

14th India Investor Conference

Having met with management today at our 14th Annual India Investor Conference in New Delhi, these are some of our takeaways...

Concerns over downside risk to volumes dispelled

We were concerned after the 3Q earnings call that there may be 15% downside to our FY11 and 11% to FY12 production volume assumptions. However clarity on several issues has now made us realize that there may be no downside risk. Cairn India (CIL) will have 74-75% (not 70%) of Rajasthan crude volumes until complete cost recovery. Rajasthan gross volumes need to be 96-149k b/d (and not 103-157k b/d) in FY11-FY12E to achieve our volume forecast. That appears achievable. Management is in fact guiding 2011E net volumes at 130k b/d vis-à-vis 125k b/d assumed by us for FY12E. Thus there may actually be upside risk to FY12E volumes.

CIL to get 74-75% of Rajasthan volumes until cost recovery

Rajasthan development cost of US\$3.8-4.1bn is being shared by CIL and ONGC according to their stake ratios of 70%:30%. However, CIL incurred most of the exploration cost of US\$610m. Therefore, of the recoverable cost (sum of exploration and development) of US\$4.4-4.7bn, 73.8% would eventually be incurred by CIL. Therefore until complete cost recovery CIL will get 74-75% of Rajasthan volumes in FY11-FY12E, which is in ratio of extent of recoverable cost incurred by them. Volumes would be shared in 70%:30% ratio with ONGC only after complete cost recovery.

Update on train 4 in Rajasthan and Sri Lanka block

As against earlier guidance of a start of the fourth production train in Rajasthan in 2011, it has now been clarified that it will start in 2H 2011. On CIL's Sri Lanka block new details were disclosed. The Sri Lankan government has back-in rights of 20% if commercial discoveries are made. At the peak the Sri Lankan government's share in profit petroleum would be 85% after 3.5x cost recovery.

Estimates (Mar)

(Rs)	2008	2009A	2010E	2011E	2012E
Net Income (Adjusted - mn)	NA	7,031	9,899	60,230	70,348
EPS	NA	3.71	5.22	31.76	37.09
EPS Change (YoY)	NA	NA	40.8%	508.4%	16.8%
Dividend / Share	NA	0	0	13.00	15.00
Free Cash Flow / Share	NA	(12.85)	(8.02)	23.90	35.26

Valuation (Mar)

	2008	2009A	2010E	2011E	2012E
P/E	NA	70.08x	49.78x	8.18x	7.00x
Dividend Yield	NA	0%	0%	5.00%	5.77%
EV / EBITDA*	NA	51.86x	32.80x	5.61x	4.69x
Free Cash Flow Yield*	NA	-4.95%	-3.09%	9.20%	13.57%

* For full definitions of *iQmethod*SM measures, see page 6.

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Stock Data

Price	Rs259.80
Price Objective	Rs311.00
Date Established	12-Nov-2009
Investment Opinion	C-1-9
Volatility Risk	HIGH
52-Week Range	Rs147.10-Rs310.00
Mrkt Val / Shares Out (mn)	US\$10,562 / 1,896.7
Average Daily Volume	3,566,825
BofAML Ticker / Exchange	XCANF / BSE
Bloomberg / Reuters	CAIR IN / CAIL.BO
ROE (2010E)	3.0%
Net Dbt to Eqty (Mar-2009A)	-6.7%
Est. 5-Yr EPS / DPS Growth	NA / NA
Free Float	30.5%

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Refer to important disclosures on page 5 to 7. Analyst Certification on Page 3. Price Objective Basis/Risk on page 3.

iQprofileSM Cairn India

Key Income Statement Data (Mar)	2008	2009A	2010E	2011E	2012E
(Rs Millions)					
Sales	NA	14,327	22,398	108,242	148,940
Gross Profit	NA	9,302	14,705	86,021	102,960
Sell General & Admin Expense	NA	NA	NA	NA	NA
Operating Profit	NA	4,920	10,700	73,613	86,259
Net Interest & Other Income	NA	3,406	1,226	(1,052)	(1,508)
Associates	NA	NA	NA	NA	NA
Pretax Income	NA	8,325	11,926	72,561	84,752
Tax (expense) / Benefit	NA	(1,294)	(2,027)	(12,332)	(14,404)
Net Income (Adjusted)	NA	7,031	9,899	60,230	70,348
Average Fully Diluted Shares Outstanding	NA	1,897	1,897	1,897	1,897

