



NEUTRAL

Price	Rs233
Target Price	-
Investment Period	-

Stock Info

Sector	Mining
Market Cap (Rs cr)	19,101
Beta	0.9
52 WK High / Low	248/60
Avg Daily Volume	2637715
Face Value (Rs)	1

BSE Sensex	15,388
Nifty	4,571

BSE Code	500295
NSE Code	SESAGOA
Reuters Code	SESA.BO
Bloomberg Code	SESA@IN

Shareholding Pattern (%)

Promoters	53.1
MF/Banks/Indian FIs	9.4
FII/ NRIs/ OCBs	22.6
Indian Public/others	14.9

Abs.	3m	1yr	3yr
Sensex (%)	34.9	7.7	44.1
Sesa Goa (%)	108.0	39.8	397.8

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Performance Highlights

- Top-line dips 21% on lower Iron ore prices:** For 1QFY2010, Sesa Goa posted 21% yoy de-growth in consolidated Top-line to Rs999cr (Rs1,257cr), which was slightly below our estimate of Rs1,082cr. Topline de-grew mainly on account of the sharp decline in the prices of iron ore, met coke and pig iron. Notably, realisations fell by 47.4%, 33.9% and 35.3% yoy for iron ore, met coke and pig iron respectively, during the quarter. However, iron ore sales volume growth of 46% at 4.74mn tonnes (3.25mn tonnes) aided Top-line growth. Iron ore volumes also include 47,000 tonnes of iron ore from Dempo Mining, which Sesa had acquired in April 2009. Pig iron volumes also increased by 26% yoy at 71,000tonnes (56,500tonnes).
- EBIDTA Margin declines sharply by 1,800bp:** Sesa Goa reported a sharp 1,800bp decline in EBIDTA Margin to 44.1% (62.2%), which was in line with our estimates. Margins crashed mainly on account of the steep fall in Spot Iron ore, met coke and pig iron prices. Net raw material costs and Employee costs, which increased substantially and adversely impacted Margins during the quarter. However, Export duty fell by a substantial 93% to Rs3.9cr (Rs56.0cr) due to lower Exports tariff during the quarter.
- Net Profit falls 33%:** The fall in Revenues and sharp decline in Margins, resulted in the company reporting a 33% yoy decline in Net Profit to Rs422cr (Rs633cr), which came slightly higher than our estimate of Rs407cr for the quarter. Higher-than-expected Interest and Depreciation costs also dragged Bottomline. However, effective Tax rate which was just 17.0% (25.6%) supported Bottom-line growth.

Key Financials (Consolidated)

Y/E March (Rs cr)	FY2008	FY2009	FY2010E	FY2011E
Net Sales	3,823	4,959	5,591	6,786
% chg	72.4	29.7	12.7	21.4
Net Profit	1,542	1,988	1,512	1,892
% chg	138.6	29.0	(23.9)	25.1
EPS (Rs)	19.6	25.3	19.2	24.0
OPM (%)	60.3	51.2	41.0	42.0
P/E (x)	11.9	9.2	12.1	9.7
P/BV (x)	6.2	3.9	3.0	2.4
RoE (%)	67.7	51.8	28.1	27.6
RoCE (%)	65.2	50.6	27.6	27.2
EV/Sales (x)	4.3	3.0	2.8	2.1
EV/EBITDA	7.1	5.9	6.9	5.0

Source: Company, Angel Research

Key Takeaways from Conference Call

- SGL registered 46% growth in Iron ore Sales Volumes to 4.74mn tonnes during the quarter. (Goa: 3.2mn tonnes, Karnataka: 1.2mn tonnes and Orissa: 0.36mn tonnes).
- Production at the company's Orissa mines was lower due to the comparatively higher production costs at the mines (around US \$65/tonne), and the lower prevailing iron ore prices. However, with prices having now recovered, the company expects production to increase. Management also expects to prune costs by US \$10/tonne in its Orissa operations through logistics improvement. Currently, the company's Transportation costs are around US \$40/tonne, which it expects to bring down to US \$30/tonne. The company is building a railway sliding and loading system at Haldia port to reduce the transportation costs.
- SGL's Spot and Contract Iron ore ratio stood at 85:15 for the quarter and management has guided that its Spot exposure continues to be higher and will be 75% for FY2010. However, management is targeting a Contract-to-Spot ratio of 50:50 in the long run.

- **Management maintains Volume guidance of 50mtpa in the next 2-3 years**

Management is targeting around 50mtpa iron ore volumes over the next 2-3 years, to be achieved through the organic and inorganic route. Management has maintained its earlier volume growth of 25% for the next 2-3 years for Sesa Goa. Post acquisition, we believe Dempo will add another 4mtpa to Sesa's volumes. Sesa is also targeting similar volume growth in Dempo by improving logistics and increasing reserves. Sesa Goa management expects Dempo's iron ore reserves to touch 100-110mn tonnes from the current 70mn tonnes in the near term.

