

July 22, 2012

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Rating	Accumulate
Price	Rs723
Target Price	Rs798
Implied Upside	10.4%
Sensex	17,158
Nifty	5,205

(Prices as on July 20, 2012)

Trading data

Market Cap. (Rs bn)	2,363.8
Shares o/s (m)	3,271.1
3M Avg. Daily value (Rs m)	2807.9

Major shareholders

Promoters	45.15%
Foreign	17.00%
Domestic Inst.	11.20%
Public & Other	26.65%

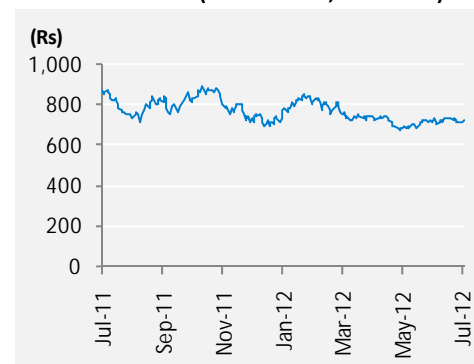
Stock Performance

(%)	1M	6M	12M
Absolute	(2.0)	(8.8)	(17.5)
Relative	(3.5)	(11.3)	(10.3)

How we differ from Consensus

EPS (Rs)	PL	Cons.	% Diff.
2013	61.3	62.8	-2.4
2014	62.3	67.1	-7.1

Price Performance (RIC: RELI.BO, BB: RIL IN)



Source: Bloomberg

- For Q1FY13, Reliance Industries' (RIL's) EBITDA was in line with our expectations, while on account of lower than expected other income PAT was lower than estimate. EBITDA at Rs67.5bn against our expectation of Rs67.4bn, registered growth of 2.8% QoQ largely on the back of improved performance in refining segment (GRMs at US\$7.6/bbl). Petrochemical segment witnessed a weak quarter, resulting in EBIT decline of 19.2% qoq.
- Key features during the quarter were a) sequential flattish GRM (US\$7.6/bbl v/s US\$7.6/bbl in Q4FY12); b) higher refining throughput at 17.3MMT (PL 17.1MMT) c) 26.5% qoq decline in E&P EBIT due to lower production at 33mmscmd v/s 35mmscmd and d) other income contributed 35% of PBT.
- We believe that negative developments viz. expectation of subdued gas production outlook from the KG basin over the period of next 2-2.5 years, reduction of KG-D6 gas supplies for the refining and petrochemical business, along with limited upsides in commodity margins in petrochemical and refining segment in the near term, are likely to result in stagnant profitability for RIL in the near term thereby resulting in absence of any meaningful stock price trigger in the near term. The news flows pertaining to regulatory approval for production increase, budget approvals, gas price hike and arbitration process is likely to be the key things to build a more optimistic picture going ahead. We maintain '**Accumulate**' rating on the stock, with a TP of Rs798/share.

Key financials (Y/e March)

	2011	2012	2013E	2014E
Revenues (Rs m)	2,657,158	3,585,010	3,586,464	3,612,168
Growth (%)	30.7	34.9	—	0.7
EBITDA (Rs m)	380,436	345,080	335,987	332,670
PAT (Rs m)	192,715	197,170	200,389	203,852
EPS (Rs)	58.9	60.3	61.3	62.3
Growth (%)	21.7	2.4	1.6	1.7
Net DPS (Rs)	7.3	7.7	9.2	9.3

Profitability & Valuation

	2011	2012	2013E	2014E
EBITDA margin (%)	14.3	9.6	9.4	9.2
RoE (%)	13.0	12.2	11.3	10.7
RoCE (%)	9.4	8.5	7.9	7.7
EV / sales (x)	1.1	0.8	0.7	0.7
EV / EBITDA (x)	7.6	8.6	7.7	7.4
PE (x)	12.3	12.0	11.8	11.6
P / BV (x)	1.5	1.4	1.3	1.2
Net dividend yield (%)	1.0	1.1	1.3	1.3

