



Economy News

- ▶ Headline inflation, despite easing sharply in November, continued to stay above 9 per cent for the twelfth consecutive month. (BL)
- ▶ The recent downward revision of the country's export figures has created a \$7.2-billion difference between the shipment data collected by the commerce department and the export income inflows compiled by the Reserve Bank of India (RBI) during Q1FY12, posing another uncomfortable riddle for the government and raising the possibility of a second round of data revision. (ET)
- ▶ The Union Government proposes to set up a Rs.100 bn Electronic Development Fund (EDF) next year, to promote electronic hardware manufacturing in the country. (BL)
- ▶ The credit pick-up scenario may be getting better for banks in the 'busy season', going by the latest fortnight Reserve Bank of India data ending December 2, when banks disbursed loans aggregating Rs 464 bn, against Rs 86 bn in the preceding fortnight. (BL)
- ▶ Worried about the accounting practices followed by asset reconstruction companies (ARCs), the Reserve Bank of India (RBI) has asked them to furnish complete details on accounting policies, in a bid to take a closer look at the systems. (ET)

Corporate News

- ▶ **NTPC-BHEL** Power Projects Pvt Ltd (NBPPL), a 50:50 joint venture of state-owned NTPC and BHEL, for manufacturing power equipment, will start operations next fiscal. (BL)
- ▶ **DLF** is close to signing a deal with private equity major Blackstone, as the company is planning to offload its entire stake in the special economic zone (SEZ) in Pune valued at Rs 9 bn. (BS)
- ▶ **Larsen & Toubro** has commissioned a 384-MW gas-based unit at GMR's 1,200 MW gas-based power plant at Vemagiri, Andhra Pradesh. (BL)
- ▶ **Reliance Industries Ltd (RIL)** has alleged that the petroleum ministry is violating coal bed methane contract by restricting price discovery which could lead to revenue loss for the central and state exchequers. (BS)
- ▶ **Saint-Gobain** will acquire **Electrotherm** India's pipe business and 100% stake in a subsidiary of the company for Rs 9.5 bn. (BS)
- ▶ **Reliance Industries** has indicated it can surrender a part of the D6 block, in line with the national auditor's report. (ET)
- ▶ Sajjan Jindal, the promoter of **JSW Steel**, is set to lose over Rs 5 bn paid as initial deposit for preferential warrants allotted in June last year that will be due for conversion today at a price more than double the current rate. (ET)
- ▶ **Bharti Airtel, Idea Cellular** and Vodafone - have demanded the 'first right of refusal on the airwaves they hold after expiry of their rights', marking the first step towards leading telcos seeking to protect interests as their mobile permits come up for renewal beginning 2014. (ET)
- ▶ **Reliance Infrastructure** will auction its power transmission company - Reliance Power Transmission - to raise money and limit its risks in a volatile sector. (ET)
- ▶ **ICICI Bank** may have to cut its holding in Firstsource Solutions - the global business process outsourcing firm, which it originally promoted a decade ago - to comply with new norms announced by the Reserve Bank of India. (ET)

Equity

	14 Dec 11	% Chg		
		1 Day	1 Mth	3 Mths
Indian Indices				
SENSEX Index	15,881	(0.8)	(7.2)	(5.0)
NIFTY Index	4,763	(0.8)	(7.5)	(5.0)
BANKEX Index	9,824	(0.4)	(7.8)	(9.6)
BSET Index	5,803	(0.2)	0.3	15.1
BSETCG INDEX	8,983	(1.2)	(14.4)	(25.7)
BSEOIL INDEX	7,818	(0.9)	(11.5)	(9.4)
CNXMcap Index	6,447	(0.7)	(8.5)	(11.2)
BSESMCAP INDEX	5,870	(0.8)	(11.7)	(18.4)
World Indices				
Dow Jones	11,955	(0.6)	(2.1)	6.3
Nasdaq	2,579	(1.3)	(2.9)	0.3
FTSE	5,448	(0.8)	(1.3)	4.2
NIKKEI	8,553	-	(1.0)	0.0
HANGSENG	18,447	(0.7)	(7.1)	(3.6)

