

mine to metal

Report



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ADHUNIK METALIKS LIMITED  
Lansdowne Towers  
2/1A Sarat Bose Road, Kolkata 700 020  
[www.adhunikgroup.com](http://www.adhunikgroup.com)

# 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.

## Board of Directors



Mr. Jugal Kishore Agarwal



Mr. Ghanshyamdas Agarwal



Mr. Nirmal Kumar Agarwal



Mr. Mohanlal Agarwal



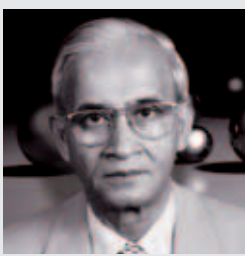
Mr. Mahesh Kumar Agarwal



Mr. Supriya Gupta



Mr. Nihar Ranjan Hota



Mr. Lalit Mohan Chatterjee



Mr. Manoj Kumar Agarwal

## 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*

### Chief Financial Officer

Mr. Alok Kumar Sharda

### Company Secretary

Mr. Sumit Modi

### Bankers

State Bank of India

Indian Overseas Bank

Punjab National Bank

State Bank of Mysore

Standard Chartered Bank

Indusind Bank

IDBI Bank

### Auditor

S. R. Batliboi & Co.  
Chartered Accountants

### Registered Office

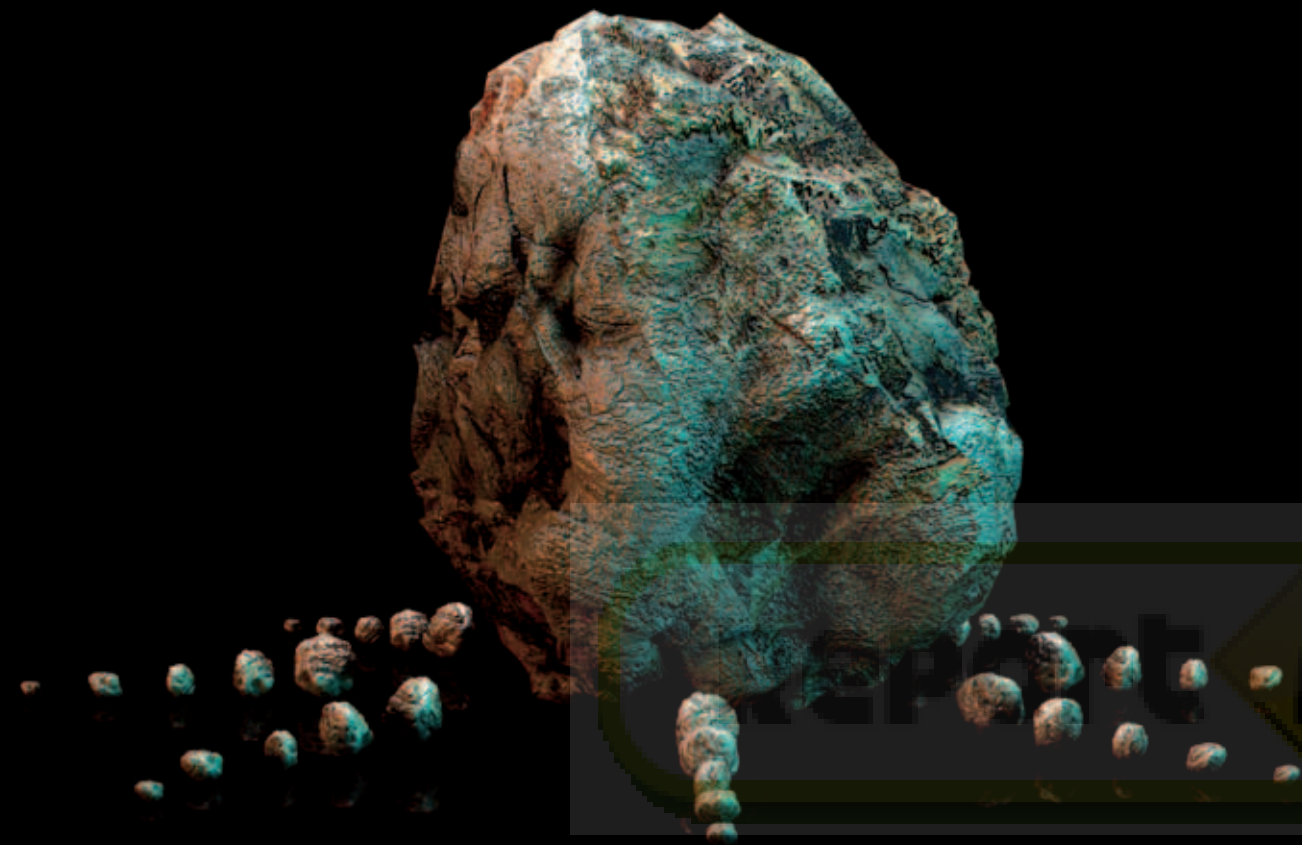
14, N.S. Road  
Kolkata - 700 001  
Phone No. 033-22428551, 8553  
Fax No. 033 22428551

