ANNUAL REPORT 2007-2008

Godawari Power & Ispat Ltd

VISION

TO SEIZE THE OPPORTUNITIES OF TOMMORROW BY CONSISTENTLY OUTPERFORMING AND CREATE AN ENTERPRISING ENTITY.

COMPANY INFORMATION

BOARD OF DIRECTORS

Mr. G. B. Desai	*Chairman, Independent Director*
Mr. O.P. Agrawal	*Vice Chairman Non Executive Director*
Mr. B.L. Agrawal	*Managing Director*
Mr. Dinesh Agrawal	*Executive Director*
Mr. Siddharth Agrawal	*Executive Director (w.e.f. 14-06-2008)*
Mr. Dinesh Gandhi	*Executive Director – Finance*
Mr. B.P. Singh	*Director - Administration*
Mr. N.P. Agrawal	*Non Executive Director*
Mr. Shashi Kumar	*Independent Director (w.e.f. 25.09.2007)*
Mr. B. Choudhuri	*Independent Director (w.e.f. 25.09.2007)*
Mr. B. N. Ojha	*Independent Director (w.e.f. 14-06-2008)*

COMPANY SECRETARY

Mr. Y.C. Rao

Compliance Officer

AUDITORS

M/s. O.P. Singhania & Co.

Chartered Accountants, Raipur

BANKERS

Canara Bank

State Bank of India

Axis Bank Ltd.

Bank of Baroda

ICICI Bank Ltd.

REGISTERED OFFICE

Plot No.428/2, Phase I, Industrial Area,
Siltara – 493 111, Dist. Raipur, Chhattisgarh, India
Tel: +91 – 771 - 4082333 / 3092333
Fax: +91 – 771 - 4082234

CORPORATE OFFICE

First Floor, Hira Arcade, Near New Bus Stand,
Pandri, Raipur – 492 001, Chhattisgarh, India
Tel.: +91 – 771 – 4082000 / 4082001
Fax: +91 – 771 – 4057601

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
Fax: +91 – 22 – 28592851

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From the desk of Managing Director

Dear Stakeholders,

It gives me great pleasure in sharing with you, the key highlights of the performance of the Company during the financial year 2007-08 and future growth plans of the Company going forward.

Performance Highlights:

The year 2007-08 has seen an all round growth in the performance of the Company. Backed by higher volumes of production and better price realizations, the Company has achieved consolidated revenue of Rs. 936 crore during the year under review, as Compared to revenue of Rs 551 crore during the previous year, a growth of 70%. The consolidated net profit after tax grew by 82% to Rs. 99 crore as against Rs. 54 crore during the previous year. Considering the fact that, just two years ago, when we concluded our initial public offering our revenues were just Rs. 275 crore and net profit of Rs. 22 crore, the Company has within a short span of time achieved significant growth in volume of business, revenue, profits and net worth and achieved annual compounded growth of over 80% in terms of revenue and profitability last during two years. The phase-II expansion project for which the Company raised funds through initial public offering, for increase in capacity of sponge iron, steel billets, wire drawing and power generation has been successfully completed and partially operated during the year, have resulted in overall volume growth across the product segments. The full benefit of the capacity expansion is expected during the current year.

Growth Drivers:

Mineral Resources:

The growth story continues and your Company has drawn further plans to improve the operating margins by entering into backward integration through mining of iron ore and coal and venturing into value added manufacturing facilities by setting up iron pelletisation plant – a process to convert iron ore fines into pellets which can be used a raw material for making sponge iron as replacement of sized iron ore.

Your Company has been granted mining lease for 2 iron ore mines at Ari Dongri and Boria Tibu having an area of 216 hectare and prospecting license for another iron ore mines with an area of 754 hectare in Chhattisgarh. Further your Company has been recently granted long awaited forest approval for Ari Dongri iron mines in Chhattisgarh, by Ministry of Environment & Forest, Government of India, which would enable the Company in commencing the iron ore mining for captive consumption during the later part of the current financial year. With the availability of captive iron ore, the dependence for supply of iron ore from market purchases for critical raw material shall reduce and the operating margin of the Company are expected increase significantly once the captive iron mines becomes fully operational by next financial year i.e. FY 2009-10.

