

## Sesa Goa Ltd (Q4 FY08)

April 29, 2008

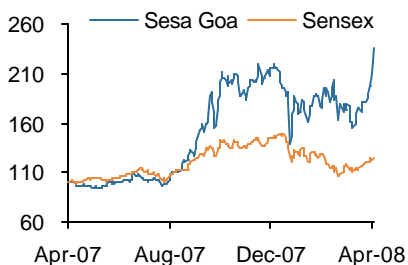
### Stock data

Sensex:	17,378
CMP (Rs):	4,173
Target price (Rs):	4,780
Upside (%):	14.5
52 Week h/l (Rs):	4,274/1,630
Market cap (Rs cr)	16,426
6m Avg vol BSE&NSE ('000 nos):	253
No of o/s shares (mn):	39
FV (Rs):	10
Bloomberg code:	SESA IN
Reuters code:	SESA.BO
BSE code:	500295
NSE code	SESAGOA

### Shareholding pattern

<b>March 2008</b>	<b>(%)</b>
Promoters	51.2
FII's & institutions	31.0
Non promoter corp hold	5.5
Others	12.3

### Share price trend



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- Q4 FY08 topline surge 108.1% yoy to Rs17.1bn
- Iron ore realizations rise 101.1% yoy, led by higher spot sales
- Operating margins in Q4 FY08 expand by 2311bps yoy
- Bottomline escalates 208.2% yoy and 64.7% qoq
- We recommend a BUY with a target price of Rs4,780

### Result table

Period to	03/08	03/07	Growth	03/08	03/07	Growth
(Rs mn)	(3)	(3)	(%)	(12)	(12)	(%)
Net sales	17,051	8,195	108.1	38,227	22,179	72.4
Expenditure	(4,872)	(4,235)	15.0	(15,221)	(12,577)	21.0
Operating profit	12,179	3,959	207.6	23,005	9,602	139.6
Other income	273	127	114.6	744	451	65.0
Interest	(0)	(0)	-	(0)	(3)	(91.2)
Depreciation	(158)	(118)	34.6	(500)	(393)	27.3
PBT	12,293	3,969	209.8	23,250	9,657	140.8
Tax	(4,157)	(1,321)	214.7	(7,760)	(3,147)	146.6
PAT	8,136	2,647	207.3	15,490	6,510	137.9
Minority interest	(20)	(14)	44.3	(74)	(49)	50.3
Adjusted PAT	8,116	2,633	208.2	15,416	6,461	138.6
OPM (%)	71.4	48.3		60.2	43.3	
Equity capital	394	394		394	394	
EPS (Annualised) (Rs)	824.8	267.6	208.2	391.7	164.2	138.6
NPM (%)	47.6	32.1		40.3	29.1	

Source: Company, India Infoline Research

### Segmental results

	03/08	03/07	Growth	03/08	03/07	Growth
	(3)	(3)	(%)	(12)	(12)	(%)
<b>Sales (Rs mn)</b>						
Iron ore	15,426	7,013	120.0	32,903	17,964	83.2
Metallurgical coke	1,099	601	82.9	3,218	2,118	51.9
Pig iron	1,492	1,138	31.1	5,043	3,877	30.1
<b>Total</b>	<b>17,323</b>	<b>8,322</b>	<b>108.2</b>	<b>38,971</b>	<b>22,630</b>	<b>72.2</b>
<b>EBIT (Rs mn)</b>						
Iron ore	11,335	3,702	206.2	20,789	8,711	138.7
Metallurgical coke	471	(26)	1,933.9	868	(91)	(1,053.2)
Pig iron	240	178	34.8	895	622	(43.9)
<b>Total</b>	<b>12,293</b>	<b>3,969</b>	<b>209.8</b>	<b>23,250</b>	<b>9,657</b>	<b>140.8</b>
<b>EBIT Margins (%)</b>						
Iron ore	73.5	52.8	20.7	63.2	48.5	14.7
Metallurgical coke	42.9	(4.3)	47.2	27.0	(4.3)	31.3
Pig iron	16.1	15.6	0.4	17.7	16.0	1.7
<b>Total</b>	<b>71.0</b>	<b>47.7</b>	<b>23.3</b>	<b>59.7</b>	<b>42.7</b>	<b>17.0</b>
<b>ROCE (%)</b>						
Iron ore	618.8	276.3	342.5	1,134.8	650.1	484.8
Metallurgical coke	77.1	(4.0)	81.0	142.0	(14.1)	156.1
Pig iron	53.9	41.3	12.7	201.0	144.2	56.9
<b>Total</b>	<b>161.9</b>	<b>93.7</b>	<b>68.2</b>	<b>306.3</b>	<b>228.1</b>	<b>78.1</b>