### Corporate Office

Lansdowne Towers,  
5th & 6th Floor  
2/1A, Sarat Bose Road,  
Kolkata - 700 020  
Phone No. 033-30517100  
(30 Lines)  
Fax No. 033-2289-0285

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## At Adhunik Metaliks Limited, we believe...

that in the volume-driven business of steel manufacture, the highest margins will gravitate to those with the most extensive value chain.

As a future-focused organisation, we have embarked on the captive ownership of resources on the one hand and an investment in downstream capacities on the other.

With the objective to create a number of 'companies' within one Company.

With the intent to create an organisation that is as profitable as it is de-risked.

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Complex market place.  
Simple strategy.

AT ADHUNIK, OUR RESPONSE TO A COMPLEX MARKET PLACE IS CONCISED IN THREE SIMPLE WORDS – MINE TO METAL.

Our strategy entails that we will mine all the resources required for the manufacture of metal on the one hand and we will also mine such resources for onward commercial sale on the other.

This comprehensive strategy will benefit us at two levels.

It will enable us to integrate from ore to steel, capture the entire value chain and accelerate revenues. It will also enable us to enter multiple resource-centric intermediate businesses to accelerate our profits.



Operations commissioned <b>November 2005</b> of billets	Capacity <b>2,50,000</b> MTPA of billets	Number of employees <b>725</b> (31st March 2007)	Promoters' holding <b>64.02%</b> (31st March 2007)	Market capitalisation <b>Rs. 316 cr</b> (31st March 2007)
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## REPORT

Adhunik Metaliks Limited.  
The Rs. 15 billion flagship of the  
Adhunik Group. One of the leading  
players in the manufacture of alloy and  
special steel in eastern India.

### Management

- Operations managed by a team of professionally qualified and experienced team headed by Mr. G.D. Agarwal, Chairman, and Mr. Manoj Kumar Agarwal, Managing Director.
- The management team comprises technically qualified executives with more than 25-30 years of experience in the area of operations, mining and project implementation.

### Products

- Manufacture of auto-grade alloy steel, stainless steel and engineering steel.
- Development of captive mines leading to backward integration.
- Development of mines to create a pipeline of manganese and iron ore.

