

Cairn India Ltd (CAIND)

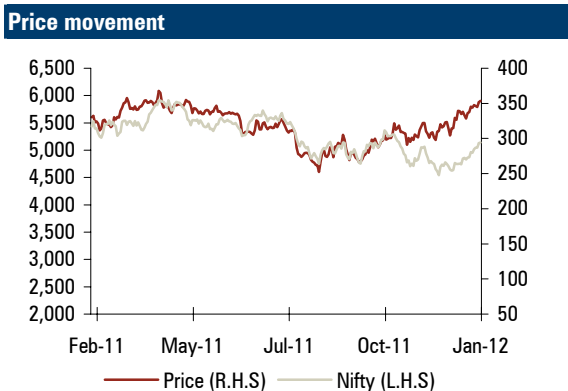
₹ 349

Rating matrix	
Rating	: Hold
Target	: ₹ 350
Target Period	: 12-15 months
Potential Upside	: 0%

Key Financials				
(₹ Crore)	FY10	FY11	FY12E	FY13E
Revenues	1623.0	10277.9	13123.0	17902.1
EBITDA	772.0	8245.1	11397.5	13518.0
Net Profit	1051.1	6224.7	8105.6	12332.4

Valuation summary				
	FY10	FY11	FY12E	FY13E
EPS (₹)	5.5	32.7	42.6	53.6
PE (x)	63.0	10.7	8.2	6.5
Target PE (x)	58.1	9.8	7.6	6.0
EV to EBITDA (x)	89.0	8.2	5.8	4.9
Price to book (x)	2.0	1.7	1.4	1.2
RoNW (%)	3.1	15.5	17.2	18.1
RoCE (%)	1.7	15.0	19.0	17.5

Stock data	
Market Cap.	₹ 66377 crore
Debt (FY11)	₹ 6400.7 crore
Cash (FY11)	₹ 5191 crore
EV	₹ 67586.6 crore
52 week H/L	372 / 250
Equity capital	₹ 1901.9 Crore
Face value	₹ 10
MF Holding (%)	2.8
FII Holding (%)	6.2



Analyst's name	
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WHAT'S CHANGED...

PRICE TARGET	Changed from ₹ 322 to ₹ 350
EPS (FY12E)	₹ 42.6
EPS (FY13E)	₹ 53.6
RATING	Unchanged

Positives factored in, stock fairly valued...

Cairn India reported its Q3FY12 results with revenues remaining flat YoY at ₹ 3096.8 crore and PAT growing by 12.5% YoY to ₹ 2261.9 crore in Q3FY12. The growth in PAT on a YoY basis is mainly attributable to forex gain of ₹ 301.5 crore (nil in Q2FY12) and other income of ₹ 112.4 crore (₹ 34.2 crore in Q2FY12). The average crude oil realisation increased from US\$75.9 per barrel in Q3FY11 to US\$101 per barrel in Q3FY12 due to higher crude oil prices. Cairn has commenced production from the Bhagyam field in the current quarter. The gradual ramp up to the approved production rate of 40,000 bopd would help the company in achieving the target production rate of 1,75,000 bopd from Rajasthan towards the end of FY12. We estimate gross production from the Rajasthan field at 1,32,584 boepd and 1,82,493 boepd in FY12E and FY13E, respectively. The company gave a gross capex guidance of \$1-1.25 billion for FY13 and remains confident on the current envisaged Rajasthan basin potential of 2,40,000 boepd. We have maintained a HOLD rating with a price target of ₹ 350.

■ Highlights of the quarter

Cairn's gross production declined 3.3% YoY to 1,69,579 boepd and net production declined 1.3% YoY to 98,969 boepd in Q3FY12. The oil production from the Mangala field stood at 1,25,122 boepd in Q3FY12. The net production from Ravva and Cambay stood at 8,228 boepd and 3,156 boepd, respectively in Q3FY12.

Valuation

We have valued Cairn India on the basis of the SOTP methodology, using DCF for Cairn's producing assets and EV/bbl of US\$12.5 for other exploratory blocks. We estimate Cairn's fair value at ₹ 350 per share (MBA fields at ₹ 243 per share, ₹ 3 per share for Ravva field, ₹ 2 per share for Cambay field and other exploratory upside at ₹ 38 per share). We recommend a **HOLD** rating on the stock and have assigned a price target of ₹ 350 per share.

