



INDIA

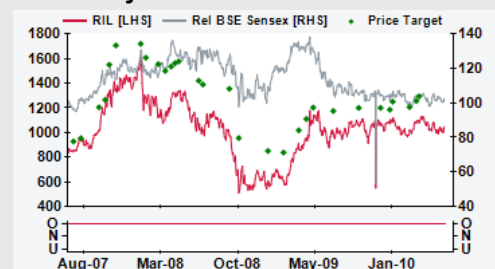
RIL IN Outperform
Price 14 Jun 10 Rs1,063.40

12-month target	Rs	1,295.00
Upside/Downside	%	21.8
Valuation	Rs	1,295.00
- Sum of Parts		
GICS sector		Energy
Market cap	Rsbm	3,478
30-day avg turnover	US\$m	192.3
Market cap	US\$m	74,264
Number shares on issue	m	3,270

Investment fundamentals

Year end 31 Mar		2010A	2011E	2012E	2013E
Total revenue	bn	2,037.4	2,287.9	2,466.5	2,675.5
EBIT	bn	199.5	286.1	330.4	380.5
EBIT growth	%	12.2	43.4	15.5	15.2
Reported profit	bn	159.0	227.4	266.5	312.7
Adjusted profit	bn	159.0	227.4	266.5	312.7
EPS rep	Rs	54.20	76.37	89.49	105.02
EPS rep growth	%	4.6	40.9	17.2	17.4
PER rep	x	19.6	13.9	11.9	10.1
Total DPS	Rs	7.37	10.39	12.17	14.28
Total div yield	%	0.7	1.0	1.1	1.3
ROA	%	7.9	11.3	13.0	14.0
ROE	%	12.1	15.5	16.3	16.8
EV/EBITDA	x	11.9	9.7	8.4	7.4
Net debt/equity	%	35.8	22.1	14.9	7.2
P/BV	x	2.2	2.1	1.8	1.6

RIL IN rel BSE Sensex performance, & rec history



Note: Recommendation timeline - if not a continuous line, then there was no Macquarie coverage at the time or there was an embargo period.

Source: FactSet, Macquarie Research, June 2010
(all figures in INR unless noted)

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15 June 2010

Reliance Industries

High-growth broadband foray

Event

- RIL's entry into telecoms through the acquisition of Infotel Broadband, which won a pan-India wireless broadband (BWA) license, is an important event in the Indian telecoms space. While it is early to assign a definitive value to the foray due to the technology being a nascent one globally, on a preliminary basis we estimate the deal to add US\$1.5bn (or ~1.8%) to RIL's current EV. We raise our TP for RIL to Rs1,295/sh (from Rs1,293/sh earlier).

Impact

- RIL (through Infotel) is the only successful bidder in all 22 circles** in the BWA auction conducted by the Govt of India. Aircel Maxis was a distant second, winning eight. RIL's foray is likely to be value-accretive as it has acquired the license at one-sixth the cost of incumbent 3G licences.
- RIL believes that India is expected to have highest growth in broadband connections in Asia. According to Ericsson, data traffic recently crossed voice globally, and **India is under-penetrated** (1/10th of global usage).
- RIL's ~US\$ 1bn equity contribution can be easily financed by US\$ 6bn pa of operating cash flows** and a debt to equity ratio of 36% on a large US\$ 50bn balance sheet. RIL expects to achieve cash breakeven within 3 years.

Earnings and target price revision

- Short-term earnings (FY11-12E) have been revised downwards by 3-5% to account for initial BWA capex, as well as weaker petchem prices. We raise our target price to Rs1,295 (from Rs1,293 previously).

Price catalyst

- 12-month price target: Rs1,295.00 based on a Sum of Parts methodology.
- Catalyst: Upstream upsides; further acquisitions.

