



ENAM Securities
India Research

Rs 1,087

Target Price: Rs 1,170

Potential Upside: 8%

Sector avg. upside: 5% to 15%
(mkt cap wtd)

Reliance Industries

Relative to sector: **Neutral**

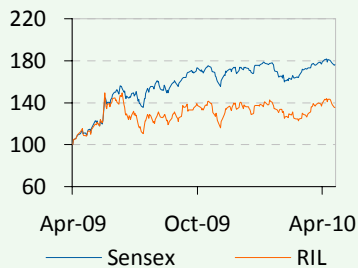
Ballabh Modani

Executive Director – Energy
Email: ballabh.modani@enam.com
Tel: 9122 6754 7677

Parikshit Shah

Asst VP – Energy
Email: parikshit.shah@enam.com

Relative Performance



Source: Bloomberg, ENAM Research

Stock data

No. of shares : 3,270 mn
Market cap : Rs 3,556 bn
52 week high/low : Rs 1,245/ Rs 849
Avg. daily vol. (6mth): 6.4 mn shares
Bloomberg code : RIL IB
Reuters code : RELI.BO

Shareholding (%) Mar-10 QoQ chg

Category	Mar-10 (%)	QoQ chg
Promoters	44.8	(1.8)
FIIs	17.6	0.8
MFs / UTI	2.6	0.2
Banks / FIs	8.1	0.6
Others	27.0	0.2

STEPPING ON THE GAS

RIL's PAT at Rs 47.1 bn (up 19% YoY and 18% QoQ) was below our estimate (Rs 49.4 bn) due to higher operating costs in the refining segment and higher depletion charges for the KG-D6 field; partly offset by good petrochem performance (EBIT Rs 22.2 bn vs. Rs 20.6 bn QoQ) and higher oil production at PMT and KG fields. Oil production at the KG-D6 field has ramped up significantly, currently at 32 kbopd vs. 13.9 kbopd in Q4FY10, while current gas production is ~62 mmscmd and can be ramped up to 80 mmscmd once GAIL's HVJ upgradation project is complete (end CY10).

Refining EBIT lower due to high operating costs: GRMs for the quarter (USD 7.5/ bbl) were in line with our estimates but EBIT for the refining segment (Rs 19.9 bn) was lower due to higher operating costs (~USD 2.5/ bbl vs. USD 2.1/bbl in Q3FY10) on account of higher sales tax post Jan'10 as deferred sales tax benefit was not available.

KG-D6 production ramped up to 62-63 mmscmd: For KG-D6 satellite discoveries (FDP for 4 discoveries submitted), DGH has asked the company to prepare optimized field development plan for the full block. RIL plans to drill 6-7 exploratory wells in FY11 which is much lower than FY10 when it drilled 26 wells (15 offshore & 11 onshore).

Petrochem continue to show strong numbers: On the back of strong polymer (19% growth due to higher industrial activity) and polyester (15% growth due to high cotton prices) demand, EBIT margins for petrochem improved to 14.4% vs. 13.9% in Q3FY10.

Cutting down EPS forecast for FY11 & FY12

To factor in higher depletion charges, lower production estimate for KG-D6 (70 mmscmd in FY11 and 90 mmscmd in FY12) and revised USD/INR estimates (43.7 for FY11 and 42.0 for FY12), we are reducing our EPS forecasts to Rs 71.3 (Rs 77.3) for FY11 and Rs 88.1 (Rs 98.4) for FY12. Consequently, our revised SOTP based target price is Rs 1,170/ share (Rs 1,230 earlier).

Financial summary (Consolidated)

Y/E Mar	Sales (Rs mn)	Adj. PAT (Rs mn)	Consensus EPS* (Rs)	EPS (Rs)	Change YoY (%)	P/E (x)	RoE (%)	RoCE (%)	EV/EBITDA (x)	DPS (Rs)
2009	1,512,240	149,687	-	47.6	(2)	22.9	14.2	11.7	16.7	6.0
2010E	2,037,400	158,980	51.4	48.6	2	22.4	12.0	10.9	12.7	7.0
2011E	2,537,264	233,106	73.0	71.3	47	15.3	15.2	15.5	8.5	10.5
2012E	2,648,390	288,129	85.7	88.1	24	12.3	16.5	18.2	6.6	12.5

