

Asia India  
Energy Oil & Gas

Deutsche Bank



17 October 2011

# Reliance Industries

Reuters: **RELI.BO** Bloomberg: **RIL IN** Exchange: **BSE** Ticker: **RELI**

## BP deal completed, now focus to shift to E&P

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### Q2FY12 results in line; higher petchem EBIT compensates for lower GRM

RIL reported Q2FY12 net profit of INR57.0bn, in line with our estimates. RIL is now focusing on obtaining various government approvals to monetize existing discoveries in its E&P blocks. While the KG D6 production ramp-up is likely at least two years away, we expect RIL to benefit from robust refining and petrochemical margins. The completion of the BP deal also benchmarks RIL's E&P valuation and provides downside support. RIL is trading at 6.7x FY12E EV/EBITDA, at the lower end of its last five years' range of 6-24x. Reiterate Buy.

### RIL reports INR57.0bn net profit; +16% YoY and +1% QoQ

RIL reported Q2FY12 net profit of INR57.0bn (+16% YoY, +1% QoQ), marginally lower than consensus estimates, but in line with our estimate. EBITDA, at INR98.4bn (+5% YoY, -1% QoQ), was higher than our estimate thanks to a better performance in the petchem segment. The gross refining margin (GRM) was lower than expected at US\$10.1/bbl (+28% YoY, -2% QoQ). Oil & gas production in KGD6 continued to fall and came in at c.45mmscmd (-22% yoy, -7% qoq) for gas and 16k bpd (-32% yoy, -8% qoq) for oil. RIL's average net production from its US shale gas JVs increased by 53% qoq for gas to c.2mmscmd (c7% of RIL's share of KG D6) and by 76% qoq for condensates to 8.2k bpd. This is expected to increase further as production from RIL's Carrizo shale gas JV starts in 3QFY12.

### With BP deal done, focus on development of existing discoveries

The BP deal for a 30% stake sale in RIL's 21 E&P blocks was completed in August 2011. RIL is now firmly focused on obtaining government approvals for existing discoveries in KG D6 R-Series and satellite fields, Cambay block, KG D3 and CBM blocks. Once BP and RIL complete the evaluation of their exploration program, we expect exploration activities to accelerate in RIL's prospective blocks such as KG D3, KG D9, etc. Moreover, we expect BP's deepwater expertise to help RIL tackle the challenges in KGD6.

### SOTP-based target price of INR1060; worsening global economy the key risk

Our SOTP-based target price uses 7.2x FY12E EV/EBITDA for refining and petrochemicals and DCF (WACC 10.9%) for KGD6 and exploration upside potential. Risks are 1) a worsening global economy that could hurt refining and petrochemicals demand; 2) production outages; and 3) policy vagaries.

#### Forecasts and ratios

Year End Mar 31	2010A	2011A	2012E	2013E	2014E
Sales (INRm)	2,037,397.2	2,658,106.0	<b>3,471,765.7</b>	3,513,184.8	3,647,135.0
EBITDA (INRm)	308,939.1	380,435.8	<b>405,430.7</b>	435,192.0	469,317.1
DB Net Profit (INR)	158,975.7	192,936.8	<b>245,596.0</b>	278,466.0	296,344.8
DB EPS FD(INR)	48.49	58.97	<b>75.03</b>	85.07	90.53
DB EPS growth (%)	2.0	21.6	<b>27.2</b>	13.4	6.4

Source: Deutsche Bank estimates, company data

<sup>1</sup> DB EPS is fully diluted and excludes non-recurring items

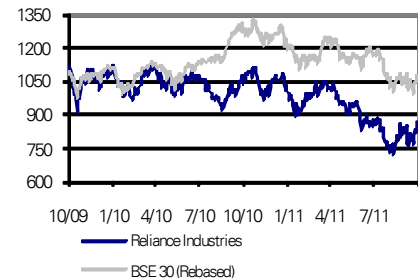
<sup>2</sup> Multiples and yields calculations use average historical prices for past years and spot prices for current and future years, except P/B which uses the year end close

## Results

### Buy

Price at 14 Oct 2011 (INR)	<b>866.80</b>
Price target - 12mth (INR)	<b>1,060.00</b>
52-week range (INR)	<b>1,112.00 - 719.50</b>
BSE 30	<b>17,083</b>

#### Price/price relative



Performance (%)	1m	3m	12m
Absolute	5.0	0.0	-18.1
BSE 30	2.2	-8.2	-16.7

#### Stock data

Market cap (INRm)	<b>2,837,361</b>
Market cap (USDm)	<b>57,888</b>
Shares outstanding (m)	<b>3,273.4</b>
Major shareholders	<b>Ambani Group (44.76%)</b>
Free float (%)	<b>55</b>
Avg daily value traded (USDm)	<b>90.6</b>

#### Key indicators (FY1)

ROE (%)	<b>15.5</b>
Net debt/equity (%)	<b>-6.0</b>
Book value/share (INR)	<b>516.68</b>
Price/book (x)	<b>1.7</b>
Net interest cover (x)	-
Operating profit margin (%)	<b>8.7</b>

Deutsche Bank AG/Hong Kong

All prices are those current at the end of the previous trading session unless otherwise indicated. Prices are sourced from local exchanges via Reuters, Bloomberg and other vendors. Data is sourced from Deutsche Bank and subject companies. Deutsche Bank does and seeks to do business with companies covered in its research reports. Thus, investors should be aware that the firm may have a conflict of interest that could affect the objectivity of this report. Investors should consider this report as only a single factor in making their investment decision. DISCLOSURES AND ANALYST CERTIFICATIONS ARE LOCATED IN APPENDIX 1. MICA(P) 146/04/2011.

