RESULT REVIEW

BOBCAPS
TRUST | INNOVATION | EXCELLENCE

HOLD

TP: Rs 2,700 | ▲ 12%

RELIANCE INDUSTRIES | Oil & Gas | 27 July 2022

Refining upside capped; roadmap for new energy next catalyst

- **RIL captured upsides in refining margin and gas prices in Q1, but an increase in tax rate and Jio depreciation resulted in a miss on net income**
- **Refining upside is capped by ad hoc revisions; roadmap for new energy business and digital/retail listing are key upside triggers**
- **TP unchanged at Rs 2,700; retain HOLD given 12% upside potential**

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EBITDA in line but miss on net income: While Q1FY23 EBITDA at Rs 380bn was broadly in line with consensus, net income at Rs 180bn was 17% below. EBITDA increased by Rs 65bn QoQ as RIL captured upsides from refining margin and higher gas prices. The miss on net income was largely due to an increase in depreciation charge for Jio and a higher tax rate on lower availability of tax credits and incentives.

Export duty limits refining upside: While exemption of the SEZ refinery has substantially lowered exposure to windfall tax to ~20% of refining yield, ad hoc adjustments to export duty are likely to cap any material upside. Although our proxy GRM indicator has seen a sharp pullback to US$ 11/bbl from US$ 25/bbl ahead of shoulder season, we believe refining tightness will resurface in winter. We retain our GRM forecast at US$ 12/US$ 9.5 for FY23/FY24 given the tight market balance.

Estimates revised down: We lower our FY23/FY24/FY25 net income forecasts by 3.4%/4%/2.8% factoring in the Q1 results. We now expect 17% annual growth in EBITDA over FY22-FY25 driven by a 6% CAGR for the cyclical business and a 26% CAGR for the consumer business.

Key catalysts: Announcement of a clear roadmap with business targets for the green energy giga complex will be a key catalyst for the stock. For retail business, delivery on retail revenue growth in the upcoming festive season offers a near-term milestone. For digital services, rollout of the 5G network is the next key milestone. For oil & gas, increase in gas realisation and ramp-up of MJ field are key triggers. Listing of the digital and retail businesses is another medium-term catalyst for the stock with three years of the company's targeted five-year timeline behind us.

Maintain HOLD: We maintain 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. Retain HOLD given mere 12% upside potential. TP unchanged as increase in value of energy business offsets decrease in consumer business.

Key changes

Target	Rating
◀▶	◀▶

Ticker/Price	RIL IN/Rs 2,419
Market cap	US$ 204.8bn
Free float	49%
3M ADV	US$ 275.9mn
52wk high/low	Rs 2,856/Rs 2,016
Promoter/FPI/DII	51%/24%/15%

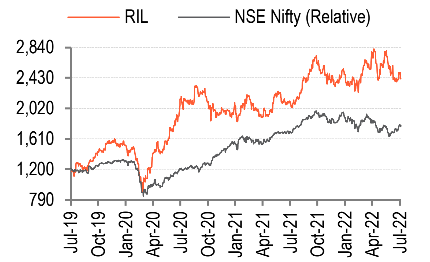
Source: NSE | Price as of 27 Jul 2022

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)	28.0	20.9	18.4
EV/EBITDA (x)	17.2	12.5	11.4
Adj. EPS growth (%)	33.8	34.2	13.5

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

Stock performance



Source: NSE

Q1 net income disappoints

While EBITDA excluding other income at Rs 380bn was broadly in line with consensus, net income at Rs 180bn was 17% below.

- EBITDA was up by Rs 65bn QoQ (+21%) with the largest contributions coming from O2C (Rs 57bn) and oil & gas (Rs 11.8bn).
- The miss on net income was due to an increase in tax rate to 28.6% as well as higher depreciation and finance expenses. The company attributed the increased tax rate to lower available tax credits and incentives.
- Net debt also rose to Rs 577bn from Rs 348bn at Q4-end with higher working capital.

Fig 1 – Quarterly performance

(Rs bn)	Q1FY23	Q4FY22	QoQ (%)	Q1FY22	YoY (%)	FY22	FY21	YoY (%)
Consolidated P&L								
Revenue	2,231	2,119	5.3	1,444	54.5	7,216	4,863	48.4
EBITDA excl other income	380	314	21.1	234	62.6	1,105	807	36.8
Net income adjusted	194	180	7.9	138	40.8	650	481	35.2
Net income share of minority	180	162	10.8	123	46.3	579	435	33.1
EBITDA mix								
Oil to Chemicals	199	142	39.7	122	62.6	527	382	38.1
Oil and Gas	27	16	75.9	8	243.4	55	3	2015.1
Retail	38	37	3.7	20	97.1	124	98	26.2
Digital Services	117	112	4.4	93	26.3	403	340	18.3
Others	14	28	(50.2)	15	(10.3)	79	64	23.4
Segment EBITDA	**396**	**335**	**18.1**	**258**	**53.4**	**1,187**	**887**	**33.9**
Delta	7	3	-	18	-	67	84	-
Consolidated EBITDA (Reported)	**402**	**338**	**19.0**	**276**	**45.9**	**1,254**	**971**	**29.2**

