

# Sesa Goa

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## Introduction of export duty

### Introduction of export duty of Rs300 per ton of iron ore

The Government of India ceding to Hoda Committee recommendations has imposed an export duty of Rs300 per ton of iron ore exported. Sesa Goa is India's largest export of iron in the private sector and would be significantly impacted if the new levy cannot be passed through.

Out of the 9.5mn tons of iron ore that is exported by Sesa Goa, 90% of the sales are on contract basis and the rest is on spot basis. On our interaction with the Company we were informed that the Company would be able to pass on the duty in case of the spot customers and to a certain extent to its contract customers.

### Our take

The recent export levy has come at a big surprise to the iron ore industry considering the fact that there is surplus iron ore in the country and would remain so for the next few years. Also, the duty is fixed in nature and not ad-valorem which means that even low grade iron ore (58-60% Fe) for which there is no market in India would attract the same duty as (66%+ Fe) content iron ore.

The net impact would be to the tune of Rs2.3bn on the PBT level. According we have reduced our cons. EPS estimates for FY2008 by 15% to Rs208.4 from Rs237.4 earlier.

### Valuation

At our revised EPS estimates Sesa Goa is currently trading at a PE and EV/EBITDA of 8.5x and 5.4x its expected FY2008 earnings.

Recently the management has announced that its promoter Mitsui & Co., intends to sell its 51% stake in the company, which would mean that as per Indian regulations, the new acquirer would have issue an open offer for an additional 20% stake in the company. Therefore if one holds 100 shares would be able to tender 41 shares in the ensuing open offer once the sale is completed. We believe that Sesa Goa being the only company of its kind in India, would attract significant controlling premium and if recent global deals are anything to go by, the acquisition multiples could be as high as 9x EV/EBITDA.

### Valuation summary

Y/E Mar, Rs mn	FY05	FY06	FY07E	FY08E	FY09E
Net Sales	15,337	17,718	20,514	23,469	25,159
Growth, %	75.9	15.5	15.8	14.4	7.2
Core EBIDTA	7,024	7,830	10,498	12,402	12,929
EBIDTA margins, %	45.8	44.2	51.2	52.8	51.4
Net profit	4,764	5,394	7,356	7,595	8,148
Net profit margin, %	31.1	30.4	35.9	32.4	32.4
Cons EPS, Rs	121.0	137.0	197.6	208.4	221.0
EPS Growth, %	48.7	13.2	36.4	3.2	7.3
PER, x	12.6	11.2	8.2	7.9	7.4
EV/EBIDTA, x	9.2	8.2	6.2	5.2	5.0
EV/Net Sales, x	4.2	3.6	3.2	2.8	2.6
Price/Book Value, x	21.1	14.1	9.0	6.6	5.1
ROIC, %	112.1	95.0	113.2	131.3	121.9
ROE, %	65.8	49.8	43.5	32.7	27.1

Source: Company, Man Financial Research Estimates

Downgrade to Outperformer  
Rs1650 / Target Rs1820 (+7%)

#### Sector (Relative to market)

OW	N	UW

#### Stock (Relative to market)

B	OP	N	UP	S
> 10%	5% to 10%	5% to -5%	-5% to -10%	< -10%

This note should be read for

- Budget impact
- Earnings update

Bloomberg code : SESA IN  
Reuters code : SESA.BO  
www.sesagoa.com

BSE Sensex : 13160  
NSE Nifty : 3811

#### Company data

O/S shares :	39mn
Market cap (Rs) :	65bn
Market cap (US\$) :	1467mn
52 - wk Hi/Lo (Rs) :	2000 / 808
Avg. daily vol. (3mth) :	495,154
Face Value (Rs) :	10

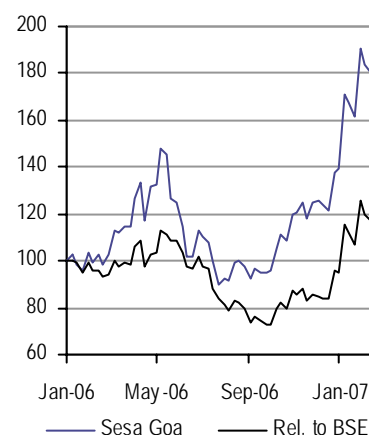
#### Share holding pattern, %

Promoters :	51.0
FII / NRI :	17.8
FI / MF :	10.1
Non Promoter Corp. Holdings :	4.4
Public & Others :	16.8

