Cairn India

Performance Highlights

Y/E March (₹ cr)	3FY2012	3QFY2011	% chg (yoy)	2QFY2012	% chg (qoq)
Net sales	3,097	3,096	-	2,652	16.8
EBITDA	2,546	2,598	(2.0)	2,104	21.0
EBITDA margin (%)	*82.2*	*83.9*	*(169)bp*	*79.3*	*287bp*
Adjusted PAT	1,960	2,010	(2.5)	232	745.1

Source: Company, Angel Research

Cairn India's (CIL) 3QFY2012 net sales remained flat yoy despite increased crude realization due to higher profit petroleum and royalty payment. The company's adjusted PAT decreased by 2.5% yoy. **We recommend Accumulate on the stock.**

Higher profit petroleum and royalty dent 3QFY2012 performance: CIL's top line remained flat yoy and stood at ₹3,097cr despite crude oil realization increasing by 33.0% yoy due to higher profit petroleum and royalty payment. CIL's OPM contracted by 169bp yoy to 82.2%, resulting in a 2.0% yoy decline in operating profit to ₹2,546cr, while adjusted net profit declined by 2.5% yoy to ₹1,960cr during the quarter.

CIL aims to increase production to 240kbopd by CY2013: Management maintained its guidance to reach exit capacity of 175kbpod by 4QFY2012-end. The company also aims to reach an exit capacity of 240kbopd by CY2013-end.

Outlook and valuation: CIL has the infrastructure in place to ramp up production to meet its targets; however, currently it is awaiting approvals from the government. We expect production to gradually increase in the coming quarters to reach a capacity of 175kbopd by FY2013 and 225kbopd by FY2014. Further, there are various exploratory untapped upsides in Barmer Hills and other fields waiting to be developed. Hence, **we recommend Accumulate on the stock with a target price of ₹367.**

Key financials (Consolidated)

Y/E March (₹ cr)	FY2010	FY2011	FY2012E	FY2013E
Net sales	1,623	10,278	13,170	14,715
% chg	*13.3*	*533.3*	*28.1*	*11.7*
Net profit	1,051	6,334	8,381	9,893
% chg	*30.8*	*502.6*	*32.3*	*18.0*
OPM (%)	60.4	80.2	77.6	80.4
EPS (₹)	5.4	33.3	43.9	51.8
P/E (x)	63.4	10.3	7.8	6.6
P/BV (x)	1.9	1.6	1.3	1.1
RoE (%)	3.2	17.1	18.8	18.4
RoCE (%)	1.7	17.4	18.9	18.7
EV/Sales (x)	41.7	6.2	4.4	3.3
EV/EBITDA (x)	69.0	7.7	5.7	4.1

Source: Company, Angel Research

ACCUMULATE

CMP	₹340
Target Price	₹367
Investment Period	12 Months

Stock Info	
Sector	Oil & Gas
Market Cap (₹ cr)	64,648
Beta	0.8
52 Week High / Low	372/250
Avg. Daily Volume	1570856
Face Value (Rs)	10
BSE Sensex	17,194
Nifty	5,199
Reuters Code	CAIR.BO
Bloomberg Code	CAIR@IN

Shareholding Pattern (%)	
Promoters	52.1
MF / Banks / Indian FIs	7.7
FII / NRIs / OCBs	6.6
Indian Public / Others	33.6

Abs. (%)	3m	1yr	3yr
Sensex	(2.9)	(6.2)	68.7
Cairn	13.7	3.5	106.4

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Exhibit 1: 3QFY2012 performance

Y/E March (₹ cr)	3QFY2012	3QFY2011	% chg (yoy)	2QFY2012	% chg (qoq)
Net sales	3,097	3,096	0.0	2,652	16.8
Operating expenditure	465	458	1.7	471	(1.2)
Other expenditure	86	41	108.3	77	11.1
EBITDA	2,546	2,598	(2.0)	2,104	21.0
EBITDA Margin (%)	82.2	83.9		79.3	
Other Income	112	-		62	81.3
DD&A	379	287	31.9	314	20.5
Exploration costs w/o	176	22		39	353.5
Interest	24	74	(67.7)	123	(80.5)
Forex fluctuation	301	-		(531)	
PBT	2,380	2,215	7.5	2,221	7.2
PBT Margin (%)	76.9	71.5		83.7	
Total Tax	118	205	(42.1)	103	15.1
% of PBT	5.0	9.2		4.6	
Exceptional items (Royalty)	-	-		1,355	
PAT	2,262	2,010	12.5	763	196.4
Minority interest	-			-	
Adj. PAT	1,960	2,010	(2.5)	232	745.1
PAT Margin (%)	63.3	64.9		8.7	

