MOTILAL OSWAL

17 October 2011

2QFY12 Results Update | Sector: Oil & Gas

Reliance Industries

BSE SENSEX	S&P CNX
17,025	5,118
Bloomberg	RIL IN
Equity Shares (m)	3,286.2
52-Week Range (INR)	1,187/714
1,6,12 Rel. Perf. (%)	0/-6/-5
M.Cap. (INR b)	2,848.8
M.Cap. (USD b)	57.6

CMP: INR833 TP: INR1,012 Neutral

Year End	Net Sales (INR B)	PAT (INR B)	EPS (INR)	P/E (X)	ADJ. EPS* (INR)	Adj. P/E (X)	Adj. P/B (X)	ROE (%)	ROCE (%)	EV/ EBITDA
03/10A	1,925	162	49.6	17.5	54.8	15.8	2.1	13.4	11.3	10.9
03/11A	2,482	203	62.0	14.0	68.4	12.7	1.9	14.8	12.9	8.5
03/12E	3,293	237	72.3	12.0	79.8	10.9	1.6	15.1	13.9	7.5
03/13E	2,769	246	74.8	11.6	82.5	10.5	1.5	13.7	13.1	7.2

All adjusted per share info and valuation ratios are adjusted for treasury shares held by company

- Reliance Industries (RIL) reported EBITDA of INR98b (+5% YoY; -1% QoQ) for 2QFY12, in line with our estimate. Though rupee depreciation would have had a positive impact, EBITDA declined QoQ, led by lower KG-D6 production and lower GRM. The impact of lower than expected GRM at USD10.1/bbl (v/s our estimate of USD11/bbl) was compensated by (1) higher petchem EBIT at INR24b (v/s our estimate of INR19b), led by higher volumes, and (2) higher E&P EBIT at INR15b (v/s our estimate of INR13b), led by lower depletion.
- KG-D6 production (D1/D3+MA1 fields) averaged 45.3mmscmd (v/s 48.6mmscmd in 1QFY12) and is currently at 45mmscmd. While clarity on KG-D6 ramp-up is still awaited, production from satellite and R-series fields (both in KG-D6) is likely in FY15, subject to DGH approvals.
- Key things to watch would be (1) DGH approvals for its E&P program and update on its KG-D6 ramp-up, (2) clarity on 7-year income tax holiday for KG-D6 gas (we model tax holiday), (3) margin trend in refining and petchem, (4) deployment of surplus cash, and (2) update on its BWA and retail foray.
- **Clarity on cash deployment awaited:** By end-FY12, RIL will have cash and equivalents of ~USD17b (~30% of market cap) excluding treasury shares (~10% of RIL's outstanding shares). While the management indicated that RIL would not rush into any venture and would wait for the right opportunity, we note that the increasing cash balance is impacting return ratios. The company has commenced its polyester expansion but its other two projects (off-gases cracker and petcoke gasification) are still in the technology finalization stage.
- **Upgrading earnings estimates, led by change in exchange rate assumptions:** We are increasing our EPS estimates by 4.8%/2.4% for FY12/FY13 to factor in (1) the positive impact of change in INR/USD assumption from 45/44 to 47/46 for FY12/FY13, and (2) the negative impact of lower KG-D6 gas production at 46/44mmscmd in FY12/ FY13 v/s 47/46mmscmd earlier. FY12 earnings upgrade is also aided by BP cash coming in October itself v/s our assumption of December, thus boosting other income.
- **Maintain Neutral with SOTP-based target price of INR1,012:** Though valuations appear reasonable, concerns remain on the cash deployment and increased share (80%) of cyclical refining and petchem businesses. **Neutral**.

Quarterly Performance (Standalone) (INR Billion)

Y/E MARCH	FY11				FY12				FY11	FY12E
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE		
Net Sales	**582.3**	**574.8**	**597.9**	**726.7**	**810.2**	**785.7**	**802.9**	**893.7**	**2,481.7**	**3,292.5**
Change (%)	86.7	22.7	5.2	26.2	39.1	36.7	34.3	23.0	28.9	32.7
EBITDA	**93.4**	**94.0**	**95.4**	**98.4**	**99.3**	**98.4**	**96.2**	**96.5**	**381.3**	**390.4**
% of Net Sales	16.0	16.3	16.0	13.5	12.3	12.5	12.0	10.8	15.4	11.9
Change (%)	46.3	30.2	21.7	7.7	6.3	4.8	0.7	-1.9	24.7	2.4
Depreciation	34.9	33.8	33.6	33.9	32.0	29.7	24.8	25.0	136.1	111.4
Interest	5.4	5.4	5.5	7.0	5.5	6.6	6.5	6.3	23.3	24.9
Other Income	7.2	6.7	7.4	9.2	10.8	11.0	14.2	14.5	30.5	50.5
PBT	**60.4**	**61.5**	**63.8**	**66.8**	**72.6**	**73.2**	**79.0**	**79.8**	**252.4**	**304.6**
Tax	11.9	12.3	12.4	13.0	16.0	16.1	17.6	18.1	49.6	67.9
Rate (%)	19.7	19.9	19.5	19.5	22.1	22.1	22.3	22.7	19.6	22.3
PAT	**48.5**	**49.2**	**51.4**	**53.8**	**56.6**	**57.0**	**61.4**	**61.6**	**202.9**	**236.7**
Adj. EPS (INR)	**16.3**	**16.5**	**17.3**	**18.1**	**19.0**	**19.2**	**20.6**	**20.7**	**68.1**	**79.5**

E: MOSL Estimates; EPS adjusted for treasury shares

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RIL: 2QFY12 Performance Comparison

