ADHUNIK METALIKS

INR 167

Riches from the earth….and above

BUY

November 29, 2007

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Reuters	:	ADME.BO
Bloomberg	:	ADML IN

Market Data

52-week range (INR)	:	189 / 29
Share in issue (mn)	:	91.2
M cap (INR bn/USD mn)	:	15.2 / 382.9
Avg. Daily Vol. BSE/NSE ('000)	:	791.2

Share Holding Pattern (%)

Promoters	:	64.0
MFs, FIs & Banks	:	5.1
FIIs	:	9.0
Others	:	21.9

Adhunik Metaliks (AML) is currently in a transformational phase and will morph from a 250,000 tpa standalone carbon steel player to a company with: (i) 450,000 tpa capacity alloy, stainless and carbon steel business with backward integration in terms of iron ore (25 mn tonnes reserves) and power (51 MW capacity); and (ii) a high margin merchant mining business utilizing its high grade iron ore (64 mn tonnes reserves, 64% plus Fe content) and manganese ore mines (36 mn tonnes reserves, 34-36% Mn content). AML is among the handful of companies in the merchant mining segment in India which have mines of such quality and size. The company has already raised ~INR 3,750 mn to part fund the total INR 8,650 mn capex to achieve this transformation, and as part of the overall financing is in the midst of completing a private equity round of INR 1,000 mn and has issued warrants of INR 1,300 mn to promoters.

Considering the current supply tightness in iron and manganese ores, prices are at record highs; iron ore spot prices in China, for instance, are up over 90% Y-o-Y. Led by these high prices, initial EBITDA margins in AML's mining business would be high at 75%. However, we have factored in subsequent decline in realizations so as to reach long term prices. Even at these lower price levels, EBITDA margins are likely to continue to be robust at 66% (FY12E). In the steel business, led by increased scale (capacity expansion of 200,000 tpa), a richer product mix (proportion of valued-added items increases from 22% in FY07 to 82% in FY10E), and backward integration in terms of captive iron ore and power and increased metallics, EBITDA margin is expected to expand from 17.6% in FY07 to 28.8% in FY10E.

* Outlook and valuations: Strategic transformation underway; maintain BUY

Steel prices are expected to be firm going forward, led by robust demand in most regions (except the US), current supply tightness (global capacity utilization of ~90%), and raw material cost push pressures. Ferrous related ore prices have shown remarkable strength and are not expected to relent in the near future. This favourable price outlook, capacity expansion, product mix enrichment, backward integration, and entry in the mining business are combining into a sweet spot for AML. Overall, EPS is expected to increase by a CAGR of 77% from FY07 to FY10E. Our sum-of-the-parts (SOTP) fair value works out to ~INR 260/ share as detailed subsequently. We reiterate our **'BUY'** recommendation on the stock.

Consolidated financials

Year to March	FY07	FY08E	FY09E	FY10E
Revenues (INR mn)	7,358	10,276	16,837	20,333
Rev. growth (%)	*73.6*	*39.7*	*63.8*	*20.8*
EBITDA (INR mn)	1,159	1,501	4,382	7,134
Reported net profit (INR mn)	775	777	2,527	4,266
Less : Deferred tax	208	199	316	462
Adjusted net profit (INR mn)	567	579	2,211	3,804
Shares outstanding (mn)	91.2	91.2	110.5	110.5
EPS (INR)	6.2	6.3	20.0	34.4
EPS growth (%)	*67.9*	*2.1*	*215.4*	*72.1*
P/E (x)	26.9	26.4	8.4	4.9
EV/EBITDA (x)	16.8	14.2	5.5	3.0
ROE (%)	24.6	17.4	37.7	40.9

The Adhunik Group is also entering the merchant power business through its group company, ATEL, which has recently been allotted a 65 mn tonnes reserves coal block. AML may eventually own 51% equity stake in ATEL. Considering the early stage of planning for this business, we have not factored in the same in our valuation. We have also not factored in valuation of the auto forgings and towers businesses. As a result, we believe the risk is on the upside to our SOTP valuation.

Investment Rationale

❋ Entry in high margin mining business (EBITDA margins of 65-70%)

In April 2007, AML acquired 100% stake in Orissa Manganese and Minerals Private Limited (OMML), which has an iron ore mine and a manganese ore mine with reserves of 64 mn tonnes and 36 mn tonnes, respectively. These mines with high quality iron ore (64% plus Fe content) and manganese ore (34-36% content) are located in Jharkhand and Orissa, respectively. They are well connected by road and railway, with proximity to Paradeep and Haldia ports. Key differentiating feature of these mines is that they can be used for non-captive, external sales, unlike more recently allocated mines, which can be used for captive purposes only (typically for steel making).

