

# Reliance Industries

(RELI.BO / RIL IN)

Rating	<b>OUTPERFORM*</b>
Price (08 May 12, Rs)	708.65
Target price (Rs)	907.00 <sup>†</sup>
Upside/downside (%)	28.0
Mkt cap (Rs mn)	2,314,584 (US\$ 43,573)
Enterprise value (Rs mn)	2,549,628
Number of shares (mn)	3,266.19
Free float (%)	51.0
52-week price range	956.2 - 692.9

\*Stock ratings are relative to the relevant country benchmark.  
<sup>†</sup>Target price is for 12 months.

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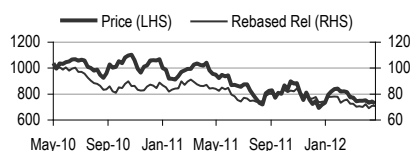
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ANNUAL

## Cash—the story for FY12

- **Annual report review.** RIL published its FY12 annual report this week. We look at the salient takeaways in this note.
- **Cash and more.** We estimate RIL generated FCF of US\$1.2 bn through core operations in FY12, and another US\$4.4 bn through the sale to BP (some BP money was received in FY11). Cash balances increased US\$2 bn, while investments increased US\$3.2 bn YoY. RIL invested US\$4 bn out of these in CD/FD with banks. Company returns though continued to fall, with RoAE hitting decade lows of about 12% in FY12. On headline, RIL's FY12 other income yield of 9% was well ahead of the 4% interest rate (which helped keep PBT flat despite a 9% decline in EBITDA), but adjusted for exchange losses on foreign currency debt (which are capitalised), we estimate RIL's interest costs on average have been 50 bp higher than its income over the past seven years. RIL has reduced Proved Developed gas reserves on balance sheet by 1.4 TCF, reflecting the geological issues in D1/D3. Proved Undeveloped reserves though have increased c.1 TCF which might reflect the recent DoC approval for the R-series fields. RIL has also disclosed investments of US\$120 mn in two US-based biofuel (algae) companies in FY12.
- **Refining margins near term, growth longer term.** RIL has outlined capex plans in its petrochemical and E&P businesses. As the first progresses, and government approvals for the latter come through, earnings growth (over say a four-year period) will become clearer, which can help stock valuations. Until then, volatility in GRM's and quarterly earnings can matter most.
- **Valuation.** RIL trades at c.11.5x FY12 delivered EPS. We will review our numbers as we incorporate the FY12 annual report in the model. OUTPERFORM.

## Share price performance



The price relative chart measures performance against the BSE SENSEX IDX which closed at 16546.18 on 08/05/12  
On 08/05/12 the spot exchange rate was Rs53.12/US\$1

Performance over	1M	3M	12M
Absolute (%)	-4.6	-16.9	-25.5
Relative (%)	-0.6	-9.7	-14.9

## Financial and valuation metrics

Year	3/11A	3/12E	3/13E	3/14E
Revenue (Rs mn)	2,657,158.0	3,294,279.0	3,392,198.9	3,649,401.4
EBITDAX (Rs mn)	380,435.8	340,901.3	352,984.8	398,245.8
EBIT (Rs mn)	239,228.2	229,419.6	245,779.9	276,539.3
Net profit (Rs mn)	192,936.5	199,294.8	242,297.7	260,891.8
EPS (CS adj.) (Rs)	58.94	60.87	74.01	79.69
Change from previous EPS (%)	n.a.	0	0	0
Consensus EPS (Rs)	n.a.	66.2	65.4	70.1
EPS growth (%)	-21.3	3.3	21.6	7.7
P/E (x)	12.0	11.6	9.6	8.9
Dividend yield (%)	1.0	1.3	1.6	1.7
EV/EBITDAX (x)	7.5	7.5	6.8	5.7
P/B (x)	1.6	1.4	1.3	1.1
ROE (%)	13.8	12.7	13.9	13.3
Net debt/equity (%)	36.2	14.2	5.4	Net cash

Source: Company data, Thomson Reuters, Credit Suisse estimates.

**DISCLOSURE APPENDIX CONTAINS ANALYST CERTIFICATIONS AND THE STATUS OF NON-US ANALYSTS. U.S. Disclosure:** Credit Suisse does and seeks to do business with companies covered in its research reports. As a result, investors should be aware that the Firm may have a conflict of interest that could affect the objectivity of this report. Investors should consider this report as only a single factor in making their investment decision.