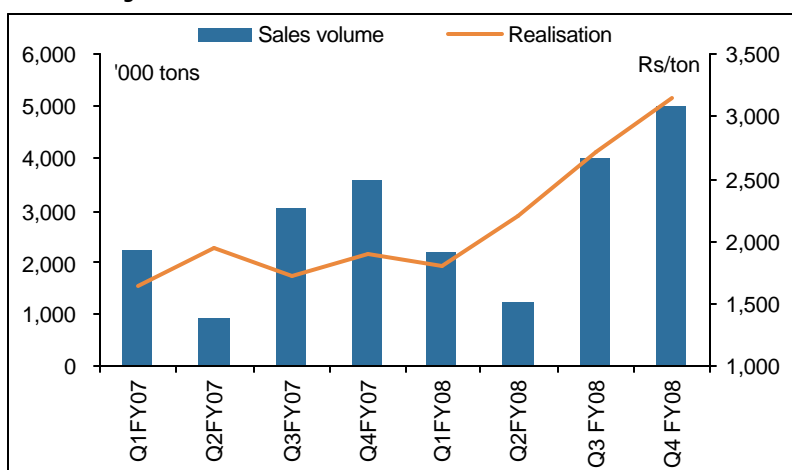
Source: Company, India Infoline Research

### Robust iron ore realizations boost Q4 FY08 revenues

Sesa Goa reported solid Q4 FY08 results, with a topline growth of 108.1% yoy. The growth in revenue was due to a 101.1% jump in iron ore realizations and a 9.5% rise in sales volume. The company recorded the highest sales volume in a quarter touching 5mn tons. On qoq basis, iron ore realizations rose 15.5% and sales volume grew 25%. The rise in realization was on account of an increase in spot iron ore sales. Revenue for the quarter was further boosted by the rise in sales of metallurgical coke and pig iron division. Coke and pig iron division registered 82.9% and 31.1% yoy growth respectively boosting Sesa Goa's topline. Thus strong results from all the divisions led to a 40% qoq increase in consolidated revenue Rs17.1bn for the quarter.

For the full year FY08, Sesa Goa's revenue rose to Rs38.2bn, a growth of 72.4% over Rs22.2bn achieved in its previous year. Iron ore sales for the year jumped 14.0% to 12.4mn tons from last year's 10.9mn tons. Iron ore sales in the spot market rose to 55% of total sales as compared to 30% in the corresponding period last year. The rise in spot iron ore sales pushed company's per ton realization of iron ore to \$70 against \$40 last year. The tight iron demand-supply situation in China has been well captured by Sesa Goa, with China accounting for 66% of total iron ore exports. Coke sales volume grew 9.3% yoy to 0.26mn tons and pig iron sales rose 7.3% yoy to 0.27mn tons.

