

## Sesa Goa Ltd.

*Regulatory hurdles continue to haunt; stays in green on Cairn India leverage*

### Outlook

Continued regulatory and operational issues like the temporary mining ban in Goa, delay in commencement of Karnataka operations and proposed production cap (Chitradurga & Tumkur districts – 5 mt limit) remain a major overhang on the stock in the short term. On the other hand, the new Goan Government is likely to announce its mining policy (already overdue) which would pave the road map for Goa mining operations. At a CMP of Rs 183, Sesa Goa trades at a PE multiple of 5.7x and 5.8x FY14E & FY15E consensus earnings estimates and we believe that all negatives (i.e. no production from Karnataka and Goa in H2FY13) has been priced in. However, we remain cautious on the stock as any delay in mining operations (beyond FY13) could further downgrade the stock. We recommend a HOLD on the stock.

### Key Takeaways

- Sesa Goa's Q3FY13 revenues declined 91.3% YoY to Rs 227.5 crore owing to the continued suspension of mining operations in both Karnataka and Goa. While the company sold ~0.03 mn tonnes of iron ore during the quarter from Karnataka through court monitored e-auctions, there was no production or sale at Goa operations. The company recorded loss at EBITDA level and PAT (before share in profit of associate) level of Rs 105.4 crore and Rs 172 crore respectively. However, PAT (after associate income) was at Rs 496.7 crore as the associate income from Cairn India (Rs 668.9 crore) came to rescue the bottom-line.
- Pig iron and Met coke production was stronger for Q3FY13 at 83,000 tonnes (+29.7% YoY; 1.2% QoQ) and 91,000 tonnes (+40% YoY; +9.6% QoQ) respectively and the growth was on account of the successful commissioning of new pig iron capacity (of 375 ktpa) and associated metallurgical coke capacity. During the quarter, the company sold ~62,000 tonnes (-8.8% YoY; due to unfavorable market conditions) and ~80,000 tonnes (+15.9% YoY) of pig iron and met coke respectively.
- During July 2012, CEC recommended a provisional annual production capacity of 2.3 mn tonne for Sesa Goa's mine in Chitradurga, Karnataka. However, Sesa Goa is still awaiting an approval from the Supreme Court for resumption of mining.
- In September, 2012, the Goa government imposed a suspension of mining operations, stoppage of mining transport across Goa. Later, the MOEF also suspended environment clearances to all functional mining leases in Goa. Further, the Shah Commission has recommended a cap on production in Goa which could potentially affect Sesa Goa's iron ore volumes in the state.

Recommendation (Rs)	
CMP	183
Rating	HOLD

Index Details	
Sensex	20,103
Nifty	6,075
Industry	Mining & Minerals

Scrip Details	
Mkt Cap (Rs cr)	15,917
Eq Shares O/s (Cr)	86.9
Avg Vol (Lakhs)	2.3
52 Week H/L	270/158
Dividend Yield (%)	2.2
Face Value (Rs)	1.0

Latest shareholding pattern (%)	
Promoters	55.1
Indian Institutions	4.2
FII's	27.3
Public	13.3
Total	100

Stock performance (%)			
	1m	3m	6m
Sesa Goa	-4.7	8.3	-0.1
Nifty	3.7	6.5	18.9
BSE - Metal	-3.5	3.6	4.6

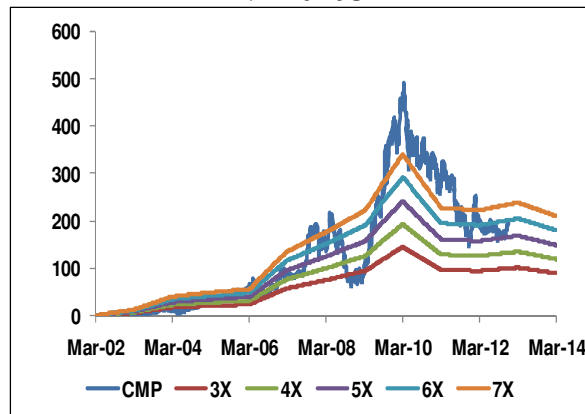
- During the quarter, the company acquired the residual 49% stake in Western Cluster for a cash consideration of US\$33.5 mn. Exploration in Liberia is in full swing with over 48,000 meters (v/s 31,000 meters in Q2FY13) of drilling already completed till date which provides some comfort as it aims to commence production by FY14.

