Kotak Institutional Equities

Reliance Industries (RIL)

Energy

BUY

NOVEMBER 22, 2011

CHANGE IN RECO.

Coverage view: Attractive

Price (Rs): 786

Target price (Rs): 1,000

BSE-30: 15,946

Weak Rupee versus weak cycles. We believe RIL stock offers a favorable reward-risk balance post the 10% correction in its stock price in the past three weeks. The softness likely reflects the market's concerns about recent weakness in refining margins but ignores the steep correction in the Rupee over the same period, which should partially offset weaker margins. We have made a few changes to our earnings model but retain our 12-month SOTP-based fair valuation of ₹1,000. We upgrade RIL stock to a BUY rating from ADD noting 27% upside to our target price.

Company data and valuation summary

Reliance Industries

Stock data			
52-week range (Rs) (high,low)			1,091-712
Market Cap. (Rs bn)			2,344.1
Shareholding pattern (%)			
Promoters			41.0
FIIs			21.2
MFs			2.5
Price performance (%)	**1M**	**3M**	**12M**
Absolute	(5.9)	3.9	(22.3)
Rel. to BSE-30	(1.0)	5.2	(4.6)

Forecasts/Valuations	2011	2012E	2013E
EPS (Rs)	62.0	69.6	74.0
EPS growth (%)	24.8	12.3	6.2
P/E (X)	12.7	11.3	10.6
Sales (Rs bn)	2,481.7	3,626.8	3,488.7
Net profits (Rs bn)	202.9	227.9	242.1
EBITDA (Rs bn)	384.8	390.5	387.6
EV/EBITDA (X)	6.9	5.7	5.2
ROE (%)	13.0	13.2	12.5
Div. Yield (%)	0.9	1.0	1.2

Recent correction offers opportunity to accumulate RIL stock

We see a favorable investment reward-risk balance at current levels. RIL stock has corrected by 10% in the past three weeks reflecting the market's concerns on (1) sharp decline in global refining margins (see Exhibit 1), (2) likely subdued chemical margins given a weak global macro-environment and (3) continued decline in KG D-6 gas production. RIL stock is currently trading at 10.3X FY2012E EPS and 9.7X FY2013E EPS (adjusted for treasury shares).

Refining margins tumble led by contraction in gasoline cracks

Singapore margins have plunged in the recent weeks, led by sharp contraction in gasoline/naphtha cracks. We compute Singapore complex gross refining margins at -US$2.5/bbl in the latest week versus US$3.5/bbl in October 2011. We would not be unduly concerned about weekly movement in refining margins and expect a rebound from current very low levels. However, we maintain our subdued view on the refining cycle for the next 12 months due to (1) demand weakness and (2) refining capacity additions in CY2012E. We model RIL's refining margins for FY2012-14E at US$9.8/bbl, US$10.1/bbl and US$10.4/bbl; US$10.2/bbl in 1HFY12. Exhibit 2 gives the sensitivity of RIL's earnings to key variables—exchange rate assumption, refining margins and chemical prices.

Earnings to benefit from weakening of Rupee

We expect RIL's earnings to benefit significantly from the recent sharp weakening of Indian Rupee against the US dollar. We note that Rupee has depreciated by 15% against US dollar over the past three months. RIL benefits from a weakening of the Rupee across all its segments. We note that the domestic selling prices of its products and purchase price of raw materials are linked to landed cost of imports; it gets export price in case of exports of products (refined products primarily). We highlight that a ₹1/US$ depreciation in Rupee increases RIL's earnings by ~3% for FY2012-13E.

Revised earnings to reflect weaker Rupee and lower margins

We have revised our FY2012E and FY2013E EPS to ₹70 and ₹74 from ₹70 and ₹71 previously, to reflect (1) weaker Rupee assumptions, (2) lower petrochemical and refining margins and (3) other minor changes. Key downside risks to our earnings estimates stem from (1) weaker-than-expected petrochemical and refining margins and (2) further decline in gas production from KG D-6 block.

