

August 08, 2024

RESULT REPORT Q1 FY25 | Sector: Metals and Mining

Godawari Power & Ispat Ltd

Cost-saving initiatives help margin improvement; maintain BUY!

Result Synopsis

GPIL's Q1FY25 performance was above the consensus estimates on the margin front despite seeing revenues fall by over 12% on a QoQ basis owing to lower realizations and volumes. The company saw falling raw material costs due to the benefits received from commissioning solar power plants along with the new high-efficiency turbine generator. The company is currently undertaking capex on its backward integration plans of expanding its iron ore capacity at its Ari Dongri mines along with the pellet plant expansion. The expanded mine capacity is expected to be operational in Q4FY25 and is currently awaiting its public hearing. On the pellet plant expansion, the company has already placed orders and is on track to be operational by the end of Q1FY26.

On the operational performance of the company, the sales volume was lower on a QoQ basis, with pellets and billets sales dropping ~9%, long products' sales falling 26%. The realizations were however better vs Q4FY24 by ~5.2% across the selling segments. We see that the steel market being under-pressure in the near-term will dent the company's realizations in the upcoming quarter both for steel products and iron ore pellets; however, we maintain our positive stance on the company's outlook.

We maintain our BUY rating and the Target Price for GPIL. We value GPIL at 6.5x FY26E EV/EBITDA to arrive at our target price of Rs 1,390/sh.

Result Highlights

- Revenue from operations for the quarter stood at Rs 1,342.5 crores (vs our estimate of Rs 1,539.4 crores), reporting a fall of over 12% QoQ and up 1.3% YoY.
- Absolute EBITDA for the quarter stood at Rs 407.6 crores (vs our estimate of Rs 366.4 crores). EBITDA margins stood at 30.4% for the quarter as compared to 21.5% for Q4FY24 and 23.0% for Q1FY24 – primarily driven by better cost structure.
- Net profit for the quarter stood at Rs 286.5 crores (vs our estimate of Rs 239.5 crores).
- The board declared a Special Dividend of 25% on face value of Rs.5/- each on the occasion of 25th anniversary of the company.
- Stock split announced:** The Board of Directors of the company has approved subdivision of equity shares of Rs.5/- each in to 5 equity shares of Rs.1/- each, subject to the approval of shareholders of the company – to come into effect in approx. 2 to 3 months including the time required for seeking the shareholder approval.
- The board also approved the proposal to undertake energy efficiency and decarbonization initiatives at an estimated cost of Rs.75 crores.

Exhibit 1: Actual vs estimates

Rs mn	Actuals	Estimates		% Variation		Remarks
		YES Sec	Consensus	YES Sec	Consensus	
Revenue	13,425	15,394	16,797	(12.8%)	(20.1%)	Top line takes a hit; however, cost optimization helps margin expansion
EBITDA	4,076	3,664	3,612	11.3%	12.9%	
EBITDA (%)	30.4%	23.8%	21.5%	27.6%	41.2%	
PAT	2,865	2,395	2,553	19.6%	12.2%	

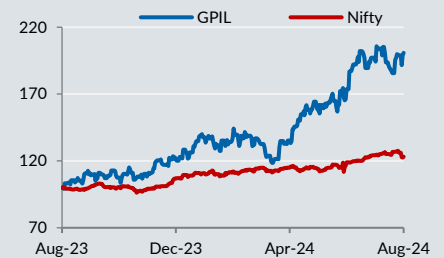
Source: YES Sec

Reco	: BUY
CMP	: Rs 1,128
Target Price	: Rs 1,390
Potential Upside	: +23%

Stock data (as on Aug 08, 2024)

Nifty	24,117
52 Week h/l (Rs)	1224 / 554
Market cap (Rs/USD mn)	153222 / 1825
Outstanding Shares (mn)	134
6m Avg t/o (Rs mn):	417
Div yield (%):	-
Bloomberg code:	GODPI IN
NSE code:	GPIL

