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Energy Oil & Gas

Deutsche Bank



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Reliance Industries

Reuters: **RELI.BO** Bloomberg: **RIL IN** Exchange: **BSE** Ticker: **RELI**

Impact of capacity shutdowns in Japan

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RIL could benefit from tightening refining and petchem markets

The recent earthquake has led to a shutdown of significant refining and ethylene capacities in Japan. This could support regional refining margins and petrochemical spreads in the near term. With more than two-thirds of RIL's operating profit being contributed by refining and petchem, strengthening margins should particularly benefit the company. Hence, we reiterate our Buy on RIL and expect it to benefit from the improvement in downstream margins over FY11-13.

Capacity shutdown in Japan to support refining margins in the near term

David Hurd, Deutsche Bank Asia oil & gas analyst, in his report *Losing capacity from Japan* published today expects the earthquake to have a limited short-term impact on global refining margins. Four key refineries in Japan (Sendai, Kashima and Negishi of JX Nippon Oil and Chiba refinery of Cosmo Oil) have been shut down due to the earthquake. These four refineries have a total capacity of 945k bpd, about 20.6% of Japan's and 3.4% of Asia's refining capacity (Figure 1).

Petrochemical capacities also hit

Almost 5.2mmtpa or two-thirds of ethylene cracker capacity in Japan could be adversely impacted by the earthquake, including the 1.8mmtpa or one-fourth capacity that has reportedly been shut down (Figure 3). The ethylene capacity shutdown represents 23% of the Japanese capacity and 4% of Asian capacity. With refinery shutdowns we also expect production of paraxylene (PX) - especially JX Nippon Oil and Energy's (unlisted) capacity - to be adversely impacted.

Gasoil spreads could strengthen; naphtha spreads could weaken

Soozhana Choi, Deutsche Bank Head of Asian Commodities Research, in the Commodities Special report published today says that disruptions to Japanese refiners will be supportive for the regional gasoil market given its net exporting status and persistently strong Asian diesel demand growth rates. On the other hand, ethylene capacity shutdowns in Japan could adversely impact the demand for naphtha.

Reiterate Buy with INR1,150 target price; worsening global economy key risk

We reiterate our Buy rating on RIL with a target price of INR1,150. Our SOTP-based target price uses 7.5x FY12E EV/EBITDA for refining and petrochemicals and a DCF (WACC 10.2%) for KG-D6 and exploration upside. Risks are 1) a worsening global economy; 2) production outages; and 3) policy vagaries.

Forecasts and ratios

Year End Mar 31	2009A	2010A	2011E	2012E	2013E
Sales (INRm)	1,512,240.1	2,037,400.0	2,509,671.7	2,617,499.1	2,811,861.7
EBITDA (INRm)	234,221.5	308,940.0	397,300.8	433,919.2	498,803.7
Reported NPAT (INRm)	149,687.2	245,040.0	214,577.5	239,265.6	273,319.3
DB EPS FD(INR)	46.76	47.72	64.56	71.99	82.23
PER (x)	19.2	21.4	15.8	14.1	12.4
EV/EBITDA (x)	14.8	12.5	9.0	7.9	7.1

Source: Deutsche Bank estimates, company data

¹ DB EPS is fully diluted and excludes non-recurring items

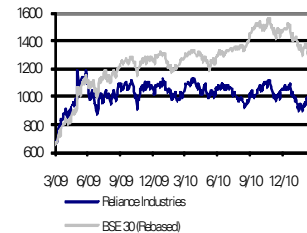
² Multiples and yields calculations use average historical prices for past years and spot prices for current and future years, except P/B which uses the year end close

Industry Update

Buy

Price at 14 Mar 2011 (INR)	1,017.65
Price target - 12mth (INR)	1,150.00
52-week range (INR)	1,129.00 - 895.65
BSE 30	18,174

Price/price relative



Performance (%)	1m	3m	12m
Absolute	11.2	-3.3	-0.4
BSE 30	-0.2	-8.2	5.9

Stock data

Market cap (INRm)	3,328,096
Market cap (USDm)	73,557
Shares outstanding (m)	3,270.4
Major shareholders	Ambani Group (44.76%)
Free float (%)	55
Avg daily value traded (USDm)	127.7

