BRAVEHEART SERIES

RESULT UPDATE

RELIANCE INDUSTRIES

Refining margins boost earnings

India Equity Research| Oil, Gas and Services

Edelweiss
Ideas create, values protect

RIL's Q2FY13 PAT at INR53.8bn was in line with the estimated INR53.9bn and higher by 20% QoQ due to better refining margins and flat petchem EBIT. GRMs for Q2FY13 at USD9.5/bbl were in-line with our estimates. RIL is awaiting MC approval for revised FDP for D1/D3 to augment production, and plans to submit the Integrated Development Plan for the satellite fields by December 2012. Our anti-consensus call on RIL initiated as part of the 'Braveheart Series,' when the stock was at INR719 is playing out. We see the strength in GRMs to persist as refinery closures offset new capacities. Further, bottoming out of petchem margins, strong shale gas production (27% QoQ, 7% of EBITDA) and progress in core capex support our call of EBITDA doubling in 5 years. Reiterate 'BUY' with a TP of INR906.

Upstream growth from integrated field development, US shale

Upstream EBITDA at INR15.5bn was lower than the INR17.2bn estimate due to lower production and earnings in PMT. KG-D6 production was 28.5 mmscmd (in line with est), down 11% QoQ and 41% YoY. RIL has submitted revised FDP for producing D1/D3 fields in August and expects to augment production. It plans to submit the Integrated Development Plan for satellite fields by Dec'12. Investment in US shale (USD4.8bn so far) is bearing fruit (production up 27% QoQ to 8.8 mmscmd and revenues/EBITDA of USD119/102mn - likely to exceed our FY13 estimate of USD358mn).

GRMs of USD9.5/bbl boost refining

Refining EBITDA at INR46.3bn was in line, with GRMs boosted by temporary refinery shutdowns (our channel checks make us believe that tightness will persist) and usage of API 26 crude. Petchem EBITDA at INR21.6bn was better than INR20.1bn est. as margins are close to bottoming out.

Outlook and valuations: Growth from non-regulated segments; 'BUY'

We expect RIL's EBITDA to double over the next five years with 90% of the incremental growth from non-regulated segments of refining, petchem and shale gas. Of the estimated USD33bn in operating cash flow over FY13-17E, we see capex of USD28bn in core segments reviving growth and RoEs. Key triggers include global refinery closures, petchem margins at long cycle troughs, rise in US gas prices and approval of upstream development plans. Maintain '**BUY**' with a TP of INR906.

Financials (Standalone)

Year to March	Q2FY13	Q2FY12	*Growth %*	Q1FY13	*Growth %*	FY12	FY13E	FY14E
Net revenue (INR bn)	903.4	785.7	*15.0*	918.8	*(1.7)*	3,299	3,390	3,674
EBITDA (INR bn)	77.1	98.4	*(21.7)*	67.5	*14.2*	336	303	320
Net profit (INR bn)	53.8	57.0	*(5.7)*	44.7	*20.2*	200	207	219
EPS - Diluted (INR)	18.4	19.1	*(3.7)*	15.3	*20.3*	67.3	71.0	75.1
P/E (x)						12.2	11.6	11.0
EV/EBITDA (x)						6.5	6.8	6.3
ROAE (%)						12.6	12.1	11.8

EDELWEISS 4D RATINGS

Absolute Rating	**BUY**
Rating Relative to Sector	Outperformer
Risk Rating Relative to Sector	Medium
Sector Relative to Market	Overweight

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

CMP	: INR 823
Target Price	: INR 906
52-week range (INR)	: 905 / 673
Share in issue (mn)	: 3,274.6
M cap (INR bn/USD mn)	: 2,695/ 50,837
Avg. Daily Vol.BSE/NSE('000)	: 4,393.1

SHARE HOLDING PATTERN (%)

	Current	**Q1FY13**	**Q4FY12**
Promoters %	45.1	45.1	44.8
MF's, FI's & BK's	11.2	11.2	10.7
FII's	17.0	17.0	17.6
others	26.7	26.7	27.0

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

PRICE PERFORMANCE (%)

	Stock	**Nifty**	**EW O & G Index**
1 month	(2.2)	2.0	1.2
3 months	14.6	8.8	7.8
12 months	(5.1)	10.8	1.2

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India upstream – Approvals for revised FDP hold key

Upstream EBITDA at INR15.5bn was lower than our estimate of INR17.2bn due to lower production/earnings from PMT fields. KG-D6 gross gas production in Q2 was 28.5 mmscmd (in-line with estimates), down 11% QoQ and 41% YoY. Oil production at 0.96 mboe continues to be down 5.3% QoQ and 34% YoY.

