India Infoline Result Update
Reliance Industries Ltd *(Q4 FY07)*
CMP: Rs1,595 Rating: Hold
April 27, 2007

Reliance Industries Ltd (RIL) Q4 FY07 results were marginally below our expectations primarily because of below estimated performance of the petrochemical segment. However, the refining segment continues to surprise us with US$13/bbl GRMs as compared to US$6.8/bbl Singapore GRMs. Oil and Gas production from the PMT fields have increased post implementation of EPOD and NRPOD plans. KG-D6 block is all set to commence production from the second half of 2008. Retail venture has commenced operations during the last fiscal in an astounding manner with RIL investing over Rs40bn. Our sum of parts analysis yields a target price of Rs1,642 an upside of 2.9% on a completed diluted equity. However, upsides cannot be ruled out from earlier commencement of production of gas from KG D-6 and further clarity on retail business. We recommend a HOLD.

Financial highlights

	Q4 FY07	Q4 FY06	Growth (%)	FY07	FY06	Growth (%)
Net Sales	258,950	245,420	5.5	1,053,630	812,110	29.7
Expenditure	(211,960)	(204,960)	3.4	(871,530)	(669,120)	30.3
Operating Profit	46,990	40,460	16.1	182,100	142,990	27.4
PBT	34,850	29,260	19.1	132,800	107,040	24.1
PAT	28,530	25,020	14.0	109,080	90,690	20.3
OPM (%)	18.1	16.5		17.3	17.6	
EPS (Rs Annualized)	81.9	71.8		78.2	65.1	
P/E (x)	19.5	-		20.4	-	

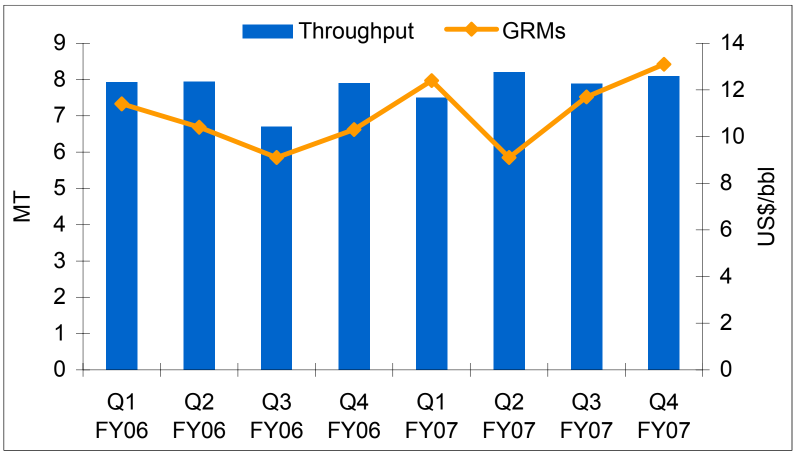
Segmental performance

Revenue (Rs mn)	Q4 FY07	Q4 FY06	Growth (%)	FY07	FY06	Growth (%)
Petrochemical	106,700	106,080	0.6	422,260	328,020	28.7
Refining	210,690	212,480	(0.8)	860,090	711,170	20.9
Others	6,610	5,220	26.6	23,800	18,730	27.1
Total	324,000	323,780	0.1	1,306,150	1,057,920	23.5
EBIT (Rs mn)	**Q4 FY07**	**Q4 FY06**	**Growth (%)**	**FY07**	**FY06**	**Growth (%)**
Petrochemical	11,370	14,880	(23.6)	53,950	47,130	14.5
Refining	22,770	17,410	30.8	77,260	59,160	30.6
Others	3,220	3,260	(1.2)	13,350	11,120	20.1
Total	37,360	35,550	5.1	144,560	117,410	23.1
EBIT Margin (%)	**Q4 FY07**	**Q4 FY06**	**Inc/(Dec)**	**FY07**	**FY06**	**Inc/(Dec)**
Petrochemical	10.7	14.0	(3.4)	12.8	14.4	(1.6)
Refining	10.8	8.2	2.6	9.0	8.3	0.7
Others	48.7	62.5	(13.7)	56.1	59.4	(3.3)
Revenue Contribution (%)	**Q4 FY07**	**Q4 FY06**	**Inc/(Dec)**	**FY07**	**FY06**	**Inc/(Dec)**
Petrochemical	32.9	32.8	0.2	32.3	31.0	1.3
Refining	65.0	65.6	(0.6)	65.8	67.2	(1.4)
Others	2.0	1.6	0.4	1.8	1.8	0.1
EBIT Contribution (%)	**Q4 FY07**	**Q4 FY06**	**Inc/(Dec)**	**FY07**	**FY06**	**Inc/(Dec)**
Petrochemical	30.4	41.9	(11.4)	37.3	40.1	(2.8)
Refining	60.9	49.0	12.0	53.4	50.4	3.1
Others	8.6	9.2	(0.6)	9.2	9.5	(0.2)