Model updated: 14 July 2011

**Running the numbers****Asia****India****Oil & Gas****Reliance Industries**

Reuters: RELI.BO

Bloomberg: RIL IN

**Buy**

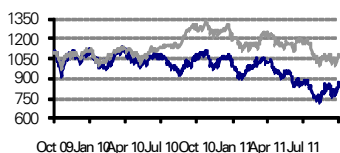
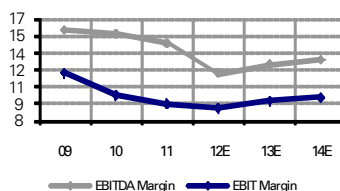
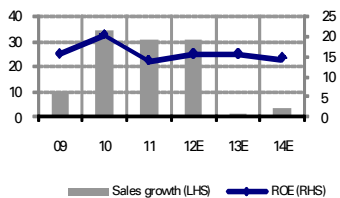
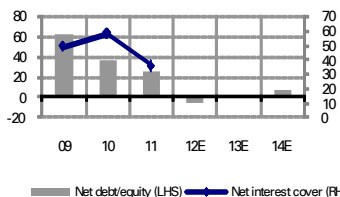
Price (14 Oct 11) INR 866.80

Target price INR 1,060.00

52-week Range INR 719.50 - 1,112.00

Market Cap (m) INRm 2,837,361  
USDm 57,888**Company Profile**

RIL is India's largest private sector enterprise, with businesses in the energy and materials value chain. Its activities span exploration and production of oil and gas, petroleum refining and marketing, petrochemicals (polyester, fibre intermediates, plastics and chemicals), textiles and retailing. RIL operates KG D6 (D1, D3) gas fields, one of the world's largest deepwater projects. It is also the largest polyester yarn and fibre producer in the world and among the top five to ten producers in the world in major petrochemical products.

**Price Performance****Margin Trends****Growth & Profitability****Solvency**

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Fiscal year end 31-Mar

**Financial Summary**

	2009	2010	2011	2012E	2013E	2014E
DB EPS (INR)	47.55	48.49	58.97	75.03	85.07	90.53
Reported EPS (INR)	46.54	74.74	58.97	75.03	85.07	90.53
DPS (INR)	6.50	7.00	7.07	9.00	10.21	10.86
BVPS (INR)	331.8	402.4	452.2	516.7	589.8	667.7
Weighted average shares (m)	3,097	3,278	3,272	3,273	3,273	3,273
Average market cap (INRm)	2,780,121	3,353,379	3,347,249	2,837,361	2,837,361	2,837,361
Enterprise value (INRm)	3,455,000	3,843,224	3,741,659	2,735,167	2,883,207	2,979,976

**Valuation Metrics**

P/E (DB) (x)	18.9	21.1	17.3	11.6	10.2	9.6
P/E (Reported) (x)	19.3	13.7	17.3	11.6	10.2	9.6
P/BV (x)	2.30	2.67	2.32	1.68	1.47	1.30
FCF Yield (%)	nm	4.5	1.1	19.2	1.8	2.7
Dividend Yield (%)	0.7	0.7	0.7	1.0	1.2	1.3
EV/Sales (x)	2.3	1.9	1.4	0.8	0.8	0.8
EV/EBITDA (x)	14.8	12.4	9.8	6.7	6.6	6.3
EV/EBIT (x)	19.4	19.3	15.6	9.1	8.8	8.5

**Income Statement (INRm)**

Sales revenue	1,512,240	2,037,397	2,658,106	3,471,766	3,513,185	3,647,135
Gross profit	333,947	444,425	537,609	594,107	628,978	703,717
EBITDA	234,222	308,939	380,436	405,431	435,192	469,317
Depreciation	56,510	109,458	141,208	104,632	107,905	119,451
Amortisation	0	0	0	0	0	0
EBIT	177,712	199,481	239,228	300,799	327,287	349,866
Net interest income/(expense)	-3,602	-3,437	-6,691	-63	12,663	11,990
Associates/affiliates	0	0	0	0	0	0
Exceptionals/extraordinaries	0	86,056	0	0	0	0
Other pre-tax income/(expense)	4,582	4,699	8,012	9,000	10,000	10,000
Profit before tax	178,691	286,799	240,550	309,736	349,950	371,856
Income tax expense	29,188	42,563	47,834	64,140	71,484	75,511
Minorities	-184	-796	-222	0	0	0
Other post-tax income/(expense)	0	0	0	0	0	0
Net profit	149,687	245,031	192,937	245,596	278,466	296,345
DB adjustments (including dilution)	3,280	-86,056	0	0	0	0
DB Net profit	152,967	158,976	192,937	245,596	278,466	296,345

**Cash Flow (INRm)**

Cash flow from operations	225,931	279,747	337,855	362,239	398,382	427,807
Net Capex	-278,567	-129,467	-302,038	181,431	-347,463	-352,262
Free cash flow	-52,636	150,281	35,817	543,670	50,919	75,545
Equity raised/(bought back)	151,648	15,638	676	0	0	0
Dividends paid	-22,195	-20,847	-23,850	-29,472	-33,416	-34,260
Net inc/(dec) in borrowings	433,731	-204,859	146,773	-354,777	127,387	-67,014
Other investing/financing cash flows	30,873	-66,767	-84,839	0	0	0
Net cash flow	541,421	-126,554	74,577	159,421	144,890	-25,729
Change in working capital	-57,726	66,625	-69,588	20,882	52,089	11,396

