Visit us at www.sharekhan.com December 07, 2006

Cairn India

IPO Fact Sheet

Issue details

Issue opens	:	December 11, 2006
Issue closes	:	December 15, 2006
Issue size	:	32.9 crore equity shares
Face value	:	Rs10
Break-up of fresh issue to public		
QIBs	:	19.7 crore shares
Non-institutional portion	:	3.3 crore shares
Retail portion	:	9.9 crore shares
Green-shoe option	:	4.9 crore shares
Price band	:	Rs160-190

Objects of the issue

The size of the issue ranges from Rs5,261 to Rs6,247 crore (depending on the price band), excluding the green-shoe option of additional 4.9 crore equity shares. The proceeds of the issue would be utilised to partially fund the total expenditure set forth for 2007-09.

Planned expenditure and source of funds

Particulars	Rs crore
Funds required over 2007-2009	
Development of Rajasthan block and additional drilling activities in Ravva fields and Cambay Basin	5525
Exploration and appraisal activities including funding of minimum work programme in the existing blocks and new blocks that may be awarded in NELP VI	691
General corporate purpose	23
Contingencies & part payment of debt	up to 253
Issue expenses	184
Cash consideration to be paid to Cairn UK Holding as consideration for shares of Cairn India Holdings	5300 to 5700
Source of funds	
Pre-issue placement	3700
Public issue (average proceeds without green-shoe option)	5754
Debt (around $600 million already tied up)	2700

Company background

Cairn India Ltd (CIL) is a newly incorporated company that has taken over the Indian crude oil and natural gas exploration and production assets of Cairn Energy Plc. At the completion of the reorganisation, CIL would hold 100% stake in Cairn India Holding and its subsidiaries that own the exploration and production crude oil and natural gas assets in India.

Crude oil and natural gas assets

CIL has working interest in various oil and gas blocks spread primarily across the Cambay Basin, the Krishna Godavari (KG) Basin and Rajasthan. The details of the working interest and the partners in each of the blocks are given in the table below.

Assets in India

Block	Interest of Cairn India	Partner(s) and interest(s) of Partner(s)	Operator
Production and development			
Block PKGM-1	22.5%	ONGC (40%); Videocon Industries (25%); Ravva Oil (Singapore) Pte. Ltd (12.5%)	Cairn India
Block CB/OS-2	40%	ONGC (50%); Tata Petrodyne (10%)	Cairn India
Block RJ-ON-90/1	70%	ONGC (30%)	Cairn India
Exploration			
CB-ONN-2001/1	30%	ONGC (70%)	ONGC
CB-ONN-2002/1	30%	ONGC (70%)	ONGC
KG-DWN-98/2	10%	ONGC (90%)	ONGC
GV-ONN-97/1	15%	ONGC (40%); IOC (30%); Cairn Energy Group (15%)	ONGC
GV-ONN-2002/1	50%	Cairn Energy Group (50%)	Cairn India
GV-ONN-2003/1	24%	ONGC (51%); Cairn Energy Group (25%)	Cairn India
GS-OSN-2003/1	49%	ONGC (51%)	ONGC
KG-ONN-2003/1	49%	ONGC (51%)	Cairn India
VN-ONN-2003/1	49%	ONGC (51%)	Cairn India
RJ-ONN-2003/1	30%	ONGC (36%); ENI India (34%) Limited	ENI India

It has two producing assets, the Ravva fields (Block PKGM-1; CIL stake of 22.5%) and the Lakshmi and Gauri fields in the Cambay Basin (Block CB/OS-2; CIL stake 40%). CIL is the operator in both the producing assets. The Ravva fields produce around 50,000 barrel of oil per day (bopd) whereas the Gauri and Lakshmi fields have a combined production of around 25,000bopd (including oil equivalent of gas produced).

In addition to this, CIL has bid for around 12 blocks (eight deepwater, one shallow water and three onshore) in the sixth round of the New Exploration Licencing Policy (NELP-VI). According to media reports, the company is likely to bag two blocks.

Shareholding pattern

Post-issue the total number of shares of the company will increase from 122.7 crore to 176.5 crore, bringing down the stake of the promoter (Cairn Energy Plc.) to 69.5%, excluding the exercise of the green-shoe option by the company.

