Change in ☐ Estimates ☐ Rating ☐ Target

Q2 FY15

Reliance Industries Ltd

IIFL
INDIA PRIVATE CLIENTS

- ✧ Revenues at Rs965bn, lower by 7% yoy driven by fall in refining and oil and gas segment sales
- ✧ OPM improves by 97bps yoy and 72bps qoq; yoy improvement was led by 87bps increase in refining segment margins, sequential improvement was led by 169bps rise in petrochemical EBIT margins
- ✧ GRMs were at US$8.3/bbl and was better than our expectations of US$8/bbl, GRMs saw 7.8% yoy rise while being lower by 4.6% qoq
- ✧ Shale gas EBIDTA continue to rise sequentially but revenues declined
- ✧ PAT at Rs57.4bn was better than our and street estimates owing to better than expected refining segment performance
- ✧ We maintain BUY rating with 2-year TP of Rs1,400

Result table (standalone)

(Rs m)	Q2 FY15	Q2 FY14	% yoy	Q1 FY15	% qoq
Net sales	**964,860**	**1,037,580**	(7.0)	**963,510**	**964,860**
Material costs	(782,750)	(881,800)	(11.2)	(788,460)	(782,750)
Purchases	(17,360)	(1,160)	1,396.6	(17,160)	(17,360)
Personnel costs	(9,320)	(8,080)	15.3	(9,290)	(9,320)
Other overheads	(73,080)	(68,050)	7.4	(73,300)	(73,080)
Operating profit	**82,350**	**78,490**	4.9	**75,300**	**82,350**
OPM (%)	***8.5***	***7.6***	***97 bps***	***7.8***	***8.5***
Depreciation	(22,270)	(22,330)	(0.3)	(20,240)	(22,270)
Interest	(7,580)	(8,050)	(5.8)	(3,240)	(7,580)
Other income	21,400	20,600	3.9	20,460	21,400
PBT	**73,900**	**68,710**	7.6	**72,280**	**73,900**
Tax	(16,480)	(13,810)	19.3	(15,790)	(16,480)
Effective tax rate (%)	***22.3***	***20.1***		***21.8***	***22.3***
PAT	**57,420**	**54,900**	4.6	**56,490**	**57,420**
PAT margin (%)	***6.0***	***5.3***	***66 bps***	***5.9***	***6.0***
Ann. EPS (Rs)	71.0	68.0	4.5	69.9	1.6

Source: Company, India Infoline Research

Segmental performance

Revenues (Rs mn)	Q2 FY15	Q2 FY14	% yoy	Q1 FY15	% qoq
Petrochemical	249,320	248,920	0.2	237,150	5.1
Refining	917,810	974,560	(5.8)	909,980	0.9
Oil and gas	13,800	14,640	(5.7)	15,570	(11.4)
EBIT margins (%)	**Q2 FY15**	**Q2 FY14**	**bps yoy**	**Q1 FY15**	**bps qoq**
Petrochemical	9.6	10.1	(42)	7.9	169
Refining	4.1	3.3	87	4.1	(2)
Oil and gas	24.1	24.3	(26)	31.3	(722)
Revenue contribution (%)	**Q2 FY15**	**Q2 FY14**	**bps yoy**	**Q1 FY15**	**bps qoq**
Petrochemical	21.1	20.1	102	20.4	71
Refining	77.6	78.5	(93)	78.1	(56)
Oil and gas	1.2	1.2	(1)	1.3	(17)
EBIT contribution (%)	**Q2 FY15**	**Q2 FY14**	**bps yoy**	**Q1 FY15**	**bps qoq**
Petrochemical	36.5	41.2	(474)	30.4	605
Refining	57.5	52.2	525	60.9	(339)
Oil and gas	5.0	5.9	(82)	7.9	(282)

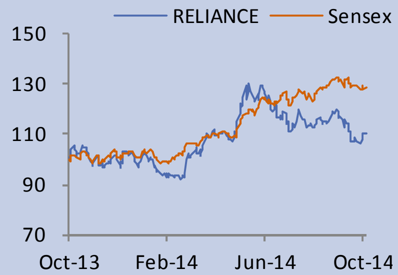
Source: Company, India Infoline Research

Rating:	BUY
Target (2-year):	Rs1,400
CMP:	Rs958
Upside:	46.1%

Sector:	**Oil & Gas**
Sector view:	**Neutral**
Sensex:	26,384
52 Week h/l (Rs):	1145 / 793
Market cap (Rscr) :	309,808
6m Avg vol ('000Nos):	3,377
Bloomberg code:	RIL IS
BSE code:	500325
NSE code:	RELIANCE
FV (Rs):	10

Price as on October 13, 2014

Share price trend



Share holding pattern

	Dec-13	Mar-14	Jun-14
Promoters	45.3	45.3	45.3
Institutions	29.7	29.9	30.8
Others	25.0	24.9	23.9

