



INDIA

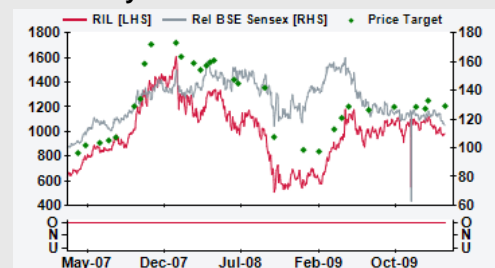
RIL IN Outperform
Price 3 Mar 10 Rs1,012.00

12-month target	Rs	1,207.00
Upside/Downside	%	19.3
Valuation	Rs	1,207.00
- Sum of Parts		
GICS sector		Energy
Market cap	Rsbn	3,309
30-day avg turnover	US\$m	80
Market cap	US\$m	72,929
Number shares on issue	m	3,270

Investment fundamentals

Year end 31 Mar		2009A	2010E	2011E	2012E
Total revenue	bn	1,512.2	1,812.7	2,114.2	2,281.2
EBITDA	bn	234.2	325.0	420.9	451.7
EBITDA growth	%	1.2	38.8	29.5	7.3
EBIT	bn	177.7	235.4	326.9	353.7
EBIT growth	%	-2.0	32.5	38.8	8.2
Reported profit	bn	149.7	171.1	253.0	283.1
Adjusted profit	bn	149.7	171.1	253.0	283.1
EPS rep	Rs	51.83	58.50	85.42	95.58
EPS adj	Rs	51.83	58.50	85.42	95.58
EPS adj growth	%	10.3	12.9	46.0	11.9
PER adj	x	19.5	17.3	11.8	10.6
Total DPS	Rs	7.69	7.96	11.62	13.00
Total div yield	%	0.8	0.8	1.1	1.3
ROE	%	14.5	12.6	16.1	16.1
EV/EBITDA	x	14.4	10.6	8.2	7.6
Net debt/equity	%	44.1	27.5	16.0	-0.2
P/BV	x	2.4	2.0	1.8	1.6

RIL IN rel BSE Sensex performance, & rec history



Note: Recommendation timeline - if not a continuous line, then there was no Macquarie coverage at the time or there was an embargo period.

Source: FactSet, Macquarie Research, March 2010
(all figures in INR unless noted)

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5 March 2010

Reliance Industries

4QFY10 shall be an inflection point

Event

- During April – Dec 09, RIL has doubled refining capacity and added one of the world's largest gas facilities, and yet earnings have stagnated due to more than halving in GRMs. We believe a recent tripling in GRMs, further gas ramp-up and shift to cheap in-house gas shall herald 4QFY10 as an inflection point.
- We forecast a 39% QoQ rise in RIL's 4QFY10 PAT. Our scenario analysis (Fig 1) suggests a Rs 15–25bn QoQ PAT growth due to the above factors.

Impact

- Sustained and significant rise in GRMs:** Singapore GRMs have tripled QTD to US\$ 6.0/bbl from near 10-year low of US\$ 1.7/bbl during Oct-Dec 09. Our sensitivity analysis shows a US\$ 2.5-4.0/bbl QoQ rise in GRM adds Rs 13-21 bn to PBT. We believe RIL enjoys a double leverage to rising GRMs:

(1) Our regional refining team believes that the rise in margins is sustainable and forecasts a rise in refining margins from US\$ 3.5/bbl in 2009 to US\$6/bbl in 2010. Nearly 1m bpd of refining capacity has closed globally, and during CY10 capacity closures is forecast to exceed additions (Figs 2 and 3)

(2) A potential widening in light-heavy crude price differential shall further significantly benefit Reliance as it has amongst the world's most complex refineries. High refined product inventory levels (Fig 5) has constrained widening of light-heavy spreads. A strong growth in US economy (5.9% in 4Q09 actual) has recently spurred demand and hence could cut inventory.