# Quarterly Result Update

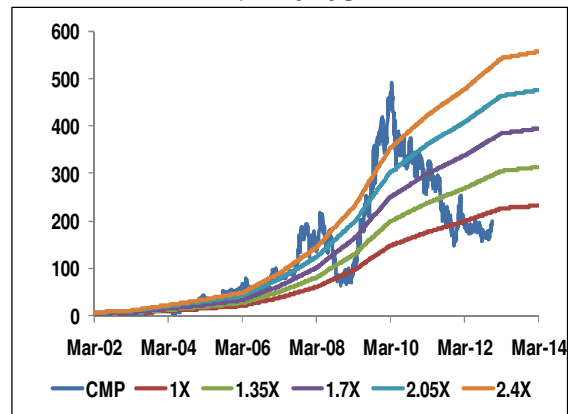
Description	Q3FY13	Q3FY12	% Chg.	Q3FY13	Q2FY13	% Chg.	FY201203	FY201103	% Chg.
<b>Net Sales</b>	<b>227.5</b>	<b>2604.3</b>	<b>-91.3</b>	<b>227.5</b>	<b>288.5</b>	<b>-21.1</b>	<b>8274.5</b>	<b>9144.1</b>	<b>-9.5</b>
Other operational Income	9.0	12.8	-30.0	9.0	5.9	52.5	35.5	49.2	-27.8
<b>Total Oper. Income(TOI)</b>	<b>236.5</b>	<b>2617.1</b>	<b>-91.0</b>	<b>236.5</b>	<b>294.4</b>	<b>-19.7</b>	<b>8310.1</b>	<b>9193.3</b>	<b>-9.6</b>
Raw Materials Cons.-	249.4	179.6	38.9	249.4	154.2	61.7	572.0	396.2	44.4
% to TOI	105.5	6.9	-	105.5	52.4	-	6.9	4.3	-
Stock adj. (-)Inc / (+)Dec-	-117.6	217.9	-	-117.6	-157.1	-25.1	34.4	-47.5	-
% to TOI	-49.7	8.3	-	-49.7	-53.3	-	0.4	-0.5	-
Net Raw Mat adj. for stock	131.8	397.5	-66.8	131.8	-2.9	-	606.4	348.7	73.9
% to TOI	55.7	15.2	-	55.7	-1.0	-	7.3	3.8	-
Other expenses	154.0	1082.0	-85.8	154.0	227.2	-32.2	3935.2	3445.5	14.2
% to TOI	65.1	41.3	-	65.1	77.2	-	47.4	37.5	-
Contribution Net_Sales	-74.3	1012.1	-	-74.3	70.1	-	3768.5	5399.1	-30.2
Personnel	56.0	63.8	-12.2	56.0	64.3	-12.9	268.4	207.6	29.3
% to TOI	23.7	2.4	-	23.7	21.8	-	3.2	2.3	-
Total expenditure	341.9	1543.2	-77.8	341.9	288.6	18.5	4810.0	4001.8	20.2
<b>Operating Profit</b>	<b>-105.4</b>	<b>1073.9</b>	<b>-</b>	<b>-105.4</b>	<b>5.8</b>	<b>-</b>	<b>3500.1</b>	<b>5191.6</b>	<b>-32.6</b>
% to TOI	-44.5	41.0	-	-44.5	2.0	-	42.1	56.5	-
