

India Update

Market data as on Jan 3, 2012

INDICES		
		% chg (DoD)
BSE Sensex	15939	2.7
S&P CNX Nifty	4765	2.8
BSE 100	8163	2.8
BSE 200	1905	2.8

OVERSEAS MARKETS		
		% chg (DoD)
Dow Jones	12397	1.5
Nasdaq Comp.	2649	1.7
S&P 500	1277	1.5
Hang Seng	18836	(0.2)
Nikkei	8559	1.2

ADVANCES/DECLINES (BSE)			
Group	A	B	S
Advances	182	1639	207
Declines	18	540	180
Unchanged	0	79	31

FII TURNOVER (BSE+NSE)*			
(Rs mn)	Bought	Sold	Net
	4,720	5,110	(390)

NEW HIGHS AND LOWS (BSE)			
Group	A	B	S
High	0	12	20
Low	3	96	42

CURRENCY

US\$1 = Rs53.22

* FII turnover (BSE + NSE) as on January 2, 2012

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Highlights

Sector/event	Impact
METALS:	We maintain our bearish stance on Sesa Goa (Sesa) primarily on policy action concerns. The government has hiked the iron ore export duty to 30% from the existing 20% on both lumps and fines. We reduce our FY13 earnings by 9% on the back of volume moderation and export duty hike. Further, with the Supreme Court ruling still pending on the Karnataka mining ban issue, we are not expecting any volume accretion from Karnataka in Q4FY12 as well (as indicated by the company in its Q2FY12 results concall). With little growth opportunities, Sesa has effectively been transformed into a holding company with Cairn India (CIL) contributing ~66% of its valuation. We are lowering our target multiple (on EV/EBITDA basis) from 4.5x to 4.0x to factor in the increased risks of regulation / policy action and maintain our REDUCE call with a revised target price of Rs167/share.
Sesa Goa –	
Company update	

News Snippets

Economy

- The Cabinet Committee on Economic Affairs is likely to consider today a formal proposal to mobilise additional resources through public sector undertakings. Such a policy is expected to cover the shortfall of disinvestment target of Rs400bn. (Business Line)
- The Reserve Bank of India said it will buy up to Rs120bn (\$2.26bn) of government bonds via open market operations on Friday, including the 10-year paper which till recently was the benchmark paper. (The Economic Times)

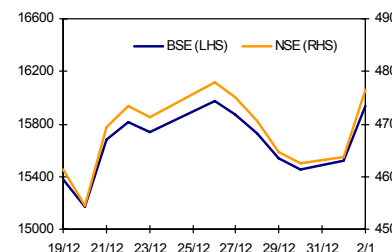
Sectoral

- Alarmed at an increase in the rate of US visa rejection faced by the Indian Information Technology professionals, New Delhi is set to raise the matter with Washington at the bilateral Trade Policy Forum meeting on January 12-13. (Business Line)
- The working group for the 12th Five-Year Plan on telecom has suggested the grant of infrastructure status for the sector, besides the creation of a Telecom Finance Corporation that will facilitate the firms to access funds at competitive rates. (Business Standard)

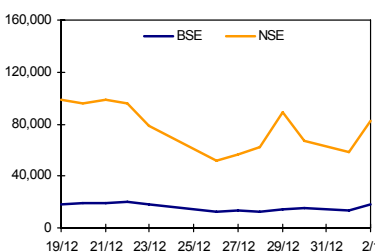
Corporate

- The finance ministry has unveiled a new scheme to refund service tax to exporters in simpler and quicker way on the lines of duty drawback scheme for tangible imports used to produce goods. (The Economic Times)

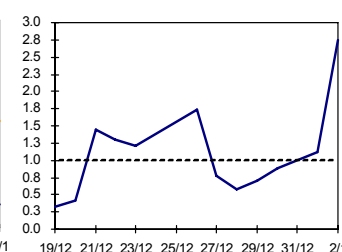
Market movement over last fortnight



Volumes in Rs mn (BSE and NSE)



Advances & Declines ratio (BSE)



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Sesa Goa (Reduce)

