

December 19, 2024

**COMPANY UPDATE** | Sector: Metals and Mining

# Godawari Power & Ispat Ltd

## Recycling: a theme for the future – GPIL acquires Jammu Pigments Ltd

Earlier this month, Godawari Power & Ispat Ltd (GPIL) announced the acquisition of a 51% stake in Jammu Pigments Ltd (JPL) for a consideration of ~₹2,550 million. This strategic move marks GPIL's entry into the non-ferrous metal recycling sector, a market with significant growth potential driven by the increasing focus on sustainability and resource optimization.

JPL, a prominent player in this industry, specializes in the recovery and processing of zinc, lead, copper, and other non-ferrous metals, leveraging advanced recycling techniques to deliver high-quality products. The acquisition underscores GPIL's commitment to diversifying its business portfolio while contributing to environmentally suitable industrial practices.

Since its inception, JPL has focused primarily on manufacturing lead ingots and lead alloys. In 2015, the company expanded its capabilities into hydrometallurgical processes, extracting valuable metals from industrial residues, by-products, dross, and filter cakes generated by Hindustan Zinc Ltd (HZL).

### Recycling business to help company diversify its business portfolio

The acquisition of JPL is a strategic move by GPIL to diversify its business portfolio and tap into the expanding potential of India's metals recycling industry, a key focus area amid rising environmental and climate concerns. Given that India continues to be a net importer of non-ferrous metals, GPIL seeks to play a pivotal role in supporting the nation's import substitution agenda.

Post-acquisition, JPL plans to prioritize capacity expansion and targeted capital investments to alleviate production constraints, boost metal output, and implement cost reduction measures aimed at improving the EBITDA profile.

In FY24, JPL recorded EBITDA margins of 6.3%. With these strategic initiatives underway, the management is optimistic about achieving a 10% EBITDA margin target over the next three years.

### View and Valuation

Based on our preliminary analysis, we project a CAGR of 17%/25%/14% in Revenue/EBITDA/PAT for JPL during FY25E-27E period. These projections are underpinned by our assumption of EBITDA margins improving from 6.3% in FY24 to 7.5%, driven by debottlenecking initiatives to enhance product yield and ongoing capacity expansions. Additionally, we have assumed a steady utilization rate of 30% (vs ~27% in FY24) throughout the forecast period.

On a consolidated basis, we anticipate GPIL to achieve a robust CAGR of 22%/48%/50% in Revenue/EBITDA/PAT over the same period. Our outlook on the company remains positive, with confidence that JPL's growth initiatives will not disrupt the momentum of GPIL's core business operations. The pellet plant expansion remains on track for completion by the end of Q1FY26E, while environmental clearance (EC) approvals for mining are expected by the end of FY25E. These developments are poised to bolster GPIL's long-term growth trajectory, solidifying its position in the market.

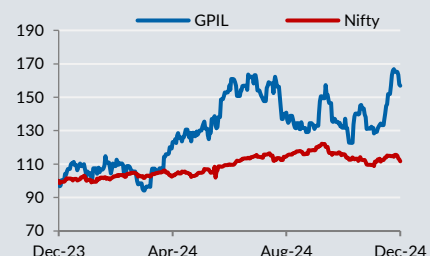
We rollover our estimates for GPIL to FY27E and continue to maintain a BUY rating on the stock. We value GPIL at 6x FY27E EV/EBITDA to arrive at our revised target price of Rs 284/sh (Earlier Rs 275/sh).

