

Reliance Industries

BSE SENSEX		S&P CNX		CMP: INR793			TP: INR841			Neutral				
16,739		5,049		Year	Net Sales	PAT	EPS	P/E	ADJ. EPS*	Adj. P/E	Adj. P/B	ROE	ROCE	EV/
Bloomberg		RIL IN		End	(INR B)	(INR B)	(INR)	(X)	(INR)	(X)	(X)	(%)	(%)	EBITDA
Equity Shares (m)		3,286.2		03/10A	1,925	162	49.6	16.0	54.8	14.5	1.9	13.4	11.3	9.8
52-Week Range (INR)		1,066/688		03/11A	2,482	203	62.0	12.8	68.4	11.6	1.7	14.8	12.9	7.6
1,6,12 Rel. Perf. (%)		-1/1/-6		03/12E	3,356	205	62.7	12.7	69.2	11.5	1.5	13.2	12.3	7.4
M.Cap. (INR b)		2,607.1		03/13E	3,104	205	62.6	12.7	69.1	11.5	1.4	11.9	11.6	7.5
M.Cap. (USD b)		51.7												

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

- Reliance Industries reported lower than estimated 3QFY12 EBITDA at INR72.9b (-24% YoY, -26% QoQ) led by (1) Lower GRM at USD6.8/bbl (est of USD7.7/bbl), (2) Lower petchem EBIT at INR21.6b (est of INR22.1b) led by lower margins and (3) lower E&P EBIT at INR12.9b (v/s est of 14.8b) led by higher than expected depletion. Impact of higher than expected D,D&A at INR25.7b (v/s est of INR24.8b) and interest cost at INR6.9b (v/s est of INR6.5b) was compensated by higher other income at INR17.2b (v/s est of INR13.5b) resulting in PAT at INR44.4b (-14% YoY and -22% QoQ). Other income contribution to PBT reached 30% in 3QFY12.
- **RIL to buyback upto 120m shares (3.7% of outstanding equity and 7% of free float):** RIL board has approved share buyback upto 120m shares from open market at price not exceeding INR870/sh (17% premium to previous day closing of announcement on Jan 18) and aggregate amount not exceeding INR104.4b.
- **Operational Update:** RIL's reported GRM at USD6.8/bbl (v/s est of USD7.7/bbl) resulted in a USD1.1/bbl discount to regional benchmark Reuters Singapore GRM of USD7.9/bbl in 3QFY12. Exports help to prevent volume decline in petchem EBIT. KG-D6 production (D1/D3+MA1 fields) was in-line at 41mmscmd (v/s 45.3mmscmd in 2QFY12) and currently is at ~38mmscmd.
- **Cutting FY12/FY13 estimates by 6%/8%:** We cut our FY12/FY13 EPS by 6% and 8% to factor in the (1) lower GRM at USD8.6/8.2/bbl (earlier at USD9.2/9.4/bbl), (2) lower KG-D6 gas production at 43/35mmscmd (v/s earlier 43.5/38mmscmd) which is partly compensated by revised INRUSD at 48/50 (v/s earlier 47.7/48).
- **Valuation and view:** In the context of RIL's recent investments in non-core businesses which are yet to provide any clarity on the returns, we believe that the buyback is the best possible option to deploy surplus cash. We expect the buyback offer will provide the support to near term stock performance in the midst of uncertain/subdued outlook on its core businesses. On FY13E basis, the stock trades at 11.5x FY13E adj. EPS of INR69.1 and EV/EBITDA of 7.5x. We maintain Neutral with a SOTP based target price of INR841/sh (earlier at INR896/sh) due to concerns on RoE reaching sub-14%, falling KG-D6 volumes and increased share (75%) of cyclical refining and petchem businesses.

Quarterly Performance (Standalone)

Y/E MARCH	FY11				FY12				FY11	FY12E
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE		
Net Sales	582.3	574.8	597.9	726.7	810.2	785.7	851.4	908.3	2,481.7	3,355.5
Change (%)	86.7	22.7	5.2	26.2	39.1	36.7	42.4	25.0	28.9	35.2
EBITDA	93.4	94.0	95.4	98.4	99.3	98.4	72.9	76.8	381.3	347.3
% of Net Sales	16.0	16.3	16.0	13.5	12.3	12.5	8.6	8.5	15.4	10.4
Change (%)	46.3	30.2	21.7	7.7	6.3	4.8	-23.7	-22.0	24.7	-8.9
Depreciation	34.9	33.8	33.6	33.9	32.0	29.7	25.7	25.8	136.1	113.1
Interest	5.4	5.4	5.5	7.0	5.5	6.6	6.9	7.2	23.3	26.2
Other Income	7.2	6.7	7.4	9.2	10.8	11.0	17.2	17.8	30.5	56.8
PBT	60.4	61.5	63.8	66.8	72.6	73.2	57.4	61.5	252.4	264.7
Tax	11.9	12.3	12.4	13.0	16.0	16.1	13.0	14.2	49.6	59.3
Rate (%)	19.7	19.9	19.5	19.5	22.1	22.1	22.6	23.1	19.6	22.4
PAT	48.5	49.2	51.4	53.8	56.6	57.0	44.4	47.3	202.9	205.4
Adj. EPS (INR)	16.3	16.5	17.3	18.1	19.0	19.2	14.9	15.9	68.1	69.0

E: MOSL Estimates

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RIL: 3QFY12 Performance Comparison

