RESULTS REVIEW

Share Data

Market Cap [(1)]	Rs. 4,400.27
Price	Rs. 3,027.05
BSE Sensex	20,582.08
Reuters	RELI.BO
Bloomberg	RIL IN
Avg. Volume (52 Week)	0.87 mn
52-Week High/Low	Rs. 3,235/1,250
Shares Outstanding [(1)]	1,453.65 mn

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

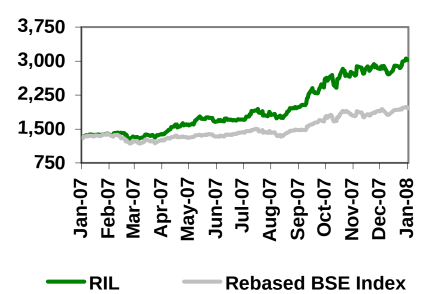
Valuation Ratios (Consolidated)

Year to 31 March	2008E	2009E
EPS (Rs.)	99.8	120.2
+/- (%)	20.2%	20.4%
PER (x)	30.3x	25.2x
EV/ Sales (x)	3.6x	3.0x
EV/ EBITDA (x)	19.8x	16.3x

Shareholding Pattern (%)

Promoters	51
FIIs	21
Institutions	8
Public & Others	21

Relative Performance



Reliance Industries Limited — Buy

Potential upside in E&P business makes valuation attractive

Reliance Industries Ltd. (RIL)'s net sales in Q2'08 increased by 6.6% yoy to Rs. 320.4 bn backed by record exports of USD 3.8 bn of refinery products, higher retail prices in the petrochemical segment, and increased production volumes of oil & gas products. EBITDA increased by 14.2% yoy to Rs. 57.8 bn and margins improved 119 bps to 18% as a result of improved polyester margins and refining segment margins despite softer GRMs (Gross refining margins). RIL's net profit rose by 27.9% yoy to Rs. 38.4 bn due to higher other income, lower interest and depreciation expenses, and reduced income tax provision.

We have revised our estimates upwards and expect RIL's sales to grow at a CAGR of 17.1% for FY07-FY09E factoring the rise in average selling prices in the core (petrochemical and refining) business and their proposed expansion plans, growing volumes of oil and gas production from the present PMT fields, and the proposed delivery of first gas from the KG-D6 basin by H2'09.

At the current price of Rs. 3,027.05, the stock trades at a forward P/E of 30.3x for FY08E and 25.2x for FY09E. Our SOTP-based target price of Rs. 3,481 incorporates upside from (a) growth in E&P business, (b) Core business expansion, and (c) benefits from coke gasification. Moreover, RIL's move towards inorganic expansion witnessed from Hualon's asset acquisition and the probable unlocking of value by hiving off Reliance Fresh, are added boosters to the stock value. Thus, we upgrade our rating from Hold to Buy.

Key Figures (Standalone)

Quarterly Data	Q2'07	Q1'08	Q2'08	YoY%	QoQ%	H1'07	H1'08	YoY%
(Figures in Rs. mn, except per share data)								
Net Sales	300,560	280,560	320,430	6.6%	14.2%	560,500	615,670	9.8%
EBITDA	50,640	51,770	57,810	14.2%	11.7%	96,970	114,540	18.1%
Net Profit	30,000	32,640	38,370	27.9%	17.6%	57,060	74,670	30.9%
Margins(%)								
EBITDA	*16.8%*	*18.5%*	*18.0%*			*17.3%*	*18.6%*	
NPM	*10.0%*	*11.6%*	*12.0%*			*10.2%*	*12.1%*	
Per Share Data (Rs.)								
Normalized EPS	20.6	23.4	26.4	28.2%	12.8%	39.3	51.4	30.8%

Result Highlights

Record export of refining products for USD 3.8 bn

During the second quarter, net sales increased by 6.6% yoy to Rs. 320.4 bn because of higher exports of refining products, increased petrochemical selling prices, and increase in oil & gas production (primarily from the PMT blocks). Aggregate exports were higher at Rs. 198.1 bn especially due to the record exports of refinery products for USD 3.8 bn (USD 3.2 bn in Q2'07), constituting 75% of the total exports. EBITDA increased by 14.2% yoy to Rs. 57.8 bn and margins improved 119 bps to 18% as a result of improved polyester margins and refining segment margins despite softer GRMs. Lower employee cost and other expenditures also contributed in improving margins. Employee cost was higher in the corresponding period last year due to the inclusion of expenses related to voluntary retirement schemes, which were not present in this quarter. Other expenditure was lower at Rs. 24.4 bn due to a reduction in the sales tax liability on account of a higher export of refinery products. However, the softer GRM of USD 13.6 per barrel and higher purchase cost of trading goods at Rs. 24 bn from Rs. 2.4 bn in Q2'07 restricted the rise in EBITDA margin to 18%.

