Reliance Industries Ltd.

Rating Change NEUTRAL

Equity | India | Chemicals-Specialty
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Cut to Neutral on worsening refining margins outlook

Bank of America Merrill Lynch

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Cut FY12-14 EPS by 4-9% and PO by 9% to Rs860

Global oil demand growth was weak in 2Q (lowest in 7 quarters) and 3Q 2011. We had concerns that refining margin (GRM) would weaken if demand weakness coincides with large refining capacity addition in 2012 (Reliance Industries Ltd., 22 August 2011). In November 2011, Reuters' Singapore GRM has collapsed. We have cut Asian GRM (Oil Industry, 01 December 2011) and FY12-14 GRM of Reliance Industries (RIL) by 6-11% to US$8-9/bbl. This has led to cut of 4-9% in FY12-14 EPS and 9% in PO to Rs860. We now expect flat EPS in FY13. Revised PO implies 8% potential upside. We therefore cut RIL to Neutral from Buy.

Singapore GRM weakens in November 2011; lowest in 2011

Reuters' Singapore GRM, which has been strong at US$8.7/bbl to date in FY12, has slumped to US$6.6/bbl in November 2011 (lowest monthly GRM in 2011). Singapore GRM for week ending 25 Nov is down to US$5.2/bbl (US$4.5/bbl in the current week). We expect Singapore GRM to be US$4.2-4.3/bbl in 2012-13.

Neutral due to inexpensive P/E and strong balance sheet

RIL is not expensive. Its P/E on FY13 EPS is 11.4x, which is much lower than its 5-year average forward P/E of 16.8x. RIL will turn net cash in FY12, which will boost its other income (main factor preventing FY13 earnings decline).

What would make us bullish or bearish on RIL?

We would turn more bearish on RIL if its FY13 GRM is lower (if oil demand weaker) than assumed by us and/or rupee is stronger (Rs50 assumed). We would turn bullish if GRM are higher (higher than expected refinery closure), RIL makes significant oil or gas discovery and/or a value accretive acquisition.

Estimates (Mar)

(Rs)	2010A	2011A	2012E	2013E	2014E
Net Income (Adjusted - mn)	158,976	202,003	228,090	231,000	261,743
EPS	48.39	61.49	69.43	70.32	79.67
EPS Change (YoY)	3.9%	27.1%	12.9%	1.3%	13.3%
Dividend / Share	7.00	7.50	8.00	8.00	8.00
Free Cash Flow / Share	32.58	22.93	47.84	77.50	82.66
GDR EPS (US$)	2.04	2.70	2.66	2.69	3.05
GDR Dividend / Share (US$)	0.295	0.329	0.306	0.306	0.306

Valuation (Mar)

	2010A	2011A	2012E	2013E	2014E
P/E	16.08x	12.66x	11.21x	11.07x	9.77x
Dividend Yield	0.899%	0.964%	1.03%	1.03%	1.03%
EV / EBITDA*	9.90x	7.85x	8.44x	8.68x	8.32x
Free Cash Flow Yield*	4.19%	2.95%	6.15%	9.96%	10.62%

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

Stock Data

Price (Common / GDR)	Rs778.25 / US$30.00
Price Objective	Rs860.00 / US$33.15
Date Established	2-Dec-2011 / 2-Dec-2011
Investment Opinion	B-2-7 / B-2-7
Volatility Risk	MEDIUM / MEDIUM
52-Week Range	Rs712.00-Rs1,091
Market Value (mn)	US$48,974
Market Value (mn)	Rs2,556,697
Shares Outstanding (mn)	3,285.2 / 1,642.6
Average Daily Volume	4,492,792
BofAML Ticker / Exchange	XRELF / BSE
BofAML Ticker / Exchange	RLNIY / LIN
Bloomberg / Reuters	RIL IN / RELI.BO
ROE (2012E)	14.4%
Net Dbt to Eqty (Mar-2011A)	24.9%
Est. 5-Yr EPS / DPS Growth	11.3% / 4.2%
Free Float	45.0%

Key Changes

(Rs)	Previous	Current
Inv. Opinion	B-1-7	B-2-7
Inv. Rating	BUY	NEUTRAL
Price Obj.	950.00	860.00
2012E EPS	72.13	69.43
2013E EPS	77.21	70.32
2014E EPS	85.35	79.67
2012E EBITDA (m)	373,634.4	362,553.9
2013E EBITDA (m)	375,867.4	352,575.7
2014E EBITDA (m)	394,424.0	367,813.2

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Refer to important disclosures on page 12 to 15. Analyst Certification on Page 9. Price Objective Basis/Risk on page 9. Link to Definitions on page 9.11115313

iQprofile SM Reliance Industries Ltd.