	FY11				FY12		2QFY12 (%)	
	1Q	2Q	3Q	4Q	1Q	2Q	YoY	QoQ
Segmental Revenues (INR b)								
Petochem	139	151	160	182	184	211	39.5	14.7
Refining	505	497	525	627	737	681	37.1	-7.6
Oil & Gas	47	43	42	41	39	36	-17.2	-8.5
Others	1	2	2	2	2	5	229.0	117.0
Total	**692**	**692**	**728**	**852**	**962**	**932**	**34.7**	**-3.1**
Segmental EBIT								
Petrochem	21	22	24	26	22	24	10.2	9.3
Refining	20	22	24	25	32	31	40.3	-3.9
Oil & Gas	19	17	15	16	15	15	-10.3	3.9
Others	0	0	0	0	0	0	25.0	25.0
Total	**60**	**61**	**64**	**67**	**69**	**70**	**15.3**	**2.1**
Segmental EBIT Margin (%)								
Petrochemicals	15	15	15	14	12	11	-21.0	-4.7
Refining	4	4	5	4	4	5	2.3	4.0
Oil & Gas	41	40	36	38	38	43	8.4	13.6
Others	7	5	5	5	3	2	-62	-42
Total	**9**	**9**	**9**	**8**	**7**	**8**	**-14.4**	**5.3**
Operating Metrics								
Refining (US$/bbl)								
RIL GRM	7.3	7.9	9.0	9.2	10.3	10.1	27.8	-1.9
Singapore GRM	4.9	4.2	5.5	7.4	8.6	9.1	116.7	5.8
Premium	2.4	3.7	3.5	1.8	1.7	1.0	-73.0	-41.2
Refinery Thr' put (mmt)	**16.7**	**16.9**	**16.0**	**16.7**	**17.0**	**17.1**	**1.1**	**0.6**
Utilization (%)	**107.7**	**109.1**	**103.2**	**107.7**	**109.7**	**110.3**	**1.1**	**0.6**
Petrochemicals								
Total producton (mmt)	4.9	5.4	5.6	5.2	5.5	5.7	5.6	3.6
Polymer ('000 MT)	931	1,069	1,100	994	1,100	1,100	2.9	0.0
Polyester ('000 MT)	422	429	449	410	411	414	-3.5	0.7
Polyester Interm. ('000 MT)	1,100	1,100	1,200	1,148	1,200	1,200	9.1	0.0
E&P								
Gross Oil Production (kbd)								
PMT	36.1	9.9	28.5	37.8	33.0	32.6	228.3	-1.1
Yemen	4.6	4.6	4.3	4.3	4.3	4.3	-6.5	-0.5
KG-D6	24.7	22.4	22.0	21.7	17.5	16.3	-27.1	-6.8
Total	**65.3**	**36.9**	**54.8**	**63.8**	**54.8**	**53.2**	**44.3**	**-2.9**
Gross Gas Production (mmscmd)								
PMT	14.1	8.5	10.8	12.2	11.8	11.4	33.8	-3.0
KG-D6	59.1	57.9	55.8	51.0	48.6	45.3	-21.7	-6.8
Total	**73.2**	**66.4**	**66.6**	**63.2**	**60.4**	**56.7**	**-14.6**	**-6.0**
Gross Oil +Gas (mmboe)	**49.4**	**42.8**	**44.5**	**43.3**	**40.8**	**38.5**	**-10.0**	**-5.7**
Net Gas Production	**37.2**	**34.6**	**34.4**	**32.3**	**30.5**	**26.2**	**-24.4**	**-14.1**

Source: Company/MOSL

Other key highlights

- Other income at INR11b (v/s our estimate of INR11.8b) and depreciation at INR29.7b (v/s our estimate of INR30.2b) were lower than we had anticipated, while interest cost at INR6.6b (v/s our estimate of INR5.5b) was higher than we had expected.
- Gross debt stood at INR714b v/s INR674b as at March 2011. The increase was primarily due to impact of rupee depreciation (INR45b).
- Capex during the quarter was INR55b (E&P: INR39b; Refining: INR13b; Others: INR3b). Cash capex was INR18b.

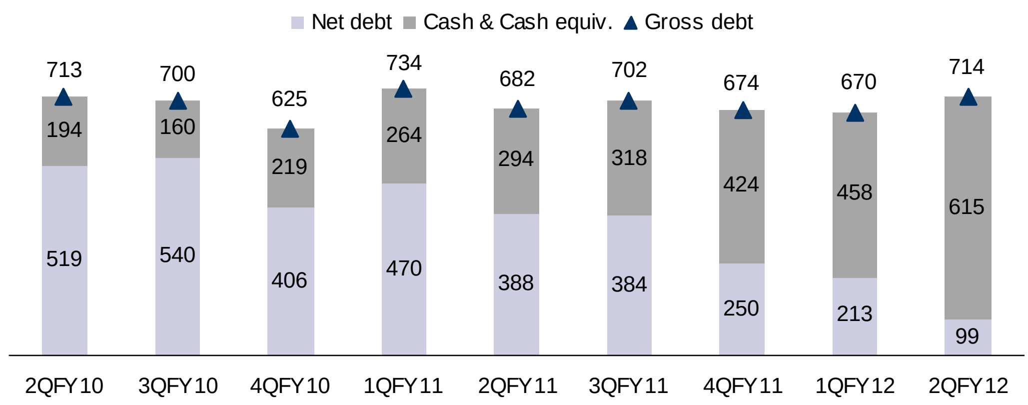
- At INR29.7b, depreciation was lower than the INR32b in 1QFY12, led by lower depletion charge in E&P, as its financials for the September month were based on 60% share due to completion of BP deal.
- Other income at INR11b (v/s INR6.7b in 2QFY11 and INR10.8b in 1QFY12) was lower than our estimate due to lower yield.
- Interest outgo at INR6.6b (v/s INR5.4b in 2QFY11 and INR5.5b in 1QFY12) included forex loss of INR1.6b.
- Interest capitalized during the quarter stood at INR1.4b (v/s INR1.3b in 2QFY11 and INR1.4b in 1QFY12).
- Effective tax rate was 22.1% (v/s 19.9% in 2QFY11 and 22.1% in 1QFY12).

