Company

18 June 2010 | 7 pages

Reliance Industries (RELI.BO)

Equity

AGM Speech: Focus on Organic Growth; No Major Announcements

- **Focus on organic growth; no major announcements made** — At RIL's AGM today, the Chairman provided colour on growth plans in its existing businesses, while outlining entry into new businesses, viz. power and broadband wireless, following annulment of the non-compete agreement with ADAG. However, the focus remained on organic growth, with no specific announcements, either on the gas supply agreement with RNRL or on inorganic opportunities, belying some market expectations.

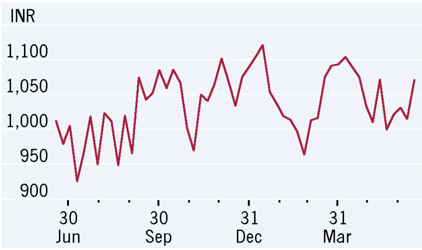
- **Reiterates new projects at Jamnagar** — RIL reiterated the three major projects at Jamnagar that it had announced in 2007: (i) expansion of PX capacity by 1.4 MMTPA, PTA by 2.3 MMTPA (under execution), (ii) setting up of 1.5 MMTPA off-gas ethylene cracker complex with matching downstream capacities (under implementation), and (iii) setting up a coke gasification facility. However, no further clarity on capex or timelines was provided.

- **E&P focus shifting to production; reserve base to double in 3 years** — RIL expects focus in its domestic E&P business to shift towards development and production of discoveries made in its portfolio, and for its proven reserve base to double in the next three years (in line with the company's past statements). Near-term priorities are to bring to production discoveries made so far (NEC-25, CBM, Cambay Basin, KG-D6 satellite fields). Simultaneously, it also plans to significantly enhance investments in shale gas and build a sizeable portfolio there.

- **Announces entry into power** — With the non-compete agreement with ADAG now annulled, RIL plans significant investments in the Indian power sector (coal, hydel, nuclear, excl. gas) over the next few years. However, as these are still at an early stage, no details on specific plans were provided.

Hold/Low Risk	2L
Price (18 Jun 10)	Rs1,084.15
Target price	Rs1,150.00
Expected share price return	6.1%
Expected dividend yield	0.6%
Expected total return	**6.7%**
Market Cap	Rs3,545,790M
	US$76,707M

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



Statistical Abstract

Year to 31 Mar	Net Profit (RsM)	Diluted EPS (Rs)	EPS growth (%)	P/E (x)	P/B (x)	ROE (%)	Yield (%)
2008A	152,606	52.50	27.8	20.7	4.0	21.2	0.6
2009A	156,367	47.59	-9.3	22.8	2.8	15.2	0.6
2010E	162,360	49.65	4.3	21.8	2.6	12.3	0.6
2011E	220,113	67.31	35.6	16.1	2.3	15.0	0.7
2012E	255,293	78.07	16.0	13.9	2.0	15.2	0.9