	FY11				FY12			3QFY12 (%)	
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	YoY	QoQ
Segmental Revenues (INRb)									
Petrochem	139	151	160	182	184	211	198	23.9	-6.1
Refining	505	497	525	627	737	681	767	46.1	12.7
Oil & Gas	47	43	42	41	39	36	28	-32.2	-20.5
Others	1	2	2	2	2	5	2	15.6	-59.2
Total	692	692	728	852	962	932	996	36.7	6.8
Segmental EBIT									
Petrochem	21	22	24	26	22	24	22	-11.2	-10.9
Refining	20	22	24	25	32	31	17	-30.8	-45.2
Oil & Gas	19	17	15	16	15	15	13	-14.0	-15.5
Others	0	0	0	0	0	0	0	0.0	-10.0
Total	60	61	64	67	69	70	51	-19.3	-26.9
Segmental EBIT Margin (%)									
Petrochemicals	15	15	15	14	12	11	11	-28.3	-5.2
Refining	4	4	5	4	4	5	2	-52.7	-51.4
Oil & Gas	41	40	36	38	38	43	46	26.9	6.3
Others	7	5	5	5	3	2	4	-13.5	120.7
Total	9	9	9	8	7	8	5	-41.0	-31.5
Operating Metrics									
Refining (US\$/bbl)									
RIL GRM	7.3	7.9	9.0	9.2	10.3	10.1	6.8	-24.4	-32.7
Singapore GRM	4.9	4.2	5.5	7.4	8.6	9.1	7.9	43.6	-13.2
Premium	2.4	3.7	3.5	1.8	1.7	1.0	-1.1	-131.4	-210.0
Refinery Thr' put (mmt)	16.7	16.9	16.0	16.7	17.0	17.1	17.2	7.5	0.6
Utilization (%)	107.7	109.1	103.2	107.7	109.7	110.3	111.0	7.5	0.6
Petrochemicals									
Total producton (mmt)	4.9	5.4	5.6	5.2	5.5	5.7	5.5	-1.8	-3.5
Polymer ('000 MT)	931	1,069	1,100	994	1,100	1,100	1,170	6.4	6.4
Polyester ('000 MT)	422	429	449	410	411	414	375	-16.5	-9.4
Polyester Interm. ('000 MT)	1,100	1,100	1,200	1,148	1,200	1,200	1,200	0.0	0.0
E&P									
Gross Oil Production (kbd)									
PMT	36.1	9.9	28.5	37.8	33.0	30.4	29.3	2.9	-3.6
Yemen	4.6	4.6	4.3	4.3	4.3	4.3	4.3	-0.7	0.0
KG-D6	24.7	22.4	22.0	21.7	17.5	15.2	15.2	-30.8	0.1
Total	65.3	36.9	54.8	63.8	54.8	49.9	48.9	-10.9	-2.1
Gross Gas Production (mmscmd)									
PMT	14.1	8.5	10.8	12.2	11.8	11.5	10.9	0.6	-5.1
KG-D6	59.1	57.9	55.8	51.0	48.6	45.3	41.0	-26.5	-9.5
Total	73.2	66.4	66.6	63.2	60.4	56.8	51.9	-22.1	-8.6
Gross Oil +Gas (mmboe)	49.4	42.8	44.5	43.3	40.8	38.2	35.2	(20.9)	(7.8)
Net Gas Production (mmscmd)	37.2	34.6	34.4	32.3	30.5	26.1	18.3	(46.9)	(30.1)

Source: Company/MOSL

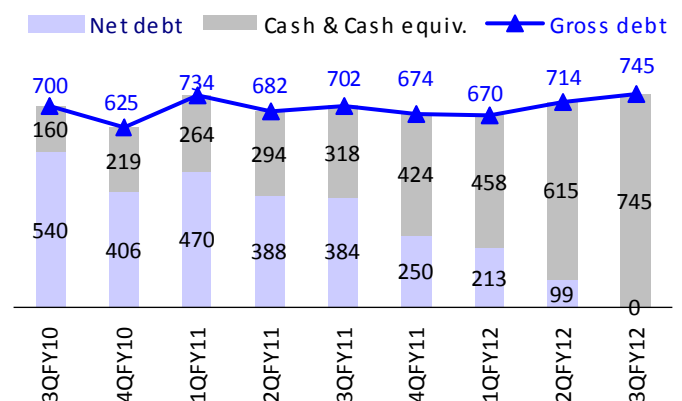
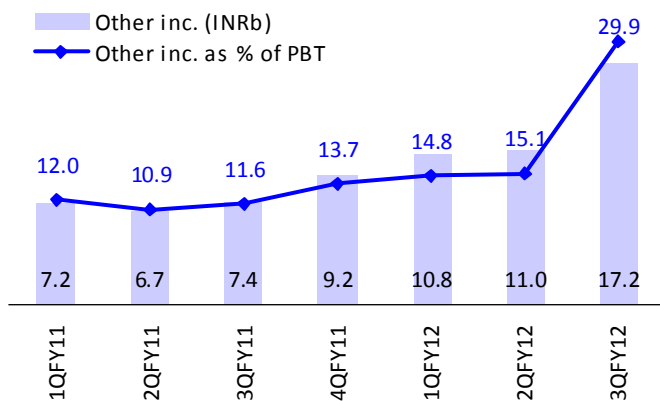
Other key highlights

- Management comments on buyback: (1) Buyback is the most tax efficient way to distribute cash to shareholders and it should not be seen as company running out of investment ideas; (2) Buyback shares will be cancelled; (3) SEBI insists a minimum buyback of 25%; (4) Technically, buyback precludes new share issue but does not preclude selling of treasury shares and (5) will be EPS accretive.

