kotak Institutional Equities

Reliance Industries (RIL)

Energy

REDUCE

MAY 11, 2012

UPDATE

Coverage view: Neutral

Price (Rs): 697

Target price (Rs): 730

BSE-30: 16,293

We did try. We have updated our earnings model for RIL's FY2012 annual report. A difficult operating environment in the core chemical and refining segments, declining reserves and regulatory issues in the E&P segment and fair valuations constrain us from taking a more positive view on the company despite the recent sharp correction in the stock price. We maintain our REDUCE rating on RIL stock with a revised 12-month forward TP of ₹730 (₹770 previously); the reduction in TP reflects lower valuation to the E&P segment and higher net debt.

Company data and valuation summary

Reliance Industries

Stock data			
52-week range (Rs) (high,low)			968-687
Market Cap. (Rs bn)			2,078.4
Shareholding pattern (%)			
Promoters			41.0
FIIs			20.5
MFs			3.0
Price performance (%)	**1M**	**3M**	**12M**
Absolute	(4.5)	(17.3)	(27.0)
Rel. to BSE-30	0.8	(9.9)	(16.8)

Forecasts/Valuations	2012	2013E	2014E
EPS (Rs)	61.3	57.4	59.7
EPS growth (%)	(1.1)	(6.3)	4.1
P/E (X)	11.4	12.1	11.7
Sales (Rs bn)	3,299.0	3,891.8	3,692.7
Net profits (Rs bn)	200.4	187.8	195.4
EBITDA (Rs bn)	339.8	305.1	309.4
EV/EBITDA (X)	6.7	7.1	6.2
ROE (%)	11.7	10.1	9.6
Div. Yield (%)	1.1	1.0	1.1

Sharp decline in proved developed oil and gas reserves

RIL has reduced its estimates of proved reserves (excluding BP's share) for (1) oil by 2.61 mn tons to 3.06 mn tons and (2) gas by 12.4 bcm to 104 bcm as of end-FY2012. The revision in proved reserves reflects (1) downward revision in reserves for D1, D3 and MA-1 fields, (2) downward revision in reserves for satellite fields (D2, D6, D22 and D26), (3) inclusion of reserves from R-series discovery (D34) and (4) upward revision in gas reserves for CBM fields. Proved developed reserves have declined sharply for (1) oil by 2.66 mn tons to 2.42 mn tons and (2) gas by 38.8 bcm to 25.2 bcm as of end-FY2012. We highlight that RIL's current proved developed reserves correspond to around three years of production of gas and oil, assuming production were to continue at the current levels. Exhibit 1 gives details of movement in RIL's proved reserves.

Shale gas business turns profitable; E&P and retailing subsidiaries continue to make losses

RIL's subsidiaries in the US shale gas business reported a cumulative net income of ₹3.7 bn despite lower gas prices reflecting higher contribution from condensate production. RIL's international E&P subsidiary, Reliance Exploration and Production DMCC, reported a loss of ₹3.9 bn versus ₹8.8 bn in FY2011. The loss includes write-off of ₹2.6 bn (₹8.1 bn in FY2011) from recently relinquished blocks—(1) Block-18 and Block-41 in Oman and (2) Block-K in East Timor. RIL's retailing subsidiaries reported a net loss before taxes of ₹6.5 bn on sales of ₹74 bn in FY2012 compared to a loss of ₹6.5 bn on sales of ₹61 bn in FY2011.

Fine-tune estimates; maintain REDUCE with a TP of ₹730

We have revised our EPS estimates for FY2013E, FY2014E and FY2015E to ₹57.4 (+1.9%), ₹59.7 (+1.7%) and ₹67.1 (-3.6%) reflecting (1) weaker exchange rate assumptions for FY2013-14E, (2) FY2012 annual report and (3) other minor changes. We maintain our REDUCE rating on the stock with a 12-month forward SOTP-based target price of ₹730 (₹770 previously).

