Reliance Industries -- Maintain NEUTRAL

FY07 Results - notes from the analyst presentation **EPS: ◄► TP: ◄►**

Prashant Gokhale / Research Analyst / 852 2101 6944 / prashant.gokhale@credit-suisse.com Sanjay Mookim / Research Analyst / 9122 6777 3807 / sanjay.mookim@credit-suisse.com

- Reliance announced results for the financial year 2007 and conducted an analysts' briefing in Mumbai to discuss the results and business segments in detail.
- Reliance reported a 4Q net profit of Rs28.5bn a growth of 14% YoY. Full year FY03/07 NP was Rs109bn, up 20% YoY.
- Development activities for the KG D6 discoveries are on track. First gas is expected 2H2009 with production ramping up to 80 MMSCMD by 1Q2010. An increase in peak production rate to 120 MMSCMD based on additional developments in the same block increases our NPV by Rs140 per share.
- The Saurashtra discovery is estimated to be in the sub-TCF range. Commerciality is being evaluated and would be improved if further discoveries are made in adjacent areas.
- The company is facing a shortage of deep water drilling rigs and is currently optimizing rigs for development activities ahead of exploration. This delays exploration of promising areas such as the D4 block and pushes back the NPV that may arise.

Bbg/RIC	**RIL IN / RELI.BO**	**Price (27 Apr 07, Rs)**			**1,538.20**
Rating (prev. rating)	**N (N)**	**TP (Rs) (prev. TP)**			**1,281 (1,281)**
Shares outstanding (mn)	1,393.51	Est. pot. % chg. to TP			(17)
Daily trad vol–6m avg (mn)	1.3	52-wk range (Rs)			1599.85 - 825.25
Daily trad val–6m avg (US$ mn)	35.9	Mkt cap (Rs/US$ bn)			2,143.5/ 52.5
Free float (%)	66.0	**Performance**	**1M**	**3M**	**12M**
Major shareholders	Promoter & Promoter Grp 47.9%	Absolute	12.7	12.3	54.4
		Relative	3.9	12.7	28.4

Year	**3/06A**	**3/07A**	**3/08E**	**3/09E**	**3/10E**
Revenues (Rs mn)	826,913	1,007,513	973,529	1,305,353	1,694,022
EBITDA (Rs mn)	143,487	182,100	173,095	218,412	330,925
Net profit (Rs mn)	93,948	115,353	107,053	101,370	166,583
EPS (Rs)	67	83	77	73	120
- Change from prev. EPS (%)	n.a.	n.a.	0	0	0
- Consensus EPS (Rs)	n.a.	n.a.	78	84	117
EPS growth (%)	23.2	22.8	(7.2)	(5.3)	64.3
P/E (x)	22.8	18.6	20.0	21.1	12.9
Dividend yield (%)	0.7	0.8	0.9	0.8	1.2
EV/EBITDA (x)	16.2	13.0	14.6	12.5	8.1
P/B (x)	4.7	3.9	3.3	3.0	2.5
ROE (%)	18.4	19.5	16.2	13.9	19.2
Net debt/equity (%)	34	32	53	74	56

Note 1: Reliance Industries is India's largest private sector business enterprise in India. It has three business divisions: exploration & production, refining & marketing, and petrochemicals.

Exploration and Production

Development work on the KG D6 – D1 and D3 fields is on track for first gas in 2H2009. Production is expected to ramp up from 20 MMSCMD initially to 80 MMSCMD by 1Q2010. An estimated 25-30 MMSCMD of this may be utilized within the group – some by the existing refineries and petrochemical facilities and some by possible future petrochemical facilities that may come up in the Jamnagar SEZ. Reliance plans to dig 22 wells for the KG D6 development, with another 25-28 wells needed to sustain production. It may also plan a few exploration wells in the southern part of the block.

The MA1 oil discovery is being targeted for production by 1H2009. Reliance is in consultation with two entities for procuring the FPSO needed to begin production and is confident of obtaining these in time. Management's current estimates for reserves are less than the 130 million barrels of recoverable reserves that we have in our model.

Management indicated that most of the area in the D6 block has been covered by 3D seismic and that the discovery area extends to a very large portion of the block. A few exploration wells may be drilled in the southern part of D6. Although the MA2 well has encountered a very large pay zone, the MA field is not estimated to be of the same size as D1 and D3.

The development plan for the D1 and D3 discoveries is based on a 2P reserves estimate of 11.3 TCF. The company has 11 other discoveries in the same block. Independent agencies estimate the in place reserves of these to range between 6.9-35.4 TCF. Should the company progress with certification and development of these discoveries and increase peak production to 120 MMSCMD, our NPV would increase by Rs140 per share.

Capital expenditure for development of the 11.3 TCF is estimated at US$8.8 billion in the development plan. We have estimated a total capex of US$9.5 billion for approximately 16 TCF 2P for the block. In the event of further gas discoveries, capex needed for development will also increase.

