Godawari Power and Ispat Limited
April 06, 2021

Ratings

Facilities	Amount (Rs. crore)	Ratings	Rating Action
Long Term Bank Facilities	635.22 (Reduced from 1,095.44)	CARE A; Stable (Single A; Outlook: Stable)	Revised from CARE BBB+; Positive (Triple B Plus; Outlook: Positive)
Short Term Bank Facilities	122.25 (Reduced from 134.68)	CARE A1 (A One)	Revised from CARE A2 (A Two)
Total Bank Facilities	**757.47 (Rs. Seven Hundred Fifty-Seven Crore and Forty-Seven Lakhs Only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The revision in rating assigned to the bank facilities of Godawari Power and Ispat (GPIL) Limited factors is better than envisaged recovery in the operational and financial performance of GPIL during Q2FY21, Q3FY21 and 9MFY21 (refers to the period April 01 to December 31). 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. Going ahead as well, CARE foresees further deleveraging on the back of expectation of a sustained operational and financial performance of GPIL.

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. The rating also takes cognizance of a stable performance of its subsidiary Godawari Green Energy Limited (GGEL), reflecting no further support from GPIL.

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.

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 25%
- Sustained improvement in overall gearing to less than 0.50x.
- Maintenance of a liquidity buffer of around Rs. 50-100 crore on a sustained basis

Negative Factors:

- Increase in overall gearing above 1.25 times during the projected period.
- Increase in Debt to EBITDA above 2 times during the projected period.
- Any unforeseen debt funded capex/acquisition, with a size of the activity being more than 50% of its tangible net worth.

Detailed description of key rating drivers

GPIL, on a Y-o-Y basis (at the consolidated level), recorded a robust growth in its PBILDT and PAT during 9MFY21. While the PBILDT increased by 56% to Rs. 741.88 crore, the PAT more than doubled to Rs. 327.62 crore during the same period.

Key rating strengths

Improved operational and financial performance during Q2FY21, Q3FY21 and 9MFY21

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 the first nine months of FY21. While the pellets and billets production have both increased by 4%, production of MS rounds and silico manganese increased in excess of 30%. In line with the improvement in production, sales of pellets MS rounds and silico manganese also recorded a robust growth.

Earlier during FY20, GPIL completed expansion of its MS Rods capacity by 2,00,000 MTPA and 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.

Financial performance of GPIL has not just improved owing to increase in sales volumes of the company but also on the back of significant improvement in realizations. During 9M FY21, GPIL recorded 56% improvement in PBILDT to Rs. 742 crores, while

PAT more than doubled to Rs. 328 crores as compared with the same period previous year. CARE expects GPIL's performance is likely to remained sustained in the short to medium term period on account of expectations of sustained realizations at the elevated levels due to better demand supply situation in domestic market as well as elevated steel and raw material prices in the international markets.

Improved financial risk profile
On a consolidated level, GPIL has repaid more than Rs. 700 crores during FY21, which is significantly higher than its scheduled repayment terms. Prepayment of debt has also resulted into no scheduled repayment for GPIL or any of its subsidiaries during the next one year. The management intends to become long term debt free in GPIL on a standalone basis by Q2 FY22. This would result in further improvement in gearing and interest coverage ratio.

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 and 12.24 lakh tonnes in 9MFY21. 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.

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's steel consumption grew by 5.7% in December 2020 when compared with December 2019. This was the third consecutive month when the steel consumption grew y-o-y basis. Consumption of finished steel grew much faster rate as compared to production. While consumption of steel grew by 7% y-o-y basis in December 2020 quarter over a high base of 5.7% growth in December 2019, production of finished steel grew at much slower rate of 0.8% over 1.5% growth in the December 2019 quarter. While steel production by top 6 steel production returned to y-o-y growth in September 2020, secondary steel producers continue to report low output y-o-y basis. Iron ore prices have crossed USD 155 per dmt in December 2020; a level last seen in 2011, amid better Chinese demand and tepid supply due to severe weather conditions and covid induced restrictions in Brazil. Iron ore prices are expected to remain at elevated levels in near term. This is consequent to the world's biggest miner Vale in Brazil lowering its production forecast for a second time in 2020 citing heavy rains and delay in obtaining

regional licenses to start operations. This would widen the deficit in iron ore market and keep prices at elevated levels as demand for steelmaking ingredient remains intact. So far in FY21 steel consumption was driven by higher export demand, rural demand and demand from tractors, two- wheelers and passenger vehicle segment. Going forward, we expect government-fuelled infrastructure spending to drive demand for steel. Work on projects which were stuck due to the pandemic has started to move forward which will generate demand for steel. After a fall in Q1FY21, the domestic steel industry has reported sharp rebound in margins in the September 2020 quarter benefiting from improving demand and realizations on the one hand and softer coking coal costs on the other hand. Margins of steel companies are expected to show further expansion in December to March FY21 quarter.

Liquidity: Strong
Liquidity is strong marked by cash and bank balance of around Rs. 70 crores as on March 2021 according to the management, moderate utilization of 50% of fund based working capital facilities during 12 months ended February 2021 and more than adequate cash accrual for repayments in FY23. There are no scheduled repayments in the next one year for the company on a standalone basis or in any of its subsidiaries. The current ratio is comfortable at 2.00x as on March 31, 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	
Godawari Green Energy Limited	76.12%
Godawari Energy Limited	51.30%
Associates	
Hira Ferro Alloys Limited	48.45%
Jagdamba Power & Alloys Limited	33.96%
Joint Ventures	
Ardent steel	37.85%
Chattisgarh Ispat Bhumi Limited	35.36%

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
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, 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 galvanized 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. Cr)	FY19 (A)	FY20 (A)	9MFY21 (UA)
Total operating income	3,324.80	3,219.77	2,812.29
PBILDT	792.73	627.49	741.88
PAT	252.61	211.93	327.62

Overall gearing (times)	1.58	1.27	-
Interest coverage (times)	3.14	2.96	5.87

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
Term Loan-Long Term	-	-	-	462.22	CARE A; Stable
Fund-based - LT-Cash Credit	-	-	-	173.00	CARE A; Stable
Non-fund-based - ST-BG/LC	-	-	-	122.25	CARE A1

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.	Term Loan-Long Term	LT	462.22	CARE A; Stable	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)	1)CARE BB+; Stable (05-Feb-18)
2.	Fund-based - LT-Cash Credit	LT	173.00	CARE A; Stable	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)	1)CARE BB+; Stable (05-Feb-18)
3.	Non-fund-based - ST-BG/LC	ST	122.25	CARE A1	1)CARE A2 (21-Sep-20)	1)CARE A3+ (19-Jul-19)	1)CARE A3+ (07-Sep-18) 2)CARE A3 (05-Apr-18)	1)CARE A4+ (05-Feb-18)
4.	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)	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.	Term Loan-Long Term	Simple
2.	Fund-based - LT-Cash Credit	Simple
3.	Non-fund-based - ST-BG/LC	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 ww.careratings.com. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications

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