



Sesa Goa Ltd. (SGL) – Q3FY12 results above our expectations; Downgrade rating to Reduce from Accumulate on account of the recent sharp run-up in the stock price

Sesa Goa Ltd. (SGL)'s Q3FY12 results were above our expectations on account of higher-than-expected iron ore realisations

Key Highlights

- SGL's consolidated net sales increased 16.3% YoY to ₹26.2bn on account of (1) higher-than-expected iron ore realisations at ₹4743 per tonne, up 22.2% YoY and (2) higher sales volumes at 5.04mn tonnes, up 4.9% YoY due to release of inventory
- Production of iron ore was down 29.5% due to the ban on mining operations in Karnataka
- SGL's consolidated adjusted EBITDA declined 11.8% YoY to 10.9bn on account of higher export duties
- SGL's consolidated adjusted PAT declined 23.4% to ₹8.1bn (including share of profits from Cairn investment) on account of (1) lower EBITDA and (2) higher tax rate at 31% as compared to 19.4% in Q3FY11

Outlook and Valuations

- Raise iron ore price assumptions:** On account of lower-than expected fall in iron ore prices, we increase our spot iron ore price (FOB) assumptions for Q4FY12 from \$96 per tonne to \$120 per tonne. We also raise our iron ore price (FOB) assumptions for FY13 by 10.5% from \$95 per tonne to \$105 per tonne
- Raise FY12E EPS by 20.3% on higher iron ore prices and cut FY13E by 2.5% on higher export duty:** Owing to the increase in our iron ore price assumptions for Q4FY12E, we increase our FY12E EPS by 20.3% to ₹27.4 (excluding share of profits from Cairn India investment). On the other hand, despite the increase in our iron ore price (FOB) assumptions for FY13, we cut our FY13E EPS for SGL by 2.5% to ₹13.2 (excluding share of profits from Cairn India investment) on account of the recent increase in export duty on iron ore from 20% to 30%
- Valuations:** As a result of the increase in export duty on iron ore from 20% to 30%, our 1 year forward DCF value for SGL decreases by 3.4% to ₹199 from ₹206 earlier. Note that we have included the impact of the proposed mining bill (MMDR) on SGL in the form of additional royalty on iron ore in our model from FY13E onwards. We continue to value SGL at a 5% discount to our 1 year forward DCF value on account of the overhang of a possible ban on iron ore mining or an export ban in Goa, giving us a fair value of ₹189. Our target price of ₹189 for SGL implies a potential downside of 7.2% from the last closing price. We, thus, downgrade our rating on Sesa Goa from Accumulate to Reduce.

| Rating | CMP | Target | Upside / Downside % |
|--------|-------|--------|---------------------|
| Reduce | 203.8 | 189 | (7.2) |

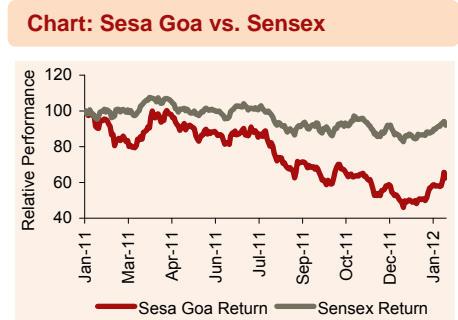
Source: NSE, ABML Research

| Company Data | |
|------------------------|-------------|
| BSE Code | 500295 |
| NSE Code | SESAGOA |
| Equity Capital (₹ mn) | 869.1 |
| Face Value (₹) | 1.0 |
| Market Cap (₹ bn) | 177.1 |
| Avg Daily Volume (Qty) | 3412878 |
| 52 week H/L (₹) | 333.4/148.3 |

Source: NSE, BSE

| Shareholding (%) | | | |
|------------------|--------|--------|--------|
| Holders | Dec-11 | Sep-11 | Jun-11 |
| Promoters | 55.1 | 55.1 | 55.1 |
| FII's | 24.7 | 23.8 | 24.4 |
| MFs/Banks & FI's | 5.2 | 5.2 | 4.7 |
| Public & Others | 15.0 | 15.9 | 15.8 |

