

### Natural Partner for Natural gas

#### ■ Reliance enters into partnership with JV

We believe BP's expertise in deep water E&P is one of the key reasons for the partnership because Reliance has been facing technical issues in the KG basin. Additionally, BP plans import and distribution of gas in India.

#### ■ BP implied valuation negative for our RIL upstream value

We value Reliance's upstream business, including the exploration option, at US\$ 26 bn. BP will pay US\$ 9bn (7.2 assured + 1.8 contingent) i.e. no premium for 33% of this. The deal looks EPS neutral for Reliance as interest income will make up for loss on EBIT, though the earnings quality will deteriorate.

#### ■ BP's technical expertise a plus

We believe the deal is long term positive for the Indian gas sector. The deep water technical capabilities of BP should help in superior management of the reservoir. We believe the street may view this as a negative for Reliance as the price that BP is paying is probably below street's upstream NAV, though in line with our numbers which we earlier risk adjusted on technical issues.

#### ■ Valuation: We maintain our Neutral and SOTP based PT of Rs 1050

Lack of clarity on the use of US\$10bn (US\$ 3bn existing cash + US\$ 7.2bn from the deal; 15% of mkt cap) may remain an overhang on the stock. Although, payment of a special dividend will be seen as a positive though there is no such precedent with Reliance. BP trades at 7.1x FY12e PE, about half the forward PE that Reliance trades on.

Highlights (Rsm)	03/09	03/10	03/10E	03/12E	03/13E
Revenues	1,534,936	2,097,747	2,670,849	2,770,497	2,844,666
EBIT (UBS)	177,712	199,481	263,208	280,279	303,433
Net Income (UBS)	149,687	245,031	214,886	223,618	249,821
EPS (UBS, Rs)	54.44	82.28	65.71	68.38	76.39
Net DPS (UBS, Rs)	6.90	7.00	7.00	8.00	10.00

Profitability & Valuation	5-yr hist av.	03/10	03/12E	03/13E	03/13E
EBIT margin %	13.3	9.5	9.9	10.1	10.7
ROIC (EBIT) %	-	11.5	14.6	15.4	16.5
EV/EBITDA (core) x	10.3	12.1	8.4	7.6	6.7
PE (UBS) x	13.4	12.4	14.3	13.7	12.3
Net dividend yield %	1.0	0.7	0.7	0.9	1.1

Source: Company accounts, Thomson Reuters, 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 Rs937.35 on 18 Feb 2011 23:38 SGT

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## Global Equity Research

India

Chemicals, Commodity

12-month rating **Neutral**  
**Unchanged**

12m price target **Rs1,050.00/US\$46.53**  
**Unchanged**

Price **Rs937.35/US\$41.51 (ADR)**

RIC: RELI.BO BBG: RIL IB

21 February 2011

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

52-wk range	Rs1,129.00-895.65/US\$50.76-39.07
Market cap.	Rs3,081bn/US\$68.2bn
Shares o/s	3,287m (ORD)/1,643m (ADR)
ADR ratio	1 ADR:2 ORD
Free float	55%
Avg. daily volume ('000)	5,700/-
Avg. daily value (m)	Rs5,627.4/-

#### Balance sheet data 03/11E

Shareholders' equity	Rs1,602bn
P/BV (UBS)	1.9x
Net Cash (debt)	(Rs378bn)

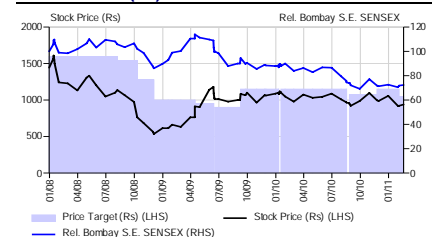
#### Forecast returns

Forecast price appreciation	+12.0%
Forecast dividend yield	0.8%
Forecast stock return	+12.8%
Market return assumption	13.1%
Forecast excess return	-0.3%

#### EPS (UBS, Rs)

	03/11E	03/10
	UBS	Cons. Actual
Q1	18.04	- 22.28
Q2E	18.04	- 22.28
Q3E	18.04	18.39 22.28
Q4E	18.04	18.39 22.28
03/11E	65.71	65.71
03/12E	68.38	68.38

#### Performance (Rs)



Source: UBS

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## ■ Reliance Industries

Reliance Industries (RIL) is the largest integrated oil and gas company in India. Its three main businesses are exploration & production, refining and petrochemicals. Its two refineries in Jamnagar, Gujarat have among the highest complexity globally and a combined capacity of 1mbpd. The company's FY10 turnover was US\$46bn. It derives more than 50% of its revenue from exports.

## ■ Statement of Risk

We believe gas volumes from KG-D6 are key drivers of the stock's performance. Refining and petrochemical margins are also major drivers of the company's earnings.