- Led by last tranche of BP coming in Oct-11, RIL's balance sheet has become debt free on net basis. Gross debt stood at INR745b v/s INR674bin March-11 and increase was primarily due to impact of rupee depreciation. Cash and cash equivalents stood at INR745b.
- Capex during the quarter stood at INR57b (INR35b E&P, INR15b in refining and INR8b in others) while cash capex stood at INR13b. On 9M basis net capex stood at INR125b (incl. INR88b of forex depreciation on loans) and cash capex at INR48b.
- Lower QoQ depreciation at INR25.7b v/s INR29.7b in 2QFY12 was led by lower depletion charge in E&P as its financials in September month were based on 60% share due to completion of BP deal.
- Other income at INR17.2b (v/s INR7.4b in 3QFY11 and INR11.0b in 2QFY12) was higher than estimates due to higher implied yield at ~10%.
- Interest outgo at INR6.9b (v/s INR5.5b in 3QFY11 and INR6.6b in 2QFY12) included forex loss of INR2.1b.
- Interest capitalized during the quarter stood at INR1.1b (v/s INR1.3b in 3QFY11 and INR1.4b in 2QFY12).
- Effective tax rate at 22.6% (v/s 19.5% in 3QFY11 and 22.1% in 2QFY12).

Higher yields and cash balances boosts other income

Turned debt free; net cash at INR360m (INRb)



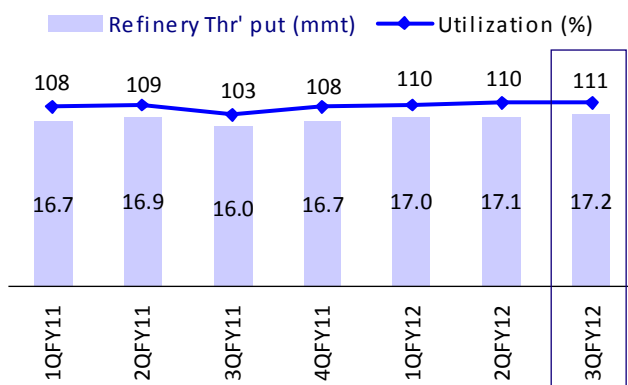
Source: Company/MOSL

Refining Segment: GRM at USD6.8/bbl; discount to Singapore at USD1.1/bbl (first ever!); developments in europe economy to weigh heavy on outlook

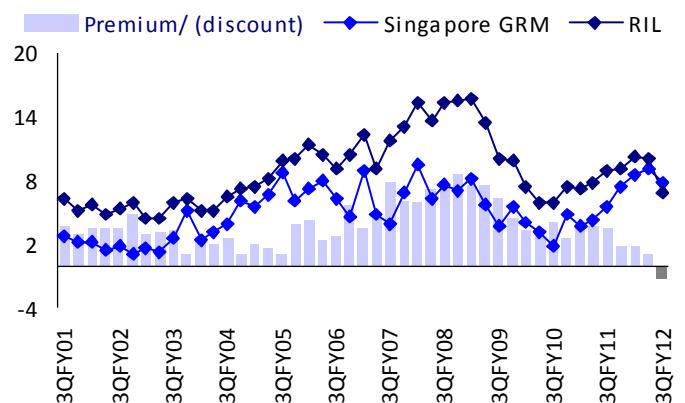
- Refinery segment EBIT contribution at INR16.9b (33% of total) was down 31%YoY and 45% QoQ; partly helped by lower opex.
- Refinery throughput stood at 17.2mmt, implying 111% utilization level; (up 8% YoY and 1% QoQ). RIL has planned a 3-week CDU shutdown in its new refinery in Feb-12 (4QFY12).
- 3QFY12 GRM stood at USD6.8/bbl (v/s est of USD7.7/bbl) as against USD9.0/bbl in 3QFY11 and USD10.1/bbl in 2QFY12.
- RIL's GRM premium over benchmark Singapore GRM disappeared in 3QFY12 and reported discount to Singapore GRM at USD1.1/bbl (v/s USD3.5 in 3QFY11 and USD1.0 in 2QFY12). Likely reasons for the discount to Singapore GRM are:
 - **Crude procurement at higher than benchmark prices:** Management explained that the ME sellers priced Dubai crude by USD2.5/bbl above benchmark pricing, thereby impacting its crude cost.

- **High product inventories/low demand:** RIL carried high product inventories from 2QFY12 and in low demand environment it was tough for the company to find buyers at right price.
- **Decline in Light-Heavy Differentials:** Arab L-H differential was lower QoQ at USD3.2/bbl v/s USD3.8/bbl in 2QFY12. The light-heavy differentials were compressed due to (1) higher demand for fuel oil leading to higher prices for heavier crude oil as well as (2) increasing supply of lighter Libyan crude.
- **Increased LNG prices:** RIL currently consumes 8.5mmscmd of R-LNG, hence the ~USD2-4/mmbtu QoQ increase in LNG prices impacted GRM .
- **Reuters Singapore might not be right benchmark?:** RIL product slate is gasoil heavy, while Reuters Singapore is gasoline and FO heavy
- Global economic environment (particularly Europe) will continue to weigh heavy on the refining margin performance. While, economic outlook continues to remain uncertain, we expect GRM to remain range bound and expect the GRM discount to Singapore to continue in near term as the underlying factors mentioned above are unlikely to turnaround quickly. We model GRM of USD8.6/ bbl in 4QFY12 and USD8.2/bbl in FY13 for RIL.

