Company

27 July 2010 | 16 pages

Reliance Industries (RELI.BO)

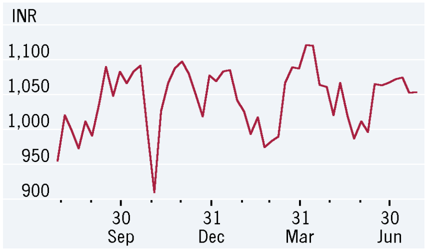
1Q: Petchem, Refining Drag; KG Ramp Getting Delayed

Equity ☑
Target price change ☑
Estimate change ☑

- **Poor petchem, refining drag 1Q** — 1Q PAT of Rs48.5bn (+32% yoy, +3% qoq) came in slightly below expectations (albeit in line with consensus), primarily due to weaker refining and petchem, though higher KG oil production supported operating profit and higher other income provided support at the PAT level.
- **Petchem finally weakens; KG oil provides support** — New capacity addition in Middle East and Asia resulted in polymer prices and deltas (esp. PE, PVC) coming under pressure, which combined with lower volumes owing to planned turnarounds led to a drop in segmental profitability (-8% qoq, -3% yoy). This more than offset the strong domestic demand growth (10% yoy) witnessed in polyesters. Refining, too, remained muted, with GRMs of US$7.3 (US$7.5 in 4Q). KG gas production remained stable at ~60 mmscmd, though the 78% qoq jump in KG crude production was the main driver of the 2% sequential growth in EBITDA.
- **KG ramp-up getting delayed** — KG gas ramp-up beyond current production rate of ~60 mmscmd is likely to take longer than earlier envisaged, with further studies to be conducted over the next 6-12 months to better understand the reservoir behaviour and ensure optimal utilization of the asset over its life. NEC-25 is also experiencing slow progress, with the gov't yet to approve commerciality, while the development plan for D6 satellite fields will be submitted over the next 6 months.
- **New expansions —** (i) Polyester chain expansions (PX, PTA, polyester) – capex of US$2.5-3bn; to start coming on stream 18 mths hence; (ii) refinery offgas cracker – capex of US$4bn; 4 yrs to complete; (iii) coke gasification – yet to be finalized.
- **Reducing earnings 3-5%; Maintain Hold —** We trim FY11/12E earnings by 3/5% as we lower our KG gas forecasts to 63/80 mmscmd (73/89 earlier), though slower than expected decline in petchem EBITDA partly cushions the impact. GRMs are maintained at US$8.6/9.5. Maintain Hold, with a new TP of Rs1140, as E&P valns (at 40%+ premium to NAV) leave little room for disappointment.

Hold/Low Risk	**2L**
Price (27 Jul 10)	Rs1,053.50
Target price	Rs1,140.00
from Rs1,150.00	
Expected share price return	8.2%
Expected dividend yield	0.7%
Expected total return	**8.9%**
Market Cap	Rs3,445,616M
	US$73,225M

Price Performance (RIC: RELI.BO, BB: RIL IN)



Statistical Abstract

Year to 31 Mar	Net Profit (RsM)	Diluted EPS (Rs)	EPS growth (%)	P/E (x)	P/B (x)	ROE (%)	Yield (%)
2009A	156,372	47.59	-9.3	22.1	2.7	15.2	0.6
2010A	162,360	49.65	4.3	21.2	2.5	12.3	0.7
2011E	213,746	65.36	31.6	16.1	2.2	14.7	0.8
2012E	242,062	74.02	13.2	14.2	2.0	14.9	0.9
2013E	275,235	84.16	13.7	12.5	1.8	15.2	0.9

Source: Powered by dataCentral

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See Appendix A-1 for Analyst Certification, Important Disclosures and non-US research analyst disclosures.

