Indiabulls

CAIRN INDIA LIMITED
RESEARCH

EQUITY RESEARCH March 17, 2009

RESULTS REVIEW

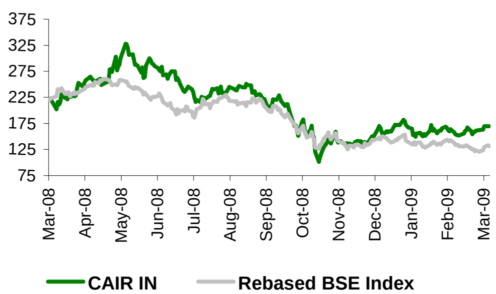
Share Data	
Market Cap	Rs. 321.48 bn
Price	Rs. 169.70
BSE Sensex	8,863.82
Reuters	CAIL.BO
Bloomberg	CAIR IN
Avg. Volume (52 Week)	1.57 mn
52-Week High/Low	Rs. 342.5 / 88.15
Shares Outstanding	1,894 mn

Valuation Ratios (Consolidated)

Year to 31 December	2009E	2010E
EPS (Rs.)	2.2	7.1
+/- (%)	(47.0)%	226.5%
PER (x)	78.2x	23.9x
EV/ Sales (x)	23.7x	9.6x
EV/ EBITDA (x)	38.4x	13.6x

Shareholding Pattern (%)	
Promoters	65
FIIs	9
Institutions	6
Public & Others	21

Relative Performance



Cairn India Limited Hold

Volume to drive growth

Crude oil prices continued to fall in the fourth quarter, plunging to a low of around USD 35 per barrel. As expected, the decline in crude oil prices has negatively affected the Cairn India Ltd. (CIL)'s financial performance, which reported a fall in net sales, down 21% yoy and 34.2% qoq to Rs. 2.1 bn. Despite OPEC's attempts to halt the fall in crude oil prices through production cuts, we believe that slowing petrochemical demand globally would continue to pressure the crude oil prices in the short-term. However, the Company should be able to manage a healthy growth rate on the back of increased production volumes in the near-to-medium term. We have considered the fall in crude oil prices, dollar appreciation and slowing petrochemical's demand, and have accordingly revised our rating on the stock to Hold with a target price of Rs. 180.

Falling crude oil demand*:* In December 2008, OPEC announced production cuts to the tune of 4.2 mn barrels per day in an attempt to lift-up the crude oil prices. However, the efforts were somewhat offset by the depressing global oil demand resulting from slowing economies and the fear of deepening recession caused by weak economic data from US. The rising inventories and lowering imports of the two largest consumers of crude oil: US and China, reflects the weak crude oil demand. During February 2009, the inventory levels of crude oil in US rose to around 350 mn barrels, while China, in January 2009, witnessed a fall in crude oil imports by 8% yoy to 12.8 mn tonnes. In such a situation, we expect the crude oil prices to remain under pressure in the near-term.

Key Figures

Quarterly Data	Q4'07	Q3'08	Q4'08	YoY%	QoQ%
(Figures in Rs. mn, except per share data)					
Net Sales	2,667	3,206	2,108	(21.0%)	(34.2%)
EBITDAX	1,439	2,279	950	(34.0%)	(58.3%)
Adj. net Profit	(139)	2,933	2,364	NM	(19.4%)
Margins(%)					
EBITDAX	54.0%	71.1%	45.1%		
NPM	(5.2)%	91.5%	112.1%		
Per Share Data (Rs.)					
Adj. EPS	(0.1)	1.5	1.2		

Gross 2P reserves of 1 bn boe

Volume expansion promises continued growth*:* Despite the fall in crude oil prices, CIL is positioned well to continue growing on the back of its expansion plans. The Company is aggressively undertaking exploration activities to add to its current 2P reserves and resources of 1 bn boe. The Company also has an eight-year exploration license to explore oil and gas in Sri Lanka's Mannar basin, which includes the acquisition of 5,000 sq km of 2D and 1,000 sq km of 3D seismic and the drilling of three wells in the initial three years.

Rajasthan fields' development on track: The Mangala field development is on track with adequate liquidity. The Company expects to start production from this field in Q3'09. As per the latest Field Development Plans (FDP) for the three main fields, the Company expects a sustainable peak plateau production of 175,000 bopd, which includes 125,000 bopd from Mangala, 40,000 bopd from Bhagyam, and 10,000 bopd from Aishwarya (collectively referred to as "MBA"). CIL anticipates production from Bhagyam and Aishwarya by 2011. Once operational, the MBA fields will significantly boost the Company's top line.

Separate oil discovery adjacent to Raageshwari field; test flowed 500 bopd oil and 0.4 mmscfd gas.

