3 November 2008

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Reliance Industries

Long winter ahead

Change of target price

Sell

Target price
Rs1150.00 (from Rs1850.00)

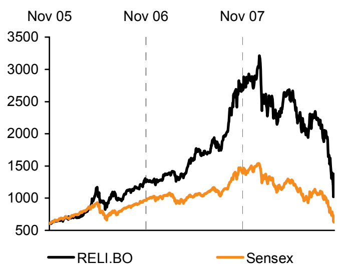
Price
Rs1375.45

Short term (0-60 days)
n/a

Market relative to region
Neutral

Price performance

	(1M)	(3M)	(12M)
Price (Rs)	1949	2208	2783
Absolute (%)	-29.4	-37.7	-50.6
Rel market (%)	-7.3	-8.6	0.2
Rel sector (%)	-13.9	-1.1	7.7



Market capitalisation
Rs2.16t (US$43.85bn)

Average (12 mnth) daily turnover
Rs7133.82m (US$163.96m)

RIC: RELI.BO, RIL IN
Priced at close of business 31 Oct 2008.
Source: Bloomberg

We cut our EPS estimates on RIL 6-25% (now 9-38% below consensus) on slowing growth in global oil demand, resulting in steep declines in refining margins. We have cut our target price from Rs1,850 to Rs1,150 and maintain our Sell rating.

Key forecasts

	FY07A	FY08A	FY09F	FY10F	FY11F
Revenue (Rsm)	1116927	1334430	1581142	2329984	2057540
EBITDA (Rsm)	202641	223191	247656	343754 ▼	327514 ▼
Reported net profit (Rsm)	119434	194584	153101 ▼	194741 ▼	178646 ▼
Normalised net profit (Rsm)¹	119434	152650	153101	194741	178646
Normalised EPS (Rs)	95.2	121.7	116.4 ▼	141.6 ▼	129.9 ▼
Dividend per share (Rs)	11.0	13.0	14.0	16.0	16.0
Dividend yield (%)	0.80	0.95	1.02	1.16	1.16
Normalised PE (x)	14.5	11.3	11.8 ▲	9.71 ▲	10.6 ▲
EV/EBITDA (x)	12.1	11.5	10.3	7.31	7.48
Price/book value (x)	3.15	2.33	1.77	1.59	1.41
ROIC (%)	19.1	12.3	10.3	11.0	9.23

Use of ▲ ▼ indicates that the line item has changed by at least 5%.
1. Post-goodwill amortisation and pre-exceptional items
Accounting standard: Local GAAP
Source: Company data, ABN AMRO forecasts

year to Mar, fully diluted

2QFY09 results surprise due to forex losses and inventory gains

RIL reported 2QFY09 net profit of Rs41.2bn (up 7% yoy), 17% above our estimates. The upside was mainly from inventory gains of US$0.5/bbl (we had assumed none) and lower-than-expected forex losses (Rs1.8bn compared with our estimate of Rs5bn). Net debt as of end-September 2008 was Rs300bn. We expect this to decline with the equity infusion from the exercise of promoter warrants (Rs151bn).

End of an era for complex refiners

Relative to Singapore complex margins, RIL's GRMs had moved from a premium of US$2/bbl in FY05 to US$7.4/bbl in FY08 as margins on transportation fuels (diesel, petrol, jet fuel) kept rising while margins on fuel oil kept declining. This also caused a rising differential between heavy/sour and sweet/light crude, which played into RIL's strengths. We expect this trend to reverse, however. We expect new refining capacity to mainly target supply of transportation fuels, but demand has been slowing. Global crude supply is also getting lighter and sweeter. Margin trends in the past few months (down for diesel and up for fuel oil) give an indication of future trends, in our view. We maintain our Singapore complex margin estimates for FY10/11 at US$5-5.5/bbl, but cut margins for RIL and RPL US$3-4/bbl.

We maintain our Sell rating and assume 'mid-cycle' margin levels

Over FY05-08, refining and petrochemical margins rose 2-3x above the average in FY02-04. On expectations of global capacity additions amid a slowdown in demand growth, we assume margins for FY10-11 will decline to 'mid-cycle' levels - 40% lower than in FY08, but 50% higher than the lows of FY02-04. Our new target price of Rs1,150 values the company at 8x FY10F EPS. Using a SOTP valuation, this target price assumes no value for assets with zero visibility on earnings (retail, SEZs, new oil/gas finds). If the dispute with RNRL and NTPC is resolved in RIL's favour, our FY11F EPS could rise to Rs172 on higher to E&P earnings and GRMs (assuming KG-D6 gas for internal consumption), and raise our target price to Rs1,400.

Analysts

Avadhoot Sabnis
India
+91 22 6715 5302
avadhoot.sabnis@in.abnamro.com

Puneet Gulati
+91 22 6715 5307
puneet.j.gulati@in.abnamro.com

83/84 Sakhar Bhawan, Nariman Point,
Mumbai 400 021, India

http://www.abnamroresearch.com

Long winter ahead

RIL's earnings outlook will largely depend on the impact of global GDP slowdown on refining/petrochem margins. Our estimates are based on the view that margins will settle at around 50% above the trough levels recorded in FY02-04.

2QFY09 results surprise on forex losses and inventory gains

RIL's reported 2QFY09 net profit of Rs41.2bn (up 7% yoy), 17% above our estimate due to inventory gains and lower forex losses. Given that RIL had said that it would not incur significant inventory gains/losses for this quarter, we had estimated none. However, in the sharply declining crude environment, RIL had earned an inventory gain of roughly US$0.50/bbl this quarter.

We had estimated forex losses of Rs5bn compared with Rs2.8bn in 1QFY09 due to higher rupee depreciation. The actual loss turned out to be much lower at Rs1.8bn. In line with its past policies, the company capitalised forex loss incurred on loans used for acquisition of fixed assets (the after-tax impact was Rs11.4bn for 1HFY09).

Capex at Rs41.9bn was down 42% qoq and was mostly for E&P (an additional Rs3-4bn was invested in subsidiaries). Net debt was down from Rs319bn at end-June 2008 to Rs300bn at end-September 2008. Exercise of warrants by the promoters would have resulted in additional inflow of Rs151bn in the current month and increased cash (gross debt of Rs380bn has not been paid down).

We had earlier estimated oil/gas production from the KG-D6 block would commence from September 2008. Oil production from the KG-D6 block commenced from 17 September 2008 with an initial production of 5 kbd and current production is 10 kbd. Management confirmed that the peak production level of 80mmscmd of gas and 40 kbd of oil would be reached progressively over the next six to eight quarters (4QFY10 to 2QFY11). We assume peak production will be achieved in 1QFY11. We also lower our KG-D6 oil/gas volume estimates from our earlier assumption of a faster ramp-up.

Table 1 : Change to KG-D6 volume assumptions

Year to 31 March	2009F	2010F	2011F
Current estimates			
Oil (kbd)	7	28	40
Gas from D1/D3 fields mmscmd	5	40	75
Gas from MA field mmscmd			6
Previous estimates			
Oil (kbd)	10	40	40
Gas from D1/D3 fields mmscmd	17	40	80
Gas from MA field mmscmd		6	9

Source: ABN AMRO forecasts

Table 2 : EPS sensitivity to KG-D6 oil

Year to 31 March	2009F	2010F	2011F
Current estimates			
KG-D6 oil production (gross) - bbls/d	7,000	28,000	40000
Crude oil (Brent) price US$/bbl	80.00	90.00	80.00
EPS (Rs)	116.4	141.6	129.9
EPS sensitivity for US$5/bbl change in oil price	0.28%	0.88%	1.25%
EPS sensitivity for 10% change in output	0.46%	1.62%	2.00%

Source: ABN AMRO forecasts

Table 3 : EPS sensitivity to KG-D6 gas

Year to 31 March	2009F	2010F	2011F
Current estimates			
KG-D6 gas production (gross)- mmscmd	5.0	40.0	81.0
KG-D6 average gas price at Kakinada (US$/mmbtu)	4.20	4.20	3.46
EPS (Rs)	116.4	141.6	129.9
EPS sensitivity for US$0.5/mmbtu change in gas price	0.72%	4.55%	9.13%
EPS sensitivity for 10% change in output	0.52%	3.27%	6.35%

