

November 11, 2011

Reco	Previous Reco
Buy	Buy
CMP	Target Price
Rs 119	Rs 193
EPS change FY12E/13E (%)	-25 / -22
Target Price change (%)	-9
Nifty	5,169
Sensex	17,193

Price Performance

(%)	1M	3M	6M	12M
Absolute	6	(24)	(33)	(44)
Rel. to Nifty	4	(25)	(28)	(33)

Source: Bloomberg

Relative Price Chart



Source: Bloomberg

Stock Details

Sector	Metals & Mining
Bloomberg	GODPI@IN
Equity Capital (Rs mn)	318
Face Value(Rs)	10
No of shares o/s (mn)	32
52 Week H/L	224/108
Market Cap (Rs bn/USD mn)	4/80
Daily Avg Volume (No of sh)	55481
Daily Avg Turnover (US\$m)	0.1

Shareholding Pattern (%)

	Sep-11	Jun-11	Mar-11
Promoters	63.7	63.7	63.7
FII/NRI	4.8	5.3	5.7
Institutions	4.6	4.7	5.3
Private Corp	5.8	5.6	5.7
Public	21.2	20.7	19.6

Source: Capitaline

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- **Performance remained in line with our estimates; consolidated revenues at Rs 4.3 bn was down 13% QoQ. YoY figures not comparable due to mergers during Q4FY11**
- **Consolidated EBITDA at Rs 526 mn was down 31% QoQ. EBITDA margin also contracted 309 bps QoQ to 12.3% due to higher employee costs and other expenses**
- **Lower interest costs on QoQ basis aided PAT to remain at Rs 106 mn, in line with our estimates; MTM forex loss of Rs 120 mn was not adjusted in the P&L accounts**
- **Stable performance likely to continue, however, factoring in higher costs and slowing demand we revise our EPS for FY12 and FY13. Maintain Buy with a revised target price of Rs 193**

Realizations continue to be robust, volumes take a dip

Realizations during the quarter maintained strength on a sequential basis, however, production volumes across product categories took a dip. With the exception of steel billets, which grew by 2%, all other products saw a volume drop of 11%-27% with highest fall noted in HB wires (-27%) and Ferro Manganese (-26%) on a QoQ basis. While, pellets sales volume increased by 21% QoQ, other products saw a decline in the range of 1%-35% with the highest decline witnessed in HB wires (-32%) and sponge iron (-28% due to higher captive consumption). Iron ore mine production came in line with the estimates due to seasonal weakness. Pellet division continued to deliver better performance on both volume as well as realizations fronts. We believe lower volume across the product categories is due to seasonality and some demand weakness. We believe some improvement to be seen going forward in this regard, while realizations should remain steady.

Higher employee and other expenses weighed heavy on margins

During the quarter, while employee expenses increased 104 bps, other expenses rose 297 bps on a QoQ basis putting pressure on the EBITDA for the quarter. RM costs (with stock adjustment) as a percentage to sales surprised positively with a decline of 92 bps QoQ and gave some respite to EBITDA. The consolidated EBITDA margin declined from 15.4% in Q1FY12 to 12.3% in the quarter. We believe, margin would continue to remain under pressure though, some respite should be seen with higher iron ore mine output assuming no significant deterioration in prices.

Performance of other subsidiaries/ associates satisfactory

Stabilization process of the pellet plant at Ardent Steel seems to have been progressing well, as the company sold 70,918 tonne of pellets registering a growth of 31% QoQ. Hira Ferro Alloys on the other side posted a steady performance with slight pressure on margins due to rise in raw material costs. We expect contribution from Ardent Steel to improve further going forward, while Hira Ferro Alloys would remain stable.

Valuation attractive; maintain Buy

At the CMP of RS 119, the stock is trading at 3.7x its FY13E EPS and 4.3x FY13E EV/ EBITDA. We believe the stock is available at cheap valuations and our estimates address most of the concerns. We continue to value the stock at 5x FY13E EV/ EBITDA. We revise our target price to Rs 193/ share. Maintain BUY.

