RESULTS REVIEW

Share Data

Market Cap [1]	Rs. 3,706.88
Price	Rs. 2,550.05
BSE Sensex	15,807.64
Reuters	RELI.BO
Bloomberg	RIL IN
Avg. Volume (52 Week)	0.92 mn
52-Week High/Low	Rs. 3,252.1/1,381.85
Shares Outstanding [1]	1,453.65 mn

[1] Including 60.1 mn shares alloted to IPCL shareholders on Oct 13, 2007 pursuant to the scheme of amalgamation

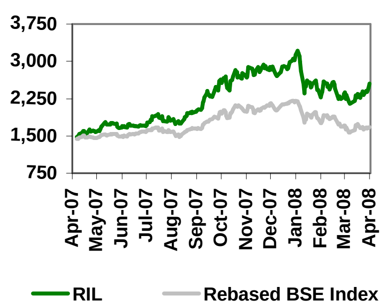
Valuation Ratios (Consolidated)

Year to 31 March	2008E	2009E
EPS (Rs.)	97.4	113.7
+/- (%)	17.2%	16.7%
PER (x)	26.2x	22.4x
EV/ Sales (x)	3.3x	2.8x
EV/ EBITDA (x)	17.4x	14.7x

Shareholding Pattern (%)

Promoters	51
FIIs	19
Institutions	8
Public & Others	22

Relative Performance



Reliance Industries Limited — Buy

Refining cushions for the petrochemical dip

Reliance Industries Ltd. (RIL) reported the following results for the third quarter ended Dec'07:

- Net sales increased 22.7% yoy to Rs. 345.9 bn, primarily due to increased sales in the refining segment.
- All-time high gross refining margins (GRMs) of USD 15.4 per barrel pushed the EBITDA higher by 12.6% yoy to Rs. 58.3 bn.
- EBITDA margin dipped 151 bps to 16.9%, primarily due to higher feedstock prices.

Going forward, we continue to hold an optimistic view on the Company's future. RIL is investing heavily in the Exploration and Production (E&P) business and has also entered into various international price-sharing contacts for the same. Given the surge in hydrocarbon prices and robust demand, investment in E&P augurs well for the Company. In addition, the Refining segment continues to contribute almost half the operating profit with RIL's GRM beating the industry average. With the Reliance Petrochemical Ltd (RPL)'s refinery coming on board, the Company's refining business will get a further boost. However, the Petrochemical business is expected to pick up its pace, once the capacity is expanded to 2.5 MMT post the acquisition of the Hualon assets. Till then, rising feedstock prices will put pressure on the margin.

At the current price of Rs. 2,550.05, the stock trades at a forward P/E of 26.2x for FY08E and 22.4x for FY09E, respectively. Based on the SOTP valuation of the strategic business units, we arrive at a target price of Rs. 3,243 for FY09E. Hence, we maintain our Buy rating on the stock.

Key Figures (Standalone)

Quarterly Data	Q3'07	Q2'08	Q3'08	YoY%	QoQ%	9M'07	9M'08	YoY%
(Figures in Rs. mn, except per share data)								
Net Sales	281,950	320,430	345,900	22.7%	7.9%	842,450	961,570	14.1%
EBITDA	51,800	57,810	58,330	12.6%	0.9%	148,770	172,870	16.2%
Adj. Net Profit	30,810	38,370	38,820	26.0%	1.2%	87,870	113,490	29.2%
Margins(%)								
EBITDA	18.4%	18.0%	16.9%			17.7%	18.0%	
NPM	10.9%	12.0%	11.2%			10.4%	11.8%	
Per Share Data (Rs.)								
Adj. EPS	21.2	26.4	26.7	26.0%	1.2%	60.5	78.1	29.1%

Result Highlights

During the nine months ended Dec'07, the Company exported 16.4 MMT of refined products, worth USD 11.5 bn

During the third quarter, net sales increased 22.7% yoy to Rs. 345.9 bn on the back of growing export revenues of the refining products and increasing oil and gas production volumes. However, disappointing petrochemical revenues partially arrested the growth. EBITDA increased 12.6% yoy to Rs. 58.3 bn as a result of higher GRMs of USD 15.4 per barrel. However, EBITDA margin dipped 151 bps to 16.9% as a result of higher raw material costs, increased purchases of trading goods, and higher feedstock prices.

The reported net profit for the third quarter was inflated by an exceptional item of Rs. 47.3 bn, which represents gains arising out of transactions related to the stake sale of Reliance Petrochemicals Limited (RPL). Overall, adjusted net profit increased 26% yoy to Rs. 38.8 bn due to higher other income, lower interest and depreciation expenses, and a reduced income tax provision. Other income was higher on account of an increase in interest income on higher surplus funds, and interest cost was low mainly due to the rupee appreciation, as a major portion of the debt is in foreign currency.