A listing of the key players (see Table 1 below) with significant ferrous related mines reveals that OMML is among the leading private sector merchant mining companies in India. In particular, AML is amongst the largest manganese ore players in India after Manganese Ore India Ltd. (MOIL). Manganese ore is significantly more valuable then iron ore and its current domestic selling price is around 1.75-1.80 times that of iron ore. To enable the right comparison, we have calculated the value weighted equivalent reserves by assuming that the long-term selling price of 1 tonne of manganese ore is 1.5x that of iron ore.

Table 1: OMML among the top private sector mining players

Company	Iron ore reserves (A)	Mn ore reserves (B)	Equiv. reserves (A+1.5B)
Unit	mn tonnes	mn tonnes	mn tonnes
Private sector – merchant mining			
Sesa Goa	210	-	210
Rungta Mines	200	-	200
Essel Mining	125	-	125
OMML – AML	64	36	118
Public sector - merchant mining			
NMDC	1,500	-	1500
Kudremukh Iron Ore	#1,000	Not available (NA)	> 1,000
Orissa Mining Corporation	600	30	645
MOIL	-	62	93
Captive			
SAIL	* 2,000	NA	> 2,000
Tata Steel	600	50	675
Sunderlal Sharda (exclusive for Jindal Steel & Power)	280	-	280

Source: Industry research, Edelweiss research

NOTE: (1) This is not an exhaustive list since well organized data was not available. Reserves data has been provided on broad estimates.

(2) # Kudremukh reserves adjusted downwards due to their low Fe content.

*(3) * SAIL's Chiria mines of 2 bn tonnes are under dispute. We have currently assumed only 1 bn tonnes reserves from Chiria.*

While the company expects the mines to commence production by Q4FY08E, we are assuming OMML will commence production only in FY09. Our assumptions of annual extraction (production) and net realizations are as follows:

Table 2: Ramp up of production, starting with FY09E

	FY09E	FY10E	FY11E	FY12E
Production volume (mn tonne)				
Iron ore lumps	0.3	0.7	0.9	1.5
Iron ore fines	0.2	0.5	0.6	1.1
Mn ore	0.2	0.3	0.5	1.0
Net realisations (INR/tonne) (ex-mines)				
Iron ore lumps	2,666	2,666	2,173	1,975
Iron ore fines	593	593	483	483
Mn ore	4,543	4,543	3,555	2,963

Source: Edelweiss research

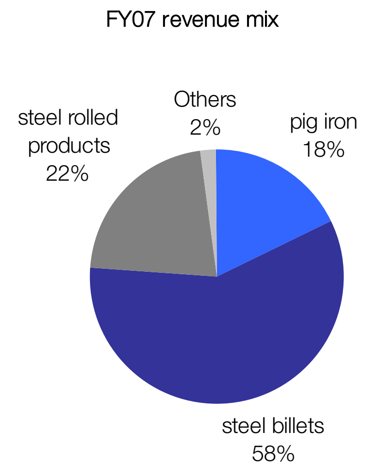
Mining is a high margin business, especially in the ferrous segment. While current spot iron ore prices are ruling at record highs (China CIF spot at USD 200/tonne; India FOB price of USD 150/tonne), margins are quite robust even based on long-term prices which are much lower. For instance, OMML's initial EBITDA margins are expected to be ~75%, based on ex-mines net realizations of USD 67.5/tonne for iron ore and USD 115/tonne for manganese ore for FY09E. We have assumed decline in realisations subsequently so as to reach long-term prices by FY12E, which, as per our assumptions, are USD 50/tonne and USD 75/tonne for iron ore and manganese ore, respectively. Even at these prices, EBITDA margin drops only to 66% by FY12E. It may be mentioned that National Mineral Development Corporation (NMDC, Bloomberg: NMDC IN) has EBITDA margins in the region of 85% currently, while historically its margins have been between 75% and 80% (*Source: Capitaline*).