METALS

COMPANY UPDATE & EARNINGS REVISION

Clampdown continues

Rs157

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Target price Rs167

Earnings revision

(%)	FY12E	FY13E
Sales	↓ 4.2	↓ 14.9
EBITDA	↑ 13.2	↓ 29.8
EPS	↑ 16.2	↓ 9.2

Target price revision

Rs167 from Rs204

We maintain our bearish stance on Sesa Goa (Sesa) primarily on policy action concerns. The government has hiked the iron ore export duty to 30% from the existing 20% on both lumps and fines. We reduce our FY13 earnings by 9% on the back of volume moderation and export duty hike. Further, with the Supreme Court ruling still pending on the Karnataka mining ban issue, we are not expecting any volume accretion from Karnataka in Q4FY12 as well (as indicated by the company in its Q2FY12 results concall). With little growth opportunities, Sesa has effectively been transformed into a holding company with Cairn India (CIL) contributing ~66% of its valuation. We are lowering our target multiple (on EV/EBITDA basis) from 4.5x to 4.0x to factor in the increased risks of regulation / policy action and maintain our REDUCE call with a revised target price of Rs167/share.

Table 1: Valuations summary

		Y/E Mar	EPS (Rs)	P/E (x)	EV/E (x)		
Price (2/1/12) (Rs)	157	2010	31.6	3.1	2.7	M.Cap. (Rs bn)	136.4
52 wk Range (Rs)	344/150	2011	48.6	1.1	1.0	M.Cap (US\$ bn)	2.6
Dividend yield FY12E (%)	3.2	2012E	43.8	2.4	5.3	Shares Out (mn)	869
BSE Sensex	15518	2013E	33.6	2.8	9.6	Free Float (%)	44.9

Source: Company data, I-Sec research

- Iron ore export duty hiked to 30% from the existing 20% effective immediately:** The move is aimed at discouraging exports and preserving the ore for the domestic steel industry. Further, majority of the company's ore sales are exports and the move is likely to negatively impact its FY13 earnings by ~6% (including CIL). We also believe that the iron ore exports will come down gradually for the industry as a whole as the government continues to play hardball against the miners.
- Clampdown continues, Maintain REDUCE rating:** We remain cautious of the upcoming M.B. Shah Commission report and this forms the basis of our REDUCE call on Sesa Goa. Also, news articles suggest that the CEC has cleared only two of the 42 mines in Chitradurga, and Sesa's mines are not among these two. Further, the EIA report on Bellary suggests that the revival can be a long drawn process (can be upto 2 years in our view).
- Sesa reduced to a holding company coupled with hawkish government policy stance:** We have lowered our FY13 volumes by 18.5% and factor in the impact of the increased export duty to 30%. We have also built in a lower EV/EBITDA multiple to factor the increased regulation risks against export of iron ore from India. Effectively, Sesa is now a holding company wherein CIL investment value is contributing higher valuations than its core business.

Details to follow in our report '*Clampdown continues*' dated January 3, 2012.

Quarterly Results Preview

METALS

OCTOBER-DECEMBER'11

Stress continues

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Top pick

Tata Steel

Indian metal stocks have sharply underperformed their regional and global peers with India losing its inherent profitability on account of iron ore issues, increasing power / employee costs and steep interest cost cycle. The extent of underperformance is relatively lower in the non-ferrous segment in spite of our assessment that loss in relative profitability is much steeper in the non-ferrous space (aluminium) vis-à-vis steel. The quarter reiterates our assessment with Aluminum EBITDA and adjusted PAT going down 23% and 17% YoY vis-à-vis 14% and 7% for the ferrous space (excluding Tata Steel Europe [TSE]). The only commodity where India has retained its profitability is zinc where Hindustan Zinc (HZL) outperformed its global and regional peers across the value chain. Sterlite (SIL) continues to reel under investor concern of possible equity reinfusion in Sterlite Energy (SEL) and Vedanta Aluminium (VAL). Margin pressures will define Q4FY12 earnings as well with partial relief flowing in not before Q1FY13, and that too for ferrous players.