Research Analyst:
Prayesh Jain
research@indiainfoline.com

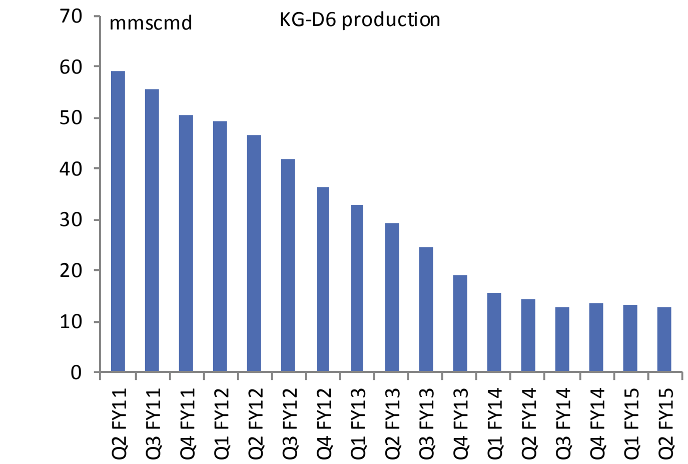
October 14, 2014

Result Update

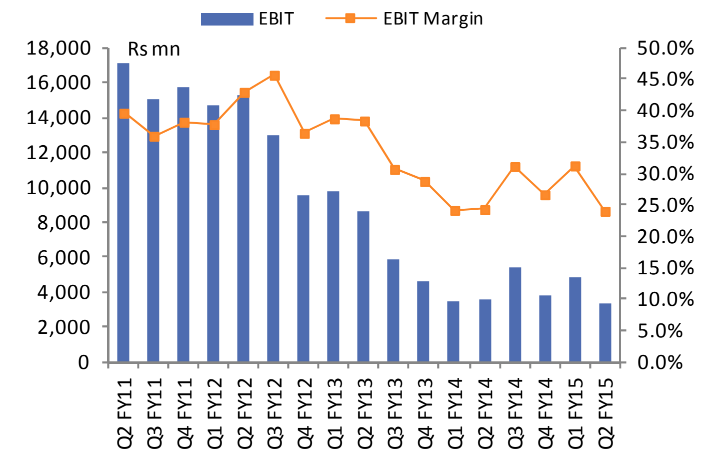
E&P segment: A steady performance

KG-D6 gas production continued to fall and during Q2 FY15, the production averaged 12.8mmscmd as compared to 13.2mmscmd in Q1 FY15. On yoy basis the volumes were lower by 10.4%. Both crude oil and natural gas production at Panna-Mukta fields were flattish on a yoy basis as the natural decline was arrested owing to the production from an infill well in Panna L and Panna G drilled in Q1 FY15. Tapti field however continued to see natural decline. Revenues from the segment (standalone) were lower by 5.7% yoy owing to fall in production and rupee appreciation on yoy basis. EBIT margins for the segment were lower by 26bps yoy and 722bps qoq. Going ahead, the company has planned to arrest the decline in production but awaits key approvals from the government including budget approvals for capital expenditure.

Trend in KG-D6 gas production



Trend EBIT margins of E&P segment



Source: Company, India Infoline Research

Update on E&P fields

KG-D6

Onshore Terminal Booster Compressor (OTBC)

- Compressors and Gas Turbine package installed on foundation. Construction activities underway
- Working towards commissioning of 2 compressors by H1 2015

Activities in D1-D3 and MA to augment production

- Results of initial interventions (water shut off jobs) in D1- D3 field not as per expectation
  - Revival actions in these wells are being considered post commissioning of OTBC
- Currently intervention activities being planned in the D1- D3 field include side track and substitute wells
- Based on successful side track in MA6H well, side track options are being considered in other MA field wells

R-Cluster development

- FEED and Geo-mechanical studies completed
- Contracting activity underway for the long lead items, EPIC and deepwater rig
- Clarity on gas price required for FID

Update on D55 discovery

- Successful appraisal of North segment by well MJ-A1
- Appraisal well MJ-A2 in East segment did not encounter hydrocarbon
- Drilling of third appraisal well MJ-A3 is under way to appraise southern portion of central segment
- Appraisal period available up to May 2016

Panna-Mukta Block

- Work-overs planned in Panna-Mukta fields to arrest decline
- MB Development - rig contract in place, drilling to commence during 2015, EPIC execution underway – first oil expected by 1Q FY16
- Abandonment activity process in Tapti field underway – Concept selection and FEED planned

Other domestic exploratory blocks

- CB-10 – Entry into Phase II discussion with DGH underway
- CY-D5 – Appraisal program submitted, under discussion with DGH
- NEC-25 – DST proposal submitted – waiting for Government directions

International Ventures

- Current portfolio comprises of 3 blocks – 2 in Yemen and 1 in Peru
- Discussions are underway with Myanmar Government for signing PSC of 2 blocks (M17 and M18) awarded to RIL in March 2014

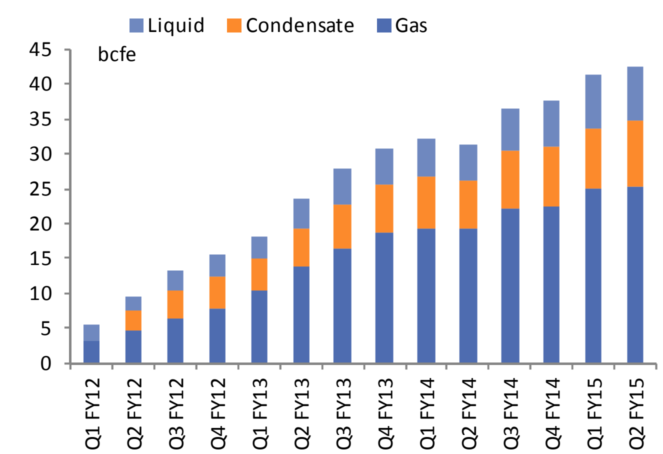
CBM

- Phase 1 development on track - more than 60% of project activity completed
- On track to achieve first gas by mid 2015
    - Land acquisition completed for 193 Well sites out of 229
    - Land acquisition for GGS and WGS completed
    - ROU for infield pipeline available for 30.5 KM out of 225 KM
    - 3 rigs is in operation
    - Completed drilling of 135 surface holes, 114 production holes and performed 82 hydro-fracturing jobs out of 229 wells as part of Phase 1

