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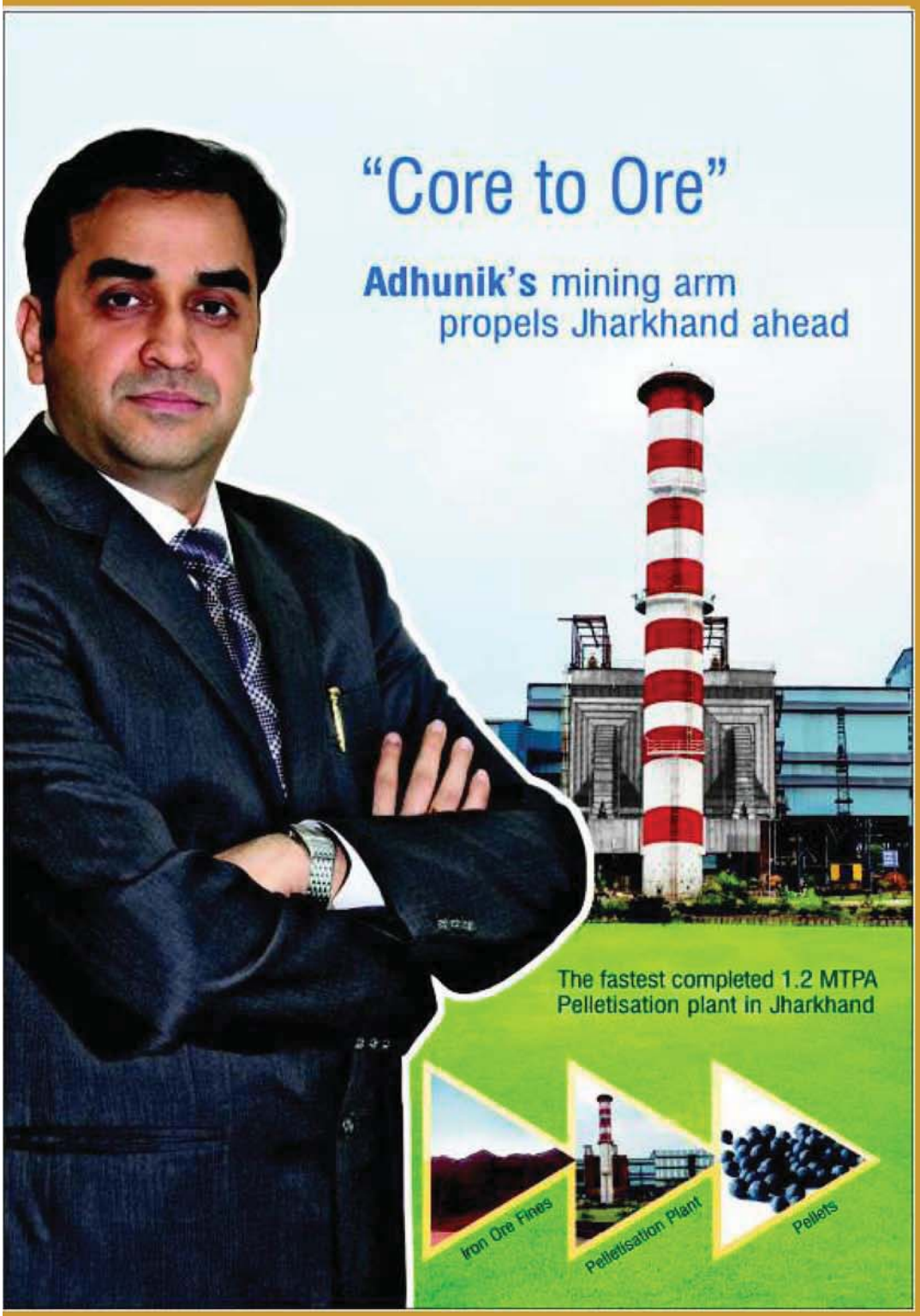

LEAD & ZINC SPECIAL

Adhunik Group a well diversified, fastest growing conglomerate

Adhunik Group, the Rs.3,500 crore conglomerate, is one of the fastest growing groups in India. It is engaged in mining, steel, power, and value added steel products, catering to a vast and quality-focused customer base. Recently, the group has set up pellet plant of 1.2 million tonne per annum (MTPA) at Kandra near Jamshedpur. This was the first time in India that straight grate induration furnace technology is used for this 1.2 MTPA pellet plant. The plant has been set up under Adhunik's subsidiary, Orissa Manganese & Minerals Ltd with an investment of around Rs 500 cr. The plant is one of the largest pellet plants of Eastern India and is the fastest completed pellet plant in the State of Jharkhand.

