MOTILAL OSWAL

Detailed Report
SECTOR: OIL & GAS

Reliance Industries

Banyan Tree

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Contents

Reliance Industries

STOCK INFO.	BLOOMBERG
BSE Sensex: 14,142	RIL IN
S&P CNX: 4,108	REUTERS CODE RELI.BO

17 August 2007

Buy

Previous Recommendation: Neutral

Rs1,753

Y/E MARCH	2006	2007	2008E	2009E
Net Sales (Rs b)	812	1,162	1,169	1,147
EBITDA (Rs b)	143.0	207.0	225.3	231.8
Net Profit (Rs b)	90.7	123.3	134.2	159.2
EPS (Rs)	65.1	84.8	92.3	101.2
EPS Growth (%)	20.0	30.3	8.8	9.6
P/E (x)	19.5	20.7	19.0	17.3
P/BV (x)	3.6	3.8	3.2	2.6
EV / EBITDA (x)	13.8	13.3	12.3	12.2
EV / Sales (x)	2.4	2.4	2.4	2.5
RoE (%)	21.9	22.7	19.4	17.9
RoCE (%)	17.5	20.0	17.4	15.6

KEY FINANCIALS	
Shares Outstanding (m)	1,393.5
Market Cap. (Rs b)	2,442.5
Market Cap. (US$ b)	59.0
Past 3 yrs Sales Growth (%)	30.9
Past 3 yrs NP Growth (%)	33.7
Dividend Payout (%)	15.4
Dividend Yield (%)	0.6

We believe Reliance Industries (RIL) is the 'banyan tree'. Just when it begins to appear that growth would falter, a new offshoot props it up. RIL has successfully followed a strategy of backward integration and adding new businesses to maintain growth.

E&P - the new growth engine: In RIL's successful strategy of backward integration in its core businesses, exploration and production (E&P) is the next frontier. As its KG-D6 gas comes online in FY09, E&P will soon become the key growth driver, in our view.

Refining - great times here to stay: RIL's refining margins have lately been scaling record highs. We expect refining margins to remain high, as the global demand for refined products remains robust and not enough capacity is coming online.

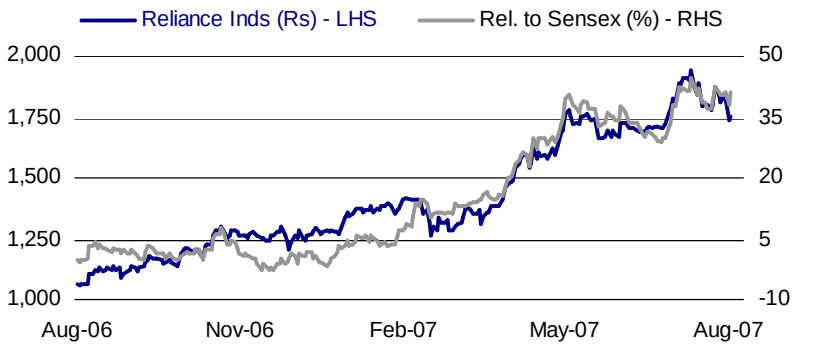
Petrochemicals - mixed margin trend: While margins in RIL's petrochemicals business have declined from the peak in 2QFY07, polymers continue to enjoy higher than historical average prices and margins. In polyesters, the trend of margin contraction was reversed in 1QFY08. However, high naphtha prices would continue to put pressure on overall petrochemical margins.

Retailing - potential value driver: We believe that organized retailing in India offers huge growth opportunity and RIL would be able to make the most of this opportunity. Its deep pockets would help sustain a relatively long gestation involved in building a pan-India retailing giant.

Our base-case SOTP valuation of Rs2,206 indicates an upside of about 26%. We upgrade our recommendation to **Buy**.

STOCK DATA	
52-W High/Low Range (Rs)	1,948/1,011
Major Shareholders (as of June 2007)	(%)
Promoters	51.3
Domestic Institutions	7.7
Foreign	24.4
Public	16.7
Average Daily Turnover	
Volume ('000 shares)	3,715.3
Value (Rs million)	5,190.7
1/6/12 Month Rel. Performance (%)	3/25/41
1/6/12 Month Abs. Performance (%)	-4/24/65

STOCK PERFORMANCE (1 YEAR)

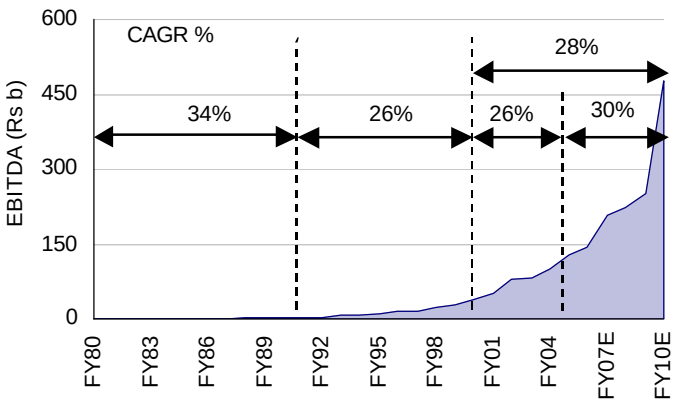


Growth is life

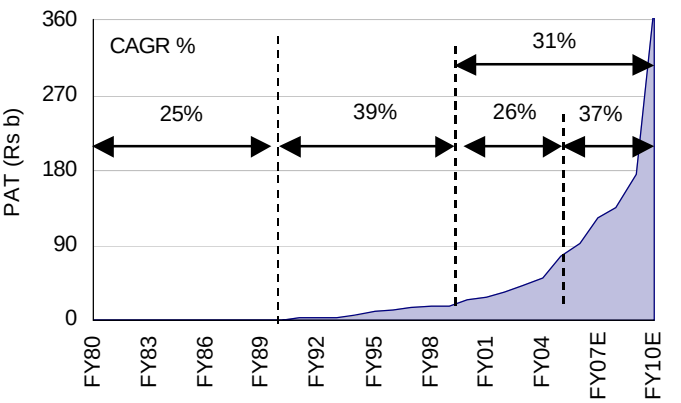
True to its motto – *Growth is Life* – RIL has been amongst the most consistent Indian companies to deliver a profit CAGR of 25%, despite a global commodity business. Apart from organic growth in its existing businesses, the company has a history of successfully adding new businesses to its portfolio. This addition has been through backward integration in the energy chain as well as unrelated diversification into high growth industries. The company continues to follow this strategy and we believe that it would maintain its 25%+ growth in the future.

EXHIBIT 1: EXPECT HIGH GROWTH TO CONTINUE

SUSTAINED HIGH EBITDA GROWTH



SUSTAINED HIGH PAT GROWTH



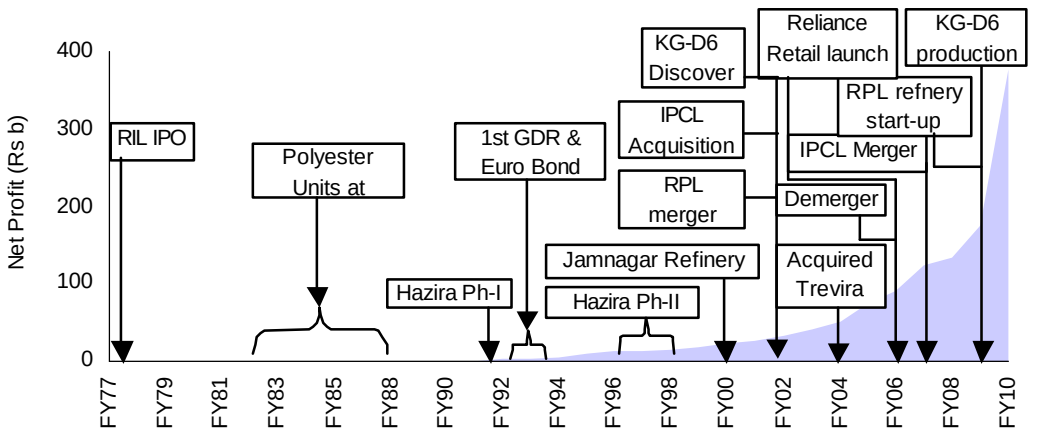
Source: Company/MOSL

Striding the energy chain

RIL has been showing impressive growth despite a steadily increasing base

From a textile manufacturer in its initial years, RIL has progressively integrated backwards into petrochemicals, refining, and recently into exploration and production (E&P). While it has organically grown its existing businesses, each of its new businesses has been bigger and more ambitious than the existing businesses. The result – it has continued to show impressive growth despite a steadily increasing base.

EXHIBIT 2: HISTORY OF ADDING NEW BUSINESSES TO DRIVE GROWTH



Source: Company/MOSL

Expect high growth to continue

We expect the high growth to continue…

The future growth for the company would come through expansion in its core businesses of refining and petrochemicals, further backward integration into energy chain through E&P, and diversification into Retail and SEZs.

EXPANDING EXISTING CORE BUSINESSES…

…driven by expansion of existing core businesses…

Petrochemicals

- Petrochemicals production has increased by 2.6mmtpa in the last five years to 13.7mmtpa (excl. IPCL merger)
- New petrochemical capacity of nearly 3mmtpa will be added in the next three years

Refining

- Refining capacity has been increased by 20% to 33mmtpa in the last 2-3 years through debottlenecking
- Is adding a new 29mmtpa refinery through its 75% subsidiary, Reliance Petroleum, by December 2008

…AND ADDING NEW BUSINESSES TO ITS PORTFOLIO

…and addition of new businesses

- Exploration and production (E&P) of oil and gas
- Retail – through 100% owned Reliance Retail Limited; and
- Development of several special economic zones (SEZs)

Of these, E&P would be the key driver of growth in near term, as the oil and gas production from its KG-D6 fields comes online in FY09.

E&P – the new growth engine

RIL is the largest exploration acreage holder in the private sector in India with 336,000 sq km spread over 34 blocks and also has about 3,900 sq km of coal bed methane (CBM) exploration acreage in five blocks. It has 87,000 sq km of international exploration acreage spread over eight blocks in five countries.

With KG-D6 gas coming online in 2008, E&P would soon become the key growth driver

RIL had its world-scale gas find in 2002 in KG-D6 block, less than five years ago followed by numerous other discoveries in the KG-D6 and in other exploration blocks. The KG-D6 block itself has 18 successful discoveries till date. The KG-D6 block is currently in the development phase to bring oil and gas online in 2008.

There remain many dark horses in RIL's E&P stable, which are estimated to contain large hydrocarbon resources. RIL has reported successes in many of these blocks. But as the exploration phase is still in early stage, the potential of most of these blocks remains unknown. Among these blocks, the maximum exploration has been carried out in NEC block in Mahanadi, where the company has had seven discoveries. It has recently filed the development plan for this block, with plateau production of 6.5mmscmd and production start from 2012.

Few of the blocks like D4 block in KG Basin (no drilling yet), Cauvery basin block (where RIL had a large discovery recently), KG-III-6 block (two oil finds in December 2005), and GS-OSN-2000/1 (gas discovery in May 2007 – first in carbonate reservoirs on west coast) are estimated to contain large potential.

We currently ascribe very little or no value to most of these blocks. However, we believe, that several of these blocks have the potential to be commercially developed. With RIL's large inventory of high potential blocks, there remains large upside, which is not quantifiable at this early juncture in its E&P journey.

Refining – great times here to stay

Refining margins, which have lately been scaling record highs, are likely to remain high…

RIL's refining margins have lately been scaling record highs with gross refining margins (GRMs) touching US$15.4/bbl in 1QFY08, higher than the previous record of US$13/bbl in 4QFY07. RIL's premiums over Singapore benchmark has also expanded significantly from earlier range of US$2-3/bbl to US$5-6/bbl. With increased product exports to higher netback markets, post-recent EOU status and with the new refinery start (by 75% owned RPL) expected in December 2008, premium advantage over Singapore benchmark could further increase in our view.

Conversion to EOU increases margin advantage: With its refinery now enjoying an EOU status, RIL would be able to place bulk of its products in high netback markets like US and Europe. In the very first quarter post EOU status, RIL's refining exports have significantly increased to 5mt compared to 3.5mt in 1QFY07 and 4.2mt in 4QFY07.

RPL refinery would get even higher margins: Through its 75% subsidiary Reliance Petroleum (RPL), RIL is building an even more complex refinery in an SEZ at Jamnagar. The RPL refinery, with a Nelson index of 14 compared to 11.3 for RIL, would enjoy a US$2-3/bbl margin advantage over the existing refinery.

Petrochemicals – mixed margin trend

Although petchem margins could be under pressure

RIL is the largest petrochemicals player in the domestic market, with very high market shares in all key product segments. The company is also the world's largest producer of polyester and enjoys high global ranks for its major products in terms of capacity.

Margins in RIL's petrochemicals business have declined in the recent quarters from the peak in 2QFY07. Though Polyethylene (PE) and Propylene (PP) continue to enjoy higher than historical average prices and margins, polyesters were witnessing margin contraction until recently. The trend of polyester margin contraction was reversed in 1QFY08, with upward movement in cotton prices.

However, prices of naphtha, the key feedstock, have increased much more than petrochemical prices due to continued high crude oil price environment. We do not expect this scenario to change significantly in the near future and expect the pressure on petchem margins to continue.

Retailing – potential value driver

RIL would be able to make the most of the huge opportunity offered by organized retailing in India

RIL has announced a US$5.6b investment in the retail sector through its 100% subsidiary, Reliance Retail Limited (RRL). We believe that organized retailing in India offers huge growth opportunity and RIL would be able to make the most of this opportunity. Its deep pockets would help sustain a relatively long gestation involved in building a pan-India retailing giant.

Given RIL's track record of large-scale project execution, we do not see any major hurdles in it becoming one of the largest retailers in India over next few years. The company is setting up infrastructure including logistics, transport facilities, IT infrastructure, warehouses and even its cargo aircraft to source products. Creation of strong backend and infrastructure by the company would enable it to price products competitively and enjoy better margins.

RRL has already added over 201 *Reliance Fresh* outlets in 25 cities. RRL has established 108 collection centers in 16 states to collect farm produce directly from farmers. The company has also added 1m customers through the *RelianceOne* membership loyalty program.

SOTP valuation indicates 26% upside; Buy

Our base-case SOTP valuation indicates 26% upside

We have revised our earnings estimates for FY09 and FY10 upwards, following our positive outlook on refining margins, progress on RPL's refinery, more clarity on KG-D6 development, and positive news flow indicating large potential from many other blocks. Our revised EPS estimates (calculation excludes treasury shares of 198.9m) are Rs92.3 for FY08, Rs101.2 for FY09 and Rs193.8 for FY10. Our FY10E EPS after consolidating for RPL is Rs229.3.

We upgrade our stock recommendation to Buy

The stock currently trades at 17.3x FY09E and 9x FY10E earnings, and at an EV/EBITDA of 12.2x FY09E and 6.9x FY10E. We revise our stock recommendation from Neutral to **Buy**, with an SOTP-based target price of Rs2,206.

While our SOTP valuation indicates an upside of 26% from the current market price, there are significant possible upsides that we have not factored in our estimates. We believe that the company's E&P business and new initiatives – Retailing and SEZs – could throw up significant positive surprises.

EXHIBIT 3: SOTP VALUATION OF RIL

BUSINESS	US$ B	RS B	RS/SHARE	COMMENTS
Core Business	**32**	**1,331**	**968**	
Petrochem and refining	27	1,141	830	Core business EV @6x FY09E EBITDA
Others	5	191	139	EV @6.0x FY09E EBITDA (includes PMT)
New E&P Initiatives	**25**	**1,071**	**779**	
KG - D6 Gas (KG Basin)	17	718	522	DCF based; Assumed plateau of 120 MMSCMD; 26 TCF total recovery; Avg well-head price of US$4.35-US$5/MMBTU
KG - D6 MA1 Oil (KG Basin)	4	159	116	DCF based; Assumed recovery of 196 mmbbls over 10 years; 5% premium to Brent ($55/bbl)
NEC - 25 (Mahanadi basin)	2	81	59	DCF based; 90% stake; reserves of 3.7 TCF, production to commence in 2012
Sohagpur East & West (CBM blocks)	1	44	32	DCF based; 100% stake; OGIP of 3.65 TCF, assumed 50% recovery, production to commence in FY11
KG - III - 6 oil (KG Basin)	1	34	24	Reserve size yet to be assessed. Value based on market news on reserves at 1b bbls, @US$2/bbl
Block - 9 (Yemen)	1	35	25	Currently producing. 2P reserves of 332 mmbbls valued, assumed 50% recovery valued at @US$20/bbl; RILstake 25%
Investments	**8**	**352**	**256**	
RPL	8	332	241	At 20% discount to our target price of Rs123 for FY09
Investments in RGTIL	0.5	20	15	Investments of Rs20b as on Mar 31, 2006
Reliance Retail	**6**	**250**	**182**	100% subsidiary of RIL
Net Debt	**-1**	**-29**	**-21**	
Cash & Short term Investments	8	339	246	FY09E
Total Debt	7	309	225	FY09E
Total Base Value	**71**	**2,975**	**2,206**	Based on fully diluted equity cap of 1,375m (excl 198m treasury shares)
Potential upside	**11**	**481**	**350**	
E&P				
KG-D6 Gas - additional prospects	7	314	228	DCF based, indicated 50TCF potential in NFDP.Potential upside recovery of 11TCF assuming 75% recovery.
KG-D6 oil - additional prospects	2	100	73	DCF based, identified prospect of 1.6b bbls, Base case has only 12.2% recovery. Assumed additional 7.8% recovery (124mmbbls)
Sonhat, Barmer 1and 2 (CBM Blocks)	1	56	41	Based on 8TCF reserve size - data from DGH projections on potential resources & RIL OGIP of 1.5TCF for Sonhat (@US$1/BOE or US$0.17/MCF)
NEC - 25 (Mahanadi basin)	0.3	11	8	Upside potential of 1.5TCF (2P) (@US$1/BOE or US$ 0.17/MCF)
MN-DWN-2003/1 (D4 Block)	-	-	-	As per Niko (15%) partner, this block has very similar geological system as KG-D6 and could be potentially larger than KG-D6 or NEC-25; We currently do not ascribe any value now as exploratory drilling yet to commence
CY-DWN-2001/2 (Cauvery Basin)	-	-	-	Most recent discovery in Cauvery deep water; Potentially a large find based on large gas and oil flow rate from test well; Further exploratory drilling continuing; We do not ascribe any value as reserve/resource estimate yet to be announced
KG-OSN-2001/1 (KG Basin)	-	-	-	Gas discovery in Sep 2006; Commerciality under evaluation; we do not ascribe any value
GS-OSN-2000/1 (Gujarat Saurashtra)	-	-	-	Gas discovery in May 2007; RIL's first discovery in large potential carbonate reservoirs; Commerciality under review
Others				
SEZ	-	-	-	We await more clarity on RIL's SEZ plans
Total incl upside potential (excl Retail & SEZ)	**82**	**3,456**	**2,555**	Based on Fully diluted equity cap of 1,375m (excl 198m treasury shares)

Source: MOSL

E&P: the new growth engine

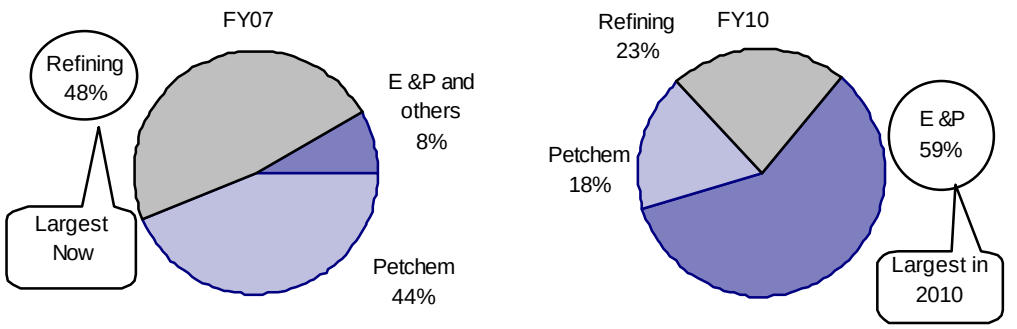
VALUE OF NEW E&P BUSINESS

Base-case: Rs779/share
- 36% of SOTP

With upside: Rs1,129/share
- 45% of SOTP

In RIL's successful strategy of backward integration in its core businesses, E&P is the next frontier. When it forayed into petrochemicals from textiles, petrochemicals soon became the key contributor to both its topline and bottomline. Similarly, as it moved back further from petrochemicals to refining, refining became the key contributor to its earnings. As its KG-D6 gas comes online in FY09, E&P will soon become RIL's key growth driver, in our view.

EXHIBIT 4: E&P WILL REPLACE REFINING AS THE LARGEST EBIT CONTRIBUTOR FOR RIL



Source: Company/MOSL

Gas and oil: value keeps adding

RIL had its world-scale gas find less than five years ago

RIL had its world-scale gas find less than five years ago – in the KG-D6 block in 2002. This discovery has been followed by numerous other discoveries, both in the KG-D6 block and in other exploration blocks. In the KG-D6 block alone, RIL has had 18 successful discoveries till date.

The E&P business' share of Rs1,071b in our current RIL base target value of Rs2,975b is already a significant 36%. Including current potential upside of Rs481b for E&P, the share of E&P is 45%. This is a large share considering that less than 2% of RIL's current earnings come from the E&P business. However, we believe that it just the beginning of the E&P journey.

Five years is a short period for assessing the large acreage that the company has

Five years is a short period for the complete exploration and assessment of a large and mostly deep-water acreage that RIL has. Estimates on the reserve size will keep increasing, as RIL makes more progress in terms of seismic studies, exploration & development, and data analysis. Going forward, we believe that the E&P business will account for an even larger share of RIL's valuation.

In the next few pages (12-48), we discuss in detail RIL's new growth engine on the following lines:

I. Our current valuation estimate of RIL's new E&P business
   i. Bulk of current value is from KG-D6, which itself has large upside potential
   ii. RIL has many other blocks with large potential; upsides could keep accruing
II. Our key assumptions
III. Large exploration acreage; bulk in deep-waters
   i. RIL has had significant success in exploration efforts
   ii. Plans stepped-up exploration efforts, going forward
IV. Why deep-water exploration?
   i. Conventional reserves increasingly beyond the reach of private enterprises
   ii. Deep-water: the emerging frontier for new hydrocarbon resources
   iii. Most deep-water resources unexplored so far
V. India emerging as a large deep-water province post NELP
   i. NELP has changed the landscape of Indian E&P
   ii. Significant success post NELP – increasing gas reserves
   iii. A large portion of gas reserves still remains untapped
VI. KG-D6: the big fish and it keeps getting bigger
   i. What is the gas reserve size? – The million (or billion!!) dollar question
   ii. What has been disclosed till now?
   iii. What is the upside?
   iv. When will the gas come?
   v. What is our assumption on gas production build up?
   vi. What would the gas pricing be?
   vii. Would there be adequate demand for the gas?
   viii. Our valuation & sensitivities for KG-D6 gas
   ix. Oil production could precede gas
VII. NEC-25: development plan filed, being further explored for more gas
VIII. D4: another large prospect
IX. Cauvery discovery: another 'significant' find
X. Other discovery blocks under NELP
XI. Panna-Mukta and Tapti: the producing domestic blocks
XII. CBM: development plan submitted for Sohagpur (East & West)
XIII. International acreage

I. Our current valuation estimate of RIL's new E&P business

We currently value RIL's new E&P business at Rs1,071b on a DCF basis: Our estimates are based on both publicly available information given by RIL and its partner Niko, as well as our assumptions of possible upsides that we believe should be factored in. The value would further increase by Rs481b, if we take the upsides that we currently do not factor in the base case. We present below a summary of our valuation of RIL's new E&P business (excluding the already producing Panna-Mukta-Tapti).

EXHIBIT 5: VALUATION SUMMARY OF RIL'S NEW E&P BUSINESS (FY09)

BLOCK	US$ B	RS B	RS/SHARE	REMARKS
Base Estimates				
KG - D6 Gas (KG Basin)	17	718	522	DCF based; Assumed plateau of 120 MMSCMD; 26 TCF total recovery; Avg well-head price of US$4.35-US$5/MMBTU
KG - D6 MA1 Oil (KG Basin)	4	159	116	DCF based; Assumed recovery of 196 mmbbls over 10 years; 5% premium to Brent (US$55/bbl)
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Sohagpur East & West (CBM blocks)	1	44	32	DCF based; 100% stake; OGIP of 3.65 TCF, assumed 50% recovery, production to commence in 2010
KG - III - 6 Oil (KG Basin)	1	34	24	Reserve size yet to be assessed. Value based on market news on reserves at 1b bbls, @US$2/bbl
Block 9 (Yemen)	1	35	25	Currently producing. 2P reserves of 332mmbbls valued, assumed 50% recovery valued at @US$20/bbl; RIL stake 25%
Total base Value	**25**	**1,071**	**779**	
Current potential upside				
KG - D6 Gas Additional prospects	7	314	228	DCF based, indicated 50TCF potential in NFDP. Potential upside recovery of 11TCF assuming 75% recovery.
KG - D6 Oil Additional prospects	2	100	73	DCF based, identified prospect of 1.6b bbls, Base case has only 12.2% recovery. Assumed additional 7.8% recovery (124mmbbls)
Sonhat, Barmer 1 & 2 (CBM blocks)	1	56	41	Based on 8TCF reserve size - data from DGH projections on potential resources & RIL OGIP of 1.5TCF for Sonhat (@US$1/BOE or US$0.17/MCF)
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MN-DWN-2003/1 (D4 Block)	-	-	-	As per Niko (15%) partner, this block has very similar geological system as KG-D6 and could be potentially larger than KG-D6 or NEC-25; We currently do not ascribe any value now, as exploratory drilling yet to commence
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GS-OSN-2000/1 (Gujarat Saurashtra)	-	-	-	Gas discovery in May 2007; RIL's first discovery in large potential carbonate reservoirs; Commerciality under review
Total Upside Value	**11**	**481**	**350**	
Base + Upside Value	**37**	**1,551**	**1,128**	

Source: MOSL

Bulk of the current new E&P value is from KG-D6…

i. Bulk of current value is from KG-D6, which itself has large upside potential

The KG-D6 block, where RIL had its first discovery and which is currently in development phase to bring gas and oil online in 2008, contributes bulk of our estimated value of its E&P business. In the base scenario, of the total value of Rs1,071b for

E&P, the KG-D6 block contributes Rs877b (82%). Similarly, in our current estimated upside value of Rs481b, the KG-D6 block's share is 86%.

..which itself has large potential upsides

The key reason for the large share of the KG-D6 block is that apart from being in a world-class reservoir, this is the only block currently in advanced development stage. More information is publicly available on reserves, resources, production rates, as well as potential upside. Yet, as we discuss later in this report, this block is still not fully explored. Hence, potential for further valuation upside remains.

ii. RIL has many other blocks with large potential; upsides could keep accruing

Apart from KG-D6, RIL has a large acreage in 31 other exploration blocks, most of which is in highly prospective deep waters. RIL has reported many successes in recent years in its exploration efforts. Among these blocks, the maximum exploration has been carried out in the NEC block in Mahanadi, where the company has had seven discoveries. This block has the second largest value (Rs81b base + upside of Rs11b) in our estimate, based on disclosed resource numbers.

Besides, there are several dark horses in RIL's E&P stable…

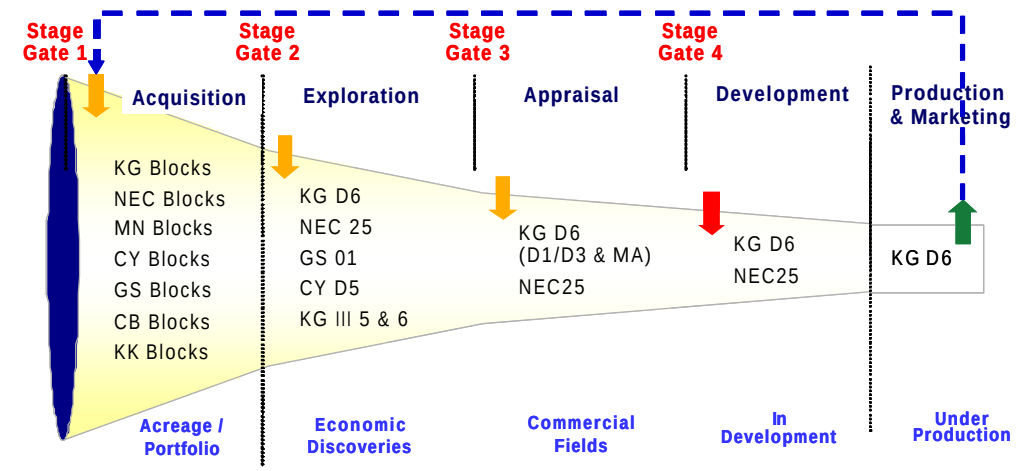
There remain several dark horses in RIL's E&P stable, which are estimated to contain large hydrocarbon resources. RIL has reported successes in many of these blocks. However, as exploration is still at an early stage, the potential of most of these blocks remains unknown. Few of the blocks like KG-D4 (no drilling yet), Cauvery basin block (where RIL had a large discovery, recently), KG-III-6 block (two oil finds in December 2005), GS-OSN-2000/1(gas discovery in May 2007 –first in carbonate reservoirs on west coast) are believed to have large potential.

…to most of which we have ascribed little or no value

We currently ascribe very little or no value to most of these blocks, though many of them have the potential of being commercially developed. Given RIL's sizable inventory of many large potential blocks, there remains large upside, which is not quantifiable at this early juncture in its E&P journey.

Value will keep accruing as more blocks move towards development & production in coming years

EXHIBIT 6: RIL'S E&P JOURNEY SO FAR



Source: Company/MOSL

II. Our key assumptions

i. KG-D6 gas

- **Total gas recovery:** We have built in total gas recovery of 26TCF over 22 years. This is higher than the disclosed recoverable reserves of 11.3TCF (2P) and 21TCF (3P) based on data as of April 2005. Our recovery rate is just about equal to 3P reserves of 27.2TCF for two fields being developed currently. Our estimates for total OGIP reserves and resources based on resource data published in Niko's latest annual report (excluding four recent wells) are as below:
  - 2P reserves (18.8TCF) and best estimates of resources (7.9TCF): 26.7TCF
  - 3P reserves (27.2TCF) and high estimates of resources (12.8TCF): 40TCF

  Our recovery estimates (26TCF) are just equal to disclosed 2P reserves and resources, and 65% of disclosed 3P reserves and resources.
- **Gas production build up**
  - We build gas production start in December 2008, with initial production of 40mmscmd and reaching 80mmscmd by June 2009
  - Plateau of 120mmscmd achieved in FY13 – maintained for 12 years – step decline post plateau period
- **Capital expenditure**

ITEM	CAPEX	REMARKS
Upto FY09 for 80mmscmd capacity	US$5.2b	As per RIL's addendum to FDP
Between FY10-FY12 to reach 120mmscmd	US$2.4b	Incremental capex to produce 120 mmscmd
Sustaining & abandonment capex	US$5.3b	Over the lifecycle
Total lifecycle capex	**US$13b**	

- **Average well-head gas price**

GAS VOLUME (MMSCMD)	PRICE (US$/MMBTU)	CUM AVG PRICE (US$/MMBTU)
Initial 40 mmscmd	4.35	4.35
41 – 60 mmscmd	5.00	4.57
61 - 80 mmscmd	5.25	4.74
81-120 mmscmd	5.50	4.99

- **Revenue recovery:** maximum 90% of revenue used to recover costs
- **Royalty rate:** 5% for first seven years, 10% for later years
- **Income tax:** IT rate of 34%; tax holiday for first seven years of commercial operations
- **Gas lifting cost:** US$0.50/mmbtu
- **Government's profit share** (see table alongside)
- **Debt-equity** of 70:30; **cost of debt** 8%, and **debt repayment** in eight years
- **Weighted average depreciation rate:** 9%
- **DCF discount rate:** 12%

GOVERNMENT'S PROFIT SHARE

INVESTMENT MULTIPLE	GOI ENTITLEMENT (%)
0.0 – 1.5	10
1.5 – 2.0	16
2.0 – 2.5	28
Over 2.5	85

Source: Niko Resources

ii. KG-D6 oil

- **Oil recovery:** We assume oil recovery of 196mmbbl over 10 years in the base case. Published resource numbers as per Niko's FY07 annual report are:
  - Best case original oil in place: 259mmbbl (121mmbbl recoverable)
  - High case original oil in place: 391mmbbl (255mmbbl recoverable)
- **Oil production**
  - Production commencement in July 2008 with initial rate of 25kbpd
  - Peak plateau rate of 60kbd achieved by March 2009
  - Plateau maintained for eight years
- **Capital expenditure**

ITEM	US$M	ASSUMPTION
Initial capex	1,962	US$10/bbl of oil recovery
Sustaining & abandonment	1,082	5% of year end cumulative capex; US$5.5/bbl
Life cycle capex	**3,044**	

- **Average well-head price:** 5% premium to long-term price forecast of US$55/bbl for Brent
- **Revenue recovery:** maximum 90% of revenue used to recover costs
- **Royalty rate:** 5% for first seven years, 10% for later years
- **Income tax:** Tax holiday for first seven years of commercial operations
- **Operating costs:** US$2.50/bbl
- **Government's profit share** (see table alongside)
- **Debt-equity** of 70:30; **cost of debt** 8%, and **debt repayment** in eight years
- **Weighted average depreciation rate:** 9%
- **DCF discount rate:** 12%

GOVERNMENT'S PROFIT SHARE

INVESTMENT MULTIPLE	GOI ENTITLEMENT (%)
0.0 – 1.5	10
1.5 – 2.0	16
2.0 – 2.5	28
Over 2.5	85

Source: Niko Resources

iii. NEC-25 gas

- Total gas recovery of 3.7TCF (Niko's 2P and best estimates of OGIP)
- DCF value in proportion to KG-D6 gas, discounted for production to commence in 2012

iv. KG-III-6 oil

- RIL had a discovery in FY06; reserve size and commerciality yet to be assessed.
- We estimate the news flow-based reserves of 1b bbl at a conservative US$2/bbl.

v. Yemen – block 9

- RIL stake 25%
- Estimated reserves of 330mmbbl
- Assumed recovery of 50% oil at US$10/bbl

vi. CBM reserves

- 100% stake
- Estimate recovery at 50% of OGIP of 3.65TCF in Sohagpur East & West blocks – development plan for these block has been recently submitted to GoI with production target of 5mmscmd
- DCF value in proportion to KG-D6 gas, discounted for production to commence in 2010

III. Large exploration acreage; bulk in deep-waters

RIL is the largest acreage holder in the private sector in India…

RIL is the largest acreage holder in the private sector in India, with substantial acreage in deep waters. It has total domestic exploration acreage of 336,000 sq km spread over 34 blocks. Of this, about 86% is the highly prospective yet largely unexplored deep-water territory. This includes the seven deep-water blocks covering an area of 76,000 sq km that RIL acquired in the latest (the sixth) round of NELP in 2006.

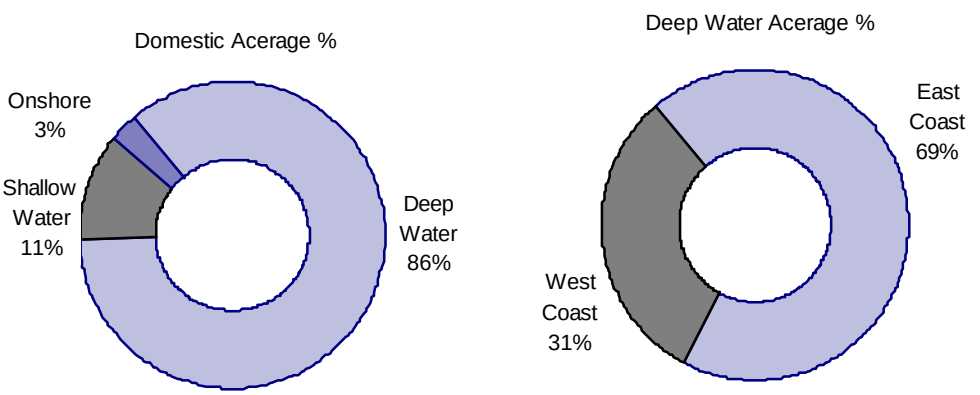
The company also has five coal bed methane (CBM) blocks, with total acreage of 3,900 sq km. In addition, in recent years, RIL has acquired significant international E&P acreage. It has total international acreage of nearly 87,000 sq km spread over eight blocks in Yemen, Oman, Columbia, East Timor, and most recently in Australia.

