



## Cairn India

STOCK INFO.	BLOOMBERG
BSE Sensex: 17,451	CAIR IN
S&P CNX: 5,225	REUTERS CODE
	CAIL.BO
Equity Shares (m)	1,894.4
52-Week Range (Rs)	310/175
1,6,12 Rel. Perf. (%)	1/7/-29
M.Cap. (Rs b)	555.1
M.Cap. (US\$ b)	12.2

25 March 2010

Buy

Previous Recommendation: Buy

Rs293

YEAR	NET SALES	PAT	EPS	EPS	P/E	P/BV	ROE	ROCE	EV/	EV/
END	(RS M)	(RS M)	(RS)	GR. (%)	(X)	(X)	(%)	(%)	SALES	EBITDA
03/09A	14,326	8,082	4.3	N.M.	68.8	1.7	2.6	2.5	37.7	58.0
03/10E	15,872	10,991	5.8	36.0	50.6	1.6	3.3	3.0	35.7	52.6
03/11E	74,513	38,018	20.0	245.9	14.6	1.5	10.7	12.5	7.5	8.8
03/12E	119,117	68,814	36.3	81.0	8.1	1.3	17.1	19.6	4.4	5.0

\*Consolidated

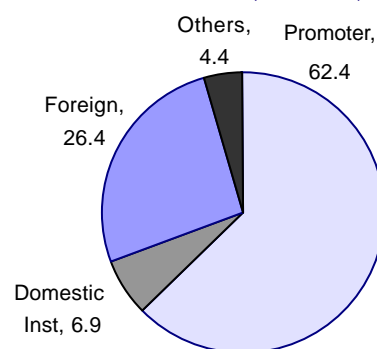
**Increases peak production and resource estimates:** Cairn India has announced an increase in its Rajasthan peak production from 175kbpd to 240kbpd and has also increased its in-place resource base estimate from 3.7bboe to 6.5bboe (discovered: 4bboe; prospective: 2.5bboe). It has increased its estimate of recoverable oil reserves/resources by 24% from 1.1bboe to 1.4bboe.

**Rajasthan production to reach 125kbpd in 2HCY10; contracts for 143kbpd signed:** Rajasthan oil production is likely to reach 125kbpd in 2HCY10 (currently at 20kbpd), 175kbpd in CY11 and eventually 240kbpd (likely in CY12/ CY13). Cairn has also signed crude sales contracts for 143kbpd with four refiners.

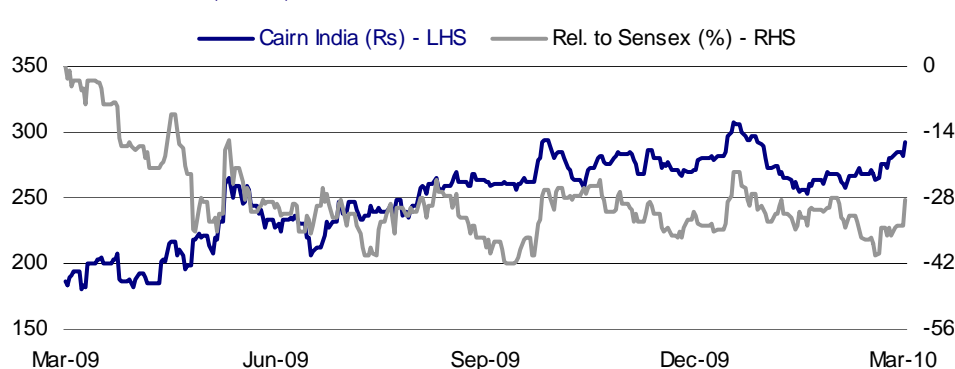
**Upsides would continue:** Cairn has been consistently upgrading its hydrocarbon resource base through continued focused exploration and use of the latest technologies (eg 4D seismic, fracking). Cairn would have free cash flow (FCF) of >US\$1b in FY12 (US\$1.4b at oil price of US\$80/bbl) even after meeting all its estimated capex requirement, and dividend yield could be high if the company pays out FCF. On the other hand, if Cairn steps up its E&P spends with the FCF, it could result in upgrades in reserves and, in turn, DCF value of the stock.