**Balance Sheet (INRm)**

Cash and other liquid assets	265,812	245,988	488,196	630,022	609,369	445,585
Tangible fixed assets	1,686,604	1,678,113	1,817,560	1,528,224	1,875,686	2,227,948
Goodwill/intangible assets	0	0	0	0	0	0
Associates/investments	25,964	24,043	29,157	29,157	29,157	29,157
Other assets	360,040	552,149	679,406	741,749	797,781	814,306
Total assets	2,338,420	2,500,292	3,014,317	2,929,151	3,311,992	3,516,996
Interest bearing debt	940,691	735,833	882,605	527,828	655,215	588,201
Other liabilities	306,108	442,854	643,633	702,015	717,969	735,109
Total liabilities	1,246,799	1,178,687	1,526,238	1,229,843	1,373,184	1,323,310
Shareholders' equity	1,090,232	1,315,870	1,480,057	1,691,286	1,930,787	2,185,664
Minorities	1,389	5,735	8,022	8,022	8,022	8,022
Total shareholders' equity	1,091,621	1,321,605	1,488,079	1,699,309	1,938,809	2,193,686
Net debt	674,879	489,845	394,410	-102,194	45,846	142,616

**Key Company Metrics**

Sales growth (%)	10.3	34.7	30.5	30.6	1.2	3.8
DB EPS growth (%)	-6.1	2.0	21.6	27.2	13.4	6.4
EBITDA Margin (%)	15.5	15.2	14.3	11.7	12.4	12.9
EBIT Margin (%)	11.8	9.8	9.0	8.7	9.3	9.6
Payout ratio (%)	13.4	9.4	12.0	12.0	12.0	12.0
ROE (%)	15.5	20.4	13.8	15.5	15.4	14.4
Capex/sales (%)	18.4	6.4	0.0	-5.2	9.9	9.7
Capex/depreciation (x)	4.9	1.2	0.0	-1.7	3.2	2.9
Net debt/equity (%)	61.8	37.1	26.5	-6.0	2.4	6.5
Net interest cover (x)	49.3	58.0	35.8	nm	nm	nm

Source: Company data, Deutsche Bank estimates

# Q2FY12 results in line with our estimates

RIL reported Q2FY12 net profit of INR57.0bn (+16% YoY, + 1% QoQ), marginally lower than consensus estimates but in line with our estimates. EBITDA, at INR98.4bn (+5% YoY, -1% QoQ), was higher than our estimate thanks to a better-than-expected performance in the petchem segment. Gross refining margins (GRMs) were, however, lower than expected at US\$10.1/bbl (+28% YoY, -2% QoQ) against our estimate of US\$10.6/bbl. Oil & gas production at KGD6 continued to fall and came in at c.45mmscmd (-22% yoy, -7% qoq) for gas and 16k bpd (-32% yoy, -8% qoq) for oil. Depreciation fell to INR29.7bn (-12% YoY, -7% QoQ) as the sale consideration received for the E&P deal with BP was reduced from the E&P gross block leading to a lower depletion expense for KG D6. Other income rose by 64% YoY and 2% QoQ to INR11.0bn due to higher average cash balances and higher yields. As at 30 September 2011, RIL had gross debt of INR714bn (USD14.6bn) and cash on its book of INR615bn (USD12.5bn). RIL had consolidated net debt of c.US\$6.5bn. RIL also received the balance sale consideration of INR147bn (US\$3bn) for the deal with BP on 3 October 2011, implying that it has now become net cash on a standalone basis.

**Figure 1: Q2FY12 results review**

(INR m)	Q1FY11	Q2FY11	Q3FY11	Q4FY11	Q1FY12	Q2FY12	chg YoY%	chg QoQ%
<b>Net sales</b>	<b>582,280</b>	<b>574,790</b>	<b>597,890</b>	<b>726,740</b>	<b>810,180</b>	<b>785,690</b>	<b>36.7</b>	<b>(3.0)</b>
Raw materials	442,120	432,380	450,080	575,330	653,400	630,540	45.8	(3.5)
Staff cost	6,170	6,600	6,610	6,860	8,780	7,150	8.3	(18.6)
Other expenses	35,830	38,690	41,420	43,710	43,010	44,420	14.8	3.3
Total expenses	488,860	480,830	502,440	628,310	710,920	687,250	42.9	(3.3)
<b>EBITDA</b>	<b>93,420</b>	<b>93,960</b>	<b>95,450</b>	<b>98,430</b>	<b>99,260</b>	<b>98,440</b>	<b>4.8</b>	<b>(0.8)</b>
Interest	5,410	5,420	5,490	6,960	5,450	6,600	21.8	21.1
Depreciation	34,850	33,770	33,590	33,870	31,950	29,690	(12.1)	(7.1)
Other income	7,220	6,720	7,410	9,170	10,780	11,020	64.0	2.2
Recurring pre-tax income	60,380	61,490	63,780	66,770	72,640	73,170	19.0	0.7
Taxation								
Current tax	9,870	10,260	10,420	12,650	14,530	14,640	42.7	0.8
Deferred tax	2,000	2,000	2,000	360	1,500	1,500	(25.0)	0.0
<b>Profit after taxes</b>	<b>48,510</b>	<b>49,230</b>	<b>51,360</b>	<b>53,760</b>	<b>56,610</b>	<b>57,030</b>	<b>15.8</b>	<b>0.7</b>
<b>Operational performance</b>								
GRMs (US\$/bbl)	7.3	7.9	9.0	9.2	10.3	10.1	27.8	(1.9)
Ref throughput (mte)	16.89	16.91	16.10	16.70	17.00	17.10	1.1	0.6
KGD6 gas prodn (mmscmd)	59.1	57.9	54.5	52.1	48.6	45.3	(21.7)	(6.8)
KGD6 oil prodn ('000 bpd)	25.5	24.0	19.6	18.9	17.8	16.3	(32.0)	(8.4)
<b>Margins (%)</b>							<b>bps</b>	<b>bps</b>
Gross margins	24.1	24.8	24.7	20.8	19.4	19.7	(502.9)	39.6
EBITDA margins	16.0	16.3	16.0	13.5	12.3	12.5	(381.8)	27.8
Net profit margins	8.3	8.6	8.6	7.4	7.0	7.3	(130.6)	27.1
Effective tax rate	19.7	19.9	19.5	19.5	22.1	22.1	212.0	(1.0)

