

Orissa Govt approves Suleipat mine JV

CMP:	Rs. 40
Target Price:	Rs. 77
Recommendation:	Buy

Stock Info

BSE Group	B
BSE Code	532727
NSE Symbol	ADHUNIK
Bloomberg	ADML IN
Reuters	ADME.BO
BSE Sensex	15739
NSE Nifty	4714

Market Info

Market Capital	Rs.495cr
Equity Capital	Rs.123cr
Avg. Trading Vol.	171599
52 Wk High/ Low	110/31
Face Value	Rs.10

Shareholding Pattern (%) (30th Sep.2011)

Promoters	55.5
Domestic Institutions	10.0
Foreign Institutions	14.6
Non Promoters Corp.	7.2
Public & Others	12.7
Govt. Holdings	-



The government of Orissa has approved the JV (50:50) for Suleipat mine through single window clearance thus paving the way for development of Suleipat iron ore mine, which possess high quality reserves of ore. Earlier, Orissa Manganese & Minerals Limited (OMML), 100% subsidiary of Adhunik Metaliks Limited had entered into a Joint JV with M/s. B. C. Dagara, the lessee of Suleipat iron mine. The mine has obtained required forest approval (Working Permission) from MoEF to start mining operation in 294 hectares of Forest Land and had earlier deposited the required Net Present Value to the Government to obtain necessary approval to start the mine. The company has got working permission for 70 hectares non forest area in October 2011.

Post approval the mining activities have started and the company has begun to excavate and despatch the ore. The company is looking at 50000 tonnes of iron ore volumes from the mine in FY12E and has targeted cumulative volumes of 1.5mn tonne of iron ore (Ghatkuri mine + Suleipat mine) in FY13E. We believe, the projected target of 1.5mn tonne iron ore sales looks bit stretched, given the current micro economic environment and thus expect company to deliver volumes of 1.2mn tonne in FY13E, of which around 0.18mn tonne will come from Suleipat JV.

Mine	Location	Reserves (mt)	Grade	Capacity (mtpa)
Iron ore	Suleipat	80	64%	0.6

Valuation

AML has corrected ~60% year to date and has underperformed the BSE Sensex by ~40% during the same period. We believe, stock's underperformance is factoring in all possible negatives associated with uncertain regulatory environment and weak demand scenario. We believe things should improve FY13 onward for the company as benefits of backward integration in its steel business is likely to improve margins. Also supply side constraints in case of iron ore; owing to illegal mining issues, will also benefit OMML to maintain volume growth. We have valued Adhunik's steel business and mining business at 4.5x and 3.5x its FY13 EBITDA and valued investment in power subsidiary at 1x book value and have arrived at fair value of Rs 77 per share.

Financials:

Y/E March, (₹ in Cr)	FY10	FY11	FY12E	FY13E
Net Revenue	1450	1793	1996	2390
EBIDTA	384	558	474	707
PAT	135	186	58	130
EPS	10.9	15.0	4.7	10.5
EPS Growth (%)	120.2	37.5	(69.0)	125.5
RONW (%)	18.7	21.3	4.5	8.4
P/E (X)	3.7	2.7	8.7	3.8
EV/EBITDA(X)	5.9	6.0	9.0	6.5

**Other recent development****Iron ore mine (captive)**

Adhunik Metaliks Limited had, in Aug 2011, signed a mining lease deed for 30 years with the Government of Orissa for its iron ore mine situated in Keonjhar, Orissa. With execution of mining deed the company now can start with the development of mine. The company has already started mobilising the mining equipments and have started work on approach road for the evacuation of iron ore. The iron ore from the mine will be utilized primarily as a captive source of iron ore for Adhunik's steel segment operations.

Mine	Location	Reserves (mt)	Grade	Capacity (mtpa)	Dist(km)
Iron ore	Keonjhar	25	63%	0.3	125

The mine has estimated iron ore reserves of 25mn tonne with average Fe+ content of 63% having Lump:Fine ratio of 70:30. The current mining plan for the company is around 0.3mtpa and company is looking at initial run rate of 15000 tonne per month before gradually ramping it to 25000 per month. At current level of steel production captive iron ore will meet 45% of its requirement. However, we assume it will take some time to ramp up the production and have assumed mine to operate at 25% utilization levels in FY12E before ramping up to ~85% in FY13E. At 25% utilization levels, captive iron ore will meet 12% of its requirement.

