



THINGS YOU MUST KNOW ABOUT HOW WE ARE COUNTERING THE SLOWDOWN

Adhunik Metaliks Limited | Annual Report, 2008-09



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Forward-looking statement

In this annual report, we have disclosed forward-looking information to help investors to comprehend our prospects and take informed investment decisions. This report is based on certain forward-looking statements that we periodically make to anticipate results based on the management's plans and assumptions.

We have tried wherever possible to identify such statements by using words such as 'anticipates', 'estimates', 'expects', 'projects', 'intends', 'plans', 'believes', and words of similar substance in connection with any discussion of future performance.

We cannot guarantee that these forward-looking statements will be realised, although we believe we have been prudent in assumptions. The achievement of results is subject to risks, uncertainties and even inaccurate assumptions. Should known or unknown risks or uncertainties materialise, or should underlying assumptions prove inaccurate, actual results could vary materially from those anticipated, estimated or projected.

We undertake no obligation to publicly update any forward-looking statements, whether as a result of new information, future events or otherwise.

CONTENTS

02
Corporate identity

50
Financial review

60
Directors' Report

06
How we performed in 2008-09

55
Risk management

68
Report on Corporate Governance

08
The Managing Director answers

58
Corporate sustainability

80
Secretarial Compliance Certificate

30
Management discussion and analysis

59
Corporate social responsibility

83
Financial section



Mr. Ghanshyamdas Agarwal,
Chairman



Mr. Jugal Kishore Agarwal,
Director



Mr. Nirmal Kumar Agarwal,
Director



Mr. Mohanlal Agarwal,
Director



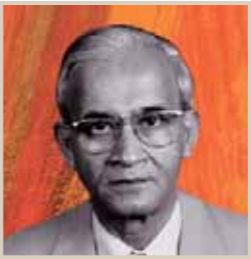
Mr. Mahesh Kumar Agarwal,
Director



Mr. Nihar Ranjan Hota,
Director



Dr. Ram Gopal Agarwala,
Director



Mr. Lalit Mohan Chatterjee,
Director



Mr. Nandanandan Mishra,
Director



Mr. Makhan Lal Majumdar,
Director



Mr. Surendra Mohan Lakhotia,
Director



Mr. Manoj Kumar Agarwal,
Managing Director

CORPORATE INFORMATION

Board of Directors

Mr. Ghanshyamdas Agarwal, Chairman
Mr. Jugal Kishore Agarwal, Director
Mr. Nirmal Kumar Agarwal, Director
Mr. Mohanlal Agarwal, Director
Mr. Mahesh Kumar Agarwal, Director
Mr. Supriya Gupta, Director
Mr. Nihar Ranjan Hota, Director
Mr. Lalit Mohan Chatterjee, Director
Mr. Manoj Kumar Agarwal, Managing Director

Company Secretary

Mr. Anand Sharma

Bankers

State Bank of India
Punjab National Bank
Indian Overseas Bank
Allahabad Bank
UCO Bank
State Bank of Mysore
IDBI
HDFC Bank
Standard Chartered Bank

Auditor

S. R. Batliboi & Co.
Chartered Accountant

Registered office

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Kolkata - 700001
Tel - 033-2242 8551 / 8553
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Corporate office

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Fax - +91 33 2289 0285

"Success is not measured by what you accomplish, but by the opposition you have encountered, and the courage with which you have maintained the struggle against overwhelming odds."

– Orison Swett Marden

We increased the proportion of engineering steel from 10% in 2007-08 to 40% in 2008-09; we enhanced average steel realisations from Rs. 25,341 per ton in 2007-08 to Rs. 29,782 in 2008-09.

Result: Enhanced value-addition

Increased capacity utilisation from 71% to 75%.

Result: Enhanced economies of scale

Initiated quality consistency measures.

Result: Delighted major automobile brands

Increased captive raw material cost coverage from 30% in 2007-08 to 60% in 2008-09.