RIL'S CURRENT E&P PORTFOLIO

- 30% interest in already producing Panna-Mukta &Tapti fields;
- Four blocks acquired pre-NELP (New Exploration Licensing Policy)
- 28 blocks acquired in various rounds of NELP
- Five coal bed methane (CBM) blocks; and
- Exploration interests in Yemen, Oman, Columbia, East Timor and Australia

EXHIBIT 7: OVER 85% OF RIL'S DOMESTIC ACREAGE IS IN DEEP-WATERS

…and over 85% of its domestic acreage is in deep-waters



Source: Company/MOSL

A complete list of RIL's acreage is given in annexure I. In this report, we discuss the following key blocks in RIL's portfolio:

EXHIBIT 8: CURRENT KEY BLOCKS IN RIL'S E&P PORTFOLIO

SR. NO.	BLOCK	BASIN	SQ. KM.	RIL STAKE (%)	REMARKS
	NELP Blocks				
1	KG-DWN-98/3 (KG-D6)	KG - Deepwater	7,645	90	Gas and Oil production to begin in 2008
2	NEC-OSN-97/2 (NEC -25)	Mahanadi Shallow water	10,755	90	Development plan submitted; Target production of 6.5mmscmd from 2012
3	MN-DWN-2003/1 (D4)	Mahanadi - Deep water	17,050	85	3-well exploratory drilling planned
4	CY-DWN-2001/2 (CY-III-D5)	Cauvery - Deep Water	14,325	100	Gas and oil discovery in July 2007
5	KG-OSN-2001/2 (KG-III-6)	KG - Shallow Water	210	100	Two oil discoveries in Dec 2005
6	KG-OSN-2001/1	KG - Shallow Water	1,100	100	Gas discovery in Sep 2006
7	GS-OSN-2000/1	Gujarat-Saurashtra (Shallow)	8,841	90	Gas discovery in May 2007
	Panna-Mukta-Tapti (Producing Blocks)				
8	Panna - Mukta	Western Coast (Shallow Water)	1,201	30	EPOD to result in additional recovery of 18 mmbbl of oil and 74bcf of gas.
9	Tapti	Western Coast (Shallow Water)	1,471	30	NRPOD to result in additional gas recovery of 5.7mmscmd.
	CBM blocks				
10	Sohagpur (East & West)	Coal Bed Methane	1,090	100	Development plan submitted; Production commencement in 2010; 5 mmscmd
	International				
11	Yemen - Block-9	Sayun-Masila Basin	2,234	25	Currently producing

Source: Company/ MOSL

i. RIL has had significant success in exploration efforts

In its short E&P history, RIL has had 31 discoveries for 50 wells drilled. Its overall success rate of 62% and deep-water success rate of 79% is far ahead of the global benchmarks. Apart from indicating that RIL has acquired significant expertise in a short time, this success also points to the high prospectivity of its acquired acreage.

EXHIBIT 9: SIGNIFICANT SUCCESS IN EXPLORATION EFFORTS

PARTICULARS	WELLS DRILLED	SUCCESS	SUCCESS RATIO (%)
Deep Water	24	19	79
Shallow Water	17	12	71
Relinquished	9	0	0
Total	**50**	**31**	**62**

Source: Company/MOSL

ii. Plans stepped-up exploration efforts, going forward

RIL plans to drill about 100 more wells over the next 3-4 years. To meet the requirement of rigs for stepped-up exploration, the company has already contracted seven additional rigs (six deep water, one shallow water), in addition to three rigs (two deep water, one mid-water) already in operation.

EXHIBIT 10: RIL HAS CONTRACTED SEVEN MORE RIGS

NAME	SUPPLIER	DEEP /SHALLOW	CONTRACT PERIOD
Frontier	Transocean	Deepwater	June-06 to June-11
Actinia	Transocean	Shallow	Sept-06 to Sept-09
C Kirk Rhein	Transocean	Deepwater	Feb-07 to Aug-07
D534	Transocean	Deepwater	Oct-07to Oct-11
Neptune	Neptune Marine	Deepwater	Dec-07 to Dec-10
Expedition	Transocean	Deepwater	Sept-08 to Sept-10
Blackford dolphin	Dolphin Drilling	Deepwater	Mar-08 to Mar-11

Source: Company/MOSL

The company is also considering procurement of three additional deep-water rigs and one jack-up rig.

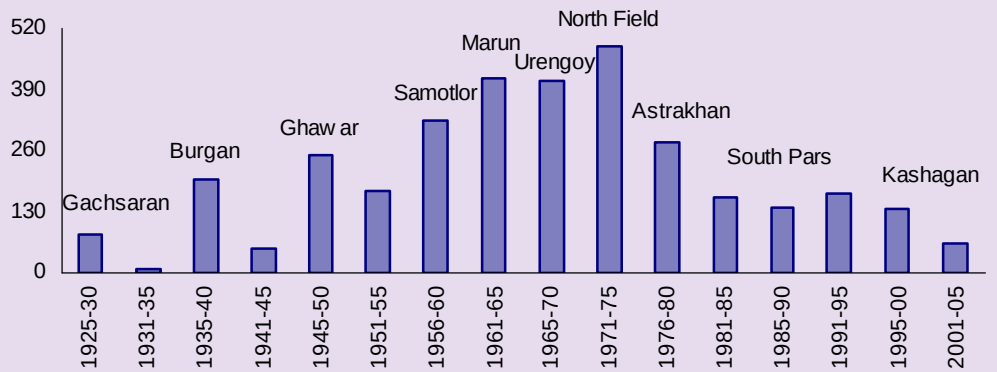
For supporting drilling operations, RIL has already contracted 12 supply vessels and will be adding two more vessels over the next few months.

IV. Why deep-water exploration?

Over 2/3rd of the world's current large conventional oil & gas reserves are concentrated in OPEC countries, which currently produce about 1/3rd of the world's oil production. With production in several large producing regions outside the OPEC declining, there is increasing need for tapping new oil supply sources. Outside of OPEC, the option to grow oil production from conventional resources remains very limited.

With production growth not keeping pace with oil demand growth, dependence on OPEC has increased significantly, resulting in sharp reduction in world oil spare capacity. The situation has become critical in recent years in view of high prices and OPEC's insistence on defending prices by even cutting production. Also, discoveries of large conventional oilfields are on a steady decline. World is now looking at alternate oil & gas sources and 'deep-water' is the emerging frontier for new hydrocarbon resources.

EXHIBIT 11: DISCOVERY FROM GIANT FIELDS ON DECLINE (BBOE)



Source: Company/MOSL

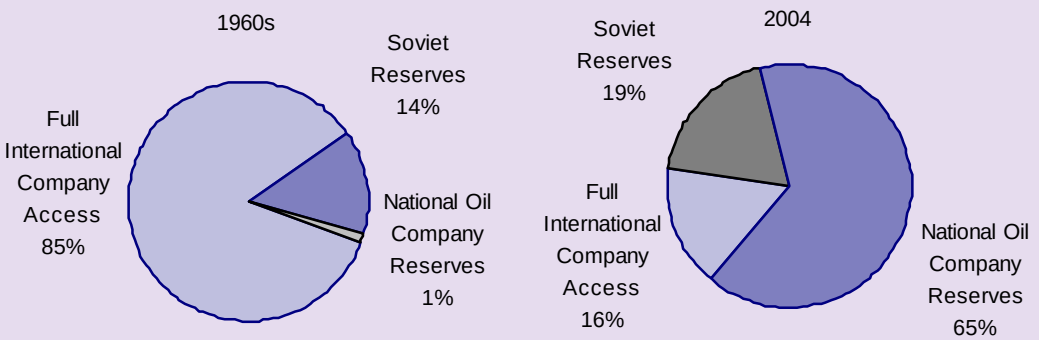
i. Conventional reserves increasingly beyond the reach of private enterprises

Resource nationalism is a growing phenomenon in most countries having substantial conventional reserves. This has led to limited access to conventional reserves for private international oil companies.

As shown in the exhibit below, national oil companies now control almost 2/3rd of the world's known conventional reserves. However, the more efficient, private, international oil companies have full access to only about 19% of the world's reserves compared to 85% in 1960. This lack of access to efficient operators means slower and less efficient development of conventional reserves.

EXHIBIT 12: ACCESS TO CONVENTIONAL RESERVES DRASTICALLY REDUCED FOR PRIVATE COMPANIES

Full access to private international companies reduced from 85% to 16% of world reserves



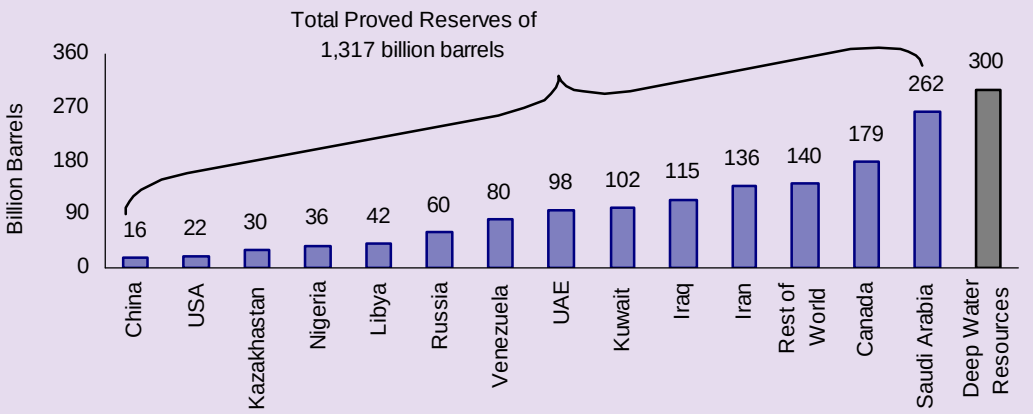
Source: EIA, http://www.businessweek.com/magazine/content/06_20/b3984001.htm

ii. Deep-water: the emerging frontier for new hydrocarbon resources

To increase oil & gas supplies, the hitherto untapped deep-water is emerging as the new frontier in the current era of high prices. Aggregate world deep-water resources are estimated at 300b bbl – nearly one-fourth of the world's current oil reserves.

Deep-water resource nearly one-fourth the size of conventional reserves

EXHIBIT 13: DEEP-WATER RESOURCES ARE LARGE



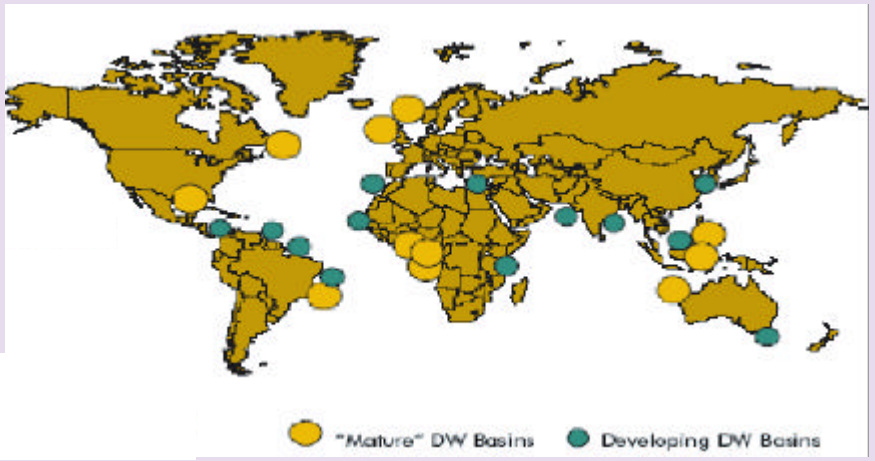
Source: EIA – International Energy Outlook/MOSL

iii. Most deep-water resources unexplored so far

Only 26% of deep-water resources have been discovered and just 2.5% are exploited. But this situation is expected to change soon. As shown below, 13 deep-water basins are being developed world over, and deep-water capex is set to treble from US$15b in 2002 to US$40b in 2010.

13 deep-water basins being developed currently

EXHIBIT 14: MANY DEEP-WATER BASINS BEING DEVELOPED NOW



Source: Company

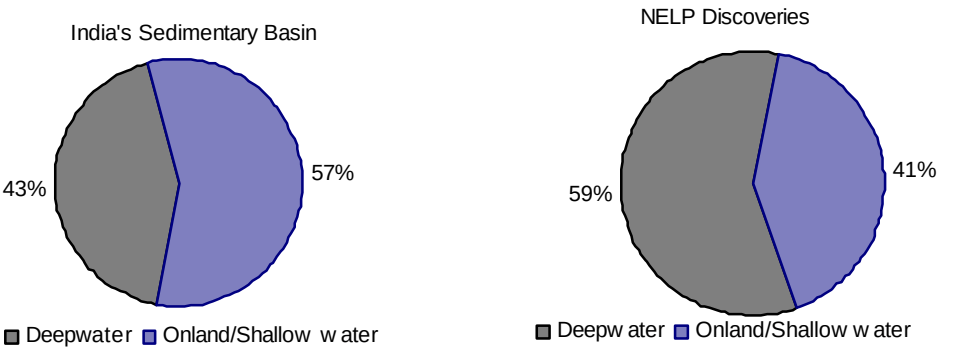
V. India emerging as a large deep-water province post NELP

India, which did not have any meaningful conventional oil resources, is now fast emerging as a country having potentially large deep-water resources. Till the NELP came in 1999, incumbent players did not pay much attention to exploring deep-water resources. But, RIL's large KG-D6 find changed the contours. Bulk of the new discoveries has since then come in India's deep-waters. Of the total sedimentary area of 3.14m sq km, 1.35m sq km (43%) is in deep-waters.

EXHIBIT 15: BULK OF RECENT NELP DISCOVERIES IS IN DEEP-WATERS

43% of Indian sedimentary basins in deep-waters

59% of NELP discoveries from deep-waters

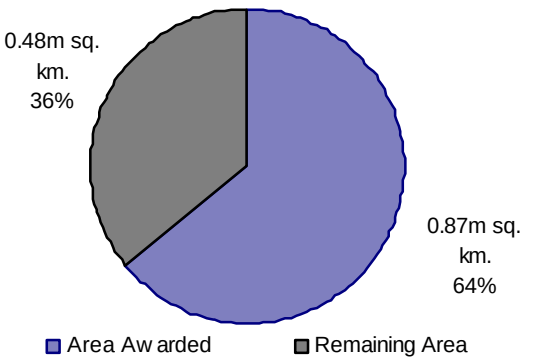


Source: Company/MOSL

Of the deep-water acreage, nearly 870,000 sq km (64%) has already been awarded for exploration. Another 480,000m sq km of deep-water acreage still remains to be awarded.

EXHIBIT 16: A LARGE AREA OF DEEP-WATERS STILL TO BE AWARDED

Over a third of deep-water acreage remains to be awarded



Source: DGH

i. NELP has changed the landscape of Indian E&P

When the Government of India (GoI) had offered acreage for exploration in 1980, 1982 and 1986, the response was not encouraging. It further liberalized the petroleum exploitation and exploration policy in 1991, inviting private companies – both overseas and indigenous – to participate in oil and gas field development to meet the ever-increasing national demand for oil and gas.

A more attractive policy was formulated by the GoI in 1999 and designated as the New Exploration Licensing Policy (NELP). The NELP regime saw significant participation by private companies. Since 1980, eight exploration rounds, one round for joint venture and six rounds under NELP have been offered for global bidding.

The success of the NELP regime is being seen in the form increased exploration efforts as well as increased success rates, as shown below.

NELP progress is encouraging – 40 discoveries from 93 wells (43% success) in six years

EXHIBIT 17: EXPLORATION SUCCESS IN NELP REGIME IN FIRST SIX YEARS

	PRE-NELP (1993 –2006)	NELP-I, II & III, IV,V (2000-06)
Number of Years	13	6
2D Seismic Survey (LKM)	24,091	109,305
3D Seismic Survey (SKM)	5,304	67,773
Exploratory Wells (No.)	167	93
PSC Blocks	28	138
No. of Discoveries (upto 15-04-07)	**25**	**40**
Investment made on Exploration (US$m)	782	1,451

Source: DGH

Salient features of the New Exploration Licensing Policy (NELP)

A. General

- Fiscal stability provision in the contract
- Finalization of contract on the basis of model production sharing contract (MPSC)
- Petroleum tax guide is in place to facilitate investors
- Possibility of seismic option in the first phase of the exploration period
- NOC's to compete for acreage

B. Fiscal and contractual terms

- No payment of signature, discovery or production bonus
- No customs duty on imports required for petroleum operations
- No minimum expenditure commitment during the exploration period
- No mandatory state participation/carried interest by NOCs
- Freedom to sell crude oil and natural gas in domestic market at market related prices
- Biddable cost recovery limit up to 100%
- Sharing of profit petroleum based on pre-tax investment multiple achieved and is biddable
- No cess on crude oil production
- Royalty payment for crude oil on ad-valorem basis
  - 12.5% for on-land areas
  - 10% for offshore areas
- Royalty on deep-water areas (beyond 400m bathymetry)
  - 5% for first seven years after commencement of commercial production
- Option to amortize exploration and drilling expenditure over a period of 10 years from first commercial production
- Contribution to site restoration fund fully deductible in same year for income tax
- Liberal depreciation provisions, making companies eligible for further tax adjustments
- Infrastructure status
- 7-year tax holiday from commencement of production
- Conciliation and Arbitration Act, 1996, which is based on UNCITRAL model shall be applicable

Source: DGH

ii. Significant success post NELP – increasing gas reserves

India's gas balance reserves have increased post NELP from 27TCF in FY01 to about 39TCF FY06. With several more discoveries being announced by RIL and other players recently, we believe the reserve numbers should increase significantly, going forward.

India's gas R/P ratio has increased by 13 years in 5 years

EXHIBIT 18: INCREASING GAS BALANCE RESERVES

	FY01	FY02	FY03	FY04	FY05	FY06
Balance (Gas) Recoverable Reserves (TCF)	27	27	26	30	33	39
R / P Ratio (Years)	37	39	41	44	49	50

Source: DGH

iii. A large portion of gas reserves still remains untapped

As per DGH estimates, a large portion of India's total gas resources remains untapped. Total gas resource in the country is estimated at 450TCF. This includes 400TCF of gas resources from 15 basins and 50TCF of CBM from 26 blocks. Of this, only 100 TCF of reserves have been established till date.

350TCF of gas resources yet to be found

EXHIBIT 19: A LARGE PORTION OF GAS RESERVES STILL REMAINS UNTAPPED

(TCF)	GAS RESOURCES (APPROX)	RESEVES ESTABLISHED	YET TO BE FOUND
Gas (15 basins)	400	94	306
CBM (25 blocks)	50	6	44
Total	**450**	**100**	**350**

Source: DGH

VI. KG-D6: the big fish and it keeps getting bigger

VALUE OF KG-D6

Base-case: Rs638/share
- 82% of new E&P

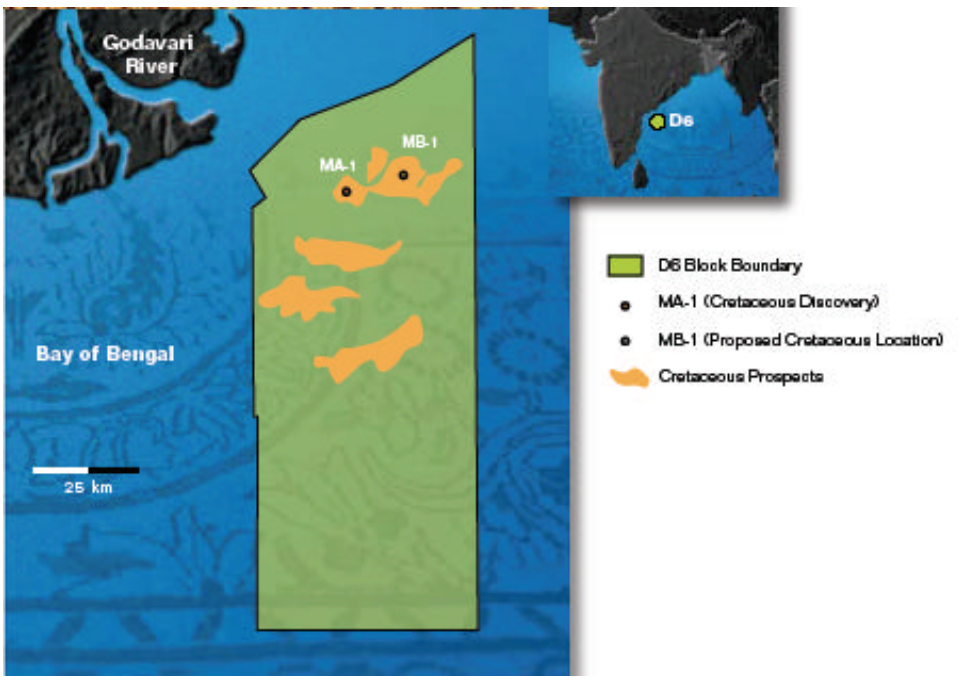
With upside: Rs939/share
- 83% of new E&P

In its short exploration history, RIL has had many successful discoveries of both gas and oil. These include 18 discoveries in the prolific KG-D6 block on the east coast, and seven discoveries in the NEC-25 shallow-water block, also on the east coast. Apart from these, the company has several other discoveries in other blocks in India and outside. The biggest current value driver in E&P is the KG-D6 block, which is currently in development phase to produce gas and oil from 2008.

RIL, along with its 10% partner Niko, had acquired block KG-DWN-98/3 (KG-D6 or D6) in 1999 in the GoI's first international bid round under the NELP. This 7,645 sq km deep-water block is located in the Krishna-Godavari Basin approximately 20km off the east coast of India.

In 2002, after an aggressive schedule of 20 months from the receipt of exploration license, RIL announced the largest Indian gas discovery in three decades and the world's largest in that year in this block. This was India's first deep-water discovery.

EXHIBIT 20: KG-D6 - LOCATED IN KRISHNA GODAVARI BASIN ON EAST COAST



Source: Niko Resources

When RIL first announced, the total in place and recoverable reserves were estimated at 7TCF and 5TCF, respectively.

i. What is the gas reserve size? – The million (or billion!!) dollar question

It is still less than five years since RIL announced its gas find. Five years is a short period to completely assess the full potential of a bock of this size. In addition, D-6 is in deep water and has a limited window available for exploration due to the active monsoon season on India's east coast. Hence, the full potential of the block has not yet been assessed. With more successes in recent times, RIL and Niko continue to see significant upsides to both the size and quality of reserves.

ii. What has been disclosed till now?

A) By RIL

In its addendum to initial development plan (as available on infraline.com) for Dhirubhai 1 and 3, which was approved by DGH in December 2006, RIL had indicated recoverable 2P reserves of 11.3TCF for two discoveries. This was a substantial increase from 2P recoverable reserves of 5.3TCF indicated in the initial filing, which was approved in November 2004.

EXHIBIT 21: RESERVES DISCLOSED BY RIL

	TYPE	SIZE TCF	
Nov-2004	2P	5.3	Initital approved develoment plan for Dhirubhai-1 and 3 gas fields
Oct-2006	2P	11.3	Addendum to FDP for Dhirubhai 1&3 gas fields - based on data upto April-05

Source: Infraline/MOSL

Apart from the above two discoveries, currently under development, the addendum also mentions OGIP volumes for eight other discoveries (from nine other discoveries made till then). The estimated original gas in place (OGIP) volumes for these discoveries is as under:

i. Low case: 6.9TCF
ii. Base case: 23.2TCF
iii. High case: 35.4TCF

In addition, the addendum also gives OGIP estimates for 19 identified pliocene prospects (30TCF) and six in deeper cretaceous sequence (1,600mmbbl of oil and 9TCF of OGIP). Thus, estimated hydrocarbon potential of 25 prospects is 39TCF of gas and 1,600mmbbl of oil. The addendum also gives the total currently estimated potential of the entire block at 50TCF.

B) By Niko

Niko publishes reserve and resource estimates for discoveries in its annual reports as shown below:

EXHIBIT 22: OGIP ESTIMATES (TCF)

OGIP ESTIMATE RECONCILIATION FOR D6 BLOCK OFFSHORE INDIA			OGIP BASIS FOR ESTIMATION OF								
			RESERVES			RESOURCES			TOTAL RESERVES AND RESOURCES		
YEAR	EVALUATOR	FIELDS	1P	2P	3P	LOW	BASE	HIGH	1P + LOW	2P + BEST	3P + HIGH
2005	D&M	A,B,C,D,E,F,G,H,K,M	2.9	7.9	11.9	0.0	0.0	0.0	2.9	7.9	11.9
2006	GCA	A, B	5.8	18.8	27.2	0.0	0.0	0.0	5.8	18.8	27.2
		C,D,E,F,GH,K,M,SH	0.0	0.0	0.0	1.2	4.4	8.2	1.2	4.4	8.2
2006 Total *		GCA	5.8	18.8	27.2	1.2	4.4	8.2	7.0	23.2	35.4

Source: Niko Resources

EXHIBIT 23: RECOVERABLE RESERVES (TCF)

PROVED	PROVED+PROB.	PROVED+PROB. +POSSIBLE	REMARKS
1P	2P	3P	
4.4	11.3	21.0	Derived from Niko's disclosed working interst share (10%)

Source: Niko Resources

Niko's FY07 annual report – further increase in resource estimates: In its latest annual report for FY07, Niko has not reported any change in reserve estimates. However, contingent resource estimates have significantly increased as shown below. These estimates do not include resource numbers from four wells including the recent R1 discovery.

EXHIBIT 24: CONTINGENT RESOURCES OGIP ESTIMATES (TCF)

	BEST CASE		HIGH CASE	
	OGIP	RECOVERABLE	OGIP	RECOVERABLE
2006	4.4	3.1	8.2	5.8
2007	7.9	5.6	12.8	9.2
Change (TCF)	**3.5**	**2.5**	**4.6**	**3.4**
Change (%)	*80*	*81*	*56*	*59*

Source: Niko Resources

iii. What is the upside? - our view

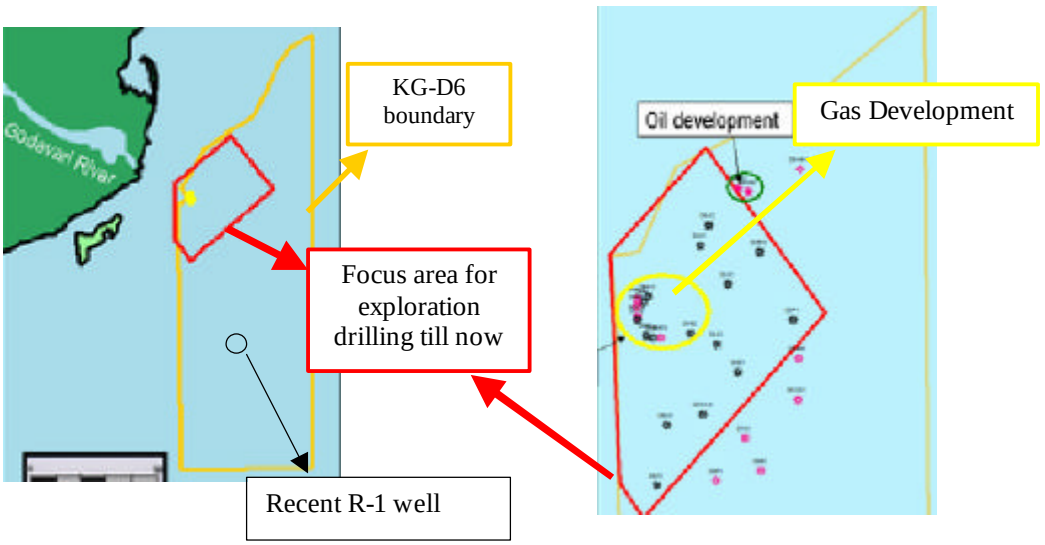
The market seems to be factoring in much higher reserve and recoverable reserve estimates than 11.3TCF. And these estimates are tending to increase with each new discovery announcement. We too believe that the actual in-place reserves and recoverable reserves could be much higher than the official announcements till date.

In our calculation, we have assumed recoverable reserves (2P) of 26TCF. This is much higher than RIL's (and Niko's) announced recoverable reserves of 11.3TCF for two fields currently under development. Our recoverable reserve estimate is just about equal to Niko's 3P reserve estimate (based on data as of April 2005). We still believe that our 2P recoverable reserve estimates of 26TCF could be conservative; the actual recoverable reserves could be much higher.

Our belief stems from the following:

1. Disclosed 2P reserves only for fields being developed: Current recoverable reserve estimates (2P of 11.3TCF) are for only two fields – Dhirubhai-1 and Dhirubhai-3 (circled in yellow in the exhibit below). These estimates are based on data, interpretation, analysis, and studies up to 30 April 2005. We believe that as more area of the block is brought under development and when RIL and Niko file for revised development plan(s) for including more area under development, the recoverable reserve estimates could be significantly higher.

EXHIBIT 25: KG-D6 – A LARGE AREA YET TO BE EXPLORED



Source: Niko Resources/MOSL

2. Based on data as of April 2005: Niko's annual report for FY06 gives OGIP reserve estimates of '3P reserves and high estimates of resources' of 35.4TCF and 2P reserves and best resource estimates of 23.2TCF. These numbers were based on reserve estimates for the two fields being developed (A&B) and resource estimates for nine other discoveries, as shown in the exhibit 22. All these fields/discoveries were in the trapezium area highlighted by the red boundary in the above exhibit and near the fields being developed.

Important to note here is the fact that these reported numbers were also based on data acquired as of 30 April 2005. Over the last two years since April 2005, RIL has had many more successful discoveries (18 till date) in this area.

Niko's annual report for FY07, does not give any changes in reserves estimates. However, the OGIP and recoverable resource estimates excluding recent four wells have significantly increased as shown in exhibit 24.

3. Improving recovery rate estimates: In recent presentations, Niko's management indicated that with further exploration and data interpretation, the estimates of possible recovery rates from better wells in KG-D6 have increased significantly over the last two years. See exhibit 26.

EXHIBIT 26: ESTIMATES OF POSSIBLE RECOVERY RATES FROM BETTER WELLS HAVE INCREASED

	GAS RECOVERY RATE ESTIMATES FROM BETTER WELLS
In 2005	100MMSCFD
In 2006	360MMSCFD
Current	500MMSCFD

Source: Niko Resources/MOSL

To put the current possible rate of 0.5BCF/day from better wells in perspective, it may be noted that India's current gas consumption is about 2.8BCF/day. Thus, six such wells could possibly provide all the gas that India is consuming now!

4. A big portion of KG-D6 is still largely unexplored: Though RIL has now done 3D seismic for the whole block, nearly 50% of the block remains largely unexplored in terms of drilling. We believe that exploration drilling will gradually fan out from the area already explored. This is shown by dots outside the trapezium in exhibit 25.

R-1 wells show gas bearing zones in deeper areas

In May 2007, RIL had one more successful discovery in the R-1 well – the first well located away from the area of focus till now (R-1 is shown by a black circle). At a water depth of 2,010 meters, this is the deepest location in the block till date. The R-1 well reached a total depth of 4,857 metres and encountered two significant gas-bearing zones in the Miocene stratigraphic interval. The success in these zones opens up new area in the deeper stratigraphic levels.

This new discovery further indicates that the extent of KG-D6 reservoir could be much wider and deeper than anticipated.

5. RIL/Niko have not relinquished any KG-D6 area: As per the terms of the production sharing contract (PSC), the operators are required to relinquish up to 25% of the block at the end of the first phase of the work commitment. At the subsequent work phases, the operators lose up to an additional 25% of the block. However, in all cases, the operator can retain the development and discovery areas.

We understand that Directorate General of Hydrocarbons (DGH) has allowed RIL to retain the entire area. This indicates that RIL must have convinced DGH that the whole of the block area is a potential development and discovery area. This further supports the argument for possibility of much higher reserves.

6. Development facilities being planned for higher capacity: RIL's addendum to its initial field development plan (revised FDP) proposes a plateau rate of 80mmscmd. However, the approved FDP provides operators flexibility in critical portions, which would facilitate production upto 120mmscmd.

The company reasons that since extensive exploration is underway, the potential of the block is likely to be higher than current estimates. This could result in higher production rate. The addendum also mentions that the current estimated potential of the entire block is around 50TCF.

7. New gas pipelines announced: To evacuate gas from KG-D6, Reliance Gas Transportation Infrastructure Limited (RGTIL) is currently building a 48-inch 1,400km East-West pipeline, which will connect Kakinada to Bharauch. We understand that this pipeline has a capacity of 80mmscmd and believe this could be expandable to 120mmscmd by installing additional compression units.

EXHIBIT 27: PROPOSED PIPELINE INFRASTRUCTURE

Source: Company

Recently, Reliance has announced setting up of additional pipelines from Kakinada. These include:

- 1,100km long Kakinada-Basudebpur-Howrah Pipeline to connect to Kolkata in the North; and
- Further extension of the already approved Kakinada-Vijayawada-Nellore-Chennai Gas Pipeline by adding following two more sections to Tuticorin and Mangalore.
  - 660km Chennai-Tuticorin
  - 270km Chennai-Bangalore-Mangalore

More details like pipeline size and capacity have not yet been disclosed. We believe that one of the reasons for creation of new capacity is to prepare for additional gas from KG-D6 beyond the indicated 80mmscmd in the addendum to FDP.

iv. When will the gas come?

RIL is targeting an aggressive development schedule to bring the gas online in 2HFY09. The timeframe of less than six years for developing a deep-water gas field is comparable to the best in the world.

Just 6 years from discovery to development – one of fastest in the world

EXHIBIT 28: KG-D6 DEVELOPMENT SCHEDULE COMPARABLE TO THE BEST IN THE WORLD

FIELD NAME	BONGA	AGBAMI	ATLANTIS	DALIA	ORMEN LANGE	KG D6
Location	Gulf of Mexico	Offshore Nigeria	Gulf of Mexico	Offshore Angola	Norwegian Sea	KG Basin
Reserves	750	800 mn boe	600	1,500	2,600	2,034
Water Depth (mts)	1,616	850	355	1,300	850-1,100	600-1,200
Year of Discovery	1996	1998	1998	1997	1997	2002
Year of Production	2005	2008	2007	2006	2007	2008
Discovery to Production -Years	9	10	9	9	10	6
Production Rate ('000 boepd)	240	250	180	225	350	450

Source: Company/MOSL

Development project remains on track

In a recent presentation, RIL indicated that progress on development remains on schedule. Already, 13 of the planned 18 development wells have been completed, and the remaining five wells will be completed by November 2007.

Progress on offshore and onshore facilities has been 50% and 35%, respectively. The bulk of the progress on onshore facilities is back-ended. With most of the civil construction work done, the progress rate will ramp up.

13 of initial planned 18 development wells already drilled

EXHIBIT 29: DEVELOPMENT PROGRESS ON SCHEDULE

DRILLING & COMPLETIONS	OFFSHORE FACILITIES	ONSHORE FACILITIES
72 % wells drilled	**50% Completed**	**35% Completed**
Activities Completed		
Well completion equipment and services ordered	Linepipes & bends - Manufacturing completed.	Site Infrastructure: Construction Jetty
Activities Commenced / Ongoing		
13 wells drilled; Remaining to complete by Nov., 2007	Fabrication / Mfg. ongoing: XMT, Control Systems; Umbilicals; Subsea structures	70% of OT 3D model completed
Well completions to commence in Nov., 2007	CRP Jacket and Deck fabrication ongoing. Jacket loadout – mid Aug, 07.	Major OT Long lead equipment/ packages ordered
	LFP to OT Trenching in progress	Site infrastructure: 50% Haul Road completed
	Offshore Pipeline and installation engineering in progress.	95% Pile Driving completed 95% Pipe racks erected 70% Bulk Material received

Source: Company

Delayed arrival of two rigs unlikely to impact schedule

Arrival of two contracted deep-water rigs from Transocean has been delayed by six months each as shown below.

