

**July 24, 2012**

 Deepak Pareek  
 deepakpareek@plindia.com  
 +91-22-66322241

 Dhrushil Jhaveri  
 dhrushiljhaveri@plindia.com  
 +91-22-66322232

Rating	Accumulate
Price	Rs321
Target Price	Rs403
Implied Upside	25.5%
Sensex	16,877
Nifty	5,118

**(Prices as on July 23, 2012)**
**Trading data**

Market Cap. (Rs bn)	616.2
Shares o/s (m)	1,918.4
3M Avg. Daily value (Rs m)	1887.1

**Major shareholders**

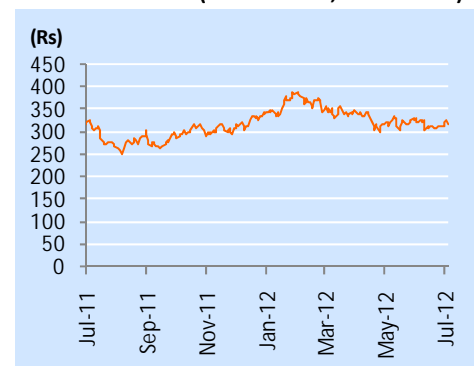
Promoters	58.86%
Foreign	7.35%
Domestic Inst.	7.01%
Public & Other	26.78%

**Stock Performance**

(%)	1M	6M	12M
Absolute	(1.5)	(6.9)	(1.4)
Relative	(0.9)	(7.6)	8.4

**How we differ from Consensus**

EPS (Rs)	PL	Cons.	% Diff.
2013	51.6	52.1	-1.1
2014	49.0	49.7	-1.4

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


Source: Bloomberg

■ Cairn India's (CIL's) revenue at Rs44.4bn (up 22% QoQ) mirrored the production growth at Rajasthan block with realisation remaining flattish. EBITDA at Rs34.9bn was broadly in line with our estimate of Rs35.4bn. However, on account of higher-than-anticipated forex gain (Rs8.66bn), coupled with lower-than-estimated tax rate (3.2%), PAT at Rs38.3bn (up 75% QoQ, 40% YoY) was higher than our estimate of Rs32.6bn. Rajasthan realization at US\$100/bbl (implying 7.3% discount to *Brent*). Production at the mature basins viz. Ravva and Cambay declined by 14% and 18% on the net oil and oil equivalent basis.

■ CIL management has guided for exit production target of 175kbpd for FY12 from the Rajasthan block. The same is likely to be achieved via *Bhagyam* ramp-up which has commenced production and will rise to its peak rate of 40kbpd by FY12 end. Similarly, production commencement target for *Aishwariya* fields stands at H2CY12. However, pipeline capacity at 175kbpd remains a bottleneck for significant production increases beyond 175kbpd. Management believes maximum flexibility for incremental production is 5-10% over 175kbpd till pipeline capacity augmentation happens.

■ **Outlook and Valuation:** We estimate crude oil prices to average at US\$100/bbls and US\$105/bbls for FY13 and FY14 respectively with OPEC playing balancing act in case of demand decline. Recent Cairn Energy stake sale of ~3.5% has adversely impacted the sentiment, however current a valuation discounting long term Brent oil prices of ~US\$57/bbls provides an attractive entry point for long term investors. On the exploratory front, we build recoverable reserves of 1.76bn bbls against the CIL's disclosure of 1.69bn boe. Moreover, rupee denominated oil prices have held well despite the decline in crude oil prices. We maintain '**Accumulate**' on the stock, with an SOTP fair value of Rs403/share.

Key financials (Y/e March)	2011	2012	2013E	2014E
Revenues (Rs m)	102,779	118,607	165,300	181,923
Growth (%)	533.3	15.4	39.4	10.1
EBITDA (Rs m)	84,117	95,533	124,700	132,701
PAT (Rs m)	63,344	79,377	98,898	94,041
EPS (Rs)	32.4	41.4	51.6	49.0
Growth (%)	696.0	27.9	24.6	(4.9)
Net DPS (Rs)	—	—	10.3	9.8

