RESOURCEFUL

Adhunik Metaliks Limited | Annual Report 2010-11

ADHUNIK METALIKS LIMITED
Lansdowne Towers
2/1A Sarat Bose Road, Kolkata-700020
www.adhunikgroup.com

Forward-looking statement

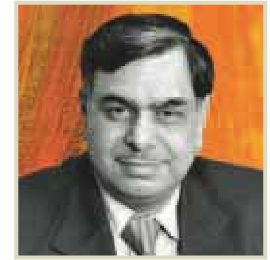
In this Annual Report we have disclosed forward-looking information to enable investors to comprehend our prospects and take informed investment decisions. This report and other statements - written and oral - that we periodically make contain forward-looking statements that set out anticipated results 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 our 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.

Content

Mr. Ghanshyamdas Agarwal,
Chairman



Mr. Jugal Kishore Agarwal,
Director

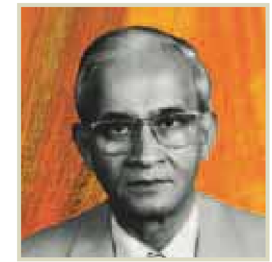
Mr. Nirmal Kumar Agarwal,
Director

Mr. Mohan Lal Agarwal,
Director

Mr. Mahesh Kumar Agarwal,
Director

Mr. Nihar Ranjan Hota,
Director

Dr. Ramgopal Agarwala,
Director



Mr. Lalit Mohan Chatterjee,
Director

Mr. Nandanandan Mishra,
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. Mohan Lal Agarwal, *Director*
Mr. Mahesh Kumar Agarwal, *Director*
Mr. Nihar Ranjan Hota, *Director*
Dr. Ramgopal Agarwala, *Director*
Mr. Lalit Mohan Chatterjee, *Director*
Mr. Nandanandan Mishra, *Director*
Mr. Surendra Mohan Lakhotia, *Director*
Mr. Manoj Kumar Agarwal, *Managing Director*

Company Secretary

Mr. Anand Sharma

Bankers

State Bank of India
Allahabad Bank
Canara Bank
HDFC Bank
ICICI Bank
IDBI Bank
Indian Overseas Bank
Punjab National Bank
Bank of Maharashtra
Corporation Bank
Syndicate Bank
State Bank of Mysore
UCO Bank
Union Bank of India

Auditor

S. R. Batliboi & Co.
Chartered Accountant

Registered office

14, N. S. Road , Kolkata - 700001
Tel - 033-2242 8551 / 8553
Fax - 033 2242 8551

Corporate office

Lansdowne Towers,
2/1A Sarat Bose Road, Kolkata-700020
Tel - +91 33 3051 7100 (30 lines)
Fax - +91 33 2289 0285

Resourcefulness is an ability to change.

Proactively. Continuously. Profitably.

We began as a standalone steel company; we transformed into a special steel organisation; we are getting larger.

We started as a company that procured its ore requirement from the open market; we are integrated backwards into captive providers of ores (iron and manganese) as well as merchant sellers; our merchant mines have been operational since 2008; our captive iron ore mine will commence operations in 2011 and captive coal mine is expected to start by the end of 2013.

We started as a company that drew electricity from the state power grid; we created 34 MW of captive energy generation capacity; we will commission our 540 MW facility in early 2012-13.

We were a ₹461.30 cr company in 2005-06; we are a ₹1921.32 cr revenues organisation today (2010-11).

