

## Cairn India

### Performance Highlights

Cairn India (CIL) reported better-than-expected set of numbers for 3QFY2010 on the back of higher-than-expected Sales volumes from the Rajasthan block, and lower-than-expected DD&A expenditure. This was the first quarter when the company reported Sales from its core asset 'MBA' fields, which are still under ramp up mode. Management has guided for slower than anticipated Sales ramp up going ahead. Accordingly, we have pruned our Volume estimates in turn leading to decline in our FY2011E EPS to Rs21.5 (earlier Rs25.2), a reduction of 14.9%. However, with profit petroleum now pushed back, our FY2012E stands increased to Rs42.2 (earlier Rs40.1). **We remain Neutral on the stock.**

For 3QFY2010, CIL reported 135% yoy increase in Top-line to Rs495cr (Rs211cr) driven by higher Realisation and Volumes. Blended Average Realisation grew 42% yoy to US \$66.9/boe (US \$47.1/boe), whereas Average Realisation of Mangala crude, during the quarter, stood at US \$72.2/bbl. Gross production increased 6.1% yoy to 66,843boepd (63,005boepd), whereas Net production was up by a substantial 48.3% yoy to 24,599boepd (16,591boepd) as it was the first quarter of full production from the Mangala field. Average Gross production from Mangala during the quarter stood at 15,430bopd, whereas current production from the field is hovering around 20,000bopd.

**Outlook and Valuation:** We have calculated CIL's NAV by estimating cash flows on asset-by-asset basis with the associated assumptions for production profile, oil/gas pricing, royalty/cess, opex, and fiscal terms. Our NAV calculation is based on long-term crude oil prices of US \$75/bbl, whereas the current price is discounting long-term average crude price of US \$73/bbl. We remain Neutral on the stock.

### Key Financials

Y/E March (Rs cr)	FY2009	FY2010E	FY2011E	FY2012E
<b>Net Sales</b>	<b>1,433</b>	<b>1,885</b>	<b>7,402</b>	<b>13,334</b>
% chg	41.5	31.6	292.7	80.1
<b>Net Profits</b>	<b>804</b>	<b>1,111</b>	<b>4,070</b>	<b>8,004</b>
% chg	-	38.3	266.3	96.7
OPM (%)	60.5	61.2	80.1	83.9
<b>EPS (Rs)</b>	<b>4.2</b>	<b>5.9</b>	<b>21.5</b>	<b>42.2</b>
P/E (x)	62.7	45.3	12.4	6.3
P/BV (x)	1.5	1.5	1.4	1.4
RoE (%)	2.4	3.3	1.4	21.6
RoCE (%)	1.1	1.9	2.2	23.0
EV/Sales (x)	33.7	26.6	6.7	3.7
EV/EBITDA (x)	55.7	43.5	8.4	4.4

Source: Company, Angel Research

## NEUTRAL

CMP	Rs266
Target Price	-

Investment Period	-
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### Stock Info

Sector	Oil & Gas
Market Cap (Rs cr)	50,385
Beta	0.9
52 WK High / Low	310/148
Avg. Daily Volume	855469
Face Value (Rs)	10
BSE Sensex	16,385
Nifty	4,882
Reuters Code	CAIL.BO
Bloomberg Code	CAIR@IN

### Shareholding Pattern (%)

Promoters	40.9
MF/Banks/Indian FLs	32.2
FII/NRIs/OCBs	18.3
Indian Public	8.6

Abs. (%)	3m	1yr	3yr
Sensex	1.9	77.1	15.1
Cairn India	0.2	65.2	77.0

### Deepak Pareek

Tel: 022 – 4040 3800 Ext: 340

E-mail: deepak.pareek@angeltrade.com

### Amit Vora

Tel: 022 – 4040 3800 Ext: 322

E-mail: amit.vora@angeltrade.com

**Higher Realisation, Rajasthan crude production drives Sales:** During 3QFY2010, CIL's Top-line increased 135% yoy to Rs495cr (Rs211cr) driven by higher Realisation and Volumes. Average oil price realisation increased 30.9% yoy to US \$73.8/bbl (US \$56.4/bbl) on account of higher crude price during the quarter, whereas gas price realisation increased 12.5% yoy to US \$4.5/mnscf (US \$4.0/mnscf). Average realisation of Mangala crude during the quarter stood at US \$72.2/bbl. Blended Average Realisation during the quarter increased by 42% yoy to US \$66.9/boe (US \$47.1/boe). Gross production grew 6.1% yoy to 66,843boepd (63,005boepd). Net production increased by a substantial 48.3% yoy to 24,599boepd (16,591boepd) as it was the first quarter of full production from Rajasthan's Mangala field. Average Gross production from Mangala stood at 15,430bopd, whereas current production is hovering at around 20,000bopd.