Value traded (Rs cr)

	14 Dec 11	% Chg - Day
Cash BSE	2,046	13.8
Cash NSE	9,775	5.3
Derivatives	130,748	(0.5)

Net inflows (Rs cr)

	13 Dec 11	% Chg	MTD	YTD
FII	(319)	9.2	1,003	(2,596)
Mutual Fund	(202)	-	(523)	4,884

FII open interest (Rs cr)

	13 Dec 11	% Chg
FII Index Futures	11,457	0.0
FII Index Options	47,961	-
FII Stock Futures	25,166	2.7
FII Stock Options	920	10.4

Advances / Declines (BSE)

	14 Dec 11	A	B	S	Total	% total
Advances	59	848	172	1,079	38	
Declines	143	1,305	177	1,625	57	
Unchanged	3	140	17	160	6	

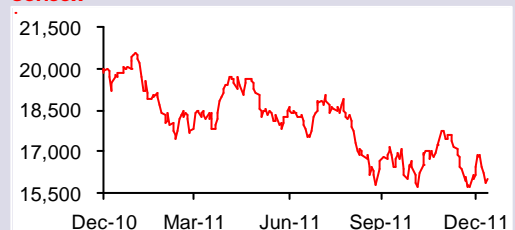
Commodity

	14 Dec 11	% Chg		
		1 Day	1 Mth	3 Mths
Crude (NYMEX) (US\$/BBL)	99.5	(0.7)	(4.4)	11.9
Gold (US\$/OZ)	1,657.7	(0.4)	(8.2)	(10.2)
Silver (US\$/OZ)	31.2	0.5	(16.0)	(25.2)

Debt / forex market

	14 Dec 11	1 Day	1 Mth	3 Mths
10 yr G-Sec yield %	8.49	8.52	9.08	8.44
Re/US\$	53.8	53.2	50.3	47.7

Sensex



COMPANY UPDATE

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SESA GOA

PRICE: Rs.170
TARGET PRICE: Rs.202

RECOMMENDATION: ACCUMULATE
FY13E P/E 4.6x; EV/EBITDA 5.6x

Headwinds persists but further declines would be buying opportunity**Cairn India now officially an associate company**

Vedanta Resources has finally completed the purchase of a controlling stake in Cairn India from Cairn Energy Plc (holding company). Post this deal, Vedanta group holds 60% stake in Cairn India. Sesa Goa along with its 100% subsidiary has last week acquired further 1.5% stake in Cairn India @ Rs325/ share. Post this Sesa Goa has 20% stake in Cairn India and would contribute to profit from associates' line item from Q3FY12 onwards.

Liberia election verdict favourable

In recent elections in Liberia, government and president have been reelected. Change in government could have lead to scrapping of contract, so re-election, we believe would negate this key concern on Western Cluster transaction.

Karnataka mining ban hearing deferred till Jan

The Supreme Court has deferred the hearing on the Karnataka mining ban until 20 Jan 2012. This would delay the potential resolution of the mining ban. Hence, we have cut 1 mn tonnes of sales volume for FY12.

Submission of the Shah Commission report has been deferred

Potential export/ mining curbs in Goa, due to the ongoing illegal mining enquiry, remain key concern as the submission of the Shah Commission report has been deferred to Jan 2012(Dec 1st earlier). We have cut iron ore business valuation multiple further from 4x EV/EBITDA to 3.5 EV/EBITDA on FY13e to negate any unexpected adverse impact of the recommendations of the commission.

Iron ore spot price pressure to remain in near term but deep correction unlikely

Iron ore spot export prices to China have rebounded by 10% since November after crashing by 30% in October. We expect spot prices to correct again in near term to recent lows, due to weak Chinese steel demand and concerning global macro. But we had seen hectic buying from China at recent low levels which would support prices and prevent deeper correction than recent lows. High cost of production of iron ore in China is leading to substitution of domestic production by imports at lower levels. Also continued supply issues from India and monsoon season for Brazil and Australia should prevent deep cuts. We believe that the average costs of iron ore production in China is now at US\$115/mt, compared with US\$75/mt at the time of financial crisis three years ago. We believe domestic inflation, currency appreciation and falling iron ore Fe grade as the key reason for the same.