Source: Company, BOBCAPS Research

Fig 2 – Quarterly operational indicators

Parameter	Unit	Q1FY23	Q4FY22	QoQ (%)	Q1FY22	YoY (%)
Digital Services						
Customer base	mn	419.9	410.2	2.4	440.6	(4.7)
Net customer additions	mn	9.7	(10.9)		14.3	
ARPU adj for IUC	Rs/month	175.7	167.6	4.8	138.4	27.0
Retail						
Revenue	Rs bn	516	508	1.5	336	53.7
Core revenue	Rs bn	328	334	(1.8)	201	62.9
EBITDA margin excl investment income	%	7.6	7.1		4.1	
Total store count	Nos	15,866	15,196	4.4	12,803	23.9
Total store area	mn sqft	45.5	41.6	9.4	34.5	31.9
Oil to Chemicals						
Feedstock throughput	mt	19.8	19.3	2.6	19.0	4.2
Production meant for sale	mt	16.9	17.3	(2.3)	16.5	2.4
Transportation fuels	mt	10.5	10.7	(1.9)	9.8	7.1

Parameter	Unit	Q1FY23	Q4FY22	QoQ (%)	Q1FY22	YoY (%)
Oil and Gas						
Production	BCFe	43.2	40.4	6.9	42.3	2.1
KG-D6 gas production	mmscmd	19.0	18.0	5.6	16.6	14.5
KG-D6 realisation	US$/MMbtu	9.7	6.1	58.6	3.6	168.5

Source: Company, BOBCAPS Research

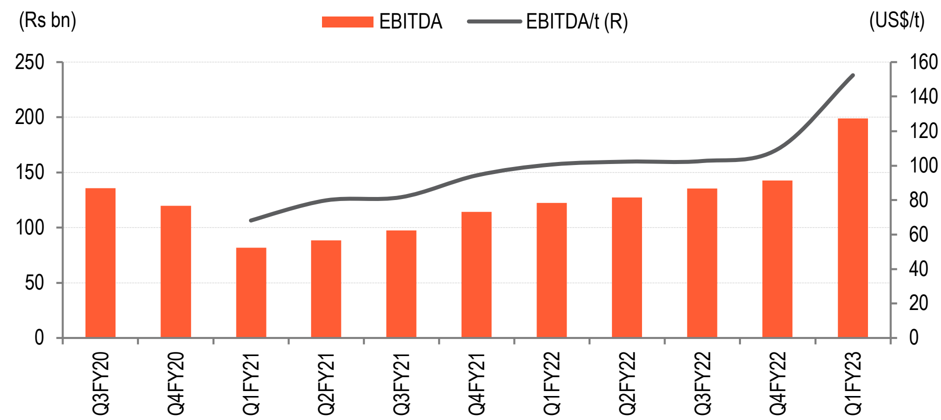
Oil-to-Chemicals

O2C clocked highest-ever quarterly EBITDA

O2C EBITDA increased 40% QoQ to Rs 199bn in Q1FY23 – a record quarterly profit for RIL.

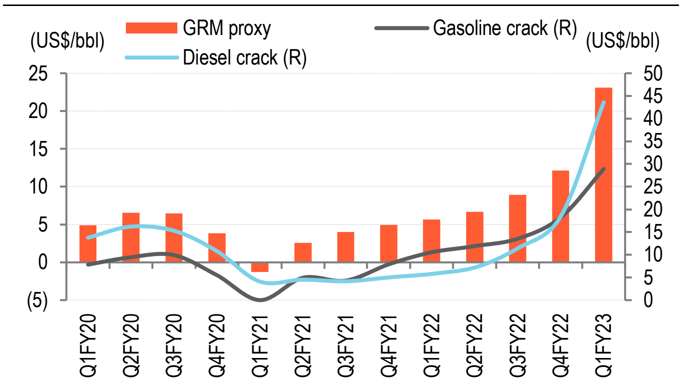
- In refining, we estimate that RIL earned a GRM of US$ 17-19/bbl against our proxy indicator of US$ 23/bbl. The company highlighted that the benefit of strong fuel cracks was partially offset by higher Asian OSPs (official selling prices), higher energy cost, fuel retailing losses and the impact of turnaround at the DHDS plant.
- In chemicals, with the sharp correction in naphtha cracks, we estimate that the average petrochemicals gross margin improved to US$ 280-320/t, benefitting from improvement in polymer margins and a rebound in the PX supporting polymer chain.

