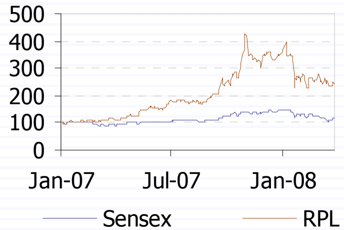
ENAM India Research

Stock Data

No. of shares	: 4500mn
Market cap	: Rs 743bn
52 week high/low	: Rs 295/ Rs 69
Avg. daily vol. (6mth)	: 47.0mn shares
Bloomberg code	: RPET IN
Reuters code	: RPET.BO

Shareholding (%)		Dec-07	QoQ chg
Promoters	:	75.4	(4.6)
FIIs	:	2.4	0.2
MFs / UTI	:	0.5	(0.2)
Banks / FIs	:	4.3	(0.7)
Others	:	17.4	5.3

Relative Performance



Source: ENAM Research, Bloomberg

Reliance Petroleum

Rs. 170

Relative to Sector: **Neutral**

Target Price: Rs. 208
Potential Upside: 22%

Ready to Roar

Financial summary

Y/E March	Sales (Rs mn)	PAT (Rs mn)	Consensus EPS* (Rs.)	EPS (Rs.)	Change (YoY %)	P/E (x)	RoE (%)	RoCE (%)	EV/EBITDA (x)	DPS (Rs)
2009E	511,302	49,390	7.6	11.0		15.5	53.6	32.4	14.6	0.0
2010E	737,020	96,866	18.8	21.5	96	7.9	42.7	29.9	6.8	2.5
2011E	729,849	94,597	20.3	21.0	(2)	8.1	30.4	27.1	6.5	2.5
2012E	704,011	82,785	19.7	18.4	(11)	9.2	21.2	21.1	6.9	2.2

Source: Company, ENAM estimates

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April 3, 2008

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Investment summary

- **A world class refinery with the lowest capital costs**
  - RPL's 580,000 bpd refinery with Nelsons complexity of 14.0 is the most complex refinery in India, amongst the most complex in the region and will fetch a USD 7-9/bbl premium over Singapore cracking margins
  - Amidst a period of rising capital costs and delays, RPL has been unscathed. It is scheduled to commission the refinery by Q2FY09, well ahead of the stated Dec 2008 date and at a low capital cost of USD 6.8bn (Lowest USD/complexity/bbl of 831 among new green-field projects)
  - RPL is backed by strong investment rationale in the form of an early payback period on account of strong refining margins and tax concessions

- **Ready to capture buoyancy in the global refining cycle**
  - We expect the refining cycle to remain robust though 2010-11 on the back of strong product demand from emerging economies, tightening capacity and stricter emission norms. Refineries with higher complexity will gain on account of high distillate yields and ability to process cheaper crudes
  - Capacity additions slated to come through the next 2-4 years are facing massive delays on account of a resource crunch both in terms of manpower and material
  - At current capital costs, new projects globally (barring India and China) require sustainable GRMs in excess of USD11/bbl to achieve 12% ROCE

- **Recent correction makes valuations attractive**
  - The stock has corrected over 40% in the last 5-6 months. Trading at a reasonable 2 years forward PER of 7.9x compared to regional peers at 8x-12x
  - We value the company at Rs 208/ share (CMP Rs 170) based on DCF methodology, assuming peak GRMs of USD 17.6/ bbl in FY10 (with subsequent fall to USD 11.6/ bbl fall by FY15), WACC of 10.5% & terminal growth rate of 5%
  - Positive triggers include (i) Higher spare capacity (could be ~30-40%), (ii) Higher GRMs

- **Key sensitivities relate to a merger with RIL and movement in global refining margins**

Valuations

A cash generating machine

- **We have valued RPL using the DCF methodology. Our GRM assumption for FY10 is USD 17.6/bbl, falling to USD 11.6/bbl in FY15 on account of increasing capacity**
- **DCF based valuation is Rs 208/share assuming WACC of 10.5% and terminal growth of 5%**
- **We believe RPL, with sustainable operating cash flows of over USD 2bn/ year will actively look for investment opportunities and hence we assign a terminal growth of 5%**

Sensitivity analysis

Rs/share		WACC (%)		
		9.5%	10.5%	11.5%
Terminal growth (%)	3%	192	164	143
	4%	219	183	157
	5%	257	**208**	175
	6%	318	245	199

Our key assumptions

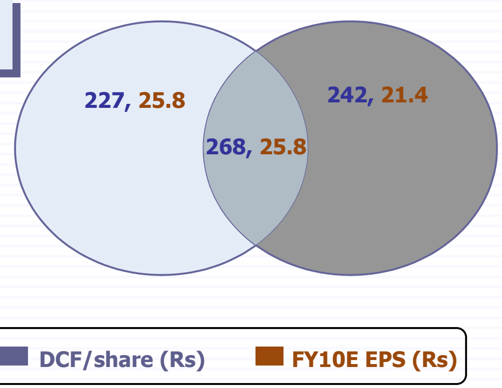
FY	09	10	11	12	13	14	15
Thruput (m MT)	18.5	28.1	29.0	29.0	28.1	29.0	29.0
GRM (USD/bbl)	14.0	17.6	16.6	14.6	12.6	12.1	11.6
Refining Costs (USD/bbl)	2.7	2.6	2.7	2.8	2.9	3.0	3.1
Exchange Rate (USD/INR)	38.8	37.3	36.2	35.7	35.1	34.6	34.1

Source: ENAM Research

Potential Positive surprises

USD 20/bbl GRMs till FY10

- RILs refinery currently reporting ~USD 15/bbl GRMs
- RPL, a superior refinery could surprise on the upside, reporting GRMs of ~USD 20/bbl if
  - Expected capacity adds are further delayed/scrapped
  - Product demand is stable
- Assuming USD 20/bbl GRMs in FY10, falling to USD 11/bbl by FY15



Potential spare capacity as high as 30-40%

- We have considered RPL as a 580,000 bpd refinery (stated capacity). Typically, the actual capacity is 10-15% higher than stated capacity
- In RPL's case we believe there could be further upside on the spare capacity, to the tune of 30-40%, which could be exploited via **de-bottlenecking at minimal capex**, within 2-3 years of refinery commissioning

Not expensive on relative basis

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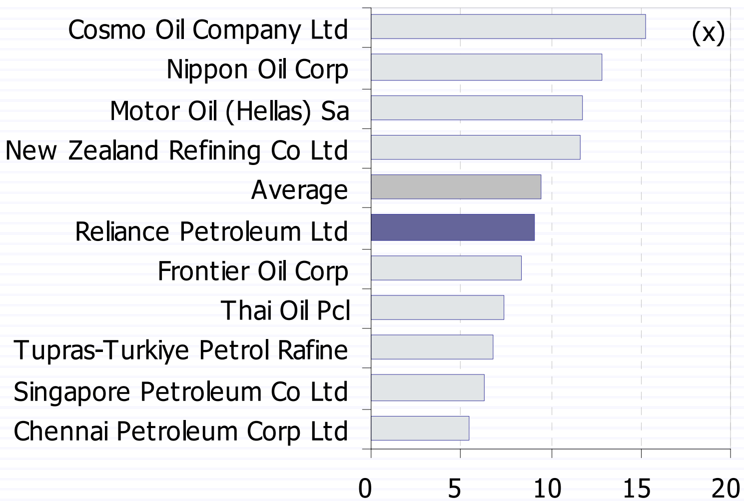
Peer performance CY08/FY09E