Key indicators (FY1)

ROE (%)	15.2
Net debt/equity (%)	14.9
Book value/share (INR)	461.86
Price/book (x)	2.2
Net interest cover (x)	15.6
Operating profit margin (%)	10.5

Deutsche Bank AG/Hong Kong

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Figure 1: Japan refining capacity – reported and presumed to be closed

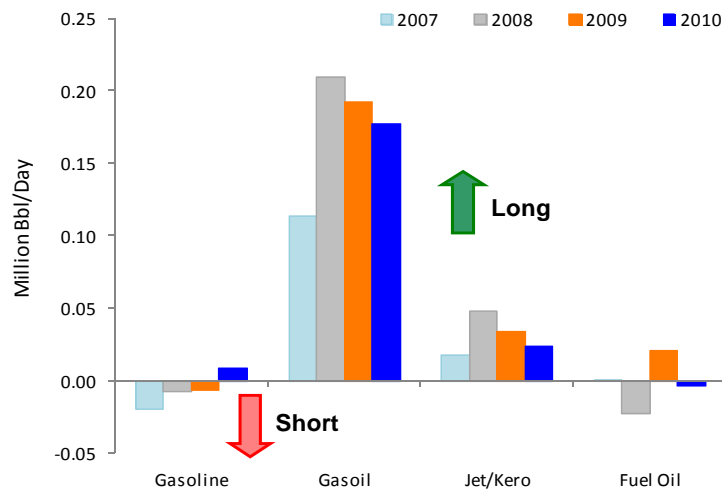
Refinery Name	CDU Capacity (Million Metric Tons)	CDU Capacity (kbpd)	CDU Capacity as % total Japan	CDU Capacity as % total ASIA
Presumed Closed				
Sendai	6.89	137.80	3.0%	0.5%
Chiba Cosmo	11.40	228.00	5.0%	0.8%
- Sub Total	18.29	365.80	8.0%	1.3%
Reported as Shut Down				
Kashima	12.83	256.60	5.6%	0.9%
Negishi	16.15	323.00	7.0%	1.1%
- Sub Total	28.98	579.60	12.6%	2.1%
TOTAL Presumed & Reported CDU Capacity to be Closed	47.27	945.40	20.6%	3.4%
Japan Excess Capacity As of 2010E	13.22	264.4	5.8%	0.9%
SUM Totals	34.05	681.00	14.8%	2.4%

Source: Wood Mackenzie; Deutsche Bank

Figure 2: Japan "at risk" refining capacity (Tokyo Bay and north on mainland)

Refinery Name	CDU Capacity (Million Metric Tons)	CDU Capacity (kbpd)	CDU Capacity as % total Japan	CDU Capacity as % total ASIA
Sendai	6.9	137.8	3.0%	0.5%
Kashima	12.8	256.6	5.6%	0.9%
Chiba IK	10.5	209.0	4.6%	0.7%
Chiba Cosmo	11.4	228.0	5.0%	0.8%
Chiba Kyokuto	8.3	166.2	3.6%	0.6%
Sodegaura	9.1	182.4	4.0%	0.6%
Keihin	8.8	176.2	3.8%	0.6%
Kawasaki	15.9	318.2	6.9%	1.1%
Negishi	16.2	323.0	7.0%	1.1%
Total "at Risk" Capacity	99.9	1,997.4	43.5%	7.1%

Source: Wood Mackenzie; Deutsche Bank

Figure 3: Japan's refined products balance

Source: IEA, Deutsche Bank

Figure 4: Japanese ethylene capacity adversely impacted by earthquake (k tpa)

