

Result Update

CMP: ₹ 241

Target: ₹ 321

Buy

Stock Details

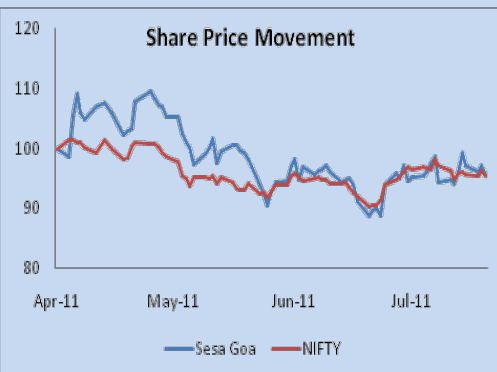
Market Cap. (₹ Mn.)	241957
52 Week High/Low	₹ 383/220
Book Value	95
Face Value	1.00

Codes

BSE Code	500295
NSE Symbol	SESAGOA
Bloomberg Code	SESA IN
Reuters Code	SESA.BO

Shareholding Pattern

	Jun-11	Mar-11	Dec-10
Promoters	55.13	55.13	55.73
FII	24.41	23.92	24.37
DII	4.66	4.76	4.47
Others	15.8	16.19	15.43



Stock performance

Returns (%)	1-m	6-m	12-m
Absolute	1%	-13%	-21%
Relative	3%	-14%	-25%

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Finally something to cheer about

Sesa Goa Limited will acquire 51% stake in Western Cluster Limited, Liberia for a cash consideration of US\$ 90 million. WCL has iron ore mining assets with access to potential resources of over 1 billion tonnes (~330 mt Saleable Product) and close proximity to existing port infrastructure and access to land for railway corridor. This acquisition is subject to ratification of the Mineral Development Agreement by Legislature of Liberia. We feel that this acquisition is a step in the right direction for Sesa Goa.

Attractive asset

The Western Cluster tender includes a group of three mines, with reserves of ~1.1bnte of iron ore. In two of the mines, major companies have mined in the past. The average grade of the iron is 64% as per the management. The three mines are 70-140 km away from the nearest port. The project has been allotted 51 acre of the port to develop for exports. But the project shall require investment to the tune of \$1.6 bn for commercial production to start. As per the management the operating costs should be in the range of \$30 per tonne.

Government support and benefits

The Government has completed all the required formalities except for the ratification of the Mineral Development Agreement by Legislature of Liberia. As per the agreement the company will make an advance payment of US\$25mn to the government of Liberia apart from annual payments of US\$3mn a year upon commencement of production, and 21% of profit from the project. This profit will be calculated after the mining company recovers 22.5% ROI and its Capex costs.

Controversy over bidding process can prove a dampener

The granting of license to Elenilto Minerals & Mining LLC for the mining rights in the region has been surrounded by controversy due to its lack of technical history in the mining of iron ore and lack of transparency in the bidding process. Any unfavorable event in this regards can create uncertainty for Sesa Goa.

Outlook and Valuation

We value the iron ore business of the company at an EV/EBITDA of 2x on its FY13E earnings and the 18.5% stake in Cairn India at ₹94/share (valuing Cairn at ₹ 331 per share using NPV method and 30% holding company discount) to arrive at the value of ₹ 321 per share which offers 13% upside from current levels. We maintain our "Buy" rating on the stock as we feel that the recent underperformance prices in the negatives.

Financial Highlights

(Rs mn)	FY10	FY11	FY12E	FY13E
Revenue	58,583	92,051	100,710	119,756
Growth (%)	18.1	57.1	9.4	18.9
Adjusted net income	26,390	42,712	32,859	41,589
Growth (%)	32.3	61.8	(23.1)	26.6
EPS (Rs)	30.4	49.1	37.8	47.9
Growth (%)	32.3	61.8	(23.1)	26.6

- Our reports are available on Bloomberg < JAYP >
- Please refer to the disclaimer at the end of the report

Huge Investment required for the project

The WCL is a wholly owned subsidiary of Elenilto Minerals & Mining LLC, which is the winner of a bid for the development of the Western Cluster iron ore deposits pursuant to a tender floated by Government of Liberia. The project shall require investment to the tune of \$1.6 bn for commercial production to start. The three mines are 70-140 km away from the nearest port. Sesa Goa will have to develop the railway facility from the mine head to the port for the transport of iron ore. The project has been allotted 51 acre of the port. Sesa Goa will have to develop the port to make it suitable for large vessels.