Reco	: BUY
CMP	: 222
Target Price	: 284
Potential Upside	: +28%

#### Stock data (as on Dec 19, 2024)

Nifty	23,952
52 Week h/l (Rs)	253 / 131
Market cap (Rs/USD mn)	148894 / 1750
Outstanding Shares (mn)	669
6m Avg t/o (Rs mn):	533
Div yield (%):	0.5
Bloomberg code:	GODPI IN
NSE code:	GPIL

#### Stock performance



	1M	3M	1Y
Absolute return	19.2%	18.0%	62.1%

#### Shareholding pattern (As of Sep24 end)

Promoter	63.5%
FII+DII	9.0%
Others	27.5%

#### Δ in estimates

FY27E	New	Old
EV multiple	6.0x	NA
EBITDA (mn)	27,377	NA

#### Δ in stance

(1-Yr)	New	Old
Rating	BUY	BUY
Target Price	284	275

#### Financial Summary

(Rs mn)	FY25E	FY26E	FY27E
Revenue	58,860	74,665	86,541
YoY (%)	(3.7)	30.1	14.0
EBIDTA	12,682	22,648	27,377
EBITDA (%)	23.4	32.5	34.3
PAT	8,297	15,606	18,232
P/E (x)	16.3	8.7	7.5
P/B (x)	2.7	2.1	1.6
ROE (%)	16.5	23.9	22.1

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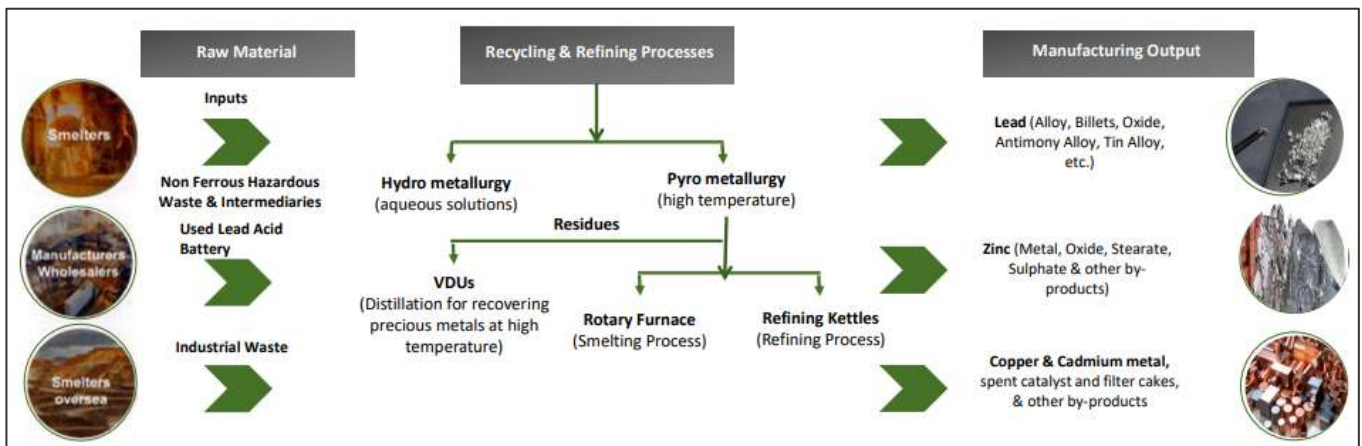


## JAMMU PIGMENTS LTD – THE ACQUISITION

GPIL announced its acquisition of Jammu Pigments Ltd (JPL) earlier this month along with a proposal to set-up a separate unit to manufacture OPVC pipes. JPL is a non-ferrous metals recycling company having plants spread across Kathua (J&K) and Kota (Rajasthan). GPIL signed a definitive agreement to acquire 51% stake on fully diluted basis in JPL.

