

Reliance Industries Ltd

2Q earnings preview

We expect RIL to continue with its steady earnings delivery this quarter (PAT expected to rise 16% y/y; flat q/q, at Rs57.2bn), as refining margins continued to remain robust, and polyester margins stayed stronger than expected. We believe continued earnings delivery, along with a roadmap for ramp up of gas production would be catalysts for continued stock outperformance.

- GRMs have been robust:** Singapore benchmark GRMs averaged \$8.13/bbl in 2Q (vs. \$7.5/bbl in 1Q), with better fuel oil margins (loss of \$8.1/bbl vs. \$12.1/bbl in 1Q) and improving gasoline spreads (\$17.5/bbl in 2Q vs. \$15.2/bbl) offsetting the decline in diesel spreads (\$17.6/bbl in 2Q vs. \$19.6/bbl). We expect RIL to report GRMs of ~\$10.5/bbl (up from \$10.25/bbl in 1Q).
- Petrochemicals to remain stable:** Petrochemical earnings came off their 4Q highs last quarter, as polyester spreads weakened. However, overall polyester chain margins improved in 2Q (to \$1228/MT from \$1145/MT in 1Q), while tightness in the MEG market led spreads higher (\$595/MT from \$404/MT in 1Q).
- E&P –declines continue:** With further declines in output, we expect KG-D6 production to average ~44mmscmd in 2Q (down from 49mmscmd in 1Q) – leading to a decline to a 20% EBIT contribution from the E&P segment.
- Cyclical outlook hazier, but outperformance likely to continue:** RIL stock has outperformed the benchmark Sensex by 8% over the last three months. Uncertain outlook on global economic growth/commodity demand trends, could impact cyclical margins which have held up very well YTD. However, we believe that stock specific risks (CAG report, E&P issues) are well discounted and incremental newsflow will be positive especially in the E&P space. We maintain our OW rating.

Overweight

RELI.BO, RIL IN

Price: Rs846.90

Price Target: Rs1,200.00

India

India Oil, Gas and Petrochemicals

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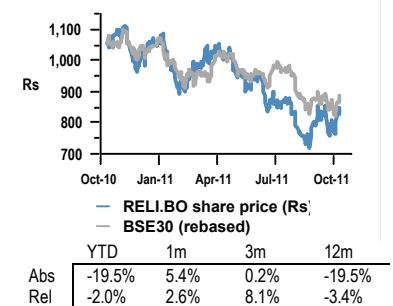
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J.P. Morgan India Private Limited

Price Performance



Reliance Industries Ltd (Reuters: RELI.BO, Bloomberg: RIL IN)

Rs in mn, year-end Mar	FY10A	FY11A	FY12E	FY13E	FY14E
Revenue (Rs mn)	2,037,400	2,658,106	3,132,220	3,005,420	2,946,670
Net Profit (Rs mn)	158,180.00	192,715.20	220,537.76	258,286.67	293,954.39
EPS (Rs)	53.12	64.65	73.98	86.64	98.61
DPS (Rs)	7.00	8.00	10.00	10.00	10.00
Revenue growth (%)	34.7%	30.5%	17.8%	-4.1%	-2.0%
EPS growth (%)	-4.2%	21.7%	14.4%	17.1%	13.8%
ROCE	12.0%	13.0%	12.6%	13.3%	13.8%
ROE	16.5%	17.5%	17.3%	17.6%	17.5%
P/E	15.9	13.1	11.4	9.8	8.6
P/BV	2.5	2.1	1.9	1.6	1.4
EV/EBITDA	9.4	7.2	6.0	5.2	4.4
Dividend Yield	0.8%	0.9%	1.2%	1.2%	1.2%

Source: Company data, Bloomberg, J.P. Morgan estimates.

Company Data

Shares O/S (mn)	3,274
Market Cap (Rs mn)	2,773,090
Market Cap (\$ mn)	56,415
Price (Rs)	846.90
Date Of Price	13 Oct 11
Free float (%)	50.2%
3-mth trading value (Rs mn)	2,307.97
3-mth trading value (\$ mn)	46.95
3-mth trading volume (mn)	1.38
IN	

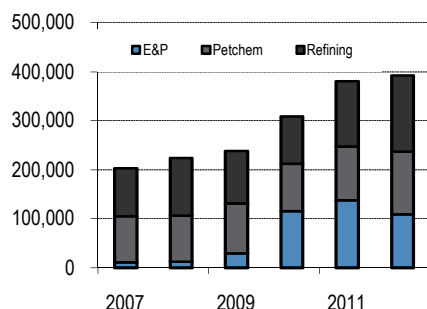
See page 8 for analyst certification and important disclosures, including non-US analyst disclosures.

