

# Godawari Power and Ispat (GODPOW)

Rs. 218

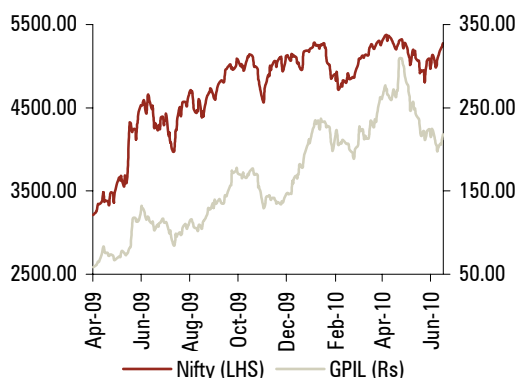
Rating matrix	
Rating	: <b>Strong Buy</b>
Target	: Rs. 279
Target Period	: 12-15 months
Potential Upside	: 28 %

Annual performance				
(Rs Crore)	FY09	FY10E	FY11E	FY12E
Net Sales	1092.0	822.4	1015.5	1086.9
EBITDA	130.0	130.5	220.4	269.6
Net Profit	62.4	56.0	114.4	150.3

Valuation summary				
	FY09	FY10E	FY11E	FY12E
PE (x)	9.5	10.5	5.1	3.9
Target PE (x)	12.2	13.4	6.6	5.0
EV/EBITDA (x)	6.8	6.8	3.7	2.5
P/BV (x)	1.3	1.2	1.0	0.8
RoNW (%)	14.6	11.7	20.3	21.9
RoCE (%)	13.6	11.3	19.0	20.4

Stock data	
Market Capitalisation	Rs 587.1 Crore
Debt-Cons. (FY09)	Rs 354.9 Crore
Cash & Invst.-Cons. (FY09)	Rs 53.9 Crore
EV	Rs 888.2 Crore
52 week H/L	320/83
Equity capital	Rs 26.9 Crore
Face value	Rs 10
DII Holding (%)	8.4
FII Holding (%)	6.8

## Price movement (stock v/s nifty)



## Analyst's name

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## WHAT'S CHANGED...

PRICE TARGET ..... Changed from Rs 254 to Rs 279  
 EPS (FY11E) ..... Changed from Rs 36.9 to Rs 42.5  
 EPS (FY12E) ..... Changed from Rs 42.5 to Rs 55.8  
 RATING.....Strong Buy

## Pellets to boost performance...

The company has reported good overall performance for Q4FY10. The top line posted a YoY and QoQ growth of 21.3% and 18.1% respectively to ~Rs 238 crore, slightly higher than our expectations of ~Rs 215 crore. Margins also improved by 390 bps and 810 bps respectively on YoY and QoQ basis to ~20%. This was mainly due to higher contribution from its own iron ore and use of own pellets, which offset the subdued performance in the power segment due to lower realisations. Overall sales realisations improved on QoQ in steel segment. Good operating performance was reflected in the bottom line too, as the PAT rose to Rs 23.4 crore growing 110% and 72% respectively on YoY and QoQ basis and against our estimate of Rs ~15 crore. We continue to maintain our **STRONG BUY** rating on the stock with revised target price of Rs 279 per share.

### Sales volume and realisation witness improvement

Sales volume improved for most of the steel products except HB Wire, which remained flat QoQ. Realisations however, improved for all the categories with sponge iron prices witnessing decent jump on a QoQ basis. Power sales volume remained subdued due to lower average realisations of ~Rs 3.94 per unit.

### Pellets contribution to improve further

Iron ore pellets have started contributing to the overall performance of the company with successful commissioning of 0.6 million tonnes pellet plant during Q4FY10. We believe, with further ramping up, pellets would contribute more in both top and bottom line of the company going forward.

## Valuation

At the CMP of 218, the stock is discounting its FY11E and FY12E earnings by 5.1x and 3.9x respectively. We value the stock 5x on its FY12E EPS, which TRANSLATES to a target price of Rs 279/ share. We maintain our **STRONG BUY** rating on the stock.

