

# No significant impact of 4-24% oil price upgrade

## No significant impact of oil price upgrade; Underperform

We have raised RIL's FY10-FY12E EPS by 1-3% and PO by 0.4% due to 4-24% upgrade in FY10-FY12E oil price forecast. RIL's 2-year EPS CAGR is robust at 33%. However RIL's refining margin especially in FY11E could be lower than US\$9.6/bbl assumed by us given the prevailing weakness in refining margins, which could be sustained for some time. Also there would be 12-13% downside to FY10-FY11E EPS if RIL does not get tax holiday for gas production. There is uncertainty on whether RIL will get 7-year income tax holiday for its gas production. The hit to RIL's PO would be Rs275/share (15%) if RIL does not eventually get a tax holiday on gas production. Our PO factors ample exploration upside – it values exploration upside of 4.3bn boe in addition to value of 2P reserves and resources of 4.7bn. Our price objective of Rs1,814/share implies 2% potential downside. We retain underperform on RIL

## FY10-FY12E EPS up 1-3% on oil upgrade; PO up marginally

RIL's FY10-FY12E EPS is upgraded by 1-3% due to 4-24% upgrade in Brent price forecast. RIL's PO is raised by just 0.4% to Rs1,814/share from Rs1,806/share due to the oil price upgrade.

## RIL's EPS and PO sensitivity to oil price very low

RIL's EPS and PO is not very sensitive to oil prices as 97% of its reserves and 88-92% of its FY10-FY12E production is gas. RIL's gas price sensitivity to oil price is low up to US\$60/bbl. Gas price linkage to oil is capped at US\$60/bbl. Another reason is that refining and petrochemicals also contribute significantly to RIL's earnings and PO. Thus RIL has no direct leverage to oil prices.

## Estimates (Mar)

(Rs)	2007A	2008A	2009E	2010E	2011E
Net Income (Adjusted - mn)	125,476	153,244	156,070	207,942	277,805
EPS	86.34	105.44	95.01	126.59	169.13
EPS Change (YoY)	26.6%	22.1%	-9.9%	33.2%	33.6%
Dividend / Share	9.91	11.00	12.00	15.00	15.00
Free Cash Flow / Share	(105.18)	(68.52)	(49.38)	99.67	84.22
GDR EPS (US\$)	3.82	5.24	3.91	5.21	6.96
GDR Dividend / Share (US\$)	0.438	0.546	0.494	0.618	0.618

## Valuation (Mar)

	2007A	2008A	2009E	2010E	2011E
P/E	21.93x	17.95x	19.92x	14.95x	11.19x
Dividend Yield	0.524%	0.581%	0.634%	0.792%	0.792%
EV / EBITDA*	17.54x	15.61x	15.44x	10.77x	8.35x
Free Cash Flow Yield*	-4.92%	-3.20%	-2.61%	5.26%	4.45%

\* For full definitions of *iQmethod*<sup>SM</sup> measures, see page 5.

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08 July 2009



## RESEARCH

Vidyadhar Ginde >> +91 22 6632 8673

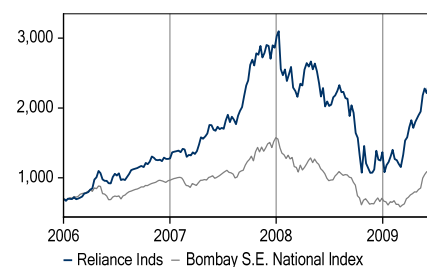
Research Analyst  
DSP Merrill Lynch (India)  
vidyadhar\_ginde@ml.com