Fig 3 – O2C: Record quarterly EBITDA on strong refining margin



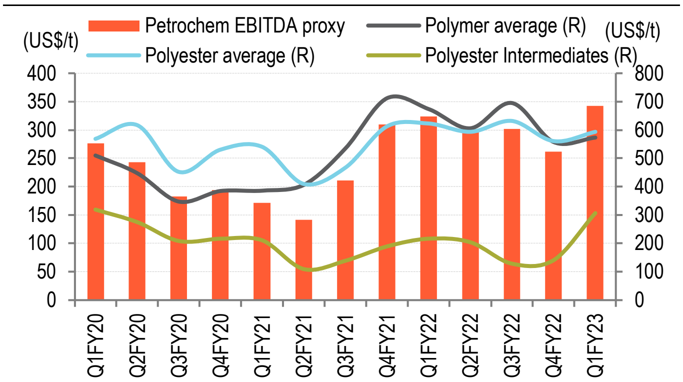
Source: Company, BOBCAPS Research

Fig 4 – Refining GRM (proxy indicator) rose to a record high on strong transportation cracks



Source: Company, BOBCAPS Research

Fig 5 – Petrochemicals EBITDA (proxy indicator) recovered with a sharp decline in naphtha cracks



Source: Company, BOBCAPS Research

Export duty limits potential upside from tight refining market

While RIL's current exposure to export duty is relatively modest, ad hoc and periodic revisions to the export duty rate to align with external market conditions increase the uncertainty and are likely to limit potential benefits of a tight refining market.

The company's exposure to windfall tax has reduced to less than 20% of refining yield after exemption of its SEZ refinery and gasoline exports and accounting for domestic market obligations. At the current windfall tax rate of US$ 22/bbl on diesel exports and US$ 8/bbl on jet fuel exports, the impact of export duty could be up to US$ 3.5/bbl. Here, we assume that RIL earns trade parity price while selling to the domestic market and that domestic realisation does not drop to the export parity price.

Refining margins ease but tightness likely to return in winter months

With the US summer season ending in early August, we have seen a sharp pullback in gasoline cracks to US$ 12-13/bbl. Gasoil cracks have also fallen below US$ 40/bbl. This drags down our proxy refining margin indicator for RIL to US$ 11/bbl from US$ 26/bbl levels in June.

We believe the current easing reflects entry into the shoulder period when diesel and gasoline do not exert a demand pull on the refining system. The pullback also reflects economic concerns, better-than-expected Russian product flows and the return of refineries from maintenance.

We expect the refining system to once again experience tightness in winter with the increase in demand pull from diesel. Tightness in the natural gas market will transmit to product markets in two forms – it increases diesel demand for substitution of natural gas and also raises the cost of low-sulphur diesel production by increasing the cost of hydrogen production needed to run DHDS units in refineries.

Refining outlook for RIL remains muted

Keeping in mind a tight refining system and uncertainty related to changes in export duty, we retain our forecast for RIL's GRM at US$ 12/bbl in FY23, easing to mid-cycle levels of US$ 9.5/bbl in FY24. We forecast 35% YoY growth in O2C EBITDA for FY23 but assume a 17% pullback in FY24 as refining margins ease.

Oil & Gas

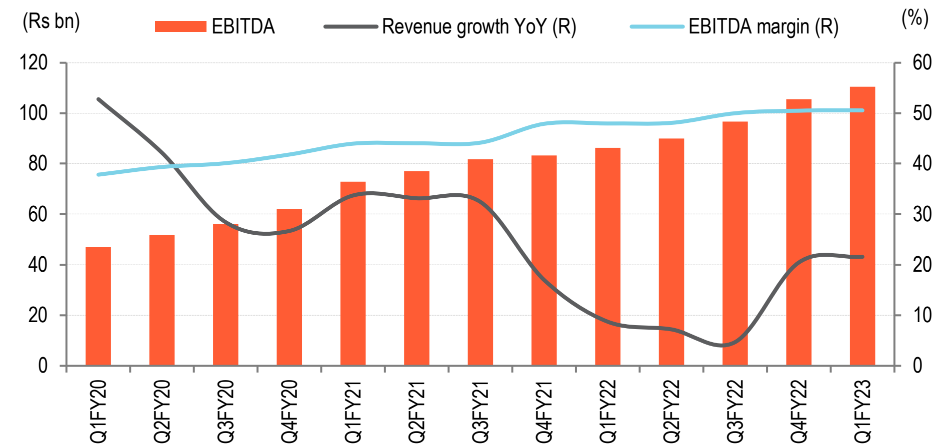
Oil & gas business EBITDA increased 76% QoQ to Rs 27bn in Q1 with a 59% QoQ rise in gas realisation and a marginal increase in KGD6 gas production to 19mmscmd. We expect oil & gas EBITDA to grow 2.7x over FY22-FY24 supported by higher gas realisation from Oct'22 and start-up of the MJ field in Q3.

- We assume an increase in natural gas realisation from US$ 4.9/MMBtu in FY22 to US$ 10.7/US$ 9 in FY23/FY24. For the MJ field, we assume start-up in Dec'22 and ramp-up to full production level of close to 12mmscmd over the following six months. We forecast KGD6 production at 29mmscmd for FY24.

