

# Cairn India Ltd (CAIIND)

**Rs 290**

## WHAT'S CHANGED...

PRICE TARGET .....	Changed from Rs 296 to Rs 309
EPS (FY11E) .....	Changed from Rs 24.2 to Rs 24.4
EPS (FY12E) .....	Changed from Rs 44.8 to Rs 44.2
RATING.....	Unchanged

## Steady ramp up in production...

Cairn India has declared its Q4FY10 results. The revenues increased 281.2% to Rs 692.8 crore in Q4FY10 as against Rs 181.8 crore in Q4FY09. The net profit for Q4FY10 increased to Rs 245.2 crore on account of ramp up in production from the Mangala field. The profitability was lower than our estimates due to higher exploration costs of Rs 121.9 crore in the current quarter. The management expects Train 3 to be ready by the end of June and expects a ramp up in Mangala production to ~1,25,000 boepd during H2CY10. Exploratory success in the KG basin and Sri Lanka could provide further upsides to the stock in the long run. We are maintaining our **ADD** rating on the stock with price target of Rs 309.

### ■ Highlights for the year

The gross production for Cairn in FY10 stood at 69,059 boepd and working interest was at 24,957 boepd. The oil production for the Mangala field has been ramped up to 17,532 boepd in Q4FY10 and currently stands at ~60,000 boepd. The gross production from Ravva and Cambay stood at 54,198 boepd in FY10.

## Valuation

We have valued Cairn on SOTP methodology, using DCF for Cairn's producing assets and EV/bbl of US\$12.5 for other exploratory blocks. We estimate Cairn's fair value at Rs 309/share (MBA fields at Rs 240/share, Rs 5/share for Ravva field and Rs 3/share for Cambay field). We have assumed long-term Brent crude prices at US\$80/bbl in our valuation model while Cairn's current valuation discounts US\$75/bbl. We are maintaining our **ADD** rating on the stock, with a price target of Rs 309.

### Exhibit 1: Performance Highlights

(Rs Crore)	Q4FY10A	Q4FY10E	Q4FY09	Q3FY10	YoY Gr.(%)	QoQ Gr.(%)
<b>Revenues</b>	692.8	640.9	181.8	495.5	281.2	39.8
<b>EBITDA</b>	245.9	397.2	24.1	303.2	921.7	-18.9
<b>EBITDA Margin (%)</b>	35.5	62.0	13.2	61.2	2230 bps	-2570 bps
<b>Depreciation</b>	38.2	50.8	44.3	30.0	-13.9	27.3
<b>Interest</b>	1.9	38.3	2.1	26.0	-11.7	-92.8
<b>Reported PAT</b>	245.2	313.8	18.7	291.0	1212.6	-15.7
<b>EPS (Rs)</b>	1.3	1.7	0.1	1.5	1212.6	-15.7

Source: Company, ICICIdirect.com Research

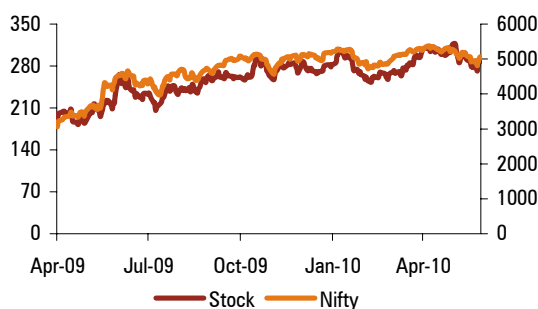
Rating matrix	
Rating	: <b>Add</b>
Target	: Rs 309
Target Period	: 12 months
Potential Upside	: 7%

Key Financials				
(Rs Crore)	FY09	FY10	FY11E	FY12E
Revenues	1432.7	1623.0	8426.0	14601.6
EBITDA	761.7	772.0	6382.0	11372.6
Net Profit	803.4	1051.1	4636.2	8383.6

Valuation summary				
	FY09	FY10E	FY11E	FY12E
EPS (Rs)	4.2	5.5	24.4	44.2
PE (x)	68.5	52.3	11.9	6.6
Target PE (x)	69.9	53.4	12.1	6.7
EV to EBITDA (x)	69.4	74.5	8.6	4.4
Price to book (x)	1.7	1.6	1.5	1.3
RoNW (%)	2.4	3.1	12.5	19.4
RoCE (%)	1.3	1.7	14.8	22.7

Stock data	
Market Cap.	Rs 55003.4 Crore
Debt (FY09)	Rs 4356.4 Crore
Cash (FY09)	Rs 6527.1 Crore
EV	Rs 528328 Crore
52 week H/L	321 / 201
Equity capital	Rs 1896.7 Crore
Face value	Rs 10
MF Holding (%)	6.9
FII Holding (%)	11.0

### Price movement (Stock vs. Nifty)



### Analyst's name

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**Highlights of the conference call**

