Indiabulls

SESA GOA LIMITED RESEARCH

EQUITY RESEARCH | **March 13, 2008**

RESULTS REVIEW

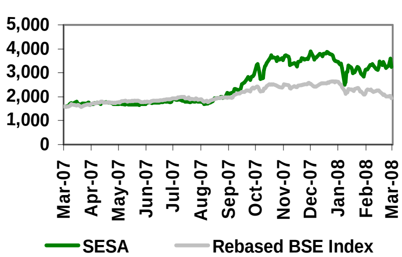
Share Data	
Market Cap	Rs. 127.9 bn
Price	Rs. 3,245.65
BSE Sensex	15,357.35
Reuters	SESA.BO
Bloomberg	SESA IN
Avg. Volume (52 Week)	0.1 mn
52-Week High/Low	Rs. 3,969/1,565
Shares Outstanding	39.4 mn

Valuation Ratios (Consolidated)

Year to 31 March	2008E	2009E
EPS (Rs.)	305.4	428.6
EPS Growth (%)	85.4%	40.4%
PER (x)	10.6x	7.6x
EV/ Sales (x)	3.7x	2.8x
EV/ EBITDA (x)	7.1x	5.1x

Shareholding Pattern (%)	
Promoters	51
FIIs	18
Institutions	13
Public & Others	17

Relative Performance



Sesa Goa Limited — Buy

Surging prices: the key revenue driver

Sesa Goa reported an impressive performance during the quarter ended Dec'07. The Company's net sales grew by a whopping 99.4% yoy to Rs. 11.8 mn, led by a higher sales volume and increased realisations. EBITDA too went up 157.6% yoy, and EBITDA margin improved 14.1 pts to 62.6%, supported by higher iron ore prices and lower raw material costs.

We hold a positive outlook on the Company's future, given the following factors:

- Over the past few quarters, iron ore prices have surged up substantially. In the near future as well, we expect them to remain firm on the back of increased demand.
- To benefit from the rising ore prices, Sesa Goa is enhancing its production in order to increase its sales in the spot market. Thus, revenues would get a double boost from rising volumes as well as higher realisations.
- In order to expand the production capacities of all its segments, the Company has planned a capex of Rs. 30 bn. Sesa Goa plans to double its iron ore capacity over the next three years.

Taking into consideration the sharp increase in iron ore prices and higher sales volumes, we have revised our net sales estimates for FY08E and FY09E to Rs. 34.3 bn and Rs. 45.9 bn, respectively. At the current market price of Rs. 3,245.65, the Company is trading at an EV/EBITDA of 7.1x for FY08E and 5.1x for FY09E. Historically, the Company has traded at an average EV/EBITDA multiple of 6. Using this historical multiple for FY09E, we have arrived at a target price of Rs. 3,818, which gives an upside of 17.7% from the CPM. Therefore, we upgrade our rating to Buy.

Key Figures (Standalone)

Quarterly Data	Q3'07	Q2'08	Q3'08	YoY%	QoQ%	9M'07	9M'08	YoY%
(Figures in Rs. mn, except per share data)								
Net Sales	5,879	3,311	11,724	99.4%	254.1%	12,450	19,577	57.2%
EBITDA	2,848	1,068	7,336	157.6%	586.7%	5,122	10,158	98.3%
Adj. Net Profit	1,949	821	4,927	152.8%	499.9%	3,541	6,937	95.9%
Margins(%)								
EBITDA	48.4%	32.3%	62.6%			41.1%	51.9%	
NPM	33.2%	24.8%	42.0%			28.4%	35.4%	
Per Share Data (Rs.)								
Adjusted EPS	49.5	20.9	125.2	152.8%	499.9%	90.0	176.2	95.9%

Result Highlights (Standalone)

Iron ore sales volume increased 29% yoy to 4mt and realisations improved 58.4% yoy to Rs. 2,722.4 per ton

The Company's net sales registered a substantial increase of 99.4% yoy to Rs. 11.7 bn, primarily driven by higher sales in the iron ore segment. Revenue from the iron ore segment went up by a whopping 104.4% yoy to Rs. 10.9 bn, led by improved sales volumes and higher iron ore prices. The Metallurgical coke segment too registered an impressive growth of 50.1% yoy to Rs. 841.1 mn due to higher realisations. However, the Company's net sales were adversely impacted by a strong appreciation in the rupee (up 12.3% yoy).

Metallurgical coke segment turnaround and posted an EBIT of Rs. 294.8 mn

For Q3'08, EBITDA increased 157.6% yoy to Rs. 7.4 bn and EBITDA margin improved 14.1 pts yoy to 62.6%. The improvement in EBITDA margin was a result of higher prices of iron ore and lower operating costs, partially offset by an increase in the export duty charge (3.2% of net sales). Further, driven by an increase in metallurgical coke prices, the metallurgical coke segment turned around and posted an EBIT of Rs. 294.8 mn as against a loss of Rs. 41 mn in Q3'07.

