



SESA GOA

Karnataka iron ore mining woes

India Equity Research | Metals and Mining

A Supreme Court (SC) appointed panel has recommended extension of the iron ore mining ban to Chitradurga and Tumkur districts of Karnataka as well. Sesa Goa's 6 mtpa Chitradurga mine, which contributes 25% to total volume, could potentially be closed if the SC agrees to the recommendation in its August 26 hearing. Pending court hearing and clarity on the issue, we place the stock 'UNDER REVIEW'.

Annualised adverse impact of 25% on volume

Sesa Goa's mine in Chitradurga had recently ramped up to 6 mtpa and was accounting for ~25% of its annualised volume. Management had indicated that this mine had been surveyed and cleared by authorities in the past. As a result, it is possible that post a court-directed process this mine could restart over the next 4-6 months. We estimate resources of ~55 mt in this mine.

Potential risk to Goa operations as well

In a separate development, the Bombay High Court has ruled that for a specific mine in Goa the environmental clearance (EC) obtained under the 1994 EIA notification is valid for only five years and it needs to be re-obtained under the more recent 2006 EIA notification. As per media reports, 54 mines in Goa may also have obtained EC under the 1994 notification and may need to stop operations in future (if this judgement is applied) until fresh EC is obtained from the Central government. We understand that some of Sesa Goa's mines are part of these 54 mines and could be adversely affected.

Outlook and valuations: Potential impact of 33% on EBITDA on annualised basis; UNDER REVIEW

If we consider nil volumes for Karnataka in FY13 (current assumption: 6 mt) and also cut volume in Goa by 3 mt for FY13E considering the above risk (current assumption: 17 mt), our FY13E EBITDA dips 33%. Pending SC passing a judgement on the issue on August 26, 2011 and clarity on the various issues, we place the stock 'UNDER REVIEW'.

Financials (Consolidated)

Year to March	FY10	FY11	FY12E	FY13E
Revenues (INR mn)	58,583	92,051	89,598	99,796
Rev. growth (%)	18.1	57.1	(2.7)	11.4
EBITDA (INR mn)	31,486	52,063	39,149	37,972
Net profit (INR mn)	26,304	42,225	29,730	29,825
Shares outstanding (mn)	831	869	896	896
Diluted EPS (INR)	31.7	48.6	33.2	33.3
EPS growth (%)	25.3	53.5	(31.7)	0.3
Diluted P/E (x)	7.0	4.6	6.7	6.7
EV/EBITDA (x)	4.3	2.0	2.2	1.6
ROAE (%)	36.2	35.8	19.7	16.8

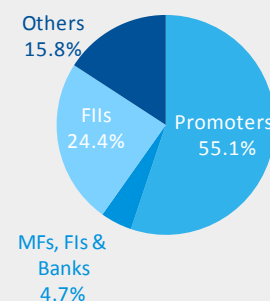
EDELWEISS 4D RATING

Absolute Rating	UNDERREVIEW
Sector Relative to market	Underweight

MARKET DATA (R: SESA. BO, B: SESA IN)

CMP	: INR 222
52-week range (INR)	: 383 / 220
Share in issue (mn)	: 869.1
M cap (INR bn/USD mn)	: 193 / 4,253
Avg. Daily Vol. BSE/NSE ('000)	: 3,673.8

SHARE HOLDING PATTERN (%)



* Promoters pledged shares : Nil
(% of share in issue)

PRICE PERFORMANCE (%)

	Stock	Nifty	EW Metals and Mining Index
1 month	(20.5)	(9.8)	(16.9)
3 months	(22.2)	(8.4)	(19.6)
12 months	(27.4)	(7.1)	(20.1)

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