

Reliance Industries

BLOOMBERG: RIL IN EQUITY | BSE: 500325 | NSE: RELIANCE

Closes deal with BP; operational synergies to flow in

RIL-BP today announced the completion of BP's 30% stake acquisition in RIL's 21 NELP blocks, including the KG-D6 block. With BP on board, the market will get the much needed confidence on RIL's struggling E&P business, both in terms of ramp-up in KG-D6 production and approval of other FDPs. The RIL-BP Plc 50:50 JV for marketing and distribution of natural gas also opens a new vertical for RIL in the hydrocarbon chain. While the CMP factors in negatives like (a) declining KG-D6 production (b) the adverse CAG report on KG-D6 capex and (c) lack of clarity on capital allocation, it ignores (a) RIL's strong operating cash flows and balance sheet and (b) potential benefits from the BP alliance. Maintain BUY with a TP of Rs 1150.

- ❖ **Clarity likely to emerge on KG-D6, other E&P blocks:** We believe the partnership with BP will bring in the much needed technological expertise for RIL to arrest the declining production at KG-D6 (~45mmscmd currently) and possibly expedite the production ramp-up. We also expect clarity to emerge on other E&P blocks (NEC-25, D3 and D9) stranded in operational/regulatory hurdles, as an incremental payment of US\$ 1.8bn depends on the monetisation of discoveries in these blocks.
- ❖ **Plausible LNG terminal on the east coast:** In view of the emerging demand, the JV could construct a LNG terminal on India's east coast, which would enable it to (a) cater to KG-D6 consumers in the event of shutdowns/lower production, (b) facilitate the JV in generating marketing as well re-gasification margins and (c) possibly exploit cheaper shale gas production in the US as LNG imports for India.
- ❖ **Trough valuations at Rs 810:** This includes (a) GRMs at US\$ 8.2/bbl (currently US\$ 10/bbl), (b) a 200bps contraction in Petchem EBIT to 12% and (c) stagnation in KG-D6 production at ~45mmscmd in FY12/FY13E and likely plateau at just 50mmscmd and (d) no upside from blocks under exploration and development.
- ❖ **SOTP-based TP of Rs 1150:** This comprises Rs 357 for R&M, Rs 224 for Petchem and Rs 336 for E&P businesses (Rs 100 as exploration upside).

Financial highlights

Year End: 31 Mar	FY09A	FY10A	FY11A	FY12E	FY13E
Revenue (Rs mn)	1,512,240	2,037,397	2,658,110	3,343,135	3,361,811
EBITDA (Rs mn)	234,222	308,939	389,610	375,082	375,843
Adj. PAT (Rs mn)	149,687	158,976	202,110	235,598	251,895
Adj. EPS (Rs)	47.6	48.6	61.8	72.0	77.0
Growth (%)	(6.5)	2.2	27.1	16.6	6.9
DPS (Rs)	6.0	6.4	7.3	10.0	11.0
ROIC (%)	9.2	8.9	9.5	10.2	10.1
ROE (%)	14.5	12.1	13.7	14.4	13.7
P/E (x)	22.9	21.8	12.7	10.9	10.2
EV/EBITDA (x)	16.7	12.4	7.4	6.1	5.8
P/BV (x)	2.8	2.5	1.7	1.5	1.3

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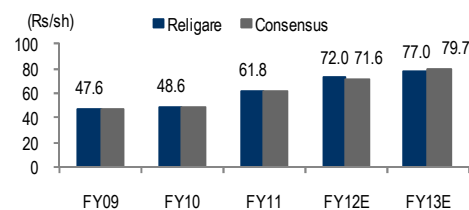
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CMP	Rs 783
Target	Rs 1,150
Previous	Rs 1,150
Rating	BUY
Previous	BUY
% Upside / (Downside)	47%
+ Dividend yield	1%
Total return	48%

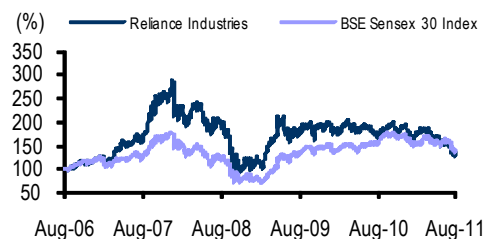
Company data

Market cap (Rs mn / US\$ mn)	2,559,885 / 55,585
Outstanding equity shares (mn)	3,271.0
BVPS (Rs)	471
Free float (%)	55.2
52-week high / low (Rs)	1,112 / 719
2-month avg. daily vol (mn)/ value (US\$ mn)	5 / 83
ADR/GDR premium (%)	NA