QUICK NUMBERS

- ₹1/US$ depreciation in Rupee increases FY2012E EPS by 3.5%
- ₹203/share ascribed to RIL's E&P business
- 27% upside to our target price from current levels

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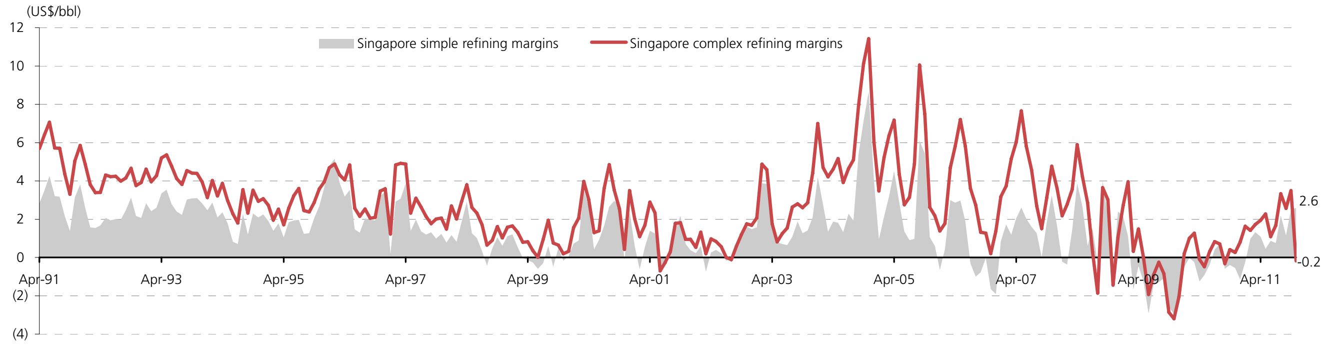
Singapore complex refining margins have declined sharply in the recent weeks

Singapore refining margins (US$/bbl)



Simple refining margins, March fiscal year-ends (US$/bbl)	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012YTD
1Q	0.5	0.3	1.0	1.7	3.0	2.5	2.3	2.4	(1.5)	(0.9)	0.8
2Q	0.4	0.1	1.2	3.1	2.8	(0.7)	1.0	1.7	(1.3)	0.2	1.3
3Q	1.1	1.4	1.6	6.5	2.2	(1.2)	2.3	1.3	(2.5)	(0.7)	2.5
4Q	(0.0)	3.0	2.9	2.1	1.1	1.2	0.2	0.7	(0.3)	0.7	
Average	**0.5**	**1.2**	**1.7**	**3.3**	**2.3**	**0.5**	**1.5**	**1.5**	**(1.4)**	**(0.2)**	**1.4**

Weekly margins				
Current	-1 Wk	-2 Wk	-3 Wk	-4 Wk
1.1	**2.9**	3.7	2.1	1.6

Complex refining margins, March fiscal year-ends (US$/bbl)	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012YTD
1Q	1.3	0.8	1.2	4.6	4.9	6.2	6.6	4.3	(0.1)	(0.1)	1.8
2Q	0.6	0.1	2.3	5.8	6.1	2.5	2.9	0.7	(0.7)	0.4	2.5
3Q	1.2	1.6	3.2	9.0	3.9	1.0	3.9	1.0	(2.7)	0.5	1.9
4Q	0.6	3.7	5.4	5.0	2.8	4.1	2.8	2.4	0.8	1.6	
Average	**0.9**	**1.5**	**3.1**	**6.1**	**4.4**	**3.4**	**4.0**	**2.1**	**(0.7)**	**0.6**	**2.1**

