



Cairn India

Operationally in-line, triggers in store

Operational results in-line with estimates

Cairn reported its Q3FY12 results with EBITDA of INR23.69bn vs our est. of INR23.45bn. The company reported a 17% QoQ revenue growth largely driven by the rupee depreciation. The Mangala field continued to average 125kbpd in Q3FY12 as well, while the Rajasthan crude oil realizations stood at USD100.3/bbl, about 8.3% discount to Brent. The crude pricing showed lower discount to Brent due to the light-heavy crude spreads contracting this quarter. Cairn's net profit came in higher than estimate at INR22.6bn vs our est. of INR19.4bn, mainly due to the higher forex gains and low effective tax rate of 5%. Going forward, Cairn has maintained an tax rate guidance of 5-9% in FY13/14. Additionally, Cairn's management also guided towards a gross capex guidance of USD1bn-USD1.25bn for FY13, which should cover the majority of the investment entailed for pipeline capacity addition and output enhancement to 240kbpd during CY13/14.

Mangala approval a matter of time, FY12 exit rate at 175kbpd

With the recent Bhagyam field start, the output is expected to be 150kbpd by Feb-end. With Cairn guiding towards 175kbpd exit rate for FY12, we believe that the approval for Mangala field ramp-up from 125kbpd to 150kbpd is near. For FY13, the Aishwarya field start is also expected in H2CY12; but with the pipeline capacity restricted to 175kbpd, the production from all these three fields may be rationed.

Approvals, field starts to provide newsflow triggers; Accumulate

With the favorable macro variables of robust oil prices and weak rupee, Cairn has outperformed the Sensex by 20% during the last two quarters. Though we expect some profit booking due to this in the near term, we back Cairn to remain strong as a result of positive newsflow triggers through approvals and field starts. We see the current levels as attractive for long-only investors as significant exploration upside can get unlocked during the next two years. Currently, Cairn factors in USD100/bbl of long-term oil prices, and we remain buyers of the stock on dips. **Accumulate**, TP: INR370/sh.

Rating : Accumulate

Target Price : INR370

Upside : 5%

CMP : INR352 (as on 24 January 2012)

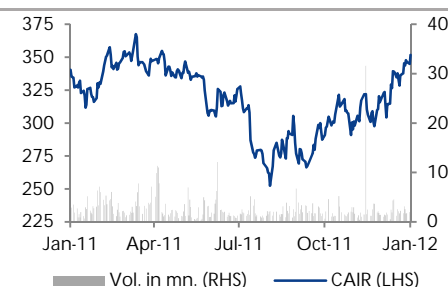
Key data

Bloomberg /Reuters Code	CAIR IN/ CAIL.BO
Current /Dil. Shares O/S (mn)	1,902/1,908
Mkt Cap (INRbn/US\$m)	669/13,373
Daily Vol. (3M NSE Avg.)	1,748,310
Face Value (INR)	10

1 US\$= INR50.1

Source: Bloomberg; * As on 24 January 2012

Price & Volume



Source: Bloomberg

Share holding (%)	Q4FY11	Q1FY12	Q2FY12	Q3FY12
Promoter	62.2	62.2	52.1	59.0
Institutional Investors	18.9	14.8	14.3	14.5
Other Investors	17.5	20.7	31.1	24.2
General Public	1.4	2.3	2.5	2.3

Source: BSE

Price performance (%)	3M	6M	12M
Sensex	(2.6)	(10.8)	(12.3)
Cairn	15.9	8.3	1.2
ONGC	1.4	(1.8)	(6.2)
RIL	(6.8)	(10.7)	(19.8)

Source: Bloomberg

Y/E March (INR mn)	Q3FY12	Q3FY11	YoY(%)	Q2FY12	QoQ (%)	Q3FY12E	Variance (%)
Net Sales	30,968	30,964	0.0	26,522	16.8	29,439	5.2
Operating Expenses	7,275	5,546	31.2	5,871	23.9	5,988	21.5
% of Sales	23.5	17.9		22.1		20.3	
EBITDA	23,692	25,418	(6.8)	20,651	14.7	23,451	1.0
EBITDA Margins (%)	76.5	82.1		77.9		79.7	
Other Income (Net)	1,124	342	228.9	620	81.3	623	80.3
Forex gain/loss	3,015			5,310		2,500	20.6
Interest	240	742	(67.7)	1,228	(80.5)	1,240	(80.6)
Depreciation	3,787	2,871	31.9	3,142	20.5	3,301	14.7
PBT	23,803	22,147	7.5	22,211	7.2	22,032	8.0
Tax	1,184	2,046	(42.1)	1,029	15.1	2,644	(55.2)
Effective Tax Rate (%)	5.0	9.2		4.6		12.0	
Adjusted PAT	22,619	20,101	12.5	21,182	6.8	19,389	16.7
NPM (%)	73.0	64.9		79.9		65.9	
Extra ordinary items	-	-		13,552		-	
Reported PAT	22,619	20,101	12.5	7,630	196.4	19,389	16.7

