

Iron ore mining suspended in Goa

Quick Note

September 11, 2012

Rating Remains	Buy
Target price Remains	INR 220
Closing price September 10, 2012	INR 170

Goa government suspends iron ore mining in the state ...

The state government of Goa has suspended iron ore mining in Goa, as recommended by the Justice Shah committee constituted earlier to probe the allegations of mining irregularities. Please note that the government has allowed movements of iron ore already produced and stored at ports or in transit.

Little impact on steel production in India – majority of iron ore was exported

Goa produced close to 50mn tonnes of iron ore in FY11, of which 40-45mn tonnes were exported, as per industry sources. Not more than 2-2.5mn tonnes of iron ore produced in Goa are for domestic use (largely for sponge iron).

Therefore we believe the impact of mining ban in Goa will be different from that in Karnataka, as domestic steel production would be largely unaffected by this. Indeed, seeing the global iron ore scenario we believe the event could help to provide temporary support to global iron ore prices which in turn may help steel prices.

Closure of mines in Goa may be short lived unlike Karnataka

Our interactions with industry sources suggest that iron ore mining suspension in Goa is likely to be short lived and mining should start in the next 1-2 months. The key reasons for the above belief are: 1) mining irregularities reported are not as severe as in Karnataka; and 2) iron ore mining is much more important for Goa compared to Karnataka.

Goa has total GDP of close to USD6.5bn and iron ore exports tend to contribute near 50% of it. At the same time the ban has been imposed by the current government which will be affected more by popular sentiment (which supports mining).

Negative SESA GOA, but no major value impact

In our opinion, the news is certainly negative for SESA GOA, given that the company will not have any operational iron ore mine now under the new directive and its Karnataka mines are yet to restart production. The iron ore business, which is close to 15% of total EBITDA and 19% of total profit of the merged SESA Sterlite, will now cease to contribute to earnings.

Since we don't expect the ban to continue for long and things are improving in Karnataka, we believe value impact from the above would not be significant. Our interactions with traders in Goa suggest that SESA GOA's mines would not be involved in any major irregularity and hence we don't expect any loss of reserves for the company.

The iron ore business contributed INR40/share to our target price of INR220/share (of the merged entity SESA Sterlite).

Research analysts

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See Appendix A-1 for analyst certification, important disclosures and the status of non-US analysts.

Appendix A-1

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Issuer name	Ticker	Price	Price date	Stock rating	Sector rating	Disclosures
Sesa Goa	SESA IN	INR 170	10-9-2012	Buy	Not rated	

Previous Rating

Issuer name	Previous Rating	Date of change
Sesa Goa	Neutral	02-5-2012

Sesa Goa (SESA IN) INR 170 (10-9-2012) Buy (Sector rating: Not rated)

Rating and target price chart (three year history)



For explanation of ratings refer to the stock rating keys located after chart(s)

Valuation Methodology We value SESA on a sum-of-the-parts basis at INR220/share. We have valued Hindustan Zinc at 10x FY14F P/E, Balco and VAL at 5x FY14F EV/EBITDA, the copper business at 6x FY14F EV/EBITDA and other businesses using discounted cash flow.

Risks that may impede the achievement of the target price 1) Fall in global commodity prices; 2) Negative outcome of regulatory issues: projects of VAL fail to get government approval; and 3) SESA Sterlite merger fails to get the required approval.

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STOCKS

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Explanation of Nomura's equity research rating system in Japan and Asia ex-Japan

STOCKS

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