#### Price performance, %

	1mth	3mth	1yr
Abs	-6.1	37.6	46.5
Rel to BSE	-8.0	-4.3	24.7

#### Price vs Sensex



Source: Bloomberg, Man Financial Research

## Key Assumptions

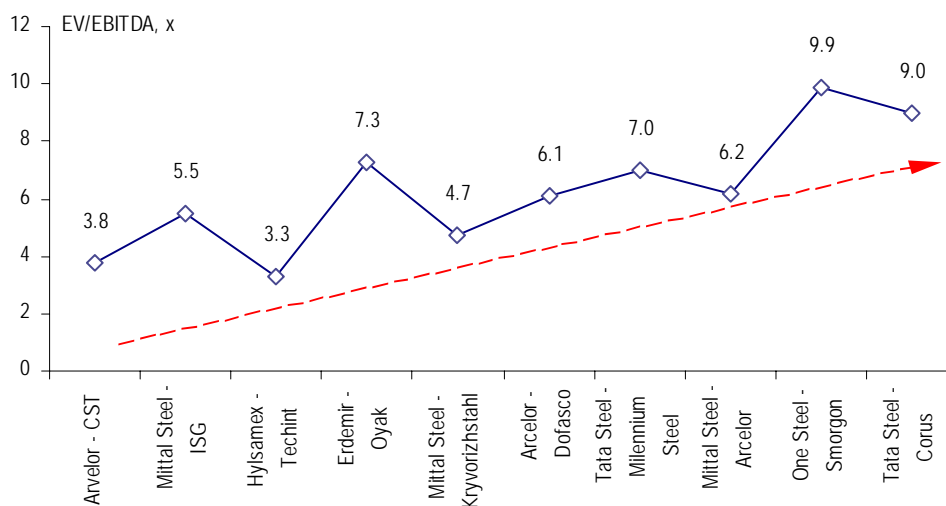
	FY2007E	FY2008E	FY2009E
Avg. Iron Ore prices (US\$)	41.45	45.38	47.65
Iron Ore volumes (Mn Tons)	9.8	10.4	10.7
Coking Coal Prices (US\$)	160	170	175
Coking Coal Volumes (Mn Tons)	0.29	0.31	0.32
Rupee / US\$	44.5	44.5	44.5

Source: Man Financial Research Estimates

## Nature of Export Duty

“Duty of Rs.300 per metric tonne to be levied on export of iron ores and concentrates and Rs.2,000 per metric tonne on export of chrome ores and concentrates.”