EXHIBIT 30: DELAY IN DEEP-WATER RIG ARRIVAL

DEEP WATER RIG	EARLIER EXPECTED ARRIVAL	CURRENT EXPECTED
Transocean D-534	April 2007	October 2007
Deepwater Expedition	December 2007	July 2008

Source: Niko Resource/Transocean

With current focus and priority on KG-D6 development, the rigs that were planned for further exploration in D-6, D-4 and other blocks would now be deployed for development work to meet timelines. However, with significant progress achieved in terms of offshore development, the above delay would not impact schedule much unless the rig arrivals are further delayed.

We believe that if the June-July 2008 deadline is missed, then production could get delayed by about six months and commence only in November-December 2008. This is because not much work might be possible in offshore areas during the active monsoon period of June-October.

EXHIBIT 31: INDICATIVE TIMELINES TO GAS PRODUCTION (MILESTONES)

1QFY08	Start of balance development wells
	Line pipe manufacturing
	Completion of construction jetty
2QFY08	Drilling of 18 wells
	CRP jacket installation
3QFY08	System integration test of sub sea equipment
	Well completions to commence
	CRP topside installation
	Commence installation of sub-sea pipelines
4QFY08	Commissioning of main sub-station
1QFY09	On shore terminal hook-up
2QFY09	Hook up and pre-commissioning offshore and onshore
2HFY09	Commence gas production

Source: Company

Gas pipeline to be ready by December 2007

In a presentation in June 2007, Niko's management indicated that progress on the East West Pipeline is on track, and the pipeline would be ready by the end of 2007.

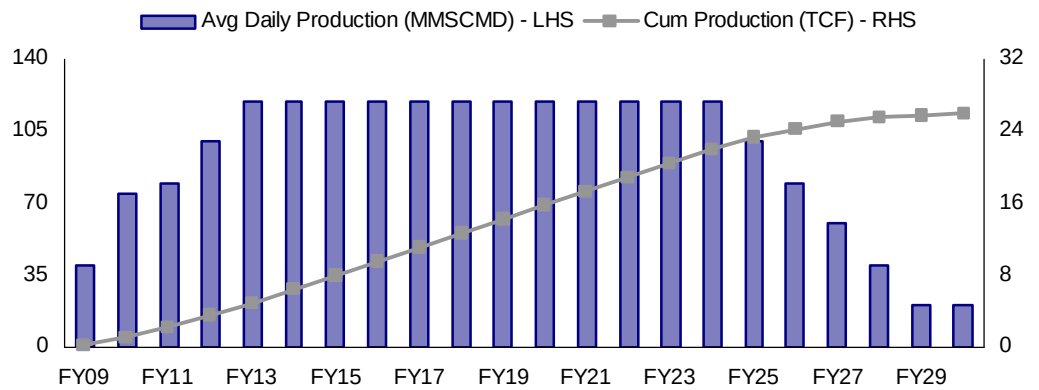
v. What is our assumption on gas production build up?

We have built in gas production commencement from December 2008. We assume that to fully utilize the tax incentive window of seven years, RIL would not announce commercial gas production for FY09. Hence, our earnings model does not build any revenue from KG-D6 gas for FY09.

We have assumed average gas sales volume of 80mmscmd for FY10, and a build up to 120mmscmd by FY13. We assume plateau rate of 120mmscmd for 12 years and step decline over the next five years.

Though our plateau rate is higher than the planned rate of 80mmscmd, we believe that RIL could positively surprise us both in terms of even higher plateau rates and much longer plateau periods.

EXHIBIT 32: KG-D6 GAS PRODUCTION BUILD UP



Source: MOSL

On pricing and supply build-up, we believe that RIL would try to reach an optimal of the following:

- High pricing by not flooding market with supplies, initially
- Higher initial volumes and revenues to take maximum advantage of fiscal incentive in initial years (no tax for first seven years and 5% royalty)

vi. What would the gas pricing be?

As per the terms of the production sharing contract (PSC), the contractor is required to sell gas at a competitive market-determined arms-length price to the benefit of both the GoI and the contractor. For the purpose of valuation of each party's entitlements, the contractor is required to get the pricing formula/basis approved by the GoI.

RIL had submitted its initial application for pricing approval in April 2006. However, the Ministry of Petroleum and Natural Gas (MoPNG) rejected this application on the grounds that the pricing formula is not derived on the basis of competitive arms-length sales.

RIL is believed to have submitted a revised pricing formula based on limited competitive bidding, by inviting 10 selected bids. This complex formula linked gas price both to exchange rate and to crude oil prices. The Petroleum Ministry seems to have sent the

formula to the Energy Coordination Committee (ECC), chaired by the Prime Minister. The ECC, in turn, has forwarded this formula to a committee of secretaries (COS), which took presentations from different stakeholders.

In its presentation, RIL seems to have revised the earlier formula by de-linking it from exchange rate. The revised formula, currently in debate, appears to be as below:

Seller Price (US$/mmbtu) = 2.5 + (CP - 25)^0.15 + C

Where: CP is the average brent price for the previous year, with a cap of US$65/bbl and floor of US$25/bbl;
C is a positive number in US$/mmbtu to be quoted by customers – market discovered value of C has been taken at US$0.09/mmbtu

The final approval on this formula or any revision is still pending with the GoI. We believe the issue is being discussed at senior government levels, and the final decision would be announced soon.

The wellhead gas prices (US$/mmbtu) based on the revised formula including marketing margin (US$0.12/mmbtu) and market determined value of US$0.9/mmbtu of C, at different crude prices would be as follows:

EXHIBIT 33: WELLHEAD PRICES (US$/MMBTU) BASED ON CURRENT FORMULA

CRUDE PRICES US$/BBL								
25	30	35	40	45	50	55	60	65
2.71	3.98	4.12	4.21	4.28	4.33	4.38	4.41	4.45

Source: MOSL

Based on the above formula and long-term oil price of US$55/bbl, the indicative wellhead price is US$4.38/mmbtu. If the formula is approved in the current form as given above, then this price of US$4.38/mmbtu could be the base price. We believe that once the pricing formula is approved, the interested customer would bid for different volumes and different prices. Thus, actual prices to each customer could be different and higher than the price arrived at above.

EXHIBIT 34: CURRENT MARKET PRICING FOR NON-APM GAS IN INDIA

SELLING ENTITY/ FIELD	GAS PRICE (US$/MMBTU)
PMT (Existing)	4.08 - 4.75
PMT (Additional)	5.70
Ravva	3.50
Ravva Satellite	4.30
Lakshmi	4.75
Petronet LNG	3.86

Source: Industry

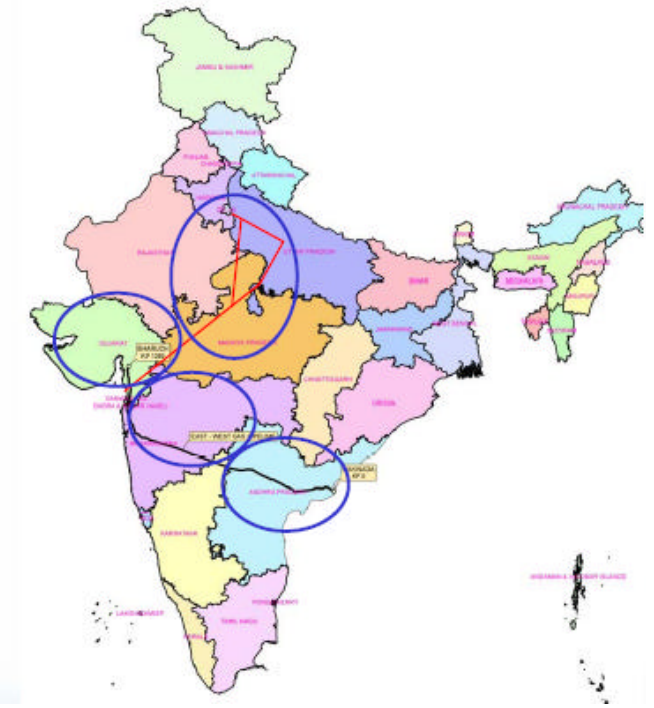
The pricing arrived at using the above formula is broadly in line with the prevailing non-APM gas pricing as shown in exhibit 34. Hence, we believe that RIL's formula would be cleared in the present form or with some minor tinkering.

vii. Would there be adequate demand for the gas?

We believe that gas demand would not be a concern. There already exists enough demand currently to absorb all 120mmscmd of gas. RIL would itself consume 20-25mmscmd and there is immediate gas demand of around 95mmscmd, by various industries along the East-West pipeline and HVJ system.

The gas demand in AP region is for about 14mmscmd, in Maharashtra for 23mmscmd, in Gujarat for 31mmscmd, and along HVJ for 27mmscmd. A detailed break-up is shown in annexure III. This demand will largely from currently unmet demand, and replacement of costlier RLNG and liquid fuels.

EXHIBIT 35: SUFFICIENT DEMAND ALONG EW PIPELINE AND HVJ CORRIDOR



Source: Company

More gas demand to follow supply

We also believe that once supplies start in a gas pipeline, new demand gradually builds up in areas near the pipeline. This was seen in the case of GAIL's HVJ and other pipelines, and GAIL has always needed to ration supplies to meet new demand.

New demand could emerge in the form of:

- Replacement of fuel oil and naphtha as fuel in industries and captive power plants
- New planned industries are located closer to gas supply infrastructure
- New demand from nearby towns in the form of city gas, industrial consumption, as well as CNG
- Demand for currently niche but potentially high growth options like CHP applications for commercial installations

Most of the new city gas and fuel replacement demand can afford much higher prices than traditional power plants. This would lead to much higher netback prices for gas. The only glitch is that such markets can be developed only after gas supplies have resumed. And to reach such towns and customers, substantial investment would need to be made in terms of delivery infrastructure.

RIL has indicated total city gas demand of 10mmscmd in 25 towns of Tamil Nadu and 8.6mmscmd in 36 towns of Karnataka. In its request for authorization to lay pipeline network in Tamil Nadu, RIL has indicated that supply would commence to these towns within three years of authorization. We believe that there would be similar demand in other major states on the pipeline route – Andhra Pradesh, Maharashtra and to a smaller extent, Gujarat.

Large demand for RIL gas at current price

In its recent presentation to GoI, RIL has indicated that over last 3-4 months, it has received several unsolicited letters regarding gas supplies. The total indicative demand is estimated at 134mmscmd, of which 100mmscmd is from the power sector.

Out of the above demand of 134mmscmd, demand of about 86mmscmd has been received after RIL's market discovered price was available in the media. This further confirms our belief that gas demand would not be an issue for RIL for the next several years.

viii. Our valuation & sensitivities for KG-D6 gas

We value KG-D6 gas on a discounted cash flow (DCF) basis. Following is the summary of our KG-D6 gas valuation.

EXHIBIT 36: KG-D6 GAS VALUATION

	US$ B	RS B	RS./SHARE	REMARKS
Base Case	17	718	522	DCF based; Assumed plataeu of 120 MMSCMD; 26 TCF total recovery; Avg well-head price of US$4.35-US$5/MMBTU
Upside	7	314	228	DCF based, indicated 50TCF potential in NFDP. Potential upside recovery of 11TCF assuming 75% recovery.
Total	**25**	**1,032**	**750**	

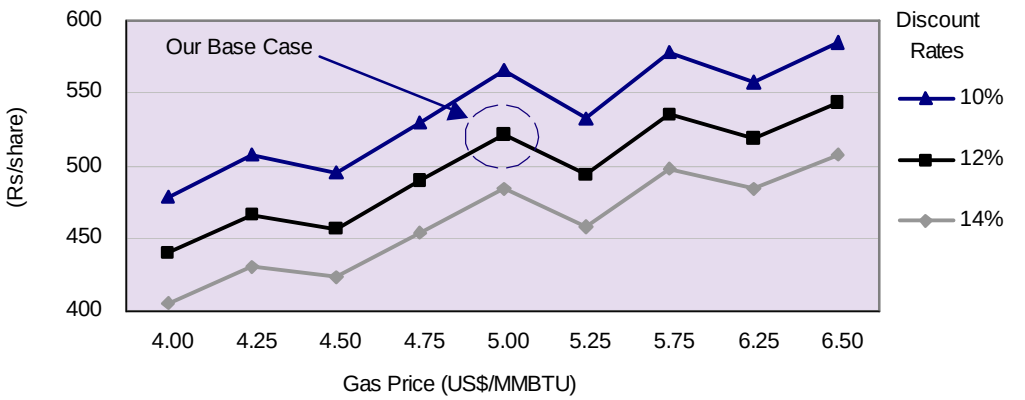
Source: MOSL

Sensitivity to gas price and discount rates

Due to the step nature of government's share in profit petroleum, per share value for RIL is not linearly linked to gas prices, as shown below.

High gas price does not necessiarily mean high per share value due to PSC terms

EXHIBIT 37: KG-D6 GAS NPV SENSITIVITY TO GAS PRICE AND DISCOUNT RATES



Source: MOSL

Government's take is higher than contractor's

At our wellhead price of US$5/mmbtu, the government's take of NPV for the lifecycle is at 55%. The government's overall share is lower at lower prices. However, as wellhead price increases, the government's incremental share increases.

Government's incremental take significantly increases with increased gas prices

EXHIBIT 38: GOVERNMENT OF INDIA TAKE AT DIFFERENT GAS PRICES

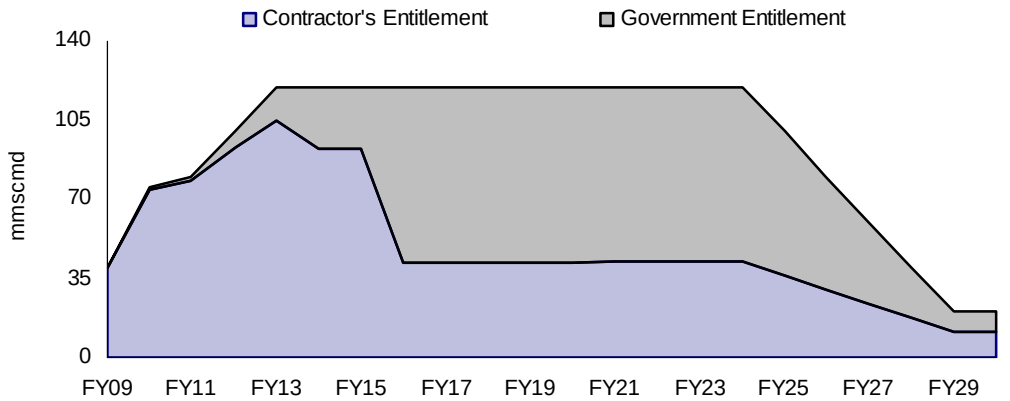
					GOVT'S SHARE OF NPV	
GAS PRICE (US$/MMBTU)	CONTRACTOR NPV (US$B)	RIL'S NPV (US$B)	NIKO'S NPV (US$B)	GOI NPV (US$B)	TOTAL (%)	INCREMENTAL (%)
3.0	12.4	11.1	1.2	9.2	42.7	
3.5	14.5	13.0	1.4	12.2	45.8	58.5
4.0	16.0	14.4	1.6	15.9	49.8	70.7
4.5	16.6	15.0	1.7	20.4	55.0	87.6
5.0	19.0	17.1	1.9	23.1	54.9	54.0
5.5	19.0	17.1	1.9	28.3	59.8	99.7
6.0	20.3	18.2	2.0	32.1	61.3	75.5

Source: MOSL

However, the government's share of profit petroleum is back ended

The contractor's share of gas entitlement remains high in initial years, when capex is being recovered. However, once capex recovery nears completion, the government is entitled to bulk of the gas production, as shown in the exhibit 39.

EXHIBIT 39: BREAK-UP OF GAS VOLUME ENTITLEMENT



Source: MOSL

ix. Oil production to precede gas

In 1QFY07, RIL had notified the discovery of the MA-1 well, in a cretaceous section of the D6 block. Both oil and natural gas were discovered in that section. Later, the company announced another discovery in the MA-2 well, located 2km from the MA-1 well. The MA-2 well encountered the thickest hydrocarbon column discovered to date in D6. It reached a depth of 3,581 meters and penetrated a gross hydrocarbon column of 194 meters, consisting of 170 meters of gas/condensate (53º API) and 24 meters of oil (42-43º API).

The DGH approved the commerciality of the MA oil discovery in February 2007. RIL is targeting fast track development of the block to bring oil production on line. However, the target for first oil production has now been revised to 1HFY09 from March 2008. The development plan is to be submitted for approval in 2QFY08 with initial targeted production of 30-35kbd in FY09.

In its latest annual report for FY07, Niko says that the development is on schedule to commence production in the second quarter of 2008, initially from two producer wells, with targeted production of 30-35kbd. More producer wells are planned to complete the oil development plan.

In a recent presentation, Niko's management mentioned that oil recovery for MA-1 could be as high as 100% and oil could be recovered at high rates to take maximum advantage of the 7-year tax holiday.

On oil resources/reserves, RIL's addendum to FDP (submitted / approved in December 2006) mentions estimated potential of 1,600mmbbl from six mapped cretaceous prospects. Published resource numbers as per Niko's FY07 annual report are:

- Best case original oil in place: 259mmbbl (121mmbbl recoverable)
- High case original oil in place: 391mmbbl (255mmbbl recoverable)

In our earnings model, we have built in production start from July 2008, and total oil recovery of 196mmbbl, with peak production rate of 60kbpd in our base case. This results in a value of Rs116/share.

In our upside case, we take additional recovery of 120mmbbl (total recovery of 20% of 1.6b bbl prospects), which gives incremental upside value of Rs73/share.

EXHIBIT 40: KG-D6 OIL VALUATION

	US$ B	RS B	RS/SHARE	REMARKS
Base Case	4	159	116	DCF based; Assumed recovery of 196 mmbbls over 10 years; 5% premium to Brent (US$55/bbl)
Upside	2	100	73	DCF based, identified prospect of 1.6b bbls, Base case has only 12.2% recovery. Assumed additional 7.8% recovery (124mmbbls)
Total	**6**	**259**	**188**	

Source: MOSL

Contract for FPSO in place

In May 2007, RIL signed a bare-boat charter contract of over US$750m with Aker Floating Production (AFP) for deployment of its floating production, storage and offloading (FPSO) vessel, Aker Smart-1 in KG-D6. The agreement targets production start by the end of March 2008. The contract also gives RIL an option to buy the FPSO at different stages during the contract period.

Aker Smart-1 (earlier called Polar Alaska) was taken over by AFP in January 2007 from Conoco Phillips. The vessel is currently being refurbished at Jurong Shipyard in Singapore at an estimated cost of US$300m to meet RIL's specific needs. The FPSO currently has oil production capacity of 60 kbpd, and 3mmscmd gas treatment, injection and export facilities are being installed.

VII. NEC-25: development plan filed, being further explored for more gas

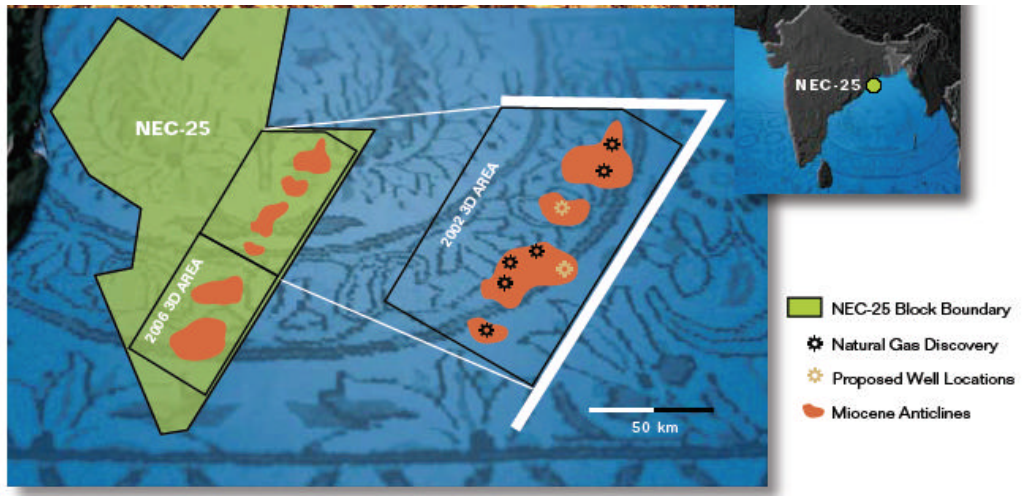
VALUE OF NEC-25

Base-case: Rs59/share
- 8% of new E&P

With upside: Rs67/share
- 6% of new E&P

NEC-25-OSN-97/2 is another highly prospective block that RIL had acquired with Niko (10%) in the first round of NELP in 1999. The block has a total area of 10,755 sq km and is located off the east coast in the Mahanadi Basin.

EXHIBIT 41: NEC-25 BLOCK – THE SCHEMATIC



Source: Niko Resources

Commercial development delayed to explore for more gas

Earlier, the company had planned to develop these discoveries and start gas production in early 2009. But with current focus on developing KG-D6, the progress on NEC-25 development has been delayed. Also, after assessing the results of the 1,700 sq km 3D seismic studies in the southern part of the block, RIL expects further potential in deeper areas in the block. To explore the block further, RIL and Niko have launched a new 8-well drilling program to assess hydrocarbon potential in deeper parts of the block.

As part of this new 8-well exploration program, two wells were drilled in FY07. One of these resulted in the seventh discovery in the block. However, the other well was dry. Further exploration is expected to continue in FY08. There remains upside potential on reserve size, based on recent discoveries and success of remaining exploration plan in the block.

Development plan filed in 1QFY08, production to commence in 2012

The development plan for the block has now been submitted to the GoI for its approval. As per the development plan, RIL is targeting production commencement in 2012 and plateau production rate of 6.5mmscmd.

Gas production to be routed through Kakinada–Howrah Pipeline

On gas evacuation, earlier the plan was to take NEC-25 gas north towards Kolkata. However, following the recent announcement of a pipeline between Kakinada and Howrah, the NEC gas would now be linked to this pipeline. With this, the company would now have the option to take the gas north towards Kolkata, or south to connect to the EW Pipeline (to connect to the rest of RIL's and GAIL's network).

Disclosed resource estimates

In May 2006, commerciality of the six natural gas discoveries made to date was declared. All the six discoveries were within the original 1,800 sq km 3D seismic area shown by enlarged portion in exhibit 41.

According to Gaffney, Cline & Associates' (GCA) assessment, the best estimates for drilled prospects for the block were 2.3TCF and high prospects were 5.5TCF. Total high prospects of resources for drilled and undrilled prospects were estimated at 8.2TCF. These estimates were based on data as on March 2005.

EXHIBIT 42: NEC-25 - RESERVE AND RESOURCE ESTIMATES

OGIP ESTIMATE RECONCILIATION FOR NCE-25			OGIP BASIS FOR ESTIMATION OF								
			RESERVES			RESOURCES			TOTAL RESERVES AND RESOURCES		
YEAR	EVALUATOR	CATEGORIES	1P	2P	3P	LOW	BASE	HIGH	1P + LOW	2P + BEST	3P + HIGH
2005	GCA	Drilled Discoveries	-	-	-	0.8	2.3	5.5	0.8	2.3	5.5
	GCA	Undrilled prospects	-	-	-	1.0	1.4	2.7	1.0	1.4	2.7
	Total		**-**	**-**	**-**	**1.8**	**3.7**	**8.2**	**1.8**	**3.7**	**8.2**

Source: Niko Resources

For our earnings model, we have assumed total gas recovery of 3.7TCF from the block, with production commencement in 2012.

VIII. D4: another large prospect

VALUE OF D4

We ascribe no value as of now

The block MN-DWN-2003/1 appears to be another large prospect on the basis of recent media reports and the recent presentation by Niko. This 17,000 sq km, deep-water block is located off the east coast in the Mahanadi basin. RIL has 85% stake and Niko has the balance 15%. According to Niko's 2006 annual report, the block contains play types similar to the natural gas discoveries made in KG-D6 and NEC-25.

EXHIBIT 43: D4 BLOCK - ALSO IN EAST COAST BUT IN MAHANADI BASIN

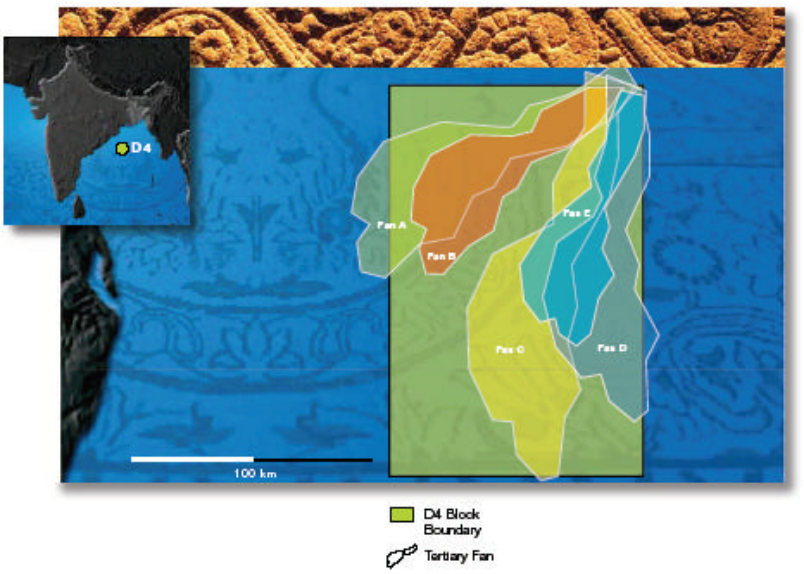
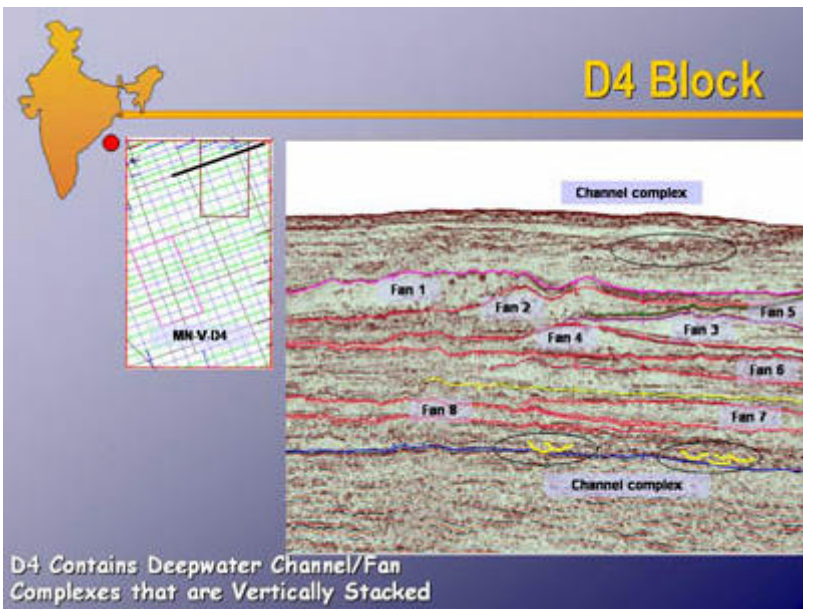


EXHIBIT 44: D4 BLOCK - VERTICALLY STACKED CHANNEL/FAN COMPLEXES



Source: Niko Resources

Exploratory drilling postponed due to rig shortages

In early FY07, 2,365 km of 2D seismic was acquired over the block. A further 2,800 km of 2D seismic program is scheduled for FY08. The coverage of planned 3D seismic program has now been doubled to 3,600 sq km.

However, the planned three-well commitment for exploratory drilling has now been postponed and is now expected to begin only in late 2008 /early 2009 due to current shortage of rigs globally and the priority being given to KG-D6 development.

EXHIBIT 45: TRANSOCEAN'S RIG DETAILS FOR RIL - SIGNIFICANTLY INCREASED RIG RATES

RIG NAME /TYPE	CLIENT	CURR. CON-TRACT START DATE	ESTI-MATED EXPIRA-TION	CURR. DAY RATE US$/DAY	PREV. DAY RATE US$/DAY	INCR. IN RATES (%)
Ultra-Deepwater/ Deepwater ships						
Deepwater Frontier	Reliance	Aug-06	Aug-08	320,000	145,000	
	Reliance	Sep-08	Sep-11	477,000	320,000	229
Deepwater Expedition	Shell	Jan-07	Mar-08	240,000	147,400	
	Petronas	Mar-08	May-08	320,000	240,000	
	Reliance	Sep-08	Oct-10	375,000	320,000	154
Discoverer 534	Shell	Aug-07	Sep-07	245,000	245,000	
	Reliance	Oct-07	Apr-10	250,000	245,000	2
Floaters / semi submersibles						
C. Kirk Rhein, Jr.	Reliance	Feb-07	Mar-09	340,000	N/A	
Actinia	Reliance	Sep-06	Jul-09	190,000	54,000	252

Source: Transocean/MOSL

With rig hiring rates increasing substantially, and enough work already at hand in development of KG-D6, we believe that the initial estimates of possible reserve size of this block would be available only after FY09. We do not ascribe any value to this discovery as of now.

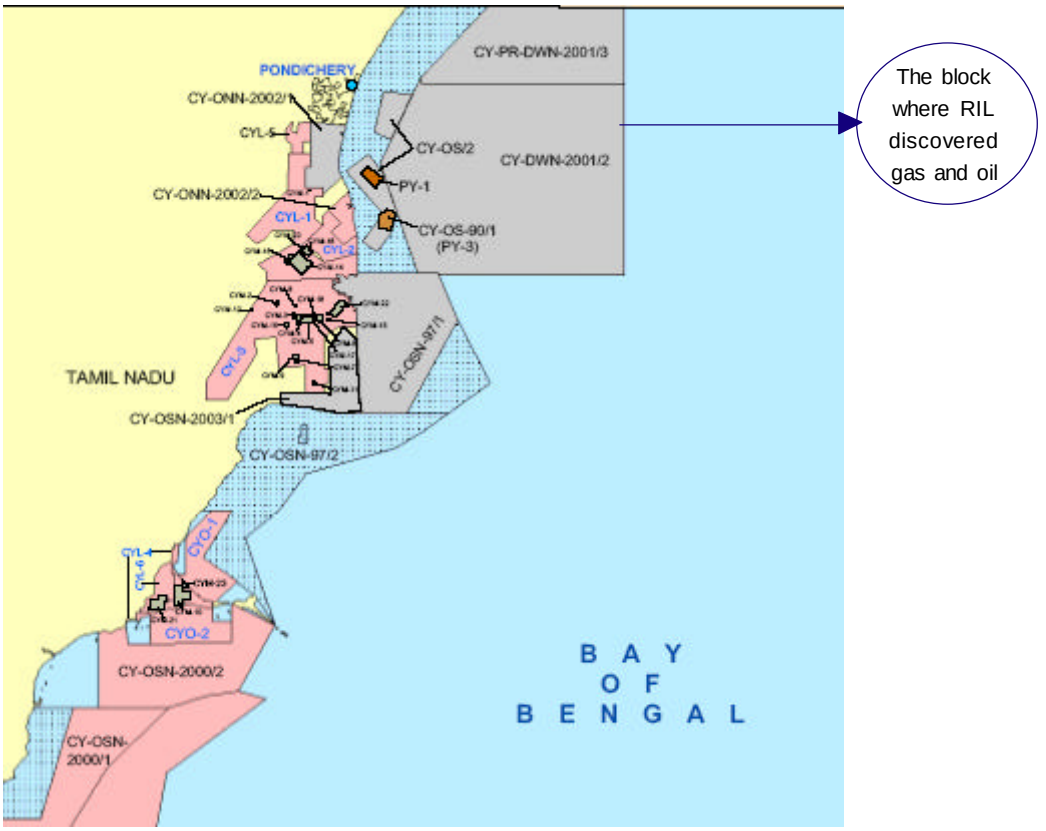
IX. Cauvery discovery: another 'significant' find

VALUE OF CAUVERY DISCOVERY
We ascribe no value as of now

This is the latest discovery by RIL, announced in July 2007 in block CY-DWN-2001/ 2(CY-III-D5). This is the first time a hydrocarbon discovery has been made in the Cauvery deep-water basin.

The deep-water block CY-DWN-2001/2 (CY-III-D5) located in the Cauvery Basin, with an area of 14,325 sq km, was awarded to RIL under the bidding round of NELP-III. RIL holds 100% participating interest in this block.

EXHIBIT 46: RECENT DISCOVERY IN CAUVERY BLOCK



Source: DGH

RIL has discovered both gas and oil in this block. The well encountered a clastic reservoir with gross hydrocarbon column of around 150 meters in cretaceous section. During drill stem testing, the well produced 31m standard cubic feet of gas with 1,200bbl of condensate per day from the main zone. Another zone tested below the main zone produced around 550bbl of oil per day with 1m standard cubic feet of gas.

The discovery, which has already been notified to GoI, looks very promising. However, the commerciality of the discovery and reserve estimate is yet to be announced. The initial estimates on reserves/resources on the block would be available only after 6-8 months once RIL drills one or two more wells and the data is appraised. We currently do not ascribe any value to this block.

X. Other discovery blocks under NELP

RIL has had four more discoveries in three other NELP blocks. These are:

a) KG-OSN-2001/2 (KG-III-6)

RIL has 100% stake in this 210 sq km shallow-water block acquired in the fifth round of NELP. It had two oil discoveries in this block in December 2005. Commerciality is still under evaluation and no official reserve estimates have been disclosed.

VALUE OF KG-III-6

Base-case: Rs24/share
- 3% of new E&P

With upside: Rs24/share
- 2% of new E&P

Various media reports have indicated reserve potential of 1b bbl. Since the commercial development plans have not yet been announced, we value these reserves at a very conservative US$2/bbl.

b) KG-OSN-2001/1

This is yet another shallow-water block in the KG basin, where RIL is an operator with 100% stake. The company had acquired this 1,100 sq km block in NELP-III.

RIL had announced a gas discovery in this block in September 2006. Commerciality of the block is still under evaluation. We do not ascribe any value to this block now.

c) GS-OSN-2000/1

This 8,841 sq km shallow-water block in Gujarat-Saurashtra offshore was awarded to RIL (90%) and Hardy (10%) in the second round of NELP. RIL announced a gas discovery in the block in May 2007.

This is RIL's first discovery in carbonate reservoirs in the west coast. RIL has notified the discovery to DGH and is evaluating the commerciality of this discovery. We do not ascribe any value to this block.

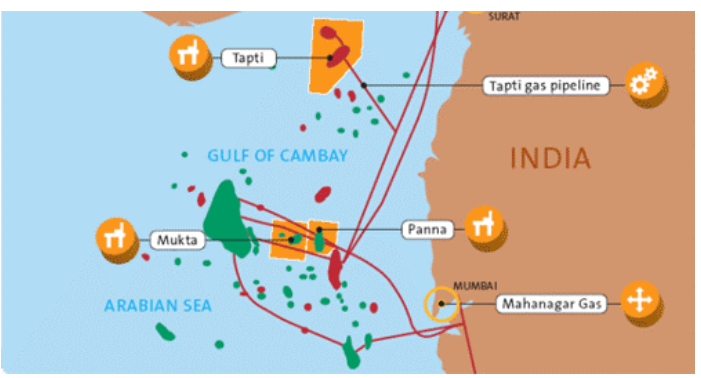
XI. Panna-Mukta and Tapti: the producing domestic blocks

Apart from its large exploration acreage in India, RIL has 30% interest in two producing blocks – Panna-Mukta and Tapti (PMT) since 1994. Other JV partners are ONGC (40%) and British Gas (30%).

