

Going continues to be good

Earnings beat forecast; other positive developments too

FY07 unaudited earnings of Reliance (RIL) yet again beat forecasts. Its refinery recorded its best ever refining margin. In doing so its margin was far higher than benchmark margins. The granting of EOU status to its refinery from April 2007 will further improve profitability. There was good news in E&P, too, with 1P reserves jumping by a third in FY07. Good progress continued in monetizing D6 oil and gas discoveries. Retail foray gained momentum in 4Q. We retain our Buy rating on Reliance.

4Q earnings 14% YoY higher, 4% higher than Mle

RIL's earnings are 20% YoY higher in FY07 and 14% YoY higher in 4Q. 4Q earnings are higher than Mle by 4%. Earnings surprise is due to lower-than-expected depreciation, interest and higher other income.

Superior refinery performance continued in 4Q

RIL's 4Q earnings was driven by strong refining performance. RIL's 4Q refining margin of US\$13/bbl and refining EBIT of Rs22.8bn was its highest ever. The premium of its margin to Singapore margin in 4Q was US\$5.2-6.2/bbl. Thus the average premium in the five quarters since refinery upgrade is up to US\$3.3/bbl.

Other key developments and updates

RIL's 1P reserves jumped by 350mmboe (33%) in FY07. D6 gas output may ramp up faster than Mle. D6 oil output is targeted from 2Q FY09. The Jamnagar complex was given 100% EOU status. This will help keep its income tax rate at 15-20% and allow it duty free import of oil. RIL's investment in its retail subsidiary surged to about Rs40bn (close to US\$1bn) by March 2007.

Estimates (Mar)

(Rs)	2005A	2006A	2007E	2008E	2009E
Net Income (Adjusted - mn)	75,717	90,693	122,259	140,257	149,171
EPS	54.35	65.10	84.11	89.13	94.80
EPS Change (YoY)	47.0%	19.8%	29.2%	6.0%	6.4%
Dividend / Share	7.50	10.00	11.00	11.00	11.00
Free Cash Flow / Share	70.47	34.18	(42.70)	(83.12)	(34.72)
GDR EPS (US\$)	2.42	2.94	3.87	4.36	4.64
GDR Dividend / Share (US\$)	0.334	0.452	0.506	0.538	0.538

Valuation (Mar)

	2005A	2006A	2007E	2008E	2009E
P/E	29.38x	24.53x	18.98x	17.91x	16.84x
Dividend Yield	0.470%	0.626%	0.689%	0.689%	0.689%
EV / EBITDA*	20.66x	18.35x	12.10x	11.07x	10.27x
Free Cash Flow Yield*	4.41%	2.14%	-2.79%	-5.88%	-2.46%

* For full definitions of *iQmethod*SM measures, see page 8.



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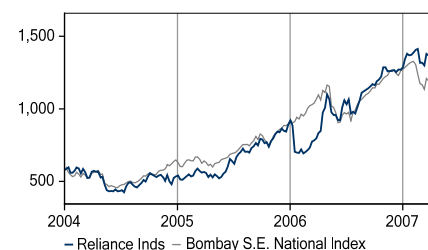
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Stock Data

Price (Common / GDR)	Rs1,597 / US\$77.50
Price Objective	Rs1,732 / US\$76.64
Date Established	24-Apr-2007 / 24-Apr-2007
Investment Opinion	B-1-7 / B-1-7
Volatility Risk	MEDIUM / MEDIUM
52-Week Range	Rs806.00-Rs1,625
Market Value (mn)	US\$54,390
Shares Outstanding (mn)	1,393.2 / 696.6
Average Daily Volume	730,494
ML Symbol / Exchange	XREL / BSE
ML Symbol / Exchange	RLNIY / LIN
Bloomberg / Reuters	RIL IN / RELI.BO
ROE (2007E)	21.7%
Net Dbt to Eqty (Mar-2006A)	31.5%
Est. 5-Yr EPS / DPS Growth	0.2% / 0.1%
Free Float	52.1%



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Refer to important disclosures on page 9 to 11. Analyst Certification on page 7. Price Objective Basis/Risk on page 7.

27 April 2007

*iQprofile*SM Reliance Industries Ltd.

