

Sesa Goa

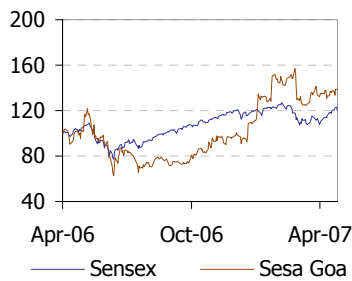
 Relative to sector: **Underperformer**

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Relative Performance



Source: Bloomberg, ENAM Research

Stock data

No. of shares	: 39mn
Market cap	: Rs 70bn
52 week high/low	: Rs 2,025/ Rs 808
Avg. daily vol. (6mth)	: 609,800 shares
Bloomberg code	: SESA IN
Reuters code	: SESA.BO

Shareholding (%) Mar-07 QoQ chg

Promoters	: 51.0	0.0
FII's	: 20.6	0.5
MFs / UTI	: 4.1	(1.5)
Banks / FIs	: 4.3	(0.1)
Others	: 20.0	1.2

NEW OWNERSHIP RE-NEWS FOCUS

Sesa Goa's (Sesa) Q4FY07 performance was impacted by the export duty on iron ore of Rs 300/ ton (~USD 7/ ton) levied with effect from 1 March 2007. Q4FY07 revenues grew by 28% YoY, revenues from the iron ore segment increased 27% and EBIT grew 24% YoY. EBITDA margin for the quarter increased 143 bps YoY to 49.8%. The consolidated reported EPS for FY07 stood at Rs 164.2.

Change of guard: Vedanta (the holding company of Sterlite Industries) has agreed to acquire 51% controlling ownership in Sesa from Mitsui. In addition, Vedanta is planning to make an open offer for additional 20% stake in Sesa at Rs 2,036/ share. With 49% free-float, the acceptance ratio is likely to work out to ~41%, assuming that all the balance shares are tendered.

Export tax, negative impact on FY08 but strong FY09

The recent annual budget has imposed an export duty on iron ore of Rs 300/ ton, across all grades and forms. Although iron ore realizations for FY08 are expected to be higher (realizations are already up ~9.5% YoY), the imposition of export duty is likely to hamper Sesa. However, in FY09 iron ore contract pricing is likely to get adjusted upward given Indian exports account for ~12% of the global sea-borne iron ore market. To factor in revised INR:USD exchange rates and the iron ore export duty (assuming that it remains unchanged), we revise our EPS forecasts for FY08 to Rs 125.1 from Rs 193.6 and for FY09 to Rs 150.9. Industry sources indicate that the government is expected to reconsider the export duty on iron ore fines where Sesa has significant presence. We intend to monitor the iron ore export duty situation closely and will revise our estimates accordingly.

At CMP, the stock provides a marginal upside based on the open offer from Vedanta (see the sensitivity table on page 3). We remain positive on iron ore pricing and believe that the new management will be able to ramp-up volumes and generate additional value in the long-term. Given the limited short-term upside in Sesa, as compared to larger upside in other metal companies, we reduce our rating on the stock from sector **Outperformer** to **Underperformer** with a revised target price of Rs 1,446 (8x FY09E EPS + FY07E Cash of Rs 236/share).

Financial summary- Consolidated

Y/E Mar	Sales (Rs mn)	PAT (Rs mn)	Consensus EPS* (Rs.)	EPS (Rs.)	Change YoY (%)	P/E (x)	RoE (%)	RoCE (%)	EV/EBIDTA (x)	DPS (Rs.)
2006	18,445	5,712	-	145.1	21	8.9	59.2	87.9	5.8	40.0
2007	22,179	6,496	-	165.0	14	10.3	48.3	71.3	6.9	40.0
2008E	23,807	4,925	189.0	125.1	(24)	14.3	29.2	43.6	9.5	28.3
2009E	24,181	5,939	170.1	150.9	21	11.8	29.2	43.7	8.3	34.4

Source: *Consensus broker estimates, Company, ENAM estimates; EPS numbers are consolidated including Sesa Industries

