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HOLD

TP: Rs 2,670 | 9%

RELIANCE INDUSTRIES | Oil & Gas | 28 October 2022

Windfall tax limits cyclical upside; consumer business shines

- **Q2 EBITDA normalised with pullback in O2C profits from record levels; consumer business continued to deliver strong YoY growth**
- **Key growth catalysts include roadmap for new energy, market share and tariff increases post 5G launch, and digital and retail listing**
- **TP lowered to Rs 2,670 from Rs 2,700 on higher debt and revised earnings; retain HOLD given low 9% potential upside**

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Q2 EBITDA normalises with pullback in O2C: RIL's Q2FY23 EBITDA declined 18% QoQ to Rs 312bn as supernormal profits in the Oil-to-Chemicals (O2C) business levelled off. More importantly, EBITDA grew 20% YoY (albeit off a low base) with 34% growth in consumer business profits. Net income missed consensus by 6% on higher finance costs with a sharp rise in net debt to Rs 932bn (or Rs 1,378/sh).

Estimates lowered: We lower our FY23/FY24/FY25 net income forecasts by 3.4%/4%/6.5% factoring in the Q2 results and increase in net debt. We continue to expect 17% annual growth in EBITDA over FY22-FY25 driven by a 6% CAGR in the cyclical business and a 27% CAGR in the consumer business.

Near-term drivers: Start-up and successful ramp-up of the MJ field, and successful launch of 5G services are positive drivers whereas recommendations of the Kirit Parekh Committee Report is a potential negative driver on gas price ceiling.

Long-term catalysts: Announcement of a clear roadmap with business targets for the green energy giga complex will be a key catalyst for the stock. For digital services, market share gains along with tariff increases could prove Jio's differentiated position and customer acceptance for new use cases in 5G. Listing of the digital and retail businesses will be another medium-term trigger for the stock.

Unlocking more value: RIL has announced demerger and listing of Jio Financial Services as a lending vehicle for its consumer business and an incubator for other financial services for the next three years. It also announced restructuring of its group engineering, procurement & construction (EPC) resources to create a focused entity.

Maintain HOLD: We lower our TP for RIL to Rs 2,670 (from Rs 2,700), factoring in higher net debt and estimate revisions. Our TP is 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 valuation includes Rs 157/sh for the upstream business, Rs 110 for the digital services venture and Rs 117 for the new energy division. Retain HOLD given mere 9% upside potential.

Key changes

Target	Rating
▼	◄►

Ticker/Price	RIL IN/Rs 2,451
Market cap	US$ 201.0bn
Free float	51%
3M ADV	US$ 160.3mn
52wk high/low	Rs 2,856/Rs 2,180
Promoter/FPI/DII	49%/24%/16%

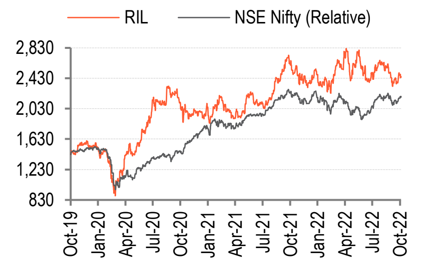
Source: NSE | Price as of 27 Oct 2022

Key financials

Y/E 31 Mar	FY22P	FY23E	FY24E
Total revenue (Rs mn)	6,999,620	8,688,515	8,868,109
EBITDA (Rs mn)	1,104,600	1,463,045	1,596,450
Adj. net profit (Rs mn)	584,201	757,227	853,926
Adj. EPS (Rs)	86.4	111.9	126.2
Consensus EPS (Rs)	86.4	111.7	128.2
Adj. ROAE (%)	7.9	9.3	9.6
Adj. P/E (x)	28.4	21.9	19.4
EV/EBITDA (x)	17.4	13.1	11.9
Adj. EPS growth (%)	33.8	29.6	12.8

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE

Q2 EBITDA normalises with pullback in O2C profits

RIL's Q2FY23 EBITDA, excluding other income, at Rs 312bn was 3% ahead of consensus, but net income at Rs 137bn was 6% below. The estimates were broadly in line with our quarterly forecasts.

- EBITDA normalised in Q2 with a sharp Rs 79.2bn QoQ pullback in O2C profits, which was partly offset by sequential increases across other businesses (oil & gas: up by Rs 4.3bn, retail: Rs 5.7bn, digital services Rs 5.8bn, and others Rs 1bn).
- More importantly, EBITDA grew 20% YoY driven by 34% growth in consumer businesses, albeit off a lower base due to the impact of Covid on retail segments.
- The miss on net income was largely due to an increase in finance expenses.
- Net debt soared to Rs 932bn from Rs 348bn at Q4FY22-end owing to higher working capital, the translation impact of forex liabilities and first 5G spectrum payment during the quarter.