Exhibit 1: Financial Performance

(₹ Crore)	Q3FY12A	Q3FY12E	Q3FY11	Q1FY12	YoY Gr.(%)	QoQ Gr.(%)
Revenues	3096.8	3530.5	3096.4	2652.2	0.0	16.8
EBITDA	2670.7	2952.0	2541.8	2596.2	5.1	2.9
EBITDA Margin (%)	86.2	83.6	82.1	97.9	410 bps	-1170 bps
Depreciation	378.7	268.0	287.1	314.2	31.9	20.5
Interest	24.0	64.6	74.2	122.8	-67.7	-80.5
Reported PAT	2261.9	2442.1	2010.1	763.0	12.5	196.4
EPS (₹)	11.9	12.9	10.6	4.0	12.5	196.4

Source: Company, ICICIdirect.com Research

The growth in PAT is attributable to the forex gain of ₹ 301.5 crore and other income of ₹ 112.4 crore

Exhibit 2: Quarterly profit and loss account

	(₹ crore)			
	Q3FY12	(%)	Q3FY11	(%)
Total Revenues	3096.8	100.0	3096.4	100.0
(Increase) / Decrease in stock in trade	-11.4	-0.4	4.9	0.2
Operating Expenses	465.3	15.0	457.6	14.8
Employees Cost	27.3	0.9	31.5	1.0
Administration Cost	70.1	2.3	39.0	1.3
Exploration Cost	176.3	5.7	21.6	0.7
Foreign Exchange Fluctuation	-301.5	-9.7	0.0	0.0
Total Expenditure	426.1	13.8	554.6	17.9
EBITDA	2670.7	86.2	2541.8	82.1
Depreciation	378.7	12.2	287.1	9.3
EBIT	2292.0	74.0	2254.8	72.8
Interest	24.0	0.8	74.2	2.4
Other Income(non operating)	112.4	3.6	34.2	1.1
Other Expense(non operating)	0.0	0.0	0.0	0.0
Extra Ordinary Income / (Expense)	0.0	0.0	0.0	0.0
PBT	2380.3	76.9	2214.7	71.5
Total Tax	118.4	3.8	204.6	6.6
PAT	2261.9	73.0	2010.1	64.9

Source: Company, ICICIdirect.com Research

Highlights of conference call

- The gross production from the Mangala field was 1,25,122 boepd, with working interest of 87,585 bopd for Cairn India in Q3FY12
- With the commencement of production from the Bhagyam field on January 19, 2012 and the expected gradual ramp up to the approved production rate of 40,000 bopd, Cairn India is expected to exit FY12 with a production rate of 1,75,000 boepd, subject to approval for ramp-up of production from the Mangala field
- The Rajasthan crude oil realisation at US\$100.3 per barrel in Q3FY12 represented an 8.3% discount to Brent crude oil prices of US\$109.4 per barrel
- The total operating costs for the Mangala field stood at \$2.5 per barrel in Q3FY12. Cairn has maintained its guidance of \$8-10 per barrel for DD&A and \$4-5 for F&D cost
- A total of 148 development wells have been drilled in the Mangala field out of which 85 are currently producing and 30 injector wells are injecting water in the reservoir
- The company also plans to start production in the Aishwariya field by H2CY12
- Cairn remains confident on the current envisaged potential of the Rajasthan basin of 2,40,000 boepd
- With two successive discoveries in Sri Lanka, the company is entering the second phase of exploration
- The exploration cost of ₹ 176.3 crore was relatively high in Q3FY12 mainly on account of the dry well cost of ₹ 146 crore in Sri Lanka

Valuations

We have valued Cairn India on the basis of the SOTP methodology, using DCF for Cairn's producing assets and EV/bbl of US\$12.5 for other exploratory blocks. We estimate Cairn's fair value at ₹ 350 per share (MBA fields at ₹ 243 per share, ₹ 3 per share for Ravva field, ₹ 2 per share for Cambay field and other exploratory upside at ₹ 38 per share). We recommend a **HOLD** rating on the stock and assign a price target of ₹ 350.

