

HOLD

TP: Rs 2,520 | ▲ 8%

RELIANCE INDUSTRIES

Oil & Gas

28 January 2022

Broader growth canvas; raise to HOLD

- Q3 results a mixed bag – retail and oil & gas performed well but digital services and O2C delivered muted sequential growth
- RIL looks primed for a commendable 25% EBITDA CAGR over FY21-FY24E, new energy business may involve longer gestation periods
- TP revised to Rs 2,520 (from Rs 2,090); upgrade to HOLD given 8% upside potential

Kirtan Mehta, CFA

researchreport@bobcaps.in

Q3 marginally ahead of consensus: RIL’s Q3FY22 segmental EBITDA increased only 13% QoQ as stronger growth in retail (31%) and oil & gas (90% off a low base) was offset by a muted uptick in the digital (7%) and oil-to-chemicals (O2C: 6%) businesses. While the retail business leveraged its expanded presence with recovery from Covid and the festive season, the oil & gas division benefitted from a 69% QoQ increase in gas realisation. On the other hand, subscriber rationalisation weighed on digital services, whereas higher feedstock and energy prices suppressed O2C growth.

Geared for significant profit expansion...: We expect a 25% CAGR in EBITDA over FY21-FY24. Growth in cyclical businesses is likely to be front-loaded (44% in FY22 and 6% CAGR over FY23-FY24) with recovery in margins, restoration of O2C throughput and ramp-up of gas production. In contrast, we expect consumer-facing businesses to see only a modest recovery of 15% in FY22 but to accelerate to a 31% CAGR over FY23-FY24.

...but also long gestation periods: RIL has successfully transitioned from its legacy of an old-economy industrial business house to a consumer conglomerate, achieving leadership in both digital and retail ventures. It now aims to broaden its growth canvas to include new energy. This transformation would require absorption of early-stage technologies and nurturing of evolving green technologies. The shift also exposes RIL to the complex integration of new capabilities with legacy business to sustain growth momentum. We believe current valuations adequately capture both the risks and rewards with these new technologies that would entail long gestation periods.

Upgrade to HOLD: We have a revised TP of Rs 2,520 for RIL (up from Rs 2,090) with an SOTP valuation for the refining (7.5x FY24E EV/EBITDA), petrochemicals (8.5x), telecom (Jio Infocomm: 10x) and retail (32x) businesses. Our TP includes Rs 111 for the value of its venture into digital services and Rs 47 for the new energy division. We upgrade our rating from REDUCE to HOLD given 8% upside potential from the current market price.

Key changes

Target	Rating
▲	▲

Ticker/Price	RIL IN/Rs 2,336
Market cap	US\$ 210.4bn
Free float	49%
3M ADV	US\$ 209.9mn
52wk high/low	Rs 2,751/Rs 1,830
Promoter/FPI/DII	50%/25%/14%

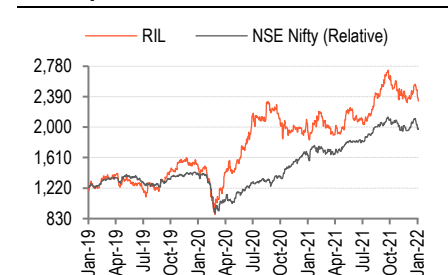
Source: NSE | Price as of 28 Jan 2022

Key financials

Y/E 31 Mar	FY21A	FY22E	FY23E
Total revenue (Rs mn)	46,69,240	68,85,377	79,00,553
EBITDA (Rs mn)	8,07,370	11,38,765	13,75,862
Adj. net profit (Rs mn)	4,36,628	5,82,093	7,18,765
Adj. EPS (Rs)	67.7	90.3	106.2
Consensus EPS (Rs)	67.7	87.7	112.3
Adj. ROAE (%)	7.6	8.0	9.1
Adj. P/E (x)	34.5	25.9	22.0
EV/EBITDA (x)	23.0	16.1	13.2
Adj. EPS growth (%)	(0.3)	33.3	17.6

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE



Q3 results marginally ahead of consensus

RIL's Q3FY22 consolidated EBITDA at Rs 297bn was 4.7% ahead of Bloomberg consensus. Net income (ex-exceptional gain) at Rs 157bn was 2.9% ahead. Segmental EBITDA increased only 13% QoQ as stronger growth in retail (31%) and oil & gas (90% off a low base) was offset by a muted uptick in the digital (7%) and O2C (6%) segments.

- **Retail delivered record revenue and EBITDA:** Core retail revenue excluding connectivity and petro retail grew 90% YoY and 49% QoQ. This was driven by a doubling of revenue growth in the apparel, consumer and digital commerce segments and strong double-digit growth in consumer electronics and grocery.

To deliver on its target of 3x growth over 3-5 years, RIL is focused on enhancing its retail presence and increasing supply chain locations. The company has added 800+ stores for the second quarter in a row, taking the total to 14,412. It has invested Rs 76bn (or US\$ 1bn) in 9MFY22 in assets/capabilities to improve its customer reach, product quality and service delivery.

- **Digital services saw muted EBITDA growth:** Continuing subscriber rationalisation for the second quarter in a row (net subscribers down 8.4mn in Q3 and 11.1mn in Q2) and a muted consumer response to JioPhoneNext dampened growth in digital services. The segment reported a 5.6% QoQ increase in ARPU to Rs 151.6 on the back of a ~20% tariff hike taken in December. The hike will feed in through the next few quarters with the rollover of prepaid subscriptions.
- **O2C EBITDA growth subdued:** Despite a 4.8% QoQ increase in throughput and strong recovery in transportation fuels, O2C profitability was muted – possibly because higher feedstock and energy costs weighed on downstream chemical margins and more refining products were used for internal energy to compensate for non-usage of LNG. RIL also highlighted subdued polymer demand despite the festive season amid a high price environment, uncertainty over local tariffs and volatile feedstock prices.
- **Oil & gas EBITDA rose 90% QoQ:** Growth was led by a 69% increase in gas ceiling price to US\$ 6.1/MMBtu and sustained production of 18mmsmd. RIL expects the ceiling price to move north of US\$ 10/MMBtu in the next revision cycle in Apr'22. Its next growth project – MJ Field – remains on track for Q3FY23 startup.

