

January 25, 2012

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Rating	Accumulate
Price	Rs352
Target Price	Rs365
Implied Upside	3.7%
Sensex	16,996
Nifty	5,127

(Prices as on January 24, 2012)
Trading data

Market Cap. (Rs bn)	683.5
Shares o/s (m)	1,943.4
3M Avg. Daily value (Rs m)	966.4

Major shareholders

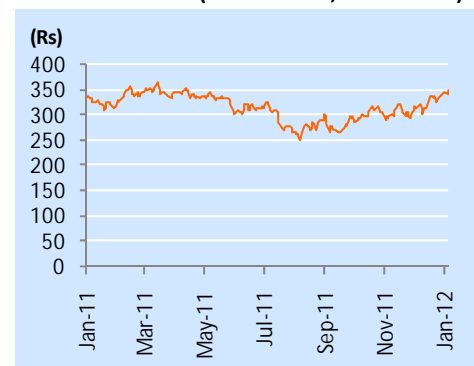
Promoters	59.00%
Foreign	6.22%
Domestic Inst.	6.22%
Public & Other	8.24%

Stock Performance

(%)	1M	6M	12M
Absolute	10.8	7.9	3.3
Relative	2.8	17.2	14.6

How we differ from Consensus

EPS (Rs)	PL	Cons.	% Diff.
2013	56.7	47.6	19.1
2014	48.1	48.6	-1.0

Price Performance (RIC: CAIL.BO, BB: CAIR IN)


Source: Bloomberg

■ Cairn India's (CIL's) revenue at Rs30.9bn (up 17% QoQ, flat YoY) was slightly higher than our estimates of Rs30.0bn. EBITDA at Rs25.5bn was also slightly higher than our estimate of Rs24.6bn. However, on account of lower-than-anticipated forex gain (Rs3.01bn), coupled with higher-than-estimated exploratory write-offs (Rs1.76bn), PAT at Rs22.6bn (up 7% QoQ, 13% YoY) was lower than our estimate of Rs24.4bn. Crude production at *Mangala* continued at 125kbpd (flat both, YoY and QoQ) in line with our estimates. Rajasthan realization at US\$100.3/bbl (implying 8.6% discount to *Brent* v/s 10.4% in the last quarter) was slightly higher than our estimates.

■ CIL management has guided for exit production target of 175kbpd for FY12 from the Rajasthan block. The same is likely to be achieved via *Bhagyam* ramp-up which has commenced production and will rise to its peak rate of 40kbpd by FY12 end. Similarly, production commencement target for *Aishwariya* fields stands at H2CY12. However, pipeline capacity at 175kbpd remains a bottleneck for significant production increases beyond 175kbpd. Management believes maximum flexibility for incremental production is 5-10% over 175kbpd till pipeline capacity augmentation happens.

■ **Outlook and Valuation:** We expect earnings to improve in the coming quarters, with incremental production from the Bhagyam field. However, post the recent strong performance, we believe stock price seems to have factored in these positives on the production front as well as on the various exploratory upsides untapped in *Barmer Hills* and other fields. Liberal dividend policy is likely to act as a positive catalyst for the stock, going ahead. We maintain '**Accumulate**' on the stock, with an SOTP fair value of Rs365.

Key financials (Y/e March)	2011	2012E	2013E	2014E
Revenues (Rs m)	102,779	130,135	164,299	163,999
Growth (%)	533.3	26.6	26.3	(0.2)
EBITDA (Rs m)	84,117	108,826	136,794	131,043
PAT (Rs m)	63,344	86,935	110,952	94,157
EPS (Rs)	32.4	44.4	56.7	48.1
Growth (%)	696.0	37.2	27.6	(15.1)
Net DPS (Rs)	—	4.2	5.7	40.9

