

Company

28 May 2010 | 8 pages

Cairn India (CAIL.BO)

Equity

Takeaways from India Investor Conference, May 26-28

- Takeaways from Mumbai** — Cairn India presented at our India Investor Conference on May 26-28. Below are key takeaways.
- Operational updates** — The company has completed the Barmer-Salaya pipeline section, which should enable Train-III to be ready for production by Jun'10. Production from Mangala would be ramped up to 125kbpd in 2H2010 depending on offtake. The field is currently producing ~60kbpd of crude, being sold to both MRPL and RIL. While the company has already tied-up with MRPL, IOC, RIL and Essar for 143kbpd of output, sales discussions are ongoing with others as well. Besides, three wells have been drilled in the Mangala field to gauge the EOR potential.
- 2011 will be key year for exploration** — Cairn plans to commence drilling in its offshore Palar block and in Sri Lanka in CY11. Of the five exploration wells to be drilled in the onshore block KG-ONN-2003/1 this year, the company has drilled its second exploration well, which has also turned out to be dry.
- 4Q results takeaways** — Cairn produced 17.5 kbpd of crude from Mangala in 4Q, with average realization of US\$67/bbl (implying a 12% discount to Brent) vs. a realization of US\$66/bbl in 3Q (13% discount to Brent). Even though production has been ramped up to 60 kbpd, sales ramp-up would likely happen with a lag.

Buy/Low Risk	1L
Price (28 May 10)	Rs288.70
Target price	Rs351.00
Expected share price return	21.6%
Expected dividend yield	0.0%
Expected total return	21.6%
Market Cap	Rs547,568M US\$11,714M

Price Performance (RIC: CAIL.BO, BB: CAIR IN)



Statistical Abstract

Year to	Net Profit	Diluted EPS	EPS growth	P/E	P/B	ROE	Yield
31 Mar	(RsM)	(Rs)	(%)	(x)	(x)	(%)	(%)
2008A	na	na	na	na	na	na	na
2009A	na	na	na	na	na	na	na
2010E	10,056	5.20	na	55.6	1.7	3.0	0.0
2011E	47,119	24.34	368.5	11.9	1.5	13.0	0.0
2012E	85,135	43.98	80.7	6.6	1.2	19.9	0.0

Source: Powered by dataCentral

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Fiscal year end 31-Mar	2008	2009	2010E	2011E	2012E
Valuation Ratios					
P/E adjusted (x)	na	na	55.6	11.9	6.6
EV/EBITDA adjusted (x)	na	na	41.2	8.4	4.0
P/BV (x)	na	na	1.7	1.5	1.2
Dividend yield (%)	na	na	0.0	0.0	0.0
Per Share Data (Rs)					
EPS adjusted	na	na	5.20	24.34	43.98
EPS reported	na	na	5.20	24.34	43.98
BVPS	na	na	174.67	199.01	243.00
DPS	na	na	0.00	0.00	0.00
Profit & Loss (RsM)					
Net sales	na	na	16,154	70,738	130,775
Operating expenses	na	na	-6,262	-15,656	-28,097
EBIT	na	na	9,892	55,082	102,678
Net interest expense	na	na	-3,371	-3,150	-3,080
Non-operating/exceptionals	na	na	149	140	137
Pre-tax profit	na	na	6,670	52,072	99,735
Tax	na	na	3,386	-4,953	-14,600
Extraord./Min.Int./Pref.div.	na	na	0	0	0
Reported net income	na	na	10,056	47,119	85,135
Adjusted earnings	na	na	10,056	47,119	85,135
Adjusted EBITDA	na	na	13,527	64,411	118,894
Growth Rates (%)					
Sales	na	na	na	337.9	84.9
EBIT adjusted	na	na	na	456.9	86.4
EBITDA adjusted	na	na	na	376.2	84.6
EPS adjusted	na	na	na	368.5	80.7
Cash Flow (RsM)					
Operating cash flow	na	na	14,430	56,215	101,248
Depreciation/amortization	na	na	3,635	9,329	16,216
Net working capital	na	na	738	-233	-103
Investing cash flow	na	na	-46,080	-36,900	-29,920
Capital expenditure	na	na	-46,080	-36,900	-29,920
Acquisitions/disposals	na	na	0	0	0
Financing cash flow	na	na	-5,164	4,350	10,050
Borrowings	na	na	-5,164	4,350	10,050
Dividends paid	na	na	0	0	0
Change in cash	na	na	-36,814	23,665	81,378
Balance Sheet (RsM)					
Total assets	na	na	398,301	453,908	558,966
Cash & cash equivalent	na	na	28,966	70,800	166,069
Accounts receivable	na	na	8,994	10,063	10,306
Net fixed assets	na	na	107,148	119,852	129,399
Total liabilities	na	na	60,222	68,710	88,633
Accounts payable	na	na	18,456	19,292	19,432
Total Debt	na	na	38,400	42,750	52,800
Shareholders' funds	na	na	338,080	385,199	470,333
Profitability/Solvency Ratios (%)					
EBITDA margin adjusted	na	na	83.7	91.1	90.9
ROE adjusted	na	na	3.0	13.0	19.9
ROIC adjusted	na	na	3.8	14.0	23.9
Net debt to equity	na	na	2.8	-7.3	-24.1
Total debt to capital	na	na	10.2	10.0	10.1

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Cairn India

Company description

Cairn India was incorporated as a subsidiary of Cairn Energy PLC (UK) to own and operate all of Cairn Plc's Indian E&P assets. Cairn India has operating interests in producing fields in KG Basin and the Cambay Basin offshore. However, most reserves accrue from the Rajasthan Block where production commenced in 2009. Cairn Plc now holds 62.4% in Cairn India.