# Focus table

Figure 1: Summary financials

Fiscal year ended March	FY2009	FY2010	FY2011	FY2012E	FY2013E	FY2014E
<b>Profit &amp; loss statement</b>						
Net sales	1,513,355	2,033,706	2,657,158	3,294,279	3,392,199	3,649,401
Raw material expenses	1,172,940	1,642,773	2,126,774	2,743,410	2,828,062	3,035,145
Inventory changes	(22,695)	(60,350)	(44,580)	-	-	-
Gross margins	363,111	451,283	574,964	550,869	564,137	614,257
Manufacturing expenses	47,437	49,641	52,558	53,084	53,615	54,151
Employee costs	30,176	27,909	33,243	35,777	38,505	41,441
S&D costs	33,725	44,526	58,902	52,315	53,361	54,429
Overheads	44,746	39,703	52,611	68,791	65,670	65,990
<b>EBITDA</b>	<b>234,222</b>	<b>308,939</b>	<b>380,436</b>	<b>340,901</b>	<b>352,985</b>	<b>398,246</b>
Depreciation	56,510	109,458	141,208	111,482	107,205	121,707
EBIT	177,712	199,481	239,228	229,420	245,780	276,539
Interest expense	18,163	20,596	24,107	24,450	31,605	29,667
Other income	5,853	4,588	8,608	52,886	95,186	86,393
Interest income	14,561	17,162	17,416	-	-	-
Associate income	(1,271)	108	(595)	(560)	(535)	(739)
<b>PBT</b>	<b>178,691</b>	<b>286,799</b>	<b>240,550</b>	<b>257,295</b>	<b>308,826</b>	<b>332,526</b>
Tax	29,188	42,563	47,834	58,000	66,528	71,634
<b>PAT</b>	<b>149,503</b>	<b>244,236</b>	<b>192,715</b>	<b>199,295</b>	<b>242,298</b>	<b>260,892</b>
Minorities	(184)	(796)	(221)	-	-	-
PAT to shareholders	149,687	245,031	192,937	199,295	242,298	260,892
<b>Balance sheet</b>						
Cash	227,421	138,908	301,390	880,390	902,400	924,960
Trade debtors	48,450	100,829	156,952	194,585	200,369	215,561
Inventories	201,096	343,933	385,194	484,901	499,528	536,897
Loans & advances	110,018	106,472	134,643	158,580	155,129	158,547
Other items	476	914	2,617	2,617	2,617	2,617
<b>Current assets</b>	<b>587,461</b>	<b>691,057</b>	<b>980,796</b>	<b>1,721,073</b>	<b>1,760,043</b>	<b>1,838,582</b>
Sundry creditors	345,011	381,256	519,421	653,191	664,582	702,969
Others	9,257	12,942	19,647	-	-	-
Provisions	23,707	25,716	29,254	36,058	43,743	47,100
Short-term loans	84,396	80,550	137,530	170,506	175,574	188,887
Interest accrued but not due	10,744	5,942	6,145	6,145	6,145	6,145
<b>Current liabilities</b>	<b>473,116</b>	<b>506,406</b>	<b>711,997</b>	<b>865,900</b>	<b>890,044</b>	<b>945,101</b>
Long-term investments	64,355	134,046	218,885	218,325	217,790	217,050
Non-current assets	1,808,938	1,772,273	1,878,430	1,676,199	1,722,997	1,757,721
Gross fixed assets	1,571,824	2,241,253	2,382,925	2,456,070	2,671,546	2,889,449
Depreciation	501,382	639,340	801,931	929,885	1,048,563	1,181,743
Work in progress	738,460	170,337	297,423	150,000	100,000	50,000
<b>Total assets</b>	<b>1,987,638</b>	<b>2,090,970</b>	<b>2,366,114</b>	<b>2,749,698</b>	<b>2,810,786</b>	<b>2,868,253</b>
Long-term debt	678,170	565,506	703,532	944,927	827,533	690,799
Deferred tax liability	95,513	106,776	110,709	114,677	119,441	124,569
Minority interests	1,389	5,735	8,022	8,022	8,022	8,022
Shareholders' funds	1,212,565	1,412,953	1,543,851	1,682,071	1,855,790	2,044,863
Equity share capital	14,439	32,704	32,734	32,740	32,740	32,740
Reserves	1,198,126	1,380,250	1,511,117	1,649,331	1,823,050	2,012,123
<b>Total liability</b>	<b>1,987,638</b>	<b>2,090,970</b>	<b>2,366,114</b>	<b>2,749,698</b>	<b>2,810,786</b>	<b>2,868,253</b>

Source: Company data, Credit Suisse estimates

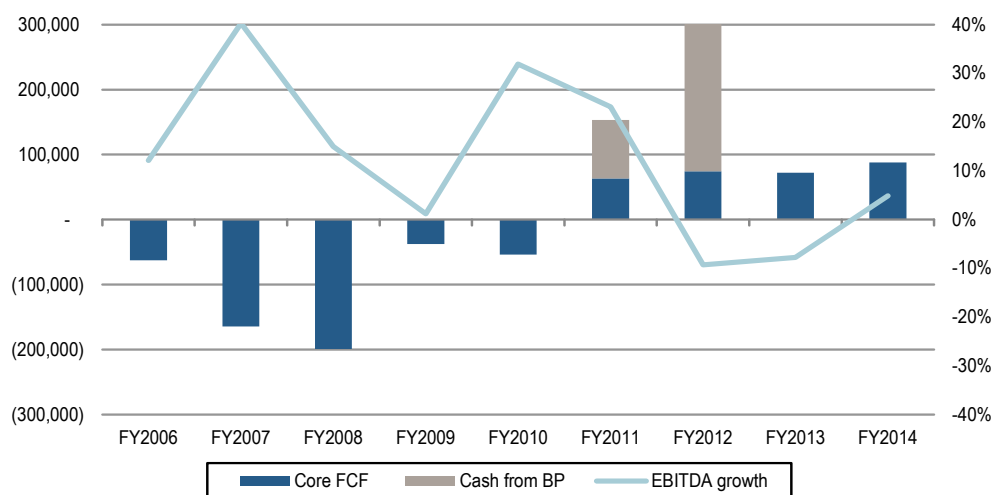
# Large cash generation

The FY12 ‘story’ for Reliance was the large amounts of free cash the company generated—through core operations (US\$1.2 bn) and through the sale of a 30% stake in E&P assets to BP (US\$4.4 bn). RIL’s cash + investments (consolidated) increased US\$5.2 bn in FY12.