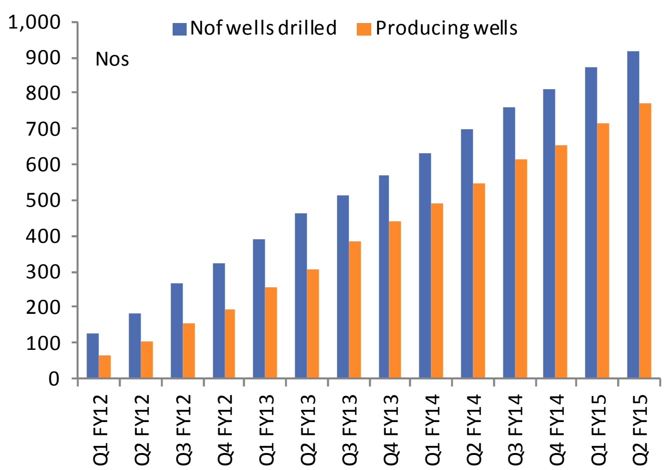
Update on shale gas assets

- For Q2 FY15, RIL's revenues and EBIDTA from shale gas business were at US$244mn and US$202mn
- While revenues grew lower than production owing to fall in realizations, EBIDTA grew faster than volumes due to lower opex across all JVs.
- Reliance share of net sales volumes at 42.9 Bcfe up 35% yoy and 2.4% qoq
- Capex for the quarter was at US$321mn taking the cumulative investments to over US$7.7bn across all JVs

Trend in RIL's share of sales volume



Trend in number of wells drilled



Source: Company, India Infoline Research

Status of individual shale gas assets

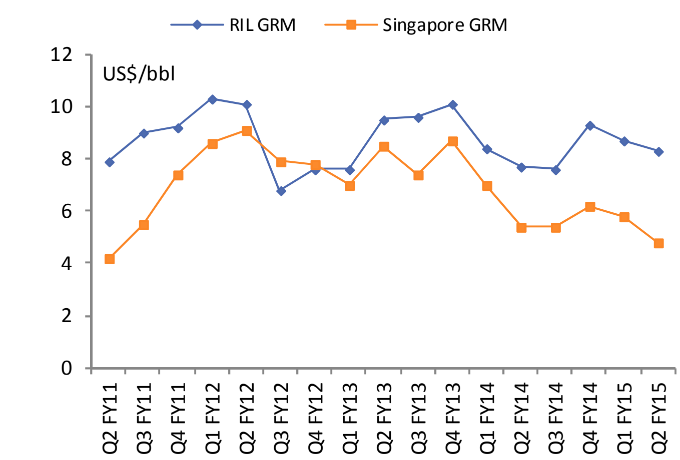
Particulars	Pioneer JV	Carrizo JV	Chevron JV	TOTAL
Average Rigs in operation	9	-	2	11
Wells Drilled in 2Q FY15	30	-	16	46
Wells put online in 2Q FY15	35	2	20	57
Total Wells Drilled (Inception-to-date)	502	98	319	919
Total Wells Hooked up(Inception-to-date)	469*	77	225	771
Gross JV Avg. production (MMscfed) 2QFY15	704	143	346	1,193
% Production Growth YoY (2QFY15 – 2QFY14)	36%	38%	35%	36%
Total Investments (Inception-to-date) ($ Billion)	4.1 (incl. EFS midstream)	0.9	2.7	7.7
Continued progress on ongoing value creation initiatives across all JVs *Focus remains on high-grading of development activity, improving costs and delivering efficiencies* * Includes 2 abandoned wells	• Uniquely positioned to capitalize on the Stabilized Condensate export opportunity. • Development growth momentum strong, meeting expectations. • Midstream constraints resolved. • Production growth strong – up 5% QoQ and 36% YoY in 2QFY15. • Continued focus on Down-spacing and Middle EF development across liquid rich areas.	• NEPA development maturing. • Down-spacing / infill drilling presents upside potential. Evaluation of test drilling results ongoing. • NEPA wells performing inline or above expectation. Current production below true well potential. • Capex momentum slowing; JV has positive cash from operations in 2014.	• Strong well performance trend continued. • Improving capital and operational efficiency remain a key focus area. • New completion practices implemented; Expected to result in higher IP / EUR	

Source: Company

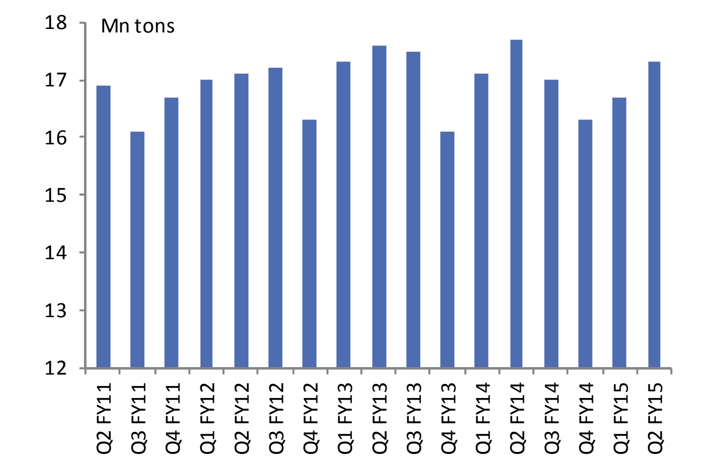
Refining segment: better than expected performance

RIL reported GRMs of US$8.3/bbl in Q2 FY15 as against US$7.7/bbl in Q2 FY14 and US$8.7/bbl in Q1 FY15. The GRMs were above our estimates of US$8/bbl. GRMs fell lesser than benchmark Singapore GRMs and the spread improved by US$0.6b/bbl on a sequential basis and US$1.2/bbl on yoy basis. The sequential fall in GRMs was on the back of weakness in gasoil and gasoline cracks. This was partially offset by strength in jet kero cracks. Improved heavy light differential and Brent-Dubai spread led to outperformance when compared to the Singapore GRM. The two refineries processed 17.3mn tons of crude as against 17.7mn tons in Q2 FY14 and 16.7mn tons in Q1 FY15. Throughput was higher on account of maintenance shutdown in the previous quarter. Revenue for the segment was lower by 5.8% yoy owing to lower product prices and fall in throughput. EBIT margins for the segment at 4.1% were higher by 87bps yoy but remained flat sequentially.

