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GODAWARI POWER & ISPAT

Ticking all the right boxes

INITIATING COVERAGE

June 24, 2024

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INITIATING COVERAGE | Sector: Metals & Mining

Godawari Power & Ispat Ltd

Ticking all the right boxes!

Recommendation	:	**BUY**
CMP	:	Rs 1,134
Target Price	:	Rs 1,390
Potential Return	:	+23%

We initiate coverage on Godawari Power and Ispat Ltd ("GPIL" or "the company") with a bullish BUY rating. Our rating on GPIL is built on the following conviction:

Backward integration ensures cost optimization to be at the heart of operations

GPIL's financial performance has been highly dependent on its backward integration operations. The ongoing expansion of the mining operations is central to the company's plans for future investments in capital assets. GPIL manages its iron ore mines in Chhattisgarh, located just 200 kilometers from its steel manufacturing facilities and customers. This proximity not only offers a strategic geographical benefit but also enables the company in reducing its logistics burden. GPIL is increasing its mining output at its Ari Dongri mines, which will serve as the primary source of raw materials for its pelletization and HRC plants in the future. We believe that the mining activities will support GPIL in its goal of becoming one of the most cost-efficient steel producers in the country.

High-grade pelletization propels future growth

GPIL is currently undergoing an expansion on its pellet plants from 2.70 mtpa to 4.70 mtpa of capacity. GPIL adopted high-grade pellets instead of iron ore lumps and blended coal in its sponge iron manufacturing process. These high-quality pellets command a premium over the market prices of standard-grade pellets, in the range of approximately Rs 1,000 to Rs 1,500 per tonne. In FY26, we see about 1.0 mn tonnes of incremental volumes from the FY24 to kick in due to the new pellet plant capacity getting commissioned during the early months of the financial year. Given that this pellet plant is the sole major expansion project planned in the near future, the increase in pellet volumes is expected to significantly affect the company's financial projections.

Healthy balance sheet is a compelling value prop

Being a net-debt free company allows GPIL to allocate new funds for growth projects from internal profits. The reduced interest costs will lead to increased liquidity for the business, enabling it to undertake major capital investments. More importantly, the company's stock has been trading below its peers over the years due to the debt burden attached to the company's operations. GPIL is now undertaking a Rs 60,000 mn greenfield integrated HRC plant of 2.0 mtpa capacity. This capex is expected to be met through internal cash accruals and the company's net-worth capital owing to the strong balance sheet position.

HRC plant paves the way for strong industry and market foothold

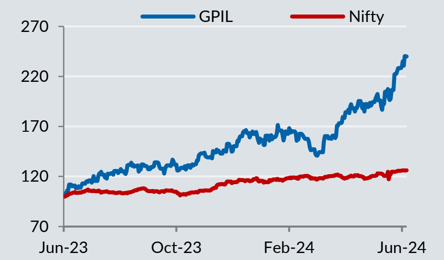
Following its expansions in the mining and pelletization activities, GPIL will be strategically positioning itself to advance forward by aiming to become an integrated steel producer. The first step in this direction is the development of the 2.0 mtpa integrated HRC plant. The project is anticipated to be finished between September 2027 and March 2028. We believe that by establishing this HRC plant, GPIL will be able to fully utilize its backward integrated capabilities to enhance its market position as one of the most cost-effective steel producers in the country.

We value GPIL at 6.5x FY26E EV/EBITDA to arrive at our target price of Rs 1,390/sh.

Stock data (as on June 24, 2024)

Nifty	23,538
52 Week h/l (Rs)	1175 / 460
Market cap (Rs/USD mn)	154366 / 1849
Outstanding Shares (mn)	136
6m Avg t/o (Rs mn):	384
Div yield (%):	-
Bloomberg code:	GODPI IN
NSE code:	GPIL

Stock performance



	1M	3M	1Y
Absolute return	22.4%	66.2%	139.9%

Shareholding pattern (As of Mar'24 end)

Promoter	63.3%
FII+DII	7.6%
Others	29.1%

Financial Summary

(Rs mn)	FY24	FY25E	FY26E
Revenue	54,554	60,153	69,691
YoY (%)	(517.4%)	1026.4%	1585.7%
EBIDTA	13,281	15,283	23,251
EBITDA (%)	24.3%	25.4%	33.4%
PAT	9,222	10,235	15,966
EPS	75.0	83.5	130.3
P/E	11.3	12.3	7.9
BVPS	365	426	550
P/B	2.3	2.4	1.9
ROE (%)	20.5%	19.6%	23.7%
ROCE (%)	27.7%	27.9%	33.3%

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INDEX PAGE

COMPANY OVERVIEW

About GPIL

Godawari Power and Ispat Limited (GPIL), established in 1999 and headquartered in Raipur, Chhattisgarh, is a prominent player in India's steel sector. As a subsidiary of Hira Group, GPIL has evolved into a fully integrated steel manufacturer with a diverse portfolio encompassing iron ore mining, pellet production, sponge iron, steel billets, ferroalloys, and power generation. The company's strategic approach and robust infrastructure have positioned it as a competitive force within the industry.

GPIL commenced operations on a modest scale, gradually expanding its footprint through strategic investments and acquisitions. Its journey began with the establishment of a sponge iron plant, which laid the foundation for subsequent ventures into various segments of the steel value chain. Over the years, GPIL has demonstrated remarkable resilience and adaptability, navigating through economic fluctuations and regulatory challenges to achieve steady growth.

GPIL's operational strategy focuses on cost leadership and market competitiveness through vertical integration and capacity expansion. The company is currently executing significant expansion projects aimed at doubling its iron ore mining capacity and increasing pellet production, which are expected to enhance operational efficiency, reduce external dependency, and improve profitability margins.

Over the years, GPIL has simplified its corporate structure by exiting non-core businesses and has consolidated stakes in its subsidiaries.

Exhibit 1: Current corporate structure

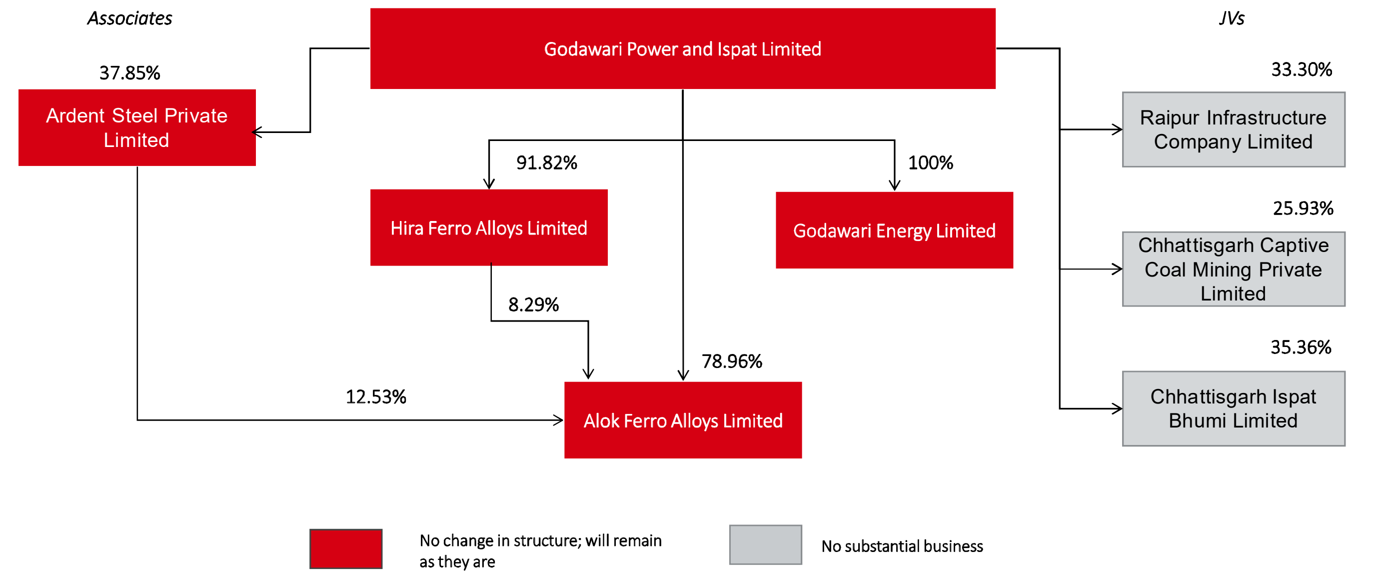


Exhibit 2: The journey so far…

1999	▪ Company came into existence.
2001	▪ Commissioned a sponge iron factory with a capacity of 105,000 TPA.
2002	▪ The generation and transmission of electricity from a captive power plant began
2004	▪ The first phase of growth (sponge iron, steel billet and captive power generation) began; a new plant to make ferro-alloys and hard black wire was commissioned.
2005	▪ The first phase of expansion was completed; manufacture of hard black wire began. The company's name was changed to Godawari Power and Ispat Ltd.
2006	▪ The IPO was completed, raising Rs 7,000 lakhs. Production of ferro-alloys commenced. The second phase of growth for sponge iron, steel billets and power generation began.
2008	▪ Raised Rs 10,000 lakhs through a QIP to commission a new pellet factory. Stake of 75% was acquired in Ardent Steel Ltd.
2010	▪ A 0.6 mtpa pellet plant was commissioned. Operations at the Ari Dongri mines were started.
2011	▪ Hira Industries (associate business) and RR Ispat Ltd (wholly owned subsidiary) were merged into the Company. Ardent Steel Private Limited commissioned a 0.6 mtpa pellet plant.
2012	▪ The expansion for the new 1.5 mtpa pelletization facility was commissioned. Coal gasification units were put into service, resulting in cost reductions in the manufacture of iron ore pellets. ▪ A 50MW solar thermal power plant commissioned.
2016-17	▪ Mining capacity surged to 2.1 mtpa; Steel melting shop was modernized.
2020	▪ Commissioned a 0.2 mtpa rolling mill (bringing the total rolling mill capacity to 0.4 mtpa). The construction of an iron ore beneficiation plant (1.0 mtpa) began. ▪ Diluted Ardent Steel's stake to 38% to induct a strategic partner with extensive expertise.
2021	▪ Moving towards debt free carbon neutral growth; setting up captive Solar PV plant.
2022	▪ Simplified the group structure; sold its investment in GGEL to exit non-core activities. Became net debt-free on a consolidated basis in Q4 FY2021-22. ▪ Increased stakes in HFAL and GEL to 75.66% and 100%, respectively. In FY2021-22, a stock split (1:2) and bonus shares (1:1) were granted. ▪ CRISIL and India Ratings and Research (Ind-Ra) raised the Company's credit rating to A+/Stable. ▪ Three 155 MW solar power projects are being built. Purchased 25 MW Thermal Power Plant on a Slump Sale Basis from Jagdamba Power and Alloys Limited. ▪ Established and commissioned a solar power plant of 70 MW capacity.
2023	▪ Increased stakes in HFAL to 91.82% and acquired 78.96% stake in Alok Ferro Alloys Limited (AFAL). Bought back 50,00,000 Equity Shares of Rs 5/- each fully paid at a price of Rs 500/- per share in the month of April 2023. ▪ Established and commissioned a solar power plant of 30 MW capacity, setting up another solar power plant of 25 MW capacity in a subsidiary. ▪ Setting up yet another solar power plant of 30 MW capacity.

