

# CHAIRMAN'S STATEMENT

Twenty-Seventh  
Annual General Meeting

Friday, 15th June, 2001



**Reliance**  
**Industries Limited**

**Growth is Life**

[www.ril.com](http://www.ril.com)

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Maker Chambers IV, 222 Nariman Point, Mumbai 400 021.

## **Welcome**

My dear fellow Reliance shareowners,

It gives me great pleasure to welcome all of you to the twenty seventh Annual General Meeting of Reliance Industries Ltd. (RIL). The company's accounts for the year ended March 31, 2001 along with the Directors' and Auditors' report have already been circulated to you. With your permission, I would like to take them as read.

## **India's No. 1 Business Group**

The Reliance group is India's largest business group, in terms of all major financial parameters, including sales, exports, profits, net worth, assets, and market capitalisation.

The Reliance group's financial highlights are:

- Sales of Rs. 59,548 crores (US\$ 12.8 billion)
- Exports of Rs. 9,370 crores (US\$ 2 billion)
- Operating Profit (PBDIT) of Rs. 9,377 crores (US\$ 2 billion)
- Cash Profit of Rs. 6,552 crores (US\$ 1.4 billion)
- Net Profit of Rs. 4,222 crores (US\$ 0.9 billion)
- Net Worth of Rs. 25,682 crores (US\$ 5.5 billion)
- Total Assets of Rs. 54,896 crores (US\$ 11.8 billion)
- Market Capitalisation of Rs. 64,912 crores (US\$ 13.8 billion)

This financial performance has been achieved in a short span of just 24 years since Reliance's first public offering in 1977.

It is noteworthy that Reliance's growth has accelerated in the last 10 years, after the commencement of economic reforms in India. These 10 years have been characterised by:

- the delicensing of industry, leading to the entry of new players;
- the opening up of all major sectors to direct investment by foreign majors; and
- the removal of quantitative barriers, and sharp reduction of import tariffs, leading to increased competition from overseas players

Reliance has embraced economic reforms with enthusiasm, and its impressive growth in the liberalised environment is a reflection of its superior corporate vision and strategies, global competitiveness, and the international quality of its products.

RIL, and Reliance Petroleum Ltd. (RPL), individually, have now become India's top 2 private sector companies, in terms of all major financial parameters.

RIL is India's largest private sector company in terms of net worth, assets, and net profits, and is second only to RPL, in terms of sales.

RPL is India's largest company in terms of sales, and is second only to RIL in terms of net worth, assets, and net profits. It is heartening that RPL has achieved this distinction in its very first year of operations.

## **Reliance's contribution to the Indian economy**

The Reliance group's leadership position in India is reflected in its all round contribution to the Indian economy.

Reliance contributes:

- over 3% of India's GDP
- approximately 5% of India's total exports
- nearly 10% of the central government's indirect tax revenues

This level of contribution to the national economy from a single business group in the private sector is unique, even in a global context.

Reliance's interests span major growth sectors of the Indian economy, with activities ranging from energy to infocom businesses. Reliance's major businesses include oil and gas, refining and marketing of petroleum products, petrochemicals (polyester, polymers and their intermediates), textiles, power, and information technology and telecommunications.

Reliance is confident of long-term growth prospects for India, and will endeavour to continue making a significant contribution to the country's future economic growth.

## **Reliance's role in the Indian corporate sector**

The Reliance group commands a leading position in the Indian corporate sector.

Reliance accounts for:

- 30% of the total profits of the Indian private sector

- 10% of the profits of the entire corporate sector in India
  - over 12% of India's total market capitalisation
  - highest weightages in India's benchmark stock market indices - nearly 25% in the Sensex, and 22% in the Nifty
- One out of every four investors in the Indian equity markets is a Reliance shareholder.

This all-round leadership in the corporate sector is a unique distinction, and a great source of pride for Reliance, its people, and its millions of shareholders.

## **RIL's Financial Performance**

RIL has performed well in 2000-01, surpassing all earlier records:

- Sales increased 38% to Rs. 28,008 crores (US\$ 6.0 billion)
- Net profit was higher by 10% to Rs. 2,646 crores (US\$ 567 million)
- Total assets increased to Rs. 29,875 crores (US\$ 6.4 billion)
- Net worth climbed 6% to Rs. 14,765 crores (US\$ 3.2 billion)

Production volumes crossed a record 10.4 million tonnes, up 16% year on year.

It is extremely satisfying that RIL has achieved this record operational and financial performance in the face of a very challenging environment. Prices of major feedstocks increased sharply, as a result of higher crude oil prices during a greater part of the year. The rise in product prices lagged the increase in feedstock costs, leading to overall pressures on profitability.

