



Sesa Goa

STOCK INFO.	BLOOMBERG
BSE Sensex: 17,486	SESA IN
	REUTERS CODE
S&P CNX: 5,226	SESA.BO

19 January 2010

Buy

Rs406

Previous Recommendation: Buy

Equity Shares (m)	820.5
52-Week Range	424/67
1,6,12 Rel. Perf. (%)	6/61/329
M.Cap. (Rs b)	333.1
M.Cap. (US\$ b)	7.3

YEAR END	NET SALES (RS M)	PAT (RS M)	EPS (RS)	EPS GROWTH (%)	P/E (X)	P/BV (X)	ROE (%)	ROCE (%)	EV/ SALES	EV/ EBITDA
3/09A	49,591	19,880	25.3	29.0	16.1	6.8	42.2	51.6	5.8	11.4
3/10E	71,910	26,666	32.5	28.7	12.5	4.3	34.5	32.7	4.1	8.5
3/11E	94,127	33,278	40.6	24.8	10.0	3.1	30.7	31.1	2.8	6.1
3/12E	102,474	38,168	46.5	14.7	8.7	2.3	26.4	27.4	2.2	4.8

Consolidated

Sesa Goa's consolidated PAT for 3QFY10 grew 76% YoY to Rs8.3b on sharp improvement in iron ore prices and higher volumes.

Net sales increased 39% YoY to Rs18.9b. Iron ore revenues grew 38% YoY to Rs17.3b on 11% YoY growth in realizations (to Rs2,542/ton) and 25% YoY increase in iron ore sales tonnage (6.8m tons). Iron ore forms bulk of revenue (88%) for Sesa. Revenues from pig iron and coke grew 53% YoY and 13% YoY, respectively mainly due higher sales tonnage. Coke tonnage grew 68% to 68,792tons and pig iron tonnage posted robust 97% growth to 71,000tons.

EBITDA grew 85% YoY to Rs10.4b, with margins expanding 13.7pp YoY to 54.8%. Iron-ore segment EBIT increased 85% YoY to Rs9.8b on higher volumes and higher realization per ton. Coke segment EBIT remained in the red, with a marginal Rs4m loss.

Iron-ore prices are holding strong, as there is continued demand from Chinese steel players and consolidation of suppliers. China's iron ore imports rose 22% MoM in December to 62m tons, taking total imports for 2009 to 628m tons (42% YoY growth). We believe Sesa Goa is on a superior earnings growth path, with competitive cost structure, stronger volume growth and strong balance sheet. The real impact of higher prices will be seen in 4QFY10. We have a positive outlook on iron ore prices. The stock trades at 10x FY11E EPS and an EV of 6.1x FY11E EBITDA. Maintain **Buy**.

QUARTERLY PERFORMANCE (CONSOLIDATED)

(RS MILLION)

Y/E MARCH	FY09				FY10				FY09	FY10E
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE		
Net Sales	12,920	8,637	13,599	14,435	10,115	5,387	18,892	37,516	49,591	71,910
Change (YoY %)	149.6	126.3	11.6	-15.3	-21.7	-37.6	38.9	159.9	29.7	45.0
Total Expenditure	4,750	4,552	8,001	6,900	5,584	3,860	8,531	19,460	24,203	37,436
EBITDA	8,171	4,085	5,597	7,535	4,531	1,527	10,360	18,056	25,388	34,474
Change (YoY %)	311.4	221.4	-26.0	-38.1	-44.5	-62.6	85.1	139.6	10.4	35.8
As % of Net Sales	63.2	47.3	41.2	52.2	44.8	28.3	54.8	48.1	51.2	47.9
Interest	0	0	2	7	20	20	251	315	10	605
Depreciation	116	117	134	150	152	202	225	363	517	941
Other Income	611	455	608	567	752	893	1,325	559	2,240	3,528
PBT (before XO item)	8,665	4,423	6,069	7,944	5,110	2,198	11,210	17,937	27,102	36,456
PBT (after XO item)	8,665	4,423	6,069	7,944	5,110	2,198	11,210	17,937	27,102	36,456
Total Tax	2,185	1,145	1,362	2,461	869	503	2,906	5,439	7,153	9,718
% Tax	25.2	25.9	22.4	31.0	17.0	22.9	25.9	30.3	26.4	26.7
Reported PAT before MI	6,480	3,278	4,707	5,484	4,241	1,694	8,304	12,498	19,949	26,738
Minority Interest	30	32	0	7	18	30	29	-5	69	71
Reported PAT	6,451	3,246	4,707	5,476	4,223	1,665	8,275	12,504	19,880	26,666
Change (YoY %)	378.0	270.8	-7.3	-32.5	-34.5	-48.7	75.8	128.3	29.0	34.1

