Reliance Industries

Weak operating performance

Q3FY12 Result Update

January 23, 2012

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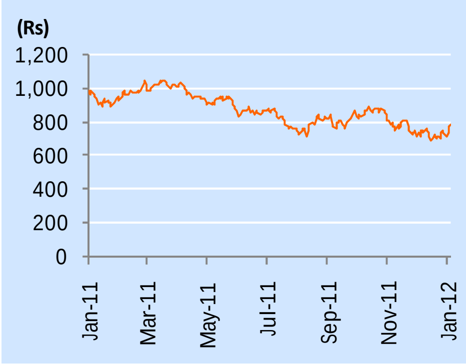
Rating	**Accumulate**
Price	Rs793
Target Price	Rs889
Implied Upside	12.1%
Sensex	16,739
Nifty	5,049

(Prices as on January 23, 2012)

Trading data			
Market Cap. (Rs bn)			2,594.6
Shares o/s (m)			3,273.4
3M Avg. Daily value (Rs m)			4559.2
Major shareholders			
Promoters			44.71%
Foreign			17.03%
Domestic Inst.			11.35%
Public & Other			26.91%
Stock Performance			
(%)	**1M**	**6M**	**12M**
Absolute	11.1	(9.5)	(18.3)
Relative	0.8	0.0	(6.2)
How we differ from Consensus			
EPS (Rs)	**PL**	**Cons.**	***% Diff.***
2013	71.1	72.5	*-1.9*
2014	74.7	79.0	*-5.4*

Price Performance (RIC: RELI.BO, BB: RIL IN)



Source: Bloomberg

- For Q3FY12, Reliance Industries' (RIL's) EBITDA and PBT were slightly below our expectations while 6% below Bloomberg consensus on bottom-line front. EBITDA at Rs72.9bn against our expectation of Rs74.8bn, registered de-growth of 26.0% QoQ largely on the back of weak refining margins (EBIT down 45.2% qoq). Despite 55% qoq growth in other income and 13.4% decline in depreciation, bottom-line at Rs44.4bn declined by 22.1% qoq (PLe 45.4bn).

- Key features during the quarter were a) weak GRM (US$6.8/bbl v/s US$10.1/bbl in Q2FY12); b) 15.5% qoq decline in E&P EBIT due to lower economic interest (60% v/s 90% of pre BP deal) and lower production at 41mmscmd v/s 54.5mmsmcd and c) lower Petchem EBIT a decline of 10.9% QoQ.

- RIL has announced a buyback of 120mn shares (3.7% of total equity) at maximum price of Rs870/share. The move does not change the fundamental significantly, however the same reflects that current quarterly performance is largely a blip and scenario is bound to improve going ahead. Thus, the buyback is likely to support the stock price in near term. On the fundamental turn, we believe that negative developments viz. expectation of subdued gas production outlook from the KG basin over the period of next 2-2.5 years, reduction of KG-D6 gas supplies for the refining and petrochemical business, along with limited upsides in commodity margins in petrochemical and refining segment in the near term, are likely to result in stagnant profitability for RIL in the near term. The same is likely to result in absence of any meaningful stock price trigger in the near term. We believe, buyback does not resolve the major concern, which RIL continues to face with regards to deployment of the cash flows. All said we believe, all the negatives are largely factored into the stock price. Moreover, long-term promises of RIL's E&P blocks are undeniable as reflected by RIL-BP deal. On the valuation front, given the recent strong outperform over the last couple of weeks, we believe stock offers limited upside potential from the current levels. We maintain **'Accumulate'** rating on the stock, with a TP of Rs889/share.

Key financials (Y/e March)	**2011**	**2012E**	**2013E**	**2014E**
Revenues (Rs m)	2,657,158	3,494,003	3,506,090	3,481,788
Growth (%)	*30.7*	*31.5*	*0.3*	*(0.7)*
EBITDA (Rs m)	380,436	360,870	354,482	380,863
PAT (Rs m)	192,715	207,994	232,835	244,642
EPS (Rs)	58.9	63.5	71.1	74.7
Growth (%)	*21.7*	*7.9*	*11.9*	*5.1*
Net DPS (Rs)	7.3	9.5	10.7	11.2

Profitability & Valuation	**2011**	**2012E**	**2013E**	**2014E**
EBITDA margin (%)	*14.3*	*10.3*	*10.1*	*10.9*
RoE (%)	*13.0*	*12.8*	*13.0*	*12.4*
RoCE (%)	*9.4*	*8.8*	*8.9*	*9.0*
EV / sales (x)	1.2	0.8	0.7	0.7
EV / EBITDA (x)	8.2	7.4	7.0	6.1
PE (x)	13.5	12.5	11.1	10.6
P / BV (x)	1.7	1.5	1.4	1.3
Net dividend yield (%)	*0.9*	*1.2*	*1.3*	*1.4*

Source: Company Data; PL Research

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Exhibit 1: Q3FY12 Result Overview (Rs m)

Y/e March	Q3FY12	Q3FY11	YoY gr. (%)	Q2FY12	9MFY12	9MFY11	YoY gr. (%)
Net Sales	**851,350**	**597,890**	***42.4***	**785,690**	**2,447,210**	**1,754,960**	***39.4***
Expenditure							
Raw material	728,130	454,410	*60.2*	635,680	2,022,950	1,336,810	*51.3*
% of net sales	*85.5*	*76.0*		*80.9*	*82.7*	*76.2*	
Personnel cost	6,720	6,610	*1.7*	7,150	22,650	19,380	*16.9*
% of net sales	*0.8*	*1.1*		*0.9*	*0.9*	*1.1*	
Other operating expenses	43,650	41,420	*5.4*	44,420	131,060	115,940	*13.0*
% of net sales	*5.1*	*6.9*		*5.7*	*5.4*	*6.6*	
EBITDA	**72,850**	**95,450**	***(23.7)***	**98,440**	**270,550**	**282,830**	***(4.3)***
Margin (%)	*8.6*	*16.0*		*12.5*	*11.1*	*16.1*	
Depreciation	25,700	33,590	*(23.5)*	29,690	87,340	102,210	*(14.5)*
EBIT	**47,150**	**61,860**	***(23.8)***	**68,750**	**183,210**	**180,620**	***1.4***
Interest	6,940	5,490	*26.4*	6,600	18,990	16,320	*16.4*
Other Income	17,170	7,410	*131.7*	11,020	38,970	21,350	*82.5*
PBT	**57,380**	**63,780**	***(10.0)***	**73,170**	**203,190**	**185,650**	***9.4***
Total taxes	12,980	12,420	*4.5*	16,140	45,150	36,550	*23.5*
ETR (%)	*22.6*	*19.5*		*22.1*	*22.2*	*19.7*	
Adj. PAT	**44,400**	**51,360**	***(13.6)***	**57,030**	**158,040**	**149,100**	***6.0***