Source: Deutsche Bank, company data

## Segment performance

The key highlight of the quarter was the strong performance by the petrochemical segment, which recovered sharply after the weak domestic demand witnessed in Q1FY12. However, the growth in petchem EBIT was partly offset by the sequential fall in refining EBIT on

accounting to weaker gasoil and light-heavy spreads. While oil & gas segment revenue fell due to a fall in production, oil & gas EBIT increased sequentially on account of lower depletion charge as sale consideration from the BP deal was reduced from the oil & gas gross block.

**Figure 2: Segment review**

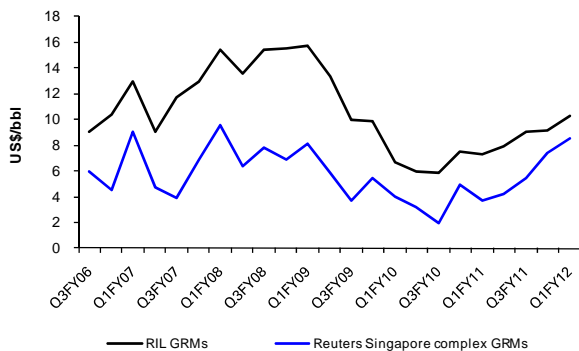
	Q1FY11	Q2FY11	Q3FY11	Q4FY11	Q1FY12	Q2FY12	chg (YoY)	chg (QoQ)
<b>Segment revenue (INRm):</b>								
Petrochemicals	139,030	150,960	159,620	181,940	183,660	210,660	39.5	14.7
Refining	505,310	496,720	525,240	627,040	736,890	680,960	37.1	(7.6)
Oil & gas	46,650	43,030	41,780	41,040	38,940	35,630	(17.2)	(8.5)
Others	1,070	1,550	1,800	1,730	2,350	5,100	229.0	117.0
<b>Total (gross)</b>	<b>692,060</b>	<b>692,260</b>	<b>728,440</b>	<b>851,750</b>	<b>961,840</b>	<b>932,350</b>	<b>34.7</b>	<b>(3.1)</b>
<b>Segment EBIT (INRm):</b>								
Petrochemicals	20,530	21,970	24,290	26,260	22,150	24,220	10.2	9.3
Refining	20,350	21,920	24,360	25,090	31,990	30,750	40.3	(3.9)
Oil & gas	19,210	17,060	15,040	15,690	14,730	15,310	(10.3)	3.9
Others	70	80	90	90	80	100	25.0	25.0
<b>Total</b>	<b>60,160</b>	<b>61,030</b>	<b>63,780</b>	<b>67,130</b>	<b>68,950</b>	<b>70,380</b>	<b>15.3</b>	<b>2.1</b>

Source: Company data

**Refining**

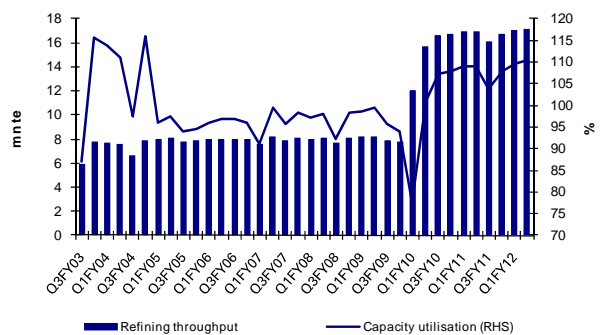
RIL reported EBIT of INR30.75bn (+40% YoY, -4% QoQ) driven by GRM of US\$10.1/bbl (+28% YoY, -2% QoQ). RIL's outperformance relative to Reuters' Singapore complex GRMs fell to US\$1.0/bbl, which is the lowest reported in the past five years. Refining margins were lower than our expectations (US\$10.6/bbl) on account of lower gasoil cracks, and lower light-heavy crude differential during the quarter. Refinery capacity utilization remained high at 110% or 17m tonnes. RIL plans to conduct a maintenance shutdown of one crude distillation unit (CDU) and delayed coker unit in Q4FY12 which could negatively impact throughput in that quarter.

