HIRA
GODAWARI POWER & ISPAT

Godawari Power & Ispat Limited
Annual Report 2020-21

Dedication, Discipline and Debt-free.

Godawari Power & Ispat Limited is poised to emerge as a sustainable mid-sized steel company

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.

Contents

Dedication. Discipline. Debt-free

This is the story of how a focus on environment responsibility, social commitment and governance framework is shaping the new personality of Godawari Power & Ispat Limited.

CORPORATE INFORMATION

Godawari Power & Ispat Limited.

Representing a new face of India's mid-sized steel companies.

A company that prioritised the moderation of its carbon footprint.

Focused on deleveraging its Balance Sheet even while focusing on growth.

Extended its business model from profitability to sustainability.

The result: the company has emerged as one of the most exciting proxies of India's mid-sized steel sector.

The company’s background

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

The company is stewarded by Mr. B.L. Agarwal, 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 Mr. Siddharth Agarwal and Mr. Abhishek Agarwal as well as professional managers.

The company had directly employed 2656 individuals towards the end of 2020-21. The average age of employees was 38 years as on 31 March 2021.

Products manufactured by the company

Pellets: Used in the production of steel and alloys. Has gained traction owing to growing demand for high-grade iron content material, which is globally scarce.

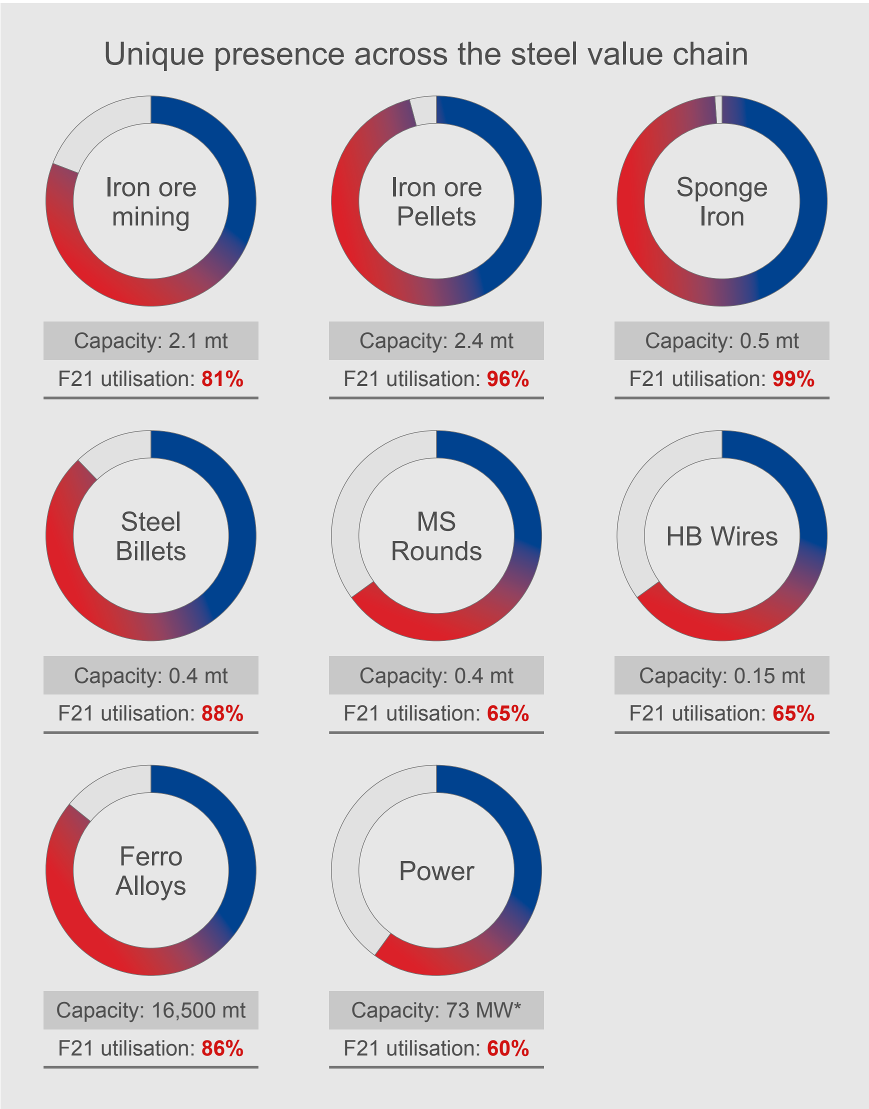
Sponge iron: Represents a critical input for the steel industry as energy-efficient feedstock.