Non-Operating Income	15.4	18.0	-14.4	15.4	202.7	-92.4	234.6	551.7	-57.5
Interest	102.0	114.0	-10.5	102.0	81.7	24.8	433.3	87.2	397.0
Exceptional Items	24.3	125.6	-80.7	24.3	-0.7	-	-66.1	0.0	0.0
Gross Profit	-216.2	852.3	-	-216.2	127.4	-	3367.5	5656.1	-40.5
Depreciation	35.4	26.3	34.3	35.4	33.4	6.0	106.1	96.4	10.1
<b>PBT before Extra-ord</b>	<b>-253.0</b>	<b>826.0</b>	<b>-</b>	<b>-253.0</b>	<b>92.7</b>	<b>-</b>	<b>3129.2</b>	<b>5559.7</b>	<b>-43.7</b>
% to TOI	-107.0	31.6	-	-107.0	31.5	-	37.7	60.5	-
Extraordinary Items	-	-	-	0.0	0.0	-	0.0	0.0	0.0
<b>PBT</b>	<b>-253.0</b>	<b>826.0</b>	<b>-</b>	<b>-253.0</b>	<b>92.7</b>	<b>-</b>	<b>3129.2</b>	<b>5559.7</b>	<b>-43.7</b>
Tax Rate	31.9	31.0	2.8	31.9	37.9	-15.8	32.6	24.1	35.7
Prov. for Tax	-80.7	256.4	-	-80.7	35.1	-	1021.4	1337.2	-23.6
% to TOI	-34.1	9.8	-	-34.1	11.9	-	12.3	14.5	-
<b>Profit after Tax</b>	<b>-172.3</b>	<b>569.6</b>	<b>-</b>	<b>-172.3</b>	<b>57.6</b>	<b>-</b>	<b>2107.8</b>	<b>4222.5</b>	<b>-50.1</b>
% to TOI	-72.8	21.8	-	-72.8	19.6	-	25.4	45.9	-
Minority Interest	-	-	-	0.0	0.0	-	0.0	0.0	-
<b>PAT (adj. For MI)</b>	<b>496.7</b>	<b>691.5</b>	<b>-28.2</b>	<b>496.7</b>	<b>522.0</b>	<b>-4.8</b>	<b>2695.5</b>	<b>4222.5</b>	<b>-36.2</b>
Face Value	1.0	1.0	-	1.0	1.0	-	1.0	1.0	-
Equity Share capital	86.9	86.9	-	86.9	86.9	-	86.9	86.9	-
EPS (Rs.)	-2.0	6.6	-	-2.0	0.7	-	24.3	48.6	-50.1
CEPS (Rs.)	-1.6	6.9	-	-1.6	1.0	-	25.5	49.7	-48.7