Overall, net profit climbed 27.9% yoy to Rs. 38.4 bn due to higher other income, lower interest and depreciation expenses, and reduced income tax provision. Other income was higher on account of an increase in interest income on higher surplus funds, and interest cost was low mainly due to the weakening of dollar, as the major portion of debt is denominated in foreign currency.

Segmental Analysis

Operating profit improved despite lower gross refining margins

Refining segment: Sales increased by only 1.7% yoy to Rs. 235.8 bn as compared to 9.3% yoy growth in the last quarter. The increase in sales can be attributed to higher average utilization rate of 98% at the Jamnagar refinery and increased exports of refining products. The export volume of refining products was 5.8 MMT as against 5.6 MMT in Q2'07. The period witnessed a fall in gross refining margin to USD 13.6 per barrel as compared to USD 15.4 per barrel in Q1'08. GRMs were volatile because of the recent upsurge in global crude prices. Despite this, EBIT of the refining segment increased by 55.9% yoy to Rs. 23.2 bn and margins improved 342 bps yoy to 9.8% because of the superior configuration of the Jamnagar refinery, which provides RIL the flexibility to focus on the production of middle distillate products (such as Gasoil and Jet Kero) where margins remained firm due to a strong global demand.

Petrochemicals segment: Sales climbed 19.5% qoq and 0.6% yoy to Rs. 129.6 bn driven by a 4% rise in prices and 2% rise in sales volume. EBIT declined by 3.7% yoy to Rs. 20.3 bn and margin dropped by 69 bps to 15.6% due to high feedstock prices. However, the Company was able to pass the increase in polyester and polymer prices across the value chain due to a strong demand from end users. However, we expect the margins to remain stable in short term, despite strong domestic demand due to the lack of capacity additions.

Other segment: Sales increased by 44.3% yoy to Rs. 8 bn driven by higher production from the Panna-Mukta-Tapti (PMT) blocks. The Gas production went up by 64.1% yoy to 361 MMSCM, whereas the Oil production increased by 22.6% yoy to 156.3 KT in Q2'08.

Segment Information	Q2'07	Q2'08	% Inc./Dec.
Segment Revenue			
Petrochemicals	128,880	129,610	0.6%
Refining	231,900	235,750	1.7%
Others	5,550	8,010	44.3%
Gross Turnover	**366,330**	**373,370**	**1.9%**
Less: Intersegment Sales	(52,110)	(39,350)	
Turnover	**314,220**	**334,020**	**6.3%**
Less: Excise Duty	(13,660)	(13,590)	
Net Turnover	**300,560**	**320,430**	**6.6%**
Segment EBIT			
Petrochemicals	21,020	20,250	(3.7%)
Refining	14,890	23,210	55.9%
Others	3,650	3,900	6.8%
EBIT	**39,560**	**47,360**	**19.7%**
Margins			
Petrochemicals	*16.3%*	*15.6%*	
Refining	*6.4%*	*9.8%*	
Others	*65.8%*	*48.7%*	

Key Events

- RIL acquired a majority stake and management control of Gulf Africa Petroleum Corporation (GAPCO), a petroleum downstream company in East Africa.
- The Company has signed an agreement to acquire the assets of Hualon, a leading polyester producer in Malaysia.
- RIL has entered into a Memorandum of Understanding (MoU) with Rohm and Haas Company (ROH) to explore the joint construction of a world-scale acrylic-monomer complex in Jamnagar.
- RIL, under the E&P business segment, has made two additional discoveries in the Cauvery (CY-III-D5) block and the KG basin (KG-D4).
- RIL has struck gas in its block KG-OSN-2001/1 (KG-III-5) in the Krishna offshore basin, the commerciality of the same is under evaluation.
- Reliance Exploration and Production DMCC, a wholly owned subsidiary of RIL, has signed a production sharing agreement with the government of Oman to operate an offshore block (Block no 41) in Oman deep water.
- Reliance Exploration and Production DMCC has also won two production sharing contracts with Kurdistan regional government covering exploration activities in the Rovi and Sarta blocks in the Kurdistan Region of Iraq.