Source: ABN AMRO forecasts

Table 4 : RIL quarterly results

Rs m	1Q08	2Q08	3Q08	4Q08	1Q09	2Q09	yoy	qoq
Net sales	**295,240**	**320,430**	**345,900**	**372,860**	**415,790**	**447,870**	**39.8%**	**7.7%**
Expenditure								
Inc/dec in stock	8,780	(9,200)	6,770	12,320	(26,070)	(15,830)		
Raw materials - external purchases	191,740	218,720	235,930	256,640	335,270	349,780		
Purchases	8,360	24,020	15,680	12,020	5,900	11,370		
Staff cost	4,960	4,710	5,770	5,760	6,510	5,880		
Other expenditure	24,670	24,370	23,420	25,930	32,970	31,930		
Total	238,510	262,620	287,570	312,670	354,580	383,130		
EBIDTA	**56,730**	**57,810**	**58,330**	**60,190**	**61,210**	**64,740**	**12.0%**	**5.8%**
EBDITA margins	*19.2*	*18.0*	*16.9*	*16.1*	*14.7*	*14.5*		
Interest	(2,950)	(2,570)	(2,530)	(2,720)	(2,940)	(4,370)	70.0%	48.6%
Depreciation	(11,250)	(11,290)	(12,130)	(13,800)	(11,510)	(12,640)	12.0%	9.8%
Non-op income	1,970	1,680	49,740	2,890	2,260	1,510	-10.1%	-33.2%
PBT	44,500	45,630	93,410	46,560	49,020	49,240	7.9%	0.4%
Tax	(5,170)	(5,270)	(10,630)	(5,440)	(5,670)	(5,770)	9.5%	1.8%
Provision for deferred tax	(3,030)	(1,990)	(1,990)	(1,990)	(2,250)	(2,250)	13.1%	0.0%
Net profit	**36,300**	**38,370**	**80,790***	**39,130**	**41,100**	**41,220**	**7.4%**	**0.3%**
Total tax (current + deferred)	*18.4%*	*15.9%*	*13.5%*	*16.0%*	*16.2%*	*16.3%*		
Revenue by segment								
Petrochemicals	132,130	129,610	127,060	141,190	148,710	155,490	20.0%	4.6%
Refining	223,280	235,750	261,540	286,860	325,870	363,930	54.4%	11.7%
Oil & gas	5,180	5,980	7,580	8,280	7,870	9,350	56.4%	18.8%
Others	720	2,030	1,610	3,420	1,240	1,330	-34.5%	7.3%
Gross turnover	361,310	373,370	397,790	439,750	483,690	530,100	42.0%	9.6%
Segment PBIT								
Petrochemicals	18,450	20,250	17,780	14,660	15,790	18,970	-6.3%	20.1%
Refining	25,570	23,210	26,140	28,390	30,400	27,740	19.5%	-8.8%
Oil & gas	2,900	3,790	3,870	4,470	5,030	6,450	70.2%	28.2%
Others	110	110	90	90	90	90	-18.2%	0.0%
Total	47,030	47,360	47,880	47,610	51,310	53,250	12.4%	3.8%
Segment capital employed								
Petrochemicals	311,540	305,850	305,190	307,580	315,500	343,030	12.2%	8.7%
Refining	392,720	381,400	405,820	421,410	449,950	447,690	17.4%	-0.5%
Oil & gas	122,430	158,650		263,910	299,420	354,470	123.4%	18.4%
Others	65,000	71,480	289,880	64,470	66,540	68,040	-4.8%	2.3%
Unallocated corporate	140,090	165,540	189,840	200,640	175,280	251,800	52.1%	43.7%
Total	1,031,780	1,082,920	1,190,730	1,258,010	1,306,690	1,465,030	35.3%	12.1%
Operational performance								
Refining								
Refinery crude throughput (mt)	8.01	8.09	7.60	8.10	8.13	8.21	1.5%	1.0%
Refinery GRM (US$/bbl)	15.40	13.60	15.40	15.50	15.70	13.40	-1.5%	-14.6%
Singapore GRM (US$/bbl)	9.47	6.40	7.70	6.94	8.17	5.86	-8.4%	-28.3%
Petrochemicals production								
All products (inc internal transfers) (mt)	4.82	4.95	4.77	5.10	5.00	5.00	1.0%	0.0%
Polyester (PFY, PSF, PET) ('000t)	389	387	392	404	410	364	-5.9%	-11.2%
Fiber Intermediates (PX, PTA, MEG) ('000t)	1,152	1,214	1,114	1,234	1,184	1,170	-3.6%	-1.2%
Polymers (PE, PP, PVC) ('000t)	833	829	852	860	831	823	-0.7%	-1.0%

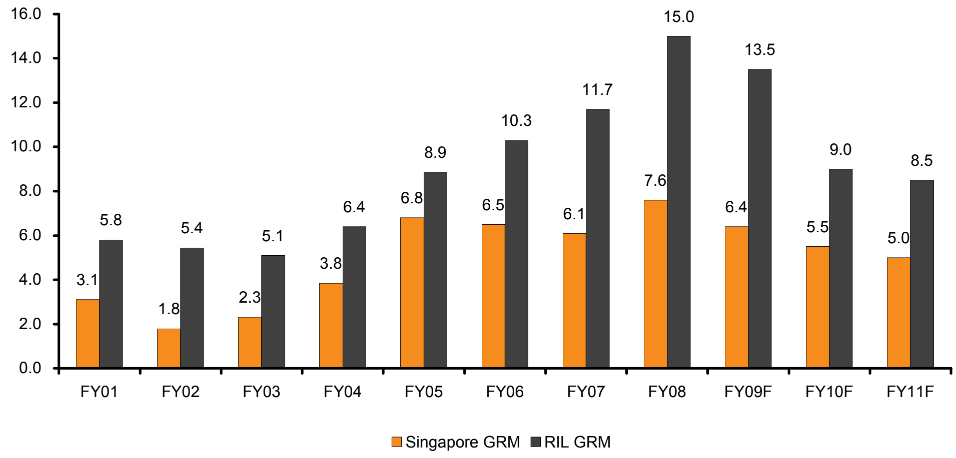
Source: Company *Normalised net profit if Rs38.82bn after excluding capital gains on sale of RPL shares Rs47.33bn (included in non-op income)

End of an era for complex refiners

Demand growth faltering just as new capacity comes on line

Our previous forecast was for the refining cycle to turn down from FY09 and Singapore complex gross refinery margin (GRM) to drop from US$7.6/bbl in FY08 to US$5.5/bbl in FY10 and US$5bbl in FY11. On our assumption that the premium to Singapore complex margins would remain at US$7/bbl over FY09-11F, our GRM estimates were too optimistic. We now lower the premium to around US$3.5/bbl and maintain our Singapore margin estimates. We also assume the new refinery operated by Reliance Petroleum (RPL) will earn US$2/bbl over and above RIL's GRMs. As we stated in our last report (Reliance Industries – Refining risks, 13 August 2008), forecasting margins at turning points can be tricky. Just as the upside in GRMs over the past three years was consistently underestimated by the market (RIL's GRM in FY04 was US$6.4/bbl), it is possible the downside could be more extensive than we expect.

Chart 1 : GRM trends - Singapore vs RIL



Source: Reuters, ABN AMRO forecasts

Table 5 : EPS sensitivity to GRMs

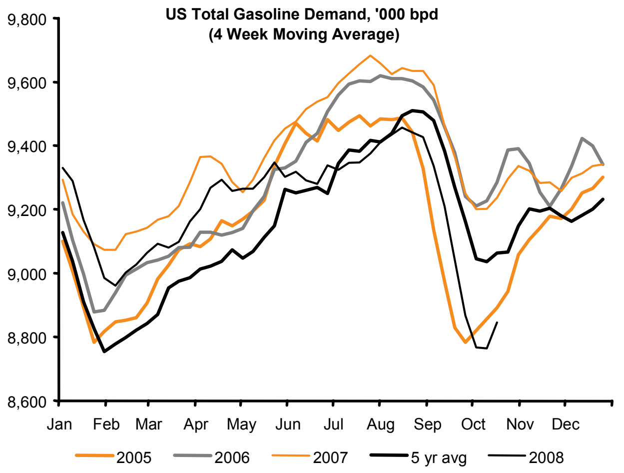
Year to 31 March	2009F	2010F	2011F
Current estimates			
Singapore GRMs (Reuters) US$/bbl	6.4	5.5	5.0
RIL GRM (US$/bbl)	13.50	9.00	8.50
RPL GRM US$/bbl		11.00	10.50
EPS (Rs)	116.4	141.6	129.9
EPS sensitivity for US$1/bbl change in GRM	5.6%	7.5%	3.7%

Source: ABN AMRO forecasts

Our macro view on weakening regional refining margins has been based on deterioration of demand-supply balances. The bullish view was that while new refining capacity would cause some margin weakness, the impact would not be material given prospects of strong demand growth. While the refining capacity coming on line in CY08/09 remains in line with expectations, it is the demand side of the equation that has changed drastically over the past 12 months. The International Energy Agency (IEA), which makes global oil demand/supply forecasts, has been progressively cutting its 2008 global oil demand estimate as new datapoints indicate the extent of the global slowdown. The estimate for demand growth was 2m b/d in January 2008, 1.3m b/d in April 2008 and is now 0.7m b/d. The demand impact in developed markets like the US has been particularly striking with diesel and gasoline demand showing sharp falls, with recent demand levels going well below the five-year average and even below 2005 demand levels.

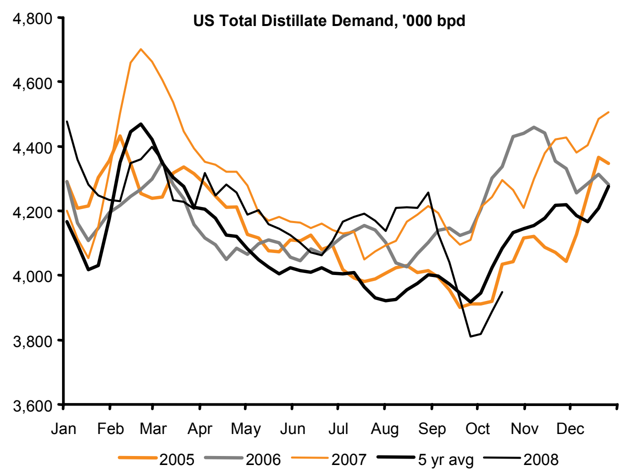
We expect India and China together to add nearly 2m b/d of new refining capacity over CY08-09. Most of this new capacity has yet to be commissioned. We expect this new capacity to cause further weakness in GRMs and the extent of the downside to be known once RPL starts operating close to full capacity in 1HCY09.