Iron and steel billets: Processed iron or steel with a rectangle or square cross section, used for manufacturing rolled products of different applications in the construction, infrastructure and other industries.

Wire rods: Wire rod is a finished product in a steel plant rolled from the billet in a wire rod mill. It is mainly used for the production of steel wire, which is subjected to further processing.

Hard black wire: Made from rolled steel through wire drawing; serves as raw material in construction and infrastructure.

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



Other facilities

Captive mining: Increased captive mining to aid in lowering costs and improving margins.

Power: In-plant power generation capacity of 73 MW. Derived 42 MW captive energy from waste heat recovery + 11 MW from coal thermal plant + 20 MW biomass power capacity. Additional 25 MW from Jagdamba Power. Setting up additional solar power capacity

Water: Agreement with Chhattisgarh Ispat Bhoomi Ltd to draw 10,000 KL of water/day.

CORPORATE INFORMATION

Our recognition

2009: Secured third position in the Open Plantation Award organised by Urla Industrial Association, Chhattisgarh.

2013: Bagged Best Project in Go Green & Conserve Environment

2013: Entrepreneur of the Year Award to Mr. B.L. Agrawal, MD, by Think Media Inc.

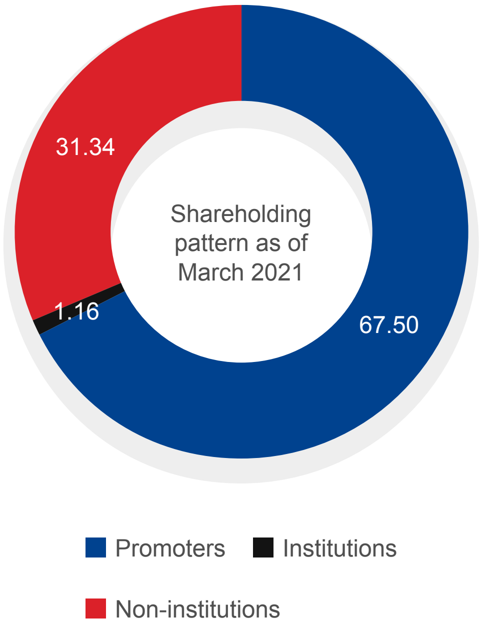
2014: Best CSR Practices Award by Think Media Inc.

2017: Participation Certificate in Secondary Steel Sector Award Scheme.

2017-18 and 2018-19: Awarded for being the highest importer by Concor India Limited (Navratna company) for importing scrap through containers.

2018-19: Awarded for HR Best Practices by National HRD Network, Bhubaneshwar chapter

2018-19: First steel company in India to be awarded ISO 45001:2018 Certificate by SGS India Limited



Our shareholding pattern

Shareholder	% shareholding
Promoters	67.50
Institutions	1.16
Non-institutions	31.34
Total	100

GPIL's performance dashboard

How we performed in FY 2020-21

Best annual performance

- Record operating performance (highest production of iron ore, pellets and billets)
- Record annual financial performance (highest ever revenues and PAT)
- Declared maiden dividend after five years in Q2; final dividend of INR 13.5/share (total dividend for FY21 INR 18.5/share)

Record business performance

- Largest debt reduction: long-term gross debt (standalone) reduced from INR 1,055 Crores to INR 457 Crores (further reduced to INR 193 Crores as on 25 May 2021)
- Net debt-to-equity ratio strengthened from 1.1x in FY20 to 0.42x
- Average debt cost at 8% compared to 11% in FY20

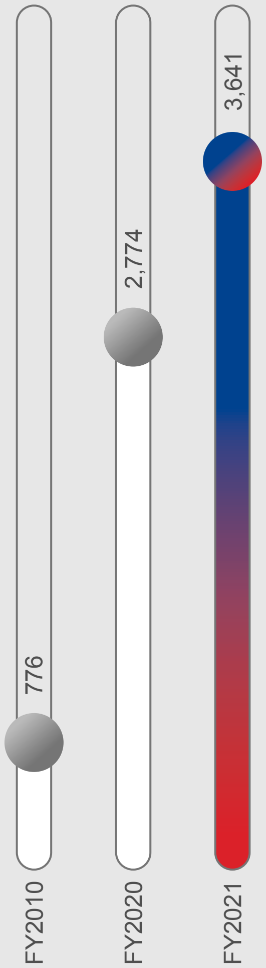
Strategic initiatives

- Achieved debt-free carbon-neutral growth (setting up captive solar PV capacity)
- Capacity debottlenecked in iron ore mining, benefication and steel melting
- Maximised sales of high-grade pellets to maximise profitability
- Signed MOU with Chhattisgarh government for growth projects