Trend in RIL's GRMs



Trend in throughput



Source: Company, India Infoline Research

Update on Petcoke gasification project

- Significant progress made on engineering work, on the verge of completion
- Ordering of almost all equipment achieved
- Construction work in full swing at the Jamnagar site
- Major equipment erection has commenced in accordance with plan

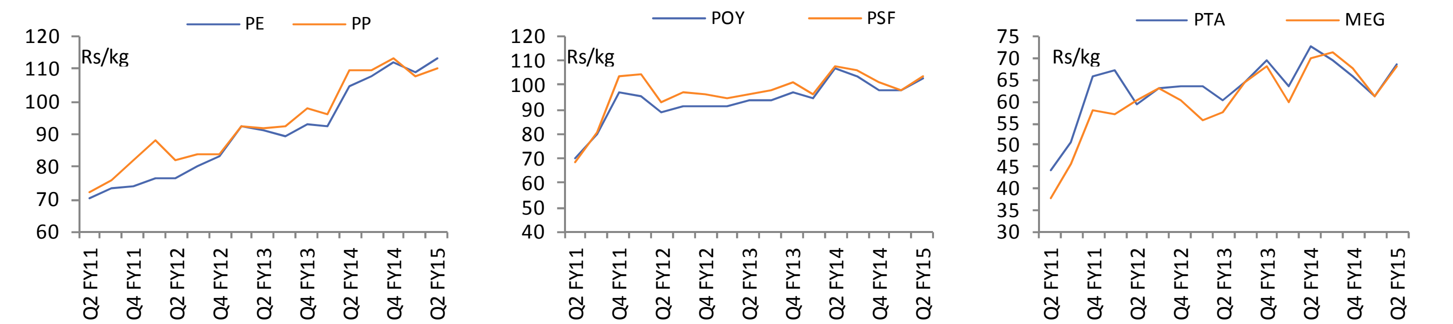
Outlook for GRMs

- Demand outlook continues to be cautious but is showing signs of improvement, especially so in US. Recent data from Europe has been encouraging as well. IEA estimates about 1mb/d addition to demand every year over the next three years driven by rising demand from emerging economies.
- On the supply side, capacity additions are expected to keep up pace with incremental demand. However, closures of refineries in Europe and stress on teapot refineries in China will keep a check on supply additions. Middle East is expected to emerge as a major product exporter.
- For RIL, we expect GRMs to improve gradually over FY14-16.
- The company plans to start 250 retail outlets in the near term and the scale up would happen based on the government's pricing action with regards to diesel.

Petrochemical segment

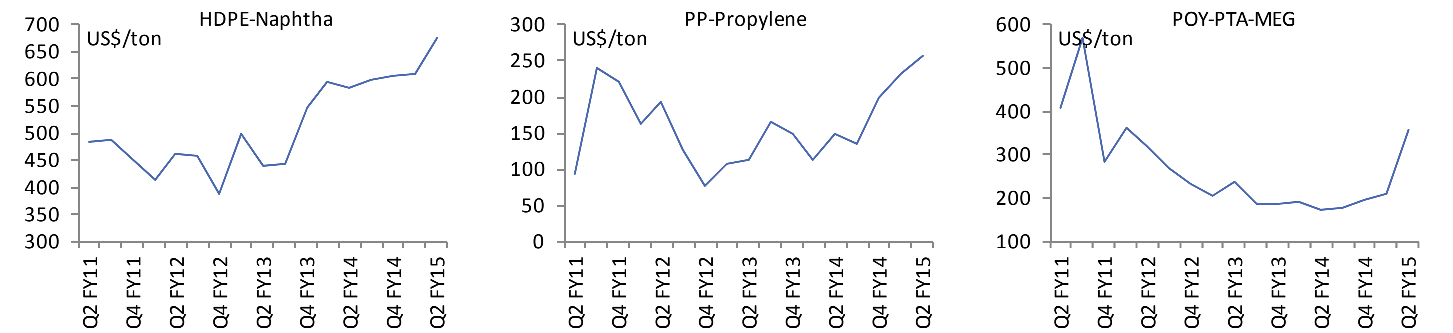
During Q2 FY15, petrochemical segment revenues were flat on yoy basis but were higher by 5.1% qoq. In terms of yoy performance, fall in volumes was offset by higher realizations. However, on a sequential basis, both volumes and realizations were higher. Volumes were higher on the back of new capacities commenced during the quarter. EBIT margin for the segment at 9.6% was lower by 42bps yoy but jumped 169bps qoq. Sequential strength in margins came in on two counts 1) lower feedstock prices in line with the fall in crude oil prices and 2) strength in polymer spreads given that ethylene plants went under unplanned shutdowns. Demand has also been strong in domestic markets and international market particularly in China.