- Ramping up of KG-D6 gas production:** We believe RIL's KG-D6 production has increased to ~60 mmscmd from an average of 45mmscmd during 3QFY10, a 33% QoQ jump. Production plateau of 80-89mmscmd is unlikely until end CY-10 though, once GAIL India (GAIL IN, Rs400.10, Outperform, TP: Rs506.00) expanded HBJ pipeline is fully commissioned.
- Reduction in operating costs:** RIL has switched over from imported LNG, which costs ~US\$9/mmBTU for in-house use to KGD6 gas saving it US\$ 2-4/mmBTU. We estimate a PBT increase of Rs 2-5bn QoQ.
- Petchem margins also higher:** We estimate that polymer integrated margins are up 13.3% QoQ and polyester margins have risen 2.8% (Figs 6, 7 & 8)

Earnings and target price revision

- No change

Price catalyst

- 12-month price target: Rs1,207.00 based on a Sum of Parts methodology.
- Catalyst: New oil & gas finds, and potential acquisitions.

Action and recommendation

- RIL is one of our top picks.** We believe the company is not only poised to witness strong and highly visible earnings growth over the next two years, but sharply enhanced upstream exploration activities and likely corresponding finds shall sustain growth in the longer term.

▪ **Our analysis suggests a 39-62% QoQ rise in 4QFY10 profits**

The cumulative impact of gross refining margin (GRM) rise, KG D6 gas volume growth and savings from cheaper gas is a 39-62% QoQ jump in 4QFY10 (depending on low or high case). We have built in the low case into our numbers on a conservative basis.

Fig 1 Scenario analysis: Profits may rise to Rs55-65bn during 4QFY10

Components	Low case	High Case
Increase in GRMs (US\$/bbl)	2.5	4
Impact of PBT (Rs mn)	13,066	20,905
Increase in KG-D6 gas production (mmsmcmd)	15	15
Impact of PBT (Rs mn)	3,024	4,475
Savings on switching from LNG to KG-D6 gas (US\$/mm btu)	2	4
Impact of PBT (Rs mn)	2,661	5,321
Total Impact on PBT (Rs mn)	18,751	30,701
Total Impact on PAT (Rs mn)	15,282	25,021
% increase QoQ		
3QFY10 PAT (Rs mn)	40,080	40,080
Expected PAT of 4QFY10 (Rs mn)	55,362	65,101

Source: Macquarie Research, March 2010

▪ **GRMs are sustainably resurrecting:**

Complex GRMs have rebounded from 10 years lows, led primarily by jumps in auto-fuel cracks due to improvement in demand expectations. Gasoline cracks have shot up by 2.5x from the average in Oct-Dec '09 to ~US\$13/bbl, while Diesel cracks too are currently in excess of US\$7/bbl, an increase to 2x over the same period

Current/upcoming closures of unviable refineries are resulting in rationalization of excess refining capacity. An estimated ~1 mbpd of capacity has been partially/totally shuttered in the past one and a half year (see Fig 3). During CY10 capacity closures are forecast to exceed additions (see Fig 4), which augurs well for margins that were reeling under the effects of demand destruction.

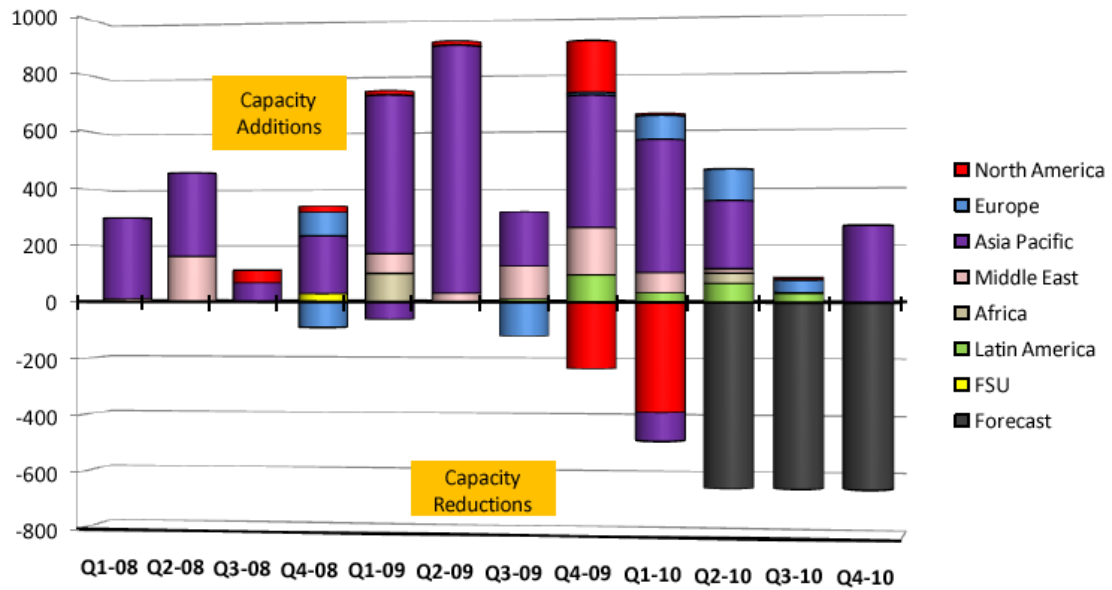
Fig 2 Confirmed refinery shutdowns in kbpd

