

April 24, 2009

	Accumulate
Rating	
Price	Rs1,762
Target Price	Rs1,801
Implied Upside	2.2%
Sensex	11,135

(Prices as on April 23, 2009)

Trading Data

Market Cap. (Rs bn)	2,772.9
Shares o/s (m)	1,573.4
Free Float	51.0%
3M Avg. Daily Vol ('000)	1,732.1
3M Avg. Daily Value (Rs m)	2,429.1

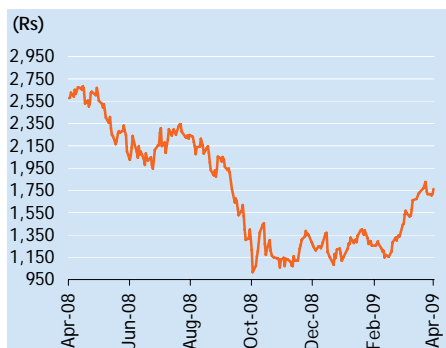
Major Shareholders

Promoters	49.0%
Foreign	16.0%
Domestic Inst.	12.7%
Public & Others	22.3%

Stock Performance

(%)	1M	6M	12M
Absolute	22.1	74.6	(31.3)
Relative	3.1	45.0	1.3

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



Source: Bloomberg

Reliance Industries

Petchem, other income drives profits

- Results in-line, surprise on petchem and other income:** Reliance Industries (RIL) reported Q4FY09 results, which were slightly below our expectations. However, they beat the market expectations. Revenues declined sharply by 23.9% YoY to Rs283.6bn (Rs372.9bn), owing to relatively depressed prices of both petchem as well as refinery products. Operating margins improved on the back of lower feedstock costs and higher trading sales. OPMs, thus, jumped by 310bps YoY to 19.2% (16.1%) and 220bps sequentially. Although the OPMs expanded due to lower product realisations, operating profits declined by 9.7% YoY to Rs54.4bn (Rs60.2bn). However, higher cash balances (over Rs250bn) and income from sale of investments aided the other income to surge drastically by 244% YoY to Rs9.9bn (Rs2.9bn). The company made a provision of Rs3.7bn for its investments in international subsidiaries. This led to a YoY PAT decline of 9.4% to Rs35.5bn (Rs39.1bn). However, excluding the provisioning, PAT declined marginally by 1.0% YoY to Rs38.7bn.
- GRMs flat sequentially; Petchem margins surge:** GRMs of the company remained flat sequentially at US\$9.9/bbl (Q3FY09 - US\$10.0/bbl). However, it declined drastically on a YoY basis from US\$15.5/bbl owing to lower demand for petroleum products globally. Surprise came in from Petchem segment where petchem EBIT margins jumped to an all time high of 17.7% (10.4% in Q4FY08 and 13.1% in Q3FY09). Margins expanded due to higher realisations and expansion in delta.
- Valuation:** RIL's Q4FY09 performance was backed by higher petchem margins, coupled with higher other income. Also, the company started commercial production from its RPL refinery from March 15, 2009. Gas production from KG D6 started from early April 2009. We believe that the start-up of these two big projects will contribute to the earnings of the company from FY10. Full impact of KG D6 gas production and 100% capacity utilization of RPL will be witnessed in FY11, with consolidated earnings of Rs176.4. We have rolled over our estimates to FY11 and hence, we maintain an 'Accumulate' rating on the stock.

Key financials (Y/e March)	FY08	FY09E	FY10E	FY11E
Revenues (Rs m)	1,371	1,466	1,789	2,226
Growth (%)	20.5	6.9	22.0	24.4
EBITDA (Rs m)	231	236	337	435
PAT (Rs m)	195	156	205	290
EPS (Rs)	118.8	94.7	125.1	176.4
Growth (%)	61.7	(20.3)	32.0	41.1
Net DPS (Rs)	11.2	10.0	13.0	15.0

Source: Company Data; PL Research

Note: Incl. RPL consolidation

Profitability & valuation	FY08	FY09E	FY10E	FY11E
EBITDA margin (%)	16.9	16.1	18.8	19.5
RoE (%)	25.7	17.1	19.2	22.5
RoCE (%)	13.9	11.7	14.5	17.6
EV / sales (x)	2.2	2.1	1.8	1.3
EV / EBITDA (x)	13.1	13.3	9.4	6.9
PE (x)	13.1	17.8	13.5	9.6
P / BV (x)	3.1	2.8	2.4	2.0
Net dividend yield (%)	0.6	0.6	0.7	0.9