**Upgrading earnings estimates and target price:** We are increasing our production assumptions by 25kbpd and now model production levels of 205k / 214k / 225k bpd in FY13 / FY14 and FY15, and maintain our FY12 estimate at 180kbpd. We model Brent price of US\$70/bbl (quality discount of 12.5% (US\$9/bbl) and add customs duty of 2.5%) and cess at Rs927/MT. We are increasing our EPS estimate for FY13 by 19% to Rs41 and maintain our EPS estimate for FY12 at Rs36. At Brent price of US\$80/bbl, our FY12E and FY13E EPS would be Rs44 and Rs50, respectively. We are increasing our SOTP-based price target to Rs300 (earlier at Rs280). At long-term Brent of US\$80/bbl (current levels), our SOTP value would increase to Rs332/bbl. Maintain **Buy**.

SHAREHOLDING PATTERN (DEC.09 - %)



STOCK PERFORMANCE (1 YEAR)

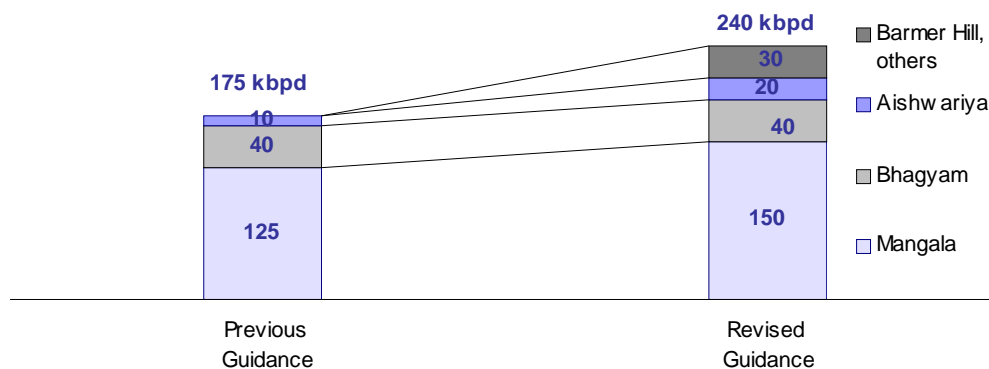


**Meaningful upgrade in plateau production and resource estimates**

**37% increase in plateau production**

- Cairn has upgraded its likely plateau production level from 175kbpd to 240kbpd. Incremental production of 65kbpd would come from Mangala (+25kbpd), Aishwariya (+10kbpd) and Barmer Hill (+30kbpd, newly introduced).
- Mangala plateau production now stands at 150kbpd, up from 125kbpd. These production upsides are subject to government approval and would require additional investment. As the offtake infrastructure is largely in place, incremental investments would not be substantial and government approvals would also come through, in our view.

