

Strong headwinds to impact performance

January 25, 2012

Reco	Previous Reco
Hold	Hold
CMP	Target Price
Rs 200	Rs 191
EPS change FY12E/13E (%)	NA/-6
Target Price change (%)	-5
Nifty	5,158
Sensex	17,077

Price Performance

(%)	1M	3M	6M	12M
Absolute	22	(5)	(30)	(39)
Rel. to Nifty	13	(5)	(25)	(32)

Source: Bloomberg

Relative Price Chart



Source: Bloomberg

Stock Details

Sector	Metals & Mining
Bloomberg	Sesa@IN
Equity Capital (Rs mn)	869
Face Value(Rs)	1
No of shares o/s (mn)	869
52 Week H/L	335/149
Market Cap (Rs bn/USD mn)	174/3,475
Daily Avg Volume (No of sh)	3136688
Daily Avg Turnover (US\$m)	11.4

Shareholding Pattern (%)

	Dec-11	Sep-11	Jun-11
Promoters	55.1	55.1	55.1
FII/NRI	24.9	24.1	24.7
Institutions	5.2	5.2	4.7
Private Corp	2.2	3.0	3.0
Public	12.5	12.7	12.6

Source: Capitaline

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- APAT at Rs 6.9 bn includes Rs 1.2 bn contribution from Cairn India. Core APAT of Rs 5.7 bn was down by 47% YoY. The company has declared interim dividend of Rs 2/share
- EBITDA at Rs 9.1 bn was down 26% YoY. EBITDA/ tonne for iron ore business stood at ~US\$41 as against US\$47 during Q3FY11 on higher export duty (at 20%) on iron ore
- Topline up 16% YoY at Rs 26.2 bn on higher sales volume of 5.04 mt (4.78 mt Q3FY11) and better realizations (Rs 4743/ tonne) boosted by sharp depreciation in INR
- Considering strong regulatory headwinds we reduce our FY13 volume assumptions. Core FY13 EPS now stands at Rs 22 (down 6%). Reduce our SOTP target price to Rs 191; Hold

Sales volumes higher on stock clearance

While iron ore production for the quarter stood at 3.33 mt (vs 4.70 mt in Q3FY11), sales were at 5.04 mt (vs 4.84 mt in Q3FY11) on account of stock clearance of 0.64 mt from Karnataka through e-auctions and another ~1.1 mt from Goa (the company sold 4.4 mt of iron ore from Goa compared to 3.74 mt in Q3FY11). Goan mines continue to operate at full capacity (14 mtpa). Realization during the quarter improved at US\$93/ tonne (US\$ 84/tonne in Q2FY12) for iron ore due to improvement in grade by 0.5%. We believe the scope of significant improvement in realizations seems unlikely as further improvement in grade may not be possible and higher global supply should keep iron ore prices under check.

EBITDA margins remained under pressure on higher export duty

Effective Q1FY12, the export duty was hiked to 20% on both iron ore fines (from 5% and lumps (from 15%). Consequently, the EBITDA margin contracted by 1330 bps to ~42% YoY on a comparable basis. Due to seasonality QoQ performance is not comparable. With further hiked in export duty to 30% effective 30th December, we believe pressure on the EBITDA margins to continue going ahead.

Strong regulatory headwinds continue to be an overhang

Karnataka continues to be under the mining ban since August 2011. The company has been left with ~0.2 mt of iron ore at the Karnataka. The Supreme Court hearing on the Karnataka mining ban continues to get deferred with no immediate respite. Further, report by the M B Shah Commission investigating illegal mining and export of iron ore (likely in March) can raise concerns even at Goan operations. Also, the implementation of mining bill and revision of royalty rates (due in August 2012) could have an overhang on our FY13 volume estimates of 16.5 mt.

Outlook and Valuations

At CMP of Rs 201, the stock is trading at 4.7x its FY13E EPS and 7.1x FY13E EV/ EBITDA. On SOTP basis, we value the iron ore business at 3.5x FY13E EV/ EBITDA (giving a discount of ~15% to the global peers). Stake in Cairn India has been valued at 30% discount to current market cap. Thus, we arrive at a target price of Rs 191/ share. Retain Hold.