Key Income Statement Data (Mar)	2005A	2006A	2007E	2008E	2009E
(Rs Millions)					
Sales	652,413	803,727	1,103,884	1,042,641	1,130,278
Gross Profit	121,884	137,255	208,074	227,524	245,264
Sell General & Admin Expense	NA	NA	NA	NA	NA
Operating Profit	84,649	103,245	161,654	180,188	194,273
Net Interest & Other Income	6,038	3,795	(8,360)	(4,866)	(5,587)
Associates	NA	NA	NA	NA	NA
Pretax Income	90,687	107,041	153,294	175,322	188,687
Tax (expense) / Benefit	(14,970)	(16,347)	(31,035)	(35,064)	(37,378)
Net Income (Adjusted)	75,717	90,693	122,259	140,257	149,171
Average Fully Diluted Shares Outstanding	1,393	1,393	1,454	1,574	1,574

Key Cash Flow Statement Data

Net Income (Reported)	75,717	90,693	122,259	140,257	149,171
Depreciation & Amortization	37,235	34,009	46,420	47,337	50,991
Change in Working Capital	NA	NA	NA	NA	NA
Deferred Taxation Charge	NA	NA	NA	NA	NA
Other Adjustments, Net	22,432	22,407	63,755	(9,790)	4,749
Cash Flow from Operations	135,384	147,109	232,434	177,804	204,911
Capital Expenditure	(37,209)	(99,487)	(294,507)	(308,602)	(259,542)
(Acquisition) / Disposal of Investments	(30,801)	129,436	13,702	(46,835)	(24,725)
Other Cash Inflow / (Outflow)	NA	NA	NA	NA	NA
Cash Flow from Investing	(68,009)	29,950	(280,805)	(355,437)	(284,267)
Shares Issue / (Repurchase)	(3,603)	1	34,334	168,239	5,697
Cost of Dividends Paid	(8,289)	(11,914)	(12,123)	(17,801)	(16,345)
Cash Flow from Financing	(16,067)	(193,394)	67,211	116,438	75,447
Free Cash Flow	98,175	47,623	(62,073)	(130,798)	(54,631)
Net Debt	146,436	157,106	216,997	264,236	286,765
Change in Net Debt	(55,446)	28,053	26,160	27,195	51,369

Key Balance Sheet Data

Property, Plant & Equipment	350,823	626,745	898,071	1,217,895	1,298,230
Other Non-Current Assets	165,193	18,373	4,671	71,550	96,275
Trade Receivables	39,278	41,636	62,208	54,013	61,523
Cash & Equivalents	41,410	61,550	80,390	1,150	1,951
Other Current Assets	209,161	182,650	227,439	198,017	208,562
Total Assets	805,865	930,955	1,272,779	1,542,626	1,666,539
Long-Term Debt	153,439	165,158	210,158	176,158	223,618
Other Non-Current Liabilities	42,668	49,708	76,811	88,207	99,546
Short-Term Debt	34,407	53,499	87,229	89,229	65,099
Other Current Liabilities	171,315	164,545	270,422	211,124	222,383
Total Liabilities	401,829	432,909	644,620	564,718	610,646
Total Equity	404,031	498,040	628,152	977,898	1,055,887
Total Equity & Liabilities	805,861	930,949	1,272,771	1,542,616	1,666,533

*iQmethod*SM - Bus Performance*

Return On Capital Employed	12.1%	13.1%	15.0%	12.7%	11.5%
Return On Equity	20.2%	20.1%	21.7%	17.5%	14.9%
Operating Margin	13.0%	12.8%	14.6%	17.3%	17.2%
EBITDA Margin	18.7%	17.1%	18.8%	21.8%	21.7%

*iQmethod*SM - Quality of Earnings*

Cash Realization Ratio	1.8x	1.6x	1.9x	1.3x	1.4x
Asset Replacement Ratio	1.0x	2.9x	6.3x	6.5x	5.1x
Tax Rate (Reported)	16.5%	15.3%	20.2%	20.0%	19.8%
Net Debt-to-Equity Ratio	36.2%	31.5%	34.5%	27.0%	27.2%
Interest Cover	5.8x	11.8x	12.6x	15.0x	14.2x

Key Metrics

* For full definitions of *iQmethod*SM measures, see page 8.