QUICK NUMBERS

- Proved reserves of 3.06 mn tons of oil and 104 bcm of gas
- ₹6.5 bn of loss from retailing subsidiaries
- ₹3.7 bn of net income from shale gas business

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Sharp downward revision in proved developed reserves
Movement of RIL's proved reserves, March fiscal year-ends, 2011-12

Oil reserves (mn tons)	Proved reserves		Proved developed reserves	
	2012	2011	2012	2011
Beginning of the year	8.3	11.1	7.7	8.6
Reduction on transfer of participating interest	(1.7)	—	(1.7)	—
Revision of estimates	(2.6)	(1.4)	(2.7)	0.4
Production	(0.9)	(1.4)	(0.9)	(1.4)
Closing balance for the year	**3.1**	**8.3**	**2.4**	**7.7**
Gas reserves (bcm)				
	Proved reserves		**Proved developed reserves**	
	2012	**2011**	**2012**	**2011**
Beginning of the year	185.8	211.2	107.4	130.8
Reduction on transfer of participating interest	(56.6)	—	(30.5)	—
Revision of estimates	(12.4)	(5.8)	(38.8)	(3.8)
Production	(12.8)	(19.6)	(12.8)	(19.6)
Closing balance for the year	**104.0**	**185.8**	**25.2**	**107.4**

Notes:
(a) The reserves are net quantities of RIL's interest within India.

Source: Company, Kotak Institutional Equities

Other highlights—related-party transactions, contingent liabilities and new subsidiaries

- **Related-party transactions.** RIL has paid ₹44 bn of power, fuel, water, sales and distribution and other charges to private companies of the major shareholder. In FY2011, the corresponding amount was ₹43 bn. Exhibit 2 gives details of related-party transactions with companies of the major shareholder in FY2012 and compares the same with those in previous years.

RIL has large transactions with private companies of the major shareholder
Reliance Industries' related-party transactions, March fiscal year-ends, 2007-12 (₹ bn)

	2007	2008	2009	2010	2011	2012
Payments made						
Reliance Gas Transportation Infrastructure Limited	—	—	0	3	7	2
Reliance Ports and Terminals Limited	10	12	13	27	26	27
Reliance Utilities and Power Limited	3	3	3	3	3	4
Reliance Utilities Private Limited	—	—	4	7	6	8
Others	1	1	2	1	1	4
Total payments	**15**	**17**	**21**	**41**	**43**	**44**
Loans and advances balances						
Reliance Gas Transportation Infrastructure Limited	20	20	20	20	20	20
Reliance Ports and Terminals Limited	11	11	11	11	11	11
Reliance Utilities and Power Limited	2	2	2	2	2	2
Others	2	2	2	2	2	2
Total loans and advances	**34**	**35**	**34**	**34**	**34**	**35**

Source: Company, Kotak Institutional Equities

- **Higher capex and working capital in non-core businesses.** RIL's standalone cash flow statement shows a capex (defined as purchase of fixed assets) of ₹80 bn and working capital outflow of ₹28 bn but its consolidated cash flow statement shows a higher capex of ₹164 bn and working capital outflow of ₹67 bn. The difference reflects company's investments into the non-core businesses like shale gas, telecom and retail. The company has also capitalized exchange rate loss of ₹76 bn for fixed assets of standalone entity and ₹79 bn for consolidated entity. The consolidated account shows addition of ₹202 bn to development rights (gross producing properties) as compared to a figure of ₹88 bn in the standalone entity, reflecting development of shale gas acreages in the US. Exhibit 3 compares the cash flow statement of the standalone with the consolidated entity's.

Comparison of standalone and consolidated cash flow statements of RIL
Cash flow model, March fiscal year-end, 2012 (₹ mn)

