

Godawari Power & Ispat – Trading Buy

Business Overview

Godawari Power & Ispat (GPIL) is a fully backward-integrated steel company with strong presence across the value chain—from operating captive iron-ore mines to manufacturing and selling value-added steel products. The company is one of the largest pellet manufacturers in India and India’s only manufacturer of high-grade pellets. GPIL has facilities in Chhattisgarh with two iron-ore mines. In addition to pellets, GPIL manufactures sponge iron, long steel products, ferro alloys and green energy.

Investment Rationale

- **Weak dollar index** – A historically weak DXY led to a rally in commodities, including iron ore, barring a few instances wherein iron ore fundamentals were weak. We expect the prices of iron ore pellets to bottom out in Q3FY23 and realisation of INR 10,000 in FY24E (spot INR 8,500).
- **China iron ore port inventory** – China’s iron ore inventory is below the 12-month average due to the restrictions induced by COVID-19 and subdued pricing environment for steel. We expect the iron ore inventory in Chinese ports to build up following the lockdown, thus boosting iron ore and pellet prices.
- **Fungible, highly profitable production mix** – Following the export duty imposed on iron ore pellets (0%-45%), GPIL ramped up the domestic sales of sponge iron ore and billets (up 112% and 23% in H1FY23 vs. H1FY22), which compensated for the weak pellet exports. In addition, captive iron ore and coal mines led to top quartile profitability in every product.
- **Growth at reasonable valuation** – We expect the FY24 EBITDA and cash flow to be INR 1,700cr and INR 1,100cr, respectively, and cash balance to be INR 930cr, suggesting 2.2x/4x EV/EBITDA and EV/OCF, which is undemanding valuation. Furthermore, the FY24E cash balance will be 20% of the Mcap.

Risks

- Extension of the COVID-19-led lockdown in China, which may not improve global iron ore prices.
- Weak global sentiment beyond C2Y23, which can suppress the overall commodity demand and prices.
- Our FY24E numbers are based on pellet price of INR 10,000/T, and any change in the pricing can alter EBITDA/OCF/cash on hand numbers.

Financial Summary

INR Cr	FY20	FY21	FY22E	FY23E	FY24E
Sales	3,289	4,072	5,399	5,187	6,212
EBITDA	614	1,229	1,850	1,285	1,718
PAT	177	655	1,467	878	1,203
EPS (INR)	25	94	111	59	80
P/E (x)	14	4	3	6	4
ROCE	12%	26%	43%	23%	26%

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CMP (INR): 342

Stop Loss (INR): 280

Target Price (INR): 550

Expected Return: 61%

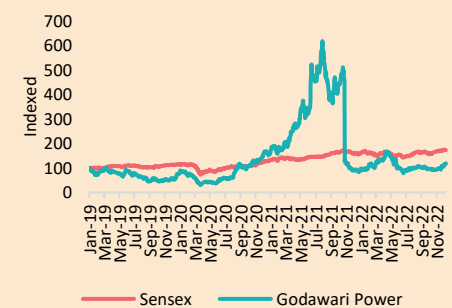
Date: December 08, 2022

QUICK DATA

Face Value (INR)	5
Div. Yield (%)	3.94
No of shares ('cr)	14.1
52-week High/Low (INR)	223 / 498
NSE Symbol	GPIL
BSE Code	532734
Bloomberg Code	GPDPPI
Market cap (INR Cr)	4,709

SHAREHOLDING PATTERN (%)

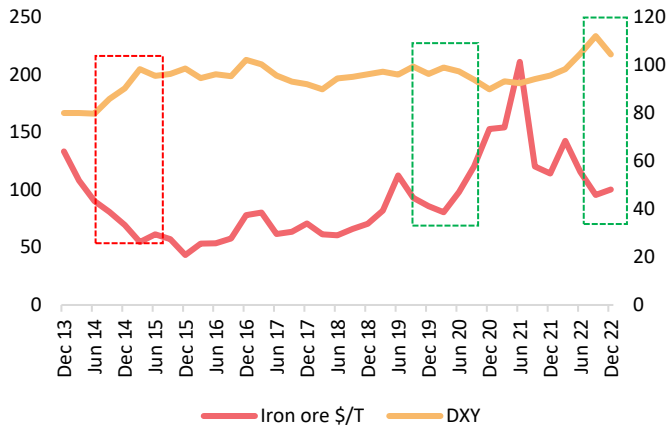
Promoters	67.50%
FIIIs	2.53%
MFs & DIIs	0.00%
Others	29.97%



