

## India Update

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### Highlights

Sector/event	Impact
<b>METALS:</b>	
<b>Sesa Goa –</b>	Sesa Goa is India's largest private iron-ore miner and exporter with an output of ~9.5mnte. ~70% of the company's output is from its operations in Goa and the rest from Karnataka and Orissa. Sesa Goa exports ~90% total output on long-term contracts to its customers (60% in China & Taiwan and the rest in Japan, Pakistan & Europe). ~6.5mnte is mined from the company's own mines and the remaining ~3mnte from private mines through long-term contracts. Apart from mining iron ore, Sesa Goa manufactures metallurgical coke and pig iron.
Company update	

### News Snippets

#### Corporate

- The Infrastructure Development Finance Company has raised Rs2.4bn via bond issue. (The Economic Times)
- The Ministry of Power is against plans to hive off the Dabhol LNG unit. (The Economic Times)
- The Government is likely to rake in more than Rs22.5bn by offloading its residual 10.27% stake in Maruti Udyog. (The Financial Express)
- The Government has given its nod to 16 special economic zones (SEZ). However, it has put Reliance Industries' big-ticket Navi Mumbai SEZ on hold. (Business Standard)
- Bharti and Hutch were fined Rs500mn each for launching Airtel 2-in-1 and Talkon services respectively without obtaining prior approval from the Department of Telecommunications. (The Financial Express)
- Hindalco has won the EU anti-trust nod for buying Novelis. (The Financial Express)
- Gas Authority of India plans to raise Rs150bn through overseas borrowings and a further Rs100bn from the local market. The company may sell part of its 2.4% stake in Oil and Natural Gas Corporation. (Business Standard)

#### Market data as on May 9, 2007

INDICES		% chg (DoD)
BSE Sensex	13782	0.12
S&P CNX Nifty	4079	0.06
BSE 100	7032	0.24
BSE 200	1664	0.23
Instanex Skindia DR	2456	(0.43)
Mindex	5780	(0.18)

#### OVERSEAS MARKETS

		% chg (DoD)
Dow Jones	13363	0.40
Nasdaq Comp.	2576	0.18
S&P 500	1513	0.32
Hang Seng	20845	0.67
Nikkei	17748	0.52

#### ADVANCES/DECLINES (BSE)

Group	A	B1	B2
Advances	115	266	358
Declines	87	422	440
Unchanged	3	20	42

#### FII TURNOVER (BSE+NSE)\* (Rs mn)

Bought	Sold	Net
21,514	19,394	2,120

#### NEW HIGHS AND LOWS (BSE)

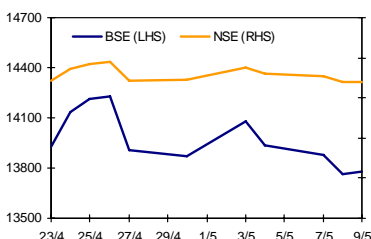
Group	A	B1	B2
Highs	4	8	15
Lows	-	16	7

#### CURRENCY

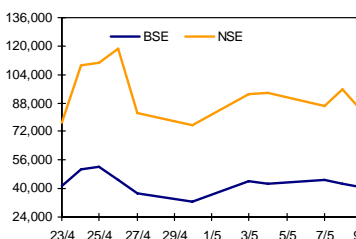
US\$1 = Rs40.92

\* FII turnover (BSE + NSE) as on May 8, 2007

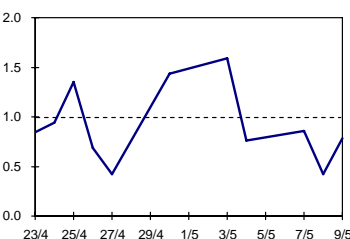
Market movement over last fortnight



Volumes in Rs mn (BSE and NSE)



Advances &amp; Declines ratio (BSE)



ICICI Securities Limited, ICICI Centre, H.T. Parekh Marg, Churchgate, Mumbai – 400 020, India.

Phone: +91 22 2288 2460/70 Fax: +91 22 2288 2448

ICICI Securities Inc, 500 Fifth Avenue, 28<sup>th</sup> Floor, New York, NY 10110.