How we have **grown across the decade**

Revenues

(₹ Crores)

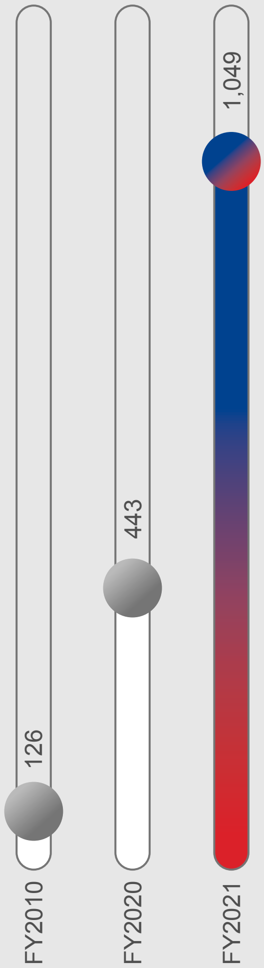


CAGR growth of 15% between FY 2010 and FY 2021

Growth of 31% between FY 2020 and FY 2021

EBITDA

(₹ Crores)

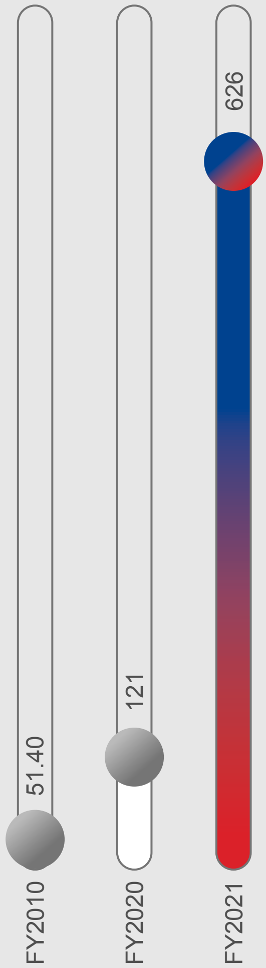


CAGR growth of 21% between FY 2010 and FY 2021

Growth of 137% between FY 2020 and FY 2021

Net profit

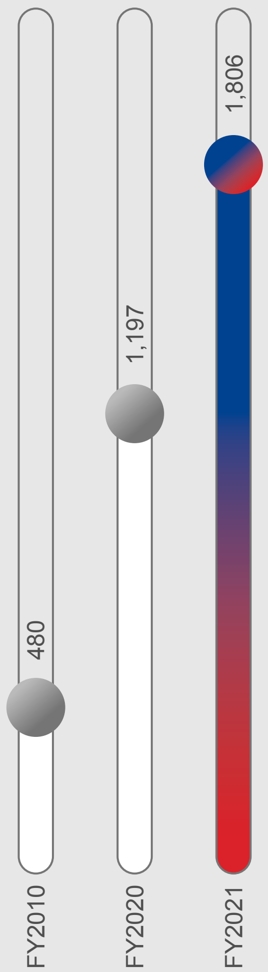
(₹ Crores)



CAGR growth of 26% between FY 2010 and FY 2021

Growth of 417% between FY 2020 and FY 2021

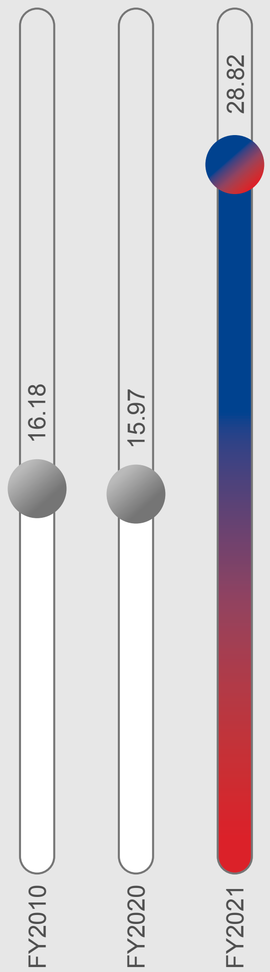
Net worth
(₹ Crores)



