

Trapped in regulatory uncertainties

Uncertainties galore in iron ore business; stake in Cairn not enough support

February 2, 2012

Rating Remains	Neutral
Target price Reduced from 300	INR 220
Closing price January 30, 2012	INR 203
Potential upside	+8.4%

Action: Stock remains under pressure; uncertainties continue

Despite Sesa Goa's stock price correcting by 30% during the past six months (vs Sensex down 8.7%), we don't believe valuations are attractive enough, given that regulatory issues have played out worse than our expectations (export duty hike to 30%, ban in Karnataka continuing). We maintain our Neutral rating as most of the above issues are in the price and we expect clarity on the reopening of mines in Karnataka in the near term. We don't expect SESA mines to be banned altogether and any impact would be more on account of deferment of earnings, in our view, as approval for SESA's mines would take time since it has been reported for minor violations.

Catalysts: Karnataka and Goa iron ore scenario

The decision of the Supreme Court on mining in Karnataka, and the Justice Shah report on mining in Goa would be key catalysts either way.

Valuation: Short mine life, adverse regulatory environment warrants a discount to peers

Sesa Goa trades at 5.5x FY13FP/E and 1.2x FY13F P/B, which is at a discount to peers. However, we believe the discount is justified given: 1) the short mine life, 2) adverse regulatory environment, and 3) holding company discount for stake in Cairn India as SESA is just an acquisition vehicle for its parent company Vedanta Resources.

We value Sesa Goa at INR220/share with standalone operations at INR75/share (using DCF) and 20% stake in Cairn India at INR145/share at a holding company discount of 20%.

31 Mar	FY11	FY12F		FY13F		FY14F	
Currency (INR)	Actual	Old	New	Old	New	Old	New
Revenue (mn)	92,051	126,236	80,808	145,156	82,588	148,122	98,302
Reported net profit (mn)	42,225	60,090	22,721	68,421	35,207	67,850	35,737
Normalised net profit (mn)	42,225	60,090	25,721	68,421	35,207	67,850	35,737
Normalised EPS	49.20	69.14	29.59	78.73	40.51	78.07	41.12
Norm. EPS growth (%)	51.8	40.5	-39.8	13.9	36.9	-0.8	1.5
Norm. P/E (x)	4.4	N/A	7.5	N/A	5.5	N/A	5.2
EV/EBITDA (x)	3.6	3.0	6.5	2.2	4.9	1.9	4.5
Price/book (x)	1.5	N/A	1.3	N/A	1.2	N/A	1.1
Dividend yield (%)	2.0	N/A	1.7	N/A	1.7	N/A	1.7
ROE (%)	40.7	41.1	16.8	37.0	23.5	30.0	21.7
Net debt/equity (%)	0.8	9.0	24.7	net cash	15.5	net cash	6.8

Source: Company data, Nomura estimates

Key company data: See page 2 for company data and detailed price/index chart.

Anchor themes

As state governments favour steelmakers for new mines, independent miners are increasingly feeling the pressure in India. Exports are further discouraged to preserve ore for domestic steelmakers.

Nomura vs consensus

Consensus earnings estimates are largely in line with our estimates. However, consensus is widely divided in terms of recommendations with 13 Buys, 11 Reduces and 18 Neutrals.

Research analysts

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See Appendix A-1 for analyst certification, important disclosures and the status of non-US analysts.

Key data on Sesa Goa

Income statement (INRmn)

Year-end 31 Mar	FY10	FY11	FY12F	FY13F	FY14F
Revenue	58,583	92,051	80,808	82,588	98,302
Cost of goods sold	-25,617	-38,058	-49,698	-56,574	-69,936
Gross profit	32,966	53,993	31,110	26,014	28,366
SG&A	-534	-823	-864	-908	-953
Employee share expense	-1,691	-2,071	-2,319	-2,551	-2,806
Operating profit	30,741	51,099	27,926	22,555	24,607
EBITDA	31,486	52,063	29,004	23,863	26,080
Depreciation	-745	-964	-1,077	-1,308	-1,473
Amortisation					
EBIT	30,741	51,099	27,926	22,555	24,607
Net interest expense	-555	-901	-2,337	-3,387	-2,587
Associates & JCEs	0	0	5,075	19,139	17,570
Other income	4,260	5,399	2,618	2,970	3,118
Earnings before tax	34,446	55,597	33,283	41,278	42,708
Income tax	-8,056	-13,372	-7,562	-6,071	-6,971
Net profit after tax	26,390	42,225	25,721	35,207	35,737
Minority interests	-99	0	0	0	
Other items					
Preferred dividends					
Normalised NPAT	26,291	42,225	25,721	35,207	35,737
Extraordinary items	0	0	-3,000	0	0
Reported NPAT	26,291	42,225	22,721	35,207	35,737
Dividends	-3,160	-3,763	-3,101	-3,101	-3,101
Transfer to reserves	23,132	38,462	19,620	32,106	32,636