Phone: +1 212 921 4228 Fax: +1 212 921 4390

## Sesa Goa (Unrated)

## METALS

## Rupee appreciation to crush earnings growth

Rs1,700

Rahul Jain

rahul\_jain@isecld.com

## Shareholding pattern

	Mar-07
Promoters	51
Institutional investors	29
MFs and UTI	4.1
Insurance Cos.	4.1
FII's	20.8
Others	20

Source: NSE

Sesa Goa is India's largest private iron-ore miner and exporter with an output of ~9.5mnte. ~70% of the company's output is from its operations in Goa and the rest from Karnataka and Orissa. Sesa Goa exports ~90% total output on long-term contracts to its customers (60% in China & Taiwan and the rest in Japan, Pakistan & Europe). ~6.5mnte is mined from the company's own mines and the remaining ~3mnte from private mines through long-term contracts. Apart from mining iron ore, Sesa Goa manufactures metallurgical coke and pig iron.

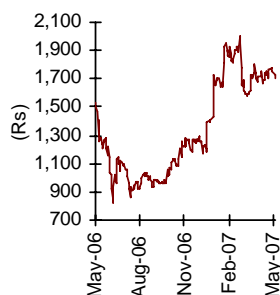
Recently, Mitsui & Co., Japan sold 51% controlling stake to Vedanta Resources Plc., UK for US\$981mn (or Rs2,036/share). The new promoter is expected to put forward an open offer soon to buy another 20% stake at Rs2,036/share.

Table 1: Valuation summary

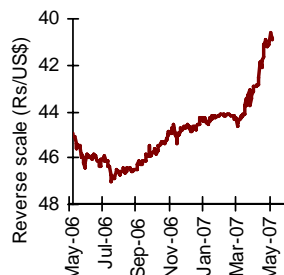
		Y/E March	EPS* (Rs)	P/E (x)		
Price (10/05/07) (Rs)	1700	2004	86.4	19.7	BSE Sensex	13782
52 wk Range (Rs)	2024/809	2005	126.0	13.5	M.Cap (Rs bn)	66.9
DPS (Rs)	15	2006	144.5	11.8	M.Cap (US\$ bn)	1.63
Dividend yield (%)	0.9	2007E	166.1	10.2	Shares Out (mn)	39.4
Face value (Rs)	10	2008E	163.6	10.4	Float (%)	49

Source: Company data; \* Fully diluted basis

## Price chart



## Rupee dollar



- **Volume growth continues to be slack.** Given the nature of the iron-ore business, Sesa Goa's iron ore volumes have remained stagnant at 8.5-9.5mnte in the past three years. This is mostly due to volume restrictions imposed by the Supreme Court at the company's key mines at Goa.
- **Strong international pricing scenario.** Iron ore prices have been on an upswing since the past several years owing to strong demand from China. Iron ore prices are fixed on an annual basis after negotiations between miners (viz. BHP Billiton, Rio Tinto & CVRD) and steel manufacturers in China & Japan. Sesa Goa follows these international benchmark prices, thus being a beneficiary of the international uptrend.
- **Export duty impact.** After a long hiatus, the Government has re-introduced an export duty of ~Rs300/te and Rs50/te on iron ore with more than 62% and less than 62% of iron content respectively. Sesa Goa's iron ore comprises 90% fines and 10% lumps, and ~70% total output is less than 62% iron content. The export duty would mean an additional outgo of ~Rs1.2bn for FY08, which the company may not be able to pass on to the customer.
- **Rupee impact.** The sharp appreciation in the Indian rupee vis-à-vis the US dollar in the past few weeks is likely to have direct implications for Sesa Goa, as the company exports ~90% output. Being a pure commodity producer with low value-add, the company's earnings are highly sensitive to currency price movements. The Indian rupee appreciated from an average of Rs45.5 in FY07 to Rs40.8 at present, a 12% rise.
- **Valuation.** We expect Sesa Goa to report an FY08 consolidated EPS of Rs163.6 (-1.5%YoY) on account of the impact of rupee appreciation, export duty and the 9.5% increase in benchmark prices. Sesa Goa currently trades at expected FY08 earnings PE and EV/EBITDA of 10.4x and 6.4x respectively. We believe that compared with its

peers and with the increased risk in earnings, the stock is significantly over-valued. Although the new management has aggressive plans for the company, we believe that the proposed changes have their own challenges and would take a significant time to materialise.

