

Sesa Goa

Sensex: 19,584.1

CMP: INR 322.0



Mining

Sesa Goa reported a robust quarterly performance. Revenues, EBITDA and PAT improved by 61.0%, 72.1% and 37.2% on YoY basis on the back of improved realizations. EBITDA margins expanded by 370bps to 58.8%. However, higher tax outgo led to decline in PAT margins by 710bps to 40.5%.

Robust quarterly performance

For 4QFY11, Sesa reported a stellar quarterly performance. Revenues stood at INR 36,236.4mn, EBITDA at INR 21,218.6mn and PAT at INR 14,617.6mn, a growth of 61.0%, 72.1% and 35.7% on a YoY basis respectively. For the full year ended FY11, revenues stood at INR 92,051.2mn, EBITDA at INR 51,543.0mn and PAT at 42,224.5mn, a growth of 57.1%, 57.8% and 60.6%.

The domestic sales from Karnataka, which is an EOU attracted full tax rate and no export incentives due to which PAT margins have dipped by 10 percentage points.

Realizations lead revenue growth

Improving realizations led to the increase in topline. Iron ore realizations for the quarter ended stood at INR 5,259.3/t up by 57.4% on a YoY basis. Similarly, for the whole year FY11 average realisations stood at INR 4,737.4/t up by 70.2%.

Volume details

During the quarter under purview, Sesa changed its iron ore volume reporting mechanism to dry metric tonne from wet metric tonne. The company reported flat iron ore sales for both 4QFY11 and FY11 at 6.7mnt and 18.1mnt respectively. Iron ore production for 4QFY11 stood at 6.3mnt down by 19.2% on a YoY basis and for the full year FY11, production remained flat at 21.1mnt.

Expansion Plans

The company had planned to expand its pig iron manufacturing capacity from 250,000tpa to 625,000tpa and met coke plant to 560,000tpa along with a sinter plant at INR 6,050.0mn is expected to be commissioned by 3QFY12.

Sesa is also progressing on the prospecting mining license which it was issued in Jharkhand. The mining site has reserve base of 30-50mnt and the company is hoping to acquire 800 acres of land by the end of this fiscal and then set up a 1.5mntpa steel plant.

The Cairn Deal

The company recently bought 200.0mn shares (10.4% stake) in Cairn India from Petronas at a cost of INR 331/share. The open offer to acquire another 20.0% stake from the open markets at INR 355/share is currently going on.

Outlook

The management at Sesa is targeting a volume growth of 15-20% for FY12 if the export permits are granted by the Karnataka state government without any further hassles. Rising iron ore priced across the globe and expansion of pig iron and met coke plant will help company to improve its revenue growth. At the CMP of 322.0, the company is trading at a P/E multiple of 6.5x based on FY12E consensus earnings of INR 49.2.

Shareholding, Mar 2011	% Holding	Key Data		INR Mn	FY11	FY10	Y-o-Y
Promoter	55.1	BSE Code	500295	Total Income	92,051.2	58,582.9	57.1%
FII	23.9	NSE Code	SESAGOA	Total Expenditure	40,508.2	25,915.4	56.3%
DII	4.8	Bloomberg Code	SESA:IN	EBIDTA	51,543.0	32,667.5	57.8%
Others	16.2	Reuters Code	SESA.BO	<i>EBIDTA Margin</i>	56.4%	56.3%	10bps
Total	100.0	Sensex	19,584.1	Other Income	5,398.9	3,040.6	77.6%
Relative Price Performance		CMP (INR)	322.0	Dep. & Int. Costs	1,345.0	1,262.2	6.6%
		No. of Shares (Mn)	869.1	PBT	55,596.9	34,445.9	61.4%
		Face Value (INR)	1.0	Tax	13,372.4	8,055.5	66.0%
		M-Cap (INR Mn)	279,802.2	PAT	42,224.5	26,291.3	60.6%
		52 week H/L	448.8/220.6	<i>PAT Margin</i>	46.2%	45.3%	90bps
		2Wk Avg. Vol. BSE	707,000	EPS	48.6	31.6	53.6%

Robust quarterly performance

For 4QFY11, Sesa reported a stellar quarterly performance. Revenues stood at INR 36,236.4mn, EBITDA at INR 21,218.6mn and PAT at INR 14,617.6mn, a growth of 61.0%, 72.1% and 35.7% on a YoY basis respectively. Higher export duty and tax outgo led to shrinkage in EBITDA and PAT margins by 3.7 and 10.0 percentage points to 58.8% and 40.5% respectively.

For the full year ended FY11, revenues stood at INR 92,051.2mn, EBITDA at INR 51,543.0mn and PAT at 42,224.5mn, a growth of 57.1%, 57.8% and 60.6%. For FY11, profit margins remained stable.

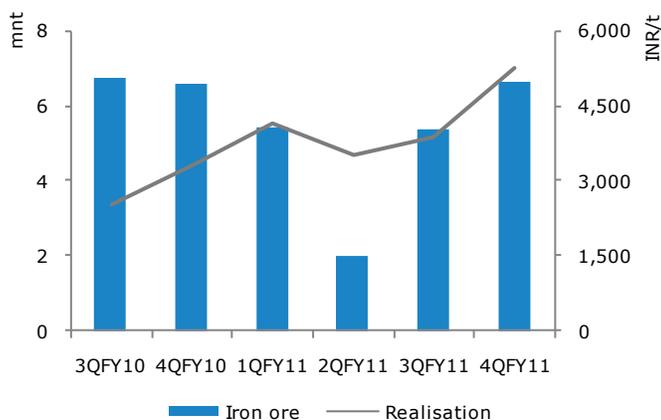
Realizations lead revenue growth

Improving realizations were the key reason for the increase in topline. Iron ore and pig iron realizations for the quarter ended stood at INR 5,259.3/t and INR 27,529.7/t, a growth of 57.4% and 28.4% respectively on a YoY basis. Similarly, for the whole year FY11, average iron ore and pig iron realisations stood at INR 4,737.4/t and INR 25,337.3/t up by 70.2% and 28.1% respectively.