Fiscal year end 31-Mar	2009	2010	2011E	2012E	2013E
Valuation Ratios					
P/E adjusted (x)	22.1	21.2	16.1	14.2	12.5
EV/EBITDA adjusted (x)	15.3	12.2	8.9	7.8	6.5
P/BV (x)	2.7	2.5	2.2	2.0	1.8
Dividend yield (%)	0.6	0.7	0.8	0.9	0.9
Per Share Data (Rs)					
EPS adjusted	47.59	49.65	65.36	74.02	84.16
EPS reported	47.59	49.65	65.36	74.02	84.16
BVPS	384.63	419.43	468.79	522.81	586.97
DPS	6.50	7.00	8.00	10.00	10.00
Profit & Loss (RsM)					
Net sales	1,418,475	1,924,610	2,502,329	2,531,263	2,609,257
Operating expenses	-1,233,593	-1,723,770	-2,228,712	-2,231,309	-2,280,784
EBIT	**184,882**	**200,840**	**273,618**	**299,954**	**328,473**
Net interest expense	-17,450	-19,970	-23,231	-19,471	-15,471
Non-operating/exceptionals	20,180	24,600	17,184	19,851	25,152
Pre-tax profit	**187,612**	**205,470**	**267,571**	**300,334**	**338,154**
Tax	-31,240	-43,110	-53,825	-58,272	-62,920
Extraord./Min.Int./Pref.div.	0	0	0	0	0
Reported net income	**156,372**	**162,360**	**213,746**	**242,062**	**275,235**
Adjusted earnings	156,372	162,360	213,746	242,062	275,235
Adjusted EBITDA	236,835	305,810	414,771	456,375	515,327
Growth Rates (%)					
Sales	6.3	35.7	30.0	1.2	3.1
EBIT adjusted	5.8	8.6	36.2	9.6	9.5
EBITDA adjusted	6.1	29.1	35.6	10.0	12.9
EPS adjusted	-9.3	4.3	31.6	13.2	13.7
Cash Flow (RsM)					
Operating cash flow	**389,112**	**146,624**	**287,049**	**405,872**	**461,086**
Depreciation/amortization	51,953	104,970	141,153	156,421	186,854
Net working capital	180,787	-120,706	-67,851	7,389	-1,002
Investing cash flow	**-866,494**	**-93,310**	**-141,988**	**-162,361**	**-144,660**
Capital expenditure	-896,927	-93,310	-141,988	-162,361	-144,660
Acquisitions/disposals	15,485	0	0	0	0
Financing cash flow	**655,505**	**-47,652**	**-146,248**	**-165,557**	**-171,883**
Borrowings	329,060	-114,057	-88,000	-100,000	-100,000
Dividends paid	-22,118	-49,248	-59,652	-74,564	-74,564
Change in cash	**178,123**	**5,662**	**-1,187**	**77,954**	**144,544**
Balance Sheet (RsM)					
Total assets	**2,457,057**	**2,510,065**	**2,506,619**	**2,593,966**	**2,713,777**
Cash & cash equivalent	231,659	218,902	210,702	285,576	433,042
Accounts receivable	45,714	116,602	120,049	123,094	129,914
Net fixed assets	1,693,869	1,653,987	1,654,821	1,660,761	1,618,568
Total liabilities	**1,193,327**	**1,138,358**	**973,492**	**884,185**	**794,168**
Accounts payable	147,824	272,381	139,844	122,863	126,048
Total Debt	738,821	624,764	536,764	436,764	336,764
Shareholders' funds	**1,263,730**	**1,371,706**	**1,533,127**	**1,709,781**	**1,919,608**
Profitability/Solvency Ratios (%)					
EBITDA margin adjusted	16.7	15.9	16.6	18.0	19.7
ROE adjusted	15.2	12.3	14.7	14.9	15.2
ROIC adjusted	11.8	9.3	12.2	12.8	14.1
Net debt to equity	40.1	29.6	21.3	8.8	-5.0
Total debt to capital	36.9	31.3	25.9	20.3	14.9

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Powered by: dataCentral

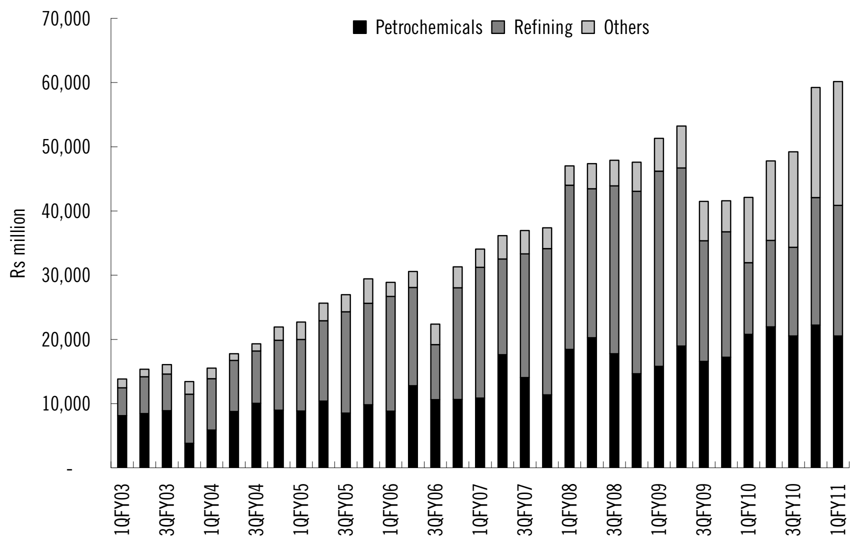
RIL – 1QFY11 Results

Figure 1. RIL 1QFY11 Results (Rupees in Millions)

