

## SESA GOA LTD.

**Analyst Recommendation: Buy**

Buy

Accrue

Hold

Ease

Sell

**BSE Code:** 500295      **NSE Code:** SESAGOA      **Reuters:** SESA.BO      **Bloomberg Code:** SESA:IN

**CMP:** ₹293.9  
**3 month Target:** ₹358  
**SL:** ₹264

 EPS (₹) 47.0  
 P/E (X) 6.3  
 Revenue (₹mn) 92,051.2  
 EBITDA (₹mn) 56,941.9  
 EBITDA Margin (%) 58.4  
 EV/EBITDA (X) 4.7

 Market Cap (₹mn) 244,230.9  
 Free Float Mar Cap (₹mn) 134,644.5  
 52 week high/low 389/221  
 Total Debt (₹mn) (FY10) 19,606  
 Enterprise Value (₹mn) 882,326  
 Book Value per Share 141  
 P/BV 2.1

### Sesa Goa posted robust FY11Q4 topline growth on higher realisation

Sesa Goa, the Indian unit of mining major Vedanta Resources, reported a massive yoy rise of 49.8% and qoq rise of 61% in the topline during fourth quarter ending of FY11. The operating income stood at ₹36,236 million as compared to ₹24,189 million reported in corresponding period prior year. The company posted strong topline due to higher realisation on iron ore (rising more than 50%) despite flat volume growth. Meanwhile, EBITDA surged 40.4% yoy and 68.5% qoq to ₹22,908 million. However, the net profit during the period was relatively moderate that grew by 20.5% (yoy) as the EOU tax benefit expired during the period. The yoy rise in tax was 106% at ₹7,779 million. During the period, Sesa Goa acquired 200 million shares of Cairn India Ltd. (10.4% stake) from Petronas International Corporation Ltd at a price of Rs. 331 per share (4% lower than the market price, as per BSE). This acquisition will assist Sesa Goa to diversify its business risk.

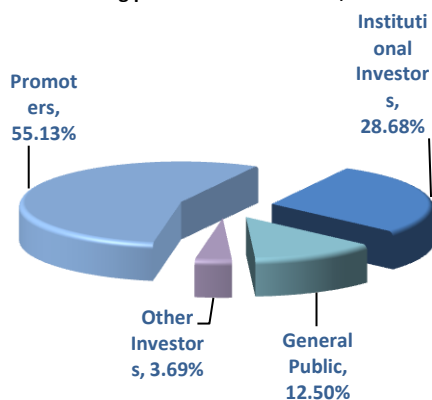
**Sesa Goa's mini steel plants in Orissa and Jharkhand will assist it in diversifying its product portfolio, rise in capacity and the advantage of having a steel plant within the mining vicinity will also be beneficial.**

**Bellary Steel & Alloys Ltd acquisition provides opportunity to expeditiously set up a value addition facility, with approx. 700 acres of freehold land.**

**As Supreme Court lifted a ban on shipments from Karnataka, it is expecting a 15-20% rise in iron ore production.**

**Rise in commodity prices guided the company to steer a massive 59% growth in the topline despite of suppressed production. In coming quarters, the iron ore prices is expected to correct marginally and with rise in production volume, Sesa Goa fundamentals looks POSITIVE.**

Shareholding pattern as on March 31, 2011



₹Million	FY09A	FY10A	FY11A	FY12E
Operating Income	49,179.4	57,978.0	92,051.2	111,382.0
EBITDA	27,661.0	35,746.0	56,941.9	66,842.1
Net Profit	19,881.3	26,291.3	42,224.5	62,034.1
Share Capital	787.2	831.0	899.0	899.0
EPS (₹)	25.3	31.6	47.0	69.0
PE (x)	11.6	9.3	6.3	4.3
P/BV (x)	4.9	3.1	2.1	1.4
EV/EBITDA (x)	8.4	7.3	4.7	4.1
ROE (%)	42.2	33.2	33.3	33.4
ROA %	41.3	26.3	30.6	29.9