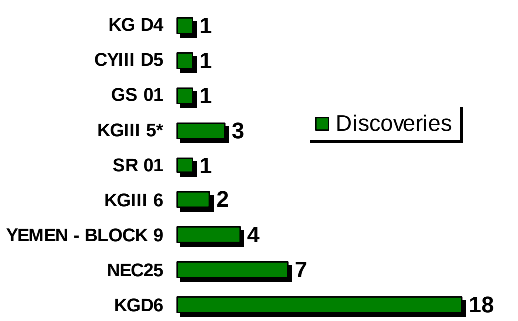
Segmental Analysis

Growing export volumes, higher capacity utilization rate, and all-time high GRMs boosted the refining profits

Refining segment: The Refining business reported a 25.3% yoy increase in sales, taking the amount to Rs. 261.5 bn in Q3'08. The key catalyst was the growing size of exports of refining products. Export volumes increased 16.7% yoy, from 4.8 MMT in Q3'07 to 5.5 MMT in Q3'08. Production stood at 23.7 MMT during the nine months ended Dec'07, partially offset by lower capacity utilisation in Oct'07 due to the shutdown of one unit of crude distillation. EBIT increased 35.8% yoy to Rs. 26.1 bn on the back of higher GRMs. Average GRMs were at an all-time high of USD 15.4 per barrel in Q3'08. On a nine-month comparison, GRMs grew 34.2% to USD 14.9 per barrel, compared with USD 11.1 per barrel in 9M'07.

Petrochemicals segment: Sales dropped 2% qoq and 3.3% yoy to Rs. 127.1 bn as a result of lower production volumes on the back of a planned shutdown of the Para xylene unit at Jamnagar in Dec'07. In addition, higher feedstock prices resulted in a decline in EBIT by 12.2% qoq and 0.6% yoy, to Rs. 17.8 bn. However, the decline in EBIT was somewhat contained by a strong domestic demand for petrochemical products. Margin dipped 163 bps qoq, to 14%, due to higher naphtha cracks, which squeezed the polyester chain margins. Para xylene and PTA margins were also lower, compared with the corresponding period of the previous year.

E&P Update



* 2 Discoveries were made in this quarter

Other segments: Sales increased 45% yoy to Rs. 9.2 bn, as E&P cashed in on high hydrocarbon prices and strong demand from end users. Oil production from the Panna-Mukta-Tapti (PMT) blocks rose 11.4% yoy, to 169.6 kilo tons (KT), and gas production went up 39.8% yoy, to 464 MMSCM. In addition, the Company made two more discoveries and submitted the development plan for KG D6 basin during the quarter.

Segment Information	Q3'07	Q2'08	Q3'08	YoY%
Segment Revenue				
Petrochemicals	131,450	129,610	127,060	(3.3%)
Refining	208,700	235,750	261,540	25.3%
Others	6,340	8,010	9,190	45.0%
Gross Turnover	**346,490**	**373,370**	**397,790**	**14.8%**
Less: Intersegment Sales	(48,960)	(39,350)	(38,990)	
Turnover	**297,530**	**334,020**	**358,800**	**20.6%**
Less: Excise Duty	(15,580)	(13,590)	(12,900)	
Net Turnover	**281,950**	**320,430**	**345,900**	**22.7%**
Segment EBIT				
Petrochemicals	17,880	20,250	17,780	(0.6%)
Refining	19,250	23,210	26,140	35.8%
Others	3,640	3,900	3,960	8.8%
EBIT	**40,770**	**47,360**	**47,880**	**17.4%**
Margins				
Petrochemicals	*13.6%*	*15.6%*	*14.0%*	
Refining	*9.2%*	*9.8%*	*10.0%*	
Others	*57.4%*	*48.7%*	*43.1%*	

Key Events

- During the quarter, RIL made two discoveries in the exploratory block KG-OSN-2001/1 (KG-III-5), located in the Krishna basin in an area of 1,100 sq. kms. The Company holds 100% interest in this block. In addition, RIL made another gas discovery in the exploratory block KG-OSN-2003/1 of the Krishna basin.
- The Company is planning to sell upto 10% stake in D-6 block of the Krishna Godavari (KG) basin and has initiated talks with prospective

buyers like Royal Dutch Shell. RIL is likely to spin off its KG assets into a new company and then offer close to 10% stake to a strategic partner.