✻ Expanding steel capacity with a richer product mix

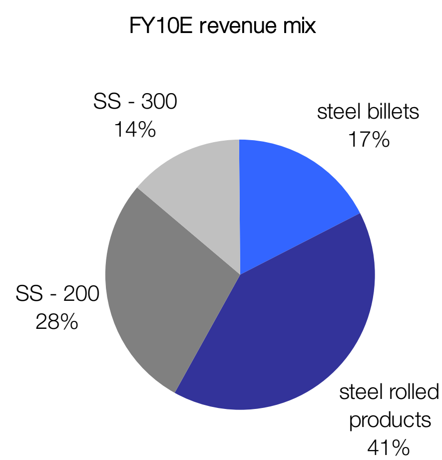
AML is expanding its steel capacity from 250,000 tpa to 450,000 tpa. The additional 200,000 tpa steel capacity will involve a mix of stainless steel (119,000 tpa) and alloy steel (most of the balance 81,000 tpa), thereby enriching the company's product mix and improving realizations. AML has already set up a 220,000 tpa capacity rolling mill which has commenced trial runs. Rolling of carbon, stainless, and alloy steel will further add value.

Within stainless steel, the company will be focusing mainly on 200 series stainless steel (low nickel stainless steel) to mitigate the adverse impact of volatile nickel prices. In the initial years going forward, close to 90% of the production will be of 200 series, which will have practically zero nickel content in case of AML. As nickel prices stabilize going forward, the proportion of 300 series (AML's 300 series will have nickel proportion ~7%) will gradually increase from about 10% in FY09E to about 25% in FY12E. Chart 1 captures the expected change in the company's revenue mix (excluding trading revenue) from FY07 to FY10E.

Chart 1: Significant increase in value- added steel



Source Company, Edelweiss research



Source Company, Edelweiss research

The above capacity expansion (Phase II project) envisages an outlay of INR 4.4 bn and is being funded by INR 2.8 bn debt from a consortium of banks (already raised) and fresh equity of INR 1.6 bn, being partly met through an IPO of INR 1 bn which the company completed in April 2006, and the balance through internal accruals. Part of the facilities of this expansion have been completed (such as one ferro alloy furnace and the oxygen plant) while the balance facilities are expected to come on stream in Q4FY08E (see Table 3 for details).

Table 3: Commissioning details of Phase II project

Facility	Commissioning	Installed capacity
SMS II	Q4FY08	156,300 tpa
Ferro alloy division	Furnace I - Done	37,760 tpa
	Furnace II - Q4FY08	
Stainless steel	Q4FY08	119,000 tpa
Rolling mill with finishing facilities	Trials on	220,000 tpa
2nd captive power plant	Q4FY08	17 MW
Oxygen plant	Done	9,792,000 SM^3 pa
Private railway siding	Q4FY08	
Captive iron ore mining	Q4FY08	

Source: Company

While the expansion under phase II is nearing completion, the company has also commenced Phase III, which consists of various facilities viz., a DRI plant, sinter plant, captive power plant, and a slab caster. The objective of Phase III is to increase the proportion of metallics (considering the captive mines) and improve productivity and product quality. Steel capacity will remain unchanged. Details of Phase III are provided in Table 4.

Table 4: Commissioning details of Phase III project

Facility	Commissioning	Installed capacity
Sinter plant	Q4FY08	267,300 tpa
Calcination plant	Q4FY08	56,100 tpa
Slab caster	Q4FY08	
Private railway sliding	Q1FY10	
DRI	Q1FY10	165,000 tpa
3rd captive power plant	Q3FY10	17 MW
Power distribution system	Q3FY10	

Source: Company

Captive mining and power likely to drive margin growth in core steel business

AML has been allotted an iron ore mine with extractable reserves of 18 mn tonnes, enough to last for 25 years on the expanded capacity, at Kulumb (Keonjhar district) in Orissa. The company is awaiting final approvals and expects to commence mining towards the end of Q4FY08E. Iron ore from this captive mine is expected to reduce cost by INR 1,200 per tonne of iron ore, which, on expanded capacity, is expected to save the company INR 640 mn in FY10E.

AML's current captive power of 17 MW is being expanded to 34 MW in the initial phase (by Q4FY08E) and subsequently to 51 MW by Q3FY10E. At steady state, about 55% of the company's total requirement will be met through captive power and balance through external sources viz., Western Electricity Supply Company of Orissa (WESCO).

Based on these backward integration initiatives and an improved product mix, EBITDA margin of AML's steel business is expected to increase from 17.6% in FY07 to 22.4% in FY09E and further to 28.8% in FY10E.

The company has also been identified as a joint allottee for a coal mine at Patrapara (Talcher district) in Orissa. Apart from AML, there are seven other allottees including Bhushan Steel and Visa Steel. While the total reserves of the mine are 640 mn tonnes, AML's share is 42 mn tonnes. Originally, in 2003, the mine was allotted with AML as the lead allotee and with total reserves of 210 mn tonnes. However, in 2006, Bhushan Steel was named as the lead allotee and the mine reserves were enlarged to 640 mn tonnes by combining adjacent mines. This change has led to a dispute between the parties and the matter is currently in the Supreme Court. Considering this and the usually lengthy regulatory approval process, we do not expect captive coal mining to commence in the next two years. As a result, we have not considered the benefits from the same in our earnings model. As and when the coal mine commences production, AML is expected to save about INR 260 mn per annum in costs in the year of normal operations of this mine.

