

STOCK DATA

Market Cap	Rs6.6bn.
Book Value per share	Rs83.8
Eq Shares O/S (F.V. Rs.10)	24.8mn.
Median Vol (12 mths)	68,900(BSE+NSE)
52 Week High/Low	Rs 287/82
Bloomberg Code	GODPI.IN
Reuters Code	GDPI.BO

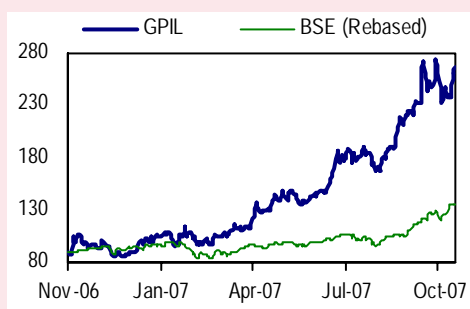
SHAREHOLDING PATTERN (%)

Qtr. Ended	Mar-07	Jun-07	Sep-07
Promoters	63.4	63.4	63.4
MFs/FIs	13.8	15.6	13.7
FIIIs	4.6	6.8	7.0
PCBs	4.0	3.1	3.8
Indian Public	14.2	11.1	12.1

STOCK PERFORMANCE (%)

	1M	3M	12M
Absolute	13.6	50.0	200.0
Relative	(0.2)	13.6	98.2

STOCK PRICE PERFORMANCE



KEY HIGHLIGHTS

Godawari Power and Ispat Ltd's (GPIL) Q2FY08 results were in line with expectations as net sales and net profits registered a YoY growth of 78% and 42% to Rs1.8bn and Rs214mn respectively.

This was driven by incremental contribution from the phase-II capacity expansion of sponge iron, billets and ferro alloys. Ferro alloys realisations were also higher during the period.

● **Volumes expand with stable realisations**

Production and sales volumes across all products rose on a YoY basis as a result of the ramp up of the expanded capacities. Production volumes of sponge iron, billets, ferro alloys and HB wire were higher by 129%, 65%, 75% and 13% respectively. Realisations were flat for all products, except for ferro alloys, which increased 43% on a YoY basis.

● **OPM remains flat at 21%**

Despite higher volumes from the recently commissioned capacities, OPM for the quarter remained flat on account of higher iron ore and coal prices as GPIL does not have captive linkages for the same. Higher captive power production (+88%) aided in containing the effect of rising raw material prices. This, coupled with higher volumes led to operating profits rising by 79% YoY to Rs375mn.

● **Capacity expansion**

GPIL has envisaged backward integration into iron ore crushing, beneficiation and pelletisation at a capex of Rs2.4bn. This will enable it to capture a higher share of the value chain.

VALUATIONS AND RECOMMENDATION

Incremental production from enhanced capacities will propel GPIL's profitability, as realisations are expected to remain buoyant. Moreover, 100% captive power linkage, possible award of iron ore mines and backward integration will aid it in improving margins.

At CMP of Rs267, it trades at a P/E of 5.4x & EV/EBITD of 4.7x discounting its FY09E earnings, a marked discount to its peers. Hence, we maintain our 'BUY' recommendation with a 12-month price target of Rs320.

KEY FINANCIALS (STANDALONE)

Rs mn	Quarter Ended			Yr Ended (March)		
	Mar-07	Jun-07	Sep-07	2007	2008E	2009E
Net Sales	1,102	1,702	1,782	4,421	7,683	8,598
YoY Gr (%)	28.6	59.1	77.6	89.3	73.8	11.9
Op. Profits	194	344	375	793	1,614	1,785
Op. marg (%)	17.6	20.2	21.0	17.9	21.0	20.8
Net Profits	120	209	214	522	1,056	1,218
Eq Capital	248	248	248	248	248	248

KEY RATIOS

	Yr Ended (March)		
	2007	2008E	2009E
EPS (Rs)	21.1	42.6	49.1
ROCE (%)	23.8	31.0	27.7
RONW (%)	34.2	41.2	34.0
P/E(x)	12.7	6.3	5.4
EV/Sales (x)	2.1	1.2	1.0
EV/EBDIT (x)	11.4	5.5	4.7

Volume driven growth with higher ferro realisations...