Profitability & Valuation	2011	2012E	2013E	2014E
EBITDA margin (%)	81.8	83.6	83.3	79.9
RoE (%)	17.1	19.8	21.2	16.5
RoCE (%)	16.3	19.1	20.5	16.2
EV / sales (x)	6.5	4.6	3.2	3.1
EV / EBITDA (x)	8.0	5.5	3.8	3.9
PE (x)	10.9	7.9	6.2	7.3
P / BV (x)	1.7	1.5	1.2	1.2
Net dividend yield (%)	—	1.2	1.6	11.6

Source: Company Data; PL Research

Exhibit 1: Q3FY12 Result Overview (Rs m)

Y/e March	Q3FY12	Q3FY11	YoY gr. (%)	Q2FY12	9MFY12	9MFY11	YoY gr. (%)
Net Operating Income	30,968	30,964	-	26,522	94,616	66,235	43.0
Operating expenditure	4,653	4,576	2.0	4,708	13,618	11,021	24.0
Other expenditure	859	754	14.0	774	2,755	1,366	102.0
EBITDA	25,456	25,634	(1.0)	21,040	78,243	53,847	45.0
<i>EBITDA Margin (%)</i>	<i>82.0</i>	<i>83.0</i>		<i>79.0</i>	<i>83.0</i>	<i>81.0</i>	
Other Income	1,124	342	229.0	620	2,271	904	151.0
DD&A	3,787	2,871	32.0	3,142	10,390	7,286	43.0
Exploration costs w/o	1,763	216		389	2,339	959	
Interest	240	742	(68.0)	1,228	1,914	2,516	(24.0)
Forex fluctuation	3,015	-		5,310	8,317	(648)	
PBT	23,803	22,147	7.0	22,211	74,189	43,342	71.0
<i>PBT Margin (%)</i>	<i>77</i>	<i>72</i>		<i>84</i>	<i>78</i>	<i>65</i>	
Total Tax	1,184	2,046	(42.0)	1,029	3,122	4,576	(32.0)
<i>% of PBT</i>	<i>5.0</i>	<i>9.0</i>		<i>5.0</i>	<i>4.0</i>	<i>11.0</i>	
Extra ordinaries/sales tax benefit	-	-		13,552	13,552	-	
PAT	22,619	20,101	13.0	7,630	57,515	38,766	48.0
Minority interest	-	-		-	-	-	
Adj. PAT	22,619	20,101	13.0	7,630	57,515	38,766	48.0

Source: Company Data, PL Research

Exhibit 2: Production Highlights

Y/e March	Q3FY12	Q2FY12	Q3FY11
WI Avg. Production (boepd)	98,969	100,270	99,220
WI Avg. Production (kboe)	9,105	9,225	9,128
Ravva			
Avg Oil prodn (bopd)	26,254	26,965	29,667
Avg Gas prodn (mmscfd)	62	55	59
Cambay			
Avg Oil prodn (bopd)	4,795	5,390	6,279
Avg Gas prodn (mmscfd)	19	19	22
Rajasthan			
Avg Gross oil prodn (boepd)	125,122	125,251	124,861

Source: Company Data, PL Research

Key Highlights of the Conference Call

Production Ramp-up: Current production at Mangala continues to be around 125kbpd. Bhagyam field, which commenced production on January 19, 2012, is ramping up to its peak rate of 40kbpd. Company maintains its target of exit production for FY12 at 175kbpd from Mangala and Bhagyam. EPC contracts for the Aishwariya field have also been awarded. Cairn also maintained its long term peak production rate of 240kbpd (largely met from MBA fields). We are currently building a peak production estimate of 210kbpd, factoring the production potential of MBA fields. Revised FDP of the Bhagyam and Aishwariya field is likely to be submitted post six months of production so as to build a case for higher production estimates based on actual performance of the reservoir.

