

**BUY**

TP: Rs 3,015 | ▲ 23%

**RELIANCE INDUSTRIES**

Oil &amp; Gas

29 August 2023

**AGM takeaways: Long growth runway, reiterate BUY**

- Pivoted towards consumption and new-age technology in India and beyond for sustainable growth
- Digital services and retail proposition in place, new energy en route to decarbonising O2C, and financial services evolving
- Maintain BUY with a TP of Rs 3,015 (unchanged)

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Key highlights from RIL's 46<sup>th</sup> annual general meeting (AGM):

**Transformed growth engine:** RIL indicated that it is positioned for a long growth runway across digital services, retail, new energy and chemicals, spearheaded by a recalibration in focus toward consumption and technology-led growth. The company is also looking to tap global growth potential with its digital and FMCG businesses.

**Succession plan formalised:** Chairman Mukesh Ambani announced his intent to stay at the helm for five more years and to mentor his children Akash, Isha and Anant for "collective leadership", while also inducting them on the board of RIL.

**Jio 2.0 – growth beyond mobile connectivity:** With 5G rollout being fast-tracked in India, Jio Platforms (Jio) is readying for the next leg of growth – viz. raising ARPU via the launch of value-added services and accelerating the deployment of home broadband and tapping businesses with managed services.

**Retail – expanding reach:** RIL's retail arm has invested US\$ 10bn over the past two years to expand its supply chain infrastructure, omnichannel presence and reach to ~250mn registered consumers. The business has grown to 1.8mt of groceries, 0.5mn laptops, 2.3mn consumer appliances and 0.5bn garments in FY23.

**New energy – gearing up for Rs 750bn investment plan:** Visibility on targets is slowly improving with initial startup of both the integrated solar and battery giga factories planned in 2024, followed by phased commissioning of the solar unit by end-2025 and the battery unit by 2026. RIL has charted a roadmap to make cost-competitive electrolysers and has also added wind and bio-energy to its slate.

**Oil-to-Chemicals – improving sustainability:** RIL has converted the challenges of decarbonising O2C into opportunities for its new energy and chemicals businesses.

**Retain BUY:** Our SOTP-based TP of Rs 3,015 ascribes unchanged multiples across refining (7x FY26E EV/EBITDA), petrochem (8x), telecom (Jio: 9x) and retail (32x). It includes Rs 161/sh for upstream, Rs 107 for digital services and Rs 171 for new energy.

**Key changes**

Target	Rating
◀▶	◀▶

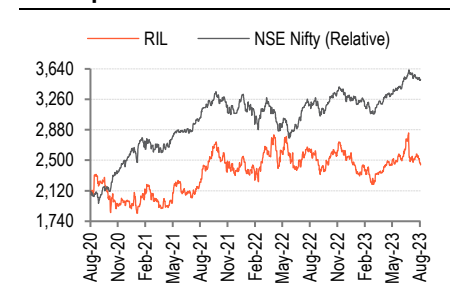
Ticker/Price	RIL IN/Rs 2,444
Market cap	US\$ 201.2bn
Free float	50%
3M ADV	US\$ 219.5mn
52wk high/low	Rs 2,856/Rs 2,180
Promoter/FPI/DII	50%/23%/17%

Source: NSE | Price as of 28 Aug 2023

**Key financials**

Y/E 31 Mar	FY23P	FY24E	FY25E
Total revenue (Rs mn)	87,94,680	80,22,533	91,28,638
EBITDA (Rs mn)	14,29,080	16,68,607	18,55,656
Adj. net profit (Rs mn)	6,67,020	7,76,169	8,38,294
Adj. EPS (Rs)	98.6	114.7	123.9
Consensus EPS (Rs)	98.6	116.4	129.3
Adj. ROAE (%)	8.3	9.1	9.0
Adj. P/E (x)	24.8	21.3	19.7
EV/EBITDA (x)	13.4	11.5	10.4
Adj. EPS growth (%)	14.2	16.4	8.0

