

Sesa Goa

BSE SENSEX	S&P CNX	CMP: INR200				TP: INR203				Neutral			
17,077	5,158												
Bloomberg	SESA IN	Year	Net Sales	PAT	EPS	EPS	P/E	P/BV	ROE	ROCE	EV/	EV/	
Equity Shares (m)	869.1	End	(INR m)	(INR M)	(INR)	Gr. (%)	(X)	(X)	(%)	(%)	Sales	EBITDA	
52-Week Range (INR)	335/149	3/10A	58,583	26,291	31.6	25.3	6.3	2.1	40.8	47.3	2.0	3.7	
1,6,12 Rel. Perf. (%)	15/-21/-29	3/11A	92,051	42,573	49.0	54.8	4.1	1.4	40.4	47.3	0.9	1.7	
M.Cap. (INR b)	174.3	3/12E	85,555	29,621	34.1	-30.4	5.9	1.1	21.0	25.4	2.3	5.5	
M.Cap. (USD b)	3.5	3/13E	90,516	29,481	33.9	-0.5	5.9	1.0	17.6	18.9	2.2	9.3	

Consolidated

Sesa Goa's (SESA) adjusted consolidated PAT for 3QFY12 declined 24% YoY to INR8.1b, below our estimate of INR10.4b due to consolidation of Cairn India's profit for only 24 days.

- Reported PAT (after minority interest and profit from associates) of INR6.9b was impacted by INR1.8b of forex loss on FCCBs and ECBs of USD400m.
- Core PBT (before extraordinary items) was INR10b, higher than our estimate of INR7.8b due to higher iron ore volumes and higher than expected realizations.
- The restart of iron ore mining in Karnataka is likely to be delayed further, as the Supreme Court (SC) hearing is now scheduled for February. Only 150k dmt of iron ore inventory is available for sale in 4QFY12.
- The Shah Commission Report is further delayed by three months due to state elections.
- Export duty on iron ore has been hiked from 20% to 30%. Though the industry has made representations against it, no decision is likely before the budget.
- Expansion of pig iron capacity by 375ktpa is delayed by three months. The management believes that full production can be achieved in FY13; which we believe is contingent upon restart of mining in Karnataka.
- Though consolidated EPS would decline just 0.5% YoY to INR33.9 in FY13, core earnings are likely to nearly halve due to increase in export duty from 20% to 30% and 14% decline in ore realization. We have factored full 5.2mdmt ore volumes from Karnataka mines, which is contingent upon the restart of iron ore mining in Goa.
- Net debt stands at INR39.3b as at the end of the quarter. The stock is trading at 5.9x FY13E EPS and 1x FY13E BV. Maintain **Neutral** with a target price of INR203.

Quarterly Performance (Consolidated)

(INR Million)