	Standalone	Consolidated
Operating		
Profit before tax	257,500	254,080
DD&A	137,340	148,270
Transferred from revaluation reserve	(23,400)	(23,560)
Transferred from capital reserve	—	(700)
Taxes paid	(48,300)	(48,810)
Interest expenses	26,670	28,930
Effect of exchange rate change	8,010	10,100
Profit on sale of investments	(16,350)	(16,960)
Other income	(44,240)	(41,970)
Exceptional item	—	3,090
Extraordinaries	210	(160)
Working capital changes	(27,700)	(67,480)
Total operating	**269,740**	**244,830**
Investing		
Capital expenditure	(80,080)	(163,810)
Sale of fixed assets	232,450	233,170
Purchase of investments	(3,324,380)	(3,324,140)
Sale of investments	3,153,880	3,174,220
Loans (to)/from companies	(31,260)	6,760
Interest/dividends received	18,930	10,790
Total investing	**(30,460)**	**(63,010)**
Financing		
Share issuance (including warrants)	870	870
Buyback of equity shares	(2,790)	(2,790)
Share issuance to minority	—	70
Loans (net)	(53,380)	(10,480)
Dividends	(27,720)	(27,720)
Interest paid	(31,630)	(35,850)
Miscellaneous expenditure	—	—
Total financing	**(114,650)**	**(75,900)**
Net change in cash	**124,630**	**105,920**
Opening cash	271,350	301,390
Closing cash	**395,980**	**407,310**

Source: Company, Kotak Institutional Equities

- **Increase in contingent liabilities.** RIL has reported a large increase in contingent liabilities to ₹407 bn from ₹338 bn at end-FY2011 primarily led by an increase in guarantees against credit facilities extended to third parties to ₹296 bn from ₹216 bn previously. However, contingent liabilities at the consolidated level declined modestly to ₹124 bn from ₹132 bn in the previous year. We believe RIL has likely guaranteed the credit facilities extended to its subsidiaries. Exhibit 4 shows the contingent liabilities at the standalone and consolidated levels for the past two years.

Increase in contingent liabilities at standalone level
Reliance Industries' contingent liabilities, March fiscal year-ends, 2010-12 (₹ bn)

	Standalone			Consolidated		
	2010	**2011**	**2012**	**2010**	**2011**	**2012**
Outstanding guarantees furnished to Banks/Fis including Letters of credit	24	35	54	26	37	55
Guarantees to Banks/FIs against credit facilities extended to third parties	22	216	296	6	8	12
Liability in respect of bills discounted with banks	18	23	6	18	23	6
Claims against the company/disputed liabilities not acknowledged as debts	8	16	13	9	17	14
Performance guarantees	1	2	2	1	2	1
Sales tax deferral liability assigned	54	45	36	54	45	36
Total	**127**	**338**	**407**	**113**	**132**	**124**

Source: Company, Kotak Institutional Equities

- RIL's total volume of sale and purchase of investments in FY2012 was ₹6.5 tn, on an average investment balance of ₹301 bn in the year, indicating a churn of 22X.

Key assumptions behind earnings model

We highlight that our assumptions for chemical and refining margins for FY2013-14E are moderately higher than current margins and our earnings estimates are significantly lower than consensus estimates. Our FY2013E EPS of ₹57.4 is based on (1) refining margins at US$8.4/bbl versus US$7.2/bbl in 2HFY12, (2) further improvement in chemical margins; margins have improved from very low levels in 1QCY12, (3) KG D-6 gas production of 30 mcm/d versus company's guidance of 28 mcm/d and (4) Rupee-US Dollar exchange rate at ₹52/US$.

We discuss the key assumptions behind our earnings model below.

- **Refining margins.** We model FY2013E, FY2014E and FY2015E refining margins at US$8.4/bbl, US$8.7/bbl and US$8.9/bbl (see Exhibit 5). We expect refining margins to improve modestly over the next 6-9 months from current levels led by (1) limited supply additions globally; announced and expected shutdowns will result in muted net capacity addition of 0.9 mn b/d in CY2012-13E to global refining capacity and (2) incremental oil demand of 2 mn b/d in CY2012-13E. Refining margins have recovered from trough levels in the past one month.

