

Coal, coup, CDP and credit: Adani Ports update

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The AFII article “[Global investors and the Carmichael mega-mine](#)” (1 Sep 2020) made the case that frequent bond issuer Adani Ports (ADSEZ) is fully integrated into the coal value chain of the Adani Group, which would make investments in the company’s bonds and equities a sensitive exercise for investors with investment restrictions on new coal mines and power plants. We revisit the case, with some updates:

- **Coal:** ADSEZ has clarified its integral participation in the Carmichael coal mine development project together with Adani Group.ⁱ We illustrate the full value chain of Carmichael in the graphics, see full size in Figure 1 below. Naturally, ADSEZ remains on the Urgewald Coal Exit list.ⁱⁱ In a recent investor presentation focused on Krishnapatnam Port, coal handling and access to 5.5GW of coal fired power is being touted as top USPsⁱⁱⁱ for it, as well as its strong coal links with South Africa, see Figure 2. ADSEZ has recently landed in controversy around plans to expand coal logistics around Murmago Port, threatening environmental values in tourist destination Goa.^{iv}
- **Coup:** Justice for Myanmar has recently listed ADSEZ as a significant business associate of the military junta that has taken control over the country. JfM has put ADSEZ on a proposed sanction list for its involvements.^v Other business interests have started to exit the country due to concerns of being associated with the military.^{vi}
- **CDP:** We believe the ADSEZ contributions to the Carbon Disclosure Project’s (CDP) database are not fully showing the company’s engagements in coal,^{vii} which in turn could explain why ADSEZ was included on the Dow Jones Emerging Markets Sustainability Index in November.^{viii} We opine the latter decision should be reversed.
- **Credit:** As a sign of environmental controversy around ADSEZ, it has been reported^{ix} that Deutsche Bank decided to not syndicate the ADSEZ \$3.1 02/31 bonds^x issued on 26 Jan 2021. We note that the bond prospectus pushed by other parties failed to disclose any relationship to “the world’s most insane energy project”^{xi} – the Carmichael coal mine - consistent with similar lack of disclosure of risks in investor presentations and extensive financial reports.^{xii}



Our data and qualitative evidence indicate divestment from one big holders of bonds, a UK climate leading institution, since our article in September. Still, we have no indications that either Norges Bank Investment Management (est. USD175mn of exposure) nor Allianz/PIMCO (est >USD100mn) have adjusted their positions. **We continue to believe ADSEZ’ coal engagements should be in breach of sensible coal exclusion criteria: both in general business dependency terms (e.g. revenue share) and specifically on absolute restrictions against new coal mine developments.**^{xiii}

Not investment advice. Important disclaimers at the end. This version 9 February 2021.

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ⁱ The Hindu Business Line, “[Adani Group to self-finance rail link for Australian coal mine project via ports unit](#) [ADSEZ]”, 27 Nov 2020.

ⁱⁱ Urgewald Global Coal Exit Lists 2020: <https://coalexit.org/>

ⁱⁱⁱ USP = Unique Selling Point. The plural of USP is arguably a logical aberration: our usage of “USPs” is purely for reference purposes.

^{iv} Financial Times, “[Goan rally against Modi plan to turn tourist magnet into coal hub](#)”, 13 Jan 2021.

Times of India, “[No stake in Goa’s road, rail projects, says Adani Group](#)”, 6 Nov 2020. Note that the response came from Adani Group level, again illustrating the strong links between the Group level and Adani Ports. The article describes the port well: “*Adani Mormugaou Port Terminal Pct has a fully mechanized coal handling facility at MPT’s bert no 7 where coal is imported, loaded on trucks and train wagons and transported to Karnataka [where Adani Power runs the 1.2GW coal fired Udupi power plant]. Along with the Adani Group, JSW Steel and Vedanta have dedicated berths to handle coal and between the three companies, millions of tonnes of coal are unloaded at the port and carried across Goa to power stations and refineries in Karnataka.*”

^v Justice for Myanmar, “[Myanmar military-controlled businesses and associates that require targeted sanctions](#)”, 4 Feb 2021.

^{vi} Financial Times, “[Singaporean tobacco investor exits Myanmar after coup](#)”, 9 Feb 2021.