## Acquisition multiples – Recent acquisition multiple paid by acquirer companies in the steel industry

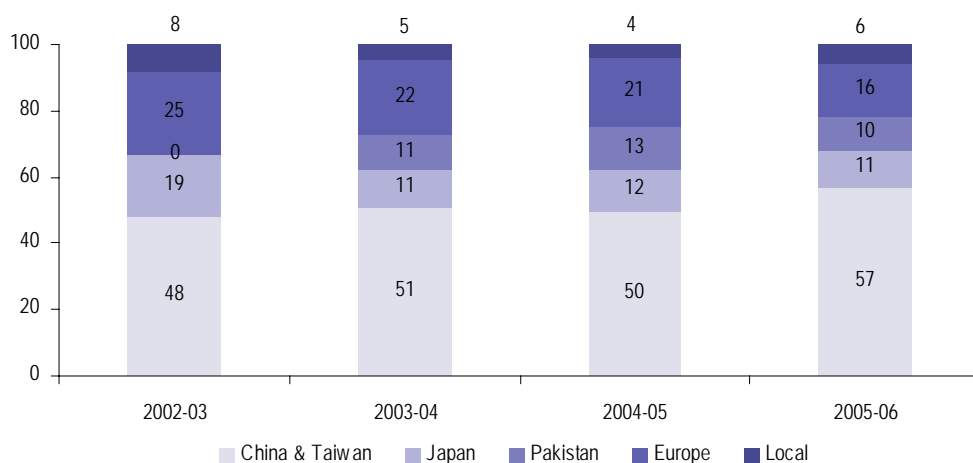


Source: Industry data

## Sesa Goa target acquisition at various EV/EBITDA multiples

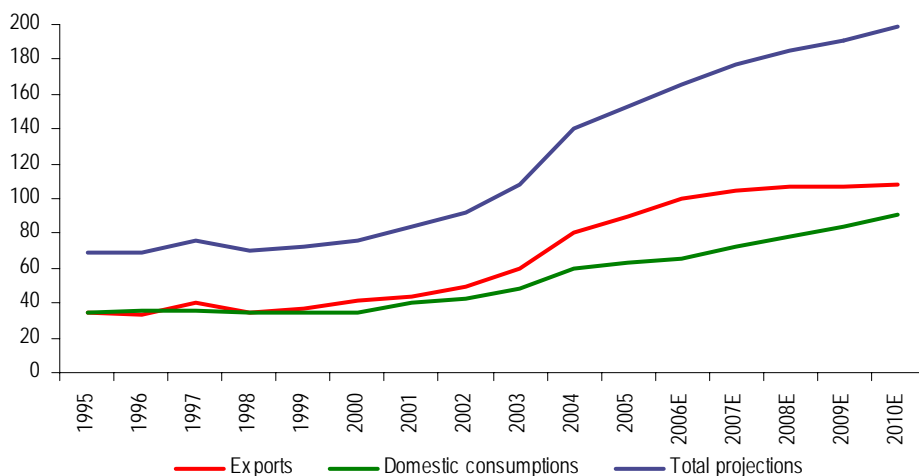
EV/EBITDA multiple	Target
5x	1600
6x	1940
7x	2250
8x	2560
9x	2900

### Sesa Goa – Iron ore sales distribution, %



Source: Company, Man Financial Research Estimates

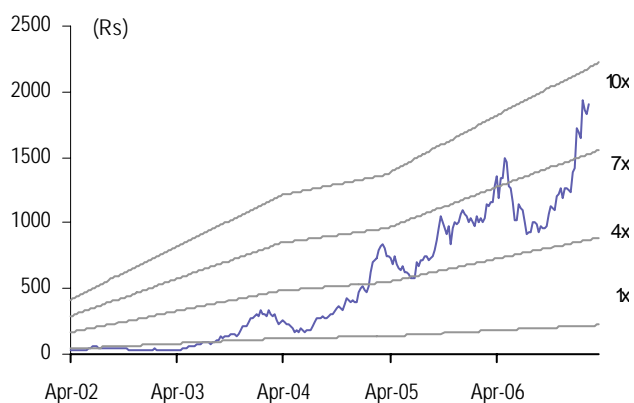
### Indian iron ore demand projections, mn tonnes