Adhunik Metaliks Limited...a fully integrated steel manufacturing company with a presence in mining (second largest manganese ore producer in India) and power generation

Lineage

- Incorporated in 2001
- Promoted by Mr. Mahadeo Prasad Agarwal and headed by Mr. Ghanshyam Das Agarwal (Chairman) and Mr. Manoj Kr Agarwal (Managing Director)
- Backed by a strong team of management professionals with rich industry experience

Line of business

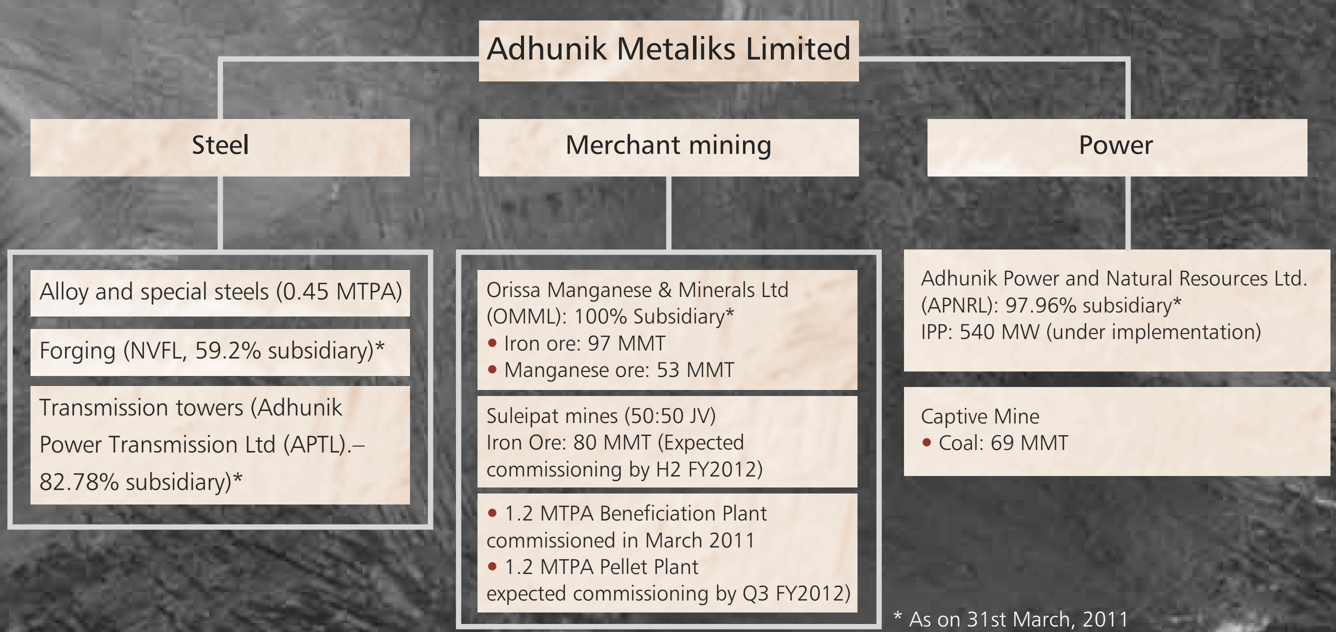
- Adhunik Metaliks Limited is engaged in the manufacture of alloy and carbon steel products, catering to the auto, power, engineering, oil and gas sectors
- Engaged in iron and manganese ore mining through a 100% subsidiary – Orissa Manganese and Minerals Limited for merchant sale. OMM plans to set up a 1.2 million ton pellet plant for value-addition of mineral ores.
- Forayed into the power generation industry through Adhunik Power and Natural Resources Limited

Accreditation

- Certified ISO 9001:2000 and TS 16949 across all manufacturing units
- Awarded first prize in the 10th Mines Environment & Mineral Conservation Week for recovery of sub-grade manganese ore in our Patmunda manganese ore mines
- Awarded second prize in the10th Mines Environment & Mineral Conservation Week for waste dump management in our Ghatkuri iron ore mines

Clientele

The Company's pride-enhancing clientele for alloy steel includes TATA Motors, Mahindra & Mahindra, John Deere, BEML, Ashok Leyland, Amtek, PowerGrid Corporation, BSNL, NTPC, SKF, Sriram Pistons, MM Forgings, Rane, Cummins, Ramkrishna Forgings, Indian Railways, Maharashtra Seamless and Jindal Saw Pipes, among others.



