

## ADHUNIK METALIKS

INR 33

*In line with expectations*

BUY

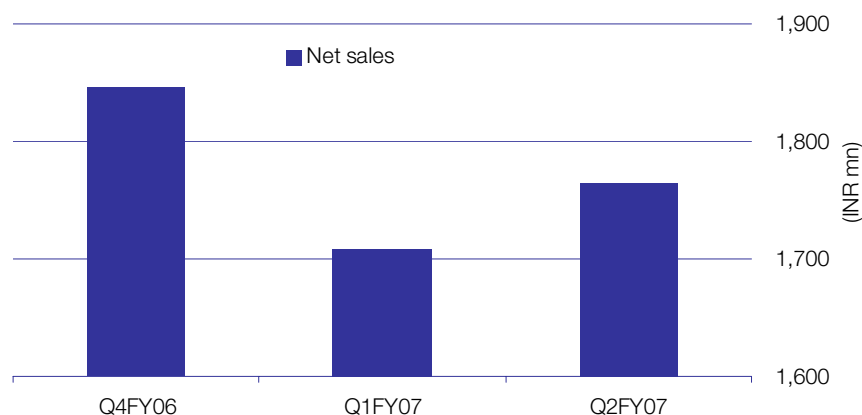
Adhunik Metaliks' Q2FY07 results were in line with our expectations. As the company got listed this year itself, comparable numbers for the corresponding quarter last year are not available. The company's top line grew 3% sequentially to INR 1.8 bn on the back of enhanced volumes and higher realisations. EBITDA for the quarter surged 25% Q-o-Q to INR 310 mn and EBITDA margin rose 300bps sequentially to 17.6% on the back of enriched product mix. Performance during the first quarter was impacted by a shutdown of sponge iron facilities for a month and build up of finished product inventory, which had affected margins. With both these factors absent now, the margin bounce back was along expected lines. The company reported 30% rise in net profit to INR 202 mn, in line with our expectations.

The second phase expansion project is on schedule, and the company will benefit significantly from its integrated business model and firm pricing trends in the alloy and special steel market. At CMP of INR 33, the stock is trading at an EV/EBITDA of 2.6x and P/E of 4.4x FY07E earnings and valuations look compelling. We reiterate our 'BUY' recommendation.

\* Higher volumes and better realisations drive 25% Q-o-Q growth in top line

Adhunik reported higher production and sales volumes across all product segments on the back of ramp up of utilisation of existing capacities. Moreover, the product mix was enriched with sales of value-added rolled products rising threefold sequentially. Coupled with an improvement in realisations, the top line of the company rose 3.3% Q-o-Q to INR 1.8 bn.

Chart 1: Net sales



Source: Company, Edelweiss research

## Financials

Year to March	Q2FY07	Q1FY07	% change	FY05	FY06	FY07E
Revenues (INR mn)	1,764	1,708	37.6	1,301	4,238	7,666
EBITDA (INR mn)	310	248	(18.7)	156	707	1,405
Net profit (INR mn)	202	155	(18.0)	71	337	706
EPS (INR)	2.2	1.7	(18.0)	1.2	3.7	7.7
PE (x)				24.4	9.1	4.4
EV/EBITDA (x)				25.6	5.1	2.6
ROE (%)				11.2	13.7	22.5

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Reuters : ADME.BO  
Bloomberg : ADML IN

## Market Data

52-week range (INR) : 50 / 26  
Share in issue (mn) : 91.2  
M cap (INR bn/USD mn) : 3.0 / 65.7  
Avg. Daily Vol. BSE/NSE ('000) : 791.6

## Share Holding Pattern (%)

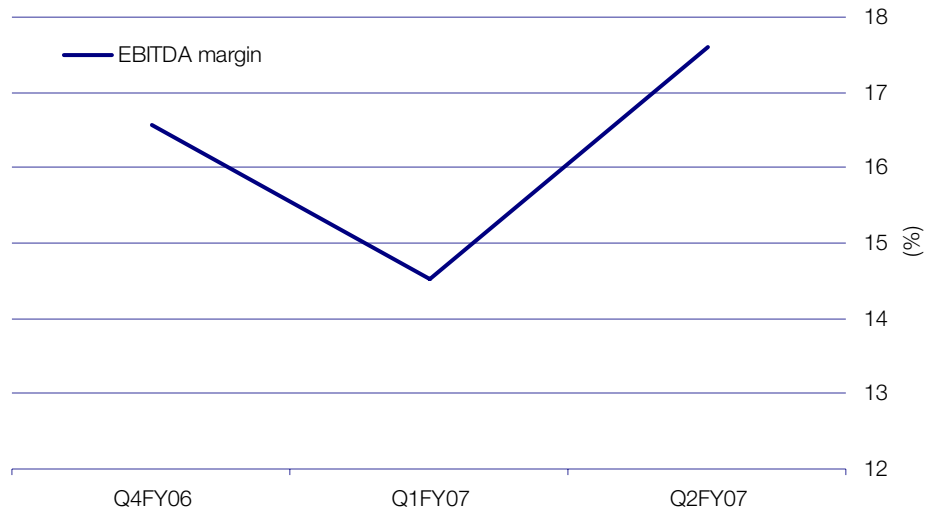
Promoters : 63.9  
Muffs, Fls & Banks : 11.7  
FIIs : 6.2  
Others : 18.2