* Strategic initiatives in auto forgings and merchant power

In September 2007, AML acquired 75% equity stake in V Cube Forge, a pre-revenue auto forgings company with facilities in Pune and Aurangabad. The balance stake is with the company's founder and an existing financial investor. The company's current capacity is 24,000 tpa, which is proposed to be increased to 42,000 tpa within three-four months and subsequently to 60,000 tpa at a capex of INR 1,200 mn to be funded by debt of INR 800 mn (to be tied up) and equity of INR 400 mn (to be met through part of the PE round and proposed promoter equity investment). The company has received approvals from Tata Motors (to which it has already started supplying small quantities) and Mahindra & Mahindra for supply of forged auto components. Currently, we have not factored in the forward estimates from this business since we do not have adequate guidance from the management on the financial plan for this company. However, we are positive on the acquisition as a forward integration initiative and AML's attempt to go up the value chain.

Adhunik Thermal Energy (ATEL), AML's group company, is entering the merchant power business. It plans to eventually set up power capacity of 1,500 MW. As a first step, ATEL has obtained a coal block at Ganeshpur in Orissa having reserves of 65 mn tonnes. While currently ATEL is 100% owned by the promoters and associates of the Adhunik Group, AML may eventually own 51% equity in it. The merchant power business is a high potential business considering the significant supply deficit in India and is expected to witness strong earnings growth going forward. Currently, we have not considered earnings from this business in our model.

Valuations

* **SOTP approach: Valuation of the steel business based on forward EV/EBITDA multiple and mining business based on DCF**

We believe that forward EV/EBITDA represents the best way to value AML's steel business. Accordingly, we have considered FY09E EBITDA to calculate the EV of the steel business. Valuation of mines has been done based on DCF, which is the internationally accepted approach to value mines.

In valuing AML, we have ignored the following:

- The potential 51% stake that AML may eventually hold in the merchant power business and the 65 mn tonnes coal mine that this business has already been allotted
- Valuation of auto forgings and towers businesses.
- The trading business considering its declining share and reduced management focus.

Considering this, we believe there is significant upside potential to our valuation.

* **Our analysis leads to a fair value of ~INR 260/share**

Based on our FY09E EBITDA for the steel business of INR 2,937 mn and an EV/EBITDA of 6x (considering a fairly integrated business), we arrive at an EV of INR 17,624 mn for the steel business. Considering fully diluted number of shares of 110.5 mn (post the private equity investment of INR 1,000 mn and the exercise of the warrants of INR 1,300 mn by promoters and associates) and after deducting the net debt, we arrive at a per share equity valuation of INR 105 for the steel business. We believe that valuation based on fully diluted shares is somewhat unfair to the company since the infused equity capital would not be generating profits in FY09 (the year for which we have taken the EBITDA in our valuation analysis). Hence, we believe there is upside potential to the steel business valuation of INR 105/share (see table 5).

Table 5 : Base case valuation

Steel Business Valuation	Unit	Value
FY09 EBITDA	INR mn	2,937
Fair EV/EBITDA multiple	times	6.0
Steel Business EV	INR mn	17,624
Less : Net debt	INR mn	6,052
Steel business equity valuation	**INR mn**	**11,573**
Fully diluted shares	mn	110.5
Fair value per share	**INR/share**	**105**

Mining business valuation	Unit	Value
Discount rate	%	15.0
DCF period	years	20
Mining business equity valuation	**INR mn**	**17,443**
Fully diluted shares	mn	110.5
Fair value per share	**INR/share**	**158**

	Unit	Value
Total equity valuation	**INR mn**	**29,016**
Fully diluted shares	mn	110.5
Fair value per share	**INR/share**	**263**

Source: Edelweiss research

The DCF for the mining business has been done based on a 20-year period and an equity discount rate of 15%. In India, mining leases are typically for 20 years. Even globally, mines are typically valued on a 20-year DCF basis. The basis for the discount rate of 15.0% is provided in Table 5, wherein the beta assumed is at 1x considering the relatively low risk in the mining business once the reserves are established (as is the case for AML). Considering that a 20-year period is fairly long, we believe an equity discount rate of 15.0% is more than reasonable.

