

INDIA

## Sesa Goa Limited

25 April 2007

### Acquisition by Vedanta

#### Event

- Vedanta Resources Plc (VED LN, Not rated) has acquired Mitsui's 51% stake in India's largest private iron ore exporter, Sesa Goa Limited (SESA IN, Not rated), for US\$981m. The offer price values Sesa Goa's shares at Rs2,036 each, which is at a 17% premium to the previous day's closing price of Rs1,742.

#### Impact

- **Looking at further stake purchase:** Vedanta Resources said it would make an open offer to acquire an additional 20% stake by July 2007.
- **Almost fully debt-financed:** The total consideration for the deal is US\$1,368bn, which Vedanta intends to finance through debt and internal accruals. The company intends to use new debt of approximately US\$1.1bn, indicating that the deal is almost entirely financed through debt.
- **Deal at NPV valuation:** In its press release, Vedanta management stated the reserves as 207m tonnes (20-year life), as against our assumption of 150m tonnes. Also, it said production could potentially be upgraded from the current 10m tpa to 15m tpa. Vedanta also mentioned that Sesa Goa has additional prospecting licences in Jharkhand. In our opinion, the price paid for Sesa Goa is only justified by the incremental asset value from the additional 57m tonnes that were not known earlier.
- **Open offer unlikely to reach beyond 20%:** Given that the financing structure suggested for the deal is primarily debt, we expect the open offer to be limited to only 20%.
- **Mining lease in Orissa owned by a third party:** We visited the Orissa mine earlier and learnt that Sesa Goa is mining the lease, which is owned by a third party, and is paying a royalty per tonne of production. Some clarity is required about the agreement between Sesa Goa and the lease owner and the method of settling the royalty payment issue.

#### Outlook

- Vedanta appears to have paid a premium to acquire the 51% stake in Sesa Goa. We remain bullish on iron ore.

#### Analyst

Rakesh Arora, CFA

91 22 6653 3054

Arijay Prasad

91 22 6653 3052

rakesh.arora@macquarie.com

arijay.prasad@macquarie.com

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**Sesa Goa (SESA IN, Not rated): A profile**

Sesa Goa is India's largest private iron ore exporter (1.3% of sea borne iron ore trade), with an annual production of 10m tonnes (capacity of 15m tpa) and reserves of approximately 207m tonnes (20 years of mine life). In addition to this, the company has prospecting licences in the iron ore-rich state of Jharkhand in India. The company's mines are located in Goa, Karnataka and Orissa.

Some 76% of the company's sales are on long-term contracts and 24% on a spot basis. Some 60% of its exports are to China and Taiwan, 11% to Japan, 14% to Europe, 10% to Pakistan and 5% to other countries.

Sesa Goa also has its own pig iron business, with a capacity of 250,000 tpa (30% of its ore requirement is supplied in-house). The company also owns a 250,000 tpa met coke oven.

## Important disclosures:

## Recommendation definitions

## Macquarie Australia/New Zealand

Outperform – return >5% in excess of benchmark return (>2.5% in excess for listed property trusts)  
 Neutral – return within 5% of benchmark return (within 2.5% for listed property trusts)  
 Underperform – return >5% below benchmark return (>2.5% below for listed property trusts)

## Macquarie Asia

Outperform – expected return >+10%  
 Neutral – expected return from -10% to +10%  
 Underperform – expected return <-10%

## Macquarie First South Securities (South Africa)

Outperform – expected return >+5%  
 Neutral – expected return from -5% to +5%  
 Underperform – expected return <-5%

Recommendations – 12 months

Note: Quant recommendations may differ from Fundamental Analyst recommendations

## Recommendation proportions

	AU/NZ	Asia	RSA
Outperform	44.37%	58.37%	42.60%
Neutral	44.01%	21.30%	46.80%
Underperform	11.62%	20.33%	10.60%

For quarter ending 31 March 2007

## Volatility index definition\*

This is calculated from the volatility of historic price movements.

**Very high–highest risk** – Stock should be expected to move up or down 60–100% in a year – investors should be aware this stock is highly speculative.

**High** – stock should be expected to move up or down at least 40–60% in a year – investors should be aware this stock could be speculative.

**Medium** – stock should be expected to move up or down at least 30–40% in a year.

**Low–medium** – stock should be expected to move up or down at least 25–30% in a year.

**Low** – stock should be expected to move up or down at least 15–25% in a year.

\* Applicable to Australian/NZ stocks only

## Financial definitions

All "Adjusted" data items have had the following adjustments made:  
 Added back: goodwill amortisation, provision for catastrophe reserves, IFRS derivatives & hedging, IFRS impairments & IFRS interest expense  
 Excluded: non recurring items, asset revals, property revals, appraisal value uplift, preference dividends & minority interests

EPS = adjusted net profit / efpowa\*

ROA = adjusted ebit / average total assets

ROA Banks/Insurance = adjusted net profit / average total assets

ROE = adjusted net profit / average shareholders funds

Gross cashflow = adjusted net profit + depreciation

\*equivalent fully paid ordinary weighted average number of shares

All Reported numbers for Australian/NZ listed stocks are modelled under IFRS (International Financial Reporting Standards).

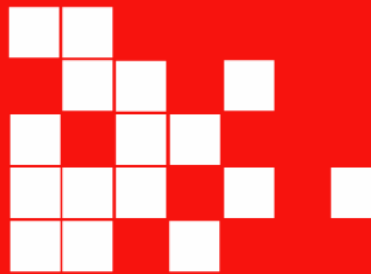
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Uday Jayaram (Malaysia)	(603) 2059 8988
Gilbert Lopez (Philippines)	(632) 857 0898
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