Your Company has also been granted mining rights in consortium for mining of coal in Chhattisgarh and the coal mines are being developed through Special purpose Joint Venture Company, which has also achieved significant progress towards getting various regulatory approvals and coal mining operations are expected to commence some time in FY 2011. All these efforts, shall improve the operating margins of the Company comparable with the fully integrated steel Companies in India having captive iron ore and coal mines.

New Initiatives:

Looking the hardening in prices of critical inputs like iron ore & coal for steel industry over past couple of years and increasing demand of these commodities globally, we strongly believes that facilities for value addition on iron ore fines, which is currently available in abundant quantity in domestic market at reasonable prices, in view of non availability of facilities for use of iron ore fines in India, by converting iron ore fines into pellets - which can be used a raw material by the steel industry for manufacturing of sponge/pig iron, are expected to be future growth driver of the Company on account of early entrant in the segment. Towards this end, we have taken major initiatives by announcing setting up of two iron ore pelletisation projects with a capacity of 600,000 TPA each for converting iron ore fines into pellets. The first project is currently under implementation at existing plant location at Raipur in Chhattisgarh and another project in Orissa through a joint venture Company i.e. Ardent Steels Ltd., in which the Company has decided to invest 75% in capital of the said Company, which would become be subsidiary of your Company.

The above initiatives are likely to result into better operating efficiencies with a availability of the better quality of raw material for sponge iron division and expected to drive the volume growth in coming years.

Future Projects:

The Company further plans to grow the steel business by increasing the capacity of integrated steel plants to 1.00 million ton per annum along-with captive power generation facilities in line with MOU signed with the Chhattisgarh State Government over next three years. Your Company is presently looking for a suitable location for the next phase of the expansion project for steel making capacity and suitable announcement regarding the quantum of the investment, means of finance, time schedule for implementation etc shall be made in due course of time.

The Company has also identified power business as the future growth driver in view of huge opportunities available in power business and has formed a subsidiary Company to purse merchant power business, which is currently looking for opportunities for setting up the power plant with suitable capacity based on thermal coal & coal rejects/middling as fuel for generation of power.

Industry Review:

The demand for steel in India is growing over 10% per annum for last couple of years, with the overall growth in the domestic economy. The demand for long products, in which the Company is present, is growing at much faster pace with increase in demand from construction and infrastructure sector. The supply of finished steel has not been able to keep pace with growth in demand, which coupled with increase in input cost have resulted in increasing the prices of finished steel products and raw materials by over 50% in last one year. The prices of finished steel and raw material continuous to remain firm in view of demand supply mismatch and expected to remain firm in the medium term. The prices of steel in recent past have increased substantially, since Jan, 2008 in view of high cooking coal prices, which is used as input for making steel through the blast furnace route. Globally 70% of finished steel is made using blast furnace. Your Company being engaged in manufacturing of steel through sponge iron route in which non-cooking coal is used as input is less impact due to increase in the cooking coal prices. In view of finalization of long term contracts for purchase of cooking coal by major global companies at price of over US$ 200, the steel prices are expected to remain firm in the medium term, which would be positive for the performance of your Company in view of lower non cooking coal prices.

Economic Scenario:

The high crude prices coupled with the higher food and other commodities prices, the inflation in India has crossed double digit mark and remain at higher level across the globe, which is a matter of concern for all of us and in view of intervention by the government of India to keep the commodities prices under control - to cool down the inflation and steps taken by the Reserve Bank of India by increasing CRR and interest rate - to moderate the growth in the economy, in likely to have impact on GDP growth going forward and resultant demand for commodities and increase the interest cost for the Industry. These measures are likely to have impact on performance of your Company going forward. As mentioned above, the steps taken by the Company for captive raw material resources along-with pelletisation projects are likely to support the margins in the event of slow down in economy and resultant reduce in prices of finished steel products due to lower demand.

Human Resource:

People for any organization are an important and valuable asset. Your Company believes that people impacts the business profitability, enhances performance and guides the vision and value system. The growth, which your Company has achieved, would not have been possible without active support and participation of its human resource. Your Company pays utmost importance to the human resource development and Company has taken various initiatives to improve the life of people, which includes the programmes related to skill development, proving better working atmosphere, medical and health care assistance and competitive compensation packages etc.

