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Stock Rating
Overweight

Industry View
Attractive

Reliance Industries

Quick Comment: D6 Starts Production

What's New: RELI has commenced production of hydrocarbons from its MA field in its KG-D6 block with initial production of 5000bpd crude oil on September 17, 2008. The company expects to reach peak production of 550kboepd (considering 40kbpd from MA field and 80mmcmd of gas) from the KG-D6 block 6-8 quarters from now, i.e. during F4Q10 (Jan-Mar 2010) to F2Q11 (July-Sept 2010) as against our forecast of Jan 2010. It also expects gas production to start in Jan-March 2009 as against our forecast of Oct-December 2008. The company also reiterated that it expects a price of US\$4.2/mmbtu for its D6 gas production. KG-D6 oil and gas accounts for 6.5% and 35.7% of our profit estimates for F2009 and F2010, respectively.

We value RELI's E&P business at Rs1309/share in our target price of Rs2942/share.

What do the production timelines do to our earnings?

Though the time line on oil production is in line with our projection, the gas production start up is a quarter later than our estimates. This does not make any significant change to our overall earnings for RELI since we have assumed D6 to contribute 6% of F2009 earnings, with gas accounting for only 1.5%. We have, however, assumed peak production six quarters from today, i.e. Jan 2010 and the management suggests 6-8 quarters. One quarter of delay in production as compared to our estimates would reduce our consolidated F2010 estimates by 5%.

What if RELI earns US\$ 4.2/mmbtu for its D6 gas?

We have assumed RELI earning US\$2.5/mmbtu for 40 mmcmd of gas it would sell to NTPC and RNRL and US\$4.2/mmbtu for the remaining 40 mmcmd from D6. Assuming Reli gets US\$4.2/mmbtu for its entire D6 gas, we estimate its earnings for F2010 would increase by 10%.

Key Ratios and Statistics

Reuters: RELI.BO Bloomberg: RIL IN

India Oil & Gas

Price target	Rs2,942.00
Upside to price target (%)	43
Shr price, close (Sep 19, 2008)	Rs2,051.85
52-Week Range	Rs3,252.10-1,764.00
Sh out, dil, curr (mn)	1,573
Mkt cap, curr (mn)	Rs3,228,197
EV, curr (mn)	Rs3,502,843
Avg daily trading volume (mn)	Rs2,639

Fiscal Year ending	03/08	03/09e	03/10e	03/11e
ModelWare EPS (Rs)	100.80	127.18	214.37	234.58
Prior ModelWare EPS (Rs)	-	-	-	-
Consensus EPS (Rs)§	108.13	116.93	183.39	198.62
Revenue, net (Rs mn)	1,410,281	1,483,049	1,592,992	1,598,175
EBITDA (Rs mn)	233,061	298,880	461,527	507,644
ModelWare net inc (Rs mn)	152,539	200,093	337,270	369,070
P/E	22.5	16.1	9.6	8.7
P/BV	4.4	2.8	2.2	1.8
RNOA (%)	21.0	15.3	24.3	22.8
ROE (%)	23.8	24.6	29.2	25.6
EV/EBITDA	16.5	11.3	7.1	6.3
Div yld (%)	0.6	0.8	1.4	1.5
FCF yld ratio (%)	2.0	5.1	5.6	5.7
Leverage (EOP) (%)	33.7	(1.4)	(8.9)	(12.1)

Unless otherwise noted, all metrics are based on Morgan Stanley ModelWare framework (please see explanation later in this note).

§ = Consensus data is provided by FactSet Estimates.

e = Morgan Stanley Research estimates

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Company Description

Reliance Industries is India's largest private sector company by revenues, assets and profits. The company has interests in exploration & production, refining, petrochemicals, textiles, telecom, electricity, financial services and infrastructure. Its petrochemicals business is vertically integrated with an output of around 11 million tons. Reliance ranks among the top 10 companies worldwide in most of its key downstream products. It also operates India's largest and most complex refinery with a capacity of 33 million tons.

