

Sesa Goa (SESGOA)

₹ 214

WHAT'S CHANGED...

PRICE TARGET	Changed from ₹ 156 to ₹ 204
EPS (FY12E)	Changed from ₹ 24.7 to ₹ 29.8
EPS (FY13E)	Changed from ₹ 36.3 to ₹ 44.1
RATING	Unchanged

Performs well on healthy sales volumes...

Sesa Goa's performance in Q3FY12 was above our expectations on the back of higher-than-expected sales volumes. In Q3FY12, iron ore sales volumes stood at 5.04 million tonnes (MT) higher by ~5% YoY (our expectation: 4.0 MT). The iron ore realisation during the quarter under review stood at ₹ 4743/tonne. The topline during the quarter stood at ₹ 2617.1 crore (higher by 16.3% YoY). During the quarter under review, there was forex MTM loss to the tune of ₹ 177.9 crore on outstanding FCCBs and foreign currency loan, which dented the reported PAT. The ensuing reported PAT during Q3FY12 stood at ₹ 691.5 crore. The reported PAT included associate income from Cairn India of ₹ 121.9 crore.

■ Sales volumes surprise on positive side

Sesa Goa reported healthy sales volumes in Q3FY12. Sales volumes stood at 5.04 MT as compared to 4.78 MT (4.36 MT excluding Odisha) in Q3FY11. At Karnataka, the company sold 0.64 MT of iron ore in Q3FY12 via the e-auction route.

■ Realisations for Q2FY12 higher both QoQ and YoY

Sesa Goa reported healthy realisations for Q3FY12, higher both QoQ as well as YoY. The company's iron ore realisations stood at ₹ 4743/tonne (higher by 9% YoY and 24% QoQ).

Valuation

At the CMP of ₹ 214, the stock is trading at 6.3x and 7.0x its FY12E and FY13E EV/EBITDA, respectively. We have valued the stock on an SOTP basis where we have valued the core business at 3.5x FY13E EV/EBITDA and assigned a 30% holding company discount to the investment value in Cairn India Ltd. Thus, we have arrived at a target price of ₹ 204 and assigned a **HOLD** rating to the stock.

Exhibit 1: Financial Performance

(₹ Crore)	Q3FY12	Q3FY12E	Q3FY11	Q1FY12	QoQ (Chg %)	YoY (Chg %)
Net Sales	2617.1	2107.7	2250.0	789.7	231.4	16.3
Adj EBITDA	1085.2	991.7	1230.5	260.0	317.4	-11.8
Adj EBITDA Margin (%)	41.5	47.1	54.7	32.9	860 bps	(1320) bps
Depreciation	26.3	27.1	20.8	24.3	8.4	26.9
Interest	73.0	65.8	13.4	51.6	41.4	445.0
Reported PAT	691.5	723.4	1065.3	1.3	NM	-35.1

Source: Company, ICICIdirect.com Research

Rating matrix	
Rating	: Hold
Target	: ₹ 204
Target Period	: 12-15 months
Potential Upside	: -5%

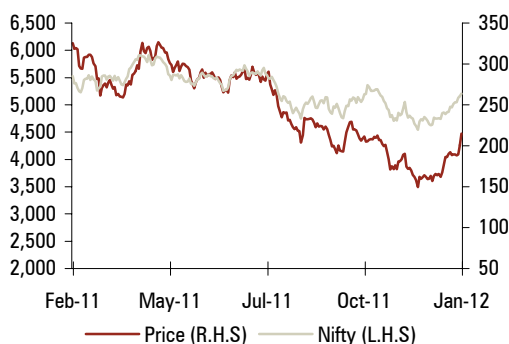
Key Financials				
(₹ Crore)	FY10	FY11	FY12E*	FY13E*
Net Sales	5858.3	9205.1	8007.5	8183.5
EBITDA	3148.6	5206.3	3444.0	2816.0
EBITDA margin (%)	53.7	56.6	43.0	34.4
Cons. Net Profit	2629.1	4222.5	2585.8	3829.2