PERFORMANCE OVERVIEW

GPIL's results were in line with our expectations as net sales grew by 78% YoY to Rs1.8bn. The same was driven by higher volumes and better realisations for ferro alloys as compared to Q2FY07. Volumes for Q2FY08 is as depicted in the table below.

GPIL: Production and Sales Volumes ('000 MT)								
Products	Production				Sales			
	Q2FY08	Q2FY07	YoY(%)	QoQ(%)	Q2FY08	Q2FY07	YoY(%)	QoQ(%)
Sponge Iron	75.3	32.8	129.3	11.2	15.7	4.3	268.3	(2.2)
Billets	48.5	29.5	64.5	(2.0)	47.4	29.9	58.8	(3.2)
Ferro Alloys	2.6	1.5	74.9	41.8	2.4	1.6	49.9	32.4
HB Wire	17.1	15.1	12.9	20.0	16.0	14.9	7.8	12.4
Power (mn units)	70.3	37.3	88.2	16.2	-	-	-	-

Source: Company

OPM during Q2FY08 was stagnant as a result of increasing cost of iron ore and coal. The company procures its iron ore requirements equally from NMDC and Barbil mines (Orissa Mining Corp). While contract prices with NMDC are revised annually (April), it procures iron ore from OMC at spot rates, which prevented margin expansion. A lower quality coal also impacted margins resulting in OPM remaining stagnant at 21% (+10 bps YoY).

However, incremental volumes from the recently commissioned capacities helped operating profits rise by 79% to Rs375mn. Despite higher depreciation (Rs63mn, +138%) and interest cost (Rs73mn, +217%), net profit stood at Rs214mn, a YoY growth of 42%.

Captive Linkages

GPIL still awaits forest clearance for its *Borio Tibbu* (Chattisgarh) and *Ari Dongri* (Chattisgarh) iron ore mines, which have Fe content of more than 62%. The mine has reserves of ~30-35 mn mt and once operational, will significantly boost GPIL's margins and profitability.

Coal linkages through captive mines (*Nakia- I & II, Madanpur-North & South*) will commence production in the next 2-3 years. The mine has reserves of ~80-90mn mt and has been awarded in consortium to 5 companies with GPIL's share of ~35%.

Expansion plans

The company has envisaged a Rs2.4bn capex plan for setting up an iron ore crushing unit, a beneficiation plant and a pelletisation plant. This will aid in extracting benefits of captive iron ore and also in utilising iron ore fines, thereby providing significant savings.

OUTLOOK

Considering the enhanced capacities across all products, we expect GPIL to report net sales of Rs7.7bn and Rs8.6bn for FY08 and FY09 respectively. The same should translate into net profit of Rs1.1bn and Rs1.2bn for the respective years. Moreover, captive iron ore mines, once operational, will only aid in driving the profitability of the company.

VALUATIONS

At the CMP of Rs267, the stock trades at a P/E of 5.4x its FY09E EPS of Rs49.1 and an EV/EBIDT of 4.7x. Ramp up of its capacities will translate into earnings growth for GPIL and also help narrow the valuation gap with peers like Monnet Ispat and Adhunik Metaliks. Thus, we maintain our 'BUY' recommendation on the stock with a revised 12-month price target of Rs320.

Iron ore mines awaiting forest clearance, while coal mining will commence in the next 2-3 years...

Backward integration to boost margins...

Company description

Godawari Power & Ispat Ltd. is promoted by the Hira Group and is engaged in the business of manufacturing crude steel through the sponge iron route. It also has a wire drawing unit and a ferro alloy capacity. It has recently commissioned its phase-II expansion across all product segment, which shall benefit the company going forward.

