

GODAWARI POWER & ISPAT LTD.

Integrating its operations...

Q2 FY 2007 update

COMPANY DETAILS

Auditors	O.P Singhanian & Co
MD	Mr. B.L Agrawal
Reg. Off	Plot no. 428/2 Phase I Industrial area Raipur Dist Siltara - 493111, Chattisgarh
Plant Location	Siltara - Chattisgarh
Website	www.gpilindia.com

SCRIP DETAILS

Market Capitalisation	Rs. 2.5 bn.
Book Value per share	Rs 60.2
Equity Shares O/S (F.V. Rs 10)	24.8 mn.
Median Volumes (12 mths)	188,000 (BSE+NSE)
52 Week High/Low	Rs. 136/46
BSE Scrip Code	532734
NSE Scrip Code	GPIL
Bloomberg Code	-
Reuters Code	GDPI.BO

SHAREHOLDING PATTERN (%)

Qtr. Ended	Dec-05	Mar-06	Jun-06
Promoters (Tata Steel)	47.7	47.7	47.7
MFs	0.0	2.5	6.4
Banks/FIs/Ins.cos	5.3	5.0	3.6
FII/NRI/OCBs	1.1	0.9	3.4
Pvt. Corp. Bodies	9.7	8.5	6.4
Others	36.3	35.4	32.5

KEY FINANCIALS (STANDALONE)

Rs Mn	Quarter Ended			Year Ended (March)		
	Mar-06	Jun-06	Sep-06	2006	2007E	2008E
Net Sales	857	1,070	1,004	2,335	4,488	7,160
YoY Gr (%)	113.4	143.1	122.6	35.2	92.2	59.5
Op. Profits	160	179	210	360	828	1,368
Op. Marg (%)	18.6	16.7	20.9	15.4	18.4	19.1
Net Profits	100	121	151	225	527	714
Eq Capital	162	248	248	162	248	248

KEY RATIOS

Year Ended (March)	EPS (Rs.)	ROCE (%)	RONW (%)	P/E (x)	EV/Sales (x)	EV/EBDIT (x)
2006	13.9	11.9	23.1	7.3	1.4	9.0
2007E	21.2	22.0	24.2	4.8	1.2	6.5
2008E	28.7	22.8	24.9	3.5	0.7	3.6

SUMMARY

- Godawari Power & Ispat Ltd.(GPIL) reported a 123% YoY rise in net sales to Rs 1 bn in Q2FY07, on back of higher volumes due to expanded capacities and en-cashing of carbon credits.
- Production volumes of sponge iron at 33k mt, was up by 60% YoY but lower 28% QoQ, because of breakdown in one 500 tpd kiln during the quarter. This also affected power plant, resulting in 18% QoQ decline in power generation at 37 mn units.
- Billet production at 29k mt, was higher by 50% YoY but decline d 9% QoQ, because of low feed from sponge and power plant. The company also produced 1.5k mt ferro alloys and 15k mt of HB wire during the quarter.
- Merchant sales of sponge iron almost doubled at 4k mt, but was lower by 70% QoQ, due to decline in surplus availability post captive consumption for billets. Sales volume of billets at 30k mt in Q2FY07, increased by 53% YoY, where as sales of HB wire at 15k mt was up 253% YoY. Ferro alloys sales volumes were 1.6k mt in Q2FY07.
- Sponge Iron realisation increased to ~Rs 12k/mt (+9% YoY and 4% QoQ), whereas billet realisations at Rs 19.8k/mt, improved 4% YoY and 2% QoQ. Ferro alloy realisations were ~Rs 29k/mt and HB wire realisation ~25k/mt in Q2FY07.
- Operating profits jumped threefold to Rs 210 mn in Q2FY07. OPM at 20.9% in Q2FY07, posted a rise of 640 bps YoY and 410 bps QoQ. This was mainly driven by improved realisations and booking of carbon credits of ~Rs 42-45 mn during the quarter.
- Despite higher capital charges, GPIL posted 252% YoY jump in net profits to Rs 151 mn in Q2FY07.
- We believe that GPIL, post completion of Phase-II expansion, will emerge as one of the largest player in sponge iron and mild steel wires segment in domestic market. *Also, if the company succeeds to integrate its operations backwards & consolidate its group structure, there is further scope for re-rating. Hence, we maintain our 'BUY' recommendation.*

Nov 14, 2006

Sensex :13426

Nifty : 3866

CMP : Rs 101

Recomm : BUY

GPIL's results were ahead of our expectations, as it booked its accumulated carbon credits in Q2FY07.