A key feature of the current quarter’s performance has been the ramp up in volumes of value-added rolled products. Sales of rolled products surged three fold to 8,685 MT in this quarter. The company intends to work towards increasing the proportion of rolled product sale in its product basket going ahead.

**\* Enriched product mix led to 25% Q-o-Q surge in EBITDA**

The first quarter performance was marked by a month-long shutdown of the sponge iron plant (necessitating some market purchases of this metallic) and a fortnight-long maintenance shutdown of the blast furnace. Moreover, the ramp up of existing capacity was still underway. With both these factors behind, EBITDA for the current quarter surged 25% Q-o-Q to INR 310 mn and EBITDA margin rose 310bps to 17.6% for the quarter.

**Chart 2: EBITDA margins**



Source: Edelweiss research

For the first half of the year, the manufacturing business reported EBITDA margin of 19.1% and the trading business reported EBITDA margin of 11.4%, leading to total EBITDA margin of 16.1%.

**\* Net profit of INR 202 mn in line with expectations**

PBT for the quarter increased 26% Q-o-Q to INR 238 mn and the net profit increased 30% to INR 202 mn, in line with our expectations.

For the first half of the year, the company has reported net profit of INR 357 mn and looks very much on target to exceed our expectation of INR 700 mn profit for the full year.

**\* Capacity expansion projects on track**

The second phase expansion of the company is progressing well, with the rolling mill expected to be commissioned by the end of the current year. The first phase waste gas recovery-based power plant is expected to be commissioned by December 2006. Work on the captive iron ore mine is also progressing well, and the company is confident of being able to secure captive iron ore from April 2007 onwards.

\* **Attractive valuations; maintain 'BUY'**

We expect AML's topline to grow at a CAGR of 105% over FY06-08E. EBITDA is expected to grow at a CAGR of 118% in the same period, leading to margin expanding by 270bps as the degree of integration increases. Net profit is expected to increase at a CAGR of 76% to INR 1.0 bn, with EPS growing to INR 11.4.

At CMP of INR 33, the stock is attractively priced at an EV/EBITDA of 2.6x and P/E of 4.4x on our FY07E earnings with compelling valuations and no downside risk from current levels. We reiterate our **'BUY'** recommendation on the stock.

Financials snapshot						(INR mn)
Year to March	Q2FY07	Q1FY07	% change	FY05	FY06	FY07E
Revenues/Op income (Gross)	1,950	1,874	4.1	1,421	4,613	
Less: Excise	187	167	11.9	121	375	
Revenues/Ops income (net)	1,764	1,708	3.3	1,301	4,238	7,666
Dec/(inc) in stock	(26)	(312)		13	11	68
Consumption of raw materials	518	506	2.4	650	1,165	3,009
Purchase of trading goods	364	836	(56.5)	222	1,601	1,818
Staff cost	24	18	35.8	13	38	116
Other expenditure	573	413	39.0	247	716	1,250
Total expenditure	1,453	1,460	(0.4)	1,145	3,531	6,261
EBITDA	310	248	25.1	156	707	1,405
Interest	60	47	28.0	30	115	211
Depreciation	28	27	6.4	22	69	126
Other income	15	14	13.3	3	28	24
PBT	238	188	26.2	106	551	1,093
Tax	35	33	7.9	35	214	387
Current taxes	27	21	26.2	9	46	123
Deferred taxes	8	11	(27.1)	27	167	263
Fringe benefit tax	0	0		0	1	1
Adjusted net profit	202	155	30.1	71	337	706
Extraordinary items	0	0		0	0	0
Reported net profit	202	155	30.1	71	337	706
Equity capital (FV INR 10)	912	912		581	912	915
# of shares (mn)	91	91		58	91	92
EPS (INR)	2.2	1.7	30.1	1.2	3.7	7.7
<b>as % of net revenues</b>						
Consumption of raw materials	27.9	11.4		51.0	27.7	40.1
Purchase of trading goods	20.6	48.9		17.1	37.8	23.7
Staff cost	1.4	1.0		1.0	0.9	1.5
Other expenditure	32.5	24.2		19.0	16.9	16.3
EBITDA	17.6	14.5		12.0	16.7	18.3
Adjusted net profit	11.5	9.1		5.5	8.0	9.2
Tax rate	14.9	17.5		33.3	38.8	35.4

