

April 29, 2008

Q4FY08 Result Update

Sesa Goa

BUY

Exceeding Expectations

CMP Rs 4,172*

Key Data

Bloomberg Code	SESA IN
Reuters Code	SESA.BO
Current Shares O/S (mn)	39
Diluted Shares O/S(mn)	39
Mkt Cap (Rs bn/US\$ mn)	121.6/3.0
52 Wk H / L (Rs)	4,260/1,550
Daily Vol. (3M NSE Avg.)	213,830
Face Value (Rs)	10

1 USD = Rs 40.2

Source: Bloomberg ; * As on April 28, 2008

Price Performance (%)

	1M	6M	1Yr
Sesa Goa	(2.3)	(13.3)	75.6
NIFTY	3.0	(13.8)	24.6

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Result Highlights

Sesa Goa's Q4 FY08 results exceed our expectations. The company reported 108.1% yoy sales growth, to Rs17,050m due to 9% growth in sales volume and 98% increase in price realization of iron ore. The EBITDA increased 211.8% yoy, to Rs12,068m, while the margins improved by 2355bp. PAT grew 207% yoy, to Rs 8138m.

Result Analysis

The company reported 108.1% yoy sales growth, to Rs17,050m due to 9% growth in sales volume and 98% increase in price realization of iron ore. EBITDA margins improved by 2355 bp due to 98% increase in iron ore prices, 50% increase in met coke and 80% increase in pig iron prices. Met coke division turned around and reported an operating profit of Rs471m; a year ago it had operating losses of Rs25m.

Outlook & Valuations

We expect that demand for steel will continue to be robust and so demand for iron ore will continue to remain strong giving helping iron ore and met coke prices to remain firm. In fact we expect about 20% increase in iron ore prices and met coke prices for FY09E due to robust demand from steel industry. We are revising our earnings estimates for FY09E upwards by 10% from our earlier estimates due to 25% volume growth and better price realization. At the CMP of Rs4172, the stock trades at 6.6x FY09E revised EPS of Rs.632 and at 5.4x FY10E EPS of Rs.778 which we feel to be cheap. We reiterate **Buy**.

Table 1: Q4FY08 Results

Y/E March (Rs mn)	Q4FY07	Q3FY08	Q4FY08	QoQ(%)	YoY(%)	FY07	FY08	YoY(%)
Net Sales	8,195	11,724	17,050	45	108	22,179	38,226	72
Total Expenditure	4,325	4,485	4,983			12,826	15,522	
Stock Adjustment	507	181	45			126	(383)	
Pur of RM	653	458	670			2,471	2,779	
Employee Expenses	153	128	171			637	685	
Consumption of store	378	320	358			1,359	1,353	
Inland transport contracts	1,028	1,071	1,575			3,587	4,136	
Other services	417	579	641			1,290	1,894	
Purchase of ore	564	1,093	637			2,060	2,370	
Export duty	335	379	486			335	1,591	
Other Expenses	290	275	400			961	1,096	
Raw material as % of sales	24.3	17.5	10.0	-747 bp	-1424 bp	27.1	16.0	-1112 bp
Inland transport as % of sales	13.0	9.1	9.2			16.2	10.8	
Employee expense as % of sales	1.7	1.1	1.0			2.9	1.8	
EBITDA	3,870	7,239	12,068	67	212	9,353	22,704	143
% Margin	47.2	61.7	70.8	903 bp	2355 bp	42.2	59.4	1722 bp
Other income	127	165	273			451	744	
PBDIT	3,997	7,404	12,341			9,804	23,448	
Interest	0	0	0			3	0	
PBDT	3,997	7,404	12,340			9,801	23,448	
Depreciation	118	111	158			392	500	
Less:cost recovered	(91)	(97)	(113)			(250)	(301)	
PBT	3,970	7,391	12,295	66	210	9,659	23,249	141
Tax	1,319	2,464	4,157			3,147	7,760	
etr (%)	33.3	33.3	33.8			32.6	4,157	
Reported Profit After Tax	2,651	4,927	8,138	65	207	6,512	15,489	138
Minority interest	1	-	20			49	73	
Adj. PAT	2,650	-	8,118			6,463	15,416	139
NPM (%)	33.2	42.0	47.7	571 bp	1454 bp	29.4	40.5	1116 bp

