



Cairn India Ltd. (CIL)

Hold

CMP: Rs.311

Target Price: Rs 334

Industry: Exploration & Production

Stock Info		BSE Group		Shareholding Pattern (31st Mar.'10)	
Market Capital	Rs.59,014 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	Foreign Institutions	10.3%
Avg Trading Vol.	450170 (Qtly)	Reuters	CAIRN IN	Non Promoters Corp.	3.8%
52 WK High/Low	321.1/201.3	BSE Sensex	CAIL. BO	Public & Others	15.9%
Face Value	Rs. 10	NSE Nifty	17490	Govt. Holdings	0.0%
			5240		

Commences transport of crude oil from pipeline

Cairn India announced commencement of crude oil sales from its pipeline (Pipeline length is ~590 km and considered as India's longest heated crude oil pipeline from Barmer to Salaya - delivery point for Refiners). Till now Cairn shipped crude oil from the Mangala oilfield via road trucks to the Gujarat coast for onward transport to Mangalore Refinery and Jamnagar refinery of Reliance. With sales of crude oil from pipeline the transportation cost is expected to fall to US \$1.5/bbl from US \$8/bbl earlier (included in estimates).

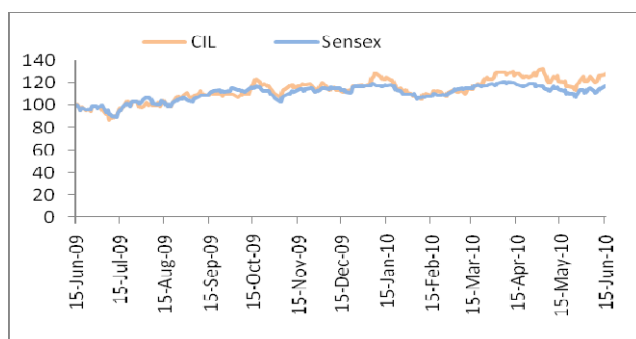
The 590-km long Barmer to Salaya section of the Barmer to Bhogat pipeline (670 km) is now operational with oil supplies having commenced to the Reliance (Jamnagar) and Essar's Vadinar refinery from the delivery point at Salaya. Pipeline sales are expected to reach 125,000 bpd in the H2CY 2010 and sales arrangements with four buyers are now being put in place for 143,000 bpd.

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 Rs334 on an average Brent crude price of \$75/bbl for FY11E, \$78/bbl for FY12E and a long term average price of \$80/bbl. At CMP of Rs 311, the stock is trading at 14.6x and 7.8x of its estimated PE for FY11 & FY12. We recommend a **HOLD** on the stock with a Price Objective (PO) of Rs. 334.0 (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	14.6	7.87
P/BV	1.6	1.5	1.2

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Stock Rating Scale

	Absolute Return
BUY	: >20%
ACCUMULATE	: 12-20%
HOLD	: 5-12%
REDUCE	: <5%

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