Stock performance



	1M	3M	1Y
Absolute return	3.4%	24.2%	100.7%

Shareholding pattern (As of Jun'24 end)

Promoter	63.3%
FII+DII	9.5%
Others	27.3%

Δ in estimates

FY26E	New	Old
EBITDA (Rs mn)	23,209	23,251

Δ in stance

(1-Yr)	New	Old
Rating	BUY	BUY
Target Price	1,390	1,390

Financial Summary

(Rs mn)	FY24	FY25E	FY26E
Revenue	54,554	54,099	68,700
YoY (%)	(5.2)	(0.8)	27.0
EBIDTA	13,281	12,184	23,209
EBITDA (%)	24.3	22.5	33.8
PAT	9,222	7,958	15,935
EPS	75.0	65.1	130.0
P/E (x)	11.3	17.3	8.7
BVPS	365	409	532
P/B (x)	2.3	2.8	2.1
ROE (%)	20.5	15.9	24.4
ROCE (%)	27.7	23.2	34.3

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Exhibit 2: Consolidated Quarterly Snapshot

Rs mn	Q1FY24	Q2FY24	Q3FY24	Q4FY24	Q1FY25	% qoq	% yoy
Revenue	13,256	12,910	13,089	15,298	13,425	(12.2%)	1.3%
Cost of goods sold	7,493	6,634	6,928	8,535	6,618	(22.5%)	(11.7%)
Employee costs	503	509	561	600	691	15.1%	37.3%
Other expenses	2,209	2,153	2,291	2,873	2,039	(29.0%)	(7.7%)
EBITDA	3,051	3,614	3,309	3,289	4,076	23.9%	33.6%
EBITDA %	23.0%	28.0%	25.3%	21.5%	30.4%	41.2%	31.9%
Other income	188	232	158	402	299	(25.5%)	59.3%
Depreciation	343	348	355	367	383	4.2%	11.6%
Finance costs	83	102	158	237	142	(40.2%)	71.6%
Exceptional items	178	-	-	(3)	-	NA	NA
Profit before tax	2,992	3,396	2,955	3,083	3,851	24.9%	28.7%
Taxes	760	861	673	910	1,004	10.4%	32.1%
Profit after tax	2,232	2,535	2,282	2,173	2,847	31.0%	27.5%
Share of profit/(loss)	77	32	10	15	22	44.7%	(71.3%)
Minority interest	(0)	(2)	(1)	5	4	NA	NA
Profit attributable to owners	2,309	2,569	2,293	2,183	2,865	31.2%	24.1%
EPS	18.51	20.59	18.38	17.50	22.80	30.2%	23.2%

Source: Company, YES Sec

Exhibit 3: Consolidated Operational Performance

Rs mn	Q1FY24	Q2FY24	Q3FY24	Q4FY24	Q1FY25	% qoq	% yoy
Production (ktpa)							
Iron ore mining	572.5	520.6	565.3	648.7	590.5	(9.0%)	3.1%
Iron ore pellets	524.0	636.2	647.0	631.8	651.7	3.1%	24.4%
Sponge iron	149.2	156.4	153.2	135.3	156.8	15.9%	5.1%
Billets	100.5	122.7	127.2	129.4	113.5	(12.3%)	12.9%
HB wires	16.1	21.4	19.4	24.5	23.8	(2.7%)	47.7%
MS rounds	57.2	60.4	61.5	59.6	45.2	(24.1%)	(21.0%)
Ferro alloys	12.0	15.2	20.6	21.6	24.1	11.6%	101.1%
Galvanized fabricated products	21.9	20.0	18.6	22.7	15.5	(31.6%)	(29.1%)
Sales (ktpa)							
Iron ore pellets	297.7	432.7	367.4	484.1	442.1	(8.7%)	48.5%
Sponge iron	31.6	10.9	12.4	5.4	28.1	424.9%	(10.9%)
Billets	42.3	59.6	62.4	68.9	62.9	(8.7%)	48.7%
HB wires	16.5	18.9	21.7	24.2	23.8	(1.5%)	44.3%
MS rounds	38.8	35.4	46.1	35.6	20.4	(42.6%)	(47.3%)
Ferro alloys	12.2	13.7	16.1	22.8	19.5	(14.5%)	59.5%
Galvanized fabricated products	18.4	21.4	17.1	27.0	13.3	(50.8%)	(27.5%)
Realization/t							
Iron ore pellets	10,200	9,955	10,505	10,092	10,503	4.1%	3.0%
Sponge iron	30,290	30,277	31,490	28,979	30,986	6.9%	2.3%
Billets	46,171	43,932	44,359	42,187	45,342	7.5%	(1.8%)
HB wires	52,593	49,874	48,392	46,323	50,039	8.0%	(4.9%)
MS rounds	50,763	47,053	46,082	44,696	48,019	7.4%	(5.4%)
Ferro alloys	72,106	67,458	67,075	67,640	72,218	6.8%	0.2%
Galvanized fabricated products	81,179	82,211	79,268	79,661	76,408	(4.1%)	(5.9%)