* - Cons. PAT includes Sesa Goa's share in Cairn India's profit

Valuation summary				
	FY10	FY11	FY12E	FY13E
PE (x)	6.8	4.4	7.2	4.9
Target PE (x)	6.4	4.2	6.9	4.6
EV/EBITDA (x)	5.8	3.6	6.3	7.0
P/BV (x)	2.2	1.5	1.2	1.0
RoNW (%)	33.2	33.0	17.2	20.7
RoCE (%)	31.1	37.0	17.4	12.2

Stock data	
Market Capitalisation	₹ 18663.9 Crore
Debt (FY11)	₹ 999.5 Crore
Cash (FY11)	₹ 897.0 Crore
EV	₹ 18766.4 Crore
52 week H/L	₹335/148
Equity capital	₹ 86.9 Crore
Face value	₹1
DII Holding (%)	5.2
FII Holding (%)	24.7

Price movement



Analyst's name

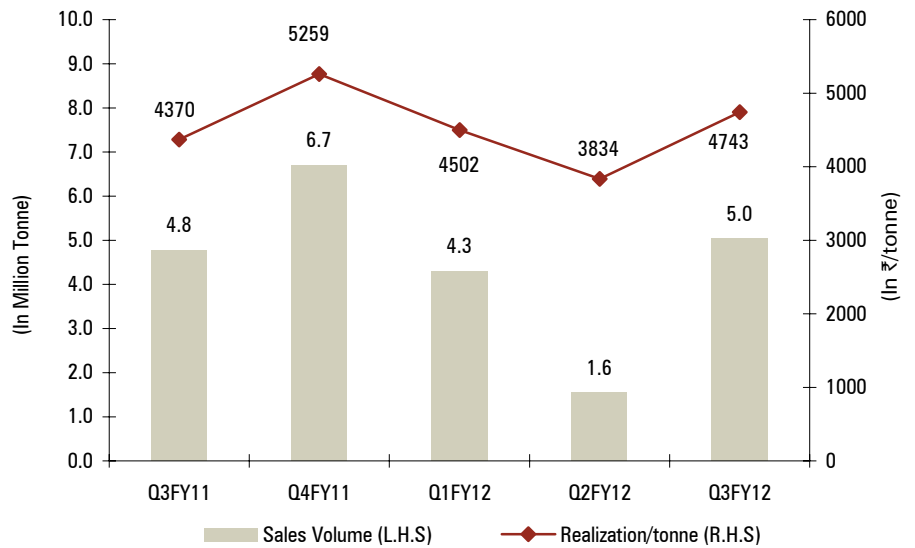
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Result Analysis

The Q3FY12 performance was better than expectations due to higher sales volumes and realisations. Realisations during the quarter under review stood at ₹ 4743/tonne as compared to ₹ 3834/tonne in Q2FY12 and ₹ 4370/tonne during Q3FY11. The blended EBITDA/tonne for the iron ore business in Q3FY12 was ₹ 2153/t, down by ~16% YoY. During the quarter under review, there was forex mark to market (MTM) loss to the tune of ₹ 177.93 crore on outstanding FCCBs and foreign currency loans, which dented the reported PAT. The ensuing reported PAT during Q3FY12 stood at ₹ 691.5 crore. The reported PAT included associate income from Cairn India of ₹ 121.9 crore. The adjusted PAT during the quarter under review was ~₹ 814 crore.