RIL has now demonstrated consistent financial performance, with year-on-year growth in sales, profits, and earnings per share (EPS), for the past 11 consecutive years.

This consistent growth record, spanning several economic, industry and business cycles, is a rare achievement, even in the global petrochemicals industry.

RIL's profitability, as reflected by its Return on Net Worth of 20%, ranks amongst the highest in global petrochemicals companies. This is a reflection of the global competitiveness of RIL's operations, and the success of its corporate strategies.

It is remarkable that Reliance has achieved this growth, in a capital intensive industry, maintaining a conservative financial profile, and top end credit ratings.

RIL's debt:equity ratio stands at 0.72:1. RIL is amongst the few manufacturing companies in India ranked AAA, by both CRISIL and FITCH.

## **Exports**

RIL's manufactured exports increased 100% during the year, to nearly Rs. 3,000 crores (US\$ 635 million). This has made RIL India's second largest manufacturer exporter, next only to RPL. Five years ago, RIL's exports were barely Rs. 86 crores (US\$ 25 million).

RIL exported a wide range of products, to over 100 countries, including the most quality conscious customers in the US and Europe. This reflects RIL's global competitiveness, the world class quality of its products, and its emphasis on benchmarking with international best practices.

The access to exports markets enables RIL to optimise operating rates at its manufacturing facilities, diversify markets, and achieve overall superior economics.

The strong growth in export revenues has been achieved while maintaining the emphasis on the domestic markets. Sales in India still represent nearly 90% of RIL's total sales.

## **Current Year Performance**

RIL will announce its results for the first quarter of the current year in the last week of July 2001.

## **The Reliance Investment Philosophy**

The consistent and profitable growth of the Reliance group reflects the success of its overall corporate strategies, and its disciplined approach to investments in new businesses.

As we review the successful performance of our existing businesses with satisfaction, and explore new opportunities for accelerated growth in the future, I would like to share with you, the important elements of the Reliance investment philosophy. This philosophy underlies the process that directs all our investments, and links their success to the ultimate goal of creating superior overall value for all our shareholders.

### *Identifying attractive new growth opportunities*

Reliance has a track record of identifying attractive growth opportunities in the Indian markets, with potential for creating extraordinary value, and generating strong returns on a sustainable basis.

Reliance has built several new businesses around opportunities arising from the globalisation of the Indian economy, and deregulation of sectors hitherto reserved for the government. These include areas like oil and gas exploration and production, refining and marketing, and more recently, telecommunications.

### *Identifying markets with strong long-term demand growth potential*

Reliance seeks to identify opportunities in sectors holding potential for sustained long-term demand growth.

India is a land of over a billion people. The strong underlying fundamentals of the Indian economy, and the latent demand potential in our markets, provide the platform for building world scale businesses.

When Reliance set up its first polyester plant in the early 1980s, India's consumption of polyester was less than 50,000 tonnes a year. Last year, the country consumed more than 1.3 million tonnes. This level of consumption is still less than 1/3<sup>rd</sup> of China's consumption levels.

Consumption of petroleum products in India has almost doubled in the last 10 years to around 90 million tonnes a year. This is expected to once again double in the next 5-10 years.

India had barely 30 million telephones at the beginning of the year. The government's stated objective is to increase this penetration to 150 million lines by the year 2010. This will translate into a significant one-time business opportunity in the telecommunications and infocom sectors in India.

### *Leveraging core competencies to create a sustainable competitive advantage*

Reliance leverages its core competencies to create a sustainable competitive advantage in its various businesses.

**Scale:** Reliance's leadership in its several businesses is centered around its ability to build world scale assets, obtaining the benefits of economies of scale, and competing on an even level with the global peer group.

For instance, Reliance Petroleum's 27 million tonnes per year refinery is the world's largest grassroots refinery, and the 7<sup>th</sup> largest refinery in the world at a single location. The refinery has 24% of the total refining capacity in India.

Likewise, in petrochemicals, Reliance has set up the world's largest grassroots cracker at Hazira, and the world's largest paraxylene and polypropylene plants at its Jamnagar complex.

**Project Execution:** Reliance has a demonstrated track record of conceptualising, and executing complex, multi-billion dollar projects in a timely and cost effective manner. Reliance's in-house project management capabilities are unique even in a global context.

Reliance completed its US\$ 6 billion integrated Jamnagar complex in a record time frame of 3 years, at 30% lower capital costs than its global peer group. This fundamental strength is at the heart of Reliance's low cost positions in all its businesses.