Key Income Statement Data (Mar)	2010A	2011A	2012E	2013E	2014E
(Rs Millions)					
Sales	2,037,397	2,658,106	3,113,446	3,360,239	3,086,250
Gross Profit	491,370	623,039	664,287	661,890	648,847
Sell General & Admin Expense	(182,431)	(233,433)	(301,733)	(309,314)	(281,034)
Operating Profit	199,481	248,295	266,789	256,084	269,287
Net Interest & Other Income	1,262	1,321	31,398	45,907	72,896
Associates	NA	NA	NA	NA	NA
Pretax Income	200,743	249,616	298,187	301,991	342,183
Tax (expense) / Benefit	(42,563)	(47,834)	(70,097)	(70,991)	(80,439)
Net Income (Adjusted)	158,976	202,003	228,090	231,000	261,743
Average Fully Diluted Shares Outstanding	3,285	3,285	3,285	3,285	3,285
Key Cash Flow Statement Data					
Net Income	158,976	202,003	228,090	231,000	261,743
Depreciation & Amortization	109,458	141,311	95,765	96,492	98,527
Change in Working Capital	(156,946)	18,229	11,806	80,661	(948)
Deferred Taxation Charge	NA	NA	NA	NA	NA
Other Adjustments, Net	96,523	(5,458)	10,460	10,593	12,003
Cash Flow from Operations	208,011	356,085	346,120	418,746	371,325
Capital Expenditure	(100,967)	(280,759)	(188,949)	(164,151)	(99,787)
(Acquisition) / Disposal of Investments	(66,767)	(84,839)	0	0	0
Other Cash Inflow / (Outflow)	NA	NA	324,000	NA	NA
Cash Flow from Investing	(167,734)	(365,598)	135,051	(164,151)	(99,787)
Shares Issue / (Repurchase)	15,638	676	0	0	0
Cost of Dividends Paid	(22,337)	(24,970)	(24,959)	(29,969)	(29,969)
Cash Flow from Financing	(123,210)	170,713	(31,019)	(179,968)	(179,969)
Free Cash Flow	107,044	75,326	157,171	254,595	271,538
Net Debt	422,871	370,557	(85,655)	(310,282)	(551,851)
Change in Net Debt	(33,578)	33,807	(456,212)	(224,626)	(241,569)
Key Balance Sheet Data					
Property, Plant & Equipment	1,678,113	1,817,560	1,586,744	1,654,404	1,655,664
Other Non-Current Assets	46,847	46,847	46,847	46,847	46,847
Trade Receivables	100,829	156,952	153,540	142,695	131,060
Cash & Equivalents	223,184	470,505	920,657	995,284	1,086,853
Other Current Assets	451,319	522,454	633,804	678,599	615,418
Total Assets	2,500,292	3,014,317	3,341,591	3,517,828	3,535,842
Long-Term Debt	565,506	703,532	809,140	659,141	509,141
Other Non-Current Liabilities	106,776	110,709	121,169	131,762	143,765
Short-Term Debt	80,550	137,530	25,862	25,862	25,862
Other Current Liabilities	425,856	574,467	699,221	813,833	738,069
Total Liabilities	1,178,687	1,526,238	1,655,391	1,630,597	1,416,836
Total Equity	1,321,605	1,488,079	1,686,200	1,887,231	2,119,006
Total Equity & Liabilities	2,500,292	3,014,317	3,341,591	3,517,828	3,535,842
iQmethod* SM - Bus Performance					
Return On Capital Employed	8.5%	9.5%	9.5%	9.1%	9.8%
Return On Equity	13.2%	14.4%	14.4%	13.0%	13.1%
Operating Margin	9.8%	9.3%	8.6%	7.6%	8.7%
EBITDA Margin	15.2%	14.7%	11.6%	10.5%	11.9%
iQmethod* SM - Quality of Earnings					
Cash Realization Ratio	1.3x	1.8x	1.5x	1.8x	1.4x
Asset Replacement Ratio	0.9x	2.0x	2.0x	1.7x	1.0x
Tax Rate (Reported)	21.2%	19.2%	23.5%	23.5%	23.5%
Net Debt-to-Equity Ratio	32.0%	24.9%	-5.1%	-16.4%	-26.0%
Interest Cover	9.7x	10.3x	11.8x	10.6x	18.2x

Key Metrics

* For full definitions of *iQmethod* SM 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 36%, petrochemical 38% and E&P 26% of FY11 EBIT. Its 2P reserves and resources in India are 2.6bn boe and 1.6bn boe in US shale gas.

