

Today, we are an alloy steel manufacturer.



Tomorrow, we will be one of the lowest cost special steel companies.

Visiting card

Flagship company of Rs 1,000 cr Adhunik Group

An ISO 9001:2000 certified organisation

Manufacturing value-added steel products

64% of the equity held by the promoters (as on 31 March, 2006)

Background

Incorporated in 2001

Initial public offering in March 2006 at Rs 37 per share, mobilising Rs 100 cr

Business

Product range comprising auto steel, bearing steel, spring steel, carbon steel, cold heading steels, shape steels, free cutting steels and stainless steel

Downstream product applications in the automobile, construction and engineering sectors

Operations

Existing installed capacity of 250,000 tpa alloy steel billets

Operating through the DRI-MBF-EAF-LF continuous casting route

Presence

Headquartered in Kolkata

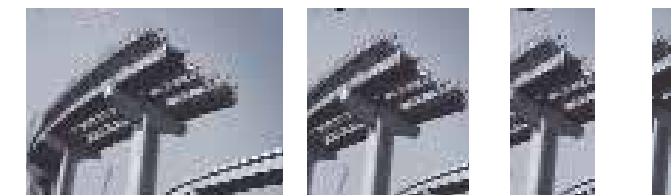
Manufacturing facilities at Rourkela (Orissa), the Indian steel industry's raw material hub

Marketing network comprising 17 offices across major steel consuming centres

Listed on Bombay Stock Exchange and National Stock Exchange

Key customers

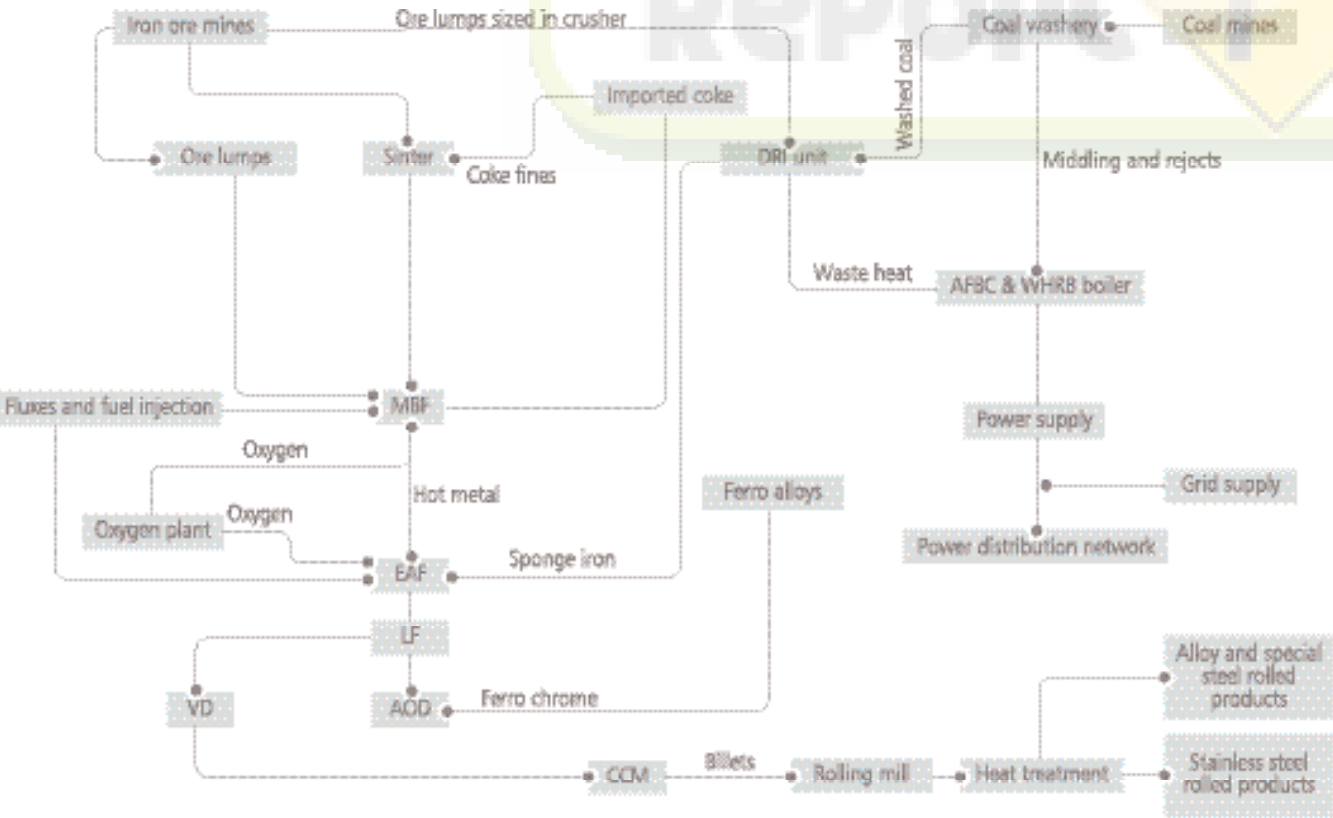
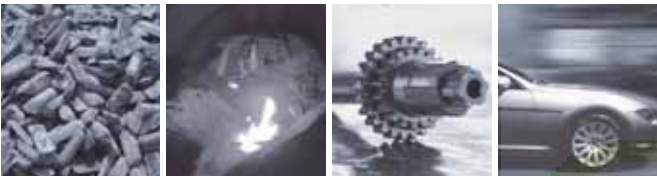
The Indian automobile industry, supplying materials to units who in turn supply to Tata Motors, Maruti Suzuki, Hero Honda and others



