



Rating
Buy

Asia
India

Energy
Oil & Gas

Company
Reliance Industries

Reuters
RELI.BO

Bloomberg
RIL IN

Exchange
BSE

Ticker
RELI

Date
18 August 2012

Company Update

Price at 17 Aug 2012 (INR)	815.10
Price target - 12mth (INR)	840.00
52-week range (INR)	898.00 - 676.20
BSE 30	17,657

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Near-term outlook improves; reiterating Buy

Improvement in refining margins; better visibility on E&P bodes well for RIL

Regional refining margins (GRM) are up 37% QTD (USD2.4/bbl) driven by unplanned refinery shutdowns. With refining contributing c.44% of RIL's EBIT, it will benefit from this strength in GRMs. We also expect receipt of regulatory approvals to accelerate RIL's E&P activities going ahead. RIL has recently received conditional approval for FY11-13 spending budgets for the KG-D6 block, which has been pending for the last two years. Adjusted for treasury stock, RIL is trading at 7x FY13E EV/EBITDA, which is a c.20% discount to its Asian refining peers, despite being a more complex refinery. Moreover, RIL has underperformed its refining peers over the last month. We reiterate our Buy.

RIL to benefit from improvement in regional refining margins

Singapore Complex refining margins (GRMs) are up 37% QTD (USD2.4/bbl) due to unplanned refinery shutdowns. The QoQ increase in GRM is primarily driven by improvement in middle distillate cracks and higher (+USD0.6/bbl) light-heavy (Dubai-Arab Heavy) crude differentials. However, improvement in RIL's GRM is likely to be lower than regional GRM since naphtha spreads continue to remain weak. If the QTD margins are sustained, we expect RIL's GRM to improve by USD1.5-2/bbl over the previous quarter (USD7.6/bbl). Every USD1/bbl increase in GRM increases RIL's FY13E EPS by 9% and valuation by INR48/sh (7%). Also, the INR has weakened further against the USD to average 55.5 QTD (Q1FY13: 54.2), which is likely to further benefit RIL.

Visibility on E&P segment to improve

The apparent thawing of relations between the government and RIL (reflected by the long-pending budget approvals for KG D6) could improve the sentiment surrounding RIL's upstream business as visibility on the monetization of discoveries in RIL's blocks improves. In order to ramp-up production over the next three to four years, RIL is focusing on the KG D6, NEC-25 and coal bed methane (CBM) blocks, all of which need government approvals.

SOTP-based target price of INR840; worsening global economy the key risk

We value refining and petrochemicals at 6.2x FY13E EV/EBITDA and E&P on DCF (WACC 10.7%). Risks are 1) weaker global economy leading to lower downstream margins; 2) production outages and 3) policy vagaries.

Forecasts And Ratios

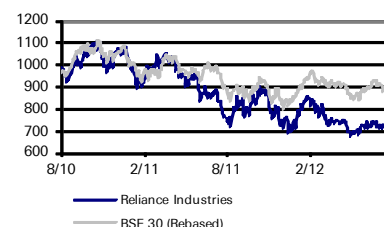
Year End Mar 31	2011A	2012A	2013E	2014E	2015E
Sales (INRm)	2,658,106.0	3,585,010.0	3,948,834.9	3,975,265.1	4,169,650.8
EBITDA (INRm)	380,435.8	345,080.0	341,343.7	376,424.9	435,160.7
Reported NPAT (INRm)	192,936.8	197,240.0	219,999.5	237,371.2	269,815.9
DB EPS FD(INR)	58.97	60.28	67.26	72.57	82.49
PER (x)	17.3	13.9	12.1	11.2	9.9

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

Price/price relative



Performance (%)	1m	3m	12m
Absolute	13.3	19.0	8.0
BSE 30	3.2	9.9	4.8

Deutsche Bank AG/Hong Kong

All prices are those current at the end of the previous trading session unless otherwise indicated. Prices are sourced from local exchanges via Reuters, Bloomberg and other vendors. Data is sourced from Deutsche Bank and subject companies. Deutsche Bank does and seeks to do business with companies covered in its research reports. Thus, investors should be aware that the firm may have a conflict of interest that could affect the objectivity of this report. Investors should consider this report as only a single factor in making their investment decision. DISCLOSURES AND ANALYST CERTIFICATIONS ARE LOCATED IN APPENDIX 1. MICA(P) 072/04/2012.