* As on 31st March, 2011

What we achieved in 2010-11

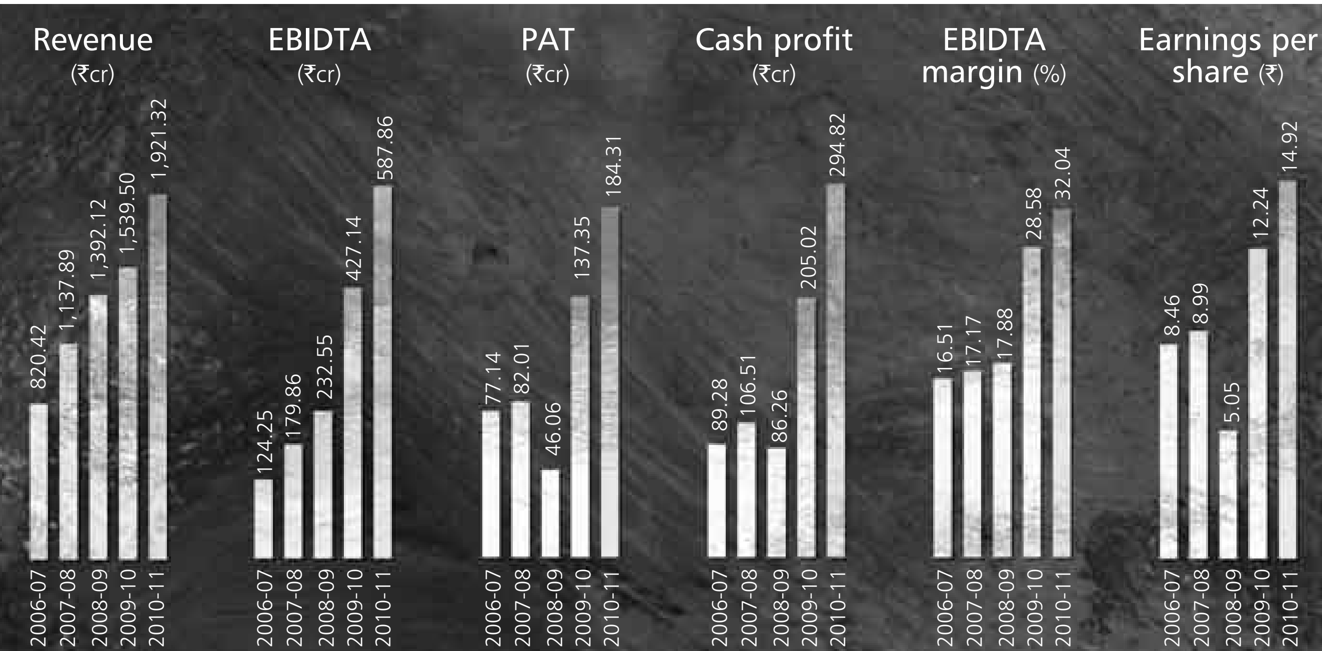
Operational performance

Steel	Mining
• Production increased from 3,32,254 tonnes in 2009-10 to 3,35,036 tonnes • Average realisation of billets increased from ₹26,601 per tonne in 2009-10 to ₹30,032 per tonne • Average realisation of rolled products increased from ₹39,419.05 per tonne in 2009-10 to ₹46,905 per tonne • Received product approval from Honda Motors, Mahindra & Mahindra and Bajaj Auto	• Enhanced medium/high-grade manganese ore mine (OMML) sales volume from 1,45,279 mn tonnes in 2009-10 to 1,93,015 mn tonnes • Increased merchant iron ore mine (OMML) realisations from ₹1,588 per tonne in 2009-10 to ₹2,703 per tonne • Increased merchant manganese ore mine (OMML) realisations from ₹5,210 per tonne in 2009-10 to ₹9,010 per tonne

