

### RESULTS REVIEW

#### Share Data

Market Cap	Rs. 262.1 bn
Price	Rs. 319.45
BSE Sensex	17,009.17
Reuters	SESA.BO
Bloomberg	SESA IN
Avg. Volume (52 Week)	2.7 mn
52-Week High/Low	Rs. 362.80/ 60
Shares Outstanding	820.5 mn

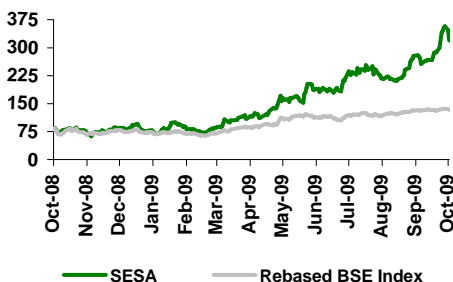
#### Valuation Ratios (Consolidated)

Year to 31 March	2010E	2011E
EPS (Rs.)	25.4	28.0
EPS Growth (%)	0.7%	10.2%
PER (x)	12.6x	11.4x
EV/ Sales (x)	4.4x	3.7x
EV/ EBITDA (x)	8.6x	7.3x

#### Shareholding Pattern (%)

Promoters	57
FII's	23
Institutions	5
Public & Others	15

#### Relative Performance



### Sesa Goa Limited

Hold

#### Volume growth to remain strong on back of demand in China

In Q2'10, Sesa Goa's net sales declined by 39% yoy to Rs. 5.3 bn and its EBITDA plunged 63.7% yoy to Rs. 1.5 bn mainly on account of a 52.8% yoy decline in the average iron ore sales realisations. During the quarter, the iron ore sales volume increased by ~15.1% yoy to 1.6 mn tonnes. Due to the consolidation of Dempo from 11 June 2009 onwards and the recovery in the demand for iron ore, we expect the volume growth of the Company to be up ~32% in FY10E. Thus, based on our positive outlook on the Company we have updated our TP to Rs. 308 from Rs. 266. However we maintain a Hold rating on the stock.

**Dempo's acquisition will boost volumes:** With the strengthening of iron ore demand from China and the recovery in steel production, the Company should be able to achieve strong sales volume growth. We expect sales volumes to be around 20 mn tonnes in FY10 (including ~4 mn tonnes from Dempo), as against 15.1 mn tonnes in FY09.

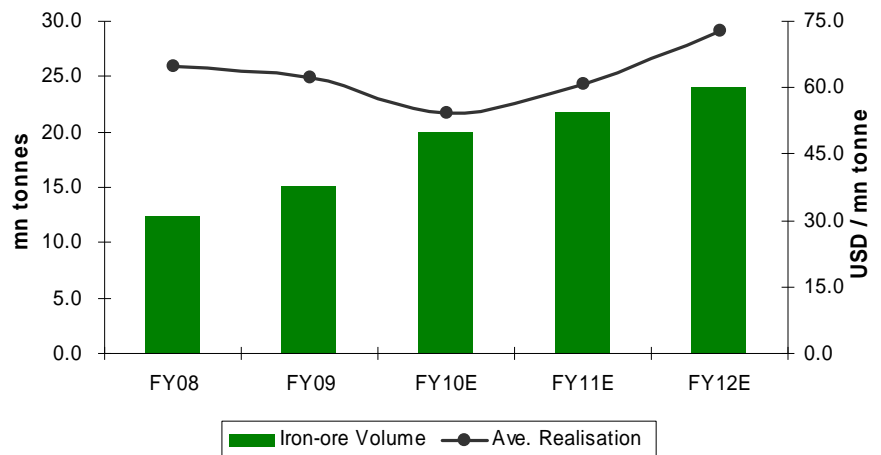
**China to maintain pressure on spot prices for iron ore:** For FY09, 84% of the Company's total iron ore sales were to China. As China is the largest consumer and importer of iron ore, it has increasingly started exercising its bargaining power and recently rejected the benchmark deal for a 33% cut in the 2008-09 prices for new 2009-10 contracts; instead, opting to buy iron ore on spot rates at much deeper price cuts. Thus, we expect spot rates to remain low at USD 85-90 per tonne in FY10E. As a result, we expect Sesa Goa's realization at USD 55-60 per tonne as it sells a medium grade iron ore (Fe-58 and Fe-56). However, volumes are expected to remain strong as China is expected to stock up on iron ore for the upcoming harsh winter which forces