Source: Company, Angel Research

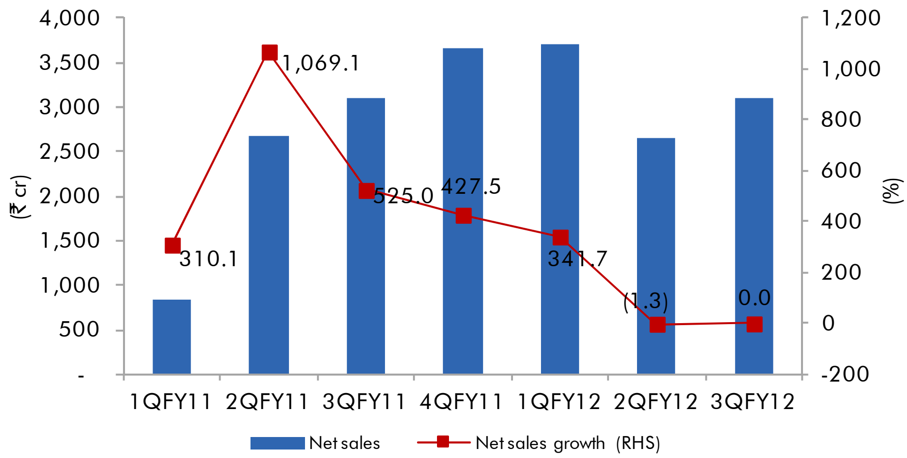
Exhibit 2: 3QFY2012 Actual vs. Estimates

(₹ cr)	Actual	Estimates	Variation (%)
Net sales	3,097	2,917	6.1
EBITDA	2,546	2,363	7.7
EBITDA margin (%)	82.2	81.0	120bp
PAT	1,960	2,023	(3.1)

Source: Company, Angel Research

Payment of royalty affects sales growth: CIL's top line remained flat yoy to ₹3,097cr (above our expectation of ₹2,917cr). Average crude oil realization increased by 33.0% yoy to US$101.1/bbl. However, the positive impact of higher realization was offset by ₹570cr of profit petroleum and royalty payment of ₹630cr. The company's gross production averaged 169,580boepd (-2.7% yoy). CIL remained optimistic to end the capacity from Mangala and Bhagyam field at 175,000bopd by FY2012E.

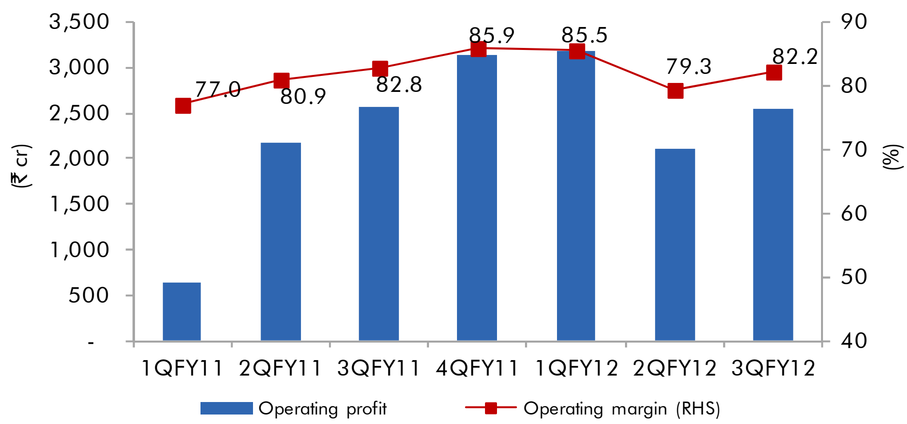
Exhibit 3: Net sales remained flat yoy



Source: Company, Angel Research

OPM contracts by 169bp yoy: OPM contracted by 169bp yoy to 82.2%, resulting in a 2.0% yoy decline in operating profit to ₹2,546cr during the quarter.

