

## Reliance Industries Ltd

### Refining & Petchem margins improve; Maintain BUY

Reliance Industries' (RIL) Q3FY11 PAT at Rs51.36bn, (4.3%QoQ, +28%YoY), was largely in line with our estimates of Rs52.1bn. Key operating highlights of the quarter included: a) higher GRMs at US\$9/bbl, b) petchem EBIT at Rs 24.3bn (+10% QoQ, +18%YoY) mainly on account of higher polyester margins, and c) gross gas production from KG-D6 stood lower at 54mmscmd as compared to 58 mmscmd in Q2FY11. Going forward, we expect RIL to benefit from (a) robust refining margins outlook, (b) healthy petchem margins driven by strong domestic demand for petrochemicals and polyesters, (c) resolution of legal issues with DGH regarding approval of FDPs for KG satellite/other fields and NEC-25 block. On the flip side, lack of clarity on the ramp up of KG D6 gas production beyond 60 mmscmd will limit the growth in future earnings. We maintain our BUY rating on the stock while cutting down the target price to Rs 1,150/sh (Rs 1200/ sh earlier) to factor in lower exploration upside.

**KG D6 gas production unlikely to cross 60mmscmd in medium term:** KG D6 gross gas production for the quarter stood at 54mmscmd (-7% QoQ) while MA oil production stood at 2.15 mn bbl. RIL has guided that gas production from KG-D6 is unlikely to cross 60 mmscmd in near to medium term while MA oil production is likely to be ~ 20kbopd in near term. Also, the production at the Panna-Mukta field was resumed from 25 Oct '10 following a shutdown in Q2FY11.

**GRMs showing continuous signs of improvement:** RIL's gross refining margin for Q3FY11 stood at US\$ 9/bbl (+14% QoQ, +52%YoY) backed by a) counter-seasonal strong gasoline demand from Asia and b) improved naphtha spreads on account of demand from Asian petrochemical plants. RIL's premium over the Singapore Complex GRM was stable at ~US\$ 3.5/bbl, primarily due to an improved heavy-light crude differential. However, the refinery utilization fell to 104% (109% in Q2) as one CDU was shut for 22days.

**Polyester margins improved significantly:** RIL's Petchem EBIT margins improved to Rs 24.3 bn on the back of a) strong domestic demand (+10%QoQ) for polyester due to high cotton prices and, b) higher utilisation rates arising from limited domestic/global capacity additions c) margin improvement in PP and PBR margins due to strong demand from auto and industrial sector. RIL entered into a JV with SIBUR to set up a 100,000 tons buty rubber plant at Jamnagar, by 2013

**Earnings cut by 1-5%; maintain BUY:** To factor in lower production at KG D6 for FY12 and FY13, we have revised our FY12 EPS to Rs 66.3 (from Rs 67.2) and FY13 EPS to Rs 69.4 (from Rs 73.2). Similarly, we have reduced our SOTP based TP to Rs 1150/sh to factor in lower exploration upside of Rs 79/sh.

#### Financial highlights

| (Rs mn)        | FY10      | FY11E     | FY12E     | FY13E     |
|----------------|-----------|-----------|-----------|-----------|
| Revenue        | 2,037,397 | 2,595,151 | 2,490,757 | 2,530,382 |
| Growth (%)     | 34.7      | 27.4      | (4.0)     | 1.6       |
| Adj net income | 158,976   | 204,910   | 216,980   | 226,880   |
| Growth (%)     | 6.2       | 28.9      | 5.9       | 4.6       |
| FDEPS (Rs)     | 48.6      | 62.6      | 66.3      | 69.4      |
| Growth (%)     | 2.2       | 28.9      | 5.9       | 4.6       |

#### Profitability and return ratios

| (%)            | FY10 | FY11E | FY12E | FY13E |
|----------------|------|-------|-------|-------|
| EBITDA margin  | 15.2 | 15.0  | 16.3  | 16.6  |
| EBIT margin    | 9.8  | 10.0  | 10.9  | 11.1  |
| Adj PAT margin | 7.8  | 7.9   | 8.7   | 9.0   |
| ROE            | 12.1 | 13.6  | 12.9  | 12.2  |
| ROIC           | 8.6  | 10.8  | 11.1  | 10.9  |
| ROCE           | 11.0 | 13.8  | 14.1  | 13.9  |

#### What's New? Target Rating Estimates

| CMP    | TARGET  | RATING | RISK |
|--------|---------|--------|------|
| Rs 987 | Rs 1150 | BUY    | LOW  |

| BSE    | NSE      | BLOOMBERG |
|--------|----------|-----------|
| 500325 | RELIANCE | RIL IN    |

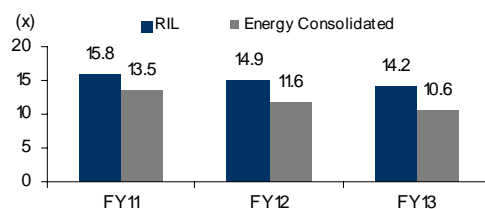
#### Company data

|                                |                  |
|--------------------------------|------------------|
| Market cap (Rs mn / US\$ mn)   | 3,106,148/67,525 |
| Outstanding equity shares (mn) | 3271.7           |
| Free float (%)                 | 55.2             |
| Dividend yield (%)             | 0.5              |
| 52-week high/low (Rs)          | 1187/841         |
| 2-month average daily volume   | 5,388,555        |

#### Stock performance

| Returns (%)   | CMP    | 1-mth | 3-mth  | 6-mth |
|---------------|--------|-------|--------|-------|
| RIL           | 987    | (8.0) | (8.8)  | (6.8) |
| BSE Oil Index | 9,745  | (9.2) | (11.2) | (7.4) |
| Sensex        | 19,008 | (5.2) | (6.2)  | 5.7   |

#### P/E comparison



#### Valuation matrix

| (x)             | FY10 | FY11E | FY12E | FY13E |
|-----------------|------|-------|-------|-------|
| P/E @ CMP       | 20.3 | 15.8  | 14.9  | 14.2  |
| P/E @ Target    | 24.7 | 19.2  | 18.1  | 17.3  |
| EV/EBITDA @ CMP | 11.8 | 9.0   | 8.3   | 7.8   |

In the interest of timeliness this report has not been edited.