RIL awaits the decision/proposals by the Rangarajan Committee appointed by the Govt of India to:

- Study and recommend key PSC-related issues
- Streamline the administration of PSC
- Resolving long pending domestic gas pricing principles/issues

We are positive on the outcome of the report and believe that any indication of higher gas pricing by the committee will be positive for RIL.

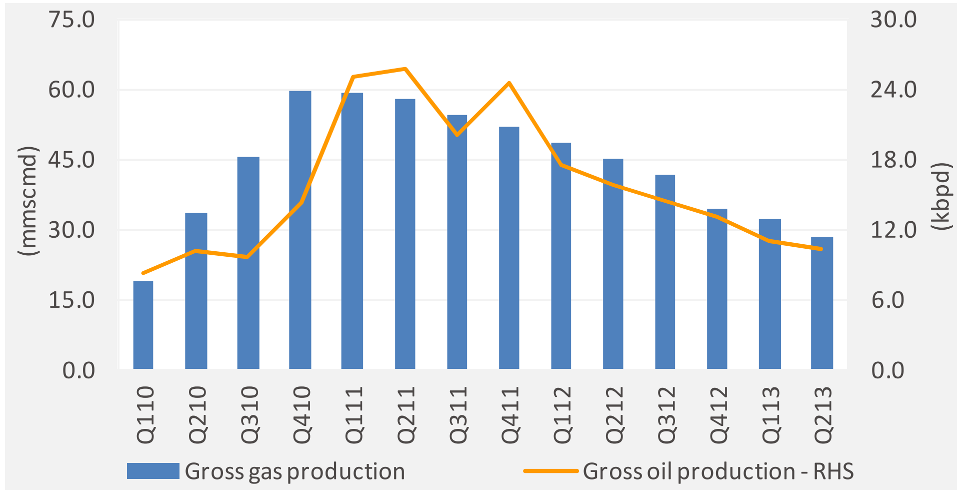
Upstream plan of action – RIL's next wave of projects – Approvals hold key

- KG-D6
  - Revised FDP for producing **D1/D3 fields** was submitted to the MC in August 2012 and is awaiting approval. The FDP is expected to increase life of the fields and augment production
  - Revised FDP for **MA field** has been approved by the MC
  - Plans to submit **Integrated Development Plan** in H2FY13 (by December 2012 specifically) to develop the satellite fields together. In the 4 OFDP satellites and R-Series, it plans to carry out geophysical survey, starting October 2012 and contracts for FEED have already been awarded
  - Proposal to drill **exploratory MJ1 well** to target resource upsides has been submitted to GOI
- NEC-25
  - Plan for pre-development activities submitted to MC
- CBM
  - Awaiting pricing formula from GOI

Our view – Production revival estimated from FY17 onwards

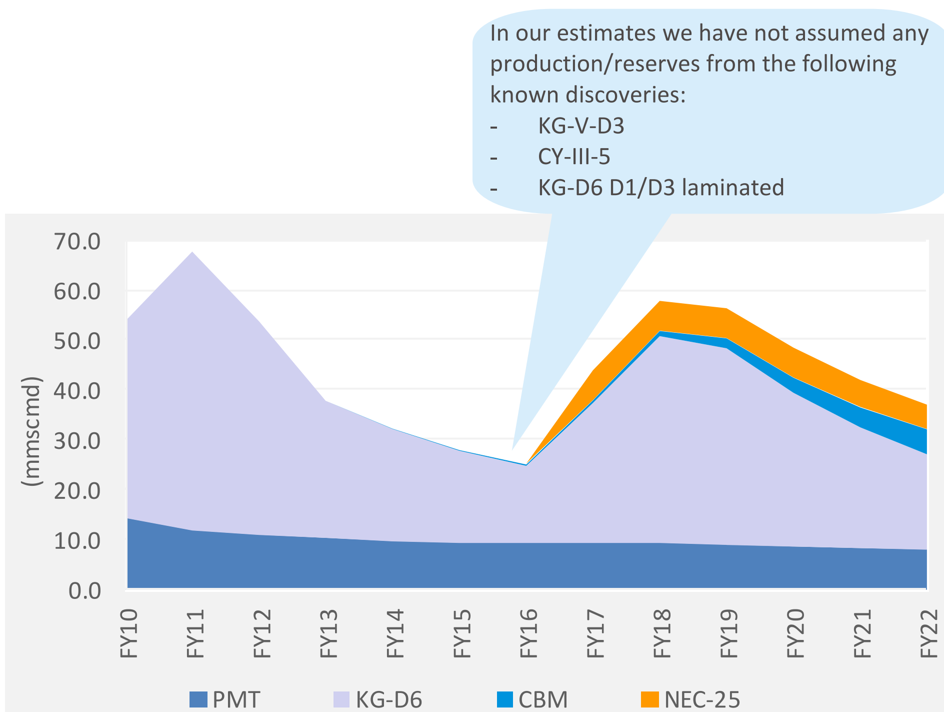
- We see KG-D6 production declining ~15% annually and bottoming out at 15.5 mmscmd by FY16 and revive to peak at 42 mmscmd in FY18 as:
  - 4 satellite fields with OFDP come on line in FY17
  - R-Series starts in FY18
  - 3 other satellites start in FY19
- Further, we estimate NEC-25 production to start in FY17 and CBM production to scale up in FY18
- As a result, we estimate gross production to reach a peak of 58 mmscmd in FY18 (RIL's share 32 mmscmd) from 54 mmscmd in FY12

