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**REDUCE**
TP: Rs 1,820 | ∀ 3%

**RELIANCE INDUSTRIES** | Oil & Gas | 10 July 2020

# Earnings yet to justify rerating – cut to REDUCE

**Reliance Industries' (RIL) diversification edge has shone during the pandemic as it grapples with a difficult environment for its cyclical and retail businesses, while enhancing RJio's earnings outlook (across verticals). Commendably, RIL has been able to garner US$ 17bn through stake sales in Jio Platforms and the rights issue. The focus will now be on earnings. As the company positions itself as an Oil-to-Tech behemoth, valuations have run well ahead at 15.5x FY23E EPS. Cut to REDUCE (from ADD) with a new Mar'21 TP of Rs 1,820 (vs. Rs 1,515).**

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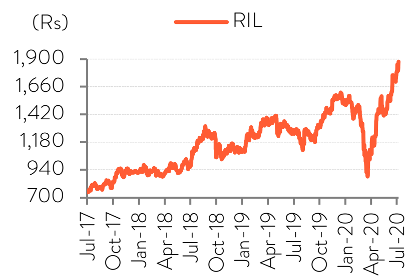
| | |
|---|---|
| Ticker/Price | RIL IN/Rs 1,878 |
| Market cap | US$ 168.8bn |
| Shares o/s | 6,762mn |
| 3M ADV | US$ 432.3mn |
| 52wk high/low | Rs 1,885/Rs 876 |
| Promoter/FPI/DII | 50%/24%/26% |

Source: NSE

**STOCK PERFORMANCE**




Source: NSE

**RJio leading earnings and valuation upsurge:** Our sanguine outlook on RJIO is based on ARPU expansion to Rs 170 by FY23 (from the current Rs 130) even as subscriber accretion slows. We see multiple levers for ARPU expansion – higher data usage coupled with staggered data tariff hikes, rising FTTH subscribers, and monetisation of lateral offerings (such as JioTV and JioCinema).

**Retail momentum to sustain:** We expect retail revenues to surge to Rs 3.4tn by FY23. Economies of scale would aid an estimated 3.6x surge in EBITDA to Rs 348bn by FY23 (from Rs 96bn in FY20).

**Cyclicals expected to struggle:** Unrelenting oil demand concerns stemming from the pandemic continue to drive benchmark GRMs lower. Similarly, Petrochemical margins could struggle, as global economic takes a toll on demand for products. We see more downside risk to cyclical earnings.

**Deleveraging priced in, upsides capped; cut to REDUCE:** We need to see earnings traction from RIL, especially in RJio. We raise FY21/FY22 earnings estimates by 15%/5% to factor in better RJio earnings and lower debt, yielding a revised Mar'21 TP of Rs 1,820 (from Rs 1,515). Pressure in the cyclical (with downside risk to earnings) and retail segments caps valuation upsides.

**KEY FINANCIALS**

| Y/E 31 Mar | FY19A | FY20A | FY21E | FY22E | FY23E |
|---|---|---|---|---|---|
| Total revenue (Rs mn) | 5,830,940 | 6,116,450 | 3,785,945 | 4,775,147 | 4,584,413 |
| EBITDA (Rs mn) | 841,670 | 882,170 | 938,561 | 1,393,498 | 1,709,815 |
| Adj. net profit (Rs mn) | 400,860 | 443,240 | 484,596 | 795,924 | 1,072,479 |
| Adj. EPS (Rs) | 59.3 | 65.6 | 71.7 | 117.7 | 158.6 |
| Adj. EPS growth (%) | 13.6 | 10.6 | 9.3 | 64.2 | 34.7 |
| Adj. ROAE (%) | 11.7 | 11.1 | 10.5 | 14.2 | 16.5 |
| Adj. P/E (x) | 31.7 | 28.6 | 26.2 | 16.0 | 11.8 |
| EV/EBITDA (x) | 17.3 | 16.9 | 16.4 | 10.9 | 8.7 |

Source: Company, BOBCAPS Research

# Executive summary

We present key takeaways from our analysis of RIL's FY20 Annual Report below:

## RJio – Positioning itself as a tech behemoth

Recently a slew of tech specialist PE investors have bought into Jio Platforms (RJPL) – a debt-free offshoot of RJio that was created with the intent of attracting strategic investments. RIL's communication on RJPL has always been towards packaging its connectivity business into a complete technological offering, spanning ecommerce (wherein the retail business gets a booster), digital media (across social, entertainment, commercial) and tech services (cloud, software).

The base of >350mn wireless subscribers built on >Rs 3.5tn of investments across physical (fibre, towers) and spectrum infrastructure has been the primary enabler. We estimate that RJio will constitute 40% of RIL's EBITDA, tripling the FY20 figure of Rs 225bn by FY23. Our sanguine outlook is based on ARPU expansion to Rs 170 by FY23 (from the current Rs 130) even as subscriber accretion slows. We see multiple levers for ARPU expansion – higher data usage coupled with staggered data tariff hikes, rising fibre-to-the-home (FTTH) subscribers, and monetisation of lateral offerings (such as JioTV and JioCinema).

## Retail – Enjoys massive economies of scale

The sheer scale of the retail business is depicted by the steady upswing in revenues – from Rs 691bn in FY18 to Rs 1.6tn in FY20. We expect revenues to surge to Rs 3.4tn by FY23 (33% of which will come from connectivity). Economies of scale would aid an estimated 3.6x rise in EBITDA to Rs 348bn by FY23 (from Rs 96bn in FY20). EBITDA margins are forecast to expand to 10% (from 6.6% in FY20) as most of the incremental revenues (ex-connectivity and petroleum retail) add to margins.

RIL expects to continue its annual pace of 1,500 store additions over FY21-FY23. Management pegged overall same-store sales growth (SSG) at ~20% in FY20, of which 10% came from the fashion segment, 23% from consumer durables and 26% from grocery. Overall store count has touched ~11,800, at a run rate of ~3 stores added per day.

## Challenging time for cyclicals

**Refining outlook remains uncertain:** Unrelenting oil demand concerns stemming from the pandemic continue to drive benchmark GRMs lower. Oil demand may normalise by Q4CY20 as global economies potentially get back on track. Also, the startup of petcoke gasifiers and an increase in coking capacity could provide

RIL some respite on operating costs as well as a product slate advantage (more skewed towards diesel).

**Petrochemicals faces demand challenges:** Record production in FY20 (38.4mmtpa) could be difficult to repeat in FY21 considering economic degradation globally from the pandemic. RIL's capacity expansion in petrochemicals appears to form part of its long-term vision of insulating the refining business from the threat of electric vehicles – considering polymers/ polyesters form part of the diverse building blocks of economic activity.

RIL's strategy to enhance the oil-to-chemicals business ratio would entail setting up petchem capacities of 40-45mmtpa over 10 years (at ~US$ 30bn capex), leading to the next large capex wave for the company (after RJio). This outlay would most likely be funded by the proposed stake sale in its oil-to-chemicals business to Saudi Aramco.

## Deleveraging appears to be priced in

In a commendable achievement, RIL has been able to garner US$ 17bn through stake sales in Jio Platforms and its own rights issue. The focus will now be on earnings delivery. As the company positions itself as an Oil-to-Tech behemoth, valuations have run well ahead of fundamentals at 15,5 FY22E EPS.

We need to see earnings traction from RIL at consolidated levels. At the same time, we raise FY21/FY22 earnings estimates by 15%/5% to factor in better RJio earnings and lower debt. However, our GRM assumption of US$ 9/bbl for FY21 carries downside risks, looking at the Q1FY21 data. Benchmark Singapore complex GRMs remain negative and far from revival. We revise our Mar'21 SOTP-based TP to Rs 1,820 (from Rs 1,515) but downgrade the stock from ADD to REDUCE as pressure in the cyclicals business (with downside risk to earnings) and retail business caps valuation upside potential.

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# R-Jio – Leading the earnings growth

The base of >350mn wireless subscribers built on >Rs 3.5tn of investments across physical (fibre, towers) and spectrum infrastructure has been the primary enabler for recent stake sales in RJIO.