Source: Company Data; PL Research

Note: Incl. RPL consolidation

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Q4FY09 Result Overview - Standalone

(Rs m)

Y/e March	Q4FY09	Q4FY08	YoY gr. (%)	Q3FY09	FY09	FY08	YoY gr. (%)
Net Sales	283,620	372,860	(23.9)	315,630	1,462,910	1,334,430	9.6
Expenditure							
Raw material	202,680	280,980	(27.9)	228,150	1,091,250	981,780	11.2
<i>% of net sales</i>	<i>71.5</i>	<i>75.4</i>		<i>72.3</i>	<i>74.6</i>	<i>73.6</i>	
Personnel cost	5,140	5,760	(10.8)	6,050	23,580	21,200	11.2
<i>% of net sales</i>	<i>1.8</i>	<i>1.5</i>		<i>1.9</i>	<i>1.6</i>	<i>1.6</i>	
Other operating expenses	21,430	25,940	(17.4)	27,800	114,130	98,400	16.0
<i>% of net sales</i>	<i>7.6</i>	<i>7.0</i>		<i>8.8</i>	<i>7.8</i>	<i>7.4</i>	
EBITDA	54,370	60,180	(9.7)	53,630	233,950	233,050	0.4
<i>Margin (%)</i>	<i>19.2</i>	<i>16.1</i>		<i>17.0</i>	<i>16.0</i>	<i>17.5</i>	
Depreciation	13,270	13,800	(3.8)	13,170	50,590	48,470	4.4
EBIT	41,100	46,380	(11.4)	40,460	183,360	184,580	(0.7)
Interest	4,770	2,720	75.4	4,840	16,920	10,770	57.1
Other Income	9,930	2,890	243.6	6,630	20,330	8,950	127.2
Extraordinary Items	(3,700)	-		-	(3,700)	47,330	
PBT	42,560	46,550	(8.6)	42,250	183,070	230,090	(20.4)
Total taxes	7,100	7,430	(4.4)	7,240	30,280	35,510	(14.7)
<i>ETR (%)</i>	<i>16.7</i>	<i>16.0</i>		<i>17.1</i>	<i>16.5</i>	<i>15.4</i>	
PAT	35,460	39,120	(9.4)	35,010	152,790	194,580	(21.5)
<i>Margin (%)</i>	<i>12.1</i>	<i>10.4</i>		<i>10.9</i>	<i>10.3</i>	<i>14.5</i>	
PAT Excl. extraordinary	38,740	39,120	(1.0)	35,010	156,070	152,610	2.3

Segmental breakup

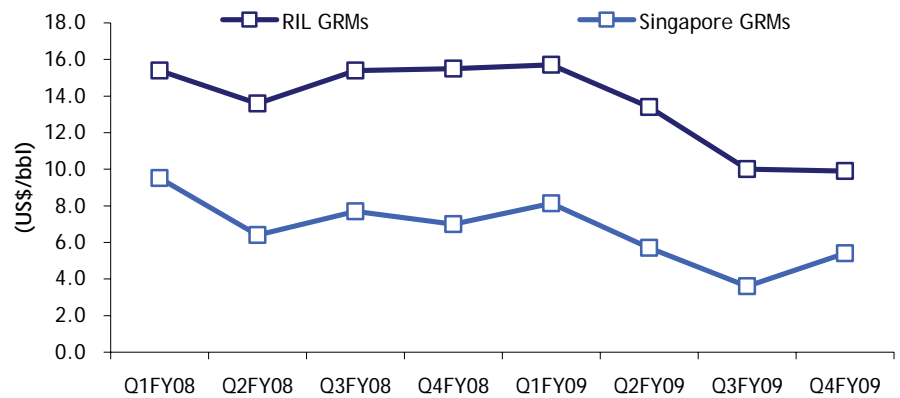
(Rs m)