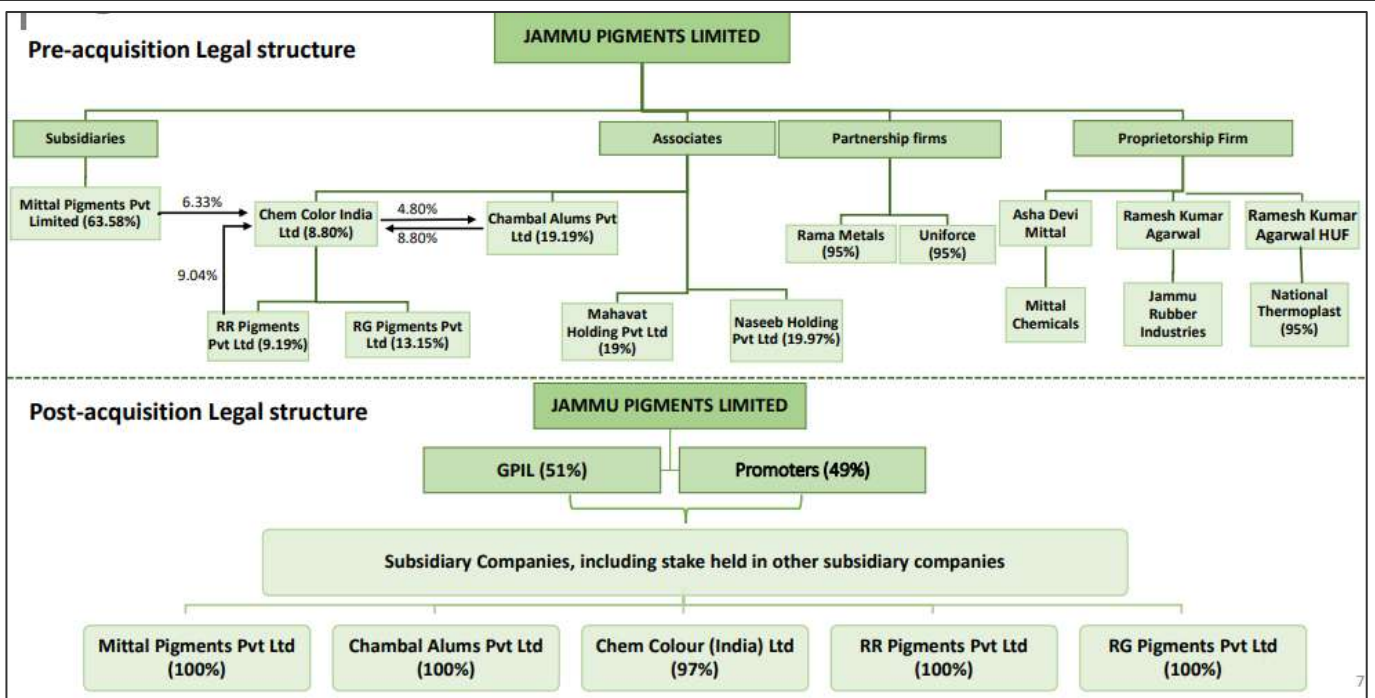
Apart from diversifying the business portfolio, the investment rationale behind the acquisition focuses on tapping the market in India where the country is a net importer of non-ferrous metals like Zinc, Lead etc. Additionally, a few synergies in the form of Zinc production for the company's Galvanized Fabricated Products also makes the JPL business an attractive bet for GPIL.

**Exhibit 1: JPL's business model**



Source: Company Presentation; YES Sec

**Exhibit 2: Pre-acquisition vs post-acquisition legal structure**



Source: Company Presentation; YES Sec

GPIL is acquiring 51% stake of JPL at a deal value of Rs 2,545.2 million with JPL being valued at a Rs 5,000 million market capitalization. Additionally, as the acquired company operates in the state of Jammu & Kashmir, it shall be eligible for tax incentives under various forms –

Tax incentives under J&K Industrial Policy, 2021 & New Central Sector Scheme, 2021-

- GST Linked Incentive - 100% GST paid, except GST on export, for max period of 10 years and up to maximum of 300% of investment in Plant and Machinery.
- Capital Interest Subvention - 6% p.a. interest subvention for max period of 7 years, on purchase of new P&M.
- Capital Investment Incentive - Incentive @ 30% of investment in new P&M or Rs. 5 crs, whichever is lower.