Exhibit 2: Sales volume and realisations trend

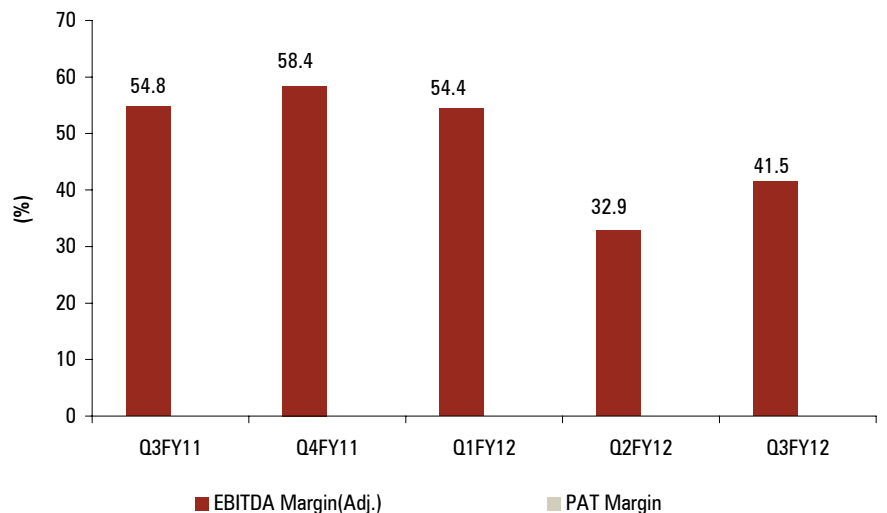
Sales volumes for Q3FY12 were higher by ~5% YoY at 5.04 MT (4.78 MT in Q3FY11). Realisations were also higher by ~9% YoY at ₹ 4743/tonne (₹ 4370/tonne in Q3FY11)



Source: Company, ICICIdirect.com Research

Exhibit 3: Margins trend

EBITDA margins for Q3FY12 reported a decline of ~1320 bps YoY but increased ~860 bps QoQ at 41.5%

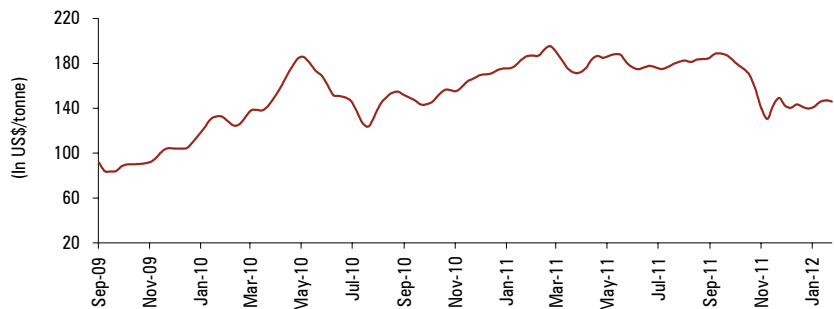


Source: Company, ICICIdirect.com Research

Highlights of conference call

- During Q3FY12, iron ore production was 3.33 MT compared with 4.70 MT (4.29 MT excluding Odisha) in the corresponding prior quarter. During the nine month period, production was 8.84 MT as compared with 13.31 MT (11.90 MT excluding Odisha) in the corresponding prior period. The decline was mainly on account of the ban on mining operations in Karnataka and planned reduction in inventories. The ban was imposed by the Honourable Supreme court of India on August 26, 2011 and continues to be in force
- The Shah Commission is continuing its verification in Goa and the report is expected by March 2012
- The 625 ktpa pig iron capacity expansion and associated doubling of metallurgical coke capacity to 560 ktpa is set to be completed during the current quarter

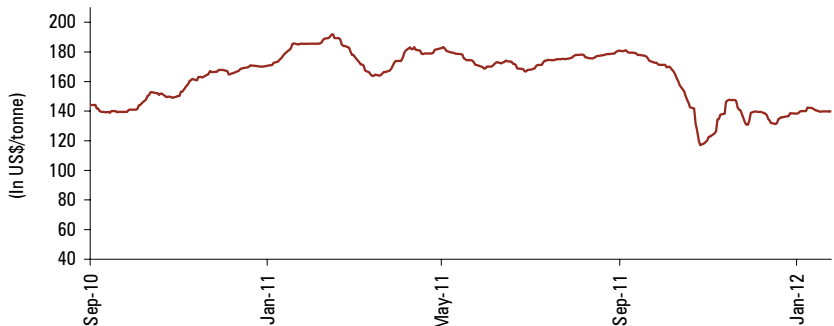
Exhibit 4: China Indian iron ore import – 63.5% Fe Grade (CFR)



Source: Bloomberg, ICICIdirect.com Research

The price of 63.5% Fe grade Indian imported iron ore in China has remained range bound and is currently hovering at US\$146/tonne on a CFR basis

