

Earnings outlook improving but will E&P disappointment end?

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3QFY11 profit up 28% and 9M up 29%; retain Buy

3Q FY11 profit of Reliance Industries (RIL) is up 28% YoY while 9M profit is up 29% YoY. RIL appears on track to achieve over 25% YoY EPS growth in FY11-FY12 after 2-years of flat earnings in FY09-FY10. Strong earnings growth alone may not be enough to improve RIL's stock performance. What may also be needed is positive E&P news flow in terms of discoveries and reserve rise.

Refining drives 3Q growth; 3Q GRM highest in 7 quarters

RIL's 3Q refining EBIT is up 77% YoY driven by 53% YoY rise in refining margin to US\$9/bbl. RIL's 3Q GRM is its highest in 7 quarters. 3Q petrochemical EBIT of Rs24bn (US\$542m) is its highest ever quarterly EBIT. It is up 18% YoY with polyester margin rise being one of the main drivers. 3Q oil & gas EBIT is up 2% YoY but 12% QoQ lower hit by 3% QoQ fall in volumes, rise in DD&A and opex.

RIL may beat our FY11 EPS estimate but not consensus

We have kept RIL's FY11E EPS, which implies 26% YoY rise, unchanged. RIL's 4Q FY11 profit being at same level as 3Q is enough to meet our FY11 EPS estimate. Refining and polyester margins have strengthened further in 4Q, which may help RIL beat our FY11 EPS estimate. However RIL's FY11 EPS may fall short of consensus EPS, which is 4% higher than our estimate.

Positive guidance on refining & petrochemicals

RIL has guided that strength in refining and polyester margins would continue over the next few quarters. RIL expects polymer margins to improve in FY12E and super-cycle in 12-18 months. No fresh guidance on KG D6 gas ramp up was given despite 3Q volumes slipping below 60mmscmd (guidance for FY12).

Stock Data

Price (Common / GDR)	Rs986.80 / US\$43.05
Price Objective	Rs1,193 / US\$50.41
Date Established	6-Jan-2011 / 6-Jan-2011
Investment Opinion	B-1-7 / B-1-7
Volatility Risk	MEDIUM / MEDIUM
52-Week Range	Rs840.55-Rs1,187
Market Value (mn)	US\$71,194
Shares Outstanding (mn)	3,285.2 / 1,642.6
Average Daily Volume	4,902,515
BofAML Ticker / Exchange	XREL / BSE
BofAML Ticker / Exchange	RLNIY / LIN
Bloomberg / Reuters	RIL IN / RELI.BO
ROE (2011E)	14.3%
Net Dbt to Eqty (Mar-2010A)	32.0%
Est. 5-Yr EPS / DPS Growth	20.0% / 10.0%
Free Float	45.0%

Estimates (Mar)

(Rs)	2009A	2010A	2011E	2012E	2013E
Net Income (Adjusted - mn)	152,960	158,976	200,457	251,202	317,945
EPS	46.56	48.39	61.02	76.46	96.78
EPS Change (YoY)	-11.7%	3.9%	26.1%	25.3%	26.6%
Dividend / Share	6.50	7.00	7.50	8.00	8.00
Free Cash Flow / Share	62.01	31.83	46.99	47.01	80.17
GDR EPS (US\$)	2.02	2.04	2.68	3.36	4.25
GDR Dividend / Share (US\$)	0.282	0.295	0.329	0.351	0.351

Valuation (Mar)

	2009A	2010A	2011E	2012E	2013E
P/E	21.19x	20.39x	16.17x	12.91x	10.20x
Dividend Yield	0.659%	0.709%	0.760%	0.811%	0.811%
EV / EBITDA*	15.74x	12.12x	10.30x	9.12x	7.43x
Free Cash Flow Yield*	6.28%	3.23%	4.76%	4.76%	8.12%

* For full definitions of *iQmethod*SM measures, see page 11.

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iQprofileSM Reliance Industries Ltd.

Key Income Statement Data (Mar)

	2009A	2010A	2011E	2012E	2013E
(Rs Millions)					
Sales	1,512,240	2,037,397	2,261,439	2,530,917	2,528,887
Gross Profit	610,639	491,370	510,002	596,628	711,329
Sell General & Admin Expense	(372,719)	(182,431)	(146,313)	(186,015)	(207,593)
Operating Profit	181,410	199,481	241,627	298,826	365,253
Net Interest & Other Income	980	1,262	8,367	11,924	30,366
Associates	NA	NA	NA	NA	NA
Pretax Income	182,390	200,743	249,993	310,749	395,619
Tax (expense) / Benefit	(29,610)	(42,563)	(49,537)	(59,548)	(77,674)
Net Income (Adjusted)	152,960	158,976	200,457	251,202	317,945
Average Fully Diluted Shares Outstanding	3,285	3,285	3,285	3,285	3,285