Himanshu Bindal >> +91 22 66328684

Research Analyst  
DSP Merrill Lynch (India)  
himanshu\_bindal@ml.com

## Stock Data

Price (Common / GDR)	Rs1,893 / US\$79.90
Price Objective	Rs1,806 to Rs1,814/ US\$78.52 to US\$78.88
Date Established	7-Jul-2009 / 7-Jul-2009
Investment Opinion	B-3-7 / B-3-7
Volatility Risk	MEDIUM / MEDIUM
52-Week Range	Rs930.00-Rs2,535
Market Value (mn)	US\$64,018
Shares Outstanding (mn)	1,642.6 / 821.3
Average Daily Volume	5,773,617
ML Symbol / Exchange	XRELF / BSE
ML Symbol / Exchange	RLNIY / LIN
Bloomberg / Reuters	RIL IN / RELI.BO
ROE (2009E)	15.7%
Net Dbt to Eqty (Mar-2008A)	52.3%
Est. 5-Yr EPS / DPS Growth	0.2% / 0.1%
Free Float	45.0%



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Refer to important disclosures on page 6 to 8. Analyst Certification on Page 4. Price Objective Basis/Risk on page 4.

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08 July 2009

## iQprofile<sup>SM</sup> Reliance Industries Ltd.

Key Income Statement Data (Mar)	2007A	2008A	2009E	2010E	2011E
<b>(Rs Millions)</b>					
Sales	1,137,701	1,371,467	1,462,910	1,772,271	2,166,262
Gross Profit	347,532	373,835	557,882	483,923	622,228
Sell General & Admin Expense	(141,526)	(142,389)	(323,932)	(148,533)	(189,627)
Operating Profit	157,011	181,404	183,360	248,774	337,583
Net Interest & Other Income	(5,814)	1,369	3,410	(5,500)	(15,549)
Associates	NA	NA	NA	NA	NA
Pretax Income	151,198	182,773	186,770	243,273	322,034
Tax (expense) / Benefit	(25,723)	(29,511)	(30,700)	(35,332)	(44,229)
Net Income (Adjusted)	125,476	153,244	156,070	207,942	277,805
Average Fully Diluted Shares Outstanding	1,453	1,453	1,643	1,643	1,643

### Key Cash Flow Statement Data

Net Income	125,476	153,244	156,070	207,942	277,805
Depreciation & Amortization	48,995	50,042	50,590	86,617	95,019
Change in Working Capital	(42,218)	(108,528)	25,836	74,027	(27,937)
Deferred Taxation Charge	NA	NA	NA	NA	NA
Other Adjustments, Net	15,469	50,067	5,720	7,066	8,846
Cash Flow from Operations	147,722	144,824	238,216	375,652	353,733
Capital Expenditure	(300,591)	(244,405)	(319,331)	(211,929)	(215,389)
(Acquisition) / Disposal of Investments	13,988	(42,548)	(13,381)	0	(5,000)
Other Cash Inflow / (Outflow)	NA	NA	NA	NA	NA
Cash Flow from Investing	(286,603)	(286,953)	(332,712)	(211,929)	(220,389)
Shares Issue / (Repurchase)	59,248	(181)	168,932	0	0
Cost of Dividends Paid	(30,247)	(2,764)	(17,016)	(22,477)	(28,096)
Cash Flow from Financing	132,088	167,500	118,376	(23,477)	(90,096)
Free Cash Flow	(152,870)	(99,580)	(99,580)	163,722	138,344
Net Debt	317,144	462,219	404,799	263,554	158,306
Change in Net Debt	109,881	145,075	(57,420)	(141,246)	(105,248)

### Key Balance Sheet Data

Property, Plant & Equipment	911,669	1,127,466	1,396,207	1,521,519	1,641,890
Other Non-Current Assets	52,680	95,229	108,610	108,610	113,610
Trade Receivables	38,314	60,683	67,618	104,013	127,102
Cash & Equivalents	19,370	44,742	68,622	208,867	252,115
Other Current Assets	273,475	409,464	364,149	249,013	298,626
Total Assets	1,295,508	1,737,583	2,005,206	2,192,022	2,433,343
Long-Term Debt	252,288	390,744	366,561	370,561	333,561
Other Non-Current Liabilities	69,905	77,983	86,983	94,050	102,896
Short-Term Debt	84,227	116,217	106,860	101,860	76,860
Other Current Liabilities	202,516	268,667	261,584	262,489	307,254
Total Liabilities	608,936	853,611	821,988	828,959	820,570
Total Equity	686,572	883,972	1,183,217	1,363,063	1,612,772
Total Equity & Liabilities	1,295,508	1,737,583	2,005,206	2,192,022	2,433,343

