

Reliance Industries Limited (RIL)

Rs 738

Positive on refining and upstream

Accumulate

Reliance Industries Ltd (RIL) reported net Profit of Rs 4236 cr, in line with our expectation (Rs 4210 cr). Net profit declined by 21% y-o-y, mainly due to the company not able to arrest falling gas production from KG-D6, reduction in deltas across olefins and polyester chain. Net sales improved by 17% to Rs 85,182 cr on Y-o-Y largely due to higher prices of products while increase in volume accounted only 2%. Other income was higher at Rs 2295 cr as against Rs 917 cr on a y-o-y basis primarily due to higher average liquid investments. Outstanding debt at the end of Q4FY12 was Rs 65,352 cr compared to Rs 66,236 cr as on 31st March 2011.

Oil & Gas Segment outlook: 36% Dip in revenue on Y-o-Y basis and ~8% on Q-o-Q basis to Rs 2609 cr mainly due to fall in production to the level of 36 mmscmd (AvgQ4FY12) and transfer of 30% Participating Interest (PI) in KG-D6 to BP. RIL has identified satellite and cluster fields, which can be developed and connected to production facilities, to increase gas volumes. RIL, along with BP has suggested to the government integrated field development plan to reduce costs and increase gas production. The company hopes to submit integrated FDP by Dec-12, and hopes to bring the whole field into production in next three years. RIL provided positive commentary on E&P portfolio and BP's technical expertise is expected to help arrest decline in gas production and eventually increase from current levels.

Particulars (Rs in Cr)	Q4FY12	Q3FY12	Q4FY11	Y-o-Y	Q-o-Q
Revenue	2609	2832	4104	-36%	-8%
EBIT	951	1294	1569	-39%	-27%
EBIT Margin (%)	36.5%	45.7%	38.2%	-175 bps	-925 bps

Refining & Marketing: Revenue increased by 22% on YoY basis to Rs 76,211 cr in Q4FY12. Increase in revenue principally due to higher price environment of products. Lower refinery throughput due to 3-week shut down of one of the two CDUs at its SEZ refinery. GRM were \$7.6/bbl in line with Singapore complex GRM.

Particulars (Rs in Cr)	Q4FY12	Q3FY12	Q4FY11	Y-o-Y	Q-o-Q
Revenue	76211	76738	62704	22%	-1%
EBIT	1696	1685	2509	-32%	1%
Crude Refined (MMT)	16.3	17.2	16.7	-2%	-5%
GRM (\$/bbl)	7.6	6.8	9.2	-17%	12%
EBIT Margin (%)	2.2%	2.2%	4.0%	-177 bps	3 bps

DD&A charges & Tax rate. Q4FY12 DD&A increased 3.5% qoq to Rs 2659cr. RIL's Q4FY12 effective tax rate was 22% compared to 22.6% in Q3FY12 and 19.5% in 4QFY11. We note that RIL continues to provide for tax at the MAT rate of 20% for gas produced from its KG D-6 block.

Valuation: We believe that refining margin improving but still relatively low we expect pickup in regional margins in 2H CY12. Any gradual recovery in downstream demand and improvement in global operating rates would be positive trigger for petchem and We are more positive on upstream (revision of gas price and pick up in shale gas) key trigger would be greater visibility on non-D6 production. we recommend **Accumulate** on RIL with price objective of Rs 800/share

Particulars	FY09	FY10	FY11	FY12	FY13E
Net Sales	1,41,847	1,92,461	2,48,170	3,29,904	3,61,461
EBITDA	23,225	33,041	41,177	33,619	33,989
PAT	15,309	16,236	20,286	20,040	22,253
EPS	97	50	62	61.2	68
OPM (%)	16.4	17.2	16.6	10.2	9.4
NPM (%)	10.8	8.4	8.2	6.1	6.2