Key Cash Flow Statement Data

Net Income	152,960	158,976	200,457	251,202	317,945
Depreciation & Amortization	56,510	109,458	122,062	111,787	138,484
Change in Working Capital	227,316	(159,422)	(13,371)	(20,210)	(3,857)
Deferred Taxation Charge	NA	NA	NA	NA	NA
Other Adjustments, Net	14,070	96,523	9,907	11,910	15,535
Cash Flow from Operations	450,856	205,534	319,055	354,689	468,107
Capital Expenditure	(247,130)	(100,967)	(164,669)	(200,251)	(204,734)
(Acquisition) / Disposal of Investments	49,264	(66,767)	44,276	0	0
Other Cash Inflow / (Outflow)	NA	NA	NA	NA	NA
Cash Flow from Investing	(197,866)	(167,734)	(120,393)	(200,251)	(204,734)
Shares Issue / (Repurchase)	240,429	15,638	0	0	0
Cost of Dividends Paid	(19,350)	(19,860)	(24,309)	(28,096)	(29,969)
Cash Flow from Financing	476,685	(120,733)	(31,309)	(33,095)	(179,968)
Free Cash Flow	203,726	104,568	154,386	154,438	263,373
Net Debt	516,754	422,871	292,794	166,452	(66,952)
Change in Net Debt	(474,070)	(33,578)	(174,353)	(126,342)	(233,404)

Key Balance Sheet Data

Property, Plant & Equipment	1,686,604	1,678,113	1,720,719	1,809,183	1,875,432
Other Non-Current Assets	45,964	46,847	46,847	46,847	46,847
Trade Receivables	48,450	100,829	111,917	125,253	125,153
Cash & Equivalents	245,812	223,184	346,261	467,604	551,010
Other Current Assets	311,590	451,319	508,824	563,705	537,631
Total Assets	2,338,420	2,500,292	2,734,568	3,012,592	3,136,072
Long-Term Debt	678,170	625,753	620,753	615,754	465,755
Other Non-Current Liabilities	95,513	106,776	116,683	128,593	144,127
Short-Term Debt	84,396	20,302	18,302	18,302	18,302
Other Current Liabilities	388,720	425,856	484,864	534,744	504,712
Total Liabilities	1,246,799	1,178,687	1,240,602	1,297,393	1,132,897
Total Equity	1,091,621	1,321,605	1,493,966	1,715,199	2,003,175
Total Equity & Liabilities	2,338,420	2,500,292	2,734,568	3,012,592	3,136,072

iQmethodSM - Bus Performance*

Return On Capital Employed	9.6%	8.5%	10.0%	11.3%	12.9%
Return On Equity	15.8%	13.2%	14.3%	15.7%	17.2%
Operating Margin	12.0%	9.8%	10.7%	11.8%	14.4%
EBITDA Margin	15.7%	15.2%	16.1%	16.2%	19.9%

iQmethodSM - Quality of Earnings*

Cash Realization Ratio	2.9x	1.3x	1.6x	1.4x	1.5x
Asset Replacement Ratio	4.4x	0.9x	1.3x	1.8x	1.5x
Tax Rate (Reported)	16.2%	21.2%	19.8%	19.2%	19.6%
Net Debt-to-Equity Ratio	47.3%	32.0%	19.6%	9.7%	-3.3%
Interest Cover	10.0x	9.7x	10.1x	11.4x	16.5x

Key Metrics

* For full definitions of iQmethodSM measures, see page 11.

Company Description

India's largest petrochemical and refining company, Reliance, owns two refineries with 1.25mbpd capacity. It has over 2m tpa ethylene cracker and is the world's largest polyester producer. It also has large polypropylene and fibre intermediate capacity. Refining was 30%, petrochemical 43% and E&P 27% of FY10 EBIT. Its 2P reserves and resources in India are 4.7bn boe and 0.88bn boe in US shale gas.

Investment Thesis

We expect strong earnings growth for RIL in FY11-FY12E, driven by refining margin recovery and a surge in oil & gas volumes. RIL has 4.7bn boe 2P reserves from the exploration of 5% of its Indian acreage. It has large unexplored prospective acreage and, thus, large reserve-accretion potential. RIL also has a lot of cash and treasury shares, and should generate strong free cash flow. This may be used to make value-accretive acquisitions.

Stock Data

Shares / GDR	2.00
Price to Book Value	2.2x

3Q FY11 earnings review

3Q FY11 profit up 28% YoY

Driven by 22% YoY rise in EBITDA & 46% in other income

RIL's 3Q FY11 net profit is up 28% YoY at Rs51bn. Its profit rise was driven by

- 22% (Rs17bn) YoY rise in its EBITDA
- 46% (Rs2bn) YoY rise in its other income

Table 1: RIL 3Q and 9M FY11 results

Rsmn	3Q FY11	3Q FY10	Change	9M FY11	9M FY10	Change
Net sales	597,890	568,560	5%	1,754,960	1,348,910	30%
Total expenditure	502,440	490,120	3%	1,472,130	1,134,460	30%
EBDITA	95,450	78,440	22%	282,830	214,450	32%
EBDITA margin	16.0%	13.8%		16.1%	15.9%	
Interest	5,490	5,500	0%	16,320	14,720	11%
Depreciation	33,590	27,950	20%	102,210	71,050	44%
Other Income	7,410	5,080	46%	21,350	18,450	16%
PBT	63,780	50,070	27%	185,650	147,130	26%
Current tax	10,420	6,990	49%	30,550	22,900	
Deferred Tax	2,000	3,000	-33%	6,000	8,970	-33%
Recurring PAT	51,360	40,080	28%	149,100	115,260	29%
Add: Extra-ordinary items	0	0		0	0	
Reported PAT	51,360	40,080	28%	149,100	115,260	29%
Recurring EPS	15.7	12.3	28%	45.6	35.2	29%
Reported EPS	15.7	12.3	28%	45.6	35.2	29%