Source: Company, YES Sec

KEY CONFERENCE CALL HIGHLIGHTS

General business updates

- Profitability up due to cost reduction majorly because of de-bottlenecking activities carried out in the last two years.
- The 2.0 mtpa pellet plant expansion in Chhattisgarh has received the approval from the state government and is expected to be commissioned in Q1FY26.
- Modification of rolling mill for structural steel has been completed and production has started.
 - The structural steel mill shall also be used to produce products for captive use of GFP portfolio.
 - Strip mill expected to be commissioned by September 2024.
 - Solar power project for rolling mill has been commissioned
- Focus on ESG building up
 - Focusing on energy-efficient, R&D projects and fuel switch to cut total plant CO2 emissions by 9-10%
 - Rs 75.0 crores capex project for decarbonization – expected to generate 11MW of power at no additional fuel cost. Cost savings expected would be in the range of Rs 38.0 crores per annum with a payback period of ~ 2 years.
- Other Expenses – Power costs were better managed this year compared to last, which is why the costs have been lower this year vs CPLY. The management believes such a cost profile should be maintained.
- In terms of the JV's that GPIL currently has, the company plans to wind up such JVs as these are not contributing to any operational profitability for the company.
- Annual shutdown planned for one of the pellet plants – this shutdown is already undergoing as of Q1FY25, and the plant will be in operation over the next two weeks.

Pricing information

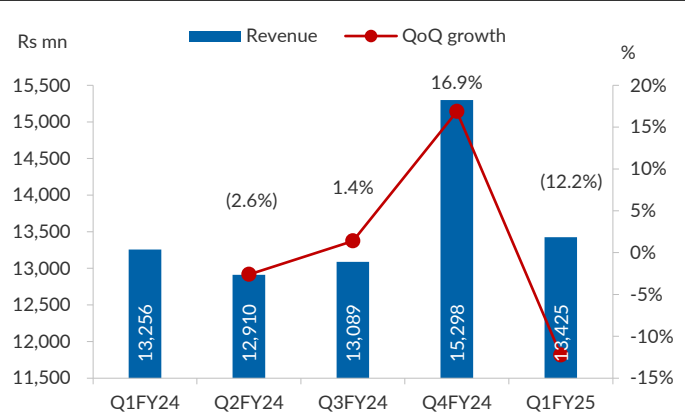
- Iron ore prices had increased in India to Rs 5,110/t, pellet prices have dropped to Rs 9,100/t during the quarter.
- The realizations for billets and long products have roughly seen a correction of ~10% from Q1FY25 to Q2FY25. We expect margin contraction in the upcoming quarter owing to lower realizations of the finished products.
- Average landed imported coal cost/t in Q1FY25: Rs 11,500/ton; Q2FY25 expectations are about the same, there may be fluctuation from Q3FY25 onwards.
- Coal costs will be lower in Q1FY25 vs Q1FY25 as imports are expected to plateau and domestic coal prices are expected to fall (50% of coal is imported and 50% coal is domestically sourced).
- High grade pellets attract a premium of Rs 1,000 - 1,500/t currently. As demand is increasing, this management expects this number to go up.
 - The company has already made contracts of charging higher premiums from some of its customers.

