

INDIA

Oil price forecast change

16 January 2007

ONGC IN Underperform

Stock price as of 15 Jan 07	Rs	916.10
12-month target	Rs	665.00
Upside/downside	%	-27.4
Valuation	Rs	739.00
- DCF (WACC 11.5%)		

GICS sector		energy
Market cap	Rs bn	1,959
30-day avg turnover	US\$m	6.8
Market cap	US\$m	44,216
Number shares on issue	m	2,139

CAIR IN Neutral

Stock price as of 15 Jan 06	Rs	141.50
12-month target	Rs	135.00
Upside/downside	%	-4.5
Valuation	Rs	150.00
- Sum of Parts		

GICS sector		energy
Market cap	Rs m	254,459
Market cap	US\$m	5,742
Number shares on issue	m	1,798

RIL IN Outperform

Stock price as of 15 Jan 07	Rs	1,364.95
12-month target	Rs	1,547.00
Upside/downside	%	+13.3
Valuation	Rs	1,719.00
- Sum of Parts		

GICS sector		energy
Market cap	Rs bn	1,902
30-day avg turnover	US\$m	23.9
Market cap	US\$m	42,922
Number shares on issue	m	1,394

Analysts

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Long-term hike outstrips near-term cut

Event

- Our oil & gas sector head, David Johnson, has downgraded the crude oil forecast by 3–8% for 2007E–09E, but upgraded the long-term (2011E onwards) forecast from US\$45/bbl to US\$58/bbl (US\$52/bbl in 2007 US\$ terms). We raise our target price for ONGC (+21%), Reliance Industries (+9%) and Cairn India (+4%) primarily due to the significant impact on the terminal value of the DCF components of our sum-of-parts models.

Impact

- Oil demand/supply balance.** David Johnson forecasts new supply increases to outstrip annual oil demand growth of 1.6–2.1% from 2007–10, raising absolute stock levels, but when measured as days of consumption, stocks show a decline in 2010. For more details, see *Oil price forecast – Consumers won't buy US\$70 oil*, dated 15 January 2007.
- ONGC: Earnings cut, sharp terminal value hike.** ONGC's FY08–FY09E oil price cut impacts our target price mildly by 2%, especially as it is tempered by adjustment in subsidy burden. But, we upgrade our target price by 21% to Rs665, given the hike in the long-term price on terminal value, which accounts for three-fourths of our DCF-based target price for ONGC.
- Cairn India: Terminal value hike tempered by capital cost rise.** Similarly, we raise Cairn India's target price by 4% to Rs135. The higher terminal oil price will enhance value by Rs15/share, but would be tempered by the recently announced ~US\$ 240m capital cost of the pipeline to evacuate crude oil.
- Reliance: Spurred by rise in equity holdings.** The positive impact on Reliance will be small, given that oil (compared with gas in addition to refining and petrochemicals) only contributes towards a small portion of its business. Combined with the increase in value of its equity holdings (especially treasury stock), we increase our target price by 9% to Rs1,547.
- We reiterate a switch from ONGC to Reliance.** 60%+ efficiency at striking oil or gas by Reliance, compared with only one large find by ONGC in many years may enable Reliance to become as large as ONGC, in addition to becoming one of the largest petrochemical facilities and refineries globally.
- We are upgrading Cairn India to Neutral**, given both the sharp 16% decline in the stock price since listing and a 4% upgrade in our target price.

Fig 1 Summary of changes in target price

(Rs/share)	Old TP	Short term oil f'cast	Long term oil f'cast	Others*	New TP	%change
ONGC	550	-9	+102	+22	665	20.9%
Reliance Industries	1415	-43	+121	+54	1547	9.3%
Cairn India	130	-4	+15	-6	135	3.8%

* Includes changes due to forecast forex rate, +22 for ONGC, +40 for RIL & +5 for CAIR

Source: Macquarie Research, January 2007

Please refer to the important disclosures on inside back cover of this document, or on our website www.macquarie.com.au/research/disclosures.

Summary of Oil price forecast – Consumers won't buy US\$70 oil

David Johnson, +852 2823 4691, david.johnson-hkg@macquarie.com

Oil price forecast

Our forecast is for flat-to-lower oil prices, rather than the US\$10/bbl annual increases we have seen over the last five years. The 2007 forecast of US\$66.0/bbl for West Texas Intermediate (WTI) is almost unchanged on the 2006 actual. We then look for a decline to US\$63/bbl in 2008, with prices moving below US\$60/bbl in 2009. Our 2011 forecast for US\$58/bbl is equivalent to our long-term price of US\$52/bbl real (2007 US\$).

Oil demand/supply balance

Our forecast is for annual oil demand growth of 1.6–2.1% from 2007–10, compared to 1.1–1.2% in 2005–06. Asia/Pacific is the major source of growth.

Non-OPEC supply improves on the back of new developments brought on-stream in response to higher prices. OPEC is adding capacity and is likely to raise output of oil and NGLs over time, despite the recent push for restraint.

The forecast demand/supply balance shows absolute stock levels rising in 2007–10 but, when measured as days of consumption, stocks show a decline in 2010.

Risks

Our base oil price forecast has factored in the normal risks associated with weather, stock levels etc... The actual forecast includes allowances for the following additional major risk factors:

- Oil prices above US\$50–55/bbl real may stifle growth in oil demand.
- A full-scale civil war in Iraq could cut oil production completely for 1–2 years.
- OPEC will attempt to restrain production and drive prices higher.

