



Adhunik Metaliks

BSE SENSEX	S&P CNX
17,729	5,310
Bloomberg	ADML IN
Equity Shares (m)	123.5
52-Week Range (Rs)	137/77
1,6,12 Rel. Perf. (%)	-11/-27/-32
M.Cap. (Rs b)	10.3
M.Cap. (US\$ b)	0.2

Rs83

Buy

	YEAR	NET SALES	PAT	EPS	EPS	P/E	P/BV	ROE	ROCE	EV/	EV/
	3/10A	14,496	1,394	11.3	120.3	7.4	1.7	23.4	11.1	1.9	7.3
	3/11E	18,567	2,172	16.7	48.1	5.0	1.3	26.8	14.8	1.6	5.3
	3/12E	24,799	2,281	17.6	5.0	4.7	1.1	22.3	14.6	1.3	5.0
	3/13E	26,024	2,475	18.8	7.0	4.4	0.8	18.6	14.7	1.2	4.5

- Adhunik Metaliks' 3QFY11 consolidated PAT grew 41% YoY to Rs541m (up 48% QoQ, higher than our estimate of Rs446m) due to strong iron ore and manganese ore realizations and a ramp up of manganese production.
- Orissa Manganese and Mineral's (OMM) PAT increased 86% YoY to Rs430m (up 47% YoY) due to high manganese volumes and better realizations of manganese and iron ore.
- OMM sold 214k tons of iron ore, up 35% QoQ and it sold 54k tons of medium/high grade manganese ore. Average iron ore realization increased 25% QoQ to Rs2,867/ton due to strengthening of iron ore prices led by a shortage in Orissa.
- With the start of mining operations at three new OMM manganese mines, the company plans to ramp up manganese production to 300k tons (from 143k tons in FY10) over the next 24 months.
- A captive iron ore mine in Keonjhar district has been delayed due to procedural issues in Orissa. The company had been expecting mining to start in 4QFY11, which now looks ambitious. However, the final stage of reconfirmation approval of the Suleipat mine (owned by a JV) is expected by the end of 4QFY11. It can start initial production immediately if the approvals are received.
- The commissioning of a 1.2mtpa beneficiation unit and a pellet plant will expand margins. The beneficiation plant is expected to be commissioned in 1QFY12 and the pellet plant is due to be commissioned in 3QFY12.
- We expect consolidated EPS CAGR of 19% to Rs18.8 over FY10-13. The stock trades at FY12E P/E of 4.7x and EV/EBITDA of 5x. Reiterate **Buy** with a target price of Rs154 (based on 6.5x FY12E EV/EBITDA).

QUARTERLY PERFORMANCE (STANDALONE)

(RS MILLION)

Y/E MARCH	FY10				FY11				FY10	FY11E
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE		
Steel Sales ('000 tons)	66	69	75	90	76	76	84	91	301	327
Pig iron Sales ('000 tons)	14	12	11	9	10	13	8	3	46	34
Realization (Rs/tss)	29,166	29,627	28,223	31,587	34,150	34,152	33,368	34,519	29,763	34,054
Net Sales	2,314	3,117	3,030	3,754	3,275	3,372	3,423	3,673	12,215	13,744
Change (%)	-29.6	-17.0	32.0	60.4	41.6	8.2	13.0	-2.2	4.6	12.5
EBITDA	417	490	626	634	771	689	610	689	2,167	2,759
As % of Net Sales	18.0	15.7	20.7	16.9	23.5	20.4	17.8	18.8	17.7	20.1
EBITDA/tssp	5,189	6,047	7,270	6,166	8,980	7,791	6,644	7,301	6,186	7,653
Interest	261	279	346	262	329	340	317	333	1,148	1,320
Depreciation	127	143	144	169	217	220	220	224	582	882
Other Income	49	68	51	75	5	6		5	243	15
PBT (after EO Inc.)	77	143	192	278	229	134	73	137	691	573
Total Tax	15	28	32	71	46	27	15	27	146	115
% Tax	19.3	19.5	16.7	25.6	19.9	19.9	21.0	20.0	21.2	20.1
Reported PAT	62	115	159	207	183	107	58	110	544	458
Adjusted PAT	62	109	156	207	183	107	58	110	535	458
Change (YoY %)	-73.5	-67.7	-272.8	892.0	193.6	-1.8	-63.1	-47.1	6.6	-14.5