Y/e March	Q4FY09	Q4FY08	YoY gr. (%)	Q3FY09	FY09	FY08	YoY gr. (%)
Revenues							
Petrochemicals	97,240	141,190	(31.1)	126,230	527,670	529,990	(0.4)
Refining & Marketing	216,310	286,860	(24.6)	217,400	1,123,510	1,007,430	11.5
Oil & Gas	7,360	8,280	(11.1)	10,310	34,890	27,020	29.1
Others	2,100	3,420	(38.6)	1,710	6,380	7,780	(18.0)
Gross Revenue	323,010	439,750	(26.5)	355,650	1,692,450	1,572,220	7.6
EBIT							
Petrochemicals	17,220	14,660	17.5	16,570	68,550	71,140	(3.6)
Refining & Marketing	19,530	28,390	(31.2)	18,810	96,480	103,310	(6.6)
Oil & Gas	4,730	4,470	5.8	6,050	15,030	15,030	0.0
Others	120	90	33.3	70	400	400	0.0
Total EBIT	41,600	47,610	(12.6)	41,500	180,460	189,880	(5.0)
EBIT Margin (%)							
Petrochemicals	17.7	10.4		13.1	13.0	13.4	
Refining & Marketing	9.0	9.9		8.7	8.6	10.3	
Oil & Gas	64.3	54.0		58.7	43.1	55.6	
Others	5.7	2.6		4.1	6.3	5.1	
Total	12.9	10.8		11.7	10.7	12.1	

Refining

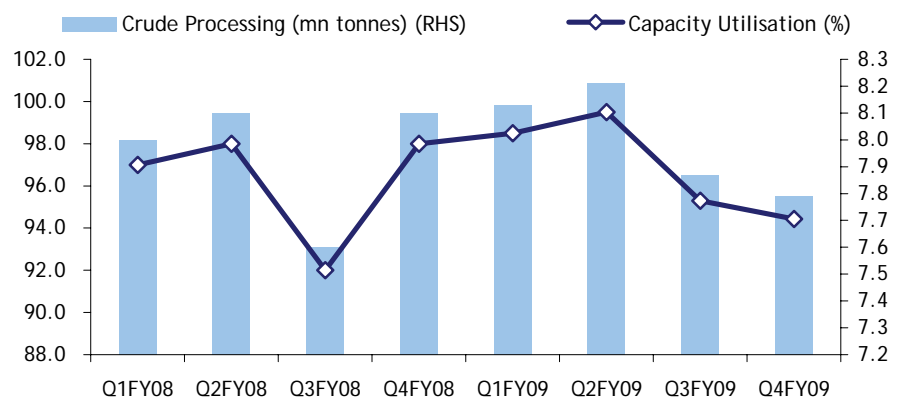
RIL reported US\$9.9/bbl GRMs, which were a combination of Singapore GRMs of US\$5.4/bbl and light-heavy crude differential of US\$4.5/bbl. Demand for petroleum products remained muted during the quarter, impacting the GRMs. Diesel-Crude crack spreads averaged at US\$8.6/bbl (Q3FY09 - US\$16.8/bbl), while Gasoline-Crude crack spreads improved to US\$10.6/bbl (Q3FY09 -US\$3.2/bbl) during Q4FY09. Lower Diesel-Crude cracks pose a risk to RIL's GRMs as it is primarily a diesel producer. Refining revenues declined by 24.6% YoY due to lower realizations, while the EBIT plummeted by 31.2% YoY to Rs19.5bn (Rs28.4) due to declining GRMs impacting the overall EBIT. We are witnessing slight recovery in benchmark Singapore GRMs since past few days, which will be slightly positive for RIL's near term GRMs.