Digital services

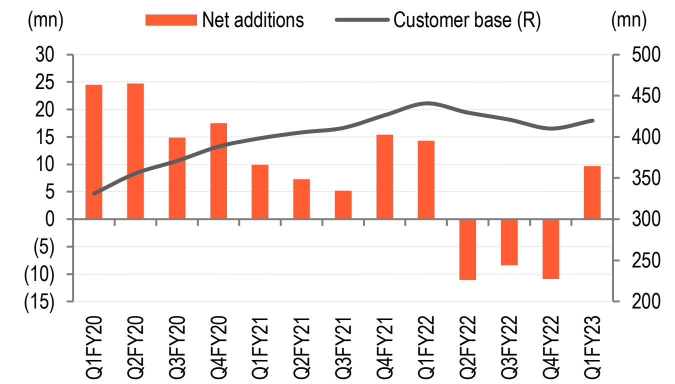
Digital services EBITDA grew 4% QoQ to Rs 117bn in Q1 on the back of a 5% ARPU increase to Rs 175.7, capturing the benefit of tariff hikes in Dec'21. After three quarters of user base consolidation, Jio finally reported net customer additions at 9.7mn.

Fig 6 – Jio Infocomm – steady she goes



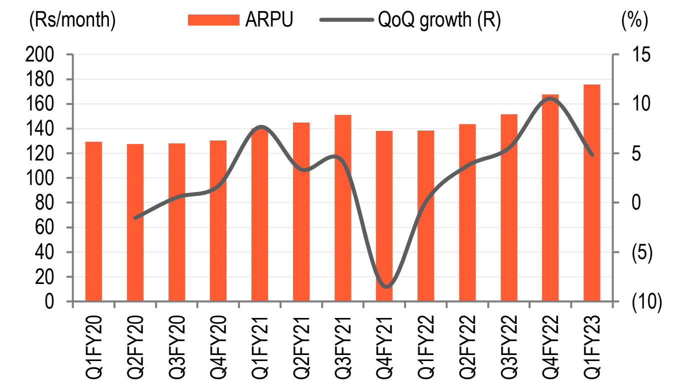
Source: Company, BOBCAPS Research

Fig 7 – Jio Infocomm resumes subscriber net addition after three quarters of consolidation



Source: Company, BOBCAPS Research

Fig 8 – Jio Infocomm ARPU grows above Rs 175 with a tariff hike taken in Dec'21



Source: Company, BOBCAPS Research

We model for 23.7% annual growth in digital services EBITDA over FY22-FY25 on the back of increasing service penetration.

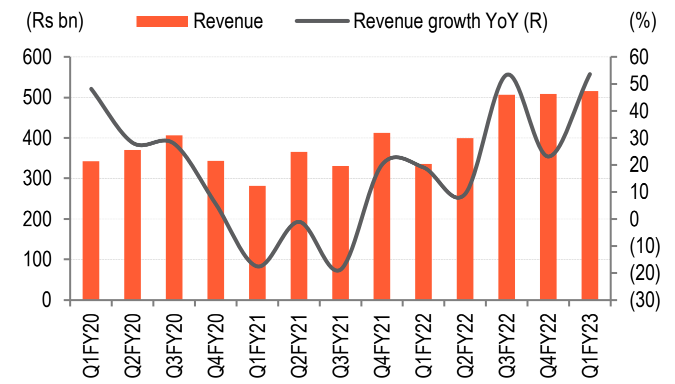
- We expect net additions to continue at a healthy pace of 35mn subscribers p.a. over FY23 and FY24 before slowing down to a 20mn run rate in FY25.
- After a 20% hike in ARPU over the past two quarters, we assume limited incremental improvement in FY23 to Rs 178. Given consolidation of the industry into three private players, we are factoring in 8% annual hikes in ARPU to reach a level of Rs 208 in FY25.
- The next catalyst for Jio is the rollout of 5G services towards the end of FY23 or in FY24, driving acceleration in ARPU.

Retail

Retail EBITDA was up 4% QoQ to Rs 38.5bn in Q1. All the verticals clocked 2-3x YoY revenue growth in the first fully normalised quarter, albeit on a lower base of last year impacted by Covid restrictions. Digital and new commerce share increased to 19% of gross revenue. RIL flagged the fact that consumer sentiment is turning cautious on discretionary spends due to inflationary concerns.

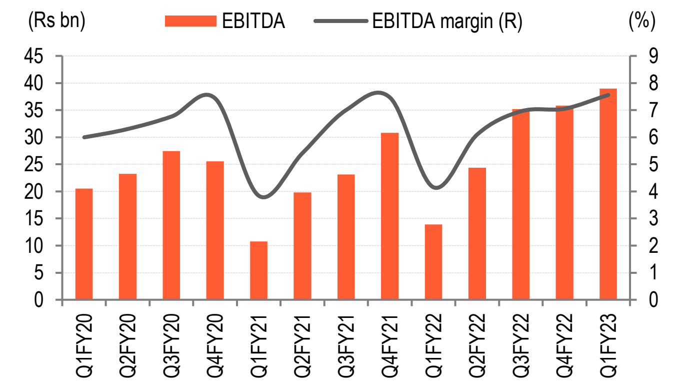
The company continues to expand its footprint in retail, adding 792 new stores and 3.3mn sqft of warehousing and fulfilment area, besides strengthening capabilities with partnerships and acquisitions.