Financials

(Rs mn)

YE-	Net	EBITDA		EPS	EPS	RoE	EV/			
Mar	Sales	(Core)	(%)	APAT	(Rs)	% chg	(%)	P/E	EBITDA	P/BV
FY10	58,583	31,448	53.7	26,291	31.6	25.3	41.6	6.4	5.2	2.1
FY11	92,051	51,542	56.0	42,091	48.4	53.1	40.6	4.2	3.4	1.4
FY12E	77,761	28,695	36.9	23,511	27.1	-44.1	17.0	7.4	7.4	1.2
FY13E	84,621	28,829	34.1	37,060	42.6	56.0	22.3	4.7	7.1	1.0

Source: Company, Emkay Research

Key Financials – Quarterly (Consolidated)

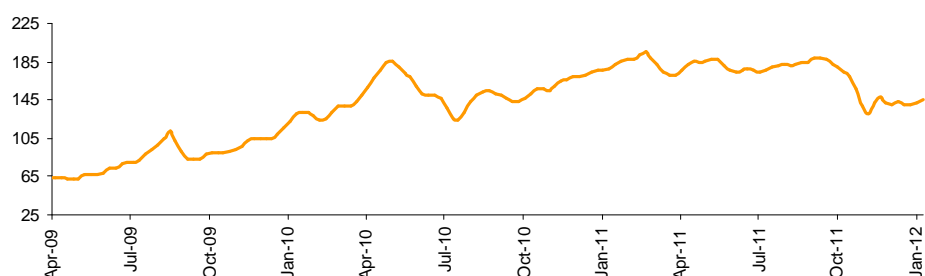
(Rs mn)	Q3FY11	Q4FY11	Q1FY12	Q2FY12	Q3FY12	YoY (%)	QoQ (%)	9MFY12	9MFY11	YoY (%)
Revenue	22,501	36,236	21,089	7,897	26,171	13	231	55,157	55,815	(1.2)
Expenditure	(10,171)	(15,018)	(9,630)	(7,638)	(17,098)	68	123.8	(34,367)	(25,491)	34.8
as % of sales	45.2	41.4	45.7	96.7	65.3			62.3	45.7	
Consumption of RM	(2,748)	(4,345)	(755)	(1,001)	(5,396)	96.4	439.1	(7,152)	(4,233)	69.0
as % of sales	12.2	12.0	3.6	12.7	20.6			13.0	7.6	
Employee Cost	(496)	(665)	(545)	(625)	(638)	28.7	2.1	(1,808)	(1,406)	28.6
as % of sales	2.2	1.8	2.6	7.9	2.4			3.3	2.5	
Other expenditure	(6,928)	(10,007)	(8,330)	(6,012)	(11,064)	59.7	84.0	(25,407)	(19,853)	28.0
as % of sales	30.8	27.6	39.5	76.1	42.3			46.1	35.6	
EBITDA	12,329	21,219	11,458	259	9,073	(26.4)	3,402	20,790	30,324	(31.4)
Depreciation	(208)	(371)	(269)	(243)	(263)	26.9	8.4	(776)	(593)	30.7
EBIT	12,122	20,848	11,189	16	8,809	(27.3)	54,958	20,015	29,730	(32.7)
Other Income	1,268	1,690	1,521	504	180	(85.8)	(64.3)	2,205	3,881	(43.2)
Interest	(134)	(141)	(493)	(516)	(730)	445.0	41.4	(1,739)	(411)	322.7
PBT	13,255	22,397	12,217	4	8,260	(37.7)	223,130	20,480	33,200	(38.3)
Total Tax	(2,573)	(7,779)	(3,811)	9	(2,564)	(0.3)	(28,271)	(6,366)	(5,593)	13.8
Adjusted PAT	10,683	14,618	8,406	13	5,696	(46.7)	44,399.	14,115	27,607	(48.9)
(Profit)/loss from JV's/Ass/MI	(30)	-	-	-	1,219	NA	NA	1,219	(87)	NA
Adj.PAT after MI	10,653	14,618	8,406	13	6,915	(35.1)	53,925	15,334	27,520	(44.3)
Extra ordinary items	-	-	-	-	-	-	-	-	-	-
Reported PAT	10,653	14,618	8,406	13	6,915	(35.1)	53,925	15,334	27,520	(44.3)
Reported EPS	12.1	16.5	9.7	0.0	8.0	(34.0)	53,947	17.6	32.4	(45.6)

