Key Highlights

- The company declared an interim dividend of Rs 15 per share as on Fen10,07
- Sesa Goa rides high on global ore price spike in the international markets.
- The company has applied for Greenfield mining leases in Jharkhand and Chattisgarh.

Industry Scenario

The iron ore industry is witnessing increased demand with increase in demand for steel. This demand is expected to sustain for the next three to four years. India has the third highest share in the global iron ore market after Australia and Brazil. The export of ore from Goa accounts for 50% of the total exports in India. The Indian iron ore industry is facing competition from Australian and Brazilian mines, which have better logistics in transporting the iron ore. Iron ore reserves are located mainly in Madhya Pradesh, Chhattishgarh, Orissa, Karnataka, Jharkhand and Goa. The country has witnessed 196% rise in the export of iron ore for the period between April-December 2004. The country's installed capacity for iron-ore production is expected to rise to 135 million tones from the existing 90 million tones at the end of the Tenth Five Year plan. The total demand, during this period, has been estimated at 122 million tones. Despite fears of a slowing growth rate, China's National Bureau of Statistics estimates that it's country's steel production for the 11 months to November recorded an impressive 23% increase to 269.6 million tonnes compared to the same period last year. Its November production of 27.9 million tonnes accounted for nearly 30% of world production. Next year the steel production is expected to be slower (and more sustainable) growth rate of 9%, bringing annual production to around 300 million tonnes. This represents nearly two-thirds of the increase in world steel production in 2005. China's iron ore imports surged 40% in '04 to 208m tonnes. Iron ore prices has seen a rise of 71.5% in the new contracts placed by global iron ore majors like CVRD and Rio Tinto for supplies to Japanese steel producers in FY06. This would be a significant spurt compared to the 9 per cent and 18 per cent hikes negotiated for the preceding two years. The average rate for FY06 is expected to settle at least above 50% over FY05 prices. The current spot price of iron ore is expected at USD65/MT and to stabilize around USD45/MT in the medium term.

Operational Performance

For the year ended Mar'06, performance of the company was good. The net sales of the company is increased by 20.53% to Rs 1698.76 crores from Rs 1409.36 crores during the previous year. Operating expenses increased by 28.05% to Rs 903.18 crores (Rs 705.33 crores). Employee expenses rose by 4.32% to Rs 42.76 crores (Rs 40.99 crores). Raw Material cost went up by 38.45% to Rs.191.69 crores. Other expenses of the company also increased by 28.43% to Rs 692.12 crores. The operating expenses as a % of sales increased from 50.04% to 53.16%. Operating profit registered a growth of 13% to Rs 795.58 crores (Rs 704.03 crores). Non-operating expenses like interest and depreciation declined by 40.91% to Rs3.25 crores and by 3.79% to Rs24.63 crores respectively. However, taxation increased by 17.32% to Rs264.02 crores.Operating profit margin decreased by 312 basis points to 46.83%.The net profit of the company was reported at Rs. 531.34 crores for the FY 06 as compared to Rs 462.38 crores in FY 05. NPM declined by 520 basis points to 30.78% from 32.47% in FY05.

Expansion

Expansion beyond Goa

The company has applied for mining leases in Jharkhand and Chhatisgarh. It is focussed on expanding operations in iron rich states across the country. This includes both green field mining activity and also acquiring brownfield mining interests. The company is ideally looking at a minimum lease period of 15 years for these mines. The company has started iron ore mining operations at Chitradurg in Karnataka and in Barbil, Orissa. With the global steel market witnessing a rebound in demand, the company has seen an upsurge in demand from a long and diversified base of global customers.

Geographical Advantage

The iron ore producers of India including Goa have proximity to the ever-growing iron ore markets of China besides other markets of Asia and Europe. The company has also established good relationship with Chinese clients. China along with Taiwan contributes around 50% of the sales of the company. The new contract with Pakistan steel mills for the next five years is expected to earn revenue of 1.17 million tones per annum.

Agreement

Agreement with Xtnrgy

The company has entered into a Technology Licensing Agreement with XTnrgy, LLC. (XT) a limited liability company organized under the laws of Delaware, United States of America granting to XT an exclusive and non-transferable License to use company's Indian patented Non-Recovery Coke Making Technology for setting up non-recovery coke oven plants within North America, Central America, South America and the United Kingdom. The company's Non-Recovery Coke Making Technology ensures that the volatile organic compounds produced in the coke making process are fully combusted within the coke ovens, energy is recovered in the form of steam and the emissions are fully compliant with advanced global emission standards. XT propose to adapt this Technology for use in the U.S. market to set up coke plants compliant with U.S.EPA regulations along with co-generation power plants.

Financial Performance

For the nine months ended Dec06, the company has achieved a growth of 11.83% to Rs1245.01Cr as against Rs1113.27Cr in the quarter ende Dec 05.The company reported a growth in other income by 61.46% to Rs32.05Cr .The operating expenses of the company has soared up by 23.39% to Rs732.84Cr as compared to Rs593.92Cr during the quarter ended Dec 05 and this increase was mainly credited to increase in employee expenses, other expenses by 26.04%, 26.59% to Rs39.93Cr and Rs603.84Cr respectively. The company reported a decline in operating profit by 1.39% to Rs512.16Cr as against Rs519.36Cr and this increase was mainly because of higher growth in operating expenses as compared operating income. The interest burden on the company surged down by 85.46% to Rs0.33Cr.After providing for depreciation of Rs22.18Cr and taxation of Rs167.63Cr, the net profit of the company stood at Rs354.08Cr representing a growth of 1.96% from Rs347.29Cr during the quarter ended Dec05. Both the operating profit margin and net profit margin witnessed a decline .

For the third quarter ended Dec 2006, the company has achieved growth in terms of top line and bottom line of the company .The company witnessed a growth in operating income of 15.19% to Rs587.89Cr as compared to Rs510.37Cr during the corresponding quarter ended Dec05.The company reported a tremendous growth in other income by 124.39% to Rs11.96Cr.The raw material costs decreased by 12.72% to Rs51.67Cr. The operating expenses of the company has surged up by 11.95% to Rs303.14Cr as against Rs270.78Cr and this increase was mainly credited to increase in employee expenses and other expenses by 17.64% and 17.58% to Rs 11.27Cr and Rs217.78Cr respectively. However the company reported a growth in operating profit by 18.85% to Rs284.75Cr and this was mainly due to high growth in operating income as compared to operating expenses. The interest charges of the company was declined by 92.21% to Rs0.06Cr.After providing for depreciation of Rs8.20Cr and taxation of Rs93.51Cr, the net profit of the company stood at Rs194.94Cr representing a growth of 23.50%.On the back of operational profit the operating profit margin of the company has shown an incline by 150 basis point to 48.44% .The net profit margin also reported a growth of 189 basis point to 32.50%.

Cautions

- China slowdown may impact the iron ore prices impacting its long-term performance
- Any policy change in restriction of higher quality ore exports in future may affect the company.
- Spiraling oil prices and strengthening Rupee continue to be cause of concern.
- Increase in the price of iron ore supplies.
- Metallurgical Coke segment is witnessing a cost escalation and a price deceleration.