Godawari Power and Ispat Limited

February 05, 2018

Ratings

Facilities	Amount (Rs. crore)	Rating[1]	Rating Action
Long term Bank Facilities	1503.00 (enhanced from 1110.21)	**CARE BB+; Stable (Double B Plus; Outlook: Stable)**	**Revised from CARE D (Single D)**
Short term Bank Facilities	89.34 (reduced from 300.00)	**CARE A4+ (A Four Plus)**	**Revised from CARE D (Single D)**
Total Facilities	**1592.34 (Rs. One Thousand Five Hundred Ninety Two Crore and Thirty Four Lakh only)**		
NCD	54.65 (Reduced from 76.67)	**CARE BB+; Stable (Double B Plus; Outlook: Stable)**	**Revised from CARE D (Single D)**
Total Instruments	**54.65 (Rupees Fifty Four Crore and Sixty Five Lakh only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The revision in the ratings assigned to the bank facilities/instruments of Godawari Power and Ispat Limited (GPIL) takes into account the improved operational and financial performance of the company in 9MFY18, marked by increase in the revenue along with profitability owing to increase in the sales realizations of all the products following continued growth in domestic steel industry. The ratings also take into account the completion of restructuring of its debt facilities.

The ratings however are constrained by relatively high gearing levels with high dependence on working capital related bank borrowings, weak debt coverage indicators, lack of complete backward integration of coal and presence in the inherently cyclical steel industry.

The ratings also continue to derive strength from the track record of the promoters (Hira Group), experience of the management of GPIL in the steel industry, presence of captive source of power and economic benefits arising out of captive iron ore mines through backward integration.

The ability of the company to further improve its revenue growth and profitability led by increase in mining capacity as well as increase in sales realizations are the key rating sensitivities. Improvement in its capital structure along with efficient working capital management will also be critical from the credit perspective.

Detailed description of the key rating drivers

Key Rating Weaknesses

[2]*Complete definition of the ratings assigned are available at www.careratings.com and other CARE publications*

Deterioration in operational performance in FY17, improved substantially in 9M FY18

During FY17, the only operational improvement which took place at GPIL was a substantial increase in the iron ore mining activity from two of the companies owned mines. Iron ore mined by GPIL increased from around 6.75 lakh tonnes in FY16 to around 11.75 lakh tonnes in FY17. During the first 9 months of FY18, GPIL has recorded further improvement in production of iron ore as well as other products with a substantial improvement in the operating rates for pellets and wires. Increase in production volumes along with increase in the sales realizations of all products during 9M FY18 has resulted into robust revenue growth.

Deterioration in financial performance in FY17, improved substantially in 9M FY18

During FY17, net sales remained flat on a Y-o-Y basis primarily on account of decrease in sales realizations (by around 6% for all the products except power & ferro alloys). Volumes of major products like pellets, sponge iron, billets and ferro alloys also recorded an average decline of around 3%. During 9M FY18 however, the industry witnessed significant recovery, with realizations increasing by around 20% in comparison to the average realizations recorded in FY17.

The PBILDT margin though increased from around 9.83% in FY16 to around 11.13% in FY17, the company recorded a net loss of around Rs. 77 crore in FY17 as compared to a net loss of Rs. 48 crore in FY16. However, in 9M FY18, GPIL recorded a PBILDT margins of 18.16% as compared to 8.14% in 9M FY17, recording a PAT of around Rs. 94 crore as compared to a net loss of around Rs. 89 crore in the same period previous year. On a consolidated level, the company posted a net loss of Rs. 74.00 crore in FY17 as compared to a net loss of Rs. 100 crore in FY16.

The overall gearing has deteriorated to 2.66x as on March 31, 2017 (2.41x as on March 31, 2016) on account of both decrease in networth as well as an increase in debt owing to its re-structuring program. As per the restructuring program with a cut-off date as on June 1, 2016, the excess working capital limits were converted into WCTL, Funding of interest component from June 01, 2016 to Feb 28, 2017 was converted into Funded Interest Term Loan (FITL) and repayment period of debt was elongated as the existing debt maturity period was very short. The re-structuring involves a moratorium period for first 9 months, post which the principle repayment of the TL/NCD/WCTL/FITL has started. The company has already repaid the principle repayment due till March 2018.

Inherent cyclical nature of 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.

Industry Outlook

In the financial year 2017-18, steel production is expected to remain higher. This will be backed by an expected revival in consumption. An increase in infrastructure allocation by the government in the Union Budget 2017-18 is expected to drive the pace of construction and infrastructure in the country. Apart from this, the National Steel Policy 2017 released by the government also aims to increase steel production. Thus, both production and consumption of steel are expected to remain buoyant in 2017-18.

Key Rating Strengths

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.

