

Oil&Gas and  
Petrochemicals

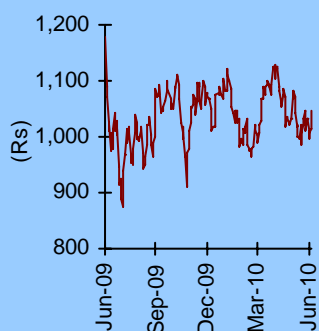
Target price Rs1,038

## Shareholding pattern

	Sep '09	Dec '09	Mar '10
Promoters	46.3	46.6	44.8
Institutional investors	26.3	26.4	28.1
MFs and UTI	2.7	2.4	2.6
FIs, Banks, Insurance Cos.	7.1	7.2	7.9
FII	16.5	16.8	17.6
Others	27.3	27.0	27.1

Source: NSE

## Price chart



## Amit Mishra, CFA

amit.mishra@icicisecurities.com  
+91 22 6637 7274

## Gagan Dixit

gagan.dixit@icicisecurities.com  
+91 22 6637 7480

## INDIA

## Reliance Industries

## Exploring new vistas

**HOLD**  
Maintained  
**Rs1,046**

Reason for report: Company update

Reliance Industries' (RIL) has forayed into broadband services via acquisition of 95% stake in telecom firm Infotel Broadband Services (IBS). RIL will invest Rs48bn through subscription of fresh equity capital that will be issued by IBS, which has won Broadband Wireless Access (BWA) auctions conducted by the Department of Telecom in all of the 22 circles. Further, IBS has committed payment of ~Rs129bn for acquiring licences for these circles. RIL expects breaking-even in the next three years and incur capex of US\$5bn over the next 3-5 years, post commercial launch (in the next 1-2 years). The capex would include the impending spectrum fee payable to the Government of India. RIL plans to utilise 15,000 towers and a fibre optic network over the same period (3-5 years), either on its own or through leasing from existing players. Further, the company aims for 100mn subscribers within five years from the commercial launch; IBS has 0.5mn subscribers at present.

- **Acquisition provides platform to foray a largely untapped broadband services market.** RIL sees the acquisition as an opportunity to attain leadership in domestic the broadband services market by offering 4G broadband services via long term evolution (LTE) technology. As regards speed, LTE (270mbps) has more capacity than 2G- & 3G-based broadband technologies (9-15mbps). Given the success story of the telecom sector post availability of infrastructure and spectrum availability, a similar success story for data transfer or internet cannot be ruled out in both urban and rural markets, implying long-term advantage for RIL.
- **Customised services via collaborations.** RIL expects providing customised services to subscribers (video on demand, video conference etc) at a much higher speed (better quality) vis-à-vis existing players, through LTE. RIL is expected to lease 15,000 towers and fibre/wireless network infrastructure from existing players.
- **Targets for the business seem aggressive, but too early to write-off RIL.** The company's target to achieve 100mn subscribers within five years of commercial launch seems fairly stretched. Given India's population of one billion and average family size of 3.3, the total subscriber base potential stands at ~300mn. Given that majority of this population is rural, RIL would be able to target 150mn subscribers, implying market share of 66% for the company, which seems stretched. However, if RIL is able to provide better service at lower cost, it might achieve its aggressive guidance. Higher exposure to enterprises/entrepreneurs could improve IBS' ARPUs and profitability.

Market Cap	Rs3,421bn/US\$73.1bn	Year to Mar	FY09	FY10P	FY11E	FY12E
Reuters/Bloomberg	RELI.BO/RIL IN	Revenue (Rs bn)	1,512.2	1,924.6	2,095.3	2,332.3
Shares Outstanding (mn)	3,270	Net Income (Rs bn)	149.7	157.6	235.3	286.9
52-week Range (Rs)	1086/841	EPS (Rs)	45.2	47.6	70.9	86.2
Free Float (%)	55.2	% Chg YoY	(2.0)	5.3	48.9	21.6
FII (%)	17.6	P/E (x)	23.1	22.0	14.8	12.1
Daily Volume (US\$/'000)	196,000	CEPS (Rs)	62.3	79.3	104.3	124.8
Absolute Return 3m (%)	1.8	EV/E (x)	15.0	11.6	8.2	6.4
Absolute Return 12m (%)	(11.4)	Dividend Yield (%)	1.0	0.7	0.7	0.7
Sensex Return 3m (%)	(0.6)	RoCE (%)	10.2	9.4	13.4	14.7
Sensex Return 12m (%)	12.0	RoE (%)	15.2	13.8	18.1	18.6