### iQmethod<sup>SM</sup> - Bus Performance\*

Return On Capital Employed	14.4%	12.2%	10.1%	12.3%	14.6%
Return On Equity	22.6%	20.5%	15.7%	16.9%	19.2%
Operating Margin	13.8%	13.2%	12.5%	14.0%	15.6%
EBITDA Margin	18.1%	16.9%	16.0%	18.9%	20.0%

### iQmethod<sup>SM</sup> - Quality of Earnings\*

Cash Realization Ratio	1.2x	0.9x	1.5x	1.8x	1.3x
Asset Replacement Ratio	6.1x	4.9x	6.3x	2.4x	2.3x
Tax Rate (Reported)	17.0%	16.1%	16.4%	14.5%	13.7%
Net Debt-to-Equity Ratio	46.2%	52.3%	34.2%	19.3%	9.8%
Interest Cover	12.7x	16.7x	10.8x	7.9x	10.4x

### Key Metrics

\* For full definitions of iQmethod<sup>SM</sup> measures, see page 5.

### Company Description

India's largest petchem and second largest refining company, Reliance, owns a 660kbp refinery. Along with RPL, its total refining capacity would be 1.2mbpd by 2009. It also has a 900ktpa cracker, 1mtpa polyester, 1.9mtpa polymer and over 3mtpa of fibre intermediate capacities. Refining contributes 55% to revenues with petchem contributing 43%. The company has discovered gas with initial inplace reserves of over 40tcf on the East Coast.

### Investment Thesis

We expect strong earnings growth for RIL in FY10-FY12E despite assuming steep decline in refining and petrochemical margins. It will be driven by new 0.58m b/d refinery, KG D6 oil and gas output (0.6m boepd at peak). RIL has 4.7bn boe 2P reserves from exploration of 5pct of its Indian acreage. It has large unexplored prospective acreage and therefore large reserve accretion potential. However, our PO values 4.3bn boe of future reserves upside and thus amply factors in this upside potential.

### Stock Data

Shares / GDR	2.00
Price to Book Value	2.7x

08 July 2009

## RIL's revised PO

Table 1 gives RIL's revised PO.

Table 1: RIL's sum of parts valuation

Rs/share	Valuation measure used	Valuation			
		USDbn	Rs-bn	Rs/share	Break-up
<b>Business</b>					
Petrochemicals	EV/EBITDA	10.2	478	331	18%
Refining & Marketing	EV/EBITDA	10.6	499	345	19%
Exploration & production	DCF	31.9	1,502	1,040	57%
Retail	DCF	3.0	141	98	5%
<b>Sum of parts valuation</b>		<b>55.7</b>	<b>2,620</b>	<b>1,814</b>	<b>100%</b>
<b>No of shares (excluding treasury shares)</b>				<b>1,444</b>	

Source: BAS - ML

## RIL's revised E&P valuation

Table 2 gives RIL's revised E&P valuation.