Source: Company reports, BofA Merrill Lynch Global Research

Refining main driver of 3Q EBIT rise of 30% YoY

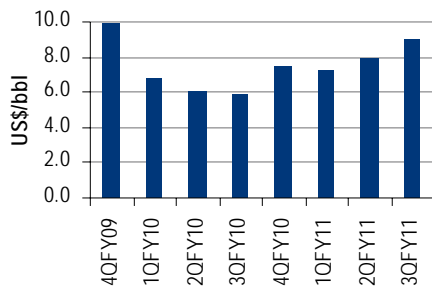
Refining EBIT up 77% YoY; petrochemical EBIT up 18% YoY; E&P EBIT flat
RIL's 3Q EBIT is up 30% YoY. The main driver of this EBIT rise is 77% YoY jump in refining EBIT. RIL's petrochemical EBIT is up 18% YoY while oil & gas EBIT is up just 2% YoY.

Table 2: Segment-wise EBIT break-up in 3Q FY11 and 9M FY11

Rsmn	3Q FY11	3Q FY10	Change	9M FY11	9M FY10	Change
Petrochemicals	24,290	20,550	18%	66,790	63,590	5%
Refining	24,360	13,790	77%	66,630	40,250	66%
Oil & Gas	15,040	14,770	2%	51,310	37,110	38%
Others	90	110	-18%	240	310	-23%
	63,780	49,220	30%	184,970	141,260	31%
Petrochemicals	38%	42%		36%	45%	
Refining	38%	28%		36%	28%	
Oil & Gas	24%	30%		28%	26%	
Others	0%	0%		0%	0%	
	100%	100%		100%	100%	
Main earnings drivers						
Refining margins (US\$/bbl)	9.0	5.9	53%	8.1	6.2	31%
Total crude throughput	16.1	16.6	-3%	49.9	44.3	13%
Oil & gas production (mmboc)	33.1	28.0	18%	103.6	63.6	63%
E&P EBIT (US\$/boe)	10.1	11.3	-11%	10.8	12.2	-11%
KG D6 gas gross production (mmscmd)	54.5	45.7	19%	57.2	32.8	74%
KG D6 gas price (US\$/mmbtu)	3.8	3.8	0%	3.8	3.8	0%
KG D6 gross oil production (k bpd)	23.8	9.3	156%	27.0	9.2	194%
Brent price (US\$/bbl)	86.9	74.9	16%	80.7	67.5	19%
Exchange rate	44.8	46.6	-4%	45.7	47.9	-5%

Source: Company reports, BofA Merrill Lynch Global Research

Chart 1: RIL's 3Q FY11 refining margin highest in 7 quarters



Source: Company reports, BofA Merrill Lynch Global Research

Refining EBIT up by 77% YoY

Refining margin up 53% YoY; Crude throughput 3% YoY lower

RIL's 3Q refining EBIT is up 77% YoY driven by 53% YoY rise in refining margin to US\$9/bbl on the low base of US\$5.9/bbl in 3Q FY10. However, 3Q crude throughput was 3% YoY lower due to maintenance shut down at its old refinery.

RIL's 3Q refining margin of US\$9/bbl highest in 7 quarters

RIL's refining margin US\$5.9-9/bbl in the last 7 quarters

RIL's 3Q FY11 refining margin of US\$9/bbl is its highest refining margin in seven quarters starting 1Q FY10. Its refining margin was last higher than this level at US\$9.9/bbl in 4Q FY09. The strength in RIL's 3Q refining margin was driven

- Sharp rise in diesel and jet fuel cracks. Diesel and jet fuel account for 47% of RIL's refinery product slate
- Continuing strength in light-heavy crude spread

RIL's premium to Singapore GRM US\$3.5/bbl in 3Q

RIL's premium to Singapore GRM US\$2.6-4.0/bbl in last 7 quarters

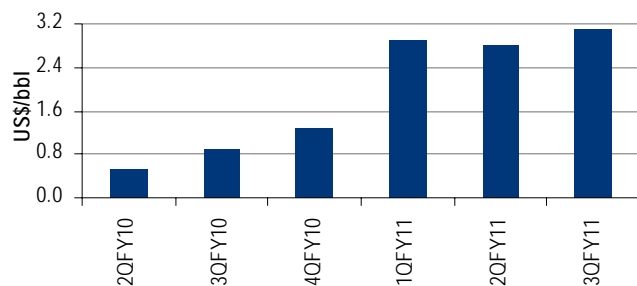
RIL's 3Q FY11 refining margin of US\$9/bbl is at US\$3.5/bbl premium to Reuters' Singapore complex refining margin of US\$5.5/bbl. RIL's refining margin premium to Singapore GRM has been in the range of US\$2.6-4.0/bbl in the last seven quarters. This is lower than average premium of US\$5.9/bbl during the super-cycle in FY06-FY09.

