

Cairn India

Offshore India Conference: Key takeaways

We recently attended the Offshore India Annual Conference held in Mumbai during September 14th-16th. The conference featured several top management officials from the Indian energy sector, along with a number of authorities from the petroleum ministry as well as critical Government organizations such as the DGH. **We had a one-on-one discussion with Mr. Mark Blanche, Cairn India's Director of Upstream Operations and following are the key takeaways from our discussion.**

Optimistic about other Rajasthan fields, expect reserve announcements over the next 24-30 months

While the stock price fairly captures the MBA field valuations and exploration upside from other fields assuming 20% recovery factor, our discussion with Cairn's Upstream Director circled around further recovery prospects from other fields. In our view, this is the only avenue for further upside for Cairn's shares from current levels. Mr. Blanche categorically mentioned that there is a high possibility of a recovery estimate disclosure from the other Rajasthan fields in the next 24-30 months. Currently, the other fields have an in-place reserve base of 2bnboe and market is factoring a 20% recovery. If the company officially declares 20% recovery, then the market is likely to factor in 50% recovery factor, as seen in the case of MBA fields. In this event, our calculations show USD5bn (INR125/sh) upside, over the current valuation of USD12bn (INR305/sh), implying 42% upside over the next three years and ~12% CAGR returns. In our view, there are better opportunities in the sector currently especially in OMCs and upstream PSUs. Cairn's management also voiced optimism on Barmer hill and stressed its high potential, despite the area being geologically much tighter than the MBA fields.

Maintain Sell; Profit booking likely post the recent run-up

As mentioned above, with current valuations capturing the 2P & EOR reserves potential in the MBA fields as well as exploration upsides from other Rajasthan fields, upside is limited in the medium term. Cairn's stock is currently discounting USD100/bbl of long-term oil price. However, with crude oil prices holding firm, the stock has recently rebounded from INR250/sh levels, creating possibility for some profit booking, especially with general market consensus building up for commodity price decline. Additionally, though we remain confident on Cairn India's operational ability to ramp-up production in Rajasthan and meet deadlines. It should be noted that this aspect is fully factored in the stock price due to strong and consistent operational performance. We maintain Sell rating and TP of INR270/sh (INR235/sh for Rajasthan and INR35 for other assets and net cash).

Rating : Sell

Target Price : INR270

Downside : 12%

CMP : INR305 (as on 20 September 2011)

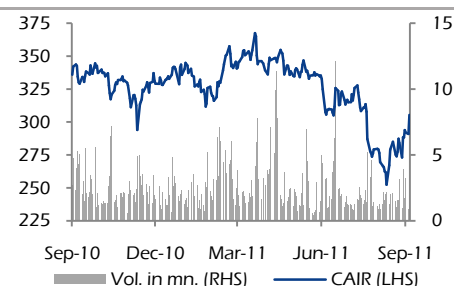
Key data*

Bloomberg /Reuters Code	CAIR IN/ CAILBO
Current /Dil. Shares O/S (mn)	1,897/1,905
Mkt Cap (INRbn/US\$m)	581/12,112
Daily Vol. (3M NSE Avg.)	1,859,130
Face Value (INR)	10

1 US\$= INR48

Source: Bloomberg ; * As on 20 September 2011

Price & volume



Source: Bloomberg

Share holding (%)	Q1FY11	Q2FY11	Q3FY11	Q4FY11
Promoter	62.4	62.4	62.2	62.2
Institutional Investors	17.9	17.7	18.1	18.9
Other Investors	17.4	17.6	17.4	17.5
General Public	2.3	2.3	2.3	1.4

Source: BSE

Price performance (%)	3M	6M	12M
Sensex	(2.3)	(4.4)	(14.1)
Cairn India	(0.7)	(11.7)	(11.2)
Reliance Inds.	2.2	(14.2)	(18.2)
ONGC	2.1	(3.2)	(25.5)