EBITDA fell 9% YoY (on the stake sale, and flat commodity earnings), though higher net other income (post interest costs) meant PBT was flat. Over the past few years, RIL’s EBITDA growth has generally been negatively correlated to FCF generation—EBITDA grew sharply when FCF was negative, and has fallen when RIL is generating large FCF. This to us reflects the cyclical nature of the business. When commodity margins and demand improve, companies invest large amounts in new capacity (RIL’s new refinery for example) and reduce investment when margins/demand weaken—as now.

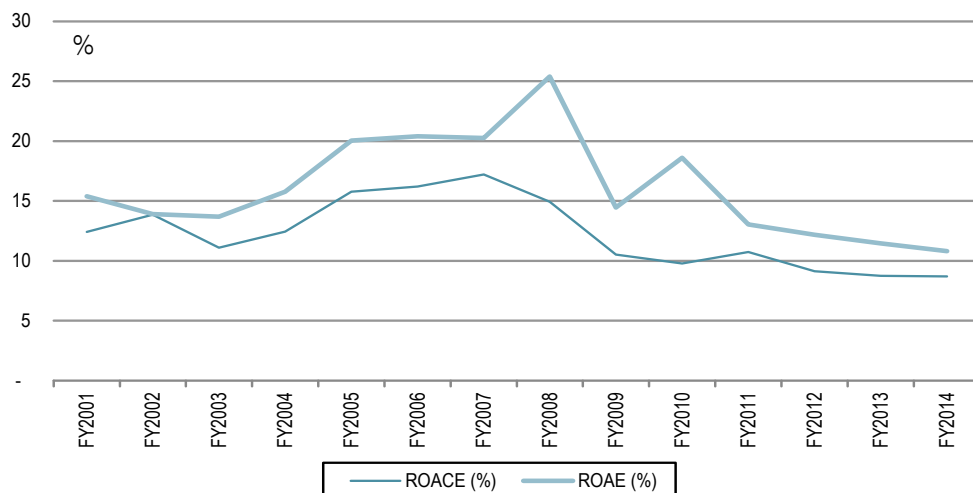
RIL’s challenge, in our view, is to find investment opportunities while the outlook for its core commodity businesses remains ‘muddled’ at best. RIL has initiated work on a large petchem expansion at Jamnagar, but we think it has the capacity to spend more. Clarity on EBITDA growth is critical to improving stock valuations, in our view.

**Figure 2: RIL generated large FCF in FY12, helped by the sale to BP**



Source: Company data, Credit Suisse estimates

**Figure 3: RIL's returns have continued to trend down, and are likely to remain weak**



Source: Company data, Credit Suisse estimates

## Oil and gas reserves—less and more

RIL reduced the Proved Reserves numbers it carries on balance sheet (and which are used for calculation of depletion charges) due to the reduced potential of the D1/D3 fields and the sale of a 30% stake in the fields to BP.

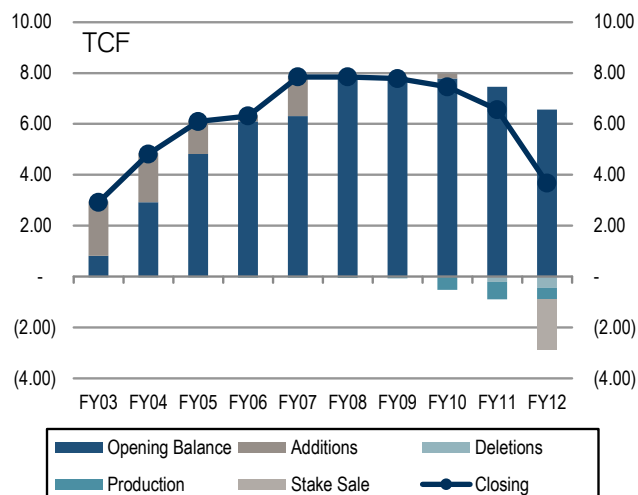
### Natural gas

Total Proved Developed reserves (that part of 1P reserves that can be produced using existing infrastructure, or with minimal additional investment) were reduced by c.1.4 TCF (on an opening balance of 3.8 TCF). This large cut, we think, reflects the understanding (as suggested by RIL recently) that gas volumes outside the main channel in D1/D3 are not connected to the 18 wells that have been drilled. Another 1 TCF of such reserves were reduced due to the sale to BP. On paper, residual Proved Developed gas reserves represent about two years of production at FY12 run rates. This is low, and suggests that without near-term work at the fields, output may continue to decline.

Total Proved Natural gas reserves, however, fell only c.0.4 TCF; this means Proved Undeveloped reserves (the portion of 1P that needs additional wells to be produced) increased by about 1 TCF. This we think is likely to be addition of reserves at the R-series fields in D6 (for which the Declaration of Commerciality was approved by the government early 2012).