**Absorption of Technology:** Reliance has an unparalleled track record of technology absorption in different sectors. Reliance's integrated petrochemicals complex at Hazira comprises more than 100 different plants, employing leading edge technologies from a large number of licensors from different parts of the world. The entire complex was commissioned, and achieved rated capacity, in a record time frame of less than 3 years.

The entire Jamnagar refinery was commissioned, and all units synchronised, within a record time frame of less than 3 months. Capacity utilisation crossed 100% in the second quarter of operations.

**Global Competitiveness:** Reliance benchmarks its operations against its global peer group in its various businesses. Reliance endeavours to build the lowest capital and operating cost positions in its businesses, providing it the ability to compete in domestic and export markets.

Reliance was ranked Asia's most competitive chemicals company, in a survey of more than 4,000 companies conducted by a leading international firm, a couple of years back.

Reliance Infocom is building one of the lowest cost communications networks in the country, with best in class technologies and the most competitive costs. This will set the foundation for profitable operations in every segment of the telecom market in the future.

**World Class Quality:** Reliance is committed to delivering products and services of world class quality to customers. It is this commitment which has enabled Reliance to access global markets, and become India's largest manufacturer exporter, with exports of over US\$ 2 billion (Rs. 9,370 crores) last year.

Reliance continuously benchmarks operations with global best practices and maintains the highest international quality standards for all its products and processes, irrespective of the markets in which it may actually compete.

Reliance's products are now exported to over 100 countries. Imports of most products manufactured by Reliance have virtually ceased, despite the removal of restrictions on imports and lowering of import tariffs.

**Building skills and capabilities around people:** Reliance has attracted the best people in each of its businesses, by empowering people, providing attractive growth opportunities, and creating a world class working environment.

Reliance believes that knowledge resides in people, and has, accordingly, always built its growth plans around people. As a result, Reliance has one of the largest reservoirs of intellectual capital in the Indian corporate sector, spanning diverse sectors such as oil and gas, petrochemicals, refining, power and telecommunications.

Reliance is a youthful enterprise, with a strong entrepreneurial spirit, fostering an environment that facilitates informality and flexibility, and emphasises depth of planning and speed of execution.

**Leveraging Knowledge of India:** Reliance has created markets where none existed, leveraging its knowledge of India and its people.

A telling example is Reliance's recent success in building a profitable cellular telephony business covering 1/3<sup>rd</sup> of India's geographical area and 1/3<sup>rd</sup> of India's population. Reliance's cellular telephony business spans 15 of India's

lesser economically developed states, namely, Himachal Pradesh, Madhya Pradesh, Chattisgarh, Bihar, Jharkhand, Orissa, West Bengal, Sikkim, Assam, Arunachal Pradesh, Manipur, Meghalaya, Mizoram, Nagaland, and Tripura.

These states were generally considered to hold little telecom potential, and attracted little interest from players other than Reliance when the sector was first opened up.

Reliance started from scratch and has successfully built its cellular telephony business even though this was a completely new business area for Reliance. Reliance has created a new organisation comprising over 400 experienced telecom industry professionals, who have been the driving force for this success.

Reliance's significant success in the cellular telephony business, which is essentially a consumer marketing business, reflects its ability to garner a leading market share and develop a valuable brand 'Reliance Mobile', in a consumer-centric and service-oriented business.

Reliance has built a modern cellular network, covering 106 cities and towns, and notched up a subscriber base of over 212,000, in less than 4 years. Reliance's subscriber growth rate of 170% over the last one year is double the industry growth rate.

This experience is a powerful demonstration of Reliance's ability to successfully build new businesses in emerging areas.

Reliance will leverage the experience and knowledge acquired from its cellular telephony business in its forays in the infocom sector. Reliance Infocom is now building a state-of-the-art, world class, IP backbone, connecting the country's top 115 cities and towns, transforming the country's digital landscape.

### *Maintaining Financial Discipline*

Reliance has consistently maintained a conservative financing profile, even while ensuring availability of adequate debt and equity funding at all times for its projects.

RIL enjoys AAA credit ratings, while RPL has AA+ rating after its very first year of operations. The debt:equity ratios of both companies are extremely conservative.

Cash flows of less than 3 years are adequate to extinguish the entire debt of RIL and RPL.

Reliance also evaluates all new investment decisions against high hurdle rates of return, to ensure the generation of attractive spreads over the cost of capital.

Reliance favours projects that hold the potential of generating reverse cash flows in a relatively short time span, minimising the gestation period.

For instance, RPL has achieved capacity utilisation exceeding 95%, and generated strong cash flows in its very first year of operations, despite challenging operating conditions and largely stagnant demand in home markets.

RPL's Return on Equity at over 21% is amongst the highest in refining companies globally.