Chart 1: KG-D6 volumes remain in decline mode



Source: Company, Edelweiss research

Chart 2: We see gross production from the 4 blocks (PMT, KG-D6, NEC-25 and CBM) bottoming out in FY16 and reviving to reach a peak of 58 mmscmd in FY18



Source: Edelweiss research

Refining – GRMs benefit from refinery closures

Refining EBITDA at INR 46.3bn was in line with our estimate of INR 46bn. GRMs at USD 9.5/bbl (up from USD 7.6/bbl QoQ) were boosted by temporary refinery closures in US (hurricane) and Venezuela (refinery fire). Continued higher exports are also a positive surprise (10.4 mmt in Q2 vs. 9.3 mmt in Q1) as there was expectation of higher domestic sales with strong gasoline and diesel demand in India. Throughput at 17.6 mmt was at its highest ever, implying a utilization of 112%.

RIL has signed a contract with Venezuela's PDVSA to import heavy crude oil between 300-400 kbpd for 15 years (25-30% of capacity), and this should boost refining margins substantially. RIL continues to optimize its crude sources effectively, and in Q2 used crude with a blended API of 26 (API of 27 in Q1).

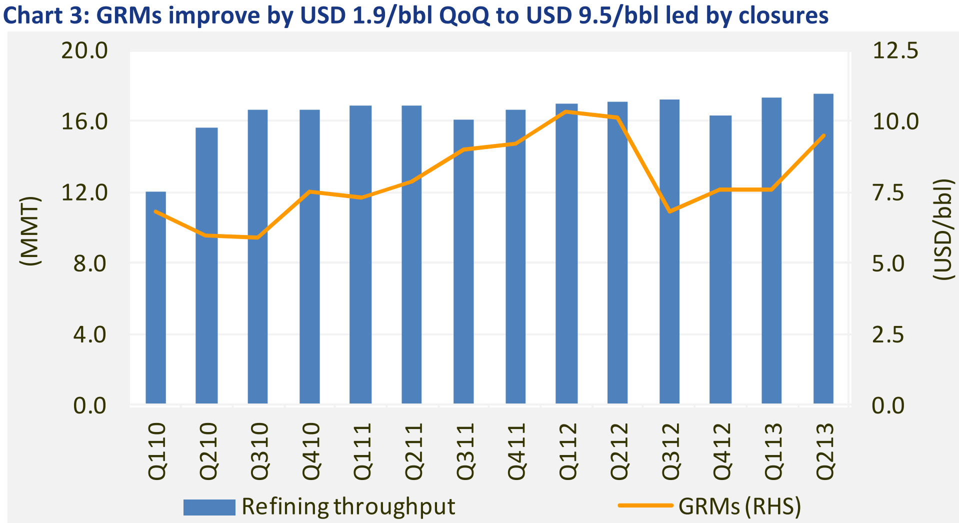
RIL achieved the highest ever utilization of down-stream units during the quarter:

- Highest ever FCCU capacity utilization @ 5.53 MMT
- Highest ever alkylation capacity utilization achieved @ 1.032 MMT

Our view – Refining margins to improve driven by closures and rising capital costs

