

Reliance Industries

Bloomberg: RIL IN Equity

Reuters: RELI.BO

Recommendation: BUY

No Change



RESULT UPDATE

KG production ramp-up a concern

1Q results inline: RIL's 1QFY11 PAT of ₹48.5bn, up 33% y-o-y, was inline with our expectation of ₹47.9bn. While revenues exhibited a YoY growth of 82%, driven by higher volumes of KG D6 gas and the new Jamnagar SEZ refinery, steeper increase in costs (raw material mainly) resulted in a relatively modest EBITDA growth of 58%. Margins contracted by 243bps y-o-y as a result of lower margins in the petchem and Oil & Gas segment. Operational performance continues to be robust with refining operating at over 100% capacity.

R&M/Petchem stable; E&P makes its presence felt: The R&M division clocked a blended GRM of \$7.3/bbl, below our estimate of \$7.6/bbl and marginally higher than \$6.8/bbl 1QFY10. Production increased by 41% y-o-y, driving refining EBIT improvement by 83% y-o-y. Petchem EBIT, on the other hand, remained stable even as production remained flat y-o-y. Maintenance shutdown at the company's Hazira and Nagothane plant was the primary reason behind the subdued production growth. Oil & Gas EBIT registered a healthy growth of 91% yoy on the back of higher KG gas/oil volumes (+206% yoy). Notwithstanding the strong EBIT growth, margins contracted from 54% in 1QFY10 to 41% in 1QFY11 as the proportion of gas (commanding lower realisation over oil) increased from 83% to 90% during the same period.

KG-D6 gas volumes to remain flat: While the management has maintained its peak production guidance of 80mmscmd from KG-D6, near-term volumes are likely to remain flat at 60mmscmd, given that the company is in the process of conducting studies on the reservoir to understand its behaviour and the optimal production rate going forward. Taking cognizance of the same we now factor in average production of 62mmscmd and 79mmscmd for FY11E and FY12E respectively against our earlier expectation of 75mmscmd and 89mmscmd.

Lowering FY11E-12E estimates; Maintain BUY: We are revising our FY11E and FY12E EPS downwards by 10% and 8% respectively to account for conservative ramp-up in KG-D6 gas production. We however maintain our **BUY** recommendation on the stock with a target price of ₹1,250 (from ₹1270 earlier), given improving refining fundamentals and the company's attractive E&P portfolio.

Exhibit 1: Key financials

| ₹, mn | FY08 | FY09 | FY10 | FY11E | FY12E |
|----------------------|-----------|-----------|-----------|-----------|-----------|
| Total income | 1,371,467 | 1,462,910 | 1,933,290 | 2,126,748 | 2,257,864 |
| Gross profit | 231,446 | 233,950 | 301,180 | 405,304 | 483,133 |
| Net profit | 195,232 | 152,790 | 162,060 | 206,992 | 258,686 |
| Earning per share, ₹ | 59.4 | 46.5 | 49.3 | 63.0 | 78.7 |
| Debt/ Equity | 0.6 | 0.6 | 0.5 | 0.4 | 0.4 |
| EBITDA margin(%) | 16.9 | 16.0 | 15.6 | 19.1 | 21.4 |
| EV/EBIDTA | 17.2 | 17.1 | 13.3 | 9.8 | 8.3 |
| P/E (x) | 17.7 | 22.6 | 21.3 | 16.7 | 13.4 |
| RoE (%) | 25.4 | 14.8 | 12.4 | 13.8 | 15.2 |
| RoCE (%) | 23.3 | 18.3 | 15.6 | 19.9 | 22.3 |

Source: Company, Ambit Capital research

Analyst contact

Saeed Jaffery

Tel: +91 22 3043 3203
saeedjaffery@ambitcapital.com

Nitin Tiwari

Tel.: +91 22 3043 3252
nitintiwari@ambitcapital.com

Recommendation

| | |
|-----------------------------|--------|
| CMP: | ₹1,054 |
| Target Price : | ₹1,250 |
| Previous TP: | ₹1,270 |
| Upside (%) | 18.5 |
| EPS (FY11E): | ₹63 |
| Change from previous (%) | (10.0) |
| Variance from consensus (%) | (7.3) |

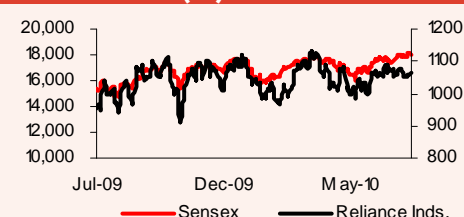
Stock Information

| | |
|--------------------------|---------------------------|
| Mkt cap: | ₹3,445,696mn/US\$73,239mn |
| 52-wk H/L: | ₹1,185/841 |
| 3M Avg. daily vol. (mn): | 9 |
| Beta (x): | 1.2 |
| BSE Sensex: | 18,078 |
| Nifty: | 5,431 |