**Table 2: Financial forecast**

(Rs mn, year ending March 31)

	FY06	FY07	% chg. (YoY)	FY08E	% chg. (YoY)
<b>Net Sales</b>	-	-	13	19,712	(2)
<b>Total Expenses</b>	9,887	11,176	13	11,823	6
<b>EBITDA</b>	7,830	8,875	13	7,889	(11)
<i>EBITDA Margins %</i>	44.2	44.3	-	40.0	0.1
Interest	10	0	-	0	0
Depreciation	246.6	312.8	27	290	(7)
Other Income	1				
<b>Recurring pre-tax income</b>	8,071	8,995	11	8,780	(2)
Taxation	2,682	2,877	7	2,950	3
<b>Recurring Net Income</b>	5,394	6,118	13	5,830	(5)

Source: Company data; i-SEC Research

ICICI Securities Primary Dealership Ltd has been appointed as a Manager to the Open Offer made by Vedanta Group to the shareholders of Sesa Goa.

Recent reports/updates		
Analyst	Company/Sector	Date
Anand / Shilpa Yadav	Britannia Industries: When going gets tough...	May 7
S. Ramesh / Amit	Indraprastha Gas: Refuelling for growth	May 3
S. Ramesh / Amit	Gujarat Gas: In the fast lane	May 3
Anand / Shilpa Yadav	Hindustan Lever: Muted tempo	May 3
Anand / Shilpa Yadav	GSK Consumer: Surprise packet	Apr 30
S. Ramesh/Amit	Reliance Industries: Growth plans on track	Apr 27
Rajesh Vora	Cipla: Sluggish gait	Apr 27
Anand /Shilpa Yadav	Godrej Consumer Products: Of waning hue	Apr 26
S Ramesh	BPCL: Piping hot	Apr 26
Rajesh Vora	Pharma: Theme note on Sun Pharma & Glenmark	Apr 24
Anand / Shilpa Yadav	Kansai Nerolac: Radiant hues	Apr 24
Anand / Shilpa Yadav	Colgate-Palmolive: Tranquil tone	Apr 23
S. Ramesh / Amit	Netback: Refining on a winning streak	Apr 19
Shilpa Gupta	Speedometer: Subdued pace	Apr 16
S. Ramesh / Amit	GAIL (India): Stepping up the gas	Apr 16
Shilpa Gupta	Automobiles Quarterly results preview: Mixed bag	Apr 12
Rajesh Vora	Pharma Quarterly results preview: In full bloom	Apr 11
S. Ramesh / Amit	Oil&Gas Quarterly results preview: Full blast ahead	Apr 9
Anand / Shilpa Yadav	FMCG Quarterly results preview: On a promising note	Apr 9
Rajesh Vora	Wockhardt: On come-back trail	Apr 5
Poonam Nishal	Utilities Quarterly results preview: Waiting for Godot	Apr 5
Amar Kedia	Aviation Quarterly results preview: Mixed bag	Apr 3
Rajesh Vora	Glenmark Pharma: Raising the bar	Apr 3
Amar Kedia	SpiceJet: Tempest to blow past	Apr 3
Poonam Nishal	Telecom Quarterly results preview: Swelling volumes to script success	Apr 2
S. Ramesh	Gujarat Gas: Set for new highs	Mar 30
Rajesh Vora	Cadila Healthcare: Run to form	Mar 26
Amar Kedia	Balmer Lawrie: Stirring up	Mar 23
Anand Shah	Nestle: On an accelerated growth path	Mar 22
S. Ramesh	Netback margin monthly: Refining, the lone star shining	Mar 19
Rajesh Vora	Sun Pharma: The Sun SPARCles	Mar 16
Vikash Mantri	Jagran Prakashan (Unrated): Augmenting clout	Mar 15
Shilpa Gupta	Speedometer (Mar '07) – Balanced manoeuvre	Mar 14
Eq. Research Team	Union Budget Review 2007-08	Mar 1