### FIG 1 – DELEVERAGING OUTLOOK

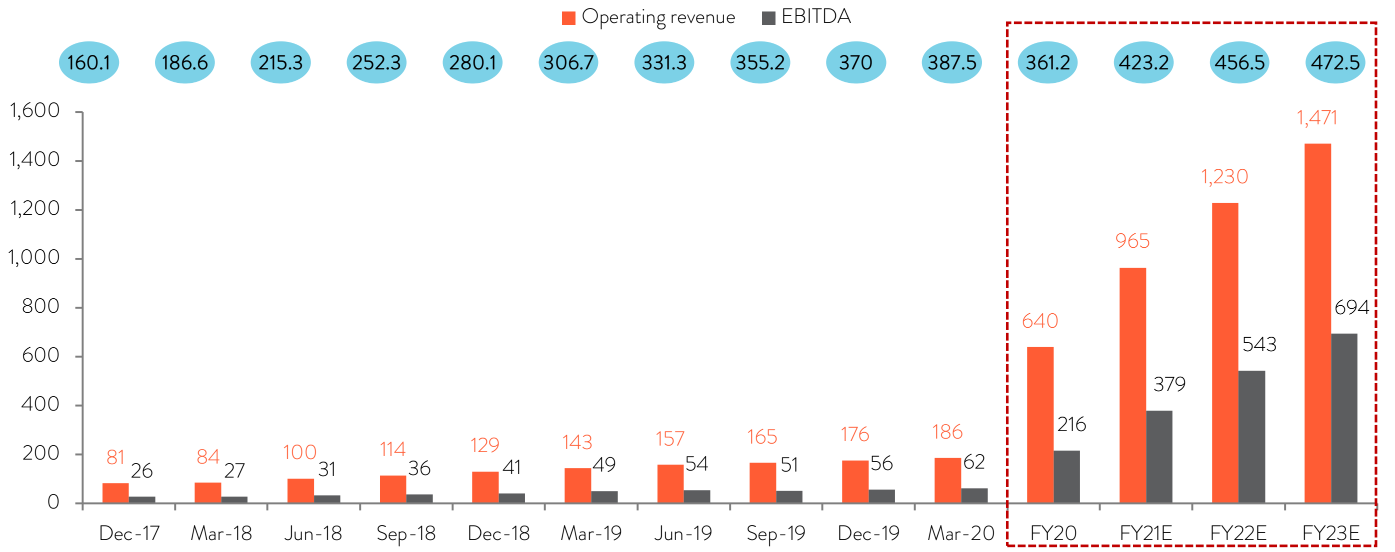
| Date | Investor | Amount (Rs mn) | Stake (%) | Residual Net Debt (Rs mn) (vs. FY20) |
|---|---|---|---|---|
| Apr-22 | Facebook | 435,736 | 9.99 | - |
| May-04 | Silver Lake | 56,558 | 1.15 | - |
| May-08 | Vista | 113,670 | 2.32 | - |
| May-17 | General Atlantic | 65,984 | 1.34 | - |
| May-22 | KKR | 113,670 | 2.32 | - |
| Jun-05 | Mubadala | 90,936 | 1.85 | - |
| Jun-05 | Silver Lake Additional Investment | 45,468 | 0.93 | - |
| Jun-07 | Abu Dhabi Investment Authority | 56,835 | 1.16 | - |
| Jun-13 | TPG Capital | 45,468 | 0.93 | - |
| Jun-13 | L Catterton | 18,945 | 0.39 | - |
| Jun-18 | Public Investment Fund | 113,670 | 2.32 | - |
| Jul-03 | Intel Capital | 18,945 | 0.39 | - |
| **H1FY21** | **Total from stake sale in RJPL** | **1,175,885** | **25.1** | **2,366,336** |
| Jun-20 | Rights issue (1st tranche) | 132,811 | - | - |
| | Total raised in FY21TD | 1,308,695 | - | 2,233,525 |
| May-21 | Rights issue (2nd tranche) | 132,811 | - | 2,100,715 |
| Nov-21 | Rights issue (3rd tranche) | 265,621 | - | 1,835,094 |
| **FY21-22** | **Total rights Issue** | **531,242** | **-** | **-** |
| **FY21-22** | **Total equity raise visibility** | **1,707,127** | **-** | **1,835,094** |
| **FY21-22E** | **Saudi Aramco Deal** | **1,140,000** | **-** | **695,094** |

Source: BOBCAPS Research, Company

We estimate that RJio will constitute 40% of RIL's EBITDA, tripling the FY20 figure of Rs 216bn by FY23. Our sanguine outlook is based on ARPU expansion to Rs 170 by FY23 (from the current Rs 130) even as subscriber accretion slows.

We see multiple levers for ARPU expansion – higher data usage (coupled with staggered data tariff hikes) as the pandemic redefines global work dynamics, rising FTTH subscribers, and monetisation of lateral offerings (such as JioTV, JioCinema).

**FIG 2 – RJIO PERFORMANCE**




Source: BOBCAPS Research, Company

**Jio's focus on partnership with Facebook is India's 60mn MSMEs, 120mn farmers and 30mn SMEs in the informal sector**

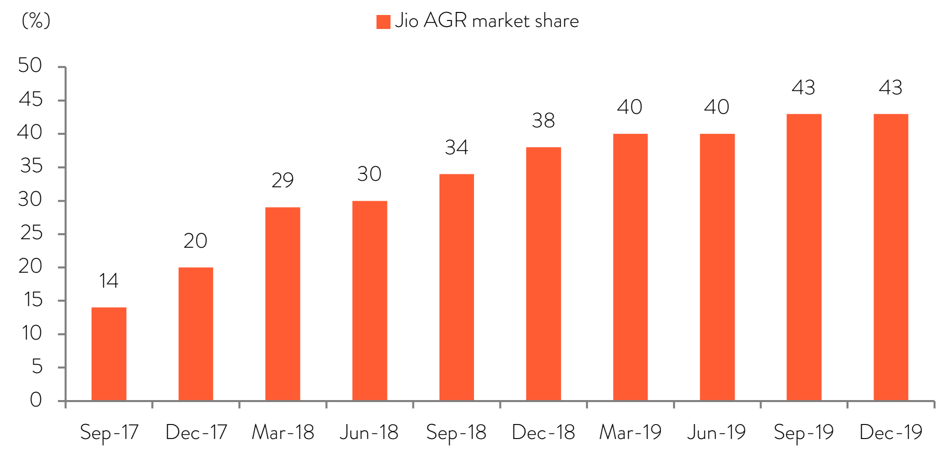
## RJio: Annual report highlights

- The telecom sector continues to see transitions from 2G/3G to 4G on the back of greater adoption of smartphones and through 4G-enabled feature phones (JioPhone). Over the past two years, Jio has successfully transitioned over 100mn feature phone users to the 4G network.
- 4G-LTE networks have led to a steady increase in mobile internet penetration across rural areas to 28%. Despite this, rural India remains an underpenetrated market and presents a huge opportunity for digitisation.
- Jio's all-IP data network built as a mobile video network carries more than 4.5 exabytes of data monthly (from 3 exabytes in FY19) and is future-ready to transition to 5G.
- Even with 388mn subscribers having per capita voice usage of 771 minutes per month and data usage of 11.3GB per month, data speed remains the highest while network latency and call drop rates remain the lowest amongst all networks across the country.
- The entire scaleup of Jio has been possible due to improved advanced features such as Software Defined Networking (SDN) and Network Function Virtualisation (NFV) along with in-house data centre capacity and investments in Content Distribution Network (CDN). Network capacity too is being augmented by adding incremental sites, WiFi access points, small cells and expanding fibre backhaul.

**Jio has increased its overall share in AGR**

**It has increased its targeted number of home connections from 20mn to 50mn**

### FIG 3 – RJIO'S AVERAGE GROSS REVENUE MARKET SHARE




Source: Company, BOBCAPS Research

- RJio has set a target to connect 50mn homes and 15mn enterprises with high speed fibre across 1,600 cities. Jio had connected approximately one million homes with JioFiber services until Mar'20. Key differentiators would be –
  - **Jio's extensive intracity fiber network**
    - Infrastructure includes 1,75,000 towers and 1.1mn route kilometres for fibre in full scope.
    - These assets have been transferred and are now held through an InvIT structure. Discussions with potential investors for a Fibre InvIT are in progress.
    - For now, a binding agreement has been signed and Brookfield and affiliates will invest Rs 252.2bn in the tower assets.
  - **Last-mile execution**
    - Reliance Retail works as the master distributor for Jio connectivity services. Jio has also ensured that every Indian home is within 20km of a Jio Point.
  - **Seamless customer experience**
    - Call drop rates are the lowest amongst all networks across the country.
    - A complimentary 10Mbps JioFiber plan is currently in the testing phase.
  - **Attractive bundling of digital content and smart home IoT**

  - Several digital apps are being launched:
    - JioTV+ – aggregates video content across OTT apps along with live TV
    - JioMeet – team collaboration app which integrates across office meetings, Jio education Platform and Jio eHealth Platform
    - JioGenNext, along with National Payments Corporation of India (NPCI) and Jio Payments Bank, will collaborate with fintech start-ups (CabDost, Rapdior, Aerchain)
    - JioPOS Lite – peer-to-peer mobile recharging on a commission basis

- Jio will set up data centres in locations across India, and Microsoft will deploy its Azure platform in these data centres to support Jio's cloud offerings. The first two such data centres are being set up in Gujarat and Maharashtra and are targeted to be fully operational by CY20.

- Embibe (AI-based education platform), Karexpert (digital healthcare platform), and Haptik (AI/ML for speech and language recognition) - now known as Jio Haptik Technologies - has powered the Government of India's new WhatsApp chatbox called 'MyGov Corona Helpdesk' to help address queries around the coronavirus outbreak.

