

BSE SENSEX	S&P CNX	CMP: INR352	TP: INR321	Neutral
16,996	5,127			
Bloomberg	CAIR IN			
Equity Shares (m)	1,902.6			
52-Week Range (INR)	372/250			
1,6,12 Rel. Perf. (%)	3/17/15			
M.Cap. (INR b)	669.1			
M.Cap. (USD b)	13.4			

* Consolidated

- Cairn India (CAIR) reported an EBITDA of INR25.5b for 3QFY12, lower than our estimate of INR27.8b. This is due to profit petroleum being higher at INR5.7b v/s our estimate of INR4.2b, led by lower capex (profit petroleum is shared post capex). The impact of (1) lower than expected forex gain at INR3b (v/s our estimate of INR4.8b), and (2) higher DD&A at INR5.6b (v/s our estimate of INR4.7b) due to dry well write-off in Sri Lanka, was partly compensated by lower tax rate at 5.7% (v/s our estimate of 16%). Reported PAT was INR22.6b (v/s our estimate of INR24.8b), up 13% YoY and 7% QoQ.
- Rajasthan realization was USD100.3/bbl (v/s USD101.6/bbl in 2QFY12 and USD74.8/bbl in 3QFY11), implying 8.3% discount to Brent price (long-term discount guidance of 10-15%).
- CAIR maintains its guidance of production ramp-up to 175kbpd by March 2012 from Mangala and Bhagyam and an average of 175kbpd (+5-10% likely) in FY13. Management guidance of Rajasthan gross capex at USD1b-1.25b for FY13 is at the upper end of the earlier guidance of USD0.5b-1b. Capex will be largely towards processing facilities, augmentation of pipeline capacity and well completion.
- Key events to watch in the near term are: (1) announcement of dividend policy, and (2) results of third-party reserves study. The management intends to communicate its dividend policy once the reorganization of subsidiaries is completed.
- **Revising estimates; maintain Neutral:** We are reducing our EPS estimate for FY12 by 4% to factor 4QFY12 Rajasthan production at 142kbpd (earlier 150kbpd) and are increasing our EPS estimate for FY13 by 9% to factor in the change in our INR/USD assumption to 50 (earlier at 48) and lower tax rate assumption at 10% (based on guidance) v/s 16% earlier. For FY13/FY14/FY15/long-term, we model Brent oil price at USD100/95/90/90 per bbl and INR/USD at 50/48/47/45. Our SOTP-based target price stands at INR321. For every USD10/bbl change in oil price, our target price changes by ~INR30/share.

Y/E March	Quarterly Performance (Consolidated)								(INR Million)	
	FY11				FY12				FY11	FY12E
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE		
Net Sales	8,406	26,873	30,964	36,545	37,127	26,522	30,968	33,153	102,788	127,769
Change (%)	310.1	1,069.5	525.0	427.5	341.7	-1.3	0.0	-9.3	533.3	24.3
EBITDA	6,472	21,750	25,634	31,382	31,748	21,040	25,456	26,921	85,238	105,165
% of Net Sales	77.0	80.9	82.8	85.9	85.5	79.3	82.2	81.2	82.9	82.3
D,D & A (inc. w/off)	1,981	3,178	3,086	5,351	3,647	3,531	5,550	5,034	13,596	17,763
Interest	493	1,281	742	393	446	1,228	240	201	2,909	2,115
Other Income (Net)	281	282	342	384	528	620	1,124	1,347	1,288	3,618
Forex Fluctuations	-413	-236	0	-464	-8	5,310	3,015	0	-1,112	8,317
PBT	3,866	17,337	22,147	25,558	28,175	22,211	23,803	23,033	68,908	97,222
Tax	1,052	1,478	2,046	980	909	1,029	1,184	2,735	5,556	5,857
Tax rate* (%)	24.6	8.4	9.2	3.8	3.2	6.1	5.7	11.9	7.9	6.6
PAT	2,814	15,859	20,101	24,578	27,266	21,182	22,619	20,298	63,352	91,365
Adj. PAT	2,814	15,859	20,101	24,578	27,266	7,630	22,619	20,298	63,352	77,813
YoY Change (%)	34.5	746.9	590.8	902.4	868.9	-51.9	12.5	-17.4	579.3	22.8

E: MOSL Estimates; * Excluding forex fluctuations, includes MAT credit.