### Exhibit 3: Capacity breakdown and targeted expansions

Particulars (tpa)	FY2024	FY2025E	FY2026E	FY2027E
Lead	126,198	126,198	126,198	177,148
Zinc	29,431	29,431	29,431	39,478
Copper	4,981	4,981	4,981	6,231
Cadmium	8,400	8,400	8,400	13,900
Other metals	27,562	27,562	27,562	30,812
<b>Total capacity</b>	<b>196,572</b>	<b>196,572</b>	<b>196,572</b>	<b>267,569</b>

Source: Company Presentation; YES Sec

JPL is embarking on a ₹2,000 million capital expenditure program aimed at expanding its production capacity and driving future growth. The project will be financed through a combination of debt and internal accruals. The company has already initiated efforts to address operational challenges, focusing on resolving production bottlenecks and improving capacity utilization rates. These steps are expected to enhance efficiency, support increased output, and strengthen JPL's long-term profitability and competitive position in the market. These activities are being undertaken to achieve a 10% EBITDA margin profile for the metal recycling business.

## VALUATION AND ASSUMPTIONS

### Exhibit 4: Valuation Summary

Particulars (Rs mn)	FY27E
EBITDA	27,377
EV multiple (x)	6.0
Enterprise value	164,263
(-) Net debt (H1FY25)	(7,383)
(+) CWIP @ 25% discount (H1FY25)	2,135
Equity value	173,781
Shares outstanding (mn)	613
Rs/sh	284
CMP	222
Upside %	27.92%

Source: Company Presentation; YES Sec

### Exhibit 5: Change in estimates

Particulars (Rs mn)	New Estimates			Old Estimates			% Change in estimates		
	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E
Pellet sales (kt)	1,516.52	2,679.65	3,633.40	1,516.52	2,679.65	NA	0%	0%	NA
EBITDA	12,682	22,648	27,377	13,052	23,160	NA	(3%)	(2%)	NA

Source: YES Sec

### Exhibit 6: Change in estimates

Y/e 31 Mar	FY22	FY23	FY24	FY25E	FY26E	FY27E
<b>Production (ktpa)</b>						
Iron ore mining	2,312.9	2,592.5	2,307.1	2,582.2	4,248.6	5,402.7
Iron ore pellets	2,399.5	2,616.5	2,439.0	2,391.8	3,511.3	4,465.0
Sponge iron	495.0	495.0	594.0	633.7	594.0	594.0
Billets	327.1	325.1	479.8	497.4	522.4	523.7
HB wires	36.0	53.6	81.5	99.0	99.0	97.0
MS rounds	223.3	173.1	238.7	237.4	286.0	280.0
Ferro alloys	16.2	16.5	72.6	88.8	82.4	82.9
Galvanized fabricated products	54.0	74.9	83.2	69.7	97.6	99.0
<b>Sales (ktpa)</b>						
Iron ore pellets	1,664.0	1,979.4	1,581.8	1,516.5	2,679.7	3,633.4
Sponge iron	126.4	125.6	60.2	75.3	8.9	7.5
Billets	91.5	145.2	233.2	192.1	125.8	135.4
HB wires	36.6	52.9	81.4	93.5	91.6	92.2
MS rounds	192.9	116.7	155.9	166.0	243.1	238.0
Ferro alloys	13.4	13.2	67.0	80.8	78.2	78.8
Galvanized fabricated products	53.1	72.9	83.9	67.2	97.6	99.0