Financial highlights

- Consolidated revenue increased 24.8 % from ₹1,539.50 crore in 2009-10 to ₹1,921.32 crore
- Consolidated EBIDTA enhanced 37.6 % from ₹427.14 crore in 2009-10 to ₹587.86 crore
- Consolidated post-tax profit grew 34.2 % from ₹137.35 crore in 2009-10 to ₹184.31 crore
- Consolidated EBIDTA margin stood at 32.04% against 28.58% in 2009-10
- Cash profit stood at ₹294.82 crore against ₹205.02 crore in 2009-10

Our performance snapshot*



*Consolidated figures

Review by the Managing Director

The transformation of any steel company into a resource-cum-utilities-cum alloy steel organisation is painstaking. At Adhunik, the transformation will be completed quicker than usual and be fully operational by 2012-13. Once commissioned, the business model will generate sizeable unencumbered cash, which will help rightsize the balance sheet and enhance significant value in a sustainable way.

Dear Shareholders,

A number of people still make the mistake of dismissing Adhunik as a steel company when we are clearly a resource-cum-utilities cum-special-steel organisation. This complement not only makes us unique from a mid-sized organisational perspective in India, but a number of initiatives undertaken over the years helped us emerge as a 'different' company.

This 'difference' was partly reflected in our financials of 2010-11. We reported a sizeable EBIDTA of ₹587.86 cr even as some of our facilities were yet to be commissioned, and the full import of our investments will only reflect this year and more visibly from 2012-13.

The difference

We are a different kind of company in the Indian power, metals and minerals sector for the following reasons:

- We represent a combination of the robust growth emerging out of three sectors in India – power, mining and special steel. There are a number of Indian companies with an integration across two of these businesses. There is perhaps none with as strong an exposure across all three sectors, and definitely none in the country's mid-cap space. These business complements are not mere add-ons; if spun off into separate companies, each can potentially hold its own in terms of scale and related economies
- We possess a core process competence in our business space that translates into high operational efficiency. For instance, yields in our steel melting shop and rolling mill are attractively high with a declining proportion of rework
- We demonstrated a high proportion of by-product utilisation with the objective of reducing conversion costs. We utilised our blast furnace and coke oven gases as fuel in our heating furnace; the gasification of coal helped us reduce oil and diesel consumption
- We made a better utilisation of waste through the sale of fly ash to cement makers, the pioneering beneficiation of char for onward use in our rotary kiln and boilers
- We rapidly transformed the major part (two-thirds) of our end product mix towards alloy steel
- We pioneered the technology of recovery of sub grade manganese ore through a jigging plant

The result is that we are low cost at one end and high value-added at the other, combining two diverse competencies into our organisational culture, now increasingly marked by prudent delegation, responsible experimentation and precise enumeration.

Reviewing 2010-11

During 2010-11, we reported a 24.8% increase in consolidated revenue, 37.6% increase in consolidated EBIDTA, 346 basis point increase in consolidated EBIDTA margin and 34.2 % increase in consolidated net income. We are convinced that this performance represents the start of a J curve for the following reasons:

Alloy steel business: The Company is present in the niche alloy steel segment, catering to the growing needs of downstream sectors like automobile, power, engineering and oil and gas. The Company has one of the largest single location alloy steel manufacturing units with 50% of the product portfolio comprising value-added products. Our products were approved by all major automobile OEMs (tier I and II) within just five years. This strengthened our average realisations for rolled steel production from ₹ 39,419 per tonne in 2009-10 to ₹46,905 per tonne in 2010-11

Mining business: Our mining business (merchant mining through Orissa Manganese and Minerals Limited) grew 73% in 2010-11 over 2009-10. During the year under review, realisations for iron ore and manganese ore increased 70.2% and 83.9% respectively. This resulted in an increase in the share of revenue from mining increasing to 23% of consolidated revenues in 2010-11 against 16% in 2009-10. We expect to commence our Suleipat mine (50:50 JV) by the second half of FY 2011-12. The iron ore beneficiation plant commenced operations in March 2011 (benefits to accrue in 2011-12) and we plan to commence our pellet plant from the second half of 2011-12. The beneficiation and pelletisation plants will help us transform low-grade materials and fines into pellets. Our captive iron ore mine will be operational by the second half of 2011-12 and we plan to commission captive coal mining by end 2013.