## Result highlights

Fig 1 - Actual vs estimated performance

| (Rs mn)        | Actual  | Religare Estimate | % Variance | Consensus Estimate | % Variance |
|----------------|---------|-------------------|------------|--------------------|------------|
| Revenue        | 597,890 | 664,649           | (10.0)     | 631,448.1          | (5.3)      |
| EBITDA         | 95,450  | 95,880.7          | (0.4)      | 104,936.6          | (9.0)      |
| Adj net income | 51,360  | 52,154.9          | (1.5)      | 52,341.9           | (1.9)      |
| FDEPS (Rs)     | 15.7    | 15.9              | (1.2)      | 16.6               | (5.2)      |

Source: RCML Research

Fig 2 - Quarterly performance

| (Rs mn)           | Q3FY11  | Q3FY10  | % Chg YoY | Q2F11   | % Chg QoQ |
|-------------------|---------|---------|-----------|---------|-----------|
| Revenue           | 597,890 | 568,560 | 5.2       | 574,790 | 4.0       |
| Expenditure       | 502,440 | 490,120 | 2.5       | 480,830 | 4.5       |
| Operating profit  | 95,450  | 78,440  | 21.7      | 93,960  | 1.6       |
| Other income      | 7,410   | 5,080   | 45.9      | 6,720   | 10.3      |
| Interest          | 5,490   | 5,500   | (0.2)     | 5,420   | 1.3       |
| Depreciation      | 33,590  | 27,950  | 20.2      | 33,770  | (0.5)     |
| PBT               | 63,780  | 50,070  | 27.4      | 61,490  | 3.7       |
| Tax               | 12,420  | 9,990   | 24.3      | 12,260  | 1.3       |
| PAT               | 51,360  | 40,080  | 28.1      | 49,230  | 4.3       |
| EBITDA margin (%) | 16%     | 14%     |           | 16%     |           |
| FDEPS (Rs)        | 15.7    | 12.3    | 28.1      | 15.1    | 4.3       |

Source: Company, RCML Research

Fig 3 - Segmental performance

| (Rs mn)               | Q3FY11  | Q3FY10  | YoY%  | Q2FY11  | QOQ%  |
|-----------------------|---------|---------|-------|---------|-------|
| <b>PETROCHEMICALS</b> |         |         |       |         |       |
| Revenues (gross)      | 159,820 | 147,560 | 8.3   | 150,960 | 5.9   |
| PBIT                  | 24,290  | 20,550  | 18.2  | 21,970  | 10.6  |
| Capital Employed      | 352,280 | 418,880 | -15.9 | 364,700 | -3.4  |
| PBIT Margin (%)       | 15.2%   | 13.9%   | 9.1   | 14.6%   | 4.4   |
| <b>REFINING</b>       |         |         |       |         |       |
| Revenues (gross)      | 525,240 | 480,000 | 9.4   | 496,720 | 5.7   |
| PBIT                  | 24,360  | 13,790  | 76.6  | 21,920  | 11.1  |
| Capital Employed      | 767,030 | 789,760 | -2.9  | 761,200 | 0.8   |
| PBIT Margin (%)       | 4.6%    | 2.9%    | 61.4  | 4.4%    | 5.1   |
| <b>E&amp;P</b>        |         |         |       |         |       |
| Revenues (gross)      | 41,780  | 35,300  | 18.4  | 43,030  | -2.9  |
| PBIT                  | 15,040  | 14,770  | 1.8   | 17,060  | -11.8 |
| Capital Employed      | 559,590 | 521,160 | 7.4   | 537,680 | 4.1   |
| PBIT Margin (%)       | 36.0%   | 41.8%   | -14.0 | 39.6%   | -9.2  |
| <b>OTHERS</b>         |         |         |       |         |       |
| Revenues (gross)      | 1,800   | 950     | 89.5  | 1,550   | 16.1  |
| PBIT                  | 90      | 110     | -18.2 | 80      | 12.5  |
| Capital Employed      | 567,240 | 74,630  | 660.1 | 71,010  | 698.8 |
| PBIT Margin (%)       | 5.0%    | 11.6%   | -56.8 | 5.2%    | -3.1  |

Source: Company, RCML research

Numbers in line with estimates

22% YoY rise in EBITDA on account of improvement in refining and petchem margins



Fig 4 - Operational performance

| Operational performance        | Q3FY11 | Q3FY10 | YoY%   | Q2FY11 | QOQ%  |
|--------------------------------|--------|--------|--------|--------|-------|
| <b>Refining</b>                |        |        |        |        |       |
| Crude processed (MT)           | 16.1   | 16.6   | (3.1)  | 16.9   | (4.8) |
| Crude Capacity (MT)            | 15.5   | 15.5   | 0.0    | 15.5   | 0.0   |
| Utilisation (%)                | 104%   | 107%   | (3.1)  | 109%   | (4.8) |
| RIL GRMs (\$/bbl)              | 9.0    | 5.9    | 52.5   | 7.9    | 13.9  |
| Benchmark Sing. GRMs (\$/bbl)  | 5.5    | 1.9    | 157.9  | 4.2    | 16.7  |
| Premium/ (Discount)            | 3.5    | 4.0    | 2.5    | 3.7    | 10.8  |
| <b>Petrochemicals ('000 T)</b> |        |        |        |        |       |
| Ethylene                       | 505    | 502    | 0.6    | 432    | 16.9  |
| Propylene                      | 166    | 191    | (13.1) | 182    | (8.8) |
| PP, PE, PVC                    | 1,100  | 1,086  | 1.3    | 1,069  | 2.9   |
| PFY, PSF, PET                  | 449    | 469    | (4.3)  | 429    | 4.7   |
| PX, PTA, MEG                   | 1,200  | 1,192  | 0.7    | 1,100  | 9.1   |
| <b>Oil and Gas</b>             |        |        |        |        |       |
| <b>PMT</b>                     |        |        |        |        |       |
| Crude (mnbbbl)                 | 2.61   | 3.38   | (22.7) | 0.64   | 308.9 |
| Gas (mmscm/d)                  | 10     | 13     | (21.8) | 9      | 21.3  |
| Condensate (mnbbbl)            | 0.37   | 0.30   | 21.0   | 0.27   | 34.0  |
| <b>KG Basin</b>                |        |        |        |        |       |
| Gas (mmscm/d)                  | 54     | 46     | 17.9   | 58     | (7.0) |
| Crude(mnbbbl)                  | 2.15   | 0.84   | 155.8  | 2.05   | 5.3   |
| Condensate (mnbbbl)            | 0.74   | -      | n.a.   | 0.17   | 338.9 |