**OPM expands by 2,503bp:** Total Operating expenses (opex) for Rajasthan crude stood at US \$20.5/bbl (which includes Freight, Shipping, loading and unloading charge was US \$8.7/bbl; Cess, which is paid in protest, stood at US \$7.6/bbl and Other Operating expenditure was US \$3.8/bbl). Opex for Cambay and Ravva assets remained at about US \$2/bbl. Staff cost increased by 50.1% yoy to Rs41cr (Rs27cr), whereas Administration declined 12% yoy to Rs39cr (Rs44cr). Staff cost for the quarter includes stock option charge of Rs25.7cr as per Intrinsic value method. Overall, OPM expanded by 2,503bp yoy to 70.1% (45.1%) during the quarter, lower than our expectation of 74.2%. EBITDA increased by 265.6% yoy to Rs347cr (Rs95cr).

**DD&A declines, Exploration cost increases:** DD&A expenditure fell 8% yoy to Rs30cr (Rs33cr) on account of the increase in reserves in the Ravva block, whereas Exploration cost moved up 17.3% yoy to Rs44cr (Rs38cr).

**Interest expenditure increases, Other Income declines:** Interest expenditure during the quarter was comparatively higher at Rs26cr (Rs0.6cr) as the company had drawn down the loan of US \$688mn till December 31, 2009 as against the availed loan facility of US \$1.6bn. Other Income fell 31.2% yoy to Rs100cr (Rs145cr) owing to utilisation of funds for Rajasthan development. Other income comprised income from investments of Rs35.9cr and forex gain of Rs63.9cr.

**PAT increases 23.1%:** Total Tax during the quarter was higher at Rs56cr as against negative Rs67cr in corresponding quarter of the previous year as there was deferred tax reversal of Rs71cr. On account of robust Top-line growth and OPM expansion, PAT increased 23.1% yoy to Rs291cr (Rs236cr), which was above our expectation of Rs229cr.

### Producing Block Highlights

- **Ravva Block:** Average gross production from the Ravva field for 3QFY 2010 was 38,668boepd (comprising average oil production of 30,957bopd and average gas production of 46.3mmscfd). Originally estimated to produce 101mnbbbl of crude oil, the field has already produced around 223mnbbbl.
- **CB/OS OS-2 Block:** Average gross production from the CB/OS-2 block for 3QFY2010 was 12,744 boepd (comprising average oil/condensate production of 8,998bopd and average gas production of 22.5mmscfd).

### Exploration Highlights

- The company made two successful bids in the NELP VIII licensing round, and was awarded the KG-OSN-2009/3 and MB-DWN-2009/1 blocks, subject to MoPNG approval.
- The company has completed its work programme commitments in the Ganga Valley exploration blocks GV-ONN-2002/1 and GV-ONN-2003/1. CIL's 2009–10 operated exploration programme includes the drilling of five other wells outside Rajasthan (in KG-ONN-2003/1 block in Q1 and Q2CY2010) and seismic acquisition in two blocks, as well as participation in non-operated JV activity.
- Cairn Lanka Private Limited, CIL's wholly-owned subsidiary, commenced its 3D seismic survey in the Mannar Basin in Sri Lanka on December 10, 2009 and is making excellent progress. The programme will fulfill the commitment of 1,450 km<sup>2</sup> of 3D seismic data acquisition.
- Exploration campaigns started in the Palar-Pennar Basin (offshore East Coast of India) with the acquisition of 3D seismic data.
- 4D seismic campaign has started in the Ravva block to identify bypassed oil zones within the field and the scope of further reserve addition through infill drilling.