Action and recommendation

- Accelerated plans:** RIL's telecom foray comes close on the heels of Marcellus shale acquisition and a positive result in the RIL-RNRL court case. Mid-high GRM levels, ramp-up of KG D6 gas production, and announcements of finds in Cambay basin augur well for the stock. RIL's profits are poised to grow at about 20% pa over the next couple of years. We believe that accelerated investments in high-growth opportunities shall sustain growth even in the longer-term. We reaffirm an Outperform, with ~22% potential upside.

Valuation of Infotel, and key assumptions

Parameter	Note
Market size	2m subscribers in 2010, growing at 11-yr CAGR of 54%
RIL's market share	To grow from 0% to 30% over 10 years
ARPU	Rs700/customer, declining post FY15 @ 5% per year
Debt-Capital ratio	50% by FY20
Upfront Capex (ex-spectrum)	US\$1.3bn
Infotel EV	Rs76.1bn (US\$1.63bn)
Accretion to RIL (95% stake)	Rs72.3bn (US\$1.54bn)

Source: Macquarie Research, June 2010

RIL's broadband foray a high-risk, high-return potential

- RIL announced a Rs48bn (~US\$1bn) agreement to acquire a 95% equity stake in unlisted Infotel Broadband Services Pvt Ltd (Infotel), the only pan-India Wireless Broadband Auction (BWA) winner. This extends RIL's recently modified strategy of entering into new technology-oriented high-risk, high-return businesses. Armed with US\$ 6bn+ pa in operating cash flows (OCF), this US\$1bn commitment (US\$4bn for the subsidiary) follows RIL's recent US\$5.7bn shale gas foray.

Fig 1 Snapshot of financial strength of RIL

Consolidated	31-Mar-10	31-Mar-11	31-Mar-12
Gross Debt (US\$m)	13,791	10,180	10,180
Cash and Cash equivalents (US\$m)	2,965	2,924	3,397
Net debt (US\$m)	10,826	7,255	6,783
Share capital (US\$m)	636	636	636
Reserves and Surplus (US\$m)	29,464	32,003	36,528
Shareholders Equity (US\$m)	30,100	31,367	35,892
Size of balance sheet (US\$m)	46,293	45,201	48,695
PAT (US\$m)	5,231	4,855	5,689
EBITDA (US\$m)	6,807	8,059	9,342
OCF (US\$m)	4,375	6,666	7,423

Source: Company data, Macquarie Research, June 2010

- Infotel acquisition at 1/6th of RIL's operating cash flows (OCF).** RIL will invest Rs48bn (~US\$1bn) in fresh equity at Infotel. This compares with our estimate of RIL's FY11E OCF of Rs291bn (~US\$6bn). In turn, Infotel shall incur a total capex of ~US\$4bn over the next 3-4 years, which includes ~US\$2.7bn (Rs128bn) towards a license fee to be paid within 10 days. RIL also has a comfortable net-debt to equity ratio of 36% (FY10), in case it needs to leverage.

Fig 2 Earnings model for Infotel

	FY11	FY12	FY13	FY14	FY15	FY16	FY17	FY18	FY19	FY20
Market size (m)	8	12	17	24	35	51	74	108	156	227
yoy growth (%)	300%	45%	45%	45%	45%	45%	45%	45%	45%	45%
RIL share (%)	0%	11%	18%	24%	27%	29%	30%	30%	30%	30%
RIL customers (m)	0	1	3	6	9	15	22	32	47	67
Spectrum cost (Rs m)	128,480									
Upfront capex (Rs m)	23,808	17,856	17,856							
Regular capex (Rs m)				24,092	35,788	46,984	58,648	70,166	64,355	65,743
Total capex (Rs m)	23,808	17,856	17,856	24,092	35,788	46,984	58,648	70,166	64,355	65,743
Revenues (Rs m)	0	10,584	25,931	48,184	79,528	117,459	167,565	233,887	321,773	438,284
Operating costs (Rs m)	0	11,693	19,149	30,209	45,350	66,100	93,039	130,142	176,656	239,108
EBITDA (Rs m)	0	-1,109	6,782	17,974	34,179	51,360	74,526	103,745	145,117	199,176
PAT (Rs m)	-8,835	-11,541	-8,521	-3,512	6,228	17,462	33,559	54,811	66,440	102,443

Source: Macquarie Research, June 2010

RIL expects cash break-even within 3 years

- RIL has not provided guidance on profits or payback period. However, they did mention that they aim to achieve cash break-even in three years. This does not seem very difficult given that a bulk of the cash outflow shall be incurred within the first two years, especially US\$2.7bn in fees to be paid to the government within 10 days. Hence even modest revenue from Year 3 could enable a cash break-even.