CAGR growth of 13% between FY 2010 and FY 2021

Growth of 51% between FY 2020 and FY 2021

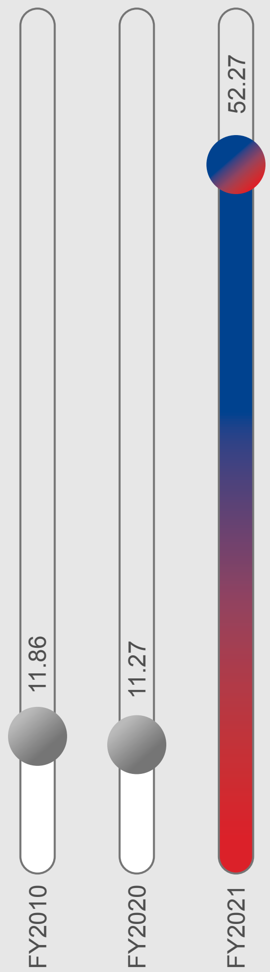
EBIDTA margin
(%)



Growth of 1264 bps between FY 2010 and FY 2021

Growth of 1285 bps between FY 2020 and FY 2021

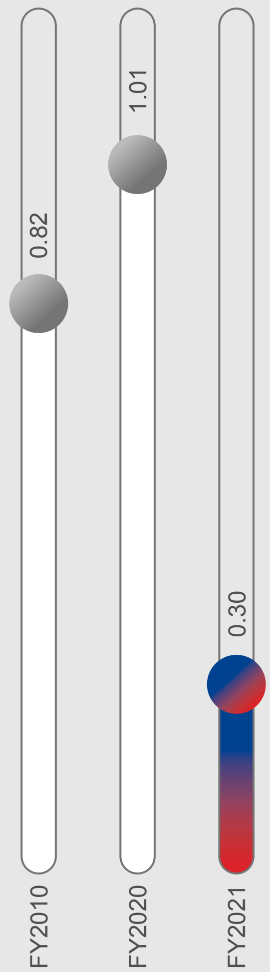
ROE
(%)



Growth of 4041 bps between FY 2010 and FY 2021

Growth of 4100 bps between FY 2020 and FY 2021

Gearing
(x)



Improvement of -5200 bps between FY 2010 and FY 2021

Improvement of -7100 bps between FY 2020 and FY 2021

Building a modern, nimble and future-facing mid-sized steel company

India is one of the most attractive long-term markets in the global steel industry.

India is marked by the second largest consumer market on one hand and one of the most extensively under-penetrated steel consumption realities in the world.

India is a rare country marked by the coming together of a centuries-old steel making tradition, as well as the abundant availability of iron ore and coking coal.

India appears to be at the cusp of multi-decade growth on account of the coming together of growing millennial spending, sustained income rise, aspirations growth and infrastructure investments.

The companies that are likely to capitalise most extensively across the decades will need a number of competitive advantages.

They will need their own ore. Their own power. Their own downstream value chain. Competitive cost structure. And no debt.

One company possesses all these.

Godawari Power & Ispat Limited. The Company is poised to participate in the next growth phase of the steel Industry in a sustainable manner.

Promises made

Promises kept

A few years ago, we had made a few commitments to our stakeholders. This is a report of how we lived up to them

What we promised: We would focus primarily on debt repayment to become net debt-free.

Status as on 31 March 2021: We repaid a substantial portion of our long-term debt, a validation of our commitment, and likely to become debt-free by Q2 FY 22.

What we had promised: We would not engage in any sizable capital expenditure until we had repaid all long-term debt

Status as on 31 March 2021: We have not invested a single rupee in building fresh or sizable capacity beyond normal maintenance expenditure, growing our capacities through prudent debottlenecking.