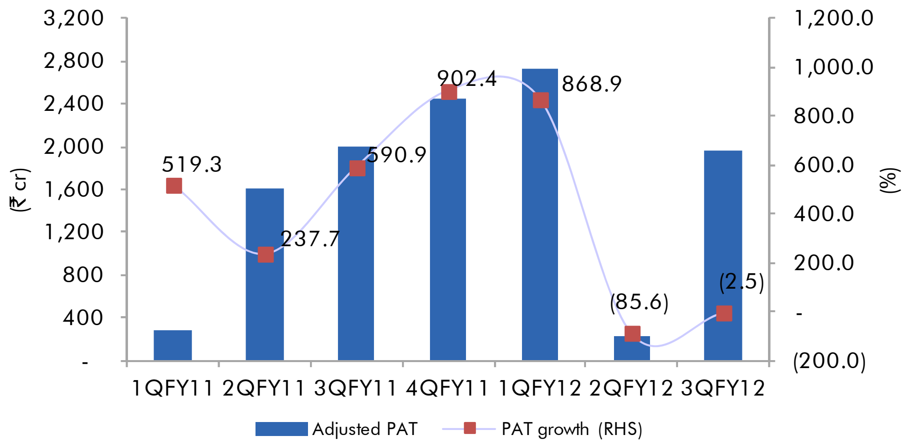
Exhibit 4: Operating margin stood at 82.2%



Source: Company, Angel Research

Adjusted PAT decreases by 2.5% yoy: CIL recorded an exceptional gain of ₹301cr on account of forex fluctuation during 3QFY2012. Excluding this exceptional gain, adjusted net profit declined by 2.5% yoy to ₹1,960cr (in-line with our estimate of ₹2,023cr). Reported PAT grew by 12.5% yoy to ₹2,262cr.

Exhibit 5: Adjusted PAT decreased by 2.5% yoy



Source: Company, Angel Research

Timelines uncertain on production growth beyond FY2012: CIL informed that Bhagyam block development is on track and ready to commence production in 3QFY2012, subject to government approvals. Also, the company is optimistic to reach an exit capacity of 175,000bopd by FY2012. However, management opined that due to constraints in pipeline capacity, further meaningful growth in production could be pushed beyond CY2012.

Investment arguments

CIL aims to increase production to 240kbopd by CY2013

CIL commenced production from Bhagyam oil field during 4QFY2012, where it aims to gradually increase its capacity to 40kbopd. CIL maintained its guidance to reach exit capacity of 175kbpod by 4QFY2012-end. The company also aims to reach an exit capacity of 240kbopd by CY2013-end.

Exploratory upsides awaited

There are various exploratory upsides untapped in Barmer Hills and other fields waiting to be developed and commercialized. Currently, various schemes related to exploratory drillings and optimization of producing fields are awaiting approvals from the government. CIL has recently announced two discoveries in Mannar Basin, Sri Lanka. Management is expected to give details on the commerciality and potential reserves in the block during 4QFY2012.

Outlook and valuation

CIL has the infrastructure in place to ramp up production to meet its targets; however, currently it is awaiting approvals from the government. We expect production to gradually increase in the coming quarters to reach a capacity of 175kbopd by FY2013 and 225kbopd by FY2014. Further, there are various exploratory untapped upsides in Barmer Hills and other fields waiting to be developed. Hence, **we recommend Accumulate on the stock with a target price of ₹367.**

Exhibit 6: SOTP valuation (FY2013E)

Particulars (₹ cr)	₹/share
MBA (DCF)	286
Ravva and Cambay basin (EV/boe 11x)	9
Barmer Hills (EV/boe 8x – 50% discount to MBA)	11
Other exploratory upsides (EV/boe 4x – 75% discount to MBA)	36
Total EV	**342**
Net debt	(25)
Equity value (₹)	**367**

Source: Company, Angel Research

Exhibit 7: Key operating assumptions

Particulars	FY2012E	FY2013E
Total Rajasthan Production (kboepd)	140	175
Opex Rajasthan (US$/bbl)	2.8	2.8

Source: Company, Angel Research

Exhibit 8: Angel EPS forecast vs. consensus

	Angel Forecast	Bloomberg Consensus	*Variation (%)*
FY2012E	43.9	41.3	*6.3*
FY2013E	51.8	49.6	*4.5*