Table 2: Valuation of RIL's E&P assets

	mmboe	USD/boe	Risk	USDm	Rs/share
<b>D6 2P reserves (D1 &amp; D3)</b>	<b>2,106</b>	<b>4.3</b>		<b>9,021</b>	<b>294</b>
MA oil (D-26) in D6	109	16.9		1,844	60
MA (D-26) gas in D6	139	9.6		1,332	43
PMT proven reserves	141	9.1		1,284	42
Proven oil reserves outside India	9	3.9		35	1
NEC-25 2P	447	2.8		1,264	41
CBM	594	3.6	90%	1,923	63
<b>2P reserves</b>	<b>3,545</b>	<b>4.7</b>		<b>16,704</b>	<b>544</b>
<b>D6 resources best case</b>	<b>1,166</b>	<b>2.0</b>	<b>90%</b>	<b>2,107</b>	<b>69</b>
<b>Resources</b>	<b>1,166</b>	<b>1.8</b>		<b>2,107</b>	<b>69</b>
<b>Total reserves &amp; resources</b>	<b>4,711</b>	<b>4.0</b>		<b>18,811</b>	<b>612</b>
Prospective resources gas (D9 and D3)	10,717	2.9	21%	6,428	209
Prospective resources oil (KG D9)	1,045	9.6	14%	1,373	45
Exploration upside in Mahanadi D4	1,133	2.6		2,939	96
Exploration upside from other blocks	799	3.0		2,397	78
<b>Exploration upside</b>	<b>4,292</b>	<b>3.1</b>		<b>13,138</b>	<b>428</b>
<b>Total E&amp;P valuation</b>	<b>9,003</b>	<b>3.5</b>		<b>31,949</b>	<b>1,040</b>

Shares out (excluding treasury shares)

1,444

Source: Reliance, Niko, Hardy Oil, BAS - ML

## Price objective basis & risk

### Reliance Inds (XRELF / RLNIY)

Our PO of Rs1,814 (GDR US\$78.88) is based on a sum-of-parts valuation. The value of the refining and petrochemical business has been calculated on an EV/EBITDA basis, using a multiple of 7-8x on FY10E EBITDA. Oil and gas reserves and resources, as well as its retail business, are valued on a DCF basis, using WACC of 11.8pct. Refining and marketing is 19pct of our PO, E&P valuation (Rs1,040) 57pct, petrochemicals 18pct and organized retail 5pct. DCF-based valuation of refining and petrochemicals on long-term margin assumptions higher than in FY10E is Rs830/share (Rs677 on EV/EBITDA). RIL's fair value, including DCF-based value for refining and petrochemicals, works out to Rs1,968/share. Downside risks are (1) Adverse final court decision in litigation with RNRL and NTPC on KG D6 gas pricing (2) 7-year income tax holiday being disallowed on gas production, which would mean lower cash flow, profit and fair value, (3) Lower-than-expected oil price. (4) Huge disappointments on the E&P front, as we have valued exploration upside at Rs428/share, (5) Failure in the retail business (valued at Rs98/share), and (6) Decline in refining and petrochemical margins being steeper than expected. Upside risks are (1) Favorable final ruling in litigation with RNRL and NTPC on KG D6 gas pricing (2) Refining and petrochemical margins being better than expected, (3) Higher-than-expected oil price. (4) Higher than expected reserve accretion in next 12-24 months.

## Analyst Certification

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08 July 2009

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**APR - Energy Coverage Cluster**

Investment rating	Company	ML ticker	Bloomberg symbol	Analyst
<b>BUY</b>				
	Cairn India	XCANF	CAIR IN	Vidyadhar Ginde
	ONGC	ONGCF	ONGC IN	Vidyadhar Ginde
	Sinopec	SNPMF	386 HK	Thomas Wong
	Sinopec - A	SNP	SNP US	Thomas Wong
<b>NEUTRAL</b>				
	Aban Offshore L	XBWTF	ABAN IN	Vidyadhar Ginde
	PetroChina	PCCYF	857 HK	Thomas Wong
	PetroChina - A	PTR	PTR US	Thomas Wong
<b>UNDERPERFORM</b>				
	BPCL	XBPCF	BPCL IN	Vidyadhar Ginde
	Hindustan Petro.	XHTPF	HPCL IN	Vidyadhar Ginde
	IOC	IOCOF	IOCL IN	Vidyadhar Ginde
	Petronet LNG Ltd	POLNF	PLNG IN	Vidyadhar Ginde
	Reliance Inds	XRELF	RIL IN	Vidyadhar Ginde
	Reliance Inds -G	RLNIY	RIGD LI	Vidyadhar Ginde
<b>RSTR</b>				
	RPL	RPLUF	RPET IN	Vidyadhar Ginde