The Adhunik Metaliks integrated steel facility

Our expansion programmes

The process flow



Phase I

COMPONENTS	INSTALLED CAPACITY	APPLICATIONS
Steel melting shop comprising EAF, LRF and continuous casting machine for the production of bloom, billets and rounds	2,50,000 tpa	Rolled and semis for the automotive, locomotive and engineering sectors
Sponge iron (100 x 5 TPD)	1,50,000 tpa	Mainly for captive consumption
Blast furnace (262 Cum)	1,80,000 tpa	Mainly for captive consumption
Coal washery	7,00,000 tpa	Mainly for captive consumption
Oxygen plant	10 mn SM3	Entirely for captive consumption
Power plant (17MW) (expected commissioning by the third quarter of 2006-07)	124.85 mu per annum	Entirely for captive consumption

Phase II

FACILITIES	INSTALLED CAPACITY	MAIN PRODUCTS	APPLICATIONS
SMS II with VD and billet/bloom conditioning	1,56,000 tpa	Alloy and carbon steel billets, bloom/rounds	Captive consumption; rounds for sales
Ferro alloys (9MVA * 2)	32,076 tpa	Ferro chrome	Captive consumption
AOD and concast (35 MT)	1,19,000 tpa	Stainless steel billets	Captive consumption
Rolling mill with finishing facilities Unit – I Unit – II	2,20,000 tpa 80,000 tpa	Alloy steel and SS rolled products	For sale in the market; will use existing billets
Sinter plant	300,000 tpa	Sinter	Captive consumption
Power plant (17 MW)	124.85 pa	Power	Captive consumption
Oxygen plant	9792000 SM3 pa	Oxygen	Captive consumption
Private railway siding	–	Logistics management	In-house logistics
Mines	–	Iron ore and coal	Captive consumption

Revenue growth of 225.76% from Rs 130.09 cr in 2004-05 to Rs 423.78 cr in 2005-06.



What we achieved in 2005-06

Numbers

Revenue growth of 225.76% from Rs 130.09 cr in 2004-05 to Rs 423.78 cr in 2005-06

EBIDTA growth of 362.97% from Rs 15.88 cr in 2004-05 to Rs 73.46 cr in 2005-06

Cash profit growth of 336.20% from Rs 9.31 cr in 2004-05 to Rs 40.61 cr in 2005-06

Net profit growth of 375.07% from Rs 7.10 cr in 2004-05 to Rs 33.71 cr in 2005-06

Operations

Commenced the production of high-carbon and alloy steel billets in the steel melting shop

Marketing

225.76% growth in sales

24 MoUs signed with leading automobile OEMs, covering 50% of the Company's operational capacity

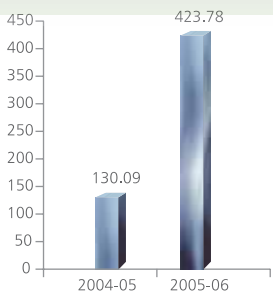
Boardroom initiatives

Successfully completed the IPO. Mobilised funds for the second phase of the project