## Financial Statements

<b>Income statement</b>					<b>(INR mn)</b>
<b>Year to March</b>	<b>FY04</b>	<b>FY05</b>	<b>FY06</b>	<b>FY07E</b>	<b>FY08E</b>
Net sales (manufacturing)	273	1,063	2,419	5,666	10,133
Trading sales	83	238	1,819	2,000	1,500
Decrease / (increase) in stocks	(62)	13	11	68	(175)
Raw material & consumables	179	650	1,323	3,009	5,782
Employee cost	2	13	38	116	127
Other expenditure	69	247	558	1,250	2,075
Total operating expenses	188	923	1,929	4,443	7,809
Purchase of traded goods	79	222	1,601	1,818	1,364
EBITDA (manufacturing)	85	140	490	1,223	2,324
EBITDA (trading)	4	16	218	182	136
Total EBITDA	89	156	707	1,405	2,460
Depreciation	7	22	69	126	357
EBIT	81	134	639	1,280	2,104
Other income	2	12	28	25	3
Interest	10	30	115	211	495
Preliminary expenses written off	0	0	0	1	1
Profit before tax	73	115	551	1,093	1,611
Provision for tax	31	35	214	387	567
Reported profit	42	80	337	706	1,044
Shares outstanding (mn)	18.7	58.1	91.5	91.5	91.5
Dividend per share (INR)	-	-	0.5	1.0	1.5
Dividend payout (%)	-	-	15.4	15.0	15.0

### Common size metrics- as % of net revenues

<b>Year to March</b>	<b>FY04</b>	<b>FY05</b>	<b>FY06</b>	<b>FY07E</b>	<b>FY08E</b>
Operating expenses (manufacturing)	68.9	86.9	79.8	78.4	77.1
Depreciation	2.7	2.1	2.8	2.2	3.5
Interest expenditure	3.8	2.8	4.7	3.7	4.9
EBITDA margins (manufacturing)	31.1	13.1	20.2	21.6	22.9
EBITDA margins (trading)	4.8	6.9	12.0	9.1	9.1
Net profit margins	11.7	6.2	8.0	9.2	9.0

### Growth metrics (%)

<b>Year to March</b>	<b>FY05</b>	<b>FY06</b>	<b>FY07E</b>	<b>FY08E</b>
Revenues	265.5	225.8	80.9	51.7
EBITDA	75.7	353.3	98.6	75.1
PBT	58.0	377.6	98.3	47.4
Net profit	91.8	321.3	109.5	47.8
EPS	(38.3)	167.3	109.5	47.8

<b>Balance sheet</b>					<b>(INR mn)</b>
<b>As on 31st March</b>	<b>FY04</b>	<b>FY05</b>	<b>FY06</b>	<b>FY07E</b>	<b>FY08E</b>
Equity capital	187	581	915	915	915
Reserves & surplus	86	201	1,562	2,311	3,253
Shareholders funds	273	782	2,477	3,227	4,168
Secured loans	245	897	1,666	4,164	4,716
Unsecured loans	28	53	54	54	54
Deferred tax liability	26	55	155	216	522
<b>Sources of funds</b>	<b>572</b>	<b>1,787</b>	<b>4,351</b>	<b>7,661</b>	<b>9,460</b>
Gross block	294	536	1,608	1,998	5,486
Depreciation	7	30	82	180	451
Net block	287	507	1,526	1,818	5,036
CWIP	79	822	764	3,724	315
Pre-operative and trial run expenses	11	67	24	84	1
Total fixed assets	377	1,396	2,314	5,626	5,352
Investments	7	30	561	581	881
Loans and advances	44	204	219	449	494
Inventories	171	140	556	555	1,057
Sundry debtors	65	293	500	616	1,098
Cash and equivalents	13	54	763	639	1,416
Total current assets	294	690	2,038	2,259	4,064
Sundry creditors and others	100	318	304	253	353
Provisions	6	11	257	552	484
Total CL & provisions	106	329	561	805	837
Net current assets	188	361	1,476	1,454	3,227
<b>Uses of funds</b>	<b>572</b>	<b>1,787</b>	<b>4,351</b>	<b>7,661</b>	<b>9,460</b>
Book value per share (BV)	15	13.5	27.1	35.3	45.5