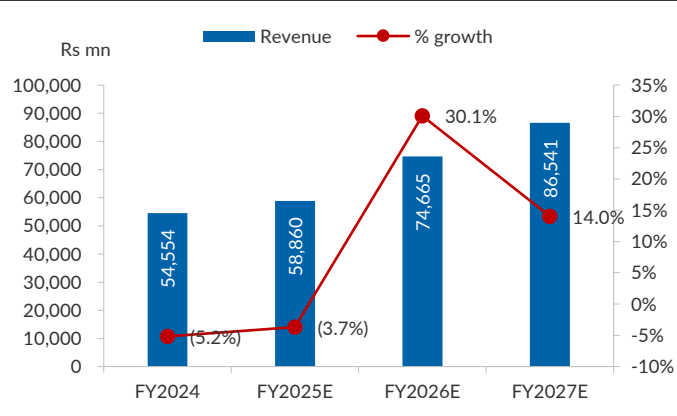
Source: YES Sec

## KEY CONFERENCE CALL TAKEAWAYS

- GPIL believes that metal recycling is an attractive theme of the future especially for the non-ferrous metal space, hence the company acquired Jammu Pigments Ltd. Through the acquisition, the company also gets to diversify its business model.
- JPL will continue to be run by under the leadership of the current promoters as GPIL develops expertise into the business post which GPIL aims to add the remaining share of the promoter stake and make it a wholly owned subsidiary.
- Rs 175 crores of cash was infused by GPIL. Out of this, Rs 75 crores will be used to pay promoters for acquiring all the JPL's subsidiaries and Rs 100 cr for working capital needs. The company will raise debt for capex as and when needed. The estimated amount disclosed for capex for the next two-three years stands at Rs 200 crores.
- To keep the EBITDA margins intact, the company usually hedges the commodity prices through LME.
- The output rates depend on the metal content, which is extractable from the scrap hence, the utilization rates look low, however the current capacities are running at full utilization levels.
- GPIL's original expansion plans are not expected to get hampered from this acquisition since the cost is relatively lower (at Rs 255 crores vs a Rs 6000 crores expansion plan for the next 4-5 years).
- EBITDA margins of currently stand at about 7%. The company is targeting an EBITDA margin of 10% post the expansion.
- Sourcing of RM (scrap) is done majorly through smelters of Hindustan Zinc and other players. About 50% of the RM is sourced domestically and the other half through international markets.
- Cost centers other than RM: Fuel, Electricity and certain chemicals. Chemical requirements are met domestically.