Weekly margins				
Current	-1 Wk	-2 Wk	-3 Wk	-4 Wk
(2.5)	**(0.0)**	2.0	2.0	2.5

Source: Bloomberg, Kotak Institutional Equities estimates

Reliance's earnings have high leverage to refining margins

Sensitivity of RIL's earnings to key variables

	Fiscal 2012E			Fiscal 2013E			Fiscal 2014E		
	Downside	Base case	Upside	Downside	Base case	Upside	Downside	Base case	Upside
Rupee-dollar exchange rate									
Rupee-dollar exchange rate	46.3	47.3	48.3	48.8	49.8	50.8	47.5	48.5	49.5
Net profits (Rs mn)	219,986	227,899	235,812	234,857	242,115	249,381	236,696	244,604	252,530
EPS (Rs)	67.2	69.6	72.0	71.7	74.0	76.2	72.3	74.7	77.1
% upside/(downside)	**(3.5)**		**3.5**	**(3.0)**		**3.0**	**(3.2)**		**3.2**
Chemical prices									
Change in prices (%)	(5.0)		5.0	(5.0)		5.0	(5.0)		5.0
Net profits (Rs mn)	221,617	227,899	234,182	235,589	242,115	248,642	237,815	244,604	251,393
EPS (Rs)	67.7	69.6	71.5	72.0	74.0	76.0	72.7	74.7	76.8
% upside/(downside)	**(2.8)**		**2.8**	**(2.7)**		**2.7**	**(2.8)**		**2.8**
Blended refining margins (US$/bbl)									
Margins (US$/bbl)	8.8	9.8	10.8	9.1	10.1	11.1	9.4	10.4	11.4
Net profits (Rs mn)	208,447	227,899	247,333	221,790	242,115	262,444	224,779	244,604	264,431
EPS (Rs)	63.7	69.6	75.6	67.8	74.0	80.2	68.7	74.7	80.8
% upside/(downside)	**(8.5)**		**8.5**	**(8.4)**		**8.4**	**(8.1)**		**8.1**

Source: Kotak Institutional Equities estimates

Production from KG D-6 continues to decline; factored in our earnings estimates

We take cognizance of the continued disappointment in the gas production from RIL's KG D- block, which has declined to 41.7 mcm/d for the week ended October 30, 2011. (1) The steady decline from the block and (2) lack of progress on other E&P blocks has resulted in sharp contraction in the value being ascribed to RIL's E&P business. Our reverse valuation exercise reflects that the market is not ascribing any meaningful value to RIL's prospective E&P blocks.

We highlight our fair valuation and earnings already reflect a sedate view on RIL's E&P business. We model gas production from RIL's KG D-6 block at 45 mcm/d for FY2012E and 40 mcm/d for FY2013-14E. We ascribe ₹203/share to RIL's E&P business in our SOTP-based fair valuation. Exhibit 3 gives a breakdown of fair valuation ascribed to various E&P assets of RIL.

We compute fair value of RIL's E&P segment at ₹203/share
Valuation of RIL's upstream segment, FY2013E basis (₹)

	Gross reserves	Valuation base (Rs bn)		Multiple (X)	EV	Valuation
	(tcf)	Other	EBITDA	EV/EBITDA	(Rs bn)	(Rs/share)
Gas—producing and developing (a)		457			457	153
KG D-6	14.1	307			307	103
NEC-25	1.9	41			41	14
KG D-3	9.4	64			64	22
KG D-9	5.2	45			45	15
Oil—KG-DWN-98/3 (b)		42			42	14
Oil and gas—producing (PMT and Yemen)			26	4.0	105	35
Enterprise value of RIL's upstream segment					**604**	**203**

Notes:
(a) We value KG D-6, NEC-25, KG D-3 and KG D-9 blocks on DCF.
(b) 140 mn bbls of recoverable reserves based on gross OOIP of 0.35 bn bbls.
(c) We use 2.981 bn shares (excluding treasury shares) for per share computations.

Source: Kotak Institutional Equities estimates

Key assumptions behind earnings model

We discuss the key assumptions behind and revisions to our earnings model below.

- **Refining margins.** We model RIL's FY2012E, FY2013E and FY2014E refining margin at US$9.8/bbl, US$10.1/bbl and US$10.4/bbl against US$0.2/bbl in 1HFY2012. We model weak margins in 2HFY12E. We expect underlying refining margins to be steady over the next two years given that 2.3 mn b/d of refining capacity additions (see Exhibit 4) and 0.8 mn b/d of additional NGL supply (see Exhibit 5) in CY2012-13E will offset likely increase of 2.4 mn b/d in global oil demand. Exhibit 6 gives our key assumptions for RIL's refining division.