Model updated: 12 June 2012

Running the numbers

Asia
India
Oil & Gas

Reliance Industries

Reuters: RELI.BO Bloomberg: RIL IN

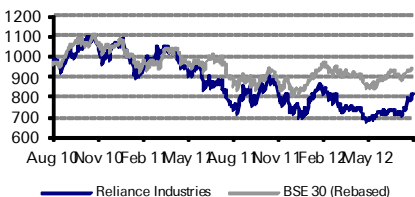
Buy

Price (17 Aug 12) INR 815.10
Target Price INR 840.00
52 Week range INR 676.20 - 898.00
Market Cap (m) INRm 2,666,192
USDm 47,888

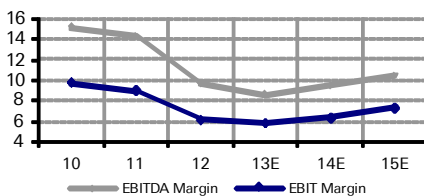
Company Profile

RIL is India's largest private sector enterprise, with businesses in the energy and materials value chain. Its activities span exploration and production of oil and gas, petroleum refining and marketing, petrochemicals (polyester, fibre intermediates, plastics and chemicals), textiles and retailing. RIL currently produces oil & gas from its deepwater KG D6 block. RIL is the largest polyester yarn and fibre producer in the world and among the top five to ten producers in the world in major petrochemical products.

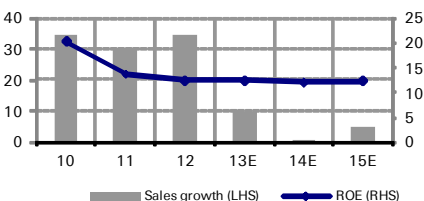
Price Performance



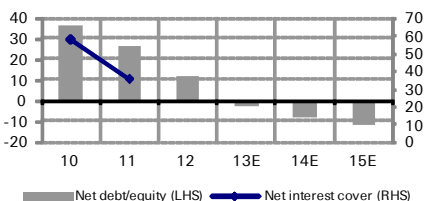
Margin Trends



Growth & Profitability



Solvency



Fiscal year end 31-Mar

Financial Summary

	2010	2011	2012	2013E	2014E	2015E
DB EPS (INR)	48.49	58.97	60.28	67.26	72.57	82.49
Reported EPS (INR)	74.74	58.97	60.28	67.26	72.57	82.49
DPS (INR)	7.00	8.00	8.50	9.00	9.50	10.00
BVPS (INR)	402.4	452.2	508.5	566.2	628.7	700.6
Weighted average shares (m)	3,278	3,272	3,272	3,271	3,271	3,271
Average market cap (INRm)	3,353,379	3,347,249	2,740,471	2,666,192	2,666,192	2,666,192
Enterprise value (INRm)	3,843,224	3,741,659	2,942,841	2,621,186	2,511,582	2,333,527

Valuation Metrics

	2010	2011	2012	2013E	2014E	2015E
P/E (DB) (x)	21.1	17.3	13.9	12.1	11.2	9.9
P/E (Reported) (x)	13.7	17.3	13.9	12.1	11.2	9.9
P/BV (x)	2.67	2.32	1.47	1.44	1.30	1.16
FCF Yield (%)	4.5	1.1	14.2	6.7	5.1	5.8
Dividend Yield (%)	0.7	0.8	1.0	1.1	1.2	1.2
EV/Sales (x)	1.9	1.4	0.8	0.7	0.6	0.6
EV/EBITDA (x)	12.4	9.8	8.5	7.7	6.7	5.4
EV/EBIT (x)	19.3	15.6	13.3	11.3	9.9	7.7

Income Statement (INRm)

