

Godawari Power & Ispat

Performance Highlights

Particulars (₹ cr)	3QFY2011	3QFY2010	% chg (yoy)	2QFY2011	% chg (qoq)
Net sales	229	202	13.2	148	54.6
EBITDA	52	32	65.8	30	72.7
% margin	23.0	15.7	728bp	20.6	240bp
Net profit	21	14	55.6	7	192.1

Source: Company, Angel Research

GPIL's net sales increased by 13.2% yoy and 54.6% qoq to ₹229cr in 3QFY2011, while net profit grew by 55.6% yoy and 192.1% qoq to ₹21cr.

Strong growth in profitability: For 3QFY2011, GPIL's net sales increased by 13.2% yoy and 54.6% qoq to ₹229cr on account of a) increased pellet sales volumes (18,265 tonnes v/s nil in 3QFY2010 and 3,313 tonnes in 2QFY2011) and b) higher realisations yoy and qoq across product categories. During the quarter, sponge iron realisation increased by 38.0% yoy (up 17.7% qoq) to ₹16,988/tonne and billet realisation increased by 19.1% yoy (up 2.7% qoq) to ₹25,331/tonne. Average pellet realisation stood at ₹7,292/tonne, up 35.8% qoq. Despite other expenses as a percentage of net revenue increasing to 16.7% from 9.7% in 3QFY2010 on account of higher fuel consumption, lower raw-material cost (which as a percentage of net revenue declined to 57.1% from 71.1% in 3QFY2010) resulted in a 728bp yoy EBITDA margin expansion to 23.0%. Consequently, EBITDA grew by 65.8% yoy to ₹52cr and net income grew by 55.6% yoy to ₹21cr.

Outlook and valuation: GPIL posted strong profitability growth in 3QFY2011. Despite higher prices of key inputs, GPIL remains well poised to sustain strong profitability on account of pellet sales going forward. At the CMP, the stock is trading at 5.1x FY2011E and 2.7x FY2012E EV/EBITDA. On a P/BV basis, it is trading at 0.8x FY2011E and 0.7x FY2012E estimates. **We maintain Buy on GPIL with a revised Target Price of ₹247 (₹302), valuing it at 4x FY2012E EV/EBITDA.**

Key financials (Consolidated)

Y/E March (₹ cr)	FY2009	FY2010	FY2011E	FY2012E
Net sales	1,092	822	948	1,381
% chg	34.8	(24.7)	15.3	45.6
Net profit	62	57	60	141
% chg	(37.4)	(8.1)	4.8	134.7
FDEPS (₹)	22.3	20.5	21.5	50.4
OPM (%)	11.3	15.9	16.6	18.6
P/E (x)	7.4	8.1	7.7	3.3
P/BV (x)	1.0	0.9	0.8	0.7
RoE (%)	14.7	11.9	11.2	22.7
RoCE (%)	12.6	10.5	11.0	19.9
EV/Sales (x)	0.7	1.1	0.9	0.5
EV/EBITDA (x)	6.1	7.2	5.1	2.7

Source: Company, Angel Research

BUY

CMP	₹165
Target Price	₹247

Investment Period	12 months
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Stock Info

Sector	Steel
Market Cap (₹ cr)	463
Beta	1.3
52 Week High / Low	320/161
Avg. Daily Volume	68053
Face Value (₹)	10
BSE Sensex	18,037
Nifty	5,396
Reuters Code	GODPI.BO
Bloomberg Code	GODPI@IN

Shareholding Pattern (%)

Promoters	59.0
MF / Banks / Indian Fls	6.2
FII / NRIs / OCBs	5.1
Indian Public / Others	29.7

Abs. (%)	3m	1yr	3yr
Sensex	(14.1)	13.3	2.9
GPIL	(20.7)	(19.8)	(38.9)

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Exhibit 1: 3QFY2011 performance (Consolidated)