Chart 2 : US total gasoline demand, kbd (4 wk mov avg)



Source: Valero/US Department of Energy

Chart 3 : US total distillate demand, kbd (4 wk mov avg)



Source: Valero/US Department of Energy

Table 6 : Refining capacity additions in India/China (kbd)

	Company	Location	Capacity addition	Likely commissioning
India				
	Reliance Petroleum	Jamnagar	580	4Q08
	Chennai Petroleum	Manali	30	3Q09
	Indian Oil Corporation	Panipat	60	3Q09
India total			**670**	
China				
	Sinopec	Quindao	200	2Q08*
	Sinopec	Fujian	170	1Q09
	Sinopec	Tianjin	140	1Q09
	CNOOC	Huizhou	240	2Q09
	Petrochina	Dushanzi	80	4Q08
	Petrochina	Dalian	210	4Q08
	Petrochina	Guangxi	200	4Q09
China total			**1240**	
Total			**1910**	

Source: Companies *already commissioned

Our expectation of a drop in margins for RIL/RPL is based on the view that pricing trends – that propelled this premium to rise from US$2/bbl in FY05 to US$7.4/bbl in FY08 – are now reversing. While overall refining margins have remained strong over FY05-08, the trend has not been uniform across all products. The reason for the rising margins was the sharp pickup in global GDP growth, which caused demand to rise only for transportation products (diesel, gasoline, jet fuel). This resulted in rising margins for these products and falling margins for fuel oil/LPG (which did not experience demand growth, but which had to be produced). On the crude side, light/sweet crudes, which produced a higher proportion of transportation products with lower sulphur content, started receiving a high premium over heavy/sour crude. Thus, super complex refiners such as RIL, which maximised production of transportation fuels and produced no fuel oil (despite using a relatively high proportion of heavy/sour crude), could report very high GRMs relative to benchmark Singapore complex GRMs.

Table 7 : Product spreads over Dubai crude, US$/bbl

	FY01	FY02	FY03	FY04	FY05	FY06	FY07	FY08
Diesel	2.72	2.03	3.02	3.02	8.97	13.06	13.72	16.13
Jet Fuel	5.79	3.40	4.05	4.33	12.57	17.25	17.59	18.54
Naphtha	0.60	(0.43)	0.81	1.63	4.43	(1.44)	0.25	2.75
Furnace Oil	(5.54)	(4.17)	(3.10)	(4.51)	(11.44)	(13.67)	(18.27)	(17.72)
Gasoline	5.09	2.91	3.87	7.59	11.28	12.43	13.13	15.37
LPG	0.41	(2.41)	(0.72)	(2.73)	(3.88)	(11.67)	(17.59)	(17.31)

Source: Bloomberg, ABN AMRO

We expect the above trends to reverse due to expectations of a significant slowdown in global GDP growth. This should impact demand mainly for transportation fuels, which has been targeted by most of the new refining capacity (like RPL). These new refineries as well as existing refiners are also looking to maximise intake of heavy/sour crude just as the proportion of sweet/light crude supply increases. Contrary to popular perceptions, global crude supply in the medium term will likely get lighter and sweeter due to rising condensate and lighter/sweeter crude supply from OPEC and the FSU. According to the IEA, weighted average global API in 2008-11 will rise from 33.1 to 33.4, while sulphur content will drop from 1.14% to 1.10-1.11%.

Recent margin movements indicate future trends

We think the movement in refining margins has mirrored trends in economic growth; the US economic outlook began deteriorating last year, which caused margins for gasoline (which is mainly consumed in the US) to weaken from early CY08. Diesel margins, on the other hand, remained extremely high as its main markets (Europe and China) reported strong economic growth in 1Q/2QCY08, with China probably stockpiling in anticipation of the Olympics. With these economies showing weakness, even diesel margins collapsed in August 2008. There was a spike in GRMs in September 2008 due to the impact of hurricanes in the US. But with the US refineries reporting no major damage and returning progressively to normal operations, GRMs have again weakened in October 2008. (see Appendix for monthly margin trends of individual products).

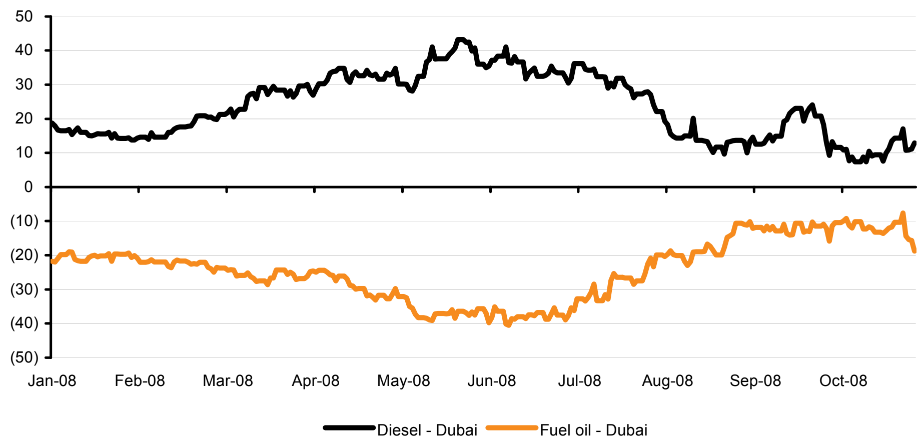
Another point to note is the inverse correlation between margins for transportation products (mainly diesel) and for fuel oil. As diesel margins rose to a peak of US$40/bbl in June 2008, fuel margins struck a new bottom of negative US$40/bbl. Since August 2008, as diesel margins have come off, fuel margins have rallied.

These trends are also reflected in GRMs for simple versus complex refiners. Singapore Simple (Reuters) GRM in August-October 2008 has been higher than during the April-July 2008 period. The upgrading margin (differential between Singapore simple and complex margin) has also narrowed. This trend is likely to sustain, in our view, as new refining capacity scheduled to come on line will likely mainly target supply of transportation fuels, whose demand is now weakening.

We believe the rally in fuel oil margins has important implications. It will allow relatively lower complexity refiners to maintain operating rates and prevent a bounce-back in GRMs. The differentials between Arab Heavy and Arab Light crude have been contracting sharply in past few months as well (see Appendix for chart).

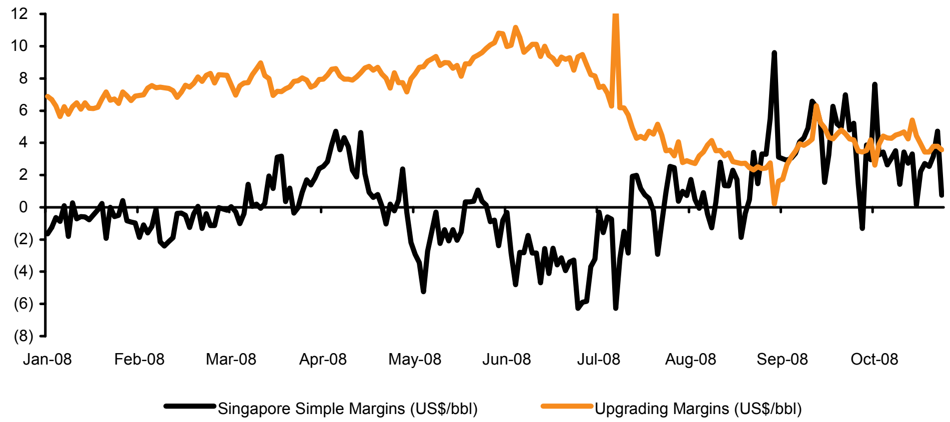
We maintain our Singapore complex margin forecasts, but now expect the composition to change. We expect margins for transportation fuels to fall and relative strength in fuel oil. This should cause premiums for complex refineries such as RIL and RPL to narrow significantly.

Chart 4 : Diesel/Fuel oil spreads over Dubai crude, US$/bbl



Source: Bloomberg

Chart 5 : Simple Singapore refining margins and upgrading margins (US$/bbl)



Source: Reuters, ABN AMRO

Retain Sell rating, assuming 'mid-cycle' margin levels

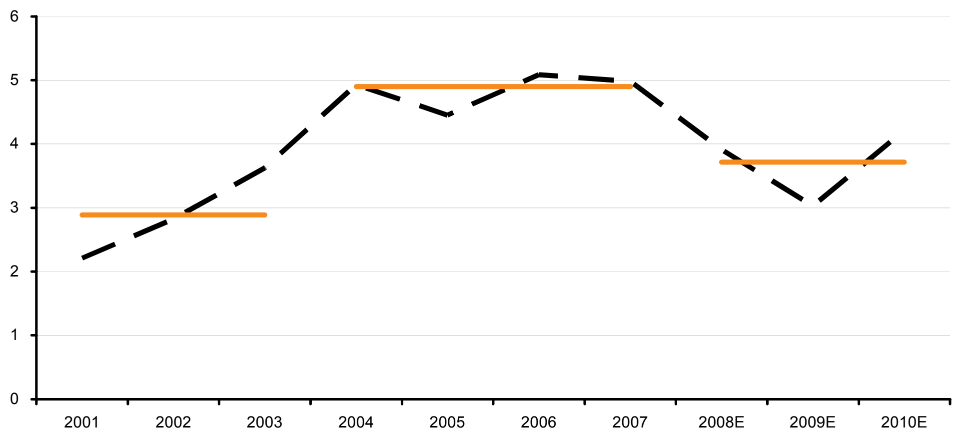
Margin assumptions critical to our valuation

Over FY05-08, refining and petrochemical margins moved up nearly 2-3x compared with the FY02-04 average. Given our expectation of global capacity additions coinciding with a slowdown in demand growth, we assume that margins over FY10-11 will decline to 'mid-cycle' levels (40% lower than FY08, but still 50% higher than the lows of FY02-04). If we assume that refining and petrochemical margins move back to the levels prevalent in FY02-04, then our FY11 EPS could drop to Rs101, representing 23% potential downside from the current level.