Result: Lower raw material sensitivity

Increased merchant mining revenues from 2% of overall revenues in 2007-08 to 10% in 2008-09.

Result: growing proportion of profitable revenues

Developed a sustainable business model through the implementation of all the planned expansions of Phase II and Phase III (part) on schedule, placing ourself to repay debts comfortably

IN A SHORT SPAN OF FOUR YEARS, WE HAVE GROWN ADHUNIK METALIKS INTO A DISTINCTIVELY DIFFERENT STEEL COMPANY.

FROM A FOCUS ON METALS TO A COVERAGE OF METALS, MINERALS AND ENERGY.

FROM A FOCUS ON ONE AREA TO A COVERAGE OF THREE DIFFERENT BUSINESSES.

A STEEL COMPANY. A MINERAL RESOURCES COMPANY. AND HOLDING COMPANY FOR A POWER COMPANY.

WITH A SINGULAR OBJECTIVE.

TO REMAIN LIQUID IN THE WORST OF MARKETS AND BE ATTRACTIVELY PROFITABLE IN THE BEST OF MARKETS.



Origin

- Flagship company of the Adhunik Group of Industries
- Incorporated as Neepaz Metaliks Private Limited on November 20, 2001, under the Companies Act, 1956 and became a public limited company from March 25, 2004; renamed Adhunik Metaliks Limited on August 9, 2005
- Went public in March 2006 to finance a 0.45 million MT integrated steel plant

Presence

- Headquartered in Kolkata; plants and mines in Orissa and Jharkhand; marketing network across 11 Indian states; presence in five countries
- Promotes rural socio-economic development through NGO Nav Nirman Sanstha (registered under Societies Act)
- Shares listed on the National Stock Exchange and the Bombay Stock Exchange

Management

- A qualified and experienced team of executives, each with over 25 years of experience in operations, mining and project implementation.
- Headed by Mr. G.D. Agarwal (Chairman) and Mr. Manoj Kumar Agarwal (Managing Director)

Recognition

- Certified for ISO 9001:2000 and TS 16949
- Certified by the Bureau of Indian Standards and Research Designs and Standards Organisation (RDSO)
- More than 20 brand-enhancing institutional customers

Our mineral sources

Mineral	Company	Reserves (MT)	Place	Purpose
Manganese ore	OMM	50	Patmunda, Orissa	Merchant sale
Iron ore	OMM	90	Ghatkuri, Jharkhand	Merchant sale
Iron ore	AML	25	Keonjhar, Orissa	Captive
Coal mines	AML	42	Talcher, Orissa	Captive
Coal mines	APNRL	69	Ganeshpur, Jharkhand	Captive power

Our product basket

Billets/blooms/rounds for seamless pipe applications	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
Cathode collector bars	

Our brand-enhancing customers

Automobiles



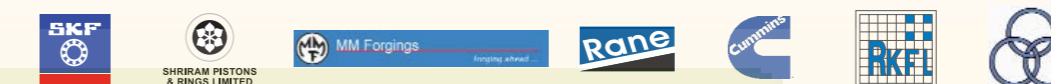
Construction



Telecom and Power



Forging and Engineering



Railways



Oil and Gas



MILESTONES

>> 2001-02

Incorporation

>> 2002-03

Project start-up of the integrated steel plant (0.25 million tons)

>> 2003-04

Signed MoU with the Government of Orissa

Commenced 2x100 TPD DRI kilns in May

>> 2004-05

Invested Rs. 250 cr.

