Godawari Power and Ispat Limited

September 07, 2018

Ratings

Facilities	Amount (Rs. crore)	Rating[1]	Rating Action
Long term Bank Facilities	1426.36 (reduced from 1503)	**CARE BBB; Stable (Triple B; Outlook: Stable)**	**Revised from CARE BBB-; Stable (Triple B Minus; Outlook:Stable)**
Short term Bank Facilities	89.34	**CARE A3+ (A Three Plus)**	**Revised from CARE A3 (A Three)**
Total Facilities	**1515.70 (Rs. One Thousand Five Hundred Fifteen Crore and Seventy Lakh only)**		
Non Convertible Debentures	52.58 (reduced from 54.65)	**CARE BBB; Stable (Triple B; Outlook: Stable)**	**Revised from CARE BBB-; Stable (Triple B Minus; Outlook:Stable)**
Total Instruments	**52.58 (Rupees Fifty Two Crore and Fifty Eight Lakhs 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) primarily takes into account its improved operational and financial performance in FY18 and Q1FY19 led by improved capacity utilization of its plants as well as increase in realizations across all t he finished products. The ratings also take into consideration the expected increase in the company's revenue as well as profitability margins owing to the higher sales realizations of all its products following continued upsurge in the steel industry.

The ratings 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 ratings however are constrained by relatively high (although improved) gearing levels, moderate debt coverage indicators, lack of complete backward integration of coal and presence in the inherently cyclical steel industry.

The ability of the company to further improve and sustain 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 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 captive power generation capacity of 73 MW. 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 has tied-up another 25 MW of power through its group company, Jagdamba Power and Alloys Limited (JPAL) in August 2018, which will be used to optimize the capacity utilization of the steel billet plant.

GPIL has two operational captive iron ore mines namely Ari Dongri and Boria Tibu, both located in Chhattisgarh, having a combined capacity of 20,00,000 tonnes per annum (tpa). The company has been continuously increasing its mining output. During FY18, the company has increased its iron ore mining output by around 34% to 15.80 lakh tonnes from around 11.75 lakh tonnes in FY17. Captive production of iron ore accounted for ~80% of GPIL's iron-ore requirement in FY18. Moreover, the company also has coal linkages with Coal India Limited to the extent of around 80% of its requirement.

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

Improvement in financial and operational performance in FY18; continued in Q1FY19:
During FY18, net sales increased by 34% on a Y-o-Y basis primarily on account of improvement in sales realizations (by around 20% for all the products). Volumes of major products like pellets, HB wires and ferro alloys also recorded an improvement of around 32%, 16% and 7% respectively. During Q1FY19, the industry continued to witness improvement with realizations increasing by around 20% in comparison to the average realizations recorded in Q1FY18. The PBILDT margin increased from around 11.13% in FY17 to around 20.60% in FY18 on the back of improvement in the operational efficiencies, cost reduction measures taken by the company over last couple of years such as increase in its mining capacity and coal linkages as well as improved realisations across all the finished products. The strong performance is expected to continue in the near term on the back of stable industry outlook.

Key Rating Weaknesses
High overall gearing with moderate debt coverage indicators; albeit improved in FY18: The company has a relatively high overall gearing of 2.14x as on March 31, 2018, although improved from 2.66x as on March 31, 2017. Further, the overall gearing has improved to 1.90x as on June 30, 2018. The company had a high average utilization of non-fund based working capital limits of around 89% during the 12-month period ended July 2018 whereas the average fund based utilization was moderate at 66%. The company has moderate interest coverage as well as total debt to gross cash accruals ratios of 2.38x and 6.95x respectively. However, the company has already paid majority of its term loan obligations due in FY19 and with increase cash accruals, the company plans to pay more debt going forward.

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
During financial year 2017-18, steel production in India grew by 3.1% to 105million tonnes and consumption increased by 7.9% to 90.7 million tonnes. CARE expects the upward momentum in production and consumption to continue in the ongoing financial year 2018-19 as well. The demand for steel from user industries is likely to result in increase in production and is expected to keep the prices firm during 2018-19. The prices had averaged 18%-21% higher during 2017-18.
Post monsoon, CARE expects the prices to pick up and remain firm backed by higher domestic demand during the year. CARE does not expect much pressure from the raw material prices. The domestic prices however could get impacted by the demand-supply situation in China, the world's largest steel producer. As per the World Steel Association's short range outlook, steel demand in China is expected to remain flat in 2018. While the outlook for demand remains static for China, the movement in steel prices here can take a cue from the production cuts that the country undertakes in 2018.
The outlook for Indian iron ore pellets is expected to remain positive in the near-medium term. Exports of Indian iron ore pellets is expected to reach about 10 mn tonnes in FY19, with greater demand from China, seeing its preference shift from Indian iron ore fines to pellets, due to pressures of controlling pollution emissions.

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
Rating methodology – Steel 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 6,00,000 tpa.
As on June 30, 2018, 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 ferro alloy production capacity of around 16,500 tpa and a captive power plant of 73 MW which will increase to 98MW after completion of amalgamation process with JPAL.

Brief Financials (Rs. crore)	FY17 (A)	FY18 (A)
Total operating income	1559	2138
PBILDT	173	440
PAT	-77	182
Overall gearing (times)	2.66	2.14
Interest coverage (times)	0.98	2.38

A: Audited;
Classification as per CARE Standards

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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About CARE Ratings:
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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 BBB-; Positive
Term Loan-Long Term	-	-	March, 2032	1251.44	CARE BBB-; Positive
Non-fund-based - ST-BG/LC	-	-	-	89.34	CARE A3
Debentures-Non Convertible Debentures	-	-	March, 2032	35.00	CARE BBB-; Positive
Debentures-Non Convertible Debentures	-	-	March, 2032	18.94	CARE BBB-; Positive

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 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016
1.	Fund-based - LT-Cash Credit	LT	174.92	CARE BBB; Stable	1)CARE BBB-; Stable (05-Apr-18)	1)CARE BB+; Stable (05-Feb-18)	1)CARE D (22-Jul-16) 2)CARE BBB+ (07-Jul-16)	1)CARE A (10-Jul-15)
2.	Non-fund-based - ST-BG/LC	ST	89.34	CARE A3+	1)CARE A3 (05-Apr-18)	1)CARE A4+ (05-Feb-18)	1)CARE D (22-Jul-16) 2)CARE A3+ (07-Jul-16)	1)CARE A1 (10-Jul-15)
3.	Commercial Paper	ST	-	-	-	-	1)Withdrawn (25-Jul-16) 2)CARE A3+ (07-Jul-16)	1)CARE A1 (10-Jul-15)
4.	Debentures-Non Convertible Debentures	LT	18.94	CARE BBB; Stable	1)CARE BBB-; Stable (05-Apr-18)	1)CARE BB+; Stable (05-Feb-18)	1)CARE D (22-Jul-16) 2)CARE BBB+ (07-Jul-16)	1)CARE A (10-Jul-15)
5.	Term Loan-Long Term	LT	1251.44	CARE BBB; Stable	1)CARE BBB-; Stable (05-Apr-18)	1)CARE BB+; Stable (05-Feb-18)	1)CARE D (22-Jul-16) 2)CARE BBB+ (07-Jul-16)	1)CARE A (10-Jul-15)
6.	Debentures-Non Convertible Debentures	LT	35.00	CARE BBB; Stable	1)CARE BBB-; Stable (05-Apr-18)	1)CARE BB+; Stable (05-Feb-18)	1)CARE D (22-Jul-16) 2)CARE BBB+ (07-Jul-16)	1)CARE A (10-Jul-15)

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