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Company Description

RIL is a conglomerate with interests in refining, petrochemical, E&P, retail and infrastructure development. RIL is India's largest company by market cap, and is a dominant player in the domestic petrochemical market. It recently merged RPL with itself. Over FY10-13E we estimate RIL's EPS would grow 25% CAGR. Stable gas earnings would contribute ~37% of FY12E Ebitda.

RIL Ebitda Break-up (Rs mn)



Source: Company, J.P. Morgan estimates

EPS: J.P. Morgan vs consensus (Rs)

	J. P. Morgan	Consensus
FY12E	74.0	71.9
FY13E	86.6	78.2

Source: Bloomberg, J.P. Morgan estimates

P&L sensitivity metrics (FY12)

	EBITDA impact (%)	EPS impact (%)
GRM assumption		
Impact of each US\$1/bbl	-4.6%	-6.2%
Petchem margins		
Impact of 10% lower Petchem Ebitda	-3.0%	-4.0%
Gas Volume		
Impact of 10% lower gas volumes	-1.7%	-2.1%
Rupee depreciation		
Impact due to 5% rupee depreciation	4.1%	5.5%

Source: J.P. Morgan estimates

Price target and valuation analysis

Our Mar-12 PT is Rs 1200/share based on an SOTP valuation. We estimate 15% earnings CAGR for RIL over FY11-14E with robust refining and petchem performance and introducing shale gas revenues. We lower our assumptions on KG gas production to 50-65mmscmd over FY12/13.

FY12 EPS	74
FY12 Ebitda	392,255
Current Price	851
FY12E P/E	11.5
FY12E EV/Ebitda	6.0

We estimate gas revenues, along with improving refining and petchem margins would be the primary drivers for earnings growth over FY10-13E. Also RIL's earnings are positively linked to rupee depreciation. Key downside risk would be a prolonged global slowdown leading to lower refining and petchem earnings, and harsh regulatory action.

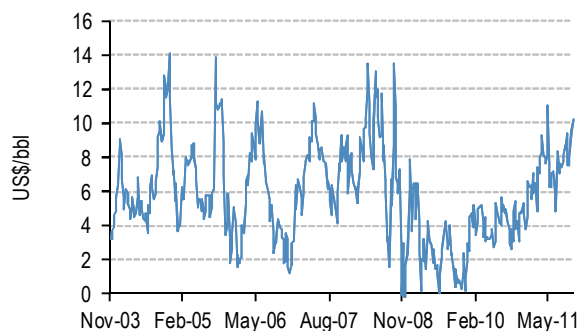
Table 1: RIL 2Q earnings summary

(Rs mn)	2Q11	3Q11	4Q11	1Q12	2Q12E	YoY (%)	QoQ (%)
Net sales	574,790	597,890	726,740	810,180	850,689	48%	5%
EBIDTA	93,960	95,450	98,430	99,260	99,786	6%	1%
Interest	(5,420)	(5,490)	(6,960)	(5,450)	(5,500)	1%	1%
Depreciation	(33,770)	(33,590)	(33,870)	(31,950)	(31,950)	-5%	0%
Non-op income	6,720	7,410	9,170	10,780	9,000	34%	-17%
PBT	61,490	63,780	66,770	72,640	71,336	16%	-2%
Net profit	49,230	51,360	53,760	56,610	57,208	16%	1%
Refining	2Q11	3Q11	4Q11	1Q12	2Q12E	YoY (%)	QoQ (%)
GRM (US\$/bbl)	7.9	9.0	9.2	10.3	10.5	33%	2%
Refining Throughput (mmt)	16.9	16.1	16.7	17.0	16.7	-1%	-2%
Singapore GRM (US\$/bbl)	4.2	4.4	6.6	7.5	8.1	91%	8%
Differential (US\$/bbl)	3.7	4.6	2.6	2.8	2.4	-35%	-15%
Segment PBIT	2Q11	3Q11	4Q11	1Q12	2Q12E	YoY (%)	QoQ (%)
Petrochemicals	21,970	24,290	26,260	22,150	22,216	1%	0%
Refining	21,920	24,360	25,090	31,990	31,844	45%	0%
Oil and gas	17,060	15,040	15,690	14,730	13,686	-20%	-7%
Others	80	90	90	80	90	13%	13%
Total EBIT	61,030	63,780	67,130	68,950	67,836	11%	-2%

Source: J.P. Morgan estimates, Company data.