Valuation and ratio analysis

FD normalised P/E (x)	6.6	4.4	7.5	5.5	5.2
FD normalised P/E at price target (x)	6.2	4.1	7.0	5.1	4.9
Reported P/E (x)	6.6	4.4	8.2	5.3	5.2
Dividend yield (%)	1.8	2.0	1.7	1.7	1.7
Price/cashflow (x)	5.8	4.5	9.1	10.3	10.3
Price/book (x)	2.3	1.5	1.3	1.2	1.1
EV/EBITDA (x)	5.7	3.6	6.5	4.9	4.5
EV/EBIT (x)	5.9	3.6	6.7	5.0	4.7
Gross margin (%)	56.3	58.7	38.5	31.5	28.9
EBITDA margin (%)	53.7	56.6	35.9	28.9	26.5
EBIT margin (%)	52.5	55.5	34.6	27.3	25.0
Net margin (%)	44.9	45.9	28.1	42.6	36.4
Effective tax rate (%)	23.4	24.1	22.7	14.7	16.3
Dividend payout (%)	12.0	8.9	13.6	8.8	8.7
Capex to sales (%)	32.3	10.5	4.0	6.1	3.1
Capex to depreciation (x)	25.4	10.0	3.0	3.8	2.0
ROE (%)	41.6	40.7	16.8	23.5	21.7
ROA (pretax %)	43.2	43.4	19.3	21.1	20.8

Growth (%)

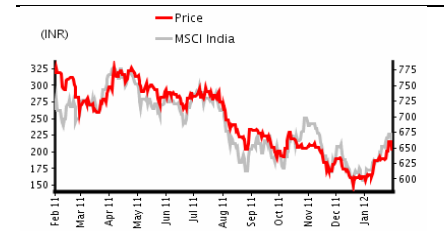
Revenue	18.1	57.1	-12.2	2.2	19.0
EBITDA	23.9	65.4	-44.3	-17.7	9.3
EBIT	23.4	66.2	-45.3	-19.2	9.1
Normalised EPS	28.3	51.8	-39.8	36.9	1.5
Normalised FDEPS	28.3	51.8	-41.7	36.9	4.8

Per share

Reported EPS (INR)	32.41	49.20	26.14	40.51	41.12
Norm EPS (INR)	32.41	49.20	29.59	40.51	41.12
Fully diluted norm EPS (INR)	32.41	49.20	28.67	39.24	41.12
Book value per share (INR)	95.28	147.40	164.70	180.19	198.09
DPS (INR)	3.80	4.33	3.57	3.57	3.57

Source: Company data, Nomura estimates

Relative performance chart (one year)



Source: ThomsonReuters, Nomura research

(%)	1M	3M	12M
Absolute (INR)	34.3	4.5	-34.8
Absolute (USD)	44.5	3.2	-39.6
Relative to index	22.5	8.1	-27.4
Market cap (USDmn)	3,740.7		
Estimated free float (%)	45.0		
52-week range (INR)	335.55/148.3		
3-mth avg daily turnover (USDmn)	12.12		
Major shareholders (%)			
Promoters	55.1		

Source: Thomson Reuters, Nomura research

Notes

Higher export duty and lower volumes should lead to decline in EBITDA from FY13F

Cashflow (INRmn)