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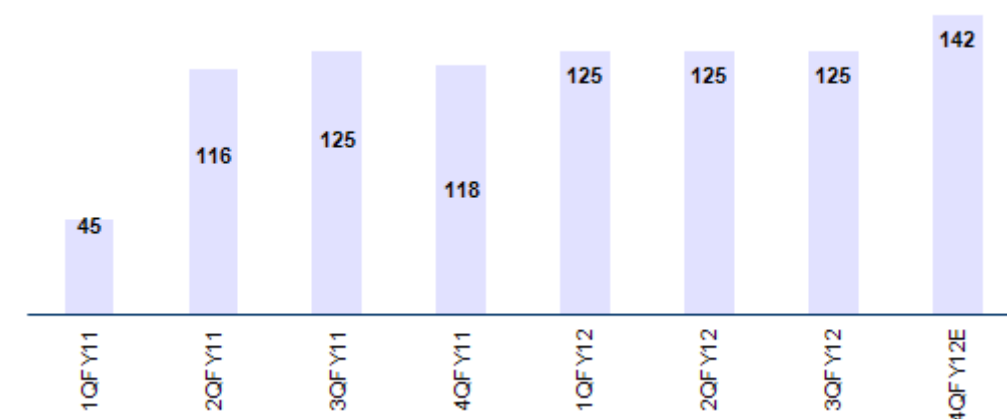
3QFY12 performance highlights

- **3QFY12 profit petroleum higher than estimates:** Led by lower than expected capex at INR70m (v/s est of INR120m), profit petroleum as higher at INR5.7b (v/s est of INR4.2b). Impact of royalty recoverability stood at 15% of the realization, in-line with guidance.
- **Forex gain was lower than est at INR3b** (v/s INR5.3b in 2QFY12) due to repayment of forex loan which resulted in lower foreign currency balance.
- **Net cash stood at INR64.6b** as on Dec 31, 2011. Tax rate to be in the range of 5-9% for FY12 and FY13.
- Rajasthan gross development in 3QFY12 capex stood at USD101m, while the cumulative capex till 3QFY12 stands at USD3.3b.
- Cairn India indicated that it has hedged its foreign exposure through Put options which will ensure that their realizations will not drop below the INR/USD rate of 48 and Cairn will get the full upside above INR48/USD.

3QFY12 operational update

- **Rajasthan production averaged 125kbpd in 3QFY12:** Gross crude production from its Rajasthan block (Mangala field) averaged 125.1kbpd (sales at 124.7KBPD) v/s 125.3kbpd in 2QFY12. Cairn's 3QFY12 working interest oil production from Rajasthan field was 87.6kbpd (v/s 87.7kbpd in 2QFY12) and 11.4kboepd (v/s 11.5kboepd in 2QFY12) from Ravva and Cambay fields.
- **Rajasthan crude discount to Brent at 8.3%:** Rajasthan crude realization stood at USD100.3/bbl in 3QFY12 (v/s USD101.6/bbl in 2QFY12) implying a 8.3% discount to average Brent price of USD110/bbl. Crude price discount guidance remains at 10-15% of Brent price. Discount to Brent was lower due to narrowing light-heavy spreads and higher fuel oil prices.
- **Production to reach 175kbpd by March 2012:** To reach 175kbpd by March 2012, company would require (1) government approval to increase the Mangala plateau to 150kbpd (currently producing 125kbpd) and (2) commissioning of Train 4. We model in Rajasthan production at 141kbpd in 4QFY12 (earlier 150kbpd) and 175kbpd in FY13 (unchanged). Long term plateau production guidance is maintained at 240kbpd and will again be contingent on Aishwariya start-up and government approvals for ramp-up.