Trend in petrochemical prices



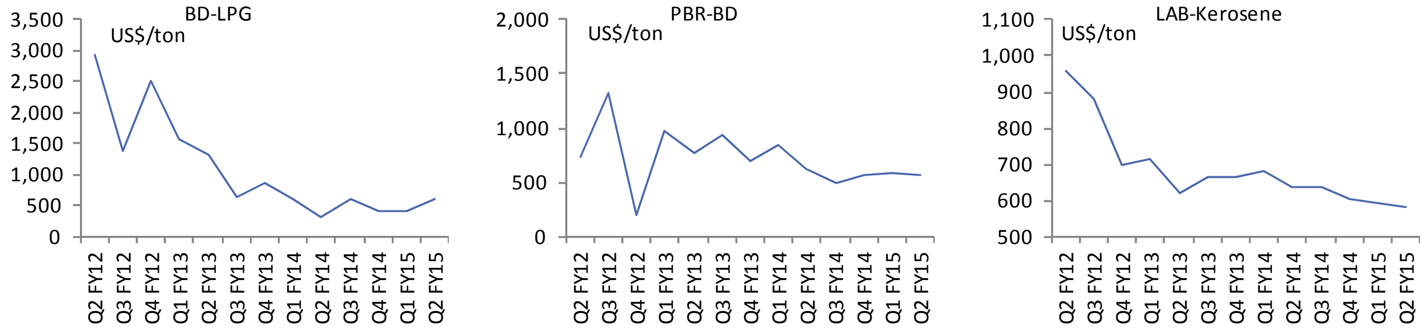
Source: Company

Trend in petrochemical deltas



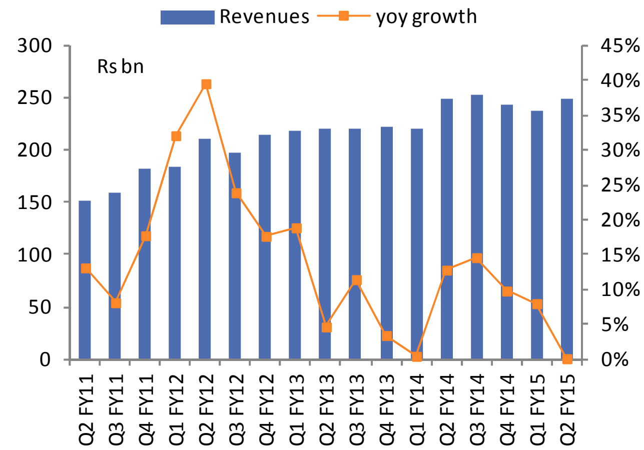
Source: Company

Chemical product deltas

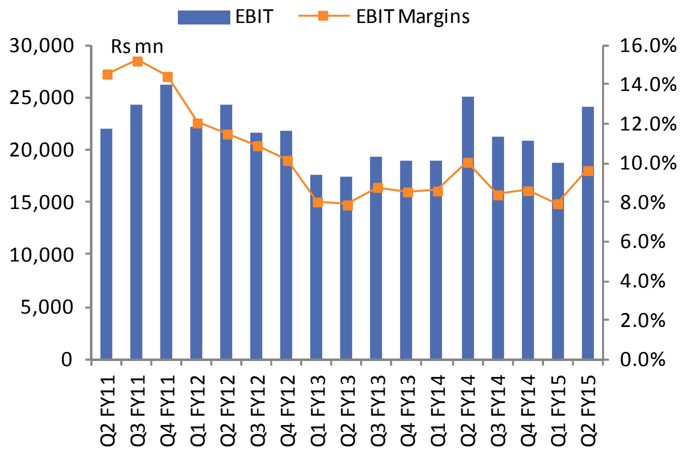


Source: Company

Petchem revenues flat on yoy basis



EBIT margins for petchem improve sequentially



Source: Company, India Infoline Research

Outlook for petrochemical segment

Petrochemical prices have been trending weak in the recent past owing to rising capacities. Going ahead, while demand is expected to recover, capacity addition is expected to surpass incremental demand. The new capacities are based on low cost gas, which will further put pressure on margins. Closure of select plants in Japan and Europe would provide some support to the falling spreads. The polyester chain is expected to recover with reversal in cotton prices on the back of rising demand. Integrated players such as RIL would continue to post a relatively better performance.

RIL has planned substantial investments across the petrochemicals chain which includes a pet-coke gas cracker that will enhance margins for the company. The company envisages that petrochemical production from the Jamnagar complex as a percentage of crude processed will increase from 7.2% currently to 13.7% indicating substantial improvement in value addition. The company is also expanding capacities in the chemicals division.

The company is setting up an offgas cracker which will have costs much lower than its existing plans which would commence operations in FY17. Also the company has entered into long term understanding to import ethane from US which provides it flexibility to switch feedstock for its petrochemical plants. Also it will provide consistent source of feedstock.

Consolidated results – strong performance

Financial results

(Rs m)	Q2 FY15	Q2 FY14	% yoy	Q1 FY15	% qoq
Net sales	**1,097,970**	**1,154,910**	(4.9)	**1,046,400**	4.9
Material costs	(802,180)	(938,440)	(14.5)	(798,290)	0.5
Purchases	(85,260)	(33,100)	157.6	(53,080)	60.6
Personnel costs	(15,750)	(14,090)	11.8	(14,800)	6.4
Other overheads	(96,600)	(80,630)	19.8	(90,340)	6.9
Operating profit	**98,180**	**88,650**	10.8	**89,890**	9.2
OPM (%)	***8.9***	***7.7***	***127 bps***	***8.6***	***35 bps***
Depreciation	(30,240)	(27,960)	8.2	(27,820)	8.7
Interest	(9,970)	(9,590)	4.0	(5,050)	97.4
Other income	20,090	23,460	(14.4)	19,740	1.8
PBT	**78,060**	**74,560**	4.7	**76,760**	1.7
Tax	(18,820)	(16,070)	17.1	(17,650)	6.6
Effective tax rate (%)	***24.1***	***21.6***		***23.0***	
Other provisions / minority etc	480	240	100.0	460	4.3
Adjusted PAT	**59,720**	**58,730**	1.7	**59,570**	0.3
Adj. PAT margin (%)	***5.4***	***5.1***	***35 bps***	***5.7***	***(25) bps***
Reported PAT	**59,720**	**58,730**	1.7	**59,570**	0.3
Ann. EPS (Rs)	73.9	72.7	1.6	73.7	0.2