Prospects

- RIL plans a large-size restructuring, as it has decided to hive-off Reliance Fresh, its consumer retail project into a separate company, Ranger Farm, for a single point accountabiility.
- The Company is planning to initiate its operations in Peru by signing a contract for stakes in two oil blocks.
- RIL, together with GAIL (India) Ltd., is examining the feasibility of building petrochemical plants in Russia.

Key Risks

- Crude prices have shown higher than expected volatility in the recent past. Any subustantial reduction in the GRMs can hurt bottomline.
- Rupee appreciation can negatively affect our estimates, as majority of the sales are from exports.
- Continuation of dispute between RIL and RNRL on the supply of gas to the latter at below the market price could adversely affect the Company's earnings.

Outlook

We have revised our estimates upwards and expect RIL's sales to grow at a CAGR of 17.1% for FY07-FY09E. The key drivers responsible for the revision of our estimates are: the rise in average selling prices in the core (petrochemical and refining) business and the expected growth from the proposed expansion plans, growing volumes of oil and gas production from the present PMT fields, and the proposed delivery of first gas by H2'09 from the KG-D6 basin.

Exploration discoveries plug in a strong upside

E&P business to be the new growth driver

RIL has portrayed a high degree of efficiency in its exploration business which is evident from the 36 discoveries made so far, with a higher than average overall success ratio of 62%. As the Company has a great potential of reserve accretion in the KG basin (KG-D6), recently discovered KG-D4 and Cauvery deepwater blocks, and in its other 13 blocks in eastern offshore region of India, the above-mentioned track record of successful findings provides a strong backing to the business. Apart from this, by starting the KG-D6 project on schedule, the Company has exhibited that it is not only capable of making positive findings but also possesses technical expertise in executing the exploration process on time. In KG-D6 basin, it has already struck gas and expects to dig out 80 MMSCM per day from Dhirubhai 1 and 3 gas fields within the first year of operation. In addition to the above, RIL's 1.4 bn boe of 2P reserves by the end of FY06-07 have more than tripled to 4.4 bn boe in just 6 months, which implies that the Company's target of accumulating 10 bn barrels of oil equivalent of 2P reserves globally is not so distant. Thus, we expect the E&P business to be the major growth driver in the long run.

Core business expanding

Core business expanding both organically and inorganically

In the petrochemical business, the Company plans to increase its capacity with the acquisition of Hualon's assets which will improve the current global polyester fibre market share of RIL to 7%, bringing it to a world ranking of 12th from 18th. In the refining business, RPL's project is ahead of schedule and progress is over 70% upto date. Therefore, the refining capacities will get a major boost by the next fiscal year, enabling the Company to meet the supply-demand differentials in the refining product market.

At the current price of Rs. 3,027.05, the stock trades at a forward P/E of 30.3x for FY08E and 25.2x for FY09E. Our SOTP-based target price of Rs. 3,481 incorporates upside from (a) growth in E&P business, (b) Core business expansion, and (c) benefits from coke gasification. Moreover, RIL's move towards inorganic expansion witnessed from Hualon's asset acquisition and the probable unlocking of value by hiving off Reliance Fresh, are added boosters to the stock value. Thus, we upgrade our rating from Hold to Buy.

Key Figures (Consolidated)

Year to March	FY05	FY06	FY07	FY08E	FY09E	CAGR (%)
(Figures in Rs. mn, except per share data)						(FY07-09E)
Net Sales	665,977	830,248	1,137,701	1,305,640	1,560,387	17.1%
EBITDA	127,966	143,487	201,279	240,509	291,856	20.4%
Net Profit	76,026	94,831	120,748	145,107	174,694	20.3%
Margins(%)						
EBITDA	19.2%	17.3%	17.7%	18.4%	18.7%	
NPM	11.4%	11.4%	10.6%	11.1%	11.2%	
Per Share Data (Rs.)						
Normalized EPS	54.5	68.1	83.1	99.8	120.2	20.3%
PER (x)	10.0x	11.7x	36.4x	30.3x	25.2x	

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