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Reliance Has Record 4th-Qtr Net on Fuel-Price Gains

By Ravil Shirodkar

April 27 (Bloomberg) — Reliance Industries Ltd., which owns the world's third-biggest oil refinery, had record net income for an eighth consecutive quarter as India's expanding economy boosted demand for fuels and chemicals.

Profit rose 62 percent to 22.92 billion rupees (\$524 million), or 16.4 rupees a share, in the fourth quarter ended March 31, from 14.19 billion rupees, or 10 rupees a share, a year ago, the company said in Mumbai. The median forecast of 10 analysts surveyed by Bloomberg News was 19 billion rupees.

Soaring demand in China and India increased the profit refiners make from processing each barrel, as gasoline and diesel prices outpaced gains in the cost of crude oil. That helped Reliance's operating profit margin from the refining business, which brings in half of total revenue, widen to 12 percent from 9 percent a year ago.

"I didn't expect Reliance to better its third-quarter performance as refining margins have come off slightly in the region," Lindsay Sword, an analyst at U.K.'s Wood Mackenzie Consultants Ltd. said by phone. "I'm quite surprised."

Higher earnings haven't dissuaded some overseas investors from paring their holdings because of a feud in the founding Ambani family, which caused the shares to lag India's benchmark stock index. Overseas investors own 21.55 percent, down from 29 percent on April 30, 2004, according to Reliance's Web site.

Reliance shares fell 1.5 percent to 539 rupees at the 3:30 p.m. close after rising as much as 2.3 percent earlier.

"NOT OVER"

"The earnings are materially higher than expectations but that won't restore confidence" in the company, Jon Thorn, who manages \$160 million at India Capital Fund Ltd. in Hong Kong, said by phone. "The dispute is not over."

"The six-month-old dispute between Chairman Mukesh Ambani, 47, and younger brother Anil, 45, over control of the group has hurt investor confidence," Thorn said.

Public disagreement between the brothers widened today when Anil told reporters in Mumbai before the company's board meeting that a letter he wrote to the board on corporate governance was being ignored.

"It's Reliance 11 versus me," Anil said, referring to the number of players in a cricket team. "I shall continue to serve (in the company) contrary to designs of people who do not want me to continue."

Ambani abstained from signing the company's final accounts, he said in a statement after the board meeting.

BONUS SHARES

Reliance shareholders need to be rewarded with bonus shares and a "much higher" dividends because of record earnings, Anil said in the statement.

Ambani told the board Reliance must close the share buyback program as the company is "apparently not serious" in pursuing it, having spent 1.5 billion rupees, or 5 percent of 30 billion rupees approved in December, the statement said.

Reliance's board rejected all of Anil Ambani's suggestions, the statement said.

"My suggestions have not been considered. Clearly, I seem to be in a minority in improving shareholder returns," he said before issuing the statement.

The dispute has been a drag on Reliance shares, which rose 0.4 percent the past six months, compared with an 11 percent gain in the benchmark Sensitive index. The stock, held by as many as 3.3 million local shareholders, was the fourth-worst performer in the index last year.

"The two seem primarily concerned with protecting their equity, than with improving shareholder return at this point," India Capital's Thorn said. "It is a classic family dispute."

Reliance's sales rose 26 percent to 178.39 billion rupees in the quarter. The company said it will pay 7.5 rupees a share dividend for the year ended March 31, compared with 5.25 rupees paid last year.

REFINING MARGINS

Asian gasoline prices in the March quarter on average were 27 percent higher, while diesel rose 45 percent, outpacing the 26 percent gain in the cost of Arabian Gulf crude oil, Bloomberg data showed. That helped push up refining profits.

"Reliance's refinery operations are run efficiently," Wood Mackenzie's Sword said. "The refinery's ability to process very sour crude oil, which is much cheaper than lighter grades, will always help it clock higher refining margins."

Reliance probably earned an average \$8 on each barrel of oil it processed in the quarter from \$7 a year ago, analysts said. That compares with \$7.95 a barrel Singapore refiners earned in the period, according to Merrill Lynch & Co.

Faster-than-expected economic expansion in China, the world's second-biggest oil user, and rising vehicle sales in India indicates the nations' oil imports may continue to rise, Sword said by phone from London before earnings were announced.

IMBALANCE

"New investments planned in the region to augment capacity won't be enough to satisfy rising demand from China and India," she said. "The demand-supply imbalance in the region will keep refining margins high."

China, India and other Asian countries were responsible for two-thirds of last year's growth in oil demand, Charles Dumas, an economist at Lombard Street Research Ltd. said April 20.

Reliance's 660,000 barrels-a-day Jamnagar refinery ran at 96 percent of its designed capacity and processed 7.8 million metric tons (57 million barrels) of oil in the quarter, little changed from a year ago, the company said.

India's diesel consumption, which accounts for 40 percent of total fuel sales, grew seven percent to 39.67 million metric tons in the year ended March 31, according to the oil ministry. Vehicle sales rose 16 percent to 8 million during the year.