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ADANI ENTERPRISES LTD
Risk Summary

We would like to draw your attention to some of the risks of participating in Adani Enterprises' ("Adani") US$1.5b global bond issue. As has been widely noted, the company's business model – premised on the availability of 'cheap' imported coal to fuel its power plants – has proven to be flawed. The company's share price has plummeted over the last two years, existing projects are behind schedule or underutilised and the firm is debt-laden and exposed to large foreign exchange risks. The company's $10bn flagship Australian development, the Carmichael project, is likely to prove to be uncommercial due to a high capital cost and continued delays, coupled with the financial constraints and inexperience of the project developer.

	Risk	Details
Operating Cash Flows –Revenues	Transmission bottlenecks curb revenues, resulting in large reported losses	Transmission constraints continue to plague revenues, leading to large losses. Power-producing subsidiary Adani Power, for example, reported a consolidated net loss of Rs 22.95bn (US$410mn) for FY2012-13, citing both transmission constraints and higher imported coal prices.[1] Despite being ready, it was reported in April 2013 that Adani was forced to completely idle a 660MW generator at its Tiroda plant because Mahatransco (transmission company) did not have capacity to take.[2] Another new 660MW Tiroda generation unit was planned to be commissioned in May 2013, but both fuel supply and transmission line remain hurdles to commencing operation.
	New Indian import specifications limit customer base	The Indian Ministry of Environment and Forests has issued new minimum imported coal quality standards (min 5000 Kcal/Kg, 12% max ash, 0.8% max sulphur) for the proposed fleet of "Ultra Mega Power Plants" (UMPPs). Adani aims to produce thermal coal with 25% ash content according to its own Environmental Impact Statement (EIS).[3] These new regulations could impact Adani's ability to export to Indian UMPPs, unless the ash content can be reduced economically.
	Pass-through of more expensive imported coal costs remain politically difficult	Adani's business model relies on more expensive imported coal to fuel its plants. Regulatory changes in exporting countries such as Indonesia have caused Adani's fuel costs to skyrocket over the past 18 months, forcing the company to seek the regulator's approval to raise electricity tariffs. While a CERC ruling allowed the Mundra plant to receive compensatory tariffs from Gujarat and Haryana, Haryana has appealed the decision[4] (it is unclear whether Gujarat will follow suit). There is likely to be a significant wait for any tariff hike, that is, if it is not reduced or quashed altogether on appeal.
Operating Cash Flows –Expenditure	Volatile fuel costs due to heavy reliance on imported coal	Coal import prices remain highly volatile. The Indian Cabinet Committee has rejected import price pooling relief in the face of fierce stakeholder opposition.[5]
	Lack of access to domestic coal supplies post 'coalgate'	Coal India missed its coal production target in FY13 for a fourth successive year. Coal supply for the Tiroda plant remains in jeopardy following cancellation of the Lohara coal block allotment. Adani has subsequently been denied a new long-term linkage to service the plant.[6]
	Cost overruns and operational issues are evident on Adani's developments	Adani's Bunyu project in Indonesia has shown delays in scaling up production (~2.8mt actual vs ~6mt projected at start of FY13) and lower-than-expected peak production, raising doubts about the company's ability to realise its giant Australian projects. J.P. Morgan reported in May 2013[7] that Adani Power's *"leverage level and asset base is indicative of a cost overrun in under construction projects…"* According to media reports, at least 12 companies have been dealing with unpaid bills by Adani after signing contracts and one is now pursing a A$28.5m claim regarding mismanagement.
	Ongoing political and	There is ongoing political and regulatory uncertainty surrounding terms of