Power: We enhanced our resource base through investments in captive and merchant power generation. Our captive power plant of 34 MW is running to full capacity. Besides, the construction of the first two phases of our merchant power plant in Jharkhand (through APNRL) is proceeding as per schedule. We were allocated a captive coal mine (reserve of 69 MMT) with Tata Steel for our merchant power plant and expect to commence mining from 2013.

Growing competencies

At Adhunik, we expect to drive our profitability for the following reasons:

One, we invested significantly in ERP to integrate our entire manufacturing process - from the weigh bridge to production planning to debtors management. We introduced shared services through a centralised department to monitor the entire group activity rather than the same department being replicated across our businesses. This helped streamline our processes, enhance manpower management and increase process efficiency. We partnered with leading global IT giants like SAP, Microsoft, GE and Accenture in different areas to automate our business process.

Two, our power investment is expected to drive consolidated revenues from 2012-13 onwards as Phase I & Phase II will have been entirely commissioned by then. We intend to expand the Jharkhand project by another 540 MW at the same location. We also signed MoUs with the Chhattisgarh, Bihar and Orissa governments to commission 1,000 MW power plants in each state, which will expand our merchant power portfolio.

Three, our subsidiary which owns merchant mines is growing at more than 50% annually. Besides, the flexibility of using these resources helps us control costs and ensure raw material availability.

Four, we expect to swap high-cost loans with low-cost alternatives and repay debt through accruals.

Five, we plan to encash a part of the value of our mining assets when fully commissioned.

Spreading smiles

Adhunik is a responsible corporate citizen. The Company adopted six villages near Rourkela through timely investments in village infrastructure, healthcare, education, infrastructure, women empowerment and economic development (through Nav Nirman Sanstha).

Overview

The transformation of any steel company into a resource-cum-utilities-cum-alloy steel organisation is painstaking. At Adhunik, the transformation is being completed quicker and should be fully operational in 2012-13.

Once commissioned, our business model will generate a fair amount of unencumbered cash that will rightsize the balance sheet and enhance significant value in a sustainable way.

Regards,

Mr. Manoj Agarwal
Managing Director

Natural resource bank at Adhunik

Business segment	Mineral	Resources (MMT)	Location	Status
Merchant mining (OMML)	Iron ore	97	Ghatkuri, Jharkhand	Operational
	Manganese ore	53	Patmunda, Orissa	Operational
Merchant mining (JV company)	Iron Ore	80	Mayurbhanj, Orissa	Expected commencement in H2 FY 2012
Steel (captive) (AML)	Iron ore	25	Keonjhar, Orissa	Expected commencement in H2 FY 2012
	Coal	31	Talcher, Orissa	Expected commencement in FY 2014
Power (captive) (APNRL)	Coal	69	Ganeshpur, Jharkhand	Expected commencement in Q4 FY2013

Our competitive advantage

Integration

The Company created an integrated business model covering captive mines (iron ore and coal), DRI plant, blast furnace, sinter plant, coke oven plant, captive power generation and steel manufacture.

Project management

The Company has a dedicated project management team for timely project execution. The Company's three-phased expansion projects were completed in four years against 5-7 years taken by industry peers. The manganese and iron ore mines started operations in one year and two years respectively against the industry benchmark of 5-7 years.

Mining

The Company invested in captive iron ore and coal mines as well as merchant iron and manganese mines (through subsidiary). This reduces costs on the one hand and increases revenues on the other.

Power

The Company has a 34MW captive power plant. The Company plans to extend into power-generation (through subsidiary APNRL) with a three-phased 1,080-MW power project, of which the first two phases with a combined capacity of 540 MW will be commissioned in 2012-13.

Quality

The Company invested in state-of-the-art equipment (vacuum de-gasser, electromagnetic stirrer, LECO hydrogen, nitrogen and oxygen analyser and metallographic polishing machines, among others) enhancing product quality. The Company possesses certifications (ISO 9001:2000, TS 16949, BIS and RDSO) and customer approvals for its processes, practices and products.