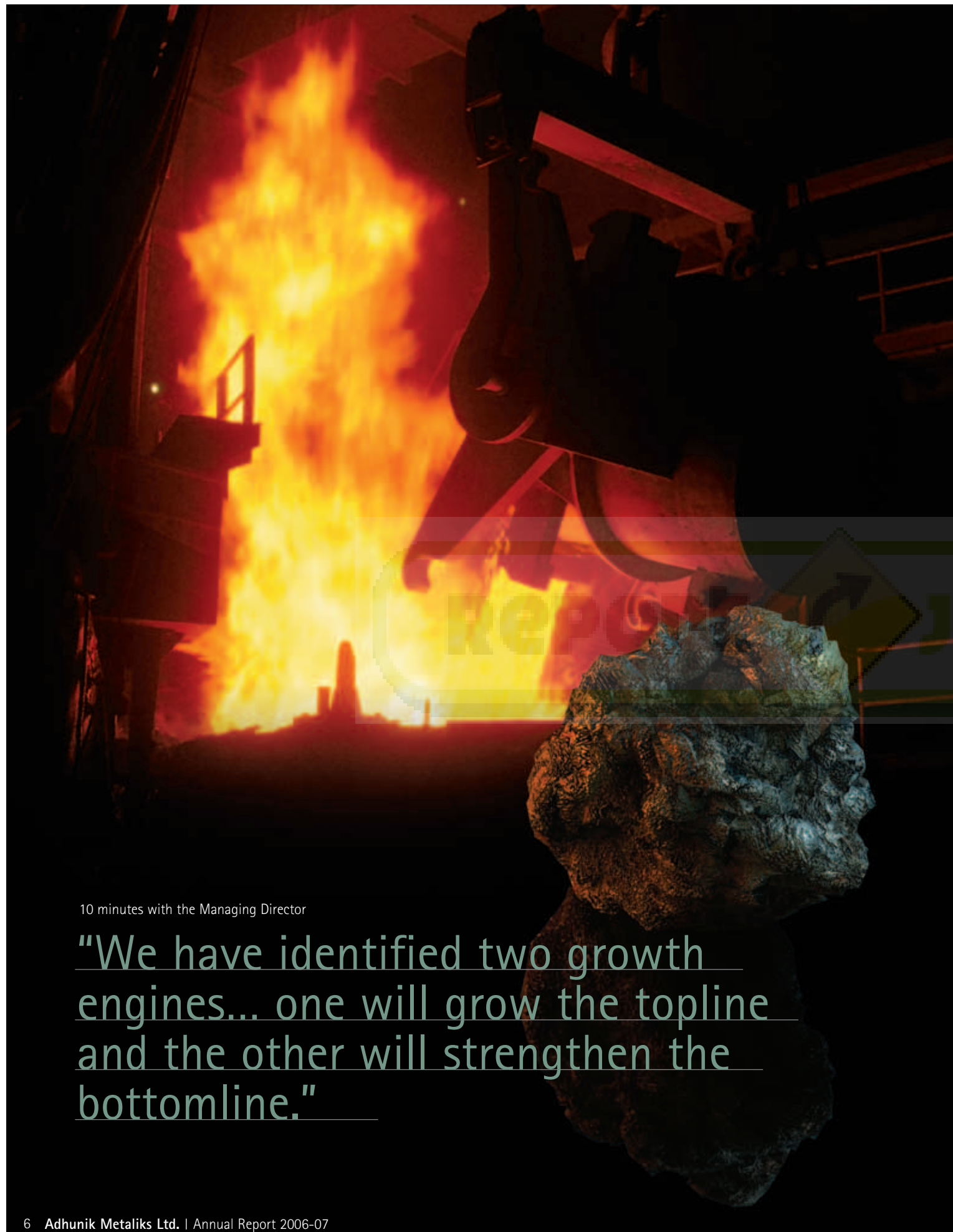
### Visibility

- Headquartered in Kolkata.
- Plant spread across a 350-acre plot in Sundergarh, Rourkela (Orissa).
- Marketing footprint across major states through a network of eight branch offices and 20 consignment agents.
- Formed an NGO, Nav Nirman Sanstha (NNS), to promote socio-economic development in rural areas.
- Shares listed on the Bombay and National stock exchanges.

### Credit

- An ISO 9001:2000-certified Company.
- Received the TS 16949 certification.
- More than 15 brand-enhancing customers across India.