Corporate Social Responsibility:

Your Company has also taken various initiatives towards corporate social responsibility which includes massive tree plantation under the VRIKSHA MITRA MAHAABHIYAN- 2008 a plantation programme Raipur Collector wherein the Company has taken up plantation of 10000 saplings outsite the plant area at its own cost and till date the Company has already done plantation of 3500 trees and balance would be completed during the current year.

In addition to above, the Company has also decided to take up upgradation & management of Hathbandh ITI in Chhattisgarh established by the Govt of India under public -private partnership. The ITI would be managed by the Company in association with management team to be formed with the nomination by the state govt and would bear the cost for running the ITI. The students to be graduated from ITI would be offered employment in the Company.

The Company has decided to participate in the management of "Akansha" - the first school of Raipur for mentally handicapped run by Lions Club started in the year 1994. AKANSHA is not only a school of mentally handicapped but it also run several courses approved by Rehabilitation council of India. Two members of the Company have been inducted in the management committee of AKANSHA and the Company would extend financial and management support to the school.

Acknowledgement:

Finally, I would like to reiterate my firm commitment for taking the Company to ever greater heights of achievement with the active support and guidance of the Board of Directors of the Company. I wish to thank all our investors, bankers, customers, vendors, State & Central Government Authorities for their support and cooperation extended to us and look forward to continued support going forward.

Yours Sincerely,

B.L. Agrawal

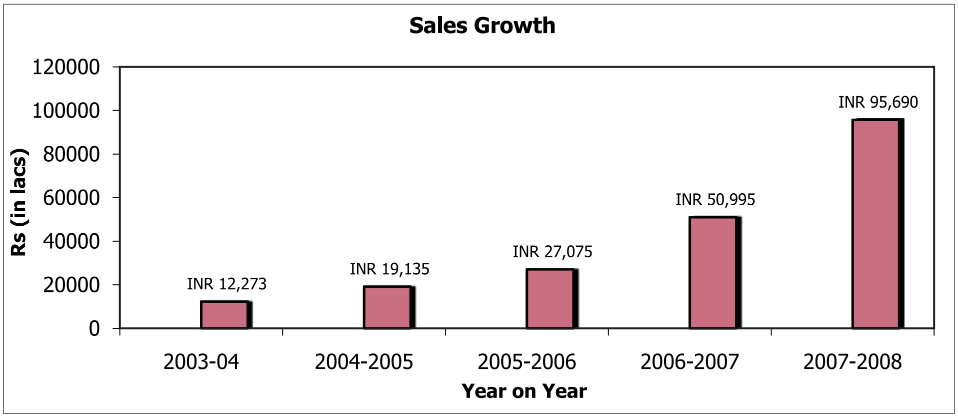
Raipur, 4th July, 2008

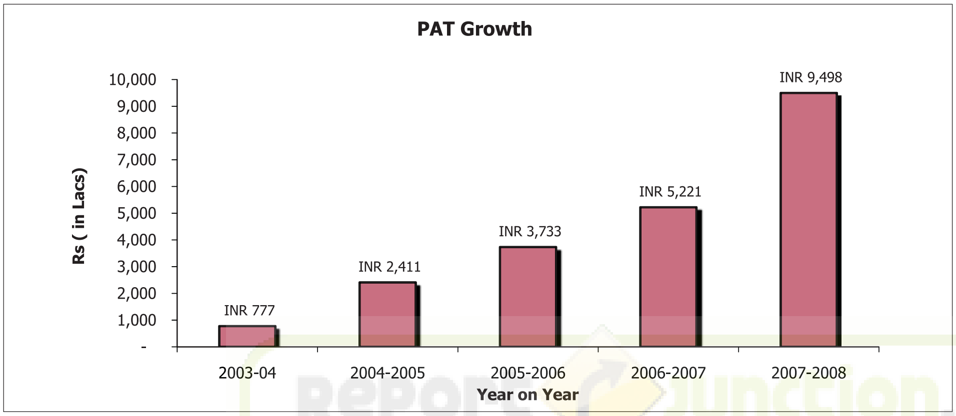
FINANCIAL PERFORMANCE: 5-YEAR HIGHLIGHTS