Fig 1 – Quarterly performance: EBITDA normalises with pullback in O2C profits

(Rs bn)	Q2FY23	Q1FY23	QoQ (%)	Q2FY22	YoY (%)	H1FY23	H1FY22	YoY (%)
Consolidated P&L								
Revenue	2,329	2,231	4.4	1,741	33.7	4,560	3,185	43.2
EBITDA excl other income	**312**	**380**	**(17.8)**	**260**	**20.0**	**692**	**494**	**40.2**
Net income adjusted	155	194	(20.2)	155	0.2	350	293	19.4
Net income post minority share	137	180	(23.9)	137	(0.2)	316	260	21.8
EBITDA mix								
Oil to Chemicals (O2C)	120	199	(39.8)	127	(5.9)	319	250	27.7
Oil and Gas	32	27	15.9	11	196.1	59	19	216.3
Retail	44	38	14.7	29	51.0	83	49	69.5
Digital Services	123	117	5.0	96	28.6	240	188	27.5
Others	15	14	8.0	16	(6.2)	29	31	(8.2)
Segment EBITDA	**333**	**396**	**(15.7)**	**279**	**19.6**	**729**	**537**	**35.9**
Delta	14	7	-	24	-	21	42	-
Consolidated EBITDA (Reported)	**347**	**402**	**(13.7)**	**302**	**14.9**	**750**	**578**	**29.7**

Source: Company, BOBCAPS Research

Fig 2 – Quarterly operational indicators

Parameter	Unit	Q2FY23	Q1FY23	QoQ (%)	Q2FY22	YoY (%)
Digital Services						
Customer base	mn	427.6	419.9	1.8	429.5	(0.4)
Net customer additions	mn	7.7	9.7	-	(11.1)	-
ARPU adj for IUC	Rs/month	177.2	175.7	0.9	143.6	23.4
Retail						
Revenue	Rs bn	577	516	11.8	399	44.5
Core revenue	Rs bn	384	328	17.0	226	69.7
EBITDA margin excl investment income	%	7.4	7.6	-	6.1	-
Total store count	Nos	16,617	15,866	4.7	13,635	21.9
Total store area	mn sqft	54.5	45.5	19.8	37.3	46.1
Oil to Chemicals						
Feedstock throughput	mt	19.3	19.8	(2.5)	18.7	3.2
Production meant for sale	mt	16.2	16.9	(4.1)	16.8	(3.6)
Transportation fuels	mt	9.9	10.5	(5.7)	9.8	1.0
Oil and Gas						
Production	BCFe	43.6	43.2	0.9	52.0	(16.2)
KG-D6 gas production	mmscmd	19.0	19.0	0.0	18.0	5.6
KG-D6 realisation	US$/MMbtu	9.9	9.7	1.9	3.6	173.5

Source: Company, BOBCAPS Research

Oil-to-Chemicals

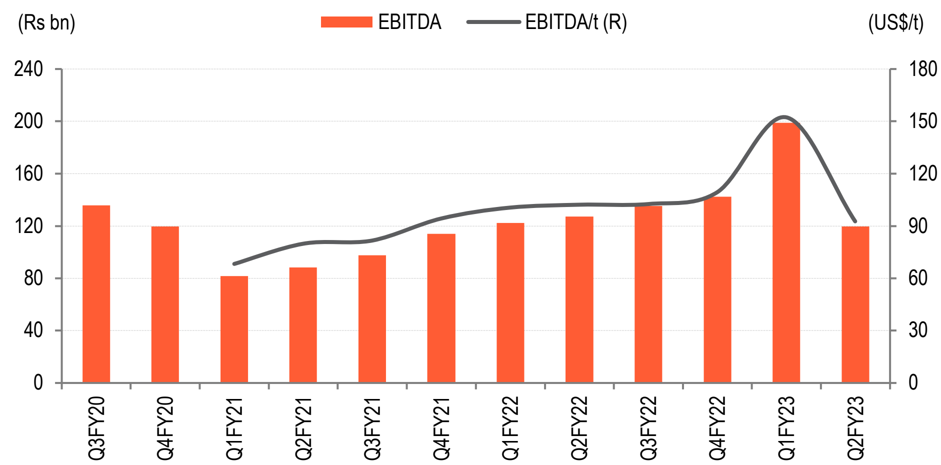
Sharp pullback in EBITDA

O2C EBITDA decreased 40% QoQ to Rs 120bn in Q2FY23, giving up most of the benefits from a surge in refining margin in Q1. In refining, we estimate that RIL earned a GRM of US$ 9/bbl against our proxy indicator of US$ 13.7/bbl.

- The GRM proxy indicator sharply reduced from US$ 23.1/bbl in Q1 to US$ 13.7/bbl in Q2 with economic slowdown, increase in global refining throughput following return from maintenance, better-than-expected Russian product supply and increased China export quota which eased supply concerns.
- Further, RIL indicated that windfall tax impacted its profitability by Rs 40.4bn or US$ 3.8/bbl. The higher impact is likely the result of reduction in domestic realisation on sale to third-party public sector marketing companies by the quantum of windfall tax.

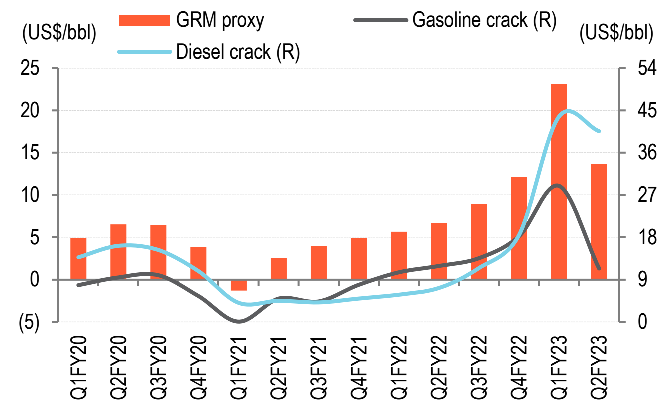
In petrochemicals, we estimate that average EBITDA declined by US$ 50-60/t to US$ 290/t, with subdued demand in China and India impacting petrochemical spreads in the polymer chain.