## Sesa Goa to come with small steel plants in Orissa and Jharkhand

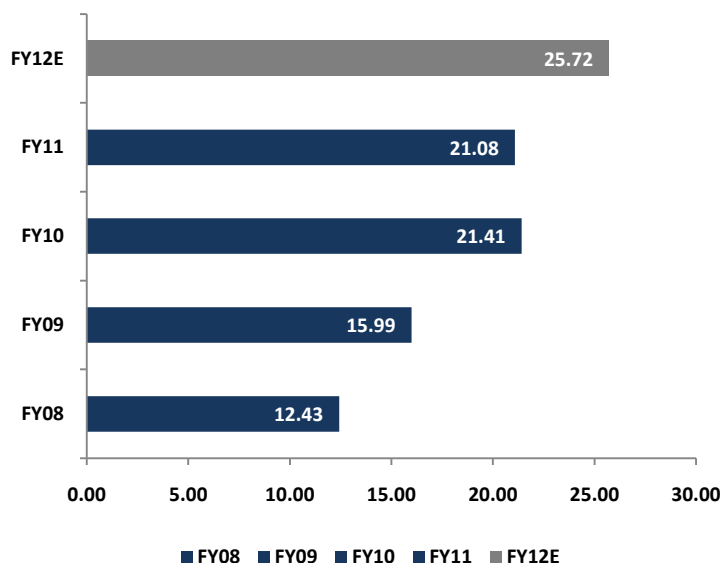
Sesa Goa is planning to set up small steel plants of 1-1.5 million tonnes capacity in Orissa and Jharkhand. The company has a memorandum of understanding (MoU) with one of its group companies in Orissa to set up these plants. In addition, company is also planning to develop a steel plant in Jharkhand, where it has a prospecting licence for carrying out mining operations. Also the company is going to start full-fledged mining activities in Jharkhand that will be supported by acquiring about 800 acres of land by the end of 2011. Henceforth, having a steel plant in the state will put the company at leverage. The plant will be developed after land acquisition. Further, it will definitely raise the production capacity along with the advantage of having a steel plant within the mining vicinity. With substantial presence in zinc, lead, copper, silver, the only thing left in its mining portfolio where there is no value addition is steel. With its presence in steel, the company would complete the entire value chain of mines to metals.

## Acquisition of Bellary Steel & Alloys Ltd to augur growth in its steel operation

Sesa Goa has purchased the assets of the upcoming Steel Plant Unit of Bellary Steel & Alloys Ltd (BSAL). The deal was finalized with an all cash consideration of ₹2,200 million. The secured creditors to BSAL represented by IFCI Ltd had taken over possession of the properties of BSAL in association with the official liquidator. BSAL was in the middle of developing a 0.5 million tonnes per annum Steel Plant Project at Bellary. Also, properties of the under construction plant acquired are free hold land of 700 acres, building and structures, plant and machinery and other assets of the steel plant. The assets have been transferred to Sesa Goa with effective from 22 March 2011.

The company is looking to commission the steel plant at the earliest. Sesa Goa is set to benefit from the iron ore rich belt in the state of Karnataka. Further, it provides opportunity to expeditiously set up a value addition facility, with approx. 700 acres of freehold land. In addition, it will be close to national highway, railway and source of water. Earlier, the company has expressed that it is seeking to establish value addition facilities, as desired by the State Government, and Sesa Goa could deploy its massive cash flow and iron ore to build out the partially-integrated steel plant.