Margins (%)						(bps)	(bps)				(bps)
EBIDTA	54.8	58.6	54.3	3.3	34.7	(2,013)	3,139	37.7	54.3	(1,664)	
EBIT	53.9	57.5	53.1	0.2	33.7	(2,021)	3,346	36.3	53.3	(1,698)	
EBT	58.9	61.8	57.9	0.0	31.6	(2,735)	3,151	37.1	59.5	(2,235)	
PAT	47.5	40.3	39.9	0.2	21.8	(2,571)	2,160	25.6	49.5	(2,387)	
Effective Tax rate	19.4	34.7	31.2	(245.9)	31.0	1,163	27,698	31.1	16.8	1,423	

Chinese imported iron ore prices (63% Indian origin, CFR)

(\$/tonne)

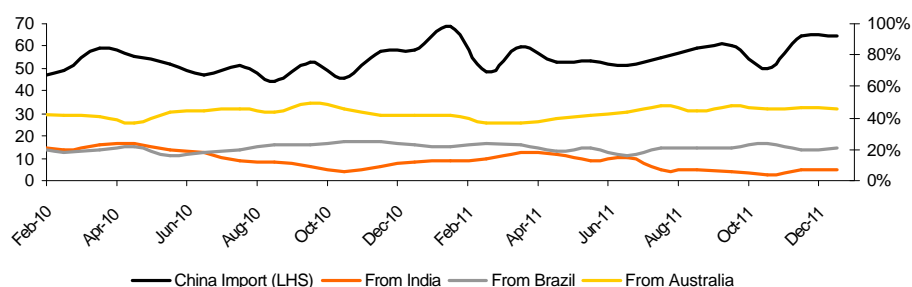
Iron ore prices recently fell sharply from US\$180/ tonne towards before recovering to US\$145/ tonne...



Source: Bloomberg, Emkay research

Iron ore imports earlier dipped in China due to fall in steel production till November, 2011, however, imports again rebounded in December supported by higher steel production boosting the prices....exports from India continued to remain lower...

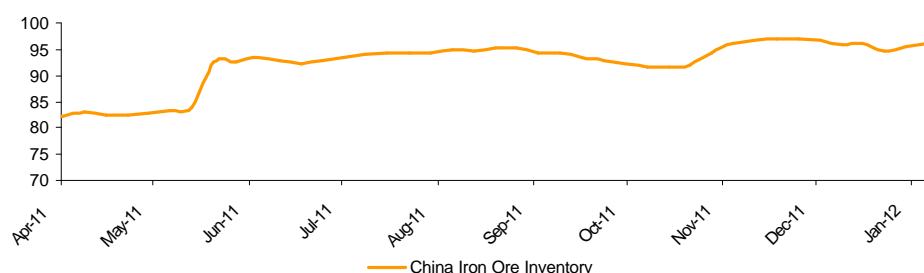
China iron ore imports (mt) and export share from India, Brazil, Australia (%)



Source: Bloomberg, Emkay research

Inventory of iron ore at Chinese ports have been steady at ~95 mt...

Weekly iron ore inventory at Chinese ports (mt)



Source: Bloomberg, Emkay research

Key takeaways from conference call:

- During the quarter, 0.64 mt of iron ore was sold from Karnataka through e-auction
- Sesa Goa expects Karnataka issue to get resolved by Q4FY12 and to contribute about 6 mt in FY13 taking overall volumes to around 20 mt
- Shah Commission continues its verification in Goa; report expected by March 2012
- Goan ores being Haematite in nature is not suitable for pelletization
- Western Cluster (Liberia project) on track with encouraging R&R findings. First shipment expected in FY14.
- Of the total debt, forex debt constitutes US\$ 400 mn (FCCB ~US\$ 215 mn)

Major events to watch out for

We believe there are four events due in FY13, which could have significant bearing on the company's operational performance in FY13. Barring one, other three are likely to impact the company negatively.

Event	Likely timeline	Impact	Analysis
Lifting of Mining Ban in Karnataka	The Supreme Court (SC) hearing is due Q4FY12	Positive	If the SC lifts ban on mining in Karnataka and Sesa is allowed to restart mining in Karnataka, it could aid FY13 sales volume
Imposition of full/ partial ban on export/ mining in Goa	H1FY13	Negative	Though, we believe export ban is a remote possibility, as indicated by recent duty hike, however partial ban on mining activities can not be ruled out especially for those who violated legal norms. We believe Dempo mines (3.5 mt EC) can come under scanner in this regard
Implementation of mining bill (MMDR)	In the coming budget session of the Parliament	Negative, ~12% on FY13 EPS	The negative impact on the earnings would be across all the mining companies. Impact on Sesa Goa is calculated assuming the bill is implemented in the same form and fashion
Revision of royalty rates	August, 2012	Negative	Under the National Mineral Policy, the royalty rates are revised once in every three years and this time it is due in August 2012. Considering recent regulatory environment we believe there is high possibility of revising the rates higher