- **Steel – Domestic demand uncertainty, increasing cost base, lower profitability drive incremental underperformance:** Higher raw material costs and stickiness in pricing will lead to ~400bps YoY margin drop for Tata Steel India, SAIL and JSW Steel (JSWS). We expect TSE to post an EBITDA loss of US\$30/te in the quarter. A possible increase in pension liabilities post the triennial valuations and asset impairment with potential increase in goodwill has opened the scope of further reduction in adjusted book value of the company, leading to further investor concerns.
- **Sesa Goa – Goa poses additional risk; NMDC offers balanced risk-reward:** Q3FY12 will reflect the full impact of the Karnataka mining ban. Increase in export duty to 30%, possible impact of M.B. Shah Commission's report in Goa and impasse in Karnataka leave out any meaningful growth opportunities in FY13. Sesa has higher investment value than core operational value. With meaningful volume accretion possibilities, scope of consensus upgrades and beaten down valuation, NMDC offers a much better risk reward. We expect NMDC's top line and EBITDA to increase 16% and 21% YoY respectively in Q3FY12.
- **Non-ferrous – Aluminium the weak link:** Irreversible cost pressures in Aluminium are leading to underperformance of the domestic players against the regional and the global peers, and this is set to continue. Further, slip-ups in project implementation will act as a long-term headwind for the space. SIL continues to fight profit erosion in SEL, where incremental equity contribution from SIL will be soon required. Investor concerns exist on further equity contribution from SIL to VAL as well (a risk that might be temporarily avoided due to benevolent lending by SBI). Lead volumes can again play a spoilsport for HZL, and chances of negative surprise in Q3FY12 are high.

Table 1: Quarterly summary

Company (Rs mn)	Sales			EBITDA			PAT		
	OND'11*	% Chg		OND'11*	% Chg		OND'11*	% Chg	
		(YoY)	(QoQ)		(YoY)	(QoQ)		(YoY)	(QoQ)
Tata Steel	338,889	16.5	3.3	16,612	(51.5)	(39.6)	(3,784)	NM	NM
Steel Authority	117,163	3.6	6.7	13,763	(23.4)	3.7	8,173	(26.2)	(3.5)
JSW Steel	81,594	35.9	0.2	12,893	26.8	(7.5)	2,412	(14.7)	(51.1)
Sesa Goa	15,620	(30.6)	97.8	7,517	(38.9)	189.1	8,633	(19.0)	NM
Sterlite	97,818	17.4	(4.1)	23,040	16.4	(7.2)	8,030	(27.1)	(19.5)
Hindustan Zinc	25,975	(1.2)	(1.5)	13,673	(9.3)	(6.7)	12,794	(0.8)	(6.5)
Hindalco (standalone)	62,790	5.1	0.1	6,292	(15.0)	(6.0)	4,269	(7.3)	(15.0)
Nalco	16,785	16.3	4.0	2,447	(37.2)	60.4	1,711	(33.2)	22.8
Adhunik	4,903	11.3	7.1	925	(37.0)	14.8	(116)	(121.4)	109.3
Usha Martin	7,987	6.9	(3.6)	1,337	13.4	(8.0)	139	0.7	(36.1)
Total	769,525	12.8	3.0	98,500	(20.2)	(8.2)	42,261	(35.1)	(7.7)

*OND: October - December '11; Source: I-Sec research

Details to follow in our report 'Stress continues' dated January 3, 2012.