Source: Company, RCML research

**Production ramp-up in KG-D6 unlikely till FY14:** RIL has indicated that the ramp in production beyond 60mmscmd is less likely till at-least FY14. At present RIL has drilled 18 well in the block and 4 more are yet to be drilled, according to the work programme. Of the 18 wells, production is currently being drawn from 16. Similarly. Crude oil production from the field has also fallen to ~18000bopd with very low chances of meeting the 34,041bopd rate envisaged in FDP. The reason for steep fall is believed to be early ingress of water and gas in the reservoir leading to un-predictable behaviour.

Besides all major exploratory blocks (other than D-6) are caught in one or the other legal entangles with DGH, leading to delay in development of related fields. The existing scenario reduces our comfort with expected exploratory upsides and we revisited our valuation to assign a lower value of Rs79/sh to the same (Rs130 earlier).



Fig 5 - Status of key exploration blocks

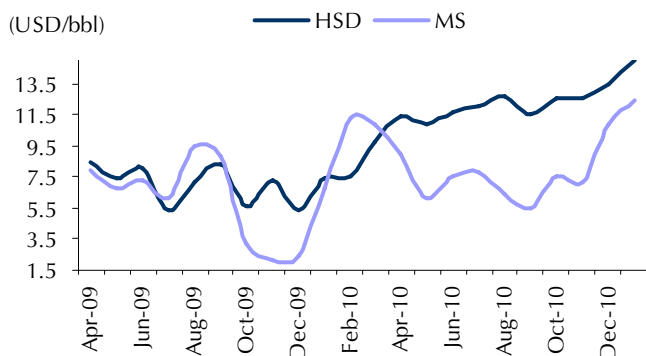
| Field/ Block             | Participating Interest | Activity Status   |
|--------------------------|------------------------|---|
| KG-DWN-98/3<br>(KG-D6)   | 90%                    | <p>RIL has drilled 18 wells as of date out of stipulated 22</p> <p>The oil and gas production from the block fell to 18000bpd and ~50-54mmscmd respectively</p> <p>The production is expected to remain at current levels till ~FY14</p> <p>DGH has approved a budget of US\$1.14bn for KG-D6 in 2010-11, of which US\$600mn is for drilling of 4 development wells and US\$8mn for appraisal of D-29, D-30, D-31 and D-34 gas finds</p>  |
| NEC-OSN-97/2<br>(NEC-25) | 90%                    | <p>Recoverable reserves estimated to be 3.4-4tcf; peak production of 12mmscmd</p> <p>Phase-I of drilling resulted in 6 discoveries D-9/A1, D-15/A2, D-10/A3, D-11/A4, D-20/B1 &amp; B2</p> <p>Development plan for phase- I discoveries submitted</p> <p>Phase-II drilling program led to discoveries A5 ,D-32/AJ1, D-40/AJ2 &amp; AJ3</p> <p>DGH has rejected DoC for D-32/AJ1 and D-40/AJ2 citing improper assessment and pulled down the GIIP estimates to 335.2Bcf from 663Bcf.</p> |
| KG-DWN-2003/1<br>(KG-D3) | 90%                    | <p>Drilling program restarted in Aug.10 post technical snag in June</p> <p>Drilling rig Transocean- Discoverer 54 carrying forward the work</p> <p>Gas discovery d-52 rejected by DGH as govt. representative was not invited to witness drill stem test</p> <p>RIL is expected to launch development concept studies, after which gas discoveries D-39, 41 and 44 would be developed</p>   |
| MN-DWN-2003/1<br>(MN-D4) | 85%                    | <p>Received permission to start drilling from 15th Apr 2011</p> <p>3000 sqkm of 3-D seismic data acquired</p> <p>Phase-I involves drilling of 3 wells at a cost of over 100mn</p> <p>Total 9 wells to be spudded in 3 phases until 2012</p>   |
| KG-DWN-2001/1<br>(KG-D9) | 100%                   | <p>RL is expected to complete the ongoing exploratory program by Feb/Mar-2011</p> <p>Company has shot and processed 4000sqKm of 3D seismic data</p> <p>RIL recently abandoned the B-3 well due to presence of water gradient, but has decided to re-enter the same by end-2011</p> <p>The block stands to benefit from Gol rig moratorium policy</p>  |
| CB-ONN-2003/1            | 100%                   | <p>Drilled 14 exploratory well</p> <p>one oil discovery made ; flow rate of 300bpd</p> <p>DGH granted second extension to ph-I of drilling program</p> <p>RIL was not able to complete MWP even after extension so had to pay a bank guarantee of USD7.5mn and asked for an extension of one more year</p> <p>Unfinished MWP includes drilling two exploratory wells, analysis of ~165 geochemical samples, processing of 200km of 3D seismic data</p>                                  |
| KG-OSN-2001/1            | 90%                    | <p>Made three discoveries in the block</p> <p>RIL asked to relinquish the block, by DGH, citing delay in submission of DoC</p>  |
| KG-OSN-2001/2            | 90%                    | <p>Two oil and gas discoveries made</p> <p>RIL asked to relinquish the block, by DGH, citing delay in submission of DoC</p>   |
| CY-DWN-2001/2            | 100%                   | <p>RIL has shot 2100km of 2D and 1650sqKm of 3D seismic data</p> <p>Four exploratory wells have been drilled under Ph-1 and have recorded no hydrocarbon success</p> <p>DGH refused to include the block in 3 year rig moratorium</p> <p>RIL asked to complete all technical evaluation by Mar2011</p>  |
| AS-ONN-2000/1            | 90%                    | <p>RIL has completed the MWP</p> <p>The company has requested a 6 month extension for Ph-1 in order to fine tune the assessment of Hydrocarbon</p>  |

