Adani Green Energy

Disclosures

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Power / Energy / CUF

- Energy = Power * t
- Power generation capacity = 343 GW (FY18).
- Energy we could have produced = 343 * 24 * 365 GWh = 3004.6 TWh.
- Energy Produced in the country = 1486.5 TWh (FY18).
- CUF is the actual output from a plant over the year to the maximum possible output from it for a year under ideal conditions.
- India’s CUF = 1486.5 / 3004.6 = 49.4%

Renewables

Year	**2018**	**2017**	**2016**	**2015**
Renewables (GW)	69.02	57.3	42.84	35.32
Total (GW)	343.98	318.33	302.83	271.72
Renewables (%)	20%	18%	14%	13%

However, actual electricity utilized from renewables is lower due to low CUF

2022 Target = 175 GW from Renewables

Renewables

Renewable power production has a bright future for the following reasons

- No Fuel involved
- Energy security as no imports are needed, once the plant is setup
- Employment opportunities in the country
- Improving economics of wind / solar industry

Adani Green Energy

- Renewables Energy Arm of the Adani Group
- Develops Solar / Wind plants and signs PPA at fixed tariffs to DISCOMs
- Demerged from Adani Enterprises in Jun’18
- Competitors: ReNew Power, Hero Future Energies
- Only listed entity in Pure Renewable Energy players

SHP Analysis

Promoters hold ~86% of the company post-demerger.

Should bring down to 75% within one year of listing as per SEBI Regulations.

Expect either some selling pressure / dilution in the coming months.

FPI: ~11%

Public: ~3%

Industry Players

- Vendors - Suzlon Energy, JINKO Solar
- Developers - Adani Green Energy, ReNew Power
- DISCOMs - BESCOM, HESCOM
- SECI

Industry Developments

- Regime shifted from Feed-in-Tariff (FiT) to Auction based tariffs
- Solar and wind tariffs are decreasing rapidly
- Falling cost of project development
- Currently around 2.5 Rs / KWh
- Cheaper than electricity produced using Coal

Balance Sheet (in crores)

- Extremely Aggressive
- Poor Current Ratio
- Highly Leveraged

Year	**2018**	**2017**	**2016**
Non-current Assets	10489.44	4955.76	4898.11
Current Assets	1573.71	1204.14	652.93
Total Assets	**12063.16**	**6159.91**	**5551.04**
Equity	**1240.59**	**1202.94**	**135.51**
Non-current Liabilities	7247.78	3667.04	3949.94
Current Liabilities	3574.77	1289.92	1465.1
Total Liabilities	**10822.56**	**4956.97**	**5415.05**

PnL Statement (in crores)

- Rapid topline growth
- Loss-making
- High EBITDA Margins
- Low Asset Turnover
- But Cash-milking

Year	**2018**	**2017**	**2016**
Revenues	901.73	581.94	34.45
RM, Employee, Other	197.3	98.45	14.27
D&A	448.3	333.26	5.79
Finance costs	396.92	334.13	38.6
Profit before tax	**-140.81**	**-183.91**	**-24.23**
Tax	-76	-137.68	0.24
Profit for the year	**-64.84**	**-46.67**	**-24.56**

Written Down Value Method of Depreciation

- Calculated as at a certain fixed % each year on the decreasing book value
- Decreasing depreciation charges over the life-span of the asset
- Better cashflows through tax deferral

Cashflow Statement (in crores)

- Loss making
- But +ve operating cash
- Investing aggressively
- Raising money

Year	**2018**	**2017**	**2016**
Profit before tax	-140.81	-183.91	-24.23
Operating profit	694.58	404.64	19.87
Net cash - Operations	300.82	27.78	-97.77
Net cash - Investing	-3760.89	-1510.33	-4197.03
Net cash - Financing	3597.73	1559.08	4304.3
Net change in cash	137.66	76.53	9.49

Portfolio (as of Aug'18)

	Done	Under implementation	**Total**
Solar (MW)	1898	300	**2198**
Wind (MW)	60	937	**997**
Total (MW)	**1958**	**1237**	**3195**

Recently signed few more PPAs to increase total capacity to 4.31 GW

Management

CEO: Jayant Parimal.

As per Linkedin, Ex-IAS Officer as Secretary of Finance Dept of Gujarat and also was a president at Reliance Industries Limited with projects related to Power, Coal, Oil & Gas.

Suggests an ambition of 10GW of power generator by 2022.

Bargaining Power

- With Suppliers - Strong
  Solar panels market is extremely commoditized market.
  World's largest player, Jinko Solar, has awful margins.
  More value-added products are available in Wind industry.
- With Consumers - Weak
  Lack of value-added bidding.
  Only point of comparison is tariff rate per KWh.

Deteriorating Unit Economics

- Falling tariffs
- Falling project cost
- But falling ROCE too

Project	**Kamuthi (Solar)**	**Rawra (Solar)**
Project Capacity (MW)	72	50
Tariff (Rs / KWh)	7.01	2.54
P75 CUF	20.86%	27.31%
Project cost (Crores)	497.67	210
Project debt (Crores)	348	0
Yearly Cashflows (Crs)	**92.23**	**30.38**
ROCE	**18.53%**	**14.46%**
Project cost (Crs / MW)	**6.91**	**4.2**

Valuation

Price = 37.5

FY18 EPS = -0.48

FY18 Cash EPS (add D&A) = 2.83 => Trailing P / CE = 13.25

TTM Cash EPS (add D&A) = 3.74 => TTM P / CE = 10

As per economic times article on ReNew Power IPO, these companies typically trade at 8-9 times earnings

ReNew Power

- Top competitor to Adani Green Energy
- Portfolio of 5.85 GW, out of which 3.92 GW is operational
- Expecting a valuation of 4-5 billion dollars during IPO
- However fund houses valued it at ~ 2 billion dollars and hence, no IPO
- Adani Green Energy is valued at ~ 800 million dollars with a portfolio of 4.31 GW, out of which 1.97 GW is operational

Moat?

Positives:

- Fixed and predictable cashflows once a PPA is signed
- Revenues are fixed for next 25 years
- Slowdown in industry would only affect growth but not current revenues
- 56% contracts signed with Investment Grade Central Utilities

Negatives:

- Low entry barriers - Vendors can forward integrate into bidding
- Aggressive bidders can drive down prices

Other Important Notes

- Poor financial health of DISCOMs
- DISCOMs stopped signing PPAs after auctions in wind industry
- Revival in wind industry is slow due to poor transmission infrastructure
- Introduction of safeguard duties on solar panels import, to protect local manufacturers, has risen the cost
- States have Renewable Purchase Obligations (RPOs) to meet
- Govt launched the RPO Compliance Cell
- India Ratified Paris Agreement => 40% of Power Generation from Renewables

Risks

- Debt to Equity = 9 (FY18)
- FY19 Quarterly results show that finance costs have increased, implying they raised even more debt
- Coupled with high trade receivables (though decreasing)
- One shake-up to the sector can force the company into bankruptcy due to high leverage and receivables
- New power developers can bid aggressively and deteriorate the unit economics further

My Expectations

Bull case:

- Revenue would continue to rise quickly
- However, profit growth might not rise as fast as revenues
- Market might not assign a high multiple in-spite of huge growth due to high leverage and deteriorating ROCE

Bear case:

- Black swan event in receivables can cause company to go bankrupt
- Adani Group might need to infuse more funds in such case leading to dilution

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Thank You