## Yearly iron production to recover in FY12 (in mt WMT basis)



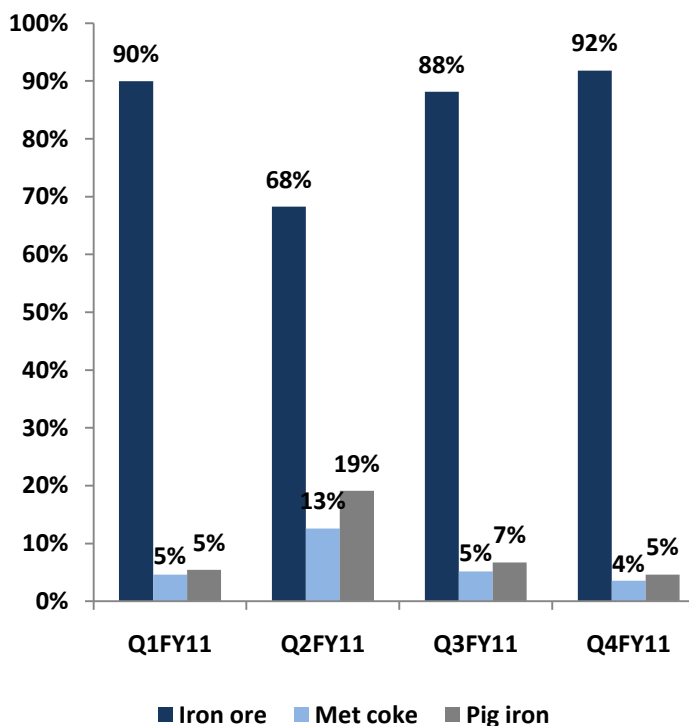
## Sesa Goa sees 15-20% volume increase in Iron Ore exports

The nation's largest miner has stated that the company is expecting its sales volume to boost up within a range of 15% to 20% as the Supreme Court lifted a ban on shipments from Karnataka, one of the major mining spot of Sesa Goa. During the Q4FY11, the company's performance declined due to the ban of exports from the southern state. After the ban, Sesa will be allowed to move materials out to the port soon. Previously, the company was severely affected by the ban as shipments of iron ore from 10 of its ports in order to fight against illegal mining and a general need to keep raw materials within the state for local steelmakers to make use of. Going ahead, in coming quarters the growth of the company will be determined by exports from Karnataka.

## Sesa Goa's focus on steel expected to benefit from govt's exports curb of natural resources

Sesa Goa is in talks with the Orissa government for getting ahead with its proposed steel plant in the state as it seeks presence in the entire chain from mines to metals. Orissa is mineral rich state and leading producer of chromite, graphite, bauxite, manganese ore, iron ore, sillimanite, quartzite, pyroxenite and dolomite. The Group's steel division, Sterlite Iron and Steel Co had signed a (MoU) with the state government in October 2004 to set up a 5 million tonnes per annum (mtpa) steel plant, however it failed to execute the plan. As the company initiating its interests with the government, the growth in company will materialise with further mining leases in iron ore. With an investment of ₹250,000 million, Sesa Goa is planning to set up a mill in Palaspanga region. Iron ore has been the main revenue driver for the company and it will continue to be so, however the renewed focus on steel is mainly due to the government's inclination to curb exports of natural resources and promote more of value addition.

### Quarterly segment revenue distribution dominated by iron ore



### Rise in commodity prices and volume growth to drive the iron ore revenues

Sesa Goa reported a production level of iron ore at 5.49 million tonnes and 6.24 million tonnes on a wet metric tonne (WMT) basis in Q4, representing a decline of 21% lower than the corresponding prior period, owing to the state-wide export ban in Karnataka since end July 2010 along with termination of the third party mining agreement in Orissa in November 2010. On the other hand, production for the full year was marginally lower at 18.80 million tonnes (21.08 million tonnes on a WMT basis). However, the company is set to recover its production level as the Supreme Court has lifted the ban on shipments from Karnataka. Moving on, the sales of iron ore were 6.65 million tonnes (7.53 million tonnes on a WMT basis) during the fourth quarter as against 6.55 million tonnes (7.37 million tonnes on a WMT basis) in the same period prior year and sales for the year stood at 18.14 million tonnes (20.37 million tonnes on a WMT basis), in line with 18.39 million tonnes (20.52 million tonnes on a WMT basis) sold during the prior year. Sesa Goa is expanding the iron ore capacity expansion, which is on track for completion by the end of FY 2012-13. Expansion of the pig iron capacity to 625 ktpa and the associated expansion of metallurgical coke capacity to 560 ktpa are also moving towards commissioning by Q3 FY 2011-12. Besides, Revenue from Pig Iron and coke grew 19% yoy and 33% yoy.

