

The company maintains that the ban on import of low grade (below 60% grade) by China has not yet impacted its exports as it applies to Chinese traders who do not have back-to-back contracts with the steel mills in China. The low grade exports to traders contribute less than 25% of the export quantity.

Tax rates have been lower, as EOU benefits are enjoyed by some of its units falling in the EOU zone in Goa and Karnataka. The company guides ~20% tax rate for FY11. Pig iron capacity expansion from 0.25mtpa to 0.65mtpa at capex of Rs6.1b is expected to be commissioned by 1QFY12.

Outlook and recommendation

We expect Sesa Goa to register volume growth of CAGR 25% in iron ore sales. However, iron ore spot prices have corrected from the mid-April peak levels of US\$ ~190 a tonne (cfr) to US\$ ~126 a tonne in July on back of credit tightening in China leading to lower steel demand. We believe that the credit tightening in China would ease during 2HFY11 thus leading to a rebound in steel demand. We expect the average realization in the second half to remain 20-25% lower than the Q2 contracted prices. Keeping its ambitious expansion plans in mind, future earnings would be primarily driven by volume growth.

At the CMP of Rs 369 the stock is trading at 3.2 times its FY12 EV/EBIDTA and is fairly valued at current levels.

Result Update



Kyon ki bhaiya, sabse bada rupaiya.

(Rs. In Cr.)

Sesa Goa Ltd.	Q1FY11	Q1FY10	% Chg.	Q1FY11	Q4FY10	% Chg.	FY201003	FY200903	% Chg.
Net Sales	2394.0	998.6	139.7	2394.0	2403.5	-0.4	5803.1	4925.7	17.8
Other operational Income	19.0	12.9	47.5	19.0	15.4	24.0	55.2	33.4	65.4
Total Oper. Income(TOI)	2413.1	1011.5	138.6	2413.1	2418.9	-0.2	5858.3	4959.1	18.1
Raw Materials Cons.-	85.5	81.4	5.0	85.5	88.1	-3.0	345.9	256.9	34.6
% to TOI	3.5%	8.1%	-	3.5%	3.6%	-	5.9%	5.2%	-
Stock adj. (-)Inc / (+)Dec-	-139.2	18.0	PL	-139.2	-63.9	-117.9	-121.1	-26.8	351.6
% to TOI	-5.8%	1.8%	-	-5.8%	-2.6%	-	-2.1%	-0.5%	-
Net Raw Mat adj. for stock	-53.7	99.4	PL	-53.7	24.2	PL	224.7	230.1	-2.3
% to TOI	-2.2%	9.8%	-	-2.2%	1.0%	-	3.8%	4.6%	-
Other expenses	962.7	419.5	129.5	962.7	847.0	13.7	2319.7	2090.3	11.0
% to TOI	39.9%	41.5%	-	39.9%	35.0%	-	39.6%	42.2%	-
Contribution Net_Sales	1504.1	492.6	205.4	1504.1	1547.7	-2.8	3313.9	2638.7	25.6
Personnel	44.4	39.5	12.6	44.4	44.7	-0.6	169.1	99.9	69.2
% to TOI	1.8%	3.9%	-	1.8%	1.9%	-	2.9%	2.0%	-
Total expenditure	953.5	558.4	70.7	953.5	915.9	4.1	2713.5	2420.3	12.1
Operating Profit	1459.6	453.1	222.1	1459.6	1503.0	-2.9	3144.8	2538.8	23.9
% to TOI	60.5%	44.8%	-	60.5%	62.1%	-	53.7%	51.2%	-
Non-Operating Income	160.9	75.2	114.2	160.9	129.1	24.7	426.0	224.0	90.1
Interest	13.7	2.0	576.9	13.7	22.7	-39.3	51.7	1.0	5124.2
Exceptional Items		0.0			0.0	0.0	0.0		0.0
Gross Profit	1606.8	526.2	205.4	1606.8	1609.4	-0.2	3519.1	2761.8	27.4
Depreciation	19.1	15.2	26.1	19.1	16.6	15.0	74.5	51.7	44.2
PBT before Extra-ord	1587.7	511.0	210.7	1587.7	1592.8	-0.3	3444.6	2710.2	27.1
% to TOI	65.8%	50.5%	-	65.8%	65.9%	-	58.8%	54.7%	-
Extraordinary Items		0.0			0.0	0.0	0.0		0.0
PBT	1587.7	511.0	210.7	1587.7	1592.8	-0.3	3444.6	2710.2	27.1
Tax Rate	17.8%	17.0%	-	17.8%	23.7%	-	23.4%	26.4%	-
Prov. for Tax	283.2	86.9	225.7	283.2	377.7	-25.0	805.6	715.3	12.6
% to TOI	11.7%	8.6%	-	11.7%	15.6%	-	13.8%	14.4%	-
Profit after Tax	1304.5	424.1	207.6	1304.5	1215.1	7.4	2639.0	1994.9	32.3
% to TOI	54.1%	41.9%	-	54.1%	50.2%	-	45.1%	40.2%	-
Minority Interest	-2.7	-1.8	49.7	-2.7	-2.2	-21.0	-9.9	-6.8	46.6
PAT (adj. For MI)	1301.8	422.3	208.3	1301.8	1212.9	7.3	2629.1	1988.1	32.2
Face Value	1.0	1.0	0.0	1.0	1.0		1.0	1.0	0.0
Equity Share capital	86.0	78.7	9.2	86.0	83.1	3.5	83.1	78.7	5.6
EPS (Rs.)	15.2	5.4	181.7	15.2	14.6	3.8	31.8	25.3	25.3
CEPS (Rs.)	15.4	5.6	175.9	15.4	14.8	3.9	32.7	26.0	25.6

Source: ACE Equity

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Ventura Securities Limited

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