Source: Company, Bloomberg, BOBCAPS Research | P – Provisional

**Stock performance**

Source: NSE



## AGM takeaways

### Strategy: Consumption and technology-led growth

- **Long growth runway:** RIL aims to operate in sectors that carry healthy growth visibility over several decades. The strategy is to boost growth by offering superior customer experience and value and by extending its addressable market via new use cases and product offerings. RIL is also working to deploy disruptive technologies and innovation to create a cost-competitive global supply chain, and now extending its horizon beyond India.
- **Repurposing itself as a new-age tech-led company:** While Jio has developed an indigenous 5G stack, rolled out a standalone 5G network and evolved several 5G use cases, RIL's retail arm has developed shipping platforms and integrated ecommerce platform JioMart. Both the new energy and financial services businesses (Jio Financial Services, JFS) are based primarily on disruptive technologies.
- **Developing unparalleled reach:** RIL is connected to 450mn mobile and fixed line consumers and has ~250mn registered consumers in its retail business.
- **Levers for sustainable, high margins:** Business transformation toward consumption and technology-led growth could also lead to stronger operating margins by way of (a) decommoditisation of the product portfolio, (b) use of renewable energy to substitute energy commodity volatility, (c) addition of high-margin annuity streams across home, enterprise connectivity and new energy solutions, and (d) creation of retail brands.
- **Global markets emerging as next ambition:** RIL aims to take its products, services, technologies and project execution capabilities to global markets, particularly in the Jio and FMCG businesses.
- **Maintaining capital discipline:** The company intends to maintain net debt at below 1x EBITDA and ensure superior investment grade ratings through business cycles.

### Succession plan moving forward

- **Grooming the next generation:** Ambani emphasised the mentoring of new leaders and enriching of institutional culture as his key responsibilities over the next five years, while he continues as Chairman.
- **Induction of next gen on the board:** RIL has inducted all three next generation leaders on the board of RIL as non-executive directors. While daughter Isha is driving expansion at Reliance Retail, sons Akash and Anant spearhead Jio Infocomm and renewable/green energy respectively.

## Jio 2.0: Growth to extend beyond mobile connectivity

- **5G rollout the fastest in the world at this scale:** Within nine months, Jio 5G has been launched in over 96% of census towns and is on track to cover the entire country by Dec'23. Jio is on track to have 1mn 5G radio cells operational across its network by Dec'23.
- **Robust momentum to continue:** Jio crossed the milestone of 450mn subscribers recently, paving the way for 20% YoY revenue growth on a large base. The next leg of growth is likely to come from an increase in average revenue per user (ARPU) from 5G services where consumers have already crossed the 50mn mark.
- **Home broadband to pick up with Jio AirFiber:** RIL announced the launch of Jio AirFiber on Ganesh Chaturthi (19 Sep 2023) and now points to an addressable market of 200mn households, of which it is targeting 100mn over three years. With AirFiber, Ambani indicated that Jio can accelerate its connection run-rate 10-fold to 150,000 per day from 15,000 at present. He also defined the contours of Smart Home solutions – the next value-add product for the segment.
- **Targeting business users:** Jio aims to leverage innovative platforms, services, and managed services to businesses outside the Reliance group, both in India and abroad. It announced a True5G Developer Platform and True5G Lab to enable startups and enterprises to develop use cases.
- **AI to everyone, everywhere:** After broadband connectivity, Jio's ambition is to democratise access to AI.

## Retail: Expanding reach and platform

- **Focus on expansion:** RIL's retail business has invested US\$ 10bn over the past two years to expand its supply chain infrastructure and omnichannel presence.
- **Sales scaling up:** While the grocery business sold 1.8mt of groceries in FY23, consumer electronics clocked in at 0.5mn laptops and 2.3mn appliances, and the fashion and lifestyle segment sold 0.5bn garments.
- **Unparalleled reach:** The retail arm now serves 98% of India's pin codes, has a registered customer base totalling ~250mn, and has partnered with 3mn merchants.
- **Taking FMCG business global:** RIL is looking to scale up the FMCG business in India and also take it global, starting with Asia and Africa.

## New energy: Gearing up for Rs 750bn investment plan

- **Solar giga factory by end-2025:** RIL is now targeting commercialisation of the fully integrated solar photovoltaic (PV) factory in a phased manner by the end of 2025, with initial startup in 2024.
- **Battery giga factory by 2026:** The integrated battery giga factory is targeted to be commissioned by 2026, with initial startup in 2024. RIL plans to begin with a proven

lithium iron phosphate (LFP) chemistry and work in parallel on industrialising the second chemistry, sodium ion cell, at the megawatt level by 2025 before scaling up.

