

- Possibility of higher production levels and peak production to be achieved earlier than expected.
- First oil and pipeline construction on track.
- Unlike Street, we do not assign any values to Cairn's other blocks expected to come online after 2012.

Net Profit 10 INR17.0b
..... (From INR25.5b)

Diff from Consensus.. 25.0%
Consensus (mean) INR13.6b
Consensus (momentum) ↓

Target Price INR223.00
..... (Unchanged)

Diff from Consensus.. 10.2%
Consensus (median) INR202.40
Consensus (momentum)..... ↓

Current Price INR160.30
Upside/(Downside)..... 39.1%

BUY
(Unchanged)

Recs in the Market	
Positive	21
Neutral	5
Negative	1
Consensus (momentum).....	↑

Sources: Thomson One Analytics; Bloomberg; BNP Paribas estimates

- Operational update hints at possibility of higher production levels and production peaking earlier than expected.
- Crude off-take concern addressed as export clause in Cairn's PSC will allow sale in international markets.
- Maintain BUY and TP=INR223/sh (Rajasthan=INR196/sh, Cambay and Ravva=INR12/sh and Net Cash=INR15/sh).

More clarity emerges on Rajasthan

Operational update hints at higher production levels
Cairn reported its 4QCY08 results along with a positive operational update on the Rajasthan block. Cairn has set up 4 processing trains, which will carry crude from Rajasthan, with total capacity of 205,000bpd. The current peak production guidance is 175,000bpd and excess capacity provisioning hints at a possibility of higher production levels. Cairn is also waiting for a DGH approval for upgrading production level of Aishwarya field to 20,000bpd from 10,000/bpd. We note that in the past when Cairn has made such announcements, it has been able to get the approval. For its Mangala field, Cairn expects to achieve peak production of 125,000bpd by 1HCY10, ahead of our expectation of 1HCY11. Overall, peak production from Rajasthan is expected to be achieved by 2011, ahead of expectations of 2013. Cairn also hinted that capex for CY08-09 might be lower as it has optimized its capex spend.

Cairn addressed the crude off-take concern by mentioning that even if the Indian government does not buy crude from Cairn, Cairn has an export clause in its PSC which will allow international sale of its crude.

Our take:

First oil is on track for 2HCY09 and cash flows will be more front ended than previously expected. The pipeline will be able to process the crude by 4QCY09 and will be completed by early 3QCY09. The setting up of processing trains implies that there is strong clarity about the production from the respective fields and the incremental capacity is a positive indication. Cairn is seeing a 10-15% decline in costs due to declining commodity prices, mainly steel. We see possible upside of ~5% to our TP, if we were to reassign the overall production as per the management guidance including assigning higher production to the Aishwarya.

Maintain BUY – One of the cheapest E&P players
We maintain our BUY rating and our SoTP-based TP of INR223/sh. Our DCF-based value for Cairn's Rajasthan block is the biggest contributor to our TP with 88% (INR196/sh). We value the Cambay and Ravva fields at INR12/sh and Cairn has net cash of INR15/sh. We also emphasize that Cairn India is one of the cheapest E&P companies in Asia and with a reserve portfolio which is going north (Exhibit 1).

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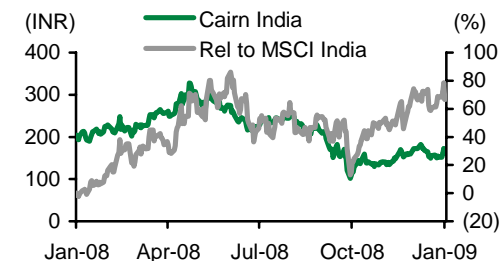
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Earnings Estimates And Valuation Ratios

YE Mar (INR m)	2007	2009E	2010E	2011E
Revenue	10,123	14,354	34,462	131,731
Reported net profit	(246)	9,080	16,965	91,886
Recurring net profit	(246)	9,080	16,965	91,886
Previous rec net profit	(245)	4,505	25,540	86,906
Chg from previous (%)	—	101.5	(33.6)	5.7
Recurring EPS (INR)	(0.13)	4.79	8.94	48.45
Prev rec EPS (INR)	(0.13)	2.38	13.50	45.95
Rec EPS growth (%)	—	neg	86.8	441.6
Recurring P/E (x)	neg	33.5	17.9	3.3
Dividend yield (%)	—	—	—	—
EV/EBITDA (x)	64.4	34.6	11.3	2.3
Price/book (x)	1.0	0.9	0.9	0.7
ROE (%)	(0.2)	2.9	5.0	23.5
Net debt/equity (%)	(5.9)	(3.1)	2.3	(18.2)

Note: 2006 & 2007 had December year-end. Cairn will be reporting numbers for the 15-month period in March 2009 and follow a March year-end thereafter.
Sources: Cairn India; BNP Paribas estimates

Share Price Daily vs MSCI



Next results/event	April 2009
Market cap (USD m)	6,195
12m avg daily turnover (USD m)	38.4
Free float (%)	13
Major shareholder	Cairn UK Holdings (65%)
12m high/low (INR)	327.55/100.65
ADR (USD)	Nil
Avg daily turnover (USD m)	Nil
Discount/premium (%)	Nil
Disc/premium vs 52-wk avg (%)	Nil