Source: Company, Centrum Research

Key Highlights

Table 2: Price volume matrix

	Q4FY08	Q4FY07	%change	Q3FY08	FY08	FY07	%Change
Iron ore(mn T)	5	4.5	11.1	4	12.4	10.8	14.0
Price(Rs./T)	3,085	1,555	98.0	2,722	2,600	1,712	51.8
Met Coke(T)	72,693	66,128	9.9	64,000	259,718	237,623	9.0
Price (Rs./T)	15,100	10,526	43.4	13,100	12,425	8,937	39.0
Pig iron(T)	69,081	70,155	(2.0)		266,497	248,454	7.0
Price(Rs./T)	21,568	16,250	32.7		18,960	15,630	21.3

Source: Company, Centrum Research

Future ahead

The company is confident of achieving 25-30% volume growth in FY09E. We believe that company would be selling about 15.5mt of iron ore in FY09E. The company has changed its strategy. Previously it used to sell about 75% by long term contracts and 25% in spot market. Now it has decided to change the strategy and sell more in spot (60% in spot market) and less in contract (40% in contract). This way, the company's average realization is expected to improve significantly as we believe that iron ore prices are going to remain firm due to robust demand which in turn will directly add to the bootmline as the costs remain almost fixed.

Bonus & stock split

The company has announced 1:1 bonus for share holders and also announced the stock split in the ratio of 10:1. The Rs.10 face value stock will split into 10 shares of Rs.1 face value. The record date is not decided but this will improve liquidity of the stock.

Concerns

There are concerns that export duty on iron ore will be increased to ad valorem rate of 10% from the current fixed rate of Rs.50-300/T.

The other concern is that royalty on iron ore would be increased to ad valorem rate of 10% from the current fixed rate of Rs.16-27/T depending on the grade.

As per our estimates, even considering the impact of hike in both the duties we still believe that net price realization for the company would be higher by 22% yoy. So we don't see any concern on that front.

Valuation and recommendation

We are revising our earnings estimates for FY09E upwards by 10% from our earlier estimates due to 25% volume growth and better price realization. At the CMP of Rs 4172, the stock trades at 6.6x FY09E revised EPS of Rs632 and at 5.4x FY10E EPS of Rs778 which we feel to be cheap as there is going to be huge scramble for key resources like iron ore, coke and pig iron due to robust demand from steel industry. Indian steel demand is expected to grow by 8.8% due to increased consumption. Steel production in India is expected to increase to 115 mn tpa by 2012 and 200 mn tpa by 2020 from the current level of about 50 mn tpa which in turn will lead to increase in demand of iron ore, met coke and pig iron thereby giving support to the firm prices.

Besides, we believe that company will change its strategy going forward and will sell everything in spot market in next 1-2 years which will further improve its realization from the current level. Currently, spot prices of iron ore are in the range of US\$130-140/T and

long term contract prices would settle at around US\$80/T. The average realization would improve with the increased spot sales. We reiterate **Buy**.

Table 3: Summary Financials

	FY06	FY07	FY08	FY09E	FY10E
Sales (Rs mn)	18,445	20,051	38,226	58,852	72,056
% Growth	20.2	8.7	90.6	54.0	22.4
EBIDTA (Rs mn)	8,625	8,874	22,705	37,027	45,656
% Growth		2.9	155.9	63.1	23.3
PAT (Rs mn)	5,712	6,066	15,418	24,653	30,344
% Growth	20.7	6.2	154.2	59.9	23.1
Net debt (Rs mn)	(274)	(212)	(14,148)	(34,755)	(59,937)
ROE (%)	49.8	37.7	48.9	43.9	35.1
ROCE (%)	46.9	35.6	48.1	43.2	33.7
EPS (Rs)	146	156	395	632	778
P/E (x)	28.5	26.8	10.6	6.6	5.4
EV/EBIDTA (x)	18.8	18.3	6.5	3.5	2.3
P/BV (x)	14.2	10.1	5.2	2.9	1.9

Source: Company, Centrum Research

Key to Centrum Investment rankings:

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