BRAVEHEART SERIES

RELIANCE INDUSTRIES

Reiterating refining upsides

India Equity Research| Oil, Gas and Services

Edelweiss
Ideas create, values protect

Post revisiting our global refining model, we reiterate our positive stance on refining noting that net refining capacity addition will lag demand growth. Also, low distillate inventories pose upside risks to margins. Our proprietary model indicates Reliance Industries' (RIL) Q3/FY13E GRM at USD8.7/>8.5 per bbl. While refining will be the biggest value driver (6% increase in SOTP for USD1/bbl rise in GRM), outcome of Rangarajan Committee on gas pricing is a key near-term trigger. RIL's abstinence from 2G auctions and rebound in US gas prices are a positive. Our core thesis of USD31bn capex during FY13-17 leading to doubling of EBITDA stays intact. Maintain 'BUY' with TP of INR906.

Lower net capacity additions + Low inventory = High GRMs

We anticipate utilisation to inch up from 81.2% (CY11) to 82.6% (CY14) led by new capacity delays and additional closures (post our Jul-12 update) which limit CY12-14E net capacity addition at 1.5mbpd versus demand growth of 2.4mbpd. New refineries need GRM of USD10/bbl to generate ~10% CROCI. OECD distillate inventories are at 5-year lows. Ergo, refining margin will maintain an upward trajectory, though it could be volatile.

Our proprietary model estimates RIL's Q3FY13 GRM at USD8.7/bbl

We estimate Q3FY13 complex GRM to outperform the Singapore benchmark due to: (1) improved naphtha/middle distillate cracks; and (2) steep fall in fuel oil cracks to USD(10.1)/bbl from USD(6.2)/bbl QoQ, which led to wider light-heavy spreads. Our proprietary GRM model, incorporating product and crude slates of each refiner, estimates RIL's Q3FY13 GRM at USD8.7/bbl (Q2 USD9.5/bbl vs. estimate USD9.6/bbl).

Spectrum auction overhang recedes

RIL's staying away from the 1800MHz auction clearly implies that it will rely on VOIP/VOLTE to provide voice service. By doing so, the company has clarified its intent of not over-spending on spectrum resource, which has been an overhang on the stock.

Outlook and valuations: CEPS yield 14%; maintain 'BUY'

With P/B of 1.2x and P/CEPS of 7x, valuations are clearly in favour. Capex of USD31bn over FY13-17 will boost RoE and yield EPS CAGR of 14%, led by non-regulated segments of shale gas, refining and chemicals. Maintain '**BUY**' with TP of INR 906/share.

Financials

Year to March	FY11	FY12E	FY13E	FY14E
Net revenues (INR mn)	2,658,106	3,585,010	3,432,362	3,496,083
EBITDA (INR mn)	380,436	345,080	338,448	366,661
Net profit (INR mn)	192,937	197,240	206,829	223,825
EPS (INR)	64.7	66.2	70.6	76.8
EV/EBITDA (x)	7.0	7.2	7.0	6.3
ROE (%)	13.1	12.2	11.7	11.6

EDELWEISS 4D RATINGS

Absolute Rating	BUY
Rating Relative to Sector	Outperformer
Risk Rating Relative to Sector	Medium
Sector Relative to Market	Equalweight

MARKET DATA *(R: RELI.BO, B: RIL IN)*

CMP	: INR 786
Target Price	: INR 906
52-week range (INR)	: 881 / 671
Share in issue (mn)	: 3,235.7
M cap (INR bn/USD mn)	: 2,543/ 45,668
Avg. Daily Vol.BSE/NSE('000)	: 4,258.1

SHARE HOLDING PATTERN (%)

	Current	Q4FY12	Q3FY12
Promoters %	45.2	45.1	44.8
MF's, FI's & BK's	10.9	11.2	10.7
FII's	17.7	17.0	17.6
others	26.2	26.7	27.0

** Promoters pledged shar : NIL*
(% of share in issue)

PRICE PERFORMANCE (%)

	Stock	Nifty	EW O & G Index
1 month	(6.1)	(1.6)	1.1
3 months	(5.2)	4.0	4.4
12 months	(3.7)	16.9	0.6

Niraj Mansingka, CFA
+91 22 6623 3315
niraj.mansingka@edelweissfin.com

Kiran Tulasi
+91 22 4063 5497
kiran.tulasi@edelweissfin.com

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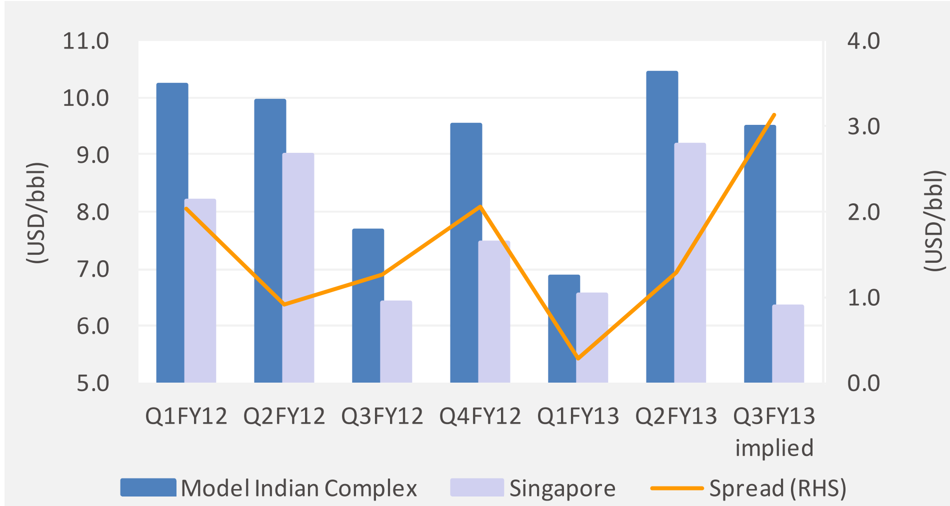
Complex GRMs remain robust

Indian Complex GRMs to average USD9.5/bbl in Q3FY13E, compared to USD10.4/bbl in Q2FY13

Chart 1: Indian Complex GRMs outperform Singapore GRMs

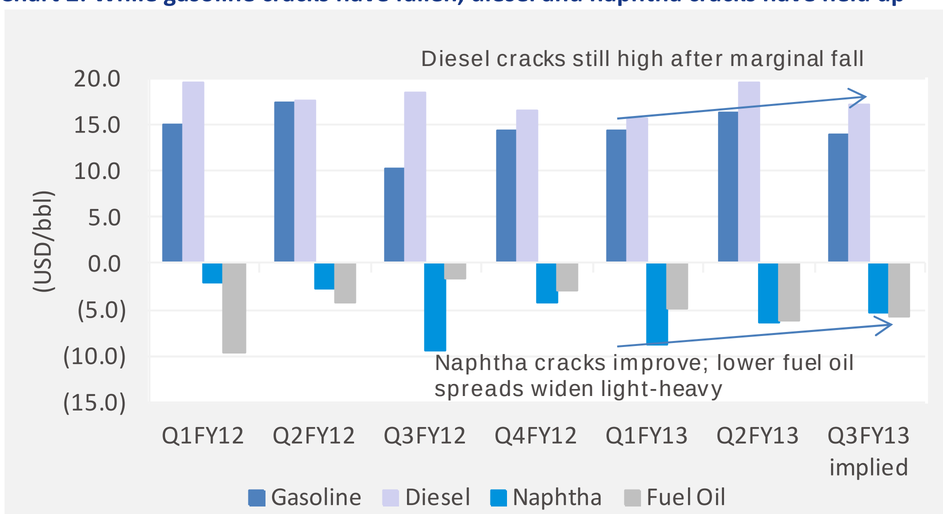


Source: Reuters, Edelweiss research

Improving naphtha spreads have led to increase in complex refining margins

Chinese industrial demand seems to be picking up, with an improvement in both refinery throughput and electricity production

Chart 2: While gasoline cracks have fallen, diesel and naphtha cracks have held up



Source: Bloomberg, Edelweiss research

Singapore benchmark margins are not the right indicator given their lower yield of naphtha and middle distillates.