Shareholding pattern

	Pre-issue		Post-issue	
	No of equity shares	Holding (%)	No of equity shares	Holding (%)
Cairn Holdings	1,226,843,791	100	1,226,843,791	69.5
Pre-IPO investors	-		209,670,913	11.9
Public	-	0	328,799,675	18.6
Total	1,226,843,791	100	1,765,314,379	100

Pre-issue private placement

The company has set the valuation benchmark through the private placement of 20.9 crore shares at an average price of Rs176.5 per share to raise $822 million before the proposed issue. The bulk of the placement was done to the Malaysian oil & gas giant, Petronas (Petroliam Nasional Berhad). The Malaysian company has acquired a 10% stake in CIL for Rs3,115.4 crore. The other investors include Videocon Industries, Datavision Systems, Citigroup and Merrill Lynch with a combined investment of Rs585 crore.

Pre-issue investors

Name	No of shares	Consideration (Rs crore)
Petronas International Corporation	176,531,438	3115.4
Merrill Lynch International Investment Funds	12,745,952	224.9
ABN AMRO Bank N.V., London Branch	12,745,952	224.9
Videocon Industries	6,372,976	112.5
Citigroup Global Markets, Mauritius	991,277	17.5
Datavision Systems Private Ltd	283,318	5.0

Key positives

Proven track record and management pedigree

CIL is a professionally managed company and has a vast experience of exploring and operating "development and production" assets in India for over 12 years. It commenced production of natural gas from the Lakshmi fields in the Cambay Basin in a record time of 30 months following the discovery. As an operator of the Ravva fields in the KG Basin, the company has successfully ramped up the production from 3,700bopd to 35,000bopd in 26 months. At the current production level of 50,000bopd, the Ravva fields contribute around 7% of the current domestic production. In terms of the cost of operations also, the operational expenditure of the producing assets was less than US $1 per boe (barrel of oil & oil equivalents), which is one of the lowest globally.

In terms of exploration as well, the company has a successful track record of 29 hydrocarbon discoveries in the past 12 years, which include three landmark discoveries made in India during the past five years. In 2004, CIL made the largest onshore crude oil discovery in India when it discovered the Mangala fields in Rajasthan.

Rajasthan block, the next big push

The bulk of the hydrocarbon reserves of CIL are located at the recently discovered fields in the Rajasthan block where the company has discovered 18 fields covering 21 different oil and gas accumulations. The company holds 70% working interest in the Rajasthan block. In fact, the combined proven and probable reserves (2P) of 437 million boe in the three main fields of Mangala, Bhagyam and Ashwariya (MBA) located in Rajasthan account for around 92.5% of the total 2P reserves of the company.

As part of its development programme, CIL aims to commercialise the Mangala field by March 2009. The development and commercialisation of the Bhagyam, Shakti and Ashwariya fields are scheduled to commence within 12 months of production at the Mangala fields. In all, the company is targeting gross production of 150,000bopd from the Rajasthan block's northern fields by the end of 2010. This essentially means CIL's share of gross oil production would increase from around 21,500bopd to over 125,000bopd (without considering the profit oil share of the government) over the next four to five years. CIL would cumulatively contribute around 20% of the total domestic production in the country.

Key concerns

Sensitive to oil price movements

CIL's operating performance is to a great extent linked to the fluctuations in oil prices. Crude oil prices are sensitive to the global and regional supply and demand, and the expectations regarding the future supply and demand, for crude oil and petroleum products. Any adverse impact on crude oil prices that is subject to various uncontrollable macro-economic global factors can adversely affect CIL's operating performance.

Besides various macro-dynamics, the Government of India (GoI) has historically played a key role (and is expected to continue to do so) in regulating, reforming and restructuring the Indian crude oil and natural gas industry. As on date the government levies seven different types of taxes on oil products; any change in these tax rates or the policies regarding oil subsidy can affect the demand for crude compared with the other alternative fuels.

Quality of oil and its evacuation

The oil reserves in the Rajasthan block have reasonably high viscosity due to the relatively higher wax content in it. The production of such waxy crude oil would require hot water injection technique that is likely to add to the overall cost of production. On the other hand, the waxy crude oil would get lower realisation. The company expects realisation of around 5-10% discount to Brent. However, it could be relatively much lower at a discount of 10-20% going by the prevailing trend in the market.

The production-sharing contract (PSC) for the Rajasthan block specifies that CIL is obliged to sell 100% of the crude oil from this block to GoI or its nominee, Mangalore Refinery and Petrochemicals Ltd (MRPL), and GoI is obliged to buy the crude oil. CIL's development plan for the Mangala fields assumes that MRPL would develop a pipeline and related infrastructure to transport the crude oil and condensate from the Mangala fields. However, MRPL has provided limited information regarding the status of its pipeline studies till now.

