

## Ministry clarifies on KGD6 gas price issue

### ■ All gas from Reliance Industries' (RIL) D6 block to be sold at \$4.2/mmbtu

The MoPNG (Ministry of Petroleum and Natural Gas) in a press release has clarified that the supply of gas from RIL's KGD6 block would be made at a price of \$4.2/mmbtu (in-line with our assumptions) for all customers. Regarding the NTPC-RIL sale price, it has been decided to await the court verdict. We believe this clarification strengthens RIL's case against RNRL & removes the basis (supply of gas to RNRL at lower price) for the case between RIL and RNRL.

### ■ MoPNG confirms priority sectors for first 40 mmscmd production

The ministry confirmed overall prioritization of sectors for the first 40mmscmd gas production from KGD6 as decided by EGOM (Empowered Group of Ministers) on 28 May 2008. Based on this EGOM decision, which gives priority to existing stranded assets, RNRL is unlikely to receive any gas from the first 40mmscmd production from KGD6.

### ■ Gas supply to commence in 4QFY09

MoPNG also mentions that the power plant at Dabhol will be supplied 1.4mmscmd during 4QFY09. This is in-line with our channel checks (and our assumption on gas production start-up), which indicate that RIL is currently undertaking testing & pre-commissioning activities at KGD6.

### ■ Valuation: Reiterate Buy, PT Rs2000

We base our PT on a SOTP valuation. RIL is one of our top picks in the sector in Asia ex-Japan based on its strong balance sheet, significant earnings growth and improving earnings quality over next 2 yrs.

Highlights (Rsm)	03/07	03/08	03/09E	03/10E	03/11E
Net Income (UBS)	120,750	153,260	161,191	227,666	290,204
DACF	186,949	261,089	226,781	306,627	357,662
CEPS (UBS, Rs)	115.34	133.93	140.61	198.12	243.50
EPS (UBS, Rs)	83.09	105.45	102.45	144.70	184.45

Profitability & Valuation	5-yr hist av.	03/08	03/09E	03/10E	03/11E
Production (000 boe/d)	9	8	590	280	365
ROACE %	8.3	10.4	14.2	16.9	18.8
EV/DACF x	8.0	13.9	6.6	4.7	4.3
P/CFPS (UBS) x	7.4	16.4	7.6	5.4	4.4
PE (UBS) x	11.0	20.8	10.4	7.4	5.8

Source: Company accounts, Thomson Financial, UBS estimates. (UBS) valuations are stated before goodwill, exceptionals and other special items. Valuations: based on an average share price that year, (E): based on a share price of Rs1,069.50 on 03 Dec 2008 23:38 HKT

#### Harshad Katkar

Analyst  
harshad.katkar@ubs.com  
+91-22-2286 2051

#### Nirmal Raghavan

Associate Analyst  
nirmal.raghavan@ubs.com  
+91-22-2286 2056

## Global Equity Research

India

Chemicals, Commodity

12-month rating **Buy**  
**Unchanged**

12m price target **Rs2,000.00/US\$80.26**  
**Unchanged**

Price **Rs1,069.50/US\$123.89 (ADR)**

RIC: RELI.BO BBG: RIL IB

4 December 2008

### Trading data (local/US\$)

52-wk range	Rs3,216.30-1,015.50/US\$164.18-106.50
Market cap.	Rs1,554bn/US\$90.0bn
Shares o/s	1,453m (ORD)/727m (ADR)
ADR ratio	1 ADR:2 ORD
Free float	60%
Avg. daily volume ('000)	2,180/-
Avg. daily value (Rsm)	3,136.3/-

### Balance sheet data 03/09E

Shareholders' equity	Rs1,100bn
P/BV (UBS)	62.2x
Net Cash (debt)	(Rs80.6bn)

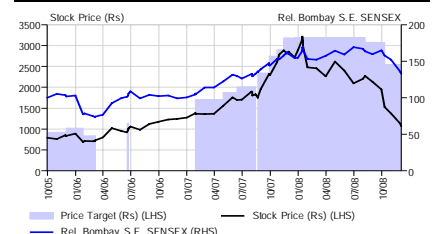
### Forecast returns

Forecast price appreciation	+87.0%
Forecast dividend yield	1.4%
Forecast stock return	+88.4%
Market return assumption	13.4%
Forecast excess return	+75.0%