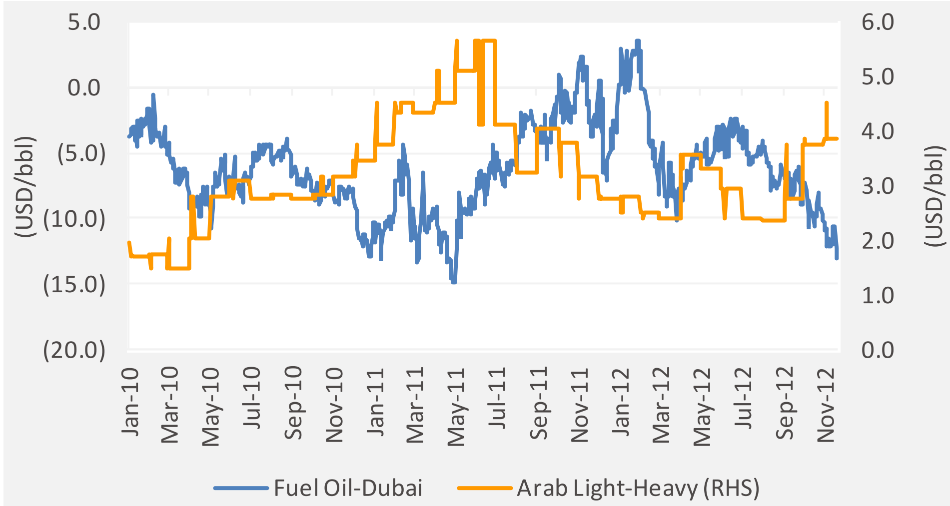
Table 1: Indian complex is diesel/naphtha-heavy while Singapore is gasoline heavy

w/w	Singapore Complex	India Complex
Naphtha	~6%	~15%
Gasoline	~28%	~20%
Gasoil/Diesel/JetKero	~33%	~45%

Source: Edelweiss research

Normalisation of fuel oil cracks has led to lower demand for heavier crude. As a result, the light-heavy spread has widened, a positive for complex refiners like RIL

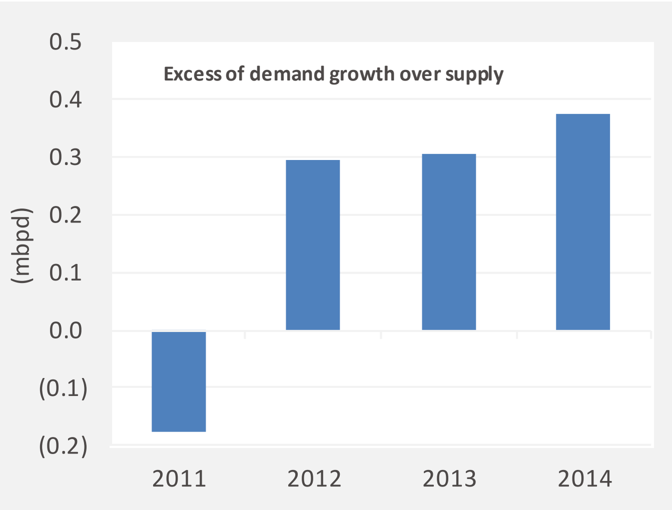
Chart 3: Indian complex refiners will also benefit from wider light-heavy spreads

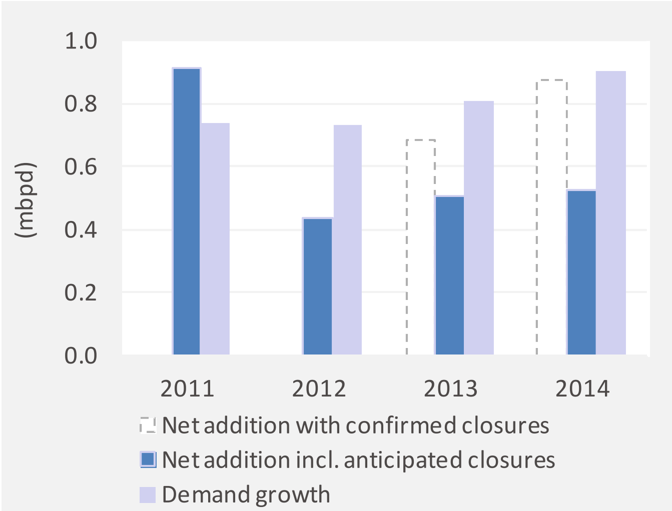


Source: Edelweiss research

Net capacity addition lower than demand growth

Chart 4: Net capacity addition over CY12-14E of 1.5mbpd (2.0mbpd excluding potential closures), lower than demand growth of 2.4mbpd

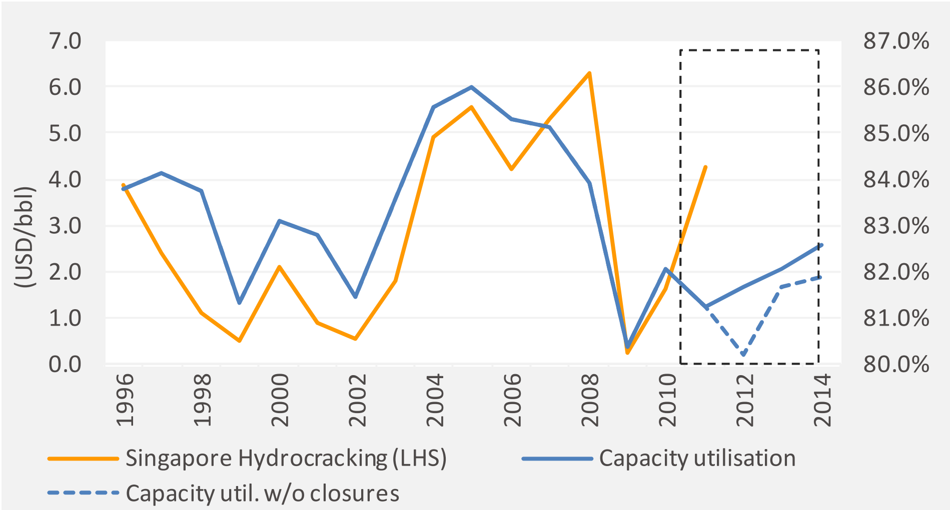




Source: Edelweiss research

Refining margins have moved in line with capacity utilisation historically. Thus, improving utilisation should boost margins

Chart 5: Leading to an improvement in capacity utilisation as well as refining margins

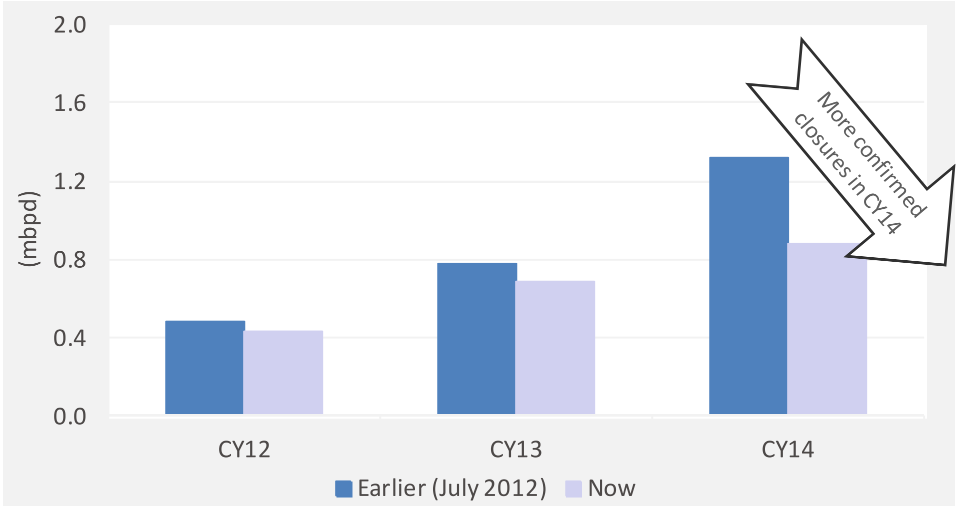


Source: BP Statistical Review, Edelweiss research

In CY12, supply growth lagged demand growth despite actual closures being less than anticipated