### Quarterly iron ore sales and realisation



Source: Company, India Infoline Research

### Sales volume

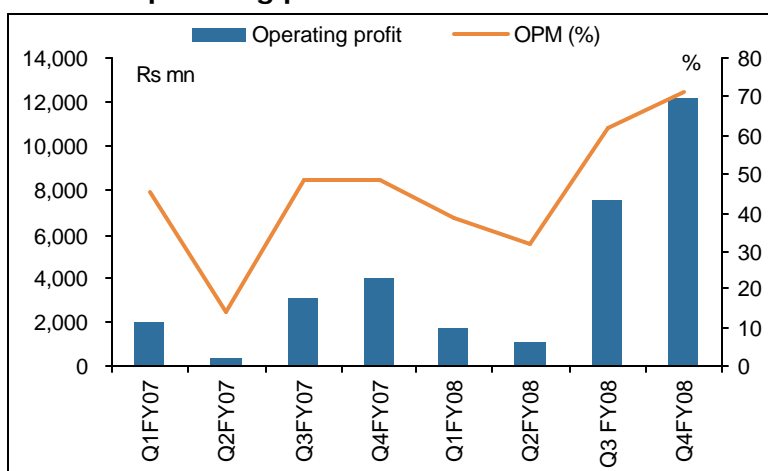
	03/08	03/07	Growth	03/08	03/07	Growth
	(3)	(3)		(12)	(12)	
Iron ore(mn tons)	5.0	4.6	9.5	12.4	10.9	14.0
Coke	72,693	66,128	9.9	259,718	237,623	9.3
Pig iron	69,081	70,155	(1.5)	266,497	248,454	7.3
Realisations (Rs/ton)						
Iron ore	3,144	1,563	101.1	2,721	1,691	60.9
Coke	23,763	15,237	56.0	20,362	14,483	40.6
Pig iron	21,621	16,264	32.9	18,950	15,639	21.2

Source: Company, India Infoline Research

### Operating margins swells 2310bps yoy

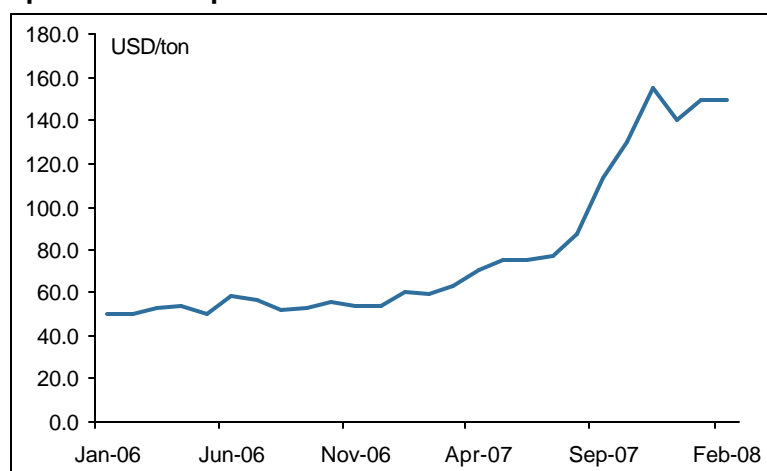
Led by strong iron ore realizations during the quarter, Sesa Goa's operating profit registered a growth of 207.6% yoy to Rs12.2bn. OPM in Q4 FY08 expanded by 2310bps on account of strong iron ore realizations. Transportation cost (% of total expenditure) grew to 45.5% against 34.1% for the corresponding period last year. The rise in transportation cost was due to the increase in the railway freight and an increase in transportation cost via road. Consumption of stores (% of total expenditure) decreased on account of effective capacity utilization.

### Trend in operating profits and OPM



Source: Company, India Infoline Research

### Spot iron ore prices



Source: CRU

For FY08, OPM expanded by 1690bps to 60.2% from last year's 43.3%. The expansion in OPM has been due to a rise in iron ore realization of 60.9% yoy. But with an 11% rise in the Rupee against the Dollar, OPM for the company has been under some pressure. Operating profit for the year was Rs23.0bn, 139.6% higher than last year operating profit of Rs9.7bn. For the complete year export duty (as a % of total expenditure) increased to 10.5% from 2.7% in FY07.