Sales revenue	2,037,397	2,658,106	3,585,010	3,948,835	3,975,265	4,169,651
Gross profit	444,425	537,609	603,100	572,549	640,388	711,678
EBITDA	308,939	380,436	345,080	341,344	376,425	435,161
Depreciation	109,458	141,208	124,010	110,363	122,336	130,156
Amortisation	0	0	0	0	0	0
EBIT	199,481	239,228	221,070	230,981	254,089	305,005
Net interest income/(expense)	-3,437	-6,691	12,740	34,463	37,972	29,746
Associates/affiliates	0	0	70	0	0	0
Exceptionals/extraordinary	86,056	0	0	0	0	0
Other pre-tax income/(expense)	4,699	8,012	20,270	20,270	20,270	20,270
Profit before tax	286,799	240,550	254,150	285,714	312,331	355,021
Income tax expense	42,563	47,834	56,910	65,714	74,959	85,205
Minorities	-796	-222	0	0	0	0
Other post-tax income/(expense)	0	0	0	0	0	0
Net profit	245,031	192,937	197,240	219,999	237,371	269,816
DB adjustments (including dilution)	-86,056	0	0	0	0	0
DB Net profit	158,976	192,937	197,240	219,999	237,371	269,816

Cash Flow (INRm)

Cash flow from operations	279,747	337,855	325,900	338,281	367,853	409,944
Net Capex	-129,467	-302,038	62,370	-160,919	-230,899	-256,587
Free cash flow	150,281	35,817	388,270	177,362	136,954	153,356
Equity raised/(bought back)	15,638	676	52,163	0	0	0
Dividends paid	-24,309	-27,719	-29,410	-31,150	-32,881	-34,612
Net inc/(dec) in borrowings	-204,859	146,773	41,865	239,961	62,872	-319,015
Other investing/financing cash flows	-66,767	-84,839	-169,998	0	0	0
Net cash flow	-130,017	70,708	282,890	386,173	166,945	-200,271
Change in working capital	66,625	-69,588	161,048	-95,614	-5,531	3,870

Balance Sheet (INRm)

Cash and other liquid assets	245,988	488,196	722,100	1,209,437	1,381,913	1,177,773
Tangible fixed assets	1,678,113	1,817,560	1,610,510	1,661,066	1,769,629	1,896,061
Goodwill/intangible assets	0	0	0	0	0	0
Associates/investments	24,043	29,157	71,170	71,170	71,170	71,170
Other assets	552,149	679,406	836,860	859,453	854,773	880,313
Total assets	2,500,292	3,014,317	3,240,640	3,801,126	4,077,485	4,025,317
Interest bearing debt	735,833	882,605	924,470	1,164,431	1,227,303	908,288
Other liabilities	442,854	643,633	645,000	776,676	785,672	817,315
Total liabilities	1,178,687	1,526,238	1,569,470	1,941,107	2,012,975	1,725,603
Shareholders' equity	1,315,870	1,480,057	1,663,180	1,852,029	2,056,519	2,291,723
Minorities	5,735	8,022	7,990	7,990	7,990	7,990
Total shareholders' equity	1,321,605	1,488,079	1,671,170	1,860,019	2,064,509	2,299,713
Net debt	489,845	394,410	202,370	-45,006	-154,610	-269,485

Key Company Metrics

Sales growth (%)	34.7	30.5	34.9	10.1	0.7	4.9
DB EPS growth (%)	2.0	21.6	2.2	11.6	7.9	13.7
EBITDA Margin (%)	15.2	14.3	9.6	8.6	9.5	10.4
EBIT Margin (%)	9.8	9.0	6.2	5.8	6.4	7.3
Payout ratio (%)	9.4	13.6	14.1	13.4	13.1	12.1
ROE (%)	20.4	13.8	12.6	12.5	12.1	12.4
Capex/sales (%)	6.4	0.0	-1.7	4.1	5.8	6.2
Capex/depreciation (x)	1.2	0.0	-0.5	1.5	1.9	2.0
Net debt/equity (%)	37.1	26.5	12.1	-2.4	-7.5	-11.7
Net interest cover (x)	58.0	35.8	nm	nm	nm	nm

