
AMBANI BROTHERS END DISPUTE.....

Reliance Industries Limited (RIL) led by Mukesh Ambani and Reliance ADA Group Companies (**Reliance Communications Ltd., Reliance Infrastructure Ltd, Reliance Natural Resources Ltd, and Reliance Capital Ltd.**) led by Anil Ambani have approved and signed an agreement **canceling all existing non-compete arrangements** entered into between the two groups in January 2006 pursuant to the scheme of reorganization of the Reliance Group and entered into a new simpler, Non compete agreement with **respect to only Gas based Power Generation**. RIL has agreed not to enter into Gas based Power Generation Business for the period upto March 31, 2022. The above agreements have been approved by the Board of Directors of RIL and the respective Reliance ADA Group Companies.

Impact

The scrapping of the non-compete agreement between the Ambani brothers could well mark an inflexion point for the two groups that have been engaged in a bitter battle for some time.

Opens the Gate for RIL

The truce may be more favourable to the Mukesh Ambani led-Reliance Industries, which has the potential and the means to invest in several sectors like **financial services, thermal power and telecom**. RIL, which is sitting on a huge cash pile with cash accrual to the tune of \$5 billion and generates \$7-8 billion from treasury operations, can generate **cash to the extent of \$12-15 billion in the next one year**. Since the company has so far failed to make a major acquisition in the field of oil and gas, it now makes sense for it to enter into thermal power and telecom in a big way. RIL may also aggressively foray into the financial services space, as the non compete agreement prevented the former from getting into the financial services business. Getting a banking license could prove advantageous for RIL as huge cash flows generated by RIL's various businesses could be parked in its own bank. RIL has already floated subsidiary companies such as **Reliance Retail Finance Ltd, Reliance Retail Securities Ltd & Broking Company Ltd, Reliance Retail Insurance Broking Ltd and Reliance Financial Distribution & Advisory Services Ltd**. Currently, these companies are dormant due to the non-compete agreement. **We still maintain our base case valuation for RIL at Rs.1190/share in a year's time as stated in our Report dated 7th May,2010.**

Business as usual for ADAG

On the other hand, the main benefit to ADAG from the scrapping is the removal of 'right of first refusal', which had stalled RCOM's merger with South Africa's MTN in 2008. However, considering the changed outlook in the telecom industry over the past couple of years marked by a bruising tariff war, the prospects of such a deal taking place in the near term appears bleak. Also entering into RIL's businesses of petroleum and petrochemicals is not feasible at this stage

as these businesses are highly capital intensive in nature with long gestation periods. Hence we believe Anil Ambani will mainly focus on gas-based power projects.

The development is unlikely to have an impact on the ongoing RIL-RNRL gas supply negotiations, which will happen in accordance with the Supreme Court order.

Although the deal clears the way for both groups to chart out their independent paths in their chosen lines of businesses, there is little likelihood that they will join hands. For RIL, which can choose to enter financial services, telecom or infrastructure businesses, the options are many. However, given the stiff competition, it is unclear as to the value that the company can create for its shareholders by foraying into the new businesses. For ADAG, it may well be business as usual, unless it can pull off an ambitious M&A deal.

In the medium to long term it could mean positive thing for both the groups in terms of business opportunities.

	CMP	52 week High/Low	1 Yr Total Return	Current M-Cap (Rs.mn)	Adjusted EPS			P/E		
					FY10	FY11E	FY12E	FY10	FY11	FY12
Reliance Industries Ltd.	1,030	1189/858	-4.59%	3,368,560	51.44	71.48	84.95	20.02	14.41	12.12
Reliance Communications Ltd.	144	362/131	-54.17%	297,942	18.32	13.89	14.48	7.86	10.37	9.95
Reliance Infrastructure Ltd.	1,075	1404/950	-2.80%	242,368	58.95	63.43	72.82	18.24	16.95	14.76
Reliance Capital Ltd.	685	1067/611	-23.57%	168,369	27.78	34.47	37.79	24.66	19.87	18.13
Reliance Natural Resources Ltd.	54	112/41	-28.00%	89,658	0.56	NA	NA	96.43	NA	NA

Source: Bloomberg, GSL Research

Research Analyst: Prashant Kamdar
E Mail Id: <mailto:prashant.kamdar@guinessonline.net>
Contact No. 033-3001-5555, Extn.5509

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Registered Office: Suite no. 5, Rizvi Nagar, S.V. Road, Milan Subway, Santacruz (West), Mumbai- 400 054. (w.e.f. 1st April 2009)
 Corporate Office: Guinness House. 18, Deshpriya Park Road, Kolkata-700 026. Ph: 3001-5555. Fax: 91 33 3001 5566.
 Email: research@guinessonline.net, Website: www.16anna.com