



A long term investment



Godawari Power and Ispat Limited (GPIL)

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Industry-----Sponge Iron

GODAWARI POWER AND ISPAT LIMITED

Company Address :

Plot No 428/2 Phase I, Industrial Area Rajpur

Dist., Sitara, Chhattisgarh-493111

Website: www.gpilindia.com

Key Data

CMP:	102
NSE CODE:	GPIL
BSE CODE:	532734
Bloomberg CODE:	GODPI.BO
52 Week H/L:	228/41
Market Cap:	300.35 cr.
Div. Yield (%):	3.74

One Year Close Price Graph



Corporate Action:

Div. (Ex:11 Sep,09) 25%

Share Holder Pattern:(As on 30 June,09)

	Shares	%
Foreign	2042864	7.28
Institutions	1971216	7.02
Govt. Holding	0	0
Non Promoter Corp. hold	2056556	7.33
Promoters	16469706	58.67
Public & Others	5529465	19.7
Total	2806980	100

Latest Result: - (Rs. In Cr.)

Period Ended	0906	0806	Var (%)
Sale	191.9	320.44	-40.11
Other Income	1.33	1.92	-30.73
PBIDT	29.64	58.4	-49.25
PBDT	22.66	49.88	-54.57
Interest	6.98	8.52	-18.1
PBT	15.53	43.08	-64
Tax	2.64	5.03	-47.5
Pat	12.89	38.05	-66.1



Godawari Power and Ispat Limited-----Fundamental Analysis

Company Profile:

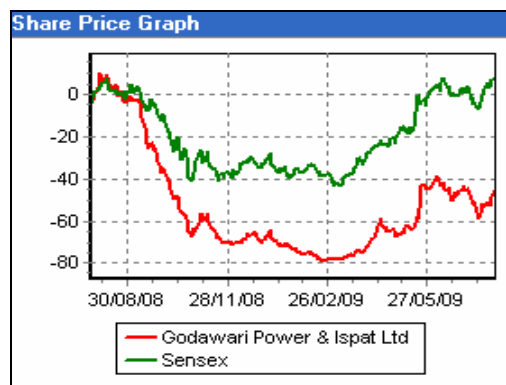
GPIL is a flagship Company of Raipur (Chattishgarh)-based Hira Group of Industries, which is an integrated steel manufacturer and is having dominant presence in the long product segment of the Steel industry, mainly into mild steel wire, with captive power generation facility. GPIL was incorporated on 21st sept. 1999. Today, the third largest producer of coal based sponge iron in India and is one of the largest players in the mild steel wires segment, GPIL is an end-to-end manufacturer of mild steel wires. In the process, the company manufactures sponge iron, billets, Ferro alloys, captive power, wires rods (through subsidiary company), steel wires, Oxygen gas, fly ash brick and last but not the least pallets. GPIL is also awarded rights for **Iron Ore and Coal Mining** for captive consumption, as a result of which, the company has managed to traverse the entire value chain (raw material to final product) in steel wires and is now a fully integrated manufacturer.

Vision:

To become one of the most competitive integrated steel plants with diversified products, specializing in particular to be reckoned with as a dominant leader in wire segment contributing substantially in meeting consumers needs, creating shareholders value and spearheading to be a leader in global wire segment market, pari pasu with powering India's growth to serve community and the nation in the decades to come 2020E.

Outlook-----Positive
Recommendation----Accumulate

Relative Chart with Sensex



Milestones:

- The Company crossed Rs 1000 crore marks in turnover. 2007-08 has seen an all around growth in the performance of the company, backed by higher volumes of production and better price realizations.
- The company has achieved consolidated revenue of Rs. 936 crore during the year under review as compared to revenue of Rs. 551 crore during the previous year, a growth of 70%
- The consolidated net profit after tax grew by 82% to Rs. 99 crore as against Rs. 54 crore during the previous year.

Future Plans: -

In line with anticipated increase in production and consumption of steel in India, the Company plans to increase the production capacities to 1 million tones and has also signed an MOU with State Government for investment in steel manufacturing & captive power generation facilities. The further capacity expansion projects shall be taken up, after captive iron ore mines starts production which is expected during the current year. In the meantime the Company has decided to set a 0.6 million ton iron ore pelletisation plant, which is under implementation at its existing plant location and also decided to set a 0.6 million ton pelletisation plant in joint venture in Orissa, which will provide huge opportunities due to availability of iron ore mines. It will continue to produce steel wires where it is a market leader. It plans to mine around 3 lakh tonnes of iron ore from its captive mines and this would be adequate to meet 50% of its requirement.