Year to 31-Mar	1QFY10	4QFY10	1QFY11	% yoy	Comments
Net sales	311,870	575,700	582,280	86.7%	
Expenditure					
Inc/dec in stock	(31,560)	2,240	(16,060)	-49.1%	
Raw materials - external purchases	251,120	436,870	462,920	84.3%	
Staff cost	5,570	6,210	6,170	10.8%	
Other expenditure	22,900	39,020	35,830	56.5%	
Total	(248,030)	(484,340)	(488,860)	97.1%	
EBITDA	**63,840**	**91,360**	**93,420**	**46.3%**	
EBITDA margins	*20.5*	*15.9*	*16.0*	*-443bps*	Weak petchem, low GRMs drag overall margins
Interest	(4,600)	(5,250)	(5,410)	17.6%	Lower interest capitalized (Rs1.02bn) due to commissioning of projects; gross o/s debt of Rs734bn vs. Rs625bn in 4Q10 due to broadband telecom acquisition
Depreciation	(18,780)	(33,920)	(34,850)	85.6%	YoY increase as KG production ramps up
Non-op income	7,090	6,150	7,220	1.8%	
PBT	47,550	58,340	60,380	27.0%	
Tax	(7,910)	(8,210)	(9,870)		
PAT after current tax	39,640	50,130	50,510	27.4%	
Provision for deferred tax	(2,980)	(3,030)	(2,000)		
Tax rate (%)	*22.9*	*19.3*	*19.7*	*-324bps*	YoY decline driven by higher SEZ profits (nil tax)
Net profit (reported)	**36,660**	**47,100**	**48,510**	**32.3%**	

Source: Company Reports, Citi Investment Research and Analysis

Figure 2. RIL – Quarterly EBIT Break-up (Rupees in Millions)



Source: Company Reports and Citi Investment Research and Analysis. Note: 1QFY08 onwards post-merger with IPCL , 1QFY10 onwards post-merger with RPL

Figure 3. RIL 1QFY11 Segmental Profitability (Rupees in Millions)

Year to 31-Mar	1QFY10	4QFY10	1QFY11	%YoY	%QoQ	Comments
Revenues						
Petrochemicals	117,070	154,480	139,030	19%	-10%	Impacted by lower production due to planned turnarounds as well as lower product prices
% of total	*31%*	*22%*	*20%*			
Refining	244,340	512,500	505,310	107%	-1%	Combined utilization of 109% for both refineries
% of total	*64%*	*72%*	*73%*			
Oil and Gas	18,640	43,180	46,650	150%	8%	Driven by sequentially higher KG crude production
% of total	*5%*	*6%*	*7%*			
Others	830	1,280	1,070	29%	-16%	
% of total	*0%*	*0%*	*0%*			
Intra - segment sales/transfers	56,470	108,770	81,990			
Excise Duties recovered	12,540	26,970	27,790			
Net sales	**311,870**	**575,700**	**582,280**	**87%**	**1%**	
PBIT						
Petrochemicals	21,090	22,220	20,530	-3%	-8%	QoQ lower due to weaker polymer deltas and lower product prices; low inventory levels of 7 days across products
% of total	*48%*	*38%*	*34%*			
Margin	*18.0%*	*14.4%*	*14.8%*			
Refining	12,990	19,860	20,350	57%	2%	Lower than expected due to lower GRMs; 4Q impacted by higher opex
% of total	*29%*	*34%*	*34%*			
Margin	*5.3%*	*3.9%*	*4.0%*			
Oil & Gas	10,080	17,020	19,210	91%	13%	Boosted by ramp-up in KG crude production
% of total	*23%*	*29%*	*32%*			
Margin	*54%*	*39%*	*41%*			
Others	90	120	70	-22%	-42%	
% of total	*0%*	*0%*	*0%*			
Margin	*10.8%*	*9.4%*	*6.5%*			
Total PBIT	**44,250**	**59,220**	**60,160**	**36%**	**2%**	