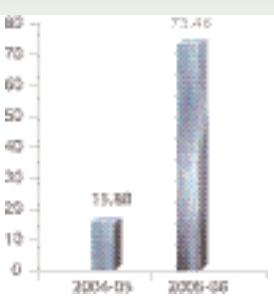
Projects

Completed the first phase of the project within the defined time schedule

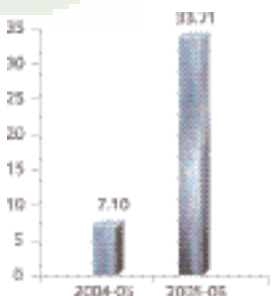
Commenced work on Phase II of the expansion plan



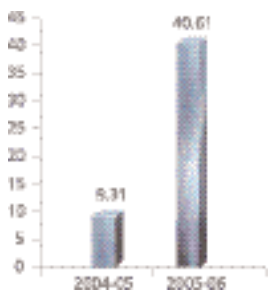
Revenue (Rs cr)



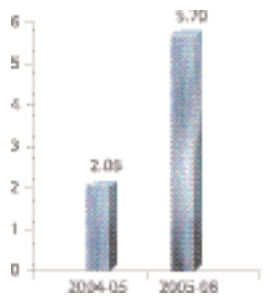
EBIDTA (Rs cr)



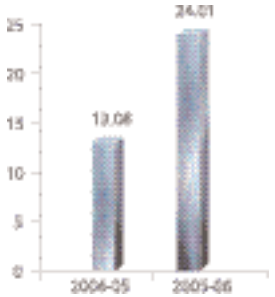
PAT (Rs cr)



Cash profit (Rs cr)



EPS (Rs)



Book value (Rs)



Today, alloy Steel ...

REPORT



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... Tomorrow, Special and Stainless Steel

At Adhunik Metaliks, our primary contention is that we are not a commodity steel company at all; we intend to specialise in the customisation of special and stainless steels used in value-added downstream applications.

- Special steels represent the apex of the value pyramid in India's steel industry; over the last few years, special steel grades have demonstrated an increasing resistance (beta) to the broad steel industry and an evident gap between demand and supply

- Adhunik Metaliks will manufacture the entire range of special steels in terms of chemical composition and physical properties in the alloy steel segment

- The Company has invested in a state-of-the-art vacuum degassing unit and bloom casters

for the manufacture of value-added steel varieties

- Alteration in the product mix between billets and rolled products from 70-30 to 20-80
- Focus on the manufacture of relatively small quantities of niche grades; more than 50% of the product range will cater to the high growth

automobile, railways and defense sectors

Result

- Following the commissioning of its state-of-the-art special steels manufacturing facility in March 2007, Adhunik Metaliks will emerge among the top five in its peer group in India

- Entered into marketing agreements with a number of automobile majors and leading auto-component manufacturers

- The Company's post expansion margins are expected to be among the highest in the industry in India



Today, Standalone raw materials ...

... Tomorrow, an integrated value chain

At Adhunik Metaliks, we are not just a steel manufacturer with a presence at the end of the value chain; we have invested today to create possibly the most extensive value chain in the special steel industry.

- Integrated value chain from iron ore and coal at one end to auto grade special steel and stainless steel at the other, covering DRI, pig iron, billets, rolled products and power
- Effective backward and forward linkages to maximise operational flexibility and create one of the lowest cost operational structures in the industry

Iron ore reserves

- Allotment of iron ore mines at Kulum (Keonjhar district)
- Estimated to sustain the Company's iron ore requirement for more than 30 years
- Iron ore of high quality with an Fe content in excess of 64%
- Ownership of partly used mines to reduce mining

costs to only 30% of the corresponding cost in virgin mines

- Located only about 150 kms from the plant site, keeping transportation costs low
- To start excavation from the fourth quarter of 2006-07
- EBIDTA margin to improve by 4-5%