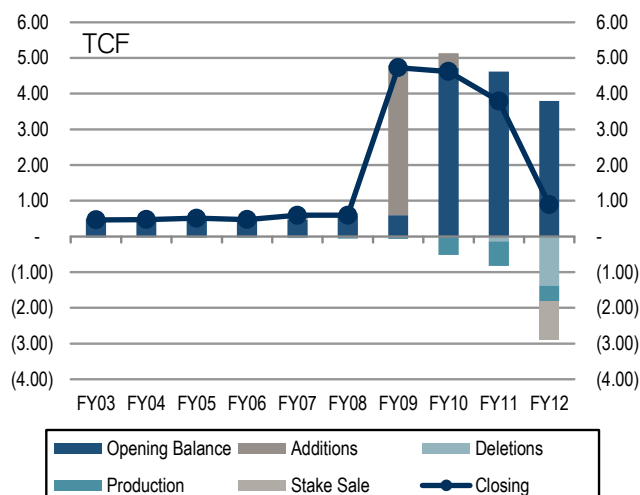
Without this addition, total Proved Reserves would have fallen more, which would have increased depletion charges in the P&L near term.

**Figure 4: RIL: Natural gas Proved reserves**



Source: Company data, Credit Suisse estimates

**Figure 5: RIL: Natural gas Proved Developed reserves**



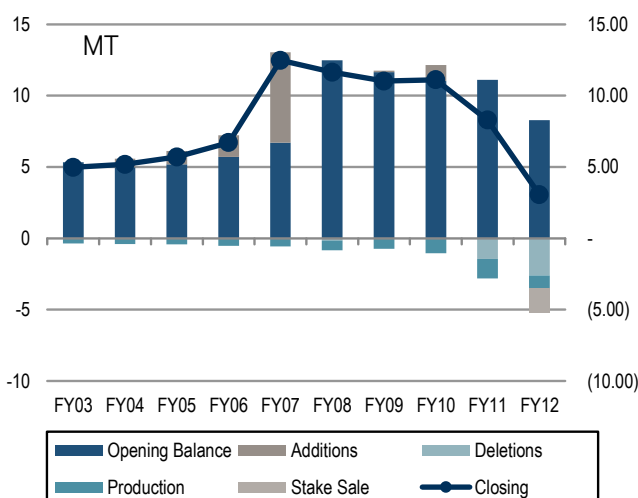
Source: Company data, Credit Suisse estimates

**Crude oil**

Crude oil reserves were also reduced for the sale to BP, and saw material deletion on re-evaluation. Total Proved reserves fell by about 2.6 MT on a base of 8.3 MT. There were no additions to total Proved Undeveloped reserves for oil.

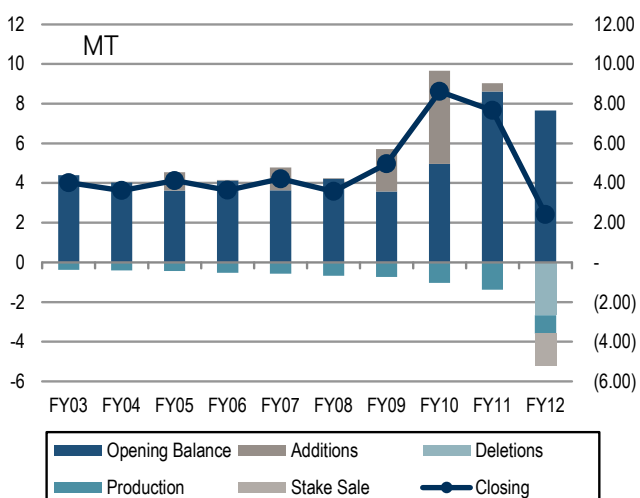
Total Proved oil reserves are about three years of FY12 production; this perhaps reflects declines at the MA oil (gas condensate) field and the ageing of the PMT.

**Figure 6: RIL: Crude oil Proved Reserves**



Source: Company data, Credit Suisse estimates

**Figure 7: RIL: Crude oil Proved Developed reserves**



Source: Company data, Credit Suisse estimates

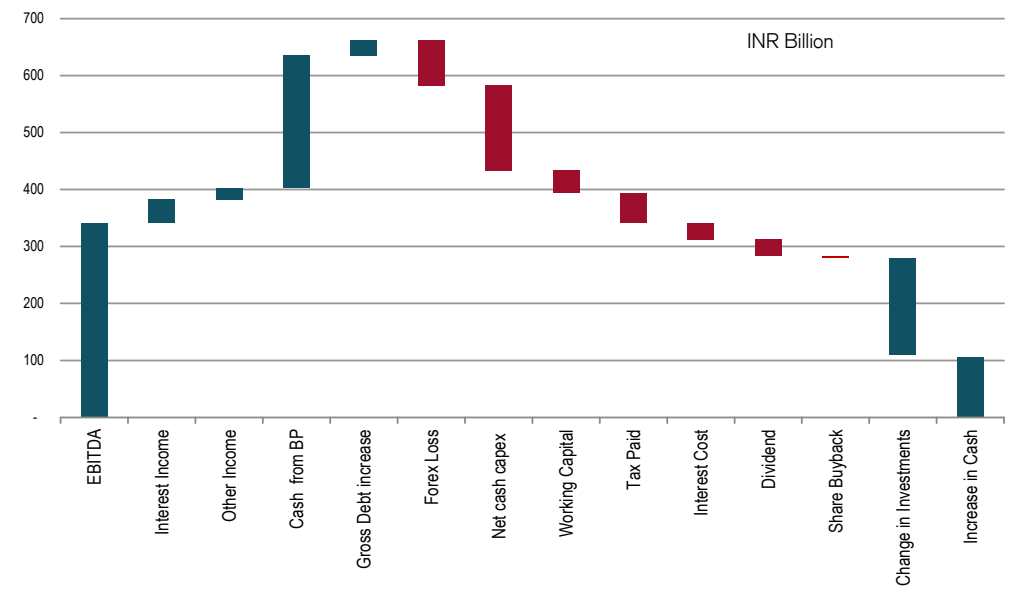
**Consolidated cash flow**

RIL's core EBITDA fell 9% YoY, due to the sale of a 30% stake in the E&P business to BP, weaker E&P volumes, flattish refining/petchem earnings and higher unallocable costs. Interest income increased Rs24 bn YoY, and non interest other income increased Rs11 bn (in total about US\$700 mn) which helped keep PBT flat YoY despite marginally higher interest costs in the P&L.