Exhibit 3: Valuation Table

Year	Sales (₹ Crore)	Sales Gr. (%)	EPS (₹)	EPS Gr. (%)	PE (x)	EV/EBITDA (x)	RoNW (%)	RoCE (%)
FY09	1432.7	41.5	4.2	NA	82.4	84.0	2.4	1.3
FY10	1623.0	13.3	5.5	30.8	63.0	89.0	3.1	1.7
FY11	10277.9	533.3	32.7	490.6	10.7	8.2	15.5	15.0
FY12E	13123.0	27.7	42.6	30.2	8.2	5.8	17.2	19.0
FY13E	16592.9	26.4	53.6	25.7	6.5	4.9	18.1	17.5

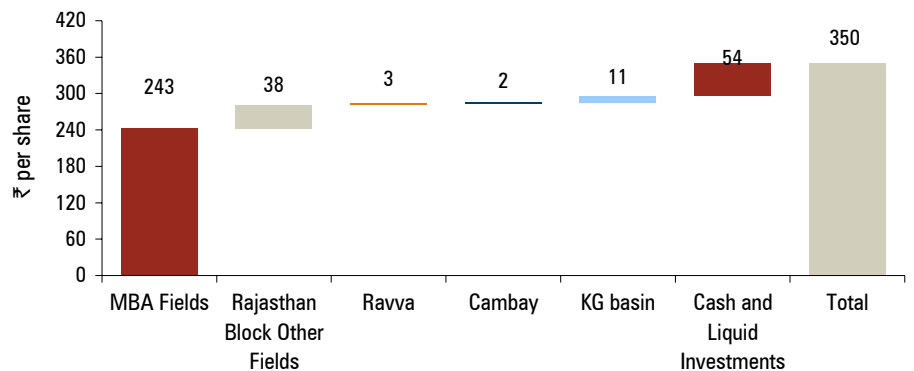
Source: Company, ICICIdirect.com Research

Exhibit 4: SOTP valuation

	₹ Crore	₹ (share)
MBA fields	46044.1	243
Rajasthan Block (Other Fields and exploratory upside)	7241.1	38
Ravva	498.8	3
Cambay	318.5	2
KG-DWN-98/2	2006.4	11
Total	48867.8	296
Less: Net Debt (FY13E)	(10209.5)	(54)
Equity Value	59077.3	350

Source: ICICIdirect.com Research

Exhibit 5: SOTP valuation



Source: ICICIdirect.com Research

Exhibit 6: Sensitivity of valuation to Brent crude oil prices and exchange rate

		Brent Crude Oil Prices (US\$/barrel)									
		70.0	75.0	80.0	85.0	90.0	95.0	100.0	105.0	110.0	115.0
Exchange Rate (₹/US\$)	45.0	274	286	296	305	317	329	341	353	362	371
	46.0	278	288	300	309	321	333	346	355	367	377
	47.0	281	291	302	313	326	338	350	360	370	382
	48.0	283	295	306	317	330	342	355	365	375	387
	49.0	287	298	308	321	334	347	358	368	380	393
	50.0	288	300	312	325	338	351	362	372	385	398
	51.0	291	304	316	329	342	354	367	377	390	404
	52.0	295	306	319	333	347	358	369	382	396	409