10 minutes with the Managing Director

"We have identified two growth engines... one will grow the topline and the other will strengthen the bottomline."



Mr. Manoj Agarwal, Managing Director, outline the blueprint for an exciting future

*Dear friends*

IT IS A FAVOURABLE TIME TO COMMUNICATE WITH YOU AS WE HAVE THE BENEFIT OF A ROBUST YEAR BEHIND US AND THE PROSPECT OF AN ATTRACTIVE YEAR AHEAD.

I say this with deliberation; the fiscal 2006-07 will be remembered as a turning point in our short history when we not only reported attractive numbers – 75 per cent growth in revenue from Rs. 461.34 crore to Rs. 811.54 crore and 129 per cent rise in PAT from Rs. 33.71 crore to Rs. 77.47 crore – but embarked significantly on projects to enhance them.

Permit me to explain this business model in some detail. At Adhunik, we expect to drive our growth through two initiatives: an enhanced focus on value-added niche alloy steel and special steel products as well as a

growing mining presence, which we expect will grow our topline, margins, bottomline and shareholder value.

#### Our steel business

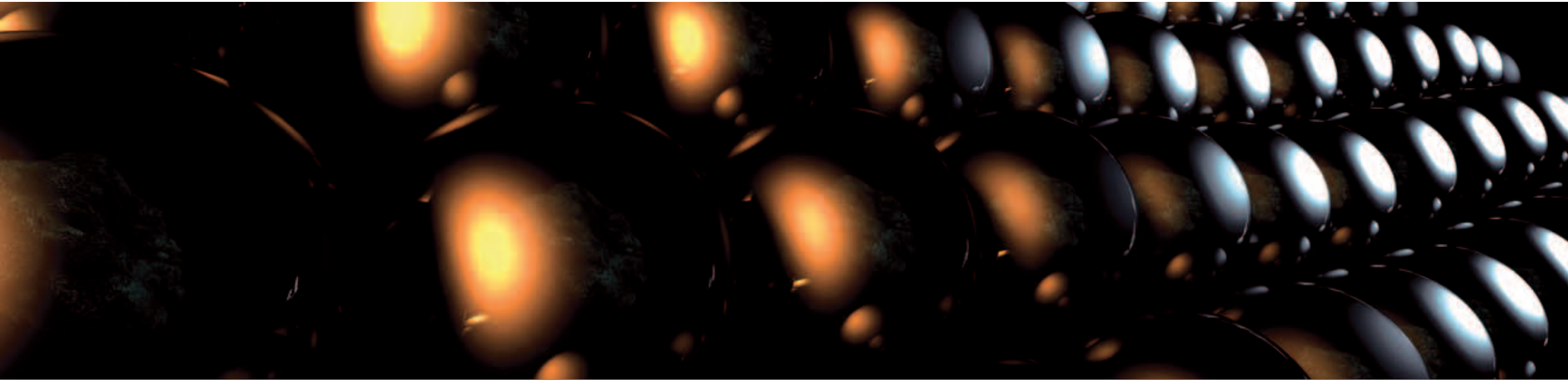
At Adhunik, we expect to leverage our medium size – in a business progressively marked by scale – through a focus on niche and value-added segments.

**High growth user segments:** In an India marked by sophisticated product preference there is a growing need for better steel quality. The nature of these products makes their demand niche, growing and value-added. A number of these products are alloy steel in character (carbon steel), needing to be customised specifically in line with customer applications. Since these products are literally made-to-order, they command higher than average realisations. At

Adhunik, we believe that mid-sized steel companies of our kind will be best equipped to customise niche products, equipped with research on the one hand and a service-driven mindset on the other. We also do believe that however large some steel companies may become, there will always be room for medium-sized value-driven companies with a flexible product mix and production schedule. It is with this precise perspective that we expect to specialise in the areas of carbon steel, forging-grade steel and bearing-grade steel, working closely with reputable downstream customers, catering to the growing needs of India's automobile, power and engineering segments.