Fig 9 – Retail successfully maintained revenue at Q3 levels (peak festive quarter)



Source: Company, BOBCAPS Research

Fig 10 – Retail EBITDA margin improved with a rebound in consumer electronics and fashion & lifestyle



Source: Company, BOBCAPS Research

We forecast 34.5% annual growth in retail EBITDA over FY22-FY25.

- We assume three-fold revenue growth over four years between FY21 and FY25 (vs. RIL's target of 3-5 years). Growth would be driven by expansion of physical stores, integration of acquisitions, digital commerce with stores, and merchant partnerships.
- We expect EBITDA margin to recover from 6.2% in FY22 to 7.7% in FY25 as the retail business leverages its large scale and national presence and also integrates premium brands and partnerships.

Valuation methodology

Forecast revisions

We cut our FY23/FY24/FY25 net income forecasts by 3.4%/4.0%/2.8% factoring in the increased depreciation charge for Jio commensurate with higher network utilisation, increased finance cost owing to higher net debt, and rise in tax rate due to the lower availability of tax credits and incentives.

Fig 11 – Revised estimates

(Rs bn)	Actual	New			Old			Change (%)		
	FY22P	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E
Revenue	7,000	9,271	9,785	10,271	9,195	9,716	10,247	0.8	0.7	0.2
EBITDA	1,105	1,512	1,614	1,772	1,490	1,631	1,796	1.5	(1.0)	(1.3)
EBITDA margin (%)	15.8	16.3	16.5	17.2	16.2	16.8	17.5	-	-	-
Adj. PAT	579	784	890	996	812	927	1,025	(3.4)	(4.0)	(2.8)
PAT margin (%)	8.3	8.5	9.1	9.7	8.8	9.5	10.0	-	-	-
EPS (Rs)	85.5	115.9	131.5	147.2	120.0	137.0	151.5	(3.4)	(4.0)	(2.8)

Source: Company, BOBCAPS Research

For FY23, while our revised EBITDA is 6% ahead of consensus, indicating a less conservative view on earnings from O2C, our net income is broadly in line with consensus. For FY24, our EBITDA is broadly in line, but net income is 3% below. Comparison with FY25 consensus figures is not meaningful at this juncture owing to the limited number of estimates available.

Fig 12 – Estimates vs. Consensus

(Rs bn)	Forecasts			Consensus			Delta to consensus (%)		
	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E
Revenue	9,271	9,785	10,271	8,788	9,137	9,152	5.5	7.1	12.2
EBITDA	1,512	1,614	1,772	1,425	1,599	1,662	6.1	0.9	6.6
Adj. PAT	784	890	996	791	918	970	(0.9)	(3.1)	2.7
EPS (Rs)	115.9	131.5	147.2	119.5	137.0	152.0	(3.0)	(4.0)	(3.1)

Source: Bloomberg, BOBCAPS Research

We now expect 17% annual growth in EBITDA over FY22-FY25 driven by a 6% CAGR for the cyclical business and a 26% CAGR for the consumer business. In our view, growth will be primarily led by demand traction in both consumer-facing businesses (telecom and retail) and a ramp-up of gas production from the MJ field. While we build in a surge in refining profit in FY23, we currently assume that margins will normalise to a healthy cyclical average by FY24.

Fig 13 – RIL EBITDA mix

	FY21	FY22P	FY23E	FY24E	FY25E	FY22/25E CAGR
EBITDA (Rs bn)						
O2C	367	514	691	574	587	-
Oil & Gas	2	55	120	147	97	-
Cyclical subtotal	**368**	**568**	**811**	**721**	**685**	**-**
Digital Services	334	394	497	627	746	-
Retail	98	124	164	227	301	-
Consumer subtotal	**432**	**518**	**660**	**854**	**1,047**	**-**
Others	8	18	40	40	40	-
Consolidated business EBITDA	**807**	**1,105**	**1,512**	**1,614**	**1,772**	**-**
EBITDA YoY growth (%)						
O2C	(31.0)	40.2	34.5	(16.9)	2.4	4.6
Oil & Gas	(87.9)	3410.6	120.7	21.8	(33.7)	21.2
Cyclical subtotal	**(32.3)**	**54.4**	**42.8**	**(11.2)**	**(5.0)**	**6.4**
Digital Services	48.2	18.2	25.9	26.2	19.1	23.7
Retail	1.4	26.5	32.1	38.9	32.5	34.5
Consumer subtotal	**34.1**	**20.1**	**27.4**	**29.3**	**22.6**	**26.4**
Consolidated	**(9.3)**	**36.8**	**36.9**	**6.8**	**9.7**	**17.1**
EBITDA composition (% of total)						
O2C	45.4	46.5	45.7	35.6	33.2	-
Oil & Gas	0.2	4.9	8.0	9.1	5.5	-
Cyclical subtotal	**97.6**	**102.0**	**102.0**	**82.7**	**74.1**	**-**
Digital Services	41.3	35.7	32.9	38.8	42.1	-
Retail	12.1	11.2	10.8	14.1	17.0	-
Consumer subtotal	**53.5**	**46.9**	**43.7**	**52.9**	**59.1**	**-**