Investment strategy

We rate Cairn India shares as Buy / Low Risk (1L) with a target price of Rs351. Cairn India's ownership of valuable oil reserves in Rajasthan has started generating steady cash flows from FY10E, besides having potential to generate further upside from EOR and exploration. Cairn India's valuations are among the most highly leveraged to crude among global E&P peers, which together with operational momentum and E&A upside offsets the inherent operational risks, in our view. Given its excellent track record in exploration and project execution, we believe that there exists a reasonable upside from current levels.

Valuation

We base our target price of Rs351 on estimated NAVs of under-development and producing assets and incorporating recovery upside. We prefer NAV to value Cairn's assets as it has long-term visible cash flows from its existing resource base, the value of which cannot be captured using traditional nearterm earnings multiples. Given Cairn's leverage to crude, our target of Rs351 is based on an average NAV value of Rs334 derived using two different crude scenarios: 1) CIRA global crude price forecasts yielding a base NAV of Rs319, and 2) Crude futures curve yielding an NAV of Rs350. In addition, we ascribe a 5% premium to the blended NAV to build in exploration potential in other blocks and to factor in the potential for a positive surprise in project development targets in the Rajasthan Block. We believe that the stock would partially factor in a combination of longer-term fundamentals and near-term momentum in underlying crude prices, till it can establish a track record of success outside Rajasthan. Key assumptions for our NAV analysis are: crude realization at a 12% discount to Brent; cess at Rs2,550/MT; plateau production at 200kbpd in 2H12; and total life-of-field development capex (including pipeline) of US\$4.35bn. Our target price is more leveraged to crude prices and less sensitive to operating parameters and/or reserve upside. The traditional valuation multiples (PER, EV/DACF) will become relevant depending on the extent of exploration success.

Risks

Despite Cairn being in the project stage due to tangible oil reserves, which can be monetized, we have faith in the parent's strong track record and favorable demand-supply for domestic crude. Its track record in project execution and getting required approvals (esp. on pipeline) reduce risk significantly. In addition, Cairn has been able to negotiate the pricing terms for its crude at more or less expected levels. We therefore ascribe a Low Risk rating to Cairn India. Key downside risks include: 1) Delays, slow ramp-up and cost overruns; though cost- recoverable, these could impact NAVs; 2) Potential conflict of

interest arising out of Cairn PLC's majority ownership in Cairn India, especially in the context of new exploration assets in India; 3) Difficulty in absorbing the crude quantities due to its viscosity and various refinery's readiness and 5) Sharp correction in crude prices.

Appendix A-1

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Analyst: Rahul Singh

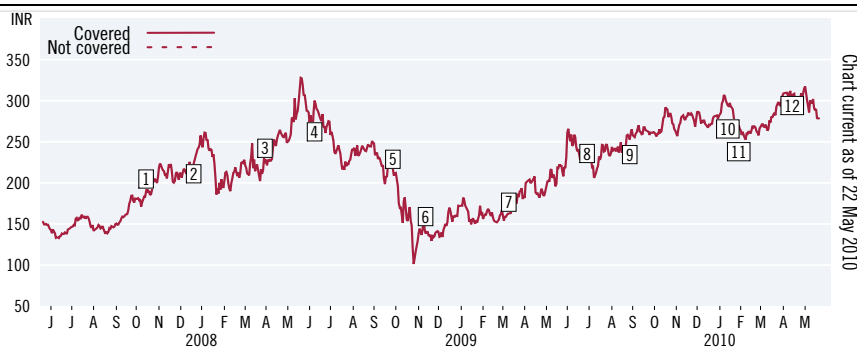


Chart current as of 22 May 2010

	Date	Rating	Target Price	Closing Price
1	14-Oct-07	1M	*221.00	183.10
2	20-Dec-07	1M	*262.00	223.35
3	31-Mar-08	1M	*275.00	224.20
4	9-Jun-08	1M	*355.00	300.10

* Indicates change

	Date	Rating	Target Price	Closing Price
5	26-Sep-08	1M	*302.00	217.25
6	12-Nov-08	1M	*230.00	138.45
7	10-Mar-09	1M	*195.00	162.55
8	28-Jun-09	*2L	*237.00	234.00

	Date	Rating	Target Price	Closing Price
9	27-Aug-09	2L	*268.00	252.80
10	13-Jan-10	*1L	*337.00	294.05
11	28-Jan-10	1L	*323.00	270.45
12	14-Apr-10	1L	*351.00	302.95

Rating/target price changes above reflect Eastern Standard Time

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