

Godawari Power and Ispat Limited

July 19, 2019

Ratings

Facilities/Instruments*	Amount (Rs. crore)	Rating1	Rating Action
Long term Bank Facilities	1327.44 (reduced from 1426.36)	CARE BBB+; Stable (Triple B Plus; Outlook: Stable)	Revised from CARE BBB; Stable (Triple B; Outlook: Stable)
Short term Bank Facilities	89.34	CARE A3+ (A Three Plus)	Reaffirmed
Total Facilities	1416.78 (Rs. One Thousand Four Hundred Sixteen Crore and Seventy Eight Lakh only)		
Non-Convertible Debentures	18.46	CARE BBB+; Stable (Triple B Plus; Outlook: Stable)	Revised from CARE BBB; Stable (Triple B; Outlook: Stable)
Non-Convertible Debentures [^]	-	-	Withdrawn
Total Instruments	18.46 (Rupees Eighteen Crore and Forty Six Lakhs only)		

*Details of instruments/facilities in Annexure-1

[^]rating is withdrawn based on No Dues certificate from the investors

Detailed Rationale & Key Rating Drivers

The revision in ratings assigned to the bank facilities/instruments of Godawari Power and Ispat Limited (GPIL) primarily takes into account consistent improvement in its operational and financial performance in FY19 led by higher realizations as well as improved capacity utilization of its plants. The ratings also factors in debt rationalization through prepayment of its loans. The ratings continue to derive strength from the experience and long track record of the promoters (Hira Group), in the steel industry, backward linkages in the form of captive iron ore mines, long term linkages for coal supply and power supply through captive source and PPA.

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

The ability of the company to sustain the improvement in its performance led by increase in mining capacity and healthy realizations along with utilization of surplus cash flows towards its debt repayments are the key rating sensitivities.

CARE has withdrawn the outstanding ratings of 'CARE BBB; Stable [Triple B; Outlook: Stable] assigned to the Non-Convertible Debentures of Godawari Power and Ispat Limited with immediate effect. The above action has been taken at the request of Godawari Power and Ispat Limited and 'No Dues Certificate' received from the investors as there is no outstanding amount against the instrument rated by CARE as on date.

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 source 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 20,00,000 tpa (Ari Dongri:14,00,000 tpa and Boria Tibu: 6,00,000 tpa). Over the years, the company has been increasing its mining output. Captive production of iron ore at 15,47,384 MT accounted for ~70% of GPIL's iron-ore requirement in FY19.

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

The company has long term linkages of 7.18 lakh tpa with Coal India Ltd. The company was able to source around 75% of its total coal requirements, through long-term linkage of coal. 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. The availability of captive power plants ensures GPIL assured supply of power at economical rates, thereby contributing to the operating efficiency.

Improvement in financial and operational performance in FY19

On a consolidated basis, the total operating revenues in FY19 increased by 31% led by improved demand for major products especially pellets, HB Wire and steel billets and higher realizations across all products. The utilization level of pellets, sponge iron, HB Wire and MS Rounds was more than 90% in FY19. Pellets have contributed the highest to total sales (38%), followed by HB Wire (21%) and steel billets (16%).

The PBILDT & PAT margins continued to remain high at around 24.00% and 8.00% respectively in FY19 on a consolidated basis. Further, Gross Cash Accruals increased by 56% in FY19 to Rs. 461 crore from Rs. 296 crore in FY18; which prompted the company towards debt rationalization by making prepayment of its debt by Rs. 127 crores on a consolidated basis. Resultantly, overall gearing improved from 2.32 times as on March 31, 2018 to 1.58 times as on March 31, 2019 on a consolidated basis and TDGCA improved from 7.48 times in FY18 to 4.19 times in FY19. The strong performance is expected to continue in the near term on the back of stable industry outlook.

Key Rating Weaknesses

Relatively moderate (although improved) gearing and debt coverage indicators

On a consolidated basis, although improved, the company has a relatively moderate overall gearing at 1.58x as on March 31, 2019, as compared to 2.32x as on March 31, 2018. The interest coverage as well as total debt to gross cash accruals ratios remained at 3.15x and 4.19x respectively. The moderation in gearing and debt coverage indicators is primarily on account of prepayment of loan amounting to Rs. 127 crore during FY19.