The Panna-Mukta fields are located approximately 95km north west of Mumbai in water depths of 45-70m, covering an area of around 1,200 sq km. The Panna field is estimated to have 1b bbl original oil and 1.9TCF of original gas in place.

The Tapti block with an area of 1,470 sq km is about 160km North West of Mumbai. Tapti has an estimated 3.75TCF gas in place.

EXHIBIT 47: PANNA, MUKTA & TAPTI - ON INDIA'S WEST COAST



Source: www.bg-india.com

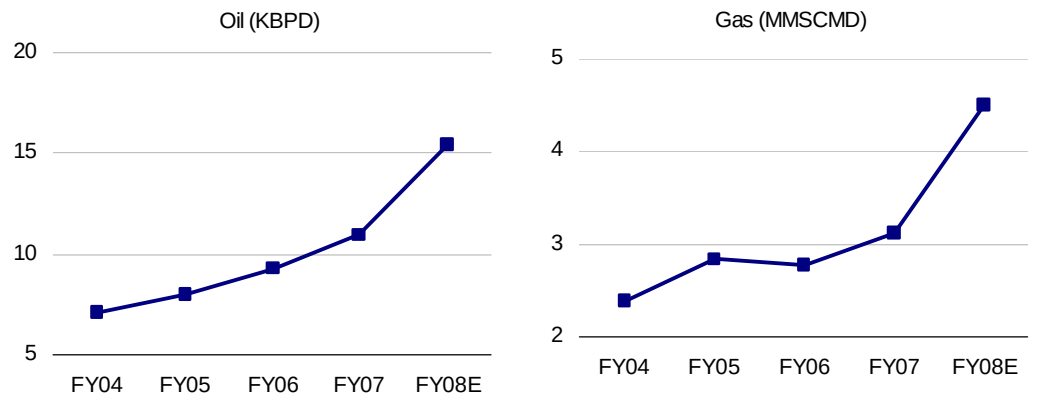
Growth initiatives leading to increasing production

To increase the production from PMT blocks, the JV partners are implementing expanded plan of development (EPOD) of the Panna-Mukta field and new revised plan of development (NRPOD) for Tapti for the past few years.

EPOD of Panna-Mukta, which has already been completed in 1QFY08, involves installation of two wellhead platforms and drilling of six wells. This has resulted in additional production of 8,000bpd currently. The additional recovery over the project life is estimated at 18m bbl of oil and 74bcf of gas.

NRPOD at the Tapti block is likely to be completed by September 2007. This would result in additional gas recovery of 5.7mmscmd and condensate recovery of 1,600bpd.

EXHIBIT 48: RIL'S WORKING INTEREST SHARE FROM PMT



Source: Company/MOSL

XII. CBM: development plan submitted for Sohagpur (East & West)

VALUE OF CBM BLOCKS

Base-case: Rs32/share
- 4% of new E&P

With upside: Rs73/share
- 6% of new E&P

In addition to large conventional exploration acreage for hydrocarbons, RIL has also acquired nearly 3,900 sq km of coal bed methane (CBM) acreage in five blocks.

Two blocks, Sohagpur East and West, were acquired in the first CBM round in 2001. These two blocks are estimated to contain OGIP of 3.65TCF. Commercial production from these two blocks was earlier planned to commence in FY09.

RIL has recently submitted its development plan for Sohagpur East and West Blocks. The plan now targets production commencement in 2010, and initial plateau production rate of 5mmscmd.

EXHIBIT 49: RIL - DEVELOPMENT PLAN FOR SOHAGPUR

PRODUCTION (MMSCMD)	FY11	FY12	FY13	FY14	FY15	FY16	FY17	FY18
Sohagpur (E)	2.8	2.2	2.1	1.9	1.6	1.7	2.1	2.3
Sohagpur (W)	2.2	3.0	3.0	3.3	3.4	3.4	3.0	2.8
Total	**5.0**	**5.2**	**5.1**	**5.2**	**5.0**	**5.1**	**6.0**	**6.1**

Source: Infraline

In addition, RIL also acquired three more blocks under the second CBM round. Among these, the Sonhat block is estimated to contain OGIP of 1.5TCF.

In our base case, we value only Sohagpur East & West blocks, on DCF basis. We assume 50% recovery of total resources of 3.65TCF. Our base case value is Rs44b or Rs32/share.

In the upside case, we value Sonhat (OGIP 1.5TCF), Barmer-1 (Resources 95.1bcm or 3.4TCF) and Barmer-2 (Resources 87.7bcm or 3.1TCF). We value resources at US$1/ boe or US$0.17/mcf. Our upside value is Rs56b or Rs41/share.

EXHIBIT 50: CBM VALUATIONS

	US$ B	RS B	RS/SHARE	REMARKS
Base Case				
Sohagpur East & West (CBM blocks)	1	44	32	DCF based; 100% stake; OGIP of 3.65TCF, assumed 50% recovery, production to commence in FY11
Upside				
Sonhat, Barmer 1 & 2 (CBM blocks)	1	56	41	Based on 8TCF reserve size - data from DGH projections on potential resources & RIL OGIP of 1.5TCF for Sonhat (@ US$1/BOE or US$0.17/MCF)
Total	**2**	**100**	**73**	

Source: MOSL

Contractual & fiscal terms for CBM blocks

The CBM policy provides for attractive fiscal & contractual terms, which are considered to be one of the best in the world, with freedom to work in a free and flexible environment. Some of the attractive terms offered by the government are:

- The blocks would be awarded through open international competitive bidding system.
- No participating interest of the government.
- No upfront payment.
- No signature bonus.
- Exemption from payment of customs duty on imports required for CBM operation.
- Walkout option at the end of Phase-I & II.
- Freedom to sell gas in the domestic market.
- Provision of fiscal stability.
- A 7-year tax holiday.

Source: DGH

EXHIBIT 51: RIL'S CBM BLOCKS

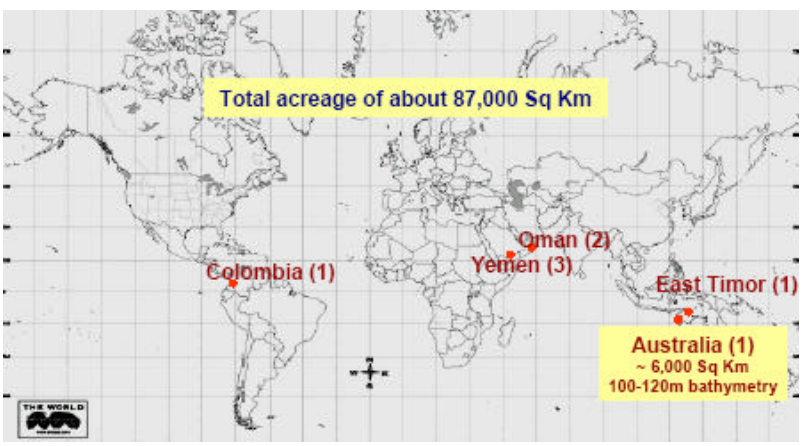
BLOCK/NAME/ CBM/ PHASE/ AREA	RIL STAKE % / RESOURCE-BCM / EXPECTED PRODUCTION POTENTIAL - MMSCMD	EXPLORATION PHASES	REMARKS
Sohagpur East			
SP(E)-CBM-2001/I	100%	Phase - I :	✍ Contract signed on 26.7.2002
(CBM-I round)	49 BCM	(2 1/2 years)	✍ PEL granted on 29.10.2002
495 sq.km.	1.8 MMSCMD	(29. 10.02 -28.04.05)	✍ OGIP 3.65 tcf
Sohagpur West		Phase- II :	✍ Development plan submitted in
SP(W)-CBM-2001/I	100%	(1 1/2 years)	1QFY08
(CBM-I round)	37 BCM	(29.04.05 to 28.10.06)	✍ Commercial production by 2010
500 sq.km.	1.8 MMSCMD		
Barmer - 1			
BS(I)-CBM-2003/II	100%		
(CBM-II round)	95.10 BCM	Phase - I : (2 years)	✍ Contract signed on 6.2.2004
1045 sq.km.	1.5 MMSCMD	Phase - II : (2 years)	✍ PEL granted in March/April 2005
Barmer- 2			✍ Geological studies carried out and
BS(2)-CBM-2003/II	100%		locations released for drilling
(CBM-II round)	87.7 BCM		✍ Drilling commencement in 4QFY07
1020 sq.km.	1.5 MMSCMD		
Sonhat North			✍ Contract signed : 6.2.2004
SH (N)-CBM-2003/II	100%	Phase - I : (2 years)	✍ PEL granted: 30.10.2004
(CBM-II round)	33.9 BCM	Phase - II : (4 years)	✍ OGIP 1.5tcf
825 sq.km.	1.2 MMSCMD		✍ Completed drilling & geophysical logging of 10 Coreholes.

Source: Infraline/Company/MOSL

XIII. International acreage

Over the past several years, RIL has acquired significant exploration acreage outside India. It has interests in eight blocks across five countries, with total acreage of nearly 87,000 sq km. These include two exploration blocks and one producing block in Yemen, two exploration blocks in Oman and one exploration block each in Columbia, East Timor and Australia.

EXHIBIT 52: RIL'S INTERNATIONAL ACREAGE



Source: Company

VALUE OF BLOCK-9

Base-case: Rs25/share
- 3% of new E&P

With upside: Rs25/share
- 2% of new E&P

Block-9 in Yemen: currently producing block

RIL has 25% stake in the 2,234 sq km onshore block-9 in Yemen. CalValley Petroleum Inc, which has 50% stake, operates the block. Block-9 is CalValley's only significant asset and CalValley currently has a market capitalization of about US$700m.

According to a resource study report by McDaniel, the total P50 OOIP is estimated at 332.2m bbl for existing discovered fields at Hiswah, Al-Roidhat, Auqban and Ras Noor. Apart from this, McDaniel has estimated an additional un-risked mean OOIP of 1.93b bbl and un-risked mean OGIP of 16bcf for eight independent exploration prospects and 12 independent exploration leads. A recent quarterly filing by CalValley indicates that only a small percentage of block-9 has been explored and there remains an upside.

Oil production from block-9 commenced in December 2005 and increased to about 7,000bpd in December 2006. Currently, the produced oil is sent to onshore terminals by trucks; the maximum production is limited by the trucking limit of about 10,000bpd.

The next jump in production would occur with the commissioning of a central processing facility and a 245km sales pipeline. The central processing facility would be of 60,000bpd and its first phase is scheduled for completion by 2QFY07. The facility would also have 80,000bbl of storage capacity. The pipeline is scheduled for completion by December 2007.

We currently value RIL's stake on the basis of assumed 50% recovery of 2P reserves valued at US$20/bbl. We value RIL's stake in the block at Rs35b or Rs25/share.

Refining: great times here to stay

RIL's refining margins have been scaling record highs in recent quarters. RIL reported its highest ever GRM of US$15.4/bbl in 1QFY08 which was higher than the previous high of US$13/bbl in 4QFY07. The company has enjoyed increased premiums over Singapore benchmarks primarily due to higher complexity of its refinery post value maximization program and increased crude price differentials in recent years. Increased product exports to higher netback markets, post-recent EOU status, will further increase the premium advantage over the Singapore benchmark, in our view.

We expect complex refining margins to remain high over next couple of years, as the global demand for refined products remains robust and spare refining capacity is also low. The key reasons for our positive outlook include:

- Robust product demand in a buoyant global economy
- Increasing demand specially for transport fuels
- Stretched existing legacy refining systems
- Structural shift in global crude oil dynamics; we believe higher oil prices are here to stay
- Two decades of under-investment in the sector – very low spare capacity both in oil production & refining
- Limited capacity coming on-line due to increased capex and limited resources; incremental capacity additions continue to lag demand growth
- Increasingly higher differentials between easy to process light crude and difficult to process heavy/sour/acidic crude – margin advantage for complex refiners
- Mismatch between crude availability and refining configuration: Incremental oil is heavier and sourer, while demand is for lighter and sweeter – differentials expected to remain high
- Ever tightening and converging environmental specifications; refiners with ability to meet stringer norms enjoy superior margins

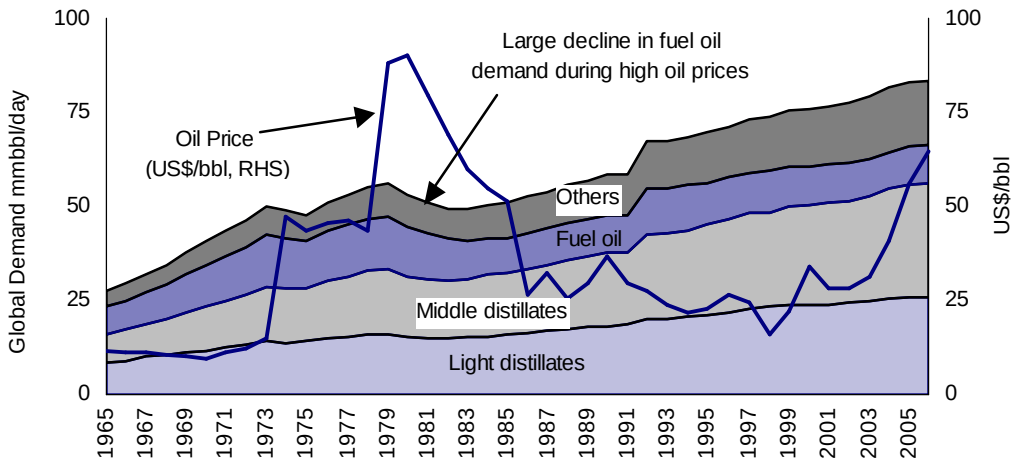
Petroleum products demand remains robust…

There is no let-up in demand despite rising oil (and refined product) prices

Despite the rising oil (and refined product) prices, there has been no let-up in the demand for petroleum products. This is different from the scenario witnessed in the early '80s, when high oil prices had led to a decline in product demand as shown in exhibit 53.

EXHIBIT 53: GLOBAL PRODUCT DEMAND V/S OIL PRICES

Bulk of demand growth in light & middle distillates



Source: BP Statistical Review 2007/MOSL

In the early '80s, fuel oil had accounted for 60% of the fall in demand for petroleum products. Fuel oil demand had declined from 14mmbpd in 1979 to 10mmbpd in 1983, which is the demand now, leaving little margin for any significant decline.

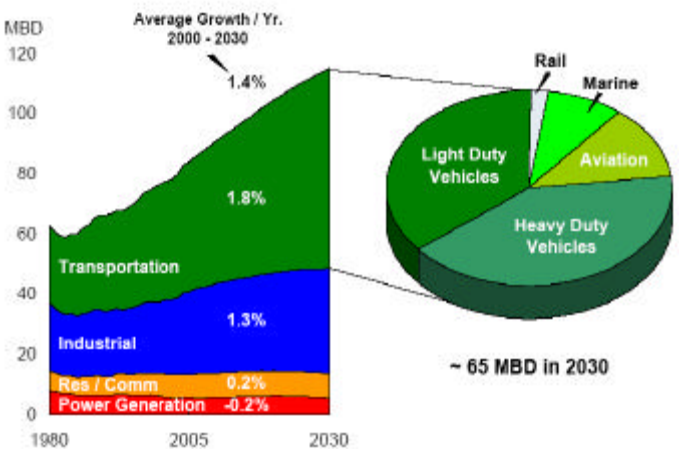
The other significant factor contributing to the decline in demand was significant improvement in vehicle efficiencies, with the implementation of CAFÉ standards in the US. However, with all "the low hanging fruit being plucked" , dramatic improvements in vehicle efficiencies are now unlikely.

…led by transport fuels demand, driven by new vehicles

Transport fuels are leading demand growth…

As shown in the exhibit 54 below, the petroleum product demand is expected to continue growing at a CAGR of 1.4% during 2000-2030. Within the products, transport fuels will lead the demand growth (1.8% CAGR). Total demand for transport fuels is expected to increase by nearly 50% of current demand to 65mmbbl by 2030.

EXHIBIT 54: TRANSPORT FUELS EXPECTED TO LEAD DEMAND GROWTH



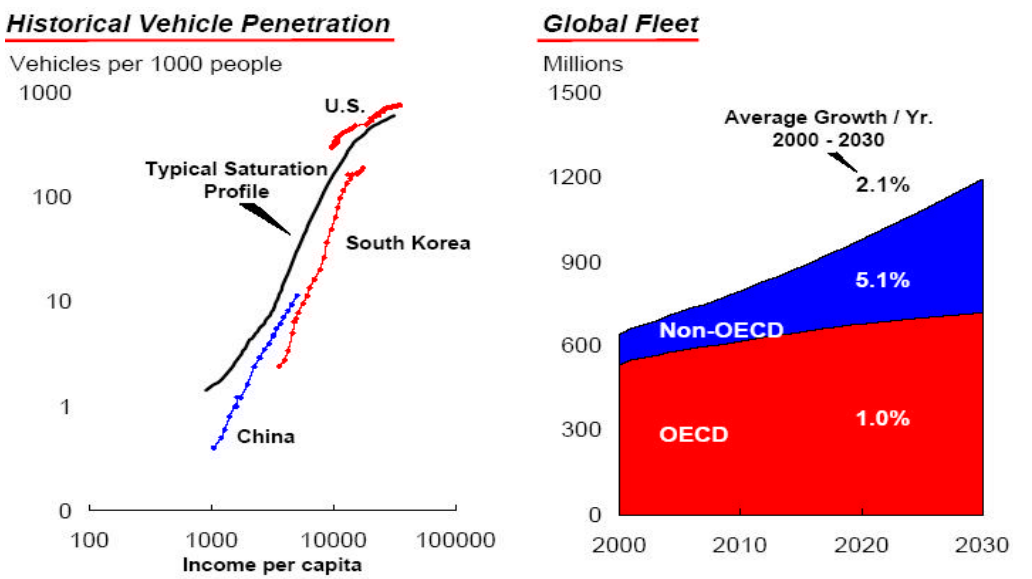
Source: Exxon Mobil - Outlook for Energy 2030

..with bulk of the demand coming from emerging economies

Though demand for transport fuels continues to grow in developed OECD countries, the bulk of the new demand would come from new emerging economies like China, India and the Middle East. The average fleet addition in emerging economies is estimated at 5.1% per annum as against the overall global fleet addition of 2.1% per annum.

Vehicle demand growth shoots up exponentially in developing economies once they reach a minimum average per capita income. A typical saturation profile for vehicle growth is shown in the figure below. While developed countries like the US have reached the top of the saturation curve, South Korea is in middle of its development. High growth would be coming from new countries like China (and India soon).

EXHIBIT 55: VEHICLE GROWTH LED BY NON-OECD COUNTRIES



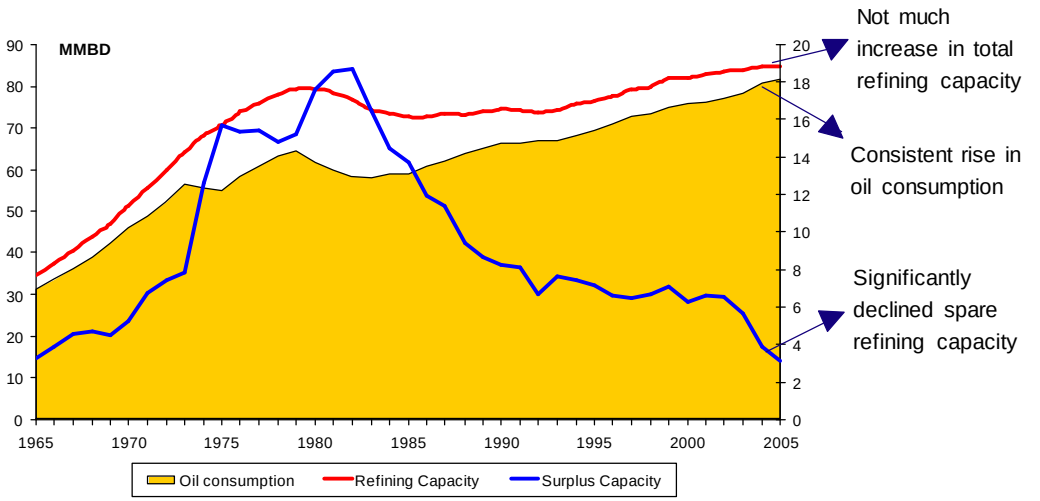
Source: Exxon Mobil - Outlook for Energy 2030

But there is little spare capacity

However, there is very little spare capacity…

Since the early '80s, not much refining capacity has been added to the system. Surplus capacity, which was highest in 1984, has continuously fallen since then. Low spare capacity means that existing assets are being utilized at a very high level of 85-90%.

EXHIBIT 56: REFINING CAPACITY UTILIZATION AT ITS HIGHEST



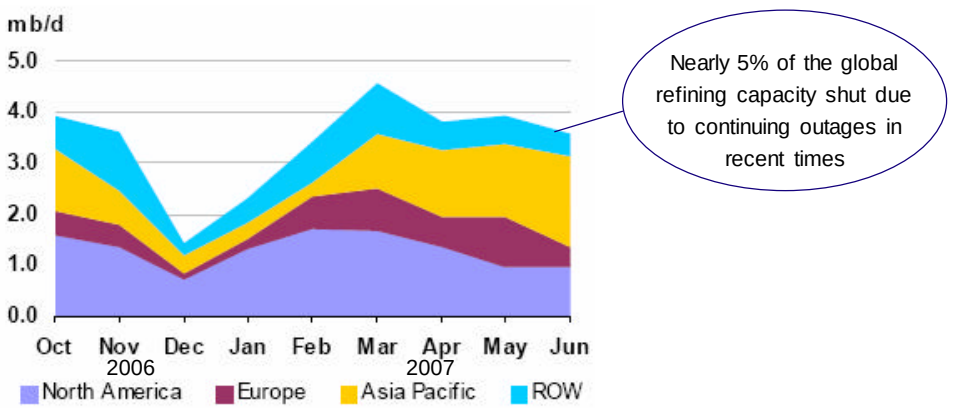
Source: Company, BP Review of Energy Markets

…and higher capacity utilization is leading to higher outages

Higher capacity utilization leading to higher outages

Bulk of the current spare capacity includes small, old and obsolete refineries. Adjusting for these, current utilization levels in all key regions are over 90%. This basically means that there is effectively no spare capacity once maintenance shutdowns and other outages are considered. Also, with nearly 70% of refining assets being over 25 years old, such high utilization results in frequent shutdowns and outages.

EXHIBIT 57: GLOBAL REFINERY SHUTDOWNS HAVE INCREASED



Source: IEA, Industry, MOSL

With little buffer capacity available elsewhere, when a large capacity goes through a sudden shutdown, product margins tend to spike up further. The recent gasoline price spikes in the US to over US$3/gallon are largely attributable to snags at several large refineries due to excessive utilization. It is estimated that nearly 800kbd of US refining capacity was offline in last few months due to outages.

Two decades of continuous underinvestment in refining capacity

Refining capacity growth has lagged oil demand over the last two decades. Since the 1990's there has been continuous underinvestment in the refining sector. This is the key reason for the current tightness in the refining sector.

All regions have seen under-investment in refining capacity additions

EXHIBIT 58: REFINING CAPACITY ADDITION HAS LAGGED OIL DEMAND GROWTH

REGION	LAST 20 YEARS CAGR (%)			LAST 10 YEARS CAGR (%)		
	REFINING CAPACITY ADDN.	OIL DEMAND	SHORT FALL	REFINING CAPACITY ADDN.	OIL DEMAND	SHORT FALL
USA	0.5	1.5	-1.0	1.1	1.6	-0.5
Europe	-0.2	0.8	-1.0	0.4	0.7	-0.3
Asia Pacific	3.0	4.2	-1.2	2.8	2.9	-0.1
Global	0.8	1.7	-0.9	1.1	1.7	-0.6

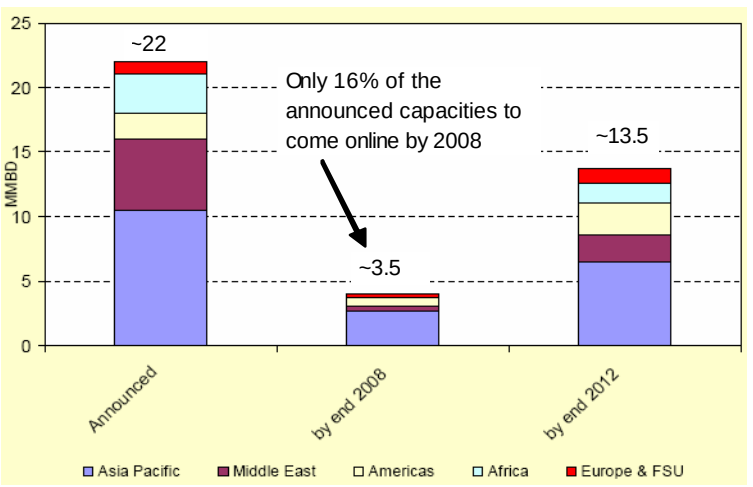
Source: BP Statistical Review 2007/Company/MOSL

Capacities being announced, but delays in implementation

Though new capacities have been announced, there are delays in implementation

There have been new refining capacity announcements over the last couple of years. Even though nearly 22-25mbpd of refining capacity is on the drawing board, the visibility in terms of actual implementation of new capacity remains low.

EXHIBIT 59: ADDITIONAL CAPACITIES ARE STILL SOME TIME AWAY



Source: Company

Most of the projects have been considerably delayed or cancelled. Exhibit 60 gives a few examples of delays/cancellation.

The key reasons for delays in new projects are:

- Increased capital cost due to increase in cost of materials
- Higher lead times: According to a recent presentation by Valero, the lead time for heavy-wall reactors has stretched from 12 to 36 months and costs are up 133%.

- Limited availability / higher cost of skilled manpower: Labor costs are up by 60% but productivity is down 35%.
- Full order books of key EPC contractors
- Stringent environmental regulations further increase the complexity and gestation periods

EXHIBIT 60: FEW EXAMPLES OF CAPEX INCREASES, PROJECT DELAYS AND CANCELLATIONS

COUNTRY	LOCATION	COMPANY	TIME DELAYS / PROJECT COST INCREASES
Egypt	Kafr al-Sheikh	EGPC	350 kbpd; delayed by 2 years from original planned start of 2010
Egypt	Ain Sukhna	EGPC	100 kbpd; delayed by atleast 2 years over originally planned 2010 start
Kuwait	Al Zour	KNPC	615 kbpd; capex increased from US$3.6b to US$12b; Project may be scrapped
US	Garyville, Louisiana	Marathon Oil Corp	180 kbpd; capex increased from US$2.2b to US$3.2b
US	Yuma County	Arizona Clean Fuels	150 kbpd; capex increased from US$2b to US$3.5b
Sudan	Sudan	Petronas	150 kbpd; originally scheduled for 2009; delayed by one year
China	Beihai refinery		Cancelled
South Korea	Seosan	S-Oil	480 kbpd; cancelled due to high capex
US	Port Arthur, Texas	Shell and Saudi Arabian Oil Co	Stalled 200 kbpd expansion of its 325 kbpd refinery
India	Bhatinda	HPCL	180 kbpd; originally scheduled by 2010, delayed by one year
Iran	Bandar Abbas/ Khuzestan	NIOC	Planned additions of 860 kbpd by 2010; schedule difficult to meet due to financial pressure

Source: Industry/MOSL

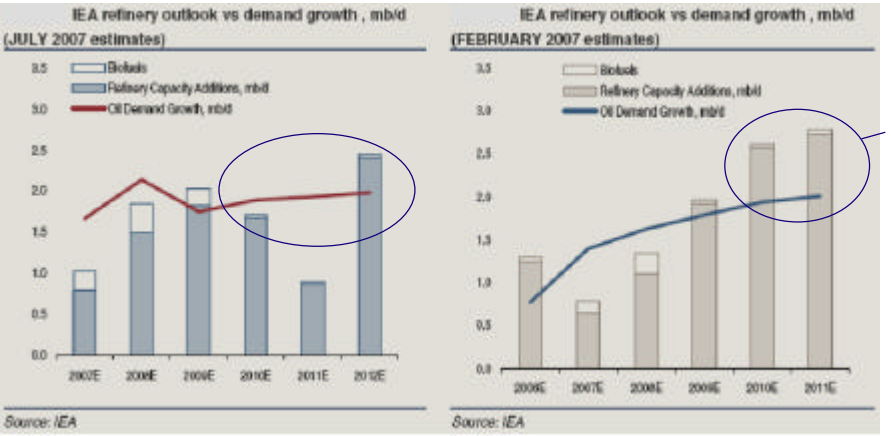
Capacity additions keep getting shifted forward

Refining projects typically have long gestation periods of 5-6 years, and announcements regarding delays are made only when projects are about to reach their completion deadline. The result – estimated capacity additions keep getting shifted forward.

Exhibit 61 depicts IEA's forecasts of refining capacity and oil demand growth forecasts published in February 2007 and in July 2007. The February 2007 forecasts were predicting that refining capacity would outpace oil demand growth in 2010 and 2011.

However, the low level of progress on many earlier expected projects mean that many such projects now seem to have been shifted to 2012 from earlier 2010 and 2011. The result is that now IEA expects a significant gap between oil demand and refining capacity additions in 2010 and 2011. If the current problems in implementation of new capacities persist, the capacities now expected to come in 2012 could again be shifted forward.

EXHIBIT 61: PROJECTED ADDITIONS KEEP GETTING SHIFTED FORWARD



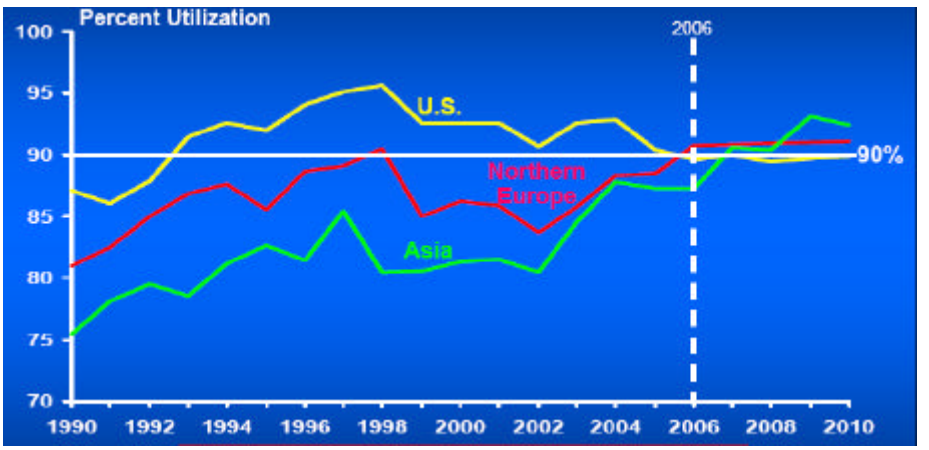
Now, large capacity additions shifted forward – large gap created between demand and supply for 2011 and 2012

In February 2007, IEA was expecting refining capacity adds higher than incremental demand in 2010 and 2011

Capacity utilization expected to remain high in medium term

In the absence of significant incremental capacities during the next 2-3 years, refinery capacity utilizations are expected to remain high.

EXHIBIT 62: CAPACITY UTILIZATION TO REMAIN HIGH AT LEAST TILL 2010



Source: ConocoPhillips Presentation

Continued tightness in refining capacity will lead to increased capacity utilization

Oil prices to remain high

Oil prices are likely to remain high

Oil prices have moved to higher bands in the past couple of years and there is increasing consensus that the current high prices are here to stay. In a separate section (page 64), we discuss in more detail the reasons for the current high oil prices and also why we expect the situation to not change significantly in near future.

Refining margins also to remain high…

Refiners in general…

All the above factors – viz. rising product demand despite high prices, continued shortage of refining capacity, lesser capacity creation than incremental demand, high utilization of

existing assets leading to increased outages would mean that tightness in the refining sector would continue in the short to medium term. Thus, refiners in general, and complex refiners in particular, would continue to enjoy high refining margins as witnessed in the past few years.

…with complex refineries at an advantage

…and complex refiners in particular would continue enjoying high refining margins

With rising oil prices, there is also a distinct trend of widening differentials between easy-to-process light/sweet oil and difficult-to-process heavy/sour acidic crude. The differential between Arabian Light and Arabian Heavy crude oil, which used to be US$1-1.5/bbl in 2002, is now US$5-6/bbl. Similarly, the differential between WTI (lighter/sweeter crude) and Maya (heavier/sourer crude) has increased significantly.

EXHIBIT 63: INCREASING CRUDE PRICE DIFFERENTIALS

Average Arab Light-Heavy spreads have increased by four times from US$1.2/bbl to US$4.9/bbl

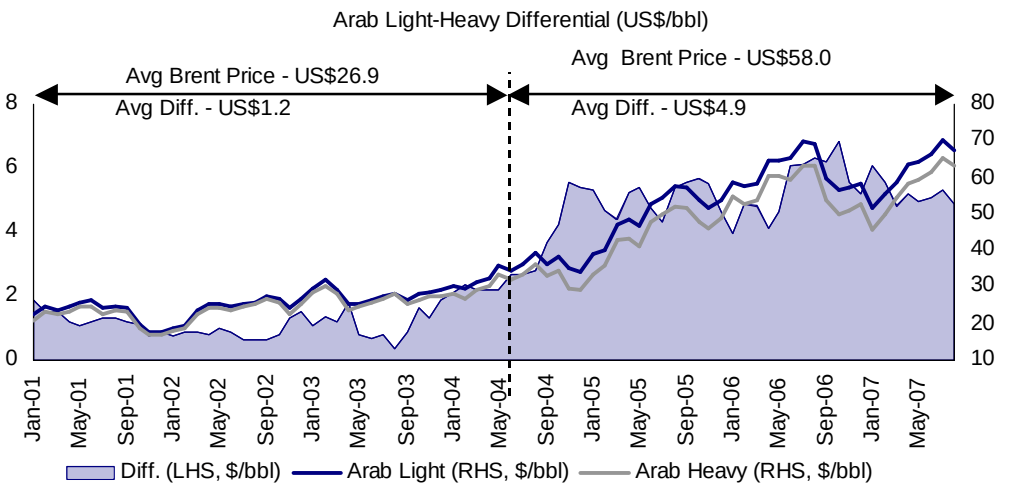
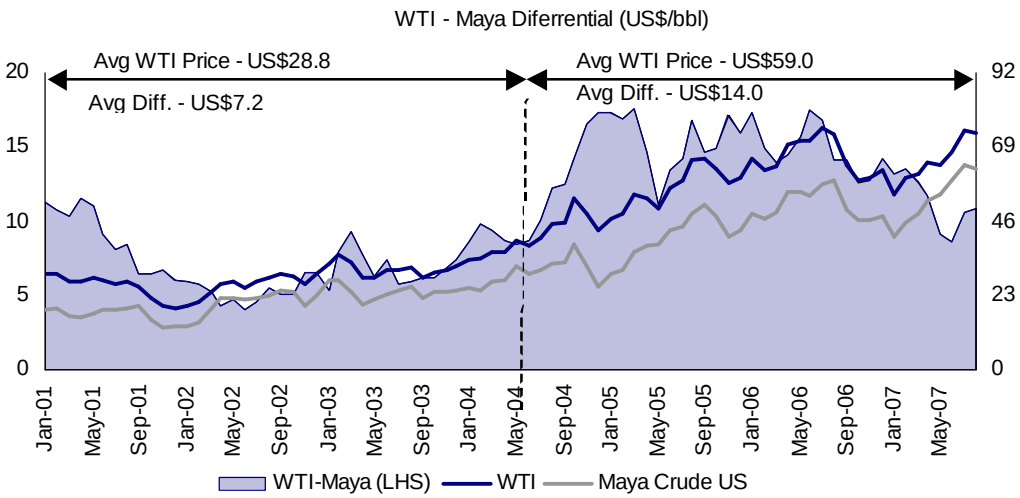


EXHIBIT 64: WTI - MAYA DIFFERENTIAL (US$/BBL)

Average WTI-Maya spreads have also doubled



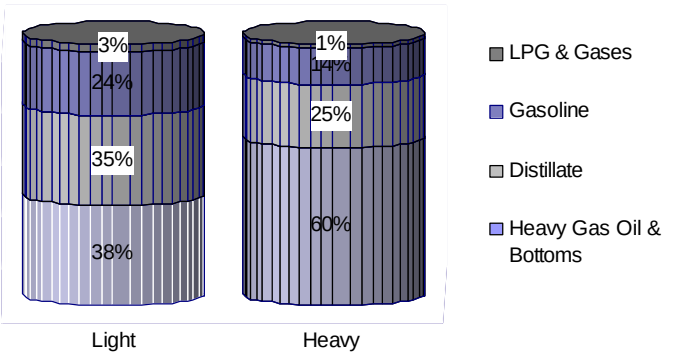
Source: Bloomberg, MOSL

Why the differential in crude prices?