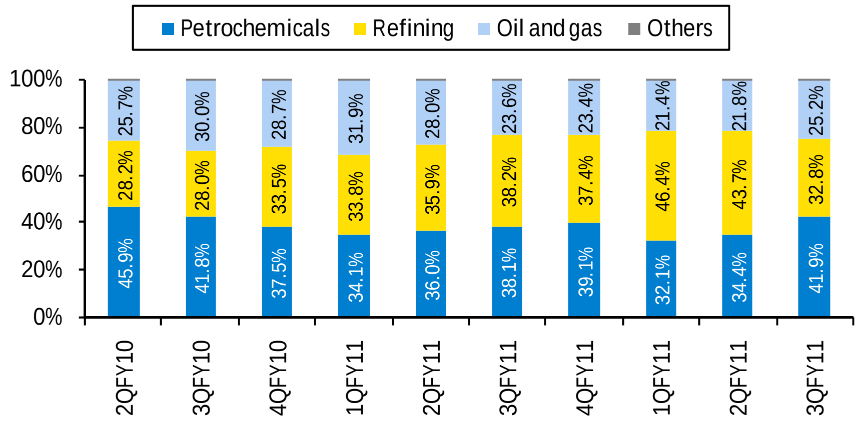
Source: Company Data, PL Research

Exhibit 2: Segmental Breakup (Rs m)

Y/e March	Q3FY12	Q3FY11	YoY gr. (%)	Q2FY12	9MFY12	9MFY11	YoY gr. (%)
Revenues							
Petrochemicals	197,810	159,620	*23.9*	210,660	592,130	449,610	*31.7*
Refining & Marketing	767,380	525,240	*46.1*	680,960	2,185,230	1,527,270	*43.1*
Oil & Gas	28,320	41,780	*(32.2)*	35,630	102,890	131,460	*(21.7)*
Others	2,080	1,800	*15.6*	5,100	9,520	4,420	*115.4*
Gross Revenue	**995,590**	**728,440**	***36.7***	**932,350**	**2,889,770**	**2,112,760**	***36.8***
EBIT							
Petrochemicals	21,570	24,290	*(11.2)*	24,220	67,930	66,790	*1.7*
Refining & Marketing	16,850	24,360	*(30.8)*	30,750	79,580	66,630	*19.4*
Oil & Gas	12,940	15,040	*(14.0)*	15,310	42,990	51,310	*(16.2)*
Others	90	90	-	100	280	240	*16.7*
Total EBIT	**51,450**	**63,780**	***(19.3)***	**70,380**	**190,780**	**184,970**	***3.1***
EBIT Margin (%)							
Petrochemicals	10.9	15.2		11.5	11.5	14.9	
Refining & Marketing	2.2	4.6		4.5	3.6	4.4	
Oil & Gas	45.7	36.0		43.0	41.8	39.0	
Others	4.3	5.0		2.0	2.9	5.4	
Total	**5.2**	**8.8**		**7.5**	**6.6**	**8.8**	

Source: Company Data, PL Research

Exhibit 3: RIL EBIT composition over the quarters



Source: Company Data, PL Research

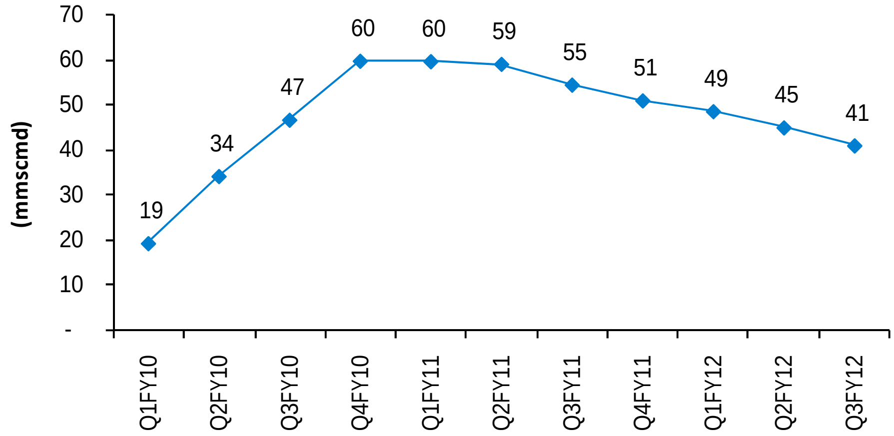
Analyst meet key extracts

E&P Segment – No incremental inputs

According to our analysis, the management commentary on the E&P segment has been much muted during the current quarter compared to the previous quarter inputs. The possible rationale of the same is the arbitration issue with the government on the KG-D6 front and pricing tussle with the government pertaining to the CBM block. Following are the key inputs on various issues encircling domestic E&P business of the company

No guidance on KG-D6 production over the next couple of year: Much in line with 2QFY12 meet, RIL refrained from providing production estimates from the KG-D6 over the next couple of years. In order to address the issue of declining production, RIL, along with BP, is currently redoing the reservoir modelling. It continues to maintain its reserves estimates from the field. It believes the redevelopment plan of the field is currently hindered due to regulatory approvals. Currently 14-16 wells are producing in KG D1/D3 field based on the water cut at the various wells. In order to address the issue of declining production, RIL plans to do 2 to 3 wells as work-over/side track wells, subject to required approvals. Management highlighted that the lead time in completion of the wells is around 6-8 months. However, we believe due to the CAG report fallout and arbitration issue there might be some delay in getting the required approvals.

