

Mangala development nearing completion

- Cairn reported revenues of Rs6.9bn for 4QFY10—up almost fourfold YoY, but significantly below our estimate. PAT, at Rs2.5bn, would have been higher, but for higher exploration cost charge-offs of Rs1.2bn during the quarter.
- Mangala gross production in 4QFY10 was 17.5kbpd, up only 2kbpd over 3QFY10.
- With commissioning of the second train (50kbpd) in May 2010, production has been ramped up to 60kbpd.
- Currently, 20-25kbpd is being sold through trucking to RIL and MRPL; the rest is being poured in the MPT to Salaya pipeline.
- Train 3 will commission in June 2010.
- The company is focusing on development in Rajasthan and will accelerate exploration in Rajasthan next year after Train 3 and the crude pipeline have been stabilised.
- **Mangala sales ramp-up continues to be slower than expected:** Mangala production reached 17.5kbpd in 4QFY10, significantly lower than Train 1 capacity of 30kbpd. IOC has not resumed purchase of Cairn's crude after a fire in its Radhanpur terminal in 3QFY10.
- **Crude pipeline to Salaya being stabilised:** The company is introducing 35-40kbpd crude in the pipeline in anticipation of sales. It has completed 10 gas wells to provide gas to heat the entire pipeline. We expect the pipeline to commence deliveries from 2QFY11. The company has completed land acquisition for the remaining 80km of the pipeline from Salaya to Bhogat, and has awarded the key contracts for commencement of construction.
- **Commenced development of Bhagyam and Aishwariya, pilot planned for Barmer hill:** Orders for long-lead-time items have been placed for BA development. Detailed engineering plans are under preparation and work on well-pads has commenced. The company is planning a pilot hydraulic fracturing programme in Barmer Hill in CY2010 leveraging the existing infrastructure. This will be followed by submission of FDP for approval.

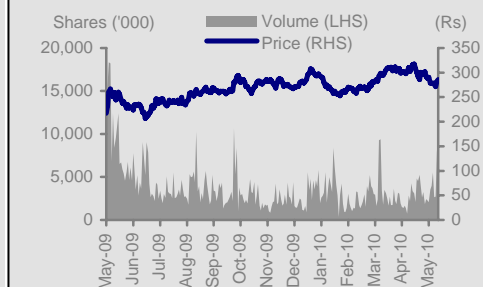
CMP	Rs286
12-mth Target price (Rs)	300
Market cap (US\$ m)	12053
Bloomberg	CAIR IN

52Wk High/Low (Rs)	321/200
Diluted o/s shares (m)	1897
Daily volume (US\$ m)	20
Dividend yield FY10ii (%)	0.0
Free float (%)	22.7

Shareholding pattern (%)	
Promoters	62.4
FIIIs	10.2
DIIIs	7.6
Others	19.8

Price performance (%)			
	1M	3M	1Y
Cairn	-7.8	7.4	30.2
Rel. to Sensex	-2.0	6.0	12.1
RIL	-3.7	4.4	-6.5
ONGC	7.5	0.5	1.6

Stock Performance



Financial Summary

Y/e 31 Mar	FY08A	FY09A	FY10ii	FY11ii	FY12ii
Revenues (Rs m)	10,123	14,327	16,230	54,911	112,075
EBITDA Margins (%)	18.7	46.7	47.6	80.5	83.3
Reported PAT (Rs m)	1,661	10,670	7,920	37,495	78,975
EPS (Rs)	0.9	5.6	4.2	19.8	41.6
Growth (%)	nm	502.3	-25.8	373.4	110.6
PER (x)	306.2	50.8	68.5	14.5	6.9
ROE (%)	4.0	14.3	9.3	31.1	40.9
Debt/Equity (x)	-0.2	-0.3	0.1	0.1	-0.2
EV/EBITDA (x)	263.5	77.8	71.2	12.5	5.4
Price/Book (x)	12.2	7.2	6.4	4.5	2.8

Source: Company, IIFL Research. Priced as at close of business on 27 May 2010.