Fig 3 – O2C: Pullback in quarterly EBITDA on easing of refining and petrochemical margins and levy of windfall tax on transportation fuels



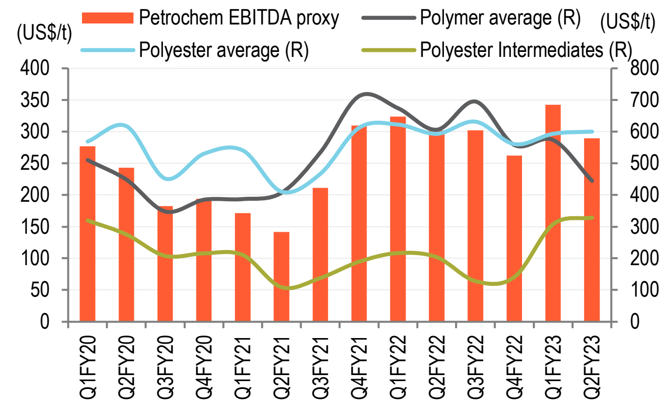
Source: Company, BOBCAPS Research

Fig 4 – Refining GRM (proxy indicator) retracted with economic slowdown and improving supply



Source: Company, BOBCAPS Research

Fig 5 – Petrochemicals EBITDA (proxy indicator) also eased with global slowdown



Source: Company, BOBCAPS Research

Refining outlook remains muted

While global refining margins have weakened sharply during the shoulder period of September-October, we expect support in winter from firm middle distillate cracks given high gas prices in the EU and winter demand. Tightness in the natural gas market transmits 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 diesel hydrodesulphurisation (DHDS) units in refineries.

However, with the economic slowdown outside China, slower-than-expected resumption of demand in China and the impact of windfall tax on transportation fuel, we lower our forecast for RIL's GRM to US$ 10.5/bbl (from US$ 12/bbl) in FY23, easing to mid-cycle levels of US$ 9/bbl (from US$ 9.5/bbl) in FY24. We now forecast slower 21.3% YoY growth (vs. 35%) in O2C EBITDA for FY23 and assume a 9% (vs. 17%) pullback in FY24 as refining margins have eased.

Oil & Gas

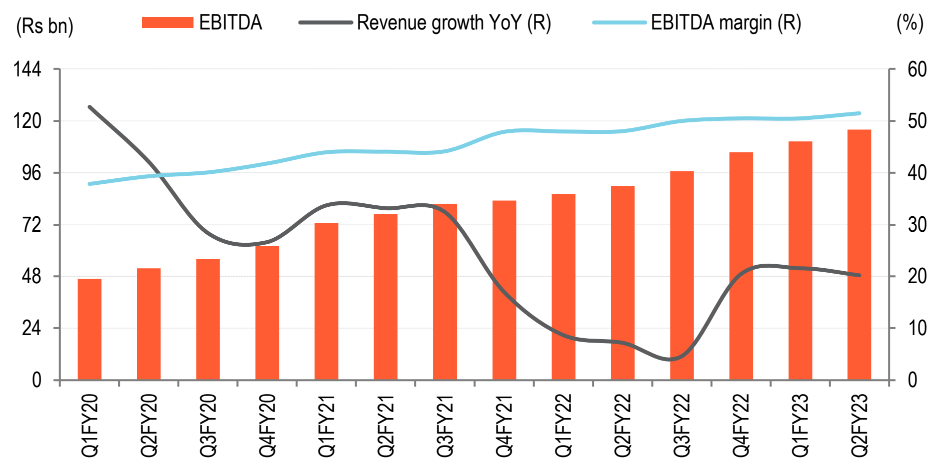
Oil & gas business EBITDA increased 16% QoQ to Rs 32bn in Q2 despite only a 2% increase in KG-D6 gas realisation and flat volumes. The company attributed the increase to favourable exchange rate movements. We expect oil & gas EBITDA to grow to Rs 122bn/Rs 150bn in FY23/FY24.

- Oil & gas business will benefit from start-up of the MJ field by the year-end which has the potential to further lift production by close to 60%; we forecast KG-D6 production at 29mmscmd for FY24. For the MJ field, we assume start-up in Dec'22 and ramp-up to the full production level of close to 12mmscmd over the following six months.
- We currently maintain our average natural gas realisation assumptions of US$ 10.7/MMbtu and US$ 9/MMbtu for FY23 and FY24 respectively which do not factor in the full benefit of an increase in gas price ceiling to US$ 12.46/MMbtu for Oct-Mar'23 pending recommendations from the Kirit Parekh committee on natural gas pricing.

Digital services

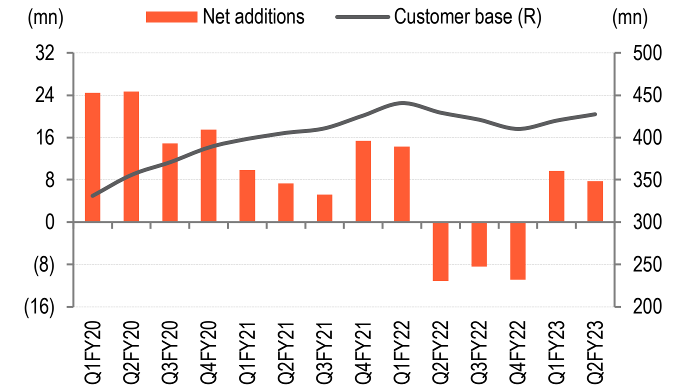
Digital services EBITDA grew 5% QoQ to Rs 123bn in Q2 on the back of a 1% ARPU increase to Rs 177.2. Jio has resumed net customer additions, reporting 9.7mn/7.7mn adds in Q1/Q2.