Diesel and jet fuel cracks up 95-112% YoY and 6-12% QoQ

All products cracks except fuel oil YoY and QoQ higher

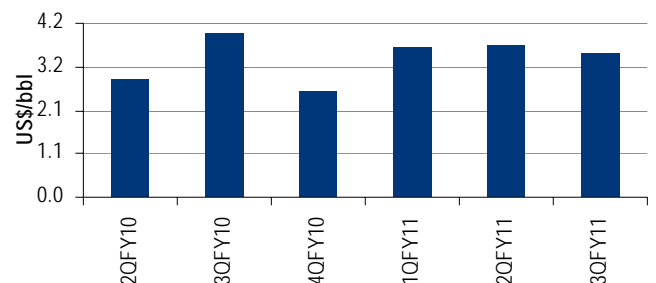
All product cracks except fuel oil are YoY and QoQ higher in 3Q FY11. Diesel and jet fuel cracks are up 95-112% YoY and 6-12% QoQ. Gasoline cracks are also higher 112% YoY and 26% QoQ.

Chart 2: Quarterly trend in Dubai-Arab Heavy spread



Source: Bloomberg, BofA Merrill Lynch Global Research

Chart 3: Quarterly trend in RIL's premium to Reuter's Singapore margin



Source: Company reports, Reuters, BofA Merrill Lynch Global Research

3Q FY11 crude throughput down 3% YoY

Crude throughput 3% YoY down due to shut down of CDU unit

RIL's 3Q crude throughput at 16.1mmt is down 3% YoY due to planned shut down of one crude distillation unit (CDU) at its old refinery for 22 days.

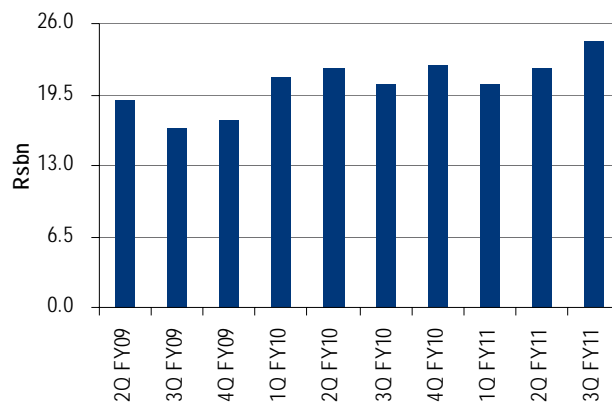
3Q FY11 petrochemical EBIT highest ever; up 18% YoY

Polyester chain margins at all time high

RIL's 3Q petrochemical EBIT is its highest ever. RIL's 3Q petrochemical EBIT at Rs24bn is up 18% YoY and 11% QoQ. The rise in petrochemical EBIT was driven by improved margins on products in the polyester chain, PP-Propylene and PBR.

RIL is an integrated polyester producer and hence was able to capture margins not just on polyester but also on raw material and intermediates paraxylene (PX), PTA and MEG. Integrated polyester margin was at an all time high of US\$1,100/ton in 3Q FY11.

Chart 4: 3Q FY11 petrochemical EBIT highest ever



Source: Company reports, BofA Merrill Lynch Global Research

Oil & gas EBIT flat YoY but 12% QoQ lower

Hit by 3% QoQ decline in volumes, QoQ rise in opex and DD&A

RIL's 3Q oil & gas EBIT at Rs15bn is up just 2% YoY. It is 12% QoQ lower hit by

- 3% YoY decline in oil & gas volumes. RIL was hit by 6% QoQ decline in KG D6 oil & gas volumes. While KG D6 gas volumes are 6% QoQ lower oil volumes are down 16% QoQ
- QoQ rise in opex to US\$5.9/boe in 3Q from US\$4.8/boe in 2Q (see Table 4)
- QoQ rise in DD&A to US\$12.1/boe in 3Q from US\$11.5/boe in 2Q (see Table 4)

Table 3: 3Q FY11 oil & gas production up 18% YoY but 3% QoQ lower

	3Q FY11	3Q FY10	2Q FY11	9M FY11	9M FY10
KG D6 gas gross production (mmscmd)	54.5	45.7	57.9	57.2	32.8
KG D6 gross oil production (k bpd)	23.8	9.3	28.3	27.0	9.2
Total KG D6 oil & gas production (mmboe)	30.4	24.6	32.5	95.7	53.3
PMT production (mmboe)	2.7	3.4	1.8	7.9	10.3
Oil & gas production (mmboe)	33.1	28.0	34.2	103.6	63.6
Change:		YoY	QoQ		YoY
KG D6 gas gross production (mmscmd)		19%	-6%		74%
KG D6 gross oil production (k bpd)		156%	-16%		194%
Total KG D6 oil & gas production (mmboe)		24%	-6%		79%
PMT production (mmboe)		-20%	56%		-23%
Oil & gas production (mmboe)		18%	-3%		63%

Source: Company reports, BofA Merrill Lynch Global Research

3Q E&P EBIT at US\$10.1/boe lower YoY and QoQ

YoY decline due to lower PMT oil & gas volumes

RIL's 3Q FY11 EBIT at US\$10/boe is YoY lower than US\$11.3/boe in 3Q FY10.