REVISES PEAK PRODUCTION POTENTIAL TO 240KBPD

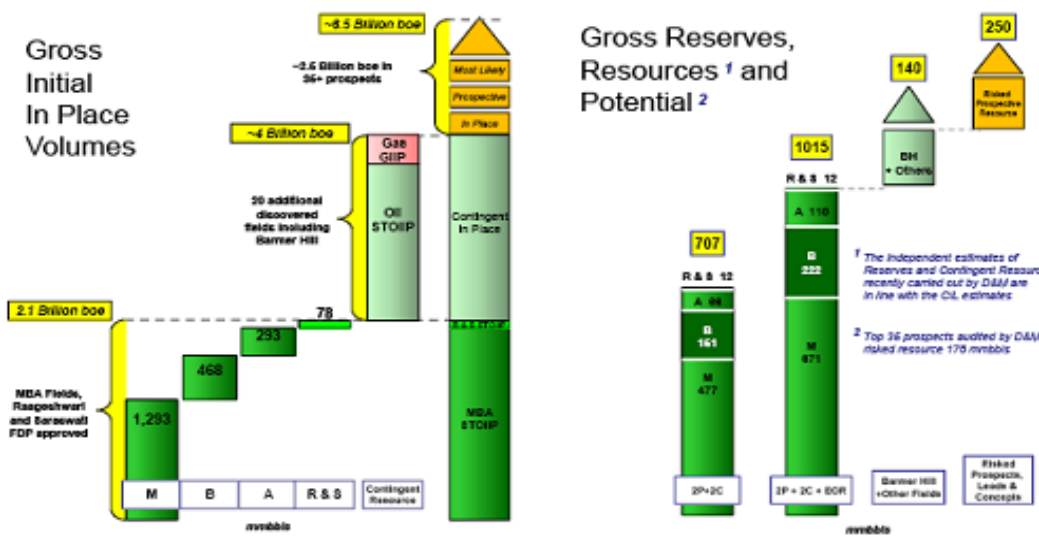


Source: Company/MOSL

**Rajasthan in-place resources now at 6.5bboe**

- Rajasthan potential resource (in-place) is now estimated at 6.5bboe. In-place resource estimate from MBA (Mangala, Bhagyam, and Aishwariya) and other fields has been increased from 3.7bboe to 4bboe, and an additional 2.5bboe is estimated from ~100 other potential prospects. Increase in resource estimates is primarily due to increase in the estimates of 22 other discoveries and not due to reassessment of MBA fields.

RAJASTHAN RESOURCE BASE SCHEMATIC - 6.5BBOE OF IN-PLACE RESOURCES



Source: Company/MOSL

**24% increase in recoverable oil reserves**

- Estimates of recoverable oil reserves (+ risked prospective resources) have been increased by 24% from 1.1bboe to 1.4bboe. The increase was led by (1) potential of smaller discoveries at 140mmboe (earlier 80mmboe), and (2) 100 other new prospects (top-35 contribute 80%) at 250mmboe (earlier 140mmboe).
- Recoverable reserves from smaller fields including Barmer Hill at 140mmboe (earlier 80mmboe) are largely from 20 additional discovered fields.
- Recoverable reserves in new prospects have been increased from 140mmboe to 250mmboe. This is based on 30% risk factor applied to 30% geological chance of success (GCoS). 30% GCoS of 2.5bboe is 750mmboe; applying 30% risk factor, we get 250mmboe of risked reserves.
- Over 3/4<sup>th</sup> of the above estimates have been certified independently by DeGoyler and MacNaughton (D&M).

**24% INCREASE IN RECOVERABLE RESERVE/RESOURCE POTENTIAL (MMBOE)**

	EARLIER	REVISED	CHG.	CHG (%)	REMARKS
<b>Rajasthan Block</b>					
Mangala	671	671	0	0	Includes 194mmbbl of EOR reserves
Bhagyam	222	222	0	0	Includes 71mmbbl of EOR reserves
Aishwariya	110	110	0	0	Includes 44mmbbl of EOR reserves
Ragesh. & Saraswati	12	12	0	0	
20 addl discoveries (incl. Barmer Hill)	80	140	60	75	Audited by D&M; earlier at 80mmboe
Risked prospects, leads & concepts (~100 prospects)	35	250	215	614	Risked prospective resources; applied 30% risk factor; audited by D&M; earlier at 35mmboe
<b>Rajasthan total</b>	<b>1,130</b>	<b>1,405</b>	<b>275</b>	<b>24</b>	

Source: Company/ MOSL

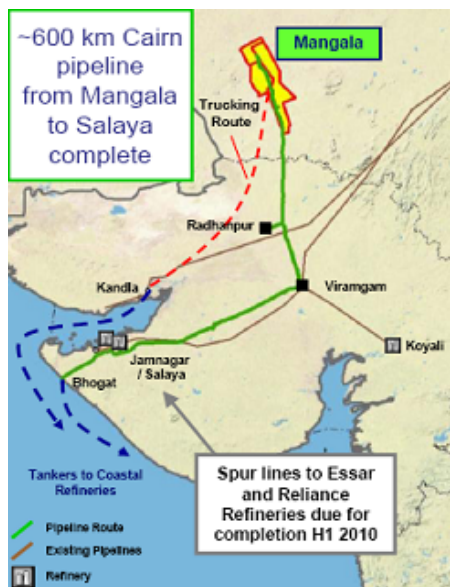
**Production to reach 125kbpd in 2HCY10; sales contracts for 143kbpd signed**