What we are

- Among India's one amongst the best mid-sized steel companies (by product quality, margins, material efficiency, asset utilisation and worker productivity)
- Dependable raw material provider to various downstream steel users
- Presence in sectoral building blocks with high addressable room
- Growing performance counter-cyclicality
- Attractive credit-rating
- Strong Balance Sheet, with zero long-term debt

What we wish to be

- Emerge as a sustainable Indian mid-sized steel company across market cycles
- Enhanced profitability through further integration and value-addition
- Moderate carbon footprint; create one of the highest renewable energy back-ups within India's mid-sized steel sector
- Enhance multi-year revenue and EBIDTA visibility
- Stay liquid and viable across market cycles

Godawari 2.0: Carbon-neutral low debt growth

Overview

At GPIL, we are entering the next phase of our existence.

In Godawari 2.0, we are graduating to an aspirational business structure where two of the biggest challenges of conventional capital-intensive businesses will be addressed.

The company intends to emerge debt-free from FY 2022, indicating that the business from this year onwards will be sustained largely through internal accruals.

Besides, the company intends to commission a 250 MW captive solar PV power plant to replace its existing thermal capacity across its existing idle land bank of 362 hectares. The INR 750 Crores project (to be commissioned in the third quarter of FY23) will be funded primarily through internal accruals, will replace high cost thermal and grid power, generate power for the enhanced billet capacity and deliver an attractively short payback of less than five years.

At GPIL, we believe that the combination of low debt and carbon neutrality will enhance the company's respect as a governance-driven future-facing company that intends to enhance stakeholder value in a responsible and sustainable manner.

Godawari 2.0: Engaged in expanding responsibly and sustainably

Overview

At GPIL, we moderated debt as a decisive step to to protect and create shareholder value in the last few years.

The time has come for us to increase our existing capacities with the objective to enhance value across the foreseeable future.

Over the next one year, we will be engaged in growing every segment of our business through capacity debottlenecking and low-cost capacity expansion.

The expansions will be commissioned within our existing facilities, leveraging existing infrastructure. This will ensure that our expansion is funded at a relatively low cost, strengthening our competitiveness.

Besides, these expansions will be funded largely out of accruals, moderating our break-even point and strengthening long-term profitability.

Proposed low-cost capacity expansions

	Capacity FY21 (Million Tons Per Annum)	Capex (Amount INR in Crores)	Capacity FY22 (Million Tons Per Annum)
Iron ore mining	2.100	75	3.000
Iron ore beneficiation	1.100	25	3.300
Iron ore pellets	2.100	0	2.400
Sponge iron	0.495	0	0.594
Steel billets	0.400	35	0.700

Godawari 2.0: Graduating towards becoming a fully integrated steel company

Overview

At GPIL, we believe that the time has come to build on the broad-based iron ore foundation of our business.

In line with this strategic direction, the company signed an MoU with the Chhattisgarh government for projects to be commissioned in the future.

This decision represents a natural transition of the company's existing business into a fully integrated steel personality.

We believe that this progressive integration will enhance the flexibility of our portfolio to respond to diverse market dynamics.

This flexibility will enhance our competitiveness across market cycles, reinforcing our positioning as a relatively stable company in a cyclical sector.

By the virtue of protecting our downside and maximising our upside, the company is expected to enhance value for stakeholders in a sustainable manner.

Managing Director's overview

Overview

At GPIL, we are endeavouring to build a truly sustainable mid-sized steel company that remains viable and profitable across all market cycles.

We embarked on this exercise a few years ago and I am pleased to communicate that the first – and most decisive – phase of our approach is likely to reach its logical conclusion in the near future. In doing so, your company will create a secure robust foundation that will make it possible to grow the business across market cycles in a manner that enhances value for all stakeholders.

Strategic imperatives

When we embarked on building a multi-cycle sustainable mid-sized steel company a few years ago, we recognised the five defining ways of getting there.

ESG commitment: At GPIL, we recognised that the direction of global opinion makers was moving from 'What is the maximum you can manufacture?' to 'What is the maximum you can manufacture in the most responsible manner?' In line with this direction, GPIL began to invest in businesses (renewable energy), equipment, talent and targets with the objective to moderate its carbon footprint. I am pleased to communicate that the company was among the first in India's mid-sized sector to have invested years ago in renewable energy; this direction will only be strengthened across the foreseeable future in the company's quest to emerge as a responsible 'green steel' manufacturer.