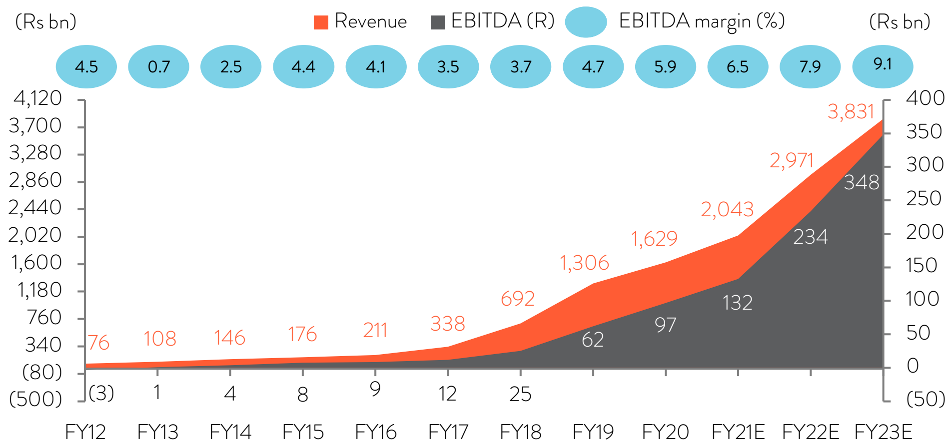
## Retail – economies of scale

**Strong retail traction led by grocery segment**

**JioMart could be the next big driver with opportunities across offline retail, connect with kiranas and additional payment gateway "WhatsApp"**

The sheer scale of the retail business is depicted by the steady upswing in revenues – from Rs 691bn in FY18 to Rs 1.6tn in FY20. We expect revenues to surge to Rs 3.4tn by FY23 (33% of which will come from connectivity). Economies of scale would aid an estimated 3.6x rise in EBITDA to Rs 348bn by FY23 (from Rs 96bn in FY20). EBITDA margins are forecast to expand to 10% (from 6.6% in FY20) as most of the incremental revenues (ex-connectivity and petroleum retail) add to margins.

**FIG 4 – RETAIL SEGMENT PERFORMANCE**




Source: Company, BOBCAPS Research

RIL expects to continue its annual pace of 1,500 store additions over FY21-FY23. Management pegged overall same-store sales growth (SSG) at ~20% in FY20, of which 10% came from the fashion segment, 23% from consumer durables and 26% from grocery. Overall store count has touched ~11,800, at a run rate of ~3 stores added per day.

### Retail: Annual report highlights

- Reliance Retail, being the master distributor for Jio's telecom services, is a strategically important entity. With 8,100+ Jio stores, the retail business is cleverly capitalising on RJio's technology platform and moving between brick-and-mortar stores and the e-commerce business.
- Key differentiators for retail business model:
  - Maintaining growth momentum through new store additions across geographies (launched over 1,500 stores across concepts in FY20).
  - Rapid execution capabilities and operating efficiency.
    - Expansion of the business in tier-3/tier-4 markets; early breakeven in these markets reflects the good operating leverage advantage.

- Under the Trends umbrella, retail operates Trends Small Town (a concept addressed to tier-3 and 4 towns). The concept has been well received by customers and has scaled up to 240 stores across 200+ towns in a short time.

- Smart Point, a neighbourhood store concept, took less than 45 days from design conceptualisation to launch, during which time 18 stores were opened across Thane, Navi Mumbai and Kalyan in Maharashtra.

- Improved store throughput and favourable product mix (Fig 5):

  - In the food and grocery category, the retail business operates Reliance Fresh, Reliance Smart and Reliance Market stores.

  - In the consumer electronics category, it operates Reliance Digital and Jio stores.

  - In the fashion & lifestyle category it has Reliance Trends, Project Eve, Reliance Footwear, Reliance Jewels and AJIO.com in addition to a large number of partner brand stores across the country.

  - Overall, Reliance Retail operates 11,784 stores.

- Continuous improvement in customer experience and focus on providing unmatched value proposition – this has resulted in robust growth in footfalls and operating metrics – footfalls stood at 640mn (+17% YoY) with 125mn registered / loyal customers (+40% YoY) in FY20.

- JioMart commenced with the launch of a pilot phase across India in late May. Consumers can place orders through alternative ways including WhatsApp which will be served by merchant partners. Reliance Retail has commenced onboarding merchant partners in a limited geography. JioMart is designed to digitise merchants at the backend through Jio PoS and the JioMart app is to digitise the frontend operations.

- During the lockdown, JioMart provided uninterrupted services to small grocery stores ('kiranas') across Navi Mumbai, Thane and Kalyan, and witnessed a four-fold order flow increase versus the pre-lockdown period.

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## FIG 5 – RETAIL BUSINESSES AND BRANDS

| | Segment | Business/Brand | Products/Service | Operating metrics (FY20) |
|---|---|---|---|---|
| 1 | **Food and Grocery** | Reliance Fresh | **Neighbourhood store** offering daily needs and essential items with a focus on offering convenience, quality produce and ensuring availability | EBITDA margin: 6.5%<br>Contribution to total revenue: 21%<br>Number of stores: 797 |
| | | Reliance Smart | **Destination store** concept offering much more than Reliance Fresh under one roof (grocery, pharmacy and assisted digital commerce) | |
| | | Reliance Smart Point | **Neighbourhood store**, a small avatar of Reliance Smart, offering Reliance Smart's price promise | |
| | | Reliance Market | **Wholesale cash & carry store** concept serving households, kiranas, hotels, restaurants and catering | |
| 2 | **Consumer Electronics** | Reliance Digital | **Electronics speciality store** | EBITDA margin: 6.2%<br>Contribution to total revenue: 27%<br>Number of stores: 500 |
| | | Reliance resQ | **Service arm** of Reliance Digital (after sales service provider) | |
| | | Jio stores | **Speciality store** for connectivity and mobility | EBITDA margin: 2.2%<br>Contribution to total revenue: 34%<br>Number of stores: 8,101 |
| 3 | **Fashion & Lifestyle** | Trends | **Apparel speciality store** (Trends Woman, Trends Man and Trends Junior) | EBITDA margin: 24%<br>Contribution to total revenue: 8%<br>Number of stores: 2,386 (includes 650 stores of partner brands under joint ventures) |
| | | Trends Footwear | **Footwear speciality store** | |
| | | Project Eve | **Apparel speciality store for women** (mid to premium segment) | |
| | | Reliance Jewels | **Jewellery speciality store** | |
| | | International partner brands | Operates over 650 stores across a **portfolio of 46 exclusive international partners brands** | |
| 4 | **E-Commerce** | Ajio | **Online fashion store** | |
| | | Jio-Mart | | |

Source: Company, BOBCAPS Research |

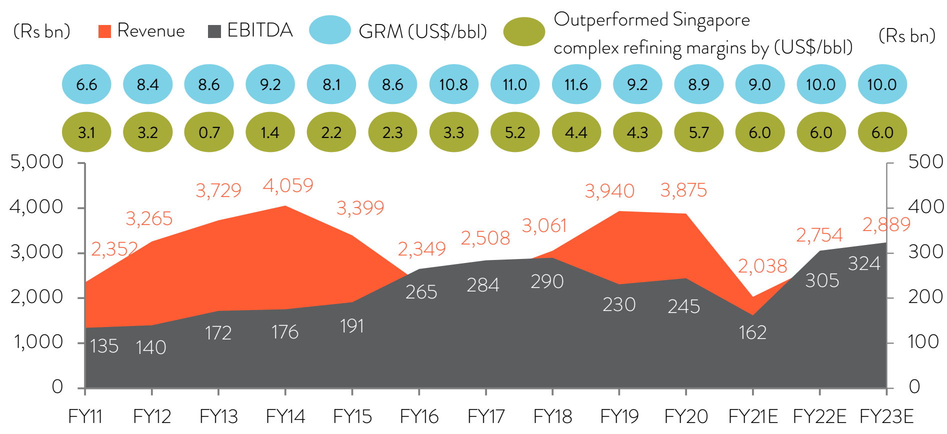
# Refinery & Marketing – Challenging times

Unrelenting oil demand concerns stemming from the pandemic continue to drive benchmark GRMs lower. Oil demand may normalise by Q4CY20 as global economies potentially get back on track. Also, the startup of petcoke gasifiers and an increase in coking capacity could provide RIL some respite on operating costs as well as a product slate advantage (more skewed towards diesel).

We expect RIL's GRMs to remain resilient at US$ 9/bbl in FY21 and improve to US$ 10/bbl over FY22-FY23. However, considering the trends seen in Q1FY21, we see a downside risk to our GRM estimates. This could indeed be one of the most challenging times for the refining business.