Source: Company, ICICIdirect.com Research

Financial summary

Profit and loss statement

	(₹ Crore)			
(Year-end March)	FY10	FY11	FY12E	FY13E
Revenue	1,623.0	10,277.9	13,123.0	16,592.9
Growth (%)	13.3	533.3	27.7	26.4
Operating expense	388.2	1490.7	1886.1	3750.8
Employee Cost	110.2	110.5	98.5	120.4
Administration Cost	144.1	153.9	288.7	332.9
Employee Cost	208.5	166.7	283.9	180.0
Exploration Cost	0.0	111.2	-831.7	0.0
Foreign exchange fluctuation	851.0	2032.9	1725.5	4384.2
EBITDA	772.0	8,245.1	11,397.5	12,208.7
Growth (%)	1.3	968.0	38.2	7.1
Depreciation	148.5	1302.6	1357.6	1468.9
EBIT	623.5	6942.4	10039.9	10739.8
Interest	29.5	290.9	256.0	237.3
Other Income	422.4	128.8	324.2	553.6
PBT	1016.3	6780.3	8752.9	11056.0
Growth (%)	2.9	567.1	29.1	26.3
Tax	-34.8	555.6	647.2	867.8
Reported PAT	1,051.1	6,224.7	8,105.6	10,188.2
Growth (%)	30.8	492.2	30.2	25.7

Source: Company, ICICIdirect.com, Research

Balance sheet

	(₹ Crore)			
(Year-end March)	FY10	FY11	FY12E	FY13E
Source of Funds				
Equity Capital	1,896.7	1,901.9	1,901.9	1,901.9
Stock Options	46.4	55.5	55.5	55.5
Reserves & Surplus	31,917.9	38,142.6	45,135.6	54,211.2
Shareholder's Fund	33,860.9	40,100.0	47,093.0	56,168.6
Loan Funds	3,400.7	6,400.7	5,900.7	5,400.7
Deferred Tax Liability	445.3	575.0	575.0	575.0
Minority Interest	0.0	0.0	0.0	0.0
Source of Funds	37706.91	47,075.7	53,568.7	62,144.3
Application of Funds				
Gross Block	25,542.0	25,557.0	25,572.0	25,587.0
Less: Acc. Depreciation	95.8	140.1	187.3	237.6
Net Block	25,446.2	25,417.0	25,384.7	25,349.5
Producing Properties	499.5	716.6	1,483.6	2,774.6
Capital WIP	9,163.5	13,096.8	16,052.9	18,272.9
Investments	1,712.4	2,010.5	4,010.5	4,010.5
Inventories	290.9	327.7	431.4	545.5
Debtor	306.8	1,482.9	1,797.7	2,273.0
Cash	922.0	5,191.0	6,251.4	11,610.2
Loan & Advance, Other CA	846.3	1,665.6	1,440.0	1,240.0
Total Current assets	2,365.9	8,667.1	9,920.5	15,668.7
Current Liabilities	986.9	1,263.8	1,617.9	2,045.7
Provisions	493.7	1,662.8	1,759.9	1,980.4
Total CL and Provisions	1,480.6	2,926.6	3,377.8	4,026.1
Net Working Capital	885.3	5,740.5	6,542.7	11,642.6
Miscellaneous expense	0.0	94.3	94.3	94.3
Application of Funds	37706.91	47,075.7	53,568.7	62,144.3

Source: Company, ICICIdirect.com, Research

Cash flow statement

	(₹ Crore)			
(Year-end March)	FY10	FY11	FY12E	FY13E
Profit after Tax	1,051.1	6,224.7	8,105.6	10,188.2
Less: Dividend Paid	0.0	0.0	1,112.6	1,112.6
Add: Depreciation	148.5	1,302.6	1,357.6	1,468.9
Add: Others	-108.7	35.4	0.0	0.0
Cash Profit	1,091.0	7,562.8	8,350.7	10,544.5
Increase/(Decrease) in CL	-132.6	1,446.0	451.2	648.3
(Increase)/Decrease in CA	-703.1	-2,032.2	-193.0	-389.4
CF from Operating Activities	255.2	6976.7	8608.8	10803.5
Purchase of Fixed Assets	3,371.0	5,423.8	5,048.5	4,944.6
(Inc)/Dec in Investments	-1,541.1	-298.1	-2,000.0	0.0
Others	0.0	0.0	0.0	0.0
CF from Investing Activities	-4,912.1	-5,721.9	-7,048.5	-4,944.6
Inc/(Dec) in Loan Funds	-955.7	3,000.0	-500.0	-500.0
Inc/(Dec) in Sh. Cap. & Res.	7.5	14.3	0.0	0.0
Others	0.0	0.0	0.0	0.0
CF from financing activities				
Change in cash Eq.	-5,605.1	4,269.1	1,060.3	5,358.9
Op. Cash and cash Eq.	6,527.1	922.0	5,191.0	6,251.4
Cl. Cash and cash Eq.	922.0	5,191.0	6,251.4	11,610.2