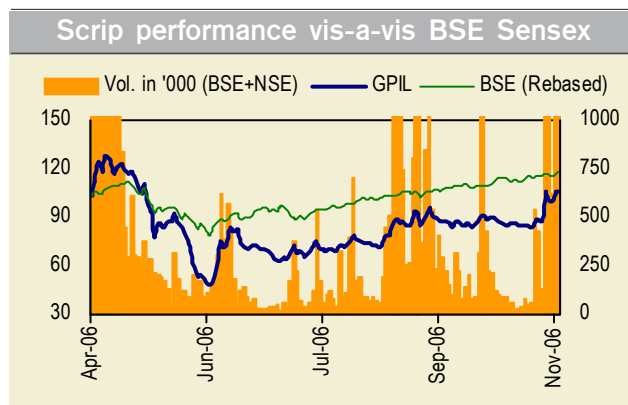
GPIL generates power on waste recovery basis and its plant qualifies as a clean development mechanism project as a part of the Kyoto Protocol, making it eligible for carbon credits. It accumulated 66.5k CER (certified emission reduction) for period of Sep'02-Dec'05. We believe that this was sold during the quarter (at ~ Euro 12-13/mt), generating revenues of Rs ~42-45 mn in Q2FY07. Every 7 MW generated on waste heat recovery leads to credit of 17k units p.a upto 2012. Hence, the company can potentially have CERs of ~0.1 mn units based on its expanded power capacity of 53 MW.

Existing Capacities (TPA)			
Division	Before Expansion	Phase I completed	Current Capacity
Sponge Iron	105,000	130,000	235,000
Steel Billets	150,000	100,000	250,000
Power (MW)	18	10	28
Ferro Alloys	Nil	16,500	16,500
Wire Drawing	Nil	60,000	60,000

GPIL undertook expansion of various facilities to meet the growing demand and successfully completed the Phase-I, in Oct'05, which started commercial production from Jan'06. Wire drawing unit started commercial production in phased manner from May'05. All these is leading to volume growth across all its products during this fiscal

The capex for Phase- I was Rs 827 mn, which was funded through term loans of Rs 518 mn from banks and remaining Rs 309 mn from internal accruals and promoters' contribution.

Net sales of the company more than doubled YoY at Rs 1 bn in Q2FY07.



Sponge iron production increased by 60% YoY to 33k mt in Q2FY07. However, the same was lower by 28% QoQ, due to a breakdown of one 500 tpd kiln during the quarter. Most of the sponge iron production was consumed captively and only 4k mt was sold outside during the quarter. The average gross realisation were ~Rs 12k/mt in Q2FY07.

Power generation increased by 72% YoY to 37 mn units in Q2FY07. However, the generation was lower by 18% on QoQ basis, as the power plant of the company (WHRB) also suffered because of the shut down of the kiln and heavy monsoon.

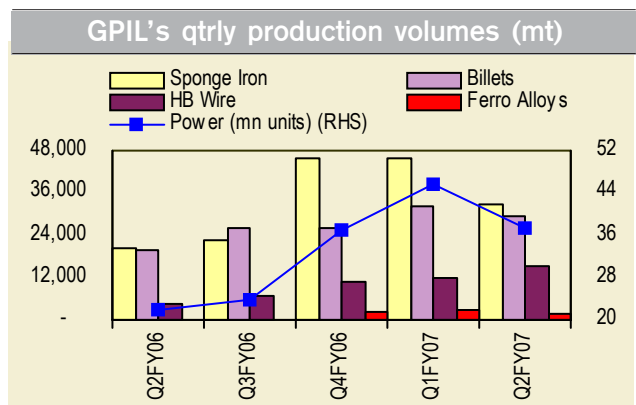
Billets production was higher by 50% YoY to 29k mt in Q2FY07. However, the same declined by 9% QoQ, because of low feed from the sponge iron kiln and power plant. Sales volume of billet was 30k mt (+53% YoY), whereas the avg. realisation were Rs 19.8k/mt (+4% YoY) in Q2FY07.

The company also produced and sold ~1.5k mt of ferro alloys, at avg. prices of Rs 29k/mt during the quarter.

The wire drawing unit of the company, which sources wire rods from outside (mainly from group companies) and converts them into HB wires of 2 mm to 4mm thickness, produced 15k mt of HB wire (+253% YoY & +27% QoQ) during the quarter. Sales volumes were ~15k mt, and avg realisation ~Rs 25k/mt in Q2FY07.

The company sells majority of its billet production to group companies (RR Ispat and Hira Steels) at prevailing market prices, and also procures wire rods for its wire drawing unit from these group companies.