Despite being incrementally conservative in "list of anticipated closures", net capacity addition is expected to lag demand growth

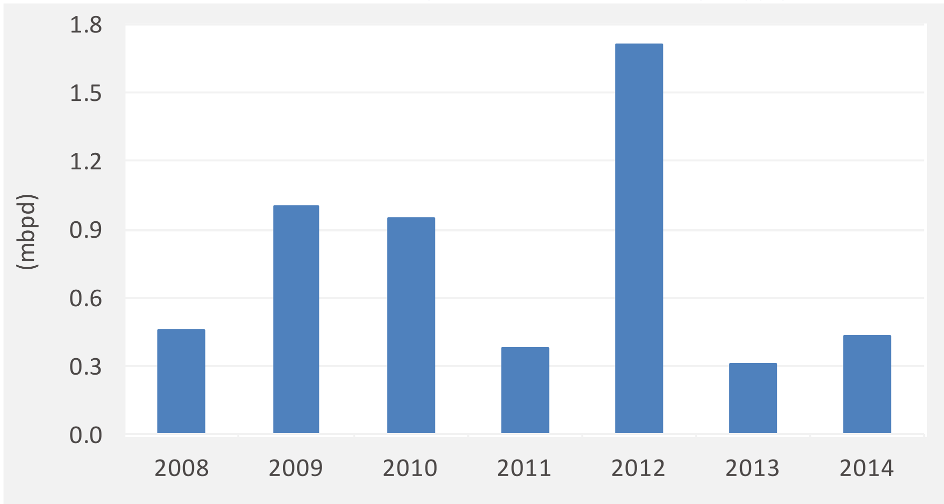
Chart 6: Delays in capacity addition and higher confirmed closures have led to a downward revision in CY14 net capacity addition from 1.32 mbpd to 0.88 mbpd



Source: Edelweiss research

Most of the announced closures have been in US, EU and Japan. Reasons include poor demand, inefficient operations, lower scale, environmental norms, and improper product mix

Chart 7: Announced closures of 3.8 mbpd over CY10-14 will keep supply in check



Source: Edelweiss research

Anecdotes on the state of the refining industry

- *"Australia's oil refineries have been sentenced to extinction and the country needs to decide if it wants to keep its refining capacity.* ***Australian refineries typically had the capacity to process only 100,000 barrels of crude oil a day, but most modern refineries processed 400,000 barrels a day.*** *It is only a matter of time before [the remaining Australian refineries] go out of business.''* - Dr Fereidun Fesharaki, Facts Global

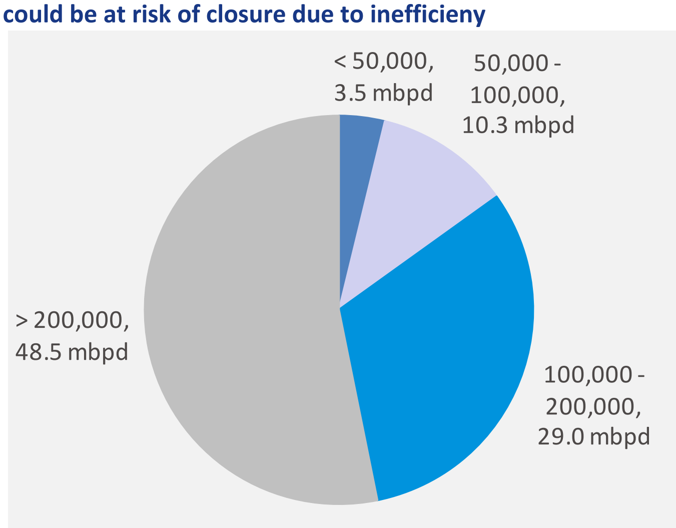
- ***"Taking into the timing of start-up and closures, net supply increase from new capacity or the closures is only 0.7 mbpd, which is much smaller than the demand growth in 2013; a similar situation will be continued in 2014 according to our data."*** **– S Oil**

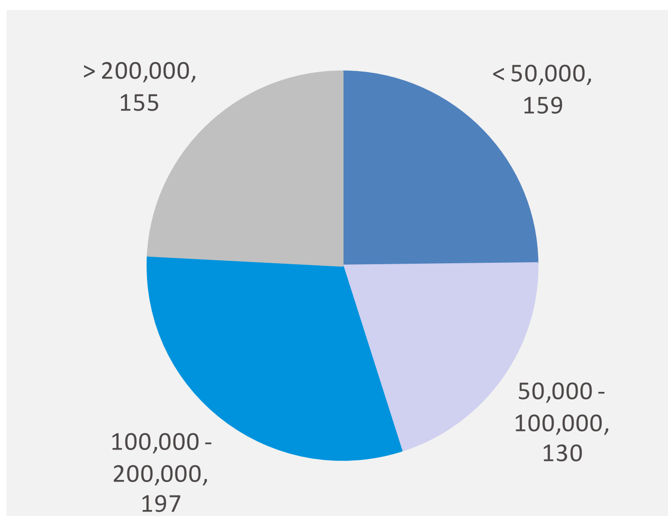
- *"Many European refineries built 30 to 40 y ears ago using less sophisticated technology are now at a disadvantage. Built to a smaller scale to process lighter, sweeter crude oils, producing an excess of gasoline, and with strong labour laws and high wages; many European refineries have experienced a structural erosion of their margins."* – KPMG

- *"Asian countries not applying the (Iran) embargo could buy the Iranian oil at a discount and sell cheap refined products back to us. Italy already risks the closure of five refineries and at a European level we're talking about 70 possible shut downs."* – Unione Petrolifera, Association of Italian refiners, January 2012.

- Commenting on **stricter emission norms** in UK and EU, the UK refining trade association UKPIA, said *"The refining sector works on a very narrow differential between cost of crude oil and the value of products produced - typically in favourable conditions equivalent to only 1.65 pence per litre. After energy and other operating costs this reduces to 0.6 pence per litre. We calculate that new legislative impacts could add a further 0.35 pence per litre of costs, leaving close to zero return on capital employed which is unsustainable."*

Chart 8: There is a sizeable 3.5 mbpd of global refining capacity of 50 kbpd or smaller across 159 refineries – some of which could be at risk of closure due to inefficieny





Source: Edelweiss research

Japan's Ministry of Economy, Trade and Industry (METI) issued an ordinance in July 2009 requiring refiners to increase the ratio of Residue Cracking Units to CDUs by March 2014 from 10% to 13%. This is to boost Japanese capacity to handle heavier oils, but could lead to a reduction in overall capacity

While cuts of ~1mbpd have been announced, larger refiners like TonenGeneral and Cosmo Oil with a low cracking ratio are yet to announce overall cuts. We expect announcements on the same in next year

Table 2: Japan will see a spate of closures due to new ordinance by March 2014

Company	CDU Capacity	Heavy oil cracking		Capacity cut announced	Post cut cracking
	kb/d	kb/d	% of CDU	kb/d	%
JX Group	1,698	155	9%	555	14%
Idemitsu	595	72	12%	120	15%
Showa Shell	419	57	14%	120	19%
TonenGeneral	615	25	4%	0	4%
Cosmo Oil	516	21	4%	240	8%
Total	**3,843**	**330**	**9%**	**1,035**	

Source: Hydrocarbon Asia, Edelweiss research

Low return on new capacities at current GRMs

RPL refinery at current GRMs and original capital cost generates ~12% return on capital

Table 3: Rising refinery capital costs implies new refineries need GRMs of USD 10-11.5/bbl to generate 9.1-10.8% CROCI

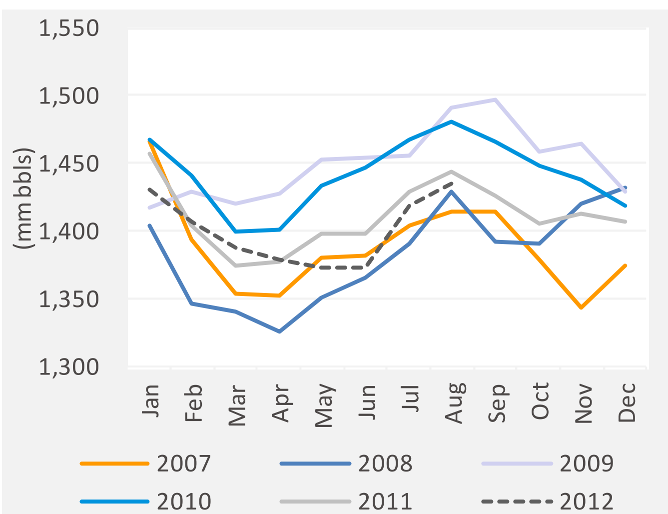
GRMs needed by new refineries to generate 10% return on capital

