

Godawari Power & Ispat Limited Annual Report 2019-20

# BUILT TO LAST

Building a sustainable integrated steel company

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#### Forward-looking statement

In this Annual Report we have disclosed forward-looking information to enable investors to comprehend our prospects and take informed investment decisions. This report and other statements - written and oral - that we periodically make contain forward-looking statements that set out anticipated results based on the management's plans and assumptions. We have tried wherever possible to identify such statements by using words such as 'anticipates', 'estimates', 'expects', 'projects', 'intends', 'plans', 'believes', and words of similar substance in connection with any discussion of future performance.

We cannot guarantee that these forward looking statements will be realised, although we believe we have been prudent in assumptions. The achievement of results is subject to risks, uncertainties and even inaccurate assumptions. Should known or unknown risks or uncertainties materialise, or should underlying assumptions prove inaccurate, actual results could vary materially from those anticipated, estimated or projected. Readers should bear this in mind.

We undertake no obligation to publicly update any forward-looking statements, whether as a result of new information, future events or otherwise.

# BUILT TO LAST

At Godawari Power & Ispat, we are not just focused on getting through the prevailing slowdown. We are focused on building a midcap steel company that is not just responsible socially & environmentally but also economically sustainable in long run as well.

In doing so, we are not just addressing the challenges of the day; we have built a business model to survive in all market cycles; we have not just built a company that enhances profits for our shareholders but enhances value for every stakeholder in a sustainable manner.

CORPORATE SNAPSHOT

# Godawari Power & Ispat Limited.

Integrated business model.

Socially and environmentally responsible.

Profitable core business.

Deleveraging the Balance Sheet.



## About the Company

Godawari Power & Ispat Limited is a fully integrated steel company with presence across the steel value chain extending from iron ore mining (two mines) to iron ore pellets and value-added steel products.

The Company is stewarded by Mr. B.L. Agrawal, a first generation entrepreneur, who possesses more than four decades of experience in the steel industry. He is supported by the second generation from the promoter family comprising Siddharth Agrawal and Abhishek Agrawal, Dinesh Agrawal as well as professional managers.

The Company directly employed 2656 people towards the end of 2019-20. The average age of employees were 39 years as on 31st March 2020.

#### **Products**

Pellets: Used in the production of steel and alloys. Has gained wide acceptance following a ban on the use of sintered iron fines.

Sponge iron: Sponge or Direct Reduced Iron (DRI) is a vital input in the steel industry, Serving the role of energy-efficient feedstock.

#### Iron and steel billets:

Standard form of processed iron or steel with a square cross section; formed after hot rolling and possessing high ductility

Wire rods: Serve as intermediate inputs for steel plants as well as for industries like construction and infrastructure.

Hard black wires: Made from rolled steel through wire drawing; serve as raw material for construction and infrastructure.

Ferro-alloys: Production of silico-manganese used in steel production.

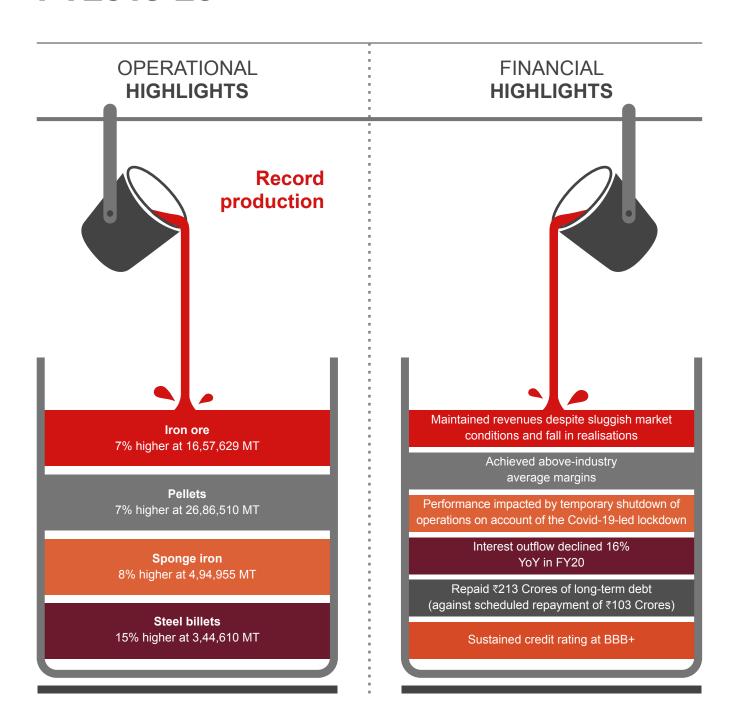
Solar thermal power: Generation of solar power; power sold through a long-term fixed price power purchase agreement with NTPC Vidyut Vypar Nigam Ltd.