Y/E March (₹ cr)	3QFY2011	3QFY2010	yoy %	9MFY11	9MFY10	yoy %
Net sales	229	202	13.2	572	584	(2.0)
Raw material	130	145	(10.2)	325	433	(24.9)
% of net sales	57.1	71.9		56.8	74.1	
Staff cost	7	6	33.0	21	14	52.9
% of net sales	3.3	2.8		3.6	2.3	
Other expenditure	38	19	95.7	108	54	100.0
% of net sales	16.7	9.7		18.8	9.2	
Total expenditure	176	170	3.4	453	500	(9.3)
% of net sales	77.0	84.3		79.2	85.6	
Operating profit	52	32	65.8	119	84	41.9
OPM(%)	23.0	15.7		20.8	14.4	
Other operating income			-	0	0	-
EBITDA	52	32	65.8	119	84	41.9
EBITDA margins (%)	23.0	15.7		20.8	14.4	
Interest	15	8	104.9	36	23	56.5
Depreciation	12	8	50.6	34	23	45.6
Other income	1	1	15.4	1	2	(41.4)
Exceptional items	0	0	-	0	1	-
Profit before tax	26	17	53.7	50	40	24.8
% of net sales	11.3	8.3		8.8	6.9	
Tax	5	3	45.8	9	8	20.9
% of PBT	18.1	19.1		18.4	19.0	
Profit after tax	21	14	55.6	41	33	25.8
% of net sales	9.3	6.7		7.2	5.6	

Source: Company, Angel Research

Revenue growth driven by increased pellet sales

GPIL's 3QFY2011 net sales increased by 13.2% yoy and 54.6% qoq to ₹229cr on account of a) increased pellet sales volumes (18,265 tonnes v/s nil in 3QFY2010 and 3,313 tonnes in 2QFY2011) and b) higher realisations yoy and qoq across product categories. During the quarter, sponge iron realisation increased by 38.0% yoy (up 17.7% qoq) to ₹16,988/tonne, while billet realisation increased by 19.1% yoy (up 2.7% qoq) to ₹25,331/tonne. Average pellet realisation stood at ₹7,292/tonne, up 35.8% qoq.

Margins improve on account of higher realisations

Other expenses as a percentage of net revenue increased to 16.7% in 3QFY2011 from 9.7% in 3QFY2010 on account of higher fuel consumption. Nevertheless, EBITDA margin expanded by 728bp yoy to 23.0% due to higher realisations across product categories (mainly pellets) and lower raw-material cost (which as a percentage of net sales declined to 57.1% in 3QFY2011 from 71.1% in 3QFY2010). As a result, EBITDA grew by 65.8% yoy to ₹52cr and net income grew by 55.6% yoy to ₹21cr.

Exhibit 2: Quarterly production trend

(tonnes)	1QFY10	2QFY10	3QFY10	4QFY10	1QFY11	2QFY11	3QFY11	yoy %	qoq %
Sponge iron	69,808	60,860	74,806	80,359	61,535	53,637	75,314	0.7	40.4
Billets	2,101	16,802	14,205	23,370	0	15,228	30,990	118.2	103.5
HB wire	19,918	19,506	16,033	17,088	14,193	15,130	13,457	(16.1)	(11.1)
Ferro alloys	0	0	0	1,500	0	1,888	1,971	-	4.4
Power (mn units)	79	71	95	88	76	62	80	(15.2)	28.9
Iron ore	45,500	32,418	130,530	128,044	141,984	56,017	111,398	(14.7)	98.9
Pellet	0	0	0	48,305	55,396	62,315	103,100	-	65.4

Source: Company, Angel Research

Exhibit 3: Quarterly sales volume trend

(tonnes)	1QFY10	2QFY10	3QFY10	4QFY10	1QFY11	2QFY11	3QFY11	yoy %	qoq %
Sponge iron	68,577	42,226	69,064	59,768	61,144	38,460	41,194	(40.4)	7.1
Billets	1,301	17,153	14,160	23,221	533	14,478	31,168	120.1	115.3
HB wire	19,906	15,569	18,273	17,934	13,609	12,866	14,952	(18.2)	16.2
Ferro alloys	0	0	0	1,168	649	1,259	852	-	(32.3)
Power (mn units)	57	36	60	37	52	18	19	(68.1)	5.7
Pellet	0	0	0	8,473	8,591	3,319	18,265	-	450.4