Financial Results for the quarter & half year ended 30 September 2007

Particulars (Rs mn)	Quarter Ended			Half Year Ended			Year Ended
	30/09/07	30/09/06	Gr %	30/09/07	30/09/06	Gr %	31/03/07
Gross Sales	2,061	1,148	79.5	4,035	2,370	70.2	5,100
Excise Duty	279	145	93.1	551	297	85.7	679
Net Sales	1,782	1,004	77.6	3,484	2,074	68.0	4,421
Total Expenditure	1,407	794	77.2	2,765	1,685	64.1	3,627
(Increase) /Decrease in Stock	(177)	6		(178)	32		18
Raw Material Consumed	1,410	704	100.4	2,659	1,476	80.2	3,233
Staff Cost	25	10	155.1	42	20	112.6	49
Other Expenses	149	75	98.3	243	158	54.0	327
Operating Profit	375	210	78.8	719	389	84.9	793
Other Income	3	3	(10.3)	6	9	(32.6)	22
PBIDT	378	213	77.6	725	398	82.2	816
Interest	73	23	217.4	134	50	170.8	117
Depreciation	63	26	137.9	112	53	113.7	109
PBT	242	163	48.2	479	296	61.7	590
Tax	28	12	121.8	55	24	129.3	68
Net Profit	214	151	42.1	424	272	55.8	522
Equity Capital (F.V of Rs 10/share)	248	248		248	248		248
Reserves(excl rev res)	-	-		-	-		1802.7
EPS for the period (Rs.)	8.6	6.1		17.1	11.0		21.0
Book Value per share (Rs)	-	-		-	-		82.6
OPM (%)	21.0	20.9		20.6	18.8		17.9
NPM (%)	12.0	15.0		12.2	13.1		11.8
Expenditure (as % of net sales)							
Raw Material Consumed	69.2	70.6		71.2	72.7		73.5
Staff Cost	1.4	1.0		1.2	1.0		1.1
Other expenditure	8.4	7.5		7.0	7.6		7.4

Segmentwise results for the quarter & half year ended 30 September 2007 (Standalone)

Particulars (Rs Mn)	Quarter Ended			Half Year Ended			Year Ended
	30/09/07	30/09/06	Gr %	30/09/07	30/09/06	Gr %	31/03/07
Segment Revenue							
Steel	2,059	1,078	91.1	4,028	2,289	75.9	4,999
Power	232	173	34.4	432	324	33.4	629
Others	12	12	-	19	19	-	53
Total	2,303	1,262	82.5	4,479	2,631	70.2	5,681
Less: Inter-segment Revenue	242	114	112.0	443	261	69.9	581
Gross Sales	2,061	1,148	79.5	4,035	2,370	70.2	5,100
Segment PBIT							
Steel	140	84	65.9	300	137	119.1	319
Power	169	109	54.9	305	216	41.1	408
Others	7	3		8	4		16
Total	315	196	60.6	614	357	72.0	744
Less: Net unallocable expense	1	7	(90.9)	1	8	(90.7)	36
Less: Interest	73	27	174.4	134	53	152.4	117
PBT	242	163	48.2	479	296	61.7	590
Tax (including FBT & Deferred)	28	12	121.1	55	24	126.7	68
Net Profit	214	151	42.0	424	272	55.7	522
Capital Employed							
Steel	1,202	1,131	6.3	1,202	1,131	6.3	1,388
Power	833	475	75.3	833	475	75.3	694
Others	484	75		484	75		67
Total	2,519	1,680	49.9	2,519	1,680	49.9	2,149
Add : Net unallocable Capital Emp	(44)	230		(44)	230		(98)
Total Capital Employed	2,475	1,910	29.5	2,475	1,910	29.5	2,051
PBIT Margin (%)							
Steel	6.8	7.8		7.5	6.0		6.4
Power	73.0	63.3		70.6	66.8		64.9
Others	53.7	24.6		43.7	18.9		30.9
Total	13.7	15.6		13.7	13.6		13.1
ROCE (%)							
Steel	46.5	29.8		50.0	24.2		23.0
Power	81.3	92.0		73.2	90.9		58.8
Others	5.4	16.1		3.4	9.4		24.4
Total	50.1	46.8		48.7	42.4		34.6
Sales Mix (%)							
Steel	89.4	85.4		89.9	87.0		88.0
Power	10.1	13.7		9.6	12.3		11.1
Others	0.5	1.0		0.4	0.7		0.9
Total	100.0	100.0		100.0	100.0		100.0
PBIT Mix (%)							
Steel	44.3	42.9		49.0	38.4		42.9
Power	53.6	55.6		49.7	60.6		54.9
Others	2.1	1.5		1.4	1.0		2.2
Total	100.0	100.0		100.0	100.0		100.0

