

Hem Securities Limited
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Sesa Goa Ltd.

04 March 2008

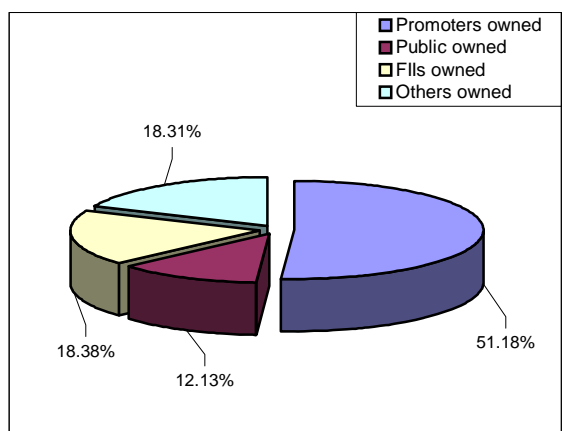
CMP-3,425

Price target-4,365

Stock statistics 04 March 2008

Market Cap (Rs Mn) :	1,34,814.92
52-Week high/low (Rs) :	3,969/1,535
Face value :	10
BSE Code :	500295
NSE Code :	SESAGOA
Industry :	Mining
Shares outstanding :	3,93,62,020
Avg. daily vol. (30 days) :	169.90

Shareholding Pattern (as on 31 Dec'07)



Key Statistics (as on 04 March 2008)

CMP :	3,425
BV :	367.69
PE :	13.19
PB :	9.31
Beta :	1.31
Turnover (Rs Mn) :	236.26
Net worth (Rs Mn) :	15,063.60

Sesa Goa Limited, the flagship company of Sesa Group is India's largest exporter of iron ore in the private sector. For the past five decades, the Group has been involved in iron ore mining, beneficiation and exports, with a group turnover of around Rs. 18,000 million. Over the last decade, it has diversified into the manufacturing of pig iron and metallurgical coke. The Group operates a 280,000 TPY metallurgical coke plant and a 220,000 TPY pig iron plant. The mining establishments are located in the states of Goa, Karnataka and Orissa. It exports approximately five million tonnes of iron ore, fines and lumps to customers in Japan, China, Europe, etc. The company has 3 divisions, namely, engineering, river fleet and shipping and ship building. It has amalgamated all the subsidiaries, Narraim Mines, Sesa Industries, Sesa Kembla Coke Company with itself.

Industry Outlook

The fortunes of iron ore mining industry are closely linked with those of steel industry. For the past few years steel production globally is growing and consequently, there is a growth of sea borne trade of iron ore. China continues to lead the growth in global steel production and therefore the incremental demand for iron ore also mainly emanates from there. With the increasing global steel production, particularly in India and China, the iron ore demand in the medium term is likely to remain strong, although the three major players are adding more mining and logistic capacity on a continuous basis. It is unlikely that there will be an over supply situation in the near to medium term. Consequently, the iron ore price is also expected to remain strong.

Therefore outlook for iron ore mining industry looks strong in medium to long – term with the company like Sesa Goa Limited being a strong pick.

Investment Rationale

- The company is planning to increase its iron ore production capacity from 13 mtpa to 20 – 25 mtpa in next three years. The company is also planning to raise its production capacities for pig iron and metallurgical coke from 0.25 mtpa to 1 mtpa and from 0.28 mtpa to 1.10 mtpa, respectively. The company will invest around Rs 30,000 million in next three years for the capacity addition.
- The rising iron ore prices globally coupled with strong demand from china and lagging supplies from three consolidated global miners the price are expected to move up sharply in future and for the company like Sesa Goa with reserve of over 207 million tones is aggressively ramping up its production capacities to capitalize on the rising price of iron ore.

FINANCIAL STATEMENT ANALYSIS

Rs. mn

Particulars	Q3FY07	Q4FY07	Q1FY08	Q2FY08	Q3FY08
Total Income	5878.88	7601.13	4541.84	3311.15	11723.82
Growth (%)	-	29.30	(40.25)	(27.10)	254.07
Total Expenditure	3031.36	3849.46	2788.9	2242.79	4387.46
Operating Profit	2847.52	3751.67	1752.94	1068.36	7336.36
Growth (%)	-	31.75	(53.28)	(39.05)	586.69
OPM	48.44	49.36	38.60	32.27	62.58
Other Income	119.60	122.76	101.35	180.95	165.33
EBIDTA	2967.12	3874.43	1854.29	1249.31	7501.69
Interest	0.61	0.53	0.09	0.04	0.01
Depreciation	82.03	91.03	90.66	89.54	110.61
PBT	2884.48	3782.87	1763.54	1159.73	7391.07
Tax	935.10	1258.10	574.90	338.40	2464.00
Adjusted PAT	1949.38	2524.77	1188.64	821.33	4927.07
Growth (%)	-	29.52	-52.92	-30.90	499.89
Adjusted NPM	33.16	33.22	26.17	24.80	42.03
Reported PAT	1949.38	2524.77	1188.64	821.33	4927.07
EPS	49.50	64.10	30.20	20.90	125.20
Equity Capital	393.62	393.62	393.62	393.62	393.62

The company has posted excellent results for the quarter ended Q3FY08 with the net sales soaring up by 100% to Rs 11,724 million for the current quarter as against the net sales of Rs 5,879 million in the corresponding quarter of the previous year. The operating profits gone up sharply by 158% to Rs 7,336 million for the Q3FY08 as against the operating profit of Rs 2,848 million in the Q3FY07. The operating profit margins witnessed huge surge from 48.44% in the Q3FY07 to 62.58% in the Q3FY08. The EBITDA for the company stood at Rs 7,502 million for the Q3FY08 in comparison to EBITDA of Rs 2,967 million for the Q3FY07 with the growth rate of 153%. The EBITDA margin rose to 64% for the Q3FY08 as against the EBITDA margin of 50.47% for the Q3FY07. The net profit for the company rose to Rs 4,927 million for the Q3FY08 in comparison to the net profit of Rs 1,949 million for the Q3FY07 with the growth rate of 153%. The net profit margins gone up sharply to 42.03% for the Q3FY08 as against the net profit margin of 33.16% for the Q3FY07. The EPS for the company rose strongly to Rs 125.20 for the Q3FY08 as against the EPS of Rs 49.50 for the Q3FY07. The EPS (TTM basis) stood at Rs 240.40 for the year.

The strong growth in operating profits can be attributed to low operating costs as two – third of the company's mining operations are located in Goa, in close proximity to the seaport. The iron ore is transported in the barges through rivers to its trans – shipper for loading on outgoing basis. The company has also deployed its own railway wagons in Orissa to minimize inland transportation costs.

Valuation

The rise in global steel production has lead to rise in the demand for coke across the globe and China which is a dominant exporter of coke has increased the export duty on coke from 15% to 20% in January 2008 as a result of which the prices of coke have increased to all time high. Sesa Goa imports coking coal for the manufacturing of coke while the cost of its coking coal is fixed through long – term contract, it sells coke at the current price therefore strong coke price would drive the margins for the company. The current industry scenario and rising iron ore price are expected to drive the future growth of the company and with the large capacity addition plans in the future the company will capitalize on both the front.

The stock at the current market price of Rs 3,425 will trade 13.19 times to its earning per share of Rs 240.40 (TTM basis) and will trade 9.31 times to its book – value of Rs 367.69. The stock looks attractive at the current valuation with the strong upside potential in the medium to long – term.

Therefore, we are initiating 'BUY' signal on the stock with the target price of Rs 4,365 which is approximately 27% up from the current market price of Rs 3,425.

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