- Rajasthan production is expected to reach 125kbpd in 2HCY10 (currently at 20kbpd) and 175kbpd in CY11, and eventually to 240kbpd (likely in CY12/CY13).
- Crude pipeline completion is on track; pipeline till Salaya is likely to be completed by June 2010 and further to Bhogat in CY11. Salaya gives direct access to Reliance pipeline network, while Bhogat has a port, implying access to marine transportation of crude.
- The planned plateau production of 240kbpd can be transported through the current pipeline with minor revamp of the pumps for boosting pressure and flow.
- Currently, the crude is transported through trucks and as the pipeline gets completed till Salaya in 2QCY10, the crude will be transported through pipeline. Though off-take by IOC has been delayed due to the fire accident in its Jaipur storage depot, the company expects the supply to IOC to commence next quarter.
- Cairn has also signed crude sales contracts for 143kbpd with four refiners – MRPL, IOC, Reliance Industries' DTA refinery and Essar Oil. The company is in discussions for sales to other private and state-owned refiners. Cairn believes that it will not have to export crude, as there is adequate demand within India. However, if required, it can export the crude subject to government approval.

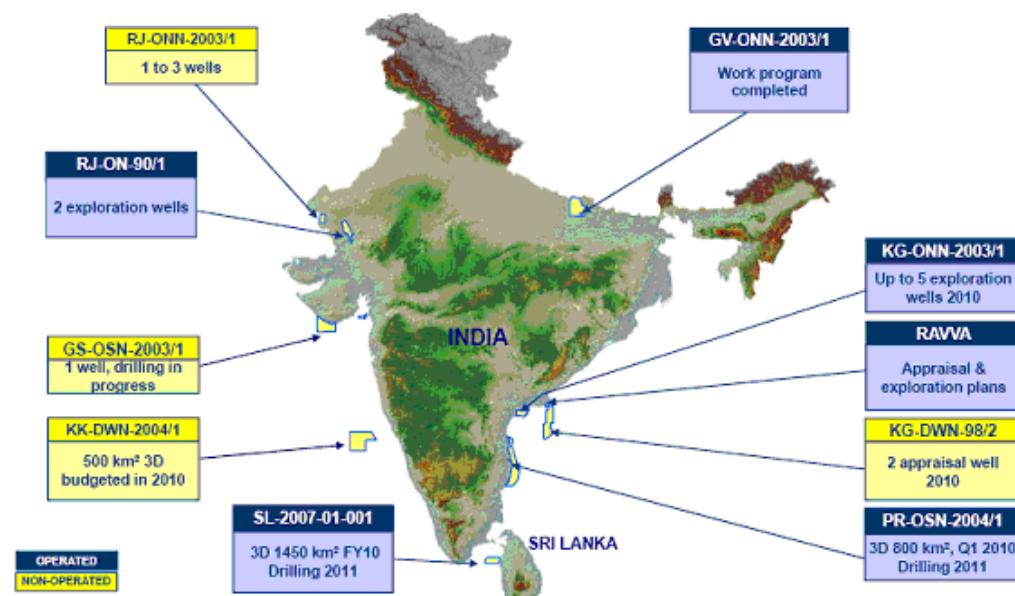
EXISTING TRAINS WOULD BE EXPANDED TO SUPPORT HIGHER PRODUCTION

TRAIN	CAPACITY (KBPD)	LIKELY NEW CAPACITY (KBPD)	STATUS
Train 1	30	50	Complete and operational
Train 2	50	55	To complete in 2QCY10
Train 3	50	55	To complete in 2QCY10
Train 4	75	83	To complete in 2011
<b>Total</b>	<b>205</b>	<b>243</b>	

RAJASTHAN TO GUJARAT PIPELINE ROUTE



CAIRN INDIA'S PLANNED EXPLORATION PROGRAM



Source: Company/MOSL

**Further upgrades possible**

- Cairn has been consistently upgrading its hydrocarbon resource base in its existing acreage through continued focused exploration and use of latest technologies (eg 4D seismic, fracking). It has already proved the same in Ravva and Rajasthan and we believe similar upgrades are possible in future.

