

Cairn India

 BSE code: 532792
 NSE code: CAIRN

CMP: Rs 261
Target: Rs 314
BUY
Sudeep Anand

(91-22) 6612 4670

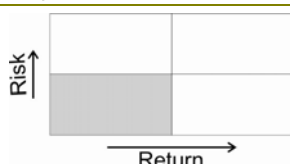
sudeep.anand@religare.in

Company data
Particulars

Market cap (Rs bn / US\$ bn)	464.2/11.6
Outstanding equity shares (mn)	1,779.1
52-week high/low (Rs)	270/128
2-month average daily volume	1,358,993

Financial snapshot

Y/E Dec	CY07U	CY08E	CY09E
Sales (Rs mn)	10,122.6	11,680.9	41,441.7
Growth (%)	-	15.4	254.8
Adj net inc (Rs mn)	(245.4)	2,864.9	26,550.4
Growth (%)	-	-	826.8
FDEPS (Rs)	(0.1)	1.6	14.9
Growth (%)	-	-	826.8
P/E (x)	-	162.0	17.5
ROE (%)	(0.2)	1.0	8.6

Risk-return profile

Shareholding pattern

(%)	Mar-08	Dec-07
Promoters	69.0	69.0
FIs	3.5	10.9
Banks & FIs	11.9	5.6
Public	15.6	14.5

Stock performance

Returns (%)	CMP	1-mth	3-mth	6-mth
Cairn India	261	16.4	32.8	25.9
Sensex	17,378	11.1	(2.1)	(12.4)
Oil and Gas	11,661	16.4	9.1	0.0

 Company website www.cairnindia.com
Flare up in crude price fuels growth

Cairn India (CIL) has posted significant growth during the quarter on the back of higher price realisations, which offset the negative impact of lower production volumes. The company's net sales grew 33.6% YoY to Rs 3.2bn in Q1CY08 due to a 73% YoY increase in average price realisations to US\$ 73.3/boe. The operating margin also increased significantly by 990bps during the quarter owing to higher prices, lower exploration activity and reduced employee expenses. As a result, the company's adjusted net profit doubled to Rs 1bn during the quarter.

CIL also received government FDP approval for its Bhagyam field in Rajasthan which will start producing from CY10 onwards with a peak production rate of 40,000bpd. The company is expected to commence production from the Rajasthan block from H2CY09, which will be a primary growth trigger. We maintain our Buy rating on the stock with a target price of Rs 314.

Quarterly results

Y/E Dec (Rs mn)	Q1CY08	Q1CY07	% Chg YoY	Q4CY07	% Chg QoQ
Net sales	3,158.4	2,363.9	33.6	2,667.4	18.4
Expenditure	878.4	891.6	(1.5)	1,228.2	(28.5)
EBITDA	2,279.9	1,472.4	54.8	1,439.2	58.4
EBITDA margin (%)	72.2	62.3	990bps	54.0	1,820bps
Depreciation	807.3	1,001.9	(19.4)	1,209.6	(33.3)
EBIT	1,472.6	470.5	213.0	229.6	541.3
Interest expenses	3.3	1.5	117.8	16.8	(80.4)
Other income	217.6	361.6	(39.8)	268.2	(18.9)
PBT	1,686.9	830.6	103.1	481.1	250.7
Tax expenses	659.4	316.9	108.1	344.2	91.6
Adjusted PAT	1,027.5	513.7	100.0	136.8	651.0
Forex fluctuation	(18.9)	(138.0)	(86.3)	(275.9)	(93.1)
Exceptional items	155.7	0.0	-	0.0	-
Reported PAT	1,164.3	375.7	209.9	(139.1)	557.8
FDEPS	0.6	0.3	100.0	0.1	651.0

Source: Company, Religare Research

Result highlights

Average price realisation has risen 73% to US\$ 73.3/boe

Higher price realisations boost topline growth

CIL has benefited from the strong surge in global crude oil prices, which fuelled topline growth of 33.6% YoY to Rs 3.2bn in Q1CY08. The company's average oil and gas price realisations during the quarter were US\$ 100.1/bbl and US\$ 4.08/mscf respectively. The price of crude oil has jumped by 64% YoY from US\$ 61/bbl in Q1CY07. As a result, CIL's average price realisation has risen to US\$ 73.3/boe in Q1CY08 from US\$ 42.3/boe in Q1CY07.