#### The niche argument

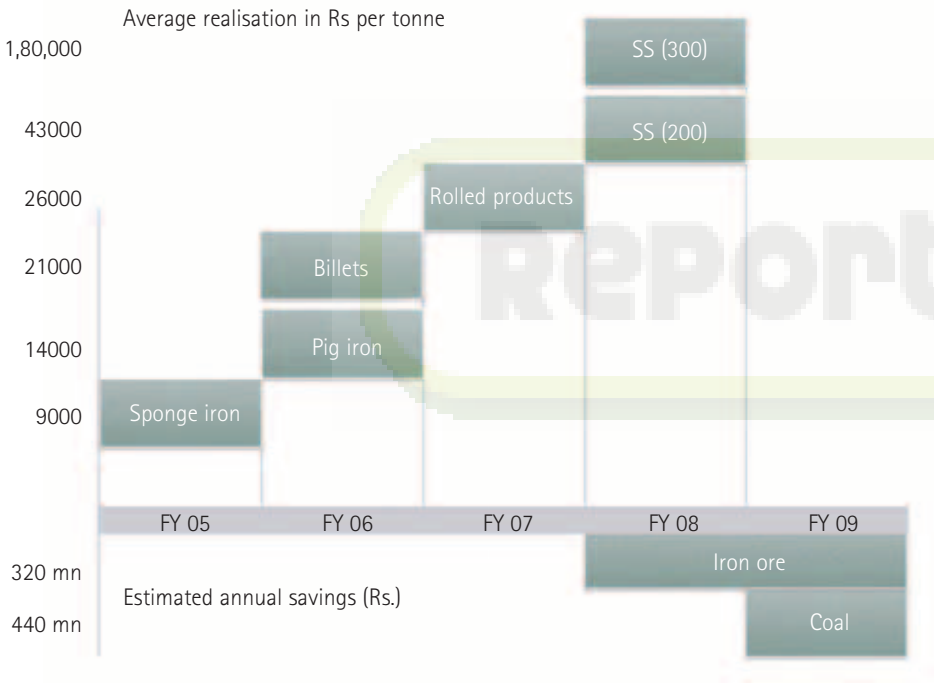
Interestingly, what I just referred to as



### Adhunik's unique position

- Completely integrated steel plant – from ore to stainless steel.
- Complete self sufficiency in key inputs like iron ore, coal, power, chrome and manganese.
- Connectivity with major consuming hub in India through highway and railways.

### Our business model-integrated and value-added



'niche' is not as niche as before. Demand for alloy steel from India's automobile sector is increasing rapidly for the following reasons:

- India is emerging as a global hub for car manufacture.
- An increasing proportion of automobiles is being statutorily indigenised.
- Improving quality requirements warrant that Indian steel manufacturers manufacture specialised grades in line with international standards.

In response to this favourable industry environment, Adhunik has already begun to work closely with OEMs and Tier-I auto-component manufacturers, seeking product approvals, having already supplied material to reputable companies like Auto Axles, GR Axles and having received approvals from M&M and Tata Motors.

**Power segment:** The demand for alloy steel in India's power sector is expected to spike for an important reason. To control T&D

losses, the government is insisting on changing transmission lines from 220 KV and 440 KV to 765 KV and 1145 KV; this will require mild steel to be replaced with speciality alloy steel (HT vanadium steel) in the manufacture of transmission towers, generating additional demand for companies like ours.

At Adhunik, we manufacture seamless rounds, which find application in boiler pipes; we will commence the manufacture

of shaft steel, which is used in the power sector. We have already initiated supplies to L&T and KEC International among others.

### The product chain argument

At Adhunik, the commissioning of the rolling mill in 2007-08 will alter the value-added product mix from 23 per cent of our overall product mix (2006-07) to an estimated 70 per cent. The Company plans to enter the high-value stainless steel segment in billet and rolled form to service a larger network of customer. This business vertical is expected to generate revenues from 2008-09 onwards, substantially growing our topline.