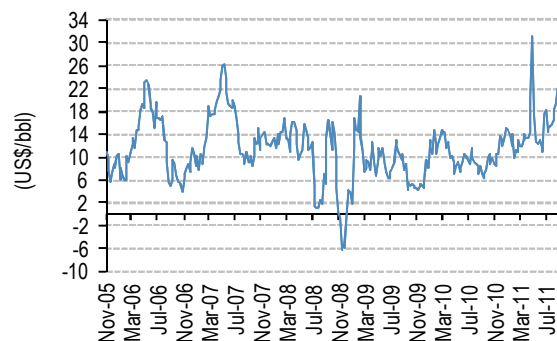
Despite the sharp depreciation of the INR in September we do not see any significant impact on the P/L, as RIL re/de capitalizes balance sheet assets in line with currency movements.

Figure 1: Singapore GRM (\$/bbl)



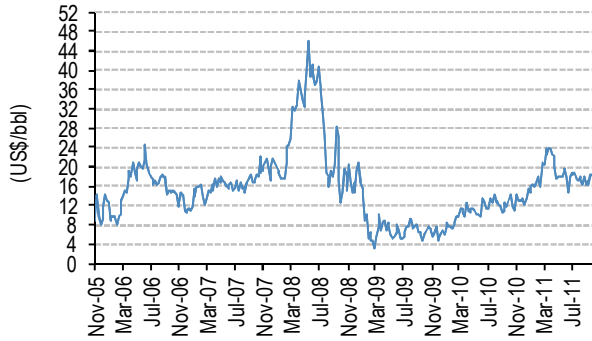
Source: Bloomberg.

Figure 2: Gasoline spread (\$/bbl)



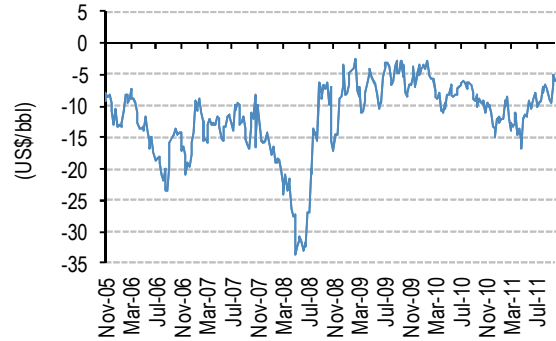
Source: Bloomberg.

Figure 3: Diesel spread (\$/bbl)



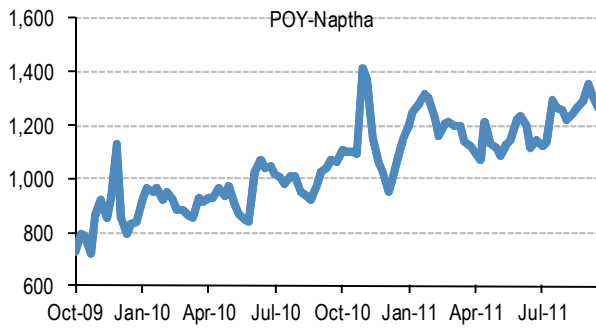
Source: Bloomberg.

Figure 4: Fuel oil spread (\$/bbl)



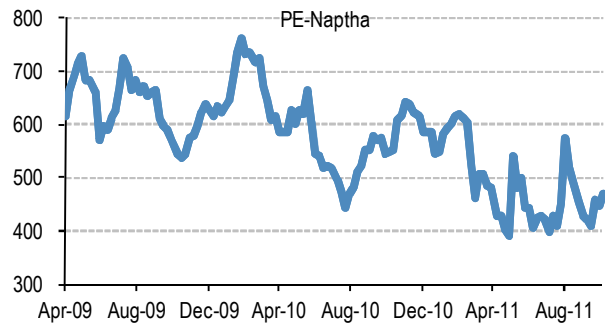
Source: Bloomberg.