Source: Datastream

Exhibit 1: Global E&P Peers Valuation

	Mkt cap (USD m)	P/E		EV/EBITDA		P/BV		Dividend yield	
		2009E (x)	2010E (x)	2009E (x)	2010E (x)	2009E (x)	2010E (x)	2009E (%)	2010E (%)
E&P									
PTTEP	9,365	10.6	9.3	4.0	3.5	2.3	1.8	3.6	4.1
Apache	25,877	15.7	8.1	4.2	3.2	1.4	1.1	0.8	0.8
Devon Energy	27,744	16.9	8.3	5.0	3.4	1.1	0.9	1.1	1.1
Suncor	18,397	7.0	4.6	6.0	3.7	1.2	1.0	0.9	0.9
EnCana	33,856	11.9	12.3	5.3	5.5	1.4	1.3	3.5	3.6
CNOOC	39,166	9.6	7.7	4.3	3.6	1.9	1.4	4.2	5.2
Santos	5,394	31.0	23.4	8.8	7.8	1.8	1.7	2.7	2.8
Woodside	15,862	15.7	15.1	7.5	7.1	3.7	2.7	3.4	3.4
Nippon Oil	2,313	11.7	6.6	9.1	6.6	0.5	0.4	3.3	3.3
ONGC	28,674	9.1	7.8	3.2	3.1	1.5	1.2	3.1	3.5
RIL	42,325	10.0	9.2	7.8	7.5	1.8	1.3	1.2	1.2
Cairn	6,346	18.1	3.4	11.0	2.6	0.9	0.8	—	—
Average		13.9	9.6	6.6	4.8	1.6	1.3	2.3	2.5

Note: 2009 & 2010 imply FY10 and FY11 for ONGC, RIL and Cairn
Sources: Bloomberg; BNP Paribas estimates

FINANCIAL STATEMENTS

Cairn India

Profit and Loss (INR m)					
Year Ending March	2006A	2007A	2009E	2010E	2011E
Revenue	-	10,123	14,354	34,462	131,731
Cost of sales ex depreciation	-	(5,604)	(4,770)	(6,813)	(16,263)
Gross profit ex depreciation	-	4,519	9,584	27,649	115,467
Other operating income	-	-	-	-	-
Operating costs	-	(360)	(1,477)	(941)	(1,008)
Operating EBITDA	-	4,159	8,107	26,708	114,459
Depreciation	-	(2,077)	(2,655)	(4,170)	(9,036)
Goodwill amortisation	-	-	-	-	-
Operating EBIT	-	2,082	5,452	22,537	105,423
Net financing costs	-	(823)	5,758	(1,815)	(676)
Associates	-	-	-	-	-
Recurring non operating income	-	-	-	-	-
Non recurring items	-	-	-	-	-
Profit before tax	-	1,259	11,210	20,722	104,748
Tax	-	(1,505)	(2,130)	(3,757)	(12,861)
Profit after tax	-	(246)	9,080	16,965	91,886
Minority interests	-	-	-	-	-
Preferred dividends	-	-	-	-	-
Other items	-	-	-	-	-
Reported net profit	-	(246)	9,080	16,965	91,886
Non recurring items & goodwill (net)	-	-	-	-	-
Recurring net profit	-	(246)	9,080	16,965	91,886
Per share (INR)					
Recurring EPS *	-	(0.13)	4.79	8.94	48.45
Reported EPS	-	(0.14)	4.79	8.94	48.45
DPS	-	-	-	-	-
Growth					
Revenue (%)	-	-	41.8	140.1	282.2
Operating EBITDA (%)	-	-	94.9	229.4	328.6
Operating EBIT (%)	-	-	161.8	313.4	367.8
Recurring EPS (%)	-	-	neg	86.8	441.6
Reported EPS (%)	-	-	neg	86.8	441.6
Operating performance					
Gross margin inc depreciation (%)	-	24.1	48.3	68.1	80.8
Operating EBITDA margin (%)	-	41.1	56.5	77.5	86.9
Operating EBIT margin (%)	-	20.6	38.0	65.4	80.0
Net margin (%)	-	(2.4)	63.3	49.2	69.8
Effective tax rate (%)	-	119.5	19.0	18.1	12.3
Dividend payout on recurring profit (%)	-	neg	-	-	-
Interest cover (x)	-	2.5	na	12.4	156.0
Inventory days	-	79.2	89.1	107.6	124.5
Debtor days	-	48.6	42.1	35.4	36.5
Creditor days	-	255.4	277.9	322.9	373.4
Operating ROIC (%)	-	(2.9)	8.9	20.8	85.4
Operating ROIC - WACC (%)	-	(19.7)	(8.0)	4.0	68.5
ROIC (%)	-	(0.3)	1.5	5.4	25.6
ROIC - WACC (%)	-	(17.1)	(15.4)	(11.4)	8.7
ROE (%)	-	(0.2)	2.9	5.0	23.5
ROA (%)	-	(0.3)	1.3	4.8	20.6
* Pre exceptional, pre-goodwill and fully diluted					
Key Assumptions (INR m)					
Brent price (\$/barrel)		74.50	89.32	59.00	80.00
Rajasthan crude's discount to brent price		12.00	12.00	12.00	12.00
WACC %		11.00	11.00	11.00	11.00

Revenue boost as first oil from Rajasthan comes online

Note: 2006 & 2007 had December year-end. Cairn will be reporting numbers for the 15-month period in March 2009 and follow a March year-end thereafter.