Company	Location	Capacity ('000 tpa)	Status
Idemitsu Kosan	Chiba	415	To be confirmed
JX Nippon Oil & Energy Corp.	Kawasaki	440	Closed
Keiyo Ethylene	Chiba	768	Partially closed; operating at 70%. Some reports say total shut.
Maruzen	Chiba	525	Closed
Mitsubishi Chemical Corp.	Kashima	450	Closed
Mitsubishi Chemical Corp.	Kashima	375	Closed
Mitsui Chemicals	Chiba	612	Operating at reduced rates
Showa Denko	Oita	691	Operating at 70%
Sumitomo Chem.	Chiba	415	Operating at 70%
TonenGeneral	Kawasaki	540	Refinery closed; status of cracker to be confirmed
Total capacity impacted		5,231	
% of Japanese ethylene capacity		67%	
% of Asia ethylene capacity		11%	
Total capacity closed		1,790	
% of Japanese ethylene capacity		23%	
% of Asia ethylene capacity		4%	

Source: CMAI, Bloomberg Finance LP

Figure 5: RIL key capacities (mmtpa)

	mmtpa
Refining	62.0
Ethylene	1.9
Polyethylene	1.1
PX	2.1
Polypropylene	2.5
Polyester (POY, PSF, PET)	1.9

Source: Deutsche Bank, company data

Appendix 1

Important Disclosures

Additional information available upon request

Disclosure checklist

Company	Ticker	Recent price*	Disclosure
Reliance Industries	RELI.BO	1017.65 (INR) 14 Mar 11	8,14,17

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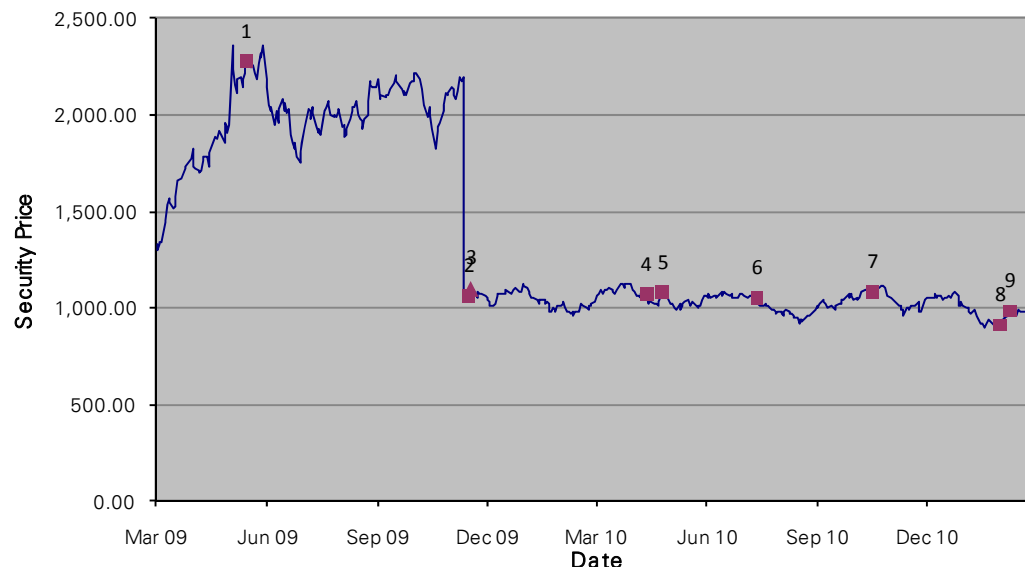
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Historical recommendations and target price: Reliance Industries (RELI.BO)

(as of 3/14/2011)



Previous Recommendations

- Strong Buy
- Buy
- Market Perform
- Underperform
- Not Rated
- Suspended Rating

Current Recommendations

- Buy
- Hold
- Sell
- Not Rated
- Suspended Rating

*New Recommendation Structure as of September 9, 2002

1.	29/5/2009:	Hold, Target Price Change INR1,775.00	6.	27/7/2010:	Buy, Target Price Change INR1,240.00
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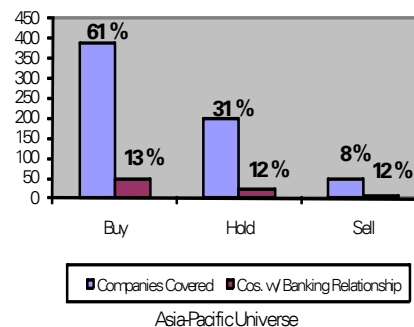
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