RESULT REVIEW

BOBCAPS
TRUST | INNOVATION | EXCELLENCE

BUY
TP: Rs 2,840 | ▲ 17%

RELIANCE INDUSTRIES | Oil & Gas | 24 January 2023

Entry opportunity; upgrade to BUY

- **Q3 EBITDA recovers with capture of higher refining margin upside and improved natural gas realisation**
- **Key catalysts to watch include roadmap for new energy, market share and tariff increases post 5G launch, and retail business scale-up**
- **TP raised to Rs 2,840 from Rs 2,670 on rollover of valuation base to FY25; upgrade to BUY after 12% correction since Nov'22**

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Modest uptick in Q3 EBITDA: RIL's Q3FY23 EBITDA grew 13% QoQ to Rs 352bn (ex-other income) backed by better capture of refining margin upside, owing to a lower impact of SAED, and higher natural gas realisation. While EBITDA was 5% ahead of consensus, it was broadly in line with our estimate. Increased disclosures for the retail business are a positive.

Estimates largely maintained: We cut FY23 EBITDA/adj. PAT estimates by 1.4%/ 5.2%, incorporating the Q3 results, higher depreciation and impact of increased net debt. We raise FY25 EBITDA/adj. PAT by 3.4%/2.5%, factoring in better profitability in digital services on lower costs and in oil & gas on higher gas realisations.

Upside catalysts: With start-up of the 50MW solar plant and 5GWh battery pack just a year away, potential savings for the O2C business would be a key growth catalyst, with RIL's initial plan being to consume the entire output to decarbonise the business. For JIO, material tariff hike is key, which we assume to be back-ended in FY24 linked to traction in 5G and value-added offerings. For retail, while growth is still being driven by footprint expansion, same-store-sales growth will also be key to discerning traction in the business. We believe listing of the digital services and retail arms will be linked to the achievement of operational milestones that have been delayed by Covid.

Downside risks: With RIL in the midst of its next wave of investments toward 5G rollout, new energy giga factories and consumer brands, capex needs are likely to outpace cash generation over the next two years. This could keep ROCE below potential till new businesses become self-sustainable.

Upgrade to BUY from HOLD: We raise our TP for RIL to Rs 2,840 (from Rs 2,670) with roll-forward of valuation to FY25, partially offset by downward revision in target multiples to reflect lower peer valuation. Our TP is based on an SOTP valuation for the refining (7x FY25E EV/EBITDA), petrochemicals (8x), telecom (Jio Infocomm: 9x) and retail (30x) businesses. Our valuation includes Rs 158/sh for the upstream business, Rs 110 for digital services, and Rs 129 for the new energy division. We upgrade to BUY as a 12% correction since Nov'22 opens up an opportunity to enter the stock.

Key changes

Target	Rating
▲	▲

Ticker/Price	RIL IN/Rs 2,430
Market cap	US$ 202.0bn
Free float	50%
3M ADV	US$ 153.6mn
52wk high/low	Rs 2,856/Rs 2,180
Promoter/FPI/DII	50%/23%/16%

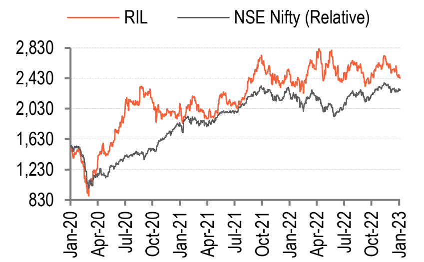
Source: NSE | Price as of 23 Jan 2023

Key financials

Y/E 31 Mar	FY22A	FY23E	FY24E
Total revenue (Rs mn)	6,999,620	8,615,446	8,580,220
EBITDA (Rs mn)	1,104,600	1,442,861	1,638,439
Adj. net profit (Rs mn)	584,201	687,139	782,271
Adj. EPS (Rs)	86.4	101.6	115.6
Consensus EPS (Rs)	86.4	102.3	124.7
Adj. ROAE (%)	7.9	8.5	8.9
Adj. P/E (x)	28.1	23.9	21.0
EV/EBITDA (x)	17.3	13.2	11.7
Adj. EPS growth (%)	33.8	17.6	13.8

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE

Modest uptick in Q3 EBITDA

RIL's Q3FY23 EBITDA grew 13% QoQ to Rs 352bn (excluding other income), coming in 5% ahead of consensus but in line with our estimates. Net income at Rs 158bn was 2% below our and consensus forecasts.

- EBITDA recovered in Q3 after a sharp pullback in Q2 with a revival in refining profit and higher gas realisations, and was supported by modest increases in both consumer-facing businesses.
- EBITDA of the consumer-facing telecom and retail businesses increased 26% YoY in Q3, benefitting from continuing expansion.
- Net debt has seen another increase of Rs 170bn QoQ in Q3 after a sharp Rs 590bn rise in H1 driven by an increased capex run-rate, higher working capital, the translation impact of forex liabilities and 5G spectrum payment.