CAPEX PLAN-The capital expenditure for the financial year '09-10 is planned to be at around Rs 85-100 crore. Most of the capex will be spent on the pellet plant and power business. The company is also exploring opportunities into merchant power business by setting IPP based on *thermal coal washery reject* and have initiated effective steps towards the same.



The Road Ahead

GPIL has been granted mining lease for 2 iron ore mines at Ari Dongri and Boria Tibu in Chattisgarh. This would be on an area of 216 hectare & prospecting license for another iron ore mines with an area of 754 hectare in Chattisgarh.

GPIL has also been granted mining rights in consortium for mining of coal in Chattisgarh and the coal mines are being developed through special purpose Joint venture Company which has also achieved significant progress towards getting various regulatory approvals and coal mining operations are expected to commence some time in FY 2011.

The Company has also taken up various initiatives to emerge out as low cost steel wire producer with captive iron ore mines, coal mines and power generation facilities, which form part of 60 to 70% of the cost of production of finished steel. The Company has also made arrangements for captive railway siding which has already started operation.

Pellet plant: Pallets are uniform size, with purity of 63%- 68% contributing to faster reduction and high metallization rates. GPIL with the same fervor to produce Pallets with high uniform mechanical strength and high abrasive strength is coming up with a pallet plant of 6, 00,000 TPA which were functional from JUNE 2009. This pelletisation plant will increase production of sponge iron by 25% to 30% with same amount of fuel.

Insulation from Price Fluctuations: To insulate against the hazards of price fluctuation due to Govt. fiscal policies, uncertainty of supplies ensuring energy securities and of all basic & primary inputs GPIL carried out backward integration by entering into mining of coal/Iron ore & generation of captive power and forward integration by acquiring wire drawing plants (RRL), promoting 10% subsidiary Co. for venturing into generating of merchant power, converting in J. V. Companies for development of coalmines and setting up railway siding for captive use.



Captive Power to be a major source of revenue in FY10: GPIL, which has a captive power capacity of 53MW, had shut down its Ferro alloys and steel billets plant during Q3FY09 due to a depressed market and started selling most of its power on spot basis. Selling power on spot basis is proving to be more lucrative than producing Ferro alloys and billets currently. Thus, GPIL's captive power facilities are not only serving as a means of reduced cost of production but also as an additional revenue stream.

Good Volume Growth in FY11: In H1FY08, GPIL had commissioned its phase-II expansion which had almost doubled its capacities. The full benefits of the expansion will be seen in FY11 as production has been curtailed over FY09- 10 on account of better profitability from selling power on spot basis. Volume growth will be one of the key drivers of earnings growth in FY11.

Godawari Power - Restart of Steel Billets Production: The Company has partially restarted production of Steel Billets in SMS Division, which was earlier, suspended in view of better realization from Sale power and now since the power tariff in short term market have gone down during current month, the Company has restarted the production of steel Billets. Henceforth the Company would continue with production of steel billets and sale of power and keep on changing the strategy depending upon the market conditions with a view to optimize the revenues.

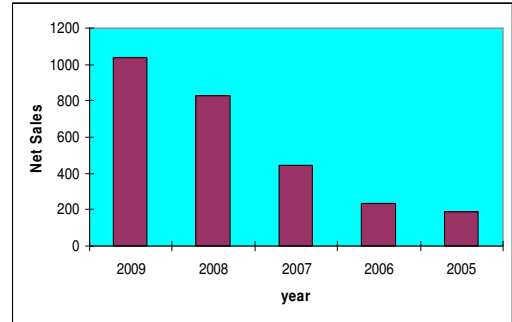
Risk Factors

- Prolonged Period of weak global economic conditions ,leading to continue with slumping steel prices and demands
- Lower volume growth
- Lower iron ore production
- Delay in commissioning of backward integration plans.

