

HOLD

TP: Rs 2,700 | ▲ 4%

RELIANCE INDUSTRIES

Oil & Gas

30 August 2022

AGM takeaways – Growth contours defined

- **Positives from the AGM include a clear succession plan, supercharged 5G rollout, restart of O2C investments, and targets in new energy**
- **No timelines set out for the Jio Digital and Retail listings; new leaders of three arms must prove their mettle to gain investor confidence**
- **We maintain our HOLD rating with a TP of Rs 2,700**

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Key takeaways from RIL's annual general meeting of 29 August:

Positive AGM inputs: Announcement of a succession plan by Chairman Mukesh Ambani is a key positive for a family-managed global corporate like RIL. Further, the company has put in motion a ~Rs 4tn (US\$ 50bn) investment plan entailing, among others, a proposed fast-track nationwide 5G rollout, restart of growth investments in the oil-to-chemicals (O2C) business, and targets for solar and battery giga factories.

Potential areas of concern: While the family succession plan has been laid out, the new leaders will have to prove their mettle to garner investor confidence. RIL's stock price has been building in the listing of Jio Digital Services and Reliance Retail at healthy valuations, but the much-awaited listing timelines went undisclosed at the AGM.

Successful 5G rollout could spark earning upgrades: RIL plans to launch 5G services in key cities by Diwali (Oct'22) and scale up to nationwide rollout (1,000 cities) by Dec'23. Expansion of broadband to 100mn homes and MSMEs could mean a much faster rise in average revenue per user (ARPU), above our assumption of Rs 205 in FY25 at an 8% FY22-FY25E CAGR.

Targets set for new energy: RIL has set targets of 10GW/20GW by 2024/2026 for its integrated solar PV cell and module factory, and 5GW/50GW by 2024/2027 for its integrated battery facility. It has also announced the transition from gray to green hydrogen from 2025, launch of a power electronics gigafactory and entry into bio-energy.

Restarting investment-led growth in O2C: Investments were announced in three chains, including 3mtpa PTA, 1mtpa PET and 1mtpa polyester facilities by 2026, 1.5mtpa PVC expansion and a 20ktpa carbon-fibre plant.

Maintain HOLD: We retain our TP of Rs 2,700 for RIL based on 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 141 for the upstream business, Rs 110 for the digital services venture and Rs 117 for the new energy division.

Key changes

Target	Rating
◀▶	◀▶

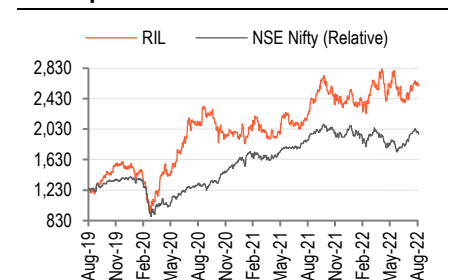
Ticker/Price	RIL IN/Rs 2,598
Market cap	US\$ 224.3bn
Free float	49%
3M ADV	US\$ 248.5mn
52wk high/low	Rs 2,856/Rs 2,180
Promoter/FPI/DII	51%/24%/15%

Source: NSE | Price as of 29 Aug 2022

Key financials

Y/E 31 Mar	FY22P	FY23E	FY24E
Total revenue (Rs mn)	6,999,620	9,271,255	9,784,856
EBITDA (Rs mn)	1,104,600	1,511,727	1,614,411
Adj. net profit (Rs mn)	584,201	784,196	889,882
Adj. EPS (Rs)	86.4	115.9	131.5
Consensus EPS (Rs)	86.4	119.5	137.0
Adj. ROAE (%)	7.9	9.6	10.0
Adj. P/E (x)	30.1	22.4	19.7
EV/EBITDA (x)	18.3	13.3	12.2
Adj. EPS growth (%)	33.8	34.2	13.5