RIL the only pan-India BWA auction winner

RIL (through Infotel) is the only successful bidder in all of the 22 circles BWA conducted by the Government of India. Aircel Maxis was a distant second, winning eight circles.

Fig 3 BWA auction results

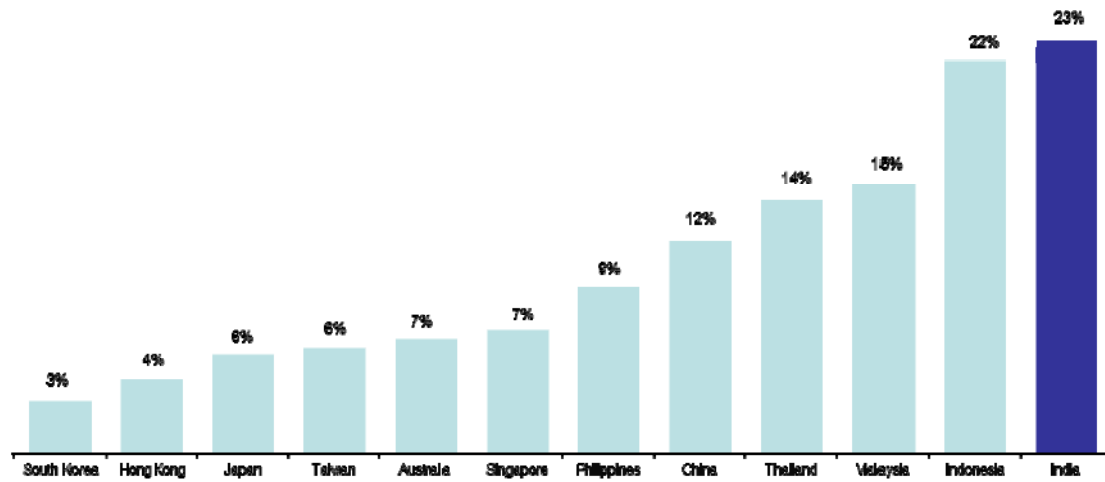


Source: Company data, Government of India, June 2010

Tremendous market potential for data services, as they play catch-up with voice services

- India is expected to have the highest growth rate in broadband connections in Asia. RIL's pan-Asian presence following BWA should facilitate this growth.

