

# Adhunik Metaliks (ADHMET)

Rs 114

## WHAT'S CHANGED...

PRICE TARGET .....	Unchanged
EPS (FY10E) .....	Changed from Rs 7.35 to Rs 7.78
EPS (FY11E) .....	Changed from Rs 11.54 to Rs 12.07
RATING.....	Unchanged

## Satisfactory standalone performance...

Adhunik Metaliks (AML) reported satisfactory standalone numbers for Q2FY10 with net sales at Rs 311.7 crore, registering a growth of 34.7% QoQ and dropping by 17% YoY. Sales volumes remained flat sequentially but showed a growth of 11.6% YoY on account of improved rolled products sales volume. Net realisations/tonne improved ~33% QoQ due to an up tick in domestic steel prices as well as better product mix with higher value-added product sales in the form of rolled products.

### Steady margins maintained

AML reported an EBITDA margin of 18.1% during Q2FY10 despite higher raw material costs sequentially. This was mainly due to higher net realisations achieved through better product sales mix. Net profit came in at Rs 11.5 crore, up ~87% QoQ, against our expectation of Rs 10.7 crore. We expect AML to achieve a standalone EBITDA margin of ~20.5% in FY10E due to the improved domestic steel industry scenario and higher value added product sales in H2FY10E. We expect FY10E standalone net profit for AML to be ~Rs 55.6 crore.

## Valuation

At the CMP of Rs 114, the stock is trading at FY11E PE of 9.4x and FY11E EV/EBITDA of 6.4x on a consolidated basis. We believe the stock is attractively valued for long-term investment with significant value addition due to come from the mining business over FY10-11 (OMML) and power business (APNRL) from FY12 onwards. We maintain our target price of Rs 149 and **OUTPERFORMER** rating on the stock. At our target price, the stock is valued at 12.3x FY11E consolidated EPS of Rs 12.1. We would wait for the announcement of the consolidated financial results (Including OMML) by the company in November, 2009 for any revision in our estimates and rating.

### Exhibit 1: Performance highlights (Standalone)

(Rs Crore)	Q2FY10	Q2FY10E	Q2FY09	Q1FY10	QoQ (Chg %)	YoY (Chg %)
<b>Net Sales</b>	311.7	274.8	375.7	231.4	34.7	-17.0
<b>EBITDA</b>	56.6	50.0	63.8	46.6	21.5	-11.4
<b>EBITDA Margin (%)</b>	18.1	18.2	17.0	20.1	-200 bps	+110 bps
<b>Depreciation</b>	14.3	11.4	8.1	12.7	12.9	77.4
<b>Interest</b>	27.9	25.6	28.9	26.2	6.7	NA
<b>Reported PAT</b>	11.5	10.7	23.8	6.2	87.3	-51.6
<b>EPS (Rs)</b>	1.1	1.0	2.6	0.6	87.3	-58.1

Source: Company, ICICIdirect.com Research

### Rating matrix

Rating	: <b>Outperformer</b>
Target	: Rs 149
Target Period	: 12 months
Potential Upside	: 31 %

### Key Financials (Consolidated)

(Rs Crore)	FY08	FY09	FY10E	FY11E
Net Sales	1034.5	1270.3	1386.7	1605.6
EBITDA	179.9	233.2	329.7	382.9
Net Profit	82.1	46.6	82.1	127.3

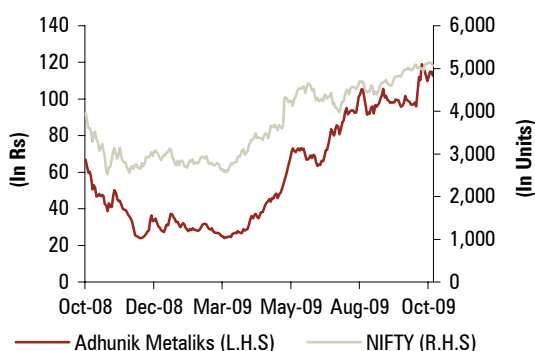
### Valuation summary (Consolidated)

	FY08	FY09	FY10E	FY11E
PE (x)	12.6	22.2	14.6	9.4
Target PE (x)	16.6	29.1	19.2	12.3
EV/EBITDA (x)	11.0	10.5	7.5	6.4
P/BV (x)	3.3	3.0	2.0	1.7
RoNW (%)	26.1	13.3	14.0	18.3
RoCE (%)	11.0	9.1	12.0	14.5

### Stock data

Market Capitalisation	Rs 1199.0 Crore
Debt-Cons. (FY09)	Rs 1535.7 Crore
Cash & Invst.-Cons. (FY09)	Rs 154.3 Crore
EV	Rs 2580.4 Crore
52 week H/L	121/22
Equity capital	Rs 105.5 Crore
Face value	Rs 10
MF Holding (%)	4.7
FII Holding (%)	11.2