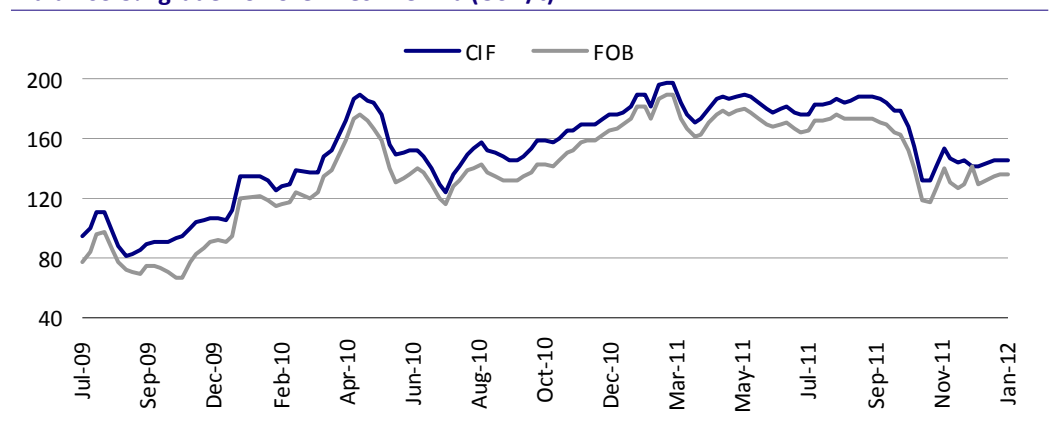
Y/E March	FY11				FY12				FY11	FY12E
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE		
Realization (USD/dmt)	102	84	98	117	102	85	94	87	104	94
Sales Qty ('000 dmt)	4,890	1,824	4,776	6,647	4,247	1,540	5,040	6,076	18,136	16,903
Net Sales	24,131	9,183	22,501	36,236	21,089	7,897	26,171	30,398	92,051	85,555
Change (YoY %)	138.6	70.5	19.1	49.8	-12.6	-14.0	16.3	-16.1	57.1	-7.1
EBITDA	15,507	3,034	12,306	21,184	11,474	2,600	10,852	10,150	52,030	35,076
Change (YoY %)	242.2	98.7	18.8	40.9	-26.0	-14.3	-11.8	-52.1	65.4	-32.6
As % of Net Sales	64.3	33.0	54.7	58.5	54.4	32.9	41.5	33.4	56.5	41.0
Interest	137	140	134	141	493	516	730	845	553	2,584
Depreciation	191	194	208	371	269	243	263	459	964	1,234
Other Income	1,609	1,004	1,268	1,690	1,521	504	180	113	5,571	2,317
PBT (before XO item)	16,787	3,704	13,232	22,362	12,232	2,345	10,039	8,959	56,085	33,575
EO	-911	364	24	35	-15	-2,341	-1,779	0	-488	-4,135
PBT (after XO item)	15,877	4,068	13,255	22,397	12,217	4	8,260	8,959	55,597	29,439
Total Tax	2,832	189	2,573	7,779	3,811	-9	2,564	2,867	13,372	9,233
% Tax	17.8	4.6	19.4	34.7	31.2	-245.9	31.0	32.0	24.1	31.4
Reported PAT before MI	13,045	3,879	10,683	14,618	8,406	13	5,696	6,092	42,225	20,207
Profit from associates	0	0	0	0	0	0	1,219	4,060	0	5,279
Adjusted PAT	13,793	3,532	10,664	14,595	8,416	1,571	8,142	10,152	42,595	28,324
Change (YoY %)	226.6	112.2	28.9	20.3	-39.0	-55.5	-23.6	-30.4	62.0	-33.5
Cash etc (net of debt)		75,808	82,300	106,820	22,460	-33,065	-39,300	-20,343	106,820	-20,343

E: MOSL Estimates

Iron ore volumes and realization surprised positively

- Iron ore volumes increased 5.5% YoY to 5.04m dmt due to higher volumes from Goa despite logistic challenges. Volumes from Karnataka mines increased 1.5%YoY to 640k dmt. Volumes from Goa mines increased 18% YoY to 4.4m dmt.
- Average realization was higher than expectation at USD94/dmt. Although realization from Karnataka mines declined USD9 QoQ to USD31/dmt, the realization of Goa mines declined only USD20 QoQ to USD103/dmt despite correction of USD40/dmt QoQ in average spot prices to USD148/dmt cfr China. This is definitely a creditable smart selling. Sesa has gained from cfr freighting and benefit of lagged quarter pricing in this quarter. This may affect the realization in 4QFY12.

Indian 63.5% grade iron ore fines in China (USD/t)