Source: Company Reports, Citi Investment Research and Analysis

Figure 4. Refining – Key Parameters

Refining	Units	Q1FY09	Q2FY09	Q3FY09	Q4FY09	Q1FY10	Q2FY10	Q3FY10	Q4FY10	Q1FY11	Comments
Singapore complex spreads	US$/bbl	8.2	5.7	3.8	5.5	4.1	3.1	1.9	5.0	3.7	Actuals from Reuters
RIL GRMs	US$/bbl	15.7	13.4	10	9.9	6.8	6.0	5.9	7.5	7.3	
Differential vis-à-vis clean GRMs	US$/bbl	7.5	7.7	6.2	4.4	2.7	2.9	4.0	2.5	3.6	
Crude throughput	MMT	8.1	8.2	7.9	7.8	12.0	15.6	16.6	16.7	16.9	Combined utilization of 109%

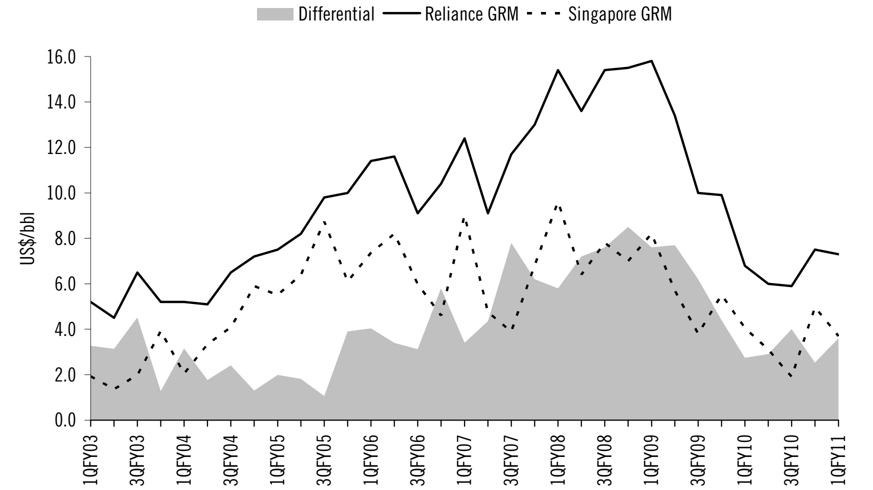
Source: Reuters, Company Reports, Citi Investment Research & Analysis. Note: Q1FY10 onwards merged with RPL.

Figure 5. Refinery Product Sales

	1QFY11		FY10	
	MMT	**%**	**MMT**	**%**
PSU	2.92	18%	12.7	21%
Captive	2.25	14%	8.2	14%
Other	1.65	10%	6.8	11%
Exports	9.53	58%	32.8	54%
Total	**16.35**	**100%**	**60.5**	**100%**

Source: Company Reports

Figure 6. Differential Between Reported GRMs and Singapore GRMs



Source: Reuters, Company Reports, Citi Investment Research & Analysis

Figure 7. RIL Operational Parameters – Petrochemicals and E&P Business

Production		**Q1FY10**	**Q2FY10**	**Q3FY10**	**Q4FY10**	**Q1FY11**	**%YoY**	**%QoQ**	**Comments**
Panna-Mukta									
- Crude	Tonnes	451,700	386,683	461,617	500,000	403,394	-10.7%	-19.3%	Six days shutdown in Panna in Apr-10
- Gas	mmscm	470	439	524	532	502	6.8%	-5.6%	QoQ increase due to incremental production from infill wells
Tapti									
- Gas	mmscm	834	794	694	780	785	-5.9%	0.6%	Natural reserves decline
KG-D6 gas	mmscm	1,733	3,080	4,201	5,383	5,376	210.2%	-0.1%	
	mmscmd	19	33	46	60	59	210.2%	-1.2%	Minor qoq decline owing to a 2-day shutdown due to a cyclone
KG-D6 crude	Tonnes	99,274	122,830	114,896	170,700	304,349	206.6%	78.3%	
	kbpd	8.0	9.8	9.2	13.9	24.5	206.6%	76.3%	
Polyester (PFY, PSF, PET)	Tonnes	411,000	420,000	469,000	400,000	422,000	2.7%	5.5%	
Fiber intermediates (PX, PTA, MEG)	Tonnes	1,129,000	1,179,000	1,192,000	1,100,000	1,100,000	-2.6%	0.0%	Planned shutdown in PX plant at Patalganga
Polymers (PE, PP, PVC)	Tonnes	819,000	1,095,000	1,086,000	1,100,000	931,000	13.7%	-15.4%	Incremental PP production from SEZ refinery offset by lower PE production
Ethylene	Tonnes	432,000	466,000	502,000	400,000	363,000	-16.0%	-9.3%	Lower due to cracker turnaround at Hazira and Nagothane
Propylene	Tonnes	176,000	185,000	191,000	183,000	152,000	-13.6%	-16.9%	
Industry demand									
Polyester (PFY, PSF, PET)	'000 Tonnes	614	728	792	812	695	10.0%	-14.4%	
Polymers (PE, PP, PVC)	'000 Tonnes	1365	1516	1517	1819	1365	0.0%	-25.0%	