Fig 1 – Quarterly performance

(Rs bn)	Q3FY22	Q2FY22	QoQ (%)	Q3FY21	YoY (%)	9MFY22	9MFY21	YoY (%)
Consolidated P&L								
Revenue	1,913	1,741	9.9	1,240	54.3	5,097	3,314	53.8
EBITDA excl other income	297	260	14.2	216	37.7	791	574	37.8
Net income adjusted	177	155	14.4	150	17.9	470	339	38.6
Net income share of minority	157	137	14.9	132	18.8	417	311	34.2
EBITDA mix								
Oil to Chemicals	135	127	6.4	98	38.7	385	268	43.8
Oil and Gas	20	11	89.8	0	nm	39	(2)	1,857.2
Retail	38	29	31.2	31	23.6	87	62	40.1
Digital Services	102	96	7.0	89	14.4	291	251	15.8
Others	20	16	23.1	18	9.1	51	51	0.6
Segment EBITDA	316	279	13.4	236	33.8	852	629	35.5
Delta	22	24	(8.9)	24	(10.5)	63	76	(16.2)
Consolidated EBITDA (Reported)	338	302	11.6	260	29.7	916	705	30.0

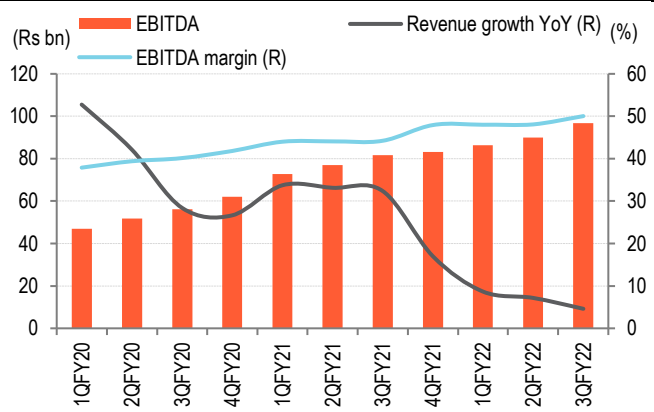
Source: Company, BOBCAPS Research, Note: nm- Not meaningful

Fig 2 – Quarterly operational indicators

Parameter	Unit	Q3FY22	Q2FY22	QoQ (%)	Q3FY21	YoY (%)
Digital Services						
Customer base	mn	421.0	429.5	(2.0)	410.8	2.5
Net customer additions	mn	(8.4)	(11.1)		5.2	
ARPU adj for IUC	Rs/mth	151.6	143.6	5.6	139.9	8.4
Retail						
Revenue	Rs bn	507	399	26.9	330	53.4
Core revenue	Rs bn	337	226	49.0	177	90.0
EBITDA margin excl investment income	%	7.0	6.1		7.0	
Total store count	Nos.	14,412	13,635	5.7	12,201	18.1
Total store area	mn sq ft	40.0	37.3	7.2	31.2	28.2
Oil to Chemicals						
Feedstock throughput	mt	19.7	18.7	5.3	18.2	8.2
Production meant for sale	mt	17.6	16.8	4.8	16.2	8.6
Transportation fuels	mt	10.9	9.8	11.2	9.7	12.4
Oil and Gas						
Production	BCFe	53.3	52.0	2.5	28.5	87.0
KG-D6 gas production	mmscmd	18.0	18.0	0.0	0.0	nm
KG-D6 realisation	US\$/MMBtu	6.1	3.6	69.3	3.5	74.6

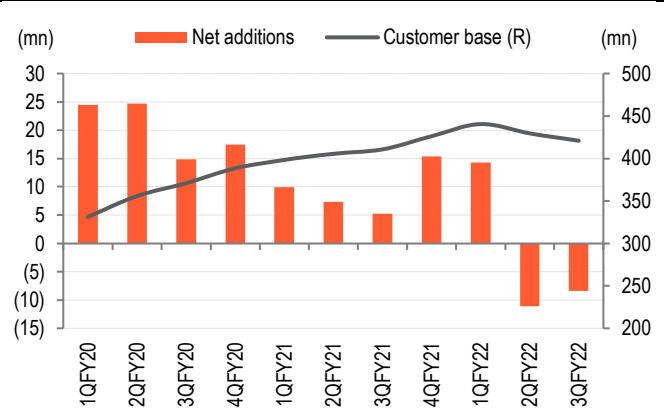
Source: Company, BOBCAPS Research, Note: nm- Not meaningful