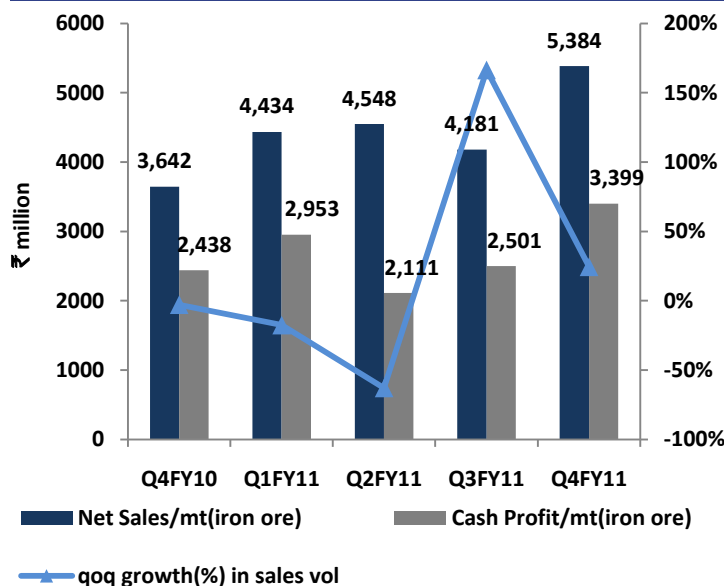
### Sesa Goa's mining reserves and resources to grow at a higher pace FY12 onward

Sesa Goa has deepened its focus on exploration activities at its operations at Goa and Karnataka and gained significant reserves and resources accretion, with a gross addition of 53 million tonnes of reserves and resources base prior to a decline of 21 million tonnes during the year. Till 31 Mar'11, total reserves and resources stood at 306 million tonnes (at the mines that the company holds on lease and/or right to mine) as compared with 274 million tonnes in the previous year. However, after the closure of Orissa Mine since 30 November 2010 its resource base which was reported on FY10 at 353 million tonnes was reduced to 274 million tonnes. As the mineral major is entering to newer States and expanding its resource reserves by extensive exploration, the total reserve will grow at a 20-25 million tonnes more than the existing growth rate.

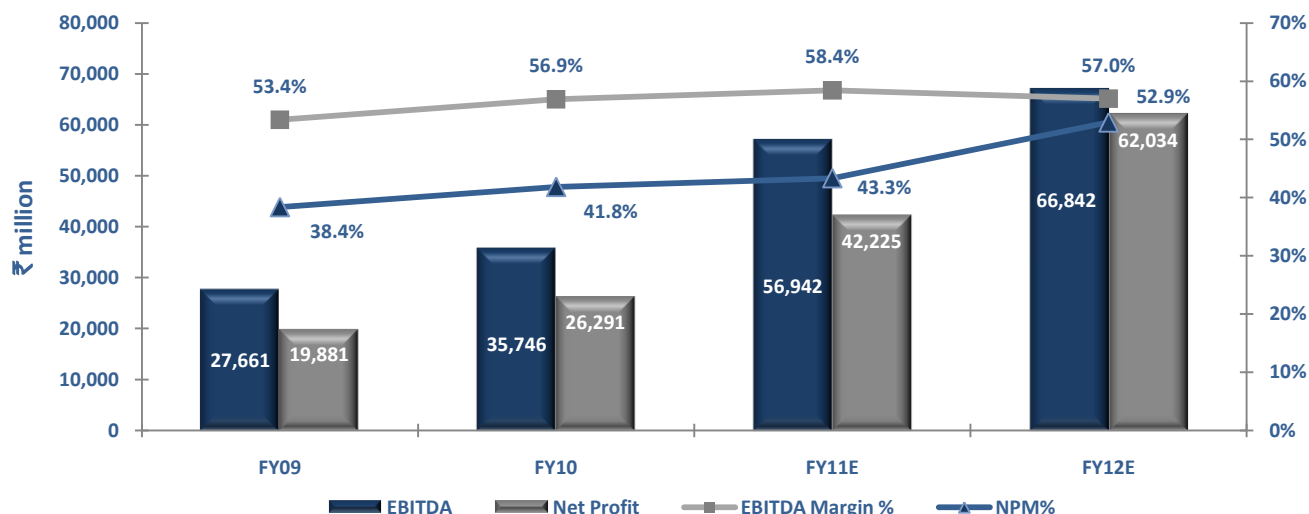
## Sesa Goa to close \$1.6 bn Western Cluster iron ore project in Liberia