Source: Company Reports and Citi Investment Research & Analysis

Revising target price to Rs1,140

As we now base our model on FY10 actuals and make changes to our earnings based on latest updates, we revise our target price to Rs1,140 (Rs1,150 earlier). We continue to derive our target price by combining our SOTP of Rs1,069 (Rs1,043 earlier) and our P/E-based value of Rs1,154 based on 15x Sep-11E (Rs1,203 earlier).

Figure 8. RIL – TP of Rs1,140/share

	Rs/share
SOTP	1,069
15x P/E (Sep-11E, EPS ex-treasury = Rs80.2)	1,154
Average	1,111
Shale Gas NPV	30
Target Price	**1,141**

Source: Citi Investment Research and Analysis

Figure 9. RIL Sum-of-the-parts Valuation

	Rs m	Rs/share Old	Rs/share New	Comments
Sep-11E EBITDA forecast (Rs m)	262,369			For refining and petrochem
EV of Petrochem & Refining (Rs m) - (a)	1,836,580	550	562	@ EV/E of 7x mid-FY12E
Net Debt (Rs m) - (b)	281,842	108	86	Estimated as on Sep-10E consolidated for treasury sale cash
Key investments				
-E&P Assets	1,516,599	460	464	@ EV/E of 8x Mar-12E (43% premium to NAV)
- Organised Retail	96,838	44	30	Based on BV of investments so far into organised retail, SEZ, etc.
Total value of investments & other assets - (c)	1,613,437	503	493	
Value of Treasury stock - (d)	328,130	98	100	307m treasury shares at target price
Value for Equity holders (Rs m) - (a-b+c+d)	3,496,304	**1,043**	**1,069**	
No. of shares (m.)	3,270			Incl. treasury stock

Source: Citi Investment Research & Analysis estimates

While we now assume a slower KG gas production ramp-up, this is partly offset by a slower than expected decline in petchem EBITDA, resulting in minor changes to our target price, and our FY11/12E earnings. On revised earnings, the stock currently trades at an FY11E P/E (ex-treasury) of 14.6x and P/CEPS of 9.7x (see Figure 4).

Figure 10. RIL – Earnings revision

Year to	Net Profit (Rs Mils.)		Diluted EPS (Rs)			Dividend Per Share (Rs)	
31-Mar	Old	New	Old	New	% Chg	Old	New
2011E	220,113	213,746	67.31	65.36	-2.9%	8.0	8.0
2012E	255,293	242,062	78.07	74.02	-5.2%	10.0	10.0
2013E	-	275,235	-	84.16	-	-	10.0

Source: Citi Investment Research and Analysis estimates

Figure 11. RIL - Valuations

	On CMP		On TP	
	FY11E	FY12E	FY11E	FY12E
P/E	16.1	14.2	17.4	15.4
P/E (ex-treasury)	14.6	12.9	15.8	14.0
P/CEPS	9.7	8.6	10.5	9.4
P/CEPS (ex-treasury)	8.8	7.8	9.5	8.5

Source: Citi Investment Research and Analysis

We now base our FY10 earnings on actuals, and revise our FY11E and FY12E estimates by 3-5% respectively. We also introduce our FY13E estimates.

Following are the key changes to our assumptions which drive our earnings change:

- **E&P:**
  - Valued at Rs464/share (Rs460/share earlier) in our SOTP based on 8x Mar-12E (Sep-11E earlier) EV/EBITDA; resulting in a minor increase in premium to NAV of known reserves (D6+NEC+CBM) to 43% from 40%. We continue to base the E&P valuation on an EV/EBITDA based methodology in our SOTP to remove the impact of high DD&A.
  - Based on indications from mgmt suggesting a slower ramp-up of KG gas production, we now tone down our production forecasts to 63/80 mmscmd over FY11/12E (73/89 mmscmd earlier) but maintain FY13E estimates at 110 mmscmd. However, realizations increase due to weaker rupee assumptions.