Source: *Consensus broker estimates, ENAM estimates

Results update

(Rs mn)	Quarter ended					12 months ended		
	Mar-10	Mar-09	% Chg	Dec-09	% Chg	Mar-11E	Mar-10	% Chg
Net Sales	575,700	260,820	120.7	568,560	1.3	2,537,264	2,037,400	24.5
EBITDA	91,360	56,650	61.3	78,440	16.5	436,325	308,940	41.2
Other income	6,150	10,200	(39.7)	5,080	21.1	27,151	21,860	24.2
PBIDT	97,510	66,850	45.9	83,520	16.8	463,284	330,800	40.1
Depreciation	33,920	14,460	134.6	27,950	21.4	142,271	109,460	30.0
Interest	5,250	5,300	(0.9)	5,500	(4.5)	24,256	20,600	17.7
PBT	58,340	47,090	23.9	50,070	16.5	296,950	200,740	47.9
Tax	11,240	7,540	49.1	9,990	12.5	63,844	42,560	50.0
Adjusted PAT	47,100	39,550	19.1	40,080	17.5	233,106	158,980	46.6
Extra ordinary income/ (exp.)	-	(3,280)	(100.0)	-	-	-	86,060	(100.0)
Reported PAT	47,100	36,270	29.9	40,080	17.5	233,106	245,040	(4.9)
No. of shares (mn)	3,270	3,270	-	3,270	-	3,270	3,270	-
EBITDA margin (%)	15.9	21.7	-	13.8	-	17.2	15.2	-
PBIDT margin (%)	16.9	25.6	-	14.7	-	18.3	16.2	-
EPS - annualized (Rs.)	57.6	48.4	19.1	49.0	17.5	71.3	48.6	46.6

Source: Company, ENAM Research

Result highlights

Refining: Contracted 60-65 kbopd crude from Cairn's MBA field at Rajasthan

Blended GRMs for both RIL refineries stood at USD 7.5/ bbl, lower YoY (USD 9.9/ bbl) but higher QoQ (USD 5.9/bbl) as gasoline and diesel spreads improved QoQ. RIL has contracted 60-60 kbopd of Cairns' Mangala crude and has guided that it can process upto 140-150 kbopd going ahead.

Petrochem: Highest ever EBIT (Rs 22.2 bn)

Petrochem segment reported EBIT margins of 14.4%, higher than 13.9% in Q3FY10 mainly due to higher product margins. Strong PE spreads offset weak PP spreads while extremely high MEG spreads (operational disruptions in ME) helped offset weak spreads for polyester (PSF, POY, PET).

Net Capex for FY10 at Rs 93.3 bn while net debt at Rs 406 bn

Gross capex for FY10 stood at Rs 222 bn (including FX de-capitalisation of Rs 52 bn and capex related to project creditors of Rs 76.7 bn).

Forex gains for the full year stood at Rs 6.8 bn

For Q4FY10, however, there was a forex loss of Rs 0.2 bn.

Consolidated profit for FY10 stood at Rs 159 bn

Consolidated profit was marginally lower than standalone (Rs 162 bn) mainly due to loss in foreign E&P operations (~ Rs 2.1 bn at EBIT level).

Sum of the parts valuation

	Value (USD bn)	Value (Rs/share)	Valuation Methodology
Refining & Marketing	22.4	344	7.5x FY12E EBITDA
Petrochemicals	21.4	329	8.5x FY12E EBITDA
E&P	29.6	454	NPV with WACC at 10%
- KG-D6 (D1 & D3 Gas)	12.6	193	
- KG-D6 (MA Oil+Gas)	2.6	40	
- NEC25 (Gas)	1.6	25	
- CBM - Sohagpur (Gas)	0.9	13	
- PMT (Oil & Gas)	1.5	23	
- Marcellus Shale Gas	2.0	31	
- Exploration upside	8.5	130	18 TCF reserves at USD 3/boe
Haryana & Jamnagar SEZs	1.0	16	At acquisition cost
Retail	2.0	31	DCF at 10% WACC; 5% terminal growth
Business Valuation	76.5	1,173	
Other investments/loans to affiliates	1.6	25	Book value
Net long term debt	(1.8)	(28)	As on FY11 end
SOTP on diluted capital	76.3	1,170	
Diluted eq. (mn shares)		2,961	Excluding treasury stocks (309 mn)

Source: ENAM Research

E&P Portfolio

	OGIP reserves (tcf)	Reserves modeled (tcf)	Recovery factor (%)	USD/ boe
KG D6 gas	40.0	19.7	49	4.2
NEC-25 gas field	8.2	3.7	45	2.8
CBM - Sohagpur	3.7	0.9	24	5.4
Marcellus Shale Gas	4.3	4.3	100	2.6
PMT field (mmboe)	400.0	230	58	9.6
KG D6 MA (mmboe)	600.0	237	39	11.2