Source: Bloomberg/Company/MOSL

Y/E MARCH									(INR Million)	
	FY11				FY12				FY11	FY12E
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE		
Realization										
Iron ore (USD/dmt)	102	84	98	117	102	85	94	87	104	94
Change (QoQ %)	32.9	-17.3	16.3	19.7	-13.0	-16.6	10.5	-7.7	72.4	-9.6
Coke (INR/ton)	17,368	20,884	17,871	21,083	20,755	22,722	25,250	26,000	19,259	22,728
Pig iron (INR /ton)	25,328	23,767	25,303	27,530	28,079	28,703	25,812	26,070	25,364	27,967
Sales Qty ('000 tons)										
Iron ore (dmt)	4,890	1,824	4,776	6,647	4,247	1,540	5,040	6,076	18,136	16,903
Change (YoY %)	15.3	20.1	-21.4	1.4	-13.1	-15.6	5.5	-8.6	-1.4	-6.8
Coke	67	63	68	65	67	52	69	82	263	270
Pig iron	54	84	63	65	58	65	68	99	266	290
Revenue (INR m)										
Iron Ore	22,685	7,124	20,891	35,237	19,358	5,943	23,903	27,395	85,937	76,599
Change (YoY %)	165.1	78.7	21.0	55.9	-14.7	-16.6	14.4	-22.3	64.0	-10.9
Coke	1,160	1,316	1,219	1,370	1,400	1,170	1,430	2,136	5,065	6,137
Pig iron	1,368	1,996	1,598	1,780	1,631	1,866	2,035	2,579	6,742	8,111
EBIT (INR m)										
Iron ore	14,744	2,170	11,549	20,375	10,806	2,371	10,593	10,739	48,838	34,508
Coke	281	333	222	54	279	-43	-173	98	890	161
Pig iron	310	341	346	414	125	35	181	516	1,411	857
Costs										
Iron ore (USD/dmt)	36	58	44	49	45	51	52	53	45	52
Coke (INR/ton)	13,163	15,594	14,620	20,249	16,620	23,559	27,767	24,803	15,875	22,132
Pig iron (INR /ton)	19,591	19,704	19,827	21,129	25,928	28,163	23,152	20,856	20,057	25,013
USD/INR	45.6	46.5	44.8	45.3	44.7	45.4	50.5	52.0	45.5	48.2
Iron ore spot (\$/dmt cfr Chir	167	145	165	185	184	184	148	140	165	158

EBITDA declined 12% YoY to INR10.8b due to lower margins

- EBITDA declined 12% YoY to INR10.8b as margins of iron ore segment declined due to higher costs.
- Iron ore EBIT declined 8% YoY to INR 10.6b. Coke segment turned in losses. Pig iron EBIT declined 48% YoY to INR181m.
- The cost of iron ore was USD52/dmt and margins were USD42/dmt.

Outlook and Valuation

- Although consolidated EPS will decline only 0.5% YoY to INR33.9 in FY13, the core earnings are likely to near halve due to increase in export duty from 20% to 30% and 14% decline in iron ore realization. We have factored full 5.2m dmt iron ore volumes from Karnataka mines, which remain contingent upon restart of iron ore mining in Goa.
- The stock is trading at FY13 PE of 5.9x and P/BV of 1x. Maintain **Neutral** with target price of INR203.

Target price calculations

	FY13
Core business	
EBITDA	20,903
Core multiple (x)	5.0
Target EV (core business)	104,516
Net Cash	-20,546
Target Mkt Cap (core)	83,970
A. Target price per share (core)	97
Cairn India stake	
No. of shares (m)	384
Cairn TP	320
value at TP	122,828
Holding company discount	25%
Value after discount	92,121
B. Value per share	106
Target Price (a+b)	203

Source: Company/MOSL

Sesa Goa: an investment profile

Company description

Sesa Goa (SESA) has iron-ore reserves and resources of 306mt in Goa and Karnataka. Goa's ore is medium grade and easy to extract without blasting and crushing. The iron ore from Karnataka is of high grade but found in rocky form, which necessitates blasting and crushing. SESA is India's largest private-sector iron-ore exporter.

Key investment arguments

- SESA aims to grow inorganically and organically.
- The cost of mining and transport is significantly lower in Goa than in Karnataka and Orissa.
- SESA has a strong focus on increasing reserves over 2-3 years from the existing 306mt.
- Indian miners are at an advantage over Brazilian miners due to their proximity to China, the largest customer.

Key investment risks

- Unexpected softening of spot prices of iron ore, led by a slowdown in steel demand will adversely impact earnings.

Recent developments

- Sesa and its subsidiary Sesa Resources Limited acquired approximately 1.5% of the total paid up share capital of Cairn India from Cairn UK Holdings Limited. With this acquisition Sesa Goa Limited along

with its subsidiary, Sesa Resources Limited hold 20% of the share capital of Cairn India Limited.

