

Reliance Industries Ltd

BP deal validates E&P value - Reiterate OW

- **BP to take 30% stake in E&P assets:** RIL announced that BP would take a 30% stake in 23 oil & gas fields, including KG-D6, for a total consideration of \$7.2B. Further payments of up to \$1.8B would be made if exploratory successes lead to commercial production. After regulatory approval, RIL will receive staggered payments over FY12.
- **JV for sourcing and marketing:** RIL and BP will form a 50:50 JV for the sourcing, receiving and marketing of natural gas in India. The JV will build infrastructure to receive and distribute gas; we expect this would involve the creation of LNG assets and potential involvement in CGD business.
- **Deal validates value of E&P business:** The deal values RIL's E&P business at US\$24-30B – this validates our estimate value for RIL's quantified east coast assets (US\$19B) and also builds value for the unquantified discoveries off the east coast.
- **What BP brings to the table:** RIL is a relatively young player in E&P, and through this deal would be able to leverage BP's expertise in deepwater exploration and production. BP's involvement will also validate development spending and internationalize the gas pricing issue.
- **Cash overhang to remain:** The deal will boost RIL's already large cash balance (~US\$7.1B). Uncertainty on the use of this cash will remain an overhang on the stock, in our view.
- **Reiterate OW:** We take a positive view of the deal, as it validates the value of RIL's E&P portfolio and should be a catalyst for stock performance. The partnership with BP will address concerns on potential production ramp-up/reservoir quality issues. We reiterate our Overweight rating on the stock, and maintain our Dec-11 price target of Rs1,240 (based on 12.5x adjusted earnings, slightly higher than the historical average due to improving earnings mix).

Overweight

RELI.BO, RIL IN

Price: Rs956.35

Price Target: Rs1,240.00

India

Integrated Oils

Pradeep Mirchandani, CFA^{AC}

(91-22) 6157-3591

pradeep.a.mirchandani@jpmorgan.com

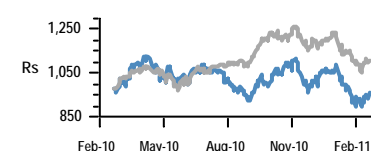
Neil Gupte

(91-22) 6157-3592

neil.x.gupte@jpmorgan.com

J.P. Morgan India Private Limited

Price Performance



	YTD	1m	3m	12m
Abs	-9.4%	-3.1%	-4.0%	-2.2%
Rel	0.9%	-0.1%	1.9%	-15.8%

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

Rs in mn, year-end Mar	FY09A	FY10A	FY11E	FY12E	FY13E	
Revenue	1,512,245	2,037,400	2,491,283	2,559,133	2,681,169	Shares O/S (mn)
Net Profit	152,492.6	158,180.0	207,197.2	243,852.9	313,301.5	Market cap (Rs mn)
EPS (Rs)	48.46	48.14	63.06	74.22	95.36	Market cap (\$ mn)
DPS (Rs)	6.03	7.00	10.00	10.00	11.00	Price (Rs)
Revenue growth (%)	13.3%	34.7%	22.3%	2.7%	4.8%	Date Of Price
EPS growth (%)	-7.7%	-0.6%	31.0%	17.7%	28.5%	Free float (%)
ROCE	13.3%	11.3%	13.4%	14.7%	16.7%	3mth Avg daily volume
ROE	18.9%	14.6%	16.2%	16.6%	18.4%	3M - Average daily Value (Rs mn)
P/E (x)	19.7	19.9	15.2	12.9	10.0	Average 3m Daily Turnover (\$ mn)
P/BV (x)	3.1	2.6	2.3	2.0		BSE30
EV/EBITDA (x)	13.5	10.8	8.4	6.8	5.4	Exchange Rate
Dividend Yield	0.6%	0.7%	1.0%	1.0%	1.2%	Fiscal Year End

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

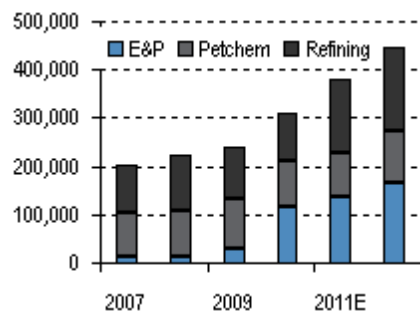
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Company Description

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 FY10-13 we estimate RIL's EPS CAGR at 25%. Stable gas earnings should contribute ~37% of FY12E EBITDA.

