

Godawari Power and Ispat Limited

November 08, 2021

Ratings

Facilities/Instruments	Amount (Rs. crore)	Rating ¹	Rating Action
Long Term Bank Facilities	-	-	Reaffirmed at CARE A; Stable (Single A; Outlook: Stable) and Withdrawn
Short Term Bank Facilities	-	-	Reaffirmed at CARE A1 (A One) and Withdrawn
Total Bank Facilities	0.00 (Rs. Only)		

Details of instruments/facilities in Annexure-1

Detailed Rationale and Key Rating Drivers:

CARE has reaffirmed and withdrawn the outstanding ratings of 'CARE A; Stable/ A1 (Single A; Outlook: Stable /A One) assigned to the bank facilities of Godawari Power and Ispat Limited (GPIL) with immediate effect. The above action has been taken at the request of GPIL and 'No Objection Certificate' received from the banks that have extended the facilities rated by CARE.

The reaffirmation of rating assigned to the bank facilities of GPIL considers the improved financial and operational performance of the company during FY21. The strengthened performance has resulted into significant improvement in cash flow generation from operating activities, which has been prudently utilized by GPIL in deleveraging its balance sheet. The ratings continue to derive strength from the experience and long track record of the promoters (Hira Group) in the steel industry, raw material integration in the form of captive iron ore mines and long-term linkages for power supply in the form of captive sources and PPA (Power Purchase Agreement) with its associate company.

These rating strengths continue to remain constrained by lack of complete backward integration of coal and iron ore requirements and presence in the inherently cyclical steel industry.

Detailed description of the key rating drivers

Key Rating Strengths

Improved operational and financial performance

Despite the pandemic situation and GPIL plant being shut for a few days during March-April 2020 owing to the announced lockdown measures, the company has witnessed a Y-o-Y improvement in its operating activities during FY21 with high sales volume of iron pellets, MS rounds/wire and silicon manganese. The financial risk profile has improved significantly aided by substantial deleveraging and GPIL becoming term debt free at standalone level. The improvement in the financial risk profile will be sustained over the medium term backed by strong operating performance. High realisations across the steel industry boosted the performance of GPIL in FY21 despite disruptions amid the Covid-19 pandemic.

Track record of promoters; experienced management

Incorporated in 1999, GPIL is promoted by the Hira group, which has more than two decades of experience in the steel & ferro alloys industry. Mr. B L Agarwal, Managing Director, looks after the strategic functions while his sons, Mr. Siddharth Agarwal (Executive Director) and Mr. Abhishek Agarwal (Executive Director) look after the new projects and operations of the group. The marketing, financial and other functions are managed by a team of professionals having good experience in the industry.

Operational integration in terms of availability of captive sources and long-term linkage for key inputs

GPIL has two operational captive iron ore mines namely Ari Dongri and BoriaTibu, both located in Chhattisgarh. Operations are backward integrated with two captive iron ore mines meeting more than 80% of the total iron ore requirement at present. The combined iron ore mining capacity is 21,00,000 tonnes per annum (TPA) (Ari Dongri: 14,00,000 TPA and Boria Tibu: 7,00,000 TPA). Additionally, the company meets 100% of its power requirement through its captive power capacity of 73 MW and an additional 25 MW by an arrangement with Jagdamba Power & Alloys Ltd (JPAL; associate company). The availability of captive power plants ensures GPIL assured supply of power at economical rates, thereby contributing to the operating efficiency.

¹Complete definition of the ratings assigned are available at www.careratings.com and other CARE publications

Key Rating Weaknesses

Lack of complete backward integration for coal and iron ore

Despite having improved its mining output during the past couple of years, the captive iron ore mines only account for around 73% of the total iron ore requirement of the company. Cost of iron ore and coal sourced through the open market is substantially higher as compared to raw material sourced through captive/linkage route. Lack of availability of coal in the market can expose the company to volatility in coal prices. Similarly, lower mining output of iron ore can expose the company to price risk for sourcing its iron ore requirement from the open market.

Exposure to cyclical in the steel industry

The steel industry is sensitive to the shifting business cycles, including changes in the general economy, interest rates and seasonal changes in the demand and supply conditions in the market. Apart from the demand side fluctuations, the highly capital-intensive nature of steel projects along-with the inordinate delays in the completion hinders the responsiveness of supply side to demand movements. This results in several steel projects bunching-up and coming on stream simultaneously leading to demand supply mismatch. Furthermore, the value addition in the steel construction materials like TMT bars, MS angles and channels, etc. is also low, resulting into low product differentiation in the market. The producers of steel construction materials are essentially price-takers in the market, which directly exposes their cash flows and profitability to volatility in the steel prices.

