

Regulatory checks weigh down performance

October 25, 2011

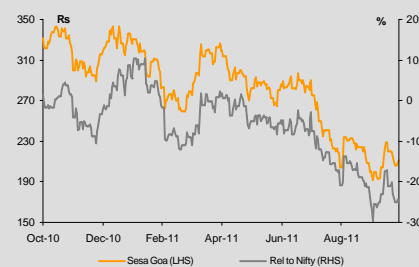
Reco	Previous Reco
Hold	UR
CMP	Target Price
Rs 211	Rs 239
EPS change FY12E/13E (%)	-33/-27
Target Price change (%)	NA
Nifty	5,192
Sensex	17,255

Price Performance

(%)	1M	3M	6M	12M
Absolute	2	(25)	(35)	(37)
Rel. to Nifty	(5)	(18)	(26)	(26)

Source: Bloomberg

Relative Price Chart



Source: Bloomberg

Stock Details

Sector	Metals & Mining
Bloomberg	Sesa@IN
Equity Capital (Rs mn)	869
Face Value(Rs)	1
No of shares o/s (mn)	869
52 Week H/L	364/189
Market Cap (Rs bn/USD mn)	183/3,692
Daily Avg Volume (No of sh)	3669978
Daily Avg Turnover (US\$m)	16.8

Shareholding Pattern (%)

	Sep-11	Jun-11	Mar-11
Promoters	55.1	55.1	55.1
FII/NRI	24.1	24.7	24.2
Institutions	5.2	4.7	4.8
Private Corp	3.0	3.0	3.2
Public	12.7	12.6	12.8

Source: Capitaline

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- **Topline in line with estimates at Rs 7897 mn, down 14% YoY and 63% QoQ on low realizations and on sales volume of only 1.55 mt**
- **EBITDA was down 92% YoY and 97% QoQ at Rs 259 mn including forex loss of Rs 2600 mn, well below estimates. EBITDA/ tonne for iron ore business stood at US\$33**
- **PAT on the back of other income of Rs 504 mn was reported at Rs 12.8 mn. Adjusted for forex loss and tax rate, the PAT stood at Rs 1.6 bn, lower than our estimates of Rs 2.04 bn**
- **Cutting core EPS estimates for FY12E and FY13E to Rs 24 and Rs 29. We reduce our SOTP target price to Rs 239; Assign Hold rating on the stock**

Lower volume and realizations impacted the topline

As reported earlier, iron ore production for the quarter was 1.12 mt (vs 2.88 mt in Q2FY11) and sales were at 1.55 mt (vs 1.82 mt in Q2FY11). The lower production and sales are attributed to mining ban in Karnataka, discontinuing of operations in Orissa and most importantly, planned reduction of inventories. In the quarter, the company sold 0.71 mt and 0.83 mt of iron ore at Karnataka and Goa respectively. Realization during the quarter remained subdued at US\$84/ tonne for iron ore (taking average USDINR at 45.8). We believe, iron ore realizations to remain stable to weak in the immediate future, whereas, volume growth remains uncertain due to continuing mining ban in Karnataka and problems arising in Goa.

Raw material costs and INR depreciation depleted the EBITDA

During the quarter, EBITDA was largely impacted by increase in raw material costs and loss on foreign currency loans and FCCBs. While the raw material costs as a percentage to sales increased from 4% in Q1FY12 to 13% in the Q2FY12 (6% in Q2FY11), the forex losses amounted to Rs 2.34 bn, depleting EBITDA to a large extent. The EBITDA margin came in at 3% as against 54% in the same quarter previous year. EBITDA/ tonne stood at US\$33 during the quarter. We believe weak INR would continue to be a deterrent for foreign currency outstandings.

Karnataka mining impasse continues; Goa could be a spoil sport

Karnataka continues to be under the mining ban. The company did not sell any amount through e-auction from Karnataka during the quarter. During October, Sesa sold ~0.3 mt out of total 0.8 mt inventory. The company is hopeful that Karnataka issue will be solved by Q4FY12. We believe, Goa could be a spoil sport, as issues related to illegal mining and export of iron ore are under comprehensive investigation by the Shah Committee.