Major assumptions for RIL's refining segment, March fiscal year-ends, 2007-16E (US$/bbl)

	2007	2008	2009	2010	2011	2012	2013E	2014E	2015E	2016E
RIL refinery										
Rupee-dollar exchange rate	45.3	40.3	45.8	47.4	45.6	47.9	52.0	51.0	50.0	50.0
Import tariff on crude (%)	5.1	2.4	1.3	1.1	5.4	1.7	0.5	0.5	0.5	0.5
Refinery yield (per bbl of crude throughput)	75.2	98.1	104.8	83.1	96.5	129.2	127.6	122.0	116.5	110.8
Cost of inputs (per bbl of crude throughput)	63.5	83.1	92.6	76.3	88.6	121.9	120.6	114.8	109.0	103.2
Net refining margin	**11.7**	**15.0**	**12.2**	**6.8**	**7.8**	**7.4**	**7.0**	**7.2**	**7.4**	**7.6**
Crude throughput (mn tons)	31.8	31.8	32.0	32.0	33.3	34.3	34.0	34.0	34.0	34.0
Fuel and loss-own fuel used (%)	8.0	8.0	8.0	6.0	6.0	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	2.0	2.0
SEZ refinery										
Import tariff on crude (%)				—	0.6	0.7	0.5	0.5	0.5	0.5
Refinery yield (per bbl of crude throughput)				70.5	91.5	128.8	128.5	123.1	117.5	111.8
Cost of inputs (per bbl of crude throughput)				64.2	82.6	118.9	118.6	112.8	107.0	101.2
Net refining margin				**6.3**	**9.0**	**9.9**	**9.9**	**10.3**	**10.5**	**10.6**
Crude throughput (mn tons)				28.9	33.3	33.3	34.0	34.0	34.0	34.0
Fuel and loss-own fuel used (%)				6.5	6.5	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	2.0	2.0
Blended refining margin (US$/bbl)				**6.6**	**8.4**	**8.6**	**8.4**	**8.7**	**8.9**	**9.1**
Total crude throughput (mn tons)				**60.9**	**66.6**	**67.6**	**68.0**	**68.0**	**68.0**	**68.0**

Note:
(a) Refining margins do not include sales tax incentives.

Source: Kotak Institutional Equities estimates

- **Chemical margins.** Exhibit 6 shows our major assumptions for RIL's chemical prices and margins. We model a decline in chemical margins in FY2013E compared to FY2012E levels leading to sharply lower EBITDA of the chemical segment in FY2013E. However, we expect margins to improve subsequently to reflect improvement in global operating rates and gradual recovery in downstream demand.

Key chemical prices and margins assumptions, March fiscal year-ends, 2007-15E (US$/ton)

	2007	2008	2009	2010	2011	2012E	2013E	2014E	2015E
Chemical prices									
LDPE	1,360	1,600	1,400	1,500	1,555	1,650	1,525	1,535	1,490
LLDPE	1,350	1,575	1,330	1,400	1,455	1,525	1,425	1,435	1,390
HDPE	1,340	1,500	1,275	1,375	1,415	1,550	1,450	1,460	1,415
Polypropylene	1,350	1,470	1,300	1,360	1,525	1,635	1,485	1,470	1,420
PVC	890	1,100	925	1,000	1,075	1,100	1,050	1,035	1,010
PFY	1,400	1,550	1,485	1,380	1,640	1,790	1,750	1,735	1,710
PSF	1,360	1,475	1,320	1,310	1,660	1,910	1,780	1,765	1,740
Paraxylene	1,225	1,200	1,085	1,050	1,125	1,550	1,485	1,395	1,305
Chemical margins									
LLDPE—naphtha	**820**	**850**	**655**	**770**	**725**	**590**	**515**	**565**	**560**
HDPE—naphtha	810	775	600	745	685	615	540	590	585
PP—naphtha	**820**	**745**	**625**	**730**	**795**	**700**	**575**	**600**	**590**
PVC—1.025 x (0.235 x ethylene + 0.864 x EDC)	247	396	401	389	367	383	356	368	370
POY—naphtha	**870**	**825**	**810**	**750**	**910**	**855**	**840**	**865**	**880**
PSF—naphtha	830	750	645	680	930	975	870	895	910
PX—naphtha	**695**	**475**	**410**	**420**	**395**	**615**	**575**	**525**	**475**
POY—0.85 x PTA—0.34 x MEG	329	364	496	341	437	349	424	427	432
PSF—0.85 x PTA—0.34 x MEG	**289**	**289**	**331**	**271**	**457**	**469**	**454**	**457**	**462**
PTA—0.67 x PX	89	121	133	217	281	187	125	170	206

Source: Kotak Institutional Equities estimates

- **E&P segment.** We model FY2013-15E KG D-6 gas production at 30 mcm/d, 25 mcm/d and 22 mcm/d. We assume gross recoverable gas reserves of 7.8 tcf from KG D-6 block and 1.9 tcf from NEC-25 blocks.