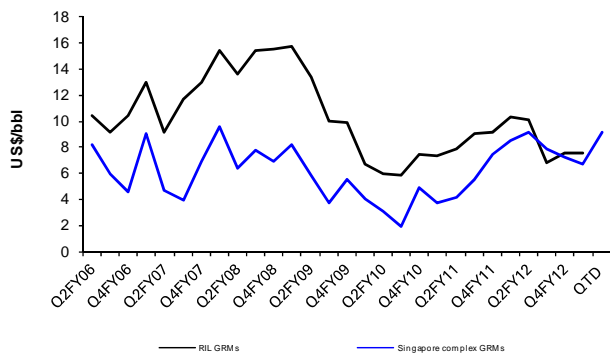
Source: Company data, Deutsche Bank estimates

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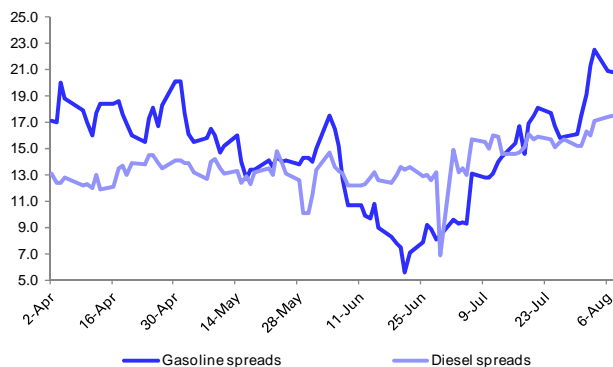


Figure 1: RIL's GRMs vs. Singapore complex GRMs



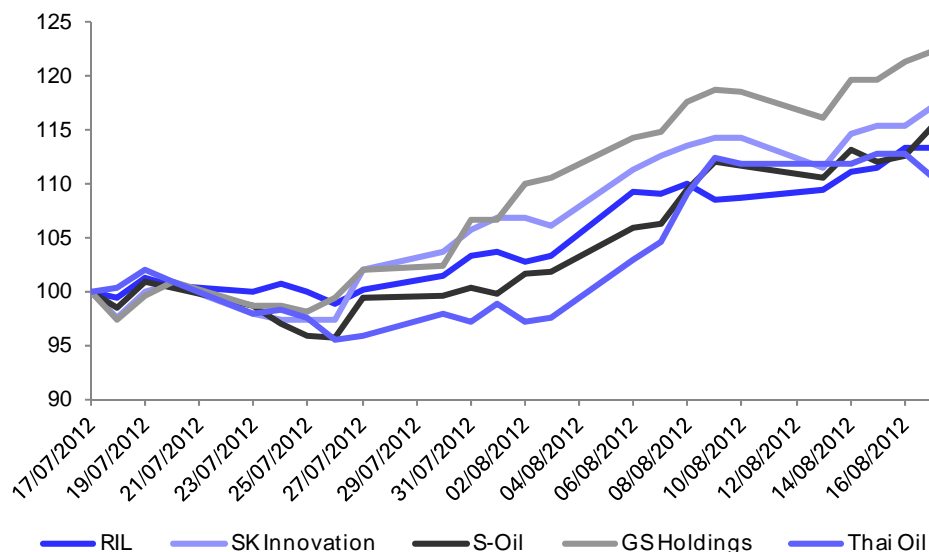
Source: Company data, Deutsche Bank

Figure 2: Product spreads vs. Dubai crude oil (USD/bbl)



Source: Bloomberg Finance LP

Figure 3: Regional refining stocks have outperformed RIL over the last month



Source: Bloomberg Finance LP

Figure 4: Discoveries in RIL's exploratory blocks

Name	Blocks	Gas	Oil	Total
Cambay	CB-ONN-2003/1		7	7
Cauvery	CY-DWN-2001/2	1		1
Cauvery-Palar	CY-PR-DWN-2001/3	1		1
Gujarat Saurashtra	GS-OSN-2000/1	1		1
KGD3	KG-DWN-2003/1	5		5
KGD6	KG-DWN-98/3	18	1	19
NEC25	NEC-OSN-97/2	8		8
Saurashtra	SR-OS-94/1	1		1
Yemen	Block 9		4	4
Total		35	12	47