RIL has booked a foreign exchange loss of Rs79 bn—leading to higher INR debt amounts and higher fixed assets. Without this, RIL's total debt would have declined Rs53 bn (US\$1 bn) in FY12. Cash capex for the year was Rs163 bn (US\$3.1 bn), though this includes

amounts paid for FY11 capex of Rs14.5 bn (US\$270 mn). Net working capital changes were at Rs39 bn, while taxes, dividends and interest totalled c.US\$2 bn of spending. RIL's cash + investments increased c.Rs275 bn (US\$5.2 bn) in FY12. RIL received c.US\$4.4 bn from BP as the deal closed in FY12.

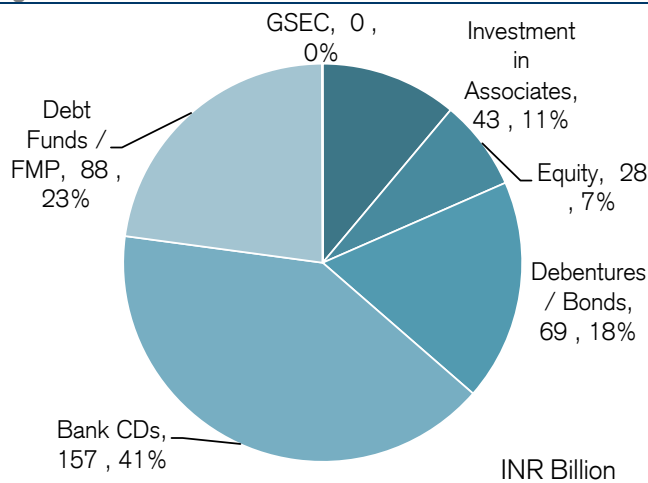
**Figure 8: RIL's consolidated cash flow summary**



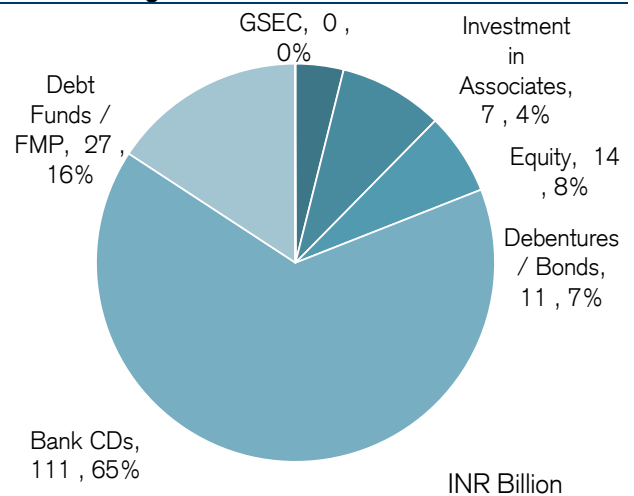
RIL's balance sheet debt has increased largely due to the impact of a weaker INR

Source: Company data, Credit Suisse estimates

**Figure 9: FY12 current + non-current investments**



**Figure 10: Change in current + non-current investments**

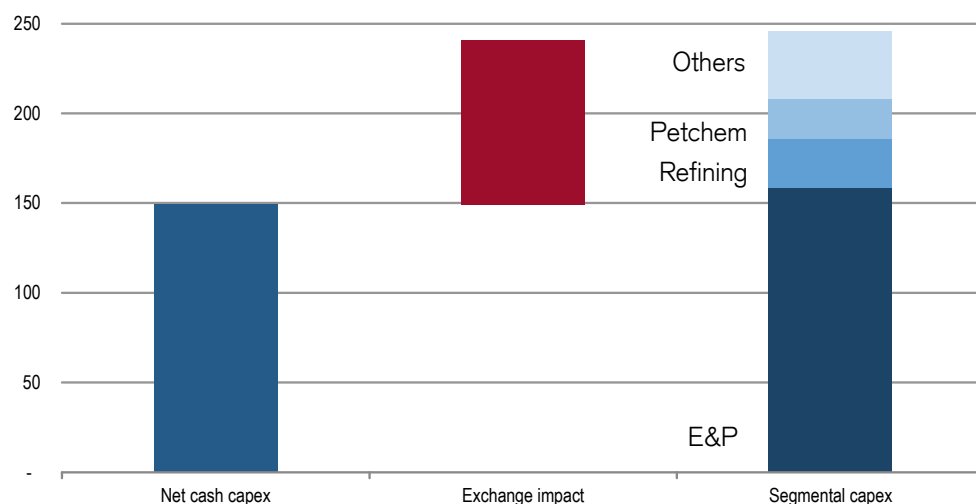


Source: Company data, Credit Suisse estimates

Source: Company data, Credit Suisse estimates

RIL's cash balances increased c.US\$2 bn in FY12, most of which are in short-term fixed deposits with banks. Investments grew Rs170 bn (US\$3.2 bn); a majority (US\$2 bn) of which were invested in Certificates of Deposits with banks. RIL also invested a net Rs6.6 bn in associate companies (on a consolidated basis).