Company Description

India's largest petchem and second largest refining company, Reliance, owns a 660kbpd refinery. Along with RPL, its total refining capacity would be 1.2mbpd by 2009. It also has a 900ktpa cracker, 1mtpa polyester, 1.9mtpa polymer and over 3mtpa of fibre intermediate capacities. Refining contributes 55% to revenues with petchem contributing 43%. The company has discovered gas with initial inplace reserves of 35tcf on the East Coast.

Stock Data

Shares / GDR	2.00
Price to Book Value	3.5x

Another year of strong earnings rise

4Q FY07 earnings 14% YoY higher, FY07 20% YoY higher

RIL's 4Q FY07 earnings are 14% YoY higher while FY07 earnings are 20% YoY higher (see Table 1).

Table 1: RIL 4QFY07 and FY07 results (unaudited)

Rsmn	4Q FY07	4Q FY06	% Change	FY07	FY06	% Change
Net sales	258,950	245,420	5.5	1,053,630	812,110	29.7
Total expenditure	211,960	204,960	3.4	871,530	669,110	30.3
EBDITA	46,990	40,460	16.1	182,100	143,000	27.3
EBDITA margin	18.1%	16.5%		17.3%	17.6%	
Interest	2,770	2,250	23.1	11,140	8,780	26.9
Depreciation	10,220	9,820	4.1	40,090	34,010	17.9
Other Income	850	870	(2.3)	1,930	6,830	(71.7)
PBT	34,850	29,260	19.1	132,800	107,040	24.1
Tax	6,320	4,240	49.1	23,720	16,350	45.1
Reported PAT	28,530	25,020	14.0	109,080	90,690	20.3
Reported EPS	20.5	17.9	14.0	78.3	65.1	20.3

Source: Company, DSP Merrill Lynch

FY07 earnings kept unchanged pending audited results announcement

These results are unaudited and do not include the impact of merger of its petrochemical subsidiary, which is effective from FY07. Its audited results including the impact of merger will be announced after the receipt of necessary statutory approvals. We are keeping our FY07 earnings of Rs84.1/share, which factors in impact of merger, unchanged pending release of audited numbers.

4Q earnings higher than Mle by 4%, consensus by 6.5%

Interest and depreciation lower and other income higher than expected

RIL's 4Q earnings are 4% above MLe and 6.5% above consensus. RIL's EBITDA was exactly in line with our estimate. The positive earnings surprise was mainly due to

- **Lower-than-expected depreciation and interest:** 4Q depreciation and interest cost was lower than our expectations by Rs780mn and Rs160mn respectively.
- **Higher-than-expected other income:** 4Q reported other income of Rs850mn was higher than our estimate by Rs350mn

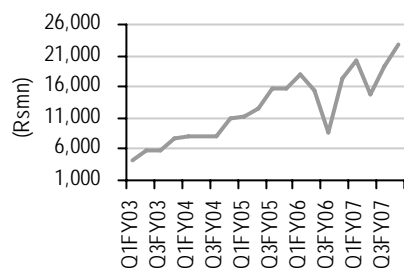
4Q earnings growth driven by surge in refining profitability

31% YoY rise in refining EBIT was the driver of 4Q earnings growth. The rise in refining EBIT more than made up for 24% YoY decline in petrochemicals EBIT.

Table 2: Business wise EBIT break-up in 4QFY07 and FY07

Rsmn	4Q FY07	4Q FY06	% Change	FY07	FY06	% Change
Petrochemicals	11,370	14,880	-23.6%	53,950	47,130	14%
Refining	22,770	17,410	30.8%	77,260	59,160	31%
Others	3,220	3,260	-1.2%	13,350	11,120	20%
	37,360	35,550	5.1%	144,560	117,410	23%
Petrochemicals	30%	42%		37%	40%	
Refining	61%	49%		53%	50%	
Others	9%	9%		9%	9%	
	100%	100%		100%	100%	

