

Adhunik Metaliks Ltd.

CMP Rs 104

P/E 3.5x

FY2012E



BUY

Adhunik Metaliks Limited (AML) is geared up to transform itself from a purely steel company into a well diversified steel-cum-mining-cum-power company. Timely addition in sponge iron capacity and ramping of mining operations at captive as well as merchant sites will lead to revenue growth of 22.2% CAGR over FY10-12 and will boost operating margins to 37.5% on a structural basis.

Timely execution of the 540 MW power plants by March 2012 will determine its prospects in power segment. This along with the next phase of expansion in steel and power business would drive growth further over FY13-15. We estimate AML delivering a strong 64% EPS CAGR over FY10-12 and initiate coverage with a BUY on the stock with target price of Rs 205.

PRICE TARGET Rs 205/- (18 Months)

Index Details

Sensex	17,065
Nifty	5,120
BSE 200	2,166
Industry	Metals - Steel

Scrip Details

Mkt Cap (Rs in crore)	1,297
Book Value (Rs)	71.1
Eq Shares O/s (Cr)	12.3
Avg Vol	165,000
52 Week H/L	137/62
Dividend Yield (%)	1.2
Face Value (Rs)	10.0

BSE Code	532727
NSE Code	ADHUNIK

Shareholding Pattern (31st March, 2010)

Shareholders	% holding
Promoters	55.5
Indian Institutions	14.7
FII's	11.4
Non Promoter Corporate	5.4
Public	13.0
Total	100.0

Adhunik vs. Sensex



Key Financials

Y/E Mar (Rs Crore)	Net Revenues	EBIDTA	PAT	EPS	EPS Growth (%)	ROCE (%)	RONW (%)	P/E (x)	EV/EBIDTA (x)
FY10	1449.7	402.3	137.1	11.1	116.9	13.8	20.4	9.4	3.9
FY11E	1756.2	593.4	247.2	20.0	80.4	13.8	21.7	5.2	5.2
FY12E	2163.9	811.9	370.9	30.0	50.0	13.7	23.0	3.5	4.1

Key Investment Highlights

Structural improvement in margins owing to captive mining

AML – currently non-integrated steel producer – has recently commissioned captive iron ore mining in Orissa, which will result into annual savings of around Rs 120 crore from FY11 onwards. In view of additional sponge iron capacity of 150000 tpa, savings would increase further by Rs 48 crore from FY 13 onwards. Additionally, the margins in steel business would further expand as its captive coal mine gets operational by Q4FY12.

Expansion of capacities to drive topline in steel business

AML has graduated from commodity steel to specialized alloy steel for downstream user industries like auto ancillary, power, railway and construction sectors. Majority of specialized alloy steel is sold on contract basis, resulting in better revenue sustainability and more resilient realizations. AML recently completed the three-phased expansion comprising the installation of various units like sponge iron plant, sinter, coke battery etc. With its user industries experiencing solid growth, AML is likely to benefit from this timely expansion.

Ramping up of merchant mining business

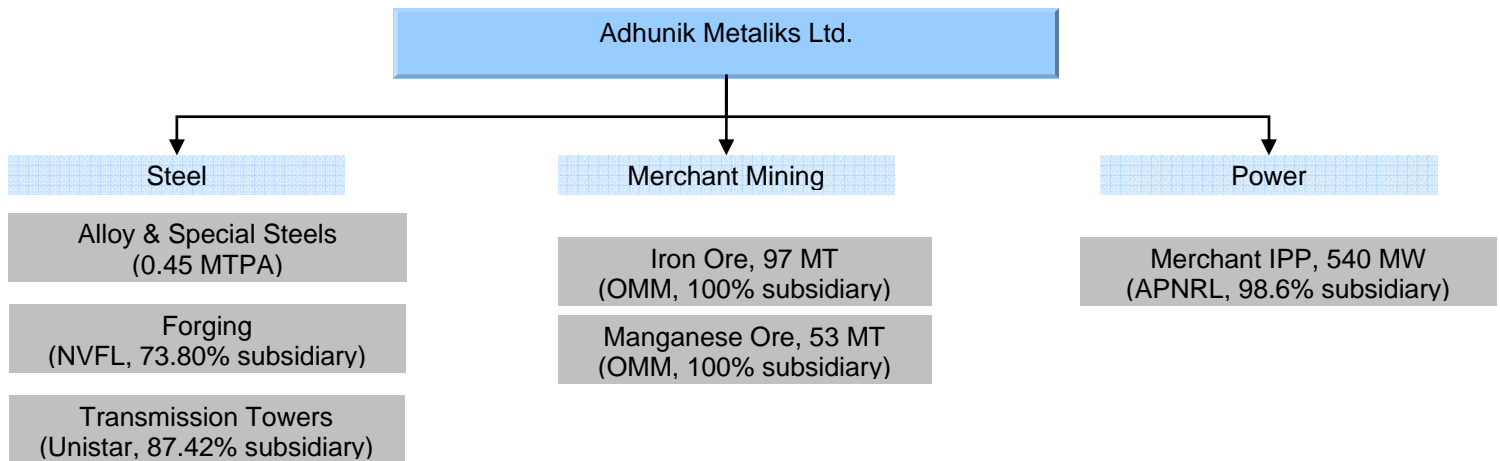
AML's merchant mining division, Orissa Manganese & Minerals (OMM), is aggressively ramping up iron ore and manganese ore production to 1.8 mtpa and 0.3 mtpa respectively by FY12. Increased volumes in high margin mining business would make significant contribution to total profits. Moreover, OMM is setting up 1.2 mtpa Pelletization plant by Q3FY11 to improve its product mix.