The flare up in oil prices also offset the negative impact of lower production volumes from Ravva during the quarter. CIL's working interest production in this field was 18,023boepd in Q1CY08 as compared to 19,811boepd in Q1CY07.

Lower operating expenses boost margins and profitability

The company's EBITDA margin swelled significantly to 72.2% in Q1CY08 from 62.3% a year earlier owing to higher price realisations, lower operating expenses and reduced employee costs. Operating expenses declined 524bps to 14.8% of revenues while employee cost dipped 507bps to 8% of revenues, on account of reduced exploration activity during the quarter.

Further, lower exploration cost write-offs aided a 100% YoY increase in adjusted net profit to Rs 1bn during the quarter. The company's reported net profit increased 210% YoY to Rs 1.2bn driven by lower foreign exchange fluctuations and exceptional gains of Rs 155.7mn in Q1CY08.

Bhagyam received FDP approval

CIL has just received government approval to develop the Bhagyam field in Rajasthan block, which is expected to commence production from H1CY10. Peak production from Bhagyam is estimated to be at 40,000 barrels/day (bpd). The Aishwarya field in this block had already received government approval and would start production from H2CY10 with a peak production rate of 10,000bpd.

Commencement of production from Rajasthan block will be a key growth trigger

Valuation

SOTP target of Rs 314; Buy

The stock is currently trading at 17.5x on CY09E and 6.8x on CY10E earnings. Our sum-of-the-parts (SOTP) valuation gives us a target price of Rs 314. We maintain our Buy recommendation on the stock.

Valuation summary

Fields	EV (Rs mn)	EV / boe (x)	Value (Rs/share)	Approach
MBA	368,256.9	13.4	207	DCF
MBA (EOR)	48,588.5	3.9	27	DCF
Total Rajasthan	416,845.4	10.5	234	-
Ravva	21,305.2	5.6	12	DCF
Cambay	4,729.2	8.4	3	DCF
Other reserves	97,891.2	11.0	55	EV/boe
Total EV	540,771.0	10.2	304	-
Net cash	17,386	-	10	
Equity value	558,157	-	314	

Source: Religare Research

Sensitivity analysis

Crude oil price is a key factor which drives the valuations of upstream companies. We have analysed the sensitivity of our target price to crude prices and WACC in the table alongside.

Target price sensitivity

WACC	Crude oil price (US\$/bbl)				
	70	80	90	100	110
10%	266	302	337	373	409
11%	256	291	325	360	394
12%	248	281	314	347	380
13%	240	272	303	335	367
14%	233	263	294	324	354

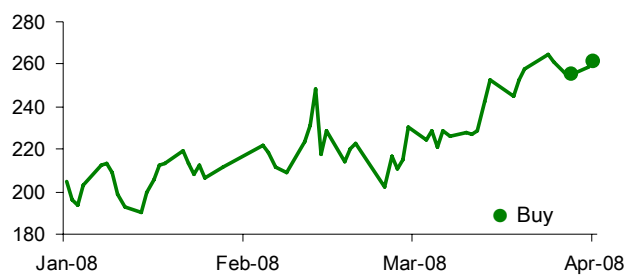
Source: Religare Research

Recommendation history

Date	Event	Reco price	Tgt price	Reco
28-Apr-08	Initiating Coverage	256	314	Buy
30-Apr-08	Results Update	261	314	Buy