The main factors responsible for the YoY lower EBIT/boe are

- 20% YoY lower PMT oil & gas volumes in 3Q FY11 than in 3Q FY10. PMT oil & gas production declined YoY due to shut down in Panna and Mukta production for 1 month. PMT was thus just 8% of 3Q FY11 oil & gas output vis-à-vis 12% in 3Q FY10.
- EBIT on PMT oil & gas is higher than on KG D6 due to higher proportion of oil in PMT volumes and higher price for PMT gas vis-à-vis KG D6 gas.

QoQ decline in EBIT/boe due to rise in opex and DD&A

RIL's 3Q FY11 EBIT at US\$10/boe is also QoQ lower than US\$10.7/boe in 2Q FY11. The QoQ decline is mainly due to

- QoQ rise in opex to US\$5.9/boe
- QoQ rise in DD&A to US\$4.8/boe

Table 4: RIL's E&P EBIT comparison YoY and QoQ

	3Q FY11	3Q FY10	2Q FY11
E&P Revenue (Rsmn)	41,780	35,300	43,030
EBIT (Rsmn)	15,040	14,770	17,060
Revenue (US\$/boe)	28.1	27.1	27.0
EBIT (US\$/boe)	10.1	11.3	10.7
DD&A (US\$/boe)	12.1	10.3	11.5
Opex (US\$/boe)	5.9	5.4	4.8
Sales volume			
Oil (m bbls)	2.8	1.9	2.6
Gas (mmboe)	30.3	26.1	31.6
Oil & gas (mmboe)	33.1	28.0	34.2
Break up			
Oil	9%	7%	8%
Gas	91%	93%	92%
Total	100%	100%	100%
Sales volume (mmboe)			
Panna Mukta Tapli (PMT)	2.7	3.4	1.8
KG D6	30.4	24.6	32.5
Total	33.1	28.0	34.2
Break up			
PMT	8%	12%	5%
KG D6	92%	88%	95%
Total	100.0%	100.0%	100.0%
Brent price (US\$/bbl)	86.9	74.9	76.4
Exchange rate (Rs=USD)	44.8	46.6	46.5

Source: Company reports, BofA Merrill Lynch Global Research

Oil & gas largest contributor to 9M EBITDA at 38%

Oil & gas 34% of 3Q EBITDA; refining largest contributor to 3Q at 35%

Petrochemicals and refining are bigger contributors to RIL's 3Q and 9M EBIT than oil & gas. However oil & gas is the biggest contributor to RIL's 9M EBITDA. Oil & gas is 38% of RIL's 9M EBITDA and 34% of its 3Q EBITDA. Refining is the largest contributor to 3Q EBITDA at 35%.

Table 5: Segment wise break-up of RIL's EBITDA

Rs-mn	3Q FY11	9M FY11
EBITDA		
Refining	34,060	95,250
Petrochemicals	29,590	82,670
E&P	33,040	107,600
Others	190	540
	96,880	286,060
Refining	35%	33%
Petrochemicals	31%	29%
E&P	34%	38%
Others	0%	0%
	100%	100%

Source: Company reports, BofA Merrill Lynch Global Research

Oil & gas DD&A 54% of 3Q and 55% of 9M depreciation

Petrochemicals and refining accounted for higher proportion of RIL's 3Q and 9M EBIT than oil & gas. However, share of oil & gas in RIL's 9M EBITDA is higher than that of refining and petrochemical. This is explained by the high depreciation, depletion and amortization (DD&A) on oil & gas. Oil & gas DD&A is 54% of RIL's 3Q depreciation and 55% of RIL's 9M depreciation.

Table 6: RIL's segment wise depreciation break-up

Rs-mn	3Q FY11	9M FY11
Depreciation		
Refining	9,700	28,620
Petrochemicals	5,300	15,880
E&P	18,000	56,290
Others	100	300
Unallocated	490	1,120
	33,590	102,210
Refining	29%	28%
Petrochemicals	16%	16%
E&P	54%	55%
Others	0%	0%
Unallocated	1%	1%
	100%	100%

Source: Company reports, BofA Merrill Lynch Global Research

FY11-12E earnings kept unchanged

We are keeping RIL's FY11-12E earnings, which imply 25-26% YoY rise, unchanged.