Fig 3 – Jio Infocomm: EBITDA drivers



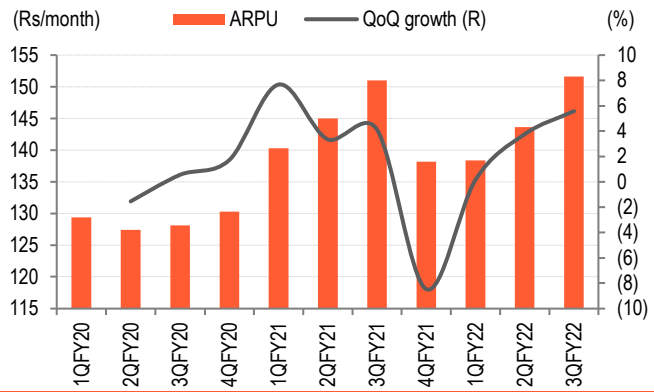
Source: Company, BOBCAPS Research

Fig 4 – Jio Infocomm: Subscriber additions



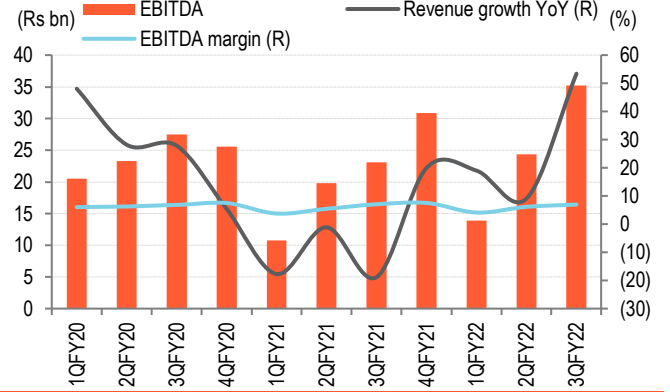
Source: Company, BOBCAPS Research

Fig 5 – Jio Infocomm: ARPU



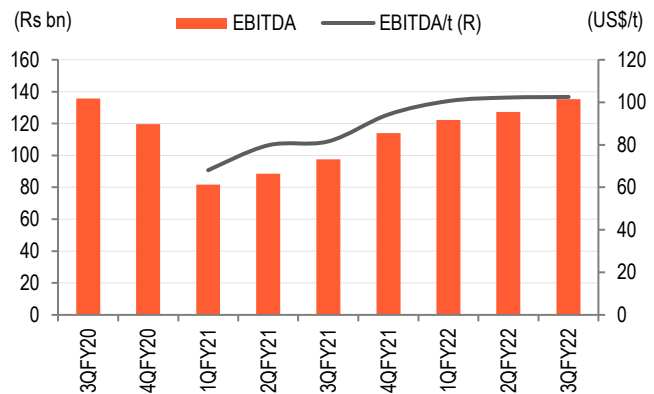
Source: Company, BOBCAPS Research

Fig 6 – Retail: EBITDA drivers



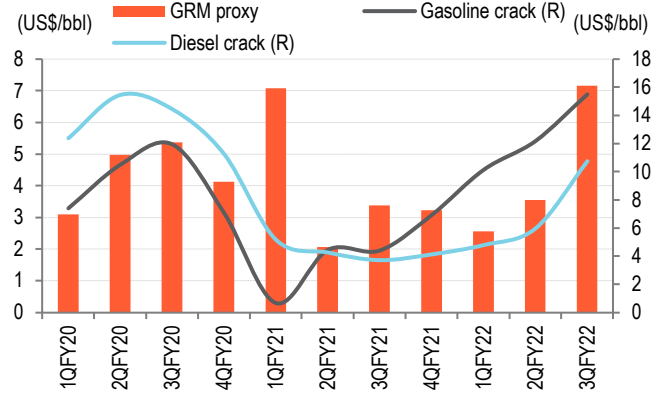
Source: Company, BOBCAPS Research

Fig 7 – Oil-to-Chemicals: EBITDA



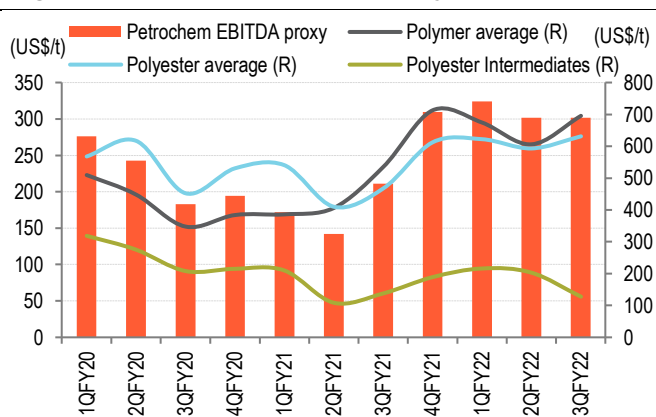
Source: Company, BOBCAPS Research

Fig 8 – Refining GRM proxy indicator



Source: Bloomberg, BOBCAPS Research

Fig 9 – Petrochemicals: EBITDA proxy indicator



Source: Bloomberg, BOBCAPS Research

Forecast revisions

We forecast 25% annual growth in EBITDA over FY21-FY24 driven by an 18% CAGR for cyclical businesses and a 25% CAGR for consumer businesses. In our view, growth will be primarily driven by recovery in margins and restoration of throughput in O2C as well as demand traction in both consumer-facing businesses (telecom and retail). Our revised EBITDA and net income forecasts are broadly in line with consensus.

Fig 10 – Revised estimates

(Rs bn)	Actual	New			Old		Change (%)	
	FY21	FY22E	FY23E	FY24E	FY22E	FY23E	FY22E	FY23E
Revenue	4,669	6,885	7,901	8,739	5,822	6,218	18.3	27.1
EBITDA	807	1,139	1,376	1,570	1,308	1,598	(12.9)	(13.9)
EBITDA margin (%)	17.3	16.5	17.4	18.0	22.5	25.7	-	-
Adj. PAT	435	582	719	860	760	969	(23.4)	(25.8)
PAT margin (%)	9.3	8.5	9.1	9.8	13.1	15.6	-	-
EPS (Rs)	67.5	86.0	106.2	127.1	112.4	143.2	(23.4)	(25.8)

Source: Company, BOBCAPS Research

Fig 11 – Comparison with consensus

(Rs bn)	Revised forecasts			Consensus			Delta to Consensus (%)		
	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E
Revenue	6,885	7,901	8,739	6,953	7,755	8,448	(1.0)	1.9	3.4
EBITDA	1,139	1,376	1,570	1,096	1,352	1,540	3.9	1.8	2.0
Adj. PAT	582	719	860	590	736	852	(1.3)	(2.4)	0.9
EPS (Rs)	86.0	106.2	127.1	86.0	106.2	127.1	0.0	0.0	0.0

Source: Bloomberg, BOBCAPS Research

Oil-to-Chemicals

We forecast 12.7% annual growth in O2C EBITDA over FY21-FY24 on the back of recovery in throughput to 71mt from FY23, revival in gross refining margin (GRM) and normalisation of petrochemical margins.

- Benchmark refining margins recovered initially with the improvement in gasoline cracks and more recently diesel/ATF cracks. We expect RIL's GRM to rise from US\$ 6/bbl in FY21 to US\$ 9.5/bbl in FY24 given improvement in global demand-supply balance with refining closure in the western world and the return of sweet-sour spreads to historical levels.
- Petrochemical margins are forecast to normalise from the recent peak in FY22 with the easing of supply chain issues. While China's expansion drive into ethylene and polyester have put pressure on margins in specific chains, we believe RIL will manage margins by dint of its highly integrated operations and its ability to utilise cheaper feedstock, including ethane and offgas.

Oil & Gas

We expect oil & gas EBITDA to ramp up exponentially from Rs 2bn in FY21 to Rs 87bn in FY24 as KG-D6 gas production scales up and gas prices recover.

- EBITDA has improved sharply YoY to Rs 3.9bn in 9MFY22 with ramp-up of the R-Cluster and Sat-Cluster fields to their peak potential of 18mmscmd. We expect production to further rise to 30mmscmd by FY24 with start-up of the MJ field.
- Gas realisation has recovered from US\$ 3.62/MMBtu in H1FY22 to US\$ 6.13/MMBtu in H2FY22 and we forecast a further uptick to US\$ 7.6/MMBtu in FY23.

Digital Services

We model for 23% annual growth in digital services EBITDA over FY21-FY24 on the back of increasing service penetration.

- Once user base rationalisation and SIM consolidation abates, we expect net additions to continue at a healthy pace of 40mn subscribers annually.
- On the back of the 20-25% tariff hike taken by the industry in December, we estimate a 24% improvement in ARPU from Rs 144 in FY21 to Rs 178 in FY24. Given consolidation of the industry into three private players, we acknowledge upside risks from further tariff increases.

Retail

Assuming three-fold revenue growth over four years (vs. RIL's target of 3-5 years), we forecast 32% annual growth in retail EBITDA over FY21-FY24.