Upstream rather than downstream: At GPIL, we recognised the need to build a secure upstream strategy on which to build the business. This entailed an investment in the production of resources and raw materials that would go into steel building. This approach was contrary to what most steel manufacturers had professed until then; most had invested in the front-end of the business which left them vulnerable and exposed on the raw material side of their business. The result was that in the event of a commodity up-cycle, such companies were extensively impaired by a sharp increase in their raw material costs. During such occasions, steel realisations also increased but with a lag, leaving the steel companies always attempting to play catch-up with the increase in their resource costs, perpetually mismatched time-lag and need to mobile a larger outlay of expensive working capital.

At GPIL, we selected to be contrarian. Even as we recognised that by going the upstream route, we would always be a materials provider to large downstream steel companies for a number of years, we felt that this was the only way in a long-term journey to remain liquid and viable while engaged in the pursuit of one's mission.

I believe that the decision to venture upstream rather than downstream was possibly the most decisive initiative to have kept us in business through one of the most extended steel sector downtrends seen in the last decade.

Integration: At GPIL, we recognised that going upstream and staying there would work for only a limited period. If we sustained this approach, we would have become a low margin resource provider to larger downstream steel companies with moderate scope of any meaningful value-addition. To integrate the business, the Company signed an MoU with the State Government of Chhattisgarh to set up a 1.5-million-ton per annum steel plant. The Company is working towards making GPIL a 1.5 million tonnes per annum integrated steel Company in about three years by diversifying into the manufacture of flat products.

That recognition resulted in GPIL building an integrated downstream approach. The iron ore that we mined – the building block of our business - would be beneficiated and converted into pellets. The company commissioned a sizable capacity that would eliminate the possibility of selling iron ore in its raw form; the company became, for all practical purposes, a quality pellets company that enhanced value over mined ore. Some years ago, the company took its integration ahead by utilising sponge iron for the manufacture of billets, a step closer to emerging as a front-end steel company. I am pleased to communicate that GPIL is now India's largest high grade quality pellets manufacturing company among secondary steel producers. The company's customers comprise small and mid-sized companies; the company marketed 34% of its domestic production within a mere 200 kms, exported 66% to China, Malaysia and South Korea and emerged as one of leading pellet exporters from Central India.

> The Company is now embarking on setting up a 250 MW solar power plant with an investment of INR 750 Crores that will not only replace the high-cost, low-efficiency thermal power with a clean, cost-effective, sustainable energy source for manufacturing finished steel products and also provide the company with predictable annuity revenue.

Moderating carbon footprint: At GPIL, we recognised that the respected steel companies of the future would be those that would have invested in people, process, best practices and plants with the objective to moderate their carbon footprint. The company invested in waste heat recovery generation.

The Company is now embarking on setting up a 250 MW solar power plant with an investment of INR 750 Crores that will not only replace high-cost, low-efficiency thermal power with a clean, cost-effective, sustainable energy source for manufacturing finished steel products but also provide the company with predictable annuity revenue. The initiative will not only lead to substantial savings in energy costs and improve operating margins but also make the Company the first Indian carbon-neutral company in the iron and steel sector.

Deleveraging: At GPIL, we believed that the most visible intent of our need to emerge as a sustainable company would be reflected in our commitment to reduce the long-term debt on our books. This need to moderate debt was in response to extensive changes in the market environment. Across the last two decades, the global economic order has been increasingly marked by unforeseen development, often referred to as Black Swans. During these phases, one of the first casualties has been a decline in public and private spending, affecting the offtake of steel products. These events have, in turn, affected the debt and interest repayment capability of the debt-burdened steel companies, turning some of them sick and some towards ownership transfer.

At GPIL, we realised that it is imperative to moderate debt to remain solvent in our capital-intensive sector. The company became increasingly focused on using credit discipline, with a premium on the ability to moderate debt and live with a cleaner Balance Sheet. In view of this, the company resolved to repay all its long-term debt (except for its solar energy business where the accruals more than covered the interest liability) before investing afresh in any greenfield capital expenditure.

The decision was not as easy as one would think: it meant that GPIL would have to remain content with only debottlenecking-driven growth that would at best be moderate; it meant that our market presence and market shares would continue to be at around much of the same levels as in the previous years; from a culture of asset accretion, the company would now be required to focus on liabilities reduction.

I am pleased to communicate that by the virtue of treating debt as a factor of production as critical as coal, energy or consumables, the company repaid or prepaid ₹914 Crores in the four years ending 31 March 2021.

