

Godawari Power & Ispat (GPIL)

Tough environment weighs on performance...

CMP Rs115	Target Price Rs209 (±)
Rating BUY (±)	Upside 81.1 %

Result highlights

- GPIL reported numbers lower to our estimates on weak operational performance. APAT was Rs 76 mn (vs our estimate of Rs 267 mn) as lower sales volumes and decline in realizations impacted profitability
- EBITDA for the quarter was lower at Rs 873 mn (-18.4% YoY; -4% QoQ) impacted by higher operational costs and lower revenues
- Lower pellet sales from GODPI along with sequential decline in realisations in majority products resulted in revenues of Rs 5.6 bn (+1.3% YoY; -11.3% QoQ). Pellet sales at Ardent steel were sequentially higher but higher costs impacted margins
- With ramp up in iron ore mine output, we expect substantial improvement in performance going ahead. Valuation remains cheap. Maintain Buy with target price of Rs 209

Lower revenues dent profits

GPIL Q3FY15 results were lower to our estimates as declining revenues along with increase in operational costs impacted profits which stood at Rs 76 mn (+68.7% YoY; -42.6% QoQ). Revenues declined 11.3% QoQ to Rs 5.64 bn as the company kept its pellet plant shut for a month amid decline in margins which resulted in lower pellet sales at GPIL. EBITDA at Rs 873 mn (-18.4% YoY; -4% QoQ) was also negatively impacted with one off charge of Rs 387 mn on cancelled coal shipments besides lower revenues. The company utilized its available MAT credits during the quarter and thus had a tax benefit of Rs 4.6 mn.

Operations to improve FY16 onwards

With inventory of high cost iron ore and further weak realizations for steel and pellets, we expect Q4FY15 performance to remain under stress. Some improvement will be there on account of full utilizations of pellet plant in Raipur. Once the company ramps up its iron ore mining in both Ari Dongri and Boria Tibu mines, we believe, GPIL's operating performance will improve substantially. Also, the company has participated in coal auctions and is confident of getting a mine. This would be further positive for the company as far as its cost of production is concerned. As there is no further capex planned in the immediate future, we see a gradual moderation in the debt figure.

Valuation

The company at the CMP of Rs 115, its stock is trading at 2.4x FY17 EPS and 3.8x FY17 EV/EBITDA. Speedy ramp up in iron ore mining poses upside risks to our estimates. We value the company by taking an average EV/EBITDA based valuation for FY16 and FY17. Maintain BUY with a target price of Rs 209.

Financial Snapshot (Consolidated)

(Rs mn)	FY13	FY14	FY15E	FY16E	FY17E
Net Sales	23,567	21,181	24,615	27,766	28,578
EBITDA	3,309	3,473	4,002	4,988	5,896
EBITDA Margin (%)	14.0	16.4	16.3	18.0	20.6
APAT	1,488	578	600	960	1,587
EPS (Rs)	46.9	17.7	18.3	29.3	48.5
EPS (% chg)	76.6	(62.3)	3.8	59.9	65.4
ROE (%)	20.3	6.7	6.1	9.0	13.4
P/E (x)	2.5	6.5	6.3	3.9	2.4
EV/EBITDA (x)	5.6	7.0	5.9	4.6	3.8
P/BV (x)	0.5	0.4	0.4	0.3	0.3

Source: Company, Emkay Research

Change in Estimates

EPS Chg FY15E/FY16E (%)	NA/(50.5)
Target Price change (%)	NA
Previous Reco	BUY

Emkay vs Consensus

EPS Estimates		
	FY15E	FY16E
Emkay	18.3	29.3
Consensus	38.8	58.5
Mean Consensus TP	Rs 201	

Stock Details

Bloomberg Code	GODPI IN
Face Value (Rs)	10
Shares outstanding (mn)	33
52 Week H/L	188 / 67
M Cap (Rs bn/USD bn)	4 / 0.06
Daily Avg Volume (nos.)	47,938
Daily Avg Turnover (US\$ mn)	0.1

Shareholding Pattern Dec '14

Promoters	64.9%
FIIs	-%
DIIIs	5.8%
Public	29.3%

Price Performance

(%)	1M	3M	6M	12M
Absolute	(4)	(26)	(25)	60
Rel. to Nifty	-	(28)	(33)	14

Relative price chart



Source: Bloomberg

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Exhibit 1: Quarterly Financials (Consolidated)