Investment Thesis

We expect RIL's earnings to be flat in FY13 and EPS CAGR in FY08-13 to be just 6%, which is much lower than EPS CAGR of 36% in FY03-08. RIL will generate strong free cash flows and turn net cash for the first time in its history by the end of the current year. RIL has not made any significant discoveries in the last few years and has been hit by production problems, which has led to de-rating of E&P. However, it has large unexplored prospective acreage &, thus, large reserve-accretion potential.

Stock Data

Shares / GDR	2.00
Price to Book Value	1.5x

Key Changes (GDR)

(US$)	Previous	Current
Inv. Opinion	B-1-7	B-2-7
Inv. Rating	BUY	NEUTRAL
Price Obj.	40.14	33.15
2012E EPS	2.76	2.66
2013E EPS	2.96	2.69
2014E EPS	3.27	3.05

Cut to Neutral as GRM weakens

Cut to Neutral from Buy

5-year EPS CAGR in FY08-FY13E just 6%

Flat earnings now expected in FY13 after GRM cut

Revised PO implies 8% potential upside

We have cut RIL's FY12-13 GRM by 10-11% to US$8-9/bbl, which has meant 4-9% cut in RIL's FY12-13 EPS and 9% cut in its PO. We now expect flat earnings in FY13. Revised PO also implies just 8% potential upside. We therefore downgrade RIL to Neutral from Buy.

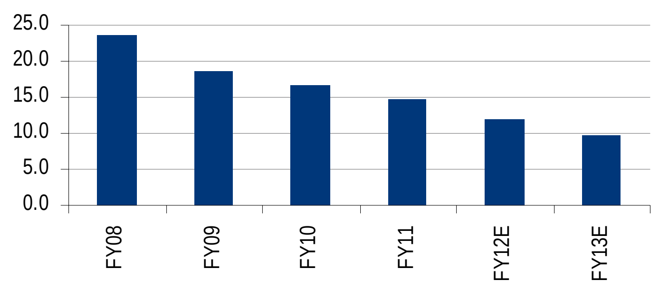
To turn net cash in end-FY12

Neutral due to inexpensive P/E and strong balance sheet

P/E on FY13 EPS of 11.5x; 5-year average forward P/E 16.8x

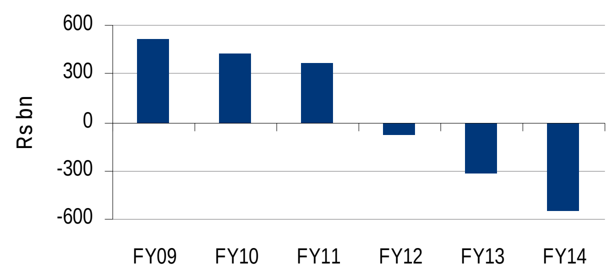
RIL is not expensive. Its P/E on FY12 and FY13 EPS is 11.4-11.5x. Its P/E is much lower than its 5-year average forward P/E of 16.8x. RIL has been de-rated due to weak earnings growth in FY08-11 and de-rating of its E&P business. RIL is set to turn net cash in FY13. RIL thus has a strong balance sheet, which is very reassuring in the current difficult environment.

Chart 1: RIL's forward PE trend since FY08



Source: Bloomberg, BofA Merrill Lynch Global Research

Chart 2: RIL to turn net cash by end of FY12



Source: Company, BofA Merrill Lynch Global Research

RIL's PO cut by 9% to Rs860/share

Lowering PO mainly due to cut in GRM

We have cut RIL's PO by 9% from Rs950/share to Rs860/share. The main reason for lowering the PO is a cut in refining EV due to a cut in GRM.

Table 1: RIL's sum of parts valuation

Rs/share	Valuation measure used	Valuation			
Business		USDbn	Rs-bn	Rs/share	Break-up
Petrochemicals	DCF	18.2	873	293	35%
Refining & Marketing	DCF	21.0	1,009	339	41%
Exploration & production	DCF	12.4	593	199	24%
		51.6	2,474	832	100%
Less: net debt		-1.8	-86	-29	
Sum of parts valuation		53.4	2,560	860	
No of shares (excluding treasury shares)				2,977	

Source: BofA Merrill Lynch Global Research

What would make us bearish on RIL?

GRM weaker than and rupee stronger than assumed

FY13 GRM US$8/bbl and rupee at Rs50 in the base case

RIL's FY13 earnings would be lower than expected by us if its GRM is lower than US$8/bbl assumed by us and/or rupee is stronger than expected by us.

