

BUZZING

STOCK

# Adhunik Metaliks Ltd.

CMP – Rs.72

**Analyst**

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**Key Stock Data**

Sensex	14425
Nifty	4190
Sector	Steel – Medium/Small
Bloomberg	ADML IN
Reuters	ADME.BO
No. of shares (m)	91
Market Cap (Rs m)	6,552
Market Cap (US\$ m)	159
52-week H/L	Rs.82/27

**Shareholding Pattern (%)**

Promoters	63.88
Mutual Funds	12.63
FII's	7.73
Corporate Bodies	6.35
Pubic & Others	9.7

**Business Overview:** Adhunik Metaliks Ltd. ( AML), is the part of the Adhunik group promoted by the Kolkata based Agarwal family. AML , is the only listed company in the group. The group has various activities like manufacturing, processing, trading of iron & Steel scrap and has set up manufacturing facilities in the states of the West Bengal, Orissa, Jharkhand and Meghalaya.

AML's current manufacturing facilities are strategically located in the state of Orissa, which is considered as the hub of the key raw materials. The company has received an allotment of the coal blocks and iron ore mines in Orissa. This places the company in an advantageous position in terms of proximity and uninterrupted supply of raw material and will insulate itself from the fluctuations in the prices. For other raw material like Power, the company is in the process of setting up a captive Power Plant of 12 MW and 18 MW to be operational in 2007 and 2008 respectively. The second power plant will utilize the waste heat generated from the manufacturing process. This will ensure the effective utilisation of the waste generated during the process.

**Manufacturing Process:** AML , currently employs DRI – MBF – EAF route for the integrated steel plants. Rotary Kiln is used for the reduction of the iron ore in the solid state. In the Kiln , iron ore is dried and heated with the temperature maintained in the range of the 1,000 C – 1,050 C. The iron oxide gets reduced to the metallic iron. The heat required for the process in the Kiln is supplied from the combustion of the coal. The reduced iron is discharged into the rotary cooler along with the coal ash and calcinated limestone. The entire residue is cooled below 100 C indirectly by spraying water on outer surface. The product is then screened and magnetically classified.

**Key Raw Materials:**

**Iron Ore:** Iron ore is one of the key raw materials required for the manufacturing of the Sponge Iron. AML is fulfilling its requirement from Ganwardhan, Kharbant, Khandadhar, Sekradih mines. Besides, it has an alternate source of supply of raw iron ore through its Associate concern.

**Coal:** Coal requirement is met from Mahanadi Coalfields. The coal is purchased and washed in the unit's own coal washery to attain the quality that is fit to be charged in the DRI (Direct Reduced Iron) Kilns.

**Limestone:** Limestone though required in small quantities and helps in the completing the blast furnace operations. It combines with the impurities to form a slag that floats above the molten metal and hence can be removed very easily. The requirement is met from the local area.

**Coke:** Coke is one of the most important raw materials that helps in completing the blast furnace operations successfully. AML , currently imports coking coal and converts it into coke in the coke oven plant. The unit has entered into MoU with Tata International Ltd. for import of coke and remaining requirement is met by importing coke from China , Australia etc.

**Recent Developments:**

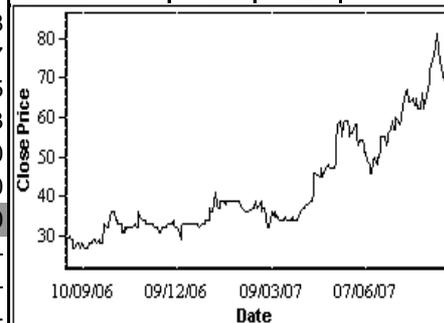
- ❑ AML, has commissioned a 17MW power plant. The power will be generated by utilizing the waste heat of DRI plant.
- ❑ AML, has acquired Orissa and Manganese & Minerals Pvt. Ld. (OMM) as a 100% subsidiary. OMM has a mining rights for reserves of 15 million Tonnes for manganese and 35 million Tonnes for Iron Ore. The company will start manganese ore mining immediately and iron ore within the period of 3-6 months.

**Expansion on track :** The company has embarked an expansion to double its capacity from 250,000 TPA to 406,300 TPA. This expansion will help the company to transform its business model from secondary steel manufacturer company to an integrated steel player. Post expansion, product mix mainly consists of different grades of Special and Alloy steel. The entire project is expected to be fully operational by FY08. AML is moving up the value chain. The company will become the integrated player by 2008 with the mineral linkages across the value chain. The company is integrating backwards to have an ownership of the critical raw materials like iron ore and coal. This will reduce the cost of the raw material significantly and ensures the better pricing control.

**Valuation:** The company has reported good set of numbers in Q1FY08. Net sales at Rs.2,081m is up 22% YoY. EBIDTA is up by 44% YoY at Rs. 377m and EBIDTA margin expanded by 280 basis points. PAT at Rs.178m is up by 14% YoY. The stock is currently trading at 9.3x its Q1FY08 annualized EPS of Rs. 7.8.

## Financial Snapshot

Adhunik Metaliks Ltd.							Rs.m				Ratios (%)			
	Q1 FY08	Q1 FY07	Chg. (%)	FY07	FY06	Chg. (%)		FY07	FY06	Chg.(%)		FY07	FY06	Chg.(%)
<b>Financial Year End: March</b>														
Net Sales	2081	1708	22	7358	4238	74	Debt -Equity	NA	1.1	-				
Other Income	32	14	132	83	28	201	PBIDTM	17	16	4				
Total Income	2113	1721	23	7441	4266	74	PBDTM	13	13	(2)				
Total Expenditure	1735	1460	19	6208	3531	76	RoCE	NA	22	-				
PBIDT	377	262	44	1233	735	68	RoNW	NA	23	-				
Interest	127	47	172	262	115	128								
PBDT	250	215	16	971	620	57								
Depreciation	50	27	85	113	69	65								
Tax	23	21	8	80	46	73								
Reported Profit After Tax	178	155	14	775	337	130								
Extra -ordinary Items	0	0	0	0	0	0								
Adj. Profit After Extra-ordinary item	178	155	14	775	337	130								
No. of shares (m)	91	91	-	91	91	-								
EPS (annualised.) (Rs.)	7.8	6.8	-	8.5	3.7	-								
P/E	9.3	10.3	-	8.5	19.5	-								



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