Source: Company Data; PL Research

Exhibit 1: Q4FY12 Result Overview (Rs m)

Y/e March	Q1FY13	Q1FY12	YoY gr. (%)	Q4FY12	FY13	FY12	YoY gr. (%)
Net Sales	918,750	810,180	13.4	851,820	3,586,464	3,585,010	0.0
Expenditure							
Raw material	785,110	659,130	19.1	730,880	3,029,374	3,021,340	0.3
<i>% of net sales</i>	<i>85.5</i>	<i>81.4</i>		<i>85.8</i>	<i>84.5</i>	<i>84.3</i>	
Personnel cost	8,470	8,780	(3.5)	5,970	42,358	39,550	7.1
<i>% of net sales</i>	<i>0.9</i>	<i>1.1</i>		<i>0.7</i>	<i>1.2</i>	<i>1.1</i>	
Other operating expenses	57,700	43,010	34.2	49,340	178,744	179,040	(0.2)
<i>% of net sales</i>	<i>6.3</i>	<i>5.3</i>		<i>5.8</i>	<i>5.0</i>	<i>5.0</i>	
EBITDA	67,470	99,260	(32.0)	65,630	335,987	345,080	(2.6)
<i>Margin (%)</i>	<i>7.3</i>	<i>12.3</i>		<i>7.7</i>	<i>9.4</i>	<i>9.6</i>	
Depreciation	24,340	31,950	(23.8)	26,590	125,102	124,010	0.9
EBIT	43,130	67,310	(35.9)	39,040	210,885	221,070	(4.6)
Interest	7,840	5,450	43.9	7,680	27,056	28,930	(6.5)
Other Income	19,040	10,780	76.6	22,950	74,737	61,940	20.7
PBT	54,330	72,640	(25.2)	54,310	258,567	254,080	1.8
Total taxes	9,600	16,030	(40.1)	11,950	58,178	56,910	2.2
<i>ETR (%)</i>	<i>17.7</i>	<i>22.1</i>		<i>22.0</i>	<i>22.5</i>	<i>22.4</i>	
Adj. PAT	44,730	56,610	(21.0)	42,360	200,389	197,170	1.6

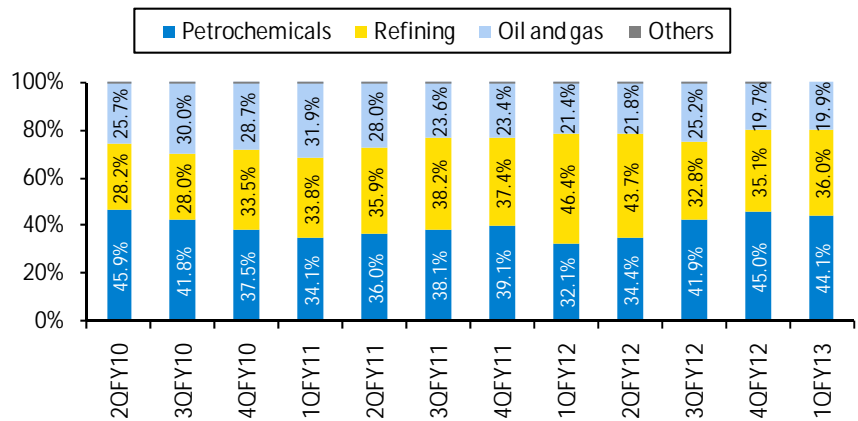
Source: Company Data, PL Research

Exhibit 2: Segmental Breakup (Rs m)