Source: Company, India Infoline Research

Segmental performance

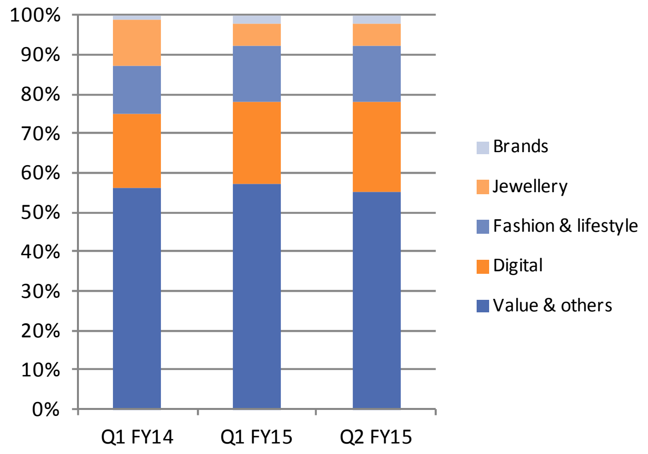
Revenues (Rs mn)	Q2 FY15	Q2 FY14	% yoy	Q1 FY15	% qoq
Petrochemical	266,510	271,280	(1.8)	253,980	4.9
Refining	1,035,900	1,100,450	(5.9)	980,810	5.6
Oil and gas	30,020	26,820	11.9	31,780	(5.5)
Organized retail	41,670	34,700	20.1	39,990	4.2
Others	24,550	12,990	89.0	17,720	38.5
EBIT (Rs mn)	**Q2 FY15**	**Q2 FY14**	**% yoy**	**Q1 FY15**	**% qoq**
Petrochemical	23,610	23,810	(0.8)	18,630	26.7
Refining	38,440	32,430	18.5	38,140	0.8
Oil and gas	8,180	9,560	(14.4)	10,420	(21.5)
Organized retail	990	700	41.4	810	22.2
Others	2,720	1,200	126.7	1,160	134.5
EBIT margins (%)	**Q2 FY15**	**Q2 FY14**	**bps yoy**	**Q1 FY15**	**bps qoq**
Petrochemical	8.9	8.8	8	7.3	152
Refining	3.7	2.9	76	3.9	(18)
Oil and gas	27.2	35.6	(840)	32.8	(554)
Organized retail	2.4	2.0	36	2.0	35
Others	11.1	9.2	184	6.5	453

Source: Company, India Infoline Research

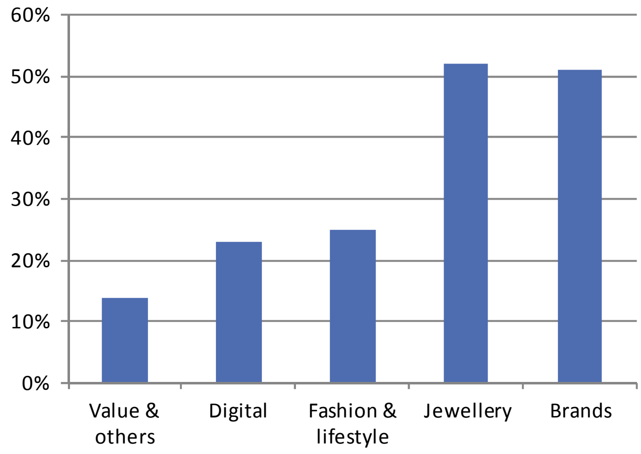
Retail segment performance continues to improve

Retail segment revenues for Q2 FY15 were higher by 20.1% yoy while like-for-like growth was at 21% yoy. In terms of profitability the segment reported an EBIT of Rs990mn as compared to Rs700mn in Q2 FY14. PBIDT was at Rs1,860mn as compared up 96% yoy. The improvement was on the back of better gross margins across the segments. The company has focused on enhancing its inventory management and has also been able to increase the penetration of its own brands. Benefits of operating leverage and higher contribution of better margin digital and fashion segment provided additional boost to the margins. During the quarter the company added 283 stores at net level.

Contribution of Digital and fashion increase



Jewellery segment bounces back



Source: Company, India Infoline Research

Other income in line with expectation

For Q2 FY15, RIL reported other income of Rs21.4bn a growth of 3.9% yoy and 4.6% qoq. While available cash balance was lower yields were better. Other income accounted for 29% of PBT as compared to 30% in Q2 FY14. Company currently has Rs835bn of cash and cash equivalents a. Depreciation was lower on a yoy basis owing to implementation of new rules in the new companies act whereby the depreciable life of certain assets has been increased. On a qoq basis, depreciation was higher due to the capitalization of petrochemical assets which commenced operations.

PAT better than estimates

RIL reported a PAT of Rs57.4bn better than our expectations of Rs56.6bn. At the segment level while EBIT performance of petrochemical segment was in line with expectation, refining segment reported better than estimated which had an offsetting impact. Marked reduction in interest costs (stability in rupee) and lower depreciation (change in depreciation rules under companies act) resulted in better than estimated net profit. With lower contribution of other income the quality of earnings has also improved considerably.

