

UBS Investment Research

Reliance Industries

Another success at KGD3

■ Second gas discovery in KGD3 block

Reliance Industries announced a second gas discovery (named D-41) in the block KG-DWN-2003/1 (D3). The well, drilled in a water depth of 711m to a total of 2730m, encountered a gross hydrocarbon column of 111m.

■ Discoveries establish the block's potential

The drilling was carried out to explore the deepwater fan complex structure of the reservoir. The two discoveries establish a petroleum system in the block, the extent of which is being analysed. Gaffney Cline and Associates have also commented favourably on the prospectivity of the block.

■ All eyes on KGD6

RIL continues to target 3QCY08 for gas production from the block, with 94% of the wells drilled and 65-70% of the offshore and onshore facilities completed. Conceptual studies are underway for development of 8 satellite discoveries. Oil production is now targeted for 3QCY08 with the completion of 2 horizontal wells. 15 more prospects have been identified in deeper-water areas of the block for further upside potential.

■ Valuation: Reiterate Buy, PT Rs3190.

Our SOTP price target includes the potential upside in E&P and retail. We continue to value the core business on regional EV/EBITDA multiples and we include a risk-adjusted value for prospective resources in our E&P valuation. We expect increasing newsflow from RIL's E&P segment, especially as drilling could commence in the highly prospective D4 and D9 blocks by the end of FY09.

Highlights (Rsm)	03/06	03/07	03/08E	03/09E	03/10E
Net Income (UBS)	90,694	119,434	145,867	175,007	310,946
DACF	140,528	185,957	211,697	266,083	432,000
CEPS (UBS, Rs)	89.46	115.29	133.21	164.60	268.98
EPS (UBS, Rs)	65.06	82.16	100.37	120.42	213.95

Profitability & Valuation	5-yr hist av.	03/07	03/08E	03/09E	03/10E
Production (000 boe/d)	9	11	8	643	492
ROACE %	7.2	10.2	10.4	20.4	33.9
EV/DACF x	7.3	9.3	16.0	12.3	7.4
P/CFPS (UBS) x	6.3	10.0	17.0	13.8	8.4
PE (UBS) x	10.0	14.1	22.6	18.8	10.6

Source: Company accounts, Thomson Financial, UBS estimates. (UBS) valuations are stated before goodwill, exceptionals and other special items. Valuations: based on an average share price that year, (E): based on a share price of Rs2,264.50 on 31 Mar 2008 23:38 BST

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Global Equity Research

India

Chemicals, Commodity

12-month rating **Buy**
Unchanged

12m price target **Rs3,190.00/US\$159.74**
Unchanged

Price **Rs2,264.50/US\$113.28 (ADR)**

RIC: RELI.BO BBG: RIL IN

2 April 2008

Trading data (local/US\$)

52-wk range	Rs3,216.30-1,313.50/US\$164.18-61.02
Market cap.	Rs3,291bn/US\$82.3bn
Shares o/s	1,453m (ORD)/727m (ADR)
ADR ratio	1 ADR:2 ORD
Free float	60%
Avg. daily volume ('000)	947/-
Avg. daily value (Rsm)	2,384.2/-

Balance sheet data 03/08E

Shareholders' equity	Rs738bn
P/BV (UBS)	>100
Net Cash (debt)	(Rs195bn)

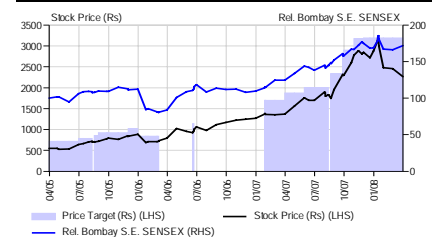
Forecast returns

Forecast price appreciation	+40.9%
Forecast dividend yield	0.8%
Forecast stock return	+41.7%
Market return assumption	12.6%
Forecast excess return	+29.1%

EPS (UBS, Rs)

	03/08E	03/07
	UBS	Cons. Actual
Q1E	0.00	- 17.80
Q2E	0.00	- 12.74
Q3E	0.00	- 17.95
Q4E	0.00	- 0.00
03/08E	100.37	100.37
03/09E	120.42	120.42