Table 2: RIL's FY13 EPS and YoY EPS growth sensitivity to GRM

Rs/share	FY13 EPS	Change vis-à-vis base case	YoY EPS growth
RIL's FY13 GRM (US$/bbl)			
6.5	61.7	-12%	-11%
7.0	64.6	-8%	-7%
7.5	67.5	-4%	-3%
8.0 (base case)	70.3		1%
8.5	73.2	4%	5%
9.0	76.0	8%	10%
9.5	78.9	12%	14%
10.0	81.8	16%	18%
10.5	84.6	20%	22%
11.0	87.5	24%	26%

Source: BofA Merrill Lynch Global Research

FY13 EPS down 11% YoY if GRM at US$6.5/bbl

RIL's GRM had declined to US$6.6/bbl in FY10

RIL's GRM may plunge to US$6.5/bbl in FY13 like in FY10 if demand weakness or decline coincides with large refining capacity addition

We are assuming global oil demand rises by 1m b/d in FY13 in the base case. However, oil demand growth would be substantially weaker or oil demand would decline in case of US recession. RIL's FY13 GRM would be lower than US$8/bbl assumed by us if weak demand growth or decline in demand coincides with large refining capacity addition expected by us in FY13. In FY10 when global oil demand decline coincided with large capacity addition RIL's GRM plunged to US$6.6/bbl from US$12.2/bbl in FY09.

2012 global oil demand growth seen at 1m b/d in base case

0.4m b/d decline in oil demand in case of a recession in the US

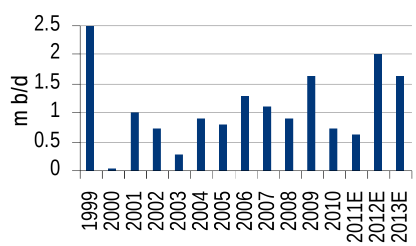
BofAML global oil demand growth estimate for 2012 is 1m b/d in the base case. However, in case of mild recession in the US we expect global oil demand to decline by 0.4m b/d. Our US economist estimates the probability of a recession in the US in 2012 at 40%.

GRM to plunge on weak demand & large capacity addition

2m b/d net global refining capacity addition expected in 2012

GRM has been very strong in FY12 until October 2011. However, GRM would plunge in 2H FY12 and FY13 if weak global oil demand growth or decline coincides with large refining capacity addition. We expect global refining capacity addition net of closures at 2m b/d in 2012, which is the largest since 1999.

Chart 3: Global refining capacity addition in 2012 expected to be the highest since 1999



Source: BP Statistical Review, BofA Merrill Lynch Global Research

Table 3: RIL's base case FY13 EPS and YoY EPS growth sensitivity to exchange rate

Rs/share	FY13 EPS	Change vis-à-vis base case	YoY EPS growth
FY13 exchange rate			
45.0	61.2	-13%	-12%
45.5	62.1	-12%	-11%
46.0	63.0	-10%	-9%
46.5	63.9	-9%	-8%
47.0	64.8	-8%	-7%
47.5	65.7	-7%	-5%
48.0	66.7	-5%	-4%
48.5	67.6	-4%	-3%
49.0	68.5	-3%	-1%
49.5	69.4	-1%	0%
50.0 (base case)	70.3		1%
50.5	71.2	1%	3%
51.0	72.1	3%	4%
51.5	73.1	4%	5%
52.0	74.0	5%	7%

Source: BofA Merrill Lynch Global Research

FY13 EPS down 12% YoY if rupee at Rs45

Rupee assumed to be Rs50 in FY13 in the base case

The Indian rupee has depreciated in the last 4 months Rs44 to Rs52. We are assuming FY13 average exchange rate at Rs50. RIL's FY13 EPS would be down 12% YoY if rupee is stronger than assumed at Rs45.

What would make us bullish on RIL?

Large oil & gas discovery; large value accretive acquisition

We would turn bullish on RIL if its FY13 GRM is substantially higher than our estimate

We would be bullish on RIL if

- RIL makes a significant oil & gas discovery, which significantly boosts its fair value
- RIL uses its large cash surplus to make a significant value accretive acquisition
- GRM outlook improves and RIL's FY13 GRM is substantially higher than US$8/bbl assumed by us

FY13 EPS growth 18% YoY if GRM at US$10/bbl

Global oil demand holds up and higher than expect capacity closure

Refining capacity closure would be higher than expected if some of the 3m b/d of refining capacity up for sale closes down

GRM have recovered smartly in the last 12 months after the slump in 2009 and 1H 2010. The recovery was driven by strong oil demand growth in 2010 and 3.5m b/d of refining capacity closure in US, Europe and Japan in 2009-11. Even in FY13 GRM outlook may be better than assumed by us if oil demand holds up and there is more refining capacity closure than assumed by us. There is 3m b/d of refining capacity up for sale mostly in US and Europe. If no buyers are found some of it could close down.

RIL's FY13 EPS would be up 18% YoY if its GRM is US$10/bbl.