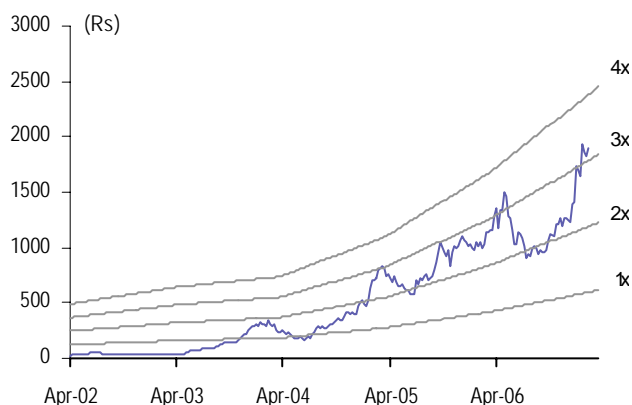
Source: Industry

# ABSOLUTE ROLLING VALUATION BAND CHARTS

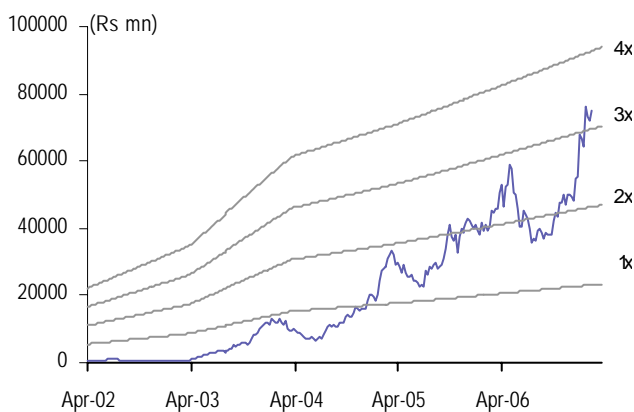
**PE band**



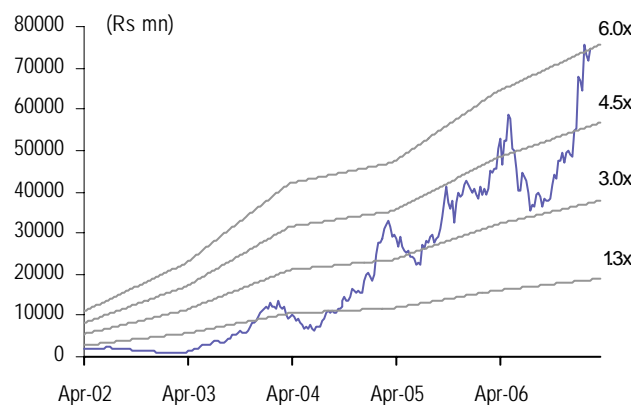
**PBV band**



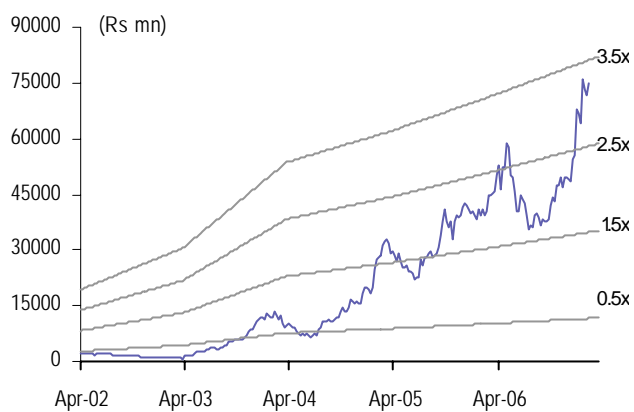
**MCap/Sales band**



**EV/EBIDTA band**



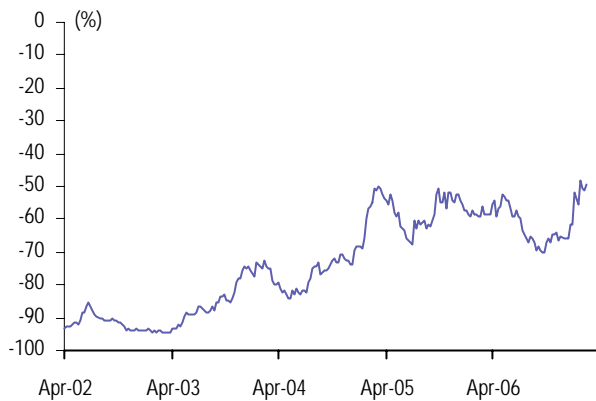
**EV/Sales band**



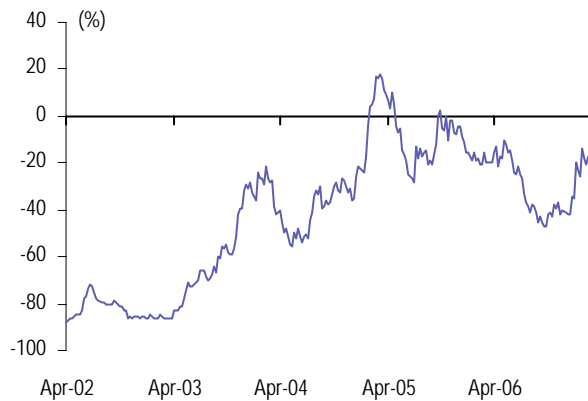
Source: Man Financial Research

# PREMIUM / DISCOUNT TO SENSEX

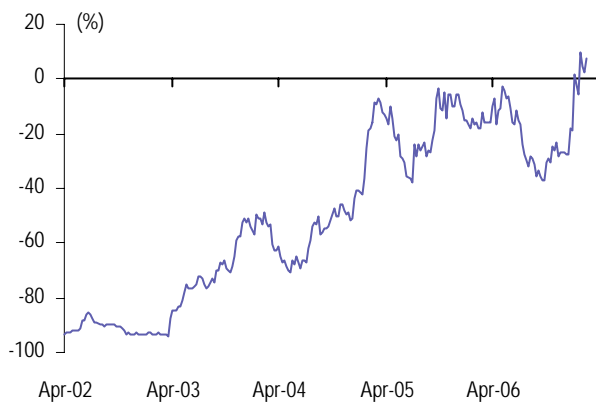
## PE



## PBV



## MCap/Sales



Source: Man Financial Research

## FINANCIALS

### Income Statement

Y/E Mar, Rs mn	FY05	FY06	FY07E	FY08E	FY09E
<b>Net sales</b>	<b>15,337</b>	<b>17,718</b>	<b>20,514</b>	<b>23,469</b>	<b>25,159</b>
<i>Growth, %</i>	<i>75.9%</i>	<i>15.5%</i>	<i>15.8%</i>	<i>14.4%</i>	<i>7.2%</i>
Other income	103.0	519.6	870.9	1260.3	1679.3
Total income	15,440	18,237	21,385	24,730	26,838
Operating expenses	8,313	9,887	10,016	11,067	12,229
<b>EBITDA</b>	<b>7,024</b>	<b>7,830</b>	<b>10,498</b>	<b>12,402</b>	<b>12,929</b>