- On the back of expansion of physical stores, integration of acquisitions, digital commerce with stores and merchant partnerships, we build in 32% growth in revenue over FY21-FY24. RIL has invested Rs 76bn in 9MFY22 in assets/capabilities to improve customer reach, quality of products and services.
- We expect EBITDA margin to recover from 5.9% in FY21 to 7.1% in FY24 as the retail business leverages its large scale and national presence.

Fig 12 – RIL: EBITDA mix

	FY20	FY21	FY22E	FY23E	FY24E	FY21-24E CAGR (%)
EBITDA (Rs bn)	-	-	-	-	-	-
Petrochemicals	309	296	324	292	286	-
Refining	245	119	222	277	307	-
Oil & Gas	13	2	54	97	87	-
Cyclical subtotal	567	416	601	665	680	-
Digital Services	225	334	378	511	623	-
Retail	97	98	118	157	225	-
Consumer subtotal	322	432	496	668	848	-
Others	2	(40)	42	42	42	-
Consolidated business EBITDA	890	807	1,139	1,376	1,570	-
EBITDA YoY growth (%)	-	-	-	-	-	-
Petrochemicals	(18.3)	(4.4)	9.6	(10.0)	(1.9)	(1.1)
Refining	(6.1)	(51.4)	86.8	24.6	10.9	37.2
Oil & Gas	(41.3)	(87.9)	3402.9	78.4	(10.0)	283.1
Cyclical subtotal	(14.3)	(26.6)	44.4	10.8	2.2	17.8
Digital Services	46.8	48.2	13.4	35.2	21.9	23.1
Retail	55.7	1.4	20.3	33.2	43.3	31.9
Consumer subtotal	49.3	34.1	14.9	34.7	26.9	25.3
Consolidated	5.8	(9.3)	41.0	20.8	14.1	24.8
EBITDA composition (% of total)	-	-	-	-	-	-
Petrochemicals	34.8	36.6	28.5	21.2	18.2	-
Refining	27.5	14.7	19.5	20.1	19.5	-
Oil & Gas	1.4	0.2	4.8	7.1	5.6	-
Cyclical subtotal	63.7	51.5	52.7	48.4	43.3	-
Digital Services	25.3	41.3	33.2	37.2	39.7	-
Retail	10.8	12.1	10.3	11.4	14.3	-
Consumer subtotal	36.1	53.5	43.6	48.6	54.0	-

Source: Company, BOBCAPS Research

Fig 13 – Key assumptions

Parameter	Unit	FY21	FY22E	FY23E	FY24E
Exchange rate	INR/USD	74.2	75.0	76.5	78.0
Energy					
Oil price	US\$/bbl	45.8	75.0	75.0	70.0
Refining margin	US\$/bbl	6.0	8.0	9.0	9.5
Petchem EBITDA	US\$/t	203	257	229	220
O2C throughput	mt	62.0	69.4	71.0	71.0
Gas realisation- KG D6	US\$/MMBtu	3.8	4.9	7.6	5.3
Gas production- KG D6	mmscmd	1.8	12.4	21.5	30.0
Jio					
No of subscribers	Mn	426	426	466	506
ARPU	Rs	144	148	167	178
Retail					
Revenue growth	% YoY	(5.3)	27.4	36.2	33.7
EBITDA margin	%	5.9	5.9	6.5	7.1

Source: Company, BOBCAPS Research

Valuation methodology

Upgrade to HOLD with a revised TP of Rs 2,520

We revise our SOTP-based TP for RIL to Rs 2,520 (Rs 2,090 previously) as we roll over to FY24 valuations. Given that consumer-facing businesses formed ~50% of RIL's EBITDA and have high growth potential, our valuation implies a target FY23E P/E of 23.7x. We upgrade our rating to HOLD from REDUCE as our target implies 8% upside.

Fig 14 – Valuation summary

Business	Fair Value (US\$ bn)	Fair Value (Rs bn)	Value/share (Rs)	Valuation basis
Energy				
Refining	31	2,301	362	7.5x FY24E EBITDA
Petrochem	32	2,430	383	8.5x FY24E EBITDA
Upstream	8	587	92	Combination of DCF and reserve multiple
New energy	4	300	47	Option value
Energy total	75	5,618	884	-
Jio	55	4,132	650	10x FY24E EBITDA, RIL share
Digital services	9	705	111	6x FY25E Sales, discounted to FY23, RIL share
Reliance Retail	82	6,123	964	32x FY24E EBITDA, RIL share
Enterprise value	221	16,578	2,610	-
Net Debt	8	573	90	-
Equity value	213	16,005	2,520	23.7x FY24E EPS

Source: BOBCAPS Research

Oil-to-Chemicals

We value the refining and chemicals businesses at one-year forward EV/EBITDA multiples of 7.5x and 8.5x respectively. Our multiples are at a premium to global peers (7.1-7.4x on CY22/FY23 in refining and 6.7-7.4x on CY22 in petrochem), which reflects RIL's highly integrated operations and consistent delivery of stronger margins than peers, utilising its flexibility to switch between transportation fuels and petrochemical output and to optimise crude feedstock and product slates. We also expect RIL to gradually make progress on its plan of improving chemical integration from 25% to 60-70% in the course of the decade.

Fig 15 – Global refining peers

Company	Bloomberg Code	Market Cap (US\$bn)	Price Currency	Current Price	P/E (x)		P/B (x)		EV/EBITDA (x)	
					CY21E/ FY22E	CY22E/ FY23E	CY21E/ FY22E	CY22E/ FY23E	CY21E/ FY22E	CY22E/ FY23E
Phillips 66	PSX US	37.3	USD	85.1	19.1	11.5	1.9	1.8	10.7	7.4
Valero Energy	VLO US	33.2	USD	81.3	46.4	12.4	1.8	1.7	10.7	6.1
Marathon Petroleum	MPC US	43.7	USD	71.0	40.9	15.6	1.7	1.9	9.3	7.9
S-Oil	010950 KS	0.8	KRW	85,300	6.6	6.9	1.4	1.2	4.7	4.8
Sk Innovation	096770 KS	1.7	KRW	2,15,500	28.0	13.9	1.2	1.1	8.3	7.9
IRPC	IRPC TB	2.3	THB	3.8	6.1	14.3	0.9	0.9	5.0	7.4
Thai Oil	TOP TB	3.2	THB	52.5	9.3	11.1	0.9	0.8	10.3	11.2
Eneos Holdings	5020 JP	12.5	JPY	445.8	4.7	6.7	0.6	0.5	5.1	6.1

