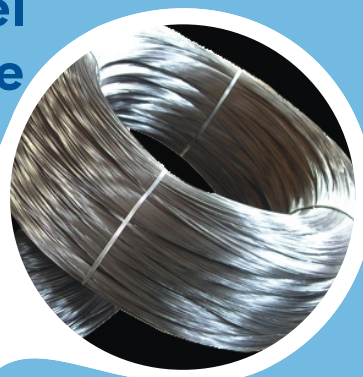


**Steel
Wire**



**Captive
Power**



**Steel
Billet**



**Sponge
Iron**



**Coal &
Iron Ore**

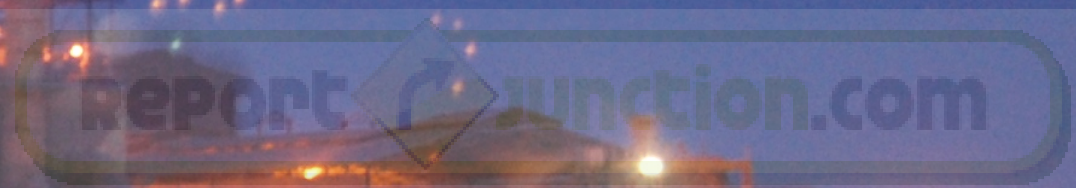


GODAWARI POWER AND ISPAT LTD

**ANNUAL REPORT
2007**

CONTENTS

About Us **1** | Milestones **2** | Company Information **3** | From the MD's Desk **4** | Our Business at a Glance **6** | Creating Value-Our Business Strategy **9** | Addressing Risks **13** | Performance Highlights **14** | Numbers Speak **16** | Strength Beyond the Numbers **17** | Our People, Our Strength **18** | Creating Shareholders Wealth **20** | Directors' Report **21** | Annexure to Director's Report **25** | Management Discussion and Analysis **27** | Corporate Governance Report **33** | Certification by CEO & CFO **38** | Auditors' Certificate **38** | Auditors' Report **39** | Balance Sheet **42** | Profit and Loss Account **43** | Cash Flow Statement **44** | Schedules forming part of the accounts **46** | Statement Pursuant to Section 212 **62** | Consolidated Auditors' Report **63** | Consolidated Balance Sheet **64** | Consolidated Profit and Loss Account **65** | Consolidated Cash Flow Statement **66** | Consolidated Schedules forming part of Accounts **67**



ABOUT US

Godawari Power and Ispat Ltd (GPIL) is a flagship Company of the Raipur-based Hira Group of Industries, which has a dominant presence in the long products segment of the Steel industry. The group has interests in various segments of the core sector (steel) of the economy, viz. ferro alloys; sponge iron, steel billets, wire rods, steel wires, power generation, coal beneficiation and mining (iron ore and coal).

The company (GPIL) has come a long way since it started out in Raipur, Chattisgarh as a sponge iron manufacturer in the year 2001. Over the last five years, the company has scaled up its capacity five fold and is today the third largest producer of sponge iron in India and is one of the largest players in the mild steel wires segment. Not only has the company increased its scale during the aforesaid period, it has also moved up the value chain.

Today, GPIL is an end-to-end manufacturer of mild steel wires. In the process, the company manufactures sponge iron, billets, ferro alloys, power, wires rods (through subsidiary company) and steel wires. GPIL was recently awarded rights to mine iron ore and coal for captive consumption, as a result of which the company has managed to traverse the entire value chain (raw material to final product) in steel wires and is now a fully integrated manufacturer.

Our Journey so far...

- 2007** The second phase of expansion project culminates, catapulting GPIL into the big league of sponge iron and steel wire manufacturers. GPIL acquires the remaining 48.5% stake in R. R. Ispat thereby making it a 100% subsidiary.
- 2006** The first phase of GPIL's expansion plan gets completed. The second phase of the expansion plan is taken up by GPIL. This phase entails expansion of sponge iron capacity (by 260,000 tonnes), steel billets (150,000 tonnes) and captive power generating capacity (by 25 MW). The allotment of captive coal mines was received from Ministry of Coal, Govt of India.
- GPIL successfully completed its initial public offering and its shares got listed on the BSE and the NSE on 25th April 2006.
- GPIL's first WRBH captive power plant (capacity - 7 MW) also became the first one in the world to be registered with CDM Executive Board for entitlement of carbon credits under the Kyoto Protocol.
- 2005** The name of the Company was changed to Godawari Power & Ispat Ltd. The company acquired a 51.5% stake in RR Ispat (manufacturer of wires), thereby making its presence across the value chain. During the year, GPIL was also allotted captive iron ore mines in Chattisgarh and was short listed in a consortium for allotment of coal mines in Chattisgarh.
- 2004** GPIL undertook the first phase of its expansion plan for sponge iron (130,000 tonnes), steel billets (100,000 tonnes) and captive power generation (10 MW). This also included setting up new facilities to manufacture ferro alloys (16,500 tonnes) and HB Wire (60,000 tonnes), the first big step towards moving up the value chain.
- 2003** The initial project to manufacture sponge iron (capacity – 105,000 tonnes), billets (100,000 tonnes) and generate captive power (18MW) becomes fully operational. During the same year, the company also received a prospecting license to mine iron ore in Chattisgarh.
- 2001** Commercial operations begin at the company's Sponge Iron plant with an annual capacity of 105,000 tonnes.
- 1999** Incorporation of the company as Ispat Godawari Ltd with an objective to set-up facilities to manufacture sponge iron, billets, and generate captive power.