### Price movement (Stock vs. Nifty)



### Analyst's name

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The company has been successful in improving its sales mix by increasing sales of rolled products and lowering billet sales. Also, sales of ferro alloys have shown some improvement in the last two quarters

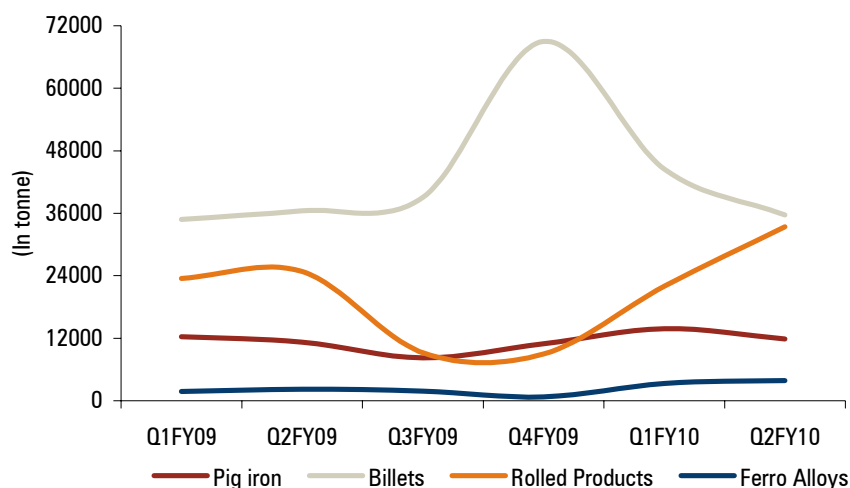
Sales realisations are generally higher for rolled products and have remained stable during the last two quarters due to domestic steel prices holding up. Ferro alloy prices have moved up smartly during the recent quarters. AML has benefited from having higher sales of rolled products and ferro alloys, which garner higher sales realisations

Net realisations and EBITDA have improved sequentially on a per tonne basis. This is a positive development for the company

### Result Analysis

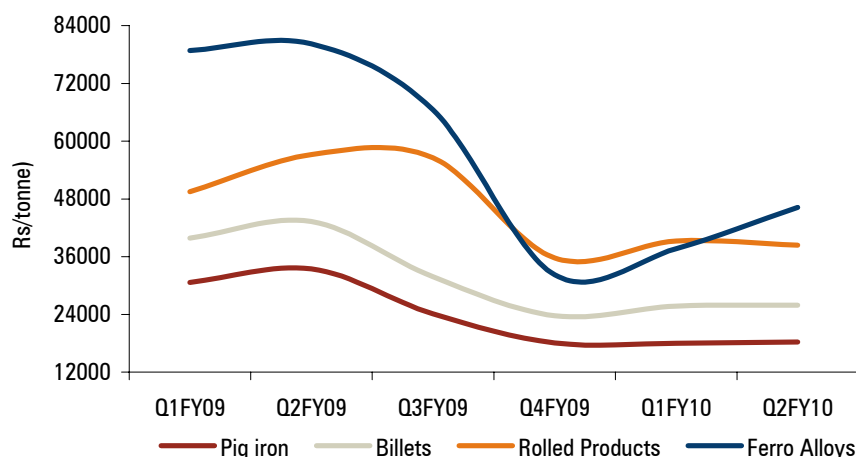
The company reported satisfactory standalone numbers for Q2FY10 due to robust sales realisations and improved value-added product sales volume in the form of rolled products.

### Exhibit 2: Product wise sales volume



Source: Company, ICICIdirect.com Research

### Exhibit 3: Product wise sales realisations



Source: Company, ICICIdirect.com Research

### Exhibit 4: Per tonne analysis (Standalone)

Rs/Tonne	Q2FY10	Q2FY09	Q1FY10	YoY Chg (%)	QoQ Chg (%)
<b>Net Realisation</b>	<b>38481.8</b>	<b>51773.7</b>	<b>28812.1</b>	-25.7	33.6
<b>Total Cost</b>	<b>32341.2</b>	<b>43278.9</b>	<b>23623.5</b>	-25.3	36.9
Stock Adjustment	-2087.6	-18472.5	445.8		
Raw Material Consumed	18732.9	38790.3	10044.8	-51.7	86.5
Purchase of trading goods	3134.5	6980.2	3291.0	-55.1	-4.8
Stores & Spares	3471.5	5099.1	2768.0	-31.9	25.4
Employee costs	1196.3	996.4	1041.0	20.1	14.9
Other Expenses	7987.5	8330.8	6032.9	-4.1	32.4
<b>EBITDA</b>	<b>6982.5</b>	<b>8796.6</b>	<b>5796.3</b>	-20.6	20.5