Source: Company, KRChoksey Research

Target Price (Rs): 800

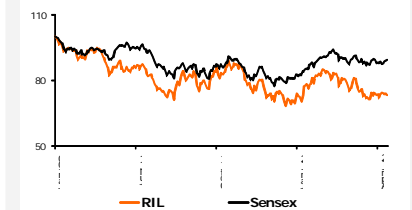
Potential Upside : ~9%

Previous TP (Rs): 915

Market Data	
Shares outs (Cr)	327
Equity Cap (Rs Cr)	3271
Mkt Cap (Rs Cr)	2,41,399
52 Wk H/L (Rs)	1021/687
Avg Vol (1yr avg)	1401371
Face Value (Rs)	10
Bloomberg Code	RIL IN

Market Info:

SENSEX	17,096
NIFTY	5,200

Share Price Performance**Share Holding pattern (%)**

Particulars	Mar12	Dec11	%Chg
Promoters	44.75	44.71	0.1
Institution	10.71	11.35	-5.6
FII	17.55	17.02	3.1
Public	26.99	26.91	0.3
Total	100	100.0	

Yogesh S. Patil

yogesh.patil@krchoksey.com

☎ 91-22-6696 5555 Ext 572

www.krchoksey.com

☎ 91-22-6696 5555

☎ 91-22-6691 9569

Reliance Industries Ltd.

Petrochemical business: - 8% rise in petrochemical revenue on Q-o-Q basis to Rs 21,412cr. higher revenue due to increase in volume accounted for 3.3% growth and increase in price accounted for 4.9%. EBIT margins fall by 428 bps on Y-o-Y basis to 10.2%. We observed, EBIT margins reduced across the olefins chain, polyester chain and in certain key chemicals.

Particulars (Rs in Cr)	Q4FY12	Q3FY12	Q4FY11	Y-o-Y	Q-o-Q
Revenue	21412	19781	18194	18%	8%
EBIT	2174	2157	2626	-17%	1%
EBIT Margin (%)	10.2%	10.9%	14.4%	-428 bps	-75 bps
Production (MMT)	5.5	5.5	5.2	6%	0%

Source: Company, KR Choksey Research

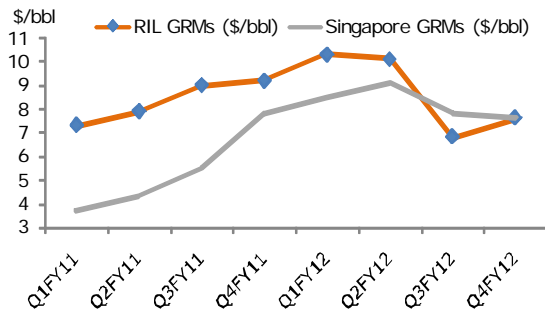
Outlook of petrochemical business

Petrochemical capacity addition would be phase wise, PFY capacity by end of CY-12, total new PTA capacity commissioning by end of Q1CY14 and PET will be commissioned by CY13. We expect chemical margins to remain at same level in near term. Any gradual recovery in downstream demand and improvement in global operating rates would be positive trigger for petrochemical segment.

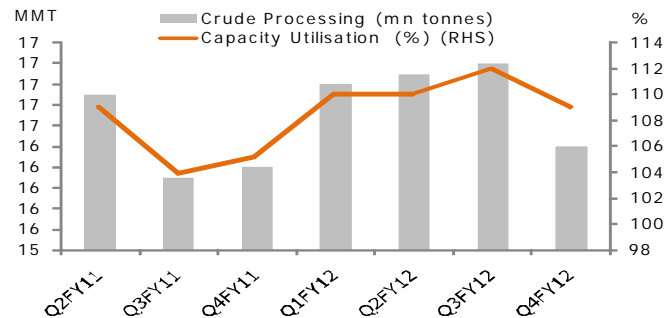
Outlook of refining segment

Refining margin improving but still relatively low; we expect pickup in regional margins in 2H CY12. We believe refining margins should improve going forward in 2012- 13, driven by significant closures in US/Europe, delays in new projects and recovering oil demand. Going forward global oil demand could be healthy in Q2CY12, demand from China, India and Africa are expected to remain strong and the company will try to optimize its product slate to maximize the GRM which we believe would be more than \$8.5/bbl for Q1FY13. Maintenance shutdown taken into Q4FY12 would increase refining capacity by ~4%. Installation of Petcoke gasification unit into SEZ refinery with total investment of \$4bn and would be commissioned by FY15. The unit would improve GRM by \$3.5/bbl as cost of synthetic gas produced (\$5/mmbtu) would be much cheaper than imported LNG (\$12/mmbtu).

