

Gas production ramp-up possible, says regulator

Director General of Hydrocarbons (DGH) has said RIL may raise gas output from KG-D6 to 67mmscmd after four additional development wells are completed in April 2011 (as per the approved field development plan, FDP). While DGH's assertion indicates that it is technically feasible to ramp up gas production with additional wells, RIL had stopped development drilling after completing 18 wells as it tried to ascertain how to contain fall in production. We await clarity from RIL before upgrading our production and earnings estimates. However, if we consider the higher production and associated lower operating costs in KG-D6, our FY12ii EPS would be upgraded by 4% to Rs75. We retain ADD on continued strength in its refining and polyester businesses.

Oil regulator says RIL may raise D6 gas output to 67mmscmd in April 2011: DGH says that an increase in gas output is possible after RIL drills four more development wells, to take the total to 22 (as per FDP) by April 2011. In our view, DGH's assertion indicates that it is technically feasible to ramp up gas production in KG-D6 after additional wells are drilled. However, RIL has drilled 18 wells so far, with 16 under production.

We await clarity from RIL, and do not upgrade estimates yet: RIL had indicated earlier that new production wells will be drilled after the pilot study to address falling production in KG-D6 is completed. We await clarity from management on development drilling and possibility of increasing gas production from KG-D6 in FY12. Given that DGH's statement has increased the likelihood of a ramp up in gas production, if we were to factor in higher output with lower opex per boe, our FY12ii EPS would increase by 4% to Rs75.

We retain ADD with a target price Rs1,070: We believe that there is strong support to RIL's FY12ii EPS from the strength in its refining and polyester businesses. The risk on its E&P portfolio is on the upside given the statements made by the DGH. We believe RIL is likely to see more earnings upgrades after c3 years of earnings downgrades. We retain ADD with a target price of Rs1,070/share.

Company update

CMP	Rs994
12-mth TP (Rs)	1070 (8%)
Market cap (US\$ m)	72,269
Bloomberg	RIL IN
Sector	Oil&Gas

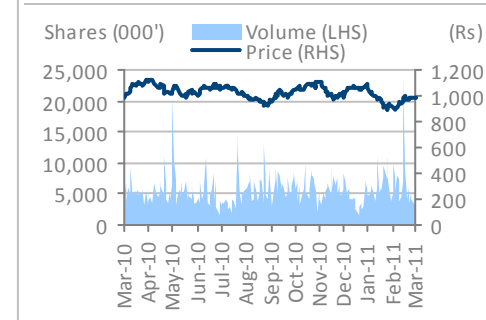
	Price performance (%)		
	1M	3M	1Y
Reliance Inds	8.7	0.9	0.4
Rel. to Sensex	3.7	5.0	-8.0
ONGC	-1.1	-17.9	-1.0
Cairn India	9.8	6.2	27.7
Indian Oil Corp	-2.5	-13.7	0.8

Shareholding pattern (%)

Promoters	44.7
FIIIs	17.6
DIIIs	10.5
Others	27.2

52Wk High/Low (Rs)	1187/841
Shares o/s (m)	3273
Daily volume (US\$ m)	127
Dividend yield FY11ii (%)	1.0
Free float (%)	55.3

Stock performance



Financial summary (Rs m)

Y/e 31 Mar	FY09A	FY10A	FY11ii	FY12ii	FY13ii
Revenues (Rs m)	1,512,240	2,037,397	2,566,103	2,673,926	2,866,053
EBITDA Margins (%)	15.5	15.2	15.1	14.9	16.6
Pre-Exceptional PAT (Rs m)	149,503	244,236	208,790	234,476	282,148
Reported PAT (Rs m)	149,503	244,236	208,790	234,476	282,148
EPS (Rs)	47.5	74.7	63.8	71.7	86.3
Growth (%)	-29.3	57.2	-14.5	12.3	20.3
IIFL vs consensus (%)			-0.2	-3.4	0.0
PER (x)	20.9	13.3	15.6	13.9	11.5
ROE (%)	14.2	18.6	13.8	13.5	14.2
Debt/Equity (x)	0.4	0.4	0.4	0.0	-0.1
EV/EBITDA (x)	15.5	12.0	8.4	7.9	6.3
Price/Book (x)	2.6	2.3	2.0	1.8	1.5

Source: Company, IIFL Research. Priced as on 09 March 2011

Assumptions

Y/e 31 Mar	FY09A	FY10A	FY11ii	FY12ii	FY13ii
Refining					
Crude throughput (mmt)	234.6	446.8	487.4	487.4	487.4
GRM (\$/bbl)	12.2	6.6	8.8	10.0	10.5
Petchem					
Volume (mmt)	7.4	8.6	9.3	10.0	10.5
Blended margin (\$/mmt)	660	634	667	675	706
E&P					
KG-D6 gas production (mmscmd)		39	56	52	60
KG-D6 crude production (kbpd)	3	10.2	21	21	40
Crude realisation (\$/bbl)	85	69.8	85	86.5	88.2
Gas realisation (\$/mmbtu)		4.2	4.2	4.2	4.2
Exchange rate (INR/US\$)	45.8	47.4	45.6	46.0	46.0

Source: Company data, IIFL Research

Key to our recommendation structure

BUY - Absolute - Stock expected to give a positive return of over 20% over a 1-year horizon.

SELL - Absolute - Stock expected to fall by more than 10% over a 1-year horizon.

In addition, **Add** and **Reduce** recommendations are based on expected returns relative to a hurdle rate. Investment horizon for **Add** and **Reduce** recommendations is up to a year. We assume the current hurdle rate at 10%, this being the average return on a debt instrument available for investment.

Add - Stock expected to give a return of 0-10% over the hurdle rate, ie a positive return of 10%+.

Reduce - Stock expected to return less than the hurdle rate, ie return of less than 10%.

Published in 2011. © India Infoline Ltd 2011

This report is published by IIFL's Institutional Equities Research desk. IIFL has other business units with independent research teams separated by Chinese walls, and therefore may, at times, have different or contrary views on stocks and markets. This report is for the personal information of the authorised recipient and is not for public distribution. This should not be reproduced or redistributed to any other person or in any form. This report is for the general information of the clients of IIFL, a division of India Infoline, and should not be construed as an offer or solicitation of an offer to buy/sell any securities.

We have exercised due diligence in checking the correctness and authenticity of the information contained herein, so far as it relates to current and historical information, but do not guarantee its accuracy or completeness. The opinions expressed are our current opinions as of the date appearing in the material and may be subject to change from time to time without notice.

India Infoline or any persons connected with it do not accept any liability arising from the use of this document. The recipients of this material should rely on their own judgment and take their own professional advice before acting on this information.

India Infoline or any of its connected persons including its directors or subsidiaries or associates or employees shall not be in any way responsible for any loss or damage that may arise to any person from any inadvertent error in the information contained, views and opinions expressed in this publication.

India Infoline and/or its affiliate companies may deal in the securities mentioned herein as a broker or for any other transaction as a Market Maker, Investment Advisor, etc. to the issuer company or its connected persons. India Infoline generally prohibits its analysts from having financial interest in the securities of any of the companies that the analysts cover. In addition, the company prohibits its employees from conducting F&O transactions or holding any shares for a period of less than 30 days.