We expect significant refining capacity additions over the next few years
World refinery capacity additions (net), calendar year-ends, 2007-13E ('000 b/d)

	2007	2008	2009	2010	2011E	2012E	2013E
Refinery capacity additions							
OECD North America	240	—	(124)	(116)	349	368	—
OECD Europe	—	30	(270)	(121)	(85)	—	—
OECD Pacific	—	—	(57)	(17)	—	—	—
FSU	—	84	—	140	—	203	20
Non-OECD Europe	—	—	—	(70)	—	50	—
China	—	206	446	560	266	310	440
Other Asia	315	65	798	229	380	200	40
Latin America	—	—	(217)	50	235	28	365
Middle East	77	226	179	70	165	—	140
Africa	—	6	6	35	60	42	70
Total World	**632**	**616**	**761**	**760**	**1,370**	**1,201**	**1,075**

Source: IEA, OGJ, Kotak Institutional Equities estimates

We expect improvement in global supply-demand balance over the next few years
Estimated global crude demand, supply and prices, Calendar year-ends, 2005-14E

	2005	2006	2007	2008	2009	2010	2011E	2012E	2013E	2014E
Demand (mn b/d)										
Total demand	84.6	85.6	87.1	86.5	85.6	88.3	89.2	90.5	91.6	92.8
Yoy growth	2.1	1.0	1.5	(0.6)	(0.9)	2.7	0.9	1.3	1.1	1.2
Supply (mn b/d)										
Non-OPEC	50.0	50.4	50.7	50.6	51.6	52.6	52.7	53.8	54.0	54.2
Yoy growth	1.2	0.4	0.4	(0.1)	1.0	1.1	0.1	1.1	0.2	0.2
OPEC										
Crude	30.6	30.9	30.7	31.6	29.2	29.5	30.6	30.4	31.0	31.7
NGLs	4.2	4.3	4.3	4.5	4.9	5.4	5.9	6.3	6.7	6.9
Total OPEC	**34.8**	**35.2**	**35.0**	**36.2**	**34.1**	**34.8**	**36.4**	**36.7**	**37.6**	**38.6**
Total supply	**84.8**	**85.6**	**85.8**	**86.8**	**85.6**	**87.5**	**89.2**	**90.5**	**91.6**	**92.8**
Total stock change	0.2	(0.0)	(1.3)	0.2	0.1	(0.8)				
OPEC crude capacity			**34.4**	**34.2**	**34.9**	**35.7**	**34.3**	**34.4**	**35.9**	**36.9**
Implied OPEC spare capacity			**2.4**	**2.7**	**5.8**	**5.4**	**3.7**	**4.1**	**4.9**	**5.2**
Demand growth (yoy, %)	**2.5**	**1.2**	**1.8**	**(0.7)**	**(1.0)**	**3.2**	**1.0**	**1.5**	**1.2**	**1.3**
Supply growth (yoy, %)										
Non-OPEC	**2.4**	**0.8**	**0.7**	**(0.3)**	**1.9**	**2.1**	**0.2**	**2.0**	**0.3**	**0.3**
OPEC	**3.3**	**1.0**	**(0.5)**	**3.3**	**(5.8)**	**2.2**	**4.5**	**0.7**	**2.5**	**2.7**
Total	**1.7**	**0.9**	**0.2**	**1.2**	**(1.3)**	**2.1**	**2.0**	**1.5**	**1.2**	**1.3**
Dated Brent (US$/bbl)	**54.4**	**65.8**	**72.7**	**102.0**	**62.1**	**79.7**	**110.0**	**102.5**	**96.3**	**91.3**

Source: Kotak Institutional Equities estimates

Major assumptions of refinery division, March fiscal year-ends, 2007-2014E (US$/bbl)