  We have assumed gas price of US$4.2/mn BTU for FY2013-14E and US$6/mn BTU from FY2015E. We rule out any increase in gas price for KG D-6 block before April 2014 as the current gas pricing formula has been fixed by an EGoM for a period of five years up to March 31, 2014. In our view, any out-of-turn increase in gas price may invite additional public scrutiny, especially in light of (1) alleged inflated capex and (2) lower-than-approved gas production.

- **Other income.** We model RIL's other income to likely grow strongly over the next few years driven by its increasing cash pile. We expect RIL to generate ₹646 bn of free cash flow in FY2013-15E. The quantum of other income will depend on (1) RIL's dividend policy; RIL has followed a conservative dividend payout policy historically, (2) amount returned to the shareholders in the ongoing buy-back program, (3) acquisitions and (4) capex, which would depend on new E&P discoveries and kick-start of new petrochemical projects.

- **Taxation.** We assume effective tax rate at 22.7%, 24% and 25% for FY2013E, FY2014E and FY2015E versus 22.2% in FY2012 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 FY2013E and FY2014E EPS to drop by 3% and 2.3% to ₹55.7 and ₹58.4.

- **Exchange rate.** We have revised our assumptions of Rupee-Dollar exchange rate for FY2013E, FY2014E and FY2015E to ₹52/US$, ₹51/US$ and ₹50/US$ versus ₹50.5/US$, ₹50/US$ and ₹50/US$ previously.

Exhibit 7 gives sensitivity of RIL's earnings to various key variables.

Reliance's earnings have high leverage to refining margins
Sensitivity of RIL's earnings to key variables

	Fiscal 2013E			Fiscal 2014E			Fiscal 2015E		
	Downside	**Base case**	**Upside**	**Downside**	**Base case**	**Upside**	**Downside**	**Base case**	**Upside**
Rupee-dollar exchange rate									
Rupee-dollar exchange rate	51.0	52.0	53.0	50.0	51.0	52.0	49.0	50.0	51.0
Net profits (Rs mn)	181,411	187,751	194,091	189,222	195,394	201,570	212,033	219,581	227,140
EPS (Rs)	55.5	57.4	59.3	57.8	59.7	61.6	64.8	67.1	69.4
% upside/(downside)	**(3.4)**		**3.4**	**(3.2)**		**3.2**	**(3.4)**		**3.4**
Chemical prices									
Change in prices (%)	(5.0)		5.0	(5.0)		5.0	(5.0)		5.0
Net profits (Rs mn)	182,579	187,751	192,924	189,570	195,394	201,218	212,430	219,581	226,731
EPS (Rs)	55.8	57.4	59.0	58.0	59.7	61.5	64.9	67.1	69.3
% upside/(downside)	**(2.8)**		**2.8**	**(3.0)**		**3.0**	**(3.3)**		**3.3**
Blended refining margins									
Margins (US$/bbl)	7.4	8.4	9.4	7.7	8.7	9.7	7.9	8.9	9.9
Net profits (Rs mn)	166,199	187,751	209,275	174,239	195,394	216,515	198,827	219,581	240,394
EPS (Rs)	50.8	57.4	64.0	53.3	59.7	66.2	60.8	67.1	73.5
% upside/(downside)	**(11.5)**		**11.5**	**(10.8)**		**10.8**	**(9.5)**		**9.5**
Natural gas price									
Natural gas price (US$/bbl)		4.2	5.2		4.2	5.2	5.0	6.0	7.0
Net profits (Rs mn)		187,751	197,149		195,394	203,072	212,928	219,581	226,202
EPS (Rs)		57.4	60.3		59.7	62.1	65.1	67.1	69.2
% upside/(downside)			**5.0**			**3.9**	**(3.0)**		**3.0**