Source: Company, Angel Research

Exhibit 9: Recommendation summary

Company	CMP	TP	Reco.	Mcap	*Upside*	P/E (x)		P/BV (x)		EV/EBITDA (x)		RoE (%)		RoCE (%)	
	(₹)	(₹)		(₹ cr)	(%)	FY12E	FY13E	FY12E	FY13E	FY12E	FY13E	FY12E	FY13E	FY12E	FY13E
RIL	815	923	Accum.	267,037	13	12.7	11.8	1.4	1.3	7.1	6.7	12.9	12.4	9.6	9.8
ONGC	276	325	Buy	236,003	18	8.8	8.3	1.8	1.5	3.8	3.3	21.5	19.9	20.4	19.1
CIL	340	367	Accum.	64,648	8	7.7	6.6	1.3	1.1	5.6	4.0	18.8	18.4	18.9	18.7
GAIL	373	440	Buy	47,296	18	12.0	10.5	2.1	1.8	6.2	5.4	19.0	18.7	23.0	22.9

Source: Angel Research

Profit & Loss Statement (Consolidated)

Y/E March (₹ cr)	FY2009	FY2010	FY2011	FY2012E	FY2013E
Gross sales	1,433	1,623	10,278	13,170	14,715
Less: Excise duty	-	-	-	-	-
Net Sales	1,433	1,623	10,278	13,170	14,715
Other operating income	-	-	-	-	-
Total operating income	**1,433**	**1,623**	**10,278**	**13,170**	**14,715**
% chg	*41.5*	*13.3*	*533.3*	*28.1*	*11.7*
Total Expenditure	523	643	2,033	2,954	2,882
EBITDA	**910**	**981**	**8,245**	**10,216**	**11,833**
% chg	*36.4*	*7.8*	*740.9*	*23.9*	*15.8*
(% of Net Sales)	*63.5*	*60.4*	*80.2*	*77.6*	*80.4*
Total Recouped cost	438	357	1,193	1,272	1,440
EBIT	**472**	**623**	**7,052**	**8,943**	**10,393**
% chg	*126.4*	*32.2*	*1031.1*	*26.8*	*16.2*
(% of Net Sales)	*32.9*	*38.4*	*68.6*	*67.9*	*70.6*
Interest & other Charges	6	29	291	355	305
Other Income	507	422	129	328	462
(% of PBT)	*52.2*	*41.6*	*1.9*	*3.7*	*4.4*
Share in profit of Associates	-	-	-	-	-
Recurring PBT	**972**	**1,016**	**6,890**	**8,916**	**10,551**
% chg	*187.7*	*4.5*	*577.9*	*29.4*	*18.3*
Extraordinary Expense/(Inc.)	(16)	-	-	-	-
PBT (reported)	**988**	**1,016**	**6,890**	**8,916**	**10,551**
Tax	184	(35)	556	535	658
(% of PBT)	*18.7*	*(3.4)*	*8.1*	*6.0*	*6.2*
PAT (reported)	**803**	**1,051**	**6,334**	**8,381**	**9,893**
ADJ. PAT	**788**	**1,051**	**6,334**	**8,381**	**9,893**
% chg	*(433.1)*	*33.4*	*502.6*	*32.3*	*18.0*
(% of Net Sales)	*55.0*	*64.8*	*61.6*	*63.6*	*67.2*
Basic EPS (₹)	**4.1**	**5.4**	**32.4**	**43.9**	**51.8**
Fully Diluted EPS (₹)	**4.1**	**5.4**	**32.4**	**43.9**	**51.8**
% chg	*(422.4)*	*32.9*	*498.3*	*31.8*	*18.0*

Balance Sheet (Consolidated)

Y/E March (₹ cr)	FY2009	FY2010	FY2011	FY2012E	FY2013E
SOURCES OF FUNDS					
Equity Share Capital	1,936	1,943	1,902	1,909	1,909
Preference Capital	-	-	-	-	-
Reserves& Surplus	30,867	31,925	38,336	46,895	56,788
Shareholders' Funds	32,802	33,868	40,293	48,859	58,752
Minority Interest	-	-	-	-	-
Total Loans	4,356	3,401	2,678	1,478	778
Deferred Tax Liability	554	445	561	561	561
Total Liabilities	37,713	37,714	43,533	50,898	60,091
APPLICATION OF FUNDS					
Gross Block	445	722	6,654	9,354	11,874
Less: Acc. Depreciation	80	96	730	2,003	3,442
Net Block	365	626	5,924	7,351	8,432
Capital Work-in-Progress	6,203	9,163	6,067	5,067	4,067
Goodwill	25,319	25,319	25,319	25,319	25,319
Investments	171	1,712	1,094	1,094	1,094
Current Assets	7,268	2,373	7,961	14,447	23,629
Cash and Deposits	6,527	929	4,485	8,951	17,752
Loans & Advances	351	832	1,666	2,248	2,248
Other	390	612	1,849	3,247	3,628
Current liabilities	1,613	1,481	2,927	2,474	2,544
Net Current Assets	5,655	893	5,034	11,972	21,085
Misc. exp. not written off	-	-	94	94	94
Total Assets	37,713	37,714	43,533	50,898	60,091

