIEW

- **Founded:** 1998 as Gujarat Adani Port Ltd., rebranded in 2015
- **Largest Private Multi-Port Operator in India**
- **Operational Footprint:** 13 ports across India, handling diverse cargo
- **Global Expansion:** Investments in Haifa Port (Israel), Sri Lanka

# PROBLEM STATEMENT

**Industry Challenge:** Capital-intensive industries like port operations require large investments and careful financial planning. Assessing financial stability is critical.

**Key Issues:**

- Debt reliance and financial risk exposure
- Managing working capital efficiently
- Sustainable profitability and shareholder returns

# CORE BUSINESS SEGMENTS

## Port Operations

- Handling dry, liquid, and container cargo
- Integrated logistics and transportation

## Special Economic Zones (SEZs)

- Industrial hubs developed near ports

## Logistics & Warehousing

- Rail connectivity and inland transport
- Multi-modal logistics parks

## Marine Services

- Dredging and port maintenance

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# COMPETITIVE ANALYSIS

## PORTER'S FIVE FORCES

- **Threat of New Entrants:** Low due to high capital requirements.
- **Bargaining Power of Suppliers:** Moderate; APSEZ has integrated supply chains.
- **Bargaining Power of Buyers:** Low; market dominance with long-term contracts.
- **Threat of Substitutes:** Low; ports are critical for trade logistics.
- **Industry Rivalry:** Moderate; competitors include DP World, PSA International.

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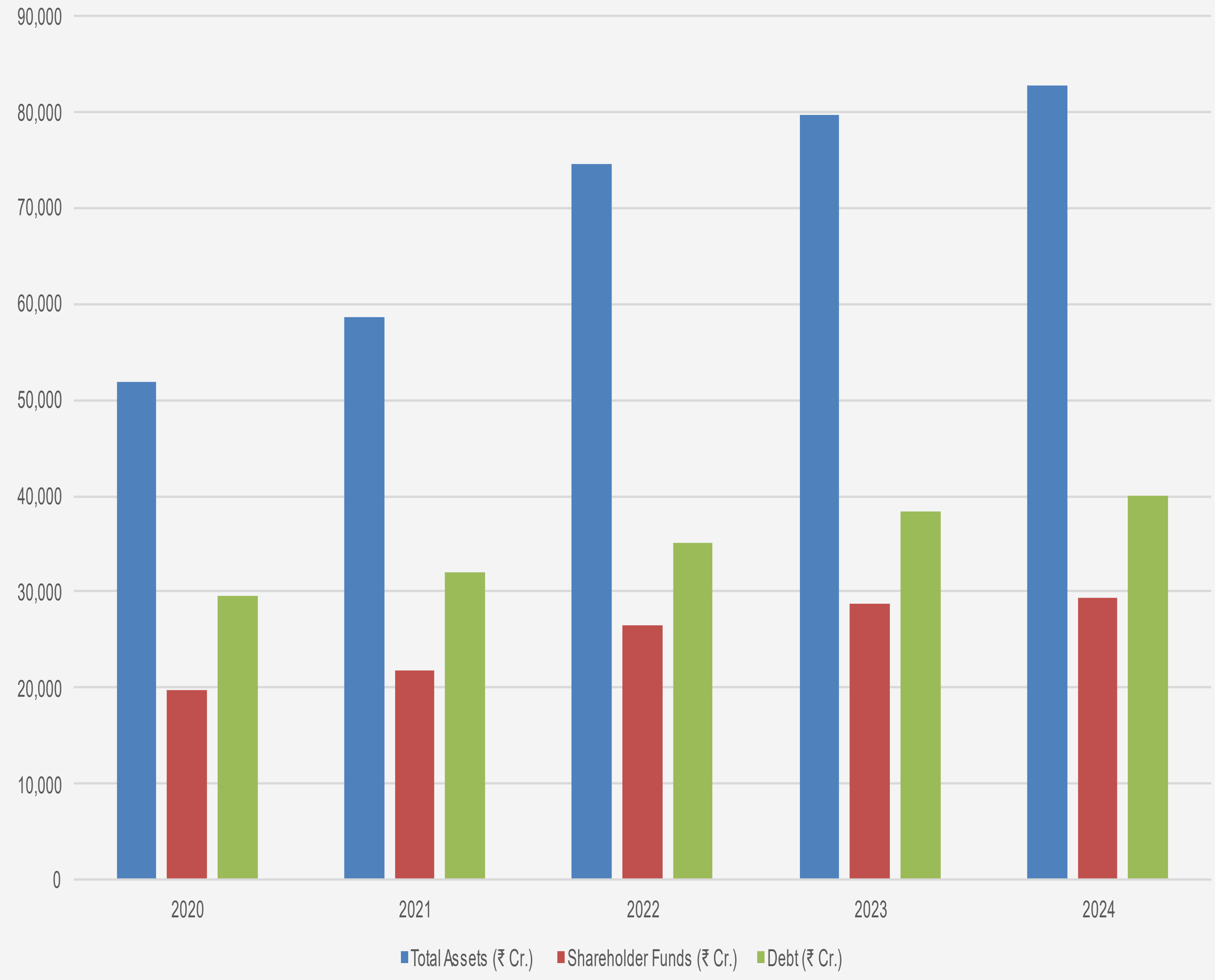
| (In Cr.) | Mar 2020 | Mar 2021 | Mar 2022 | Mar 2023 | Mar 2024 |
|---|---|---|---|---|---|
| Equity Capital | 406 | 406 | 422 | 432 | 432 |
| Reserves | 19,292 | 21,228 | 29,422 | 28,104 | 28,756 |
| Borrowings + | 29,066 | 34,118 | 45,075 | 47,818 | 49,973 |
| Other Liabilities + | 3,048 | 2,806 | 3,330 | 3,372 | 3,594 |
| Total Liabilities | 51,813 | 58,558 | 78,250 | 79,726 | 82,755 |
| Fixed Assets + | 10,583 | 10,282 | 10,039 | 10,190 | 10,041 |
| CWIP | 675 | 590 | 614 | 638 | 810 |
| Investments | 15,616 | 21,695 | 33,748 | 45,973 | 46,125 |
| Other Assets + | 24,939 | 25,991 | 33,849 | 22,926 | 25,780 |
| Total Assets | 51,813 | 58,558 | 78,250 | 79,726 | 82,755 |

