

## Lower volumes and realisations leads to flat performance

<b>CMP:</b>	<b>Rs.104</b>
<b>Target Price:</b>	<b>Rs.151</b>
<b>Recommendation:</b>	<b>Buy</b>

### Stock Info

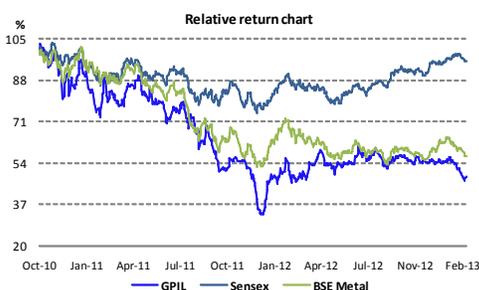
BSE Group	B
BSE Code	532734
NSE Symbol	GPIL
Bloomberg	GODPI.IN
Reuters	GDPI.BO
BSE Sensex	19461
NSE Nifty	5898

### Market Info

Market Capital	₹ 330cr
Equity Capital	₹ 31.8 cr
Avg. Trading Vol	15384
52 Wk High/ Low	136/99
Face Value	10

### Shareholding Pattern (%) (31<sup>st</sup> Dec 2012)

Promoters	63.8
Domestic Institutions	6.8
Foreign Institutions	0.1
Non Promoters Corp.	7.0
Public & Others	22.3
Govt. Holdings	-



Date: 12-02-2013

Godawari power and Ispat reported flat qoq performance during the quarter as revenues grew by 1% qoq to Rs 603cr. However, on consolidated basis it's gone up by 25% owing to higher yoy finished product sales.

Consolidated EBITDA margins dipped marginally both qoq and yoy due to higher operating cost at subsidiaries. Consolidated EBITDA margins came in at 11.6%. Notably, standalone EBITDA margins grew 240bps yoy and 120bps qoq to 12.2%, though they are still 330bps lower than those achieved in 1QFY13. Hira ferro alloys continue to post weak margins at around 3.5-4% due sluggish demand for ferro alloys and high operating cost.

GPIL's standalone net profit grew 107% yoy to Rs 15.6cr, however, it remained flat qoq. At consolidated level net profit jumped 74% yoy to Rs 18.5cr.

### Operating matrix: Prices fell across the products

In sync with current market conditions products prices, barring pellet and ferro alloys, fell both yoy and qoq basis in the range of 3-5%. Finished product volumes also declined qoq due to sluggish demand conditions. Pellet sales declined 30% yoy and 22% due to higher captive consumption, while its realisations grew 5% qoq. GPIL's power sales were 21% higher qoq but realisations dipped 7% qoq to Rs 2.6 per unit. Pellet volumes from Ardant steel also declined 1.1% qoq and realizations by 7% qoq. Going forward in next two quarters, we expect prices may move up in the range of 1-2%, while volumes are expected to remain flat qoq.

### Valuations:

GPIL continues to post stable operating performance every quarter. Though margins have been under pressure this quarter, we expect them to remain stable going forward. We continue to value stock on SoTP basis and have ascribed FY14 EV/EBITDA(x) of 4.5x to standalone operations and 3.0x to both Hira ferro alloys and Ardant steel. GPIL's current valuation looks attractive in our view, given its backward integration and increased emphasis on value addition that would help maintain margins even during troubled times. **Our fair value for GPIL stands at Rs 151 per share and we maintain Buy rating on the stock.**

### Financials:

(Rs Cr)	FY11	FY12	FY13E	FY14E
Net sales	1116	2058	2457	2515
EBITDA	232	295	340	339
PAT	86	84	110	50*
EPS (Rs)	27	27	35	16
EPS Growth (%)	50.1	(1.9)	30.2	(54.0)
RoE (%)	14.2	12.4	12.9	5.7
P/E (x)	3.8	3.9	3.0	6.6
EV/EBITDA(x)	4.6	3.8	5.6	5.8

Source: Arihant Research. Note: \* assuming capitalization of interest and depreciation cost from solar Power project but no revenues are assumed.