Fig 6 – Jio Infocomm – steady she goes



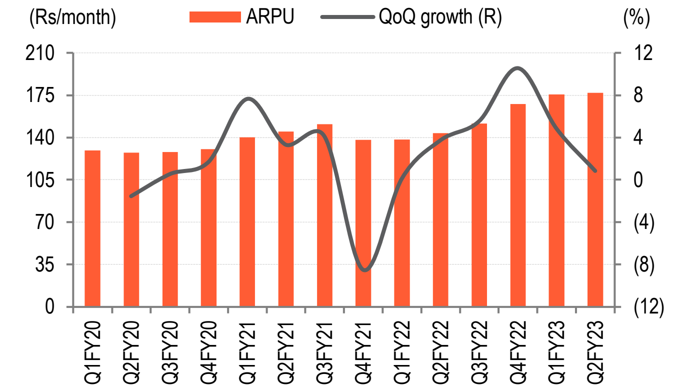
Source: Company, BOBCAPS Research

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



Source: Company, BOBCAPS Research

Fig 8 – Jio Infocomm ARPU has stabilised around Rs 177 with a tariff hike taken in Dec'21



Source: Company, BOBCAPS Research

We model for 24% annual growth in digital services EBITDA over FY22-FY25 on the back of increasing service penetration with 5G rollout across countries through FY24.

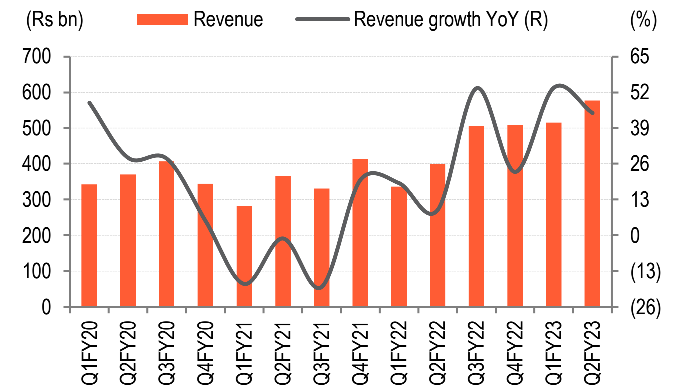
- Until we see smooth rollout of 5G services, we remain conservative in our assumptions of net subscriber additions at 34mn/40mn/24mn over FY23/FY24/FY25.
- With the ongoing launch of 5G services in beta trial mode, we assume no material improvement in blended ARPU over the next nine months till 5G gains a foothold.
- Given consolidation of the industry into three private players, we are factoring in 8% annual hikes in ARPU to reach a level of Rs 206 in FY25. The acceleration in ARPU will depend upon successful ramp-up of 5G services in India as user engagement increases with new use cases for the technology.

Retail

Retail EBITDA increased 15% QoQ to Rs 44bn in Q2 with a healthy EBITDA margin of 7.4%.

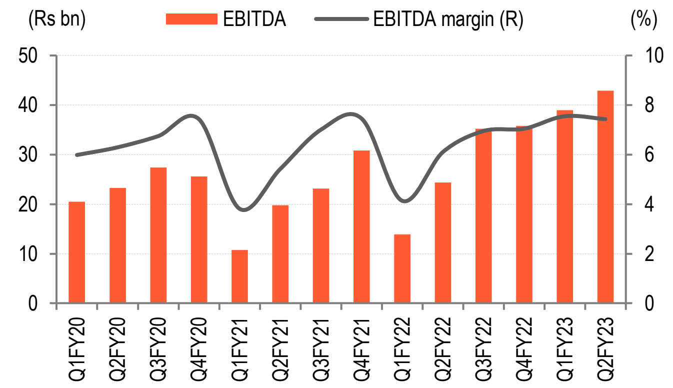
- Revenue was up 45% YoY, albeit on a lower base of last year impacted by Covid restrictions. While grocery and pharma business revenue doubled YoY, consumer electronics and fashion & lifestyle revenue was up 40% YoY and digital and new commerce revenue grew 60% YoY. Digital and new commerce together account for 18% of gross revenue.
- EBITDA in grocery, fashion & lifestyle, and consumer electronics was up ~2x YoY.
- The company continues to expand its footprint in retail, adding 795 new stores and 5.4mn sqft of warehousing and fulfilment area.

Fig 9 – Retail clocked record revenue, fully recovering from the impact of Covid lockdowns



Source: Company, BOBCAPS Research

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



Source: Company, BOBCAPS Research

We forecast 35.4% 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 7.6% 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 EBITDA estimates by 3.2%/1.1% as we lower O2C forecasts factoring in the impact of export duty on transportation fuels and lower refining margins amid slowdown in the global economy. This together with increased finance cost owing to higher net debt results in a cut in our FY23/FY24/FY25 net income forecasts by 3.4%/4.0%/6.5%.