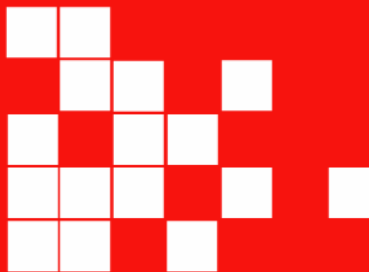
Summary

Our base oil price forecast is based on the view that the demand/supply balance and the economics of exploration and production support an OPEC basket price in a range of US\$35–40/bbl. Allowing for both the normal price premiums and the major risks discussed above, our forecast is for a WTI oil price above US\$60/bbl in 2007–08 then a decline below US\$60/bbl from 2009.

Fig 2 Oil price forecast

US\$/bbl	2007F	2008F	2009F	2010F	2011F
Base price	65.00	62.00	55.50	56.50	57.90
Low growth case	65.00	62.00	52.50	52.00	53.40
Civil war in Iraq	72.00	72.00	70.00	68.00	68.00
OPEC restrictions hold in 07-08	68.00	64.00	55.50	56.50	57.90
Macquarie price forecast					
WTI	66.00	63.00	56.50	57.00	58.00
Brent	65.00	61.75	55.25	55.75	56.75
Dubai	61.50	58.25	52.25	53.50	54.50

Source: Macquarie Research, January 2007



INDIA

ONGC

16 January 2007

ONGC IN Underperform

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12-month target	Rs	665.00
Upside/downside	%	-27.4
Valuation	Rs	739.00
- DCF (WACC 11.5%)		

GICS sector		energy
Market cap	Rs bn	1,959
30-day avg turnover	Rs m	302.8
Market cap	US\$m	44,216
Number shares on issue	m	2,139

Investment fundamentals

Year end 31 Mar		2006A	2007E	2008E	2009E
Total revenue	bn	714.6	972.7	979.8	990.4
EBIT	bn	220.8	265.8	271.7	276.6
EBIT Growth	%	5.1	20.4	2.2	1.8
Recurring profit	bn	239.5	295.5	300.2	311.0
Reported profit	bn	154.0	183.4	186.6	193.7
EPS rep	Rs	71.99	85.75	87.26	90.56
EPS rep growth	%	7.7	19.1	1.8	3.8
EPS adj	Rs	71.87	85.75	87.26	90.56
EPS adj growth	%	7.1	19.3	1.8	3.8
PE rep	x	12.7	10.7	10.5	10.1
PE adj	x	12.7	10.7	10.5	10.1
Total DPS	Rs	30.00	30.00	30.00	30.00
Total div yield	%	3.3	3.3	3.3	3.3
ROA	%	24.7	25.4	23.7	22.2
ROE	%	29.9	31.4	27.9	25.7
EV/EBITDA	x	5.9	4.8	4.7	4.4
Net debt/equity	%	-10.5	-18.0	-21.1	-23.9
Price/book	x	3.6	3.1	2.8	2.5

ONGC IN rel SENSEX performance, & rec history



Source: Datastream, Macquarie Research, January 2007 (all figures in INR unless noted)

Analysts

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Sharp terminal value-driven hike

Event

- Our oil & gas sector head, David Johnson, has downgraded his crude oil forecast by 3–8% for 2007E to 2009E, but upgraded his long-term (2011E onwards) forecast from US\$45/bbl to US\$58/bbl (US\$52/bbl in 2007 US\$ terms). We raise our target price for ONGC (+21%) due to the significant impact on the terminal value of our DCF-based valuation model.

Impact

- Oil demand/supply balance.** David forecasts new supply increases to outstrip annual oil demand growth of 1.6–2.1% in 2007–10, raising absolute stock levels, but when measured as days of consumption, stocks show a decline in 2010. For more details, see *Oil price forecast – Consumers won't buy US\$70 oil*, 15 January 2007.
- Mild near-term earnings downgrade.** We slightly lower our FY08E earnings forecast for ONGC by 0.6% on the back of the 5% cut in oil price forecasts during that period. The sensitivity of ONGC's earnings is significantly reduced due to a similar change in the oil subsidy burden, especially above US\$55/bbl.
- Target price increased given the terminal oil price hike.** Our target price for ONGC is based on discounted cashflow (DCF). Terminal value contributes towards 78% of the weight. As the upgrade in terminal value of oil is significant, from US\$45/bbl to US\$58/bbl, we raise our target price for ONGC by 21% to Rs665.

Earnings revision

- The FY08–09E oil price cut impacts our target price for ONGC by a slight 2%, especially as this is tempered by the adjustment in the subsidy burden (Figure 1)

Price catalyst

- 12-month price target: Rs665.00 based on a DCF methodology.
- Catalyst: Oil prices; worsening finding costs and exploratory strike rate.

Action and recommendation

- ONGC is currently caught in a unique no-win situation:
 - ⇒ Upside is capped as the subsidy burden rises in a high oil price environment.
 - ⇒ A fall in oil prices would directly impact earnings, especially below US\$55/bbl.
- Fundamentals are deteriorating due to inefficiency in finding new reserves and a surge in rig hiring charges and employee costs.
- We reiterate our Underperform recommendation. Our target price of Rs665 is 27% below the current market price.

Please refer to the important disclosures on inside back cover of this document, or on our website www.macquarie.com.au/research/disclosures.