Source Company

Chart 1: Refining EBIT at highest ever level


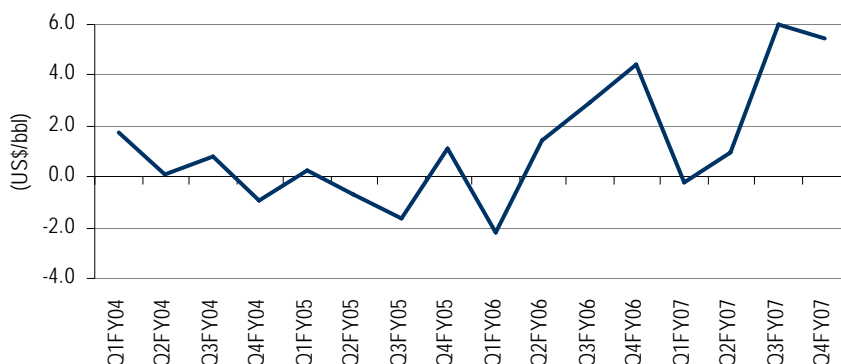
Source: Company, DSP Merrill Lynch

Refining margin and EBIT at highest ever level

RIL's refining margins and refining EBIT was at its highest ever level in 4Q FY07. Its refining margin in 4Q was US\$13/bbl vis-à-vis US\$11.7/bbl in 3Q FY07 and US\$10.4/bbl in 4Q FY06. Crude throughput also rose 3% YoY to 8.1mmt.

RIL's 4Q margin at US\$5.2-6.2/bbl premium to Singapore margins

RIL's 4Q refining margin of US\$13/bbl is at US\$5.2-6.2/bbl premium to benchmark Singapore refining margin of US\$6.8-7.8/bbl as per various sources like Reuters, Petroleum Argus and Merrill Lynch estimate based on Platts. The average premium of RIL's refining margin to Singapore margins in the five quarters since upgrading of the refinery in 3Q FY06 is US\$3.3/bbl now.

Chart 2: Trend in premium of RIL's margins to benchmark Singapore margins


Source: DSP Merrill Lynch

Other significant developments

E&P update

The main updates on the E&P front are as follows

- 1P reserve accretion by 350mmboe in FY07 to 1.4bn boe
- D6 gas production could ramp up to 80mmscmd by mid-2009 or even earlier as against by March 2010 assumed by us in our earnings forecast
- D6 oil production targeted in 2Q FY09E. More details like reserves, development cost and production rate will be divulged after filing of development plan
- Preparation of development plan for the six gas discoveries in NEC-25 is progressing while simultaneously more exploration is also being done
- Gas find in a block in Saurashtra basin is being evaluated. Initial indications are that the find may be relatively small (less than 1 tcf)
- More appraisal wells planned in the KG-III-6 shallow water block in the KG basin to confirm commerciality. Two successful wells (oil discoveries) in this block have been drilled followed by some unsuccessful wells.
- Commercial operation of CBM gas production by 2010 with development plan likely to be submitted in 1Q FY08

D6 gas production ramp up could be faster than MLe

D6 gas development is moving as per schedule. The development plan involves drilling of a maximum of 22 development wells to ramp up output to 80mmscmd. Production is likely to start in mid-2008 at a rate of 20-30mmscmd. It will be gradually ramped up to 80mmscmd by mid-2009. Efforts are being made to ramp up the production rate faster. Note that in our earnings forecast we are assuming ramp up to 80mmscmd by March 2010. Another 25-28 wells are likely to be drilled later to achieve the targeted nine year production plateau.

Efforts on to fast track D6 oil production by 2Q FY09E

The filing with the regulator for commerciality of the MA oil fields in the D6 block was done after MA-1 and MA-2 discoveries. Commerciality was granted by the regulator in February 2007. Efforts are on to fast track oil production. RIL is in talks with two companies getting floating production platforms built speculatively (ie not for own use) so as to modify them to suit RIL's requirements. RIL would be able to file a development plan in 3 months if it is able to tie up the floating production platforms. This will ensure that oil production starts in 2Q FY09.

FDP in process for NEC-25; more exploration work targeted

RIL is currently preparing a development plan for the 6 discoveries made in the NEC-25 block. It simultaneously plans further exploration in deeper areas of the block as it is hopeful of further reserve accretion in these areas. It is trying to hire a rig for drilling in these deeper areas. Any discoveries in the deeper areas will be built in to the development plan.

100% EOU status for Jamnagar complex

RIL's Jamnagar has been declared as 100% export oriented unit (EOU) with effect from April 16, 2007. Jamnagar houses its 660k bpd (33mtpa) refinery as also 0.8mtpa polypropylene (PP) and 1.7mtpa paraxylene (PX) capacity. This will entitle RIL to duty free imports of crude oil (import duty currently is 5% on oil) and income tax holiday at least until FY09E. RIL's Jamnagar complex will have to be a net foreign exchange earner to be entitled to these benefits. RIL contends that this complex was a net foreign exchange earner in FY06 as well as FY07.