Completed project on schedule

Applied for coal block/ iron ore mines

Installed coal washery (125 MT/H) in May

Installed 2x100 TPD DRI kilns in September

>> 2005-06

Installed 1x100 TPD DRI kiln

Commissioned MBF in June

Commenced steel production

through EAF-LRF-CCM route

Commenced operations at 40 TPD oxygen plant

Started supplies to auto ancillary and engineering industry

Embarked on forward and backward integration

Received iron ore and coal mines allotment

>> 2006-07

Public issue in April 2006

>> 2007-08

Commenced vacuum degassing

Commenced operations at ferro-alloy plant (9 MVA)

Commenced 17 MW CPP-phase 1

Commissioned rolling mill

Started the second caster (6/11m radius)

Commenced mining in merchant manganese ore mines of 100% subsidiary OMML

>> 2008-09

Started second oxygen plant (100 TPD),

Started commercial production of sinter plant in October

Commissioned bloom caster and AOD

Commissioned Fe-Alloy F/c (9 MVA)-2

Started trial production of Fe-Alloy F/c (9 MVA)-3

Started lime kiln (1x90TPD)

Commenced operations at the induction furnace (20 T) and trial run at another induction furnace (20 T)

Commissioned railway siding

Started 17 MW CPP-2

Commenced mining operations in merchant iron ore mine at Ghatkuri in 100% subsidiary OMML.

>> 2009-10

Commissioned coke oven in April

HOW WE PERFORMED IN 2008-09

Revenue (Rs. cr.)



EBIDTA (Rs. cr.)



PAT (Rs. cr.)



Cash profit (Rs. cr.)



Operations

- Produced 2,48,811 MT (2,21,786 MT in 2007-08) of billets
- Produced 73,789 MT (83,476 MT in 2007-08) of rolled products
- Commenced sinter plant to utilise waste fines.
- Commenced operations at the second 17 MW captive power plant to utilise waste heat and waste char from the coal washery
- Increased captive power consumption to 40% (15% in 2007-08)
- Installed non-metallic refractory lining in the storing vessel for enhanced purity
- Installed electro-magnetic stirring and automatic mould level controller for enhanced macro structure and surface finish for billets and blooms
- Commenced operations at the second 9 MVA ferro alloy furnace
- Commenced railway sliding, reducing transportation cost by 15%
- Installed captive coke oven plant
- Commenced mining operation in Ghatkuri merchant iron ore mine of 100% subsidiary OMML in January 2009

Marketing

- Achieved a product mix of 73: 27 (semis-rolled) (previous year 61: 39)
- Developed larger blooms and round blooms for use in heavy vehicles and seamless tubes (for the power and oil sector)
- Added stainless steel billets and stainless steel rolled products to the product mix
- Achieved Rs. 29,782 per MT average billet realisation (Rs. 25,341 per MT in 2007-08)
- Achieved Rs. 45,380 per MT rolled product realisation (Rs. 33,617 per MT in 2007-08)
- Achieved Rs. 3,230.72 per ton average realisation for manganese ore (merchant mining through OMML)
- Achieved Rs. 1,274.97 per ton average realisation for iron ore (merchant mining through OMML)

Financial

- Achieved a turnover of Rs. 1,281.54 cr
- Achieved a post-tax profit of Rs. 30.14 cr
- Achieved earnings per share of Rs. 3.30
- Achieved a book value of Rs. 35.08



THE MANAGING DIRECTOR ANSWERS

Manoj Agarwal, Managing Director, Adhunik Metaliks, answers questions that shareholders would like to ask



What is the big picture at Adhunik?

To be able to appraise where we are going, it would be pertinent to understand where we come from. Five years ago, Adhunik was a Rs. 200 cr revenues company; in 2008-09, we reported consolidated revenues of Rs. 1,391.22 cr.; in five years, we expect to report consolidated revenues of nearly Rs. 10,000 cr. This should graduate us to one of India's fastest growing companies across all sectors and geographies.

This sounds difficult. How will Adhunik achieve this?

Let me come back to what I indicated in the first paragraph. Adhunik grew its revenue seven-fold in the first five years of its existence. In business – as in other disciplines – it has been our experience that it is the first Rs. 1,000 cr that is usually the most difficult to achieve. Thereafter, the organisation rides its financial and intellectual capital to accelerate its momentum. From this perspective, our projected growth – however challenging it may seem today – is eminently achievable.