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

Stock performance

Source: NSE



Financials

Income Statement

Y/E 31 Mar (Rs mn)	FY21A	FY22P	FY23E	FY24E	FY25E
Total revenue	4,669,240	6,999,620	9,271,255	9,784,856	10,271,148
EBITDA	807,370	1,104,600	1,511,727	1,614,411	1,771,756
Depreciation	(265,720)	(297,970)	(372,380)	(397,846)	(426,676)
EBIT	541,650	806,630	1,139,346	1,216,566	1,345,079
Net interest inc./(exp.)	(211,890)	(145,840)	(176,399)	(176,399)	(176,399)
Other inc./(exp.)	163,270	149,470	181,190	251,765	309,577
Exceptional items	56,420	28,360	0	0	0
EBT	493,030	810,260	1,144,138	1,291,932	1,478,257
Income taxes	(17,220)	(162,970)	(276,452)	(281,720)	(326,796)
Extraordinary items	0	0	0	0	0
Min. int./Inc. from assoc.	(40,950)	(68,600)	(83,490)	(120,330)	(155,709)
Reported net profit	491,280	607,050	784,196	889,882	995,752
Adjustments	0	0	0	0	0
Adjusted net profit	436,628	584,201	784,196	889,882	995,752

Balance Sheet

Y/E 31 Mar (Rs mn)	FY21A	FY22P	FY23E	FY24E	FY25E
Accounts payables	1,088,970	1,593,300	1,944,582	1,837,862	1,728,949
Other current liabilities	771,750	667,360	995,045	907,278	818,515
Provisions	51,290	37,890	37,890	37,890	37,890
Debt funds	2,747,410	2,939,980	2,939,980	2,939,980	2,939,980
Other liabilities	546,910	857,850	893,429	919,410	953,435
Equity capital	64,450	67,650	67,650	67,650	67,650
Reserves & surplus	6,937,270	7,727,200	8,430,275	9,246,111	10,168,448
Shareholders' fund	7,001,720	7,794,850	8,497,925	9,313,761	10,236,098
Total liab. and equities	13,200,650	14,986,220	16,487,331	17,254,992	18,169,385
Cash and cash eq.	173,970	361,780	1,320,287	1,834,520	2,537,366
Accounts receivables	190,140	236,400	251,337	246,111	242,740
Inventories	816,720	1,077,780	1,269,388	1,211,177	1,151,770
Other current assets	1,699,430	1,364,580	1,364,580	1,364,580	1,364,580
Investments	3,648,280	3,942,640	3,942,640	3,942,640	3,942,640
Net fixed assets	5,310,460	6,147,890	7,155,558	7,600,474	7,914,116
CWIP	1,259,530	1,725,060	1,053,452	925,399	886,083
Intangible assets	102,120	130,090	130,090	130,090	130,090
Deferred tax assets, net	0	0	0	0	0
Other assets	0	0	0	0	0
Total assets	13,200,650	14,986,220	16,487,331	17,254,992	18,169,385

Cash Flows

Y/E 31 Mar (Rs mn)	FY21A	FY22P	FY23E	FY24E	FY25E
Cash flow from operations	(1,520,350)	1,268,730	1,483,388	930,892	1,011,978
Capital expenditures	(489,180)	(1,600,930)	(708,440)	(714,709)	(701,003)
Change in investments	(85,770)	(765,610)	0	0	0
Other investing cash flows	(632,040)	592,750	181,190	251,765	309,577
Cash flow from investing	(1,206,990)	(1,773,790)	(527,250)	(462,943)	(391,426)
Equities issued/Others	1,002,980	3,200	0	0	0
Debt raised/repaid	(354,780)	9,100	0	0	0
Interest expenses	0	0	0	0	0
Dividends paid	(45,840)	(54,120)	(81,121)	(74,045)	(73,415)
Other financing cash flows	1,989,750	734,690	83,490	120,330	155,709
Cash flow from financing	2,592,110	692,870	2,369	46,285	82,294
Chg in cash & cash eq.	(135,230)	187,810	958,507	514,234	702,846
Closing cash & cash eq.	173,970	361,780	1,320,287	1,834,520	2,537,366

Per Share

Y/E 31 Mar (Rs)	FY21A	FY22P	FY23E	FY24E	FY25E
Reported EPS	76.2	89.7	115.9	131.5	147.2
Adjusted EPS	64.5	86.4	115.9	131.5	147.2
Dividend per share	6.1	8.4	12.0	10.9	10.9
Book value per share	1,086.4	1,152.2	1,256.2	1,376.8	1,513.1

Valuations Ratios

Y/E 31 Mar (x)	FY21A	FY22P	FY23E	FY24E	FY25E
EV/Sales	4.4	2.9	2.2	2.0	1.8
EV/EBITDA	25.2	18.3	13.3	12.2	10.7
Adjusted P/E	40.2	30.1	22.4	19.7	17.6
P/BV	2.4	2.3	2.1	1.9	1.7