<i>Growth, %</i>	<i>85.5%</i>	<i>11.5%</i>	<i>34.1%</i>	<i>18.1%</i>	<i>4.2%</i>
<i>Margin, %</i>	<i>45.8%</i>	<i>44.2%</i>	<i>51.2%</i>	<i>52.8%</i>	<i>51.4%</i>
Depreciation	320.2	246.6	280	290	300
<b>EBIT</b>	<b>6,807</b>	<b>8,103</b>	<b>11,089</b>	<b>13,373</b>	<b>14,309</b>
<i>Growth, %</i>	<i>82.8%</i>	<i>19.0%</i>	<i>36.8%</i>	<i>20.6%</i>	<i>7.0%</i>
<i>Margin, %</i>	<i>44.4%</i>	<i>45.7%</i>	<i>54.1%</i>	<i>57.0%</i>	<i>56.9%</i>
Interest paid	74.7	32.6	10	0	0
<b>Pre-tax profit</b>	<b>7,166</b>	<b>8,071</b>	<b>11,079</b>	<b>11,438</b>	<b>12,270</b>
Tax provided	2,402	2,677	3,723	3,843	4,123
<b>Profit after tax</b>	<b>4,764</b>	<b>5,394</b>	<b>7,356</b>	<b>7,595</b>	<b>8,148</b>
PAT after MI & Extra-ordinary Items	4,764	5,394	7,356	7,595	8,148
<b>MAN Net profit</b>	<b>4,764</b>	<b>5,394</b>	<b>7,356</b>	<b>7,595</b>	<b>8,148</b>
<i>Growth, %</i>	<i>48.7%</i>	<i>13.2%</i>	<i>36.4%</i>	<i>3.2%</i>	<i>7.3%</i>
Unadj. shares (m)	39.4	39.4	39.4	39.4	39.4
Wtd avg shares (m)	39.4	39.4	39.4	39.4	39.4