Figure 5: POY - Naphtha spread (\$/MT)



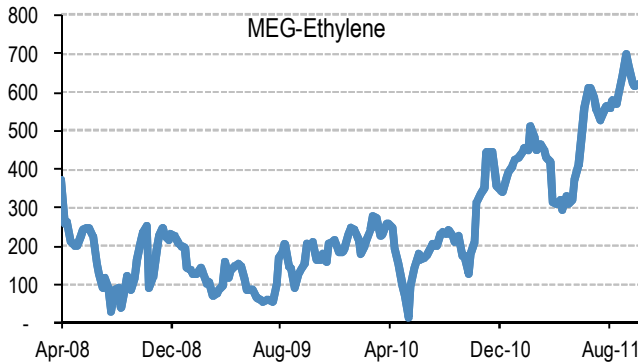
Source: Bloomberg.

Figure 6: PE - Naphtha spread (\$/MT)



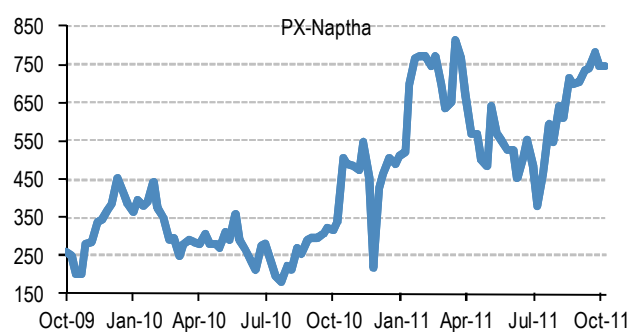
Source: Bloomberg.

Figure 7: MEG - Ethylene spread (\$/MT)



Source: Bloomberg.

Figure 8: PX - Naphtha spread (\$/MT)



Source: Bloomberg.

Table 2: RIL SOTP

Mar-12 SOTP	Rs m	US\$ bn	Rs/share	Comments
Refining Business				
Existing Refinery				
Refining EBITDA	172,339			
EV of Refining business	1,378,714	30.6	421	At 8x EV/EBITDA
Value of Refining businesses	1,378,714	30.6	421	
Petrochemicals				
Petchem EBITDA	128,939			
EV of petchem business'	967,045	21.5		At 7.5x EV/EBITDA
Value of Petrochem business	967,045	21.5	295	
PMT and other assets				
PMT and other EBITDA	43,365			
PMT and other businesses	325,238	7.2	99	At 7.5x EV/EBITDA
New E&P Assets	663,221	14.7	203	SOP of E&P assets with sustainability premium
Value of total E&P & other assets	988,459	22.0	302	
Investments and Net debt				
Treasury stock	295,794	6.6	90	
Net Debt (FY12)	(293,987)	-6.5	(90)	(Debt - Investments - Cash)
Value of Investments and Net debt	589,781	13.1	180	
Value for Equity holders (Rs m)	3,923,998	87.2	1,199	
New E&P Assets				
	Rs mn	US\$ bn	Rs/Share	
KG D-6 Gas + Oil	395320	8.8	121	DCF based on 90 mmscmd of peak production + 60K b/d of oil production from MA fields
NEC-25 + CBM	95955	2.1	29	NEC -25 50% recovery and CBM at 50% recovery at US\$ 3.5/boe
Sustainability premium	171946	3.8	53	35% of quantified discoveries
New E&P Valuation	663221	14.7	203	

Source: J.P. Morgan estimates.

JPM Q-Profile

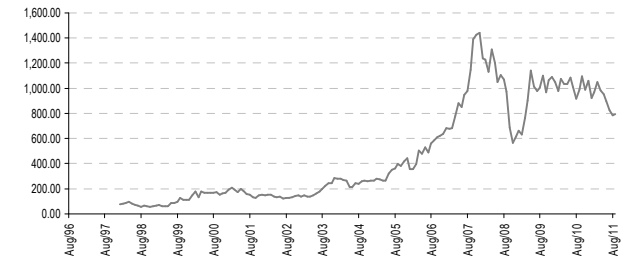
Reliance Industries Ltd. (INDIA / Energy)