Figure 11: Capex reconciliation



Source: Company data, Credit Suisse estimates

## Negative net interest costs in the P&L

For FY12, RIL booked a net other income (interest + other income less interest cost) of Rs29 bn in the P&L, but cash + investments (c.Rs800 bn) were slightly less than total debt (long term + short term of Rs826 bn) at end-FY12. Even if we add back the Rs4.3 bn of interest costs capitalised, RIL's net other income (in the P&L) would be a healthy Rs24 bn (US\$450 mn).

This is a result of RIL's borrowing mostly being in foreign currency with low headline interest rates, while it earns interest on investments in India (where bank rates are high). RIL's effective interest rates have averaged 4-5% over the past three years. This profile, however, is accompanied by large foreign exchange volatility (for e.g, RIL capitalised exchange losses of Rs79 bn in FY12). Under Indian rules, RIL is allowed to capitalise losses due to foreign exchange movements. Adjusting for these, we estimate RIL's effective interest costs have averaged c.8.6% over the past seven years, slightly ahead of the average other income yield of 8.1%. Until IFRS-based accounting is introduced, RIL's reported profit numbers may continue to benefit from this currency mismatch.

Most of RIL's Revenue/EBITDA are US-dollar linked, and a depreciating currency helps RIL's INR EBITDA. It therefore makes sense for RIL to borrow in the USD despite potential currency depreciation. Additionally, the large size of RIL's borrowings may require sources of liquidity more than the Indian banks may be able to provide. Also, as seen by the latest US\$2 bn ECA financing, RIL is able to raise funds cheaper than almost all Indian banks.

Figure 12: RIL's average other income yields

(Rs mn)	FY06	FY07	FY08	FY09	FY10	FY11	FY12
Other income	2,380	3,677	7,623	5,853	4,588	8,608	19,570
Interest income	4,920	2,835	4,462	14,561	17,162	17,416	41,670
Cash	26,164	19,370	44,742	227,421	138,908	301,390	407,310
Investments	66,668	52,680	95,229	64,355	134,046	218,885	390,680
Interest income / cash	15.8%	12.5%	13.9%	10.7%	9.4%	7.9%	11.8%
Other income / (cash + investments)	4.1%	7.9%	11.4%	9.5%	7.7%	6.6%	9.3%
7Y average interest yield							11.7%
7Y average other income yield							8.1%

Source: Company data, Credit Suisse estimates

**Figure 13: Effective interest cost estimates**

(Rs mn)	FY06	FY07	FY08	FY09	FY10	FY11	FY12
Total debt	233,428	336,265	506,685	762,566	646,055	841,062	826,350
Interest	9,346	12,323	10,865	18,163	20,596	24,107	28,930
Interest capitalised	6,368	8,131	16,592	33,969	9,838	10,234	4,300
Total interest paid	15,713	20,454	27,457	52,132	30,434	34,340	33,230
Headline average interest cost	7%	7%	7%	8%	4%	5%	4%
Total foreign exchange loss	(392)	(1,212)	(11,764)	121,230	(53,138)	(410)	79,240
Effective interest cost	15,321	19,241	15,693	173,362	(22,704)	33,930	112,470
Effective interest rate	7%	7%	4%	27%	-3%	5%	13%
7Y average interest costs							8.6%

Source: Company data, Credit Suisse estimates

## Employee costs continue to see large inflation

RIL's cost per employee increased 16% in FY12 after a 23% increase in FY11, while the total number of employees remained flat.

**Figure 14: RIL employee costs**

(Rs mn)	FY03	FY04	FY05	FY06	FY07	FY08	FY09	FY10	FY11	FY12
Total employee cost	6,608	8,064	8,576	14,693	25,909	27,382	30,176	27,909	33,240	39,550
No of employees	12,915	11,358	12,113	12,540	24,696	25,487	24,679	23,365	22,661	23,166
Cost/employee (Rs mn)	0.51	0.71	0.71	1.17	1.05	1.07	1.22	1.19	1.47	1.71
Growth		39%	0%	65%	-10%	2%	14%	-2%	23%	16%

Source: Company data, Credit Suisse estimates

## Investment in (Algae) biofuel ventures

The investment schedule indicates RIL invested Rs6.2 bn (US\$116 mn) in two biofuel ventures in the US. RIL invested Rs5 bn in Algenol LLC and R1.2 bn in Aurora Algae Inc. While the first company specialises in the use of algae for the production of ethanol, the second focuses on the technology and science of growing algae.

## Running out of revaluation reserves soon?

RIL re-valued assets by about Rs225 bn in FY06, leading to an increase in depreciation charge each year. This additional charge is not passed through the P&L, but is adjusted against the revaluation reserves on balance sheet.

In FY06, RIL also went through the process of demerger, reducing assets to the tune of Rs191 bn. This amount was reduced from the revaluation reserve. As a result, the revaluation reserve is worth much less than the additional depreciation that is still due over the next few years. RIL further devalued assets to the tune of Rs12.9 bn in FY09, replenishing the reserves, but also increasing the additional annual depreciation charge.