## Exhibit 1: Financial performance

(Rs Crore)	Q4FY10	Q4FY10E	Q4FY09	Q3FY10	QoQ (Chg %)	YoY (Chg %)
Net Sales	238.5	215.3	196.6	202.0	18.1	21.3
EBITDA	46.7	37.3	22.6	31.7	47.6	106.9
EBITDA Margin (%)	19.6	17.3	11.5	15.7	+ 810 bps	+390 bps
Depreciation	10.9	8.2	6.5	7.9	38.3	68.4
Interest	10.9	10.3	9.3	7.5	45.2	17.8
Reported PAT	23.4	15.8	11.1	13.6	72.3	110.5
EPS (Rs)	8.7	5.9	4.1	5.0	72.3	110.5

Source: Company, ICICIdirect.com Research

Higher use of captive iron ore has helped the company to improve its margins further. We feel margins to improve further going forward..

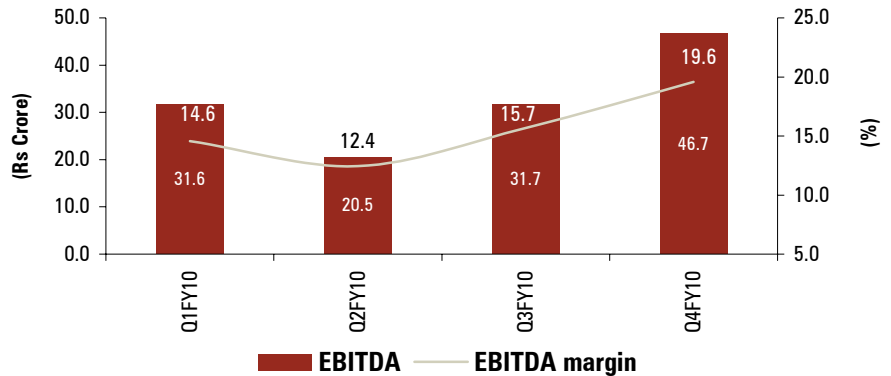
Sales volume improved in billet segment, however, fell in both sponge iron and HB wire segments despite higher productions. Power sales also fell to make way for higher billets production.

Realisations across all the steel products improved both YoY and QoQ. Sponge iron prices after remaining a laggard finally saw decent jump during Q4FY10. Average power realisation on the other hand fell for the quarter due to lower realisations during the month of February.

**Result Analysis**

The top line (~Rs 238 crore) of the company came slightly higher than our expectation of ~Rs 215 crore mainly due to better improvement in realisations of all the steel products. On the YoY and QoQ basis the top line grew by 42% and 60% respectively. Higher contribution from captive iron ore helped the company to show improvement at the EBITDA level with margins rising towards 20%. For the full year basis the EBITDA margin came at 16%. Higher profitability to some extent was restricted by the rise in interest costs during Q4FY10.

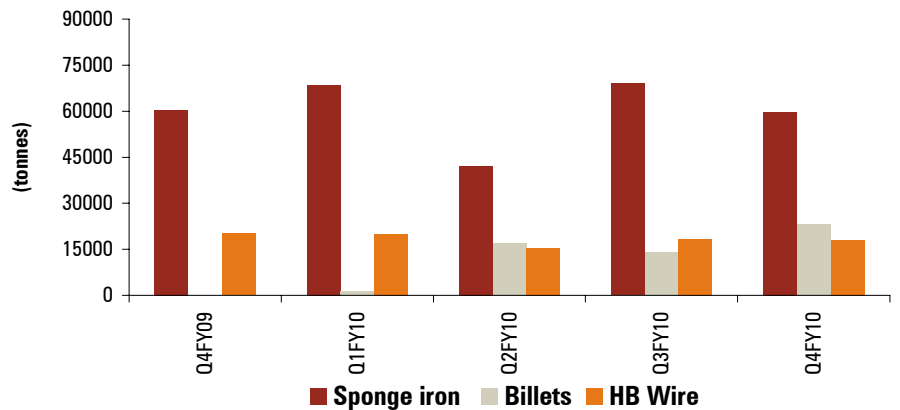
**Exhibit 2: Margins show gradual improvement**