Exhibit 4: KG Gas production



Source: Company Data, PL Research

Satellite field development plan: Management committee approval for the development of the four satellite field's discovery in the KG basin was recently received by the RIL in January 2012. FDP for the field was filed in December 2009 and the required approval for the same should have been obtained within the period of 6 months from the submission. Management highlighted that due to difference in the field behaviour at the KG-D6 than envisaged, RIL would need to further undertaken the studies before determining the capex, production estimates from these satellite fields. Thus, the company did not provide the estimate with regards to peak production and the time frame with regards to development of the field.

CBM block development update: RIL has drilled additional 10 wells in the CBM block at Sohagpur (MP) taking total wells at the field to 36 wells in the block. RIL has commenced hydraulic-fracturing of the developmental wells. RIL has submitted the pricing for CBM block at Sohagpur (MP) and awaits government input on the same. RIL's proposed formula seeks to link the gas price with Japan's crude cocktail (i.e. LNG linked prices). RIL expects that once the pricing formulae are accepted, the development work on the block could be started. In the previous meet, RIL has said that it would take around 24 months to develop the field and lay pipeline to connect the consumer. Peak production from the block is expected to be around 4mmscmd. Ramp-up of the production in the block will take minimal time.

Exploratory portfolio under evaluation: RIL plans to commence exploratory drilling in the second half of the current calendar year. The strategy for the same is currently underway in discussion with BP. In its previous quarterly interaction management had highlighted that RIL and BP, are revisiting the exploratory portfolio. It expected to firm up exploratory plans by around January-February 2012, when its rigs were likely to be available for the exploration purpose. As per the management, given the nature of blocks involved i.e. deepwater and ultra deepwater, it is much prudent before drilling the same due to high cost involved

International shale gas JV: Decline in the Henry hub natural gas price has resulted in to RIL being selective in terms of its focus on the shale gas development front. Management intends to focus on the liquid rich wells to have better returns. RIL plans to scale down its capex targets by around 20% over the CY11 estimate and intends to curtain its work based on drilling and lease obligations. Management believes it is too early to assess the adverse impact of the gas prices on the life cycle analysis of the project as the company has drilling only 135 out of the target 6000 wells to be drilled over the life of the project. Carrizo shale gas asset has commenced production in 3QFY12. The capex in the shale business during the quarter stood at US$71mn with cumulative investment of US$517mn.

In addition, gross exit production from its JVs stood at 233mmscmd (210mmscfd in 2QFY12) of gas and 34.7mboed (24.9mboed in 2QFY12) of condensate. RIL drilled around 77 wells during the quarter (53 wells drilled in 2QFY12).

Refining and Marketing segment – 3QFY12 an aberration, things likely to improve

Management highlighted that current quarter performance on the refining margin front is an aberration and things are likely to improve in coming quarter with improved product cracks. Management highlighted that it expects the operating rates at its refineries to maintain firm going ahead. Following are the key inputs on the refining and marketing by the management.

Rationale for negative premium to Singapore margins: Talking about the negative deltas between RIL's GRM and benchmark Singapore GRMs, management attributed the same to reduction in the Light heavy spreads (on account of strong fuel oil spreads) and weak product spreads in case of gasoline and naphtha. Fuel oil spreads have been relatively strong due to lower production in Iran and Russia, coupled with higher demand from Japan for the power generation and strong bunker demand from China. Moreover, management highlighted that due to lower availability of the specified grade fuel oil spreads were higher. Similarly, increasing supplies of the lighter quality crude with resumption of Libyan exports lead to downward pressure on the light heavy differentials.

Another reason for the relatively lower premium to Singapore margins were weaker gasoline and naphtha spreads. Lower gasoline spreads were on the back of increased production as refineries came to production post the maintenance and weaker demand post the driving season. In case of naphtha weak demand of petrochemicals lead by lower Chinese demand (decline of 1.2%) adversely impacted the naphtha spreads. Higher LNG cost (US$ 15.5-16/mmbtu) also aided lower premium over the Singapore margins. RIL is currently using around 8-9mmscmd of the LNG for the internal fuel purposes and despite the increase in the LNG prices, RIL is likely to continue using LNG as the feedstock as it believes it still offers better economics over internally refined product. As per the management, currently there is a difference between the marker Dubai crude (paper/ exchange prices) and physical Dubai crude oil prices of around US$2.0-2.5/bbls, compare to historical insignificant difference between the prices of the two- this also leads to higher theoretical Singapore GRM.

Refining margins to improve going ahead: RIL expects refining margins to improve going ahead on account of improvement in gasoline cracks and better light heavy spreads. RIL expects gasoline cracks to stabilize around US$13-15/bbl going ahead. Similarly, it expects naphtha spreads to stabilize around US$(4)/bbl.

Refining-maintenance: RIL is likely to resort to maintenance shutdown over February 2012 in one of the two Coker units, along with CDU in the refinery. However, the shutdown is unlikely to impact the product slate during the period due to surplus capacity available at various downstream units. Management highlighted that post the shutdown light crude intake capacity is likely to improve moreover the efficiency gains are likely to increase. Currently the API diet of RIL's refinery is around 25.5-26. On the procurement front, RIL procures around 55-60% of its volumes from Middle East followed by almost equal composition between Latin America and West Africa for the procurement of the balance crude.

Petrochemical Segment (Petchem)

RIL highlighted that 3QFY12 was tough quarter with incremental capacity (IOC plant stabilizing) in domestic market leading to higher exports. Exports of the PP were increased during the quarter as volumes grew by around 9% in the segment sequentially. On the polyester front, the lower cotton prices led pressure to volumes during the quarter (declining by 9.4% on the sequential basis). Following are the key management commentary regarding the segment:

Polyester capacity expansion on track: RIL is currently expanding the capacity of the filament plant at Silvasa by 350ktpa. The ordering for the machinery has been done and the production is likely to start from Q4CY12. It is also building at 2.2MT PTA plant at Dahej along with downstream fibre and PET capacity. The expansion is likely to be completed by mid-CY2013.

Petrochemical expansion plans: RIL has still not disclosed the details pertaining to the petrochemical expansion plans as the finance department is currently working on the project. In its previous interaction, management had said that it is looking at the configuration and other project parameters along with vendors.

