for Informed Investment Decisions

Rating Rationale

Brickwork Ratings downgrades Rating of 'BWR BB+' from 'BWR BBB-' for the Long term Bank credit facilities and 'BWR A4+' from 'BWR A3' for Short term credit facilities of Adhunik Industries Ltd. (AIL).

Brickwork Ratings (BWR) has downgraded following **Ratings**[1] for Bank Loan Facilities of Adhunik Industries Ltd. ('AIL' or 'the Company'):

Facility	Tenure	Existing Facility (₹ Cr)	Previous Rating	Present Rating
Term Loan	**Long Term**	**21.18**	**BWR BBB-** *(BWR Triple B Minus)* **(Outlook – Stable)**	**BWR BB+** *(BWR Double B Plus)* **(Outlook: Negative)**
Cash Credit (Fund Based)		**79.00**		
LC (Non – Fund Based)*	**Short Term**	**37.00**	**BWR A3** *(BWR A Three)*	**BWR A4+** *(BWR A Four Plus)*
Bank Guarantee (Non – Fund Based)		**11.00**		
Total		**148.18**		
INR One Hundred and Forty Eight Crores and Eighteen Lacs only				

***There is 100% inter-changeability between LC & BG**

The rating has, inter alia, factored Adhunik Group's deteriorated financial performance during current financial year, low operating and profitability margins, high levels of inventory and receivables, high working capital requirement, moderate debt protection matrices, volatility in raw material prices in the absence of long term contract for raw material supplies, competition and current sluggish demand in the Steel Industry.

BWR has essentially relied upon the audited financial results of AIL up to FY14, unaudited H1 FY15 results, projected financials and clarifications/information provided by the Company.

Background:

Adhunik Industries Limited (AIL) is one of the 'Adhunik Group' companies. Incorporated in Aug 1979 as Orchid Trading & Investment Company Limited; after a couple of changes, the name changed to present name Adhunik Industries Limited on 5th January, 2010. It has set up a

[1] ***Please refer to www.brickworkratings.com for definition of the Ratings***

rolling mill for manufacturing of hot rolled products such as rods, TMT bars etc. in Angadpur, Durgapur with a licensed capacity and installed capacity of ~2,22,000 MTPA and ~1,60,000 MTPA respectively, and there are no plans to expand the capacity. It is an ISO - 9001:2008, 14001:2004 & 18001:2007 certified Company. Further the Company has 1.50 MW wind farm power plant at Dhule, Maharashtra. It is having long term PPA with Maharashtra State Electricity Board (MSEB) for selling of power generated from wind farm.

Currently, the company is having capacity utilization of about 80%. ~ 94% of their sales are in domestic market and rest is sold to nearby countries. They have a strong marketing network within the industry, through recognized distributors who are directly selling their products in the market. Further, the Company is directly dealing with govt. organizations and makes direct supply to various big projects.

Adhunik Group is promoted by the Agarwal Family, settled in West Bengal. During the last 30 years the group has gradually grown in volume and size and established itself as one of the leading companies in the line of business in Eastern India. The Group is engaged in mining, steel, power, and value added steel products. The Group has mining resources including iron ore, coal, manganese ore and lime stone which are the key inputs of production. Adhunik Metaliks Ltd., Adhunik Power & Natural Resources Ltd., Adhunik Alloys & Power Ltd. and Adhunik Corporation Ltd. are some of the major group Companies.

The on-going amalgamation process of its group companies, OMML (Orissa Manganese & Minerals Ltd), AML (Adhunik Metaliks) and ZSL (Zion Steel Ltd) in to one entity i.e. OMML is underway, which is currently awaiting the High Court approval. However, the process got delayed, and the overall group is going through financial stress.

Financial Performance (AIL)

During FY14, the Company's operating revenue has witnessed a growth of ~7% to ₹ 440.93 Crs in FY14 from ₹ 413.68 Crs in FY13. During the same period PAT has increased by ~14% to ₹ 4.35 Crs in FY14 from ₹ 3.82 Crs in FY13. Operating margins stood at 7.95% in FY14 as compared to 7.05% in FY13, and EBIDTA has shown an improvement at ₹ 35.05 Crs in FY14 from ₹ 29.15 Crs in FY13 mainly due to fall in prices of raw material. Net profit margin remained low at 0.99% in FY14 marginally up from 0.92% in FY13. Tangible Net-worth stood at ₹ 89.80 Crs as of FY14. While Long term borrowings (excluding current portion of long term debt) have decreased to ₹ 29.47 Crs in FY14 from ₹ 42.54 Crs in FY13, Short term borrowings have mor or less remained at the same level, viz.,₹ 78.20 Crs. Total Debt to Tangible Net-worth ratio stood at 1.28 in FY14 as compared to 1.49 in FY13. Also, During H1 FY15 (6M), the company has informed that their total revenue stood at ₹ 219.62 Crs with profit before tax at ₹ 4.02 Crs.

Rating Outlook

The Company's performance has marginally improved over previous year despite sluggish demand in the Steel Industry. However, it is expected to be impacted by group's financial stress and difficult liquidity position. Its Group flagship Company AML has incurred huge losses during Q1 FY15 (Sep'14). The on-going amalgamation process of AML, OMML and ZSL, which was expected to obtain the necessary High Court approval by Sep'14, has still not happened. In the meanwhile, the position is deteriorating. The Negative Outlook reflects this position. The Group financial position has been affected mainly due to debt driven capacity expansion plans. The Group also has not provided sufficient information to carry out full-fledged analysis. The aforesaid rating action has been performed based on available public information only.

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