### Bottomline escalates 208.2% yoy and 64.7% qoq

The jump in iron ore realizations and strong production volumes led to a 208.2% yoy growth in company's profits. The company registered a bottomline growth of 60.5% qoq for Q4 FY08 to Rs8.1bn against Rs5.1bn in the previous quarter. For FY08, bottomline registered a growth of 138.6% to Rs15.4bn against Rs6.5bn last year. This translates into full year earnings of Rs391.7. At the CMP of Rs3,707 the stock is trading at 9.5x FY08 earnings.

### The company proposes a split of 1:10 and a bonus of 1:1 along with a dividend of Rs30 per share

The board of directors has recommended a final dividend of 300% or Rs30 per equity share taking total dividend for FY08 to 450% or Rs45 per equity share, in the existing share capital. Also on account of the robust reserve and surplus position, the board of Sesa Goa has proposed the issue of bonus shares in the ratio of one equity share for every one equity share held in the existing share capital. The said bonus shares will be issued after the same is approved by the shareholders of the Company. The board of SGL has also recommended the sub-division (stock split) of the equity shares of Rs10 each into 10 equity shares of Rs1 each. This subdivision is also subject to the approval of the Sesa Goa shareholders.

## Outlook

Iron ore prices globally have sky rocketed in the last one year, driven by strong demand from steel manufacturers in China and lack of increase in mine output. Iron ore spot prices in India are trading at US\$150 per ton ~3x the contract prices in FY08. The prices at which the contracts between the three major producers and Chinese & Japanese steel manufacturers agree are taken as benchmark ore prices for other negotiations. Recently Nippon Steel and Posco settled the iron ore contract price for the period March 2008-09 with Vale at US\$78.89 per ton, up 65% from around US\$48 per ton for the current term ending in March 2008. Similar rise was also seen in the deal between world's largest steel manufacturer ArcelorMittal and CVRD. Today CVRD again announced that it has agreed an 86.67% increase in the price of the iron ore pellets it sells to European steel maker ArcelorMittal.

Majority of contracts between the miners and steel producers is expected to be settled with a 65% increase. We expect the strength in iron ore prices to continue further in FY10. Sesa Goa is expected to negotiate its annual contract prices of iron ore with an increase of at least 65% yoy. Moreover, the rise in the spot sales will lead to higher realizations for the company providing fresh triggers for the company in the near term. The Company has guided that it would be able to achieve 20-30% volume growth for FY09 and the incremental volumes produced will be sold in the spot market. The company also plans to forward integrate by increasing its pig iron capacity. The company hinted at setting up a integrated plant in the next 3-4 years.

We expect, Sesa Goa's profits to witness 32.0% CAGR over FY08-10 on the back of robust outlook for iron ore and met coke prices. Operating margin is expected to expand with decline in manufacturing cost. The company trades at 6.1x FY10E EPS of Rs682.7 which is at discount to global peers BHP Billion and Rio Tinto. We recommend BUY with a 12-month target price of Rs4,780 implying an upside of 14.5%.

## Financial table

Rs mn	FY06	FY07	FY08P	FY09E	FY10E
	(12)	(12)	(12)	(12)	(12)
Revenues	18,513	22,211	38,227	55,222	63,563
yoy growth (%)		20.0	72.1	44.5	15.1
EBITDA	8,694	9,660	23,005	33,572	40,043
EBITDA margin (%)	47.0	43.5	60.2	60.8	63.0
PAT	5,749	6,510	15,416	22,527	26,871
Pre-exceptional PAT	5,749	6,510	15,416	22,527	26,871
yoy growth (%)		13.2	136.8	46.1	19.3
EPS (Rs)	146.1	165.4	391.6	572.3	682.7
P/E (x)	28.6	25.2	10.7	7.3	6.1

Source: Company, India Infoline Research

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