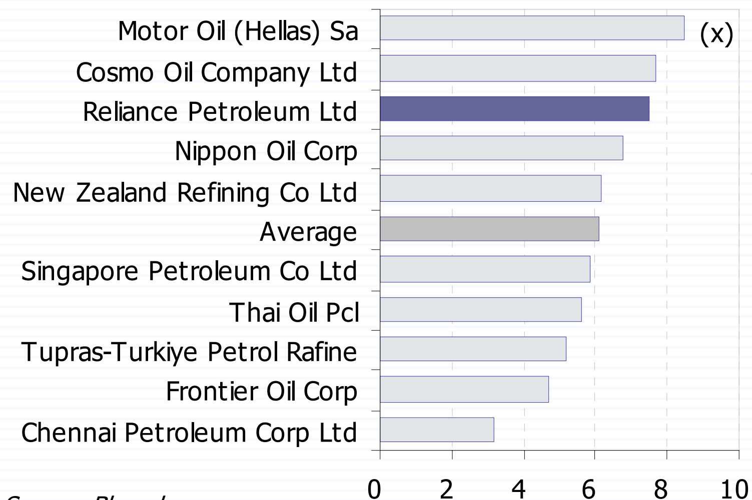
(USD mn)	Fiscal Y/E	Market Cap	Enterprise Value	Turnover	EBITDA	Net Profit	OPM (%)	NPM (%)
TUPRAS-TURKIYE PETROL RAFINE	Dec	5,938	5,738	17,655	1,043	794	5.9	4.5
THAI OIL PCL	Dec	4,521	5,600	10,142	1,058	684	10.4	6.7
MOTOR OIL (HELLAS) SA	Dec	2,395	3,428	6,395	409	224	6.4	3.5
FRONTIER OIL CORP	Dec	3,027	2,880	5,006	577	403	11.5	8.1
SINGAPORE PETROLEUM CO LTD	Dec	2,558	2,810	7,171	485	375	6.8	5.2
NEW ZEALAND REFINING CO LTD	Dec	1,372	1,366	294	188	89	63.8	30.3
NIPPON OIL CORP	Mar	9,661	20,815	72,195	3,105	808	4.3	1.1
COSMO OIL COMPANY LTD	Mar	2,693	7,107	36,483	867	227	2.4	0.6
RELIANCE PETROLEUM LTD*	Mar	19,064	23,314	12,783	1,541	1,235	12.1	9.7

*Source: Bloomberg, *: ENAM Estimates*

P/E – two year forward basis



EV/EBITDA – two year forward basis



Source: Bloomberg

EV/EBIDTA not a fair measure to value RPL as it does not capture the tax benefits

Globally, pure refiners trade at 8-12x 2-year forward earnings

North American refiners; not a fair comparison

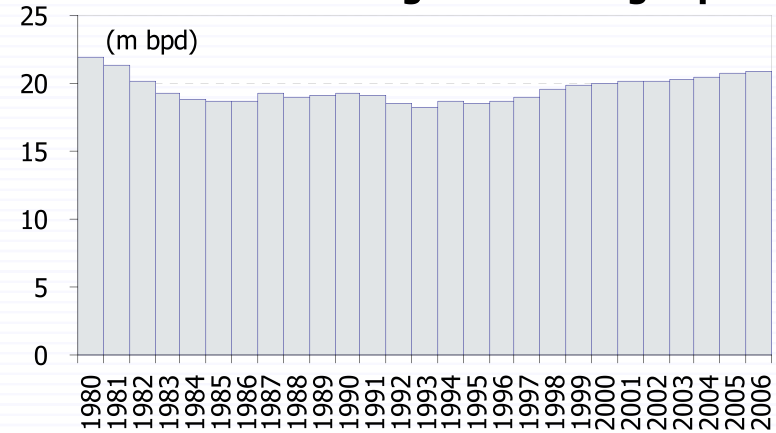
➲ US refiners trading at discount to Asian peers

- Valero, Sunoco, Tesoro trading at ~7x 2 year forward earnings against ~8-12x for Asian peers
- Environmental hurdles in setting up new capacity; unfavorable re-investment economics are the main reason

➲ US refiners have volatile margins

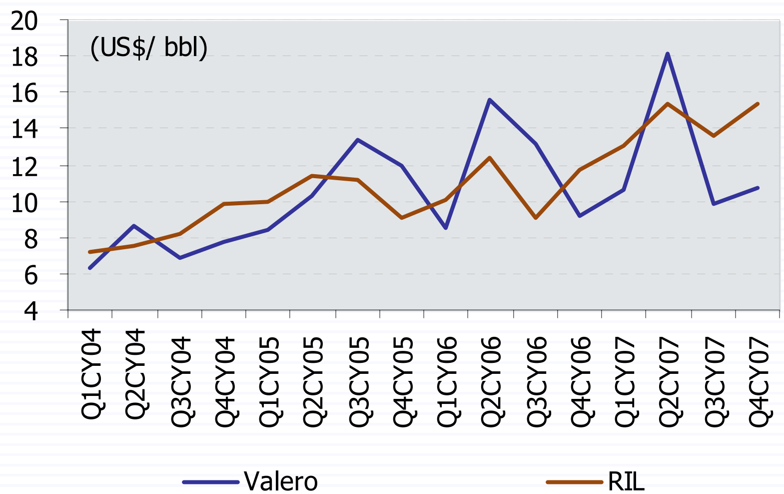
- Product slate for US refiners more tilted towards gasoline cracks as compared to diesel for Asian refiners
- Gasoline spreads fluctuate a lot more compared to diesel resulting in volatile margins
- As can be seen from the diagram, Valero's (complexity ~12.4) margins are a lot more volatile as compared to RIL (complexity 11.3)