Source: Company, ICICIdirect.com Research

## ICICIdirect.com coverage universe (Metals &amp; Mining)

Adhunik Metaliks					Sales (Rs Cr)	EPS (Rs)	PE (x)	EV/EBITDA (x)	RoNW(%)	RoCE(%)
Idirect Code	ADHMET	CMP (Rs)	113.7	FY09	1270.3	5.1	22.2	10.5	13.3	9.1
		Target (Rs)	149.0	FY10E	1386.7	7.8	14.6	7.5	14.0	12.0
MCap (Rs Cr)	1199.0	Upside (%)	31.1	FY11E	1605.6	12.1	9.4	6.4	18.3	14.5
JSW Steel					Sales (Rs Cr)	EPS (Rs)	PE (x)	EV/EBITDA (x)	RoNW(%)	RoCE(%)
Idirect Code	JINVIJ	CMP (Rs)	913.6	FY09	16081.5	14.7	62.2	9.5	3.0	9.1
		Target (Rs)	576.0	FY10E	18249.9	63.6	14.4	8.1	11.9	10.6
MCap (Rs Cr)	13600.4	Upside (%)	-36.9	FY11E	21505.9	80.6	11.3	6.3	13.4	12.2
Usha Martin					Sales (Rs Cr)	EPS (Rs)	PE (x)	EV/EBITDA (x)	RoNW(%)	RoCE(%)
Idirect Code	USHBEL	CMP (Rs)	74.9	FY09	2949.8	7.4	10.1	6.4	16.3	14.4
		Target (Rs)	60.0	FY10E	2737.1	7.6	9.8	6.1	15.2	13.2
MCap (Rs Cr)	1736.2	Upside (%)	-19.8	FY11E	3955.4	12.3	6.1	4.4	20.0	18.2
Visa Steel					Sales (Rs Cr)	EPS (Rs)	PE (x)	EV/EBITDA (x)	RoNW(%)	RoCE(%)
Idirect Code	VISST	CMP (Rs)	41.6	FY09	1035.0	-6.1	NA	NA	NA	NA
		Target (Rs)	25.0	FY10E	1132.1	6.1	6.8	8.0	19.4	10.9
MCap (Rs Cr)	355.3	Upside (%)	-39.9	FY11E	1431.0	8.5	4.9	5.9	21.3	14.9
Tata Steel - Cons					Sales (Rs Cr)	EPS (Rs)	PE (x)	EV/EBITDA (x)	RoNW(%)	RoCE(%)
Idirect Code	TISCO	CMP (Rs)	552.5	FY09	145686.3	67.8	8.1	4.3	17.0	15.0
		Target (Rs)	340.0	FY10E	102754.9	33.2	16.6	7.3	8.9	7.8
MCap (Rs Cr)	36353.6	Upside (%)	-38.5	FY11E	129229.0	49.1	11.3	6.1	12.0	10.5
SAIL					Sales (Rs Cr)	EPS (Rs)	PE (x)	EV/EBITDA (x)	RoNW(%)	RoCE(%)
Idirect Code	SAIL	CMP (Rs)	190.6	FY09	43639.7	14.9	12.7	6.5	22.1	21.0
		Target (Rs)	185.0	FY10E	43688.8	17.3	11.0	5.2	21.4	20.7
MCap (Rs Cr)	69762.5	Upside (%)	-2.9	FY11E	46901.5	16.4	11.6	6.4	17.5	16.4
Sesa Goa					Sales (Rs Cr)	EPS (Rs)	PE (x)	EV/EBITDA (x)	RoNW(%)	RoCE(%)
Idirect Code	SESGOA	CMP (Rs)	319.5	FY09	4959.1	25.3	12.6	8.3	42.2	51.9
		Target (Rs)	288.0	FY10E	4860.2	22.7	14.1	10.1	26.7	22.0
MCap (Rs Cr)	26210.9	Upside (%)	-9.8	FY11E	5999.0	27.1	11.8	7.4	24.7	22.6
Hindustan Zinc					Sales (Rs Cr)	EPS (Rs)	PE (x)	EV/EBITDA (x)	RoNW(%)	RoCE(%)
Idirect Code	HINZIN	CMP (Rs)	882.2	FY09	5680.3	64.6	12.5	8.5	20.8	19.8
		Target (Rs)	910.0	FY10E	6486.6	76.5	10.5	6.5	20.4	20.4
MCap (Rs Cr)	34098.2	Upside (%)	3.2	FY11E	7354.8	87.3	9.2	4.9	19.3	19.7

Source: Company, ICICIdirect.com Research

## RATING RATIONALE

ICICIdirect.com endeavours to provide objective opinions and recommendations. ICICIdirect.com assigns ratings to its stocks according to their notional target price vs. current market price and then categorises them as Outperformer, Performer, Hold, and Underperformer. The performance horizon is two years unless specified and the notional target price is defined as the analysts' valuation for a stock.

Outperformer (OP): 20% or more;

Performer (P): Between 10% and 20%;

Hold (H): +/-10% return;

Underperformer (U): -10% or more;

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