This cut in margin estimate largely reflects a dimmer outlook for global GDP growth, which has been very strong in the past few years and resulted in rising margins for all commodities. According to the IMF, average global output growth in CY04-07 was 4.9%, significantly above that achieved during the last downturn (2.9% over CY01-03). It estimates 3% growth in CY09, back to the level of the downturn, but with a jump back to 4.2% in CY10 (these forecasts come with a rider that the outlook is subject to considerable downside risk). Our assumption that margins will not fall to past lows is partly influenced by these forecasts. If global growth remains at around 3% for more than a year (as in CY01-03), we would not rule out further downgrade to our margin forecasts.

However, the extent of the margin downside in refining and petrochemicals will probably be evident only when new capacity becomes operational in 1QCY09. On the demand front, our concern is that the slowdown spreads across the globe, with even China having shown signs of significant weakening in economic growth.

Chart 6 : Global GDP trends (PPP basis)



Source: IMF

Petrochemical downturn should also be significant

For RIL, we look at integrated margins with naphtha as the input for all petrochemical products. On the polymer side, we maintain our view that the global cycle will deteriorate from 2HFY09. Polymer margins year to date have been strong, but have been countered by steep declines in polyester and polyester intermediates (see margin charts in Appendix). The higher oil price provides some upside for RIL's gas-based cracker during 1HFY09, but this advantage will likely erode with weakening in oil prices, in our view. Overall, our petrochemical earnings estimates increase 3-5%.

Our assumptions on regional polymer margins for FY10/11 are well above previous lows of FY02-04. However, now there will be a significant impact of lower import duty protection. During the last trough, the differential between import tariffs for polymers vis-à-vis naphtha was 26-30%; for polyester and polyester intermediates it was 16%. These differentials are now down to zero for all products.

Table 8 : Petrochemical spread (US$ ton)

Year to 31 March	2002	2003	2004	2005	2006	2007	2008	2009F	2010F	2011F
PP-naphtha	309	386	428	595	569	678	611	648	550	450
PE-naphtha	362	319	379	577	538	680	671	629	540	430
PX-naphtha	177	222	291	416	388	513	352	360	300	280
PTA less naphtha	326	377	395	523	453	509	400	371	331	318
MEG less naphtha	307	356	529	735	556	504	717	371	333	305
PFY less naphtha	750	796	892	1,026	860	923	972	798	740	747
PSF less naphtha	451	533	612	709	596	607	590	428	400	412

Source: CMAI, Bloomberg, ABN AMRO estimates

Table 9 : Gross petrochemical margins (Rsm)

Year to 31 March	2007	2008	2009F	2010F	2011F
Polyester (PSF, PFY, PET)	11,710	19,446	23,026	23,405	23,777
Polyester intermediates (PTA/MEG)	27,083	34,558	23,251	22,536	19,808
Polyester intermediates (PX)	28,631	12,100	11,156	7,777	7,330
Polymers (PVC, PE, PP)	20,008	44,762	54,651	51,935	36,890
Cracker, other chemical products	91,971	70,182	64,473	51,236	42,997
Total petrochemicals	**179,403**	**181,048**	**176,556**	**156,890**	**130,802**

Source: ABN AMRO estimates

Earnings cut driven mainly by GRMs

The 6-25% cut to our FY09-11 EPS estimates is driven mainly by our assumption of lower GRMs. We reduce the premium of RIL/RPL GRM relative to Singapore complex GRMs from US$7/bbl to US$3.5/bbl. We also lower our E&P earnings estimate following announcements of delays in the commencement of KG-D6 oil/gas output and our expectation of a slower ramp-up to full capacity. We expect rupee depreciation will have a positive impact on earnings, especially as the forex loss on loans taken for the acquisition of fixed assets is not adjusted against the earnings statement.

Table 10 : Change in estimates

Year to 31 March	2009F	2010F	2011F
Net profit (Rs m)			
Revised	153,101	194,741	178,646
Previous	162,747	240,626	237,842
Change	-6%	-19%	-25%
EPS (Rs)			
Revised	116.4	141.6	129.9
Previous	123.8	175.0	173.0
Change	-6%	-19%	-25%
EPS (based on gross shares)			
ABN AMRO current estimate	101.1	123.8	113.5
Consensus	111.6	171.0	183.9
ABN AMRO vs consensus	-9%	-28%	-38%

Source: ABN AMRO forecasts, Bloomberg consensus

Table 11 : RIL consolidated earnings

Year to 31 March (Rs m)	2007	2008	2009F	2010F	2011F
Segmental EBITDA					
Petrochemicals	81,842	79,926	75,211	52,461	21,792
Refining & Marketing	102,158	119,116	119,323	71,938	58,069
RPL refinery				77,165	73,777
E&P	18,641	24,149	53,122	142,190	173,875
Total	202,641	223,191	247,656	343,754	327,514
EBITDA share %					
Petrochemicals	40%	36%	30%	15%	7%
Refining & Marketing	50%	53%	48%	43%	40%
E&P	9%	11%	21%	41%	53%
Depreciation	(48,152)	(48,471)	(53,641)	(91,717)	(94,477)
Interest	(11,889)	(10,774)	(15,562)	(33,919)	(28,427)
Forex gains/(losses)	(2,179)	9,868	(5,000)	9,000	9,000
Non-op income	4,783	8,953	8,934	9,601	9,904
Exceptional item-sale of RPL shares		47,335			
PBT	145,205	230,103	182,387	236,719	223,514
Tax	(25,771)	(35,519)	(29,287)	(27,043)	(29,762)
Effective tax rate	*18%*	*15%*	*16%*	*11%*	*13%*
Net profit	119,434	194,584	153,101	209,675	193,752
Minority interest	0	0	0	(14,934)	(15,107)
Group profit	**119,434**	**194,584**	**153,101**	**194,741**	**178,646**
Group EPS (Rs)	95.2	155.1	116.4	141.6	129.9
Group EPS (excluding exceptionals) (Rs)	**95.2**	**121.7**	**116.4**	**141.6**	**129.9**

Source: Company data, ABN AMRO forecasts

Table 12 : Summary of key assumptions

Year to 31 March	2007	2008	2009F	2010F	2011F
Exchange rate year average (Rs/US$)	45.30	40.27	45.00	45.00	41.00
Refining and marketing					
RIL refinery crude throughput (mt)	31.70	31.80	31.85	31.85	31.85
RIL GRM (US$/bbl)	11.7	15.0	13.50	9.00	8.50
RPL crude throughput (mt)				26.10	29.00
RPL GRM US$/bbl				11.00	10.50
Singapore GRMs (Reuters)	6.1	7.6	6.4	5.5	5.0
E&P					
PMT oil production (gross) - bbls/d	39,578	44,770	47,034	47,034	47,034
PMT gas production (gross)- mmscmd	10.7	14.8	17.0	17.0	17.0
KG-D6 gas production (gross)- mmscmd			5.0	40.0	81.0
Gas volumes sold to RNRL/NTPC (mmscmd)					40.00
KG-D6 gas price for RNRL/NTPC (US$/mmbtu)					2.56
KG-D6 gas price for balance customers (US$/mmbtu)	4.20	4.20	4.20	4.20	4.20
KG-D6 oil production (gross) - bbls/d			7,000	28,000	40,000
Crude oil (Brent) price US$/bbl	65.0	82.4	100.00	90.00	80.00
Petrochemicals					
Production key segments					
Polyester 000t (PFY, PSF, PET)	1,481	1,572	1,597	1,672	1,708
Fiber Intermediates 000t (PX, PTA, MEG)	4,337	4,714	4,728	4,728	4,728
Polymers 000t (PE, PP, PVC)	3,215	3,374	3,371	3,371	3,371
Cracker (ethylene production) 000t	1,779	1,889	1,878	1,878	1,878
Margins (US$/t) key products					
PP less naphtha	678	611	648	550	450
PE less naphtha	680	671	629	540	430
PX less naphtha	513	352	360	300	280
PTA less naphtha	509	400	371	331	318
MEG less naphtha	504	717	371	333	305
PFY less naphtha	923	972	798	740	747
PSF less naphtha	607	590	428	400	412

Source: Company data, ABN AMRO forecasts

Target price cut to Rs1,150

Our old target price of Rs1850 included option value (Rs360) for businesses (including reserves proved and not in development mode, and new businesses such as Reliance Retail and SEZs) that currently do not contribute to RIL's profitability. We no longer factor in this value in deriving our target price, given current market conditions.