Source: Company, Angel Research

Exhibit 4: Quarterly realisation trend

(₹/tonne)	1QFY10	2QFY10	3QFY10	4QFY10	1QFY11	2QFY11	3QFY11	yoy %	qoq %
Sponge iron	12,548	12,236	12,310	15,384	15,365	14,438	16,988	38.0	17.7
Billets	21,752	21,005	21,264	24,151	28,143	24,669	25,331	19.1	2.7
HB wire	29,850	27,703	26,547	29,458	30,502	28,956	29,441	10.9	1.7
Ferro alloys	-	-	-	57,534	57,319	53,366	52,289	-	(2.0)
Power (mn units)	6.8	3.4	5.2	3.9	5.1	2.6	2.9	(44.6)	8.6
Pellet	-	-	-	5,571	7,252	5,371	7,292	-	35.8

Source: Company, Angel Research

Investment rationale

Mining capacity at Ari Dongri mine to increase

Currently, GPIL has an approval to mine 0.6mn tonnes of iron ore from the Ari Dongri mine. Management expects to increase the mining capacity to 0.9mn tonnes by March 2011. Increased production from captive iron ore mine should lower the costs further, given a steep rise in iron ore prices recently.

Pellet sales to improve GPIL's profits

GPIL's 0.6mn tonne pellet plant in its 75% subsidiary Ardent Steel in Keonjhar, Orissa, started commercial production during August 2010. This coupled with GPIL's 0.6mn tonne pellet plant should drive strong profitability growth in FY2012, as we expect pellet prices to remain firm during FY2012.

Billet production to increase during FY2012

Merchant power rates have recently declined to ₹2.5–3.0 per unit. We expect merchant power rates to remain stable in the medium term. Hence, we expect GPIL to increase billet production as the company operates a flexible business model that allows it to interchange between steel and power, depending on the business economics.

Outlook and valuation

GPIL reported strong profitability growth in 3QFY2011. Despite higher prices of key inputs, GPIL remains well poised to sustain strong profitability on account of pellet sales going forward. At the CMP, the stock is trading at 5.1x FY2011E and 2.7x FY2012E EV/EBITDA. On a P/BV basis, it is trading at 0.8x FY2011E and 0.7x FY2012E estimates. **We maintain Buy on GPIL with a revised Target Price of ₹247 (₹302), valuing it at 4x FY2012E EV/EBITDA.**

We have increased our net sales estimates for FY2012 as we now expect higher product prices. However, we have slightly lowered our profitability estimates to consider increased coal costs and lower realisations from merchant power sales.

Exhibit 5: Earlier v/s revised estimates

(₹ cr)	Earlier estimates		Revised estimates		Upgrade/(downgrade) (%)	
	FY11E	FY12E	FY11E	FY12E	FY11E	FY12E
Net sales	1,039	1,265	948	1,381	(8.7)	9.2
EBITDA	212	288	157	257	(25.9)	(10.9)
EBITDA margin (%)	20.5	22.8	16.6	18.6	(393)bp	(419)bp
PBT	123	209	75	163	(39.4)	(22.0)
PAT	100	166	60	141	(40.0)	(15.2)
PAT margin (%)	9.6	13.1	6.3	10.2	(328)bp	(291)bp

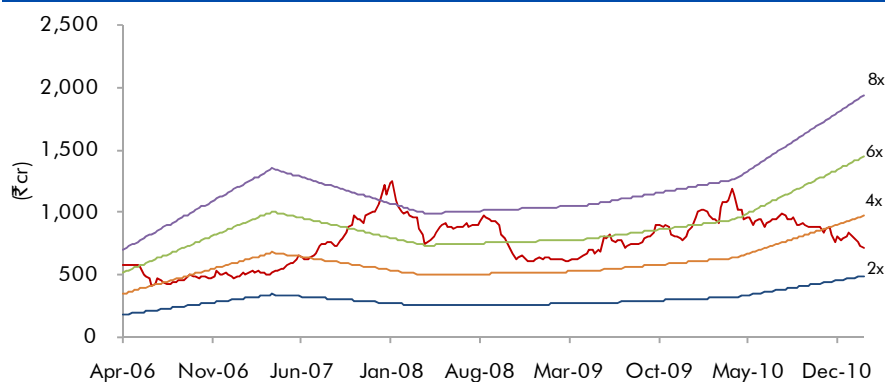
Source: Company, Angel Research

Exhibit 6: EPS – Angel forecast v/s consensus

Year (₹)	Angel forecast	Bloomberg consensus	Variation (%)
FY2011E	21.5	27.5	(22.0)
FY2012E	50.4	50.3	0.2

