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Godawari Power And Ispat Ltd.  Annual Report 2005 - 06



corporate philosophy



vision

To seize the opportunities of tomorrow by consistently outperforming and create an enterprising entity.

Core competence in core sector

Growth through total integration

Environment protection by gainful utilization of waste

Total customer satisfaction

Positive attitude & team work





passion

Our passion for excellence has enabled us gain superiority in the core industrial sector of steel & power.

Today Godawari Power & Ispat Ltd. boasts of having total integration of man and machine. An integration that has enabled us to seek out newer opportunities and add value to our offerings. From sponge iron to finished steel in the form of wire rods and wires, from captive power generation facilities to proposed mining, we have indeed come a long way bringing the Godawari Power & Ispat Ltd. touch across the entire value chain. Yes, today we have the envious distinction of having gained superiority in the core industrial sector of steel & power. At Godawari Power & Ispat Ltd. we are passionate about what we do and with renewed focus, we are ready to take on the fast evolving world.

vision + passion leading to results

When your vision is backed by a passionate drive to excel and delight, it naturally shows...in black and white.

The compounded growth rate of over 65% and 100% p.a. of our sales turnover and net profit respectively during the last five years clearly validates this.

Besides, we have achieved total integration in our operations encompassing the entire Value Chain from Iron Ore and Coal Mining to Manufacturing Finished Steel Wires through Sponge Iron and captive Power Generation routes. Yes, we are proud to state that we have indeed taken a giant leap ahead, leaving numerous milestones in our path.

leading to results

When you are passionate about your vision...it shows



achievements

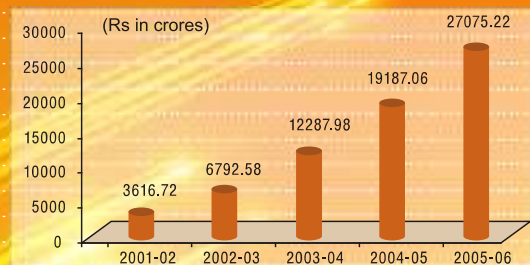
Making a difference to the shareholder value

Achievements during the year 2005-2006

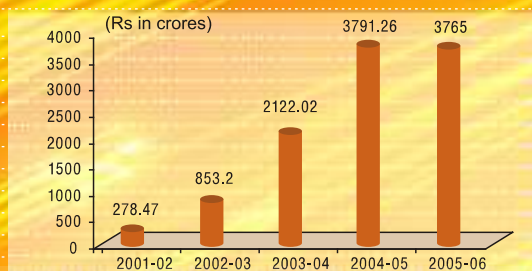
- ❖ Gross Sales Turnover increased by 41% during the year 2005-06.
- ❖ 1st Phase of Expansion project successfully completed in Jan 2006 and commenced commercial production.
- ❖ Obtained financial closure for Phase II expansion Project with a Capital outlay of Rs.173 crore.
- ❖ Allotment of Mining Lease for Iron Ore by Ministry of Mines, Government of India.
- ❖ Allotment of Coal Block with Reserve 88 million tons by Ministry of Coal, Government of India.
- ❖ Obtained Registration of 7 MW Waste Heat Recovery (WRH) power plant by CDM Executive Board in April, 2006. First such Project Registered by CDM Executive Board for Carbon Credits across the world.
- ❖ Initial Public Offer of Equity Shares opened for subscription on 28th March, 2006.

Financial Highlights

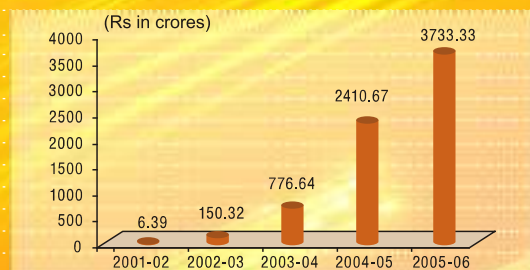
Sales Turnover



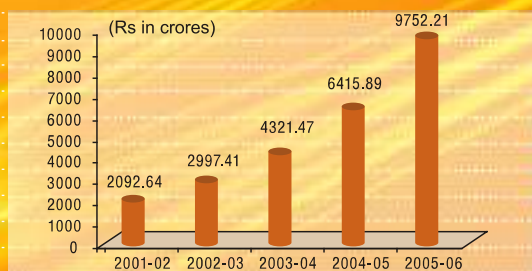
EBIDTA



Profit After Tax



Net Worth



COMPANY INFORMATION

BOARD OF DIRECTORS

Mr. O.P. Agrawal - *Chairman - Non Executive*
(w.e.f. 20.06.2006)