# STANDALONE BALANCE SHEET

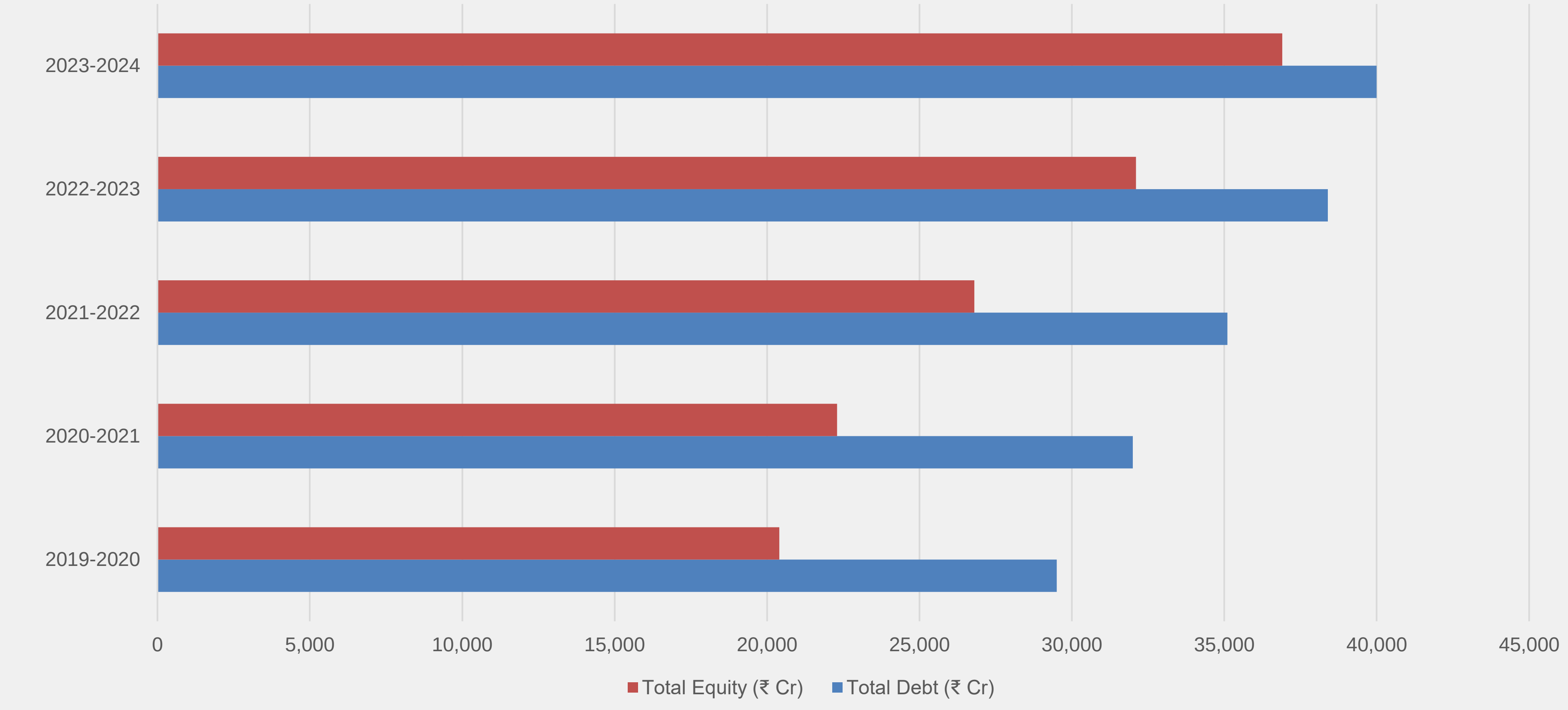
Ports and Logistics

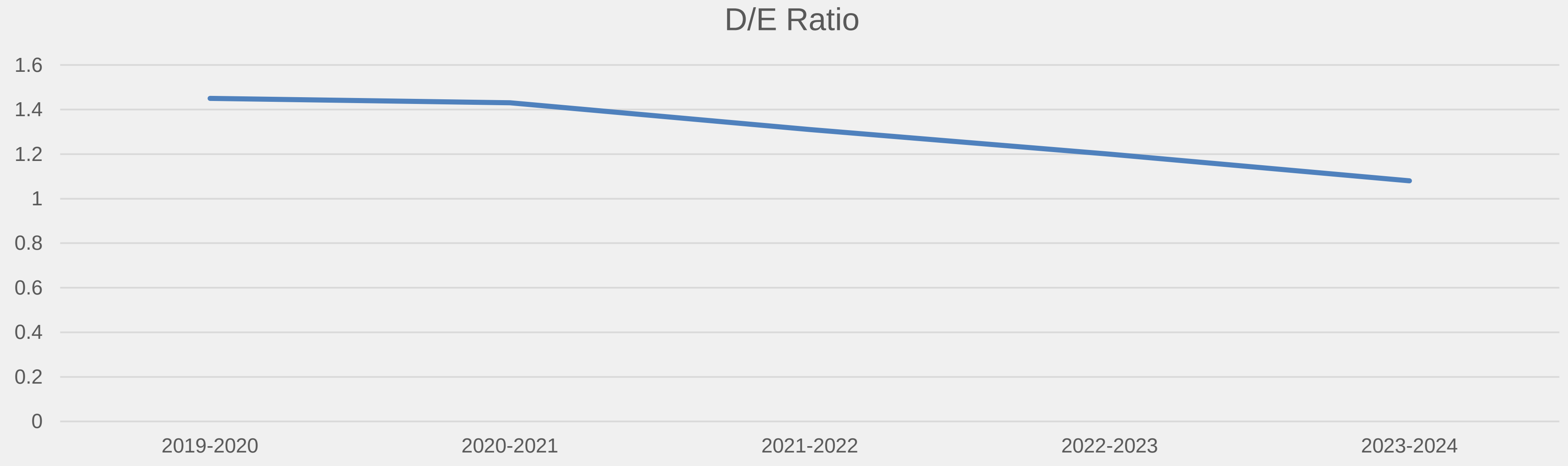
# FINANCIAL OVERVIEW

- **Strong Asset Growth** due to expansion investments.
- **Increasing Shareholder Equity**, showing financial reinvestment.
- **Higher Debt Levels**, requiring efficient capital management.