EPS (Religare vs Consensus) comparison



Stock performance



Valuation

Maintain BUY with a SOTP-based TP of Rs1150: In our base case valuation, we have valued RIL's (a) R&M business Rs 357 on 6.5x FY13E EV/EBITDA, (b) the Petchem division at Rs 224 on 6.5x FY13E EV/EBITDA, in line with global peers, and (c) the E&P business at Rs 336 (includes Rs 100 as exploratory upside from blocks under exploration and development i.e.D-3, D-4, D-9 and KG –satellite discoveries).

Fig 1 - Base case SOTP valuation

	Value (Rs bn)	Value (USD bn)	Value (Rs/shr)	Valuation Methodology
Refining & Marketing	1,057	24.0	357	6.5x FY13E EBITDA
Petrochemicals	662	15.0	224	6.5x FY13E EBITDA
E&P	995	22.6	336	NPV with WACC at 10%
- KG D6 (D1 & D3 Gas)	273	6.2	92	
- KG D6 (MA Oil)	55	1.3	19	
- NEC25 (Gas)	49	1.1	17	
- CBM - Sohagpur (Gas)	38	0.9	13	
- PMT (Oil & Gas)	51	1.2	17	
- Shale Gas	231	5.3	78	
- Exploration upside	296	6.7	100	14 TCF reserves at USD 3/boe
Infotel venture	95	2.2	32	1.0x P/ BV
Haryana & Jamnagar SEZs	46	1.0	16	At acquisition cost
Retail	76	1.7	26	DCF at 10% WACC; 3% terminal growth
Business Valuation	2,932	66.6	990	
Other investments/loans to affiliates	60	1.4	20	Book value
Net Cash	420	9.5	142	As on FY12 end
Minority shareholders	(8)		(3)	
SOTP on diluted capital	3,403	77.5	1,149	

Source: RCML Research, Company

Fig 2 - Key assumptions to base case

E&P	Unit	FY10	FY11E	FY12E	FY13E
PMT field					
Oil					
RIL Share	kbpd	10.4	7.6	9.1	8.6
RIL Share	mn bbls	3.8	2.8	3.3	3.1
Average realisation	USD/ bbl	70.0	85.0	110	105
Natural Gas					
Total production					
RIL Share	mmscmd	3.6	3.4	3.2	3.1
Average realisation	USD/ mmbtu	5.7	5.7	5.7	5.7
KG D6 field					
Natural Gas					
Total production					
RIL Share	mmscmd	39	55	48	48
RIL Share	mmscmd	24	33	29	29
Average realisation	USD/ mmbtu	4.2	4.2	4.2	4.2
Oil					
Total production					
RIL Share	kbopd	10	22	18	20
RIL Share	kbopd	6	13	11	12
Average realisation	USD/ bbl	70	85	110	105
Refining					
Capacity	MTPA	62.0	62.0	62.0	62.0
Crude throughput	MTPA	60.9	66.9	66.9	66.9
Cap. utilisation	%	98.2	107.9	108.0	108.0
Avg. GRMs	USD/ bbl	6.6	7.7	9.6	9.6
Petchem					
unit					
Polymers					
Polymer production	MTPA	4.1	4.2	4.3	4.3
Naphtha cracker margins	USD/ MT	395	534	461	630
PE- Ethylene	USD/ MT	281	121	227	196
PP- Propylene	USD/ MT	211	232	326	277
PVC- EDC	USD/ MT	249	315	521	499
Polyesters					
Polyester production	MTPA	1.7	1.7	1.7	1.7
PX-Reformat	USD/ MT	73	61	(251)	(188)
PTA-PX	USD/ MT	159	300	347	354
PFY-PTA	USD/ MT	328	313	445	419

Source: RCML Research

Bear case SOTP of Rs 810: Our bear case factors in (a) a drop in refining margins to US\$ 8.2/bbl vs. US\$ 10/bbl at present (b) a 200bps contraction in petchem margins to 12% from 14% currently and (c) stagnation in KG-D6 production at ~45mmscmd in FY12/FY13E and likely plateau at just 50mmscmd We have not included any potential upside from blocks currently under exploration and development (D-3, D-4, D-9 and KG-satellite discoveries).

