

Reliance Industries Limited (RIL)

Rs 711

KRChoksey
 INTEGRATED FINANCIAL SOLUTIONS

Why fall in gas reserve won't affect the market value of RIL?

Accumulate

Recently Niko resources have cut 2p reserve estimates from the KG D6 block by 80% from 9.3tcf to 1.9tcf. This is impacting current valuation of KG-D6 block ~Rs 20/share based on the gas rate of \$4.2/mmbtu, on positive note Niko mentioned probability of significant upside of 6.1tcf from contingent resource discoveries at D6, NEC 25 and satellite fields. At the same time RIL, Partner to invest \$4bn to develop satellite fields which will improve gas production from KG block.

RIL will produce ~60mmscmd by FY15 from KG block.

AGM note suggested Reliance Industries hopes to produce an additional 30 mmscmd of gas at its KG D6 field off India's East coast. This will improve Oil & Gas segment EBIT by 20% and overall positive impact on EBIT would be ~5%. We rule out any possibility of RIL gas production fall below 25mmscmd and we do not agree with Niko guidance on production from KG block.

Strong case: Gas price hike could make up for hit from lower reserves

Press reports suggest EGoM is considering KG D6 gas price hike before April 2014. KG D6 gas price hike to \$8-9/mmbtu would make up for lower reserves, Gas prices in nearby countries like Thailand and China at \$6-7.5/mmbtu are higher than \$4.2/mmbtu in India. we believe this is strong case of gas price hike from current level to \$8/mmbtu (considering market rate & cost of production), any price hike impact on reserve revaluation will offset reserve downgrade.

KG-D6 field	RIL	RIL	Niko	Niko
Gas reserve (tcf)	6.1	6.1	1.9	1.9
Gas price (\$/mmbtu)	4.2	8	4.2	8
Satellite fields				
Gas reserves (tcf)	1	1	2	2
Gas price (\$/mmbtu)	4.2	8	4.2	8
Ril KG-D6 valuation (Rs/share)	93	128	74	99

Valuation: We believe in improvement of GRM; expect pickup in regional margins in 2H CY12. Any gradual recovery in downstream demand and improvement in global operating rates would be a positive trigger for petchem. 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 : ~12%

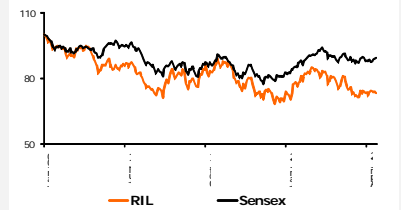
Previous TP (Rs): 800

Market Data	
Shares outs (Cr)	327
Equity Cap (Rs Cr)	3271
Mkt Cap (Rs Cr)	2,32,497
52 Wk H/L (Rs)	1021/680
Avg Vol (1yr avg)	1401371
Face Value (Rs)	10
Bloomberg Code	RIL IN

Market Info:

SENSEX	16792
NIFTY	5146

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

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
07-6-2012	725	800	Accumulate
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

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

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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.