BUILDING VALUE

Adhunik Metaliks Limited I Annual Report, 2009-10

Forward-looking statement

In this annual report we have disclosed forward-looking information to enable investors to comprehend our prospects and take informed investment decisions. This report and other statements – written and oral – that we periodically make contain forward-looking statements that set out anticipated 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. Readers should bear this in mind.

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

Contents

At Adhunik Metaliks, our focus is not to be the biggest. But the best.

This vision has inspired us to create a distinctive business model.

A model that is integrated.

Focused on value-added products.

Marketed to demanding customers.

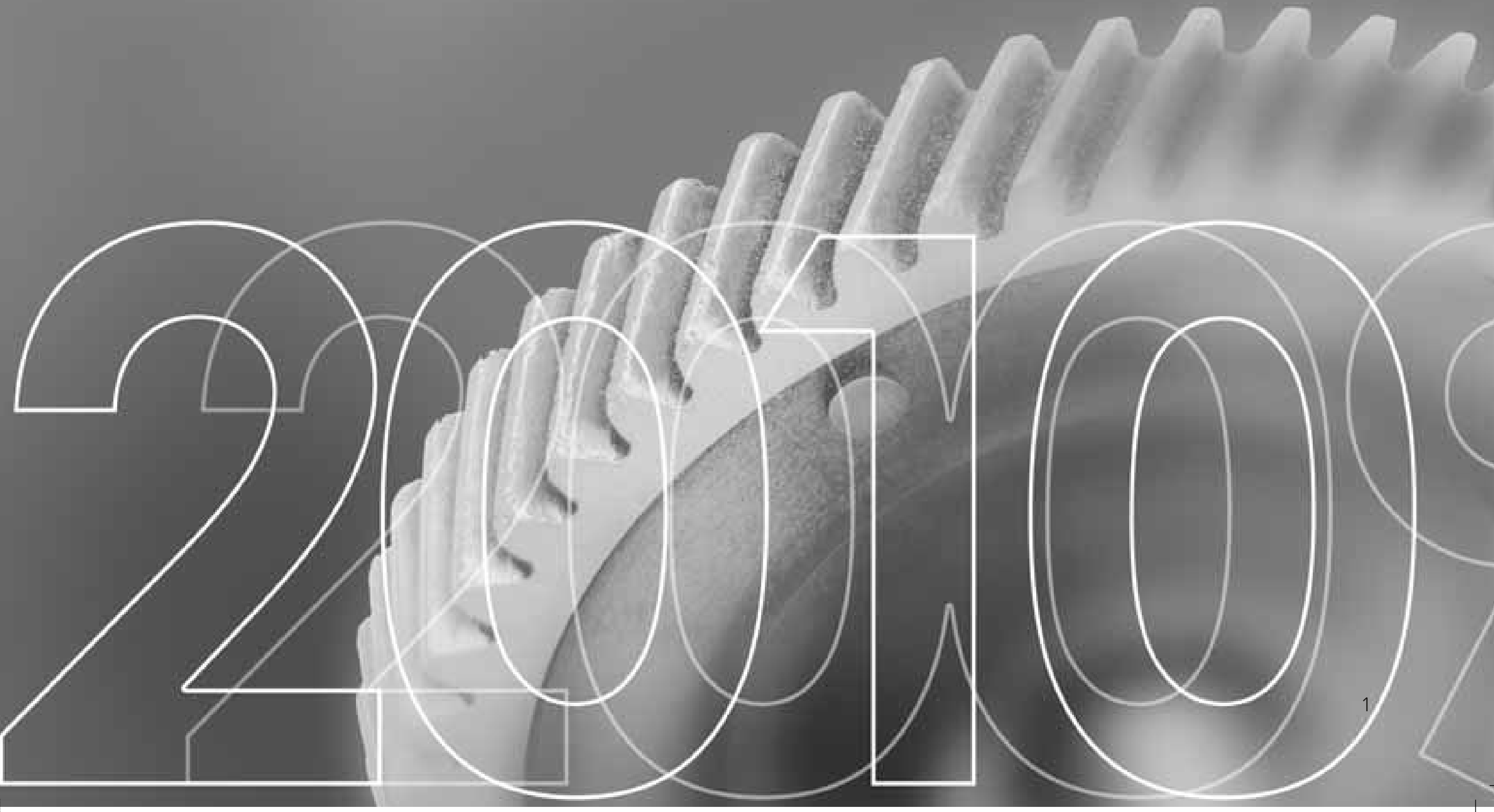
Protected by relatively low competition.

Engaged in downstream under-penetrated products.

Driven by the prospect of sustainable growth.

Generating superior margins over the industry average.