The revaluation reserve now holds Rs31 bn, while the annual deduction from it is about Rs23 bn. Without further revaluation, RIL can run out of reserves within six quarters. The additional depreciation charge may then hit the P&L, or may have to be written off against general reserves, affecting either EPS/net worth estimates.

It is possible though that the transition to IFRS and fair value accounting grandfather this issue, eliminating the problem altogether.



## Summary of larger subsidiaries

Figure 15: Major subsidiaries by PAT/PBT impact (over Rs50 mn)

No	Name of subsidiary company	Cur	Assets	Liabilities	Turnover	PBT	PAT	Country
1	Reliance Exploration & Production DMCC	INR	22,046	22,046	1,127	(3,850)	(3,850)	UAE
2	Reliance Fresh Limited	INR	50,077	50,077	38,604	(4,225)	(2,738)	India
3	Reliance Holdings USA, Inc.	INR	162,141	162,141	-	(559)	(1,567)	USA
4	Reliance Industrial Investments and Holdings	INR	121,530	121,530	7,331	(1,027)	(1,027)	India
5	Reliance Industries (Middle East) DMCC	INR	5,540	5,540	5,654	(587)	(587)	UAE
6	Reliancedigital Retail Limited	INR	7,519	7,519	12,340	(825)	(551)	India
7	Reliance Marcellus LLC	INR	46,685	46,685	1,373	(417)	(417)	USA
8	Reliance Haryana SEZ Limited	INR	46,105	46,105	968	(284)	(284)	India
9	Reliance Brands Limited	INR	1,509	1,509	309	(275)	(187)	India
10	Reliance Dairy Foods Limited	INR	2,150	2,150	4,277	(246)	(163)	India
11	Reliance Eagleford Midstream LLC	INR	11,337	11,337	-	(147)	(147)	USA
12	Reliance Trends Limited	INR	8,756	8,756	4,891	(165)	(114)	India
13	Reliance Leisures Limited	INR	1,591	1,591	968	(161)	(109)	India
14	Strategic Manpower Solutions Limited	INR	75	75	1,903	(51)	(107)	India
15	Reliance Progressive Traders Private Limited	INR	19,652	19,652	8	(84)	(84)	India
16	Reliance Financial Distribution and Advisory	INR	164	164	32	(4)	(76)	India
17	Reliance Food Processing Solutions Limited	INR	824	824	3	(115)	(76)	India
18	Gulf Africa Petroleum Corporation	INR	3,151	3,151	-	(71)	(71)	Mauritius
19	Reliance Home Products Limited	INR	152	152	408	(91)	(61)	India
20	Reliance Marcellus II LLC	INR	27,247	27,247	38	(58)	(58)	USA
21	Infotel Broadband Services Limited	INR	151,096	151,096	1	(53)	(53)	India
22	Delight Proteins Limited	INR	244	244	411	(71)	(47)	India
23	Reliance Autozone Limited	INR	331	331	269	(55)	(36)	India
24	RIL USA inc.	INR	27,008	27,008	278,020	62	61	USA
25	Reliance Industries Investment and Holding	INR	14,334	14,334	95	77	77	India
26	Gapco Uganda Limited	INR	1,484	1,484	6,721	266	211	Uganda
27	Reliance Strategic Investments Limited	INR	12,304	12,304	1,089	368	293	India
28	Recron (Malaysia) Sdn Bhd	INR	36,345	36,345	63,778	742	604	Malaysia
29	Gapco Tanzania Limited	INR	9,368	9,368	20,754	1,078	754	Tanzania
30	Gapco Kenya Limited	INR	10,136	10,136	57,652	1,199	819	Kenya
31	Reliance Jamnagar Infrastructure Limited	INR	25,491	25,491	3,954	2,352	2,352	India
32	Reliance Eagleford Upstream Holding LP	INR	81,570	81,570	12,169	4,345	4,345	USA

Source: Company data (all not listed)

## Reliance Retail—still making losses?

While we do not have consolidated accounts for Reliance Retail, the annual report provides summaries for each of the 47 individual companies in the group. Only four out of these 47 were profitable—out of which two seem to be related to petroleum marketing rather than consumer retail, and one seems to be in financial services. Of the core retail operations, only the gems and jewellery company has reported a profit on a standalone basis.

Reliance Fresh continues to report the largest standalone loss—at Rs2.7 bn for FY12.

**Companies Mentioned** (Price as of 10 May 12)  
 BP (BP.N, \$39.26, OUTPERFORM, TP \$53.00)  
 Reliance Industries (RELI.BO, Rs694.65, OUTPERFORM, TP Rs907.00)