Please refer to important disclosures at the end of this report

## Financial Summary – RIL (Consolidated)

Table 1: Profit and Loss statement

(Rs bn, year ending March 31)

	FY09	FY10P	FY11E	FY12E
<b>Operating Income (Sales)</b>	<b>1,512.2</b>	<b>1,924.6</b>	<b>2,095.3</b>	<b>2,332.3</b>
<b>Operating Expenses</b>	<b>1,278.0</b>	<b>1,618.8</b>	<b>1,673.6</b>	<b>1,824.5</b>
<b>EBITDA</b>	<b>234.2</b>	<b>305.8</b>	<b>421.7</b>	<b>507.8</b>
% margins	15.5	15.9	20.1	21.8
Depreciation & Amortisation	56.5	105.0	110.9	128.3
Gross Interest	18.2	20.0	27.2	21.9
Other Income	19.1	24.6	19.3	19.5
<b>Recurring PBT</b>	<b>178.7</b>	<b>205.5</b>	<b>302.9</b>	<b>377.1</b>
Add: Extraordinaries	0.0	0.0	0.0	0.0
Less: Taxes	29.2	47.9	67.6	90.2
- Current tax	12.7	34.9	60.4	75.2
- Deferred tax	16.5	13.0	7.2	15.1
Minority Interest	(0.2)	0.0	0.0	0.0
<b>Net Income (Reported)</b>	<b>149.7</b>	<b>157.6</b>	<b>235.3</b>	<b>286.9</b>
<b>Recurring Net Income</b>	<b>149.7</b>	<b>157.6</b>	<b>235.3</b>	<b>286.9</b>

Source: Company data, I-Sec Research

Table 2: Balance sheet

(Rs bn, year ending March 31)

	FY09	FY10P	FY11E	FY12E
<b>Assets</b>				
Total Current Assets	587.5	545.8	630.2	761.4
of which cash & cash eqv.	227.4	35.8	90.1	171.8
Total Current Liabilities & Provisions	388.7	419.3	427.4	458.5
<b>Net Current Assets</b>	<b>198.7</b>	<b>126.5</b>	<b>202.7</b>	<b>302.9</b>
<b>Investments</b>	<b>64.4</b>	<b>80.6</b>	<b>80.6</b>	<b>80.6</b>
of which				
<b>Net Fixed Assets</b>	<b>1,686.6</b>	<b>1,738.6</b>	<b>1,808.5</b>	<b>1,853.9</b>
Capital Work-in-Progress	738.5	421.1	439.1	474.6
<b>Total Assets</b>	<b>1,949.7</b>	<b>1,945.7</b>	<b>2,091.9</b>	<b>2,237.3</b>
<b>Liabilities</b>				
<b>Borrowings</b>	<b>762.6</b>	<b>648.5</b>	<b>568.5</b>	<b>428.5</b>
<b>Deferred Tax Liability</b>	<b>95.5</b>	<b>108.5</b>	<b>115.7</b>	<b>130.8</b>
Equity Share Capital	14.4	14.4	14.4	14.5
Face Value per share (Rs)	5.0	5.0	5.0	5.0
Reserves & Surplus*	1,075.8	1,173.0	1,391.9	1,662.2
Minority Interest	1.4	1.4	1.4	1.4
<b>Net Worth</b>	<b>1,091.6</b>	<b>1,188.7</b>	<b>1,407.7</b>	<b>1,678.1</b>
<b>Total Liabilities</b>	<b>1,949.7</b>	<b>1,945.7</b>	<b>2,091.9</b>	<b>2,237.3</b>

\*excluding revaluation reserves

Source: Company data, I-Sec Research

Table 5: Quarterly trend

(Rs bn, year ending March 31)

	Jun-09	Sep-09	Dec-09	Mar-10
Net sales	320.6	468.5	568.6	575.7
% growth (YoY)	(22.9)	4.6	92.3	120.7
EBITDA	59.2	72.2	78.4	91.4
Margin (%)	18.5	15.4	13.8	15.9
Other income	7.0	6.3	5.1	6.2
Add: Extraordinaries	0.0	0.0	0.0	0.0
Net profit	36.4	38.5	40.1	47.1