Goa port iron ore exports recover on Chinese demand in Nov

Iron ore exports from India's Mormugao Port total 3.19mt in Nov down 6%Y/Y compared to 25%Y/Y correction in October 2011. In the first eight months of FY12, iron ore exports from Mormugao Port totaled 17.9 mt down 13.9% Y/Y.

Pig iron and coking coal capacity commissioning soon

Pig iron plant capacity expansion to 625ktpa and associated expansion of capacity at the metallurgical coke plant to 560ktpa is likely to get commissioned by Q4 FY12.

Summary Table - Consolidated

(Rs mn)	FY11	FY12e	FY13e
Sales (Rs. mn)	91,455	75,125	77,606
Growth (%)	57.6	-17.9	3.3
EBITDA (Rs. mn)	52,063	35,139	29,997
EBITDA Margins (%)	56.6	46.4	38.4
PBT	55,597	28,985	26,234
Net Profit (Rs. mn)	42,225	24,712	32,965
EPS (Rs.)	48.6	27.8	37.1
Growth (%)	53.6	-42.8	33.4
CEPS (Rs.)	49.4	28.5	38.0
BV (Rs./share)	147.4	167.7	200.6
Dividend / share (Rs.)	3.5	3.5	3.5
ROE (%)	40.7	17.8	20.1
ROCE (%)	30.6	11.3	13.8
Net Cash (debt)	86,974	-39,013	-18,347
NW Capital (Days)	101	92	88
EV/Sales (x)	0.7	2.5	2.2
EV/ EBITDA (x)	1.2	5.4	5.6
P/E (x)	3.5	6.1	4.6
P/B (x)	1.2	1.0	0.8

Source: Company, Kotak Securities - Private Client Research

**We recommend
ACCUMULATE on Sesa Goa
with a revised price target of
Rs.202**

Valuation

We retain our valuation methodology on Sesa Goa to SOTP based valuation on FY13 basis. However, we now value its consolidated business at 3.5x (vs 4x earlier) EV/EBITDA for FY13e and continue to value investments in Cairn India at 30% discount to fair value estimates of our team's Oil & Gas analyst. Valuation multiple for Sesa Goa core business is cut further due to persisting regulatory hurdles delaying restart of iron ore mining at Karnataka and risks of regulatory action from Shah commission report in Goa. Further, proposed mining bill recommends doubling of royalty payments for its core business operations which would significantly hurt operating margins from FY13e onwards and has been accounted by us in our projections from FY13 onwards. We have cut our EBITDA and PAT estimates as we lowered our expectations of iron ore sales realizations and volume. Key assumption changes are depicted in the table below. Sesa Goa stock price has corrected sharply over last few months and offers some upside on our valuation methodology. We maintain **ACCUMULATE** recommendation with a target price of Rs.202 (vs. Rs.232 earlier).

Risks

- Key downside risks to our valuation are potential mining or export curbs in Goa and long delay in restart of mining in Karnataka. Global macro risks also persist.
- Key upside risks would be early restart of mining in Karnataka and no adverse impact from Shah Commission report in Goa. Quantitative easing announcements in EU or US would be positive for sector if and when announced.