GRMs performance



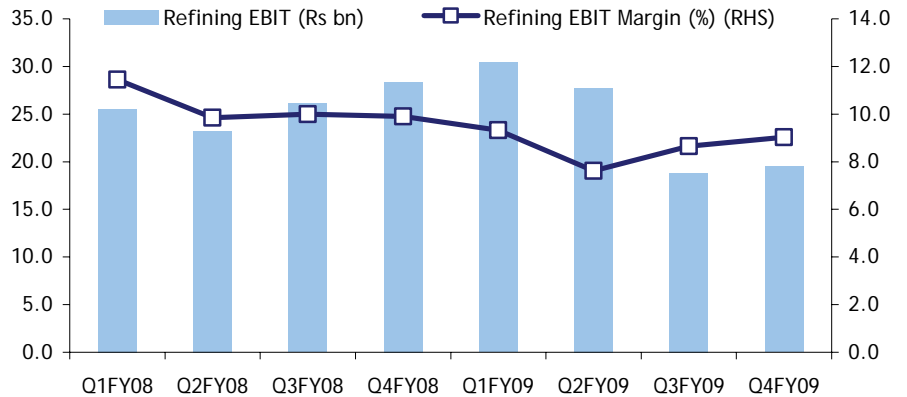
Source: Company Data, PL Research

Crude processing and capacity utilisation



Source: Company Data, PL Research

Refining segment performance



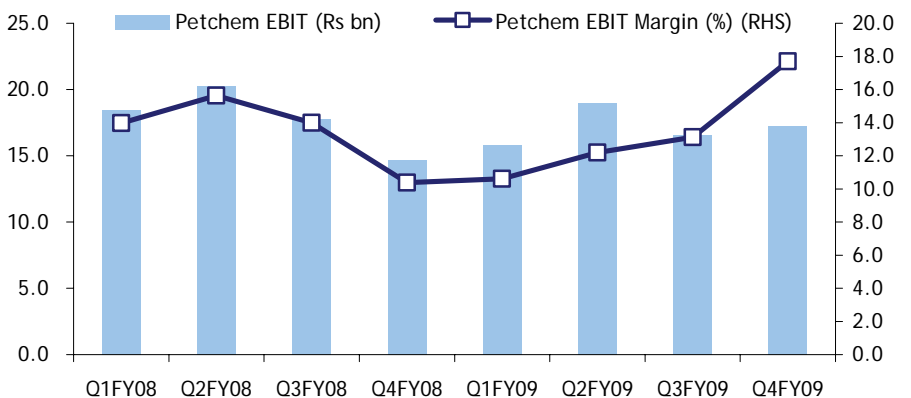
Source: Company Data, PL Research

Petchem

Petchem demand plummeted during Q3FY09, leading to lower utilization rates and de-stocking by the global players. However, demand recovered slightly during Q4FY09, aiding revival in petchem prices. The feedstock prices didn't move in tandem with the product prices, thus, expanding delta for the integrated players. Hence, petchem EBIT margins surged by 730bps YoY to 17.7% (10.4%) and 460bps, sequentially. The margin expansion further led to 17.5% YoY jump in petchem EBIT at Rs17.2bn (R14.7bn) even through the revenues plummeted by 31.1% YoY. During Q4FY09, the average polymer realisations jumped by over US\$150/ton sequentially. Of late, the polymer prices have started reviving and are now hovering at about US\$1,100/ton+.

Lower cotton acreage and lower cotton availability have pushed up cotton prices across the globe. Polyester, being a substitute for cotton, has gained importance with demand revival and price up-tick. Higher cotton prices will prevail in the near future due to healthy demand and thus, polyester prices are expected to remain firm.

Petchem segment performance



Source: Company Data, PL Research



RPL

RPL commenced its operations from December 25, 2008 and started commercial production from March 15, 2009 after stabilization and synchronization of units. The refinery processed over 3.6m tonnes of crude during this period. RPL earned revenues of Rs3.67bn, with a PAT of Rs84m for Q4FY09.

KG D6

RIL commenced gas production from its prolific KG D6 from April 2, 2009, with current flow rate of over 9mmscmd. The company expects to ramp-up the production to 40mmscmd by June 2009 end and further to 80mmscmd by March 2010. The company has signed GSPAs with 12 fertilizer players for supply of 15mmscmd gas.

RIL's KG D6 oil production got stalled from December 9, 2008 (about 10,000 bpd) due to operational failure. Oil production is expected to resume from April 2009 end.

Capex plans

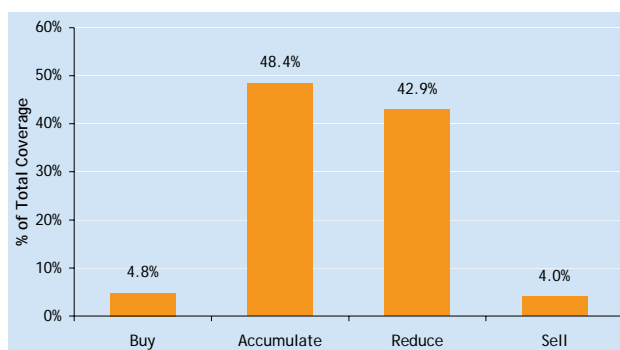
RIL's FY09 capex stood at Rs249bn. The company has earmarked over US\$4.5-5.0bn capex for FY10, primarily in the E&P segment. The company currently has a gross debt of Rs543.5bn and cash of over Rs250.0bn. It has sufficient funds for its future expansion. Nevertheless, cash flows from RPL and KG D6 will further add to the cash position of the company.

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Rating Distribution of Research Coverage



PL's Recommendation Nomenclature

BUY	: Over 15% Outperformance to Sensex over 12-months	Accumulate	: Outperformance to Sensex over 12-months
Reduce	: Underperformance to Sensex over 12-months	Sell	: Over 15% underperformance to Sensex over 12-months
Trading Buy	: Over 10% absolute upside in 1-month	Trading Sell	: Over 10% absolute decline in 1-month
Not Rated (NR)	: No specific call on the stock	Under Review (UR)	: Rating likely to change shortly

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