Valuation and view

- Stock is trading at FY13 PE of 5.9x and P/BV of 1x. Maintain **Neutral** with target price of INR203

Sector view

- Oligopoly of Vale, BHP-Billiton and Rio Tinto is getting firmer grip over iron ore market because exports from fragmented Indian market have dwindled due to various regulatory and fiscal measures. China is increasingly sourcing more expensive iron ore from other countries to make up for lost supplies from India. Iron ore prices after plunging to USD120 are now trading firm at USD146per ton cfr China for 63% and are expected to hold for some time amid temporary supply concerns. Some supply growth from Australian junior mines has suffered a setback due to slower-than-expected progress on new open access Oakarjee Port & Rail (OPR) project in mid-west Australia.
- Currently iron-ore market is critically balanced and investments across the world in new assets will drive iron-ore supply by 730mt over the next five years. High iron-ore prices are not sustainable for long term because there is no shortage of iron-ore reserves in world.

Comparative valuations

		Sesa Goa	NMDC	Jindal Steel
P/E (x)	FY12E	5.9	10.1	12.2
	FY13E	5.9	10.8	10.8
P/BV (x)	FY12E	1.1	2.9	2.8
	FY13E	1.0	2.4	2.3
EV/Sales (x)	FY12E	2.3	4.6	3.8
	FY13E	2.2	4.4	3.5
EV/EBITDA (x)	FY12E	5.5	5.9	9.4
	FY13E	9.3	6.3	8.8

Shareholding pattern (%)

	Dec-11	Sep-11	Dec-10
Promoter	55.1	55.1	55.7
Domestic Inst	5.2	5.2	4.5
Foreign	24.9	24.1	24.6
Others	14.7	15.7	15.2

EPS: MOSL forecast v/s consensus (INR)

	MOSL Forecast	Consensus Forecast	Variation (%)
FY12	34.1	34.4	-0.9
FY13	33.9	38.5	-11.8

Target Price and Recommendation

Current Price (INR)	Target Price (INR)	Upside (%)	Reco.
200	203	1.5	Neutral

Stock performance (1 year)



Financials and Valuation

Income Statement (Consolidated)		(INR Million)			
Y/E March	2010	2011	2012E	2013E	
Net sales	58,583	92,051	85,555	90,516	
Change (%)	18.1	57.1	-7.1	5.8	
Total Expenses	27,097	39,988	50,479	69,613	
EBITDA	31,486	52,063	35,076	20,903	
% of Net Sales	53.7	56.6	41.0	23.1	
Depn. & Amortization	745	964	1,234	1,926	
EBIT	30,741	51,099	33,841	18,978	
Net Interest	555	553	2,584	3,466	
Other income	4,260	5,399	2,317	914	
PBT before EO	34,446	55,946	33,575	16,426	
EO income			-4,135		
PBT after EO	34,446	55,946	29,439	16,426	
Tax	8,056	13,372	9,233	4,928	
Rate (%)	23.4	23.9	31.4	30.0	
Reported PAT	26,390	42,573	20,207	11,498	
Minority interests	99				
Profit from associates			5,279	17,983	
Adjusted PAT	26,291	42,573	29,621	29,481	
Change (%)	32.2	61.9	-30.4	-0.5	

Balance Sheet		(Rs Million)			
Y/E March	2010	2011	2012E	2013E	
Share Capital	831	869	869	869	
Reserves	78,346	127,235	153,297	179,219	
Net Worth	79,177	128,104	154,166	180,088	
Minority Interest	433				
Total Loans	19,606	9,995	32,495	32,495	
Deferred Tax Liability	750	682	682	682	
Capital Employed	99,966	138,781	187,343	213,265	
Gross Block	27,510	30,648	32,648	34,448	
Less: Accum. Deprn.	5,741	6,492	7,726	9,652	
Net Fixed Assets	21,770	24,156	24,922	24,796	
Capital WIP	787	7,287	15,287	23,487	
Investments	1		135,788	153,771	
Curr. Assets	89,808	124,594	30,745	31,425	
Inventory	5,009	7,438	8,204	8,680	
Account Receivables	3,381	6,830	7,032	7,440	
Cash and Bank Balanc	69,566	96,968	12,151	11,948	
Others	11,851	13,358	3,358	3,358	
Curr. Liability & Prov.	12,400	17,256	19,399	20,214	
Account Payables	7,451	11,921	14,064	14,879	
Provisions & Others	4,949	5,335	5,335	5,335	
Net Current Assets	77,408	107,338	11,346	11,211	
Appl. of Funds	99,966	138,781	187,343	213,265	