Source: Company data, I-Sec Research

Table 3: Cashflow statement

(Rs bn, year ending March 31)

	FY09	FY10P	FY11E	FY12E
<b>Operating Cash flow</b>	<b>198.3</b>	<b>250.9</b>	<b>334.1</b>	<b>410.7</b>
Working Capital Changes	230.2	(119.4)	(21.9)	(18.5)
Capital Commitments	(688.8)	(173.2)	(180.9)	(173.7)
<b>Free Cash Flow</b>	<b>(260.3)</b>	<b>(41.6)</b>	<b>131.3</b>	<b>218.6</b>
<b>Cash flow from Investing Activities</b>	<b>73.5</b>	<b>8.4</b>	<b>19.3</b>	<b>19.5</b>
Issue of Share Capital	223.6	(37.5)	10.6	10.6
Buyback of shares	0.0	0.0	0.0	0.0
Inc (Dec) in Borrowings	255.6	(114.1)	(80.0)	(140.0)
Dividend paid	(17.0)	(38.5)	(26.8)	(26.9)
<b>Chg. in Cash &amp; Bank balance</b>	<b>182.7</b>	<b>(191.6)</b>	<b>54.3</b>	<b>81.6</b>

Source: Company data, I-Sec Research

Table 4: Key ratios

(Year ending March 31)

	FY09	FY10P	FY11E	FY12E
<b>Per-share data (Rs)</b>				
EPS(Basic Recurring)	45.6	48.2	71.6	86.9
Diluted Recurring EPS	45.2	47.6	70.9	86.2
Recurring Cash EPS	62.3	79.3	104.3	124.8
Dividend per share (DPS)	10.0	7.0	7.0	7.0
Book Value per share (BV)	329.8	359.1	424.2	504.4
<b>Growth Ratios (%)</b>				
Operating Income	10.3	27.3	8.9	11.3
EBITDA	1.2	30.6	37.9	20.4
Recurring Net Income	1.2	5.3	49.3	21.9
Diluted Recurring EPS	(2.0)	5.3	48.9	21.6
Diluted Recurring CEPS	0.8	27.3	31.5	19.6
<b>Valuation Ratios (x)</b>				
P/E	23.1	22.0	14.8	12.1
P/CEPS	16.8	13.2	10.0	8.4
P/BV	3.2	2.9	2.5	2.1
EV / EBITDA	15.0	11.6	8.2	6.4
EV / Operating Income	2.3	1.9	1.6	1.4
EV / Operating FCF	8.2	27.1	11.0	8.3
<b>Operating Ratio</b>				
Raw Material/Sales (%)	63.2	67.5	64.1	62.8
SG&A/Sales (%)	1.9	1.8	1.8	1.6
Other Income / PBT (%)	10.7	12.0	6.4	5.2
Effective Tax Rate (%)	16.3	23.3	22.3	23.9
NWC / Total Assets (%)	(1.5)	4.7	5.4	5.9
Inventory Turnover (days)	59.1	61.0	73.8	72.7
Receivables (days)	10.9	14.0	19.0	18.5
Payables (days)	93.0	92.5	94.2	91.3
D/E Ratio (x)	78.6	63.7	48.6	33.3
<b>Return/Profitability Ratio (%)</b>				
Recurring Net Income Margins	9.8	8.1	11.1	12.2
RoCE	10.2	9.4	13.4	14.7
RoNW	15.2	13.8	18.1	18.6
Dividend Payout Ratio	25.7	17.0	11.4	9.4
Dividend Yield	1.0	0.7	0.7	0.7
EBITDA Margins	15.5	15.9	20.1	21.8

Source: Company data, I-Sec Research

*I-Sec investment ratings (all ratings relative to Sensex over next 12 months)*

**BUY:** +10% outperformance; **HOLD:** -10% to +10% relative performance; **SELL:** +10% underperformance

## ANALYST CERTIFICATION

We */I, Amit Mishra, PGDM, BE, CFA and Gagan Dixit, PGDM, BTech* research analysts and the authors of this report, hereby certify that all of the views expressed in this research report accurately reflect our personal views about any and all of the subject issuer(s) or securities. We also certify that no part of our compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report. Analysts aren't registered as research analysts by FINRA and might not be an associated person of the ICICI Securities Inc.