North America: Stagnant refining capacity

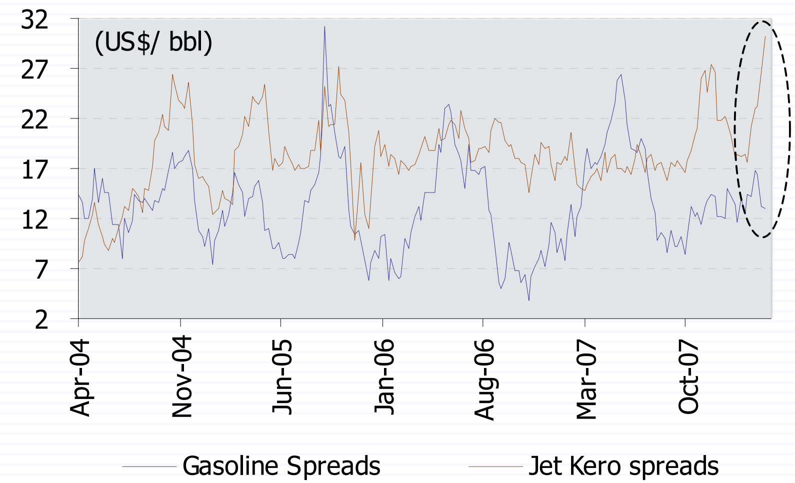


Source: BP Statistical Review of World Energy 2007

GRMs over past 3 years



Product spreads over Dubai crude



Source: Bloomberg, ENAM Research

Sector Overview

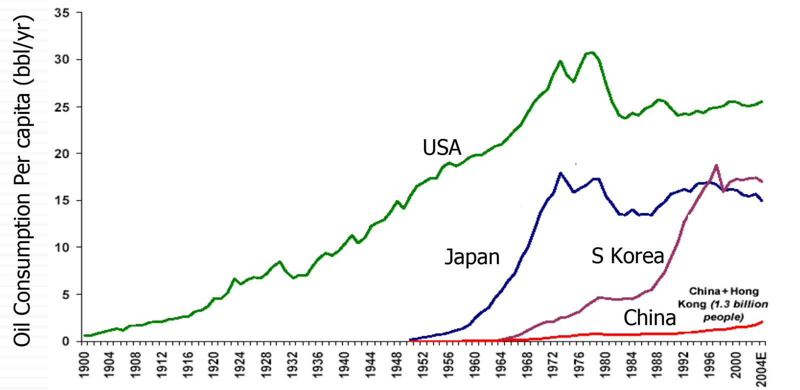
Golden period for refiners

Oil shock unlikely to "go away"

- **Oil per capita rises rapidly during early industrialization, before leveling**
  - Lower U.S. labor costs vs. Europe and the U.K. drove American industrialization and energy consumption through the mid 90s
  - Japan & Korea followed a similar trend
  - China & India are just starting off and will drive oil demand growth with China requiring 21 mbpd in 20 yrs vs. 7.4 mbpd now

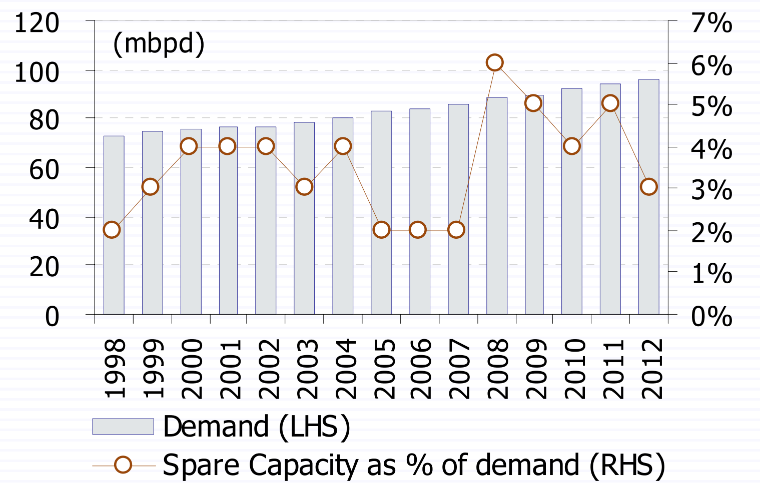
- **Supply side not catching up**
  - Global production at 84.8mbpd, leaves 3-5mbpd of surplus capacity with OPEC, which is expected to decline to minimal levels by 2012
  - With most wells pumping at full throttle and high "disruption" risk, traded crude attracts substantial speculative interest
  - Worries on major Middle East fields going into decline could only aggravate the problem

Oil consumption per capita



Source: Legg Mason

Spare capacity



Source: IEA, ENAM Securities

Low price elasticity of demand + supply concerns => higher crude prices

Huge refining capacity PLANNED...

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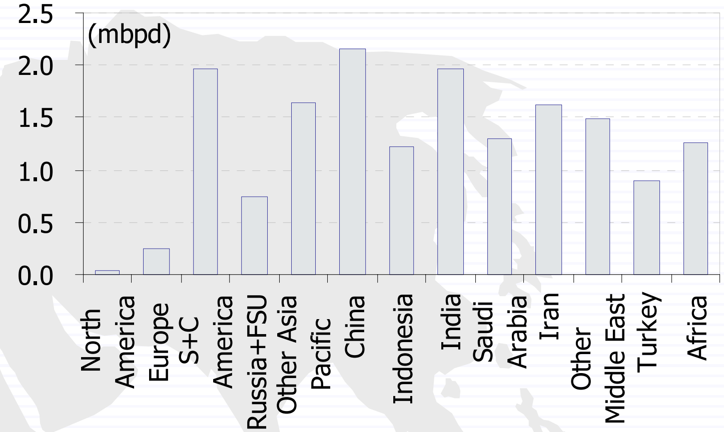
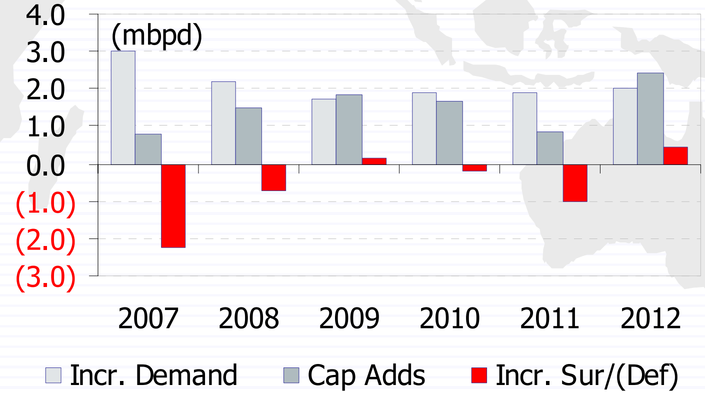
- **New refinery projects announced to the tune of ~20% of the current global capacity**
  - After virtually no capacity addition in the past decade and strong product demand has resulted in high refinery operating levels and hence rising refining margins.
  - Significant addition has been planned in keeping with the steady oil demand in the next 4-5 years.
  - 50% of total new refinery capacity has been announced in Asia- Pacific region: China, India, Indonesia, Saudi Arabia, Iran, Turkey
- **Major refinery projects announced have been delayed or scrapped**
  - Most of the projects are getting delayed or scrapped at planning stage itself due to rising capital costs and requirement of sustainable high refining margins in the long run
  - Higher capital costs are due to scarcity on resource front both in terms of manpower and project execution skill-set
  - Majority of these project delays are in the Middle East, which is adding close to 27% of global refining capacity
  - Most of the new capacities are coming post 2011 and hence ensures strong refining margins till 2011

Planned refining capacity (16.5 mnbpd)



Capacity growth



Source: IEA, July 2007 Stats & Global Union Energy Ventures

Are the fears of over supply truly justified?