Earning estimates; cutting FY12E and FY13E core EPS by 4% and 24%

We had incorporated the impact of hike in iron ore export duty to 30%, which brought down our EPS for FY12 and FY13 by 8% and 20% respectively to Rs 22.3 and Rs 23.3. Further factoring in abovementioned concerns, we revise our FY13 iron ore sales volume to 16.5 mt (earlier 17.1 mt) and cut our FY12 and FY13 Core EPS by 0.1% and ~6% respectively. We also now incorporate Cairn's attributable contribution (20%) in the bottomline as profit from associates.

Revised estimates

(Rs mn)	FY12E			FY13E		
	Revised	Previous	Change (%)	Revised	Previous	Change (%)
Revenue	77,761	77,879	-0.2	84,621	91,467	-7.5
EBITDA	28,695	28,904	-0.7	28,829	30,661	-6.0
Core APAT	19361	19,380	-0.1	19,154	20,265	-5.5
EPS (Rs)	22.3	22.3	-0.1	22.0	23.3	-5.5
With Cairn						
APAT	23511	-	-	37060	-	-
EPS	27.1	-	-	42.6	-	-

Valuation

At CMP of Rs 201, the stock is trading at 4.7x its FY13E EPS and 7.1x FY13E EV/ EBITDA. On SOTP basis, we value the iron ore business at 3.5x FY13E EV/ EBITDA (giving a discount of ~15% to the global peers). Stake in Cairn India has been valued at 30% discount to current market cap. Thus, we arrive at a target price of Rs 191/ share. Retain Hold.

	FY13E EBITDA	EV/ EBITDA (X)	EV	Implied equity value	Value/ share
Sesa Goa	28829	3.5	100901	72,740	84
CAIRN (30% discount to attributable per share value)				132788	107
Total					191

Financials (Consolidated)

Income Statement

Y/E, Mar (Rs. mn)	FY10	FY11E	FY12E	FY13E
Net Sales	58,583	92,051	77,761	84,621
<i>Growth (%)</i>	18.1	57.1	-15.5	8.8
Expenditure	27,135	40,509	49,066	55,793
Raw Materials	5,343	8,578	9,420	8,838
Employee Cost	1,691	2,071	2,306	2,369
Other Exp	20101	29860	37340	44585
EBITDA	31,448	51,542	28,695	28,829
<i>Growth (%)</i>	23.9	63.9	-44.3	0.5
EBITDA margin (%)	53.7	56.0	36.9	34.1
Depreciation	745.0	963.8	1049.5	1264.2
EBIT	30,703	50,578	27,646	27,565
EBIT margin (%)	52.4	54.9	35.6	32.6
Other Income	4259.7	5571.3	2992.8	3106.5
Interest expenses	517.2	599.7	2328.3	2083.1
PBT	34,446	55,550	28,310	28,588
Tax	8055.50	13372	8950	9434
<i>Effective tax rate (%)</i>	23.4	24.1	31.6	33.0
Adjusted PAT	26,390	42,178	19,361	19,154
(Profit)/loss from JV's/Ass/MI	-99.1	-86.7	4150.4	17905.6
Adjusted PAT after MI	26,291	42,091	23,511	37,060
<i>Growth (%)</i>	32.2	60.1	-44.1	57.6
Net Margin (%)	44.9	45.7	30.2	43.8
E/O items	0	0	0	0
Reported PAT	26,291	42,091	23,511	37,060
<i>Growth (%)</i>	32.2	60.1	-44.1	57.6