Source: Religare Research

Stock performance



Source: Religare Research

Consolidated financials

Profit and Loss statement

Y/E Dec (Rs mn)	CY07U	CY08E	CY09E	CY10E
Revenues	10,122.6	11,680.9	41,441.7	92,389.2
Growth (%)	-	15.4	254.8	122.9
EBITDA	4,551.5	9,014.6	37,141.4	84,055.1
Growth (%)	-	98.1	312.0	126.3
Depreciation	4,589.3	4,098.1	4,537.5	5,971.3
EBIT	(37.8)	4,916.5	32,603.9	78,083.7
Growth (%)	-	-	563.2	139.5
Interest	27.0	502.2	882.6	562.3
Other income	1,324.1	500.0	500.0	500.0
EBT	1,259.2	4,914.3	32,221.3	78,021.4
Income taxes	1,504.7	2,049.4	5,670.9	10,233.0
Effective tax rate (%)	119.5	41.7	17.6	13.1
Adjusted net income	(245.4)	2,864.9	26,550.4	67,788.4
Growth (%)	-	-	826.8	155.3
Reported net income	(245.4)	2,864.9	26,550.4	67,788.4
Growth (%)	-	-	826.8	155.3
Shares outstanding (mn)	1,778.4	1,778.4	1,778.4	1,778.4
Basic EPS (Rs) (adj)	(0.1)	1.6	14.9	38.1
FDEPS (Rs) (adj)	(0.1)	1.6	14.9	38.1
DPS (Rs)	-	-	-	-

Source: Company, Religare Research

Cash flow statement

Y/E Dec (Rs mn)	CY07E	CY08E	CY09E	CY10E
Net income	(245.4)	2,864.9	26,550.4	67,788.4
Depreciation	4,589.3	4,098.1	4,537.5	5,971.3
Other adjustments, net	620.3	-	-	-
Changes in working capital	(34,574.8)	(565.6)	(3,277.4)	(2,594.9)
Cash flow from operations	(29,610.7)	6,397.4	27,810.6	71,164.9
Capital expenditure	(24,189.8)	(22,640.0)	(21,280.0)	(1,140.0)
Change in investments	-	-	-	-
Other investing inc/(exp)	-	-	-	-
Cash flow from investing	(24,189.8)	(22,640.0)	(21,280.0)	(1,140.0)
Free cash flow	(53,800.4)	(16,242.6)	6,530.6	70,024.9
Issue of equity	-	-	-	-
Issue/repay debt	350.0	10,748.2	12,250.0	(28,469.8)
Dividends paid	-	-	-	-
Other financing cash flow	-	-	-	-
Cash flow from financing	350.0	10,748.2	12,250.0	(28,469.8)
Change in cash & cash eq	(53,450.4)	(5,494.4)	18,780.6	41,555.1
Opening cash & cash eq	61,347.8	7,897.4	2,403.0	21,183.5
Closing cash & cash eq	7,897.4	2,403.0	21,183.5	62,738.6

Source: Company, Religare Research

Balance sheet

Y/E Dec (Rs mn)	CY07E	CY08E	CY09E	CY10E
Cash and cash eq	7,897.4	2,403.0	21,183.5	62,738.6
Accounts receivable	1,534.0	1,564.7	3,911.7	8,692.0
Inventories	1,188.6	1,129.1	1,467.9	2,763.6
Others current assets	1,657.4	1,690.5	3,032.7	4,130.3
Current assets	12,277.3	6,787.3	29,595.8	78,324.5
Long-term investments	4.2	4.2	4.2	4.2
Net fixed assets	38,942.5	57,484.4	74,226.9	69,395.6
Goodwill	254,115.1	254,115.1	254,115.1	254,115.1
Deferred tax assets, net	(4,258.2)	(4,258.2)	(4,258.2)	(4,258.2)
Other assets	211.7	211.7	211.7	211.7
Total assets	301,292.8	314,344.6	353,895.6	397,793.0
Accounts payable	2,844.1	2,275.3	2,730.4	6,885.5
Others	206.4	214.0	509.5	933.2
Current liabilities	3,050.5	2,489.3	3,239.9	7,818.7
Debt funds	5,471.6	16,219.8	28,469.8	-
Equity capital	17,784.0	17,784.0	17,784.0	17,784.0
Reserves	274,986.6	277,851.5	304,401.9	372,190.3
Shareholder's funds	292,770.6	295,635.5	322,185.9	389,974.3
Total liabilities	301,292.8	314,344.6	353,895.6	397,793.0
BVPS (Rs)	164.6	166.2	181.2	219.3