E: MOSL Estimates

SEGMENTAL FINANCIALS

Y/E MARCH	FY09				FY10			FY08	FY09
	1Q	2Q	3Q	4Q	1Q	2Q	3Q		
Realization (Rs/ton)									
Iron ore	3,474	4,666	2,296	2,560	1,807	2,462	2,542	2,655	2,855
Change (QoQ %)	12.6	34.3	-50.8	11.5	-29.4	36.3	3.3	60.7	7.5
Coke	21,479	27,895	22,741	13,941	13,616	13,064	15,275	12,392	21,779
Pig iron	28,625	32,532	25,539	18,738	18,675	19,179	19,815	18,924	26,042
Sales Qty ('000 tons)									
Iron ore	3,250	1,389	5,438	5,010	4,736	1,619	6,792	12,391	15,087
Change (YoY %)	47.1	12.7	37.4	0.2	45.7	16.6	24.9	14.0	21.8
Coke	63	62	41	51	74	58	69	260	217
Pig iron	57	60	36	71	71	67	71	266	224
Revenue (Rs m)									
Iron ore	11,290	6,481	12,484	12,825	8,557	3,986	17,266	32,903	43,080
Change (YoY %)	186.5	144.8	14.6	-16.9	-24.2	-38.5	38.3	83.2	30.9
Coke	1,353	1,730	932	711	1,008	758	1,051	3,218	4,726
Pig iron	1,632	1,952	919	1,330	1,326	1,285	1,407	5,043	5,833
EBIT (Rs m)									
Iron ore	7,102	2,480	5,308	7,171	3,926	1,007	9,816	20,789	22,061
Coke	604	1,101	202	141	254	-32	-4	868	2,047
Pig iron	357	388	-37	72	207	356	343	895	779
EBIT (Rs/ton)									
Iron ore	2,185	1,785	976	1,431	829	622	1,445	1,678	1,462
Change (QoQ %)	-3.6	-18.3	-45.3	46.7	-42.1	-25.0	132.4	109.4	-12.8
Coke	9,579	17,758	4,924	2,755	3,434	-548	-55	3,344	9,433
Pig iron	6,256	6,472	-1,028	1,007	2,910	5,316	4,831	3,358	3,479
Costs									
Iron ore	1,289	2,880	1,320	1,128	978	1,840	1,097	978	1,393
Coke	11,900	10,137	17,817	11,186	10,182	13,612	15,330	9,048	12,347
Pig iron	22,368	26,060	26,567	17,731	15,765	13,863	14,985	15,566	22,562
Iron ore spot	183	161	77	76	69	93	100	149	124

* (US\$/ton, CFR China)