Y/e March	Q1FY13	Q1FY12	YoY gr. (%)	Q4FY12	QoQ gr. (%)
Revenues					
Petrochemicals	218,390	183,660	18.9	214,120	2.0
Refining & Marketing	853,830	736,890	15.9	762,110	12.0
Oil & Gas	25,080	38,940	(35.6)	26,090	(3.9)
Others	2,480	2,350	5.5	2,600	(4.6)
Gross Revenue	1,099,780	961,840	14.3	1,004,920	9.4
EBIT					
Petrochemicals	17,560	22,150	(20.7)	21,740	(19.2)
Refining & Marketing	21,510	31,990	(32.8)	16,960	26.8
Oil & Gas	9,720	14,730	(34.0)	9,510	2.2
Others	10	80	(87.5)	70	(85.7)
Total EBIT	48,800	68,950	(29.2)	48,280	1.1
EBIT Margin (%)					
Petrochemicals	8.0	12.1		10.2	
Refining & Marketing	2.5	4.3		2.2	
Oil & Gas	38.8	37.8		36.5	
Others	0.4	3.4		2.7	
Total	4.4	7.2		4.8	

Source: Company Data, PL Research

Exhibit 3: RIL EBIT composition over the quarters



Source: Company Data, PL Research

Analyst meet key extracts

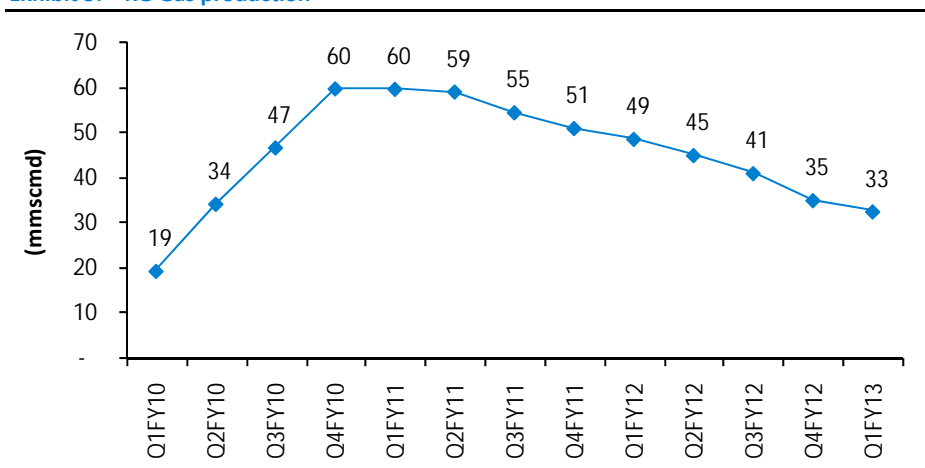
Targeting 60 mmscmd in the next 3-4 years: RIL is targeting to increase gas production from a) Satellite fields b) core D1/D3 and CBM expected to start in 2H CY14 (contingent on obtaining price approvals). The company highlighted regulatory issues continue to be a concern as a large number of projects are waiting for government approvals. RIL aim to submit revised FDP for D1/D3 by Q2FY13 and integrated FDP for all satellite fields by Q3FY13. RIL would submit FDP for NEC in H1CY13.

The management seemed confident of turning around the falling production profile of KG-D6 as reflect with increased data points over the stage of various E&P projects. Reliance (in partnership with BP) is now looking to “thrust on next wave of projects” apart from augmenting production from existing fields. OFDP for R-Cluster and satellite fields have been approved and the pre-development work has started. The RIL-BP JV will submit an integrated FDP plan for the entire KG basin by October-November’12 to the regulator. Management highlighted that though the gas price revision is likely to happen post 2014, it needs clarity over the gas prices before moving forward with the new development plans. Management said that government overlooks the gas price approval while the prices will be fixed via the market mechanism, thus companies expects upward revision in the gas prices.

Exhibit 4: Projects status

Project	Plan/ Activity	Status
KG D6	Budget for FY12 & FY13 submitted to DGH	Approval pending
D1-D3	Revised Development Plan	To be submitted in 2Q FY13
D26	Revised Development Plan submitted to DGH	Submitted in 4Q FY12; Approval awaited
All Satellites	Development Plan(s)	Engineering surveys being undertaken; Development Plan To be submitted in 3Q FY13
NEC-25	DOC for 2 discoveries; Plan for Pre Development Activities submitted to DGH	Commerciality Declared in 4Q FY12, Approval Awaited
CBM	Price discovery submitted to MoPNG	Approval awaited
PMT	Work Program and Budget FY12 & FY13 submitted to DGH	Approval Pending

Source: Company Data

Exhibit 5: KG Gas production


Source: Company Data, PL Research

During the quarter the company has relinquished 4 blocks viz. MN-V-D4, MN-VI-D21, KK-D1 and KK-D2. While the company is in discussions with DGH with regards to the obligation/payment towards relinquishment, management believes the same is not likely to be a significant amount.