Reliance is employing this strict financial discipline in evaluating its new investments in the infocom business, with a clear emphasis on generation of strong cash flows, attractive IRRs, and a low payback period.

### *Unlocking value for shareholders*

Reliance will consistently endeavour to unlock value from its investments in various businesses, for the benefit of its shareholders.

RIL's announced plans to partially bring down its shareholding in RPL, from over 65% to 51%, in appropriate tranches over a period of time, demonstrate this philosophy.

RIL's investment in RPL has already created enormous value for its shareholders, as judged by the increase in RPL's market capitalisation, in a relatively short period of time.

RPL has become amongst India's top 5 private sector companies in terms of its market capitalisation of over Rs. 25,254 crores (US\$ 5.4 billion). RPL has also become the most valuable petroleum company in Asia.

The partial sale of RIL's stake in RPL will generate sales proceeds of Rs. 3,500 crores (US\$ 750 million), and capital gains of Rs. 2,000 crores (US\$ 425 million), in appropriate tranches over a period of time, for the benefit of RIL's shareholders.

The unrealised capital gains for RIL, on its residual investment in RPL, will be a further Rs. 8,500 crores (US\$ 1.8 billion), at current market prices.

RIL's shareholders will further benefit from the consolidation of RPL's financial statements from the current year onwards.

Based on performance of the last year, consolidation of RPL's financials will lead to an increase in RIL's profits by approximately Rs. 1,000 crores (US\$ 213 million), contributing an additional Rs. 10 (US\$ 0.21) to Earnings Per Share (EPS).

### **Future Growth Opportunities**

At Reliance, we believe growth is life.

I would like to share with you today details of some of the growth opportunities in our existing and new businesses, including oil and gas, petrochemicals, refining and marketing of petroleum products, and infocom.

## **Oil and Gas**

India's imports of crude oil in 2000-01 were Rs. 65,932 crores (US\$ 14.4 billion), representing the single largest item on the country's import bill.

RIL's E&P investments are expected to contribute to higher energy security for the country, enhance overall feedstock integration levels, as crude oil is Reliance's major feedstock, and generate attractive returns on capital.

RIL has already emerged as India's largest private sector exploration and production (E&P) operator.

RIL's aggregate E&P portfolio now comprises 25 onshore and offshore, deep and shallow water blocks, covering acreage of over 175,000 sq. kms.

RIL, in a consortium with Niko Resources of Canada, was awarded 12 new exploration blocks by the government, through a process of competitive international bidding.

RIL is in the process of completing formalities for the acquisition of 5 exploration blocks from Tullow of UK, covering 21,000 square kilometres.

RIL has also been recently awarded 4 new exploration blocks in the second round of bidding under the Indian government's New Exploration Licensing Policy (NELP), along with Hardy Oil of UK.

RIL deployed 4 vessels to conduct seismic surveys – 2 along the East coast and 2 along the West coast of India, and has acquired 2D data for more than 7,200 line kms and 3D data for over 2,100 sq. kms.

RIL expects to spend Rs. 1,500 crores (US\$ 300 million) on these blocks over the next 3 years, in initial capital expenditure.

Significant fiscal incentives, and the positive overall policy environment, are expected to enhance RIL's overall returns from this business.

RIL also holds a 30% interest in an unincorporated joint venture with Enron and ONGC, to develop the proven oil and gas fields at Panna, Mukta and Tapti in India.

Production from these fields has steadily been increasing over the years.

The proposed expanded plan of development under consideration envisages increasing the balance recoverable reserves from Panna-Mukta fields from 184 to 214 million barrels of oil and oil equivalent (MMBOE).

Estimates for in-place reserves from Tapti field have been revised to 3.4 trillion cubic feet of gas equivalent (TCFE), based upon the results of 3D modelling.

The Oil and Gas business presently contributes 3% of RIL's overall revenues. It is expected that this contribution will increase significantly in the future.

## **Petrochemicals**

RIL is a globally ranked petrochemicals producer.

RIL is the world's second largest producer of polyester staple fibre and polyester filament yarn, the third largest producer of paraxylene, the fourth largest producer of purified terephthalic acid, and the sixth largest polypropylene producer. RIL also operates the world's largest grassroots, multi-feed cracker at its Hazira petrochemicals complex.

The world scale nature of RIL's operations translates into leading market shares in almost all of its products. Reliance has over 51% share of the polyester market, and over 80% of the polyester intermediates (PX, PTA and MEG) markets. Reliance is also the country's largest polymers producer, with a market share of 52%.

The country has witnessed compounded double-digit demand growth rates in polyester and polymers over the past more than 25 years. Yet, current consumption levels for polyester and polymers in India are still amongst the lowest in the world.