For the core business, we lower our valuation from Rs1,490 per share to Rs1,150 per share, which is our new target price.

- We have lowered the valuation of the existing business from 6x to 5x FY10F EV/EBITDA. Our EBITDA estimate is cut 9.5%. After adjustment for net debt, our valuation for this business is lowered from Rs787/share to Rs575/share.
- We value the stake in RPL at Rs90/share or 8x FY10F EPS.
- We reduce the valuation for the KG-D6 block marginally from Rs750bn to Rs747bn. The dollar value slips significantly on lower output in FY09-11F, but rupee depreciation provide some upside.
- Our valuation of the balance of it businesses (which accounted for Rs360 of our previous Rs1,850 target price) is now considered an option value and is not factored into our target price calculation.

Table 13 : RIL valuation

Sector	Base	Multiple	Valuation (Rsm)	US$m	New Rs/share	Old Rs/share	Change
Existing business valuation on FY10F EV/EBITDA							
Petrochemicals	52,461	5	262,303	5,353	191	204	
Refining	71,938	5	359,691	7,341	262	436	
Oil& gas	33,587	5	167,936	3,427	122	147	
Sub total			789,930	16,121	575	787	(213)
Less: FY09F net debt			(251,086)	(5,124)	(183)	(137)	(45)
Valuation of RPL at 8x FY10 EPS	3167	90	285,030	5,817	207	295	(88)
KG-D6 oil/gas reserves on DCF	3894.3	4.7	747,000	15,245	543	546	0
Current target price			**1,573,874**	**32,059**	**1,143**	**1,490**	**(347)**
Option values no longer considered for target price							
NEC-25 reserves on DCF	455	2.6	47,412	1,185	34	34	0
Exploration upside: oil reserves on US$/boe	200	11	88,000	2,200	64	64	0
Exploration upside:gas reserves on US$/boe	1927	2	154,160	3,854	112	112	0
Valuation of Reliance Retail on DCF	100000	1.4	141,790	2,894	103	103	0
SEZs at 2x price/book	32000	2	64,000	1,306	47	47	0
Sub total			495,362	11,439	360	360	0
Total valuation/earlier target price			2,066,236	43,498	1,503	1,850	

Source: ABN AMRO forecasts

Still expensive relative to peers

Our new target price values RIL at 8x FY10F EPS, broadly in line or at a slight premium to the global peer group. The case for a premium valuation is mixed. We think RIL's asset quality and growth prospects are better than its peer group, but its earnings for its E&P business are based on a full-cost accounting policy. Under this method, all costs incurred in the E&P (including cost of surveys, seismic, dry wells) are capitalised and designates the country as a cost centre. Other domestic competitors such as ONGC and Cairn India, and almost all large E&P companies globally follow the successful efforts method, which is much more conservative. For FY08, ONGC wrote off Rs32.4bn on survey expenses alone. RIL does not disclose the financial impact of a changeover to successful method accounting. In our view, there is a high probability that RIL will change its accounting policy once KG-D6 block starts producing next year, as high revenues from this block could then absorb the exploration write-offs. If this happens, the previous costs of all dry holes and seismic surveys would likely be adjusted against reserves.

On an EV/EBITDA basis, RIL is trading at 7.3x FY10F earnings, virtually double that of its peer group. The high premium may just reflect differing views on earnings, however, as our estimates are significantly below Bloomberg consensus estimates.

Table 14 : Valuation of global oil/gas/petrochemical companies

	PER		EV/EBITDA		P/B	Div yield
	2008	2009	2008	2009	2008	2008
Super Majors	7.0	8.0	3.2	3.7	2.1	4.0
European Majors	7.0	7.6	3.1	3.3	1.9	5.9
Emerging Oils	7.4	6.8	6.0	5.5	1.4	5.1
Refiners	7.6	7.5	4.6	4.7	1.3	3.3
E&P Players	13.2	11.5	4.4	4.9	2.6	3.1
US Integrated	5.1	6.6	2.5	3.1	1.2	2.7
Asia petrochem	9.4	11.2	9.1	10.0	1.7	7.9

Source: Bloomberg consensus forecasts. As on 31 October 2008

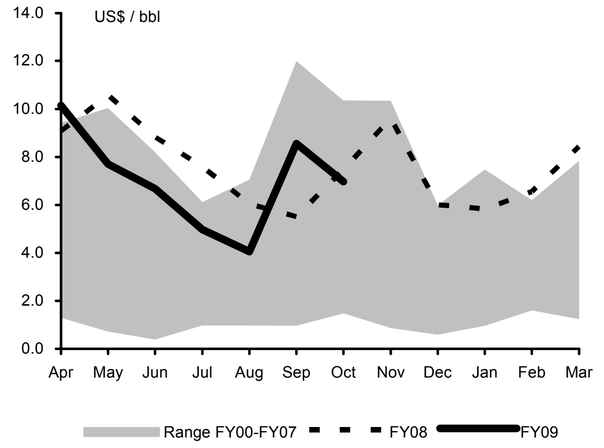
Rs1400 target price if RIL wins dispute with NTPC/RNRL

In valuing RIL's KG-D6 block, we assume that 40mmscmd of gas is sold to NTPC/RNRL from the D1/D3 field at US$2.6/mmbtu from FY11, thereby resulting in relatively lower E&P earnings. If these volumes are sold as such, there would be no scope to use the gas for internal consumption. The Indian government has announced a gas utilisation policy whereby an initial volume of 40mmscmd of RIL gas has been earmarked for existing users, mainly for the fertiliser and power sectors.

The dispute between RNRL and RIL is being heard by the Mumbai High Court. In the event that the judgement goes in RIL's favour, then all the KG-D6 gas volumes from FY11 would be sold at the government-determined price of US$4.2/mmbtu. The additional gas production could then be used for internal refinery consumption, which could boost the company's GRMs by US$2.4/bbl (assuming that savings relative to the oil price would be US$30/bbl). This could raise our EPS estimates for FY11 to Rs172 (up 32% from our current estimate) and our target price to Rs1,400.

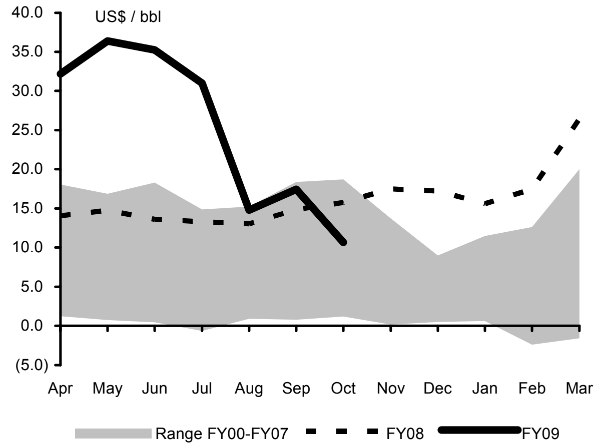
Oil product spreads

Chart 7 : Singapore complex refining margin (US$/bbl)



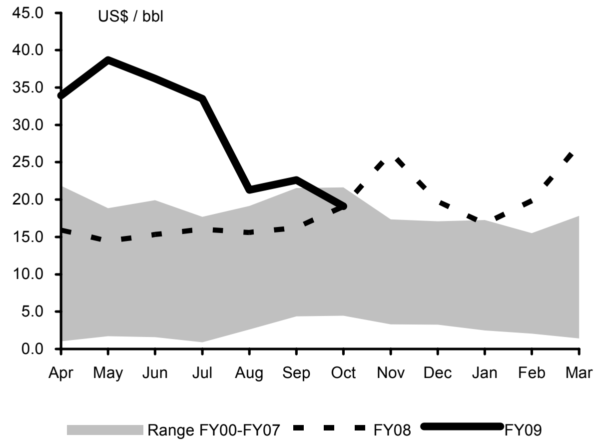
Source: Reuters

Chart 8 : Diesel – Dubai crude (US$/bbl)



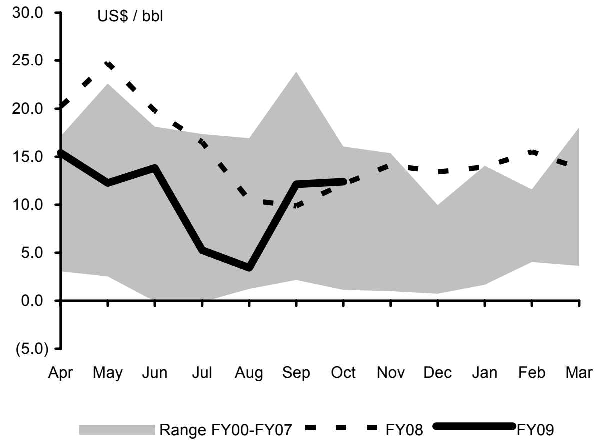
Source: Bloomberg

Chart 9 : ATF – Dubai crude (US$/bbl)



