

Reliance Industries Limited (RIL)

Rs 835

Result in line with our expectations but disappointing refining margins

BUY

RIL reported net Profit of Rs 5703 cr, in line with our expectation (Rs 5860). Net profit increased by 15.8% y-o-y, largely driven by improved performance in the refining and petrochemicals business. All manufacturing facilities operated at record levels with refineries achieving operating rates of 110%. Net sales improved by 36.7% to Rs 78,569 cr on Y-o-Y. Other income was higher at Rs 1102 cr as against Rs 672 cr on a y-o-y basis primarily due to higher average liquid investments. Outstanding debt at the end of Q2FY12 was Rs 71,399 cr compared to Rs 67,397 cr as on 31st March 2011. RIL had cash and cash equivalents of Rs 61,490 cr. The company has received total payment from BP. **The company has guided that it has put its all exploration programme on hold till a joint team of RIL-BP re-evaluates the entire exploration programme and waiting till to get necessary sanction from Govt.**

**Oil & Gas Segment:** Oil & Gas segment reported a revenue hit of 17% on Y-o-Y basis, mainly due to the decline in production from KG-D6 to the level of 46 mmscmd (avg for Q2FY12), whereas EBIT margins have improved on the back of higher crude price realization of \$112/bbl against \$77/bbl in last year same period. Panna -Mukta field restored its operations and block achieving its normalized production. CBM Soghpur (M.P.) block is expected to start production of 3 mmscmd of gas in next 2 years, waiting for sales price approval from Govt.

Particulars (Rs in Cr)	Q2FY12	Q1FY12	Q2FY11	Q-o-Q (%)	Y-o-Y (%)
Revenue	3563	3894	4303	-8.5%	-17.2%
EBIT	1531	1473	1706	3.9%	-10.3%
EBIT Margin (%)	43.0%	37.8%	39.6%	514 bps	332 bps

**Refining & Marketing:** Refining segment posted a growth of 37% on Y-o-Y basis, the refining and marketing segment achieved a record revenue due to higher prices which accounted for 38% growth in revenue, while increase in volume accounted for 3.5% growth in revenue.

Particulars (Rs in Cr)	Q2FY12	Q1FY12	Q2FY11	Q-o-Q (%)	Y-o-Y (%)
Revenue	68096	73689	49672	-7.6%	37.1%
EBIT	3075	3199	2192	-3.9%	40.3%
Crude Refined (MMT)	17.1	17	16.9	0.6%	1.2%
GRM (\$/bbl)	10.1	10.3	7.9	-1.9%	27.8%
EBIT Margin (%)	4.5%	4.3%	4.4%	17 bps	10 bps

**Valuation:**

We strongly believe 1)The company will maintain GRM of \$10.2/bbl over H2FY12 2) Any positive guidance on revival of gas production schedule from KG-D6 block would be biggest trigger 3) proper deployment of cash and strong balance sheet. We cut FY12 EPS by 2.3% mainly due to changes in assumption of KG-D6 gas output (46mmscmd FY12). We also reset our 12month price objective of Rs 1020/share. We maintain our rating of **BUY** with price objective of Rs 1020/share and stock is showing upside potential of 23%.

Particulars	FY09	FY10	FY11	FY12E	FY13E
Net Sales	1,41,847	1,92,461	2,48,170	2,89,747	3,16,427
EBITDA	23,225	33,041	41,177	46,537	51,575
PAT	15,309	16,236	20,286	23,328	25,947
EPS	97	50	62	71	79
OPM (%)	16.4	17.2	16.6	16.1	16.3
NPM (%)	10.8	8.4	8.2	8.1	8.2

Source: Company, KRChoksey Research

KRChoksey

wealth enhancement solutions

**Target Price (Rs): 1,020**

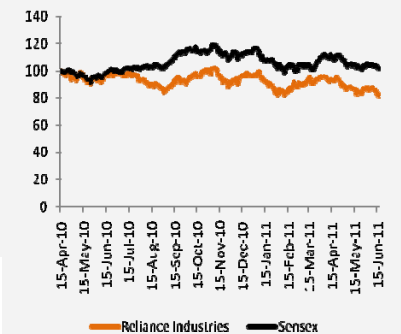
Potential Upside : 23%

Previous TP (Rs): 1,086

Market Data	
Shares outs (Cr)	327
Equity Cap (Rs Cr)	3273
Mkt Cap (Rs Crs)	2,73,295
52 Wk H/L (Rs)	1187/827
Avg Vol (1yr avg)	1401371
Face Value (Rs)	10
Bloomberg Code	RIL IN

**Market Info:**

SENSEX	17,020
NIFTY	5,118

**Share Price Performance****Share Holding pattern (%)**

Particulars	Sep-11	Jun-11	%Chg
Promoters	44.71	44.72	-0.02%
Institutions	11.07	10.78	2.69%
FII	17.32	17.37	-0.29%
Public	26.90	27.13	-0.85%
Total	100.0	100.0	

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**Reliance Industries Ltd.**

**Petrochemical business:** Segment reported a strong 39.5% y-o-y rise in revenues at Rs 21,066 cr led by robust domestic demand, as both polyester and polymer demand increased by 21% sequentially. However, EBIT grew by just 10.2 per cent (margins fell 306 basis points y-o-y to 11.5%) on the back of new supplies from West Asia and slowdown in Chinese demand.

