MOTILAL OSWAL

Reliance Industries

STOCK INFO.	BLOOMBERG
BSE Sensex: 17,560	RIL IN
S&P CNX: 5,215	REUTERS CODE RELI.BO

Equity Shares (m)	1,453.4
52-Week Range	2,805/1,170
1,6,12 Rel. Perf. (%)	6/36/69
M.Cap. (Rs b)	3,588.6
M.Cap. (US$ b)	90.2

19 October 2007

Buy

Previous Recommendation: Buy

Rs2,469

YEAR END	NET SALES (RS B)	PAT (RS B)	EPS (RS)	EPS GROWTH (%)	P/E (X)	P/BV (X)	ROE (%)	ROCE (%)	EV/ SALES	EV/ EBITDA
03/07A	1,117	119	82.2	31.7	30.0	5.6	22.4	18.7	3.4	19.2
03/08E	1,222	146	100.2	22.0	24.6	4.6	21.3	17.8	3.1	17.0
03/09E	1,164	158	100.7	0.5	24.5	3.6	17.6	15.4	3.4	17.5

- **Strong quarterly performance:** RIL reported PAT of Rs38.4b, up 28% YoY v/s our estimate of Rs35.6b. Reported EBIT of Rs46.5b was also higher than our estimate of Rs44.9b, led by strong gross refining margins (GRMs) of US$13.6/bbl v/s our estimate of US$12.2/bbl, lower depreciation and interest costs.
- **Refining margin was the surprise element:** RIL reported a premium of US$7.2/bbl (v/s our estimate of US$5.8/bbl) over the Singapore benchmark (US$6.4/bbl). This was owing to higher middle distillate production, greater share of distressed / newer crude at a discount and lower domestic retail sales.
- **Petchem margins came in as expected:** Petchem EBIT margins improved to 15.6% (14% in 1QFY08). The margin recovery was highly visible in polyester and supported by the continued firming of cotton prices. However margins remained lower versus its peak of 16.3% witnessed in 2QFY07.
- **KG-D6 development on schedule:** Over 95% of development wells drilled; 50% offshore and 55% onshore facilities completed. Management expects gas and oil delivery in 2HFY09. Commerciality proposal submitted for 8 satellite discoveries adjoining D1/D3 and plans to submit development plan with target production from FY11/12.

We upgrade our FY08 and FY09 PAT by 9% and 4% respectively to account for strong 2Q performance and better outlook going forward. Our revised base SOTP is Rs2,231/share (earlier Rs2,206). Our SOTP (including potential upside of Rs500/share from E&P) is Rs2,731. Stock trades at 24.5x FY09 and 12.7x FY10E. We maintain **Buy.**

QUARTERLY PERFORMANCE (RIL INCLUDES IPCL) (RS MILLION)

Y/E MARCH	FY07				FY08				FY07**	FY07A	FY08E
	1Q*	2Q*	3Q**	4Q**	1Q	2Q	3QE	4QE		AUDITED	
Net Sales	**259,940**	**300,560**	**295,280**	**289,020**	**295,240**	**320,430**	**312,582**	**294,113**	**1,144,800**	**1,116,930**	**1,222,365**
Change (%)	*46.2*	*45.1*	*62.5*	*17.8*	*13.6*	*6.6*	*5.9*	*1.8*	*41.0*	*37.5*	*9.4*
Raw Material Consumed	178,100	216,330	210,120	201,470	208,880	233,540	228,185	210,960	806,020	780,380	881,565
Staff Cost	5,530	4,960	4,120	8,193	4,960	4,710	4,804	4,936	22,803	20,940	19,410
Other Expenses	29,980	28,630	27,140	30,230	24,670	24,370	23,825	22,188	115,980	115,150	95,053
EBITDA	**46,330**	**50,640**	**53,900**	**49,127**	**56,730**	**57,810**	**55,768**	**56,029**	**199,997**	**200,460**	**226,336**
% of Net Sales	*17.8*	*16.8*	*18.3*	*17.0*	*19.2*	*18.0*	*17.8*	*19.1*	*17.5*	*17.9*	*18.5*
Change (%)	*NM*	*NM*	*NM*	*NM*	*22.4*	*14.2*	*3.5*	*14.0*	*39.9*	*40.2*	*12.9*
Depreciation	11,010	12,130	12,060	11,700	11,250	11,290	11,403	11,324	46,900	48,150	45,267
Interest	2,980	2,970	3,250	3,070	2,950	2,570	3,291	3,291	12,270	11,890	12,102
Other Income	1,080	1,250	1,160	1,350	1,970	1,680	1,658	1,658	4,840	4,780	6,966
PBT	**33,420**	**36,790**	**39,750**	**35,707**	**44,500**	**45,630**	**42,732**	**43,072**	**145,667**	**145,200**	**175,934**
Tax	6,360	6,790	7,710	6,060	8,200	7,260	7,264	7,536	26,920	25,770	30,261
Rate (%)	*19.0*	*18.5*	*19.4*	*17.0*	*18.4*	*15.9*	*17.0*	*17.5*	*18.5*	*17.7*	*17.2*
Adjusted PAT	**27,060**	**30,000**	**32,040**	**29,647**	**36,300**	**38,370**	**35,468**	**35,536**	**118,747**	**119,430**	**145,673**
Change (%)	*NM*	*NM*	*NM*	*NM*	*34.1*	*27.9*	*10.7*	*19.9*	*30.9*	*31.7*	*22.0*
Extra-ordinary items	0	0	0	-937	0	0	0	0	-937	0	0
Reported PAT	**27,060**	**30,000**	**32,040**	**28,710**	**36,300**	**38,370**	**35,468**	**35,536**	**117,810**	**119,430**	**145,673**

