

Plant Visit Note

Chhattisgarh Plant Visits

We visited **Godawari Power & Ispat's (GPIL)** steel plant in Raipur and **MSP Steel & Power's (MSP)** steel plant in Raigarh. These are emerging, although smaller companies by size. They are however taking the steps to grow in size and decrease their vulnerability towards firmer raw material prices.

Godawari Power and Ispat (GPIL)

Not Rated

Current Price: INR 154

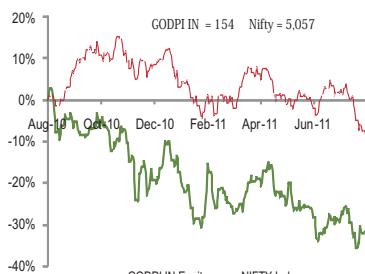
Stock details

Bloomberg Code	GODPI IN
Market cap (INR mn)	4,829
52 week H/L	240 / 141
Avg. 6M Vol.	49,654

Shareholding pattern (%)

Promoter group	63.7
FII	4.3
DII	4.7
Others	27.3

Stock chart



Stock price performance

Return(%)	1 Mth	6 Mths	1Yr
Absolute	(6)	(20)	(34)
Relative	3	(12)	(26)

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Godawari Power and Ispat (GPIL) – Pellet Power

Business model

GPIL produces iron through the DRI (0.5mn tpa) and steel through IF route. It was not able to utilize its rated capacity. Its utilization has been in the range of 60 - 70%. GPIL has one of its iron ore mines at Ari dongri (180kms) which is operational since past 1.5-2 years. It mined over ~0.5mn in FY11 and chunk of that mining was in the second half. Its mining activity did reflect in its better financial performance. Iron ore lumps from its mines are fed directly into the kilns whereas fines are converted into pellets and then fed into the kilns.

During the initial period, the pellet plant operated only at 30-40% levels. One of the reasons for under utilization was due to the 'Filter' (Chinese equipment) which was not performing on the expected lines. They struggled with it for five-six months and then finally replaced it with a German Filter (Larex). Since then the performance of this pellet plant has really picked up.

Income Statement

Year ended 31st March (INR mn)	FY09	FY10	FY11P
Net Sales	10,355	7,764	9,320
Other Income	104	30	57
Total Income	10,459	7,794	9,378
Total Expenditure	9,201	6,538	7,414
EBITDA	1,259	1,256	1,964
Interest	342	320	603
Depreciation	264	316	468
Tax	79	106	180
Reported PAT	574	514	713
Extra-ordinary Items	(63)	0	0
Adjusted Profit After Extra-ordinary item	636	514	713
EPS	20.4	18.3	22.4

Exhibit:1

Source: Capital line

Note: EBITDA includes other income

We were told that it currently operates at as high as 150% of the rated capacity and so things have fallen in place for them and all that has resulted in better financial performance. Now that success has resulted in them deciding to put up another pellet plant and this time its going to be more bigger. They had a 0.6mn tpa and now they want to set up 1.2mn tpa. This is likely to come in over 20 months, zero date being upcoming Janmashtmi. So things do look better going forward, however we really aren't much upbeat about it, as it increases its exposure to pellet sales little too much. Pellet currently is extremely profitable business and looks that going forward such high profitability would not be maintained as lot of supply is coming in.

The expansion also means that the company will further increase in its leverage, wherein it's already leveraging itself with its plans in solar power in Jaisalmer. That power company is likely to be 100% owned by GPIL. The other concern is its exposure to non coking coal, of which negative impact will be seen in the coming quarters.

Triggers are:

1. Commissioning of 2nd iron ore mine at Boria Taibu
2. Contribution from Ardent steel
3. Commissioning of non coking mine over the next 2 years
4. Increase in mining plan for the existing Ari Dongri mine

Amongst the small caps, GPIL is better placed in terms of size, management bandwidth, corporate governance (they have restructured and merged other promoter group companies in GPIL) and mineral linkages. This year profits could increase by 25-30%. The stock trades at PE of 5x (TTM). Soon to initiate.