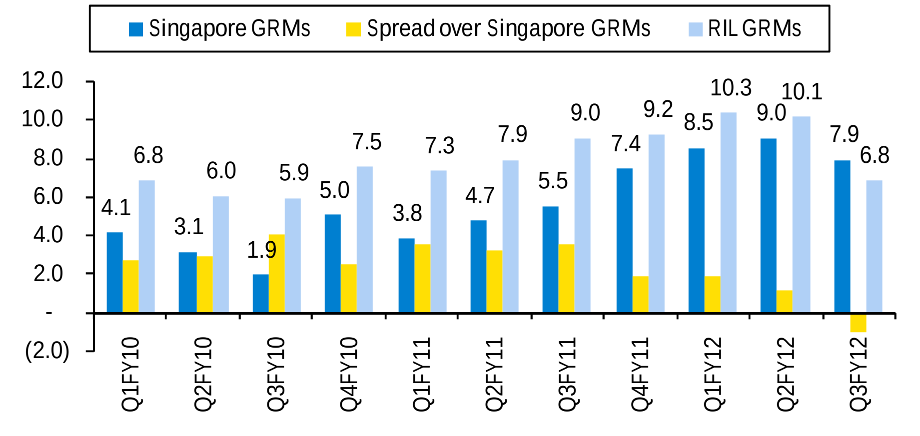
Share Buyback - an effort to boost investor sentiment

RIL has approved buyback of up to 120 mn equity shares at a price not exceeding Rs. 870/share. Buyback price is at 10% premium to the Friday's closing price. The maximum amount likely to be spent on the same will be Rs104.4bn. Maximum shares to be bought back stand at 3.7% and 4.0% of the total and ex-treasury number of shares. As per the SEBI guidelines, RIL would be required to buyback at least 25% of the total buyback amount. Management believes buyback is the most tax efficient way of rewarding shareholders. We believe a smaller buyback plans indicate company's effort to provide a signalling effect to the shareholders regarding the value of the company rather than saturation of the growth possibilities. Moreover, the management commentary suggests that there will not be a significant change in the dividend policy as expected by a section of the market.

Segmental performance

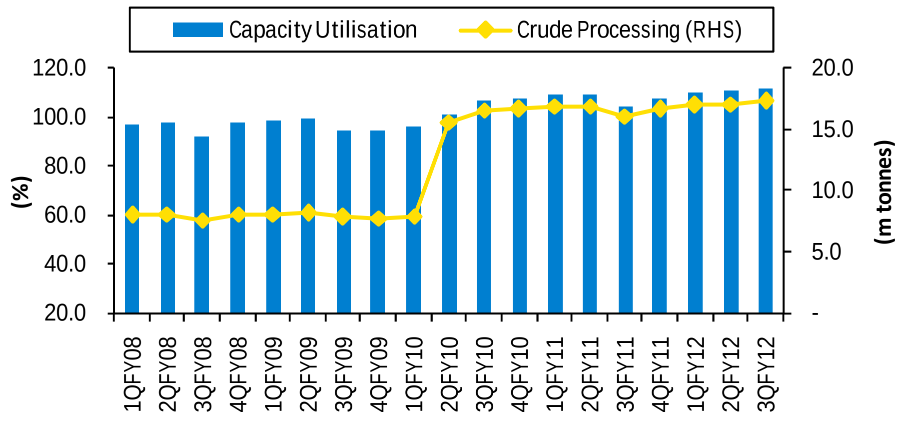
Refining and Marketing Segment (R&M): Crude processing stood at 17.3m tonnes (16.1m tonnes), with the refinery reporting capacity utilisation of 112% during the quarter. On the margin front, RIL reported GRMs of US$6.8/bbl (US$10.1/bbl - 2QFY12); the same was slight lower than our expectation of US$7.0/bbl. Singapore margins, during the quarter, averaged at US$7.9/bbl. Thus, RIL earn a negative spread of US$1.1/bbl over the same for the first time ever. Decline in the GRMs was largely a function of weaker gasoline and naphtha cracks. Refining EBIT on the sequential basis registered a decline of 45.2%. On the YoY basis, GRMs were also down (US$9.0/bbls in Q3FY12); the same resulted in decline in refining EBIT by around 30.8% on the YoY basis. Gasoline-Crude spreads witnessed significant decline during the quarter from US$17.5/bbl during Q2FY12 to US$10.3/bbl during Q3FY12. The decline in the spreads could be attributed to ample supply, weak demand in U.S. and Asia, coupled with higher refinery runs, to meet heating oil demand. In order to improve the spreads, various Asian refiners have announced refinery run cuts. Middle distillate cracks were also relatively subdued during the quarter, with Jet Kerosene-Crude spread at US$18.7/bbl from US$18.8/bbl (Q2FY12). Diesel Spreads during the quarter stood at US$18.4/bbl as against US$17.6/bbl (Q2FY12). Naphtha spreads declined during the quarter to US$-9.3/bbl (US$-2.8/bbl in Q2FY12). Fuel oil spreads, during the quarter, improved to US$-4.2/bbl as against US$-7.2/bbl in the previous quarter. The improvement is largely on account of seasonal buying in the winter season, especially from the Japanese power utilities, to meet power requirements, post the nuclear power shutdown.