Company Information

BOARD OF DIRECTORS

Mr. O.P. Agrawal	Chairman
Mr. B.L. Agrawal	Managing Director
Mr. N.P. Agrawal	Non Executive Director
Mr. Dinesh Agrawal	Executive Director
Mr. Dinesh Gandhi	Director – Finance
Mr. B.P. Singh	Director Administration
Mr. Divesh Nath	Independent Director
Mr. Kapil Agrawal	Independent Director
Mr. G. B. Desai	Independent Director

COMPANY SECRETARY

Mr. Y.C. Rao	Compliance Officer
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AUDITORS

M/s. O.P. Singhania & Co.
Chartered Accountants, Raipur

BANKERS

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

REGISTERED OFFICE

Plot No.428/2, Phase I, Industrial Area,
Siltara – 493 111, Dist. Raipur,
Chhattisgarh, India
Tel: +91 – 07721 – 406130/31 Fax: 264341/403701

CORPORATE OFFICE

First Floor, Hira Arcade, Near New Bus Stand,
Pandri, Raipur – 492 001, Chhattisgarh, India
Tel.: +91 – 771 – 4282700 Fax: 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 / 22 / 23
Fax: +91 – 22 - 28592851

From the MD's Desk



Fellow Shareowners,

Even as I pen this note, my very first to you, since our initial public issue in April 2006, profound thoughts cross my mind as it races back to 1999-00 and remind me of the classic saying, 'Fortune favours the brave'. That was indeed a difficult period when the steel industry was in a slump and our decision to set up facilities and embark on an ambitious program to manufacture steel billets was met with all round skepticism and rejection.

Steadfast in our resolve and confident that we would be proven right over time, we moved ahead with our project and set up manufacturing facilities, even as most banks turned their backs on us and refused to provide financial support. However, time, the ultimate judge, has now proven that our brave decision then, was the right one.

And today, when I present to you a brief review of our performance in FY2006-07, I am reminded of a quote by the late American President, Ronald Reagan, who presided over the successful culmination of the Cold War with the Soviet Bloc – "There are no such things as limits to growth, because there are no limits to the human capacity for intelligence, imagination and wonder".

Truly, if driven by a passion to excel, there can be no such things as limits to growth. A spotlight scan of our performance over the last six years is ample evidence of the same. Our sales between 2001 and 2007 have increased at an impressive average rate of 55 per cent per annum. Now, to sustain such a rate for over half a decade is an achievement in itself, the credit for which should really go to each and every member of GPIL' family which includes the management, officers, workers, customers, bankers, government authorities, vendors and now, public shareholders too.

Fiscal 2007 has indeed been a special one for us for three reasons. Firstly, on account of a healthy response to our public offer (the issue was oversubscribed 2.03 times) and a successful listing on the premier stock exchanges – the NSE and the BSE. Secondly, on account of the timely completion of the expansion projects announced at the time of our IPO and thirdly, ending yet another financial year with a robust performance, both in terms of growth in business and higher profitability.

Gross sales grew by 88.3 per cent to Rs.50,995 lac in fiscal 2007, complemented well by an equally robust profit performance. Profits at the operational level shot up by 121 per cent to Rs.8,158 lac and at the net level they went up by 132 per cent to Rs.5,221 lac.

The sharp upward spike in sales and profits can be attributed largely to higher volumes (thanks to additional capacities that were commissioned during the year) and a healthy improvement in realizations, which on an average, went up by around 10 per cent.

With the undercurrent in the economy remaining positive as evidenced by a 9.4 per cent growth in the country's Gross Domestic Product during Fiscal 2007, demand for steel and steel products remains quite healthy. Increased focus on infrastructure development and buoyant consumer demand are expected to keep the Indian economic growth engine in the fast track mode. The strong demand for basic infrastructure items like steel and cement is therefore expected to continue in the foreseeable future.

Notwithstanding the strong growth in demand for commodities like steel, there are real concerns over rising input costs (due to a large scale demand-supply gap in the international coal and iron ore market) and increased competition (owing to increased supply in the global market from the Chinese).

While the concerns are real, we believe companies with captive access to raw materials and a focus on value added products (especially long products) will be the ones that can successfully ride through the business cycles. Our strategy has been to fully integrate the company from mining of iron ore and coal to manufacturing finished wire, to ensure better margins.