E: MOSt Estimates RIL has restated 1Q and 2QFY07 numbers for IPCL amalgamation; ** For 3Q and 4QFY07, we have added RIL & IPCL's reported numbers line by line*

Anil Sharma (AnilSharma@MotilalOswal.com) +91 22 3982 5413/Harshad Borawake (HarshadBorawake@MotilalOswal.com) +91 22 3982 5432

Strong performance in 2QFY08

RIL reported 6.6% higher net sales at Rs320b. However PAT improved significantly by 28% to Rs38.4b. EBIT grew by 20.8% to Rs46.5b, driven largely by strong refining performance. Besides strong operating performance, key factors leading to higher reported profits include:

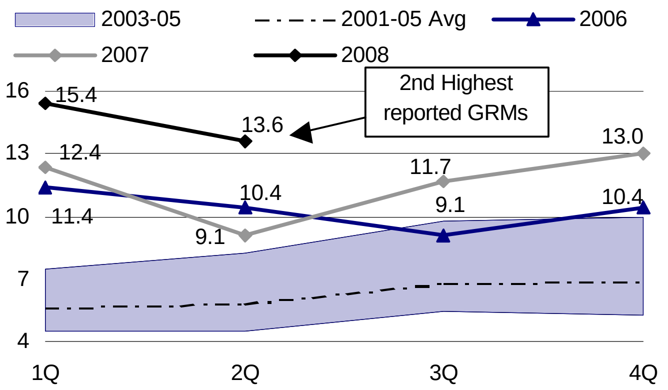
- Lower other expenditure of Rs24.4b v/s Rs28.6b, mainly due to lower sales tax on account of higher refinery exports and forex gains.
- Lower depreciation at Rs11.3b v/s Rs12.1b in 2QFY07, primarily on account of WDV method adopted for the petchem business
- Reduced interest costs to Rs2.6b v/s Rs3b in 2QFY07, primarily due to rupee appreciation
- Higher other income at Rs1.7b v/s 1.3b, due to increase in interest income
- Lower overall tax rate of 15.9% v/s 18.5% in 2QFY07 due to IPCL merger. Pre-merger, IPCL was paying the full tax rate on its income. Post-merger, MAT benefits are available on IPCL's share of profits.

Key surprise — refining margins

Reliance reported strong GRMsof US$13.6/bbl v/s our estimate of US$12.2/bbl. Though GRMs declined from the all-time high of US$15.4/bbl in 1QFY08, margins improved by 50% over US$9.1/bbl in 2QFY07.

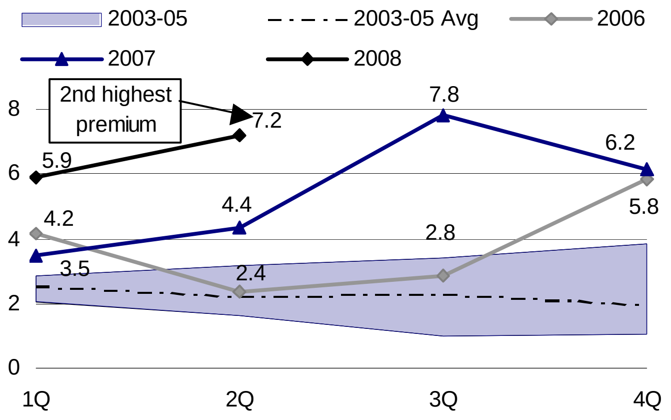
RIL reported a premium of US$7.2/bbl (v/s our estimate of US$5.8/bbl) over the Singapore benchmark (US$6.4/bbl). This was RIL's 2nd highest premium over the Singapore benchmark (peak witnessed in 3QFY07 at US$7.8/bbl).

RIL'S REFINING MARGIN (US$/BBL)



Source: Reuters/Company/MOSL

RIL'S REFINING MARGIN OVER SINGAPORE (US$/BBL)



Source: Reuters/Company/MOSL

The key reason for the higher reported GRMs was higher production of middle distillates (Gasoil and Kero) where margin declines were marginal compared with the larger declines in gasoline and naphtha. Gasoil crack margins over Dubai crude were US$17.6 v/s US$18.5/bbl in 1QFY08. However, gasoline crack declined significantly to US$12.8/bbl v/s US$22.8/bbl in 1QFY08. Thus though the benchmark Singapore crack declined by US$3.1/bbl from US$9.5/bbl in 1QFY08 to US$6.4/bbl in 2QFY08, RIL's reported margins declined only by US$1.8/bbl.

Other factors that contributed to higher margins over the benchmark included:

- Efficiency in crude sourcing – RIL processed four new crudes, some of which are placed in the challenged category, entailing huge discounts
- Ability to produce globally accepted products
- Superior refining configuration and logistics infrastructure

Refinery utilization continued to remain high (98%) with throughput of 8.09mt during 2QFY08. Post EOU status, the exports share continues to increase. Product export volumes increased 5.8mmt v/s 5.2mmt in 2QFY07. Domestic retail sales (where margins remain negative and private refiners are not given subsidy and bonds) declined significantly to 0.27mmt v/s 0.7mmt in 1QFY08. Retail sales in 2QFY07 were also low at 0.16mt.

Robust outlook on margins

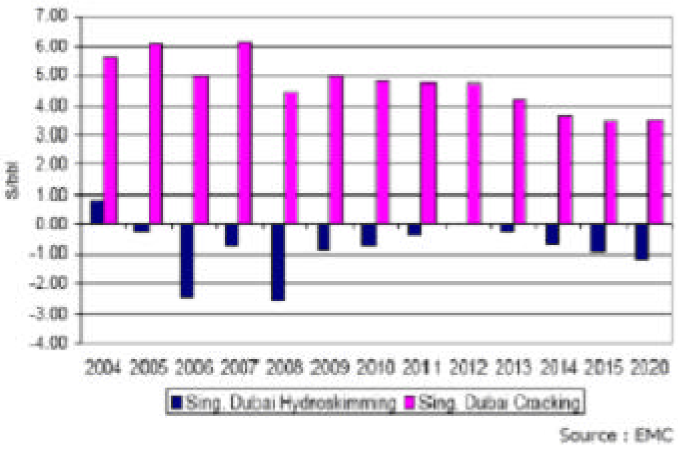
With not enough refining capacity coming online to meet increasing product demand; refining systems are witnessing continued high utilizations and margins. The problem is compounded by a large share of old refining assets, which see significant outages (on account of the higher utilization rate).