Year-end 31 Mar	FY10	FY11	FY12F	FY13F	FY14F
EBITDA	31,486	52,063	29,004	23,863	26,080
Change in working capital	3,059	-2,596	2,335	1,328	-1,442
Other operating cashflow	-4,351	-8,875	-10,281	-6,488	-6,440
Cashflow from operations	30,195	40,592	21,058	18,704	18,198
Capital expenditure	-18,945	-9,636	-3,213	-5,000	-3,000
Free cashflow	11,250	30,956	17,845	13,704	15,198
Reduction in investments	-14,397	-42,350	-49,554	0	0
Net acquisitions					
Reduction in other LT assets	0	-1	0	0	0
Addition in other LT liabilities	0	0	0	0	0
Adjustments	86	-68	0	0	0
Cashflow after investing acts	-3,061	-11,463	-31,709	13,704	15,198
Cash dividends	-3,160	-3,763	-3,101	-3,101	-3,101
Equity issue	8,797	9,979	0	0	0
Debt issue	19,587	-9,611	35,000	-5,314	-14,680
Convertible debt issue					
Others	1,578	-91	494	494	494
Cashflow from financial acts	26,802	-3,486	32,393	-7,921	-17,287
Net cashflow	23,741	-14,948	683	5,782	-2,089
Beginning cash	177	23,918	8,970	9,654	15,436
Ending cash	23,918	8,970	9,654	15,436	13,347
Ending net debt	-4,313	1,024	35,341	24,244	11,653

Source: Company data, Nomura estimates

Notes

We expect the company to generate strong free cash flows as capex needs are low

Balance sheet (INRmn)

As at 31 Mar	FY10	FY11	FY12F	FY13F	FY14F
Cash & equivalents	23,918	8,970	9,654	15,436	13,347
Marketable securities	0	0	0	0	0
Accounts receivable	3,381	6,830	4,797	4,902	5,835
Inventories	5,009	7,438	9,630	10,296	12,692
Other current assets	11,851	13,358	10,000	9,500	11,308
Total current assets	44,160	36,596	34,080	40,134	43,181
LT investments	45,649	87,998	137,552	137,552	137,552
Fixed assets	22,557	31,442	33,578	37,270	38,797
Goodwill	0	0	0	0	0
Other intangible assets	0	0	0	0	0
Other LT assets	0	1	1	1	1
Total assets	112,366	156,037	205,211	214,957	219,531
Short-term debt					
Accounts payable	12,400	17,256	16,392	17,992	21,686
Other current liabilities	750	682	682	682	682
Total current liabilities	13,150	17,938	17,074	18,675	22,368
Long-term debt	19,606	9,995	44,995	39,680	25,000
Convertible debt	0	0	0	0	0
Other LT liabilities	0	0	0	0	0
Total liabilities	32,756	27,933	62,069	58,355	47,368
Minority interest	433	0	0	0	0
Preferred stock	0	0	0	0	0
Common stock	831	869	869	869	869
Retained earnings	23,132	38,462	19,620	32,106	32,636
Proposed dividends	3,160	3,763	3,101	3,101	3,101
Other equity and reserves	52,055	85,011	119,553	120,527	135,556
Total shareholders' equity	79,177	128,104	143,142	156,602	172,162
Total equity & liabilities	112,366	156,037	205,211	214,957	219,530

Notes

SESA has turned into a net debt company with acquisition of a stake in Cairn India – but not a major issue as we expect cash flows to remain strong

Liquidity (x)

Current ratio	3.36	2.04	2.00	2.15	1.93
Interest cover	55.4	56.7	11.9	6.7	9.5

Leverage

Net debt/EBITDA (x)	net cash	0.02	1.22	1.02	0.45
Net debt/equity (%)	net cash	0.8	24.7	15.5	6.8

Activity (days)

Days receivable	19.8	20.2	26.3	21.4	19.9
Days inventory	54.5	59.7	62.8	64.3	60.0
Days payable	129.9	142.2	123.9	110.9	103.5
Cash cycle	-55.6	-62.3	-34.7	-25.2	-23.6

Source: Company data, Nomura estimates

Clouded environment: improvement expected but will take time

Sesa Goa is among the worst performing metals and mining stocks in India over last six months on: 1) the mining ban in Karnataka, 2) export duty increase from 20% to 30%, and 3) uncertainties of operations in Goa. We had earlier highlighted that India is not a very conducive place for iron ore exporters, given the government's focus on preserving iron ore for domestic consumption (it has been targeted through increases in export duties). However, the stock has recovered by 45% during the past one month vs Sensex rebound of 12.5%, on the back of good Q3FY12 results and market expectations of restarting of Karnataka mines. However, we don't believe the current rally is sustainable as: 1) volume surprise in Q3FY12 was on account of sale from inventory, and 2) realization increase on the back of INR depreciation – the INR has begun to appreciate and this is likely to be negative for the company.