Source: Company, BOBCAPS Research

Fig 14 – Key assumptions

Parameter	Unit	FY21	FY22P	FY23E	FY24E	FY25E
Exchange rate	INR/USD	74.2	74.5	79.3	80.9	82.5
Energy						
Oil price	US$/bbl	45.8	80.0	100.0	90.0	80.0
Refining margin	US$/bbl	6.0	8.0	12.0	9.5	9.5
Petrochem EBITDA	US$/t	203	272	255	218	216
O2C throughput	mt	63.6	68.2	71.0	71.0	71.0
Gas realisation- KG D6	US$/mmbtu	3.8	4.9	10.7	9.0	6.0
Gas production- KG D6	mmscmd	1.8	17.7	20.0	29.0	29.0
Jio						
No of subscribers	mn	426	410	445	479	499
ARPU	Rs	144	150	178	193	208
Retail						
Revenue growth	% YoY	(5.3)	27.8	32.7	31.8	28.1
EBITDA margin	%	5.9	6.2	7.0	7.4	7.7

Source: Company, BOBCAPS Research

Maintain HOLD with TP of Rs 2,700

We maintain 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. We also include Rs 141 for the upstream business, Rs 110 for the digital services venture and Rs 117 for the new energy division.

We raise the value of the cyclical business to Rs 1,029/sh (from Rs 929), factoring in the benefits of rupee depreciation and increase in option value of the new energy business from US$ 4bn to US$ 10bn given progress on (a) tie-up of technological partnerships for launching the solar cell giga factory and (b) a blueprint for conversion of carbon-intense feedstocks into chemicals and clean energy. The increase is partly offset by a downward revision to our valuation of consumer businesses to Rs 1,738/sh (from Rs 1,805) following adjustments to earnings estimates. Our target multiples for all businesses remain unchanged.

Given that consumer-facing businesses form ~50% of RIL's EBITDA and have high growth potential, our valuation implies a target FY23E P/E of 23.3x and FY24E P/E of 20.5x.

Fig 15 – Valuation summary

Business (Rs bn)	Fair Value (US$ bn)	Fair Value (Rs bn)	Value/share (Rs)	Valuation basis
Energy				
Refining	32	2,404	378	7.5x FY24E EBITDA
Petrochem	33	2,496	393	8.5x FY24E EBITDA
Upstream	12	894	141	Combination of DCF and reserve multiple
New energy	10	745	117	Option value
Energy total	**88**	**6,539**	**1,029**	**-**
Jio	56	4,154	654	10x FY24E EBITDA, RIL share
Digital Services	9	701	110	6x FY25E Sales, discounted to FY23, RIL share
Reliance Retail	83	6,185	974	32x FY24E EBITDA, RIL share
Consumer business total	**148**	**11,040**	**1,738**	**-**
Enterprise value	**236**	**17,579**	**2,767**	**-**
Net Debt	12	910	143	-
Marketable securities	7	491	77	At 80% of BV
Equity value	**231**	**17,191**	**2,701**	**20.5x FY24E EPS**
TP (rounded to nearest Rs 5)	-	-	2,700	**-**

Source: BOBCAPS Research

Oil-to-Chemicals

We value RIL's refining and chemicals businesses at one-year forward EV/EBITDA multiples of 7.5x and 8.5x respectively (both unchanged). Our multiples are at a premium to global peers (4.5-4.9x on CY22/FY23 in refining and 5.9-6.5x on CY22 in petrochem), which reflects RIL's highly integrated operations and consistent delivery of stronger margins than peers, its flexibility to switch between transportation fuels and petrochemical output and also 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 16 – Global refining peers

Company	Bloomberg Code	Maket Cap (US$bn)	Price Currency	Current Price	P/E (x)		P/B (x)		EV/EBITDA (x)	
					CY22E/ FY23E	CY23E/ FY24E	CY22E/ FY23E	CY23E/ FY24E	CY22E/ FY23E	CY23E/ FY24E
Phillips 66	PSX US	41.4	USD	86.0	6.0	8.4	1.5	1.3	4.6	5.9
Valero Energy	VLO US	43.9	USD	107.6	5.1	8.2	1.7	1.4	4.1	4.8
Marathon Petroleum	MPC US	47.6	USD	88.0	5.2	9.9	1.8	1.8	4.1	5.7
S-Oil	010950 KS	0.8	KRW	93,000	3.6	5.7	1.1	1.0	2.7	3.7
Sk Innovation	096770 KS	1.3	KRW	182,500	6.1	8.1	0.8	0.7	4.6	5.7
IRPC	IRPC TB	1.8	THB	3.26	11.6	10.9	0.7	0.7	6.3	6.4
Thai Oil	TOP TB	2.8	THB	51.25	4.6	8.4	0.8	0.7	5.9	8.8
Eneos Holdings	5020 JP	12.0	JPY	509.1	6.2	7.1	0.5	0.5	6.0	6.5
Idemitsu Kosan	5019 JP	7.3	JPY	3,335	4.8	6.5	0.6	0.6	5.6	6.7
Weighted Average	**-**	**158.9**	**-**	**-**	**5.5**	**8.6**	**1.5**	**1.4**	**4.5**	**5.7**
Simple Average	**-**	**-**	**-**	**-**	**5.9**	**8.1**	**1.1**	**1.0**	**4.9**	**6.0**
Median	**-**	**-**	**-**	**-**	**5.2**	**8.2**	**0.8**	**0.7**	**4.6**	**5.9**