# CAPITAL STRUCTURE ANALYSIS




- **Debt-to-Equity Ratio:** Reduced from 1.45 (2019) to 1.08 (2024).
- Shift toward equity financing.
- Improved financial stability & reduced leverage risk.

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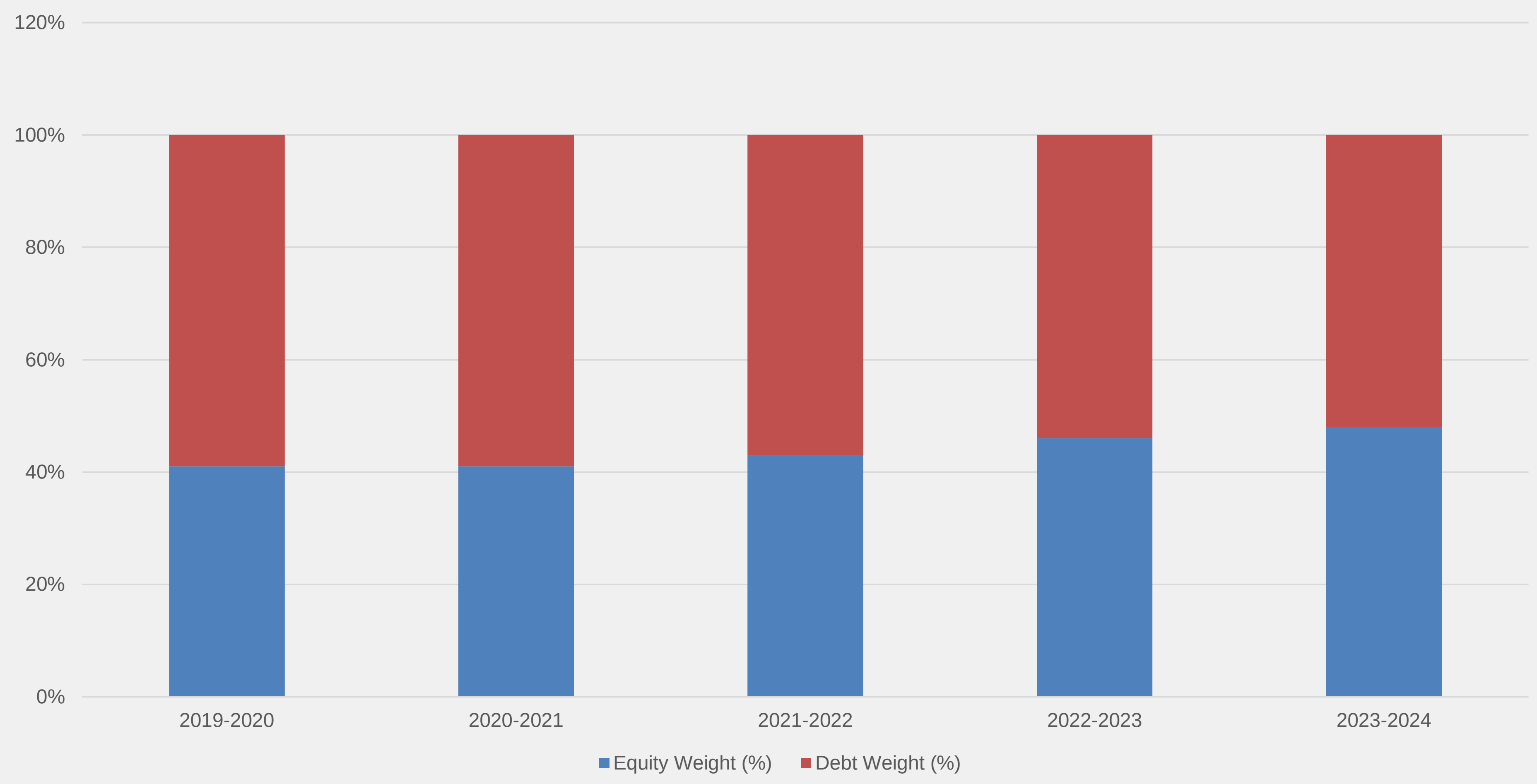