Company	Bloomberg Code	Market Cap (US\$bn)	Price Currency	Current Price	P/E (x)		P/B (x)		EV/EBITDA (x)	
					CY21E/ FY22E	CY22E/ FY23E	CY21E/ FY22E	CY22E/ FY23E	CY21E/ FY22E	CY22E/ FY23E
Idemitsu Kosan	5019 JP	7.4	JPY	2,839	4.3	7.0	0.6	0.6	4.7	5.9
Weighted Average	-	142.1	-	-	29.7	12.4	1.6	1.6	9.3	7.1
Simple Average	-	-	-	-	18.4	11.1	1.2	1.2	7.7	7.2
Median	-	-	-	-	9.3	11.5	1.2	1.1	8.3	7.4

Source: Bloomberg, BOBCAPS Research

Fig 16 – Global petrochemicals peers

Company	Bloomberg Code	Market Cap (US\$bn)	Price Currency	Current Price	P/E (x)		P/B (x)		EV/EBITDA (x)	
					CY21E	CY22E	CY21E	CY22E	CY21E	CY22E
LG Chem	051910 KS	3.6	KRW	6,10,000	11.8	14.8	2.1	1.9	6.3	6.2
Lotte Chemical	011170 KS	0.5	KRW	1,91,500	4.4	5.8	0.5	0.4	2.7	2.9
Sk Innovation	096770 KS	1.7	KRW	2,15,500	28.0	13.9	1.2	1.1	8.3	7.9
S-Oil	010950 KS	0.8	KRW	85,300	6.6	6.9	1.4	1.2	4.7	4.8
Wanhua Chemical	600309 CH	45.4	CNY	92.03	11.6	11.1	4.2	3.3	8.5	7.9
IRPC	IRPC TB	2.3	THB	3.8	6.1	14.3	0.9	0.9	5.0	7.4
Formosa Plastics	1301 TT	24.0	TWD	105	9.5	10.9	1.7	1.7	9.4	11.2
Petronas Chemicals	PCHEM MK	17.0	MYR	8.9	10.8	12.8	2.1	2.0	7.1	7.4
Indorama Ventures	IVL TB	8.2	THB	48.25	10.5	10.6	1.8	1.6	8.0	8.1
Lyondellbasell	LYB US	31.0	USD	93.03	5.0	6.2	2.4	2.0	4.4	5.0
Dow	DOW US	42.3	USD	57.22	6.4	8.9	2.5	2.2	4.3	5.1
Weighted Average	-	176.8	-	-	8.8	9.9	2.7	2.3	6.6	7.1
Simple Average	-	-	-	-	9.9	10.1	1.9	1.6	6.3	6.7
Median	-	-	-	-	8.1	10.8	1.8	1.6	6.6	7.4

Source: Bloomberg, BOBCAPS Research

Digital Services

While we value Jio Infocomm’s wireless, wireline and enterprise business at 10x FY24E EBITDA, we value its venture into digital services at 6x FY25E Sales, discounted back to Mar’23. Our target multiple for the Jio Infocomm telecom business is at a premium of ~25% to the current trading multiple of its closest competitor, Bharti Airtel. We believe that valuations of telecom players in India will improve as the benefits of industry consolidation are reflected in better ARPU and, in turn, revenue over the next couple of years.

Fig 17 – Indian telecom peers

Company	Bloomberg Code	Market Cap (US\$bn)	Price Currency	Current Price	P/E (x)		P/B (x)		EV/EBITDA (x)	
					FY22E	FY23E	FY22E	FY23E	FY22	FY23
Bharti Airtel	BHARTI IN	53.7	INR	707.3	84.0	31.9	5.7	4.5	9.9	7.9
Vodafone Idea	IDEA IN	4.1	INR	10.7	NA	NA	NA	NA	13.0	11.0

Source: Bloomberg, BOBCAPS Research

Given that digital services are at a relatively nascent stage, we value the business at 6x EV/Sales, in line with the typical multiple for transactions in this space. We see potential for sales of US\$ 2.6bn for Jio Platforms based on our assumption of an average 7.5% market share for the company across digital market segments by FY25.

Reliance Retail

Our one-year forward EV/EBITDA target multiple of 32x compares with the average/median FY23 multiple of 37.9-38.5x for select players in the Indian retail industry which operate in different markets of the value chain than Reliance Retail. We use a simple average instead of market cap-weighted average to account for the representation of players across different segments.

Fig 18 – Indian retail peers

Company	Bloomberg Code	Market Cap (US\$bn)	Price Currency	Current Price	P/E (x)		P/B (x)		EV/EBITDA (x)	
					FY22E	FY23E	FY22E	FY23E	FY22E	FY23E
Trent	TRENT IN	4.9	INR	1,026	229.6	109.4	14.4	13.1	61.7	40.8
Avenue Supermarkets	DMART IN	35.0	INR	4,057	159.9	101.1	19.0	16.0	101.1	66.0
Titan	TTAN IN	27.3	INR	2,313	96.4	71.9	22.3	18.1	61.4	47.9
Jubilant Foodworks	JUBI IN	5.7	INR	3,246	86.9	63.8	23.8	18.9	36.7	29.0
Aditya Birla Fashion and Retail	ABFRL IN	3.5	INR	283	NA	117.1	10.1	9.2	28.0	17.0
V-Mart Retail	VMART IN	1.0	INR	3,716	188.6	61.5	8.5	7.5	NA	NA
Shoppers Stop	SHOP IN	0.6	INR	378	NA	122.0	NA	NA	NA	NA
Bata India	BATA IN	3.3	INR	1,954	146.5	54.1	13.0	11.1	46.3	26.9
Relaxo Footwears	RLXF IN	4.2	INR	1,267	NA	NA	NA	NA	NA	NA
Weighted Average	-	85.5	-	-	136.2	87.6	19.4	16.2	74.9	51.8
Simple Average	-	-	-	-	151.3	87.6	15.9	13.4	55.9	37.9
Median	-	-	-	-	141.3	79.8	19.0	16.0	53.8	38.5

Source: Company, BOBCAPS Research

New Energy

We assign option value of US\$ 4bn from the new energy business, which is 40% of the US\$ 10bn investment committed by RIL over FY22-FY24. Our option value is 3x of the US\$ 1.3bn investment already committed toward technology and capability acquisitions by RIL to develop this business.

RIL has announced an additional investment plan of US\$ 10bn to develop four gigafactories along with the infrastructure and materials to support them. These factories target all the four upcoming areas of new energy – solar, storage, electrolyser and fuel cell. The company has also announced repurposing of its gasification unit for the production of hydrogen alongside additional C1 chemicals as it shifts its energy source to renewables. RIL has asked the Gujarat government to allocate land for its 100GW renewable energy project.