Source: Company data, ICICIdirect.com Research

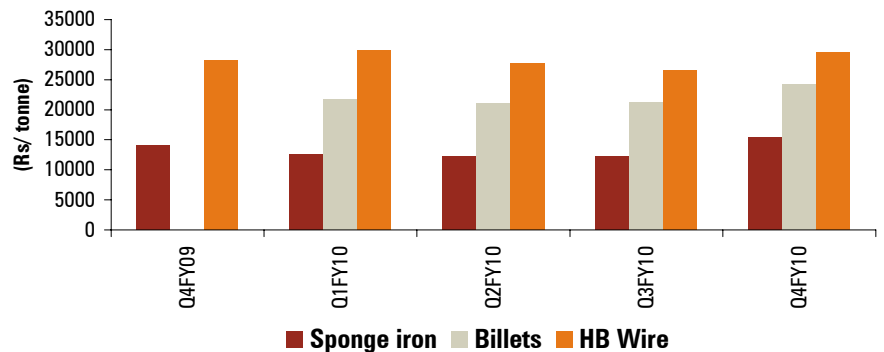
The company did well in the operational front with higher billet sales and better realisations in all the steel products.

**Exhibit 3: Sales volume showing stable improvement**



Source: Company, ICICIdirect.com Research

**Exhibit 4: Realisations improve across all the steel products**

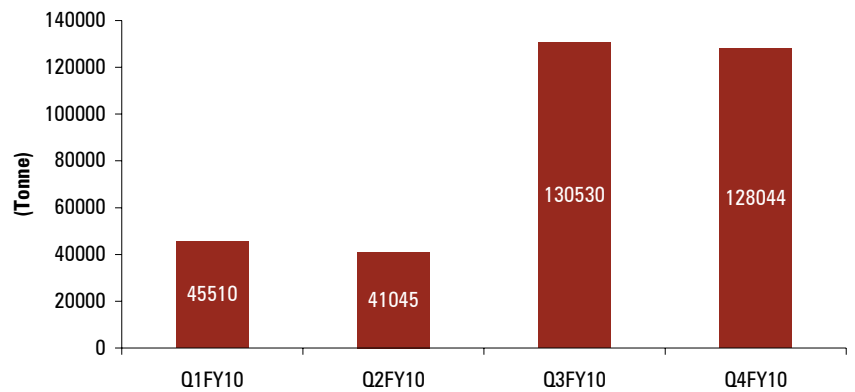


Source: Company, ICICIdirect.com Research

**Pellets to boost performance**

The company has successfully started its 0.6 million tones of pellet plant and reported first ever sales figures for Q4FY10. At present, the company has been in the process of ramping up its pellet production with a per day production of about 1500 tonnes. Iron ore production remained flat during Q4FY10 as compared to the previous quarter. The entire iron ore production is coming only from the Ari Dongri mine, as mining from Boria Tibu is further delayed and expected to start only after the monsoon. While, the monsoon remains a concern regarding the iron ore mining and thereby pellet production, we believe post monsoon it should stabilise to contribute more to the top and bottom line of the company. We have factored in the positive contribution of pellets to our estimates. On a conservative basis with iron ore production only from Ari Dongri mine, we believe, pellet would contribute ~Rs 87 crore and ~Rs 100 crore to the top line of the company during FY11E and FY12E respectively.

**Exhibit 5: Iron ore production**



Source: Company, ICICIdirect.com Research

### Valuations

Steel industry across the globe recently has seen both phases. The sharp fall in demand during the FY09 coupled with higher raw material costs prompted the steel producers across the globe to undertake severe production cuts. This helped the industry to come out of the challenging scenario faster. Simultaneous fall in raw material prices during FY10 on the other hand also attracted the idle capacities to come on stream again. This has resulted in overcapacities in the steel industry at a time, when it does not seem to be fully prepared to tackle that, as concern on global economic recovery continues to remain. Raw material prices also again rose sharply for the Q1FY11 and are expected to remain higher in the near term.

In such a scenario, we continue to prefer companies with backward integration in terms of raw material. GPIL has successfully started its iron ore mining and has been ramping up the production gradually. There have been concerns however, on the execution part, as the 20 MW power plant is again delayed and is not likely to be commissioned till Q3FY11.

Taking into account the above scenario and factoring in the revenues from the pellet plant, we have revised up our earning estimates for the company for both FY11E and FY12E.

### Exhibit 6: Revised earnings

Before revising		After revising	
FY11E	FY12E	FY11E	FY12E
36.9	42.5	42.5	55.8

Source: Company, ICICIdirect.com Research

At the CMP of 218, the stock is discounting its FY11E and FY12Earnings by 5.1x and 3.9x respectively. On the other hand, it also discounts FY11E and FY12E EV/ EBITDA by 3.7x and 2.7x respectively. We believe, the stock could see significant value addition from its pellet business, however would like to remain little cautious due to concerns on executions of projects including the 20 MW power plant. We value the stock 5x on its FY12E EPS, which translates to a target price of Rs 279/ share. We continue to maintain our STRONG BUY rating on the stock.