	2007	2008	2009	2010	2011	2012E	2013E	2014E
RIL refinery								
Rupee-dollar exchange rate	45.3	40.3	45.8	47.4	45.6	47.3	49.8	48.5
Import tariff on crude (%)	5.1	2.4	1.3	1.1	5.4	1.7	0.5	0.5
Refinery yield (per bbl of crude throughput)	75.2	98.1	104.8	83.1	96.5	129.2	117.1	111.8
Cost of inputs (per bbl of crude throughput)	63.5	83.1	92.6	76.3	88.6	119.8	107.2	101.4
Net refining margin	**11.7**	**15.0**	**12.2**	**6.8**	**7.8**	**9.4**	**9.9**	**10.4**
Crude throughput (mn tons)	31.8	31.8	32.0	32.0	33.3	33.9	33.9	33.9
Fuel and loss-own fuel used (%)	8.0	8.0	8.0	6.0	6.0	6.0	6.0	6.0
Fuel & loss equivalent-gas used (%)				2.0	2.0	2.0	2.0	2.0
SEZ refinery								
Import tariff on crude (%)				—	0.6	0.7	0.5	0.5
Refinery yield (per bbl of crude throughput)				70.5	91.5	126.7	115.4	109.9
Cost of inputs (per bbl of crude throughput)				64.2	82.6	116.5	105.2	99.4
Net refining margin				**6.3**	**9.0**	**10.2**	**10.3**	**10.5**
Crude throughput (mn tons)				28.9	33.3	34.0	34.0	34.0
Fuel and loss-own fuel used (%)				6.5	6.5	6.5	6.5	6.5
Fuel & loss equivalent-gas used (%)				2.0	2.0	2.0	2.0	2.0
Blended refining margin (US$/bbl)				**6.6**	**8.4**	**9.8**	**10.1**	**10.4**
Total crude throughput (mn tons)				**60.9**	**66.6**	**67.9**	**67.9**	**67.9**

Source: Company, Kotak Institutional Equities estimates

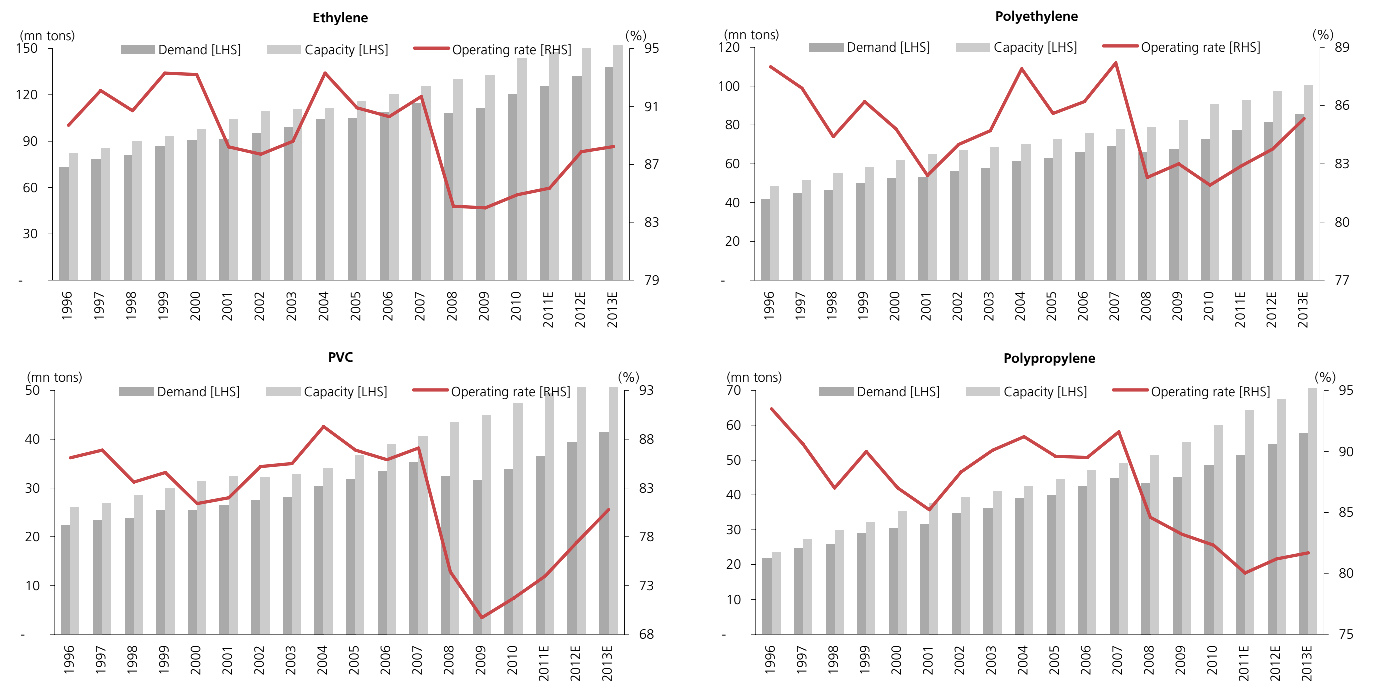
- **Chemical margins.** Exhibit 7 shows our major assumptions for RIL's chemical segment. Exhibit 8 shows that global capacity utilization for major polymers will likely increase over the next few years with incremental supply moderating after a period of frenetic capacity additions (CY2008-11).