Payment to the Government

The company will make an advance payment of US\$25mn as bank guarantee to the government of Liberia apart from annual payments, of US\$3mn a year upon commencement of production, and 21% of profit from the project. This profit will be calculated after the mining company recovers 22.5% ROI and its Capex costs.

1 bn tonne of Iron ore reserves

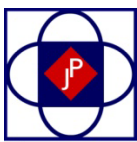
The major reserve is accounted by Bea Mountain mines. The management has not included the reserves of the Bomi Hills mines in their estimation, but they are believed to have 50 mn tonne of reserves. The average grade of the mines is 64%, while saleable quantity id believed to be 330 mn tonnes.

Mining Area	Estimated Reserves (mn tn)
The Bea Mountain	923
The Mano River	80
The Bomi Hills	Not considered by management as yet

Our View

The asset is attractive but not without considerable investment and long gestation period. While the actual cost of the project will be ascertainable only after the feasibility study of the project, initial reports of \$1.6 bn doesn't look expensive for a saleable quantity of 330 mn tonnes at EV/tonne of \$0.95. The company is targeting commercial production by the end of FY14 which is a far off way from here. But considering the receding reserves of Sesa Goa in India (275 mn tn) and the current spate of problems for Sesa Goa in Karnataka, this acquisition comes as a silver lining. The deal has the potential to be beneficial for the companies and the shareholders in the long run.

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08 August, 2011

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Income Statement				
Y/E March (₹ mn)	FY10	FY11	FY12E	FY13E
Revenues	58,583	92,051	100,710	119,756
Growth (%)	18	57	9	19
EBITDA	31,486	52,063	47,543	57,949
Growth (%)	24	65	(9)	22
Depreciation & amortisation	745	964	1,163	1,282
EBIT	30,741	51,099	46,380	56,666
Growth (%)	23	66	(9)	22
Interest	555	414	762	375
Other income	4,260	4,911	3,425	5,781
EBT	34,446	55,597	49,044	62,073
Income taxes	8,056	13,372	16,184	20,484
Effective tax rate (%)	23	24	33	33
Extraordinary items	-	-	-	-
Min int / inc from	99	-	-	-
Reported net income	26,291	42,225	32,859	41,589
Adjustments	(99)	(488)	-	-
Adjusted net income	26,390	42,712	32,859	41,589
Growth (%)	32	62	(23)	27
Shares outstanding (mn)	831	869	869	869
FDEPS (₹) (adj)	30	49	38	48
Growth (%)	32	62	(23)	27
DPS (₹)	3.25	3.50	3.50	3.50

Balance Sheet				
Y/E March (₹ mn)	FY10	FY11	FY12E	FY13E
Cash and cash eq	23,918	8,970	504	599
Accounts receivable	3,381	6,830	7,473	8,886
Inventories	5,025	7,438	8,137	9,676
Other current assets	11,851	13,358	14,614	17,378
Investments	45,649	87,998	122,063	157,261
Gross fixed assets	27,510	30,648	33,463	35,360
Net fixed assets	21,770	24,156	25,807	26,423
CWIP	787	7,287	8,287	8,287
Intangible assets	-	-	-	-
Deferred tax assets, net	(750)	(682)	(682)	(682)
Other assets	-	-	-	-
Total assets	111,632	155,355	186,203	227,827
Accounts payable	7,948	12,593	13,811	16,489
Other current liabilities	354	354	354	354
Provisions	4,114	4,310	4,715	5,607
Debt funds	19,606	9,995	9,995	9,995
Other liabilities	433	-	-	-
Equity capital	831	869	869	869
Reserves & surplus	78,346	127,235	156,460	194,514
Shareholder's funds	79,177	128,104	157,329	195,383
Total liabilities	111,632	155,355	186,203	227,827