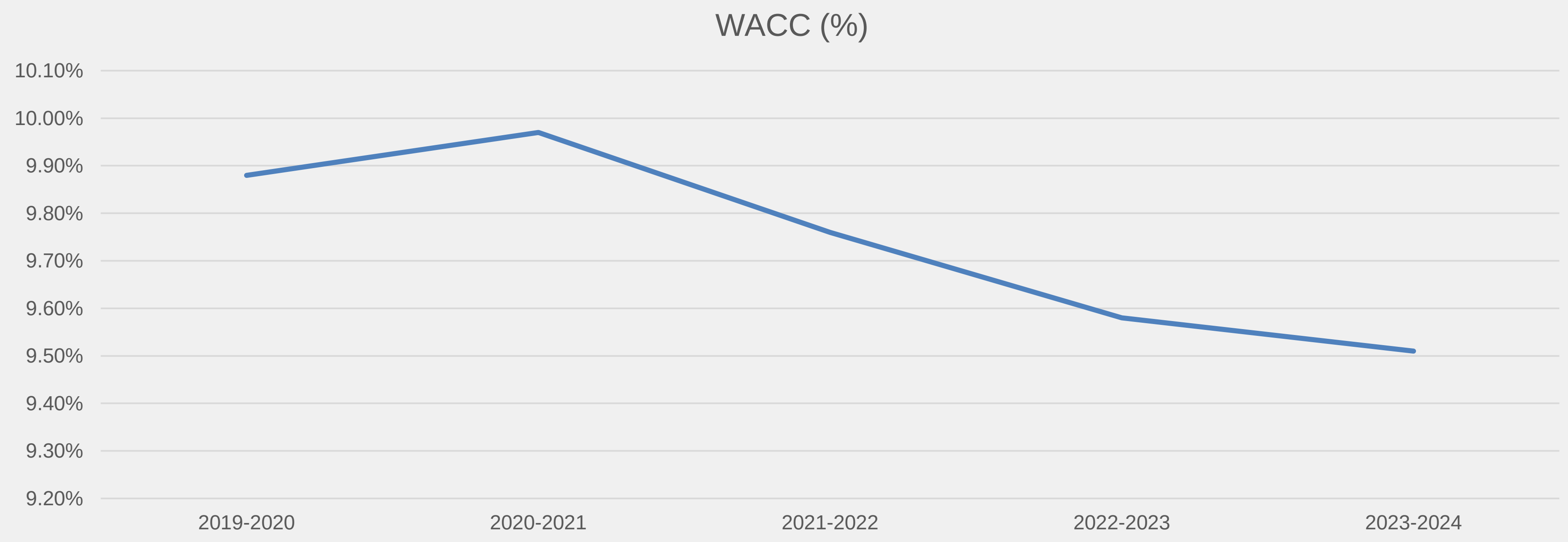


# WACC ANALYSIS

- WACC decreased from 9.88% to 9.51%, reflecting better financing efficiency.
- Lower financing costs enhance competitiveness.
- Cost-effective capital allocation.