## ■ Analyst Certification

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### UBS Investment Research: Global Equity Rating Allocations

UBS 12-Month Rating	Rating Category	Coverage <sup>1</sup>	IB Services <sup>2</sup>
Buy	Buy	49%	40%
Neutral	Hold/Neutral	42%	35%
Sell	Sell	8%	21%
UBS Short-Term Rating	Rating Category	Coverage <sup>3</sup>	IB Services <sup>4</sup>
Buy	Buy	less than 1%	14%
Sell	Sell	less than 1%	0%

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 31 December 2010.

### 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.

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**Equity Price Targets** have an investment horizon of 12 months.

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**Company Disclosures**

Company Name	Reuters	12-mo rating	Short-term rating	Price	Price date
BP <sup>2, 4, 5, 6, 14, 16, 18</sup>	BP.L	Buy	N/A	493p	18 Feb 2011
Reliance Industries <sup>4, 6</sup>	RELI.BO	Neutral	N/A	Rs937.35	18 Feb 2011

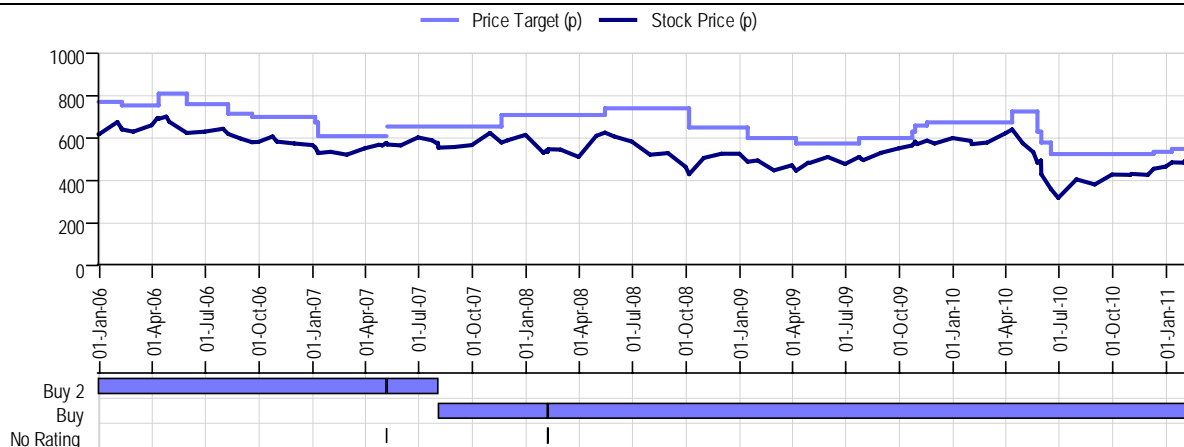
Source: UBS. All prices as of local market close.

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

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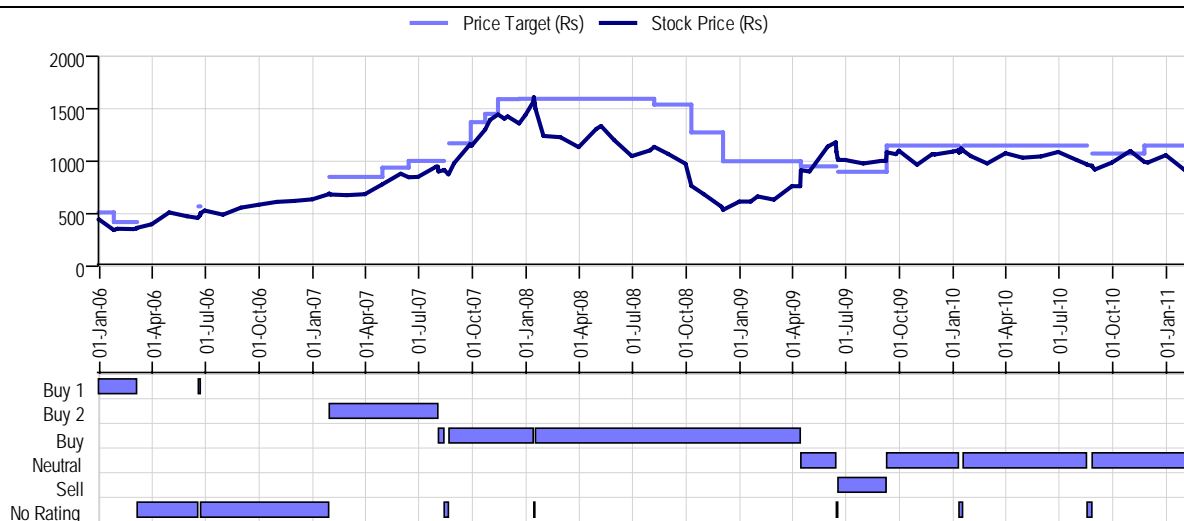
Unless otherwise indicated, please refer to the Valuation and Risk sections within the body of this report.

BP (p)



Source: UBS; as of 18 Feb 2011

Reliance Industries (Rs)



Source: UBS; as of 18 Feb 2011

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%.

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