

February 4, 2013

BSE Code: 500325 **NSE Code:** RELIANCE **Reuters Code:** RELI.NS **Bloomberg Code:** RIL:IN

Established in 1966, Reliance Industries Ltd. (RIL), is an Indian conglomerate company headquartered in Mumbai. The company operates in three segments: petrochemicals, refining and oil & gas. Its other segments include textile, retail business, special economic zone (SEZ) development and telecom/broadband business. The petrochemicals segment is engaged primarily in the production & marketing operations of petrochemical products namely, polyethylene, polypropylene, polyvinyl chloride etc. The refining segment includes production and marketing operations of the petroleum products. The oil and gas segment is involved in the exploration, development and production of crude oil & natural gas. The company ranked 99th on Fortune Global 500 list of the world's biggest corporations for the year 2012 is likely to invest USD 1 bn over the next few years.

Investor's Rationale

The company having strong hold in petrochemicals and refining business has marked an excellent performance during Q3FY'13. The revenues surged by 12.9% YoY at ₹963.1 bn, compelled by 12.9% YoY increase in refining revenues at ₹866.4 bn coupled with 11.5% YoY jump in petrochemicals revenues at ₹220.5 bn. In line with this, bottom-line jumped by 23.9% YoY to ₹55 bn, largely driven by higher refining EBIT and other income. The GRM stood at an impressive USD 9.6/barrel.

RIL is investing around USD 12 bn in petrochemicals business. Under this, USD 4 bn would be invested in petroleum coke gasification project and USD 8 bn on adding capacities of PFY, PET, polyester and intermediate chemicals such as PTA and paraxylene. Besides, the project also includes the adding of new products such as carbon black and rubber. First phase of the expansion will be commercialized by Q1FY'14 and last phase by FY16.

RIL is expecting to achieve some positive developments in its Exploration & Production (E&P) business including a nod from Ministry of Defence (MoD) on one of its big discovered block and one producing block at Krishna Godavri basin, which is tagged as strictly 'no-go' area. The company has received approvals for appraisal of CY-D6, drilling of KG-D6 development well G2 (OFDP) and work program budget for KG-D6. This would help the company in ramping up overall production under its portfolio.

RIL holds 3 CBM blocks in Central India, which include Sohagpur (East), Sohagpur (West) and Sonhat (North) in the domestic unconventional portfolio. Exploration phases for Sohagpur East and West blocks were completed.

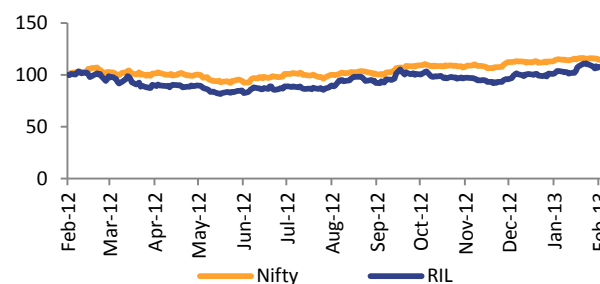
Market Data

Rating	BUY
CMP (₹)	893
Target (₹)	1,027
Potential Upside	15.0%
Duration	Long Term
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52 week H/L (₹)	955/671
All time High (₹)	1,626.0
Decline from 52WH (%)	6.5
Rise from 52WL (%)	33.1
Beta	0.9
Mkt. Cap (₹ bn)	2,890.8
Book Value (₹ bn)	568.9

Fiscal Year Ended

Y/E	FY11A	FY12A	FY13E	FY14E
Revenue (₹bn)	2,683.5	3,647.0	3,844.6	3,922.5
Net Profit (₹bn)	192.9	197.2	201.1	211.4
Share Capital (₹bn)	29.8	29.8	29.8	29.8
EPS (₹)	64.7	66.2	67.5	71.0
P/E (x)	13.8	13.5	13.2	12.6
P/BV (x)	1.7	1.6	1.4	1.3
EV/EBIDTA(x)	7.8	7.6	7.7	7.2
RoCE (%)	9.9	10.0	9.6	9.4
RoE (%)	12.5	11.6	10.7	10.2

