BUY

Reliance Industries Ltd (Q4 FY08)

April 22, 2008

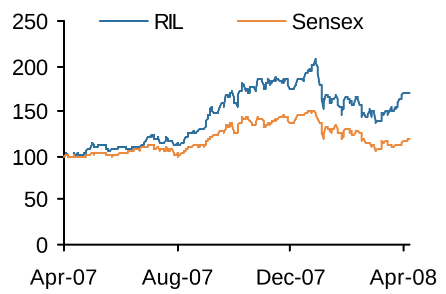
Stock data

Sensex:	16,739
CMP (Rs):	2,642
Target price (Rs):	3,196
Upside (%):	21.0
52 Week h/l (Rs):	3,252/1,505
Market cap (Rs cr)	384,076
6m Avg vol BSE&NSE ('000 nos):	4,375
No of o/s shares (mn):	1,454
FV (Rs):	10
Bloomberg code:	RIL IN
Reuters code:	RELI.BO
BSE code:	500325
NSE code	RELIANCE

Shareholding pattern

December 2007	(%)
Promoters	51.0
FIIs & institutions	27.1
Non promoter corp hold	4.9
Others	16.9

Share price trend



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- Net sales up 35.8% driven by higher realizations across the segments.
- GRMs at US$15.5/bbl for Q4 FY08, much in line with expectations.
- OPM down 270bps to 16.1% as petchem and oil and gas EBIT margin fall.
- Three additional discoveries made in Q4 FY08.
- Firm refining margins, commencement of production of gas from KGD6 in H2 FY09 and additional discoveries to drive future growth.
- We recommend a BUY with a sum-of-parts target price of Rs3,196

Result table

Period to	Q4 FY08	Q4 FY07	Growth
(Rs mn)	**(3)**	**(3)**	**yoy (%)**
Gross Sales	386,970	292,760	32.2
Excise	(14,110)	(18,280)	(22.8)
Net Sales	372,860	274,480	35.8
Expenditure	(312,670)	(222,810)	40.3
Operating Profit	60,190	51,670	16.5
Other Income	2,890	1,250	131.2
Interest	(2,720)	(2,880)	(5.6)
Depreciation	(13,800)	(12,270)	12.5
PBT	46,560	37,770	23.3
Tax	(7,430)	(6,230)	19.3
PAT	39,130	31,540	24.1
Equity	14,540	13,940	
OPM	16.1	18.8	
EPS (Rs Annualized)	107.6	90.5	

Source: Company, India Infoline Research

Segmental analysis

	Q4 FY08	Q4 FY07	Growth
	(3)	**(3)**	**yoy (%)**
Segment Revenue (Rs mn)			
Petrochemical	141,190	125,720	12.3
Refining	286,860	210,250	36.4
Others	11,700	6,610	77.0
EBIT (Rs mn)			
Petrochemical	14,660	13,810	6.2
Refining	28,390	22,750	24.8
Others	4,560	3,220	41.6
EBIT Margin (%)			
Petrochemical	10.4	11.0	(0.6)
Refining	9.9	10.8	(0.9)
Others	39.0	48.7	(9.7)
ROCE (%)			
Petrochemical	19.1	17.2	1.9
Refining	26.9	23.5	3.4
Others	5.6	8.2	(2.7)

Source: Company, India Infoline Research

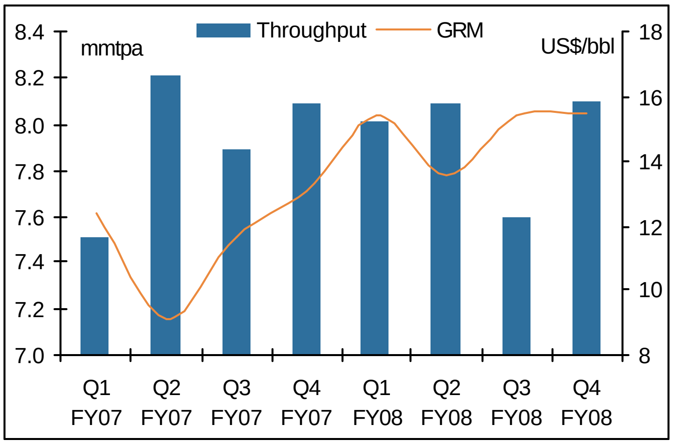
Refining segment: strong growth continues