Source: Company, YES Sec

BOARD OF DIRECTORS

Mr. Shashi Kumar *Chairman and Independent Director*	▪ 4+ decades of experience; B.Sc. In Mining Engineering ▪ Advisor to NTPC, IFFCO & Chhattisgarh Power ltd. ▪ Former Chairman of Coal India
Mr. BL Agrawal *Managing Director*	▪ 1st generation entrepreneur with almost 4 decades of experience ▪ Graduated as an electronic; started GPIL
Mr. Raj Kamal Bindal *Independent Director*	▪ M.Com, CA & MBA ▪ 22 years' experience in areas of Energy, Infrastructure, Project Management, Financial Services, and Infrastructure Finance
Mr. Abhishek Agrawal *Executive Director*	▪ 2nd generation entrepreneur ▪ Master's in international business from Leeds University\ ▪ tarted the pellet plant in GPIL
Mr. Dinesh Gandhi *Executive Director*	▪ 3 decades of experience in Accounts, Finance & Project Financing ▪ Chartered Accountant and Company Secretary
Ms. Bhavna G. Desai *Woman Independent Director*	▪ Over 2 decades of capital market experience ▪ Bachelor of Commerce from University of Mumbai
Mr. Dinesh Agrawal *Executive Director*	▪ 2+ decades of association with GPIL ▪ 2nd generation entrepreneur ▪ Electrical Engineer ▪ Overseeing setting up of captive power plant
Mr. Siddharth Agrawal *Executive Director*	▪ MBA with over 10 years of experience in various competencies especially in Solar Power.
Mr. Samir Agrawal *Independent Director*	▪ CA, CS, CFA ▪ 20+ years of experience in sphere of capital raising, mergers and acquisitions, financial structuring, and corporate restructuring.
Mr. Vinod Pillai *Non-Executive Director*	▪ 2 decades of experience in Sales, Administration, Liaison and Logistics ▪ Commerce graduate
Mr. Sunil Duggal *Independent Director*	▪ 37 years of experience in leading high-performance teams ▪ Served as CEO of Vedanta Ltd. and Hindustan Zinc Ltd
Mrs. Roma Balwani *Independent Woman Director*	▪ 4 decades of experience in manufacturing companies like Vedanta Group, L&T, Mahindra Group in various aspects of strategic business

BREAKING DOWN BUSINESS SEGMENTS

GPIL's operations can be divided into two business streams – Steel and Ferro Alloys. The steel business can further be divided into sub-segments of high-grade pellets, sponge iron, billets, and other value-added long products.

We break down the business segments to understand more of the company's value chain –

Steel and steel products

1. **Mining activities**

    GPIL currently operates two iron ore mines which are used for captive steel production - Ari Dongri's mining capacity is ~2.35 mtpa and Boria Tibu has a mining capacity of 0.70 mtpa bringing in the total to 3.05 mtpa of mining capacities for the company. The total iron ore reserves in the mines amount to 165 mn tonnes (~80 mn tonnes for the Ari Dongri mines and 85 mn tonnes for Boria Tibu mines where the exploration is currently in process) and have above 35 years of mine life. Additionally, the mines attract the old royalty scheme, thereby reducing the landed costs of iron ore for steel production. On an average the landed costs per tonne for GPIL in FY2024 was Rs 2,800/t. Going forward, the company is awaiting its public hearing to expand the iron ore capacities to 6.0 mtpa at its Ari Dongri mines. The Boria Tibu mines are currently not operational since the mine mostly has low grade iron ore thereby making the mining process commercially unviable as well as not up to the quality standards that the company has in place for producing iron ore pellets. Iron ore produced by the company is captively used to produce high grade iron ore pellets.

2. **Beneficiation of iron ore**

    An iron ore beneficiation plant is a facility that processes raw iron ore to improve its physical or chemical properties, particularly to increase its iron content. The primary goal of beneficiation is to produce high-quality iron ore that can be used more effectively in steel production. The company is planning to install a beneficiation plant at its Ari Dongri mines to enhance the quality of its iron ore which is then used captively to produce high grade iron ore pellets. A new 6.0 mtpa crushing and beneficiation plant is expected to be set up and the public hearing for the same is expected in the months of June-July 2024. Post the same, the environmental approvals would be sought, and the plant is expected to be up and running 15 months from receiving such clearances.

3. **Iron ore pellets**

    GPIL manufactures iron ore pellets that are consumed in India as well as exported. The company is one of the largest pellet manufacturers in India's secondary sector. Nearly 1/3rd of the company's pellets produced are consumed captively for its sponge iron production process. GPIL is one of India's largest quality pellets manufacturing companies (installed capacity of 2.7 mtpa) among the secondary Indian steel producers. The company's customers comprise small and mid-sized companies. GPIL markets ~60% of its domestic production within 200 kms of its pellet plant in the state of Chhattisgarh. Additionally, the company has both its mines within a 200 km proximity thereby providing a geographically fit strategic advantage for the company's operations.

4. **Sponge iron production**

    The pellets produced by GPIL is captively used to produce sponge iron through the DRI route. The company has about 595 ktpa of DRI capacity which is used for captive production of steel billets at its steel smelting shops. For its sponge iron production operations, the company uses captively produced iron ore pellets mixed with RB1 South African coal, with an ash content of 16%. The domestic produced coal is not viable for sponge iron production, thereby leaving the company be dependent on the imports as well as exposing it to the global coal pricing. The company as of now has no intentions to bid for coal blocks in the country.

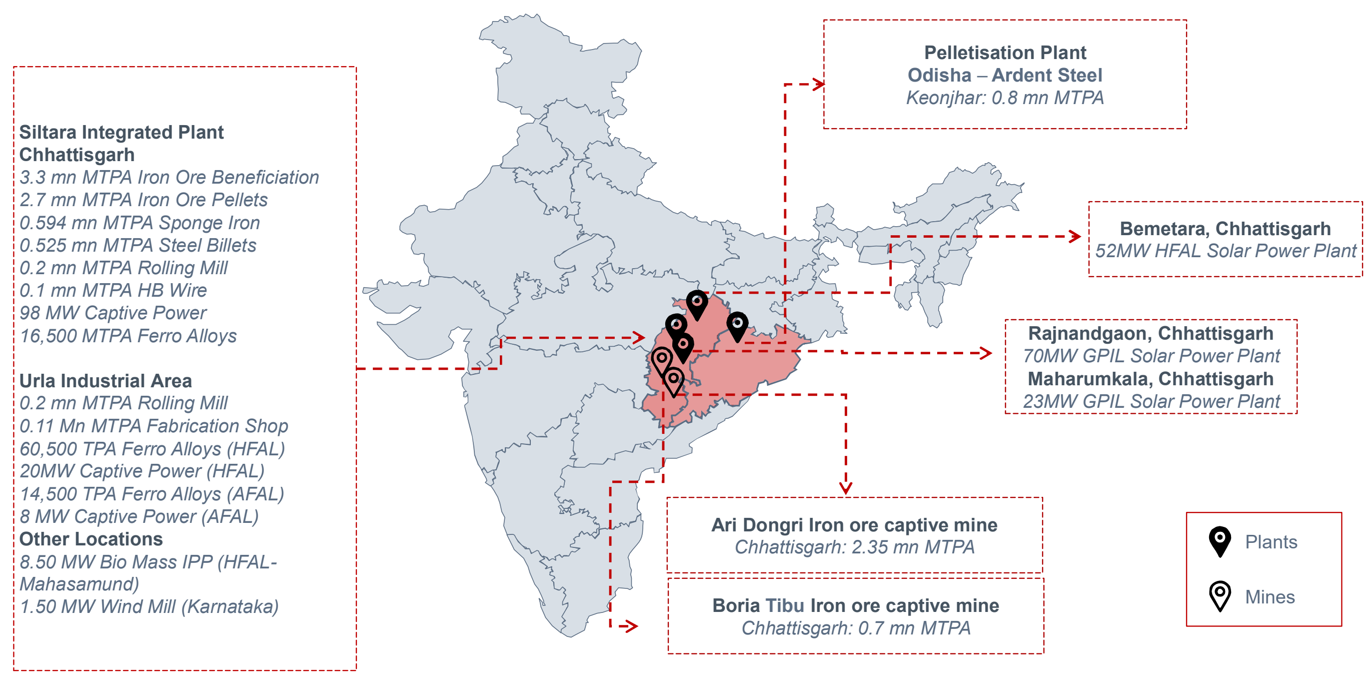
5. **Billets production and long products**

The company produces billets at its steel melting shops using an induction furnace that utilizes 92% of the DRI output along with 8% scrap. The billets produced are then converted into more usable form catering to the long products market in the state of Chhattisgarh. The company produces MS rounds and HB wires. The company has a total rolling mill capacity of 0.4 mtpa. The capacity is to produce wire rods in various sizes (5mm, 5.5mm, 6mm, 8mm, 8.5mm, 10mm and 12mm in diameter). The company also has one rolling mill with capacity of 0.2 mtpa under modernization which will enable the manufacture of steel structural products and steel strips.

Ferro Alloys

The company produces ferro alloys that contains 65-68% manganese, 16-21% silicon and 1.5-2% carbon. The same is manufactured through the smelting of slag from high carbon ferro-manganese or manganese ore with coke and quartz flux. The company has a total consolidated ferro alloy production capacity of 85,000 tonnes per annum.