- **Wind power generation added to renewables portfolio:** RIL aims to pursue wind power generation at the gigawatt scale and highlighted the synergy between manufacturing of wind blades and its plan for a carbon fibre facility.
- **Roadmap for cost-effective green hydrogen:** The company has developed a roadmap for making electrolyzers to its targeted cost and is working to pilot the same at megawatt scale initially, as also to demonstrate integration of energy storage with solar and wind power.
- **100 CBG plants in 5 years:** The goal is to scale up from one pilot plant to 25 compressed bio-gas (CBG) plants near term and 100 over the next five years. About 5.5mtpa of agro-residue and organic waste will be consumed to produce 2.5mtpa of organic manure and substitute 0.7mtpa of imported LNG.

### Oil-to-Chemicals: Targeting improvement in sustainability

- **Transition to renewable sources:** RIL is targeting transition of its O2C business to renewable sources to reduce energy cost and improve profitability. It is also developing technologies to convert crude and feedstock to monomers and derivatives.
- **Carbon fibre in focus:** The company aims to be among the top 3 players globally in the carbon fibre and carbon fibre reinforced plastic composite industry.

### Jio Financial Services: Evolving business plan

- **Democratising access to financial services:** The Reliance group has conceptualised JFS to increase the penetration of financial services and fill a critical gap for the mass population, mainly in informal and underserved sectors in rural, semiurban and urban areas. JFS aims to improve the ease of borrowing, investments and payment solutions.
- **Asset management with Blackrock:** The financial services arm is focused on transforming the asset management industry through a digital-first offering and by introducing a full-service technology-enabled asset manager, Blackrock, with a lineup of affordable and transparent investment products.
- **Payments:** The goal is to consolidate payments infrastructure for both consumers and merchants and to explore blockchain-based platforms and a central bank digital currency (CBDC).
- **Insurance:** Here, the plan is to offer simple yet smart products across life, general and health insurance, potentially in partnership with a global player.
- **Success drivers:** These include a digital-first architecture, a strong capital foundation (capitalisation of Rs 1.2tn), and a robust board led by veteran banker K V Kamath.

## Valuation methodology

### BUY with TP of Rs 3,015

We have an SOTP-based TP of Rs 3,015 (unchanged) for RIL, valuing key businesses at FY26E EV/EBITDA multiples as follows: refining (7x), petrochemicals (8x), telecom (Jio Infocomm: 9x) and retail (32x). We also include the following values for other businesses: Rs 161/sh for the upstream business, Rs 107 for the digital services venture, and Rs 171 for the new energy division. We discount our SOTP value back to Jul'24 to arrive at a one-year forward target price.

We maintain our BUY rating on RIL given 23% upside potential. In our view, current market buoyancy reflects investor optimism on India's growth trajectory, and RIL's consumer businesses will be key beneficiaries of this growth. Further, concerns over potentially elevated capex requirements for the company appear overdone, and we believe the ramp-up in outlay is likely to be in keeping with RIL's structural profit growth.

### Key growth catalysts

- Jio: Gains in market share and ARPU on nationwide launch of 5G and Jio AirFiber
- Retail: Acceleration towards 3x growth target over 3-5 years set at the FY21 AGM
- O2C: Guidance on cost reduction with deployment of new energy
- E&P: Stabilisation of MJ field
- Listing of Jio and retail businesses

**Fig 1 – Valuation summary**

Business (Rs bn)	Fair Value		Value/share (Rs)	Valuation basis
	(US\$ bn)	(Rs bn)		
<b>Energy</b>				
Refining	26	2,120	313	7x FY26E EBITDA
Petrochem	32	2,671	395	8x FY26E EBITDA
Upstream	13	1,088	161	Combination of DCF and reserve multiple
New energy	14	1,159	171	Option value
<b>Energy total</b>	<b>86</b>	<b>7,039</b>	<b>1,040</b>	-
Jio Infocomm	70	5,750	850	9x FY26E EBITDA, RIL share
Digital Services	9	725	107	6x FY26E Sales, RIL share
Reliance Retail	109	8,953	1,323	32x FY26E EBITDA, RIL share
<b>Consumer business total</b>	<b>188</b>	<b>15,428</b>	<b>2,280</b>	-
<b>Enterprise value</b>	<b>273</b>	<b>22,467</b>	<b>3,321</b>	-
Net Debt	25	2,076	307	-
Marketable securities	0	8	1	At 85% of BV
<b>Equity value</b>	<b>248</b>	<b>20,399</b>	<b>3,015</b>	<b>20.9x FY25E EPS</b>
<b>TP (rounded to nearest Rs 5)</b>	-	-	<b>3,015</b>	-