September 2011 balance sheet factors BP deal completion (INR b)

Y/E March	2011	Sep-11	Remarks
Net Worth	1,515	1,618	
Total Loans	674	714	Increase due to rupee depreciation
Deferred Tax	116	119	
Capital Employed	**2,305**	**2,451**	
Fixed assets	1555	1228	Reduction of INR327 largely due to stake sale to BP
Investments	377	483	Increase in liquid investments
Curr. Assets, L & Adv.			
Inventory	298	288	
Debtors	174	174	
Cash & Bank Balance	271	365	
Loans & Adv.	169	197	Increase led by retail, Haryana SEZ and infotel
Other Current Assets	2	149	Sept-11 number includes INR147b receivables from BP which were received on Oct 3
Current Liab. & Prov.	**542**	**433**	
Application of Funds	**2,305**	**2,451**	

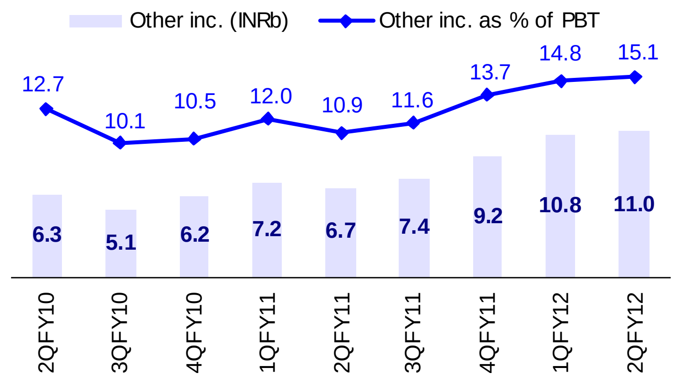
Source: Company/MOSL

Net debt has declined to INR99b (INR b)

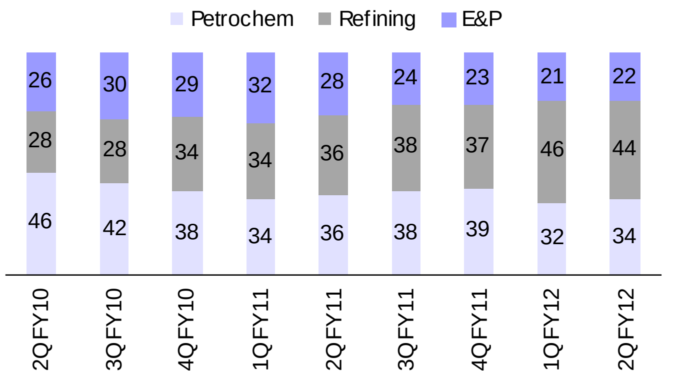


Source: Company/MOSL

Higher cash balances boost other income

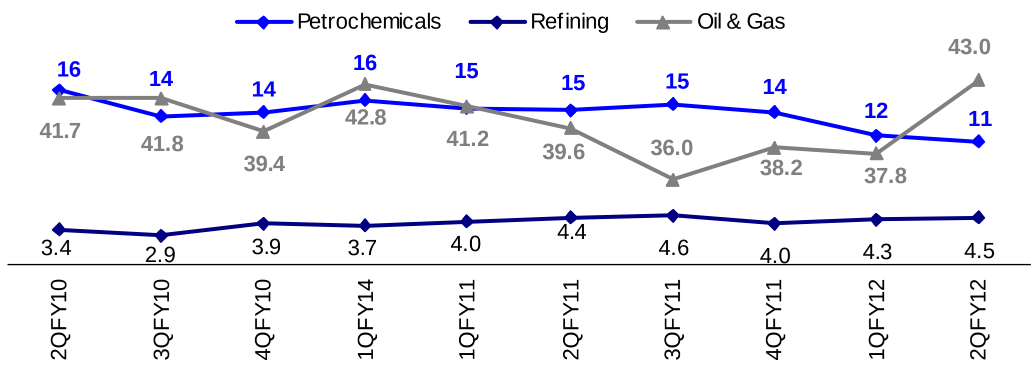


Refining + Petchem contribute 78% of total EBIT (%)



Source: Company/MOSL

EBIT margin: Petchem down, E&P up QoQ (%)



Source: Company/MOSL

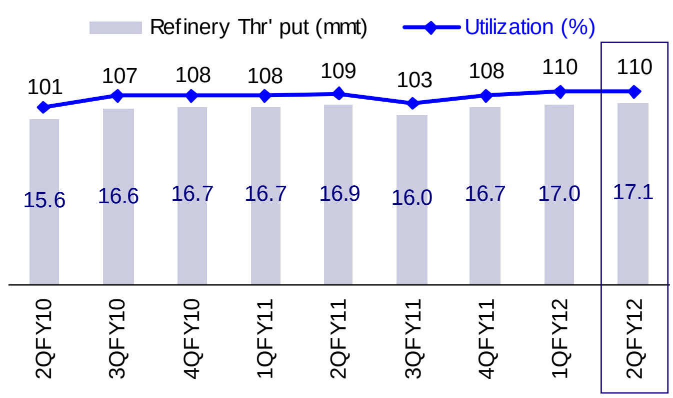
Refining segment: GRM of USD10.1/bbl lower than expected; premium over Singapore at USD1/bbl lowest in seven years

- Refinery segment EBIT contribution at INR31b (44% of total) was up 40% YoY and down 4% QoQ.
- Refinery throughput stood at 17.1mmt, implying 110% utilization (up 1% YoY and largely flat QoQ).
- 2QFY12 GRM stood at USD10.1/bbl (v/s our estimate of USD11/bbl) as against USD7.9/bbl in 2QFY11 and USD10.3/bbl in 1QFY12. Given the high refinery complexity and economies of scale, we had expected RIL's GRM to be better than reported margins.
- Also, RIL's GRM premium over benchmark Singapore GRM has eroded in recent quarters. RIL's premium over Singapore GRM stood at USD1/bbl (v/s USD3.7/bbl in 2QFY11 and USD1.7/bbl in 1QFY12).
- The management indicated that the comparison between RIL's GRM and regional benchmark Reuters Singapore would be inappropriate. Few of the differentiating factors are:
  1. **Different product slates:** RIL's product slate is gasoil heavy, while Reuters Singapore is gasoline and FO heavy
  2. **Addressable markets:** Post the new refinery, RIL's crude procurement and product placement has become global; Reuters Singapore is a regional benchmark. Also, distorted WTI prices (currently at USD25/bbl discount to Brent v/s historical trend of premium) have been a negating factor for RIL's GRM.