RIL's FY08-FY09E tax/PBT assumed at 20-24.5% against 15-20% guidance

Our earnings forecast of RIL assumes tax/PBT being 20% in FY08E and 24.5% FY09E. The management guidance is that tax/PBT will be 15-20% in FY08-FY09E. In FY09E tax/PBT could be even lower as earnings from D6 oil and gas production are exempt from income tax while effective tax on other earnings would be 15-20%.

Maintain FY08E EPS estimates

FY08E EPS 6% YoY higher after assuming 8% equity dilution

We keep our FY08E EPS forecast unchanged at Rs89.1/share, which means 6% YoY rise in earnings. FY08E EPS forecast assumes equity dilution of 8% due to exercise of preferential warrants issued to promoters. FY08E earnings growth would be mainly driven by

- Improvement in petrochemical margins
- Rise in E&P profit following rise in gas production from the Tapti gas fields

Retain Buy rating

RIL has had another year of strong earnings growth in FY07 driven by rise in profitability of all its businesses. In FY08E, earnings growth may be modest due to equity dilution but positive newsflow is likely especially in E&P. This could come in the form of reserve accretion, new discoveries and progress on D6 gas and oil development. FY09E would be a landmark year with D6 oil and gas production and RPL's refinery starting. These projects will be RIL's main drivers of strong earnings growth in FY10E. Earnings growth in FY09E could also be much higher than forecast if D6 oil production starts as targeted in 2H 2008. Early commissioning of RPL also cannot be ruled out. We reaffirm our Buy rating on RIL.

Price Objective Basis & Risk

RIL's price objective on a sum-of-the-parts basis works out to Rs1,732/share. The value of the core refining and petrochemical business has been calculated on DCF. Value of its investment in Reliance Petroleum is calculated on DCF value of RPL and applying it to RIL's holding in RPL. Its oil and gas reserves and resources are also valued on DCF basis. RIL's Retail business is also calculated on DCF basis.

Risks

Significant weakening in refining and petrochemical margins even below our expectation is a risk to our price objective. Such a decline in margins is more likely to be triggered by negative surprises on demand rather than supply. As discussed, our refining margin forecasts assume almost all possible refinery projects coming up. Large disappointments on E&P front could be another risk to our price objective. We have valued even resources and exploration upside. Failure in the retail business would also be another risk to our valuation.

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***iQmethod*SM Measures Definitions**
Business Performance

Return On Capital Employed

Return On Equity

Operating Margin

Earnings Growth

Free Cash Flow

Numerator

NOPAT = (EBIT + Interest Income) * (1 - Tax Rate) + Goodwill

Amortization

Net Income

Operating Profit

Expected 5-Year CAGR From Latest Actual

Cash Flow From Operations – Total Capex

Denominator

Total Assets – Current Liabilities + ST Debt + Accumulated Goodwill

Amortization

Shareholders' Equity

Sales

N/A

N/A

Quality of Earnings

Cash Realization Ratio

Asset Replacement Ratio

Tax Rate

Net Debt-To-Equity Ratio

Interest Cover

Cash Flow From Operations

Capex

Tax Charge

Net Debt = Total Debt, Less Cash & Equivalents

EBIT

Net Income

Depreciation

Pre-Tax Income

Total Equity

Interest Expense

Valuation Toolkit

Price / Earnings Ratio

Price / Book Value

Dividend Yield

Free Cash Flow Yield

Enterprise Value / Sales

Current Share Price

Current Share Price

Annualised Declared Cash Dividend

Cash Flow From Operations – Total Capex

EV = Current Share Price * Current Shares + Minority Equity + Net Debt + Sales

Other LT Liabilities

Enterprise Value

Diluted Earnings Per Share (Basis As Specified)