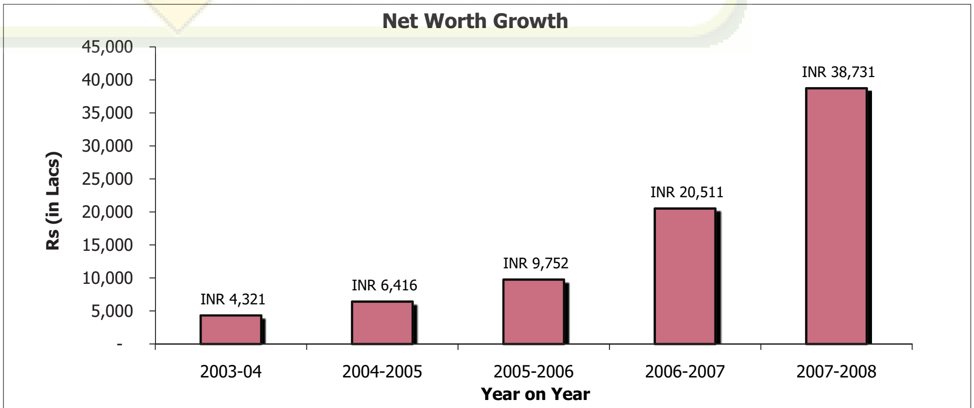
Operating Results

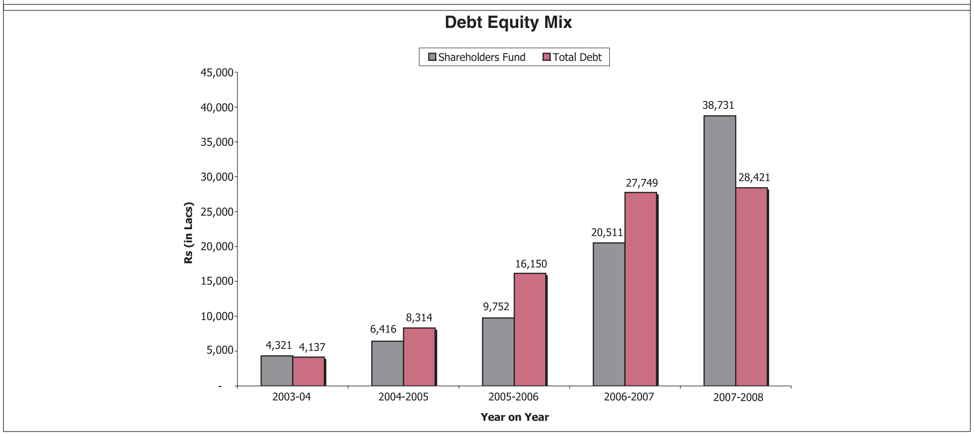
(Rs in Lacs)

	2007-2008	2006-2007	2005-2006	2004-2005	2003-2004
Turnover (Gross)	95,690.07	50,995.06	27,075.22	19,134.58	12,272.74
Other Income	127.65	223.73	85.20	52.48	15.24
Total Income	**95,817.72**	**51,218.79**	**27,160.42**	**19,187.06**	**12,287.98**
Profit before Interest, Depreciation & Taxes (PBDIT)	16,269.55	8,158.56	3,685.85	3,791.27	2,122.03
Depreciation	2,425.15	1,087.23	608.31	884.33	969.17
Interest Expenses	3,031.93	1,172.54	594.94	287.63	309.50
Profit before Tax (PBT)	10,812.46	5,898.79	2,482.60	2,619.31	843.36
Extraordinary Items (Depreciation Written back)	-	-	1,483.24	-	-
Profit after Income Tax (PAT)	9,498.43	5,221.20	3,733.33	2,410.67	776.64
Cash Profits	11,923.58	6,308.43	4,341.64	3,295.00	1,745.81
Financial Position					
Share Capital	2,806.98	2,484.40	1,614.90	1,614.90	320.48
Share Application (pending allotment)	324.00	-	-	100.00	400.84
Reserves	35,600.51	18,026.60	8,137.32	4,700.99	3,600.16
Shareholders Fund	**38,731.49**	**20,511.00**	**9,752.22**	**6,415.89**	**4,321.48**
Long Term Debt	22,451.68	22,475.19	11,505.20	5,899.31	1,690.41
Short Term Debt	5,969.34	5,273.79	4,644.56	2,414.40	2,446.49
Total Debt	**28,421.02**	**27,748.98**	**16,149.76**	**8,313.71**	**4,136.90**
Total Capital Employed	**67,152.51**	**48,259.97**	**25,901.98**	**14,729.60**	**8,458.38**
Fixed Assets(Net)	39,637.82	36,604.88	18,896.29	10,436.52	4,950.75
Current Assets(Net)	24,317.97	9,567.80	5,983.12	3,344.42	2,948.99
Others	3,196.71	2,087.29	1,022.57	948.66	558.64
Total Assets	**67,152.51**	**48,259.97**	**25,901.98**	**14,729.60**	**8,458.38**
Key Indicators					
Earning Per Share (in Rs.)	33.84	21.02	23.12	14.93	24.23
Book Value Per Share (in Rs.)	137.98	82.56	60.39	39.73	134.84
Debt Equity Ratio (times)	0.73	1.35	1.66	1.30	0.96
Dividend Per Share (%)	40.00	30.00	10.00	10.00	-
PBDIT/Gross Turnover (%)	17.00	16.00	13.61	19.81	17.29
PAT (%)	9.93	10.24	13.79	12.60	6.33
RONW (%)	24.52	25.46	38.28	37.57	17.97
ROCE (%)	14.14	10.82	14.41	16.37	9.18