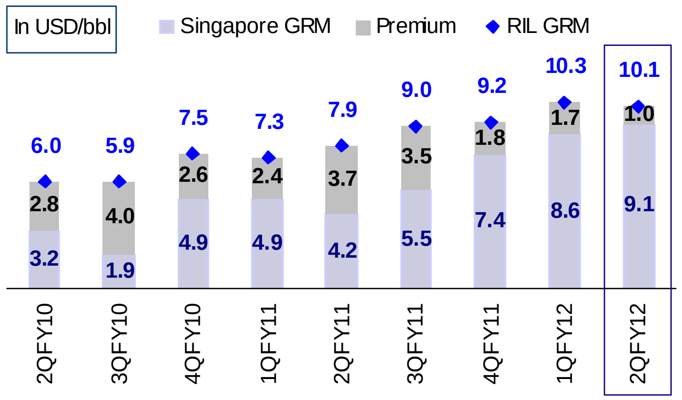
3. **Increased LNG prices:** RIL currently consumes ~9mmscmd of R-LNG; increasing LNG prices impact its GRM.
4. **Light-Heavy differential:** Arab L-H differentials were lower QoQ at USD3.8/bbl v/s USD5/bbl in 1QFY12.

- The global economic environment will continue to weigh on the refining margin performance. While the economic outlook remains uncertain, we do not expect GRM to decline significantly. For RIL, we model GRM of USD10.3/bbl in FY12 and USD10.5/bbl in FY13.

Refinery throughput of 17.1mmt (110% utilization)

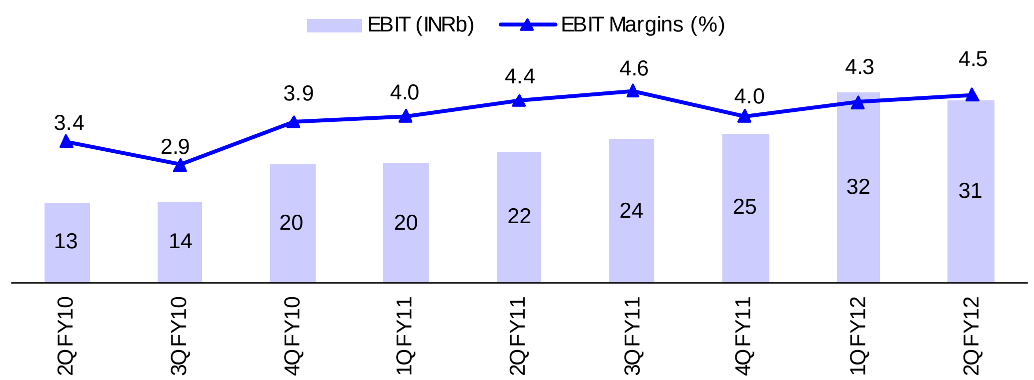


2QFY12 GRM at USD10.1/bbl; premium of USD0.9/bbl



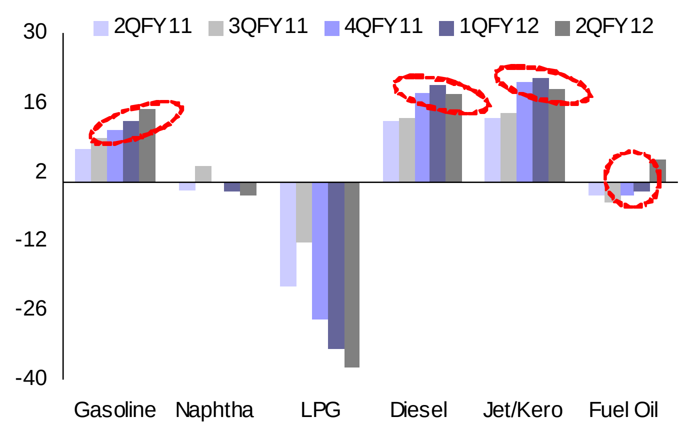
Source: Company/MOSL

Refining EBIT declines QoQ

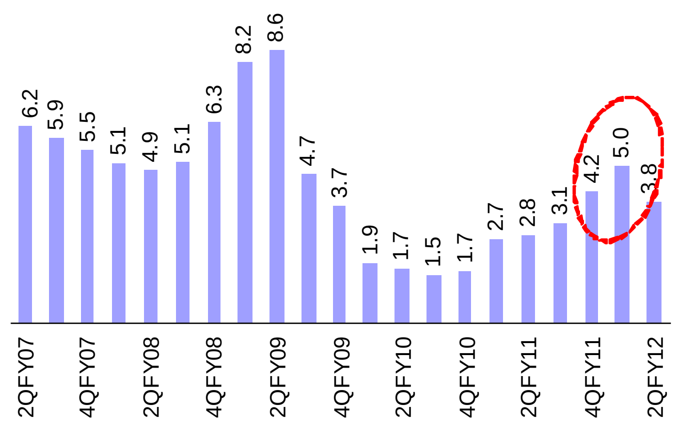


Source: Company/MOSL

Gasoline and FO cracks were up QoQ (USD/bbl)



Arab Light- Heavy spreads decline QoQ (USD/bbl)



Source: Company/MOSL

Singapore GRM has higher gasoline and FO (%)

