

Bloomberg News

Reliance Industries Profit Rises 26% on Refining

By Manash Goswami and Archana Chaudhary

Reliance Industries Ltd., India's biggest company, said profit excluding an asset sale rose 26 percent in the third quarter as it earned more than global refiners from processing crude oil into gasoline and diesel.

Profit increased to 38.8 billion rupees (\$988 million) in the three months ended Dec. 31, from 30.8 billion rupees a year earlier, the Mumbai-based company said in a statement. That matched analysts' estimates. Including the sale of shares in a refinery, net income almost tripled.

Record earnings will help billionaire Chairman Mukesh Ambani complete the world's biggest refinery complex and start piping gas from the nation's largest field this year. Reliance more than doubled last year in Mumbai trading on expectations the \$11.3 billion projects will drive earnings growth.

"Now is not the time to blink," Jon Thorn, who manages \$250 million in equity at India Capital Fund in London. "Cash flows from current businesses have to be rolled into the new businesses, which involved major capital expenditure."

Ambani earns more from each barrel of oil than overseas refiners by processing cheaper, lower grades of crude at a plant only two days from Middle East oil fields. Reliance trades at 36.56 times earnings, six times more than U.S. refiners Valero Energy Corp. and Tesoro Corp., according to data on Bloomberg.

SHARES DROP

Reliance fell in Mumbai trading as some investors had expected the company to announce a stock split, said R. K. Gupta, who manages the equivalent of \$100 million of stocks at Credit Capital Asset Management Ltd. in New Delhi.

Reliance dropped 102.1 rupees, or 3.3 percent, to 2,996.25 rupees at the 3:30 p.m. close on the Bombay Stock Exchange.

The stock was up 7.5 percent in 2008 before today, after doubling last year, almost three times the gain in the benchmark Sensex index.

"The rise in stock price in the last few days had accounted for the earnings," said Gupta.

Net income, including a one-time gain from selling a stake in unit Reliance Petroleum Ltd., rose to 80.8 billion rupees.

Profits from the flagship oil refining business will help fund Reliance Industries' new businesses in shopping malls, supermarkets and agriculture.

"The new growth platforms around oil and gas, organized retailing and agro-retailing are gathering momentum," Ambani said in a statement today. "Each of these initiatives inherently addresses India's economic and social imperatives."

REFINING MARGIN

Reliance Industries earned \$15.4 a barrel from processing oil in the three months ended December, compared with \$11.7 a year ago, and more than triple the average in the U.S.

Valero Energy, the biggest U.S. refiner, on Jan. 15 had its biggest decline since 2001 in New York trading after the stock was downgraded by analyst Fadel Gheit of Oppenheimer & Co.

Gheit cited expectations that profit margins on refined fuels will narrow as a slowing economy keeps oil processors from charging enough to compensate for high crude costs.

The \$5.01 average processing margin for turning three barrels of crude oil into two of gasoline and one of heating oil on the U.S. Gulf Coast has declined 14 percent in the past year, based on spot prices. Nationwide, the so-called crack spread has fallen 0.23 percent during the same period using futures contracts.

Crude oil prices in New York rose 57 percent last year and reached a record \$100.09 a barrel on Jan. 3. Prices today traded near a four-week low after U.S. supplies rose more than expected and the Federal Reserve said the economy slowed in November and December.

NEW PLANT

Ambani's capacity to refine cheap crude will almost double this year when Reliance Petroleum completes its refinery in western India ahead of schedule.

Reliance Petroleum's 580,000-barrel-a-day refinery being built adjacent to Reliance Industries' 660,000-barrel-a-day plant had been originally scheduled for completion by December.

The combined facility will be the world's biggest refinery, according to the parent. The new plant will earn \$2 a barrel more than the existing one, Chief Financial Officer Alok Agarwal told reporters in Mumbai today.

Reliance will start producing gas from its Krishna Godavari field off India's east coast from the second half of this year, Agarwal said. Developing the area by laying undersea pipes and pumps will cost \$5.2 billion.

The field is expected to produce 80 million cubic meters of gas a day, doubling the nation's current output, and making the company India's biggest producer of the fuel. Work on the area is about 70 percent complete, Agarwal said.

"There is going to be a very big uptake on the company's top line from the refinery and the gas field," India Capital's Thorn said. "The company is at an inflection point."

Reliance Industries processed 23.7 million tons of crude oil into fuels in the nine months ended Dec. 31 and exported 16.4 million tons of fuels compared with 13.5 million tons a year ago, the company said.