- Rising refinery capital costs (USD 22000/bpd currently vs. USD 12000/bpd for RIL's refinery) imply that new refineries need GRMs of USD10-11.5/bbl to generate CROCI of 9.1-10.8%
- While we see new refining capacity additions of 5.0 mbpd over CY12-14, we also see a spate of closures resulting in net addition of only 1.9 mbpd, lower than the 2.6 mbpd demand growth

Chart 3: GRMs improve by USD 1.9/bbl QoQ to USD 9.5/bbl led by closures



Source: Company, Edelweiss research

RPL refinery at current GRMs and original capital cost generates ~10% return on capital

Table 1: Rising refinery capital costs implies new refineries need GRMs of USD 10-11.5/bbl to generate 9.1-10.8% CROCI

CROCI		Capital cost (USD/bpd)				
		12,000	15,000	20,000	22,000	25,000
GRMs ($/bbl)	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%

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

Source: Edelweiss research

Petchem margins have likely bottomed out

Petchem EBITDA at INR 21.6bn was better than our estimate of INR 20.1bn. While EBITDA is down 4% QoQ, led by a drop in cracker volumes (ethylene and propylene), the improvement in margins from long cycle trough levels likely indicates that we could see further upsides going forward.

Our view – Margins at cyclical bottom

- RIL's chemical portfolio is sufficiently diversified which has led to stable margins in the business despite volatility in individual products. EBITDA margins have averaged USD 144/mt over FY06-12, with margins in individual years not fluctuating more than ~5% from the average.
- Our outlook for polyester business is positive. While MEG utilisation is expected to increase from 83% to 90% over 2012-15, PTA utilisation is expected to remain stable at 75%.
- There has been a lot of concern around upcoming US petchem capacity, driven by a surge in ethane supply from shale gas. While the US petchem is definitely competitive, naphtha-based crackers which form 67% of current global cracking will continue to drive petchem prices hence margins in the sector.

Shale Gas – 8.8 mmscmd of net production and USD 102mn of EBITDA

- Production growth remains robust, up 27% QoQ to 8.8 mmscmd (RIL's share).
- RIL continues to focus on liquid rich areas in Eagle Ford and is going slow in the pure gas shale acreages in its Carrizo JV in Marcellus shale.
- Revenues of USD 119mn and EBITDA of USD 102mn.
- RIL has invested USD 4.8bn across its 3 shale JVs so far

Our view

- We see RIL's production share rising at a 50% CAGR to ~24 mmscmd by FY15 and peak at 67 mmscmd by FY20.
- We see current US gas prices as unsustainable. Rising costs of shale drilling need gas prices at USD6-7/mmbtu through FY50 to generate an IRR of 10%. Current gas price of ~USD3.0/mmbtu implies an IRR of only 3%.

- Curtailing of natural gas drilling (as seen by the fall in gas rigs) and switching of power generation from coal to gas will drive prices upwards in the near term. Start of US LNG exports in FY17 will support prices in the longer term.
- We estimate FY13E EBITDA at USD358mn against current Q2FY13 run-rate of USD408mn (annualised)
- We estimate RIL's shale gas investments to generate an IRR over life of 13% and contribute INR118/share to RIL's EV and INR57/share to RIL's equity value. This implies 1.4x EV/IC and USD 0.6mn/mcf.

New capex

- RIL's planned capex of USD 12bn in petcoke gasification, off-gas cracker and polyester expansion is significantly underway. It had in Q4FY12 announced the zero date for this capex, and these projects are expected to commission over FY15-17.

Retail

- Growth in retail remains strong, with topline rising 16% QoQ to INR 26.5bn. Same store growth varied from 5-25%.
- There are currently 1350 stores (1300 in Q1FY13) operational in India across 122 cities.
- We remain positive on Reliance Retail and are already beginning to see a gradual decline in losses. During the recent AGM, RIL had set out a target to reach topline of INR 400-500bn in the next 3-4 years from INR 76bn in FY12.