Fig 11 – Revised estimates: Forecasts cut on lower O2C EBITDA and impact of higher net debt

(Rs bn)	Actual	New			Old			Change (%)		
	FY22	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E
Revenue	7,000	8,689	8,868	9,877	9,271	9,785	10,271	(6.3)	(9.4)	(3.8)
EBITDA	1,105	1,463	1,596	1,786	1,512	1,614	1,772	(3.2)	(1.1)	0.8
EBITDA margin (%)	15.8	16.8	18.0	18.1	16.3	16.5	17.2	-	-	-
Adj. PAT	579	757	854	931	784	890	996	(3.4)	(4.0)	(6.5)
PAT margin (%)	8.3	8.7	9.6	9.4	8.5	9.1	9.7	-	-	-
EPS (Rs)	85.5	111.9	126.2	137.6	115.9	131.5	147.2	(3.4)	(4.0)	(6.5)

Source: Company, BOBCAPS Research

Our revised EBITDA forecasts are in line with consensus for FY23 and FY24 but 4.9% higher for FY25. Our net income forecasts are in line for FY23 but marginally below consensus for FY24 and FY25.

Fig 12 – Estimates vs. Consensus

(Rs bn)	Forecasts			Consensus			Delta to consensus (%)		
	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E
Revenue	8,689	8,868	9,877	8,845	9,201	9,501	(1.8)	(3.6)	4.0
EBITDA	1,463	1,596	1,786	1,460	1,595	1,703	0.2	0.1	4.9
Adj. PAT	757	854	931	765	890	950	(1.0)	(4.1)	(2.0)
EPS (Rs)	111.9	126.2	137.6	111.7	128.2	138.2	0.2	(1.6)	(0.4)

Source: Bloomberg, BOBCAPS Research

We continue to expect 17% annual growth in EBITDA over FY22-FY25 driven by a 6% CAGR for the cyclical business and a 27% 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.

Fig 13 – RIL EBITDA mix

	FY21	FY22P	FY23E	FY24E	FY25E	FY22/25E CAGR
EBITDA (Rs bn)						
O2C	367	514	623	567	556	-
Oil & Gas	2	55	122	150	126	-
Cyclical subtotal	**368**	**568**	**746**	**717**	**682**	**-**
Digital Services	334	394	487	603	752	-
Retail	98	124	171	232	307	-
Consumer subtotal	**432**	**518**	**658**	**835**	**1,059**	**-**
Others	8	18	60	45	45	-
Consolidated business EBITDA	**807**	**1,105**	**1,463**	**1,596**	**1,786**	**-**
EBITDA YoY growth (%)						
O2C	(31.0)	40.2	21.3	(9.0)	(2.0)	2.7
Oil & Gas	(87.9)	3410.6	123.9	22.4	(15.7)	32.2
Cyclical subtotal	**(32.3)**	**54.4**	**31.2**	**(3.9)**	**(4.8)**	**6.3**
Digital Services	48.2	18.2	23.5	23.8	24.7	24.0
Retail	1.4	26.5	37.8	35.9	32.4	35.4
Consumer subtotal	**34.1**	**20.1**	**26.9**	**26.9**	**26.9**	**26.9**
Consolidated	**(9.3)**	**36.8**	**32.5**	**9.1**	**11.9**	**17.4**
EBITDA composition (% of total)						
O2C	45.4	46.5	42.6	35.5	31.1	-
Oil & Gas	0.2	4.9	8.4	9.4	7.1	-
Cyclical subtotal	**97.6**	**102.0**	**101.4**	**85.9**	**74.2**	**-**
Digital Services	41.3	35.7	33.3	37.8	42.1	-
Retail	12.1	11.2	11.7	14.5	17.2	-
Consumer subtotal	**53.5**	**46.9**	**45.0**	**52.3**	**59.3**	**-**

Source: Company, BOBCAPS Research

Fig 14 – Key assumptions

Parameter	Unit	FY21	FY22P	FY23E	FY24E	FY25E
Exchange rate	INR/USD	74.2	74.5	80.5	82.5	82.5
Energy						
Oil price	US$/bbl	45.8	80.0	95.0	90.0	90.0
Refining margin	US$/bbl	6.0	8.0	10.5	9.0	9.0
Petrochem EBITDA	US$/t	203	272	280	248	237
O2C throughput	mt	63.6	68.2	71.0	71.0	71.0
Gas realisation- KG D6	US$/mmbtu	3.8	4.9	10.7	9.0	7.7
Gas production- KG D6	mmscmd	1.8	17.7	20.0	29.0	29.0
Jio						
No of subscribers	mn	426	410	445	485	509
ARPU	Rs	144	150	178	188	206
Retail						
Revenue growth	% YoY	(3.8)	25.8	34.2	33.4	28.1
EBITDA margin	%	6.0	6.2	7.2	7.4	7.6

Source: Company, BOBCAPS Research

Maintain HOLD with revised TP of Rs 2,670

We lower our TP for RIL to Rs 2,670 from Rs 2,700 factoring in our revised estimates and a sharp increase in net debt. Our TP is 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 157 for the upstream business, Rs 110 for the digital services venture and Rs 117 for the new energy division.

The reduction in TP is mainly driven by a Rs 100/sh increase in net debt partially offset by a Rs 74 increase in our valuation of the energy business. We raise the value of the cyclical business to Rs 1,103/sh (from Rs 1,029), factoring in our revised estimates for refining and petrochemicals. We assume option value of the new energy business at US$ 10bn (unchanged) 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. Our valuation of consumer businesses is marginally tweaked to Rs 1,734/sh (from Rs 1,738) 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 23.9x and FY24E P/E of 21.2x. We maintain HOLD given mere 9% upside potential.