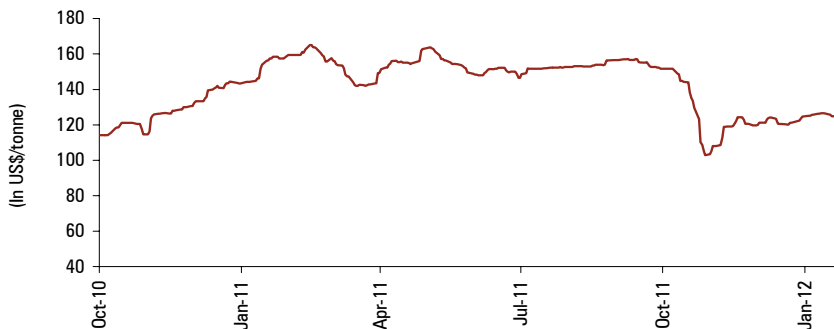
Exhibit 5: China Indian iron ore import - 62% Fe Grade (CFR)



Source: Bloomberg, ICICIdirect.com Research

The price of 62% Fe grade Indian imported iron ore in China is in the range of \$135-140/t

Exhibit 6: China Indian iron ore import - 58% Fe Grade (CFR)



Source: Bloomberg, ICICIdirect.com Research

The price of 58% Fe grade Indian imported iron ore in China is ~\$125/tonne

Valuation

We have revised our volume estimates upwards for FY12 from 15.0 MT earlier to 16.3 MT and for FY13 from 16.6 MT earlier to 17.7 MT. On the realisations front, we have revised our average realisations upwards for FY12 from ₹ 4275/tonne earlier to ₹ 4465/tonne and for FY13 from ~₹ 3825/tonne earlier to ~₹ 3995/tonne.

Exhibit 7: Key assumptions

Iron-Ore	FY12E			FY13E		
	Current	Previous	%change	Current	Previous	% change
Sales Volume (MT)	16.3	15.0	8.7	17.7	16.6	6.6
Realisation/tonne (₹)	4465.0	4275.0	4.4	3998.0	3825.0	4.5

Source: Company, ICICIdirect.com Research

Exhibit 8: Revised Financials

(₹ Crore)	FY12E			FY13E		
	New	Previous	% Chg	New	Previous	% Chg
Net Sales	8007.5	6965.1	15.0	8183.5	7599.3	7.7
EBITDA Margin (%)	43.0	40.2	280 bps	34.4	34.7	(30) bps
EBITDA	3444.0	2797.0	23.1	2816.0	2639.7	6.7
Cons. PAT	2585.8	2144.1	20.6	3829.2	3150.5	21.5

Source: Company, ICICIdirect.com Research

Valuations

At the CMP of ₹ 214, the stock is trading at 6.4x and 7.1x its FY12E and FY13E EV/EBITDA, respectively. We have valued the stock on an SOTP basis where we have valued the core business at 3.5x FY13E EV/EBITDA and assigned a 30% holding company discount to the investment value in Cairn India Ltd. Thus, we have arrived at a target price of ₹ 204 and assigned a **HOLD** rating to the stock.

Exhibit 9: Valuation Matrix

	Sales (₹ Crore)	EPS (₹)	PE (x)	EV/EBIDTA (x)	P/ BV (x)	RoNW (%)	RoCE (%)
FY11	9205.1	48.6	4.4	3.6	1.5	33.0	37.0
FY12E	8007.5	29.8	7.2	6.3	1.2	17.2	17.4
FY13E	8183.5	44.1	4.9	7.0	1.0	20.7	12.2