Table 6: Equity discount rate calculation

	(%)
Risk free return	8.0
Risk premium	7.0
Beta	1.0
Required return	15.0

Source: Edelweiss research

Based on this, the mining business is valued at INR 158/share (see Table 5). Considering total reserves of 64 mn tonnes of iron ore and 36 mn tonnes of manganese ore, the equity valuation per tonne of reserve works to USD 4.4/tonne, which we believe is reasonable. Our standard iron mine valuation norm is between USD 5.5 and 6.5/tonne of iron ore reserve (based on the grade of ore and the mine cost structure). It may be mentioned that based on current market cap, Sesa Goa and NMDC are trading at a valuation of USD 15/tonne of reserve and USD 23.5/tonne of reserve respectively. In case of Sesa Goa, market cap has been adjusted by removing estimated value of the pig iron and coke business.

Regards the equity discount rate, we do believe that one can potentially argue in favour of considering a lower risk premium in view of the long period for the DCF and the low risk nature of the business. In such a case, one could assume a lower beta of 0.75x and accordingly the discount rate will reduce to 13.3%. To address this, we have considered 15% discount rate for the base case valuation and provided a sensitivity analysis for a range of equity discount rate and forward EV/EBITDA multiples in Table 7:

Table 7 : Sensitivity of SOTP value

Equity discount rate (%) →	12.0	13.5	15.0	16.5	18.0
FY09 EV/EBITDA multiple ↓					
4	257	231	209	191	175
5	284	258	236	218	202
6	310	284	263	244	229
7	337	311	289	271	255
8	364	338	316	297	282

Source: Edelweiss research

Key Risks

- Delays in commencing and ramping the mining business will adversely impact future earnings growth.
- Delays in completion of Phase II and/or Phase III of the steel project.
- Any weakness in steel prices which may be triggered by a decline in demand for steel products or an oversupply situation.
- Any delays/hindrances in starting its captive iron ore mine will delay achieving the low-cost structure for AML.

Company Description

Adhunik Metaliks (AML), flagship company of the Adhunik Group, is currently in the trading and manufacturing of specialty steel business. At present, the company has 0.25 mtpa of steel making capacity at Rourkela, Orissa, using the DRI+ HM-EAF-LRF/AOD-Concast-Rolling mill route.

AML is undergoing second phase of expansion (scheduled to be commissioned in FY08E) involving increase in steel making capacity to 0.45 mtpa. Through this expansion, the company is also entering into manufacturing of stainless steel (capacity of 120,000 tpa) and special steel products segments, catering to the growing automotive and auto component industry. It has a well-established distribution and marketing network. The company has an iron ore mine of 25 mn tonnes reserves, which is likely to commence production in Q4FY08E for captive usage in steel making.

Further, through a subsidiary, AML has another iron ore mine of 64 mn tonnes reserves and a manganese mine of 36 mn tonnes reserves, both of which will be used for external ore sales. AML has also recently acquired a 75% stake in a 24,000 tpa capacity (to be expanded to 60,000 tpa) pre-revenue auto forgings company.

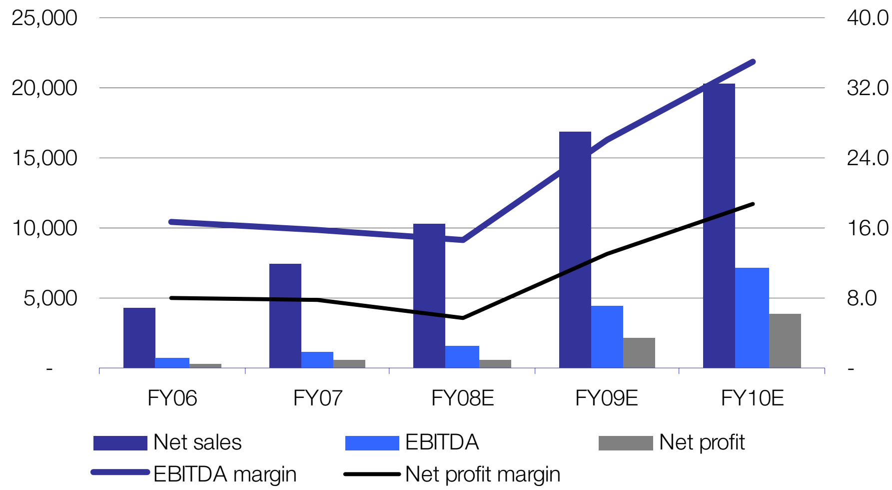
The Adhunik Group is also entering the merchant power business through its group company, ATEL. AML may eventually own 51% equity stake in ATEL. ATEL has been allotted a coal block at Ganeshpur in Orissa having reserves of 65 mn tonnes.