With the prevailing sectoral momentum, the company was able to repay all its long-term debt in the current financial year. This transpired on account of a singular discipline to utilise every rupee of earnings (after maintenance expenditure and working capital needs) in drawing down the liabilities on our Balance Sheet.

At a time when post-pandemic opportunities in India's steel sector will widen following the government's increased infrastructure spending and the world's growing mandate for responsible steel manufacture, we believe that GPIL will be at the right place at the right time.

The future of GPIL will be to integrate the manufacture of steel at one end and resource at the other. The company is also likely to be more liquid, more profitable and more sustainable across good and bad steel markets. We do not just expect to be among the first set of companies to turn increasingly profitable during a sectoral recovery; we also expect to remain among the last ones standing during an industry downtrend.

Besides, we believe that henceforth our broad-based foundation – we are enhancing our production capacities across the foreseeable future – will be key to our growth, reducing our dependence on cyclical commodity price swings to enhance stakeholder value.

This is how we intend to deepen our presence as a relatively non-cyclical company in a commodity sector, residing at the core of our aspiration of emerging as a truly sustainable Indian iron and steel company across market cycles.

B.L. Agarwal,
Managing Director

Proposed capacity expansion programmes

- 1.4 Million tonnes, iron ore mining capacity in 2020-21 to be increased to 2.3 Million tonnes in FY 22
- 2.1 Lac TPA of pellet capacity in 2019-20 to 2.4 Lac TPA of pellet capacity FY 21
- 4.9 Lac TPA of sponge iron capacity in 2020-21 to be increased to 5.95 Lac TPA of sponge iron capacity in FY 22
- 4.00 Lac TPA of steel billet capacity in 2020-21 to be increased to 7.0 Lac TPA of steel billet capacity in FY 23.

Our fiscal efficiency

Cost leadership → Enhance presence in niches → Strengthen liquidity (interest cover) → Maximise free cash flows from operations → Enhance RoCE and RoE

The competitive advantages of debt-free growth

Utilise only accruals for reinvestment → Wider margins → Quicker project payback → Rising profits and cash flows → Stronger market valuation → Increased core revenue and profits

How we intend to build long-term shareholder value

Long-term insourcing security

- Captive mining lease for 50 years (38 years of remaining mine life)
- Captive power generation capacity (73 MW and 25 MW from an associate company)
- Access to 10,000 KL of water per day
- Substantial iron ore cost advantage.
- Last iron ore auctions at 90-140% premium on the IBM price

Portfolio integration

- Extensive value chain (iron ore, pellets, sponge iron, billets, wire rods and HB Wires)
- Flexibility to sell anything across the steel value chain as per market needs
- Ability to enhance value from INR 3 per kg iron ore to INR 50 per kg of finished steel

Portfolio quality

- Movement towards value-addition (iron ore pellets 65%+ Fe)
- Use of high-grade pellets in billets/ wire rods to enhance quality at par with primary steel companies
- Enhanced production of value-added products from sponge iron to finished steel.
- Foray into flat products in the next phase of growth.

Operational efficiencies

- All major plants operated over 90% capacity utilisation in FY 21.
- High-capacity utilisation moderates production costs increase operating efficiency.
- High Return on Gross Block of 33.17% in FY 21.
- Increase sustainable EBITDA and PAT through debottlenecking, increased efficiencies and by setting up a solar power project.

Capital efficiency

- All capex to be mainly funded through internal accruals and low debt

Broad-based foundation

- Projected increase in upstream and downstream capacities
- Increased production of iron ore sharply from 0.44 mnt in FY15 and 1.66 mnt in FY20.
- Broad-basing to reduce dependence on commodity price swings.
- Signed MoU with Chhattisgarh Government for 1.5 Mn MT integrated steel plant

Responsibility

- Strengthening an ESG-compliant business model
- Robust governance and disclosures
- Positioned to become carbon-neutral
- Large use of low cost renewable energy for captive requirement.

Our governance responsibility

At GPIL, our governance responsibility comprises clarity on the way we will grow our business from this point onwards.

Controlled growth: In the business of steel manufacture, there is a temptation to be aggressive in growth seeking, with the objective to recover investments with speed. At GPIL, we had invested debt and accruals to capitalise on market realities, but going ahead, much of the company's investments will be driven by internal accruals and low debt.

