



Reliance Power

Recommendation	Sell
Current Market Price (Rs.)	160.05
Target Price (Rs.)	136.00

We believe that the long delay in resolving the gas sharing dispute between Reliance Industries and Reliance Natural Resources Limited (RNRL) is likely to affect the 10.3 GW planned power capacity of Reliance Power Limited and we recommend to pare exposure in this stock with a target price of Rs.136.

The gas based power project of Reliance Power was intended to meet the entire gas requirements from RNRL, a group company under the ADAG fold. However, the expected gas supply from RNRL continues to be in limbo as the dispute between Reliance Industries and RNRL is not yet over.

RNRL claims that the company has an agreement with Reliance Industries to purchase 28mmscmd of gas at \$ 2.34 per mmbtu from the latter. In addition to this RNRL also claimed to have entitled to 40% of all gas produced in excess of 40mmscmd from RIL's block in KG basin.

RIL refused to supply gas to RNRL on grounds that the prices are too low and the dispute is in the court and is pending.

The case is coming for hearing by the Mumbai High Court on September 30, 2008 but it is unlikely to be resolved as any order by the High Court would be appealed in the Supreme Court and a final solution will be delayed indefinitely.

The Government of India has set a floor price of \$ 4.2 per mmbtu at the well -head and we expect a 22% upside to our target price if the dispute is resolved at a landed cost of \$ 5.2 per mmbtu. The target price may move by Rs.6 on either side for every change in the landed cost of gas by \$ 0.10 / mmbtu.

Disclosures

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