GRMs ($/bbl)	CROCI	Capital cost (USD/bpd)				
		12,000	15,000	20,000	22,000	25,000
	7.0	9.3%	7.7%	6.1%	5.7%	5.1%
	8.5	12.2%	10.2%	8.0%	7.4%	6.6%
	10.0	15.1%	12.6%	9.9%	9.1%	8.1%
	11.5	18.1%	15.0%	11.7%	10.8%	9.7%
	13.0	21.0%	17.4%	13.6%	12.5%	11.2%

Source: Edelweiss research

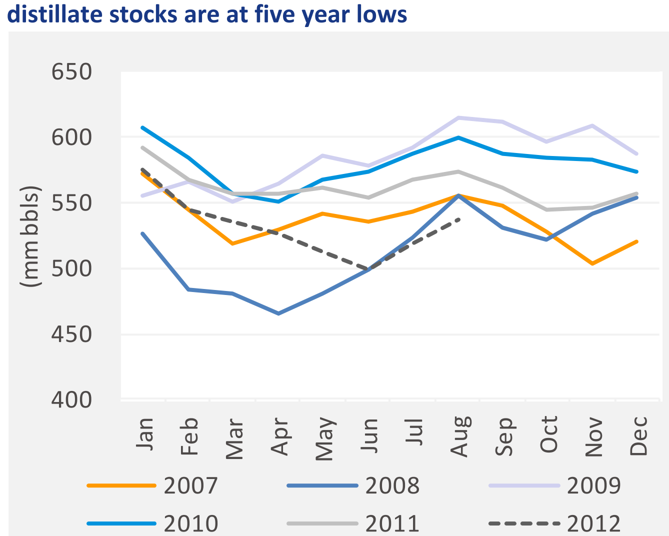
Inventories at multi-year lows to support margins

Chart 9: OECD product inventories at three year lows



Lower OECD product inventories imply positive refining outlook

Chart 10: Importantly for Asia refiners, OECD middle distillate stocks are at five year lows



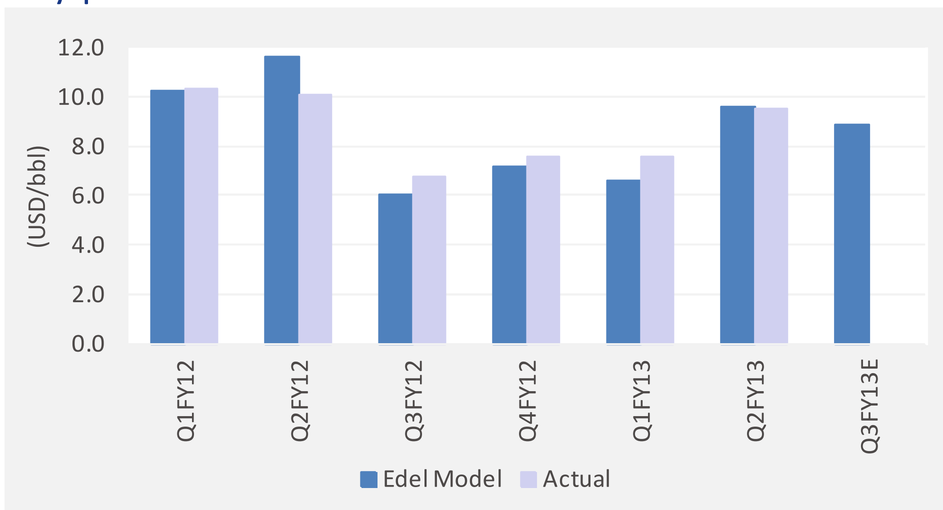
Source: Edelweiss research

OECD inventories are low mostly in distillates – implying that high distillate margins are here to stay

Introducing our proprietary margin estimator – Estimate RIL's GRMs at USD8.7/bbl in Q3FY13

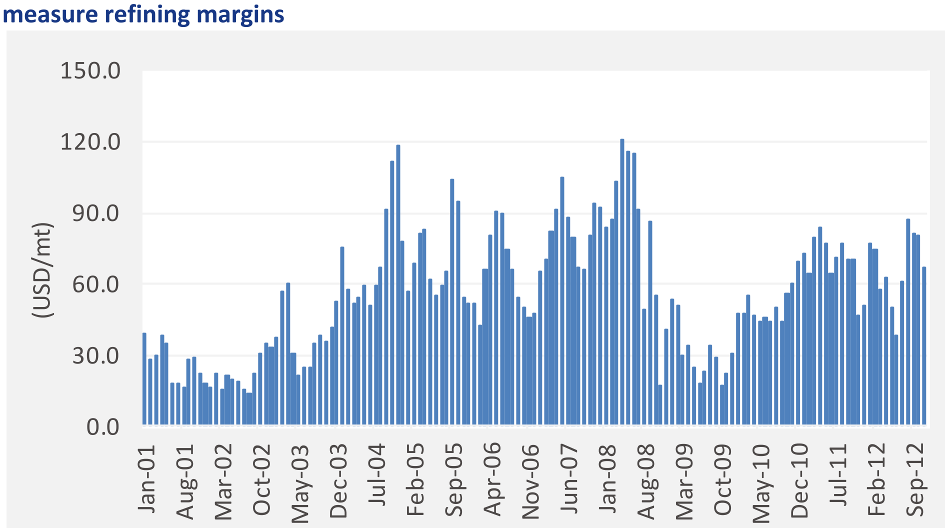
Our proprietary refining model incorporates crude and product slates of each refiner. RIL had reported GRMs of USD9.5/bbl in Q2FY13, in line with our model's estimate of USD9.6/bbl

Chart 11: RIL's GRMs in Q3FY13 will benefit from stable diesel cracks and wider light-heavy spreads



Source: Edelweiss research

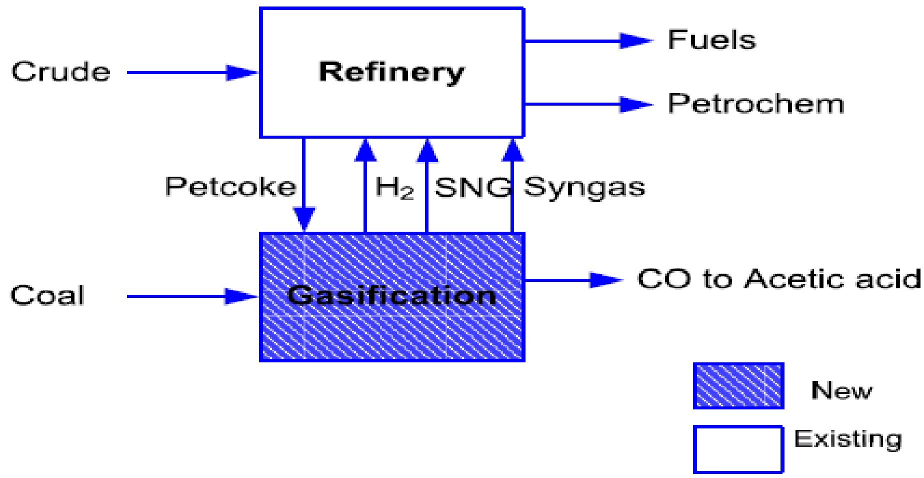
Chart 12: Indian complex GRMs in USD/mt: We see USD/mt as the right unit to measure refining margins