Country	Operator	Site	Q408	Q109	Q209	Q309	Q409	Q110
Germany	Bayernoil	Ingolstadt	90					
UK	Petroplus	Teesside				117		
US PADD 1	Valero	Delaware					210	
US PADD 1	Sunoco	Eagle Point						145
US PADD 2	Holly	Tulsa (partial)						35
US PADD 3	Western	Bloomfield					19	
US PADD 5	Flying J	Bakersfield						70
Canada	Shell	Montreal						130
Japan	Nippon	Toyama		60				
Japan	Cosmo	Yokkaichi (partial)						50
Japan	Cosmo	Chiba (partial)						20
Japan	Cosmo	Sakaide (partial)						30
Total			90	150	150	267	496	976

Source: FACTS Energy, Macquarie Research, March 2010

A purging of the system by permanent closures is beneficial for GRMs in general and especially for more efficient, high complexity refiners like RIL.

Fig 3 Incremental refinery capacity balance

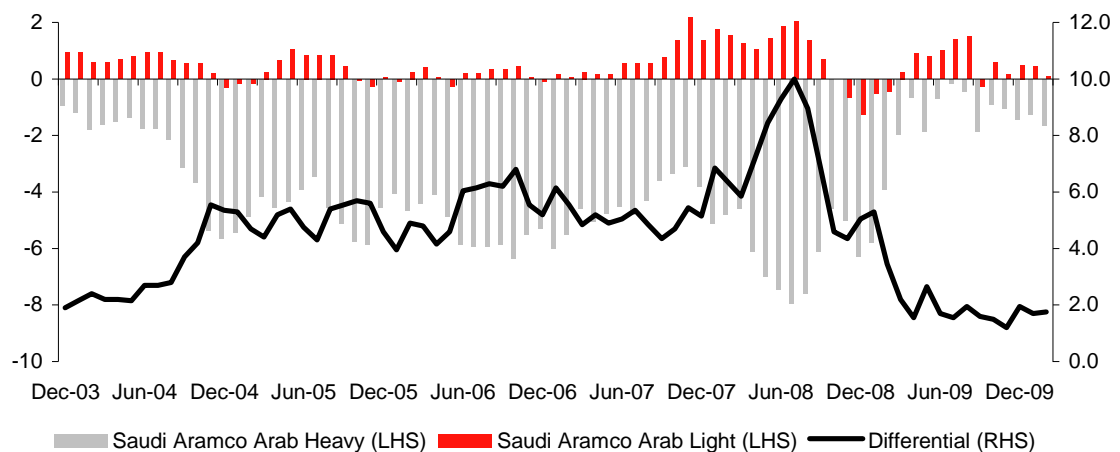


Source: FACTS Energy, Macquarie Research, March 2010

▪ **Expansion of Light-Heavy spreads:**

Arab Light-Heavy spreads touched 6 year lows in December 2009. Currently, they are observed to be improving slowly, hovering around ~\$1.8-2.0/bbl.

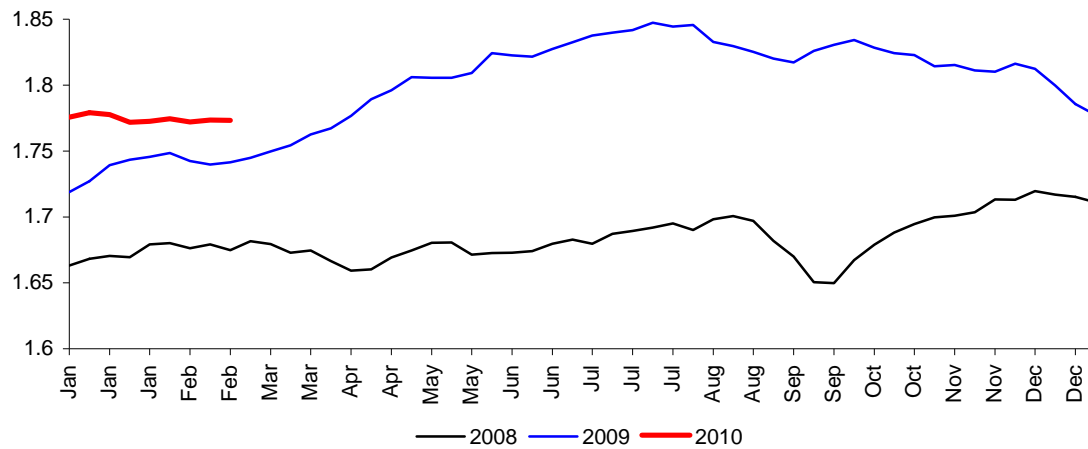
Fig 4 Arab Light-Heavy spreads are slowly improving (\$/bbl)