### Upstream Development –Highlights

- Development drilling and well completion activities are currently underway with two drilling rigs and one completion rig operating in the Mangala development area. A third rig will commence drilling operations in Rajasthan in 1QCY2010.
- 43 development wells have been drilled of which 33 wells have been completed and made ready for initial production. Currently, five wells are producing around 20,000bpd.
- During the quarter, company delivered 4 parcels of crude oil to MRPL and 2 parcels to RIL; trial parcels to IOC is expected to commence soon.
- After the success of the first horizontal well at Mangala, which tested at an oil production rate of more than 11,500 bopd, CIL successfully drilled and completed two more horizontal wells in Mangala.
- Train one, with a capacity to process 30,000bopd was commissioned during the previous quarter and handles current Mangala production.

- Train two, which was expected to be commission in 4QFY2010, will commission in 1HCY2010 only, along with Train three. All equipment for Train two (capacity of 50,000bopd) has been erected and pre-commissioning activities are underway and along with Train three is targeted to attain capacity of 125,000bopd at the MPT by end of 1HCY2010.
- Construction of the Raageshwari gas Terminal and Thumbli water field (saline aquifer) have been completed.
- Eight Raageshwari Deep gas wells have been successfully drilled to ensure gas supply to fuel the MPT steam turbine generators and to heat the crude pipeline; one well has been successfully hydraulically fractured and tested to a gas rate of 15.7mmscfd, the highest ever recorded in the field

#### **Midstream Development – Highlights**

- MPT to Salaya section (length of 590 km) has been laid of the total length of the MPT to Bhogat pipeline of around 670km, which passes through the states of Rajasthan and Gujarat. In-principle approvals for the Salaya to Bhogat Section have been obtained and the necessary land purchase has been completed. Bhogat lies on the Gujarat coast and provides further flexibility in respect of future off-take volumes.
- Gol has approved establishment of additional/multiple Delivery Points at Radhanpur and Viramgam for sales to IOC's Panipat and Koyali refineries, respectively and an additional Delivery Point at Kandla port for delivery of crude to MRPL and other coastal refineries, until the pipeline for transporting crude from Barmer to Bhogat is operational.
- Gas has been introduced into the gas pipeline section to Radhanpur to help commission the crude oil pipeline. The crude oil pipeline section from MPT to Radhanpur is at advanced stages of commissioning.
- Construction activity is at an advanced stage of completion at the Viramgam Terminal location and on all the 33 Above Ground Installation stations and the Salaya distribution hub.

## Outlook and Valuation

Development work on the Rajasthan block is progressing well with production from the first train having started, while production from Train-II is delayed and is expected to commence along with Train-III in 1H CY2010 and Train-IV in 2012. Moreover, with recent approval of sales of crude oil to the private refineries, we believe production growth is unlikely to be constrained on account of allocation of sufficient volumes. To point out the same, Essar Oil in its recently held analyst meet has said that its refinery could take up to 60,000bpd of CIL's Rajasthan crude. However, it will take time to align near-term sales volume with production capacity. As a result, our Sales volume estimate going ahead stands reduced. This is largely on account of the slower-than-expected ramp up due to the time taken by buyers to align their infrastructure to process the Rajasthan crude. We have reduced our Volume estimate for FY2011E to 90,000bpd from 110,000bpd earlier. However, our FY2012E estimates remain unchanged.

The stock has languished since our Initiating Coverage on the company on account of rich valuations and subdued outlook on crude oil prices. In the absence of any major discoveries, the stock price is driven by the direction of crude oil prices. Notably, in the past, the CIL stock has demonstrated strong correlation with the crude oil prices, which we expect will continue going ahead as well. However, given our subdued outlook on oil prices, we believe that the CIL stock will likely underperform the benchmark indices. Moreover, in the medium term the stock is likely to be impacted more by the news flows associated with developmental status and the ramp up of sales going ahead. The cess issue will also prove to be an overhang on the stock in the medium term.