Exhibit 5: RIL v/s Benchmark Singapore GRMs



Source: Company Data, PL Research

Exhibit 6: RIL – Capacity utilisation and crude processed

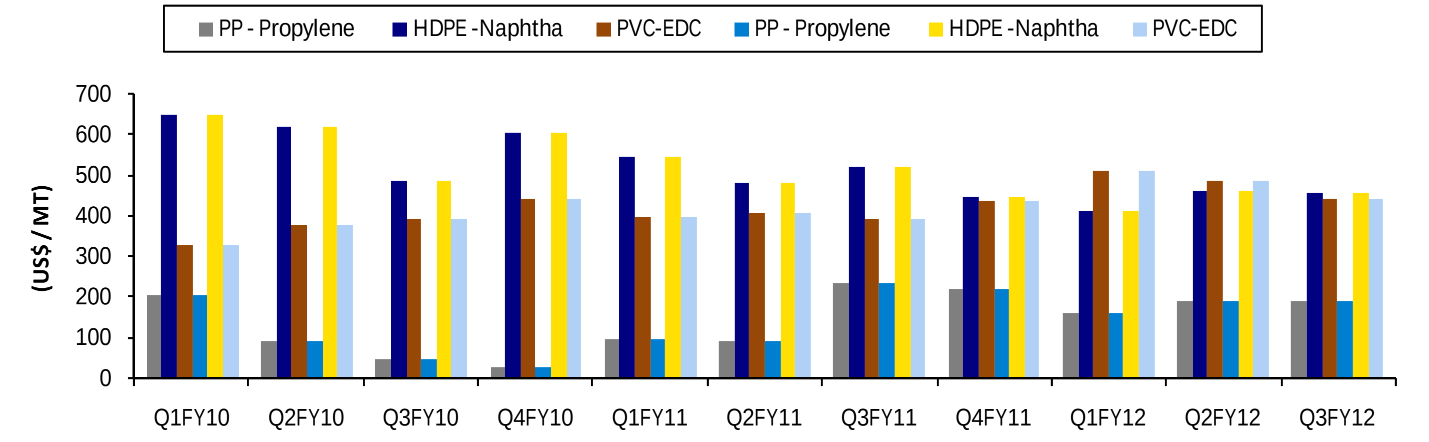


Source: Company Data, PL Research

Apart from the weak product cracks decline in Light-heavy differentials on a QoQ basis resulted into negative spread over benchmark Singapore margins. Light-heavy differentials were subdued on a QoQ basis, with AH-AL spread averaging at US$3.90/bbl as against US$3.7/bbl. The spreads between Dubai Fateh-AH declined to US$0.96/bbl as against US$1.82/bbl in the previous quarter. The same is likely to adversely impact the performance of RIL as the premium over the Singapore GRMS is likely to decline in the current quarter.

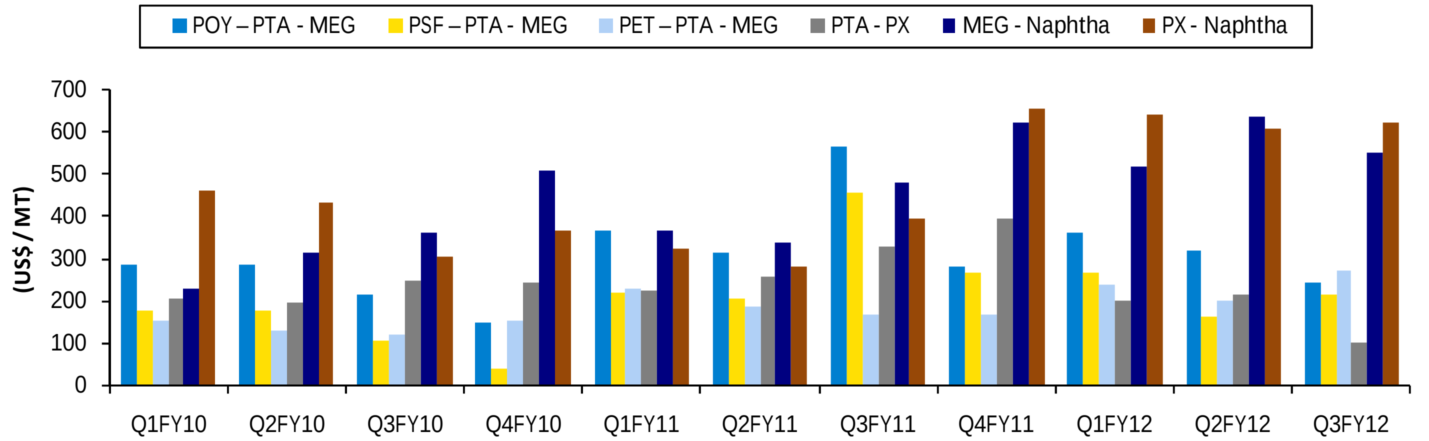
Petrochemical Segment: Owning to the weaker margins in the polymer segment and lower volumes in the polyester segment, petchem EBIT declined by 11.2% YoY and 10.9% QoQ.