Outlook and Valuations

At the CMP of Rs 211, the stock is trading at 7.7x its FY13E EPS and 5.1x FY13E EV/ EBITDA. On SOTP basis, we value the iron ore business at 3.5x FY13E EV/ EBITDA and with 30% discount attributable to CAIRN India, we arrive at a target price of Rs 239/ share. We assign a HOLD rating on the stock.

Financials

(Rs mn)

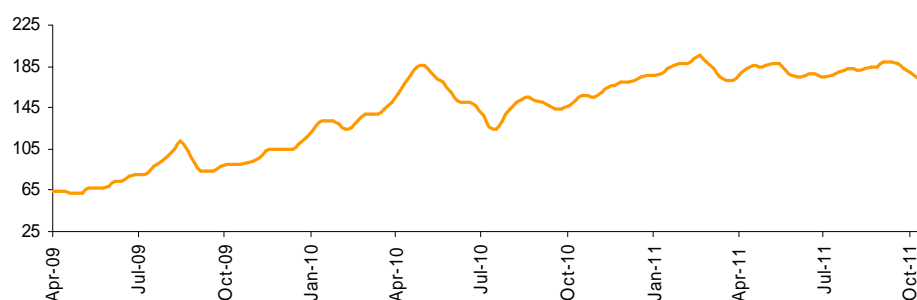
YE-	Net	EBITDA		EPS	EPS	RoE	EV/			
Mar	Sales	(Core)	(%)	APAT	(Rs)	% chg	(%)	P/E	EBITDA	P/BV
FY10	58,583	31,448	53.7	26,291	31.6	25.3	41.6	7.1	5.7	2.3
FY11	92,051	51,542	56.0	42,091	48.4	53.1	40.6	4.6	3.8	1.5
FY12E	77,879	31,848	40.9	21,000	24.2	-50.1	15.3	9.2	6.5	1.3
FY13E	91,467	38,056	41.6	25,219	29.0	-48.7	16.1	7.7	5.1	1.2

Key Financials – Quarterly (Consolidated)

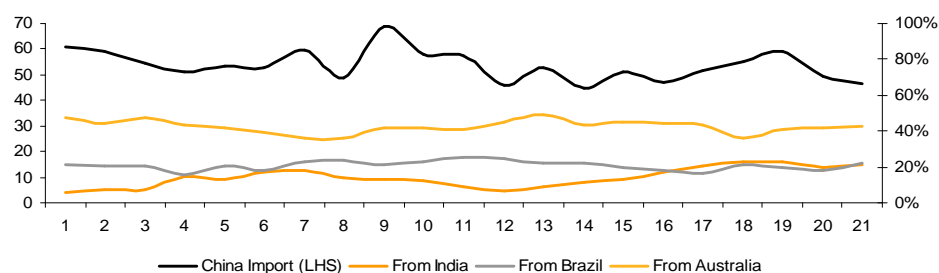
(Rs mn)	Q2FY11	Q3FY11	Q4FY11	Q1FY12	Q2FY12	YoY (%)	QoQ (%)	FY11	FY10	YoY (%)
Revenue	9,183	22,501	36,236	21,089	7,897	(14.0)	(62.6)	28,986	33,314	(13.0)
Expenditure	(5,786)	(10,171)	(15,018)	(9,630)	(7,638)	32.0	(20.7)	(17,269)	(15,320)	12.7
as % of sales	63.0	45.2	41.4	45.7	96.7			59.6	46.0	
Consumption of RM	(551)	(2,748)	(4,345)	(755)	(1,001)	81.5	32.6	(1,756)	(1,485)	18.2
as % of sales	6.0	12.2	12.0	3.6	12.7			6.1	4.5	
Employee Cost	(466)	(496)	(665)	(545)	(625)	34.2	14.6	(1,170)	(910)	28.6
as % of sales	5.1	2.2	1.8	2.6	7.9			4.0	2.7	
Other expenditure	(4,769)	(6,928)	(10,007)	(8,330)	(6,012)	26.1	(27.8)	(14,343)	(12,925)	11.0
as % of sales	51.9	30.8	27.6	39.5	76.1			49.5	38.8	
EBITDA	3,398	12,329	21,219	11,458	259	(92.4)	(97.7)	11,717	17,994	(34.9)
Depreciation	(194)	(208)	(371)	(269)	(243)	25.2	(9.6)	(512)	(386)	32.8
EBIT	3,204	12,122	20,848	11,189	16	(99.5)	(99.9)	11,205	17,609	(36.4)
Other Income	1,004	1,268	1,690	1,521	504	(49.8)	(66.9)	2,025	2,614	(22.5)
Interest	(140)	(134)	(141)	(493)	(516)	268.4	4.7	(1,009)	(278)	263.6
PBT	4,068	13,255	22,397	12,217	4	(99.9)	(100.0)	12,221	19,945	(38.7)
Total Tax	(189)	(2,573)	(7,779)	(3,811)	9	(104.8)	(100.2)	(3,802)	(3,021)	25.9
Adjusted PAT	3,879	10,683	14,618	8,406	13	(99.7)	(99.8)	8,419	16,924	(50.3)
(Profit)/loss from JV's/Ass/MI	(30)	(30)	-	-	-	(100.0)	#DIV/0!	-	(57)	(100.0)
Adj.PAT after MI	3,849	10,653	14,618	8,406	13	(99.7)	(99.8)	8,419	16,867	(50.1)
Extra ordinary items	-	-	-	-	-	-	-	-	-	-
Reported PAT	3,849	10,653	14,618	8,406	12.8	(99.7)	(99.8)	8,419	16,867	(50.1)
Reported EPS	4.7	12.1	16.5	9.7	0.0	(99.7)	(99.8)	9.7	20.4	(52.4)