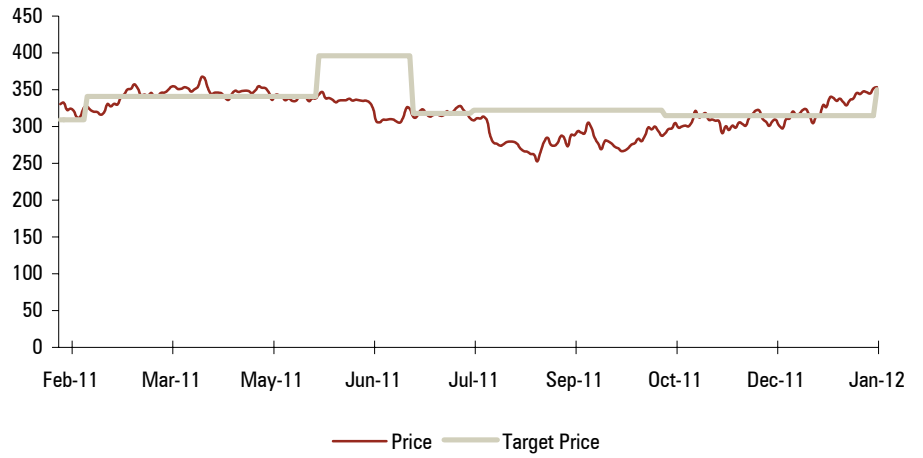
Source: Company, ICICIdirect.com, Research

Key ratios

(Year-end March)	FY10	FY11	FY12E	FY13E
Per share data (₹)				
Book Value	178.3	210.5	247.3	297.0
Cash per share	13.8	37.8	53.9	83.2
EPS	5.5	32.7	42.6	55.6
Cash EPS	6.3	39.6	49.8	63.3
DPS	0.0	0.0	5.0	5.0
Profitability & Operating Ratios				
EBITDA Margin (%)	47.6	80.2	86.9	73.9
PAT Margin (%)	64.8	60.6	61.8	62.8
Fixed Asset Turnover (x)	0.0	0.3	0.3	0.4
Inventory Turnover (Days)	65.4	11.6	12.0	12.0
Debtor (Days)	69.0	52.7	50.0	50.0
Current Liabilities (Days)	221.9	44.9	45.0	45.0
Return Ratios (%)				
RoE	3.1	15.5	17.2	18.7
RoCE	1.7	15.0	19.0	17.7
RoIC	1.8	17.7	23.5	23.8
Valuation Ratios (x)				
PE	63.0	10.7	8.2	6.3
Price to Book Value	2.0	1.7	1.4	1.2
EV/EBITDA	89.0	8.2	5.8	4.8
EV/Sales	42.3	6.6	5.0	3.6
Leverage & Solvency Ratios				
Debt to equity (x)	0.1	0.2	0.1	0.1
Interest Coverage (x)	21.1	23.9	39.2	46.2
Debt to EBITDA (x)	4.4	0.8	0.5	0.4
Current Ratio	1.6	3.0	2.9	4.1
Quick ratio	1.4	2.8	2.8	3.9

Source: Company, ICICIdirect.com, Research

Exhibit 7: Recommendation History



Source: ICICIdirect.com Research

Exhibit 8: Recent Releases

Date	Event	CMP	Target Price	Rating
17-Aug-10	Event Update	339	311	EXIT AT CMP
2-Nov-10	Q2FY11 Result Update	324	311	REDUCE
14-Feb-11	Q3FY11 Result Update	324	341	ADD
26-May-11	Q4FY11 Result Update	344	396	BUY
5-Jul-11	Event Update	324	318	HOLD
29-Jul-11	Q1FY12 Result Update	312	322	HOLD
24-Oct-11	Q2FY12 Result Update	293	315	HOLD
25-Jan-12	Q3FY12 Result Update	349	350	HOLD

Source: ICICIdirect.com Research

RATING RATIONALE

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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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