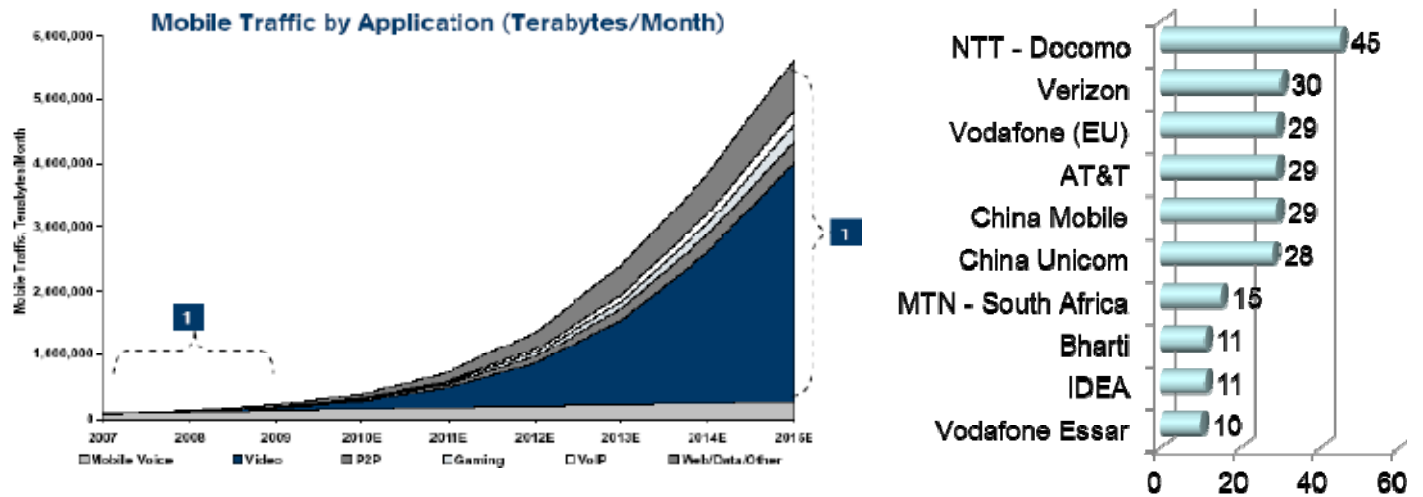
Fig 3 Growth rates for broadband connections across Asia



Source: Gartner, Company data, June 2010

- According to Ericsson, data traffic recently crossed voice globally. More importantly, a typical mobile subscriber uses 12x more data than voice globally. The sharp rise in use of smart phones and connected laptops could increase mobile data usage by 100% pa over the next 5 years. According to RIL, data traffic is limited to barely 10% for an Indian mobile subscriber in the voice data mix.

Fig 4 Growth in usage of data-services, and under-penetration of the same in India

