

Godawari Power & Ispat

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Shareholding (%)

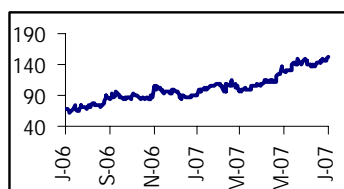
Promoters	63.4
FI's/Banks	2.7
MFs	9.3
Others	24.6

Share price performance

52-week high/low (Rs)	154/61		
	-1m	-3m	-12m
Abs (%)	0.3	35.1	-2.2
Rel* (%)	-1.3	19.1	-1.5

*to Nifty

Stock chart



Growth on track

Godawari Power & Ispat Ltd. (GPIL) announced its Q4FY07 results. The company has reported 28.6% YoY growth in topline and 19.1% YoY growth in bottomline. The growth has been driven primarily by higher volumes and realisations. However, on QoQ basis, in view of the shutdown (26 days in February 2007) of its sponge iron, billet and power plants, the company has reported 11.5% decline in net sales and 8.8% decline in net profit.

Going forward, we expect the company to report robust growth during FY08-09. While operationalisation of phase-II capacities will drive growth during FY08E; savings from captive iron ore mines will provide fillip to revenue in FY09E. Thus, we expect GPIL to report 43.3% CAGR growth in net revenue and 81.8% CAGR growth in net profit during FY08-09. At the current price, GPIL trades at a PER of 3.6x FY08E and 2.2x FY09E. We maintain a 'Buy' recommendation.

Key highlights in Q4FY07 results are as follows:

Sharp increase in steel prices during Q4FY07 drives YoY growth:

GPIL has reported 28.2% YoY growth in net sales. The growth was driven by higher steel prices and volumes. During Q4FY07, buoyed by the sharp increase in global scrap prices, domestic sponge iron and billet prices have witnessed an upward movement. This helped GPIL report 4.9% QoQ growth in sponge iron, 7.3% growth in billets and 5.8% QoQ growth in HB wires. Ferro Manganese realisations too were up 1.4% QoQ. However, benefits of the increase were offset by the planned shutdown during February 2007 for 27 days, which affected sponge iron, billets and power production during the quarter.

Buy

Rs152

July 9, 2007

Market cap

Rs bn 4

US\$ mn 93

Avg 3m daily volume

112,821

Avg 3m daily value

Rs mn 15

Shares outstanding (mn)

25

Reuters

GDPI.BO/GPIL.NS

Bloomberg

GODPI IN

Sensex

14,964

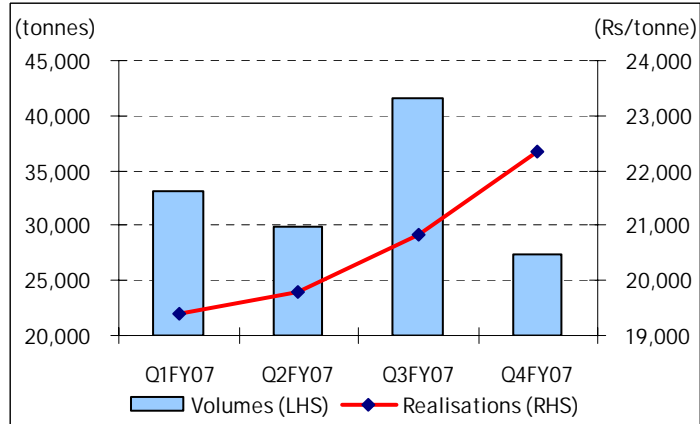
Nifty

4,385

Year-end	Sales	YoY	EBITDA	YoY	NP	YoY	EPS	YoY	PE	EV/EBITDA	PSR	PBR	RoE	RoCE	DPS	Div Yield
March	(Rs m)	(%)	(Rs m)	(%)	(Rs m)	(%)	(Rs)	(%)	(x)	(x)	(x)	(x)	(%)	(%)	(Rs)	(%)
FY2006	2,335	35.2	360	-3.7	224	-7.2	13.8	-7.2	11.0	11.2	1.0	2.5	23.1	11.6	1.8	1.2
FY2007	4,432	89.8	793	120.4	522	133.5	21.0	51.8	7.2	8.1	0.9	1.8	25.1	14.1	2.3	1.5
FY2008E	8,067	82.0	1,578	98.8	1,059	102.8	42.6	102.8	3.6	3.9	0.5	1.2	34.4	23.9	2.3	1.5
FY2009E	9,097	12.8	2,432	54.1	1,725	62.9	69.4	62.9	2.2	2.4	0.4	0.8	36.3	30.4	2.3	1.5