Source: BOBCAPS Research

## Key risks

We highlight key downside risks to our estimates below:

- **O2C and Oil & Gas businesses:** Lower-than-assumed oil price, gas price, gross refining margin (GRM) and petrochemical crack movements on easing of the demand-supply balance, or adverse regulatory moves (such as higher windfall taxes or caps on gas price) are key downside risks.
- **Digital Services:** Downside risks in this business include lower growth in subscriber base, slower rise in average tariffs, inferior operating margin and slower pickup in digital services than our assumptions.
- **Reliance Retail:** Below-expected revenue growth driven by slower economic activity as well as lower market share gains against organised retail and competition are primary downside risks. Higher competitive intensity can also push operating margin below our current assumptions. RIL has invested more than US\$ 1bn in acquiring assets and capabilities, and the pace of integration will pose added challenges.
- **New Energy:** Slower-than-expected evolution and integration of new energy businesses with existing businesses would be a key downside risk.
- **Corporate risk:** Succession planning with orderly transfer of management control to the next generation is the key to continuity. RIL has recently announced mentoring of next generation leaders.

## Sector recommendation snapshot

Company	Ticker	Market Cap (US\$ bn)	Price (Rs)	Target (Rs)	Rating
Bharat Petroleum Corp	BPCL IN	9.4	355	450	BUY
GAIL	GAIL IN	6.4	117	160	BUY
Gujarat State Petronet	GUJS IN	1.9	277	370	BUY
Hindustan Petroleum Corp	HPCL IN	4.6	264	410	BUY
Indian Oil Corp	IOCL IN	10.5	92	150	BUY
Indraprastha Gas	IGL IN	3.8	444	550	BUY
Mahanagar Gas	MAHGL IN	1.2	1,016	1,210	HOLD
Reliance Industries	RIL IN	201.2	2,444	3,015	BUY

Source: BOBCAPS Research, NSE | Price as of 28 Aug 2023

## Financials

### Income Statement

Y/E 31 Mar (Rs mn)	FY22A	FY23P	FY24E	FY25E	FY26E
<b>Total revenue</b>	<b>69,99,620</b>	<b>87,94,680</b>	<b>80,22,533</b>	<b>91,28,638</b>	<b>1,03,13,161</b>
EBITDA	11,04,600	14,29,080	16,68,607	18,55,656	21,45,288
Depreciation	(2,97,970)	(4,03,190)	(4,12,796)	(4,76,474)	(5,28,669)
EBIT	8,06,630	10,25,890	12,55,811	13,79,182	16,16,619
Net interest inc./(exp.)	(1,45,840)	(1,95,710)	(2,12,560)	(2,12,560)	(2,12,560)
Other inc./(exp.)	1,49,470	1,18,260	1,48,899	1,58,085	1,96,531
Exceptional items	28,360	0	0	0	0
EBT	8,10,260	9,48,440	11,92,151	13,24,707	16,00,590
Income taxes	(1,62,970)	(2,07,130)	(3,22,882)	(3,55,681)	(4,05,095)
Extraordinary items	0	0	0	0	0
Min. int./Inc. from assoc.	(68,600)	(74,290)	(93,100)	(1,30,732)	(1,79,330)
<b>Reported net profit</b>	<b>6,07,050</b>	<b>6,67,020</b>	<b>7,76,169</b>	<b>8,38,294</b>	<b>10,16,166</b>
Adjustments	0	0	0	0	0
<b>Adjusted net profit</b>	<b>5,84,201</b>	<b>6,67,020</b>	<b>7,76,169</b>	<b>8,38,294</b>	<b>10,16,166</b>