Fig 1 Summary of ONGC's net profit changes

(Rs m)	FY07E	FY08E	FY09E	FY10E
Old	184,489	187,786	188,330	161,380
New	183,410	186,634	193,694	194,595
% change	-0.6%	-0.6%	+2.4%	+20.6%

Source: Macquarie Research, January 2007

Fig 2 Summary of assumptions for DCF valuation of ONGC

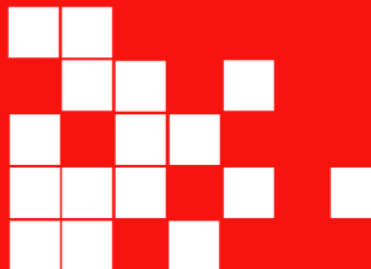
WACC calculation	Rationale behind assumptions	DCF calculation	Terminal-value calculation
WACC	11.5%	WACC (%)	11.5%
Risk-free rate	7.5% 10-year govt bond yield	PV of FCF to FY10	324,924
Beta	1.03 Forward looking Beta	Terminal Value	1,862,301 multiple (x)
Risk premium	7.0%	PV of terminal value	1,205,691
Marginal tax rate (surcharge ignored)	33.0%	EV (Rs m)	1,530,614
Cost of equity	14.7%	Less Net debt	-57348
Gross cost of debt	7.5%	Value for shareholders	1,580,429
Net cost of debt (post tax)	5.0%	Per share value (Rp)	739
Debt/ capital ratio	33.3%	Target price (Rp)	665

Source: Macquarie Research, January 2007

Oil and Natural Gas Corporation (ONGC IN, Underperform, Target price: Rs665.00)

Profit & Loss					Profit & Loss						
	2002A	2003A	2004A	2005A		2006A	2007E	2008E	2009E		
Revenue	m	232,445	348,463	442,517	600,362	Revenue	m	714,636	972,740	979,848	990,426
Gross Profit	m	163,660	251,896	256,341	351,312	Gross Profit	m	376,280	522,789	551,190	580,187
Cost of Goods Sold	m	68,784	96,567	186,175	249,050	Cost of Goods Sold	m	338,356	449,951	428,658	410,240
EBITDA	m	126,180	198,821	202,034	283,610	EBITDA	m	318,627	388,065	401,361	422,887
Depreciation	m	38,075	41,514	65,525	73,586	Depreciation	m	97,852	122,260	129,638	146,239
Amortisation of Goodwill	m	0	0	0	0	Amortisation of Goodwill	m	0	0	0	0
Other Amortisation	m	0	0	0	0	Other Amortisation	m	0	0	0	0
EBIT	m	88,105	157,307	136,509	210,024	EBIT	m	220,775	265,804	271,723	276,647
Net Interest Income	m	-2,844	-1,681	-3,822	-1,877	Net Interest Income	m	-1,135	-6,551	-5,851	-4,559
Associates	m	0	0	0	0	Associates	m	0	0	0	0
Exceptionals	m	51	-10,407	1,164	-532	Exceptionals	m	262	0	0	0
Other Pre-Tax Income	m	13,496	16,781	15,054	16,680	Forex Gains / Losses	m	0	0	0	0
Pre-Tax Profit	m	98,809	161,999	148,905	224,294	Other Pre-Tax Income	m	19,905	36,248	34,297	38,910
Tax Expense	m	-36,593	-57,576	-54,021	-79,471	Pre-Tax Profit	m	239,808	295,502	300,168	310,999
Net Profit	m	62,216	104,423	94,884	144,823	Tax Expense	m	-84,932	-111,026	-112,784	-116,654
Minority Interests	m	0	-251	1,078	1,816	Net Profit	m	154,875	184,476	187,384	194,345
						Minority Interests	m	-899	-1,066	-749	-651
Reported Earnings	m	62,216	104,675	93,805	143,007	Reported Earnings	m	153,976	183,410	186,634	193,694
Adjusted Earnings	m	62,165	115,082	92,641	143,540	Adjusted Earnings	m	153,714	183,410	186,634	193,694
EPS (rep)		43.63	73.41	65.79	100.29	EPS (rep)		71.99	85.75	87.26	90.56
EPS (adj)		43.60	80.71	64.97	100.66	EPS (adj)		71.87	85.75	87.26	90.56
EPS Growth yoy (adj)	%	0.00	85.12	-19.50	54.94	EPS Growth (adj)	%	7.1	19.3	1.8	3.8
						PE (rep)	x	12.7	10.7	10.5	10.1
DPS		14.00	31.67	24.00	40.00	PE (adj)	x	12.7	10.7	10.5	10.1
Weighted Average Shares	m	1,426	1,426	1,426	1,426	Total DPS		30.00	30.00	30.00	30.00
Period End Shares	m	1,426	1,426	1,426	1,426	Total Div Yield	%	3.3	3.3	3.3	3.3
						Weighted Average Shares	m	2,139	2,139	2,139	2,139
						Period End Shares	m	2,139	2,139	2,139	2,139
Profit and Loss Ratios					Cashflow Analysis						
	2006A	2007E	2008E	2009E		2006A	2007E	2008E	2009E		
Revenue Growth	%	19.0	36.1	0.7	1.1	EBITDA	m	318,627	388,065	401,361	422,887
EBITDA Growth	%	12.3	21.8	3.4	5.4	Tax Paid	m	-84,932	-111,026	-112,784	-116,654
EBIT Growth	%	5.1	20.4	2.2	1.8	Chgs in Working Cap	m	-37,262	-6,350	356	694
Gross Profit Margin	%	52.7	53.7	56.3	58.6	Net Interest Paid	m	-1,135	-6,551	-5,851	-4,559
EBITDA Margin	%	44.6	39.9	41.0	42.7	Other	m	32,760	31,571	15,875	18,630
EBIT Margin	%	30.9	27.3	27.7	27.9	Operating Cashflow	m	228,058	295,710	298,956	320,997
Net Profit Margin	%	21.7	19.0	19.1	19.6	Acquisitions	m	0	0	0	0
Payout Ratio	%	41.7	35.0	34.4	33.1	Capex	m	-189,497	-179,332	-192,366	-209,943
EV/EBITDA	x	5.9	4.8	4.7	4.4	Asset Sales	m	0	0	0	0
EV/EBIT	x	8.5	7.0	6.9	6.8	Other	m	19,905	36,248	34,297	38,910
						Investing Cashflow	m	-169,592	-143,084	-158,070	-171,032
Balance Sheet Ratios					Dividend (Ordinary)	m	-64,167	-64,167	-64,167	-64,167	
ROE	%	29.9	31.4	27.9	25.7	Equity Raised	m	0	0	0	0
ROA	%	24.7	25.4	23.7	22.2	Debt Movements	m	62,846	-35,719	-4,840	16,772
ROIC	%	32.4	33.8	32.4	30.3	Other	m	-26,786	-31,200	-39,045	-45,426
Net Debt/Equity	%	-10.5	-18.0	-21.1	-23.9	Financing Cashflow	m	-28,107	-131,087	-108,052	-92,821
Interest Cover	x	194.6	40.6	46.4	60.7	Net Chg in Cash/Debt	m	30,621	21,540	32,835	57,144
Price/Book	x	3.6	3.1	2.8	2.5						
Book Value per Share		253.1	293.9	332.7	371.8						
						Balance Sheet		2006A	2007E	2008E	2009E
						Cash	m	160,797	182,337	215,171	272,315
						Receivables	m	54,057	71,786	74,257	76,578
						Inventories	m	58,554	83,152	84,611	85,512
						Investments	m	16,976	16,976	16,976	16,976
						Fixed Assets	m	563,349	598,778	655,319	710,145
						Intangibles	m	0	0	0	0
						Other Assets	m	144,504	144,504	144,504	144,504
						Total Assets	m	998,238	1,097,533	1,190,839	1,306,030
						Payables	m	69,341	86,536	84,580	82,451
						Short Term Debt	m	85,590	45,759	40,404	31,176
						Long Term Debt	m	17,859	21,971	22,486	48,486
						Provisions	m	43,523	54,236	57,796	61,243
						Other Liabilities	m	233,150	251,042	263,304	275,547
						Total Liabilities	m	449,463	459,543	468,570	498,903
						Shareholders' Funds	m	545,123	632,483	715,407	799,067
						Minority Interests	m	7,533	9,389	10,744	11,943
						Other	m	-3,882	-3,882	-3,882	-3,882
						Total S/H Equity	m	548,775	637,990	722,269	807,128
						Total Liab & S/H Funds	m	998,238	1,097,533	1,190,839	1,306,030