As a result of the above adverse developments, we have revised down our earnings estimates for Sesa Goa by 46% and 48% for FY12F and FY13F and reduce our target price to INR220 from INR300 earlier. While we believe its 20% stake in Cairn India (CAIR IN, Buy) is a good investment, it is unlikely to add major value to SESA, in our view, as 1) there are no business alignments, and 2) SESA is just an acquisition vehicle without any controlling stake. Hence, we have valued this stake at a holding company discount of 20%.

We maintain our Neutral rating on Sesa Goa despite uncertainties of iron ore operations both in Karnataka and Goa, as: 1) the stock has already corrected and is building in volume decline in FY13F, and 2) the restarting of mines in Karnataka (mines which have not been cited for violations) would be taken positively even for Sesa Goa as mines with minor violations would be next in line to resume operations after the restarting of violation-free mines. We don't believe the company would lose out on its iron ore reserves, rather we believe that the current ban in Karnataka would defer the earnings by a year or two, and volume growth would be limited.

Fig. 1: SESA: Stock has recovered from lows



Source: Bloomberg, Nomura research

Regulatory concerns galore for iron ore exports in India

Iron ore exporters in India have been adversely affected we believe by a growing focus on preserving iron ore for domestic usage and the perception that exports have been a key reason for widespread illegal mining in India. As a result, the government has taken various measures, such as banning exports and increasing export duty to check exports. All these steps have led to a sharp decline in iron ore exports from India; April-Nov 2011 iron ore exports were 40mn tonnes, down 28% y-y.

Export duty on iron ore was increased from 10% of realization in FY10 to 20% last year, and has now been increased to 30% (effective Dec 30, 2011). At the same time, states like Karnataka have had an export ban in place for the past two years and have now banned mining operations completely. Orissa has an informal export ban in place, with the state government not in favour of iron ore exports from the state.

Karnataka ban doesn't mean permanent loss of reserves – it's just deferment of earnings

While the Karnataka mining ban has been a key reason for stock underperformance (and we agree with the issues), we believe the valuation impact has been exaggerated. We expect Sesa Goa to obtain mining approval, as it has been cited for minor violations related to dumping of wastes. As per industry sources, mines with minor violations are likely to get approval with some restrictions and fines.

This means that while there would be a near-term earnings loss, overall reserves wouldn't be downgraded for Sesa Goa. Effectively, this means the earnings from these reserves would be deferred by 1-2 years, in our view. Therefore, the valuation impact of this would be minimal, according to our estimates.

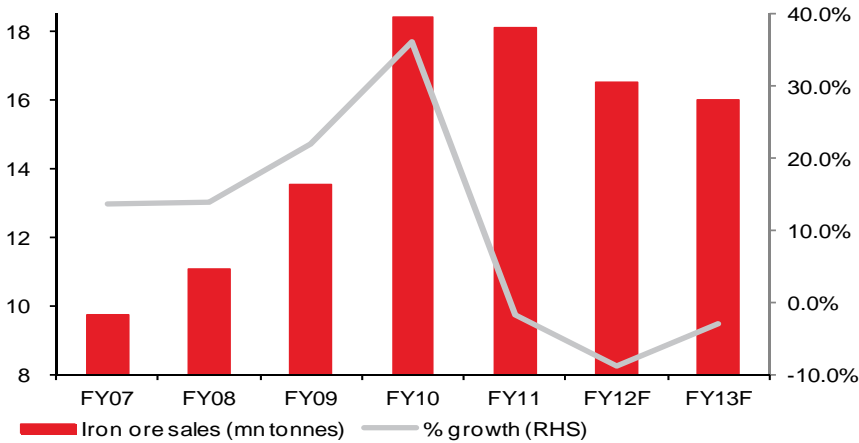
Focus on environmental issues has affected exporters more

The media, both print and broadcast (e.g. "An Ecosystem of Fraud", The Hindu, dated July 29 2011), highlighted several instances of illegal mining (and this has been confirmed by the Supreme Court investigation) in India (including over production, evasion of royalties and duties, improper waste disposal), and the export of iron ore has been cited by the authorities (Supreme Court, government) as the key reason for this.