Gross refining Margins of RIL



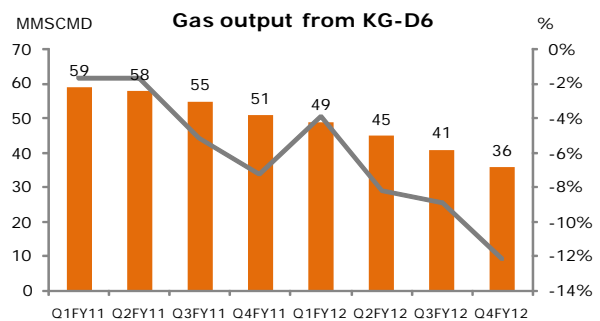
Refining Capacity & Utilization of RIL



Source: Company, KR Choksey Research

Guidance on Oil & Gas (E&P)

Positive guidance on KGD6, Production will be maintained @ 35mmscmd during FY13. FDP for R-Cluster and satellite fields approved (to add combined production of ~20-30mmscmd), the pre-development work has started and rigs will likely be mobilized by Jan-13. Despite of low gas prices in US, shale gas business is profitable due to higher liquid production (43%), Revenue from shale gas in Q4FY12 stood at \$250mn with PAT of \$45mn. The company is planning to install more rigs so we are expecting positive triggers from this segment. Management Indicated that it has downgraded reserve estimates of KGD6 by 12 -15% due to reservoir complexity.



Source: Company, KR Choksey Research

Shale gas business is picking up

RIL has invested in 3 oil and gas assets in the US shale gas space, with an investment commitment of over \$3.5bn. The three assets combined give access to a net acreage of 318,000 acres, with a resource potential 11.8 tcf (2bn boe). Significant progress has been seen on all three assets over the last quarter, with a gross production exit rate of 8 mmscmd of gas and 34k bpd of condensate being achieved by the end of the quarter. While the current low gas prices in the US make development of shale gas assets a challenge, we believe that the long-term prospects of shale gas in the US remain sound, with ~20% of US domestic gas production expected to come from shale by 2020

Q4FY12 - Result Analysis

Particulars (Rs Cr)	Q4FY12	Q3FY12	Q4FY11	Q-o-Q (%)	Y-o-Y (%)
Net Sales	85182	85135	72674	0%	17%
Expenditure	78619	77850	62831	1%	25%
Raw material cost	71519	74190	58259	-4%	23%
Purchases	242	112	241	116%	0%
Employee Cost	597	672	686	-11%	-13%
Other Expenses	4934	4365	4371	13%	13%
EBITDA	6563	7285	9843	-10%	-33%
Depreciation	2659	2570	3387	3%	-21%
Interest	768	694	696	11%	10%
Other Income	2295	1717	917	34%	150%
PBT	5431	5738	6677	-5%	-19%
Tax	1195	1298	1301	-8%	-8%
PAT	4236	4440	5376	-5%	-21%
EPS	12.9	13.6	16.4	-5%	-21%
Margins					
OPM	7.7%	8.6%	13.5%	-85 bps	-584 bps
NPM	5.0%	5.2%	7.4%	-24 bps	-242 bps

Source: Company, KR Choksey Research

Revised Estimates Rs in Cr	Previous FY13E	Now FY13E	% change
EBITDA	36,448	33,989	-6.7%
PAT	24,234	22,253	-8.2%
EPS	74	68	-8.1%