...but little progress on the ground

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Company & Refinery Name	Country	Capacity (b/d)	Initial Completion Estimate	Expected Completion	Status	Original Cost ($ bn)	New Cost	New Cost ($/bpd)	Remarks
KNPC, Al-Zour	Kuwait	615,000	2010	2012	Early Stage	**6.3**	**14.5**	23,577	EPC bids invited in Feb 08
Conoco Phillips/IPC, Fujairah	UAE	500,000	2010	Delayed Indefinitely (DI)	Early stage	**5**	**>10**	16,260	Conoco ended participation in Sep 07 due to rising costs after MOU was signed in April 06
S- Oil Corp, Daesan	South Korea	480,000	2010	DI	Early Stage	**3.8**	**Suspended**	-	Approved in Aug 06, Suspended in Jun 07 due to rising construction costs. On Feb 1 08, board said it may revive its plan
Saudi Aramco/Sumitomo, Rabigh	Saudi Arabia	425,000	2008	2008	UD	**4.3**	**9.8**	15,935	Operations expected to start by fourth quarter of 2008
Saudi Aramco/Total, Jubail	Saudi Arabia	400,000	2011	2013	Planning	**6.4**	**10**	16,260	Agreement signed in may 06. The French partner Total to decide before end of Jun 08 whether to go ahead due to rising industry cost
PDVSA, Cabrutta	Venezuela	400,000	2010	2013	Early Stage	**6**	**>10**	16,260	Delayed indefinitely due to rising costs
Occidental/Qatar Petroleum, Puerto Armuelles	Panama	350,000	2010	DI	Early Stage	**3**	**7**	11,382	Project announced in 2006. Feasibility study due by the end of 2007 has been delayed for several months
Sinopec/KPC, Guangzhou	China	350,000	2010	2011	Early Stage	**2.5**	**5**	8,130	Announce in 2006. Received Approval for Feasibility study that is to be completed by Jan 08.
Calix Energy/Indian Oil, Ceyhan	Turkey	300,000	2010	2012	Early stage	**4.5**	**10**	16,260	Feasibility study was commissioned in 2006 and the results got submitted last month.
CNOOC - Daya Bay, Huizhou	China	240,000	2008	2008	UD	**2.4**	**3**	4,878	Expected On-stream on September 2008, delayed to October 2008
Sinopec/Saudi Aramco - Qingdao	China	200,000	2007	2008	UD	**1.25**	**1.65**	2,683	Expected On-stream by September 2008

Source: Industry, ENAM Research

Costs DOUBLING, foreign partners backing out at the planning stage itself

India has advantage over ME & China

	India	Middle East	China	Developed countries	Comments
Capacity addition	●	●	●	○	▪ Large capacity additions planned in India, Middle east and China ▪ However, delays experienced by ME due to resource crunch both in terms of manpower and technology
Execution capability	●	○	●	●	▪ India has proven execution capability whereas middle east is facing massive delays ▪ For the ME region, it makes more sense to concentrate on the USD 90/bbl E&P gain rather than fighting for GRMs of USD 15/bbl
Cost advantage	●	◐	●	○	▪ India, China offer huge savings in labor compared to the developed nations ▪ China loses out on shipping costs in importing crude ▪ ME faces cost disadvantage as refinery construction is mainly outsourced
Location advantage	●	●	○	◐	▪ India and ME close to both source and markets for crude. ▪ China can only export to the west coast of US and imports from ME have high freight costs
Refinery complexity	●	●	◐	◐	▪ New refineries coming up in India rate very high on the Nelson complexity scale ▪ China has a disadvantage of small capacities with low complexity
Refinery scale	●	●	◐	◐	▪ Chinese refineries rank low on the scale parameter (typically less than 200,000 bopd) ▪ Indian refiners on the other hand to benefit from economies of scale

Source: ENAM Research ● *HIGH* ◐ *MEDIUM* ○ *LOW*

With uncertainty clouding Middle East projects, supply scenario continues to look tight

Re-investment economics demand high GRMs

- **Poor re-investment economics has been the root cause of under-investment in the sector over the past decade, and will decide going ahead how many of the planned refineries do come through**
- **Rising material costs coupled with tightness in EPC chain has led to spiraling project costs and has raised the bar for sustainable long term refining margins**
- **Recently announced projects to put up a green-field complex refinery in the Middle East demand a GRM of USD 10.4 - 13.0/bbl for 8 – 12% ROCE. This number increases for developed nations to USD 12.2 - 14.5/bbl**

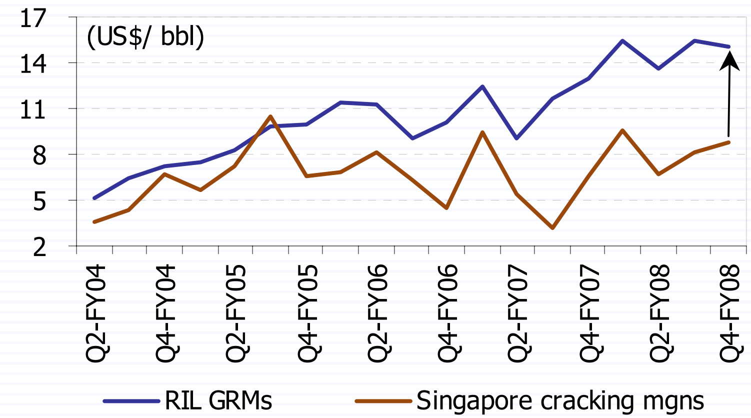
	Developed nations	Middle East	China	India
Capital Cost ($/bbl)	59	65	34	31
Working Capital ($/bbl)	5	5	5	5
Total Investment ($/bbl)	**64**	**70**	**39**	**36**
EBIT for 8-12% ROCE	4.7 - 7.1	5.2 - 7.8	2.7-4.1	3.4 - 5.0
(+) Depreciation ($/bbl)	3	3.2	1.7	2.1
(+) Opex ($/bbl)	4.5	2	4	3
Reqd GRM for 8%-12% ROCE ($/bbl)	**12.2 - 14.5**	**10.4 - 13.0**	**8.5 - 9.8**	**7.7 - 9.2**

Source: ENAM Research

India & China enjoying tremendous advantage

Complex refiners set to rule

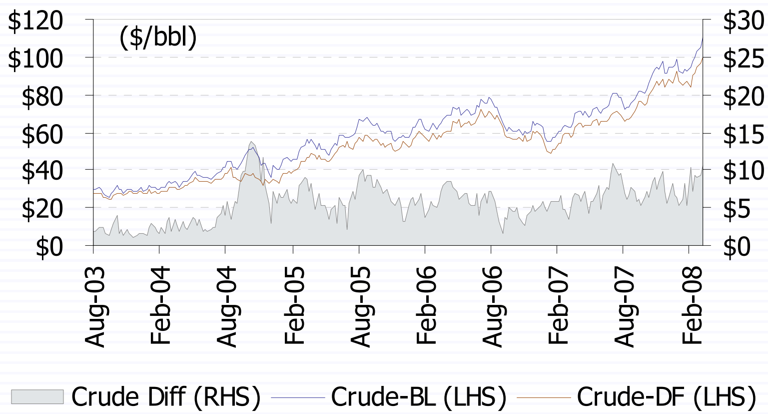
- **Refiners enjoying record margins due to steady demand for high value petro - products & tightening capacity**
  - Regional benchmark sustaining at record highs
  - RPL's parent RIL (complexity 11.3) has been reporting GRMs of ~USD 15/bbl for FY08



Source: Bloomberg, Company: Q4FY08 GRM's for RIL estimated

- **Ability to process sour crude – a major advantage**
  - Sweet-sour differential at ~USD6 /bbl v/s historic ~USD 2/ bbl
  - Rising fresh supply of sour crude to widen these differentials