Sales Growth
Rs (in lacs)
120000
100000
80000
60000
40000
20000
0
INR 12,273
INR 19,135
INR 27,075
INR 50,995
INR 95,690
2003-04
2004-2005
2005-2006
2006-2007
2007-2008
Year on Year


PAT Growth
Rs (in Lacs)
10,000
9,000
8,000
7,000
6,000
5,000
4,000
3,000
2,000
1,000
-
INR 777
INR 2,411
INR 3,733
INR 5,221
INR 9,498
2003-04
2004-2005
2005-2006
2006-2007
2007-2008
Year on Year


Net Worth Growth
Rs (in Lacs)
45,000
40,000
35,000
30,000
25,000
20,000
15,000
10,000
5,000
-
INR 4,321
INR 6,416
INR 9,752
INR 20,511
INR 38,731
2003-04
2004-2005
2005-2006
2006-2007
2007-2008
Year on Year


Debt Equity Mix
Shareholders Fund
Total Debt
Rs (in Lacs)
45,000
40,000
35,000
30,000
25,000
20,000
15,000
10,000
5,000
-
4,321
4,137
6,416
8,314
9,752
16,150
20,511
27,749
38,731
28,421
2003-04
2004-2005
2005-2006
2006-2007
2007-2008
Year on Year

DIRECTORS' REPORT

Dear Shareholders,

GODAWARI POWER AND ISPAT LIMITED

Raipur - Chhattisgarh

Your Directors have immense pleasure in presenting the Ninth Annual Report of the Company together with the Audited Financial Statement of Accounts and the Auditors' Report thereon for the year ended 31st March, 2008. The summarized financial results for the year ended 31st March 2008 as compared to the previous year are as under:

FINANCIAL RESULTS:-

(Rs in Crore)

Particulars	Standalone		Consolidated	
	Year ended 31.03.2008	Year ended 31.03.2007	Year ended 31.03.2008	Year ended 31.03.2007
Sales	956.90	509.95	935.67	550.87
Other Income	1.27	2.24	1.81	2.37
Total Income from Operations	958.17	512.19	937.48	553.24
Profit before Interest, Depreciation and Tax	**162.69**	**81.58**	**169.77**	**87.23**
Interest & Finance Charges	30.32	11.73	31.45	12.97
Depreciation for the year	24.25	10.87	25.81	12.22
Profit Before Tax	**108.12**	**58.99**	**112.51**	**62.04**
Provision for Income Tax, Fringe Benefit Tax & Tax related to earlier year	13.14	6.78	13.86	7.89
Net Profit after Tax	**94.98**	**52.21**	**98.65**	**54.15**
Add: Balance Brought forward from previous year	71.11	42.40	73.47	43.41
Add: Share in profit in Associate Company	—	—	0.91	0.07
Less: Pre Acquisition Profit	—	—	—	0.88
Less: Adjustment of unrealized Profit	—	—	(0.05)	—
Profit available for appropriations	166.09	94.61	172.98	96.75
Appropriations:				
Interim Dividend paid	4.21	2.48	3.82	2.37
Provision for Dividend	7.01	4.97	7.02	4.86
Corporate Tax on Dividend	1.91	1.05	1.91	1.05
Transfer to General Reserve	15.00	15.00	15.00	15.00
Balance carried to Balance Sheet	137.96	71.11	145.23	73.47