DuPont Analysis

Y/E 31 Mar (%)	FY21A	FY22P	FY23E	FY24E	FY25E
Tax burden (Net profit/PBT)	79.5	69.7	68.5	68.9	67.4
Interest burden (PBT/EBIT)	101.4	104.0	100.4	106.2	109.9
EBIT margin (EBIT/Revenue)	11.6	11.5	12.3	12.4	13.1
Asset turnover (Rev./Avg TA)	37.6	49.7	58.9	58.0	58.0
Leverage (Avg TA/Avg Equity)	2.2	1.9	1.9	1.9	1.8
Adjusted ROAE	7.6	7.9	9.6	10.0	10.2

Ratio Analysis

Y/E 31 Mar	FY21A	FY22P	FY23E	FY24E	FY25E
YoY growth (%)					
Revenue	(21.9)	49.9	32.5	5.5	5.0
EBITDA	(9.3)	36.8	36.9	6.8	9.7
Adjusted EPS	(0.3)	33.8	34.2	13.5	11.9
Profitability & Return ratios (%)					
EBITDA margin	17.3	15.8	16.3	16.5	17.2
EBIT margin	11.6	11.5	12.3	12.4	13.1
Adjusted profit margin	9.4	8.3	8.5	9.1	9.7
Adjusted ROAE	7.6	7.9	9.6	10.0	10.2
ROCE	5.7	5.8	7.1	7.3	7.4
Working capital days (days)					
Receivables	15	11	10	9	9
Inventory	95	72	113	109	95
Payables	97	83	83	84	77
Ratios (x)					
Gross asset turnover	0.6	0.9	1.0	0.9	0.9
Current ratio	1.0	1.0	1.1	1.3	1.6
Net interest coverage ratio	2.6	5.5	6.5	6.9	7.6
Adjusted debt/equity	0.4	0.3	0.2	0.1	0.0

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

Disclaimer

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

BUY – Expected return >+15%

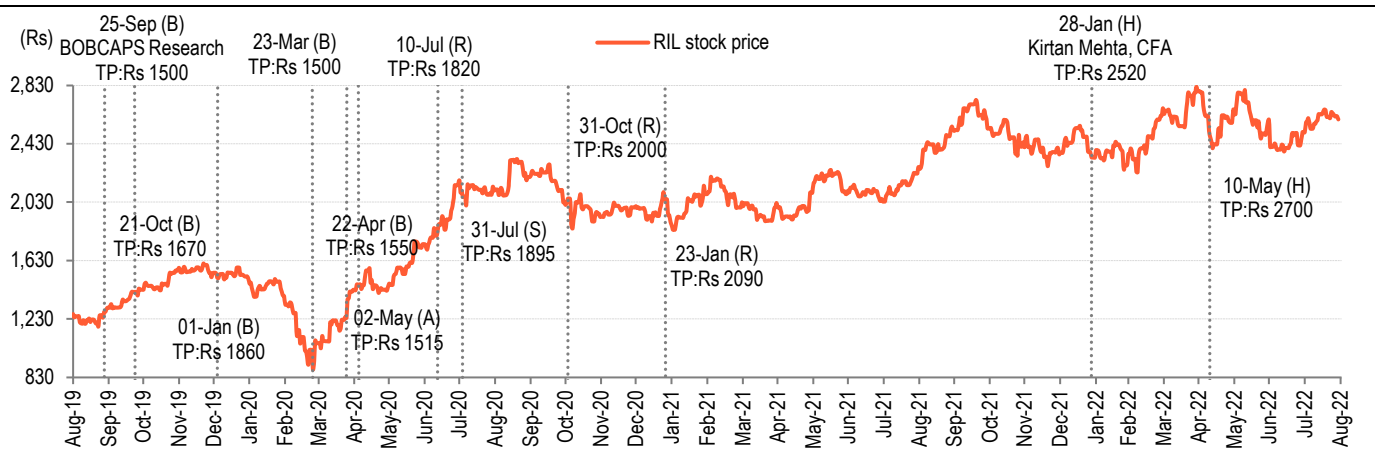
HOLD – Expected return from -6% to +15%

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

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