Source: Company data, Deutsche Bank



Figure 5: Status of RIL's domestic E&P blocks

Projects	Plan/Activity	Status
KG-D6	Work Program and Budget FY12 & FY13 submitted to DGH	Approval Pending
D1-D3	Revised Development Plan	To be submitted in 2Q FY13
D26 (MA-1)	Revised Development Plan submitted to DGH	Submitted in 4Q FY12; Approval awaited
All Satellites	Development Plan(s)	Engineering surveys and Engineering being undertaken; Development Plan To be submitted in 3Q FY13
NEC-25	DOC for two discoveries; Plan for Pre-Development Activities submitted to DGH	Commerciality Declared in 4Q FY12; Approval awaited
CBM	Price discovery submitted to MoPNG	Approval awaited
PMT	Work Program and Budget FY12 & FY13 submitted to DGH	Approval pending

Source: Company data



Valuation and risks

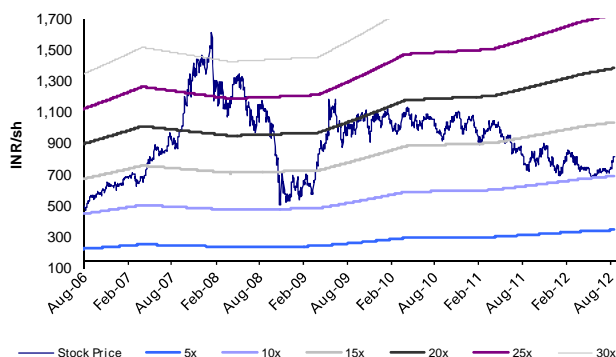
We value RIL on an SOTP basis using EV/E for refining and petrochemicals and DCF for the E&P business. We value RIL's refining and petrochemicals business at an EV/EBITDA of 6.2x FY13E, in line with regional refining and petchem peers. We value E&P on DCF, using a 10.7% WACC based on Deutsche Bank's cost-of-equity assumptions for India (rfr of 6%, risk premium of 8.5%), beta of 1 and zero terminal growth rate because we value the fields for their full producing life. Our value for RIL's E&P segment includes the value of Panna-Mukta-Tapti, KG D6, KG D3, NEC 25, coal-bed methane and US shale gas. We also value RIL's listed investments at a 15% discount to their market price and other investments at book value.

Figure 6: SOTP -based valuation for RIL

	INR/sh	Methodology
Refining & Petrochem	500	6.2x FY13E EBITDA
E&P	216	DCF, WACC of 10.7%
<i>Of which Panna Mukta Tapti</i>	11	
<i>Of which KG D6</i>	74	
<i>Of which NEC-25</i>	17	
<i>Of which prospective resources (KG D3)</i>	24	
<i>Of which coal-bed methane</i>	20	
<i>Of which shale gas</i>	70	
Net cash (including investments)	124	FY13E net cash
Total	840	

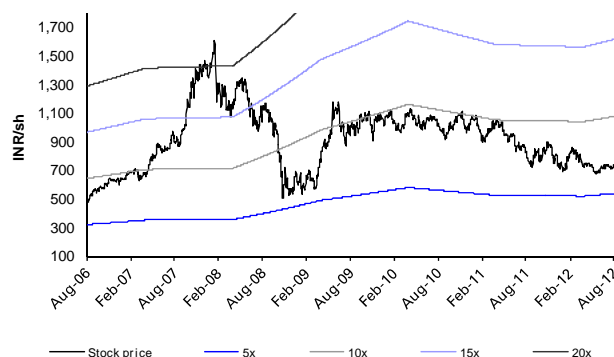
Source: Deutsche Bank

Figure 7: P/one-year forward EPS



Source: Company data, Bloomberg Finance LP, Deutsche Bank

Figure 8: EV/one-year forward EBITDA



Source: Company data, Bloomberg Finance LP, Deutsche Bank

Risks

We believe any change in the regulatory environment of the Oil & Gas sector and a downturn in global commodity prices/margins are key risks for RIL. Exploration and production activities face risks, such as volatility in oil and natural gas prices, as well as operational, financial, geological and meteorological issues. Any further fall in KGD6 gas production poses another significant risk.