**GRMs may continue to outperform benchmark on the ability to process heavier crudes and efficient sourcing**

**FIG 6 – REFINING PERFORMANCE**



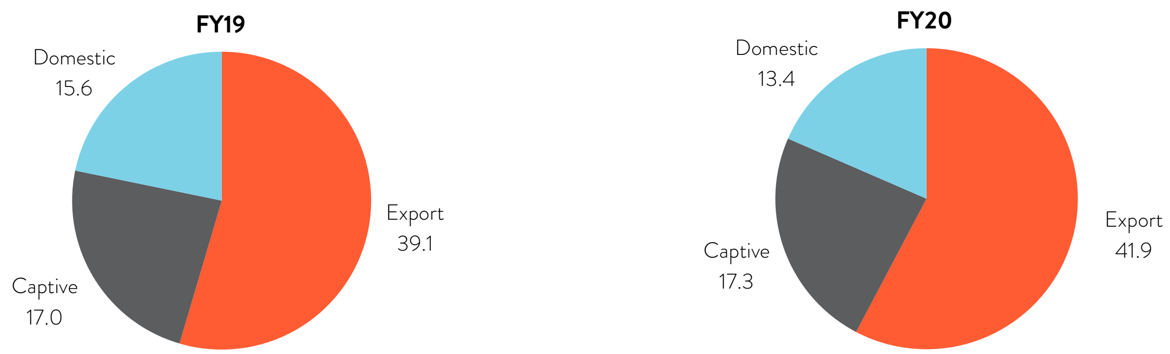

Source: Company, BOBCAPS Research

## Refining: Annual report highlights

- RIL continues to sustain its competitive advantage. Key differentiators are:
  - Augmentation of coking capacity to convert low-value residue into high-value distillates
  - Full-scale commissioning of coke gasification project – petcoke gasification complex operations have been stabilised successfully (120 days of continuous gasifier operations) and are being ramped up. This year's focus shall be to maximise syngas availability for all gasifiers
- Fuel oil demand declined in CY19 as bunker demand transitioned towards IMO 0.5% marine fuel and suppliers switched their operations towards LSFO and MGO. This led to lower Singapore HSFO cracks which averaged at US$ (19.7)/bbl during CY19.

- Recent developments on IMO regulations:
  - Continued enhancement of Diesel Hydro De-Sulphurisation capacity to capture favourable economics
  - Launching of niche diesel grade
  - Crude processing window further augmented with de-salter upgradation and increasing sulphur handling capability
  - 16 new grades processed, including opportunity crude grades from North Sea and Latin America, and Straight Run Fuel Oil (SRFO) / diluted bitumen
- RIL's refining business clocked market share gains and a 10% YoY rise in average sales per outlet:
  - Petro-retail segment outperformed the industry with YoY growth of 9.8% in retail diesel and 14.7% in retail gasoline volumes compared to –1.5% and 6.3% growth for industry respectively
  - Though RIL continued to beat industry growth in terms of volumes, overall performance was affected by lower price realisations due to the fall in crude prices and weaker product margins, particularly for transportation fuels
  - Fuel retail outlets totalled 1,398 (+26 outlets YoY) as of FY20
- With the exponential growth in last-mile fuel delivery, RIL intends to redefine the fuel retailing landscape. Over 1,000 sites are serving diesel through a mix of packaged containers and mobile dispensing units to the non-transport sector. With all permits in place for in-house production of HDPE packs, RIL would be able to bring in significant process synergies. The company will be the pioneering Indian OMC to launch lightweight and tamper-proof HDPE packs for doorstep diesel delivery in the country.

**FIG 7 – RIL REFINERY PRODUCT SALES**




Source: Company, BOBCAPS Research

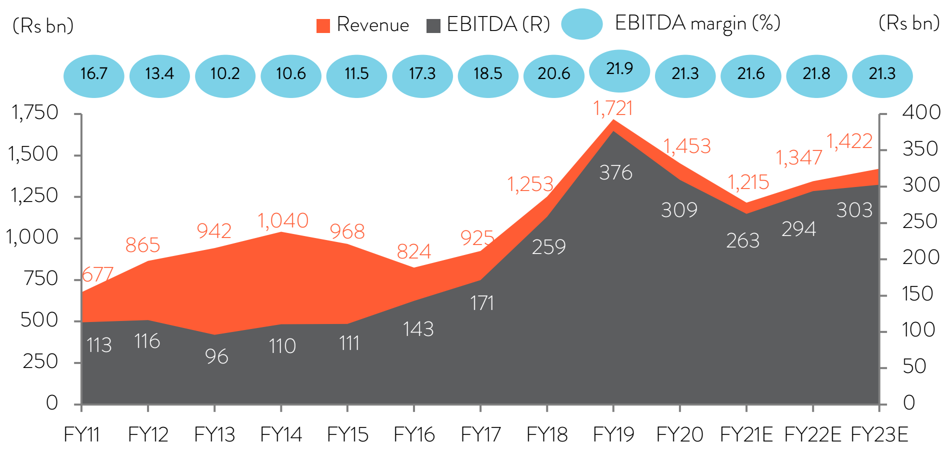
## Petrochemicals – Next leg of capex

Record production in FY20 (38.4mmtpa) could be difficult to repeat in FY21 considering economic degradation globally from the pandemic. RIL's capacity expansion in petrochemicals appears to form part of its long-term vision of insulating the refining business from the threat of electric vehicles – considering polymers/ polyesters form part of the diverse building blocks of economic activity.

RIL's strategy to enhance the oil-to-chemicals business ratio would entail setting up petchem capacities of 40-45mmtpa over 10 years (at ~US$ 30bn capex), leading to the next large capex wave for the company (after RJio). This outlay would most likely be funded by the proposed stake sale in its oil-to-chemicals business to Saudi Aramco.

**FY20 EBITDA margin of 21.3% is impressive and proves petchem resilience despite a volatile global market**

**FIG 8 – PETROCHEMICALS PERFORMANCE**




Source: Company, BOBCAPS Research

### Petchem: Annual report highlights

- RIL has reiterated that it is working to complete the contours of a strategic partnership with Aramco which would give its refineries access to a wide portfolio of value-accretive crude grades and enhanced feedstock security for a higher Oil-to-Chemicals (O2C) conversion. Through the Covid-19 crisis, RIL operated its O2C facilities at near 100% by shifting products to export markets to sustain operating rates.
- Recent commissioning of a High Purity Iso-Butylene (HPIB) unit for C4 value addition is another example of continuous value creation.
- With the recent drop in crude and flattening of the cost curve, RIL regularly optimised sites to take advantage of the feedstock flexibility between Naphtha, Ethane, Off-Gases and C2C3 to enhance margins.

### FIG 9 – RIL PRODUCTION

| (mmt) | FY18 | FY19 | FY20 |
|---|---|---|---|
| PP | 2.8 | 2.9 | 2.9 |
| PE | 1.4 | 2.1 | 2.3 |
| PVC | 0.7 | 0.7 | 0.8 |
| Ethylene | 2.6 | 3.7 | 3.8 |
| **Total Polymer production** | **7.5** | **9.4** | **9.8** |
| POY | 1.1 | 1.1 | 1.0 |
| PSF | 0.7 | 0.7 | 0.7 |
| PET | 1.1 | 1.2 | 1.2 |
| PX | 3.7 | 4.3 | 4.2 |
| PTA | 4.7 | 4.9 | 4.9 |
| MEG | 1.2 | 1.7 | 1.7 |
| **Total Polyester production** | **12.5** | **13.9** | **13.7** |
| Butadiene | 0.2 | 0.2 | 0.2 |
| PBR | 0.1 | 0.1 | 0.1 |
| SBR | 0.1 | 0.1 | 0.1 |
| **Total Elastomers production** | **0.4** | **0.4** | **0.4** |

Source: Company, BOBCAPS Research

## Polymers – Demand weak, margins soft

- **Overcapacity in ethylene**
  - Global demand for ethylene increased by 4% YoY to 167mmt in CY19, while operating rates remained stable at near 90% (vs. 88% last year).
  - New capacities of 7mmtpa were added during the year.
- **Polymer demand subdued**
  - Global polymer demand growth remained subdued during the year amid concerns over economic outlook, trade conflicts between the US and China, the Covid-19 outbreak and several geopolitical uncertainties.
  - Polymer demand growth is expected to remain muted globally in the near term. However, demand growth in Asia is likely to be healthy led by India and China as these economies emerge from the Covid crisis.

### FIG 10 – GLOBAL POLYMERS AND ETHYLENE (OLEFIN) DEMAND

| (mmt) | CY17 | CY18 | CY19 |
|---|---|---|---|
| Polyethylene (PE) | 96 | 101 | 107 |
| Polypropylene (PP) | 70 | 74 | 79 |
| Polyvinyl chloride (PVC) | 43 | 45 | 46 |
| **Total** | **209** | **220** | **232** |
| % growth | - | 5.3 | 5.5 |
| **Ethylene** | **154** | **160** | **167** |
| % growth | - | - | 5.7 |

Source: Company, BOBCAPS Research

- **Polymer margins weakened**
  - PE and PP margins corrected by 32% and 33% YoY respectively in FY20. PVC margins remained largely stable.
  - PE margins were impacted by a fall in feedstock prices (naphtha: –16% YoY) due to softening of crude prices and slowdown of demand on economic concerns. Ethylene prices in Asia softened by 30% with pressure from new capacity additions in the US and weakening downstream PE prices.
  - Propylene prices in Asia also weakened by 11% YoY with falling PP prices.