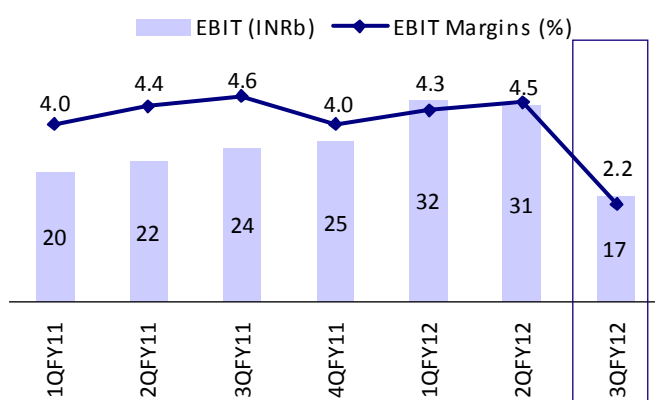
Refinery throughput of 17.2mmt (111% utilization)



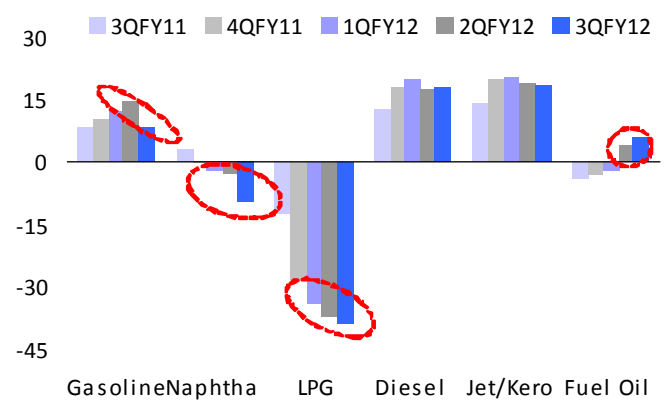
Reports discount to Singapore for first time (USD/bbl)



Refining EBIT declines sharply QoQ



Light distillates cracks were down QoQ (USD/bbl)



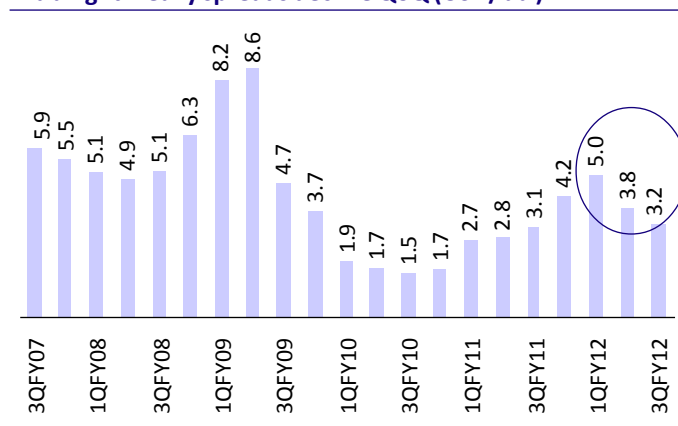
Source: Company/MOSL

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 SingaporeSource: Company/MOSL

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

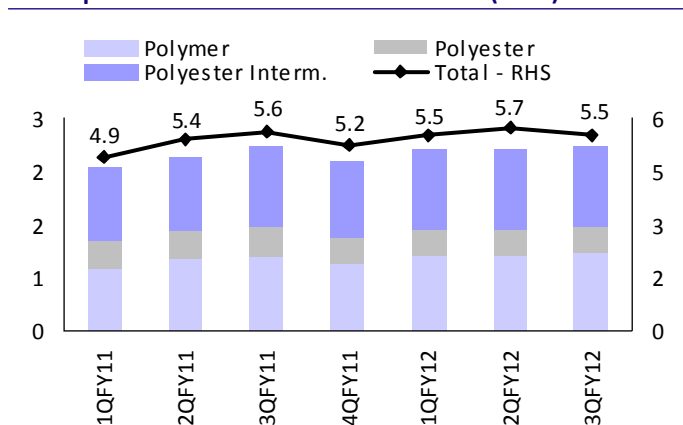


Source: Company/MOSL

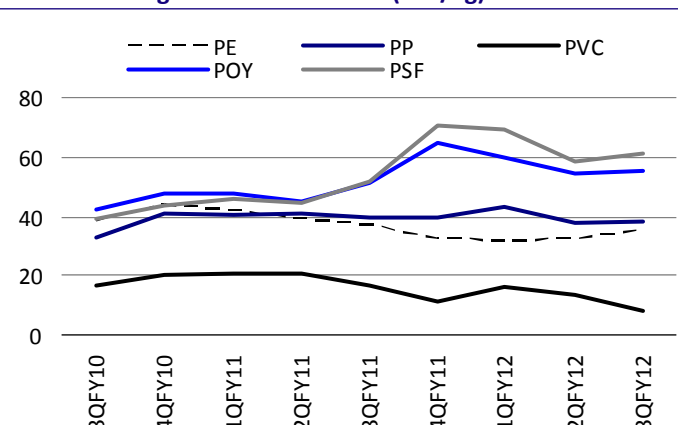
Petrochemical Segment: Demand flat QoQ, cost push impacts margins, outlook subdued