Petcoke gasification project: Petcoke gasification project is now in the execution stage and the company expects the project to come on stream in the next ~3 years. Project is expected to add US\$3/bbls to RIL's refining margins. Petcoke, lower value project, would produce synthetic-gas that would be used to meet refining energy needs, and lead to savings over high-cost imported LNG. The off-gas cracker project is still in the planning stage, and would be synchronized along with Petcoke gasification.

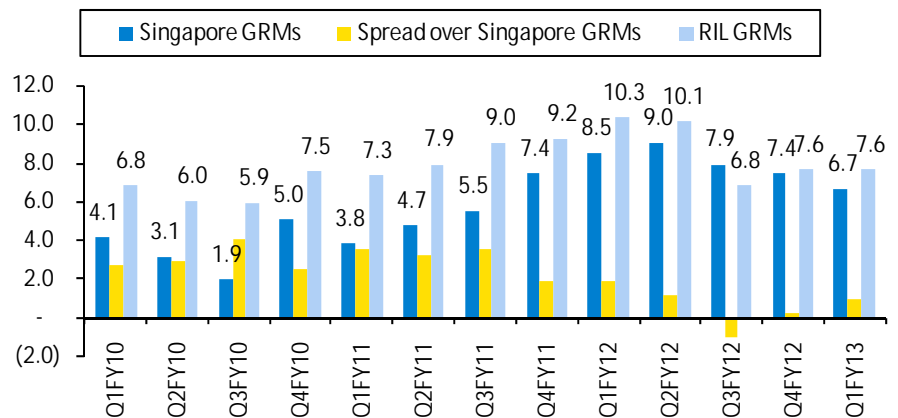
In order to improve the refining profitability through (a) using heavier crude basket, (b) superior energy efficiency (c) better sourcing of heavier and cheaper crude and access to high value markets.

Buyback update: Out of the approved buyback of 120m shares (implying 3.7% of outstanding equity); RIL has bought back 33.1m shares at an average price of Rs715/share.

Segmental performance

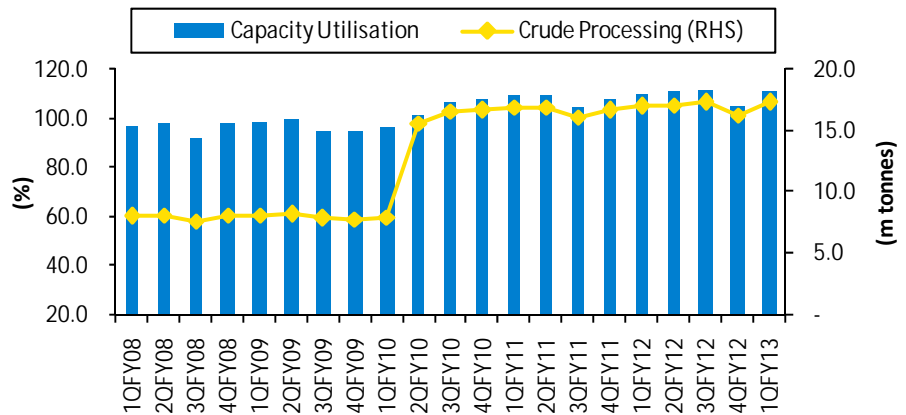
Refining and Marketing Segment (R&M): Crude processing stood at 17.3m tonnes (16.3m tonnes), with the refinery reporting capacity utilisation of 111% during the quarter with increased utilisation at both DTA(106%) and SEZ(119%) refinery. Despite a QoQ reduction in cracks for all major products, RIL managed to maintain GRMs at ~7.6/ bbl higher than ours as well as street expectations, driven by slightly higher L-H differentials QoQ along with widening of Naphtha-gasoline cracks (Reforming margins) because of a steeper decline in Naphtha prices. Crude diet of refinery continues to increasingly tilt towards heavy crudes, with average crude API at 27 during the quarter. Also, reconfiguration of product slate in favour of diesel products contributed to better than expected performance on the GRM front. RIL reported a sequential increase in EBIT to INR21.5bn despite sequentially flat GRMs of USD7.6/bbl (down 26% YoY) led by higher refining throughput at 17.3mmt (+2% YoY, +6% QoQ).RIL's GRMs implied a premium of USD0.9/bbl over Singapore complex GRM against a premium of USD0.4/bbl in the previous quarter.