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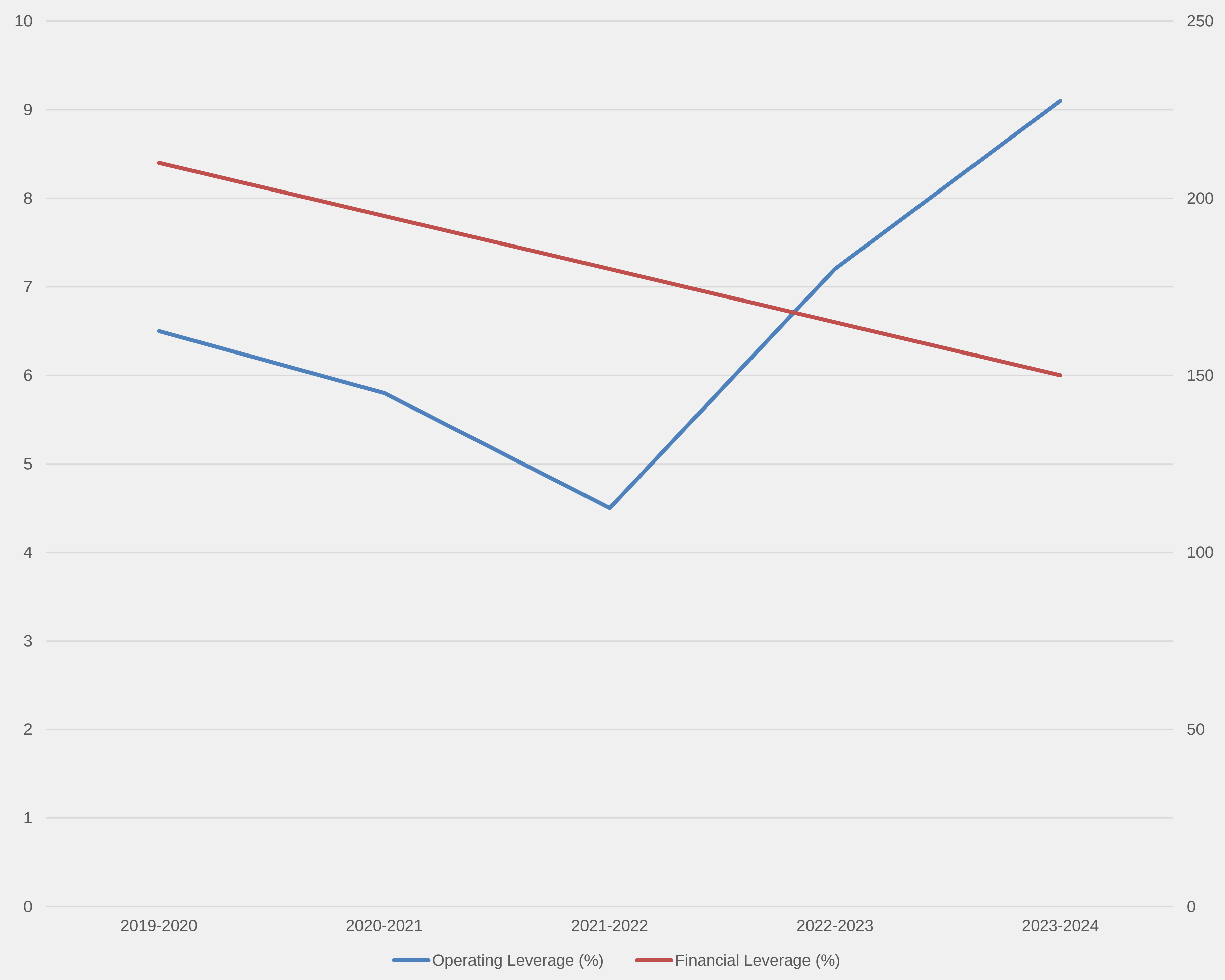
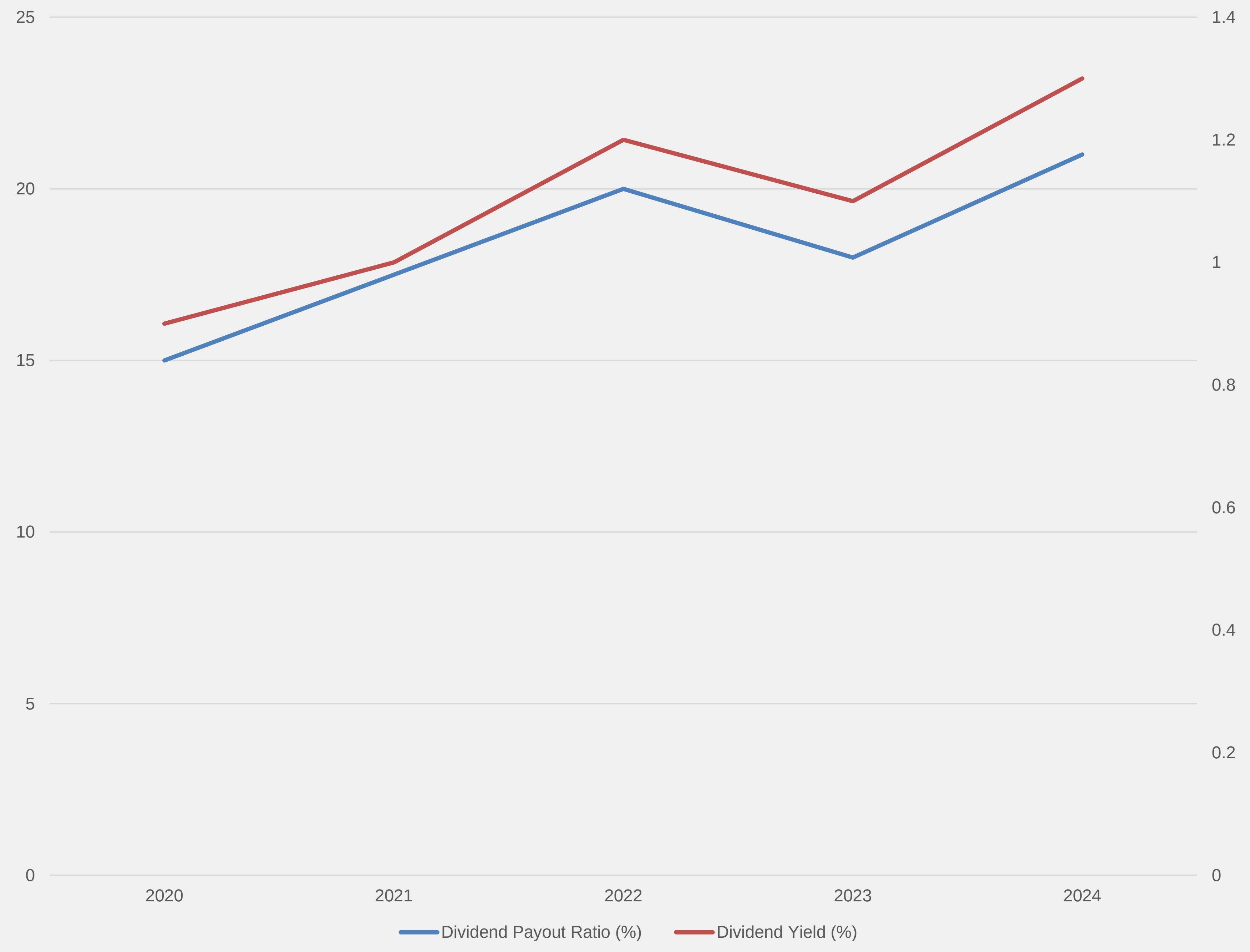