Source: Indianpetro, RCML research



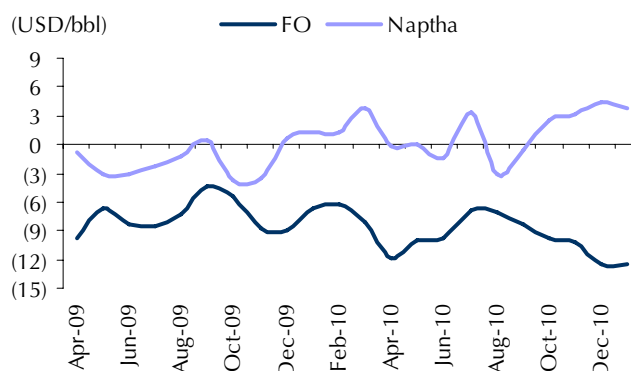
**Refining environment robust; shows signs of recovery:** The Singapore complex GRM improved by 30% QoQ to US\$5.5/bbl. The strength in GRM was due to strong Diesel(Gas oil) demand, due to colder winters and an counter-seasonal demand in gasoline from Asia. The strong demand in Gasoline helped in improving the gasoline spreads by 33%, even though the crude oil prices also increased by 14% during the quarter. Naphtha margins also improved from a -1.6 in Q2 to +3.5 in Q3 on backs of strong demand from asian petrochemical plants. We believe that going forward the, heating oil demand and reduced utilizations due to seasonal maintenance would support GRM in Q4FY11 and post that the US driving season would continue to provide strength going into FY12.

**Fig 6 - HSD and MS spreads**



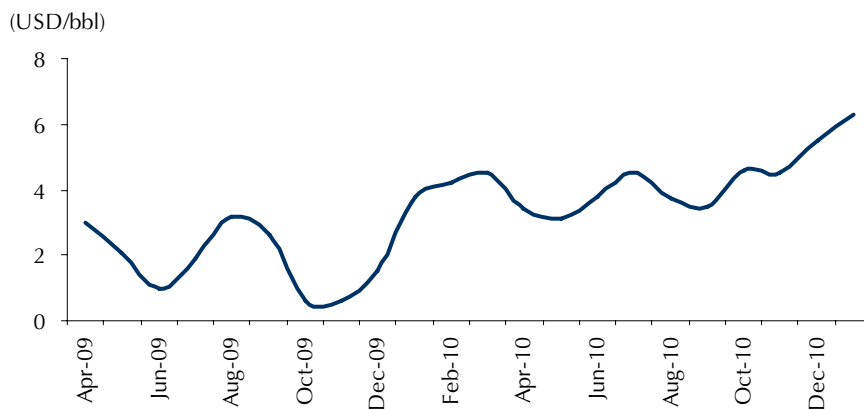
Source: Bloomberg, RCML research

**Fig 7 - FO and Naphtha spreads**



Source: Bloomberg, RCML research

**Fig 8 - Singapore complex GRM**



Source: Bloomberg, RCML research

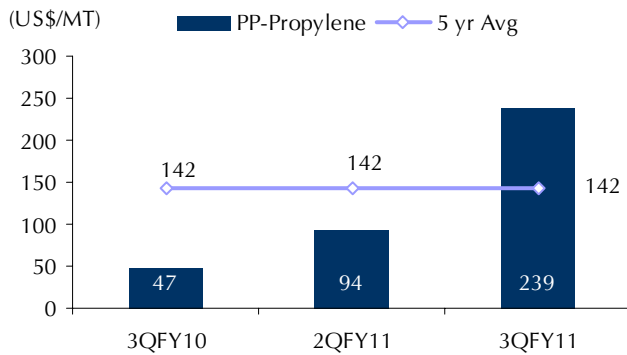
**Petchem margins improve on backs of strong demand:** Despite, capacity additions to the tune of 8% of global capacity, in ME and Asia, strong demand from emerging economies (China and India) helped improve operating rates and margins in Asia. The operating rates in Asia at 87% were above the global average of 85%. China’s polymer demand was led by ~14% growth in PE and 15% growth in PVC, whereas in India the 11% polymer growth was driven by 18% demand growth in PP and 9% in PE. High petchem demand negated the increase in raw material cost thereby maintaining the operating margins. Though inflationary concerns and interest rate hike might put pressure on Petchem demand in near term, in long term, we believe that sector would see structural growth along with growth in emerging economies.

Improved demand from domestic textile industry and high cotton prices helped polyester demand to grow at a healthy 15% YoY. Polyester margins also saw



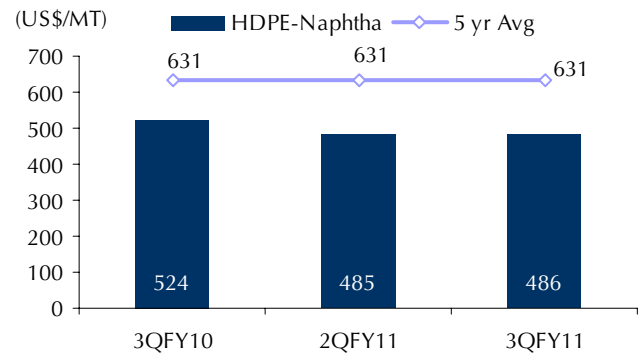
concomitant improvement, with POY margins improving 81% and PSF margins improving 125%, QoQ. With the healthy growth expected in textile industry the demand for polyesters is set to robust.