All figures in INR unless noted.
Source: Macquarie Research, January 2007



INDIA

Cairn India

16 January 2007

CAIR IN Neutral

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Number shares on issue	m	1,798

Investment fundamentals

Year end 31 Mar		2007E	2008E	2009E	2010E
Total revenue	m	2,896	12,950	37,044	79,058
EBIT	m	-467	-1,401	12,329	25,260
EBIT Growth	%	nmf	-200.2	nmf	104.9
Recurring profit	m	-1,294	-5,592	7,618	21,788
Adjusted profit	m	-1,294	-5,592	7,009	20,699
EPS adj	Rs	-0.72	-3.11	3.90	11.51
EPS adj growth	%	nmf	-332.0	nmf	195.3
PE adj	x	nmf	nmf	36.4	12.3
Total div yield	%	0.0	0.0	0.0	0.0
ROA	%	-0.1	-0.4	3.6	7.3
ROE	%	-0.5	-2.0	2.5	7.0
EV/EBITDA	x	557.7	93.4	14.0	8.0
Price/book	x	0.9	0.9	0.9	0.8

Refer to our initiation report, Valuation is the key, 9 January 2007.

Analysts

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Higher cost tempers target price hike

Event

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Impact

- Oil demand/supply balance.** David forecasts new supply increases to outstrip annual oil demand growth of 1.6–2.1% in 2007–10, raising absolute stock levels, but when measured as days of consumption, stocks show a decline in 2010. For more details, see *Oil price forecast – Consumers won't buy US\$70 oil*, 15 January 2007.
- Crude transportation risk alleviated.** The government's nominated buyer ONGC and Cairn have reached an agreement to build a US\$340m pipeline to transport crude oil from the Barmer district of Rajasthan to the pipeline terminal in Viramgam in Gujarat in 12–18 months. This alleviates concern that the pipeline would not be ready in time for production commencement. As Cairn would have to bear 70% of the building cost of the pipeline, it is unlikely to gain from higher oil prices.
- Terminal value hike tempered by capital cost rise.** We raise our share price target for Cairn India by 4% to Rs135. A higher terminal oil price would enhance value by Rs15/share, but would be tempered by the recently announced ~US\$ 240m capital cost of the pipeline to evacuate crude oil (Figure 2).

Earnings revision

- We have reduced our FY07E and FY08E earnings by 0.4% and 1.1%, respectively, on the back of the downgrade in short-term global oil price forecasts (Figure 1).

Price catalyst

- 12-month price target: Rs135.00 based on a Sum of Parts methodology.
- Catalyst: New finds, upward revision of reserves, tax (cess) incidence.

Action and recommendation

- We derive a sum-of-parts value** (DCF valuations for Rajasthan and Ravva fields and relative valuation for other fields) of Rs150/share or US\$10.9/boe. We have assigned a premium of Rs22 per share (~13% of equity value) to Cairn's strong track record in striking oil.
- Recommendation upgraded to Neutral.** The stock price has declined sharply by ~16% within the first week of listing. We upgrade our recommendation from Underperform to Neutral.

Please refer to the important disclosures on inside back cover of this document, or on our website www.macquarie.com.au/research/disclosures.