^{vii} The CDP self-report fails to mention Carmichael as a controversy risk, despite the mine being a top coal controversy in the world, see excerpt and links in the Appendix. Besides what we believe are omissions in the risk factors to be disclosed, we particularly would highlight the section on Reputation “Hence, climate change and sustainability are inculcated in the DNA in our organization for futuristic planning, designing and operations.” Note the words here: Cambridge dictionary says that inculcate = “[fix beliefs or idea’s in someone’s mind, especially by repeating them often](#)”; futuristic = “[strange and very modern or intended or seeming to come from imagined time in the future](#)”.

^{viii} Business Standard, “[Adani Ports becomes part of DJSI Emerging Markets Index; stock soars 7%](#)”, 24 Nov 2020. For a full methodology, please refer to S&P Dow Jones Indices, “[Dow Jones Sustainability Emerging Markets Index](#)”, accessed 8 Feb 2021.

^{ix} The Economic Times, “[Adani Ports bonds issue: DB backed out on green concerns](#)”, 28 Jan 2021.

^x ISIN [USY00130XS17](#) (REGS), [US00652MAH51](#) (144a) Baa3/BBB-/BBB-, 500mn issue at CT10+205.5bp. Leads: Barclays, Citi, JPMorgan, Banc of America-Merrill Lynch, Mizuho, MUFG, Standard Chartered, DBS, Emirates. The bond traded 8bp wider on the break and is still 4-5bp wider from new issue, something which is not uncommon for over-brokered deals.

Other ADSEZ bonds are (All USD, REGS/144a tranches)

ADSEZ 3.375 07/24 (USY00130RW92 / US00652MAF95)

ADSEZ 4 07/27 (XS1636266832 / US00652MAD48)

ADSEZ 4.2 08/27 (USY00130VS35 / US00652MAG78)

ADSEZ 4.375 07/29 (USY00130RP42 / US00652MAE21)

^{xi} Rolling Stone Magazine, “[The World’s Most Insane Energy Project Moves Ahead](#)”, 19 Jun 2019.

^{xii} E.g. Adani Ports, “[Responsible Leadership](#)”, FY2020 Annual Report.

^{xiii} Sources: Bloomberg and investment entities’ own disclosure.

Figure 1. Adani Group and ADSEZ integration of Carmichael mine value chain.

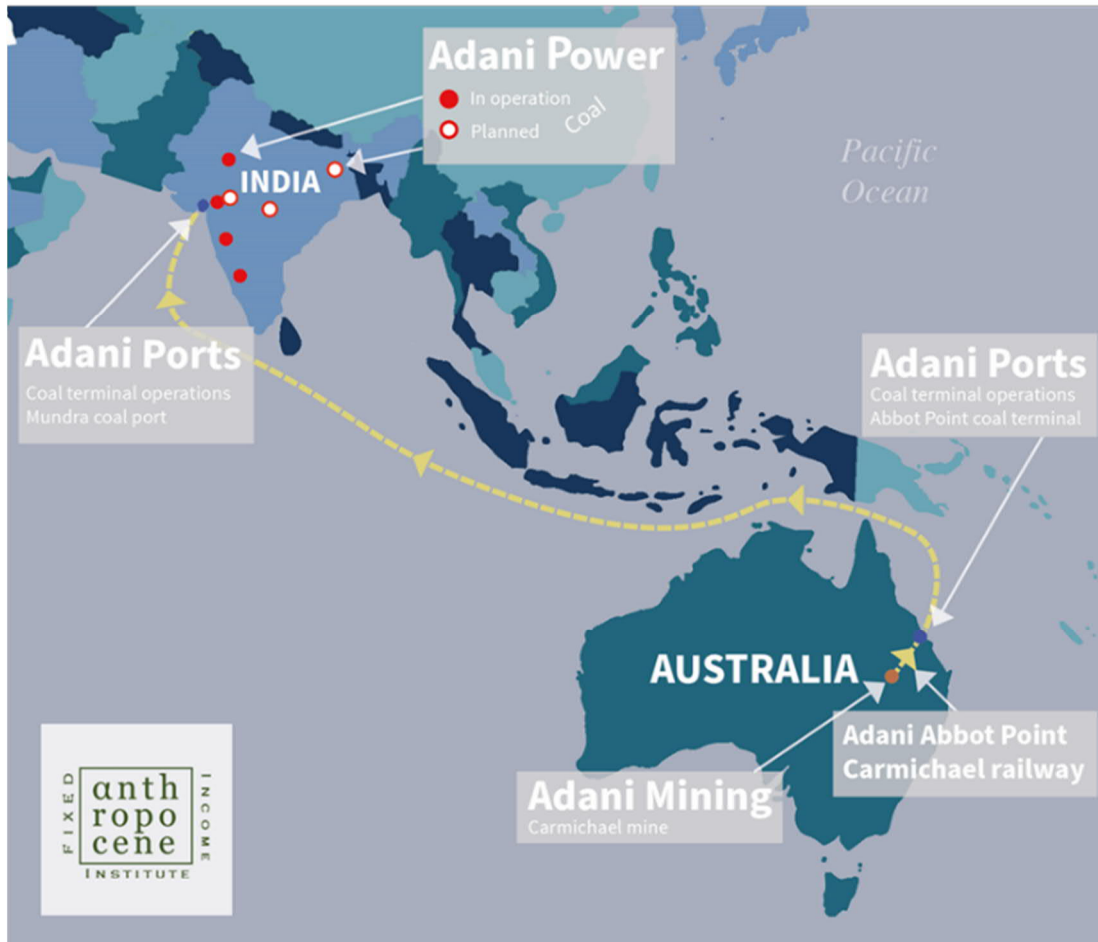
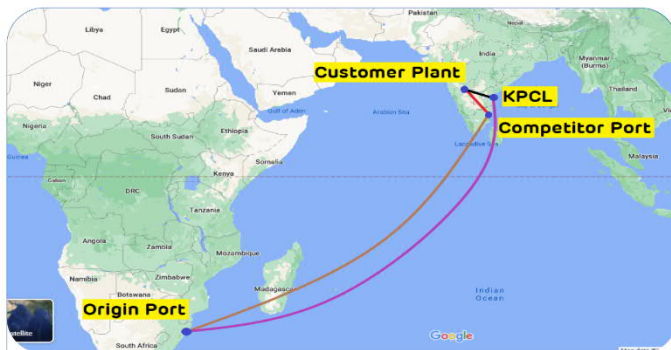