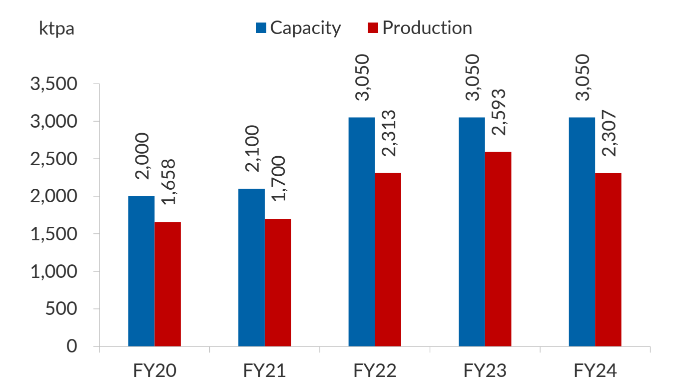
Exhibit 3: GPIL assets in a nutshell…



Source: Company; YES Sec

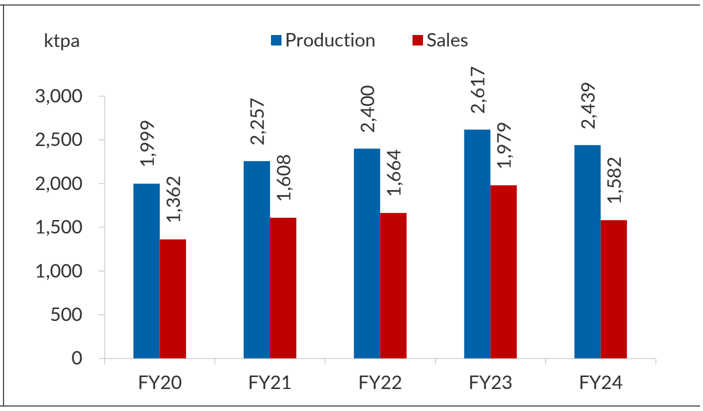
Manufacturing Capabilities and Production Scenario

Exhibit 4: Iron ore mining



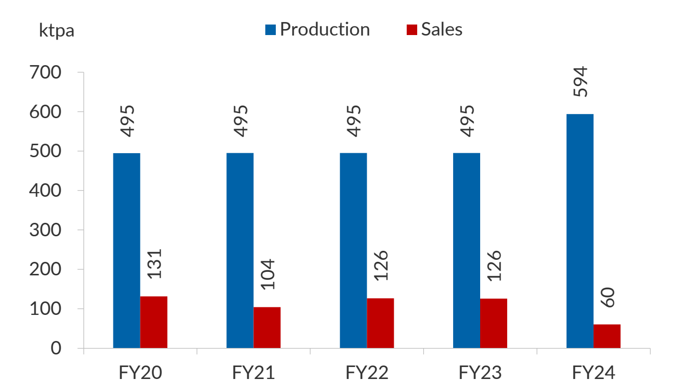
Source: Company, YES Sec

Exhibit 5: Iron ore pellet operations



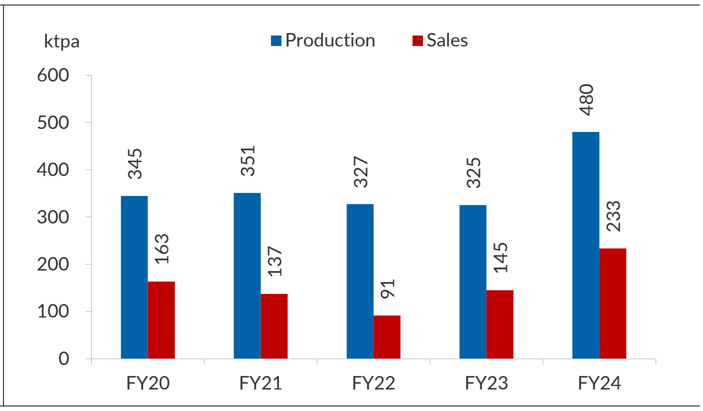
Source: Company, YES Sec

Exhibit 6: Sponge iron operational performance



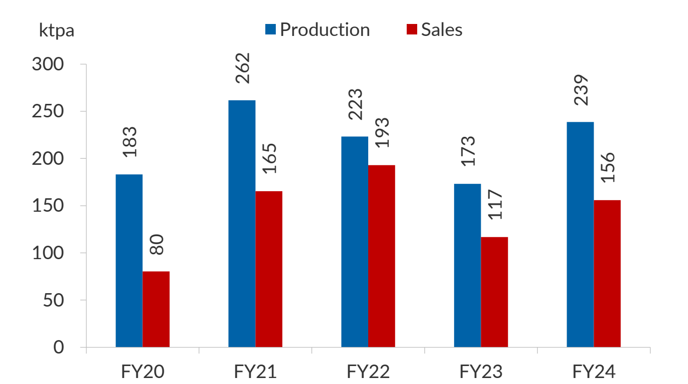
Source: Company, YES Sec

Exhibit 7: Billets operational performance



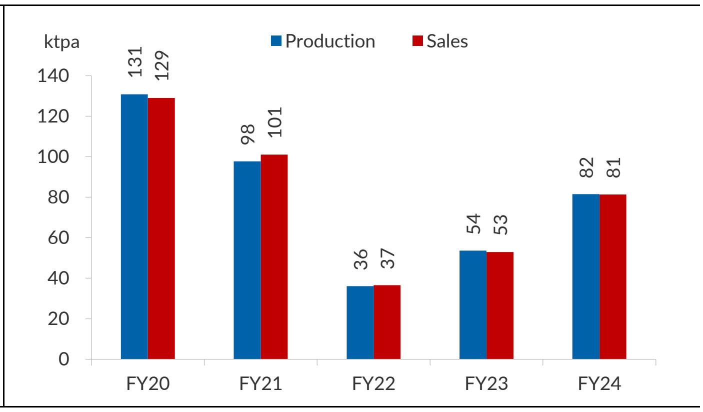
Source: Company, YES Sec

Exhibit 8: MS Rounds operational performance



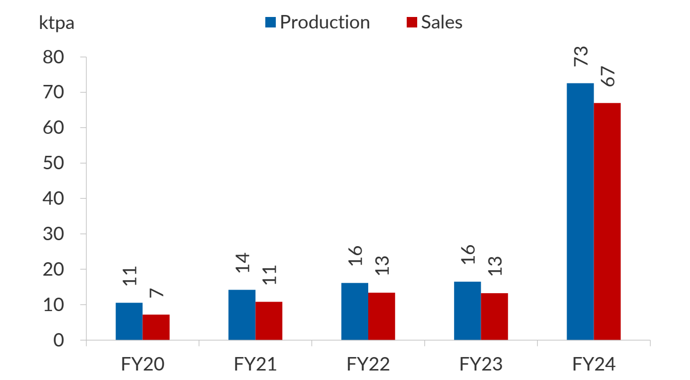
Source: Company, YES Sec

Exhibit 9: HB Wires operational performance



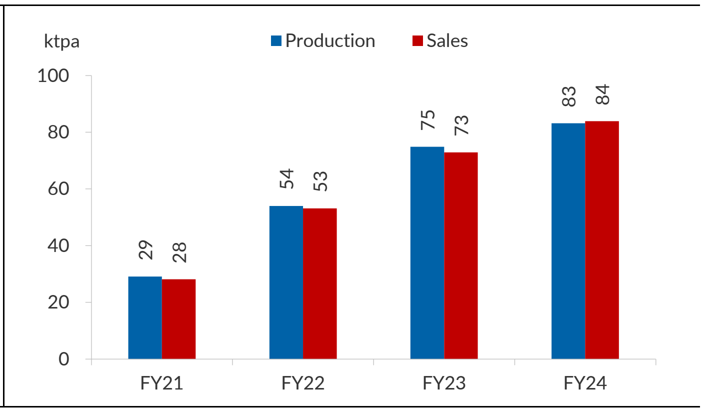
Source: Company, YES Sec

Exhibit 10: Ferro alloys operational performance



Source: Company, YES Sec

Exhibit 11: Galvanized fabricated products performance



Source: Company, YES Sec

Exhibit 12: Breaking down GPIL's manufacturing capabilities

Asset	Capacity	FY24 Utilization (%)	Asset	Capacity	FY24 Utilization (%)
Iron Ore Mining	3.05 MT	76%	MS Rounds	0.4 MT	60%
Iron Ore Pellets	2.7 MT	90%	HB Wires	0.10 MT	81.50%
Sponge Iron	0.594 MT	99.99%	Ferro Alloys	91,500T	79%
Steel Billets	0.525 MT	91.40%	Power (Incl Solar & Wind)	236 MW	83%

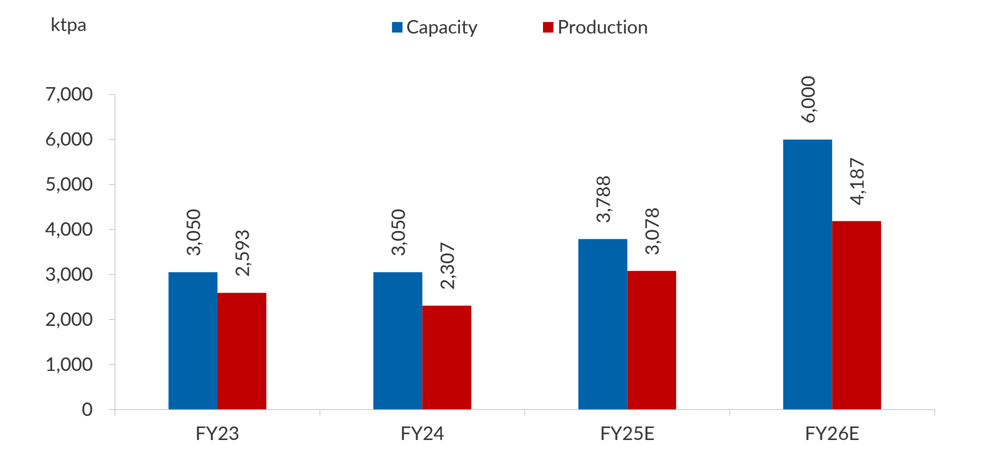
Source: Company; YES Sec

Capex and expansion plans

Analyzing GPIL's strategic expansion plans reveals a focused effort to establish itself as a fully integrated steel producer with the lowest cost profile in the industry.

In the short term, GPIL aims to double its iron ore mining capacity from 3.05 mtpa to 6.00 mtpa, alongside increasing its pellet production capacity. The expansion of mining operations is pending a public hearing, expected in June or July 2024, after which the process will commence. Additionally, GPIL plans to set up a 6.00 mtpa crushing and beneficiation plant at its Ari Dongri mines to enhance the iron content of the produced fines. Mining operations are projected to begin by the end of FY25, with an estimated 6-to-7-month timeline for securing environmental clearances post-public hearing.

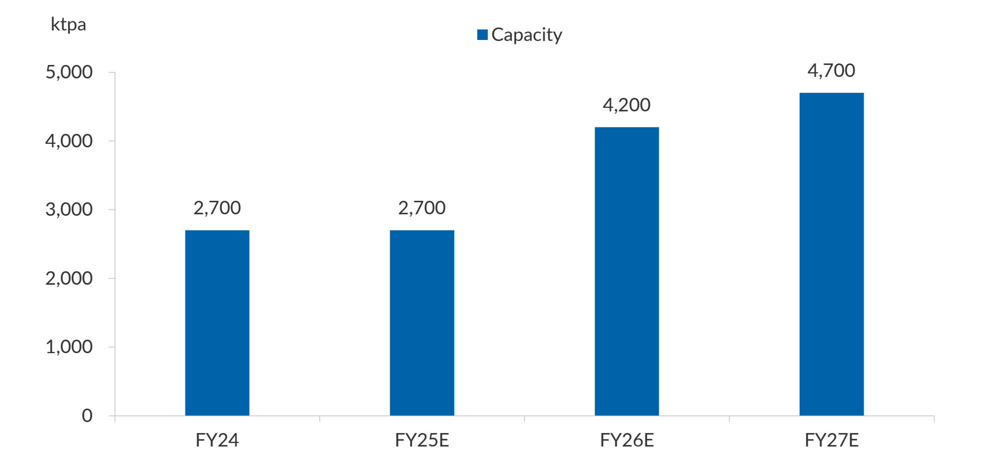
Exhibit 13: Mining capacity expansion plans



Source: Company; YES Sec

On the pelletization front, GPIL intends to increase its capacity from 2.70 mtpa to 4.70 mtpa. Currently, around 80% of the iron ore required for pellet production is sourced from its captive mines. The planned expansion, coupled with the awaited clearances for the Ari Dongri mines, will enable complete backward integration of GPIL's pelletization process, enhancing margin profiles. The major equipment orders for the expansion have been placed, and the plant is expected to be operational by Q1FY26. This expansion is anticipated to yield substantial benefits over the next two years.

