

## Cairn India Ltd

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### Cairn's crude sells at a discount of meager USD 2.4 ~ 3.6/bbl

Hindustan Times has reported that Cairn India's has signed a price agreement with PSU refiners at USD 2.4 ~ USD 3.6/bbl discount to Nigerian Bonny light. We note that Nigerian bonny light in the last 6 months has traded at a premium of 3.12 & 4.52 USD/bbl to Brent and Dubai Heavy. While there has been a galore of issues for Cairn on account of cess, royalty, pricing and offtake, in our opinion the issue on pricing is the most critical of all.

We had a price target of Rs 197 assuming USD8/bbl discount to long term Brent of USD 70/bbl, Re/USD at 50, cess at Rs 927/mt and no royalty. In the event of the Cairn's crude being linked to bonny light grade and lower discount, our target price would be revised upwards to Rs 258, an upside of 32% from current levels.

### Cairn fixes crude price with IOC

Cairn India Ltd has finalised the pricing for its Rajasthan crude oil and has signed its first agreement with Indian Oil Corporation (IOC) to sell 1.97 million tonnes per annum of crude oil, which has been priced at a discount of \$2.47 a barrel to the Bonny Light variety (which is produced at the Mumbai High offshore basin by ONGC).

The Rajasthan crude is heavier, and hence sells at a discount. Cairn India is a subsidiary of UK-based Cairn Energy Plc

Price negotiations are on with other state-refiners —MRPL and HPCL. According to the refining industry sources, the agreement with MRPL is likely to be finalised for 0.39 million tonnes per annum (mtpa) of crude and will be at a discount of \$3.45 to \$3.6 per barrel to the Bonny Light variety.

"Pricing for supply of another 0.86 mtpa of crude oil to HPCL will also be in the same price range as that of MRPL," a source familiar with the development said.

The reason for differential pricing of crude to IOC, MRPL and HPCL is based on the processing facilities available at the refineries. MRPL and HPCL have the most modern processing facilities.

When contacted, a Cairn spokesperson said, "We don't comment on price negotiations."

However a senior petroleum ministry official said, "This is a very good price fetched by Cairn considering the poor quality of the crude".

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