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***VERDICT OUT – RIL to benefit.....Negative Impact on RNRL, RPOWER***

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**Highlights at a glance**

- In a landmark judgement for corporate India, the Supreme Court on Friday **ruled 2:1 in favour of Reliance Industries** in the RIL-RNRL case.
- The Supreme Court clearly indicated that it was **government's right to decide the price** and utilization of the fuel, which is a national asset.
- RIL does not have absolute marketing right over gas; the price was subject to the government's approval, the court said.
- The court also said that natural gas **resources cannot be subject to any family agreement** and the family MoU signed by Mukesh and Anil Ambani and their mother Kokilaben was not legally and technically binding.
- The apex court has also ordered RIL **to initiate in six weeks, re-negotiation** with RNRL in terms of Gas Sale Master Agreement so that rights of RNRL shareholders are safeguarded. It also told them to ensure the deal abides by the government's policies.

**The Verdict**

A three-member Supreme Court bench, headed by Chief Justice of India K.G. Balakrishnan, ruled in **favour of RIL by 2:1**. As the verdict process began earlier today, Supreme Court judge P Sathasivam declared that the brothers' **memorandum of understanding (MoU) was not binding** and that RIL and RNRL must renegotiate in six weeks. The judge said that the government owned all the gas assets till it reached the users. It added that Production Sharing Contract (PSC) will override all the prior agreements and the MoU between the Ambani brothers is not binding. He also said that it was not feasible to restrain the government's power on gas and it is a natural asset which belongs to the people. Justice B.Sudarshan Reddy then delivered the dissent to Justice Sathasivam's verdict. At the end of both verdicts, the Supreme Court ruled in favor of RIL by 2:1. The ruling closes a chapter on a high-profile battle that could set the tone for the country's policy on gas pricing.

**Case Background**

Earlier, the Bombay High Court, in its order dated 15 June 2009 had directed that RNRL will get assured supply of 28 mmscmd of gas from RIL's Krishna-Godavari basin for 17 years at \$2.34 per million British thermal units (mBtu). The gas price was 44.28% lower than the price fixed by the government for gas sale from the RIL block in the KG basin at \$4.2 mBtu.

However, the Centre had questioned the basis of any gas supply agreement between two private parties on the lines of a family agreement and asked how RIL could allocate gas to RNRL when the government had not yet given any allocations to its own entity in NTPC.

## Stock Impact

### *Negative on RNRL & RPower*

There will be a severe impact on RNRL profit in the June quarter as they are only in the business of gas distribution. The Krishna-Godavari gas is the only major asset that RNRL has and in its absence, the firm would be a shell company. Negotiation is something which will take a long time or may not happen also.

***The stock of RNRL ended 24% down to close at Rs.52.10 in NSE.***

This is also a major blow for RPower that was dependent on this gas for their projects. As a result of this, their costs will have to be repriced tremendously, which will hit their bottomline. ***The stock of RPower ended 9% down to close at Rs.139.95 in NSE.***

### *Positive Impact on RIL*

The decision is totally in favor of RIL. The markets were expecting something for RNRL which did not come. Also Friday's verdict is likely to help RIL in a separate legal battle in the Bombay High Court with state-run NTPC Ltd. ***We maintain our base case valuation for RIL at Rs.1190/share in a year's time as stated in our Report dated 6<sup>th</sup> May,2010.***

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