Godawari Power and Ispat Limited

September 21, 2020

Ratings

Facilities	**Amount (Rs. crore)**	**Rating1**	**Rating Action**
Long term Bank Facilities	**1,095.44 (Reduced from 1,327.44)**	**CARE BBB+; Positive (Triple B Plus; Outlook: Positive)**	**Reaffirmed and outlook revised from stable**
Short term Bank Facilities	**134.68 (Enhanced from 89.34)**	**CARE A2 (A Two)**	**Revised from CARE A3+ (A Three Plus)**
Total Facilities	**1,230.12 (Rs. One Thousand Two Hundred Thirty Crore and Twelve Lakhs Only)**		
Non-Convertible Debentures (ISIN INE177H07028)^	--	**--**	**Withdrawn**

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The reaffirmation of the long term rating assigned to the bank facilities of Godawari Power and Ispat Limited (GPIL) primarily takes into account a favorable financial risk profile led by GPIL's ability to remain resilient and generate healthy cash flows during FY20 and Q1FY21, despite disruptions caused by Covid-19, as well as the Group's continued endeavor in making progressive debt repayments out of its surplus operating cash flows.

The revision in the short term rating additionally factors in adequate liquidity marked by moderate utilization of the working capital bank lines, maintenance of sufficient cash & bank balance as well as improvement in its current ratio.

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 form of captive sources and PPA (Power Purchase Agreement) with its associate company.

The ratings, however, continues to remain constrained by lack of complete backward integration of coal and iron ore requirements and presence in the inherently cyclical steel industry.

CARE has withdrawn the outstanding ratings of 'CARE BBB+; Stable [Triple B Plus; Outlook: Stable] assigned to the Non-Convertible Debentures of GPIL with immediate effect, as the said instrument has been redeemed. The above action has been taken at the request of GPIL and 'No Dues Certificate' received from the investor.

Rating Sensitivities

These indicate broad level of operating and/ or financial performance levels that could trigger a rating change, upward or downward.

Positive Factors:

- Sustainable improvement in PBILDT margins to more than 20%
- Sustained Improvement in overall gearing to less than 0.85x and further improvement in Total debt/GCA

Negative Factors:

- Increase in overall gearing above 1.25 time during the projected period
- Any significant increase in working capital requirement or any unforeseen debt funded capex/acquisition

Outlook: Positive

The positive outlook reflects the sharp recovery in demand and prices of steel in the domestic as well as the global markets. Furthermore, lower raw material prices as against improving realizations is likely to result into improving profitability for domestic integrated steel manufacturers including GPIL. The outlook may be revised to stable if the PBILDT margin of the company on a consolidated basis falls below 20%.

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

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 and long-term linkage for key inputs
GPIL has two operational captive iron ore mines namely Ari Dongri and BoriaTibu, 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). Over the years, the company has been increasing its mining output. During FY20, the company was able to generate higher iron ore mining output at 16.58 lakh tonnes. Captive mining of iron ore accounted for around 73% of GPIL's iron-ore requirement in FY20 (FY19: ~70%)
The company has long term linkages of 7.18 lakh tpa with Coal India Ltd. These contracts are valid up to five years. Furthermore, any shortfall in availability of linkage coal is carried forward during the contract period.

GPIL has a total captive power capacity of 73 MW. Additionally, the company has tied-up for another 25 MW of power through PPA with its associate company Jagdamba Power & Alloys Limited (JPAL) in August 2018, which has helped the company enhance its billet production. The merger of JPAL's power unit with GPIL is still under process and yet to be approved. The availability of captive power plants ensures GPIL assured supply of power at economical rates, thereby contributing to the operating efficiency.

