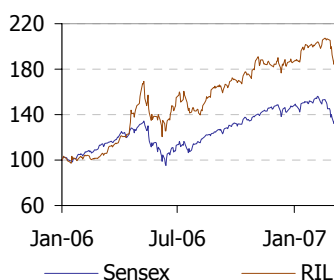


Reliance Industries

Relative to sector: **Outperformer**

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Relative Performance



Source: Bloomberg, ENAM Research

Stock data

No. of shares : 1,394mn
Market cap : Rs 1,837bn
52 week high/low : Rs 1,445/ Rs 712
Avg. daily vol. (6mth) : 4.0mn shares
Bloomberg code : RIL IN
Reuters code : RELI.BO

Shareholding (%) Dec-06 QoQ chg

Shareholder	Dec-06 (%)	QoQ chg (%)
Promoters	50.6	0.7
FII's	19.9	(0.4)
MFs / UTI	2.4	(0.2)
Banks / FIs	5.8	0.3
Others	21.3	(0.4)

CREATION OF A MAMMOTH!

Reliance Industries (RIL) has announced the amalgamation of Indian Petrochemicals Corporation Limited (IPCL) with it. The amalgamation scheme envisages entitlement of 1 share of RIL for every 5 shares of IPCL held. Since RIL's associate companies would also be entitled for RIL's shares, merger would enhance "treasury stock" to 14.2% from present 12.2%. **Although its ownership structure remains unclear, treasury stock gives RIL an option to offer it to a strategic investor.**

Pay back of <3 years...

RIL has valued IPCL at an EV of ~Rs73 bn or ~USD 720/MT of blended capacity (polymers and polyester). Based on our FY07E EBIDTA of Rs25bn for IPCL, swap ratio implies a payback of ~3 years. Through the merger, RIL targets to benefit from – (1) manpower rationalization (2) relocation of production facilities - economies of scale (3) product rationalization – reduction in overheads and (4) benefits in sales tax (which although remains a pass through). **These benefits as of now remain non-quantifiable; however can potentially shorten the payback.**

Combined entity a mammoth!

Post merger, the combined entity would have – (1) capacity of ~10 m MT (2) estimated networth of ~Rs490bn (USD 11 bn), and (3) annual cash flows of ~USD 4 bn. Stronger cash flows and relatively unleveraged balance sheet further strengthen RILs' ability to explore the inorganic growth opportunities.

Maintain sector OP, retain price target

As the merger is proposed to be with retrospective effect (April 1st 2007) we have estimated FY07E EPS of ~Rs87 that factors in equity dilution of 4.3% (pre warrant conversion). Maintain sector **Outperformer** rating and retain price target of Rs 1,700.

Financial summary

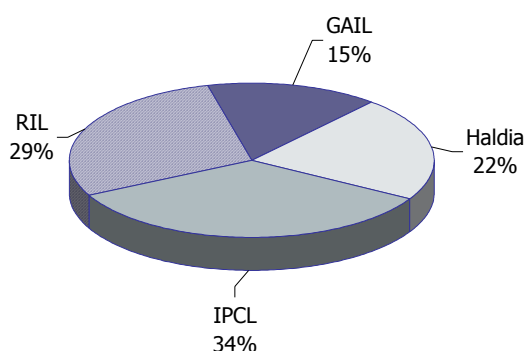
Y/E Mar	Sales (Rs mn)	PAT (Rs mn)	EPS (Rs)	Change YoY (%)	P/E (x)	RoE (%)	RoCE (%)	EV/EBITDA (x)	BV (Rs)
2005	667,863	76,672	55.0	45	9.9	19.6	17.9	7.0	306
2006	831,172	93,982	67.5	23	11.8	25.0	19.6	9.1	231
2007E	1,253,402	126,138	86.8	29	15.2	30.0	24.1	10.6	353

Source: Company, ENAM estimates

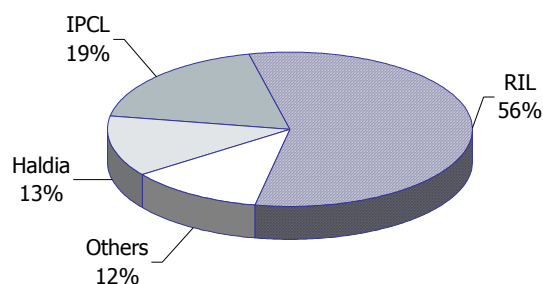
Complimentary product slates

IPCL primarily manufactures polymers and competes with other players like- GAIL, Haldia. IPCL accounts for 35% of the installed ethylene capacity in India, next being RIL. Further IPCL is second largest domestic manufacturer of propylene with share of 19%, only next to RIL having market share of 55%. In a way IPCL's product slate complements that of RIL (IPCL strong in PE while RIL strong in PP). **This makes the combined entity the undisputed leaders in the domestic market with a combined market share of 63% and 75% in ethylene and propylene respectively.**

Market shares in PE



Market shares in PP



Source: Company, ENAM Research

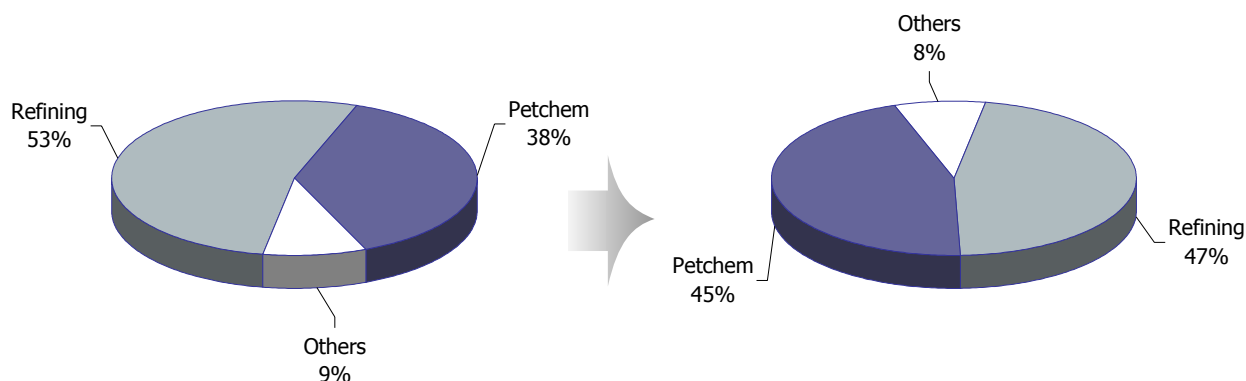
Pro-forma P&L of the combined entity

(Rs bn)	RIL	IPCL	RIL+IPCL
Sales	1,172	119	1,252
EBIDTA	174	25	198
PAT	109	15	126
Equity shares (bn)	1.39	0.30	1.45
EPS (Rs/shr)	78	50	87
Networth	414	73	499
Book Value (Rs/shr)	307	254	353
RoCE	23%	28%	24%

- Gains at EBIDTA to be more (as explained earlier)
- Tax rate crucial. Assumed present tax rate of RIL

Source: ENAM Research

Post merger, share of petchem in EBIDTA to increase



Source: ENAM Research

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