One year Price Chart



Shareholding Pattern	Dec'12	Sep'12	Diff.
Promoters	45.34	31.35	13.99
FII	28.69	14.79	13.99
DII	11.56	27.95	(16.39)
Others	14.41	25.91	(11.50)

Higher revenues from key verticals lifted Q3FY'13 performance

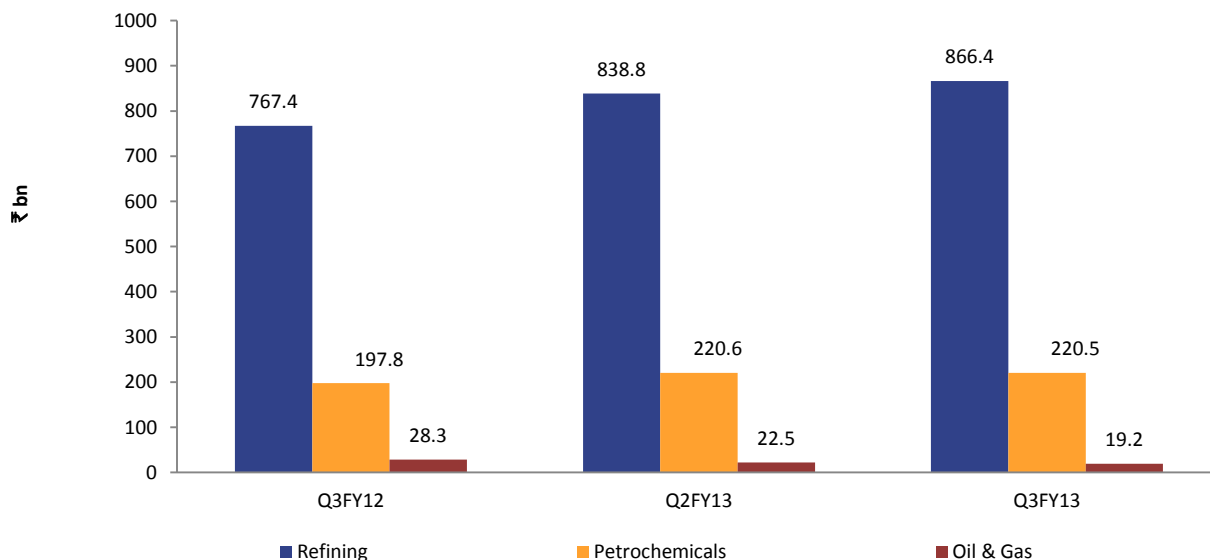
RIL has posted a strong growth in its bottom-line, surged by 23.9% YoY to ₹55.0 bn on higher refining EBIT and other income. The revenue also went up by 12.9% YoY and 3.3% QoQ at ₹963.1 bn in Q3FY'13 primarily led by higher turnover growth from refining and petroleum business. In line with this, the GRM stood at an impressive USD 9.6/barrel as compared to USD 6.8/barrel YoY, and USD 9.5/barrel QoQ.

On segmental front, the sales from petrochemical business in Q3FY'13 increased by 11.5% YoY to ₹220.5 bn, representing 19.9% of the total revenue. For 9MFY'13, petrochemical revenues jumped by 11.4% YoY to ₹659.5 bn primarily on account of higher prices (up 10.8%) while volumes have almost remained flat. Revenue from the refining business segment surged 12.9% YoY to ₹866.4 bn in Q3FY'13. EBIT margins of the segment also got better at 4.2% vs 2.2% YoY. The company processed 17.5 mt of crude at its Jamnagar refinery at the utilization rate of 113% during the period. Further, its Brent cracking margins were also higher YoY due to strong gasoline and gas oil cracks which boosted performance.