Exhibit 6: RIL v/s Benchmark Singapore GRMs



Source: Company Data, PL Research

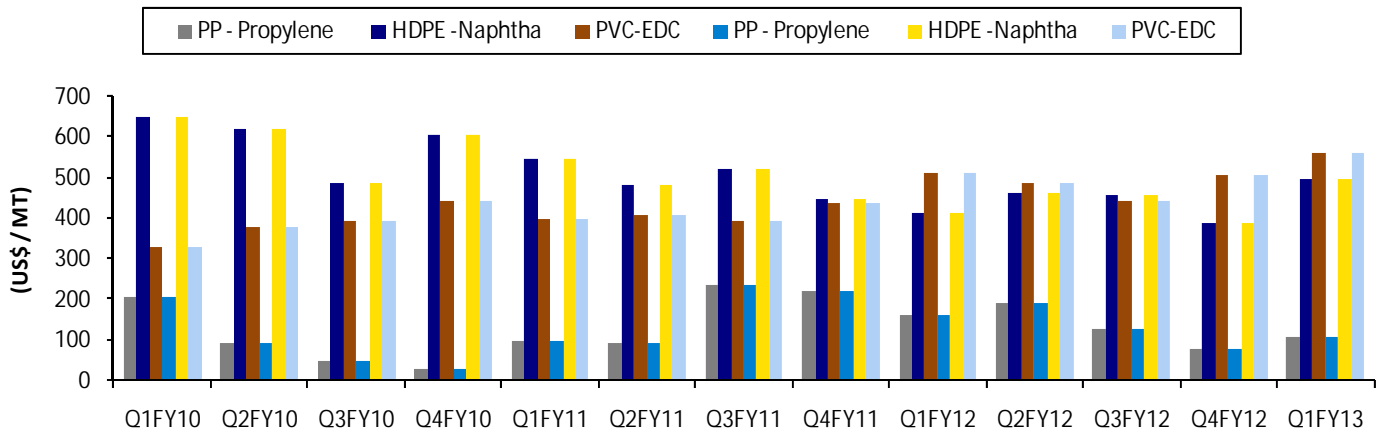
Exhibit 7: RIL – Capacity utilisation and crude processed