Exhibit 14: Pellet plant expansion plans



Source: Company; YES Sec

Following the completion of the mining and pelletization expansions, GPIL will shift its focus to establishing a greenfield integrated steel plant. This 2.0 mtpa hot-rolled coil (HRC) producing plant, utilizing Blast Furnace technology, represents a capital expenditure of Rs 6,000 crores, which is to be financed through internal cash accruals. Notably, GPIL has opted not to build a coke oven for the Blast Furnace plant, instead choosing to procure coke from Indonesia. This strategy leverages the abundant coke production capacities in Indonesia, providing a cost-effective alternative to incurring significant capex on the coke oven installation.

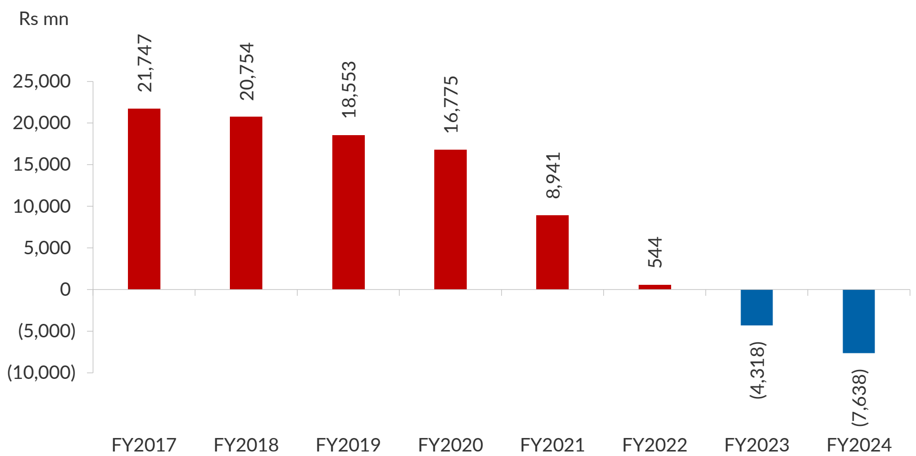
Overall, GPIL's expansion strategy is poised to enhance its cost efficiency, production capacity, and market position in the steel industry.

Debt profile

Over the last decade, the company has undergone massive debt restructuring. Post-covid, the company focused on making progressive debt repayments to focus on developing a healthy balance sheet. The company's debt levels peaked in FY2017, thereby denting the capex plans for the company. However, by the end of FY2022, GPIL became net-debt free on a consolidated basis. This strategy has helped the company maintain a strong financial position allowing them to navigate through sectoral slowdowns and remain resilient through market cycles.

Going ahead, a net-debt free balance sheet helps GPIL to invest in fresh capital expenditure through internal accruals. The lower interest burden will also translate into higher cash flows for the firm, thereby providing support to take on capex initiatives. More importantly, the company's stock has been trading below its peers over the years due to the debt burden attached to the company's operations. A debt-free approach will help GPIL operate as a de-risked player in a cyclical industry, which would eventually strengthen the company's valuations.

Exhibit 15: Net debt over the years



Source: Company; YES Sec

Breaking down the pellets industry

Pellets are basically ground fines converted to spherical shape balls that have the physical properties of the iron ore lumps and can be mechanically transported over long distances as well. In the production of iron by DRI and blast furnace, iron ore pellets have become one of the most essential raw materials. The technology is essentially based on the ore powder which was once regarded as waste when it was extracted.

The iron ore pellet industry in India is a significant part of the country's steel production sector. Pellets are essential raw materials used in making steel, especially through blast furnaces and direct reduction methods. Pelletization transforms iron ore fines, which are unsuitable for direct use, into pellets that can be efficiently used in steel manufacturing.

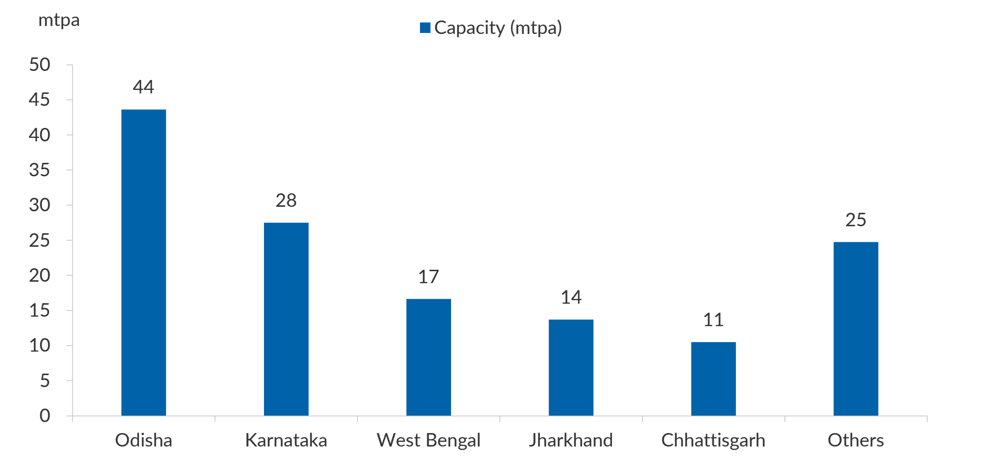
Exhibit 16: Iron ore pellets

Source: Company, YES Sec

Over the past decades, India's iron ore pellet industry has seen a significant growth. High-grade iron ore lumps were mainly used by the Indian steel industry in its early days. However, the industry shifted to using fines from iron ore as demand for these lumps declined and steel production increased. To be used in steel production, these fines had to be processed and produced as pellets. Pelletization technology was introduced in India in the 1970s, marking a significant turning point. Over the years, technological advancements and policy changes have driven the expansion of pellet production facilities across the nation.

With several pelletizing plants located across Indian states, such as Odisha, Karnataka, Chhattisgarh and Jharkhand, India has become the world's leading producer of iron ore pellets. As a result of the increased national and international demand for steel, production capacities in these plants are growing. The cascading effect will probably be visible in the consumption of steel as India gears up for an unprecedented infrastructure investment budget. This is placing a premium on forward-looking steel players to build scalable businesses to address growing national needs.

Exhibit 17: State-wise pellet manufacturing capacity in India...



Source: PMAI; YES Sec

As per the data from the Pellet Manufacturers Association of India (PMAI), the total pellet capacity in India stands at 136.70 mtpa. Out of this, the major pellet production capacities exist in the states of Odisha (43.60 mtpa), Karnataka (27.50 mtpa), West Bengal (16.65 mtpa), Jharkhand (13.70 mtpa) and Chhattisgarh (10.5 mtpa).

Looking at the state of Chhattisgarh, GPIL comes out as the largest pellet manufacturer with a capacity of 2.7 mtpa which will expand to 4.7 mtpa by early FY26E. GPIL's pellet plant is located in the Siltara Industrial Area in Raipur, which provides the company with a strategic geographic advantage since Raipur has been emerging as a hub for steel manufacturing in India majorly through the DRI route with players that are not backward integrated. The pellet plant is also within 170 kms range from the iron ore mines of the company thereby making the raw material easily accessible with low transportation costs which helps GPIL sustain its margin profile for the pellet business.

Exhibit 18: Pellet making capacities in Chhattisgarh

Company	Location	Capacity (mtpa)
Jayaswal Neco Industries Ltd	Siltara, Raipur	1.5
Godawari Power and Ispat Ltd	Siltara, Raipur	2.7
MSP Steel and Power Ltd	Raigarh	0.9
JSW Ispat Special Products Ltd. (Raigarh)	Raigarh	2.2
Raipur Power and Steel Durg	Durg	0.6
Sarda Energy and Minerals Ltd	Siltara, Raipur	0.8
Rashi Steel and Power Ltd	Bilaspur	0.4
Shri Bajrang Power and Ispat (Tilda)	Tilda, Raipur	1.4

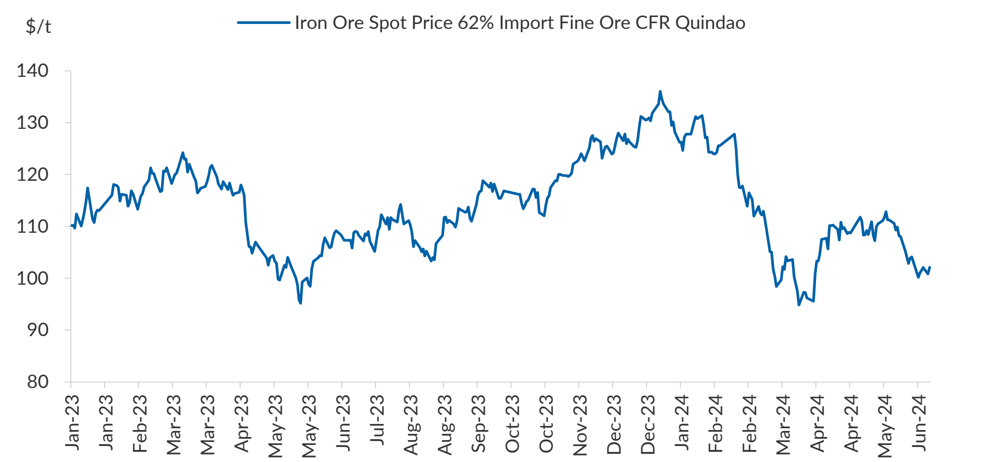
Source: PMAI; YES Sec

Out of the total 10.5 mtpa pellet capacity in the state, GPIL is well positioned to supply the rising need of pellets in the state as well as in the city of Raipur itself. In the coming years, the company is adding another 2.0 mtpa of capacity, whereas the competitors are not showing any growth on the expansion front. The additional capacity will help the company generate cash flows which would help in undertaking capex plans through internal accruals. Post the HRC plant commissioning the incremental pellet capacity will act as a natural cost savings unit for the steel manufacturing unit, thereby helping the company in being one of the lowest cost producers of steel in India.

Market scenario

In recent months, on the back of positive market sentiment following a series of Chinese government measures to support China's economy, iron ore prices have experienced periodic bursts of strength. After falling to a low of around $98 a tonne in mid-2023, the benchmark iron ore spot price (62% Fe fines CFR Qingdao) recovered to average over $125 a tonne in January-February 2024.

Exhibit 19: Iron ore pricing



Source: Bloomberg; YES Sec

In 2023, India's iron ore and pellet exports reached an estimated 35 million tonnes. The removal of large export duties in 2022 was a contributing factor to this growth. However, the quantity of iron ore available for export will be reduced as India continues to increase its steel production capacity over the next year to meet increasing demand from industry, infrastructure, and residential and commercial construction.