Coal reserves

- Allotment of coal mines at Patrapara (Talcher district) in 2006
- Completely virgin coal blocks with estimated reserves to meet the Company's requirement across 30 years at the enhanced production level of Phase II
- Only about 230 kms from the plant site, facilitating a

low cost of transportation

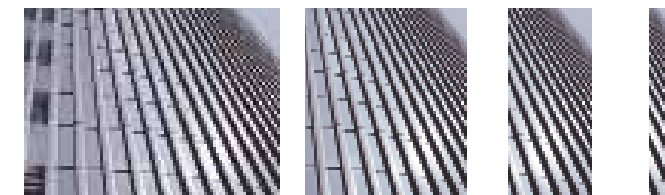
- Scheduled to start mining by December 2007

Result

- The Company's value chain will extend from Rs 800 per ton of raw material at one end to Rs 60,000 per ton of the end product at the other
- This will rationalise raw material costs by around 50-

60% following the commissioning of both mines

- The Company will exercise a complete control across all its operations leading to quality, cost and productivity management
- Installation of an iron ore sinter plant is expected to reduce the cost of iron ore used in the blast furnace by 35%



Today, (2003-05), 0.25 mn TPA ...

At Adhunik Metaliks, our success has been derived from a phased strategy of project implementation, enabling the cash flow from one unit to be invested in the commissioning of the other, shrinking overall project cost and accelerating payback..

- Phase I comprised the DRI plant (2003), blast furnace, EAF unit and the continuous casting unit (2005) for the manufacture of billets (alloy steel). The first power plant is in the first phase, will be commissioned by the third quarter of 2006-07
- The benefit from the Company's captive iron-ore mines will commence from fourth quarter of 2006-07 and from captive coal mines by April 2008

... Tomorrow, (2006-08), 0.50 mn TPA

- A 'flexible management system' enabled each unit to operate as an independent profit centre in addition to serving as raw material for downstream units

Result

- One of the lowest cost integrated special steels companies by 2008
- Culture of concurrent commissioning shrunk the completion of Phase I to a mere ten months from zero date as against the

industry benchmark of 15 months; the Company doubled its capacity in the time generally needed to commission the initial plant

- A land bank of 200 acres - presently utilised to the extent of only 40% - will facilitate subsequent expansion
- Following Phase II, Adhunik Metaliks will emerge as one of the largest niche special steels companies in India

Today, rich industry knowledge ...

At Adhunik Metaliks, we have not just invested in the best technologies of the day; we have invested in the richest complement of industry knowledge resulting in quick commissioning at one of the lowest industry costs.

- A team enjoying a cumulative 300 plus-person-years of industry experience
- Stabilised operation of Phase I in only three months of commissioning with the EAF processing an average 15-17 heats a day
- Among the few in India's special steel industry to successfully stabilise a 262 cubic metres blast furnace
- Showcased the challenging transfer of hot metal from the blast furnace into the EAF
- Coal washery facilitated the use of low-cost non-coking coal in the DRI unit

... Tomorrow, widening margins

- Reduced carbon content (coal) through ingenious process modification
- Replaced high cost CPC coal with reject coke fines in the EAF
- Removed iron traces in the blast furnace slag, adding about 300 basis points to productivity

Following the commissioning of Phase II, the Company expects to derive the following advantages:

- Operation of the new oxygen plant will enable charging of the oxygen at a high speed into the blast furnace, reducing coke consumption

- Use of sinter in the blast furnace to enhance blast furnace productivity by about 15% and reducing coke consumption
- A focus on micro-alloy special steels, a high value-added product, widening profitability margins

Result

- The Company expects to leverage its knowledge repository and emerge as the lowest cost manufacturer of special steels in India



Today, waste ...

At Adhunik Steels, we expect to report higher-than-average margins through a maximised conversion and combustion of raw materials at every point of the manufacturing process.

- The project integration is designed to ensure efficient utilisation of every unit of input in the manufacturing process
- The fines generated during mining will be used in a sinter plant
- Waste heat generated in the DRI units will be used in a 17 MW power plant
- Another 17 MW power plant will utilise coal

... Tomorrow, wealth

middlings from the coal washery, enhancing the Company's power self-sufficiency to the extent of 50%

- Re-heating furnace at the rolling mill will utilise the waste heat from the blast furnace, saving fuel costs

Result

- There will be a use of 98% of all waste products in the integrated manufacturing process, making

operations environment friendly

- A ton of sinter used in the blast furnace is expected to reduce ore and coke input by 85% and 5% respectively
- The captive generation of power will result in a saving in power cost
- There will be a low projected use of furnace oil (reheating one ton of metal requires an approximate 40 litres of furnace oil)

Today, external funding ...