### Balance Sheet

Y/E 31 Mar (Rs mn)	FY22A	FY23P	FY24E	FY25E	FY26E
Accounts payables	15,93,300	14,71,780	13,08,192	13,69,296	13,91,986
Other current liabilities	6,67,360	11,23,670	9,84,205	10,50,003	10,81,969
Provisions	37,890	37,870	37,870	37,870	37,870
Debt funds	29,39,980	34,28,380	34,28,380	34,28,380	34,28,380
Other liabilities	8,57,850	17,16,310	17,83,474	18,52,163	19,22,260
Equity capital	67,650	67,660	67,660	67,660	67,660
Reserves & surplus	77,27,200	81,43,870	88,39,973	96,02,708	1,05,41,768
Shareholders' fund	77,94,850	82,11,530	89,07,633	96,70,368	1,06,09,428
<b>Total liab. and equities</b>	<b>1,49,86,220</b>	<b>1,71,19,630</b>	<b>1,76,72,943</b>	<b>1,87,62,001</b>	<b>2,00,05,144</b>
Cash and cash eq.	3,61,780	7,47,080	7,09,213	10,62,242	16,42,027
Accounts receivables	2,36,400	2,84,510	2,74,434	2,77,608	2,79,938
Inventories	10,77,780	14,00,080	13,10,850	13,44,180	13,56,556
Other current assets	13,64,580	11,51,180	11,51,180	11,51,180	11,51,180
Investments	39,42,640	33,66,330	33,66,330	33,66,330	33,66,330
Net fixed assets	61,47,890	70,95,930	90,33,454	99,09,670	1,05,92,339
CWIP	17,25,060	29,37,900	16,90,862	15,14,172	14,80,154
Intangible assets	1,30,090	1,36,620	1,36,620	1,36,620	1,36,620
Deferred tax assets, net	0	0	0	0	0
Other assets	0	0	0	0	0
<b>Total assets</b>	<b>1,49,86,220</b>	<b>1,71,19,630</b>	<b>1,76,72,943</b>	<b>1,87,62,001</b>	<b>2,00,05,144</b>

### Cash Flows

Y/E 31 Mar (Rs mn)	FY22A	FY23P	FY24E	FY25E	FY26E
<b>Cash flow from operations</b>	<b>11,83,480</b>	<b>12,31,540</b>	<b>9,03,482</b>	<b>13,15,771</b>	<b>14,58,351</b>
Capital expenditures	(15,15,680)	(25,64,070)	(11,03,282)	(11,76,000)	(11,77,320)
Change in investments	(7,65,610)	7,75,790	0	0	0
Other investing cash flows	5,92,750	(87,750)	1,48,899	1,58,085	1,96,531
<b>Cash flow from investing</b>	<b>(16,88,540)</b>	<b>(18,76,030)</b>	<b>(9,54,383)</b>	<b>(10,17,915)</b>	<b>(9,80,789)</b>
Equities issued/Others	3,200	10	0	0	0
Debt raised/repaid	9,100	(2,68,230)	0	0	0
Interest expenses	0	0	0	0	0
Dividends paid	(42,970)	(55,256)	(80,066)	(75,559)	(77,106)
Other financing cash flows	7,23,540	13,53,266	93,100	1,30,732	1,79,330
<b>Cash flow from financing</b>	<b>6,92,870</b>	<b>10,29,790</b>	<b>13,034</b>	<b>55,173</b>	<b>1,02,223</b>
<b>Chg in cash &amp; cash eq.</b>	<b>1,87,810</b>	<b>3,85,300</b>	<b>(37,867)</b>	<b>3,53,029</b>	<b>5,79,785</b>
<b>Closing cash &amp; cash eq.</b>	<b>3,61,780</b>	<b>7,47,080</b>	<b>7,09,213</b>	<b>10,62,242</b>	<b>16,42,027</b>

### Per Share

Y/E 31 Mar (Rs)	FY22A	FY23P	FY24E	FY25E	FY26E
Reported EPS	89.7	98.6	114.7	123.9	150.2
Adjusted EPS	86.4	98.6	114.7	123.9	150.2
Dividend per share	6.7	8.2	11.8	11.2	11.4
Book value per share	1,152.2	1,213.6	1,316.5	1,429.3	1,568.1

### Valuations Ratios

Y/E 31 Mar (x)	FY22A	FY23P	FY24E	FY25E	FY26E
EV/Sales	2.7	2.2	2.4	2.1	1.8
EV/EBITDA	17.4	13.4	11.5	10.4	8.9
Adjusted P/E	28.3	24.8	21.3	19.7	16.3
P/BV	2.1	2.0	1.9	1.7	1.6

