

## Rating Rationale

### Brickwork Ratings revises Long Term Rating at 'BWR BB-' (Outlook: Stable) and Short Term Rating at 'BWR A4' of Bank Loan Facilities of Adhunik Metaliks Ltd. (AML)

Brickwork Ratings (BWR) has revised following **Ratings<sup>1</sup>** for Bank Loan Facilities of Adhunik Metaliks Ltd. ('AML' or 'the Company').

Facility	Tenure	Existing Facility (₹ Cr)	Initial Rating <sup>^</sup> (Jul'14)	Last Rating (Feb'15)	Present Rating
<b>Term Loan</b>	<b>Long Term</b>	<b>806.12</b>	<b>BWR BBB-</b> (BWR Triple B Minus) (Ratings watch with developing implications)	<b>BWR BB</b> (BWR Double B) (Outlook: Negative)	<b>BWR BB-</b> (BWR Double B Minus) (Outlook: Stable)
<b>WCTL –I</b>		<b>304.71</b>			
<b>WCTL – II</b>		<b>331.29</b>			
<b>New Capex</b>		<b>60.96</b>			
<b>Priority Loan</b>		<b>37.77</b>			
<b>FITL</b>		<b>245.18</b>			
<b>Working Capital (Fund Based)</b>		<b>471.67</b>			
<b>LC &amp; BG (Non-fund based)*</b>	<b>Short Term</b>	<b>202.36</b>	<b>BWR A3</b> (BWR A Three)	<b>BWR A4</b> (BWR A Four)	<b>BWR A4</b> (BWR A Four)
<b>Total</b>		<b>2460.06</b>			
<b>(₹ Two Thousand Four Hundred and Sixty Crores and Six Lacs only)</b>					

\* 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 operating and financial performance during FY15 (Sep-2015), substantial reduction in sales and increase in DE Ratio, high working-capital requirement, huge losses during FY15, weak debt & interest servicing capabilities represented by low coverage ratios and high inventory level coupled with significant long term borrowings during FY15 and the risks associated with the current expansion plans. The Rating revision has also factored the on-going amalgamation process of its group companies, OMML (Orissa Manganese & Minerals Ltd), AML (Adhunik Metaliks Ltd.) and ZSL (Zion Steel Ltd) in to one entity, which has been delayed due to High Court approval.

BWR has essentially relied upon the audited financial results of AML up to FY14 (12M), provisional financials of FY15 (12M, ending June 2015), and clarifications/information provided by the Company.

<sup>1</sup> Please refer to [www.brickworkratings.com](http://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 steel products – both finished steel & intermediates, and has set up manufacturing facilities in the States of West Bengal, Orissa, Jharkhand and Meghalaya.

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 Ltd.) 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 due to legal processes.

### **Financial Performance:**

On a standalone basis, as per provisional financials for FY15 (Jun ending), the Company's operating revenue substantially reduced from ₹1691.46 Crs in FY14 to ₹872.19 Crs in FY15. The Company had shown a loss of ₹408.60 Crs in FY15 from a profit of ₹0.31 Crs during FY14. As a consequence the Net-worth also fell from Rs. 1,205.64 Cr to Rs. 773.38 Cr, and Tangible Net-worth (after adjusting for Revaluation Reserves and Intangibles) turned negative. Long term borrowings have increased substantially from ₹775.61 Crs in FY14 to ₹1582.58 Crs in FY15. Coverage Ratios have also turned negative.

The credit facilities extended by banks to AML, along with those of OMML, have been restructured by the lenders under Corporate Debt Restructuring Scheme, with cut off date as 1<sup>st</sup> August 2014.

### **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, and there is no clarity when this will be completed. Stable outlook is based on the view that the lending banks monitor the company's performance vis-à-vis projections given to CDR. Maintaining desired revenues, operating performance with cost effectiveness, profitability and coming out of huge losses, reduction in debt and promoters bring in required equity to fund the expansion plans as defined by the banks in the CDR package would be key rating sensitivities.

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