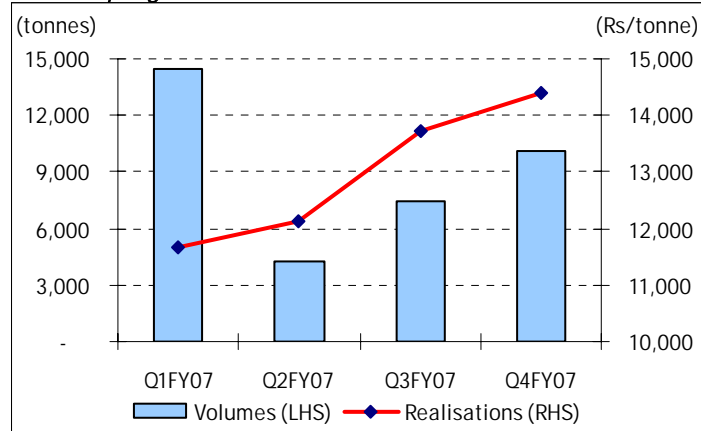
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Chart 1. Steel billets



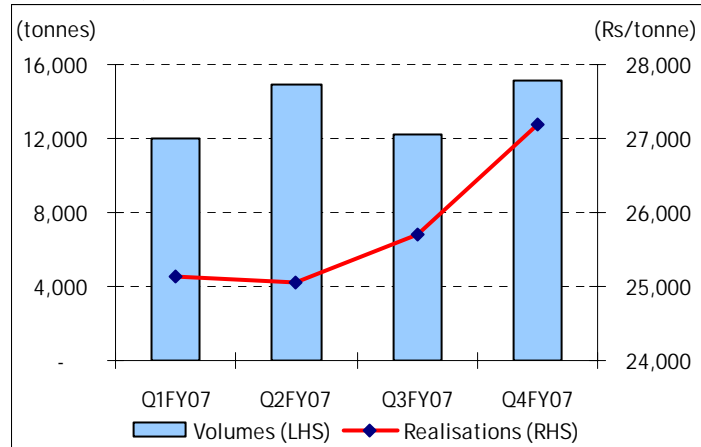
Source: IISL research, company

Chart 2. Sponge iron



Source: IISL research, company

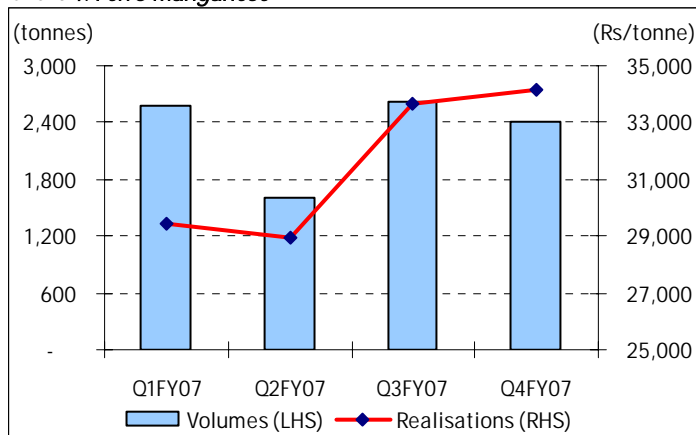
Chart 3. HB Wire



Source: IISL research, company

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Chart 4. Ferro Manganese



Source: IISL research, company

▲ **Margin expands on rising prices:** Buoyed by rising product prices, GPIL has reported 70 basis points QoQ improvement in operating profit margin to 17.6% during Q4FY07. The company has thus reported net profits of Rs119.5mn during Q4FY07.

▲ **FY08 projections revised; FY09 projections introduced:** We had forecasted net revenue and net profit of Rs7.8bn and Rs1.3bn for FY08E. However, during H1FY08, steel prices have increased more than our expectations. We are hence revising our net sales forecast for FY08E upwards to Rs8.1bn. On the other hand, in our earlier estimates we had forecasted captive iron ore mines availability for 50% of the company's FY08 requirements. However, in view of the delay in acquiring necessary approvals, we have now assumed captive iron ore availability for 25% of its Q4FY08 requirements. Thus, we have lowered our operating profit margin forecast for FY08E from 24.9% to 19.6%. Taking the above two factors into account, the net profit forecast for FY08E stands revised from Rs1.29bn to Rs1.06bn.

