

Good show

CMP:	Rs.74
Target Price:	Rs.80
Recommendation:	Hold

Stock Info

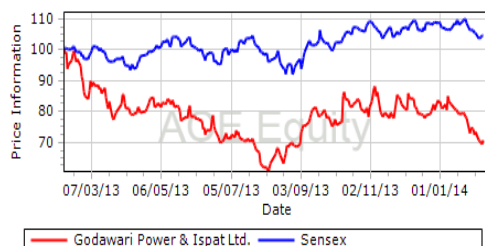
BSE Group	B
BSE Code	532734
NSE Symbol	GPIL
Bloomberg	GODPI.IN
Reuters	GDPI.BO
BSE Sensex	20377
NSE Nifty	6063

Market Info

Market Capital	₹ 239cr
Equity Capital	₹ 33cr
Avg. Trading Vol	15384
52 Wk High/ Low	107/62
Face Value	10

Shareholding Pattern (%) (Dec 2013)

Promoters	64.9
Domestic Institutions	6.5
Foreign Institutions	0.1
Non Promoters Corp.	16.0
Public & Others	12.5
Govt. Holdings	-



Date: 10-02-2014

Godawari power and Ispat's 3QFY14 result was better than estimates. Standalone revenue declined 10% yoy, however it rose 15% qoq on higher volumes and realisations. On consolidated basis, revenues declined 8% yoy. (rose 14% qoq). EBITDA margins improved on qoq basis both at standalone and consolidated level. Standalone EBITDA margin moved up 420bps qoq on higher operating leverage as both realisations and volumes rose qoq. Consolidated EBITDA margins inched up 560bps qoq to 19.2%.

Standalone profit after tax came in at Rs 6cr on higher depreciation and interest cost which increased due to capitalization of 1.2mtpa pellet unit. Consolidated PAT declined 72% yoy to Rs 4.5cr. Going forward, we expect profitability to remain under pressure due to higher depreciation and interest cost on capitalization of pellet and 50MW solar power unit. We expect these two units will take a while before they start contributing meaningfully to earnings.

Operating matrix: Volumes and realisations improve qoq

GPIL's volumes and realisations improved qoq. Finished steel volumes (MS Rounds + HB wire) declined yoy by 64%, while improved qoq by 2.5%. Billet and DRI volumes increased 32% qoq and 1.7% qoq. Pellet sales rose 155% yoy and 25% qoq on higher contribution from recently commissioned 1.2mtpa pellet unit. Pellet volumes at Ardent steel however declined qoq by 6.1%. Realisations increased across products in the range of 2-5%. Pellet realisations at Ardent steel increased 34% qoq.

Valuations:

GPIL continues to report stable operating performance every quarter. Given the weak environment; we expect margins to remain range bound around current levels. Recently commissioned 50MW solar power project and 1.2mtpa pellet unit are undergoing initial ramp-up phase and we expect these two units to contribute meaningfully only from FY15. We continue to value stock on SoTP basis and have ascribed EV/EBITDA(x) of 5.0x to standalone operations and 4.0x to Ardent Steel and Hira ferro alloys. We have valued solar business at Rs 17 per share. **Our fair value for GPIL stands at Rs 80 per share and we recommend Hold rating on the stock.**

Financials:

(Rs Cr)	FY12	FY13	FY14E	FY15E
Net sales	2058	2355	2245	2740
EBITDA	295	329	344	462
PAT	84	149	54	111
EPS (Rs)	27	47	17	34
EPS Growth (%)	(1.9)	76.6	(63.6)	105.2
RoE (%)	12.4	18.8	6.5	11.9
P/E (x)	2.8	1.6	4.3	2.2
EV/EBITDA(x)	4.2	6.1	5.5	3.9



Exhibit: Operating performance

Sales (tonne)	3QFY14	3QFY13	2QFY14	%yoy	%qoq
Sponge Iron	47147	24825	46367	89.9%	1.7%
Billets	26721	50278	20279	-46.9%	31.8%
MR Round	3209	15631	3126	-79.5%	2.7%
HB wire	21216	22242	20698	-4.6%	2.5%
FeMn(GPIL)	2708	2248	2367	20.5%	14.4%
Pellet (GPIL)	152949	60082	122521	154.6%	24.8%
Pellet (Ardant)	134112	130267	142810	3.0%	-6.1%
Power (mn unts)	12	20	11	-40.6%	4.5%

Realisations (Rs/t)	3QFY14	3QFY13	2QFY14	%yoy	%qoq
Sponge Iron	18529	20628	17601	-10.2%	5.3%
Billets	28213	30953	27528	-8.9%	2.5%
MS Round	32620	34144	31800	-4.5%	2.6%
HB wire	33903	37018	33364	-8.4%	1.6%
FeMn(GPIL)	51790	51360	49465	0.8%	4.7%
Pellet (GPIL)	7965	9133	7579	-12.8%	5.1%
Pellet (Ardant)	8460	7265	6317	16.4%	33.9%
Power (Rs/unit)	1.6	2.6	0.6	-38.9%	148.3%

3QFY14 Results (Consolidated)

Rs in Crore	3QFY14	3QFY13	YOY (%)	2QFY14	QoQ (%)
Net Sales	557	603	-7.6	487	14.4
Expenditure	450	533	-15.5	421	7.0
EBITDA	107	70	53.0	66	61.9
EBITDA Margins (%)	19	12	-	14	-
Other Income	1	4	-59.4	4	-60.4
Interest	51	30	71.0	33	53.1
Depreciation	34	18	91.5	20	69.1
Exceptional Items (Loss)	0	0	0.0	0	0.0
PBT after exceptional items	23	26	-10.1	16	43.1
Tax	15	5	181.5	5	194.0
Tax rate (%)	66	21	213.3	32	105.5
MI	3	2	81.5	3	21.6
Net Profit	4.5	18.5	-75.7	8.2	-45.2
EPS (Rs)	1.4	5.8	-76.5	2.5	-45.2



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Stock Rating Scale

	Absolute Return
BUY	>20
ACCUMULATE	12-20
HOLD	5-12
NEUTRAL	0-5
REDUCE	<0

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