Fig 1 Summary of Cairn India's net profit changes

(Rs mn)	FY07E	FY08E	FY09E	FY10E
Old	-1291	-5530	6801	20237
New	-1296	-5592	7009	20699
% change	-0.4%	-1.1%	3.1%	+2.3%

Source: Macquarie Research, January 2007

Fig 2 Snapshot of Cairn India's valuation

Oil reserves	Pessimistic scenario	Base scenario	Optimistic scenario	Valuation Methodology
Ravva Fields	14	15	15	DCF
Rajasthan Fields	81	113	115	DCF
Other Fields	3	4	5	EV/Reserve
Management Premium	15	21	31	
Total	113	153	166	DCF
Market Value	199,887	270,388	293,154	
Probability	15%	60%	25%	
Share Price		150		
Net Market Value (Rs bn)		265,504		
Add: Debt		27,000		
Enterprise Value		292,504		
EV/Reserves		10.9		
# of Shares		1765.3		

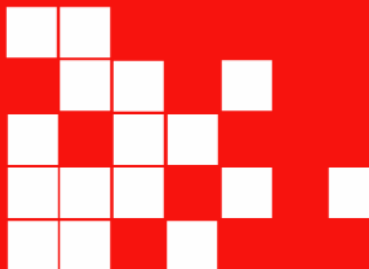
Source: Macquarie Research, January 2007

Cairn India (CAIR IN, Neutral, Target price: Rs135.00)

Balance Sheet					Profit & Loss						
		2007E	2008E	2009E	2010E		2007E	2008E	2009E	2010E	
Cash	m	55,753	54,244	50,159	55,886	Revenue	m	2,896	12,950	37,044	79,058
Receivables	m	0	0	0	0	Gross Profit	m	2,852	12,733	36,054	76,760
Inventories	m	0	0	0	0	Cost of Goods Sold	m	44	217	990	2,298
Investments	m	0	0	0	0	EBITDA	m	458	2,732	18,240	31,988
Fixed Assets	m	72,148	83,066	92,159	87,131	Depreciation	m	924	4,133	5,911	6,728
Intangibles	m	0	0	0	0	Amortisation of Goodwill	m	0	0	0	0
Other Assets	m	201,570	201,570	201,570	201,570	Other Amortisation	m	0	0	0	0
Total Assets	m	329,471	338,879	343,888	344,587	EBIT	m	-467	-1,401	12,329	25,260
Payables	m	0	0	0	0	Net Interest Income	m	-828	-4,191	-4,711	-3,472
Short Term Debt	m	7,000	22,000	20,000	0	Associates	m	0	0	0	0
Long Term Debt	m	37,885	37,885	37,885	37,885	Exceptionals	m	0	0	0	0
Provisions	m	0	0	0	0	Forex Gains / Losses	m	0	0	0	0
Other Liabilities	m	0	0	0	0	Other Pre-Tax Income	m	0	0	0	0
Total Liabilities	m	44,885	59,885	57,885	37,885	Pre-Tax Profit	m	-1,294	-5,592	7,618	21,788
Shareholders' Funds	m	284,587	278,995	286,004	306,702	Tax Expense	m	0	0	-609	-1,089
Minority Interests	m	0	0	0	0	Net Profit	m	-1,294	-5,592	7,009	20,699
Other	m	0	0	0	0	Minority Interests	m	0	0	0	0
Total S/H Equity	m	284,587	278,995	286,004	306,702	Reported Earnings	m	-1,294	-5,592	7,009	20,699
Total Liab & S/H Funds	m	329,471	338,879	343,888	344,587	Adjusted Earnings	m	-1,294	-5,592	7,009	20,699
						EPS (rep)		-0.72	-3.11	3.90	11.51
						EPS (adj)		-0.72	-3.11	3.90	11.51
						EPS Growth (adj)	%	nmf	-332.0	nmf	195.3
						PE (rep)	x	nmf	nmf	36.3	12.3
						PE (adj)	x	nmf	nmf	36.3	12.3
						Total DPS		0.00	0.00	0.00	0.00
						Total Div Yield	%	0.0	0.0	0.0	0.0
						Weighted Average Shares	m	1,798	1,798	1,798	1,798
						Period End Shares	m	1,798	1,798	1,798	1,798
Profit and Loss Ratios					Cashflow Analysis						
		2007E	2008E	2009E	2010E		2007E	2008E	2009E	2010E	
Revenue Growth	%	nmf	347.1	186.0	113.4	EBITDA	m	458	2,732	18,240	31,988
EBITDA Growth	%	nmf	496.9	567.6	75.4	Tax Paid	m	0	0	-609	-1,089
EBIT Growth	%	nmf	-200.2	nmf	104.9	Chgs in Working Cap	m	0	0	0	0
Gross Profit Margin	%	98.5	98.3	97.3	97.1	Net Interest Paid	m	-828	-4,191	-4,711	-3,472
EBITDA Margin	%	15.8	21.1	49.2	40.5	Other	m	0	0	0	0
EBIT Margin	%	-16.1	-10.8	33.3	32.0	Operating Cashflow	m	-370	-1,459	12,920	27,427
Net Profit Margin	%	-44.7	-43.2	18.9	26.2	Acquisitions	m	0	0	0	0
Payout Ratio	%	nmf	nmf	0.0	0.0	Capex	m	-9,413	-15,051	-15,005	-1,700
EV/EBITDA	x	555.9	93.1	14.0	8.0	Asset Sales	m	0	0	0	0
EV/EBIT	x	-545.3	-181.6	20.6	10.1	Other	m	0	0	0	0
Balance Sheet Ratios						Investing Cashflow	m	-9,413	-15,051	-15,005	-1,700
ROE	%	-0.5	-2.0	2.5	7.0	Dividend (Ordinary)	m	0	0	0	0
ROA	%	-0.1	-0.4	3.6	7.3	Equity Raised	m	0	0	0	0
ROIC	%	nmf	-0.5	4.0	8.2	Debt Movements	m	7,000	15,000	-2,000	-20,000
Net Debt/Equity	%	-3.8	2.0	2.7	-5.9	Other	m	0	0	0	0
Interest Cover	x	-0.6	-0.3	2.6	7.3	Financing Cashflow	m	7,000	15,000	-2,000	-20,000
Price/Book	x	0.9	0.9	0.9	0.8	Net Chg in Cash/Debt	m	-4,631	-1,510	-4,085	5,727
Book Value per Share		158.3	155.1	159.0	170.5						

All figures in INR unless noted.