Source: Edelweiss research

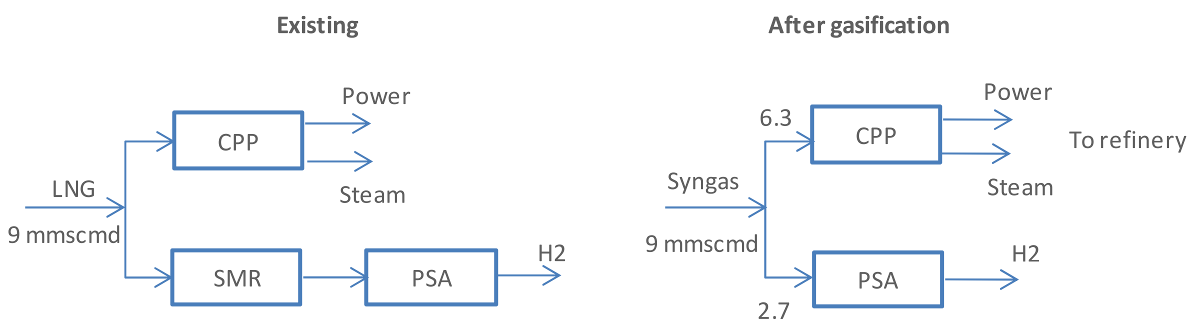
Petcoke gasification to boost GRM by USD2/bbl

Fig. 1: Petcoke gasification will use petcoke feedstock and provide fuel to refinery



Source: RIL, Edelweiss research

Fig. 2: Syngas produced from petcoke gasification will replace LNG to produce captive power

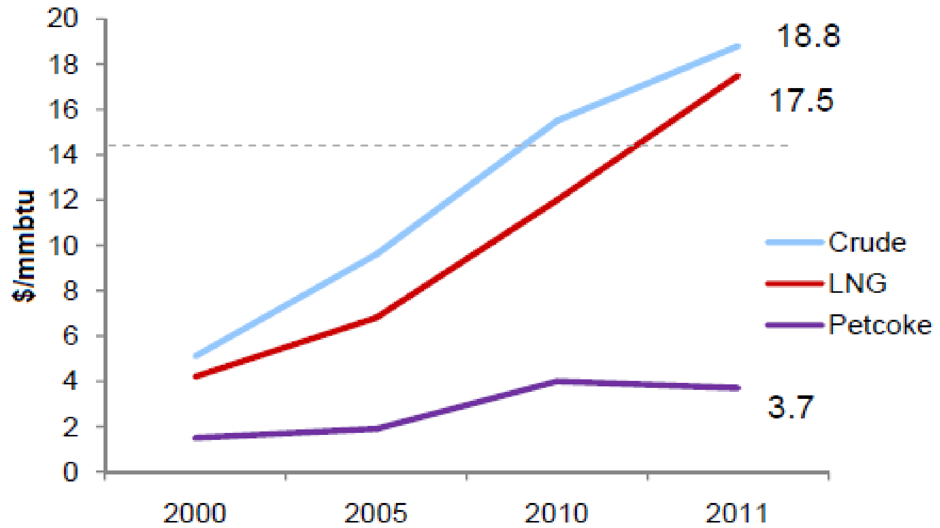


Source: RIL, Edelweiss research

We believe RIL may have taken a view of sustenance of high crude prices as the project becomes viable only when LNG prices remain upwards of USD12/mmbtu

While the project's CROCI is 10% at LNG price of USD12/mmbtu, it rises to 18% when LNG prices are at USD16/mmbtu

Chart 13: Increasing differential between LNG and Petcoke has increased the attractiveness of Petcoke Gasification



Source: PIRA 2011

Table 4: RIL's petcoke gasification capex is at par with similar projects globally

Global Petcoke Gasification	Cost (USD mn)	Capacity (MW)	Cost/capacity (USD/W)
Duke Energy's Edwardsport IGCC Project	2,000	630	3.17
Wallula Energy Resource Center	2,100	700	3.00
Carson Hydrogen Power Project	1,000	500	2.00
Hunton Energy Freeport Plant (Lockwood)	2,400	750	3.20
Reliance Industries	**4,000**	**1,200**	**3.33**

Source: Edelweiss research

While GRMs will marginally fall due to use of petcoke for gasification, opex will fall more as a result of cheaper cost of gas used for power production

We estimate a net increase in GRMs of USD2/bbl versus RIL guidance of USD3/bbl

Table 5: Economics of petcoke gasification—CROCI of 18%

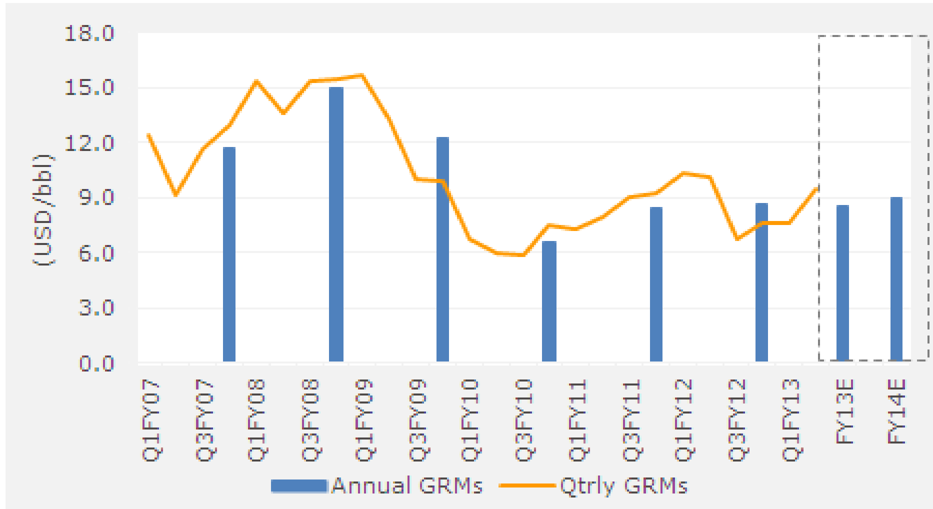
Assumed LNG costs (USD/mmbtu)	15.3
Assumed RFG costs (USD/mmbtu)	6.0
Blended cost of LNG + RFG (USD/mmbtu)	12.4
Increase in GRMs (USD/bbl)	(0.3)
Increase in Opex (USD/bbl)	(2.4)
Increase in Net GRMs or EBITDA (USD/bbl)	2.0
EBITDA increase (USD mn/year)	1,005
EBITDA increase (INR bn/year)	53
PAT increase (INR bn)	22
EPS increase (INR)	7.5
Capex (USD mn)	**4,000**
CROCI (%)	**18.3%**
ROCE (%)	**13.3%**

Source: Edelweiss research

Refining Valuations

Refining is the biggest driver of RIL's fair value, with a ~6% increase in SOTP due to a USD1/bbl increase in GRMs.

Chart 14: We are positive on GRMs in CY12-14; estimate RIL's GRM at USD8.5/bbl in FY13 and USD 9.0/bbl in FY14; upside risks remain



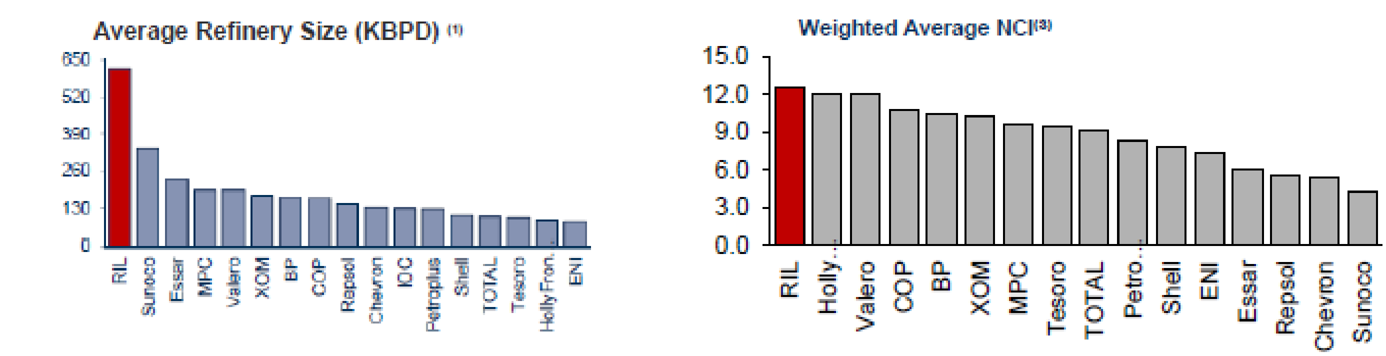
Source: Edelweiss research

Table 6: Refining valuation sensitivity

Base case value of refining at FY13/14 GRM of USD 8.5/bbl and USD 9/bbl respectively	INR 329/share
Worst case value for refining at FY13/14 GRMs of USD 7.5/bbl	INR 248/share
Value at current replacement cost of refineries	INR 453/share
CROCI for new refineries at current GRMs and current replacement cost of USD 22,000/bpd	5.7%
CROCI for RPL refinery at current GRMs and original cost of RPL at USD 12,000/bpd	9.3%