GPIL is eligible for sales tax exemption for a period of 11 years from Apr'01 onwards till a maximum amount of 150% of the capital investment (~Rs 2 bn) which the company had made upto Mar'05. GPIL also enjoys a 10 years tax holiday on profits of power division under section 80 IA of the Income Tax Act.



Expansion Program- Phase II

GPIL is on track to complete its phase-II expansion (table given below) by Mar'07.

This involves replicating the existing business model, with an increase in capacities of sponge iron, billets, wires and captive power plant. With this, the company also intends to establish itself as a significant player in the sponge iron and wires, along with achieving economies of scale.

Under the project, the company is setting up two 500 tpd sponge iron kilns, 150k mt steel, 25 mw power, 60k mt wire drawing facility, with an estimated capex of Rs 2.1 bn. This is funded via Rs.1.2 bn term loans, Rs 704 mn via IPO proceeds and balance through internal accruals. Out of the IPO proceeds, the company has already invested Rs 567 mn for phase II expansion, Rs 65 mn as issue expenses, Rs 33 mn for general corporate purposes and the bal. is lying with banks.

Raw Materials Linkages

Ministry of Coal has already allotted coal mine blocks (*Nakia-I & II, Madanpur-North & South*) to a consortium of 5 companies and other 4-5 bodies corporate. In this consortium, GPIL has rights for ~35% of production, and its share of total coal reserves are estimated between 80-90 mn mt. The consortium will have to invest upto Rs 2.5 bn to develop these mines. However, this project is getting delayed due to disagreement amongst the consortium companies, regarding the corporate guarantees/actual investment plans, etc.

GPIL has also been allotted mining license to explore iron ore mines at *Borio Tibbu and Ari Dongri area in Chhattisgarh*. It has applied for environmental clearances, and expect the approval before end of Q3FY07 and start mining in Jan'07. These mines are

expected to have reserves of 30-35 mn tpa (fe content of >62%) and expected to meet majority of the it's requirement, once they are fully operational.

Concerns

GPIL has lined up aggressive expansions plans and hence is prone to project execution/cyclical risk.

Though, GPIL has been allocated mines for iron ore and coal; any delay in commencing/ramp up of the operations, could leave GPIL dependent on external sources, making them vulnerable to both availability/price volatility. However, to be on a conservative side, we have not projected any volumes from captive mines (iron ore and coal) in FY07 & FY08.

The group has multiple companies in the steel business, which could lead to a possible clash of business interests between the various group cos.

Outlook

We expect the company to produce 208k mt of sponge iron, 165 mt of billets, 48k mt of wires and 10k of ferro alloys in FY07. Post completion of Phase-II by end of this fiscal, we expect the production to improve to 340k mt for sponge iron, 250k mt for steel billets, 72k mt for wires and 11k mt for ferro alloys in FY08.

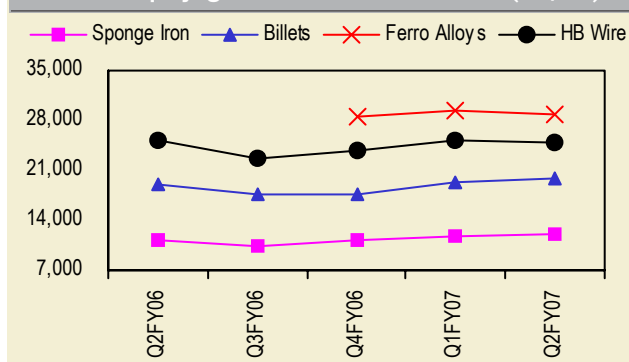
GPIL trades at an attractive P/E of 3.5x and EV/EBIDT of 3.6x, discounting its FY08E numbers. However, we have not factored any benefits from captive iron ore mines, which can potentially lead to savings of ~Rs 250-270 mn in FY08, if the same meets around 50% of its requirement.

Going forward, there is scope for re-rating, if the company successfully integrates its operations backwards (i.e captive mines of iron ore and coal) and consolidate its group structure. Hence, we maintain our 'BUY' recommendation.