The recent Saurashtra discovery is still under evaluation. The company suggested that the reserves in the discovery are likely to be in the sub-TCF range. Commerciality is being evaluated given the size and stand alone nature of the discovery. Reliance has 4 blocks in the region and any further discoveries in these will improve the commerciality of the current Saurashtra find.

The company is still assessing its NEC 25 discovery. Management believes that there is possibility of finding further pay-zones at greater depths and plan to submit a development plan for the block only after further evaluation. This might indicate that lateral exploration of the block is nearing completion.

Reliance is facing some difficulties in obtaining rigs for its development and exploration activities. There have been delays in arrival of rigs contracted earlier. As such, available rig time is being prioritized for development activities ahead of exploration drilling. This is delaying the exploration of promising blocks such as D4 (NELP V). This will likely push back the NPV to be realised from future discoveries and developments.

Refining and Marketing

The Jamnagar refinery achieved a GRM of US$13 per barrel for the quarter and US$11.7 for the year. Singapore 3-1-1-1 margins for the quarter were at US$4.7/bbl. The company expects to export higher proportions of refinery products in coming years as a result of the difficult domestic pricing scenario and to take advantage of the tax breaks under the EoU policy.

Companies Mentioned ***(Price as of 27 Apr 07)***
Reliance Industries (RELI.BO, Rs1538.20, NEUTRAL, TP Rs1281.00)

Disclosure Appendix

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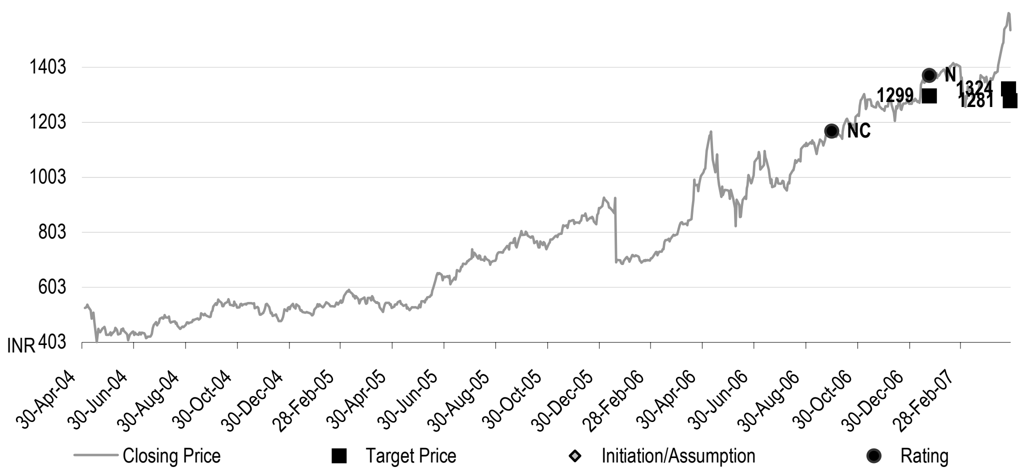
See the Companies Mentioned section for full company names.

3-Year Price, Target Price and Rating Change History Chart for RELI.BO



O=Outperform; N=Neutral; U=Underperform; R=Restricted; NR=Not Rated; NC=Not Covered

RELI.BO Date	Closing Price Price (INR)	Target Price Price (INR)	Rating	Initiation/ Assumption
29-Sep-06	1,171.05		NOT COVERED	
22-Jan-07	1,373.45	1299	NEUTRAL	
25-Apr-07	1,599.85	1324		
27-Apr-07	1,538.2	1281		

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Method: Our target price for Reliance Industries is Rs1,281. We value the company using a discounted cash flow (DCF)-based sum-of-the-parts valuation. We use a weighted average cost of capital (WACC) of 10.9%. The core chemicals and refining businesses are valued using a long-range DCF, with margins assumed to revert back to mid-cycle levels by 2009-10. We value the core business at Rs715/share, implying 9x price-to-earnings ratio (P/E) on earnings, reflecting full refinery volumes. The known E&P business is valued at Rs318/share, valuing 18.4 TCF of gas, and 118 mmboe of oil. We use a gas price of US$3.5-4.0/mmbtu. We also value Reliance's acreage and position, with dominance off the Eastern Coast at Rs199 per share, using falling success rates and lower discovery size per well. Retail is valued at Rs47/share, assuming a 15% growth in Indian retail sales to 2015, with a 15% share for the organised retail sector (up from 3% in 2006), and a 15% market share for Reliance.
Risks: There are risks on the downside to our Rs1,281 target price for Reliance Industries if: 1) global growth slows and chemical and refining margins revert back to mid-cycle faster than expected; 2) gas reserves are lower than modelleld. Modelled reserves are 4x larger than the booked reserve as of 31 March 2005 and, based on subsequent news flow on discoveries, some disclosres by the company on new certifications and our conversations with market participants. Risks, therefore, are higher than average; 3) gas pricing is lower than modeleled, 4) execution of the retail business build-out is short of our expectations on either market growth, or Reliance's market share.

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