Figure 2. [Adani Ports investor presentation](#), December 2020. See also slide 53 in the presentation for (coal) USPs for the Krishnapatnam Port. Source: Adani Ports website.

APSEZ : Krishnapatnam Port –Focusing on improving EBITDA by Contracting - Customer Process.



- Mapping of entire customer's supply chain from the point of origin till the point of consumption.
- Recalibrating the contracts based on the commodity potential.

Commodity	Rate in Dec-19 (Rs. PMT)	Current Rate (Rs. PMT)
Coal – Customer A	405	455
Coal – Customer B	265	295
Coal – Customer C	263	305
Granite – Customer A	110	160

Resulted in increase in Revenue of Rs. 80 cr. p.a.

Appendix: ADSEZ CDP disclosure

Below follows excerpts [from Adani Ports' disclosure to the Carbon Disclosure Project](#), specifically with ADSEZ self-reporting of climate-related risks to the company.

Have you identified any inherent climate-related risks with the potential to have a substantive financial or strategic impact on your business?

Yes

Provide details of risks identified with the potential to have a substantive financial or strategic impact on your business.

Identifier

Risk 1

Where in the value chain does the risk driver occur?

Direct operations

Risk type & Primary climate-related risk driver

Current regulation Other, please specify (Lack of provision for renewable power)

[...]

Identifier

Risk 2

Where in the value chain does the risk driver occur?

Direct operations

Risk type & Primary climate-related risk driver

Reputation Increased stakeholder concern or negative stakeholder feedback

Primary potential financial impact

Other, please specify (increased spent on community initiatives)

Company-specific description

Climate change will exasperate the stress caused to nature like water stress, biodiversity stress and stress due to extreme heat. It can impact livelihood, access to water and health. Heat stress can impact employees, truck drivers and similar workers in the supply chain. In this scenario, water use and biodiversity impact due to our operations, even if minimal will lead to more adverse reaction from all stakeholders specially the local community who are at highest risk. To reduce the stress company has invested in initiatives like mangrove biodiversity improvement, improving water access for public etc.

Time horizon

Long-term

Likelihood

More likely than not

Magnitude of impact

Medium-low

Are you able to provide a potential financial impact figure?

No, we do not have this figure

[No more risk factors listed]

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