

Cairn India Ltd.

July 16, 2014

BUY

CMP : ₹ 344.55

Target : ₹ 390

BSE Code :

532792

NSE Code :

CAIRN

Company Overview

Cairn India is primarily engaged in the business of oil and gas exploration, production and transportation. Cairn has a portfolio of nine blocks, one in Rajasthan which contains multiple assets, two on the west coast and four on the east coast of India, and one each in Sri Lanka and South Africa. The company operates ~ 30 per cent of India's domestic crude oil production. It has opened 4 frontier basins with over 40 discoveries, 31 in Rajasthan alone.

Investment Rationale

- The company has received approval from the environment ministry to raise oil output to 300,000 barrels per day from 200,000 at its block in Rajasthan state. The company plans to up production to 500,000 barrels a day in the next five years.
- Considering the significant potential in the Rajasthan asset, the company continues to focus on key development projects to enhance recovery with overall planned net capex of US\$ 3 billion by FY17. The company has forecasted 7-10 per cent CAGR growth in production over three years from the current levels.
- ONGC is Cairn India's 30 per cent joint venture partner in the Rajasthan block. Cairn and ONGC plan to drill 300 wells over the next three years and 1,000 wells in five years.
- Recently, Cairn India has signed up with US firm Halliburton Company, for a Rs 1,200-crore contract to drill 100 wells at the Rajasthan onland block RJ-ON-90/1 over the next 18 months.

Risk and Concern

- The company sold its crude oil from Rajasthan to the domestic refiners at a discount to Brent crude on the basis of prices prevailing. Any sharp fall in crude prices could decrease its net realizations.
- Delay in production ramp-up.

Outlook

The key value driver for Cairn will be new discoveries going forward and expected capacity enhancement at its Rajasthan fields. With production from the Rajasthan fields set to rise further and strong realizations, the company is expected to continue its good operational performance. Based on new contracts concluded, the discount to Brent will be 8-13% vs. 10-15% cent currently, which will boost profitability for Cairn.

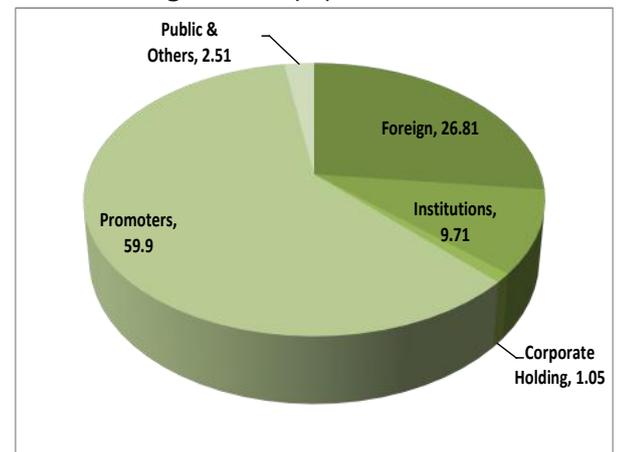
Key Data

Market Cap (₹Cr)	64588
Equity Cap (₹Cr.)	1910.9
Face Value	10
Book Value	300.60
EPS (₹)	61.39
Dividend Yield (%)	1.35
Price / BV (x)	1.12
P/E (x)	5.51
Free Float (%)	40.10
Avg. Weekly Volume	2408952
52 Week High-Low	386 / 286.85

Key Triggers

- *New discoveries and capacity enhancement at its Rajasthan fields are the key value drivers.*
- *The company has received govt. nod to raise oil output to 300,000 barrels per day from 200,000 barrels a day.*
- *The Company plans to invest \$ 3 billion in the next three years in finding more oil and raising output from Rajasthan oilfields.*

Shareholding Pattern (%)



Ajay Kumar Srivastava

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