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Cairn India - Update

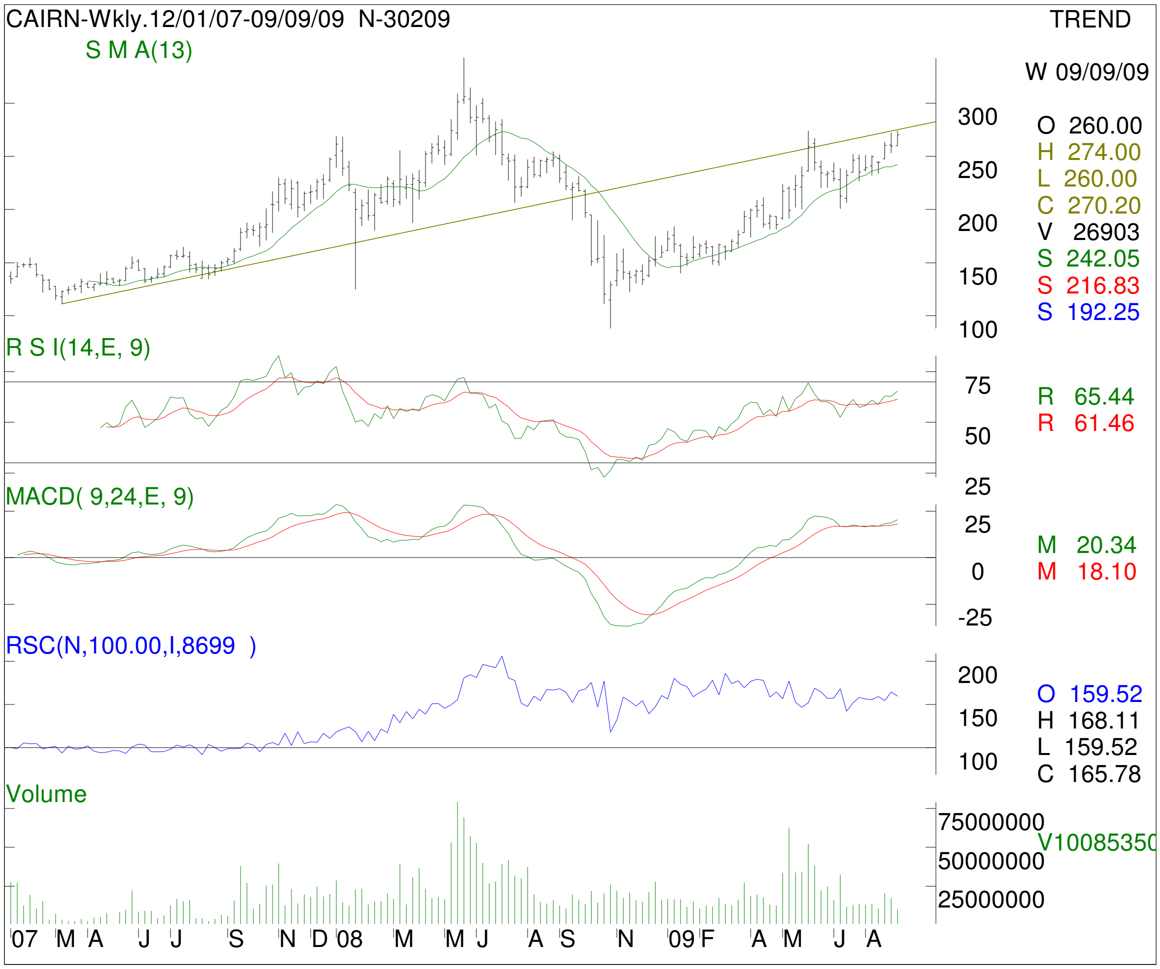
Background, disclosure and outlook – we first started recommending Cairn India around September 2007 when it traded around Rs 160. While the stock traded around it's IPO issue price, the chart patterns indicated something more serious than a trading buy. We have been issuing regular updates and advisories after events like annual shareholders meets, management meets etc. The stock that we bought since our recommendation still figures in our individual portfolios and that of our corporate holdings and therefore we have a direct vested interest in this bullish report. We advise you to take neutral advice before initiating action on this recommendation.

Based on the weekly chart below, it maybe noted that the stock is on the verge of a breakout of a significant trendline – one that spans 30 months – significant by any yardstick. Note how it offered support in 2007 and part of 2008 and upon violation, become a resistance line. The markets have changed gears and the erstwhile resistance line is on the threshold of being overcome. Once done with high volumes and open interest expansion on the long side, the trendline will become a support line. The oscillators are supporting the upthrust and the relative strength comparative vis-à-vis the Nifty 50 is high at 159 (where 100 = base), thereby making it a market out performer.

The chart below indicates the flagging off of the impulse phase that is likely to take the stock well past it's all time highs into blue sky zone where resistance is likely to be almost absent. This is a long term outlook and short term traders need to hold their horses before committing big ticket buys. The logical price target for the upside potential is at 320 in the short / medium term (3 – 6 months) and 440 over the absolute long term (Sept / Oct, 2010) as per time / price projection studies. While a 60 % appreciation in 12 months appears to be aggressive, it maybe remembered that the stock was available (for a day) at Rs 88 barely 12 months ago – almost a third of it's current value. Much will depend on the price of Crude oil which we feel should trade at 75 – 80 $ / barrel, if not higher by Sept 2010 to make this price target for the stock a reality.

Off the technicals, we feel the market is mis calculating the estimated peak production (which we feel can exceed 2,05,000 barrels / day – entirely our own estimate) which will be a major kicker for the stock in 2010. What is also not being factoring in are the Company's efforts in rejuvenating / redeveloping / expanding scope of production of the other oil / gas wells like Ravva, Aishwarya and Bhagyam. The analyst fraternity seems to be entirely focused on the Mangala oilfield which is undoubtedly the milch cow. We have not factored in any successful bids in the NELP VIII which will be announced in Dec 09. Fresh discoveries if any, will only add to our bullish opinion on the counter.

The price targets projected are based on time / price analysis and in our view, conservatively computed. While a minor variation is possible in the targets, we feel the variation is more likely on the upside rather than the downside. However, you may please note that our holding in this counter may have tainted our view as optimistic.



Your call of action – we suggest holding all existing longs and adding **on advances**. That will be buying on an upward breakout of a resistance line and higher volumes and open interest expanding on longs will add to the bullish weight of evidence. We suggest buying in the delivery segment as the optimal strategy as leverage can present difficulties in terms of mark-to-market pay-outs and adding to the cost of carry. Futures traders may buy after a sustained close above the 280 levels is witnessed on forceful volumes for short term gains. We do not suggest options as our view is biased towards the longer term and options tend to be depleting assets. The bullish strategy is under threat of review / reversal only after the stock falls below the 215 levels on a sustained closing basis.

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The analyst is the author of the book "A Traders Guide to Indian Commodity Markets" and invites feedback at vijay@BSPLindia.com.

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