Margins (%)						(bps)	(bps)			(bps)
EBIDTA	37.0	54.8	58.6	54.3	3.3	(3,372)	(5,105)	40.4	54.0	(1,359)
EBIT	34.9	53.9	57.5	53.1	0.2	(3,468)	(5,286)	38.7	52.9	(1,420)
EBT	44.3	58.9	61.8	57.9	0.0	(4,425)	(5,789)	42.2	59.9	(1,771)
PAT	42.2	47.5	40.3	39.9	0.2	(4,208)	(3,970)	29.0	50.8	(2,176)
Effective Tax rate	4.6	19.4	34.7	31.2	NA	NA	NA	31.1	15.1	1,597

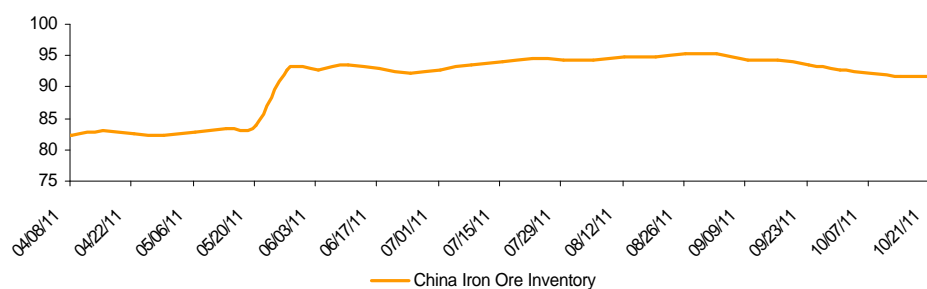
Chinese imported iron ore prices (63% Indian origin, CFR) (\$/tonne)



Source: Bloomberg, Emkay research

China iron ore imports (mt) and export share from India, Brazil, Australia (%)

Source: Bloomberg, Emkay research

China weekly iron ore inventory (mt)

Source: Bloomberg, Emkay research

Key takeaways from conference call:

- Karnataka operations had 0.9 mt of iron ore stock. Of these 0.29 mt was sold through e-auction during Oct 11, balance to be sold during the quarter
- Sesa expects karnataka impasse to get resolved soon and contribute about 2 mt in Q4FY12 taking overall volumes at around 18 mt
- Shah Commission in Goa verifying aspects across mines in Goa with respect to mining beyond environmental permits, royalty evasion, dumping of waste outside mining lease areas and forest and working plan areas
- Proposals about iron ore export duty increase – Sesa through industry bodies making representation to regulatory bodies
- Sesa does not see MMDR Bill getting adopted in current form and shape. The royalty rates are also due for review during mid 2012
- Reduction in iron ore realization prices by about 35% to around \$ 90 per MT
- Liberia project phase I to be commissioned by FY14, estimated capacity 5 mtpa to be enhanced to 30 mtpa in phase II

