

Reliance Industries Limited (RIL)

Rs 707

Bottom line to hit, due to cyclical weakness in refining &amp; Petchem margins

BUY

We interacted with RIL's management recently and following are the key takeaways from our conversation:

### A) Refining Segment

- 1) GRM for Q3FY12 would remain in range of \$5.9-6.9/bbl. Pressure on middle distillates will continue for remaining period of the year due to addition of new refining capacity in CY12 of 0.8mnbpd across the world.
- 2) Petcoke & Sulphur spreads are continuously in negative zone and heavy weightage to LPG, Naphtha & gasoline in RIL's product slate is dragging RIL's GRM discount to Singapore complex GRM (\$7.8/bbl in Q3FY12).
- 3) Flexibility in reconfiguration of RIL's refinery product slate is limited to 10% only
- 4) Arab Heavy- Light differentials are on downward trend (\$3.2/bbl in Q3FY12).
- 5) Domestic gas (KG-D6) is totally replaced by Imported LNG (Contracted+Spot) for refinery captive power plant. Going forward we do not see any domestic gas flow to power plant.

### B) Oil & Gas Exploration & Production Segment

No positive guidance on gas output from KG-D6. The company has guided for gas production to be in the range of 40-45mmscmd in FY13. Ramp up in gas production is expected only in FY14. The company is negotiating current gas price (\$4.2/mmbtu) with government, which is based on crude prices at level of \$60/bbl. The company is demanding the revision of the prices to the current crude prices of \$110/bbl. Shale gas production is expected to touch 350-400bcf by the end of FY14. The company is also planning to acquire more shale gas assets in US. Q3FY12 avg gas output is seen at 41mmscmd.

- C) **Petrochemical Segment:** Polyester & Polymer deltas are showing negative trend during Q3FY12.
- D) **Deal with TV18:-**RIL plans to invest in the range of Rs 1700-4000cr in TV18/Network18 promoter group. Network18 and TV18 together are issuing rights worth Rs 4000cr to fund the ETV acquisition. Independent Media Trust (IMT) would be set up for the benefit of RIL which has agreed to fund the promoters of Network18 and TV18 through OCDs to enable them to subscribe to the above proposed rights issue

### Valuation:

We strongly believe 1) The company would maintain GRM of \$ 7.5/bbl over H2FY12 2) RIL to benefit from preferential access to TV18 and Network18 content for its 4G services. 3) Proper deployment of cash and strong balance sheet. Hence, we maintain our BUY rating on the stock with a price objective of Rs 1020/share, an upside potential of 44%.

Particulars	FY09	FY10	FY11	FY12E	FY13E
Net Sales	141847	1,92,461	2,48,170	2,89,747	3,16,427
EBITDA	23225	33,041	41,177	46,537	51,575
PAT	15309	16,236	20,286	23,328	25,947
EPS	97	50	62	71	79
OPM (%)	16.4	17.2	16.6	16.1	16.3
NPM (%)	10.8	8.4	8.2	8.1	8.2

Source: Company, KRChoksey Research

Target Price (Rs): 1,020

Potential Upside : 44%

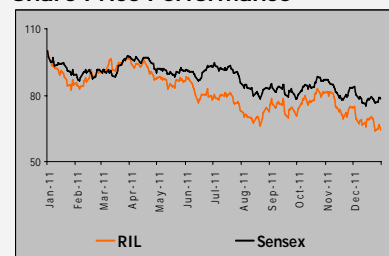
Previous TP (Rs): 1,086

Market Data	6th Jan, 2012
Shares outs (Cr)	327
Equity Cap ( Rs Cr)	3273
Mkt Cap (Rs Crs)	2,31,471
52 Wk H/L (Rs)	1091/687
Avg Vol (3M avg)	5002549
Face Value (Rs)	10
Bloomberg Code	RIL IN

### Market Info:

SENSEX	15,696
NIFTY	4,696

### Share Price Performance



### Share Holding pattern (%)

Particulars	Sep-11	Jun-11	Chg
Promoters	44.71	44.72	-0.02%
Institutions	11.07	10.78	2.69%
FII	17.32	17.37	-0.29%
Public	26.90	27.13	-0.85%
Total	100.0	100.0	

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Reliance Industries Ltd.			
Date	CMP	Target	Recommendation
2-1-2012	707	1020	BUY
26-July-11	870	1,086	BUY
4-Apr-11	1,039	1,189	HOLD
4-Jan-11	1,075	1,189	HOLD
4-Oct-10	997	1,189	BUY

Rating Legend	
Our Rating	Upside
<b>Buy</b>	More than 15%
<b>Hold</b>	5% - 15%
<b>Reduce</b>	0 – 5%
<b>Sell</b>	Less than 0%

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