Mr. B. L. Agrawal - *Managing Director*

Mr. Dinesh Agrawal - *Executive Director*

Mr. B. P. Singh - *Director Administration*

Mr. Dinesh Gandhi - *Director - Finance*

Mr. N. P. Agrawal - *Director*
(w.e.f. 20.06.2006)

Mr. Divesh Nath - *Independent Director*

Mr. Umesh Agrawal - *Independent Director*
(up to 20.06.2006)

Mr. Kapil Agrawal - *Independent Director*

Mr. Neeraj Gupta - *Independent Director*
(up to 20.06.2006)

Mr. G. B. Desai - *Independent Director*
(w.e.f. 20.06.2006)

MANAGEMENT TEAM

Mr. B. L. Agrawal - *Managing Director*

Mr. Dinesh Agrawal - *Executive Director*

Mr. B. P. Singh - *Director - Administration*

Mr. Dinesh Gandhi - *Director - Finance*

Mr. Siddharth Agrawal - *Chief Executive Officer*

Mr. N. Patra - *(Sponge Iron Division)*

Mr. R. S. Thakur - *President (Raw Material)*

Mr. S. S. Thakur - *President (Geology & Mining)*

Mr. A. K. Pandey - *Vice President (Steel Division)*

Mr. J. P. Tiwari - *Vice President (Power Division)*

Mr. S. K. Bothra - *Vice President (Finance)*

Mr. D. K. Marathe - *Vice President (Co-ordination)*

Mr. M. K. Gupta - *General Manager (Marketing)*

Mr. P. K. Panda - *General Manager (Ferro Alloys Division)*

COMPANY SECRETARY & COMPLIANCE OFFICER

Mr. Y. C. Rao

AUDITORS

M/s. O. P. Singhanian & Co.
Chartered Accountants
Raipur - Chhattisgarh

BANKERS

Canara Bank UTI Bank
State Bank of India Bank of Baroda
ICICI Bank Ltd.

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OFFICES

REGISTERED OFFICE

Plot No. 428/2, Phase I, Industrial Area,
Siltara - 493 111, Dist. Raipur, Chhattisgarh, India
Tel: +91 - 07721 - 264342 / 406130
Fax: +91 - 07721 - 264341 / 403701

CORPORATE OFFICE

First Floor, Hira Arcade, Near New Bus Stand,
Pandri, Raipur - 492 001, Chhattisgarh, India
Tel.: +91 - 771 - 405 7600
Fax.: +91 - 771 - 405 7601

MUMBAI OFFICE

Unit No. 606, Town Centre, 6th Floor, Andheri Kurla Road,
Andheri Saki Naka, Near Mittal Estate, MUMBAI - 400 059, India.
Tel: +91 - 22 - 28592621 / 28592622, 28592623
Fax: +91 - 22 - 28592851

**DIRECTORS' REPORT**

Dear Shareholders,

GODAWARI POWER AND ISPAT LIMITED
Raipur - Chhattisgarh

Your Directors have pleasure in presenting the Seventh Annual Report of the Company together with the Audited Statement of Accounts and the Auditors' Report of your Company for the year ended 31st March, 2006. The summarized financial result for the year ended 31st March 2006 as compared to the earlier year is as under:

FINANCIAL RESULTS:

(Rs. in lakhs)

Particulars	Year ended 31.03.2006	Year ended 31.03.2005
Sales	27075.22	19134.58
Other Income	85.20	52.49
Total Income from Operations	27160.42	19187.07
Profit before Interest, Depreciation and Tax	3685.85	3791.27
Finance Charges	594.94	287.63
Depreciation for the year	608.31	884.33
Profit Before Tax & Extra ordinary items	2482.60	2619.31
Add: Excess provision for depreciation for earlier years written back.	1483.24	0.00
Provision for Income Tax, Fringe Benefit Tax and income tax of earlier year	232.51	208.63
Net Profit after Tax	3733.33	2410.68
Add: Balance Brought forward from Previous Year	2303.62	933.37
Profit available for appropriations	6036.95	3344.04
Appropriations:		
Transfer to General Reserve	1500.00	1000.00
Provision for Dividend	248.44	35.75
Corporate Tax on Dividend	34.84	4.67
Less: Adjustment of Miscellaneous Expenditure	13.72	0.00
Balance carried to Balance Sheet	4239.94	2303.62

DIVIDEND

In view of satisfactory performance of the Company for the year 2005-06 and keeping in view the funds requirements for pursuing future growth plans of the Company, your directors are pleased to recommend payment of a dividend @ Re. 1/- per equity share for the year ended 31st March, 2006 on the enhanced paid up equity share capital of Rs. 2484.40 lakhs after the recently concluded initial public offering of the equity shares. The equity allotted during the current year rank pari passu with existing shareholders of the Company and, therefore, they are also entitled for dividend for the financial year ended 31st March, 2006. The total cash outflow on account of dividend payment (including dividend tax) shall be Rs. 283.28 lakhs. Your directors recommend the shareholders for their approval for the payment of dividend @ Re. 1/- per equity share.