Increased construction costs and shortage of key contractors and personnel further compound the problems. Some of the recent projects which are getting delayed / cancelled include:

- Shelving of 650kbpd refinery projects in Indonesia
- Shelving of the 500kbpd greenfield project at Fujairah (UAE) owing to costs
- Cancellation of 400kbpd, 2 new refineries in Turkey for being uneconomic
- Cancellation of 480kbpd refinery of S Oil in Korea due to soaring construction costs
- Start-up of expected projects in Angola and Egypt doubtful

GRMs are expected to remain robust on the back of expected higher refinery operating rates until 2011-12 and continued delays in new capacity addition.

OUTLOOK ON REFINING MARGINS (US$/BBL)

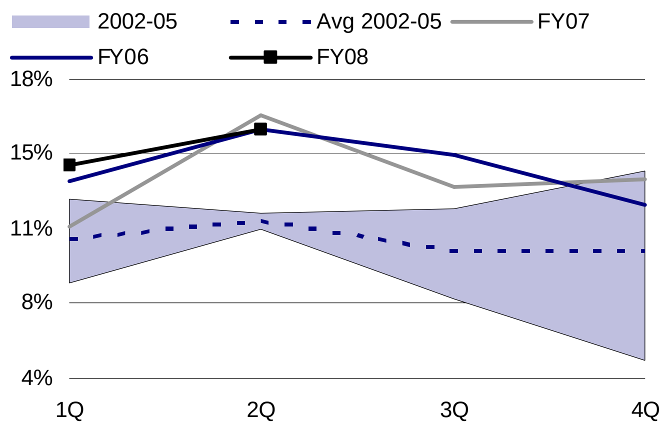


Source: Company

Petchem margins improved QoQ

Petrochemical EBIT margins further improved in 2QFY08 to 15.6% from 14% in 1QFY08. The EBIT margins have been on an upward trend since the recent low seen in 3QFY07. However, margins were lower than the 2QFY07 margin of 16.3%. As shown in the chart below, the overall petchem margins continue to be significantly higher than recent averages.

RIL'S PETCHEM EBIT MARGINS

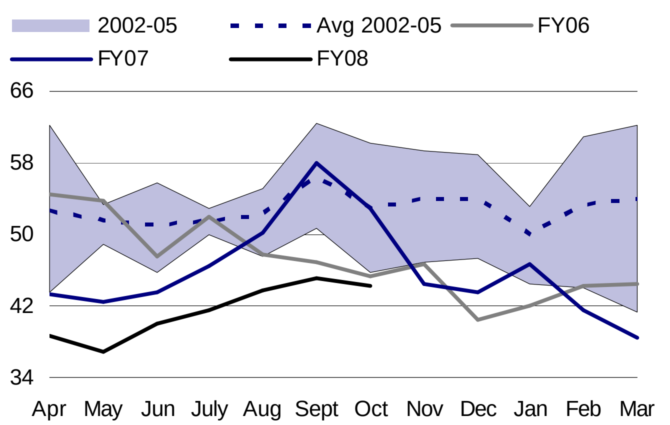


Source: Industry/Company/MOSL

Polyesters

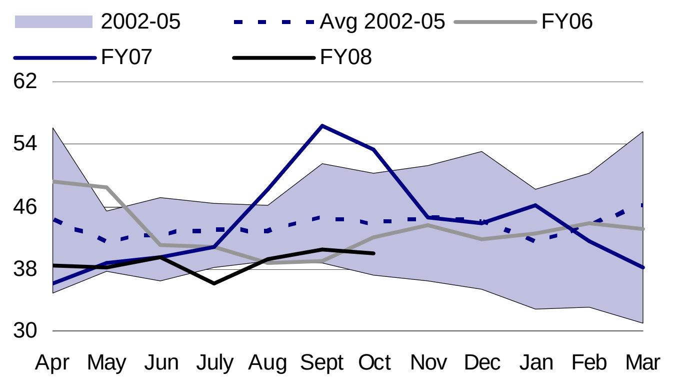
Margin recovery was highly visible in polyester and supported by continued firming of cotton prices. As shown in the charts below, the spreads of both PSF and POY over naphtha have significantly improved in recent months.

POY SPREAD OVER NAPHTHA (RS/KG)



Source: Industry/Company/MOSL

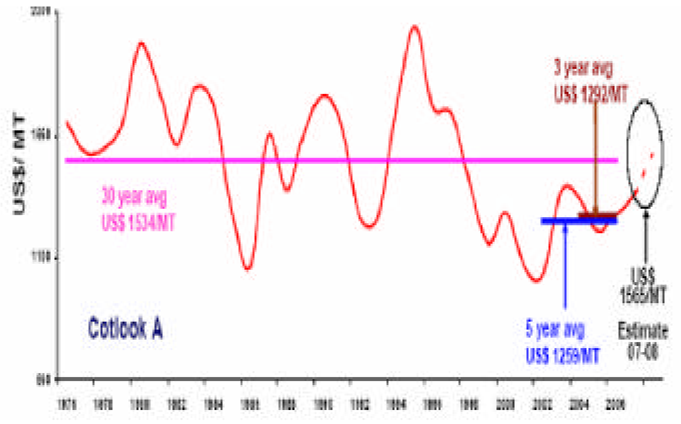
PSF SPREAD OVER NAPHTHA (RS/KG)



Source: Industry/Company/MOSL

The key factor for the improving polyester margins has been the improving cotton prices. Cotton prices were up by US$220/MT to US$1520/MT.

