

Sesa Goa

Impact on a post merger basis from the mining ban limited

In our view, on a post merger basis, on a worst case assumption, that the iron ore suspension is permanent, the earnings impact is ~11% and EBITDA is 8%. Our PT would reduce to Rs215 from our current PT of Rs240 if the iron ore suspension is permanent. However, we do expect some resolution over the next few months and expect mining to restart in the next few months.

- The Shah Commission report-** The Goa suspension of mining has been taken to address the issues raised in the Shah Commission report. The report is exhaustive and addresses multiple issues. **We have made a list of sections where SESA has been found in violation, and in our view most of them are related to the issue of deemed extension.** Others relate to amalgamation, mining lease being located within 1KM of wild life sanctuary, and encroachment. The report, in our view, is far more critical in the way the mining industry has been regulated by the various regulatory authorities in the state of Goa.
- Can the issue drag on like Karnataka- Why we believe a resolution may be quicker?** Admittedly, predicting regulatory resolutions in India has been hazardous and we have been proved wrong earlier. In this case, we are hopeful of a quicker resolution than the Karnataka issue for 2 reasons-a) Iron ore is far bigger part of the local economy in the state of Goa, v/s Karnataka and b) Goan iron ore is low grade and has no takers within the local steel industry in India. Hence we are more confident of re-start in a few months time (and not impact FY14E iron ore earnings materially)
- Implications for SESA:** We believe investors need to focus on a post merger entity. On a worst case basis (no ore production in FY14E) the merged entity's EBITDA/EPS would reduce by 8/11% and reduce our PT to Rs215. On a cash flow basis, the operating entity would still be able to pay interest comfortably. On a standalone entity, till the merger is over, we believe ex CAIRN's income, SESA would likely be loss making if the mining suspension lasts longer. We do not see any issue in the merger approval process post the mining suspension.
- Diversified earnings, volume growth story remains:** Our OW thesis on SESA-STLT (post merger) remains intact and we see the current correction as a good entry point. Key risks include sharp increase in royalty rates and inability to increase volumes in oil and power segments.

Sesa Goa (Reuters: SESA.NS, Bloomberg: SESA IN)

Rs in mn, year-end Mar	FY12A	FY13E	FY14E	FY15E
Net Sales (Rs mn)	544,762	624,243	708,302	740,731
Net Profit (Rs mn)	61,426.0	84,960.3	102,731.1	106,184.1
EPS (Rs)	20.72	28.65	34.65	35.81
Net profit growth (%)	-	38.3%	20.9%	3.4%
ROE	20.1%	16.7%	22.8%	19.8%
P/E (x)	8.2	5.9	4.9	4.7
P/BV (x)	0.8	1.2	1.0	0.9
EV/EBITDA (x)	5.6	4.9	4.0	3.4

Source: Company data, Bloomberg, J.P. Morgan estimates. Note: Revenue, net profit and valuations based on attributable data.

Overweight

SESA.NS, SESA IN

Price: Rs169.75

Price Target: Rs240.00

India

Metals & Mining

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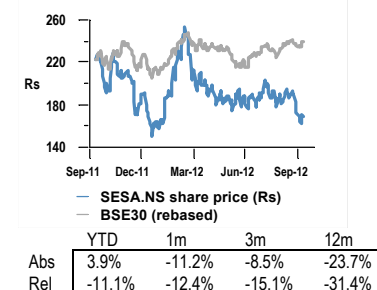
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Price Performance



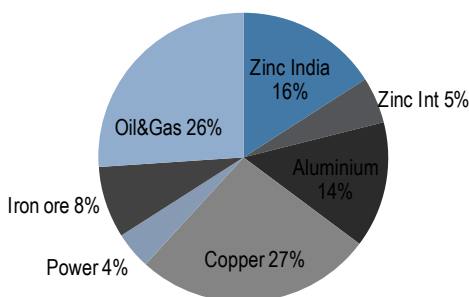
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Company description

Sesa Sterlite is one of the largest diversified non-ferrous metal companies in India with operations in aluminum, copper, zinc, iron ore, oil and power. It is a subsidiary of Vedanta Group, a London-based company controlled by Anil Agarwal. Sesa Sterlite has significant size and scale in all the base metals, oil and power.

Figure 1: Sesa Sterlite—Revenue customer chart (as of FY12)



Source: Company reports.