Reliance Industries Ltd (RIL) reported a GRM of US$15.5/bbl for Q4 FY08 as against US$13.1/bbl in Q4 FY07 and US$15.4/bbl in Q3 FY08. Throughput was flat at 8.1mn tons for the quarter. Higher GRMs can be attributed to strong middle distillate crack spreads. The company has been outperforming global benchmarks consistently by a significant margin. The reasons attributed to the robust performance include no fuel oil nature of RIL refinery, flexibility of changing the product slate by 5% and capability to process many varieties of crude. However, EBIT margin for the segment declined by 90bps yoy to 9.9%.

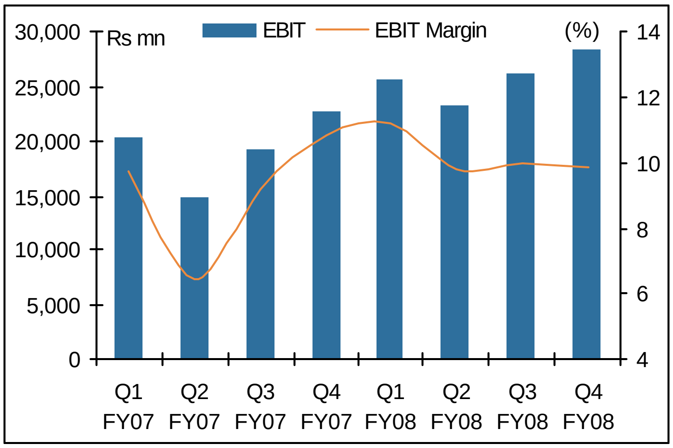
Status of Reliance Petroleum Ltd (RPL) construction

- Overall implementation progress at 90%
- Project engineering efforts completed
- Procurement activities nearing completion
- Overall construction progress nearing 80% mark for the complex
- Nearly 65% of project scope of equipments already installed
- Startup planning and operation preparedness activities gained momentum
- Sufficient site infrastructure mobilized to sustain construction on fast track
- Set to commence operations earlier than December 2008

Trend in throughput and GRMs



Trend in EBIT and EBIT margin



Source: Company, India Infoline Research

Other highlights for the segment

- RIL for the first time produced and sold ultra lower sulphur diesel in international markets.
- Exports of petroleum products increased by 39.5% yoy to 5.8mn tons in Q4 FY08.
- During the quarter the company increased its presence to 14 airports to market ATF.

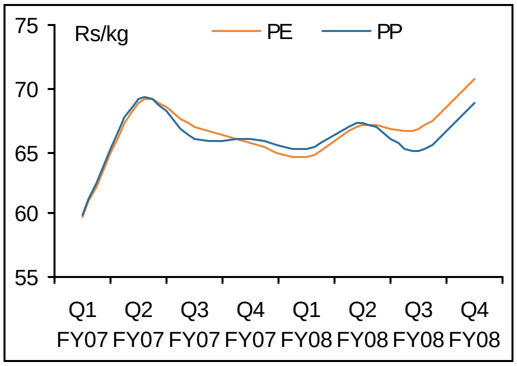
The outlook for complex GRMs continues to remain robust at least for the next two fiscals as:

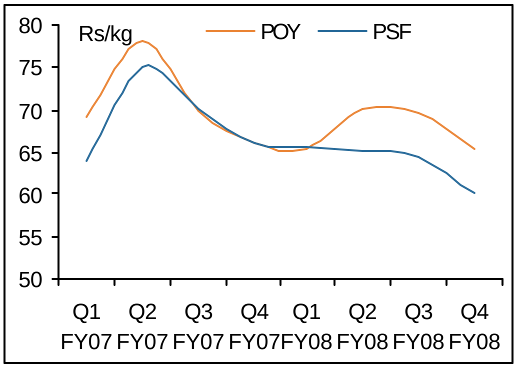
- Stricter emission norms will lead to a surge in demand for low sulphur fuels, which only complex refiners can deliver.
- CDU capacity additions are likely to be lower than the increase in demand. And, with refineries currently operating at above 85% utilization levels, margins should remain strong.
- Increasing light-heavy differential will also support GRMs for complex refiners.

