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

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

Source: NSE, ABML Research

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.

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 (Qtly)	3412878
52 week H/L (₹)	333.4/148.3

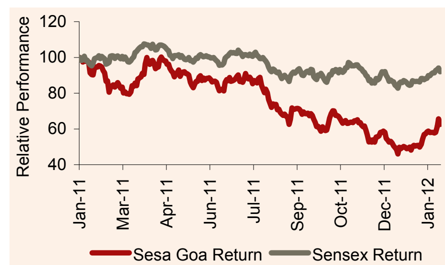
Source: NSE, BSE

Shareholding (%)

Holders	Dec-11	Sep-11	Jun-11
Promoters	55.1	55.1	55.1
FIIs	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

Chart: Sesa Goa vs. Sensex



Source: Capitaline

Analyst Details

Akhil Jain
022-42333540
akhil.jain@adityabirla.com

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)

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**

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

	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

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

Source: ABML Research, company data

Research Team

Vivek Mahajan	**Hemant Thukral**
Head of Research	**Head – Derivatives Desk**
022-42333522	022-42333483
vivek.mahajan@adityabirla.com	hemant.thukral@adityabirla.com

Fundamental Team

Avinash Nahata	Head of Fundamental Desk	022-42333459	avinash.nahata@adityabirla.com
Akhil Jain	Metals & Mining	022-42333540	akhil.jain@adityabirla.com
Sunny Agrawal	FMCG/Cement	022-42333458	sunny.agrawal@adityabirla.com
Sumit Jatia	Banking & Finance	022-42333460	sumit.jatia@adityabirla.com
Shreyans Mehta	Construction/Real Estate	022-42333544	shreyans.m@adityabirla.com
Dinesh Kumar	Information Technology/Auto	022-42333531	dinesh.kumar.k@adityabirla.com
Pradeep Parkar	Database/Production	022-42333597	pradeep.parkar@adityabirla.com

Quantitative Team

Rizwan Khan	Technical and Derivative Strategist	022-42333454	rizwan.khan@adityabirla.com
Jyoti Nangrani	Sr. Technical Analyst	022-42333454	jyoti.nangrani@adityabirla.com
Raghuram	Technical Analyst	022-42333537	raghuram.p@adityabirla.com
Rahul Tendolkar	Derivatives Analyst	022-42333532	rahul.tendolkar@adityabirla.com
Amit Somani	Derivative Analyst	022-42333532	amit.somani@adityabirla.com

Advisory Support

Indranil Dutta	Advisory Desk – HNI	022-42333494	indranil.dutta@adityabirla.com
Suresh Gardas	Advisory Desk	022-42333535	suresh.gardas@adityabirla.com
Sandeep Pandey	Advisory Desk	022-30442104	sandeep.pandey@adityabirla.com

ABML research is also accessible in Bloomberg at ABMR

Our Rating Methodology

Stock Ratings	Absolute Returns (R)
Buy	R > 15%
Accumulate	5% < R ≤ 15%
Neutral	-5% < R ≤ 5%
Reduce	-10% < R ≤ 5%
Sell	R ≤ -10%

Disclaimer:

Analyst holding in the stock: NIL

Aditya Birla Money Limited

2nd Floor, Sheil Estate, Dani Corporate Park, 158 CST Road, Kalina, Santacruz (East), Mumbai 400 098 | Tel: +91 22 42333400