Reuters' Singapore GRM collapses in Nov '11

Singapore GRM strong in FY12 but we had concerns

Reuters' Singapore GRM to date in FY12 at US$8.7/bbl even higher than at the peak of the FY05-08 super-cycle in FY08

Reuters' Singapore GRM has been strong in FY12 with average to date at US$8.7/bbl being higher than even at the peak of the FY05-FY08 super-cycle of US$7.6/bbl. However, we have been concerned that weak global oil demand growth and large refining capacity addition expected in 2012 may increase spare global refining capacity and weaken GRM (see Global Energy Weekly, 05 October 2011 and Oil Refining & Marketing, 11 October 2011).

Global oil demand has weakened since 2Q 2011

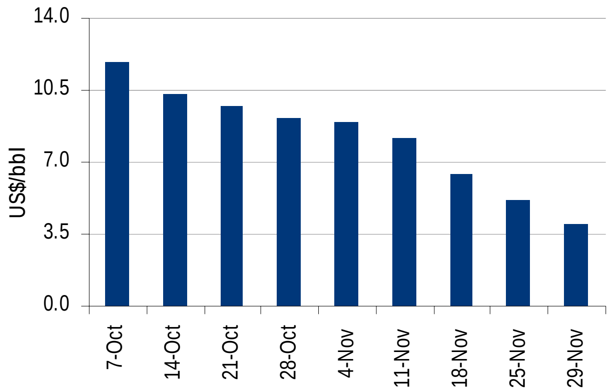
2Q 2011 global oil demand growth lowest in seven quarters

Global oil demand growth also weak in 3Q at 0.54m b/d as per IEA

IEA expects 4Q demand growth to be just 0.45m b/d

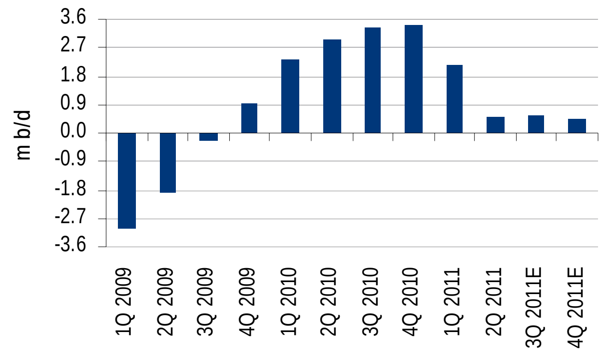
In 2011, high oil prices are hurting OECD oil demand (52% of global demand in 2010) and high interest rates hurting oil demand in emerging economies. Evidence of a weakening global oil demand is visible since 2Q 2011. Global oil demand growth at 0.48m b/d in 2Q 2011 is the lowest in seven quarters. Demand growth is also weak at 0.54m b/d in 3Q. IEA oil demand estimates are being consistently downgraded in the past few months. IEA expects 4Q 2011 global oil demand to rise by just 0.45m b/d.

Chart 4: Singapore GRM down to US$5.2/bbl in the week ending Nov 25 from US$11.9/bbl in the week ending Oct 7



Source: Reuters

Chart 5: Global oil demand growth in 2Q 2011 lowest in 7 quarters



Source: IEA

Singapore GRM down 35% MoM to US$6.6/bbl in Nov '11

Singapore GRM down to US$4.5-5.2/bbl in the past two weeks

Reuters' Singapore GRM in Nov'11 is the lowest monthly GRM in 2011

Reuters' Singapore GRM has collapsed by 35% MoM to US$6.6/bbl in November 2011 from US$10.2/bbl in October. Singapore GRM in Nov'11 is the lowest monthly GRM in 2011. Singapore GRM is down to US$5.2/bbl in the week ending 25 Nov and to US$4.5/bbl in the current week.

Cut RIL's FY12-14 EPS by 4-9%

Cut RIL's FY12-14 GRM by 6-11% to US$8-9/bbl

RIL's FY12 GRM now estimated at US$9/bbl (US$10.2/bbl in 1H) and US$8/bbl in FY13

We have cut Asian GRM (Oil Industry, 01 December 2011 and Refining & Chemicals - Asia-Pacific, 12 October 2011) and RIL's FY12-14 GRM by 6-11% from US$8.8-10/bbl to US$8.0-9.0/bbl.