Steady operational performance during FY20 and Q1FY21
GPIL registered a 21% decline in PBILDT and 22% in GCA during FY20, as a result of lower realizations across products. Despite plant shut-down in March-April, 2020 for almost a month in the light of lockdowns to contain Covid-19, the group was able to generate GCA of around Rs. 100 crore in Q1FY21 (same as Q1FY20), on the back of increased exports of pellets. Exports constituted to 40% of total pellet sales in FY20, which increased to 95% in Q1FY21 (mainly to Singapore, UAE, Hong Kong and Germany). Higher export of pellets helped the company offset Covid-19 pandemic impact on the domestic segment.
During FY20, GPIL completed expansion of its MS Rods capacity by 2,00,000 MTPA and also set up of iron ore beneficiation plant with capacity of 10,00,000 tonnes per annum. Both the plants commissioned from Feb 2020. The expansion in rolling mill capacity shall enable the company to increase its value added product offering. Beneficiation is a process, which converts lower grade iron ore into higher grade, thereby increasing its market value.

Substantial prepayment leading to improvement in gearing level
Despite lower cash flows in FY20, the group has been actively focusing on debt reduction, out of its surplus cash flows. During FY20, the group repaid Rs. 210 crores as against scheduled repayment of Rs. 103 crore. On a standalone level, it had repaid Rs. 135 crore against Rs. 75 crore scheduled for FY20. From April 2020 to August 2020, the group has already repaid ~Rs. 214 crore as against scheduled repayment of Rs. 71.85 crore for FY21. On a standalone level, it has already repaid Rs. 154 crores by August 2020 against scheduled repayment of Rs. 55 crore for FY21. As a result of substantial prepayment, the overall gearing (consolidated) has improved from 1.58x as on March 31, 2019 to 1.11x on June 30, 2020. It is expected to be below unity by the end of FY21, on the back of profitability and accretion to reserves.

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.

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

India is the second largest crude steel producer in the world. India's crude steel production fell by 1.5% and finished steel production was flat at 109.2 MT in FY20 against 110.9 MT in FY19. Domestic demand for steel was impacted by slowdown in manufacturing activities during the year which was further aggravated by the Covid-19 Pandemic towards the year end. However, as other countries struggled with their manufacturing, China continued to churn out more steel as government stimulus measures revived demand. This created export opportunities for the Indian steel makers, which was well seized by several Indian players including Godawari Group.

As the lockdown measures will continue to relax further in the coming months, steel demand as well as production has been increasing steadily in the domestic market. Despite a seasonally weaker period of the year owing to monsoons, the domestic steel production as well as demand has shown significant improvement on an M-o-M basis. Recovery in demand has also resulted into improvement in realizations across products. Recently Indian steel players have increased the prices by around Rs. 3000/ tonne, which have been absorbed by the market.

Domestic demand has witnessed a 'V' shape recovery in the past 3 months (April-July 2020). Furthermore, normalcy has been getting restored on the supply side as well. CARE expects domestic steel demand to witness steady improvement on the back of opening up of the economy. Demand for steel during the short to medium term period is likely to be supported by automobile and pipes manufacturing sector, improving infrastructure activity (including the railway and metro projects) along with the construction sector (road and bridges construction). However, demand recovery from the real estate sector is likely to take a longer time. Higher exports, improving realizations and lower raw material prices is likely to support the profitability margins of steel players.

Liquidity: Adequate

Liquidity is adequate marked by cash and bank balance of Rs. 38 crore as on June 30, 2020, moderate utilization (less than 60%) of fund based working capital facilities since last 12 months, ending August 2020 and adequate cash flows for repayments till FY32. The cumulative DSCR is 1.99x. Current ratio stood comfortable at 2.00x as on March 31, 2020.

In order to preserve liquidity in uncertain times, GPIL had availed 1st moratorium from March-May 2020 given by its lenders in servicing installments of term loans and deferment of interest on term loans as well as working capital limits in line with RBI circular. However, the company has not sought further extension and has already repaid the deferred amount to its lenders post May 2020.

Analytical approach: Consolidated

CARE is considering a consolidated view taking into account substantial investment of GPIL into the below mentioned entities (which have been considered for consolidation as per IND AS).