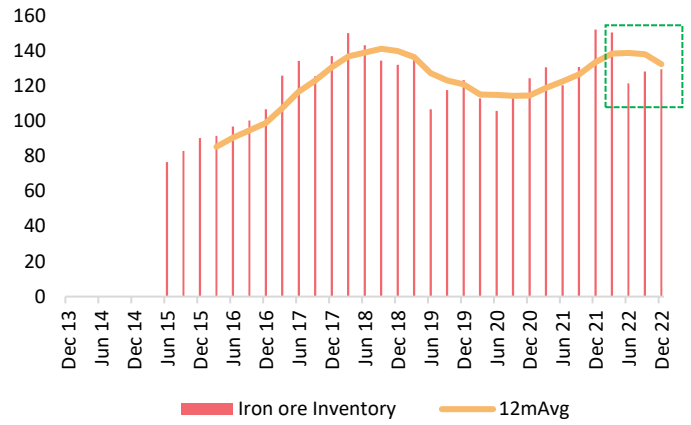
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Story in Charts

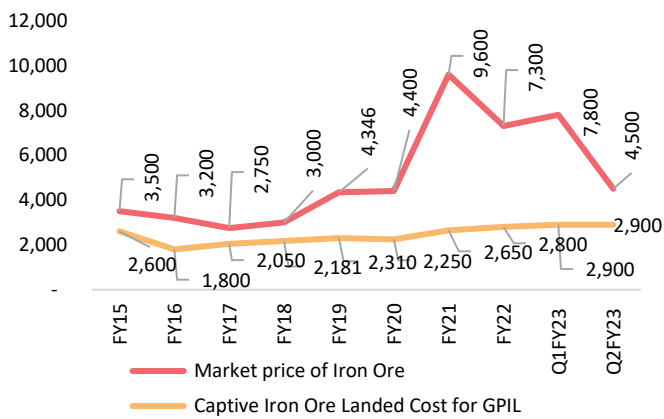
DXY vrs Iron ore



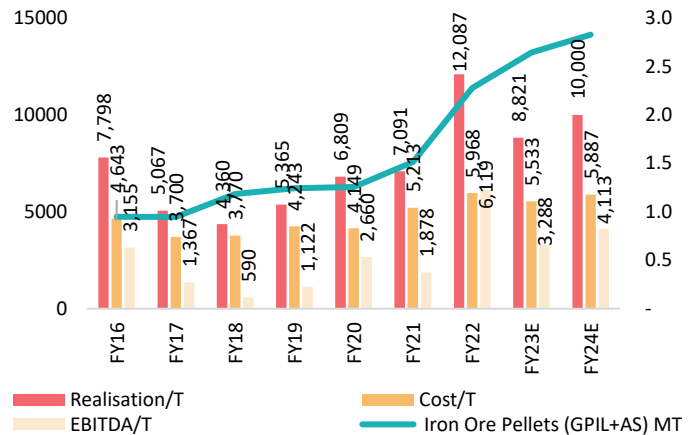
China Iron ore port Inventory (M/T)



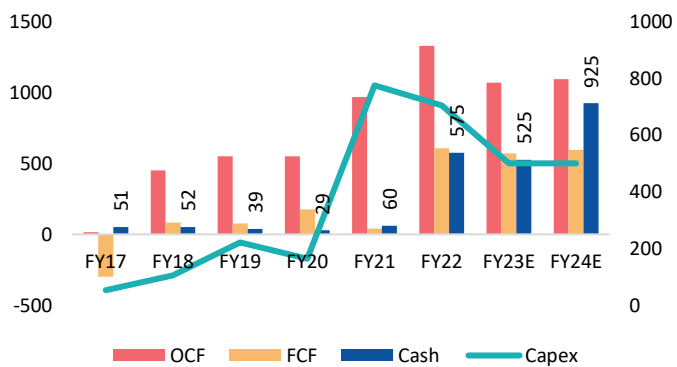
Benefit of Captive mines



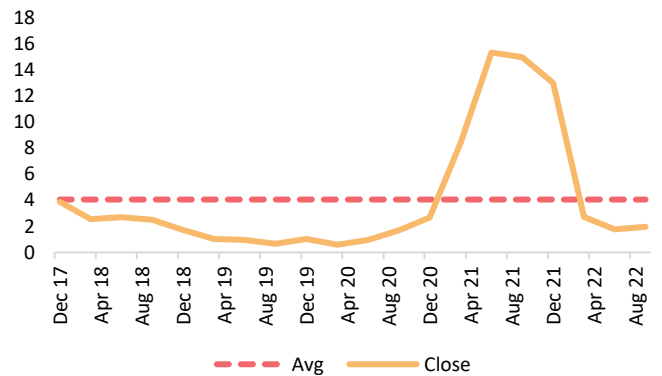
Volume and Profitability



Allready Debt free company , FY24 cash can be 20% of Mcap (Rs.cr)