Table 2: EPS estimates—J.P. Morgan vs. consensus

Rs	J.P. Morgan	Consensus
FY13E	28.7	
FY14E	34.7	

Source: Bloomberg, J.P. Morgan estimates.

Table 1: Sesa Sterlite—P&L sensitivity metrics

	EBITDA impact (%)	EPS impact (%)
USDINR assumption - Impact of each 1%	1.4%	2.4%
LME Zinc assumption - Impact of each 1%	0.5%	0.9%
LME Aluminium assumption - Impact of each 1%	0.3%	0.7%
Oil assumption - Impact of each 1%	0.5%	0.8%
Iron Ore assumption - Impact of each 1%	0.2%	0.4%
Power ASP assumption - Impact of each 1%	0.1%	0.2%
Interest rate assumption - Impact of each 100bps	-	3.7%

Source: J.P. Morgan estimates.

Price target and valuation analysis

Our Sep-13 PT of Rs 240 is based on a SOTP valuation and we assign EV/EBITDA multiples to underlying EBITDA. SESA's PT is based on a SOTP valuation for FY14E financials. We estimate attributable EBITDA CAGR of 10% over FY12-14E and on our PT, SESA STLT would trade at 5.5x FY14E EV/EBITDA. We do not use the DCF approach, given most of businesses are currently not in steady state, and for the key ones like aluminum and power, it remains difficult to predict when they will achieve steady state.

Risks to our price target

Key downside risks to our PT and rating are sharp decline in zinc and oil prices, sharp increase in royalty rates in India, inability to ramp up volumes in power and oil segments and MTM impact in case of INR depreciation given the large USD debt.

Higher zinc and silver prices to help earnings: Zinc-lead prices have increased 11-15% since mid-Aug and silver prices are ~21% higher over the same period. In our view, the improvement in zinc-lead and silver prices is positive for Sesa Sterlite's (combined entity) HZL and Zinc International operations (~32% of FY14E attributable EBITDA for the combined entity). A 1% change in our Zinc price assumption impact EBITDA/EPS by 0.5% and 0.9% respectively.

Table 3: ML which are renewed in violation of Rule 24A (4) & (5) of MCR, 1960

	Applicant	Area (Ha)	Application date	Renewed	Execution date
11/41	M/S Dempo Mining Corp Pvt Ltd	89.92	17/11/1987	11/4/1996	-
12/41	M/S Dempo Mining Corp Pvt Ltd	99.96	17/11/1987	15/05/1990	28/12/2001
13/41	M/S Dempo Mining Corp Pvt Ltd	90.14	17/11/1987	8/12/1995	-
14/41	M/S Dempo Mining Corp Pvt Ltd	99.73	17/11/1987	20/07/1990	16/01/2002
15/41	M/S Dempo Mining Corp Pvt Ltd	99.55	17/11/1987	15/05/1990	22/01/2002
7/50	M/S VS Dempo Co Pvt Ltd	38.85	17/11/1987	9/3/1998	
3/51	M/S VS Dempo Co Pvt Ltd	97.68	17/11/1987	14/01/1998	
28/51	M/S Sesa Goa Ltd	23.96	20/11/1987	10/8/1991	15/06/2007
35/52	M/S VS Dempo Co Pvt Ltd	98.46	17/11/1987	9/3/1998	-
76/52	M/S Sesa Goa Ltd	99.4	20/11/1987	6/3/1991	21/11/2007
5/54	M/S VS Dempo Co Pvt Ltd	96.64	17/11/1987	26/04/1990	(10 years)
20/54	M/S VS Dempo Co Pvt Ltd	90.95	17/11/1987	26/04/1990	(10 years)
21/54	M/S VS Dempo Co Pvt Ltd	65.79	17/11/1987	14/01/1998	
40/54	M/S VS Dempo Co Pvt Ltd	51	17/11/1987	9/3/1998	
32/55	M/S Sesa Goa Ltd	43	20/11/1987	6/8/1991	(10 years)

Source: Shah Commission Report.