**Figure 3: GRMs (US\$/bbl)**



Source: Company data, Deutsche Bank

**Figure 4: Refining throughput and capacity utilisation**



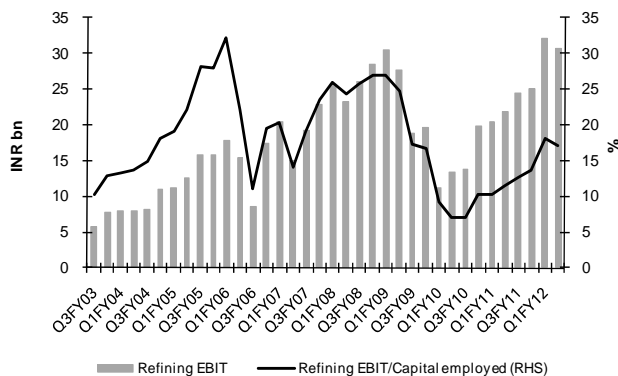
Source: Company data, Deutsche Bank

**Petrochemicals**

The petrochemicals segment showed an improved performance driven by higher polymer production and margins. Petrochemicals' EBIT, at INR24.2bn, was up 10%yoy and 9% qoq. However, polyethylene margins remained under pressure due to increased supplies from Middle East.

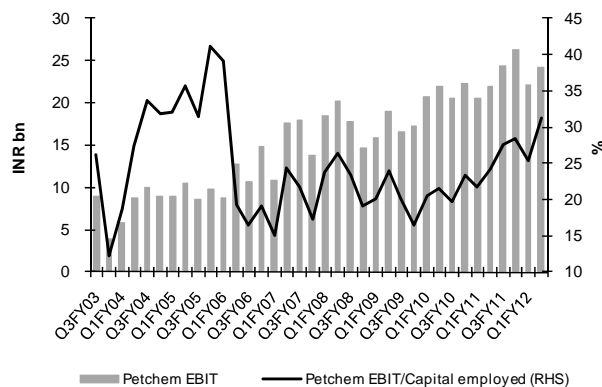
Domestic petchem demand improved significantly by 21% qoq for both polymers and polyesters – polypropylene (+24%), polyethylene (+29%), PVC (+5%), POY (+27%), PSF (+12%), PET (9%).

**Figure 5: Refining EBIT and EBIT/capital employed**



Source: Deutsche Bank, company data

**Figure 6: Petrochemical EBIT and EBIT/capital employed**



Source: Deutsche Bank, company data

**Figure 7: RIL's planned capacity expansions in petchem space**

Chemicals	Capacity (MMT)	Timeline
Paraxylene (PX)	1.80	FY14
	2.3	
Purified terephthalic acid (PTA)	(option to increase by additional 1.15)	FY14
Mono ethlene glycol (MEG)	0.70	2HFY13
	0.65	
Polyethylene terephthalate (PET)	(option to increase by additional 0.54)	2HFY13
Polyester filament yarn (PFY)	0.40	2HFY13
Polyester staple fibre (PSF)	0.30	2HFY13
Polyester terephthalate Yarn	0.14	2HFY13
Olefins (gas cracker)	1.50	FY15
Acetic acid	1.00	NA

Source: Company data, Deutsche Bank

**Oil & Gas**

Oil & Gas segment EBIT, at INR15.3bn (-10% YoY, +4% QoQ), was lower on account of lower oil & gas production in KGD6 and a natural decline in the Panna-Mukta-Tapti fields. In Q2FY12, KG D6 production was lower at 45.3mmscmd (-22% yoy, -7% qoq) for gas and 16.3k bpd (-32% yoy, -8% qoq) for oil and condensates, partly due to a 15-day shutdown at its MA-1 field. RIL has started accounting for its share in KG D6 production at 60% (post the BP deal) from September 2011. RIL has drilled one development well in KG D6 during the quarter taking the total number of development wells to 22. However, the company said that only 18 of these wells are currently producing.

While gas production was sequentially flat in Panna-Mukta at 5.5mmscmd, it continued to fall in Tapti to 6.1mmscmd (-17% YoY, -3% QoQ) due to the natural decline in the field.

During the quarter, RIL submitted a proposal for a Declaration of Commerciality (DoC) to the regulator DGH for its eight discoveries in the onshore Cambay Basin block CB-ONN-20o3/1. The company has also accelerated drilling operations in its CBM blocks and drilled 12 new

development wells in the Sohagpur East & West blocks taking the total number of development wells drilled so far to twenty six. RIL has also submitted to the government a proposal aimed at arriving at the CBM gas pricing formula. The proposed formula submitted by RIL is linked to the liquefied natural gas (LNG) price. Production is likely to start two years after the pricing formula is approved by the government. In the development plan submitted to DGH, RIL has envisaged a peak production from CBM of 4mmscmd.

RIL's three US shale gas joint ventures showed good progress in Q2FY12 with average production net to RIL having increased by 53% qoq for gas to c.2mmscmd (which is c.7% of RIL's share of KG D6 gas production) and by 76% qoq for condensates to 8.2k bpd. These reached a Q2FY12 exit gross production of 210mmscfd (c.6mmscmd) of gas and 24.7k bpd of gas condensate. RIL has spent US\$2.8bn in the joint ventures (including drilling carry) so far with c.50% being spent on Pioneer alone. RIL expects to commence production from its Carrizo shale gas JV as well in 3QFY12.