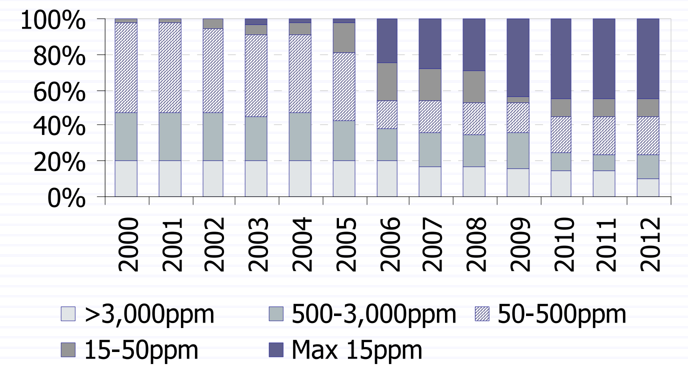
Dubai (heavy) vs. Bonny Light



Source: Bloomberg

- **Tightening fuel norms globally are beginning to force old/low complexity refiners to close down**
  - Number of refineries worldwide has come down from ~750 in 2000 to 657 by the end of 2007 (Source: Oil and Gas Journal)

Ultra-low sulphur diesel's growing mkt shr



Source: Oil and Gas Journal

RPL – Competitive Positioning

Bucking the "delay" trend

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Refinery on track for early commissioning by Q3 CY08

- The highly complex 580,000 bpd refinery is on track for commissioning earlier than the originally scheduled Dec-08 date. (82% complete as of Dec 07)

Advantage of scale & complexity

- Having Nelson complexity of 14.0, the refinery would be the most complex in India besides being the 6th largest in the world
- High distillate yield of 82% with ability to meet product specifications of developed markets and relatively high production flexibility.
- Downstream 900 MT polypropylene (PP) unit
- Benefit from low operating cost mainly on account of lower power cost and group synergies

Lowest capital cost

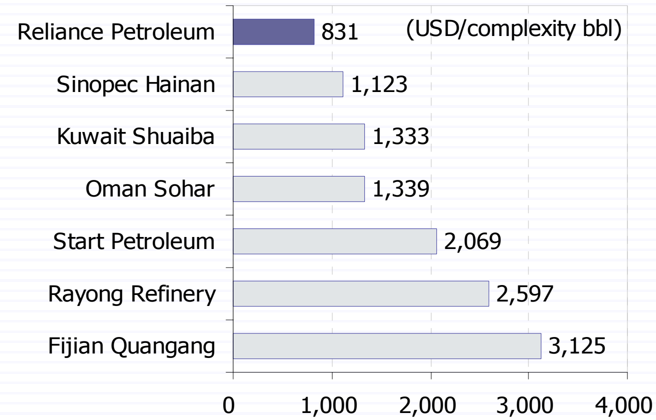
- Remarkably, amidst a deteriorating scenario for construction costs, there have been no cost overruns and refinery is going to be complete within the initially estimated capital cost of USD 6.75bn, which translates into USD 831/complexity/bbl

Refinery implementation schedule (as on Dec 07)

Milestone	Expected CoD	Current Status
Zero date	Dec-05	Started
Technology Selection / Project Scope	Jan-06	Completed
Completion of Basic Engineering	May-06	Completed
Order Placement for Critical Equipment	May-06	Completed
Completion of Detail Engineering	Sep-07	Completed
Completion of Civil Work	Nov-07	Advanced stage of completion
Completion of Equipment erection	Jan-08	On Schedule
Mechanical Completion	Aug-08	On Schedule
Ready for Start up (RFSU) all areas	Sep-08	Start-up planning in place
Commencement of Operations	Dec-08	Operation preparedness ongoing

Source: Company

Capital costs of global refineries adjusted for complexity



Source: Industry, ENAM Research

Backed by strong investment rationale

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Early payback

- Delay in fresh capacities build-up and higher demand for value added products to keep refining margins strong for complex refineries like RPL in short to medium term
- Strong refining margins will bring the payback period substantially.
- We expect the absolute payback period of 2 years and 7 months

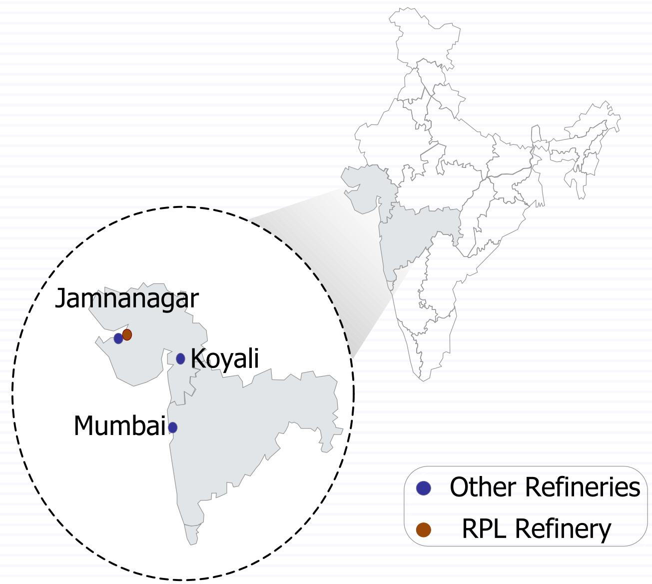
Benefit from tax exemption

- Any delay in commissioning of project will lead to reduced tax exemption benefit
  - RPL is totally exempt from tax for first 5 years, followed by 50% exemption for the next 5 years
- Effectively any delay post September 2008 makes little sense to start commercial production before April 2009
- Removal of tax benefit (u/s 80 IB clause 9) in Union Budget 2008-09 post April 1,2009 to adversely affect the new refineries (both greenfield and brownfield) in the country

Low freight costs

- Accessibility of crude supply sources mainly the Middle East and East African countries to result in lower freight cost
- Jamnagar's SPM ability can handle ULCCs
  - Benefit in the range of 20-30 cents