Kameshwari development area: The Government has approved the DOC (Declaration of Commerciality) for three discoveries made in Kameshwari West 2, 3 and 6 along with a new development area of 822 sq km, which was part of the Northern Appraisal area. The Kameshwari west 2 and 3 discoveries have opened a new play in Barmer Hill-Lower Dharvi Dungar sands on the basin's western margin. Further, the Company, in December 2008, gauged a discovery at Raageshwari East 1/1Z, the first well in its 2008-09 exploration program.

Result Highlights & Outlook

Average price realisation per barrels of oil equivalent plummeted 30.8% yoy to USD 47.1/boe

CIL reported a decline in net sales, down 21% yoy to Rs. 2,108.2 mn due to lower oil price realizations, which plunged 37.5% yoy to USD 56.4 per barrel. The gas price realisation improved 10.2% yoy in Q4'08 to USD 4.0 per MSCF. Average price realisation per barrel of oil equivalent (boe) declined 30.8% yoy to USD 47.1 per barrel. We expect the average price realisations to remain low in the coming quarters on the backdrop of softened crude oil prices.

Gross production dropped 3.6% yoy to 63,005 boepd during the quarter, while working interest production increased marginally from 16,370 boepd in Q4'07 to 16,591 boepd in Q4'08.

Mangala field development is on track; production expected to commence in Q3'09

CIL is aggressively undertaking exploration activities to increase its reserve base from the current level of 1 bn boe. The Rajasthan fields (both upstream and midstream), where the Company has a 70% share as an operator, is expected to commence production by Q3'09. Once completely operational by 2011, the 175,000 bopd MBA fields will significantly boost the CIL's top line.

For the fourth quarter, EBITDAX declined 34% yoy to Rs. 950 mn; the EBITDAX margin plummeted by 890 bps qoq to 45.1% on account of higher administrative expenses.

Cost breakup – as % of Net sales	Q4'07	Q3'08	Q4'08
Revenue	100.0%	100.0%	100.0%
(Increase)/decrease in stock	-1.9%	-1.7%	4.3%
Operating Expenses	23.4%	14.0%	17.0%
Employee cost	15.9%	5.0%	12.9%
Other administrative costs	8.7%	11.7%	20.8%
EBITDAX	54.0%	71.1%	45.1%
Depletion, Depreciation and Amortisation	23.7%	20.3%	15.5%
Exploration cost	21.6%	2.5%	17.8%
EBIT	8.6%	48.3%	11.8%

Other income jumped to Rs. 1,451.0 mn as against Rs. 268.3 mn during the corresponding quarter last year

Adj. net profit for the quarter stood at Rs. 2,364.2 mn, as against a net loss of Rs. 139 mn in Q4'07. The increase in the bottom line was largely driven by an increase in income from investments, which jumped from Rs. 268.3 mn in Q4'07 to Rs. 1,451.0 mn in Q4'08. In addition, the Company revised its assumptions for computing the timing differences in relation to certain assets of Rajasthan projects during the tax holiday period, resulting in a net reversal of deferred tax liability by Rs. 710 mn.

Cash (net of borrowing) available as at the end of fourth quarter was Rs. 29,435 mn. The Company also has a loan facility of USD 850 mn, out of which CIL has drawn USD 640 mn till now (USD 500 mn drawn till December 31, 2008).

Key Events

- The Government of India approved a further DOC on Rajasthan licence (RJ-ON-90/1) in North West India.
- In December 2008, CIL gauged a discovery at Raageshwari East 1/1Z, the first well in its 2008-09 exploration program.

Valuation

On the whole, increasing reserves and growing production potential augur well for the Company. Despite the fall in crude oil prices, we expect that Company would grow at a CAGR of 40-45% to 2012, mainly on the back of increasing production volume. We have revised our estimated to consider the fall in crude oil prices and believe that CIL's stock is fairly priced at its CMP of Rs. 170. Based on our valuation, we have arrived at a target price of Rs. 180, which does not provide any significant upside potential. Thus, we downgrade our rating on the stock to Hold.

Key Figures

Year ending December	CY07	CY08	CY09E	CY10E	CAGR (%)
(Figures in Rs. mn, except per share data)					(CY08-10E)
Net Sales	10,123	12,509	14,790	36,686	71.3%
EBITDAX	6,672	8,230	9,127	25,833	77.2%
Adj. net Profit	(245)	7,753	4,112	13,426	31.6%
Margins(%)					
EBITDAX	65.9%	65.8%	61.7%	70.4%	
NPM	(2.4)%	62.0%	27.8%	36.6%	
Per Share Data (Rs.)					
Adj. EPS	(0.1)	4.1	2.2	7.1	NM
PER (x)	NM	41.5x	78.2x	23.9x	

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