The company has started acquiring technology and capabilities during FY22, with particular progress in solar space:

- REC Solar – Acquired 100% stake for US\$ 0.8bn; adds capability to manufacture solar panels
- Nexwafe – Acquired for US\$ 29m; adds technology for monocrystalline silicon wafers
- Sterling and Wilson – Aims to acquire 40% stake for US\$ 0.4bn; adds capability to offer EPC and O&M for renewable solar plants

For the electrolyser gigafactory, RIL has entered into a cooperation agreement with Stiesdal for its technology for hydrogen electrolyzers. The collaboration would further extend to developing other climate change technologies such as offshore wind energy, next-generation fuel cells for conversion of hydrogen to electricity for mobile and static electricity generation, long duration energy storage and production of carbon negative fuels.

For the advanced storage gigafactory, RIL has invested US\$ 125mn in Faradion and US\$ 50mn in Ambri. Investment into Faradion gives it access to technology for sodium-ion batteries which aim to compete with lithium-ion batteries. The acquisition of Ambri gives it access to technology for economical storage of large-scale renewable power by using calcium and antimony electrodes.

Key risks

Key upside risks to our estimates are:

- **O2C and Oil & Gas businesses:** Higher-than-assumed oil price, gas price, GRM and petrochemical crack movements on tightening of demand-supply balance than our current assumptions.
- **Digital Services:** Higher growth in subscriber base, faster rise in average tariffs, higher operating margin and faster pickup of digital services than our assumptions.
- **Reliance Retail:** Faster revenue growth driven by faster economy growth, gaining of market share against organised retail and competition. Higher operating margin also poses upside risks and can be driven by lower competitive intensity than our current assumptions. RIL has invested more than US\$ 1bn in acquiring assets and capabilities and the pace of integration will also pose additional risks.
- **New energy business:** This exposes RIL to the risk of development and integration of new global technologies.

Sector recommendation snapshot

Company	Ticker	Market Cap (US\$ bn)	Price (Rs)	Target (Rs)	Rating
Bharat Petroleum Corp	BPCL IN	11.1	383	460	HOLD
GAIL	GAIL IN	8.5	142	160	BUY
Hindustan Petroleum Corp	HPCL IN	5.9	313	345	BUY
Indian Oil Corp	IOCL IN	15.6	124	135	BUY
Indraprastha Gas	IGL IN	3.7	395	565	BUY
Mahanagar Gas	MAHGL IN	1.1	815	750	SELL
Petronet LNG	PLNG IN	4.3	215	330	BUY
Reliance Industries	RIL IN	210.4	2,336	2,520	HOLD

Source: BOBCAPS Research, NSE | Price as of 28 Jan 2022

Financials

Income Statement

Y/E 31 Mar (Rs mn)	FY20A	FY21A	FY22E	FY23E	FY24E
Total revenue	59,75,350	46,69,240	68,85,377	79,00,553	87,38,985
EBITDA	8,90,090	8,07,370	11,38,765	13,75,862	15,70,210
Depreciation	(2,22,030)	(2,65,720)	(3,14,105)	(3,61,780)	(4,00,564)
EBIT	6,68,060	5,41,650	8,24,660	10,14,082	11,69,646
Net interest inc./(exp.)	(2,20,270)	(2,11,890)	(1,68,401)	(1,77,338)	(1,77,338)
Other inc./(exp.)	1,31,640	1,63,270	1,86,735	2,11,877	2,68,829
Exceptional items	(44,440)	56,420	0	0	0
EBT	5,79,430	4,93,030	8,42,994	10,48,621	12,61,137
Income taxes	(1,37,260)	(17,220)	(1,99,660)	(2,37,121)	(2,75,299)
Extraordinary items	0	0	0	0	0
Min. int./Inc. from assoc.	(4,190)	(40,950)	(61,242)	(92,735)	(1,25,820)
Reported net profit	3,93,540	4,91,280	5,82,093	7,18,765	8,60,018
Adjustments	0	0	0	0	0
Adjusted net profit	4,37,980	4,36,628	5,82,093	7,18,765	8,60,018

Balance Sheet

Y/E 31 Mar (Rs mn)	FY20A	FY21A	FY22E	FY23E	FY24E
Accounts payables	9,67,990	10,88,970	11,14,528	11,50,101	11,04,107
Other current liabilities	22,09,060	10,65,880	11,40,154	11,80,831	11,48,269
Provisions	36,800	51,290	51,290	51,290	51,290
Debt funds	31,02,210	24,53,280	27,28,280	27,28,280	27,28,280
Other liabilities	7,00,620	5,46,910	5,58,820	5,71,578	5,85,304
Equity capital	63,390	64,450	67,650	67,650	67,650
Reserves & surplus	44,28,270	69,37,270	74,62,671	81,16,372	89,06,385
Shareholders' fund	44,91,660	70,01,720	75,30,321	81,84,022	89,74,035
Total liab. and equities	1,16,30,150	1,32,00,650	1,41,77,234	1,50,12,679	1,58,63,682
Cash and cash eq.	3,09,200	1,73,970	1,60,149	6,31,093	11,95,646
Accounts receivables	1,96,560	1,90,140	1,92,440	1,93,116	1,92,794
Inventories	7,39,030	8,16,720	9,30,831	9,50,234	9,25,147
Other current assets	12,00,050	16,99,430	16,99,430	16,99,430	16,99,430
Investments	27,67,670	36,48,280	36,48,280	36,48,280	36,48,280
Net fixed assets	52,23,990	53,10,460	60,03,979	67,86,204	71,79,401
CWIP	10,91,060	12,59,530	14,30,006	9,92,201	9,10,864
Intangible assets	1,02,590	1,02,120	1,12,120	1,12,120	1,12,120
Deferred tax assets, net	0	0	0	0	0
Other assets	0	0	0	0	0
Total assets	1,16,30,150	1,32,00,650	1,41,77,234	1,50,12,679	1,58,63,682