REVIEW OF OPERATIONS

Your directors are glad to inform you that your Company's overall performance has been satisfactory during the year under review, despite continuous fall in the selling prices of finished products and increase in input costs. During the year, your Company has recorded a gross turnover of Rs. 27075 lakhs as compared to turnover of Rs. 19135 lakhs during the previous year, registering a growth of 41%. The net profit for year before extraordinary items was lower at Rs. 2250.09 lakhs as against net profit of Rs. 2411 lakhs during the previous year due to fall in selling prices of finished goods. The Company has during the year changed the method of accounting depreciation from WDV to SLM as per provisions of schedule XIV of the Companies Act, 1956 to fall in line with generally accepted accounting practice for providing the depreciation. As a result of the change, the excess depreciation of Rs. 1483.24 lakhs for earlier years have been written back and consequently the amount of net fixed assets and balance in Profit and Loss Account has gone up by Rs. 1483.24 lakhs and the provision for depreciation for the current year was also lower by Rs 276.02 lakhs. The detailed performance and financial review has been given in the Annexure

to the Directors Report for "Management discussions and Analysis". Your directors are confident of achieving superior performance during the current financial year.

INITIAL PUBLIC OFFER

Your Company's initial public offer of 86,95,000 equity shares of Rs.10 each issued at a premium of Rs. 71 per share has received an overwhelming support from the investors. The allotment of equity shares have been completed in April, 2006 and the shares of the Company are now listed on NSE and BSE. Consequently the paid up equity share capital of the Company has increased to Rs. 2484.40 lakhs and the total number of shareholders being more than 24,000 as on the date of allotment of the shares. Your directors place on record their deep sense of appreciation for the confidence reposed by the investors in your Company and its management. The Board of Directors of your Company "Welcomes" all new shareholders as the family members of the Company and are confident of receiving their continued support in future growth of the Company.

EXPANSION/NEW PROJECTS:

The 1st phase of expansion in the production capacity of Sponge Iron by 130000 MTs per annum, Mild Steel billets by 100000 MTs and captive power plant by 10 MW by using waste heat recovery from Sponge Iron Division and new facilities for manufacture of 16500 MT of ferro alloys and 60000 MT of HB wires per annum has been completed during the year under review and commenced the commercial production from January, 2006, except wire drawing division which commenced commercial production in phased manner from May, 2005 onwards. The impact on operations from the enhanced capacity would be fully felt from the current financial year. Due to increase in production capacities, the production and sales volumes are expected to take quantum jump during the current financial year.

The 2nd phase of expansion for setting up another integrated steel plant near the existing plant of the Company with an annual installed capacity of 260000 MT of Sponge Iron, 150000 MT of Steel billets and 25 MW captive Power plant by using waste heat gases from Sponge Iron has started implementation and the same is expected to be operational by April, 2007. The fund raised from the recently concluded IPO shall be deployed for implementation of the 2nd phase of expansion project. After proposed expansion is completed the manufacturing capacities of various divisions shall be as under:

Item	Qty	Existing up-to 31-03-2005	Expansion 1st Phase Completed during 2005-06	Expansion 2nd phase expected to be completed by March, 2007	Total Capacity after expansion projects is completed.
Sponge Iron	MTPA	105000	130000	260000	495000
Steel Billets	MTPA	150000	100000	150000	400000
Power Generation	MW	18	10	25	53
Ferro Alloys	MTPA	NIL	16500	NIL	16500
HB Wires	MTPA	NIL	60000	60000	120000
Oxygen	Cu Mtrs	NIL	1095000	NIL	1095000

STATUS OF COAL MINES

During the year under review your Company has been allotted Coal Blocks of Nakia I & II, Madanpur (North) and Madanpur (South) by the Ministry of Coal in consortium with four other companies. Out of the total reserves of 243 million tons of these coal blocks, the share of your Company is 88 Million tons. The modalities for the development and operations of the said coal blocks are being finalised in consultation with the Ministry of Coal, Government of India. The development of coal blocks for mining operation and thereafter mining of coal from the captive blocks shall require about 2 years. The availability of coal from captive mines is expected from financial year 2008-09 only. Till then the Company would continue to source the coal requirement from coal linkages with South Eastern Coal Fields Ltd.