Refining Segment… strong trend continues

RIL reported US$13/bbl refining margins in Q4 FY07 as against US$10.3/bbl in Q4 FY06 and US$11.7/bbl in Q3 FY07. During the quarter the benchmark Singapore GRMs were at US$6.8/bbl. The spread between RIL's GRM and Singapore GRMs thus was at US$6.2/bbl as against US$7.5/bbl in Q3 FY07. The spread is significantly higher than the historic range of US$2.5-3.5/bbl. This surge translated into EBIT margins for the refining segment to expand by 260bps yoy to 10.8%.

Chart: Trend in throughput and GRMs

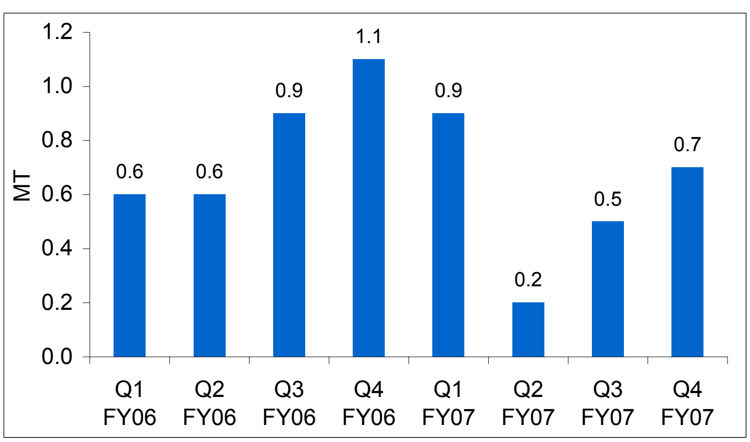


Source: Company

Other key features

- ✓ The Jamnagar refinery processed 8.09MMT in Q4 FY07 of crude against 7.9MMT in Q4 FY06.
- ✓ With effect from April 16,2007 the entire Jamnagar complex has achieved a EOU status, which will enable the company to maintain its tax payout in the range of 15-20% at least for the next couple of years.
- ✓ During Q4 FY07, RIL increased its sale of petroleum products from retail outlets to 0.7MMT as against 0.5MMT in Q3 FY07. RIL also increased the number of retail outlets by 46 in the quarter.

Chart: Trend in retail sales of petroleum products



Source: Company

Refining outlook

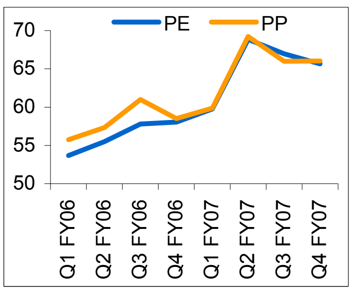
The outlook for complex GRMs continues to remain robust at least for the next 2 fiscals as:

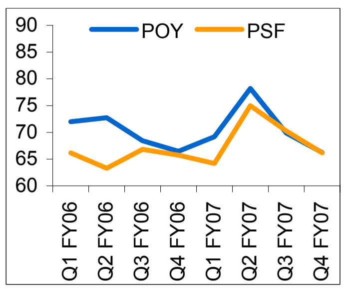
- ✓ Stricter emission norms will lead to surge in demand of low sulphur fuels, which only complex refiners can deliver
- ✓ CDU capacity additions are likely to be lower than the increase in demand and with refineries currently operating at above 85% utilization levels, the margins should remain strong.
- ✓ Increasing light-heavy differential will also support GRMs for complex refiners