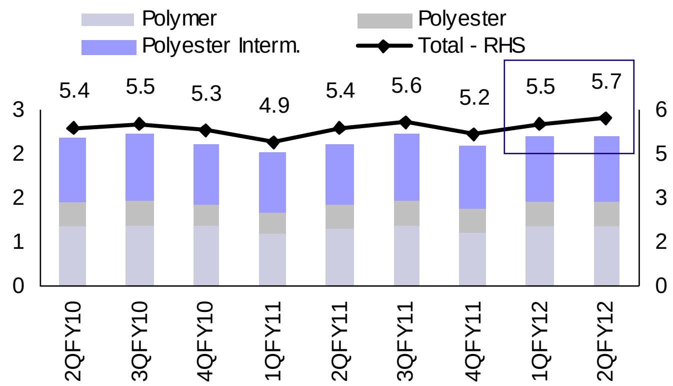
	Reuters	RIL + RPL
Light Distillates	39	37
LPG	3	3
Propylene	-	2
Naphtha	7	8
Gasoline/Alkylates	30	23
Middle distillates	33	45
Jet/Kerosene	18	6
Diesel/Gasoil	15	38
Heavy ends	22	12
F&L	7	6
Total	**100**	**100**

*F&L assumed for Singapore Source: Company/MOSL

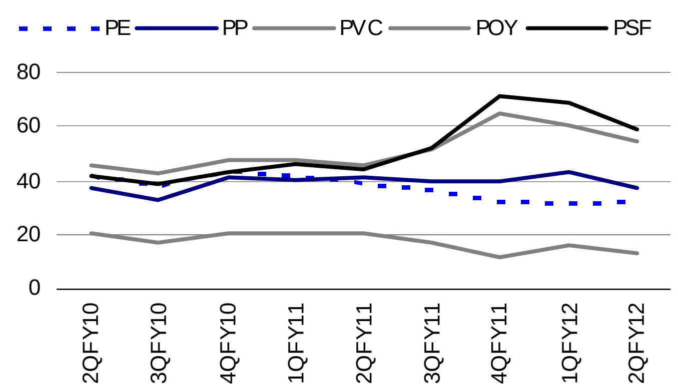
Petrochemicals segment: Volumes boost EBIT

- RIL's petchem EBIT margin stood at 11.5% (v/s 14.6% in 2QFY11 and 12.1% in 1QFY12), led by power polymer (except PE) and polyester margins.
- However, absolute EBIT at INR24b was higher QoQ primarily due to higher volumes and better product mix. RIL indicated that domestic demand picked up significantly on QoQ basis, with polymer and polyester demand up 21% QoQ. RIL also exported a meaningful petchem quantity (497KT) during the quarter.
- **New project update:** RIL has initiated work on polyester capacity expansion, which would start commissioning towards 3QFY13. The company is in the final stages of finalizing the technology details of the planned off-gases cracker and IGCC project.
- The management expects polyester margins to sustain in the next few quarters. RIL agrees to the CMAI view that incremental global cracker capacity in next five years would be 3%, while demand growth would be 4.6%. We expect petchem margins to remain subdued in the near term. However, demand pick-up in the upcoming festive season and from Japanese reconstruction activities could boost margins.

Higher petchem EBIT due to higher volumes (mmt)

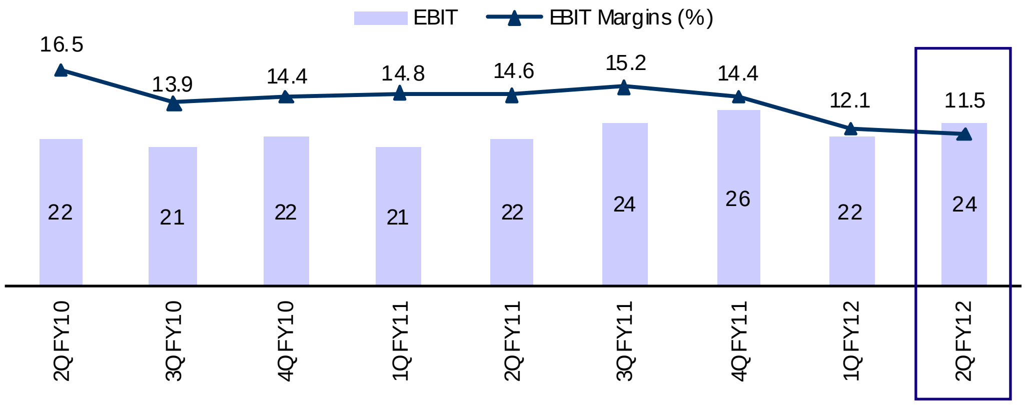


Polyester, PP, PVC v/s naphtha down QoQ (INR/kg)



