

Rating Rationale

Brickwork Ratings assigns 'BWR BBB-' & 'BWR A3' for the Bank Credit Facilities amounting ₹ 1646.87 Cr of Adhunik Metaliks Ltd.

Brickwork Ratings (BWR) has assigned the following **Ratings**¹ for the Bank Credit Facilities of ₹ 1646.87 Cr of Adhunik Metaliks Ltd.

Facility	Tenure	Existing Facility May'13 (₹ Cr)	Rating
Term Loan	Long Term	626.87	BWR BBB- (BWR Triple B Minus) Outlook: Stable
Working Capital (Fund Based)		490.00	
Working Capital (Non – Fund Based)		460.00	
Unsecured Loan	Short Term	70.00	BWR A3 (BWR A Three)
Total		1646.87	
(INR One Thousand Six Hundred & Forty Six Crores & Eighty Seven Lacs only)			

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

The rating has, inter alia, factored AML's established presence in steel, mining and power sectors in the eastern part of the Country. The rating is however constrained by high working-capital requirement, very low profitability and current ratio, high inventory level coupled with significant long term borrowings 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 i.e. OMML.

BWR has essentially relied upon the audited financial results of AML up to FY12 (15M), unaudited FY13 (9M), projected financials and clarifications/information provided by the Company.

Background

Adhunik Metaliks Limited (AML) is the flagship company of the Adhunik Group and having more than ten yrs presence in the Industry. AML was incorporated in 2001 as Neepaz

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

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 secondary as well as primary products 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. It also has power generation capacities through step down subsidiary i.e. Adhunik Power and Natural Resources Limited (APNRL).

AML has a capacity of 446,100 TPA for manufacture 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. The clientele of AML include industry majors such as Tata Motors, Amtek Auto, Mahindra & Mahindra, BEML, L&T, BHEL, Siemens, Power Grid etc. Recently, The Company has divested its entire holding from Adhunik Power Transmission Ltd and Neepaz V Forge (India) Ltd which were engaged in the business of Power Transmission and Forging respectively.

Subsidiary Company

Orissa Manganese & Minerals Limited (OMML) is a wholly owned subsidiary (100%) of AML. OMML was incorporated on July 30, 1953 and AML acquired the entire shareholding of OMML from its erstwhile promoters on April, 2007. OMML is primarily a mining company for extraction of minerals like Iron Ore, Manganese Ore and Graphite in the States of Jharkhand and Orissa. The company owns six manganese ore mines in the State of Orissa and one iron ore mine in the State of Jharkhand. The company has been operating mines for last four years. The mining work at manganese ore mines started in January 2008 whereas operation in iron ore mines started in January 2009. Gradually, the company has increased its volumes and are now mining around One Million ton of Iron ore and 0.20 Million tons of manganese ore per annum. In addition, the reserves of graphite Ore have been anticipated by the company to be around than three lakh Tons. The company has set up a 1.2 MMTPA Pellets plant including Iron ore beneficiation facility at Saraikela, near Jharkhand.

Adhunik Power & Natural Resources Limited (APNRL) is a subsidiary of OMML. OMML holds about 79.26% stake in APNRL. APNRL was incorporated in 2005 with the sole purpose of generation, distribution and transmission of Power. The Company had entered into a MoU with the Government Of Jharkhand to set up a 1080 MW Thermal Power plant in Jharkhand in phases. The Company has already set up 270 MW Power plant in Phase I and is setting up

another 270 MW Power Plant in Phase II. First unit of 270 MW commissioned in Oct'12 and second phase commissioned in May'13.

Proposed Merger and Debt Consolidation

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 amalgamation process will require 9 to 12 months for completion subject to obtaining the necessary approvals. With amalgamation of these three companies, the existing loans of the three amalgamating companies will get merged in the books of OMML.

AML currently procures around 50% of its iron ore requirement and around 80% of its manganese ore requirement from OMML, which is a wholly owned subsidiary of AML. It is proposed to merge ZSL and reverse merger AML with OMML pursuant to a court approved scheme of amalgamation. Post-merger OMML will have integrated plant with a cost effective business model supported by their captive iron ore, coal washery, captive power, sinter, direct reduce iron facility, blast furnace, ferro alloy, coke oven batteries and railway sidings. It is expected that the merged entity can build significant economies of scale and increase its presence in both global and domestic market. The merged entity will increase the operational efficiency by cutting inventories and smoothing the flow of operations.