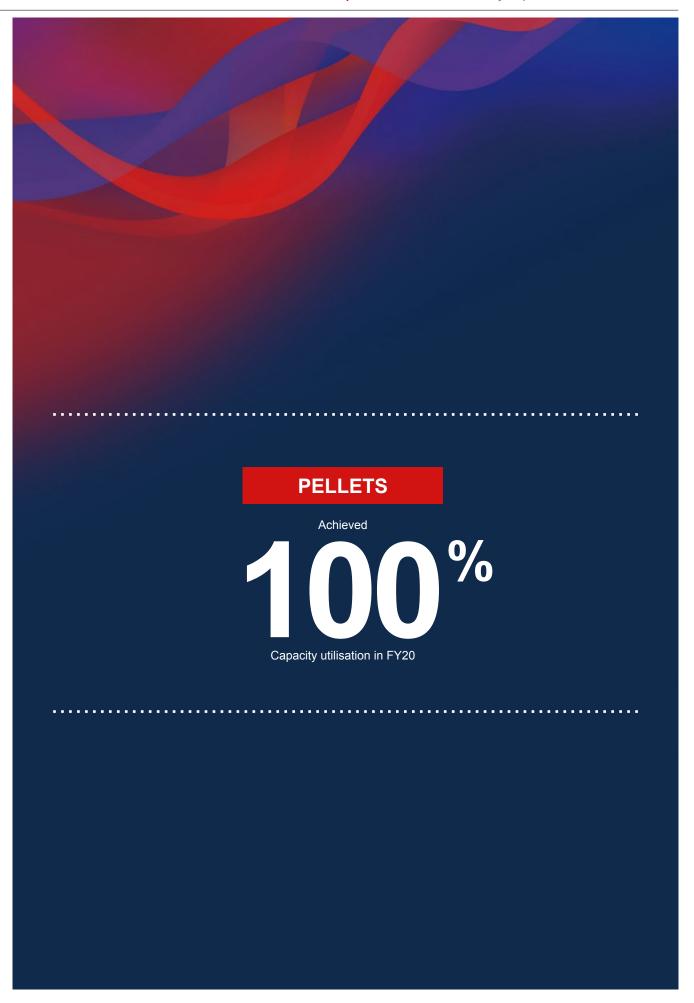




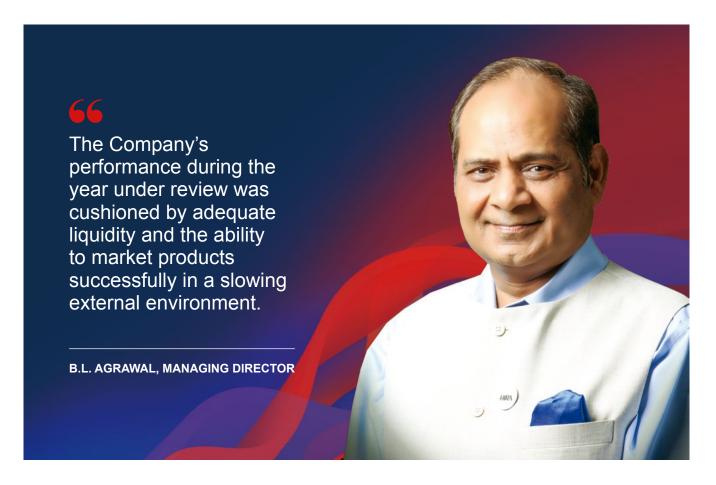
## What we achieved in

FY2019-20





## **Managing Director's overview**



#### **Overview**

The world is passing through one of the most uncertain periods in decades. The global economic slowdown from 3.6% to 2.9% in 2019 was complemented by the outbreak of the Covid-19 pandemic, the effects of the pandemic visible from January 2020 onwards and only deepening as the subsequent months passed.

The Indian economy slowed from 6.1% in 2018-19 to 4.2% in 2019-20 and 3.1% in the last quarter of the year under review. Retail inflation climbed to a six-year high of 7.35% in December 2019. Despite these economic challenges, India emerged as the fifth-largest world economy in 2019 with a gross domestic product (GDP) of US\$2.94 trillion. India jumped 14 places to 63 in the 2020 World Bank's Ease of Doing Business ranking.

The global outlook was further affected by the outbreak of the pandemic in China in December 2019, which spread to a number of countries in the subsequent two months before emerging as a full blown pandemic in March 2020.

During the last week of the financial year under review, a national lockdown was imposed to fight the spread of the Covid-19 pandemic. This cast a shadow on the anticipated recovery of the Indian economy in 2020-21, affecting demand, supply chain, discretionary spend and capital expenditure. However, as we entered the unlock phase, industrial activities started to show signs of improvement, though the number of pandemic-impacted patients continued to spike. The combination of these realities made it a challenging year for the industry in general and steel sector in particular.

### Our performance

Despite these challenges, Godawari Power & Ispat reported a creditable performance and profitable growth. Even as realisations across the products manufactured by the Company declined 7-15%, overall revenues declined only 1%. The Company countered the decline in realisations through increased capacity utilisation, recovering a part of the decline through enhanced volumes.

