

**Reliance Industries**

**Impressive performance, much ahead of street expectation** In 3QFY13 Reliance industries reported better than expected result with top line grew by 10% YoY and 4% QoQ to Rs.939 bn. Better than expectation result was supported was 12.9% YoY growth in refinery revenue and 11.5% growth in petrochemical business. Refinery business continued dominated with 92% of revenue contributor. However E&P segment continued to registered negative sales growth of 32% on account lower output in KG basin gas. The company has reported lower production due to reservoir complexity, natural decline and effect of shutdown in MA field on account of FPSO maintenance for a period of 6 days.

**EBITDA supported by higher than expected GRM & margin improvement in Refinery and Petrochem** EBITDA margin was expanded by 36 bps YoY to 8.9% on account of positive surprise from GRM. The company reported better than expected GRM (gross refinery margin) of \$9.6/bbl as against \$6.8/bbl in 3QFY13 and \$9.5/bbl in 2QFY13 versus expectation of \$8.5/bbl. Consensus was expecting EBITDA margin at 7.1% but the result was better on account of EBIT improvement in refinery and petrochem business and higher than expected GRM.

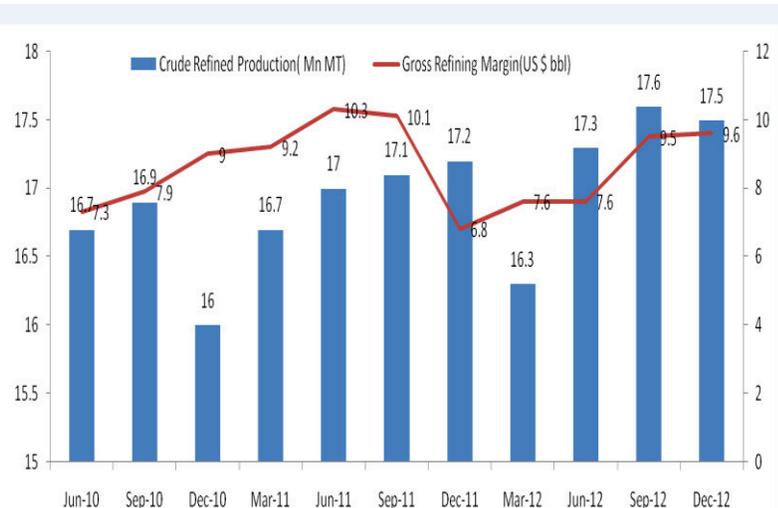
**Other income continue to remain healthy; maintain cash rich status** Reliance reported other income of Rs.1740 cr as against Rs 1717 cr in previous year same quarter. This other income was supported by health cash and cash equivalents. The company has cash & cash equivalent of Rs.80962 cr at the end of December 2012.

**Foreign borrowings and rupees depreciation led interest cost up** Interest cost was up by 16% YoY to Rs.806 cr in 3QFY13. This was due to higher foreign borrowings and rupees depreciation. At the end of December 2012, the company has total debt of Rs.72266 cr as compare to Rs.68259 cr in March 2012.

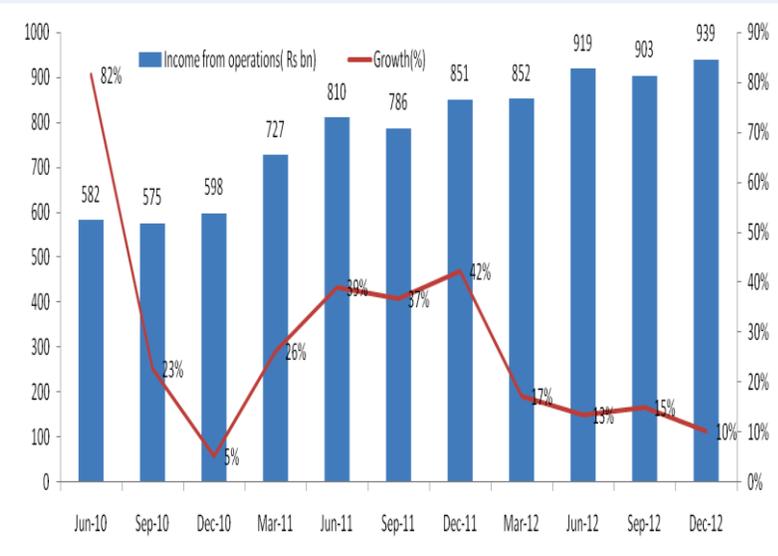
**Lower depreciation & tax rate support to add earnings growth** Depreciation cost was lower by 4% YoY to 2457 cr due to lower production of oil & gas. Effective tax rate was also declined by 19.7% in 3QFY13 and against 22.6% in 3QFY12 and 21% in 2QFY13. Healthy other income and lower tax rate support profit growth much ahead of street expectation.

