

RESULTS REVIEW
Cairn India Limited
Buy
Share Data

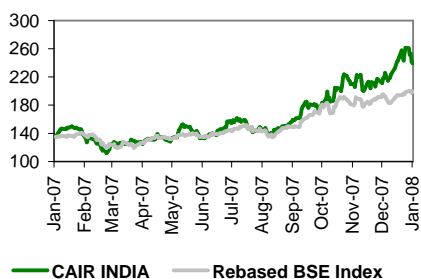
Market Cap	Rs. 425.39 bn
Price	239.20
BSE Sensex	20,827.45
Reuters	CAIL.BO
Bloomberg	CAIR IN
Avg. Volume (52 Week)	1.08 mn
52-Week High/Low	Rs. 268.5 / 111
Shares Outstanding	1,778 mn

Valuation Ratios (Consolidated)

Year to 31 December	2007E	2008E
EPS (Rs.)	0.9	1.5
+/- (%)	NM	66.9%
PER (x)	263.2x	157.7x
EV/ Sales (x)	37.3x	33.1x
EV/ EBITDA (x)	53.3x	47.4x

Shareholding Pattern (%)

Promoters	69
FII's	11
Institutions	5
Public & Others	15

Relative Performance

Riding high on crude prices and new discoveries

Cairn India Limited (CIL) posted a net profit of Rs. 232.4 mn for the third quarter of FY'07. Higher oil price realization resulted in a 9.2% qoq growth in net revenues to Rs. 2,658.1 mn, however lower gas production in the Cambay basin and a further drop in the working interest limited the increase. Though EBITDA dropped by 1.6% sequentially to Rs. 1,865.1 mn due to higher operating expenses, lower forex losses and a reduction in the finance cost pushed up the bottomline.

We have valued Cairn using DCF and have arrived at a target price of Rs. 280. Considering the valuation and the following factors we have upgraded our rating to Buy.

- Demand & supply scenario of crude, is globally expected to remain tight. Hence, there is a high possibility of further rise in crude prices. We have revised our long-term crude price estimates to USD 68/boe.
- Submission by the Company of the commercial viability of the new discoveries in Rajasthan and successful testing of the RX-8 exploration well at Ravva would push the 2P reserves estimates upwards.
- Gol's Right of Use approval for the construction of the 585 km Rajasthan pipeline, is in our view, a positive development.
- Preparation of the revised Mangala FDP addendum by CIL to modify the earlier submitted estimates of reserves and production levels. We expect an escalation in the current production estimates in the revised FDP, thus providing an upside to our valuation.
- However, the uncertainty over the OIDA cess being added to the existing cess, introduces a downside risk to the valuation.

Key Figures (Consolidated)

Quarterly Data	Q1'07	Q2'07	Q3'07	QoQ%
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(Figures in Rs. mn, except per share data)

Net Sales	2,364	2,433	2,658	9.2%
EBITDA	1,334	1,895	1,865	(1.6%)
Net Profit	376	(714)	232	NM

Margins(%)

EBITDA	56.4%	77.9%	70.2%
NPM	15.9%	(29.4%)	8.7%

Per Share Data (Rs.)

Adj. EPS	0.2	(0.4)	0.1	NM
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Result Highlights

Increase in average oil price realization per barrel

Cairn's net revenue rose by 9.2% qoq to Rs. 2,658.1 mn on the back of higher average oil price realization per barrel from USD 71.1 to USD 77.2 in the third quarter. However, the increase was partially offset by the lower production in the Cambay basin of 11,043 boepd in Q3'07 as compared to 13,498 boepd in Q2'07 due to a mechanical problem faced in the two wells. As a result, the Company's gross operated production dropped by 2.7% to 75,280 boepd and the net working interest in production decreased by 4.6% to 18,871 boepd in Q3'07.

Gross Production Data

Key Metrics	Q1'07	Q2'07	Q3'07
Krishna Godavari Basin			
Oil	45,929	51,577	51,725
Gas	71	74	75
Total (boepd)	57,833	63,894	64,237
Cambay Basin			
Oil	3,555	4,261	4,557
Gas	81	55	39
Total (boepd)	16,997	13,498	11,043
Total Production (boepd)	74,830	77,392	75,280
Working Interest (boepd)	19,811	19,775	18,871

EBITDA margin dropped by 772 bps

However, the Company registered a decline in EBITDA by 1.6% sequentially to Rs. 1,865.1 mn due to higher operating expenses which increased by 49.1% qoq to Rs. 508.5 mn.