Table 4: RIL's FY12-FY14 GRM cut by 6-11%

US$/bbl	FY12	FY13	FY14
RIL's GRM			
Revised	9.0	8.0	8.3
Earlier	10.0	9.0	8.8
Change	-10%	-11%	-6%

Source: BofA Merrill Lynch Global Research

FY12-14 EPS cut 4-9% mainly due to cut in GRM

KG D6 oil & gas volumes also cut

KG D6 gross gas volume cut to 42mmscmd in FY13 and FY14

We have cut RIL's FY12-14 earnings by 4-9% mainly due to a cut in its GRM. Our FY12-13 earnings estimates are 4-6% lower than consensus (sourced from Bloomberg). The other reasons for the cut in earnings are:

Cut in FY13 EPS would have been steeper at 20% (Rs62.1/share) if exchange rate had been kept unchanged at Rs45.5

- Cut in KG D6 oil & gas volume by 2-10%. We have cut FY12-14 gross KG D6 gas volume by 2-9% to 42-45mmscmd from 46mmscmd earlier. We have also cut KG D6 oil volume estimate by 10% for FY13-14. KG D6 oil & gas volume has consistently declined in the past few years
- Increase in FY13 interest cost by Rs6bn. This is mainly due to assuming weaker rupee/US$ of Rs50 in FY13 vis-à-vis Rs45.5 earlier

The cut in FY13 earnings would have been steeper at 20% (Rs62.1/share) if we had kept our exchange rate forecast unchanged at Rs45.5.

Table 5: RIL's FY12-14 EPS cut by 4-9%

Rs/share	FY12	FY13	FY14
RIL's EPS			
Revised	69.4	70.3	79.7
Earlier	72.1	77.2	85.4
Change	-4%	-9%	-7%

Source: BofA Merrill Lynch Global Research

Expect FY13 earnings growth at 1% YoY; 7% YoY earlier

We now expect RIL's FY13 earnings growth to be just 1% YoY vs 7% YoY earlier. We have also cut FY12 earnings growth to 13% YoY from 17% YoY earlier.

Table 6: RIL's FY12-14 EPS to be up 13-17% YoY

Rs/share	FY12	FY13	FY14
RIL's EPS	69.4	70.3	79.7
YoY change	13%	1%	13%

Source: BofA Merrill Lynch Global Research

Drivers of FY12-13 earnings growth

7% YoY rise in GRM & weak rupee to drive FY12 earnings

RIL's 1H FY12 GRM 32% YoY higher at US$10.2/bbl

Assuming 2H FY12 GRM to be 14% YoY lower at US$7.8/bbl

We expect strong GRM in 1HFY12 and a weak rupee in 2H to be main drivers of FY12 earnings growth. RIL's 1HFY12 GRM at US$10.2/bbl was up 32% YoY, while we expect its FY12 GRM to be up 7% YoY at US$9/bbl. We thus are assuming 2H FY12 GRM to be 14% YoY lower at US$7.8/bbl. Theoretical GRM of RIL for 3Q to date works out to just US$6.4-7.3/bbl. Rupee has weakened to over Rs52 now with average to date in 2H at Rs50. RIL gains from a weak rupee.

Gain from higher other income and weak rupee in FY13

To make up for weak GRM and lower E&P volumes

We expect RIL's FY13 earnings to be up 1% YoY despite

- 11% YoY decline in its GRM to US$8/ bbl
- 2% YoY decline in its blended petrochemical margin to US$440/t
- 10% YoY decline in its oil & gas volumes

Rs16bn YoY rise in other income to make up for Rs11bn YoY decline in refining, petrochemical and E&P EBIT in FY13

30% YoY higher other income and 4% YoY weaker rupee

The main factors RIL will benefit from in FY13 are

- 30% (Rs16bn) YoY increase in other income. This will help make up for 4% (Rs11bn) YoY decline in refining, petrochemical and E&P EBIT
- 4% YoY weaker rupee vis-à-vis US dollar. RIL gains from a weak rupee as it means higher oil & gas price, refining and petrochemical margins in rupee terms.

Rising surplus cash to drive jump in other income

US$7.5bn consideration from BP for E&P stake sale in 2011

Last tranche of consideration from BP of US$3bn received in early Oct 2011

RIL's surplus cash, which was Rs471bn (US$10.3bn) in end FY11, has gone up to Rs615bn (US$12.6bn) by September 2011. We expect it to rise to Rs921bn (US$18.4bn) by end of FY12 boosted by US$3bn last tranche of consideration from BP Plc and free cash flow from operations in 2H. We expect it to further rise to Rs995bn (US$19.9bn) by end-FY13.