The incremental demand is more for light and clean transport fuels – the prices of transport fuels rise as much or even more than the rise in crude oil prices. The complex refineries that can process difficult crudes are limited and most of their capacity is running at full utilization. The burden of meeting additional clean fuel demand, therefore, falls on the not-so-complex and simple refineries.

In a typical simple configuration refinery without bottom conversion capability, heavy crudes produce more of heavy gas oil and bottoms (~60%) while light crudes produce more of distillates (~35%) and gasoline (~24%). The not-so-complex and simple refineries, therefore, prefer to use light crudes and are willing to pay more. The complex refineries that can use heavier crudes to produce lighter products are few and can negotiate lower prices.

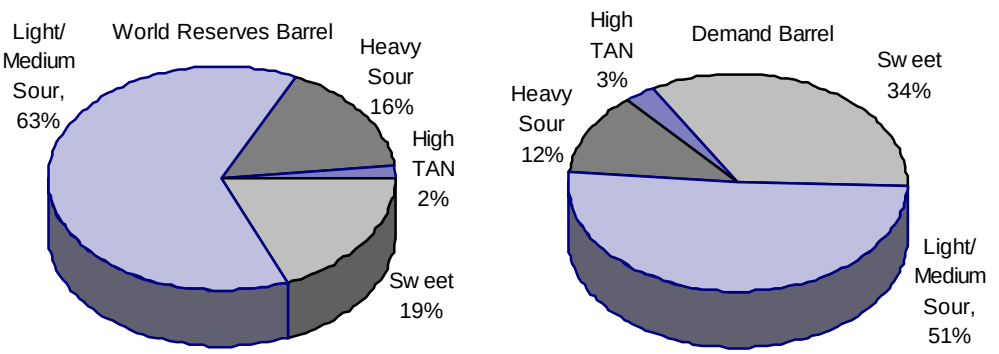
EXHIBIT 65: SIMPLE REFINERIES NEED LIGHT CRUDE TO PRODUCE CLEAN TRANSPORT FUELS



Source: EIA

On the supply side too, lighter and sweeter crude reserves have been depleting and the balance world reserves are more of heavier and sourer crudes.

EXHIBIT 66: DISCONNECT BETWEEN CRUDE RESERVES AND CRUDE DEMAND

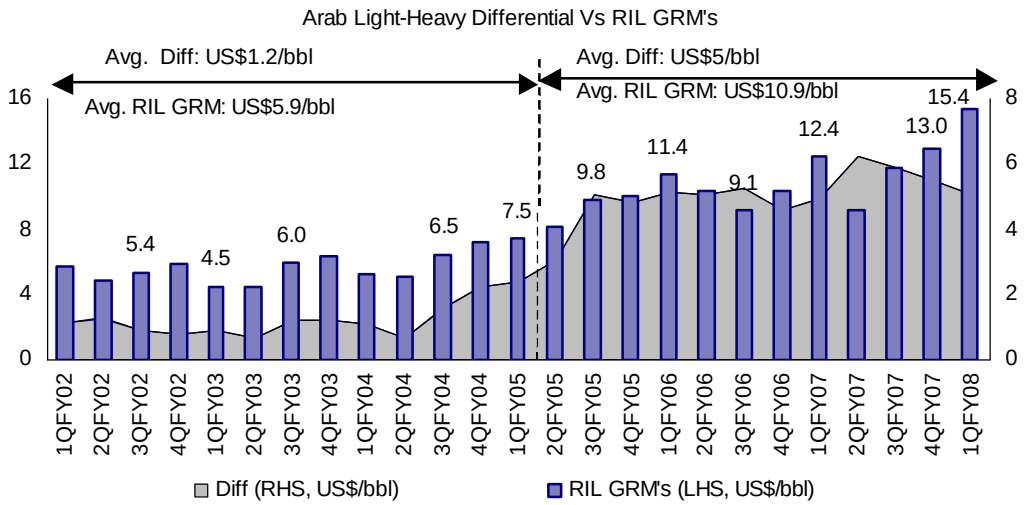


Source: Valero Presentation

The crude price differentials would remain high over the next few years. However, few of the key heavy oil producers (especially in the Middle East) are taking steps to take advantage of the high arbitrage between heavy and light oil prices. Saudi Arabia, for instance, is putting up two refineries at Jubail and Yanbu, with a capacity of 400kbd to process heavy crudes. Therefore, we believe that the differentials will not shoot up significantly higher than the current levels.

Complex refineries with bottom conversion capability use cheaper heavy/sour crude and have seen their margins increasing with widening crude price differentials.

EXHIBIT 67: MARGINS FOR RIL HAVE MOVED IN TANDEM WITH CRUDE PRICE DIFFERENTIALS



Source: Company, Bloomberg, MOSL

Increased differentials one of the key factors for increased reported margins

RIL – one of the most complex refiners in the world

RIL's Jamnagar refinery is among the most complex and energy efficient refineries in the world. It is the third largest single location refinery in the world, boasting a capacity of 33m ton per year. It is fully integrated and consists of more than 50 process units.

With a complexity of 11.3, RIL's Jamnagar refinery is one of the most complex in the world

The refinery was built with a high complexity index of 9.9, which was further raised to 11.3 after the completion of value maximization program (VMP) in October-November 2005. High complexity gives RIL flexibility to process a variety of crude from different regions to reach the most optimum crude slate. Since its start, RIL has processed more than 60 varieties of crude with API ranging from 16 to 51.

On the operating front, the refinery has consistently operated at very high utilization rates compared to the average utilizations in Asia Pacific, EU and North America. Similarly, in terms of energy efficiency, the refinery is ranked very high. It has been cited as the best in "Energy and Loss Performance" by Shell's Benchmarking Study for the fourth consecutive year. Also, RIL's refinery was conferred the "International Refiner of the Year" award in 2004 by Hart Energy Publishing LP.

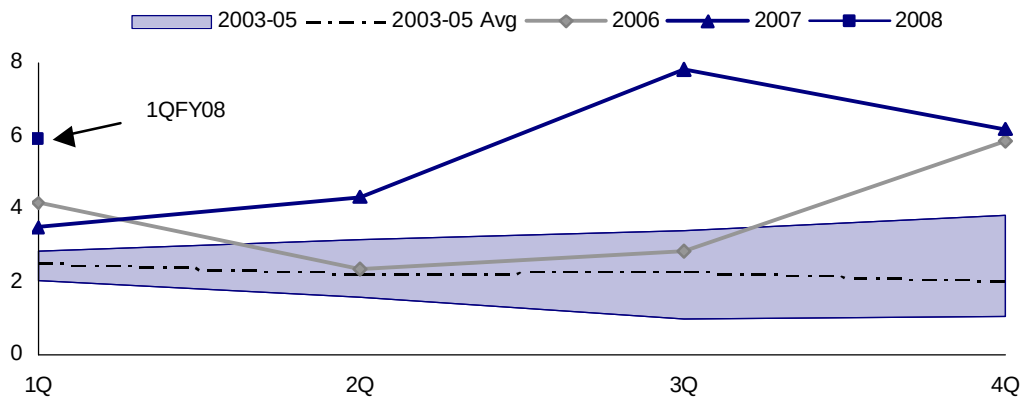
The refinery is strategically located. Jamnagar is on the west coast of India, in close proximity to the Middle East, the largest crude oil producing region in the world. This results in lower ship turnaround time and crude freight cost.

Consistently outperforming the Singapore refining benchmark

Owing to its superior configuration and strategic location, RIL has consistently outperformed the Singapore refining benchmark

Since its start in 2000, RIL's Jamnagar refinery has given superior performance, primarily due to world scale size, superior configuration and strategic location. It has consistently outperformed the Singapore benchmark GRM by US$2-3/bbl. In FY07, RIL outperformed the Singapore refining benchmark by US$5.6/bbl, with GRM of US$11.7/bbl against the Singapore benchmark of US$6.1/bbl. This was a significant improvement over its average outperformance in the last six years. During FY01 to FY06 RIL's average GRM were US$6.9/bbl against the Singapore average of US$4.1/bbl – an average outperformance of US$2.8/bbl.

EXHIBIT 68: RIL'S IMPROVING REFINING MARGINS OVER SINGAPORE (US$/BBL)



Source: Reuters, Company, MOSL

Is Singapore the relevant benchmark for RIL?

Though we have compared RIL' s GRMs with the Singapore benchmark above, we believe that RIL's GRMs have decoupled from the Singapore GRMs in recent years. The reasons for this are:

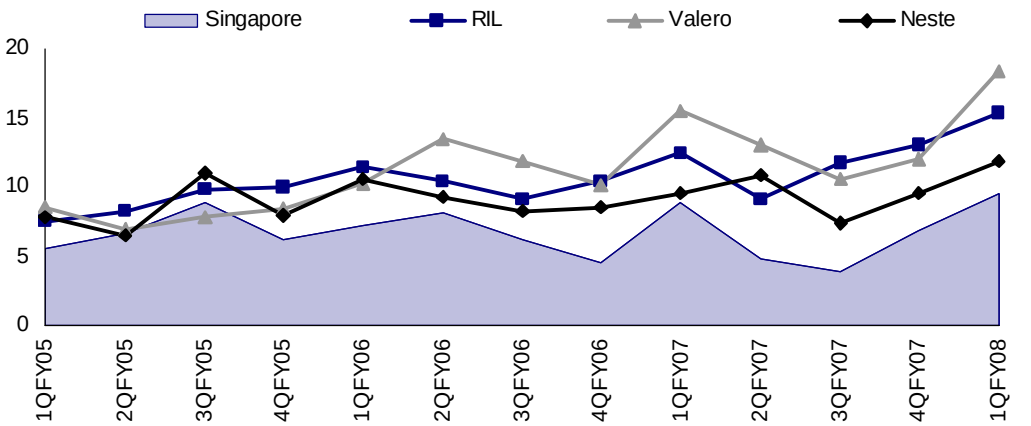
- Different crude slate – RIL has much heavier crude input. With increasing light-heavy differentials over past few years, the differential between RIL's GRM and the Singapore benchmark has increased considerably.
- Different product slate – RIL has much higher complexity, leading to higher production of light and middle distillate compared to the Singapore benchmark slate.
- Higher exports and more products going out of the region – In recent years, RIL has been exporting a much higher share of its products to much higher netback markets of North America and Europe.

With RIL' s refinery now converted to an EOU, we believe this disconnect would widen further. RIL would be targeting most of its exports to North America and Europe, which are seeing much higher product cracks than Singapore, in recent times.

We have plotted RIL's GRMs against Valero's (Valero is a large and complex North American refiner) and Neste's (Neste is a small but fairly complex refiner in Europe). Valero has a refining capacity of 3.3mmbpd spread across 18 refineries in the US, with weighted average complexity of 12.6. Neste has two refineries in Finland, with total capacity of 250kbd and weighted average complexity of 9.7. As can be seen in the chart below, RIL's GRMs are more in line with similarly complex refiners than Singapore GRMs.

EXHIBIT 69: GRM COMPARASION: RIL V/S OTHER COMPLEX REFINERS

RIL's GRMs have moved more in tandem with other complex refiners



Source: Company, MOSL

We expect RIL to maintain high refining margins

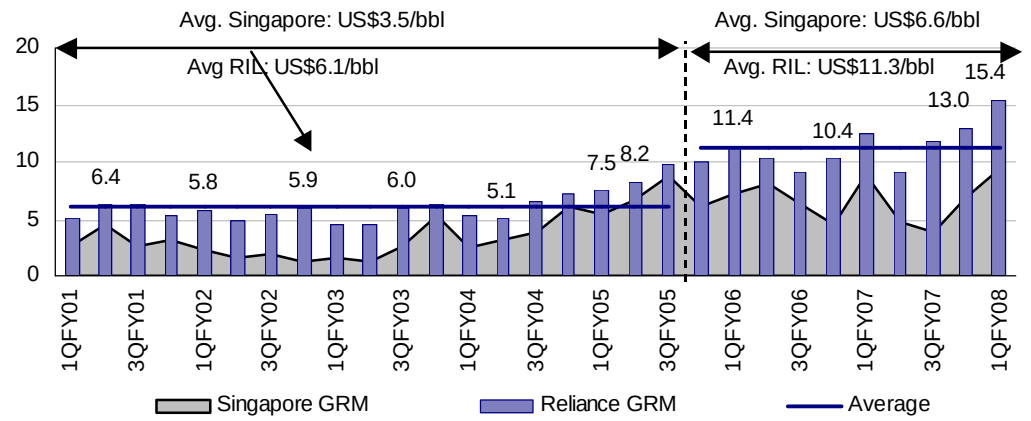
We expect RIL to maintain its high refining margins…

In 1QFY07, RIL posted its all-time record GRM of US$12.4/bbl. This was bettered in 4QFY07, when it posted a GRM of US$13/bbl. In 1QFY08, RIL reported even higher GRM of US$15.4/bbl. We believe that the company's performance in recent few quarters was not an aberration, but rather an indicator of things to come. Over the next couple of years, we believe that the margin trend would be more in line with the recent good performance, if not better, as the refining fundamentals continue to look very robust. We assume that RIL would post average GRM of US$12-13/bbl for FY08, FY09 and FY10.

EXHIBIT 70: RELIANCE'S GRMS - RISING GRMS AND RISING PREMIUMS (US$/BBL)

Avg Singapore GRMs have increased by US$3.1/bbl

Avg RIL' s premium over Singapore has expanded from US$2.6/ bbl to US$4.7/bbl



Source: Company/MOSL

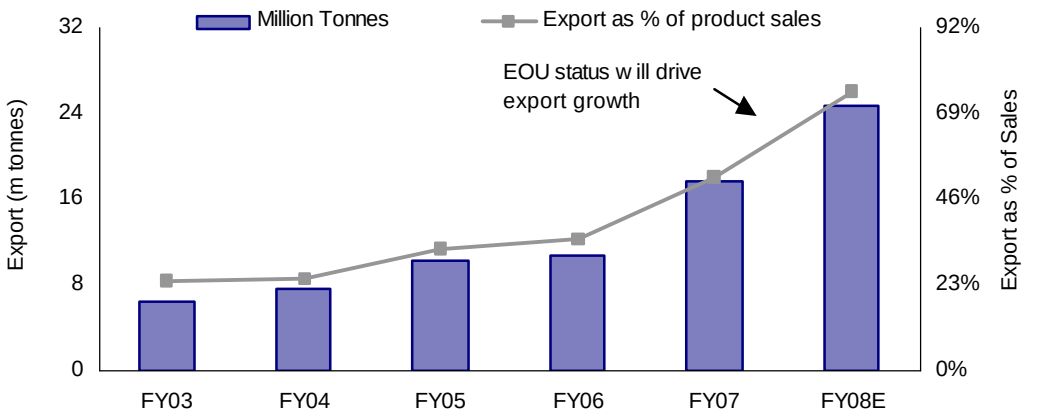
Increasing export focus – RIL's refinery now an EOU

RIL's export volumes for petroleum products have consistently increased in recent years, driven by the following factors:

- Lower realizations in domestic markets due to price ceiling on key products
- Higher realizations on exports for some products, especially to American and European markets

…buoyed by its EOU status…

EXHIBIT 71: RIL: INCREASING EXPORTS FOCUS



Source: Company/MOSL

Significant growth in transport fuel exports

EXHIBIT 72: RIL'S LIGHT & MEDIUM PRODUCT EXPORTS HAVE INCREASED SIGNIFICANTLY (M TONNES)

	FY06	FY07	CHANGE (%)
MS	2.05	3.15	54
HSD	5.92	9.15	54
ATF / Kero	1.65	2.83	72
Naphtha	0.56	2.28	309

Source: Company/MOSL

…and superior product portfolio

With its refinery now enjoying an EOU status, RIL would be able to place bulk of its products in export markets. The company would be targeting the North American and European markets. These markets provide higher netback margins compared to Singapore due to stringer product quality norms and continued shortage of complex refining capacity in these regions. Already in the very first quarter post EOU status, RIL's refining exports have significantly increased to 5mt compared to 3.5mt in 1QFY07 and 4.2mt in 4QFY07.

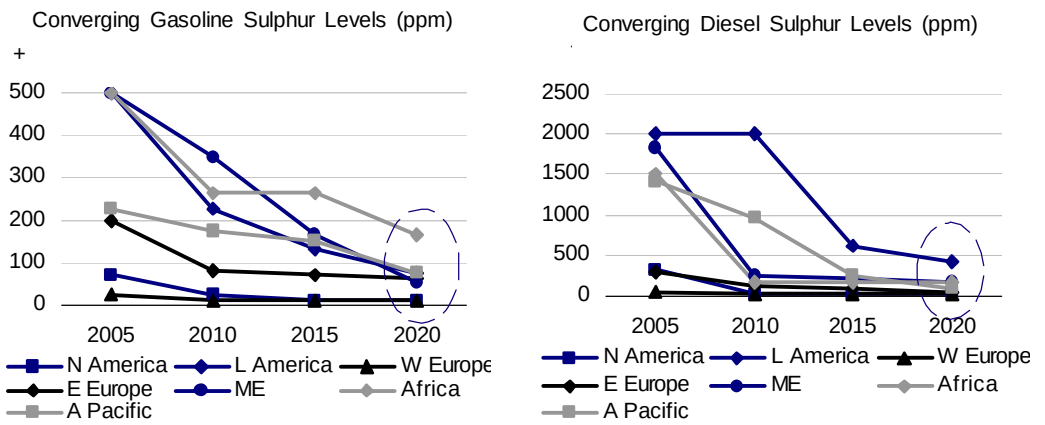
Also, RIL's refinery had an income tax holiday of seven years, which expired in FY07. With its refinery now enjoying EOU status, the company has indicated that its overall tax rate would remain similar to prior years.

Ability to meet stricter environmental regulations – another margin booster

Environment specifications are getting increasingly tighter world over. This is putting additional stress on already tight refining systems. However, the refiners who have the

ability to meet these norms, like RIL, are able to reap benefits in the form of higher margins. The sudden requirements of higher quality fuels are creating localized demand-supply problems, which are manifested in higher prices for cleaner fuels. Also, the stricter environmental norms are forcing existing refiners to put new capex into making their products more environment-friendly rather than to increase capacity.

EXHIBIT 73: TIGHTENING AND CONVERGING ENVIRONMENTAL NORMS

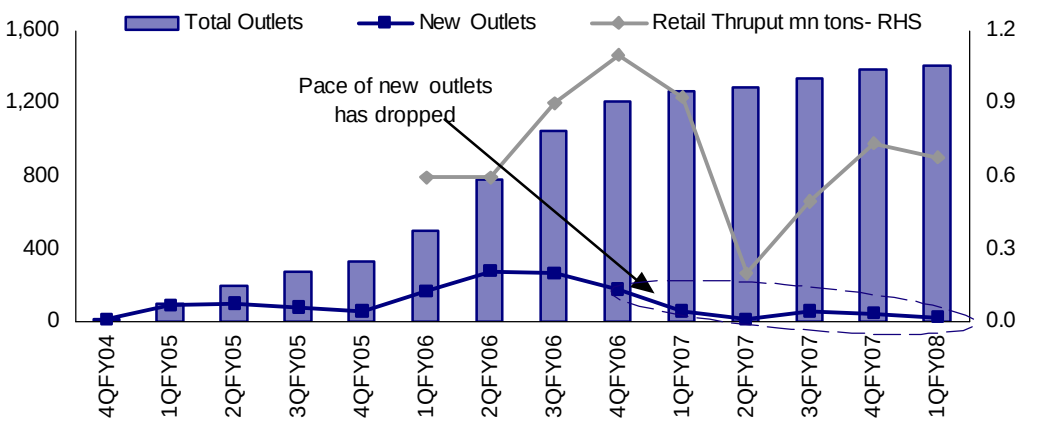


Source: IFQC

Domestic retail – reduced focus due to non-level playing field

RIL had started its petroleum retail network in late FY04, and had put up 1,218 outlets by March 2006. In this period, its retail market share had increased from nil to 13%.

EXHIBIT 74: DOMESTIC RETAIL – PACE OF GROWTH AND MARKET SHARE HAVE DROPPED SIGNIFICANTLY



Source: Company/Industry/MOSL

The significant increase in crude oil prices in recent years put significant pressure on retail marketers to increase retail product prices. However, the state-owned oil marketers did not get government permission to increase retail prices in line with crude price hikes. The

actual price hikes were moderate. This resulted in large under-recoveries on selling gasoline and diesel through retail outlets.

GoI devised a compensation policy involving issue of oil bonds and recovery from upstream state-owned companies. However, these benefits were not extended to private marketers like RIL. To cut its losses from retail operations, RIL decided to keep its prices at pump outlets higher. This resulted in a large decline in RIL's market share from 13% in FY06 to just 2% in 3QFY07. The market share recovered somewhat in 4QFY07 due to drop in crude oil prices and RIL's decision to reduce the differential in pump prices.

With its refinery now enjoying EOU status, we believe that RIL would desist from further expansion of its domestic retail network. The existing network would remain underutilized till a level playing field is established.

Oil prices to remain firm

Oil prices have moved to band of US$50-80/bbl in last few years from earlier levels of US$20-35/bbl. There is increasing consensus that oil prices will remain in these high levels going forward.

There is a fundamental difference in the current high prices and the oil price spikes seen at the time of the Gulf crisis in the 1970s and in the early 1990s. All earlier price spikes were due to supply cuts and capacity shutdowns. Prices returned to normal levels once the crisis situations ebbed. However, this time round, the key reason for the high prices is strong demand forecasts.

With global economic buoyancy, product demand – particularly of transport fuels – has grown rapidly. The demand-pull has meant high product margins, especially of gasoline and diesel. High product demand and rising product prices have in turn raised crude demand and prices. The current underlying fundamentals in oil markets point to elevated prices both in the short and long term.

According to IEA's recent estimates, oil demand growth in 2007 and 2008 would be 1.5mmb/d (1.8% growth) and 2.2mmb/d (2.5% growth), respectively. This is much higher than demand growth of 0.78mmb/d (0.9%) in 2006 and 1.4mmb/d (1.7%) in 2005.

Key factors indicating high oil price outlook:

✍ **Low effective oil production surplus capacity**

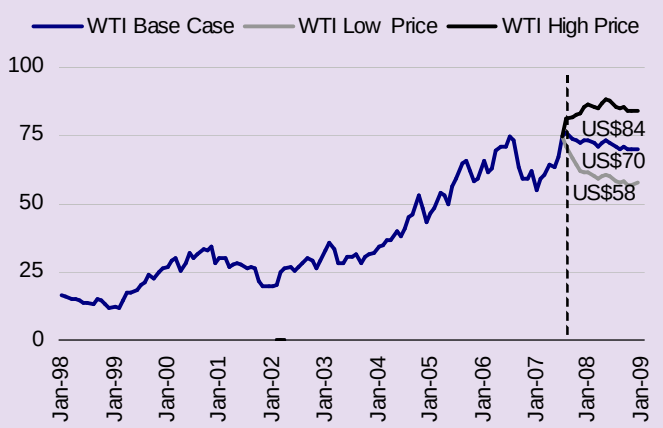
Global oil production surplus capacity remains at a bare minimum level of around 2.2mmbpd, as capacity additions have not moved in tandem with demand. OPEC, particularly Saudi Arabia, controls most of the surplus capacity. Saudi Arabia is at the forefront of the current OPEC strategy of defending prices by volume cuts, rather than bringing new capacities to meet additional demand.

Also, a large part of the current production is coming from countries witnessing geopolitical turmoil. Potential production cuts in Venezuela (2.4mmbpd), Iraq (2mmbpd), Nigeria (2.3mmbpd) and Iraq (3.8mmbpd) could worsen the situation and cause significant price spikes.

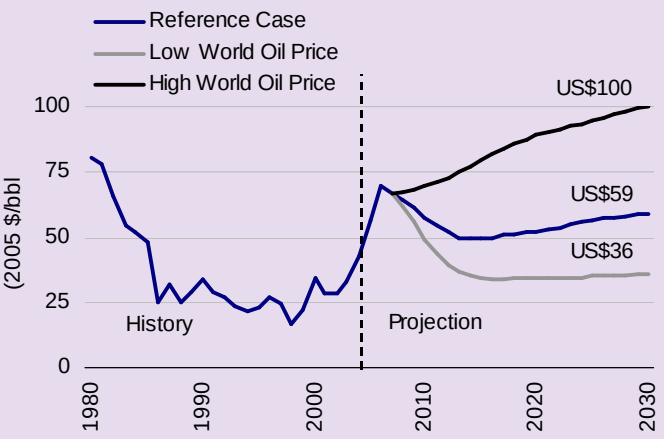
The current world oil systems do not have enough buffers in case of sudden shutdowns in production capacity. The situation is expected to worsen, as the incremental demand growth remains higher than new capacity coming online in non-OPEC regions.

EXHIBIT 75: EIA PROJECTS HIGH PRICES IN BOTH SHORT AND LONG TERM

SHORT-TERM WTI PRICE OUTLOOK



LONG-TERM WTI PRICE OUTLOOK



Source: EIA's short-term outlook; EIA's International Energy Outlook 2007

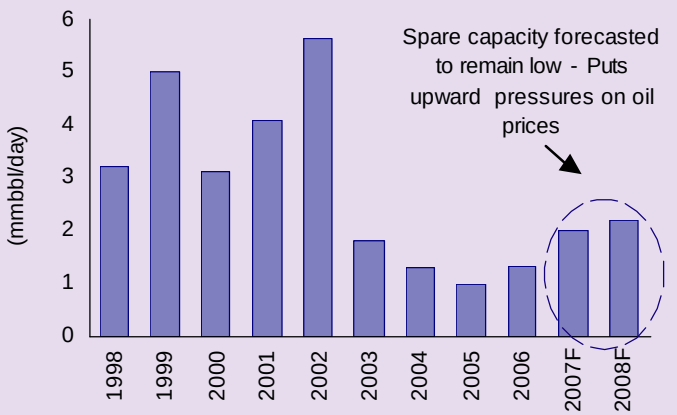
Why has spare capacity declined?

In recent years, the highest surplus capacity of 5.5mmbpd was in 2002, due to increased non-OPEC production and cutting back of supply by OPEC. However, the spare capacity has consistently declined since then due to the following reasons:

- Venezuelan strike in December 2002 and Iraq war led to a significant reduction in production capacity. To meet the shortfall, OPEC increased production, leading to lower spare capacity.
- Large demand growth in 2004 required OPEC to further increase production despite increase in production in Iraq and Venezuela. This led to further reduction in spare capacity.
- Hurricanes in the US, large drop in North Sea production and lower than expected production growth in Russia meant OPEC had to produce more in 2005. Spare capacity dropped further.

Though the spare capacity has slightly improved since 2005, the situation remains very tight.

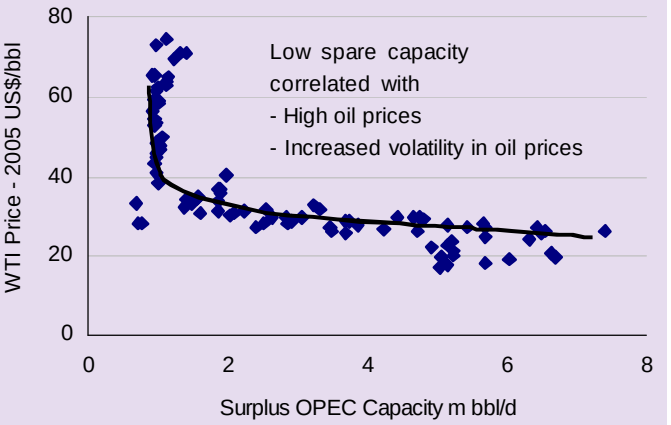
EXHIBIT 76:OIL SPARE CAPACITY REMAINS VERY LOW



Source: EIA

There is a very high negative correlation between spare capacity and oil prices. With spare capacities low, oil prices are bound to be high.

EXHIBIT 77: HIGH NEGATIVE CORRELATION BETWEEN SPARE CAPACITY AND OIL PRICES



Source: EIA

What is more critical is that OPEC's leverage to control prices has increased, as it controls bulk of the spare capacity now. At any significant ebb in prices, OPEC can immediately respond by volume cuts to defend prices. This has been seen in recent times, as OPEC announced volume cuts in November 2006 and February 2007.

Heightened geo-political uncertainty

- **Iran:** Continued uncertainty on Iranian nuclear issue; threat of possible military strike by US remains – though threat is small but high volumes are at risk
- **Iraq:** Civil unrest continues and production unlikely to pick up any time soon
- **Nigeria:** Large capacity of nearly 500kbd remains shut; further capacity shut during the unrest after recent presidential election; expected return of shut capacity is further delayed
- **Venezuela:** Continued uncertainty on investment climate, which has resulted in reduced production over the last few years

- **OPEC's insistence on cutting production to keep oil prices above US$50/bbl**
  - OPEC has a contrarian view and is insisting that oil supplies are ample; it believes current tightness is only due to geo-political uncertainties.
  - OPEC's production is down by 1.14mmb/d in June 2007 from September 2006.
  - Though OPEC did not announce any fresh cuts in its recent Vienna meeting, it announced that the next meeting would only be in September 2007. This implies that production cut will remain in force till then and there still remains a further margin to reduce production by 0.8mmb/d to reach the February 2007 target.

EXHIBIT 78: OPEC HAS CUT PRODUCTION TO DEFEND PRICES

	TARGET			PRODUCTION		
MMB/D	1-JUL-05	1-NOV-06	1-FEB-07	SEP-06	JUN-07	CUT
Algeria	0.9			1.4	1.4	-0.02
Indonesia	1.5			0.9	0.8	0.04
Iran	4.1			3.9	4.0	-0.05
Kuwait	2.3			2.5	2.3	0.16
Libya	1.5			1.8	1.7	0.05
Nigeria	2.3			2.2	2.1	0.11
Qatar	0.7			0.8	0.8	0.01
Saudi Arabia	9.1			9.2	8.6	0.62
UAE	2.4			2.7	2.6	0.04
Venezuela	3.2			2.6	2.4	0.18
Subtotal	**28.0**	**26.3**	**25.8**	**27.8**	**26.6**	**1.14**

Source: IEA

- **Increased resource nationalism**

Resource nationalism has historically been a problem in oil producing nations like Venezuela, Bolivia and Russia. Many other Latin American and African countries are taking cues and are leaving very little room for the private sector.

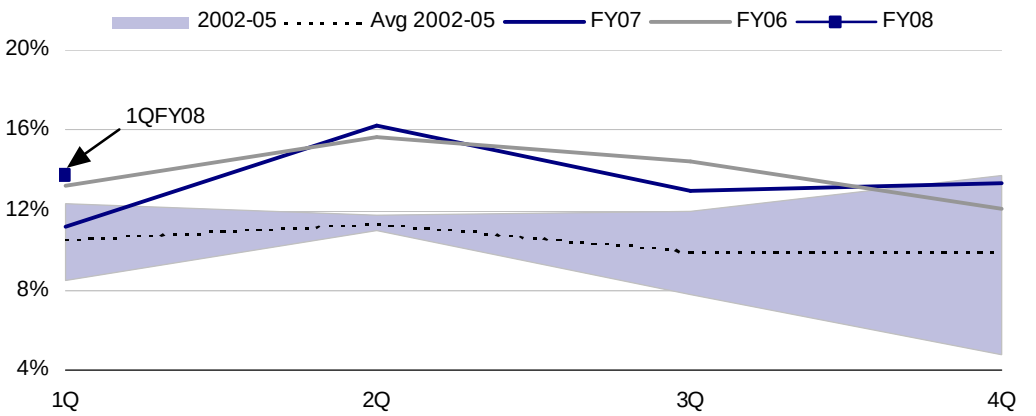
All the above factors portend that the likelihood of oil prices falling below US$50/bbl remains very low in the coming few years. On the contrary, there is high risk of price spikes and high volatility in case of any new geopolitical or natural disturbance.

Petrochemicals: mixed margin trend

Margins in RIL's petrochemicals business have declined from the peak in 2QFY07. Though polymers (PE and PP) continue to enjoy higher than historical average prices and margins, polyesters were until recently witnessing margin contraction. The trend of polyester margin contraction was reversed in 1QFY08, with upward movement in cotton prices. However, prices of the key feedstock, naphtha, have risen much more than petrochemical prices due to continued high crude oil price environment. We do not expect this scenario to change significantly in the near future.

EXHIBIT 79: RIL'S PETROCHEMICAL EBIT MARGINS CONTINUE TO REMAIN ABOVE HISTORIC AVERAGES

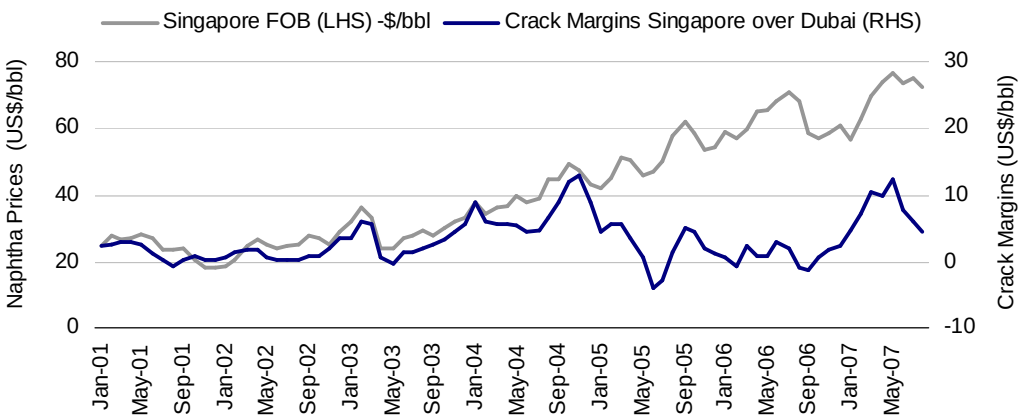
Petchem margins have declined from recent highs seen in 2QFY07; however, margins continue to trend above historical averages



Source: Company/MOSL

EXHIBIT 80: INCREASED NAPHTHA PRICES IN RECENT MONTHS PUTTING PRESSURE ON MARGINS

Naphtha prices and crack margins have firmed up in the past few months, after recent lows seen in October-November 2006, putting pressure on margins



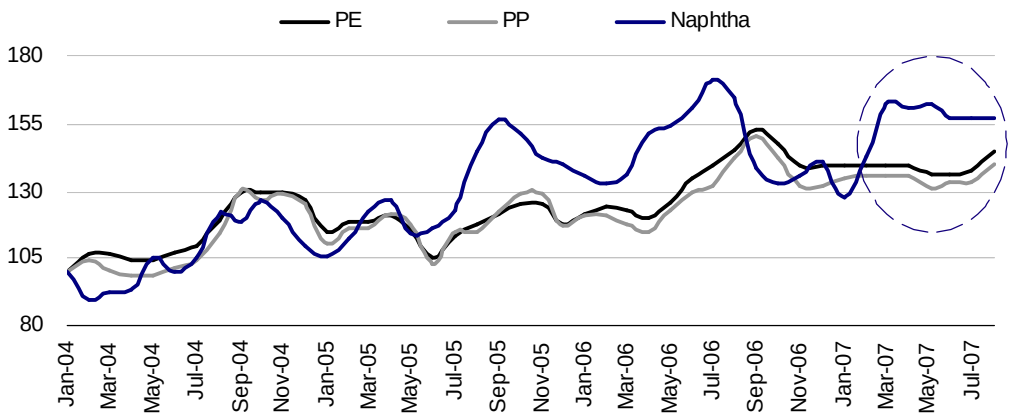
Source: Bloomberg/MOSL

RIL's overall petrochemicals margins, which had declined in 2HFY07, have marginally recovered in 1QFY08. However, margin pressure continues, as naphtha prices have moved

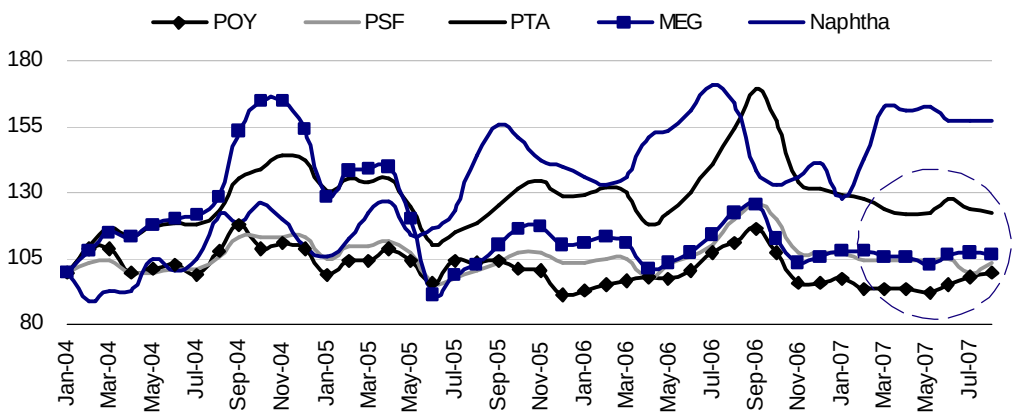
up sharply in recent times and the rise in petrochemicals prices has not been in the same proportion.