The company had average higher utilization of non-fund based working capital limits of around 86% during the past 12-months ended April 2019 whereas the average fund based utilization was around 71%.

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 70% of the total iron ore requirement of the company. Furthermore, GPIL was able to source around 75% of its total coal requirement through long term coal linkages with Coal India Limited during FY19. 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

While the steel industry continues to remain highly cyclical in nature, recent increase in key raw material prices (especially Iron ore @US\$ 126/ tonne) has supported the global benchmark steel prices. While the global demand excl. China and India continues to remain sluggish, the global steel prices though off from their recent highs, are finding support at around US\$ 550 per tonne in the global markets.

For the Indian pellet manufacturers though, higher iron ore prices augur well owing to significant opportunity of tapping the exports markets, especially China.

On the domestic front- the demand for steel is likely to increase by around 5.5 % during the next 3-4 years, largely on account of sustained focus on the infrastructure segment Demand for steel from the railways and consumer durable sector is likely to increase at a higher pace, while demand from the real estate sector will continue to remain bleak.

As far as profitability for the domestic steel players is considered, we see increased pressure on steel manufacturers (both large as well mid-sized players) owing to higher raw material prices as against marginal correction in finished steel prices. Profitability for FY20 is likely to be marginally lower as compared to FY19.

Liquidity: Adequate

The liquidity of the company is adequate marked by generation of healthy cash flows as against its scheduled debt repayments, supported by current ratio of 1.83 times as on March 31, 2019. Average utilization of fund-based facilities during last 12 months was moderate at around 71%; giving the company access to utilize undrawn limits to the extent of around Rs.50 crores in case of unforeseen exigencies. Currently it has an capex requirements of around Rs. 50 crores for increasing its rolling mill capacity and general capex requirements of around 35-50 crores on an annual basis; which are likely to be met through internal accruals.

Analytical approach: Consolidated

Previously, CARE has adopted a standalone approach for arriving at the ratings of Godawari Power and Ispat Limited. However, CARE is now 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	79.98%
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 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 March 31, 2019, GPIL has capacities of 21,00,000 tpa of pellets, 4,95,000 tpa of sponge iron, 4,00,000 tpa of steel billets, 1,00,000 tpa of HB wire and 2,00,000 tpa of MS Rounds. 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)	FY18 (A)	FY19 (A)
Total operating income	2,543.94	3,328.64
PBILDT	608.83	796.56
PAT	214.69	266.33
Overall gearing (times)	2.32	1.58
Interest coverage (times)	2.31	3.15

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	-	-	-	174.92	CARE BBB+; Stable
Non-fund-based - ST-BG/LC	-	-	-	89.34	CARE A3+
Term Loan-Long Term	-	-	-	1152.52	CARE BBB+; Stable
Debentures-Non Convertible Debentures	April 10, 2012	12.00% & 12.90%	March, 2032	0.00	Withdrawn
Debentures-Non Convertible Debentures	September 29, 2011	12.75%	March, 2032	18.46	CARE BBB+; 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 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017
1.	Fund-based - LT-Cash Credit	LT	174.92	CARE BBB+; Stable	-	1)CARE BBB; Stable (07-Sep-18) 2)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)
2.	Non-fund-based - ST-BG/LC	ST	89.34	CARE A3+	-	1)CARE A3+ (07-Sep-18) 2)CARE A3 (05-Apr-18)	1)CARE A4+ (05-Feb-18)	1)CARE D (22-Jul-16) 2)CARE A3+ (07-Jul-16)
3.	Commercial Paper	ST	-	-	-	-	-	1)Withdrawn (25-Jul-16) 2)CARE A3+ (07-Jul-16)
4.	Debentures-Non Convertible Debentures	LT	18.46	CARE BBB+; Stable	-	1)CARE BBB; Stable (07-Sep-18) 2)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)
5.	Term Loan-Long Term	LT	1152.52	CARE BBB+; Stable	-	1)CARE BBB; Stable (07-Sep-18) 2)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)
6.	Debentures-Non Convertible Debentures	LT	-	-	-	1)CARE BBB; Stable (07-Sep-18)	1)CARE BB+; Stable (05-Feb-18)	1)CARE D (22-Jul-16) 2)CARE BBB+

						2)CARE BBB-; Stable (05-Apr-18)		(07-Jul-16)
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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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