## Exhibit: Operating performance

Sales (tonne)	3QFY13	3QFY12	2QFY13	%yoy	%qoq
Sponge Iron	24825	27886	36899	(11.0)	(32.7)
Billets	50278	49687	46602	1.2	7.9
MR Round	15631	12300	19027	27.1	(17.8)
HB wire	22242	19710	23760	12.8	(6.4)
FeMn(GPIL)	2248	766	2040	193.5	10.2
Pellet (GPIL)	60082	76753	85223	(21.7)	(29.5)
Pellet (Ardant)	130267	64385	131749	102.3	(1.1)
Power (mn unts)	20.2	14.7	16.6	37.4	21.7

Realisations (Rs/t)	3QFY13	3QFY12	2QFY13	%yoy	%qoq
Sponge Iron	20628	21464	21318	(3.9)	(3.2)
Billets	30953	32046	32170	(3.4)	(3.8)
MS Round	34144	35267	35869	(3.2)	(4.8)
HB wire	37018	37818	38956	(2.1)	(5.0)
FeMn(GPIL)	51360	50369	53762	2.0	(4.5)
Pellet (GPIL)	9133	9002	8701	1.5	5.0
Pellet (Ardant)	7265	8134	7814	(10.7)	(7.0)
Power (Rs/unit)	2.6	3.0	2.8	(12.6)	(6.8)

## Valuations Table:

Company (Rs cr)	FY14E EBITDA	EV/EBITDA(x)	EV(Rs cr)	% Holding	GPIL's Share
GPIL	234	4.5	1052	100%	1052
Hira Ferro Alloys	8	3	23	51%	12
Ardant Steel	97	3	292	75%	219
Net Debt (FY13)					1421
CWIP					775
Minority Interest					83
Implied Mkt Cap					554
Fully diluted No. of shares*					3.68
<b>Target price (Rs/sh)</b>					<b>151</b>
CMP					104
Upside					45%
Rating					<b>BUY</b>

Note:\* assuming full conversion of warrants, allotted to promoters, into equity shares.

**3QFY13 Results (Consolidated)**

Rs in Crore	3QFY13	3QFY12	YOY (%)	2QFY13	QoQ (%)
Net Sales	603	481	25.3	597	1.0
Expenditure	533	425	25.4	523	2.0
EBITDA	70	56	24.9	75	-6.2
EBITDA Margins (%)	12	12	-	12	-
Other Income	4	3	10.8	3	14.6
Interest	30	27	8.9	29	4.4
Depreciation	18	17	3.0	18	-1.1
Exceptional Items (Loss)	0	0	0.0	0	0.0
PBT after exceptional items	26	14	78.2	31	-17.0
Tax	5	3	87.5	8	-33.9
Tax rate (%)	21	20	5.3	26	-20.4
MI	2	1	96.9	2	21.2
Net Profit	18	11	73.9	21	-13.2
EPS (Rs)	6	3	73.9	7	-13.2

**Background**

Godawari Power & Ispat Ltd, a flagship Company of Raipur-based Hira Group of Industries, is an integrated steel manufacturer. The company is mainly engaged in business of manufacturing of sponge Iron, pellets, billets, ferro alloys, mild steel, H.B. Wire. It is backward integrated through captive power units and Iron ore mines. Company's manufacturing facilities are located at Siltara in Raipur district of Chhattisgarh.

GPIL has been awarded three iron mines for captive consumption of which Ari Dongri is operational and meets 70-80% of its captive iron ore requirement. Other mine, i.e Boria Tibu, the company is awaiting physical handover from forest department. It has also been awarded prospecting license for Dhalli Rajhara mine, in Durg District of Chhattisgarh and is spread over ~760acres. In case of coal, it has been awarded Naxia coal mine in conjunction with four other players and has 26% stake. Mine is expected to be operational in next two years and will meet requirement of DRI and captive power unit.