Captive sources of iron ore and power

GPIL has a 42MW of waste heat recovery based, 11 MW of thermal power plant. In addition to this, GPIL has a 20 MW biomass plant which was commissioned in FY11 (refers to the period April 1 to March 31). Thus, GPIL has the total power capacity of 73 MW. The company has sufficient power capacity for meeting internal requirements of the plant, and surplus power, if any, is sold to the state utility. The availability of captive power plants provides GPIL assured and reliable supply of power at economical rates, thereby contributing to the operating efficiency. In addition, the company is also expecting to tie-up another 25 MW of power through its group companies by FY19. The company has a captive power generation capacity of around 73 MW.

During FY17 (period refers from April 1 to March 31), despite having labour issues in one of its mines, the company has increased its iron ore mining output by around 80% to 11.75 lakh tonnes from around 6.75 lakh tonnes in FY16. The company has tied up almost 80% of its coal requirement of around 9 lakh tonnes with Coal India Ltd.

Moving towards complete backward integration

GPIL has two operational captive iron ore mines namely Ari Dongri and Boria Tibu, both located in Chhattisgarh. The combined iron ore mining capacity is 21,00,000 tpa (Ari Dongri:14,00,000 tpa and Boria Tibu:7,00,000 tpa). During FY17, despite having labour issues in one of its mines, the company has increased its iron ore mining output by around 80% to 11.75 lakh tonnes from around 6.75 lakh tonnes in FY16.

GPIL also has coal linkages for about 80% of its coal requirement from SECL while the balance is purchased from open market. However, the company has not been able to garner the complete benefits of its backward integration process and the same is likely to further benefit the company in FY19.

Analytical approach: *Standalone*

Applicable Criteria

Criteria on assigning Outlook to Credit Ratings
CARE's Policy on Default Recognition
CARE's methodology for Short-term Instruments
Rating Methodology-Manufacturing Companies
Financial ratios – Non-Financial Sector

About the Company

Incorporated on September 21, 1999, Godawari Power and Ispat Limited is promoted by the Hira group. GPIL is engaged in manufacturing and selling of sponge iron, steel billets, ferro alloys, pellets 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, with a capacity of 14,00,000 tonnes per annum (tpa) and at BoriaTibu with a capacity of around 7,00,000 tpa.

As on December 31, 2017, GPIL had capacities of 21,00,000 tpa of pellets, 4,95,000 tpa of sponge iron, 4,00,000 tpa of steel billets and 1,00,000 tpa of HB wire. Furthermore, the company also has a captive power plant of 73 MW and a ferro alloy production capacity of around 16,500 tpa.

Brief Financials (Rs. crore)	FY17 (A)	9MFY18 (U/A)
Total operating income	1559	1562
PBILDT	173	284
PAT	-77	94
Overall gearing (times)	2.91	-
Interest coverage (times)	0.98	2.05

A: Audited; U/A: Un-Audited

Status of non-cooperation with previous CRA: NA

Any other information: NA
Rating History for last three years: Please refer Annexure-2

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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Annexure-1: Details of Instruments/Facilities

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Cash Credit	-	-	-	174.92	CARE BB+; Stable
Non-fund-based - ST-BG/LC	-	-	-	89.34	CARE A4+
Term Loan-Long Term	-	-	March 2032	1328.08	CARE BB+; Stable
Debentures-Non Convertible Debentures	-	-	March 2032	35.00	CARE BB+; Stable
Debentures-Non Convertible Debentures	-	-	March 2032	19.65	CARE BB+; Stable

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 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016	Date(s) & Rating(s) assigned in 2014-2015
1.	Fund-based - LT-Cash Credit	LT	174.92	CARE BB+; Stable	-	1)CARE D (22-Jul-16) 2)CARE BBB+ (07-Jul-16)	1)CARE A (10-Jul-15)	1)CARE A (12-Feb-15) 2)CARE A (30-Sep-14)
2.	Non-fund-based - ST-BG/LC	ST	89.34	CARE A4+	-	1)CARE D (22-Jul-16) 2)CARE A3+ (07-Jul-16)	1)CARE A1 (10-Jul-15)	1)CARE A1 (12-Feb-15) 2)CARE A1 (30-Sep-14)
3.	Commercial Paper	ST	-	-	-	1)Withdrawn (25-Jul-16) 2)CARE A3+ (07-Jul-16)	1)CARE A1 (10-Jul-15)	1)CARE A1 (30-Sep-14)
4.	Debentures-Non Convertible Debentures	LT	19.65	CARE BB+; Stable	-	1)CARE D (22-Jul-16) 2)CARE BBB+ (07-Jul-16)	1)CARE A (10-Jul-15)	1)CARE A (30-Sep-14)
5.	Term Loan-Long Term	LT	1328.08	CARE BB+; Stable	-	1)CARE D (22-Jul-16) 2)CARE BBB+ (07-Jul-16)	1)CARE A (10-Jul-15)	1)CARE A (12-Feb-15) 2)CARE A (30-Sep-14)
6.	Debentures-Non Convertible Debentures	LT	35.00	CARE BB+; Stable	-	1)CARE D (22-Jul-16) 2)CARE BBB+ (07-Jul-16)	1)CARE A (10-Jul-15)	1)CARE A (30-Sep-14)

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