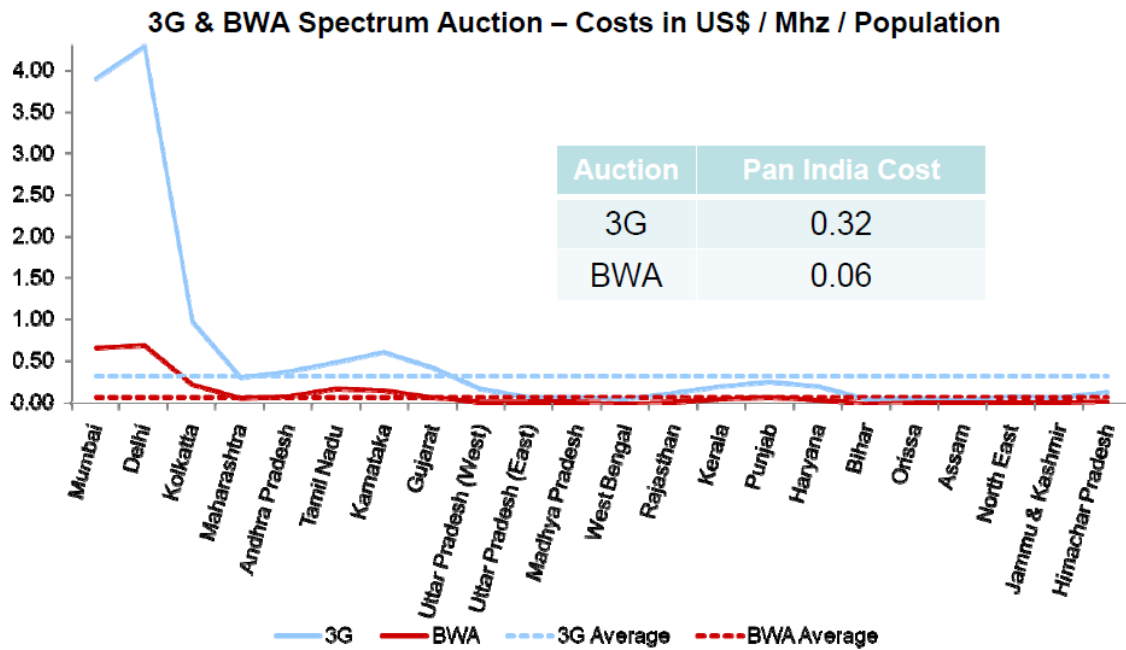


Source: Company data, June 2010

RIL to repeat its decade-ago world's lowest cost foray

- About one decade ago, RIL revolutionized the Indian telecom business by making it one of the lowest cost telephony providers in the world. According to the company, RIL's latest BWA foray at US\$ 0.06/Mhz/ population is not only one-sixth of the cost of recent 3G spectrum auction prices, but in fact it is one of the lowest cost globally (see Figs 5-6). The only difference this time around is that RIL plans to do the same this time around through the broadband route.

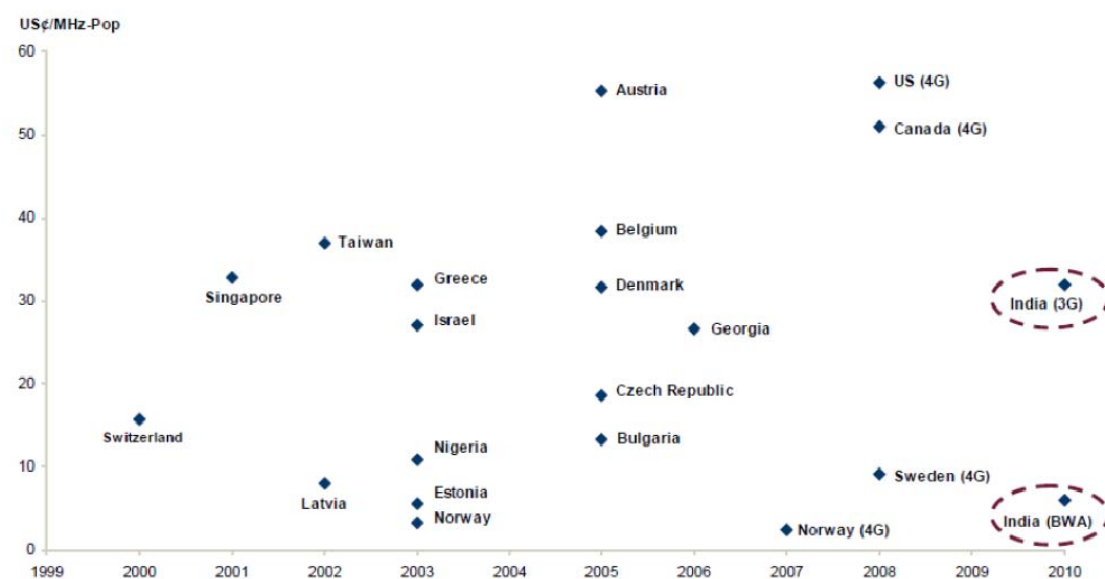
Fig 5 BWA spectrum acquired at ~1/6th the cost of India's 3G spectrum....



Source: Company data, June 2010

- Further, the spectrum acquisition cost is also one of the lowest globally.

Fig 6 ...and one of the lowest globally too



Source: Company data, June 2010

Fig 7 SOTP valuation of RIL – Rs1295/sh

	Contribution to value of RIL (Rs m)	Contribution to value of RIL (Rs/sh)
Core current business		
Refining and Petrochemicals business*	1,932,175	588
Auto-fuel retailing	136,854	42
Reliance Petroleum refinery	277,378	84
E&P business (KG basin gas)	372,879	114
E&P business (KG basin oil)	130,960	40
Contribution from main business segments	2,850,246	868
Other assets and investments		
Treasury stock (10% of equity capital)	321,589	98
Contribution from assets and investments	321,589	98
Option value: Projects in gestation period		
CBM-Sohagpur and NEC 25 Gas	405,868	124
Other E&P (D9, D3, GS-01, Assam)	346,949	106
Marcellus Shale JV	94,011	29
Infotel	72,532	22
Organised retail venture	44,660	14
2mtpa Ethylene Cracker	237,119	72
Total value per share	4,252,860	1,295

Source: Macquarie Research, June 2010

Is RIL becoming a non-energy conglomerate?