**Figure 8: RIL's discoveries in various fields**

Name	Blocks	Gas	Oil	Total
Cambay	CB-ONN-2003/1		8	8
Cauvery	CY-DWN-2001/2	1		1
Cauvery-Palar	CY-PR-DWN-2001/3	1		1
Gujarat Saurashtra	GS-OSN-2000/1	1		1
KGD3	KG-DWN-2003/1	5		5
KGD4	KG-DWN-98/1		1	1
KGD6	KG-DWN-98/3	18	1	19
KGD9	KG-DWN-2001/1	1		1
KG-III-5	KG-OSN-2001/1	3		3
KGIII6	KG-OSN-2001/2	2		2
NEC25	NEC-OSN-97/2	8		8
Saurashtra	SR-OS-94/1	1		1
Yemen	Block 9		4	4
<b>Total</b>		<b>41</b>	<b>13</b>	<b>54</b>

Source: Company data, Deutsche Bank

# Valuation and risks

We rate Reliance Industries (RIL) a Buy with a target price of INR1060. We expect RIL to be a key beneficiary of the robust margin outlook in its core businesses of refining and petrochemicals, which will contribute to three-quarters of its EBITDA after the RIL-BP deal. With the RIL-BP deal now completed, we expect efforts to stabilize and ramp up KGD6 gas production to accelerate with the help of BP's deepwater expertise. With 32 discoveries in domestic blocks other than KGD6, there is significant value in RIL's exploratory blocks which is currently not reflected in the stock price. Moreover, we believe RIL's exploration segment has the potential to provide a positive surprise as RIL continues its exploration campaign in the MND4, KGD9 and KGD3 blocks. Acquisitions (particularly in energy and petrochemicals businesses) and exploration successes will also be important drivers of RIL's future valuations. This could provide event-driven upsides for the stock. Moreover, in a strong downstream margin environment, RIL is expected to benefit further from the capacity expansions in PX, PTA and olefins which are expected to be commissioned in phases over CY13-14. RIL is trading at 6.7x FY12E EV/EBITDA, which is at the lower end of its past five years' trading range of 6x-24x.

We value RIL at INR1060 on a sum-of-the-parts (SOTP) basis using EV/E for the refining and petrochemicals segments and DCF for the E&P business. We value RIL's refining and petrochemicals business at an EV/EBITDA multiple of 7.2x FY12E. We value KGD6 on DCF using a 10.9% WACC, based on Deutsche Bank's cost-of-equity assumptions for India (risk-free rate of 6.7%, risk premium of 8.1%) and Beta of 1. Our value for RIL's E&P segment includes the value of KGD6, US shale gas, and prospective resources. We also value RIL's investments in telecom and retail at book value and listed investments (Reliance Industrial infrastructure, East India Hotels) at a 20% discount to current market price.

**Figure 9: SOTP-based valuation of INR1060**

	INR	Methodology
Refining & petrochemicals	700	7.2x FY12E EBITDA
Exploration & production	250	DCF, WACC of 10.9%
- of which KG D6 and NEC 25	108	DCF, WACC of 10.9%
- of which prospective	57	DCF, WACC of 10.9%
FY12E net cash and investments	110	
<b>Total</b>	<b>1,060</b>	

Source: Deutsche Bank

**Risks:** We believe any change in the regulatory environment of the Oil & Gas sector and a downturn in global commodity prices/margins are risks for RIL. Exploration and production activities face risks such as volatility in oil and natural gas prices, as well as operational, financial, geological and meteorological issues. Any further delay in the ramp-up of KGD6 gas production would pose another significant risk.



# Peer valuations

**Figure 10: International peer valuations for integrated oil companies**

	FY end	Rating	Mkt Cur	Mkt price	Target price	P/E		P/Cash EPS	EV/EBITDA		P/BV		RoE(%)		Mkt Cap
						Oct-14	CY11E	CY12E	CY12E	CY11E	CY12E	CY11E	CY12E	CY11E	
<b>US Integrated</b>															
ExxonMobil	31-Dec	Hold	USD	78	90	9.2	8.8	6.6	5.1	4.8	2.4	2.1	27.2	24.8	380.8
Chevron	31-Dec	Hold	USD	100	115	7.4	7.1	4.8	3.6	3.5	1.6	1.4	23.6	21.1	201.1
Occidental Petroleum	31-Dec	Buy	USD	85	113	10.9	10.2	6.6	5.1	4.6	1.9	1.6	18.3	17.0	69.5
Marathon Oil	31-Dec	Hold	USD	25	33	5.5	6.1	3.4	2.9	2.9	1.0	0.9	15.3	15.2	17.4
Hess Corporation	31-Dec	Hold	USD	57	67	7.9	8.5	4.1	3.6	3.7	1.0	0.9	13.6	11.1	19.5
Suncor Energy	31-Dec	Hold	CAD	31	39	12.3	9.4	5.5	5.4	4.9	1.2	1.0	10.4	12.2	48.0
<b>Average</b>						<b>8.9</b>	<b>8.4</b>	<b>5.9</b>	<b>4.6</b>	<b>4.4</b>	<b>2.0</b>	<b>1.7</b>	<b>23.7</b>	<b>21.7</b>	<b>736.3</b>
<b>Euro Integrated</b>															
BP	31-Dec	Buy	GBP	416	575	5.9	5.4	3.4	2.8	2.4	1.0	0.9	19.7	17.9	124.0
Royal Dutch Shell A	31-Dec	Buy	GBP	2,186	2,650	6.2	6.4	4.3	2.6	2.9	1.3	1.1	21.5	18.4	216.4
BG	31-Dec	Buy	GBP	1,344	1,800	16.9	12.4	13.4	7.7	6.1	2.3	2.0	14.8	17.4	71.9
Total	31-Dec	Hold	EUR	37	46	6.4	6.1	3.7	2.4	2.2	1.2	1.1	20.3	18.8	116.0
Eni	31-Dec	Hold	EUR	16	19	7.5	5.9	2.9	2.8	2.2	1.1	0.9	15.2	16.8	78.6
Repsol YPF	31-Dec	Buy	EUR	22	26	10.8	10.5	4.3	4.9	4.6	1.1	1.1	10.3	10.4	37.4
StatoilHydro	31-Dec	Buy	NOK	138	160	5.7	6.8	3.7	1.4	1.4	1.6	1.4	31.4	22.3	78.6
<b>Average</b>						<b>7.7</b>	<b>7.2</b>	<b>4.7</b>	<b>3.2</b>	<b>3.0</b>	<b>1.3</b>	<b>1.2</b>	<b>19.7</b>	<b>17.7</b>	<b>760.3</b>
<b>Others Integrated</b>															
Petrochina	31-Dec	Hold	HKD	9	10	9.8	8.2	5.4	4.8	4.3	1.4	1.3	14.9	16.3	219.5
Sinopec-H	31-Dec	Hold	HKD	7	9	6.7	6.2	4.1	3.8	3.5	1.1	1.0	17.1	16.3	80.5
Petrobras	31-Dec	Hold	USD	25	40	7.0	7.3	4.9	5.3	5.4	0.8	0.8	12.3	11.1	162.0
Lukoil	31-Dec	Buy	USD	50	105	3.2	3.6	2.5	2.2	2.2	0.6	0.5	18.8	14.5	39.1
PTT	31-Dec	Hold	THB	292	380	7.4	6.9	4.5	5.2	4.7	1.5	1.3	21.6	20.2	26.9
<b>Average</b>						<b>8.2</b>	<b>7.5</b>	<b>5.0</b>	<b>4.8</b>	<b>4.6</b>	<b>1.2</b>	<b>1.1</b>	<b>15.1</b>	<b>14.8</b>	
<b>Reliance Industries</b>	<b>31-Mar</b>	<b>Buy</b>	<b>INR</b>	<b>867</b>	<b>1,060</b>	<b>11.6</b>	<b>10.2</b>	<b>7.3</b>	<b>6.7</b>	<b>6.6</b>	<b>1.7</b>	<b>1.5</b>	<b>15.5</b>	<b>15.4</b>	<b>57.9</b>