AML has a 100% subsidiary viz., Unistar Fabricators and Galvanisers (UFGL), which fabricates power and telecom transmission towers. UFGL has a capacity of 30,000 tpa and has recently received an order to supply telecom towers worth INR 530 mn. The company's clients include Tata Power, L&T, Crompton Greaves, and it also has approvals from the Power Grid Corporation of India (PGCIL), NTPC, BHEL, and many SEBs. It also has the Department of Telecommunications' approval for telecom towers. We have not considered this business in our earnings model.

Financial Outlook

Led by its merchant mining business, significant capacity expansion, and backward integration initiatives, AML's consolidated EBITDA is expected to increase by more than 6.2x from INR 1,159 mn in FY07 to INR 7,134 mn in FY10E (CAGR of 83%). The EBITDA and net profit trends are provided in Chart 3.

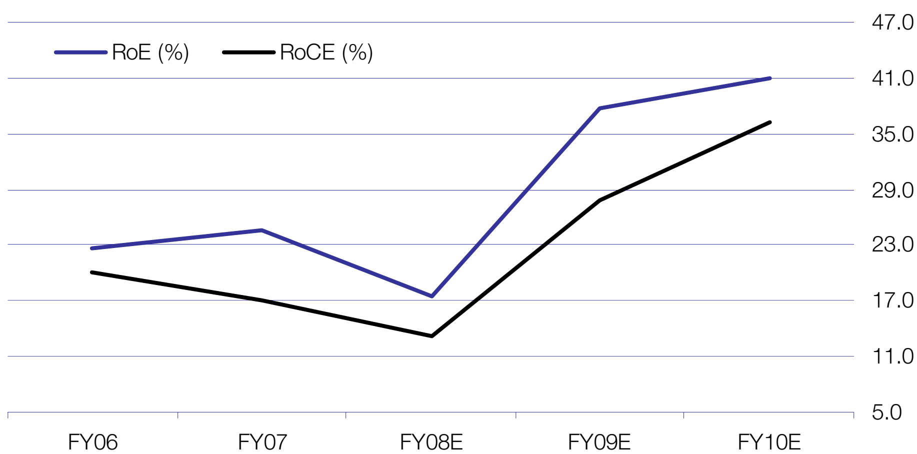
Chart 2: Significant margin expansion expected…



Source: Company, Edelweiss research

In spite of the equity dilution of ~21%, RoE is expected to increase from 24.6% in FY07 to 37.7% in FY09E, and further to 40.9% in FY10E.

Chart 3: ……leading to strong RoE/RoCE



Source: Company, Edelweiss research

Our assumptions of capacity, production, and realisation are summarised in Table 8. We have assumed a modest 1.5% increase in average net realizations in FY09E since the company will be attempting to gain market share. Considering the expected upside in steel prices, we believe this assumption is reasonable and any possible risk is on the upside.

Table 8: Key operational assumptions

	FY07	FY08E	FY09E	FY10E
Production (tonnes)				
Pig iron	63,185	141,522	177,602	177,602
Alloy steel billets		149,087	192,469	216,127
Carbon steel billets	178,269	63,894	82,487	92,626
Alloy steel rolled products		57,846	93,392	136,325
Carbon steel rolled products	36,743	24,791	40,025	58,425
SS - 200	-	25,452	71,266	76,923
SS - 300	-	2,828	7,918	13,575
Net realisation (INR/tonnes)				
Pig iron	14,442	16,500	16,748	16,748
Alloy steel billets	-	23,000	23,345	23,345
Carbon steel billets	20,513	21,500	21,823	21,823
Alloy steel rolled products	-	32,000	32,480	32,480
Carbon steel rolled products	31,599	30,500	30,958	30,958
SS - 200	-	53,500	54,303	54,303
SS - 300	-	180,000	160,179	160,179

Source: Edelweiss research

AML has obtained approval from the Honorable Calcutta High Court to set off deferred tax against share premium in the balance sheet instead of charging the same to P&L account. To enable comparison with other companies we have arrived at an adjusted net profit figure by deducting the deferred tax from the reported profit and calculated ratios such as EPS, RoE and net margin based on this adjusted net profit.