- The proportion of RIL's investments in non-energy related businesses have certainly been rising during the past decade and this trend is likely continue. Nevertheless, according to our estimates RIL's cumulative investments in non-energy businesses will likely not exceed more than US\$5bn, or 10% of balance sheet, by end-FY11. Retail will likely be the largest investment at approx US\$2bn, with telecom and SEZ's approx US\$1bn each. Profits from any of these non-energy related businesses are still at least a few years away.

Reliance Industries (RIL IN, Outperform, Target Price: Rs1,295.00)

Quarterly Results					Profit & Loss						
		4Q/10A	1Q/11E	2Q/11E	3Q/11E		2010A	2011E	2012E	2013E	
Revenue	bn	575.7	476.9	476.9	476.9	Revenue	bn	2,037.4	2,287.9	2,466.5	2,675.5
Gross Profit	bn	115.1	113.6	113.6	113.6	Gross Profit	bn	391.9	469.5	543.5	615.3
Cost of Goods Sold	bn	460.6	363.2	363.2	363.2	Cost of Goods Sold	bn	1,645.6	1,818.4	1,923.0	2,060.2
EBITDA	bn	91.4	93.3	93.3	93.3	EBITDA	bn	308.9	377.5	437.6	496.8
Depreciation	bn	33.9	19.4	19.4	19.4	Depreciation	bn	109.5	91.4	107.2	116.3
Amortisation of Goodwill	bn	0.0	0.0	0.0	0.0	Amortisation of Goodwill	bn	0.0	0.0	0.0	0.0
Other Amortisation	bn	0.0	0.0	0.0	0.0	Other Amortisation	bn	0.0	0.0	0.0	0.0
EBIT	bn	57.4	73.9	73.9	73.9	EBIT	bn	199.5	286.1	330.4	380.5
Net Interest Income	bn	-5.3	-7.0	-7.0	-7.0	Net Interest Income	bn	-20.6	-27.7	-26.5	-19.1
Associates	bn	0.0	0.0	0.0	0.0	Associates	bn	0.0	0.0	0.0	0.0
Exceptionals	bn	0.0	0.0	0.0	0.0	Exceptionals	bn	0.0	0.0	0.0	0.0
Forex Gains / Losses	bn	0.0	0.0	0.0	0.0	Forex Gains / Losses	bn	0.0	0.0	0.0	0.0
Other Pre-Tax Income	bn	6.2	4.3	4.3	4.3	Other Pre-Tax Income	bn	21.9	21.8	23.3	24.7
Pre-Tax Profit	bn	58.3	71.2	71.2	71.2	Pre-Tax Profit	bn	200.7	280.2	327.1	386.2
Tax Expense	bn	-11.2	-12.8	-12.8	-12.8	Tax Expense	bn	-42.6	-52.7	-60.6	-73.4
Net Profit	bn	47.1	58.4	58.4	58.4	Net Profit	bn	158.2	227.4	266.5	312.7
Minority Interests	bn	0.0	0.0	0.0	0.0	Minority Interests	bn	0.8	0.0	0.0	0.0
Reported Earnings	bn	47.1	58.4	58.4	58.4	Reported Earnings	bn	159.0	227.4	266.5	312.7
Adjusted Earnings	bn	47.1	58.4	58.4	58.4	Adjusted Earnings	bn	159.0	227.4	266.5	312.7
EPS (rep)		15.82	19.60	19.60	19.60	EPS (rep)		54.20	76.37	89.49	105.02
EPS (adj)		15.82	19.60	19.60	19.60	EPS (adj)		54.14	76.37	89.49	105.02
EPS Growth yoy (adj)	%	22.1	70.1	47.0	45.7	EPS Growth (adj)	%	4.4	41.1	17.2	17.4
						PE (rep)	x	19.6	13.9	11.9	10.1
						PE (adj)	x	19.6	13.9	11.9	10.1
EBITDA Margin	%	15.9	19.6	19.6	19.6	Total DPS		7.37	10.39	12.17	14.28
EBIT Margin	%	10.0	15.5	15.5	15.5	Total Div Yield	%	0.7	1.0	1.1	1.3