Rajasthan production averaged 125kbpd in 3QFY12; model 142kbpd in 4QFY12



Source: Company/MOSL

Cairn India: Operating Performance

	FY11				FY12			3QFY12 (%)	
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	YoY	QoQ
Gross oil production (kbpd)									
Ravva	28.9	29.4	29.7	23.8	30.5	27.0	26.3	(11.5)	(2.6)
Cambay	8.2	6.6	6.3	6.4	5.6	5.4	4.8	(23.6)	(11.0)
Rajasthan	44.7	116.1	124.9	118.0	125.0	125.0	125.0	0.1	-
Sub-total	81.8	152.1	160.8	148.2	161.1	157.4	156.0	(3.0)	(0.8)
Gross gas production (mmscmd)									
Ravva	1.4	1.5	1.7	1.6	1.3	1.6	1.8	5.6	11.9
Cambay	0.9	0.8	0.6	0.6	0.6	0.5	0.5	(16.6)	(0.7)
Sub-total	2.3	2.3	2.3	2.2	1.8	2.1	2.3	(0.5)	8.7
Gross production (kbpd)	95.2	165.4	174.3	161.1	171.7	169.7	169.5	(2.8)	(0.1)
Net production (kboepd)									
Ravva (22.5%)	8.3	8.6	8.9	7.5	8.5	8.1	8.2	(7.3)	1.1
Cambay (40.0%)	5.4	4.5	4.0	4.0	3.5	3.4	3.2	(21.0)	(7.3)
Rajasthan (70.0%)	31.3	81.2	87.4	82.6	87.5	87.5	87.5	0.1	-
Net Total (kboepd)	45.0	94.3	100.3	94.0	99.6	99.0	98.9	(1.4)	(0.2)
Realisation									
Gas (USD/mscf)	4.6	4.5	4.5	4.5	4.5	4.5	4.4	(1.6)	(1.6)
Average realisation (USD/boe)	66.9	67.8	74.3	91.9	105.9	100.3	98.4	32.4	(1.9)

Source: Company/MOSL

Planned exploration and development work at its key blocks

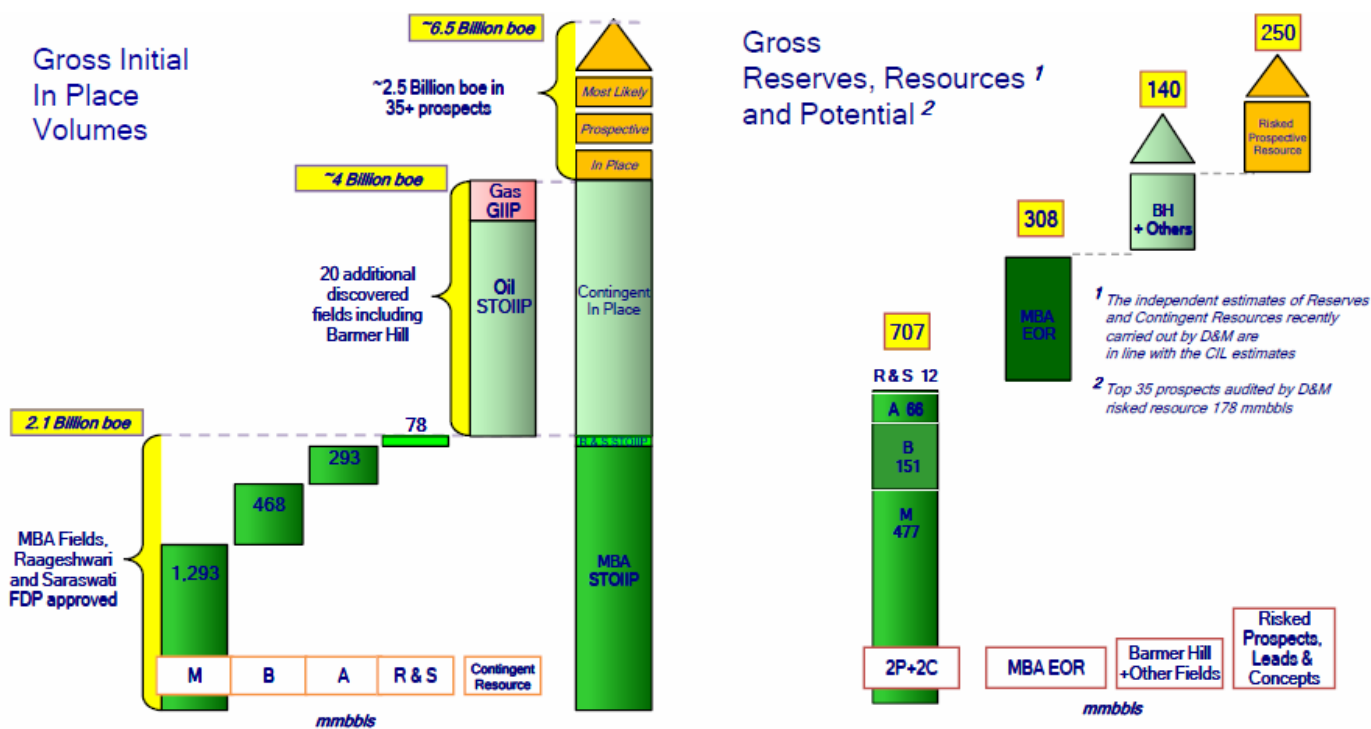
Key Blocks	Status update (2QFY12)	Status update (3QFY12)
Ravva field (PKGM-1)	Carried out 4D seismic survey to help identify bypassed oil zones in reservoir along with prospects in deeper zones	Interpretation of 4D seismic data is in progress; focused on optimizing value from asset
Cambay Basin (CB/OS-2)	Planned to utilize spare gas processing capacity by tolling and processing ONGC's gas from North Tapti field.	ONGC completed North Tapti pipeline tie-in with basin facilities for utilizing spare capacity
KG Onland block (KG-ONN-2003/1)	To drill exploration well Nagayalanka SE-1 in Nov-11; reprocessing 3D seismic data.	Nagayalanka SE-1 was spud on 25-Nov-11; to test and appraise the Nagayalanka discovery
KG-DWN-98/2 block		Cairn India decided to sell off its 10% stake to JV partner ONGC
KK-DWN-2004/1 block	3D seismic data processing has been completed and interpretation is ongoing.	Completed interpretation of 3D seismic data.
Pallar basin block (PR-OSN-2004/1)	Force majeure declared by Cairn has been accepted by DGH due to denial of permission to drill in the restricted area.	Cairn India and JV partners continue to actively pursue resolution with GoI
Sri-Lanka (SL 2007-01-001)	Notified gas discovery in the first drilled well. Commenced drilling of 2nd well in Oct-11 and to complete total 3 wells by March 2012.	Completed first phase of exploration programme; two wells resulted turned discovery and one well was abandoned as dry hole