E: MOSL Estimates; tssp=tons of steel, sponge and pig iron sales; tss = tons of saleable steel

- Adhunik Metaliks' 3QFY11 consolidated PAT grew 41% YoY to Rs541m (up 48% QoQ; higher than our estimate of Rs446m) due to strong iron ore and manganese ore realizations and a ramp up of manganese production.

OMM: Adjusted PAT up 86% YoY, led by higher realizations of iron ore, manganese ore and a ramp up of manganese production

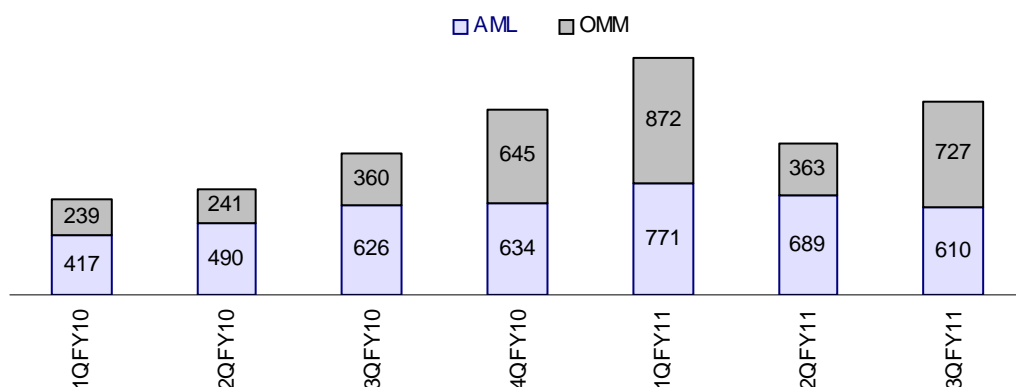
- Orissa Manganese & Minerals' (OMM) 3QFY11 adjusted PAT increased 86% YoY to Rs430m (up 47% QoQ) due to higher manganese volumes and better realizations of manganese and iron ore.
- However, iron ore volumes declined 30% YoY to 213,681 tons, affected by continued logistics issues (increased monitoring on iron ore movement) and extension of the monsoons. It included 185k tons of lumps and the rest was fines. OMM sold 53,688 tons of medium/high grade manganese ore, which is expected to be ramped up in 4QFY11 as the company started mining operations in the non-forest area of three of its new manganese ore mines (Tentulidihi, Sanpatholi and Kusumdihi).
- Average iron ore realization increased 25% QoQ to Rs2,867/ton due to strengthening of iron ore prices, led by a shortage in Orissa. The iron ore market has been tight after a ban on many mines that undertook illegal mining activity and delays in restarting of mines of other key local ore producers. The average realization of medium/high grade manganese ore improved to Rs9,519/ton (up 34% QoQ).
- Due to commencement of mining operations at new manganese mines, the management expects production of ~225k tons in FY11.
- The commissioning of a 1.2mtpa beneficiation and pellet plant in Jamshedpur is on track. The company is targeting production of 0.5m tons in FY12, which will boost OMM's earnings.

QUARTERLY PERFORMANCE (OMM)