Financials

YE-	(Rs mn)									
	Net Sales	EBITDA (Core)	EBITDA (%)	APAT	EPS (Rs)	EPS % chg	RoE (%)	P/E	EV/ EBITDA	P/BV
Mar										
FY10	8,224	1,305	15.9	572	21.2	-8.2	12.1	5.6	6.3	0.6
FY11	11,161	2,323	20.8	859	27.0	27.3	15.6	4.4	4.8	0.6
FY12E	19,045	2,687	14.1	789	26.5	-2.1	13.2	4.5	5.2	0.6
FY13E	20,513	3,276	16.0	1,009	31.8	20.0	14.0	3.7	4.3	0.5

Source: Company, Emkay Research

Key Financials – Quarterly (Consolidated)

(Rs mn)	Q2FY11	Q3FY11	Q4FY11	Q1FY12	Q2FY12	YoY (%)	QoQ (%)	H1FY12	H1FY11	YoY (%)
Revenue	1,478	2,285	5,437	4,939	4,287	190.0	(13.2)	9,227	3,438	168.4
Expenditure	(1,174)	(1,761)	(4,303)	(4,180)	(3,761)	220.3	(10.0)	(7,941)	(2,774)	186.3
as % of sales	79.4	77.0	79.1	84.6	87.7			86.1	80.7	
Consumption of RM	(726)	(1,304)	(3,134)	(3,296)	(2,821)	288.8	(14.4)	(6,117)	(1,944)	214.7
as % of sales	49.1	57.1	57.6	66.7	65.8			66.3	56.5	
Employee Cost	(76)	(75)	(147)	(101)	(132)	74.4	31.1	(233)	(133)	75.5
as % of sales	5.1	3.3	2.7	2.0	3.1			2.5	3.9	
Other expenditure	(373)	(382)	(1,022)	(784)	(808)	116.6	3.1	(1,591)	(697)	128.4
as % of sales	25.2	16.7	18.8	15.9	18.8			17.2	20.3	
EBITDA	304	525	1,134	759	526	73.2	(30.7)	1,285	665	93.4
Depreciation	(112)	(118)	(215)	(163)	(170)	51.7	4.2	(333)	(221)	50.7
EBIT	192	407	919	596	356	85.7	(40.2)	952	444	114.7
Other Income	1	6	145	44	34	2,766.7	(21.1)	78	4	2,128.6
Interest	(102)	(154)	(374)	(271)	(251)	145.0	(7.6)	(522)	(203)	157.3
PBT	91	258	690	368	140	54.4	(61.9)	509	244	108.2
Total Tax	(18)	(47)	(107)	(61)	(32)	71.7	(48.2)	(93)	(46)	103.1
Adjusted PAT	72	212	583	307	109	50.0	(64.7)	416	199	109.3
(Profit)/loss from JV's/Ass/MI	-	-	(136)	(7)	(2)	-	-	(9)	-	-
Adj.PAT after MI	72	212	447	301	106	46.8	(64.6)	407	199	104.8
Extra ordinary items	-	-	-	-	-	-	-	-	-	-
Reported PAT	72	212	447	301	106	46.8	(64.6)	407	199	104.8
Reported EPS	2.7	7.9	14.1	9.5	3.9	46.8	(58.5)	13.4	7.4	82.3

Margins (%)						(bps)	(bps)			(bps)
EBIDTA	20.6	23.0	20.9	15.4	12.3	(828)	(309)	13.9	19.3	(540)
EBIT	13.0	17.8	16.9	12.1	8.3	(467)	(375)	10.3	12.9	(258)
EBT	6.1	11.3	12.7	7.5	3.3	(287)	(419)	5.5	7.1	(159)
PAT	4.9	9.3	10.7	6.2	2.5	(236)	(369)	4.5	5.8	(127)
Effective Tax rate	20.3	18.0	15.5	16.6	22.5	227	598	18.2	18.7	(46)

* Numbers are not comparable due to merger of Hira Industries and RR Ispat and consolidation of Hira Ferro Alloys during Q4FY11