Source: ENAM Research

E&P – KG-D6 assumptions

KG D6 field		FY10E	FY11E	FY12E
Natural Gas				
Total production	mmscmd	39	70	90
RIL Share	mmscmd	35	63	81
Average realisation	USD/mmbtu	4.2	4.2	4.2
Oil				
Total production	kbopd	10	30	35
RIL Share	kbopd	9	27	32
Average realisation	USD/ bbl	70	75	75

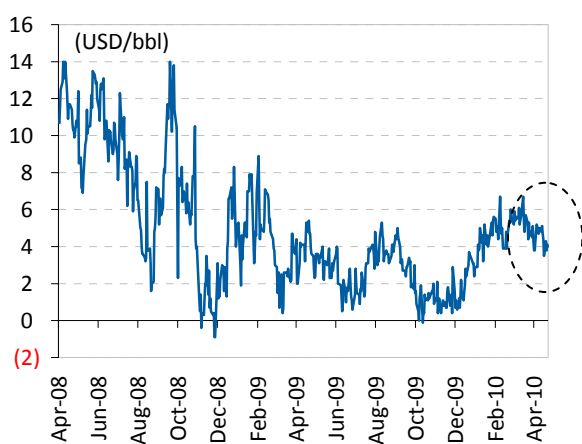
Source: ENAM Research

Refining - assumptions

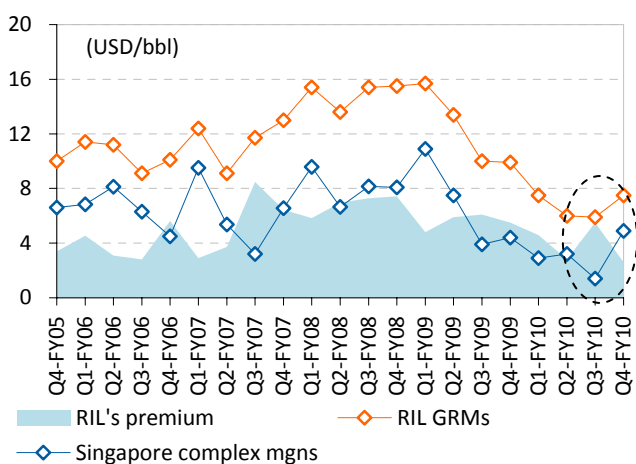
	Units	FY10E	FY11E	FY12E
Throughput	MMTPA	60.9	66.0	68.9
- RIL	MMTPA	31.7	32.7	32.7
- RPL	MMTPA	29.2	33.4	36.3
Cap. Utilization	%	98.2	106.5	111.2
Avg. GRMs	USD/bbl	6.6	7.5	8.4
- RIL	USD/bbl	6.6	6.8	7.6
- RPL	USD/bbl	6.5	8.3	9.6