RIL intends to add capacities over the next few years to maintain, and enhance, its leading market shares in these businesses.

RIL has already announced plans to increase aggregate polyester capacity, by 33%, from the existing nearly 900,000 tonnes per year to 1.2 million tonnes per year, over the next 2-3 years. Polyester intermediates capacities will also be increased through debottlenecking.

RIL's strategy is to achieve capacity expansion in polyester through attractive, low cost, acquisition deals, and/or building cost competitive facilities at its existing sites.

The increase in the capacities of the cracker, and PE facilities, will be achieved through low cost debottlenecking plans at the existing facilities. This will further enhance RIL's competitive capital cost advantage. The exact timing of these projects will depend on market conditions.

## **Textiles**

Reliance has recently announced plans to comprehensively restructure its textiles business.

Reliance will now focus on its high value added product ranges of men's wear, under the Vimal brand, and home textiles, under the Harmony brand.

The restructuring of the textiles business is aimed at strengthening the leadership of the Vimal and Harmony brands, enhancing market share and overall competitiveness, by focussing on superior quality, higher margin products, and substantially enhancing overall shareholder value.

The first phase of restructuring has been completed, and will lead to a reduction of over 4,600 people, representing nearly 30% of the total workforce. This is being achieved at an estimated one-time outlay of Rs. 90 crores (US\$ 20 million), representing the largest VRS pay-out in the Indian synthetic textiles industry.

## **Refining and marketing of petroleum products**

Reliance controls over 65% of the equity share capital of Reliance Petroleum.

RPL operates the world's largest grassroots refinery, and the 7th largest refinery in the world at any single site, with a capacity of 27 million tonnes per annum, at Jamnagar, in the state of Gujarat.

RPL has approximately 24% of India's total refining capacity.

The highlights of RPL's financial performance, for the year ended March 31, 2001 are:

- Sales of Rs. 30,963 crores (US \$ 6.6 billion)
- Operating Profit (PBDIT) of Rs. 3,274 crores (US \$ 702 million)
- Cash Profit of Rs. 2,125 crores (US \$ 456 million)
- Net Profit of Rs. 1,464 crores (US 314 million)
- Net Worth of Rs. 8,727 crores ( US \$ 1.9 billion)

RPL is amongst the most profitable refining companies in the world, achieving a return on net worth (RONW) of over 21% in its very first year of operations.

Per capita consumption of petroleum products in India is still amongst the lowest in the world. According to published government estimates, demand in India is expected to increase from around 90 million tonnes in 2000-01, to over 150 million tonnes by 2007, and further to around 185 million tonnes by 2012.

RPL intends to leverage its competitive strengths to secure a leadership position in the business of refining and marketing of petroleum products in India.

RPL's growth strategy is to:

- Maximise production from existing assets, through debottlenecking of capacities at marginal capital costs
- Enhance overall competitiveness, to rank amongst the lowest cost refiners globally
- Enter the business of retail marketing and distribution of petroleum products in India
- Invest in pipeline distribution in India; and
- Access global markets

RPL has generated strong cash flows in its very first year of operations, and enjoys a healthy financial position.

RPL's financial strength is demonstrated by the recent credit ratings of AA+, awarded to its long term debt, by CRISIL and Fitch India. Prior to the commissioning of its refinery, RPL's earlier debt was rated BBB+, which is the lowest investment grade rating.

RIL's investments in RPL are expected to generate superior returns, and enhance overall shareholder value.

## **Power**

Reliance continues to examine various opportunities in the Indian power sector, with potential for generating attractive returns in the long term.

Reliance is also the single largest shareholder in BSES Ltd., currently holding nearly 30% of its equity capital. BSES is India's leading power utility. Two of Reliance's nominees have been appointed to the Board of Directors of BSES.

## **Infocom**

The Indian infocom market presents a unique opportunity, with significant potential for sustained growth over the medium to long term.

The current Indian teledensity is amongst the lowest in the world, with only 30 million phones in a population of over 1 billion. The government's stated objective is to achieve penetration of over 150 million phone lines by the year 2010.

The government is pursuing an open door policy, promoting unlimited competition in telecom services, in the best interests of consumers.

Reliance has announced plans for addressing the entire telecom market in India, with a national footprint.

Reliance will endeavour to establish a leading presence in all market segments:

- Basic Telephony Service
- Mobile Telephony Service
- National long distance
- International long distance
- Data and value added services

This integrated business model is expected to provide a sustainable competitive advantage, enhance Reliance's overall returns, and minimise risks.

Reliance proposes to leverage its core competencies of complex project management, technology absorption, financial engineering, and building grassroots businesses, to become a leading player in the infocom landscape.