At Adhunik Steels, we do not just expect to commission an integrated special steel project in the quickest implementation time; we also expect to do so at one of the lowest financing costs within our industry.

- There is an accurate project cost estimation through a clear understanding of project needs, location and equipment customisation according to the local terrain
- The Company enjoys a low gearing through a judicious mix of external funds and internal accruals; Phase I was set up with a debt-equity ratio of only 1.25; for the second phase the gearing is projected at 1.79; however, with the repayment of the existing term loan and Company generating profits,

... Tomorrow, internal generation

the overall gearing of the Company is expected to remain at 1.25

- The modular commissioning of different units is timed to match loan repayment tenures, enabling earlier units to contribute to the liquidation of external liability and strengthening the Company's financial position
- The project is expected to emerge with among one of the lowest capital costs per ton of installed capacity

Result

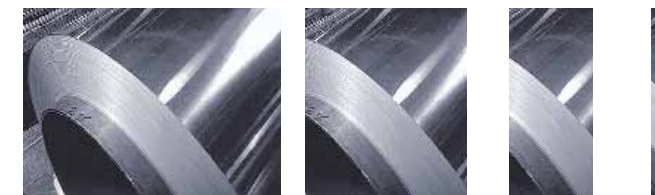
- Debt-equity ratio for the Company will remain at about 1.25 by the implementation of Phase II
- The strategy of value-added manufacture will strengthen interest cover over the coming years



Statement from the Managing Director's table

We are changing the DNA of our business... graduating from a steel manufacturer to emerging as the first link in automobile assembly

Mr. Manoj Agarwal highlights the rationale for significant business investments and indicates the road ahead



Dear Shareholders,

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I take pride and pleasure in reporting our financial performance to an external community of shareholders for the first time in our history; I am doubly proud to take the opportunity to present an attractive increase in our profits and profitability.

Consider what we achieved in 2005-06:

- 226% increase in our revenue
- 477 basis point increase in our EBITDA margin
- 375% increase in our profit after tax

Let me assure you that this is just the beginning of an exciting story yet to unfold for a simple but important reason. We are altering the DNA of our business:

- From a steel manufacturer to a value-added steel boutique

- From a steel supplier to a preferred business partner for auto component manufacturers
- From a business partner for auto component manufacturers to a captive auto assembly line

At Adhunik, we recognise that the foundation of onward sustainability is often derived from an ability to commission a project at a low-cost and within the shortest possible time.

In view of this, the Company formulated a significant strategy to invest Rs 437 cr in a phased manner with the objective to plough emerging accruals back into the subsequent modules of our project and de-risk the Company from unforeseen factors that could possibly delay overall project implementation.

I have fair developments to report in this regard: While the first phase of the Company's project comprising an investment of Rs 250 cr commenced operations in November 2005, the second phase is expected to go fully on stream in 2007-08 (except mining operations at the coal blocks). I have no doubt that the successful implementation of our phased commissioning will help us reduce the incidence of external debt, enhancing our intrinsic profitability and strengthening our objective to emerge as the largest capacity and lowest cost fully integrated special steel manufacturer in India.

At Adhunik, we are optimistic about our prospects for the following reasons:

Challenges and counter-initiatives

Raw material cost: Key inputs, namely iron ore and coal, are getting increasingly scarce. With increasing steel capacities being commissioned (in China and India primarily), the easy availability of these precious resources is declining, translating into inflation for users and squeezing margins, despite end product (steel) realisations remaining robust.

Our initiative: We expect to integrate backwards through the captive ownership of coal and iron ore mines (already allotted). Besides, we are setting up power generating capacities to be fuelled by process waste. As a result, our total input cost is expected to be lower than the comparable

industry average.

Competition: A number of steel companies are scaling the value chain through the manufacture of special steels, which could skew the demand-supply balance and reduce profitability.

Our initiative: We are confident of commissioning our projects by 2007-08, ahead of competitors who are still awaiting approvals and sanctions, resulting in a clear time advantage of about five years.