REVIEW OF OPERATIONS

The Company has during the year under review commissioned the phase – II expansion project and started commercial production in new capacities of sponge iron, steel billets, wire drawing and captive power plant, which has resulted into higher production volumes of these products. In the backdrop of the higher production volumes and better sales realisation, the Company has achieved a gross turnover of Rs. 956.90 crore during the year as compared to gross sales of Rs. 509.95 crore during the immediately previous financial year, registering a growth of 88%. In view of the higher volume of business and growth in the sales turnover, the bottom line also grew at healthy rate of 96% and the Company has earned Profit before tax of Rs 108.12 crore during the year as against Rs. 58.99 crore during the previous year. The operating margin also improved from 18.45% to 19.62%

of the net sales during year. Net profit of the Company for the year increased to Rs. 94.98 crore from Rs. 52.21 crore during the previous year. The excellent performance has been possible due to expansion in manufacturing capacities of all divisions and various efforts on cost savings initiated by the Company. The detailed performance and financial review has been given in the Annexure to the Directors Report titled “Management discussions and Analysis”. Given the current economic growth rate in our country, shortage in supply of finished steel due to capacity constraints and the Company is confident of achieving volume growth of 20-25% during the current financial year and to expects to maintain the operating margins at the current level. The operating margins may improve upon starting the production in the captive iron ore mines which in the final stage of approvals.

DIVIDEND

In view of the improved performance, the board of directors of your Company declared and paid interim dividend @ 15%. (i.e. Rs. 1.50 per equity share of Rs 10/- each) to the shareholders in March, 2008 on the increased paid up capital. In addition to above, your directors have pleasure in recommending payment of final dividend @ 25% i.e. Rs. 2.50 per equity share for year under review, thereby taking the total dividend payment to 40%, which is 11.82% of the net profit of the Company during the year. The total outgo of funds on account of payment of dividend is Rs. 13.14 crore (including dividend tax of Rs. 1.91 crore). The retained earnings shall be utilized for augmenting increased working capital requirements to sustain the higher volume of operations, repayment of existing long term debts and for pursuing the future growth plans of the Company. The shareholders are requested to approve the payment of dividend. The final dividend shall be paid to the shareholders whose name appears in the register of members as on the record date i.e. 23rd September, 2008 fixed for the payment of dividend subject to its approval.

EXPANSION/NEW PROJECTS:

The phase II expansion project of the Company started commercial production during the year and new capacities are expected to reach optimum utilization during the current year. As a forward integration to the proposed iron ore mining and backward integration to sponge iron unit, your Company has during the current year decided to set up an Iron Ore Crushing (1200000 TPA), Beneficiation (100000 TPA) and Pellet Plant (600000 TPA) at the cost of Rs. 172 crore and also proposed to incur the capital expenditure of Rs. 53 crore towards infrastructure development in the existing plant, iron ore mining and captive railway siding taking the total capital expenditure plan of Rs. 235 crore. Out of this the Company has during the year already incurred capital expenditure of Rs. 5.46 crore during the year on these projects. The orders for major equipments for pellet plant have already been placed and civil work has been started. The order for Iron Ore Crushing & Beneficiation Plant is under finalization and shall be placed by September, 2008.

FINANCE:

To part finance the proposed capital expenditure of Rs. 235 crore and general corporate purposes, the Company has during the year under review completed further issue of capital to the QIB Investors through a QIP issue of 32,25,807 equity shares at a price of Rs. 310/- per share and raised capital of Rs 100 crore. The new shares have been listed on NSE and BSE. The balance amount of Rs. 135 crore shall be funded from rupee/foreign currency debt from banks. The Company has already tied up entire debt requirement of the Company.