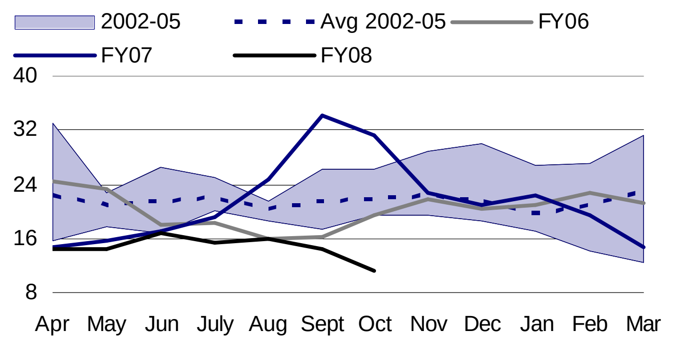
UPTREND IN COTTON PRICES EXPECTED



Source: Industry/Company/MOSL

Amongst polyester intermediates, the margin trend has been mixed. The PTA spread over naphtha has declined in recent months.

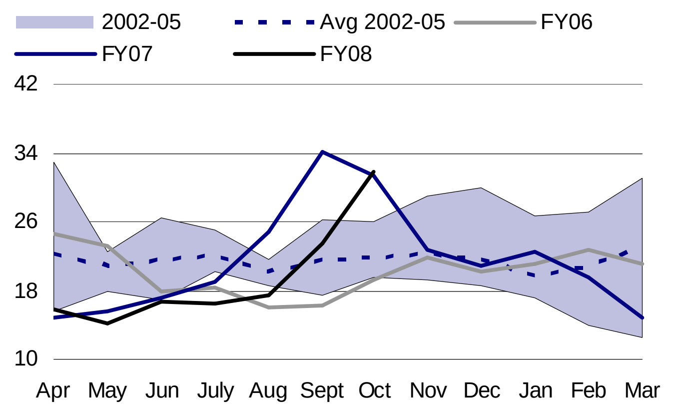
PTA SPREAD OVER NAPHTHA (RS/KG)



Source: Industry/Company/MOSL

MEG prices and margins, however, have significantly increased. Asian MEG prices have recently breached the 11-year record of US$1470/MT, due to supply tightness at some Middle East plants.

MEG SPREAD OVER NAPHTHA (RS/KG)



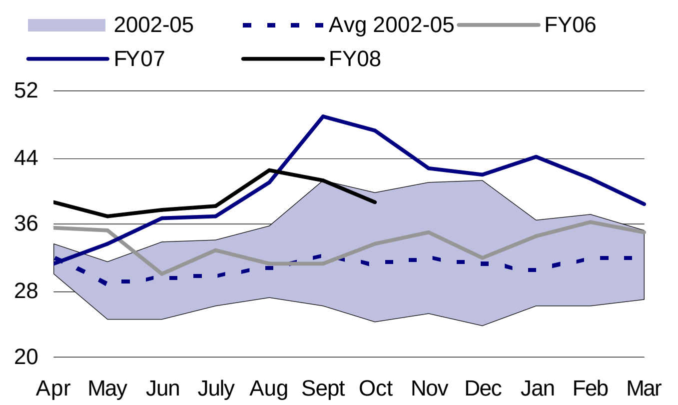
Source: Industry/Company/MOSL

However, on a chain basis, polyester margins continued to remain flat primarily due to lower PX margins.

Polymers

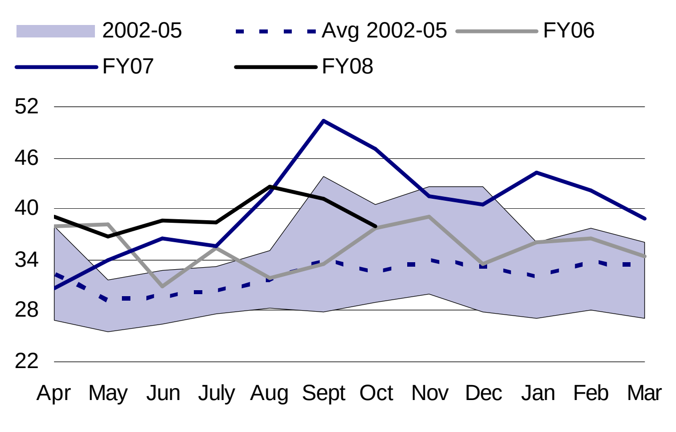
Despite the continued high prices of polymers, their spreads versus naphtha have declined in recent months as shown in the charts below. This has been due to the increase in naphtha prices. With gas prices remaining the same, the margins for gas-based crackers have improved. Overall, RIL has reported improved polymer margins as its gas crackers (Gandhar and Nagothane) have outperformed the naphtha based crackers.

P/E SPREAD OVER NAPHTHA (RS/KG)



Source: Industry/Company/MOSL

PP SPREAD OVER NAPHTHA (RS/KG)



Source: Industry/Company/MOSL

Margin outlook

With the uptrend in cotton prices expected to continue, we expect continued recovery in polyester chain margins. The recent slowdown in capacity addition should, we believe, also lead to improving the operating rate and margins.

However, in terms of polymers, with significant capacity under construction in the Middle East and China, we anticipate that a downturn in the polymer chain is inevitable. However, as some large projects have been delayed to 2009 (previous expectation, 2008), we expect the downturn to begin in 2H2008.