Fig 15 – Valuation summary: RIL target price lowered to Rs 2,670 from Rs 2,700

Business (Rs bn)	Fair Value		Value/share	Valuation basis
	(US$ bn)	(Rs bn)	(Rs)	
Energy				
Refining	31	2,309	363	7.5x FY24E EBITDA
Petrochem	40	2,952	465	8.5x FY24E EBITDA
Upstream	13	1,000	157	Combination of DCF and reserve multiple
New energy	10	745	117	Option value
Energy total	**94**	**7,006**	**1,103**	**-**
Jio	54	3,998	629	10x FY24E EBITDA, RIL share
Digital Services	9	701	110	6x FY25E Sales, discounted to FY23, RIL share
Reliance Retail	85	6,314	994	32x FY24E EBITDA, RIL share
Consumer business total	**148**	**11,013**	**1,734**	**-**
Enterprise value	**242**	**18,019**	**2,837**	**-**
Net Debt	**21**	**1,542**	**243**	**-**
Marketable securities	7	487	77	At 85% of BV
Equity value	**228**	**16,965**	**2,671**	**21.2x FY24E EPS**
TP (rounded to nearest Rs 5)	**-**	**-**	**2,670**	**-**

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 (5.7-6.1x on CY23/FY24 in refining and 6.3-7.0x on CY23 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. This apart, we 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	Market 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	49.2	USD	102.3	5.9	8.5	1.8	1.6	4.7	6.3
Valero Energy	VLO US	48.9	USD	126.7	4.7	8.0	2.2	1.9	3.3	4.7
Marathon Petroleum	MPC US	56.4	USD	113.1	4.7	8.8	2.3	2.2	3.6	5.6
S-Oil	010950 KS	0.7	KRW	85,300	3.5	5.4	1.1	1.0	2.6	3.6
Sk Innovation	096770 KS	1.1	KRW	169,500	5.7	7.8	0.7	0.7	4.2	5.8
IRPC	IRPC TB	1.7	THB	3.08	9.2	11.4	0.7	0.7	5.3	6.2
Thai Oil	TOP TB	3.1	THB	52.25	3.3	9.5	0.7	0.7	5.0	9.5
Eneos Holdings	5020 JP	10.9	JPY	491.5	5.6	7.3	0.5	0.5	5.9	6.6
Idemitsu Kosan	5019 JP	6.7	JPY	3,295	3.7	5.8	0.6	0.6	4.7	6.7
Weighted Average	**-**	**178.7**	**-**	**-**	**5.1**	**8.3**	**1.9**	**1.7**	**4.1**	**5.7**
Simple Average	**-**	**-**	**-**	**-**	**5.1**	**8.1**	**1.2**	**1.1**	**4.4**	**6.1**
Median	**-**	**-**	**-**	**-**	**4.7**	**8.0**	**0.7**	**0.7**	**4.7**	**6.2**

Source: Bloomberg, BOBCAPS Research

Fig 17 – Global petrochemicals peers

Company	Bloomberg Code	Market 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	596,000	17.5	14.2	1.5	1.4	7.1	6.0
Lotte Chemical	011170 KS	0.4	KRW	147,500	30.3	7.6	0.3	0.3	7.6	4.4
Sk Innovation	096770 KS	1.1	KRW	169,500	5.7	7.8	0.7	0.7	4.2	5.8
S-Oil	010950 KS	0.7	KRW	85,300	3.5	5.4	1.1	1.0	2.6	3.6
Wanhua Chemical	600309 CH	36.3	CNY	83.3	12.8	10.5	3.2	2.6	9.3	7.5
IRPC	IRPC TB	1.7	THB	3.08	9.2	11.4	0.7	0.7	5.3	6.2
Formosa Plastics	1301 TT	16.4	TWD	82.5	9.7	12.6	1.4	1.3	10.3	11.8
Petronas Chemicals	PCHEM MK	15.0	MYR	8.82	9.5	10.7	1.8	1.7	6.3	6.8
Indorama Ventures	IVL TB	6.2	THB	41.75	5.8	6.8	1.2	1.1	5.4	5.5
Lyondellbasell	LYB US	26.8	USD	82.22	5.6	6.6	2.1	1.8	4.9	5.5
Dow	DOW US	33.8	USD	47.99	7.4	10.6	1.9	1.9	4.7	5.9
Weighted Average	**-**	**141.2**	**-**	**-**	**9.1**	**9.9**	**2.1**	**1.9**	**6.8**	**7.0**
Simple Average	**-**	**-**	**-**	**-**	**9.9**	**9.0**	**1.4**	**1.3**	**6.1**	**6.3**
Median	**-**	**-**	**-**	**-**	**8.3**	**9.1**	**1.3**	**1.2**	**5.4**	**5.9**

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 ~30% premium to the current trading multiple of its closest competitor, Bharti Airtel. We believe 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	57.3	INR	818.8	44.1	27.4	5.5	4.5	9.3	7.7
Vodafone Idea	IDEA IN	3.4	INR	8.6	NA	NA	NA	NA	12.5	10.7