Shareholders would be keen to know how this target will become a reality.

Adhunik is transforming itself: from a purely manufacturing company into a hybridised organisation (manufacturing and holding company), from a company in one vertical to an organisation in three verticals, from a company present in three states to an organisation spread across 12 states. The cumulative impact of these initiatives will enable it to emerge as one of the largest mid-sized steel and resources companies in India while retaining its position as one of the most profitable.

You indicated a presence in three verticals. Does that mean that Adhunik's character as a steel company will evolve?

Absolutely. It is important for one to explain why this is necessary. There is a growing need for power, resources and engineered steel (as opposed to commodity). There is also a growing volatility in pricing. For companies to stay viable it is imperative to consolidate these businesses with the critical objective of captive use and merchant sale – while captive use makes it possible to reduce costs, merchant sale makes it possible for the business to enjoy attractive economies. Besides, the nature of incomes, when dovetailed, will provide diverse revenue types – large income but low margin, to mid income but high margin, to high revenue but assured margin. At Adhunik, we see this



We countered the impact of the slowdown by graduating from the mid-steel segments to the value-added engineered steel varieties.

mix as prudent and necessary to counter the challenges of a volatile external environment. It is with this in mind that Adhunik evolved from a purely steel company into a steel-cum-resources-cum-power organisation. In our opinion, this rapid business growth was not only advisable from a derisking perspective but also necessary to drive aggressive growth for the benefit of all our stakeholders.

How much of the synergic extensions are already a reality?

We went into business as a steel manufacturer in 2003 but within five years are already present in two – steel and mining – and we have already embarked on the project to commission power capacity. So technically, all three businesses are either firmly on the ground or with their financial closures in place. To that extent, our projects are credible and predictable. Shareholders need to draw comfort from the following realities:

Engineering steel: Of the proposed 6,00,000 mtpa capacity, 4,50,000 mtpa has already been commissioned; the rest will come into play by 2012.

Mining: We commissioned our iron ore and manganese ore assets in 2008-09; we need to scale from a projected annual cumulative output of 0.5 million tons in 2008-09 to 7 million tons by 2012. We expect to commission our three coal mines by 2011.

Power business: Of the 2,000 MW that we intend to commission by 2015, we have

already embarked on the commissioning of the first phase of 1,000 MW (projected date 2013). We acquired the land and financially closed 270 MW while the rest is in process.

How will Adhunik enhance shareholder value with this business mix?

In a number of ways. The recent slowdown has enhanced India's visibility in the global economy – for the manner in which the country managed the slowdown, the regulatory strength within, the robust infrastructure growth story and the advantage of a government that is no longer restrained by populist concerns. This reality may attract a fair amount of global capital to India, which could be used for nation building through effective collaboration and technology transfer.

At Adhunik, we see ourselves as the right company in the right country in the right sectors at the right time. The result is that we will not be a passive witness but an enthusiastic participant in India's growth story.

Each of our business segments is core to economic growth. There is an under-consumption in each of these sectors compared with peer countries; it is our understanding that this divergence will correct faster now than before (India's rapid rebound from the global economic slowdown is proof). In such an event, India will not merely need more engineered steel, more ore and simply more power (of which there is already a vast deficit), but will also

need it faster than at any time in our country's history. As a future-focused organisation, Adhunik invested proactively for this reality, which will enhance shareholder value.

There are some other features of our business model that shareholders must appreciate: we graduated from commodity steel to engineering steel, customising products for the specific applications of clients in the automobile, power, oil and gas, railway and construction sectors; much of the resources that we mine will be consumed in-house; a number of competencies we possess for diverse businesses will be captively used to enhance overall value; one business (mining for instance) will contribute an attractive year-on-year bottomline, the other (engineered steel) will contribute significant topline; the third (power) will represent a mix of both. This mix of businesses will provide us with adequate resources to reinvest at one level and also derisk us from a temporary or selective downturn in any one business. This combination – growth cum derisking – is ideal for commodity and cyclical businesses like ours. Consequently, the cumulative whole in this case will be larger than the sum of the constituents.