Liquidity: Adequate

Liquidity is adequate marked by cash and bank balance of around Rs. 859 crores as on March 31, 2021. GPIL has prepaid its term debt during H1FY22 and stands term debt free on standalone level

Analytical approach: Consolidated view as below mentioned entities have significant operational, financial and management linkages with GPIL. The subsidiaries and Joint ventures (JV) adopted for consolidation are tabulated below:

Name of Subsidiaries/JV/Associates	Country of incorporation	Extent of shareholding as on March 31, 2021
Subsidiaries		
Godawari Energy Limited	India	51.30%
Godawari Green Energy Limited	India	76.12%
Ardent Steel Limited (up to December 27, 2020)	India	-
Hira Energy Limited (step down subsidiary up to December 27, 2020)	India	-
Joint Ventures		
Raipur Infrastructure Company Limited	India	33.33%
Chhattisgarh captive coal mining Private Limited	India	25.93%
Name of Associates	Country of incorporation	Extent of shareholding as on March 31, 2021
Hira Ferro Alloys Limited	India	48.45%
Jagdamba Power & Alloys Limited	India	33.96%
Chhattisgarh Ispat Bhumi Limited	India	35.36%
Ardent Steel Limited (w.e.f. 28.12.2020)	India	37.85%

Applicable Criteria

[Policy on Withdrawal of ratings](#)

[Criteria on assigning 'Rating Outlook' and 'Credit Watch' to Credit Ratings](#)

[CARE's Policy on Definition of Default](#)

[Criteria for Short Term Instruments](#)

[Rating Methodology- Consolidation](#)

[Rating Methodology-Manufacturing Companies](#)

[Financials Ratio-Non-Financial Sector](#)

[Rating Methodology - Steel Industry](#)

[Liquidity Analysis of Non-Financial Entities](#)

About the Company

Incorporated on September 21, 1999, Godawari Power and Ispat Limited (GPIL) is promoted by the Hira group. GPIL is engaged in the manufacturing and selling of pellets, sponge iron, steel billets, ferro alloys, and various long steel products like

MS round in coil (wire rods), Cold Twisted Drawn (CTD) bars and Hard Black (HB) wires, from its plant located at Raipur. GPIL has two operational captive iron ore mines in Chhattisgarh at Ari Dongri and at BoriaTibu.

Brief Financials (Rs. crore)	FY20 (A)	FY21 (A)	Q1FY22 (UA)
Total Operating Income	3294.57	4104.36	1151.50
PBILDT	630.30	1261.34	598.45
PAT	177.24	654.51	472.07
Overall Gearing (times)	1.21	0.44	-
Interest coverage (times)	2.97	8.19	56.25

A: Audited; UA: unaudited

Status of non-cooperation with previous CRA: not applicable

Any other information: None

Rating History for last three years: Please refer Annexure-2

Covenants of rated instrument / facility: Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3

Complexity level of various instruments rated for this company: Annexure 4

Annexure-1: Details of Facilities

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Cash Credit		-	-	-	0.00	Withdrawn
Non-fund-based - ST-BG/LC		-	-	-	0.00	Withdrawn
Term Loan-Long Term		-	-	-	0.00	Withdrawn

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2021-2022	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019
1	Fund-based - LT-Cash Credit	LT	-	-	1)CARE A; Stable (06-Apr-21)	1)CARE BBB+; Positive (21-Sep-20)	1)CARE BBB+; Stable (19-Jul-19)	1)CARE BBB; Stable (07-Sep-18)2)CARE BBB-; Stable (05-Apr-18)
2	Non-fund-based - ST-BG/LC	ST	-	-	1)CARE A1 (06-Apr-21)	1)CARE A2 (21-Sep-20)	1)CARE A3+ (19-Jul-19)	1)CARE A3+ (07-Sep-18)2)CARE A3 (05-Apr-18)
3	Debentures-Non Convertible Debentures	LT	-	-	-	1)Withdrawn (21-Sep-20)	1)CARE BBB+; Stable (19-Jul-19)	1)CARE BBB; Stable (07-Sep-18)2)CARE BBB-; Stable (05-Apr-18)
4	Term Loan-Long Term	LT	-	-	1)CARE A; Stable (06-Apr-21)	1)CARE BBB+; Positive (21-Sep-20)	1)CARE BBB+; Stable (19-Jul-19)	1)CARE BBB; Stable (07-Sep-18)2)CARE BBB-; Stable (05-Apr-18)
5	Debentures-Non Convertible Debentures	LT	-	-	-	-	1)Withdrawn (19-Jul-19)	1)CARE BBB; Stable (07-Sep-18)2)CARE BBB-; Stable (05-Apr-18)

* Long Term / Short Term

Annexure-3: Detailed explanation of covenants of the rated instrument / facilities: not applicable

Annexure 4: Complexity level of various instruments rated for this company

Sr. No	Name of instrument	Complexity level
1	Fund-based - LT-Cash Credit	Simple
2	Non-fund-based - ST-BG/LC	Simple
3	Term Loan-Long Term	Simple

Note on complexity levels of the rated instrument: CARE has classified instruments rated by it on the basis of complexity. This classification is available at www.careratings.com. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.

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About CARE Ratings:

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