## Disclosures:

ICICI Securities Limited (ICICI Securities) and its affiliates are a full-service, integrated investment banking, investment management and brokerage and financing group. We along with affiliates are leading underwriter of securities and participate in virtually all securities trading markets in India. We and our affiliates have investment banking and other business relationship with a significant percentage of companies covered by our Investment Research Department. Our research professionals provide important input into our investment banking and other business selection processes. ICICI Securities generally prohibits its analysts, persons reporting to analysts and their dependent family members from maintaining a financial interest in the securities or derivatives of any companies that the analysts cover.

The information and opinions in this report have been prepared by ICICI Securities and are subject to change without any notice. The report and information contained herein is strictly confidential and meant solely for the selected recipient and may not be altered in any way, transmitted to, copied or distributed, in part or in whole, to any other person or to the media or reproduced in any form, without prior written consent of ICICI Securities. While we would endeavour to update the information herein on reasonable basis, ICICI Securities, its subsidiaries and associated companies, their directors and employees ("ICICI Securities and affiliates") are under no obligation to update or keep the information current. Also, there may be regulatory, compliance or other reasons that may prevent ICICI Securities from doing so. Non-rated securities indicate that rating on a particular security has been suspended temporarily and such suspension is in compliance with applicable regulations and/or ICICI Securities policies, in circumstances where ICICI Securities is acting in an advisory capacity to this company, or in certain other circumstances.

This report is based on information obtained from public sources and sources believed to be reliable, but no independent verification has been made nor is its accuracy or completeness guaranteed. This report and information herein is solely for informational purpose and may not be used or considered as an offer document or solicitation of offer to buy or sell or subscribe for securities or other financial instruments. Though disseminated to all the customers simultaneously, not all customers may receive this report at the same time. ICICI Securities will not treat recipients as customers by virtue of their receiving this report. Nothing in this report constitutes investment, legal, accounting and tax advice or a representation that any investment or strategy is suitable or appropriate to your specific circumstances. The securities discussed and opinions expressed in this report may not be suitable for all investors, who must make their own investment decisions, based on their own investment objectives, financial positions and needs of specific recipient. This may not be taken in substitution for the exercise of independent judgement by any recipient. The recipient should independently evaluate the investment risks. The value and return of investment may vary because of changes in interest rates, foreign exchange rates or any other reason. ICICI Securities and affiliates accept no liabilities for any loss or damage of any kind arising out of the use of this report. Past performance is not necessarily a guide to future performance. Actual results may differ materially from those set forth in projections. Forward-looking statements are not predictions and may be subject to change without notice.

ICICI Securities and its affiliates might have managed or co-managed a public offering for the subject company in the preceding twelve months. ICICI Securities and affiliates might have received compensation from the companies mentioned in the report during the period preceding twelve months from the date of this report for services in respect of public offerings, corporate finance, investment banking or other advisory services in a merger or specific transaction. ICICI Securities and affiliates expect to receive compensation from the companies mentioned in the report within a period of three months following the date of publication of the research report for services in respect of public offerings, corporate finance, investment banking or other advisory services in a merger or specific transaction. It is confirmed that *Amit Mishra, PGDM, BE, CFA and Gagan Dixit, PGDM, BTech* research analysts and the authors of this report have not received any compensation from the companies mentioned in the report in the preceding twelve months. Our research professionals are paid in part based on the profitability of ICICI Securities, which include earnings from Investment Banking and other business.

ICICI Securities or its affiliates collectively do not own 1% or more of the equity securities of the Company mentioned in the report as of the last day of the month preceding the publication of the research report.

It is confirmed that *Amit Mishra, PGDM, BE, CFA and Gagan Dixit, PGDM, BTech* research analysts and the authors of this report or any of their family members does not serve as an officer, director or advisory board member of the companies mentioned in the report.

ICICI Securities may have issued other reports that are inconsistent with and reach different conclusion from the information presented in this report. ICICI Securities and affiliates may act upon or make use of information contained in the report prior to the publication thereof.

This report is not directed or intended for distribution to, or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject ICICI Securities and affiliates to any registration or licensing requirement within such jurisdiction. The securities described herein may or may not be eligible for sale in all jurisdictions or to certain category of investors. Persons in whose possession this document may come are required to inform themselves of and to observe such restriction