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 FY24 multiple of 32.0x/26.7x for select players in the Indian retail industry which operate in different segments of the retail value chain. We use a simple average instead of market cap-weighted average to represent 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	6.3	INR	1,455	114.4	80.3	18.5	15.4	46.3	35.8
Avenue Supermarkets	DMART IN	33.4	INR	4,248	109.6	84.0	16.9	14.1	69.7	54.4
Titan	TTAN IN	29.2	INR	2,706	76.4	62.4	20.7	16.8	52.0	43.1
Jubilant Foodworks	JUBI IN	4.7	INR	590	69.9	53.9	16.2	13.3	29.4	24.7
Aditya Birla Fashion and Retail	ABFRL IN	3.9	INR	337	85.5	57.1	9.6	8.2	18.9	15.7
V-Mart Retail	VMART IN	0.7	INR	2,951	96.8	56.8	6.4	5.7	39.1	24.9
Shoppers Stop	SHOP IN	0.9	INR	710	77.6	42.4	40.9	22.0	31.8	26.7
Bata India	BATA IN	2.8	INR	1,800	56.6	44.2	13.4	12.2	28.2	24.4
Relaxo Footwears	RLXF IN	2.9	INR	974	84.5	64.0	12.7	11.4	50.5	38.4
Weighted Average	**-**	**84.8**	**-**	**-**	**92.2**	**70.7**	**17.9**	**14.6**	**54.6**	**43.6**
Simple Average	**-**	**-**	**-**	**-**	**85.7**	**60.6**	**17.3**	**13.2**	**40.6**	**32.0**
Median	**-**	**-**	**-**	**-**	**84.5**	**57.1**	**16.2**	**13.3**	**39.1**	**26.7**

Source: Company, BOBCAPS Research

New Energy

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

Key risks

We highlight key upside risks to our estimates below. Key downside risks are a mirror of these.

- **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 in digital services than our assumptions.
- **Reliance Retail:** Above-expected revenue growth driven by faster economic growth as well as market share gains 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 challenges.
- **New Energy:** Faster evolution and integration of new energy businesses with existing businesses than our current expectations is a key upside risk.
- **Corporate risk:** Succession planning with orderly transfer of management control to the next generation is the key to continuity. RIL has initiated the process by 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	8.0	306	450	BUY
GAIL	GAIL IN	4.8	88	160	BUY
Gujarat State Petronet	GUJS IN	1.5	221	270	BUY
Hindustan Petroleum Corp	HPCL IN	3.6	211	410	BUY
Indian Oil Corp	IOCL IN	7.8	68	150	BUY
Indraprastha Gas	IGL IN	3.6	426	565	BUY
Mahanagar Gas	MAHGL IN	1.0	869	750	SELL
ONGC	ONGC IN	20.1	132	135	BUY
Petronet LNG	PLNG IN	3.7	202	330	BUY
Reliance Industries	RIL IN	201.0	2,451	2,670	HOLD

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

Financials

Income Statement

Y/E 31 Mar (Rs mn)	FY21A	FY22P	FY23E	FY24E	FY25E
Total revenue	4,669,240	6,999,620	8,688,515	8,868,109	9,877,315
EBITDA	807,370	1,104,600	1,463,045	1,596,450	1,786,199
Depreciation	(265,720)	(297,970)	(339,630)	(376,843)	(414,116)
EBIT	541,650	806,630	1,123,414	1,219,607	1,372,083
Net interest inc./(exp.)	(211,890)	(145,840)	(176,399)	(176,399)	(176,399)
Other inc./(exp.)	163,270	149,470	156,318	209,831	226,062
Exceptional items	56,420	28,360	0	0	0
EBT	493,030	810,260	1,103,333	1,253,039	1,421,747
Income taxes	(17,220)	(162,970)	(262,799)	(283,254)	(333,036)
Extraordinary items	0	0	0	0	0
Min. int./Inc. from assoc.	(40,950)	(68,600)	(83,307)	(115,860)	(157,536)
Reported net profit	491,280	607,050	757,227	853,926	931,175
Adjustments	0	0	0	0	0
Adjusted net profit	436,628	584,201	757,227	853,926	931,175

Balance Sheet

Y/E 31 Mar (Rs mn)	FY21A	FY22P	FY23E	FY24E	FY25E
Accounts payables	1,088,970	1,593,300	1,899,294	1,861,353	1,861,353
Other current liabilities	771,750	667,360	953,874	928,634	938,882
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	891,289	918,424	953,581
Equity capital	64,450	67,650	67,650	67,650	67,650
Reserves & surplus	6,937,270	7,727,200	8,420,894	9,197,484	10,052,802
Shareholders' fund	7,001,720	7,794,850	8,488,544	9,265,134	10,120,452
Total liab. and equities	13,200,650	14,986,220	16,389,167	17,245,571	18,303,830
Cash and cash eq.	173,970	361,780	689,010	978,290	1,396,600
Accounts receivables	190,140	236,400	247,068	241,661	242,365
Inventories	816,720	1,077,780	1,244,686	1,223,991	1,223,991
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	7,188,308	8,077,693	8,692,878
CWIP	1,259,530	1,725,060	1,582,785	1,286,626	1,310,686
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	16,389,167	17,245,571	18,303,830