Venturing into power generation

AML is setting up 1080 MW merchant power plant at Jamshedpur in three phases through its subsidiary, Adhunik Power & Natural Resources Ltd (APNRL). Out of these, two units of 270 MW each are progressing on schedule and would get commissioned by January 2012 and March 2012, respectively. Also, the company has signed MoUs for power projects of additional 2,000 MW. Contribution from power business from FY13 onwards would increase its profitability and reduce the seasonality in earnings.

Access to cheap captive iron ore and thermal coal along with decreasing dependence on coking coal will result in competitive production costs hence much higher margins. This combined with its steady growth profile makes us value AML's steel and mining business at 4x FY12 EV/EBIDTA. Its stake in power subsidiary is valued at Rs 64.5 /share on NPV basis.

Company Background



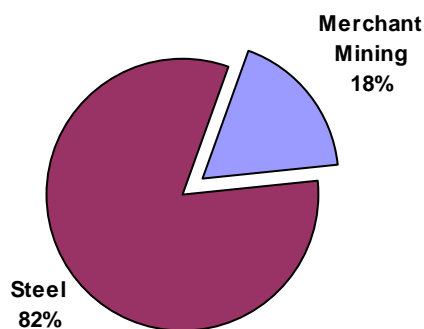
Adhunik Metaliks Ltd (AML) is the flagship company of Adhunik group of industries. The company was incorporated as Neepaz Metaliks Private Limited in 2001 and got renamed in 2005. AML went public in March 2006 to finance an integrated steel plant in Orissa. It currently operates plants and mines in Orissa and Jharkhand. It has marketing network across 11 Indian states and presence in five countries.

Business Segments

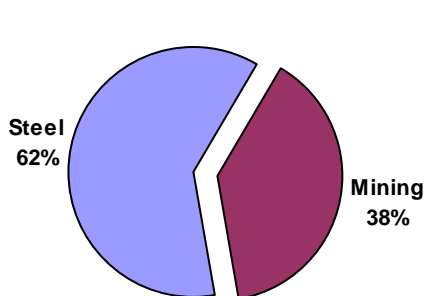
At present, the company has three key segments of business:

- Steel (82.2% of FY10 revenue)
- Mining (17.8% of FY10 revenue)
- Power (To be operational in FY13)

Revenue Break-up (FY10)



EBIDTA Break-up (FY10)



Steel Division

It manufactures a wide range of products in carbon steel, alloy steel and stainless steel catering to demands of automobile, power, engineering and oil industry. The product range includes carbon alloy, ball bearing steel, forging quality and engineering grade steel, tool steel, die steel, chrome nickel molly, boron steels, valve steels, free cutting steels, micro-alloyed steels, case carburising and wire rods.

Product Range:

Cathode collector bars	Rolled products
Anode-Cathode bars	Ferro alloys
Pig iron	Sponge iron
Cold heading quality steel	Structural steel
TMT bars	Carbon steel
High alloy steel	Auto steel
Bearing steel	Free cutting steel
Stainless steel	Spring steel
Billets/blooms/rounds for seamless pipe applications	