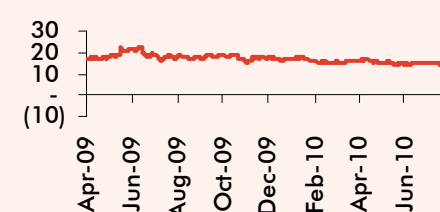
Stock Performance (%)

| | 1M | 3M | 12M | YTD |
|----------------|------|------|------|------|
| Absolute | -0.9 | -0.7 | 8.6 | -3.4 |
| Rel. to Sensex | -3.6 | -2.9 | -7.7 | -6.7 |

Performance (%)



2-year P/E or EV/EBITDA



Source: Bloomberg, Ambit Capital research

Exhibit 1: Quarterly performance

| (₹ mn) | 1QFY11 | 1QFY10 | YoY% | Q4FY10 | QoQ% |
|-----------------------------|------------------|------------------|---------------|------------------|------------|
| Net Income | 582,280 | 320,550 | 81.7 | 575,700 | 1.1 |
| Total Expenditure | (488,860) | (261,340) | 87.1 | (484,340) | 0.9 |
| EBITDA | 93,420 | 59,210 | 57.8 | 91,360 | 2.3 |
| EBITDA Margin (%) | 16.0 | 18.5 | (250)bps | 15.9 | 10bps |
| Interest | (5,410) | (3,450) | 56.8 | (5,250) | 3.0 |
| Depreciation & amortisation | (34,850) | (16,280) | 114.1 | (33,920) | 2.7 |
| Other Income | 7,220 | 7,020 | 2.8 | 6,150 | 17.4 |
| Profit before tax | 60,380 | 46,500 | 29.8 | 58,340 | 3.5 |
| Tax | (11,870) | (10,140) | 17.1 | (11,240) | 5.6 |
| Profit after tax | 48,510 | 36,360 | 33.4 | 47,100 | 3.0 |
| Net profit margin (%) | 8.0 | 10.9 | (290)bps | 7.8 | 20bps |
| EPS | 14.8 | 23.1 | (36.1) | 14.3 | 3.0 |

Source: Company, Ambit Capital research

Exhibit 2: Segmental performance

| ₹ mn | Q1FY11 | Q1FY10 | YoY% | Q4FY10 | QoQ |
|---------------------------------|----------------|----------------|--------|----------------|--------|
| Revenues from operations | | | | | |
| Petrochemicals | 139,030 | 115,400 | 20.5 | 154,480 | (10.0) |
| Refining | 505,310 | 251,800 | 100.7 | 512,500 | (1.4) |
| Oil and Gas | 46,650 | 18,640 | 150.3 | 43,180 | 8.0 |
| Others | 1,070 | 850 | 25.9 | 1,280 | (16.4) |
| Total | 692,060 | 386,690 | | 711,440 | |
| EBIT | | | | | |
| Petrochemicals | 20,530 | 20,800 | (1.3) | 22,220 | (7.6) |
| Refining | 20,350 | 11,150 | 82.5 | 19,860 | 2.5 |
| Oil and Gas | 19,210 | 10,080 | 90.6 | 17,020 | 12.9 |
| Others | 70 | 90 | (22.2) | 120 | (41.7) |
| Total | 60,160 | 42,120 | | 59,220 | |

Source: Company, Ambit Capital research

Exhibit 3: Operational performance

| | 1QFY11 | Q1FY10 | YoY% | Q4FY10 | QoQ% |
|--------------------------------|--------|--------|--------|--------|--------|
| Refining | | | | | |
| Crude processed (MT) | 16.9 | 12.0 | 40.8 | 16.7 | 1.1 |
| Crude Capacity (MT) | 15.5 | 15.6 | (0.3) | 15.5 | 0.0 |
| Utilisation (%) | 109.0 | 77.2 | 41.2 | 107.7 | 1.1 |
| RIL GRMs (\$/bbl) | 7.3 | 6.8 | 7.3 | 7.5 | (2.7) |
| Benchmark Sing. GRMs (\$/bbl) | 3.7 | 4.1 | (9.8) | 4.9 | (24.5) |
| Premium/ (Discount) | 3.6 | 2.7 | 33.3 | 2.6 | 38.5 |
| Petrochemicals ('000 T) | | | | | |
| Ethylene | 363 | 432 | (16.0) | 400 | (9.3) |
| Propylene | 152 | 176 | (13.6) | 191 | (20.4) |
| PP, PE, PVC | 931 | 819 | 13.7 | 1,100 | (15.4) |
| PFY, PSF, PET | 422 | 411 | 2.7 | 400 | 5.5 |
| PX, PTA, MEG | 1,100 | 1,129 | (2.6) | 1,100 | 0.0 |
| Oil and Gas | | | | | |
| PMT | | | | | |
| Crude (KT) | 403 | 451 | (10.6) | 500 | (19.3) |
| Gas (mmscm) | 1,287 | 1,304 | (1.3) | 1,312 | (1.9) |
| Condensate (KT) | 54.00 | 51 | 5.3 | 46.00 | 17.4 |
| KG Basin | | | | | |
| Crude(KT) | 304 | 99 | 206.2 | 171 | 78.1 |
| Gas (mmscm) | 5,376 | 1,733 | 210.2 | 5,383 | (0.1) |

Source: Company, Ambit Capital research

Explanation of Investment Rating

| Investment Rating | Expected return (over 12-month period from date of initial rating) |
|-------------------|---|
| Buy | > 15% |
| Hold | 5% to 15% |
| Sell | <5% |

Disclaimer

This report or any portion hereof may not be reprinted, sold or redistributed without the written consent of Ambit Capital. AMBIT Capital Research is disseminated and available primarily electronically, and, in some cases, in printed form.