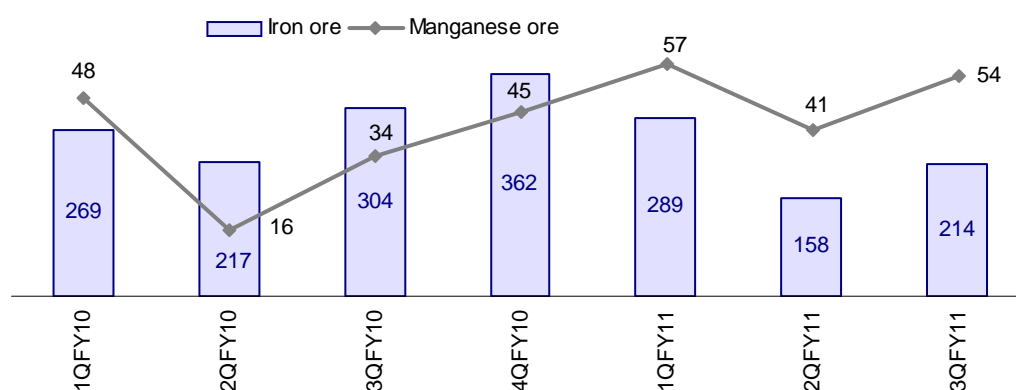
Y/E MARCH	FY10				FY11				(RS MILLION)	
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	FY10	FY11E
Mn Ore HG (000 tons)	21	15	25	35	57	41	54	65	95	216
Realization (Rs/ton)	4,673	5,291	6,493	7,131	9,365	7,108	9,519	9,519	6,134	9,025
Iron ore (000 tons)	269	217	304	362	289	158	214	350	1,152	1,010
Realization (Rs/ton)	1195	1566	1491	2078	2,605	2,299	2,867	3100	1,621	2,406
Net Sales	454	420	643	1,057	1,303	671	1,145	1,704	2,575	4,823
Change (YoY, %)	81.5	33.8	146.9	129.5	186.8	59.7	78.1	61.1	100.3	87.3
Total Expenditure	215	179	283	412	431	308	418	635	1090	1,792
EBITDA	239	241	360	645	872	363	727	1,068	1,485	3,031
As % of Net Sales	52.6	57.3	55.9	61.0	66.9	54.1	63.5	62.7	57.7	62.8
Interest	27	55	2	50	107	68	142	155	133	472
Depreciation	10	11	14	22	34	39	36	38	58	146
Other Income	2	3						15	5	15
PBT (after EO Inc.)	205	177	344	574	731	257	549	890	1,299	2,427
Total Tax	71	46	113	195	244	-35	119	294	425	623
% Tax	34.7	26.0	32.8	34.0	33.4	-13.5	21.8	33.0	32.7	25.7
Reported PAT	134	131	231	378	487	291	430	597	874	1,804
Adjusted PAT	134	131	231	378	487	291	430	597	874	1,804

E: MOST Estimates; HG = high grade

Quarterly EBITDA (Rs m)



OMM: mineral production ('000 tons)



Source: Company/MOSL

Standalone PAT declines 46% QoQ due to higher raw material costs despite higher steel volumes; realization down 2% QoQ to Rs33,368/ton

- Net sales increased 2% QoQ to Rs3.42b (up 13% YoY) due to higher steel volumes. Saleable steel sales volumes increased 10% QoQ to 83,555 tons (up 11% YoY). Net realization of saleable steel declined 2% QoQ to Rs33,368/ton (up 18% YoY).
- Saleable steel production increased 12% QoQ to 130,384 tons (down 7% YoY). However, the proportion of rolled products in 3QFY11 decreased to 31% from 34% in 2QFY11 as the company produced more billets. Billet production increased 17% QoQ to 89,518 tons (flat YoY) and production of rolled products increased 5% QoQ to 40,866 tons (down 21% YoY).
- EBITDA declined 11% QoQ to Rs610m (down 3% YoY) due to an increase in raw material costs. Iron ore costs per ton increased ~32% QoQ to Rs5,020. EBITDA/tss (tons of saleable steel) declined 15% (Rs1,147) QoQ to Rs6,644.
- A captive iron ore mine in Keonjhar district has been delayed due to procedural issues in Orissa. The company had been expecting mining to start in 4QFY11, which now looks ambitious. However, it has received forest and environment clearances and the area has been demarcated for mining lease.