Cash Flows

Y/E 31 Mar (Rs mn)	FY20A	FY21A	FY22E	FY23E	FY24E
Cash flow from operations	7,43,000	(12,26,220)	7,04,794	9,37,597	9,52,333
Capital expenditures	(7,86,470)	(4,89,180)	(11,78,100)	(7,06,200)	(7,12,424)
Change in investments	(4,09,780)	(85,770)	(10,000)	0	0
Other investing cash flows	1,12,720	(6,32,040)	1,86,735	2,11,877	2,68,829
Cash flow from investing	(10,83,530)	(12,06,990)	(10,01,365)	(4,94,323)	(4,43,595)
Equities issued/Others	1,55,020	10,02,980	3,200	0	0
Debt raised/repaid	2,82,590	(6,48,910)	2,75,000	0	0
Interest expenses	0	0	0	0	0
Dividends paid	(42,820)	(45,840)	(56,692)	(65,064)	(70,006)
Other financing cash flows	(44,440)	56,420	61,242	92,735	1,25,820
Cash flow from financing	3,50,350	3,64,650	2,82,750	27,671	55,814
Chg in cash & cash eq.	9,820	(20,68,560)	(13,821)	4,70,944	5,64,553
Closing cash & cash eq.	1,20,630	(17,59,360)	1,60,149	6,31,093	11,95,646

Per Share

Y/E 31 Mar (Rs)	FY20A	FY21A	FY22E	FY23E	FY24E
Reported EPS	62.1	76.2	86.0	106.2	127.1
Adjusted EPS	68.0	67.7	90.3	106.2	127.1
Dividend per share	5.7	6.1	8.8	9.6	10.3
Book value per share	708.6	1,086.4	1,113.1	1,209.8	1,326.5

Valuations Ratios

Y/E 31 Mar (x)	FY20A	FY21A	FY22E	FY23E	FY24E
EV/Sales	3.0	4.0	2.7	2.3	2.1
EV/EBITDA	20.3	23.0	16.1	13.2	11.5
Adjusted P/E	34.4	34.5	25.9	22.0	18.4
P/BV	3.3	2.2	2.1	1.9	1.8

DuPont Analysis

Y/E 31 Mar (%)	FY20A	FY21A	FY22E	FY23E	FY24E
Tax burden (Net profit/PBT)	81.9	79.5	69.1	68.5	68.2
Interest burden (PBT/EBIT)	80.1	101.4	102.2	103.4	107.8
EBIT margin (EBIT/Revenue)	11.2	11.6	12.0	12.8	13.4
Asset turnover (Rev./Avg TA)	55.3	37.6	50.3	54.1	56.6
Leverage (Avg TA/Avg Equity)	2.6	2.2	1.9	1.9	1.8
Adjusted ROAE	10.5	7.6	8.0	9.1	10.0

Ratio Analysis

Y/E 31 Mar	FY20A	FY21A	FY22E	FY23E	FY24E
YoY growth (%)					
Revenue	5.0	(21.9)	47.5	14.7	10.6
EBITDA	5.8	(9.3)	41.0	20.8	14.1
Adjusted EPS	10.6	(0.3)	33.3	17.6	19.7
Profitability & Return ratios (%)					
EBITDA margin	14.9	17.3	16.5	17.4	18.0
EBIT margin	11.2	11.6	12.0	12.8	13.4
Adjusted profit margin	7.3	9.4	8.5	9.1	9.8
Adjusted ROAE	10.5	7.6	8.0	9.1	10.0
ROCE	6.9	5.8	5.8	6.7	7.3
Working capital days (days)					
Receivables	15	15	10	9	8
Inventory	62	95	179	205	187
Payables	74	97	70	63	57
Ratios (x)					
Gross asset turnover	0.9	0.6	0.8	0.9	0.9
Current ratio	0.6	1.0	1.0	1.2	1.4
Net interest coverage ratio	3.0	2.6	4.9	5.7	6.6
Adjusted debt/equity	0.6	0.3	0.3	0.3	0.2

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

Disclaimer

Recommendation scale: Recommendations and Absolute returns (%) over 12 months

BUY – Expected return >+15%

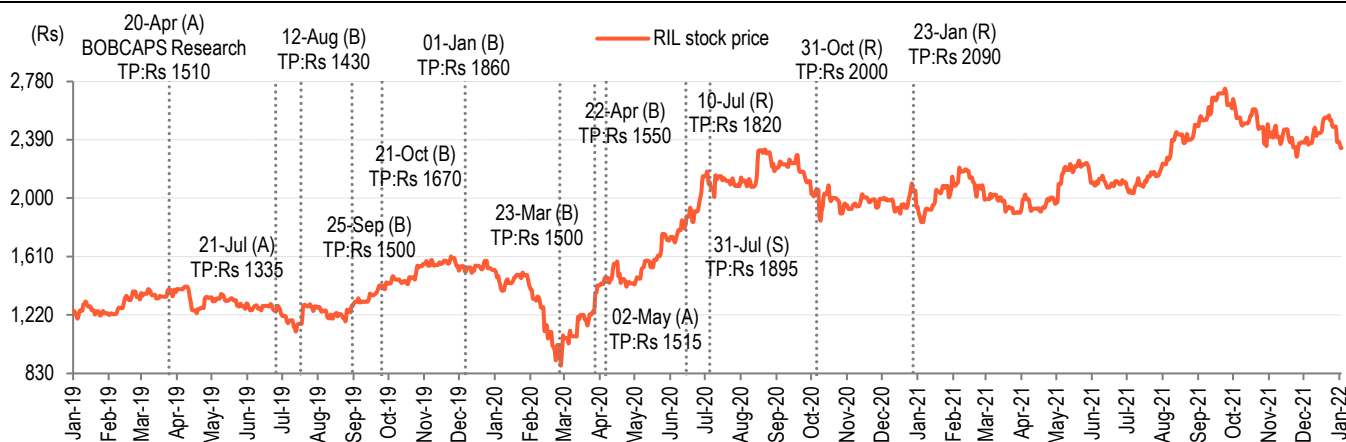
HOLD – Expected return from -6% to +15%

SELL – Expected return <-6%

Note: Recommendation structure changed with effect from 21 June 2021

Our recommendation scale does not factor in short-term stock price volatility related to market fluctuations. Thus, our recommendations may not always be strictly in line with the recommendation scale as shown above.

Ratings and Target Price (3-year history): RELIANCE INDUSTRIES (RIL IN)



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

Rating distribution

As of 31 December 2021, out of 115 rated stocks in the BOB Capital Markets Limited (BOBCAPS) coverage universe, 57 have BUY ratings, 31 have HOLD ratings, 5 are rated ADD*, 2 are rated REDUCE* and 20 are rated SELL. None of these companies have been investment banking clients in the last 12 months. (*Our ADD and REDUCE ratings are in the process of being migrated to the new recommendation structure.)