Cash Flow Statement (Consolidated)

Y/E March (₹ cr)	FY2009	FY2010	FY2011	FY2012E	FY2013E
Profit before tax	988	1,016	6,890	8,916	10,551
Depreciation	295	178	1,223	1,272	1,440
Change in Working Capital	121	(708)	(1,009)	(2,472)	(312)
Less: Other income	-	-	-	(328)	(462)
Direct taxes paid	(146)	(175)	(1,259)	(535)	(658)
Others	293	234	(486)	-	-
Cash Flow from Operations	1,552	545	6,331	6,853	10,559
(Inc.)/ Dec. in Fixed Assets	(3,161)	(3,366)	(2,565)	(1,700)	(1,520)
(Inc.)/ Dec. in Investments	(2,506)	2,529	624	-	-
Others	152	236	(2,957)	-	-
Other income	-	-	-	328	462
Cash Flow from Investing	(5,516)	(601)	(4,897)	(1,372)	(1,058)
Issue of Equity	2,552	2	67	185	-
Inc./(Dec.) in loans	3,746	(880)	(733)	(1,200)	(700)
Interest Paid (Incl. Tax)	(72)	(168)	(199)	-	-
Cash Flow from Financing	6,226	(1,045)	(866)	(1,015)	(700)
Inc./(Dec.) in Cash	2,262	(1,102)	568	4,466	8,801
Opening Cash balances	150	2,413	637	4,485	8,951
Closing Cash balances	2,413	637	1,205	8,951	17,752

Key Ratios

Y/E March	FY2009	FY2010	FY2011	FY2012E	FY2013E
Valuation Ratio (x)					
P/E (on FDEPS)	84.2	63.4	10.3	7.8	6.6
P/CEPS	53.4	46.5	8.7	6.8	5.8
P/BV	2.0	1.9	1.6	1.3	1.1
Dividend yield (%)	0.0	0.0	0.0	0.0	0.0
EV/Sales	44.0	41.7	6.2	4.4	3.3
EV/EBITDA	69.3	69.0	7.7	5.7	4.1
EV/Total Assets	1.7	1.8	1.5	1.1	0.8
Per Share Data (₹)					
EPS (Basic)	4.1	5.4	33.3	43.9	51.8
EPS (fully diluted)	4.1	5.4	33.3	43.9	51.8
Cash EPS	6.4	7.4	39.4	50.6	59.4
DPS	-	-	-	-	-
Book Value	172.5	178.1	211.9	256.9	308.9
Returns (%)					
ROCE (Pre-tax)	1.4	1.7	17.4	18.9	18.7
Angel ROIC (Pre-tax)	1.8	2.4	23.3	25.6	27.7
ROE	2.6	3.2	17.1	18.8	18.4
Turnover ratios (x)					
Asset Turnover (Gross Block)	0.7	0.7	0.7	0.4	0.3
Inventory / Sales (days)	36.9	51.6	11.0	24.5	37.9
Receivables (days)	36.5	51.5	31.8	45.5	47.4
Payables (days)	575.4	615.3	202.0	123.1	91.1
WC cycle (ex-cash) (days)	(121.1)	(102.2)	9.1	49.5	78.8
Solvency ratios (x)					
Net debt to equity	(0.1)	0.1	(0.0)	(0.2)	(0.3)
Net debt to EBITDA	(2.4)	2.5	(0.2)	(0.7)	(1.4)
Interest Coverage (EBIT/Interest)	73.6	21.1	24.2	25.2	34.1

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Disclaimer

Disclosure of Interest Statement	**Cairn India**
1. Analyst ownership of the stock	No
2. Angel and its Group companies ownership of the stock	No
3. Angel and its Group companies' Directors ownership of the stock	No
4. Broking relationship with company covered	No

Note: We have not considered any Exposure below ₹1 lakh for Angel, its Group companies and Directors.

Ratings (Returns):	*Buy (> 15%)*	*Accumulate (5% to 15%)*	*Neutral (-5 to 5%)*
	Reduce (-5% to 15%)	Sell (< -15%)	