## Disclosure Appendix

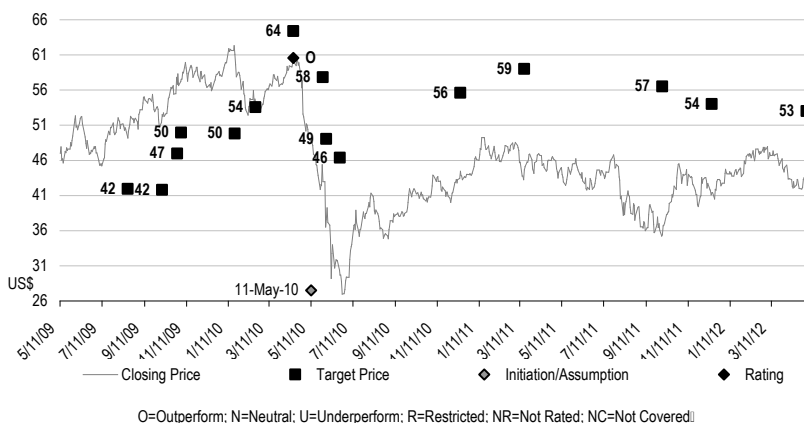
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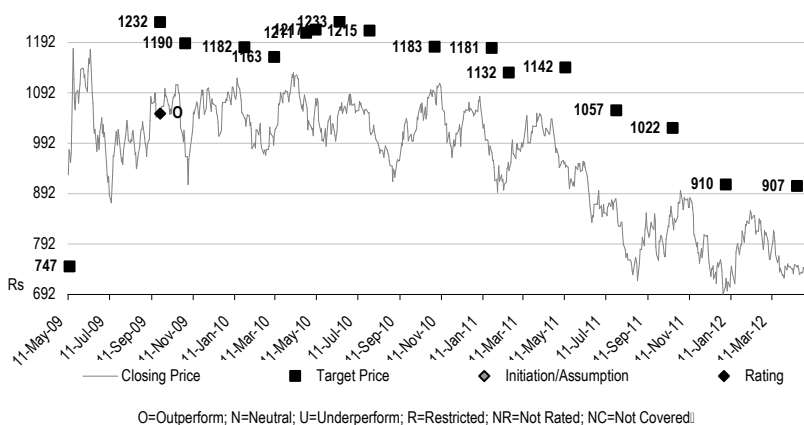
### 3-Year Price, Target Price and Rating Change History Chart for BP.N

BP.N Date	Closing Price (US\$)	Target Price (US\$)	Initiation/ Rating	Assumption
8/17/09	49.18	41.923		
10/6/09	52.5	41.784		
10/28/09	56.82	46.949		
11/3/09	57.55	49.924		
1/20/10	61.06	49.796		
2/19/10	54.3	53.554		
4/15/10	60.57	64.359	O	
5/11/10				X
5/28/10	42.95	57.798		
6/2/10	37.66	49.041		
6/22/10	29.68	46.35		
12/14/10	44.44	55.6		
3/17/11	44.68	59		
10/4/11	35.42	56.5		
12/15/11	41.39	54		
5/1/12	42.7	53		



### 3-Year Price, Target Price and Rating Change History Chart for RELI.BO

RELI.BO Date	Closing Price (Rs)	Target Price (Rs)	Initiation/ Rating	Assumption
13-May-09	968.95	747		
23-Sep-09	1,050.7	1232	O	
30-Oct-09	965.63	1190		
25-Jan-10	1,041.35	1182		
10-Mar-10	1010	1163		
26-Apr-10	1,068.75	1211		
10-May-10	1,080.8	1217		
14-Jun-10	1,063.35	1233		
28-Jul-10	1,020.25	1215		
1-Nov-10	1092	1183		
24-Jan-11	972.55	1181		
18-Feb-11	938	1132		
12-May-11	944.85	1142		
26-Jul-11	871.15	1057		
17-Oct-11	833.2	1022		
3-Jan-12	723.7	910		
17-Apr-12	746.4	907		



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**Neutral (N):** The stock's total return is expected to be in line with the relevant benchmark\* (range of ±10-15%) over the next 12 months.

**Underperform (U):** The stock's total return is expected to underperform the relevant benchmark\* by 10-15% or more over the next 12 months.

\*Relevant benchmark by region: As of 29<sup>th</sup> May 2009, Australia, New Zealand, U.S. and Canadian ratings are based on (1) a stock's absolute total return potential to its current share price and (2) the relative attractiveness of a stock's total return potential within an analyst's coverage universe\*\*, with Outperforms representing the most attractive, Neutrals the less attractive, and Underperforms the least attractive investment opportunities. Some U.S. and Canadian ratings may fall outside the absolute total return ranges defined above, depending on market conditions and industry

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Neutral/Hold*	41%	(57% banking clients)
Underperform/Sell*	10%	(51% banking clients)
Restricted	2%	

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**Price Target:** (12 months) for (BP.N)

**Method:** A combination of metrics, Sum of the parts analysis and Credit Suisse HOLT analysis is used to derive our \$54TP, assuming a long term oil price of \$90.

**Risks:** Short-term: commodities volatility, emerging market political tensions - especially Russia; Long-term: returns, oil & natural gas prices, refining margins.

**Price Target:** (12 months) for (RELI.BO)

**Method:** Our target price for Reliance Industries is Rs907. We value the company using our discounted cash flow (DCF) based sum-of-the-parts valuation. For our DCF valuation, we use a weighted average cost of capital (WACC) of 11.5%. Our DCF-based valuations for the core business - chemicals and refining - imply an EV/EBITDA (enterprise value/earnings before interest, tax, depreciation, amortisation) of 6.4x and 9.4x, respectively, for FY13. We value the existing known blocks in E&P at US\$5.6 bn, and the exploration at US\$1.8 bn for the reserves that have not been discovered. We add US\$2.5 bn for US Shale JVs in our SOTP.

**Risks:** Risks: There are risks on the downside to our Rs907 target price for Reliance Industries if: 1) There is a correction in equity valuations 2) lack of re-investment of the surplus cash resulting in lower ROEs; 3) gas reserves are lower than modelled; 4) refining margins remain subdued for an extended time frame

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