

Reliance Industries

In-line results, D6 recovery to take time

- Results in-line with estimates. Firm petchem and refining performance compensate for weak E&P. Petchem EBIT was supported by demand uptick after inventory destocking in 1Q.
- Refining differential over benchmark Singapore index narrowed to US\$1/bbl led by high Brent-Dubai differential and weak gasoil and LPG spreads even as gasoline spreads remained strong.
- Satellite and R series development in D6 to commence only after commerciality approval from the government.
- Reiterate Outperform.

2Q earnings in line with estimates: RIL's 1Q earnings of Rs57bn (up 15.8% yoy, 0.7% qoq) and operating profit of Rs98.4bn (up 4.8% yoy) was in line with our estimate.

Refining margin decline qoq: Refining EBIT at Rs30.8bn (up 40.3% yoy) was impacted by marginal decline in GRMs – US\$10.1/bbl vs. US\$10.3/bbl in 1Q partly compensated by higher volume of 17.1MT (17MT in 1Q) and weak exchange rate. Differential over Singapore GRM was therefore reduced to US\$1/bbl (~US\$3.1 in FY11) due to high Brent-Dubai differential, weak gasoil and LPG spreads and high LNG price even as gasoline spreads remained strong.

...but petchem segment remained strong: Petchem EBIT at Rs24.2bn (9.3% qoq) was supported by strong demand uptick (up 21% qoq) after inventory destocking in 1Q even as spreads were weak. Oil and gas EBIT at Rs15.3bn (up 3.9% qoq) was primarily due to the decline in the rupee and higher crude prices even with falling output at KG-D6 and PMT.

D6 a long drawn out affair. During Q2, the company submitted a commerciality proposal for 8 discoveries in CB 10 block located in the Cambay basin. RIL, at analyst meet, mentioned that no further exploration work would be undertaken in D6 until completion of reservoir study with BP. Also, once the commerciality is approved by the government, RIL will undertake development activity of satellite fields and R series, though not simultaneously.

Depreciation for 2Q was at Rs29.6bn (-12% yoy and 7% qoq) on the back of transfer of 30% stake to BP effective 30 Aug '11 as also because of lower depletion charges given falling production.

Maintain estimates and target: Maintain Outperform with a PT of Rs969.

OUTPERFORM (unchanged)

PRICE as at 14 October 2011 **Rs866.90** PRICE TARGET **Rs969.00**

Bloomberg code
RIL IN

Reuters code
RELI.BO

Market cap
Rs2,834,763m (US\$57,829m)

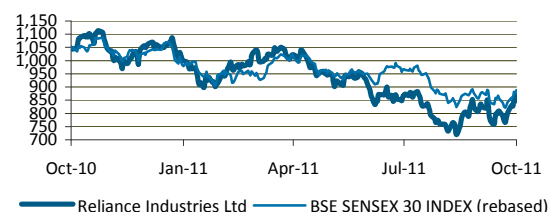
12 month range
Rs719.40 - 1,113.80

EPS est. change 2012E - 2013E -

Year end: March	FY11	FY12E	FY13E	FY14E
Sales (Rsm)	2,481,700	2,763,129	2,641,465	2,667,322
EBIT (Rsm)	241,508	278,040	275,817	282,933
EBITDA (Rsm)	377,583	386,994	370,474	379,326
Pretax profit (Rsm)	252,422	307,157	320,044	327,460
Earnings (Rsm) adjusted	202,863	241,257	251,168	256,165
Diluted EPS (Rs) adjusted	62.0	73.8	76.8	78.3
Diluted EPS growth (%) adj.	24.9	18.9	4.1	2.0
DPS (Rs)	8.0	10.0	11.0	12.0
EBITDA margin (%)	15.2	14.0	14.0	14.2
EBIT margin (%)	9.7	10.1	10.4	10.6
Net margin (%)	8.2	8.7	9.5	9.6
Div payout (%)	12.9	13.6	14.3	15.3
Book value/share (Rs)	463	494	526	558
Net debt/Equity (x)	0.1	-0.1	-0.2	-0.2
Net debt/EBITDA (x)	0.4	-0.5	-0.9	-1.2
ROE (%)	14.1	15.4	15.1	14.5
ROCE (%)	10.3	11.6	11.7	11.5
FCF (Rsm)	68,810	434,616	176,544	181,024
EV/Sales (x)	1.3	1.1	1.1	1.1
EV/EBITDA (x)	8.6	7.7	8.0	7.8
PBR (x)	1.9	1.8	1.6	1.6
PER (x)	14.0	11.8	11.3	11.1
Dividend yield (%)	0.9	1.2	1.3	1.4

