



# 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   |

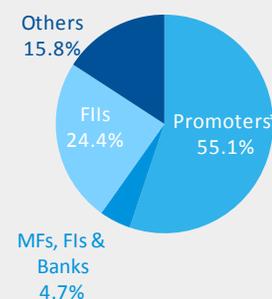
#### EDELWEISS 4D RATING

| 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)                     |

**Prasad Baji**  
 +91 22 4040 7415  
 prasad.baji@edelcap.com

**Faisal Memon**  
 +91 22 6623 3478  
 faisal.memon@edelcap.com

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**Edelweiss Securities Limited**, Edelweiss House, off C.S.T. Road, Kalina, Mumbai – 400 098.  
Board: (91-22) 4009 4400, Email: [research@edelcap.com](mailto:research@edelcap.com)

|                    |                             |  |                  |
|--------------------|-----------------------------|--|------------------|
| Vikas Khemani      | Head Institutional Equities | <a href="mailto:vikas.khemani@edelcap.com">vikas.khemani@edelcap.com</a>           | +91 22 2286 4206 |
| Nischal Maheshwari | Head Research               | <a href="mailto:nischal.maheshwari@edelcap.com">nischal.maheshwari@edelcap.com</a> | +91 22 6623 3411 |

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