During Q3FY'13, RIL has bagged various huge projects which would start giving results in the coming quarters. In a bid to further develop the Venezuelan heavy oil fields, the company has recently signed a 15 year heavy crude oil supply contract and an MOU with the Venezuelan state oil company, Petroleos de Venezuela SA. As per the MOU, Reliance will explore upstream options for joint participation in heavy oil projects of the Orinoco Oil Belt. Further, it has hired Technip as a technology supplier and engineering contractor to implement its Refinery Off-Gas Cracker (ROGC) project. These steps along with other initiatives like selection of Fluor Corporation to provide project management services for RIL's projects being executed at its refining and petrochemical complex in Jamnagar and selection of Phillips66's E-Gas technology for coke gasification facility are likely to help the company in enhancing the performance.

RIL has posted a strong growth in its bottom-line and top line, up by 23.9%YoY and 12.9%YoY respectively, on higher other income and good vertical performance.

Segmental revenue trend



Leading private sector enterprise:

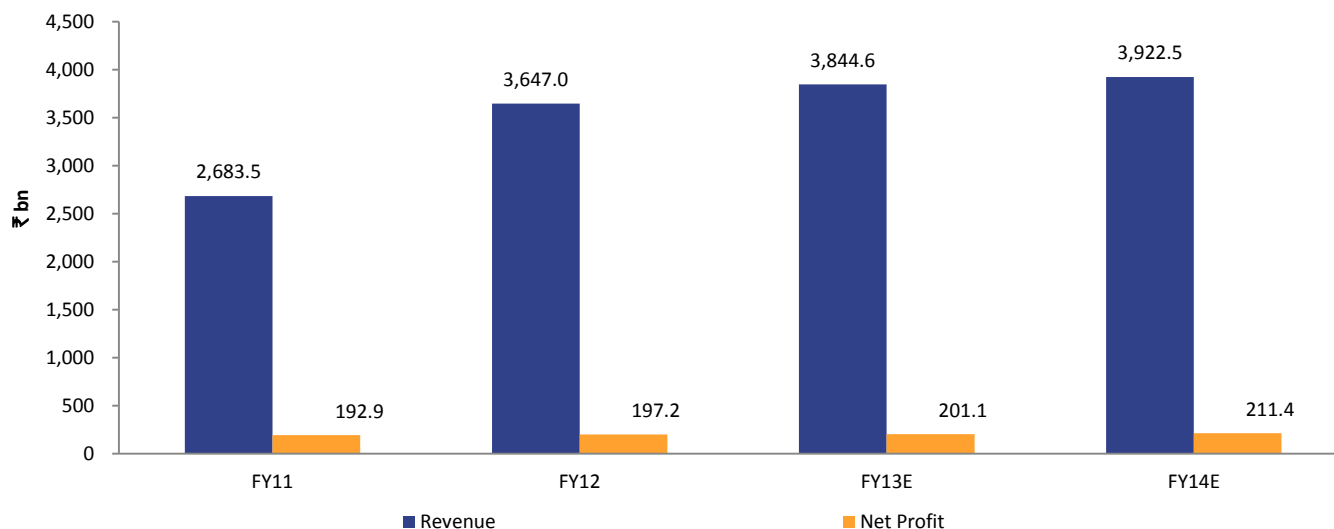
RIL an Indian conglomerate operates in three segments: petrochemicals, refining and oil & gas.

RIL, India's largest private sector enterprise, was founded in 1966. RIL is one of the largest publicly traded companies in India by market capitalization and is the second largest company in India by revenue. RIL's is engaged in performing various activities ranging from production/marketing operations of petrochemical products and refining to exploration and production (E&P) of oil & gas. The petrochemicals segment is engaged primarily in the production and marketing operations of petrochemical products namely, polyethylene, polypropylene, polyvinyl chloride, poly butadiene rubber, polyester yarn, polyester fiber, purified terephthalic acid, paraxylene, ethylene glycol, olefins, aromatics, linear alkyl benzene, butadiene, acrylonitrile, caustic soda and polyethylene terephthalate. The refining segment includes production and marketing operations of the petroleum products. The oil and gas segment is involved in the exploration, development and production of crude oil and natural gas. Its others segment includes textile, retail business, special economic zone (SEZ) development and telecom/broadband business.

