

Cairn India

Cairn a direct beneficiary of high crude prices and weak rupee

Cairn India is a pure play on crude oil prices with operating margins of 80% and net margins of 60%. Any rise in crude oil prices directly flows to the bottom line. Furthermore, a weak INR helps profitability as the refiners are billed in USD. For every, US\$5/bbl rise in crude prices Cairn's EPS for FY13 will rise by 5.4%, while every Re1/US\$ depreciation in INR EPS increases by 1.8%.

More upsides for crude price

On the backdrop of a global slowdown, the demand for crude oil has been weak. Nevertheless, economies across the world through stimulus measures are trying to rev up the growth. Both Euro Zone and US have already announced measures to stimulate their economies. China too has been cutting interest rates and is planning to implement a few more stimulating measures. In such a scenario, the demand for crude oil will see an immediate bump up while supply will take time to catch up leading to spurt in crude prices.

Approvals for higher production will be the next trigger

Current production from the Cairn operated Rajasthan field is ~175,000bopd. The company has filed for various approvals to increase the production further. With Bhagyam production lower than the company's guidance, the government has apprehensions for giving further approvals. However, over the medium term, we expect the government to give approvals considering the rising imports of crude oil and its impact on the trade deficit.

Attractive valuations, maiden dividend keenly awaited

Cairn India currently trades at a P/E of 6x on FY14E EPS of Rs57.1. This is based on a production estimate of 200,000bopd in FY14, crude oil realization of US\$95/bbl and Rs/US\$ estimate of 53. Factoring in current crude price and exchange rate valuation attractiveness will only increase. With cash balance of Rs70bn at the end of FY12 and expected cash flow generation of Rs55bn in FY13, investors are anticipating a high maiden dividend payout. The announcement is expected as soon as the internal restructuring of the new management is done with.

Financial summary

Y/e 31 Mar (Rs m)	FY11	FY12	FY13E	FY14E
Revenues	102,559	118,607	155,507	174,916
yoy growth (%)	541.4	15.6	31.1	12.5
Operating profit	84,117	95,532	125,363	140,619
OPM (%)	82.0	80.5	80.6	80.4
Reported PAT	63,344	79,377	94,033	108,935
yoy growth (%)	440.1	25.3	18.5	15.8
EPS (Rs)	32.4	38.9	49.3	57.1
P/E (x)	10.6	8.8	7.0	6.0
Price/Book (x)	1.7	1.4	1.1	1.0
EV/EBITDA (x)	7.8	6.0	4.2	3.1
RoE (%)	17.1	16.8	17.7	17.3
RoCE (%)	18.1	18.2	20.9	20.1

Source: Company, India Infoline Research

Rating: BUY

Target: Rs380

CMP: Rs341

Upside: 11.5%

Sector: Oil & Gas

Sector view: Neutral

Sensex: 18,021

52 Week h/l (Rs): 401 / 258

Market cap (Rscr) : 65,049

6m Avg vol ('000Nos): 3,801

Bloomberg code: CAIR IN

BSE code: 532792

NSE code: CAIRN

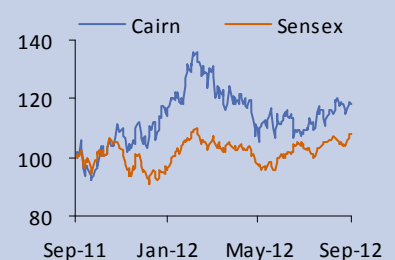
FV (Rs): 10

Price as on Sep 13, 2012

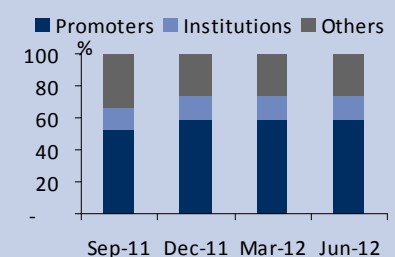
Company rating grid

	Low → High				
	1	2	3	4	5
Earnings Growth				■	
Cash Flow				■	
B/S Strength				■	
Valuation appeal			■		
Risk	■				

Share price trend



Share holding pattern



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In the year 2011 itself, we have received two reputed awards for being the Best Broker in India.

'Best Equity Broker of the Year' – Bloomberg UTV, 2011

IIFL was awarded the 'Best Equity Broker of the Year' at the recently held Bloomberg UTV Financial Leadership Award, 2011. The award presented by the Hon'ble Finance Minister of India, Shri Pranab Mukherjee. The Bloomberg UTV Financial Leadership Awards acknowledge the extraordinary contribution of India's financial leaders and visionaries from January 2010 to January 2011.

'Best Broker in India' – Finance Asia, 2011

IIFL has been awarded the 'Best Broker in India' by Finance Asia. The award is the result of Finance Asia's annual quest for the best financial services firms across Asia, which culminated in the Country Awards 2011.

Other awards



Recommendation parameters for fundamental reports:

Buy – Absolute return of over +10%

Market Performer – Absolute return between -10% to +10%

Sell – Absolute return below -10%

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