Recently, Sesa Goa is inch close from obtaining the developmental rights for \$1.6 billion iron ore project in Liberia called the Western Cluster Project. The company is looking to invest nearly \$600 million in the project within the period of three years. As mining concession right is being transferred in this deal, the upfront payment may be a token amount. Earlier, Liberia awarded Israel's Elenilto Mineral Mining Ltd. the rights to develop the Western Cluster iron ore project but was unable to deliver as it lacked the financial and technical expertise for the project. With the proper execution of this project, Sesa Goa will be able to prove its proficiency in its abilities which may augur future contracts in similar projects from the international arena.

## Relationship of per mt tones of iron ore sold with net sales and cash profits



## Boost in revenues on recovery in mining activities in Karnataka and Orissa



## Business Overview

Sesa Goa Ltd., a unit of Vedanta Resources Plc owned by Anil Agarwal, is the largest producer and exporter of iron ore in the private sector. Over the last two decades, it has diversified into the manufacture of pig iron and metallurgical coke, recently into oil and gas (Cairn Ltd acquisition) and steel. Sesa has mining operations in Goa and Karnataka while it also operates a 280,000 tonnes per year, metallurgical coke plant and a 250,000 tonnes per year pig iron plant in Goa. Sesa Goa has iron ore reserves and resources of 306mt in Goa and Karnataka. It has recently acquired the shares of Sesa Resources Ltd, which in turn holds 100% equity shares of Sesa Mining Corp. Pvt. Ltd during FY'10.

## Indian Mining Industry

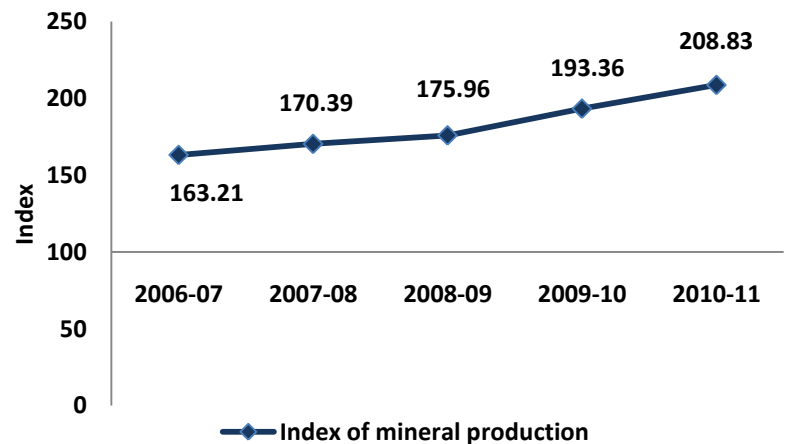
India has always been considered as one of the mineral rich nation with a wide range which include four fuel minerals (such as coal), 11 metallic minerals (such as iron), 22 minor minerals (such as copper), and 52 non-metallic minerals (such as clay). The mining industry creates the backbone of the iron and steel industry as it is a significant producer of a number of ores and minerals as they constitute the vital raw materials for many basic industries and are a major resource for development. India belong at the top in the production of sheet mica, third largest producer in coal, the fourth largest producer of iron ore and the fifth largest producer of bauxite. The advance estimates of GDP (at 2004-05 prices) for the year 2010-11 in respect of mining and quarrying sector accounted for about 2.26% of GDP. The contribution of mining and quarrying sector to GDP for the year 2010-11 is estimated at ₹1,104,820 million which would indicate an increase of 6.2% over that in the previous year.