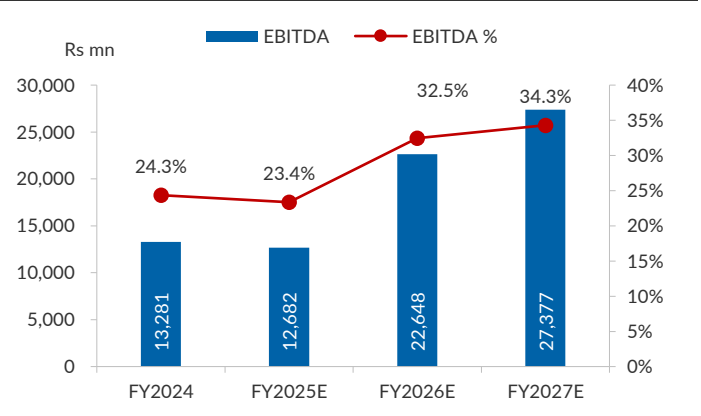
## STORY IN CHARTS

**Exhibit 7: Revenues to grow steadily**



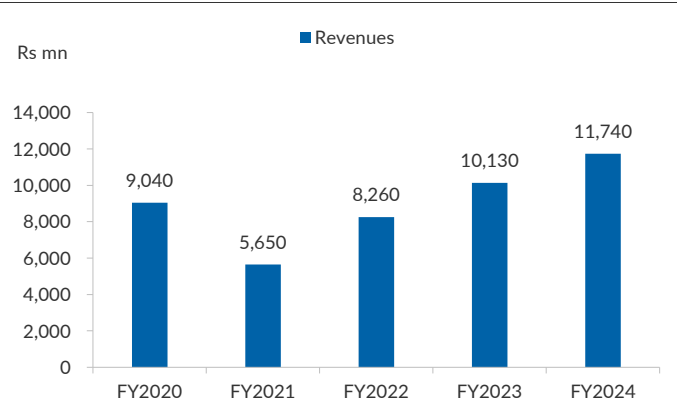
Source: Company, YES Sec

**Exhibit 8: EBITDA profile to grow strong**



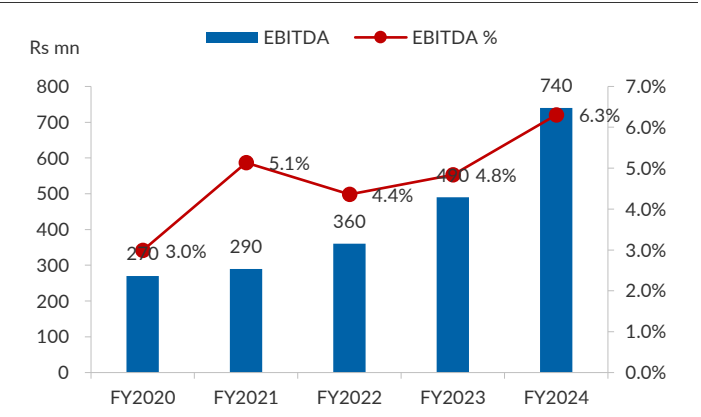
Source: Company, YES Sec

**Exhibit 9: JPL revenue trajectory over the years**



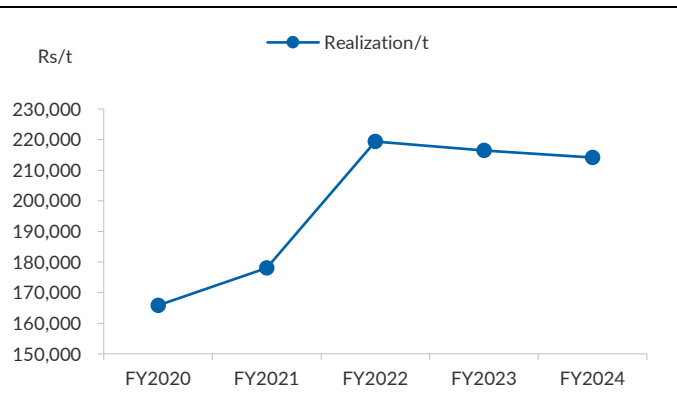
Source: Company, YES Sec

**Exhibit 10: JPL EBITDA profile**



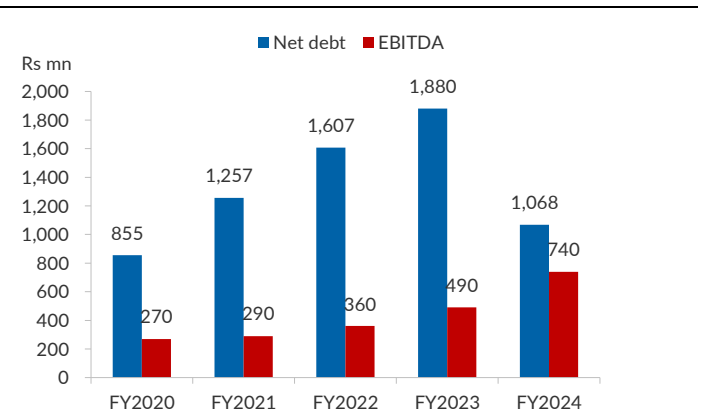
Source: Company, YES Sec

**Exhibit 11: JPL realizations/t**



Source: Company, YES Sec

**Exhibit 12: JPL debt picture**



Source: Company, YES Sec

## FINANCIALS OVERVIEW

### Exhibit 13: Income Statement

Y/e 31 Mar	FY21	FY22	FY23	FY24	FY25E	FY26E	FY27E
Revenue	39,576	53,992	57,530	54,554	58,860	74,665	86,541
Cost of goods sold	18,476	23,917	33,347	29,573	33,781	38,877	45,231
Employee cost	1,343	1,506	1,914	2,245	2,469	2,716	2,988
Other expenses	8,387	9,928	10,632	9,455	9,928	10,424	10,945
EBITDA	11,370	18,642	11,637	13,281	12,682	22,648	27,377
% Margin	28.7%	34.5%	20.2%	24.3%	24.1%	33.1%	35.1%
Depreciation	1,090	1,047	1,235	1,413	1,377	1,772	2,035
Other income	34	294	1,041	979	684	975	1,036
Finance costs	1,150	197	514	596	495	910	1,830
Exceptional items	-	987	(147)	175	7	-	-
Profit before tax	9,165	16,704	11,076	12,075	11,487	20,940	24,549
Taxes	3,071	4,512	2,892	3,204	3,054	5,235	6,137
Profit after tax	6,094	12,193	8,184	8,872	8,433	15,705	18,411