Source: BSE



Source: Capitaline

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Financial Snapshot (₹ mn)

| In ₹ mn | Sales | YoY(%) | EBITDA | YoY(%) | PAT | YoY(%) | EPS(₹) | YoY(%) | EBITDA (%) | RoE(%) | P/E(x) | EV/EBITDA (x) | P/B(x) |
|--------------|--------|--------|--------|--------|--------|--------|--------|--------|------------|--------|--------|---------------|--------|
| FY11 | 92,051 | 57.1 | 52,063 | 65.4 | 42,595 | 68.0 | 49.0 | 60.6 | 56.6 | 71.3 | | | |
| FY12E | 85,933 | (6.6) | 36,552 | (29.8) | 23,843 | (44.0) | 27.4 | (44.0) | 42.5 | 45.1 | 4.1 | 3.5 | 1.2 |
| FY13E | 80,039 | (6.9) | 20,836 | (43.0) | 11,432 | (52.1) | 13.2 | (52.1) | 26.0 | 53.6 | 8.6 | 6.1 | 1.1 |
| FY14E | 79,336 | (0.9) | 18,214 | (12.6) | 9,479 | (17.1) | 10.9 | (17.1) | 23.0 | 22.9 | 10.3 | 6.8 | 1.1 |

Source: ABML Research, company data



Consolidated Financial Results (Q3FY12) - SGL

| ₹ mn | Q3FY12 | Q3FY11 | % YoY | Q2FY12 | % QoQ |
|---|-----------------|-----------------|--------------|----------------|-----------------|
| Net Sales from operations | 26,170.8 | 22,500.6 | 16.3 | 7,897.4 | 231.4 |
| Total Expenses | 15,318.9 | 10,195.1 | 50.3 | 5,297.4 | 189.2 |
| (Increase)/Decrease in stock | 2,179.1 | 581.0 | 275.1 | (852.4) | -355.6 |
| Raw material Consumed | 1,795.6 | 913.0 | 96.7 | 1,507.0 | 19.2 |
| Employee cost | 638.0 | 495.7 | 28.7 | 625.0 | 2.1 |
| Consumption of stores | 955.9 | 655.4 | 45.8 | 719.3 | 32.9 |
| Inland Transportation | 1,346.0 | 1,568.2 | -14.2 | 491.1 | 174.1 |
| Other services | 1,217.4 | 1,341.4 | -9.2 | 652.0 | 86.7 |
| Purchase of ore | 1,421.3 | 1,253.6 | 13.4 | 346.4 | 310.3 |
| Export duty | 4,484.8 | 1,167.3 | 284.2 | 872.2 | 414.2 |
| Other expenditure | 1,333.7 | 2,272.9 | -41.3 | 938.1 | 42.2 |
| Cost/Expenses recovered | (52.9) | (53.4) | -0.9 | (1.3) | 3,969.2 |
| EBITDA | 10,851.9 | 12,305.5 | -11.8 | 2,600.0 | 317.4 |
| Depreciation | 263.4 | 207.6 | 26.9 | 243.1 | 8.4 |
| Non-operating income | 180.1 | 1,267.6 | -85.8 | 503.8 | -64.3 |
| EBIT | 10,768.6 | 13,365.5 | -19.4 | 2,860.7 | 276.4 |
| Interest expense | 729.8 | 133.9 | 445.0 | 516.1 | 41.4 |
| Less: Extraordinary expenses / (income) | 1,779.3 | (23.8) | -7576.1 | 2,340.9 | -24.0 |
| PBT | 8,259.5 | 13,255.4 | -37.7 | 3.7 | 223,129.7 |
| Provision for tax | 2,563.6 | 2,572.5 | -0.3 | (9.1) | -28,271.4 |
| PAT (before MI) | 5,695.9 | 10,682.9 | -46.7 | 12.8 | 44,399.2 |
| Minority Interest | 0.0 | 30.0 | -100.0 | 0.0 | |
| Share of Profits from associates | 1,219.3 | | | 0.0 | |
| PAT | 6,915.2 | 10,652.9 | -35.1 | 12.8 | 53,925.0 |
| Adj. PAT | 8,142.2 | 10,633.7 | -23.4 | 1,611.6 | 405.2 |
| Equity | 869.1 | 859.7 | 1.1 | 869.1 | 0.0 |
| EPS (₹) | 8.0 | 12.4 | -35.8 | 0.0 | 53,925.0 |
| Adj. EPS (₹) | 9.4 | 12.4 | -24.3 | 1.9 | 405.2 |

| Key Ratios % | Q3FY12 | Q3FY11 | Q2FY12 |
|------------------|--------|--------|---------|
| EBIDTA Margin | 41.5 | 54.7 | 32.9 |
| Interest / Sales | 0.0 | 0.0 | 0.1 |
| Tax / PBT | 31.0 | 19.4 | (245.9) |
| Adjusted NPM | 31.1 | 47.3 | 20.4 |

Risk Factors

- Easing of the prevailing adverse regulatory situation in terms of no ban on iron ore mining in Goa, quick reversal of ban on iron ore mining operations in Karnataka, quick clearances for proposed capacity expansion
- Higher-than-expected iron ore prices
- Higher-than-expected volume growth
- Cut in export duties and proposed royalties
- Rupee depreciation