Source: Company, ICICIdirect.com Research

Financial summary

Profit and loss statement		(₹ crore)			
(Year-end March)	FY10	FY11	FY12E	FY13E	
Net Sales	5858.3	9205.1	8007.5	8183.5	
Growth (%)	18.1	57.1	-13.0	2.2	
RM Cost & purchase of ore	534.3	857.8	970.6	991.8	
Employee Expenses	129.4	156.8	240.2	266.0	
Cont.for Inland trans.&othr	1217.10	1289.46	887.75	984.42	
Other expenses	828.9	1,694.7	2,464.9	3,125.3	
Total Operating Expenditure	2,709.7	3,998.8	4,563.5	5,367.5	
EBITDA	3,148.6	5,206.3	3,444.0	2,816.0	
Growth (%)	23.9	65.4	-33.8	-18.2	
Depreciation	74.5	96.4	100.9	121.6	
Interest	55.5	90.1	270.9	361.8	
Other Income	426.0	539.9	246.6	226.8	
PBT	3,444.6	5,559.7	3,318.7	2,559.4	
Exceptional Item	0.0	0.0	-412.0	0.0	
Total Tax	805.6	1,337.2	866.8	767.8	
PAT	2,639.0	4,222.5	2,039.9	1,791.6	
Associates, Minorities etc	-9.9	0.0	546.0	2037.6	
PAT after MI, Associates,etc	2629.1	4222.5	2585.8	3829.2	
Growth (%)	32.2	60.6	-38.8	48.1	
EPS (₹)	31.6	48.6	29.8	44.1	

Source: Company, ICICIdirect.com Research

Balance sheet		(₹ crore)			
(Year-end March)	FY10	FY11	FY12E	FY13E	
Liabilities					
Equity Capital	83.1	86.9	86.9	86.9	
Reserve and Surplus	7834.6	12723.5	14956.5	18432.9	
Total Shareholders funds	7917.7	12810.4	15043.4	18519.8	
Total Debt	1,960.6	999.5	4,168.0	3,618.0	
Deferred Tax Liability	75.0	68.2	68.2	68.2	
Minority Interest / Others	43.3	0.0	0.0	0.0	
Total Liabilities	9,996.6	13,878.1	19,279.6	22,206.0	
Assets					
Gross Block	2,751.0	3,064.8	3,364.8	4,864.8	
Less: Acc Depreciation	574.1	649.2	750.1	871.8	
Net Block	2,177.0	2,415.6	2,614.7	3,993.1	
Capital WIP	78.7	728.7	1,528.7	778.7	
Total Fixed Assets	2,255.7	3,144.3	4,143.4	4,771.7	
Investments	4,564.9	8,799.8	13,819.8	14,569.8	
Inventory	502.5	743.8	877.5	896.8	
Debtors	338.1	683.0	767.8	784.7	
Loans, Advances & Other Ca	1,185.1	1,335.8	1,316.3	1,345.2	
Cash	2,391.8	897.0	1,079.6	2,590.7	
Total Current Assets	4,417.6	3,659.6	4,041.3	5,617.5	
Current Liabilities	830.2	1,294.6	2,193.8	2,242.1	
Provisions	411.4	431.0	531.0	511.0	
Current Liabilities & Prov	1,241.6	1,725.6	2,724.8	2,753.0	
Net Current Assets	3,176.0	1,934.0	1,316.5	2,864.5	
Others Assets	0.0	0.0	0.0	0.0	
Application of Funds	9,996.6	13,878.1	19,279.6	22,206.0	

Source: Company, ICICIdirect.com Research

Cash flow statement		(₹ crore)			
(Year-end March)	FY10	FY11	FY12E	FY13E	
Profit after Tax	2,629.1	4,222.5	2,585.8	3,829.2	
Add: Depreciation	74.5	96.4	100.9	121.6	
(Inc)/dec in Current Assets	-360.2	-732.1	-199.1	-65.1	
Inc/(dec) in CL and Provisions	814.9	484.0	999.2	28.2	
Others	18.5	-50.1	0.0	0.0	
CF from operating activities	3,176.8	4,020.6	3,486.9	3,914.0	
(Inc)/dec in Investments	-1,439.7	-4,235.0	-5,020.0	-750.0	
(Inc)/dec in Fixed Assets	-1,894.5	-963.7	-1,100.0	-750.0	
Others	0.0	0.0	0.0	0.0	
CF from investing activities	-3,334.2	-5,198.7	-6,120.0	-1,500.0	
Issue/(Buy back) of Equity	4.4	3.8	0.0	0.0	
Inc/(dec) in loan funds	1,958.7	-961.1	3,168.6	-550.0	
Dividend paid & dividend tax	-316.0	-353.5	-352.9	-352.9	
Inc/(dec) in Share Cap	875.3	994.1	0.0	0.0	
Others	9.1	0.0	0.0	0.0	
CF from financing activities	2,531.5	-316.8	2,815.7	-902.9	
Net Cash flow	2,374.1	-1,494.8	182.6	1,511.1	
Opening Cash	17.7	2,391.8	897.0	1,079.6	
Closing Cash	2,391.8	897.0	1,079.6	2,590.7	