Capex plans

- The integrated steel plant shall be focused purely on the HRC production, and the customers will range from automotive industry to pipes wherever the application of different sizes of HRC is deemed more fruitful.
 - Secondary market is big in India and is expected to grow; automobile is also set to grow, which is why they're focusing more on flat products as compared to long products.
- Downstream Operations – Currently, GPIL wants to limit itself to purely HRC production. The company will be looking more into the downstream products in the future.
 - DRI plant management is already challenging, so they want to shift to the use of blast furnaces with the new plant.
- Iron ore mining expansion has seen some delays in terms of getting approval (majorly on the public hearing).
 - Elections caused a delay in getting an approval, but since most requirements have been met by GPIL, the management is confident that the mines operational by the end of Q3FY24.

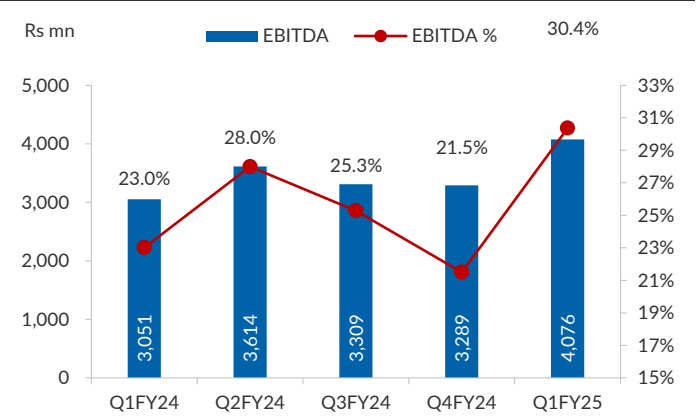
QUARTERLY TRENDS

Exhibit 4: Revenue fell ~12% QoQ



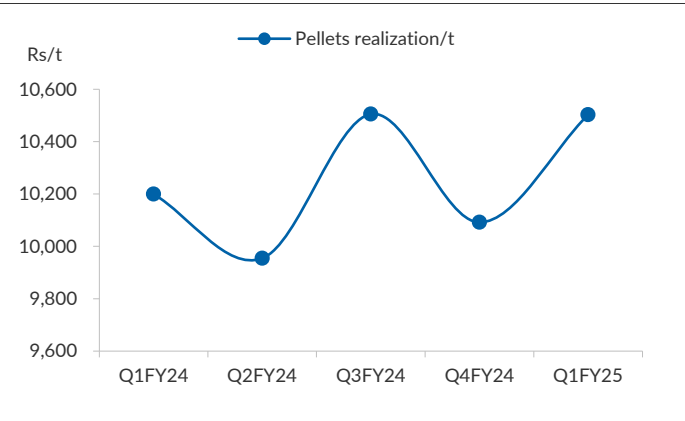
Source: Company, YES Sec

Exhibit 5: EBITDA continues to remain strong