Results update

(Rs. mn)	Standalone (Quarter ended)					Consolidated (Y/E)		
	Mar-07	Mar-06	% Chg	Dec-06	% Chg	Mar-08E	Mar-07	% Chg
Net Sales	7,601	5,937	28.0	5,879	29.3	23,807	22,179	7.3
EBITDA	3,785	2,871	31.8	2,848	32.9	7,327	9,637	(24.0)
Other income	123	79	54.7	120	2.6	548	451	21.5
PBIDT	3,907	2,951	32.4	2,967	31.7	7,875	10,088	(21.9)
Depreciation	91	64	42.7	82	11.0	449	393	14.4
Interest	1	3	(80.0)	1	(13.4)	16	4	296.9
PBT	3,816	2,884	32.3	2,884	32.3	7,410	9,692	(23.5)
Tax	1,258	963	30.6	935	34.5	2,422	3,147	(23.0)
Minority Interest	-	-	-	-	-	63	49	29.1
Adjusted PAT	2,558	1,921	33.1	1,949	31.2	4,925	6,496	(24.2)
Extra ordinary income/ (exp.)	(33)	-	-	-	-	-	(33)	-
Reported PAT	2,525	1,921	31.4	1,949	29.5	4,925	6,463	(23.8)
No. of shares (mn)	39	39	-	39	-	39	39	-
EBITDA margins (%)	49.8	48.4	-	48.4	-	30.8	43.5	-
PBIDT margins (%)	51.4	49.7	-	50.5	-	33.1	45.5	-
EPS - annualized (Rs.)	259.9	195.2	33.1	198.1	31.2	125.1	165.0	(24.2)

Source: Company, ENAM Research

Q4FY07 Highlights

- Iron ore revenues increased ~27% YoY with higher pricing and increased volumes. Iron ore EBIT grew 24% YoY to Rs 3.7bn.
- Met coke revenues increased 47% to Rs 601mn. The division reported an operating loss of Rs 27mn.

Segment-wise break-up: Standalone

(Rs mn)	Quarter ended			Y/E		
	Mar-07	Mar-06	% Chg	Mar-07	Mar-06	% Chg
Segment Revenues						
- Iron ore	7,013	5,539	26.6	17,964	14,977	19.9
- Metallurgical coke	601	408	47.2	2,118	2,106	0.6
Total	7,613	5,947	28.0	20,082	17,083	17.6
EBIT						
- Iron ore	3,700	2,979	24.2	8,713	7,878	10.6
- Metallurgical coke	(27)	(161)	(83.3)	(91)	33	(374.7)
Total	3,673	2,818	30.3	8621	7911	9.0
Capital employed						
- Iron ore	5,388	4,390	22.7	5,361	4,311	24.4
- Metallurgical coke	2,734	2,990	(8.6)	2,592	2,894	(10.4)
Total	8,122	7,380	10.0	7,953	7,205	10.4
EBIT Margin (%)						
- Iron ore	52.8	53.8	-	48.5	52.6	-
- Metallurgical coke	(4.5)	(39.5)	-	(4.3)	1.6	-

Source: Company, ENAM Research

Acquisition of Mitsui's 51% stake by Vedanta

Mitsui sold its 51% controlling stake in Sesa (held through Earlyguard/ Finsider UK) to Vedanta for USD 981mn on 23 April 2007. In line with SEBI guidelines, Vedanta has made an open offer for an additional 20% of stake in Sesa Goa at Rs 2,036/ share. The specified date for the open offer is 25 May 2007 while the offer opens on 21 June 2007 and closes on 10 July 2007.

Assuming free-float (49%) was tendered for the open offer, we believe return sensitivities are likely to depend on post-open offer price / one-month futures price of Sesa Goa. Please refer to the following return sensitivities table:

Return Sensitivity

	No of shares	Price (Rs)	Amount (Rs)	
Investment	100	1,760	176,000	
Tender (assuming 49% free-float is tendered)	41	2,036	Total Return (Rs) = Tender (Rs) x 41 + balance price (Rs) x 59	Return (%)
Balance (from the spot market or through lock-in in the futures market)	59	1,400	165,959	(6)
		1,450	168,918	(4)
		1,500	171,878	(2)
		1,550	174,837	(1)
	Prevailing price in Futures market	1,600	177,796	1
		1,650	180,755	3
		1,700	183,714	4
		1,750	186,673	6
		1,800	189,633	8
		1,850	192,592	9
		1,900	195,551	11
		1,950	198,510	13
		2,000	201,469	14

Source: Company, ENAM Research

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Disclosure of interest statement (As of April 27, 2007)

1. Analyst ownership of the stock	Yes
2. Firm ownership of the stock	No
3. Directors ownership of the stock	No
4. Investment Banking mandate	No
5. Broking relationship	No

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