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Stock Rating
Overweight

Industry View
In-Line

Reliance Industries RNRL Conference Call Key Takeaways

Quick Comment: Reliance Natural Resources (RNRL) had a conference call to discuss the gas issue between RIL and RNRL and provided key details of the modified Special Leave Petition (SLP) filed by the Government of India (GoI) yesterday. The key conclusions from the call are as follows:

- 1) National Thermal Power Corp.'s (NTPC) bid of US\$2.34/mmbtu was out of the preview of the Empowered Group of Ministers (EGoM), when the EGoM decided the pricing of US\$4.2/mmbtu for RIL KG-D6 gas. So this price will not apply to NTPC.
- 2) The GoI is not concerned about the private agreement between RIL and RNRL or between the Ambani brothers and so deleted a clause in the SLP that stated that the RIL-RNRL MoU is "Null and Void".
- 3) RNRL's Dadri plant will have a pre-bid meeting in a couple of weeks. Technically, if the company works on a fast-track basis, it would be able to commission the project at the earliest, in our view, only in the next 24 months. In our estimates for RIL, we have assumed US\$4.2/mmbtu for RIL's gas for F2010 and F2011. Thereafter, we have assumed US\$2.52/mmbtu (average of US\$2.34 to be sold to RNRL and US\$2.7 to be sold to NTPC) for 40 mmscmd of gas that would go to RNRNL and NTPC in our earnings for 17 years.

Other comments made by RNRL: 1) The government, while deciding the US\$4.2/mmbtu gas price, mentioned that this pricing would not be applicable to the RIL-NTPC or RIL-RNRL agreements, as both these matters were subjudice at that point in time. 2) On utilization of gas, MoPNG had stated that the gas supplies by the contractor (RIL, in this case) would be subject to the outcome of the EGoM and court orders. 3) As per the PSC, sale of gas by the operator should happen at an "arm's length" price. In 2006, MoPNG stated that the international competitive bidding followed by NTPC in 2004 was the most recent "arm's length" price available for the valuation of gas.

Key Ratios and Statistics

Reuters: RELI.BO Bloomberg: RIL IN

India Oil & Gas

| | |
|--------------------------------|-------------------|
| Price target | Rs2,371.00 |
| Upside to price target (%) | 20 |
| Shr price, close (Sep 2, 2009) | Rs1,971.75 |
| 52-Week Range | Rs2,490.00-930.00 |
| Sh out, dil, curr (mn) | 1,453 |
| Mkt cap, curr (mn) | Rs2,865,722 |
| EV, curr (mn) | Rs3,187,718 |
| Avg daily trading value (mn) | Rs2,833 |

| Fiscal Year ending | 03/08 | 03/09e | 03/10e | 03/11e |
|---------------------------|-----------|-----------|-----------|-----------|
| ModelWare EPS (Rs) | 104.96 | 98.51 | 118.48 | 180.19 |
| Prior ModelWare EPS (Rs) | - | - | - | - |
| Consensus EPS (Rs)§ | 106.26 | 98.78 | 122.79 | 165.62 |
| Revenue, net (Rs mn) | 1,410,281 | 1,377,607 | 1,776,566 | 2,415,075 |
| EBITDA (Rs mn) | 233,061 | 229,946 | 338,222 | 489,448 |
| ModelWare net inc (Rs mn) | 152,539 | 152,486 | 194,618 | 295,979 |
| P/E | 21.6 | 15.5 | 16.6 | 10.9 |
| P/BV | 4.0 | 2.2 | 2.5 | 2.1 |
| RNOA (%) | 21.0 | 10.5 | 9.9 | 14.6 |
| ROE (%) | 23.8 | 18.7 | 17.5 | 23.2 |
| EV/EBITDA | 15.5 | 13.1 | 10.3 | 6.8 |
| Div yld (%) | 0.6 | 0.9 | 0.9 | 1.4 |
| FCF yld ratio (%) | 0.6 | (14.2) | 2.7 | 8.1 |
| Leverage (EOP) (%) | 39.5 | 45.4 | 36.0 | 18.3 |

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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Key highlights of the SLP filed by the Government of India in the RIL-RNRL case are as follows:-

- It is not concerned with the RIL-RNRL agreement.
- It is not seeking to override the private arrangement with the Ambani brothers.
- NTPC's bid of US\$2.34/mmbtu was kept out of the preview of the EGOM, when the EGoM decided the pricing of US\$4.2/mmbtu for RIL KG-D6 gas. So this price would not be applicable to NTPC.
- Approval for the price of sale was prejudice to the rights of NTPC.
- The Gol has not stated that NTPC's gas price was decided as US\$4.2/mmbtu in the Mumbai High Court

The Government has also requested deletion of the following points:

- Declaration of MOU between RIL and RNRL as "Null and void"
- That provisions of PSC shall prevail over the MOU has also been deleted.