### The integration argument

We have been in the mining business for more than 30 years, undertaking contract mining operations for large Indian corporates. We recently leveraged this industry experience to enter the EBIDTA-accreting mining vertical in a direct way. We acquired 11 mines – comprising, iron ore, manganese and graphite – from Orissa

Minerals and Mining Corporation (through our wholly owned subsidiary). Going ahead, we expect to begin operating these mines from 2007-08 onwards, strengthening our profitability.

With steel capacities expected to grow rapidly in India, there is a distinct possibility that raw materials like iron ore and coal may get increasingly scarce, hardening input prices. To insulate our Company from this possibility, we acquired coal and iron ore blocks. This strategy holds out multiple benefits:

- Reduced input cost leading to higher margins.
- Complete insulation from the steel cycle, ensuring high profitability even during industry troughs.
- Complete independence from external inputs.

While our core steel business will provide an operating margin of around 15-20 per cent, the integration could add another 1,500 basis points.

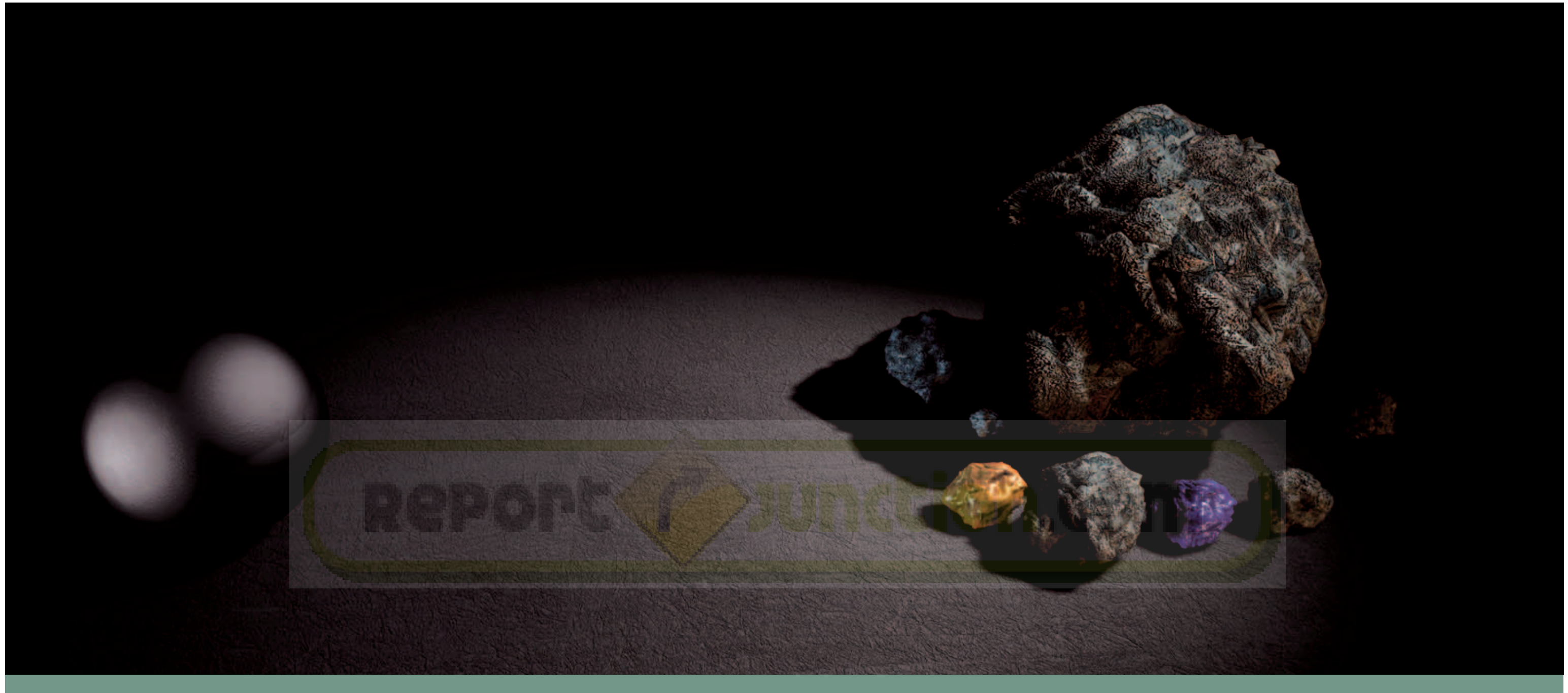
### Shareholder value

The result of these initiatives will reflect in the transformation of our business model – from a secondary steel manufacturer to a completely integrated steel facility with captive and merchant mines, the only such Company in the Indian steel industry. The benefit of this transformation is expected to be realised over the coming years, unleashing exponential value for all our stakeholders.