Source: Company, KR Choksey Research

Profit & Loss Statement

Particulars (Rs in crore)	FY09	FY10	FY11	FY12	FY13E
Net Sales	141,847	192,461	248,170	329,904	361,461
Total Expenditure	118,622	162,557	210,044	296,285	327,472
Operating Profit (Excl OI)	23,225	29,904	38,126	33,619	33,989
Other Income	2,148	3,137	3,052	6,192	6,967
Operating Profit	25,374	33,041	41,178	39,811	40,956
Interest	1,745	1,997	2,328	2,667	2,763
PBDT	23,629	31,044	38,850	37,144	38,193
Depreciation	5,195	10,497	13,608	11,394	9,664
Profit Before Tax	18,433	20,547	25,242	25,750	28,529
Provision for Tax	3,124	4,312	4,956	5,710	6,276
Profit After Tax	15,309	16,236	20,286	20,040	22,253
Earnings Per Share	97	50	62	61	68

Source: Company, KR Choksey Research

Balance sheet

Balance Sheet (Rs in Cr)	FY09	FY10	FY11	FY12	FY13E
Total Equity	126,373	137,171	151,540	166,020	181,673
Deferred tax Liability	9,726	10,926	11,562	12,122	12,799
Total Borrowings	73,905	62,495	67,397	68,259	45,043
Current liabilities	35,702	40,415	54,221	48,663	52,758
Total Liability	245,706	251,006	284,719	295,064	292,272
Cash	22,177	13,463	27,135	39,513	42,185
Current Asset	32,536	48,917	64,407	80,057	77,885
Total fixed asset	169,387	165,399	155,526	121,486	118,194
Investments	21,607	23,229	37,652	54,008	54,008
Total Asset	245,706	251,006	284,719	295,064	292,272

Source: Company, KR Choksey Research

Free Cash Flow (Rs in Cr)	FY09	FY10	FY11	FY12	FY13E
Operating Cash flow	17,451	22,261	30,431	25,372	21,511
Working Capital	-3,798	-5,302	70	-12,204	6,267
Capital Expenditure	-24,713	-21,943	-12,366	-5,915	-6,689
Investments	-1,039	1,421	-19,544	-16,357	
Other Income	1,620	2,204	2,332	6,192	6,967
Free Cash flow	-10,480	-1,359	922	-2,911	28,056

Source: Company, KR Choksey Research

Rajiv Choksey	Director	rajiv.choksey@krchoksey.com	+91-22-6696 5555
Anuj Choksey	Head Institutional Equities	anuj.choksey@krchoksey.com	+91-22-6696 5500
Kunal Dalal	Head Institutional Research	kunal.dalal@krchoksey.com	+91-22-6696 5574

Reliance Industries Ltd.			
Date	CMP	Target	Recommendation
23-4-2012	738	800	Accumulate
24-1-2012	771	915	BUY
6-Jan-12	707	1,020	BUY
18-Oct-11	835	1,020	BUY
26-July-11	870	1,086	BUY
4-Apr-11	1,039	1,189	HOLD

Rating Legend	
Buy	More than 15%
Accumulate	5% - 15%
Hold	0 – 5%
Reduce	-5% – 0
Sell	Less than -5%

Disclaimer:

This publication has been prepared solely for information purpose and does not constitute a solicitation to any person to buy or sell a security. While the information contained therein has been obtained from sources believed to be reliable, investors are advised to satisfy themselves before making any investments. Kisan Ratilal Choksey Shares & Sec Pvt Ltd., does not bear any responsibility for the authentication of the information contained in the reports and consequently, is not liable for any decisions taken based on the same. Further, KRC Research Reports only provide information updates and analysis. All opinion for buying and selling are available to investors when they are registered clients of KRC Investment Advisory Services. As per SEBI requirements it is stated that, Kisan Ratilal Choksey Shares & Sec Pvt Ltd., and/or individuals thereof may have positions in securities referred herein and may make purchases or sale thereof while this report is in circulation.

Please send your feedback to research.insti@krchoksey.com

Visit us at www.krchoksey.com

Kisan Ratilal Choksey Shares and Securities Pvt. Ltd.

Registered Office:

1102, Stock Exchange Tower, Dalal Street, Fort, Mumbai - 400 001.
Phone: 91-22-6633 5000; Fax: 91-22-6633 8060.

Corporate Office:

ABHISHEK, 5th Floor, Link Road, Dalia Industrial Estate, Andheri (W), Mumbai - 400 053.
Phone: 91-22-6696 5555; Fax: 91-22-6691 9576.