Source: Company/MOSL

Petchem EBIT margin down QoQ at 11.5%



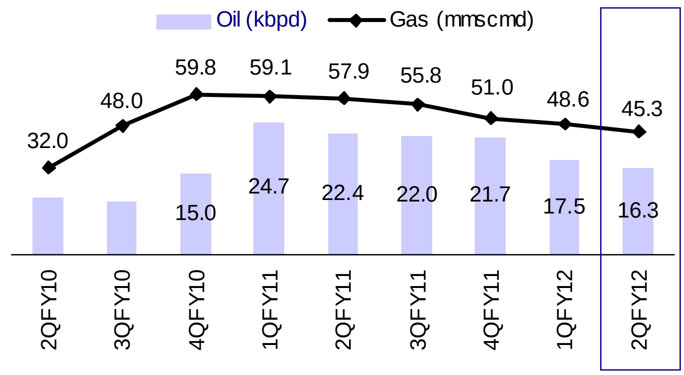
Source: Company/MOSL

E&P segment: KG-D6 production at 45.3mmscmd in 2QFY12; to ramp up in FY15

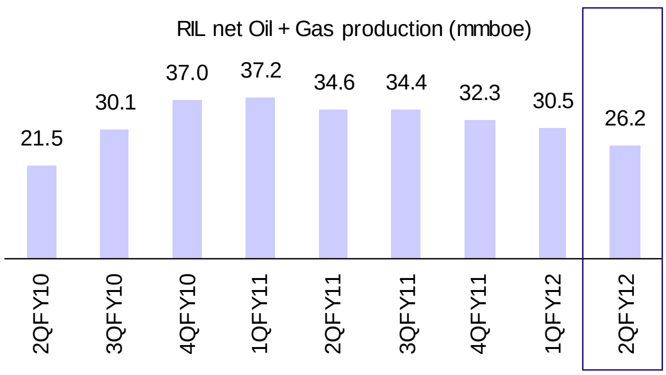
- E&P EBIT stood at INR15.3b (v/s INR17b in 2QFY11 and INR14.7b in 1QFY12). EBIT margin stood at 43% v/s 39.6% in 2QFY11 and 37.8% in 1QFY12.
- **BP deal fully consummated:** RIL has received all the consideration from the BP for the 30% stake sale in 21 blocks and the effective date for the deal is 1 September 2011. The last (3rd) money tranche came on 3 October and is currently shown as other current assets in the balance sheet. In 2QFY11, the BP deal is factored for 1 month i.e. for September, the KG-D6 financials are on a 60% basis. RIL has indicated that Niko Resources and Hardy will not be exercising their preemptive rights to increase stake in the respective blocks.
- **E&P EBIT higher than estimate:** Led by BP deal completion, RIL has reduced its gross assets by INR320b. Though RIL had also factored in KG-D6 financials on a 60% basis for one month, its EBIT was higher than our estimate primarily due to higher than expected reduction in the D,D&A charge (reduction of ~INR2.7b).
- **KG-D6 averaged 45.3mmscmd in 2QFY12:** KG-D6 gross volumes averaged 45.3mmsmcd in 1QFY12 (-6.8% QoQ) v/s 57.9mmscmd in 2QFY11 and 48.7mmscmd in 1QFY12. Current KG-D6 production (D1/D3 and MA1) is at 45mmscmd; the management did not comment on the sustainability of the same.
- **PMT production (RIL stake 30%):** PMT production is up significantly on YoY basis due to shutdown in 2QFY11. Gross oil production stood at 32.6kbpd (3x YoY and -1% QoQ) while gross gas production averaged 11.4mmscmd (+34% YoY and -3% QoQ).
- **Update on CBM:** RIL is awaiting gas pricing approval for its CBM block. It has submitted LNG-linked pricing for its CBM gas. Post government approval, the development of the CBM block along with infrastructure would be completed in 24 months. It will also need to lay a 200km pipeline to connect to GAIL's HVJ pipeline. Peak envisaged production is 4mmscmd. However, we remain cautious on the economics and early approval of gas pricing for the CBM project.

- **E&P plans and production ramp-up:** Future E&P program will be shaped in consultation with BP and RIL is unlikely to rush into exploration till it is comfortable with its understanding of the geology of its acreage. Also, it currently does not have any rig and expects its deepwater rig to return in February 2012. The management indicated that the development approvals of satellite and R-Series fields are in different stages with DGH and expects production to ramp up in FY15. Also, faster approvals from DGH would be critical for RIL's E&P progress.

KG-D6 gross production averaged 45.3mmscmd in 2QFY12

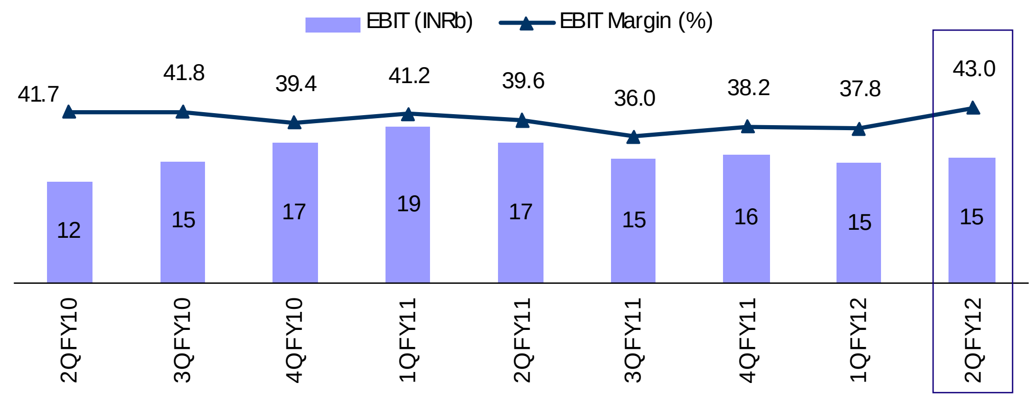


RIL's net oil & gas production at 26.2mmboe



Source: Company/MOSL

E&P EBIT margin higher QoQ due to lower D,D&A (%)



Source: Company/MOSL

Valuation and view

- Upgrading earnings estimates, led by change in exchange rate assumptions: We are increasing our EPS estimates by 4.8%/2.4% for FY12/FY13 to factor in (1) the positive impact of change in currency (INR/USD) assumption from 45/44 to 47/46 for FY12/ FY13, and (2) the negative impact of lower KG-D6 gas production at 46/44mmscmd in FY12/FY13 v/s 47/46mmscmd earlier. FY12 earnings upgrade is also aided by BP cash coming in October itself v/s our assumption of December, boosting other income.
- Maintain Neutral with SOTP-based target price of INR1,012: Though valuations appear reasonable, concerns remain on cash deployment and increased share (80%) of cyclical refining and petchem businesses. Maintain **Neutral**.