Earning estimates; cutting FY12E and FY13E EPS by 3% and 6% respectively

We revise our sales volume estimates for FY12E and FY13E to 15.6 mt and 17.1 mt respectively. Factoring into account, lower sales volumes and higher costs, we have cut our earnings estimates by 33% and 27% respectively for FY12E and FY13E. We haven't taken any contribution of CAIRN India in the bottom-line. Developments wrt mining ban in Karnataka, Shah Commission report on Goa, MMDR Bill and export tax need to be closely watched going forward.

Revised estimates

(Rs mn)	FY12E			FY13E		
	Revised	Previous	Change (%)	Revised	Previous	Change (%)
Revenue	77879	105858	-26%	91467	116679	-22%
EBITDA	31848	47531	-33%	38056	51886	-27%
APAT	21000	31276	-33%	25219	34626	-27%
EPS (Rs)	24.2	36.0	-33%	29.0	39.8	-27%

Valuation

At the CMP of Rs 211, the stock is trading at 7.7x its FY13E EPS and 5.1x FY13E EV/ EBITDA. On SOTP basis, we value the iron ore business at 3.5x FY13E EV/ EBITDA and with 30% discount attributable to CAIRN India, we arrive at a target price of Rs 239/ share. We assign a HOLD rating on the stock.

	FY13E EBITDA	EV/ EBITDA (X)	EV	Implied equity value	Value/ share
Sesa Goa	38056	3.5	133197	134615	154.9
CAIRN (30% discount to attributable per share value)				104580	84.2
Total					239

Financials (consolidated)

Income Statement

Y/E, Mar (Rs. mn)	FY10	FY11	FY12E	FY13E
Net Sales	58,583	92,051	77,879	91,467
<i>Growth (%)</i>	18.1	57.1	-15.4	17.4
Expenditure	27,135	40,509	46,031	53,411
Raw Materials	5,343	8,578	9,476	12,022
Employee Cost	1,691	2,071	2,103	2,744
Other Exp	20101	29860	34452	38645
EBITDA	31,448	51,542	31,848	38,056
<i>Growth (%)</i>	23.9	63.9	-38.2	19.5
EBITDA margin (%)	53.7	56.0	40.9	41.6
Depreciation	745.0	963.8	1084.4	1249.4
EBIT	30,703	50,578	30,764	36,807
EBIT margin (%)	52.4	54.9	39.5	40.2
Other Income	4259.7	5571.3	3152.3	3106.5
Interest expenses	517.2	599.7	2572.5	2272.5
PBT	34,446	55,550	31,344	37,641
Tax	8055.50	13372	10343	12421
<i>Effective tax rate (%)</i>	23.4	24.1	33.0	33.0
Adjusted PAT	26,390	42,178	21,000	25,219
(Profit)/loss from JV's/Ass/MI	-99.1	-86.7	0	0
Adjusted PAT after MI	26,291	42,091	21,000	25,219
<i>Growth (%)</i>	32.2	60.1	-50.1	20.1
Net Margin (%)	14.1	14.3	15.1	15.1
E/O items	0	0	0	0
Reported PAT	26,291	42,091	21,000	25,219
<i>Growth (%)</i>	32.2	60.1	-50.1	20.1