Name of Entity	GPIL Stake (%)
Subsidiaries	
Ardent Steel limited	76.34%
Godawari Green Energy Limited	76.12%
Godawari Energy Limited	51.30%
Hira Energy Limited	97.52%
Associates	
Hira Ferro Alloys Limited	48.45%
Jagdamba Power& Alloys Limited	33.96%
Chhattisgarh Ispat Bhumi Limited	35.36%
Joint Venture	
Raipur Infrastructure Company Ltd.	33.33%
Chhattisgarh Captive Coal Mining Ltd.	25.93%

Applicable Criteria

Criteria on assigning 'outlook' and 'credit watch' to Credit Ratings
CARE's Policy on Default Recognition
Criteria for Short Term Instruments
Rating Methodology: Consolidation and Factoring Linkages in Ratings
Rating Methodology – Manufacturing Companies
Rating methodology – Steel Sector
Financial ratios – Non-Financial Sector
Liquidity Analysis of Non-Financial Sector 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, 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 31st March 2020.

As on March 31, 2020, GPIL has capacities of 21,00,000 TPA of pellets, 4,95,000 TPA of sponge iron, 4,00,000 TPA of steel billets, 1,70,000 TPA of HB wire and 4,00,000 TPA of MS Rounds. Furthermore, the company also has a captive power plant of 73 MW, a ferro alloy production capacity of around 16,500 TPA and facility to manufacture 1,10,000 TPA of Pre-fabricated galvanised structures.

On account of cash-flow-mismatch, due to fall in operating margins during FY16 & FY17, the company had defaulted in repayment of its debt obligations during FY17. The company had restructured its debt during FY17. The debt payment was regularized and the lenders had agreed for elongation of tenure of facilities with part conversion of short term debt to long term debt. No haircuts were taken by the lenders. However, thereafter, the company has shown significant improvement in its operational and financial performance. During FY20, GPIL had achieved utilization levels of over 85% for Pellets, Sponge Iron and Billets.

Brief Financials (Rs. crore)	FY19 (A)	FY20 (A)
Total operating income	3,324.80	3,291.77
PBILDT	792.73	627.49
PAT	252.61	211.93
Overall gearing (times)	1.58	1.27
Interest coverage (times)	3.14	2.96

A: Audited

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

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

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	-	-	-	193.80	CARE BBB+; Positive
Non-fund-based - ST-BG/LC	-	-	-	134.68	CARE A2
Term Loan-Long Term	-	-	-	901.64	CARE BBB+; Positive
Debentures-Non Convertible Debentures	-	-	-	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 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018
1.	Fund-based - LT-Cash Credit	LT	193.80	CARE BBB+; Positive	-	1)CARE BBB+; Stable (19-Jul-19)	1)CARE BBB; Stable (07-Sep-18) 2)CARE BBB-; Stable (05-Apr-18)	1)CARE BB+; Stable (05-Feb-18)
2.	Non-fund-based - ST-BG/LC	ST	134.68	CARE A2	-	1)CARE A3+ (19-Jul-19)	1)CARE A3+ (07-Sep-18) 2)CARE A3 (05-Apr-18)	1)CARE A4+ (05-Feb-18)
3.	Debentures-Non Convertible Debentures	LT	-	-	-	1)CARE BBB+; Stable (19-Jul-19)	1)CARE BBB; Stable (07-Sep-18) 2)CARE BBB-; Stable (05-Apr-18)	1)CARE BB+; Stable (05-Feb-18)
4.	Term Loan-Long Term	LT	901.64	CARE BBB+; Positive	-	1)CARE BBB+; Stable (19-Jul-19)	1)CARE BBB; Stable (07-Sep-18) 2)CARE BBB-; Stable (05-Apr-18)	1)CARE BB+; Stable (05-Feb-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)	1)CARE BB+; Stable (05-Feb-18)

Annexure-3: Complexity level of various instruments rated for this company

Sr. No.	Name of the Instrument	Complexity Level
1.	Debentures-Non Convertible Debentures	Simple
2.	Fund-based - LT-Cash Credit	Simple
3.	Non-fund-based - ST-BG/LC	Simple
4.	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. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.*

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