Peers

Figure 9: International peer valuations for integrated oil companies

	FY end	Rating	Mkt Cur	LTP	Target price	P/E		P/Cash EPS		EV/EBITDA		P/BV		RoE (%)		Mkt Cap
						CY12E	CY13E	CY12E	CY13E	CY12E	CY13E	CY12E	CY13E	CY12E	CY13E	
US Integrated																
ExxonMobil	31-Dec	Hold	USD	89	94	9.6	10.7	7.1	5.6	6.5	2.5	2.2	26.5	21.4	410.6	
Chevron	31-Dec	Buy	USD	113	130	8.7	8.9	5.7	4.2	4.3	1.6	1.5	19.9	17.2	222.3	
Occidental Petroleum	31-Dec	Buy	USD	89	125	12.8	10.9	7.5	5.4	4.6	1.8	1.6	14.5	15.4	72.2	
Marathon Oil	31-Dec	Buy	USD	27	32	10.8	8.0	4.6	2.9	2.7	1.0	0.9	10.0	12.4	19.4	
Hess Corporation	31-Dec	Hold	USD	50	50	10.2	10.0	3.6	3.5	3.6	0.8	0.8	8.7	8.2	17.0	
Suncor Energy	31-Dec	Hold	CAD	32	37	12.1	9.0	5.7	4.8	4.3	1.2	1.0	10.1	11.8	50.3	
Average						9.9	10.0	6.5	5.0	5.4	2.0	1.8	21.7	18.6	791.8	
Euro Integrated																
BP	31-Dec	Buy	GBP	451	480	7.9	7.7	4.4	3.6	5.2	1.0	1.0	13.9	13.0	135.1	
Royal Dutch Shell A	31-Dec	Buy	GBP	2,254	2,475	7.6	7.7	5.1	3.0	3.3	1.2	1.1	16.4	14.8	222.6	
BG	31-Dec	Buy	GBP	1,318	1,700	13.3	12.7	14.1	6.7	6.4	1.9	1.7	16.0	14.5	70.3	
Total	31-Dec	Hold	EUR	40	42	7.9	7.5	4.7	3.2	3.0	1.2	1.1	16.2	15.7	112.7	
Eni	31-Dec	Buy	EUR	18	20	9.3	8.3	3.9	3.1	2.7	1.1	1.0	12.0	12.4	80.1	
Repsol YPF	31-Dec	Hold	EUR	16	16	10.6	10.2	4.1	5.0	4.6	0.7	0.6	7.5	8.0	25.3	
StatoilHydro	31-Dec	Hold	NOK	149	170	7.4	9.1	3.8	1.7	1.8	1.5	1.3	21.2	15.3	79.6	
Average						8.6	8.5	5.4	3.5	3.7	1.2	1.1	15.3	13.9	751.0	
Others Integrated																
Petrochina	31-Dec	Hold	HKD	10	10	11.7	10.8	6.5	5.5	5.2	1.4	1.3	12.2	12.3	233.1	
Sinopec-H	31-Dec	Hold	HKD	8	8	8.6	7.5	5.0	5.1	4.8	1.1	1.0	12.7	13.4	84.2	
Petrobras	31-Dec	Hold	USD	22	26	11.4	8.2	6.2	7.1	6.3	0.8	0.9	7.1	10.2	145.0	
Lukoil	31-Dec	Buy	RUB	1,866	2,700	4.1	4.6	94.1	2.7	2.9	0.6	0.5	15.2	12.2	45.3	
Average						10.4	9.0	14.0	5.6	5.3	1.1	1.1	11.1	11.9	507.5	
Reliance Industries	31-Mar	Buy	INR	815	840	12.1	11.2	8.1	7.7	6.7	1.4	1.3	12.5	12.1	47.7	
Reliance Industries (ex treasury)	31-Mar	Buy	INR	815	840	11.0	10.2	7.3	7.0	6.0	1.3	1.2	12.5	12.1	47.7	

Source: Deutsche Bank, Bloomberg Finance LP, Note: CY12 is equivalent to FY13 (March ending) for RIL