Looking at the Indian market in general, over the course of the next year and a half, ~25 mn tonnes steel capacities are getting set up and commissioned. These new capacities would require ~40 mn tonnes of iron ore for the steel manufacturing. Iron ore capacities, however, are not witnessing the same growth as the new steel capacities. We see that the iron ore industry should remain tight thereby iron ore prices should remain strong. In Raipur itself, ~3.0 mtpa of new DRI capacities are being commissioned by the end of FY26E. Out of these, ~90% of the capacities are non-backward integrated capacities, thereby providing GPIL with a roughly ~3.5 mn tonnes of iron ore pellet market to cater to. These capacities are coming up within a 100 kms radius of the company's pellet plant. With the pellet expansion coming up, GPIL is poised to be the preferred supplier to these new plants.

VALUATION & VIEW

We initiate with a BUY rating and a target price of Rs 1,390/sh

The key reasons underlying our investment rationale are -

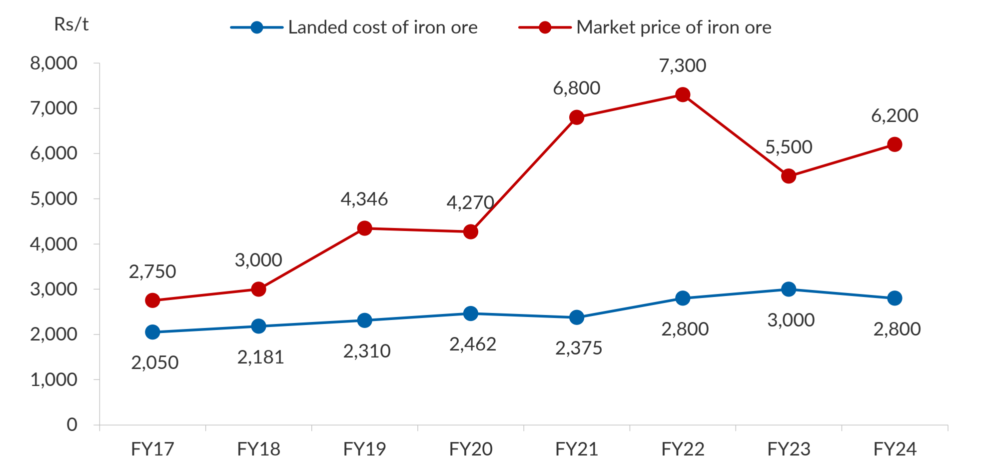
Backward integration helps business expand into key segments

GPIL's focus on business expansion has always ridden on the back of its backward integrated operations. The company operates its iron ore mines in the state of Chhattisgarh which is within a 200 kms vicinity of its steel producing operations. This not only provides a geographical advantage but also helps the company expand on the margin front. Over the next few months, the company is expected to receive an environmental clearance to nearly double its mining operations at its existing mines.

Additionally, the ability to cater to customers in a close proximity is a particular advantage in an industry where resources and finished products are transported at a significant scale. Therefore, in the state of Chhattisgarh, GPIL has made efforts to obtain ~70% of its feedstocks. Besides, the company also generates ~45% of our revenues from customers located within a 250 km radius.

Post this expansion, the company will shift focus on expanding the forward integrated business along the steel value chain. Just to look at how the backward integration helps the company's operations we look at the price differential between the landed cost of iron per tonne vs the market price of iron ore per tonne.

Exhibit 20: Iron ore landed costs vs Market pricing



Source: Company, YES Sec

Over the course of the last few years, the gap in the landed costs of iron ore and the market value have risen substantially. The major reasoning is of the introduction of new royalty rates for the mines that started operations post 2020. GPIL however, attracts the older regime of royalty rates thereby sustaining its operations on the cost front.

Both the Boria Tibu and Ari Dongri mines come under the old royalty regime thereby, reducing the landed costs/t for iron ore mining translating into cost advantages for GPIL. Additionally, the mining leases are for over 35+ more years running up to 2057, thereby providing enough reserves for the company to continue its backward integrated operations running smoothly.

Exhibit 21: Royalty Regimes

New Royalty Regime	Particulars	Old Royalty Regime	Particulars
Market price of iron ore	Rs xxx/t	Market price of iron ore	Rs xxx/t
Royalties	15%	Royalties	15%
Royalty premium @150%	22.50%	Royalty premium @150%	-
DMF	1.50%	DMF	-
NMET	0.30%	NMET	-

Source: Ministry of Mines, YES Sec

Currently out of the 3.05 mtpa mining capacity, only 2.35 mtpa from the Ari Dongri mines is operational due to the Boria Tibu mines (remaining 0.7 mtpa) having low grade ore. The expansions are taking place at Ari Dongri along with setting up of a beneficiation plant that will ensure the quality of the ore produced and help the company not only meeting the cost optimization goals but also offering the market with high quality steel products. We see this as a competitive advantage for the company in the Indian steel space.

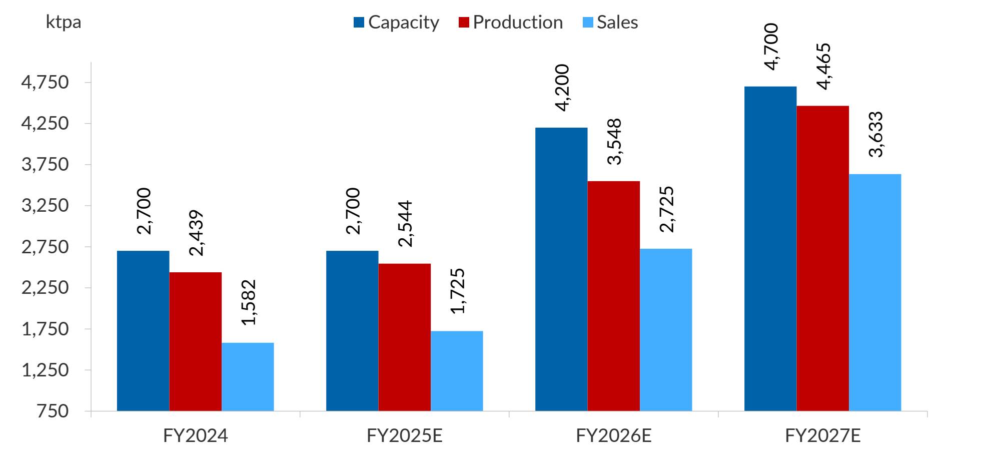
High-grade pellets growth to help the company fuel future growth plans

GPIL is currently undergoing an expansion on its pellet plants from 2.70 mtpa to 4.70 mtpa of capacity. GPIL adopted high-grade pellets instead of iron ore lumps and blended coal in its sponge iron manufacturing process. Using high-grade iron ore pellets over standard ones offers several key advantages for steel production. High-grade pellets have higher iron content and fewer impurities, leading to more efficient reduction and lower CO_2 emissions per ton of steel. Roughly 50% of the pellets produced are high-grade pellets, which sell at a premium of Rs 1,000-1,500/t than the commercial grade iron ore pellets.

In a shift towards sustainability and reduction of emissions in the steel making process, we see pelletization to be one of the most important technologies going down the line. GPIL uses 1/3rd of the produce for its captive steelmaking uses and sells the remaining in the open market. We see that with time, the demand for pellets is expected to increase in the Indian steel industry. As downstream users of pellets grow more mindful of reducing their carbon footprint and the market transitions to higher-grade pellet specifications with 65% and 67% Fe content, GPIL perceives it as a significant expansion possibility within this segment. The growing demand for the product coupled with limited competition in the space, markets being in close vicinities, we see GPIL to have strategic advantages in the industry that well only strengthen its position with time.

Additionally, the sales from the pellets business account for roughly 1/3rd of the total revenue share for the company. We expect this trend to continue further. The capacity expansion is expected to be completed and be commissioned by Q1FY26.

Exhibit 22: Our pellet volume estimates



Source: Company, YES Sec

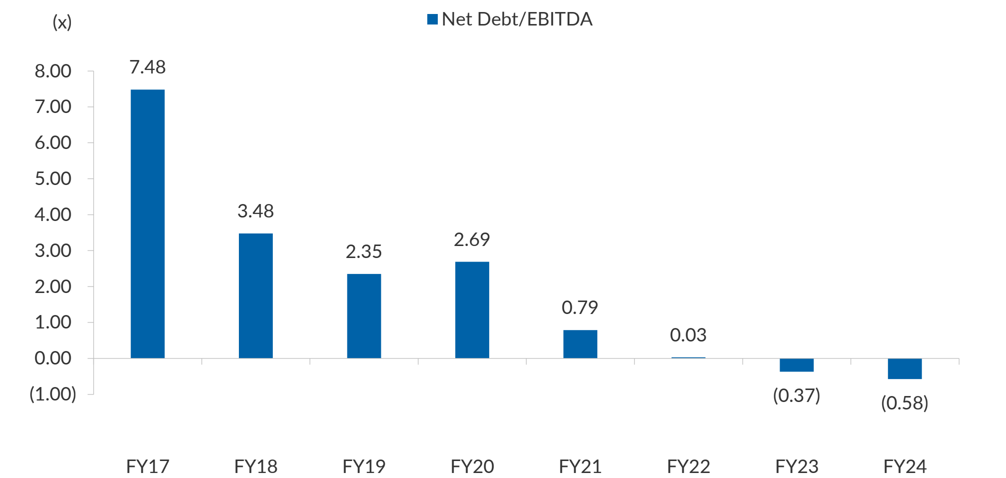
We see the company's pellet production to grow drastically over the course of the next two financial years. In FY25, we expect the production numbers to be majorly flat due to zero-capacity additions. The incremental volumes coming in FY25 is on our estimation that the company shall not be taking any planned maintenance shutdowns as it did during the Q1FY24. Moving on to FY26, we see about 1.0 mn tonnes of more production from the FY24 to kick in due to the new pellet plant capacity getting commissioned during the early months of the financial year. Since, the pellet plant is only major expansion lined up in the near-term, we see the flow of the incremental pellet quantities to greatly impact the top-line and the return profile for the company.

Balance sheet to stay healthy

GPIL has become a net-debt free company which help with the lower interest burden, thereby increasing its cash generation from the operations. Having a healthy balance sheet, we see GPIL to have the liberty to undertake capex focused on the forward integration of the business. The company is undertaking a Rs 60,000 mn greenfield integrated HRC plant of 2.0 mtpa capacity. A major chunk of this capex is expected to be met through internal cash accruals and the company's net-worth capital. Additionally, the mining expansion, setting up of the new beneficiation plant clubbed with the pellet capacity expansion will only help the company's cash generation business. The new beneficiation plant is expected to improve the ore quality to improve the % share of high-grade iron ore pellets offered to the market thereby helping both the margins and the cash availability.

We expect that the market pricing, the Indian steel demand, GPIL's operational efficiency clubbed with the current expansions on the mining and the pellet front will sustain operations and generate enough cash flows to meet its capex targets for the setting up of the HRC plant. In case of a scenario where the market prices are not favorable, we expect the company to raise debt in the range of Rs 10,000 - Rs 15,000 mn to meet the capex plans. However, we don't believe this to cause any burden on the balance sheet.

Exhibit 23: Net Debt/EBITDA



Source: Company, YES Sec

HRC plant to help the company establish a strong foothold in the state as well as the industry

On the back of its backward integration in mining and pelletization, GPIL has strategically positioned itself to take the next step and become a steel producer. The initial strategy for the construction of an HRC plant is part of the existing expansion plan. Given that projects are being implemented according to schedule, we can see that GPIL could be one of the lowest cost steel producers not only in Chhattisgarh but also in India.