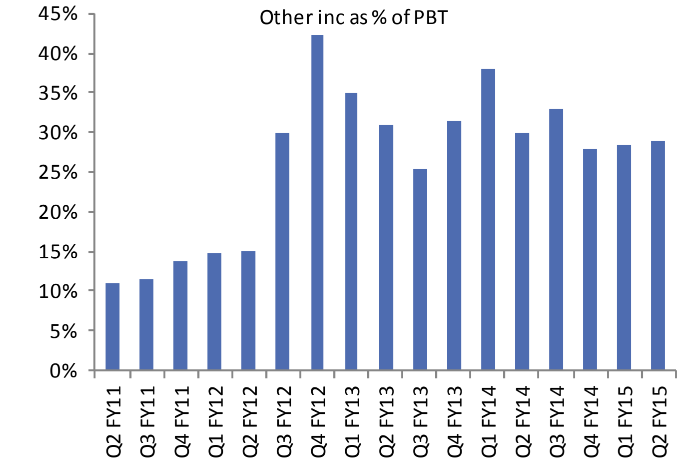
Maintain BUY

Over the past few months RIL has underperformed the broader market rally. One of the prime reasons for the same has been a weak performance of its E&P segment plagued by falling gas production and bureaucratic issues. Over the next three years, we believe, these core businesses will drive a strong 25% CAGR in standalone EBIDTA on the back of commencement of large scale projects - off gas cracker and petcoke gasification.

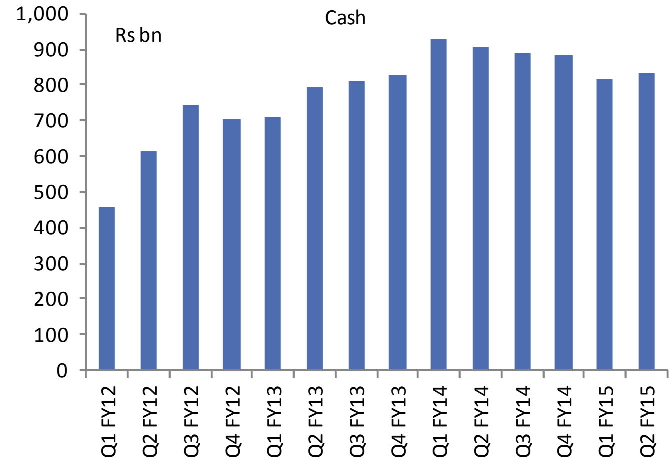
The petcoke gasification project whereby RIL is investing US$4bn is expected to commence operations in FY17. Commencement of this project will allow RIL to replace expensive RLNG with gas produced from petcoke leading to incremental US$2/bbl GRM (management guidance of US$2.5/bbl). Off gas cracker will provide a consistent low cost supply of feedstock to the petrochemical plants where RIL is increasing its capacity. While the global environment has been moderately improving form GRMs and petrochemical spreads, RIL will outperform the benchmarks by a significant margin.

The E&P segment, which has gone through its share of trials and tribulations, is likely to see a revival in fortunes with gas price hike, moderate increase in production at KG-D6, commencement of production at new fields and possible exploration upsides from current exploration activities. Shale gas on the other hand will continue to show robust growth in revenues and profitability as both volumes and gas prices head north. While Telecom business might achieve EBIDTA breakeven in three years considering its asset light model, Retail business will show improved trend in profitability. P/E valuations of 10.4x on FY16E earnings is much below RIL's historical average and we believe a re-rating is due given strong earnings growth profile in the coming years. We maintain BUY with a 2-year price target of Rs1,400.

Other income falls as % of PBT

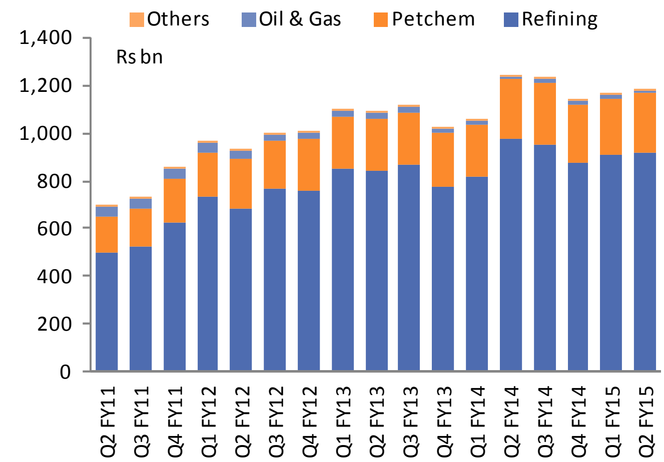


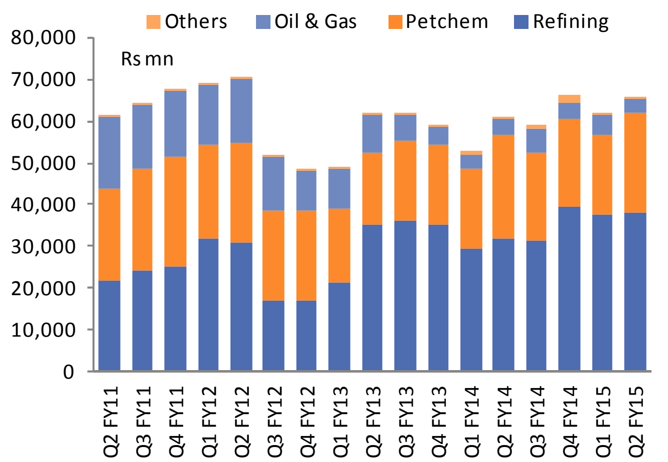
Cash balance declines sequentially due to capex