E&P

KG-D6 development on schedule

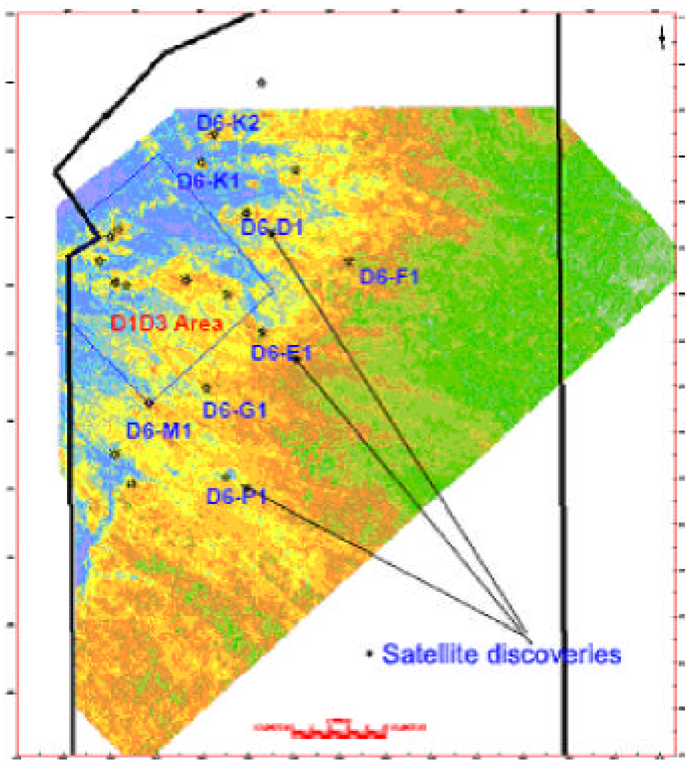
Management of RIL indicated that progress on the gas development project is on schedule for its targeted gas production in 2HFY09. The key milestones achieved in 2Q include:

- 95% of development wells drilled, balance to be completed by November 2007
- 50% offshore facility installed
- 55% onshore facility completed
- Construction jetty completed

Oil development project is also on schedule, with commencement of oil supply scheduled from 2HFY09.

RIL has submitted a commerciality proposal for 8 satellite discoveries adjoining D1/D3 and plans to submit a development plan with target production from 2011/12.

SATELLITE DISCOVERIES ADJOINING D1/D3



Source: Company

Stepped up exploration efforts

RIL has been indicating stepped up exploration efforts over its E&P acreage. Against about 50 wells drilled over the past 7 years, the company is targeting to drill nearly 100 wells over next 3-4 years.

Over next four quarters, the company has proposed drilling in 8 blocks out of a total 26 blocks (excluding 7 blocks from NELP VI). To achieve this drilling schedule, 3 rigs are already in place and 4 more rigs will be deployed by 4QFY08.

We believe, the stepped up exploration effort, would result in stepped up news flow on new discoveries. Already in recent months the company has announced several discoveries, which include:

- Oil discovery in the Krishna deep water basin (KG-DWN-98/1)
- Oil/gas discovery in Cauvery deep water (CY-DWN-2001/2)
- R1 well gas discovery in KG-D6
- Gas discovery in Western Carbonate reservoir (GS-OSN-200/1)

The rig shortage/delays continue to be a problem, as several of RIL's planned rigs have been delayed by several months as shown in the table below. E&P companies are seeking exploration holidays from the GoI due to shortage of rigs globally, particularly the deep-water rigs.

DELAY IN DEEP-WATER RIG ARRIVAL

DEEP WATER RIG	EARLIER EXPECTED ARRIVAL	CURRENT EXPECTED ARRIVAL
Expedition	Jun-06	Sep-08
D 534	Aug-06	Nov-07
Neptune	Jan-07	May-08
Blackford Dolphin	Oct-07	May-08

Source: Industry

Pricing approved, concerns wane

The Empowered Group of Ministers (EGOM) recently approved RIL's gas pricing formula with some minor tinkering. The approved formula leads to gas being priced at US$4.2/mmbtu at an oil price of US$60/bbl.

The pricing approval after a long debate and delay is a positive as it paves the way for tie-up of gas contracts with prospective customers. Reliance has already initiated the process of committing gas to the core fertilizer and the power sectors.

The recent Mumbai high court judgment on the RNRL-RIL dispute also dispels concern on gas pricing to RNRL. The judgment appears to be in favor of gas pricing in line with government policy (i.e. US$4.2/mmbtu). Relevant extracts from the court order are cited below:

"There is no question of fixing the floor price for all the time to come. It needs to be revisable from time to time, as per the practice and Government policy having a price review clause."

"The interest of shareholders and/or respondent-RIL just cannot be overlooked. The respondents cannot be directed to sale or supply gas at subsidised rate and to incur losses. The effect of MOU therefore need to be interpreted to mean that the applicant is entitled to the share and supply of gas reasonable price, quantity & tenure provided both the parties agreed to the suitable arrangement. Such agreement cannot be unilaterally."

"The fixing of price therefore cannot be of permanent nature even by the Government and/or even by; the contractor. The fluctuation of the market and based on various factors need to be revised and considering from time to time the commitment of price therefore also throughout particular contract period and/or even for 17 years as prayed by the applicant in the present case, is also not acceptable."

"Therefore, the price at which such gas will be valued is also need to be produced by the Government to ensure all transactions are entered into on "arms length basis" at arms length price. The submission, therefore, that if RIL sales the gas at a price lower than the price acceptable to the Government and as in the present case, the Government has already rejected the same. Therefore, if RIL compelled to sell at the price as demanded by the applicant he would be paying a huge subsidy to the applicants, if Government insists for the market price for such sale"

"but in so far as the price is concerned, the parties must sit and decide together as the price at USD 2.35 per MMBTU has already been rejected by the Government."