**FIG 11 – SOUTHEAST ASIA POLYMER MARGINS**

| (US$/mt) | FY18 | FY19 | FY20 |
|---|---|---|---|
| HDPE-Naphtha | 674 | 576 | 390 |
| PP-Propylene | 284 | 249 | 166 |
| PVC-EDC-Naphtha | 558 | 465 | 462 |

Source: Company, BOBCAPS Research

- **Indian polymer market saw pockets of growth**
  - The Indian polymer market grew at ~4% in FY20.
  - PE demand growth was healthy at 7% YoY driven by a policy boost for infrastructure, irrigation and other waste management projects and growth in e-commerce sectors.
  - PP demand grew at a subdued 2% YoY due to weak auto sector demand and the pandemic-led slowdown.
  - Overall good demand traction has been observed from the health and hygiene sector (PP fibre filament), food and FMCG packaging (BOPP and LLDPE films), rigid packaging for edible oil, hair oil and sanitisers (PP and PE), milk packaging (LDPE), pipes and drip laterals for irrigation (PE and PVC).

- **RIL posts highest ever polymer production in FY20 (Fig 9)**
  - The company is a leading global manufacturer of polymers with six state-of-the-art manufacturing facilities.
  - RIL maintained its leadership position in the Indian polymer market with domestic industry market share of 33% and also exported 1.1mmt of polymer during the year.

## Polyester – Strong outlook for PET margins

**FIG 12 – POLYESTER AND FIBRE INTERMEDIATES MARGINS**

| (US$/mt) | FY19 | FY20 |
|---|---|---|
| PX | 479 | 292 |
| PTA | 181 | 155 |
| MEG | 417 | 215 |
| POY | 262 | 282 |
| PSF | 154 | 163 |
| PET | 222 | 158 |

Source: Company, BOBCAPS Research

- During FY20, the polyester sector was impacted by the US-China trade war and then by the Covid-19 outbreak in the later part of the year. Governmental restrictions to contain the pandemic were imposed globally. Consequently, demand for polyester weakened.
- During FY20, PX markets witnessed capacity addition of 12mmt against estimated consumption growth of 3mmt. The start-up of new large PX units in China dampened market sentiments and concerns over excess supplies from the new units resulted in squeezed margins
- PTA markets witnessed a balanced supply-demand scenario with high operating rates until the third quarter. The start-up of new capacities in the later part of the year set a bearish tone for markets. To add to the weak market sentiments, the build-up of PTA inventories due to slower-than-expected polyester demand before and after the Chinese Lunar New Year holidays impacted prices and margins. During FY20, PTA margins dropped 14% YoY, but still remained above the five-year average. Demand is expected remain weak, with China being the largest consumer (~58% of total PTA demand).
- The MEG market witnessed volatility throughout the year. Increased demand in the early part of the year and geopolitical tensions in the Middle East reduced port inventories, while supporting price and margins. Start-up of large MEG units in China further weighed down an already oversupplied market, resulting in a stock build-up of over 1mmt at the year-end. MEG margins during FY20 weakened 48% YoY, below the five-year average.
- Given the essential nature of packaging in the food and beverage sectors, the PET business has been much less affected by the pandemic than other polyester products.

- **Indian polyester market resilient**
    - During FY20, the Indian polyester filaments market grew by 12% YoY, staple demand weakened marginally by 1% YoY, while the PET market grew by 10%.
    - PET markets remained buoyant amidst strong demand for beverage consumption.
    - With the spread of the virus since early March and subsequent lockdown, the heavily labour-oriented downstream polyester industry was completely shut down during Q4FY20.
    - Despite an inclement business environment, RIL has maintained its market share and optimised inventory levels.

## Elastomers

**FIG 13 – GLOBAL NATURAL RUBBER PRODUCTION AND DEMAND**

| (mmt) | CY18 | CY19 |
|---|---|---|
| Natural rubber production | 13.9 | 13.7 |
| Natural rubber demand | 13.9 | 13.5 |

Source: Company, BOBCAPS Research

- Global natural rubber production decreased by 1% YoY in CY19 due to fungal disease in rubber plants in Thailand and Indonesia. Demand was flat at 13.5mmt.
- Slowdown in economic activities driven by the US-China trade conflict, effect of Covid-19 and slump in automobile industries weighed on operations and rubber consumption.
- Global capacities of Butadiene have increased by 6.6% to 16.2mmt in CY19 (vs. 15.2mmt during CY18), with additional capacities commissioned in China and Malaysia. The operating rate has come down, from 77% in the earlier part of the year to less than 70% by March due to the pandemic. Operating rates for Butadiene are expected to remain at similar levels in the short term due to the auto sector slowdown. PBR and SBR demand is directly linked to the automobile and tyre sectors.
- **Indian elastomers market weak**
    - The domestic elastomers industry witnessed a weak demand environment in FY20 as the auto industry went through an unprecedented downturn.
    - Weak consumer sentiments coupled with transition to BS-VI emission norms led to muted demand.

- Butadiene production in India grew 6% to 484kt during FY20. With domestic demand steady at 350kt, the balance volume was exported. Demand is likely to be muted during H1FY21.
- Total PBR demand in the industry stood at 0.185mmt, declining 5%. On the production front, PBR achieved its highest ever production at 0.13mmt for FY20. Despite the auto industry downturn, RIL was able to maintain market share in PBR (~77% as of FY20).
- SBR demand in India was 0.25mmt for FY20. Although the industry declined 4%, RIL increased its SBR production by 6% to 0.12mmt with a wider portfolio and niche grades (48% market share as of FY20).

# Oil & Gas – low oil prices cloud outlook

**First gas from R-cluster field got delayed by a couple months from June 2020 due to COVID impact**

- **KG deepwater development picks up:** Development of the R-Cluster, Satellite Cluster and MJ fields – three projects in KG-D6 – are on track and monetising of discoveries with commissioning of the R-Cluster is expected in mid-FY21. The other two fields are also expected to commence production in FY21. R-Cluster is expected to have peak production of 12.9mmscmd; combined production from these fields is estimated at 30mmscmd by FY24.
- **Existing fields continue to decline:**
  - The declining trend in RIL's domestic production continued, down 34% YoY to 38.8BCFe in FY20.
  - US shale volumes also continued to decline, down 14% YoY to 80.4BCFe in CY19. RIL's aggregate capital investments across JVs increased to US$ 263mn (+65%) during CY19, reflecting development momentum in Chevron during early 2019 and restart of activity in the Ensign JV.
  - The KG-D6 D1D3 field ceased production in Feb'20. Overall, this field had produced 3TCFe of gas, oil and condensate.
  - The CBM fields in Sohagpur had steady production of ~1 mmscmd. To sustain the production plateau, development activities of phase-II of Block SP (West) are being undertaken (67 wells under implementation).
- **Gas prices expected to rebound faster:** Natural gas production in the US averaged at 92.1BCF/d in CY19, leading to reduced gas prices. US Henry Hub price averaged at US$ 2.6/mmbtu (vs. US$ 3.0/mmbtu in CY18). Given that the global demand for gas is projected to grow by 4-5% YoY and in the absence of investments in LNG projects in the next five years, gas prices are expected to rebound faster.
- **Ensign Natural Resources (ENR) takes over from Pioneer:** ENR took over operatorship from Pioneer in Q2CY19 and commenced development activity with one rig. A total of 21 new wells were put on stream, 9 of which were for completions only, as wells had been drilled by Pioneer. Overall, costs were lower (~20%) and performance improved (production ~15% higher vs. CY17)
- **Other opportunities**
  - RIL won the KG UDW-1 block in the ultra-deep waters of KG basin in the OALP round-II.
  - The company is looking for similar opportunities in the Mahanadi basin where it has discovered resources in the block NEC-25 under NELP-I.

## FIG 14 – E&P PORTFOLIO

| Block | Country | Partner | RIL stake (%) | JV acreage (acres) | Status |
|---|---|---|---|---|---|
| **Conventional: Domestic** | | | | | |
| KG-DWN-98/3 | India | BP-33.33% | 66.67 | 2,90,230 | D1D3 field ceased for production from 3 Feb 2020. Field Development Plan (FDP) approved for R-Cluster, Satellite Cluster, and MJ. Field development activities underway |
| NEC-OSN-97/2 | India | BP - 33.33% | 66.67 | 2,05,520 | FDP submitted. Under review with GoI |
| KG-UDWHP-2018/1 | India | BP - 40% | 60 | 3,74,093 | Revenue Sharing Contract (RSC) signed on 16 Jul 2019 |
| **Unconventional: Domestic** | | | | | |
| **CBM** | | | | | |
| SP (East) - CBM-2001/1 | India | | 100 | 1,22,317 | Development ongoing |
| SP (West) - CBM-2001/1 | India | | 100 | 1,23,552 | Producing |
| **Unconventional: International** | | | | | |
| **Shale** | | | | | |
| Ensign JV | USA | Ensign - 46.4%<br>Newpek - 8.6% | 45 | 1,27,907 | Producing |
| Chevron JV | USA | Chevron - 60% | 40 | 2,26,358 | Producing |

Source: Company, BOBCAPS Research | Notes: (1) Assignment of 10% of NIKO PI to RIL (66.67%) and BP (33.33%) was approved by GoI, and PSC amendment is complete. (2) Ensign took over from Pioneer as operator