During the past five years, with iron ore prices increasing from US\$60/t to US\$170/t in the spot market, iron ore exporters have seen significant earnings growth. This has led to over-production (above licensed capacity) and exporting the quantity illegally after evading duties, according to Lokayukta Hegde report, dated July 27, 2011. Also the focus of the miners was just on production, and other aspects, i.e., proper disposal of waste, preservation of the environment were ignored. A recent Supreme Court enquiry, into mining operations in Karnataka revealed widespread corruption and blatant flouting of norms, and the Supreme Court banned total mining activity in Karnataka from July 29 2011.

As a result, various committees set up by the Supreme Court and the mining bureau have advocated controlling the exports and thereby reducing the incentive for over production. While these committees, in general, have been sympathetic to iron ore supplies for domestic usage, they have adopted a strict policy on exports.

Fig. 2: Volume growth set to taper down



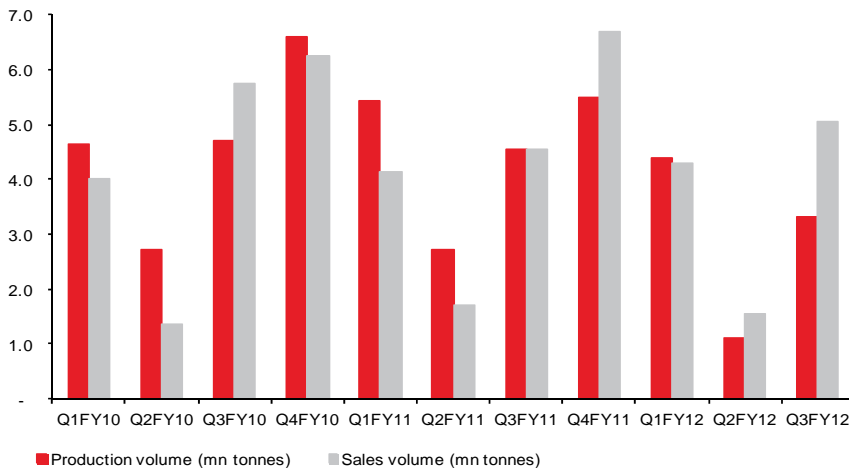
Source: Company data, Nomura estimates

Karnataka operations have been reported for violations; production ban continues

While profitability has been affected by duty hikes, volume growth for Sesa Goa has also suffered. Its Karnataka mines remain shut, and in Goa the production growth has remained muted. The company surprised positively with higher sales in Q3FY12, however, it was primarily on account of E-Auction sales in Karnataka and the sale of inventory in Goa. Production volumes have come down sharply during the quarter (3.3mt from 4.2mt in Q3FY11).

Hence, we expect volumes to remain under pressure as: 1) higher production from Goa would depend on the Justice Shah report (note the time line for this is not yet out), and 2) SESA’s mine in Karnataka has been cited for minor violations and hence it would take some time to start production (we expect production from Karnataka mines from FY14F).

Fig. 3: Quarterly production vs. sales volumes



Source: Company data, Nomura research

Mines and mineral bill to further affect earnings

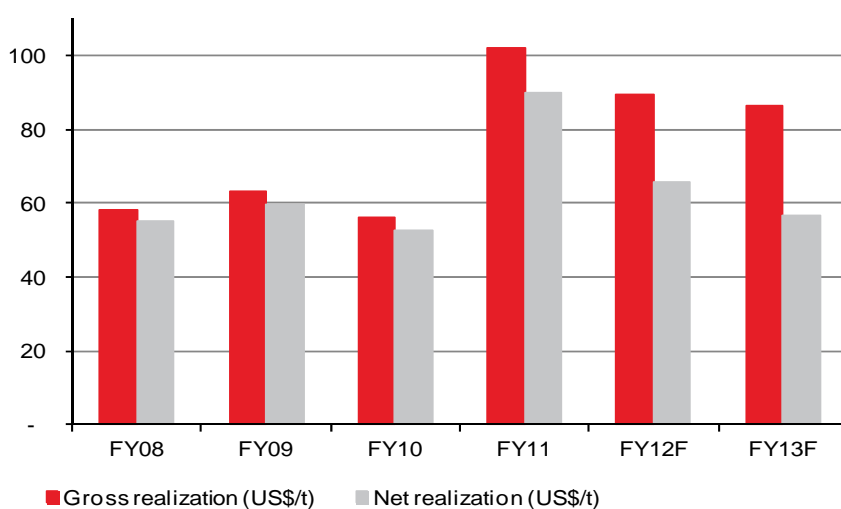
Another regulatory impact is the mines and minerals bill which asks for an amount equal to royalty be paid for rehabilitation of displaced/local population. While this bill is yet to be passed, we expect approval in the near term as cabinet approval has been received for the bill. We have built in the full impact in to our estimates from FY14F.