### Growing production trend in mining sector

Based on the overall trend so far, the index of mineral production (base 1993-94=100) for the year 2010-11 is estimated to be 208.83 as compared to 193.36 for 2009-10 showing a positive growth of 7.43%. The index has performed well over the period with decent growth, indicating positive signs on the production level year on year.

In spite of such a huge production, India's mammoth energy demand requires more development from the sector. Henceforth, it's necessary for the mining sector to post impressive output on a continuous basis.

### Index of mineral production (base 1993 - '94 = 100) consistent growth



Source: Ministry of Mines

### Value of minerals rising

During the year 2010-11, the total value of mineral production (excluding atomic minerals) has been anticipated at ₹2,006,093.8 million, showing a rise of 11.83% as compared to the previous year. The estimated value during the year for fuel minerals accounts for ₹1,352,438.1 million or 67.42%, metallic minerals, ₹418,284.4 million or 20.85% of the total value and the remaining was for non-metallic minerals including minor minerals of ₹235,371.3 million. Indian mining industry is characterized by a large number of small operational mines. The number of mines which reported mineral production (excluding minor minerals, petroleum (crude), natural gas and atomic minerals) in India was 2,628 in 2010-11 as against 2,999 in the previous year.

### Recent domestic updates

Recently, India's iron ore exports fell for the eighth straight month in February due to continuing ban on shipments by its key Karnataka state and exports are likely to face further pressure as the country hikes freight rates again. The world's No. 3 iron ore supplier, India's exports of the steelmaking ingredient fell 18.6% from a year ago to 10.137 million tonnes in February, as per Federation of Indian Mineral Industries. However, the production figures are expected to show much figures in coming months as the Supreme Court lifted the ban in Karnataka. Spot iron ore prices have lost 12% since hitting record peaks near \$200 a tonnes in mid-February as high prices and tighter credit restrained demand from top importer China. Indian Railways will impose a charge of 7% on iron ore freight rates from April 1 to June 30 and from Oct. 1 to March 31. India had already hiked railway freight rates by ₹100 to ₹1,600 per tonne from 3 Mar'11.

## Key State Scenario

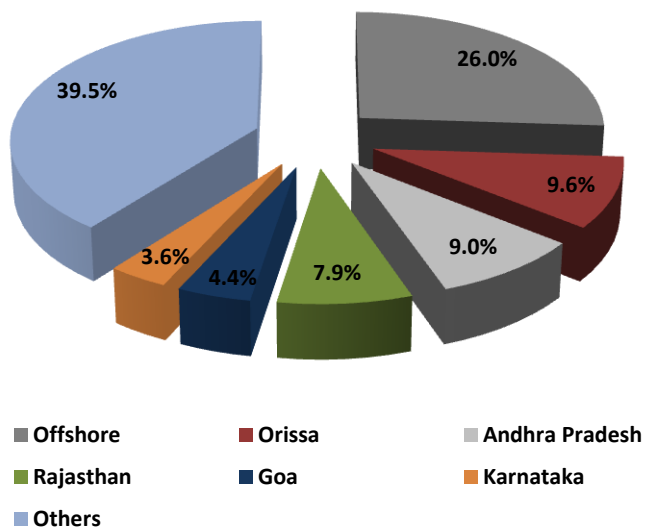
### Karnataka

Karnataka is the sole producer of feldspar and leading producer of iron ore, chromite and dunite. Karnataka hosts country's 74% iron ore (magnetite) and 11% iron ore (hematite) resources. Important iron ore (magnetite) deposits are located in Chickmagalur, Hassan, Uttara and Dakshina Kannada and Shimoga districts. The value of mineral production in Karnataka during 2009-10 was at ₹54,160.9 million, a decrease of 14.22% over the previous year. Iron ore, gold, manganese ore and limestone being the important minerals produced in the State together accounted for about 98.92% of the total value of mineral production during the year. Karnataka was the second leading producer of iron ore. The number of reporting mines in Karnataka was 233 in 2009-10 as against 238 in the previous year. The index of mineral production in Karnataka (Base 1993-94=100) was 288.50 in 2009-10 as compared to 311.05 in the previous year.