Source: Company, ICICIdirect.com Research

Key ratios		(₹ crore)			
(Year-end March)	FY10	FY11	FY12E	FY13E	
Per share data (₹)					
EPS	31.6	48.6	29.8	44.1	
Cash EPS	32.5	49.7	30.9	45.5	
BV	95	147	173	213	
DPS	3.2	3.5	3.5	3.5	
Cash Per Share	28.8	10.3	12.4	29.8	
Operating Ratios (%)					
EBITDA Margin	53.7	56.6	43.0	34.4	
PBT / Total Operating income	58.8	60.4	41.4	31.3	
PAT Margin	44.9	45.9	32.3	46.8	
Inventory days	31.3	29.5	40.0	40.0	
Debtor days	21.1	27.1	35.0	35.0	
Creditor days	111.8	118.2	100.0	100.0	
Return Ratios (%)					
RoE	33.2	33.0	17.2	20.7	
RoCE	31.1	37.0	17.4	12.2	
RoIC	41.1	39.6	18.4	13.8	
Valuation Ratios (x)					
P/E	6.8	4.4	7.2	4.9	
EV / EBITDA	5.8	3.6	6.3	7.0	
EV / Net Sales	3.1	2.0	2.7	2.4	
Market Cap / Sales	3.2	2.0	2.3	2.3	
Price to Book Value	2.2	1.5	1.2	1.0	
Solvency Ratios					
Debt/EBITDA	0.6	0.2	1.2	1.3	
Debt / Equity	0.2	0.1	0.3	0.2	
Current Ratio	3.6	2.1	1.5	2.0	

Source: Company, ICICIdirect.com Research

ICICIdirect.com coverage universe (Metals & Mining)

