

## RELIANCE INDUSTRIES

INR 1,316

RIL-IPCL merger - EPS accretive

BUY

The boards of RIL and IPCL, on March 10, 2007, approved the merger of IPCL with RIL with a share ratio of 5:1. The boards also approved an interim dividend of INR 11 per RIL share and INR 6 per IPCL share. The merger ratio is EPS accretive and leads to marginal dilution of promoter's shareholding. We maintain our 'BUY' recommendation on the stock.

\* **Merger is EPS accretive**

Using consensus EPS (Bloomberg) for IPCL and our EPS estimates (standalone) of INR 74.4 for RIL, we estimate FY08 EPS of the merged entity at INR 79.4 (accretive by 6.7%).

Table 1: RIL-IPCL merger: EPS accretive

Pre-merger RIL		Post-merger RIL	
RIL FY08 standalone PAT (Bn)	103.7	IPCL consensus PAT (INR bn)	11.7
Number of shares (mn)	1,394	RIL + IPCL FY08 PAT (INR bn)	115.4
RIL EPS (INR)	74.4	Number of shares (mn)	1,454
		RIL+ IPCL EPS (INR)	79.4
		EPS accretion (%)	6.7

Source: Edelweiss research

\* **Marginal savings from merger**

While the merger brings benefits like reduced management costs, increased management bandwidth but benefits like product grade optimisation, marketing synergies, product/feedstock inter-linkages had been incorporated earlier (after RIL took over the management control in 2002).

\* **Merger dilutive by 1.7% for promoters**

RIL's equity will be dilutive by 4.3% as the number of shares would increase to 1454 mn (including treasury shares). As RIL's existing shareholding in IPCL would be held in a trust, the treasury shareholding would increase from 11.5% to 12.8% (factoring for post-warrant dilution). Post-merger, promoter's shareholding will get diluted by 1.7% to 41.4%.

\* **Maintain 'BUY'**

We believe that returns on the stock will be driven from the spate of positive surprises such as confirmation of oil and gas finds, approval of commerciality of finds, clarity on gas pricing, retailing and SEZ ventures, and potential increase in peak plateau production levels. We maintain our 'BUY' recommendation on the stock.

March 12, 2007

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Reuters : RELI.BO  
Bloomberg : RIL IN

**Market Data**

52-week range (INR) : 1,445 / 726  
Share in issue (mn) : 1,393.5  
M cap (INR bn/USD mn) : 1,834 / 41,490  
Avg. Daily Vol. BSE/NSE ('000) : 6,357.1

**Share Holding Pattern (%)**

Promoters : 50.6  
MFs, FIs & Banks : 8.1  
FIs : 19.9  
Others : 21.3

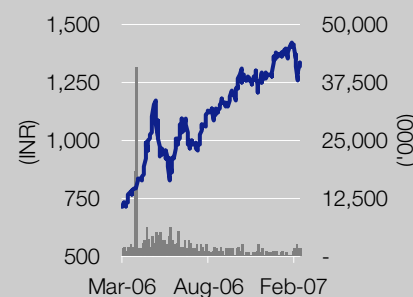


Table 2: RIL Pre- and Post merger shareholding

	Including treasury shares		Excluding treasury shares	
	(mn)	(%)	(mn)	(%)
<b>RIL PRE-MERGER</b>				
<b>Pre-Warrant Issue</b>				
Promoter shareholding	532	38.2	532	43.6
Treasury shares	174	12.5	0	0.0
Others	688	49.4	688	56.4
<b>Total</b>	<b>1,394</b>	<b>100.0</b>	<b>1,220</b>	<b>100.0</b>
Shareholding (%)		38.2		43.6
Control (%)		50.6		43.6
<b>Post-Warrant Issue</b>				
Promoter shareholding	652	43.1	652	48.6
Treasury shares	174	11.5	0	0.0
Others	688	45.5	688	51.4
<b>Total</b>	<b>1,514</b>	<b>100.0</b>	<b>1,340</b>	<b>100.0</b>
Shareholding (%)		43.1		48.6
Control (%)		54.5		48.6
<b>IPCL</b>				
RIL shareholding	140	46.6	140	46.6
Others	160	53.4	160	53.4
<b>Total</b>	<b>301</b>	<b>100.0</b>	<b>301</b>	<b>100.0</b>
Shareholding (%)		46.6		46.6
<b>RIL POST-MERGER</b>				
<b>Scenario 1: IPCL holding is treasury (most probable)</b>				
<b>Pre-Warrant Issue</b>				
Promoter shareholding	532	36.6	532	42.5
Treasury shares	202	13.9	0	0.0
Others	720	49.5	720	57.5
<b>Total</b>	<b>1,454</b>	<b>100.0</b>	<b>1,252</b>	<b>100.0</b>
Shareholding (%)		36.6		42.5
Control (%)		50.5		42.5
<b>Post-Warrant Issue</b>				
Promoter shareholding	652	41.4	652	47.5
Treasury shares	202	12.8	0	0.0
Others	720	45.8	720	52.5
<b>Total</b>	<b>1,574</b>	<b>100.0</b>	<b>1,372</b>	<b>100.0</b>
Shareholding (%)		41.4		47.5
Control (%)		54.2		47.5
<b>Scenario 2: IPCL holding is extinguished</b>				
<b>Pre-Warrant Issue</b>				
Promoter shareholding	532	37.3	532	42.5
Treasury shares	174	12.2	0	0.0
Others	720	50.5	720	57.5
<b>Total</b>	<b>1,426</b>	<b>100.0</b>	<b>1,252</b>	<b>100.0</b>
Shareholding (%)		37.3		42.5
Control (%)		49.5		42.5
<b>Post-Warrant Issue</b>				
Promoter shareholding	652	42.2	652	47.5
Treasury shares	174	11.2	0	0.0
Others	720	46.6	720	52.5
<b>Total</b>	<b>1,546</b>	<b>100.0</b>	<b>1,372</b>	<b>100.0</b>
Shareholding (%)		42.2		47.5
Control (%)		53.4		47.5

Source: Edelweiss research

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Sunil Jain - 2286 4308	Alternative & Quantitative	Ankit Doshi - 2286 4671
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<b>Buy</b>	Expected to appreciate more than 20% over a 12-month period	<b>Reduce</b>	Expected to depreciate up to 10% over a 12-month period
<b>Accumulate</b>	Expected to appreciate up to 20% over a 12-month period	<b>Sell</b>	Expected to depreciate more than 10% over a 12-month period
<b>Trading Buy</b>	Expected to appreciate more than 10% over a 45-day period	<b>Trading Sell</b>	Expected to depreciate more than 10% over a 45-day period

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