Ramp up of minerals at OMM, pellet plant to deliver strong earnings growth

- With the start of mining operations at OMM's three new manganese mines, the company plans to increase manganese production to 300k tons (from 143k tons in FY10) over 24 months. The iron mine in Suleipat (owned by its JV) is expected to start operations in 2011 and ramping up volumes there is expected to be easier than at the existing Ghatkuri mine. The final stage of reconfirmation approval of the Suleipat mine is expected by the end of 4QFY11. Initial production will be 1mt a year, augmenting iron-ore volumes.
- The commissioning of a 1.2mtpa beneficiation unit and a pellet plant will expand margins. The beneficiation plant is expected to be commissioned in 1QFY12 and the pellet plant is due to be commissioned in 3QFY12.
- Rs4.6b capex at Adhunik Metaliks' standalone operations over the next two years to increase sponge iron ore capacity by 100ktpa, a 45MW CPP and the expected start of captive iron mines in 2011 will fuel earnings growth.
- The commissioning of a 540MW IPP is due to be completed by March 2012, which will drive earnings from FY13.
- We expect consolidated EPS CAGR of 19% to Rs18.8 over FY10-13. The stock trades at FY12E P/E of 4.7x and EV/EBITDA of 5x. Reiterate **Buy** with a target price of Rs154 (based on 6.5x FY12E EV/EBITDA).

QUARTERLY PERFORMANCE

Y/E MARCH	FY10				FY11				FY10	FY11E
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STANDALONE										
Net Sales	2,314	3,117	3,030	3,754	3,275	3,372	3,423	3,673	12,215	13,744
Steel Sales ('000 tons)	66	69	75	90	76	76	84	91	301	327
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EBITDA	417	490	626	634	771	689	610	689	2,167	2,759
EBITDA/tssp	5,189	6,047	7,270	6,166	8,980	7,791	6,644	7,301	6,186	7,653
Adjusted PAT (a)	62	109	156	207	183	107	58	110	535	458
OMM										
Net Sales	454	420	643	1,057	1,303	671	1,145	1,704	2,575	4,823
Mn Ore HG ('000 tons)	21	15	25	35	57	41	54	65	95	216
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Iron ore ('000 tons)	269	217	304	362	289	158	214	350	1,152	1,010
Realization (Rs/ton)	1,195	1,566	1,491	2,078	2,605	2,299	2,867	3,100	1,621	2,406
EBITDA	239	241	360	645	872	363	727	1,068	1,485	3,031
Adjusted PAT (b)	134	131	231	378	487	291	430	597	874	1,804
PAT (a+b)	196	240	387	585	670	399	487	706	1,409	2,262
Change (YoY %)	-43.8	-39.5	-	262.5	241.5	65.8	25.9	20.6	62.2	60.5

E: MOSL Estimates; tssp=tons of steel, sponge and pig iron sales; tss = tons of saleable steel; HG = high grade

Adhunik Metaliks: an investment profile

Company description

Adhunik Metaliks (AML) is located in the mineral-rich state of Orissa. Its operations range from iron ore and coal to finished special steel and forgings and capture the benefits of the value chain. AML has special steel capacity of 0.45mtpa and a 34MW CPP. The company has captive iron ore (25mt of reserves) and coal (42mt), which will become operational in a few years. The merchant mining business has reserves of 97mt and 53mt of iron and manganese ore respectively. The subsidiary company is also setting up a 540MW independent power project by the end of FY12.

Key investment arguments

- Rs4.6b capex of the company's steel business over the next two years will increase sponge iron ore capacity by 100ktpa, set up a 45MW CPP and the start of captive iron mines will fuel earnings growth.
- OMM will ramp up iron and manganese ore production. The recently opened manganese mines and the Suleipat iron ore mine (owned by a JV), with 80mt reserves, will drive volume growth. Rs4.4b capex to set up a 1.2mtpa pellet plant by 1HFY12 will expand margins.
- The commissioning of a 540MW IPP is on track for completion by March 2012, which will drive earnings from FY13.

