

### Niko cuts reserve KG-D6 reserve estimates by 80%

Niko Resources, a 10% JV partner in Reliance Industries (RIL) KG-D6 block has cut 2P reserve estimates for the block by 80% to 1.93tcf. The key reasons for this downgrade has been 1) Field performance at the D1/D3 field during 2011 demonstrated higher than expected pressure draw-downs 2) assessment of reservoir performance concluded that, contrary to the previous geological model, the current D1/D3 producing wells did not appear to be receiving any contribution from outside the main channel areas 3) the enhanced inter-connectedness of the main channel sands has resulted in increased water production and hence lowered the ultimate recovery.

### Niko envisages weak production trend at KG-D6 to continue

Niko has envisaged that the declining trend in gas production at D1, D3 and MA would continue in the years to come. It expects the average production to fall from more than 105mmcf/day in FY12 to about 42mmcf/day by FY18. However, it expects production to commence from KG-D6 satellite fields and NEC-25 from FY15 and FY18 respectively, which would more than offset the decline at KG-D6.

### Risks to core business persists

The widening Euro debt crisis, slower than expected recovery in US economy and weakening growth in inflation hit emerging economies such as India and China has raised concerns over the demand outlook for petrochemicals and petroleum products. For petrochemicals, increasing low cost gas based capacities in the Middle East will put additional pressure on margins. New refining capacities in Asia Pacific region will impact GRMs over the near term.

### Maintain MP rating, cut target price to factor in lower reserves

To factor in the cut in reserve and production estimates, we lower our NPV value for KG-D6 field to Rs41/share from Rs56/share earlier. Our production estimates for FY13 and FY14 now stand at 28mmscmd and 25mmscmd respectively. We have lowered our EPS estimates for FY13E from Rs63.6 to Rs61.8 and for FY14E from Rs71.3 to Rs67.4. We maintain our Market Performer rating with a revised 9-month price target of Rs730.

### Financial summary

Y/e 31 Mar (Rs bn)	FY11	FY12	FY13E	FY14E
Revenues	2,658,106	3,585,010	3,757,013	4,023,225
yoy growth (%)	30.5	34.9	4.8	7.1
Operating profit	380,436	348,170	326,176	347,699
OPM (%)	14.3	9.7	8.7	8.6
Pre-exceptional PAT	192,937	200,330	184,076	200,799
Reported PAT	192,937	197,240	184,076	200,799
yoy growth (%)	(21.3)	2.2	(6.7)	9.1
EPS (Rs)	64.7	67.2	61.8	67.4
P/E (x)	11.0	10.6	11.5	10.5
Price/Book (x)	1.4	1.2	1.1	1.1
EV/EBITDA (x)	7.0	7.3	7.1	5.9
Debt/Equity (x)	0.5	0.5	0.4	0.4
RoE (%)	13.1	12.4	10.4	10.4
RoCE (%)	11.3	11.1	9.7	9.9

Source: Company, India Infoline Research

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## Other awards



### Recommendation parameters for fundamental reports:

**Buy** – Absolute return of over +10%

**Market Performer** – Absolute return between -10% to +10%

**Sell** – Absolute return below -10%

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