RIL: Ebitda Breakdown (Rs MM)



Source: Company, J.P.Morgan estimates

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

	J. P. Morgan	Consensus
FY11E	63.1	64.1
FY12E	74.2	74.3

Source: Bloomberg, J.P.Morgan.

P&L sensitivity metrics (FY12)

	EBITDA impact (%)	EPS impact (%)
GRM assumption		
Impact of each US\$1/bbl	4.5%	6.3%
Petchern margins		
Impact of 10% lower Petchern Ebitda	-2.2%	-3.0%
Gas Volume		
Impact of 10% lower gas volumes	-2.8%	-3.6%
Rupee depreciation		
Impact due to 5% rupee depreciation	3.2%	4.4%

Source: J.P. Morgan estimates

Price target and valuation analysis

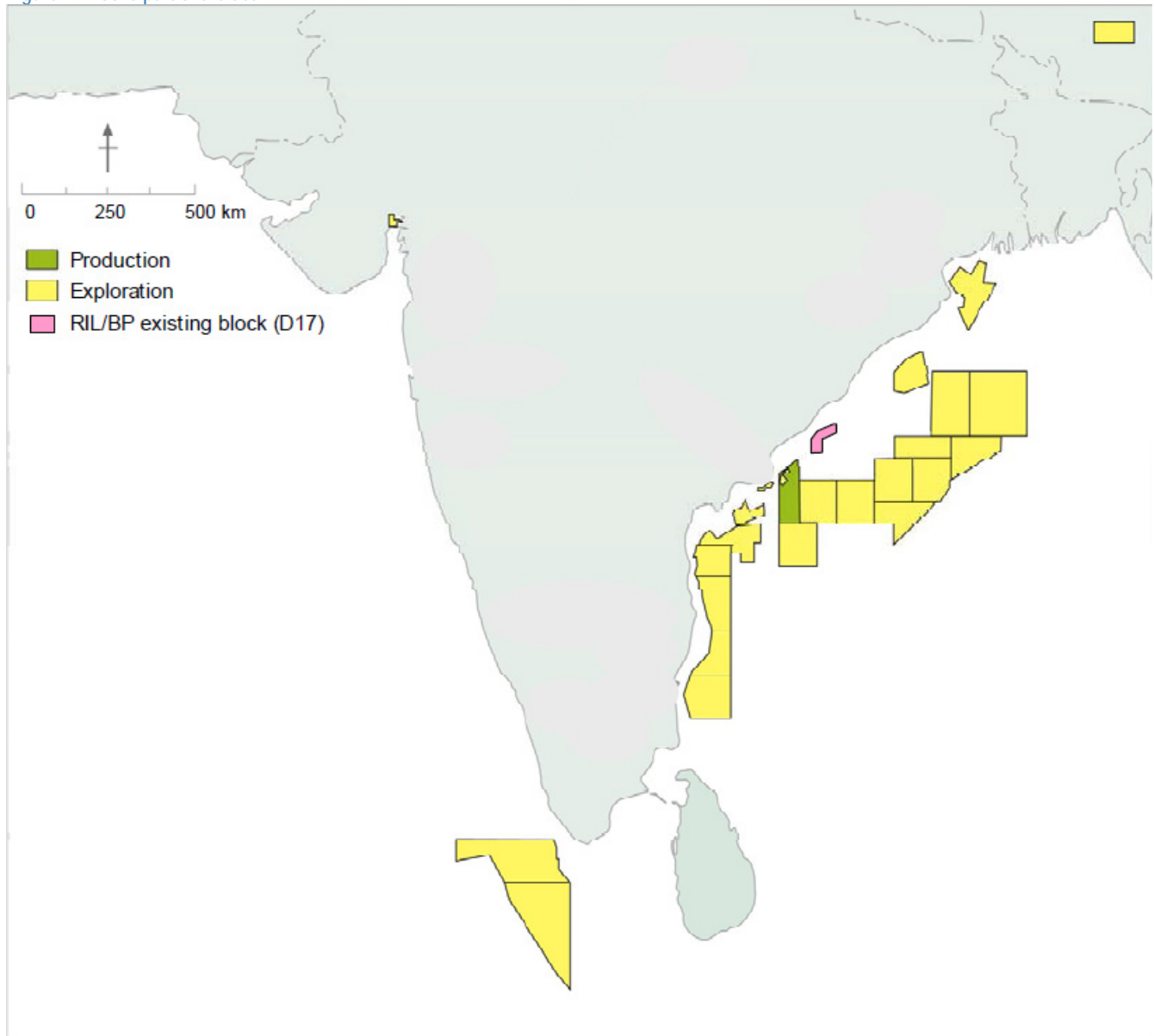
Our Dec-11 PT is Rs1,240 based on 12.5x FY12E EPS (adjusted for treasury shares, multiple marginally higher than the long-term average). We estimate a 25% earnings CAGR for RIL over FY10-13 with improving refining and petchem performance combined with a ramping up of gas revenues from KG. This would also reduce cyclicality in RIL's earnings.