Backward vertical integration has been the cornerstone for the evolution and growth of the company. Starting with textiles business, RIL pursued a strategy of backward vertical integration - in polyester, fibre intermediates, plastics, petrochemicals, petroleum refining and oil and gas exploration and production - to be fully integrated along the materials and energy value chain. With world-class manufacturing facilities across the country at Allahabad, Barabanki, Dahej, Hazira, Hoshiarpur, Nagpur etc., RIL enjoys global leadership in its businesses, being the largest polyester yarn and fibre producer in the world and among the top five to ten producers in the world in major petrochemical products.

RIL is ranked 99th on Fortune Global 500 list of the world's biggest corporations for the year 2012 is planning to invest USD 1 bn over the next few years in its new aerospace division which will design, develop, manufacture, equipment and components, including airframe, engine etc. for military and civilian aircraft, helicopters, unmanned airborne vehicles and aerostolutions Ltd.

Revenue and profit growth trend



In the domestic E&P business, RIL is poised to benefit from approvals coming from Ministry of Defence to start production activities.

E&P business soon going to be the company's most profitable asset

The company's E&P business has been getting positive news flow over the last few months, with a slew of approvals coming through for RIL's development plans and budgets for D6. KG-D6's production decline is likely to bottom out soon as work for booster compressor and MEG upgrade has begun in D1- D3, FPSO compressor modification/evaluation of work-over has commenced in D26(MA) and proposal for well MJ-1 has been submitted. With MJ1, the contractors are looking to add another 10 mmscmd. Further, RIL is likely to bring back a second deepwater rig by June-July 2013 for the KG block.

Besides, RIL is expecting to get some relief from the CCI regarding the issue of seven blocks, which is tagged as strictly 'no-go' area, by the Ministry of Defence (MoD). Of these blocks, there is one big discovered block and one producing block owned by RIL. As per MoD communication, KG-D6 gas block in the Krishna Godavri basin, where RIL-led consortium has invested close to USD 8 bn, falls under naval exercise area. Further, RIL's Mahanadi gas block, NEC-25, which might help the company in ramping up the overall production under its portfolio, has been marked as a 'no-go' area by the Defence Ministry. However, RIL is expecting positive development on CCI front.

KG-D6 gas catered to demand from 56 customers in critical sectors like fertilizer, LPG, power, CGD, steel, petrochemicals and refineries. The KG D6 block facility having production capacity of 80 mmscmd was so designed that future facilities could be integrated with it to deliver 120 mmscmd natural gas. While, KG-D6 block's production has dropped to an all-time low at 20.88 mmscmd after hitting a peak of 60 mmscmd in end-2009. However, RIL is adding 30 mmscmd through four satellite fields coupled with R-Series discovered in the D6 block. The company is targeting 2015-16 to bring the satellite discoveries on stream.

Further, ongoing projects at RIL's domestic oil and gas project namely Panna-Mukta & Tapti will soon augment production. Two additional ERD wells has been put to production and third is expected to be completed in Q4FY'13 at Mid Tapti. Further, Panna-L wells will be drilled by 2014. Besides, Mukta-B development - FEED is in progress and development plan is expected to be submitted by Q1FY'14 to MC. This along with other discoveries may take the total output up to 50-60 mmscmd.

KG-D6 catering to 56 customers, having production capacity of 80 mmscmd was designed to deliver 120 mmscmd natural gas.

Decline in domestic E&P production

	9MFY'12	9MFY'13
Panna-Mukta		
Oil (MMBBL)	7.7	6.4
Gas (BCF)	53.3	54.6
Tapti		
Oil (MMBBL)	0.7	0.4
Gas (BCF)	57.1	36.2
KG-D6		
Oil (MMBBL)	3.9	2.3
Gas (BCF)	436.4	275
Condensate (MMBBL)	0.6	0.3