Key Cash Flow Statement Data

Net Income	NA	7,031	9,899	60,230	70,348
Depreciation & Amortization	NA	4,382	4,005	12,408	16,701
Change in Working Capital	NA	7,566	1,006	1,039	1,074
Deferred Taxation Charge	NA	NA	NA	NA	NA
Other Adjustments, Net	NA	(2,846)	(181)	680	631
Cash Flow from Operations	NA	16,132	14,729	74,357	88,753
Capital Expenditure	NA	(40,510)	(29,943)	(29,017)	(21,878)
(Acquisition) / Disposal of Investments	NA	NA	NA	NA	NA
Other Cash Inflow / (Outflow)	NA	5,416	0	0	0
Cash Flow from Investing	NA	(35,093)	(29,943)	(29,017)	(21,878)
Shares Issue / (Repurchase)	NA	0	0	0	0
Cost of Dividends Paid	NA	0	0	(27,878)	(32,167)
Cash Flow from Financing	NA	40,440	2,659	(6,378)	(41,917)
Free Cash Flow	NA	(24,377)	(15,214)	45,340	66,875
Net Debt	NA	(21,929)	(8,315)	(27,563)	(64,521)
Change in Net Debt	NA	18,961	15,214	(17,461)	(34,708)

Key Balance Sheet Data

Property, Plant & Equipment	NA	65,674	91,611	108,221	113,398
Other Non-Current Assets	NA	254,905	254,905	254,905	254,905
Trade Receivables	NA	7,409	7,779	8,168	8,576
Cash & Equivalents	NA	65,271	54,315	95,063	122,271
Other Current Assets	NA	0	0	0	0
Total Assets	NA	393,259	408,611	466,357	499,151
Long-Term Debt	NA	43,342	46,000	67,500	57,750
Other Non-Current Liabilities	NA	5,624	7,043	9,509	12,390
Short-Term Debt	NA	0	0	0	0
Other Current Liabilities	NA	16,132	17,508	18,937	20,419
Total Liabilities	NA	65,097	70,551	95,946	90,558
Total Equity	NA	328,023	337,922	370,273	408,454
Total Equity & Liabilities	NA	393,120	408,473	466,219	499,012

iQmethodSM - Bus Performance*

Return On Capital Employed	NA	NA	2.3%	14.6%	15.5%
Return On Equity	NA	4.3%	3.0%	17.0%	18.1%
Operating Margin	NA	34.3%	47.8%	68.0%	57.9%
EBITDA Margin	NA	64.9%	65.7%	79.5%	69.1%

iQmethodSM - Quality of Earnings*

Cash Realization Ratio	NA	2.3x	1.5x	1.2x	1.3x
Asset Replacement Ratio	NA	9.2x	7.5x	2.3x	1.3x
Tax Rate (Reported)	NA	15.5%	17.0%	17.0%	17.0%
Net Debt-to-Equity Ratio	NA	-6.7%	-2.5%	-7.4%	-15.8%
Interest Cover	NA	NM	28.6x	25.9x	23.0x

Key Metrics

* For full definitions of iQmethodSM measures, see page 6.

Company Description

Cairn India was formed in August 2006. It has bought most of Cairn Plc's Indian E&P assets comprising 2 production, 1 development and 10 exploration blocks. CEP holds about 69% of CIL, which has 2P reserves of 473mmboe and resources of 199mmboe, with 97% of reserves in oil. Its main asset is RJ-ON-90/1, which includes the largest onland oil discovery in India in 22 years. Its production and EPS should surge when RJ-ON-90/1 comes on stream in 2009.