Source: Macquarie Research, January 2007



INDIA

Reliance Industries

16 January 2007

RIL IN **Outperform**

Stock price as of 15 Jan 07	Rs	1,364.95
12-month target	Rs	1,547.00
Upside/downside	%	+13.3
Valuation	Rs	1,719.00
- Sum of Parts		

GICS sector		energy
Market cap	Rs bn	1,902
30-day avg turnover	Rs m	1,058.2
Market cap	US\$m	42,922
Number shares on issue	m	1,394

Investment fundamentals

Year end 31 Mar		2006A	2007E	2008E	2009E
Total revenue	bn	830.2	1,132.8	1,395.6	1,560.8
EBIT	bn	108.5	137.4	166.6	209.8
EBIT Growth	%	19.7	26.6	21.3	25.9
Recurring profit	bn	111.2	127.7	155.6	192.5
Reported profit	bn	93.9	107.6	129.1	164.8
Adjusted profit	bn	94.9	107.6	129.1	164.8
EPS rep	Rs	44.50	77.23	92.70	118.31
EPS rep growth	%	37.2	73.6	20.0	27.6
EPS adj	Rs	48.37	77.23	92.70	118.31
EPS adj growth	%	49.8	59.7	20.0	27.6
PE rep	x	30.7	17.7	14.7	11.5
PE adj	x	28.2	17.7	14.7	11.5
Total DPS	Rs	7.93	13.95	16.27	18.08
Total div yield	%	0.6	1.0	1.2	1.3
ROA	%	12.7	12.8	13.3	15.7
ROE	%	22.5	20.1	20.4	22.6
EV/EBITDA	x	14.3	11.2	9.5	7.5
Net debt/equity	%	44.6	34.6	30.7	14.1
Price/book	x	4.1	3.1	2.9	2.4

RIL IN rel SENSEX performance, & rec history



Source: Datastream, Macquarie Research, January 2007 (all figures in INR unless noted)

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Rupee change affects more than oil

Event

- Our oil & gas sector head, David Johnson, has downgraded his crude oil forecast by 3–8% for 2007E to 2009E, but upgraded his long-term (2011E onwards) forecast from US\$45/bbl to US\$58/bbl (US\$52/bbl in 2007 US\$ terms). We raise our target price for Reliance Industries by 9% due primarily to the increase in the value of its equity holdings (especially treasury stock).

Impact

- Oil demand/supply balance.** David forecasts new supply increases to outstrip annual oil demand growth of 1.6–2.1% in 2007–10, raising absolute stock levels, but when measured as days of consumption, stocks show a decline in 2010. For more details, see *Oil price forecast – Consumers won't buy US\$70 oil*, 15 January 2007.
- Nominal earnings upgrade.** Reliance's oil production is restricted to the Panna and Mukta fields and contributes towards ~1% of turnover. Reliance's significant new discoveries are restricted primarily to gas, the price of which is not directly linked to oil. The nominal upgrade in Reliance's earnings in the near term is driven by weaker-than-earlier-assumed rupee depreciation.
- Spurred by rise in equity holdings.** The positive impact of the oil price forecasts on Reliance would be small given that oil (compared with gas, in addition to refining and petrochemicals) makes up only a small portion of its business. Combined with the increase in value of its equity holdings (especially treasury stock), this drives us to raise our target price by 9% to Rs1,547/share.

Earnings revision

- We have adjusted our FY08–09E earnings due primarily to the weaker-than-earlier-assumed rupee depreciation.

Price catalyst

- 12-month price target: Rs1,547.00 based on a Sum of Parts methodology.
- Catalyst: 1) New oil & gas finds; 2) enhanced clarity on organised retail; 3) unexpected improvement in petrochemical margins.

Action and recommendation

- Reliance Industries is our top oil and gas sector pick.** A staggering US\$19bn capex and oil finds that are potentially as large as ONGC's reserves would likely triple earnings over the next five years. This should also result in a consistent rise in ROE, on rising contribution from its high-return businesses.
- We reiterate our Outperform rating.** Our revised price target of Rs1,547 provides 13% upside potential.

Please refer to the important disclosures on inside back cover of this document, or on our website www.macquarie.com.au/research/disclosures.

Fig 1 Summary of RIL's net profit changes

(Rs m)	FY07E	FY08E	FY09E	FY10E
Old	106,357	129,032	163,479	202,035
New	107,597	129,150	164,821	205,811
% change	+1.2%	+0.1%	+0.8%	+1.9%

Source: Macquarie Research, January 2007

Fig 2 Summary of RIL's sum-of-parts valuation

Sum-of-parts value per share	Contribution to intrinsic value of RIL (Rs m)	Contribution to intrinsic value of RIL (Rs/sh)	Fair value* (Rs/sh)
Core current business			
Refining and Petrochemicals business*	1,357,423	974	877
Auto-fuel retailing	140,627	101	91
E&P business (KG basin gas)	173,211	124	112
Contribution from main business segments	1,678,340	1,205	1,084
Other assets and investments			
Value of 75% stake in Reliance Petroleum	222,750	160	144
Value of 46% stake in IPCL	34,826	25	22
Treasury stock (12.2% of equity capital)	231,155	166	149
Contribution from assets and investments	488,731	351	316
Option value: Projects in gestation period			
E&P business (Recent oil find- KG basin)	52,074	37	34
Other E&P (CBM-Sohagpur and NEC 25 Gas)	79,365	57	51
Organised retail venture	102,937	74	66
Total value per share	2,394,367	1,719	1,547