- Its near term exploration program includes 5 exploration wells in its KG onland block and given the proximity to already proven KG basin we would expect some discovery announcements in near term.

### Valuation and view

- Cairn would have free cash flow (FCF) of >US\$1b in FY12 (US\$1.4b at oil price of US\$80/bbl) even after meeting all its estimated capex requirement, and dividend yield could be high if the company pays out FCF. On the other hand, if Cairn steps up its E&P spends with the FCF, it could result in upgrades in reserves and, in turn, DCF value of the stock.

### Key assumptions

- We model long-term Brent crude price of US\$70/bbl in our estimates and take a discount of 12.5% (~US\$9/bbl) for quality, and customs duty on crude at 2.5%.
- We assume that Cairn would be required to pay cess (levy) of Rs927/MT v/s the current cess rate of Rs2,675/MT (including education tax and NCCD cess) for our DCF valuation. Cairn believes it is not liable to pay any cess and is contesting the cess payment with the government. Higher cess than our estimate would be negative for Cairn by Rs23/share.

### Increasing EPS estimates and price target

- We are increasing our plateau production assumptions by 25kbpd and now model production levels of 205k / 214k / 225k bpd in FY13 / FY14 and FY15. We are maintaining our FY12 production estimate at 180kbpd and would await clarity on the pace of crude offtake before revising it.
- We model Brent price of US\$70/bbl (quality discount of US\$9/bbl and customs duty of 2.5%) and cess at Rs927/MT in our estimates.
- We are increasing our FY13 EPS estimate by 19% to Rs41 and maintain FY12E EPS at Rs36. At Brent price of US\$80/bbl, our FY12 and FY13 EPS estimates would be Rs44 and Rs50, respectively. We are increasing our SOTP-based price target to Rs300 (earlier at Rs280). At long-term Brent of US\$80/bbl (current levels), our SOTP value would increase to Rs332/bbl. Maintain **Buy**.

#### CAIRN: VALUATION SUMMARY

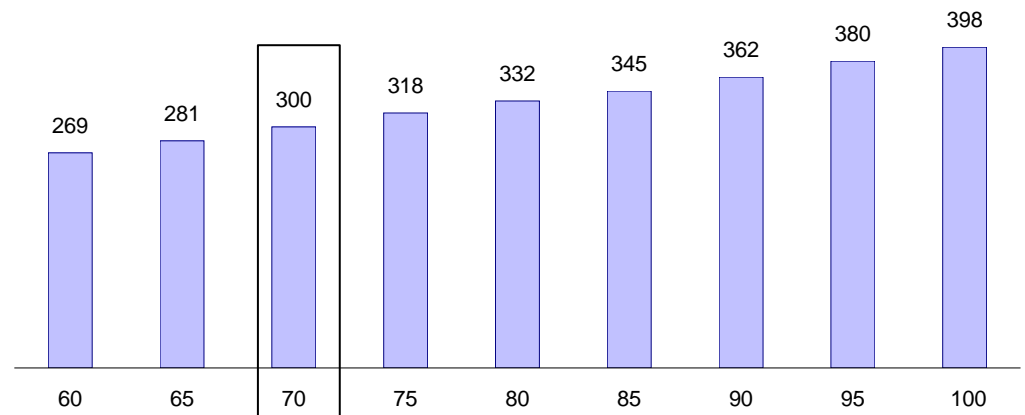
	US\$M	RS B	REVISED (RS/SH)	EARLIER (RS/SH)	CHG. (RS/SH)	REMARKS
Rajasthan Block – Base	7,802	341	180	160	20	DCF Based
Rajasthan Block – EOR	1,417	62	33	29	4	DCF Based
Ravva	439	19	10	10	0	DCF Based
Cambay	299	13	7	7	(0)	DCF Based
KG-DWN-98/2 - Shallow Water	375	17	9	9	0	2P gas reserves of 3.7tcf @ US\$6/boe
Net Cash/(debt) FY10 end	(120)	(4)	(2)	(2)	(0)	
<b>Base Value</b>	<b>10,213</b>	<b>448</b>	<b>236</b>	<b>213</b>	<b>23</b>	
<b>Potential Upsides</b>						
<b>Rajasthan Block</b>						
- Upside from current development area	0	0	0	0	0	Exploration continues in current dev area
- Addition of new area in development	0	0	0	0	0	Most likely addition is North. Appr Area
- Contingent Resource from smaller fields	818	38	20	24	(4)	30% of 1.8bboe valued at US\$1.5/boe
KG-DWN-98/2 - Deep Water	840	42	22	22	0	ONGC indicated in-place reserves of 14tcf
Other Exploration Assets	1,000	40	21	21	0	1bboe valued at US\$1/boe
<b>Target Price</b>	<b>12,871</b>	<b>568</b>	<b>300</b>	<b>280</b>	<b>20</b>	