At Adhunik, we have aggregated these various components into a singular vision: **Building value.**



Building value is...

Commissioning assets on time.

Reducing dependence on external resources.

Investing in cutting-edge technologies.

Clarity on what we want to make, whom we want to sell to and what industry space we want to specialise in.

An extensive presence across the value-chain.

The flexibility to market various intermediate and end products.

Generating realisations considerably higher than the industry average.

Creating a distinctive respect among vendors, customers, employees and society.

Combining three businesses in one company.

Steel, mining and power.

These are three of the fastest growing sectors in India today.
The forward-looking Adhunik Metaliks Limited is present in each.

Legacy

- Part of the ₹ 3000 cr Adhunik Group of Industries
- Incorporated in 2001 as Neepaz Metaliks Private Limited; renamed as Adhunik Metaliks Limited in 2005
- Headed by Mr. G.D. Agarwal (Chairman) and Mr. Manoj Kumar Agarwal (Managing Director)
- Supported by a team with rich experience in operations, mining and project management

Presence

- Headquartered in Kolkata, India
- Manufacturing units and mines in Orissa and Jharkhand
- Marketing offices in 12 states across India
- Export presence in five countries

Accreditation

- Certified for ISO 9001:2000 and TS 16949 across all the manufacturing units
- Received certification from the Bureau of Indian Standards and Research Design and Standards Organisations (RDSO)
- Awarded first prize in the 10th Mines Environment & Mineral Conservation Week for the recovery of sub-grade manganese ore in our Patmunda manganese ore mines
- Awarded second prize in the 10th Mines Environment & Mineral Conservation Week for waste dump management in our Ghatkuri iron ore mines

Product portfolio

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	

Adhunik Metaliks Limited

- **Steel**: Alloy and special steels (0.45 MTPA) | Forging (NVFL, 73.8% subsidiary) | Transmission towers (Unistar, 82.78% subsidiary)
- **Merchant mining**: Iron ore, 97 MT (OMM, 100% subsidiary) | Manganese ore, 53 MT (OMM 100% subsidiary)
- **Power**: Merchant IPP, 540 MW (APNRL, 99.38% subsidiary)

Brand-enhancing clientele

Automobiles

Construction, telecom and power

Forging and engineering

Railways and oil & gas

Natural resource bank at Adhunik

Business segment	Mineral	Reserves (MMT)	Location	Status
Merchant mining (OMML)	Iron ore	97	Ghatkuri, Jharkhand	Operational
	Manganese ore	53	Patmunda, Orissa	Operational
Steel (captive) (AML)	Iron ore	25	Keonjhar, Orissa	Expected commencement by H2 FY2011
	Coal	31	Talcher, Orissa	Expected commencement in FY 2013
Power (captive) (APNRL)	Coal	69	Ganeshpur, Jharkhand	Expected commencement by Q4 FY2013

“We are building value through a robust and integrated business model with a presence in the steel, mining and power sectors.”

Mr. Manoj Kumar Agarwal, Managing Director, analyses the Company’s performance and focuses on the future.

Dear Shareholders

THE BIG PICTURE IS THAT INDIA REBOUNDED FROM THE STEEL SECTOR SLOWDOWN (ARISING OUT OF THE GENERAL MELTDOWN) FASTER THAN MOST COUNTRIES AND ADHUNIK METALIKS STRENGTHENED ITS BUSINESS WITHIN INDIA’S STEEL SECTOR.

The relatively small picture is that Adhunik Metaliks reported a 10.51% growth in consolidated revenues and 83.68% in consolidated EBIDTA 2009-10 over the previous year.

Clearly, the best is yet to be at the Company for two basic reasons:

- Our growth is higher-than the global-average growth in the Indian steel sector
- Various initiatives are been taken by Adhunik Metaliks to build value

Reviewing 2009-10

Adhunik Metaliks was created as a steel Company but thereafter responded entrepreneurially to emerging opportunities and diversified. The result is that today we are effectively three companies in one – steel, mining and power.

Steel: Adhunik is positioned as a mid-sized integrated steel player with all the corresponding advantages arising out of its prevailing size – focus, value-addition, quick implementation and the managerial bandwidth required to sustain the business. We are one of the most extensively integrated secondary steel companies in India today. We possess a single-location alloy steel capacity (0.45 MTPA) dedicated to the growing needs of the auto, power, oil and engineering segments. We are evolving our presence from mere commodity manufacture to value-added products (from 40% of our revenues to 70%). We received approvals from five Tier I and II automobile OEMs. The result is that our EBIDTA of 20.39% in 2009-10 was higher than the prevailing industry average.