Lower forex losses and finance charges raised the bottomline

The Company reported a net profit after tax of Rs. 232.4 mn as compared to a net loss of Rs. 714.4 mn in Q2'07. The reason behind such a rise was the reduction in forex losses of Rs. 300.5 mn as compared to Rs. 1,405.6 mn in Q2'07; however, it did not have any effect on the taxes. The interest and finance charges, too dropped by 86.7% to Rs. 1 mn.

Progress in Development Areas

Krishna Godavari Basin

- KG-DWN-98/2 (10%): Entering third exploration stage.
- KG-ONN-2003/1 (49%): Planning for 2D and 3D seismic in late '07/ early '08.
- PR-OSN-2004/1 (35%) & KK-DWN-2004/1 (40%): 2D seismic planned in early '08.

Cambay Basin

- CB-ONN-2002/1 (30%): three exploration wells to be drilled in late '07/ early '08.
- GS-OSN-2003/1 (49%): Acquired & possessed 3D seismic of 510 sq km.

Rajasthan Basin

- RJ-ONN-2003/1 (30%): Acquisition complete; processing of 622 sq km 3D seismic planning underway for drilling in '08.

Ganga Foreland Basin

- GV-ONN-2002/1 (50%): Data processing for the 500 km 2D seismic completed.
- GV-ONN-97/1 (15%): Well to be drilled in late '07/ early '08.
- GV-ONN-2003/1 & VN-ONN-2003/1 (24%): 2D seismic planned in early '08.

Key Events

- The Company has made two discoveries at Kameshwari West-3 and another at Kameshwari West 6 in the Rajasthan block. It has submitted a declaration of commercial viability for the three discoveries for approval from the Directorate General of Hydrocarbons. It has also proposed a new development area in the RJ-ON-90/1 block.

- Cairn has bagged the approval from the Gol for the construction of the 585 km pipeline from Barmer to Salaya. However, the latter's nod on the inclusion of the pipeline cost in the Mangala FDP is still awaited.
- The Company discovered oil in the exploration well RX-8 in the Ravva field off the east coast of India and initial estimates suggest an output of 1,500 barrels per day of oil from the well.
- CIL's shareholders have approved the equity issue of upto USD 1,000 mn with a greenshoe option of 15 percent. The Company will raise the funds through ADRs, GDRs, FCCBs or other instruments.
- Cairn and ONGC are planning to join hands to develop the Ambe and North Tapti offshore marginal gas fields. Ambe is a satellite gas field in CB/OS-2 block in the Cambay basin.

Key Risks

- Easing of crude prices from the existing levels would hurt the topline as well as the valuation.
- The GOI has yet not given its final word on the OIDA cess imposition and hence higher than expected cess would be a downside risk to our estimates.
- A further appreciation in rupee will affect our estimates adversely.
- The fixation of price of Rajasthan crude at a lower than expected level can negatively affect our estimates.

Outlook

Riding on high crude prices

CIL's average realization per boe continues to climb in the third quarter as well and hence we have revised our estimates for FY07-FY09. The crude price in the global arena continues to be very volatile and has been moving upwards in the recent past. We have revised our crude price estimates for FY09 to USD 68/boe. Cairn made three more discoveries in Rajasthan and successfully tested the RX-8 well at Ravva. The other 14 blocks are under the exploration process and possess a huge potential for reserve accretion. GoI has given the Right of Use for the construction of 585 km Rajasthan pipeline which reduces the risk of any delay in the production process. IOC has graded the Rajasthan crude to be possessing good properties. This may aid CIL to fetch a good price for the prospective crude produce. However, uncertainties remain over the inclusion of pipeline construction cost in the calculations for cost recovery, crude pricing, and cess.

Based on the DCF valuation, we have arrived at a target price of Rs. 280 for a period of 12 months. We upgrade our rating from Hold to Buy.

Key Figures (Consolidated)

Year ending December	CY06	CY07E	CY08E	CY09E	CAGR (%)
(Figures in Rs. mn, except per share data) (CY06-09E)					
Net Sales	387	10,853	12,227	40,517	371.1%
EBITDA	(64)	7,596	8,558	29,057	NM
Net Profit	(212)	1,616	2,697	13,020	NM
Margins(%)					
EBITDA	(16.6)%	70.0%	70.0%	71.7%	
NPM	(54.7)%	14.9%	22.1%	32.1%	
Per Share Data (Rs.)					
Adj. EPS	(0.1)	0.9	1.5	7.3	NM
PER (x)	NM	263.2x	157.7x	32.7x	

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