

Rating Rationale

Brickwork Ratings assigns 'BWR BBB-' & 'BWR A3' for the Bank Loan Facilities aggregating ₹ 153.77 Cr of Adhunik Industries Ltd.

Brickwork Ratings (BWR) has assigned following **Ratings¹** for Bank Loan Facilities of Adhunik Industries Ltd. ('AIL' or 'the Company').

Facility	Tenure	Existing Facility (₹ Cr)	Rating
Term Loan	Long Term	26.77	BWR BBB- (BWR Triple B Minus) (Outlook: Stable)
Cash Credit (Fund Based)		79.00	
LC (Non – Fund Based)	Short Term	37.00	BWR A3 (BWR A Three)
Bank Guarantee (Non – Fund Based)		11.00	
Total		153.77	INR One Hundred & Fifty Three Crores & Seventy Seven Lakhs only

The rating has, inter alia, factored AIL's established track record and presence in rolling mill for manufacturing of hot rolled products such as wire rods, TMT bars etc., improving capacity utilization, experienced management and group support. The rating is however constrained by low operating and profitability margins, high inventories, moderate debt protection matrices, absence of long term contract of raw material supplies and current sluggish demand in the Steel Industry.

BWR has essentially relied upon the audited financial results of AIL up to FY13, unaudited H1 FY14, 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 couple of changes, the name changed to present name Adhunik Industries Limited on 5th January, 2010. It has set up a rolling mill for manufacturing of hot rolled products such as rods, TMT bars etc. in Angadpur, Durgapur with an licensed capacity and installed capacity of ~2,22,000 MTPA and ~1,60,000 MTPA respectively. It is an ISO - 9001:2008, 14001:2004 & 18001:2007 certified Company. At present, it is having capacity utilization of ~80%.

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

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.

Adhunik Group

Adhunik Group is promoted by the Agarwal Family which migrated from Haryana in Northern India to West Bengal in Eastern India more than five decades ago. 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 Group has steel manufacturing facilities in Orissa and Jharkhand. Besides, it has a chain of value-added products including carbon and alloy steel billets, auto-grade steel rolled products, rounds and flats (4,50,000 TPA), TMT bars and wire rods (1,50,000 TPA), sponge iron (5,10,000 TPA), pig iron (2,31,000 TPA), Ferro alloys products including Ferro manganese, Silico manganese, Ferro silicon (50,000 TPA) and stainless steel products (1,20,000 TPA). It is implementing a 540 MW power plant in Jharkhand which is on the verge of completion. The Group has also secured captive coal block for this 540 MW power plant. It has an existing power generation capacity of 64 MW which is being captively consumed. In the mining sector, it has iron ore and manganese ore mines in Jharkhand and Odisha, respectively. The Group has also set up 1.2 Million ton Pellet and Beneficiation plant in Jharkhand to utilize the low grade iron ore fines and convert them into value added product Pellet.

Financial Performance

During FY13, the Company's operating revenue has witnessed a growth of ~17% to ₹ 413.68 Cr in FY13 from ₹ 353.75 Cr in FY12. However, during this period PAT decreased to ₹ 3.82 Cr from ₹ 5.88 Cr mainly due to high cost of raw material and increase in inventory holding. While Long term borrowings have decreased to ₹ 42.54 Cr in FY13 from ₹ 58.37 Cr in FY12, Short term borrowings have slightly increased to ₹ 78.74 Cr from ₹ 75.27 Cr. Operating margins stood at 7.05% in FY13 as compared to 8.41% in FY12. Also, Net profit margin remained low at 0.92% down from 1.66% in FY12. Tangible Net-worth stood at ₹ 85.45 Cr. During H1 FY14 (6M), total revenue stood at ₹ 214.76 Cr with profit before tax at ₹ 4.09 Cr.

Rating Outlook

AIL is a Adhunik Group Company. It has a strategically located manufacturing unit in Angadpur, Durgapur for raw material availability, though they are not having any long term contract of raw material supplies. Operating margins and net profit margins remain low due to high input costs. At present the Company is operating with ~80% capacity utilization. The Company's performance has improved over previous year despite sluggish demand in the Steel Industry. It is expected that the Company would improve its operational efficiency and profitability by cutting inventories and reducing interest costs.

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