**iQmethod<sup>SM</sup> Measures Definitions**

Business Performance	Numerator	Denominator
Return On Capital Employed	$\text{NOPAT} = (\text{EBIT} + \text{Interest Income}) * (1 - \text{Tax Rate}) + \text{Goodwill Amortization}$	$\text{Total Assets} - \text{Current Liabilities} + \text{ST Debt} + \text{Accumulated Goodwill Amortization}$
Return On Equity	Net Income	Shareholders' Equity
Operating Margin	Operating Profit	Sales
Earnings Growth	Expected 5-Year CAGR From Latest Actual	N/A
Free Cash Flow	Cash Flow From Operations – Total Capex	N/A
<b>Quality of Earnings</b>		
Cash Realization Ratio	Cash Flow From Operations	Net Income
Asset Replacement Ratio	Capex	Depreciation
Tax Rate	Tax Charge	Pre-Tax Income
Net Debt-To-Equity Ratio	Net Debt = Total Debt, Less Cash & Equivalents	Total Equity
Interest Cover	EBIT	Interest Expense
<b>Valuation Toolkit</b>		
Price / Earnings Ratio	Current Share Price	Diluted Earnings Per Share (Basis As Specified)
Price / Book Value	Current Share Price	Shareholders' Equity / Current Basic Shares
Dividend Yield	Annualised Declared Cash Dividend	Current Share Price
Free Cash Flow Yield	Cash Flow From Operations – Total Capex	Market Cap. = Current Share Price * Current Basic Shares
Enterprise Value / Sales	$\text{EV} = \text{Current Share Price} * \text{Current Shares} + \text{Minority Equity} + \text{Net Debt} + \text{Sales} + \text{Other LT Liabilities}$	
EV / EBITDA	Enterprise Value	Basic EBIT + Depreciation + Amortization

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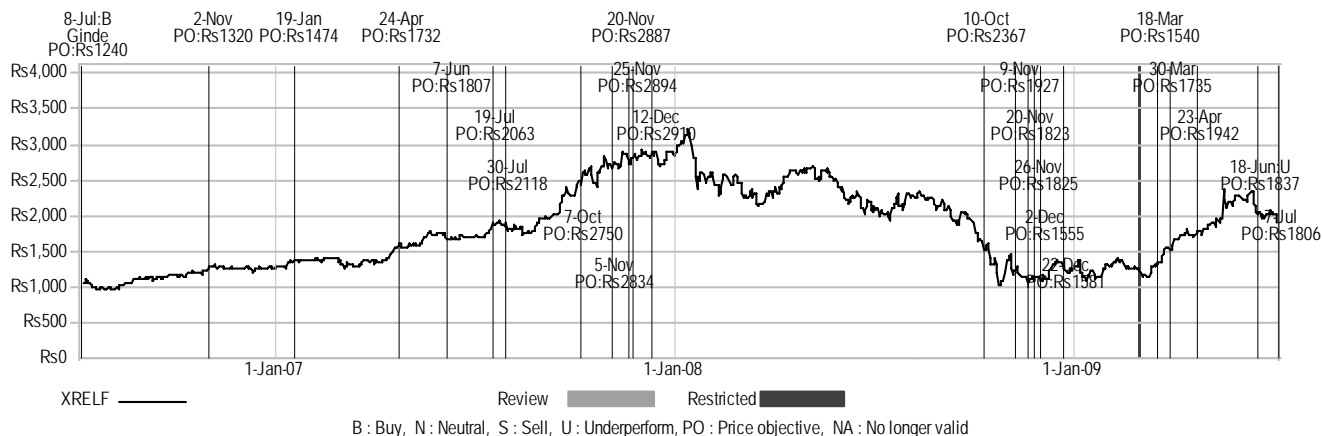
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08 July 2009