Fig 3 - Bear case SOTP valuation

	Value (Rs bn)	Value (USD bn)	Value (Rs/shr)	Valuation Methodology
Refining & Marketing	718	16.3	242	5.5x FY13E EBITDA
Petrochemicals	612	13.9	207	6x FY13E EBITDA
E&P	443	10.1	150	NPV with WACC at 10%
- KG D6 (D1 & D3 Gas)	189	4.3	64	
- KG D6 (MA Oil)	47	1.1	16	
- NEC25 (Gas)	43	1.0	15	
- CBM - Sohagpur (Gas)	32	0.7	11	
- PMT (Oil & Gas)	51	1.2	17	
- Shale Gas	80	1.8	27	
- Exploration upside	-	-	-	NIL
Infotel venture	95	2.2	32	1.0x P/ BV
Haryana & Jamnagar SEZs	46	1.0	16	At acquisition cost
Retail	31	0.7	10	DCF at 10% WACC; 3% terminal growth
Business Valuation	1,944	44.2	657	
Other investments/loans to affiliates	60	1.4	20	Book value
Net Cash	400	9.1	135	As on FY12 end
Minority shareholders	(8)		(3)	
SOTP on diluted capital	2,396	54.6	809	

Source: RCML Research, Company

Profit and Loss statement

Y/E 31 Mar (Rs mn)	FY09A	FY10A	FY11A	FY12E	FY13E
Total revenue	1,512,240	2,037,397	2,658,110	3,343,135	3,361,811
EBITDA	234,222	308,939	389,610	375,082	375,843
EBIT	177,712	199,481	248,400	271,790	265,429
Interest	(18,163)	(20,596)	(24,110)	(26,632)	(17,225)
Other income/(Expense)	19,142	21,858	25,430	54,966	72,682
Exceptional items	(3,280)	86,060	(9,170)	0	0
EBT	175,411	286,803	240,550	300,124	320,886
Income taxes	(29,188)	(42,563)	(47,830)	(64,527)	(68,990)
Extraordinary items	0	0	0	0	0
Min int./Inc. from associates	184	796	220	0	0
Reported net profit	146,407	245,036	192,940	235,598	251,895
Adjustments	3,280	(86,060)	9,170	0	0
Adjusted net profit	149,687	158,976	202,110	235,598	251,895

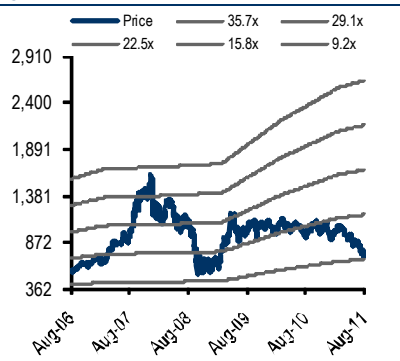
Balance sheet

Y/E 31 Mar (Rs mn)	FY09A	FY10A	FY11A	FY12E	FY13E
Accounts payable	344,936	381,173	519,338	682,581	694,073
Other current liabilities	12,634	7,733	7,826	8,609	9,470
Provisions	31,150	36,950	47,303	58,580	64,574
Debt funds	762,566	646,055	841,062	490,539	370,735
Other liabilities	96,902	112,511	118,731	136,738	155,991
Equity capital	15,735	32,704	32,710	32,710	32,710
Reserves & surplus	1,196,830	1,377,326	1,508,218	1,706,894	1,918,176
Shareholder's funds	1,212,565	1,410,030	1,540,928	1,739,604	1,950,886
Total liabilities	2,460,754	2,594,452	3,075,187	3,116,651	3,245,728
Cash and cash eq	265,812	245,988	488,196	733,271	720,379
Accounts receivable	48,450	100,829	156,952	146,548	147,367
Inventories	201,096	343,933	385,194	483,378	503,861
Other current assets	110,494	107,386	137,259	135,537	149,405
Investments	25,964	24,043	29,157	30,614	32,145
Net fixed assets	1,070,442	1,601,913	1,580,995	1,293,703	1,383,288
CWIP	738,460	170,337	297,423	293,600	309,283
Intangible assets	0	0	0	0	0
Deferred tax assets, net	0	0	0	0	0
Other assets	0	0	0	0	0
Total assets	2,460,718	2,594,429	3,075,175	3,116,651	3,245,728