- RIL's petchem EBIT margin stood at 10.9% (v/s 15.2% in 3QFY11 and 11.5% in 2QFY12) led by lower polymer and polyester margins.
- Domestic volumes subdued in 3QFY12: On the polymer front, post the 21% QoQ volume jump in 2QFY12, the volumes were flat in 3QFY12. However, 45% YoY jump in the exports saved the day for RIL. While polyester business witnessed 2% decline on QoQ basis post the 21% QoQ jump in 2QFY12.
- New project update: RIL will start commissioning its new polyester unit gradually, starting from Dec-12 and all the units will be operational by March-14. No update was provided on the off-gases cracker and IGCC project and believe it is still in the technology finalization stage.
- We expect polymer margins to remain subdued due to continued ME (Middle east) supplies and not-so-encouraging picture on the demand side. Also, developments of the European economy will have a direct impact on the demand (already witnessing slowdown in the construction segments).
- On the polyester front, the margins have come off their highs in the last 2 quarters led by decline in cotton prices and cost push for naphtha crackers. We believe that cotton prices will act as a limiting factor for polyester margins in the short term, however remain positive over the long term margin environment for integrated polyester manufacturer like RIL.

Lower petchem EBIT due to lower volumes (mmt)

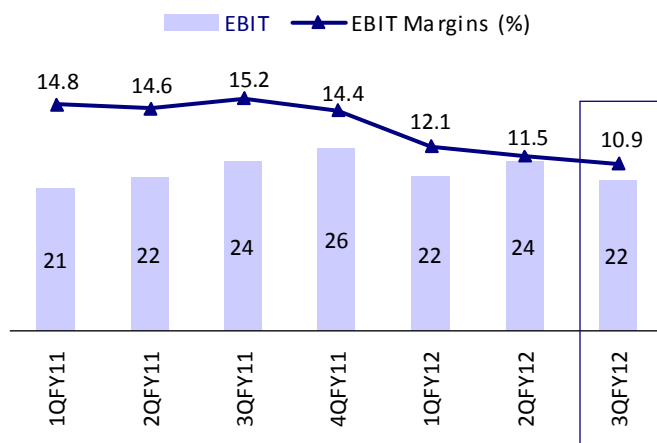


Petchem margins remain subdued (INR/kg)



Source: Company/MOSL

Petchem EBIT margin down QoQ at 10.9%

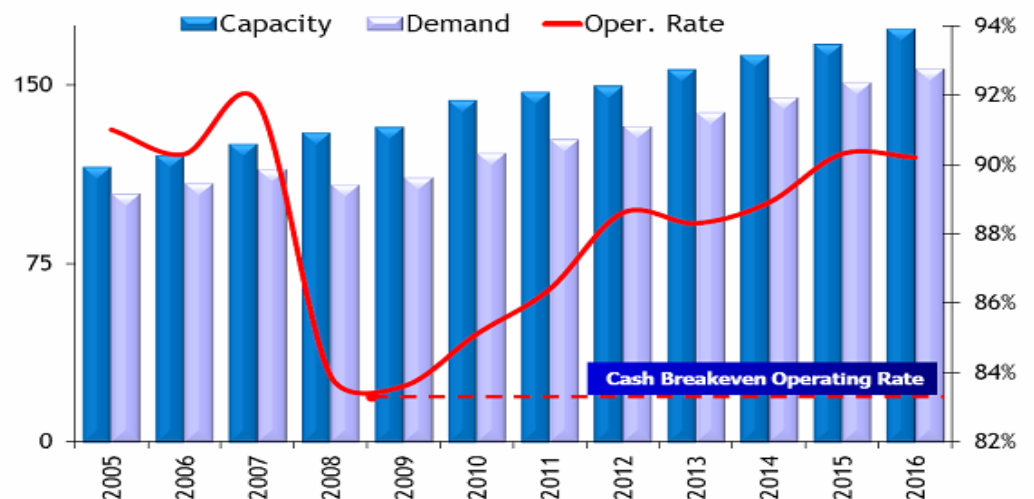


Challenging environment for Naphtha based producers

<p>Demand ↓</p> <ul style="list-style-type: none"> ME exports greater than China imports Stagnation in Chinese import of polymer at 13.5 MMT 	<p>Supply ↑</p> <ul style="list-style-type: none"> Exports from ME have doubled in past 5 years to 15.5 MMT (and increased by 2.2 MMT in 2011) Capacity addition in PVC from China and EDC from US & China
<p>Cost ↑</p> <ul style="list-style-type: none"> High oil prices - naphtha continues to be least preferred feedstock for olefins production Large variance in cash cost resulting in windfall, survival & closures 	<p>Margins ↓</p> <ul style="list-style-type: none"> Cost push with demand slowdown Mid cycle operating rates but low cycle margins for naphtha based producers Prices remain volatile with trend indicating weak demand

Expect Petchem demand to surpass capacity additions

Source: Company/CMAI/MOSL



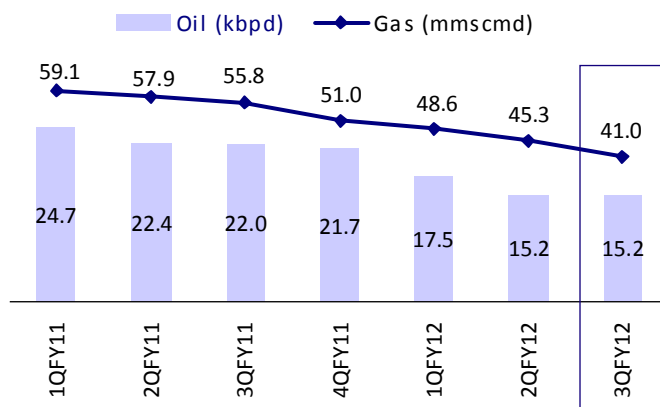
Source: Company/CMAI/MOSL

E&P Segment: KG-D6 production at 41mmscmd in 3QFY12; can decline further if workover capex not approved by govt.

