<u>CASE LET</u>

Merger
of
Reliance Industries Limited (RIL)
and
Reliance Petroleum Limited (RPL)

Prof. Ram Kumar Kakani

XLRI Jamshedpur

Business Standard, March 04, 2002 – Relevant Headlines

- 1:11 swap ratio for RIL, RPL merger
- RIL-RPL merger: Tax gains clinched issue
- RIL declares 47.5% interim dividend
- Reliance sets up representative office in China
- Crisil reaffirms RIL's debt paper ratings
- Post-merger, RIL will be energy player in the offing
- Reliance plans global acquisitions

Media Presentation of Anil Ambani on March 04, 2002 – Significant Points

- Anil Ambani said the merger created India's only world scale, fully integrated energy company with operations ranging from oil and gas exploration, production, refining and marketing, petrochemicals, power and textiles. It would also have the world's highest number of shareholders at 35 lakh, with a floating stock of 54 per cent, he added.
- Ambani envisioned RIL as developing largely into an energy company, with integrated manufacturing facilities.

- According to the gameplan presented,
- the Reliance group will straddle the services sector with Reliance Infocom which is setting up a broadband backbone in the country and Reliance Telecommunications, the group telecom company "which services one-third of the country's geographical area and one-third its population."
- Reliance Capital, the investment company, forms the other pillar of its services thrust. RIL has a 45 per cent stake in Reliance Infocom and 26 per cent in Reliance Telecom.

- “With this, the group becomes fully diversified, both in terms of products and the portfolio. RIL will contribute almost 3 per cent to India’s GDP,” Ambani said.
- Explaining the rationale for the merger, Ambani said there were significant benefits of scale, of complete integration, cost efficiencies and productivity gains, and optimisation of fiscal incentives. The merger also addressed any transfer pricing issues that might arise, he added.

- Reliance Industries, is nursing global ambitions of inorganic growth. Ambani, said: "We have the financial ability, structure and strength to buy international assets." However, he hastened to add that the group had not identified any target company.
- "There are significant opportunities in India itself with the government planning to divest in HPCL and BPCL, as well as other companies," Ambani said. He, however, added that Reliance was interested in getting into exploration companies producing crude. "This is our target area as the crude requirement for our refinery is to the tune of 600,000 barrels a day," he said.

Hindu Business Line, March 10, 2002

RIL-RPL merger: Smartly Timed

by Raghuvir Srinivasan

It was a merger that was always on the cards but when it did happen, it caught the market and company watchers alike off-guard by its timing. But if one takes into account the overall prevailing circumstances, the timing of the move should not appear so surprising after all. In fact, it fits in well with the track record of the group in making strategic moves at the right time. There are some natural questions that arise now such as what it means for the two companies and its shareholders and why is the merger being done now.

Reliance Industries Limited: Financials Rs (in Crores)					
For the year	2002	2001	2000	1999	1998
Operating Income	42122	25429	17850	12624	11511
Net Profit	3243	2646	2403	1704	1653
Net Worth	22825	11995	11212	9598	9212
No. of Shares (in crore)	105.4	105.4	105.4	105.4	105.4
Adjusted EPS (Rs)	27.84	19.32	19.23	17.70	17.22
Book value per Share (Rs)	235	114	104	100	97
Dvdnd per Share (Rs)	4.75	4.25	4.00	3.75	3.50
Net Profit Margin (%)	7.56	7.90	11.16	12.67	13.67
Current Ratio	1.97	1.83	2.03	1.66	1.23
Lt Debt Equity	0.73	0.81	1.02	1.14	0.90

Reliance Petroleum Limited: Financials Rs (in Crores)				
For the year	**01**	**00**	**99**	**98**
Operating Income	29541.4	0.0	0.0	0.0
Net Profit	1463.6	0.0	0.0	0.0
Net Worth	8727.3	7092.5	2918.3	891.7
No. of Shares (in crore)	475.3	475.3	475.3	475.3
Adjusted EPS (Rs)	3.2	0.0	0.0	0.0
Book value per Share (Rs)	17.4	14.2	13.2	9.9
Dvdnd per Share (Rs)	0.5	0.0	0.0	0.0
Net Profit Margin (%)	5.2	0.0		
Current Ratio	1.4	2.1	1.8	1.9
Lt Debt Equity	0.8	1.2	6.2	8.3

Please indicate your agreement or disagreement to the points in the next slides with reasons

- The merger will bring in sales enhancement
- The merger will bring in large scale operating economies
- The merger will bring in large scale synergies
- The merger will have large scale economies of scope
- The merger is a classic case of horizontal integration
- The merger will bring in improved management to the new firm
- The merger will bring in large benefits of information effect
- Hubris hypothesis is the reason behind the merger
- Wealth transfers is the main reason behind the merger
- The merger will in all probability reduce the overall cost of capital of RIL

- Tax benefits are one of the reason behind the merger
- The merger will have leverage gains
- Managements personal agenda is one of the reason behind the merger
- It will give rise to a firm with increased financial clout
- With this, the Reliance-Ambani group becomes fully diversified, both in terms of products and the portfolio.
- If Kakani buys the 12.2% stake that is going to be sold in the post-merger equity of the company. Kakani will be known as a strategic investor
- If Indian Oil Corp (IOC) buys 15.01% stake from the market in the post-merger equity of the company. IOC will surely be known as a strategic partner