

Margins shrink on the account of lower profitability of the refining and petrochemicals business

Struck by lower profitability of petrochemical and refining business, EBITDA margin for Q1FY11 fell by 250 bps to 16.0%. On the account of significant margin reduction in Polypropylene product, the operating margin (EBIT) of petrochemical business witnessed a decline of 325 bps YoY. On the other hand, operating margin (EBIT) from refining business declined by 129 bps (YoY) to 4% primarily on the account of higher depreciation cost and base effect. Net margin for Q1FY11 declined by 300 bps (YoY) to 8.3%

Recent acquisition of two shale gas plants and Infotel, to be value accretive

With the consideration of \$1.7m, RIL acquired 40% interest (300,000 total acres) in Atlas's core Shale acreage position. Besides this, in a separate deal, for a consideration of \$ 1.7m, RIL has acquired 45% of 263,000 acres of Eagle ford shale from Pioneer Natural Resource Company. Post these deals, RIL stands firm to offer its gas supply services to US which is mulling to reduce its oil dependence on Middle East and cut pollution by putting limits on coal based plants. In addition to this, with the acquisition of Infotel having pan 22- circle BWA license, RIL is in better position to explore fast growing domestic broadband services market.

Valuation and recommendations

At the CMP of Rs 1010.5, the stock is trading at 15.2x the FY12E earnings of Rs 66.4. We recommend a **hold** on stock at the CMP.

Result Update



Kyon ki bhaiya, sabse bada rupaiya.

(Rs. In Cr.)

Reliance Industries Ltd.	Q1FY11	Q1FY10	% Chg.	Q1FY11	Q4FY10	% Chg.	FY201003	FY200903	% Chg.
Net Sales	58228.0	32055.0	81.7	58228.0	57570.0	1.1	192461.0	141847.0	35.7
Other operational Income	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total Oper. Income(TOI)	58228.0	32055.0	81.7	58228.0	57570.0	1.1	192461.0	141847.0	35.7
Raw Materials Cons.-	45818.0	17473.0	162.2	45818.0	43080.0	6.4	147919.0	102288.0	44.6
% to TOI	78.7%	54.5%	-	78.7%	74.8%	-	76.9%	72.1%	-
Stock adj. (-)Inc / (+)Dec-	-1606.0	-2203.0	-27.1	-1606.0	224.0	PL	-3948.0	-428.0	822.4
% to TOI	-2.8%	-6.9%	-	-2.8%	0.4%	-	-2.1%	-0.3%	-
Net Raw Mat adj. for stock	44212.0	15270.0	189.5	44212.0	43304.0	2.1	143971.0	101860.0	41.3
% to TOI	75.9%	47.6%	-	75.9%	75.2%	-	74.8%	71.8%	-
Other expenses	4057.0	10318.0	-60.7	4057.0	4509.0	-10.0	15559.0	13906.0	11.9
% to TOI	7.0%	32.2%	-	7.0%	7.8%	-	8.1%	9.8%	-
Contribution Net_Sales	9959.0	6467.0	54.0	9959.0	9757.0	2.1	32931.0	26081.0	26.3
Personnel	617.0	546.0	13.0	617.0	621.0	-0.6	2350.0	2398.0	-2.0
% to TOI	1.1%	1.7%	-	1.1%	1.1%	-	1.2%	1.7%	-
Total expenditure	48886.0	26134.0	87.1	48886.0	48434.0	0.9	161880.0	118164.0	37.0
Operating Profit	9342.0	5921.0	57.8	9342.0	9136.0	2.3	30581.0	23683.0	29.1
% to TOI	16.0%	18.5%	-	16.0%	15.9%	-	15.9%	16.7%	-
Non-Operating Income	722.0	702.0	2.9	722.0	615.0	17.4	2460.0	2060.0	19.4
Interest	541.0	345.0	56.8	541.0	525.0	3.1	1997.0	1745.0	14.4
Exceptional Items		0.0				-		-370.0	
Gross Profit	9523.0	6278.0	51.7	9523.0	9226.0	3.2	31044.0	23628.0	31.4
Depreciation	3485.0	1628.0	114.1	3485.0	3392.0	2.7	10497.0	5195.0	102.1
PBT before Extra-ord	6038.0	4650.0	29.9	6038.0	5834.0	3.5	20547.0	18433.0	11.5
% to TOI	10.4%	14.5%	-	10.4%	10.1%	-	10.7%	13.0%	-
Extraordinary Items		0.0				-		328.0	
PBT	6038.0	4650.0	29.9	6038.0	5834.0	3.5	20547.0	18761.0	9.5
Tax Rate	19.7%	21.8%	-	19.7%	19.3%	-	21.0%	16.7%	-
Prov. for Tax	1187.0	1014.0	17.1	1187.0	1124.0	5.6	4311.0	3124.0	38.0
% to TOI	2.0%	3.2%	-	2.0%	2.0%	-	2.2%	2.2%	-
Profit after Tax	4851.0	3636.0	33.4	4851.0	4710.0	3.0	16236.0	15637.0	3.8
% to TOI	8.3%	11.3%	-	8.3%	8.2%	-	8.4%	11.0%	-
Face Value	10.0	10.0	0.0	10.0	10.0		10.0	10.0	0.0
Equity Share capital	3271.0	1574.0	107.8	3271.0	3270.0	0.0	3270.0	1574.0	107.8
EPS (Rs.)	14.8	23.1	-35.8	14.8	14.4	3.0	49.7	99.4	-50.0
CEPS (Rs.)	25.5	33.4	-23.8	25.5	24.8	2.8	81.8	132.4	-38.2

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