RIL may beat our FY11 earnings estimate

4Q FY11 profit needs to be flat QoQ to meet our FY11 profit estimate

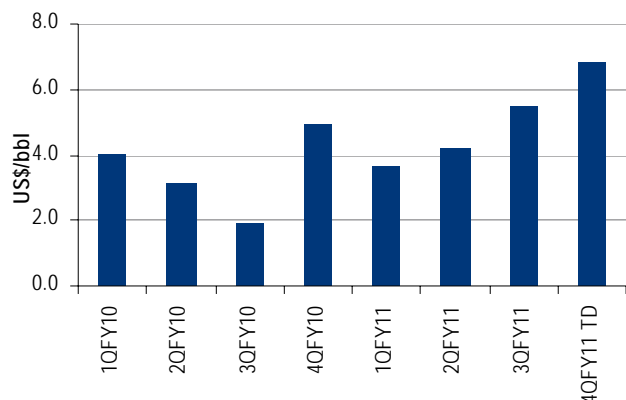
RIL's 9M profit is Rs149bn while our FY11E profit estimate is Rs200bn. To meet our FY11 profit estimate, 4Q profit at Rs51.4bn would have to be QoQ flat and 9% YoY higher. RIL's 4Q FY11 profit being at same level as 3Q is thus enough to meet our FY11 EPS estimate.

4Q profit may be QoQ higher due to higher refining & polyester margins

Refining and polyester margins have strengthened further in 4Q, which may mean its 4Q FY11 profit is higher than its 3Q profit. If its 4Q profit is QoQ higher it will mean RIL will beat our FY11E earnings estimate.

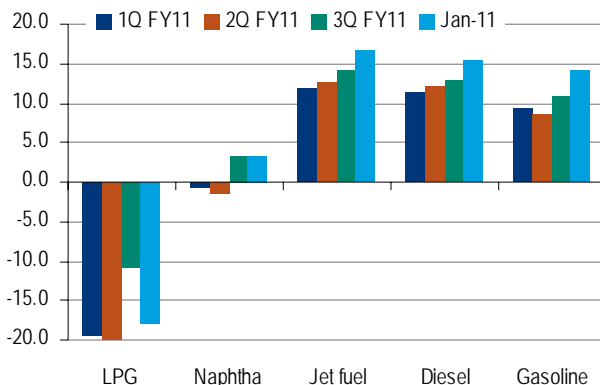
Reuters' Singapore GRM at US\$6.9/bbl in Jan'11 25% higher than 3Q
Refining margins have started on a strong note in 4Q FY11. Reuters' Singapore refining margins at US\$6.9/bbl in January 2011 are 25% higher than US\$5.5/bbl in 3Q. Singapore GRM to date in 4Q is the highest in 11 quarters.

Chart 5: Singapore complex GRM in Jan 2011 25% higher than in 3Q FY11



Source: BofA Merrill Lynch Global Research

Chart 6: Diesel, jet fuel and gasoline cracks rise further in Jan 2011



Source: BofA Merrill Lynch Global Research

RIL may not be able to beat FY11 consensus estimate

Consensus 4% higher than our FY11 estimate

Consensus FY11 profit at Rs209bn is 4.3% higher than our estimate. To meet consensus FY11 profit, RIL's 4Q profit will have to be Rs60bn. RIL's 4Q refining margin will have to be US\$10.7/bbl and petrochemical EBIT higher by Rs1bn QoQ if RIL's 4Q FY11 profit is to be Rs60bn. RIL may thus not be able to beat FY11 consensus profit of Rs209bn.

Analyst meet take away

Positive guidance on refining & petrochemicals

At the 3Q earnings analyst meet RIL has guided that they expect

- Refining margins to remain strong for the next few quarters
- Polyester margin strength would continue
- Polymer margins to improve in FY12E and super-cycle in 12-18 months.

Concerns on KG D6 ramp up not addressed

Ramp up to 80mmscmd was expected by Dec'10 or early 2011

KG D6 gas production was guided to peak at 80mmscmd. KG D6 gas production ramped up to 60mmscmd by 1H 2010 and was expected to ramp up to 80mmscmd by December 2010 or early 2011.

In July 2010 RIL indicated ramp up was delayed by 6-12 months

However, in July 2010 RIL indicated that KG D6 gas ramp up was delayed by 6-12 months due to reservoir studies being conducted. In October 2010 analyst meet RIL guided that KG D6 gas production would remain at 60mmscmd for most of FY12E.

KG D6 gas production down to 54.5mmscmd in 3Q FY11

KG D6 gas production meanwhile declined to 54.5mmscmd in 3Q FY11. There also have been press reports, which indicate RIL has told the government that KG D6 gas production may remain at current levels of 54-55mmscmd up to FY14E.

No fresh guidance from RIL on KG D6 ramp up

RIL at its 3Q FY11 analyst meet did not give any fresh guidance on KG D6 ramp up. Issues raised by recent press reports indicating KG D6 gas production may stagnate at current level were also not addressed.

Retain Buy

26% YoY rise in FY11E earnings likely after 2 flat EPS years

9M FY11 profit of RIL is up 29% YoY. RIL appears on track to achieve over 25% YoY EPS growth in FY11-FY12 after 2-years of flat earnings in FY09-FY10. Strong earnings growth alone may not be enough to improve RIL's stock performance.