Recommendation summary

| Date | Reports | Rating | Last Closing Price (₹) | Target Price (₹) | Upside / Downside % |
|----------|--------------------------|------------|------------------------|------------------|---------------------|
| 21-10-11 | Initiating Coverage | Neutral | 206.0 | 232 | 12.5% |
| 01-11-11 | Result Update (Q2FY12) | Neutral | 208.3 | 228 | 9.5% |
| 22-12-11 | Company update - Upgrade | Accumulate | 159.7 | 196 | 22.7% |
| 31-01-12 | Result Update (Q3FY12) | Reduce | 203.8 | 189 | (7.2)% |

Source: ABML Research



Consolidated Financials –Sesa Goa Ltd. (SGL) (Excluding share of profits from Cairn India investment)

| Profit & Loss | | | | | |
|-----------------------------------|---------------|---------------|---------------|---------------|---------------|
| In ₹ million | FY10 | FY11 | FY12E | FY13E | FY14E |
| Net sales | 58,583 | 92,051 | 85,933 | 80,039 | 79,336 |
| YoY (%) | 18 | 57 | (7) | (7) | (1) |
| Total expenses | 27,097 | 39,988 | 49,382 | 59,203 | 61,122 |
| Inc/dec in stock | (1,211) | (475) | (1,090) | (1,090) | (1,090) |
| Raw material cost | 6,554 | 9,090 | 11,577 | 17,269 | 17,796 |
| Staff cost | 1,689 | 2,071 | 2,506 | 2,756 | 3,032 |
| Manufacturing expenses | 10,543 | 12,142 | 9,882 | 11,222 | 13,182 |
| Selling, Distn & Admn Exps | 9,522 | 17,160 | 26,506 | 29,046 | 28,202 |
| EBIDTA | 31,486 | 52,063 | 36,552 | 20,836 | 18,214 |
| YoY (%) | 24 | 65 | (30) | (43) | (13) |
| EBIDTA (%) | 53.7 | 56.6 | 42.5 | 26.0 | 23.0 |
| Depreciation | 745 | 964 | 1,187 | 1,866 | 2,628 |
| Non-operating income | 3,041 | 5,399 | 1,790 | 1,124 | 1,435 |
| EBIT | 33,782 | 56,498 | 37,155 | 20,094 | 17,021 |
| Interest | 555 | 414 | 2,723 | 3,283 | 3,283 |
| Extraordinary income/(expenses) | 1,219 | (488) | (4,135) | 0 | 0 |
| PBT | 34,446 | 55,597 | 30,297 | 16,812 | 13,738 |
| (-) Tax | 8,056 | 13,372 | 9,318 | 5,380 | 4,259 |
| Tax/ PBT (%) | 23 | 24 | 31 | 32 | 31 |
| PAT | 26,390 | 42,225 | 20,980 | 11,432 | 9,479 |
| Share of Associates | 0 | 0 | 0 | 0 | 0 |
| MI | 99 | 0 | 0 | 0 | 0 |
| PAT (after MI) | 26,291 | 42,225 | 20,980 | 11,432 | 9,479 |
| YoY (%) | 32 | 60 | (50) | (46) | (17) |
| Adj. net profit (after MI) | 25,357 | 42,595 | 23,843 | 11,432 | 9,479 |
| YoY (%) | 28 | 68 | (44) | (52) | (17) |

| Key Ratios | FY10 | FY11 | FY12E | FY13E | FY14E |
|--------------------------|-------|-------|-------|-------|-------|
| Diluted EPS (₹) | 31.6 | 48.6 | 24.1 | 13.2 | 10.9 |
| Adjusted diluted EPS (₹) | 30.5 | 49.0 | 27.4 | 13.2 | 10.9 |
| CEPS (₹) | 32.5 | 49.7 | 25.5 | 15.3 | 13.9 |
| Book value (₹) | 95.3 | 147.4 | 167.9 | 179.1 | 188.3 |
| Dividend per share (₹) | 3.2 | 3.5 | 3.1 | 1.7 | 1.4 |
| Net debt-equity (x) | (0.8) | (0.8) | 0.2 | 0.2 | 0.1 |
| ROCE (%) | 34.2 | 35.4 | 15.3 | 6.9 | 5.6 |
| ROE (%) | 39.2 | 40.4 | 17.2 | 7.5 | 5.9 |
| Core RoE (%) | 108.2 | 71.3 | 45.1 | 53.6 | 22.9 |

| Valuations | FY10 | FY11 | FY12E | FY13E | FY14E |
|----------------------|------|------|-------|-------|-------|
| PE (x) | | 2.3 | 4.1 | 8.6 | 10.3 |
| Cash PE (x) | | 2.3 | 4.4 | 7.4 | 8.1 |
| Price/book value (x) | | 1.4 | 1.2 | 1.1 | 1.1 |
| Dividend yield (%) | | 3.1 | 2.8 | 1.5 | 1.3 |
| P/sales | | 1.1 | 1.1 | 1.2 | 1.2 |
| EV/sales (x) | | 1.1 | 1.5 | 1.6 | 1.5 |
| EV/EBITDA (x) | | 1.9 | 3.5 | 6.1 | 6.5 |