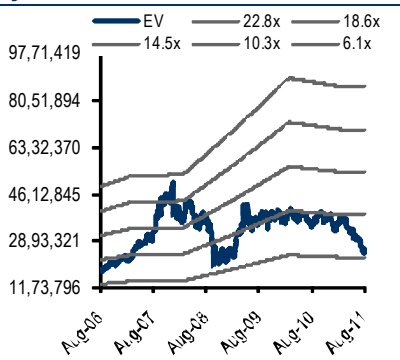
Cash flow statement

Y/E 31 Mar (Rs mn)	FY09A	FY10A	FY11A	FY12E	FY13E
Net income + Depreciation	202,917	354,494	334,150	338,890	362,310
Interest expenses	18,163	20,596	24,110	26,632	17,225
Non-cash adjustments	0	0	0	0	0
Changes in working capital	230,161	(154,973)	21,354	89,245	(16,823)
Other operating cash flow	14,066	73,277	25,122	18,007	19,253
Cash flow from operations	465,306	293,393	404,737	472,774	381,966
Capital expenditure	(719,641)	(101,306)	(268,758)	187,823	(215,683)
Change in investments	24,588	(38,267)	(84,839)	(231,463)	27,183
Other investing cash flow	0	0	0	0	0
Cash flow from investing	(695,053)	(139,573)	(353,597)	(43,641)	(188,500)
Issue of equity	233,212	0	(43,512)	28,812	0
Issue/repay debt	255,605	(116,511)	195,007	(350,523)	(119,804)
Interest expenses	(18,163)	(20,596)	(24,110)	(26,632)	(17,225)
Dividends paid	(22,194)	(24,309)	(27,719)	(36,921)	(40,614)
Other financing cash flow	(39,313)	5,142	2,506	(28,800)	0
Cash flow from financing	409,147	(156,273)	102,172	(414,064)	(177,643)
Change in cash & cash eq	179,400	(2,453)	153,312	15,070	15,823
Closing cash & cash eq	270,826	263,359	399,299	503,265	749,094

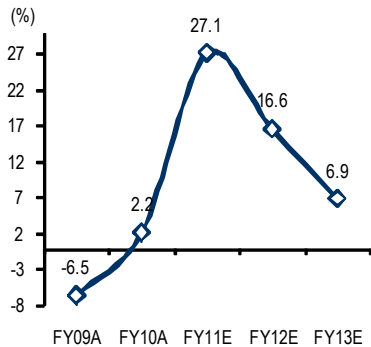
1-yr fwd P/E band



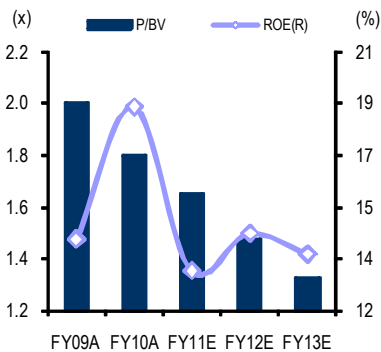
1-yr fwd EV/EBITDA band



EPS growth



ROE vs P/BV



Per share data

Y/E 31 Mar (Rs)	FY09A	FY10A	FY11A	FY12E	FY13E
Reported EPS	46.5	74.9	61.8	72.0	77.0
Adjusted EPS	47.6	48.6	61.8	72.0	77.0
DPS	6.0	6.4	7.3	10.0	11.0
BVPS	385.3	431.2	471.1	531.8	596.4

Valuation ratios

Y/E 31 Mar (x)	FY09A	FY10A	FY11A	FY12E	FY13E
EV/Sales	2.6	1.9	1.1	0.7	0.7
EV/EBITDA	16.7	12.4	7.4	6.1	5.8
P/E	22.9	21.8	12.7	10.9	10.2
P/BV	2.8	2.5	1.7	1.5	1.3