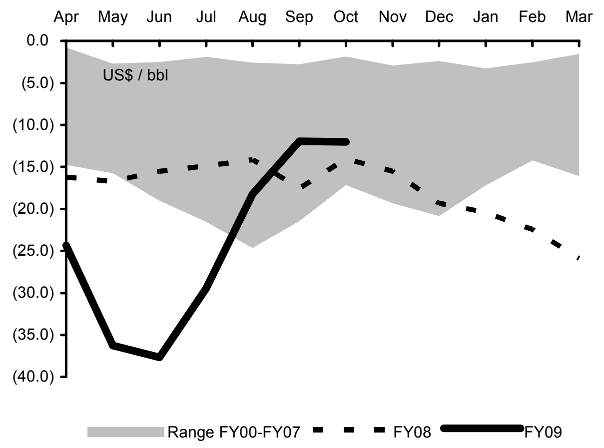
Source: Bloomberg

Chart 10 : Petrol – Dubai crude (US$/bbl)



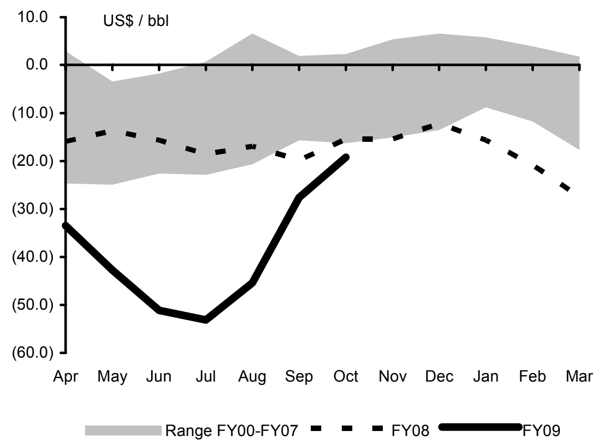
Source: Bloomberg

Chart 11 : Fuel oil – Dubai crude (US$/bbl)



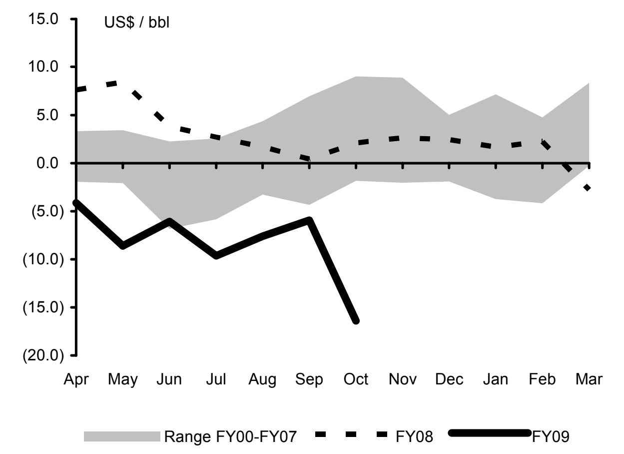
Source: Bloomberg

Chart 12 : LPG – Dubai crude (US$/bbl)



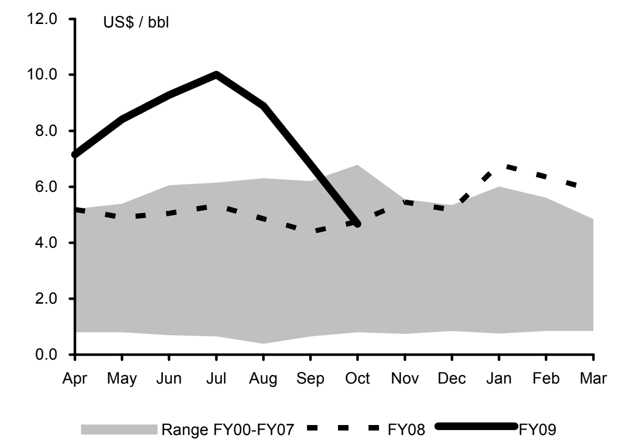
Source: Bloomberg

Chart 13 : Naphtha – Dubai crude (US$/bbl)



Source: Bloomberg

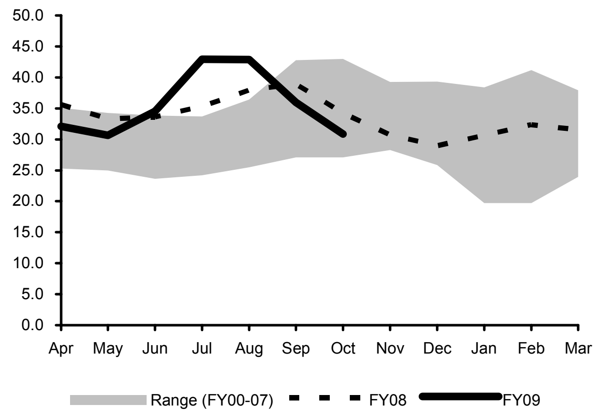
Chart 14 : Arab Light – Arab Heavy crude (US$/bbl)



Source: Bloomberg

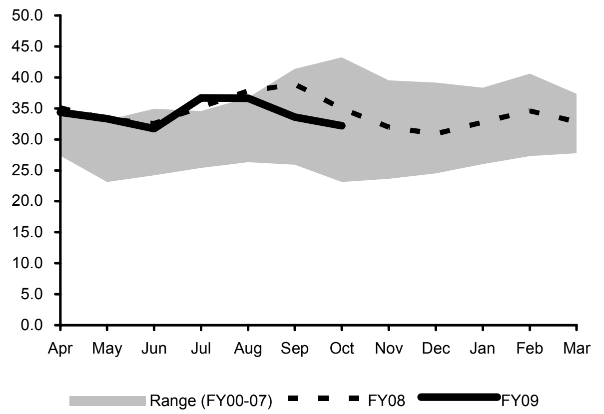
Petrochemical product spreads

Chart 15 : PP – Naphtha (Rs/kg)



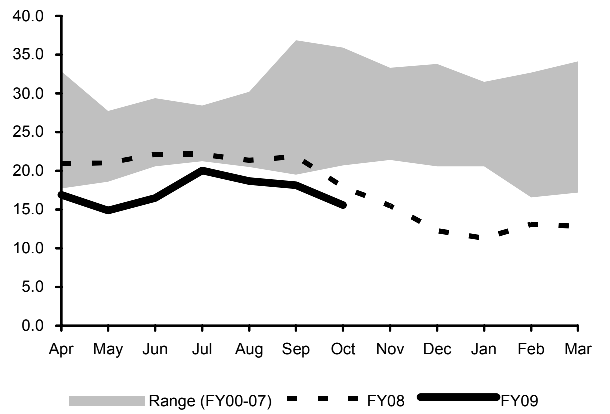
Source: ABN AMRO, RIL

Chart 16 : PE – Naphtha (Rs/kg)



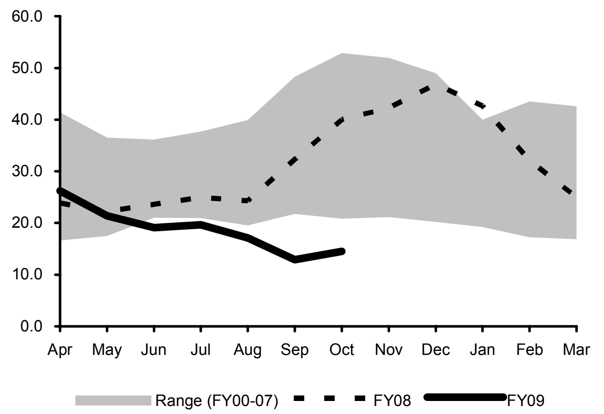
Source: ABN AMRO, RIL

Chart 17 : PTA – Naphtha (Rs/kg)



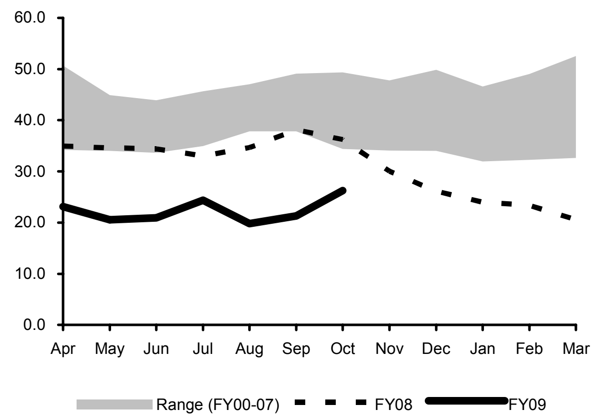
Source: ABN AMRO, RIL

Chart 18 : MEG – Naphtha (Rs/kg)



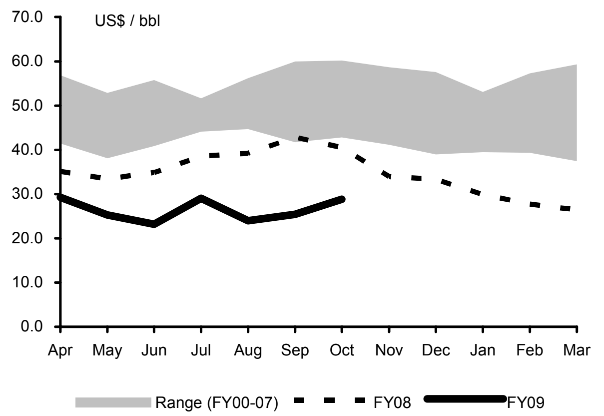
Source: ABN AMRO, RIL

Chart 19 : PSF – Naphtha (Rs/kg)



Source: ABN AMRO, RIL

Chart 20 : POY – Naphtha (Rs/kg)



Source: ABN AMRO, RIL

Recommendation structure

Absolute performance, short term (trading) recommendation: A Trading Buy recommendation implies upside of 5% or more and a Trading Sell indicates downside of 5% or more. The trading recommendation time horizon is 0-60 days. For Australian coverage, a Trading Buy recommendation implies upside of 5% or more from the suggested entry price range, and a Trading Sell recommendation implies downside of 5% or more from the suggested entry price range. The trading recommendation time horizon is 0-60 days.