Valuation

Assumptions - Key changes

	Old estimates			New estimates		
	FY11	FY12e	FY13e	FY11	FY12e	FY13e
Sales Volume (mn tonnes)	20.4	18	19	20.4	17	18
Contract Prices (US\$/t)	86.9	87.7	81.6	86.9	86.0	77.4
Spot Prices (US\$/t)	95.0	85.5	79.5	95.0	83.6	75.2
Exchange Rate (US\$/INR)	45.0	46.0	46	45.0	47.5	48.5
Average Realisations in US\$/ton	93.8	85.7	79.8	93.8	83.8	75.6
Average Realisations in Rs/ton	4220	3943	3672	4220	3982	3665
Export duty (Rs.)	6,620	10,418	10822	6,620	9,958	10214
EBITDA Margins (%)	56.5	47.3	38.8	56.5	46.4	38.4
Share of profits from Associates *	0	12598	13567	0	4494	14667
EPS (Rs.)	48.6	43	38.3	48.6	27.8	37.1

* Assuming 20% stake in Cairn India and PAT estimates of our Oil & Gas Analyst

* Now assuming profit of associates for FY12 for 4 months only i.e. Dec 11 onwards

** Assumed forex loss of Rs.4500mn for FY12 on FCCBs outstanding

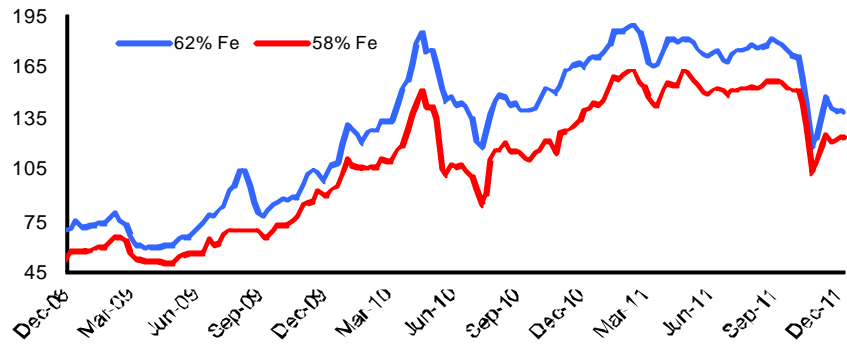
Source: Kotak Securities - Private Client Research

SOTP based target Price FY13e consolidated earnings

	EBITDA (Rs. mn)	Multiple (x)	Enterprise Value (Rs. mn)	Value (Rs./Share)
Enterprise Value	29,997	3.5	104,991	118.0
Add: Net Cash (at end of FY13e)			(18,347)	(20.6)
Target Market Capitalization for Sesa Goa			86,644	97.4
Value of Investment in Cairn India (30% holding co. discount)			93,464	105.1
Target Price				202.0

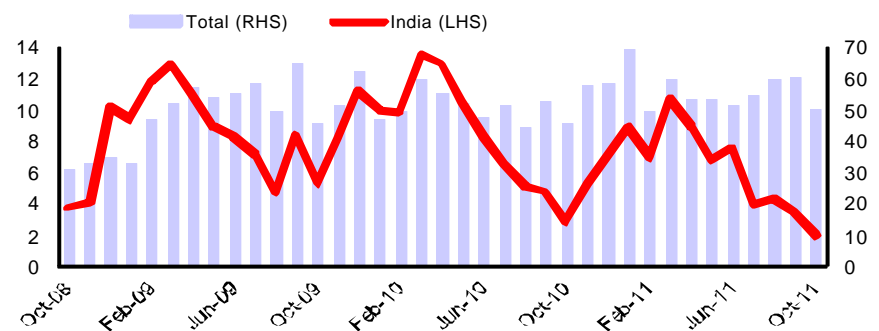
Source: Kotak Securities - Private Client Research

China iron ore import price (US\$/t)



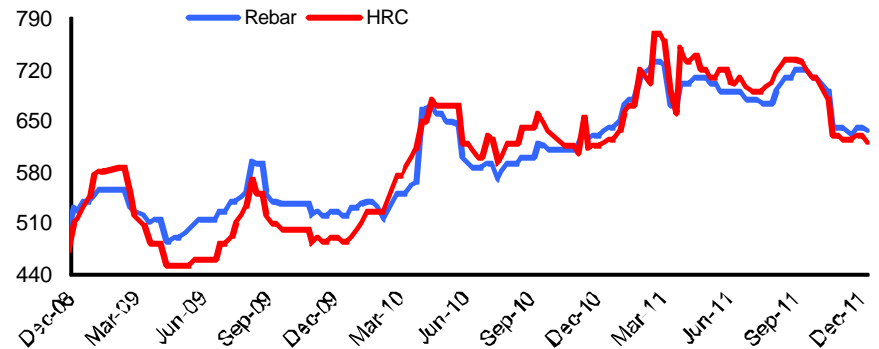
Source: Bloomberg

China monthly iron ore imports (mt)