Opportunities

At Adhunik, we are highly optimistic of our prospects as the special steels industry is at the cusp of exponential growth fuelled by burgeoning demand from the automobile industry.

Domestic: Over the last five years, India's passenger car segment grew at a CAGR of 19%, while the commercial vehicle demand grew 12% over the same period. Our optimism of expecting to sustain growth at a higher rate is derived from the following factors:

- Increasing per capita income in the hands of the average Indian coupled with the aspiration for a better lifestyle
- Decline in the working age of most urban Indians, raising disposable incomes
- Availability of low cost financing options, customised to the individual's cash flow
- Increase in fuel prices, growing the demand for technology-efficient

Our business blueprint ensures that we utilise every input to the fullest, recover all byproducts (including heat and steam) for re-use and emerge as the lowest cost steel manufacturer.



vehicles and increasing the number of product variants

- Improved infrastructure, national highways and city road network, enhancing the preference for surface transport

As a result, the passenger car segment is expected to grow at 21% upto 2015, while the commercial vehicle segment is expected to witness a 17% growth over the same period.

Our strategy: At Adhunik, we have embarked on a number of initiatives to capitalise on the growing demand.

- We are increasing the number of value-added products in the alloy steel sector through an investment in a vacuum-degassing unit and an AOD facility (for the manufacture of stainless steel)
- We are in the process of a tie up

with leading Indian auto component manufacturers and OEMs - Telco, Delphi Systems, Caterpillar to name a few - for meeting their steel requirements

International: The international automobile market provides a growing opportunity for the Indian special steels manufacturers, primarily on account of an attractive wage arbitrage between the developed and developing economies. Despite the significant wage increase for the average Indian, there still exists a wage difference of more than 30% between Indian manufacturers and those in developed economies. As a result, the outsourcing of automotive components from India is now a global phenomenon and companies with attractive economies of scale and quality standards are expected to emerge as major beneficiaries.

Our strategy: To capitalise on this growing opportunity, we embarked on the following initiatives:

- **Reduce costs:** Our business blueprint ensures that we utilise every input to the fullest, recover all byproducts (including heat and steam) for re-use and emerge as the lowest cost steel manufacturer
- **Increase scale:** We doubled our operational scale to enhance a sense of dependability among our valued international clients
- **Technology:** We adopted cutting-edge technology from internationally reputed suppliers

A new business space...

At Adhunik, we embarked on the decision to enter the power industry on account of the growing synergy between our existing business and the

power industry as well as the growing attractiveness. In view of this, we acquired Unistar Galvanising and Fabricators (P) Ltd. (UGFL), engaged in the manufacture and commissioning of transmission towers.

The rationale for investing in this company is derived from the following:

- The principal optimism is derived from the Electricity Act, which allows private-sector participation in transmission and distribution and offers the foundation of a tripartite agreement between SEBs, Central Government and RBI for the settlement of SEB dues, which will drive the industry's growth
- The government's programme revolves around 'Power for all by 2012'
- The sector is poised for capacity expansion of 67,000 MW as visualised

in the 11th Plan and 100,000 MW in power generation capacity over the next seven years

- The sector will attract investments of INR 4.8 trillion by FY-12, with INR 2.5 trillion earmarked for transmission
- UGFL enjoys product approvals from major power and telecommunication players like Power Grid Corporation of India, National Thermal Power Corporation (NTPC), Bharat Heavy Engineering Limited (BHEL), Bangladesh Power Development Board, Grid Corporation of India and various state electricity boards. Its customers comprised L&T, TATA Projects, TATA Power, Crompton Greaves and Areva T&D Systems, among others.

Road ahead

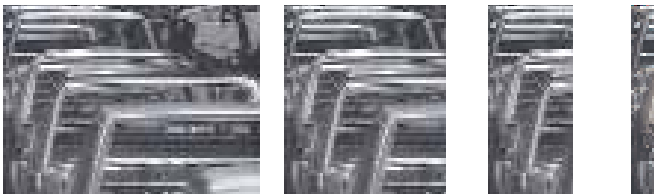
Going ahead, the Company is expected to expand its fabrication and

galvanisation capacity from 12000 tpa and 30000 tpa to 48000 tpa and 60000 tpa respectively by the last quarter of 2006-07. The Company plans to merge the existing facilities of fabrication and galvanisation at Neepaz Tubes Pvt. Ltd with that of the new outfit to leverage existing competencies.