Following the increase in EBITDA, adj. net profit surged 152.8% yoy to Rs. 4.9 bn, and margin increased by 8.9 pts yoy to 42%. However, the increase in net profit margin was restricted by a higher effective tax rate, which stood at 33.3% vis-à-vis 32.4% in Q3'07. During the quarter, the Company's subsidiary [Sesa Goa Industries (SGI)] also performed well, posting a 20.6% yoy increase in the sales of pig iron to Rs. 1.2 bn. SGI contributed 2.5% to the consolidated profits of Sesa Goa, which increased by 141.2% yoy to Rs. 5.1 bn.

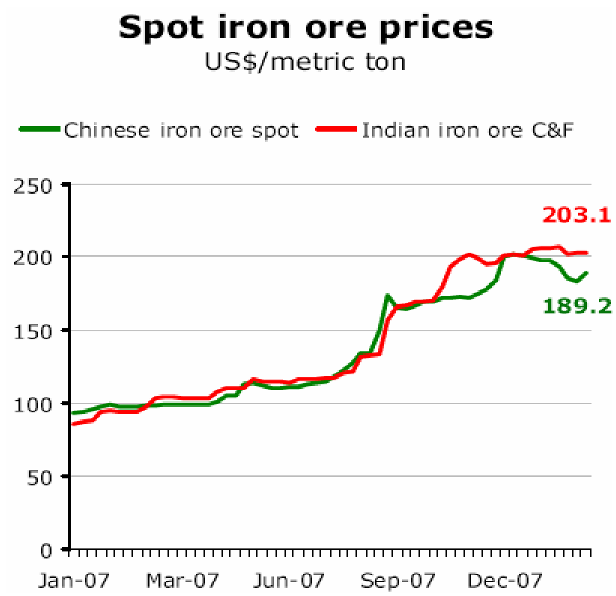
Key Risks

Key risks to our rating include:

- Strong rupee appreciation vis-à-vis the US dollar
- Reduction in the prices of iron ore
- Imposition of restrictions on the export of iron ore
- Unanticipated change in the ocean freight charges and other transportation costs
- Unexpected increase in the state royalties on the mining of iron ore

Outlook

During the quarter, the Company recorded a substantial increase in its sales volume. Given the fact that Sesa Goa sells a major chunk of its production in the second half of the fiscal year, we expect this trend to continue in the fourth quarter as well. To add to this volume growth will be the rising iron ore prices, which has witnessed a whopping increase over the past few quarters.



Sources: Vale's Annual Results 2007, Dated Feb 29, 2008

The spot market prices are currently at a 200% premium to contracted prices

Going forward, we expect the iron ore prices to remain firm given the increasing demand from the emerging markets, especially China. To take advantage of the rising iron ore prices, the Company is increasing its production and selling more on the spot basis. Further, Sesa Goa is likely to enter into long-term contracts at a substantially higher price as Companhia Vale do Rio Doce (Vale), the world's largest iron ore mining company, recently contracted with China's Baosteel to supply the ore at an increased price of 65%. Similar price hikes are expected from other mining majors such as BHP Billiton and Rio Tinto. Being a price taker, Sesa Goa is expected to follow suit.

Sesa Goa is also planning to expand its production capacities by investing a sum of Rs. 30 bn. Vedanta, the parent company of Sesa Goa, plans to expand the iron ore capacity to 20-25 mtpa from the current 13 mtpa. It also plans to increase the pig iron capacity from 220,000 tons to 1 mtpa and metallurgical coke production from 280,000 tons to 750,000 tons. Moreover, the prices of metallurgical coke and pig iron are also expected to rise in the near future. All in all, the rising prices and enhanced volumes will add to the revenue growth.

Taking into consideration the sharp increase in iron ore prices and higher sales volumes, we have revised our net sales estimates for FY08E and FY09E to Rs. 34.3 bn and Rs. 45.9 bn, respectively.

At the current market price of Rs. 3,245.65, the Company is trading at an EV/EBITDA of 7.1x for FY08E and 5.1x for FY09E. Historically, the Company has traded at an average EV/EBITDA multiple of 6. Using this historical multiple for FY09E, we have arrived at a target price of Rs. 3,818, which gives an upside of 17.7% from the CPM. Therefore, we upgrade our rating to Buy.

Key Figures (Consolidated)

Year to March	FY05	FY06	FY07	FY08E	FY09E	CAGR
(Figures in Rs. mn, except per share data)						(FY07-09E)
Net Sales	14,933	18,175	21,761	34,326	45,857	45.2%
EBITDA	7,360	8,674	9,596	17,908	25,072	61.6%
Adj. Net Profit	4,732	5,678	6,483	12,020	16,872	61.3%
Margins(%)						
EBITDA	48.3%	47.0%	43.4%	51.5%	54.1%	
NPM	31.1%	30.8%	29.3%	34.6%	36.4%	
Per Share Data (Rs.)						
Adjusted EPS	120.2	144.3	164.7	305.4	428.6	61.3%
PER (x)	6.1x	8.9x	10.3x	10.6x	7.6x	

**Net sales exclude hire charges and service income*

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