Table 4: Illegal extraction of iron ore in violation of conditions of EC

T.C. No	Name of Mine/Company	ML Area (Ha)	Period for non-compliance	Total Prodn FY06-FY11
11/41	M/s. DEMPO MINING CORP. PVT. LTD. Bicholim Iron Ore Mines (2 MTPA of processed ore) in Bicholim, North Goa.	479.3	5yrs, 4mths & 3days	12,546,494
12/41	-- do --			
13/41	-- do --			
14/41	-- do --			
15/41	-- do --			
7/50	M/s. DEMPO MINING CORP. PVT. LTD. Expansion of Culnovoil sodo Iron Ore Mine (0.05 MTPA to 0.36 MTPA) in South Goa.	38.85	-	327,168
40/54	M/s. DEMPO MINING CORP. PVT. LTD. Expansion of Curpem Iron Ore Mine (0.15 MTPA to 0.20 MTPA) located in Goa.	148.97	5yrs, 3mths & 22days	21,7487
28/51	M/s. SESA GOA LTD. Botevadeacho Dongar Iron Ore Mining Project, located at Pissurlem, Sattari, North Goa.	23.95		576,067
69/51	Expansion of Codli Iron Ore Mine (2.17 MTPA to 4.0 MTPA) of M/s. Sesa Goa Ltd in South Goa. (T.C. Nos.69/51, 70/52, 126/53)	299.58	5yrs, 6mths & 9days	5,366,818
70/52	Sesa Goa Limited, Panaji, Goa: 403001.	299.58	5yrs, 6mths & 9days	23,172,927
126/53	-- do --		5yrs, 6mths & 9days	3,496,161
6/55	M/s. SESA GOA LTD. Expansion of Mareto Sodo Iron Ore Mine (0.5 MTPA to 1.0 MTPA), located in North Goa District.	26.67		2,512,932

Source: Shah Commission Report

Table 5: Encroachment by the way of mining activities

T.C No	Name	Original area (Ha)	Total encroachment (Ha)	% of total
76/52	Sesa Goa Ltd., of ADVALPALE / BICHOLIM	99.4	5.55	6%
12/41	Dempo and Souza Ltda.of Goa. BICHOLIM / BICHOLIM	99.96	22.67	23%
11/41	Dempo and Souza Ltda.of Goa. BICHOLIM / BICHOLIM	100.0	11.88	12%
7/50	V.S. Dempo & Ltd., of Goa. MAULINGUEM / SANGUEM	38.85	11.44	29%
14/41	Dempo and Souza Ltda.of Goa. MULGAO/BICHOLIM	99.91	5.33	5%
13/41	Dempo and Souza Ltda. of Goa. BORDEM/BICHOLIM	99.5	3.43	3%
5/54	V. S. Dempo & Cia Ltda., of Goa. SONUS / SATTARI	96.64	3.26	3%
35/52	V. S. Dempo & Cia Ltda., of Goa. RIVONA/SANGUEM	98.46	3.1	3%
21/54	V. S. Dempo & Cia Ltda., of Goa. SURLA / BICHOLIM	65.79	2.23	3%
3/51	V. S. Dempo & Cia Ltda., of Goa. CURPEM/SANGUEM	97.68	1.3	1%
15/41	Dempo and Souza Ltda.of Goa. MULGAO/BICHOLIM	99.55	0.85	1%

Source: Shah Commission Report.

Valuation and share price analysis

We value the company on a Sum of the Parts basis and we assign EV/EBITDA multiples to underlying EBITDA. We do not use the DCF approach, given most of businesses are currently not in a steady state, and for the key ones like aluminum and power, it remains difficult to predict when exactly they will achieve steady state. Our PT translates into implied EV/EBITDA of 5.5x FY14E. Key risks to our PT and rating are sharp decline in zinc and oil prices, sharp increase in royalty rates in India and inability to ramp up volumes in power and oil segments.

Table 6: SOTP Summary

	FY14	Multiple	FY14	Explanation
Zinc-India	49,321	5.5	271,266	Valued at the lower end of its historical trading range
Zinc Int	16,119	4.0	64,474	Valued at a 30% discount to India zinc assets given limited mine life
BALCO	5,497	5.5	30,231	Given that LME aluminum is currently below marginal cost, and the investments made by the company is yet to be fully operational, valued at the higher end of historical global aluminum company valuations
VAL	11,430	5.5	62,863	Given that LME aluminum is currently below marginal cost, and the investments made by the company is yet to be fully operational, valued at the higher end of historical global aluminum company valuations
Copper	11,973	5.5	65,850	The copper smelter earnings are relatively steady state and less volatile, hence at the higher end of commodity company valuations
Power	17,572	5.5	96,647	Valued at the higher end of earnings range as most of the assets yet to be fully operational
Iron ore	21,443	4.5	96,493	Valued at the lower end of its historical trading range, as volume growth outlook remains hazy
Oil	67,284	5.5	370,062	Valued at the mid range of commodity companies given volume growth prospects
		Total EV	1,057,886	
		Net debt	342,525	
		Equity	715,361	
		Per Share	240	

Source: Company reports and J.P. Morgan estimates.