Source: Company, Standard Chartered Research estimates

Share price performance



Share price (%)	-1 mth	-3 mth	-12 mth
Ordinary shares	5	0	-17
Relative to Index	3	9	-2
Relative to Sector	-	-	-
Major shareholder	Promoter (44.7%)		
Free float	55%		
Average turnover (US\$)	81,059,126		

Source: Company, Bloomberg

Rahul Singh
rahul.singh@sc.com
+91 22 6755 9770

Avishek Datta
avishek.datta@sc.com
+91 22 6755 9714

Saurav Anand
saurav.anand@sc.com
+91 22 6755 9777

Important disclosures can be found in the Disclosures Appendix

All rights reserved. Standard Chartered Bank 2011

<http://research.standardchartered.com>



Key analyst meet takeaways

- No further exploration work would be done at the D6 block as the company undertakes a detailed reservoir study with BP. RIL expects to receive one rig in January 2012, post which any activity would be taken up.
- RIL will undertake development activity of satellite fields and R series once the plan is approved by the government. However, the company will not simultaneously take up development activity.
- Total cash capex during the quarter was Rs18bn, with E&P accounting for 70%.
- Shale gas exit production rate from the 2 producing JVs is 210mmscfd. RIL's share of production during the quarter was 6.2bcf and the realisation was ~US\$4/mmbtu.
- The company continues to rely on LNG for its refinery (8-9mmscmd) despite rising international prices

**Fig 1 – Reliance 2Q FY12 Results (Rs m)**

Reliance 2QFY12 Results (Rs m)	2QFY12	2QFY11	% yoy	1QFY12	% qoq
Net sales	785,690	574,790	36.7%	810,180	-3.0%
<u>Expenditure</u>					
Inc/dec in stock	-16,070	-3,340		8,970	
Raw materials - external purchases	651,750	438,880		650,160	
Staff cost	7,150	6,600		8,780	
Other expenditure	44,420	38,690		43,010	
Total	-687,250	-480,830		-710,920	
EBITDA	98,440	93,960	4.8%	99,260	-0.8%
EBITDA margins	12.5	16.3		12.3	
Interest	-6,600	-5,420		-5,450	
Depreciation	-29,690	-33,770		-31,950	
Non-op income	11,020	6,720		10,780	
PBT	73,170	61,490	19.0%	72,640	0.7%
Tax	-14,640	-10,260		-14,530	
PAT after current tax	58,530	51,230		58,110	
Provision for deferred tax	-1,500	-2,000		-1,500	
Tax rate (%)	22.1	19.9		22.1	
Net profit (reported)	57,030	49,230	15.8%	56,610	0.7%

Source: Company

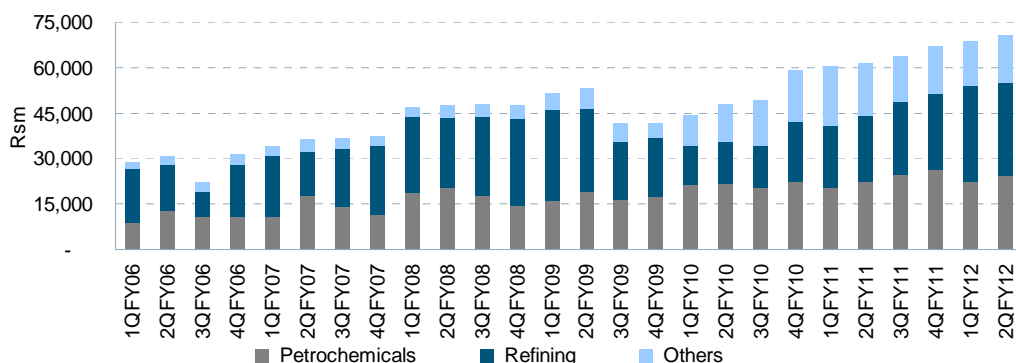
Fig 2 – Segmental breakup (Rsm)