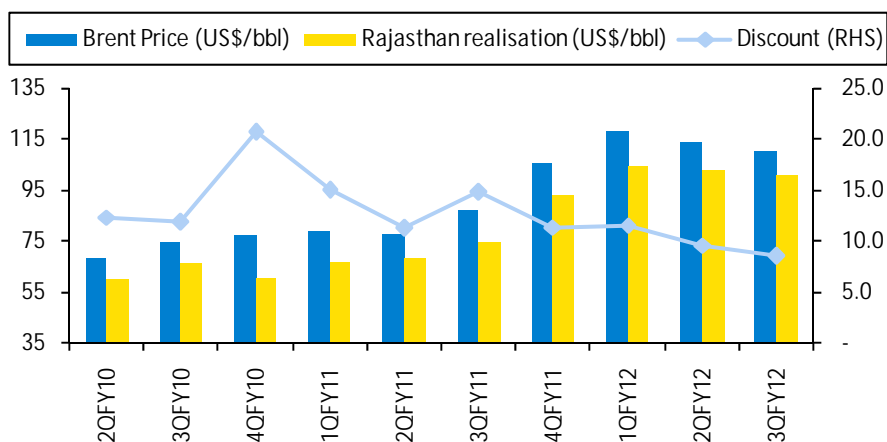
Capex guidance: CIL management has guided for gross capex in FY13 at around US\$1-1.25bn, of which around Rs335bn is for the Barmer hill exploration and remaining is for upgrading the production facilities at MBA.

Dividend policy: Management highlighted that it would announce a dividend policy soon; discussion on the same has already taken place. The issue will be taken up post the pending reorganization of its subsidiaries.

Sri Lanka exploration: Completed Phase 1 exploration, wherein two of the three wells drilled were successful. CIL has notified that the Sri Lankan govt would enter Phase 2. CIL has entered Phase-2 of the exploration with one well drilling obligation and is likely to do 3D seismic. Dry well write-off during the quarter registered an increase due to higher dry well write-off at Rs1.46bn.

Other highlights: EOR pilot is progressing well as per the schedule. Based on polymer injection results, FDP is to be submitted by H1CY12 for full implementation in Mangala.

Exhibit 3: Rajasthan Crude Realisation and Discount



Source: Company Data, PL Research

Exhibit 4: Common size earning statement

Particulars	Q3FY12	Q2FY12	Q3FY11
Income from operations (\$/boe)	67.1	62.9	72.8
Inc/(Dec) in stock (\$/boe)	(0.2)	(0.1)	0.1
Operating expenses (\$/boe)	10.1	11.0	10.8
Staff cost (\$/boe)	0.6	0.6	0.7
Administration cost (\$/boe)	1.5	1.4	0.9
Exploration cost (\$/boe)	3.8	0.9	0.5
EBITDA (\$/boe)	51.3	49.2	59.8
DD&A (\$/boe)	8.2	7.5	6.7
EBIT (\$/boe)	43.1	41.7	53.0
Interest (\$/boe)	0.5	2.9	1.7
Other Income (\$/boe)	2.4	1.5	0.8
Foreign exchange fluctuation (\$/boe)	6.5	12.6	-
PBT (\$/boe)	51.6	52.9	52.1

Source: Company Data, PL Research

Exhibit 5: SOTP (Rs m)

Particulars	FY12E	FY13E
Rajasthan Block		
RJ-ON-90/1(MBA block)	392,396	363,341
Value per share	206.3	191.0
RJ-ON-90/1(MBA EOR)	72,234	81,708
Value per share	38.0	43.0
RJ-ON-90/1(Barmer Hill)	29,129	32,625
Value per share	15.3	17.2
RJ-ON-90/1(Southern fields)	11,060	13,126
Value per share	5.8	6.9
RJ-ON-90/1(Other fields)	51,503	61,125
Value per share	27.1	32.1
Value of Rajasthan Block	556,322	551,924
Value per share	292.5	290.2
CB-OS-2	5,901	3,116
Value per share	3.1	1.6
Ravva	21,071	15,200
Value per share	11.1	8.0
KG-DWN-98/2	2,250	2,277
Value per share	1.2	1.2
Exploratory portfolio upsides	112,951	134,054
Value per share	59.4	70.5
Total	698,495	706,572
Net debt	(1,807)	(8,487)
Value per share	(0.9)	(4.5)
Corporate expenditure	26,140	20,712
Value per share	13.7	10.9
Equity value	674,162	694,347
Equity value per share (Rs/share)	354	365