**Impressive earnings growth; better than street expectation** The company delivered impressive net profit growth of 24% YoY to Rs.5502 cr much ahead of street expectation of Rs.49.8 bn. The impressive performance was supported by higher GRM and segmental improvement in margin. Consequently profit margin of the company expanded by 65 bps YoY to 5.9%.

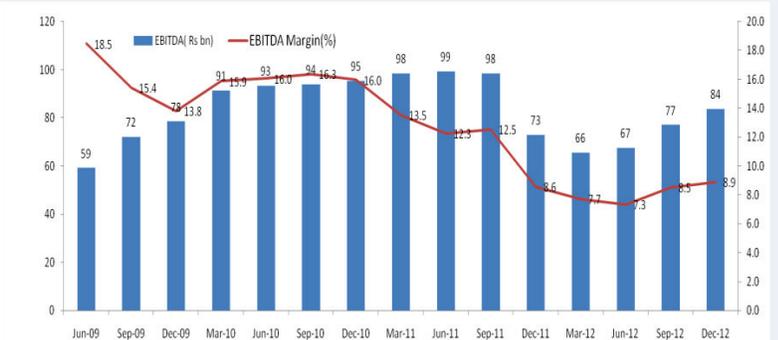
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**Refinery business** The company reported refinery revenue growth of 12.9% YoY to Rs.866 bn while EBIT growth 115% YoY to Rs.3615 cr. Consequently EBIT margin improved to 4.2% in 3QFY13 from 2.2% in 3QFY12. The company's Jamnagar refinery processed refinery throughput of 17.5mmtpa from 17.2 mmtpa in 2QFY12 and 17.6mmtpa in 2QFY13. The company continued to maintained healthy utilization rate of 113% versus 84% utilization in North America and Asia and 80% in Europe.

In 9M FY13 Jamnagar refinery processed 52.4 mmtpa of crude against 51.3 mmtpa of crude in 9MFY12. Reliance maintains its 9M refinery margin at \$9/bbl which was at par of with its achievement for 9MFY12. This quarter Reliance delivered highest GRM for the quarter in current fiscal due to quarterly strength in naphtha, product slate flexibility and crude sourcing

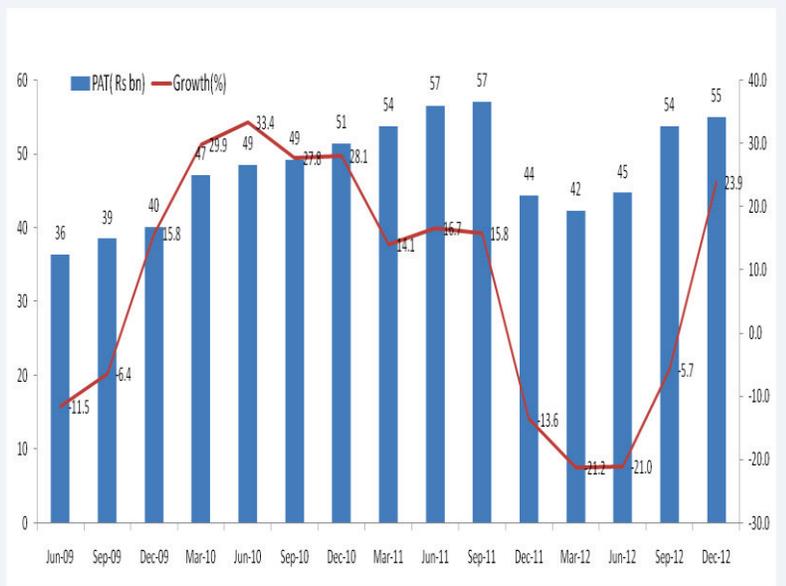
**Petrochemical business** In Petrochem segment, the company reported revenue growth of 11.5% YoY to Rs.221 bn but EBIT declined by 10% YoY and 11.3% growth in QoQ to Rs.19.4 bn. Overall production of this segment remain flat at 5.5 mmtpa. EBIT margin of this segment improved sequentially by 90 bps to 8.8% but on YoY basis margin declined by 212 bps due to base effect.