Profitability & Valuation	2011	2012	2013E	2014E
EBITDA margin (%)	81.8	80.5	75.4	72.9
RoE (%)	17.1	17.9	19.0	15.9
RoCE (%)	16.3	17.5	18.9	15.7
EV / sales (x)	5.9	4.7	3.0	2.4
EV / EBITDA (x)	7.3	5.8	4.0	3.3
PE (x)	9.9	7.8	6.2	6.6
P / BV (x)	1.6	1.3	1.1	1.0
Net dividend yield (%)	—	—	3.2	3.1

Source: Company Data; PL Research

**Exhibit 1: Q1FY13 Result Overview (Rs m)**

Y/e March	Q1FY13	Q1FY12	YoY gr. (%)	Q4FY12	FY13E	FY12	YoY gr. (%)
<b>Net Operating Income</b>	<b>44,400</b>	<b>37,127</b>	<b>19.6</b>	<b>36,513</b>	<b>131,130</b>	<b>102,779</b>	<b>27.6</b>
Operating expenditure	8,718	4,257	104.8	5,972	19,590	15,170	29.1
Other expenditure	761	1,122	(32.2)	730	3,484	2,380	46.4
<b>EBITDA</b>	<b>34,921</b>	<b>31,748</b>	<b>10.0</b>	<b>29,812</b>	<b>108,056</b>	<b>85,229</b>	<b>26.8</b>
<i>EBITDA Margin (%)</i>	78.7	85.5		81.6	82.4	82.9	
Other Income	964	528	82.7	923	3,194	1,288	148.0
DD&A	4,373	3,460	26.4	4,013	14,403	11,930	20.7
Exploration costs w/o	352	187		649	2,988	1,667	
Interest	295	446	(33.9)	305	2,220	2,909	(23.7)
Forex fluctuation	(8,663)	7.90		2,170	(6,148)	1,112	
<b>PBT</b>	<b>39,528</b>	<b>28,175</b>	<b>40.3</b>	<b>23,598</b>	<b>97,787</b>	<b>68,900</b>	<b>41.9</b>
<i>PBT Margin (%)</i>	89.0	75.9		64.6	74.6	67.0	
Total Tax	1,271	909	39.8	1,735	4,857	5,556	(12.6)
<i>% of PBT</i>	3.2	3.2		7.4	5.0	8.1	
Extra ordinaries/sales tax benefit	-	-		-	13,552	-	
<b>PAT</b>	<b>38,257</b>	<b>27,266</b>	<b>40.3</b>	<b>21,862</b>	<b>79,378</b>	<b>63,344</b>	<b>25.3</b>
Minority interest	-	-		-	-	-	
<b>Adj. PAT</b>	<b>38,257</b>	<b>27,266</b>	<b>40.3</b>	<b>21,862</b>	<b>79,378</b>	<b>63,344</b>	<b>25.3</b>