Consequently, as per the current plan, the company is negotiating with the government to set up a 500-km pipeline in the northwestern coast of India where there are port facilities in the Mundra-Kandla area. The exact funding structure and other details of the pipeline project are still not clear and could substantially add to the overall cost of CIL. Besides, there is also some degree of ambiguity regarding the cost sharing for cess. Since CIL holds a 70% stake in the joint venture, it is likely to bear a proportionate amount of cess.

Valuation

Based on the net 2P reserves of 472 million boe, CIL is valued in the range of $13.3-15.8 per boe (depending on the price band) in terms of enterprise value (EV) by 2P oil reserves, which is higher than the global average of $12-14 per boe for comparable companies.

Global peers

Companies	EV/oil reserve (2P)
Exxon Mobil	18.5
Total	18.0
CNOOC	14.8
Amerada Hess	14.6
BP	13.5
Petrochina	10.6
Apache Corp	11.7
ODA Rosneft	9.2
Petrobas	8.9
Average	13.3

However, including the net working interest of the contingent reserves and possible upside from the other fields, the net 2P reserves work out to 701 million boe. Considering the same, CIL's valuation works out in the range of $9-10.7 per boe based on EV/oil reserves (2P).

Oil reserves (2P)

	Gross 2P reserves (mn boe)	Net 2P reserves (mn boe)	Gross Contingent resources (mn boe)	Net Contingent resources (mn boe)
Rajasthan block				
MBA	624	437	196	
Small fields	8	5	7	
Other fields	0	0	54	
Sub-total	**632**	**442**	**257**	**180**
Ravva field	106	24	0	0
BB/OS-2	16	6	14	5
KG-DWN-98/2	0	0	143	14
Grand total	*754*	*472*	*414*	*199*

Please note proven and probable oil reserves (2P) represent 50% probability of recovery at the price of $50 per barrel. It is a dynamic figure and can change depending upon the prevailing crude oil prices, production technology and on-going development efforts.

On a comparative valuation basis, at the upper end of the price band CIL is offered at double the valuation of the state-owned Oil & Natural Gas Corporation (ONGC).

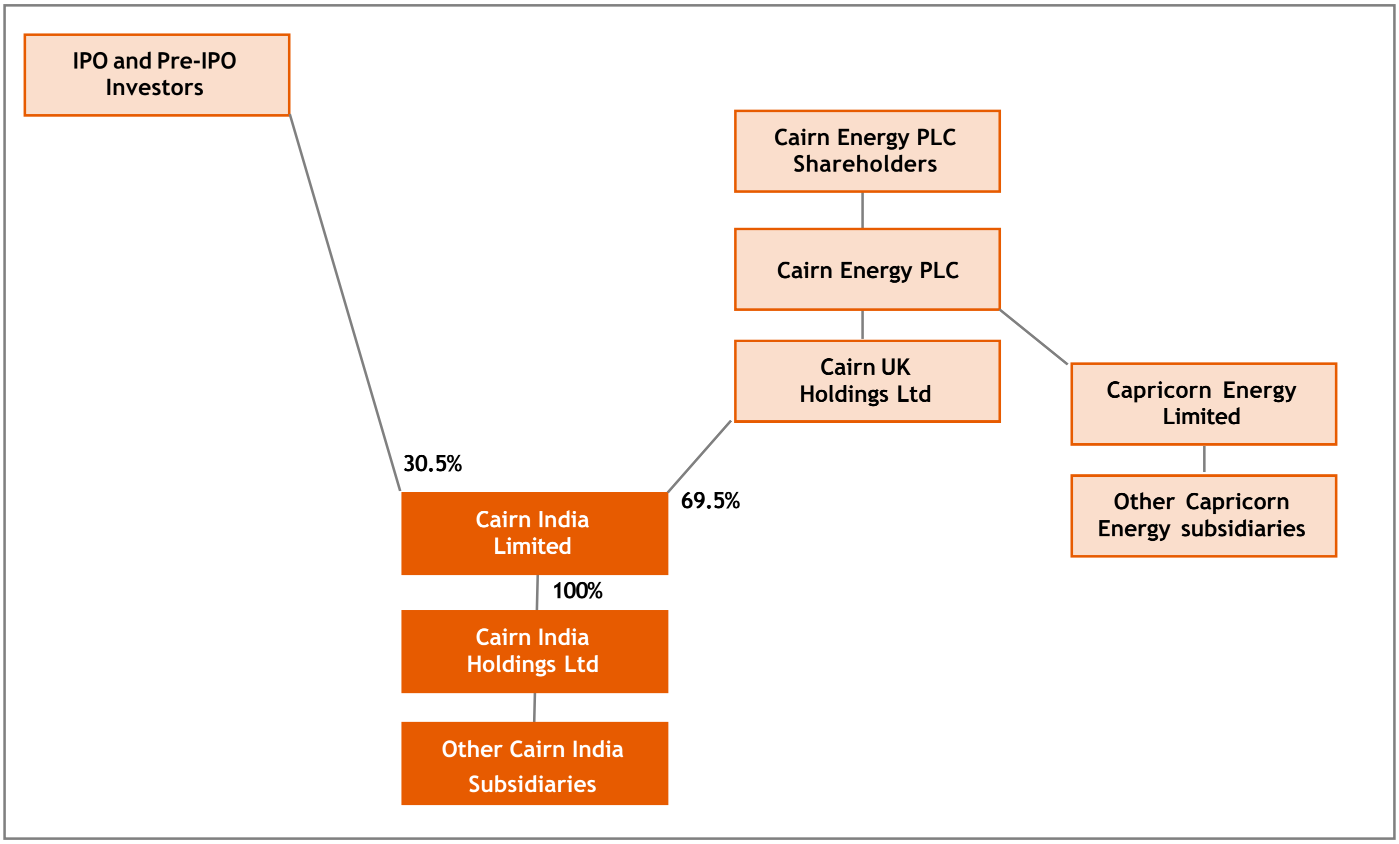
However, in case of ONGC the company's huge subsidy burden in the form of the under-recoveries tends to act as a drag on its stock's valuations. But the offer is also at a substantial premium to the other listed exploration companies.