### Balance Sheet

As at 31st Mar, Rs mn	FY05	FY06	FY07E	FY08E	FY09E
Cash & bank	100	311	250	200	100
Debtors	1,467	2,172	2,810	3,215	3,446
Inventory	1,594	2,795	1,700	2,000	2,600
Loans & advances	225	297	250	250	250
Total current assets	3,386	5,575	5,010	5,665	6,396
Investments	3,460	5,162	11,683	17,246	21,804
Gross fixed assets	4,429	4,717	5,217	5,717	6,217
Less: Depreciation	1,709	1,880	2,160	2,450	2,750
Add: Capital WIP	155	453	80	90	100
Net fixed assets	2,875	3,291	3,137	3,357	3,567
<b>Total assets</b>	<b>9,722</b>	<b>14,027</b>	<b>19,830</b>	<b>26,269</b>	<b>31,768</b>
Current liabilities	856	1,230	900	900	900
Provisions	966	1,380	1,410	1,600	1,700
Total current liabilities	1,822	2,609	2,310	2,500	2,600
Non-current liabilities	492	478	548	528	488
Total liabilities	2,314	3,087	2,858	3,028	3,088
Paid-up capital	394	394	394	394	394
Reserves & surplus	6,849	10,448	16,530	22,847	28,285
Shareholders' equity	7,243	10,841	16,924	23,241	28,679
Loans	166	98	48	-	1
<b>Total equity &amp; liabilities</b>	<b>9,722</b>	<b>14,027</b>	<b>19,830</b>	<b>26,269</b>	<b>31,768</b>

## Per-share data

	FY05	FY06	FY07E	FY08E	FY09E
MAN EPS (INR)	121.0	137.0	186.9	193.0	170.7
<i>Growth, %</i>	<i>48.7</i>	<i>13.2</i>	<i>36.4</i>	<i>3.2</i>	<i>-11.5</i>
Book NAV/share (INR)	184.0	275.4	430.0	590.5	728.6
FDEPS (INR)	121.0	137.0	186.9	193.0	170.7
CEPS (INR)	129.2	143.3	194.0	200.3	178.4
Cons. EPS (INR)	126.0	144.5	197.6	208.4	184.7
DPS (INR)	25.0	25.0	30.0	30.1	30.2

## Profitability, Productivity, Liquidity and Valuation Ratios

	FY05	FY06	FY07E	FY08E	FY09E
Return on assets (%)	78.7%	55.9%	50.8%	36.8%	30.0%
Return on equity (%)	65.8%	49.8%	43.5%	32.7%	27.1%
Return on Invested capital (%)	112.1%	95.0%	113.2%	131.3%	121.9%
RoIC/Cost of capital (x)	11.2	9.5	11.3	13.1	12.2
RoIC - Cost of capital (%)	102.1%	85.0%	103.2%	121.3%	111.9%
Return on capital employed (%)	61.3%	47.5%	42.0%	32.0%	26.6%
Cost of capital (%)	10.0%	10.0%	10.0%	10.0%	10.0%
RoCE - Cost of capital (%)	51.3%	37.5%	32.0%	22.0%	16.6%
Asset turnover (x)	0.3	0.3	0.3	0.3	0.3
Sales/Total assets (x)	1.9	1.6	1.2	1.0	0.8
Sales/Net FA (x)	5.3	5.4	6.5	7.0	7.1
Working capital/Sales (x)	0.1	0.2	0.1	0.1	0.2
Fixed capital/Sales (x)	0.5	0.6	0.8	1.0	1.2
Receivable days	41.8	44.7	50.0	50.0	50.0
Inventory days	70.0	103.2	62.0	66.0	77.6
Payable days	37.6	45.4	32.8	29.7	26.9
Current ratio (x)	1.9	2.1	2.2	2.3	2.5
Quick ratio (x)	0.9	1.2	0.8	0.9	1.0
Interest cover (x)	89.7	232.6	1021.8	0.0	0.0
Dividend cover (x)	4.3	4.8	5.8	5.9	6.4
PER (x)	12.6	11.2	8.2	7.9	7.4
Price/Book (x)	21.1	14.1	9.0	6.6	5.1
EV/Net sales (x)	4.2	3.6	3.2	2.8	2.6
EV/EBITDA (x)	9.2	8.2	6.2	5.2	5.0
EV/EBIT (x)	9.7	8.5	6.3	5.3	5.1
EV/NOPLAT (x)	14.4	12.7	9.4	8.0	7.7
EV/CE	14.6	10.3	11.1	9.9	8.8
EV/IC (x)	16.2	12.0	10.7	10.5	9.3

Source: Company, Man Financial Research Estimates

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