Key chemical prices and margins assumptions, March fiscal year-ends, 2007-14E

	2007	2008	2009	2010	2011	2012E	2013E	2014E
Chemical prices								
LDPE	1,360	1,600	1,400	1,500	1,555	1,650	1,575	1,550
LLDPE	1,350	1,575	1,330	1,400	1,455	1,525	1,425	1,400
HDPE	1,340	1,500	1,275	1,375	1,415	1,480	1,380	1,355
Polypropylene	1,350	1,470	1,300	1,360	1,525	1,675	1,600	1,575
PVC	890	1,100	925	1,000	1,075	1,150	1,100	1,075
PFY	1,400	1,550	1,485	1,380	1,640	1,840	1,820	1,795
PSF	1,360	1,475	1,320	1,310	1,660	1,910	1,770	1,745
Paraxylene	1,225	1,200	1,085	1,050	1,125	1,550	1,530	1,505
Chemical margins								
LLDPE—naphtha	**820**	**850**	**655**	**770**	**725**	**590**	**550**	**555**
HDPE—naphtha	810	775	600	745	685	545	505	510
PP—naphtha	**820**	**745**	**625**	**730**	**795**	**740**	**725**	**730**
PVC—1.025 x (0.235 x ethylene + 0.864 x EDC)	247	396	401	389	367	433	418	423
POY—naphtha	**870**	**825**	**810**	**750**	**910**	**905**	**945**	**950**
PSF—naphtha	830	750	645	680	930	975	895	900
PX—naphtha	**695**	**475**	**410**	**420**	**395**	**615**	**655**	**660**
POY—0.85 x PTA—0.34 x MEG	329	364	496	341	437	361	422	427
PSF—0.85 x PTA—0.34 x MEG	**289**	**289**	**331**	**271**	**457**	**431**	**372**	**377**
PTA—0.67 x PX	89	121	133	217	281	222	160	152

Source: Company, Kotak Institutional Equities estimates

Global operating rates for key chemical products to improve over the next few years
World demand and capacity (mn tons), operating rate (%), 1996-2013E



Source: CMAI, Kotak Institutional Equities estimates

- **E&P volume assumptions.** We model FY2012E, FY2013E and FY2014E gas production from KG D-6 block at 45 mcm/d, 40 mcm/d and 40 mcm/d. We do not see significant downside risk to our gas volumes estimates for FY2012E and FY2013E given reasonably conservative assumptions. We estimate oil production from RIL's MA-1 fields at 16,000 b/d in FY2012-13E and 18,000 b/d in FY2014E versus 16,940 b/d in 1HFY12.

- **Other income.** We expect RIL's other income to grow strongly over the next few years driven by its increasing cash pile. We expect RIL to generate around ₹880 bn in gross cash flow and ₹745 bn in free cash flow in FY2012-14E. The quantum of other income will depend on (1) RIL's dividend policy; RIL has followed a conservative dividend pay-out policy historically, (2) acquisitions and (3) capex, which would depend on new E&P discoveries and kick-start of new petrochemical projects.

- **Taxation.** We assume effective tax rates at 23.1%, 24.4% and 24.7% for FY2012E, FY2013E and FY2014E versus 22.1% in 1HFY12 and 19.6% in FY2011. We assume that RIL will continue to avail of income tax exemption on gas production from KG D-6 block and prepare our forecasts accordingly. However, in case the income tax exemption is not available, we compute RIL's FY2012E and FY2013E EPS to drop by 4.6% and 4% to ₹66 and ₹71.

- **Exchange rate.** We have revised our Rupee-dollar exchange rate assumptions for FY2012E, FY2013E and FY2014E to ₹47.3/US$, ₹49.75/US$ and ₹48.5/US$ versus ₹46.3/US$, ₹45.63/US$ and ₹45/US$ previously.