Phase II Expansion Plans

Division	Cap Expan. Phase II	Cost (Rs. mn)	Expanded capacity
Sponge Iron	260,000	800	495,000
Steel Billets	150,000	172	400,000
Power (MW)	25	761	53
Wire Drawing	60,000	100	120,000
New Turbine(MW)	30	147	53
Others	-	120	-
Total (Rs mn)		2,100	Upto Mar'07

GPIL's qtrly gross realisation trend (Rs/mt)



Financial results for the quarter and half year ended Sep'30, 2006 (Standalone)

Particulars (Rs mn)	Quarter Ended			Half Year Ended			Yr Ended
	30/09/06	30/09/05	Gr %	30/09/06	30/09/05	Gr %	31/03/06
Gross Sales	1,148	524	119.3	2,370	1,029	130.4	2,708
Excise Duty	145	73	98.5	297	138	115.5	373
Net Sales	1,004	451	122.6	2,074	891	132.7	2,335
Total Expenditure	794	386	105.9	1,685	761	121.4	1,975
(Increase) /Decrease in Stock	6	(19)		32	(8)		(94)
Raw Material Consumed	704	353		1,476	670		1,819
Manufacturing Exp	62	42	48.9	137	79	74.6	192
Staff Cost	10	5	100.0	20	10	102.0	31
Other Expenses	14	6	145.5	20	10	103.0	26
Operating Profit	210	65	221.6	389	130	199.1	360
Other Income	3	1	222.2	9	1	666.7	9
PBIDT	213	66	221.6	398	131	203.4	369
Interest	23	8	180.5	50	18	174.0	60
Depreciation	26	11	135.7	53	22	134.4	61
PBT	163	47	249.5	296	91	226.2	248
Tax	12	4	223.7	24	20	20.2	23
Fringe Benefit Tax	-	-		-	-		1
PAT before extra-ordinary items	151	43	251.5	272	71	283.5	225
Depreciation Prov./ (Written back) for prev.year	-	-		-	148		148
Net Profits	151	43	251.5	272	219	24.0	373
Equity Capital (FV of Rs 10/share)	248	162		248	162		162
Reserves(excl rev res)	-	-		-	-		814
EPS for the period (Rs.)	6.1	2.7	128.5	10.9	13.6	-19.4	13.9
Book Value per share (Rs)	-	-		-	-		60.2
OPM (%)	20.9	14.5		18.8	14.6		15.4
NPM (%)	15.0	9.5		13.1	24.6		9.6
Expenditure (as % of net sales)							
Raw Material Consumed	70.6	74.0		72.7	74.4		73.9
Manufacturing Exp	6.2	9.2		6.6	8.8		8.2
Staff Cost	1.0	1.1		1.0	1.1		1.3
Other expenditure	1.3	1.2		1.0	1.1		1.1
Production ('000 Mt)							
Sponge Iron	32.8	20.5	59.7	78.5	38.5	104.0	107.0
Billets	29.5	19.7	49.7	61.8	40.2	53.9	92.6
Ferro Alloys	1.5	0.0	-	4.1	0	-	2.2
HB Wire	15.1	4.7	222.8	27.1	6.0	354.3	23.3
Power (Mn Units)	37.3	21.7	71.8	83.0	51.0	62.8	111.9
Merchant Sales ('000 Mt)							
Sponge Iron	4.3	2.2	97.6	18.7	2.2	750.6	21.2
Billets	29.9	19.5	53.0	63.0	40.1	57.1	91.6
Ferro Alloys	1.6	0.0	-	4.2	0	-	2.0
HB Wire	14.9	4.2	252.9	26.9	5.5	392.8	22.9

Segmentwise results for the quarter and half year ended Sep'30, 2006 (Standalone)