At present, each of these three companies has different set of lenders under consortium lending arrangement. Although some of the lenders are common for the three amalgamating companies, there are multiple sets of documents; covenants and even the security pattern of these loans are also different.

The group objective is to consolidate and function with core assets and hive-off its non-core business such as forgings, transmission tower etc. Now it is focusing towards consolidation of business mainly into steel, mining and power. The Consolidation exercise is sought to be completed in a manner whereby it would not interrupt the implementation of any of the projects under implementation. The management intends to initiate the preliminary activities relating to the consolidation exercise in order to raise funds to consolidate the debt of the three companies under the “Co-Obligator” structure. The Consolidated debt so raised would be used for:

- Repayment/ prepayment of the existing RTL facilities
- Additional loan for increase in capacity of pallet plant (currently housed in OMML) from 1.2 MMTPA to 1.60 MMTPA, additional capex for increasing the plant efficiency and for shoring up of Net working capital.

SBI has already sanctioned ₹ 500 Crs of Term Loan and ₹ 250 Crs of working capital and In-principle approvals from BOB and Punjab & Sindh Bank for ₹ 125 Crs and ₹ 200 Crs resp., have already received under Co-Obligator structure.

Financial Performance

On a standalone basis, the Company's operating revenue has witnessed a growth of ~29% to ₹ 1858.42 Crs in FY12 (15 Months) from ₹ 1440.77 Crs in FY11. However the figures are not comparable as FY12 consists of 15 months. PAT decreased substantially to loss of ₹ 0.52 Crs in FY12 from profit of ₹ 56.86 Crs in FY11 mainly due to high cost of raw material, increase in finance cost and higher depreciation. However, Long-term borrowing has decreased to ₹ 546.03 Crs in FY12 from ₹ 747.59 Crs in FY11. On the other hand Short-term borrowing has increased to ₹ 538.18 Crs in FY12 from ₹ 472.75 Crs in FY11. Net profit margin declined to -0.03% in FY12 from 3.95% in FY11. Current ratio was very low at 0.83 in FY12 from 0.92 in FY11, which reflects stretched liquidity in the Company. Tangible Net-worth stood at ₹ 676.82 Crs in FY12.

During FY13 (9M) on a standalone basis, revenue from operation stood at ₹ 1321.91 Crs as compared to ₹ 1128.03 Crs in FY12 (9M) and PAT remains low at ₹ 2.25 Crs in FY13 from loss of ₹ 11.45 Crs in FY12 (9M). However, at PBT level the Company remains in losses at ₹ 8.09 Crs in FY13 as compared to loss of ₹ 60.48 Crs in FY12.

On a Consolidated basis, the Company's operating revenue has increased to ₹ 2285.47 Crs in FY12 (15 Months) from ₹ 1671.53 Crs in FY11. However the figures are not comparable as FY12 consists of 15 months. PAT decreased substantially to ₹ 8.79 Crs in FY12 from ₹ 162.98 Crs in FY11 mainly due to high cost of raw material, increase in finance cost and higher depreciation. Long-term borrowing has increased to ₹ 3302.81 Crs in FY12 from ₹ 2299.02 Crs in FY11. On the other hand Short-term borrowing has slightly increased to ₹ 574.42 Crs in FY12 from ₹ 542.83 Crs in FY11. Net profit margin declined to 0.38% in FY12 from 9.75% in FY11. Current ratio and DSCR stood at very low. Tangible Net-worth stood at ₹ 1295.31 Crs in FY12. The auditor's report for FY12 mentions about some delays in servicing of dues to Banks. The Company informs that all such dues have been cleared and it has since taken appropriate measures to avoid such delays.

During last six months December ending 2012, on a Consolidated basis, the Company's operating revenue has increased to ₹ 1211.95 Crs in FY13 (6M) from ₹ 928.74 Crs in FY12 (6M). PAT increased to ₹ 74.67 Crs in FY13 (6M) from ₹ 22.39 Crs in FY12 (6M).

Rating Outlook

AML is a 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 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. The on-going amalgamation process will require 9 to 12 months for completion after obtaining the necessary approval. It is expected that the merged entity will build significant economies of scale, improve operational efficiency by cutting inventories and smoothening the flow of operations and help the Company expand its presence in the industry.

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