Cash Flow Statement				
Y/E March (₹ mn)	FY10	FY11	FY12E	FY13E
Net income + Depreciation	27,036	43,188	34,022	42,871
Non-cash adjustments	-1,353	-305	0	0
Changes in working capital	1,791	-962	-975	-2,145
Cash flow from operations	27,475	41,921	33,047	40,726
Capital expenditure	-1,495	-9,637	-3,814	-1,898
Change in investments	-13,637	-42,350	-34,065	-35,197
Other investing cash flow	-40,633	0	0	0
Cash flow from investing	-55,765	-51,987	-37,880	-37,095
Issue of Equity	5,372	0	-99	0
Issue/repay debt	23,576	-9,611	0	0
Dividends paid	-2,064	-3,281	-3,535	-3,535
Other financing cash flow	0	0	0	0
Change in cash & cash eq	-1,407	-22,958	-8,467	95
Closing cash & cash eq	23918	8970	517	641

Financial Ratios				
Y/E March (₹ mn)	FY10	FY11	FY12E	FY13E
Profitability & Return ratios (%)				
EBITDA margin	53.7	56.6	47.2	48.4
EBIT margin	52.5	55.5	46.1	47.3
Net profit margin	45.0	46.4	32.6	34.7
ROE	41.8	41.2	23.0	23.6
ROCE	36.7	36.3	21.9	22.5
Working Capital & Liquidity ratios				
Receivables (days)	19.8	20.2	25.9	24.9
Inventory (days)	81.6	110.2	121.5	117.2
Payables (days)	116.8	181.6	206.0	199.4
Current ratio (x)	5.3	2.8	2.2	2.2
Quick ratio (x)	0.4	0.5	0.5	0.5
Turnover & Leverage ratios (x)				
Gross asset turnover	3.2	3.2	3.1	3.5
Total asset turnover	0.7	0.7	0.6	0.6
Interest coverage ratio	55.4	123.5	60.9	151.2
Adjusted debt/equity	0.2	0.1	0.1	0.1
Valuation ratios (x)				
EV/Sales	4.3	2.7	2.5	2.1
EV/EBITDA	7.9	4.8	5.2	4.3
P/E	10.6	6.6	8.5	6.7
P/BV	3.4	2.2	1.8	1.4

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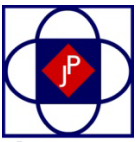
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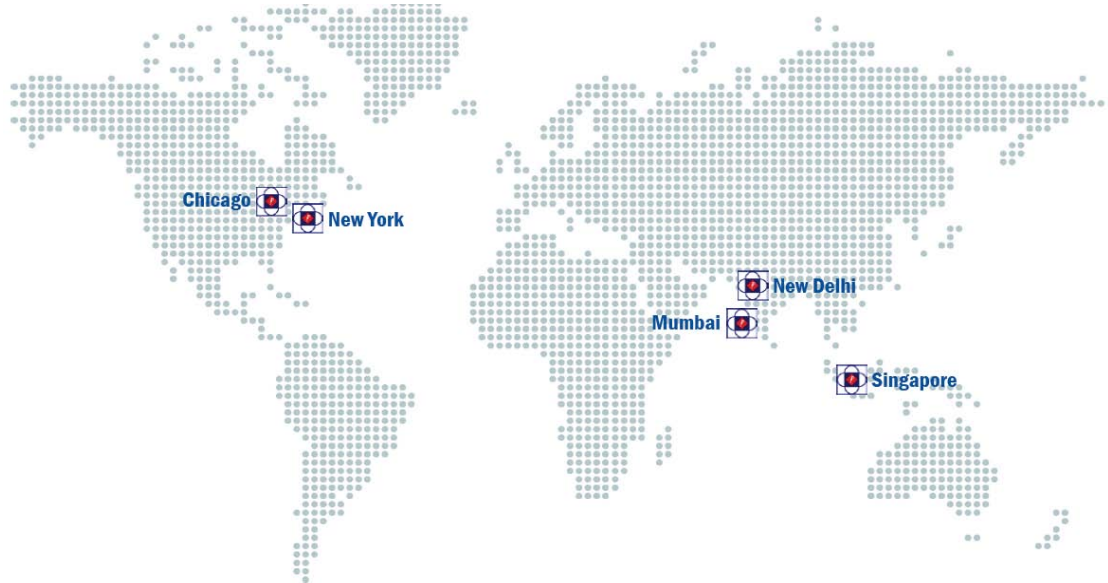
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