**E&P Business** In E&P segment, company continued to register negative sales growth of 32% to Rs.19 bn and EBIT declined by 54% YoY to Rs.866 cr on account of lower output in KG D6 basin. The cumulative 9MFY13 production from KG basin stood at 2.3 million barrel which was lower by 40% YoY basis. Natural gas production was also declined by 43% YoY to 275 billion cubic feet. The company has given reservoir complexity, natural decline and effect of shutdown in MA field reason for lower production.

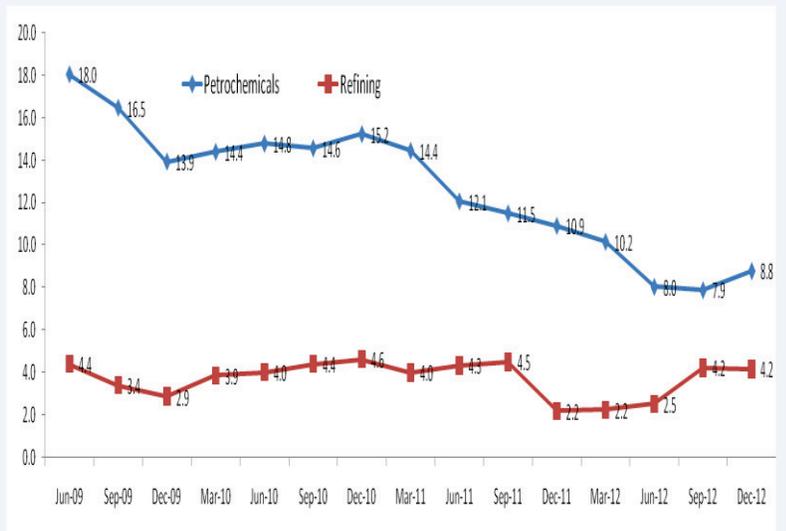
**Strong balance sheet** At the end of December 2012, Reliance has cash & Cash equivalent of Rs80962 cr and outstanding debt was Rs.72266 cr. Hence on net basis the company has cash positive.

**Share buyback** During 9MFY2013 the company bought 4.2 cr shares at an average price of Rs725/share: The board has approved the buyback of up to 12 cr fully paid up equity shares at a price not exceeding Rs870/equity share. The buyback is up to an aggregate amount not exceeding Rs10,440 cr. During the 9MFY2013, the company bought and extinguished 4,25,62,849 equity shares for the amount of Rs3,086 cr.

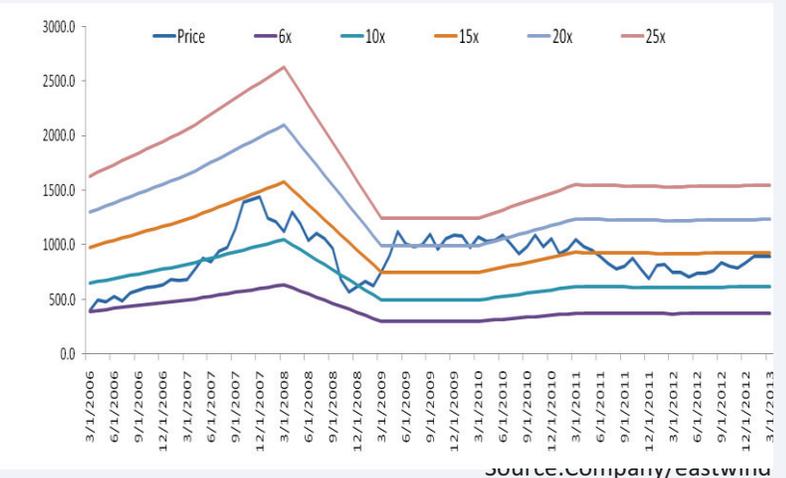
**Valuation & Outlook** At the price of Rs.900, stock is trading at 15 times of forward earnings and 10.3% of EV/EVITDA. On the back of better than expected earnings and sequential improvement of margin in Petrochemical segment, we believe Reliance to trade at 16.5 times of its P/E multiple which is average of its historical band. Thus we recommend on the stock with price target of Rs.1040.



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