Figure 10: Refining peer valuations

	FY end	Rating	Mkt Cur	LTP	Target price	P/E		P/Cash EPS		EV/EBITDA		P/BV		RoE (%)		Mkt Cap
						CY12E	CY13E	CY12E	CY13E	CY12E	CY13E	CY12E	CY13E	CY12E	CY13E	
Caltex	31-Dec	Hold	AUD	16	13	138.7	10.9	28.2	6.7	6.8	2.0	1.7	16.1	15.0	4.4	
SK INNOVATION	31-Dec	Buy	KRW	172,000	200,000	11.4	7.5	8.3	6.9	5.0	1.0	0.9	9.2	12.7	14.2	
S-Oil Corp	31-Dec	Hold	KRW	110,500	112,000	17.5	11.2	11.5	11.6	7.7	2.4	2.1	13.9	19.8	11.4	
GS Holdings Corp*	31-Dec	NA	KRW	65,900	NA	9.7	7.9	NA	NA	NA	NA	NA	11.7	11.8	5.4	
Thai Oil PCL	31-Dec	Buy	THB	67	72	14.7	8.4	8.5	8.6	5.9	1.7	1.5	11.5	18.8	4.4	
Average						30.2	9.3	12.0	8.6	6.2	1.7	1.5	11.9	16.1		
Reliance Industries	31-Mar	Buy	INR	815	840	12.1	11.2	8.1	7.7	6.7	1.4	1.3	12.5	12.1	47.7	
Reliance Industries (ex treasury)	31-Mar	Buy	INR	815	840	11.0	10.2	7.3	7.0	6.0	1.3	1.2	12.5	12.1	47.7	

Source: Deutsche Bank, Bloomberg Finance LP, Note: CY12 is equivalent to FY13 (March ending) for RIL, * = based on Bloomberg Finance LP consensus estimates



Figure 11: Petrochemical peer valuations

	FY end	Rating	Mkt Cur	LTP	Target price	P/E		P/Cash EPS		EV/EBITDA		P/BV		RoE (%)		Mkt Cap
						CY12E	CY13E	CY12E	CY13E	CY12E	CY13E	CY12E	CY13E	CY12E	CY13E	
Indorama Ventures*	31-Dec	NA	THB	31	NA	13.0	9.8	11.9	10.6	8.0	2.2	1.9	18.1	20.4	4.8	
IRPC PCL	31-Dec	Hold	THB	4	4	34.5	10.9	12.4	12.2	7.7	1.0	1.0	3.0	9.2	2.5	
PTT Global Chemical	31-Dec	Buy	THB	64	68	10.0	8.5	6.6	6.9	5.9	1.3	1.2	14.0	15.1	9.2	
Hanwha Chemical	31-Dec	Sell	KRW	21,950	17,000	9.7	6.5	5.2	9.1	6.1	0.6	0.6	6.6	9.3	2.7	
Honam Petrochem	31-Dec	Hold	KRW	262,500	230,000	11.6	9.2	7.6	5.0	4.1	1.2	1.1	11.0	12.3	7.4	
LG Chem	31-Dec	Buy	KRW	328,000	365,000	13.8	11.5	9.7	8.4	7.4	2.2	1.9	16.8	17.4	21.4	
Petronas Chemicals	31-Dec	Hold	MYR	7	7	12.8	11.0	9.8	6.9	6.1	2.3	2.1	19.1	19.9	16.7	
Average						13.3	10.3	9.1	7.8	6.5	1.9	1.6	15.5	16.7		
Reliance Industries	31-Dec	NA	THB	31	NA	13.0	9.8	11.9	10.6	8.0	2.2	1.9	18.1	20.4	4.8	
Reliance Industries (ex treasury)	31-Mar	Buy	INR	815	840	11.0	10.2	7.3	7.0	6.0	1.3	1.2	12.5	12.1	47.7	

Source: Deutsche Bank, Bloomberg Finance LP, Note: CY12 is equivalent to FY13 (March ending) for RIL, *= based on Bloomberg Finance LP consensus estimates



Appendix 1

Important Disclosures

Additional information available upon request

Disclosure checklist

Company	Ticker	Recent price*	Disclosure
Reliance Industries	RELI.BO	815.10 (INR) 17 Aug 12	14,17