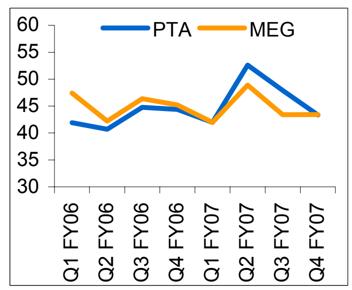
Petrochemical… not so strong

Despite production volume growth of 27.3%yoy for petrochemicals, revenues from the segment remained flat at Rs107bn, which was primarily on account of lower prices for MEG and PTA. On the margin front, PE and PP spreads over naphtha registered 19.2 and 18.6% increase respectively on a yoy basis. However, polyester intermediaries registered sharp decline in spreads over naphtha. As a result, EBIT margins for the segment slumped by 340bps yoy to 10.7%.

Chart: Petrochemical Price Trends (Rs/kg)

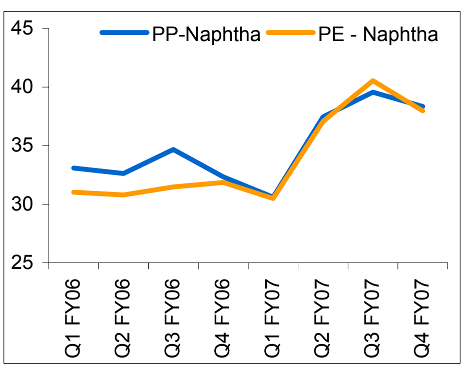


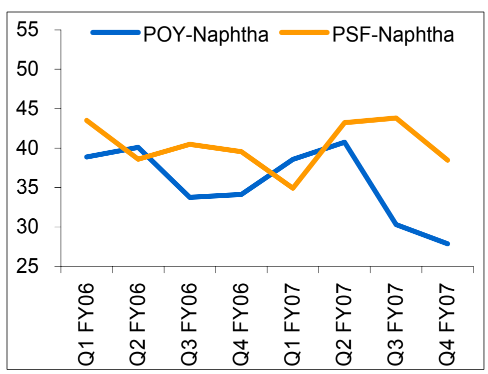




Source: Company

Chart: Petrochemical margin trends





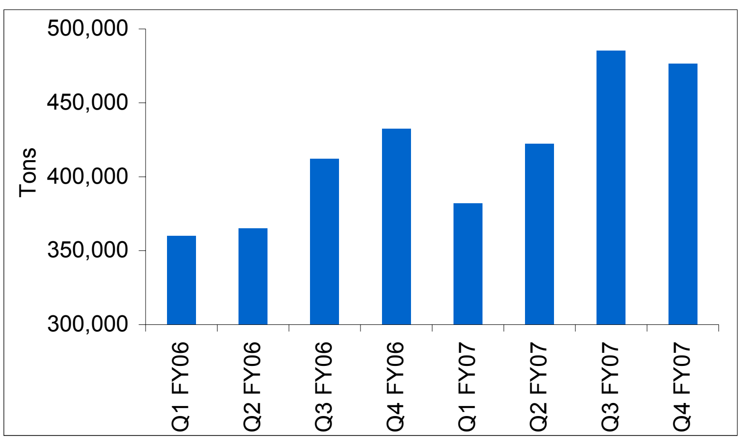
Source: Company, Capitaline

Petrochemical Outlook

- ✓ The management is upbeat with expectation that the petrochemical up-cycle could extend for another couple of years. The premise is based on the facts that the operating rates are still above 92% levels and capacity expansion plans in Middle East are likely to be delayed significantly.
- ✓ RPL's 900KTA polypropylene plant will commence operations in 2008.
- ✓ RIL has announced setting up of a 2mn ton petrochemical complex in Jamnagar SEZ, which would use off gases from existing as well the RPL refinery. The total capex for the project is US$3bn and the plant will go on stream in FY11.
- ✓ With contribution of organized retail expected to grow to above 11% from current levels of 4.6% in 4-5 years the demand for packaging will increase substantially translating into increased demand for PP and PE.
- ✓ GoI has imposed anti dumping duty (ADD) on imports of PFY from Asian countries and EU has removed ADD on imports of PSF from India. These initiatives will help protect margins for Polyester segment.