- The gross production from the Mangala field was 17,532 boepd, with working interest of 12,272 boepd for Cairn India in Q4FY10. The current production stands at ~60,000 boepd in the Mangala field
- The oil realisation for the Mangala field stood at \$67 per barrel, in line with management guidance of 10-15% discount to Brent crude oil prices
- The trucking costs for the Mangala field stood at ~\$9/bbl in Q4FY10. A cess payment of \$7.6/bbl will be made to the government till the final decision on that front is resolved. We have conservatively assumed cess of \$7.6/bbl in our valuation model
- A total of 65 development wells have been drilled in the Mangala field out of which 51 wells have been completed and made ready for initial production
- Crude oil sales to MRPL and Reliance have commenced in Q3FY10 and have delivered more than 4 mmbbl to refiners. The production to IOC would commence soon
- The Train 3 is expected to be ready by June 2010 to attain production capacity of 1,30,000 bpd. The ~590 km pipeline from Mangala to Salaya is complete and in preparation of sales.
- The management expects to ramp up Mangala production to ~1,25,000 boepd during H2CY10. We have revised our production ramp-up in Rajasthan field to 93k and 174k for FY11E and FY12E, respectively
- Cairn is currently processing 3D seismic data in Sri Lanka and plans to commence exploratory drilling by Q2CY11

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### Exhibit 2: Valuation Table

Year	Sales (Rs Crore)	Sales Gr. (%)	EPS (Rs)	EPS Gr. (%)	PE (x)	EV/EBITDA (x)	RoNW (%)	RoCE (%)
FY09	1432.7	41.5	4.2	NA	68.5	69.4	2.4	1.3
FY10E	1623.0	13.3	5.5	30.8	52.3	74.5	3.1	1.7
FY11E	8426.0	419.2	24.4	341.1	11.9	8.6	12.5	14.8
FY12E	14601.6	73.3	44.2	80.8	6.6	4.4	19.4	22.7

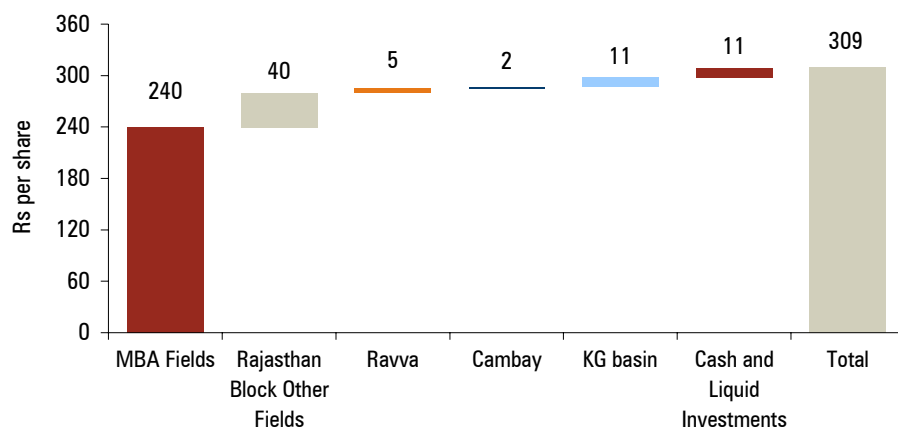
Source: Company, ICICIdirect.com Research

### Exhibit 3: SOTP valuation

	Rs Crore	Rs (share)
MBA fields	45468.8	240
Rajasthan Block (Other Fields and exploratory upside)	7573.9	40
Ravva	943.1	5
Cambay	492.9	3
KG-DWN-98/2	2010.2	11
<b>Total</b>	<b>48915.0</b>	<b>298</b>
Less: Net Debt (FY11E)	(2178.4)	(11)
<b>Equity Value</b>	<b>51093.3</b>	<b>309</b>

Source: ICICIdirect.com Research

### Exhibit 4: SOTP valuation



Source: ICICIdirect.com Research

**Exhibit 5: Sensitivity of valuation to Brent crude oil prices and exchange rate**

		Brent Crude Oil Prices (US\$/barrel)						
		65.0	70.0	75.0	80.0	85.0	90.0	95.0
<b>Exchange Rate (Rs/US\$)</b>	<b>41.0</b>	254	267	279	294	308	319	331
	<b>42.0</b>	258	270	284	299	312	325	337
	<b>43.0</b>	260	274	289	304	316	328	343
	<b>44.0</b>	265	278	294	309	321	334	349
	<b>45.0</b>	267	282	298	313	327	340	355
	<b>46.0</b>	270	287	303	316	330	345	361
	<b>47.0</b>	275	291	308	321	335	351	367
	<b>48.0</b>	279	296	311	326	340	357	371

Source: ICICIdirect.com Research

## RATING RATIONALE

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Buy: Between 10% and 20%;  
Add: Up to 10%;  
Reduce: Up to -10%  
Sell: -10% or more;

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