E: MOSL Estimates

Ratios					
Y/E March	2010	2011	2012E	2013E	
Basic (Rs)					
EPS	31.6	49.0	34.1	33.9	
Cash EPS	32.7	50.1	24.7	15.4	
BV/Share	95.3	147.4	177.4	207.2	
DPS	3.2	3.5	3.5	3.5	
Payout (%)	12.0	8.4	12.0	12.1	
Valuation (x)					
P/E	6.3	4.1	5.9	5.9	
Cash P/E	6.1	4.0	8.1	13.0	
P/BV	2.1	1.4	1.1	1.0	
EV/Sales	2.0	0.9	2.3	2.2	
EV/EBITDA	3.7	1.7	5.5	9.3	
Dividend Yield (%)	1.6	1.7	1.7	1.7	
EV/ton (US\$)	7	6	5		
Return Ratios (%)					
EBITDA Margins (%)	53.7	56.6	41.0	23.1	
Net Profit Margins (%)	44.9	46.2	34.6	32.6	
RoE	40.8	40.4	21.0	17.6	
RoCE (pre-tax)	47.3	47.3	25.4	18.9	
RoIC (pre-tax)	134.0	159.3	115.4	78.8	
Working Capital Ratios					
Fixed Asset Turnover (x)	2.1	3.0	2.6	2.6	
Asset Turnover (x)	0.6	0.7	0.5	0.4	
Debtor (Days)	21.1	27.1	30.0	30.0	
Inventory (Days)	31.2	29.5	35.0	35.0	
Working Capital Turno	48.9	41.1	-3.4	-3.0	
Creditors	77.3	68.4	60.0	60.0	
Leverage Ratio (x)					
Current Ratio	7.2	7.2	1.6	1.6	

Cash Flow Statement		(INR Million)			
Y/E March	2010	2011	2012E	2013E	
Pre-tax profit	34,446	55,946	29,439	16,426	
Depreciation	745	964	1,234	1,926	
(Inc)/Dec in Wkg. Cap.	2,973	-2,528	11,175	-68	
Tax paid	-8,012	-13,442	-9,233	-4,928	
Other operating activit	1,504	-107	4,135		
CF from Op. Activity	31,657	40,833	36,751	13,356	
(Inc)/Dec in FA + CWIP	-18,945	-9,637	-10,000	-10,000	
(Pur)/Sale of Investme	0	1	-130,509		
CF from Inv. Activity	-18,945	-9,637	-140,509	-10,000	
Share Cap. raised/(rep	8,999	9,376			
Debt raised/(repaid)	19,587	-9,611	22,500		
Dividend (incl. tax)	-3,160	-3,559	-3,559	-3,559	
CF from Fin. Activity	25,426	-3,794	18,941	-3,559	
(Inc)/Dec in Cash	38,138	27,402	-84,817	-203	
Add: Opening Balance	31,429	69,566	96,968	12,151	
Closing Balance	69,566	96,968	12,151	11,948	

Disclosures

This report is for personal information of the authorized recipient and does not constitute to be any investment, legal or taxation advice to you. This research report does not constitute an offer, invitation or inducement to invest in securities or other investments and Motilal Oswal Securities Limited (hereinafter referred as MOST) is not soliciting any action based upon it. This report is not for public distribution and has been furnished to you solely for your information and should not be reproduced or redistributed to any other person in any form.