Comparative valuation based on oil reserves

	Selan Expl	Hind Oil	Cairn @Rs160	Cairn @Rs190	ONGC
Reserve (million boe)	23	40	701	701	5257
EV (US$ million)	25	118	6295	7474	28418
EV/Reserve (US$/boe)	1.1	3.0	9.0	10.7	5.4

Source: Annual Report, Prospectus, Company

Re-organised structure



The views expressed in this report are our views only and have been arrived at after a thorough analysis of the public offering details. The note is advisory in nature, but is not a Recommendation under our "Stock Idea" category. It may/may not be considered as a "Stock Idea" by our analysts at a later date.

Disclaimer

"This document has been prepared by Sharekhan Ltd. This Document is subject to changes without prior notice and is intended only for the person or entity to which it is addressed to and may contain confidential and/or privileged material and is not for any type of circulation. Any review, retransmission, or any other use is prohibited. Kindly note that this document does not constitute an offer or solicitation for the purchase or sale of any financial instrument or as an official confirmation of any transaction.

Though disseminated to all the customers simultaneously, not all customers may receive this report at the same time. SHAREKHAN will not treat recipients as customers by virtue of their receiving this report.

The information contained herein is from publicly available data or other sources believed to be reliable. While we would endeavour to update the information herein on reasonable basis, SHAREKHAN, its subsidiaries and associated companies, their directors and employees ("SHAREKHAN and affiliates") are under no obligation to update or keep the information current. Also, there may be regulatory, compliance, or other reasons that may prevent SHAREKHAN and affiliates from doing so. We do not represent that information contained herein is accurate or complete and it should not be relied upon as such. This document is prepared for assistance only and is not intended to be and must not alone betaken as the basis for an investment decision. The user assu mes the entire risk of any use made of this information. Each recipient of this document should make such investigations as it deems necessary to arrive at an independent evaluation of an investment in the securities of companies referred to in this document (including the merits and risks involved), and should consult its own advisors to determine the merits and risks of such an investment. The investment discussed or views expressed may not be suitable for all investors. We do not undertake to advise you as to any change of our views. Affiliates of Sharekhan may have issued other reports that are inconsistent with and reach different conclusion from the information presented in this report.

This report is not directed or intended for distribution to, or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject SHAREKHAN and affiliates to any registration or licensing requirement within such jurisdiction. The securities described herein may or may not be eligible for sale in all jurisdictions or to certain category of investors. Persons in whose possession this document may come are required to inform themselves of and to observe such restriction.

SHAREKHAN & affiliates may have used the information set forth herein before publication and may have positions in, may from time to time purchase or sell or may be materially interested in any of the securities mentioned or related securities. SHAREKHAN may from time to time solicit from, or perform investment banking, or other services for, any company mentioned herein. Without limiting any of the foregoing, in no event shall SHAREKHAN, any of its affiliates or any third party involved in, or related to, computing or compiling the information have any liability for any damages of any kind. Any comments or statements made herein are those of the analyst and do not necessarily reflect those of SHAREKHAN."