Sesa Goa: Summary of Financials

Income Statement				Cash flow statement			
Rs in millions, year end Mar	FY13E	FY14E	FY15E	Rs in millions, year end Mar	FY13E	FY14E	FY15E
Revenues	624,243	708,302	740,731	Net Income (Pre exceptionals)	84,960.3	102,731.1	106,184.1
% change Y/Y	14.6%	13.5%	4.6%	Depr. & amortization	38,167	41,312	44,324
EBITDA	175,598	205,638	206,635	Change in working capital	79,139	-65	4,091
% change Y/Y	11.4%	17.1%	0.5%	Cash flow from operations	280,697	232,124	245,767
EBITDA Margin	28.1%	29.0%	27.9%	Net Capex	-128,470	-138,731	-75,259
EBIT	137,431	164,325	162,310	Free cash flow	152,226	93,393	170,508
% change Y/Y	11.1%	19.6%	NM	Equity raised/(repaid)	-336,970	-67,362	-71,068
EBIT Margin	22.0%	23.2%	21.9%	Debt raised/(repaid)	38,351	20,500	-10,000
Net Interest	-20,881	-18,802	-12,896	Other	-527,461	79,672	81,228
Earnings before tax	185,569	212,876	218,828	Dividends paid	-12,744	-15,410	-15,928
% change Y/Y	55.0%	14.7%	2.8%	Beginning cash	267,477	432,400	543,194
Tax	25,589	31,792	32,230	Ending cash	432,400	543,194	697,935
as % of EBT	13.8%	14.9%	14.7%	DPS	4.30	5.20	5.37
Net Income (Pre exceptionals)	84,960.3	102,731.1	106,184.1				
% change Y/Y	38.3%	20.9%	3.4%				
Shares outstanding	2,965	2,965	2,965				
EPS (reported)	28.65	34.65	35.81				
% change Y/Y	38.3%	20.9%	3.4%				
Balance sheet				Ratio Analysis			
Rs in millions, year end Mar	FY13E	FY14E	FY15E	Rs in millions, year end Mar	FY13E	FY14E	FY15E
Cash and cash equivalents	432,400	543,194	697,935	EBITDA margin	28.1%	29.0%	27.9%
Accounts receivable	60,972	65,630	67,682	Operating margin	-	-	-
Inventories	-	-	-	Net margin	13.6%	14.5%	14.3%
Others	72,674	79,970	82,966	Sales growth	14.6%	13.5%	4.6%
Current assets	2,162,578	2,359,270	2,525,053	Net profit growth	38.3%	20.9%	3.4%
LT investments	-	-	-	EPS growth	38.3%	20.9%	3.4%
Net fixed assets	844,340	918,284	924,278	Interest coverage (x)	8.41	10.94	16.02
Total Assets	2,162,578	2,359,270	2,525,053	Net debt to total capital	23.2%	16.1%	1.9%
Liabilities				Net debt to equity	68.2%	38.2%	4.1%
Short-term loans	63,520	63,520	63,520	Sales/assets	0.29	0.31	0.30
Payables	107,574	118,359	125,809	Assets/equity	5.29	4.78	4.36
Others	49,503	50,607	52,295	ROE	16.7%	22.8%	19.8%
Total current liabilities	220,597	232,486	241,625	ROCE	11.4%	14.0%	12.9%
Long-term debt	647,750	668,250	658,250				
Other liabilities	399,383	414,383	429,383				
Total Liabilities	1,267,730	1,315,119	1,329,258				
Shareholders' equity	408,611	493,243	578,659				
BVPS	137.81	166.36	195.16				

Source: Company reports and J.P. Morgan estimates. Note: The P&L estimates are attributable data.