Source: Company/MOSL

Expect reserve upsidest post third-party studies

- Of the 6.5bboe in-place reserves in Rajasthan, Cairn India's current recoverable reserve guidance of 1bbbl implies 15% recovery. It divides these in-place reserves into three parts: (a) 2.1bbbl in MBA fields - 1bbl of recovery (50% recovery factor); (b) 1.9bbbl in 20 additional discoveries - 140mmbbl of recovery (7% recovery factor) and (3) 2.5bbbl in 35+ prospects - 250mmbbl of recovery (10% recovery factor).
- As Cairn continues further exploration in block, we expect the recovery factor to increase. In the near term, we expect Cairn to announce the 390mmbbl of additional reserves (and model it as upside potential in our valuation).
- Management guidance of FY13 Rajasthan gross capex of USD1-1.25b is at the upper end of earlier guidance of USD0.5-1b. The capex will be largely towards processing facilities, augmentation of pipeline capacity and well completions. 65% of this will be on MBA fields and the rest will be towards Barmer Hill and IOR/EOR.
- Management indicated that FY13 capex should largely take care of planned plateau of 240kbpd.
- Cairn India's third-party reserve review is scheduled to complete in 4QFY12.

Rajasthan in-place resource base at 6.5bboe



Source: Company/MOSL

Valuation and view

Key assumptions

- We model Brent oil price at USD100/95/90 per bbl in FY13/14/long-term.
- We model 12.5% crude quality discount to Brent price to arrive at a gross realization for the company.
- Our estimates factor cess at full rate and royalty as a cost recoverable.

Revising estimates; maintain Neutral

- We are reducing our FY12 EPS by 4% to factor 4QFY12 Rajasthan production at 142kbpd (earlier 150kbpd) and increasing FY13 EPS by 9% to factor change in INRUSD assumption to 50 (earlier at 48) and lower tax rate at 10% (based on guidance) v/s earlier assumption of 16%.
- For FY13/FY14/FY15/long-term, we model in Brent oil price at USD100/95/90/90 and INRUSD at 50/48/47/45. Our SOTP-based target price stands at INR321/sh. For every USD10/bbl change in oil price our target price changes by ~INR30/sh.

Cutting production estimates

	Production (kbpd)		
	Revised	Earlier	Chg (%)
1QA	125	125	0
2QA	125	125	0
3QA	125	125	0
4QE	141	150	-6
FY12E	129	131	-2
FY13E	175	175	0
FY14E	223	223	0

Source: MOSL

Cairn: Valuation summary

	USDm	INR b	Remarks
Rajasthan	8.2	206	DCF based, net recovery of 700mmbbl
Ravva	0.3	8	DCF based
Cambay	0.1	3	DCF based
Less: Net Debt / (Cash)	(2.6)	(66)	FY13 end
Base Value	11.2	283	
Potential Upsides			
Rajasthan upside	0.7	18	DCF based, additional 140mmbbl from Barmer Hill
Rajasthan other prospective resources	0.0	0	250mmbbl prospective resources
Other exploration assets	0.8	20	1bboe resources valued at USD5/boe; 15% of GCoS
Target Price	12.7	321	

