

Godawari Power & Ispat

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Shareholding (%)

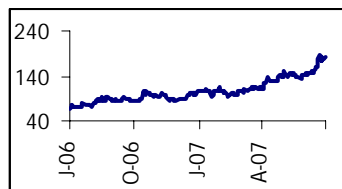
Promoters	63.4
FII's	6.8
FI's/Banks	2.7
MFs	13.1
Others	14.0

Share price performance

52-week high/low (Rs)	195/63		
	-1m	-3m	-12m
Abs (%)	28.5	62.1	178.2
Rel* (%)	19.8	49.0	123.5

*to Nifty

Stock chart



Growth story continues

Godawari Power & Ispat Ltd. (GPIL) has announced impressive Q1FY08 results. The company reported 61.5% YoY growth in topline and 72.9% YoY growth in bottomline. The growth has been driven primarily by higher volume and realisations. On QoQ basis, with ramping-up of production at its new facilities, coupled with higher realisations, the company has reported 54.4% growth in net sales and 75.2% growth in net profit.

Going forward, we expect the company to continue reporting robust growth during FY08-09. Also, operationalisation of phase-II capacities will drive growth during FY08E; while savings from captive iron ore mines will provide fillip to revenue in FY09E. At the current price, GPIL trades at a PER of 4.2x FY08E and 2.6x FY09E. We maintain 'Buy' recommendation on the stock.

Key highlights of Q1FY08 results are as follows:

- Higher steel prices, volume drive topline growth:** GPIL has reported an impressive 59.1% YoY and 54.4% QoQ growth in net sales during the quarter. While higher steel prices contributed towards the increase, an increase in volume provided fillip to this growth. During Q4FY07, GPIL had commissioned a part of its phase-II capacities. Ramping-up of production in these capacities during the quarter has led to higher volumes. This apart, during Q4FY07, GPIL's capacities were shut for 26 days. Normalisation of production at these capacities has further pushed up QoQ volume growth.
- Margin expands on rising prices:** Buoyed by rising product prices, GPIL has reported 350 basis points YoY and 260 basis points QoQ improvement in operating profit margin to 20.2% during Q1FY08. Capital charges (interest and depreciation) have increased with operationalisation of phase-II capacities. However, despite the same, higher operating profit has resulted in the company reporting 72.9% YoY and 75.2% QoQ increase in net profit.

Buy

Rs184

July 24, 2007

Market cap

Rs bn 5

US\$ mn 113

Avg 3m daily volume

109,550

Avg 3m daily value

Rs mn 16

Shares outstanding (mn)

25

Reuters

GDPI.BO/GPIL.NS

Bloomberg

GODPI IN

Sensex

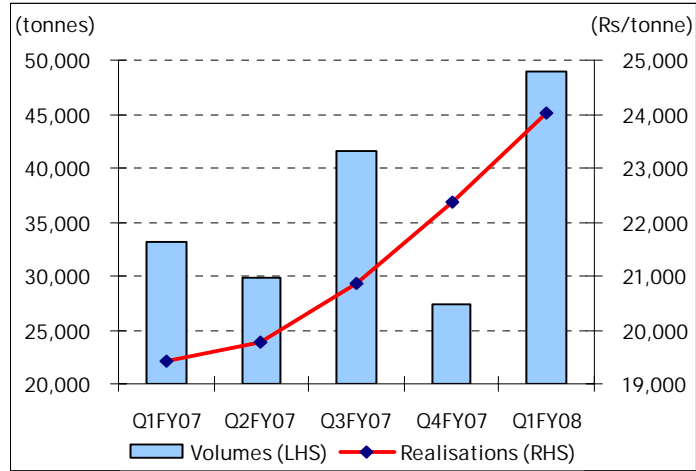
15,732

Nifty

4,619

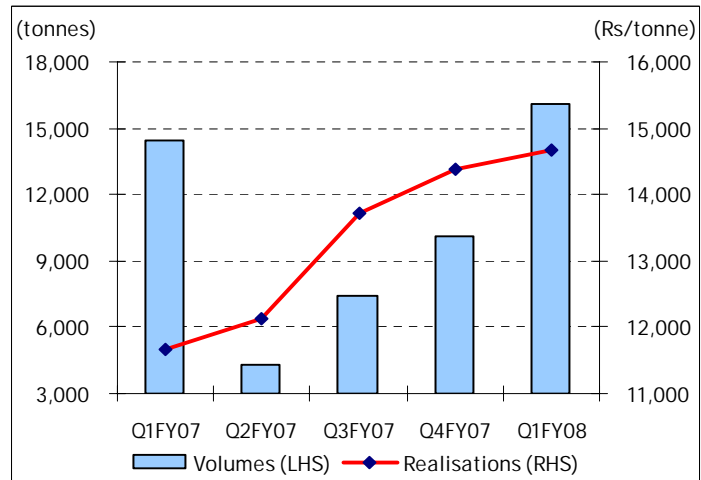
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Chart 1. Steel billets