### DuPont Analysis

Y/E 31 Mar (%)	FY22A	FY23P	FY24E	FY25E	FY26E
Tax burden (Net profit/PBT)	69.7	70.3	65.1	63.3	63.5
Interest burden (PBT/EBIT)	104.0	92.5	94.9	96.1	99.0
EBIT margin (EBIT/Revenue)	11.5	11.7	15.7	15.1	15.7
Asset turnover (Rev./Avg TA)	49.7	54.8	46.1	50.1	53.2
Leverage (Avg TA/Avg Equity)	1.9	2.0	2.0	2.0	1.9
<b>Adjusted ROAE</b>	<b>7.9</b>	<b>8.3</b>	<b>9.1</b>	<b>9.0</b>	<b>10.0</b>

### Ratio Analysis

Y/E 31 Mar	FY22A	FY23P	FY24E	FY25E	FY26E
<b>YoY growth (%)</b>					
Revenue	49.9	25.6	(8.8)	13.8	13.0
EBITDA	36.8	29.4	16.8	11.2	15.6
Adjusted EPS	33.8	14.2	16.4	8.0	21.2
<b>Profitability &amp; Return ratios (%)</b>					
EBITDA margin	15.8	16.2	20.8	20.3	20.8
EBIT margin	11.5	11.7	15.7	15.1	15.7
Adjusted profit margin	8.3	7.6	9.7	9.2	9.9
Adjusted ROAE	7.9	8.3	9.1	9.0	10.0
ROCE	5.8	6.5	7.0	7.2	8.0
<b>Working capital days (days)</b>					
Receivables	11	11	13	11	10
Inventory	71	75	77	78	80
Payables	83	76	80	67	62
<b>Ratios (x)</b>					
Gross asset turnover	0.9	0.9	0.7	0.7	0.7
Current ratio	1.0	0.9	0.9	1.0	1.1
Net interest coverage ratio	5.5	5.2	5.9	6.5	7.6
<b>Adjusted debt/equity</b>	<b>0.3</b>	<b>0.3</b>	<b>0.3</b>	<b>0.2</b>	<b>0.2</b>

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



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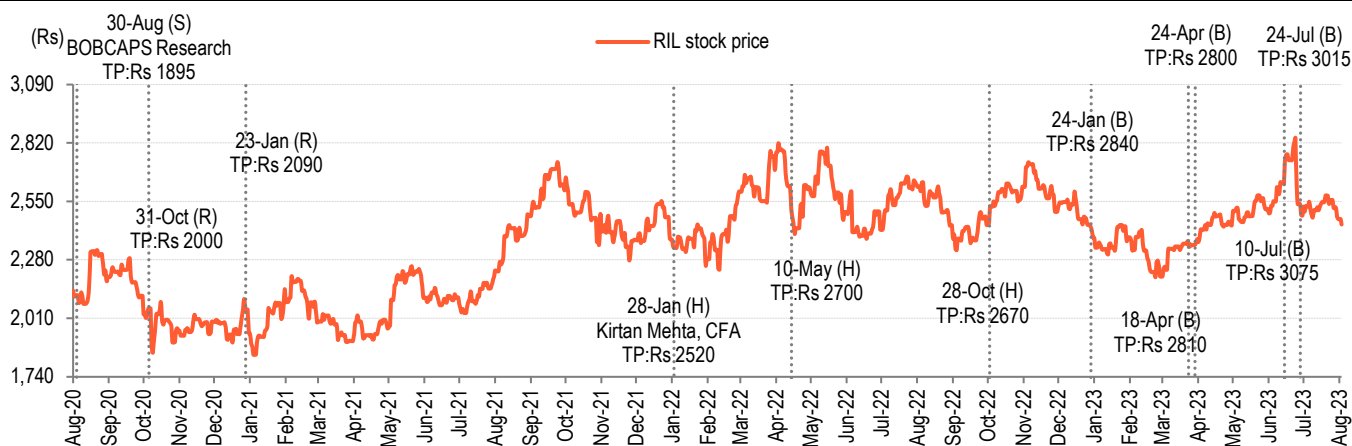
### Recommendation scale: Recommendations and Absolute returns (%) over 12 months

- 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

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