Our estimates build in iron ore prices to remain strong in FY13-14F

We expect iron ore prices to remain strong for the next two to three years, in line with the view of our Australian mining team. Therefore, we build in a realization of US\$90/t for Sesa Goa in FY13F and FY14F – flat from current levels.

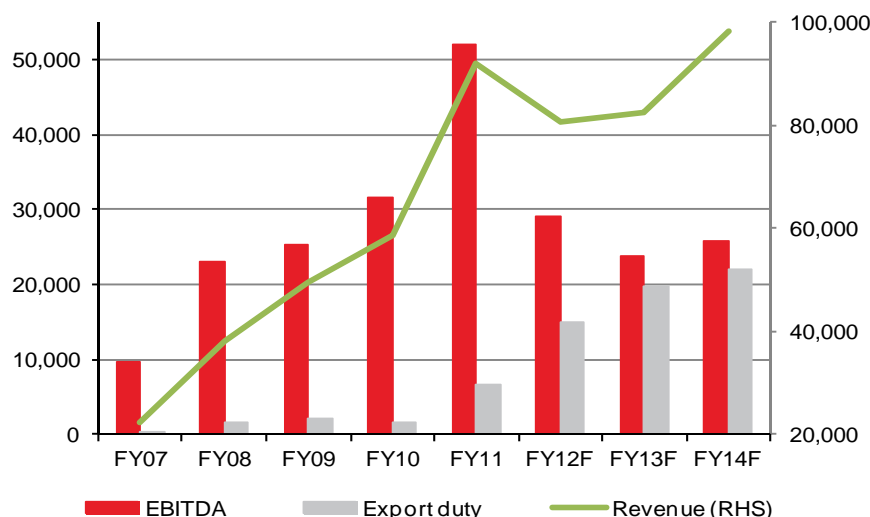
However, on account of the export duty increase, net realizations for the company would shrink, as seen in the chart below.

Fig. 4: Sesa Goa realizations to shrink on higher iron ore export duty
(US\$/t)



Source: Company data, Nomura estimates

Fig. 5: EBITDA and net profits should trend down on export duty hike, lower volumes
(INR mn)



Source: Company data, Nomura estimates

We revise our earnings estimates to build in higher export duty, lower volumes

We have revised downwards our EBITDA estimates by 65% and 59% and net profits by 48% and 47% for FY13F and FY14F, respectively, on account of lower volume estimates and export duty increases.

On account of higher export duty, we estimate costs would go up from INR14.6bn and INR16bn to INR22bn and INR24bn in FY13F and FY14F, respectively.

Fig. 6: Key revisions

	FY10	FY11	FY12F	FY13F	FY14F
Sales volume (mn tonnes)	20.5	18.1	16.5	16.0	20.0
Iron ore realizations (INR/t)	2,525	4,599	4,294	4,327	4,128
Export duty paid (INR mn)	1,476	6,620	14,850	19,800	21,930
Royalty paid (INR mn)	1,607	3,304	4,125	4,000	9,000
EBITDA (INR mn)	31,486	52,063	29,004	23,863	26,080
Standalone profit (INR mn)	26,390	42,225	17,645	16,067	18,167
Consolidated profit (INR mn)	26,291	42,225	22,721	35,207	35,737
EPS (INR)	31.6	48.6	26.1	40.5	41.1
Previous estimates					
Sales volume (mn tonnes)	20.5	18.1	20.5	22.0	23.0
Iron ore realizations (INR/t)	2,525	4,599	4,500	4,500	4,200
Export duty paid (INR mn)	1,476	6,620	12,850	13,750	13,450
Royalty paid (INR mn)	1,607	3,304	4,200	4,400	4,600
EBITDA (INR mn)	31,486	52,063	60,575	68,276	62,956
Standalone profit (INR mn)	26,390	42,225	39,288	44,873	44,181
Consolidated profit (INR mn)	26,291	42,225	60,090	68,421	67,850
EPS (INR)	31.6	48.6	69.1	78.7	78.1