With a dependable and committed employees and a strong customer support, the Group has emerged as a steady performer, undeterred even during cyclical fluctuations and unsteadiness of the market. It has grown continuously, backed with strong financial performance.

The Group has steel manufacturing facilities in Odisha 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).

"India's requirement of iron ore is rising substantially due to increased steel demand and with the country's limited reserves of high grade iron ore, the steel industry is likely to face problems in long term sustainability. Thus, pelletisation would be the ideal solution for increasing the yield and utilisation levels of furnaces and kilns"

Manoj Agarwal
Managing Director
Adhunik Metaliks Ltd

Pramod Shinde

The Group has embarked upon an ambitious expansion plan in the power sector. 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 mining resources including iron ore, coal, manganese ore and lime stone which are the key inputs of production. The Group has also set up 1.2 million tonne pellet and beneficiation plant in Jharkhand to utilize the low grade iron ore fines and convert them into value added product pellets.

Over the years the Group has shown robust operational results and has an excellent track record of growth and profitability.

Mr.Manoj Agarwal, MD, Adhunik Metaliks Ltd. discusses with ***Pramod Shinde***, Associate Editor, MMR, about the Group's approach towards raw material security, diversification into sustainable businesses and about setting up of pelletisation plant to reduce input cost.

Excerpts :

How do you visualise the demand for steel industry in domestic and global markets?

We feel that domestic demand should pick up after this monsoon season. Investment cycle will regain momentum with slew of upcoming projects being announced which will require large quantities of steel. The demand for steel in the next half of this fiscal year is expected to be led by automobile companies. All of which means a boost to the steel sector despite possibilities of a slowdown in the international markets.

According to the Centre for Monitoring Indian Economy (CMIE), steel production in India was likely to grow by about 10.4 per cent this fiscal year due to growth in demand.

However global steel markets still remain weak with financial crisis in Europe and slow down in US economy. We feel that it be will three-four years to reach pre crisis level demand in Europe.

Raw material security is major concern for the Indian steel companies. Could you please provide us more details about Adhunik Group strategy to meet the rising demand?

The group strategy revolves around having ownership and control of key raw materials sources. In steel business, we have secured captive iron ore mine and captive coal mine, iron ore and coal being key raw material for steel making. Captive iron ore mine have also started dispatches from June 2012 making us the first company in Odisha to start captive iron ore mine in the last 10 years. Captive coal mine are also under development and will start operations in next two years.

We forayed into power generation only after securing the captive coal mine for power. We are setting up 540 Mw power plant in Jharkhand which is supported by Ganeshpur Captive coal block. Our power plant is on the verge of completion and Ganeshpur Coal mine will also start operations within 6 months of power plant coming into operations.

Besides raw material for captive use, the group has also acquired minerals resources for merchant sale through its mining subsidiary, Orissa Manganese & Minerals Ltd (OMM) . OMM has six manganese ore mines in the state of Odisha and one iron ore mine in Jharkhand. OMM is operating these mines for the last four years. OMM has recently added one more iron ore mines to its list through joint venture in Suleipat iron ore mine. OMM has also operationalised this mine in June 2012.

Hence the group is not only secured from volatility in raw material prices for its steel and power business, but is also well placed to capture the upside in the minerals ores by merchant sale.

How do you analyse the raw material cost impacts on profitability of the metal companies?

In the last one and half years we have seen that raw material prices have shot up by more than 50% due to supply contraints where steel prices were unable to keep pace with input raw material prices. Non integrated metal companies who do not have security of raw material were severely impacted. Their margins have shrinked and profitability has decreased sharply. We feel that non integrated steel without raw material security is unsustainable business model in the long run.

How do you see that there is huge demand for pelletisation plant in India and why?

Pellet is primarily used in steel making and is a better substitute for iron ore lumps in steel making. The country's iron ore requirement is going to increase substantially in line with domestic steel production requirement outlined in National Steel Policy. Limited reserves of high grade iron ore pose a great challenge in long term sustainability of Indian iron & steel industry. Pellet production can fill this huge gap of demand and supply by converting low grade iron ore fines. Further, it is more prudent to use pellet in steel making as it is a customised products which increase the yield and utilisation levels of the furnaces. Usage of pellet also increases the life of furnace with lower maintenance cost.

Give the shortage of iron ore and advantages of using pellet in steel making, the demand of pellet is increasing steadily. The demand is expected to remain healthy for the next three four years.

Could you provide more details on recently commissioned pelletisation plant capacity and other market peers capacity addition in the surrounding region?