* Fair value incorporates a 10% discount to intrinsic value

Source: Macquarie Research, January 2007

Reliance Industries Ltd (RIL IN, Outperform, Target price: Rs1,547.00)

Profit and Loss					Profit & Loss						
		2002A	2003A	2004A	2005A		2006A	2007E	2008E	2009E	
Revenue	m	420,958	459,101	520,253	665,977	Revenue	m	830,248	1,132,822	1,395,623	1,560,778
Gross Profit	m	107,255	118,974	144,218	168,638	Gross Profit	m	221,503	226,483	264,759	326,774
Cost of Goods Sold	m	313,703	340,127	376,035	497,339	Cost of Goods Sold	m	608,745	906,339	1,130,865	1,234,004
EBITDA	m	78,656	83,831	98,438	127,966	EBITDA	m	143,487	184,972	218,372	278,722
Depreciation	m	28,162	28,375	32,508	37,274	Depreciation	m	34,949	47,592	51,729	68,944
Amortisation of Goodwill	m	-	-	-	-	Amortisation of Goodwill	m	0	0	0	0
Other Amortisation	m	-	-	-	-	Other Amortisation	m	0	0	0	0
EBIT	m	50,494	55,456	65,929	90,692	EBIT	m	108,537	137,380	166,643	209,778
Net Interest Income	m	-13,098	-10,386	-9,197	-11,048	Net Interest Income	m	-4,426	-15,313	-16,953	-23,583
Associates	m	-	798	581	-	Associates	m	4,747	3,157	3,114	3,425
Exceptionals	m	4,117	-	-	306	Exceptionals	m	-995	0	0	0
Forex Gains / Losses	m	3,136	2,865	5,788	11,305	Forex Gains / Losses	m	0	0	0	0
Other Pre-Tax Income	m	44,649	48,734	63,101	91,255	Other Pre-Tax Income	m	2,380	2,511	2,762	2,900
Pre-Tax Profit	m	-11,860	-8,701	-11,411	-14,972	Pre-Tax Profit	m	110,243	127,735	155,566	192,521
Tax Expense	m	32,789	40,033	51,690	76,282	Tax Expense	m	-16,295	-20,138	-26,537	-30,978
Net Profit	m	-	-	-	-	Net Profit	m	93,948	107,597	129,029	161,542
Minority Interests	m	420,958	459,101	520,253	665,977	Minority Interests	m	0	0	120	3,278
Reported Earnings	m	32,789	40,033	51,690	76,282	Reported Earnings	m	93,948	107,597	129,150	164,821
Adjusted Earnings	m	28,672	40,033	51,690	75,976	Adjusted Earnings	m	94,943	107,597	129,150	164,821
EPS (rep)		25.87	28.68	37.03	54.72	EPS (rep)		44.50	77.23	92.70	118.31
EPS (adj)		22.75	28.68	37.03	54.5	EPS (adj)		48.37	77.23	92.70	118.31
EPS Growth yoy (adj)	%	17.64	26.06	29.12	47.17	EPS Growth (adj)	%	49.8	59.7	20.0	27.6
						PE (rep)	x	30.7	17.7	14.7	11.5
						PE (adj)	x	28.2	17.7	14.7	11.5
Total DPS		5.26	5.00	5.00	8.59	Total DPS		7.93	13.95	16.27	18.08
Weighted Average Shares	m	1,267	1,396	1,396	1,394	Total Div Yield	%	0.6	1.0	1.2	1.3
Period End Shares	m	1,396	1,396	1,396	1,393	Weighted Average Shares	m	2,111	1,393	1,393	1,393
						Period End Shares	m	1,393	1,393	1,393	1,393
Profit and Loss Ratios					Cashflow Analysis						
		2006A	2007E	2008E	2009E		2006A	2007E	2008E	2009E	
Revenue Growth	%	24.7	36.4	23.2	11.8	EBITDA	m	143,487	184,972	218,372	278,722
EBITDA Growth	%	12.1	28.9	18.1	27.6	Tax Paid	m	-16,295	-20,138	-26,537	-30,978
EBIT Growth	%	19.7	26.6	21.3	25.9	Chgs in Working Cap	m	-29,650	-54,681	-25,421	-5,925
Gross Profit Margin	%	26.7	20.0	19.0	20.9	Net Interest Paid	m	-4,426	-15,313	-16,953	-23,583
EBITDA Margin	%	17.3	16.3	15.6	17.9	Other	m	43,605	-9,158	-1,929	1,168
EBIT Margin	%	13.1	12.1	11.9	13.4	Operating Cashflow	m	136,720	85,682	161,391	219,403
Net Profit Margin	%	11.3	9.5	9.2	10.4	Acquisitions	m	106,558	0	0	0
Payout Ratio	%	16.4	18.1	17.5	15.3	Capex	m	-367,389	-166,058	-40,487	-65,093
EV/EBITDA	x	14.3	11.2	9.5	7.5	Asset Sales	m	0	0	0	0
EV/EBIT	x	18.7	15.0	12.5	9.9	Other	m	2,380	2,511	2,762	2,900
Balance Sheet Ratios						Investing Cashflow	m	-258,451	-163,547	-37,725	-62,192
ROE	%	22.5	20.1	20.4	22.6	Dividend (Ordinary)	m	-15,907	-19,438	-22,666	-25,195
ROA	%	12.7	12.8	13.3	15.7	Equity Raised	m	1	0	0	0
ROIC	%	17.3	17.2	16.2	19.7	Debt Movements	m	45,257	115,451	-11,387	-42,102
Net Debt/Equity	%	44.6	34.6	30.7	14.1	Other	m	0	0	0	0
Interest Cover	x	24.5	9.0	9.8	8.9	Financing Cashflow	m	29,351	96,013	-34,053	-67,296
Price/Book	x	4.1	3.1	2.9	2.4	Net Chg in Cash/Debt	m	-92,380	18,148	89,612	89,915
Book Value per Share		330.5	436.5	472.6	572.8						
					Balance Sheet						
		2006A	2007E	2008E	2009E		2006A	2007E	2008E	2009E	
Cash	m	26,164	129,564	127,806	179,443	Cash	m	26,164	129,564	127,806	179,443
Receivables	m	43,517	59,042	67,431	69,995	Receivables	m	43,517	59,042	67,431	69,995
Inventories	m	103,453	136,751	150,396	142,013	Inventories	m	103,453	136,751	150,396	142,013
Investments	m	66,668	58,462	93,462	128,462	Investments	m	66,668	58,462	93,462	128,462
Fixed Assets	m	602,093	744,896	737,306	753,046	Fixed Assets	m	602,093	744,896	737,306	753,046
Intangibles	m	0	0	0	0	Intangibles	m	0	0	0	0
Other Assets	m	76,988	93,401	109,740	112,348	Other Assets	m	76,988	93,401	109,740	112,348
Total Assets	m	918,883	1,222,116	1,286,141	1,385,306	Total Assets	m	918,883	1,222,116	1,286,141	1,385,306
Payables	m	124,541	135,718	148,080	139,348	Payables	m	124,541	135,718	148,080	139,348
Short Term Debt	m	66,659	43,499	43,499	20,000	Short Term Debt	m	66,659	43,499	43,499	20,000
Long Term Debt	m	166,769	305,380	293,993	275,390	Long Term Debt	m	166,769	305,380	293,993	275,390
Provisions	m	42,017	38,910	38,910	38,910	Provisions	m	42,017	38,910	38,910	38,910
Other Liabilities	m	53,876	65,109	78,046	91,698	Other Liabilities	m	53,876	65,109	78,046	91,698
Total Liabilities	m	453,862	588,616	602,527	565,345	Total Liabilities	m	453,862	588,616	602,527	565,345
Shareholders' Funds	m	510,280	654,689	704,923	844,549	Shareholders' Funds	m	510,280	654,689	704,923	844,549
Minority Interests	m	4,573	25,313	25,192	21,914	Minority Interests	m	4,573	25,313	25,192	21,914
Other	m	-49,832	-46,502	-46,502	-46,502	Other	m	-49,832	-46,502	-46,502	-46,502
Total S/H Equity	m	465,021	633,500	683,614	819,961	Total S/H Equity	m	465,021	633,500	683,614	819,961
Total Liab & S/H Funds	m	918,883	1,222,116	1,286,141	1,385,306	Total Liab & S/H Funds	m	918,883	1,222,116	1,286,141	1,385,306