Figure 1: Margins hit by higher exploration cost charge-offs

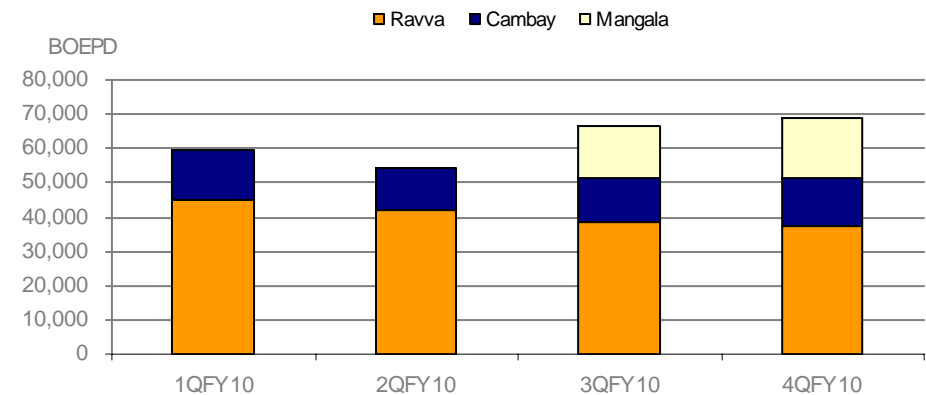
(Rs m)	4QFY09	3QFY10	4QFY10	% YoY	% QoQ
Revenues	1,818	4,955	6,928	281.2	39.8
Total expenditure	(1,558)	(1,922)	(4,469)	186.9	132.5
EBIDTA	260	3,032	2,459	846.3	-18.9
EBIDTA margin (%)	14.3	61.2	35.5	21.2	-25.7
Depreciation	(443)	(300)	(382)	-13.9	27.3
Net Interest	(21)	(260)	(19)	-11.8	-92.8
Other income	770	999	879	14.2	-12.0
PBT	565	3,471	2,938	419.8	-15.4
Tax	(378)	(562)	(486)	28.5	-13.4
Tax rate (%)	66.9	16.2	16.5	nm	37bps
Adjusted PAT	187	2,910	2,452	nm	-15.7
Adj PAT margin (%)	10.3	58.7	35.4	25.1	-23.3
EO Items	0	0	0		
Reported PAT	187	2,910	2,452	nm	-15.7
PAT margin (%)	10.3	58.7	35.4	25.1	-23.3
Number of shares (m)	1,896.7	1,896.7	1,896.7		
EPS (Rs)	0.1	1.5	1.3		

Source: Company, IIFL Research

Revenues were lower than anticipated due to slower ramp up of sales from Mangala

EBITDA was impacted by higher exploration cost charge offs (increased seismic activity in exploration blocks of Cairn other than Rajasthan)

- **We build in lower sales ramp-up; pipeline commencement could trigger sales:** We are reducing our gross crude sales estimate from Mangala for FY11ii by 25% to 20.4mmbbl and for FY12ii by 13% to 37mmbbl. However, with 143kbpd already contracted to PSU and private refiners, the commissioning of the crude pipeline could increase sales volume faster than we anticipate.
- **EOR pilot in Mangala, exploratory drilling in KG onshore in FY11:** Cairn has drilled three wells in Mangala for polymer and ASP injection to validate the EOR potential. It also drilled two exploratory wells in Rajasthan in 4QFY10, both of which struck hydrocarbons—one of them showed 6 metres of oil and 6 metres of gas pay, while the other reported 11 metres of oil pay. It is undertaking a five-well exploratory drilling programme in KG-ONN-2003/1 in CY10. Apart from these, the company has carried out 800sq km of 3-D seismic studies in Palar-Pennar basin and 1,750sq km of 3-D seismic studies in Mannar basin in Sri Lanka; results of these studies are currently being analysed.
- **We adjust target price for change in sales ramp-up, retain BUY:** Our target price based on DCF is Rs300/share. We retain BUY.

Figure 2: Mangala production compensates for decline in Ravva


Source: Company, IIFL Research



Key to our recommendation structure

BUY - Absolute - Stock expected to give a positive return of over 20% over a 1-year horizon.

SELL - Absolute - Stock expected to fall by more than 10% over a 1-year horizon.

In addition, **Add** and **Reduce** recommendations are based on expected returns relative to a hurdle rate. Investment horizon for **Add** and **Reduce** recommendations is up to a year. We assume the current hurdle rate at 10%, this being the average return on a debt instrument available for investment.

Add - Stock expected to give a return of 0-10% over the hurdle rate, ie a positive return of 10%+.

Reduce - Stock expected to return less than the hurdle rate, ie return of less than 10%.

Published in 2010. © India Infoline Ltd 2010

This report is for the personal information of the authorised recipient and is not for public distribution. This should not be reproduced or redistributed to any other person or in any form. This report is for the general information of the clients of IIFL, a division of India Infoline, and should not be construed as an offer or solicitation of an offer to buy/sell any securities.

We have exercised due diligence in checking the correctness and authenticity of the information contained herein, so far as it relates to current and historical information, but do not guarantee its accuracy or completeness. The opinions expressed are our current opinions as of the date appearing in the material and may be subject to change from time to time without notice.

India Infoline or any persons connected with it do not accept any liability arising from the use of this document. The recipients of this material should rely on their own judgment and take their own professional advice before acting on this information.

India Infoline or any of its connected persons including its directors or subsidiaries or associates or employees shall not be in any way responsible for any loss or damage that may arise to any person from any inadvertent error in the information contained, views and opinions expressed in this publication.

India Infoline and/or its affiliate companies may deal in the securities mentioned herein as a broker or for any other transaction as a Market Maker, Investment Advisor, etc. to the issuer company or its connected persons. India Infoline generally prohibits its analysts from having financial interest in the securities of any of the companies that the analysts cover. In addition, the company prohibits its employees from conducting F&O transactions or holding any shares for a period of less than 30 days.