Additional information on recommended securities is available on request.

DISCLAIMER

1. If you are dissatisfied with the contents of this complimentary Report or with the terms of this Disclaimer, your sole and exclusive remedy is to stop using the Report and AMBIT Capital Private Limited ("AMBIT Capital") shall not be responsible and/ or liable in any manner.
2. This Report has been issued by AMBIT Capital for the information of its clients/potential clients only.
3. If this Report is received by any client of an affiliate of AMBIT Capital, in addition to the provisions set out in this Disclaimer, its provision to the recipient is subject to the terms of business in place between the AMBIT Capital and such affiliate.
4. AMBIT Capital is a Stock Broker registered with Securities and Exchange Board of India Limited (SEBI) and so it is regulated by SEBI.
5. This Report is not and should not be construed as an investment advice to any client to acquire, subscribe, purchase, sell, dispose of, retain any securities or an offer to sell or the solicitation of an offer to purchase or subscribe for any investment or as an official endorsement of any investment.
6. If 'Buy', 'Sell', or 'Hold' recommendation is made in this Report such recommendation or view or opinion expressed on investments in this Report is not intended to constitute investment advice and should not be intended or treated as a substitute for necessary review or validation or any professional advice. The views expressed in this Report are those of the analyst which are subject to change and do not represent to be an authority on the subject. AMBIT Capital may or may not subscribe to any and/ or all the views expressed herein.
7. AMBIT Capital makes best endeavour to ensure that the analyst(s) use current, reliable, comprehensive information and obtain such information from sources which the analyst(s) believes to be reliable. However, such information has not been independently verified by AMBIT Capital or the analyst(s).
8. The information, opinions and views contained within this Report are based upon publicly available information and rates of taxation at the time of publication which are subject to change from time to time without any prior notice. Reports may be updated anytime without any prior notice to any and/ or all client(s).
9. AMBIT Capital makes no guarantee, representation or warranty, express or implied; and accepts no responsibility or liability as to the accuracy or completeness or currentness of the information in this Report.
10. Please note that past performance is not necessarily a guide to evaluate future performance.
11. AMBIT Capital and its affiliates and their respective officers directors and employees may hold positions in any securities mentioned in this Report (or in any related investment) and may from time to time add to or dispose of any such securities (or investment).
12. Affiliate(s) of AMBIT Capital may from time to time render advisory and other services to companies being referred to in this Report and receive compensation for the same.
13. AMBIT Capital may act as a market maker or risk arbitrator or liquidity provider or may have assumed an underwriting commitment in the securities of companies discussed in this Report (or in related investments) or may sell them or buy them from clients on a principal to principal basis or may be involved in proprietary trading and may also perform or seek to perform investment banking or underwriting services for or relating to those companies and may also be represented in the supervisory board or on any other committee of those companies.
14. AMBIT Capital may sell or buy any securities or make any investment which may be contrary to or inconsistent with this Report.
15. This Report should be read and relied upon at the sole discretion and risk of the client.
16. The value of any investment made at your discretion based on this Report or income therefrom may be affected by changes in economic, financial and/ or political factors and may go down as well as up and you may not get back the full or the expected amount invested. Some securities and/ or investments involve substantial risk and are not suitable for all investors.
17. This Report is being supplied to you solely for your information and may not be reproduced, redistributed or passed on, directly or indirectly, to any other person or published, copied in whole or in part, for any purpose. Neither this Report nor any copy of it may be taken or transmitted or distributed, directly or indirectly within India or into any other country including United States (to US Persons), Canada or Japan or to any resident thereof. The distribution of this Report in other jurisdictions may be strictly restricted and/ or prohibited by law, and persons into whose possession this Report comes should inform themselves about such restriction and/ or prohibition, and observe any such restrictions and/ or prohibition.
18. Neither AMBIT Capital nor its affiliates or their directors, employees, agents or representatives, shall be responsible or liable in any manner, directly or indirectly, for views or opinions expressed in this Report or the contents or any errors or discrepancies herein or for any decisions or actions taken in reliance on the Report or inability to use or access our service or this Report or for any loss or damages whether direct or indirect, incidental, special or consequential including without limitation loss of revenue or profits or any loss or damage that may arise from or in connection with the use of or reliance on this Report or inability to use or access our service or this Report.

© Copyright 2006 AMBIT Capital Private Limited. All rights reserved.

Ambit Capital Pvt. Ltd.

Ambit House, 3rd Floor
449, Senapati Bapat Marg, Lower
Parel, Mumbai 400 013, India.
Phone : +91-22-3043 3000
Fax : +91-22-3043 3100