The construction of the 60,000 route kms, all optic, broadband IP backbone is proceeding at a rapid pace. The construction workforce has been scaled up to over 60,000 persons.

Reliance has received Letters of Intent for providing basic telephony services in 18 out of 21 telecom circles in the country. This is in addition to the Gujarat circle where Reliance is already offering services. Reliance has become the first company in the country to receive a Letter of Intent for providing national long distance services.

Reliance Infocom will undertake all future telecom and infocom related initiatives of the Reliance group.

Reliance Infocom has announced an aggregate capital outlay of upto Rs. 25,000 crores (Over US\$ 5 billion) over the next 5 years. The investments will be linked to achievement of relevant business and financial return targets.

RIL will be the lead investor, with a 45% equity stake in Reliance Infocom.

Reliance expects its investments in the telecom/infocom business to generate superior returns, and enhance overall shareholder value for its investors.

## **Share Buyback**

Last year, RIL's shareholders had approved a buy-back of shares, for an amount of upto Rs. 1,100 crores (over US\$ 250 million), and at a maximum price of Rs. 303 per share, through open market purchases.

RIL's share buy-back programme has been successful. RIL's share price closed below the specified maximum buy-back price of Rs. 303 per share, on only 11 days, in the period of over a year that has elapsed since the buy-back announcement.

This is in sharp contrast to the experience of most other Indian companies, which have seen their share prices generally trading well below their specified buy-back prices, even after such companies have deployed significant amounts towards their buy-back programmes.

RIL has not bought back any of its shares, on the limited number of days when the share price has traded below the maximum specified buy-back price. This was in recognition of the fact that the RIL share has consistently been outperforming all benchmark indices by a wide margin, and the temporary decline in the share price, for a limited number of days, was also more a reflection of short term volatility in the global, regional and domestic stock markets.

RIL has consistently set forth its philosophy of viewing share buy-back as a measure to enhance overall shareholder value and returns, and not a mechanism to artificially support any particular price level for its shares, or to respond to short term speculative pressures.

The share buy-back has already achieved many of the company's stated objectives of reduction in volatility, lowering of beta, and elimination of speculative pressures.

From the perspective of investors, the maximum specified buy-back price has effectively served as a floor price for the company's share.

RIL has proposed to once again obtain the approval of shareholders for a share buy-back programme, on the same terms as applicable last year, namely, an amount of upto Rs. 1,100 crores, at a maximum price of upto Rs. 303 per share.

The proposed share buy-back is likely to lead to further reduction in volatility, lowering of beta and cost of capital, and enhancement of return on net worth (RONW) and earnings per share (EPS).

## **FII Shareholding Limit**

The shareholding of Foreign Institutional Investors (FIIs) in RIL has consistently increased over the last few years, from less than 2% in 1995-96, to over 17% currently. International investors now own over 23% of the company's equity, with a current market value of approximately Rs. 9,000 crores (US\$ 2 billion).

This makes Reliance the largest investment of international investors in India, and reflects the confidence of the global investment community in the robustness of RIL's business strategies, and its ability to provide attractive returns to shareholders.

RIL proposes to increase the limit of investment by FIIs, from the existing 24% to 49% of its equity share capital. An increase in the FII limit to 49%, thereby increasing the quantum of shares which can be held in the company by foreigners, results in increased weightage of the company's share in benchmark international stock market indices.

A large number of FIIs direct their investments on the basis of these indices, and the increase in the limit will ensure that RIL's weightage therein is appropriately reflected.

## **Corporate Governance**

Reliance aspires to the best global practices in the area of corporate governance, and endeavours to follow the principles of fair representation and full disclosure in all its dealings and communications.

Reliance also complies with all corporate governance guidelines issued by the Securities and Exchange Board of India (SEBI).

Reliance recognises communication as a key element of the overall corporate governance framework, and emphasises continuous, efficient, and relevant communication to all external constituencies.



Reliance's annual reports, results media releases, results presentations, and other forms of corporate and financial communications, provide extensive details and convey important information on a timely basis.

Reliance has set new benchmarks in adequate and timely corporate disclosure, becoming the only Indian company, with its scale and complexity of operations, to regularly publish its audited annual results, together with the complete annual report, soon after the close of each financial year.

Reliance has taken the lead in having its accounts audited by a firm of international accountants, in addition to the regular audit by the statutorily appointed Indian auditors.

Reliance has been providing for the past 4 years, as a matter of regular practice, a reconciliation of its quarterly and annual accounts with US GAAP, for the benefit of its wide and growing base of international investors.

