Godawari Power & Ispat Ltd.

Target Price Rs.375

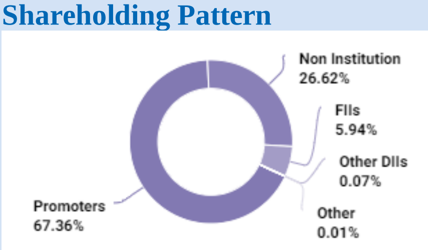
Company Details

CMP:	Rs.259
Face value:	Rs.10
Market cap:	Rs.926.71 Crs.
TTM EPS	Rs.86.57
52 week high:	Rs.623
52 week low:	Rs.239
BSE Code:	532734
Sector	Iron & Steel/Interm. Products

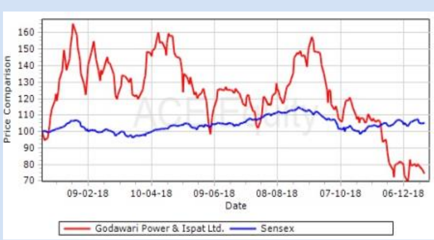
Financial Highlights (YoY)

			Rs. in crores
	H1FY19	H1FY18	% Var
Net Sales	1524.47	1173.83	29.9%
Total Expendit	1136.43	953.05	19.2%
PBDIT	388.04	220.78	75.8%
Op.Profit	389.87	224.95	73.3%
OPM (%)	25.6%	19.2%	33.5%
PBT	195.17	40.26	384.8%
PAT	124.17	34.82	256.6%
EPS (Rs.)	36.40	10.21	256.6%
Equity	34.11	34.11	0.0%

Shareholding Pattern



Price Vs Sensex Chart



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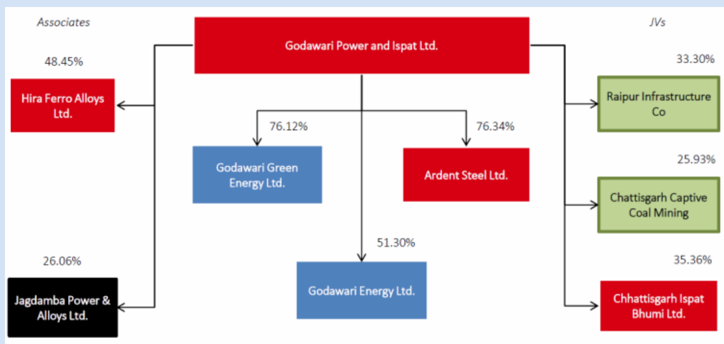
Company Background

Godawari Power and Ispat Ltd., (GPIL) a Raipur based company; a part of Hira Group of companies, incorporated in 1999 is engaged in manufacture of Sponge Iron, Billets, Ferro alloys, Captive power, Wires rods, Steel wires, oxygen gas and Iron Ore pellets. The company has two operational captive iron ore mines in Chhattisgarh at Ari Dongri, with capacity of 14,00,000 tpa and at BoriaTibu with capacity of around 6,00,000 tpa. **During FY18, the company has increased its iron ore mining output by around 34% to 15.8 lakh tonnes from around 11.75 lakh tonnes in FY17.** The company has two subsidiary, two associate and two JVs.

Subsidiary | Ardent Steel; The Net Sales during FY18 at Rs. 296.5 crore was higher against Rs. 147 crore during FY17. The EBITDA and PAT margin was 25.8% and 9.5% respectively, which improved in FY18 against FY17. As per the management, the Debt has been restructured by the lenders for a tenor of 14 years starting FY17. The production during the Q2FY19 is higher by 35,848 tonnes as compared to last quarter. The company earned revenue of Rs. 71.32 crore, EBITDA of Rs. 20.88 crore and PAT of Rs. 8.31 crore during Q2FY19.