We have set up 1.2 million tonne pellet plant support by 1.2 million ton beneficiation plant in Kandra, Jamshedpur, Jharkhand. For better logistics managament we also have railway siding and raw material handling system with stacker reclaimer. After undertaking a lot of research and visits to various pellet plants in India and abroad, the company chose to set up pellet plant with straight grate technology. The company has adopted wet grinding spirals and High Gradient Magnetic Separation (HGMS) route for beneficiation plant.

The beneficiation facility started operation during FY 2011 and the pellets plant commenced operations from December 2011 (as against documented COD of April 2012). The pellet plant was commissioned way ahead of its schedule. With beneficiation facility, the company will be able utilize even low grade iron ore fines of around 52%-55% to convert them into pellet making substantial value addition.

We are the first company to set up pellet plant in Jharkhand. There are no other pellet plants within radius of 150 kms. Hence we enjoy first mover advantage. There are few pellet operating plants in Odisha and other eastern region like 1.2 MTPA from Arya and around 3.00 MTPA from JSPL. Brahmani River's pellet plant of 3.2 MTPA is under implementation.

What are the advantages for setting up the pelletisation plant in Jamshedpur?

Adhunik enjoys locational advantages by setting up pellet plant at Kandra Jamshedpur. Jamshedpur is in the vicinity of lot of steel players hence we are near to end use industry. Raw material sources are also available within radius of 100 kms where iron ore fines used in steel making is abundantly available.

Jamshedpur is well connected with sufficient infrastructure. Further, we have adequate availability of skilled manpower for our plant.

Besides, Adhunik also has power plant coming up at same location and has small operating steel plant adjacent to pellet plant. We derive lot of synergies between these businesses like power can be sourced from our power plant.

Could you please provide us the segment wise revenue target of Adhunik Metaliks Ltd.? Which of these segment are most in demand and why?

We have three focussed business i.e. steel, mining and power. The steel segment will maintain steady revenues of around Rs 1600-1700 cr while mining and power segment will drive the growth in coming years. In mining business, we expect to achieve around Rs 1200 cr revenues as against Rs 475 cr in FY 12 which will be increased to Rs 2000 cr in the next two years. Around 70% of mining business revenues will come from pellet plant. Power segment will generate revenues of around Rs.1500 cr from first full year of operations. On consolidated basis we will achieve revenues of Rs 5,000 cr in next two years from current Rs 2000 cr.

Obviously, pellet and iron ore are in most demand given the demand supply gap in the industry.

What innovative strategy have you initiated for cutting down on raw material cost? How will the newly commissioned pellet plant add more value in the total business ?

We have taken a numbers of steps in our steel plant to reduce input cost and improve efficiencies. We have very effective waste management policy, where we are using waste gases from DRI for captive power generation, using iron ore fines generated during the process in sinter, using coke oven gases in rolling mill replacing costly furnace oil. We are also undertaking hot charging of billets and blooms in rolling mill saving substantial energy which otherwise would have been required for reheating of billets and blooms.

With pellet plant we have commercially entered into mineral processing business as well. Pellet will add substantial value to our total business as it will generate around Rs 800 crore of revenues per annum. Further, pellet plant can use the iron ore fines produced in our mines which otherwise would be sold at throw away prices.

Could you please elaborate on the company's manufacture of special alloy steel for automotive market? Who are the key customers for special alloys steels?

We manufacture special and alloys steel long products catering to automobile, engineering, power, oil and gas and construction sectors.

However, our major focus is on automotive segment. Alloy steel market is the niche market where quality is of utmost importance. You need to obtain approvals from OEMs which is given after several plant visits and ensuring stringent quality norms are met by plant as well as products. Over the last few years, we have got approvals from leading OEMs like Tata Motors, Mahindra, Ashok Leyland, Bajaj Auto, Honda, Arvin Meritor, Maruti, Amtek Auto, Ramkrishna Forgings. In non auto sector we are supplying to BHEL, Power Grid, BEML etc.

How do you differentiate your product portfolio in the highly competitive market? What are the value drivers?

Maintaining the stringent quality standards on consistent basis help us differentiate our product. We follow stringent quality norms for product and plant. In fact, we have invested substantially in quality control equipment's. We have testing facility with specialised equipment like an OE spectrometer, metallurgical microscope, muffle furnace, brinnel/rockwell hardness tester, impact testing machine, ultrasound flaw detector and profile projector, among others. We have also set up facilities for undertaking macro and micro examination.

Our main value drivers are our captive resources and variety of value added product portfolio.

Future investment planned in the coming years?

We are in consolidation phase in steel business while mining and power business will drive future growth. In mining business, we are looking to ramp up production from existing iron ore mines and manganese ore mines. In this financial year, we will commence operations in one additional iron ore mines in JV company, Suleipat Mines. Recently commissioned pellet plant is also running exceptionally well with 85% utilization in just 5 months.