As Of: 29-Sep-2011

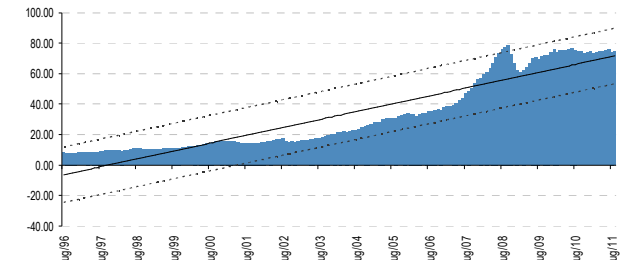
Global Equity Quantitative Analysis

Quant_Strategy@jpmorgan.com

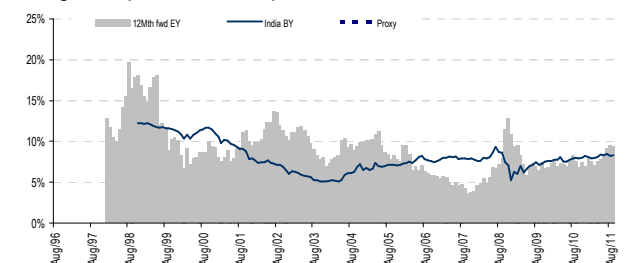
Local Share Price Current: **797.00**



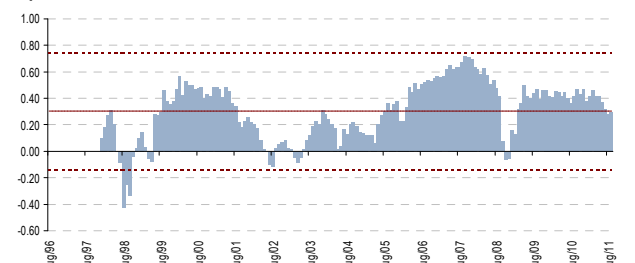
12 Mth Forward EPS Current: **74.89**



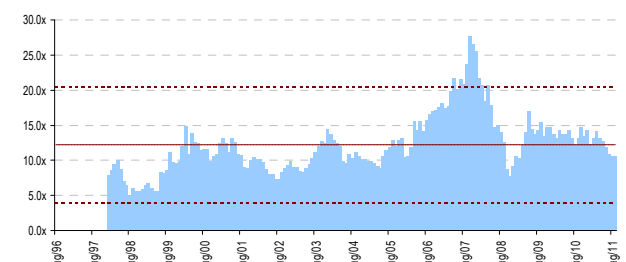
Earnings Yield (& local bond Yield) Current: **9%**



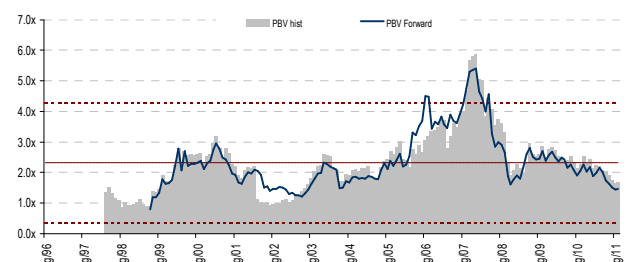
Implied Value Of Growth* Current: **29.56%**