RPL's refinery location



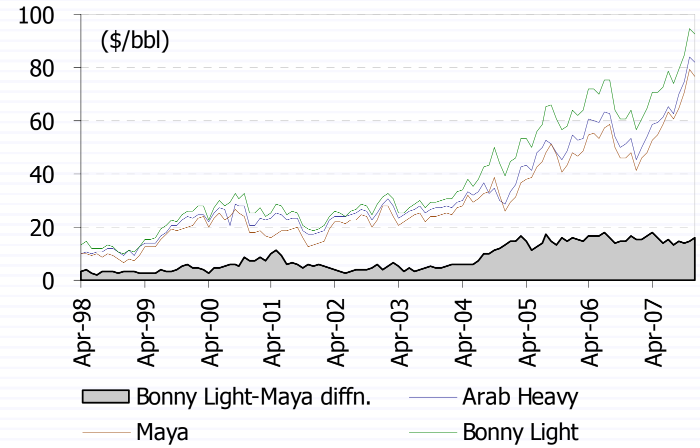
Source: ENAM Research

All set to ride the refining boom

A state of art refinery

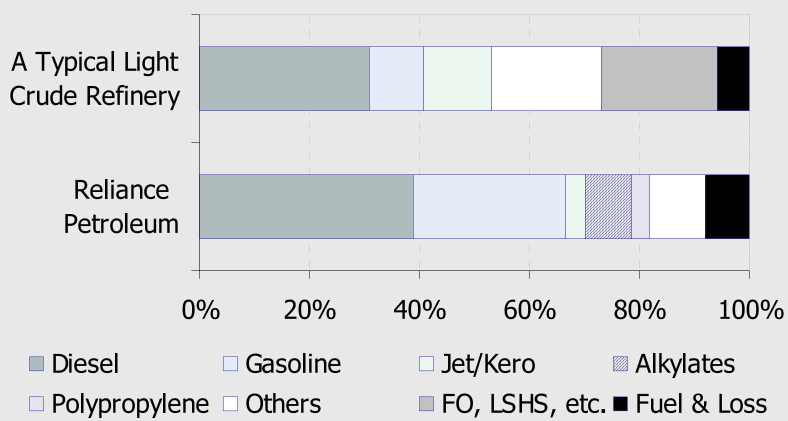
- **Ability to process low cost high sulphur crude**
  - To process average API crude of 24º
  - Crude at this grade trades at a discount of USD 5-10/bbl to benchmark
- **High distillate yield**
  - 82% of products will be value added products and will meet stricter environmental specifications in US and Europe
    - To fetch premium of U$1-1.5/bl over product with low specifications
  - Flexibility in product slate between gasoline and diesel will further escalate the capability to maximize margins
  - Downstream polypropylene unit to further improve margins by USD 1-1.2/bbl
- **To enjoy USD 7-9/bbl premium over regional refining margins**
  - Mainly on account of lower crude cost, high value added products and location advantage for sourcing of crude

Comparison of various crude prices

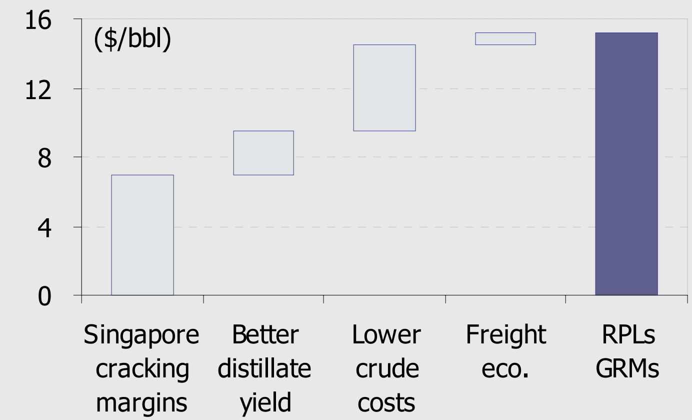


Source: Bloomberg, ENAM Research

The complexity advantage – RPL vs older refineries



GRM build up for RPL



Agreement with Chevron

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Stage I

Chevron bought 5% stake at time of RPL IPO

Chevron owns 225mn (5% of RPL) shares, which it bought in April 06 at Rs 60/share

RIL at the time held 75% of RPL

RPL has subsequently brought its stake down to just over 70% in Nov-Dec 07

Stage II

Chevron has option to buy additional 24% stake

- Can buy 24% stake from RIL at 5% below the prevailing market price on the day

Option open till 3 months of the latter of:

- Commissioning of refinery and it operating at > 80% capacity utilization for min 30 days
- Expiration of 3 year holding period for Chevrons initial 5% stake, which would be April 09
- Chevron raising stake is dependant on whether RPL and Chevron sign:
  - 10 year crude supply agreement for up to 35% of spot crude purchases by RPL
  - 10- year product offtake agreement for up to 45% of RPL's product slate

If Option Exercised

RIL stake: 46%
Chevron stake: 29%

If Option Not Exercised

Chevron has to sell to RIL the 5% stake it holds at Rs 60/share

RIL loses majority stake, unlikely

We believe beyond Rs 210-220/ share of RPL, Chevron is better off setting up Greenfield capacity or taking majority stake in other refineries

Cost of addn'l 24% stake for Chevron		
RPL (Rs/share)	200	230
Value of 24% stake (USD bn)	5.4	6.2

Source: Company, ENAM Research

Sensitivities

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➲ Merger with RIL

- Once Chevron exits RPL (latest by July-09), possibility of merger into RIL will gain momentum
- Historically RIL has merged its subsidiary companies with swaps ratios in favour of RIL
  - Eg : IPCL (2007), Reliance Petroleum (2002)
- However, with buoyancy in refining margins and strong fundamental outlook for next 2-3 years, valuations for RPL are likely to remain firm
  - We believe the merger is unlikely till there is a steep fall in GRMs
- Based on our price target of Rs 3,315/share for RIL, at a worst case scenario of 20:1 merger, RPL has a bottom at Rs 166/share

Mergers history

Company Merged	Date of Announcement	Swap Ratio	Tgt Co's Price	RIL Price
Reliance Polypropylene	Jun-94	4:1	41	106
Reliance Polyethylene	Nov-94	3.3:1	90	118
Reliance Petro.	Apr-01	11:1	48	317
IPCL	Apr-06	5:1	268	830

Various merger scenarios for RPL

		RIL (Rs/share)			
		3,000	3,315	3,600	3,900
SWAP Ratio	14:1	214	237	257	279
	16:1	188	207	225	244
	18:1	167	184	200	217
	20:1	150	166	180	195

Source: Company, ENAM Research

➲ Commodity Risk

- Overcapacity due to timely commissioning of planned refineries across the globe (especially in China) coupled with slackness in OECD demand could lead to fall in refining margins
- We have partly built in the above scenario in our assumptions with GRMs falling to USD 11.6/bbl in FY15 from USD 17.6/bbl in FY10. A more severe fall in GRMs could greatly hurt RPL's earnings

Earnings outlook, forecasts

Earnings outlook

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- **We forecast RPL's net profit at USD 2.4bn in FY2010**
  - First full year of operations – FY2010
  - Our forecasts assume an appreciating Rupee against the USD

FY10E EPS - Sensitivity

(Rs/share)		GRM (USD/bbl)				
		15.6	16.6	17.6	18.6	19.6
Exchange Rate (USD/INR)	35.3	16.7	18.4	20.1	21.8	23.5
	36.3	17.3	19.1	20.8	22.6	24.3
	37.3	18.0	19.7	**21.5**	23.3	25.1
	39.3	19.2	21.1	23.0	24.8	26.7
	41.3	20.4	22.4	24.4	26.4	28.3