Earnings Split	%	29.6	25.7	25.7	25.7	Weighted Average Shares	m	2,933	2,978	2,978	2,978
Revenue Growth	%	52.3	12.3	1.8	-16.1	Period End Shares	m	2,978	2,978	2,978	2,978
EBIT Growth	%	29.3	69.1	54.4	46.3						
Profit and Loss Ratios					Cashflow Analysis						
		2010A	2011E	2012E	2013E		2010A	2011E	2012E	2013E	
Revenue Growth	%	34.7	12.3	7.8	8.5	EBITDA	bn	308.9	377.5	437.6	496.8
EBITDA Growth	%	31.9	22.2	15.9	13.5	Tax Paid	bn	-42.6	-52.7	-60.6	-73.4
EBIT Growth	%	12.2	43.4	15.5	15.2	Chgs in Working Cap	bn	-155.0	16.1	-12.1	-8.2
Gross Profit Margin	%	19.2	20.5	22.0	23.0	Net Interest Paid	bn	-20.6	-27.7	-26.5	-19.1
EBITDA Margin	%	15.2	16.5	17.7	18.6	Other	bn	40.6	-0.9	9.4	12.4
EBIT Margin	%	9.8	12.5	13.4	14.2	Operating Cashflow	bn	131.4	312.3	347.7	408.6
Net Profit Margin	%	7.8	9.9	10.8	11.7	Acquisitions	bn	1.9	0.0	0.0	0.0
Payout Ratio	%	13.6	13.6	13.6	13.6	Capex	bn	-101.3	-58.3	-236.7	-253.1
EV/EBITDA	x	11.9	9.7	8.4	7.4	Asset Sales	bn	0.0	0.0	0.0	0.0
EV/EBIT	x	18.4	12.8	11.1	9.7	Other	bn	21.9	21.8	23.3	24.7
Balance Sheet Ratios					Investing Cashflow						
ROE	%	12.1	15.5	16.3	16.8	Dividend (Ordinary)	bn	-77.5	-36.5	-213.4	-228.4
ROA	%	7.9	11.3	13.0	14.0	Equity Raised	bn	15.3	0.0	0.0	0.0
ROIC	%	9.0	12.1	14.4	15.4	Debt Movements	bn	-116.5	-169.2	-57.7	-123.8
Net Debt/Equity	%	35.8	22.1	14.9	7.2	Other	bn	49.1	-77.5	-18.3	-21.5
Interest Cover	x	9.7	10.3	12.4	20.0	Financing Cashflow	bn	-73.7	-277.7	-112.2	-187.9
Price/Book	x	2.2	2.1	1.8	1.6	Net Chg in Cash/Debt	bn	-19.8	-1.9	22.1	-7.6
Book Value per Share		473.5	513.4	584.6	668.1	Free Cashflow	bn	30.1	253.9	111.1	155.5
					Balance Sheet						
						2010A	2011E	2012E	2013E		
					Cash	bn	138.9	137.0	159.1	151.5	
					Receivables	bn	100.8	109.5	116.4	120.4	
					Inventories	bn	343.9	168.3	172.6	177.3	
					Investments	bn	131.1	131.1	131.1	131.1	
					Fixed Assets	bn	1,772.2	1,739.2	1,868.6	2,005.4	
					Intangibles	bn	0.0	0.0	0.0	0.0	
					Other Assets	bn	107.4	180.7	187.1	204.1	
					Total Assets	bn	2,594.4	2,465.7	2,634.9	2,789.7	
					Payables	bn	381.9	306.9	312.2	329.1	
					Short Term Debt	bn	116.9	62.3	91.7	118.0	
					Long Term Debt	bn	529.1	414.6	327.5	177.3	
					Provisions	bn	37.0	30.1	30.1	30.1	
					Other Liabilities	bn	113.8	117.1	126.7	139.8	
					Total Liabilities	bn	1,178.7	931.0	888.2	794.4	
					Shareholders' Funds	bn	1,410.0	1,529.0	1,740.9	1,989.6	
					Minority Interests	bn	5.7	5.7	5.7	5.7	
					Other	bn	-0.0	0.0	0.0	0.0	
					Total S/H Equity	bn	1,415.7	1,534.7	1,746.7	1,995.4	
					Total Liab & S/H Funds	bn	2,594.4	2,465.7	2,634.9	2,789.7	