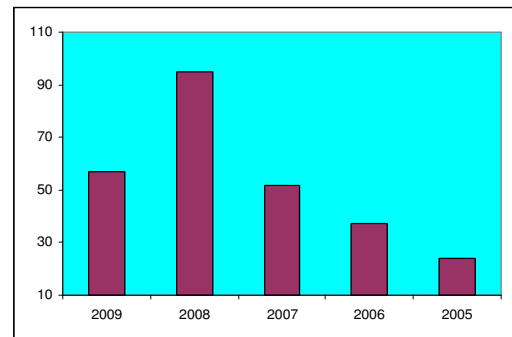


Financial Snapshot:

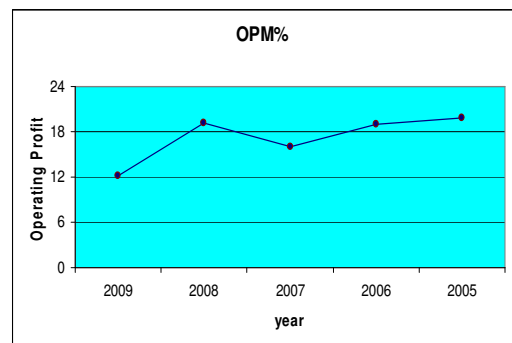
Net Sales: GPIL has posted a CAGR of 60% approx. in sales .In FY06 the figures stood at 191 cr. whereas it has increased to 1039 cr in FY09.This is due to the increased demand in the consumption of steel and iron .In FY2009 demand has taken the back seat as globally demand for metals had fallen down. But as market conditions are recovering it is expected that the demand again will pick up in the FY2009-10.



PAT: GPIL's profitability has more than doubled over FY06-08 on account of capacity expansion and improvement in iron & steel pricing. GPIL'S PAT has grown at a CAGR of about 24% over FY05-09 to Rs 57cr in FY09.



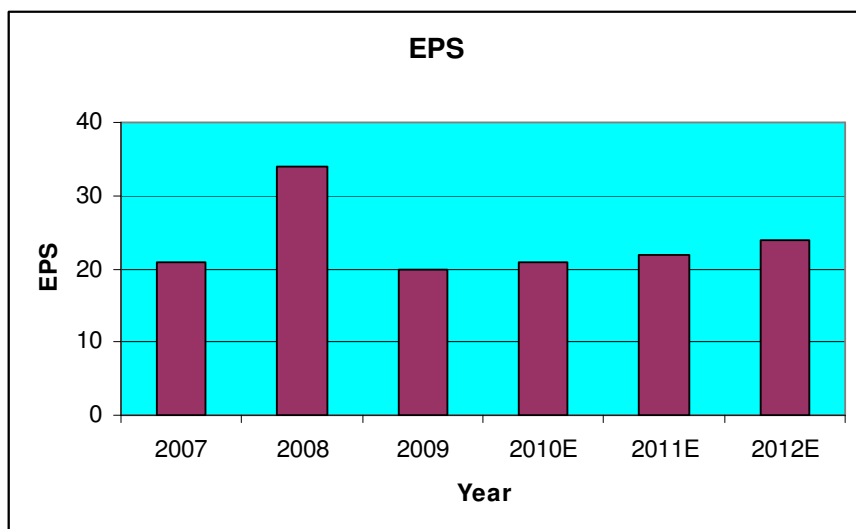
Operating Profit Margin: Company's Operating profit margin has decline 88 % approx. (yoy) basis, mainly due to the lower sales realization in steel and iron segment .In Fy09 the main reason for the lower operating profit margin was Employee expenses and increased raw material cost. It will be taken care in future by back Integration with raw material as well processing of final product.



Valuations and Outlook:

GPIL has commissioned its phase-II expansion plan with double capacity of the previous expansion plan .The earning from the expansion plan will be shown in the balance sheet of FY11 as the new plan will come into operation from this year, as a part of this, some projects are already in operation. Coals mining would boost its bottom line in FY11. Though steel prices are softening on account of a construction slowdown and the seasonal cycle, the cost reduction possible on account of the captive sources of iron ore and coal would boost the company's margins going forward. GPIL's iron ore assets will be the key driver of margin expansion and earnings growth and will also de-risk the company's business from the fluctuations in availability and prices of raw material.

AT the CMP of Rs 102, the stock is trading at a PE of 7.4x FY10E and EPS of Rs. 21; investor can accumulate the stock for a long perspective. GPIL's fundamental story of future raw material security, margin expansion, and volume growth, gives good visibility on the future valuation of the stock. We, therefore, recommend the stock with a 'BUY' rating, and one-year price target of INR 158 a potential return of 50-60%.



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