India Oil & Gas

Industry View: Attractive

MSCI Country: India

Asia Strategist's Recommended Weight: 4.0%

MSCI Asia/Pac All Country Ex Jp Weight: 7.8%



Morgan Stanley ModelWare is a proprietary analytic framework that helps clients uncover value, adjusting for distortions and ambiguities created by local accounting regulations. For example, ModelWare EPS adjusts for one-time events, capitalizes operating leases (where their use is significant), and converts inventory from LIFO costing to a FIFO basis. ModelWare also emphasizes the separation of operating performance of a company from its financing for a more complete view of how a company generates earnings.

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Global Stock Ratings Distribution

(as of August 31, 2008)

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September 22, 2008

Reliance Industries

Stock Rating Category	Coverage Universe		Investment Banking Clients (IBC)		
	Count	% of Total	Count	% of Total IBC	% of Rating Category
Overweight/Buy	892	41%	299	45%	34%
Equal-weight/Hold	936	43%	277	42%	30%
Underweight/Sell	367	17%	87	13%	24%
Total	2,195		663		

Data include common stock and ADRs currently assigned ratings. An investor's decision to buy or sell a stock should depend on individual circumstances (such as the investor's existing holdings) and other considerations. Investment Banking Clients are companies from whom Morgan Stanley or an affiliate received investment banking compensation in the last 12 months.

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Overweight (O or Over) - The stock's total return is expected to exceed the total return of the relevant country MSCI Index, on a risk-adjusted basis over the next 12-18 months.

Equal-weight (E or Equal) - The stock's total return is expected to be in line with the total return of the relevant country MSCI Index, on a risk-adjusted basis over the next 12-18 months.

Underweight (U or Under) - The stock's total return is expected to be below the total return of the relevant country MSCI Index, on a risk-adjusted basis, over the next 12-18 months.

More volatile (V) - We estimate that this stock has more than a 25% chance of a price move (up or down) of more than 25% in a month, based on a quantitative assessment of historical data, or in the analyst's view, it is likely to become materially more volatile over the next 1-12 months compared with the past three years. Stocks with less than one year of trading history are automatically rated as more volatile (unless otherwise noted). We note that securities that we do not currently consider "more volatile" can still perform in that manner.

Unless otherwise specified, the time frame for price targets included in Morgan Stanley Research is 12 to 18 months.

Analyst Industry Views

Attractive (A): The analyst expects the performance of his or her industry coverage universe over the next 12-18 months to be attractive vs. the relevant broad market benchmark, as indicated below.

In-Line (I): The analyst expects the performance of his or her industry coverage universe over the next 12-18 months to be in line with the relevant broad market benchmark, as indicated below.

Cautious (C): The analyst views the performance of his or her industry coverage universe over the next 12-18 months with caution vs. the relevant broad market benchmark, as indicated below.

Benchmarks for each region are as follows: North America - S&P 500; Latin America - relevant MSCI country index or MSCI Latin America Index; Europe - MSCI Europe; Japan - TOPIX; Asia - relevant MSCI country index.

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September 22, 2008

Reliance Industries

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Industry Coverage: India Oil & Gas

Company (Ticker)	Rating (as of)	Price (09/19/2008)
Vinay Jaising		
Bharat Petroleum Corp. (BPCL.BO)	U (12/03/2007)	Rs346.05
Cairn India Ltd. (CAIL.BO)	O (09/06/2007)	Rs221.3
GAIL (India) (GAIL.BO)	O (04/05/2007)	Rs418.5
Hindustan Petroleum (HPCL.BO)	U (07/07/2005)	Rs234.9
Indian Oil Corp (IOC.BO)	NA (07/29/2004)	Rs396.9
Oil & Natural Gas Corp. (ONGC.BO)	O (05/31/2004)	Rs1,072.1
Reliance Industries (RELI.BO)	O (06/15/2006)	Rs2,051.85
Reliance Petroleum Limited (RPET.BO)	O (01/23/2008)	Rs150.85
Mayank Maheshwari		
Aban Offshore Ltd (ABAN.BO)	O (06/11/2008)	Rs2,460.45

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