Figure 12. E&P – Valuation based on EV/EBITDA

	Mar-12E
NAV of known reserves (KG-D6, NEC-25,and CBM)	325
EV/EBITDA 12-mth fwd (x)	8.0
EV Mar-11E (Rs bn)	1,517
Per share value	**464**
Premium to NAV	43%

Source: Citi Investment Research and Analysis

Figure 13. Asset-wise NAVs of known reserves

	Recovery assumed tcf/mmboe	2P+Best OGIP tcf/mmbo	Value US$m	EV/boe US$	Value/share Rs	Remarks
KG-D6 (Dhirubhai-1&3 + MA fields)	3,812	4,802	19,854	5.8	283	Based on DCF assuming 75% recovery from 2P+Best OGIP of 26.7 tcf
NEC-25	1.9	3.7	1,499	4.5	21	@ 50% recovery of 2P OGIP of 3.7 tcf
CBM (3P OGIP)	1.9	3.7	1,499	4.5	21	@ 50% recovery of 3P OGIP of 3.7 tcf
Total			**27,767**		**325**	

Source: Citi Investment Research and Analysis

- **Refining:**
  - Maintaining GRM assumptions at US$8.6/9.5 for FY11/12E; FY13E assumed at US$10/bbl.
  - Combined throughput for both refineries at 68 MMTPA in FY11/12/13E (building in capacity utilization for older Jamnagar refinery at 100% and for the SEZ refinery at 120%).
  - Value of the refining business in our SOTP continues to be based on 7x Sep-11E EV/EBITDA.

Figure 14. Refining Margin Assumptions (US$/bbl)

	FY10	FY11E	FY12E	FY13E
Refinery throughput (MMT)	60.9	67.8	67.8	67.8
RIL GRMs	$6.3	$8.1	$8.9	$9.4
RPL GRMs	$7.0	$9.2	$10.0	$10.4
Merged GRMs	$6.6	$8.6	$9.5	$10.0
S'pore GRMs	$3.5	$3.8	$4.5	$4.5
Differential over S'pore GRMs	$3.1	$4.8	$5.0	$5.5

Source: Citi Investment Research and Analysis

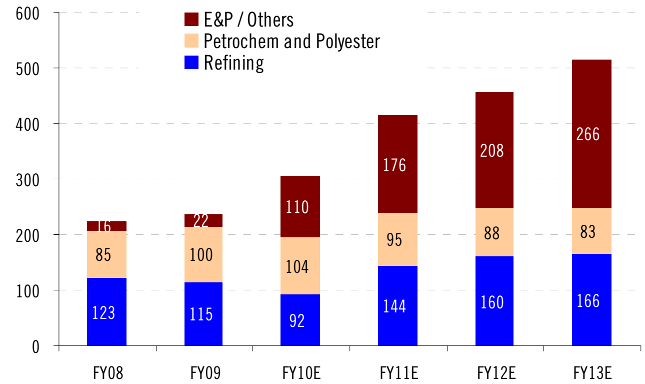
- **Petchem:**
  - Assuming a declining trend in petchem EBITDA over FY11-13E; however, we now build in a 9% EBITDA decline in FY11E vs. 14% earlier due to sustained robust polyester profitability.
  - Like refining, value of petchem business in our SOTP continues to be based on 7x Sep-11E EV/EBITDA.

Figure 15. RIL – Petchem price and spread assumptions (US$/MT)

Year to 31-Mar	FY11E	FY12E	FY13E
PFY			
International price	1,650	1,720	1,840
PFY less MEG/PTA	590	580	587
PSF			
International price	1,270	1,340	1,470
PSF less MEG/PTA	210	200	217
PTA			
International price	910	990	1,050
PTA less PX	220	217	194
MEG			
International price	790	820	1,000
MEG less E	69	85	158
PX			
International price	1,000	1,120	1,240
PX less naphtha	295	400	445
PVC			
International price	950	960	1,040
PVC less E/EDC	375	382	421
PE			
International price	1,320	1,320	1,520
PE less E	197	176	210
PE less naphtha	615	600	725
PP			
International price	1,230	1,280	1,480
PP less P	54	83	136
PP less naphtha	525	560	685
Ethylene			
International price	1,080	1,100	1,260
Ethylene less naphtha	375	380	465
Propylene			
International price	1,120	1,140	1,280
Propylene less naphtha	415	420	485
Naphtha			
International price	705	720	795

Source: Citi Investment Research and Analysis

Figure 16. RIL – Segmental EBITDA break-up (Rs bn)



Source: Citi Investment Research and Analysis

- **Overall:**
  - Changing INR/US$ assumption to Rs46/45 for FY11/12E from Rs45/44 earlier; FY13E at Rs44.
  - Despite assuming a slower ramp-up in KG gas production, our earnings cut is relatively minor owing to: a) lower decline assumed in petchem EBITDA, and b) weaker rupee forecasts.