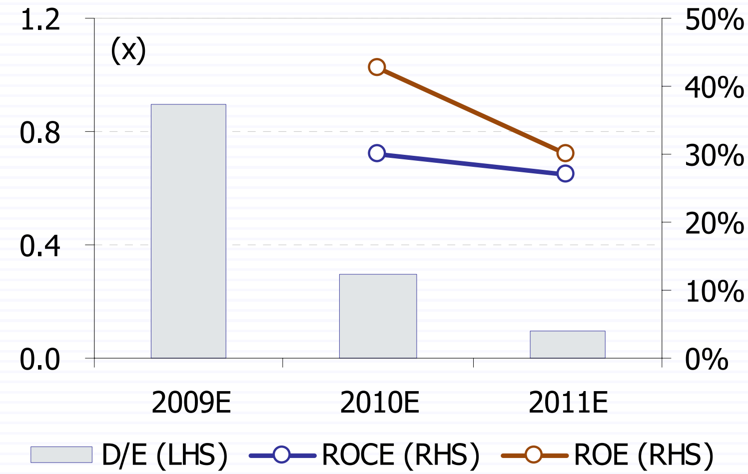
- **Well-leveraged balance sheet, an equity owners delight**
  - Refining typically a low RoCE business
  - However, leverage to translate into >25% RoE for RPL
- **Upside possibilities from "sweating assets"**
  - Reliance group's capability of operating assets at over rated capacities, could translate into significant upsides

RPL – Our key assumptions

FY	09	10	11	12	13	14	15
Thruput (m MT)	18.5	28.1	29.0	29.0	28.1	29.0	29.0
GRM (USD/bbl)	14.0	17.6	16.6	14.6	12.6	12.1	11.6
Refining Costs (USD/bbl)	2.7	2.6	2.7	2.8	2.9	3.0	3.1
Exchange Rate (USD/INR)	38.8	37.3	36.2	35.7	35.1	34.6	34.1

Source: ENAM Research

RPL – Financial Efficiency



A USD 2.4bn profit by FY2010

Financial forecasts

Income statement

Y/E March	2009E	2010E	2011E	2012E
Net sales	**511,302**	**737,020**	**729,849**	**704,011**
Other operating income	0	0	0	0
Total income	**511,302**	**737,020**	**729,849**	**704,011**
Cost of goods sold	443,215	608,661	609,591	601,366
Contribution (%)	*15*	*19*	*18*	*16*
Advt/Sales/Distrn O/H	6,456	9,878	10,341	10,662
Operating Profit	**61,632**	**118,482**	**109,917**	**91,983**
Other income	1,166	3,038	4,405	7,603
PBIDT	**62,797**	**121,519**	**114,322**	**99,586**
Depreciation	5,436	14,575	14,920	15,264
Interest	7,473	9,100	3,850	700
Other pretax	0	0	0	0
Pre-tax profit	**49,889**	**97,844**	**95,553**	**83,621**
Tax provision	499	978	956	836
(-) Minority Interests	0	0	0	0
Associates	**0**	**0**	**0**	**0**
Adjusted PAT	**49,390**	**96,866**	**94,597**	**82,785**
E/o income / (Expense)	0	0	0	0
Reported PAT	**49,390**	**96,866**	**94,597**	**82,785**

Key ratios

Y/E March	2009E	2010E	2011E	2012E
Sales growth		**44.1**	**(1.0)**	**(3.5)**
OPM	**12.1**	**16.1**	**15.1**	**13.1**
Oper. profit growth		92.2	(7.2)	(16.3)
COGS / Net sales	86.7	82.6	83.5	85.4
Overheads/Net sales	1.3	1.3	1.4	1.5
Depreciation / G. block	2.0	5.2	5.2	5.2
Effective interest rate	8.8	7.0	7.0	7.0
Net wkg.cap / Net sales	0.0	0.1	0.1	0.1
Net sales / Gr block (x)	1.9	2.7	2.6	2.4
RoCE	**32.4**	**29.9**	**27.1**	**21.1**
Debt / equity (x)	0.9	0.3	0.1	0.0
Effective tax rate	1.0	1.0	1.0	1.0
RoE	**53.6**	**42.7**	**30.4**	**21.2**
Payout ratio (Div/NP)	0.0	11.8	11.8	11.8
EPS (Rs.)	**11.0**	**21.5**	**21.0**	**18.4**
EPS Growth		96.1	(2.3)	(12.5)
CEPS (Rs.)	12.2	24.8	24.3	21.8
DPS (Rs.)	0.0	2.5	2.5	2.2

Source: Company, ENAM Research

Financial forecasts

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Balance sheet

Y/E March	2009E	2010E	2011E	2012E
Total assets	**354,389**	**359,781**	**373,173**	**426,153**
Gross block	271,755	278,255	284,755	291,255
Net fixed assets	266,180	258,105	249,685	240,921
CWIP	6,500	6,500	6,500	6,500
Investments	0	0	0	0
Wkg. cap. (excl cash)	48,408	47,474	47,222	45,749
Cash / Bank balance	33,300	47,702	69,765	132,982
Others/Def tax assets	0	0	0	0
Capital employed	**354,389**	**359,781**	**373,173**	**426,153**
Equity capital	45,000	45,000	45,000	45,000
Reserves	139,390	224,782	308,174	381,153
Borrowings	170,000	90,000	20,000	0
Others	0	0	0	0

Cash flow

Y/E March	2009E	2010E	2011E	2012E
Sources	**269,825**	**19,967**	**28,312**	**68,244**
Cash profit	54,826	111,441	109,517	98,049
(-) Dividends	0	11,474	11,205	9,806
Retained earnings	54,826	99,967	98,312	88,244
Issue of equity	45,000	0	0	0
Borrowings	170,000	(80,000)	(70,000)	(20,000)
Others	0	0	0	0
Applications	**269,825**	**19,967**	**28,312**	**68,244**
Capital expenditure	278,116	6,500	6,500	6,500
Investments	0	0	0	0
Net current assets	48,408	(934)	(251)	(1,473)
Change in cash	(56,700)	14,402	22,063	63,217

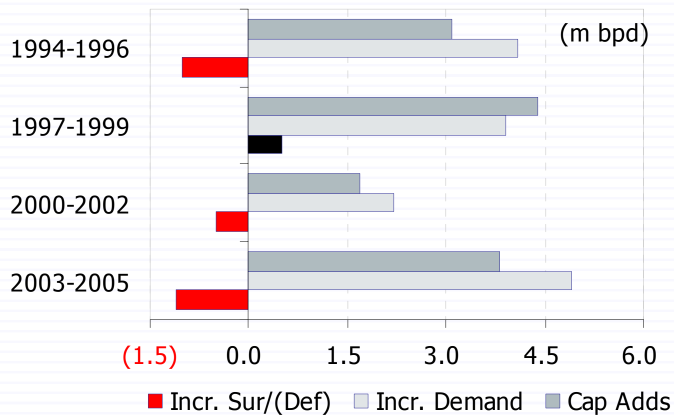
Source: Company, ENAM Research

Appendix

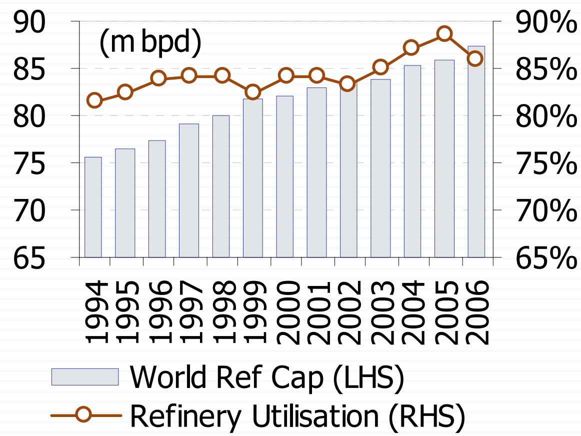
Globally, refining is tight & getting worse