Operational matrix

	Q2FY11	Q3FY11	Q4FY11	Q1FY12	Q2FY12	YoY (%)	QoQ (%)
Production (tonne)							
Sponge Iron	53,637	75,314	88,955	90,720	80,759	51	-11
Steel Billets	15228	30,990	39,033	30,031	30,714	102	2
H.B. Wire	15,130	13,457	18,901	25,664	18,620	23	-27
Ferro Manganese	1888	1,971	1,312	1,988	1,471	-22	-26
Power (mn units)	62.14	80	92	100.7	87.3	40	-13
Iron ore Mined	56,871	111,398	212,308	76,186	63,476	12	-17
Pellets (GPIL)	62,315	103,100	133,750	153,400	152,700	145	0
Pellets (Arden Steel)	--	--	--	60,493	73,246	--	21
Sales (tonne)							
Sponge Iron	38,460	41,194	44,001	58974	42,501	11	-28
Steel Billets	14478	31,168	39,097	30476	30,160	108	-1
H.B. Wire	12,866	14,952	19,566	24,802	16,743	30	-32
Ferro Manganese	1259	852	2322	1,631	1,567	24	-4
Power (mn units)	18.2	19	22	34	22	21	-35
Pellets (GPIL)	3,319	18,265	49,561	43,625	52,937	1495	21
Pellets (Arden Steel)	--	--	--	53,969	70,918	--	31
Realizations (Rs/ tonne)							
Sponge Iron	14,438	16,988	19,445	19404	19,873	38	2
Steel Billets	24,669	25,331	28,741	30002	30,389	23	1
H.B. Wire	28,956	29,441	34,811	35,855	36,415	26	2
Ferro Manganese	53,366	52,289	51,981	51,301	50,498	-5	-2
Power (Rs/ unit)	2.6	2.9	2.5	2.92	2.89	11	-1
Pellets (GPIL)	5,371	7,292	7,924	8,291	8,146	52	-2
Pellets (Arden Steel)	--	--	--	7,621	7,714	--	1.2

Source: Company, Emkay Research

Revising estimates to factor in concerns on costs, slower demand

GPIL's overall performance remained steady and in line with our estimates. Fall in volume was witnessed however, this was mainly because of seasonal weakness. Realizations on the other hand continue to be strong sequentially. Surprisingly raw material costs remained flat on QoQ despite overall increase in the costs. We believe, going forward this can pose a negative surprise. Higher purchase of trading goods also resulted into lower margins during the quarter. Margin pressure is likely to continue to be there going forward due to impact of higher costs and slowing demand.

Factoring in the concerns on higher costs and weakening demand scenario, we have revised our EPS estimates to Rs 26.5 and Rs 31.8 respectively for FY12 and FY13.

Valuation attractive; Maintain Buy

At the CMP of RS 119, the stock is trading at 3.7x its FY13E EPS and 4.3x FY13E EV/ EBITDA. We believe the stock is available at cheap valuations and our estimates address most of the concerns. We continue to value the stock at 5x FY13 EV/ EBITDA. We revise our target price to Rs 193/ share. Maintain BUY.

Financials (consolidated)

Income Statement

Y/E, Mar (Rs. mn)	FY10	FY11P	FY12E	FY13E
Net Sales	8,224	11,161	19,045	20,513
<i>Growth (%)</i>	-25	36	71	8
Expenditure	6,919	8,837	16,358	17,237
Raw Materials	5,960	6,715	12,695	13,160
Employee Cost	191	355	464	473
Other Exp	925	2100	3263	3604
EBITDA	1,305	2,323	2,687	3,276
<i>Growth (%)</i>	6	78	16	22
EBITDA margin (%)	15.9	20.8	14.1	16.0
Depreciation	342	554	727	779
EBIT	964	1,769	1,960	2,497
EBIT margin (%)	11.7	15.9	10.3	12.2
Other Income	40	155	135	150
Interest expenses	337	731	1084	1284
PBT	666	1,193	1,010	1,363
Tax	106	198	202	273
<i>Effective tax rate (%)</i>	15.9	16.6	20.0	20.0
Adjusted PAT	560	994	808	1,090
(Profit)/loss from JV's/Ass/MI	12.18	-136	-19	-81
Adjusted PAT after MI	572	859	789	1,009
<i>Growth (%)</i>	-8	50	-2	20
Net Margin (%)	7.0	7.7	4.1	4.9
E/O items	0	0	0	0
Reported PAT	572	859	789	1,009
<i>Growth (%)</i>	-8	50	-2	20