Even as the Company's financials declined when compared with the previous year, they remained in sound health when compared with the rest of the sector. The Company reported a 19% EBITDA margin in 2019-20. Besides, the Company strengthened its gearing from 1.4x to 1.1x; it protected its interest cover at around 3x, following the timely repayment of debt and increased net worth.

This indicates that the Company's performance during the year under review was cushioned by adequate liquidity and the ability to market products successfully in a slowing external environment.

### Our business strategy

At GPIL, the fact that the Company could maintain revenues at almost the levels of the previous year represents a validation of its commitment to superior product quality, committed customers and agility in switching its product mix in line with market preferences.

During the last few years, we consciously moderated our capital expenditure. We leveraged the power of our operational integration to generate superior cash flows. These cash flows were not invested in major capital expenditure. In FY20, the Company used 62% of its cash profits for debt repayments. During the three years ended 2019-20, GPIL brought down its long-term debt from ₹2,109

Crores to ₹1,530 Crores, strengthening its gearing from 2.5x to 1.1x.

At GPIL, the single biggest capital allocation that we expect to make from this point onwards will be in the liquidation of our long-term debt. At a time when the demand outlook is uncertain and the world is being affected by a sequence of Black Swan events, we believe that the two best ways of growing our bottomline will be through liability reduction on the one hand and relatively asset-light business growth on the other. The combination of the two is expected to enhance our capital efficiency, visibly measured in the growth of our cash flows and EBITDA visibility.

## Strategic clarity

At GPIL, we believe that we possess a strategic clarity on how we need to grow our business.

We believe that the key to our business growth will lie in restricting the size of our Balance Sheet even as we attempt to grow our Profit & Loss Account, translating into superior financial ratios.