Mining: We invested in mines for captive use and merchant sales. We commercialised mines belonging to Orissa Manganese & Minerals Limited over the last year, mining 1.15 mn tons of iron ore and 0.14 mn tons of manganese ore. We invested in a jigging plant and ore washery to utilise wastes. Our merchant mining contributed 16.47% of consolidated revenue.

Adhunik's value-addition pyramid

Auto grade steel
₹ 42,000 per ton

Structural steel
₹ 31,000 per ton

Billets
₹ 25,000 per ton

DRI
₹ 14,000 per ton

Iron ore / Manganese ore
₹ 2,500 per ton / ₹ 6,000 per ton

Pellets
₹ 4,500 per ton

Iron ore fines / Manganese ore fines
₹ 1,000 per ton / ₹ 2,000 per ton

We expect to commence operations from the Kulum iron ore mine from the second half of 2010-11; we expect to commercialise our captive coal mine at Talcher in two years. Going ahead, we are investing in a 1.2 MTPA pellet plant along with iron-ore beneficiation plant to utilise the fines and low-grade materials.

Following the establishing of these plants, we intend to beneficiate these fines and low grade materials and convert them into iron ore pellets for merchant sale. We believe that this initiative will extend our value chain. We have made substantial progress on the project by placing all the major orders for plant and machinery. The project is in full swing and expected to be commissioned by September, 2010.

Power: We invested in power-generation from the perspective of captive use and merchant sale. While captive units were created within the Company, we are implementing the large plants (dedicated to merchant sales) under a subsidiary. We possess 34 MW of captive power generation capacity (as on March 31, 2010) and expect to scale it to 80 MW by October 2012. On the other hand, we embarked on the first two phases of the cumulative 540 MW power plants dedicated to merchant sale (out of the planned 1,080 MW). We were allocated a coal mine (JV with TATA Steel), which will secure our resource needs; we secured back-to-back coal linkages for the entire 540 MW capacity from Central Coalfields. On the other hand, we entered into a purchase agreement for the first 100 MW with Tata Power Trading Company Limited and expect to commission the first unit of 270 MW by January 2012 and the second unit of 270 MW by April 2012. We intend to enhance our capacity following the firm procurement of captive resources.

Sustainable business growth

- Consolidation through backward and forward integration
- Phased expansion of the steel business
- Improving operational efficiencies
- Foray into power generation business
- Capitalise on mining resources

Derisking our business

We intend to secure ₹ 2,600 cr of cumulative investments in our steel, power and mining businesses through extensive derisking.

One, our extension into these spaces - value-added steel products, mining (captive and merchant) and power generation (captive and merchant) - will evolve us into a high-margin steel and resource organisation.

Two, by 2015, we expect to increase steel capacity to a million tons per annum with a dominant proportion of our capacity dedicated to the value-added segment. The combined use of the blast furnace and electric arc furnace through the virgin route (as opposed to the conventional use of scrap) will reduce our power consumption. Our growing focus on supplies to the automobiles, oil and gas, power, railways and construction sectors will enhance realisations.

Three, we possess a complement of directly-owned mines (iron ore and coal) and subsidiary-owned mines (iron ore and manganese ore) with a flexibility to use resources for our captive use and merchant sale. The result is that these mines will not just enable us to save cost but also generate high-margin revenues.

Four, we intend to market 50% of the power (through our subsidiary) that we generate through long-term contracts and the rest through spot sales. The margin-accretive power business is expected to generate significant tax-free cash flow, which we expect to re-invest in Chattisgarh, Orissa and Bihar (1,000 MW each) power projects (signed MoUs in 2009-10).

Five, we mobilised around ₹ 700 cr of debt in the last four years to fund our expansion and have started repaying it through internal accruals. We repaid ₹ 100 cr in 2009-10 and intend to repay ₹ 90 cr in 2010-11, which will strengthen our debt-equity ratio from 1.98 in 2009-10 to 1.70 in 2010-11.

Caring for people

As a responsible corporate, we will continue to invest in developing our people. We are working in the areas of educational development, women's empowerment, infrastructure development, income generation and sports promotion. We established an NGO called Nav Nirman Sanstha to carry out development initiatives for the economically underprivileged. We adopted six villages near our manufacturing units and mines. During 2009-10, we invested ₹ 2.5 cr in community initiatives.

Message to shareholders

At Adhunik Metaliks, the sum of these initiatives will be progressively reflected in one number: the gradual reduction in our resource purchases and a growing increase in resource use from captive means. This increase will evolve our personality into a relatively non-cyclical value-added steel products business that protects its bottomline in the most challenging markets and maximises returns during favourable times.

Regards,

Manoj Agarwal
Managing Director