Quarterly Performance (INR mn)	2QFY11	3QFY11	4QFY11	1QFY12
Net Sales	1,429	2,174	3,288	4,208
Other Income	1	2	4	8
Total Income	1,430	2,176	3,292	4,216
Total Expenditure	1,142	1,661	2,564	3,516
EBITDA	288	515	728	700
Interest	93	144	230	204
Depreciation	103	109	114	125
Tax	21	52	74	74
Reported PAT	71	210	310	297
EPS	2.5	7.5	11.0	9.3

Exhibit: 2

Source: Capital line
Note: EBITDA includes other income

Plant Visit Note

Chhattisgarh Plant Visits

MSP Steel & Power (MSP)

Not Rated

Current Price: **INR 46**

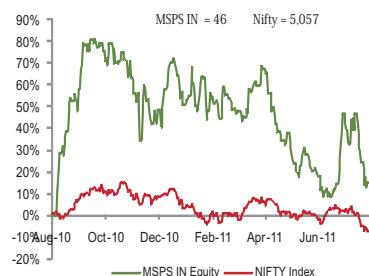
Stock details

Bloomberg Code	MSPS IN
Market cap (INR mn)	2,681
52 week H/L	80 / 39
Avg. 6M Vol.	160,987

Shareholding pattern (%)

Promoter group	71.8
FII	0.5
DII	0.5
Others	27.2

Stock chart



Stock price performance

Return(%)	1 Mth	6 Mths	1Yr
Absolute	(19)	(24)	16
Relative	(10)	(17)	23

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MSP Steel & Power (MSP) - On expansion

Company Background

MSP produces iron through the DRI route and steel through the induction furnace (IF) route. Its DRI capacity is ~0.3mn tpa and steel making is ~0.17mn tpa. It has recently commissioned ~0.15mn DRI plant. It also has Captive power plant (CPP) of 42MW, predominantly generating through the waste heat gas recovery (WHRB) mode.

MSP seems to be a larger group than MSP steel company. The group has many other smaller steel plants in India which include MSP metallics in Jharsuguda (makes pig iron), MSP sponge iron in Keonjhar, MSP rolling mills in Howrah and some other small steel plants in Maharashtra. It also has interests in cement business.

The promoters of the company hold ~72%. Mr. Puran Mal Agarwal is the Chairman (2 decades of experience) however the day to day affairs are handled by Manish and Saket (his sons). In FY11 profits at the EBITDA and PAT level stood at INR 110cr and INR 50cr respectively.

Income Statement

Year ended 31st March (INR mn)	FY09	FY10	FY11
Net Sales	4,048	3,887	4,775
Other Operating Income	89	64	321
Other Income	2	7	39
Total Income	4,139	3,959	5,135
Total Expenditure	3,379	3,247	4,044
EBITDA	760	712	1,090
Interest	194	204	226
Depreciation	74	126	193
PBT	492	382	671
Tax	93	62	169
Reported PAT	399	321	502
EPS	6.9	5.5	8.6

Exhibit: 3

Source: Capital line

Note: EBITDA includes other income

Business model

The business model as of now is open on the raw material side. To reduce its operating costs, it had set up a pellet plant of 0.3mn tpa and now further wants to expand by 0.6mn tpa, taking the aggregate to 0.9mn tpa. Please note that a lot of smaller players have been setting up pellet plants in the name of value addition, thereby increasing its chances of mine allocation. Pellet plant is also comparatively less polluting than a DRI plant and therefore securing environment clearance is little faster. It has a railway siding inside the plant through which chunk of the iron ore and non coking coal is bought in. It hardly uses road as medium for transporting key raw materials.

Quarterly performance (INR mn)	2QFY11	3QFY11	4QFY11	1QFY12
Net Sales	892	1,214	1,604	1,710
Other Operating Income	97	228	(9)	29
Other Income	8	2	28	13
Total Income	997	1,444	1,623	1,752
Total Expenditure	754	1,089	1,339	1,397
EBITDA	243	355	284	355
Interest	58	63	49	133
Depreciation	43	41	67	72
Tax	32	61	53	37
Reported PAT	110	190	116	114
EPS	1.9	3.3	2.0	2.0

Exhibit: 4

Source: Capital line

Note: EBITDA includes other income

The business model is likely to change significantly once the allocated coal and iron ore mines become operational. There are higher chances of coal mine commissioning earlier than iron ore, over the next two years. The company will be incurring a capex of INR ~800cr over the next 2 years which would be funded in Debt:Equity of 2:1. The stock trades at PE of 5x (TTM).

Key to ratings

Ratings	Definition
Outperformer	ESR is greater than EMR + 5%
Market Performer	ESR falls between EMR - 5% and EMR + 5%
Underperformer	ESR is lesser than EMR - 5%

Notes:

ESR = Expected Security Return

EMR = Expected Market Return, defined as 1 year domestic yield + 5% (as a proxy for market risk premium)



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