

## Stable operating performance

<b>CMP:</b>	<b>Rs.83</b>
<b>Target Price:</b>	<b>Rs.81</b>
<b>Recommendation:</b>	<b>Reduce</b>

### Stock Info

BSE Group	B
BSE Code	532734
NSE Symbol	GPIL
Bloomberg	GODPI.IN
Reuters	GDPI.BO
BSE Sensex	20491
NSE Nifty	6079

### Market Info

Market Capital	₹ 274cr
Equity Capital	₹ 33cr
Avg. Trading Vol	15384
52 Wk High/ Low	129/61
Face Value	10

### Shareholding Pattern (%) (30<sup>th</sup> Sept 2013)

Promoters	64.9
Domestic Institutions	6.5
Foreign Institutions	0.1
Non Promoters Corp.	16.0
Public & Others	12.5
Govt. Holdings	-

Date: 11-11-2013

Godawari power and Ispat's 2QFY14 result was in-line with estimates. Standalone revenue declined both yoy and qoq by 30% and 10% respectively on lower volumes and realisations. On consolidated basis, revenues declined by 18% and 5% yoy and qoq respectively. EBITDA margin dipped on qoq basis both at standalone and consolidated level. Standalone EBITDA margin declined 80bps qoq on lower operating leverage as both realisations and volumes dipped in a seasonally weak quarter. Consolidated EBITDA margins declined 130bps qoq to 13.6%.

Standalone profit after tax came in at Rs 1cr on higher depreciation and interest cost which we believe increased due to capitalization of 1.2mtpa pellet unit. Consolidated PAT declined 62% yoy to Rs 8.2cr. Going forward, we expect profitability to remain under pressure due to higher depreciation and interest cost on capitalization of pellet and 50MW solar power unit. We expect these two units will take a while before they start contributing meaningfully to earnings.

### Operating matrix: Pressure on volumes and realisations

GPIL's volumes and realisations dipped in a seasonally weak quarter. Finished steel volumes (MS Rounds + HB wire) declined 44% yoy and 32% qoq. Billet and DRI volumes declined 25% qoq and 2.7% qoq. Pellet sales, however, rose 44% yoy as company commissioned 1.2mtpa pellet unit. We believe new unit is operating at 35-40% utilization levels and will likely to go through initial teething issues for couple of months more before it gets ramped-up to 85-90% levels. Pellet volumes at Ardent steel too jumped by 1.4% qoq. Realisation dipped across the product line in the range of 4-5%.

### Valuations:

GPIL continues to report stable operating performance every quarter. Given the weak environment; we expect margins to remain range bound around current levels. Recently commissioned 50MW solar power project and 1.2mtpa pellet unit are undergoing initial ramp-up phase and we expect these two units to contribute meaningfully only from FY15. We continue to value stock on SoTP basis and have ascribed EV/EBITDA(x) of 4.5x to standalone operations and 4.0x to Ardent Steel and Hira ferro alloys. We have valued GPIL's equity investment in solar power business at book value of Rs 37 per share. **Our fair value for GPIL stands at Rs 81 per share and we recommend Reduce rating on the stock.**

### Financials:

(Rs Cr)	FY12	FY13	FY14E	FY15E
Net sales	2058	2357	2368	2918
EBITDA	295	331	308	428
PAT	84	149	41	91
EPS (Rs)	27	47	13	28
EPS Growth (%)	(1.9)	76.6	(72.7)	123.4
RoE (%)	12.4	18.8	4.7	9.6
P/E (x)	3.1	1.8	6.5	3.0
EV/EBITDA(x)	4.3	5.7	6.4	4.5



## Exhibit: Operating performance

Sales (tonne)	2QFY14	2QFY13	1QFY14	%yoy	%qoq
Sponge Iron	46367	36899	47632	25.7%	-2.7%
Billets	20279	46602	27065	-56.5%	-25.1%
MR Round	3126	19027	9919	-83.6%	-68.5%
HB wire	20698	23760	25313	-12.9%	-18.2%
FeMn(GPIL)	2367	2040	1488	16.1%	59.1%
Pellet (GPIL)	122521	85223	43501	43.8%	181.7%
Pellet (Ardant)	142810	131749	140800	8.4%	1.4%
Power (mn unts)	11	17	19	-30.8%	-40.5%

Realisations (Rs/t)	2QFY14	2QFY13	1QFY14	%yoy	%qoq
Sponge Iron	17601	21318	17869	-17.4%	-1.5%
Billets	27528	32170	28911	-14.4%	-4.8%
MS Round	31800	35869	33372	-11.3%	-4.7%
HB wire	33364	38956	35031	-14.4%	-4.8%
FeMn(GPIL)	49465	53762	51694	-8.0%	-4.3%
Pellet (GPIL)	7579	8701	7995	-12.9%	-5.2%
Pellet (Ardant)	6317	7814	6850	-19.2%	-7.8%
Power (Rs/unit)	0.6	2.8	2.9	-77.1%	-78.1%

## 2QFY14 Results (Consolidated)

Rs in Crore	2QFY14	2QFY13	YOY (%)	1QFY14	QoQ (%)
Net Sales	487	597	-18.5	511	-4.7
Expenditure	421	523	-19.5	435	-3.3
EBITDA	66	75	-11.4	76	-13.0
EBITDA Margins (%)	13.6	12.5	-	14.9	-
Other Income	4	3	17.5	2	54.4
Interest	33	29	16.6	28	19.0
Depreciation	20	18	12.0	18	12.0
Exceptional Items (Loss)	0	0	0.0	0	0.0
PBT after exceptional items	16	31	-47.9	32	-49.8
Tax	5	8	-36.7	1	278.8
Tax rate (%)	32	26	21.4	4	655.3
MI	3	2	80.8	3	-16.3
Net Profit	8	21	-61.6	28	-70.3
EPS (Rs)	2	4	-	5	-



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### Stock Rating Scale

	<b>Absolute Return</b>
BUY	>20
ACCUMULATE	12-20
HOLD	5-12
NEUTRAL	0-5
REDUCE	<0

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