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## Sesa Goa

**(CMP : Rs.188, FY11E-P/E : 3.2x, Buy with a target price of Rs. 263)**

### A tempting buy

Sesa Goa, which has recently acquired the mining assets of Goa based Dempo group has corrected to a level of Rs.188 from Rs 203 after the acquisition. In continuation with our earlier report dated June 15, '09, we reiterate a Buy with a target of Rs 263.

*The global Steel industry is witnessing a revival with steel producers across the globe – Duferco from Europe, Nucor from US, Anshan China raising prices citing improved demand scenario following the revival packages launched by respective governments.*

The global Steel industry is witnessing a revival with steel producers across the globe – Duferco from Europe, Nucor from US, Anshan China raising prices citing improved demand scenario following the revival packages launched by respective governments. Iron ore is a necessary input for Steel making. Being in vicinity to China, Indian iron ore enjoys price advantage over Brazilian and Australian iron ore. With annual price negotiation still in limbo for Chinese Steel makers, it is natural for the them to resort to spot market for procuring iron ore where the prices are stable @ \$75 per tonne (cfr) despite building up of inventory at ports to 71 mmT which we expect will be consumed with the advent of monsoons in India when the exports are virtually stopped. With additional volume- through Dempo acquisition Sesa Goa has opportunity to add to the saleable volume and build over the bottomline. The acquisition has been made through the idle cash yielding around 12% p.a., whereas the acquisition can yield more than 50% RoE considering past three years track record of Sesa Goa.

At CMP, the stock is quoting at an EV/EBIDTA of 1x for FY11E earnings. We reiterate Buy with price target of Rs 263 at which the stock will quote at EV/EBIDTA of 2x for FY11E earnings. We have upgraded the EV/EBIDTA multiples due to the better visibility seen in the business along with improved pricing power and volumes for disposal and proper utilization of idle cash lying with the company.

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### Financials Summary

	Rs. Mn			
Y/E March	FY08	FY09	FY10E	FY11E
Revenues	36,022	48,194	79,909	94,259
Rev. Growth (%)	78.0%	33.8%	65.8%	18.0%
EBIDTA	21,749	24,543	43,575	57,743
EBIDTA margins (%)	60.38%	50.93%	54.53%	61.26%
Net Profit	14,920	19,503	32,388	46,456
EPS (Rs.)	19.0	24.8	41.1	59.0
CEPS (Rs.)	19.5	25.4	43.0	61.0
EV/EBIDTA (x)	0.3	4.3	2.3	1.0
EV/Sales (x)	-0.35	2.21	1.24	0.59
RoE (%)	66.1%	53.4%	53.7%	47.6%
RoCE (%) Pre-Tax	98.8%	66.1%	70.7%	58.0%
P/E (x) @ Rs 188	9.9	7.6	4.6	3.2
P/CEPS (x) @Rs.188	9.6	7.4	4.4	3.1

Source: Company / Reliance Money Research

Contd...

**Profit & loss statement (Rs mn)**

Y/E March	FY08	FY09	FY10E	FY11E
Net Sales	36,022	48,194	79,909	94,259
% Growth	78%	34%	66%	18%
EBIDTA	21,749	24,543	43,575	57,743
% Growth	153%	13%	78%	33%
Interest	15	10	0	0
Depreciation	426	462	1500	1562
PBT	22369	26374	43767	62778
% Growth	149%	18%	66%	43%
Tax	7449	6872	11380	16322
PAT	14920	19503	32388	46456
% Growth	146%	31%	66%	43%
Dividend (%)	450%	250%	250%	250%
EPS (Rs) adjusted*	19.0	24.8	41.1	59.0
BVPS (Rs.) adjusted*	35.5	57.4	95.7	152.0

**Balance sheet (Rs mn)**

Y/E March	FY08	FY09	FY10E	FY11E
Equity Cap	394	787	787	787
Reserves	27518	44413	74587	118829
Networth	27911	45200	75374	119616
Total Loans	0	0	0	0
Deferred Tax Liability	535	591	2019	2187
Total Liability	28446	45791	77393	121803
Net Block	3981	4093	19681	20119
Investments	20004	22004	24004	26004
Inventory	2635	2916	5973	6003
Debtors	4431	3961	8757	10330
Cash Balance	132	19157	24618	65794
Total Current Liabilities	3399	6992	7873	8837
NCA	4303	19554	32025	73857
Total Assets	28446	45791	77393	121803

**Ratio Analysis**

Y/E March	FY08	FY09	FY10E	FY11E
OPM (%)	60.4%	50.9%	54.5%	61.3%
NPM (%)	41.4%	40.5%	40.5%	49.3%
RoE (%)	66.1%	53.4%	53.7%	47.6%
RoCE Pre tax (%)	98.8%	66.1%	70.7%	58.0%
Int. Coverage (x)	1440	2479	NA	NA
D/E (x)	0.00	0.00	0.00	0.00
Asset Turnover (x)	4.3	2.9	2.9	2.9
Debtors' days	45	30	40	40
Creditors' days	34	50	50	50
Inventory Days	67	45	60	60
Valuation Ratios				
P/ CEPS (x) adjusted*	9.6	7.4	4.4	3.1
EV/ EBIDTA (x)	0.3	4.3	2.3	1.0
Mkt Cap/ Sales (x)	0.2	3.1	1.8	1.6
CEPS (Rs.) adjusted*	19.5	25.4	43.0	61.0
P/ BV (x) adjusted*	5.3	3.3	2.0	1.2

**Cash Flow Statement (Rs mn)**

Y/E March	FY08	FY09	FY10E	FY11E
PAT	14920	19503	32388	46456
Depreciation	426	462	1500	1562
Change in WC	(1397)	3773	(7010)	(656)
Operating CF	13949	23738	26878	47362
Investments	(11326)	(2000)	(2000)	(2000)
Capex	(410)	(555)	(18632)	(2140)
Misc. Exp	(167)	0	0	0
Investing CF	(11903)	(2555)	(20632)	(4140)
Equity	(0)	0	0	0
Deferred tax liability (Net)	14	56	1428	168
Dividends	(2072)	(2214)	(2214)	(2214)
Debt	0	0	0	0
Financing CF	(2058)	(2158)	(786)	(2046)
Net Change	(13)	19025	5461	41176
Opening Cash	144	132	19157	24618
Closing Cash	132	19157	24618	65794

Source: Reliance Money Research

## Reliance Money Stock Rating

Rating	Stock Performance
BUY	Appreciate more than 15% in next 12 months
HOLD	Appreciate upto 15% in next 12 months
REDUCE	Depreciate upto 10% in next 12 months
SELL	Depreciate More than 10% in next 12 months

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