Our PO of Rs1,193/share for RIL implies upside potential of 23%. We retain our Buy on RIL

Price objective basis & risk

Reliance Inds (XRELF / RLNIY)

Our PO of Rs1,193 (GDR US\$50.41) is based on a sum-of-the-parts valuation. The value of the refining and petrochemical business, oil and gas reserves and resources, as well as its retail business, is calculated on DCF basis, using a WACC of 11.8pct. Refining and marketing (Rs431) is 33pct of our PO, E&P valuation (Rs508) 39pct, petrochemicals (Rs333) 26pct and organized retail (Rs19) 1pct. Downside risks are (1) 7-year income tax holiday being disallowed on gas production, which would mean lower cash flow, profit and fair value, (2) Lower-than-expected oil price. (3) Huge disappointments on the E&P front, as we have valued exploration upside at Rs114/share, (4) Failure in the retail business and (5) Decline in refining and petrochemical margins being steeper than expected. Upside risks are (1) Refining and petrochemical margins being better than expected, (2) Higher-than-expected oil price, (3) Higher-than-expected reserve accretion in the next 12-24 months and (4) Large acquisitions that increase fair value significantly.

Link to Definitions

Basic Materials

Click [here](#) for definitions of commonly used terms.

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24 January 2011

APR - Energy Coverage Cluster

Investment rating	Company	BofA Merrill Lynch ticker	Bloomberg symbol	Analyst
BUY				
	CNOOC	CEOHF	883 HK	Thomas Wong
	CNOOC	CEO	CEO US	Thomas Wong
	Formosa Plastics	FSAPF	1301 TT	Kenneth Whee
	GS Holdings	GSHDF	078930 KS	Kenneth Whee
	Hindustan Petro.	XHTPF	HPCL IN	Vidyadhar Ginde
	IOC	IOCOF	IOCL IN	Vidyadhar Ginde
	Kolon Industries	XKLN	120110 KS	Joon-Ho Lee
	Kunlun Energy	CNPXF	135 HK	Vitus Leung
	LG Chem	LGCLF	051910 KS	Kenneth Whee
	Nan Ya Plastics	NNYPF	1303 TT	Joon-Ho Lee
	Oil India Ltd	XLCRF	OINL IN	Vidyadhar Ginde
	ONGC	ONGCF	ONGC IN	Vidyadhar Ginde
	Reliance Inds	XRELF	RIL IN	Vidyadhar Ginde
	Reliance Inds -G	RLNIY	RIGD LI	Vidyadhar Ginde
	Sinopec	SNPMF	386 HK	Thomas Wong
	Sinopec - A	SNP	SNP US	Thomas Wong
	SK Innovation	XVERF	096770 KS	Kenneth Whee
NEUTRAL				
	BPCL	XBPCF	BPCL IN	Vidyadhar Ginde
	Citic Resources	CTJHF	1205 HK	Vitus Leung
	Formosa Chemicals & Fibre	XFUMF	1326 TT	Kenneth Whee
	Formosa Petrochemical	FPTCF	6505 TT	Kenneth Whee
	PetroChina	PCCYF	857 HK	Thomas Wong
	PetroChina - A	PTR	PTR US	Thomas Wong
	S-Oil	SOOCF	010950 KS	Kenneth Whee
UNDERPERFORM				
	COSL	CHOLF	2883 HK	Vitus Leung
	Petronet LNG Ltd	POLNF	PLNG IN	Vidyadhar Ginde
RSTR				
	Cairn India	XCANF	CAIR IN	Vidyadhar Ginde

iQmethodSM Measures Definitions

Business Performance	Numerator	Denominator
Return On Capital Employed	$\text{NOPAT} = (\text{EBIT} + \text{Interest Income}) * (1 - \text{Tax Rate}) + \text{Goodwill Amortization}$	$\text{Total Assets} - \text{Current Liabilities} + \text{ST Debt} + \text{Accumulated Goodwill Amortization}$
Return On Equity	Net Income	Shareholders' Equity
Operating Margin	Operating Profit	Sales
Earnings Growth	Expected 5-Year CAGR From Latest Actual	N/A
Free Cash Flow	Cash Flow From Operations – Total Capex	N/A
Quality of Earnings		
Cash Realization Ratio	Cash Flow From Operations	Net Income
Asset Replacement Ratio	Capex	Depreciation
Tax Rate	Tax Charge	Pre-Tax Income
Net Debt-To-Equity Ratio	Net Debt = Total Debt, Less Cash & Equivalents	Total Equity
Interest Cover	EBIT	Interest Expense
Valuation Toolkit		
Price / Earnings Ratio	Current Share Price	Diluted Earnings Per Share (Basis As Specified)
Price / Book Value	Current Share Price	Shareholders' Equity / Current Basic Shares
Dividend Yield	Annualised Declared Cash Dividend	Current Share Price
Free Cash Flow Yield	Cash Flow From Operations – Total Capex	Market Cap. = Current Share Price * Current Basic Shares
Enterprise Value / Sales	$\text{EV} = \text{Current Share Price} * \text{Current Shares} + \text{Minority Equity} + \text{Net Debt} + \text{Sales} + \text{Other LT Liabilities}$	
EV / EBITDA	Enterprise Value	Basic EBIT + Depreciation + Amortization