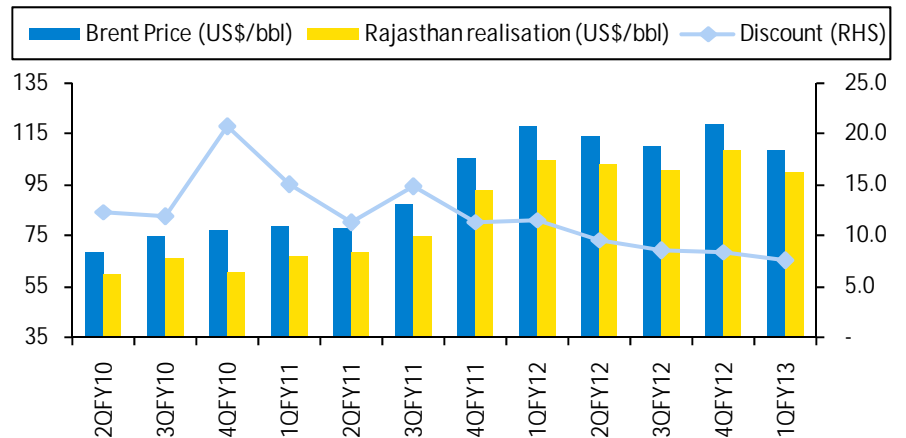
Source: Company Data, PL Research

## Key Highlights of the Conference Call

**Production Ramp-up:** Current production at Mangala continues to be around 125kbpd. Bhagyam field, which commenced production on January 19, 2012, is ramping up to its peak rate of 40kbpd. Company maintains its target of exit production for FY12 at 175kbpd from Mangala and Bhagyam. EPC contracts for the Aishwariya field have also been awarded and against the previous guidance of commencement of production in 2HFY14, revised guidance now is at Q4FY14. Cairn also maintained its long term peak production rate of 240kbpd (largely met from MBA fields). We are currently building a peak production estimate of 210kbpd, factoring the production potential of MBA fields. Revised FDP of the Bhagyam and Aishwariya field is likely to be submitted post six months of production so as to build a case for higher production estimates based on actual performance of the reservoir.

**Dividend policy:** Management highlighted that it would announce a dividend policy soon; discussion on the same has already taken place. The issue will be taken up post the pending reorganization of its subsidiaries.

**Exhibit 2: Rajasthan Crude Realisation and Discount**



Source: Company Data, PL Research

**Exhibit 3: SOTP (Rs m)**

Particulars	FY12E	FY13E
<b>Rajasthan Block</b>		
RJ-ON-90/1(MBA block)	369,218	335,880
Value per share	193.6	176.1
RJ-ON-90/1(MBA EOR)	69,246	78,350
Value per share	36.3	41.1
RJ-ON-90/1(Barmer Hill)	29,860	33,443
Value per share	15.7	17.5
RJ-ON-90/1(Southern fields)	11,186	14,109
Value per share	5.9	7.4
RJ-ON-90/1(Other fields)	52,200	65,840
Value per share	27.4	34.5
<b>Value of Rajasthan Block</b>	<b>531,708</b>	<b>527,621</b>
<b>Value per share</b>	<b>278.8</b>	<b>276.6</b>
CB-OS-2	5,911	3,141
<b>Value per share</b>	<b>3.1</b>	<b>1.6</b>
Ravva	21,644	15,714
<b>Value per share</b>	<b>11.3</b>	<b>8.2</b>
Exploratory portfolio upsides	143,164	180,575
<b>Value per share</b>	<b>75.1</b>	<b>94.7</b>
Total	<b>702,427</b>	<b>727,051</b>
Net debt	(18,065)	(57,617)
<b>Value per share</b>	<b>(9.5)</b>	<b>(30.2)</b>
PV of Corporate expenditure	(19,224)	(15,233)
<b>Value per share</b>	<b>(10.1)</b>	<b>(8.0)</b>
Equity value	<b>701,268</b>	<b>769,435</b>
Equity value per share (Rs/share)	<b>368</b>	<b>403</b>

Source: PL Research

**Exhibit 4: Target Price Sensitivity with Crude and Exchange Rate**

	Crude Oil Prices (US\$ / bbl)							
	80.0	85.0	90.0	95.0	100.0	105.0	110.0	
Exchange Rate (Rs / US\$)	45.0	368	380	392	402	411	420	429
	46.0	372	384	396	406	415	424	433
	47.0	376	389	400	410	419	428	438
	48.0	380	393	403	413	423	432	443
	49.0	384	396	407	417	427	437	447
	50.0	388	400	411	421	431	441	452
	51.0	392	404	414	424	435	446	456

Source: PL Research

**Exhibit 5: Target Price Sensitivity with Crude and Discount Rate**

		Crude Oil Prices (US\$ / bbl)						
		80.0	85.0	90.0	95.0	100.0	105.0	110.0
Discount Rate	10.5%	389	402	414	424	434	444	455
	11.0%	386	399	410	420	430	440	451
	11.5%	383	396	407	417	426	436	447
	12.0%	380	393	403	413	423	432	443
	12.5%	378	390	400	410	419	429	439
	13.0%	375	387	397	407	416	425	435
	13.5%	373	384	394	404	413	422	431