Investment Thesis

CIL is the best play on oil prices in India and also one of the best in Asia, in our view. Its profits should increase significantly once oil production starts in its Rajasthan block. Further reserve accretion is possible in this block. Large unrisks prospective resources suggest good prospects in undrilled acreage, too. Open offer to minority shareholders following CIL acquisition may be another share price driver. Attractive on 2010E earnings and cash flow multiples. Buy

Stock Data

Price to Book Value 1.5x

Price objective basis & risk

Cairn India (XCANF)

Our PO of Rs311/share is calculated on a DCF basis with WACC being 12pct. Brent price is assumed to be US\$69/bbl for FY10E, US\$88/bbl for FY11E and US\$85/bbl for FY12E. Long term Brent price is taken at US\$80/bbl from FY13E. We have valued 516mmboe of net 2P reserves at Rs184/share, 327mmboe of best case net contingent resources at Rs56/share, 1.4bn boe of unrisks prospective resources (exploration upside) at Rs69/share. Balance value is net cash with Cairn India. Downside risks: (1) Long term oil price being lower than assumed, (2) Rupee being stronger than assumed (Rs47 vis-à-vis US dollar).

Analyst Certification

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APR - Energy Coverage Cluster

Investment rating	Company	BofAML ticker	Bloomberg symbol	Analyst
BUY	Cairn India	XCANF	CAIR IN	Vidyadhar Ginde
	CNOOC	CEOHF	883 HK	Thomas Wong
	CNOOC	CEO	CEO US	Thomas Wong
	CNPC (Hong Kong)	CNPXF	135 HK	Vitus Leung
	COSL	CHOLF	2883 HK	Vitus Leung
	LG Chem	LGCLF	051910 KS	Kenneth Whee
	ONGC	ONGCF	ONGC IN	Vidyadhar Ginde
	Sinopec	SNPMF	386 HK	Thomas Wong
	Sinopec - A	SNP	SNP US	Thomas Wong
	SK Energy	XVERF	096770 KS	Kenneth Whee

APR - Energy Coverage Cluster

Investment rating	Company	BofAML ticker	Bloomberg symbol	Analyst
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	PetroChina	PCCYF	857 HK	Thomas Wong
	PetroChina - A	PTR	PTR US	Thomas Wong
UNDERPERFORM				
	BPCL	XBPCF	BPCL IN	Vidyadhar Ginde
	Citic Resources	CTJHF	1205 HK	Vitus Leung
	Formosa Chemicals & Fibre	XFUMF	1326 TT	Kenneth Whee
	Formosa Petrochemical	FPTCF	6505 TT	Kenneth Whee
	Formosa Plastics	FSAPF	1301 TT	Kenneth Whee
	GS Holdings	GSHDF	078930 KS	Kenneth Whee
	Hindustan Petro.	XHTPF	HPCL IN	Vidyadhar Ginde
	IOC	IOCOF	IOCL IN	Vidyadhar Ginde
	Petronet LNG Ltd	POLNF	PLNG IN	Vidyadhar Ginde
	Reliance Inds	XRELF	RIL IN	Vidyadhar Ginde
	Reliance Inds -G	RLNIY	RIGD LI	Vidyadhar Ginde
	S-Oil	SOOCF	010950 KS	Kenneth Whee