Source: Bloomberg

Key Financials

Y/E Mar (INR mn)	Rev	YoY (%)	EBITDA	EBITDA (%)	Adj PAT	YoY (%)	Fully DEPS	RoE (%)	RoCE (%)	P/E (x)	EV/EBITDA (x)
FY09	14,327	41.5	7,414	51.7	8,035	NA	4.2	2.4	2.7	72.4	79.2
FY10	16,230	13.3	7,720	47.6	10,512	30.8	5.5	3.1	2.8	55.3	76.0
FY11	102,779	533.3	83,562	81.3	63,344	502.6	33.2	15.8	17.0	9.2	6.6
FY12E	151,417	47.3	118,198	78.1	86,937	37.2	45.5	17.8	20.6	6.7	4.2
FY13E	162,168	7.1	126,654	78.1	94,684	8.9	49.6	16.2	18.8	6.2	3.9

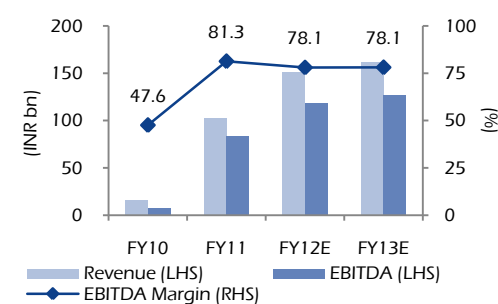
Source: Company, Elara Securities Estimate

Financials (Y/E Mar)

Income Statement (INR mn)	FY10	FY11	FY12E	FY13E
Revenue	16,230	102,779	151,417	162,168
EBITDA	7,720	83,562	118,198	126,654
Non operating Income	4,078	1,288	1,345	2,787
OPBITDA	11,797	84,850	119,543	129,441
Depreciation & Amortization	1,485	11,930	14,912	17,149
EBIT	10,312	72,921	104,631	112,292
Interest Expenses	148	4,021	4,222	4,306
PBT	10,164	68,900	100,409	107,986
Taxes	(348)	5,556	13,472	13,302
Adjusted PAT	10,512	63,344	86,937	94,684
Reported PAT	10,512	63,344	86,937	94,684
Balance Sheet (INR mn)	FY10	FY11	FY12E	FY13E
Share Capital	18,970	19,019	19,019	19,019
Reserves	319,714	382,971	469,908	564,591
Borrowings	34,007	26,782	20,007	13,007
Deferred Tax (Net)	4,453	5,612	5,612	5,612
Total Liabilities	377,144	434,384	514,546	602,229
Gross Block	100,188	126,609	166,085	167,311
Accumulated Depreciation/Depletion	2,259	6,705	6,968	9,182
Net Block	97,929	119,904	159,117	158,129
Capital Work In Progress	-	-	-	-
Investments	17,124	10,945	10,945	10,945
Net Working Capital	8,928	50,343	91,292	179,963
Goodwill	253,193	253,193	253,193	253,193
Other Assets	-	-	-	-
Total Assets	377,174	434,384	514,546	602,229
Cash Flow Statement (INR mn)	FY10	FY11E	FY12E	FY13E
Cash profit adjusted for non cash items	4,252	67,633	85,855	94,111
Working Capital Changes	(8,357)	(5,861)	7,098	457
Operating Cash Flow	(4,105)	61,772	92,953	94,568
Capex	46,488	20,241	39,476	1,227
Free Cash Flow	(50,594)	41,531	53,477	93,342
Financing Cash Flow	(9,461)	(7,087)	(6,775)	(7,000)
Investing Cash Flow	4,078	1,288	1,345	2,787
Net change in Cash	(55,977)	35,731	48,048	89,128
Ratio Analysis	FY10	FY11E	FY12E	FY13E
Income Statement Ratios (%)				
Revenue Growth	13.3	533.3	47.3	7.1
EBITDA Growth	4.1	982.4	41.4	7.2
PAT Growth	30.8	502.6	37.2	8.9
EBITDA Margin	47.6	81.3	78.1	78.1
Net Margin	64.8	61.6	57.4	58.4
Return & Liquidity Ratios				
Net Debt/Equity (x)	0.0	(0.1)	(0.3)	(0.3)
ROE (%)	3.1	15.8	17.8	16.2
ROCE (%)	2.8	17.0	20.6	18.8
Per Share data & Valuation Ratios				
Diluted EPS (INR/Share)	5.5	33.2	45.5	49.6
EPS Growth (%)	30.8	501.0	37.2	8.9
DPS (INR/Share)	0.0	0.0	0.0	0.0
P/E (x)	55.3	9.2	6.7	6.2
EV/EBITDA (x)	76.0	6.6	4.2	3.9
EV/Sales (x)	36.2	5.4	3.3	3.1
Price/Book (x)	1.7	1.4	1.2	1.0
Dividend Yield (%)	0.0	0.0	0.0	0.0