Financial Statements (Consolidated)

Income statement (INR mn)

Year to March	FY06	FY07	FY08E	FY09E	FY10E
Net sales	4,238	7,358	10,276	16,837	20,333
Steel	2,419	4,764	7,876	13,122	15,837
Mining			0	1,715	3,246
Trading	1,819	2,594	2,400	2,000	1,250
Decrease / (increase) in stocks	11	(394)	(79)	(465)	(65)
Raw material	1,165	2,129	3,703	7,093	7,544
Consumables	152	695	747	891	754
Purchase of traded goods	1,601	2,275	2,202	1,835	1,147
Power and fuel	240	491	665	814	958
Employee cost	38	105	132	251	295
Other expenditure	323	899	1,407	2,035	2,567
Total operating expenses	3,530	6,199	8,775	12,455	13,200
EBITDA	708	1,159	1,501	4,382	7,134
Steel	490	840	1,303	2,937	4,560
Mining			0	1,279	2,471
Trading	218	319	198	165	103
Depreciation	69	113	231	421	530
EBIT	639	1,045	1,270	3,960	6,603
Other income	27	74	120	47	31
Interest	115	262	513	835	878
Profit before tax	551	858	876	3,173	5,757
Provision for current tax	214	83	99	646	1,490
Reported profit	338	775	777	2,527	4,266
Less : Deferred tax		208	199	316	462
Adjusted profit	338	567	579	2,211	3,804
Shares outstanding (mn)	91.2	91.2	91.2	110.5	110.5
Dividend per share (INR)	0.5	1.0	1.0	0.8	1.7
Dividend payout (%)	15.4	17.0	17.0	17.0	17.0

Common size metrics- as % of net revenues

Year to March	FY06	FY07	FY08E	FY09E	FY10E
Operating expenses	83.3	84.2	85.4	74.0	64.9
Depreciation	1.6	1.5	2.3	2.5	2.6
Interest expenditure	2.7	3.6	5.0	5.0	4.3
EBITDA margins	16.7	15.8	14.6	26.0	35.1
Steel	20.3	17.6	16.5	22.4	28.8
Mining				74.6	76.1
Trading	12.0	12.3	8.3	8.3	8.3
Net profit margins	8.0	7.7	5.6	13.1	18.7

Growth metrics (%)

Year to March	FY06	FY07	FY08E	FY09E	FY10E
Revenues	225.8	73.6	39.7	63.8	20.8
EBITDA	354.7	63.7	29.5	191.9	62.8
PBT	418.5	55.5	2.2	262.0	81.4
Net profit	375.4	67.9	2.1	282.0	72.1
EPS	181.8	67.9	2.1	215.4	72.1

Balance sheet (INR mn)

As on 31st March	FY06	FY07	FY08E	FY09E	FY10E
Equity capital	912	912	912	1,105	1,105
FCDs - Compulsorily convertible			1,000	0	0
Advance wrt warrants			130	0	0
Reserves & surplus	1,279	1,510	2,190	6,401	9,992
Shareholders funds	2,191	2,422	4,232	7,506	11,097
Secured loans	1,740	4,130	6,215	7,830	6,729
Unsecured loans	419	482	595	490	370
Miscellaneous expenditure	1	0	(0)	(0)	(0)
Deferred tax assets/(liabilities)	219	635	625	941	1,403
Sources of funds	4,569	7,669	11,668	16,767	19,599
Gross block	2,123	3,787	8,511	8,832	11,863
Depreciation	107	221	452	873	1,404
Net block	2,015	3,566	8,059	7,959	10,459
CWIP	500	2,034	429	2,564	0
Total fixed assets	2,515	5,600	8,488	10,523	10,459
Investments	1	81	206	206	206
Loans and advances	336	679	150	100	100
Inventories	786	2,021	1,736	2,931	3,110
Sundry debtors	964	830	1,883	3,145	3,809
Cash and equivalents	1,179	329	549	2,375	4,183
Total current assets	3,265	3,858	4,319	8,551	11,201
Sundry creditors and others	1,143	1,733	1,195	2,372	2,147
Provisions	69	137	150	140	120
Total CL & provisions	1,212	1,870	1,345	2,512	2,267
Net current assets	2,053	1,988	2,974	6,038	8,934
Uses of funds	4,569	7,669	11,668	16,767	19,599
Book value per share (BV) (INR)	24	27	46	68	100

Cash flow statement (INR mn)