Valuation—12-month target price at ₹1,000

Exhibit 9 presents our SOTP-based fair valuation based on FY2013E estimates. We discuss the valuation for each segment in detail below.

SOTP valuation of Reliance is ₹1,000 per share on FY2013E estimates

Sum-of-the-parts valuation of Reliance Industries, FY2013E basis (₹)

	Valuation base (Rs bn)		Multiple (X)		EV	Valuation
	Other	EBITDA	Multiple	EV/EBITDA	(Rs bn)	(Rs/share)
Chemicals		119		5.5	655	220
Refining & Marketing		175		5.5	963	323
Oil and gas—producing (PMT and Yemen)		26		4.0	105	35
Gas—producing and developing (DCF-based) (a)	457				457	153
KG D-6	307				307	103
NEC-25	41				41	14
KG D-3	64				64	22
KG D-9	45				45	15
Oil—KG-DWN-98/3 (b)	42				42	14
Investments other than valued separately	289				289	97
Loans & advances to affiliates	71				71	24
Retailing	52		80%		42	14
SEZ development	35		80%		28	9
Capital WIP (book value)	65		100%		65	22
Total enterprise value					**2,717**	**911**
Net debt					(228)	(76)
Implied equity value					**2,945**	**988**

Notes:
(a) We value KG D-6, NEC-25, KG D-3 and KG D-9 blocks on DCF.
(b) 140 mn bbls of recoverable reserves based on gross OOIP of 0.35 bn bbls.
(c) Capital WIP includes capex on new petrochemical units.
(d) We use 2.981 bn shares (excluding treasury shares) for per share computations.

Source: Kotak Institutional Equities estimates

- **Refining segment.** We value RIL's refining segment at ₹323/share based on 5.5X FY2013E EBITDA. We estimate the refining segment EBITDA of ₹175 bn in FY2013E based on mid-cycle refining margins of US$10.1/bbl.

- **Petrochemical segment.** We value RIL's petrochemical segment at ₹220/share based on 5.5X FY2013E EBITDA. We estimate petrochemical segment EBITDA of ₹119 bn in FY2013E based on modestly lower petchem margins versus FY2012E levels.

- **Upstream segment.** We value RIL's upstream segment at ₹153/share based on DCF for the key blocks. We note that KG D-6 block contributes ₹103/share based on 8.5 tcf of recoverable reserves (RIL's share) and other developing blocks (NEC-25, KG D-3 and KG D-9) contribute ₹50/share based on 10 tcf of recoverable reserves (RIL's share). We see downside risks to our valuation of developing blocks given the delays in the exploration activities.

- **Investments, loans and advances and other businesses.** We value retail and SEZ businesses at ₹23/share based on 0.8X book value. Other investments, loans and advances and capital WIP contribute ₹143/share at 1X book value.

RIL: Profit model, balance sheet, cash model, March fiscal year-ends, 2007-2014E (₹ mn)