iQmethodSM Measures Definitions

Business Performance	Numerator	Denominator
Return On Capital Employed	$\text{NOPAT} = (\text{EBIT} + \text{Interest Income}) * (1 - \text{Tax Rate}) + \text{Goodwill Amortization}$	$\text{Total Assets} - \text{Current Liabilities} + \text{ST Debt} + \text{Accumulated Goodwill Amortization}$
Return On Equity	Net Income	Shareholders' Equity
Operating Margin	Operating Profit	Sales
Earnings Growth	Expected 5-Year CAGR From Latest Actual	N/A
Free Cash Flow	Cash Flow From Operations – Total Capex	N/A
Quality of Earnings		
Cash Realization Ratio	Cash Flow From Operations	Net Income
Asset Replacement Ratio	Capex	Depreciation
Tax Rate	Tax Charge	Pre-Tax Income
Net Debt-To-Equity Ratio	$\text{Net Debt} = \text{Total Debt, Less Cash \& Equivalents}$	Total Equity
Interest Cover	EBIT	Interest Expense
Valuation Toolkit		
Price / Earnings Ratio	Current Share Price	Diluted Earnings Per Share (Basis As Specified)
Price / Book Value	Current Share Price	$\text{Shareholders' Equity} / \text{Current Basic Shares}$
Dividend Yield	Annualised Declared Cash Dividend	Current Share Price
Free Cash Flow Yield	Cash Flow From Operations – Total Capex	$\text{Market Cap.} = \text{Current Share Price} * \text{Current Basic Shares}$
Enterprise Value / Sales	$\text{EV} = \text{Current Share Price} * \text{Current Shares} + \text{Minority Equity} + \text{Net Debt} + \text{Other LT Liabilities}$	Sales
EV / EBITDA	Enterprise Value	Basic EBIT + Depreciation + Amortization

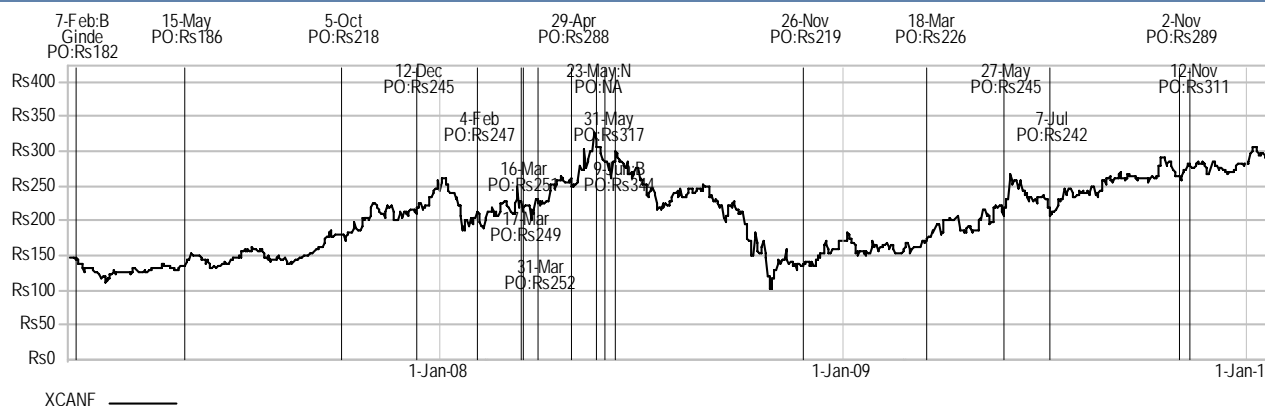
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XCANF Price Chart



B : Buy, N : Neutral, S : Sell, U : Underperform, PO : Price objective, NA : No longer valid

*Prior to May 31, 2008, the investment opinion system included Buy, Neutral and Sell. As of May 31, 2008, the investment opinion system includes Buy, Neutral and Underperform. Dark Grey shading indicates that a security is restricted with the opinion suspended. Light grey shading indicates that a security is under review with the opinion withdrawn. The current investment opinion key is contained at the end of the report. Chart is current as of January 31, 2010 or such later date as indicated.

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Investment Rating Distribution: Energy Group (as of 01 Jan 2010)

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	131	55.04%	Buy	84	71.19%
Neutral	58	24.37%	Neutral	29	69.05%
Sell	49	20.59%	Sell	20	44.44%

Investment Rating Distribution: Global Group (as of 01 Jan 2010)

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	1699	50.78%	Buy	904	58.82%
Neutral	841	25.13%	Neutral	491	65.03%
Sell	806	24.09%	Sell	368	49.80%

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Buy	≥ 10%	≤ 70%
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Underperform	N/A	≥ 20%

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