**Fig 9 - PP-Propylene spread**



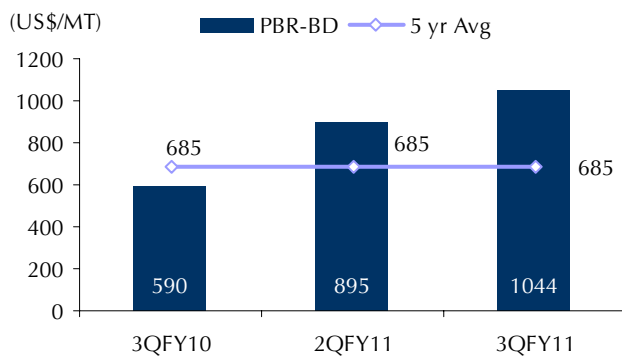
Source: Company, RCML research

**Fig 10 - PE-Naphtha spread**



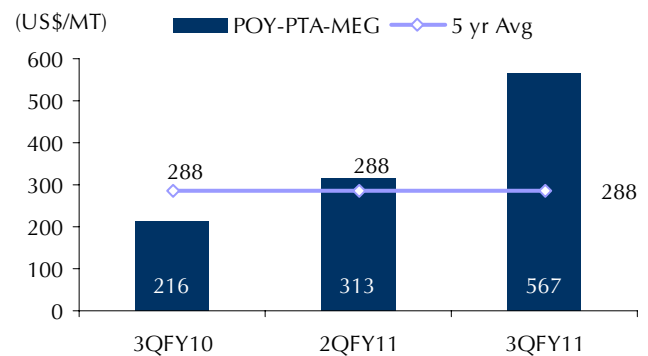
Source: Company, RCML research

**Fig 11 - PBR-BD spread**



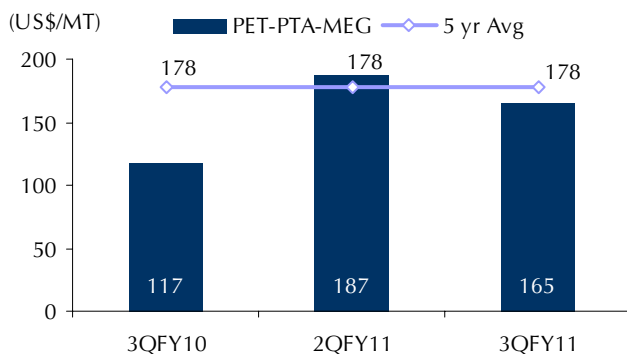
Source: Company, RCML research

**Fig 12 - POY-PTA-MEG spread**



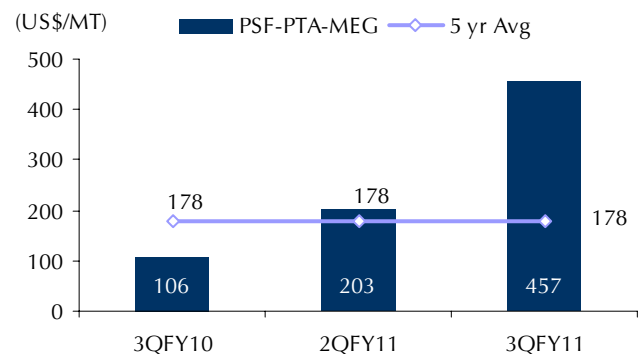
Source: Company, RCML research

**Fig 13 - PET-PTA-MEG spread**



Source: Company, RCML research

**Fig 14 - PSF-PTA-MEG spread**



Source: Company, RCML research



## Valuation

To factor in lower production at KG D6 for FY12 and FY13, we have revised our FY12 EPS to Rs 66.3 (from Rs 67.2) and FY13 EPS to Rs 69.4 (from Rs 73.2). Similarly, we have reduced our SOTP based TP to Rs 1150/sh to factor in lower exploration upside of Rs 79/sh (Rs 130 earlier). At CMP the stock is trading at a P/E of 14.2x FY13E.

**Fig 15 - Key assumption**

| E&P                     | Unit        | FY10        | FY11E        | FY12E        | FY13E        |
|-------------------------|-------------|-------------|--------------|--------------|--------------|
| <b>PMT field</b>        |             |             |              |              |              |
| <b>Oil</b>              |             |             |              |              |              |
| RIL Share               | kbpd        | 10.4        | 9.1          | 9.1          | 8.6          |
| RIL Share               | mn bbls     | 3.8         | 3.3          | 3.3          | 3.1          |
| Average realisation     | USD/ bbl    | 70.0        | 74.0         | 75.0         | 75.0         |
| <b>Natural Gas</b>      |             |             |              |              |              |
| Total production        |             |             |              |              |              |
| RIL Share               | mmscmd      | 3.6         | 3.2          | 3.2          | 3.1          |
| Average realisation     | USD/ mmbtu  | 5.7         | 5.7          | 5.7          | 5.7          |
| <b>KG D6 field</b>      |             |             |              |              |              |
| <b>Natural Gas</b>      |             |             |              |              |              |
| Total production        |             |             |              |              |              |
| RIL Share               | mmscmd      | 39.44       | 55           | 60           | 60           |
| RIL Share               | mmscmd      | 35.496      | 49.5         | 54           | 54           |
| Average realisation     | USD/ mmbtu  | 4.2         | 4.2          | 4.2          | 4.2          |
| <b>Oil</b>              |             |             |              |              |              |
| Total production        |             |             |              |              |              |
| RIL Share               | kbopd       | 10.2        | 22           | 20           | 25           |
| RIL Share               | kbopd       | 9.18        | 19.8         | 18           | 22.5         |
| Average realisation     | USD/ bbl    | 70          | 74           | 75           | 75           |
| <b>Refining</b>         |             |             |              |              |              |
|                         |             | <b>FY09</b> | <b>FY10</b>  | <b>FY11E</b> | <b>FY12E</b> |
| Capacity                | MMTPA       | 62          | 62           | 62           | 62           |
| Crude throughput        | MMTPA       | 60.9        | 66.9         | 64.9         | 64.7         |
| Cap. utilisation        | %           | 98.2        | 107.9        | 104.7        | 104.3        |
| Avg. GRMs               | USD/ bbl    | 6.6         | 7.6          | 8.0          | 8.4          |
| <b>Petchem</b>          |             |             |              |              |              |
|                         | <b>unit</b> | <b>FY10</b> | <b>FY11E</b> | <b>FY12E</b> | <b>FY13E</b> |
| <b>Polymers</b>         |             |             |              |              |              |
| Polymer production      | MMTPA       | 4           | 4            | 4            | 4            |
| Naphtha cracker margins | USD/ MT     | 395         | 586          | 637          | 675          |
| PE- Ethylene            | USD/ MT     | 281         | 113          | 108          | 111          |
| PP- Propylene           | USD/ MT     | 211         | 131          | 125          | 128          |
| PVC- EDC                | USD/ MT     | 249         | 356          | 342          | 349          |
| <b>Polyesters</b>       |             |             |              |              |              |
| Polyester production    | MMTPA       | 2           | 2            | 2            | 2            |
| PX-Reformat             | USD/ MT     | 73          | 73           | 113          | 130          |
| PTA-PX                  | USD/ MT     | 159         | 268          | 257          | 262          |
| PFY-PTA                 | USD/ MT     | 328         | 243          | 233          | 238          |