# OPERATING & FINANCIAL LEVERAGE

- **Increasing Operating Leverage,** improving efficiency.
- **Reducing Financial Leverage,** minimizing risk.




# DIVIDEND POLICY ANALYSIS

- **Dividend Yield:** Increased from 0.9% to 1.3%.
- Shareholder-friendly policy with sustainable payouts.

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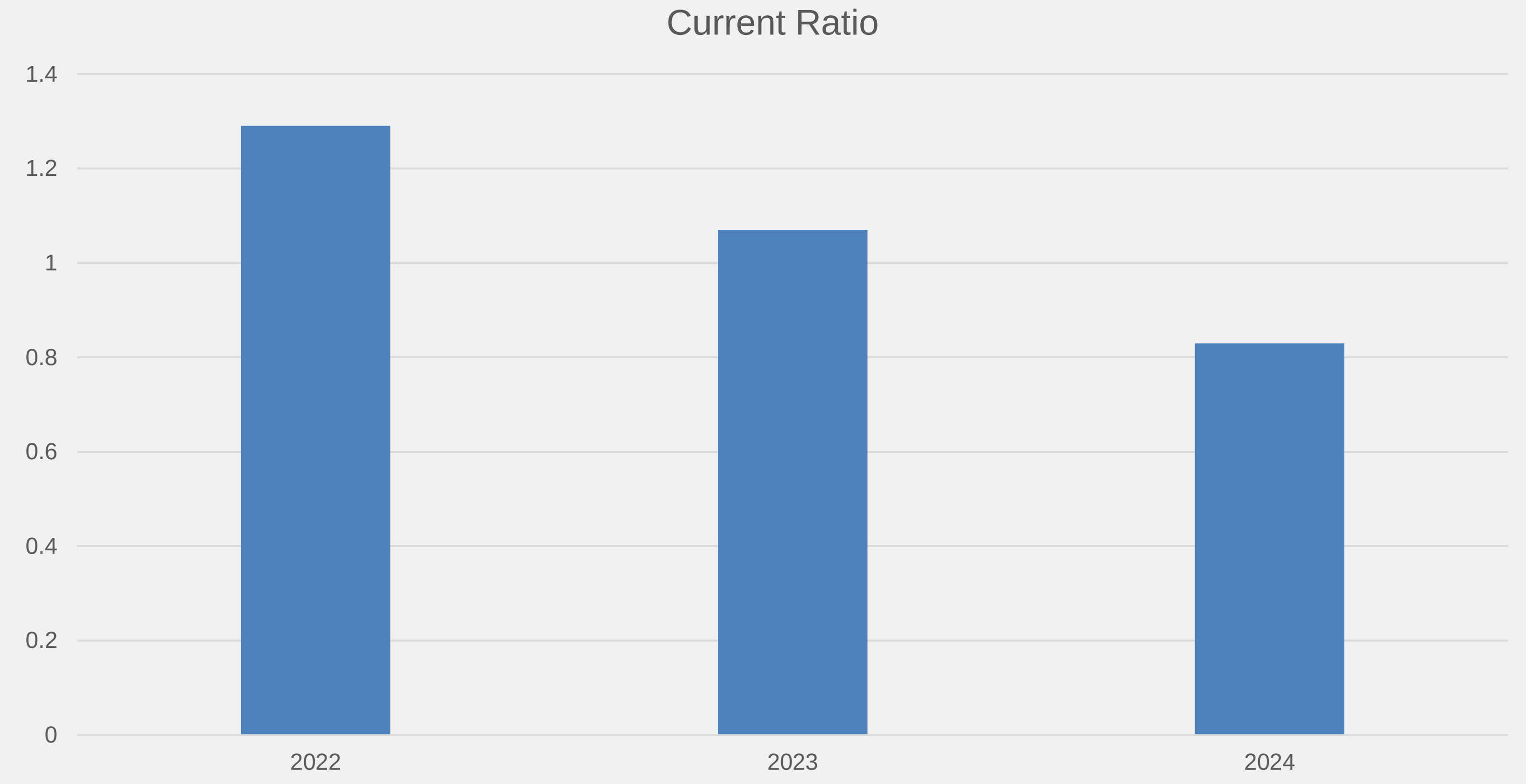