Source: Company, India Infoline Research

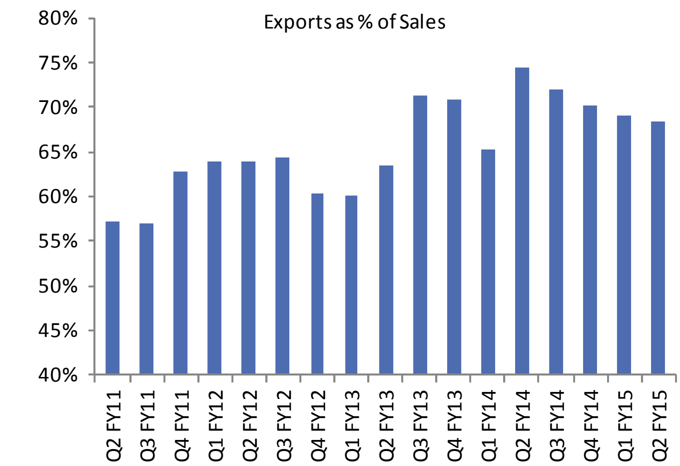
Revenue and EBIT contribution of refining segment surges



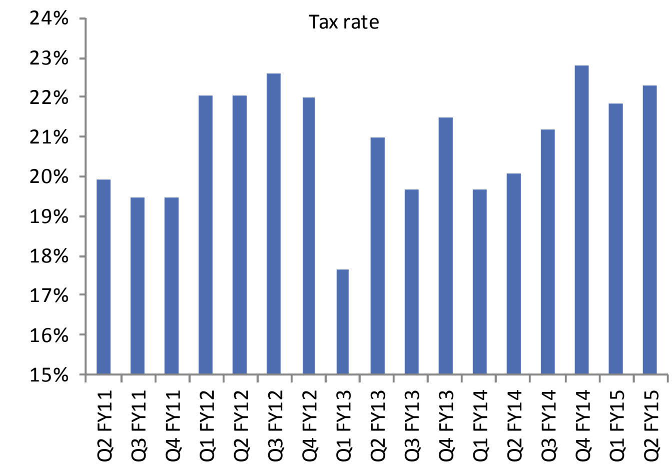


Source: Company, India Infoline Research

Steep rupee depreciation drives export revenues



Effective tax rate was at 21.8%



Source: Company, India Infoline Research

Financial Summary (Standalone)

Y/e 31 Mar (Rs m)	FY14	FY15E	FY16E	FY17E
Revenues	3,901,170	4,093,217	4,236,264	4,454,038
yoy growth (%)	8.3	4.9	3.5	5.1
Operating profit	308,770	339,138	405,675	607,498
OPM (%)	7.9	8.3	9.6	13.6
Reported PAT	219,840	249,939	296,718	446,172
yoy growth (%)	4.7	13.7	18.7	50.4
EPS (Rs)	68.1	77.4	91.9	138.2
P/E (x)	14.1	12.4	10.4	6.9
Price/Book (x)	1.6	1.4	1.3	1.1
EV/EBITDA (x)	11.6	10.5	9.1	5.6
Debt/Equity (x)	0.4	0.4	0.4	0.4
RoE (%)	11.7	12.0	12.8	16.9
RoCE (%)	11.5	11.0	11.9	15.8

Source: Company, India Infoline Research

IIFL Research won 3 awards at India's Best Market Analyst Awards 2013 by Zee Business for Banking, Oil & Gas and Pharma.

'Best Equity Broker of the Year' – Bloomberg UTV, 2011

IIFL was awarded the 'Best Equity Broker of the Year' at the recently held Bloomberg UTV Financial Leadership Award, 2011. The award presented by the Hon'ble Finance Minister of India, Shri Pranab Mukherjee. The Bloomberg UTV Financial Leadership Awards acknowledge the extraordinary contribution of India's financial leaders and visionaries from January 2010 to January 2011.

'Best Broker in India' – Finance Asia, 2011

IIFL has been awarded the 'Best Broker in India' by Finance Asia. The award is the result of Finance Asia's annual quest for the best financial services firms across Asia, which culminated in the Country Awards 2011

Other awards

D&B Decide with Confidence 2012	Zee Business 2009 & 2012	D&B Decide with Confidence 2009	Asiamoney Brokers Poll 2009	FinanceAsia Country Awards for Achievement 2008	Asiamoney Brokers Poll 2008
BEST BROKING HOUSE WITH GLOBAL PRESENCE	BEST MARKET ANALYST	FASTEST GROWING LARGE BROKING HOUSE	BEST BROKERAGE, INDIA	BEST BROKER, INDIA	MOST IMPROVED, INDIA

Recommendation parameters for fundamental reports:

Buy - Absolute return of over +15%

Accumulate - Absolute return between 0% to +15%

Reduce - Absolute return between 0% to -10%

Sell - Absolute return below -10%

Call Failure - In case of a Buy report, if the stock falls 20% below the recommended price on a closing basis, unless otherwise specified by the analyst; or, in case of a Sell report, if the stock rises 20% above the recommended price on a closing basis, unless otherwise specified by the analyst

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IIFL, IIFL Centre, Kamala City, Senapati Bapat Marg, Lower Parel (W), Mumbai 400 013.

For Research related queries, write to: Amar Ambani, Head of Research at research@indiainfoline.com

For Sales and Account related information, write to customer care: info@5pmail.com or call on 91-22 4007 1000