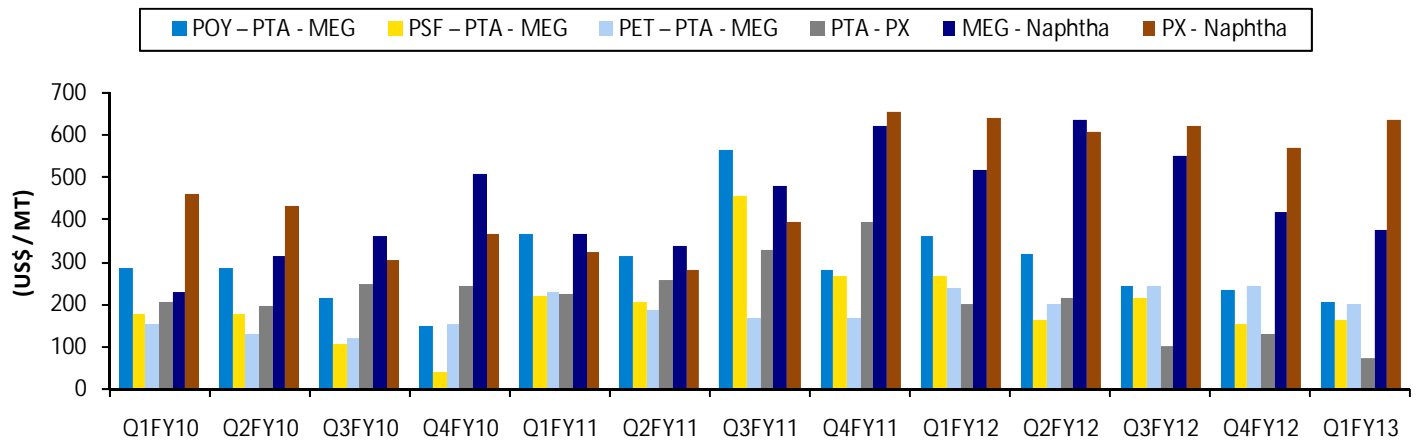
Source: Company Data, PL Research

Petrochemical Segment: Petchem segment EBIT declined 19% QoQ and 21% YoY owing to a weak performance in the polyester segment and PP in case of Polymers. Polyester prices declined during the quarter in an environment of declining cotton prices and weak demand. Moreover the production declined 17% qoq in polyester segment on back of weak demand.

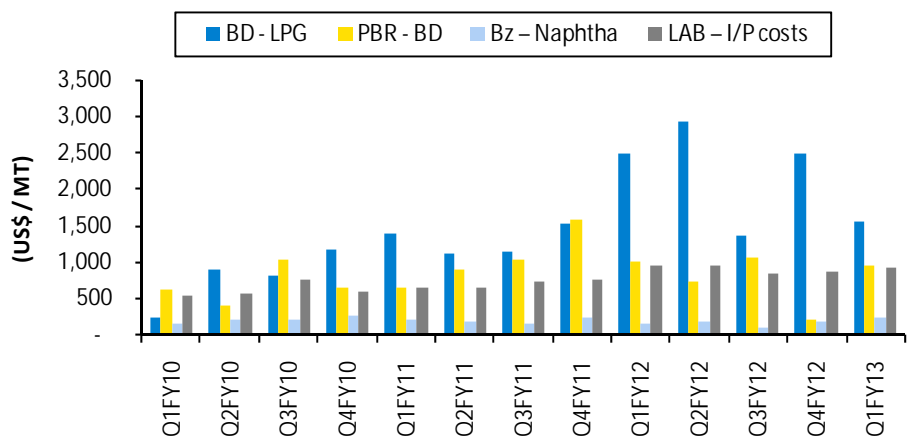
Exhibit 8: Petrochemical margins over the quarters



Source: Company Data, PL Research

Exhibit 9: Polyester margins over the quarters


Source: Company Data, PL Research

Exhibit 10: Chemical margins over the quarters


Source: Company Data, PL Research

Oil & Gas Segment: KG D6 gas production declined to an average 33 mmscmd during the quarter compared to 34 mmscmd in Q4FY12. Segment EBIT was flat QoQ but down 34% YoY. Gas production in Panna-Mukta remained flat on a QoQ basis to 5.6mmscmd (+2% YoY), it continued to fall in Tapti to 4.3mmscmd (-31% YoY, -18% QoQ) due to the natural decline in the field.

Outlook and Valuation

We believe that negative developments viz. expectation of subdued gas production outlook from the KG basin over the period of next 2-2.5 years, reduction of KG-D6 gas supplies for the refining and petrochemical business, along with limited upsides in commodity margins in petrochemical and refining segment in the near term, are likely to result in stagnant profitability for RIL in the near term thereby resulting in absence of any meaningful stock price trigger in the near term. The news flows pertaining to regulatory approval for production increase, budget approvals, gas price hike and arbitration process is likely to be the key things to build a more optimistic picture going ahead. We maintain **'Accumulate'** rating on the stock, with a TP of Rs798/share.