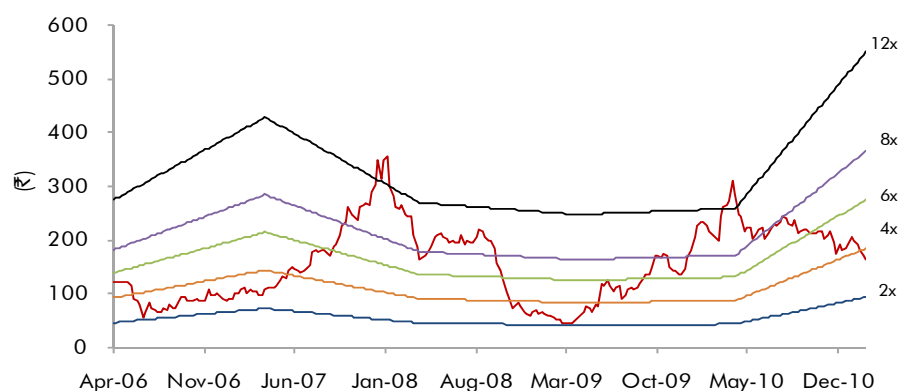
Source: Bloomberg, Angel Research

Exhibit 7: EV/EBITDA band



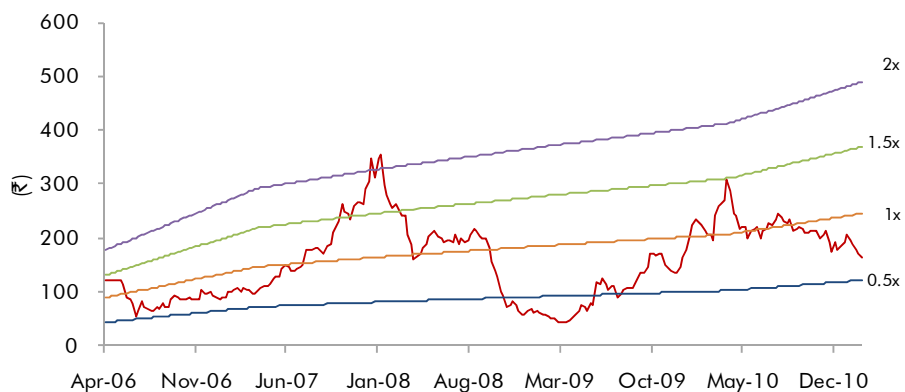
Source: Bloomberg, Angel Research

Exhibit 8: P/E band



Source: Bloomberg, Angel Research

Exhibit 9: P/BV band



Source: Bloomberg, Angel Research

Exhibit 10: Recommendation summary

Companies	CMP (₹)	Target Price (₹)	Reco.	Mcap (₹ cr)	Upside (%)	P/E (x)		P/BV (x)		EV/EBITDA (x)		RoE (%)		RoCE (%)	
						FY11E	FY12E	FY11E	FY12E	FY11E	FY12E	FY11E	FY12E	FY11E	FY12E
SAIL	160	182	Accumulate	66,252	13.5	13.2	10.1	1.8	1.6	8.5	6.7	14.3	16.5	12.8	17.5
Tata Steel	640	766	Buy	56,727	19.7	8.7	7.9	1.7	1.4	6.5	5.8	21.2	19.7	13.2	14.1
JSW Steel	897	1,047	Buy	22,933	16.7	15.8	11.6	1.2	1.1	7.5	5.9	10.4	9.8	10.3	10.9
Electrosteel	33	45	Buy	1,093	34.5	7.7	8.1	0.6	0.6	6.4	7.1	9.0	8.0	8.0	7.2
GPIL	165	247	Buy	463	49.7	7.7	3.3	0.8	0.7	5.1	2.7	11.2	22.7	11.0	19.9
Sarda Energy	218	294	Buy	781	35.0	17.1	5.9	1.1	1.0	8.6	3.9	7.3	18.4	6.7	15.2
Prakash Ind.	95	205	Buy	1,317	116.6	4.2	3.1	0.7	0.5	3.5	2.9	20.2	21.4	17.7	18.4
Monnet Ispat	562	687	Accumulate	3,374	22.2	12.5	8.7	1.7	1.4	10.4	8.4	14.7	17.6	11.7	12.7

