Networth Stock Broking Ltd.

Cairn India Ltd.

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Industry : **Oil & Gas**

IPO Price : Rs.160-190

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Scrip Scan	
Face Value (INR)	10.00
Premium (INR)	150-180
Equity Capital (Rs.mn) (pre issue)	2096.71
Equity Capital (Rs.mn) (post issue)	18146.34
Market Cap.*(Rs.bn)	344.78
*(at cut-off price)	

Key Data	
No of Shares to be issued (mn)	328.8
No of fresh shares issued (mn)	328.8
Total issue size (Rs.mn)	62471.94
Issue Opens on	11th Dec'06
Issue Closes on	15th Dec'06
Listing	BSE, NSE

Shareholding (post issue)	(%)
Promoters	67.61
Pre-IPO Investors*	11.55
Public (incl of employee)	20.84
Total	**100.00**

* 1 year lock-in
(Equity Capital after Green-shoe option)

Genesis

Cairn India Limited (CIL) is a newly incorporated Indian company and has been promoted by **Cairn Energy PLC** (the parent company), a crude oil and natural gas exploration and production company trading on London Stock Exchange. CIL was incorporated on 21 August, 2006 and has had no operating history. CIL has no history as an independent entity and the business comprising Cairn India will be acquired through its acquisition of **Cairn India Holdings Limited**, an intermediate holding company which is a subsidiary of Cairn Energy PLC. Cairn India Holdings Limited will acquire the assets of 27 subsidiaries through which the business of Cairn India will be conducted. As at 30 June, 2006, approximately 98.9% of the gross assets of the Subsidiaries were held by the **Cairn Energy Australia** Pty Ltd. (CEA), the **Cairn Energy India Holdings** BV (CEIH) and **Cairn Energy Hydrocarbons** (CEH). These also have contributed 100% of the production of Cairn India for the six month period ended 30 June, 2006. Post-IPO, the UK parent will have 69.5% stake in CIL.

Current issue

Approximately 50% of the issue proceeds are marked towards development of the oil fields in Rajasthan, Cambay and Ravva. While 41% would be utilized for payment to the parent company in lieu of the assets transferred to CIL.

Issue proceeds

Particulars	**Rs mn**	**% to total**
Cash To be paid to parent, Cairn UK Holdings Ltd*	45629.50	*40.60*
Development of Rajasthan,Ravva and Cambay fields	55250	*49.16*
Exploration & appraisal activities for NELP VI (Round3)	6910	*6.15*
General Corporate purpose	230	*0.20*
Contingencies	2530	*2.25*
Issue Expenses	1840	*1.64*
Total Amount	112389.50	*100.00*

*73.04% of the issue proceeds of Rs62471.94mn at cap price

Production of Oil & Gas

Currently oil and gas is being produced in certain blocks at KG basin and Cambay basin. Raava block at KG basin is a matured block, whereas the Cambay is only contributing gas to the CIL's revenues with insignificant oil contribution. (2012bopd in Dec,05 and 4234 bopd in June,2006)

Key operational assets

Name of the Block	**Basin**	**Op Yr**	**Crude/ Gas**	**Prod 2005 (Gross)**	**Working Interest**
Ravva (PKGM-1)	KG	1993	Crude	23.4 mmboe	22.50%
Laxmi (CB/OS-2)	Cambay	2002	Gas	19.4 bcf	40%
Gauri (CB/OS-2)	Cambay	2004	Gas	16.0 bcf	40%
Gauri & Laxmi (CB/OS-2)	Cambay	2005	Oil	0.2 mmbbl	40%

Current asset base in terms of reserves

The majority of the estimated hydrocarbons attributable to fields in which Cairn India has an interest are contained in the Rajasthan Block, where the upstream picture continues to evolve. Cairn India's primary asset is a 70% working interest in a development area of 1,858 sq km in Mangala field, in January 2004, it was the largest onshore crude oil field discovery in India since 1985. Mangala field is estimated to have gross 2P reserves of 428 mmboe and net working interest in those reserves to be 300 mmboe. The total 2P for Cairns working interest for all its assets stands at 472 mmboe as per its own estimates.

(mmboe)*	3P reserves	1P Reserves		2P Reserves	
		Gross	Net	Gross	Net
Mangla (M)	1,202	225	157	428	300
Bhagyam (B)	468	0	0	140	98
Aishwariya (A)	249	0	0	56	39
Total "MBA" Fields	**1,919**	**225**	**157**	**624**	**437**
Small Fields in Rajasthan	298	4	3	8	5
Rajasthan Block other fields	1443	0	0	0	0
Total Rajasthan Fields	**3,660**	**229**	**160**	**632**	**442**
Ravva Fields	506	83	19	106	24
Cambay Fields	126	11	4	16	6
KG-DWN-98/2 (KG Basin)	302	0	0	0	0
Total	**4,594**	**323**	**183**	**754**	**472**

* Mn barrel of Oil equivalent (mmboe)
3P- Gross Proved plus probable reserves initially in place
2P- Gross proved plus probable reserves
1P- Gross proved reserves
Net- Net working interest reflects CIL's ownership interest

Past operational performance

Production volume has been stagnating over last 4 years in the Ravva Fields, while it is fluctuating in Cambay basisn. For the six months ended 30 June, 2006, the total gross production rate from fields that it operates was approximately 87,500 boepd of which Cairn India had a working interest in 24,000 boepd.