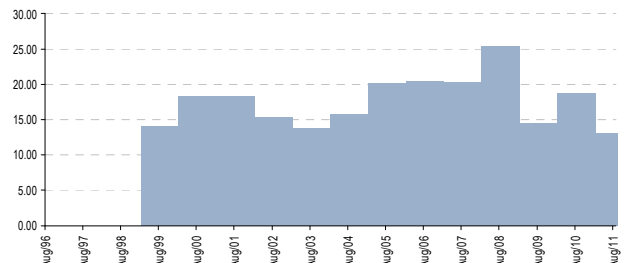
PE (1Yr Forward) Current: **10.6x**



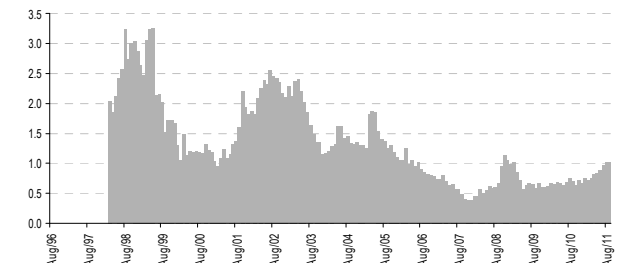
Price/Book Value Current: **1.7x**



ROE (Trailing) Current: **13.08**



Dividend Yield (Trailing) Current: **1.02**



Summary

Reliance Industries Ltd.		SEDOL		6099626		As Of:		29-Sep-11			
INDIA						Local Price:		797.00			
Energy						EPS:		74.89			
	Latest	Min	Max	Median	Average	2 S.D.+	2 S.D. -	% to Min	% to Max	% to Med	% to Avg
12mth Forward PE	10.64x	5.09	27.67	11.63	12.23	20.47	3.98	-52%	160%	9%	15%
P/BV (Trailing)	1.69x	0.86	5.89	2.24	2.33	4.28	0.38	-49%	248%	32%	37%
Dividend Yield (Trailing)	1.02	0.38	3.25	1.18	1.34	2.74	-0.06	-63%	218%	16%	31%
ROE (Trailing)	13.08	13.08	25.40	18.24	17.67	24.42	10.92	0%	94%	39%	35%
Implied Value of Growth	29.6%	-0.43	0.72	0.36	0.30	0.75	-0.14	-247%	143%	20%	2%

Source: Bloomberg, Reuters Global Fundamentals, IBES CONSENSUS, J.P. Morgan Calcs

* Implied Value Of Growth = (1 - EY/Cost of equity) where cost of equity = Bond Yield + 5.0% (ERP)

Reliance Industries Ltd: Summary of Financials

Income Statement						Cash flow statement					
Rs in millions, year end Mar	FY09	FY10	FY11	FY12E	FY13E	Rs in millions, year end Mar	FY09	FY10	FY11	FY12E	FY13E
Revenues	1,512,245	2,037,400	2,658,106	3,132,220	3,005,420	EBIT	181,123	199,480	239,228	263,330	299,254
% change Y/Y	13.3%	34.7%	30.5%	17.8%	(4.1%)	Depr. & amortization	56,510	109,460	141,208	128,925	141,424
Gross Margin	27.3%	24.1%	23.1%	56.9%	58.6%	Change in working capital	-46,221	-143,128	25,257	-98,787	1,656
EBITDA	237,633	308,940	380,436	392,255	440,679	Taxes	-12,740	-31,250	-44,124	-60,512	-70,026
% change Y/Y	6.5%	30.0%	23.1%	3.1%	12.3%	Others	-	-	-	-	-
EBITDA Margin	15.7%	15.2%	14.3%	12.5%	14.7%	Cash flow from operations	159,502	210,573	359,180	240,279	380,568
EBIT	181,123	199,480	239,228	263,330	299,254	Capex	-437,983	-219,210	-150,474	-175,500	-267,000
% change Y/Y	3.7%	10.1%	19.9%	10.1%	13.6%	Disposal/(purchase)	-	-	-	-	-
EBIT Margin	12.0%	9.8%	9.0%	8.4%	10.0%	Free cash flow	-278,481	-8,638	208,705	388,779	113,568
Net Interest	-2,720	87,320	1,321	21,184	33,438	Equity raised/(repaid)	68,056	-116,128	-1,973	0	0
Earnings before tax	175,123	372,860	240,550	284,514	332,692	Debt raised/(repaid)	398,046	-116,511	195,007	-42,682	-31,802
% change Y/Y	-35.6%	112.9%	-35.5%	18.3%	16.9%	Other	-	-	-	-	-
Tax	-29,190	-42,560	-47,834	-63,976	-74,406	Dividends paid	-22,195	-24,286	-34,729	-34,729	-34,729
as % of EBT	16.7%	11.4%	19.9%	22.5%	22.4%	Beginning cash	-	-	-	-	-
Net income (reported)	152,492.60	158,180.00	192,715.20	220,537.76	258,286.67	Ending cash	-	-	-	-	-
% change Y/Y	-0.1%	3.7%	21.8%	14.4%	17.1%	DPS	6.90	7.00	8.00	10.00	10.00
Shares outstanding	2,749	2,978	2,981	2,981	2,981						
EPS (reported)	55.46	53.12	64.65	73.98	86.64						
% change Y/Y	5.6%	(4.2%)	21.7%	14.4%	17.1%						
Balance sheet						Ratio Analysis					
Rs in millions, year end Mar	FY09	FY10	FY11	FY12E	FY13E	Rs in millions, year end Mar	FY09	FY10	FY11	FY12E	FY13E
Cash and cash equivalents	227,421	138,908	301,390	561,259	570,266	EBITDA margin	15.7%	15.2%	14.3%	12.5%	14.7%
Accounts receivable	48,450	100,829	156,952	109,575	105,875	Operating margin	12.0%	9.8%	9.0%	8.4%	10.0%
Inventories	201,096	343,933	385,194	414,881	392,310	Net margin	10.1%	7.8%	7.2%	7.0%	8.6%
Others	110,494	107,409	137,273	139,952	142,699	Sales per share growth	19.8%	24.4%	30.3%	17.8%	(4.1%)
Current assets	651,816	822,203	1,324,271	1,625,113	1,648,625	Sales growth	13.3%	34.7%	30.5%	17.8%	(4.1%)
LT investments	-	-	-	-	-	Net profit growth	-0.1%	3.7%	21.8%	14.4%	17.1%
Net fixed assets	1,498,880	1,375,761	1,385,028	1,107,602	1,233,178	EPS growth	5.6%	(4.2%)	21.7%	14.4%	17.1%
Total Assets	2,150,696	2,197,964	2,709,299	2,732,715	2,881,803	Interest coverage (x)	87.36	-	-	-	-
Liabilities						Net debt to total capital	35.2%	22.6%	10.6%	-7.8%	-10.7%
Short-term loans	83,675	66,192	131,886	131,662	131,662	Net debt to equity	52.1%	36.9%	16.6%	-11.9%	-15.4%
Payables	-	-	-	-	-	Sales/assets	0.87	0.94	1.08	1.15	1.07
Others	483,833	532,815	685,329	571,544	549,675	Assets/equity	1.84	1.67	1.53	1.43	1.84
Total current liabilities	567,508	599,007	817,215	703,206	681,337	ROE	19.8%	16.5%	17.5%	17.3%	17.6%
Long-term debt	678,891	579,863	709,176	666,718	634,916	ROCE	13.6%	12.0%	13.0%	12.6%	13.3%
Other liabilities	0	0	0	0	0						
Total Liabilities	1,246,399	1,178,870	1,526,391	1,369,924	1,316,253						
Shareholders' equity	904,296	1,019,093	1,182,908	1,362,791	1,565,550						
BVPS	328.91	342.20	396.81	457.16	525.17						