EXHIBIT 81: KEY PETROCHEMICAL PRICES HAVE NOT MOVED UP IN TANDEM WITH NAPHTHA PRICES

RELATIVE PRICES: NAPHTHA V/S POLYMERS



RELATIVE PERFORMANCE: NAPHTHA V/S POLYESTER CHAIN



Source: Company/Industry/MOSL

Margin outlook

Given that crude oil prices are likely to remain high going forward, we believe that naphtha prices would also remain firm. We do not expect this scenario to change significantly in the near future and expect the pressure on petrochemicals margins to continue.

Polyester chain: some improvement in domestic margins likely

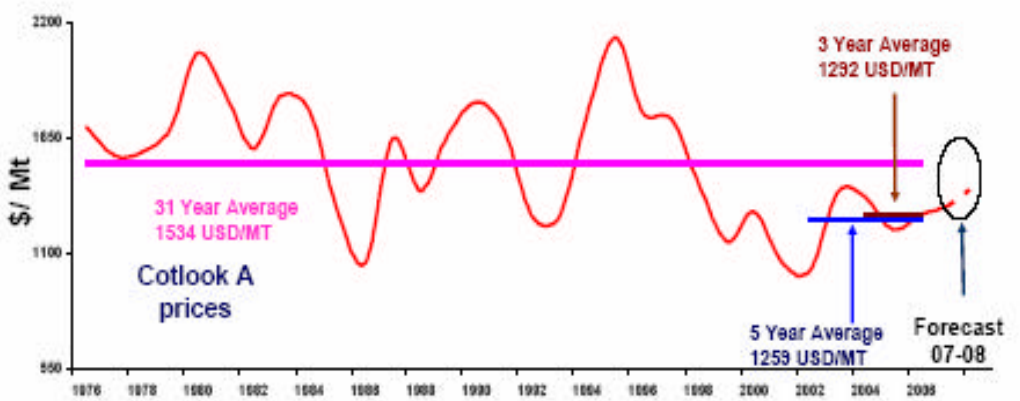
The trend of polyester margin contraction was reversed in 1QFY08, with upward movement in cotton prices.

Some signs of correction in cotton fundamentals in recent months:

- Prices up by US$297/ton to US$1,574/ton in 1QFY08
- 2007-08 US cotton planting lowest since 1989; 28% fall in acreage
- Large cotton acreage shifting to corn (for bio-fuels)
- World ending stocks forecast to decrease by 13%
- China releasing cotton from reserve stocks

FY08 forecast of US$1,433/ton, 11% higher than last 3-year average

EXHIBIT 82: POLYESTER CHAIN: UPWARD MOVEMENT IN COTTON PRICES TO INCREASE PRICE CAP



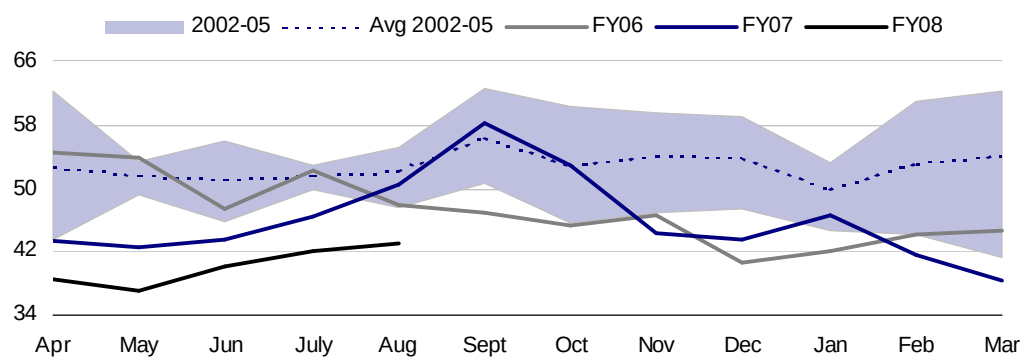
Source: Company

Though the Chinese polyester expansion has slowed down recently, we believe some margin pressure will continue, as there remains some overcapacity in the global systems.

The steep margin decline in the domestic market during FY07 was driven by large new capacity additions. In FY07, 570kta of PFY capacity and 520kta of PSF capacity was added, leading to a larger than expected margin decline. With no meaningful capacity addition coming up in FY08, we believe that domestic polyester chain margins could see some improvement from the current low levels.

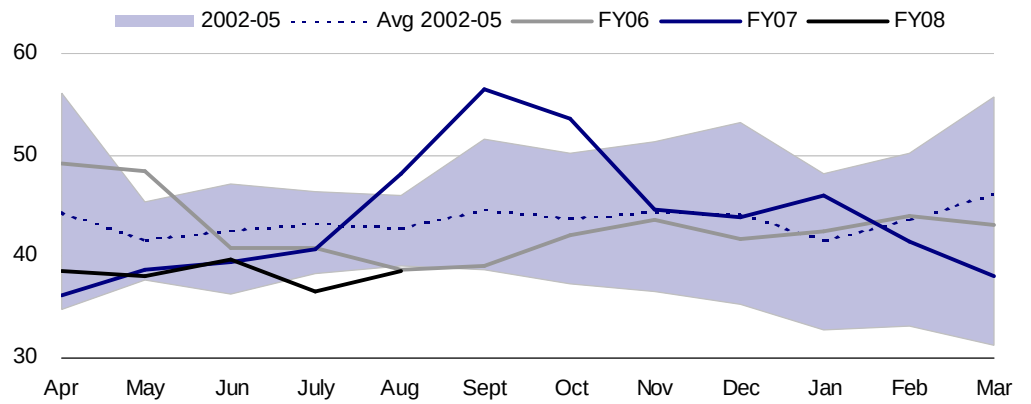
EXHIBIT 83: POLYESTER SPREADS OVER NAPHTHA REMAIN LOW

POY SPREAD OVER NAPHTHA (RS/KG)



Source: Company/Industry/MOSL

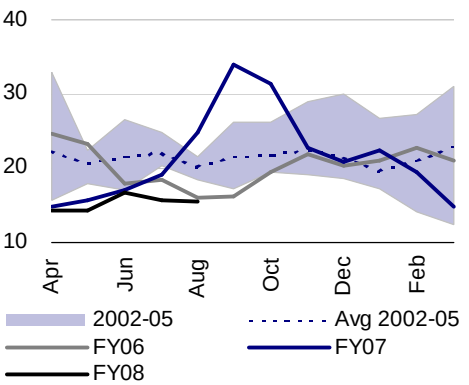
PSF SPREAD OVER NAPHTHA (RS/KG)



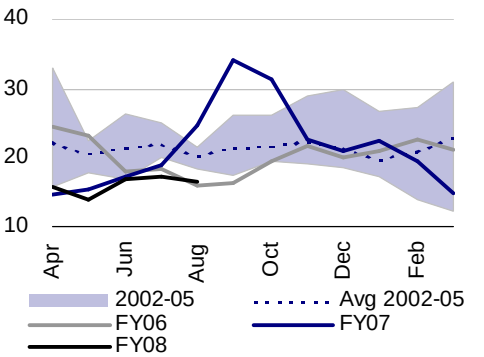
Source: Company/Industry/MOSL

EXHIBIT 84: PTA AND MEG SPREADS HAVE DECLINED AND REMAIN LOW

PTA SPREAD OVER NAPHTHA (RS/KG)

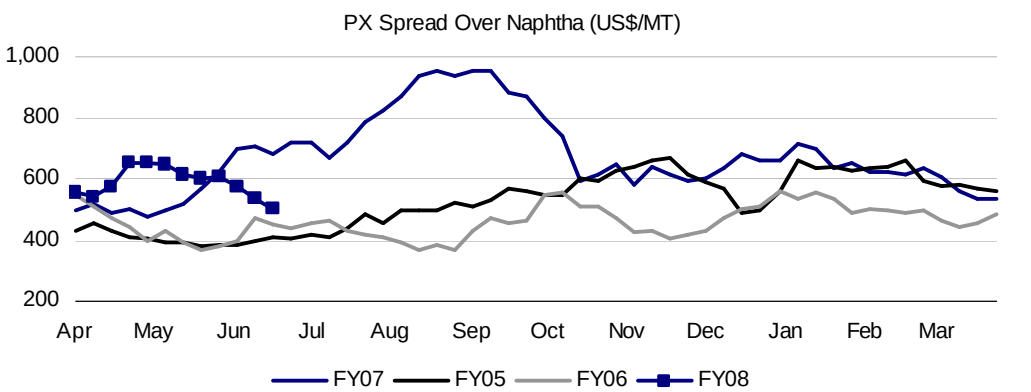


MEG SPREAD OVER NAPHTHA (RS/KG)



Source: Company/Industry/MOSL

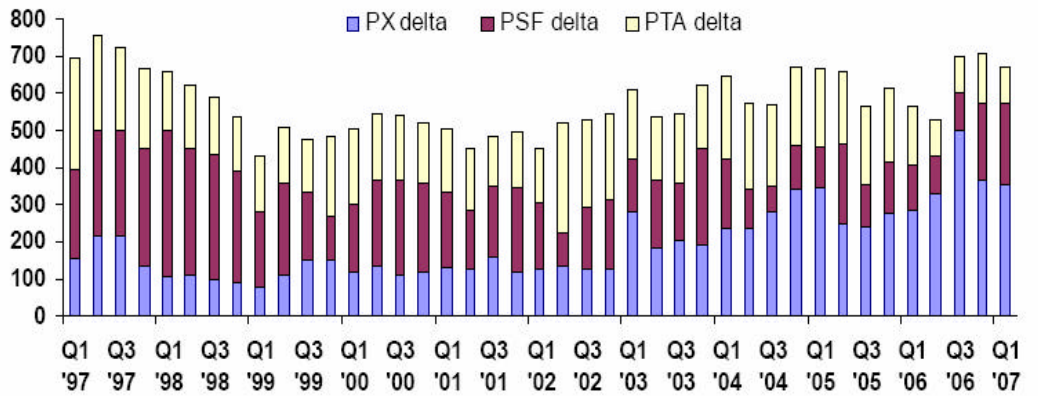
EXHIBIT 85:PX MARGINS, WHICH WERE FIRM EARLIER, ARE ALSO SHOWING SIGNS OF CORRECTION



Source: Company/Industry/MOSL

RIL enjoys advantage of integration: RIL is fully integrated in its polyester chain. Overall chain margins tend to be more consistent, as subdued margins in some products are compensated by strengthening margins in other products as shown below.

EXHIBIT 86: OVERALL POLYESTER CHAIN MARGINS TEND TO BE CONSISTENT



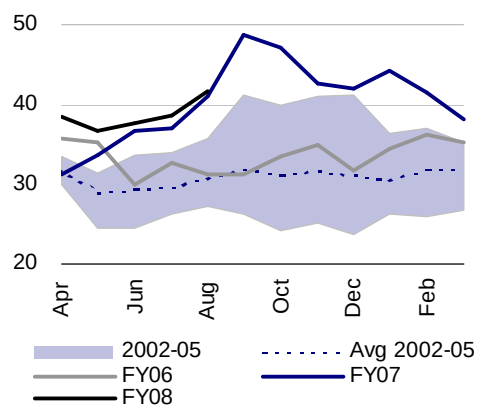
Source: Company

Polymer chain: margins still higher than historical averages

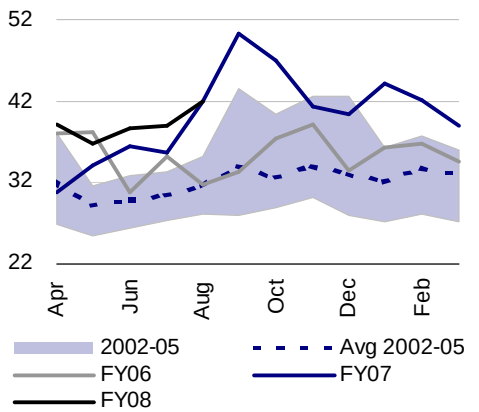
Though polymer prices and margins have declined from recent peaks in 2QFY07, prices and margins continue to remain higher than historical averages.

EXHIBIT 87: POLYMER MARGINS: DECLINED FROM RECENT HIGHS, YET TREND ABOVE HISTORICAL RANGE

PE SPREADOVER NAPHTHA (RS/KG)



PP SPREADOVER NAPHTHA (RS/KG)



Source: Company/Industry/MOSL

The downturn in the cycle, which was expected to begin in 2007, is likely to be delayed by about a year due to some delays in new capacities coming up in China and the Middle East. But the downturn is inevitable, as much more capacity is being added than warranted by expected demand growth.

The downturn is likely to begin in late 2008, in anticipation of large capacity additions in the Middle East and China from 2009. The cycle trough is expected to be during 2009-2012, with the bottom being reached in 2010.

The world's total ethylene demand is about 110m ton, and CMAI expects demand to grow at a 4% CAGR over the next five years. However, ethylene capacity is likely to increase by 35m ton from 121m ton in 2006 to 156m ton in 2011. The Middle East is expected to bring new capacity of 20m ton and China would add about 8m ton of new capacity. This addition of about 30% capacity in the next five years would put severe pressure on operating rates and margins.

Propylene demand, which is about 69m ton, is expected to grow at about 5% CAGR over the next five years. However, as bulk of the new capacity is based on gas crackers, which does not produce significant amount of propylene, we expect that polypropylene (PP) margins will trend higher than polyethylene (PE) margins. For most applications, PE and PP are interchangeable; we do not expect large differentials in their prices and margins.

RIL – largest domestic player, with leading global rank

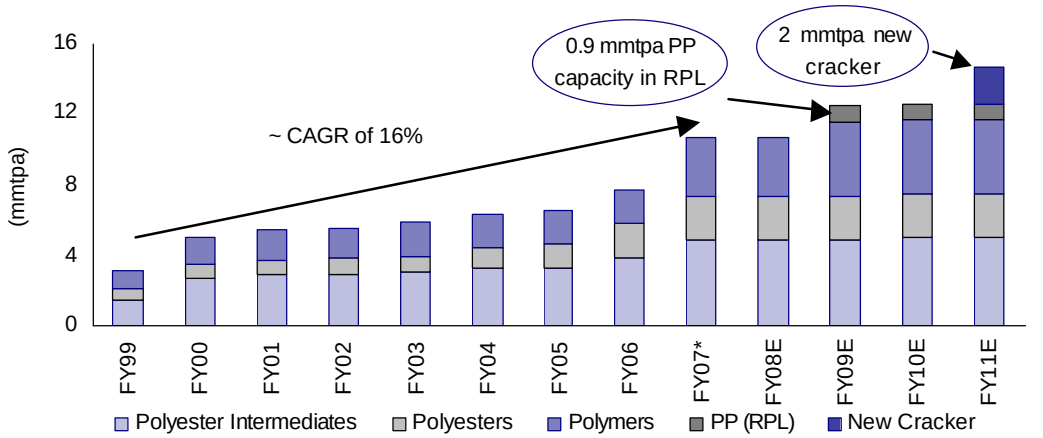
RIL is the largest petrochemicals player in the domestic market, with very high market shares in all key product segments. The company is also the world's largest producer of polyester and enjoys high global ranks for its major products in terms of capacity.

EXHIBIT 88: RIL, THE LARGEST PETROCHEMICALS PLAYER IN THE DOMESTIC MARKET

	CAPACITY KTA	GLOBAL RANK	DOMESTIC MARKET SHARE (%)
Poylester			
POY, PSF, PET	2,459	1	55
Polyester Intermediates			
PX	1,976	4	
PTA	2,000	4	83
MEG	830	6	
Polymers			
PP	1,700	7	
PVC	600	12	68
PE	1,100	16	

Capacity & market shares include IPCL capacities *Source: Company/MOSL*

EXHIBIT 89: RELIANCE'S PETROCHEMICAL CAPACITIES HAVE GROWN CONSISTENTLY



Source: Company/MOSL

Merger of IPCL to further strengthen RIL's position

In March 2007, RIL announced the merger of IPCL, its 46% associate with itself. The appointed date of merger is 1 April 2006.

IPCL's performance has improved significantly since RIL acquired management control in the company. It has increased capacity utilization, reduced operating costs and is increasing capacities. Revenues have increased from Rs55.2b in FY02 to Rs123.6b in FY06 – a CAGR of 22%. Net profits have increased from Rs1.1b in FY02 to Rs11.6b in FY06 – a CAGR of 82%.

Though considerable synergies have already been achieved, we believe that the merger could lead to further operational integration.

New global-size cracker at Jamnagar

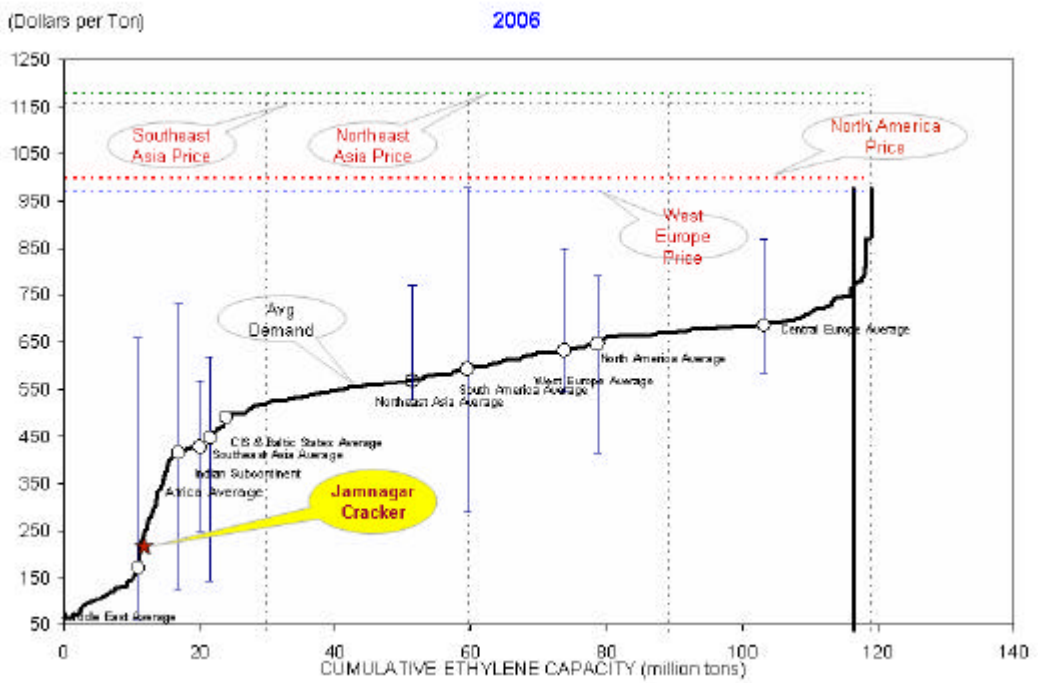
RIL has announced setting up of a new global-size integrated cracker and petrochemical complex with a capacity of 2mmtpa in the SEZ in Jamnagar. The facility would have a capex of US$3b, and is expected to go on stream in FY10-11.

The uniqueness of this cracker is that it would use the refinery off-gases and byproducts to produce ethylene, propylene and downstream derivatives. The break-up of the product volumes is not yet announced.

The fuel requirement for the refineries would be met by methane-rich gas from RIL's KG-D6 gas discovery. RIL has recently signed an agreement with GSPL, to transport 11mmscmd gas from its tap-off point near Bharuch in Gujarat to Jamnagar. RIL has an option to increase gas volumes to 14mmscmd as per terms of this 15-year agreement.

The integration of the cracker with the refinery would place the new cracker at par with the most efficient producers of olefins and derivatives globally, including those in the Middle East. The company expects that the cracker would be very competitive vis-à-vis Middle East crackers in terms of cash cost for ethylene production.

EXHIBIT 90: ETHYLENE CASH COST CURVE - 2006 (US$/MT)



Source: Company

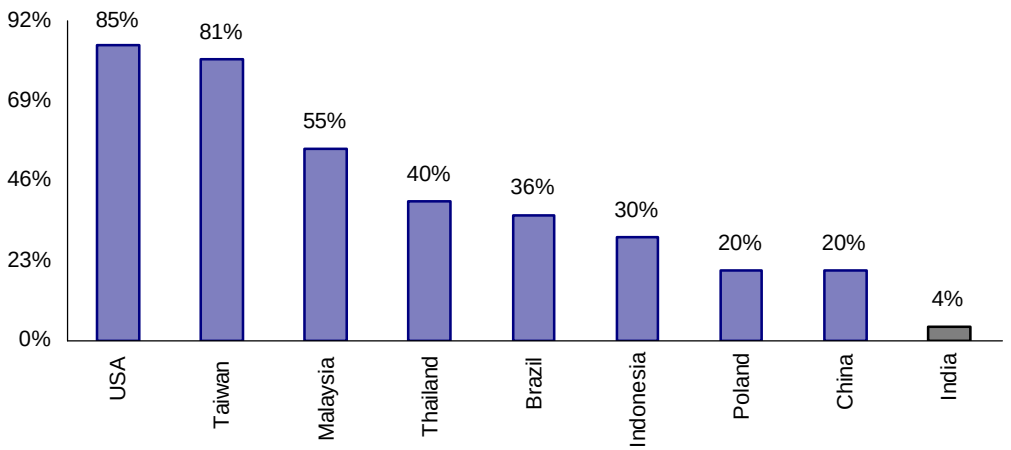
Retailing: potential value driver

The next exciting business that RIL has ventured is in organized retail. We believe that organized retailing in India offers huge growth opportunity and RIL would be able to make the most of this opportunity due to excellent project execution strengths. Its deep pockets would help sustain a relatively long gestation involved in building a pan-India retailing giant. RIL has announced a US$5.6b investment in the retail sector through its 100% subsidiary, Reliance Retail Limited (RRL). Though the initiative is still at a nascent stage, we conservatively value RRL at Rs182/share of RIL.

Organized retailing offers huge growth opportunity

Organized retailing in India is set to witness sustained and accelerated growth. According to Technopak, the current size of the Indian retail sector is US$300b, which would increase to US$427b by 2010 and US$637b by 2015. Retail spend is expected to increase at 13% CAGR over next five years. Organized retail is just 4.6% of the total retail sales, which is very low in comparison to not only developed countries but also developing countries in Asia.

EXHIBIT 91: SHARE OF ORGANIZED RETAIL IN TOTAL RETAIL SALES VERY LOW



Source: KSA Technopak/ Images Retail Report 2007

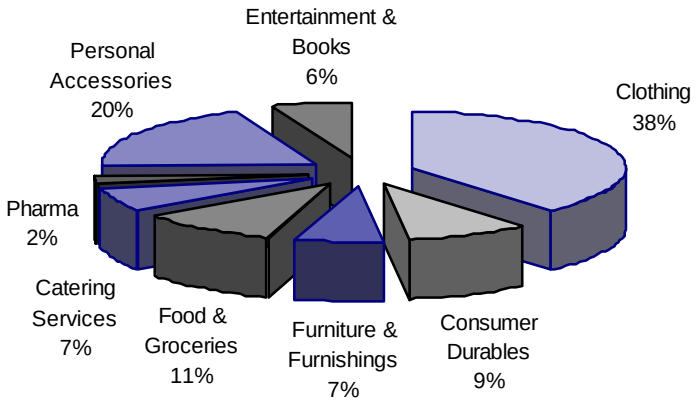
Less than 1% of food & grocery retailing is organized

One of the key reasons for organized retail being a very small part of the total retail pie is the dominance of food and groceries in the total retail spending. According to F&R Research, the share of food and grocery in the total household spend is 63%. Although growth in

This section is contributed by our Retail Analyst, **Amnish Aggarwal (*AmnishAggarwal@MotilalOswal.com*) Tel:+9122 39825404**

spending on food and grocery is just 2.2%, it will still account for 53% of retail sales by 2015. Food and groceries currently accounts for just 11% of organized retail sales. This anomaly is because just 0.8% of food and grocery sales come from organized retail. This shows the level of fragmentation, which exists in the retail trade, where corner stores continue to dominate food and grocery purchases.

EXHIBIT 92: LOW SHARE OF FOOD & GROCERY IN ORGANIZED RETAIL



Source: F&R Research/ India retail report 2007

This is set to change, with several large players foraying into the segment

We expect the share of grocery in organized retail to increase significantly in the coming few years. The grocery segment has begun witnessing a lot of activity, with players like RIL, ITC, AV Birla, RPG, Bharti, Pantaloon and Subhiksha unveiling their plans. These groups are focusing on fresh food and grocery in a big way. The initiatives include setting up of cold chains, contract farming, logistics and direct sourcing. In addition to large format food stores, the neighborhood and convenience stores concept is fast catching up with Indian retailers. We expect these companies to set up at least 10,000 convenience stores in the coming years, in addition to hypermarkets.

The organized retail opportunity is attracting a host of new players. In addition to a number of big corporate houses in India, global giants like Walmart, Tesco, Carrefour and waiting for the relaxation in FDI norms to enter the arena. Although FDI in single brand stores has been allowed, we don't see a significant shift in FDI policy in the near term. This provides a big window of opportunity for the domestic retailers to increase their presence and attain critical mass. We expect top-6 retailers to have more than 90m sq ft in retail space by 2011.

RETAIL SPACE BY 2011 (M SQ FT)	
Reliance	40
Pantaloon	30
Spencer's	8
Raheja	5
Birla Retail	4
Bharti	4

Source: Company/MOSL

Although the pie seems large for everyone to share, the cost efficiency measures adopted by players like RIL, Pantaloon and Subhiksha would lead to intense competition. We believe that players with economies of scale, efficient supply chain and logistics would emerge as ultimate winners.

Reliance Retail – aiming for the top slot

RIL intends to take the leadership position in India's organized retailing through its 100% subsidiary, RRL. It has announced US$5.6b investment in the retail sector. Following are the key highlights of its retail venture:

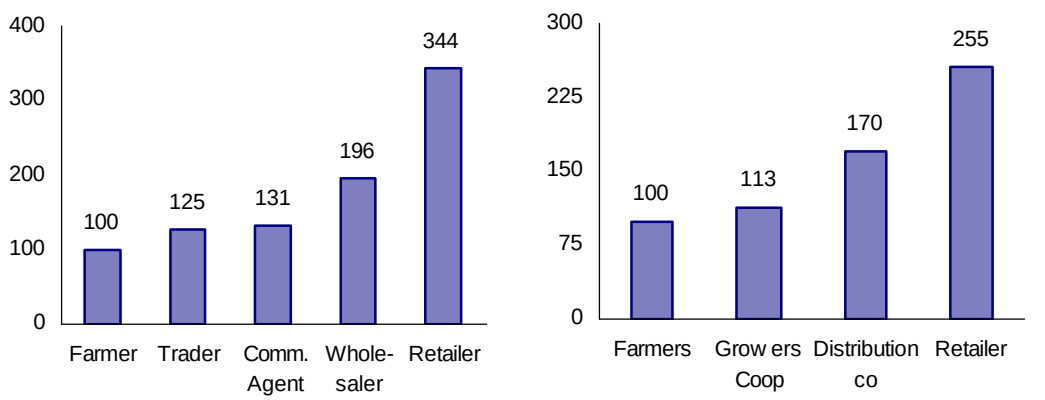
- Pan India footprint covering 1,500 cities and towns
- Wide mix of formats ranging from neighborhood stores, supermarkets, specialty stores and hypermarkets
- Cash and carry stores for supply to small retailers
- An array of both Indian and international brands catering to both the mass market and luxury segments
- Target area of 100m sq ft, employment generation for 500,000 people
- Strong focus on back-end supply chain, logistics and IT infrastructure, including direct product sourcing from farmers

RRL would be pitted against not only Indian players like Pantaloon, Birla Retail and Spencer's but also Bharti Walmart and many other potential entrants. FDI is currently not allowed in front and retail. Any change in policy on this front can result in intense competition from global players like Tesco and Carrefour.

Intends to exploit the huge potential in fresh food & grocery retailing

Fresh food and grocery retailing has huge potential, as most retailers are sourcing agricultural produce from *mandis* through the normal chain, which means high intermediation costs and wastage. According to an *Images Retail* study, retail price of the product sold by the farmer increases up to 3.5x the farm-gate price. If the product is routed through the grower's cooperative and distribution company, the end retail price could be 26% lower. If the retailer also controls distribution and logistics, the costs could be still lower, resulting in better margins for the retailer and/or reduced prices for the consumer.

EXHIBIT 93: VALUE CHAIN IN TRADITIONAL V/S MODERN AGRI SOURCING



Source: KSA Technopak/ India Retail Report 2007

RRL is taking steps to emerge as a strong player in product sourcing and supply chain. The company is setting up infrastructure including logistics, transport facilities, IT infrastructure, warehouses and even its own cargo aircrafts to source products. Creation of strong backend and infrastructure by the company would enable it to price the product competitively and enjoy better margins. The company is tying up with large number of farmers and their cooperatives for direct sourcing of products. The task seems challenging due to lack of good infrastructure and cold chain but the future outlook seems encouraging due to huge opportunity.

RRL has already added over 201 *Reliance Fresh* outlets in 25 cities. RRL has also established 108 collection centers in 16 states to collect farm produce directly from farmers. The company has also added 1m customers through *Reliance One* membership loyalty program.

Challenges for scale-up of the venture

Scarcity of manpower

Retail sector requires an estimated 2.5m skilled and semi-skilled professionals in the coming 3-4 years. Retailing needs employees with different skill sets for various functions across departments. Front-end staff could be less literate but has to be highly flexible to learn and adjust to the game plan. Similarly, the staff in administration, sourcing, advertising, public relations and stores management requires in-depth expertise in respective functions. RRL intends to hire 500,000 people for its operations over the next 3-4 years. Managing such a large cross section of employees could be a challenge for RRL. However, large number of locations and geographical spread would ease the difficulty to quite a good extent.

Timing and execution capabilities

Timing and execution are emerging as one of the biggest risks involved in the retail sector. This again puts the early entrants at an advantage. Timing issues arise due to delays in getting real estate on time from the developers and doing the retrofits. The mall space in India has increased from 2m sq ft in 2002 to 52m sq ft in 2006. It is expected to increase to over 100m sq ft by 2009 and further double in another two years. Real estate development has been proceeding behind schedule for most of the developers. This raises the timing risks for the retailers, as it takes them another 4-6 months to start operations. Delays can result in increase in costs. RRL is using a mix of owned and leased stores in its stores mix. Large number of stores is likely in the *Reliance Fresh* format, which does not require fresh real estate development, thus enabling faster scale up. RRL is also prone to delays due to execution on the part of developers in its hypermarts, departmental stores and specialty stores based in proposed shopping malls. We believe that the company would not be able to achieve its target of 100m sq ft of retail space by 2011.

Understanding the consumer psyche

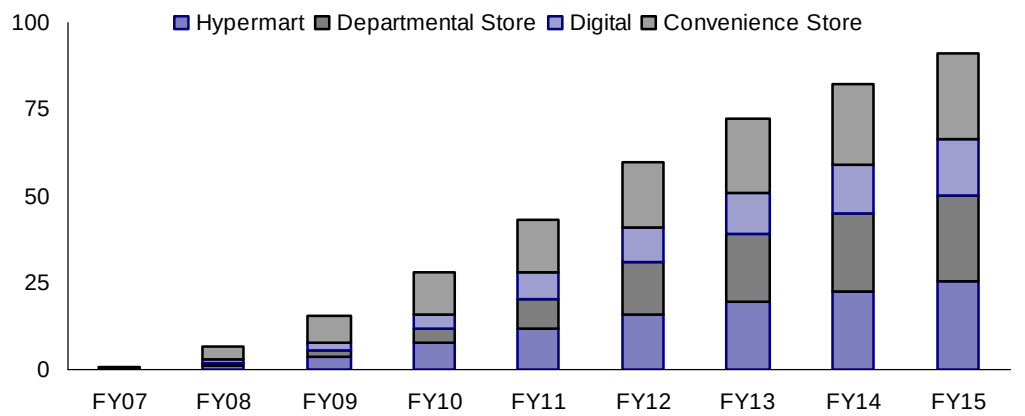
In retailing, companies operate on thin margins, and have to grapple with thousands of SKUs and large inventories. Failures in product selection and judgment of consumer psyche can result in inventory pile-up and cause significant losses. But RIL is successfully operating over 1,200 petroleum retail outlets. The company has *A1 Travel Plaza, R-Care, Refresh, Trans-Connect* and *Trans-Help* outlets at its petrol stations. The success of a concept like *A1-Plaza* indicates a deep understanding of the ground realties and consumer needs, which would enable the company launch innovative formats in its retail formats.

Strong backend and supply chain

Strong supply chain and backend is imperative for success in the retail sector. The sector faces several bottlenecks like:

- Presence of large number of small manufacturers who lack the technology support and facilities to scale up their operations
- Complicated tax laws which encourage local procurement, high inventories and costs (likely to end with the implementation of VAT and phase out of CST)
- Lack of quality storage and warehousing facilities; all the retailers are setting up their facilities, which are inflating costs
- Lack of infrastructure results in 40% wastage of farm produce – absence of cold chain, lack of proper roads and low speed of traffic also add to the potential bottlenecks in the retail sector

EXHIBIT 94: RRL – ESTIMATED AREA ADDITION



Source: MOSL

Valuation and view

We believe that RRL is best placed to exploit the growth opportunity in the organized retail. The company has commissioned just one format; we expect that the learning curve in this format will enable the company to scale up the other formats faster. We expect the company to launch its first hypermart in the current year while full range of formats will come into shape only in another couple of years.

We value RRL at Rs182/ share of RIL

Based on stated area of 100m sq ft (which we expect the company to achieve in 2015 in comparison to 2011), we value RRL at Rs182/share of RIL.