Source: Company, YES Sec

### Exhibit 14: Balance Sheet

Y/e 31 Mar	FY21	FY22	FY23	FY24	FY25E	FY26E	FY27E
<b>Assets</b>							
PPE	19,198	14,129	19,655	22,733	24,619	26,911	36,962
CWIP	1,372	6,427	4,430	4,304	9,104	15,104	33,104
Non-current assets	24,546	25,110	28,366	31,385	38,192	46,641	74,789
Inventories	5,037	8,736	8,108	9,003	8,019	9,046	10,213
Trade receivables	2,752	3,499	2,957	2,119	2,879	3,745	4,271
Cash and equivalents	86	110	5,073	1,195	948	3,643	778
Bank	428	5,637	2,930	7,510	8,458	12,101	12,879
Current assets	10,190	23,789	23,228	24,067	24,468	33,489	33,575
<b>Total assets</b>	<b>34,736</b>	<b>48,899</b>	<b>51,594</b>	<b>55,452</b>	<b>62,660</b>	<b>80,130</b>	<b>108,364</b>
<b>Equity and liabilities</b>							
Equity share capital	341	658	649	624	613	613	613
Other equity	20,015	32,465	38,406	44,335	49,219	64,044	81,365
Non-current liabilities	9,585	1,987	2,652	2,461	2,461	2,461	12,461
Current liabilities	4,071	12,491	9,477	7,452	9,787	12,432	13,344
<b>Total equity and liabilities</b>	<b>34,736</b>	<b>48,899</b>	<b>51,594</b>	<b>55,453</b>	<b>62,660</b>	<b>80,130</b>	<b>108,364</b>

Source: Company, YES Sec

## Exhibit 15: Cash Flow Statement

Y/e 31 Mar	FY21	FY22	FY23	FY24	FY25E	FY26E	FY27E
<b>Cash flow from operations</b>							
Profit before taxes	9,165	16,704	11,076	12,075	11,487	20,940	24,549
Depreciation & amortization	1,090	1,047	1,235	1,413	1,377	1,772	2,035
Finance costs	1,150	197	514	596	495	910	1,830
CFO before working cap changes	12,401	18,732	12,108	13,354	12,963	23,164	27,768
Working capital changes	(1,246)	(1,419)	836	(13)	136	(1,539)	(1,260)
Cash generated from operations	11,156	17,313	12,944	13,341	13,099	21,625	26,508
Taxes paid	(1,468)	(4,010)	(3,010)	(2,897)	(3,004)	(5,202)	(6,077)
Net CFO	9,688	13,303	9,934	10,444	10,095	16,423	20,431
<b>Cash flow from investing</b>							
Purchase of PPE	(515)	(6,132)	(4,557)	(4,227)	(3,200)	(4,000)	(12,000)
Sale of PPE	120	69	65	42	-	-	-
Change in non-current assets	-	3,524	145	210	(144)	(158)	(96)
Others	(227)	(8,417)	2,058	(3,560)	(4,800)	(6,000)	(18,000)
Net CFI	(622)	(10,956)	(2,288)	(7,535)	(8,144)	(10,158)	(30,096)
<b>Cash flow from financing</b>							
Buyback of shares	-	(4)	-	(3,024)	(3,010)	-	-
Proceeds from borrowings	-	2,954	-	-	2,500	1,500	10,000
Payments of borrowings	(7,286)	(4,430)	(1,118)	(2,651)	-	-	-
Finance costs paid	(1,539)	(197)	(514)	(596)	(347)	(647)	(1,510)
Dividends paid	(176)	(652)	(1,141)	(517)	(415)	(780)	(912)
Net CFF	(9,001)	(2,329)	(2,773)	(6,787)	(1,272)	72	7,578
Net change in cash	64	18	4,873	(3,878)	679	6,337	(2,087)
Cash at beginning	27	91	110	5,073	1,195	948	3,643
Cash at end	91	109	5,073	1,195	948	3,643	778