Outlook

In view of these developments, I expect Adhunik Metaliks to grow exponentially over the medium term and emerge as a preferred supplier to auto component manufacturers in the domestic and international geographies.

Manoj Kumar Agarwal



Alloy steels industry

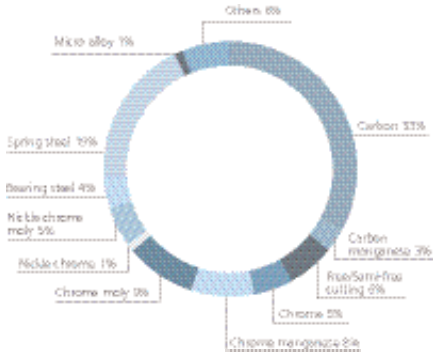
Overview

Alloys and special steels are characterised by their enhanced properties due to the presence of one or more alloying elements such as manganese, silicon, nickel, chromium, molybdenum, vanadium, micro alloy grain structure among others. There are more than 60 grades of stainless steel. However, the entire group can be divided into five classes. Each is identified by the alloying elements, which affect their microstructure, according to which they are named.

The vast majority of steels produced in the world consist of carbon and alloy varieties, with the more expensive stainless steels representing a small but valuable niche market. Over the recent past, the application of alloy steel has increased, especially in consumer durables and automobiles. The use of

alloy steels has enabled the industry to make light-weight and energy-efficient machinery. The use of alloy steels in two wheelers and four wheelers has enabled automobile manufacturers to produce lighter and fuel-efficient vehicles.

Sectoral break-up in 2004-05 (Indian perspective)



Source: Industrial Development Service Pvt Ltd.

Indian alloy and special steel industry

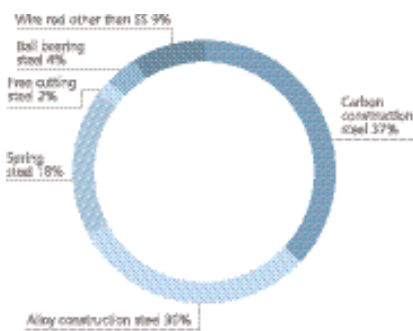
The total capacity of the alloy and special steel sector in India is estimated at around 2.8 million ton per annum. There are 19 recognised units engaged in the manufacture of alloy and special steels. Of these, VISP, SISCOL, Kalyani Steels and Usha Martin are based on the MBF route; in addition, Mukand gets 58% of its semis production at Hospet Steel, which is also based on the MBF technology. Sunflag is based on the sponge iron route, starting from iron ore itself.

India's other recognised alloy and special steels producers are based on the EAF technology.

Demand for auto grade special steel was an approximate two mn tons on account of the buoyant auto ancillary sector, which is expected to continue

into the medium term. While India's automotive sector grew 12% over the previous year, demand in the Indian auto components industry grew annually at about 25-30% and exports of auto components grew at a compounded 19% over the past six years.

Production 2004-05



Source: Industrial Development Service Pvt Ltd.

User-industry analysis

Auto grade alloy and special steel:

The automobiles industry is the largest consumer of alloy and special steels. Most of the requirements of alloy and special steels for the automotive sectors and tractors are routed through intermediate processors like steel forging units, bright bar industries, spring industries and auto ancillaries.

Forging sector: India's forging industry is the largest consumer of alloy and special steels. A large share of the output of forging units finds application in the automotive/auto ancillary sector, both for OEMs and replacement requirements. Other significant end-users include railway rolling stock, Defense, agriculture and industrial equipment. Almost all existing alloy and special steel plants in India manufacture forging quality steels

in the size range of 25-140 mm diameter for rounds and 45 to 140 mm RCS. The average consumption of alloy and special steel forgings for various categories of vehicles is as follows:

Vehicle	Avg. consumption per vehicle (kgs)
Medium and heavy commercial vehicles	650-800
Passenger cars	
– Large cars	80
– Medium cars	70
– Small cars	55
Multi utility vehicles	200
Two wheelers	
– Scooters	18
– Motorcycles	8
– Moped	5
Tractors	400

(Source: Industrial Development Services Pvt Ltd, New Delhi)