### Exhibit 7: Valuation matrix

	Sales *	EPS (Rs)	PE (x)	EV/EBITDA (x)	P/ BV (x)	RoNW (%)	RoCE (%)
<b>FY09</b>	1092.0	22.8	9.5	6.8	1.3	14.6	13.6
<b>FY10E</b>	822.4	20.8	10.5	6.8	1.2	11.7	11.3
<b>FY11E</b>	1015.5	42.5	5.1	3.7	1.0	20.3	19.0
<b>FY12E</b>	1086.9	55.8	3.9	2.5	0.8	21.9	20.4

Source: Company, ICICIdirect.com Research; \* Sales in Rs crore

## ICICIdirect.com coverage universe (Metals &amp; Mining)

				Sales (Rs Cr)	EPS (Rs)	PE (x)	EV/EBITDA (x)	RoNW(%)	RoCE(%)	
<b>Adhunik Metaliks</b>										
<b>Idirect Code</b>	<b>ADHMET</b>	<b>CMP (Rs)</b>	<b>111.2</b>	<b>FY09</b>	1270.3	5.1	21.7	10.4	13.3	9.1
		<b>Target (Rs)</b>	<b>134.0</b>	<b>FY10</b>	1449.7	11.1	10.0	6.4	17.5	14.1
<b>MCap (Rs Cr)</b>	<b>1372.3</b>	<b>Upside (%)</b>	<b>20.6</b>	<b>FY11E</b>	1725.4	15.5	7.2	5.4	20.1	17.1
				<b>FY12E</b>	1873.0	18.9	7.1	4.7	20.0	17.6
<b>JSW Steel</b>										
<b>Idirect Code</b>	<b>JINVIJ</b>	<b>CMP (Rs)</b>	<b>1,049.1</b>	<b>FY09</b>	16081.5	14.7	71.4	11.4	3.5	9.3
		<b>Target (Rs)</b>	<b>1,192.0</b>	<b>FY10</b>	19073.8	85.4	12.3	9.1	17.8	11.8
<b>MCap (Rs Cr)</b>	<b>19623.4</b>	<b>Upside (%)</b>	<b>13.6</b>	<b>FY11E</b>	23904.9	98.5	10.7	7.1	17.5	13.7
				<b>FY12E</b>	31780.8	141.9	8.4	5.6	20.3	15.6
<b>Usha Martin</b>										
<b>Idirect Code</b>	<b>USHBEL</b>	<b>CMP (Rs)</b>	<b>79.4</b>	<b>FY09</b>	2949.8	6.6	12.0	7.5	14.6	13.9
		<b>Target (Rs)</b>	<b>105.0</b>	<b>FY10</b>	2534.4	5.5	14.4	8.6	13.5	10.4
<b>MCap (Rs Cr)</b>	<b>2615.8</b>	<b>Upside (%)</b>	<b>32.3</b>	<b>FY11E</b>	3644.2	10.8	7.4	5.3	21.3	16.8
				<b>FY12E</b>	4000.5	13.0	8.1	4.3	20.9	17.8
<b>Visa Steel</b>										
<b>Idirect Code</b>	<b>VISST</b>	<b>CMP (Rs)</b>	<b>37.7</b>	<b>FY09</b>	1035.0	-6.1	NA	NA	NA	NA
		<b>Target (Rs)</b>	<b>52.0</b>	<b>FY10</b>	1156.9	4.3	8.7	6.8	14.5	14.3
<b>MCap (Rs Cr)</b>	<b>414.2</b>	<b>Upside (%)</b>	<b>38.1</b>	<b>FY11E</b>	1460.4	6.7	5.6	5.7	18.4	11.4
				<b>FY12E</b>	1944.5	15.4	3.4	3.8	29.6	17.8
<b>Tata Steel - Cons</b>										
<b>Idirect Code</b>	<b>TISCO</b>	<b>CMP (Rs)</b>	<b>481.0</b>	<b>FY09</b>	145686.3	67.8	7.1	4.3	17.4	15.0
		<b>Target (Rs)</b>	<b>517.0</b>	<b>FY10</b>	101757.8	-22.6	-21.3	10.4	-7.1	4.2
<b>MCap (Rs Cr)</b>	<b>42645.8</b>	<b>Upside (%)</b>	<b>7.5</b>	<b>FY11E</b>	113915.8	45.7	10.5	6.3	13.0	10.8