Source: RCML research, Industry



Fig 16 - SOTP valuation

|                                       | Value<br>(USD bn) | Value<br>(Rs/shr) | Valuation Methodology               |
|---------------------------------------|-------------------|-------------------|-------------------------------------|
| <b>Refining &amp; Marketing</b>       | <b>22.6</b>       | <b>336</b>        | 7x FY13E EBITDA                     |
| <b>Petrochemicals</b>                 | <b>22.4</b>       | <b>333</b>        | 8.5x FY13E EBITDA                   |
| <b>E&amp;P</b>                        | <b>25.4</b>       | <b>377</b>        | NPV with WACC at 10%                |
| - KG D6 (D1 & D3 Gas)                 | 8.9               | 132               |                                     |
| - KG D6 (MA Oil)                      | 2.0               | 30                |                                     |
| - NEC25 (Gas)                         | 2.0               | 30                |                                     |
| - CBM - Sohagpur (Gas)                | 0.9               | 13                |                                     |
| - PMT (Oil & Gas)                     | 1.0               | 15                |                                     |
| - Shale Gas                           | 5.3               | 78                |                                     |
| - Exploration upside                  | 5.3               | 79                | 11 TCF reserves at USD 3/boe        |
| <b>Infotel venture</b>                | <b>2.2</b>        | <b>32</b>         | 1.0x P/ BV                          |
| <b>Haryana &amp; Jamnagar SEZs</b>    | <b>1.0</b>        | <b>16</b>         | At acquisition cost                 |
| <b>Retail</b>                         | <b>1.7</b>        | <b>26</b>         | DCF at 10% WACC; 5% terminal growth |
| <b>Business Valuation</b>             | <b>75.4</b>       | <b>1,120</b>      |                                     |
| Other investments/loans to affiliates | 1.3               | 19                | Book value                          |
| Net long term debt                    | 1.7               | 25                | As on FY12 end                      |
| <b>SOTP on diluted capital</b>        | <b>78.3</b>       | <b>1,150</b>      |                                     |

Source: RCML research





## Consolidated financials

### Profit and Loss statement

| Y/E March (Rs mn)              | FY10             | FY11E            | FY12E            | FY13E            |
|--------------------------------|------------------|------------------|------------------|------------------|
| <b>Revenues</b>                | <b>2,037,397</b> | <b>2,595,151</b> | <b>2,490,757</b> | <b>2,530,382</b> |
| Growth (%)                     | 34.7             | 27.4             | (4.0)            | 1.6              |
| <b>EBITDA</b>                  | <b>308,939</b>   | <b>388,647</b>   | <b>407,114</b>   | <b>421,026</b>   |
| Growth (%)                     | 31.9             | 25.8             | 4.8              | 3.4              |
| Depreciation & amortisation    | 109,458          | 130,072          | 134,729          | 141,215          |
| EBIT                           | 199,481          | 258,575          | 272,385          | 279,811          |
| Growth (%)                     | 12.2             | 29.6             | 5.3              | 2.7              |
| Interest                       | 20,596           | 21,915           | 15,670           | 12,608           |
| Other income                   | 21,858           | 24,372           | 19,692           | 21,815           |
| EBT                            | 200,743          | 261,031          | 276,407          | 289,018          |
| Income taxes                   | 42,563           | 56,122           | 59,428           | 62,139           |
| Effective tax rate (%)         | 21.2             | 21.5             | 21.5             | 21.5             |
| Extraordinary items            | -                | -                | -                | -                |
| Min into / inc from associates | (796)            | -                | -                | -                |
| Reported net income            | 245,036          | 204,910          | 216,980          | 226,880          |
| Adjustments                    | 86,060           | -                | -                | -                |
| <b>Adjusted net income</b>     | <b>158,976</b>   | <b>204,910</b>   | <b>216,980</b>   | <b>226,880</b>   |
| Growth (%)                     | 6.2              | 28.9             | 5.9              | 4.6              |
| Shares outstanding (mn)        | 3,270.4          | 3,271.0          | 3,271.0          | 3,271.0          |
| <b>FDEPS (Rs) (adj)</b>        | <b>48.6</b>      | <b>62.6</b>      | <b>66.3</b>      | <b>69.4</b>      |
| Growth (%)                     | 2.2              | 28.9             | 5.9              | 4.6              |
| DPS (Rs)                       | 7.0              | 9.0              | 10.0             | 11.0             |