Source: Powered by dataCentral

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Fiscal year end 31-Mar	2008	2009	2010E	2011E	2012E
Valuation Ratios					
P/E adjusted (x)	20.7	22.8	21.8	16.1	13.9
EV/EBITDA adjusted (x)	16.2	15.8	12.5	8.9	7.8
P/BV (x)	4.0	2.8	2.6	2.3	2.0
Dividend yield (%)	0.6	0.6	0.6	0.7	0.9
Per Share Data (Rs)					
EPS adjusted	52.50	47.59	49.65	67.31	78.07
EPS reported	66.94	47.59	49.65	67.31	78.07
BVPS	274.41	384.63	419.48	478.76	546.78
DPS	6.50	6.50	7.00	8.00	10.00
Profit & Loss (RsM)					
Net sales	1,334,430	1,418,470	1,924,610	2,252,746	2,281,395
Operating expenses	-1,159,711	-1,233,593	-1,723,770	-1,970,627	-1,976,677
EBIT	**174,719**	**184,877**	**200,840**	**282,118**	**304,717**
Net interest expense	-10,774	-17,450	-19,970	-24,475	-20,952
Non-operating/exceptionals	66,156	20,180	24,600	17,530	30,046
Pre-tax profit	**230,101**	**187,607**	**205,470**	**275,173**	**313,812**
Tax	-35,519	-31,240	-43,110	-55,061	-58,519
Extraord./Min.Int./Pref.div.	0	0	0	0	0
Reported net income	**194,583**	**156,367**	**162,360**	**220,113**	**255,293**
Adjusted earnings	152,606	156,367	162,360	220,113	255,293
Adjusted EBITDA	223,190	236,830	305,810	423,887	465,772
Growth Rates (%)					
Sales	19.5	6.3	35.7	17.0	1.3
EBIT adjusted	13.1	5.8	8.6	40.5	8.0
EBITDA adjusted	10.1	6.1	29.1	38.6	9.9
EPS adjusted	27.8	-9.3	4.3	35.6	16.0
Cash Flow (RsM)					
Operating cash flow	**199,875**	**389,107**	**296,383**	**346,682**	**431,990**
Depreciation/amortization	48,471	51,953	104,970	141,768	161,054
Net working capital	-43,180	180,787	29,053	-15,199	15,644
Investing cash flow	**-229,608**	**-866,494**	**-65,091**	**-148,500**	**-147,000**
Capital expenditure	-185,480	-896,927	-65,091	-148,500	-147,000
Acquisitions/disposals	-45,604	15,485	0	0	0
Financing cash flow	**65,267**	**655,505**	**-79,359**	**-55,055**	**-178,220**
Borrowings	98,795	329,060	-113,871	-26,156	-150,000
Dividends paid	-21,666	-22,118	-26,219	-29,964	-37,455
Change in cash	**35,534**	**178,118**	**151,933**	**143,127**	**106,771**
Balance Sheet (RsM)					
Total assets	**1,498,390**	**2,457,057**	**2,510,060**	**2,746,090**	**2,832,819**
Cash & cash equivalent	71,765	231,659	134,620	212,877	305,650
Accounts receivable	62,276	45,714	116,600	150,128	152,037
Net fixed assets	848,895	1,693,869	1,653,990	1,660,722	1,646,668
Total liabilities	**683,903**	**1,193,327**	**1,138,350**	**1,180,552**	**1,044,844**
Accounts payable	183,360	147,824	368,490	416,306	413,293
Total Debt	364,521	738,821	624,950	598,794	448,794
Shareholders' funds	**814,486**	**1,263,730**	**1,371,710**	**1,565,538**	**1,787,975**
Profitability/Solvency Ratios (%)					
EBITDA margin adjusted	16.7	16.7	15.9	18.8	20.4
ROE adjusted	21.2	15.2	12.3	15.0	15.2
ROIC adjusted	16.1	11.8	9.2	12.4	13.1
Net debt to equity	35.9	40.1	35.7	24.7	8.0
Total debt to capital	30.9	36.9	31.3	27.7	20.1

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Reliance Industries

Company description

Reliance Industries is a conglomerate with interests in upstream oil & gas (E&P), refining, and petrochemicals. It has commissioned a super-size refinery project through RPL (now merged with itself) and has also commenced gas production at its large gas find in the D6 block in KG basin. RIL is foraying into organized retailing and has plans to undertake SEZ projects over the medium to long term.

Investment strategy

We rate RIL as Hold/Low Risk (2L) with a target price of Rs1,150. We believe that the stock is pricing in a moderate but sustained refining recovery and meaningful exploration upside. While a 50% premium to NAV looks justified for the E&P business given new discoveries and the intensive exploration calendar, present stock valuations leave little room for disappointment, esp. given the long-gestation from discovery to production. Further, while petchem could surprise on the upside if the downturn is less severe, on the refining side, the stock is factoring in stable macro and demand recovery in the developed world. While acquisitions, such as the Atlas JV, could be value accretive, these are unlikely to be large enough to swing the needle for RIL.