Year to 31-Mar	2QFY12	2QFY11	1QFY12	%YoY	%QoQ
<u>Revenues</u>					
Petrochemicals	210,660	150,960	183,660	39.5%	14.7%
Refining	680,960	496,720	736,890	37.1%	-7.6%
Oil and Gas	35,630	43,030	38,940	-17.2%	-8.5%
Others	5,100	1,550	2,350	229.0%	117.0%
Intra - segment sales/transfers	124,450	92,640	124,950		
Excise Duties recovered	22,210	24,830	26,710		
Net sales	785,690	574,790	810,180	36.7%	-3.0%
<u>PBIT</u>					
Petrochemicals	24,220	21,970	22,150	10.2%	9.3%
Margin	11.5%	14.6%	12.1%		
Refining	30,750	21,920	31,990	40.3%	-3.9%
Margin	4.5%	4.4%	4.3%		
Oil & Gas	15,310	17,060	14,730	-10.3%	3.9%
Margin	43%	40%	38%		
Others	100	80	80	25.0%	25.0%
Margin	2.0%	5.2%	3.4%		
Total PBIT	70,380	61,030	68,950	15.3%	2.1%
Margin	9.0%	10.6%	8.5%		

Source: Company



Figs 3 – Segment EBIT breakdown



Source: Company

Fig 4 – Quarterly Operating Parameters

	Units	1Q FY11	3Q FY11	3Q FY11	4Q FY11	1Q FY12	2Q FY12
Singapore GRM	US\$/bbl	3.8	4.7	5.5	7.4	8.5	9.1
RIL reported GRMs	US\$/bbl	7.3	7.9	9.0	9.2	10.3	10.1
Differential vis-à-vis reported GRMs	US\$/bbl	3.5	3.2	3.5	1.8	1.8	1.0
Crude throughput	MMT	16.9	16.9	16.1	16.7	17.0	17.1
Panna-Mukta							
- Crude	Tonnes	403,394	87,206	360,085	423,288	369,863	342,466
- Gas	mmscm	502	111	350	507	496	501
Tapti							
- Gas	mmscm	785	674	637	594	569	558
KG-D6 gas	mmscm	5,376	5,323	4,905	4,508	4,425	4,170
	mmscmd	60	59	54.5	50.1	49.2	46.3
KG-D6 crude	Tonnes	304,349	278,999	239,178	215,068	191,781	177,348
	kbpd	24.8	22.7	19.5	17.5	15.5	14.4
Polyester (PFY, PSF, PET)	Tonnes	422,000	429,000	449,000	400,000	411,000	414,000

Source: Company



Disclosures appendix

The information and opinions in this report were prepared by Standard Chartered Bank (Hong Kong) Limited, Standard Chartered Bank Singapore Branch, Standard Chartered Securities (India) Limited, Standard Chartered Securities Korea Limited and/or one or more of its affiliates (together with its group of companies, "SCB") and the research analyst(s) named in this report. THIS RESEARCH HAS NOT BEEN PRODUCED IN THE UNITED STATES.

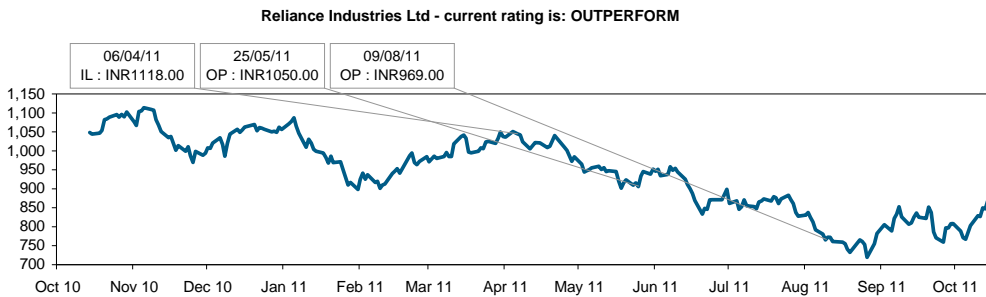
Analyst Certification Disclosure: The research analyst or analysts responsible for the content of this research report certify that: (1) the views expressed and attributed to the research analyst or analysts in the research report accurately reflect their personal opinion(s) about the subject securities and issuers and/or other subject matter as appropriate; and (2) no part of his or her compensation was, is or will be directly or indirectly related to the specific recommendations or views contained in this research report. On a general basis, the efficacy of recommendations is a factor in the performance appraisals of analysts.

Where "disclosure date" appears below, this means the day prior to the report date. All share prices quoted are the closing price for the business day prior to the date of the report, unless otherwise stated.

Company Reliance Industries Ltd

As at the disclosure date, the following applies:

SCB and/or its affiliates have received compensation for the provision of investment banking or financial advisory services within the past one year.