JPM Q-Profile

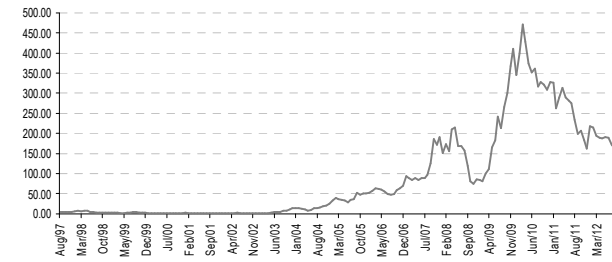
Sesa Goa Ltd. (INDIA / Materials)

As Of: 07-Sep-2012

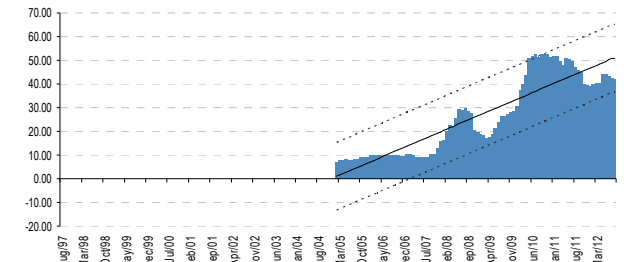
Global Equity Quantitative Analysis

Quant_Strategy@jpmorgan.com

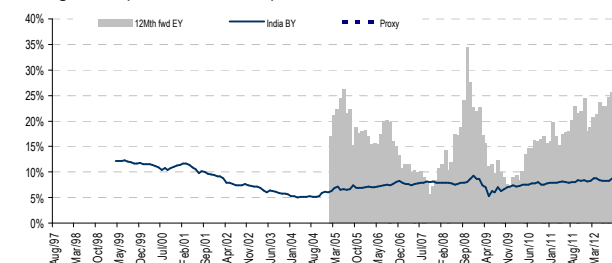
Local Share Price Current: **164.35**



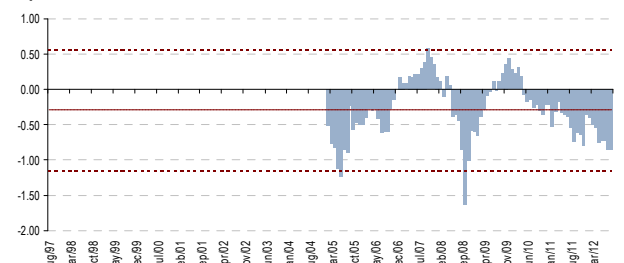
12 Mth Forward EPS Current: **41.93**



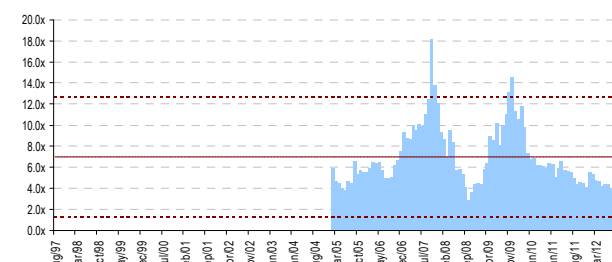
Earnings Yield (& local bond Yield) Current: **26%**



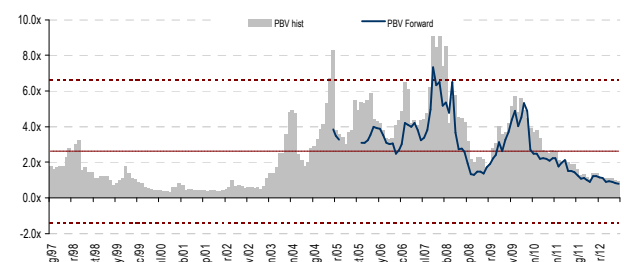
Implied Value Of Growth* Current: **-85.16%**



