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For RIL, oil and gas business likely to be nearing a peak

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Reliance Industries Ltd's (RIL's) oil and gas vertical reported its record quarterly profit in the latest quarter (July-September), when the business reported an Ebitda (earnings before interest, taxation, depreciation, and amortisation) of ₹4,766 crore.

In the quarter, a little over 10 per cent of RIL's consolidated Ebitda came from its oil and gas business.

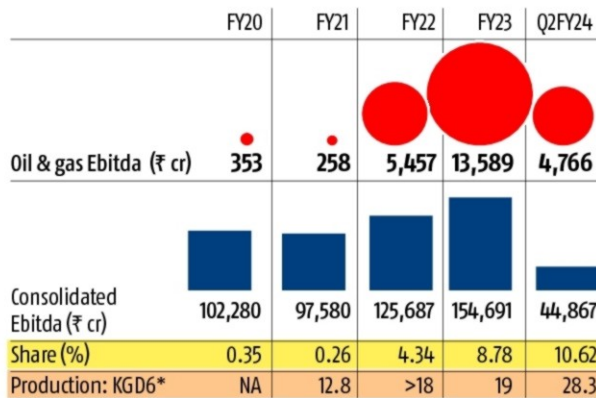
Even as this business finally claims a larger share in overall profits, analysts say it may be nearing its peak for now. RIL's oil and gas business performance for several years has been lacklustre in comparison to profits its other divisions have returned.

The business has, however, looked up in the past several quarters with gas production commencing from the KG-D6 block.

"The turnaround began with the start of gas production at KG-D6 (commenced gas production from satellite cluster in April 2021 and R-cluster in December 2020)," analysts with BNP Paribas noted in their report on the company.

"This was further boosted by the commencement of gas production from the MJ field,

KEY STANDINGS



*In million metric standard cubic meters per day

Source: Company presentations

which yielded 29 MMSCMD (million metric standard cubic metres a day) of gas in 2QFY24 and is on course to achieve 30 MMSCMD production in the near term," they wrote.

However, analysts from foreign and domestic brokerages say this is nearing its peak.

Analysts with Motilal Oswal in their latest post-earnings report on RIL said FY25 would see the full benefit from the ramped up volumes at the MJ field.

Those at JP Morgan are calling it "the last hurrah".

"Much was expected by the market of Reliance's E&P

business earlier, but the large D1/ D3 fields eventually disappointed in terms of output. That seems to have led to RIL scaling back its upstream ambitions," the analysts said, noting the company has exited most of its overseas assets and the US shale properties it had acquired.

"There is little else beyond this -- no major exploration/development activities in this part of the business (are) anticipated. RIL's cash flow/Ebitda will likely see significant albeit temporary gains as output hits the peak," the analysts noted.

The peak for KG-D6 gas

production of around 30 MMSCMD isn't far from now. Production, according to the company's quarterly results, stands at ₹29 MMSCMD.

"Combined, the KG-D6 project in completion (three phases) will develop more than 3 trillion cubic feet (TCF) of gas with gross production of 30 MMSCMD and should reach peak production in 2023 (FY24). This contributes to 30 percent of India's domestic gas production," analysts with Goldman Sachs noted in their earnings review. In their multi-year estimates of up to FY26, brokerages JM Financials, Emkay, UBS, and Kotak Securities see this segment's Ebitda peaking either this financial year or the next.

"Agree, this is the best it gets for this business segment of RIL," said an oil and gas analyst, adding, "But upside could be in steps if they stumble upon new discoveries".

RIL is working on ultra-deep projects such as KG-UDW1, where the first exploration well is planned to be drilled in the second half of the current year.

It has commenced a programme of an additional 40 wells as part of its production augmentation plan, with output anticipated to be ramped by Q4FY24.