Reliance communicates corporate, financial and product information, online, on its website, [www.ril.com](http://www.ril.com). During the year, the Reliance website, was adjudged the best Asian corporate website in an analysts' and investors' survey conducted by Financial Intelligence Asia (FIA). Reliance has also been adjudged amongst the top 3 Indian companies in terms of investor relations in a recent survey conducted by Asiamoney magazine.

## **People**

People are central to Reliance's growth strategy. A large in-house pool of intellectual capital is the driving force behind Reliance's accelerated growth, and is one of its fundamental competitive strengths.

Reliance is a young company, with an average age of 39 years for its over 15,000 employees. Reliance has over 4,000 qualified professionals, comprising more than 80% of the company's total supervisory workforce of around 5,000.

The world-class exposure, growth opportunities and competitive compensation packages offered by Reliance enable it to attract and retain the best talent in the company. Reliance's employee turnover is amongst the lowest in the industry.

Recruitment in Reliance targets the world market for the right individuals, ensuring a global perspective for the people responsible for global scale plants and operations. Reliance is one of the few Indian companies with a significant number of expatriates within the organisation.

## **Earthquake Relief Work**

On January 26, 2001, a massive earthquake, measuring over 7 on the Richter scale, affected the state of Gujarat, killing more than 30,000 people and devastating many towns and cities.

Reliance immediately allocated a sum of upto Rs. 15 crores (US\$ 3.25 million) for earthquake relief measures in the state. This included a sum of Rs. 5 crores (US\$ 1.1 million) contributed to the Prime Minister's Relief Fund.

Reliance placed all available human and material resources at the disposal of the state government, and the army / air force authorities, for rescue and relief operations.

More than 20 DG sets were provided in Bhuj, the worst affected area, for restoration of emergency power. A reliable communication network was set up linking nearby affected areas with Jamnagar, through wireless, satellite and terrestrial telephone lines. A V-Sat connection was installed, and a radio wireless system was also set up.

Helicopter and aircraft sorties were flown continuously to bring in people, materials, supplies, etc. and evacuate the most seriously injured persons.

Over 60 heavy equipment and machinery (cranes, bull-dozers, etc.) were mobilised for removal of debris/rescue work.

More than 3,000 construction workers, and hundreds of vehicles (including dumpers, trucks, tempos, etc.), were pressed into service, to assist in the rescue and relief work, and to provide temporary shelter to affected persons.

Reliance opened several Medical Centres, including a very large makeshift hospital, with 12 orthopaedic and general surgeons, 20 other doctors and 30 paramedical staff, and over 200 other personnel, on duty, round the clock, for provision of medical aid, with uninterrupted access to all required medical supplies, etc.

The Reliance medical team handled over 450 cases, including 20-30 surgeries, every day. Besides, scores of critically wounded were flown in to hospitals in Jamnagar, Ahmedabad and Mumbai.

25,000 tarpaulins for tents were flown in and used to set up community tents, where community kitchens and water tankers helped serve basic needs of the people. Over 20,000 blankets were also supplied.

Over 15,000 people were supplied with regular food packets, including basic rations as well as pre-packed meals, prepared daily by the Reliance Employees' Wives' Association (REWA).

The Reliance team, which camped at Anjar till end March, cleared about 1 lakh tonnes of debris, and cleared about 8 kilometres of roads and streets.

About 1,500 earthquake victims were treated, and 42 were airlifted to Mumbai for further treatment. Engineering assistance was also provided to government agencies, to remove debris.

## **Other Community Welfare Initiatives**

Reliance believes that organisational growth objectives need to be married with the overall developmental imperatives of the society and the community at large, for ensuring sustainable all-round growth.

Reliance's social welfare and community development initiatives focus on the key areas of education, healthcare, and the overall development of the communities in which it operates.

Reliance is sponsoring two state-of-the-art institutes for offering a wide range of educational, training and research programmes in information and communication technology, and emerging knowledge areas such as bio-engineering and bio-technology, computer science and engineering, energy engineering, food science and engineering, infrastructure engineering, materials science and engineering and, ocean engineering.

Reliance is also associated with the management of Sir Harkisondas Nurottumdas Hospital and Research Centre (HNHRC) and Sir Harkisondas Nurottumdas Medical Research Society (HNMRS), based in Mumbai.

Reliance plans to make contributions over the next few years on a 'Not for Profit' basis for converting this hospital into a "patient focused", world class, state-of-the-art centre of excellence in the field of healthcare. This institution will serve as a knowledge domain for health care activities, and also become a hub for a wider health care network.

## Returns to Investors

Investors in RIL have derived superior returns from their investments in the company.