Cash Flow

Y/E, Mar (Rs. mn)	FY10	FY11P	FY12E	FY13E
PBT (Ex-Other income)	626	1,038	926	1,213
Depreciation	342	554	696	779
Interest Provided	0	0	0	0
Other Non-Cash items	0	0	0	0
Chg in working cap	-226	-1,738	-2,266	-413
Tax paid	-103	-189	-202	-273
Operating Cashflow	670	-286	-729	1,375
Capital expenditure	-2,499	-2,458	-2,000	-1,436
Free Cash Flow	-1,828	-2,745	-2,729	-61
Other income	0	0	0	0
Investments	-5	-98	0	0
Investing Cashflow	-2,497	-2,411	-2,000	-1,436
Equity Capital Raised	0	0	0	0
Loans Taken / (Repaid)	1,632	3,428	2,000	2,000
Interest Paid	0	0	0	0
Dividend paid (incl tax)	-793	-1,003	-1,002	-1,002
Income from investments	0	0	0	0
Others	35	0	0	0
Financing Cashflow	1,585	3,855	1,900	1,900
Net chg in cash	-242	1,157	-829	1,838
Opening cash position	438	196	1,363	534
Closing cash position	196	1,363	534	2,372

Balance Sheet

Y/E, Mar (Rs. mn)	FY10	FY11P	FY12E	FY13E
Equity share capital	269	318	318	318
Reserves & surplus	4713	5732	6472	7381
Net worth	4,983	6,049	6,790	7,699
Minority Interest	101	764	764	764
Secured Loans	5,121	8,057	10,057	12,057
Unsecured Loans	60	787	787	787
Loan Funds	5,181	8,845	10,845	12,845
Net deferred tax liability	-9	55	55	55
Total Liabilities	10265	15658	18398	21308
Gross Block	7520	11725	13225	14161
Less: Depreciation	1224	2016	2713	3492
Net block	6,295	9,708	10,512	10,670
CWIP	1938	936	1436	1936
Investment	117	220	220	220
Current Assets	2686	4644	7774	8257
Inventories	1728	2872	5000	5305
Sundry debtors	372	674	870	901
Cash & bank balance	196	1363	534	2372
Loans & advances	587	1097	1905	2051
Other current assets	0	0	0	0
Current lia & Prov	1005	1269	2134	2204
Current liabilities	818	1048	1913	1983
Provisions	187	221	221	221
Net current assets	1877	4737	6174	8426
Total Assets	10265	15658	18398	21308

Key Ratios

Y/E, Mar	FY10	FY11P	FY12E	FY13E
Profitability (%)				
EBITDA Margin	15.9	20.8	14.1	16.0
Net Margin	7.0	7.7	4.4	5.4
ROCE	10.9	14.9	12.6	13.4
ROE	12.1	15.6	13.2	14.0
RoIC	14.2	16.8	13.7	15.2
Per Share Data (Rs)				
EPS	21.2	27.0	26.5	31.8
CEPS	33.9	44.5	48.4	56.3
BVPS	184.9	188.8	212.1	240.8
DPS	2.5	2.7	2.7	2.7
Valuations (x)				
PER	5.6	4.4	4.5	3.7
P/CEPS	3.5	2.7	2.5	2.1
P/BV	0.6	0.6	0.6	0.5
EV / Sales	1.0	1.0	0.7	0.7
EV / EBITDA	6.3	4.8	5.2	4.3
Gearing Ratio (x)				
Net Debt/ Equity	1.0	1.1	1.4	1.2
Net Debt/EBIDTA	3.8	3.2	3.8	3.2

Recommendation History: Godawari Power – GODPI IN

Date	Reports	Reco	CMP	Target
09/08/2011	Godawari Power Q1FY12 Result Update	Buy	151	210
24/05/2011	Godawari Power Q4FY11 Result Update	Buy	179	232
04/02/2011	Godawari Power Q3FY11 Result Update	Buy	165	228

Recent Research Reports

Date	Reports	Reco	CMP	Target
08/11/2011	HEG Q2FY12 Result Update	Accumulate	209	224
25/10/2011	Sesa Goa Q2FY12 Result Update	Hold	211	239
24/10/2011	Sterlite Industries Q2FY12 Result Update	Accumulate	116	162
19/10/2011	Hindustan Zinc Q2FY12 Result Update	Buy	121	159

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