Source: EIA, Macquarie Research, March 2010

High refined product inventory levels (Fig 6) has constrained widening of light-heavy spreads. A strong growth in US economy (5.9% in 4Q09 actual) has recently spurred demand and hence could cut inventory.

Fig 5 US crude and product inventory



Source: EIA, Macquarie Research, March 2010

▪ **RIL's polymer/cracker margin have spurred**

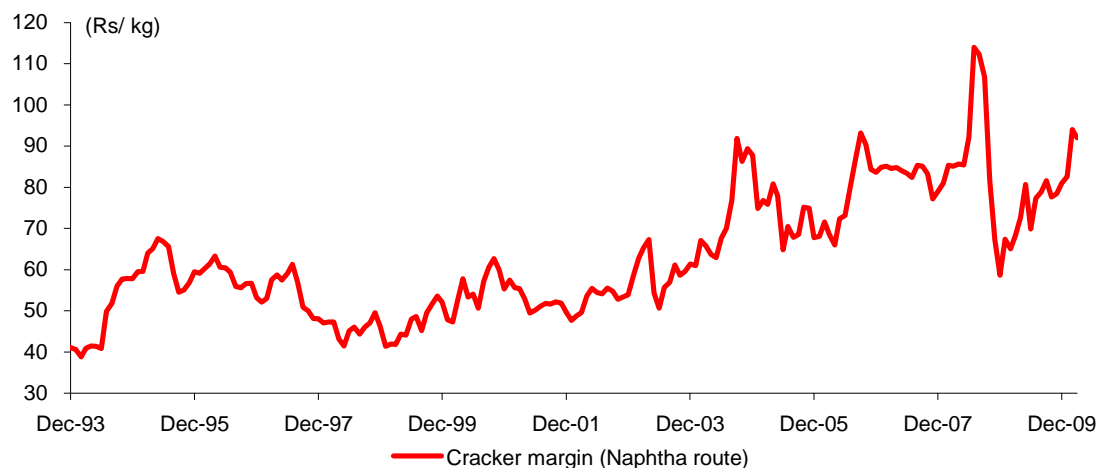
Cracker/Polymer stream margins have jumped 13.3% QoQ (Fig 7), indicating a strong revival of the petrochemicals business as well. However, polyester margins have grown only 2.8% QoQ (see Fig 8)

Fig 6 RIL's petrochemical margins

Change	Cracker/ polymer	Polyester
Quarter-on-quarter	13.5 0%	2.8%
Year-on-year	34.10%	-38.9%