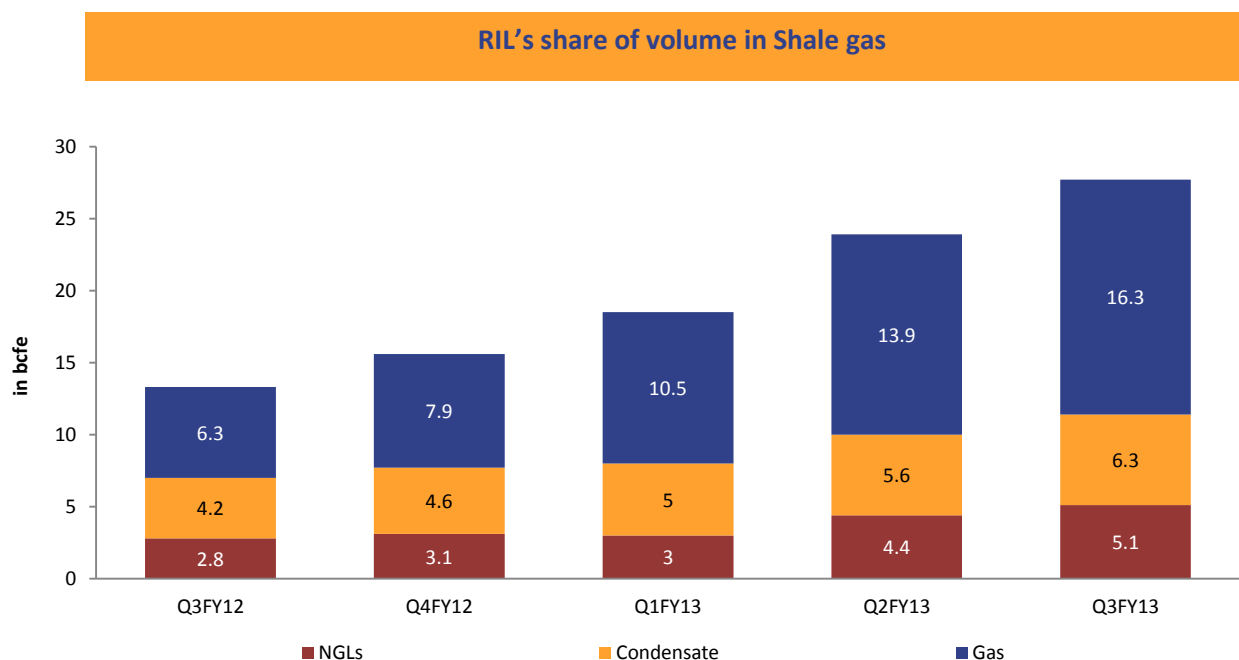
Natural gas price amendment - positive traction for business

The oil ministry is all set for a major revamp for nearly doubling the price of natural gas produced to USD 8-8.5/mmBtu in 2013 itself compared to the current rate of USD 4.2/mmBtu for most of the gas produced in the country, as proposed by the committee, headed by Dr. C. Rangarajan, chairman of the Prime Minister's Economic Advisory Council (PMEAC). While, any price revision will not be applicable to gas produced from RIL-operated D6 block on the east coast, where pricing has been fixed until April 2014. The government in 2010 raised the base price of natural gas produced by state-firms from blocks allocated to them without competitive bidding to USD 4.2 mmBtu, the same rate for Reliance's gas. However, the scrapping of administered price mechanism and linking domestic gas price to international prices will pave way for better pricing in future.

Shale gas input- contributing highly with growing volumes

RIL took a crucial step in 2010 as part of its strategic focus on pursuing partnerships with experienced and successful operators in the fast growing resource base in US with Atlas Energy (now owned by Chevron corp), Pioneer Natural Resources and Carrizo Oil & Gas through three distinctive joint venture (JV) agreements. The company has also agreed into a separate JV with Pioneer Natural Resources for addressing the mid-stream opportunity in gas evacuation and transportation. RIL, through its subsidiary, Reliance Marcellus LLC, has entered into a JV with the USA based Atlas Energy, Inc., Pittsburgh, Pennsylvania, under which Reliance acquired a 40% interest in Atlas's core Marcellus Shale acreage position. Further, Reliance Eagleford Upstream Holding LP has entered into a JV with the Pioneer Natural Resources, Irving, Texas, under which it acquired a 45% interest in Pioneer's core Eagle Ford shale acreage position. Moreover, it has also acquired 60% interest in Marcellus Shale acreage in central and northeast Pennsylvania from Carrizo Oil & Gas Inc. Aggregate investments since inception of these JVs stood at USD 5.2 bn, as at the end of Q3FY'13.