EXHIBIT 95: CALCULATION OF FAIR VALUE (RS M)

Total Present Value	267,872
Debt	-6,716
Total Firm Value	274,588
Value of Equity (as on date)	249,922
Value Per Share of RIL (Rs)	182

Source: Company/MOSL

FINANCIAL PERFORMANCE (RS M)

	FY07	FY08	FY09	FY10	FY11	FY12	FY13	FY14	FY15
Sales									
Hypermart	0	4,463	20,528	49,910	92,010	142,903	197,136	249,979	305,671
Departmental Store	0	1,500	6,750	19,456	46,453	92,235	151,508	204,031	247,929
Digital	0	6,000	30,840	69,938	125,886	204,171	278,650	354,270	439,139
Convenience Store	1,654	15,496	48,110	89,743	136,998	187,291	234,734	279,677	322,767
Total Sales	**1,654**	**27,459**	**106,228**	**229,046**	**401,346**	**626,600**	**862,027**	**1,087,957**	**1,315,506**
Gross Profit									
Hypermart	0	893	5,132	12,977	24,843	38,584	53,227	67,494	82,531
Departmental Store	0	375	2,363	6,810	16,723	33,666	56,058	75,491	91,734
Digital	0	840	4,626	11,190	20,142	32,667	44,584	56,683	70,262
Convinience Store	198	2,324	8,179	16,154	26,030	37,458	46,947	55,935	64,553
Total Gross Profit	**198**	**4,432**	**20,299**	**47,130**	**87,737**	**142,375**	**200,815**	**255,604**	**309,080**
Gross Margins (%)									
Hypermart	12.0	20.0	25.0	26.0	27.0	27.0	27.0	27.0	27.0
Drepartmental Store	12.0	25.0	35.0	35.0	36.0	36.5	37.0	37.0	37.0
Digital	12.0	14.0	15.0	16.0	16.0	16.0	16.0	16.0	16.0
Convinience Store	12.0	15.0	17.0	18.0	19.0	20.0	20.0	20.0	20.0
Consolidated GM		16.1	19.1	20.6	21.9	22.7	23.3	23.5	23.5

Source: MOSL

FINANCIAL PERFORMANCE (RS B)

	FY08	FY09	FY10	FY11	FY12	FY13	FY14	FY15
Total Area (mn sq Ft)	6.4	15.6	27.9	43.4	59.5	72.3	82.3	91
Revenues	26	102	220	386	604	831	1,049	1,268
Gross Profit	4.6	21.1	49.3	92.5	151.3	213.1	271.1	327.8
EBIDTA	-2.1	-2.3	5.4	19.2	42.5	63.5	82.3	99.5
EBIDTA Margin (%)	*-7.9*	*-2.3*	*2.4*	*5*	*7*	*7.6*	*7.8*	*7.8*
PAT	-2.7	-6.4	-2.2	7.5	21	35.1	46.5	60.5

Source: MOSL

Valuation and view

RIL has a history of successful execution of multiple projects and we expect the trend to continue. We believe significant upsides exist in all its existing businesses. We believe its superior project execution skills and strong balance sheet would enable RIL to not only successfully execute the multiple projects at hand but to also deliver a number of positive surprises. We have upgraded our earnings estimates, factoring in our positive outlook on refining margins, progress on RPL's refinery, more clarity on KG-D6 development, and positive news flow indicating large potential from many other exploration blocks. We are upgrading our recommendation with Buy with a SOTP price target of Rs2,206/share. This fair price estimate indicates a 26% upside from the current market price.

Superior project execution – the key differentiator

RIL is implementing multiple multi-billion dollar projects currently

The growth in RIL's earnings would be closely dependent to the successful implementation of several large multi-billion dollar projects that are currently under execution or in initial the phases of development. Some of these large projects are:

- Oil & gas development work involving a capex of ~US$6b to bring KG-D6 oil & gas production online in FY09
- East-West pipeline involving a capex of ~US$3.5b to bring KG-D6 gas to the markets; development of other gas pipeline networks also announced
- RPL's US$6b refinery and petrochemicals project at Jamnagar SEZ
- US$3b grassroots cracker at Jamnagar, with 2mmtpa capacity
- Nationwide rollout of the US$5.6b Reliance Retail network
- Several large scale SEZ development projects

There are considerable risks/challenges…

Though this poses considerable risks/ challenges…

Every one of the above projects is fairly complex and intensive in terms of capex, management time, manpower needs, regulatory approval/clearances, and technology. Globally, oil & gas, refining and petrochemicals projects are exposed to very high risks. Among the challenges faced by them are high material & equipment cost, limited availability of skilled manpower, and full order books of key project contractors. As a result, several projects are faced with delays, cancellations, and large escalations in planned capital expenditure. With RIL putting up several large projects simultaneously, the challenges faced by it are much greater.

…but RIL has an impressive track record

…we are confident about RIL's project implementation abilities

RIL has an impressive track record of efficient and timely execution of several large projects. The current management has executed projects such as RIL's petrochemical complexes at Patalganga and Hazira, the existing refinery and petrochemical complex at Jamnagar, and the nationwide telecommunication network of the now de-merged Reliance

Infocomm. The difference this time is, however, that the company is working on several large projects simultaneously. As it is much larger now and has built up second and third tiers of leadership, we believe that RIL would be able to successfully execute all the projects at hand.

Besides, the company has a strong balance sheet to sustain the gestation period

Strong balance sheet coupled with financial innovativeness

The capex requirements for RIL's aggressive business growth plans are very large. Despite the large ongoing capital expenditure, the company continues to maintain a conservative financial profile. This is driven by large cash profits from its existing core businesses, raising debt at very attractive terms, and financial innovativeness.

CAPEX SUMMARY (RS M)

	FY05	FY06	FY07E*	FY08E	FY09E	FY10E
E&P	13,070	21,980	57,250	82,136	106,885	46,758
Refining	21,790	34,790	14,300	15,000	10,000	10,000
Petrochem	12,750	29,210	5,670	22,600	35,200	63,000
Common	3,310	8,780	13,630	15,000	15,000	15,000
Total	**50,920**	**94,760**	**90,850**	**134,736**	**167,085**	**134,758**
Cash Profits	120,872	131,743	177,435	193,463	216,711	359,106
Capex/Cash Profit (%)	*42*	*72*	*51*	*70*	*77*	*38*

** includes IPCL FY07 onwards* *Source: MOSL*

✍ Low debt-equity ratio provides flexibility to raise debt when needed

	FY05	FY06	FY07
Gross Debt : Equity	0.47	0.45	0.47
Net Debt : Equity	0.26	0.36	0.44

Source: Company/MOSL

✍ Treasury stocks provide further flexibility to raise funds

RIL's management controls a large portion of treasury stocks, which were added at the time of merger of erstwhile RPL with RIL. Treasury stocks increased further post the recent merger of IPCL. At current market prices, the value of these stocks is about US$8.3b.

	TREASURY STOCK	CURRENT VALUE*	
	MILLION SHARES	RSB	US$B
Pre IPCL Merger	170	299	7.2
IPCL Merger	28	49	1.2
Total	**199**	**348**	**8.4**

** at CMP of Rs 1,753 and Rs/US$ of 41.4*

Innovative financing – RIL a trendsetter

Since its inception, RIL has been a pioneer in raising capital, both through equity and debt. The company's IPO had virtually started the mass equity cult in India. It is the first company from India to have issued GDRs, to have raised ECBs, and to have been rated by international agencies. In 1997, it became the first Asian issuer of 100-year bonds.

In FY07, RIL raised funds through a 10-year Euro Yen issue, making it the first Asian company to have done so. In September 2006, it became the first Indian company to achieve a US$300m US private debt placement.

In the case of RPL's new refinery, RIL was able to bring in majority of equity funding at the beginning of the construction phase. This was done through pre-IPO placement of 10% equity, bringing in Chevron for 5% and an IPO for 10% of the equity. By diluting its 25% stake in RPL, RIL could raise US$2.5b in equity. The bulk of debt funding has also been subscribed in October 2006, with a syndicated loan facility of US$2b.

We believe RIL could utilize similar funding through IPOs for some of its large capex projects like Reliance Retail and its SEZs.

Promoters' warrant subscription and IPCL merger to dilute equity

RIL recently issued 120m warrants to promoters at a price of Rs1,402/share. The promoters have already paid 10% of the price and would be paying the balance in 18 months. The warrant issue and IPCL merger would dilute RIL's equity by 4.3% in FY08 and 8.3% in FY09.

EXHIBIT 96: RIL'S EQUITY WILL SIGNIFICANTLY INCREASE POST IPCL MERGER AND WARRANT CONVERSION

SHAREHOLDING PATTERN	PRE-IPCL	% OF TOTAL	POST-IPCL	% OF TOTAL	POST-WARRANTS	% OF TOTAL	POST-ESOP	% OF TOTAL
Promoters	540.0	39	540.0	37.1	660.0	41.9	660.0	41
Treasury Stock	170.4	12	198.9	13.7	198.9	12.6	198.9	12
Domestic Institutions	114.8	8.2	125.6	8.6	125.6	8.0	125.6	8
Foreign Institutions	271.6	19.5	277.7	19.1	277.7	17.6	277.7	17
GDRs	49.9	3.6	50.0	3.4	50.0	3.2	50.0	3
Public, Others	246.8	17.7	261.5	18.0	261.5	16.6	290.3	18
Total Shares	**1,393.5**	**100.0**	**1,453.6**	**100.0**	**1,573.6**	**100.0**	**1,602.4**	**100**

Source: Company/MOSL

RIL has recently granted ESOPs to its employees, which on vesting and exercise could lead to an issue of 28.7m shares, diluting equity by about 2%.

Revising earnings estimates

We have revised our earnings estimates, factoring in the following:

IPCL's merger with RIL: Though the merger is still not consummated, the appointed date is 1 April 2006. We have assumed merger of IPCL from FY07.

More positive outlook on oil price and refining margin: We have significantly increased our forecast for Brent price to US$55/bbl. Also, we now believe that refining upcycle is here to stay. Accordingly, we have increased our forecast GRMs.

KG-D6 production: RIL's production of oil and gas is slated to begin in FY09. We expect oil production to begin earlier than gas. Our FY09 estimates include oil production estimates. However, we have built up gas revenues only from FY10, as we believe that to take the maximum advantage of tax benefits, RIL would declare commercial production only from FY10. If commercial production of gas begins in FY09 itself, we would need to revise our FY09 estimates.

Commissioning of RPL: RPL is likely to be commissioned in December 2008. We assume that commercial production would commence only from 1 April 2009. Therefore, we have consolidated for RIL's 75% stake in RPL from FY10.

Warrant issue to promoters: We have accounted for conversion of warrants to 120m shares in FY09. This has increased equity capital by 8.5% to Rs15.8b in our FY09 estimates.

Upgrading stock recommendation from Neutral to Buy

We upgrade our stock recommendation to Buy, with a target price of Rs2,206

We have revised our earnings estimates for FY09 and FY10 upwards, following our positive outlook on refining margins, progress on RPL's refinery, more clarity on KG-D6 development, and positive news flow indicating large potential from many other blocks. Our revised EPS estimates (calculation excludes treasury shares of 198.9m) are Rs92.3 for FY08, Rs101.2 for FY09 and Rs193.8 for FY10. Our FY10E EPS after consolidating for RPL is Rs229.3.

The stock currently trades at 17.3x FY09E and 9x FY10E earnings, and at an EV/EBITDA of 12.2x FY09E and 6.9x FY10E. Our SOTP valuation of Rs2,206/share implies an upside of 26% from the current market price. We revise our stock recommendation from Neutral to **Buy**.

SOTP VALUATION OF RIL

BUSINESS	US$ B	RS B	RS/SHARE	COMMENTS
Core Business	**32**	**1,331**	**968**	
Petrochem and refining	27	1,141	830	Core business EV @6x FY09E EBITDA
Others	5	191	139	EV @6.0x FY09E EBITDA (includes PMT)
New E&P Initiatives	**25**	**1,071**	**779**	
KG - D6 Gas (KG Basin)	17	718	522	DCF based; Assumed plateau of 120 MMSCMD; 26 TCF total recovery; Avg well-head price of US$4.35-US$5/MMBTU
KG - D6 MA1 Oil (KG Basin)	4	159	116	DCF based; Assumed recovery of 196 mmbbls over 10 years; 5% premium to Brent ($55/bbl)
NEC - 25 (Mahanadi basin)	2	81	59	DCF based; 90% stake; reserves of 3.7 TCF, production to commence in 2012
Sohagpur East & West (CBM blocks)	1	44	32	DCF based; 100% stake; OGIP of 3.65 TCF, assumed 50% recovery, production to commence in FY11
KG - III - 6 oil (KG Basin)	1	34	24	Reserve size yet to be assessed. Value based on market news on reserves at 1b bbls, @US$2/bbl
Block - 9 (Yemen)	1	35	25	Currently producing. 2P reserves of 332 mmbbls valued, assumed 50% recovery valued at @US$20/bbl; RILstake 25%
Investments	**8**	**352**	**256**	
RPL	8	332	241	At 20% discount to our target price of Rs123 for FY09
Investments in RGTIL	0.5	20	15	Investments of Rs20b as on Mar 31, 2006
Reliance Retail	**6**	**250**	**182**	100% subsidiary of RIL
Net Debt	**-1**	**-29**	**-21**	
Cash & Short term Investments	8	339	246	FY09E
Total Debt	7	309	225	FY09E
Total Base Value	**71**	**2,975**	**2,206**	Based on fully diluted equity cap of 1,375m (excl 198m treasury shares)
Potential upside	**11**	**481**	**350**	
E&P				
KG-D6 Gas - additional prospects	7	314	228	DCF based, indicated 50TCF potential in NFDP.Potential upside recovery of 11TCF assuming 75% recovery.
KG-D6 oil - additional prospects	2	100	73	DCF based, identified prospect of 1.6b bbls, Base case has only 12.2% recovery. Assumed additional 7.8% recovery (124mmbbls)
Sonhat, Barmer 1and 2 (CBM Blocks)	1	56	41	Based on 8TCF reserve size - data from DGH projections on potential resources & RIL OGIP of 1.5TCF for Sonhat (@US$1/BOE or US$0.17/MCF)
NEC - 25 (Mahanadi basin)	0.3	11	8	Upside potential of 1.5TCF (2P) (@US$1/BOE or US$ 0.17/MCF)
MN-DWN-2003/1 (D4 Block)	-	-	-	As per Niko (15%) partner, this block has very similar geological system as KG-D6 and could be potentially larger than KG-D6 or NEC-25; We currently do not ascribe any value now as exploratory drilling yet to commence
CY-DWN-2001/2 (Cauvery Basin)	-	-	-	Most recent discovery in Cauvery deep water; Potentially a large find based on large gas and oil flow rate from test well; Further exploratory drilling continuing; We do not ascribe any value as reserve/resource estimate yet to be announced
KG-OSN-2001/1 (KG Basin)	-	-	-	Gas discovery in Sep 2006; Commerciality under evaluation; we do not ascribe any value
GS-OSN-2000/1 (Gujarat Saurashtra)	-	-	-	Gas discovery in May 2007; RIL's first discovery in large potential carbonate reservoirs; Commerciality under review
Others				
SEZ	-	-	-	We await more clarity on RIL's SEZ plans
Total incl upside potential (excl Retail & SEZ)	**82**	**3,456**	**2,555**	Based on Fully diluted equity cap of 1,375m (excl 198m treasury shares)

There are considerable upsides to our target price

There remains significant upside potential

While our SOTP valuation indicates an upside of 26% from the current market price, there are significant possible upsides that we have not factored in our estimates. We believe that the company's E&P business and new initiatives – Retailing and SEZs – could throw up significant positive surprises.

E&P – value likely to be much higher than estimated

We believe that there remain large potential upsides in reserve estimates as well as recovery and plateau rates for KG-D6. Also, RIL has several other blocks where it already has large finds. These could turn out to be much bigger once more exploration is carried out going forward.

RIL has had many new discoveries in recent quarters in the Cauvery basin, the Saurashtra basin, the NEC block in the Mahanadi basin, as well as in KG-D6. The reserve estimates for these new finds are yet to be announced and exploration is continuing. Niko has been indicating that the D4 block (RIL stake of 85%) could be a very large potential block. RIL's large acreage in other domestic blocks and increasing international acreage has the potential to provide further upsides. We have not ascribed any value to the D4, Cauvery and Saurashtra blocks.

RPL – could be commissioned earlier than the scheduled December 2008

The company has indicated a tentative commissioning date of December 2008 for its new refinery being set up at Jamnagar. However, recent media reports indicate that the refinery could be commissioned several months earlier than scheduled. Given that Reliance has already a very aggressive target of project completion of 3 years, a several months earlier start-up looks unlikely in our view.

However, given RIL's track record of project implementation and substantial progress already achieved on the project, we would not be surprised if the refinery comes online several weeks or a couple of months before schedule. In our estimates, we have assumed commencement of commercial production from 1 April 2009. A significantly earlier start and commercial production commencement from FY09 itself, would lead to an upside to our numbers for FY09.

Retailing – scale up of network could be much faster than estimated

If Reliance Retail's stores were scaled up faster than we have assumed, it would mean an increase in the value of the business. Over 200 outlets have already started operation and RIL might decide to unlock value through an IPO of its retail business. This could provide further upsides.

SEZ initiatives – greater clarity and information likely to emerge

RIL has large plans to develop several special economic zones (SEZs). Though the initial work on these SEZs has commenced, there is not much public information available, currently. Therefore, we have not ascribed any value to the SEZ initiatives.

Risks to our SOTP valuation

E&P business

- In the short-run, concerns remain on possible delays and downward revision in the pricing formula for KG-D6 gas. We have assumed wellhead price of about US$4.35/ mmbtu for the first few years. However, any downward revision in pricing by GoI would be negative.
- There are execution risks; RIL is implementing deep-water gas development projects for the first time. However, given RIL's track record of large project execution, we believe that the gas production would commence without any major hiccups.
- There have been delays in arrival of few deep-water rigs; this could potentially delay gas production from the earlier target of June-July 2008. In our estimates, we have factored in commencement of gas production from December 2008 and commercial production from April 2009. Any delays beyond these dates pose a risk to our valuation estimates.
- Similarly, though oil production is scheduled to begin in March 2008, we have factored a delayed commencement from July 2008. Any delays beyond July 2008, would impact our valuation adversely.
- We have assumed higher peak production rates of 120mmscmd to be achieved by FY14, against RIL's peak plateau rates as per revised FDP of 80mmscmd. Lower gas production rate than our estimate would negatively impact our valuation.
- Similarly, for oil, we have assumed higher plateau rate of 60kbd v/s the announced initial plateau production rate of 30-35kbd. If actual production is lower than our estimate, it would adversely impact our valuation.

Refining business

- We have an optimistic view of sustained refining up-cycle for the next several years. However, global economic recession leading to demand slowdown remains a key concern. Also, if announced capacity additions in refining come up as scheduled v/s our assumption of continued delays, demand-supply gap would narrow.
- We have also assumed that high oil prices are here to stay and that the differential between light/heavy and easy/difficult crudes would remain high. However, these differentials could potentially decline if oil prices go down below US$50/bbl or if large new capacities capable of processing difficult crudes come online. Reduced differential could be negative for both RIL and RPL's refining margins.
- RPL's refinery is presently under execution, with scheduled completion in December 2008. As in all large projects, there are execution risks. However, the new refinery is

a repeat refinery project for RIL. Given its project execution track record and significant progress already achieved, we believe the execution risks for RPL are low.

Petrochemicals business

- Petrochemical margins have declined in recent quarters from recent highs seen in 2Q. We believe that the polyester cycle, which was already seeing the downturn, is showing signs of recovery in view of improved cotton fundamentals. On the polymers side, we believe that a downturn is inevitable in view of large capacity additions in China and the Middle East. We have assumed that the downturn in polymers has been pushed back by one year to 2008 due to delays in new capacities. If margin declines are higher than our estimates, our valuation will be negatively impacted.

Retail business

- Retailing is an unrelated business for RIL. The company has some experience in developing a retail business – it set up the petroleum retail business and also retail outlets for the now de-merged Reliance Communication. However, the plans for Reliance Retail are on a much larger scale and there are execution risks.
- We have factored in an area of 28m sq ft by FY10 for its retail venture and expect Reliance Retail to achieve EBITDA breakeven by FY10 and PAT breakeven by FY12. A slowdown in retail store ramp-up or delay in achieving breakeven could adversely affect the value of RIL's retail business.

INCOME STATEMENT (RS MILLION)

Y/E MARCH	2006	2007E	2008E	2009E	2010E	2010E*
Net Sales	**812,113**	**1,161,816**	**1,169,405**	**1,147,015**	**1,279,718**	**1,833,426**
Finished Gds Purchase	25,161	35,350	37,118	37,860	38,617	38,617
Raw Materials Cons	558,262	784,326	760,632	722,189	675,576	1,114,150
Sales and distribution exp	47,338	50,478	52,332	55,351	57,865	57,865
Employee Costs	9,785	17,130	18,843	19,785	20,774	20,774
Other Expenditure	49,889	67,507	75,193	80,066	103,502	124,193
Change in Stocks	-21,312	-	-	-	-	-
EBITDA	**142,991**	**207,026**	**225,287**	**231,764**	**383,384**	**477,827**
Depreciation	34,009	45,650	50,038	52,784	65,527	79,837
Interest	8,770	12,000	13,525	14,086	13,879	21,401
Other Income	6,829	5,210	6,516	21,387	29,635	31,406
PBT	**107,041**	**154,586**	**168,241**	**186,280**	**333,612**	**407,995**
Tax	16,347	31,304	34,069	27,044	28,715	28,715
Rate (%)	*15.3*	*20.3*	*20.3*	*14.5*	*8.6*	*7.0*
PAT	**90,693**	**123,282**	**134,172**	**159,236**	**304,897**	**379,280**
Minority Interest						18,596
Adjusted PAT	**90,693**	**123,282**	**134,172**	**159,236**	**304,897**	**360,684**
Change (%)	*19.8*	*35.9*	*8.8*	*18.7*	*91.5*	*126.5*

*E: MOSL Estimates; * Consolidation for RPL*

BALANCE SHEET (RS MILLION)

Y/E MARCH	2006	2007E	2008E	2009E	2010E	2010E*
Share Capital	13,932	14,533	14,533	15,733	15,733	15,733
Reserves	484,110	664,347	779,386	1,063,327	1,336,335	1,493,534
Net Worth	**498,042**	**678,880**	**793,919**	**1,079,060**	**1,352,068**	**1,509,267**
Total Loans	218,656	237,354	316,727	309,304	307,554	442,554
Deferred Tax	49,708	73,816	83,070	87,760	76,442	76,442
Minority Interest						52,400
Capital Employed	**766,406**	**990,051**	**1,193,716**	**1,476,124**	**1,736,064**	**2,080,662**
Gross Fixed Assets	849,701	1,082,701	1,194,837	1,326,722	1,403,480	1,681,580
Less: Depreciation	292,534	391,589	441,626	494,410	559,938	577,825
Net Fixed Assets	**557,168**	**691,112**	**753,211**	**832,312**	**843,542**	**1,103,755**
Capital WIP	69,578	74,244	96,844	132,044	190,044	190,044
Investments	58,461	108,548	108,548	118,548	138,548	201,750
Curr. Assets, L & Adv.						
Inventory	101,199	127,296	124,470	119,584	114,728	167,823
Debtors	41,636	58,577	58,761	57,572	63,959	101,885
Cash & Bank Balance	21,461	38,556	101,532	234,626	404,758	408,258
Loans & Adv. and Other CA	81,449	122,110	182,110	212,110	232,110	232,110
Current Liab. & Prov.						
Liabilities	125,635	173,728	170,759	165,009	161,123	221,804
Provisions	38,910	56,662	61,001	65,661	90,501	103,157
Net Current Assets	**81,200**	**116,148**	**235,114**	**393,221**	**563,930**	**585,114**
Application of Funds	**766,406**	**990,051**	**1,193,716**	**1,476,124**	**1,736,064**	**2,080,662**

*E: MOSL Estimates; FY07E post IPCL demerger; ; * Consolidation for RPL*

RATIOS

Y/E MARCH	2006	2007E	2008E	2009E	2010E	2010E*
Basic (Rs)						
EPS	**65.1**	**84.8**	**92.3**	**101.2**	**193.8**	**229.3**
Cash EPS	89.5	116.2	126.8	134.8	235.4	280.0
Book Value	357.4	467.1	546.3	685.9	859.4	959.3
DPS	10.0	11.0	12.0	16.0	20.0	20.0
Payout (incl. Div. Tax)	17.5	14.2	14.3	16.0	10.5	10.5
Valuation (x)						
P/E	19.5	20.7	19.0	17.3	9.0	7.6
Cash P/E	14.2	15.1	13.8	13.0	7.4	6.3
EV / EBITDA	13.8	13.3	12.3	12.2	6.9	5.8
EV / Sales	2.4	2.4	2.4	2.5	2.1	1.6
Price / Book Value	3.6	3.8	3.2	2.6	2.0	2.0
Dividend Yield (%)	0.8	0.6	0.7	0.9	1.1	1.1
Profitability Ratios (%)						
RoE	21.9	22.7	19.4	17.9	26.1	27.9
RoCE	17.5	20.0	17.4	15.6	22.3	24.8
Turnover Ratios						
Debtors (No. of Days)	18	16	18	19	17	15.9
Fixed Asset Turnover (x)	1.2	1.2	1.0	0.9	0.9	1.2
Leverage Ratio						
Net Debt / Equity (x)	0.4	0.3	0.3	0.1	-0.1	0.0

*E: MOSL Estimates; * Consolidation for RPL*

CASH FLOW STATEMENT (RS MILLION)

Y/E MARCH	2006	2007E	2008E	2009E	2010E	2010E*
OP/(Loss) before Tax	107,041	154,586	168,241	186,280	333,612	406,224
Depreciation	48,537	45,650	50,038	52,784	65,527	79,837
Interest /Other Income	4,033	0	0	0	0	0
Direct Taxes Paid	-9,415	-22,801	-24,815	-22,354	-40,033	-40,033
(Inc)/Dec in Wkg. Capital	-32,188	22,808	4,010	4,986	19,423	5,591
Other op activities	-14,993	0	0	0	0	0
CF from Op. Activity	**103,016**	**200,243**	**197,473**	**221,697**	**378,529**	**451,618**
(Inc)/Dec in FA & CWIP	-94,104	-90,850	-134,736	-167,085	-134,758	-142,858
(Pur)/Sale of Investments	-31,205	-98,288	-60,000	-40,000	-40,000	-92,604
Other Inv. Activities	4,000	0	0	0	0	1,771
CF from Inv. Activity	**-121,309**	**-189,138**	**-194,736**	**-207,085**	**-174,758**	**-233,691**
Change in Equity	5	16,824	0	151,416	0	0
Inc / (Dec) in Debt	15,514	6,684	79,373	-7,423	-1,750	-1,750
Dividends Paid	-11,853	-17,518	-19,133	-25,511	-31,889	-44,545
CF from Fin. Activity	**3,667**	**5,990**	**60,240**	**118,482**	**-33,639**	**-46,295**
Inc / (Dec) in Cash	**-14,626**	**17,095**	**62,976**	**133,094**	**170,132**	**171,632**
Add: Opening Balance	36,088	21,461	38,556	101,532	234,626	236,626
Closing Balance	**21,461**	**38,556**	**101,532**	**234,626**	**404,758**	**408,258**

*E: MOSL Estimates; * Consolidation for RPL*

Reliance Petroleum

STOCK INFO.	BLOOMBERG
BSE Sensex: 14,142	RPET IN
S&P CNX: 4,108	REUTERS CODE RPET.BO

17 August 2007

Neutral

Rs109

Y/E MARCH	2009E	2010E	2011E
Net Sales (Rs m)	139,583	553,708	558,972
EBITDA (Rs m)	21,872	94,443	99,414
NP (Rs m)	16,669	74,383	83,619
EPS (Rs)	3.7	16.5	18.6
EPS Growth (%)		346.2	12.4
BV/Share (Rs)	32.9	46.6	62.3
P/E (x)	29.5	6.6	5.9
P/BV (x)	3.3	2.3	1.8
EV/EBITDA (x)	28.1	5.9	4.9
EV/Sales (x)	4.5	1.0	0.9
RoE (%)	22.5	41.6	34.1
RoCE (%)	13.1	26.1	23.7

KEY FINANCIALS	
Shares Outstanding (m)	4,500.0
Market Cap. (Rs b)	491.4
Market Cap. (US$ b)	11.9
Past 3 yrs Operating Income Growth (%)	n.a.
Past 3 yrs NP Growth (%)	n.a.
Dividend Payout (%)	n.a.
Dividend Yield (%)	n.a.

STOCK DATA	
52-W High/Low Range (Rs)	130/56
Major Shareholders (as of June 2007)	(%)
Promoters (Reliance)	75.0
Promoters (Chevron)	5.0
Domestic Institutions	6.8
Foreign	3.3
Public	9.9
Average Daily Turnover	
Volume ('000 shares)	7,342.6
Value (Rs million)	661.6
1/6/12 Month Rel. Performance (%)	3/63/52
1/6/12 Month Abs. Performance (%)	-5/61/75

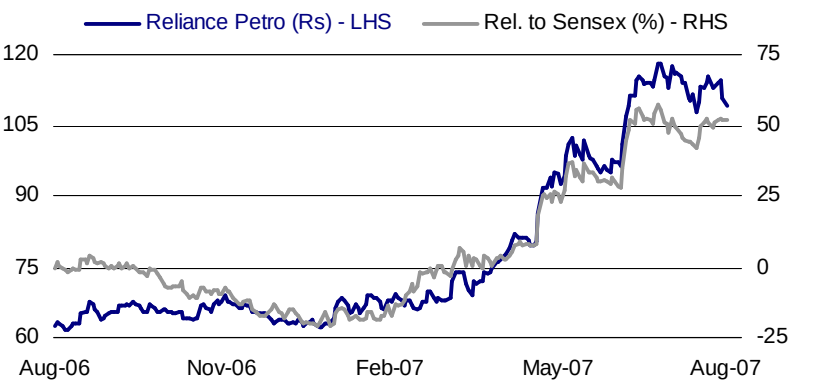
Refinery for the world based in India: Reliance Petroleum (RPL), RIL's 75% subsidiary, is setting up the world's sixth largest refinery (580kbpd) at Jamnagar SEZ with a capital cost of US$6b. This refinery will have a complexity of 14, which is even higher than 11.3 of RIL's existing refinery. We expect higher complexity to help RPL to get GRM premium of US$2-3/bbl over RIL's existing refinery, and premiums of US$7/bbl over long term Singapore benchmark.

Commissioning at an opportune time: Project progress is on schedule and 65% of the cumulative project has already been achieved. Given the group's track record of project execution, and the fact that the RPL refinery is a virtual repeat of the earlier RIL refinery, we would not be surprised if the refinery starts few months before the scheduled December 2008. RPL's refinery will be commissioned in the midst of the current refining upcyle.

SEZ location provides significant fiscal benefits: RPL's SEZ fiscal benefits include zero duty on import of capital equipment and income tax holiday for the first five years with overall income tax benefits for 15 years.

Target price of Rs123; Neutral: Our DCF based value for RPL works out to be Rs123/share. The stock is currently trading at 6.6x FY10E earnings. Our target price of Rs123 implies an upside of 12.5%. We are **Neutral**.

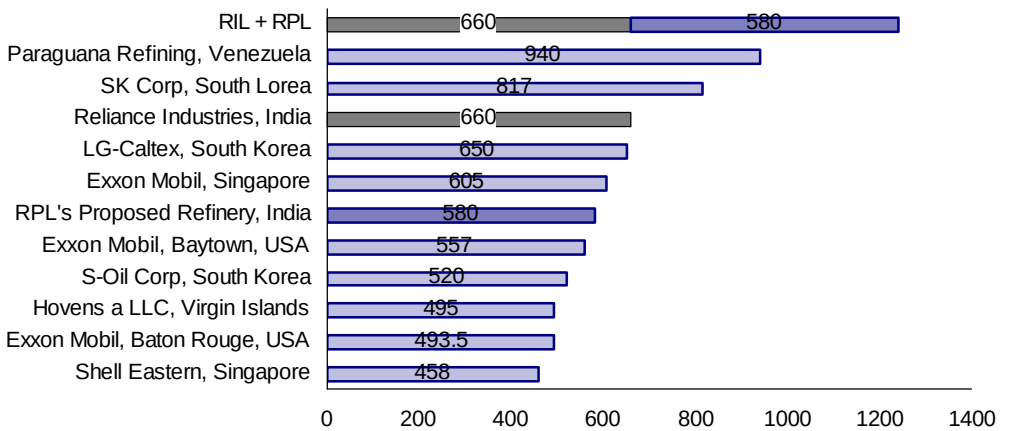
STOCK PERFORMANCE (1 YEAR)



RPL: refinery for the world, based in India

Reliance Petroleum (RPL), RIL's 75% subsidiary, is setting up an export oriented 580kbpd greenfield refinery at SEZ in Jamnagar, Gujarat. The refinery would also have a 0.9mmtpa propylene plant and total project cost is estimated at US$6b. Post RPL refinery commissioning, the group's Jamnagar complex would become one of the largest refining hubs in the world at a single location, with a combined capacity of 1.24mmbpd (RIL's existing refinery is of 660kbpd capacity).

EXHIBIT 97: RIL + RPL – LARGEST REFINING CAPACITY AT A SINGLE LOCATION



Source: Company/MOSL

Proximity to existing refinery to provide significant synergies

RPL's new refinery is being built adjacent to RIL's existing refinery, which will provide significant synergies. Jamnagar's proximity to the Middle East will result in lower ship turnaround times as well as reduced freight costs in crude sourcing. It would also benefit from the existing infrastructure at Jamnagar such as power, rail/road connectivity, port facilities, tank storage for crude oil and finished products.

The SEZ advantage – significant fiscal benefits

The refinery is located in a special economic zone (SEZ). An SEZ is a specifically delineated duty-free enclave, deemed to be a foreign territory for the purposes of trade operations as well as duties and tariffs. An SEZ location will provide significant fiscal benefits to RPL, some of which are:

- Exemption from customs duty for goods and services imported or exported;
- No excise duty on goods brought from within India's domestic tariff area;

- Income tax exemption on export profits
  - 100% export profits deduction allowed for first five years
  - 50% of export profit deduction allowed for the next five years
  - Further, up to 50% export profits deduction allowed for another five years, subject to reinvestment conditions
  - Minimum alternate tax (MAT) not applicable
- Exemption from service tax on taxable services provided to RPL
- In addition, the state of Gujarat provides certain other benefits under the Gujarat SEZ Act. These include:
  - Exemption from payment of stamp duty and registration fee on transfer of land
  - Exemption from sales tax, purchase tax, motor spirit tax, and other taxes payable on sale transactions

Large size, highly complex configuration to enable higher margins

The new refinery, with a capacity of 580kbd, will be sixth largest in the world. Apart from size, the configuration is designed to be highly complex. The complex configuration will enable the refinery to process heavy and sour crudes and to maximize the production of value-added products like propylene, alkylates, jet fuel and diesel. Such large-scale operations will provide economies of scale leading to lower capital cost in the beginning and lower operating costs going forward.

EXHIBIT 98: HIGHLY COMPLEX REFINERY PROCESS CONFIGURATION

PROCESSING UNIT	CAPACITY (KBPSD)
Crude distillation units	580
Vacuum distillation units	305
Catalytic feed hydrotreaters	220
Fluidised catalytic cracker	200
Delayed coker	160
Hydro-cracker	110
CCR platformer	85
Alkylation	85
Catalytic product hydrotreaters	360
Polypropylene (KTPA)	900

Source: Company/MOSL

The above configuration will enable RPL to refine a variety of feedstock with API gravity raging from 15 to 50, including lower cost heavier/sourer and/or acidic crudes. The average designed API for RPL at 24 is lower than 27 for the existing refinery. Lower API handling capability of the new refinery will result in lower crude procurement costs, leading to margin enhancement.