Financial ratios

Y/E 31 Mar	FY09A	FY10A	FY11A	FY12E	FY13E
Profitability & Return ratios (%)					
EBITDA margin	15.5	15.2	14.7	11.2	11.2
EBIT margin	11.8	9.8	9.3	8.1	7.9
Net profit margin	9.9	7.8	7.6	7.0	7.5
ROE	14.5	12.1	13.7	14.4	13.7
ROCE	8.8	8.4	8.9	9.2	9.1
Working Capital & Liquidity ratios					
Receivables (days)	13	13	18	17	16
Inventory (days)	61	62	64	55	62
Payables (days)	89	83	79	76	87
Current ratio (x)	1.6	1.9	2.0	2.0	2.0
Quick ratio (x)	1.1	1.1	1.4	1.4	1.3
Turnover & Leverage ratios (x)					
Gross asset turnover	1.1	1.1	1.1	1.5	1.5
Total asset turnover	0.7	0.8	0.9	1.1	1.1
Interest coverage ratio	9.8	9.7	10.3	10.2	15.4
Adjusted debt/equity	0.6	0.5	0.5	0.3	0.2

Quarterly trend

Particulars	Q1FY11	Q2FY11	Q3FY11	Q4FY11	Q1FY12
Revenue (Rs mn)	582,280	574,790	597,890	726,740	810,180
YoY growth (%)	86.7	22.7	5.2	26.2	39.1
QoQ growth (%)	1.1	(1.3)	4.0	21.6	11.5
EBITDA (Rs mn)	93,420	93,960	95,450	98,430	99,260
EBITDA margin (%)	16.0	16.3	16.0	13.5	12.3
Adj PAT (Rs mn)	48,510	49,230	51,360	53,760	56,610
YoY growth (%)	32.3	27.8	28.1	14.1	16.7
QoQ growth (%)	3.0	1.5	4.3	4.7	5.3

DuPont analysis

(%)	FY09A	FY10A	FY11A	FY12E	FY13E
Tax burden (Net income/PBT)	85.3	55.4	84.0	78.5	78.5
Interest burden (PBT/EBIT)	98.7	143.8	96.8	110.4	120.9
EBIT margin (EBIT/Revenue)	11.8	9.8	9.3	8.1	7.9
Asset turnover (Revenue/Avg TA)	71.8	80.6	93.8	108.0	105.7
Leverage (Avg TA/Avg equity)	203.6	192.8	192.1	188.7	172.4
Return on equity	14.5	12.1	13.7	14.4	13.7

Company profile

Reliance Industries Ltd. manufactures petrochemicals, synthetic fibers, fiber intermediates, textiles, blended yarn and polyester staple fiber. The Company also owns a petroleum refinery cum petrochemicals complex in Jamnagar, India that produces a wide range of products such as gasoline, superior kerosene oil and liquefied petroleum gas

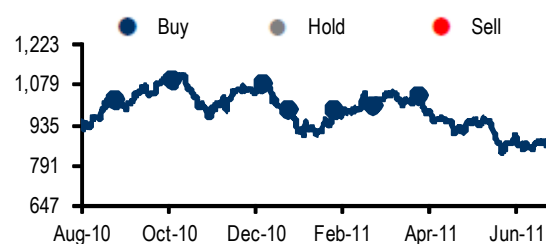
Shareholding pattern

(%)	Dec-2010	Mar-2011	Jun-2011
Promoters	44.7	44.7	44.7
FIs	17.6	17.7	17.4
Banks and FIs	10.5	10.5	10.8
Public	27.2	26.8	27.1

Recommendation history

Date	Event	Reco price	Tgt price	Reco
22-Sep-10	Sector Report	1,020	1,210	Buy
01-Nov-10	Results Review	1,093	1,210	Buy
04-Jan-11	Strategy	1,077	1,200	Buy
22-Jan-11	Results Review	987	1,150	Buy
22-Feb-11	Company Update	985	1,200	Buy
22-Mar-11	Company Update	1,000	1,200	Buy
22-Apr-11	Results Review	1,041	1,200	Buy
26-Jul-11	Results Review	872	1,150	Buy
30-Aug-11	Company Update	783	1,150	Buy

Stock performance



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