Source: Bloomberg, BOBCAPS Research

Fig 17 – Global petrochemicals peers

Company	Bloomberg Code	Maket Cap (US$bn)	Price Currency	Current Price	P/E (x)		P/B (x)		EV/EBITDA (x)	
					CY22E	CY23E	CY22E	CY23E	CY22E	CY23E
LG Chem	051910 KS	3.0	KRW	565,000	16.7	13.1	1.4	1.3	6.8	5.7
Lotte Chemical	011170 KS	0.5	KRW	172,500	14.2	6.8	0.4	0.4	5.9	3.7
Sk Innovation	096770 KS	1.3	KRW	182,500	6.1	8.1	0.8	0.7	4.6	5.7
S-Oil	010950 KS	0.8	KRW	93,000	3.6	5.7	1.1	1.0	2.7	3.7
Wanhua Chemical	600309 CH	39.6	CNY	85.25	11.6	9.8	3.1	2.5	8.5	7.1
IRPC	IRPC TB	1.8	THB	3.26	11.6	10.9	0.7	0.7	6.3	6.4
Formosa Plastics	1301 TT	19.2	TWD	90.2	8.9	10.0	1.4	1.4	10.8	10.0
Petronas Chemicals	PCHEM MK	15.5	MYR	8.64	9.2	10.5	1.8	1.7	5.7	6.1
Indorama Ventures	IVL TB	6.7	THB	43.75	6.7	7.2	1.3	1.1	6.0	5.7
Lyondellbasell	LYB US	28.6	USD	87.18	5.3	5.5	2.1	1.8	4.5	4.6
Dow	DOW US	36.8	USD	51.3	6.4	7.4	1.9	1.7	4.3	4.7
Weighted Average	**-**	**153.7**	**-**	**-**	**8.4**	**8.5**	**2.1**	**1.8**	**6.5**	**6.2**
Simple Average	**-**	**-**	**-**	**-**	**8.4**	**8.2**	**1.5**	**1.3**	**6.0**	**5.8**
Median	**-**	**-**	**-**	**-**	**7.8**	**7.8**	**1.4**	**1.3**	**5.9**	**5.7**

Source: Bloomberg, BOBCAPS Research

Digital Services

While we value Jio Infocomm's wireless, wireline and enterprise business at 10x FY24E EBITDA (unchanged), we value its venture into digital services (part of Jio Platforms) at 6x FY25E Sales (unchanged), discounted back to Mar'23. Our target multiple for the Jio Infocomm telecom business is at a premium of ~28% 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 18 – Indian telecom peers

Company	Bloomberg Code	Market Cap (US$ bn)	Price Currency	Current Price	P/E (x)		P/B (x)		EV/EBITDA (x)	
					FY23E	FY24E	FY23E	FY24E	FY23E	FY24E
Bharti Airtel	BHARTI IN	48.4	INR	674.9	31.4	20.3	4.6	3.7	7.8	6.5
Vodafone Idea	IDEA IN	3.5	INR	8.75	NA	NA	NA	NA	11.0	9.9

Source: Bloomberg, BOBCAPS Research

Given that digital services are at a relatively nascent stage, we value the business at 6x 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 multiple of 32x compares with the average/median FY23 multiple of 37.9-38.3x 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 19 – Indian retail peers

Company	Bloomberg Code	Market Cap (US$ bn)	Price Currency	Current Price	P/E (x)		P/B (x)		EV/EBITDA (x)	
					FY23E	FY24E	FY23E	FY24E	FY23E	FY24E
Trent	TRENT IN	5.6	INR	1,254	125.2	83.8	16.2	13.6	44.6	34.3
Avenue Supermarkets	DMART IN	32.4	INR	4,001	101.9	78.0	16.0	13.3	65.4	50.7
Titan	TTAN IN	25.6	INR	2,304	69.2	56.0	17.8	14.4	46.1	38.7
Jubilant Foodworks	JUBI IN	4.6	INR	559	63.2	49.1	15.4	12.9	27.7	23.1
Aditya Birla Fashion and Retail	ABFRL IN	3.1	INR	268	91.6	55.4	7.9	6.2	16.2	12.6
V-Mart Retail	VMART IN	0.7	INR	2,758	132.9	67.1	6.1	5.6	NA	NA
Shoppers Stop	SHOP IN	0.8	INR	584	233.7	53.3	49.6	28.5	NA	NA
Bata India	BATA IN	2.9	INR	1,829	54.7	44.2	13.2	11.0	29.7	24.5
Relaxo Footwears	RLXF IN	3.1	INR	980	NA	NA	NA	NA	NA	NA
Weighted Average	**-**	**78.8**	**-**	**-**	**89.6**	**66.7**	**16.4**	**13.4**	**51.4**	**41.0**
Simple Average	**-**	**-**	**-**	**-**	**109.1**	**60.9**	**17.8**	**13.2**	**38.3**	**30.7**
Median	**-**	**-**	**-**	**-**	**90.6**	**55.7**	**15.7**	**13.1**	**37.9**	**31.6**