Source: Edelweiss research

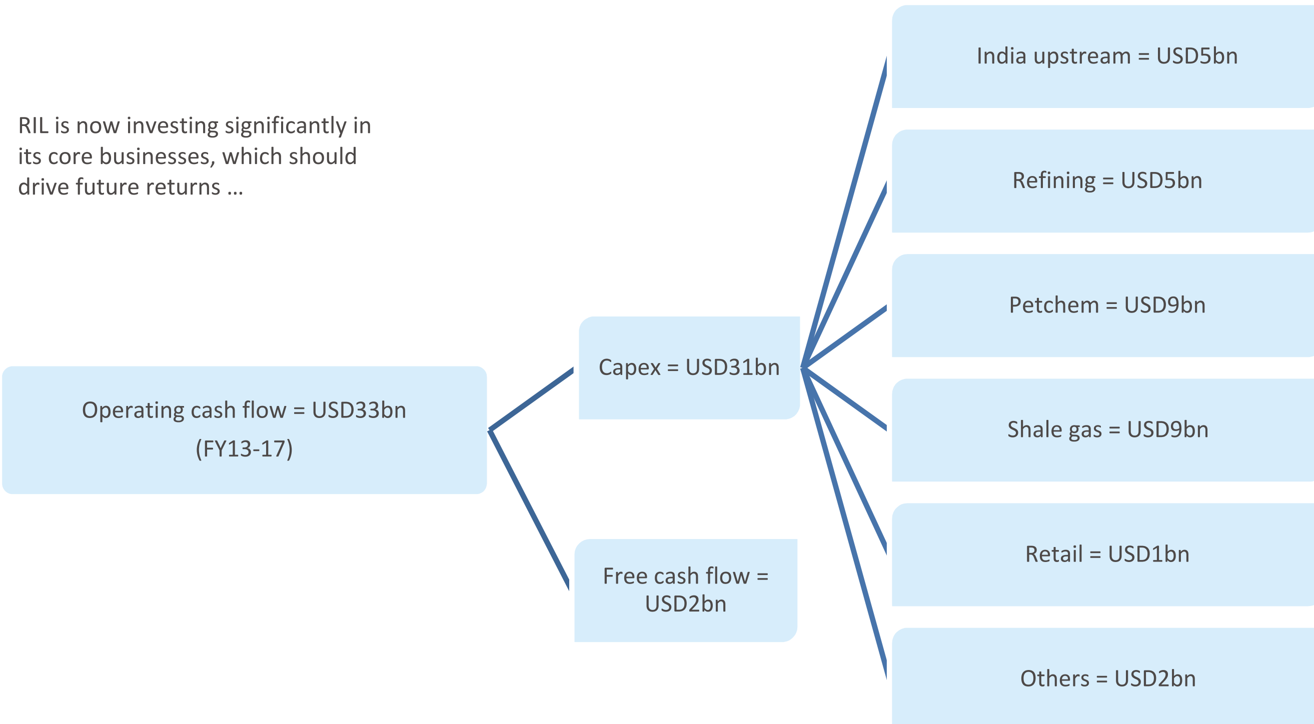
Chart 15: Given RIL's size and complexity, it should trade at premium valuations



Source: RIL

Summing Up the Story

Fig. 4: RIL is embarking on substantial capex phase of USD31bn over FY13-17, putting to rest questions of cash usage



Source: Edelweiss research

… with EBITDA and PAT doubling over the next five years

Table 7: This will lead to doubling of EBITDA and EPS over FY13-17E, 14% CAGR

INR bn	FY12	Increase	FY17	CAGR	Multiple
(a) India Upstream	100	11	111	2%	1.1
(b) Refining	140	67	208	8%	1.5
(c) Petchem	112	86	197	12%	1.8
(d) Shale Gas	9	120	129	69%	13.8
(e) Retail	-5	13	8		
(f) Others	-11	12	2		
Total EBITDA (INR bn)	**345**	**309**	**654**	14%	1.9
PAT (INR bn)	197	190	387	14%	2.0
EPS	66	66	133	15%	2.0
CEPS	109	87	196	12%	1.8
Networth (INR bn)	1,694	1,200	2,894	11%	1.7
BVPS	569	421	990	12%	1.7

Source: Edelweiss research

Only a small part of this growth will come from India E&P – a segment which investors are most concerned about due to lack of clarity and need for government approvals

Chart 16: 89% of incremental EBITDA over the next five years from shale gas, chemicals and refining – all unregulated segments

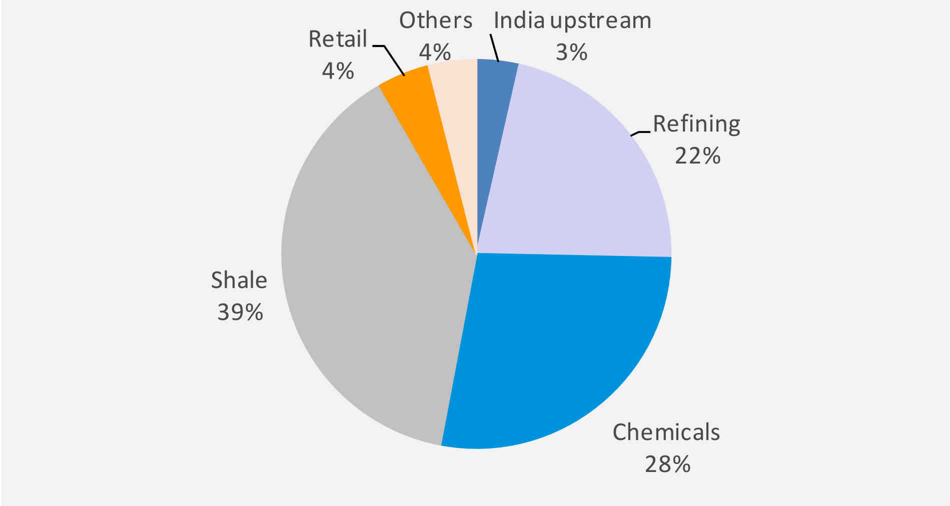


Table 8: Our base case SOTP of RIL is INR906/share (March 2013)

Fair value (March 2013)	Base value (USD bn)	Base value (INR bn)	Base value (INR/share)
(a) PMT	1.3	67	23
(b) KG-D6	3.4	180	62
(c) NEC-25	0.6	30	10
(d) CBM	1.2	65	22
(e) Value of other discoveries	0.0	0	0
India Upstream	6.5	342	117
Shale Gas	6.5	343	118
Refining (@ EV/EBITDA = 6x)	18.3	961	329
Petchem (@ EV/EBITDA = 6x)	14.6	766	262
Retail (@ 1x IC)	1.6	84	29
Telecom (@ 0.8x IC)	2.2	115	39
Value of operating assets	**49.7**	**2,611**	**894**
Cash and cash equivalents	7.6	398	136
Investments	8.5	444	152
Gross Debt	15.4	807	276
Net debt	**-0.7**	**-35**	**-12**
SOTP value (March 2013)	**50.4**	**2,646**	**906**
CMP			**786**
Return on CMP (%)			**15%**

Table 9: Sensitivity of RIL's fair value to key drivers

	SOTP impact
INR depreciate by 1% (INR 0.535)	6
Increase in India gas prices by $1/mmbtu	12
Increase in long term US natural gas price by 1% of crude	25
Refining margins increase by $1/bbl or ~11%	52
Petchem margins increase by $10/mt or ~7%	18