Exhibit 7: Petrochemical margins over the quarters



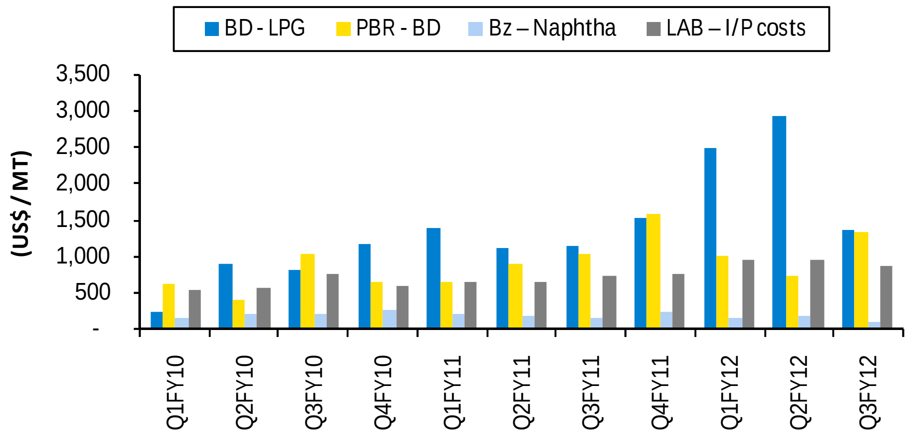
Source: Company Data, PL Research

Exhibit 8: Polyester margins over the quarters



Source: Company Data, PL Research

Exhibit 9: Chemical margins over the quarters



Source: Company Data, PL Research

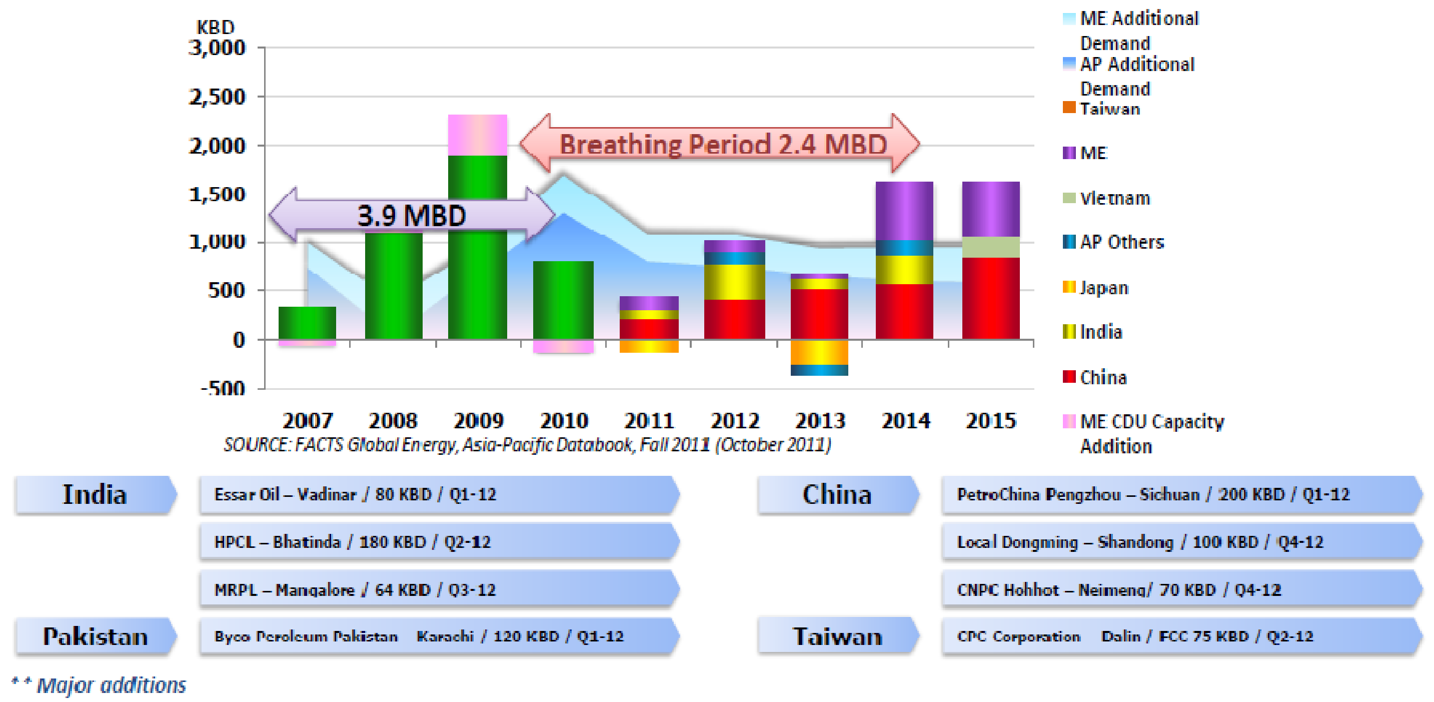
Oil & Gas Segment: This segment registered a disappointing performance, with a decline in crude as well as gas production at the KG basin. Gas production at the KGD6 averaged at 41mmscmd as against 54.5mmscmd (decline of around 26% yoy). Crude oil production from the MA oil fields stood at 1.17mnbbl decline of 46% yoy. On account of the government approval of the BP deal, RIL's participating interest for the quarter was at 60% of the volumes compared to 90% over the first two months of the quarter of the previous quarter.

Business Outlook

Refining business Outlook: RIL refining margins has witnessed a significant decline from US$10.1/bbl in the previous quarter to US$ 6.8/bbl in the current quarter. Thought we expect slightly better margins in the current quarter, we do not expect significant improvement in the refining margins going ahead. As per the Valero Corporation, Global refining capacity is likely to increase by 1.6mbpd and 1.8mbpd in 2011 and 2012, respectively. Thus, keeping the global surplus refining capacity in the range of 5.5-6mbpd (6.5 -7.5% of the global crude oil demand), going ahead. This is much higher than the global spare capacity seen during the golden age of refining (2004-2008 – a spare capacity ranging between 3.5- 4.0mbpd). Thus, the significant increase in the refining margins looks unlimited at the current juncture. We build a GRM of US$8.0/bbl and US$8.5/bbl for FY13 and FY14 respectively.

The commentary of the other Asian refineries suggests that the regional demand supply equation is likely to be much balanced going ahead. Moreover, the balance is also likely to be lent through maintenance shutdown and seasonal demand. Thus, despite the demand disappointments expectation on account of the current slowdown, we believe RIL should report margins of US$8/bbls for FY13.

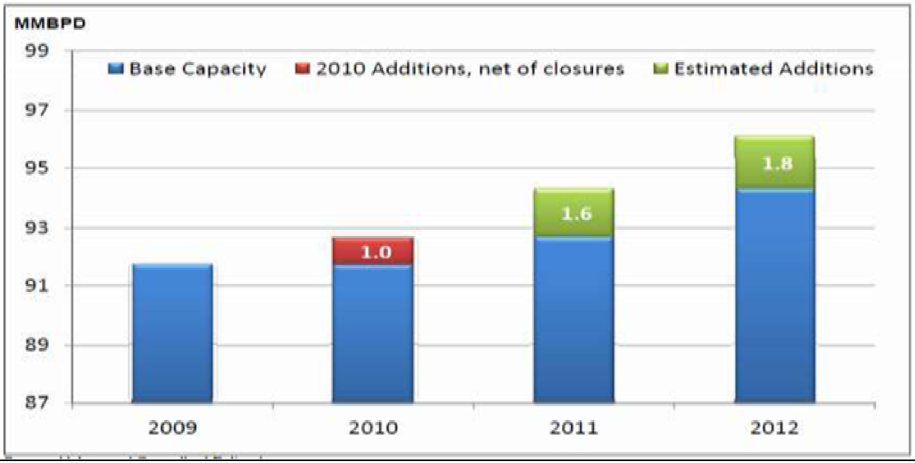
Exhibit 10: Balanced Regional demand supply equation



Source: Industry, PL Research

From the long term perspective, IEA expects Distillation capacity (CDU) additions for 2010-2016 to total at 8.7mbpd, to reach a total of 101.5 mnbpd in 2016. The expected capacity growth is now solely accounted for by the non-OECD, most notably in Asia. China alone is expected to account for a third of global capacity growth, or almost 3.0 mnbpd. The rest of Asia will see a further 1.4 mnbpd added in the period, or 16% of global growth, while significant investments are also taking place in the Middle East, Latin America and the FSU. This compares to forecast demand growth of 6.7 mnbpd in the period, of which an increasing share will be met by non-refined supplies, such as biofuels, gas and coal to liquids, and NGLs and condensates, which largely bypass the refining system. Incremental call on the refining capacity on account of the same is almost 50% of the incremental planned capacity. However, we believe projects scheduled for the tail-end of the forecast are therefore likely to be managed in line with evolving demand prospects thus keeping check on demand and supply in the long run.

