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ADANI ENTERPRISES LTD

Quarterly Risk Summary – 31 Jan 2013

Ahead of the quarterly results announcement for Adani Enterprises Ltd (ADE) this table highlights recent key risks facing the company including:

- Very high regulatory risks in respect of revenues in India, exports in Indonesia and licensing and approvals in Australia;
- Operational performance risks in Indonesia; and
- Unhedged FX risk and high and increasing leverage.

Investors should demand a review of coal expansion plans and a shift to a capital expenditure program that diversifies the company away from the uncertain future of the coal industry.

	Main risks	Key developments in quarter
Operating Cash Flows – Revenues	Fixed electricity tariffs and inability to pass through variable fuel cost	Adani Power (ADANI; 63.99% owned by ADE) filed petition to CERC to revise tariffs for its Mundra project citing higher fuel costs.
	Transmission bottlenecks	ADANI's consolidated net loss of Rs. 619 crore for Q3 FY13 blamed on "higher imported coal prices and non-availability of Transmission Line".
Operating Cash Flows - Expenditure	Indonesian regulatory risk	Risk of new cap or levy on Indonesian exports. This follows 2011 Indonesian benchmarking of exports to market prices which raised the company's fuel costs significantly.
	Fluctuation of fuel input prices	Coal India likely to again miss production target for FY13. Import prices remain highly volatile (e.g. Newcastle 6700 kcal FOB price up from avg. $78.9/t to $90.7/t over Oct-Dec12). Imported coal price pooling proposal stuck following opposition from state governments.
	Operational/ performance risks	Indonesian projects such as Bunyu already show cost overruns and delays in scaling up production.
	Access to coal blocks post 'coalgate'	Coal supplies for Adani's Tiroda plant unsure following rejection of clearance for its Lohara coal block. New coal linkage not yet granted.
Investments	Licensing and regulatory approvals	Challenges to obtain Australian licences for Carmichael mine, railways and port extensions. EIS for Carmichael mine published at end of 2012, with public submissions closing on 11Feb13; likely to be subject to significant public scrutiny. NGOs have identified incomplete and poor quality work on threatened species, water studies and other "Matters of National Environment Significance" that are required for environmental approvals. EIS details indicate problems ahead with securing sufficient water to run the mine. Drawing water needs from surrounding environment will cause significant impacts and potential conflict with landowners.
	National/ international anti-coal campaigns	612,454 people have now signed an international petition opposing coal projects near the Great Barrier Reef.
	Large investment outlay in parallel projects in Indonesia/Australia	
Financing	Very high debt/equity vs comparables	ADE debt was 2.7x equity by Q2 2012/13; ADANI 6.4x, ADSEZ 3.5x. Competitors latest filings; GVK 2.1x, NTPC 0.53x, Reliance Power 0.71x, NLC 0.19x. JSW 1.8x, CIL -1.1x. ADE net debt reached Rs. 62,848 crore by Q2 FY13, and expected to increase further (e.g. additional US$7 bn planned to be spent in Australia alone). Mr Adani's plan to reduce D/E ratio relies on pass through of imported coal prices, which may be politically difficult.
	Large unhedged foreign currency risk	Strong AU$/INR, 54.4 (1Oct12) to 57.0 (31Dec12) causing foreign exchange losses.
	BBB rating or worse	
	Pressure to dilute equity from family	21Dec12 ADE share offer oversubscribed 1.04 times at Rs.283, stock closed at Rs. 246 on 29Jan12. Indian regulator SEBI deadline to reduce promoter shareholdings to 75% or lower by Jun13.

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