Volume details

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Iron ore production for 4QFY11 stood at 6.3mnt down by 19.2% on a YoY basis and for the full year FY11, production remained flat at 21.1mnt.



Exploration activities

Sesa last year drilled over 60,000 meters and added 53.0mnt of reserves and resources base taking the total reserves and resource base to 306.0mnt after depleting 21.0mnt during FY11. Of the 53.0mnt added in FY11, ~90% of it was added in the reserves category.

Expansion Plans

The company is enhancing its mining operations in Karnataka and Goa by improving the production, processing and logistical capacities. The production capacity is expected to rise to 10.0mnt by FY12 end in Karnataka and to 30.0mnt by FY13 end in Goa.

The company had planned to expand its pig iron manufacturing capacity from 250,000tpa to 625,000tpa and met coke plant to 560,000tpa along with a sinter plant and a 30MW power plant (waste heat recovery) at INR 6,050.0mn is expected to be commissioned by 3QFY12.

Sesa is also progressing on the prospecting mining license which it was issued in Jharkhand. The mining site has reserve base of 30-50mnt and the company is hoping to acquire 800 acres of land by the end of this fiscal and then set up a 1.5mtpa steel plant.

Cairn Deal

The company recently bought 200.0mn shares (10.4% stake) in Cairn India from Petronas at a cost of INR 331/share. The open offer to acquire another 20.0% stake from the open markets at INR 355/share is currently going on and will end by April 30, 2011.

Other Takeaways

- The company as of FY11 has a cash balance of INR 106.8bn pre Cairn-Petronas deal.
- Royalty payment stood at INR 200/t.
- Sesa has planned capex of INR 9,000-10,000mn and a sustaining capex of INR 2,000-2,250mn for FY12.
- Total debt at the end of FY11 stands at INR ~10,000mn.
- Going ahead the management expects full tax rate in FY12.

Financials

INR mn	4QFY11	4QFY10	Y-o-Y	3QFY11	Q-o-Q	FY11	FY10	Y-o-Y
Gross Sales	39,327.7	28,131.9	39.8%	25,012.3	57.2%	101,522.8	66,595.5	52.4%
Less: Excise Duty	174.3	129.6	34.5%	152.4	14.4%	636.5	443.4	43.5%
Net Sales	39,153.4	28,002.3	39.8%	24,859.9	57.5%	100,886.3	66,152.1	52.5%
Less: Ocean Freight	3,080.6	3,966.9	-22.3%	2,486.6	23.9%	9,431.6	8,121.6	16.1%
Other Operating Income	163.6	153.6	6.5%	127.3	28.5%	596.5	552.4	8.0%
Total Income	36,236.4	24,189.0	49.8%	22,500.6	61.0%	92,051.2	58,582.9	57.1%
(Inc)/Dec in Stock	1,723.7	(638.9)		581.0		(474.5)	(1,211.2)	
Consumption of Raw Materials	3,578.1	3,187.7	12.2%	2,822.0	26.8%	12,015.8	8,991.0	33.6%
Contractors Cost	3,689.2	3,648.7	1.1%	2,909.6	26.8%	12,894.6	12,170.1	6.0%
Export Duty	3,649.6	1,214.8	200.4%	1,167.3	212.7%	6,619.8	1,475.8	348.6%
Forex loss/(gain) on FCCBs	(34.7)	0.0		(23.8)		487.8	(1,219.1)	
Staff Cost	665.1	447.0	48.8%	495.7	34.2%	2,070.8	1,688.6	22.6%
Other Expenditure	1,746.8	1,299.6	34.4%	2,219.5	-21.3%	6,893.9	4,020.2	71.5%
Total Expenditure	15,017.8	9,158.9	64.0%	10,171.3	47.6%	40,508.2	25,915.4	56.3%
EBITDA	21,218.6	15,030.1	41.2%	12,329.3	72.1%	51,543.0	32,667.5	57.8%
<i>EBITDA Margin</i>	<i>54.2%</i>	<i>53.7%</i>		<i>49.6%</i>		<i>51.1%</i>	<i>49.4%</i>	
Other Income	1,689.9	1,290.6	30.9%	1,267.6	33.3%	5,398.9	3,040.6	77.6%
Depreciation	370.6	166.4	122.7%	207.6	78.5%	963.8	745.0	29.4%
Interest Cost	141.3	226.5	-37.6%	133.9	5.5%	381.2	517.2	-26.3%
PBT	22,396.6	15,927.8	40.6%	13,255.4	69.0%	55,596.9	34,445.9	61.4%
Tax	7,779.0	3,776.7	106.0%	2,572.5	202.4%	13,372.4	8,055.5	66.0%
Minority Interest	0.0	22.4		30.0			99.1	
PAT	14,617.6	12,128.7	20.5%	10,652.9	37.2%	42,224.5	26,291.3	60.6%
<i>PAT Margin</i>	<i>37.3%</i>	<i>43.3%</i>		<i>42.9%</i>		<i>41.9%</i>	<i>39.7%</i>	
No. of Shares (mn)	869.1	831.0		859.7		869.1	831.0	
EPS	16.8	14.6	15.2%	12.4	35.7%	48.6	31.6	53.6%

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2. Group/Directors ownership of the stock - No
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