The company has fulfilled almost all the formalities to start the mining operations for iron ore, production of which is expected to begin from the last quarter of the current financial year. Development of coal mines is progressing as per schedule and we expect to start our coal mining operations by 2009-10.

Further, we continue to invest significantly in our downstream business with a clear strategy of moving further into high value-added steel products (i.e. from sponge iron and billets to steel wires of various varieties such as carbon steel and power transmission wires, etc.). Not only will this strategy generate higher revenues and margins for us, but will also reduce some of the cyclicity that is inherent in the steel business.

Going forward, I am quite confident that our strategy to backward integrate and to move up the value chain will not only hold us in good stead but will also be one that adds significant value to our shareholder's wealth.

I sign off here, once again extending our gratitude to our personnel, customers, bankers, vendors, and above all, our shareholders for reposing their faith in us. We shall strive hard to live up to and exceed the expectations in times to come.

B.L.Agrawal
Managing Director

Our Business at a Glance

Segment	Capacity	Description and End Use
Sponge Iron	495,000 TPA	<p>Sponge Iron is primarily used for manufacture of steel as a raw material and as a substitute for steel scrap.</p> <p>Surplus sponge iron, after captive use in steel billets production, is sold in the open market. Currently our billets capacity is inadequate to consume all of sponge iron.</p> <p>In fiscal 2007, this division contributed around 9% (Rs.4,674 lacs) to GPIL's topline.</p> <p>GPIL is the 3rd largest producer of coal-based sponge iron in the country. (Source – SIMA)</p>
Steel Billets	400,000 TPA	<p>Steel billets are primarily used for manufacturing of wire rods (from which steel wires are made), TMT bars, angles, channels, beams, etc.</p> <p>A major portion of GPIL's steel billets production is sold to its subsidiary and associate companies like R.R. Ispat and Hira Steel for conversion into wire rods.</p> <p>Currently, the biggest contributor in topline. Its share in total sales for the year FY07 was 53 % (Rs.27,140 lacs).</p> <p>After the recent expanded capacity (to 400,000 tonnes), surplus billets (after accounting for captive & subsidiary/associate supplies) will be sold in the open market.</p>
Steel Wires	120,000 TPA	<p>Steel wires find application in the infrastructure sector, mainly in construction, railways, power transmission, etc.</p> <p>GPIL makes mild steel wires through cold drawing process using steel wire rod, purchased from subsidiary company as a raw material.</p> <p>This division contributed around 27.4% (Rs.14,018 lac) to GPIL's topline in FY07.</p> <p>GPIL alongwith its subsidiary and associate companies is among the largest producers of mild steel wires in the country.</p>

Our Business at a Glance

Segment	Capacity	Description and End Use
Ferro Alloys	16,500 TPA	<p>Ferro alloys such as silico manganese, ferro manganese, etc. are used as additives in making steel along with sponge iron, scrap, etc</p> <p>Surplus production in ferro alloys is sold in the open market. Given the ongoing expansions, demand for ferro alloys remains healthy.</p> <p>This division contributed 5.8% (Rs.2,944 lac) to GPIL's topline in FY07.</p>
Power Generation	53 MW	<p>Electricity is one of the main inputs and one of the major cost components in the steel manufacturing process.</p> <p>Most of the electricity generated by GPIL is consumed captively. However, surplus power is sold to subsidiary / associate companies.</p> <p>For FY07, this segment contributed 0.4% to GPIL's topline.</p> <p>GPIL generates power through waste heat gases from sponge iron kiln, which qualifies for carbon credit under Kyoto protocol.</p>
Oxygen Gas	1.1 million CUM Per Annum	<p>Oxygen gas is one of the important inputs required during the steel manufacturing process.</p> <p>Most of oxygen produced from our gas plant is used captively while the surplus is sold.</p>

Note: A large part of GPIL's capacities were commissioned recently, viz. sponge iron (by 260,000 tonnes), billets (150,000 tonnes), wires (60,000 tonnes) and captive power (25 MW), which have gone into production during current financial year, i.e. FY08.

As of 31-Mar-07, the six divisions mentioned above accounted for close to 98 per cent of GPIL's business. The remaining two percent is divided between sale of by-products (such as iron ore fines, char/dolochar, etc) and sale of carbon credits (Rs. 525 lac).

Our Business at a Glance

GPIL's business model includes manufacturing of sponge iron from iron ore and coal, electric power generation through waste hot flu gases from sponge iron plant, steel billets by using captive power and sponge iron, and then rolling of steel billets into wire rods through subsidiary Company and wire drawing from the wire rods.

GPIL, therefore, has a fully integrated value chain to manufacture mild steel wires from iron ore & coal, resulting into substantial value addition.

The value chain of the business operations of the Company is shown in flowchart given below:

An overview of our Business Model -