Comparative valuations

		Adhunik Metaliks	Monnet Ispat	Sarda Energy
P/E (x)	FY11E	5.0	11.0	5.6
	FY12E	4.7	9.6	5.1
P/BV (x)	FY11E	1.3	1.7	0.9
	FY12E	1.1	1.5	0.9
EV/Sales (x)	FY11E	1.6	3.6	1.1
	FY12E	1.3	3.1	1.0
EV/EBITDA (x)	FY11E	5.3	12.3	4.8
	FY12E	5.0	11.8	4.1

Shareholding Pattern (%)

	Dec-10	Sep-10	Dec-09
Promoter	55.5	55.5	54.0
Domestic Inst	13.1	13.7	12.6
Foreign	16.4	17.4	17.4
Others	14.9	13.3	16.0

Key investment risks

- An unexpected fall in steel prices and mineral demand would adversely impact earnings.

Recent developments

- Orissa Manganese & Minerals (OMM), a wholly owned subsidiary of Adhunik Metaliks, started mining operations in non-forest areas of three of its manganese ore mines, Tentulidihi, Sanpatholi and Kusunidihi from November 2010.

Valuation and view

- The stock trades at a P/E of 4.7x FY12E and EV/EBITDA of 5x FY12E. Maintain **Buy**.

Sector view

- Indian steel demand is expected to grow 10-12% over FY10-12 driven by planned infrastructure investment by the government and continued industrial capex. However supply is likely to grow faster over the next few quarters as many large projects (JSW, Tata, Essar, RINL and SAIL) are likely to be commissioned. This will increase the likelihood of aggressive pricing in domestic markets and can put significant pressure on margins of non-integrated small scale players. We are positive about domestic integrated steel players.

EPS: MOSL forecast v/s consensus (Rs)

	MOSL Forecast	Consensus Forecast	Variation (%)
FY11	16.7	16.4	1.9
FY12	17.6	23.1	-23.8

Target Price and Recommendation

Current Price (Rs)	Target Price (Rs)	Upside (%)	Reco.
83	154	85.4	Buy

Stock performance (1 year)



Financials and Valuations

INCOME STATEMENT (Consol.)		(Rs Million)				
Y/E MARCH	2009	2010	2011E	2012E	2013E	
Net sales	12,703	14,496	18,567	24,799	26,024	
Change (%)	22.8	14.1	28.1	33.6	4.9	
Total Expenses	10,652	10,652	12,777	18,492	19,388	
EBITDA	2,051	3,844	5,790	6,308	6,637	
% of Net Sales	16.1	26.5	31.2	25.4	25.5	
Deprn. & Amortization	402	677	1,028	1,078	1,133	
EBIT	1,649	3,167	4,762	5,230	5,504	
Net Interest	1,201	1,595	1,792	1,778	1,688	
Other income	282	448	30	75	77	
PBT before EO	730	2,021	3,000	3,528	3,893	
EO income	-7	-21				
PBT after EO	723	2,000	3,000	3,528	3,893	
Tax	263	629	738	1,136	1,287	
Rate (%)	36.4	31.5	24.6	32.2	33.1	
Reported PAT	460	1,371	2,262	2,392	2,606	
Minority interests	-1	-3	90	111	131	
Adjusted PAT	468	1,394	2,172	2,281	2,475	
Change (%)	-43.1	198.2	55.8	5.0	8.5	

BALANCE SHEET		Million)				
Y/E MARCH	2009	2010	2011E	2012E	2013E	
Share Capital	912	1,235	1,299	1,299	1,317	
Reserves	2,847	5,970	8,106	10,213	13,284	
Share holders funds	3,760	7,205	9,404	11,512	14,601	
Minority interests	924	543	633	744	875	
Loans	15,357	19,435	20,695	22,195	20,435	
Deferred tax liability (net)	1,051	1,459	1,459	1,459	1,459	
Capital Employed	21,092	28,642	32,192	35,910	37,370	
Gross Block	11,559	18,232	20,151	21,651	21,731	
Less: Accum. Depm.	901	1,649	2,676	3,754	4,887	
Net Fixed Assets	10,658	16,583	17,475	17,897	16,845	
Capital WIP	5,654	7,752	9,752	11,752	13,752	
Investments	201	1	301	601	901	
Curr. Assets	8,695	11,125	10,101	12,773	13,287	
Inventories	3,834	5,257	5,344	7,140	7,333	
Sundry Debtors	1,576	2,206	1,904	2,541	2,676	
Cash and Bank	1,373	1,786	978	1,217	1,403	
Loans and Advances	1,912	1,875	1,875	1,875	1,875	
Curr. Liability & Prov.	4,117	6,825	5,442	7,118	7,420	
Sundry Creditors	3,946	6,363	4,981	6,657	6,959	
Other Liabilities & prov.	171	461	461	461	461	
Net Current Assets	4,578	4,301	4,659	5,655	5,867	
Misc. Exp. (not w/off)	1	5	5	5	5	
Application of Funds	21,092	28,642	32,192	35,910	37,369	