Shareholders would want to know how much of this vision was already reflected in the Company's performance in 2008-09?

A number of our bottomline-focused shareholders might have missed an

important point: in 2008-09 that was decidedly a challenging year for all steel companies, Adhunik reported a hefty EBIDTA of Rs. 165.10 cr and an EBIDTA margin of 14.02%. This is indisputable evidence of what we have always maintained – that we are building a progressively derisked business in a relatively cyclical industry. There are two reasons why this significant EBIDTA could not be translated into the bottomline: one, we incurred a temporarily high interest charge for the debts taken to grow our steel and mining businesses; two, we were affected by the sharp decline in inventory prices and forex losses, both of which were outside our direct control. The fact that we remained viable notwithstanding must be seen as a vindication of our business and derisking strategies.

How did Adhunik strengthen its business in 2008-09?

We came out of 2008-09 with the following achievements:

One, we commissioned six out of eight projects comprising our Phase III largely on schedule, highly creditable when you consider that the slowdown dried out all liquidity sources within the Indian and global economy.

Two, we countered the impact of the slowdown by graduating from the mid-steel segments to the value-added engineered steel varieties. So even as broad steel realisations declined during a challenging 2008-09, our average realisations

strengthened from Rs. 25,341 per ton in 2007-08 to Rs. 29,782 per ton in 2008-09.

Three, we achieved the financial closure for our 270 MW power project, which prepares the ground for our sustainable growth

Four, we invested in our people through selective recruitment and empowerment with the objective to enhance productivity. We engaged Ernst & Young to develop a comprehensive blueprint to catalyse our people excellence.

A number of shareholders are slightly concerned about Adhunik's gearing.

I can understand their concern. However, it would be important to recognise why the debt was taken and how we expect to rationalise it. The debt was taken largely to capitalise on fleeting opportunities that will translate into enduring value (the mines, for instance) as well as project implementation.

Why we are not unduly concerned is for the following reasons: we fully commissioned Phase II and a majority of Phase III in 2008-09, the benefits of which have already begun to accrue and should translate into a 20% topline growth in 2009-10; we graduated from ordinary steel grades to engineered steel (20% of our revenues in 2008-09), which should raise us well above the industry average; we commissioned our merchant mining assets during the last quarter of 2008-09, which will translate into attractive and largely unencumbered cash flow from 2009-10 onwards; we do not have a significant capital outlay planned for

the current financial year, which should help us conserve our resources for rightsizing the balance sheet (correcting our gearing to below 1 in two years), reinforcing our credit rating and enabling us to re-negotiate our borrowing rates with banks. More importantly, we will organisationally consolidate our interests over the next couple of years with the objective to enhance value. As a result, I must inform shareholders that Adhunik has entered a virtuous cycle that will translate into enhanced shareholder value.

After a depressed 2008-09, what can Adhunik expect in 2009-10?

A 20% topline growth, a significantly higher bottomline increase (arising out of enhanced asset utilisation, value-addition derived from a higher proportion of engineered steel and an increase in mining profits) and stronger gearing. In fact, I will go to the extent of stating that we will enhance our asset utilisation, translating into higher revenues and profits; wherever we need to invest in capacity, we will do so out of accruals and debt without compromising our understanding of what constitutes safe gearing. I am optimistic that as the investing audience begins to appreciate the robustness of our business model and corresponding profit increases, there will be an appreciable increase in the value of their holdings in our Company.