Source: Company data, Nomura estimates

Stake in Cairn Energy a good investment, but doesn't add value to Sesa Goa

Sesa Goa completed the acquisition of a 20% stake in Cairn India (CAIR IN, Buy) in Dec 2011. While we believe Cairn is a very good asset to own, we do not think it can create much value for Sesa Goa. We believe Sesa Goa should get a holding company discount for its stake in Cairn India on account of:

- 1) Sesa Goa has been used purely as an acquisition vehicle by its parent company, Vedanta Resources (VED LN, not rated). While Vedanta has acquired 39% stake in Cairn India, a 20% stake was acquired through Sesa Goa.
- 2) Sesa Goa doesn't have any business synergy with Cairn India
- 3) Sesa Goa doesn't have any management control in Cairn India
- 4) We don't expect Sesa Goa to be able to offload or transfer these stakes to any other company as Vedanta doesn't have enough liquidity to be able to buy back this stake.

As a result we are ascribing a holding company discount of 20% while valuing the stake in Cairn India.

We maintain Neutral revised target price of INR220

We maintain our Neutral rating on Sesa Goa despite uncertainties of iron ore operations both in Karnataka and Goa, as: 1) the stock has already corrected and is building in volume decline in FY13F, and 2) the restarting of mines in Karnataka (mines which have not been cited for violations) would be taken positively even for Sesa Goa as mines with minor violations would be next in line to resume operations after the restarting of violation-free mines. We don't believe the company would lose out on its iron ore reserves, rather we believe that the current ban in Karnataka would defer the earnings by a year or two, and volume growth would be limited.

Recent developments like the mining ban in Karnataka and hike in export duty to 30% have resulted in a scenario worse than we had expected, as these events would actually lead to: 1) a volume decline going forward (earlier we had expected slower volume growth), 2) earnings falling sharply – we had expected flat earnings, and 3) net debt higher than our expectations.

As a result, we have lowered our target price to INR220 (from INR300 earlier). We value the iron ore business based on DCF at INR75/share (from INR159/share) and 20% stake in Cairn India at INR145/share (from INR141/share).

We have valued stake in Cairn India at a 20% holding company discount to the Cairn India valuation of INR789bn by our oil and gas team.

Fig. 7: Valuations

(INR mn)	Total value	Per share	Remarks
Standalone operations	64,918	75	Based on DCF
Stake in Cairn India	126,293	145	20% holding co. discount
Total value (INR mn)	191,211		
Target price (INR)	220		

Source: Company data, Nomura estimates

Upside risks

- 1) Faster progress of new mines: Sesa Goa has been allocated a prospective license for an iron ore mine in Jharkhand. If the company develops it, there could be upside risk to our estimates as we have not built in any value from this asset.
- 2) Early resolution of Karnataka and GOA issues: Volume growth might surprise positively in that case.

Downside risks

- 1) We have built in iron ore prices remaining firm for FY13-14F. In the event of a price decline, our estimates are at a risk.
- 2) We have not accounted for any adverse ruling of its Goan operations. If there is an adverse recommendation by Justice Shah Committee, there could be a risk to our estimates.

Appendix A-1

Analyst Certification

I, Alok Kumar Nemani, hereby certify (1) that the views expressed in this Research report accurately reflect my personal views about any or all of the subject securities or issuers referred to in this Research report, (2) no part of my compensation was, is or will be directly or indirectly related to the specific recommendations or views expressed in this Research report and (3) no part of my compensation is tied to any specific investment banking transactions performed by Nomura Securities International, Inc., Nomura International plc or any other Nomura Group company.

Issuer Specific Regulatory Disclosures Mentioned companies

Issuer name	Ticker	Price	Price date	Stock rating	Sector rating	Disclosures
Cairn India	CAIR IN	INR 343	30-Jan-2012	Buy	Not rated	
Sesa Goa	SESA IN	INR 203	30-Jan-2012	Neutral	Not rated	

Previous Rating

Issuer name	Previous Rating	Date of change
Cairn India	Reduce	27-Aug-2009
Sesa Goa	Not Rated	22-Jun-2011

Sesa Goa (SESA IN)

INR 203 (30-Jan-2012) Neutral (Sector rating: Not rated)

Rating and target price chart (three year history)



For explanation of ratings refer to the stock rating keys located after chart(s)