Performance (Rs)



Source: UBS

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Table 1: D3 – Prospective Resources (BCF)

Prospects	Inhouse (best estimate)	GCA (best estimate)
KGD1	285	71
KGD2	583	113
KGD3	568	66
KGD11	733	143
KGD12	138	18
Leads		
KGD4	850	
KGD5	487	
KGD6	72	
KGD7	604	
KGD8	181	
KGD9	81	
KGD10	420	

Source: Hardy Oil

Table 2: D3 - Minimum Work Programme – Commitment and Status

Activity	Phase 1		Phase 2		Phase 3	
	Sep-2005 to Sep-2009		Sep-2009 to Sep-2012		Sep-2012 to Sep-2013	
	Committed	Actual	Committed	Actual	Committed	Actual
2D						
3D km2	2100	2811	1200			
RP Lkm	1020	450				
Wells	6	2	4		4	

Source: Indianpetro, Hardy Oil

Table 3: D3 – Exploration Timetable

	2008				2009			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Seismic				1200 sq km				
Drilling	A1	B1				2 wells		

Source: Hardy Oil

Table 2: Oil and Gas Discoveries in RIL's blocks

Name	Blocks	Gas	Oil
KGD6	KG-DWN-98/3	17	1
KGIII5	KG-OSN-2001/1	3	
KGIII6	KG-OSN-2001/2	2	
NEC25	NEC-OSN-97/2	8	
Saurashtra	SR-OS-94/1	1	
Gujarat Saurashtra	GS-OSN-2000/1	1	
Cauvery	CY-DWN-2001/2	1	
D4	KG-DWN-98/1		1
D3	KG-DWN-2003/1	2	
	Yemen		4
	Total	35	6

Source: Company

■ Reliance Industries

Reliance Industries (RIL) is the largest integrated petrochemical producer in India and most of its products have more than a 50% market share. Its large size, integration with refinery (33mtpa capacity with high complexity) and relatively low capital costs make RIL a competitive global player. Its key products are ethylene, polyester, polymers, paraxylene, and PTA. As the flagship company, it has financed the group's entry into telecom.

■ Statement of Risk

Any change in the regulatory environment of the Indian oil & gas sector and a downturn in global commodity prices/margins are risks for Reliance Industries. Exploration and production activities face risks, such as volatility in oil and natural gas prices, operational, financial, geological and meteorological issues.

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UBS Investment Research: Global Equity Rating Allocations

UBS 12-Month Rating	Rating Category	Coverage ¹	IB Services ²
Buy	Buy	59%	38%
Neutral	Hold/Neutral	34%	35%
Sell	Sell	7%	26%
UBS Short-Term Rating	Rating Category	Coverage ³	IB Services ⁴
Buy	Buy	less than 1%	67%
Sell	Sell	less than 1%	25%

1:Percentage of companies under coverage globally within the 12-month rating category.

2:Percentage of companies within the 12-month rating category for which investment banking (IB) services were provided within the past 12 months.

3:Percentage of companies under coverage globally within the Short-Term rating category.

4:Percentage of companies within the Short-Term rating category for which investment banking (IB) services were provided within the past 12 months.

Source: UBS. Rating allocations are as of 31 March 2008.

UBS Investment Research: Global Equity Rating Definitions

UBS 12-Month Rating	Definition
Buy	FSR is > 6% above the MRA.
Neutral	FSR is between -6% and 6% of the MRA.
Sell	FSR is > 6% below the MRA.
UBS Short-Term Rating	Definition
Buy	Buy: Stock price expected to rise within three months from the time the rating was assigned because of a specific catalyst or event.
Sell	Sell: Stock price expected to fall within three months from the time the rating was assigned because of a specific catalyst or event.

KEY DEFINITIONS

Forecast Stock Return (FSR) is defined as expected percentage price appreciation plus gross dividend yield over the next 12 months.

Market Return Assumption (MRA) is defined as the one-year local market interest rate plus 5% (a proxy for, and not a forecast of, the equity risk premium).

Under Review (UR) Stocks may be flagged as UR by the analyst, indicating that the stock's price target and/or rating are subject to possible change in the near term, usually in response to an event that may affect the investment case or valuation.