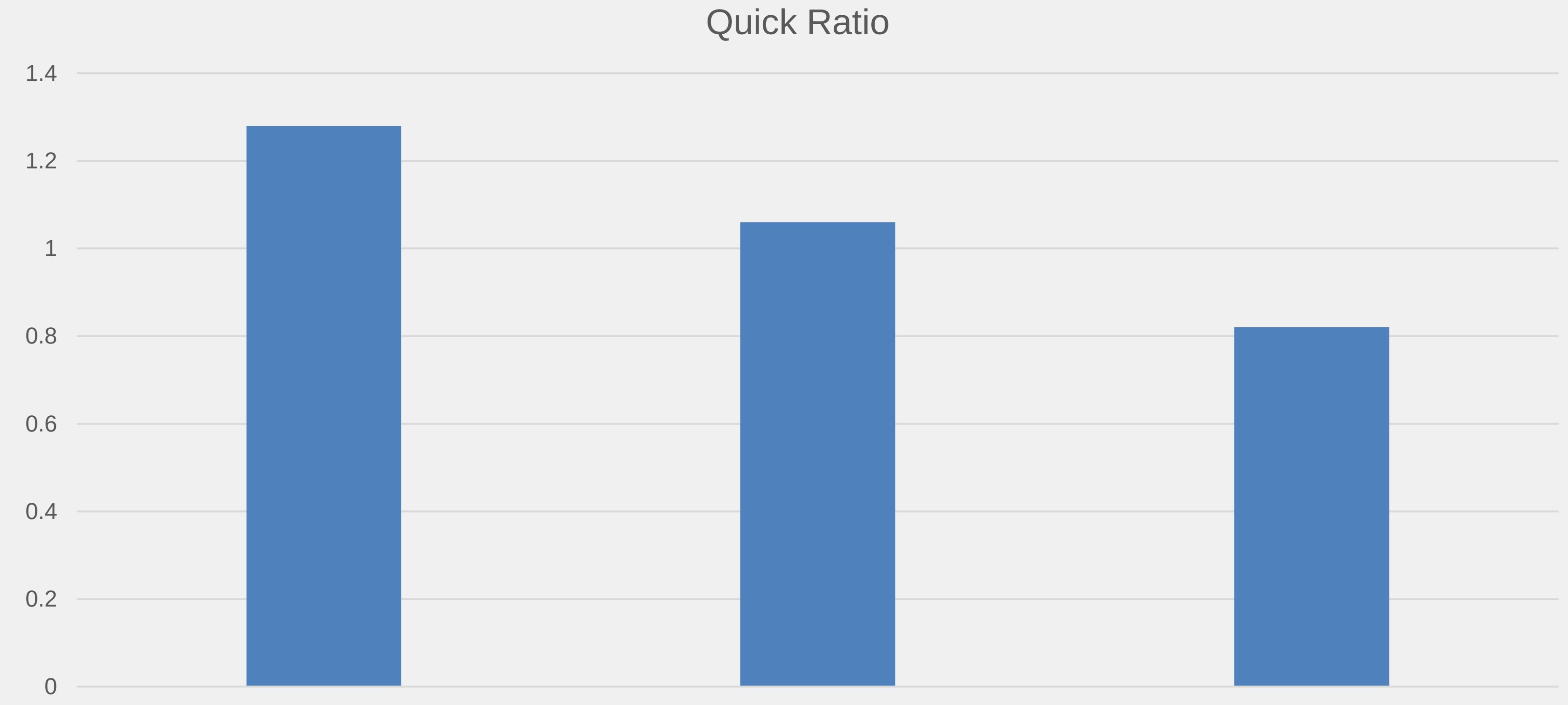


# LIQUIDITY & WORKING CAPITAL

- **Current Ratio:** Dropped from 1.29 (2022) to 0.83 (2024).
- **Quick Ratio:** Declined from 1.28 (2022) to 0.82 (2024).
- **Declining Liquidity Ratios**, signalling tighter cash management.
- **Recommendation:** Improve working capital efficiency.

# KEY STRENGTHS & WEAKNESSES

## Strengths

- Market leader with global expansion.
- Strong capital structure & financial stability.
- Efficient working capital management.

## Weaknesses

- High debt levels despite declining D/E ratio.
- Dependency on infrastructure & trade policies.

# SUSTAINABILITY & CSR INITIATIVES

1. **Green Port Initiatives:** Investing in renewable energy.

2. **Social Impact:** Infrastructure projects in port communities.

3. **Environmental Commitments:** Reducing carbon footprint.

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# Adani Ports secures top position for its climate actions and environmental performance

AGENCIES
AHMEDABAD, 11 FEBRUARY

Adani Ports and Special Economic Zone Ltd (APSEZ) has secured the top position for its climate actions and environmental performance in assessments done by four global rating agencies.

According to a press release by Adani, the CDP assigned leadership band "A-" to APSEZ, recognising the company's efforts in implementing the current best practices to tackle climate change risks and opportunities. Around 23,000 companies, worth over half of the global listed market cap, participated in the assessment performed by the CDP on behalf of the investors representing an AUM of over USD136 trillion.

APSEZ received the highest rating of "A" for its emission reduction initiatives, climate governance and risk management processes. Notably, a handful of companies make it to the leadership band every year.

APSEZ has also secured the top position in the environmental dimension of the S&P Global Corporate Sustainability Assessment (CSA) 2023 among the 324 leading players in the Global Transportation and Transportation Infrastructure sector, which includes marine ports, shipping, air, road and rail transport, logistics, mass transit system and other transportation businesses, the release stated.

The environmental pillar provides 56 per cent weight for climate indicators and strategy, with APSEZ improving its score for the third consecutive year to achieve the top position. On the overall ESG assessment, APSEZ with a 96 percentile score stands among the top 15 leading companies in the sector globally and is apparently the only port operator to feature on the list.