## FIG 15 – E&P PRODUCTION

| | Units | FY18 | FY19 | FY20 |
|---|---|---|---|---|
| **Domestic production** | | | | |
| **KG-D6** | | | | |
| Oil | mmbbl | 0.75 | 0.26 | - |
| Gas | bcf | 67.9 | 36.4 | 17.5 |
| Condensate | mmbbl | 0.05 | 0.03 | - |
| **Panna-Mukta** | | | | |
| Oil | mmbbl | 5.4 | 4.1 | 2.6 |
| Gas | bcf | 62.1 | 51.1 | 34.2 |
| **CBM** | | | | |
| Gas | bcf | 7.1 | 12.6 | 12.2 |

| **Shale gas (North America)** | | CY17 | CY18 | CY19 |
|---|---|---|---|---|
| Gas | bcf | 111.8 | 73.8 | 65.9 |
| Condensate | mmbbl | 4.7 | 3.5 | 2.4 |

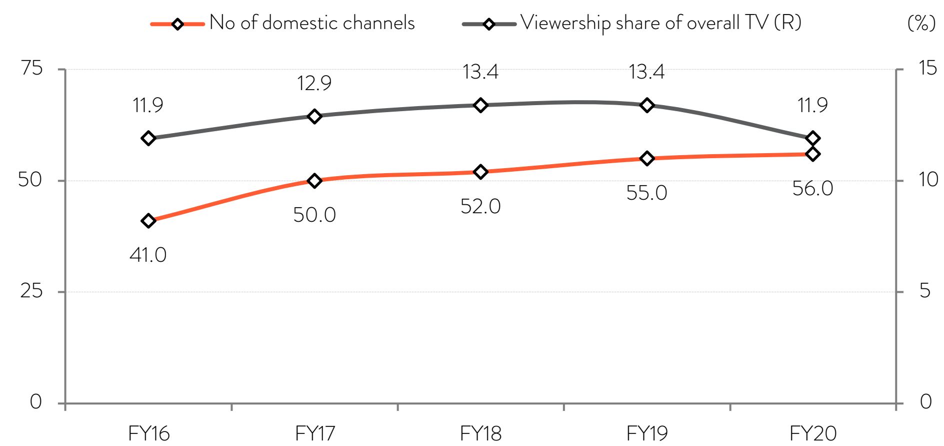
Source: Company, BOBCAPS Research

## Media and Entertainment – Digital play

- Network18 is RIL's flagship investment in the media and entertainment sector, with a presence across television broadcasting, movie production and distribution, digital content and commerce, print magazines, mobile content and allied media services.

**Digital has rapidly gained scale (>12% of the media and entertainment pie in CY19) led by exponential subscription growth**

### FIG 16 – INDIAN MEDIA AND ENTERTAINMENT FOOTPRINT

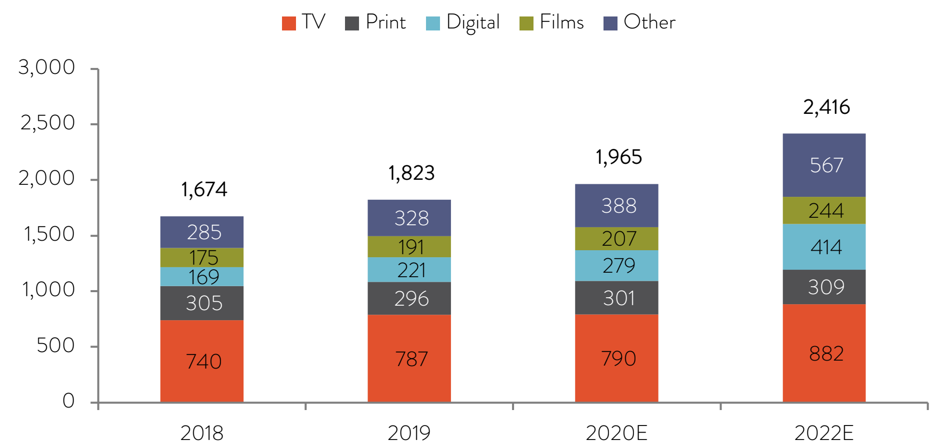



Source: Company, BOBCAPS Research

**The industry has scaled up to Rs 1.82tn, with TV being the largest contributor (43%) followed by print**

**TV grew just 6% in FY20 led by the TRAI New Tariff Order (NTO) impact, while digital (+31% YoY) has driven growth for the overall sector**

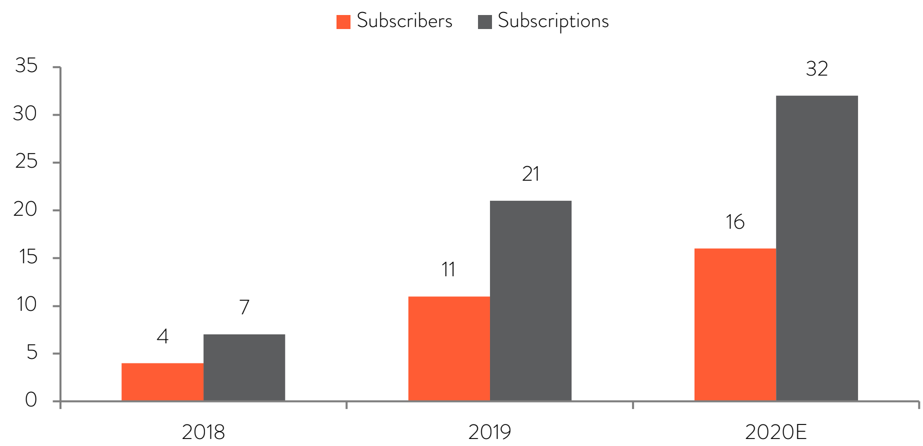
### FIG 17 – INDIA MEDIA AND ENTERTAINMENT SECTOR REVENUE (RS BN)




Source: Company, BOBCAPS Research

- The Indian media and entertainment sector grew at a modest 9% in CY19, compared to the normal double-digit growth witnessed in the recent past.
- This single-digit growth was led by a weaker macroeconomic scenario (CY19 GDP growth decelerated to 5.8%) which dragged down advertising revenue, even as a pivot towards B2C/B2B2C models of outreach and monetisation boosted subscription revenue, offering some respite.
- As economic activity further slowed and the Covid-19 pandemic surfaced in Q4, a consequent sharp fall in advertising continued to impact broadcasters' ad-revenues.
- A total of 260mn consumers accessed video content through Telco bundles.

**FIG 18 – RIL'S PAID DIGITAL SUBSCRIBERS AND SUBSCRIPTIONS**




Source: Company, BOBCAPS Research

- Network18 improved its financial performance even amidst substantial weakness in the advertising environment:
  - Linear TV subscription revenue benefitted from NTO implementation, growing 43% in FY19-FY20.
  - Distribution improvements were visible through tie-ups with cable and telecom platforms.
  - Subscription share in the revenue mix increased to 35% in FY20 (vs. 26% in FY19).
  - Digital partnerships (B2B) are a new revenue stream that has boosted profitability as the strategy of being platform-agnostic is playing out across broadcasting as well as web-series production.
  - While ad-revenues for all media have been impacted by Covid-19, News has been affected to a lesser degree as its share in TV viewership has jumped from 7% to >15%.
- On 17 Feb 2020, RIL's board approved a Scheme of Arrangement for consolidation of Hathway and Den Networks into Network18. The merged Network18 will be net debt-free and enjoy a ~50% share of subscription in the revenue mix, making it much more resilient.
- Jio Studios will complete Jio's triple-play offering (mobility solutions for voice and data, FTTH and a host of digital services and content). It invests actively to produce and acquire original content, including films and web series. The development of content using Augmented Reality (AR) and mixed reality technology is next on the cards.

## Valuation methodology

As RIL positions itself as an Oil-to-Tech behemoth, valuations have run well ahead of fundamentals at 15.5x FY22E EPS. We need to see earnings traction from RIL as consolidated level. At the same time, we raise FY21/FY22 earnings estimates by 15%/6% to factor in better RJio earnings and lower debt. We introduce FY23 financials, with EPS at Rs158.6 (+34.7% YoY over FY22). However, our GRM assumption of US$ 9/bbl for FY21 carries downside risks, looking at the Q1FY21 data. Benchmark Singapore complex GRMs remain negative and far from revival. We revise our Mar'21 SOTP-based target price to Rs 1,820 (from Rs 1,515) but downgrade the stock from ADD to REDUCE as pressure in the cyclicals business (with downside risk to earnings) and retail business caps valuation upside potential.