Source: PL Research

**Income Statement (Rs m)**

Y/e March	2011	2012	2013E	2014E
<b>Net Revenue</b>	<b>102,779</b>	<b>118,607</b>	<b>165,300</b>	<b>181,923</b>
Raw Material Expenses	14,907	20,277	37,803	46,425
Gross Profit	87,873	98,330	127,497	135,498
Employee Cost	1,105	889	889	889
Other Expenses	2,651	1,908	1,908	1,908
<b>EBITDA</b>	<b>84,117</b>	<b>95,533</b>	<b>124,700</b>	<b>132,701</b>
Depr. & Amortization	13,596	17,391	18,044	22,744
Net Interest	2,909	2,258	2,253	—
Other Income	1,288	10,409	6,610	7,919
<b>Profit before Tax</b>	<b>68,900</b>	<b>86,292</b>	<b>111,014</b>	<b>117,876</b>
Total Tax	5,556	4,857	12,115	23,835
<b>Profit after Tax</b>	<b>63,344</b>	<b>81,434</b>	<b>98,898</b>	<b>94,041</b>
Ex-Od items / Min. Int.	—	—	—	—
<b>Adj. PAT</b>	<b>63,344</b>	<b>79,377</b>	<b>98,898</b>	<b>94,041</b>
<b>Avg. Shares O/S (m)</b>	<b>1,957.4</b>	<b>1,918.4</b>	<b>1,918.4</b>	<b>1,918.4</b>
<b>EPS (Rs.)</b>	<b>32.4</b>	<b>41.4</b>	<b>51.6</b>	<b>49.0</b>

**Cash Flow Abstract (Rs m)**

Y/e March	2011	2012	2013E	2014E
C/F from Operations	63,306	70,710	111,929	108,764
C/F from Investing	(48,749)	(27,306)	(23,792)	(25,871)
C/F from Financing	(8,655)	(15,216)	(25,395)	(34,523)
Inc. / Dec. in Cash	5,902	28,188	62,743	48,370
Opening Cash	9,294	16,276	70,135	132,878
Closing Cash	15,197	44,464	132,878	181,249
FCFF	6,767	69,173	113,660	112,657
FCFE	(458)	54,909	113,660	100,138

**Key Financial Metrics**

Y/e March	2011	2012	2013E	2014E
<b>Growth</b>				
Revenue (%)	533.3	15.4	39.4	10.1
EBITDA (%)	751.9	13.6	30.5	6.4
PAT (%)	701.7	25.3	24.6	(4.9)
EPS (%)	696.0	27.9	24.6	(4.9)
<b>Profitability</b>				
EBITDA Margin (%)	81.8	80.5	75.4	72.9
PAT Margin (%)	61.6	66.9	59.8	51.7
RoCE (%)	16.3	17.5	18.9	15.7
RoE (%)	17.1	17.9	19.0	15.9
<b>Balance Sheet</b>				
Net Debt : Equity	—	(0.1)	(0.2)	(0.3)
Net Wrkng Cap. (days)	—	—	—	—
<b>Valuation</b>				
PER (x)	9.9	7.8	6.2	6.6
P / B (x)	1.6	1.3	1.1	1.0
EV / EBITDA (x)	7.3	5.8	4.0	3.3
EV / Sales (x)	5.9	4.7	3.0	2.4
<b>Earnings Quality</b>				
Eff. Tax Rate	8.1	5.8	10.9	20.2
Other Inc / PBT	1.9	11.0	6.0	6.7
Eff. Depr. Rate (%)	20.4	23.6	23.4	28.2
FCFE / PAT	(0.7)	69.2	114.9	106.5

Source: Company Data, PL Research.

**Balance Sheet Abstract (Rs m)**

Y/e March	2011	2012	2013E	2014E
Shareholder's Funds	401,990	482,921	557,296	629,332
Total Debt	26,782	12,518	12,518	—
Other Liabilities	5,612	6,738	7,196	7,673
<b>Total Liabilities</b>	<b>434,384</b>	<b>502,177</b>	<b>577,010</b>	<b>637,005</b>
Net Fixed Assets	59,236	59,294	55,738	51,856
Goodwill	253,193	253,193	253,193	253,193
Investments	10,944	18,356	18,356	18,356
Net Current Assets	50,343	96,127	158,602	207,551
<i>Cash &amp; Equivalents</i>	<i>44,847</i>	<i>70,135</i>	<i>132,878</i>	<i>181,249</i>
<i>Other Current Assets</i>	<i>34,761</i>	<i>58,247</i>	<i>69,094</i>	<i>73,286</i>
<i>Current Liabilities</i>	<i>29,266</i>	<i>32,255</i>	<i>43,371</i>	<i>46,984</i>
Other Assets	60,668	75,208	91,122	106,050
<b>Total Assets</b>	<b>434,384</b>	<b>502,177</b>	<b>577,010</b>	<b>637,005</b>