<b>Cash flow statement</b>					<b>(INR mn)</b>
<b>Year to March</b>	<b>FY04</b>	<b>FY05</b>	<b>FY06</b>	<b>FY07E</b>	<b>FY08E</b>
Net profit	42	80	337	706	1,044
Add: Depreciation	7	22	69	126	357
Add: Deferred tax	26	27	167	263	385
Gross cash flow	75	129	573	1,095	1,785
Less: Dividends	-	-	52	106	157
Less: Changes in non-cash W. C.	230	132	407	102	996
Operating cash flow	(155)	(4)	218	1,099	946
Less: Change in investments	6	23	531	20	300
Less: Capex		1,019	918	3,312	(274)
<b>Increase / (Decrease) in cash</b>	<b>(161)</b>	<b>(1,046)</b>	<b>(1,231)</b>	<b>(2,233)</b>	<b>920</b>

**Ratios**

Year to March	FY04	FY05	FY06	FY07E	FY08E
ROE (%)	15.9	11.2	13.7	22.5	25.0
AROC (%)		11.5	23.0	23.5	26.9
Current ratio	2.65	1.93	2.27	2.01	3.16
Debtors (days)	87	100	75	40	40
Fixed assets t/o (x)	0.72	0.76	1.05	1.01	1.89
Debt/ Equity	1.00	1.22	0.69	1.31	1.14

**Valuations parameters**

Year to March	FY04	FY05	FY06	FY07E	FY08E
EPS (INR)	2.2	1.4	3.7	7.7	11.4
<i>Y-o-Y growth (%)</i>	<i>0.0</i>	<i>(38.3)</i>	<i>167.3</i>	<i>109.5</i>	<i>47.8</i>
CEPS (INR)	2.6	1.8	4.4	9.1	15.3
PE (x)	15.1	24.4	9.1	4.4	2.9
Price/BV(x)	2.3	2.5	1.2	1.0	0.7
Market cap/Sales (x)	8.6	2.4	0.7	0.4	0.3
EV/Sales (x)	12.3	3.8	1.5	0.6	0.4
EV/EBITDA (x)	37.8	25.6	5.1	2.6	1.5

## Edelweiss Securities

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Shriram Iyer - 2286 4256	Head – Research	Nischal Maheshwari - 2286 4205
Gautam Roy - 2286 4305	Airlines, Textile	Rajesh Makharia - 2286 4202
Ashutosh Goel - 2286 4287	Automobiles, Auto Components	Shabnam Kapur - 2286 4394
Vishal Goyal, CFA - 2286 4370	Banking & Finance	Ashish Maheshwari - 2286 4418
Revathi Myneni - 2286 4413	Cement	Amish Choksi - 2286 4201
Sumeet Budhraj - 2286 4430	FMCG	Deepak Rao - 2286 4204
Harish Sharma - 2286 4307	Infrastructure, Auto Components, Mid Caps	Balakumar V - (044) 4263 8283
Priyanko Panja - 2286 4300	Infrastructure, Engineering, Telecom	Monil Bhala - 2286 4363
Hitesh Zaveri - 2286 4424	Information Technology	Ashish Agrawal - 2286 4301
Pritesh Vinay - 2286 4429	Metals, Mining	Nikhil Garg - 2286 4282
Priyank Singhal - 2286 4302	Media, Retail	Neha Shaha - 2286 4276
Prakash Kapadia - 2286 4432	Mid Caps	Priya Ramchandran - 2286 4389
Niraj Mansingka - 2286 4304	Oil & Gas, Petrochemicals	Anubhav Kanodia - 2286 4361
Nimish Mehta - 2286 4295	Pharmaceuticals, Agrochemicals	Tushar Mahajan - 2286 4439
Swati Khemani - 2286 4266	Textile	Harsh Biyani - 2286 4419
Manika Premeisingh - 4019 4847	Economist	Nirmal Ajmera - 2286 4258
Sachin Arora - 2286 4512	Alternative & Quantitative	Ankit Doshi - 2286 4671
Sunil Jain - 2286 4308	Alternative & Quantitative	Ravi Pilani - 4009 4533
Yogesh Radke - 2286 4328	Alternative & Quantitative	Dipesh Shah - 2286 4434

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### RATING INTERPRETATION

<b>Buy</b>	Expected to appreciate more than 20% over a 12-month period	<b>Reduce</b>	Expected to depreciate up to 10% over a 12-month period
<b>Accumulate</b>	Expected to appreciate up to 20% over a 12-month period	<b>Sell</b>	Expected to depreciate more than 10% over a 12-month period
<b>Trading Buy</b>	Expected to appreciate more than 10% over a 45-day period	<b>Trading Sell</b>	Expected to depreciate more than 10% over a 45-day period

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