				<b>FY12E</b>	123045.4	60.8	7.9	5.2	15.2	12.6
<b>SAIL</b>										
<b>Idirect Code</b>	<b>SAIL</b>	<b>CMP (Rs)</b>	<b>198.0</b>	<b>FY09</b>	43639.7	14.9	13.2	6.1	32.7	37.4
		<b>Target (Rs)</b>	<b>235.0</b>	<b>FY10</b>	41307.2	16.4	12.1	7.8	22.1	21.0
<b>MCap (Rs Cr)</b>	<b>81761.3</b>	<b>Upside (%)</b>	<b>18.7</b>	<b>FY11E</b>	49358.6	18.4	10.7	7.2	20.4	17.0
				<b>FY12E</b>	58927.2	21.8	9.1	5.6	19.6	17.3
<b>Sesa Goa</b>										
<b>Idirect Code</b>	<b>SESGOA</b>	<b>CMP (Rs)</b>	<b>360.1</b>	<b>FY09</b>	4959.1	25.3	14.3	9.5	42.2	51.9
		<b>Target (Rs)</b>	<b>524.0</b>	<b>FY10</b>	5858.3	31.6	11.4	7.8	32.6	30.1
<b>MCap (Rs Cr)</b>	<b>29916.6</b>	<b>Upside (%)</b>	<b>45.5</b>	<b>FY11E</b>	10362.7	55.8	6.4	3.4	33.3	40.5
				<b>FY12E</b>	11127.5	57.9	6.2	2.7	26.1	31.4
<b>Hindustan Zinc</b>										
<b>Idirect Code</b>	<b>HINZIN</b>	<b>CMP (Rs)</b>	<b>1,011.1</b>	<b>FY09</b>	5680.3	64.6	15.7	11.5	20.8	19.8
		<b>Target (Rs)</b>	<b>1,312.0</b>	<b>FY10</b>	8017.0	95.6	10.6	6.6	24.7	27.2
<b>MCap (Rs Cr)</b>	<b>42722.0</b>	<b>Upside (%)</b>	<b>29.8</b>	<b>FY11E</b>	9322.1	110.3	9.2	5.0	22.6	25.1
				<b>FY12E</b>	11261.4	137.7	7.3	3.2	22.8	25.7
<b>Sterlite Industries</b>										
<b>Idirect Code</b>	<b>STEIND</b>	<b>CMP (Rs)</b>	<b>694.9</b>	<b>FY09</b>	21144.2	50.0	13.9	6.8	14.8	16.4
		<b>Target (Rs)</b>	<b>918.0</b>	<b>FY10</b>	24410.3	44.5	15.6	5.7	12.1	15.1
<b>MCap (Rs Cr)</b>	<b>58395.2</b>	<b>Upside (%)</b>	<b>32.1</b>	<b>FY11E</b>	28240.7	56.8	12.2	4.3	12.3	15.0
				<b>FY12E</b>	40235.5	100.7	6.9	2.1	18.9	20.2
<b>GPIL</b>										
<b>Idirect Code</b>	<b>GODPOW</b>	<b>CMP (Rs)</b>	<b>217.9</b>	<b>FY09</b>	1092.0	22.8	9.5	6.6	14.6	13.6
		<b>Target (Rs)</b>	<b>279.0</b>	<b>FY10E</b>	799.3	17.9	12.1	7.0	10.2	10.6
<b>MCap (Rs Cr)</b>	<b>587.1</b>	<b>Upside (%)</b>	<b>28.0</b>	<b>FY11E</b>	967.1	36.9	5.9	3.9	18.4	17.6
				<b>FY12E</b>	1010.2	42.5	5.1	3.0	17.9	17.3

Source: Company, ICICIdirect.com Research

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**Strong Buy: 20% or more;**

**Buy: Between 10% and 20%;**

**Add: Up to 10%;**

**Reduce: Up to -10%**

**Sell: -10% or more;**

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## ANALYST CERTIFICATION

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