- **Oil demand growth has outpaced refining capacity adds, by a big margin in the last five years**
  - Last 2 years capacity addition per annum has been ~1mbpd compared to demand of ~1.6mbpd
- **A key reason – poor re-investment economics**
- **As a result, worldwide refinery utilization rates are reaching record high levels**
  - Increased from 82% to nearly 89% in last 5 years
- **Asia-Pac is tighter than the world, operating at close to 90% utilization rate**

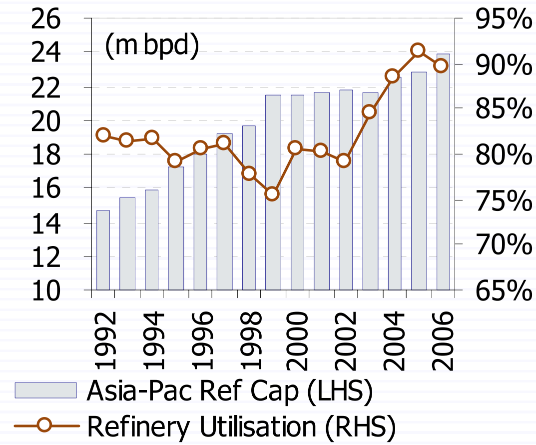
World oil demand growth v/s Refining capacity additions



World - Refinery Utilization Rates



Asia-Pac - Refinery Utilization Rates



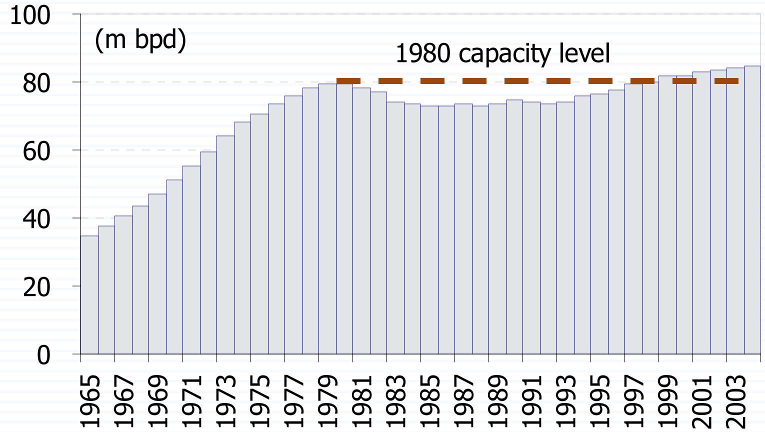
Source: BP Statistical Review of World Energy 2007, Oil & Gas Journal, ENAM Research

Worldwide refinery utilisation close to record high levels

Emission norms getting stringent

- **Globally, emission norms getting tighter**
  - In order to limit carbon emissions
  - Implementation of Euro IV/ Euro V product specifications norms are already being implemented by developed nations
- **An ageing world capacity profile would aggravate the issue**
  - Up gradation would entail substantial capital costs
  - Sizeable capacities could eventually be mothballed

World: Aging refining capacity



Source: BP Statistical Review of World Energy 2005, Oil & Gas Journal, ENAM Research

Regional gasoline quality specifications

	2005	2010	2015	2020
North America	70	30	5–10	5–10
Latin America	500	220	120–1 0	60–80
Western Europe	30	10	5–10	5–10
FSU and E.E.*	200	80	50–70	40–60
Asia Pacific	220	180	120–150	60–80
Middle East	500	350	150–160	30–50
Africa	500	260	220–260	130–160

Regional diesel fuel quality specifications

	2005	2010	2015	2020
North America	330	15	15	10
Latin America	2,000	2,000	630	350–400
Western Europe	40	10	10	5–10
FSU and E.E.*	280	140	80	40–50
Asia Pacific	1, 00	930	260	60–100
Middle East	1,800	250	200	150–180
Africa	1,500	170	170	150–170

** FSU and Eastern European countries.*
Source: IFQC and Hart World Refining & Fuels Service, 2005–2020.

India: Strong refining fundamentals

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Burgeoning refining capacity

- Currently the 5th largest refining capacity in the world
- Refining capacity to go up from 149 – 260 MMTPA by FY12
- Current capacity operating at over 100% utilization v/s ~85% utilization globally

Why India?

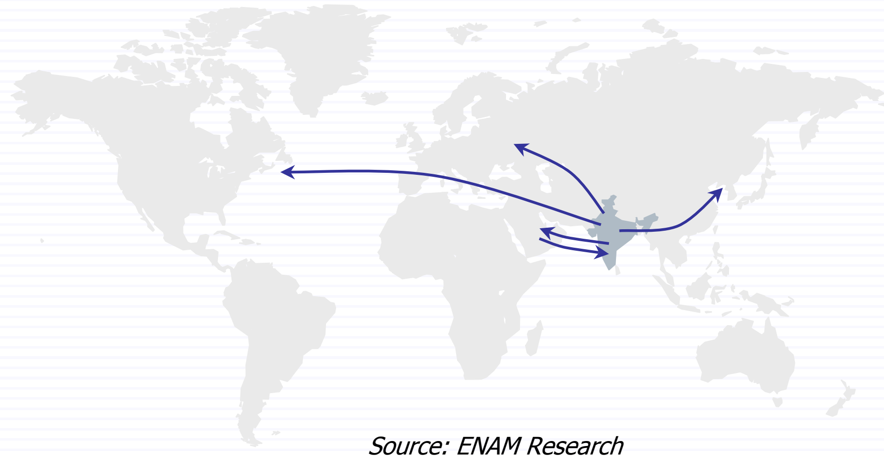
- Ideal geographical location
  - Proximity to major crude oil sources in the Middle east and Africa. Also, location advantage in terms of product exports
- Lowest capital cost per barrel
  - Significant savings in engineering, labor & freight costs
- Stagnant production in developed nations
  - Potential closure down of small unviable refineries due to high compliance costs
  - No fresh capacity additions due to high capex
  - High operating levels and frequent outages has further led to stagnant production in US and Europe for refined products
  - Stricter environmental norms
- Fast growing domestic market
  - CAGR rate of more than 5% expected for next decade
  - Low per capita consumption of energy in India (oil equivalent) is at 2.2bbls/yr compared to world avg of 12.6bbls/yr, South Korea at 43.8bbls/yr and USA at 68.8bbls/year, offers huge consumption opportunity

Growth in refining capacity

EXISTING CAPACITY (149.0 MMTPA)	
IOC -	60.2
BPCL –	22.5
HPCL –	13.0
ONGC/ MRPL –	9.8
RIL –	33.0
Essar –	10.5

CAPACITY ADDITION 2007-12 (113 MMTPA)	
IOC	19.5
HPCL	18.9
BPCL	11.0
CPCL	1.7
MRPL	5.3
ONGC	.08
RIL	27.0
Essar	23.5
Nagarjuna	6

Well placed to cater to world markets



Source: ENAM Research

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2. Firm ownership of the stock	No
3. Directors ownership of the stock	No
4. Investment Banking mandate	No
5. Broking relationship	No

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