Cash Flow

Y/E, Mar (Rs. mn)	FY10	FY11E	FY12E	FY13E
PBT (Ex-Other income)	34,446	55,597	28,310	28,588
Depreciation	745	964	1,050	1,264
Interest Provided	517	600	2,328	2,083
Other Non-Cash items	-4,143	-5,111	4,150	17,906
Chg in working cap	1,791	-3,037	-1,348	-1,034
Tax paid	-7,644	-13,678	-8,950	-9,434
Operating Cashflow	25,713	35,335	25,541	39,373
Capital expenditure	-18,945	-9,637	-9,800	-7,500
Free Cash Flow	6,768	25,698	15,741	31,873
Other income	4,260	5,571	2,993	3,107
Investments	-13,643	-41,309	-46,864	-17,906
Investing Cashflow	-30,504	-46,774	-58,992	-27,489
Equity Capital Raised	5,372	0	0	0
Loans Taken / (Repaid)	230	66	32,881	-5,000
Interest Paid	-517	-600	-2,328	-2,083
Dividend paid (incl tax)	-2,020	-3,132	-3,535	-3,535
Income from investments	0	0	0	0
Others	0	0	0	1
Financing Cashflow	26,928	-3,198	29,345	-8,535
Net chg in cash	22,138	-14,637	-4,105	3,349
Opening cash position	1,780	23,918	8,970	4,865
Closing cash position	23,918	8,971	4,865	8,214

Balance Sheet

Y/E, Mar (Rs. mn)	FY10	FY11E	FY12E	FY13E
Equity share capital	831	869	869	869
Reserves & surplus	78,346	127,235	148,430	181,955
Net worth	79,177	128,104	149,299	182,824
Minority Interest	432.9	0	0	0
Secured Loans	444	314	33,195	28,195
Unsecured Loans	19,162	9,680	9,680	9,680
Loan Funds	19,606	9,995	42,875	37,875
Net deferred tax liability	750.2	682.1	682.1	682.1
Total Liabilities	99,966	138,781	192,857	221,381
Gross Block	27,510	30,648	39,148	45,148
Less: Depreciation	5,741	6,492	7,541	8,806
Net block	21,770	24,156	31,607	36,343
CWIP	787.4	7286.6	8586.6	10086.6
Investment	45,649	87,998	134,862	152,767
Current Assets	44,160	36,596	33,626	39,512
Inventories	5,009	7,438	9,587	10,433
Sundry debtors	3,381	6,830	5,326	5,796
Cash & bank balance	23,918	8,970	4,865	8,214
Loans & advances	11,851	13,358	13,848	15,070
Other current assets	0	0	0	1
Current lia & Prov	12,400	17,256	17,044	18,547
Current liabilities	8,286	12,946	8,522	9,274
Provisions	4,114	4,310	8,522	9,274
Net current assets	31,760	19,340	16,582	20,965
Total Assets	99,966	138,781	191,637	220,162

Key Ratios

Y/E, Mar	FY10	FY11E	FY12E	FY13E
Profitability (%)				
EBITDA Margin	53.7	56.0	36.9	34.1
Net Margin	44.9	45.7	30.2	43.8
ROCE	47.2	47.0	18.5	14.8
ROE	41.6	40.6	17.0	22.3
RoIC	133.9	157.7	69.9	58.1
Per Share Data (Rs)				
EPS	31.6	48.4	27.1	42.6
CEPS	32.5	49.5	28.3	44.1
BVPS	95.3	147.4	171.8	210.4
DPS	3.2	3.5	3.5	3.5
Valuations (x)				
PER	6.4	4.2	7.4	4.7
P/CEPS	6.2	4.1	7.1	4.6
P/BV	2.1	1.4	1.2	1.0
EV / Sales	2.8	1.9	2.7	2.4
EV / EBITDA	5.2	3.4	7.4	7.1
EV/ tonne	531.8	574.2	695.1	667.8
Gearing Ratio (x)				
Net Debt/ Equity	-0.1	0.0	0.3	0.2
Net Debt/EBIDTA	0.6	0.2	1.5	1.3

Recommendation History: Sesa Goa – Sesa IN

Date	Reports	Reco	CMP	Target
25/10/2011	Sesa Goa Q2FY12 Result Update	Hold	211	239
08/08/2011	Sesa Goa Event Update	Accumulate	241	308
22/07/2011	Sesa Goa Q1FY12 Result Update	Hold	278	308
26/04/2011	Sesa Goa Q4FY11 Result Update	Hold	327	353

Recent Research Reports

Date	Reports	Reco	CMP	Target
24/01/2012	Godawari Power Q3FY12 Result Update	Buy	105	133
24/01/2012	Sterlite Industries Q3FY12 Result Update	Accumulate	108	134
20/01/2012	JSW Steel Q3FY12 Result Update	Reduce	647	590
20/01/2012	Hindustan Zinc Q3FY12 Result Update	Buy	127	159

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