Sources: Cairn India; BNP Paribas estimates

Cairn India

Cash Flow (INR m)					
Year Ending March	2006A	2007A	2009E	2010E	2011E
Recurring net profit	-	(246)	9,080	16,965	91,886
Depreciation	-	2,077	2,655	4,170	9,036
Associates & minorities	-	-	-	-	-
Other non-cash items	-	-	-	-	-
Recurring cash flow	-	1,832	11,735	21,136	100,922
Change in working capital	-	-	(1,159)	424	(10,022)
Capex - maintenance	-	-	-	-	-
Capex - new investment	-	(1,544)	(44,078)	(39,770)	(3,397)
Free cash flow to equity	-	287	(33,502)	(18,211)	87,504
Net acquisitions & disposals	-	-	-	-	-
Dividends paid	-	-	-	-	-
Non recurring cash flows	-	-	-	-	-
Net cash flow	-	287	(33,502)	(18,211)	87,504
Equity finance	-	131	25,399	-	-
Debt finance	-	(1,656)	17,000	17,000	(15,000)
Movement in cash	-	(1,238)	8,896	(1,211)	72,504

Strong cash generation
as production ramps up

Per share (INR)					
Recurring cash flow per share	-	1.03	6.19	11.14	53.21
FCF to equity per share	-	0.16	(17.66)	(9.60)	46.14

Balance Sheet (INR m)					
Year Ending March	2006A	2007A	2009E	2010E	2011E
Working capital assets	-	7,215	7,673	13,140	40,379
Working capital liabilities	-	(8,372)	(7,671)	(13,562)	(30,779)
Net working capital	-	(1,157)	2	(422)	9,600
Tangible fixed assets	-	29,546	70,970	106,569	100,930
Operating invested capital	-	28,389	70,972	106,147	110,530
Goodwill	-	253,193	253,193	253,193	253,193
Other intangible assets	-	-	-	-	-
Investments	-	-	-	-	-
Other assets	-	-	-	-	-
Invested capital	-	281,582	324,164	359,340	363,723
Cash & equivalents	-	(20,447)	(30,226)	(29,015)	(101,519)
Short term debt	-	-	-	-	-
Long term debt *	-	3,124	20,124	37,124	22,124
Net debt	-	(17,322)	(10,101)	8,109	(79,394)
Deferred tax	-	4,916	5,799	5,799	5,799
Other liabilities	-	-	-	-	-
Total equity	-	293,988	328,466	345,432	437,318
Minority interests	-	-	-	-	-
Invested capital	-	281,582	324,164	359,340	363,723

* Includes convertibles and preferred stock which is being treated as debt

Per share (INR)					
Book value per share	-	165.31	173.18	182.13	230.57
Tangible book value per share	-	22.94	39.69	48.63	97.08

Financial strength					
Net debt/equity (%)	-	(5.9)	(3.1)	2.3	(18.2)
Net debt/total assets (%)	-	(5.6)	(2.8)	2.0	(16.0)
Current ratio (x)	-	3.3	4.9	3.1	4.6
CF interest cover (x)	-	3.2	na	12.9	135.5

Valuation					
	2006A	2007A	2009E	2010E	2011E
Recurring P/E (x) *	-	neg	33.5	17.9	3.3
Recurring P/E @ target price (x) *	-	neg	46.6	24.9	4.6
Reported P/E (x)	-	neg	33.5	17.9	3.3
Dividend yield (%)	-	-	-	-	-
P/CF (x)	-	155.6	25.9	14.4	3.0
P/FCF (x)	-	992.3	neg	neg	3.5
Price/book (x)	-	1.0	0.9	0.9	0.7
Price/tangible book (x)	-	7.0	4.0	3.3	1.7
EV/EBITDA (x) **	-	64.4	34.6	11.3	2.3
EV/EBITDA @ target price (x) **	-	91.2	48.9	15.8	3.4
EV/invested capital (x)	-	1.0	0.9	0.9	0.6

* Pre exceptional, pre-goodwill and fully diluted

** EBITDA includes associate income and recurring non-operating income

Note: 2006 & 2007 had December year-end. Cairn will be reporting numbers for the 15-month period in March 2009 and follow a March year-end thereafter.

Sources: Cairn India; BNP Paribas estimates

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*In most cases, the target price will equal the analyst's assessment of the current fair value of the stock. However, if the analyst doesn't think the market will reassess the stock over the specified time horizon due to a lack of events or catalysts, then the target price may differ from fair value. In most cases, therefore, our recommendation is an assessment of the mismatch between current market price and our assessment of current fair value.

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