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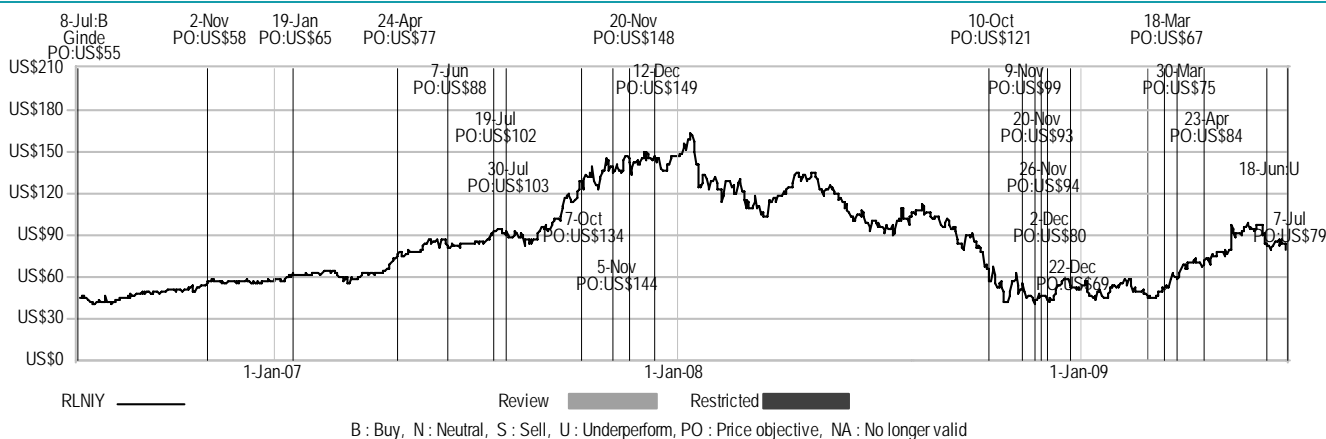
### XRELF Price Chart



B : Buy, N : Neutral, S : Sell, U : Underperform, PO : Price objective, NA : No longer valid

\*Prior to May 31, 2008, the investment opinion system included Buy, Neutral and Sell. As of May 31, 2008, the investment opinion system includes Buy, Neutral and Underperform. Dark Grey shading indicates that a security is restricted with the opinion suspended. Light grey shading indicates that a security is under review with the opinion withdrawn. The current investment opinion key is contained at the end of the report. Chart is current as of June 30, 2009 or such later date as indicated. BAS-ML price charts do not reflect analysts' coverage of the stock at prior firms. Historical price charts relating to companies covered as of June 30, 2009 by former Banc of America Securities LLC (BAS) analysts are available to BAS clients on the BAS website."

### RLNIY Price Chart



B : Buy, N : Neutral, S : Sell, U : Underperform, PO : Price objective, NA : No longer valid

\*Prior to May 31, 2008, the investment opinion system included Buy, Neutral and Sell. As of May 31, 2008, the investment opinion system includes Buy, Neutral and Underperform. Dark Grey shading indicates that a security is restricted with the opinion suspended. Light grey shading indicates that a security is under review with the opinion withdrawn. The current investment opinion key is contained at the end of the report. Chart is current as of June 30, 2009 or such later date as indicated. BAS-ML price charts do not reflect analysts' coverage of the stock at prior firms. Historical price charts relating to companies covered as of June 30, 2009 by former Banc of America Securities LLC (BAS) analysts are available to BAS clients on the BAS website."

### Investment Rating Distribution: Chemicals Group (as of 01 Jun 2009)

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	41	45.56%	Buy	13	37.14%
Neutral	27	30.00%	Neutral	10	47.62%
Sell	22	24.44%	Sell	5	23.81%

### Investment Rating Distribution: Global Group (as of 01 Jun 2009)

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	1303	40.83%	Buy	602	51.10%
Neutral	807	25.29%	Neutral	362	51.49%
Sell	1081	33.88%	Sell	394	39.96%

\* Companies in respect of which MLPF&S or an affiliate has received compensation for investment banking services within the past 12 months. For purposes of this distribution, a stock rated Underperform is included as a Sell.



08 July 2009

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Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

\* Ratings dispersions may vary from time to time where BAS-ML Research believes it better reflects the investment prospects of stocks in a Coverage Cluster.

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