Valuation Table:

Company	FY13E		EV(Rs cr)	% Holding	AML's Share
	EBITDA	EV/EBITDA(x)			
AML	707	4.5x	3181	-	3181
OMML	460	3.5x	1610	100%	1610
Net Debt					4086
Implied Market Cap					706
Value per share					57
Investment in APNRL					295
BV of Investment					20
Target price (Rs/share)					77

Background

Incorporated in 2001 as Neepaz Metaliks Pvt Ltd, Adhunik Metaliks (AML) is a diversified player having presence across steel, mining and power sectors. AML has a vertically integrated steel unit at Rourkela in Orissa and caters to needs of auto, engineering and power sector. It further diversified into forging and transmission tower business through its subsidiaries viz. Neepaz V Forge India Ltd and Adhunik power transmission Ltd respectively. It has presence in mining space through 100% subsidiary; Orissa manganese and minerals limited (OMML) that has operational iron ore and manganese ore mines in Jharkhand and Orissa respectively. AML is setting up 540MW of power project in Jharkhand through its 60% subsidiary: Adhunik Power and natural resources limited (APNRL).



Profit & Loss Statement

Y/E March (Rs Cr)	FY10	FY11	FY12E	FY13E
Net Sales	1450	1793	1996	2390
% Chg	14.0	23.7	11.3	19.7
Total Expenditure	1065	1235	1522	1683
% chg	(0.2)	15.9	23.3	10.5
EBDITA	384.4	558.4	473.7	706.9
EBDITA Margin %	27	31	23.7	29.6
Other Income	45	16	21	26
Depreciation	68	111	133	203
EBIT	362	464	362	529
Interest	159	195	278	336
PBT bfr excep Items	202	269	83	194
Exceptional Items	2.1	-	-	-
PBT after EI	200	269	83	194
Tax Provisions	63	83	26	64
Adjusted PAT	135	186	58	130
Adj PAT Margins (%)	9	10	3	5

Cash Flow Statement

Y/E March (Rs Cr)	FY10	FY11	FY12E	FY13E
Profit before tax	200	269	83	194
Oper. Profit Before Work. Cap.	405	544	491	660
Changes in WC	63	(3)	(264)	32
Cash generated frm Operation	469	541	227	629
Direct Tax Paid	(63)	(83)	(26)	-64
Int/Div received & Others	-	-	-	0.0
Net Cash From Oper. Act	433	375	201	565
Net Cash From Investing Act	(847)	(1,507)	(1029)	(672.1)
Cash flow from Financing Act	456	950	826	(79.5)
Net increase in cash & Equiv	41	(17)	(2)	(27.6)
Opening Cash Balance	137	114	97	95
Closing Cash Balance	179	97	95	67.4

Balance sheet

Y/E March (Rs Cr)	FY10	FY11	FY12E	FY13E
Equity Capital	123	123	123	123
Reserve & Surplus	597	747	1162	1430
Total Loans	1943	3007	3851	4153
Minority Interest	54	192	192	192
Deferred tax	146	184	184	184
Total Liabilities	2864	4253	5513	6083
Gross Block	1823	2347	3899	5685
Less Acc. Depreciation	165	278	409	542
Net Block	1658	2070	3490	5143
CWP	775	1687	1324	237
Investments	0.1	0.1	0.1	0.1
Net Current Assets	430	496	700	703
Misc Exp	1	0	0	0
Total Asset	2864	4253	5513	6083

Key Ratios

Y/E March (Rs Cr)	FY10	FY11	FY12E	FY13E
Per Share data (Rs)				
EPS	10.9	15.0	4.7	10.5
Cash EPS	16.4	24.0	15.5	27.0
DPS	1.5	1.5	1.5	1.5
Book value	58	70	104	126
Operating, Returns Ratio				
Debt/ Equity (X)	2.7	3.5	3.0	2.7
Current Ratio (X)	1.6	1.5	1.7	1.7
ROE (%)	18.7	21.3	4.5	8.4
ROCE (%)	14.5	13.0	7.4	9.1
Dividend Yield (%)	3.6	3.6	3.6	3.6
Valuation Ratio (X)				
P/E	3.7	2.7	8.7	3.8
P/BV	0.7	0.6	0.4	0.3
EV/ Sales	0.2	0.2	0.2	0.2
EV/EBITDA	5.9	6.0	9.0	6.5



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Stock Rating Scale

	Absolute Return	
BUY	:	>20%
ACCUMULATE	:	12-20%
HOLD	:	5-12%
REDUCE	:	< 5%

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