Cash Flows

Y/E 31 Mar (Rs mn)	FY21A	FY22P	FY23E	FY24E	FY25E
Cash flow from operations	(1,520,350)	1,183,480	1,388,913	1,010,994	1,163,930
Capital expenditures	(489,180)	(1,515,680)	(1,237,773)	(970,069)	(1,053,361)
Change in investments	(85,770)	(765,610)	0	0	0
Other investing cash	(632,040)	592,750	156,318	209,831	226,062
Cash flow from investing	(1,206,990)	(1,688,540)	(1,081,456)	(760,238)	(827,298)
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)	(42,970)	(63,534)	(77,336)	(75,857)
Other financing cash	1,989,750	723,540	83,307	115,860	157,536
Cash flow from financing	2,592,110	692,870	19,773	38,524	81,679
Chg in cash & cash eq.	(135,230)	187,810	327,230	289,280	418,310
Closing cash & cash eq.	173,970	361,780	689,010	978,290	1,396,600

Per Share

Y/E 31 Mar (Rs)	FY21A	FY22P	FY23E	FY24E	FY25E
Reported EPS	76.2	89.7	111.9	126.2	137.6
Adjusted EPS	64.5	86.4	111.9	126.2	137.6
Dividend per share	6.1	6.7	9.4	11.4	11.2
Book value per share	1,086.4	1,152.2	1,254.8	1,369.6	1,496.0

Valuations Ratios

Y/E 31 Mar (x)	FY21A	FY22P	FY23E	FY24E	FY25E
EV/Sales	4.1	2.8	2.2	2.1	1.9
EV/EBITDA	23.9	17.4	13.1	11.9	10.5
Adjusted P/E	38.0	28.4	21.9	19.4	17.8
P/BV	2.3	2.1	2.0	1.8	1.6

DuPont Analysis

Y/E 31 Mar (%)	FY21A	FY22P	FY23E	FY24E	FY25E
Tax burden (Net profit/PBT)	79.5	69.7	68.6	68.1	65.5
Interest burden (PBT/EBIT)	101.4	104.0	98.2	102.7	103.6
EBIT margin (EBIT/Revenue)	11.6	11.5	12.9	13.8	13.9
Asset turnover (Rev./Avg TA)	37.6	49.7	55.4	52.7	55.6
Leverage (Avg TA/Avg Equity)	2.2	1.9	1.9	1.9	1.8
Adjusted ROAE	7.6	7.9	9.3	9.6	9.6

Ratio Analysis

Y/E 31 Mar	FY21A	FY22P	FY23E	FY24E	FY25E
YoY growth (%)					
Revenue	(21.9)	49.9	24.1	2.1	11.4
EBITDA	(9.3)	36.8	32.5	9.1	11.9
Adjusted EPS	(0.3)	33.8	29.6	12.8	9.0
Profitability & Return ratios (%)					
EBITDA margin	17.3	15.8	16.8	18.0	18.1
EBIT margin	11.6	11.5	12.9	13.8	13.9
Adjusted profit margin	9.4	8.3	8.7	9.6	9.4
Adjusted ROAE	7.6	7.9	9.3	9.6	9.6
ROCE	5.7	5.8	7.0	7.2	7.5
Working capital days (days)					
Receivables	15	11	10	10	9
Inventory	95	72	107	110	109
Payables	97	83	88	94	84
Ratios (x)					
Gross asset turnover	0.6	0.9	0.9	0.8	0.8
Current ratio	1.0	1.0	1.0	1.0	1.2
Net interest coverage ratio	2.6	5.5	6.4	6.9	7.8
Adjusted debt/equity	0.4	0.3	0.3	0.2	0.2

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

Disclaimer

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

BUY – Expected return >+15%

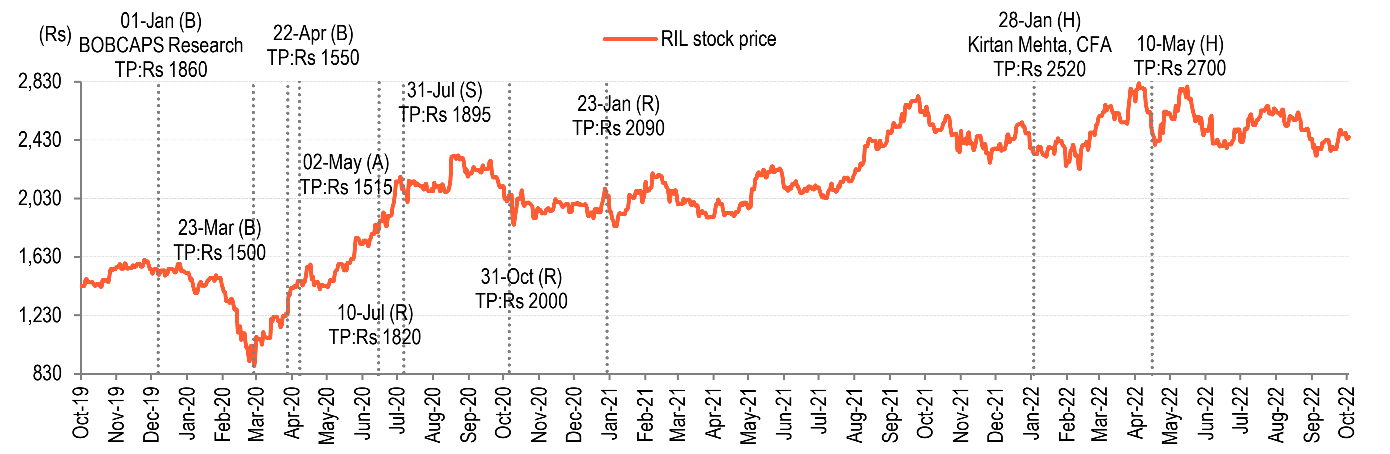
HOLD – Expected return from -6% to +15%

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

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