Source: ENAM Research

Singapore complex refining margins

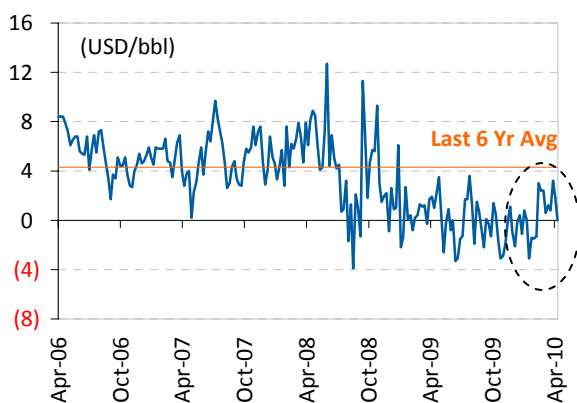


GRMs trend – RIL vs. Singapore complex

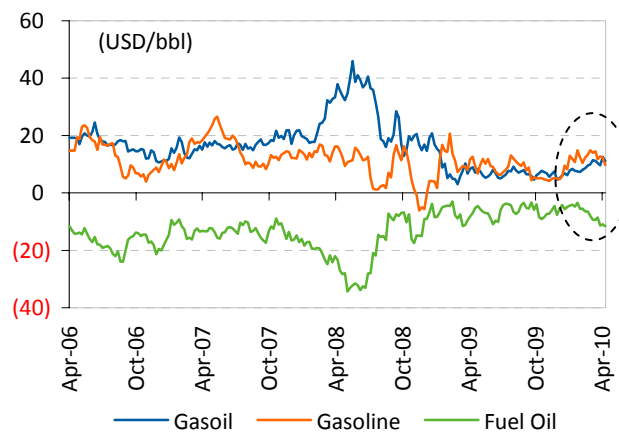


Source: Bloomberg, ENAM Research

Light-Heavy crude differential



Product spreads over Dubai Fateh



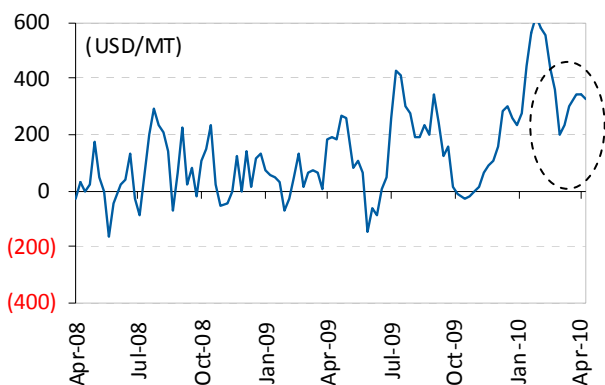
Source: Bloomberg, ENAM Research

Petrochem - assumptions

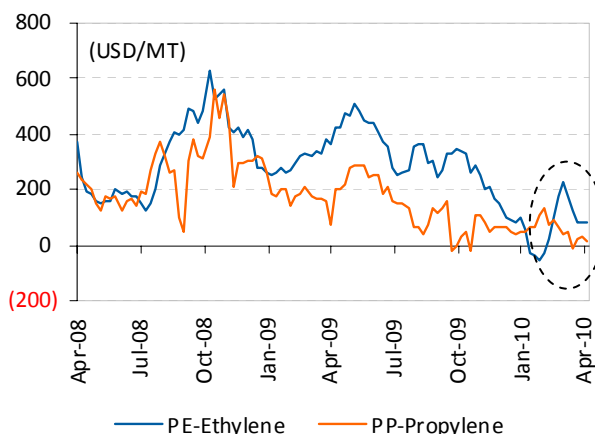
	Units	FY10E	FY11E	FY12E
Polymers				
Polymer production	MMTPA	4.0	4.1	4.2
Naphtha cracker margins	USD/MT	395	366	386
PE- Ethylene	USD/MT	281	337	354
PP- Propylene	USD/MT	211	261	276
PVC- EDC	USD/MT	249	240	255
Polyesters				
Polyester production	MMTPA	1.6	1.7	1.7
PX-Reformat	USD/MT	73	27	37
PTA-PX	USD/MT	159	167	160
PFY-PTA	USD/MT	328	320	307

Source: ENAM Research

Naphtha Cracker margins

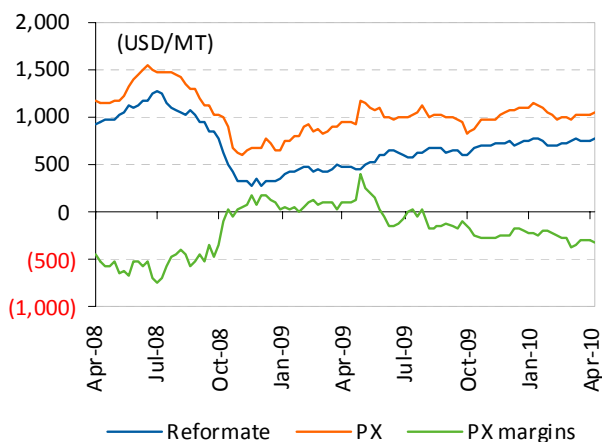


Polymer spreads

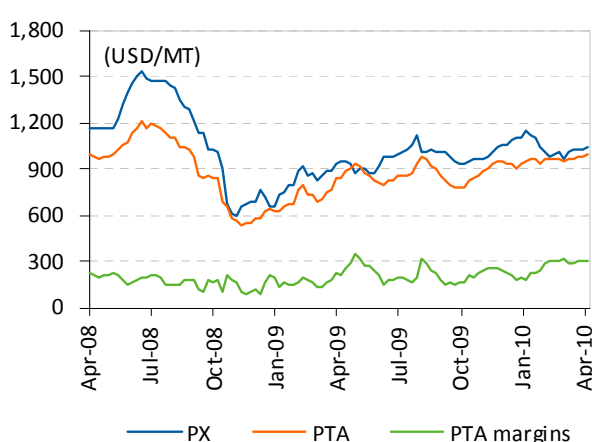


Source: Bloomberg, ENAM Research

PX- Reformate spreads



PTA-PX spreads



Source: Bloomberg, ENAM Research

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