Shareholders' Equity / Current Basic Shares

Current Share Price

Market Cap. = Current Share Price * Current Basic Shares

Basic EBIT + Depreciation + Amortization

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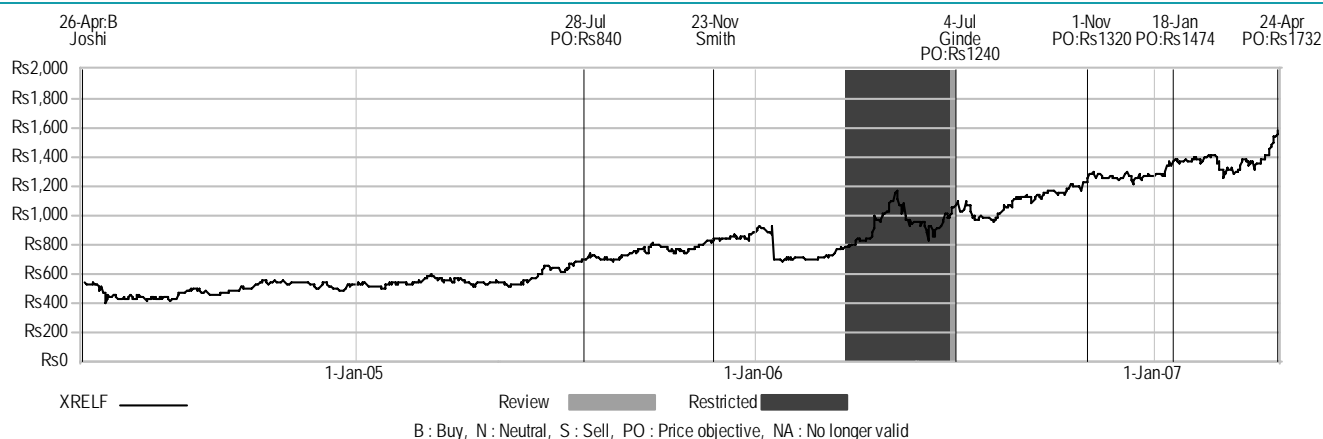
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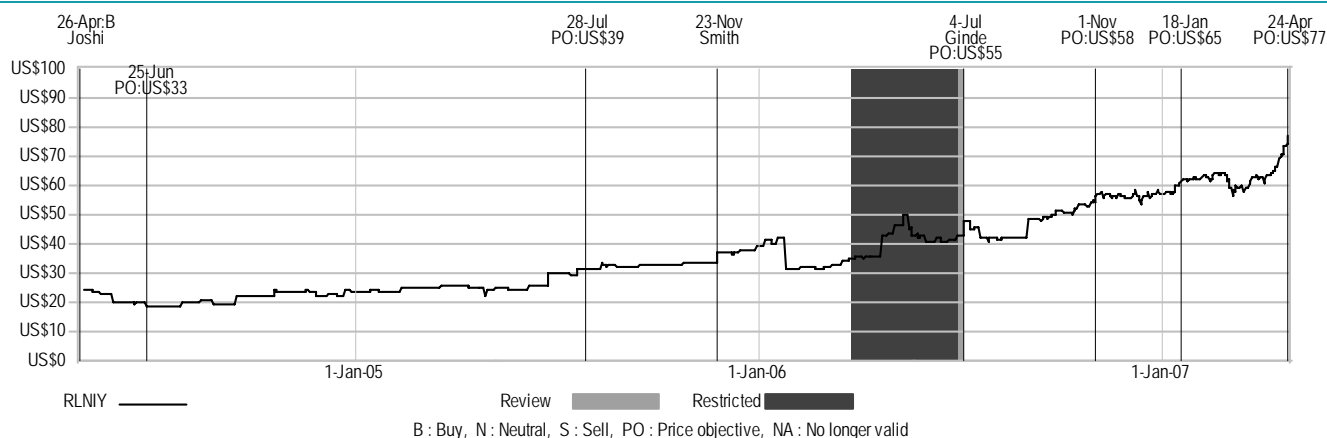
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XREL Price Chart



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RLNIY Price Chart



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Investment Rating Distribution: Chemicals Group (as of 31 Mar 2007)

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	42	58.33%	Buy	8	21.05%
Neutral	26	36.11%	Neutral	6	27.27%
Sell	4	5.56%	Sell	2	66.67%

Investment Rating Distribution: Global Group (as of 31 Mar 2007)

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	1562	45.16%	Buy	415	30.09%
Neutral	1615	46.69%	Neutral	446	30.65%
Sell	282	8.15%	Sell	49	19.76%

* Companies in respect of which MLPF&S or an affiliate has received compensation for investment banking services within the past 12 months.

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