Pride-enhancing clientele

The Company possesses a strong alloy steel clientele comprising Tata Motors, Mahindra & Mahindra, Amtek Auto, Ashok Leyland, BEML, L&T and Indian Railways, among others. Nearly 70% of Adhunik's revenues were derived from customers over five years old, which is rare in a company only seven years old.

Strategic location

The Company's manufacturing location in Orissa enables it to procure 75% of its raw materials from within a 200-km radius.

Value-added products

The Company is climbing the value-chain through the manufacture of alloy-steel products for the automobile, oil and gas and railways sectors. Around 50% of the Company's product portfolio in 2010-11 comprised value-added products generating realisations in excess of ₹46,000 a ton.

Strong financials

The Company reported an EBIDTA of ₹587.86 crore as on 31st March 2011 with a healthy EBIDTA margin of around 32%. Our debt (excluding debt for ongoing project i.e. merchant power plant and pellet plant) to EBIDTA ratio is also better than the industry average at 3.06.

Resourceful

INTEGRATION

At a time when the world was obsessed with commissioning projects above the ground, Adhunik made its largest and most profitable investments below instead.

The big picture

The last decade changed the global steel industry forever. The age of standalone steel manufacture is over; integration is in.

There is a fundamental reason why pure steel companies recognise the need to transform into resources plus steel companies (more resource and less steel).

As the steel industry went into a positive industry cycle at the turn of the century, unprecedented investments were made in steel capacities and there was a greater demand for upstream resources to feed this significant increase.

With one difference. The increase in downstream capacity far exceeded upstream supply capability. The result: Finite resources like iron ore, coal and coking coal embarked on perhaps a multi-decade bull run, altering their pricing dynamics forever.

It became increasingly evident that if steel companies needed to survive, they would need to make greater investments not only in their end product capacity but in securing their access to resources.

The Adhunik response

This is precisely what Adhunik has been patiently doing the last few years. The Company started out as a steel company but rapidly transformed its positioning thereafter. The result is that of the total investments made by the Company (directly or through subsidiaries) in the last seven years, 60% was invested in resources (ores, coal and power) and only 40% in steel-making.

This outlay was based in response to emerging realities:

- Enduring sustainability would be derived through a more effective capture of the value-chain, comprising resources and utilities than an ability to pass on steel cost increases to customers
- The most profitable company would inevitably be one that survived market downturns and uptrends through its competitive cost structure, rather than a company focused singularly on value-addition
- The Company of the future would be one that insulated itself to the extent possible from resource volatility through extensive backward integration

Adhunik went one step better. Rather than merely invest in resources, it invested in resources, utilities and steel. In doing so, the Company emerged as one of India's most extensively integrated mid-sized resource-cum-special steel companies with a value chain that commences from resources (iron ore, coal) at one end to intermediate utilities (power) in the middle and special and alloy steel, TMT products at the other.

The result

This integration is in line with Adhunik's vision to increase the proportion of raw materials derived from captive sources in terms of value from 5% in 2008-09 to 20% in 2010-11 and a projected 40% in 2013-14.

In a world driven by market-integration, the irony is that the success of Adhunik's market-facing business model is likely to be derived from increased insulation.

Iron ore: captive, (25 MT)
Coke oven: captive, (120,000 TPA)
Coal washery: captive, (700,000 TPA)
Sinter plant: captive, (267,300 TPA)
Sponge iron plant: captive, (300,000 TPA)
Ferro alloys plant: captive, (46,880 TPA)
Captive power plants: captive, (34 MW)

Proportion of captive raw materials (in terms of value)

2008-09	2010-11	2012-13
5%	20%	35%

EXECUTION

The biggest challenge in the resource-cum-steel industries today is not viability; it is the ability to commission projects on schedule backed by various time-taking clearances (forest, environmental, among others), accelerating revenues and payback. This is where Adhunik enjoys a credible record.