Source: RIL, Bloomberg, Macquarie Research, March 2010

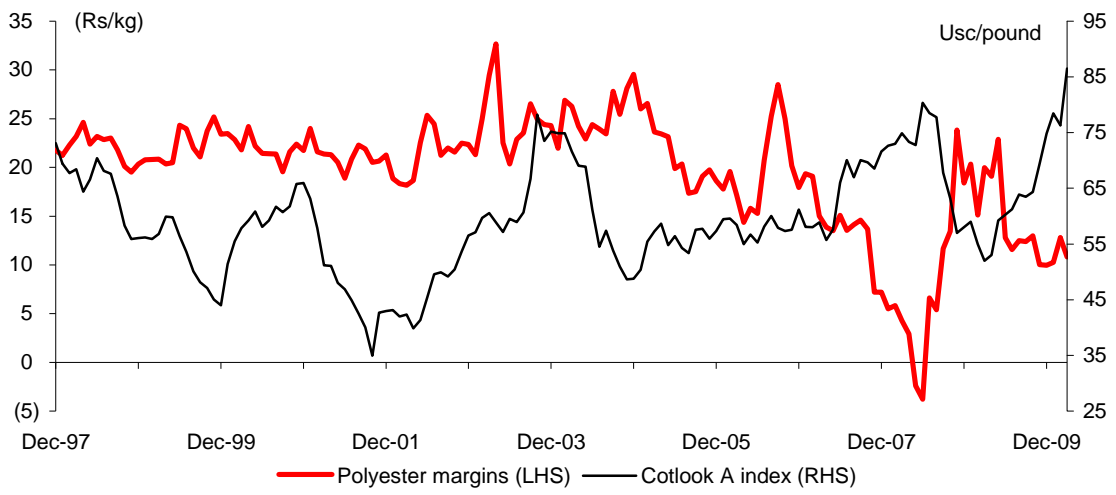
Fig 7 RIL's polymer/cracker stream integrated* margin



*Margin is the difference between the monthly spot product price and the cost of raw materials. Integrated margin is calculated for a particular integrated stream of products.

Source: RIL, Bloomberg, Datastream, Macquarie Research, March 2010

Fig 8 RIL's polyester chain margin and Cotlook A index



Source: RIL, Bloomberg, Macquarie Research, March 2008

Reliance Industries (RIL IN, Outperform, Target Price: Rs1,207.00)

