



Cairn India Ltd. - Diversification for Vedanta means opportunity for Cairn

Hold

CMP: Rs.340		Target Price: Rs 362		Industry: Oil & Gas	
Stock Info		BSE Group		Shareholding Pattern (31st Mar.'10)	
Market Capital	Rs.64464 cr	BSE Code	B/BSE 500	Promoters	62.3%
Free float	Rs.14,753 cr	NSE Symbol	532793	Domestic Institutions	7.5%
Equity Capital	Rs.1896.7 cr	Bloomberg	CAIRN IN	Foreign Institutions	10.3%
Avg Trading Vol.	450170 (Qtly)	Reuters	CAIL. BO	Non Promoters Corp.	3.8%
52 WK High/Low	353.1/201.3	BSE Sensex	18073	Public & Others	15.9%
Face Value	Rs. 10	NSE Nifty	5416	Govt. Holdings	0.0%

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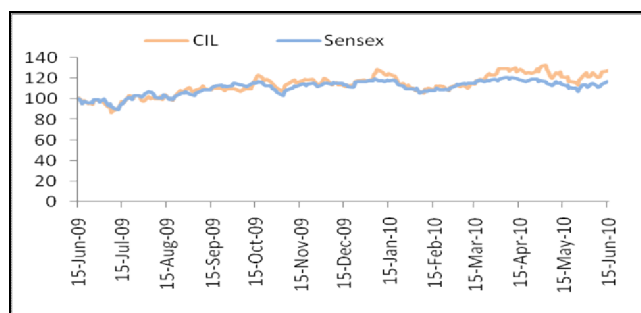
Vedanta resources is in talks to buy a stake in Cairn India that would be the diversified miner's another move into oil and gas, with funding for a deal likely (\$1.5Bn for 10% stakes) to be a key issue. British oil and gas company Cairn Energy, which has a 62.37 % interest in Cairn India. Cairn India, the fourth-largest oil and gas company in the country, valued at Rs 64464 cr. (At CMP Rs340). We expect Cairn Energy would likely to sell around 10 to 12%, if we have look back historically, Cairn have always sold down stakes in Cairn India to realize a bit of capital (2.3 % stake it diluted in October 2009.). Cairn Energy needs this capital to fund its drilling plans in exploration wells off the coast of Greenland and development of Indian assets.

A world Class asset with rich oil deposits

The Rajasthan oil find is the biggest in the country over the last two decades, and is expected to account for ~20% of domestic crude production by FY12. With a peak production of 1,75,000 bpd (recently upgraded to ~205,000bpd), which can ramp up to as high as 240,000bpd, the MBA fields have been a game changer for CIL. The recent upgrades to reserves and resources at the Rajasthan asset imply that its size and scale could be much larger than estimated. We expect the exploration upsides to provide the next leg of growth for CIL over the next decade.

Attractive Valuations

We prefer DCF to value Cairn's assets as it has long-term visible cash flows from its existing resource base; we base our target price of Rs 362 on an average Brent crude price of \$78/bbl for FY11E, \$80/bbl for FY12E and a long term average price of \$83/bbl. At CMP of Rs 340, the stock is trading at 15.9 x and 8.6x of its estimated PE for FY11 & FY12. We recommend a **HOLD** on the stock with a Price Objective (PO) of Rs. 362 (~7% upside).



Source- Arihant Research

Particulars (Rs. in cr)	FY10	FY11E	FY12E
Net Revenue	1623.2	7263.2	13198.3
Growth %	13.3	347.5	81.8
Net Profit	1051.2	4044.7	7488.2
Growth %	30.8	248.3	85.1
EPS (Rs)	5.5	21.3	39.5
P/E	56.5	15.9	8.6
P/BV	1.6	1.5	1.2