Source: Kotak Institutional Equities estimates

SOTP valuation of Reliance is ₹725 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		83		7.0	581	195
Refining & Marketing		145		6.0	872	293
Oil and gas—producing (PMT and Yemen)		29		2.5	72	24
Gas—producing and developing (DCF-based) (a)	236				236	79
KG D-6	195				195	65
NEC-25	42				42	14
Oil—KG-DWN-98/3 (b)	12				12	4
Investments other than valued separately	347				347	116
Retailing	78		0.8		62	21
Shale gas	33		0.8		26	9
Telecom	48		0.8		38	13
Capital WIP for petchem segment (book value)	80		1.0		80	27
Total enterprise value					**2,326**	**781**
Net debt					169	57
Implied equity value					**2,158**	**724**

Notes:
(a) We value KG D-6 and NEC-25 blocks on DCF.
(b) 50 mn bbls of recoverable reserves.
(c) Capital WIP includes capex on new petrochemical units.
(d) We use 2.979 bn shares (excluding treasury shares) for per share computations.

Source: Kotak Institutional Equities estimates

SOTP valuation of Reliance is ₹795 per share on FY2014E estimates
Sum-of-the-parts valuation of Reliance Industries, FY2014E basis (₹)

	Valuation base (Rs bn)		Multiple (X)		EV	Valuation
	Other	EBITDA	Multiple	EV/EBITDA	(Rs bn)	(Rs/share)
Chemicals		98		6.5	635	213
Refining & Marketing		147		6.0	881	296
Oil and gas—producing (PMT and Yemen)		29		2.0	58	19
Gas—producing and developing (DCF-based) (a)	257				257	86
KG D-6	205				205	69
NEC-25	51				51	17
Oil—KG-DWN-98/3 (b)	11				11	4
Investments other than valued separately	347				347	116
Retailing	78		0.8		62	21
Shale gas	33		0.8		26	9
Telecom	48		0.8		38	13
Total enterprise value					**2,315**	**777**
Net debt					(52)	(18)
Implied equity value					**2,367**	**794**

Notes:
(a) We value KG D-6 and NEC-25 blocks on DCF.
(b) 25 mn bbls of gross recoverable reserves.
(c) Capital WIP includes capex on new petrochemical units.
(d) We use 2.979 bn shares (excluding treasury shares) for per share computations.

Source: Kotak Institutional Equities estimates

RIL: Profit model, balance sheet, cash model, March fiscal year-ends, 2008-15E (₹ mn)