Best over big: In the business of steel manufacture, there has been a consistent focus on maximising scale with the objective to enhance fixed cost amortisation more efficiently and enhance competitiveness. At GPIL, we believe that a combination of business breadth (integration) and reasonable scale will prove effective. Passionately run mid-sized steel companies can deliver operating efficiencies better than larger competitors (as in our case).

No speculative positions: In the business of steel manufacture, marked by price swings for resources and end products, there is a temptation to 'play' these swings and generate attractive short-term profitability. At GPIL, we have consistently resisted participating in these volatile and sharp price movements. Our competence lies in the efficient conversion of resource or raw material into finished products. We have focused on this core competence with the objective to manufacture steel of the best of quality, selling as much as we can and as fast as we can.

Integration: In the business of steel manufacture, a number of companies focused on building a steel customer-facing presence while sourcing resources from vendors. At GPIL, we did the reverse: we built a mining presence coupled with the manufacture of intermediate steel products and only when this was secured did the company extend to the manufacture of further downstream products. This sequence and integration helped moderate costs (one end product becoming raw material of the other) and enhance value-addition.

Building block: In the business of steel manufacture, there is an option to manufacture from a range of available choices. At GPIL, we focused on iron ore mine and pellet manufacturing as the foundation of our business. We believe we are ahead of the curve; the day is not far off when this responsible and resource-efficient route of steel making is statutorily recommended. The company invested in the manufacture of a larger proportion of high-grade pellets (higher Fe content), addressed by only a handful of global players and addressing the more demanding needs of downstream customers.

Flexible portfolio: In the business of steel manufacture, one can focus completely on a single product (specialisation) or widen one's portfolio. At GPIL, even as we possess the capacity to manufacture a range of products, we possess the flexibility to move from one product to another (producing less of one but more of the other), based on the prevailing market dynamics. This flexibility has made it possible for us to exercise a relatively product-agnostic strategy with the singular objective to enhance our margins.

No aggressive capex: In the business of steel manufacture, it is imperative to keep investing in the business with the objective to enhance scale and moderate costs. At GPIL, we took a contrarian position: we selected to freeze sizable capital expenditure and focus on debt repayment instead. The company meanwhile focused on capacity debottlenecking marked by with a quicker payback.

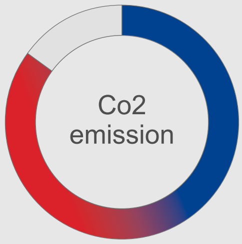
Environment responsibility: In the business of steel manufacture, there is a growing priority to be perceived as being more environmentally responsible than the statutory requirement. At GPIL, we believe that investments in environment responsibility are usually more than re-couped through higher employee morale, community respect, lender confidence, shareholder assurance and a superior credit-rating.

Simplification: In the business of steel manufacture, there is a possibility of growing the business through progressive investments in a number of subsidiaries (some of which could become redundant). At GPIL, we simplified our organisational structure with the objective to close a number of subsidiaries or merge them into GPIL. We believe that this restructuring will enhance simplicity and transparency.

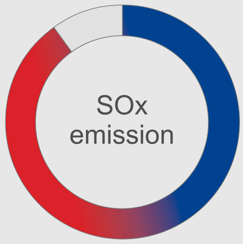
Pandemic protection initiatives, 2020-21

- Introduced customised workplace safety & sanitation standards;
- Thermal screening of all employees and visitors at the entry gates of office and factories;
- Hand sanitisation facility at all entry gates, sections, offices, canteens and administrative building;
- Additional buses deployed to reduce passengers per bus to keep safe distance;
- Protocol to submit medical examination certificate after two days of leave before resumption;
- Disinfection machines for all paper documents provided across all offices;
- Free vaccination provision for all employees;
- Implementation of work from home strategy wherever possible;
- Free supply of medicine, injections, oxygen & other essential to state authorities

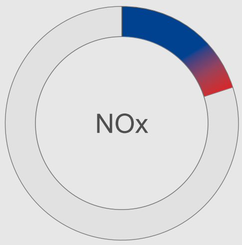
GPIL's pelletisation advantages



85% reduction in Co2 emission



90% reduction in SOx emission



20% reduction in NOx

30% energy savings

A TRISYS PRODUCT
info@trisyscom.com

HIRA
GODAWARI POWER & ISPAT

An ISO 9001:2008, ISO 14001:2004 & OHSAS 18001:2007 certified company

GODAWARI POWER AND ISPAT LIMITED
CIN: L27106CT1999PLCO13756

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