Source: ABML Research, company data

| Balance Sheet | | | | | |
|----------------------------------|---------------|----------------|----------------|----------------|----------------|
| In ₹ mn | FY10 | FY11 | FY12E | FY13E | FY14E |
| Equity capital | 831 | 869 | 869 | 869 | 869 |
| Reserves | 78,346 | 127,235 | 145,045 | 154,749 | 162,797 |
| Net worth | 79,177 | 128,104 | 145,914 | 155,619 | 163,666 |
| MI | 433 | 0 | 0 | 0 | 0 |
| Total borrowings | 19,606 | 9,995 | 46,995 | 46,995 | 46,995 |
| Deferred tax liability | 750 | 682 | 682 | 682 | 682 |
| Total liabilities | 99,966 | 138,781 | 193,591 | 203,295 | 211,342 |
| Asset Block (including goodwill) | 22,557 | 31,443 | 47,440 | 57,074 | 55,940 |
| Investments | 55,649 | 98,265 | 130,602 | 130,602 | 130,602 |
| Current assets | 34,176 | 26,329 | 33,137 | 33,988 | 43,278 |
| Inventories | 5,025 | 7,438 | 8,118 | 9,732 | 10,047 |
| Debtors | 3,381 | 6,830 | 4,290 | 3,993 | 3,957 |
| Cash | 23,918 | 8,970 | 17,837 | 17,562 | 26,596 |
| Loans and advances | 1,851 | 3,091 | 2,892 | 2,702 | 2,679 |
| Current liabilities | 8,302 | 12,946 | 13,629 | 16,186 | 16,685 |
| Provisions | 4,114 | 4,310 | 3,959 | 2,183 | 1,793 |
| Net current assets | 21,760 | 9,073 | 15,549 | 15,619 | 24,800 |
| Total assets | 99,966 | 138,781 | 193,591 | 203,295 | 211,342 |

| CashS Flow (in ₹ mn) | FY10 | FY11 | FY12E | FY13E | FY14E |
|----------------------------|-----------------|----------------|------------------|-----------------|----------------|
| Net profit (before MI) | 26,390 | 42,225 | 20,980 | 11,432 | 9,479 |
| Depn and w/o | 745 | 964 | 1,187 | 1,866 | 2,628 |
| Change in working cap | 2,973 | (2,261) | 2,391 | (346) | (146) |
| Non-operating income | 3,041 | 5,399 | 1,790 | 1,124 | 1,435 |
| Others | (1,133) | 420 | 4,135 | 0 | 0 |
| Operating cash flow | 25,935 | 35,948 | 26,902 | 11,828 | 10,526 |
| Non-operating income | 3,041 | 5,399 | 1,790 | 1,124 | 1,435 |
| Capex | (18,945) | (9,637) | (17,183) | (11,500) | (1,495) |
| Investments | 0 | 0 | (130,602) | 0 | 0 |
| Others | 2,793 | -700 | -4,135 | 0 | 0 |
| Investing cash flow | (13,112) | (4,939) | (150,131) | (10,376) | (60) |
| Dividend | (3,160) | (3,535) | (3,170) | (1,727) | (1,432) |
| Equity | 8,888 | 10,238 | 0 | 0 | 0 |
| Debt | 19,587 | (9,611) | 37,000 | 0 | 0 |
| Others | (0) | (433) | 0 | 0 | 0 |
| Financing cash flow | 25,315 | (3,341) | 33,830 | (1,727) | (1,432) |
| Net change in cash | 38,138 | 27,668 | (89,399) | (275) | 9,034 |
| Opening cash | 41,429 | 79,567 | 107,235 | 17,837 | 17,562 |
| Closing cash | 79,567 | 107,235 | 17,837 | 17,562 | 26,596 |



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Our Rating Methodology

| Stock Ratings | Absolute Returns (R) |
|---------------|----------------------|
| Buy | $R > 15\%$ |
| Accumulate | $5\% < R \leq 15\%$ |
| Neutral | $-5\% < R \leq 5\%$ |
| Reduce | $-10\% < R \leq 5\%$ |
| Sell | $R \leq -10\%$ |

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