### Cash flow statement

| Y/E March (Rs mn)          | FY10      | FY11E     | FY12E     | FY13E     |
|----------------------------|-----------|-----------|-----------|-----------|
| Net income + Depreciation  | 278,901   | 350,643   | 368,293   | 385,435   |
| Non-cash adjustments       | 62,810    | 29        | -         | -         |
| Changes in working capital | (154,973) | 101,916   | (13,756)  | (13,911)  |
| Cash flow from operations  | 186,738   | 452,588   | 354,537   | 371,524   |
| Capital expenditure        | (101,306) | (307,580) | (200,683) | (215,683) |
| Change in investments      | (38,267)  | 91,526    | 6,246     | (70,331)  |
| Other investing cash flow  | (139,573) | (216,054) | (194,437) | (286,014) |
| Cash flow from investing   | 0         | 0         | (0)       | (0)       |
| Issue of equity            | (116,511) | (196,360) | (115,885) | (37,239)  |
| Issue/repay debt           | (24,309)  | (33,229)  | (36,921)  | (40,614)  |
| Dividends paid             | 5,142     | -         | -         | -         |
| Other financing cash flow  | (135,678) | (229,590) | (152,807) | (77,853)  |
| Change in cash & cash eq   | (88,513)  | 6,945     | 7,293     | 7,657     |
| Closing cash & cash eq     | 138,908   | 145,853   | 153,146   | 160,804   |

### Economic Value Added (EVA) analysis

| Y/E March                | FY10      | FY11E     | FY12E     | FY13E     |
|--------------------------|-----------|-----------|-----------|-----------|
| WACC (%)                 | 13.2      | 13.5      | 13.6      | 13.7      |
| ROIC (%)                 | 8.6       | 10.8      | 11.1      | 10.9      |
| Invested capital (Rs mn) | 2,455,520 | 2,574,885 | 2,625,042 | 2,801,016 |
| EVA (Rs mn)              | (112,878) | (68,376)  | (67,283)  | (78,873)  |
| EVA spread (%)           | (4.6)     | (2.7)     | (2.6)     | (2.8)     |

### Balance sheet

| Y/E March (Rs mn)         | FY10             | FY11E            | FY12E            | FY13E            |
|---------------------------|------------------|------------------|------------------|------------------|
| Cash and cash eq          | 138,908          | 145,854          | 153,146          | 160,804          |
| Accounts receivable       | 100,829          | 113,760          | 109,184          | 110,921          |
| Inventories               | 343,933          | 369,225          | 353,885          | 371,901          |
| Other current assets      | 214,465          | 116,897          | 119,753          | 200,182          |
| Investments               | 24,043           | 25,245           | 26,508           | 27,833           |
| Gross fixed assets        | 1,601,913        | 1,716,841        | 1,722,112        | 1,780,897        |
| Net fixed assets          | 1,601,913        | 1,716,841        | 1,722,112        | 1,780,897        |
| CWIP                      | 170,337          | 232,917          | 293,600          | 309,283          |
| Intangible assets         | -                | -                | -                | -                |
| Deferred tax assets, net  | -                | -                | -                | -                |
| Other assets              | -                | -                | -                | -                |
| <b>Total assets</b>       | <b>2,594,429</b> | <b>2,720,738</b> | <b>2,778,188</b> | <b>2,961,820</b> |
| Accounts payable          | 381,173          | 505,338          | 475,876          | 486,707          |
| Other current liabilities | 13,468           | 14,241           | 15,092           | 16,027           |
| Provisions                | 36,950           | 47,311           | 52,615           | 58,112           |
| Debt funds                | 646,055          | 449,695          | 333,809          | 296,571          |
| Other liabilities         | 106,752          | 122,438          | 139,022          | 156,363          |
| Equity capital            | 32,704           | 32,710           | 32,710           | 32,710           |
| Reserves & surplus        | 1,377,326        | 1,549,006        | 1,729,064        | 1,915,330        |
| Shareholder's funds       | 1,410,030        | 1,581,716        | 1,761,774        | 1,948,040        |
| <b>Total liabilities</b>  | <b>2,594,429</b> | <b>2,720,738</b> | <b>2,778,188</b> | <b>2,961,820</b> |
| BVPS (Rs)                 | 431.2            | 483.6            | 538.6            | 595.5            |

### Financial ratios

| Y/E March                                     | FY10 | FY11E | FY12E | FY13E |
|---|------|-------|-------|-------|
| <b>Profitability &amp; Return ratios (%)</b>  |      |       |       |       |
| EBITDA margin                                 | 15.2 | 15.0  | 16.3  | 16.6  |
| EBIT margin                                   | 9.8  | 10.0  | 10.9  | 11.1  |
| Net profit margin                             | 7.8  | 7.9   | 8.7   | 9.0   |
| ROE   | 12.1 | 13.6  | 12.9  | 12.2  |
| ROCE  | 11.0 | 13.8  | 14.1  | 13.9  |
| <b>Working Capital &amp; Liquidity ratios</b> |      |       |       |       |
| Receivables (days)                            | 17   | 16    | 16    | 16    |
| Inventory (days)                              | 79   | 64    | 66    | 68    |
| Payables (days)                               | 80   | 84    | 83    | 84    |
| Current ratio (x)                             | 1.9  | 1.3   | 1.4   | 1.5   |
| Quick ratio (x)                               | 1.1  | 0.7   | 0.7   | 0.9   |
| <b>Turnover &amp; Leverage ratios (x)</b>     |      |       |       |       |
| Gross asset turnover                          | 0.8  | 1.0   | 0.9   | 0.9   |
| Total asset turnover                          | 1.1  | 1.1   | 1.0   | 0.9   |
| Interest coverage ratio                       | 9.7  | 11.8  | 17.4  | 22.2  |
| Adjusted debt/equity                          | 0.28 | 0.18  | 0.10  | 0.0   |
| <b>Valuation ratios (x)</b>                   |      |       |       |       |
| EV/Sales                                      | 1.8  | 1.4   | 1.4   | 1.3   |
| EV/EBITDA                                     | 11.8 | 9.1   | 8.4   | 7.8   |
| P/E   | 20.3 | 15.8  | 14.9  | 14.2  |
| P/BV  | 2.3  | 2.0   | 1.8   | 1.7   |