**FIG 19 – REVISED ESTIMATES (CONSOLIDATED)**

| (Rs mn) | FY21E | | | FY22E | | | FY23E |
|---|---|---|---|---|---|---|---|
| | Old | New | Var (%) | Old | New | Var (%) | New |
| Revenue | 3,697,210 | 3,785,945 | 2.4 | 4,507,796 | 4,775,147 | 29.2 | 4,584,413 |
| EBITDA | 948,636 | 938,561 | (1.1) | 1,378,438 | 1,393,498 | 1.1 | 1,709,815 |
| EBITDA margin (%) | 25.7 | 24.8 | - | 30.6 | 29.2 | - | 37.3 |
| PAT | 421,312 | 484,596 | 15.0 | 748,947 | 795,924 | 6.3 | 1,072,479 |
| PAT margin (%) | 11.4 | 12.8 | - | 16.6 | 16.7 | - | 23.4 |
| EPS (Rs) | 62.3 | 71.7 | 15.0 | 110.8 | 117.7 | 6.2 | 158.6 |

Source: Company, BOBCAPS Research

**FIG 20 – RIL EBITDA COMPOSITION**

| Consolidated business EBITDA (Rs bn) | FY18 | FY19 | FY20 | FY21E | FY22E | FY23E |
|---|---|---|---|---|---|---|
| **Petrochemicals** | **259** | **376** | **309** | **263** | **301** | **303** |
| YoY growth (%) | 50.9 | 45.6 | (17.8) | (15.1) | 14.6 | 0.6 |
| % of total | 39.3 | 44.9 | 35.1 | 28.0 | 21.6 | 17.7 |
| **Refining** | **290** | **230** | **245** | **162** | **310** | **324** |
| YoY growth (%) | 2.1 | (20.5) | 6.2 | (33.8) | 91.4 | 4.4 |
| % of total | 44.1 | 27.5 | 27.8 | 17.2 | 22.2 | 18.9 |
| **E&P** | **17** | **18.6** | **5.8** | **(38)** | **(44)** | **(9)** |
| YoY growth (%) | (223.1) | 10.7 | (68.8) | (757.5) | 15.7 | (79.5) |
| % of total | 2.6 | 2.2 | 0.7 | (4.1) | (3.2) | (0.5) |
| **RJIO** | **67.3** | **151.0** | **225.2** | **378.9** | **542.8** | **693.8** |
| YoY growth (%) | | 124.4 | 49.1 | 68.3 | 43.3 | 27.8 |
| % of total | 10.2 | 18.0 | 25.5 | 40.4 | 39.0 | 40.6 |
| **Retail** | **25.3** | **62.0** | **96.5** | **123.0** | **233.7** | **348.4** |
| YoY growth (%) | 110.2 | 145.2 | 55.7 | 27.4 | 90.0 | 49.0 |
| % of total | 3.8 | 7.4 | 11.0 | 13.1 | 16.8 | 20.4 |
| **Consolidated business EBITDA** | **658** | **838** | **881** | **939** | **1,393** | **1,710** |
| YoY growth (%) | 42.4 | 27.4 | 5.1 | 6.5 | 48.5 | 22.7 |
| **RoCE (%)** | **7.8** | **8.2** | **7.9** | **7.7** | **10.6** | **12.9** |
| **RoE (%)** | **12.4** | **11.5** | **10.9** | **10.3** | **14.0** | **16.3** |

Source: BOBCAPS Research

Our SOTP valuation is outlined below:

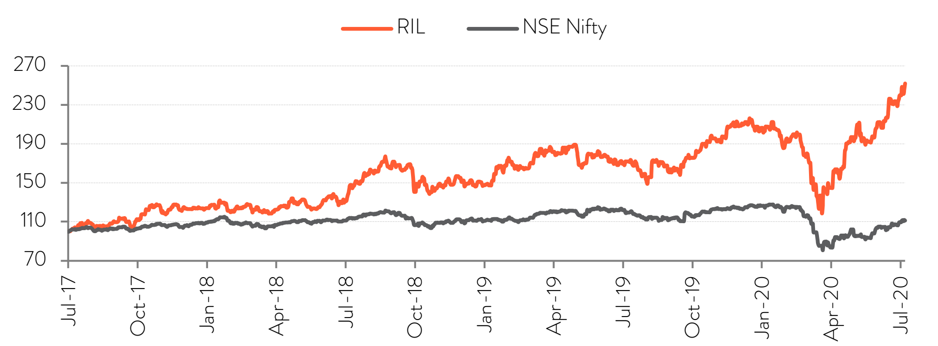
- **Cyclicals:** Refining (Rs 271/sh) and petrochemical (Rs 261/sh) businesses valued at 6x FY22E EBITDA respectively (unchanged, at par with global peers)
- **RJio:** Valued at Rs 720/sh based on 9x FY22E EBITDA (from 8.5x earlier). We estimate FY21/FY22 ARPUs at Rs 148/Rs 160
- **Retail:** Valued at Rs 691/sh based on 20x FY22E EBITDA (unchanged)

### FIG 21 – SOTP VALUATION SUMMARY

| Business | Fair Value (US$ bn) | Fair Value (Rs bn) | Value/share (Rs) | Comments |
|---|---|---|---|---|
| Refining | 24 | 1,859 | 271 | 6x FY22E EBITDA |
| Petrochem | 24 | 1,804 | 261 | 6x FY22E EBITDA |
| **Cyclical business value** | **48** | **3,664** | **542** | |
| E&P business | 0.5 | 38 | 6 | Includes KG-D6 and shale |
| **Jio** | **64** | **4,885** | **720** | 9x FY22E EBITDA |
| **Reliance Retail** | **62** | **4.674** | **691** | 20x FY22E EBITDA |
| **Enterprise value** | **175** | **13,263** | **1,961** | |
| Net Debt | 13 | 964 | 142 | Average of FY21/22 consolidated |
| **Equity value** | **162** | **12,298** | **1,820** | **15.5x FY22E EPS** |

Source: BOBCAPS Research

### FIG 22 – RELATIVE STOCK PERFORMANCE




Source: NSE

# Key risks

- **Additional investments:** We haven't factored in the Saudi Aramco deal and estimate that net debt will still average Rs 1.35tn by end-FY22. Execution of this deal and any further investments in RJio or the fibre InVIT could raise our valuations.
- **Better outlook on global economy:** RIL's valuations are highly sensitive to GRM and petrochemical crack movements. A better than expected recovery in global economies can raise these spreads and change our valuation outlook.
- **Higher operating margins in RJio:** We factor in ramp-up in RJio's subscriber numbers (>450mn) and ARPUs (~Rs 170/mth) by FY23. Industry has been talking about higher ARPUs by FY23 (>Rs200), which could lead to operating margins well above our estimates.
- **Better growth in retail revenues:** RIL has been significantly outperforming estimates on retail business revenue growth. We model for deceleration in retail business EBITDA in FY21 given the economic slowdown. Better-than-expected growth would alter our estimates.

## FINANCIALS

### Income Statement

| Y/E 31 Mar (Rs mn) | FY19A | FY20A | FY21E | FY22E | FY23E |
|---|---|---|---|---|---|
| **Total revenue** | **5,830,940** | **6,116,450** | **3,785,945** | **4,775,147** | **4,584,413** |
| EBITDA | 841,670 | 882,170 | 938,561 | 1,393,498 | 1,709,815 |
| Depreciation | (209,340) | (222,030) | (261,616) | (296,311) | (311,496) |
| EBIT | 632,330 | 660,140 | 676,945 | 1,097,187 | 1,398,319 |
| Net interest income/(expenses) | (164,950) | (220,270) | (187,405) | (163,291) | (146,177) |
| Other income/(expenses) | 86,350 | 139,560 | 154,846 | 141,475 | 127,188 |
| Exceptional items | 0 | (44,440) | 0 | 0 | 0 |
| EBT | 553,730 | 579,430 | 644,386 | 1,075,371 | 1,379,330 |
| Income taxes | (153,900) | (137,260) | (159,790) | (279,447) | (306,851) |
| Min. int./Inc. from associates | 1,030 | 1,070 | 0 | 0 | 0 |
| **Reported net profit** | **400,860** | **398,800** | **484,596** | **795,924** | **1,072,479** |
| **Adjusted net profit** | **400,860** | **443,240** | **484,596** | **795,924** | **1,072,479** |

### Balance Sheet

| Y/E 31 Mar (Rs mn) | FY19A | FY20A | FY21E | FY22E | FY23E |
|---|---|---|---|---|---|
| Accounts payables | 1,083,090 | 967,990 | 1,317,061 | 1,180,895 | 1,168,638 |
| Other current liabilities | 1,442,530 | 2,209,060 | 1,009,060 | 1,009,060 | 1,009,060 |
| Provisions | 41,820 | 36,800 | 66,529 | 63,503 | 60,265 |
| Debt funds | 2,719,420 | 3,102,210 | 2,252,210 | 2,102,210 | 1,552,210 |
| Other liabilities | 687,620 | 729,620 | 743,122 | 771,391 | 798,218 |
| Equity capital | 59,260 | 63,390 | 67,616 | 67,616 | 67,616 |
| Reserves & surplus | 3,850,250 | 3,978,260 | 5,153,286 | 5,902,682 | 6,933,000 |
| Shareholders' fund | 3,909,510 | 4,041,650 | 5,220,902 | 5,970,298 | 7,000,616 |
| **Total liabilities and equities** | **9,966,790** | **11,167,490** | **10,689,044** | **11,177,517** | **11,669,166** |
| Cash and cash eq. | 110,810 | 309,200 | 28,554 | 106,038 | 117,532 |
| Accounts receivables | 300,890 | 196,560 | 235,138 | 214,570 | 213,253 |
| Inventories | 675,610 | 739,030 | 951,678 | 855,306 | 848,612 |
| Other current assets | 744,760 | 737,390 | 737,390 | 737,390 | 737,390 |
| Investments | 2,356,350 | 2,767,670 | 2,217,670 | 2,417,670 | 2,617,670 |
| Net fixed assets | 3,863,770 | 5,223,990 | 5,835,222 | 5,995,552 | 6,266,777 |
| CWIP | 1,794,630 | 1,091,060 | 570,801 | 728,401 | 734,001 |
| Intangible assets | 119,970 | 102,590 | 112,590 | 122,590 | 132,590 |
| **Total assets** | **9,966,790** | **11,167,490** | **10,689,044** | **11,177,517** | **11,667,824** |