E: MOSL Estimates

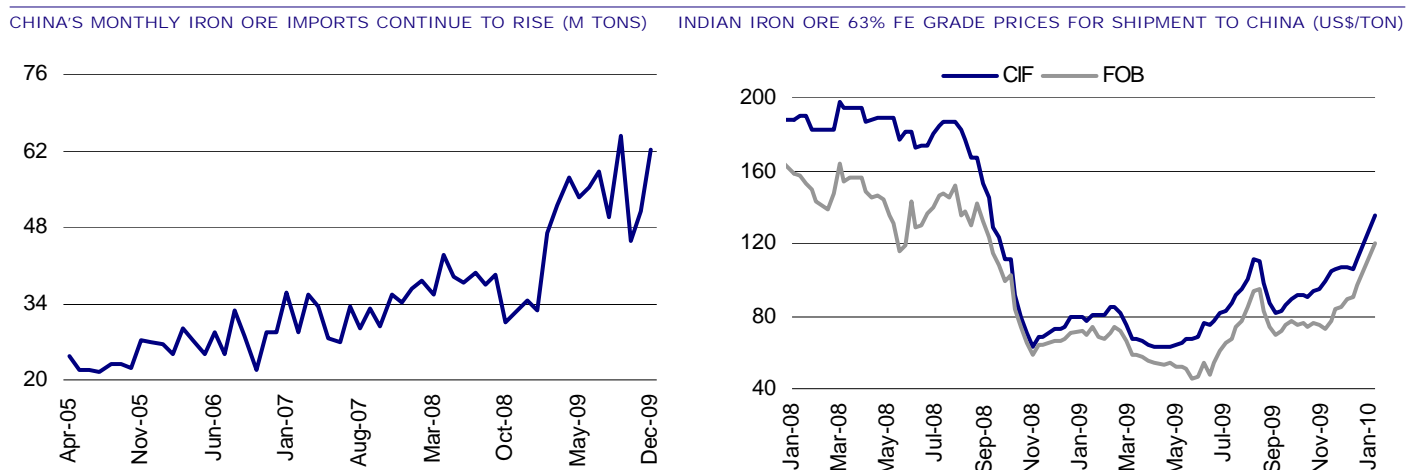
Concall highlights

- Of the total 6.8m tons iron-ore shipments, over half are from its Goa operations (3.5m tons). 1.7m tons are shipped from Dempo. Orissa and Karnataka together constitute the remaining quarter of shipment volumes (0.66m tons and 0.93m tons, respectively). Iron-ore inventories were 2.7m tons at the end of the quarter.
- Region-wise average grade of iron-ore: Goa 56-58 grade Fe, Karnataka 62, Orissa 63 and above.
- Goa operations for the quarter were impacted due to extended monsoon in October and cyclonic weather in November. Sesa Goa produced 4m tons from its Goa mines and 1.5m tons from its Dempo mines.
- The mines, which were impacted by forest clearance related issues, are cleared except for Dempo's 2 mines. However, production volumes expected from these mines are not significant.
- None of Sesa's mines are affected as a result of the government's drive to curb illegal mining; however, Sesa experienced delays in getting mining permits in those regions.
- Exploration activities are continuing aggressively, on target as per annual drilling plan.
- Rs1b has been spent so far in FY10 on mine expansion activities, ball-park figure of Rs15b capex for 50m tons expansion.

- Incremental (QoQ) royalty paid for the quarter was Rs390m; royalty to be paid per ton ranges between Rs100-140 as per IBM guidelines.
- Iron ore demand remains strong, with long-term benchmark contract prices expected to be 20-40% higher than last year's prices.
- 3Q product mix was tilted towards spot shipments in the ratio of 67:33, which is in line with the company's strategy to have 50:50 mix of spot and contracted quantities of iron-ore at FY11 end. An innovative price fixation mechanism has been decided, which would take into consideration both the spot price as well as benchmark price.
- Sesa Goa targets iron-ore production of 50m tons for the next three years and is strategically planning to achieve the same.

Strong demand for iron ore to support prices

Iron-ore prices are holding strong, as there is continued demand from Chinese steel players and inadequate supply from India. According to preliminary customs figures, China's iron ore imports rose 22% MoM in December to 62m tons, taking total imports for 2009 to 628m tons (42% YoY growth).



Source: Bloomberg/MOSL

Expect stronger earnings in 2HFY10, maintain Buy

We expect strong growth in 2HFY10 earnings on the back on higher iron ore prices. Spot iron ore prices for 63.5% Fe material rose sharply last week to US\$133-137/ton. Iron ore prices are likely to remain strong, given continued demand from China and consolidation of suppliers.

We believe Sesa Goa is on a superior earnings growth path, with competitive cost structure, stronger volume growth and strong balance sheet. Surplus cash and cash equivalents of Rs55b will come handy should there be a suitable opportunity for inorganic growth. Also, the real impact of higher prices will be seen in 4QFY10 earnings. We have a positive outlook on iron ore prices. The stock is trading at 10x FY11E EPS and an EV of 6.1x FY11E EBITDA. Maintain **Buy**.