Source: Company, Angel Research

Profit & Loss Statement (Consolidated)

Y/E March (₹ cr)	FY2007	FY2008	FY2009	FY2010	FY2011E	FY2012E
Gross sales	551	936	1,233	887	1,031	1,501
Less: Excise duty	73	126	141	64	82	120
Net sales	477	810	1,092	822	948	1,381
Other operating income	-	-	-	-	-	-
Total operating income	477	810	1,092	822	948	1,381
% chg	53.0	69.6	34.8	(24.7)	15.3	45.6
Total expenditure	393	642	969	692	791	1,124
Net raw materials	343	553	876	580	556	770
Other mfg costs	44	78	79	92	213	322
Personnel	6	11	14	19	22	32
Other	-	-	-	-	-	-
EBITDA	85	168	123	131	157	257
% chg	110.7	98.0	(26.8)	6.2	20.4	63.3
(% of net sales)	17.8	20.7	11.3	15.9	16.6	18.6
Depreciation	12	26	28	34	47	55
EBIT	73	142	94	96	110	201
% chg	120.4	95.7	(33.6)	2.1	13.9	83.5
(% of net sales)	15.2	17.6	8.6	11.7	11.6	14.6
Interest charges	13	31	36	34	38	41
Other income	2	2	11	4	3	3
(% of PBT)	3.8	1.6	16.2	6.0	3.6	1.8
Share in profit of asso.	-	-	-	-	-	-
Recurring PBT	62	113	70	67	75	163
% chg	126.5	81.4	(37.6)	(5.1)	11.8	118.7
Extra. Inc/(Expense)	-	-	-	-	-	-
PBT (reported)	62	113	70	67	75	163
Tax	8	14	8	11	15	33
(% of PBT)	12.7	12.3	11.9	15.8	20.0	20.0
PAT (reported)	54	99	61	56	60	130
Add: Earnings of asso.	(1)	1	1	1.2	-	-
Less: Minority interest	-	-	-	-	0	10
Extra. Expense/(Inc.)	-	0.1	(0.0)	(0.0)	-	-
PAT after MI (reported)	53	100	62	57	60	141
Adj. PAT	53	100	62	57	60	141
% chg	127.0	86.6	(37.4)	(8.1)	4.8	134.7
(% of net sales)	11.2	12.3	5.7	7.0	6.3	10.2
Basic EPS (₹)	22.9	40.8	23.1	21.2	22.3	52.2
Fully diluted EPS (₹)	22.5	35.6	22.3	20.5	21.5	50.4
% chg	43.8	58.4	(37.4)	(8.1)	4.8	134.7

Balance Sheet (Consolidated)

Y/E March (₹ cr)	FY2007	FY2008	FY2009	FY2010	FY2011E	FY2012E
SOURCES OF FUNDS						
Equity share capital	24	27	27	27	27	27
Reserves & surplus	184	364	419	471	522	653
Shareholders' funds	207	391	446	498	549	680
Share warrants	-	3	3	0	0	0
Minority interest	-	-	7	10	10	(1)
Total loans	289	293	355	518	417	367
Deferred tax liability	2	2	2	1	1	1
Total liabilities	499	689	812	1,027	977	1,047
APPLICATION OF FUNDS						
Gross block	312	464	495	752	942	992
Less: Acc. depreciation	34	60	89	122	170	225
Net Block	277	404	407	630	772	767
Capital work-in-progress	103	15	202	194	44	14
Goodwill	5	5	5	5	5	5
Investments	5	19	10	12	12	12
Current assets	157	323	267	288	256	377
Cash	13	64	44	20	55	114
Loans & advances	41	41	47	59	45	45
Other	104	219	176	210	156	218
Current liabilities	49	78	77	101	112	127
Net current assets	109	246	189	188	144	250
Mis. exp. not written off	0	-	0	0	0	0
Total assets	499	689	812	1,027	977	1,047

Cash flow statement (Consolidated)