Other updates

Actively pursuing acquisitions for inorganic growth

In the recent AGM, RIL's chairman stated:

"Traditionally, Reliance has grown by building businesses from scratch. This strategy cannot entirely drive growth in an era of intensive global competitiveness, rapid technological change and limited windows of market opportunities. **Reliance is therefore actively pursuing an acquisition mode of growth.** Our recent acquisitions in Malaysia and Africa are forerunners to the unfolding of an acquisition-led strategy."

We believe that the recent acquisitions of Assets of Hualon and GAPCO could be the harbinger of the acquisition-led growth strategy. Both these assets appear to have been acquired at very attractive price/valuations: (US$200m for Hualon's 0.5mmtpa polyester capacity).

Reliance retail

- Added 128 Reliance retail outlets in 2QFY07 (total 329 outlets in 30 towns and cities – 10 more added this month)
- Opened first HyperMart at Ahmedabad (India's largest with 165,000sq ft area)
- Loyal customer base has crossed 1.5 million to become the largest membership base in India.
- RIL further invested Rs20b in RRL during the quarter

Reliance Petroleum – expected before schedule, raising target price

Reliance has indicated that based on progress made until date, it expects the refinery to be completed ahead of its scheduled completion in December 2008. Earlier than scheduled completion is a key positive in our view. Although management has not indicated the exact timeline, we factor in a 2-month early start in October 2008.

Also, with refining margin environment continuing to remain strong and RIL continuing to show significant premium to the Singapore benchmark, we have changed our GRM assumption for RPL as we expect RPL to post US$2-3/bbl higher GRMs over RIL.

We value RPL on a DCF basis. Based on an early start assumption and improved margin outlook, we have revised our target price from earlier Rs123/share to Rs159/share.

Revising our earnings and SOTP

We have revised our earnings estimate to factor in the recent strong performance in 2Q; changed the depreciation quantum post the IPCL merger; rupee appreciation and also reduced the tax rate post IPCL acquisition.

REVISED EARNINGS ESTIMATES (RS M)

	FY08E			FY09E		
	REV.	PREV.	CHG. (%)	REV.	PREV.	CHG. (%)
Net Sales	1,222,365	1,175,130	4.0	1,163,772	1,091,671	6.6
EBITDA	226,336	220,191	2.8	229,004	224,634	1.9
Net Profit	145,673	133,653	9.0	158,430	152,916	3.6
EPS (Rs)	100	92	8.9	101	97	3.6

Source: Motilal Oswal Securities

We are also revising our SOTP target price to factor in the earnings estimate change and change in our price target for RPL. Our revised base SOTP target is Rs2,231 (earlier Rs2,206).

We also have a potential upside target for the E&P segment of RIL. In our potential upside value we now also include value Reliance's stake in the D4 and D9 block based on Hardy Oil's prospective resource estimates. Our potential upside is Rs500/share. Thus our upside SOTP target for RIL is Rs2,731. Reliance trades at 24.5x FY09E and 12.7 FY10E. We maintain **Buy**.

RELIANCE: SUM OF PARTS VALUATION

BUSINESS	US$ B	RS B	RS/SH	COMMENTS
Core business:	**33**	**1,313**	**955**	
Petrochem and refining	28	1,124	817	Core business EV @6x FY09E EBITDA
Others	5	189	138	EV@6x FY09E EBITDA (includes PMT)
New E&P Initiatives	**26**	**1,024**	**745**	
KG - D6 Gas (KG Basin)	17	684	497	DCF based; Assumed plateau of 120 MMSCMD; 26 TCF recovery;
KG - D6 MA1 Oil (KG Basin)	3.9	155	113	DCF based; Assumed recovery of 196 mmbbls over 10 years; 5% premium to Brent (US$60/bbl)
NEC - 25 (Mahanadi basin)	1.9	77	56	DCF based; 90% stake; reserves of 3.7 TCF, prod. to start by 2012
Sohagpur East & West (CBM blocks)	1.1	42	31	DCF based; 100% stake; OGIP of 3.65 TCF, assumed 50% recovery, production to commence in FY11
KG - III - 6 oil (KG Basin)	0.8	32	23	Reserve size yet to be assessed. Value based on market news on reserves at 1b bbls, @US$2/bbl
Block - 9 (Yemen)	0.8	33	24	Currently producing. 2P reserves of 332 mmbbls valued, assumed 50% recovery valued at @US$20/bbl; RILstake 25%
Investments	**11**	**449**	**341**	
RPL	11	429	312	At 20% discount to our target price
Investments in RGTIL	0.5	20	15	Investments of Rs20b
Investments in RIIL	0.5	19	14	46% stake at CMP
Reliance Retail	**6**	**250**	**182**	**100% subsidiary of RIL**
Net Debt	**0**	**-13**	**-9**	
Total Base Value	**76**	**3,023**	**2,231**	Based on Fully diluted equity cap of 1375m (excl.198m treasury shares)
Potential upside	**17**	**687**	**500**	
E&P				
KG-D6 Gas - additional prospects	7.5	299	218	DCF based, indicated 50TCF potential in NFDP.Potential upside recovery of 11TCF assuming 75% recovery.
KG-D6 oil - additional prospects	2.4	98	71	DCF based, identified prospect of 1.6b bbls, Base case has only 12.2% recovery. Assumed additional 7.8% recovery (124mmbbls)
Sonhat, Barmer 1and 2 (CBM Blocks)	1.3	53	39	Based on 8TCF reserve size - data from DGH projections on potential resources & RIL OGIP of 1.5TCF for Sonhat (@US$1/BOE or US$0.17/MCF)
NEC - 25 (Mahanadi basin)	0.3	10	7	Upside potential of 1.5TCF (2P) (@US$1/BOE or US$ 0.17/MCF)
KG-DWN-2001/1 (D9)	5.0	202	147	Prospective resources of 5.6bboe as per Hardy; RIL stake 90%, Valued at US$1/boe
KG-DWN-2003/1 (D3)	0.6	25	18	Prospective resources of 695mmboe as per Hardy; RIL stake 90%, Valued at US$1/boe
MN-DWN-2003/1 (D4 Block)	0	0	0	As per Niko (15%) partner, this block has very similar geological system as KG-D6 & could be potentially larger than KG-D6 or NEC-25; Currently do not ascribe any value now as exploratory drilling yet to commence
CY-DWN-2001/2 (Cauvery Basin)	0	0	0	Most recent discovery in Cauvery deep water; Potentially a large find based on large gas and oil flow rate from test well; Further exploratory drilling continuing; We do not ascribe any value as reserve/ resource estimate yet to be announced
KG-OSN-2001/1 (KG Basin)	0	0	0	Gas discovery in Sep 2006; Commerciality under evaluation; we do not ascribe any value
GS-OSN-2000/1 (Gujarat Saurashtra)	0	0	0	Gas discovery in May 2007; RIL's first discovery in large potential carbonate reservoirs; Commerciality under review
Others				
SEZ	0	0	0	We await more clarity on RIL's SEZ plans
Total incl upside potential (excl Retail & SEZ)	**93**	**3,710**	**2,731**	Based on Fully diluted equity cap of 1,375m (excl .198m treasury shares)