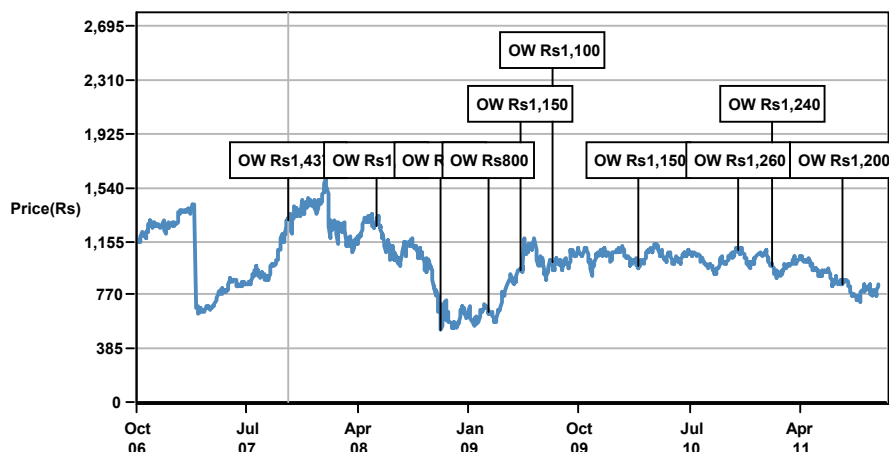
Source: Company reports and J.P. Morgan estimates.

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Reliance Industries Ltd (RELI.BO) Price Chart



Date	Rating	Share Price (Rs)	Price Target (Rs)
11-Oct-07	OW	1309.20	1437.50
15-May-08	OW	1265.38	1455.00
24-Oct-08	OW	509.75	875.00
18-Feb-09	OW	647.58	800.00
06-May-09	OW	941.83	1150.00
26-Jul-09	OW	1008.42	1100.00
24-Feb-10	OW	978.80	1150.00
31-Oct-10	OW	1093.20	1260.00
22-Jan-11	OW	969.85	1240.00
13-Jul-11	OW	853.30	1200.00

Source: Bloomberg and J.P. Morgan; price data adjusted for stock splits and dividends. Initiated coverage Oct 11, 2007.

The chart(s) show J.P. Morgan's continuing coverage of the stocks; the current analysts may or may not have covered it over the entire period.

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