Rs mn	Q3FY14	Q4FY14	Q1FY15	Q2FY15	Q3FY15	YoY (%)	QoQ (%)	9M FY15	9M FY14	YoY (%)
Revenue	5,572	5,628	5,970	6,363	5,644	1.3	(11.3)	17,977	15,552	15.6
Expenditure	(4,502)	(4,646)	(4,885)	(5,454)	(4,771)	6.0	(12.5)	(15,111)	(13,062)	15.7
as % of sales	80.8	82.6	81.8	85.7	84.5			84.1	84.0	
Consumption of RM	(2,862)	(3,145)	(3,539)	(4,100)	(3,310)	15.6	(19.3)	(10,949)	(9,156)	19.6
as % of sales	51.4	55.9	59.3	64.4	58.6			60.9	58.9	
Employee Cost	(250)	(225)	(214)	(219)	(251)	0.5	14.5	(684)	(573)	19.4
as % of sales	4.5	4.0	3.6	3.4	4.4			3.8	3.7	
Other expenditure	(1,391)	(1,276)	(1,132)	(1,135)	(1,211)	(12.9)	6.7	(3,478)	(3,332)	4.4
as % of sales	25.0	22.7	19.0	17.8	21.4			19.3	21.4	
EBITDA	1,070	982	1,084	909	873	(18.4)	(4.0)	2,867	2,491	15.1
Depreciation	(341)	(332)	(263)	(261)	(261)	(23.5)	0.0	(784)	(723)	8.5
EBIT	729	650	822	649	612	(16.0)	(5.6)	2,083	1,768	17.8
Other Income	15	80	44	73	22	48.6	(70.4)	139	75	84.0
Interest	(512)	(524)	(533)	(537)	(577)	12.7	7.4	(1,646)	(1,127)	46.1
PBT	232	206	333	185	57	(75.2)	(69.0)	575	717	(19.7)
Total Tax	(153)	(5)	19	(90)	5	(103.0)	(105.1)	(66)	(218)	(69.9)
Adjusted PAT	79	201	352	95	62	(21.6)	(35.1)	510	498	2.2
(Profit)/loss from JV's/Ass/MI	(34)	(1)	(122)	36	14					
Adj.PAT after MI	45	200	230	132	76	68.7	(42.6)	438	402	8.8
Extra ordinary items	-	-	359	25	8			392	-	-
Reported PAT	45	200	589	157	84	86.6	(46.6)	830	402	106.3
Reported EPS	1.37	5.38	17.99	4.78	2.55	86.6	(46.6)	25.3	12.3	106.3

Margins (%)						(bps)	(bps)			(bps)
EBIDTA	19.2	17.4	18.2	14.3	15.5	(373)	118	15.9	16.0	(7)
EBIT	13.1	11.5	13.8	10.2	10.8	(223)	65	11.6	11.4	22
EBT	4.2	3.7	5.6	2.9	1.0	(314)	(189)	3.2	4.6	(141)
PAT	1.4	3.6	5.9	1.5	1.1	(32)	(40)	2.8	3.2	(37)
Effective Tax rate	65.9	2.4	(5.8)	48.4	(8.0)	(7,387)	(5,645)	11.4	30.4	(1,903)

Source: Company, Emkay Research

Exhibit 2: Details of Production and Sales

Operational Matrix	Q3FY14	Q4FY14	Q1FY15	Q2FY15	Q3FY15	YoY (%)	QoQ (%)
Production (tonne)							
Sponge Iron	93,346	96,864	91,186	1,02,751	82,142	(12.0)	(20.1)
Steel Billets	47,140	50,695	51,160	43,575	32,725	(30.6)	(24.9)
H.B. Wire	19,596	20,416	22,984	25,728	17,323	(11.6)	(32.7)
Ferro Alloys	2,814	3,309	3,431	2,236	3,182	13.1	42.3
Power (mn units)	113	111	124	113	87	(22.8)	(22.6)
Iron ore Mined	64,698	1,06,833	1,07,047	81,001	1,27,064	96.4	56.9
Pellets (GPIL)	3,21,350	1,93,750	3,95,800	4,34,750	2,91,800	(9.2)	(32.9)
Pellets (Ardent Steel)	1,60,187	1,08,027	-	32,516	1,41,224	(11.8)	334.3
Sales (tonne)							
Sponge Iron	47,147	48,597	36,638	64,032	53,662	13.8	(16.2)
Steel Billets	26,721	39,858	27,905	16,956	11,759	(56.0)	(30.6)
H.B. Wire	21,216	23,748	23,463	24,258	17,103	(19.4)	(29.5)
Ferro Alloys	2,708	3,002	2,771	1,553	1,787	(34.0)	15.1
Power (mn units)	12	12	14	11	6	(47.5)	(41.7)
Pellets (GPIL)	1,52,949	1,06,790	2,61,538	2,99,632	1,65,510	8.2	(44.8)
Pellets (Ardent Steel)	1,34,112	97,014	9,268	26,875	1,43,991	7.4	435.8
Realizations (Rs/ tonne)							
Sponge Iron	18,529	19,076	20,144	19,687	19,097	3.1	(3.0)
Steel Billets	28,213	30,128	31,582	30,720	29,269	3.7	(4.7)
H.B. Wire	33,903	36,158	37,585	37,072	35,409	4.4	(4.5)
Ferro Alloys	51,790	53,274	56,638	57,143	54,341	4.9	(4.9)
Power (Rs/ unit)	2	2	2	1	1	(30.0)	14.3
Pellets (GPIL)	7,965	8,024	7,895	8,350	8,300	4.2	(0.6)
Pellets (Ardent Steel)	8,460	8,054	4,938	7,243	7,320	(13.5)	1.1