Absolute performance, long term (fundamental) recommendation: The recommendation is based on implied upside/downside for the stock from the target price. A Buy/Sell implies upside/downside of 10% or more and a Hold less than 10%. For UK Small/Mid-Cap Analysis a Buy/Sell implies upside/downside of 10% or more, an Add/Reduce 5-10% and a Hold less than 5%. For UK-based Investment Funds research the recommendation structure is not based on upside/downside to the target price. Rather it is the subjective view of the analyst based on an assessment of the resources and track record of the fund management company. For listed property trusts (LPT) or real estate investment trusts (REIT) the recommendation is based upon the target price plus the dividend yield, ie total return.

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Long Term recommendations (as at 03 Nov 2008)

	Global total (IB%)	Asia Pacific total (IB%)
Buy	523 (4)	366 (0)
Add	0 (0)	0 (0)
Hold	368 (1)	227 (0)
Reduce	0 (0)	0 (0)
Sell	109 (1)	66 (0)
Total (IB%)	1000 (2)	659 (0)

Source: ABN AMRO

Trading recommendations (as at 03 Nov 2008)

	Global total (IB%)	Asia Pacific total (IB%)
Trading Buy	6 (0)	6 (0)
Trading Sell	0 (0)	0 (0)
Total (IB%)	6 (0)	6 (0)

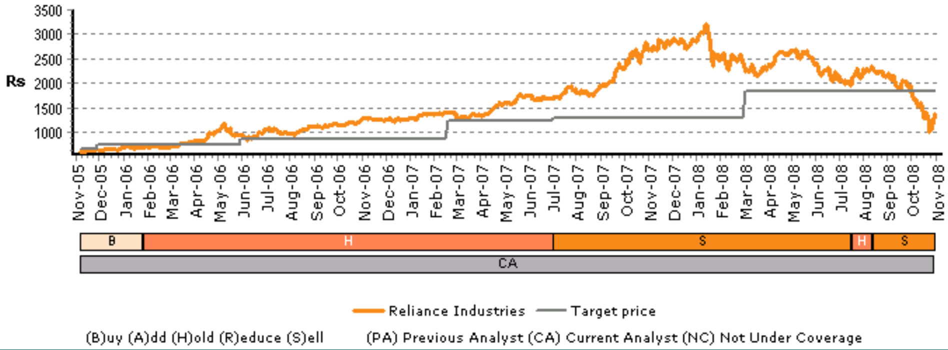
Source: ABN AMRO

Valuation and risks to target price

Reliance Industries (RIC: RELI.BO, Rec: Sell, CP: Rs1375.45, TP: Rs1150.00): The key risks to our sum-of-the-parts-based target price are: 1) refining and petrochemical margins moving higher or lower than our expectations; 2) announcements of major new discoveries, especially oil; 2) RIL winning the case against RNRL/NTPC; and 4) any increases in the KG-D6 gas price.

Reliance Industries coverage data

Stock performance, recommendations and coverage (as at 2 Nov 2008)



Avadhoot Sabnis started covering this stock on 24 Nov 03
Moved to new recommendation structure between 1 November 2005 and 31 January 2006
Source: ABN AMRO

Trading recommendation history (as at 03 Nov 2008)

Date	Rec	Analyst
	n/a	

Source: ABN AMRO

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Income statement

Rsm	FY07A	FY08A	FY09F	FY10F	FY11F
Revenue	1116927	1334430	1581142	2329984	2057540
Cost of sales	-823987	-1027521	-1243004	-1858727	-1585289
Operating costs	-90299	-83718	-90481	-127504	-144737
EBITDA	**202641**	**223191**	**247656**	**343754**	**327514**
DDA & Impairment (ex gw)	-48152	-48471	-53641	-91717	-94477
EBITA	**154489**	**174720**	**194016**	**252036**	**233037**
Goodwill (amort/impaired)	n/a	n/a	n/a	n/a	n/a
EBIT	**154489**	**174720**	**194016**	**252036**	**233037**
Net interest	-11889	-10774	-15562	-33919	-28427
Associates (pre-tax)	n/a	n/a	n/a	n/a	n/a
Forex gain / (loss)	-2178.5	9868.3	-5000.0	9000.0	9000.0
Exceptionals (pre-tax)	0.00	47335.0	0.00	0.00	0.00
Other pre-tax items	4783.0	8952.9	8934.0	9601.3	9903.8
Reported PTP	**145205**	**230103**	**182387**	**236719**	**223514**
Taxation	-25771	-35519	-29287	-27043	-29762
Minority interests	n/a	n/a	0.00	-14934	-15107
Exceptionals (post-tax)	n/a	n/a	n/a	n/a	n/a
Other post-tax items	0.00	0.00	-0.02	0.00	0.00
Reported net profit	**119434**	**194584**	**153101**	**194741**	**178646**
Normalised Items Excl. GW	0.00	41934.4	0.00	0.00	0.00
Normalised net profit	**119434**	**152650**	**153101**	**194741**	**178646**

Source: Company data, ABN AMRO forecasts — year to Mar

Balance sheet

Rsm	FY07A	FY08A	FY09F	FY10F	FY11F
Cash & market secs (1)	42614.1	100118	173333	124984	125729
Other current assets	193748	311335	453515	518859	465917
Tangible fixed assets	707322	907363	1075891	1156088	1248116
Intang assets (incl gw)	n/a	n/a	n/a	n/a	n/a
Oth non-curr assets	233444	279109	318109	338109	363109
Total assets	**1177129**	**1597926**	**2020849**	**2138040**	**2202871**
Short term debt (2)	81631.3	85225.0	27302.6	30032.8	33036.1
Trade & oth current liab	175169	221454	285240	296952	257663
Long term debt (3)	251296	407846	530583	444151	376982
Oth non-current liab	86954.3	108699	124280	133245	137236
Total liabilities	**595050**	**823223**	**967406**	**904381**	**804918**
Total equity (incl min)	582078	774703	1053443	1233660	1397953
Total liab & sh equity	**1177129**	**1597926**	**2020849**	**2138040**	**2202871**
Net debt (2+3-1)	290313	392953	384552	349200	284289

Source: Company data, ABN AMRO forecasts — year ended Mar

Cash flow statement

Rsm	FY07A	FY08A	FY09F	FY10F	FY11F
EBITDA	202641	223191	247656	343754	327514
Change in working capital	12886.4	-58463	-71125	-49271	14405.0
Net interest (pd) / rec	-11889	-10774	-15562	-33919	-28427
Taxes paid	-16574	-26520	-20975	-22440	-26522
Other oper cash items	4783.0	8952.9	8934.0	9601.3	9903.8
Cash flow from ops (1)	**191847**	**136388**	**148929**	**247725**	**296874**
Capex (2)	-321756	-248512	-222168	-171915	-186505
Disposals/(acquisitions)	0.00	0.00	0.00	0.00	0.00
Other investing cash flow	-149611	-45666	-39000	-20000	-25000
Cash flow from invest (3)	**-471367**	**-294178**	**-261168**	**-191915**	**-211505**
Incr / (decr) in equity	59248.1	16642.6	151416	0.00	0.00
Incr / (decr) in debt	114271	160143	64815.0	-83702	-64166
Ordinary dividend paid	-16425	-19085	-25776	-29459	-29459
Preferred dividends (4)	0.00	0.00	0.00	0.00	0.00
Other financing cash flow	-646.7	481.0	0.00	0.00	0.00
Cash flow from fin (5)	**156448**	**158182**	**190455**	**-113160**	**-93624**
Forex & disc ops (6)	n/a	n/a	n/a	n/a	n/a
Inc/(decr) cash (1+3+5+6)	**-123072**	**392.9**	**78215.2**	**-57350**	**-8254.8**
Equity FCF (1+2+4)	-129909	-112124	-73239	75810.6	110370

Lines in bold can be derived from the immediately preceding lines. — year to Mar
Source: Company data, ABN AMRO forecasts

Standard ratios

Performance	Reliance FY07A	FY08A	FY09F	FY10F	FY11F	Oil & Natural Gas Corp FY09F	FY10F	FY11F	PTT Pcl FY08F	FY09F	FY10F
Sales growth (%)	37.5	19.5	18.5	47.4	-11.7	23.8	-1.36	-4.20	-11.5	7.65	7.21
EBITDA growth (%)	40.7	10.1	11.0	38.8	-4.72	27.4	7.25	-2.40	18.8	8.90	7.14
EBIT growth (%)	40.4	13.1	11.0	29.9	-7.54	25.6	17.8	3.51	21.7	8.05	6.56
Normalised EPS growth (%)	21.2	27.8	-4.28	21.6	-8.26	17.5	20.2	5.47	16.5	4.84	3.94
EBITDA margin (%)	18.1	16.7	15.7	14.8	15.9	37.9	41.2	42.0	14.1	14.3	14.3
EBIT margin (%)	13.8	13.1	12.3	10.8	11.3	24.5	29.2	31.5	11.9	11.9	11.8
Net profit margin (%)	10.7	11.4	9.68	8.36	8.68	17.2	20.9	23.0	8.13	7.92	7.67
Return on avg assets (%)	12.8	11.1	8.70	10.9	9.49	20.1	20.4	18.5	16.4	16.4	15.5
Return on avg equity (%)	27.7	23.7	17.4	17.6	14.1	27.5	27.7	24.7	27.0	23.7	21.0
ROIC (%)	19.1	12.3	10.3	11.0	9.23	35.3	35.0	32.4	28.8	28.7	28.4
ROIC - WACC (%)	8.88	2.10	0.13	0.77	-0.97	22.2	22.0	19.4	0.00	0.00	0.00
					year to Mar			year to Mar			year to Dec