### EPS (UBS, Rs)

	03/09E		03/08
	UBS	Cons.	Actual
Q1E	-	-	0.00
Q2E	-	-	0.00
Q3E	-	-	0.00
Q4E	-	-	0.00
03/09E	102.45	98.13	
03/10E	144.70	152.92	

### Performance (Rs)



Source: UBS

www.ubs.com/investmentresearch

This report has been prepared by UBS Securities India Private Ltd

**ANALYST CERTIFICATION AND REQUIRED DISCLOSURES BEGIN ON PAGE 2.**

UBS does and seeks to do business with companies covered in its research reports. As a result, investors should be aware that the firm may have a conflict of interest that could affect the objectivity of this report. Investors should consider this report as only a single factor in making their investment decision.

---

## ■ Reliance Industries

Reliance Industries (RIL) is the largest integrated petrochemical producer in India and most of its products have more than a 50% market share. Its key products are ethylene, polyester, polymers, paraxylene, and PTA. As the flagship company, it has financed the group's entry into telecom.

## ■ Statement of Risk

Any change in the regulatory environment of the Indian oil & gas sector and a downturn in global commodity prices/margins are risks for Reliance Industries Exploration, and production activities face risks, such as volatility in oil and natural gas prices, operational, financial, geological and meteorological issues.

## ■ Analyst Certification

Each research analyst primarily responsible for the content of this research report, in whole or in part, certifies that with respect to each security or issuer that the analyst covered in this report: (1) all of the views expressed accurately reflect his or her personal views about those securities or issuers; and (2) no part of his or her compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed by that research analyst in the research report.

## Required Disclosures

This report has been prepared by UBS Securities India Private Ltd, an affiliate of UBS AG. UBS AG, its subsidiaries, branches and affiliates are referred to herein as UBS.

For information on the ways in which UBS manages conflicts and maintains independence of its research product; historical performance information; and certain additional disclosures concerning UBS research recommendations, please visit [www.ubs.com/disclosures](http://www.ubs.com/disclosures). The figures contained in performance charts refer to the past; past performance is not a reliable indicator of future results. Additional information will be made available upon request.

### UBS Investment Research: Global Equity Rating Allocations

UBS 12-Month Rating	Rating Category	Coverage <sup>1</sup>	IB Services <sup>2</sup>
Buy	Buy	56%	36%
Neutral	Hold/Neutral	35%	33%
Sell	Sell	8%	27%
UBS Short-Term Rating	Rating Category	Coverage <sup>3</sup>	IB Services <sup>4</sup>
Buy	Buy	less than 1%	32%
Sell	Sell	less than 1%	14%

1:Percentage of companies under coverage globally within the 12-month rating category.

2:Percentage of companies within the 12-month rating category for which investment banking (IB) services were provided within the past 12 months.

3:Percentage of companies under coverage globally within the Short-Term rating category.

4:Percentage of companies within the Short-Term rating category for which investment banking (IB) services were provided within the past 12 months.

Source: UBS. Rating allocations are as of 30 September 2008.

### UBS Investment Research: Global Equity Rating Definitions

UBS 12-Month Rating	Definition
Buy	FSR is > 6% above the MRA.
Neutral	FSR is between -6% and 6% of the MRA.
Sell	FSR is > 6% below the MRA.
UBS Short-Term Rating	Definition
Buy	Buy: Stock price expected to rise within three months from the time the rating was assigned because of a specific catalyst or event.
Sell	Sell: Stock price expected to fall within three months from the time the rating was assigned because of a specific catalyst or event.

**KEY DEFINITIONS**

**Forecast Stock Return (FSR)** is defined as expected percentage price appreciation plus gross dividend yield over the next 12 months.

**Market Return Assumption (MRA)** is defined as the one-year local market interest rate plus 5% (a proxy for, and not a forecast of, the equity risk premium).

**Under Review (UR)** Stocks may be flagged as UR by the analyst, indicating that the stock's price target and/or rating are subject to possible change in the near term, usually in response to an event that may affect the investment case or valuation.

**Short-Term Ratings** reflect the expected near-term (up to three months) performance of the stock and do not reflect any change in the fundamental view or investment case.

**EXCEPTIONS AND SPECIAL CASES****UK and European Investment Fund ratings and definitions are :**

Buy: Positive on factors such as structure, management, performance record, discount; Neutral: Neutral on factors such as structure, management, performance record, discount; Sell: Negative on factors such as structure, management, performance record, discount.