Source: Motilal Oswal Securities

Reliance Industries: an investment profile

Company description

Reliance Industries (RIL), a Fortune-Global 500 company is India's largest private sector company, with turnover of US$25.5b in FY07. It has reported historically high CAGRs of over 25% in both topline and bottomline, through its backward integration strategy and is now also moving into high growth areas such as retail and SEZ.

Key investment arguments

- **E&P - the new growth engine:** RIL is the largest exploration acreage holder in the private sector in India. It had its world-scale gas find in 2002, has since then more than 35 discoveries As its KG-D6 gas comes online in FY09, E&P will soon become the key growth driver, in our view.
- **Refining - great times here to stay:** We expect refining margins to remain high, as the global demand for refined products remains robust and not enough capacity is coming online.
- **Petrochemicals - mixed margin trend:** Recovery continues in polyester margins driven by improved cotton prices. Though, polymer margins have declined in recent months they continue to remain higher then historical averages.
- **Retailing - potential value driver:** We believe that organized retailing in India offers huge growth opportunity and RIL would be able to make the most of this opportunity.

Key investment risks

- Short-term concerns remain on possible delays in KG-D6 gas production.

Recent developments

- Approval of gas pricing formula by Empowered Group of Ministers (EGOM)
- Several oil/gas discoveries
- Merger of IPCL

Valuation and view

- The stock trades at 24.5x FY09E and 12.7x FY10E.
- We upgrade our SOTP based price target to Rs2,231.
- We believe that the company's E&P business and new initiatives – Retailing and SEZs – could throw up significant positive surprises.

TARGET PRICE AND RECOMMENDATION

CURRENT PRICE (RS)	TARGET PRICE (RS)	UPSIDE (%)	RECO.
2,469	2,231	-	Buy

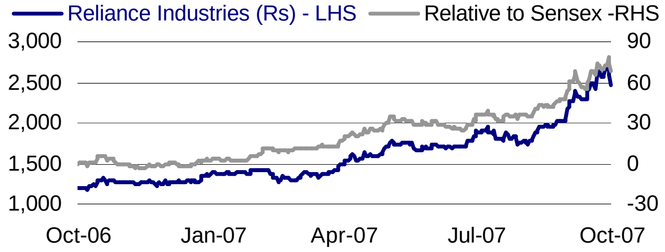
EPS: MOST FORECAST VS CONSENSUS (RS)

	MOST FORECAST	CONSENSUS FORECAST	VARIATION (%)
FY08	100.2	87.7	14.3
FY09	100.7	100.8	-0.1

SHAREHOLDING PATTERN (%)

	SEP-07	JUN-07	SEP-06
Promoter	51.3	51.3	50.0
Domestic Inst	7.3	7.7	8.0
Foreign	24.9	24.4	24.9
Others	16.5	16.7	17.2

STOCK PERFORMANCE (1 YEAR)



INCOME STATEMENT				(Rs Million)
Y/E MARCH	2007	2008E	2009E	2010E
Net Sales	**1,116,930**	**1,222,365**	**1,163,772**	**1,278,412**
Finished Gds Purchase	35,350	49,490	50,480	51,489
Raw Materials Cons	745,030	792,113	720,821	651,017
Sales and distribution exp	49,306	49,963	53,725	56,222
Employee Costs	20,940	19,410	20,381	21,400
Other Expenditure	65,844	85,053	89,361	112,310
Change in Stocks	0	0	0	0
EBITDA	**200,460**	**226,336**	**229,004**	**385,975**
% of Net Sales	*17.9*	*18.5*	*19.7*	*30.2*
Depreciation	48,150	45,267	49,002	62,340
Interest	11,890	12,102	12,771	12,954
Other Income	4,780	6,966	17,952	26,563
Extraordinary Items (net)	0	0	0	0
PBT	**145,200**	**175,934**	**185,184**	**337,244**
Tax	25,770	30,261	26,754	29,885
Rate (%)	*17.7*	*17.2*	*14.4*	*8.9*
PAT	119,430	145,673	158,430	307,358
Minority Interest				
Adjusted PAT	**119,430**	**145,673**	**158,430**	**307,358**
Change (%)	*31.7*	*22.0*	*8.8*	*94.0*