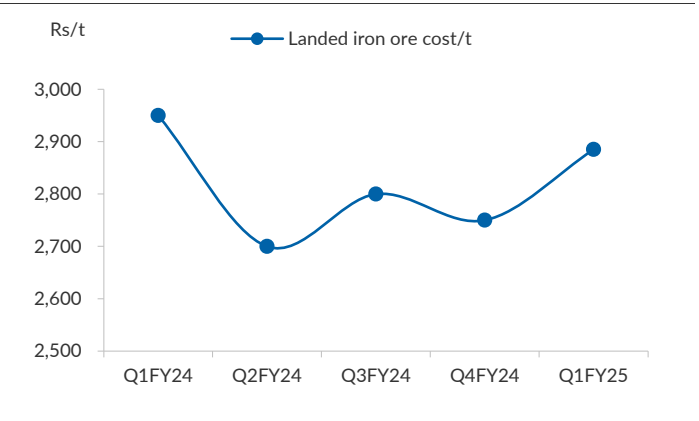
Source: Company, YES Sec

Exhibit 6: Pellet pricing trend



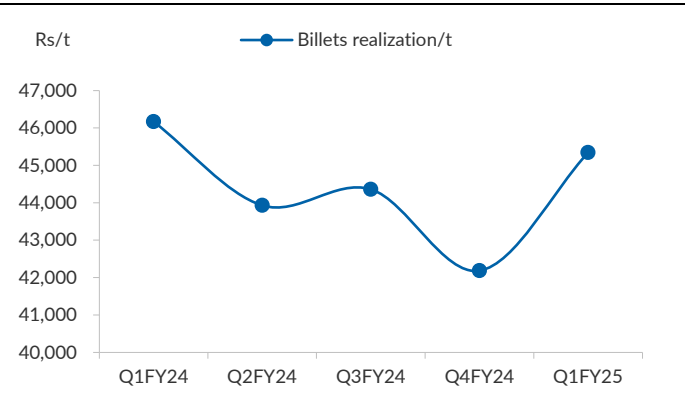
Source: Company, YES Sec

Exhibit 7: Landed iron ore costs/t



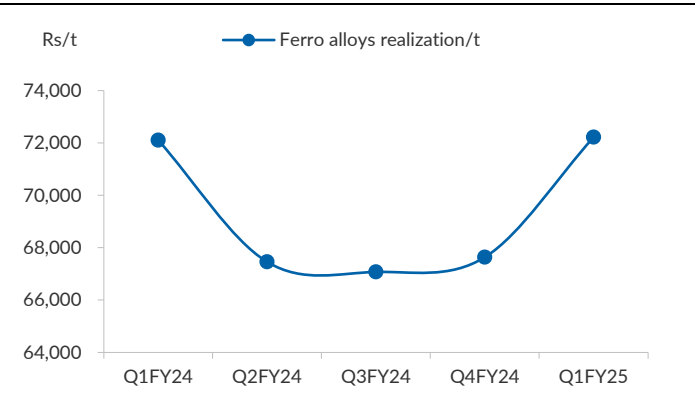
Source: Company, YES Sec

Exhibit 8: Billet pricing trend



Source: Company, YES Sec

Exhibit 9: Ferro alloys realizations trend



Source: Company, YES Sec

FINANCIALS OVERVIEW

Exhibit 10: Income Statement

Y/e 31 Mar	FY21	FY22	FY23	FY24	FY25E	FY26E
Revenue	39,576	53,992	57,530	54,554	54,099	68,700
Cost of goods sold	18,476	23,917	33,347	29,573	28,744	30,977
Employee cost	1,343	1,506	1,914	2,245	2,582	2,865
Other expenses	8,387	9,928	10,632	9,455	10,589	11,648
EBITDA	11,370	18,642	11,637	13,281	12,184	23,209
% Margin	28.7%	34.5%	20.2%	24.3%	22.5%	33.8%
Depreciation	1,090	1,047	1,235	1,413	1,352	1,717
Other income	34	294	1,041	979	727	1,118
Finance costs	1,150	197	514	596	713	1,363
Exceptional items	-	987	(147)	175	-	-
Profit before tax	9,165	18,679	10,781	12,426	10,845	21,247
Taxes	3,071	4,512	2,892	3,204	2,887	5,312
Profit after tax	6,094	14,167	7,889	9,222	7,958	15,935
EPS	91.87	112.52	61.16	75.00	65.07	130.01