Table 7: RIL's segment wise EBIT break-up

US$mn	FY09	FY10	FY11	FY12E	FY13E	FY14E
Segment wise EBIT						
Refining & marketing	2,132	1,268	1,996	2,241	1,815	1,678
Petrochemicals	1,516	1,809	2,074	2,181	2,324	2,955
E&P	389	1,153	1,450	1,397	1,230	1,000
Others	10	10	8	8	9	9
EBIT excluding other income	4,047	4,240	5,528	5,827	5,378	5,642
Segment wise EBIT break-up						
Refining & marketing	53%	30%	36%	38%	34%	30%
Petrochemicals	37%	43%	38%	37%	43%	52%
E&P	10%	27%	26%	24%	23%	18%
Others	0%	0%	0%	0%	0%	0%
	100%	100%	100%	100%	100%	100%
YoY EBIT growth						
Refining & marketing	-17%	-41%	57%	12%	-19%	-8%
Petrochemicals	-15%	19%	15%	5%	7%	27%
E&P	4%	197%	26%	-4%	-12%	-19%
Total EBIT	-16%	5%	30%	5%	-8%	5%
Assumptions						
Refining						
Refining margins (US$/bbl)	12.2	6.6	8.4	9.0	8.0	8.3
Crude throughput (mmt)	32.0	60.9	66.6	65.4	66.9	66.8
Petrochemical						
Blended petrochemical margin (US$/ton)	430	423	479	449	440	519
Petrochemical sales volumes (mmt)	8.0	8.1	8.1	8.2	8.7	9.7
E&P						
Oil & gas production (mmboe)	15.2	99.0	135.4	80	73	73
E&P EBIT (US$/boe)	25.5	11.6	10.7	17.4	16.9	13.8
KG D6 gas gross production (mmscmd)		39	55.4	45	42	42
KG D6 gas net production (mmscmd)		35	50	27	25	25
KG D6 gas price (US$/mmbtu)		3.8	3.8	3.8	3.8	3.8
RIL's KG D6 oil production (k bpd)	0.0	10.4	19.4	12.0	9.7	9.7
Brent price (US$/bbl)	85.0	69.4	87.0	108.0	112.0	113.0
Exchange rate	45.8	47.4	46.0	48.0	50.0	45.0

Source: BofA Merrill Lynch Global Research

Price objective basis & risk

Reliance Inds (XRELF / RLNIY)

Our PO of Rs860 (GDR US$33.15) is based on a sum-of-the-parts valuation. It includes EV of RIL's three businesses of Rs831/share and net cash of Rs29/share. The EV of the refining, petrochemical and E&P business is calculated on a DCF basis, using a WACC of 11.8pct. Refining and marketing (Rs339) is 41pct of the EV, E&P valuation (Rs199) is 24pct, and petrochemicals (Rs293) is 35pct. Downside risks are (1) refining and petrochemical margins being lower than expected due to global economic slowdown (2) seven-year income tax holiday being disallowed on gas production, which would mean lower cash flow, profit and fair value, (3) lower-than-expected oil price, and (4) large acquisitions that are value dilutive. Upside risks are (1) refining and petrochemical margins being better than expected, (2) higher-than-expected oil price, (3) significant reserve accretion in the next 12 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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APR - Energy Coverage Cluster

Investment rating	Company	BofA Merrill Lynch ticker	Bloomberg symbol	Analyst
BUY				
	Citic Resources	CTJHF	1205 HK	Vitus Leung
	Formosa Plastics	FSAPF	1301 TT	Joon-Ho Lee
	Hindustan Petro.	XHTPF	HPCL IN	Vidyadhar Ginde
	Honam Petrochemical	HBBHF	011170 KS	Kenneth Whee
	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
	Oriental Union Chemical	OLUNF	1710 TT	Joon-Ho Lee
	PetroChina	PCCYF	857 HK	Thomas Wong
	PetroChina - A	PTR	PTR US	Thomas Wong
	PTT Global Chemical PLC	XPGOF	PTTGC TB	Komsun Suksumrun
	Sinopec	SNPMF	386 HK	Thomas Wong
	Sinopec - A	SNP	SNP US	Thomas Wong
	Sinopec Shanghai Petrochemical	SPTJF	338 HK	Joon-Ho Lee
	SK Innovation	XVERF	096770 KS	Kenneth Whee
	S-Oil	SOOCF	010950 KS	Kenneth Whee
NEUTRAL				
	BPCL	XBPCF	BPCL IN	Vidyadhar Ginde
	CNOOC	CEO	CEO US	Thomas Wong
	CNOOC	CEOHF	883 HK	Thomas Wong
	COSL	CHOLF	2883 HK	Vitus Leung
	Formosa Chemicals & Fibre	XFUMF	1326 TT	Joon-Ho Lee
	Formosa Petrochemical	FPTCF	6505 TT	Kenneth Whee
	MIE Holdings	XMEEF	1555 HK	Vitus Leung
	Reliance Inds	XRELF	RIL IN	Vidyadhar Ginde
	Reliance Inds -G	RLNIY	RIGD LI	Vidyadhar Ginde
	Sinopec Yizheng Chemical Fibre	YZCFF	1033 HK	Joon-Ho Lee
UNDERPERFORM				
	GS Holdings	GSHDF	078930 KS	Kenneth Whee
	Kolon Industries	XKLNF	120110 KS	Joon-Ho Lee
	KP Chemical	KPCHF	064420 KS	Joon-Ho Lee
	Petronet LNG Ltd	POLNF	PLNG IN	Vidyadhar Ginde
RSTR				
	Cairn India	XCANF	CAIR IN	Vidyadhar Ginde
	IOC	IOCOF	IOCL IN	Vidyadhar Ginde
	ONGC	ONGCF	ONGC IN	Vidyadhar Ginde