# Quarterly Result Update

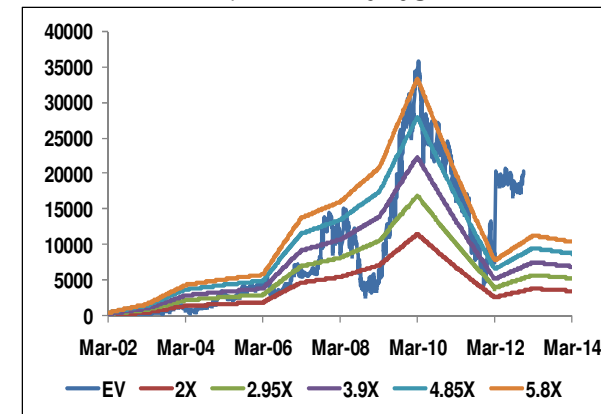
**P/E Bands**



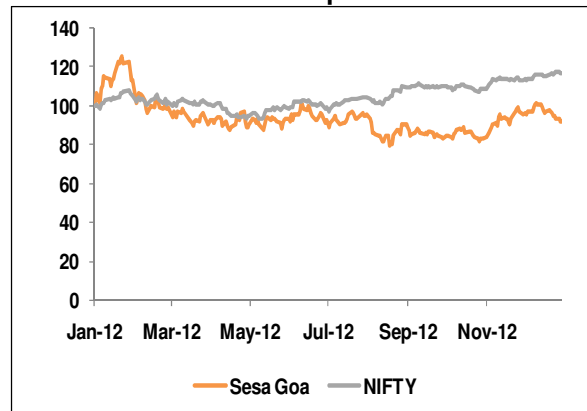
**P/B Bands**



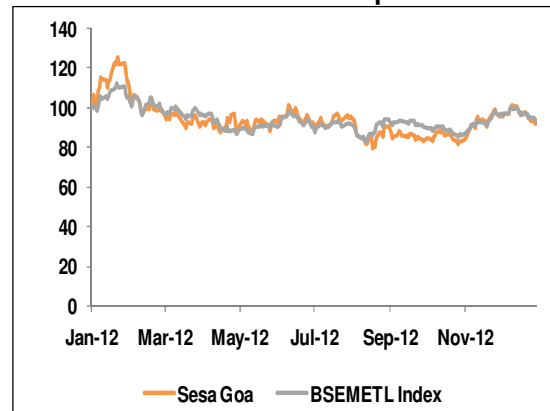
**EV/EBITDA Bands**



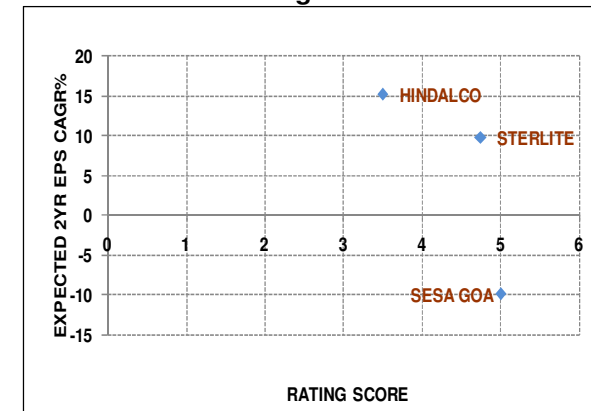
**NIFTY Comparison**



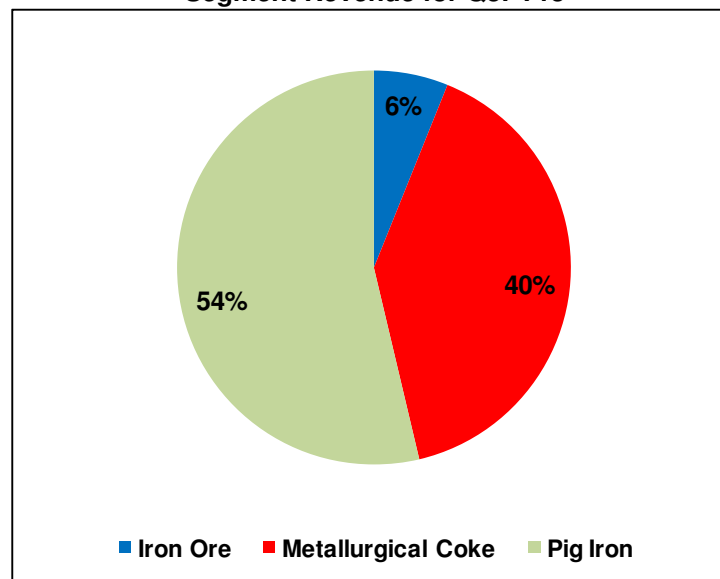
**BSE Metal Index Comparison**



**Ratings Chart**



Segment Revenue for Q3FY13



## Ventura Securities Limited

*Corporate Office: C-112/116, Bldg No. 1, Kailash Industrial Complex, Park Site, Vikhroli (W), Mumbai – 400079*

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