Source: Edelweiss research

Table 10: Our worst case valuation of RIL is INR707

Base case	Base case	Worst case	Base vs. Worst case
India Upstream	117	106	(11)
Shale Gas	118	80	(38)
Refining	329	248	(81)
Petchem	262	216	(46)
Retail	29	29	(0)
Telecom	39	27	(12)
Net cash	12	1	(11)
SOTP value (March 2013)	**906**	**707**	**(199)**
CMP	**786**	**786**	
Return on CMP (%)	**15%**	**-10%**	

Source: Edelweiss research

Table 11: There are sufficient triggers to lead to re-rating, even though capex and EPS growth is back-ended

No specific timelines	• US shale gas price increase • Start of LNG exports in US after FY16 • Global refinery shutdowns • Recovery in Asian naphtha cracker margins from long cycle trough levels currently
Q2FY13	• Revised FDP to be submited to maximise recovery from producing KG-D6 D1/D3 fields • Scale up of production in Chevron and Carizzo shale gas JVs
Q3FY13	• FDP to be submited for integrated development plan for KG-D6 satellite fields
Q4FY13	• KG-V-D3 drilling 2 exploratory wells • CBM gas price approval (likely sometime around this) • Start of Polyester capex; expansion over FY13-17
FY14	• Development plan to be sumitted for NEC-25 block • DGH approval for integrated development plan of KG-D6 satellite fields • Start of CBM production, albeit at a low level
FY15	• Gas price revision for D1/D3 fields • Polyester expansion last unit commercialization. CROCI ~11% • Japanese refinery shutdowns • Petcoke gasification commercialization in Q4FY15/Q1FY16, boosting GRMs by USD2-3/bbl
FY16	• Off-gas cracker commercialization, boosting Ethylene cracker margins • Full impact of Petcoke gasification, boosting GRMs. CROCI ~18%
FY17	• Start of production from KG-D6 satellite fields • Off-gas cracker commercialization full utilization. CROCI ~17% • Start of production from NEC-25 block

Source: Edelweiss research

Company Description

RIL is the largest private player in the refining, petrochemical and E&P sectors in India. While RIL's refining complex in Jamnagar is the largest in the world and among the most complex, it is also among the largest integrated petrochemical producers globally. Apart from E&P in India, RIL has made significant investments in US shale gas. In terms of EBIT, Petrochemicals contribute 38%, Refining 40% and E&P 22%. RIL is also expanding its presence in the areas of consumer retailing and telecom, but EBIT contribution from these 'other' businesses is <1%. RIL has a weight of 9.1% in BSE Sensex and 7.5% in S&P CNX Nifty.

Investment Theme

RIL's strength lies in its ability to build businesses of global scale and execute complex, time-critical, and capital-intensive projects which will prove advantageous as it embarks on large investments in all core segments.

We expect non-regulated segments (refining, chemicals and shale) to contribute ~90% of incremental EBITDA over the next few years.

We are positive on both refining and chemicals, as current refining margins are not sustainable for upcoming capacity additions, and global utilization rates have bottomed out in chemicals.

RIL is currently in a capex phase, investing in world-scale projects like petcoke gasification and off-gas crackers, which are expected to drive future growth.

Its investment in US shale gas is already bearing fruit, and is expected to contribute ~12% of EBITDA by FY15.

Key Risks

Slow down in global demand or larger than expected capacity additions could impact RIL's refining and chemical margins.

Delays in government approvals for India E&P or weak domestic gas prices could hamper progress in upstream.

Weak US natural gas prices could lower the profitability of shale gas assets, though it could be offset by the liquids-rich acreages which are currently highly profitable.

Rupee appreciation may impact negatively as RIL is positively leveraged to the depreciating currency.

Financial Statements

Key Assumptions

Year to March		FY10	FY11	FY12	FY13E	FY14E
Macro -	GDP(Y-o-Y %)	8.4	8.4	6.5	5.8	6.5
	Inflation (Avg)	3.6	9.9	8.8	7.8	6.0
	Repo rate (exit rate)	5.0	6.8	8.5	7.5	6.8
	USD/INR (Avg)	47.4	45.6	47.9	53.5	52.0
Sector -	Brent Crude (USD/bbl)	70.0	87.3	115.4	105.0	95.0
	Under-recovery (INR bn)	460	782	1,385	1,200	705
	% sharing by upstream	31.2	38.7	39.7	39.0	39.9
	USD/INR (Avg)	47.5	45.6	47.9	53.5	52.5
Company -	GRM (USD/bbl)	6.6	8.4	8.6	8.5	9.0
	Refining throughput (mmt)	61	67	68	68	68
	Net gas production (mmscmd)	39	53	34	19	16
	KG-D6 gas price (USD/mmbtu)	4.2	4.2	4.2	4.2	4.2

Income statement **(INR mn)**

Year to March	FY10	FY11	FY12	FY13E	FY14E
Net revenue	2,037,397	2,658,106	3,585,010	3,432,362	3,496,083
Materials costs	1,546,027	2,044,237	2,981,910	2,807,836	2,828,281
Operating expenses	182,431	233,433	258,020	286,078	301,141
EBITDA	308,939	380,436	345,080	338,448	366,661
Depreciation & Amortization	109,458	141,208	124,010	121,322	126,668
EBIT	199,481	239,228	221,070	217,126	239,992
Other income	21,775	25,428	61,940	72,680	73,134
Interest expenses	20,596	24,107	28,930	33,498	32,511
Profit before tax	200,660	240,550	254,080	256,308	280,615
Provision for tax	42,563	47,834	56,910	50,052	56,108
Net profit	158,097	192,715	197,170	206,256	224,507
Profit after minority interest	245,031	192,937	197,240	206,829	223,825
Shares outstanding (mn)	2,978	2,981	2,979	2,922	2,922
Diluted EPS (INR)	53.4	64.7	66.2	70.6	76.8
CEPS (INR)	93.9	113.3	109.4	109.9	118.1
Dividend per share (INR)	7.0	8.0	8.5	9.0	9.5

Common size metrics - as % of net revenues

Year to March	FY10	FY11	FY12	FY13E	FY14E
Gross margin	24.1	23.1	16.8	18.2	19.1
EBITDA margins	15.2	14.3	9.6	9.9	10.5
EBIT margins	9.8	9.0	6.2	6.3	6.9
Net profit margins	7.8	7.3	5.5	6.0	6.4

Growth ratios (%)

Year to March	FY10	FY11	FY12	FY13E	FY14E
Rev. growth (%)	34.7	30.5	34.9	(4.3)	1.9
EBITDA	31.9	23.1	(9.3)	(1.9)	8.3
Net profit	5.7	21.9	2.3	4.6	8.8
EPS growth (%)	2.9	21.3	2.3	6.6	8.7

Balance sheet					(INR mn)
As on 31st March	**FY10**	**FY11**	**FY12**	**FY13E**	**FY14E**
Equity capital	29,780	29,810	29,790	55,179	66,627
Reserves & surplus	1,380,250	1,511,117	1,664,660	1,777,110	1,966,173
Shareholders' funds	1,410,030	1,540,928	1,694,450	1,832,289	2,032,800
Minority interest (BS)	5,735	8,022	7,990	7,890	8,014
Secured loans	116,944	105,785	100,980	91,255	81,255
Unsecured loans	529,111	735,277	823,010	715,719	704,442
Borrowings	646,055	841,062	923,990	806,974	785,697
Deferred tax liability	106,776	110,709	115,670	109,156	103,264
Sources of funds	**2,168,596**	**2,500,721**	**2,742,100**	**2,756,309**	**2,929,776**
Gross block	2,241,253	2,382,925	2,334,760	2,445,087	2,591,432
Depreciation	639,340	801,931	946,610	1,068,393	1,194,720
Net block	1,601,913	1,580,994	1,388,150	1,376,694	1,396,711
Capital work in progress	170,337	297,423	253,630	313,348	449,664
Total fixed assets	1,772,249	1,878,417	1,641,780	1,690,042	1,846,375
Investments	131,123	215,961	385,960	385,960	385,960
Inventories	343,933	385,194	466,920	463,930	483,458
Sundry debtors	100,829	156,952	169,390	152,353	148,828
Cash and equivalents	138,908	301,390	407,310	398,225	444,566
Loans and advances	106,472	134,643	164,950	127,365	111,563
Other current assets	914	2,617	35,600	30,536	28,054
Total current assets	691,057	980,796	1,244,170	1,172,408	1,216,469
Sundry creditors and others	388,906	527,165	485,780	439,302	463,585
Others current liabilities	36,950	47,303	44,030	52,799	55,443
Total current liabilities & provisions	425,856	574,467	529,810	492,102	519,028
Net current assets	265,201	406,329	714,360	680,307	697,441
Miscellaneous expenditure	23	14	-	-	-
Uses of funds	**2,168,596**	**2,500,721**	**2,742,100**	**2,756,309**	**2,929,776**
Book value per share (INR)	473.5	516.9	568.9	627.0	695.6