Cash Flow

Y/E, Mar (Rs. mn)	FY10	FY11	FY12E	FY13E
PBT (Ex-Other income)	34,446	55,597	31,344	37,641
Depreciation	745	964	1,084	1,249
Interest Provided	517	600	2,573	2,273
Other Non-Cash items	-4,143	-5,111	0	0
Chg in working cap	1,791	-3,037	7,169	-558
Tax paid	-7,644	-13,678	-10,343	-12,421
Operating Cashflow	25,713	35,335	31,826	28,183
Capital expenditure	-18,945	-9,637	-6,800	-7,000
Free Cash Flow	6,768	25,698	25,026	21,183
Other income	4,260	5,571	3,152	3,107
Investments	-13,643	-41,309	-32,351	-500
Investing Cashflow	-30,504	-46,774	-41,723	-9,773
Equity Capital Raised	5,372	0	0	0
Loans Taken / (Repaid)	230	66	32,881	-5,000
Interest Paid	-517	-600	-2,573	-2,273
Dividend paid (incl tax)	-2,020	-3,132	-3,535	-3,535
Income from investments	0	0	0	0
Others	0	0	0	1
Financing Cashflow	26,928	-3,198	29,345	-8,535
Net chg in cash	22,138	-14,637	19,448	9,875
Opening cash position	1,780	23,918	8,970	28,419
Closing cash position	23,918	8,971	28,419	38,294

Balance Sheet

Y/E, Mar (Rs. mn)	FY10	FY11	FY12E	FY13E
Equity share capital	831	869	869	869
Reserves & surplus	78,346	127,235	144,700	166,384
Net worth	79,177	128,104	145,569	167,253
Minority Interest	432.9	0	0	0
Secured Loans	444	314	33,195	28,195
Unsecured Loans	19,162	9,680	9,680	9,680
Loan Funds	19,606	9,995	42,875	37,875
Net deferred tax liability	750.2	682.1	682.1	682.1
Total Liabilities	99,966	138,781	189,127	205,811
Gross Block	27,510	30,648	36,148	41,648
Less: Depreciation	5,741	6,492	7,576	8,826
Net block	21,770	24,156	28,572	32,823
CWIP	787.4	7286.6	8586.6	10086.6
Investment	45,649	87,998	120,349	120,849
Current Assets	44,160	36,596	52,956	67,112
Inventories	5,009	7,438	6,401	7,518
Sundry debtors	3,381	6,830	5,334	6,265
Cash & bank balance	23,918	8,970	28,419	38,294
Loans & advances	11,851	13,358	12,802	15,036
Other current assets	0	0	0	1
Current lia & Prov	12,400	17,256	21,337	25,059
Current liabilities	8,286	12,946	10,668	12,530
Provisions	4,114	4,310	10,668	12,530
Net current assets	31,760	19,340	31,619	42,053
Total Assets	99,966	138,781	189,127	205,811

Key Ratios

Y/E, Mar	FY10	FY11	FY12E	FY13E
Profitability (%)				
EBITDA Margin	53.7	56.0	40.9	41.6
Net Margin	44.9	45.7	27.0	27.6
ROCE	47.2	47.0	20.7	20.2
ROE	41.6	40.6	15.3	16.1
RoIC	133.9	157.7	92.8	107.7
Per Share Data (Rs)				
EPS	31.6	48.4	24.2	29.0
CEPS	32.5	49.5	25.4	30.5
BVPS	95.3	147.4	167.5	192.4
DPS	3.2	3.5	3.5	3.5
Valuations (x)				
PER	7.1	4.6	9.2	7.7
P/CEPS	6.8	4.5	8.8	7.3
P/BV	2.3	1.5	1.3	1.2
EV / Sales	3.1	2.1	2.7	2.1
EV / EBITDA	5.7	3.8	6.5	5.1
EV/ tonne	590.8	636.0	679.9	631.3
Gearing Ratio (x)				
Net Debt/ Equity	-0.1	0.0	0.1	0.0
Net Debt/EBIDTA	0.6	0.2	1.3	1.0

Recommendation History: Sesa Goa – Sesa IN

Date	Reports	Reco	CMP	Target
08/08/2011	Sesa Goa Event Update	Accumulate	241	308
22/07/2011	Sesa Goa Q1FY12 Result Update	Hold	278	308
26/04/2011	Sesa Goa Q4FY11 Result Update	Hold	327	353
06/04/2011	Sesa Goa Event Update	Hold	314	336

Recent Research Reports

Date	Reports	Reco	CMP	Target
24/10/2011	Sterlite Industries Q2FY12 Result Update	Accumulate	116	162
21/10/2011	JSW Steel Q2FY12 Standalone Result Update	UR	580	NA
19/10/2011	Hindustan Zinc Q2FY12 Result Update	Buy	121	159
07/09/2011	Nalco Company Update			

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