Key Financials

Figure 17. RIL – Consolidated Income Statement (Rs m)

Year to 31-Mar	FY09	FY10	FY11E	FY12E	FY13E
Sales	**1,418,475**	**1,924,610**	**2,502,329**	**2,531,263**	**2,609,257**
COGS	(1,040,650)	(1,469,670)	(1,990,010)	(1,973,305)	(1,988,179)
SGA	(23,980)	(23,500)	(97,521)	(101,556)	(105,724)
Other operating costs	(117,010)	(125,630)	(27)	(27)	(27)
Total costs	(1,181,640)	(1,618,800)	(2,087,559)	(2,074,888)	(2,093,930)
EBITDA	**236,835**	**305,810**	**414,771**	**456,375**	**515,327**
Other income	20,600	24,600	17,184	19,851	25,152
Interest	(17,450)	(19,970)	(23,231)	(19,471)	(15,471)
Depreciation	(51,953)	(104,970)	(141,153)	(156,421)	(186,854)
Exceptional items	(420)	-	-	-	-
PBT	187,612	205,470	267,571	300,334	338,154
Tax	(31,240)	(43,110)	(53,825)	(58,272)	(62,920)
Tax rate	*16.7%*	*21.0%*	*20.1%*	*19.4%*	*18.6%*
PAT	156,372	162,360	213,746	242,062	275,235
EPS	**95.6**	**49.7**	**65.4**	**74.0**	**84.2**
EPS (ex-treasury shares)	**52.8**	**54.8**	**72.1**	**81.7**	**92.9**
DPS	6.5	7.0	8.0	10.0	10.0

Source: Citi Investment Research and Analysis estimates, Company Reports

Figure 18. RIL – Consolidated Balance Sheet (Rs m)

Year to 31-Mar	FY09	FY10	FY11E	FY12E	FY13E
Gross fixed assets	1,496,287	2,158,647	2,291,547	2,440,640	2,565,076
Less: Accum. depreciation	492,856	626,048	767,201	923,623	1,110,476
Net fixed assets	1,003,431	1,532,599	1,524,346	1,517,017	1,454,600
CWIP	690,438	121,388	130,476	143,744	163,968
Investments	251,519	177,371	190,307	193,536	197,089
Cash & bank balances	231,659	218,902	210,702	285,576	433,042
Accounts receivable	45,714	116,602	120,049	123,094	129,914
Inventory	148,367	269,816	255,905	254,686	257,342
Other current assets	85,929	73,386	74,835	76,314	77,822
Total current assets	280,010	459,804	450,789	454,093	465,078
Total assets	**2,457,057**	**2,510,065**	**2,506,619**	**2,593,966**	**2,713,777**
Accounts payable	147,824	272,381	139,844	122,863	126,048
Other current liabilities	179,087	96,113	96,272	96,434	96,599
Total current liabilities	326,910	368,494	236,115	219,296	222,647
Deferred tax liability	97,263	109,263	123,602	135,839	142,074
Debt	738,821	624,764	536,764	436,764	336,764
- Long-term debt	676,551	577,608	477,608	377,608	277,608
- Short-term debt	62,270	47,156	59,156	59,156	59,156
Provisions	30,333	35,837	77,011	92,286	92,684
Equity capital	16,428	32,704	32,704	32,704	32,704
Reserves & surplus	1,247,302	1,339,003	1,500,423	1,677,077	1,886,905
Shareholders' equity	1,263,730	1,371,706	1,533,127	1,709,781	1,919,608
Total liabilities	**2,457,057**	**2,510,065**	**2,506,619**	**2,593,966**	**2,713,777**

Source: Citi Investment Research and Analysis estimates, Company Reports

Reliance Industries

Company description

Reliance Industries is a conglomerate with interests in upstream oil & gas (E&P), refining, and petrochemicals. It has commissioned a super-size refinery project through RPL (now merged with itself) and has also commenced gas production at its large gas find in the D6 block in KG basin. RIL is foraying into organized retailing and has plans to undertake SEZ projects over the medium to long term.