**Core Banding Exceptions (CBE)** : Exceptions to the standard +/-6% bands may be granted by the Investment Review Committee (IRC). Factors considered by the IRC include the stock's volatility and the credit spread of the respective company's debt. As a result, stocks deemed to be very high or low risk may be subject to higher or lower bands as they relate to the rating. When such exceptions apply, they will be identified in the Company Disclosures table in the relevant research piece.

Research analysts contributing to this report who are employed by any non-US affiliate of UBS Securities LLC are not registered/qualified as research analysts with NASD and NYSE and therefore are not subject to the restrictions contained in the NASD and NYSE rules on communications with a subject company, public appearances, and trading securities held by a research analyst account. The name of each affiliate and analyst employed by that affiliate contributing to this report follows.

**UBS Securities India Private Ltd:** Harshad Katkar; Nirmal Raghavan.

**Company Disclosures**

Company Name	Reuters	12-mo rating	Short-term rating	Price	Price date
Reliance Industries <sup>2</sup>	RELI.BO	Buy	N/A	Rs1,069.50	03 Dec 2008

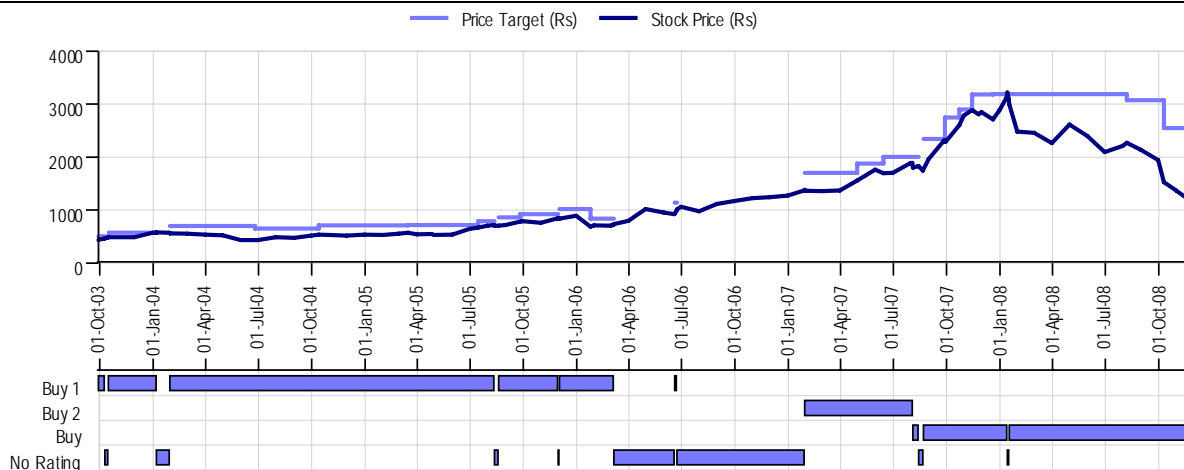
Source: UBS. All prices as of local market close.

Ratings in this table are the most current published ratings prior to this report. They may be more recent than the stock pricing date

- UBS AG, its affiliates or subsidiaries has acted as manager/co-manager in the underwriting or placement of securities of this company/entity or one of its affiliates within the past three years.

Unless otherwise indicated, please refer to the Valuation and Risk sections within the body of this report.

Reliance Industries (Rs)



Source: UBS; as of 03 Dec 2008

Note: On August 4, 2007 UBS revised its rating system. (See 'UBS Investment Research: Global Equity Rating Definitions' table for details). From September 9, 2006 through August 3, 2007 the UBS ratings and their definitions were: Buy 1 = FSR is > 6% above the MRA, higher degree of predictability; Buy 2 = FSR is > 6% above the MRA, lower degree of predictability; Neutral 1 = FSR is between -6% and 6% of the MRA, higher degree of predictability; Neutral 2 = FSR is between -6% and 6% of the MRA, lower degree of predictability; Reduce 1 = FSR is > 6% below the MRA, higher degree of predictability; Reduce 2 = FSR is > 6% below the MRA, lower degree of predictability. The predictability level indicates an analyst's conviction in the FSR. A predictability level of '1' means that the analyst's estimate of FSR is in the middle of a narrower, or smaller, range of possibilities. A predictability level of '2' means that the analyst's estimate of FSR is in the middle of a broader, or larger, range of possibilities. From October 13, 2003 through September 8, 2006 the percentage band criteria used in the rating system was 10%.