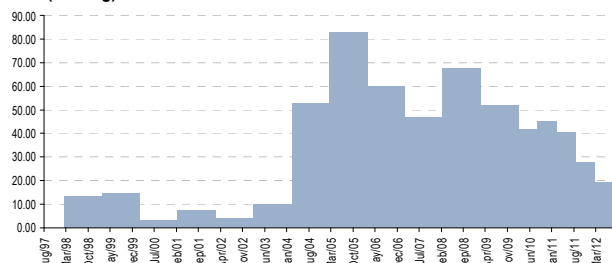
PE (1Yr Forward) Current: **3.9x**



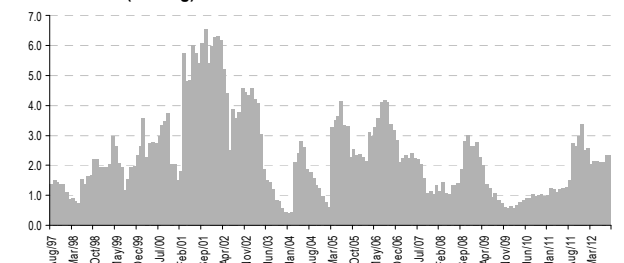
Price/Book Value Current: **0.9x**



ROE (Trailing) Current: **19.30**



Dividend Yield (Trailing) Current: **2.33**



Summary

Sesa Goa Ltd.										As Of:	7-Sep-12
INDIA										Local Price:	164.35
Materials	SEDOL	6136040								EPS:	41.93
12mth Forward PE	Latest	Min	Max	Median	Average	2 S.D.+	2 S.D. -	% to Min	% to Max	% to Med	% to Avg
P/BV (Trailing)	3.92x	2.90	18.24	6.00	6.99	12.69	1.28	-26%	365%	53%	78%
Dividend Yield (Trailing)	0.94x	0.33	9.34	2.05	2.62	6.64	-1.40	-65%	888%	117%	177%
ROE (Trailing)	2.33	0.41	6.55	2.09	2.34	5.17	-0.48	-82%	181%	-10%	0%
Implied Value of Growth	19.30	3.06	82.98	40.74	34.55	85.04	-15.94	-84%	330%	111%	79%
	-85.2%	-1.63	0.58	-0.31	-0.29	0.56	-1.14	-92%	168%	64%	66%

Source: Bloomberg, Reuters Global Fundamentals, IBES CONSENSUS, J.P. Morgan Calcs

* Implied Value Of Growth = (1 - EY/Cost of equity) where cost of equity = Bond Yield + 5.0% (ERP)

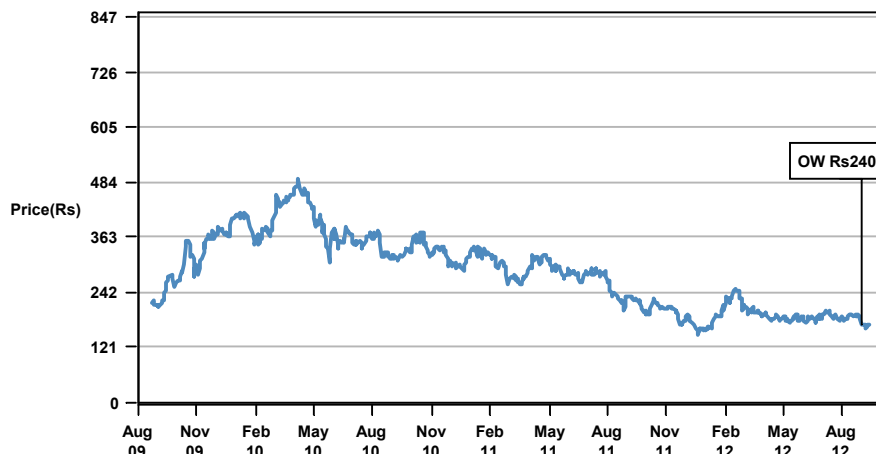
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Sesa Goa (SESA.NS, SESA IN) Price Chart



Date	Rating	Share Price (Rs)	Price Target (Rs)
30-Aug-12	OW	172.35	240.00

Source: Bloomberg and J.P. Morgan; price data adjusted for stock splits and dividends. Initiated coverage Aug 30, 2012.

The chart(s) show J.P. Morgan's continuing coverage of the stocks; the current analysts may or may not have covered it over the entire period.

J.P. Morgan ratings or designations: OW = Overweight, N= Neutral, UW = Underweight, NR = Not Rated

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Coverage Universe: Parekh, Pinakin: ACC Limited (ACC.BO), Ambuja Cements Limited (ABUJ.BO), Coal India (COAL.BO), Grasim Industries Ltd (GRAS.BO), Hindalco Industries (HALC.BO), JSW Steel (JSTL.BO), National Aluminium Co Ltd (NALU.BO), Sesa Goa (SESA.NS), Steel Authority of India Ltd (SAIL.BO), Sterlite Industries (STRL.BO), Tata Steel Ltd (TISC.BO), UltraTech Cement Ltd (ULTC.BO)

J.P. Morgan Equity Research Ratings Distribution, as of July 6, 2012

	Overweight (buy)	Neutral (hold)	Underweight (sell)
J.P. Morgan Global Equity Research Coverage	45%	43%	11%
IB clients*	51%	47%	34%
JPMS Equity Research Coverage	44%	48%	8%
IB clients*	70%	62%	51%

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