**Manoj Agarwal**

*Managing Director*





# Resource ownership

AT ADHUNIK, WE RECOGNISE THAT IN A BUSINESS WHERE THE DEMAND SIDE HAS BEEN ROBUST FOR DECADES, RISK COULD EMERGE FROM AN INEFFICIENT MANAGEMENT OF COSTS.

In this business, superior cost coverage is derived principally from an adequate control or ownership of critical resources.

At Adhunik, we have reinforced our competitive edge through the captive ownership of the following resources:

- An iron ore mine, containing 64 million tonnes of deposits, was acquired in Ghatkhuni, Jharkhand, through our 100 per cent subsidiary Orissa Manganese and Minerals Private Limited (OMM) in April 2007. This was in addition to the Company's existing captive iron ore mines in Orissa, containing 25 million tonnes of deposits.
- A manganese ore mine, containing 36 million tonnes of deposits was acquired in Patmuda, Orissa, through OMM in April 2007.

- Captive ownership of a coal mine in Talcher, Orissa, containing 42 million tonne deposits.

- Captive ownership of limestone mines, containing 7 million tonne deposits.

- Captive ownership of a graphite mine, containing 300,000 tonne deposits.

This captive ownership of resources will help the Company cut costs on the one hand and drive revenues on the other, starting from April 2008.