	2008	2009	2010	2011	2012	2013E	2014E	2015E	2016E
Profit model (Rs mn)									
Net sales	1,334,430	1,418,475	1,924,610	2,481,700	3,299,040	3,891,841	3,692,667	3,610,382	3,477,298
EBITDA	**233,056**	**233,139**	**305,807**	**381,257**	**336,190**	**301,516**	**305,861**	**331,712**	**349,018**
Other income	8,953	20,599	24,605	30,517	61,920	66,933	69,147	74,516	82,527
Interest	(10,774)	(17,452)	(19,972)	(23,276)	(26,670)	(28,448)	(20,717)	(16,430)	(10,606)
Depreciation & depletion	(48,471)	(51,953)	(104,965)	(136,076)	(113,940)	(97,153)	(97,200)	(97,191)	(104,364)
Pretax profits	182,764	184,332	205,474	252,422	257,500	242,848	257,090	292,606	316,575
Extraordinary items	47,335	—	—	—	—	—	—	—	—
Tax	(26,520)	(12,634)	(31,118)	(43,204)	(51,500)	(48,003)	(53,074)	(67,950)	(77,949)
Deferred taxation	(8,999)	(18,605)	(12,000)	(6,355)	(5,600)	(7,094)	(8,622)	(5,076)	(2,313)
Net profits	194,580	153,093	162,357	202,863	200,400	187,751	195,394	219,581	236,314
Adjusted net profits	**152,605**	**153,093**	**162,357**	**202,863**	**200,400**	**187,751**	**195,394**	**219,581**	**236,314**
Earnings per share (Rs)	**52.5**	**50.6**	**49.6**	**62.0**	**61.3**	**57.4**	**59.7**	**67.1**	**72.2**
Balance sheet (Rs mn)									
Total equity	847,853	1,263,730	1,371,706	1,515,403	1,660,960	1,821,013	1,986,978	2,173,667	2,373,627
Deferred taxation liability	78,725	97,263	109,263	115,618	121,220	128,314	136,936	142,012	144,325
Minority interest	33,622	—	—	—	—	—	—	—	—
Total borrowings	493,072	739,045	624,947	673,967	684,470	561,254	393,021	298,693	212,738
Currrent liabilities	251,427	357,019	404,148	542,206	484,750	560,902	532,166	517,096	497,973
Total liabilities and equity	**1,704,700**	**2,457,057**	**2,510,064**	**2,847,194**	**2,951,400**	**3,071,483**	**3,049,102**	**3,131,468**	**3,228,663**
Cash	42,823	221,765	134,627	271,349	395,980	392,729	445,173	576,329	717,767
Current assets	402,720	325,357	489,165	644,070	800,570	927,753	890,879	874,250	847,344
Total fixed assets	1,081,638	1,693,869	1,653,987	1,555,260	1,214,770	1,210,921	1,172,970	1,140,809	1,123,472
Investments	177,519	216,065	232,286	376,515	540,080	540,080	540,080	540,080	540,080
Deferred expenditure	—	—	—	—	—	—	—	—	—
Total assets	**1,704,700**	**2,457,057**	**2,510,064**	**2,847,194**	**2,951,400**	**3,071,483**	**3,049,102**	**3,131,468**	**3,228,663**
Free cash flow (Rs mn)									
Operating cash flow, excl. working capital	180,718	174,508	222,605	304,310	265,810	220,567	227,805	246,052	258,436
Working capital	(31,071)	(37,983)	(53,015)	695	(27,700)	(51,032)	8,139	1,558	7,784
Capital expenditure	(239,691)	(247,128)	(219,427)	(123,661)	(80,080)	(73,062)	(81,001)	(63,750)	(85,000)
Investments	(78,953)	(10,392)	14,206	(195,439)	(201,760)	—	—	—	—
Other income	6,132	16,195	22,043	23,316	18,930	66,933	69,147	74,516	82,527
Free cash flow	**(162,865)**	**(104,800)**	**(13,587)**	**9,220**	**(24,800)**	**163,406**	**224,089**	**258,376**	**263,747**
Ratios (%)									
Debt/equity	53.2	54.3	42.2	41.3	38.4	28.8	18.5	12.9	8.4
Net debt/equity	48.6	38.0	33.1	24.7	16.2	8.6	(2.5)	(12.0)	(20.1)
RoAE	18.9	13.6	11.8	13.1	11.6	9.9	9.4	9.7	9.6
RoACE	**12.7**	**10.0**	**8.6**	**10.1**	**9.2**	**8.3**	**8.3**	**8.9**	**9.0**
Adjusted ROACE	**21.7**	**17.3**	**12.3**	**12.5**	**11.6**	**10.9**	**10.9**	**12.3**	**13.6**

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."

Kotak Institutional Equities Research coverage universe

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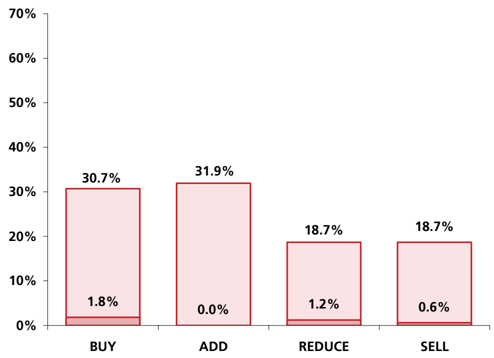

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Source: Kotak Institutional Equities

As of March 31, 2012

Ratings and other definitions/identifiers

Definitions of ratings

BUY. We expect this stock to deliver more than 15% returns over the next 12 months.

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SELL. We expect this stock to deliver <-5% returns over the next 12 months.

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