Source: Company, Emkay Research

Estimate revision and valuation

We have cut our estimates for FY15 and FY16 factoring the lower product prices and assuming gradual recovery. We have introduced FY17 numbers and expect improvement in performance by then on account of higher iron ore mining output. Higher than expected mining output and getting a coal mine in the auction pose upside risks to our estimates. Prolonged recovery and squeeze in pellet margins on the other hand might have an adverse impact.

Exhibit 3: Revision in estimates

Rs mn.	FY16		FY17
	Earlier	Revised	New
Revenue	28,798	27,765	28,577
EBITDA	6,172	4,988	5,896
APAT	1,941	985	1,610
EPS (Rs)	59.3	29.3	48.5

Source: Company, Emkay Research

The company at the CMP of Rs 115, is stock is trading at 2.4x FY17 EPS and 3.8x FY17 EV/ EBITDA. We value the company by taking an average EV/ EBITDA on our FY16 (5x) and FY17 (4.5x). Maintain Buy with a target price of Rs 209.

Key Financials (Consolidated)**Income Statement**

Y/E Mar (Rs mn)	FY13	FY14	FY15E	FY16E	FY17E
Net Sales	23,567	21,181	24,615	27,766	28,578
Expenditure	20,258	17,708	20,613	22,777	22,681
EBITDA	3,309	3,473	4,002	4,988	5,896
Depreciation	709	1,055	1,128	1,545	1,640
EBIT	2,600	2,418	2,875	3,443	4,256
Other Income	148	156	164	100	100
Interest expenses	1,211	1,650	2,229	2,174	2,119
PBT	1,537	923	810	1,369	2,237
Tax	(46)	223	131	383	626
Extraordinary Items	0	0	(392)	0	0
Minority Int./Income from Assoc.	95	110	78	26	23
Reported Net Income	1,488	578	208	960	1,587
Adjusted PAT	1,488	578	600	960	1,587

Balance Sheet

Y/E Mar (Rs mn)	FY13	FY14	FY15E	FY16E	FY17E
Equity share capital	458	328	328	328	328
Reserves & surplus	7,446	9,035	9,931	10,794	12,285
Net worth	7,904	9,362	10,258	11,121	12,612
Minority Interest	1,573	1,573	1,573	1,573	1,573
Loan Funds	15,555	21,267	20,267	19,767	19,267
Net deferred tax liability	774	829	829	829	829
Total Liabilities	25,805	33,031	32,927	33,290	34,281
Net block	10,830	24,162	25,035	25,490	25,850
Investment	178	508	508	508	508
Current Assets	8,268	10,101	10,246	11,031	11,370
Cash & bank balance	799	705	388	481	566
Other Current Assets	0	0	0	0	0
Current liabilities & Provision	5,358	2,740	3,861	4,738	4,446
Net current assets	2,910	7,361	6,384	6,293	6,923
Misc. exp	0	0	0	0	0
Total Assets	25,805	33,031	32,927	33,290	34,281