Production statistics of KG and Cambay Basin

	Ravva (Oil) (mmbbls)		Ravva (Gas) (bcf)		Cambay (Gas) (bcf)	
	Gross	Net	Gross	Net	Gross	Net
CY2002	18.8	4.23	25.1	5.65	5.3	2.7
CY2003	19.51	4.39	27.02	6.08	39.9	20
CY2004	19.58	4.4	31.76	7.14	28.6	14.3
CY2005	18.33	4.12	30.82	6.94	35.4	15
H1CY06	9.06	2.03	13.72	3.09	22.8	9.1

Consolidated financials*

(Rs mn)	H1CY06	CY2005	CY2004	CY2003	CY2002	CY2001
Sales	5442	7641	6919	8191	5328	4021
EBIDTA	1249	2690	1419	3727	2928	-978
PBT	71	2760	-723	1669	2130	-1297
PAT	-526	927	-847	842	1273	-918

*Consolidated proforma financials of Cairn India Ltd (Aggregation of financials of Cairn Energy Austalia (CEA), Cairn Energy Hydrocarbon Ltd (CEHL), Cairn Energy India Holdings B.V (CEIH))

Note - The financial information presented and discussed herein does not necessarily reflect the actual results of operations and financial position that CEA, CEIH and CEHL would have reported had they been part of a separate publicly traded company during the periods presented. In particular, CEA, CEIH and CEHL were not capitalized independently and for the periods under review, they have borrowed from Cairn Energy PLC and its other subsidiaries to finance these activities. This inter-company lending has affected their results of operations, in particular with regard to the finance expense, interest income and taxation line items. As a result of these and other distortions the management believes that the historical results of operations of CEA, CEIH and CEHL are not indicative of the future results of operations of Cairn India.

Key concerns

- **Evacuation of waxy crude from Rajasthan:** MRPL is the development partner for the 500km pipe line project to evacuate the waxy crude. In the RHP, Cairn maintained that MRPL will develop the pipe-line, against which the parent of MRPL, ONGC raised an objection. As per the news article SEBI has reportedly asked the merchant bankers or CIL to reply to the objection to MRPL. The lead managers or the CIL authorities are yet to file the rejoinder to the MRPL's objection. Indian Oil and other refineries may agree to refine the crude with the condition that the crude be offered at a discount (of 8-9% to the Indian crude oil basket). If logistically the evacuation of crude becomes unfeasible, then CIL may have to set up a well-head refinery, the feasibility of which would depend on the volume of crude the Rajasthan fields would generate. We feel this is a major concern, as Rajasthan fields constitute CIL's major oil field. Any adverse development in the future, will seriously affect the prospects of CIL .
- The reserve estimation is done by an independent petroleum engineering consultants, shows lower amount of reserves than its own estimation. As such this estimation carries a degree of uncertainty. When the operations of CIL demands higher time horizon to break-even, estimation of reserves holds the key to valuation of organization in the interim. If future estimates marks down such reserves then CIL has to make good such declines in reserves by bidding any other future blocks. Such development has a bearing on the enterprise value.
- The chief contributing oilfield Ravva in Block PKGM-1, in KG Basin has been operational since 1993 has reached a plateau production rate of 50,000 bopd currently. CIL expects the plateau rate of 50,000bopd to continue until the end of 2007 and decline thereafter.
- High gestation period of minimum 3 years for Mangla, Bhagyam, Aishwariya, Shakti fields in the Rajasthan Block. Mangla is the core oil field of CIL in which, upto 30th June 2006, only 5.8% of the proposed investment has been made.
- Delay in creation of othere infrastructure like power plant, water reservoir, pipe Line to evacuate crude etc. is prerequisite for exploration may further compound the gestation period.
- The crude that would be produced by Cairn is very waxy in nature and it would be valued at 10% discount to benchmark brent crude. The waxy crude may also pose problem in exploration and transportation and subsequently in refining. Refineries may seek higher discount for the low-yielding crude.

Valuation

For relative valuation we compared CIL with the listed E&P behemoth ONGC. Although, strictly speaking, due to subsidy sharing issue, ONGC can not be comparable with CIL. Standalone E&P of Reliance Industries Limited (RIL) is a fit case for comparison. But RIL's financials also include the operations of refinery and downstream petrochemicals. So, we have considered ONGC for the case. We have considered EV/Reserve parameter, because majority of the oil-fields are in Rajasthan, which is in evolutionary phase and estimating the future cash flows for DCF valuation may be erroneous.

Company	2P Reserves	1P Reserves	EV	EV/2P ($)	EV/1P ($)
	mmboe		(Rs bn)		
ONGC	6832.68	4496.69	1802.54	5.91	8.98
CIL	472	183	354.27	16.81	43.36

* $: Rupee = Rs.44.65

On EV/ Reserve basis, we found EV per barrel of oil equivalent is steep at $16.81 as compared to $5.91 for ONGC. We believe that EV of CIL captures the future prospects that may accrue in NELP-VI and later. We, believe due to reputation as a serious E&P player (highest amount spent for exploration activity in India as per DGH data), CIL would participate and capture more oil-blocks in future Government offerings and ramp up its hydrocarbon reserves. We believe, CIL would get premium valuation in contrast to the listed peers for its efficiency as low cost crude producers (CIL's production at Ravva fields has the distinction of operating at one of the lowest operational average cost of less US$1/boe in the world), experienced management and parentage. We recommend investors to subscribe to the issue from a long-term perspective.

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