	2007	2008	2009	2010	2011	2012E	2013E	2014E
Profit model (Rs mn)								
Net sales	1,114,927	1,334,430	1,418,475	1,924,610	2,481,700	3,626,848	3,488,687	3,271,701
EBITDA	**198,462**	**233,056**	**233,139**	**305,807**	**381,257**	**386,924**	**384,015**	**383,076**
Other income	4,783	8,953	20,599	24,605	30,517	46,660	53,705	54,006
Interest	(11,889)	(10,774)	(17,452)	(19,972)	(23,276)	(24,129)	(16,876)	(6,759)
Depreciation & depletion	(48,152)	(48,471)	(51,953)	(104,965)	(136,076)	(113,008)	(100,408)	(105,439)
Pretax profits	143,205	182,764	184,332	205,474	252,422	296,447	320,436	324,885
Extraordinary items	2,000	47,335	—	—	—	—	—	—
Tax	(16,574)	(26,520)	(12,634)	(31,118)	(43,204)	(64,985)	(72,949)	(74,823)
Deferred taxation	(9,196)	(8,999)	(18,605)	(12,000)	(6,355)	(3,563)	(5,371)	(5,458)
Net profits	119,434	194,580	153,093	162,357	202,863	227,899	242,115	244,604
Adjusted net profits	**117,789**	**152,605**	**153,093**	**162,357**	**202,863**	**227,899**	**242,115**	**244,604**
Earnings per share (Rs)	**40.5**	**52.5**	**50.6**	**49.6**	**62.0**	**69.6**	**74.0**	**74.7**
Balance sheet (Rs mn)								
Total equity	673,037	847,853	1,263,730	1,371,706	1,515,403	1,712,117	1,919,583	2,126,071
Deferred taxation liability	69,820	78,725	97,263	109,263	115,618	119,181	124,552	130,010
Minority interest	33,622	33,622	—	—	—	—	—	—
Total borrowings	332,927	493,072	739,045	624,947	673,967	481,899	254,167	112,160
Currrent liabilities	192,305	251,427	357,019	404,148	542,206	588,793	568,951	533,958
Total liabilities and equity	**1,301,712**	**1,704,700**	**2,457,057**	**2,510,064**	**2,847,194**	**2,901,991**	**2,867,252**	**2,902,200**
Cash	18,449	42,823	221,765	134,627	271,349	488,495	481,792	556,681
Current assets	286,566	402,720	325,357	489,165	644,070	823,701	796,908	755,662
Total fixed assets	899,403	1,081,638	1,693,869	1,653,987	1,555,260	1,213,280	1,212,037	1,213,341
Investments	97,294	177,519	216,065	232,286	376,515	376,515	376,515	376,515
Deferred expenditure	—	—	—	—	—	—	—	—
Total assets	**1,301,712**	**1,704,700**	**2,457,057**	**2,510,064**	**2,847,194**	**2,901,991**	**2,867,252**	**2,902,200**
Free cash flow (Rs mn)								
Operating cash flow, excl. working capital	164,285	180,718	174,508	222,605	304,310	292,148	291,080	297,986
Working capital	(13,075)	(31,071)	(37,983)	(53,015)	695	(43,004)	6,951	6,254
Capital expenditure	(247,274)	(239,691)	(247,128)	(219,427)	(123,661)	(55,593)	(97,642)	(107,242)
Investments	(105,760)	(78,953)	(10,392)	14,206	(195,439)	—	—	—
Other income	4,143	6,132	16,195	22,043	23,316	46,660	53,705	54,006
Free cash flow	**(197,681)**	**(162,865)**	**(104,800)**	**(13,587)**	**9,220**	**240,211**	**254,093**	**251,004**
Ratios (%)								
Debt/equity	44.8	53.2	54.3	42.2	41.3	26.3	12.4	5.0
Net debt/equity	42.3	48.6	38.0	33.1	24.7	(0.4)	(11.1)	(19.7)
RoAE	20.3	18.9	13.6	11.8	13.1	13.1	12.4	11.3
RoACE	**13.9**	**12.7**	**10.0**	**8.6**	**10.1**	**10.6**	**11.0**	**10.7**
Adjusted ROACE	**18.8**	**21.7**	**17.3**	**12.3**	**12.5**	**15.0**	**17.3**	**17.3**

Source: Company, Kotak Institutional Equities estimates

"I, Sanjeev Prasad, hereby certify that all of the views expressed in this report accurately reflect my personal views about the subject company or companies and its or their securities. I also certify that no part of my compensation was, is or will be, directly or indirectly, related to the specific recommendations or views expressed in this report."

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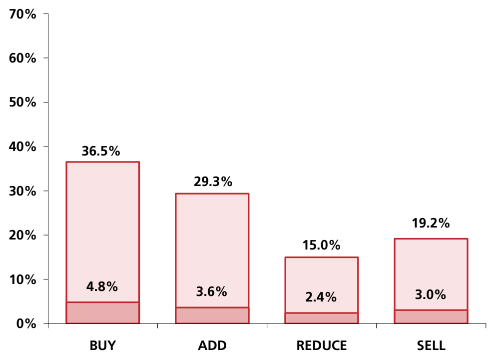

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Source: Kotak Institutional Equities

As of September 30, 2011

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Definitions of ratings

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ADD. We expect this stock to deliver 7.5-17.5% returns over the next 12 months.

REDUCE. We expect this stock to deliver 0-7.5% returns over the next 12 months.

SELL. We expect this stock to deliver less than 0% returns over the next 12 months.

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