Cash Flow

Y/E Mar (Rs mn)	FY13	FY14	FY15E	FY16E	FY17E
PBT (Ex-Other income) (NI+Dep)	1,537	923	1,202	1,369	2,237
Other Non-Cash items	(124)	(67)	(78)	(26)	(23)
Chg in working cap	309	(4,545)	660	185	(546)
Operating Cashflow	1,995	(2,857)	2,780	2,690	2,681
Capital expenditure	(9,951)	(3,500)	(2,000)	(2,000)	(2,000)
Free Cash Flow	(7,956)	(6,357)	780	690	681
Investments	0	(330)	0	0	0
Other Investing Cash Flow	0	0	0	0	0
Investing Cashflow	(9,825)	(3,830)	(2,000)	(2,000)	(2,000)
Equity Capital Raised	260	(130)	0	0	0
Loans Taken / (Repaid)	6,931	5,713	(1,000)	(500)	(500)
Dividend paid (incl tax)	(106)	(96)	(96)	(96)	(96)
Other Financing Cash Flow	566	0	0	0	0
Financing Cashflow	7,651	5,486	(1,096)	(596)	(596)
Net chg in cash	(179)	(1,201)	(317)	94	85
Opening cash position	990	799	705	388	481
Closing cash position	799	705	388	481	566

Key Ratios

Profitability (%)	FY13	FY14	FY15E	FY16E	FY17E
EBITDA Margin	14.0	16.4	16.3	18.0	20.6
EBIT Margin	11.0	11.4	11.7	12.4	14.9
Effective Tax Rate	(3.0)	24.2	16.2	28.0	28.0
Net Margin	6.7	3.3	2.8	3.5	5.6
ROCE	12.5	8.7	9.2	10.7	12.9
ROE	20.3	6.7	6.1	9.0	13.4
RoIC	19.2	11.0	9.3	11.0	13.4

Per Share Data (Rs)	FY13	FY14	FY15E	FY16E	FY17E
EPS	46.9	17.7	18.3	29.3	48.5
CEPS	69.2	49.9	52.8	76.5	98.5
BVPS	248.9	285.9	313.2	339.6	385.1
DPS	2.6	2.5	2.5	0.0	0.0

Valuations (x)	FY13	FY14	FY15E	FY16E	FY17E
PER	2.5	6.5	6.3	3.9	2.4
P/CEPS	1.7	2.3	2.2	1.5	1.2
P/BV	0.5	0.4	0.4	0.3	0.3
EV / Sales	0.8	1.1	1.0	0.8	0.8
EV / EBITDA	5.6	7.0	5.9	4.6	3.8
Dividend Yield (%)	2.2	2.2	2.2	0.0	0.0

Gearing Ratio (x)	FY13	FY14	FY15E	FY16E	FY17E
Net Debt/ Equity	1.9	2.2	1.9	1.7	1.5
Net Debt/EBIDTA	4.5	5.9	5.0	3.9	3.2
Working Cap Cycle (days)	32.7	114.7	88.9	76.4	81.2

Growth (%)	FY13	FY14	FY15E	FY16E	FY17E
Revenue	14.4	(10.1)	16.2	12.8	2.9
EBITDA	17.4	4.9	15.2	24.6	18.2
EBIT	21.4	(7.0)	18.9	19.8	23.6
PAT	76.6	(61.1)	(64.0)	361.3	65.4

Quarterly (Rs mn)	Q3FY14	Q4FY14	Q1FY15	Q2FY15	Q3FY15
Revenue	5,572	5,628	5,970	6,363	5,644
EBITDA	1,070	982	1,084	909	873
EBITDA Margin (%)	19.2	17.4	18.2	14.3	15.5
PAT	45	176	589	157	84
EPS (Rs)	1.4	5.4	18.0	4.8	2.6

Shareholding Pattern (%)	Dec-13	Mar-14	Jun-14	Sep-14	Dec-14
Promoters	64.9	64.9	64.9	64.9	64.9
FIIIs	0.1	0.1	0.1	-	-
DIIIs	6.5	6.5	6.8	5.8	5.8
Private Corp	5.2	5.5	6.1	6.3	5.7
Public	28.6	28.6	28.3	29.3	29.3

Emkay Rating Distribution

BUY	Expected total return (%) (Stock price appreciation and dividend yield) of over 25% within the next 12-18 months.
ACCUMULATE	Expected total return (%) (Stock price appreciation and dividend yield) of over 10% within the next 12-18 months.
HOLD	Expected total return (%) (Stock price appreciation and dividend yield) of upto 10% within the next 12-18 months.
REDUCE	Expected total return (%) (Stock price depreciation) of upto (-) 10% within the next 12-18 months.
SELL	The stock is believed to underperform the broad market indices or its related universe within the next 12-18 months.

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