iQmethod SM Measures Definitions

Business Performance	Numerator	Denominator
Return On Capital Employed	NOPAT = (EBIT + Interest Income) * (1 - Tax Rate) + Goodwill Amortization	Total Assets – Current Liabilities + ST Debt + 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	EV = Current Share Price * Current Shares + Minority Equity + Net Debt + Other LT Liabilities	Sales
EV / EBITDA	Enterprise Value	Basic EBIT + Depreciation + Amortization

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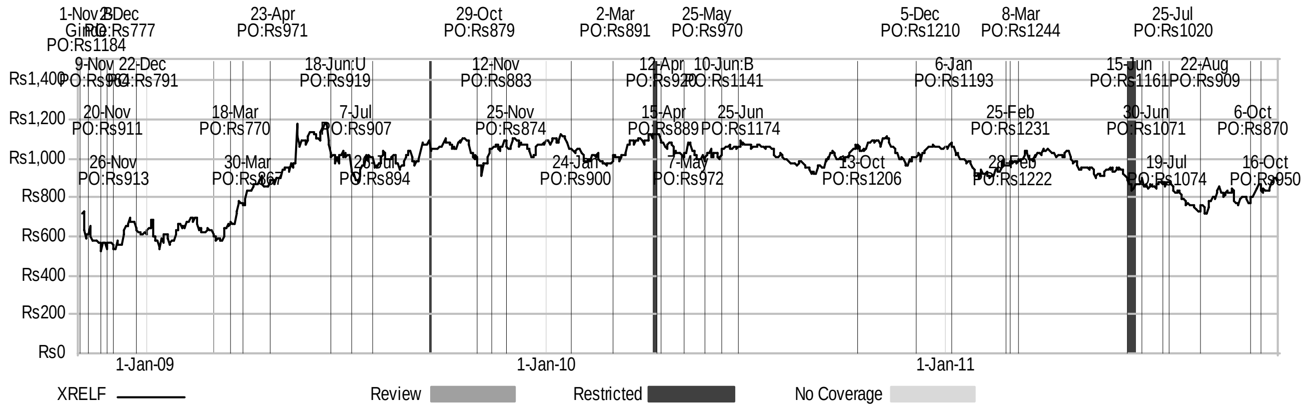

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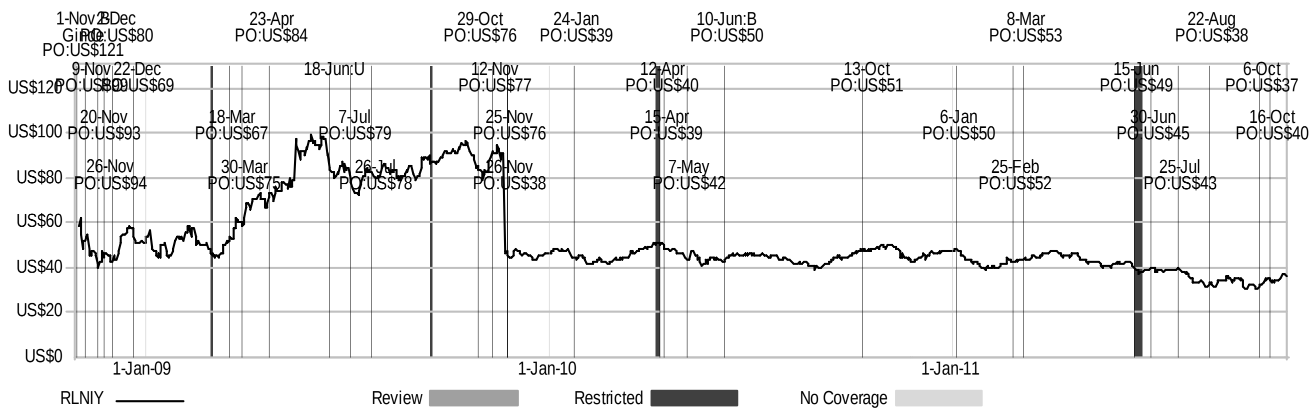
RLNIY Price Chart



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

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	54	50.94%	Buy	22	47.83%
Neutral	29	27.36%	Neutral	16	61.54%
Sell	23	21.70%	Sell	7	30.43%

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

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	2073	54.13%	Buy	923	49.12%
Neutral	961	25.09%	Neutral	460	52.57%
Sell	796	20.78%	Sell	287	38.32%

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