Source: Company, Religare Research

Financial ratios

Y/E Dec	CY07E	CY08E	CY09E	CY10E
EBITDA margin (%)	45.0	77.2	89.6	91.0
EBIT margin (%)	(0.4)	42.1	78.7	84.5
Net profit margin (%)	(2.4)	24.5	64.1	73.4
FDEPS growth (%)	-	-	826.8	155.3
Receivables (days)	55.3	48.4	24.1	24.9
Inventory (days)	77.9	158.6	110.2	92.7
Payables (days)	186.3	350.4	212.4	210.6
Current ratio (x)	4.0	2.7	9.1	10.0
Quick ratio (x)	3.6	2.3	8.7	9.7
Interest coverage ratio (x)	(8.1)	6.7	31.1	121.6
Debt / equity (x)	0.0	0.1	0.1	0.0
ROE (%)	(0.2)	1.0	8.6	19.0
ROA (%)	(0.2)	0.9	7.8	17.8
ROCE (%)	(0.0)	1.6	9.7	20.8
EV/Sales (x)	46.6	40.4	11.4	5.1
EV/EBITDA (x)	103.6	52.3	12.7	5.6
P/E (x)	-	162.0	17.5	6.8
P/BV (x)	1.6	1.6	1.4	1.2

Source: Company, Religare Research

RELIGARE RESEARCH

Fundamental Research

Amitabh Chakraborty, CFA, FRM	President - Equity	amitabh.chakraborty@religare.in	(91-22) 6612 4602
Piyush Parag	Automobiles, Shipping	piyush.parag@religare.in	(91-22) 6612 4730
Abhishek Banerjee	Automobiles, Shipping	abhishek.banerjee@religare.in	(91-22) 6612 4764
Abhishek Agarwal	Banking, Sugar	abhishek.a@religare.in	(91-22) 6612 4753
Dinesh Shukla	Banking, Sugar	dinesh.shukla@religare.in	(91-22) 6612 4739
Vinod Nair	Capital Goods, Engineering, Power	nair.vinod@religare.in	(91-22) 6612 4731
Ronald Siyoni	Capital Goods, Engineering	ronald.siyoni@religare.in	(91-22) 6612 4615
Suman Memani	Construction, Realty, Mid-caps	suman.memani@religare.in	(91-22) 6612 4736
Anurag Purohit	IT, Telecom, Power	anurag.purohit@religare.in	(91-22) 6612 4795
Hitesh Punjabi	IT, Telecom	hitesh.punjabi@religare.in	(91-22) 6612 4769
Ram Patnaik	Media, FMCG	ram.patnaik@religare.in	(91-22) 6612 4752
Rahul Singhvi	Metals	rahul.singhvi@religare.in	(91-22) 6612 4749
Sudeep Anand	Oil & Gas, Chemicals	sudeep.anand@religare.in	(91-22) 6612 4670
Alok Dalal	Pharmaceuticals	alok.dalal@religare.in	(91-22) 6612 4750
Rahul Gajare	Power	rahul.gajare@religare.in	(91-22) 6612 4749

Technical Research

Birendrakumar Singh	birendrakumar.singh@religare.in	(91-22) 6612 4657
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Derivatives Research

Somendra Agarwal	somendra.agarwal@religare.in	(91-22) 6612 4767
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Production

Anisha deSa	anisha.desa@religare.in	(91-22) 6612 4729
Rajesh Mhatre	rajesh.mhatre@religare.in	(91-22) 6612 4728
R Murali	r.murali@religare.in	(91-22) 6612 4674

Administration

Shraddha Hosalkar	shraddha.hosalkar@religare.in	(91-22) 6612 4680
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Recommendation parameters

Large-caps*	> 10%	< - 5%	Returns	Absolute
	BUY	SELL		
Mid-caps**	> 25%	< 10%		

*Market cap over US\$ 1bn **Market cap less than US\$ 1bn

Religare Securities

Mumbai: 3rd Floor, Dheeraj Arma, Anant Kanekar Marg, Bandra (East), Mumbai-400 051. Phone: +91 22 66124600 Fax- 66124781
New Delhi: 19, Nehru Place, New Delhi - 110019, Phone: +91 11 30815100.

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