Reliance: Sum of parts valuation

Business	USD b	INR b	Adj. INR/sh	Remarks/Methodology
Core business:	41	1,855	623	
Refining	24	1,092	367	Core business EV @6x FY13E EBITDA
Petchem	17	763	256	EV @6.5x FY13E EBITDA
E&P Initiatives	13	575	193	Includes KG-D6, NEC-25, CBM, KG-III-6 and Yemen block
KG - D6 Gas (KG Basin)	5	244	82	DCF; 60% stake; Plateau of 90mmscmd in FY18; 16 TCF recovery
KG - D6 MA1 Oil (KG Basin)	1	48	16	DCF; 60% stake; 60mmbbls recovery; (LT Brent - $85/bbl)
NEC - 25 (Mahanadi basin)	1	51	17	DCF; 60% stake; OGIP of 3.7 TCF, prodn likely in 2014/15
KG - III - 6 oil (KG Basin)	1	36	12	Value based on reserves at 1b bbls; 40% recovery, @US$2/bbl
Block - 9 (Yemen)	1	34	11	Currently producing. 2P reserves of 332 mmbbls valued, assumed 50% recovery valued at @US$20/bbl; RIL stake 25%
PMT	2	99	33	Currently producing. EV @4.5x FY13E EBITDA
Investment in Shale Gas 1.5x cash investment	1	64	21	JV with Atlas, Pioneer & Carrizo; valued at
Investments	4	189	64	Includes RGTIL, RIIL and SEZ
Investments in RGTIL, RIIL	1	24	8	At book value and
Investments in fuel Retailing	1	32	11	20% discount to estimated book value
Investments in BWA	2	105	35	BWA Foray
Investment in SEZ	1	28	9	At book value
Reliance Retail	1	50	17	100% subsidiary of RIL
Less: Net Debt	-8	-343	-115	FY13E
Total Base Value	**67**	**3,013**	**1,012**	Based on fully diluted equity shares of 2,977m (excl 309m treasury shares)

Source: Company/MOSL

Our assumptions for RIL

- We model average gas production of 46mmscmd in FY12 and 44mmscmd in FY13.
- Well-head gas price of USD4.2/mmbtu. We continue to factor in tax holiday on KG-D6 gas profits.
- Blended GRM of USD10.3/bbl in FY12 and USD10.5/bbl in FY13.

Key assumptions for RIL

Key Metrics	FY08	FY09	FY10	FY11	FY12E	FY13E
Exchange Rate (INR/USD)	40.3	45.8	47.5	45.6	47.0	46.0
Refining						
Capacity (mmt)	33.0	33.0	62.0	62.0	62.0	62.0
Production (mmt)	31.8	32.0	60.9	66.5	68.0	66.4
Capacity Utilization (%)	96	97	98	107	110	107
GRM (USD/bbl)						
Blended GRM	15.0	12.3	6.9	8.7	10.3	10.5
Singapore GRM	7.6	5.8	3.6	5.2	9.0	8.0
Premuim to Singapore	7.3	6.5	3.3	3.5	1.3	2.5
E&P						
Gas Production (mmscmd)			39.8	56.2	46.0	44.0
Oil Production (kbd)			10.7	18.9	14.1	13.0
Pricing						
Brent Oil (USD/bbl)	82.8	85.0	69.0	86.1	110.0	95.0
Wellhead Gas Price (USD/mmbtu)			4.2	4.2	4.2	4.2

Source: Company/MOSL

Segmental EBIT break-up (INR b)

	FY08	FY09	FY10	FY11	FY12E	FY13E
Refining	103	96	60	92	133	139
Petrochemicals	71	69	86	93	90	93
E&P	15	23	55	67	59	41
Total	**190**	**188**	**200**	**252**	**282**	**273**
Segmental EBIT share (%)						
Refining	54	51	30	36	47	51
Petchem	37	37	43	37	32	34
E&P	8	12	27	27	21	15
Total	**100**	**100**	**100**	**100**	**100**	**100**

Source: Company/MOSL

Key things to watch

- DGH approvals for its E&P program and update on its KG-D6 ramp-up
- Clarity on 7-year income tax holiday for KG-D6 gas (we model tax holiday)
- Deployment of surplus cash - key expected avenues of deployment are (1) downstream projects announced in AGM (off-gases cracker, PX/PTA expansion and IGCC), and (2) developments on its BWA and retail foray.
- Margin trend in refining and petchem.

Reliance Industries: an investment profile

Company description

Reliance Industries (RIL), a Fortune 500 company, is India's largest private sector entity, with a turnover of USD56b and net profit of USD4.5b. It has consistently reported historically high CAGRs of over 20% in topline and bottomline through backward integration in energy chain (textiles, petchem, refining and E&P) and is now moving into high growth areas like retail and SEZ.

Key investment arguments

- **E&P upside now seems back-ended:** Though E&P would be a long-term driver, in the medium term, growth seems to be subdued led by delays in ramp-up of KG-D6 and delays in approvals of development plans for satellite fields and NEC-25. RIL is the largest exploration acreage holder in the private sector in India. Post its world-scale gas discovery in 2002 in KG-D6; it has reported more than 50 discoveries. Its recent alliance with BP in 21 of its NELP oil & gas blocks should help in tackling production issues in KG-D6. It should also help RIL to enhance chances of new discoveries and obtain higher recovery from its E&P acreage.
- **Refining - high complexity to help RIL:** High complexity, economies of scale help RIL report better margins and attain 100% utilization level. However, distortion in oil prices (WTI-Brent), weaker light-heavy differentials will limit the GRM upside for RIL. We expect refining margins (Singapore) to remain range-bound between USD8/bbl and USD10/bbl.
- **Petrochemicals - expect margin headwinds:** RIL's petchem business in recent quarter got boost due to higher domestic demand growth. However, going forward we expect margins to remain under pressure led by increased supplies of polymers from low-priced Middle East . Global economic outlook will also weigh heavy on the petchem margin outlook.

Key investment risks

- Further delays in the KG-D6 gas volume ramp up.
- Our estimates could be adversely affected by lower than expected refining and petchem margins.

Recent developments

- In FY11, RIL acquired 95% equity stake in Infotel, which has Broadband Wireless Access (BWA) spectrum license for 22 circles.
- RIL acquired Bharti's stake in Bharti AXA Insurance.
- Government approved 30% stake sale at USD7.2b to BP in 21 blocks.

Valuation and view

Adjusted for treasury shares, RIL trades at 10.9x FY12E EPS of INR79.8. Our SOTP-based target price for RIL is INR1,012. **Neutral**.