Analyst certification

The research analyst(s) authoring this report hereby certifies that (1) all of the views expressed in this research report accurately reflect his/her personal views about the subject company or companies and its or their securities, and (2) no part of his/her compensation was, is, or will be, directly or indirectly, related to the specific recommendation(s) or view(s) in this report. Analysts are not registered as research analysts by FINRA and are not associated persons of BOBCAPS.

General disclaimers

BOBCAPS is engaged in the business of Institutional Stock Broking and Investment Banking. BOBCAPS is a member of the National Stock Exchange of India Limited and BSE Limited and is also a SEBI-registered Category I Merchant Banker. BOBCAPS is a wholly owned subsidiary of Bank of Baroda which has its various subsidiaries engaged in the businesses of stock broking, lending, asset management, life insurance, health insurance and wealth management, among others.

BOBCAPS's activities have neither been suspended nor has it defaulted with any stock exchange authority with whom it has been registered in the last five years. BOBCAPS has not been debarred from doing business by any stock exchange or SEBI or any other authority. No disciplinary action has been taken by any regulatory authority against BOBCAPS affecting its equity research analysis activities.

BOBCAPS has obtained registration as a Research Entity under SEBI (Research Analysts) Regulations, 2014, having registration No.: INH000000040 valid till 03 February 2025. BOBCAPS is also a SEBI-registered intermediary for the broking business having SEBI Single Registration Certificate No.: INZ000159332 dated 20 November 2017. BOBCAPS CIN Number: U65999MH1996GOI098009.

BOBCAPS prohibits its analysts, persons reporting to analysts, and members of their households from maintaining a financial interest in the securities or derivatives of any companies that the analysts cover. Additionally, BOBCAPS prohibits its analysts and persons reporting to analysts from serving as an officer, director, or advisory board member of any companies that the analysts cover.

Our salespeople, traders, and other professionals may provide oral or written market commentary or trading strategies to our clients that reflect opinions contrary to the opinions expressed herein, and our proprietary trading and investing businesses may make investment decisions that are inconsistent with the recommendations expressed herein. In reviewing these materials, you should be aware that any or all of the foregoing, among other things, may give rise to real or potential conflicts of interest. Additionally, other important information regarding our relationships with the company or companies that are the subject of this material is provided herein.

This material should not be construed as an offer to sell or the solicitation of an offer to buy any security in any jurisdiction where such an offer or solicitation would be illegal. We are not soliciting any action based on this material. It is for the general information of BOBCAPS's clients. It does not constitute a personal recommendation or take into account the particular investment objectives, financial situations, or needs of individual clients. Before acting on any advice or recommendation in this material, clients should consider whether it is suitable for their particular circumstances and, if necessary, seek professional advice.

The price and value of the investments referred to in this material and the income from them may go down as well as up, and investors may realize losses on any investments. Past performance is not a guide for future performance, future returns are not guaranteed and a loss of original capital may occur. BOBCAPS does not provide tax advice to its clients, and all investors are strongly advised to consult with their tax advisers regarding any potential investment in certain transactions — including those involving futures, options, and other derivatives as well as non-investment-grade securities — that give rise to substantial risk and are not suitable for all investors. The material is based on information that we consider reliable, but we do not represent that it is accurate or complete, and it should not be relied on as such. Opinions expressed are our current opinions as of the date appearing on this material only. We endeavour to update on a reasonable basis the information discussed in this material, but regulatory, compliance, or other reasons may prevent us from doing so.

We and our affiliates, officers, directors, and employees, including persons involved in the preparation or issuance of this material, may from time to time have “long” or “short” positions in, act as principal in, and buy or sell the securities or derivatives thereof of companies mentioned herein and may from time to time add to or dispose of any such securities (or investment). We and our affiliates may act as market makers or assume an underwriting commitment in the securities of companies discussed in this document (or in related investments), may sell them to or buy them from customers on a principal basis, and may also perform or seek to perform investment banking or advisory services for or relating to these companies and may also be represented in the supervisory board or any other committee of these companies.

For the purpose of calculating whether BOBCAPS and its affiliates hold, beneficially own, or control, including the right to vote for directors, one per cent or more of the equity shares of the subject company, the holdings of the issuer of the research report is also included.

BOBCAPS and its non-US affiliates may, to the extent permissible under applicable laws, have acted on or used this research to the extent that it relates to non-US issuers, prior to or immediately following its publication. Foreign currency denominated securities are subject to fluctuations in exchange rates that could have an adverse effect on the value or price of or income derived from the investment. In addition, investors in securities such as ADRs, the value of which are influenced by foreign currencies, effectively assume currency risk. In addition, options involve risks and are not suitable for all investors. Please ensure that you have read and understood the Risk disclosure document before entering into any derivative transactions.

In the US, this material is only for Qualified Institutional Buyers as defined under rule 144(a) of the Securities Act, 1933. No part of this document may be distributed in Canada or used by private customers in the United Kingdom.

No part of this material may be (1) copied, photocopied, or duplicated in any form by any means or (2) redistributed without BOBCAPS's prior written consent.

Company-specific disclosures under SEBI (Research Analysts) Regulations, 2014

The research analyst(s) or his/her relatives do not have any material conflict of interest at the time of publication of this research report.

BOBCAPS or its research analyst(s) or his/her relatives do not have any financial interest in the subject company. BOBCAPS or its research analyst(s) or his/her relatives do not have actual/beneficial ownership of one per cent or more securities in the subject company at the end of the month immediately preceding the date of publication of this report.

The research analyst(s) has not received any compensation from the subject company in the past 12 months. Compensation of the research analyst(s) is not based on any specific merchant banking, investment banking or brokerage service transactions.

BOBCAPS or its research analyst(s) is not engaged in any market making activities for the subject company.

The research analyst(s) has not served as an officer, director or employee of the subject company.

BOBCAPS or its associates may have material conflict of interest at the time of publication of this research report.

BOBCAPS's associates may have financial interest in the subject company. BOBCAPS's associates may hold actual / beneficial ownership of one per cent or more securities in the subject company at the end of the month immediately preceding the date of publication of this report.

BOBCAPS or its associates may have managed or co-managed a public offering of securities for the subject company or may have been mandated by the subject company for any other assignment in the past 12 months.

BOBCAPS may have received compensation from the subject company in the past 12 months. BOBCAPS may from time to time solicit or perform investment banking services for the subject company. BOBCAPS or its associates may have received compensation from the subject company in the past 12 months for services in respect of managing or co-managing public offerings, corporate finance, investment banking or merchant banking, brokerage services or other advisory services in a merger or specific transaction. BOBCAPS or its associates may have received compensation for products or services other than investment banking or merchant banking or brokerage services from the subject company in the past 12 months.