- **Additional reserves through aggressive explorations**

The company's exploration plans are on track at its Goa and Karnataka mines. It has received environmental clearance for Karnataka mines for 6mtpa production. Environmental clearance for the Goa mines is currently for 13mn tonnes of production. At the company's allotted Jharkhand mine, geological survey has been completed and management expects to file the applications over the next 2-3 months. Total iron ore reserves are expected at 50mn tonnes, with an average cut-off-grade of 50%+.

Financials

- Dempo registered Top-line of Rs160cr during the quarter. EBIDTA came in at Rs99cr, with EBIDTA Margins of around 62%. Net Profit stood at Rs64cr during the quarter.
- The company had total Cash and Cash equivalents of Rs2,096 and Rs1,000cr has been deployed with Vedanta Alumina.
- The company had inventory of 2.2mn tonnes of iron ore during the quarter.
- Management has guided for Rs150-200cr of capex for FY2010.
- Management has guided for an effective Tax rate of 17-18% for FY2010
- Management expects blended realisation for iron ore to improve to US \$50-55/tonne during 2QFY2010 from US \$38/tonne during 1QFY2010.
- Cost of production during the quarter at Goa, Karnataka and Orissa were at US \$15, US \$35 and US \$65, respectively.
- Coking coal prices have declined to US \$128/tonne from US \$300/tonne during FY2009. Landed cost for coking coal is expected to be at US \$150-180/tonne for FY2010.

Outlook and Valuation

After having declined by more than 65% from the peak of US \$186/tonne during July 2008, Spot Iron ore prices in China have recovered off late on account of revival in domestic steel demand and higher iron ore import. Notably, Spot Iron ore prices in China have increased by around 50% from a low of US \$62/tonne during April 2009 to US \$95 currently. We believe that the run up in CIF iron ore prices will help Sesa improve its realisation in the subsequent quarters. However, with re-stocking from China coming to an end and supply from iron ore companies increasing to China, we do not expect Spot Iron ore prices to improve hereon, but would correct and converge with the contract prices, which have been negotiated at US \$62/tonne for Iron ore fines.

At Rs233, SGL is trading at 12.1x and 9.7x FY2010E and FY2011E Earnings, respectively. However, it is trading at an EV/EBIDTA of 6.9x and 5.0x FY2010E and FY2011E EBIDTA, respectively. Though we are positive on the company's overall prospects, following the sharp run up in the stock price by 25-30% in the last one month and stock achieving our Target Price of Rs232, **we downgrade the stock from Accumulate to Neutral with a Fair Value of Rs232 at which price the stock would trade at 5x EV/EBITDA and 2.4x P/BV on our FY2011 estimates.**

Exhibit 1: 1QFY2010 Performance (Consolidated)

Y/E March (Rs cr)	1QFY2010	1QFY2009	% chg	FY2009	FY2008	% chg
Net Sales	999	1,257	(20.6)	4,959	3,823	29.7
Raw Materials	99.4	(40.6)	-	230.1	239.7	(4.0)
(% of Net Sales)	10.0	(3.2)		4.6	6.3	
Staff Costs	39.5	28.6	38.1	99.9	68.5	46.0
(% of Net Sales)	4.0	2.3		2.0	1.8	
Transportation Costs	292.0	290.0	0.7	1,154	603.1	91.4
(% of Net Sales)	29.2	23.1		23.3	15.8	
Export Duty	3.9	56.0	(93.0)	215.6	159.1	35.5
(% of Net Sales)	0.4	4.5		4.3	4.2	
Other Expenditure	123.6	141.0	(12.4)	720.4	449.1	60.4
(% of Net Sales)	12.4	11.2		14.5	11.7	
Total Expenditure	558	475	17.6	2,420	1,519	59.3
Operating Profit	440	782	(43.7)	2,539	2,303	10.2
OPM (%)	44.1	62.2		51.2	60.3	
Interest	2.0	0.0		1.0	2.8	-
Depreciation	15.2	11.6	30.9	51.7	50.0	3.4
Other Income	88.1	83.7	5.2	224.0	74.4	201.1
Profit before Tax	511	855	(40.2)	2,710	2,325	16.6
(% of Net Sales)	51.2	68.0		54.7	60.8	
Current Tax	86.9	218.5	(60.2)	715.3	776.0	(7.8)
(% of PBT)	17.0	25.6		26.4	33.4	
Profit After Tax	424	636	(33.3)	1,995	1,549	28.8
Minority Interest	1.8	3.0		6.8	7.4	
PAT after MI	422	633	(33.3)	1,988	1,542	29.0
(% of Net Sales)	42.5	50.6		40.2	40.5	
EPS (Rs)	5.4	8.0	(33.3)	25.3	19.6	29.0

Source: Company, Angel Research



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Ratings (Returns) :	Buy (Upside > 15%) Reduce (Downside upto 15%)	Accumulate (Upside upto 15%) Sell (Downside > 15%)	Neutral (5 to -5%)
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