CAIRN

In 3QFY13, Cairn India reported lower than expected sales growth largely due to lower production in Rajasthan block and lower crude oil price realization. During the quarter the company registered sales growth of 38% YoY and -4% QoQ to Rs.4278 cr against expectation of Rs.4377 cr. Declined of revenue in quarter on quarter basis was due to lower crude oil production at 170 kb/d(declined 1% QoQ) and crude oil price realization at US$96.2/bbl versus US$98.1/bbl in 2QFY13. Crude oil realization for Rajasthan block declined to US$95.6/bbl which was 13.3% discount to Dated Brent crude price and price realization during 2QFY13 was US$98.1/bbl. Gas price realization was also declined at US$4.5/mcf versus US$4.6/mcf in 2QFY13.

Rajasthan block production has declined from 120,261 boepd in 2QFY13 to 118984 boepd(participation interest)in 3QFY13. Gross oil production in Rajasthan block was lower than management guidance of 170000 boepd. This was due to maintenance shut and lower production in Bhagyam filed.

Other field production also continued to decline. Rava field's oil production was declined by 18% YoY to 21481 boepd and gas production was declined by 36% YoY to 40 boepd. Cambay field's oil production was declined by 4.4% YoY to 4585 boepd and gas production was declined by 13% YoY to 13 boepd.

EBITDA increased by 38% YoY to Rs.3258 cr as against expectation of Rs.3384 cr. Consequently margin of the company was contracted by 33 bps YoY to 76%.

Depreciation, depletion and amortization expenses were increased by 27% YoY to Rs.482 cr. Cairn India reported higher exploration cost to Rs.28 cr against Rs 26 cr in 2QFY13. The company reported interest cost at Rs.5 cr versus Rs19 cr in 2QFY13 and Rs.123 cr in 3QFY12. Effective tax rate was also lower at 1% in 3QFY13 due to MAT credit of Rs.5.4 bn.

Lower tax rate, lower interest cost along with higher foreign exchange gain led net profit growth of 40% YoY and 36% QoQ to Rs.3156 cr as against expectation of Rs3215 cr.

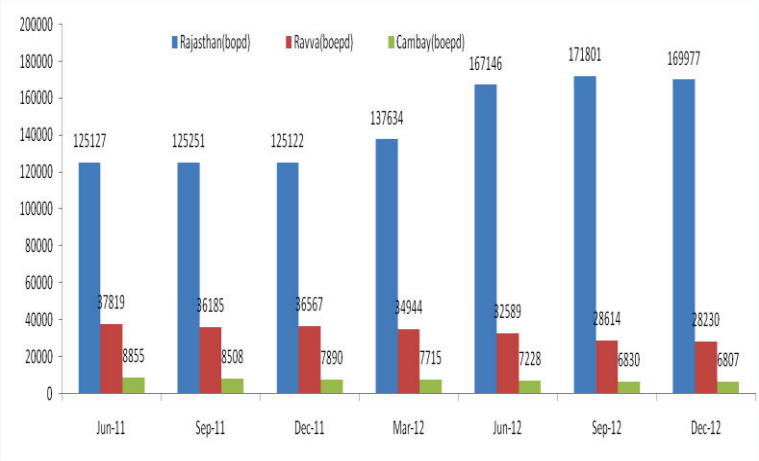
The management guided to maintain oil production at current level in Mangala filed by drilling additional wells and implementing chemicals EOR techniques. The management expects full field implementation of EOR techniques to be took place in FY15 subject to necessary Government approval.

In Bhagyam filed, the company is expecting oil production of 40kb/d from 2HFY14 by drilling additional filed. In Bhagyam field the company reported lower than expected oil production due to complex crude production and shallow nature of reservoir.

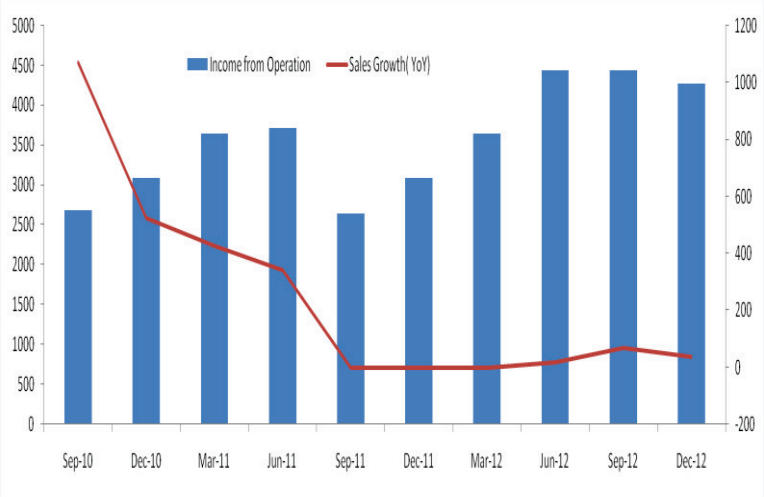
In Aishwariya field, development work is currently underway with EPC contract awarded. Crude oil production from this field is expected to start from end of FY13.

Cairn India has planned to incur capex of USD 2 bn in FY13& FY14 of which 60% of planned capex would spend in Rajasthan block distributed equally between developing and exploration work and balance 40% would for other exploration blocks.

At the current price of Rs.327 stock is trading at 3.6 times of EV/EBITDA for FY14E. Cairn India is remain our top pick in oil & gas. We believe Cairn India to trade at 4.5 times of EV/EVITDA multiple. We recommend Buy with target price of Rs.425.



Source: Company/Eastwind



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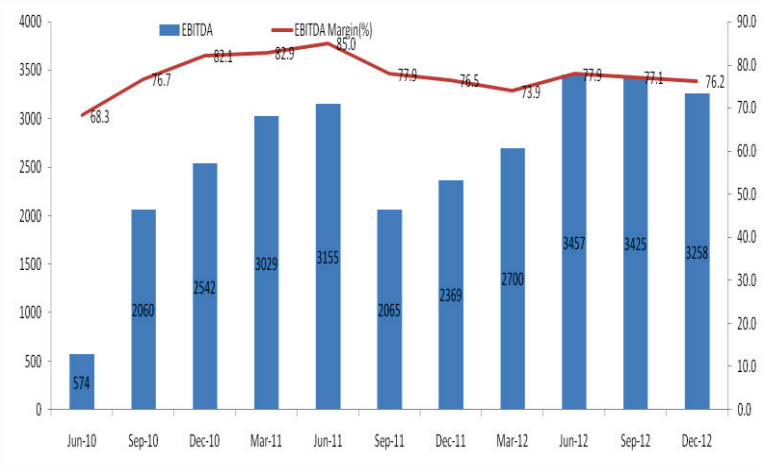

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