We intend to utilise whatever surplus we generate beyond critical maintenance expenditure into liabilities reduction with the objective to become completely debt-free in the foreseeable future.

We intend to grow our manufacturing capacities – the engine of our revenue growth - through prudent debottlenecking that is completely funded through our accruals.

Going forward, we intend to enhance the proportion of high-grade pellets in our product mix, strengthening valueaddition, margins and earnings quality as well as visibility.

We intend to moderate our interest costs, reducing our overall break-even point in the business.

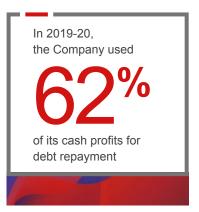
We believe that these initiatives should strengthen our cost leadership. moderate our exposure to commodity price swings and protect our margins in a competitive marketplace.

### Flywheel impact

At GPIL, we believe that the 'Flywheel Effect' will be increasingly reflected in our performance. Our growth from this point will be derived not from one large push of the giant flywheel; it will be derived from a number of small initiatives across our business. The result is that initially the flywheel may shift only marginally, but over a period of time the aggregate momentum will be visible, larger and sustainable.

Going forward, we will continue to do what we have always done perhaps with more focus, urgency and enthusiasm. We will do so with the conviction that the flywheel will continue to turn faster, moving us closer to the point where we are not just among the last player standing in any slowdown but also the first to rebound as soon as demand revives.

We are confident that this approach will enhance value for all those associated with our Company.



# How GPIL has grown over the years

Revenues (₹ Crores)	
FY2019-20	3,289
FY2018-19	3,322
FY2017-18	2,527
FY2016-17	1,804
FY2015-16	1,980

#### Definition

Growth in sales net of taxes.

#### Why is this measured?

It is an index that showcases the Company's ability to enhance revenues, an index that can be compared with sectoral peers.

#### What does it mean?

Aggregate sales decreased marginally, partly due to a 7-15% decline in realisations and impact of the lockdown in the fourth quarter; the performance was creditable as the Company increased asset utilisation and volumes

#### Value impact

The Company performed better than the sectoral average.

<b>EBITDA</b> (₹ Crores)	
FY2019-20	629
FY2018-19	795
FY2017-18	606
FY2016-17	306
FY2015-16	236

Earnings before the deduction of fixed expenses (interest, depreciation, extraordinary items and tax).

#### Why is this measured?

It is an index that showcases the Company's ability to generate a surplus following the expensing of operating costs.

#### What does it mean?

Helps create a robust growth engine and sustain profits.

#### Value impact

The Company generated an attractive surplus despite sectoral challenges; even though EBITDA declined, it was still more than double the levels reported three years ago.

Net profit (₹ Crores)	
FY2019-20	167
FY2018-19	252
FY2017-18	208
FY2016-17	-75
FY2015-16	-89

Profit earned during the year after deducting all expenses and provisions.

#### Why is this measured?

This measure highlights the strength of the business model in enhancing shareholder value

#### What does it mean?

Ensures that adequate surplus is available for reinvestment.

The Company reported a 34% decline in net profit in FY2019-20, largely due to fall in realisation across the steel value chain. That the Company reported a profit when a number of steel companies reported losses is a credit to the Company's extensive integration.

EBITDA margin (%)	
FY2019-20	19
FY2018-19	24
FY2017-18	24
FY2016-17	17
FY2015-16	12

#### Definition

EBITDA margin is a profitability ratio used to measure a company's pricing strategy and operating efficiency.

#### Why is this measured?

The EBITDA margin provides a perspective of how much a company earns (before accounting for interest and taxes) on each rupee of sales.

#### What does it mean?

This demonstrates adequate buffer in the business expressed as a percentage, which, when multiplied by scale, enhances surpluses.

The Company reported only a 500 bps decrease in EBITDA margin during FY2019-20, owing to a fall in realisations, due to operational efficiency.