FY12 EPS (adjusted)	82
FY12 Ebitda	445,663
Current Price	956
FY12E P/E (adj).	11.6
FY12E EV/Ebitda	6.8

Source: J.P. Morgan estimates

We expect gas revenues, along with improving refining and petchem margins, to be the primary drivers for earnings growth over FY10-13. Also RIL's earnings are positively linked to rupee depreciation. A key upside risk is better-than-expected petchem and refining margins. Key downside risks include a prolonged global slowdown leading to lower refining and petchem earnings, and a slower-than-expected gas production ramp-up.

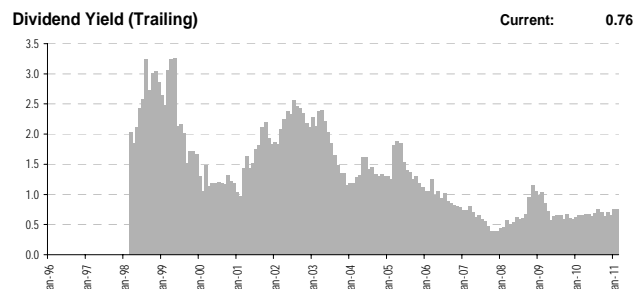
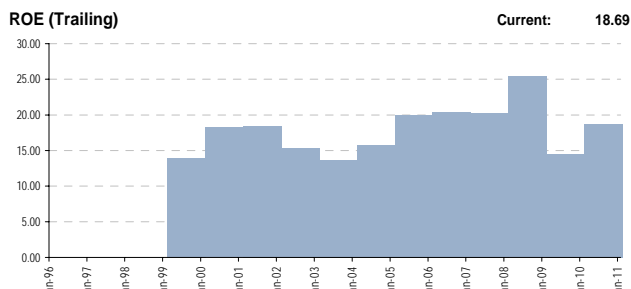
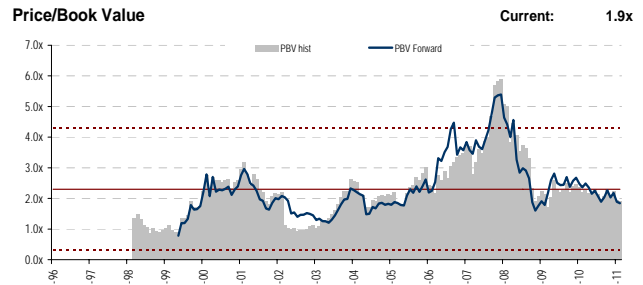
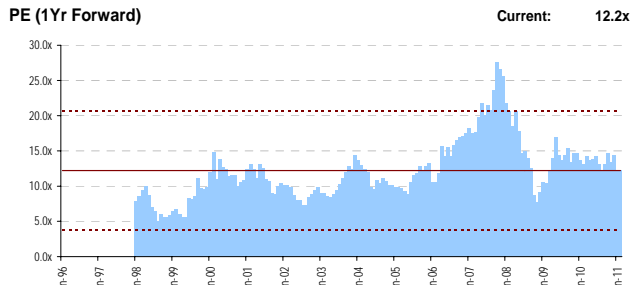
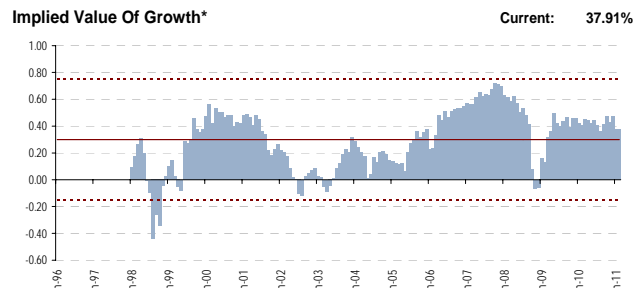
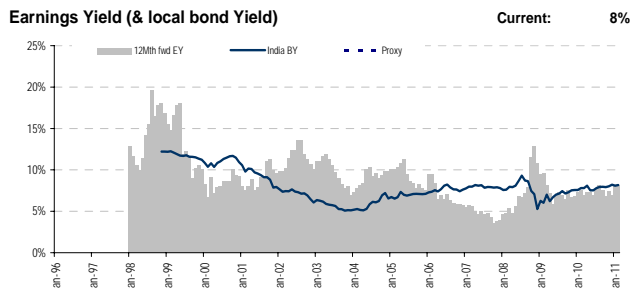
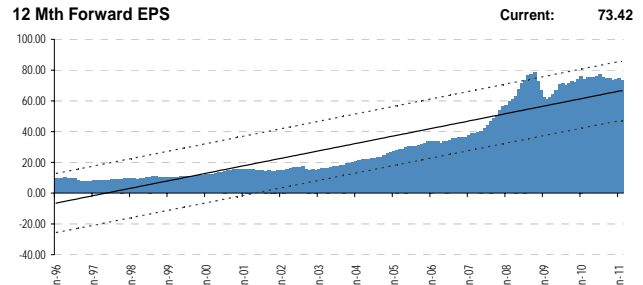
Figure 1: Blocks part of the deal