Free cash flow					(INR mn)
Year to March	**FY10**	**FY11**	**FY12E**	**FY13E**	**FY14E**
Net profit	245,031	192,937	197,240	206,829	223,825
Depreciation	109,458	141,208	124,010	121,322	126,668
Deferred tax	11,314	3,710	4,650	(6,514)	(5,892)
Others	(5,894)	(1,534)	(33,066)	(39,282)	(40,499)
Gross cash flow	359,909	336,321	292,834	282,355	304,102
Less: Changes in WC	154,973	(21,354)	202,112	(24,968)	(29,207)
Operating cash flow	204,936	357,675	90,722	307,323	333,309
Less: Capex	232,781	338,646	163,810	170,045	282,661
Free cash flow	**(27,845)**	**19,029**	**(73,088)**	**137,278**	**50,649**

Cash flow metrics					
Year to March	**FY10**	**FY11**	**FY12E**	**FY13E**	**FY14E**
Operating cash flow	204,936	357,675	90,722	307,323	333,309
Investing cash flow	(182,308)	(306,925)	(16,101)	(97,365)	(209,526)
Financing cash flow	(111,337)	111,732	31,299	(219,043)	(77,442)
Net cash flow	(88,709)	162,482	105,920	(9,085)	46,341
Capex	(232,781)	(338,646)	(163,810)	(170,045)	(282,661)
Dividends paid	(22,195)	(27,719)	(29,410)	(33,431)	(35,288)

Profitability & efficiency ratios

Year to March	FY10	FY11	FY12	FY13E	FY14E
ROAE (%)	12.1	13.1	12.2	11.7	11.6
ROACE (%)	9.9	11.1	9.5	9.2	9.8
Inventory day	64	65	52	61	61
Debtors days	13	18	17	17	16
Payable days	88	82	62	60	58
Cash conversion cycle (days)	(10)	1	7	17	19
Net Debt/Equity	0.4	0.4	0.3	0.2	0.2
Interest coverage	9.7	9.9	7.6	6.5	7.4

Operating ratios

Year to March	FY10	FY11	FY12	FY13E	FY14E
Total asset turnover	1.0	1.1	1.4	1.2	1.2
Fixed asset turnover	1.5	1.7	2.4	2.5	2.5
Equity turnover	1.6	1.8	2.2	1.9	1.8

Valuation parameters

Year to March	FY10	FY11	FY12	FY13E	FY14E
Diluted EPS (INR)	53.4	64.7	66.2	70.6	76.8
Y-o-Y growth (%)	*2.9*	*21.3*	*2.3*	*6.6*	*8.7*
CEPS (INR)	93.9	113.3	109.4	109.9	118.1
Diluted PE (x)	14.7	12.1	11.9	11.1	10.2
Price/BV (x)	1.7	1.5	1.4	1.3	1.2
EV/Sales (x)	1.3	1.0	0.7	0.7	0.7
EV/EBITDA (x)	8.8	7.0	7.2	7.0	6.3
Dividend yield (%)	0.9	1.0	1.1	1.1	1.2

Peer valuation comparison

	P/E		P/B		EV/EBITDA		ROE	
	FY13E	FY14E	FY13E	FY14E	FY13E	FY14E	FY13E	FY14E
RIL	**11.1**	**10.2**	**1.3**	**1.2**	**7.0**	**6.3**	**11.7**	**11.6**
Global Independent E&P (Median)	13.8	12.8	1.4	1.3	5.3	4.7	10.4	12.4
Asian Refining & Marketing (Median)	12.2	10.2	1.1	1.0	8.3	7.0	9.5	9.5
Global Petchem (Median)	14.7	11.6	1.6	1.4	7.4	6.4	7.1	10.0

Source: Bloomberg, Edelweiss research

Company	Absolute reco	Relative reco	Relative risk	Company	Absolute reco	Relative reco	Relative Risk
Aban Offshore	REDUCE	SU	H	Bharat Petroleum Corporation	BUY	SO	M
Cairn India	HOLD	SO	M	Chennai Petroleum Corporation	HOLD	SU	H
Essar Oil	BUY	SO	H	GAIL (INDIA)	HOLD	SP	L
Gujarat State Petronet	HOLD	SP	M	Hindustan Petroleum Corporation	BUY	SO	L
Indian Oil Corporation	BUY	SO	M	Indraprastha Gas	BUY	SO	M
ONGC	BUY	SO	L	Petronet LNG	BUY	SO	L
Reliance Industries	BUY	SO	M				

ABSOLUTE RATING

Ratings	Expected absolute returns over 12 months
Buy	More than 15%
Hold	Between 15% and - 5%
Reduce	Less than -5%

RELATIVE RETURNS RATING

Ratings	Criteria
Sector Outperformer (SO)	Stock return > 1.25 x Sector return
Sector Performer (SP)	Stock return > 0.75 x Sector return
	Stock return < 1.25 x Sector return
Sector Underperformer (SU)	Stock return < 0.75 x Sector return

Sector return is market cap weighted average return for the coverage universe within the sector

RELATIVE RISK RATING

Ratings	Criteria
Low (L)	Bottom 1/3rd percentile in the sector
Medium (M)	Middle 1/3rd percentile in the sector
High (H)	Top 1/3rd percentile in the sector

Risk ratings are based on Edelweiss risk model

SECTOR RATING

Ratings	Criteria
Overweight (OW)	Sector return > 1.25 x Nifty return
Equalweight (EW)	Sector return > 0.75 x Nifty return
	Sector return < 1.25 x Nifty return
Underweight (UW)	Sector return < 0.75 x Nifty return

Edelweiss Securities Limited, Edelweiss House, off C.S.T. Road, Kalina, Mumbai – 400 098.
Board: (91-22) 4009 4400**,** Email*: research@edelcap.com*

Vikas Khemani	Head Institutional Equities	vikas.khemani@edelweissfin.com	+91 22 2286 4206
Nischal Maheshwari	Co-Head Institutional Equities & Head Research	nischal.maheshwari@edelweissfin.com	+91 22 4063 5476
Nirav Sheth	Head Sales	nirav.sheth@edelweissfin.com	+91 22 4040 7499

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Aban Offshore, Bharat Petroleum Corporation, Cairn India, Essar Oil, GAIL (INDIA), Gujarat State Petronet, Hindustan Petroleum Corporation, Indraprastha Gas, Indian Oil Corporation, Chennai Petroleum Corporation, ONGC, Petronet LNG, Reliance Industries

Recent Research

Date	Company	Title	Price (INR)	Recos
27-Nov-12	**ONGC**	Kashagan deal could be value dilutive; *Company Update*	250	Buy
23-Nov-12	**CPCL**	Earnings miss due to shutdown; *Result Update*	127	Buy
10-Nov-12	**HPCL**	GoI subsidy in time saves the day; *Result Update*	302	Buy

Distribution of Ratings / Market Cap

Edelweiss Research Coverage Universe

	Buy	Hold	Reduce	Total
Rating Distribution* * - stocks under review	118	46	17	181

	> 50bn	Between 10bn and 50 bn	< 10bn
Market Cap (INR)	117	57	7

Rating Interpretation

Rating	Expected to
Buy	appreciate more than 15% over a 12-month period
Hold	appreciate up to 15% over a 12-month period
Reduce	depreciate more than 5% over a 12-month period

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