1 http://www.thehindu.com/business/Industry/adani-power-consolidated-net-loss-at-rs2295-cr-in-201213/article4689715.ece
2 http://articles.timesofindia.indiatimes.com/2013-04-10/nagpur/38432971_1_tiroda-plant-mw-unit-adani-power
3 EIS, Volume 2, Section 2, page 2-9.
4 http://www.thehindu.com/business/Industry/haryana-contests-cerc-ruling-in-adani-case/article4718586.ece
5 http://www.indianexpress.com/news/price-pooling-of-coal-spiked-by-ccea/1106115/
6 http://www.financialexpress.com/news/adani-jindal-plants-to-bear-brunt-of-coallinkage-refusal/1096821
7 https://markets.jpmorgan.com/research/EmailPubServlet?action=open&hashcode=-9klai88&doc=GPS-1118546-0

	regulatory uncertainty in respect of Indonesian coal imports	trade for Indonesian exports (e.g. export duties or other restrictions). 2011 Indonesian benchmarking of exports to market prices have already caused Adani's fuel costs to skyrocket.
	High public liability risks due to very poor governance record	Adani has a long history of poor corporate governance, for example: • In 2011, Karnataka's anti-corruption ombudsman found that Adani and other port operators were actively involved in large scale illegal exports of iron ore. Documents seized from Adani's offices indicated that the company had been paying cash bribes to several government departments, police and local politicians;[8] • In 2012, Adani was investigated by the Ministry of Commerce and Industry after evidence indicated that the company had "deliberately concealed and falsified material facts" when applying for a 1,840 hectare Special Economic Zone (SEZ) at Mundra. The SEZ was subsequently cancelled on the basis that it did not comply with various norms[9]; and • In 2013, a Ministry of Environment and Forests (MEF) panel recommended an Rs 2bn fine and withdrawal of approval for the northern part of the Mundra port project for damaging the local environment during project development.[10]
Investments	Large parallel greenfields commitments in India, Indonesia and Australia	Adani's ambition is visionary, claiming to be concurrently engaged in developing, among other projects, four ports (122mt capacity), 3.3GW of power projects (a further 7GW planned) and several coal mines, stretching the company's financial and technical resources.
	Significant environmental impacts of Carmichael project create risk of delayed regulatory approvals and legal costs	Several NGOs challenged the EIS for Carmichael mine on the basis of incomplete and poor quality work on threatened species, water studies and other "Matters of National Environment Significance" that are required for environmental approvals. Adani have now been asked to prepare a "Supplementary EIS" for Carmichael. Further, a May 2013 UNESCO report criticised the failure of the Federal and Queensland governments to preserve the Great Barrier Reef World Heritage Area by threatening to place it on the World Heritage list of sites in danger. A Parliamentary bill has also been proposed that would impose a moratorium on approval of developments affecting the area until a strategic assessment is completed and deemed adequate by the World Heritage Committee.
	Deteriorating cost of production scenario in Australia	Citing a recent study, the Australian Coal Association (ACA) warned that new coal mines in Australia are not globally competitive, given that "capital costs for Australian thermal coal projects are 66% above the global average… Energy and transportation costs are also much higher in Australia than in competitor countries."[11]
	National/ international anti-coal campaigns	613,026 people have now signed an international petition opposing coal projects near the Great Barrier Reef. Both Adani's Australian coal terminal projects face significant delays due to community opposition - the dredging required for T0 is at the centre of major controversy and the health impacts of coal dust have become a major concern for communities living near the Dudgeon Pt site following a concerted and ongoing local campaign.
Financing	Highly leveraged with unhedged foreign exchange debt exposure	Adani Enterprises' total debt was at Rs 618bn (US$11bn) as of 31-Mar-2013. Its total debt/equity ratio was at 250%, current ratio fell to 0.82 (as current liability increased significantly). A significant chunk of this is coming from Adani Power, with Rs 376bn in total debt, a massive increase from total debt/equity from 584% to 876% and a troubling current ratio of 0.32 (down from 0.45 in March 2012). The company expects to increase debt further (e.g. additional US$7bn capex in Australia alone). INR continues to depreciate.
	High interest expenses	Interest expenses tripled to Rs 34.9bn from last year's Rs 11.7bn.

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8 http://ibnlive.in.com/news/lokayukta-recommends-blacklisting-of-adani-group/173890-60-115.html
9 http://timesofindia.indiatimes.com/business/india-business/Govt-cancels-Adanis-1840-hectare-SEZ/articleshow/16831215.cms
10 http://www.hindustantimes.com/India-news/NewDelhi/Rs-200cr-fine-on-Adani-group-recommended/Article1-1046522.aspx
11 https://senate.aph.gov.au/submissions/comittees/viewdocument.aspx?id=a01db15e-f57d-4745-9782-45bf53f4b2e7