Source: PL Research

Exhibit 6: Target Price Sensitivity with Crude and Exchange Rate

		Crude Oil Prices (US\$ / bbl)						
		80.0	85.0	90.0	95.0	100.0	105.0	110.0
Exchange Rate (Rs / US\$)	45.0	336	346	355	363	371	380	389
	46.0	339	349	358	367	375	384	393
	47.0	343	353	362	370	379	389	398
	48.0	346	356	365	374	383	393	402
	49.0	350	359	368	377	387	397	406
	50.0	353	362	371	381	391	401	411
	51.0	356	366	375	385	395	405	415

Source: PL Research

Exhibit 7: Target Price Sensitivity with Crude and Discount Rate

		Crude Oil Prices (US\$ / bbl)						
		80.0	85.0	90.0	95.0	100.0	105.0	110.0
Discount Rate	10.5%	356	366	376	385	395	405	415
	11.0%	353	363	372	381	391	401	411
	11.5%	349	359	369	377	387	397	406
	12.0%	346	356	365	374	383	393	402
	12.5%	343	353	362	370	380	389	398
	13.0%	341	350	359	367	376	385	394
	13.5%	338	347	356	364	373	381	390

Source: PL Research

Income Statement (Rs m)

Y/e March	2011	2012E	2013E	2014E
Net Revenue	102,779	130,135	164,299	163,999
Raw Material Expenses	14,907	17,504	23,701	29,152
Gross Profit	87,873	112,631	140,598	134,848
Employee Cost	1,105	1,105	1,105	1,105
Other Expenses	2,651	2,700	2,700	2,700
EBITDA	84,117	108,826	136,794	131,043
Depr. & Amortization	13,596	14,898	17,207	20,285
Net Interest	2,909	2,705	1,402	—
Other Income	1,288	6,265	6,368	7,862
Profit before Tax	68,900	97,488	124,552	118,620
Total Tax	5,556	10,553	13,601	24,463
Profit after Tax	63,344	86,935	110,952	94,157
Ex-Od items / Min. Int.	—	—	—	—
Adj. PAT	63,344	86,935	110,952	94,157
Avg. Shares O/S (m)	1,957.4	1,957.4	1,957.4	1,957.4
EPS (Rs.)	32.4	44.4	56.7	48.1

Cash Flow Abstract (Rs m)

Y/e March	2011	2012E	2013E	2014E
C/F from Operations	63,306	93,418	121,220	106,283
C/F from Investing	(48,749)	(14,360)	(20,948)	(10,263)
C/F from Financing	(8,655)	(12,252)	(21,133)	(113,668)
Inc. / Dec. in Cash	5,902	66,806	79,139	(17,648)
Opening Cash	9,294	44,847	111,653	190,792
Closing Cash	15,197	111,653	190,792	173,144
FCFF	6,767	99,411	125,563	113,556
FCFE	(458)	99,411	118,813	93,523

Key Financial Metrics

Y/e March	2011	2012E	2013E	2014E
Growth				
Revenue (%)	533.3	26.6	26.3	(0.2)
EBITDA (%)	751.9	29.4	25.7	(4.2)
PAT (%)	701.7	37.2	27.6	(15.1)
EPS (%)	696.0	37.2	27.6	(15.1)
Profitability				
EBITDA Margin (%)	81.8	83.6	83.3	79.9
PAT Margin (%)	61.6	66.8	67.5	57.4
RoCE (%)	16.3	19.1	20.5	16.2
RoE (%)	17.1	19.8	21.2	16.5
Balance Sheet				
Net Debt : Equity	—	(0.2)	(0.3)	(0.3)
Net Wrkng Cap. (days)	—	—	—	—
Valuation				
PER (x)	10.9	7.9	6.2	7.3
P / B (x)	1.7	1.5	1.2	1.2
EV / EBITDA (x)	8.0	5.5	3.8	3.9
EV / Sales (x)	6.5	4.6	3.2	3.1
Earnings Quality				
Eff. Tax Rate	8.1	10.8	10.9	20.6
Other Inc / PBT	1.9	3.8	5.1	6.6
Eff. Depr. Rate (%)	20.4	22.4	25.8	30.3
FCFE / PAT	(0.7)	114.4	107.1	99.3

Source: Company Data, PL Research.