Source: Company, Elara Securities Estimate

Key Financials											
Y/E Mar (INR mn)	Rev	YoY (%)	EBITDA	EBITDA (%)	Adj PAT	YoY (%)	Fully DEPS	RoE (%)	RoCE (%)	P/E (x)	EV/EBITDA (x)
FY11	102,779	533.3	83,562	81.3	63,344	502.6	33.2	15.8	17.0	10.6	7.7
FY12E	130,229	26.7	103,411	79.4	81,326	28.4	42.6	16.8	18.4	8.3	5.7
FY13E	196,939	51.2	143,662	72.9	106,088	30.4	55.6	18.0	20.7	6.3	4.1
FY14E	187,626	(4.7)	135,071	72.0	103,885	(2.1)	54.4	15.0	16.8	6.5	4.4

Source: Company, Elara Securities Estimate

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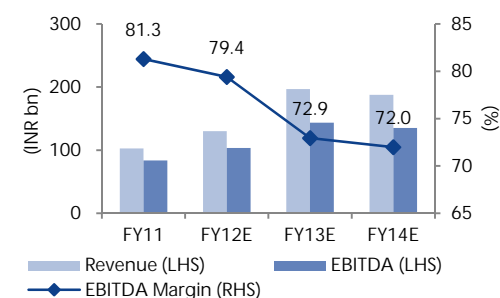
Elara Securities (India) Private Limited

Financials (Y/E Mar)

Income Statement (INR mn)	FY11	FY12E	FY13E	FY14E
Revenue	102,779	130,229	196,939	187,626
EBITDA	83,562	103,411	143,662	135,071
Non operating Income	1,288	3,395	2,498	9,765
OPBITDA	84,850	106,806	146,160	144,836
Depreciation & Amortization	11,930	14,177	21,265	27,645
EBIT	72,921	92,629	124,895	117,192
Interest Expenses	2,909	2,154	2,197	761
Forex losses (gains)	1,112	(9,317)		
PBT	68,900	99,792	122,697	116,431
Taxes	5,556	4,914	16,609	12,546
Adjusted PAT	63,344	94,878	106,088	103,885
Extraordinary items		13,552		
Reported PAT	63,344	81,326	106,088	103,885
Balance Sheet (INR mn)	FY11	FY12E	FY13E	FY14E
Share Capital	19,019	19,019	19,019	19,019
Reserves	382,971	464,297	570,385	674,270
Borrowings	26,782	20,007	13,007	6,007
Deferred Tax (Net)	5,612	5,626	5,626	5,626
Total Liabilities	434,384	508,950	608,038	704,923
Gross Block	126,622	166,524	165,748	100,407
Accumulated Depreciation/Depletion	6,718	7,103	9,426	6,600
Net Block	119,904	159,421	156,323	93,807
Capital Work In Progress	-	-	-	-
Investments	10,945	10,945	10,945	10,945
Net Working Capital	50,343	85,392	187,578	346,979
Goodwill	253,193	253,193	253,193	253,193
Other Assets	-	-	-	-
Total Assets	434,384	508,950	608,038	704,923
Cash Flow Statement (INR mn)	FY11	FY12E	FY13E	FY14E
Cash profit adjusted for non cash items	67,646	78,331	105,913	91,294
Working Capital Changes	(5,861)	3,370	9,852	1,245
Operating Cash Flow	61,785	81,701	115,764	92,539
Capex	20,254	39,902	(775)	(65,341)
Free Cash Flow	41,531	41,800	116,540	157,881
Financing Cash Flow	(7,087)	(6,775)	(7,000)	(7,000)
Investing Cash Flow	1,288	3,395	2,498	9,765
Net change in Cash	35,731	38,419	112,038	160,646
Ratio Analysis	FY11	FY12E	FY13E	FY14E
Income Statement Ratios (%)				
Revenue Growth	533.3	26.7	51.2	(4.7)
EBITDA Growth	982.4	23.8	38.9	(6.0)
PAT Growth	502.6	28.4	30.4	(2.1)
EBITDA Margin	81.3	79.4	72.9	72.0
Net Margin	61.6	62.4	53.9	55.4
Return & Liquidity Ratios				
Net Debt/Equity (x)	(0.1)	(0.3)	(0.3)	(0.3)
ROE (%)	15.8	16.8	18.0	15.0
ROCE (%)	17.0	18.4	20.7	16.8
Per Share data & Valuation Ratios				
Diluted EPS (INR/Share)	33.2	42.6	55.6	54.4
EPS Growth (%)	501.0	28.4	30.4	-2.1
DPS (INR/Share)	0.0	0.0	0.0	0.0
P/E (x)	10.6	8.3	6.3	6.5
EV/EBITDA (x)	7.7	5.7	4.1	4.4
EV/Sales (x)	6.2	4.6	3.0	3.2
Price/Book (x)	1.7	1.4	1.1	1.0
Dividend Yield (%)	0.0	0.0	0.0	0.0