Source: Company, BOBCAPS Research

New Energy

We assign an option value of US$10bn (up from US$ 4bn from the new energy business, which is 100% (40%) of the US$ 10bn investment committed by RIL over FY22-FY24. The increase in option value reflects the progress on (a) tie-up of technological partnerships for launching the solar cell giga factory and (b) a blueprint for conversion of carbon-intense feedstocks into chemicals and clean energy.

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 the demand-supply balance are key upside risks.
- **Digital Services:** Upside risks in this business are higher growth in subscriber base, faster rise in average tariffs, better operating margin and faster pickup of digital services than our assumptions.
- **Reliance Retail:** Above-expected revenue growth driven by faster economic growth as well as gaining of market share against organised retail and competition are primary upside risks. Lower competitive intensity can also push operating margin above our current assumptions. RIL has invested more than US$ 1bn in acquiring assets and capabilities and the pace of integration will pose added risks.
- **New energy business:** Faster evolution of new energy businesses and integration with existing businesses than our current expectations is a key upside risk.
- **Corporate risk:** Succession planning with orderly transfer of management control to next generation is key for continuity. RIL has initiated the process elevating Akash Ambani as Chairman of Reliance Jio Infocomm and elevating a professional manager, Pankaj Pawar as Managing Director.

Sector recommendation snapshot

Company	Ticker	Market Cap (US$ bn)	Price (Rs)	Target (Rs)	Rating
Bharat Petroleum Corp	BPCL IN	8.8	325	450	BUY
GAIL	GAIL IN	8.3	147	160	BUY
Gujarat State Petronet	GUJS IN	1.6	229	270	BUY
Hindustan Petroleum Corp	HPCL IN	4.1	233	410	BUY
Indian Oil Corp	IOCL IN	8.5	72	150	BUY
Indraprastha Gas	IGL IN	3.1	353	565	BUY
ONGC	ONGC IN	20.2	129	135	BUY
Petronet LNG	PLNG IN	4.2	224	330	BUY
Reliance Industries	RIL IN	204.8	2,419	2,700	HOLD

Source: BOBCAPS Research, NSE | Price as of 27 Jul 2022

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	4.1	2.7	2.0	1.9	1.7
EV/EBITDA	23.7	17.2	12.5	11.4	10.0
Adjusted P/E	37.5	28.0	20.9	18.4	16.4
P/BV	2.2	2.1	1.9	1.8	1.6

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%

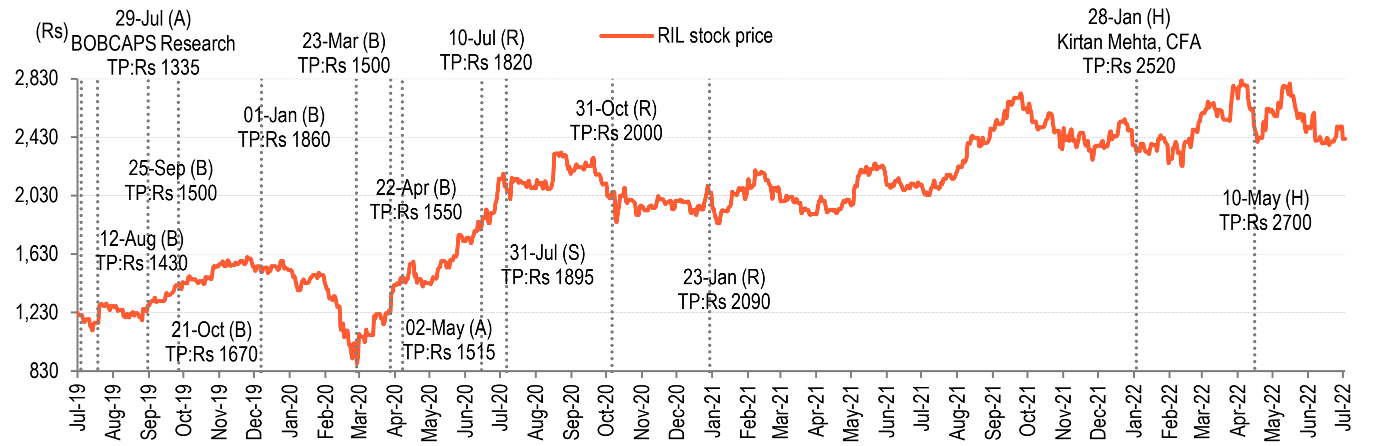
HOLD – Expected return from -6% to +15%

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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