Year to March	FY06	FY07	FY08E	FY09E	FY10E
Profit before tax	551	858	876	3,173	5,757
Depreciation	69	113	231	421	530
Interest paid	115	262	513	835	878
Tax paid	(34)	(74)	(99)	(646)	(1,490)
Add/Less: Other adjustments	(10)	(54)	0	0	0
(Incr)/Decr in working capital	(799)	(787)	(766)	(1,239)	(1,087)
Cash flow from operations (A)	(108)	318	756	2,544	4,587
Net purchase of fixed assets	(1,057)	(3,199)	(3,119)	(2,456)	(467)
Net purchase of investments	0	0	(125)	0	0
Add/Less: Other adjustments	5	(116)	0	0	0
Cash flow from investing (B)	(1,051)	(3,315)	(3,244)	(2,456)	(467)
Increase/(Decrease) in equity	1,130	(19)	1,130	1,170	0
Increase/(Decrease) in debt	1,264	2,480	2,198	1,510	(1,221)
Interest paid	(115)	(262)	(513)	(835)	(878)
Dividend paid (incl div tax)	0	(52)	(107)	(107)	(213)
Cash flow from financing (C)	2,279	2,147	2,709	1,738	(2,312)
Net incr./(decr) in cash (A)+(B)+(C)	1,120	(850)	221	1,825	1,808
Opening cash balance	59	1,179	329	549	2,375
Closing cash balance	1,179	329	549	2,375	4,183

Ratios

Year to March	FY06	FY07	FY08E	FY09E	FY10E
ROE (%)	22.7	24.6	17.4	37.7	40.9
AROCE (%)	20.2	17.1	13.1	27.9	36.3
Current ratio	2.7	2.1	3.2	3.4	4.94
Debtors (days)	83	41	67	68	68
Fixed assets t/o (x)	2.1	2.1	1.3	1.9	1.6
Debt/ Equity	1.0	1.9	1.6	1.1	0.6

Valuations parameters

Year to March	FY06	FY07	FY08E	FY09E	FY10E
EPS (INR)	3.7	6.2	6.3	20.0	34.4
Y-o-Y growth (%)	*181.8*	*67.9*	*2.1*	*215.4*	*72.1*
CEPS (INR)	4.5	7.5	8.9	23.8	39.2
P/E (x)	45.2	26.9	26.4	8.4	4.9
Price/BV (x)	7.0	6.3	3.6	2.5	1.7
Market cap/Sales (x)	3.6	2.1	1.5	1.1	0.9
EV/Sales (x)	3.8	2.6	2.1	1.4	1.0
EV/EBITDA (x)	22.9	16.8	14.2	5.5	3.0

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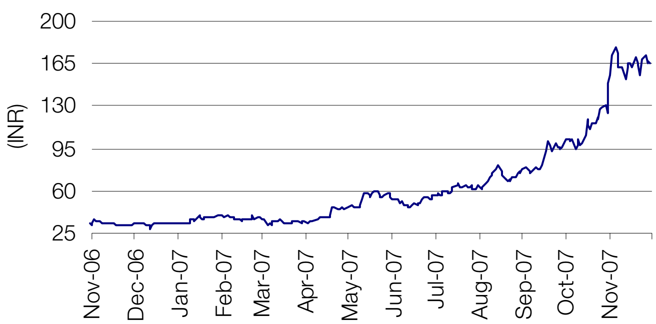
Coverage group(s) of stocks by primary analyst(s): Metals & Mining:

Adhunik Metaliks, Bhushan Steel & Strips, Hindalco Industries, Hindustan Zinc, Jindal Stainless, Jindal Steel & Power, JSW Steel, Monnet Ispat and Energy, National Aluminium Company, Sesa Goa, Steel Authority of India, Sterlite Industries (India), Tata Steel, Usha Martin

Adhunik Metaliks



Recent Research

Date	Company	Title	Price (INR)	Recos
7-Nov-07	Monnet Ispat	IPP financial closure in sight; *Event Update*	395	Buy
2-Nov-07	Usha Martin	On track; *Result Update*	89	Buy
2-Nov-07	Hindalco Industries	Challenges continue; *Result Update*	188	Reduce
1-Nov-07	Sesa Goa	*Strong outlook but fully* factored in; *Result Update*	3,629	Reduce

Distribution of Ratings / Market Cap

Edelweiss Research Coverage Universe

	Buy	Accumulate	Reduce	Sell	Total
Rating Distribution*	102	43	21	3	184

* 13 stocks under review / 2 rating withheld

	> 50bn	Between 10bn and 50 bn	< 10bn
Market Cap (INR)	89	64	31

Rating Interpretation

Rating	Expected to
Buy	appreciate more than 20% over a 12-month period
Accumulate	appreciate up to 20% over a 12-month period
Reduce	depreciate up to 10% over a 12-month period
Sell	depreciate more than 10% over a 12-month period