During the year under review, the Company also issued 10,00,000 warrants convertible into equity shares to the promoters / promoters’ group on preferential basis at price of Rs. 324 per warrant (each warrant convertible into one equity share of Rs. 10/- each at a premium of Rs.314/- per warrant). The promoters have an option to apply for allotment of 10,00,000 equity shares of Rs. 10/- each within a period of 18 months from the date of allotment of warrants.

DEPOSITS:

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

IRON ORE MINES:

Your Company has been granted a captive iron ore mining lease over 216 hectares at Boria Tibu and Ari Dongri in Chhattisgarh about 150 km away from the plant location of the Company and awaiting the approval from Ministry of Environment and Forest to commence production in these mines. The iron ore mining operations from these mines are expected to commence production after the forest approval is received. Your Company is expected to substantially benefit from the captive iron ore mines after commencement of production at these mines.

During the year under review, your Company has been granted additional prospecting rights for iron ore over an area of 754 hectare in Chhattisgarh. The mines are expected to have substantial iron ore reserves, the prospecting of which shall start after getting necessary approval from the Ministry of Environment and Forest, for which necessary application have been submitted.

COAL MINES:

Your Company has been allotted captive 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 in these coal blocks, the share of your Company is 63 million tons of coal. These Coal blocks are being developed through a Joint venture Company namely Chhattisgarh Captive Coal Mining Ltd. and JV agreement has been signed with the consortium partners.

The joint venture Company is now pursuing activities relating to development of coal blocks and obtaining necessary statutory approvals for starting mining of coal. The development activities are expected to take about two years before mining operations could be started. Till then your Company would continue to source the coal requirement through coal linkages with South Eastern Coal Fields Limited and open market purchases through e-auction.

SUBSIDIARY/ASSOCIATE/JOINT VENTURE COMPANIES:

R.R. Ispat Limited: Subsidiary Company

As part of forward integration process, your Company has acquired 100% equity share capital of M/s. 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 Subsidiary Company for the financial year 2007-08 has been quite satisfactory. The company has achieved net sales of Rs. 196.50 crore and net profit of Rs.3.62 crore during the year under review. 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.

Godawari Power Limited: (GPL)

Your Company has during the year promoted a 100% subsidiary Company with a view to explore the opportunities of setting up merchant power project in view of huge business potential available in power sector. Your Company plans to tap opportunities in power sectors by setting up power plants based on thermal coal, coal washery rejects and other renewable and non renewable sources in due course and currently evaluating various proposals. The Company is also conducting feasibility study of setting power plant based on the coal washery rejects of the captive coal mines, which has been allotted to the Company.

As per Section 212 of the Companies Act, 1956, the financial statement of the accounts of the subsidiary Company i.e. M/s. R. R. Ispat Limited along-with Director's Report and auditors report thereon are required to be attached with the annual report. The Company has sought an exemption from the Ministry of Corporate Affairs, Government of India, for publication of financial statements of the subsidiary under section 212 of the Companies Act, 1956 and accordingly the financial statements of subsidiary Company are not separately included in the annual report. As required under the provisions of Accounting Standard (AS) 21, the financial statements of Accounts of the subsidiary Company have been consolidated in the Consolidated Statements of Accounts presented with this report. The annual accounts of the subsidiary company and the related detailed information will be made available to the shareholders/investors seeking such information from the Company, at any point of time. The accounts of the subsidiary Company are also available for inspection at the registered office of the Company.

Hira Steels Limited: Associate Company

Hira Steels Limited, an Associate Company engaged in rolling of steel billets into wire rods and further conversion of wire rods into wires has achieved net sales turnover of Rs. 208.21 crores with a net profit of Rs. 4.52 crore. 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 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 Limited and Raipur Infrastructure Company Limited for development of Coal mines and setting up railway siding for captive use respectively. The un-audited accounts of these Companies have been consolidated into the consolidated financial statements, as the audited accounts were not available.

FOREIGN EXCHANGE EARNINGS AND OUTGO

Your Company has incurred foreign currency of Rs. 2.72_crore towards import of capital goods, components, traveling expenses etc. The company has also earned foreign exchange of Rs.1.45 crore on account of sale of Certified Emission Reductions (CERs).

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.