			Sales (₹ Cr)	EPS (₹)	PE (x)	EV/EBITDA (x)	RoNW(%)	RoCE(%)		
Adhunik Metaliks										
Idirect Code	ADHMET	CMP (₹)	44.0	FY10	1449.7	11.1	4.0	5.3	19.0	12.5
		Target (₹)	37.0	FY11	1793.4	14.8	3.0	5.9	21.0	10.7
		Upside (%)	-15.9	FY12E	2074.9	4.9	8.9	6.6	6.8	9.1
MCap (₹ Cr)	537.2			FY13E	2528.3	12.5	3.0	4.9	15.4	11.9
JSW Steel										
Idirect Code	JINVIJ	CMP (₹)	662.0	FY10	18780.4	85.4	7.8	6.8	17.3	11.0
		Target (₹)	595.0	FY11	23900.2	78.6	8.4	6.1	10.6	9.5
		Upside (%)	-10.1	FY12E	28630.9	53.8	12.3	6.0	7.2	10.1
MCap (₹ Cr)	14858.5			FY13E	32448.5	70.7	9.4	5.6	8.8	9.6
Usha Martin										
Idirect Code	USHBEL	CMP (₹)	32.9	FY10	2534.4	5.5	6.1	3.9	10.0	13.4
		Target (₹)	33.8	FY11	3046.6	4.5	7.5	4.4	7.6	10.8
		Upside (%)	2.9	FY12E	3576.8	4.9	6.9	4.5	7.8	10.5
MCap (₹ Cr)	995.0			FY13E	3954.6	5.5	6.1	4.3	8.2	10.8
Visa Steel										
Idirect Code	VISST	CMP (₹)	57.6	FY10	1156.9	4.5	12.9	8.4	15.4	10.0
		Target (₹)	53.0	FY11	1305.9	4.7	12.3	10.7	14.4	8.5
		Upside (%)	-7.9	FY12E	1449.4	2.6	22.0	10.3	7.5	5.2
MCap (₹ Cr)	634.2			FY13E	1788.5	7.3	7.9	5.2	17.2	13.8
Tata Steel - Cons										
Idirect Code	TISCO	CMP (₹)	458.8	FY10	101757.8	-22.7	NA	10.5	-7.6	4.2
		Target (₹)	447.0	FY11	117149.8	69.6	6.2	5.7	20.5	11.4
		Upside (%)	-2.6	FY12E	119748.1	46.6	9.2	6.0	8.2	9.0
MCap (₹ Cr)	43204.5			FY13E	125932.8	69.4	6.2	5.0	11.1	10.2
SAIL										
Idirect Code	SAIL	CMP (₹)	105.2	FY10	41307.2	16.4	6.8	3.9	20.4	20.2
		Target (₹)	120.0	FY11	43432.8	11.9	9.3	6.2	13.3	13.4
		Upside (%)	14.1	FY12E	45141.9	9.6	11.6	8.3	9.8	8.0
MCap (₹ Cr)	40644.4			FY13E	49726.4	10.4	10.7	8.6	9.9	8.0
Sesa Goa										
Idirect Code	SESGOA	CMP (₹)	214.0	FY10	5858.3	31.6	6.8	5.8	33.2	31.1
		Target (₹)	198.0	FY11	9205.1	48.6	4.4	3.6	33.0	37.0
		Upside (%)	-7.5	FY12E	8007.5	29.8	7.2	6.3	17.2	17.4
MCap (₹ Cr)	17442.9			FY13E	8183.5	44.1	4.9	7.0	20.7	12.2
Hindustan Zinc										
Idirect Code	HINZIN	CMP (₹)	133.9	FY10	8017.0	9.6	14.0	10.0	22.3	24.5
		Target (₹)	142.0	FY11	9912.1	11.6	11.5	8.0	21.7	22.8
		Upside (%)	6.0	FY12E	11586.0	13.6	9.8	6.4	20.7	20.4
MCap (₹ Cr)	54379.9			FY13E	12543.2	15.1	8.9	5.0	18.9	18.9
Sterlite Industries										
Idirect Code	STEIND	CMP (₹)	120.7	FY10	24410.3	11.1	10.0	6.7	10.1	8.7
		Target (₹)	125.0	FY11	30248.1	15.0	7.4	4.9	12.2	10.8
		Upside (%)	3.6	FY12E	40401.1	14.1	7.9	5.1	9.7	9.4
MCap (₹ Cr)	38233.7			FY13E	44537.2	17.6	6.3	4.3	10.3	9.8

Source: Company, ICICIdirect.com Research

Exhibit 10: Recommendation History



Source: Company, ICICIdirect.com Research

Exhibit 11: Recent Releases

Date	Event	CMP	Target Price	Rating
3-Mar-11	Event Update	274	265	HOLD
2-May-11	Q4FY11 Result Update	314	300	HOLD
5-Jul-11	Q1FY12 Preview	287	300	HOLD
25-Jul-11	Q1FY12 Result Update	281	294	HOLD
8-Aug-11	Event Update	241	294	BUY
30-Aug-11	Event Update	234	221	HOLD
5-Oct-11	Q2FY12 Preview	193	221	HOLD
31-Oct-11	Q2FY12 Result Update	207	203	HOLD
3-Jan-12	Event Update	163	156	HOLD
6-Jan-12	Q3FY12 Preview	165	156	HOLD
27-Jan-12	Q3FY12 Update	215	204	HOLD

Source: Company, ICICIdirect.com Research

RATING RATIONALE

ICICIdirect.com endeavours to provide objective opinions and recommendations. ICICIdirect.com assigns ratings to its stocks according to their notional target price vs. current market price and then categorises them as Strong Buy, Buy, Hold and Sell. The performance horizon is two years unless specified and the notional target price is defined as the analysts' valuation for a stock.

Strong Buy: > 15%/20% for large caps / midcaps, respectively, with high conviction;

Buy: > 10%/ 15% for large caps / midcaps, respectively;

Hold: Up to +/-10%;

Sell: -10% or more;

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