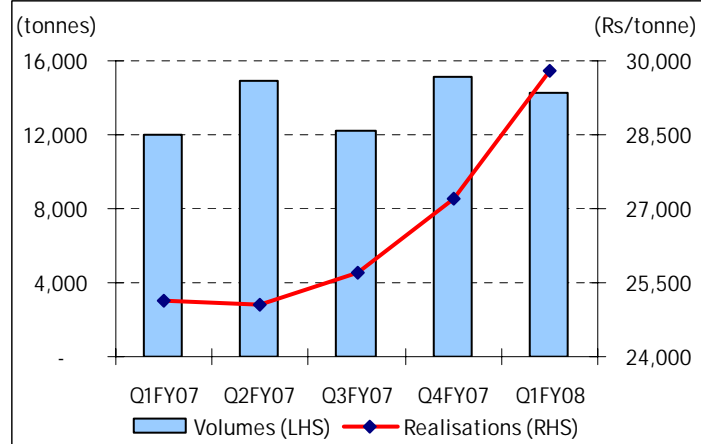
Source: IISL research, company

Chart 2. Sponge iron



Source: IISL research, company

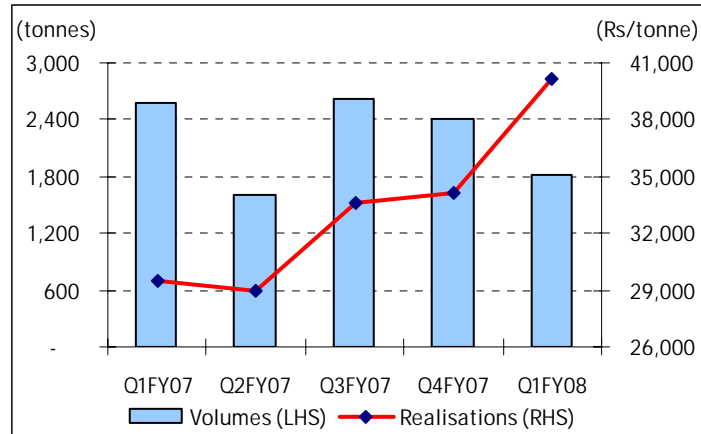
Chart 3. HB Wire



Source: IISL research, company

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Chart 4. Ferro manganese



Source: IISL research, company

- ▲ **Phase-II capacity additions on track:** GPIL's phase-II capacity expansion has been fully implemented and commercial production of its sponge iron, billets and captive power plants have started. 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 becoming 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 4.2x FY08E and 2.6x FY09E. Though, 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.

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Table 1. Quarterly result table

Rs mn	Q1FY08	Q1FY07	YoY (%)	Q4FY07	QoQ (%)
Gross Sales	1,974.0	1,222.1	61.5	1,285.8	53.52
Less Excise duty	(272.1)	(152.4)	78.5	(183.5)	48.28
Net Sales	1,701.9	1,069.7	59.1	1,102.3	54.40
Total Expenses	1,358.1	890.6	52.5	908.6	49.47
Inc / Dec in stock	(1.0)	26.2	(103.8)	(1.6)	-37.50
Raw material consumed	1,248.8	772.2	61.7	810.0	54.17
Manufacturing expenses	93.2	82.2	13.4	81.8	13.94
Staff cost	17.1	10.0	71.0	18.4	-7.07
EBIDTA	343.8	179.1	92.0	193.7	77.49
Other Income	3.6	6.3	(42.9)	10.8	-66.67
PBIDT	347.4	185.4	87.4	204.5	69.88
Interest	61.3	26.6	130.5	39.3	55.98
Depreciation	49.4	26.1	89.3	29.4	68.03
PBT	236.7	132.7	78.4	135.8	74.30
Tax	27.3	11.6	135.3	16.3	67.48
PAT	209.4	121.1	72.9	119.5	75.23
Equity	248.4	248.4	-	248.4	0.00
EPS	8.4	4.9	72.9	4.8	75.23
Key Ratios (%)					
EBIDTA Margin	20.2	16.7		17.6	
Interest / Sales	3.6	2.5		3.6	
Tax / PBT	11.5	8.7		12.0	
NPM	12.3	11.3		10.8	

Source: IISL research, company

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