RIL's Shale Gas business has continued its growth trajectory in each of the JVs as its share of gross production stood at 32.3 bcfe in Q3FY'13, which reflects a growth of 15% over the trailing quarter owing to 54 new wells put on production during the quarter. Gross production for 9MFY'13 has ramped up sharply at 82.4 bcfe (up 145% YoY). Average combined daily production for all 3 JVs stood at 768.5 mmscfed (including ~44,000 barrels of condensate) in Q3FY'13. We believe Shale gas JVs will continue to provide competitive edge along with growing volumes.

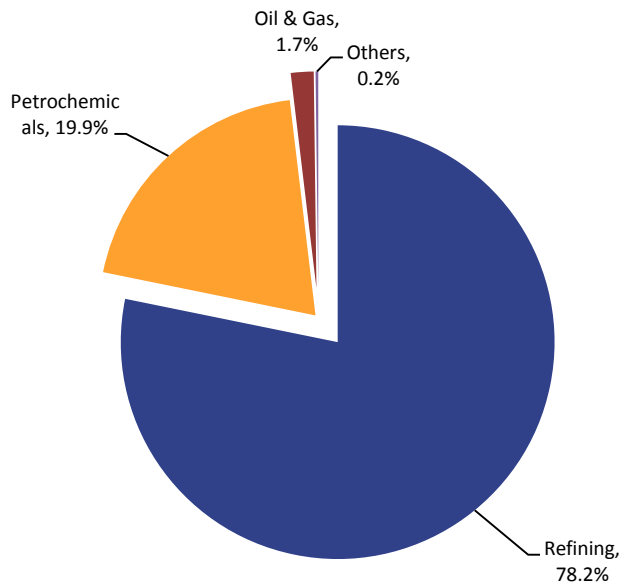


Capex of USD12 bn in petrochemicals business- prospect for good growth

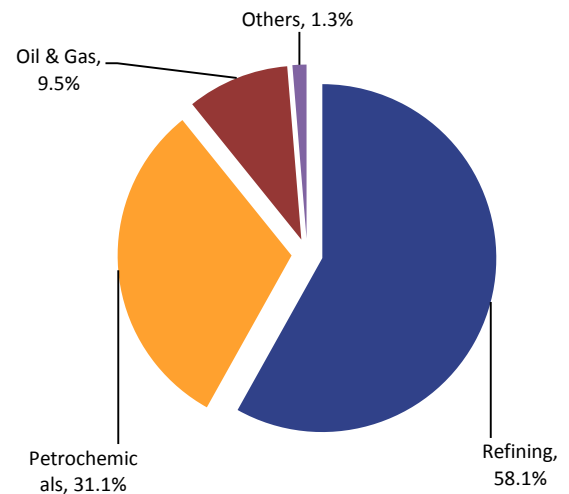
Taking a stringent move to make a massive rise in the earning capacity, RIL is likely to go for a huge capital expenditure of more than USD 12 bn in petrochemicals and refining business. As the company witnessed a sharp decline in production from its flagship Krishna-Godavari basin, the refining & marketing and petrochemical businesses have become the major source of revenue for the conglomerate. RIL posted a hike of 115.0% in its EBIT at ₹36.2 bn in Q3FY'13 as against ₹16.9 bn in Q3FY'12. Of this, petrochemicals and refining segment contributed 31.1% and 58.1% of EBIT. However, EBIT from the oil & gas exploration and production business (contributed 9.5%) came down by more than half at 54.0% to ₹5.9 bn against ₹12.9 bn in the corresponding previous quarter.