Prior to that, GPIL had planned an increase of its steel production capacity from the current 0.5 million tonnes per annum to 1.5 million tonnes per annum. The company revised its decision to build a plant with a capacity of 2.0 million tonnes per annum, compared to the previously planned 1.0 million tonnes per annum, due to the strong need for steel production in the country with different demand channels for flat products. The project is expected to be completed between September 2027 and March 2028. To maintain a low capex profile, the company decided not to set up coke ovens in its facilities however, it will be applying for ECs for the same to have it as an option down the line. The company intends to source its coke from a large number of production capacities that are set up in Indonesia as it seems to be a more financially favorable move. We see that with the setting up of this HRC plat, GPIL will be able to strengthen its position in the market as one of the lowest cost steel producers.

The new HRC plant is expected to generate anywhere between Rs 6,000/t to Rs 12,000/t and we have included a scenario-wise picture of how much of incremental EBITDA can the plant generate once it becomes operational. We have considered an 80% utilization rate for the plant under the different scenarios.

Exhibit 24: HRC plant operational scenarios

Particulars	Case 1	Case 2	Case 3	Case 4
EBITDA/t (Rs)	6,000.00	8,000.00	10,000.00	12,000.00
Capacity (mtpa)	2.00	2.00	2.00	2.00
Utilization (%)	80%	80%	80%	80%
Production (mtpa)	1.60	1.60	1.60	1.60
Sales (mtpa)	1.60	1.60	1.60	1.60
EBITDA (Rs mn)	9,600.00	12,800.00	16,000.00	19,200.00

Source: YES Sec

VALUATION ASSUMPTIONS AND SUMMARY

Exhibit 25: Production Assumptions

Y/e 31 Mar	FY24	FY25E	FY26E
Production (ktpa)			
Iron ore mining	2,307.1	3,078.3	4,293.5
Iron ore pellets	2,439.0	2,544.1	3,548.4
Sponge iron	594.0	585.0	588.0
Billets	479.8	551.3	522.0
HB wires	81.5	98.0	99.0
MS rounds	238.7	241.4	284.5
Ferro alloys	72.6	77.8	77.8
Galvanized fabricated products	83.2	97.7	108.7

Source: YES Sec

Exhibit 26: Sales Assumptions

Y/e 31 Mar	FY24	FY25E	FY26E
Sales (ktpa)			
Iron ore pellets	1,581.8	1,725.1	2,725.2
Sponge iron	60.2	-	3.3
Billets	233.2	201.7	127.0
HB wires	81.4	88.2	91.6
MS rounds	155.9	200.6	241.8
Ferro alloys	67.0	71.9	73.9
Galvanized fabricated products	83.9	94.7	106.5

Source: YES Sec

Exhibit 27: Other Assumptions

Assumptions	FY24	FY25E	FY26E
Revenue	5,455.35	6,015.28	6,969.10
EBITDA	1,328.07	1,528.35	2,325.14
EBITDA %	24.3%	25.4%	33.4%

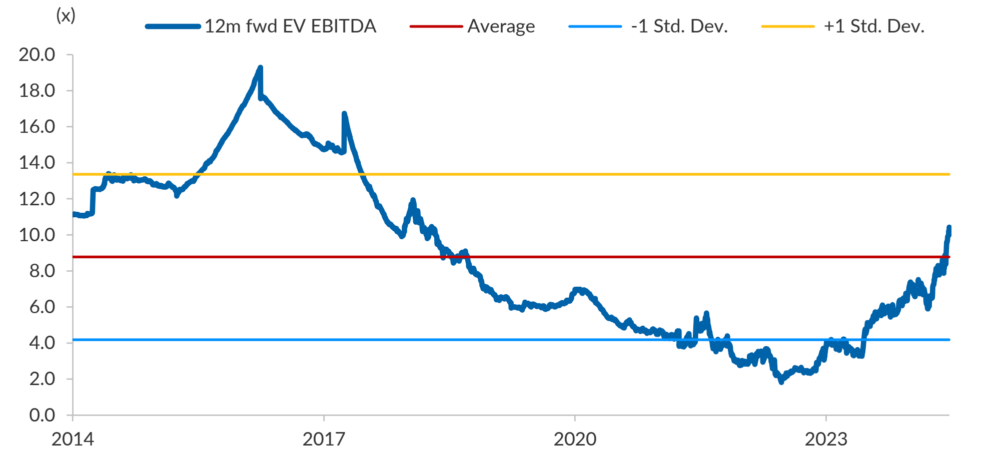
Source: YES Sec

Exhibit 28: Valuation Summary

Particulars (Rs mn)	FY26E	Per share value (Rs)
EBITDA	23,251.41	189.70
EV multiple (x)	6.50	
Enterprise value	151,134.19	1,233.04
(-) Net debt (FY24)	(7,638.00)	(62.32)
(+) CWIP @ 25% discount	11,328.23	92.42
Equity value	170,100.41	1,387.78
Shares outstanding (mn)		122.57
Rs/sh (Rounded off to the nearest 10)	1,387.78	1,390.0
CMP		1,133.7
Upside %		22.6%

Source: Company, YES Sec

Exhibit 29: EV Band Chart



Source: Bloomberg, YES Sec

Exhibit 30: Dupont analysis

Y/e 31 Mar	FY17	FY18	FY19	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E
Net profit margin	(4.1%)	8.2%	7.6%	5.1%	15.8%	27.4%	13.8%	17.1%	17.0%	22.9%
Asset turnover (x)	0.55	0.73	0.95	0.94	1.14	1.10	1.12	0.98	0.89	0.82
Financial leverage (x)	3.83	3.19	2.63	2.32	1.65	1.42	1.31	1.22	1.30	1.26
Return on equity	(8.8%)	19.2%	18.9%	11.1%	29.7%	43.0%	20.1%	20.5%	19.6%	23.7%

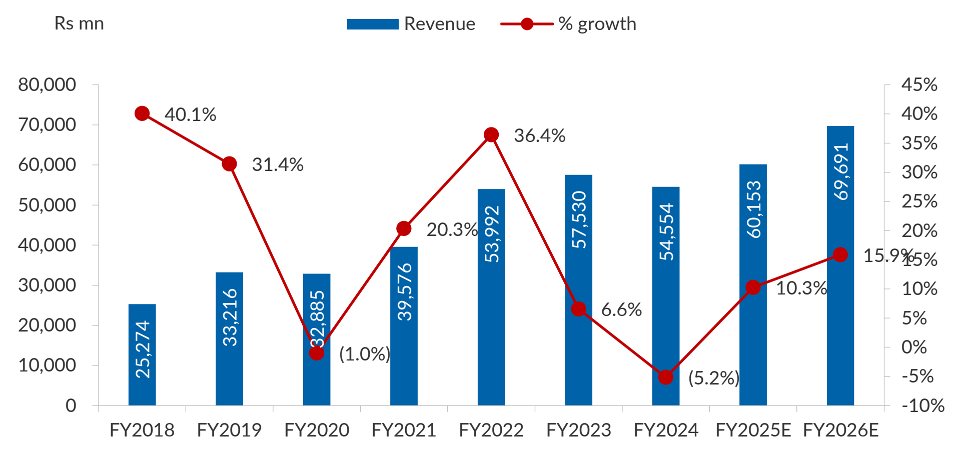
Source: YES Sec

Key risks to our investment thesis

- **Commodity pricing risk:** The steel industry remains prone to the commodity pricing risk. We see that the commodity pricing can cause ample shifts in the profitability of the company. GPIL operates at different levels of the steel value chain, thereby leaving it prone to market pricing risks.
- **Global demand and cyclical nature of the industry:** The metals industry relies heavily on global supply-demand dynamics and future demand expectations, making it highly cyclical. China's significant influence as a major player in both supply and demand has a crucial impact on metal prices. Any global economic slowdown, particularly in China, can exert downward pressure on commodity prices, posing a risk to our investment thesis. Furthermore, geopolitical events like wars, trade disruptions, and natural disasters affecting mining operations can also contribute to price volatility in the industry.
- **Raw material security and input costs:** GPIL operates in a business where the availability of raw material can greatly disrupt the operations of the business thereby affecting the profitability margins. GPIL procures coal from South Africa for its DRI operations. Additionally, the power requirements are also met through purchase of coal domestically. We see that the prices of such commodities can cause a dent to our investment thesis since these prices are heavily linked to the demand-supply scenario globally.