Profit & Loss Statement (Consolidated)				
Y/E March (Rs Cr)	FY11	FY12	FY13E	FY14E
Net Sales	1116	2058	2457	2515
% Chg	35.7	84.4	19.4	2.3
Total Expenditure	884	1763	2117	2176
% chg	27.7	99.5	20.1	2.8
EBITDA	232	295	340	339
EBITDA Margin %	21	14.3	13.9	13.5
Other Income	15	14	13	13
Depreciation	55	68	72	115
EBIT	192	241	281	237
Interest	73	116	125	136
PBT bfr excep Items	119	125	157	100
Exceptional Items	-	(15.9)	-	-
PBT after EI	119	141	157	100
Tax Provisions	20	22	37	40
Reported PAT	86	84	110	50
Adj PAT Margins (%)	8	4	4	2

Cash Flow Statement (Consolidated)				
Y/E March (Rs Cr)	FY11	FY12	FY13E	FY14E
PBT	67	119	110	157
Op profit before WC	134	237	284	340
Changes in WC	(23)	(173)	40	41
Cash generated from Ops	101	64	323	381
Direct Tax Paid	-10	-19	-18	-24
Int/Div received & Others	-	-	-	0.0
Net Cash From Operations	101	45	305	358
Net Cash From Inv Activities	(250)	(251)	(371)	(923)
Cash flow from Fin Activity	125	312	-11	517
Net increase in cash	(24)	106	(76)	(48)
Adj for amalgamation	0	1	0	0
Opening Cash Balance	44	20	126	50
Closing Cash Balance	20	126	50	2

Balance sheet (Consolidated)				
Y/E March (Rs Cr)	FY11	FY12	FY13E	FY14E
Shareholder's funds	32	32	32	32
Warrants	0	0	65	65
Reserves and Surplus	573	646	752	793
Minority Interest	76	92	83	93
<b>Non-current liabilities</b>	<b>14456</b>	<b>16438</b>	<b>19416</b>	<b>20077</b>
Long-term borrowings	504	583	1180	1228
Deferred Tax Liabilities	0	0	0	0
Other Long term Liabilities	2	32	32	32
Long-term provision	2	2	2	2
<b>Current liabilities</b>	<b>505</b>	<b>621</b>	<b>653</b>	<b>661</b>
<b>Equity + Liability</b>	<b>1693</b>	<b>2009</b>	<b>2798</b>	<b>2905</b>
<b>Net Fixed assets</b>	<b>971</b>	<b>1050</b>	<b>1122</b>	<b>1834</b>
CWIP	94	285	1076	420
Goodwill	0	0	0	0
Non-current Assets	21	16	16	16
Deferred tax assets (net)	5	7	7	7
Long-term loans and Adv.	6	7	7	7
Other non-current assets	6	9	9	9
Current assets	590	634	562	612
<b>Assets</b>	<b>1693</b>	<b>2009</b>	<b>2798</b>	<b>2905</b>

Key Ratios (Consolidated)				
Y/E March (Rs Cr)	FY11	FY12	FY13E	FY14E
Per Share data (Rs)				
EPS	27.0	26.5	34.6	15.9
Cash EPS	44.5	47.8	57.1	52.0
DPS	2.7	2.5	2.5	2.5
Book value	190	214	247	260
Operating, Returns Ratio				
Debt/ Equity (X)	1.0	1.1	1.8	1.7
Current Ratio (X)	1.2	1.0	0.9	0.9
RoE (%)	14.2	12.4	12.9	5.7
RoCE (%)	11.4	12.0	10.1	8.1
Dividend Yield (%)	3.2	3.0	3.0	3.0
Valuation Ratio (X)				
P/E	3.8	3.9	3.0	6.6
P/BV	0.5	0.5	0.4	0.4
EV/ Sales	1.0	0.5	0.8	0.8
EV/EBITDA	4.6	3.8	5.6	5.8

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**Stock Rating Scale**

	<b>Absolute Return</b>
BUY	>20
ACCUMULATE	12-20
HOLD	5-12
REDUCE	<5

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