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Q4 FY07  
Result Update

# Sesa Goa

Market Performer

Rs 1,784

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## Export duty on iron ore hurting the margins

Company Details		Result Snapshot	
Market Cap:	Rs 70,224m	<p>Sesa Goa's Q4 FY07 results beat our expectations mainly due to greater volumes. The company reported a 25% yoy sales growth to Rs 7,601m. The 220-bp improved EBIDTA margin arose from better price realization of Met Coke. This resulted in drastically reduced operating losses for the division. PAT grew 31.8% yoy to Rs 2,532m. Sales and PAT for the year grew 17.5% and 12.5% respectively to Rs 20,051m and Rs 6,066m.</p> <p>We expect demand for steel would be robust and so demand for iron ore would rise. Though the imposed Rs 300 per ton export duty would reduce realizations, higher volumes would offset the loss.</p> <p>At the CMP of Rs 1,784, the stock trades at 11.2x FY08E EPS of 158.8 and seems reasonably priced. We set a <b>Market Performer</b> rating on it.</p>	
52-Week High/Low:	Rs 2,025 / 808		
Bloomberg Code:	SESA@IN		
Reuters Code:	SESA.BO / NS		
Shares O/s:	39m		
Average Volume (3 months):	0.9m		
Price Performance			
(%)	1m	3m	12m
Absolute	4.9	(5.5)	33.1
Relative to Sensex	(1.2)	(4.0)	17.9

### Q4 FY07 Result Overview

(Rs m)

Y/e March	Q4 FY07	Q4 FY06	YoY Gr. (%)	Q3 FY07	FY06	FY07	YoY Gr. (%)
Net Sales	7,601	6,076	25.1	5,879	17,069	20,051	17.5
Total Expenditure	3,843	3,209	19.7	3,031	9,017	11,177	24.0
EBITDA	3,758	2,866	31.1	2,848	8,052	8,874	10.2
EBITDA Margin (%)	49.4	47.2		48.4	47.2	44.3	
Other Income	123	91	34.2	120	278	443	59.5
PBDIT	3,881	2,958	31.2	2,967	8,330	9,317	11.9
Interest	0.5	9.8	(94.7)	0.6	13.2	3.8	(71.2)
PBDT	3,881	2,948	31.6	2,967	8,317	9,313	12.0
Depreciation	91.0	63.8	42.6	82.0	246.6	312.8	26.8
PBT	3,790	2,884	31.4	2,885	8,070	9,000	11.5
Tax	1,258	963	30.6	935	2,677	2,934	9.6
Reported Profit After Tax	2,532	1,921	31.8	1,949	5,393	6,066	12.5

(Stock price as on April 30, 2007)



## Result Highlights

For Q4 FY07 Sesa Goa reported yoy growths of 25% in sales (to Rs 7,601m) and 31.8% in PAT (to Rs 2,532m). The EBITDA margin improved by 220bp to 49.4%. The operating profit grew 31.1% to Rs 3,758m.

The main reason for the better operating profit was the substantial improvement in the met coke operations, resulting in a large decline in the operating losses. The operating margin of the met coke division greatly improved from -39.5% in Q4 FY06 to -4.4%.

Met coke prices are hovering around \$220 a ton and this division is expected to turn around and contribute positively following the firm met coke prices.

Met coke prices in FY06 averaged about \$150 a ton. With the sudden surge in prices in the last three months, this is expected to be positive contributor to Sesa Goa's top and bottom lines. Further, the Chinese government is expected to clamp down on exports of met coke (it has restricted met coke exports for this year to 10m tons from 13m tons last year). So, met coke prices are expected to be firm this year.

## Valuation and Recommendation

The imposition of export duty of Rs 300 a ton would affect the company's top and bottom lines. Though higher volumes might in a way, offset this, margins would yet be affected. As demand for steel is expected to be positive, the company would be in a position to pass on the additional cost of export duty and this would be clear only after the Q1 FY08 results. Moreover, the company is expected to do much better in Q1 FY08E due to the rising volumes of iron ore and better price realization of met coke than in Q1 FY07.

At the CMP, the stock trades at 11.2x FY08E earnings and seems fairly valued. We place a **Market Performer** rating on it.

## Key Figures

Y/e March	FY05	FY06	FY07E	FY08E
Revenue (Rs m)	15,337	18,445	20,051	21,107
EBITDA (Rs m)	7,457	8,625	8,874	9,027
<i>Margins (%)</i>	<i>48.6</i>	<i>46.8</i>	<i>44.3</i>	<i>42.8</i>
PAT (Rs m)	4,732	5,712	6,066	6,252
EPS (Rs)	120.3	145.1	154.1	158.8
PER (x)	14.8	12.3	11.6	11.2
EV / E (x)	9.0	7.6	7.3	7.2
EV / Sales (x)	4.4	3.5	3.2	3.1
RoCE (%)	56.5	46.7	34.6	28.7
RoE (%)	57.2	46.7	34.4	28.5

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