Source: Deutsche Bank, Bloomberg Finance LP, Note: CY11 is equivalent to FY12 (March ending) for RIL

**Figure 11: Refining peer valuations**

	FY end	Rating	Mkt Cur	Mkt price	Target price	P/E		P/Cash EPS	EV/EBITDA		P/BV		RoE(%)		Mkt Cap
						Oct-14	CY11E	CY12E	CY12E	CY11E	CY12E	CY11E	CY12E	CY11E	
Caltex	31-Dec	Hold	AUD	13	11	8.5	12.0	6.8	6.7	6.1	1.1	1.0	7.6	7.8	3.7
SK Innovation*	31-Dec	NA	KRW	151,000	NA	4.6	5.9	4.2	5.3	5.6	1.1	0.9	24.1	16.5	12.1
S-Oil Corp*	31-Dec	NA	KRW	101,500	NA	7.2	6.4	5.3	6.7	5.9	2.1	1.7	30.7	28.3	10.2
GS Holdings Corp*	31-Dec	NA	KRW	59,500	NA	5.4	5.5	5.3	4.9	4.8	0.9	0.8	18.3	16.4	4.8
Thai Oil PCL	31-Dec	Buy	THB	55	95	6.8	7.9	5.5	4.8	4.4	1.4	1.3	22.0	17.0	3.7
PTT AR PCL	31-Dec	Buy	THB	27	50	5.7	6.5	4.5	5.9	5.2	1.1	1.0	20.5	16.1	2.6
<b>Average</b>						<b>6.1</b>	<b>6.8</b>	<b>5.1</b>	<b>5.8</b>	<b>5.5</b>	<b>1.4</b>	<b>1.2</b>	<b>23.1</b>	<b>18.9</b>	
<b>Reliance Industries</b>	<b>31-Mar</b>	<b>Buy</b>	<b>INR</b>	<b>867</b>	<b>1,060</b>	<b>11.6</b>	<b>10.2</b>	<b>7.3</b>	<b>6.7</b>	<b>6.6</b>	<b>1.7</b>	<b>1.5</b>	<b>15.5</b>	<b>15.4</b>	<b>57.9</b>

Source: Deutsche Bank, Bloomberg Finance LP, Note: CY11 is equivalent to FY12 (March ending) for Indian companies, \* = based on Bloomberg Finance LP consensus estimates