Source: Company reports.

JPM Q-Profile
Reliance Industries Ltd. (INDIA / Energy)
 As Of: 11-Feb-2011

Global Equity Quantitative Analysis
 Quant_Strategy@jpmorgan.com



Summary

Reliance Industries Ltd.		SEDOL		6099626				As Of:		11-Feb-11	
INDIA								Local Price:		897.50	
Energy								EPS:		73.42	
	Latest	Min	Max	Median	Average	2 S.D.+	2 S.D. -	% to Min	% to Max	% to Med	% to Avg
12mth Forward PE	12.22x	5.09	27.67	11.59	12.23	20.63	3.82	-58%	126%	-5%	0%
P/BV (Trailing)	1.90x	0.86	5.89	2.20	2.30	4.29	0.32	-55%	210%	16%	21%
Dividend Yield (Trailing)	0.76	0.38	3.25	1.25	1.38	2.80	-0.04	-50%	327%	64%	81%
ROE (Trailing)	18.69	13.68	25.40	18.32	17.89	24.48	11.30	-27%	36%	-2%	-4%
Implied Value of Growth	37.9%	-0.44	0.72	0.35	0.30	0.75	-0.15	-216%	90%	-8%	-21%

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	FY08	FY09	FY10	FY11E	FY12E	Rs in millions, year end Mar	FY08	FY09	FY10	FY11E	FY12E
Revenues	1,334,430	1,512,245	2,037,400	2,491,283	2,559,133	EBIT	174,719	181,123	199,480	258,141	309,710
% change Y/Y	19.5%	13.3%	34.7%	22.3%	2.7%	Depr. & amortization	48,471	56,510	109,460	123,941	135,953
Gross Margin	27.8%	27.3%	24.1%	57.8%	59.0%	Change in working capital	-43,206	4,257	-120,665	21,634	249
EBITDA	223,191	237,633	308,940	382,082	445,663	Taxes	-26,520	-12,740	-31,250	-43,375	-50,319
% change Y/Y	10.1%	6.5%	30.0%	23.7%	16.6%	Others	-	-	-	-	-
EBITDA Margin	16.7%	15.7%	15.2%	15.3%	17.4%	Cash flow from operations	199,849	209,980	233,035	352,772	380,055
EBIT	174,719	181,123	199,480	258,141	309,710	Capex	-183,317	-324,498	-219,210	-172,800	-172,100
% change Y/Y	13.1%	3.7%	10.1%	29.4%	20.0%	Disposal/(purchase)	-	-	-	-	-
EBIT Margin	13.1%	12.0%	9.8%	10.4%	12.1%	Free cash flow	16,532	-114,518	13,825	179,972	207,955
Net Interest	55,383	-2,720	87,320	-3,797	-11,163	Equity raised/(repaid)	16,643	151,499	0	0	0
Earnings before tax	272,072	175,123	372,860	254,344	298,547	Debt raised/(repaid)	86,513	374,524	-108,095	38,963	-47,454
% change Y/Y	87.4%	-35.6%	112.9%	-31.8%	17.4%	Other	-	-	-	-	-
Tax	-35,518	-29,190	-42,560	-47,147	-54,694	Dividends paid	-19,085	-22,194	-26,794	-38,277	-38,277
as % of EBT	13.1%	16.7%	11.4%	18.5%	18.3%	Beginning cash	-	-	-	-	-
Net income (reported)	152,613	152,493	158,180	207,197	243,853	Ending cash	-	-	-	-	-
% change Y/Y	27.8%	-0.1%	3.7%	31.0%	17.7%	DPS	5.61	6.03	7.00	10.00	10.00
Shares outstanding	2,907	3,147	3,286	3,286	3,286						
EPS (reported)	52.50	48.46	48.14	63.06	74.22						
% change Y/Y	22.5%	(7.7%)	(0.6%)	31.0%	17.7%						