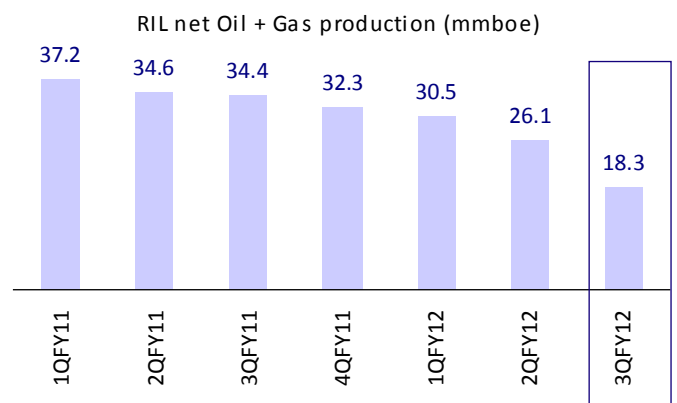
- E&P EBIT stood at INR12.9b (v/s INR15b in 3QFY11 and INR15.3b in 2QFY12). EBIT margin stood at 45.7% v/s 43% in 2QFY12 and 36% in 3QFY11.
- **KG-D6 averaged 41mmscmd in 3QFY12:** KG-D6 gross volumes averaged 41mmscmd in 3QFY12 (-6.8% QoQ) v/s 55.8mmscmd in 3QFY11 and 45.3mmscmd in 2QFY12.
- **Update on CBM blocks:** RIL continued its drilling operations, while awaiting for Government response to proposed LNG linked pricing. Drilled 10 development wells, taking total number of wells to 36. Earlier, RIL had indicated that it will also need to lay a 200km pipeline to connect to GAIL's HVJ pipeline. CBM production at Sohagpur can reach plateau of 4mmscmd in ~24-30months post approval.
- **PMT Production (RIL stake 30%):** Gross oil production stood at 29.3kbpd (+3% YoY and -3.6% QoQ) while gross gas production averaged 10.9mmscmd (+1% YoY and -5% QoQ).

- **Shale gas update:** US Henry Hub gas prices are having a impact on RIL’s shale gas program. Company plans to spend 20% lower than 2011 in 2012 and also focus more on liquid rich acreage. The drilling program on the shale gas acreage will be scaled down to the extent of minimum contractual obligation.
- **Will have to wait for clarity on future E&P program:** FDP (field development plan) approval for satellite field by management committee (MC) after 26 months (v/s usual time of 6 months) is first positive news in E&P segment after many quarters. However, clarity on RIL’s future E&P program can only be expected after 1-2 quarters when RIL and BP together reassess the potential of its blocks.
- **Domestic E&P program being reworked with BP; govt. approval critical:** Post the BP deal, RIL along with BP experts are revisiting their E&P portfolio and company indicated that they will be able to give out some concrete plan on the future exploration program by Dec-12. Of the 3 available rigs, RIL has re-contracted 2 of them for one year and the third is being refurbished. Also, (1) timely approvals by DGH for RIL’s E&P program as well as (2) clarity on the arbitration process initiated by RIL on the likely curtailment of cost recovery by govt. will be critical for domestic program. RIL’s long term investment decisions in the domestic E&P space, in our view will also be influenced by govt.’s commentary / approach towards the gas price revision scheduled in March-14.

KG-D6 gross prodn averaged 41mmscmd in 3QFY12

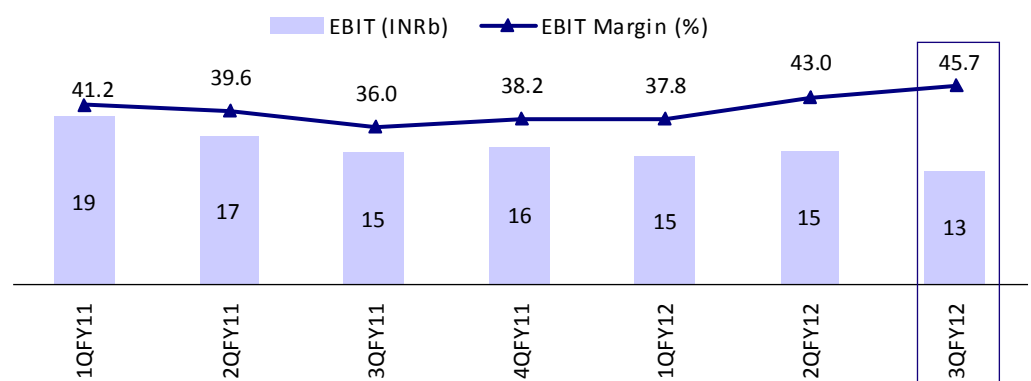


Stake sale to BP reduces net HC production at 18.3mmboe



Source: Company/MOSL

Lower D,D&A and high oil prices boosts E&P EBIT margin (%)



Source: Company/MOSL

Valuation and view

- 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) developments on its USD12b capex plan and (2) update on its BWA and retail foray.
- Cutting FY12/FY13 estimates by 6%/8%: We cut our FY12/FY13 EPS by 6% and 8% to factor in the (1) lower GRM at USD8.6/8.2/bbl (earlier at USD9.2/9.4/bbl), (2) lower KG-D6 gas production at 43/35mmscmd (v/s earlier 43.5/38mmscmd) which is partly compensated by revised INRUSD at 48/50 (v/s earlier 47.7/48).
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Our assumptions for RIL

- We model average gas production of 43mmscmd FY12 and 35mmscmd 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 USD8.6/bbl in FY12 and USD8.2/bbl in FY13.