Investment strategy

We rate RIL as Hold/Low Risk (2L) with a target price of Rs1,140. We believe that the stock is pricing in a moderate but sustained refining recovery and meaningful exploration upside. While a 40%+ premium to NAV looks justified for the E&P business given new discoveries and the intensive exploration calendar, present stock valuations leave little room for disappointment, esp. given the long-gestation from discovery to production. Further, while petchem could surprise on the upside if the downturn is less severe, on the refining side, the stock is factoring in stable macro and demand recovery in the developed world. While acquisitions, such as the Atlas and Pioneer JV, could be value accretive, these are unlikely to be large enough to swing the needle for RIL.

Valuation

Our target price of Rs1,140 is based on an average of a sum-of-the-parts value (Rs1,069/share) and a P/E value (Rs1,154/share) and explicitly includes the NPV of the shale gas JVs of Rs30/share. Our SOTP is derived by: 1) Valuing RIL's core petchem and downstream oil business on an EV/EBITDA of 7.0x mid-FY12E, in line with regional chemicals and refining peers; this also captures the expected recovery in global refining; 2) Valuing total E&P assets including oil & gas prospects and other blocks at Rs464/share based on 8x FY12E EV/EBITDA; 3) Valuing investments in the organized retail business, SEZ, etc. at Rs30/share, based on book value of investments so far; and 4) Valuing treasury stock (post stock sale) at target price. For the P/E valuation, we ascribe a 15x mid-FY12E multiple, in line with the market multiple. We believe RPL and KG gas commencement will lead to the market now focusing on FY11/12 earnings (which capture the impact of both), prompting us to give equal weightage to a multiple-based methodology as well as an SOTP while deducing our target price.

Risks

We rate RIL Low Risk, in line with the rating suggested by our quantitative risk-rating system, as diversified earnings and significant value contribution from the emerging E&P business partly mitigate the impact of the global slowdown on the cyclical components of its business, while commencement of the new refinery and KG gas production limit execution risks. Downside risks to our target price are: RIL's margins are exposed to the global petrochemical and refining cycles; delays in the ramp-up of production of KG-D6 gas; delays in the drilling programme and/or negative news-flow for the new blocks (D9, D3, MN-D4). Upside risks to our target price are: Value accretive acquisitions; better and faster recovery in refining margins; lower than forecast downturn in petchem; positive E&P news-flow for the new blocks (D9, D3, MN-D4).

Appendix A-1

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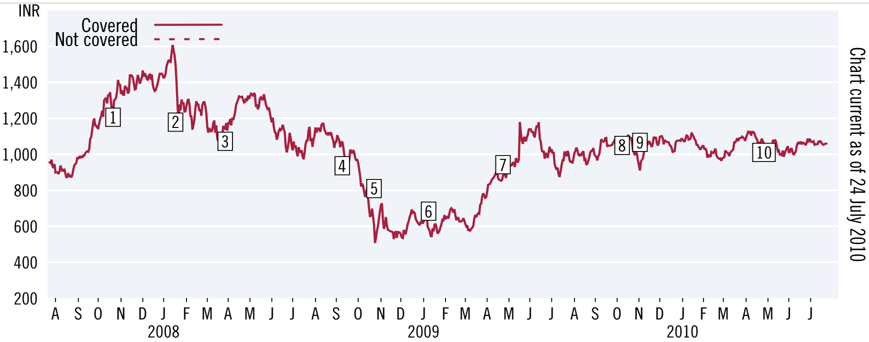
Fundamental Research

Analyst: Saurabh Handa
Covered since June 18 2010



	Date	Rating	Target Price	Closing Price
1	21-Oct-07	1L	*1,430.00	1,234.60
2	17-Jan-08	1L	*1,730.00	1,498.13
3	27-Mar-08	1L	*1,425.00	1,137.50
4	9-Sep-08	1L	*1,225.00	1,071.42
5	23-Oct-08	*1M	*878.00	607.63
6	8-Jan-09	1M	*737.50	598.40
7	23-Apr-09	*2L	*917.50	881.18
8	8-Oct-09	2L	*1,100.00	1,059.60
9	3-Nov-09	*1L	1,100.00	910.33
10	27-Apr-10	*2L	*1,150.00	1,061.10

* Indicates change

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