

# Bloomberg News

## Reliance Shares May Rise as Ambani Brothers End Feud

By Ravil Shirodkar

June 20 (Bloomberg) — Reliance Industries Ltd. shares may rise after India's Ambani brothers agreed to split the \$19.3 billion business, seeking to end a seven-month ownership feud that prompted overseas investors to sell the stock.

Chairman Mukesh Ambani, 48, retains control of oil, gas and chemicals, the core of India's biggest non-state company. Anil Ambani, 46, will take power, cell phones and financial services, their mother, Kokilaben Ambani, said in a statement on June 18.

Reliance shares have lagged behind gains in the nation's benchmark Sensitive index since November, when the dispute between the sons of the Mumbai-based company's founder became public. The stock rose 12% as the index advanced 21%, amid concern the refinery and chemicals businesses may be split, reducing profitability.

**"The trench war is finally over. I'm sure the stock will run up," Jon Thorn, who manages \$180 million at India Capital Fund Ltd., said by phone from London. "It's positive for the shareholders and the stock market that the deal has been inked."**

Shares in Reliance's units, Reliance Energy Ltd. and Reliance Capital Ltd., may also rise after Anil yesterday said he plans to buy 30 billion rupees (\$689 million) of shares in the units, said Sam Gupta, who manages \$170 million at San Francisco-based Passport Capital LLC, including shares in Reliance Capital.

The parent's shares last week rose for a fourth week, by 6% to 600.85 rupees. They've advanced 15% since May 22. A gain in Reliance shares, held by as 3.3 million domestic shareholders, or one out of every four Indian investors, may push the Sensitive index to an intraday record.

### Index's Gains

Reliance is the second-biggest member of the 30-share index, which is 8.57 points below its record close of 6915.09 on March 8. Reliance contributed 7% of the 1234.25-point gain in the index since November, according to Bloomberg data.

Keeping Reliance's oil, gas and chemicals division intact will preserve efficiency at the nation's biggest refinery in Gujarat state and interlinked plants, and the product range that cushions the group from price cycles.

"This is good news for investors since the stock that was underperforming will now scale new heights," said U.P. Bhat, a fund manager at Canbank Mutual Fund, which has 19 billion rupees in assets. The stock may rise to 750 rupees in the "medium term," he said.

### Dhirubhai

The dispute between the brothers that weighed on Reliance's stock became public a little more than two years after the death in July 2002 of their father, Dhirajlal Hirachand Ambani, who founded Reliance. Dhirubhai, as he was popularly known, didn't leave a will, the Business Standard said on Nov. 19, citing no one. The family hasn't disclosed the share ownership structure among its members.

Reliance, which runs the world's third-biggest oil refinery and makes 12.5 million metric tons of chemicals a year, has had eight straight quarters of record profit as Asian demand for gasoline, diesel and synthetic fibers soared.

**As profit rose, the conflict between the brothers prompted investors to pull out, said India Capital's Thorn.** Overseas shareholders reduced their holdings in Reliance to 21.55% on March 31, from 29% in April last year, according to Reliance's Web site.

Reliance owns 46% of Indian Petrochemicals Corp., the nation's biggest maker of polymers, half of Reliance Energy, India's second-biggest utility by market value, 45% of Reliance Infocomm Ltd., the nation's second-biggest mobile phone company, and 42.6% of Reliance Capital, which provides financial services.

### Infocomm

Reliance will transfer its holdings in Reliance Energy, Reliance Infocomm, and Reliance Capital to a new company run by Anil, he told reporters in Mumbai yesterday. Existing Reliance shareholders will get shares of the new company in the same ratio as their current holding, Press Trust of India said on June 15, without saying where it obtained the information.

Reliance Energy's shares last week rose for a fourth week, by 3.3% to 591.25 rupees, taking the gain since May 22 to 24%. Anil Ambani yesterday said he would invest 10 billion rupees in the unit, paying 573 rupees apiece for new shares.

Reliance Capital gained for a fifth week, by 5.7%, to 235.75 rupees, taking the advance since May 15-39%.

"This stock is moving, I can bet you," Passport Capital's Gupta said.

### New Shares

Anil Ambani yesterday said he would invest 20 billion rupees in this unit, paying 228 rupees apiece for new shares. The total investment is 67% of the company's market value. "That shows you what he thinks about the business and its growth prospects," Gupta said. "India is the most exciting market to be in right now for a financial services company. The economy is expanding."

Reliance Infocomm's shares aren't publicly traded.

The younger Ambani told reporters yesterday the investments in Reliance Energy and Reliance Capital will be made through his newly formed Anil Dhirubhai Ambani Enterprises Group.

"The Ambani family was clearly saddened by the events of the last many months," he said. "For us, and for me, this is a new beginning, a clean break from the past."

Transferring control of the group's services businesses to a new company may make it easier to value them, said Gul Teckchandani, who advises big investors on \$400 million worth of Indian shares.

"Conglomerates the world over tend to get valued lower than the sum of their parts," he said. "Splitting the group will help investors access the new business individually. Today, it gets lost in a maze of chemicals, oil and gas businesses."

### Terms

How long the rally will last depends on how soon the terms of the split, such as details on the transfer of debt and assets following the spinoff, are announced, investor John Band said.

The company's board appointed a panel to oversee the split, but gave no details on how it will be carried out.

"There may not be a big re-rating of the stock until details on the capital structure of the new company are disclosed," said Band, president of Zoom Cortex Ltd., a money manager. "The conflict may be over but we don't know how the settlement is going to work or whether it will help shareholders unlock value" in the power and phone businesses, Band said.