Quarterly Results					Profit & Loss						
	3Q/10A	4Q/10E	1Q/11E	2Q/11E		2009A	2010E	2011E	2012E		
Revenue	m	453,179	453,179	528,556	528,556	Revenue	m	1,512,240	1,812,715	2,114,224	2,281,189
Gross Profit	m	102,335	102,335	127,423	127,423	Gross Profit	m	303,716	409,342	509,691	542,864
Cost of Goods Sold	m	350,843	350,843	401,133	401,133	Cost of Goods Sold	m	1,208,525	1,403,373	1,604,533	1,738,325
EBITDA	m	81,250	81,250	105,214	105,214	EBITDA	m	234,222	324,999	420,855	451,701
Depreciation	m	22,391	22,391	23,492	23,492	Depreciation	m	56,510	89,565	93,969	98,031
Amortisation of Goodwill	m	0	0	0	0	Amortisation of Goodwill	m	0	0	0	0
Other Amortisation	m	0	0	0	0	Other Amortisation	m	0	0	0	0
EBIT	m	58,859	58,859	81,722	81,722	EBIT	m	177,712	235,435	326,886	353,670
Net Interest Income	m	-10,622	-10,622	-9,231	-9,231	Net Interest Income	m	-18,163	-42,487	-36,922	-28,088
Associates	m	0	0	0	0	Associates	m	0	0	0	0
Exceptionals	m	0	0	0	0	Exceptionals	m	0	0	0	0
Forex Gains / Losses	m	0	0	0	0	Forex Gains / Losses	m	0	0	0	0
Other Pre-Tax Income	m	5,660	5,660	6,009	6,009	Other Pre-Tax Income	m	19,142	22,641	24,038	25,488
Pre-Tax Profit	m	53,897	53,897	78,501	78,501	Pre-Tax Profit	m	178,691	215,590	314,002	351,069
Tax Expense	m	-11,126	-11,126	-15,253	-15,253	Tax Expense	m	-29,188	-44,503	-61,013	-67,990
Net Profit	m	42,772	42,772	63,247	63,247	Net Profit	m	149,503	171,086	252,989	283,079
Minority Interests	m	0	0	0	0	Minority Interests	m	184	0	0	0
Reported Earnings	m	42,772	42,772	63,247	63,247	Reported Earnings	m	149,687	171,086	252,989	283,079
Adjusted Earnings	m	42,772	42,772	63,247	63,247	Adjusted Earnings	m	149,687	171,086	252,989	283,079
EPS (rep)		14.44	14.44	21.35	21.35	EPS (rep)		51.83	58.50	85.42	95.58
EPS (adj)		14.44	14.44	21.35	21.35	EPS (adj)		51.83	58.50	85.42	95.58
EPS Growth yoy (adj)	%	11.4	11.4	44.2	44.2	EPS Growth (adj)	%	10.3	12.9	46.0	11.9
						PE (rep)	x	19.5	17.3	11.8	10.6
						PE (adj)	x	19.5	17.3	11.8	10.6
EBITDA Margin	%	17.9	17.9	19.9	19.9	Total DPS		7.69	7.96	11.62	13.00
EBIT Margin	%	13.0	13.0	15.5	15.5	Total Div Yield	%	0.8	0.8	1.1	1.3
Earnings Split	%	25.0	25.0	25.0	25.0	Weighted Average Shares	m	2,888	2,925	2,962	2,962
Revenue Growth	%	19.9	19.9	16.6	16.6	Period End Shares	m	2,888	2,962	2,962	2,962
EBIT Growth	%	32.5	32.5	38.8	38.8						
Profit and Loss Ratios					Cashflow Analysis						
	2009A	2010E	2011E	2012E		2009A	2010E	2011E	2012E		
Revenue Growth	%	10.3	19.9	16.6	7.9	EBITDA	m	234,222	324,999	420,855	451,701
EBITDA Growth	%	1.2	38.8	29.5	7.3	Tax Paid	m	-29,188	-44,503	-61,013	-67,990
EBIT Growth	%	-2.0	32.5	38.8	8.2	Chgs in Working Cap	m	230,161	-144,149	-19,990	-8,082
Gross Profit Margin	%	20.1	22.6	24.1	23.8	Net Interest Paid	m	-18,163	-42,487	-36,922	-28,088
EBITDA Margin	%	15.5	17.9	19.9	19.8	Other	m	11,396	406	10,220	8,937
EBIT Margin	%	11.8	13.0	15.5	15.5	Operating Cashflow	m	428,427	94,266	313,151	356,477
Net Profit Margin	%	9.9	9.4	12.0	12.4	Acquisitions	m	4,565	0	0	0
Payout Ratio	%	14.8	13.6	13.6	13.6	Capex	m	-719,641	-108,957	-76,095	-76,528
EV/EBITDA	x	14.4	10.6	8.2	7.6	Asset Sales	m	0	0	0	0
EV/EBIT	x	18.9	14.6	10.5	9.7	Other	m	19,142	22,641	24,038	25,488
Balance Sheet Ratios					Investing Cashflow	m	-695,934	-86,315	-52,057	-51,040	
ROE	%	14.5	12.6	16.1	16.1	Dividend (Ordinary)	m	-22,195	-23,272	-34,413	-38,506
ROA	%	8.4	9.4	12.9	13.7	Equity Raised	m	-1,295	15,178	0	0
ROIC	%	10.9	10.7	13.8	15.0	Debt Movements	m	255,605	-120,078	-149,921	-200,200
Net Debt/Equity	%	44.1	27.5	16.0	-0.2	Other	m	191,762	123,365	-78,083	-0
Interest Cover	x	9.8	5.5	8.9	12.6	Financing Cashflow	m	423,878	-4,807	-262,418	-238,706
Price/Book	x	2.4	2.0	1.8	1.6	Net Chg in Cash/Debt	m	156,371	3,144	-1,324	66,732
Book Value per Share		419.9	506.1	553.5	636.1	Free Cashflow	m	-291,214	-14,691	237,056	279,950
					Balance Sheet						
		2009A	2010E	2011E	2012E		2009A	2010E	2011E	2012E	
Cash	m	227,421	230,565	229,241	295,973	Cash	m	227,421	230,565	229,241	295,973
Receivables	m	48,450	89,469	101,575	107,713	Receivables	m	48,450	89,469	101,575	107,713
Inventories	m	201,096	162,913	177,309	185,735	Inventories	m	201,096	162,913	177,309	185,735
Investments	m	64,355	64,355	64,355	64,355	Investments	m	64,355	64,355	64,355	64,355
Fixed Assets	m	1,808,902	1,828,294	1,810,420	1,788,916	Fixed Assets	m	1,808,902	1,828,294	1,810,420	1,788,916
Intangibles	m	0	0	0	0	Intangibles	m	0	0	0	0
Other Assets	m	110,494	149,232	160,913	166,274	Other Assets	m	110,494	149,232	160,913	166,274
Total Assets	m	2,460,718	2,524,828	2,543,813	2,608,967	Total Assets	m	2,460,718	2,524,828	2,543,813	2,608,967
Payables	m	345,011	246,793	264,615	276,171	Payables	m	345,011	246,793	264,615	276,171
Short Term Debt	m	84,396	62,270	62,270	62,270	Short Term Debt	m	84,396	62,270	62,270	62,270
Long Term Debt	m	678,170	580,219	430,297	230,097	Long Term Debt	m	678,170	580,219	430,297	230,097
Provisions	m	31,150	30,109	30,109	30,109	Provisions	m	31,150	30,109	30,109	30,109
Other Liabilities	m	108,072	105,161	115,754	124,978	Other Liabilities	m	108,072	105,161	115,754	124,978
Total Liabilities	m	1,246,799	1,024,552	903,044	723,625	Total Liabilities	m	1,246,799	1,024,552	903,044	723,625
Shareholders' Funds	m	1,212,565	1,498,887	1,639,380	1,883,953	Shareholders' Funds	m	1,212,565	1,498,887	1,639,380	1,883,953
Minority Interests	m	1,389	1,389	1,389	1,389	Minority Interests	m	1,389	1,389	1,389	1,389
Other	m	-36	0	0	0	Other	m	-36	0	0	0
Total S/H Equity	m	1,213,918	1,500,276	1,640,769	1,885,342	Total S/H Equity	m	1,213,918	1,500,276	1,640,769	1,885,342
Total Liab & S/H Funds	m	2,460,718	2,524,828	2,543,813	2,608,967	Total Liab & S/H Funds	m	2,460,718	2,524,828	2,543,813	2,608,967