Short-Term Ratings reflect the expected near-term (up to three months) performance of the stock and do not reflect any change in the fundamental view or investment case.

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Buy: Positive on factors such as structure, management, performance record, discount; Neutral: Neutral on factors such as structure, management, performance record, discount; Sell: Negative on factors such as structure, management, performance record, discount.

Core Banding Exceptions (CBE) : Exceptions to the standard +/-6% bands may be granted by the Investment Review Committee (IRC). Factors considered by the IRC include the stock's volatility and the credit spread of the respective company's debt. As a result, stocks deemed to be very high or low risk may be subject to higher or lower bands as they relate to the rating. When such exceptions apply, they will be identified in the Company Disclosures table in the relevant research piece.

Company Disclosures

Company Name	Reuters	12-mo rating	Short-term rating	Price	Price date
Reliance Industries ^{2, 4, 6}	RELI.BO	Buy	N/A	Rs2,264.50	31 Mar 2008

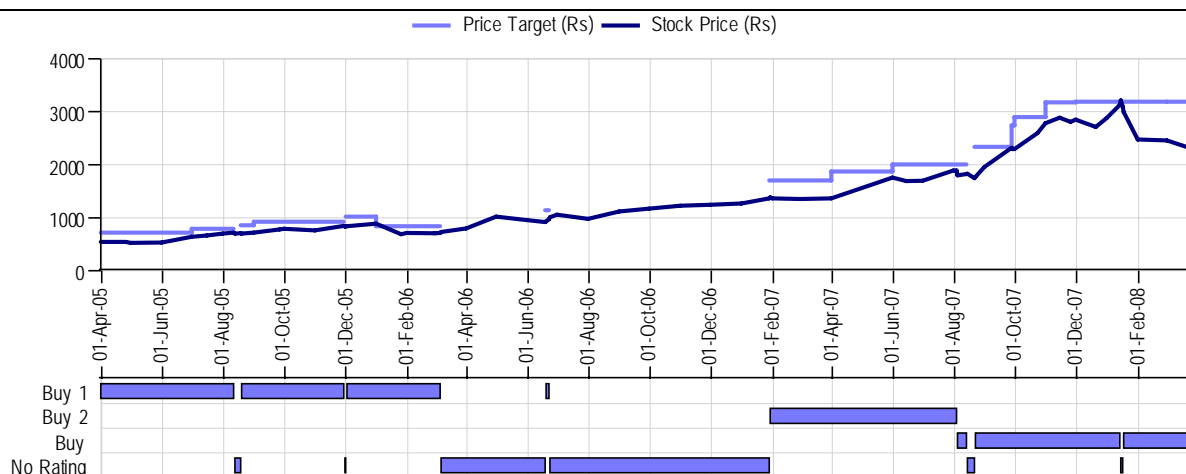
Source: UBS. All prices as of local market close.

Ratings in this table are the most current published ratings prior to this report. They may be more recent than the stock pricing date

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Unless otherwise indicated, please refer to the Valuation and Risk sections within the body of this report.

Reliance Industries (Rs)



Source: UBS; as of 31 Mar 2008

Note: On August 4, 2007 UBS revised its rating system. (See 'UBS Investment Research: Global Equity Rating Definitions' table for details). From September 9, 2006 through August 3, 2007 the UBS ratings and their definitions were: Buy 1 = FSR is > 6% above the MRA, higher degree of predictability; Buy 2 = FSR is > 6% above the MRA, lower degree of predictability; Neutral 1 = FSR is between -6% and 6% of the MRA, higher degree of predictability; Neutral 2 = FSR is between -6% and 6% of the MRA, lower degree of predictability; Reduce 1 = FSR is > 6% below the MRA, higher degree of predictability; Reduce 2 = FSR is > 6% below the MRA, lower degree of predictability. The predictability level indicates an analyst's conviction in the FSR. A predictability level of '1' means that the analyst's estimate of FSR is in the middle of a narrower, or smaller, range of possibilities. A predictability level of '2' means that the analyst's estimate of FSR is in the middle of a broader, or larger, range of possibilities. From October 13, 2003 through September 8, 2006 the percentage band criteria used in the rating system was 10%.

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