We have also introduced forecasts for FY09E. While we have assumed average steel realisations to drop by 2% YoY in FY09E, iron ore from captive mines have been assumed to be available for 50% of FY09 requirements. It is to be noted here that the company expects to get necessary approvals for captive mining by September 2007 and to start mining from Q4FY08.

▲ **Phase-II capacity additions on track:** GPIL has stated that phase-II capacity expansion has been fully implemented and commercial production in its sponge iron, billets and captive power plants have started. Fresh capacities are expected to go full stream by July 2007. This will lead to sharp growth in the company's financial performance during FY08E.

▲ **Attractive valuation:** GPIL is likely to report strong growth over the next two years. During FY08, volume growth is likely to be driven by new facilities getting operational. Captive iron ore mining is expected to further improve the company's financial performance during FY09. GPIL is trading at a P/E of 3.6x

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FY08E and 2.2x FY09E. Though, the volatility in global steel prices increase GPIL's business risk, we believe that volume growth and captive iron ore mining will more than offset the impact of this risk. Hence, we maintain 'Buy' recommendation on the stock.

Table 1. Quarterly result table

Rs mn	Q4FY07	Q4FY06	YoY (%)	Q3FY07	QoQ (%)
Gross Sales	1,285.8	1,003.3	28.2	1,443.3	-10.91
Less Excise duty	(183.5)	(145.9)	25.8	(198.2)	-7.42
Net Sales	1,102.3	857.4	28.6	1,245.1	-11.47
Total Expenses	908.6	697.9	30.2	1,034.1	-12.14
Inc / Dec in stock	(1.6)	(58.2)	(97.3)	(12.2)	-86.89
Raw material consumed	810.0	660.8	22.6	947.1	-14.48
Manufacturing expenses	81.8	84.1	(2.7)	88.0	-7.05
Staff cost	18.4	11.2	64.3	11.2	64.29
EBIDTA	193.7	159.5	21.4	211.0	-8.20
Other Income	10.8	6.3	71.4	2.4	350.00
PBIDT	204.5	165.8	23.3	213.4	-4.17
Interest	39.3	27.6	42.4	28.4	38.38
Depreciation	29.4	27.2	8.1	26.8	9.70
PBT	135.8	111.0	22.3	158.2	-14.16
Tax	16.3	10.7	52.3	27.2	-40.07
PAT	119.5	100.3	19.1	131.0	-8.78
Equity	248.4	161.5	53.8	248.4	0.00
EPS	4.8	6.2	(22.5)	5.3	-8.78
Key Ratios (%)					
EBIDTA Margin	17.6	18.6		16.9	
Interest / Sales	3.6	3.2		2.3	
Tax / PBT	12.0	9.6		17.2	
NPM	10.8	11.7		10.5	

Source: IISL research, company

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Financials

Profit & Loss

Rs mn	FY05	FY06	FY07	FY08E	FY09E
Net sales	1,726.3	2,334.8	4,431.9	8,067.5	9,097.4
YoY (%)	60.4	35.2	89.8	82.0	12.8
Total expenses	1,352.4	1,974.8	3,638.5	6,489.9	6,665.9
Inc/dec in stock	(13.2)	(94.0)	29.0	(62.1)	(13.9)
Raw material cost	1,181.8	1,819.1	3,232.8	5,823.4	5,654.7
Staff cost	18.5	31.2	49.4	83.9	96.5
Power and fuel cost	29.7	39.0	12.1	51.2	187.0
Other manufacturing exp	116.5	154.4	252.6	477.7	611.6
Other expenses	19.1	25.0	62.6	115.7	130.0
EBIDTA	373.9	360.1	793.5	1,577.6	2,431.6
YoY (%)	77.5	(3.7)	120.4	98.8	54.1
EBIDTA (%)	21.7	15.4	17.9	19.6	26.7
Other income	5.2	8.5	22.4	24.4	27.4
PBIDT	379.1	368.6	815.9	1,602.0	2,458.9
Interest	28.8	59.5	117.3	243.9	232.5
Gross profit	350.4	309.1	698.6	1,358.1	2,226.4
Depreciation	88.4	60.8	108.7	161.8	197.1
PBT and extra ordinary	261.9	248.3	589.9	1,196.2	2,029.3
Extra ordinary items	0.0	(1.4)	0.0	0.0	0.0
PBT	261.9	246.9	589.9	1,196.2	2,029.3
(-) Tax	20.9	23.3	67.8	137.4	304.4
Tax/ PBT	8.0	9.4	11.5	11.5	15.0
PAT	241.1	223.6	522.1	1,058.8	1,724.9
Adjusted net profit	241.1	223.6	522.1	1,058.8	1,724.9
YoY (%)	210.4	(7.2)	133.5	102.8	62.9