Exhibit 11: SOTP

Particulars	Value (Rs m)	INR/share
Refining (6.0x FY2014E EBITDA)	904,345	276
Chemicals (6.0x FY2014E EBITDA)	774,003	236
Total NAV of chemical and refining business	1,678,347	513
KG-D6 (DCF based)	168,830	52
NEC (DCF based)	25,629	8
KGD6 Oil (DCF based)	72,538	22
Other E&P (D-3, D-9,Mn-D4, satellite and R-Cluster) (EV/boe)	98,055	30
E&P blocks under BP deal	364,872	111
RIL Telecom venture	45,000	14
US Shale	58,190	18
Less FY13 end Net Debt and investments	(274,534)	(84)
Plus treasury Stock	190,255	58
Total NAV	2,003,941	798
Current market price		723

Source: PL Research

Income Statement (Rs m)

Y/e March	2011	2012	2013E	2014E
Net Revenue	2,657,158	3,585,010	3,586,464	3,612,168
Raw Material Expenses	2,082,194	3,021,340	3,029,374	3,053,343
Gross Profit	574,964	563,670	557,089	558,825
Employee Cost	33,243	39,550	42,358	45,365
Other Expenses	161,286	179,040	178,744	180,789
EBITDA	380,436	345,080	335,987	332,670
Depr. & Amortization	141,208	124,010	125,102	136,784
Net Interest	6,691	(12,740)	27,056	23,768
Other Income	25,428	61,940	74,737	90,917
Profit before Tax	240,550	254,080	258,567	263,035
Total Tax	47,834	56,910	58,178	59,183
Profit after Tax	192,715	197,170	200,389	203,852
Ex-Od items / Min. Int.	—	—	—	—
Adj. PAT	192,715	197,170	200,389	203,852
Avg. Shares O/S (m)	3,273.4	3,271.1	3,271.1	3,271.1
EPS (Rs.)	58.9	60.3	61.3	62.3

Cash Flow Abstract (Rs m)

Y/e March	2011	2012	2013E	2014E
C/F from Operations	399,488	54,414	588,173	286,190
C/F from Investing	(311,569)	114,111	(167,589)	(88,150)
C/F from Financing	141,089	106,690	(56,325)	(159,461)
Inc. / Dec. in Cash	229,009	275,215	364,260	38,579
Opening Cash	238,614	467,623	742,838	1,107,097
Closing Cash	467,623	742,838	1,107,097	1,145,676
FCFF	213,605	89,353	467,427	246,836
FCFE	408,612	250,171	467,568	146,071

Key Financial Metrics

Y/e March	2011	2012	2013E	2014E
Growth				
Revenue (%)	30.7	34.9	—	0.7
EBITDA (%)	23.1	(9.3)	(2.6)	(1.0)
PAT (%)	21.8	2.3	1.6	1.7
EPS (%)	21.7	2.4	1.6	1.7
Profitability				
EBITDA Margin (%)	14.3	9.6	9.4	9.2
PAT Margin (%)	7.3	5.5	5.6	5.6
RoCE (%)	9.4	8.5	7.9	7.7
RoE (%)	13.0	12.2	11.3	10.7
Balance Sheet				
Net Debt : Equity	0.3	0.4	0.1	—
Net Wrkng Cap. (days)	(2)	25	(16)	(17)
Valuation				
PER (x)	12.3	12.0	11.8	11.6
P / B (x)	1.5	1.4	1.3	1.2
EV / EBITDA (x)	7.6	8.6	7.7	7.4
EV / Sales (x)	1.1	0.8	0.7	0.7
Earnings Quality				
Eff. Tax Rate	19.9	22.4	22.5	22.5
Other Inc / PBT	10.6	24.4	28.9	34.6
Eff. Depr. Rate (%)	5.9	5.3	5.0	5.2
FCFE / PAT	212.0	126.9	233.3	71.7

Source: Company Data, PL Research.