### Goa

Goa is well known for its iron and manganese ores. Iron and manganese ore belts extend from South-East to North-West of the State. Important iron ore deposits are located in Bicholim, Sanguem and Satari talukas. The value of mineral production in Goa in 2009-10 got increased by 20.88% as compared to the previous year and was at ₹58874.9 million. About 99.90% of the total value of mineral production in Goa was contributed by iron ore. During the year under review, production of iron ore got increased by 26.05% over the previous year. The production value of minor minerals was estimated at ₹57.3 million for the year 2009-10. There were 74 reporting mines in 2009-10 as against 77 in the previous year. The index of mineral production in Goa (base 1993-94=100) was 275.62 in 2009-10 as against 219.55 in the previous year.

## States in value of mineral production FY11 (estimate)



### Orissa

Orissa is the leading producer of chromite, graphite, bauxite, manganese ore, iron ore, sillimanite, quartzite, pyroxenite and dolomite. Thus it indicates the opportunity to grow beyond its existing capacity. The value of mineral production in Orissa got decreased by 3.43% in 2009-10 over the previous year and was at ₹1,711,970 million. The State contributed 9.54% of the total value of mineral production and it is in third position among the States in the country during the year under review. The important minerals produced in Orissa were coal, bauxite, chromite, iron ore, manganese ore and limestone which together accounted for about 99.10% of the total value of mineral production in 2009-10.

## Future Outlook

The long-term prospects of the sector - like that of the Indian economy as a whole - are very positive. Although the country is still far behind in achieving its full production potential, India's mining industry emerged from a 4.65% contraction in 2009 to resume growth in 2010. India is yet to be self sufficient in terms of minerals, however the reserve it holds, will induce the nation to focus on increasing the production capacity in coming years.

Source: Ministry of Mines

## Balance Sheet (Consolidated)

(₹million)	FY09A	FY10A	FY11E	FY12E
Share Capital	787.2	831.0	899.0	899.0
Reserve and surplus	46,370.2	78,346.1	125,825.8	184,856.9
Net Worth	47,157.4	79,177.1	126,724.8	185,755.9
Minority Interest	333.8	432.9	432.9	432.9
Loan funds	19.1	19,605.6	9,963.6	20,624.7
Deferred Tax Liability	664.3	750.2	750.0	750.0
<b>Capital Employed</b>	<b>48,174.6</b>	<b>99,965.8</b>	<b>137,871.4</b>	<b>207,563.5</b>
Gross fixed assets	8,863.4	27,510.4	34,250.0	48,500.0
Less: accumulated depreciation	3,422.4	5,740.8	6,704.6	7,870.8
Net Fixed assets	5,441.0	21,769.6	27,545.4	40,629.2
Capital Work in Progress	489.3	787.4	6,250.0	3,250.0
<b>Total Fixed Assets</b>	<b>5,930.3</b>	<b>22,557.0</b>	<b>33,795.4</b>	<b>43,879.2</b>
Investment	31,251.9	45,648.5	62,957.7	94,782.0
Net Current Assets	10,992.4	31,760.3	41,118.2	68,902.3
<b>Capital Deployed</b>	<b>48,174.6</b>	<b>99,965.8</b>	<b>137,871.3</b>	<b>207,563.5</b>