The Sustainalytics Low Carbon Transition Rating has also assigned APSEZ the top rank in the ports sector during their January 2024 update.

The indicator measures the alignment of the projected emissions of the company with the global net zero target.

While Sustainalytics found the company's current projected emissions in line for a 1.7oC rise in global temperature, APSEZ has already announced its commitment to reach net zero by 2040, a decade earlier than the requirement for the global GHG emissions to hit net zero to keep to 1.5oC.

On the overall environmental dimension covering biodiversity and land use, emission and pollution control and waste management, Sustainalytics has assigned a low to negligible risk rating to APSEZ on account of a strong risk management framework that the company has implemented, it stated.

APSEZ has also received an 'Advanced' rating in the last Energy Transition Rating from Moody's, reflecting its leadership position.

Furthermore, Moody's evaluated APSEZ on an environmental, social and governance basis in 2022, wherein the Company secured first rank in the Transport and Logistics sector and ninth across all sectors/ industries in the Global Emerging Markets.

In India, APSEZ was ranked 1st on ESG performance across all the sectors. There were 4,885 companies globally that were evaluated by the rating agencies on a range of ESG indicators, policies, processes, and systems. The next assessment by Moody's is likely this year.

Adani Ports and Special Economic Zone Ltd (APSEZ), a part of the globally diversified Adani Group, has evolved from a port company to an Integrated Transport Utility providing an end-to-end solution from its port gate to customer gate.

## LATEST NEWS

# USE OF A TOOLS

**AI in Financial Analysis**

- Forecasting
- Risk assessment
- Investment Decisions

**Operational Efficiency**

- AI-powered Logistics
- Predictive Maintenance.

**Data Analytics**

- AI-driven insights for decision-making.
- Predictive Analytics for Market Trends
- AI-Driven Portfolio Optimization

# RECOMMENDATIONS

- **Improve Liquidity Position:** Optimize working capital, increase cash reserves.
- **Diversify Business Segments:** Invest in logistics, supply chains, & green ports.
- **Leverage Technology:** AI & automation for predictive maintenance & efficiency.
- **Risk Management:** Hedge currency risks, strengthen governance.

# REFERENCES

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# THANK YOU!