Source: FactSet prices, SCB ratings and price targets

Recommendation Distribution and Investment Banking Relationships

	% of covered companies currently assigned this rating	% of companies assigned this rating with which SCB has provided investment banking services over the past 12 months
OUTPERFORM	61.4%	13.8%
IN-LINE	30.3%	11.9%
UNDERPERFORM	8.3%	12.8%

Research Recommendation

Terminology	Definitions
OUTPERFORM (OP)	The total return on the security is expected to outperform the relevant market index by 5% or more over the next 12 months
IN-LINE (IL)	The total return on the security is not expected to outperform or underperform the relevant market index by 5% or more over the next 12 months
UNDERPERFORM (UP)	The total return on the security is expected to underperform the relevant market index by 5% or more over the next 12 months

SCB uses an investment horizon of 12 months for its price targets.

Additional information, including disclosures, with respect to any securities referred to herein will be available upon request. Requests should be sent to scer@sc.com.



Global Disclaimer: Standard Chartered Bank and/or its affiliates ("SCB") makes no representation or warranty of any kind, express, implied or statutory regarding this document or any information contained or referred to in the document. The information in this document is provided for information purposes only. It does not constitute any offer, recommendation or solicitation to any person to enter into any transaction or adopt any hedging, trading or investment strategy, nor does it constitute any prediction of likely future movements in rates or prices or represent that any such future movements will not exceed those shown in any illustration. The stated price of the securities mentioned herein, if any, is as of the date indicated and is not any representation that any transaction can be effected at this price. While all reasonable care has been taken in preparing this document, no responsibility or liability is accepted for errors of fact or for any opinion expressed herein. The contents of this document may not be suitable for all investors as it has not been prepared with regard to the specific investment objectives or financial situation of any particular person. Any investments discussed may not be suitable for all investors. Users of this document should seek professional advice regarding the appropriateness of investing in any securities, financial instruments or investment strategies referred to in this document and should understand that statements regarding future prospects may not be realised. Opinions, forecasts, assumptions, estimates, derived valuations, projections, and price target(s), if any, contained in this document are as of the date indicated and are subject to change at any time without prior notice. Our recommendations are under constant review. The value and income of any of the securities or financial instruments mentioned in this document can fall as well as rise and an investor may get back less than invested. Future returns are not guaranteed, and a loss of original capital may be incurred. Foreign-currency denominated securities and financial instruments are subject to fluctuation in exchange rates that could have a positive or adverse effect on the value, price or income of such securities and financial instruments. Past performance is not indicative of comparable future results and no representation or warranty is made regarding future performance. While we endeavour to update on a reasonable basis the information and opinions contained herein, there may be regulatory, compliance or other reasons that prevent us from doing so. Accordingly, information may be available to us which is not reflected in this material, and we may have acted upon or used the information prior to or immediately following its publication. SCB is not a legal or tax adviser, and is not purporting to provide legal or tax advice. Independent legal and/or tax advice should be sought for any queries relating to the legal or tax implications of any investment. SCB, and/or a connected company, may have a position in any of the securities, instruments or currencies mentioned in this document. SCB and/or any member of the SCB group of companies or its respective officers, directors, employee benefit programmes or employees, including persons involved in the preparation or issuance of this document may at any time, to the extent permitted by applicable law and/or regulation, be long or short any securities or financial instruments referred to in this document and on the website or have a material interest in any such securities or related investment, or may be the only market maker in relation to such investments, or provide, or have provided advice, investment banking or other services, to issuers of such investments. SCB has in place policies and procedures and physical information walls between its Research Department and differing public and private business functions to help ensure confidential information, including 'inside' information is not disclosed unless in line with its policies and procedures and the rules of its regulators. Data, opinions and other information appearing herein may have been obtained from public sources. SCB makes no representation or warranty as to the accuracy or completeness of such information obtained from public sources. You are advised to make your own independent judgment (with the advice of your professional advisers as necessary) with respect to any matter contained herein and not rely on this document as the basis for making any trading, hedging or investment decision. SCB accepts no liability and will not be liable for any loss or damage arising directly or indirectly (including special, incidental, consequential, punitive or exemplary damages) from use of this document, howsoever arising, and including any loss, damage or expense arising from, but not limited to, any defect, error, imperfection, fault, mistake or inaccuracy with this document, its contents or associated services, or due to any unavailability of the document or any part thereof or any contents or associated services. This material is for the use of intended recipients only and in any jurisdiction in which distribution to private/retail customers would require registration or licensing of the distributor which the distributor does not currently have, this document is intended solely for distribution to professional and institutional investors.

Country-Specific Disclosures - If you are receiving this document in any of the countries listed below, please note the following:

United Kingdom and European Economic Area: Standard Chartered Bank is authorised and regulated in the United Kingdom by the Financial Services Authority. This communication is not directed at Retail Clients in the European Economic Area as defined by Directive 2004/39/EC. Nothing in this document constitutes a personal recommendation or investment advice as defined by Directive 2004/39/EC.