**Quarterly Financials (Rs m)**

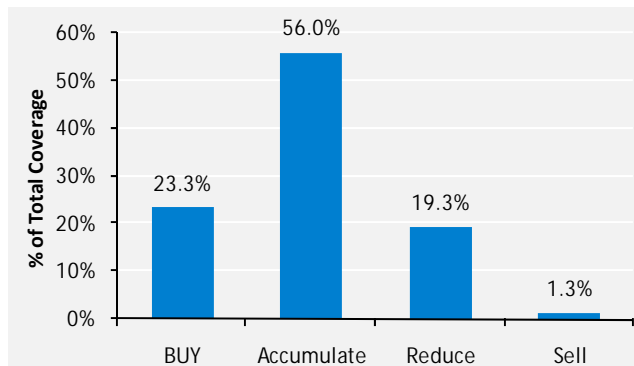
Y/e March	Q2FY12	Q3FY12	Q4FY12	Q1FY13
<b>Net Revenue</b>	<b>26,522</b>	<b>30,968</b>	<b>36,513</b>	<b>44,400</b>
<b>EBITDA</b>	<b>21,040</b>	<b>25,456</b>	<b>29,812</b>	<b>34,921</b>
<i>% of revenue</i>	<i>79.3</i>	<i>82.2</i>	<i>81.6</i>	<i>78.7</i>
Depr. & Amortization	3,142	3,787	4,013	4,373
Net Interest	1,228	240	305	295
Other Income	620	1,124	923	964
<b>Profit before Tax</b>	<b>3,738</b>	<b>22,552</b>	<b>26,416</b>	<b>39,528</b>
Total Tax	1,029	1,184	1,735	1,271
<b>Profit after Tax</b>	<b>7,630</b>	<b>22,619</b>	<b>21,862</b>	<b>38,257</b>
<b>Adj. PAT</b>	<b>7,630</b>	<b>22,619</b>	<b>21,862</b>	<b>38,257</b>

**Key Operating Metrics**

Y/e March	2011	2012	2013E	2014E
Rajasthan working int. vol (Th. bopd)	88	89	121	147

Source: Company Data, PL Research.

#### Rating Distribution of Research Coverage



#### PL's Recommendation Nomenclature

<b>BUY</b>	: Over 15% Outperformance to Sensex over 12-months	<b>Accumulate</b>	: Outperformance to Sensex over 12-months
<b>Reduce</b>	: Underperformance to Sensex over 12-months	<b>Sell</b>	: Over 15% underperformance to Sensex over 12-months
<b>Trading Buy</b>	: Over 10% absolute upside in 1-month	<b>Trading Sell</b>	: Over 10% absolute decline in 1-month
<b>Not Rated (NR)</b>	: No specific call on the stock	<b>Under Review (UR)</b>	: Rating likely to change shortly

This document has been prepared by the Research Division of Prabhudas Lilladher Pvt. Ltd. Mumbai, India (PL) and is meant for use by the recipient only as information and is not for circulation. This document is not to be reported or copied or made available to others without prior permission of PL. It should not be considered or taken as an offer to sell or a solicitation to buy or sell any security.

The information contained in this report has been obtained from sources that are considered to be reliable. However, PL has not independently verified the accuracy or completeness of the same. Neither PL nor any of its affiliates, its directors or its employees accept any responsibility of whatsoever nature for the information, statements and opinion given, made available or expressed herein or for any omission therein.

Recipients of this report should be aware that past performance is not necessarily a guide to future performance and value of investments can go down as well. The suitability or otherwise of any investments will depend upon the recipient's particular circumstances and, in case of doubt, advice should be sought from an independent expert/advisor.

Either PL or its affiliates or its directors or its employees or its representatives or its clients or their relatives may have position(s), make market, act as principal or engage in transactions of securities of companies referred to in this report and they may have used the research material prior to publication.

We may from time to time solicit or perform investment banking or other services for any company mentioned in this document.