** includes consolidation for RPL*

BALANCE SHEET				
Y/E MARCH	2007	2008E	2009E	2010E
Share Capital (incl share su	14,534	14,534	15,734	15,820
Reserves	625,138	768,502	1,051,637	1,338,086
Net Worth	**639,671**	**783,035**	**1,067,370**	**1,353,906**
Total Loans	278,257	316,727	309,304	307,554
Deferred Tax	69,820	74,131	78,662	81,568
Minority Interest				
Capital Employed	**987,749**	**1,173,893**	**1,455,337**	**1,743,028**
Gross Fixed Assets	995,328	1,107,464	1,239,349	1,314,507
Less: Depreciation	358,723	403,990	452,991	515,331
Net Fixed Assets	**636,605**	**703,474**	**786,358**	**799,176**
Capital WIP	75,281	97,403	131,103	186,703
Investments	162,513	162,513	182,513	192,513
Curr. Assets, L & Adv.				
Inventory	121,365	131,380	122,045	114,053
Debtors	37,324	54,212	51,557	56,392
Cash & Bank Balance	18,353	65,766	194,303	380,527
Loans & Adv. and Other CA	122,091	202,091	222,091	252,091
Current Liab. & Prov.				
Liabilities	168,655	179,886	168,032	159,756
Provisions	17,129	63,061	66,601	78,672
Net Current Assets	**113,349**	**210,502**	**355,362**	**564,635**
Application of Funds	**987,749**	**1,173,893**	**1,455,336**	**1,743,027**

E: MOSt Estimates

RATIOS				
Y/E MARCH	2007	2008E	2009E	2010E
Basic (Rs)				
EPS	**82.2**	**100.2**	**100.7**	**194.3**
Cash EPS	115.3	131.4	131.8	233.7
Book Value	440.1	538.8	678.4	855.8
DPS	11.0	12.0	16.0	20.0
Payout (incl. Div. Tax.)	14.7	13.1	16.1	10.4
Valuation (x)				
P/E	30.0	24.6	24.5	12.7
Cash P/E	21.4	18.8	18.7	10.6
EV / EBITDA	19.2	17.0	17.5	9.9
EV / Sales	3.4	3.1	3.4	3.0
Price / Book Value	5.6	4.6	3.6	2.9
Dividend Yield (%)	0.4	0.5	0.6	0.8
Profitability Ratios (%)				
RoE	22.4	21.3	17.6	26.0
RoCE	18.7	17.8	15.4	22.3
Turnover Ratios				
Debtors (No. of Days)	13	14	17	15
Fixed Asset Turnover (x)	1.2	1.2	1.0	1.0
Leverage Ratio				
Net Debt / Equity (x)	0.4	0.3	0.1	-0.1

CASH FLOW STATEMENT				
Y/E MARCH	2007	2008E	2009E	2010E
OP/(Loss) before Tax	145,205	175,934	185,184	337,244
Depreciation	68,122	45,267	49,002	62,340
Interest /Other Income	9,118	0	0	0
Direct Taxes Paid	-19,050	-25,950	-22,222	-26,979
(Inc)/Dec in Wkg. Capital	-13,075	30,259	3,677	6,951
Other op activities	-21,614	0	0	0
CF from Op. Activity	**168,706**	**225,510**	**215,640**	**379,555**
(Inc)/Dec in FA & CWIP	-82,244	-134,258	-165,585	-130,758
(Pur)/Sale of Investments	-100,921	-80,000	-40,000	-40,000
Other In activities	-2,506	0	0	0
CF from Inv. Activity	**-185,670**	**-214,258**	**-205,585**	**-170,758**
Change in Equity	2,611	16,824	151,416	11,066
Inc / (Dec) in Debt	34,236	38,470	-7,423	-1,750
Dividends Paid	-33,786	-19,133	-25,511	-31,889
CF from Fin. Activity	**3,061**	**36,160**	**118,482**	**-22,573**
Inc / (Dec) in Cash	**-13,904**	**47,413**	**128,537**	**186,224**
Add: Opening Balance	21,461	18,353	65,766	194,303
Add: On Amalgamation	10,796			
Closing Balance	**18,353**	**65,766**	**194,303**	**380,527**

NOTES

For more copies or other information, contact
Institutional: Navin Agarwal. **Retail:** Manish Shah
Phone: (91-22) 39825500 Fax: (91-22) 22885038. E-mail: inquire@motilaloswal.com

Motilal Oswal Securities Ltd, 3rd Floor, Hoechst House, Nariman Point, Mumbai 400 021

This report is for the personal information of the authorized recipient and does not construe to be any investment, legal or taxation advice to you. Motilal Oswal Securities Limited **(***hereinafter referred as MOSt***)** is not soliciting any action based upon it. This report is not for public distribution and has been furnished to you solely for your information and should not be reproduced or redistributed to any other person in any form.

The report is based upon information that we consider reliable, but we do not represent that it is accurate or complete, and it should not be relied upon such. MOSt or any of its affiliates or employees shall not be in any way responsible for any loss or damage that may arise to any person from any inadvertent error in the information contained in this report. MOSt or any of its affiliates or employees do not provide, at any time, any express or implied warranty of any kind, regarding any matter pertaining to this report, including without limitation the implied warranties of merchantability, fitness for a particular purpose, and non-infringement. The recipients of this report should rely on their own investigations.

MOSt and/or its affiliates and/or employees may have interests/ positions, financial or otherwise in the securities mentioned in this report. To enhance transparency, MOSt has incorporated a Disclosure of Interest Statement in this document. This should, however, not be treated as endorsement of the views expressed in the report.

Disclosure of Interest Statement	Reliance Industries
1. Analyst ownership of the stock	No
2. Group/Directors ownership of the stock	No
3. Broking relationship with company covered	No
4. Investment Banking relationship with company covered	No

This information is subject to change without any prior notice. MOSt reserves the right to make modifications and alternations to this statement as may be required from time to time. Nevertheless, MOSt is committed to providing independent and transparent recommendations to its clients, and would be happy to provide information in response to specific client queries.