Source: Company, BOBCAPS Research

### Cash Flows

| Y/E 31 Mar (Rs mn) | FY19A | FY20A | FY21E | FY22E | FY23E |
|---|---|---|---|---|---|
| Net income + Depreciation | 608,350 | 620,830 | 746,212 | 1,092,236 | 1,383,975 |
| Changes in working capital | (653,830) | 694,690 | (1,072,426) | (22,251) | (7,485) |
| Other operating cash flows | 116,700 | (53,120) | (141,344) | (113,206) | (100,361) |
| **Cash flow from operations** | **71,220** | **1,262,400** | **(467,559)** | **956,779** | **1,276,130** |
| Capital expenditures | (14,950) | (878,680) | (352,589) | (614,241) | (588,321) |
| Change in investments | (1,331,690) | (409,780) | 560,000 | 10,000 | 10,000 |
| Other investing cash flows | (47,850) | 120,640 | 154,846 | (58,525) | (72,812) |
| **Cash flow from investing** | **(1,394,490)** | **(1,167,820)** | **362,257** | **(662,766)** | **(651,133)** |
| Equities issued/Others | 40 | 4,130 | 531,208 | 0 | 0 |
| Debt raised/repaid | 917,090 | 382,790 | (850,000) | (150,000) | (550,000) |
| Dividends paid | (42,810) | (54,854) | (38,228) | (66,529) | (63,503) |
| Other financing cash flows | 482,540 | (44,440) | 0 | 0 | 0 |
| **Cash flow from financing** | **1,356,860** | **287,626** | **(357,019)** | **(216,529)** | **(613,503)** |
| **Changes in cash and cash eq.** | **33,590** | **382,206** | **(462,321)** | **77,484** | **11,494** |
| **Closing cash and cash eq.** | **76,140** | **493,016** | **28,554** | **106,038** | **117,532** |

### Per Share

| Y/E 31 Mar (Rs) | FY19A | FY20A | FY21E | FY22E | FY23E |
|---|---|---|---|---|---|
| Reported EPS | 67.6 | 62.9 | 71.7 | 117.7 | 0.0 |
| Adjusted EPS | 59.3 | 65.6 | 71.7 | 117.7 | 158.6 |
| Dividend per share | 6.8 | 4.7 | 8.2 | 7.8 | 7.4 |
| Book value per share | 659.7 | 637.6 | 772.1 | 883.0 | 1,035.3 |

### Valuations Ratios

| Y/E 31 Mar (x) | FY19A | FY20A | FY21E | FY22E | FY23E |
|---|---|---|---|---|---|
| EV/Sales | 2.5 | 2.4 | 4.1 | 3.2 | 3.2 |
| EV/EBITDA | 17.3 | 16.9 | 16.4 | 10.9 | 8.7 |
| Adjusted P/E | 31.7 | 28.6 | 26.2 | 16.0 | 11.8 |
| P/BV | 2.8 | 2.9 | 2.4 | 2.1 | 1.8 |

### DuPont Analysis

| Y/E 31 Mar (%) | FY19A | FY20A | FY21E | FY22E | FY23E |
|---|---|---|---|---|---|
| Tax burden (Net profit/PBT) | 72.4 | 82.9 | 75.2 | 74.0 | 77.8 |
| Interest burden (PBT/EBIT) | 87.6 | 81.0 | 95.2 | 98.0 | 98.6 |
| EBIT margin (EBIT/Revenue) | 10.8 | 10.8 | 17.9 | 23.0 | 30.5 |
| Asset turnover (Revenue/Avg TA) | 64.6 | 57.9 | 34.6 | 43.7 | 40.1 |
| Leverage (Avg TA/Avg Equity) | 2.6 | 2.7 | 2.4 | 2.0 | 1.8 |
| Adjusted ROAE | 11.7 | 11.1 | 10.5 | 14.2 | 16.5 |

Source: Company, BOBCAPS Research | Note: TA = Total Assets

### Ratio Analysis

| Y/E 31 Mar | FY19A | FY20A | FY21E | FY22E | FY23E |
|---|---|---|---|---|---|
| **YoY growth (%)** | | | | | |
| Revenue | 42.8 | 4.9 | (38.1) | 26.1 | (4.0) |
| EBITDA | 31.2 | 4.8 | 6.4 | 48.5 | 22.7 |
| Adjusted EPS | 13.6 | 10.6 | 9.3 | 64.2 | 34.7 |
| **Profitability & Return ratios (%)** | | | | | |
| EBITDA margin | 14.4 | 14.4 | 24.8 | 29.2 | 37.3 |
| EBIT margin | 10.8 | 10.8 | 17.9 | 23.0 | 30.5 |
| Adjusted profit margin | 6.9 | 7.2 | 12.8 | 16.7 | 23.4 |
| Adjusted ROAE | 11.7 | 11.1 | 10.5 | 14.2 | 16.5 |
| ROCE | 7.9 | 7.0 | 6.9 | 10.3 | 13.0 |
| **Working capital days (days)** | | | | | |
| Receivables | 15 | 15 | 21 | 17 | 17 |
| Inventory | 58 | 63 | 57 | 68 | 65 |
| Payables | 79 | 72 | 146 | 135 | 149 |
| **Ratios (x)** | | | | | |
| Gross asset turnover | 1.0 | 0.9 | 0.5 | 0.6 | 0.5 |
| Current ratio | 0.6 | 0.5 | 0.6 | 0.6 | 0.6 |
| Net interest coverage ratio | 3.8 | 3.0 | 3.6 | 6.7 | 9.6 |
| Adjusted debt/equity | 0.7 | 0.7 | 0.4 | 0.3 | 0.2 |

Source: Company, BOBCAPS Research

# Disclaimer

**Recommendations and Absolute returns (%) over 12 months**

**BUY –** Expected return >+15%

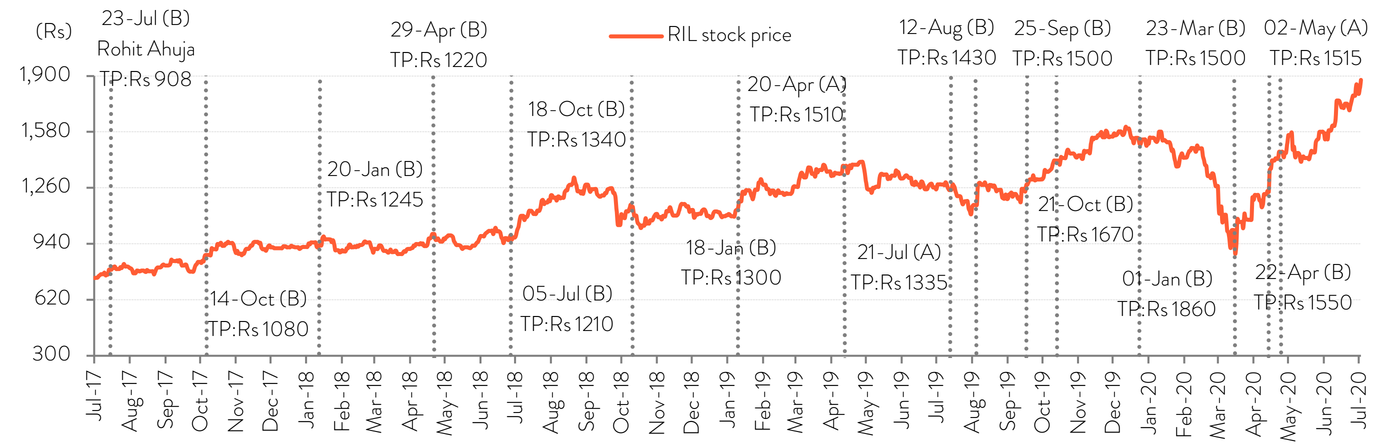
**ADD –** Expected return from >+5% to +15%

**REDUCE –** Expected return from -5% to +5%

**SELL –** Expected return <-5%

**Note:** Recommendation structure changed with effect from 1 January 2018 (Hold rating discontinued and replaced by Add / Reduce)

**HISTORICAL RATINGS AND TARGET PRICE: RELIANCE INDUSTRIES (RIL IN)**




B – Buy, A – Add, R – Reduce, S – Sell

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