Balance Sheet Abstract (Rs m)

Y/e March	2011	2012E	2013E	2014E
Shareholder's Funds	401,990	474,049	572,020	572,542
Total Debt	26,782	26,782	20,032	—
Other Liabilities	5,612	6,027	6,550	7,039
Total Liabilities	434,384	506,858	598,602	579,581
Net Fixed Assets	59,236	53,214	47,182	41,142
Goodwill	253,193	253,193	253,193	253,193
Investments	10,944	10,944	10,944	10,944
Net Current Assets	50,343	119,471	201,105	184,244
<i>Cash & Equivalents</i>	<i>44,847</i>	<i>111,653</i>	<i>190,792</i>	<i>173,144</i>
<i>Other Current Assets</i>	<i>34,761</i>	<i>42,452</i>	<i>50,716</i>	<i>53,320</i>
<i>Current Liabilities</i>	<i>29,266</i>	<i>34,634</i>	<i>40,402</i>	<i>42,220</i>
Other Assets	60,668	70,037	86,177	90,058
Total Assets	434,384	506,858	598,602	579,581

Quarterly Financials (Rs m)

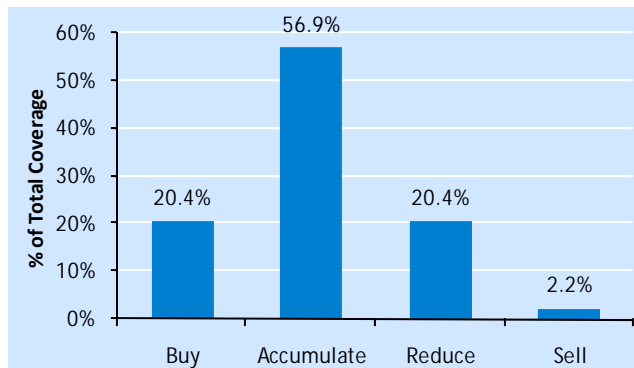
Y/e March	Q4FY11	Q1FY12	Q2FY12	Q3FY12
Net Revenue	36,545	37,127	26,522	30,968
EBITDA	31,382	31,748	21,040	25,456
<i>% of revenue</i>	<i>85.9</i>	<i>85.5</i>	<i>79.3</i>	<i>82.2</i>
Depr. & Amortization	4,643	3,460	3,142	3,787
Net Interest	393	446	1,228	240
Other Income	384	528	620	1,124
Profit before Tax	25,558	28,175	3,738	22,552
Total Tax	980	909	1,029	1,184
Profit after Tax	25,749	27,461	7,630	22,619
Adj. PAT	25,749	27,461	7,630	22,619

Key Operating Metrics

Y/e March	2011	2012E	2013E	2014E
Rajasthan working int. vol (Th. bopd)	88	89	122	147

Source: Company Data, PL Research.

Rating Distribution of Research Coverage



PL's Recommendation Nomenclature

BUY	: Over 15% Outperformance to Sensex over 12-months	Accumulate	: Outperformance to Sensex over 12-months
Reduce	: Underperformance to Sensex over 12-months	Sell	: Over 15% underperformance to Sensex over 12-months
Trading Buy	: Over 10% absolute upside in 1-month	Trading Sell	: Over 10% absolute decline in 1-month
Not Rated (NR)	: No specific call on the stock	Under Review (UR)	: Rating likely to change shortly

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