The RIL share has appreciated 24% in 1 year, 121% in 3 years, 269% in 5 years, and 552% in 10 years. This reflects significant outperformance compared to the benchmark Sensex over all time frames.

Original investors in RIL's maiden public offering in 1977 have earned a compounded annual rate of return of 44% per annum over the last 24 years. These long term rates of return achieved by investors in RIL's shares are unmatched by any other Indian company of any significant scale, and far outstrip the market averages.

RIL achieved the distinction of becoming the highest value creator in India, during the year 2000-01 – at a time when the broader markets witnessed unprecedented erosion in value.

RIL added market capitalisation of Rs. 8,051 crores (US\$ 1.7 billion) during 2000-01, which was about 4 times higher in value than the second best performer in the Indian stock markets.

During the calendar year 2000, RIL also achieved the distinction of becoming the best performing petrochemicals stock globally, delivering an absolute return of 35% measured in US\$ terms.

In addition, during the calendar year 2000, RIL was the best performing stock among the 30 stocks constituting the country's benchmark index, the Sensex, delivering an absolute return of 45%.

Reliance will endeavour to consistently maximise overall shareholder value for all its shareholders, in the future as well, through profitable operations and efficient deployment of capital for superior returns.

In 1997, Reliance became the first Indian company to publicly announce its value creation strategy and targets, laying down a comprehensive framework against which to evaluate the company's performance.

Reliance has fared well against these targets.

One of the stated goals was to at least double RIL's market capitalisation in 5 years. This has been achieved ahead of the targeted time frame. In less than 4 years, RIL's market capitalisation has already more than doubled from less than Rs. 18,000 crores in June, 1997, to over Rs. 39,000 crores (US\$ 8.3 billion) currently.

A minimum return on net worth (RONW) of 20% was targeted over business cycles. The RONW has averaged more than 20% over the last four financial years, despite a challenging environment for the petrochemicals cycle.

Reliance has achieved the other targets announced in 1997 as well.

Reliance has maintained its top end credit ratings, consistently increased dividends, issued bonus shares in the ratio of 1:1 to reward shareholders, and put in place an effective share buyback programme.

In line with the announcement made in 1997, Reliance has not issued any fresh equity for more than 3 years.

In fact, Reliance has not made any fresh equity offering over the last nearly seven years, a period of extraordinary growth for the company. During the last seven years, Reliance's capacity has increased more than 10 times, sales 5 times, profits 5 times, net worth 3 times, total assets 4 times, and market capitalisation 4 times.

Reliance had also announced its intention to progressively migrate to a paperless trading system – around 85% of our outstanding share capital is now in the dematerialised form.

Reliance has been providing a reconciliation of its accounts with the US GAAP standards since 1997-98. Reliance has also received the shareholders' approval for an employee stock option programme (ESOP) aimed at aligning the company's employee compensation structure with profitability objectives and shareholder interests.

The achievement of these key value creation targets despite difficult industry conditions, has led to superior returns for all shareholders.

## Rankings, Awards, and Recognition

During the year, Reliance received growing global recognition. Some of the prestigious awards and rankings for Reliance, by leading international publications, were:

- One of the 'World's 100 Best Managed Companies' for the second consecutive year by Industry Week (IW), a leading US magazine
- Amongst the 'Top five fastest growing chemical companies in the world' in a survey conducted by the American Chemical Society
- Number one in the 'Long Term Vision Category' for the fourth consecutive year, and in the 'Financial Soundness Category' for the third consecutive year, in a survey of "Asia's leading companies" by the Far Eastern Economic Review

- Amongst the 'Top 50 profitable companies in Asia,' in a ranking of Asia's 1,000 largest companies by Asiaweek
- Amongst the '10 most credit worthy companies in Asia,' in an annual benchmark survey for the best credits in Asia featured in Asset Magazine
- Amongst India's most admired corporate/ business houses as per a study conducted by Taylor Nelson Sofres Mode, the Indian affiliate of the world's second largest market research agency

During the year, Reliance also received the following significant recognition and awards:

- Award for 'Organisational Excellence'
- Various awards for 'Excellence in Export Performance'
- Award for 'Excellence in Community Development'
- Several awards for 'Excellence in Energy Conservation'
- Various awards and certifications in the areas of 'Health', 'Safety', 'Environment', 'Quality', and 'Industrial Relations'

### **Thanks and Acknowledgements**

I would like to thank all investors, bankers, lenders, suppliers and customers of RIL, for their consistent support.

I would also like to thank all the employees of RIL for their commitment and hard work. I thank all my colleagues on the Board for their continued support and encouragement.

Thank you once again, my dear shareholders.

June 15, 2001  
Mumbai

**Dhirubhai H. Ambani**  
**Chairman**