RIL: Key Metrics

	FY08	FY09	FY10	FY11	FY12E	FY13E
Exchange Rate (Rs/USD)	40.3	45.8	47.5	45.6	48.0	50.0
Refining						
Capacity (mmt)	33.0	33.0	62.0	62.0	62.0	62.0
Production (mmt)	31.8	32.0	60.6	66.5	67.9	66.4
Capacity Utilization (%)	96%	97%	98%	107%	109%	107%
GRM (USD/bbl)						
Blended GRM	15.0	12.3	6.9	8.7	8.6	8.2
Singapore GRM	7.6	5.8	3.6	5.2	8.5	8.2
Premium to Singapore	7.3	6.5	3.3	3.5	0.2	0.0
E&P						
Gas Production (mmscmd)			39.8	56.2	43.1	35.0
Oil Production (kbd)			10.7	18.9	14.9	11.0
Pricing						
Brent Oil (USD/bbl)	82.8	85.0	69.0	86.1	112.0	100.0
Wellhead Gas Price (USD/mmbtu)			4.2	4.2	4.2	4.2

Source: Company/MOSL

RIL: Segmental EBIT (INRb)

	FY08	FY09	FY10	FY11	FY12E	FY13E
Refining	103	96	60	92	99	87
Petrochemicals	71	69	86	93	88	97
E&P	15	23	55	67	54	42
Total	190	188	200	252	242	226
Segmental EBIT share (%)						
Refining	54	51	30	36	41	39
Petchem	37	37	43	37	36	43
E&P	8	12	27	27	22	19
Total	100	100	100	100	100	100

Source: Company/MOSL

Reliance: Sum of parts valuation

Business	USD b	INR b	Adj. INR/sh	Remarks/Methodology
Core business:	32	1,581	531	
Refining	16	792	266	Core business EV @6.2x FY13E EBITDA
Petchem	16	789	265	EV @6.5x FY13E EBITDA
E&P Initiatives	11	538	181	Includes KG-D6, NEC-25, CBM, KG-III-6 and Yemen block
KG - D6 Gas (KG Basin)	5	238	80	DCF; 60% stake; Plateau of 90mmscmd in FY18; 15 TCF recovery
KG - D6 MA1 Oil (KG Basin)	1	37	12	DCF; 60% stake; 50mmbbls recovery; (LT Brent - USD85/bbl)
NEC - 25 (Mahanadi basin)	1	40	14	DCF; 60% stake; OGIP of 3.7 TCF, prodn likely in 2014/15
KG - III - 6 oil (KG Basin)	1	40	13	Value based on reserves at 1b bbls; 40% recovery, @US\$2/bbl
Block - 9 (Yemen)	1	37	12	Currently producing. 2P reserves of 330 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	47	16	JV with Atlas, Pioneer & Carrizo; valued at cash investment
Investments	2	107	36	Includes RGTIL, RIIL and SEZ
Investments in RGTIL, RIIL	0	24	8	At book value and
Investments in BWA	1	55	19	BWA Foray
Investment in SEZ	1	28	9	At book value
Reliance Retail	1	50	17	100% subsidiary of RIL
Less: Net Debt	-5	-226	-76	FY13E
Total Base Value	50	2,504	841	Based on fully diluted equity shares of 2,977m (excl 309m treasury shares)

Source: Company/MOSL

Reliance Industries: an investment profile

Company description

Reliance Industries (RIL), a Fortune 500 company, is India's largest private sector entity, with turnover of USD50b and net profit of USD4.1b. It has consistently reported historically high CAGRs in topline and bottomline through backward integration in energy chain (textiles, petchem, refining and E&P) and is now moving into new areas like retail and BWA.

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 KGD6 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 - challenging times ahead:** Uncertain global economic environment (particularly Europe), declining Arab Light-Heavy differentials and high LNG prices will continue to weigh heavy on the RIL's

refining margin performance. We expect discount to benchmark Singapore refining margins to continue in near term.

- **Petrochemicals - expect subdued margins:** Increased supplies of polymers from low-priced Middle East producers and demand slowdown will continue to keep margins under pressure. On the polyester front, cotton prices will act as a limiting factor for margins in the short term.

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

- RIL divested part of its group company's investments in the ETV Channels to TV18.
- RIL received the last tranche of USD2.6b for its 30% stake sale to BP in 21 blocks.