Source: MOSL

Cairn India: an investment profile

Company description

Cairn India, an E&P company, listed in January 2007 through an IPO after it spun off from its parent Cairn Energy Plc. Recently, Cairn Energy sold its majority stake to Vedanta Group. Cairn has working interest in 10 E&P blocks. Ravva and Cambay blocks produce about 49kboepd (Cairn WI ~13kbpd). The Rajasthan block, which accounts for ~80% of Cairn's reserves, is currently producing at 125kbpd (Cairn WI ~87.5kbpd) and expected to ramp-up to 175kbpd in FY12.

Key investment arguments

- Resolution of royalty and cess issue has realigned its economic interests with the JV partner ONGC and the government. We now expect the company to regain its operational momentum and look forward to 1) production ramp-up, 2) dividend policy and 3) reserve updates.
- Rajasthan block is a world-class asset. There remains upside from current development area and additional area to be developed.
- Of the current 7 exploration blocks, 3 (2 in KG basin and 1 in Sri Lanka) have already recorded discoveries and are likely to provide valuation upsides.
- Significant free cash generation as production from Rajasthan ramps up.

Key investment risks

- Smooth ramp-up to peak production and signing of sales contract at favourable discounts.
- Delay in the Rajasthan production ramp-up due to government approvals.

Recent developments

- Started production from Bhagyam field to reach approved plateau rate of 40kbpd.
- Completed first phase of exploration in the frontier Mannar basin in Sri Lanka; three wells drilling resulted in two successful discoveries.
- Notified Sri Lanka Government of its intention to enter Phase 2 of exploration in Mannar basin.

Valuation and view

- Cairn's fair value is highly leveraged to oil prices. We now model long term Brent crude price at USD90/bbl.
- Our SOTP-based target price is INR321/sh. For every USD10/bbl change in oil price our target price changes by ~INR30/sh

Target price and recommendation

Current Price (INR)	Target Price (INR)	Upside (%)	Reco.
352	321	-8.8	Neutral

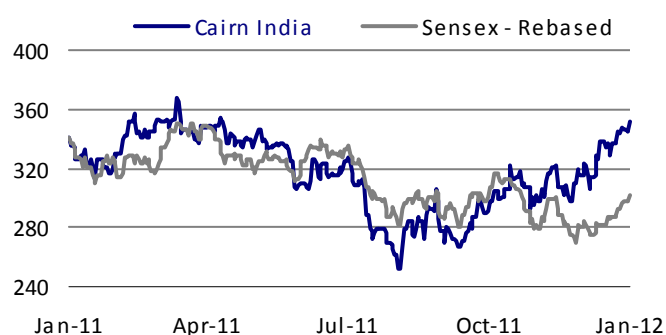
EPS: MOSL forecast v/s consensus (INR)

	MOSL Forecast	Consensus Forecast	Variation (%)
FY12	40.9	40.4	1.3
FY13	47.3	48.1	-1.8

Shareholding Pattern (%)

	Dec-11	Sep-11	Dec-10
Promoter	59.0	52.1	62.3
Domestic Inst	8.3	7.7	7.3
Foreign	28.1	16.8	26.1
Others	4.6	23.4	4.4

Stock performance (1 year)



Financials and Valuation

Income Statement		(INR Million)			
Y/E March	2010	2011	2012E	2013E	
Net Sales	16,230	102,779	128,342	152,577	
Change (%)	13.3	533.3	24.9	18.9	
Change in Stock	-366	-264	-95	0	
Employee Costs	1,102	1,105	1,138	1,308	
Operating Costs	5,689	16,709	22,134	32,708	
EBITDA	9,805	85,228	105,165	118,561	
% of Net Sales	60.4	82.9	81.9	77.7	
D,D&A (incl. w/off)	-3,570	-13,596	-17,763	-23,014	
Interest	-295	-2,909	-2,115	-1,148	
Other Income	3,505	1,288	3,618	5,468	
EBIT	9,446	70,011	88,906	99,867	
Forex Fluctuations	718	-1,112	8,317	0	
Exceptional Item	0	0	-13,552	0	
PBT	10,164	68,899	83,671	99,867	
Tax	-348	5,556	5,857	9,952	
Rate (%)	-3.7	7.9	6.6	10.0	
PAT	10,511	63,343	77,814	89,915	
Adjusted PAT	10,511	63,343	91,366	89,915	
Change (%)	30.1	502.6	44.2	-1.6	