Australia: The Australian Financial Services Licence for Standard Chartered Bank is Licence No: 246833 with the following Australian Registered Business Number (ARBN: 097571778). Australian investors should note that this document was prepared for "wholesale clients" only within the meaning of section 761G of the Australian Corporations Act 2001 (Act) and the Corporations Regulations. This document is not directed at persons who are "retail clients" as defined in the Australian Corporations Act 2001. **Brazil:** SCB disclosures pursuant to the Securities and Exchange Commission of Brazil ("CVM") Instruction 483/10: This research has not been produced in Brazil. The report has been prepared by the research analyst(s) in an autonomous and independent way, including in relation to SCB. THE SECURITIES MENTIONED IN THIS DOCUMENT HAVE NOT BEEN AND WILL NOT BE REGISTERED PURSUANT TO THE REQUIREMENTS OF THE SECURITIES AND EXCHANGE COMMISSION OF BRAZIL AND MAY NOT BE OFFERED OR SOLD IN BRAZIL EXCEPT PURSUANT TO AN APPLICABLE EXEMPTION FROM THE REGISTRATION REQUIREMENTS AND IN COMPLIANCE WITH THE SECURITIES LAWS OF BRAZIL. **Hong Kong:** This document is being distributed in Hong Kong by, and is attributable to, Standard Chartered Bank (Hong Kong) Limited which is regulated by the Hong Kong Monetary Authority. **India:** This document is being distributed in India by Standard Chartered Securities (India) Limited which is a SEBI registered broker and a member of the Bombay Stock Exchange Limited and The National Stock Exchange of India Limited. **Korea:** This document is being distributed in Korea by, and is attributable to, Standard Chartered Securities Korea Limited which is regulated by the Financial Supervisory Service. **Singapore:** This document is being distributed in Singapore by Standard Chartered Bank Singapore Branch only to accredited investors, expert investors or institutional investors, as defined in the Securities and Futures Act, Chapter 289 of Singapore. Recipients in Singapore should contact Standard Chartered Bank Singapore Branch in relation to any matters arising from, or in connection with, this document. **South Africa:** SCB is licensed as a Financial Services Provider in terms of Section 8 of the Financial Advisory and Intermediary Services Act 37 of 2002. SCB is a Registered Credit Provider in terms of the National Credit Act 34 of 2005 under registration number NCRCP4. **United States:** Except for any documents relating to foreign exchange, FX or global FX, Rates or Commodities, distribution of this document in the United States or to US persons is intended to be solely to major institutional investors as defined in Rule 15a-6(a)(2) under the US Securities Act of 1934. All US persons that receive this document by their acceptance thereof represent and agree that they are a major institutional investor and understand the risks involved in executing transactions in securities. Any US recipient of this document wanting additional information or to effect any transaction in any security or financial instrument mentioned herein, must do so by contacting a registered representative of Standard Chartered Securities (North America) Inc., 1095 Avenue of the Americas, New York, N.Y. 10036, US, tel + 1 212 667 0700. WE DO NOT OFFER OR SELL SECURITIES TO U.S. PERSONS UNLESS EITHER (A) THOSE SECURITIES ARE REGISTERED FOR SALE WITH THE U.S. SECURITIES AND EXCHANGE COMMISSION AND WITH ALL APPROPRIATE U.S. STATE AUTHORITIES; OR (B) THE SECURITIES OR THE SPECIFIC TRANSACTION QUALIFY FOR AN EXEMPTION UNDER THE U.S. FEDERAL AND STATE SECURITIES LAWS NOR DO WE OFFER OR SELL SECURITIES TO U.S. PERSONS UNLESS (i) WE, OUR AFFILIATED COMPANY AND THE APPROPRIATE PERSONNEL ARE PROPERLY REGISTERED OR LICENSED TO CONDUCT BUSINESS; OR (ii) WE, OUR AFFILIATED COMPANY AND THE APPROPRIATE PERSONNEL QUALIFY FOR EXEMPTIONS UNDER APPLICABLE U.S. FEDERAL AND STATE LAWS.

© Copyright 2011 Standard Chartered Bank and its affiliates. All rights reserved. All copyrights subsisting and arising out of all materials, text, articles and information contained herein is the property of Standard Chartered Bank and/or its affiliates, and may not be reproduced, redistributed, amended, modified, adapted, transmitted in any form, or translated in any way without the prior written permission of Standard Chartered Bank.