Balance sheet						Ratio Analysis					
Rs in millions, year end Mar	FY08	FY09	FY10	FY11E	FY12E	Rs in millions, year end Mar	FY08	FY09	FY10	FY11E	FY12E
Cash and cash equivalents	42,800	230,815	134,626	112,896	202,621	EBITDA margin	16.7%	15.7%	15.2%	15.3%	17.4%
Accounts receivable	62,276	45,714	116,602	87,250	90,509	Operating margin	13.1%	12.0%	9.8%	10.4%	12.1%
Inventories	142,475	148,367	269,816	233,198	233,490	Net margin	11.4%	10.1%	7.8%	8.3%	9.5%
Others	120,922	85,929	73,386	74,835	76,314	Sales per share growth	14.5%	4.7%	29.0%	22.3%	2.7%
Current assets	655,999	818,915	906,534	993,782	1,121,037	Sales growth	19.5%	13.3%	34.7%	22.3%	2.7%
LT investments	-	-	-	-	-	Net profit growth	27.8%	-0.1%	3.7%	31.0%	17.7%
Net fixed assets	667,363	1,385,395	1,495,145	1,544,004	1,580,151	EPS growth	22.5%	(7.7%)	(0.6%)	31.0%	17.7%
Total Assets	1,323,362	2,204,310	2,401,679	2,537,787	2,701,188	Interest coverage (x)	-	87.36	-	100.62	39.92
Liabilities						Net debt to total capital	3.9%	14.7%	10.4%	3.7%	-4.7%
Short-term loans	85,225	62,270	10,000	10,000	10,000	Net debt to equity	5.3%	20.5%	15.4%	5.2%	-6.3%
Payables	-	-	-	-	-	Sales/assets	1.16	0.86	0.88	1.01	0.98
Others	319,106	454,282	513,411	470,525	475,804	Assets/equity	2.07	1.84	1.67	1.53	1.43
Total current liabilities	404,331	516,552	523,411	480,525	485,804	ROE	28.1%	18.9%	14.6%	16.2%	16.6%
Long-term debt	278,818	676,775	620,949	659,912	612,458	ROCE	20.2%	13.3%	11.3%	13.4%	14.7%
Other liabilities	-	34,063	62,951	34,063	34,063						
Total Liabilities	683,149	1,227,390	1,207,312	1,174,499	1,132,325						
Shareholders' equity	640,212	976,921	1,194,367	1,363,287	1,568,863						
BVPS	220.25	310.42	363.52	414.93	481.39						

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

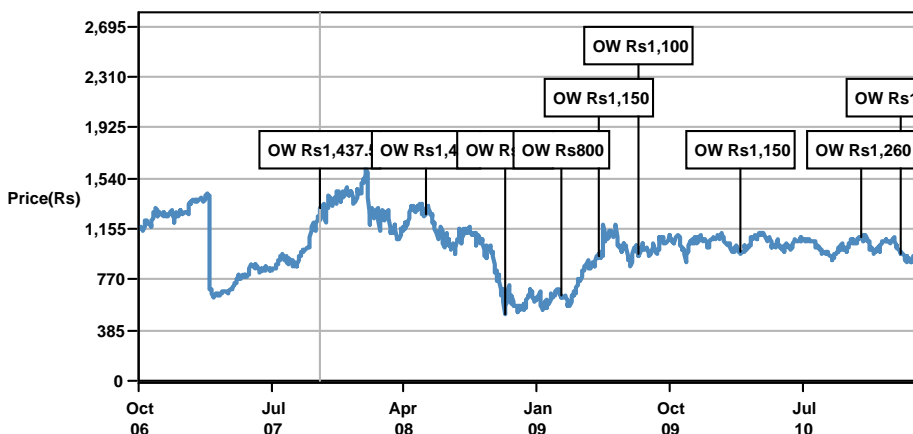
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Reliance Industries Ltd (RELI.BO) Price Chart



Date	Rating	Share Price (Rs)	Price Target (Rs)
11-Oct-07	OW	1315.28	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	970.33	1100.00
24-Feb-10	OW	978.80	1150.00
31-Oct-10	OW	1096.25	1260.00
22-Jan-11	OW	969.85	1240.00

Source: Bloomberg and J.P. Morgan; price data adjusted for stock splits and dividends.
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