Valuation	Reliance FY07A	FY08A	FY09F	FY10F	FY11F	Oil & Natural Gas Corp FY09F	FY10F	FY11F	PTT Pcl FY08F	FY09F	FY10F
EV/sales (x)	2.20	1.92	1.61	1.08	1.19	0.82	0.74	0.67	0.43	0.37	0.30
EV/EBITDA (x)	12.1	11.5	10.3	7.31	7.48	2.16	1.80	1.61	3.01	2.59	2.13
EV/EBITDA @ tgt price (x)	10.4	9.87	8.86	6.28	6.39	5.19	4.63	4.51	6.00	5.34	4.70
EV/EBIT (x)	15.9	14.6	13.1	9.97	10.5	3.34	2.54	2.14	3.59	3.11	2.58
EV/invested capital (x)	2.61	2.05	1.67	1.50	1.38	1.50	1.21	0.96	0.95	0.83	0.70
Price/book value (x)	3.15	2.33	1.77	1.59	1.41	1.55	1.30	1.10	1.03	0.87	0.74
Equity FCF yield (%)	-7.53	-6.50	-4.05	4.01	5.84	10.2	15.0	16.2	13.1	14.8	20.5
Normalised PE (x)	14.5	11.3	11.8	9.71	10.6	6.13	5.10	4.83	4.16	3.97	3.82
Norm PE @tgt price (x)	12.1	9.45	9.88	8.12	8.85	12.8	10.7	10.1	9.40	8.96	8.62
Dividend yield (%)	0.80	0.95	1.02	1.16	1.16	5.23	5.98	6.28	6.92	6.92	8.81
					year to Mar			year to Mar			year to Dec

Per share data	FY07A	FY08A	FY09F	FY10F	FY11F
Tot adj dil sh, ave (m)	1254.8	1254.8	1314.8	1374.8	1374.8
Reported EPS (INR)	95.2	155.1	116.4	141.6	129.9
Normalised EPS (INR)	95.2	121.7	116.4	141.6	129.9
Dividend per share (INR)	11.0	13.0	14.0	16.0	16.0
Equity FCF per share (INR)	-103.5	-89.4	-55.7	55.1	80.3
Book value per sh (INR)	437.1	590.6	775.6	863.7	973.9
					year to Mar

Solvency	FY07A	FY08A	FY09F	FY10F	FY11F
Net debt to equity (%)	49.9	50.7	36.5	28.3	20.3
Net debt to tot ass (%)	24.7	24.6	19.0	16.3	12.9
Net debt to EBITDA	1.43	1.76	1.55	1.02	0.87
Current ratio (x)	0.92	1.34	2.01	1.97	2.04
Operating CF int cov (x)	18.5	16.1	11.9	8.97	12.4
Dividend cover (x)	7.27	8.00	5.94	6.61	6.06
					year to Mar

Priced as follows: RELI.BO - Rs1375.45; ONGC.BO - Rs669.10; PTT.BK - B159.00
Source: Company data, ABN AMRO forecasts

RIL valuations

Sector	Base	Multiple	Valuation (Rsm)	US$m	New Rs/share	Old Rs/share	Change
Existing business valuation on FY10F EV/EBITDA							
Petrochemicals	52,461	5	262,303	5,353	191	204	
Refining	71,938	5	359,691	7,341	262	436	
Oil& gas	33,587	5	167,936	3,427	122	147	
Sub total			789,930	16,121	575	787	(213)
Less: FY09F net debt			(251,086)	(5,124)	(183)	(137)	(45)
Valuation of RPL at 8x FY10 EPS	3167	90	285,030	5,817	207	295	(88)
KG-D6 oil/gas reserves on DCF	3894.3	4.7	747,000	15,245	543	546	0
Current target price			**1,573,874**	**32,059**	**1,143**	**1,490**	**(347)**
Option values no longer considered for target price							
NEC-25 reserves on DCF	455	2.6	47,412	1,185	34	34	0
Exploration upside: oil reserves on US$/boe	200	11	88,000	2,200	64	64	0
Exploration upside:gas reserves on US$/boe	1927	2	154,160	3,854	112	112	0
Valuation of Reliance Retail on DCF	100000	1.4	141,790	2,894	103	103	0
SEZs at 2x price/book	32000	2	64,000	1,306	47	47	0
Sub total			495,362	11,439	360	360	0
Total valuation/earlier target price			2,066,236	43,498	1,503	1,850	

Source: ABN AMRO forecasts

Our earlier target price of Rs1850 included option values (Rs360) for businesses which are currently not contributing to RIL's profitability. Given current market conditions, we no longer consider these values while working out our target price. Wehave reduced the valuation of the balance businesses from Rs1490 to Rs1150, which is our new target price.

Company description | Sell

Price relative to country

Reliance is India's largest private-sector enterprise. RIL ranked at 182 in the Financial Times Global 500 listing 2007. RIL also features in the Forbes Global list of world's 400 best big companies and in FT Global 500 list of world's largest companies. It is controlled by the Mukesh Ambani family and its interests span petrochemicals, refining and E&P. Its key success factors include vertical integration, world-scale production facilities and globally competitive capital as well as operating costs. In petrochemicals, it is one of the largest producers in the world, ranking No 1 in POY/PSF, No 4 in PX, No 5 in MEG, No 6 in PTA and No 7 in PP (according to RIL). It is building another refinery at Jamnagar, which is nearing completion. This will make it the single-largest refinery at any single location worldwide. RIL has also recently made a foray into organised retailing.

Strategic analysis | Average SWOT company score: 4

Strengths 4

India's dominant petrochemical producer and largest single-location petroleum refiner. It is also the country's largest private-sector upstream producer and has made significant new oil/gas discoveries. Ability to execute world-scale projects to budget and on time.

Weaknesses 3

Limited upstream integration (eg, oil/gas reserves) as of now. Government-controlled oil-product prices for petrol, diesel, LPG and kerosene do not let RIL fully exploit its marketing network.

Opportunities 4

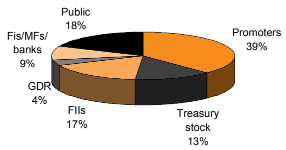
Ability to build global-scale refining operations to benefit from the tightness in global supply. Potential to expand E&P operations substantially via domestic exploration/production and acquisition of global E&P opportunities.

Threats 3

A significant downturn in regional refining/aromatic margins could put pressure on earnings. Significant rupee appreciation would strain profitability. RIL may face a gas supply glut as it begins its own gas production in December 2008.

Scoring range is 1-5 (high score is good)

Sep08 Shareholding pattern



Source: BSE

Market data

Headquarters
Maker Chambers IV, Nariman Point, Mumbai.

Website
www.ril.com

Shares in issue
1573.6m

Freefloat
53%

Majority shareholders
Mukesh Ambani family 42.6%

Country view | Neutral

Liquidity conditions have deteriorated considerably, with the RBI cutting the cash reserve requirement 250bp to 6.5%, while also cutting rates heavily despite still high inflationary pressures. We are also concerned about the widening current account deficit, which is largely a consequence of the large trade balance. Despite this, capital inflows have fallen off heavily as a result of global risk aversion. We expect a higher cost of funding, which will be negative for both real estate and autos.

The country view is set in consultation with the relevant company analyst but is the ultimate responsibility of the Strategy Team.

Country rel to Asia Pacific

Competitive position | Average competitive score: 4+

Supplier power 4+

Moderate. Crude oil is the key raw material and is freely available in international markets. RIL has additional flexibility to source any type of crude.

Barriers to entry 3-

High capital intensity and ever-increasing economies of scale are key barriers.

Customer power 4-

Seems weak. User industries are usually small and very fragmented. However, RIL's gas customers may have some bargaining power as the company will have a huge quantity of gas to market.

Substitute products 3+

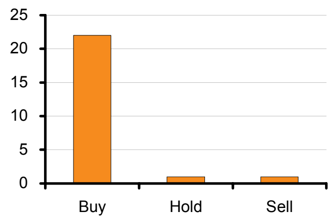
Outside Reliance's product portfolio, cotton is the key substitute. However, the cotton output is highly constrained. For its gas production likely to come in December 2008, coal is a key substitute.

Rivalry 4+

Reliance holds dominant market share in petrochem, although IOC, the new entrant, is likely to be a key threat in future. In fuel retailing, PSUs are constrained by LPG/kerosene losses.

Scoring range 1-5 (high score is good) Plus = getting better Minus = getting worse

Broker recommendations



Source: Bloomberg