*Prices are sourced from local exchanges via Reuters, Bloomberg and other vendors. Data is sourced from Deutsche Bank and subject companies

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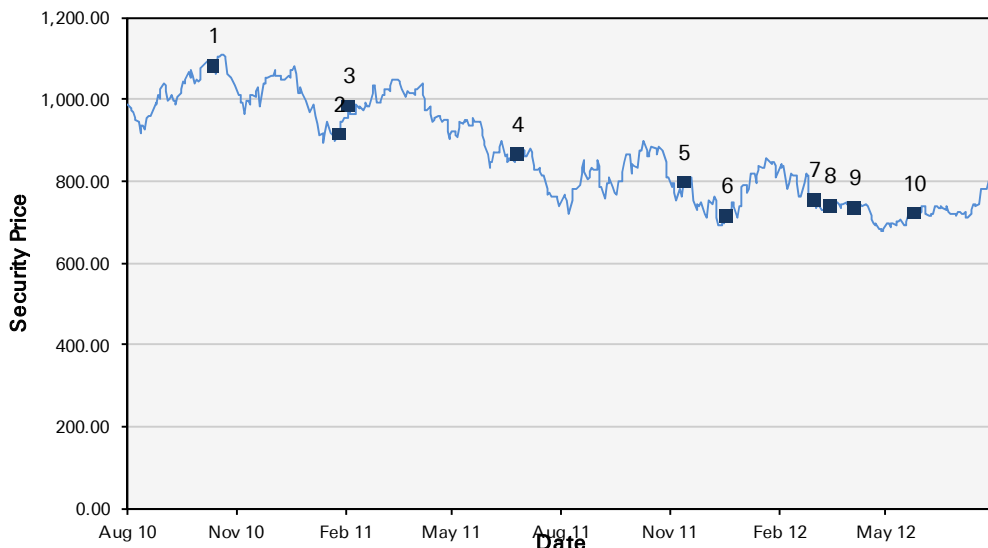
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Historical recommendations and target price: Reliance Industries (RELI.BO)

(as of 8/17/2012)



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.	31/10/2010:	Buy, Target Price Change INR1,220.00	6.	06/01/2012:	Buy, Target Price Change INR970.00
2.	14/02/2011:	Buy, Target Price Change INR1,200.00	7.	20/03/2012:	Buy, Target Price Change INR960.00
3.	22/02/2011:	Buy, Target Price Change INR1,150.00	8.	02/04/2012:	Buy, Target Price Change INR900.00
4.	14/07/2011:	Buy, Target Price Change INR1,060.00	9.	23/04/2012:	Buy, Target Price Change INR870.00
5.	01/12/2011:	Buy, Target Price Change INR1,050.00	10.	12/06/2012:	Buy, Target Price Change INR840.00

Equity rating key

Buy: Based on a current 12- month view of total share-holder return (TSR = percentage change in share price from current price to projected target price plus projected dividend yield) , we recommend that investors buy the stock.

Sell: Based on a current 12-month view of total share-holder return, we recommend that investors sell the stock

Hold: We take a neutral view on the stock 12-months out and, based on this time horizon, do not recommend either a Buy or Sell.

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1. Newly issued research recommendations and target prices always supersede previously published research.

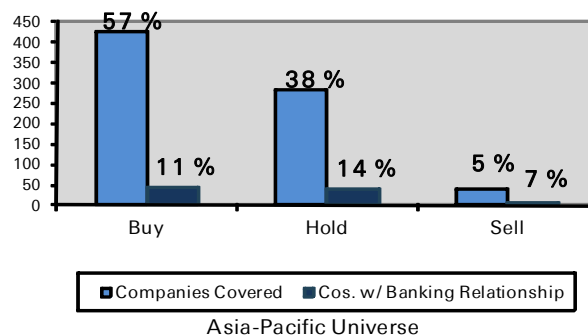
2. Ratings definitions prior to 27 January, 2007 were:

Buy: Expected total return (including dividends) of 10% or more over a 12-month period

Hold: Expected total return (including dividends) between -10% and 10% over a 12-month period

Sell: Expected total return (including dividends) of -10% or worse over a 12-month period

Equity rating dispersion and banking relationships





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