## Profit & Loss Account (Consolidated)

(₹million)	FY09A	FY10A	FY11A	FY12E
Operating Income	49,179.4	57,978.0	92,051.2	111,382.0
Growth in %	30.6	17.9	58.8	21.0
Other Income	2,651.9	4,864.6	5,398.9	5,860.5
<b>Total Income</b>	<b>51,831.3</b>	<b>62,842.6</b>	<b>97,450.1</b>	<b>117,242.5</b>
Expenses	24,170.3	27,096.6	40,508.2	50,400.3
% of Sales	49.1	46.7	44.0	45.3
<b>EBITDA</b>	<b>27,661.0</b>	<b>35,746.0</b>	<b>56,941.9</b>	<b>66,842.1</b>
% Growth	16.3	29.2	59.3	17.4
EBITDA Margin %	53.4	56.9	58.4	57.0
Depreciation/Amortisation	516.7	745.0	963.8	1,166.2
<b>EBIT</b>	<b>27,144.3</b>	<b>35,001.0</b>	<b>55,978.1</b>	<b>65,675.9</b>
% Growth	16.6	28.9	59.9	17.3
EBIT Margin %	52.4	55.7	57.4	56.0
Interest	42.7	555.1	381.2	961.3
<b>Profit before Tax</b>	<b>27,101.6</b>	<b>34,445.9</b>	<b>55,596.9</b>	<b>64,714.7</b>
Tax	7,152.7	8,055.5	13,372.4	16,180.6
Minority Interest	67.6	99.1	0.0	0.0
Share in earnings of associates	0.0	0.0	0.0	13,500.0
<b>Net Profit</b>	<b>19,881.3</b>	<b>26,291.3</b>	<b>42,224.5</b>	<b>62,034.1</b>
% Growth	29.0	32.2	60.6	46.9
NPM %	38.4	41.8	43.3	52.9



## Key Ratios & Valuations (Consolidated)

	FY09A	FY10A	FY11E	FY12E
EBITDA Margin (%)	53.4	56.9	58.4	57.0
EBIT Margin (%)	52.4	55.7	57.4	56.0
NPM (%)	38.4	41.8	43.3	52.9
ROCE (%)	56.3	35.0	40.6	31.6
ROE (%)	42.2	33.2	33.3	33.4
ROA (%)	41.3	26.3	30.6	29.9
Interest Coverage (x)	635.7	63.1	146.8	68.3
EPS (₹)	63.6	17.7	23.9	27.5
Cash EPS (₹)	0.2	2.9	9.5	10.3
P/E (x)	11.6	9.3	6.3	4.3
BVPS	59.9	95.3	141.0	206.6
P/BVPS (x)	4.9	3.1	2.1	1.4
EV/Operating Income (x)	4.7	4.5	2.9	2.5
EV/EBITDA (x)	8.4	7.3	4.7	4.1
EV/EBIT (x)	8.5	7.5	4.8	4.2

## Valuations

The ₹244 billion mining enterprise of India, Sesa Goa, has reported a robust yoy quarterly rise in the topline of 50% and annually it reported a 59% advance in revenues. Despite of lower production level, soaring commodity prices assisted the company to report such steep rise in topline. Since the production of iron ore is set to grow at a rate of 15-20% in FY12, it will post much stronger figures in coming quarters. Also, the Iron ore spot FOB prices trading not far from at all time high. Besides, investment in Cairn India will help it to the diversify the business risk and the acquisition of Bellary Steel & Alloys Ltd acquisition provides opportunity to expeditiously set up a value addition facility, with approx. 700 acres of freehold land. Also, Supreme Court lifted a ban on shipments from Karnataka, which makes the future of the company strong as its operation in the state will not face any obstacle now. Additionally, Sesa Goa's mini steel plants in Orissa and Jharkhand will assist it in to diversify its product portfolio, rise in capacity and the advantage of having a steel plant within the mining vicinity will also be beneficial. These all activities augur well for the company in the near future. At the current market price of ₹2,000.75, we rate the stock as 'BUY'. Further, at the current market price the stock is trading at a PE of 6.3x on FY11 EPS of ₹23.9 and 4.3x on FY12E EPS of ₹27.5.



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