Other details

- RIL has so far bought back 39 million shares (32.5% of total committed) at INR 27.96 bn – these shares have since been extinguished
- Other income at INR 21bn, up from INR19bn QoQ. Other income yield is 11.3%.
- Standalone debt at the end of Q2 of INR 701bn. Cash and equivalents of INR 792bn, implying standalone net debt of INR91bn.
- Average cost of debt (including interest capitalization and forex losses) is 3.8%

Table 2: EBIT break-down – Improvement in refining leads to a sharp uptick in standalone EBIT **(INR mn)**

	Q111	Q211	Q311	Q411	Q112	Q212	Q312	Q412	Q113	Q213
Refining EBIT	20,350	21,920	24,360	25,090	31,990	30,750	16,850	16,960	21,510	35,440
Petrochem EBIT	20,530	21,970	24,290	26,260	22,150	24,220	21,570	21,740	17,560	17,400
Oil & Gas EBIT	19,210	17,060	15,040	15,690	14,730	15,310	12,940	9,510	9,720	8,660
Others standalone EBIT	70	80	90	90	80	100	90	70	10	80
Total standalone EBIT	**60,160**	**61,030**	**63,780**	**67,130**	**68,950**	**70,380**	**51,450**	**48,280**	**48,800**	**61,580**

Source: Company, Edelweiss research

Outlook and valuations: Growth from non-regulated segments; 'BUY'

We expect RIL's EBITDA to double over the next five years with 90% of the incremental growth from non-regulated segments of refining, petchem and shale gas. Of the estimated USD33bn in operating cash flow over FY13-17E, we see capex of USD28bn in core segments reviving growth and RoEs. Key triggers include refinery closures, petchem margins at cycle troughs, rise in US gas prices and upstream FDP approval. Maintain '**BUY'** with a TP of INR906.

Table 3: Our base case SOTP 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			**823**
Return on CMP (%)			**10%**

Table 4: 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

Financial snapshot (Standalone) **(INR mn)**

Year to March	Q2FY13	Q2FY12	% Change	Q1FY13	% Change	FY12	FY13E	FY14E
Net revenues	903,350	785,690	*15.0*	918,750	*(1.7)*	3,299,040	3,390,064	3,674,301
Raw material costs	760,660	635,680	*19.7*	785,110	*(3.1)*	2,753,830	2,900,039	3,165,337
Gross profit	142,690	150,010	*(4.9)*	133,640	*6.8*	545,210	490,025	508,964
Employee expenses	8,440	7,150	*18.0*	8,470	*(0.4)*	28,620	36,613	44,092
Other expenses	57,200	44,420	*28.8*	57,700	*(0.9)*	180,400	150,063	145,107
Operating expenses	65,640	51,570	*27.3*	66,170	*(0.8)*	209,020	186,675	189,199
Total expenditure	826,300	687,250	*20.2*	851,280	*(2.9)*	2,962,850	3,086,715	3,354,535
EBITDA	77,050	98,440	*(21.7)*	67,470	*14.2*	336,190	303,349	319,765
Depreciation & amortization	22,770	29,690	*(23.3)*	24,340	*(6.5)*	113,940	92,414	91,264
Other income	21,120	11,020	*91.7*	19,040	*10.9*	61,920	71,279	67,817
Interest	7,370	6,600	*11.7*	7,840	*(6.0)*	26,670	28,977	25,158
Profit before tax	68,030	73,170	*(7.0)*	54,330	*25.2*	257,500	253,238	271,160
Current taxes	13,610	14,640	*(7.0)*	10,820	*25.8*	51,500	49,856	55,662
Deferred taxes	660	1,500	(56.0)	(1,220)	(154.1)	5,600	(4,000)	(4,000)
Total taxes	14,270	16,140	*(11.6)*	9,600	*48.6*	57,100	45,856	51,662
PAT	53,760	57,030	*(5.7)*	44,730	*20.2*	200,400	207,383	219,498
Equity capital	29,220	29,790		29,220		29,790	29,220	29,220
Diluted shares (mn)*	2,922	2,979		2,922		2,979	2,922	2,922
Diluted EPS (INR)	18.4	19.1	*(3.6)*	15.3	*20.1*	67.3	71.0	75.1
As % of net revenues								
Direct costs	84.2	80.9		85.5		83.5	85.5	86.1
Gross profit	15.8	19.1		14.5		16.5	14.5	13.9
Other expenditure	6.3	5.7		6.3		5.5	4.4	3.9
EBITDA	8.5	12.5		7.3		10.2	8.9	8.7
PBT	7.5	9.3		5.9		7.8	7.5	7.4
Reported net profit	6.0	7.3		4.9		6.1	6.1	6.0
Tax rate	21.0	22.1		17.7		22.2	18.1	19.1

** Diluted shares are net of treasury shares*

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 (Consolidated)