Target Price and Recommendation

Current Price (INR)	Target Price (INR)	Upside (%)	Reco.
833	1,012	21.5	Neutral

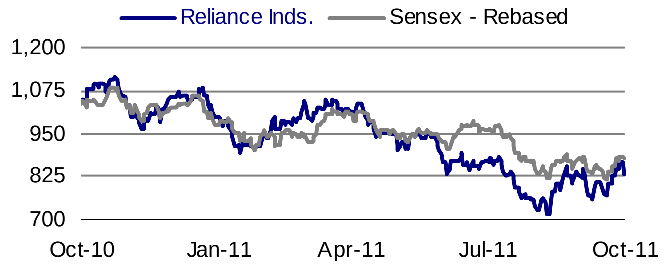
EPS: MOSL forecast v/s consensus (INR)

	MOSL Forecast	Consensus Forecast	Variation (%)
FY12	72.3	70.1	3.1
FY13	74.8	76.7	-2.4

Shareholding Pattern (%)

	Sep-11	Jun-11	Sep-10
Promoter	44.8	44.8	44.9
Domestic Inst	11.0	10.7	10.2
Foreign	21.6	21.9	21.4
Others	22.7	22.6	23.6

Stock performance (1 year)



Financials and Valuation

RIL Income Statement (INR Billion)

Y/E March	2009	2010	2011	2012E	2013E
Net Sales	**1,418**	**1,925**	**2,482**	**3,293**	**2,769**
Change (%)	6.3	35.7	28.9	32.7	-15.9
EBITDA	**233**	**306**	**381**	**391**	**376**
% of Net Sales	16.4	15.9	15.4	11.9	13.6
Depreciation	52	105	136	111	103
Interest	17	20	23	25	23
Other Income	21	25	31	51	67
PBT	**184**	**205**	**252**	**305**	**316**
Tax	31	43	50	68	70
Rate** (%)	16.9	21.0	19.6	22.3	22.2
PAT	**153**	**162**	**203**	**237**	**246**
Adj. PAT	**156**	**162**	**203**	**237**	**246**
Change (%)	2.3	4.0	24.9	17.0	3.5
Key Operating Metrics					
GRM (US$/bbl)	12.3	6.9	8.7	10.3	10.5
KG-D6 production (mmscr	-	39.8	56.2	46.0	44.0

Balance Sheet (INR Billion)

Y/E March	2009	2010	2011	2012E	2013E
Share Cap. (incl sh. Susp.)	31	33	33	33	33
Reserves	1232	1339	1483	1707	1918
Net Worth	**1,264**	**1,372**	**1,515**	**1,740**	**1,951**
Total Loans	739	625	674	671	669
Deferred Tax	97	109	116	128	140
Minority Interest					
Capital Employed	**2,100**	**2,106**	**2,305**	**2,539**	**2,760**
Gross Fixed Assets	1496	2159	2213	1973	2030
Less: Depreciation	493	626	785	897	1000
Net Fixed Assets	**1,003**	**1,533**	**1,427**	**1,076**	**1,030**
Capital WIP	690	121	128	177	239
Investments	216	232	377	533	572
Curr. Assets, L & Adv.					
Inventory	148	270	298	380	320
Debtors	46	117	174	169	142
Cash & Bank Balance	222	135	271	601	811
Loans&Adv.and Other CA	131	103	171	175	179
Current Liab. & Prov.					
Liabilities	327	368	497	519	473
Provisions	30	36	46	54	59
Net Current Assets	**190**	**220**	**373**	**753**	**919**
Application of Funds	**2,100**	**2,106**	**2,305**	**2,539**	**2,760**

E: MOSL Estimates

Ratios

Y/E March	2009	2010	2011	2012E	2013E
Basic (INR)					
EPS	**52.6**	**49.6**	**62.0**	**72.3**	**74.8**
EPS (ex Treasury)	**58.7**	**54.8**	**68.4**	**79.8**	**82.5**
Cash EPS	69.1	81.7	103.5	106.2	106.2
Book Value	426.0	419.4	462.9	529.6	593.9
DPS	6.5	7.0	8.0	9.0	10.0
Payout (incl. Div. Tax.)	14.5	15.0	13.7	14.5	15.6
Valuation (x)					
P/E		15.8	12.7	10.9	10.5
Cash P/E		10.6	8.4	8.2	8.2
EV / EBITDA		10.9	8.5	7.5	7.2
EV / Sales		1.7	1.3	0.9	1.0
Price / Book Value		2.1	1.9	1.6	1.5
Dividend Yield (%)		0.8	0.9	1.0	1.2
Profitability Ratios (%)					
RoE	15.7	13.4	14.8	15.1	13.7
RoCE	12.5	11.3	12.9	13.9	13.1
Turnover Ratios					
Debtors (No. of Days)	14	15	21	19	20
Fixed Asset Turnover (x)	1.1	1.1	1.1	1.6	1.4
Leverage Ratio					
Net Debt / Equity (x)	0.4	0.4	0.3	0.0	-0.1

Cash Flow Statement (INR Billion)

Y/E March	2009	2010	2011E	2012E	2013E
OP/(Loss) before Tax	184	205	252	305	316
Depreciation	72	135	162	111	103
Interest /Other Income	2	-1	-3	-26	-43
Direct Taxes Paid	-19	-31	-42	-56	-58
(Inc)/Dec in Wkg. Capital	-38	-53	1	40	43
Other op activities	-19	-50	-38	0	0
CF from Op. Activity	**182**	**205**	**333**	**376**	**361**
(Inc)/Dec in FA & CWIP	-247	-218	-121	-129	-119
(Pur)/Sale of Investments	24	-12	-141	73	-39
Loans and Advances	0	0	0	0	0
Other In activities	-18	48	59	51	67
CF from Inv. Activity	**-241**	**-182**	**-203**	**-5**	**-91**
Change in Equity	152	1	2	15	0
Inc / (Dec) in Debt	105	-88	30	-27	-26
Dividends Paid	-19	-22	-24	-28	-34
CF from Fin. Activity	**237**	**-110**	**7**	**-40**	**-60**
Inc / (Dec) in Cash	**179**	**-87**	**137**	**330**	**209**
Add: Opening Balance	43	222	135	271	601
Closing Balance	**222**	**135**	**271**	**601**	**811**

NOTES

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