All figures in INR unless noted.

Source: Company data, Macquarie Research, March 2010

Important disclosures:

Recommendation definitions

Macquarie - Australia/New Zealand

Outperform – return >5% in excess of benchmark return
Neutral – return within 5% of benchmark return
Underperform – return >5% below benchmark return

Macquarie – Asia/Europe

Outperform – expected return >+10%
Neutral – expected return from -10% to +10%
Underperform – expected return <-10%

Macquarie First South - South Africa

Outperform – expected return >+10%
Neutral – expected return from -10% to +10%
Underperform – expected return <-10%

Macquarie - Canada

Outperform – return >5% in excess of benchmark return
Neutral – return within 5% of benchmark return
Underperform – return >5% below benchmark return

Macquarie - USA

Outperform (Buy) – return >5% in excess of Russell 3000 index return
Neutral (Hold) – return within 5% of Russell 3000 index return
Underperform (Sell) – return >5% below Russell 3000 index return

Recommendations – 12 months

Note: Quant recommendations may differ from Fundamental Analyst recommendations

Volatility index definition*

This is calculated from the volatility of historical price movements.

Very high-highest risk – Stock should be expected to move up or down 60–100% in a year – investors should be aware this stock is highly speculative.

High – stock should be expected to move up or down at least 40–60% in a year – investors should be aware this stock could be speculative.

Medium – stock should be expected to move up or down at least 30–40% in a year.

Low-medium – stock should be expected to move up or down at least 25–30% in a year.

Low – stock should be expected to move up or down at least 15–25% in a year.

* Applicable to Australian/NZ/Canada stocks only

Financial definitions

All "Adjusted" data items have had the following adjustments made:

Added back: goodwill amortisation, provision for catastrophe reserves, IFRS derivatives & hedging, IFRS impairments & IFRS interest expense
Excluded: non recurring items, asset revals, property revals, appraisal value uplift, preference dividends & minority interests

EPS = adjusted net profit / epowa*

ROA = adjusted ebit / average total assets

ROA Banks/Insurance = adjusted net profit / average total assets

ROE = adjusted net profit / average shareholders funds

Gross cashflow = adjusted net profit + depreciation

*equivalent fully paid ordinary weighted average number of shares

All Reported numbers for Australian/NZ listed stocks are modelled under IFRS (International Financial Reporting Standards).

Recommendation proportions – For quarter ending 31 December 2009

	AU/NZ	Asia	RSA	USA	CA	EUR	
Outperform	47.94%	60.52%	37.50%	43.42%	65.26%	41.60%	(for US coverage by MCUSA, 3.76% of stocks covered are investment banking clients)
Neutral	35.58%	18.70%	53.13%	49.06%	29.11%	36.80%	(for US coverage by MCUSA, 4.51% of stocks covered are investment banking clients)
Underperform	16.48%	20.79%	9.38%	7.52%	5.63%	21.60%	(for US coverage by MCUSA, 0.00% of stocks covered are investment banking clients)

Company Specific Disclosures:

Important disclosure information regarding the subject companies covered in this report is available at www.macquarie.com/research/disclosures.

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