## Global Disclaimer

This report has been prepared by UBS Securities India Private Ltd, an affiliate of UBS AG. UBS AG, its subsidiaries, branches and affiliates are referred to herein as UBS. In certain countries, UBS AG is referred to as UBS SA.

This report is for distribution only under such circumstances as may be permitted by applicable law. Nothing in this report constitutes a representation that any investment strategy or recommendation contained herein is suitable or appropriate to a recipient's individual circumstances or otherwise constitutes a personal recommendation. It is published solely for information purposes, it does not constitute an advertisement and is not to be construed as a solicitation or an offer to buy or sell any securities or related financial instruments in any jurisdiction. No representation or warranty, either express or implied, is provided in relation to the accuracy, completeness or reliability of the information contained herein, except with respect to information concerning UBS AG, its subsidiaries and affiliates, nor is it intended to be a complete statement or summary of the securities, markets or developments referred to in the report. UBS does not undertake that investors will obtain profits, nor will it share with investors any investment profits nor accept any liability for any investment losses. Investments involve risks and investors should exercise prudence in making their investment decisions. The report should not be regarded by recipients as a substitute for the exercise of their own judgement. Any opinions expressed in this report are subject to change without notice and may differ or be contrary to opinions expressed by other business areas or groups of UBS as a result of using different assumptions and criteria. Research will initiate, update and cease coverage solely at the discretion of UBS Investment Bank Research Management. The analysis contained herein is based on numerous assumptions. Different assumptions could result in materially different results. The analyst(s) responsible for the preparation of this report may interact with trading desk personnel, sales personnel and other constituencies for the purpose of gathering, synthesizing and interpreting market information. UBS is under no obligation to update or keep current the information contained herein. UBS relies on information barriers to control the flow of information contained in one or more areas within UBS, into other areas, units, groups or affiliates of UBS. The compensation of the analyst who prepared this report is determined exclusively by research management and senior management (not including investment banking). Analyst compensation is not based on investment banking revenues, however, compensation may relate to the revenues of UBS Investment Bank as a whole, of which investment banking, sales and trading are a part.

The securities described herein may not be eligible for sale in all jurisdictions or to certain categories of investors. Options, derivative products and futures are not suitable for all investors, and trading in these instruments is considered risky. Mortgage and asset-backed securities may involve a high degree of risk and may be highly volatile in response to fluctuations in interest rates and other market conditions. Past performance is not necessarily indicative of future results. Foreign currency rates of exchange may adversely affect the value, price or income of any security or related instrument mentioned in this report. For investment advice, trade execution or other enquiries, clients should contact their local sales representative. Neither UBS nor any of its affiliates, nor any of UBS' or any of its affiliates, directors, employees or agents accepts any liability for any loss or damage arising out of the use of all or any part of this report. For financial instruments admitted to trading on an EU regulated market: UBS AG, its affiliates or subsidiaries (excluding UBS Securities LLC and/or UBS Capital Markets LP) acts as a market maker or liquidity provider (in accordance with the interpretation of these terms in the UK) in the financial instruments of the issuer save that where the activity of liquidity provider is carried out in accordance with the definition given to it by the laws and regulations of any other EU jurisdictions, such information is separately disclosed in this research report. UBS and its affiliates and employees may have long or short positions, trade as principal and buy and sell in instruments or derivatives identified herein.

Any prices stated in this report are for information purposes only and do not represent valuations for individual securities or other instruments. There is no representation that any transaction can or could have been effected at those prices and any prices do not necessarily reflect UBS's internal books and records or theoretical model-based valuations and may be based on certain assumptions. Different assumptions, by UBS or any other source, may yield substantially different results.

