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Ambani says RIL profit will double in 5 years

₹1 lakh cr investment planned

Promit Mukherjee ● MUMBAI

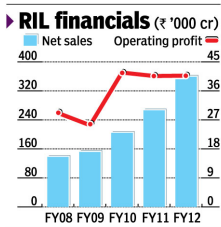
Mukesh Ambani, the 55-year old chairman of Reliance Industries, chose the company's 38th annual general meeting on Tuesday to prop up its tumbling stock and appease disgruntled shareholders by announcing a massive investment plan.

The company will invest around ₹1 lakh crore in different businesses in the country over the next five years, he said.

"Reliance continues to be in the mindset of investing in India and in her future," he said. This, in turn, will help boost its operating profit, the chairman said. "I have set myself a target to double the operating profit of your company in about five years."

The Street did take the announcement positively, closing at ₹720.70, a jump of 0.92%.

₹1 lakh crore, or \$18 billion,



is what the company has more or less planned to invest in the next few years and if the market conditions and regulatory environment improve, it could translate into a healthy increase in operating profits," said an analyst with a leading international brokerage.

RIL had said during its annual results on April 20 that it plans to invest up to \$12 billion in its core business — petrochemicals and refining — which contributes almost 80% of its profits.

"The guidance for \$12 billion is already given. Rest we can expect to come in its gas, tele-

com and retail business," said the analyst.

To be able to double its operating profit in the next five years, the company has to clock a compounded annual growth rate, or CAGR, of nearly 15% a year — an extremely difficult proposition in the current scenario. In the last five years, when the going was better, it had clocked a CAGR of 14%.

"While that growth rate is tough, these projections do not seem too far-fetched," said another analyst with a domestic brokerage. The company can achieve substantial cost savings and higher revenues with its pet coke gasification and petrochemical expansion, he reasoned.

But in its mainstay oil & gas business, RIL will require enough cooperation from the government, which is a big concern.

Shareholders, however, did not seem impressed, having seen the value of their shares erode almost 30% in the last one year.

...retailing set to turn profitable next year

Shailaja Sharma & Promit Mukherjee ● MUMBAI

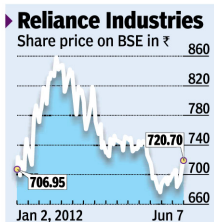
Billionaire Mukesh Ambani-led Reliance Industries's (RIL) ambitious foray into retail, which has been making losses so far, is likely to turn profitable by next year, a reliable RIL source said.

Ambani sought to contend RIL's shareholders by announcing massive future revenue targets. "It takes any company over two years to break even in the retail business and so we expect to start earning profits from next year," he told them during the 38th annual general meeting on Thursday.

RIL wishes to position Reliance Retail as India's "favourite retailer and undisputed market leader", he said.

"We are targeting a growth of five to six times in existing revenues and achieve ₹40,000-50,000 crore over the next three to four years," he said.

The retail business, which contributes just 2.24% to RIL's total turnover, received invest-



ments of over ₹5,000 crore in fiscal 2012 alone and has clocked revenues of ₹7,600 crore so far.

In fiscal 2012, RIL's retail business grew 25% in consolidated sales but posted a combined loss of over ₹430 crore across 34 retail entities, as per estimates in RIL's annual report.

While the retailer runs a total of 1,300 stores across the country, its value business has 700 stores across formats like Reliance Fresh, RelianceSuper, Reliance Mart, Delight and Autozone.

Ambani said RIL has entered

yet another retail format — Reliance Market whose first store operates in Ahmedabad.

"Through our newest format, we are creating a partnership framework with the *kiranas* and other small shopkeepers," he said and added the partnership leverages its supply chain, large assortment of products, sourcing capability and ability to supply at competitive prices.

The source said RIL is very bullish on this format and plans to take the number of such stores from one to 40 this year.

He hinted that RIL might enter the ready-to-eat segment as well and is contemplating a manufacturing facility.

But analysts aired mixed opinions about RIL's plans. "Crossing ₹50,000 crore on their own in such a short span — well, it looks like an unreasonable target, considering that the Future Group has taken many years to achieve ₹12,000 crore," said a retail industry analyst seeking anonymity.

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...retailing set to turn

However, retail industry commentator Amit Bagaria wrote in his DNA Consumer column last week that it might be possible for Reliance Retail to achieve a turnover of ₹1.6 lakh crore in five years — 21 times its present turnover.

"If the parent continues to grow at 30.2% per annum, it will have a total turnover of ₹12.71 lakh crore in fiscal 2017. At ₹1.6 lakh crore, the retail business will contribute 12.6% to the parent's topline," Bagaria wrote.