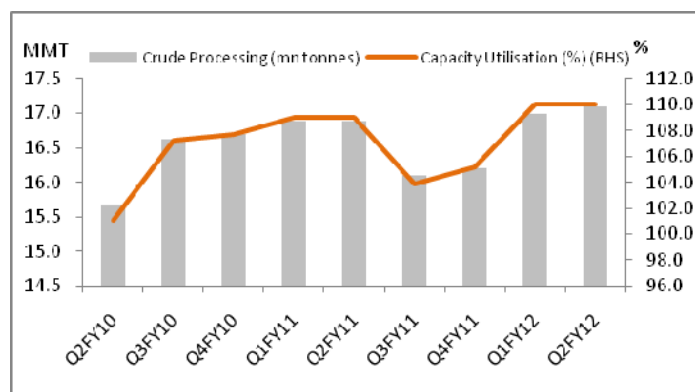
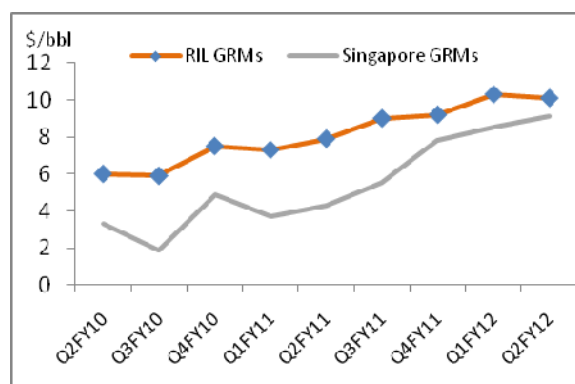
Particulars	Q2FY12	Q1FY12	Q2FY11	Q-o-Q (%)	Y-o-Y (%)
Revenue	21,066	18,366	15,096	14.7%	39.5%
EBIT	2,422	2,215	2,197	9.3%	10.2%
EBIT Margin (%)	11.5%	12.1%	14.6%	-56 bps	-306 bps
Production (MMT)	5.7	5.5	5.4	3.6%	5.6%

Outlook of petrochemical segment:

The polyester chain would continue to perform with prevailing high prices of cotton on back of declining acreage in domestic market. Going forward RIL is likely to face domestic competition from new capacity of Indian oil & GAIL, but we believe integrated player like RIL will be able to maintain same EBIT margins (11.5%) for H2FY12.

Outlook of Refining segment

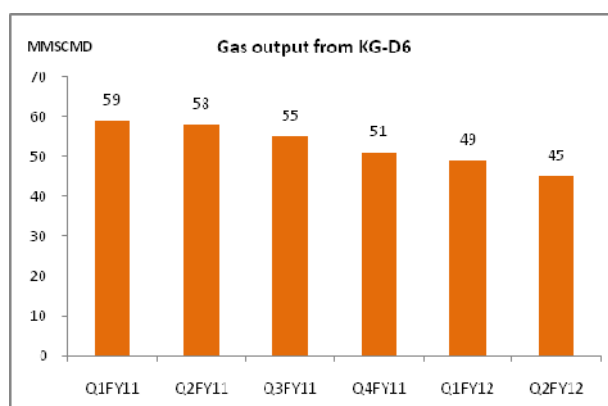
Going forward demand from China, India and Africa are expected to remain strong and the company will try to optimize its product slate to maximize the GRM which we believe would be more than \$10.2/bbl for H2FY12. Increasing export of refined product continues to reap the benefits of depreciated rupee value.



Source: Company, KR Choksey Research

Outlook of Oil & Gas (E&P)

The company has guided that it has put its all exploration programme on hold till a joint team of RIL-BP re-evaluates the entire exploration programme and waiting till to get necessary sanction from Govt. Going forward we expect 44.5mmscmd of gas output from KG-D6 for H2FY12.