We have calculated CIL's NAV by estimating cash flows on asset-by-asset basis with associated assumptions for production profile, oil/gas pricing, royalty/cess, opex, and fiscal terms. Our NAV calculation is based on long-term crude oil prices of US \$75/bbl, whereas the current price is discounting long-term average crude price of US \$73/bbl. **We remain Neutral on the stock.**

**Exhibit 1: 3QFY2010 Performance**

Y/E March (Rs cr)	3QFY10	3QFY09	%chg	9MFY10	9MFY09	%chg
<b>Net Operating Income</b>	<b>495</b>	<b>211</b>	<b>135</b>	<b>930</b>	<b>935</b>	<b>(1)</b>
Operating expenditure	134	36	274	241	131	84
Other expenditure	14	80	(82)	77	189	(59)
<b>EBITDA</b>	<b>347</b>	<b>95</b>	<b>266</b>	<b>613</b>	<b>615</b>	<b>(0)</b>
EBITDA Margin (%)	70	45		66	66	
Other Income	100	145	(31)	334	408	(18)
DD&A	30	33	(8)	110	162	(32)
Exploration costs w/o	44	38		87	88	
Interest	26	1	4,162	28	4	599
Forex fluctuation	0	0		0	0	
<b>PBT</b>	<b>347</b>	<b>169</b>	<b>105</b>	<b>723</b>	<b>769</b>	<b>(6)</b>
PBT Margin (%)	70	80		78	82	
Total Tax	56	(67)	(184)	(83)	81	(203)
% of PBT	16	(40)		(12)	10	
Extra ordinaries/sales tax benefit	0	0		0	20	
<b>PAT</b>	<b>291</b>	<b>236</b>	<b>23</b>	<b>806</b>	<b>668</b>	<b>21</b>
Minority interest	-	-	-	-	-	-
<b>Adj. PAT</b>	<b>291</b>	<b>236</b>	<b>23</b>	<b>806</b>	<b>668</b>	<b>21</b>

Source: Company, Angel Research

**Exhibit 2: Summary Valuation**

Particulars (Rs cr)	FY2010E	FY2011E	FY2012E
<b>Rajasthan Block</b>			
RJ-ON-90/1 (MBA block)	29,234	35,247	37,532
Value per share	154	186	198
RJ-ON-90/1 (MBA EOR)	3,260	3,651	4,090
Value per share	17	19	22
RJ-ON-90/1 (Barmer Hill)	2,012	2,408	2,577
Value per share	11	13	14
RJ-ON-90/1 (Southern fields)	402	482	515
Value per share	2	3	3
RJ-ON-90/1 (Other fields)	3,343	4,002	4,282
Value per share	18	21	23
<b>Value of Rajasthan Block</b>	<b>38,251</b>	<b>45,790</b>	<b>48,996</b>
Value per share	202	241	258
CB-OS-2	729	575	405
Value per share	4	3	2
Ravva	2,008	1,826	1,636
Value per share	11	10	9
Upside potential (KG-DWN-98/2)	278	302	331
Value per share	1	2	2
Exploratory portfolio upsides	1,596	1,731	1,897
Value per share	8	9	10
<b>Total Asset value</b>	<b>42,863</b>	<b>50,224</b>	<b>53,264</b>
Less: Corporate expenditure	2,487	2,414	2,333
Value per share	13	13	12
Less: Net debt	(25)	(65)	(156)
Value per share	(0)	(0)	(1)
<b>Equity value</b>	<b>40,402</b>	<b>47,875</b>	<b>51,086</b>
Equity shares (mn)	190	190	190
<b>Equity value per share</b>	<b>213</b>	<b>252</b>	<b>269</b>

Source: Company, Angel Research

Research Team Tel: 022-4040 3800

 E-mail: [research@angeltrade.com](mailto:research@angeltrade.com)

 Website: [www.angeltrade.com](http://www.angeltrade.com)

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Disclosure of Interest Statement	Cairn India
1. Analyst ownership of the stock	No
2. Angel and its Group companies ownership of the stock	No
3. Angel and its Group companies' Directors ownership of the stock	No
4. Broking relationship with company covered	No

*Note: We have not considered any Exposure below Rs 5 lakh for Angel, its Group companies and Directors.*

<b>Ratings (Returns) :</b>	Buy (> 15%)	Accumulate (5% to 15%)	Neutral (-5 to 5%)
	Reduce (-5% to -15%)	Sell (< -15%)	

**Address: Acme Plaza, 'A' Wing, 3rd Floor, M.V. Road, Opp. Sangam Cinema, Andheri (E), Mumbai - 400 059.**  
**Tel : (022) 3952 4568 / 4040 3800**

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