The big picture

A decade ago, some of the largest projects were announced in the Indian steel industry covering proposals by Indian and foreign companies. The stark reality is that only a fraction of these companies managed to break ground; fewer succeeded in being able to commission their projects; and yet fewer have been able to do so with any semblance of timeliness.

The reasons are evident: The commissioning of resource-cum-utility-cum steel projects which consume large tracts of land that needed to be acquired, impacting on tribal livelihood and environment security. The result is that all related projects need to pass through various community and regulatory filters before being implemented.

Over the last five years, a combination of these realities staggered project implementation; there is a general feeling that achievement within the industry is no longer about timely commissioning; it is about whether these projects can be commissioned at all.

The Adhunik response

Adhunik is one of the few Indian resource or utilities or steel companies to commission its projects on schedule or embark on projects that are likely to be commissioned on schedule over the foreseeable future.

Over the years, the Company reinforced its project commissioning through the following competencies:

- A relatively asset-light strategy wherein phased commissioning ensures that cash flow from one project is used to fund another
- A timely non-debt cash infusion to kickstart project implementation

The result

Adhunik commissioned an integrated alloy steel plant comprising two SMS units in only four years against the industry benchmark of five to eight years; the Company started its beneficiation plant in 15 months compared with the industry benchmark of 24 months; the Company will be starting its 1.2 million tonne pellet plant in 18 months against an industry average of 30-36 months, the Company is in line to commission its 540 MW power project in 32 months against an industry average of 36-40 months; the Company achieved client approvals for its alloy steel products in five years, which normally takes about a decade.

MINING

Mining emerged as one of the most sensitive words in the Indian industry, marked by rigorous regulatory clearances. At Adhunik, we complied with these regulatory requirements and either commissioned our mining assets or will do so in 2011-12

The big picture

The last decade transformed the fortunes of mineral resources and in turn the mining industry. There is a greater recognition that with China and India's metal under-penetration beginning to correct itself, the scenario for commodities will remain bullish across the coming decades.

Iron ore was around ₹400 a tonne at the start of the century; it is around ₹4,000 a tonne today.

Manganese ore was around ₹2,500 a tonne at the start of the century; it is around ₹8,000 a tonne today.

Thermal coal was around ₹500 a tonne at the start of the century; it is around ₹2,000 a tonne today.

Coking coal was around ₹1,800 a tonne at the start of the century; it is around ₹14,000 a tonne today.

Given this scenario, the standalone steel industry is transforming into dual sectors – mining and steel – as viability in the second can no longer be assured without the integration of the first.

The Adhunik response

Adhunik proactively prepared for this reality – and more.

The Company did not just invest in iron ore mines; it also invested in manganese ore mines and coal blocks.

The Company did not just invest in mines to feed its captive appetite; it invested in these with the prospect of merchant sale as well.

The Company will not merely utilise this resource base for steel-making; it is engaged in leveraging its coal block to create a 540-MW power plant that will generate large, stable and sustainable profits.

- The Company was allocated (and received clearances) a captive iron ore mine (25 mn tonne reserves with 63% Fe content) and a coal mine (31 mn tonne reserve).
- The Company's subsidiary Orissa Manganese and Minerals Limited (OMML) owns an open cast iron ore and manganese ore mines with estimated resources of 97 mn tonnes and 53 mn tonnes respectively.
- The Company's subsidiary Adhunik Power and Natural Resources Limited (APNRL) was allocated a coal mine with an estimated share of 69 mn tonnes - F-grade coal with a 3,200 kcal/kg calorific value -- suitable for power generation for its power project of 540 MW.

The result

The proportion of the Company's EBIDTA derived from mining increased from 2.70% in 2007-08 to 58% in 2010-11.

Going ahead, the high-margin mining business will generate an attractive surplus that will provide the Group with adequate resources for reinvestment, strengthening the virtuous cycle.

Proportion of mining revenue in total consolidated revenue

2008-09	2010-11
6%	23%

Proportion of mining EBIDTA in total consolidated EBIDTA

2008-09	2010-11
30%	58%