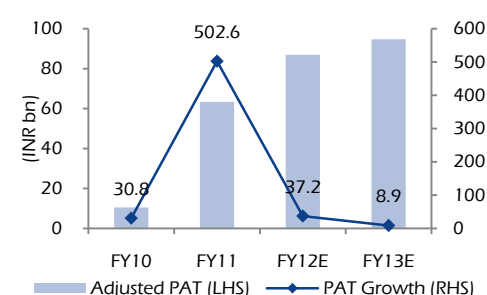
Source: Company, Elara Securities Estimate

Revenue & margins growth trend



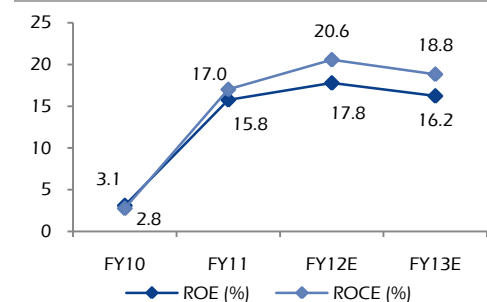
Source: Company, Elara Securities Estimate

Adjusted profits trend



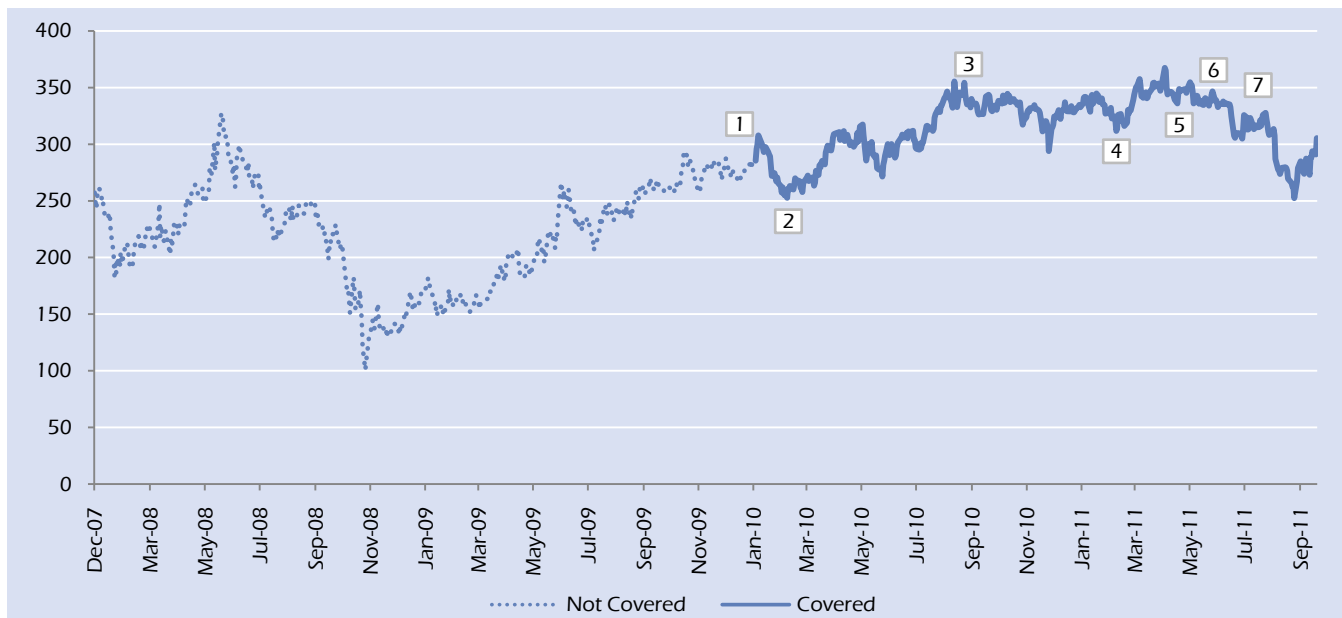
Source: Company, Elara Securities Estimate

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

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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