E: MOSL Estimates

RATIOS						
Y/E MARCH	2009	2010	2011E	2012E	2013E	
Basic (Rs)						
EPS	5.1	11.3	16.7	17.6	18.8	
Cash EPS	9.5	16.8	24.6	25.9	27.4	
BV/Share	31.2	48.3	62.4	78.6	100.9	
DPS	1.0	1.2	1.2	1.2	1.2	
Payout (%)	23.2	12.6	8.1	7.6	7.1	
Valuation (x)						
P/E	16.2	7.4	5.0	4.7	4.4	
Cash P/E	8.7	5.0	3.4	3.2	3.0	
P/BV	2.7	1.7	1.3	1.1	0.8	
EV/Sales	1.7	1.9	1.6	1.3	1.2	
EV/EBITDA	10.5	7.3	5.3	5.0	4.5	
Dividend Yield (%)	1.2	1.4	1.4	1.4	1.4	
Return Ratios (%)						
EBITDA Margins	16.1	26.5	31.2	25.4	25.5	
Net Profit Margins	3.7	9.6	11.7	9.2	9.5	
RoE	16.4	23.4	26.8	22.3	18.6	
RoCE	7.8	11.1	14.8	14.6	14.7	
RoIC	11.9	16.6	22.5	23.4	25.8	
Leverage Ratio (x)						
Current Ratio	2.1	1.6	1.9	1.8	1.8	
Interest Cover Ratio	1.4	2.0	2.7	2.9	3.3	
Debt/Equity	4.9	3.0	2.4	2.1	1.4	

CASHFLOW STATEMENT		(Rs Million)				
Y/E MARCH	2009	2010	2011E	2012E	2013E	
Pre-tax profit	723	2,000	3,000	3,528	3,893	
Depreciation	389	747	1,028	1,078	1,133	
(Inc)/Dec in Wkg. Cap.	-827	690	-1,167	-757	-26	
Tax paid	-231	-570	-738	-1,136	-1,287	
Other operating activities	1,039	-622	146	9	781	
CF from Op. Activity	1,093	2,246	2,269	2,721	4,494	
(Inc)/Dec in FA + CWIP	-5,836	-8,770	-3,919	-3,500	-2,080	
(Pur)/Sale of Investments	211	200	-300	-300	-300	
Others						
CF from Inv. Activity	-5,625	-8,570	-4,219	-3,800	-2,380	
Share capital raised/(repaid)		323	64		18	
Share premium		2,510				
Debt raised/(repaid)	5,478	4,078	1,260	1,500	-1,760	
Dividend (incl. tax)	-107	-173	-182	-182	-185	
Other financing activities						
CF from Fin. Activity	5,371	6,737	1,142	1,318	-1,927	
(Inc)/Dec in Cash	839	413	-808	239	186	
Add: opening Balance	534	1,373	1,786	978	1,217	
Closing Balance	1,373	1,786	978	1,217	1,403	

N O T E S



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Disclosure of Interest Statement

Adhunik Metaliks

- | | |
|---|----|
| 1. Analyst ownership of the stock | No |
| 2. Group/Directors ownership of the stock | No |
| 3. Broking relationship with company covered | No |
| 4. Investment Banking relationship with company covered | No |

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