- During the quarter, the Company sold 4.01% stake in RPL's equity for a total consideration of Rs. 40.23 bn. As a result, RIL's total holding of 75% in RPL came down to 70.99%.
- RIL and GAIL have signed a Memorandum of Understanding (MoU) for joint cooperation in exploring opportunities for setting up petrochemical complexes outside India in feedstock-rich countries.
- Reliance Exploration and Production (REP) DMCC, the wholly owned subsidiary of the Company, has signed a production-sharing agreement for two more exploration blocks in Yemen. RIL holds 70% interest in these blocks.
- The Company is planning to enter the rig manufacturing business and invest USD 2.5 bn to enter the petrocoke gasification.
- RIL is planning to set up a third refinery at Jamnagar to reach a total capacity of 100 MMTPA. Currently, the Company has a 33 MMTPA refinery at Jamnagar, and is building a second refinery with 29 MMTPA capacity.

Key Risks

Key risks to our rating include:

- In the recent past, crude prices have shown more-than-expected volatility. Therefore, any unanticipated reduction in the GRMs can hurt our earnings estimate.
- As majority of RIL's sales are derived from exports, appreciation of the rupee can adversely affect our estimates.
- Continued delay in the decision over the dispute between RIL and RNRL over the supply of gas to the latter at below-the-market price could adversely affect the Company's profitability.

Outlook

We continue to hold a positive outlook on the Company's future because of the following factors:

Exploration & Production: long term growth driver

The empowered Group of Ministers approved the pricing formula for sale of gas from KG D6

Surging hydrocarbon prices and robust global demand augurs well for the Company. To meet the rising demand, RIL is aggressively exploring and acquiring new blocks and has entered into numerous production-sharing contracts internationally. The Company's oil production is expected to start from H2'09 with an estimated peak oil production of 40,000 bopd and plateau gas production of 9 MMSCMD. Therefore, we believe that the E&P segment holds great potential for the Company in the near future.

Refining: GRMs ahead of industry peers

RIL continues to hold an edge in GRMs over its international peers. This is because of the Company's superior configuration at the Jamnagar refinery, allowing it the flexibility to focus on the production of high-margin middle distillate products. Further, with RPL's refinery expected to complete ahead of schedule of Dec'08, we believe that RIL's technological advancement will place it ahead of its peers. In addition, rising global demand augurs well for the existing refiners like RIL and new ones like RPL, as major capacity additions are expected to come beyond 2011 due to project delays and construction bottlenecks being witnessed globally.

Retail: huge investment to boost growth

Increased focus on retail segment

Though the revenue from the retail segment is yet to take off, the Company is investing heavily to expand its retail chains. During the quarter, RRL launched new formats such as Reliance Trends, Reliance Footprint, Reliance Wellness, Reliance TimeOut, Reliance Jewels, and Reliance Super. All in all, the Company can now boast of 9 different formats and over 465 retail stores across India (including Reliance Fresh). Recently, RRL has entered into an agreement with Marks & Spencer and Apple to build specific stores in India.

Petrochemicals: margins to remain under pressure

With increasing feedstock prices, we expect the petrochemical business to remain under pressure until the Company adds to its capacity. However, the acquisition of Hualon's assets is expected to increase RIL's capacity to 2.5 MMTPA (up 25% from the present capacity) and boost its revenues by USD 1 bn.

We have lowered our estimates primarily on the back of continued lacklustre performance by the petrochemical business and the longer-than-expected time being taken by the retail business to establish. As a result, we expect RIL's sales to grow at a CAGR of 12.7% for FY07-FY09E.

At the current price of Rs. 2,550.05, the stock trades at a forward P/E of 26.2x for FY08E and 22.4x for FY09E, respectively. Based on our SOTP valuation of the existing businesses, treasury stock, risk weighted present value of E&P reserves, and future projects like petchem expansions and coke gasification, we arrive at a target price of Rs. 3,243 for FY09E. Hence, we maintain our Buy rating on the stock.

Key Figures (Consolidated)

Year to March	FY05	FY06	FY07	FY08E	FY09E	CAGR (%)
(Figures in Rs. mn, except per share data)						(FY07-09E)
Net Sales	665,977	830,248	1,137,701	1,226,481	1,446,054	12.7%
EBITDA	127,966	143,487	201,279	233,110	275,206	16.9%
Adj. Net Profit	76,026	94,831	120,748	141,575	165,255	17.0%
Margins(%)						
EBITDA	19.2%	17.3%	17.7%	19.0%	19.0%	
NPM	11.4%	11.4%	10.6%	11.5%	11.4%	
Per Share Data (Rs.)						
Adj. EPS	54.5	68.1	83.1	97.4	113.7	17.0%
PER (x)	10.0x	11.7x	16.5x	26.2x	22.4x	

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