Exhibit 11: Global Distillation Capacity Additions

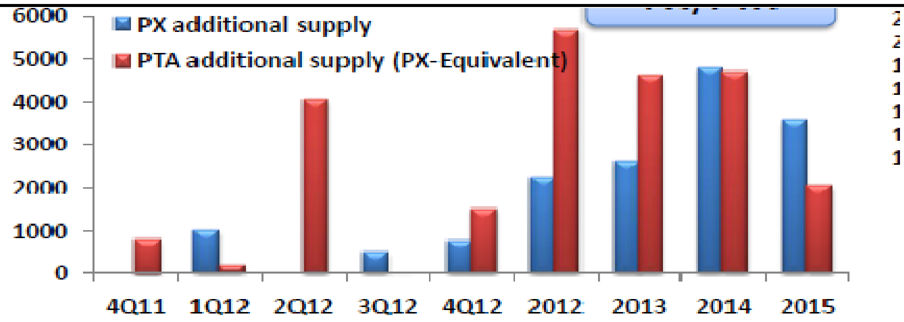


Source: Valero

Petrochemical business Outlook: Global petrochemical industry has seen significant capacity over the 11MT (8% of the global capacity) in 2010, resulting in significant reduction in the profitability. However, with no significant capacity expansion in the offing till the end of the 2011, margins in the segment are likely to improve gradually. However, on account of current global slowdown, the near terms margins profile is likely to be subdued. We expect RIL's EBITDA/ton in the petrochemical segment to range at US$207/tonne and US$215/tonne for FY13E and FY14E. The same is broadly in line with last five fiscal years average margins.

In the polyester segment due to integrated nature of operations, we expect RIL to maintain its deltas in the segment. A plenty of new PTA plants are being start up in 2012, which the PTA supply is estimated to increase almost 8 mil tons (3 plants from China, 1 plant from Brazil and Indonesia). The same should lead to strong demand for PX thereby increasing its margins. However, owning to slowdown concerns the margins of the downstream segment could be under pressure.

Exhibit 12: PX capacity addition lags PTA capacity addition



Country	Company	Start up	PX	BZ	TL
India	Reliance Industries	1Q12	72		
China	Tenglong Aromatics	1Q12	800	280	340
Belgium	BP	1Q12	40		
Singapore	ExxonMobil Chemical	1Q12	80		
China	Fushun PC	2Q12		200	120
Kazakhstan	JSC KazMunaiGas	3Q12	469	250	200
Singapore	ExxonMobil	3Q12		340	122
Thailand	Thai Oil	4Q12	37		
Saudi Arabia	Ibn Rushd	4Q12	70		
China	Petrochina Sichuan Petrochemical	4Q12	650	300	250
India	Mangalore Ref. (MRPL)	1Q13	920	400	

Remark: Tables show only key plants.

Source: Industry, PL Research

Upstream business Outlook: While the negative news flows associated with the upstream segment has been a drag on the RIL stock price. The recent issue with arbitration over the cost recovery and the marketing margins issue have further escalated the concerns. However, we are slightly concerned over the timely regulatory clearances for the development plans, given the CAG report fallouts. Also, the production at the KG-D6 is unlikely to increase anytime soon. Thus, we believe, while the negatives are already factored into the stock prices, the upsides for the E&P segment is still some time away.

Outlook and Valuation

We believe negative developments viz. expectation of subdued gas production outlook from the KG basin over the period of next 2-2.5 years, reduction of KG-D6 gas supplies for the refining and petrochemical business, along with limited upsides in commodity margins in petrochemical and refining segment in the near term, is likely to result in stagnant profitability for RIL in the near term. The same is likely to result in absence of any meaningful stock price trigger in the near term. Other major concern which RIL continue to face is deployment of the cash flows despite the recently announced buyback plan. However, on the flipside, all the negatives are largely factored into the stock price. Moreover, long-term promises of RIL's E&P blocks are undeniable as reflected by RIL-BP deal. On the valuation front, given the recent strong outperform over the last couple of weeks, we believe stock offers limited upside potential from the current levels. We maintain **'Accumulate'** rating on the stock, with a target price of Rs889/share.

Exhibit 13: SOTP

Particulars	Value (Rs m)	INR/share
Refining (6.5x FY2013E EBITDA)	944,827	289
Chemicals (6.5x FY2013E EBITDA)	815,731	249
Total NAV of chemical and refining business	1,760,558	538
KG-D6 (DCF based)	292,406	89
NEC (DCF based)	28,274	9
KGD6 Oil (DCF based)	80,622	25
Other E&P (D-3, D-9,Mn-D4, satellite and R-Cluster) (EV/boe)	143,955	44
E&P blocks under BP deal	545,257	167
RIL Telecom venture	45,000	14
US Shale	116,380	36
Less FY12 end Net Debt	(253,061)	(77)
Plus treasury Stock	190,255	58
Total NAV	**2,288,010**	**889**
Current market price		**793**

Source: PL Research

Income Statement (Rs m)

Y/e March	2011	2012E	2013E	2014E
Net Revenue	**2,657,158**	**3,494,003**	**3,506,090**	**3,481,788**
Raw Material Expenses	2,082,194	2,929,323	2,943,417	2,887,718
Gross Profit	574,964	564,680	562,673	594,069
Employee Cost	33,243	35,777	38,505	41,441
Other Expenses	161,286	168,033	169,685	171,765
EBITDA	**380,436**	**360,870**	**354,482**	**380,863**
Depr. & Amortization	141,208	122,414	136,289	156,266
Net Interest	6,691	23,013	21,574	22,687
Other Income	25,428	52,937	103,813	113,756
Profit before Tax	**240,550**	**268,380**	**300,432**	**315,667**
Total Tax	47,834	60,385	67,597	71,025
Profit after Tax	**192,715**	**207,994**	**232,835**	**244,642**
Ex-Od items / Min. Int.	—	—	—	—
Adj. PAT	**192,715**	**207,994**	**232,835**	**244,642**
Avg. Shares O/S (m)	**3,273.4**	**3,273.4**	**3,273.4**	**3,273.4**
EPS (Rs.)	**58.9**	**63.5**	**71.1**	**74.7**