Source: MOSL

**Cairn's fair value highly leveraged to crude price assumption**

- Cairn's fair value is highly leveraged to oil prices. Our long-term Brent price assumption is US\$70/bbl (we consider 12.5% discount for waxy crude and customs duty on crude at 2.5%).
- The chart below gives our estimate of base fair value at different long-term Brent oil prices.

CAIRN FAIR VALUE (RS PER SHARE): SENSITIVITY TO BRENT



Source: Company/MOSL

## Financials and Valuation

INCOME STATEMENT		(Rs Million)			
Y/E MARCH	2009*	2010E	2011E	2012E	
<b>Net Sales</b>	<b>14,326</b>	<b>15,872</b>	<b>74,513</b>	<b>119,117</b>	
Change (%)	41.5	10.8	369.5	59.9	
<b>Total Income</b>	<b>14,326</b>	<b>15,872</b>	<b>74,513</b>	<b>119,117</b>	
Change in Stock	222	-1,066	0	0	
Employee Costs	1,145	1,260	1,386	1,552	
Other Expenditure	1,528	1,543	1,698	1,952	
Operating expenses	2,130	3,376	7,837	12,325	
<b>EBITDA</b>	<b>9,301</b>	<b>10,758</b>	<b>63,593</b>	<b>103,287</b>	
% of Net Sales	64.9	67.8	85.3	86.7	
Depr. & Exploration w/off	4,382	2,955	14,459	16,273	
Interest	64	800	4,169	3,491	
Other Income	3,470	3,691	2,516	2,420	
Forex Fluctuations	1,602	718	0	0	
Exceptional Item	-48				
<b>PBT</b>	<b>9,878</b>	<b>11,413</b>	<b>47,481</b>	<b>85,943</b>	
Tax	1,844	422	9,463	17,129	
Rate (%)	18.7	3.7	19.9	19.9	
<b>PAT</b>	<b>8,034</b>	<b>10,991</b>	<b>38,018</b>	<b>68,814</b>	
<b>Adjusted PAT</b>	<b>8,082</b>	<b>10,991</b>	<b>38,018</b>	<b>68,814</b>	
Change (%)	NM	36.0	245.9	81.0	

\*2007 - Dec year end, 2009 - 15 month period

BALANCE SHEET		(Rs Million)			
Y/E MARCH	2009	2010E	2011E	2012E	
Share Capital	18,967	18,967	18,967	18,967	
Reserves	309,057	318,790	352,458	413,398	
<b>Net Worth</b>	<b>328,023</b>	<b>337,756</b>	<b>371,424</b>	<b>432,364</b>	
Total Loans	43,564	56,598	47,616	39,666	
Deferred Tax	5,624	4,678	7,494	12,591	
<b>Capital Employed</b>	<b>377,211</b>	<b>399,033</b>	<b>426,534</b>	<b>484,622</b>	
Gross Fixed Assets	1,435	18,908	21,012	21,012	
Less: Depreciation	802	859	2,483	4,151	
<b>Net Fixed Assets</b>	<b>633</b>	<b>18,049</b>	<b>18,529</b>	<b>16,862</b>	
Capital WIP	62,027	18,741	18,741	18,741	
Producing Properties (net of	3,014	51,832	72,991	91,861	
Goodwill	253,193	253,193	253,193	253,193	
Investments	1,713	1,713	1,713	1,713	
Deferred tax assets	84	84	84	84	
<b>Curr. Assets, L &amp; Adv.</b>					
Inventory	1,683	1,305	4,083	6,527	
Debtors	1,516	1,522	7,145	11,422	
Cash & Bank Balance	65,271	51,091	53,021	88,810	
Loans & Adv. and Other CA	4,209	5,200	5,200	5,200	
<b>Current Liab. &amp; Prov.</b>					
Liabilities	16,132	3,696	8,166	9,790	
<b>Net Current Assets</b>	<b>56,548</b>	<b>55,422</b>	<b>61,283</b>	<b>102,169</b>	
Deferred tax asset (net)					
<b>Application of Funds</b>	<b>377,211</b>	<b>399,033</b>	<b>426,534</b>	<b>484,622</b>	