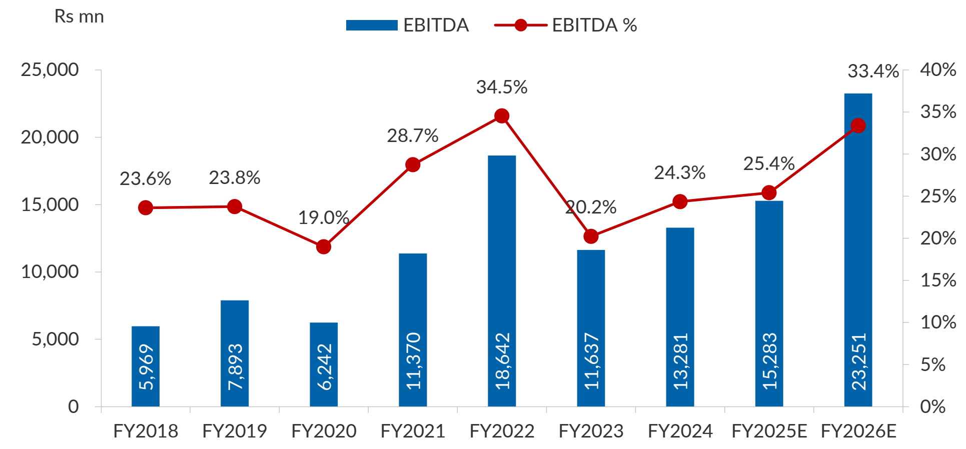
STORY IN CHARTS

Exhibit 31: Revenue from operations



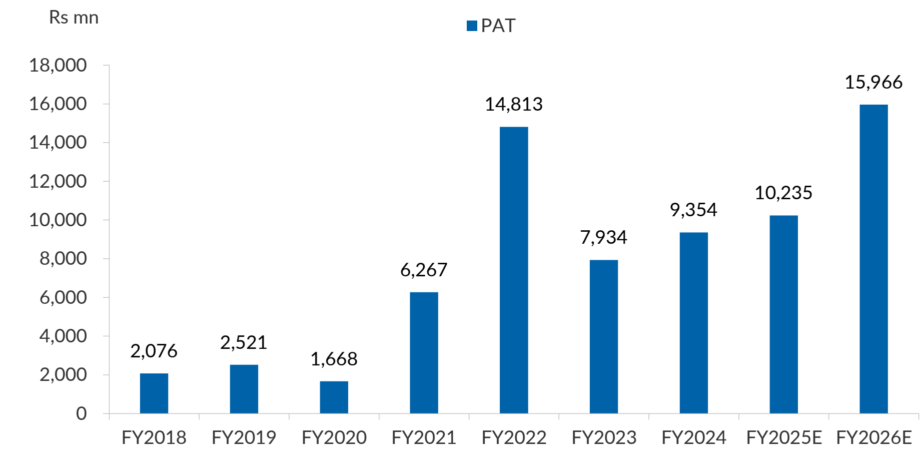
Source: Company, YES Sec

Exhibit 32: EBITDA and Margins



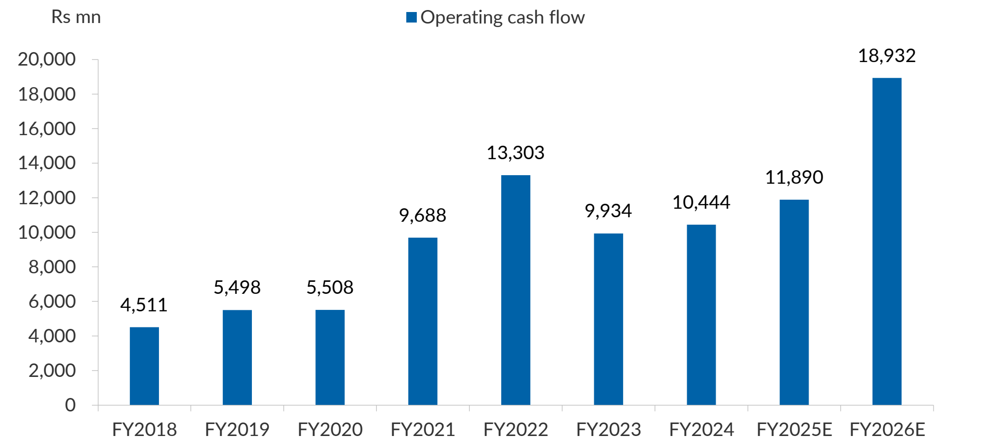
Source: Company, YES Sec

Exhibit 33: PAT



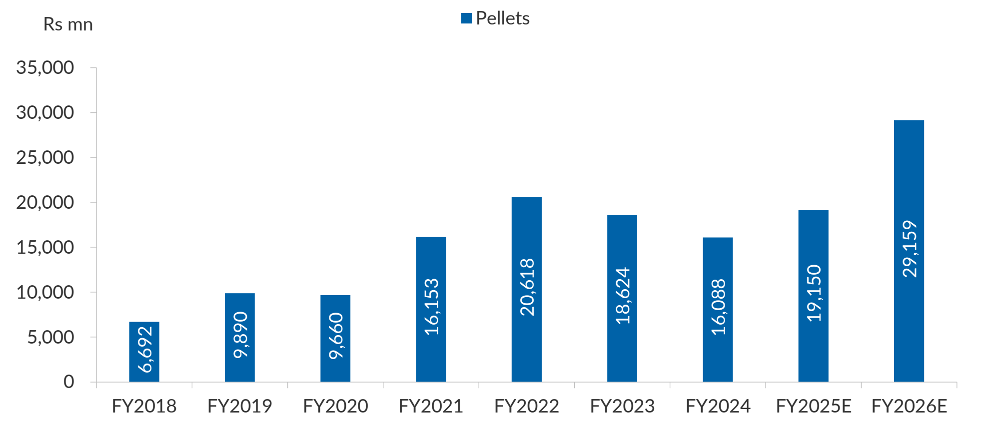
Source: Company, YES Sec

Exhibit 34: Operating cash flows



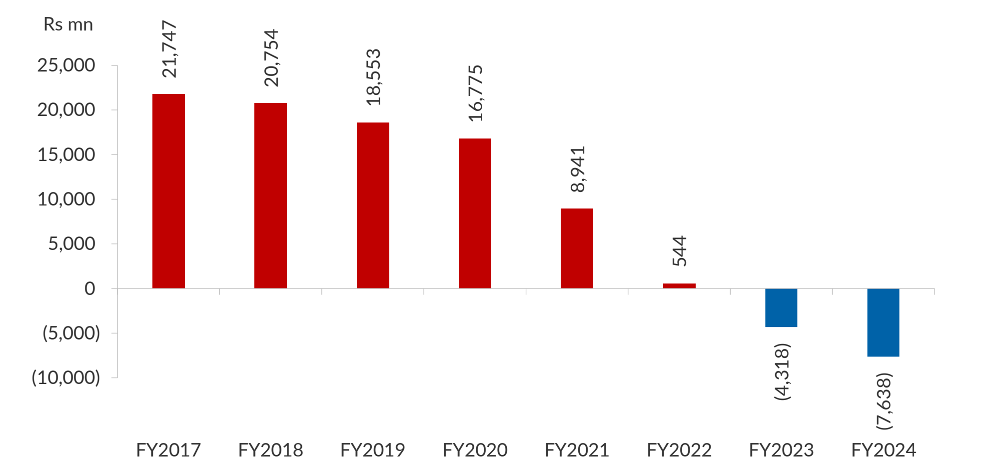
Source: Company, YES Sec

Exhibit 35: Revenue from Pellets



Source: Company, YES Sec

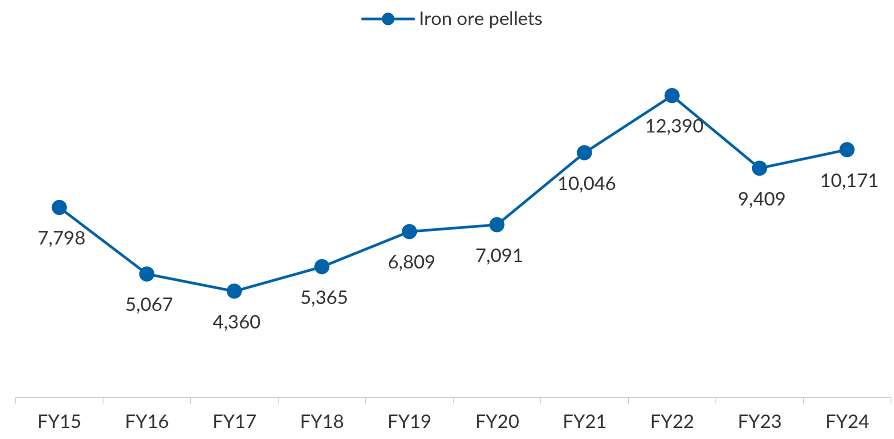
Exhibit 36: Net Debt



Source: Company, YES Sec

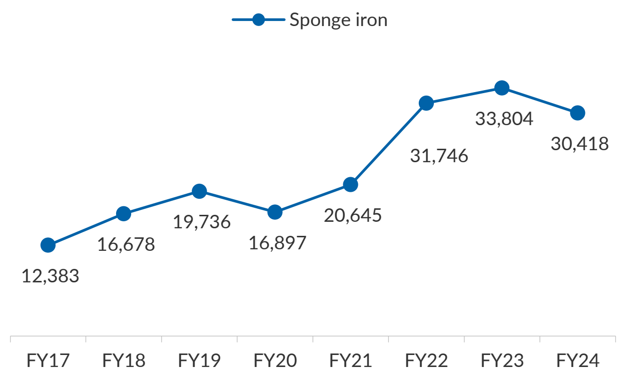
REALIZATION TRENDS OVER THE YEARS

Exhibit 37: Pellets pricing over the years



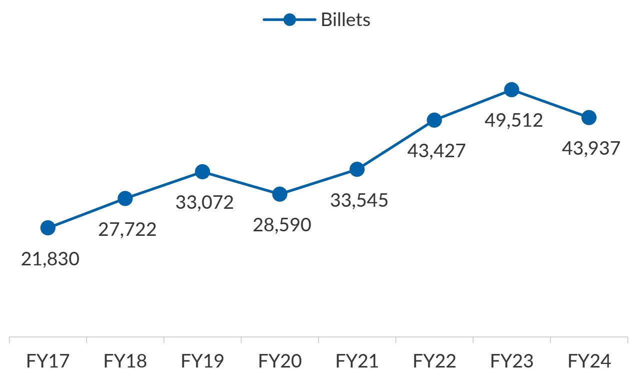
Source: Company, YES Sec

Exhibit 38: Sponge iron realizations/t



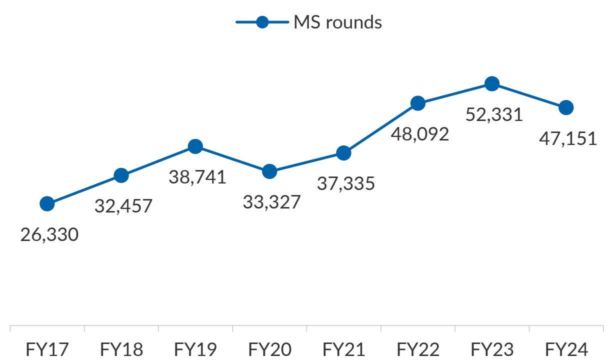
Source: Company, YES Sec

Exhibit 39: Billets realizations/t



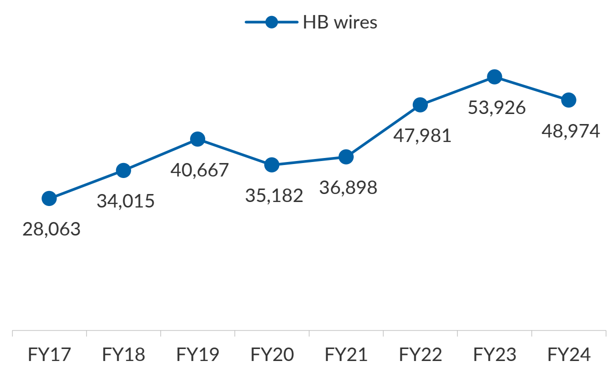
Source: Company, YES Sec

Exhibit 40: MS Rounds realizations/t



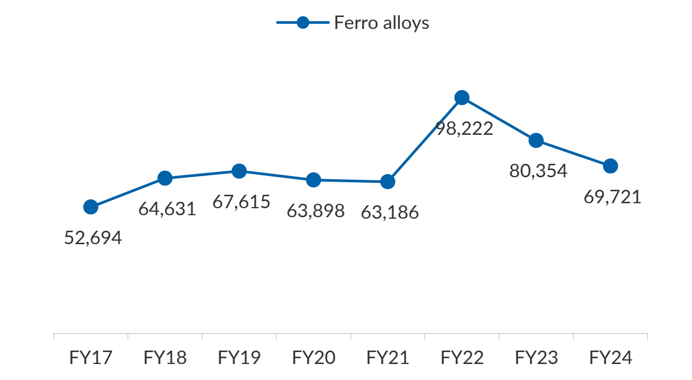
Source: Company, YES Sec

Exhibit 41: HB Wires realizations/t



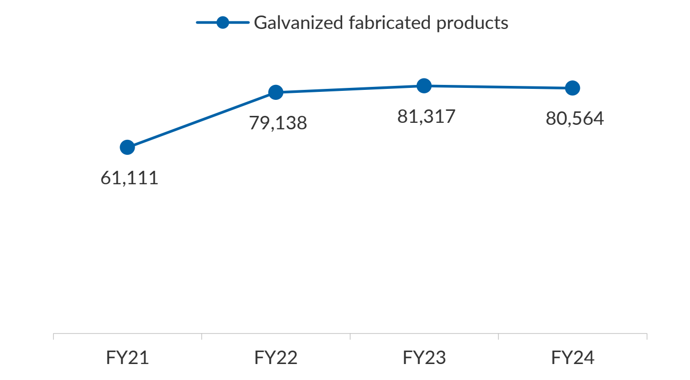
Source: Company, YES Sec

Exhibit 42: Ferro alloys realizations/t



Source: Company, YES Sec

Exhibit 43: Galvanized fabricated products realizations/t



Source: Company, YES Sec

Exhibit 44: Comparable company analysis (Rs mn)