Income Statement	2006	2007	2008E	2009E
Revenues	2,335	4,421	7,683	8,598
YOY Gr. (%)	-	89.3	73.8	11.9
Total Expenditure	1,975	3,627	6,069	6,813
Operating Profit	360	793	1,614	1,785
YOY Gr. (%)	-	120.4	103.4	10.6
Interest & dividend income	9	22	25	27
EBIDT	369	816	1,639	1,812
(-) Interest	59	117	230	200
(-) Depreciation	61	109	208	226
PBT & extraord. items	248	590	1,201	1,387
(-) Tax provision	23	68	145	168
Net Profits	225	522	1,056	1,218
YOY Gr. (%)	-	132.1	102.2	15.4
Fully dil. Eq. sh. O/s (mn)	16.1	24.8	24.8	24.8
Book Value (Rs)	60.4	83.8	123.0	166.4
Basic EPS (Rs)	13.9	21.1	42.6	49.1
Diluted EPS (Rs)	13.9	21.1	42.6	49.1

Balance Sheet	2006	2007	2008E	2009E
Equity Share Capital	161	248	248	248
Reserves & Surplus	814	1,831	2,802	3,878
Net worth	975	2,079	3,050	4,126
Total Debt	1,615	2,775	2,609	2,337
Capital Employed	2,590	4,854	5,659	6,464
Fixed Assets	1,890	3,660	3,921	4,195
Net current assets	598	985	1,488	1,919
Investments	94	209	250	350
Misc exp.	9	-	-	-
Total Assets	2,590	4,854	5,659	6,464

Cash Flow Statement	2006	2007	2008E	2009E
PBT & Extraord. items	248	590	1,201	1,387
Depreciation	61	109	208	226
Provision for gratuity	1	2	-	-
(profit)/loss on sale of invest.	(5)	-	-	-
(profit)/loss on sale of FA	-	1	-	-
Interest & dividend inc.	(1)	(6)	-	-
Interest paid	59	117	230	200
Misc Exp W/off	1	0	-	-
Tax paid	(16)	(48)	(145)	(168)
(Inc)/Dec in working capital	(271)	(321)	(448)	(152)
Cash from operating activ.	77	444	1,046	1,491
Net capital expenditure	(759)	(1,880)	(468)	(500)
Net investments	2	(115)	(41)	(100)
Interest recd	1	6	-	-
Cash from investing activ.	(756)	(1,990)	(509)	(600)
Issue of eq. shares	-	704	-	-
Refund of share appl. money	(10)	-	-	-
Change in debt	779	1,160	(165)	(272)
Share Issue Exps/ Refund	(6)	(57)	-	-
Dividend paid	(4)	(57)	(85)	(141)
Interest paid	(59)	(117)	(230)	(200)
Cash from financing activ.	699	1633	(480)	(613)
Inc/Dec. in cash	20	88	56	278

Key Ratios	2006	2007	2008E	2009E
EBIDT (%)	15.4	17.9	21.0	20.8
ROACE (%)	20.9	23.8	31.0	27.7
ROANW (%)	27.8	34.2	41.2	34.0
Sales/Total Assets (x)	1.0	1.1	1.6	1.6
Debt:Equity (x)	1.7	1.3	0.9	0.6
Current Ratio (x)	3.8	3.4	4.2	4.7
Debtors (days)	18.2	14.2	14.6	14.0
Inventory (days)	62.8	57.0	56.2	56.2
Net working capital (days)	55.0	46.7	46.4	45.9
EV/Sales (x)	2.5	2.1	1.2	1.0
EV/EBIDT (x)	16.0	11.4	5.5	4.7
P/E (x)	19.2	12.7	6.3	5.4
P/BV (x)	4.4	3.2	2.2	1.6

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