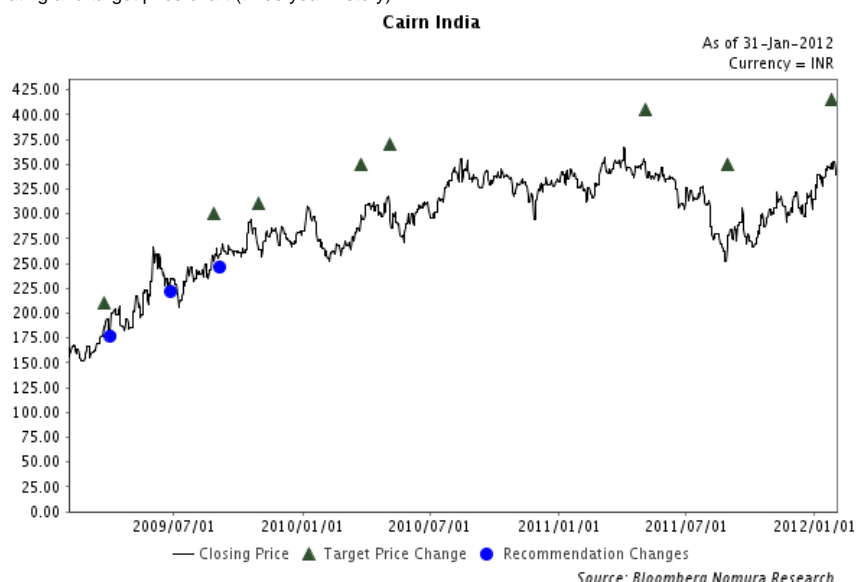
Valuation Methodology We value Sesa Goa at INR220/share on a sum-of-the-parts valuation. We value standalone Sesa Goa at INR 64.9bn (INR 75/share) using discounted cash flow to equity. We assume cost of equity of 13%. The 20% stake in Cairn India is valued at INR 126.3bn, based on the valuation of Cairn India by our oil and gas team at INR789.3bn and a holding company discount of 20%.

Risks that may impede the achievement of the target price Upside risks: 1) Faster progress of new mines: Sesa Goa has been allocated a prospective license for an iron ore mine in Jharkhand. If the company develops it, there could be upside risk to our estimates as we have not built in any value from this asset. 2) Early resolution of Karnataka and GOA issues: Volume growth might surprise positively in that case. Downside risks: 1) We have built in iron ore prices remaining firm for FY13-14F. In the event of a price decline, our estimates are at a risk. 2) We have not accounted for any adverse ruling of its Goan operations. If there is an adverse recommendation by Justice Shah Committee, there could be a risk to our estimates.

Cairn India (CAIR IN)

INR 343 (30-Jan-2012) Buy (Sector rating: Not rated)

Rating and target price chart (three year history)



Date	Rating	Target price	Closing price
25-Jan-12		415.00	345.85
29-Aug-11		350.00	267.10
05-May-11		405.00	346.60
05-May-10		370.00	300.40
25-Mar-10		350.00	298.85
30-Oct-09		310.00	263.45
27-Aug-09	Buy		252.10
27-Aug-09		300.00	252.10
18-Jun-09	Reduce		227.80
24-Mar-09	Buy		182.80
24-Mar-09		210.00	182.80

For explanation of ratings refer to the stock rating keys located after chart(s)

Valuation Methodology We value Cairn India on a SOTP basis. We calculate the NAV of its key fields Mangala, Bhagyam and Aishwariya (under development) and Rageshwari & Saraswati (FDP approved) using a discounted cash flow (DCF) methodology. Our NAV of MBA and R&S field is INR266/share. The Ravva and Cambay blocks are valued at INR8/share and INR2/share, respectively. We value recoverable resources (140mmboe now) in other 20 fields at USD6/boe. We value prospective resources of 1.76bboe (assume 25% recovery) at USD6/boe. We also assign a value of USD6/boe to exploration upsides (prospective recoverable resources of 250mmboe — Cairn’s share of 175mmboe). Our SOTP based NAV for Cairn is INR414/share. Our TP for Cairn India is INR415.

Risks that may impede the achievement of the target price Delays in ramp-up of production; lower oil prices and higher discounts for waxy Rajasthan crude are key downside risks.

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STOCKS

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SECTORS

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Benchmarks are as follows: **United States**: S&P 500; **Europe**: Dow Jones STOXX 600; **Global Emerging Markets (ex-Asia)**: MSCI Emerging Markets ex-Asia.

Explanation of Nomura's equity research rating system in Japan and Asia ex-Japan

STOCKS

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