Subsidiary | Godawari Green Energy; The Net Sales, EBITDA & PAT for FY18 was Rs. 106.5 crore, Rs. 89.8 crore and Rs. .62 crore lower against Rs. 111.3 crore, Rs. 102.52 crore & Rs. 6.48 crore respectively in FY17 on the account of grid failure in the month of May,17. The net Debt of the company at the end of the FY18 stood at Rs. 469.46 crore which is a reduction of Rs. 41.20 crore from Rs. 510.6 crore at the end of FY17. The total debt at end of Q2FY19 stands at Rs. 453.84 crore. The company has been setup to implement project awarded under Jawaharlal Nehru national Solar Mission, Phase 1 of Govt. of India.

Financial Performance

The company had reported Net sales of Rs. 1524.47 crore for H1FY19 higher by 29.9% against Rs. 1173.83 crore for H1FY18, while **Operating profit was at Rs.389.87 crore in H1FY19 up by 73.3% against that of Rs.224.95 crore in H1 of the last year**. The operating profit margin has improved to 25.6% in H1FY19, as compared to 19.2% in the corresponding half year of previous year, an increase of 640bps. The EPS has significantly improved to Rs 36.40 in H1FY19 as against Rs. 10.21 in FY18. The rise in the revenues as well as margins is mainly due to higher realization for the products sold by the company, moderation in commodity prices and operational efficiency.

Investment Rationale

- The company has proposed to merge Jagdamba Power & Alloys Ltd. with itself to increase share of captive power in steel billet manufacturing and an additional 25MW of power will be available for captive use from Jagdamba power.
- The company is promoted by the Hira Group, which has more than two decades of experience in the steel & ferro alloys industry. Mr. B L Agarwal, Managing director, looks after the strategic functions.
- Domestic steel demand is expected to **grow by 7-7.5% in FY19**, shortage of lumps in domestic market is driving demand for Iron ore pellets as well as the affordable housing and infrastructure projects to propel demand.
- The company has secured **long term coal linkage supply contract with Coal India Ltd.** to the extent of around 80% of its requirement. The coal under the linkages supply is cheaper as compared to market price and is expected to get full benefit of coal supply linkage over a period of 2 years.
- **China's rising import dependence**; As Chinese government is shutting down of sintering facilities and cancelling of more than 1000 licenses of iron ore mines across China, the demand for iron ore remains intact which is gradually reviving the pellets price across the world. There is an **emerging demand of Pellet from Japan and South Korea as well**.

- The company has decided to **implement the expansion of rolling mills capacity** which is expected to be operational by end of FY19 and **operations will commence in Q1FY20**.
- The Gross Debt of the company has reduced by Rs. 108 crore in H1FY19. The majority of FY19 Debt has already repaid at the end of H1FY19 giving considerable headroom for future repayment which has resulted into the **improvement in credit rating from Junk grade 'D' in FY16 to investment grade 'BBB' in Aug 18**. The Debt/Equity ratio of the company at the end of FY18 was 2.1:1 which has improved to 1.5:1 in Q2FY19. The Interest coverage ratio at around ~3x in H1FY19.
- As on Sep 30th, 2018, the promoters hold 67.4% equity of the company, whereas FIIs and DIIs own 5.9% and 0.01% respectively, and the balance 26.6% shares are held by the public. The promoters and promoters group of company had pledged 44.29% of their holding in favour of IFCI Ltd. to secure the credit facilities granted to the company; **the pledged shares has been released by IFCI Ltd. on Nov 5th 2018.**

Concerns

Competition from unorganized sector and volatility in raw material prices are the main concerns.

Valuation

The share of the Company has declined from 52week high of Rs. 623 by more than 50% and is trading at an attractive **TTM P/E of only 3.03x against industry P/E of 6x**. Keeping the improving financials of the company, improvement in margins, expansion plans, ability to scale the top-line and high promoter holding we expect the company to report **EPS of about Rs. 75 for FY19 and based on PE of 5x,** we estimate the price of the scrip to appreciate to about Rs. 375 over the next 6-12 months (price appreciation of about 40%).

Disclaimer:

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