Recent reports/updates		
Analyst	Company/Sector	Date
Abhijit / Neerav	Metal sector: Stress continues	Jan 3
Abhijit / Neerav	Sesa Goa: Clampdown continues	Jan 3
Vikash / Satish/ Akhil	Print Media sector: IRS-2011-Q3 Survey analysis	Dec 26
Abhijit / Neerav	Tata Steel: Jamshedpur expansion remains the key	Dec 23
Vikash / Satish/ Akhil	Telecom sector: Hanged twice	Dec 21
Chirag / Gagan	GSK Pharma: Pessimism overdone	Dec 19
Vikash / Satish/ Akhil	Zee Entertainment: Life "hot" OK	Dec 15
Kuldeep / Krupal / Varun	Mahindra Satyam: The liability adjustment	Dec 14
Vikash / Satish/ Akhil	Dish TV: Fundamentals intact; correction overdone	Dec 14
Chirag / Gagan	ITC: No smoke on the road ahead	Dec 12
Rohit Ahuja / Prolin Nandu	Petronet LNG: Almost priced in	Dec 12
Rohit Ahuja / Prolin Nandu	Oil&Gas and Petrochemicals monthly update	Dec 9
Krupal /Varun /Koushik	Cement sector: North and West gain, South still in pain	Dec 5
Abhijit / Neerav	Metals sector: Every hope has a price	Dec 2
Kuldeep / Krupal / Varun	Mphasis: Too many moving pieces	Dec 1
Chirag / Gagan	Ranbaxy: Double strike – Lipitor and Mohali approved	Dec 1
Vikash / Satish/ Akhil	Jubilant Foodworks: Domino effect	Dec 1
Abhishek /Shashin /Digant	Manappuram Finance: The good run continues	Nov 25
Abhijit / Neerav	Metals sector: Losing out on relative profitability	Nov 22
Vikash / Satish	Telecom: Subscriber watch (Oct '11) - Uninor - A visible threat	Nov 22
Sanket / Vijit	ABG Shipyard: Improving fundamentals; potential triggers	Nov 16
Kuldeep / Krupal / Varun	Tech Mahindra: Sailing through storms	Nov 16
Vikash / Satish	Dish TV: Pricing rationality to improve subscriber economics	Nov 15
Prakash / Vivek / Aniruddha	Tata Power: Known concerns play spoilsport	Nov 15
Krupal / Kuldeep / Varun	Educomp Solutions: Securitisation key for re-rating	Nov 15
Krupal /Varun /Koushik	Jaiprakash Associates: Better execution	Nov 15
Shaleen Silori	Unitech: Slowdown visible	Nov 15
Rohit Ahuja / Prolin Nandu	Gujarat State Petronet: Robust performance	Nov 14
Shaleen Silori	Sobha Developers: Strong operational performance	Nov 14
Chirag / Gagan	Cipla: Strong, recurring and sustainable performance	Nov 14
Vikash / Satish	Reliance Communications: High-risk reward play	Nov 14
Abhishek /Shashin /Digant	LIC Housing Finance: Operating performance in-line	Nov 14
Chirag / Gagan	Sun Pharma: Core earnings in line, valuations expensive	Nov 14
Shaleen Silori	HDIL: Volumes & policy leading the slide	Nov 14
Prakash / Vivek / Aniruddha	Adani Power : Realisation improvement offset by fuel cost rise	Nov 11
Prakash / Vivek / Aniruddha	JSW Energy : Facing the brunt of untied offtake and fuel	Nov 11
Rohit Ahuja / Prolin Nandu	Oil&Gas and Petrochemicals monthly (November '11)	Nov 11
Kuldeep / Krupal / Varun	Mahindra Satyam : Robust volumes, healthy margins	Nov 11
Shaleen Silori	DLF : Abysmal core performance	Nov 11
Vikash / Satish	Page Industries : Strong growth continues	Nov 11
Shashin /Abhishek / Digant	SBI: Slippages woe aggravated, mars core performance	Nov 10
Chirag / Gagan	Ranbaxy: Strong base business, now awaiting resolution	Nov 10
Chirag / Gagan	Lupin: Weak core, one-offs drive growth	Nov 10
Prakash / Vivek / Aniruddha	Reliance Power: Subdued quarter	Nov 10
Chirag / Gagan	Glenmark: Strong momentum in US to continue	Nov 10
Prakash / Vivek / Aniruddha	CESC: Impact of delayed tariff order, operationally better	Nov 10
Abhijit / Neerav	Hindalco (Standalone): Cost pressures adding to project risks	Nov 10
Abhijit / Neerav	Hindalco Industries: On a downtrend	Nov 10
Vikash / Satish	TV18 Broadcast: Value play	Nov 9
Shashin /Abhishek / Digant	Bank of India: Slipping on slippages, again	Nov 9
Shaleen Silori	Prestige Estates: Impressive operational performance	Nov 8
Vikash / Satish	TV Today: Regulatory boon ahead	Nov 8
Chirag / Gagan	GSK Pharma: Temporary blips in sales growth and profit margins	Nov 8
Sanket / Vijit	TVS Motors: Near term positives priced in	Nov 8
Rohit Ahuja / Prolin Nandu	ONGC: Valuation comfort	Nov 4
Vikash / Satish	Sun TV: Stand-off continues – Waiting for truce	Nov 4
Abhijit / Neerav	SAIL: Lacklustre quarter	Nov 4

New I-Sec investment ratings (all ratings based on absolute return)

BUY: >15% return; ADD: 5% to 15% return; REDUCE: Negative 5% to positive 5% return; SELL: < negative 5% return

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