Balance Sheet Abstract (Rs m)

Y/e March	2011	2012E	2013E	2014E
Shareholder's Funds	1,543,851	1,702,416	1,881,491	2,070,315
Total Debt	841,062	974,376	975,001	850,754
Other Liabilities	118,731	125,441	132,951	140,843
Total Liabilities	**2,503,644**	**2,802,232**	**2,989,444**	**3,061,912**
Net Fixed Assets	1,878,417	1,533,476	1,545,313	1,584,901
Goodwill	—	—	—	—
Investments	218,885	218,273	217,637	216,879
Net Current Assets	406,329	1,050,469	1,226,479	1,260,117
Cash & Equivalents	*301,390*	*896,115*	*1,092,492*	*1,119,804*
Other Current Assets	*679,406*	*889,736*	*884,795*	*868,435*
Current Liabilities	*574,467*	*735,383*	*750,808*	*728,123*
Other Assets	14	15	15	15
Total Assets	**2,503,644**	**2,802,232**	**2,989,444**	**3,061,912**

Cash Flow Abstract (Rs m)

Y/e March	2011	2012E	2013E	2014E
C/F from Operations	399,488	265,335	298,493	318,359
C/F from Investing	(311,569)	247,269	(44,908)	(103,522)
C/F from Financing	141,089	82,120	(57,209)	(187,525)
Inc. / Dec. in Cash	229,009	594,725	196,377	27,312
Opening Cash	238,614	467,623	1,062,347	1,258,724
Closing Cash	467,623	1,062,347	1,258,724	1,286,036
FCFF	213,605	347,884	283,150	90,514
FCFE	408,612	481,197	283,776	(33,734)

Quarterly Financials (Rs m)

Y/e March	Q4FY11	Q1FY12	Q2FY12	Q3FY12
Net Revenue	**726,740**	**810,180**	**785,690**	**885,935**
EBITDA	**98,430**	**99,260**	**98,440**	**74,827**
% of revenue	*13.5*	*12.3*	*12.5*	*8.4*
Depr. & Amortization	33,870	31,950	29,690	26,575
Net Interest	6,960	5,450	6,600	7,000
Other Income	9,170	10,780	11,020	17,000
Profit before Tax	**66,770**	**72,640**	**73,170**	**58,252**
Total Tax	13,010	16,030	16,140	12,874
Profit after Tax	**53,760**	**56,610**	**57,030**	**45,378**
Adj. PAT	**53,760**	**56,610**	**57,030**	**45,378**

Key Financial Metrics

Y/e March	2011	2012E	2013E	2014E
Growth				
Revenue (%)	30.7	31.5	0.3	(0.7)
EBITDA (%)	23.1	(5.1)	(1.8)	7.4
PAT (%)	21.8	7.9	11.9	5.1
EPS (%)	21.7	7.9	11.9	5.1
Profitability				
EBITDA Margin (%)	14.3	10.3	10.1	10.9
PAT Margin (%)	7.3	6.0	6.6	7.0
RoCE (%)	9.4	8.8	8.9	9.0
RoE (%)	13.0	12.8	13.0	12.4
Balance Sheet				
Net Debt : Equity	0.3	—	(0.1)	(0.1)
Net Wrkng Cap. (days)	(2)	—	(1)	1
Valuation				
PER (x)	13.5	12.5	11.1	10.6
P / B (x)	1.7	1.5	1.4	1.3
EV / EBITDA (x)	8.2	7.4	7.0	6.1
EV / Sales (x)	1.2	0.8	0.7	0.7
Earnings Quality				
Eff. Tax Rate	19.9	22.5	22.5	22.5
Other Inc / PBT	10.6	19.7	34.6	36.0
Eff. Depr. Rate (%)	5.9	5.3	5.6	5.7
FCFE / PAT	212.0	231.4	121.9	(13.8)

Source: Company Data, PL Research.

Key Operating Metrics

Y/e March	2011	2012E	2013E	2014E
GRMs (US$/bbl)	48.3	8.6	8.0	8.5
Crude throughput (mmt)	66.6	66.0	67.7	67.7
KG Gas production (mmscmd)	56.3	33.0	28.0	40.0
Refining share of EBITDA (%)	34.6	39.1	41.0	39.3
Petchem share of EBITDA (%)	30.9	33.5	35.4	39.3
Upstream share of EBITDA (%)	37.0	29.9	26.1	23.7
Others share of EBITDA (%)	(2.5)	(2.4)	(2.5)	(2.3)

Source: Company Data, PL Research.

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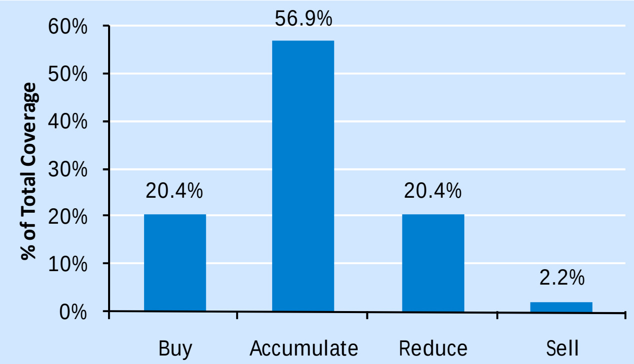

PL's Recommendation Nomenclature

BUY	:	Over 15% Outperformance to Sensex over 12-months	**Accumulate**	:	Outperformance to Sensex over 12-months
Reduce	:	Underperformance to Sensex over 12-months	**Sell**	:	Over 15% underperformance to Sensex over 12-months
Trading Buy	:	Over 10% absolute upside in 1-month	**Trading Sell**	:	Over 10% absolute decline in 1-month
Not Rated (NR)	:	No specific call on the stock	**Under Review (UR)**	:	Rating likely to change shortly

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