What is the case all about: RIL and RNRL are battling a case regarding the sale of the KG D6 gas as well as the pricing for the same. The court case relates to whether RIL has to sell **its first** 28 mmscmd of gas to RNRL (40 mmscmd including the 12 mmscmd for NTPC, if NTPC does not take the gas) at US\$2.34/mmbtu and for a period of 17 years.

In another court case, RIL is in a dispute with NTPC over the provision of 12 mmscmd of gas for its Gandhar and Kawas expansion at US\$2.7/mmbtu.

Exhibit 3

Reliance Industries Gas Model Assumptions

| | F2009e | F2010e | F2011e | F2012e | F2013e | F2014e | F2015e |
|---|---------------|---------------|----------------|----------------|----------------|----------------|----------------|
| Production (mmscmd) | 0.0 | 50.0 | 84.5 | 96.1 | 123.5 | 123.5 | 126.4 |
| KG D6 | 0.0 | 50.0 | 80.0 | 80.0 | 95.0 | 95.0 | 95.0 |
| KG Basin Gas-MA Field | 0.0 | 0.0 | 4.5 | 9.0 | 9.0 | 9.0 | 9.0 |
| NEC 25 | 0.0 | 0.0 | 0.0 | 1.6 | 6.5 | 6.5 | 9.4 |
| CBM | 0.0 | 0.0 | 0.0 | 5.5 | 13.0 | 13.0 | 13.0 |
| RIL's Production Share (mmscmd) | | 45.0 | 76.1 | 87.1 | 112.5 | 112.5 | 115.1 |
| KG D6 | | 45.0 | 72.0 | 72.0 | 85.5 | 85.5 | 85.5 |
| KG Basin Gas-MA Field | | 0.0 | 4.1 | 8.1 | 8.1 | 8.1 | 8.1 |
| NEC 25 | | 0.0 | 0.0 | 1.5 | 5.9 | 5.9 | 8.4 |
| CBM | | 0.0 | 0.0 | 5.5 | 13.0 | 13.0 | 13.0 |
| Weighted Average Gas Price(US\$/mmbtu) | | 4.20 | 4.24 | 3.76 | 4.01 | 4.01 | 4.05 |
| KG D6 | 2.52 | 4.20 | 4.15 | 3.36 | 3.49 | 3.49 | 3.49 |
| KG Basin Gas-MA Field | 5.75 | 5.75 | 5.75 | 5.75 | 5.75 | 5.75 | 5.75 |
| NEC 25 | 5.75 | 5.75 | 5.75 | 5.75 | 5.75 | 5.75 | 5.75 |
| CBM | 5.75 | 5.75 | 5.75 | 5.75 | 5.75 | 5.75 | 5.75 |
| Net Profit (Rs Million) | | | | | | | |
| KG D6 | - | 66,716 | 115,536 | 86,089 | 96,784 | 93,153 | 83,538 |
| NEC 25 | - | - | - | 2,421 | 14,380 | 14,302 | 18,986 |
| CBM | - | - | - | 11,374 | 31,881 | 28,219 | 25,983 |
| KG Basin Gas-MA Field | - | 9,379 | 34,516 | 48,797 | 44,156 | 48,734 | 48,625 |
| PMT Field | 14,692 | 13,965 | 13,642 | 14,667 | 14,667 | 14,667 | 14,667 |
| Total | 14,692 | 85,084 | 152,433 | 152,087 | 190,607 | 187,814 | 180,538 |

e = Morgan Stanley Research estimates

Source: Company data, Morgan Stanley Research

Morgan Stanley has provided valuation advice to Reliance Industries

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(as of August 31, 2009)

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|--------------------------|-------------------|------------|----------------------------------|----------------|----------------------|
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| Equal-weight/Hold | 1062 | 46% | 316 | 49% | 30% |
| Not-Rated/Hold | 26 | 1% | 3 | 0% | 12% |
| Underweight/Sell | 434 | 19% | 88 | 14% | 20% |
| Total | 2,305 | | 645 | | |

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Industry Coverage: India Oil & Gas

| Company (Ticker) | Rating (as of) | Price (09/02/2009) |
|---|----------------|--------------------|
| Vinay Jaising | | |
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| Cairn India Ltd. (CAIL.BO) | O (06/23/2009) | Rs256.75 |
| GAIL (India) (GAIL.BO) | O (04/05/2007) | Rs344.6 |
| Hindustan Petroleum (HPCL.BO) | O (02/03/2009) | Rs385.4 |
| Indian Oil Corp (IOC.BO) | O (02/03/2009) | Rs609.75 |
| Oil & Natural Gas Corp. (ONGC.BO) | E (07/09/2009) | Rs1,156.75 |
| Reliance Industries (RELI.BO) | O (06/15/2006) | Rs1,971.75 |
| Reliance Petroleum Limited (RPET.BO) | E (02/03/2009) | Rs122.05 |
| Mayank Maheshwari | | |
| Aban Offshore Ltd (ABAN.BO) | O (06/11/2008) | Rs1,535.35 |

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