**"INDIA DEMONSTRATED GREATER
RESILIENCE THAN PERHAPS ANY
OTHER COUNTRY..."**

**...ADHUNIK IS NOW ATTRACTIVELY
POSITIONED TO CAPITALISE ON
ECONOMIC REBOUND."**





Due to the timely implementation of our various projects, we maintained our 2008-09 EBIDTA margins (excluding forex and inventory losses) at our 2007-08 level.

What was the impact of the economic slowdown on the steel industry?

The financial meltdown affected the offtake of major steel consuming segments like automobile, shipbuilding, consumer durables and construction in 2008-09, which, in turn, translated into lower steel demand. However, two things need to be kept in mind: Asian steel production declined less than in the developed countries and Indian steel production declined less than in Asia; world production of crude steel at the end of January 2009 was 85.8 million tons (24% lower than the level in January 2008); Asian steel production stood at 57.3 million tons (7.8% lower than the level in January 2008); India's steel production was 4.6 million tons (4.8% lower than the level in January 2008). This more than visibly demonstrates that the rebound in India was much quicker than in China and the rest of the world. In fact, the production of finished steel in India increased 0.8% in the January to April 2009 period over the corresponding period of the previous year, which was more than what one could say of most countries.

Post slowdown, what were the two industry highlights?

In the last quarter of 2008-09, even as there was a demand revival in almost every segment, the ones that witnessed the biggest rebound were construction steel, alloy steel and transmission tower steel. The size of some of these segments doubled in the few months following the slowdown. Besides, the decline in realisations was accompanied by a faster decline in raw material prices. Consequently, the working capital required to sustain the business declined significantly with correspondingly positive implications for our profitability. The result was that due to the timely implementation of our various projects, we maintained our 2008-09 EBIDTA margins (excluding forex and inventory losses) at our 2007-08 level.

How did the Company counter the slowdown?

The principal message that we would like to send out is this: Adhunik did not go into a strategic rigor mortis during the slowdown; we were quick enough to re-strategise under the circumstances through the following responses:

- Evolved our product mix through the development of seamless tubes to address the

requirements of the oil, power and gas sectors, reducing our dependence on the auto-component sector

- Initiated the manufacture of micro-alloy TMT bars to meet the specialised requirements of large institutional buyers like the PowerGrid Corporation of India and BHEL
- Initiated cost-cutting in raw material, logistics and energy management
- Enhanced our focus on opportunities emerging out of the Railways and Defence sectors
- Created a foundation to address opportunities emerging from the country's two-wheeler segment, which is expected to keep growing, fuelled by India's demographic shift towards young earners and spenders.

How will the Company benefit from these initiatives?

The Company will progressively diversify its focus from the automobile sector to others that started showing positive signs from the last quarter of 2008-09. The year 2009-10 will see the full impact of this shift as we expect to derive 60% of our revenues from the non-automobile sector, strengthening our overall profitability.

At a glance

- Even as there was a demand revival in almost every segment, the ones that witnessed the biggest rebound were construction steel, alloy steel and transmission tower steel
- We evolved product mix through the development of seamless tubes to address the requirements of the oil, power and gas sectors, reducing our dependence on the auto-component sector
- We initiated the manufacture of specialised micro-alloy TMT bars for large institutional buyers like the PowerGrid Corporation of India and BHEL
- We enhanced our focus on opportunities emerging out of the Railways and Defence sectors

Our strengths

Integration: Owns captive mines (manganese and iron ore), sinter plant, DRI plant, lime plant, coke oven and power generating plant. Around 60% production cost is captive to the Company (2008-09 cost estimate).

Capacity: Possesses 0.45 MT annual steel making capacity, a fair balance between economies of scale and value-addition

Quality: Possesses certifications like ISO 9001:2000, TS 16949, BIS and RDSO, enhancing customer confidence

Mining: Possesses merchant iron ore and manganese ore mines, a combination enjoyed by few global steel makers

Proximity: Sources over 90% of raw materials from within a 200 km radius

Customer loyalty: Enjoys repeat business from existing customers; the steel division derived 70% of income from longstanding customers