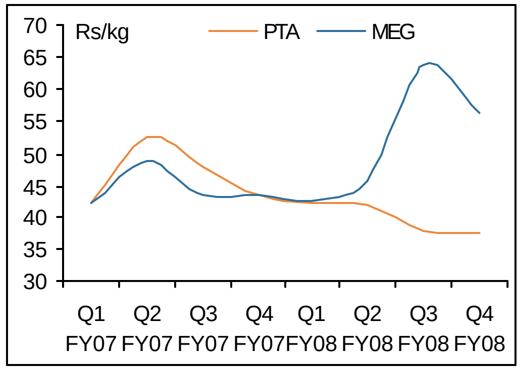
Petrochemical segment: disappointing performance

The petrochemical segment reported a 12.3% yoy growth in revenues but only a 6.2% yoy growth in EBIT. On a qoq basis, EBIT from the segment was down 17.5% and EBIT margin slumped by 360bps to 10.4%. Spiraling prices of naphtha on account of surging crude oil prices have impacted spreads of key products. Polymer segment witnessed a mixed trend. While PE spread over naphtha remained more or less flat, polypropylene spread over propylene and PVC spread over EDC witnessed strong growth on a yoy basis. In the polyester chain, integrated margins were impacted on account of sharp decline in PX spreads over naphtha. Most of the other products in the chain witnessed robust growth in spreads on a yoy basis.

Petrochemical products price trends (Rs/kg)







Source: Company

Petrochemical production break-up

('000 tons)	Q4 FY08	Q3 FY08	Q4 FY07	qoq (%)	yoy (%)
Polyester (PFY, PSF, PET)	404	392	368	3.1	9.8
Fiber Intermediates (PX, PTA, MEG)	1,234	1,114	1,184	10.8	4.2
Polymers (PE, PP, PVC)	860	852	801	0.9	7.4

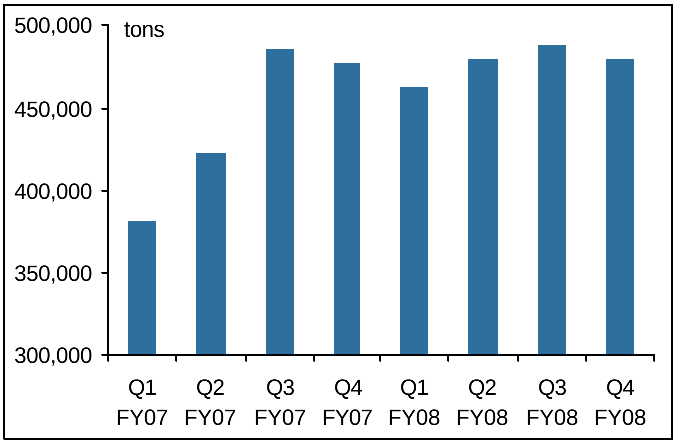
Source: Company, India Infoline Research