Particulars (Rs mn)	Quarter Ended			Half Year Ended			Yr Ended
	30/09/06	30/09/05	Gr %	30/09/06	30/09/05	Gr %	31/03/06
Segment Revenue							
Steel	1,078	511	110.9	2,289	1,016	125.4	2,686
Power	173	94	83.5	324	167	93.4	359
Others	12	-	-	19	-	-	4
Total	1,262	605	108.6	2,631	1,183	122.4	3,049
Less: Intersegment Revenue	114	81	40.1	261	154	69.1	353
Gross Sales	1,148	524	119.3	2,370	1,029	130.4	2,696
Segment PBIT							
Steel	104	19	442.7	157	56	182.6	117
Power	89	41	116.5	196	82	139.9	216
Others	3	-	-	4	-	-	-
Total	196	60	225.2	357	137	159.7	332
Less: Net unallocable expense	7	6	20.0	11	29	(61.1)	24
Less: Interest	27	8	224.4	50	18	174.0	60
PBT	163	47	249.5	296	91	226.2	248
Tax	12	4	223.7	24	20	20.2	23
Fringe Benefit Tax	-	-	-	-	-	-	1
Net Profit before extra-ordinary items	151	43	251.7	272	71	283.6	225
Segment Capital Employed							
Steel	1,131	434	160.9	1,131	434	160.9	564
Power	475	148	220.3	475	148	220.3	176
Others	75	-	-	75	-	-	57
Total	1,680	582	188.8	1,680	582	188.8	797
Add : Net unallocable Capital Emp	230	260	(11.5)	230	260	(11.5)	170
Total Capital Employed	1,910	842	127.0	1,910	842	127.0	967
PBIT Margin (%)							
Steel	9.7	3.8		6.9	5.5		4.3
Power	51.7	43.8		60.6	48.8		60.0
Others	24.6	-		18.9	-		(10.0)
Total	15.6	10.0		13.6	11.6		10.9
ROCE (%)							
Steel	36.9	17.7		27.8	25.7		20.7
Power	75.1	111.1		82.5	110.2		122.8
Others	16.1	-		18.8	-		(0.7)
Total	46.8	41.5		42.4	47.2		41.7
GrossSales Mix (%)							
Steel	85.4	88.4		87.0	175.7		88.1
Power	13.7	16.3		12.3	28.9		11.8
Others	1.0	-		0.7	-		0.1
Total	100.0	104.7		100.0	204.7		100.0
PBIT Mix (%)							
Steel	53.1	31.8		44.1	40.5		35.1
Power	45.4	68.2		55.0	59.5		65.0
Others	1.5	-		1.0	-		(0.1)
Total	100.0	100.0		100.0	100.0		100.0

Team

Equity Desk

R. Baskar Babu - *Head - Equity Broking* baskarb@pinc.co.in 91-22-66186400

Research

Bhavin Chheda - *Metals & Mining* bhavinc@pinc.co.in 91-22-66186375
(Head of Research)

Sameer Ranade - *Capital Goods / Utilities* sameerr@pinc.co.in 91-22-66186381

Nirjhar Handa - *FMCG / Pharma* nirjharh@pinc.co.in 91-22-66186400

Sujit Jain - *Fertilisers / Agro products* sujitj@pinc.co.in 91-22-66186379

Amol Rao - *Hospitality / Pipes* amolr@pinc.co.in 91-22-66186378

Nirav Shah - *Sugar* niravs@pinc.co.in 91-22-66186383

Nakul Dharmawat - *Cement* nakuld@pinc.co.in 91-22-66186382

Kalpesh Makwana - *Specialty Chemicals / Pharma* kalpeshm@pinc.co.in 91-22-66186377

Rishabh Bagaria - *Auto / Auto Ancillary* rishabhb@pinc.co.in 91-22-66186391

Ruchir Desai - *Technology* ruchird@pinc.co.in 91-22-66186372

Syed Sagheer - *Logistics / Light Engineering* syeds@pinc.co.in 91-22-66186390

Chandana Jha - *Associate - Banking* chandana@pinc.co.in 91-22-66186398

Dipti Solanki - *Associate - Media* diptis@pinc.co.in 91-22-66186392

Rahhul Aggarwal - *Associate - Steel* rahhula@pinc.co.in 91-22-66186388

Faisal Memon - *Associate - Logistics* faisalm@pinc.co.in 91-22-66186389

Abhishek Gangwani - *Associate* abhishekg@pinc.co.in 91-22-66186385

Institutional Sales:

Jaykrishna Gandhi jaykrishnag@pinc.co.in 91-22-66186327

Rajesh Khanna rajeshk@pinc.co.in 91-22-66186328

Dealing

Bhavik Broker / Chetan Trivedi equity@pinc.co.in 91-22-66186306

Manoj Parmar / Raju Bhavsar equity@pinc.co.in 91-22-66186323

Business Development / New initiatives:

Sachin Kasera sachink@pinc.co.in 91-22-66186384

Derivative Desk

Sailav Kaji - *Strategy* sailavk@pinc.co.in 91-22-66186341

Anand Kuchelan - *Analyst* anandk@pinc.co.in 91-22-66186349

Nilesh G. Inamdar - *Dealer* nileshg@pinc.co.in 91-22-66186347

PMS Desk

Vivek Agrawal viveka@pinc.co.in 91-22-66186373

Hormasud Sumariwalla hormasds@pinc.co.in 91-22-66186389

Directors

Gaurang Gandhi gaurangg@pinc.co.in 91-22-66186400

Girish Bakre girishb@pinc.co.in 91-22-66186400

Hemang Gandhi hemangg@pinc.co.in 91-22-66186400

Ketan Gandhi ketang@pinc.co.in 91-22-66186400

Rakesh Bhatia - *Head Compliance* rakeshb@pinc.co.in 91-22-66186400

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