Source: Company, YES Sec

Exhibit 11: Balance Sheet

Y/e 31 Mar	FY21	FY22	FY23	FY24	FY25E	FY26E
Assets						
PPE	19,198	14,129	19,655	22,733	24,581	26,863
CWIP	1,372	6,427	4,430	4,304	9,104	15,104
Non-current assets	24,546	25,110	28,366	31,385	38,169	46,597
Inventories	5,037	8,736	8,108	9,003	8,269	8,487
Trade receivables	2,752	3,499	2,957	2,119	2,964	3,764
Cash and equivalents	86	110	5,073	1,195	1,934	4,485
Bank	428	5,637	2,930	7,510	9,443	13,928
Current assets	10,190	23,789	23,228	24,067	26,851	35,635
Total assets	34,736	48,899	51,594	55,452	65,020	82,232
Equity and liabilities						
Equity share capital	341	658	649	624	613	613
Other equity	20,015	32,465	38,406	44,335	48,896	64,034
Non-current liabilities	9,585	1,987	2,652	2,461	2,461	2,461
Current liabilities	4,071	12,491	9,477	7,452	12,469	14,543
Total equity and liabilities	34,736	48,899	51,594	55,453	65,020	82,232

Source: Company, YES Sec

Exhibit 12: Cash Flow Statement

Y/e 31 Mar	FY21	FY22	FY23	FY24	FY25E	FY26E
Cash flow from operations						
Profit before taxes	9,165	18,679	10,781	12,426	10,845	21,247
Depreciation & amortization	1,090	1,047	1,235	1,413	1,352	1,717
Finance costs	1,150	197	514	596	713	1,363
CFO before working cap changes	12,401	18,732	12,108	13,354	12,911	24,327
Working capital changes	(1,246)	(1,419)	836	(13)	(94)	(1,174)
Cash generated from operations	11,156	17,313	12,944	13,341	12,817	23,153
Taxes paid	(1,468)	(4,010)	(3,010)	(2,897)	(2,887)	(5,312)
Net CFO	9,688	13,303	9,934	10,444	9,929	17,842
Cash flow from investing						
Purchase of PPE	(515)	(6,132)	(4,557)	(4,227)	(3,200)	(4,000)
Sale of PPE	120	69	65	42	-	-
Change in non-current assets	-	3,524	145	210	(159)	(146)
Others	(227)	(8,417)	2,058	(3,560)	(4,800)	(6,000)
Net CFI	(622)	(10,956)	(2,288)	(7,535)	(8,159)	(10,146)
Cash flow from financing						
Buyback of shares	-	(4)	-	(3,024)	(3,010)	-
Proceeds from borrowings	-	2,954	-	-	5,000	1,500
Payments of borrowings	(7,286)	(4,430)	(1,118)	(2,651)	-	-
Finance costs paid	(1,539)	(197)	(514)	(596)	(713)	(1,363)
Dividends paid	(176)	(652)	(1,141)	(517)	(398)	(797)
Net CFF	(9,001)	(2,329)	(2,773)	(6,787)	879	(660)
Net change in cash	64	18	4,873	(3,878)	2,649	7,036
Cash at beginning	27	91	110	5,073	1,195	1,934
Cash at end	91	109	5,073	1,195	1,934	4,485