STATUS OF IRON ORE MINES:

Your Company was earlier awarded prospecting license for about 200 hectares area of iron ore mines at Boria Tibu in Chhattisgarh. The Mining Lease in respect of the same has been approved during the year for 110 hectares by Ministry of Mines, Government of India. Similarly, your company has also been granted mining lease for an area of 106.60 hectares at Ari Dongri, in Chhattisgarh and your Company has applied for Forest and Environmental Clearances from Ministry of Environment and Forest. The iron ore mining operations are expected to commence during the last quarter of the current financial year from these mines.

CDM POWER PROJECTS AND CARBON CREDITS:

The waste heat recovery power generation plants of the Company qualify as CDM project under Kyoto Protocol within the guidelines of the United Nations Framework Convention on Climate Change (UNFCCC). The Company has already set up two



WHRB power plants and work on the third project is going on. The first WHRB 7 MW CDM project of your Company has been validated and registered by CDM Executive Board for availing carbon credit. Verification of Certified Emission Reductions (CERs) due for the period from September, 2002 to December, 2005 has been done by the designated agency and the agency is expected to submit its report to CDM Executive Board within a month's time. The final certification of CERs shall be issued thereafter by the Board. The other two projects are under various stages of registration process.

SUBSIDIARY/ASSOCIATE/JOINT VENTURE COMPANIES:

RR Ispat Limited: Subsidiary Company

As part of forward integration process, your Company has acquired a stake of 51.47% in equity share capital of R. R. Ispat Ltd, a Company engaged in the rolling of billets manufactured by your Company into wire rods and further conversion of wire rods into wires. The operation of the Company during the financial year 2005-06 has been satisfactory. The Company has achieved a sales turnover of Rs. 13638 lakhs and net profit of Rs. 185 lakhs during the year under review.

The Board of Directors of the subsidiary Company has decided to enhance the wire rod rolling capacity by 3,00,000 MTs per annum by setting up a most modern wire rod mill being imported from Sweden & Italy. The wire rod mill is proposed to be installed near the existing plant location and cost of the project is estimated to be Rs 75 crore, which would be financed by debt and internal accruals and additional equity contribution from your Company. The new wire rod mill shall be operational within next 18 months. As required under the provisions of Accounting Standard (AS) 21, the financial statements of Accounts of the Company have been consolidated in the Consolidated Statements of Accounts presented with this report.

Hira Steels Limited: Associate Company

As a part of forward integration process, your Company has also made an investment of Rs. 224 lakhs (23.30%) in equity share capital of Hira Steels Limited, an Associate Company engaged in rolling of steel billets into wire rods and further conversion of wire rods into wires. Your Company is selling major production of steel billets to this Company. The performance of the Company has been satisfactory and the Company has achieved sales turnover of Rs.15095 lakhs with a net profit of Rs. 30 lakhs. In compliance with provision of Accounting Standard (AS) 23, the Financial Statements of Accounts of the Company have been consolidated in the Consolidated Statements of Accounts of your Company presented with this report.

JV Companies:

Your Company has made investments in two other special purpose joint venture Companies, namely, Chhattisgarh Captive Coal Mining Ltd and Raipur Infrastructure Company Pvt. Ltd. for development of Coal mines and setting up railway siding for captive use respectively. These Companies are yet to start commercial operations. As required under the provision of Accounting Standard (AS) 23, the Financial Statements of Accounts of the Company have been consolidated in the Consolidated Statements of Accounts of your Company presented with this report.

DEPOSITS

Your Company has not accepted any deposits from Public within the meaning of section 58A of the Companies Act, 1956.

FOREIGN EXCHANGE EARNINGS AND OUTGO

The Company has imported Steam Turbine, Generator Sets and non-coking Coal during the year; the aggregate CIF value of imports was Rs. 1863.76 lakhs. The Company has also incurred other expenditures of Rs. 5.39 lakhs in foreign currency towards travelling etc. There was no earnings in foreign currency during the year under review.

PARTICULARS OF EMPLOYEES

None of the employees of the Company was in receipt of remuneration in excess of limits prescribed under Section 217(2A) of the Companies Act, 1956. Hence, the particulars as required under the Companies (Particulars of Employees) Rules, 1975 are not required to be given.

DIRECTORS

In accordance with the provisions of the Companies Act, 1956 and the Company's Articles of Association, Shri B.P. Singh and Shri Divesh Nath, Directors of the Company retire by rotation at the ensuing Annual General Meeting and being eligible offer themselves for reappointment.