Source: Company, KR Choksey Research

**Q2FY12 - Result Analysis**

Particulars Rs in Cr	Q2FY12	Q1FY12	Q2FY11	Q-o-Q (%)	Y-o-Y (%)
Gross Sales	80790	83689	59962	-3.5%	34.7%
Less : Excise	2221	2671	2483	-16.8%	-10.6%
Net Sales	78569	81018	57479	-3.0%	36.7%
(Increase) / decrease in stock in trade / work in progress	-1607	897	-334	-279.2%	381.1%
Consumption of raw materials	64661	64443	43572	0.3%	48.4%
Purchases	514	573	316	-10.3%	62.7%
Staff cost	715	878	660	-18.6%	8.3%
Other expenditure	4442	4301	3869	3.3%	14.8%
Total Expenditure	68725	71092	48083	-3.3%	42.9%
EBITDA	9844	9926	9396	-0.8%	4.8%
Other Income	1102	1078	672	2.2%	64.0%
EBIT	10946	11004	10068	-0.5%	8.7%
Depreciation	2969	3195	3377	-7.1%	-12.1%
Profit before Interest and Tax	7977	7809	6691	2.2%	19.2%
Interest	660	545	542	21.1%	21.8%
PBT	7317	7264	6149	0.7%	19.0%
Tax	1614	1603	1226	0.7%	31.6%
Net Profit	5703	5661	4923	0.7%	15.8%
Equity Capital	3274	3274	3272	0.0%	0.1%
EPS	17.42	17.29	15.05	0.7%	15.8%

**Profit & Loss Statement**

Particulars (Rs in crore)	FY10	FY11	FY12E	FY13E
<b>Net Sales</b>	<b>192461</b>	<b>248170</b>	<b>289747</b>	<b>316427</b>
Increase/Decrease in Stock	-3579	-3209	0	0
Raw Material Consumed	150915	194698	225461	241659
Power & Fuel Cost	2707	2255	2030	2233
Employee Cost	2308	2582	2840	3124
Other Manufacturing Expenses	4956	6323	7462	9880
General and Administration Expenses	2193	2239	2440	2660
Selling and Distribution Expenses	4124	5353	6424	8699
Miscellaneous Expenses	151	201	261	326
Less: Expenses Capitalised	1218	30	122	568
<b>Total Expenditure</b>	<b>162557</b>	<b>210412</b>	<b>247039</b>	<b>269149</b>
<b>Operating Profit (Excl OI)</b>	<b>29904</b>	<b>37758</b>	<b>42708</b>	<b>47278</b>
Other Income	3137	3419	3828	4297
<b>Operating Profit</b>	<b>33041</b>	<b>41177</b>	<b>46537</b>	<b>51575</b>
Interest	1997	2328	2768	1328
PBDT	31044	38850	43769	50247
Depreciation	10497	13608	12665	16106
Profit Before Tax	20547	25242	31104	34141
Provision for Tax	4312	4956	7776	8194
<b>Profit After Tax</b>	<b>16236</b>	<b>20286</b>	<b>23328</b>	<b>25947</b>
<b>Earnings Per Share</b>	<b>50</b>	<b>62</b>	<b>71</b>	<b>79</b>

## Balance sheet

Particulars (Rs in Cr)	FY10	FY11	FY12E	FY13E
<b>SOURCES OF FUNDS:</b>				
Share Capital	3272	3273	3274	3274
Total Reserves	138302	148267	173212	198622
Shareholder's Funds	141574	151540	176486	201896
Total Debts	64606	67397	71399	72399
Deferred Tax Liabilities	10678	11562	11862	11862
<b>Total Liabilities</b>	<b>216857</b>	<b>230499</b>	<b>259747</b>	<b>286157</b>
<b>APPLICATION OF FUNDS :</b>				
Fixed Asset	177225	155526	132799	150399
Investment	13112	34648	48288	37699
Current Asset				
Inventories	34393	29826	28783	33676
Sundry Debtors	10083	17442	17350	20820
Cash and Bank	13891	30139	51191	61780
<b>Other Current Assets</b>	<b>91</b>	<b>199</b>	<b>201</b>	<b>334</b>
Loans and Advances	10647	16940	19748	22710
<b>Less current Liabilities</b>				
liabilities	38891	49657	37263	39126
<b>Provisions</b>	<b>3695</b>	<b>4564</b>	<b>1350</b>	<b>2135</b>
<b>Total Asset</b>	<b>216857</b>	<b>230499</b>	<b>259747</b>	<b>286157</b>

## Cash flow Statement

Cash flow statement (Rs in Cr)	FY10	FY11	FY12E	FY13E
PBT	28680	24055	31104	34141
Operating profit before WCC	29573	38612	11299	41627
Net Cash from operating activities	20494	33338	3523	33387
Net Cash investing activities	-18231	-32044	22727	-17600
Net Cash flow from financing activities	-11134	14950	-5198	-5198
Net increase/decrease in cash	-8870	16244	21052	10589
opening cash balance	22761	13895	30139	51191
Closing cash balance	13891	30139	51191	61780

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Reliance Industries Ltd.				Rating Legend	
Date	CMP	Target	Recommendation	Our Rating	Upside
18-Oct-11	835	1,020	BUY	Buy	More than 15%
26-July-11	870	1,086	BUY	Hold	5% - 15%
4-Apr-11	1,039	1,189	HOLD	Reduce	0 - 5%
4-Jan-11	1,075	1,189	HOLD	Sell	Less than 0%
4-Oct-10	997	1,189	BUY		
2-Jul-10	1,071	1,189	HOLD		

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