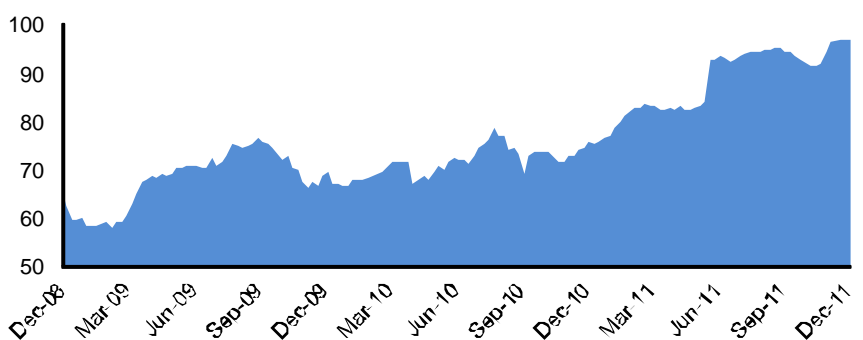
Source: Bloomberg

China steel export price (US\$/t)



Source: Bloomberg

China iron ore port inventory (mt)



Source: Bloomberg

Financials

Balance Sheet

(Rs mn)	FY11	FY12E	FY13E
LIABILITIES			
Equity Share Capital	869.1	889.7	889.7
Reserves & Surplus	127,235	148,304	177,626
Net Worth	128,104	149,193	178,515
Short Term Loans	0	0	0
Long Term Loans	9,995	70,000	60,000
Deferred Tax Liabilities	682	800	664
Total Liabilities	138,781	219,993	239,179
ASSETS			
Gross Block	30,648	47,310	54,185
Less Depreciation	6,492	7,456	8,710
Net Block	24,156	39,854	45,474
CWIP	7,287	3,125	1,250
Investments	87,998	158,016	173,683
of which financial investments	87,998	22,016	32,683
Total Current Assets	36,596	34,041	34,852
Total Current Liabilities	17,256	15,043	16,080
Net Current Assets	19,340	18,998	18,772
Total Assets	138,781	219,993	239,179

Source: Company; Kotak Securities - Private Client Research

P&L

(Rs mn)	FY11	FY12e	FY13e
Net Sales	91,455	75,125	77,606
EBITDA	52,063	35,139	29,997
Other Income	5,887	3,310	3,991
Depreciation	964	964	1,255
Interest	901	4,000	6,500
PBT	55,597	28,985	26,234
Taxes	13,372	8,768	7,936
PAT	42,225	24,712	32,965
Shares Outstanding mn	869.1	889.7	889.7
EPS (Rs)	48.6	27.8	37.1

Source: Company; Kotak Securities - Private Client Research

Key Ratio

	FY11	FY12e	FY13e
EBITDA Margins (%)	56.6%	46.4%	38.4%
NPM Margins (%)	45.9%	26.7%	23.4%
ROE on yr-end equity (%)	33.0%	16.6%	18.5%
ROAE (%)	40.7%	17.8%	20.1%
EPS growth (%)	53.6%	-42.8%	33.4%
P/E	3.5	6.1	4.6
EV/sales	0.7	2.5	2.2
EV/EBITDA	1.2	5.4	5.6
P/B	1.2	1.0	0.8
BVPS	147.4	167.7	200.6