E: MOSL Estimates

RATIOS					
Y/E MARCH	2009	2010E	2011E	2012E	
<b>Basic (Rs)</b>					
<b>EPS</b>	<b>4.3</b>	<b>5.8</b>	<b>20.0</b>	<b>36.3</b>	
Cash EPS	5.7	6.6	25.8	43.3	
Book Value	173	178	196	228	
DPS	0.0	0.6	2.0	3.6	
Payout (incl. Div. Tax.)	0.0	11.4	11.4	11.4	
<b>Valuation (x)</b>					
P/E	68.8	50.6	14.6	8.1	
Cash P/E	51.8	44.4	11.3	6.8	
EV / EBITDA	58.0	52.6	8.8	5.0	
EV / Sales	37.7	35.7	7.5	4.4	
Price / Book Value	1.7	1.6	1.5	1.3	
Dividend Yield (%)	0.0	0.2	0.7	1.2	
<b>Profitability Ratios (%)</b>					
RoE	2.6	3.3	10.7	17.1	
RoCE	2.5	3.0	12.5	19.6	
<b>Turnover Ratios</b>					
Debtors (No. of Days)	35	35	35	35	
Fixed Asset Turnover (x)	11.3	1.6	3.7	5.7	
<b>Leverage Ratio</b>					
Net Debt / Equity (x)	0.0	0.0	0.0	-0.1	

CASH FLOW STATEMENT		(Rs Million)			
Y/E MARCH	2009	2010E	2011E	2012E	
Profit/(Loss) before Tax	9,878	11,413	47,481	85,943	
Depreciation	2,950	1,527	10,959	13,273	
Direct Taxes Paid	-1,458	-1,368	-6,647	-12,032	
(Inc)/Dec in Wkg. Capital	1,215	-13,053	-3,932	-5,096	
Other op activities	0	0	0	0	
<b>CF from Op. Activity</b>	<b>12,585</b>	<b>-1,482</b>	<b>47,861</b>	<b>82,087</b>	
(Inc)/Dec in FA & CWIP	-31,613	-24,474	-32,599	-30,475	
Other In activities	0	0	0	0	
<b>CF from Inv. Activity</b>	<b>-31,613</b>	<b>-24,474</b>	<b>-32,599</b>	<b>-30,475</b>	
Change in Equity	25,315	0	0	0	
Inc / (Dec) in Debt	37,671	13,034	-8,982	-7,949	
Dividends Paid	0	-1,258	-4,350	-7,874	
<b>CF from Fin. Activity</b>	<b>62,986</b>	<b>11,777</b>	<b>-13,332</b>	<b>-15,823</b>	
<b>Inc / ( Dec) in Cash</b>	<b>43,958</b>	<b>-14,179</b>	<b>1,930</b>	<b>35,789</b>	
Add: Opening Balance	1,504	45,462	31,283	33,213	
<b>Closing Balance</b>	<b>45,462</b>	<b>31,283</b>	<b>33,213</b>	<b>69,002</b>	
Deposits with bank	19,809	19,809	19,809	19,809	
<b>Closing Balance</b>	<b>65,271</b>	<b>51,091</b>	<b>53,021</b>	<b>88,810</b>	



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**Cairn India**

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|---|----|
| 1. Analyst ownership of the stock                       | No |
| 2. Group/Directors ownership of the stock               | No |
| 3. Broking relationship with company covered            | No |
| 4. Investment Banking relationship with company covered | No |

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