Valuation

Our target price of Rs1,150 is based on an average of a sum-of-the-parts value (Rs1,043/share) and a P/E value (Rs1,203/share) and explicitly includes the NPV of the shale gas JV with Atlas Energy of Rs30/share. Our SOTP is derived by: 1) Valuing RIL's core petchem and downstream oil business on an EV/EBITDA of 7.0x mid-FY12E, in line with regional chemicals and refining peers; this also captures the expected recovery in global refining; 2) Valuing total E&P assets including oil & gas prospects and other blocks at Rs460/share based on 8x mid-FY12E EV/EBITDA; 3) Valuing investments in the organized retail business, SEZ, etc. at Rs44/share, based on book value of investments so far; and 4) Valuing treasury stock (post stock sale) at target price. For the P/E valuation, we ascribe a 15x mid-FY12E multiple, in line with the market multiple. We believe RPL and KG gas commencement will lead to the market now focusing on FY11/12 earnings (which capture the impact of both), prompting us to give equal weightage to a multiple-based methodology as well as an SOTP while deducing our target price.

Risks

We rate RIL Low Risk, as opposed to the Medium Risk rating suggested by our quantitative risk-rating system, as diversified earnings and significant value contribution from the emerging E&P business partly mitigate the impact of the global slowdown on the cyclical components of its business, while commencement of the new refinery and KG gas production limit execution risks. Downside risks to our target price are: RIL's margins are exposed to the global petrochemical and refining cycles; delays in the ramp-up of production of KG-D6 gas; negative outcome on the KG gas dispute; delays in the drilling programme and/or negative news-flow for the new blocks (D9, D3, MN-D4). Upside risks to our target price are: Value accretive acquisitions; better and faster recovery in refining margins; lower than forecast downturn in petchem; positive E&P news-flow for the new blocks (D9, D3, MN-D4).

Appendix A-1

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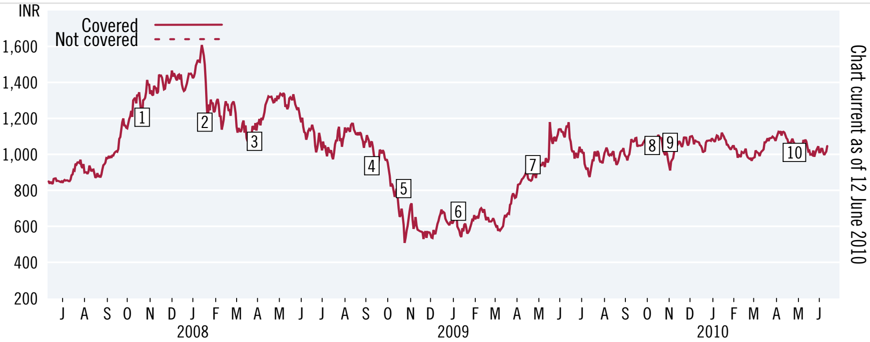
Reliance Industries (RELI.BO)

Ratings and Target Price History
Fundamental Research
Analyst: Rahul Singh



	Date	Rating	Target Price	Closing Price
1	21-Oct-07	1L	*1,430.00	1,234.60
2	17-Jan-08	1L	*1,730.00	1,498.13
3	27-Mar-08	1L	*1,425.00	1,137.50
4	9-Sep-08	1L	*1,225.00	1,071.42
5	23-Oct-08	*1M	*878.00	607.63
6	8-Jan-09	1M	*737.50	598.40
7	23-Apr-09	*2L	*917.50	881.18
8	8-Oct-09	2L	*1,100.00	1,059.60
9	3-Nov-09	*1L	1,100.00	910.33
10	27-Apr-10	*2L	*1,150.00	1,061.10

* Indicates change

Rating/target price changes above reflect Eastern Standard Time

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