Source: Company; Kotak Securities - Private Client Research

Bulk deals

Trade details of bulk deals

Date	Scrip name	Name of client	Buy/ Sell	Quantity of shares	Avg. price (Rs)
14-Dec	Byke	Sugauri Multitrading Pvt Ltd	S	99,887	129.8
14-Dec	Clarus Finance	Shree Thirumalai Marketing & Inv	B	200,000	54.0
14-Dec	Gfffin	Kalptaru Investments Private Ltd	B	258,000	14.2
14-Dec	Gfffin	Rajnee Rajan Gitaye	B	35,000	13.9
14-Dec	Gfffin	Linton Consultant Pvt. Ltd.	S	46,000	13.9
14-Dec	Gfffin	Ishan Tie Up Pvt Ltd	S	36,000	13.9
14-Dec	Gfffin	Giriraj Shares Pvt Ltd	S	57,000	14.3
14-Dec	Kanchan Intl	Ganesh Anant Ghadge	B	28,097	71.3
14-Dec	Kanchan Intl	Vinayendra K Fichadia HUF	S	28,000	71.4
14-Dec	Khodiyar Inds	Shamsher Singh	S	48,000	3.8
14-Dec	Kwality Cred	Param Commodities Pvt Ltd	S	46,229	23.4
14-Dec	Mahan Inds	Whitetext Infrastructure Pvt Ltd	S	1,856,332	0.2
14-Dec	Mahan Inds	Shreebhuvanakaram Tradinvest	S	2,600,000	0.2
14-Dec	Midland Poly	Shailesh Prabhakar Dalvi	S	34,200	28.7
14-Dec	Nimbus Inds	Amit Shah	B	19,200	84.8
14-Dec	Pasupati Fin	Ankur Agarwal	S	30,000	20.4
14-Dec	Pennar Inds-\$	Saif India Iv Fii Holdings Limited	B	4,448,000	40.0
14-Dec	Pennar Inds-\$	Shamu Jupally	S	1,034,477	40.0
14-Dec	Pennar Inds-\$	Jupally Rao	S	825,453	40.0
14-Dec	Pennar Inds-\$	My Home Constructions Pvt Ltd	S	2,433,625	40.0
14-Dec	Rander Corp	Vipinkumar Jhumar Mal Jain	S	65,000	75.2
14-Dec	Ravinay Trad	Lincoln Pharmaceuticals Limite D	B	30,000	235.9
14-Dec	Ravinay Trad	Jayanthibai	S	17,000	256.5
14-Dec	Scope Ind	Gopala Krishna Bonam	B	53,000	19.7
14-Dec	Scope Ind	Maturi Sudhakar	B	54,000	18.4
14-Dec	Scope Ind	Mayur N Darji	S	50,000	18.4
14-Dec	Scope Ind	Anitha Maradani	S	52,991	19.6
14-Dec	Softech Inf	Aanir Shares Services	B	56,378	24.4
14-Dec	Softech Inf	J Shah Vinay	S	25,000	25.2
14-Dec	Triveni Engr	Dhruv Sawhney	B	1,908,111	13.9
14-Dec	Triveni Engr	Tofsl Trading & Investments Ltd	S	3,152,361	13.9
14-Dec	Vaishnavi	Chandra Sekhara Rao Battula	B	100,000	9.0
14-Dec	Vaishnavi	Maturi Sudhakar	S	123,000	9.0
14-Dec	Veer Energy	Akshar Entertainment Private Ltd	B	367,000	2.7
14-Dec	Veer Energy	Sonal Shares Investment & Co	S	361,100	2.7

Source: BSE

Gainers & Losers

Nifty Gainers & Losers

	Price (Rs)	chg (%)	Index points	Volume (mn)
Gainers				
ITC	200	1.3	4.4	10.8
Bharti Airtel	349	0.9	1.2	5.3
Sun Pharma	521	1.8	1.1	1.6
Losers				
HDFC	630	(2.5)	(7.0)	2.4
M&M	676	(3.6)	(3.8)	2.3
Tata Steel	376	(4.3)	(3.7)	5.5

Source: Bloomberg

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