Key Ratios

	FY05	FY06	FY07	FY08E	FY09E
EPS (Rs)	14.9	13.8	21.0	42.6	69.4
Adjusted EPS (Rs)	0.0	0.0	0.0	0.0	0.0
CEPS (Rs)	20.4	17.6	25.4	49.1	77.4
Book value (Rs)	39.5	59.9	83.7	124.1	191.2
Dividend per share (Rs)	0.3	1.8	2.3	2.3	2.3
Debt-equity (x)	1.3	1.7	1.3	0.9	0.5
ROCE	19.4	11.6	14.1	23.9	30.4
ROE	37.8	23.1	25.1	34.4	36.3

Valuations

PE (x)	10.2	11.0	7.2	3.6	2.2
Cash PE (x)	7.4	8.6	6.0	3.1	2.0
Price/book value (x)	3.8	2.5	1.8	1.2	0.8
Dividend yield	0.2	1.2	1.5	1.5	1.5
Market cap/sales	1.4	1.0	0.9	0.5	0.4
EV/sales (x)	1.9	1.7	1.4	0.8	0.6
EV/EBDITA (x)	8.7	11.2	8.1	3.9	2.4

Balance Sheet

Rs mn	FY05	FY06	FY07	FY08E	FY09E
Equity capital	161.5	161.5	248.4	248.4	248.4
Shre appln money pending	10.0	0.0	0.0	0.0	0.0
Reserves	466.2	805.1	1,830.9	2,833.7	4,502.5
Net worth	637.7	966.6	2,079.3	3,082.1	4,751.0
Total borrowings	831.4	1,615.0	2,774.9	2,846.6	2,589.4
Deferred tax	0.0	0.0	0.0	0.0	0.0
Total liabilities	1,469.1	2,581.5	4,854.2	5,928.8	7,340.4
Gross block	650.4	1,593.0	2,910.3	4,210.3	4,460.3
Less: Acc. depreciation	261.7	174.2	281.7	443.6	640.7
Net block	388.7	1,418.8	2,628.6	3,766.8	3,819.6
CWIP	655.0	470.8	1,031.9	100.0	100.0
Investments	91.0	93.6	208.6	375.1	1,913.7
Current assets	468.6	809.3	1,392.0	2,379.7	2,363.1
Inventories	257.2	422.0	711.0	1,270.7	1,254.1
Debtors	80.5	159.5	234.5	282.6	282.6
Cash	10.9	31.2	120.1	500.0	500.0
Loans and advances	120.1	196.6	326.4	326.4	326.4
Current liabilities	127.2	171.5	345.3	496.0	492.3
Provisions	7.0	39.5	61.6	196.8	363.8
Net current assets	334.4	598.3	985.1	1,687.0	1,507.0
Miscellaneous expenses	0.0	0.0	0.0	0.0	0.0
Total assets	1,469.1	2,581.5	4,854.2	5,928.8	7,340.4

Cash Flow

Rs mn	FY05	FY06	FY07	FY08E	FY09E
Net profit	241.1	223.6	522.1	1,058.8	1,724.9
Depn and w/o	89.2	61.6	108.8	161.8	197.1
Deferred tax	0.0	0.0	0.0	0.0	0.0
Change in working cap	(31.2)	(243.6)	(297.9)	(322.0)	179.9
Other income	5.2	8.5	22.4	24.4	27.4
Operating cash flow	293.8	33.2	310.6	874.3	2,074.6
Other income	5.2	8.5	22.4	24.4	27.4
Capex	(637.0)	(906.8)	(1,879.6)	(368.1)	(250.0)
Investments	(36.9)	(2.6)	(115.0)	(166.4)	(1,538.6)
Investing cash flow	(668.7)	(900.9)	(1,972.3)	(510.1)	(1,761.2)
Dividend	(4.0)	(28.3)	(56.7)	(56.1)	(56.1)
Fresh equity	(126.9)	148.3	551.8	0.0	0.0
Debt	417.7	783.6	1,159.9	71.7	(257.3)
Financing cash flow	286.7	903.6	1,655.1	15.7	(313.3)
Others	96.5	(15.6)	86.9	0.0	0.0
Net change in cash	8.4	20.3	80.3	379.9	(0.0)
Opening cash	2.6	10.9	31.2	120.1	500.0
Closing cash	10.9	31.2	120.1	500.0	500.0

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