

# Bloomberg News

## Reliance May Post Record Net on Fuel, Chemical Prices

By Ravil Shirodkar

Reliance Industries Ltd., which owns the world's third-biggest oil refinery, will probably report its seventh straight quarter of record profit as India's expanding economy stokes demand for fuels and chemicals.

Net income probably rose to 19 billion rupees (\$434 million), or 13.60 rupees a share, in the three months ended Dec. 31 from 13.74 billion rupees, or 9.80 rupees, a year earlier, according to the median forecast of 10 analysts surveyed by Bloomberg News.

Reliance is benefiting from rising vehicle sales in China and India that boosted Asian fuel prices and refining margins to near records in the quarter.

**To keep profit expanding, Chairman Mukesh Ambani, 47, needs to resolve a dispute with his younger brother Anil over control of the business, which accounts for 3.5% of India's economy, said investor Jon Thorn. "These kind of ownership issues always have the effect of diverting management energy," Thorn, who manages \$160 million at India Capital Fund Ltd. in Hong Kong, said by telephone. "The dispute is a bit of a soap opera but it hasn't changed the fundamentals of Reliance's business. The refining cycle is up."**

The dispute caused Reliance shares to end last year as the fourth-worst performer on India's benchmark Sensitive index. The stock fell 7% in 2004. Reliance on Dec. 27 announced a share buyback to stem the decline. Anil Ambani, 45, opposed the plan, saying he wasn't consulted.

The company is scheduled to report earnings tomorrow.

### Refining Profit

Reliance may have earned an average of more than \$8 on each barrel of oil it refined in the quarter from \$5.20 a year earlier, said Harshad Katkar, an analyst at Refco-Sify Securities. Its 660,000 barrels-a-day Jamnagar refinery in the western Gujarat state is India's biggest.

Asian gasoline and diesel prices surged by half on average in the nine months ended Dec. 31, outpacing the 24% gain in the cost of Arabian Gulf crude oil, according to data compiled by Bloomberg. That boosted refining profits for Reliance and rivals including Indian Oil Corp.

Singapore refiners earned as much as \$10.95 a barrel in the December quarter. Margins may average \$8 a barrel this year and rise to \$8.50 a barrel in 2006, according to Merrill Lynch & Co.

Gains from refining, which accounts for half of Reliance's revenue, may widen this year as expansion in India's industrial output and rising car sales boost fuel consumption. Vehicle sales in the country rose 15% in the eight months ended Nov. 30.

### Sales Gain

India's sales of diesel grew 5.3% and gasoline rose 4% in the nine months ended Dec. 31, Indian Oil said. Fuel demand may grow more than 5% this year as rising incomes and low interest rates boost car sales, Jaspreet Singh, an analyst at Prabhudas Liladher Securities, said.

Increased demand for synthetic fibers and plastics used by Coca-Cola & Co. and other customers probably boosted margins at Reliance's 12.5 million tons-a-year chemicals business, which accounts for 45% of the company's revenue.

The average price Reliance charged for its polymers, used to make plastics, was 7% higher in the third quarter than a year earlier. Polyester fiber prices jumped 4%, while prices of chemicals used to make yarn rose 16.5%.

"The company is riding the global upswing in the petrochemical cycle," Refco's Katkar said. "Chemical companies across Asia are running plants at full capacity to meet demand."

Reliance, the world's biggest polyester yarn maker, wants to add 2.5 million tons of capacity in three years.

### Competing for Cash

Plans to expand the company's oil exploration, fuel retailing and power generation businesses may be delayed by the rift between the Ambani brothers, analysts said. Reliance plans to spend 70% of the \$11 billion it aims to earn in five years on its energy businesses, the company said last year.

"Existing businesses are generating a lot of cash and Anil is opposed to Mukesh spending a chunk of it on telecom," said John Band, president of investment consultant Zoom Cortex Ltd.

Reliance owns 45% of Reliance Infocomm Ltd., India's biggest mobile-phone company, and has invested \$2.8 billion in the venture. Infocomm, headed by Mukesh Ambani, has 9 million users. "Anil wants his power business to get cash infusions as well," Band said.

Reliance Energy Ltd., headed by Anil Ambani, is building a \$2.2 billion, 3,740-megawatt plant in northern India.

The company plans to lower costs by tapping gas fields owned by its parent. Reliance in December said it's waiting for regulatory approval for a pipeline linking fields off the east coast to the plant, raising concern the project may be delayed.

"It appears unlikely that Reliance will be able to build a cross-country pipeline in time for the power project to meet its start-up date" of June 2007 said Praveen Martis, an analyst at U.K.-based Wood Mackenzie Consultants Ltd.

### Shares Decline

Meantime, Reliance shares may continue to lag the benchmark index until the brothers resolve their dispute, investors said. The stock has dropped 8% the past three months, while the Sensex has gained by the same amount.

**"I can't see why a big investor would buy the stock now," Thorn said. "The Ambanis want the dispute fixed right because they are the major shareholders, so it could take time to sort out."**

The Ambani family owns 47% of Reliance. Overseas investors own 23%, with 13.5% held by as many as 3.3 million local shareholders, according to the company.