**Figure 12: Petrochemical peer valuations**

	FY end	Rating	Mkt Cur	Mkt price	Target price	P/E	P/Cash EPS	EV/EBITDA		P/BV		RoE(%)		Mkt Cap	
				Oct-14		CY11E	CY12E	CY12E	CY11E	CY12E	CY11E	CY12E	CY11E	CY12E (US\$bn)	
Indorama Ventures*	31-Dec	NA	THB	33	NA	8.9	9.6	8.4	9.3	8.0	2.4	2.0	35.9	23.3	5.1
IRPC PCL	31-Dec	Hold	THB	4	6	8.0	9.3	6.4	9.9	7.8	0.9	0.9	12.1	9.9	2.4
PTT Chemical Plc	31-Dec	Buy	THB	106	200	6.8	5.7	4.7	5.8	4.7	1.4	1.2	21.0	22.3	5.2
Honam Petrochem*	31-Dec	NA	KRW	28,100	NA	7.2	6.4	4.2	7.0	6.3	0.9	0.8	14.6	13.5	3.4
Hanwha Chemical*	31-Dec	NA	KRW	294,000	NA	7.9	7.1	4.7	4.6	4.3	1.7	1.4	23.4	20.8	8.1
LG Chem*	31-Dec	NA	KRW	341,500	NA	9.7	8.5	6.3	6.0	5.2	2.5	2.0	28.0	25.5	19.6
Petronas Chemicals*	31-Mar	NA	MYR	6	NA	12.6	11.2	10.8	6.8	6.5	2.2	2.1	16.4	19.2	14.4
<b>Average</b>						<b>9.6</b>	<b>8.7</b>	<b>7.1</b>	<b>6.5</b>	<b>5.8</b>	<b>2.0</b>	<b>1.7</b>	<b>23.1</b>	<b>21.5</b>	
<b>Reliance Industries</b>	<b>31-Mar</b>	<b>Buy</b>	<b>INR</b>	<b>867</b>	<b>1,060</b>	<b>11.6</b>	<b>10.2</b>	<b>7.3</b>	<b>6.7</b>	<b>6.6</b>	<b>1.7</b>	<b>1.5</b>	<b>15.5</b>	<b>15.4</b>	<b>57.9</b>

Source: Deutsche Bank, Bloomberg Finance LP, Note: CY11 is equivalent to FY12 (March ending) for RIL, \*= based on Bloomberg Finance LP consensus estimates

# Appendix 1

## Important Disclosures

Additional information available upon request

### Disclosure checklist

Company	Ticker	Recent price*	Disclosure
Reliance Industries	RELI.BO	866.80 (INR) 14 Oct 11	7,8,14,15,17

\*Prices are sourced from local exchanges via Reuters, Bloomberg and other vendors. Data is sourced from Deutsche Bank and subject companies.

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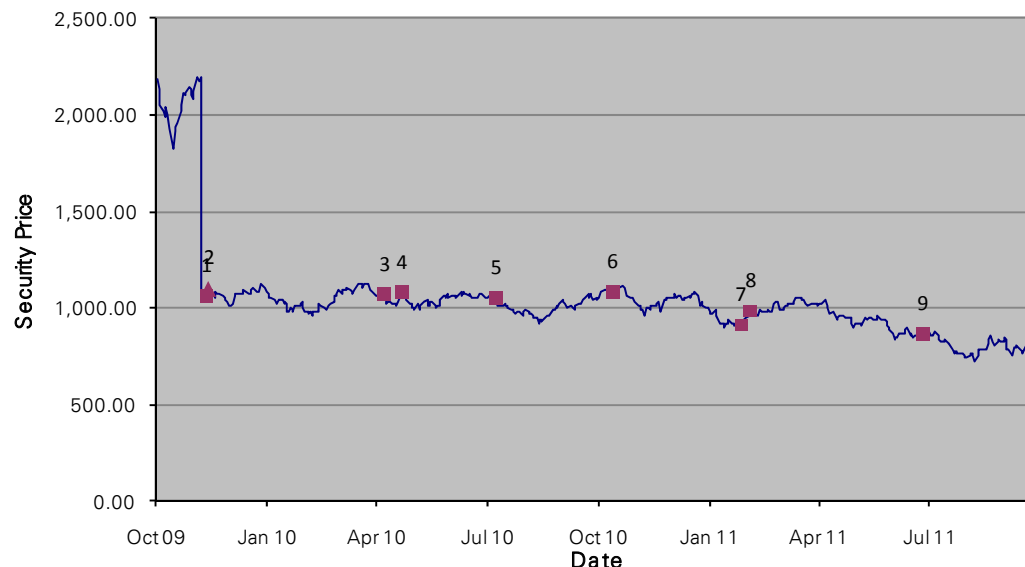
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**Historical recommendations and target price: Reliance Industries (RELI.BO)**

(as of 10/14/2011)



Previous Recommendations

- Strong Buy
- Buy
- Market Perform
- Underperform
- Not Rated
- Suspended Rating

Current Recommendations

- Buy
- Hold
- Sell
- Not Rated
- Suspended Rating

\*New Recommendation Structure as of September 9, 2002

1.	30/11/2009:	Hold, Target Price Change INR887.50	6.	31/10/2010:	Buy, Target Price Change INR1,220.00
2.	2/12/2009:	Upgrade to Buy, Target Price Change INR1,235.00	7.	14/2/2011:	Buy, Target Price Change INR1,200.00
3.	26/4/2010:	Buy, Target Price Change INR1,200.00	8.	22/2/2011:	Buy, Target Price Change INR1,150.00
4.	10/5/2010:	Buy, Target Price Change INR1,250.00	9.	14/7/2011:	Buy, Target Price Change INR1,060.00
5.	27/7/2010:	Buy, Target Price Change INR1,240.00			

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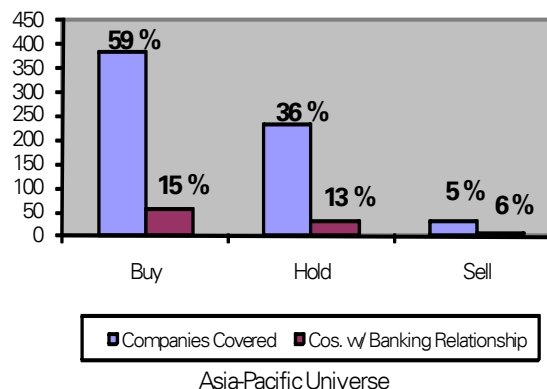
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