Balance Sheet Abstract (Rs m)

Y/e March	2011	2012	2013E	2014E
Shareholder's Funds	1,543,851	1,697,371	1,839,432	1,984,353
Total Debt	841,062	1,001,880	1,002,021	901,256
Other Liabilities	118,731	123,660	130,124	136,700
Total Liabilities	2,503,644	2,822,911	2,971,578	3,022,309
Net Fixed Assets	1,878,417	1,641,770	1,747,548	1,778,832
Goodwill	—	—	—	—
Investments	218,885	388,881	389,621	390,427
Net Current Assets	406,329	792,250	834,394	853,036
<i>Cash & Equivalents</i>	<i>301,390</i>	<i>407,310</i>	<i>771,570</i>	<i>810,148</i>
<i>Other Current Assets</i>	<i>679,406</i>	<i>836,860</i>	<i>840,245</i>	<i>837,622</i>
<i>Current Liabilities</i>	<i>574,467</i>	<i>451,920</i>	<i>777,421</i>	<i>794,735</i>
Other Assets	14	10	15	15
Total Assets	2,503,644	2,822,911	2,971,578	3,022,309

Quarterly Financials (Rs m)

Y/e March	Q2FY12	Q3FY12	Q4FY12	Q1FY13
Net Revenue	785,690	851,350	851,820	918,750
EBITDA	98,440	72,850	65,630	67,470
<i>% of revenue</i>	<i>12.5</i>	<i>8.6</i>	<i>7.7</i>	<i>7.3</i>
Depr. & Amortization	29,690	25,700	26,590	24,340
Net Interest	6,600	6,940	7,680	7,840
Other Income	11,020	17,170	22,950	19,040
Profit before Tax	73,170	57,380	54,310	54,330
Total Tax	16,140	12,980	11,950	9,600
Profit after Tax	57,030	44,400	42,360	44,730
Adj. PAT	57,030	44,400	42,360	44,730

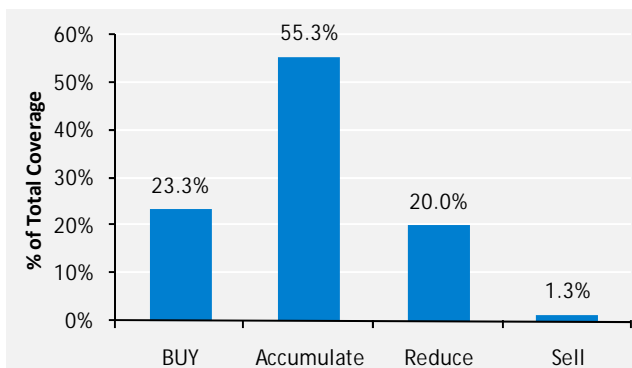
Key Operating Metrics

Y/e March	2011	2012	2013E	2014E
GRMs (US\$/bbl)	48.3	8.2	8.0	8.0
Crude throughput (mmt)	66.6	66.0	69.0	69.0
KG Gas production (mmcmd)	56.3	33.0	22.0	29.0
Refining share of EBITDA (%)	34.6	42.0	46.9	45.3
Petchem share of EBITDA (%)	30.9	33.0	35.2	38.8
Upstream share of EBITDA (%)	37.0	31.7	20.4	18.5
Others share of EBITDA (%)	(2.5)	(6.7)	(2.6)	(2.6)

Source: Company Data, PL Research.

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Rating Distribution of Research Coverage



PL's Recommendation Nomenclature

BUY	: Over 15% Outperformance to Sensex over 12-months	Accumulate	: Outperformance to Sensex over 12-months
Reduce	: Underperformance to Sensex over 12-months	Sell	: Over 15% underperformance to Sensex over 12-months
Trading Buy	: Over 10% absolute upside in 1-month	Trading Sell	: Over 10% absolute decline in 1-month
Not Rated (NR)	: No specific call on the stock	Under Review (UR)	: Rating likely to change shortly

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