All figures in INR unless noted.

Source: Company data, Macquarie Research, June 2010

Important disclosures:

Recommendation definitions**Macquarie - Australia/New Zealand**

Outperform – return >5% in excess of benchmark return
 Neutral – return within 5% of benchmark return
 Underperform – return >5% below benchmark return

Macquarie – Asia/Europe

Outperform – expected return >+10%
 Neutral – expected return from -10% to +10%
 Underperform – expected return <-10%

Macquarie First South - South Africa

Outperform – expected return >+10%
 Neutral – expected return from -10% to +10%
 Underperform – expected return <-10%

Macquarie - Canada

Outperform – return >5% in excess of benchmark return
 Neutral – return within 5% of benchmark return
 Underperform – return >5% below benchmark return

Macquarie - USA

Outperform (Buy) – return >5% in excess of Russell 3000 index return
 Neutral (Hold) – return within 5% of Russell 3000 index return
 Underperform (Sell) – return >5% below Russell 3000 index return

Recommendations – 12 months

Note: Quant recommendations may differ from Fundamental Analyst recommendations

Volatility index definition*

This is calculated from the volatility of historical price movements.

Very high-highest risk – Stock should be expected to move up or down 60–100% in a year – investors should be aware this stock is highly speculative.

High – stock should be expected to move up or down at least 40–60% in a year – investors should be aware this stock could be speculative.

Medium – stock should be expected to move up or down at least 30–40% in a year.

Low-medium – stock should be expected to move up or down at least 25–30% in a year.

Low – stock should be expected to move up or down at least 15–25% in a year.

* Applicable to Australian/NZ/Canada stocks only

Financial definitions

All "Adjusted" data items have had the following adjustments made:

Added back: goodwill amortisation, provision for catastrophe reserves, IFRS derivatives & hedging, IFRS impairments & IFRS interest expense
 Excluded: non recurring items, asset revals, property revals, appraisal value uplift, preference dividends & minority interests

EPS = adjusted net profit / epowa*

ROA = adjusted ebit / average total assets

ROA Banks/Insurance = adjusted net profit / average total assets

ROE = adjusted net profit / average shareholders funds

Gross cashflow = adjusted net profit + depreciation

*equivalent fully paid ordinary weighted average number of shares

All Reported numbers for Australian/NZ listed stocks are modelled under IFRS (International Financial Reporting Standards).

Recommendation proportions – For quarter ending 31 March 2010

	AU/NZ	Asia	RSA	USA	CA	EUR	
Outperform	50.55%	62.20%	42.25%	42.39%	62.16%	46.74%	(for US coverage by MCUSA, 6.53% of stocks covered are investment banking clients)
Neutral	36.63%	19.02%	47.89%	50.35%	31.89%	34.78%	(for US coverage by MCUSA, 9.62% of stocks covered are investment banking clients)
Underperform	12.82%	18.78%	9.86%	7.27%	5.95%	18.48%	(for US coverage by MCUSA, 0.00% of stocks covered are investment banking clients)

Company Specific Disclosures:

Important disclosure information regarding the subject companies covered in this report is available at www.macquarie.com/research/disclosures.

Analyst Certification:

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