Y/E March (₹ cr)	FY2007	FY2008	FY2009	FY2010	FY2011E	FY2012E
Profit before tax	62	113	70	67	75	163
Depreciation	12	26	28	34	47	55
Change in working capital	(37)	(90)	39	(23)	79	(48)
Less: Other income	13	31	31	32.8	-	-
Direct taxes paid	5	12	14	10	15	33
Cash flow from operations	45	66	155	101	186	138
(Inc.)/ Dec. in fixed assets	(189)	(61)	(217)	(250)	(40)	(20)
(Inc.)/ Dec. in investments	(12)	(14)	10	(0.5)	-	-
(Inc.)/ Dec. in loans and advances	-	-	-	-	-	-
Other income	1	1	7	0.7	-	-
Cash flow from investing	(200)	(74)	(200)	(250)	(40)	(20)
Issue of equity	70	100	-	-	-	-
Inc./(Dec.) in loans	117	3	62	163	(101)	(50)
Dividend paid	5	10	8	8	9	9
Others	19	34	29	30.3	-	-
Cash flow from financing	163	59	25	125	(110)	(59)
Inc./(Dec.) in cash	8	51	(20)	(24)	36	59
Opening cash bal.	4	13	64	44	20	55
Closing cash bal.	13	64	44	20	55	114

Key ratios

Y/E March	FY2007	FY2008	FY2009	FY2010	FY2011E	FY2012E
Valuation ratio (x)						
P/E (on FDEPS)	7.3	4.6	7.4	8.1	7.7	3.3
P/CEPS	6.0	3.7	5.1	5.0	4.3	2.4
P/BV	1.9	1.1	1.0	0.9	0.8	0.7
Dividend yield (%)	1.8	2.4	1.5	1.5	1.8	1.8
EV/Sales	1.4	0.8	0.7	1.1	0.9	0.5
EV/EBITDA	7.9	4.0	6.1	7.2	5.1	2.7
EV/Total assets	1.3	1.0	0.9	0.9	0.8	0.7
Per share data (₹)						
EPS (Basic)	22.9	40.8	23.1	21.2	22.3	52.2
EPS (fully diluted)	22.5	35.6	22.3	20.5	21.5	50.4
Cash EPS	27.6	44.9	32.5	32.7	38.4	70.1
DPS	3.0	4.0	2.5	2.5	3.0	3.0
Book value	87.5	146.4	169.1	188.7	207.3	252.2
DuPont analysis						
EBIT margin	15.2	17.6	8.6	11.7	11.6	14.6
Tax retention ratio (%)	87.3	87.7	88.1	84.2	80.0	80.0
Asset turnover (x)	1.3	1.5	1.6	0.9	1.0	1.5
RoIC (Post-tax)	16.7	22.4	11.9	9.1	9.1	17.4
Cost of debt (post tax)	4.9	9.5	9.7	6.5	6.5	8.5
Leverage (x)	1.3	0.6	0.7	1.0	0.6	0.4
Operating RoE	32.4	30.0	13.5	11.7	10.8	20.7
Returns (%)						
RoCE (Pre-tax)	18.7	23.9	12.6	10.5	11.0	19.9
Angel RoIC (pre-tax)	23.8	28.6	16.0	14.0	13.0	22.4
RoE	34.2	33.1	14.7	11.9	11.2	22.7
Turnover ratios (x)						
Asset turnover (gross block)	2.0	2.1	2.3	1.3	1.1	1.4
Inventory (days)	81	115	60	109	80	80
Receivables (days)	22	20	10	16	13	13
Payables (days)	17	20	16	12	25	25
WC cycle (days)	54	61	53	71	59	37
Solvency ratios (x)						
Net debt to equity	1.3	0.6	0.7	1.0	0.6	0.4
Net debt to EBITDA	32.6	13.6	25.3	38.2	23.0	9.9
Interest coverage	5.6	4.5	2.7	2.9	2.9	4.9

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Note: Please refer to the important 'Stock Holding Disclosure' report on the Angel website (Research Section). Also, please refer to the latest update on respective stocks for the disclosure status in respect of those stocks. Angel Broking Limited and its affiliates may have investment positions in the stocks recommended in this report.

Disclosure of Interest Statement

Godawari Power

1. Analyst ownership of the stock	No
2. Angel and its Group companies ownership of the stock	No
3. Angel and its Group companies' Directors ownership of the stock	No
4. Broking relationship with company covered	No

Note: We have not considered any Exposure below ₹1 lakh for Angel, its Group companies and Directors.

Ratings (Returns) :	Buy (> 15%)	Accumulate (5% to 15%)	Neutral (-5 to 5%)
	Reduce (-5% to 15%)	Sell (< -15%)	