Sesa Goa: an investment profile

Company description

Sesa Goa has rich iron ore reserves of 310m tons in the states of Goa, Karnataka and Orissa. Goa's ore is medium grade and is easy to extract without blasting and crushing. The iron ore from Karnataka and Orissa is of high grade but is found in rocky form, which necessitates blasting and crushing. Sesa Goa is the largest private sector iron ore exporter in India.

Key investment arguments

- Sesa is determined to grow both inorganically and organically
- Iron ore volumes are expected to grow from 15m tons in FY09 to 50m tons in 2-3 years
- Cost of mining and transportation is significantly lower in Goa as compared to other mines in Karnataka and Orissa.
- Strong focus on increasing reserves to 500m tons over 2-3 years.
- Indian miners at advantage over Brazilian miner due to proximity to China – largest customer.

Key investment risks

- Unexpected softening of spot prices of iron ore would adversely impact earnings.

Recent developments

- Sesa has raised US\$500m (coupon rate of 5%) through FCCB, the proceeds of which would be used for financing the growth plans of the company.

Valuation and view

- The stock is trading at a P/E of 10x FY11, and EV/EBITDA of 6.1x FY11E. Maintain **Buy**.

Sector view

- We believe that iron ore prices will remain firm due to strong demand from China and strengthening global steel demand. Also, we expect iron ore export realizations of mining companies in India to strengthen because of dual benefit of weakening sea freight and hardening ore prices in last few weeks.

COMPARATIVE VALUATIONS

		SESA GOA	SAIL	JSW STEEL
P/E (x)	FY10E	12.5	15.6	18.3
	FY11E	10.0	14.1	14.3
P/BV (x)	FY10E	4.3	3.0	3.1
	FY11E	3.1	2.5	2.5
EV/Sales (x)	FY10E	4.1	2.1	2.3
	FY11E	2.8	2.3	2.2
EV/EBITDA (x)	FY10E	8.5	8.8	9.4
	FY11E	6.1	8.7	8.2

EPS: MOST FORECAST V/S CONSENSUS (RS)

	MOST FORECAST	CONSENSUS FORECAST	VARIATION (%)
FY10	32.5	24.0	35.0
FY11	40.6	31.7	28.0

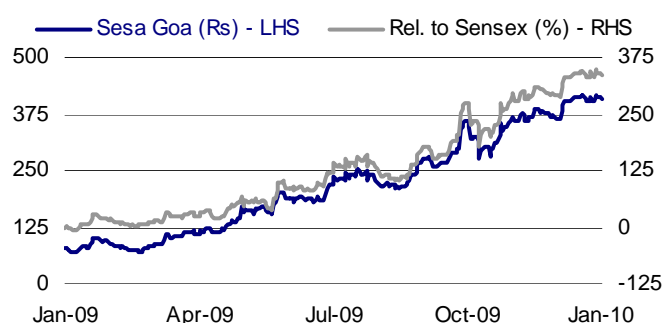
TARGET PRICE AND RECOMMENDATION

CURRENT PRICE (RS)	TARGET PRICE (RS)	UPSIDE (%)	RECO.
406	469	15.5	Buy

SHAREHOLDING PATTERN (%)

	DEC-09	SEP-09	DEC-08
Promoter	57.5	57.1	51.2
Domestic Inst	3.9	4.9	5.0
Foreign	25.7	23.3	19.5
Others	13.0	14.7	24.3

STOCK PERFORMANCE (1 YEAR)