Balance Sheet		(INR Million)			
Y/E March	2010	2011	2012E	2013E	
Share Capital	18,970	19,019	19,026	19,026	
Reserves & Surplus	319,714	383,913	443,920	513,259	
Net Worth	338,683	402,932	462,946	532,285	
Total Loans	34,007	26,782	13,500	13,500	
Deferred Tax	4,619	5,750	12,338	8,308	
Capital Employed	377,310	435,465	488,783	554,093	
Net Fixed Assets	1,270	59,236	61,582	60,678	
Prod. Proper.(net of depletio	4,995	20,850	53,789	43,026	
Capital WIP	91,635	39,819	17,255	44,379	
Goodwill	253,193	253,193	253,193	253,193	
Investments	17,124	10,945	10,945	10,945	
Deferred tax assets	166	138	138	138	
Curr. Assets, L & Adv.					
Inventory	2,909	3,277	5,274	6,270	
Debtors	3,067	14,829	10,549	12,541	
Cash & Bank Balance	9,294	44,847	89,153	138,675	
Loans & Adv. and Other CA	8,462	16,655	16,655	16,655	
Current Liab. & Prov.					
Liabilities	9,869	12,638	14,065	16,721	
Provisions	4,937	16,628	16,628	16,628	
Net Current Assets	8,928	50,342	90,939	140,792	
Misc. Expenses	0	943	943	943	
Application of Funds	377,310	435,465	488,783	554,093	

E: MOSL Estimates

Ratios					
Y/E March	2010	2011	2012E	2013E	
Basic (INR)					
EPS	5.5	33.3	40.9	47.3	
Adjusted EPS	5.5	33.3	48.0	47.3	
Cash EPS	6.3	39.6	48.6	57.3	
Book Value	178.1	211.9	243.3	279.8	
Adj. Book Value	44.9	78.7	110.2	146.7	
DPS	0.0	0.0	8.2	9.5	
Payout (incl. Div. Tax.)	0.0	0.0	19.5	22.9	
Valuation (x)					
P/E		10.6	8.6	7.4	
Cash P/E		8.9	7.2	6.1	
EV / EBITDA		7.7	5.8	4.7	
EV / BOE (in USD, 1P basis)		19.6	17.3	15.0	
Price / Book Value		1.7	1.4	1.3	
Dividend Yield (%)		0.0	2.3	2.7	
Profitability Ratios (%)					
RoE	3.2	17.1	21.1	18.1	
RoCE	2.6	17.9	19.7	19.4	
Turnover Ratios					
Debtors (No. of Days)	52	32	30.0	30.0	
Fixed Asset Turnover (x)	7.3	1.5	1.7	1.8	
Leverage Ratio					
Net Debt / Equity (x)	0.1	0.0	-0.1	-0.2	

Cash Flow Statement		(INR Million)			
Y/E March	2010	2011	2012E	2013E	
Profit /(Loss) before Tax	10,164	68,900	83,671	99,867	
Depreciation	1,780	12,226	14,714	19,167	
Other op activities	-2,012	4,860	10,473	3,847	
Direct Taxes Paid	-1,753	-12,592	-6,694	-13,981	
(Inc)/Dec in Wkg. Capital	-7,082	-10,088	3,710	-332	
CF from Op. Activity	1,097	63,306	105,874	108,568	
(Inc)/Dec in FA & CWIP	-33,662	-25,648	-30,485	-38,471	
(Pur)/Sale of Investments	25,194	-24,004	0	0	
Other In activities	2,361	903	0	0	
CF from Inv. Activity	-6,108	-48,749	-30,485	-38,471	
Change in Equity	20	670	7	0	
Inc / (Dec) in Debt	-8,713	-7,255	-13,282	0	
Other fin. activities	-1,760	-2,071	0	0	
Dividends Paid	0	0	-17,807	-20,576	
CF from Fin. Activity	-10,453	-8,656	-31,083	-20,576	
Inc / (Dec) in Cash	-15,464	5,902	44,306	49,521	
Add: Opening Balance	21,733	6,367	12,045	89,153	
Closing Balance	6,269	12,269	56,352	138,675	
Bank deposit adj	3,025	32,578	32,802	0	
Closing Balance	9,294	44,847	89,153	138,675	

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Cairn India

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