Company	CMP (Rs)	Shares Outstanding (mn)	Market Capitalization	Net Debt	EV
			Current (Rs mn)		
Godawari Power & Ispat	1,133.7	122.6	138,951.5	(7,638.0)	131,313.5
Lloyds Metals & Energy	728.5	505.3	368,111.1	(2,550.0)	365,561.1
Shyam Metalics & Energy	653.8	278.0	181,782.6	(15,140.0)	166,642.6

Company	Revenue			EBITDA		
	FY24	FY25E	FY26E	FY24	FY25E	FY26E
Godawari Power & Ispat	54,553.5	60,152.8	69,691.0	13,280.7	15,283.5	23,251.4
Lloyds Metals & Energy	65,217.0	77,470.0	134,690.0	17,283.0	30,294.0	52,956.0
Shyam Metalics & Energy	131,952.2	192,789.0	225,545.0	15,413.0	25,843.0	33,862.0

Company	EPS (Rs)			P/E (x)		
	FY24	FY25E	FY26E	FY24	FY25E	FY26E
Godawari Power & Ispat	75.00	83.50	130.26	15.12	13.58	8.70
Lloyds Metals & Energy	24.43	43.70	93.00	29.82	16.67	7.83
Shyam Metalics & Energy	36.35	53.67	72.43	17.99	12.18	9.03

Company	BVPS (Rs)			P/ BV (x)			EV/EBITDA (x)		
	FY24	FY25E	FY26E	FY24	FY25E	FY26E	FY24	FY25E	FY26E
Godawari Power & Ispat	365.1	426.3	550.1	3.10	2.66	2.06	9.89	8.59	5.65
Lloyds Metals & Energy	55.6	97.4	176.6	13.10	7.48	4.13	21.15	12.07	6.90
Shyam Metalics & Energy	341.9	389.3	452.6	1.91	1.68	1.44	10.81	6.45	4.92

Source: Bloomberg; YES Sec

FINANCIALS OVERVIEW

Exhibit 45: Income Statement

Y/e 31 Mar (Rs mn)	FY17	FY18	FY19	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E
Revenue	18,044	25,274	33,216	32,885	39,576	53,992	57,530	54,554	60,153	69,691
Cost of goods sold	11,306	14,052	18,350	18,145	18,476	23,917	33,347	29,573	31,698	31,926
Employee cost	770	968	1,176	1,304	1,343	1,506	1,914	2,245	2,582	2,865
Other expenses	3,061	4,286	5,798	7,194	8,387	9,928	10,632	9,455	10,589	11,648
EBITDA	2,908	5,969	7,893	6,242	11,370	18,642	11,637	13,281	15,283	23,251
% Margin	16.1%	23.6%	23.8%	19.0%	28.7%	34.5%	20.2%	24.3%	25.4%	33.4%
Depreciation	1,201	1,318	1,329	1,369	1,090	1,047	1,235	1,413	1,805	2,091
Other income	153	87	59	47	34	294	1,041	979	727	1,118
Finance costs	2,592	2,633	2,526	2,119	1,150	197	514	596	802	1,363
Exceptional items	-	(55)	-	(103)	-	987	(147)	175	-	-
Profit before tax	(732)	2,049	4,097	2,698	9,165	18,679	10,781	12,426	13,404	20,916
Taxes	7	(64)	1,529	954	3,071	4,512	2,892	3,204	3,169	4,949
Profit after tax	(739)	2,113	2,568	1,744	6,094	14,167	7,889	9,222	10,235	15,966
EPS	(10.9)	30.4	37.0	24.4	91.9	112.5	61.2	75.00	83.50	130.26

Exhibit 46: Balance Sheet

Y/e 31 Mar (Rs mn)	FY17	FY18	FY19	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E
Assets										
PPE	22,221	21,377	21,332	21,646	19,198	14,129	19,655	22,733	24,128	26,038
CWIP	1,355	1,710	1,302	1,375	1,372	6,427	4,430	4,304	9,104	15,104
Non-current assets	25,953	26,436	25,261	25,483	24,546	25,110	28,366	31,385	37,777	45,782
Inventories	3,044	4,323	6,164	5,574	5,037	8,736	8,108	9,003	9,119	8,747
Trade receivables	1,136	1,558	1,490	1,768	2,752	3,499	2,957	2,119	3,296	3,819
Cash and equivalents	337	97	23	23	86	110	5,073	1,195	2,782	5,478
Bank	174	425	365	267	428	5,637	2,930	7,510	10,292	15,770
Current assets	6,579	8,082	9,850	9,332	10,190	23,789	23,228	24,067	30,033	38,835
Total assets	**32,532**	**34,517**	**35,111**	**34,815**	**34,736**	**48,899**	**51,594**	**55,452**	**67,810**	**84,617**
Equity and liabilities										
Equity share capital	341	341	341	341	341	658	649	624	613	613
Other equity	6,628	8,892	11,352	12,912	20,015	32,465	38,406	44,335	51,059	66,227
Non-current liabilities	19,880	18,832	16,558	15,250	9,585	1,987	2,652	2,461	2,461	2,461
Current liabilities	4,149	4,848	5,189	4,540	4,071	12,491	9,477	7,452	13,096	14,735
Total equity and liabilities	**32,532**	**34,517**	**35,111**	**34,815**	**34,736**	**48,899**	**51,594**	**55,453**	**67,810**	**84,617**

Exhibit 47: Cash Flow Statement

Y/e 31 Mar (Rs mn)	FY17	FY18	FY19	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E
Cash flow from operations										
Profit before taxes	(732)	2,049	4,097	2,698	9,165	18,679	10,781	12,426	13,404	20,916
Depreciation & amortization	1,201	1,318	1,329	1,369	1,090	1,047	1,235	1,413	1,805	2,091
Finance costs	2,592	2,633	2,526	2,119	1,150	197	514	596	802	1,363
CFO before working cap changes	2,922	5,935	7,947	6,118	12,401	18,732	12,108	13,354	16,011	24,370
Working capital changes	(2,757)	(1,192)	(1,537)	98	(1,246)	(1,419)	836	(13)	(952)	(489)
Cash generated from operations	165	4,744	6,411	6,215	11,156	17,313	12,944	13,341	15,059	23,881
Taxes paid	(19)	(232)	(912)	(707)	(1,468)	(4,010)	(3,010)	(2,897)	(3,169)	(4,949)
Net CFO	**146**	**4,511**	**5,498**	**5,508**	**9,688**	**13,303**	**9,934**	10,444	11,890	18,932
Cash flow from investing										
Purchase of PPE	(530)	(1,051)	(760)	(1,658)	(515)	(6,132)	(4,557)	(4,227)	(3,200)	(4,000)
Sale of PPE	-	-	-	24	120	69	65	42	-	-
Change in non-current assets	-	-	-	-	-	3,524	145	210	(220)	(95)
Others	666	(160)	96	132	(227)	(8,417)	2,058	(3,560)	(4,800)	(6,000)
Net CFI	**136**	**(1,211)**	**(664)**	**(1,501)**	**(622)**	**(10,956)**	**(2,288)**	(7,535)	(8,220)	(10,095)
Cash flow from financing										
Buyback of shares	310	-	-	-	-	(4)	-	(3,024)	(3,010)	-
Proceeds from borrowings	-	-	-	-	-	2,954	-	-	5,000	1,500
Payments of borrowings	2,075	(908)	(2,381)	(1,888)	(7,286)	(4,430)	(1,118)	(2,651)	-	-
Finance costs paid	(2,591)	(2,633)	(2,526)	(2,119)	(1,539)	(197)	(514)	(596)	(802)	(1,363)
Dividends paid	-	-	-	-	(176)	(652)	(1,141)	(517)	(512)	(798)
Net CFF	**(207)**	**(3,541)**	**(4,907)**	**(4,008)**	**(9,001)**	**(2,329)**	**(2,773)**	(6,787)	676	(662)
Net change in cash	76	(240)	(73)	(1)	64	18	4,873	(3,878)	4,346	8,175
Cash at beginning	265	341	101	27	27	91	110	5,073	1,195	2,782
Cash at end	341	101	27	27	91	109	5,073	1,195	2,782	5,478

Exhibit 48: Key Ratios

Y/e 31 Mar (Rs mn)	FY17	FY18	FY19	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E
Growth (%)										
Revenues	(8.9)	40.1	31.4	(1.0)	20.3	36.4	6.6	(5.2)	10.3	15.9
GP	9.5	66.5	32.5	(0.9)	43.1	42.5	(19.6)	3.3	13.9	32.7
EBITDA	33.9	105.3	32.2	(20.9)	82.1	64.0	(37.6)	14.1	15.1	52.1
EBIT	88.3	172.5	41.1	(25.8)	111.0	71.1	(40.9)	14.1	13.6	57.0
PAT	(22.5)	(385.9)	21.5	(32.1)	249.4	132.5	(44.3)	16.9	11.0	56.0
Margins (%)										
GP	37.3	44.4	44.8	44.8	53.3	55.7	42.0	45.8	47.3	54.2
EBITDA	16.1	23.6	23.8	19.0	28.7	34.5	20.2	24.3	25.4	33.4
EBIT	9.5	18.4	19.8	14.8	26.0	32.6	18.1	21.8	22.4	30.4
PAT	(4.1)	8.2	7.6	5.1	15.8	27.4	13.8	17.1	17.0	22.9
Return profile (%)										
ROE	(8.8)	19.2	18.9	11.1	29.7	43.0	20.1	20.5	19.6	23.7
ROCE	10.2	20.1	26.4	20.6	37.1	51.2	27.6	27.7	27.9	33.3
Per share (Rs)										
EPS	(10.9)	30.4	37.0	24.4	91.9	112.5	61.2	75.0	83.5	130.3
BVPS	124.6	158.9	195.9	220.3	309.0	261.5	304.2	365.1	426.3	550.1
P/E (x)	(5.4)	7.1	3.1	2.0	4.1	3.5	5.7	11.3	12.3	7.9
P/BV (x)	0.5	1.4	0.6	0.2	1.2	1.5	1.1	2.3	2.4	1.9
Debt ratios (x)										
Debt/Equity	3.2	2.3	1.6	1.3	0.5	0.2	0.1	0.0	0.1	0.1
Net debt/Equity	3.1	2.2	1.6	1.3	0.4	0.0	(0.1)	(0.2)	(0.1)	(0.2)
Net debt/EBITDA	7.5	3.5	2.4	2.7	0.8	0.0	(0.4)	(0.6)	(0.5)	(0.6)

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