## Quarterly results date reckoner

No.	Nifty companies	Date of result	No.	Other companies	Date of result
1	ABB India	April 26	1	Adlabs Films	April 26
2	ACC	April 19	2	Alembic Limited	-
3	Bajaj Auto	May 17	3	Apollo Hospitals Enterprise	-
4	Bharat Heavy Electricals	-	4	Arvind Mills	May 12
5	Bharat Petroleum Corporation	-	5	Ashok Leyland	May 4
6	Bharti Airtel	April 27	6	Asian Paints	May 10
7	Cipla	April 26	7	Aventis Pharma	April 16
8	Dabur India	May 8	8	Balaji Telefilms	May 16
9	Dr. Reddy's Laboratories	May 18	9	Bank of Baroda	April 28
10	GAIL (India)	May 8	10	Bharat Forge	-
11	GlaxoSmithKline Pharmaceuticals	April 27	11	Britannia Industries	-
12	Grasim Industries	April 25	12	Cadila Healthcare	April 26
13	Gujarat Ambuja Cements	April 20	13	Canara Bank	May 2
14	HCL Technologies	April 17	14	Colgate-Palmolive	May 3
15	HDFC Bank	April 24	15	Corporation Bank	April 28
16	Hero Honda Motors	May 11	16	GlaxoSmithKline Consumer	-
17	Hindalco Industries	May 4	17	Glenmark Pharma	April 25
18	Hindustan Lever	April 30	18	Godrej Consumer Products	April 25
19	Hindustan Petroleum Corporation	-	19	Gujarat Gas Company	April 30
20	Housing Development Finance Corporation	May 3	20	IDBI	April 20
21	ITC	-	21	Indian Hotels Co.	-
22	ICICI Bank	April 28	22	Indraprastha Gas	-
23	Indian Petrochemicals Corporation	-	23	Info Edge (India)	May 3
24	Infosys Technologies	April 13	24	Infotech Enterprises	-
25	Larsen & Toubro	-	25	Jammu & Kashmir Bank	May 7
26	Mahanagar Telephone Nigam	April 24	26	Jet Airways	-
27	Mahindra & Mahindra	May 28	27	JSW Steel	April 30
28	Maruti Udyog	April 24	28	Kansai Nerolac Paints	May 3
29	National Aluminium Company	April 25	29	Madras Cements	May 30
30	Oil & Natural Gas Corporation	-	30	Marico	April 26
31	Punjab National Bank	May 23	31	Mphasis	April 30
32	Ranbaxy Laboratories	April 27	32	National Thermal Power Corp.	-
33	Reliance Communications	April 30	33	Nestle India	April 30
34	Reliance Energy	April 25	34	Oriental Bank of Commerce	April 28
35	Reliance Industries	April 26	35	Patni Computer Systems	April 25
36	Reliance Petroleum	April 25	36	Polaris Software Lab	April 27
37	Satyam Computer Services	April 20	37	Procter & Gamble	April 30
38	Siemens	April 23	38	Punjab Tractors	-
39	State Bank of India	May 12	39	Raymond	April 26
40	Steel Authority of India	May 21	40	Sasken Communication Technologies	-
41	Sterlite Industries (India)	May 3	41	SpiceJet	-
42	Sun Pharmaceutical Industries	May 15	42	Tata Tea	-
43	Suzlon Energy	May 14	43	TVS Motor Company	-
44	Tata Consultancy Services	April 16	44	Union Bank of India	May 7
45	Tata Motors	May 18	45	UTI Bank	April 17
46	Tata Power Co.	May 30	46	Wockhardt	April 26
47	Tata Steel	May 17			
48	Videsh Sanchar Nigam	-			
49	Wipro	-			
50	Zee Entertainment	April 21			

Note: Result dates in calendar format on Page 5

## Quarterly results date reckoner

## MAY 2007

Sun	Mon	Tue	Wed	Thu	Fri	Sat
	.	1 .	2 .	3 Kansai Nerolac, Info Edge, Colgate-Palmolive	4 Ashok Leyland	5 .
6 .	7 Union Bank of India, J&K	8 GAIL	9 .	10 Asian Paints	11 Hero Honda	12 SBI
13	14 .	15 Sun Pharma	16 Balaji Telefilms	17 Bajaj Auto	18 Tata Motors, DRL	19 .
20	21 .	22 .	23 PNB	24 .	25 .	26 .
27	28 M&M	29 .	30 Madras Cement, Tata Power	31 .		

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