Rating Rationale

Brickwork Ratings downgrades Rating of 'BWR BB' from 'BWR BBB-'for the Long term Bank credit facilities and 'BWR A' from 'BWR A3' for Short term credit facilities of Adhunik Metaliks Ltd. (AML).

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

Facility	Tenure	Existing Facility (₹ Cr)	Previous Rating	Present Rating
Term Loan	**Long Term**	**1054.07**	**BWR BBB-** *(BWR Triple B Minus)* **(Ratings watch with developing implications)***	**BWR BB** *(BWR Double B)* **(Outlook: Negative)**
Working Capital (Fund Based)		**695.00**		
LC & BG (Non-fund based)**	**Short Term**	**403.00**	**BWR A3** *(BWR A Three)*	**BWR A4** *(BWR A Four)*
Total		**2152.07**		
INR Two Thousand One Hundred and Fifty Two Crores and Seven Lacs only				

Ratings watch with developing implications in view of pending merger of Orissa Manganese & Mineral Ltd., Adhunik Metaliks Ltd. and Zion Steel Ltd.

***** Non fund based limits of LC/FLC/BG are interchangeable between Short term and long term***

The rating downgrade has, inter alia, factored AML's deteriorated financial performance during Q1 FY15 (Sep-2014), high working-capital requirement, huge losses during Q1 FY15, and low current ratio, high inventory level coupled with significant long term borrowings during FY14 and the risks associated with the current expansion plans. The Rating has also factored 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, which has been delayed.

BWR has essentially relied upon the audited financial results of AML up to FY13 (12M), FY14 (12M, Jun ending 2014), Q1 FY15, and clarifications/information provided by the Company.

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

Background:

Adhunik Metaliks Limited (AML) is the flagship company of the Adhunik Group and having more than ten years presence in the Industry. AML was incorporated in 2001 as Neepaz Metaliks Pvt. Ltd. and later renamed as Adhunik Metaliks Ltd. in 2005. Adhunik group is an established player in the Iron & Steel and Ferro-Alloys industry with a presence largely in Eastern India. The group has various activities like manufacturing, processing, trading of iron & steel scrap and various steel products – both finished steel & intermediates, and has set up manufacturing facilities in the States of West Bengal, Orissa, Jharkhand and Meghalaya. The company has capacity of 450,000 TPA of steel, 3,00,000 TPA of sponge iron, 2,13,792 TPA of pig iron , 46,880 TPA of ferro alloys, 267,300 TPA of sinter, 1,20,000 TPA coke oven and 34 MW captive power.

AML is engaged in the manufacturing of alloy and carbon steel products catering to the auto, power, engineering, oil and gas sectors. Also, the Company is engaged in the merchant mining of iron ore, manganese ore and mineral value addition through pellet manufacturing through its 100% subsidiary Orissa Manganese and Minerals Limited. In addition, it has power generation capacities through step down subsidiary i.e. Adhunik Power and Natural Resources Limited (APNRL).

Adhunik Group is in the process of amalgamating three of its Group companies, OMML (Orissa Manganese & Minerals Ltd), AML (Adhunik Metaliks) and ZSL (Zion Steel Ltd) in to one entity i.e. OMML. The merger is proposed to be effective from July 2012. The amalgamation process was supposed to be completed by September 2014 after obtaining the necessary approvals, but has been delayed.

During FY14 (year ending Jun'14), on a Consolidated basis, the Company's operating revenue has decreased to ₹ 2555.69 Crs in FY14 from ₹ 3021.80 Crs in FY13). PAT has shown a decline of ₹ 40.41 Crs in FY14 from ₹ 87.20 Crs in FY13 mainly due to high finance cost and depreciation. Long term borrowings decreased to ₹ 1917.04 Crs in FY14 from ₹ 3413.92 Crs in FY13.

During Q1 FY15 (September ending Q1 FY15), on a Standalone basis, the Company's operating revenue has increased to ₹ 402.11 Crs from ₹ 381.75 Crs in Q1 FY14. However, the Company incurred a huge loss of ₹ 115.57 Crs in Q1 FY15 from profit of ₹ 1.63 Crs in Q1 FY14. Its PBT stood at loss of ₹ 180.46 Crs during Q1 FY15. Q2 FY15 has not been provided by the Company. The position is not expected to improve in Q2, whose results are yet to be declared.

Outlook:

AML is the flagship Company of Adhunik Group. It has a strategically located manufacturing unit in Sundergarh (Orissa) for raw material supply of Iron ore, Coal etc. It also has long term agreement with group concern Orissa Mining Corporation for supply of 1.0 MTPA high grade iron ore fines. AML is in the process of building fully integrated and cost effective steel manufacturing unit. It was expected that the on-going amalgamation process will provide some benefits on account of synergies, but the whole process has been delayed. 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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