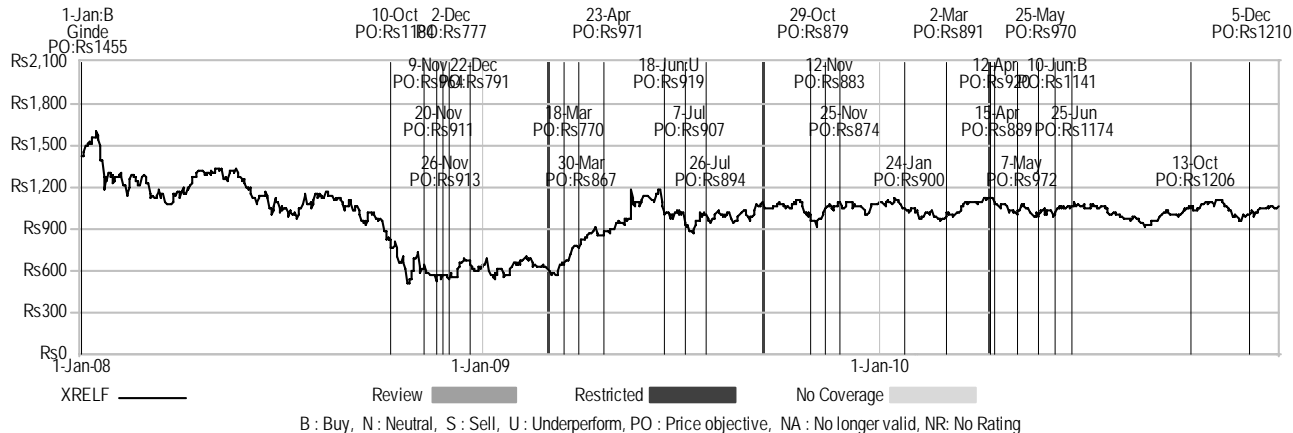
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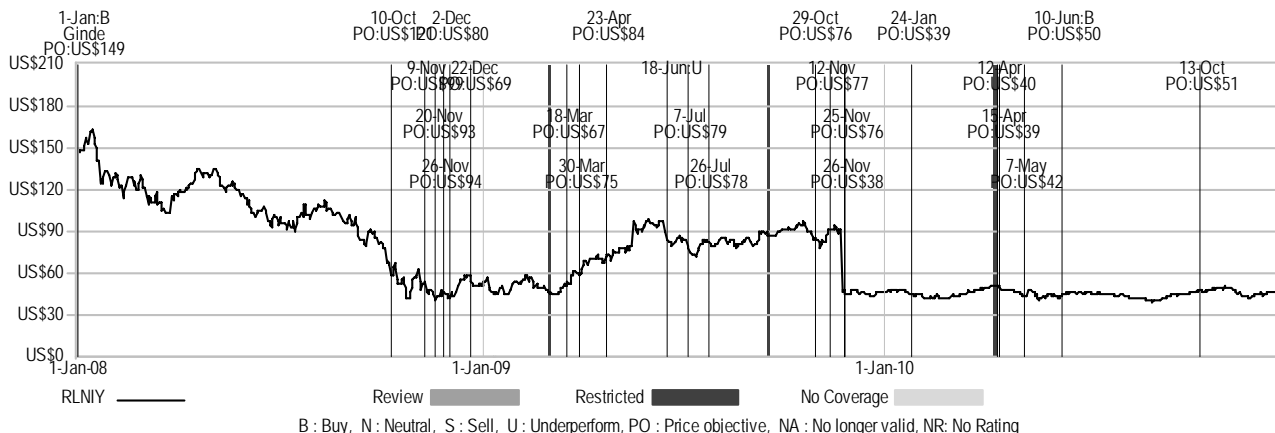
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XRELF Price Chart



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RLNIY Price Chart



Prior to May 31, 2008, the investment opinion system included Buy, Neutral and Sell. As of May 31, 2008, the investment opinion system includes Buy, Neutral and Underperform. Dark Grey shading indicates that a security is restricted with the opinion suspended. Light grey shading indicates that a security is under review with the opinion withdrawn. The current investment opinion key is contained at the end of the report. Chart is current as of December 31, 2010 or such later date as indicated. BofA Merrill Lynch price charts do not reflect analysts' coverage of the stock at prior firms.

Investment Rating Distribution: Chemicals Group (as of 01 Jan 2011)

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	65	61.90%	Buy	29	51.79%
Neutral	18	17.14%	Neutral	10	62.50%
Sell	22	20.95%	Sell	6	28.57%

Investment Rating Distribution: Global Group (as of 01 Jan 2011)

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	2011	53.86%	Buy	874	48.31%
Neutral	925	24.77%	Neutral	444	52.30%
Sell	798	21.37%	Sell	276	36.75%

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Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

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