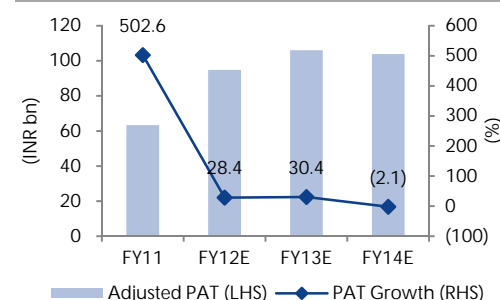
Source: Company, Elara Securities Estimate

Revenue & margins growth trend



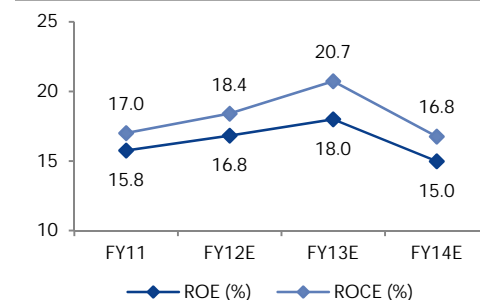
Source: Company, Elara Securities Estimate

Adjusted profits trend



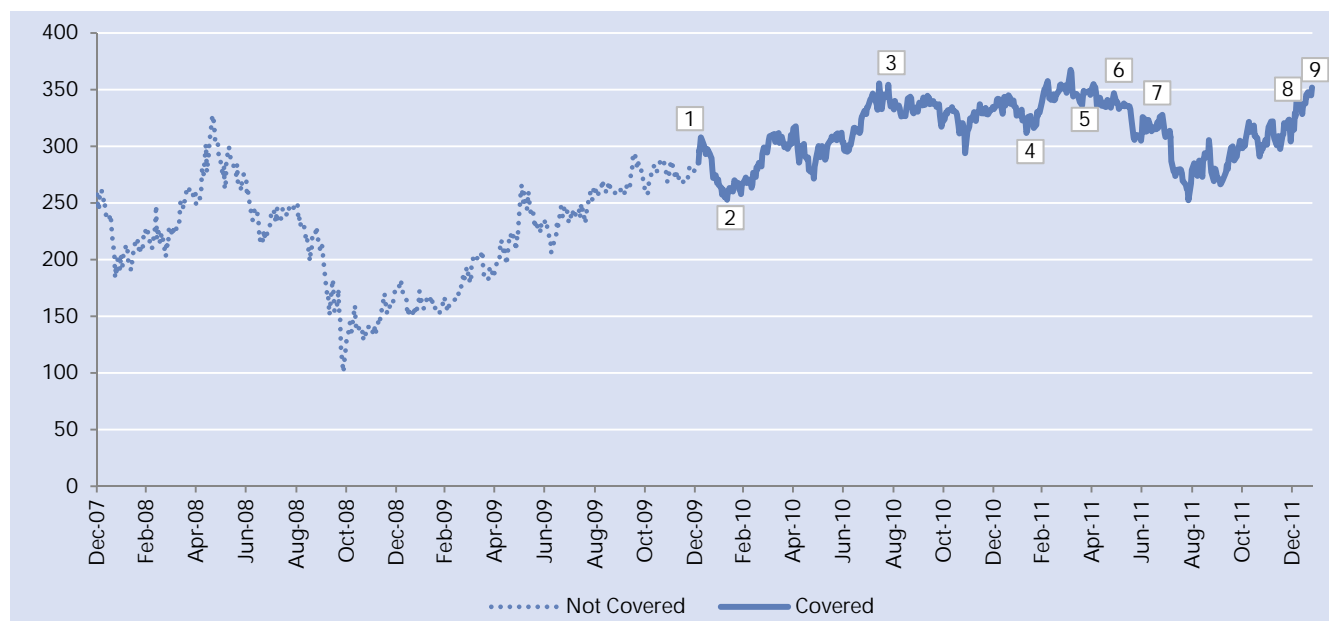
Source: Company, Elara Securities Estimate

Return ratios



Source: Company, Elara Securities Estimate

Coverage History



	Date	Rating	Target Price	Closing Price
1	04-Jan-2010	Buy	INR340	INR286
2	28-Jan-2010	Buy	INR315	INR270
3	27-Jul-2010	Reduce	INR315	INR332
4	18-Feb-2011	Accumulate	INR360	INR316
5	7-Apr-2011	Reduce	INR360	INR351
6	25-May-2011	Reduce	INR355	INR338
7	1-July-2011	Sell	INR270	INR311
8	4-Jan-2012	Accumulate	INR365	INR326
9	24-Jan-2012	Accumulate	INR370	INR352

Guide to Research Rating

BUY	Absolute Return >+20%
ACCUMULATE	Absolute Return +5% to +20%
REDUCE	Absolute Return -5% to +5%
SELL	Absolute Return < -5%

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