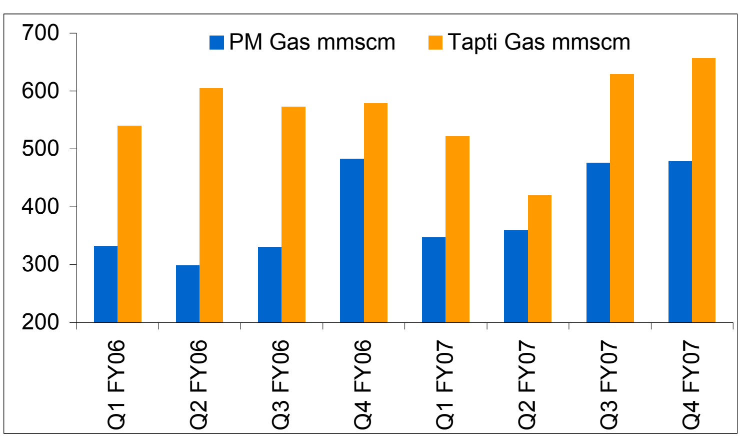
E&P… stepping on the gas

Chart: Production of Oil Panna Mukta fields



Source: Company

Chart: Production of Gas from PMT fields



Source: Company

Update on KG D6 development

- ✓ The development activities on the block are on schedule to meet the production commencement target of H2 2008.
- ✓ The company is facing shortage of rigs but will use the available resources more for the development activities than the exploration activities of other blocks as production from KG-D6 is amongst the top priorities for the company. Currently, RIL has 3 rigs and it has taken efforts to mobilize additional 2 rigs which are likely to come in Q2 FY08.
- ✓ The gas production will begin with 20mmscmd and then scale up to 80mmscmd by the end of FY09 against the target of FY10 as mentioned in the Field Development Plan.
- ✓ With a gas grid being formed, the supply chain would not be an issue. The demand for gas on its East-West pipeline is likely to remain strong with existing and prospective facilities queuing up for gas. Captive consumption is also slated to be around 27mmscmd.

Update on NEC 25

During Q4 FY07 the company has drilled one exploratory well and drilling of another well is in progress.

KG D6 MA Oil development

- ✓ Commercial viability was approved for the block in February 2007.
- ✓ Development plan will be submitted shortly.
- ✓ Contracting synergies with D1 and D3 development project will be leveraged to commence production of oil from H1 FY09.
- ✓ Initial target for production is in the range of 30,000-35,000bopd.

Update on retail venture

- ✓ Opened 74 Reliance fresh outlets during Q4 FY07 to take the total to 96 outlets for FY07 with total square footage of 250,000 sq. ft. Currently the company has 135 Reliance Fresh Stores over 16 cities with a total square footage of over 370,000 sq. ft.
- ✓ During the month of April 2007, RIL launched Reliance Digital at Shipra Mall in Faridabad, which will be a one stop solution for all technology needs with a wide array of brands and products in the field of consumer electronics, home appliances, IT and telecommunication.

Dilution in Equity

	Number of Shares (Mn)
Current Equity	1,394
Warrants issued	120
IPCL Merger	60
ESOPs	29
Diluted Equity	1,603
Dilution (%)	15

Valuation

Parameter	Value (Rs mn)	Rs per Share
7x FY09 Refining EBIT	554,533	346
7x FY09 Petchem EBIT	566,120	353
US$7/boe Reserves	1,200,182	749
RPL @ Rs80	288,000	180
Reliance Retail 1x Sales for FY09	272,727	170
Total	2,881,561	1,798
Debt	269,520	168
Cash	19,660	12
Net Value	2,631,701	1,642
CMP		1,595
Upside (%)		2.9

 # Petchem EBIT includes IPCL FY09E EBIT
 # We have assumed completely diluted equity for computation on per share values