Key Assumptions

Year to March		FY10	FY11	FY12	FY13E	FY14E
Macro -	GDP(Y-o-Y %)	8.4	8.4	6.5	6.4	7.0
	Inflation (Avg)	3.6	9.9	8.8	7.0	6.0
	Repo rate (exit rate)	5.0	6.8	8.5	7.3	6.8
	USD/INR (Avg)	47.4	45.6	47.9	53.5	50.0
Sector -	Brent Crude (USD/bbl)	70.0	87.3	115.4	95.0	95.0
	Under-recovery (INR bn)	460	782	1,385	1,044	1,038
	% sharing by upstream	0.3	0.4	0.4	0.4	0.4
	USD/INR (Avg)	47.5	45.6	47.9	53.5	52.5
Company -	KG-D6 gas price (USD/mmbtu)	4.2	4.2	4.2	4.2	4.2
	Net gas production (mmscmd)	39.1	52.8	33.9	19.3	16.2
	GRM (USD/bbl)	6.6	8.4	8.6	8.5	9.0
	Refining throughput (mmt)	61	67	68	68	68

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	29,220	29,220
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	1,806,330	1,995,393
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	741,677	741,850
Borrowings	646,055	841,062	923,990	832,932	823,105
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)	474	517	569	618	683

Free cash flow					(INR mn)
Year to March	**FY10**	**FY11**	**FY12**	**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)	(25,828)	121,042	(39,282)	(40,499)
Gross cash flow	359,909	312,026	446,942	282,355	304,102
Less: Changes in WC	154,973	(21,354)	202,112	(24,968)	(29,207)
Operating cash flow	204,936	333,380	244,830	307,323	333,309
Less: Capex	232,781	338,646	163,810	170,045	282,661
Free cash flow	**(27,845)**	**(5,266)**	**81,020**	**137,278**	**50,649**

Cash flow metrics					
Year to March	**FY10**	**FY11**	**FY12**	**FY13E**	**FY14E**
Operating cash flow	204,936	333,380	244,830	307,323	333,309
Investing cash flow	(182,308)	(320,437)	(63,010)	(97,365)	(209,526)
Financing cash flow	(111,337)	149,497	(75,900)	(219,306)	(77,627)
Net cash flow	(88,710)	162,441	105,920	(9,348)	46,156
Capex	(232,781)	(338,646)	(163,810)	(170,045)	(282,661)
Dividends paid	(22,195)	(24,309)	(27,720)	(33,431)	(35,288)

Profitability & efficiency ratios

Year to March	FY10	FY11	FY12	FY13E	FY14E
ROAE (%)	12.1	13.1	12.2	11.8	11.8
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	2.0	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)	15.4	12.7	12.4	11.7	10.7
Price/BV (x)	1.7	1.6	1.4	1.3	1.2
EV/Sales (x)	1.4	1.0	0.7	0.7	0.7
EV/EBITDA (x)	9.2	7.3	7.5	7.3	6.6
Dividend yield (%)	0.9	1.0	1.0	1.1	1.2

Peer comparison valuation

	Price	Market Cap	P/E		ROE		EV/EBITDA	
	CMP	INR bn	FY13E	FY14E	FY13E	FY14E	FY13E	FY14E
RIL	823	2,695	11.7	10.7	11.8	11.8	7.3	6.6
IOC	263	638	11.0	8.9	9.5	11.2	6.8	5.8
Essar Oil	62	84	18.3	9.6	16.9	24.9	8.1	6.0
ONGC	286	2,443	9.4	8.9	18.3	17.4	4.2	3.9
Cairn	328	626	7.0	7.0	17.3	15.1	4.6	4.3
Global Independent E&P (Median)			14.8	12.6	10.4	12.2	5.4	4.7
Asian Refining & Marketing (Median)			12.0	9.7	10.3	10.3	7.5	6.8
Global Petchem (Median)			12.7	9.6	9.0	11.1	7.2	5.9

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	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

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Ideas create, values protect

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Coverage group(s) of stocks by primary analyst(s): Oil, Gas and Services

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

Recent Research

Date	Company	Title	Price (INR)	Recos
08-Oct-12	**Indraprastha Gas**	Growth trajectory still intact; *Visit Note*	260	Buy
05-Oct-12	**Oil and Gas**	Fuel under-recovery: Turning into a virtuous cycle?; *Sector Update*		
05-Oct-12	**Oil and Gas**	GRMs dip marginally but still remain strong; *Sector Update*		

Distribution of Ratings / Market Cap

Edelweiss Research Coverage Universe

	Buy	Hold	Reduce	Total
Rating Distribution* * 1 stocks under review	113	53	19	186

	> 50bn	Between 10bn and 50 bn	< 10bn
Market Cap (INR)	114	58	14

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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