



Technical indicators indicate strong upside move

Cairn India is engaged in the oil and gas space has formed extremely strong chart patterns with break outs in both the daily and weekly charts with strong consolidation following the break up. The fundamentals too for the company are very strong and we are of the opinion the stock will show a strong move up from the current levels over the next few weeks and months.

If we look at the daily chart of Cairns we will see a break out of a triangle pattern at Rs312 per share. Following the break out the stock moved up to Rs336 and has since pulled back to near its break out levels to Rs.315. We believe at this level the stock looks good to move back up to the Rs350 levels in the short term as can be seen from the chart attached below.

Cairns India Daily chart



In the weekly charts too of Cairns India we can see a break above its downward trending resistance at Rs312 since the line is declining the new support level for Cairns is at Rs310 as can be seen from the chart. The break out from the weekly resistance is a very strong indicator of positive movement expected over the next couple months. We believe on the longer term we could see Cairn move back to its lifetime highs and would probably even cross that as the company's fundamentals are extremely strong.



Cairns India Weekly chart



Strong fundamentals backing the technical's

Cairns India has extremely strong fundamentals, the company is debt free and has cash reserves of Rs160bn as per the annual report of FY13. In addition to the strong reserves the company generated a net cash profit of rs147.4bn which included an exceptional item due to merger of its various subsidiaries with itself. The profit excluding the impact of merger was Rs64.8bn. These results were achieved by Cairns India when the US\$ was trading in the range of Rs50 to Rs55 to a US\$ and crude price of US\$100 per barrel. Since then the US\$ has depreciated significantly and is currently trading at Rs62. We believe the US\$ will remain near the Rs60 mark for the remainder of the year. This would imply an upside of 9% without other changes. Further to this crude prices have been trading higher given the conflict in the middle east we believe they could generate at least an additional \$5 per barrel of crude over the previous year adding another 5% to revenues and profits.

As per statements made by the management they expect production of crude oil and gas to increase by 10% in volumes during the current year. Taking all these into consideration we believe cairns could deliver results with a 20% growth during FY14. This would imply a profit of near Rs.77.7bn. The total investments expected by Cairn over the next 2 years would be in the range of Rs160bn and this would be funded completely out of its internal accruals. This would still leave it with higher cash levels . At the current price the company has a market capitalization of Rs.607.8bn this would imply a P/E multiple of 7.8X its 1 year forward. In addition to this we believe volumes could see a further uptick over the years and this too will add to the overall earnings for it.

Price target views

based on these facts we are recommending a BUY on cairn India both for trading as well as investments. From a trading point we recommend with a target price of Rs350 over the next couple months and from a longer term view we recommend a target price of Rs400 and higher over a 2 year period.