Source: Company, YES Sec

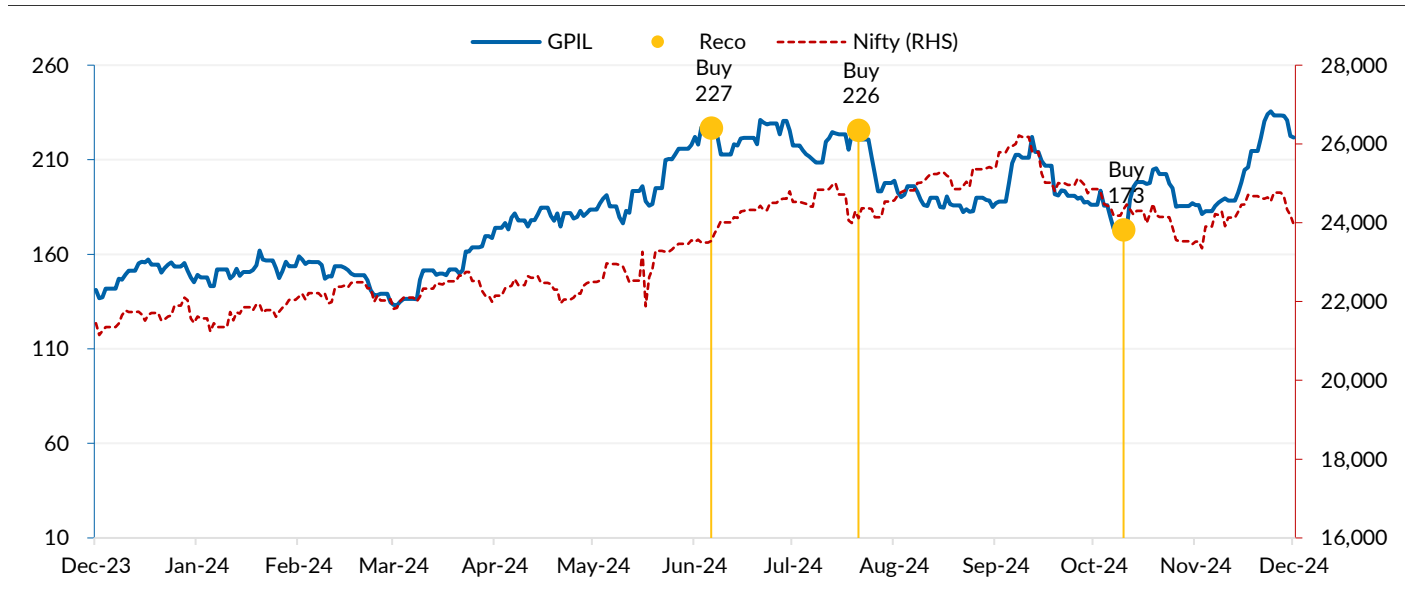
## Exhibit 16: Key Ratios

Y/e 31 Mar	FY21	FY22	FY23	FY24	FY25E	FY26E	FY27E
<b>Growth (%)</b>							
Revenues	20.3	36.4	6.6	(5.2)	(3.7)	30.1	14.0
EBITDA	82.1	64.0	(37.6)	14.1	(7.6)	80.8	20.5
PAT	249.4	132.5	(44.3)	16.9	(10.0)	88.1	16.8
<b>Return profile (%)</b>							
ROE	29.7	43.0	20.1	20.5	16.5	23.9	22.1
ROCE	37.1	51.2	27.6	27.7	23.2	32.8	28.1
<b>Per share (Rs)</b>							
EPS	91.9	112.5	61.2	15.0	13.6	25.5	29.7
BVPS	309.0	261.5	304.2	73.0	82.3	106.4	134.7
P/E (x)	7.8	3.4	5.7	10.1	16.3	8.7	7.5
P/BV (x)	2.3	1.5	1.1	2.1	2.7	2.1	1.6

Source: Company, YES Sec



## Recommendation Tracker



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