Our power project is in advanced stage of implementation. Important milestones like boiler light and steam blowing has already been achieved and we are on track to commence operation in unit one of 270 Mw in July 2012. Second Unit of 270 Mw will also be commissioned by November 2012.

What would be Adhunik Metalik vision by 2015 to enhance the India operation?

We will continue our growth trajectory in mining and power business. In mining business we will target to achieve around 3.0-3.5 million tonne iron ore and around 2.50-3.00 lakh manganese ore. We intend to enhance our pellet plant capacity to 1.6 million tonne from current 1.2 million tonne. We will intend to set up another greenfield pellet plant in Odisha.

In power business, we intend to enhance our power generation capacity to 1080 Mw by setting up another 540 Mw power units at same location in Jamshedpur, Jharkhand. We have signed MoUs with Bihar, Chattisgarh and Odisha for setting up 1000 Mw plant in each state. However, we will secure raw material sources before making any investment in those projects.

Adhunik Group profile

The Adhunik Group is a respected name in the country with over three decades' of experience in iron & steel and ferro alloy industries. The group is engaged in manufacturing, processing and trading of iron & steel products, generation of power, mining and manufacturing of cement. Having started with trading in iron and steel products, the group grew from strength to strength and diversified into being a conglomerate in steel, power, mining and cement with a nationwide marketing network. The Adhunik Group today has manufacturing facilities in West Bengal, Odisha, Jharkhand, Maharashtra and Meghalaya. Its penchant for absorbing latest technologies and business techniques has paved the way for its success.

The group has steel manufacturing facilities in the States of West Bengal, Orissa, and Jharkhand and presently has a chain of value added products including carbon & alloy steel billets, auto grade steel rolled products, rounds and flats , TMT bars & wire rods , sponge iron , pig iron, ferro alloys products i.e. ferro manganese, silico manganese & ferro silicon stainless steel products.

The Group has recently ventured into power generation business with ongoing project to set up 1080 Mw independent power plant at Jamshedpur, Jharkhand with plans to expand the capacity to 3720 Mw in the next 5 years.

The group also has mining resources viz. iron ore, coal & manganese ore , which are in fact the key inputs of production and therefore would enable the Group to remain competitive in its area of operations.

Group companies:

Adhunik Metaliks Limited (AML): A flagship company of the group, is an integrated special alloy and stainless steel manufacturing company, with a capacity to manufacture 0.45 MTPA (million tones per annum) of alloy steel billets and rolled products. The company's shares are listed on National Stock Exchange and Bombay Stock Exchange.

Orissa Manganese and Minerals Ltd (OMM): A 100% subsidiary of Adhunik Metaliks Limited.

OMML is engaged in the business of exploration, development, mining and processing of mineral assets.

The company has valuable merchant resources of iron ore and manganese ore mines in the States of Jharkhand and Odisha which is available for sale in the open market to third party. OMML is the leaseholder of six manganese ore mines in Odisha and one iron ore mine in Jharkhand. OMM has also set up 1.2 MTPA pellet plant which was commissioned in Dec 2011. Besides own mines, the company has one more iron ore mine i.e. Suleipat Iron ore mine in joint venture.

Adhunik Power & Natural Resources Ltd (APNRL): A subsidiary of AML, is setting up merchant thermal power plant of 540 Mw comprising of two units of 270 Mw each in Jharkhand. The company has already acquired entire land required for setting up the thermal power plant. The company will operate the power project by utilising coal from captive mines at Ganeshpur non-coking coal block. GOI, Ministry of Coal, has made a joint allocation of Ganeshpur non-coking coal block in Jharkhand to APNRL and Tata Steel Limited on equal sharing basis for meeting their requirement of coal.

Adhunik Alloys & Power Ltd (AAPL): It is engaged in manufacture of structural steels. The company is operating 0.15 MTPA steel plant supported by 30 MW power plant. The Company has also been allotted North Dhandu Coal block at Dist Latehar, Jharkhand. Allotment of iron ore mines is also at various stages of necessary approvals and development.

Group mineral resources

The group has numbers of huge merchant-cum captive minerals resources which include iron ore, manganese ore, thermal coal, coking coal.

The group strategy is to build a integrated business model with complete backward integration and ownership of captive minerals resources. The company has also obtained merchant minerals resources i.e. which can be sold in open market to third party.

International presence

The group also has significant presence in international mineral geography. The group have obtained iron ore, coking coal, thermal coal, uranium licenses in difference countries namely Congo, Tanzania, Mozambique, South Africa etc. All these licenses are at various stages of development.