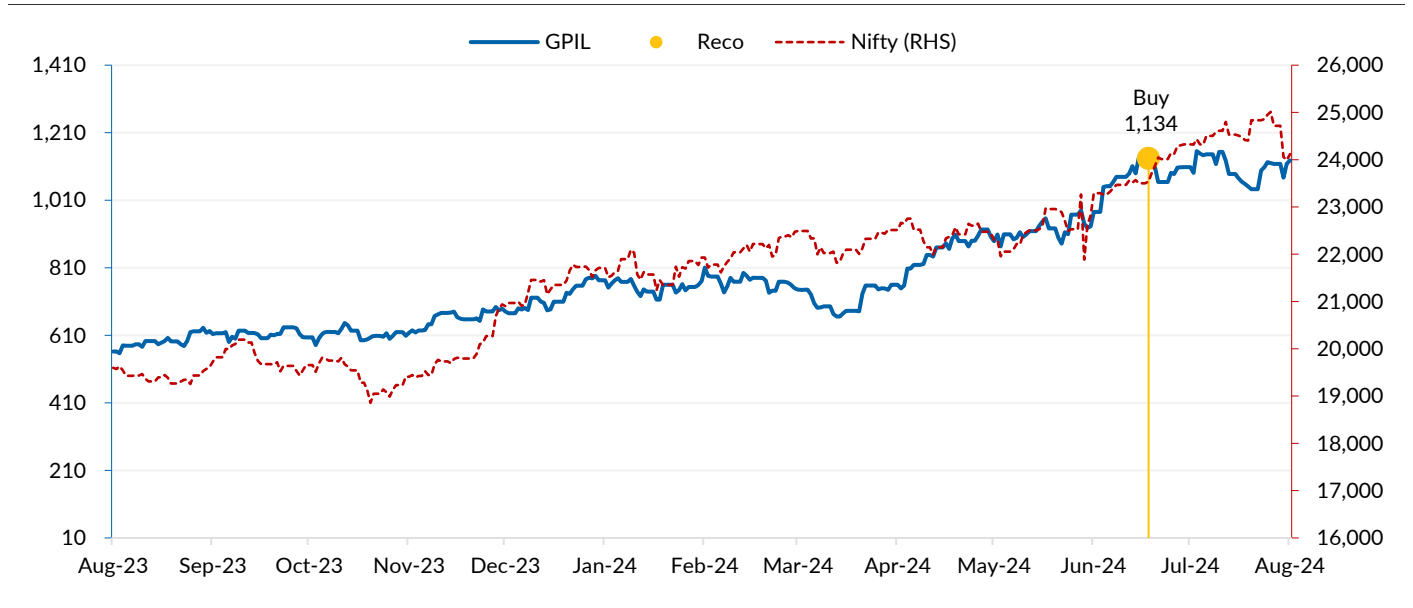
Source: Company, YES Sec

Exhibit 13: Key Ratios

Y/e 31 Mar	FY21	FY22	FY23	FY24	FY25E	FY26E
Growth (%)						
Revenues	20.3	36.4	6.6	(5.2)	(0.8)	27.0
GP	43.1	42.5	(19.6)	3.3	1.5	48.8
EBITDA	82.1	64.0	(37.6)	14.1	(8.3)	90.5
EBIT	111.0	71.1	(40.9)	14.1	(8.7)	98.4
PAT	249.4	132.5	(44.3)	16.9	(13.7)	100.2
Margins (%)						
GP	53.3	55.7	42.0	45.8	46.9	54.9
EBITDA	28.7	34.5	20.2	24.3	22.5	33.8
EBIT	26.0	32.6	18.1	21.8	20.0	31.3
PAT	15.8	27.4	13.8	17.1	14.7	23.2
Return profile (%)						
ROE	29.7	43.0	20.1	20.5	15.9	24.4
ROCE	37.1	51.2	27.6	27.7	23.2	34.3
Per share (Rs)						
EPS	91.9	112.5	61.2	75.0	65.1	130.0
BVPS	309.0	261.5	304.2	365.1	408.7	532.2
P/E (x)	4.1	3.5	5.7	11.3	17.4	8.7
P/BV (x)	1.2	1.5	1.1	2.3	2.8	2.1
Debt ratios (x)						
Debt/Equity	0.5	0.2	0.1	0.0	0.1	0.1
Net debt/Equity	0.4	0.0	(0.1)	(0.2)	(0.1)	(0.2)
Net debt/EBITDA	0.8	0.0	(0.4)	(0.6)	(0.4)	(0.5)

Source: Company, YES Sec

Recommendation Tracker



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