**United Kingdom and the rest of Europe:** Except as otherwise specified herein, this material is communicated by UBS Limited, a subsidiary of UBS AG, to persons who are eligible counterparties or professional clients and is only available to such persons. The information contained herein does not apply to, and should not be relied upon by, retail clients. UBS Limited is authorised and regulated by the Financial Services Authority (FSA). UBS research complies with all the FSA requirements and laws concerning disclosures and these are indicated on the research where applicable. **France:** Prepared by UBS Limited and distributed by UBS Limited and UBS Securities France SA. UBS Securities France S.A. is regulated by the Autorité des Marchés Financiers (AMF). Where an analyst of UBS Securities France S.A. has contributed to this report, the report is also deemed to have been prepared by UBS Securities France S.A. **Germany:** Prepared by UBS Limited and distributed by UBS Limited and UBS Deutschland AG. UBS Deutschland AG is regulated by the Bundesanstalt für Finanzdienstleistungsaufsicht (BaFin). **Spain:** Prepared by UBS Limited and distributed by UBS Limited and UBS Securities España SV, SA. UBS Securities España SV, SA is regulated by the Comisión Nacional del Mercado de Valores (CNMV). **Turkey:** Prepared by UBS Menkul Degerler AS on behalf of and distributed by UBS Limited. **Russia:** Prepared and distributed by UBS Securities CJSC. **Switzerland:** Distributed by UBS AG to persons who are institutional investors only. **Italy:** Prepared by UBS Limited and distributed by UBS Limited and UBS Italia Sim S.p.A.. UBS Italia Sim S.p.A. is regulated by the Bank of Italy and by the Commissione Nazionale per le Società e la Borsa (CONSOB). Where an analyst of UBS Italia Sim S.p.A. has contributed to this report, the report is also deemed to have been prepared by UBS Italia Sim S.p.A.. **South Africa:** UBS South Africa (Pty) Limited (Registration No. 1995/011140/07) is a member of the JSE Limited, the South African Futures Exchange and the Bond Exchange of South Africa. UBS South Africa (Pty) Limited is an authorised Financial Services Provider. Details of its postal and physical address and a list of its directors are available on request or may be accessed at <http://www.ubs.co.za>. **United States:** Distributed to US persons by either UBS Securities LLC or by UBS Financial Services Inc., subsidiaries of UBS AG; or by a group, subsidiary or affiliate of UBS AG that is not registered as a US broker-dealer (a 'non-US affiliate'), to major US institutional investors only. UBS Securities LLC or UBS Financial Services Inc. accepts responsibility for the content of a report prepared by another non-US affiliate when distributed to US persons by UBS Securities LLC or UBS Financial Services Inc. All transactions by a US person in the securities mentioned in this report must be effected through UBS Securities LLC or UBS Financial Services Inc., and not through a non-US affiliate. **Canada:** Distributed by UBS Securities Canada Inc., a subsidiary of UBS AG and a member of the principal Canadian stock exchanges & CIPF. A statement of its financial condition and a list of its directors and senior officers will be provided upon request. **Hong Kong:** Distributed by UBS Securities Asia Limited. **Singapore:** Distributed by UBS Securities Pte. Ltd or UBS AG, Singapore Branch. **Japan:** Distributed by UBS Securities Japan Ltd to institutional investors only. Where this report has been prepared by UBS Securities Japan Ltd, UBS Securities Japan Ltd is the author, publisher and distributor of the report. **Australia:** Distributed by UBS AG (Holder of Australian Financial Services License No. 231087) and UBS Securities Australia Ltd (Holder of Australian Financial Services License No. 231098) only to 'Wholesale' clients as defined by s761G of the Corporations Act 2001. **New Zealand:** Distributed by UBS New Zealand Ltd. An investment adviser and investment broker disclosure statement is available on request and free of charge by writing to PO Box 45, Auckland, NZ. **China:** Distributed by UBS Securities Co. Limited. **Portugal:** Prepared by UBS Limited and distributed by UBS Limited and UBS Bank, SA, Sucursal em Portugal. UBS Bank, SA, Sucursal em Portugal, is regulated by Comissão do Mercado de Valores Mobiliários (CMVM). Where an analyst of UBS Bank, SA, Sucursal em Portugal has contributed to this report, the report is also deemed to have been prepared by UBS Bank, SA, Sucursal em Portugal.

The disclosures contained in research reports produced by UBS Limited shall be governed by and construed in accordance with English law.

UBS specifically prohibits the redistribution of this material in whole or in part without the written permission of UBS and UBS accepts no liability whatsoever for the actions of third parties in this respect. © UBS 2008. The key symbol and UBS are among the registered and unregistered trademarks of UBS. All rights reserved.