The proposed configuration will also enable RPL to maximize production of gasoline, alkylates as well as premium products such as 10ppm sulphur gasoline and diesel and minimum production of lower value fuel oils. These products would be able to meet the stringent international environmental requirements, including ultra-low sulphur diesel and ether (MTBE or TAME) free gasoline for the US and Europe markets. The indicative product slate for RPL is shown below:

EXHIBIT 99: PRODUCT SLATE WITH MAXIMUM TRANSPORT FUEL SHARE

PRODUCT	PRODUCTION RANGE (IN MMTPA)	PRODUCT (%)
Gases		
Polypropylene	0.5 - 0.90	1.9 - 2.8
Light		
Gasoline	8.0 - 10.0	30.8
Alkylates	2.0 - 3.0	7.7 - 9.2
Middle		
Diesel	12.0 - 13.0	46.2 - 40.0
Jet / Kerosene	1.0-2.0	3.8 - 6.2
Heavy		
Petcoke	2.0 - 3.0	7.7 - 9.2
Sulphur	0.5 - 0.6	1.9 - 1.8

High share of transport fuel share of 86.2-88.5%

Source: Company

Same location and repeat design leading to significantly lower cost

The strategic location near existing refinery, SEZ advantages, and benefit of RIL's prior experience in constructing and operating a similar size refinery are enabling RPL to set up new refinery at much lower costs compared to global benchmarks.

The capital cost of the refinery at less than US$10,000/bbl compares very well with current estimates of newly announced refineries in recent years. The IEA estimates the average capital cost of new refinery in the OECD nations to be in the region of US$15,000-20,000 per barrel per day.

The capital cost of RPL's new refinery is also comparable to the earlier RIL refinery, which was built 7-8 years ago. This is despite the fact that materials, engineering, construction as well as people costs have significantly escalated in recent years.

EXHIBIT 100: CAPITAL COST COMPARABLE TO EARLIER RIL REFINERY

	COST (IN $M)	CAPACITY BPD	NELSON COMPLEXITY	YEAR	US$/BPD	US$/ COMPLEXITY BBL
RIL (Original Capacity)	3,400	540,000	9.9	2000	6,296	636
RPL Proposed Refinery**	5,450	580,000	14	2008	9,397	671

*** Project Cost excludes Cost of Polypropylene capacity* *Source: Company*

The key reason for much lower cost for RPL is virtual repeat nature of new refinery, leading to gains from RIL's prior experience in existing refinery. Repeat efforts in engineering, procurement, construction as well as utilizing the same set of licensors/

contractors such as Bechtel, UOP, Foster Wheeler etc. would have resulted in substantial savings. In addition, the aggressive implementation of the project in three years against the global average of 5-6 years, would also lead to lower costs in our view.

Bulk of project funding tied up

Bulk of the funding for the planned capex of US$6b has been tied up. Equity financing was completed through an IPO, last year. RPL has also raised US$2b through a syndicated loan facility.

EXHIBIT 101: DETAILS OF RPL'S PROJECT FUNDING

	SHARES	PRICE	TOTAL AMOUNT	
	MILLION	RS / SHARE	RS B	US$B
RIL Pre-IPO	2,700	10	27	0.6
RIL IPO	675	60	41	0.9
Chevron	225	60	14	0.3
Pre IPO Placement	450	60	27	0.6
IPO	450	60	27	0.6
Total Equity	**4,500**		**135**	**3.1**
Syndicated Loan facility				2.0
Total Funding				**5.1**

Source: Company/MOSL

Targeting exports; significant synergies from partnership with Chevron

Being an export refinery, RPL intends to sell bulk of its products overseas. Its focus would be to place products in higher netback margin markets of US and Europe, especially for transport fuels.

The strategic partnership with Chevron (5% current stake with option to increase to 29%) will enable RPL to derive significant advantages. Chevron, with its operations in 180 countries, refining capacity of 2.2mmbpd and daily production of 2.5mmboe can add significant value to RPL in terms of refining technology expertise and better understanding of global crude and product markets.

For placing product in the US markets and elsewhere, RPL can potentially gain large foothold by partnering with Chevron. Chevron's petroleum products sales are much higher compared to its refining production as shown in the table below.

Chevron has a large transport products shortfall in US and World markets

EXHIBIT 102: CHEVRON - SALES V/S OWN PRODUCTION OF PETROLEUM PRODUCTS

(KBPD)	US MARKETS (2006)			WORLD MARKETS (2006)		
PRODUCT	OWN PRODUCTION	SALES	SHORTAGE	OWN PRODUCTION	SALES	SHORTAGE
Gasoline	416	712	-296	569	1,307	-738
Jet Fuel	200	280	-80	236	546	-310
Gas Oil & Kerosene	170	252	-82	265	1,028	-763
Fuel Oil	51	128	-77	90	452	-362
Other	132	122	10	149	288	-139
Total	**969**	**1,494**	**-525**	**1,309**	**3,621**	**-2,312**

Source: Chevron Annual Report 2006/MOSL

In addition to its own production of 1,309kbd, Chevron also has refining capacity of 834kbd through its international affiliates. Even including production from this capacity, Chevron product requirements remain large.

Refinery could be online before the scheduled December 2008

The management has indicated recently that RPL continues to make rapid progress. In just 19 months since December 2005, RPL has achieved overall progress of over 65%. Over 90% of engineering work is complete and engineering is in closeout mode for most units. Civil construction and all procuring and contracting activities are nearing completion. The deliveries of critical, long lead equipments and over dimensional consignments (ODCs) have commenced and their installation is already in progress.

65% overall completed in just 19 months

EXHIBIT 103: PROJECT PROGRESS ON TRACK FOR DECEMBER 2008 START

MILESTONE	EXPECTED COMPLETION DATE	MONTHS FROM ZERO DATE	CURRENT STATUS
Start of the Project/Zero Date	1-Dec-05		Started
Technology Selection/Project Scope	Jan-06		Completed
Completion of Basic Engineering	May-06	6	Completed
Order placement for critical equipment	May-06	6	Completed
Completion of Detailed Engineering	Sep-07	22	Ongoing
Completion of Civil work	Nov-07	24	Progressing
Completion of Equipment Erection	Jan-08	26	Progressing
Mechanical Completion	Aug-08	33	
Ready for Start Up (RFSU) All areas	Sep-08	34	
Commencement of operations	**Dec-08**	**36**	

Source: Company

Though the company has not officially announced the likelihood of project completion much earlier than the scheduled December 2008 start-up, markets seem to be already factoring in a several months earlier project start-up. Given that RPL already has a very aggressive target of project completion (three years), a several months earlier start-up is difficult. However, given RIL's track record of project implementation and substantial progress already achieved on the project, we would not be surprised if the refinery comes online several weeks or a couple of months before schedule.

We assume commercial production from FY10

Though RPL would commence production in FY09, we assume that it would declare commencement of commercial production only from April 2009 to take full advantage of tax benefits. This was also done in RIL's first refinery. Therefore, we have consolidated RPL's numbers into RIL's only from FY10.

We remain positive on continued refining upcyle

We expect refining margins to remain high over the next couple of years, as the global demand for refined products remains robust and spare refining capacity is also low. The

key reasons for our positive views on continued high refining margins are already enumerated in the section on refining.

As RPL's refinery is more complex than RIL's refinery, we estimate that RPL would enjoy a US$2-3/bbl margin advantage over RIL.

Valuation and view

We value RPL on a DCF basis to arrive at a price target of Rs123/share. Our key assumptions and DCF is summarised below.

EXHIBIT 104: DCF VALUATION SUMMARY FOR RPL

KEY ASSUMPTIONS	FY09	FY10	FY11	FY12	FY13	FY14	FY15	FY16	FY17
GRM (US$/bbl)	14.0	15.0	15.0	15.0	14.5	12.0	11.5	11.0	11.0
Singapore GRM (US$/bbl)	6.0	6.0	6.0	6.0	5.5	5.0	4.5	4.0	4.0
Premium (US$/bbl)	8.0	9.0	9.0	9.0	9.0	7.0	7.0	7.0	7.0
Capacity (mn tons)	27	27	27	28	30	31	31	31	31
Capacity utilization (%)	70	95	100	100	100	100	100	100	100
Crude throughput (mn tons)	6	26	27	28	30	31	31	31	31
DCF									
EBITDA	21,872	94,443	99,414	110,919	111,807	94,092	89,485	84,877	84,877
Capex	0	-5,400	-5,508	-7,618	-7,771	-7,926	-6,084	-6,206	-6,330
WC changes	-3,852	-13,832	-288	0	0	0	0	0	0
Tax	0	0	0	0	0	0	-11,773	-11,675	-12,128
Free Cash Flow	18,021	75,211	93,618	103,301	104,036	86,166	71,627	66,997	66,419
Year			1	2	3	4	5	6	7
Discount Factor		1.00	0.90	0.81	0.73	0.66	0.60	0.54	0.49
Discounted Cash Flow		**75,211**	**84,440**	**84,040**	**76,342**	**57,030**	**42,760**	**36,075**	**32,258**
DCF Summary									
WACC (%)				10.9					
Discounted Value (Rsm)				706,381					
Terminal Growth Rate (%)				2					
Terminal Value (Rsm)				28,675					
Enerprise Value (Rsm)				735,057					
Less: Net Debt (Rsm)				122,402					
Equity Value (Rsm)				612,655					
Shares Outstanding (in Mn)				4,500					
Per share value				136					
Per share value (Discounted for 1 Year)				**123**					

We value RIL's stake in RPL at Rs241/share of RIL

For valuing RIL's stake in RPL, we assume 20% discount to our target price of RPL. This translates to value of RIL's 75% stake in RPL at Rs241/share.

Investment risks: RPL's refinery is presently under execution, with scheduled completion in December 2008. As in all large projects, there are execution risks. However, the new refinery is a repeat refinery project for RIL. Given its project execution track record and significant progress already achieved, we believe the execution risks for RPL are low.

INCOME STATEMENT (RS MILLION)

Y/E MARCH	2009E	2010E	2011E
Net Sales	**139,583**	**553,708**	**558,972**
Change (%)		*296.7*	*1.0*
Total Income	**139,583**	**553,708**	**558,972**
Raw Materials Cons	112,317	438,574	437778
Other Exp (incl Stock Adj)	5,394	20,691	21,780
EBITDA	**21,872**	**94,443**	**99,414**
% of Net Sales	*15.7*	*17.1*	*17.8*
Depreciation	3,578	14,310	14,310
Interest	1,880	7,521	6,364
Other Income	254	1,771	4,879
PBT	**16,669**	**74,383**	**83,619**
Tax	0	0	0
Rate (%)	*0.0*	*0.0*	
PAT	**16,669**	**74,383**	**83,619**
Adjusted PAT	**16,669**	**74,383**	**83,619**
Change (%)		*346.2*	*12.4*

BALANCE SHEET (Rs Million)

Y/E MARCH	2009E	2010E	2011E
Share Capital	45,000	45,000	45,000
Reserves	102,872	164,599	235,561
Net Worth	**147,872**	**209,599**	**280,561**
Loans	135,000	135,000	135,000
Capital Employed	**282,872**	**344,599**	**415,561**
Gross Fixed Assets	270,000	278,100	286,200
Less: Depreciation	3,578	17,888	32,198
Net Fixed Assets	**266,423**	**260,213**	**254,003**
Capital WIP	0	0	0
Investments	10,598	63,202	140,086
Curr. Assets, L & Adv.			
Inventory	13,385	53,095	53,600
Debtors	9,560	37,925	38,286
Cash & Bank Balance	2,000	3,500	3,500
Current Liab. & Prov.			
Liabilities	15,297	60,680	61,257
Provisions	3,797	12,656	12,656
Net Current Assets	**5,852**	**21,184**	**21,472**
Misc. Expenses	0	0	0
Application of Funds	**282,872**	**344,599**	**415,561**

E: MOSt Estimates

RATIOS

Y/E MARCH	2009E	2010E	2011E
Basic (Rs)			
EPS	**3.7**	**16.5**	**18.6**
Cash EPS	4.5	19.7	21.8
Book Value	32.9	46.6	62.3
DPS	0.8	2.5	2.5
Payout (%)	23.0	17.0	15.0
Valuation (x)			
P/E	29.5	6.6	5.9
Cash P/E	24.3	5.5	5.0
EV / EBITDA	28.1	5.9	4.9
EV / Sales	4.5	1.0	0.9
Price / Book Value	3.3	2.3	1.8
Dividend Yield (%)	0.7	2.3	2.3
Profitability Ratios (%)			
RoE	22.5	41.6	34.1
RoCE	13.1	26.1	23.7
Turnover Ratios			
Debtors (No. of Days)	25	25	25
Asset Turnover (x)	0.5	1.3	1.3
Leverage Ratio			
Debt / Equity (x)	0.9	0.6	0.5

CASH FLOW STATEMENT (RS MILLION)

Y/E MARCH	2009E	2010E	2011E
Profit/(Loss) before Tax	16,415	72,612	78,740
Add: Depreciation	3,578	14,310	14,310
Direct Taxes Paid	0	0	0
(Inc)/Dec in Wkg. Capital	-3,852	-13,832	-288
CF from Op. Activity	**16,141**	**73,089**	**92,761**
(Inc)/Dec in FA & CWIP	-270,000	-8,100	-8,100
(Pur)/Sale of Investments	-10,598	-52,604	-76,884
Inc from Invst	254	1,771	4,879
CF from Inv. Activity	**-280,344**	**-58,933**	**-80,105**
Issue of Shares	45,000	0	0
Others	89,578	0	0
Inc / (Dec) in Debt	135,000	0	0
Dividends Paid (incl.tax)	-3,375	-12,656	-12,656
CF from Fin. Activity	**266,203**	**-12,656**	**-12,656**
Inc / (Dec) in Cash	**2,000**	**1,500**	**0**
Add: Opening Balance	0	2,000	3,500
Closing Balance	**2,000**	**3,500**	**3,500**

Annexure I

LIST OF BLOCKS HELD BY RIL

NAME OF THE BLOCK	AREA (SQ. KM)	JV PARTNER	RIL STAKE (%)	LOCATION	OFFSHORE/ ONSHORE	DEEP/SHALLOW WATER
Panna - Mukta - Tapti						
Panna	430	BG/ONGC/RIL	30	Western Coast	Offshore	Shallow
Mukta	777	BG/ONGC/RIL	30	Western Coast	Offshore	Shallow
Tapti	1,471	BG/ONGC/RIL	30	Western Coast	Offshore	Shallow
Pre-NELP						
CB-ON-1	6,133	TULLOW/OKLAND/RIL	40	Cambay	Onshore	
GK-OS/5	3,750	TIOL/OAKLAND/RIL	40	Gujarat Kutch	Offshore	Shallow
SR-OS-94/1	6,860	RIL	100	Saurashtra	Offshore	Shallow
GK-OSJ-3	5,725	ONGC/OIL/RIL	60	Gujarat Kutch	Offshore	Shallow
NELP - I						
SR-OSN-97/1	5,040	RIL	100	Saurashtra	Offshore	Shallow
NEC-OSN-97/2 (NEC-25)	10,755	NIKO/RIL	90	North East Coast	Offshore	Shallow
KG-DWN-98/1	8,100	RIL	100	Krishna Godavari	Offshore	Deep
KG-DWN-98/3 (KG-D6)	7,645	NIKO/RIL	90	Krishna Godavari	Offshore	Deep
MN-DWN-98/2	7,195	RIL	100	Mahanadi	Offshore	Deep
NELP - II						
GS-OSN-2000/1	8,841	HARDY/RIL	90	Gujarat Kutch	Offshore	Shallow
NELP - III						
KK-DWN-2001/1	27,315	RIL	100	Kerala Konkan	Offshore	Deep
KK-DWN-2001/2	31,515	RIL	100	Kerala Konkan	Offshore	Deep
CY-DWN-2001/2	14,325	RIL	100	Cauvery	Offshore	Deep
CY-PR-DWN-2001/3	8,600	RIL	100	Cauvery - Palar	Offshore	Deep
CY-PR-DWN-2001/4	10,590	RIL	100	Cauvery - Palar	Offshore	Deep
PR-DWN-2001/1	8,255	RIL	100	Palar	Offshore	Deep
KG-DWN-2001/1(D-9)	11,605	HARDY/RIL	90	Krishna Godavari	Offshore	Deep
KG-OSN-2001/1	1,100	RIL	100	Krishna Godavari	Offshore	Shallow
KG-OSN-2001/2 (KG-III-6)	210	RIL	100	Krishna Godavari	Offshore	Shallow
NELP - IV			0			
NEC-DWN-2002/1	25,565	HARDY/RIL	90	North East Coast	Offshore	Deep
NELP - V			0			
KK-DWN-2003/1	18,245	RIL	100	Kerala Konkan	Offshore	Deep
KK-DWN-2003/2	12,285	RIL	100	Kerala Konkan	Offshore	Deep
KG-DWN-2003/1	3,288	HARDY/RIL	90	Krishna Godavari	Offshore	Deep
MN-DWN-2003/1 (D4)	17,050	NIKO/RIL	85	Mahanadi	Offshore	Deep
CB-ONN-2003/1	635	RIL	100	Cambay	Onshore	
NELP - VI						
KG-DWN-2004/4	11,904	RIL	100	Krishna Godavari	Offshore	Deep
KG-DWN-2004/7	11,856	RIL	100	Krishna Godavari	Offshore	Deep
MN-DWN-2004/1	9,885	RIL	100	Mahanadi	Offshore	Deep
MN-DWN-2004/2	11,813	RIL	100	Mahanadi	Offshore	Deep
MN-DWN-2004/3	11,316	RIL	100	Mahanadi	Offshore	Deep
MN-DWN-2004/4	8,822	RIL	100	Mahanadi	Offshore	Deep
MN-DWN-2004/5	10,454	RIL	100	Mahanadi	Offshore	Deep
Total Domestic	**339,355**					

Annexure I (Contd..)

LIST OF BLOCKS HELD BY RIL

SL. NO.	NAME OF THE BLOCK	AREA (SQ. KM)	JV PARTNER	RIL STAKE (%)	LOCATION	OFFSHORE/ ONSHORE	DEEP/SHALLOW WATER
International Acerage							
Yemen							
	Block - 9	2,234	CalValley/RIL/HoodOil	25	Sayun-Masila Basin (West)	Onshore	
	Block -34	7,012	HoodOil/RIL	Operator	Oman Border	Onshore	
	Block - 37	7,221	HoodOil/RIL	Operator	Oman Border	Onshore	
Oman							
	Block 18	21,140		100	Batinah coast (Gulf of Oman)	Offshore	Shallow & deepwater
	Block 41	23,800				Offshore	Deep
Columbia							
	Borojo	15,800	EcoPetrol		Tumaco Basin (Pacific coast)	Offshore	
Timor							
	Block K	2,384		Operator	East Timor's southern coast	Offshore	
Australia							
					North-West Shelf		
Total International		**79,591**					
Total Domestic + International		**418,946**					
CBM Blocks		**3,890**					
	SP(E)-CBM-2001/1	495	RIL	100	Sohagpur East - MP	In place reserves of 3.7tcf	
	SP(W)-CBM-2001/1	500	RIL	100	Sohagpur West - MP		
	SH(N)-CBM-2003/II	825	RIL	100	Sonhat, Chattisgarh		
	BS(1)-CBM-2003/II	1,045	RIL	100	Barmer, Rajasthan		
	BS(2)-CBM-2003/II	1,025	RIL	100	Barmer, Rajasthan		

Source: Compan/DGH/Industry

Annexure II

RELIANCE'S OIL & GAS DISCOVERIES IN NELP BLOCKS

NO.	YEAR	NAME OF DISCOVERY	OIL/GAS	DATE OF DISCOVERY	PRESENT STATUS
KG-DWN- 98/3 (KG-D6)					
1	2002-03	Dhirubhai-1	Gas	Oct-02	Dhirubhai-1, 2 & 3 declared as commercial. Development plan for Dhirubhai 1 & 3 approved.
2	2002-03	Dhirubhai-2	Gas	Oct-02	
3	2002-03	Dhirubhai-3	Gas	Oct-02	
4	2002-03	Dhirubhai-4	Gas	Jan-03	Commerciality under review
5	2003-04	Dhirubhai-5	Gas	Jul-03	Under Evaluation by operator
6	2003-04	Dhirubhai-6	Gas	Jul-03	Commerciality under review
7	2004-05	Dhirubhai-7	Gas	May-04	Commerciality under review.
8	2004-05	Dhirubhai-8	Gas	May-04	Commerciality under review.
9	2004-05	Dhirubhai-16	Gas	Aug-04	Commerciality under review.
10	2005-06	Dhirubhai-18	Gas	Apr-05	Under Evaluation by operator
11	2005-06	Dhirubhai-19	Gas	Apr-05	Commerciality under review.
12	2005-06	Dhirubhai-22	Gas	Aug-05	Commerciality under review.
13	2005-06	Dhirubhai-23	Gas	Oct-05	Commerciality under review.
14	2006-07	Dhirubhai-26	Oil	Jun-06	Under Evaluation by operator
15	2006-07	Dhirubhai-29 (AA1)		Feb-07	Notified to DGH
16	2006-07	Dhirubhai-30 (Q1)		Feb-07	Notified to DGH
17	2006-07	Dhirubhai -31	Gas	Mar-07	Under Evaluation by operator
18	2007-08	Dhirubhai-34	Gas	May-07	Commerciality under review.
NEC-OSN-97/2					
1	2004-05	Dhirubhai-9	Gas	Jun-04	Commerciality approved in May-2006
2	2004-05	Dhirubhai-10	Gas	Jun-04	Commerciality approved in May-2006
3	2004-05	Dhirubhai-11	Gas	Jun-04	Commerciality approved in May-2006
4	2004-05	Dhirubhai-15	Gas	Aug-04	Commerciality approved in May-2006
5	2005-06	Dhirubhai-20	Gas	Apr-05	Commerciality approved in May-2006
6	2005-06	Dhirubhai-21	Gas	Apr-05	Under Evaluation by operator
7	2006-07	Dhirubhai -32	Gas	Mar-07	Under Evaluation by operator
KG-OSN-2001/2					
1	2005-06	Dhirubhai-24	Oil/Gas	Dec-05	Under Evaluation by operator
2	2005-06	Dhirubhai-25	Oil/Gas	Dec-05	Under Evaluation by operator
KG-OSN-2001/1					
1	2006-07	Dhirubhai-28	Gas	Sep-06	Under Evaluation by operator
GS-OSN-2001/1					
2	2007-08	Dhirubhai-33	Gas	May-07	Commerciality under review.
CY-DWN-2001/2					
1	2007-08	Dhirubhai-35	Oil/Gas	Jul-07	Notified to DGH

Source: DGH/MOSL

Annexure III

LIST OF EXISTING CUSTOMERS FOR GAS - TOTAL DEMAND OF 94.9 MMSCMD

REGION	SHORTFALL (MMSCMD)
AP Region	
Nagarjuna Fertilizers	3.1
Konaseema Power	2.4
Galltami Power	2.3
HPCL Vizag	1.8
GVK Power	1.6
BSES Power	0.5
Others	2.3
Sub-total AP Region	**14.0**
Maharashtra	
Dhabol	8.0
Tata Power	3.8
RCF	3.3
HPCL	1.5
BPCL	1.5
RIL Patalganga	1.2
MSEB	1.0
Others	2.7
Sub-total Maharashtra	**23.0**
Gujarat	
RIL Jamnagar	11.0
Small Consumers (GSPC/Niko)	6.0
Torrent	4.3
NTPC (Kawas, Gandhar)	2.6
Kribhco	1.2
IFFCO Kalal	1.1
Others	4.6
Sub-total Gujarat	**30.8**
HVJ Region	
IFFCO	5.1
NTPC	4.0
Chambal Fertilizers	1.8
NFL. Nangal	1.5
NFL Panipat	1.5
NFL Bhatinda	1.5
Kribhco	1.4
Others	10.3
Sub-total HVJ Region	**27.1**
Total	**94.9**

SUMMARY (MMSCMD)

	AP REGION	MAHARASHTRA	GUJARAT	HVJ REGION	TOTAL
Power	9	13	9	6	37
Fertilizer	3	4	3	15	25
Others	2	7	19	6	33
Total	**14**	**23**	**31**	**27**	**95**

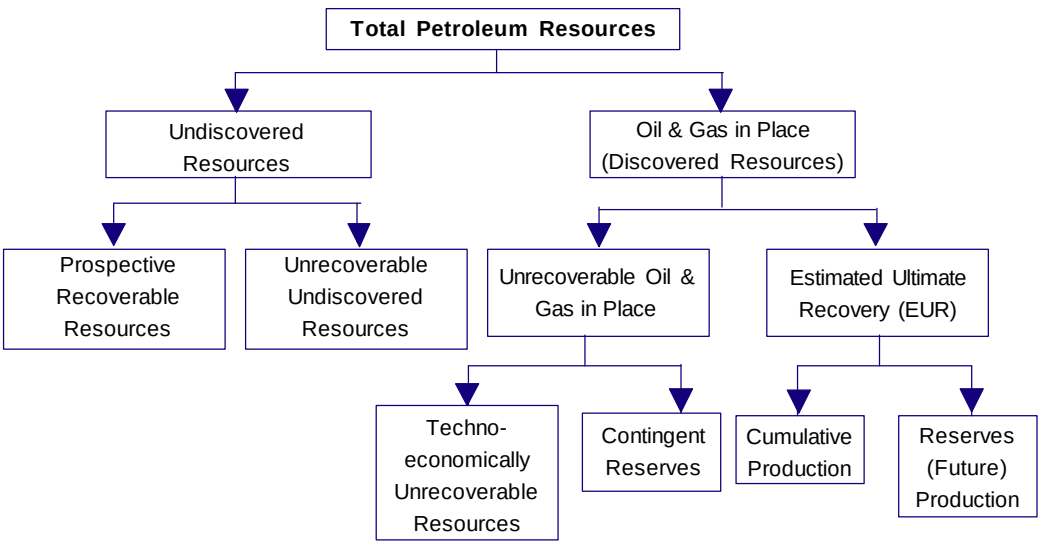
Source: Infraline

Annexure IV

DGH's guidelines for uniform system of classification of hydrocarbon resources/reserves

DGH in May 2006 has issued guidelines for uniform system of "Classification of Hydrocarbon Resources/Reserves". These guidelines broadly conform to SPE/WPC/AAPG system of classification. DGH has enjoined upon all companies operating in India to follow these guidelines while reporting hydrocarbon resource and reserves. Below is the summary of these guidelines:

STRUCTURE OF CLASSIFICATION



Source: DGH

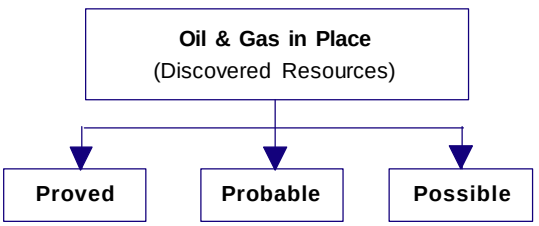
Key definitions of each category are enumerated below:

1. **Total petroleum resources:** Estimated to exist originally in naturally occurring accumulations.

2. **Oil and gas in place (discovered resources - OGIP):** Discovered petroleum initially in place is that quantity of petroleum, which is estimated on a given date, to be contained in known accumulations, plus those already produced from them. OGIP are further classified into:
   - **Estimated ultimate recovery (EUR):** Potentially recoverable from an accumulation, plus those quantities already produced there from.
   - **Unrecoverable discovered oil and gas in place:** Those quantities that on a given date cannot be recovered from the accumulations due to technical, economic, logistics or commercial reasons. These are further divided into:

- **Contingent reserves:** Quantities potentially recoverable from known accumulations but which are not currently considered to be commercially recoverable.
- **Techno-economically unrecoverable resources:** Quantities, which are not techno-economically recovered in the foreseeable future.

THE DISCOVERED OGIP SHALL BE FURTHER ESTIMATED AND CLASSIFIED, BASED ON THE STATUS OF EXPLORATION:



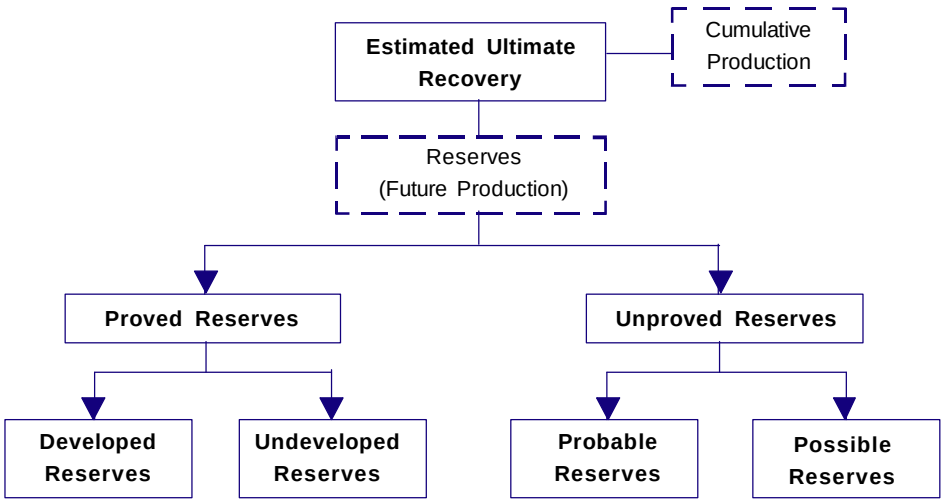
Source: DGH

- **Proved oil and gas in place:** Estimated volume/quantities as of date, which on evaluation of available geophysical, geological and engineering data, demonstrates with reasonable certainty, to be present in the reservoir.
- **Probable oil and gas in place:** Less certain than proved oil and gas in place, because of insufficient data or in-conclusive analysis. This category includes:
  - Reservoir delineated by geophysical and geological data with fair degree of certainty
  - Volumes with hydrocarbon indication or sustained flow established in at least one well
- **Possible oil and gas in place:** "Less certain than probable" oil and gas in place, with lesser data or lesser conclusive interpretation of data, than required for placement in probable category. This category includes volumes estimated based on hydrocarbon indications or by structural extrapolation from the area proven by drilling.

3. **Undiscovered resources:** Quantities of petroleum, which is estimated on a given date, to be contained in accumulations yet to be discovered. This is further classified into:
   - **Prospective recoverable resources:** Quantities of oil and gas potentially recoverable from undiscovered accumulations.
   - **Unrecoverable undiscovered resources:** Part of undiscovered resources, which is potentially not recoverable as on date.

4. **Estimated ultimate recovery (EUR):** As defined earlier, it includes quantities potentially recoverable from an accumulation (reserves), plus cumulative production already done. Reserves may be further classified into proved reserves or unproved reserves, depending on uncertainty of the degree of estimation.

EUR IS FURTHER CLASSIFIED AS:



Source: DGH/MOSL

- **Proved reserves:** Quantity which by analysis of geological and engineering data, can be estimated with reasonable certainty to be commercially recoverable, from a given date forward, from known reservoirs and under current economic conditions, operating methods, and government regulations.
  - **Proved developed reserves:** Expected to be recovered from existing wells and installed facilities.
  - **Proved undeveloped reserves:** Expected to be recovered from known accumulations, where a significant expenditure is required to put them on production.
- **Unproved reserves:** Estimated on the basis of geological and / or engineering data, similar to proved reserves quantities, but due to various uncertainties cannot be placed under proved category. These are classified into:
  - **Probable reserves:** Those unproved reserves which analysis of geological and engineering data suggests are more likely than not to be recoverable. When probabilistic methods are used, there should be at least 50% probability that the quantities actually recovered will equal or exceed the sum of estimated proved plus probable reserves.
  - **Possible reserves:** Those unproved reserves which analysis of geological and engineering data suggests are less likely to be recoverable than probable reserves. When probabilistic methods are used, there should be at least 10% probability that the quantities actually recovered will equal or exceed the sum of estimated proved plus probable reserves.

Note: The classification of SPE/WPC/AAPG as Low, Best and High estimates respectively are broadly equivalent to Proved (1P), Proved + Probable (2P) and Proved + Probable + Possible (3P) categories.

Annexure IV

APPROXIMATE CONVERSION FACTORS

CRUDE OIL* FROM	TO TONNES (METRIC)	KILOLITRES	BARRELS	US GALLONS	TONNES PER YEAR
	MULTIPLY BY				
Tonnes (metric)	1	1.165	7.33	307.86	-
Kilolitres	0.8581	1	6.2898	264.17	-
Barrels	0.1364	0.159	1	42	-
US gallons	0.00325	0.0038	0.0238	1	-
Barrels per day	-	-	-	-	49.8

** Based on worldwide average gravity*

PRODUCTS FROM	TO BARRELS TO TONNES	TONNES TO BARRELS	KILOLITRES TO TONNES	TONNES TO KILOLITRES
	MULTIPLY BY			
LPG	0.086	11.6	0.542	1.844
Gasoline	0.118	8.5	0.74	1.351
Kerosene	0.128	7.8	0.806	1.24
Gas Oil/ Diesel	0.133	7.5	0.839	1.192
Residual Fuel Oil	0.149	6.7	0.939	1.065

NATURAL GAS AND LIQUIFIED NATURAL GAS FROM	TO BILLION CUBIC METRES NG	BILLION CUBIC FEET NG	MILLION TONNES OIL EQUI. *	MILLION TONNES LNG	TRILLION BRITISH THERMAL UNITS	MILLION BARRELS OIL EQUI. *
	MULTIPLY BY					
1 billion cubic metres NG	1	35.3	0.9	0.73	36	6.29
1 billion cubic feet NG	0.028	1	0.026	0.021	1.03	0.18
1 million tonnes oil equivalent	1.111	39.2	1	0.805	40.4	7.33
1 million tonnes LNG	1.38	48.7	1.23	1	52	8.68
1 trillion British thermal units	0.028	0.98	0.025	0.02	1	0.17
1 million barrels oil equivalent	0.16	5.61	0.14	0.12	5.8	1

*Source: BP Statistical Review; * equivalent*

Annexure V

GLOSSARY OF ACRONYMS USED

NO.	ACRONYM	DESCRIPTION
1	1P	Proved
2	2P	Proved + Probable
3	3P	Proved + Probable + Possible
4	AAPG	American Association of Petroleum Geologists
5	API	American Petroleum Institute
6	ATF	Aviation Turbine Fuel
7	bbl / bbls	barrel / barrels
8	boepd	barrels of oil equivalent per day
9	bpd / bopd	barrels per day / barrels of oil per day
10	CBM	Coal bed methane
11	DGH	Directorate General of Hydrocarbons
12	EOU	Export Oriented Unit
13	GoI	Government of India
14	HSD	High speed Diesel
15	kbpd	thousand barrels per day
16	ktpa	thousand tones per annum
17	MEG	Mono Ethylene Glycol
18	mmb/d	million barrels per day
19	mmbbls	million barrels
20	mmbtu	million british thermal units
21	mmscmd	million metric standard cubic meters per day
22	mmtpa	million tonnes per annum
23	MS	Motor Spirit
24	MTBE	Methyl Tertiary Butyl Ether
25	mtpa	thousand tonnes per annum
26	mts	Meters
27	NELP	New Exploration Licensing Policy
28	OGIP	Original gas in place
29	OPEC	Organization of the Petroleum Exporting Countries
30	PE	Polyethylene
31	POY	Partially Oriented Yarn
32	PP	Polypropylene
33	ppm	parts per million
34	PSF	Polyester Staple Fibre
35	PTA	Purified Terephthalic Acid
36	PVC	Poly Vinyl Chloride
37	PX	Para Xylene
38	SKO	Superior Kerosene Oil
39	SPE	Society of Petroleum Engineers
40	Sq km	Square Kilometers
41	TAME	Tertiary Amyl Methyl Ether
42	tcf	trillion cubic feet
43	WPC	World Petroleum Council

N O T E S

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1. Analyst ownership of the stock	No
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4. Investment Banking relationship with company covered	No