Outlook for the petrochemical segment

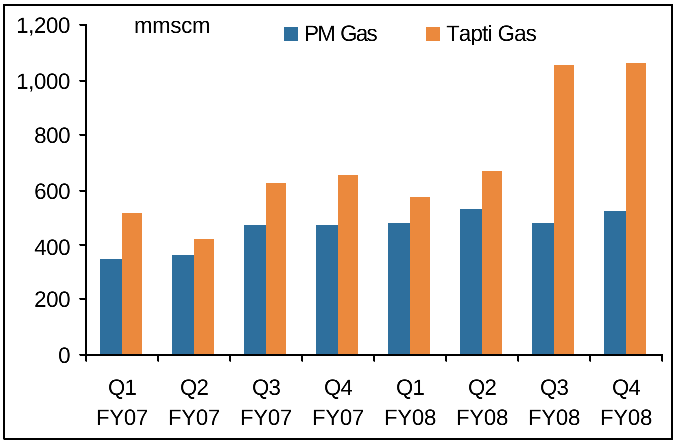
- RIL continues to focus on domestic industry for garnering growth. Demand for polymers is likely to remain firm as penetration of organized retail in the country is likely to increase substantially. This would translate into increased demand for packaging. Increasing spends towards irrigation and city gas projects will warrant higher demand for PVC pipes.
- With cotton prices soaring at the international level the demand for polyester will remain strong in the near term.
- Although demand is likely to remain firm, prices and margins will remain under pressure as supplies catch up with the demand. Rising feedstock prices will put further pressure on product spreads.

E&P segment: The assets just get richer

Production of Oil Panna Mukta fields



Production of gas at PMT fields



Source: Company, India Infoline Research

Status of KG D6 development

Drilling and well completions	Offshore Subsea, CRP	Onshore Terminal
Well completions hardware delivered Two rigs deployed for well completions Lower well completions: 5 wells completed Upper well completions commenced.	XMT: 6 nos. recd at site. 3 No. installed. Progressive deliveries up to Aug 08. All the installation barges/support vessels mobilized/operating - Jacket, deck & LQ installation completed. - Hookup & pre-commissioning commenced. Target completion May 08. Subsea Installation: - Structures: All 11 installed - Pipe laying: Total 50 % completed - Dredging & pipe-laying in river section nearing completion - 2 Major Infield Umbilicals laying completed. Target completion for major umbilicals by end Jun 08 LFP to OT Pipe laying: 80% completed. Target installation completion by end May 08	Structural: 78% completed Pipe rack erection: 100% completed All major equipment /packages at site AG Piping fabrication – 70 % completed AG Piping erection – 62& completed Installation of all major equipm ent/packages completed Field Fab Tanks – Installation completed. Testing in progress Infrastructure facilities in operation: - Construction jetty - Haul road from LFP to OT Construction of buildings in infrastructure area: advanced stage of completion Transformers completed and HT/LV panels nearing completion. Instrumentation – Commenced
Drilling: 94% of planned wells completed	**Offshore Facilities: 79% complete**	**Onshore Facilities: 83% complete**

Other key highlights of the segment

- RIL currently has four rigs operational. Seven more rigs would be added over the next couple of years.
- Three new discoveries made in Q4 FY08.
- Production from the PMT fields continues to rise after implementation of the NRPOD plan for the Tapti field.
- The development plans for CBM blocks of Sohagpur West and East are approved.
- The company has established commerciality for nine satellite discoveries in KG D6 block, which are expected to commence operations by 2013. RIL will have an option to increase the plateau production or to extend the plateau period of the block.
- Appraisal plan for discoveries in blocks SR01, KGIII5, KGD4, NEC25, KGIII6 and CYD5 are underway

Additional discoveries and new ventures to drive valuations

We maintain our BUY call on the stock with a sum of parts target of Rs3,196 providing an upside of 21%. Although petrochemical segment is likely to witness margin pressures in the near term, the integrated nature of the segment will help RIL post a relative strong performance in the downtrend. Refining segment is expected to stage a strong performance as GRMs are likely to remain firm for reasons mentioned above. With RPL slated to commence operations before the scheduled date of December 2008, contribution from refining segment will increase considerably. KG D6 is all set to commence production from 2H FY09. This will provide further trigger to earnings growth.

Sum-of-parts valuation

Segment	Rs mn	Rs/share
Refining	910,955	627
Petchem	662,510	456
E&P	1,409,281	970
RPL	683,550	470
Reliance Retail	348,219	240
SEZ	225,000	155
Total	4,239,515	2,918
Net Debt	249,698	172
Net Value	3,989,817	2,746
Treasury stock	654,390	450
Total value	4,644,207	3,196
CMP (Rs)		2,642
Upside (%)		21.0

Source: India Infoline Research