Valuation and view

- Adjusted for treasury shares, RIL trades at 11.5x FY13 adj. EPS of INR69.1. Our SOTP-based target price for RIL is INR841/share. **Neutral.**

Target Price and Recommendation

Current Price (INR)	Target Price (INR)	Upside (%)	Reco.
793	841	6.1	Neutral

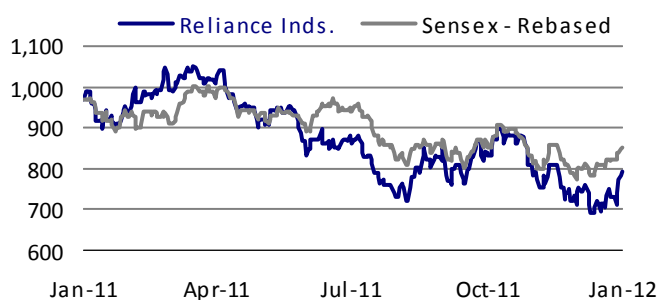
Shareholding Pattern (%)

	Sep-11	Jun-11	Sep-10
Promoter	44.8	44.8	44.8
Domestic Inst	11.3	11.0	10.4
Foreign	21.2	21.6	22.2
Others	22.7	22.7	22.6

EPS: MOSL forecast v/s consensus (INR)

	MOSL Forecast	Consensus Forecast	Variation (%)
FY12	69.2	68.1	1.7
FY13	69.1	72.5	-4.7

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	3,356	3,104	
Change (%)	6.3	35.7	28.9	35.2	-7.5	
EBITDA	233	306	381	347	325	
% of Net Sales	16.4	15.9	15.4	10.4	10.5	
Depreciation	52	105	136	113	99	
Interest	17	20	23	26	23	
Other Income	21	25	31	57	66	
PBT	184	205	252	265	269	
Tax	31	43	50	59	64	
Rate** (%)	16.9	21.0	19.6	22.4	23.7	
PAT	153	162	203	205	205	
Adj. PAT	156	162	203	205	205	
Change (%)	2.3	4.0	24.9	1.2	-0.2	
Key Operating Metrics						
GRM (USD/bbl)	12.3	6.9	8.7	8.6	8.2	
KG-D6 production (mm)	-	39.8	56.2	43.1	35.0	

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	1661	1836	
Net Worth	1,264	1,372	1,515	1,694	1,868	
Total Loans	739	625	674	671	669	
Deferred Tax	97	109	116	126	137	
Minority Interest						
Capital Employed	2,100	2,106	2,305	2,492	2,674	
Gross Fixed Assets	1496	2159	2213	1973	2030	
Less: Depreciation	493	626	785	899	998	
Net Fixed Assets	1,003	1,533	1,427	1,074	1,032	
Capital WIP	690	121	128	177	258	
Investments	216	232	377	483	523	
Curr. Assets, L & Adv.						
Inventory	148	270	298	391	364	
Debtors	46	117	174	172	159	
Cash & Bank Balance	222	135	271	598	728	
Loans&Adv.and Other CA	131	103	171	175	179	
Current Liab. & Prov.						
Liabilities	327	368	497	530	518	
Provisions	30	36	46	50	51	
Net Current Assets	190	220	373	757	861	
Application of Funds	2,100	2,106	2,305	2,492	2,674	

E: MOSL Estimates

Ratios		(INR Billion)				
Y/E March	2009	2010	2011	2012E	2013E	
Basic (INR)						
EPS	52.6	49.6	62.0	62.7	62.6	
Adj. EPS (ex Treasury)	58.7	54.8	68.4	69.2	69.1	
Cash EPS	69.1	81.7	103.5	97.3	92.9	
Book Value	426.0	419.4	462.9	517.3	570.4	
DPS	6.5	7.0	8.0	8.0	8.0	
Payout (incl. Div. Tax.)	14.5	15.0	13.7	14.9	14.9	
Valuation (x)						
P/E			12.8	12.7	12.7	
Adj. P/E			11.6	11.5	11.5	
Cash P/E			7.7	8.2	8.5	
EV / EBITDA			7.6	7.4	7.5	
EV / Sales			1.2	0.8	0.8	
Price / Book Value			1.7	1.5	1.4	
Dividend Yield (%)			1.0	1.0	1.0	
Profitability Ratios (%)						
RoE	15.7	13.4	14.8	13.2	11.9	
RoCE	12.5	11.3	12.9	12.3	11.6	
Turnover Ratios						
Debtors (No. of Days)	14	15	21	19	19	
Fixed Asset Turnover (x)	1.1	1.1	1.1	1.6	1.6	
Leverage Ratio						
Net Debt / Equity (x)	0.4	0.3	0.2	0.0	-0.1	

Cash Flow Statement		(INR Billion)				
Y/E March	2009	2010	2011E	2012E	2013E	
OP/(Loss) before Tax	184	205	252	265	269	
Depreciation	72	135	162	113	99	
Interest /Other Income	2	-1	-3	-31	-43	
Direct Taxes Paid	-19	-31	-42	-49	-53	
(Inc)/Dec in Wkg. Capital	-38	-53	1	33	26	
Other op activities	-19	-50	-38	0	0	
CF from Op. Activity	182	205	333	332	298	
(Inc)/Dec in FA & CWIP	-247	-218	-121	-129	-138	
(Pur)/Sale of Investment	24	-12	-141	123	-40	
Loans and Advances	0	0	0	0	0	
Other In activities	-18	48	59	57	66	
CF from Inv. Activity	-241	-182	-203	51	-111	
Change in Equity	152	1	2	1	0	
Inc / (Dec) in Debt	105	-88	30	-29	-26	
Dividends Paid	-19	-22	-24	-28	-31	
CF from Fin. Activity	237	-110	7	-56	-57	
Inc / (Dec) in Cash	179	-87	137	327	130	
Add: Opening Balance	43	222	135	271	598	
Closing Balance	222	135	271	598	728	

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