#### Key Figures (Consolidated)

Quarterly Data	Q2'09	Q1'10	Q2'10	YoY%	QoQ%
(Figures in Rs. mn, except per share data)					
Net Sales	8,757	9,986	5,341	(39.0)%	(46.5)%
EBITDA	4,205	4,402	1,527	(63.7)%	(65.3)%
Adj. Net Profit	3,366	4,223	1,665	(50.5)%	(60.6)%
<b>Margins(%)</b>					
EBITDA	48.0%	44.1%	28.6%		
NPM	38.4%	42.3%	31.2%		
<b>Per Share Data (Rs.)</b>					
Adjusted EPS	4.3	5.4	2.0	(52.6)%	(62.2)%

domestic iron ore mines to close. Therefore, in the near term, we believe that the increase in the sales volumes (~32%) will continue to overshadow the decline in sales realisation. Thus, we expect the revenue from iron ore to increase at 21.3% in FY10E.

**Iron-ore sales volume and Realisation**



### Result Highlights

In Q2'10, Sesa Goa's net sales declined by 39% yoy to Rs. 5.3 bn and its EBITDA plunged 63.7% yoy to Rs. 1.5 bn. Despite the ~15.1% increase in volumes, net sales were lower yoy due to a 52.8% fall in realisations. The company reported a significant yoy increase in operating expenditure lowering EBITDA margin by 19.4pts to 28.6% for the quarter.

Following were the key operating highlights for the quarter:

- Iron ore sales volume increased by ~ 22% yoy to 1.7 mn tonnes, while production increased by ~ 28.4% yoy to 3.3 mn tonnes
- Average iron ore sales realisation declined by 52.8% to USD 50.4 per tonne, as compared with USD 106.7 per tonne in Q2'09.
- EBITDA was impacted by a 66% yoy increase in total operating expenses per mn tonnes of production, which was due to higher royalties, raw material prices and depreciation.
- Sesa Goa has raised USD 500 mn through FCCB, which it will use in acquisition of new mines and development of existing mines

## Valuation

At the current market price (CMP) of Rs. 319.45, the stock is trading at a forward P/E of 12.6x and 11.4x for FY10E and FY11E earnings, respectively. We have valued Sesa Goa by using the DCF method, assuming a WACC of 15.4%, and have arrived at a target price of Rs. 308. As the stock seems to be fairly valued at the CMP, we have given it a Hold rating.

### Key Figures (Consolidated)

Year to March	FY07	FY08	FY09	FY10E	FY11E	CAGR
(Figures in Rs. mn, except per share data)						(FY09-11E)
Net Sales	22,112	37,659	49,257	52,111	62,743	12.9%
EBITDA	9,785	22,437	25,010	26,814	31,422	12.1%
Adj. Net Profit	6,694	15,416	19,881	20,869	22,996	7.5%
<b>Margins(%)</b>						
EBITDA	44.3%	59.6%	50.8%	51.5%	50.1%	
NPM	30.3%	40.9%	40.4%	40.0%	36.7%	
<b>Per Share Data (Rs.)</b>						
Adjusted EPS	8.4	19.6	25.3	25.4	28.0	5.3%
PER (x)	10.1x	8.0x	4.0x	12.6x	11.4x	

## Key Risks

The following are the key risks to our rating:

- Larger-than-expected decline in the iron ore prices
- Decline in demand from China due to surplus inventories
- Increased competition from other iron ore exporters to China
- A sharp appreciation in the rupee against the dollar
- The government reinstating the export duty on all classes of iron ore

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