# Business de-risking

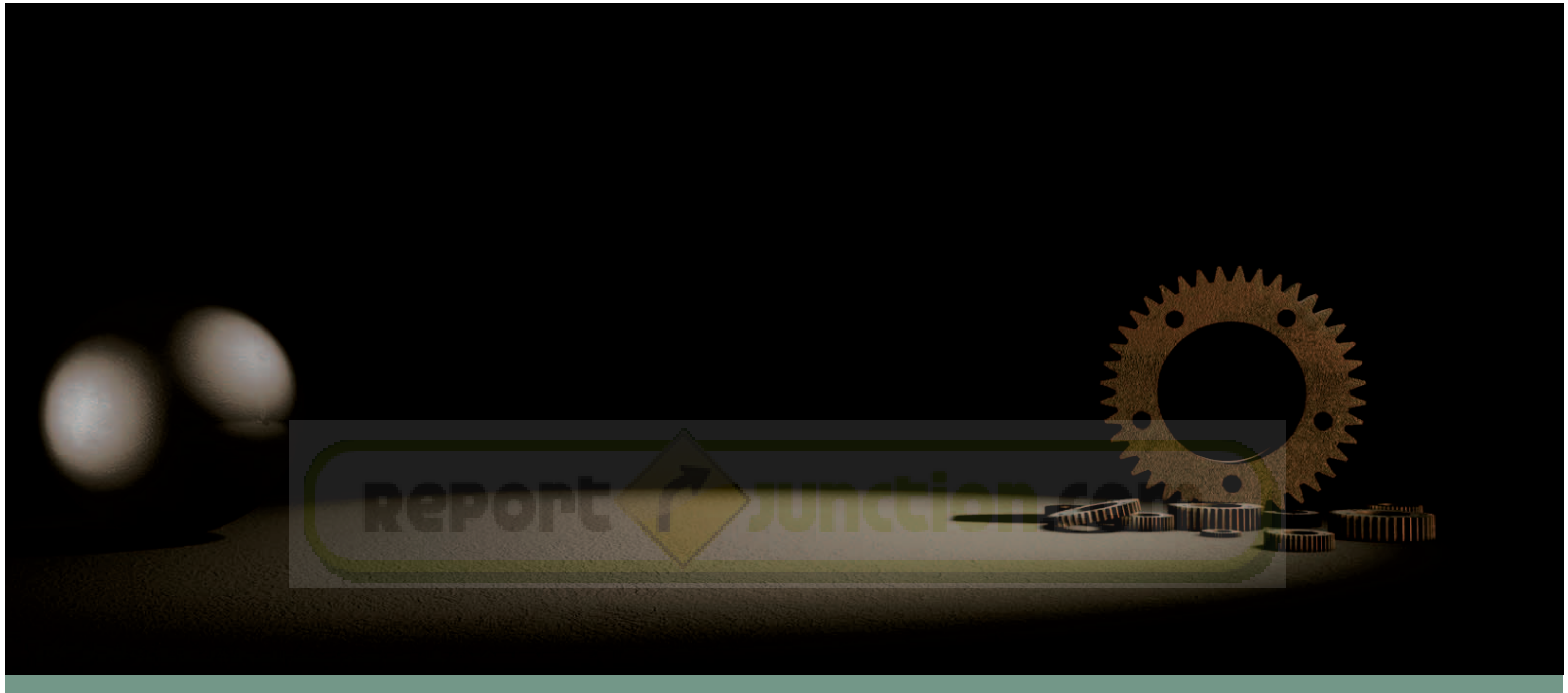
AT ADHUNIK, WE RECOGNISE THAT EFFECTIVE DE-RISKING IN OUR BUSINESS WILL BE DERIVED FROM BEING ABLE TO CAPTURE THE UPSIDE IN THE SPECIAL STEEL INDUSTRY ON THE ONE HAND AND PROTECTION FROM AN UNFORESEEN INDUSTRY SLOWDOWN ON THE OTHER.

At Adhunik, we have invested in the resource ownership of manganese, iron-ore, dolomite, coal and graphite with precisely this objective.

One, the ownership will enable us to cater to the growing captive needs as well as the needs of other steel manufacturers. More importantly, the ownership of diverse resources will enable us to service customers across a number of diverse downstream industries, making us partly independent of the steel cycle.

Two, direct captive resource ownership will minimise our dependence on external inputs and enhance our raw material security.

Three, the state government's policy on owning mines, decline in the total availability of mines and a gestation of around two-three years in mine commercialisation will restrict the scale and scope of any emerging competition.



# Competitive edge

AT ADHUNIK, WE RECOGNISE THAT OUR CAPTIVE OWNERSHIP OF RESOURCES DOES NOT ONLY REPRESENT A PASSIVE BUSINESS INITIATIVE (COST CUTTING) BUT ALSO AN ACTIVE STRATEGIC OPPORTUNITY (REVENUE GROWTH).

At Adhunik, this differentiation was achieved through a merchant mining status that will enable us to market our resources freely in the open market as opposed to

other steel companies who have been allotted mines expressively for their captive use.

This difference will enable us to transform from a back-end resource provider into an attractive profit centre. It will help us to transform our identity from a steel company into a minerals and metal organisation.

In an industry where only few steel

manufacturers (primary and secondary) possess their own captive ore mines, we see this as a significant competitive edge.

Besides, the demand for crude steel is expected to grow from about 45 million MTPA in India today to 183 million MTPA by 2020 (Source: Ministry of Steel); our mines possess an estimated life of 20 years, helping us cash in on this national opportunity well into the long-term.