Trading at Undemanding EV/EBITDA



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Godawari Power		SOTP	PAT/NW	Multiple	Equity	Per Share		
CMP	342	P/BV	3.5	Core	1718	4.0	6873	488
Book value	98	P/E	4	Debt			(886)	(63)
Face value	5	RONW	37%					
Mcap Rscr.	4820	ROCE	26%	O/S			14	550
Potential Upside	61%	EPS CAGR	-15%	Upside				61%

ShareHolding	4QFY22	1QFY23	2QFY23
Promoter	68%	68%	68%
FII	2%	2%	3%
MF/FI/Ins	0.2%	0.4%	0.5%
Public	30%	30%	30%
Pledge	1%	0%	0%

Income Statement (Cost)					
Rs.Cr.	FY20	FY21	FY22	FY23E	FY24E
Sales	3289	4072	5399	5187	6212
COGS	2675	2843	3550	3902	4493
EBITDA	614	1229	1850	1285	1718
margin%	19%	30%	34%	25%	28%
Other Income	7	34	193	69	63
Interest	212	154	20	43	0
Depreciation	137	138	105	108	133
PBT	273	971	1918	1203	1648
Tax	95	316	451	325	445
Tax Rate	35%	33%	24%	27%	27%
PAT	177	655	1467	878	1203
Ext Item	(6)	0	0	0	0
Minority Interest	10	16	1	53	72
Profit from Asso/Sub	0	0	0	0	0
APAT	173	638	1467	825	1131
EPS (Core)	25	94	111	59	80
BV	202	298	252	282	351

Cash Flow Statement					
Rs.Cr.	FY20	FY21	FY22	FY23E	FY24E
APAT	0	0	1467	825	1131
Depreciation	0	0	105	108	133
Non Cash Adj	0	0	0	0	0
Change In WC	0	0	(306)	137	(169)
Operating CF	551	969	1265	1071	1096
Investing CF	(150)	(62)	564	(500)	(500)
Fixed Asset	0	0	526	(500)	(500)
Investment	0	0	38	0	0
Financing CF	(401)	(900)	(707)	(620)	(196)
Debt	0	0	(468)	(428)	0
Equity	0	0	(468)	(428)	0
Dividend	0	0	(323)	(196)	(196)
Change in Cas	(0)	6	1122	(49)	399
Cash at Beg	2	2	60	575	525
Cash at End	2	9	575	525	925

Balance Sheet					
Rs.Cr.	FY20	FY21	FY22	FY23E	FY24E
Source of Fund	3215	3022	3910	4198	5235
Equity	34	34	66	70	70
Researve	1344	2001	3247	3906	4870
Share Warrant	0	0	0	0	0
Networth	1378	2036	3312	3976	4941
Minority	125	72	130	183	255
Debt	1712	914	468	39	39
Secured	1695	896	421	0	0
UnSecured	17	17	47	39	39
Application of Fund	3215	3022	3910	4198	5235
GrossBlock	2899	2690	2164	2664	3164
Depreciation	630	677	635	743	876
Net Block	2269	2013	1530	1921	2288
CWIP	137	144	643	725	828
Good Will	0	0	0	0	0
Investment	123	277	239	239	239
Cash	29	60	575	525	925
Net CA ex Cash	683	684	990	853	1021
Net Deff Ass	(27)	(157)	(66)	(66)	(66)

Margin, Ratios and Growth Matrix					
	FY20	FY21	FY22	FY23E	FY24E
EBITDA %	19%	30%	34%	25%	28%
PAT%	5%	16%	27%	16%	18%
RONW		37%	55%	23%	25%
ROCE		26%	43%	23%	26%
P/E	14	4	3	6	4
P/BV	2	1	1	1	1
EV/EBITDA	10.6	4.6	2.5	3.4	2.3
D/E	1.2	0.4	0.1	0.0	0.0
Sales Growth		23.8%	32.6%	-3.9%	19.8%
EPS Growth		270%	19%	-47%	37%

Production Mix					
Rs.Cr.	FY20	FY21	FY22	FY23E	FY24E
Iron ore	1.7	1.7	2.3	2.8	2.9
Pillet Sales	1.3	1.5	2.3	2.6	2.8
Pillet ASP/T	7091	8607	12087	8821	10000

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