RIL's petrochem business which is contributing its share in revenue to refining for the past 3 years, will realize a surge in the coming quarters. Apart from setting up a USD 4 bn petroleum coke gasification project, which will produce synthetic natural gas, RIL is also spending USD 8 bn on adding capacities of PFY, PET, polyester and intermediate chemicals such as PTA and paraxylene, besides adding new products such as carbon black and rubber. First phase of petrochemicals expansion will be commercialized by Q1FY'14 and last phase by FY16. This will further add value to its refining business as the company owns and operates two state-of-the-art refineries at Jamnagar, Gujarat which can together process around 1.24 mn barrels of crude oil every day, giving RIL the advantage of processing heavier grades of crude.

Revenue mix for Q3FY'13



EBIT mix for Q3FY'13



Balance Sheet (Consolidated)

(₹billion)	FY11A	FY12A	FY13E	FY14E
Share Capital	29.8	29.8	29.8	29.8
Reserve and surplus	1,511.2	1,664.7	1,844.9	2,035.5
Net Worth	1,541.0	1,694.5	1,874.7	2,065.3
Minority Interest	8.0	8.0	8.0	8.0
Loan	799.9	826.4	842.9	836.4
Long term provision	2.1	4.2	4.3	4.3
Current Liability	408.5	447.7	443.3	430.0
Other liability	204.9	175.5	177.3	180.5
Defered tax liability	110.7	115.7	115.7	115.7
Capital Employed	3,075.2	3,271.9	3,466.1	3,640.1
Fixed Asset	1,862.8	1,641.8	1,835.1	2,007.7
Long term loans & adv	68.4	67.4	68.1	69.4
Investment	216.0	386.0	397.5	413.4
Current Assets	902.5	1,141.2	1,129.7	1,113.9
Other Assets	25.6	35.6	35.6	35.6
Capital Deployed	3,075.2	3,271.9	3,466.1	3,640.1

Key Ratios (Consolidated)

Y/E	FY11A	FY12A	FY13E	FY14E
EBITDA Margin (%)	15.1	11.2	10.6	10.9
EBIT Margin (%)	9.9	7.8	7.6	7.7
NPM (%)	7.2	5.4	5.2	5.4
ROCE (%)	9.9	10.0	9.6	9.4
ROE (%)	12.5	11.6	10.7	10.2
EPS (₹)	64.7	66.2	67.5	71.0
P/E (x)	13.8	13.5	13.2	12.6
BVPS (₹)	516.9	568.8	629.3	693.3
P/BVPS (x)	1.7	1.6	1.4	1.3
EV/Operating Income (x)	1.2	0.9	0.8	0.8
EV/EBITDA (x)	7.8	7.6	7.7	7.2

Profit & Loss Account (Consolidated)

(₹billion)	FY11A	FY12A	FY13E	FY14E
Total Income	2,683.5	3,647.0	3,844.6	3,922.5
Operating Expense	2,277.7	3,239.9	3,435.8	3,496.8
EBITDA	405.9	407.0	408.9	425.7
Depreciation	141.2	124.0	118.2	122.6
EBIT	264.7	283.0	290.7	303.1
Interest	24.1	28.9	32.9	32.1
Profit Before Tax	240.6	254.1	257.8	271.0
Tax	47.8	56.9	56.7	59.6
Minority Interest	0.2	0.1	0.1	0.1
Net Profit	192.9	197.2	201.1	211.4

Valuation and view

RIL has reported strong Q3FY'13 performance, mainly on account of strong lift in petrochemicals and refining business. The company's E&P business continues to disappoint, but it is expecting a significant improvement after approvals from MoD. Moreover, the rising contribution for each of the Shale gas JVs augurs well for the company. Looking ahead, the firm is heavily investing in petrochemicals business which will further add value to its refining business.

At a current CMP of ₹893, RIL is attractively placed at P/E of 12.6x FY14E and EV/EBITDA of ~7.2x FY14E. Considering the above aspects, we rate the stock as 'BUY' with a potential upside of 15% for the coming 12 months.



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