### Quarterly trend

| Particulars            | Q3FY10  | Q4FY10  | Q1FY11  | Q2FY11  | Q3FY11  |
|------------------------|---------|---------|---------|---------|---------|
| Revenue (Rs mn)        | 568,560 | 575,700 | 582,280 | 574,790 | 597,890 |
| YoY growth (%)         | 80.1    | 120.7   | 86.7    | 22.7    | 5.2     |
| QoQ growth (%)         | 21.4    | 1.3     | 1.1     | (1.3)   | 4.0     |
| EBITDA (Rs mn)         | 78,440  | 91,360  | 93,420  | 93,960  | 95,450  |
| EBITDA margin (%)      | 13.8    | 15.9    | 16.0    | 16.3    | 16.0    |
| Adj net income (Rs mn) | 40,080  | 47,100  | 48,510  | 49,230  | 51,360  |
| YoY growth (%)         | 16      | 30      | 32      | 28      | 28      |
| QoQ growth (%)         | 4       | 18      | 3       | 1       | 4       |

### DuPont analysis

| (%)                              | FY09        | FY10        | FY11E       | FY12E       | FY13E       |
|----------------------------------|-------------|-------------|-------------|-------------|-------------|
| Tax burden (Net income/PBT)      | 81.9        | 122.1       | 78.5        | 78.5        | 78.5        |
| Interest burden (PBT/EBIT)       | 89.8        | 89.7        | 91.6        | 94.3        | 95.5        |
| EBIT margin (EBIT/Revenues)      | 11.8        | 9.8         | 10.0        | 11.0        | 11.1        |
| Asset turnover (Revenues/Avg TA) | 71.8        | 80.6        | 97.8        | 90.6        | 88.1        |
| Leverage (Avg TA/Avg equitiy)    | 173.6       | 179.3       | 168.0       | 156.1       | 147.3       |
| <b>Return on equity</b>          | <b>14.2</b> | <b>12.1</b> | <b>13.6</b> | <b>12.9</b> | <b>12.2</b> |

### Company profile

RIL manufactures petrochemicals, synthetic fibers, fiber intermediates, textiles, blended yarn and polyester staple fiber. The Company also owns a petroleum refinery cum petrochemicals complex in Jamnagar, India that produces a wide range of products such as gasoline, SKO, LPG, etc.

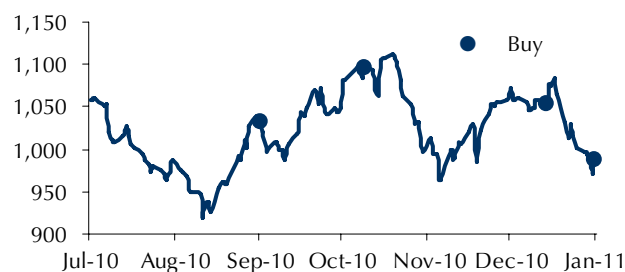
### Shareholding pattern

| (%)         | Jun-10 | Sep-10 | Dec-10 |
|-------------|--------|--------|--------|
| Promoters   | 44.8   | 44.7   | 44.7   |
| FIs         | 17.2   | 16.8   | 17.6   |
| Banks & FIs | 10.7   | 10.3   | 10.5   |
| Public      | 27.3   | 28.1   | 27.2   |

### Recommendation history

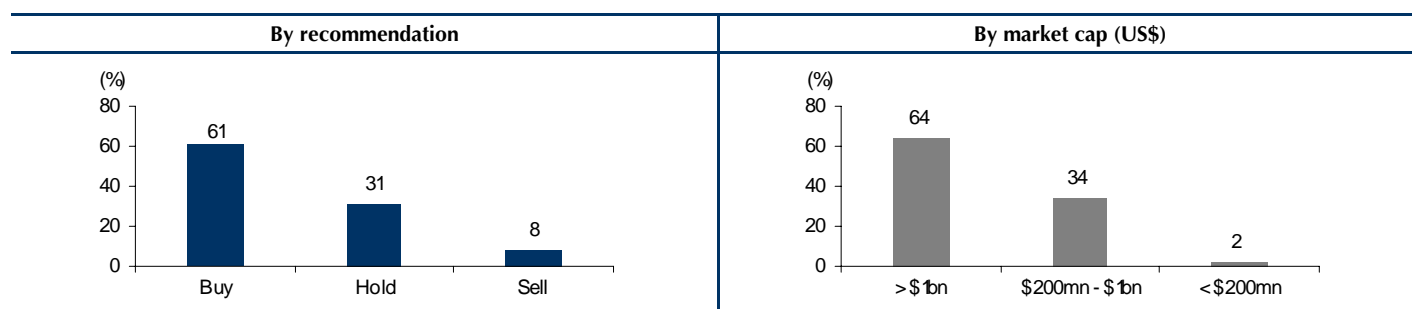
| Date      | Event               | Reco price | Tgt price | Reco |
|-----------|---------------------|------------|-----------|------|
| 22-Sep-10 | Initiating Coverage | 1,035      | 1,210     | Buy  |
| 1-Nov-10  | Results Review      | 1,096      | 1,210     | Buy  |
| 4-Jan-11  | Strategy            | 1,060      | 1,200     | Buy  |
| 22-Jan-11 | Results Review      | 987        | 1,150     | Buy  |

### Stock performance





### Coverage Profile



### Recommendation interpretation

| Recommendation | Expected absolute returns (%) over 12 months |
|----------------|--|
| Buy            | More than 15%                                |
| Hold           | Between 15% and -5%                          |
| Sell           | Less than -5%                                |

Recommendation structure changed with effect from March 1, 2009

Expected absolute returns are based on share price at market close unless otherwise stated. Stock recommendations are based on absolute upside (downside) and have a 12-month horizon. Our target price represents the fair value of the stock based upon the analyst's discretion. We note that future price fluctuations could lead to a temporary mismatch between upside/downside for a stock and our recommendation.

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