Unauthorized disclosure, use, dissemination or copying (either whole or partial) of this information, is prohibited. The person accessing this information specifically agrees to exempt MOST or any of its affiliates or employees from, any and all responsibility/liability arising from such misuse and agrees not to hold MOST or any of its affiliates or employees responsible for any such misuse and further agrees to hold MOST or any of its affiliates or employees free and harmless from all losses, costs, damages, expenses that may be suffered by the person accessing this information due to any errors and delays.

The information contained herein is based on publicly available data or other sources believed to be reliable. While we would endeavour to update the information herein on reasonable basis, MOST and/or its affiliates are under no obligation to update the information. Also there may be regulatory, compliance, or other reasons that may prevent MOST and/or its affiliates from doing so. MOST or any of its affiliates or employees shall not be in any way responsible and liable for any loss or damage that may arise to any person from any inadvertent error in the information contained in this report. MOST or any of its affiliates or employees do not provide, at any time, any express or implied warranty of any kind, regarding any matter pertaining to this report, including without limitation the implied warranties of merchantability, fitness for a particular purpose, and non-infringement. The recipients of this report should rely on their own investigations.

This report is intended for distribution to institutional investors. Recipients who are not institutional investors should seek advice of their independent financial advisor prior to taking any investment decision based on this report or for any necessary explanation of its contents.

MOST and/or its affiliates and/or employees may have interests/positions, financial or otherwise in the securities mentioned in this report. To enhance transparency, MOST has incorporated a Disclosure of Interest Statement in this document. This should, however, not be treated as endorsement of the views expressed in the report.

Disclosure of Interest Statement

Sesa Goa

- | | |
|---|----|
| 1. Analyst ownership of the stock | No |
| 2. Group/Directors ownership of the stock | No |
| 3. Broking relationship with company covered | No |
| 4. Investment Banking relationship with company covered | No |

Analyst Certification

The views expressed in this research report accurately reflect the personal views of the analyst(s) about the subject securities or issues, and no part of the compensation of the research analyst(s) was, is, or will be directly or indirectly related to the specific recommendations and views expressed by research analyst(s) in this report. The research analysts, strategists, or research associates principally responsible for preparation of MOST research receive compensation based upon various factors, including quality of research, investor client feedback, stock picking, competitive factors and firm revenues.

Regional Disclosures (outside India)

This report is not directed or intended for distribution to or use by any person or entity resident in a state, country or any jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject MOST & its group companies to registration or licensing requirements within such jurisdictions.

For U.K.

This report is intended for distribution only to persons having professional experience in matters relating to investments as described in Article 19 of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (referred to as "investment professionals"). This document must not be acted on or relied on by persons who are not investment professionals. Any investment or investment activity to which this document relates is only available to investment professionals and will be engaged in only with such persons.

For U.S.

MOST is not a registered broker-dealer in the United States (U.S.) and, therefore, is not subject to U.S. rules. In reliance on the exemption from registration provided by Rule 15a-6 of the U.S. Securities Exchange Act of 1934, as amended (the "Exchange Act") and interpretations thereof by the U.S. Securities and Exchange Commission ("SEC") in order to conduct business with Institutional Investors based in the U.S., Motilal Oswal has entered into a chaperoning agreement with a U.S. registered broker-dealer, Marco Polo Securities Inc. ("Marco Polo").

This report is intended for distribution only to "Major Institutional Investors" as defined by Rule 15a-6(b)(4) of the Exchange Act and interpretations thereof by SEC (henceforth referred to as "major institutional investors"). This document must not be acted on or relied on by persons who are not major institutional investors. Any investment or investment activity to which this document relates is only available to major institutional investors and will be engaged in only with major institutional investors.

The Research Analysts contributing to the report may not be registered /qualified as research analyst with FINRA. Such research analyst may not be associated persons of the U.S. registered broker-dealer, Marco Polo and therefore, may not be subject to NASD rule 2711 and NYSE Rule 472 restrictions on communication with a subject company, public appearances and trading securities held by a research analyst account.



Motilal Oswal Securities Ltd

3rd Floor, Hoechst House, Nariman Point, Mumbai 400 021

Phone: (91-22) 39825500 Fax: (91-22) 22885038. E-mail: reports@motilaloswal.com