INCOME STATEMENT (CONSOLIDATED)						RATIOS					
(RS MILLION)											
Y/E MARCH	2008	2009	2010E	2011E	2012E	Y/E MARCH	2008	2009	2010E	2011E	2012E
Net sales	35,797	49,591	71,910	94,127	102,474	Basic (Rs)					
Change (%)	74.6	38.5	45.0	30.9	8.9	EPS	19.6	25.3	32.5	40.6	46.5
Total Expenses	12,764	24,203	37,436	51,121	54,585	Cash EPS	20.3	26.0	33.7	42.3	48.3
EBITDA	23,033	25,388	34,474	43,007	47,890	BV/Share	37.4	59.9	94.1	132.1	176.0
% of Net Sales	64.3	51.2	47.9	45.7	46.7	DPS	2.3	2.3	2.5	2.5	2.5
Deprn. & Amortization	500	517	941	1,374	1,402	Payout (%)	13.4	10.4	9.0	7.2	6.3
EBIT	22,533	24,871	33,533	41,632	46,488	Valuation (x)					
Net Interest	28	10	605	1,211	1,211	P/E	20.7	16.1	12.5	10.0	8.7
Other income	744	2,240	3,528	5,098	6,839	Cash P/E	20.0	15.6	12.0	9.6	8.4
PBT before EO	23,250	27,102	36,456	45,519	52,116	P/BV	10.9	6.8	4.3	3.1	2.3
EO income						EV/Sales	8.4	5.8	4.1	2.8	2.2
PBT after EO	23,250	27,102	36,456	45,519	52,116	EV/EBITDA	13.0	11.4	8.5	6.1	4.8
Tax	7,760	7,153	9,718	12,166	13,881	Dividend Yield (%)	0.6	0.6	0.6	0.6	0.6
Rate (%)	33.4	26.4	26.7	26.7	26.6	EV/ton (US\$)	26	25	20	18	16
Reported PAT	15,490	19,949	26,738	33,353	38,235	Return Ratios (%)					
Minority interests	74	69	71	76	67	EBITDA Margins (%)	64.3	51.2	47.9	45.7	46.7
Adjusted PAT	15,416	19,880	26,666	33,278	38,168	Net Profit Margins (%)	43.1	40.1	37.1	35.4	37.2
Change (%)	140.2	29.0	34.1	24.8	14.7	RoE	52.4	42.2	34.5	30.7	26.4
						RoCE	74.2	51.6	32.7	31.1	27.4
						RoIC	159.2	112.6	69.2	81.7	89.3
						Working Capital Ratios					
						Fixed Asset Turnover (x)	4.7	5.6	2.7	3.3	3.4
						Asset Turnover (x)	1.2	1.0	0.7	0.7	0.6
						Debtor (Days)	48.2	21.9	23.4	23.0	22.8
						Inventory (Days)	8.7	5.3	5.9	5.8	5.8
						Working Capital Turnover (x)	13.0	21.8	18.4	15.6	14.8
						Creditors	38.4	43.0	33.8	30.0	29.1
						Leverage Ratio (x)					
						Current Ratio	7.5	8.0	12.8	15.1	18.7
						<i>E: MOSL Estimates</i>					
						CASHFLOW STATEMENT					
						(RS MILLION)					
						Y/E MARCH	2008	2009	2010E	2011E	2012E
						Pre-tax profit	23,250	27,102	36,456	45,519	52,116
						Depreciation	500	517	941	1,374	1,402
						(Inc)/Dec in Wkg. Cap.	-1,202	-6,146	-2,417	-1,416	-525
						Tax paid	-7,745	-7,108	-7,787	-9,594	-11,105
						Other operating activities	-569	-624	3,719	-2,360	-2,533
						CF from Op. Activity	14,233	13,740	30,911	33,523	39,354
						(Inc)/Dec in FA + CWIP	-490	-1,440	-17,800	-1,750	-1,750
						(Pur)/Sale of Investment	-730	-550			
						Others					
						CF from Inv. Activity	-1,219	-1,990	-17,800	-1,750	-1,750
						Share Capital raised/(re	0	394	33		
						Chg in minorities	74	68	71	76	67
						Debt raised/(repaid)		19	24,150		
						Dividend (incl. tax)	-2,072	-2,072	-2,400	-2,400	-2,400
						Other financing activities					
						CF from Fin. Activity	-1,999	-1,592	21,855	-2,324	-2,333
						(Inc)/Dec in Cash	11,015	10,159	34,965	29,449	35,270
						Add: Opening Balance	8,471	19,796	29,955	64,920	94,369
						Closing Balance	19,796	29,954	64,920	94,369	129,639



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Sesa Goa

1. Analyst ownership of the stock	No
2. Group/Directors ownership of the stock	No
3. Broking relationship with company covered	No
4. Investment Banking relationship with company covered	No

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