All figures in INR unless noted.

Source: Macquarie Research, January 2007

Important disclosures:**Recommendation definitions****Macquarie Australia/New Zealand**

Outperform – return >5% in excess of benchmark return (>2.5% in excess for listed property trusts)
 Neutral – return within 5% of benchmark return (within 2.5% for listed property trusts)
 Underperform – return >5% below benchmark return (>2.5% below for listed property trusts)

Macquarie Asia

Outperform – expected return >+10%
 Neutral – expected return from -10% to +10%
 Underperform – expected return <-10%

Macquarie First South Securities (South Africa)

Outperform – return > 5% in excess of benchmark return
 Neutral – return within 5% of benchmark return
 Underperform – return >5% below benchmark return

Recommendations – 12 months

Note: Quant recommendations may differ from Fundamental Analyst recommendations

Recommendation proportions

	AU/NZ	Asia	RSA
Outperform	43.12%	58.91%	42.20%
Neutral	44.98%	22.92%	46.80%
Underperform	11.90%	18.17%	11.00%

For quarter ending 31 December 2006

Volatility index definition*

This is calculated from the volatility of historic price movements.

Very high–highest risk – Stock should be expected to move up or down 60–100% in a year – investors should be aware this stock is highly speculative.

High – stock should be expected to move up or down at least 40–60% in a year – investors should be aware this stock could be speculative.

Medium – stock should be expected to move up or down at least 30–40% in a year.

Low–medium – stock should be expected to move up or down at least 25–30% in a year.

Low – stock should be expected to move up or down at least 15–25% in a year.

* Applicable to Australian/NZ stocks only

Financial definitions

All "Adjusted" data items have had the following adjustments made:
 Added back: goodwill amortisation, provision for catastrophe reserves, IFRS derivatives & hedging, IFRS impairments & IFRS interest expense
 Excluded: non recurring items, asset revals, property revals, appraisal value uplift, preference dividends & minority interests

EPS = adjusted net profit / efpowa*

ROA = adjusted ebit / average total assets

ROA Banks/Insurance = adjusted net profit / average total assets

ROE = adjusted net profit / average shareholders funds

Gross cashflow = adjusted net profit + depreciation

*equivalent fully paid ordinary weighted average number of shares

All Reported numbers for Australian/NZ listed stocks are modelled under IFRS (International Financial Reporting Standards).

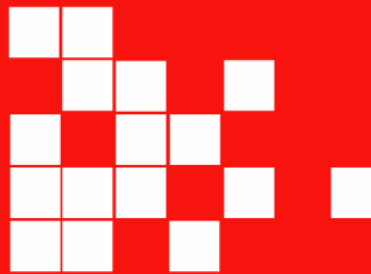
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