Fig 1 – Quarterly performance: EBITDA rises in Q3 with stronger refining margin and higher gas realisation

(Rs bn)	Q3FY23	Q2FY23	QoQ (%)	Q3FY22	YoY (%)	9MFY23	9MFY22	YoY (%)
Consolidated P&L								
Revenue	2,206	2,329	(5.3)	1,913	15.3	6,766	5,097	32.7
EBITDA excl other income	**352**	**312**	**12.9**	**297**	**18.7**	**1,045**	**791**	**32.1**
Net income adjusted	178	155	14.8	177	0.6	528	470	12.3
Net income post minority share	158	137	15.6	157	0.5	474	417	13.8
EBITDA mix								
Oil to Chemicals (O2C)	139	120	16.4	135	2.9	458	385	19.0
Oil and Gas	39	32	22.4	20	90.9	98	39	150.9
Retail	48	44	8.4	38	24.8	130	87	49.8
Digital Services	129	123	5.0	102	26.1	369	291	27.0
Others	13	15	(14.3)	20	(34.6)	42	51	(18.4)
Segment EBITDA	**368**	**333**	**10.3**	**316**	**16.4**	**1,097**	**852**	**28.7**
Delta	16	14		22		37	63	
Consolidated EBITDA (Reported)	**384**	**347**	**10.5**	**338**	**13.7**	**1,134**	**916**	**23.8**
Energy businesses	**178**	**151**	**17.6**	**156**	**14.4**	**556**	**424**	**31.1**
Consumer businesses	**177**	**167**	**5.9**	**141**	**25.7**	**499**	**378**	**32.2**

Source: Company, BOBCAPS Research

Fig 2 – Quarterly operational indicators

Parameter	Unit	Q3FY23	Q2FY23	QoQ (%)	Q3FY22	YoY (%)
Digital Services						
Customer base	mn	432.9	427.6	1.2	421.0	2.8
Net customer additions	mn	5.3	7.7	-	(8.4)	-
ARPU adj for IUC	Rs/month	178.2	177.2	0.6	151.6	17.5
Retail						
Revenue	Rs bn	601	577	4.2	507	18.6
Core revenue	Rs bn	406	384	5.6	337	20.3
EBITDA margin excl investment income	%	7.7	7.4	-	7.0	-
Total store count	Nos	17,225	16,617	3.7	14,412	19.5
Total store area	mn sqft	60.2	54.5	10.5	40.0	50.5
Oil to Chemicals						
Feedstock throughput	mt	18.8	18.6	1.1	19.7	(4.6)
Production meant for sale	mt	16.2	16.2	0.0	17.6	(8.0)
Transportation fuels	mt	10.2	9.9	3.0	10.9	(6.4)
Oil and Gas						
Production	BCFe	44.2	43.6	1.4	53.3	(17.1)
KG-D6 gas production	mmscmd	19.0	19.0	0.0	18.0	5.6
KG-D6 realisation	US$/MMbtu	11.3	9.9	14.1	6.1	84.3

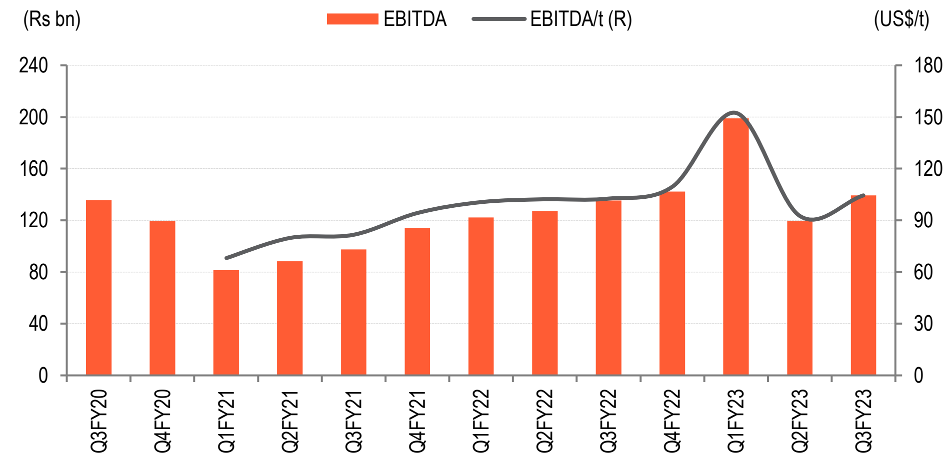
Source: Company, BOBCAPS Research

Oil-to-Chemicals (O2C)

O2C EBITDA recovered 16% QoQ to Rs 139bn in Q3FY23, capturing part of the global refining margin upside due to moderation of SAED (special additional excise duty).

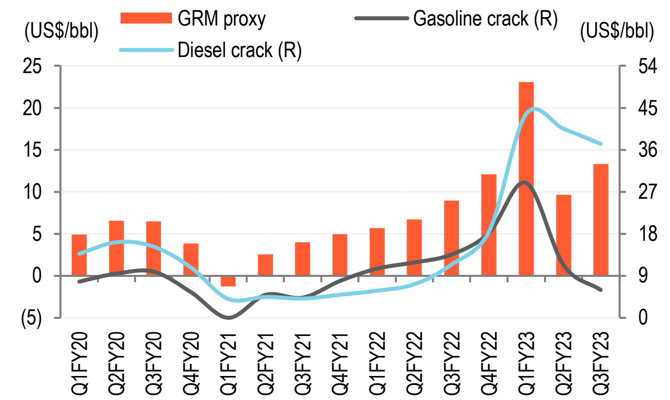
- In refining, we estimate that RIL earned a GRM of US$ 13.3/bbl, improving from US$ 9.7/bbl a quarter ago. While our proxy indicator margin improved by US$ 1.5/bbl QoQ, RIL's GRM saw a higher increase due to a reduced impact of SAED from US$ 4/bbl in Q2 to US$ 1.8/bbl in Q3.
- The company's refining business benefitted from advantageous feedstocks, particularly higher use of discounted Russian crude, higher use of reformat, external purchase of naphta and higher usage of ethane to capture a strong reforming margin.
- In petrochemicals, we estimate that average EBITDA declined by ~US$ 80/t to US$ 210/t as weaker demand in China and the western world hurt petrochemical spreads in both the polymer and polyester chains.

Fig 3 – O2C EBITDA improved on better capture of global refining upside



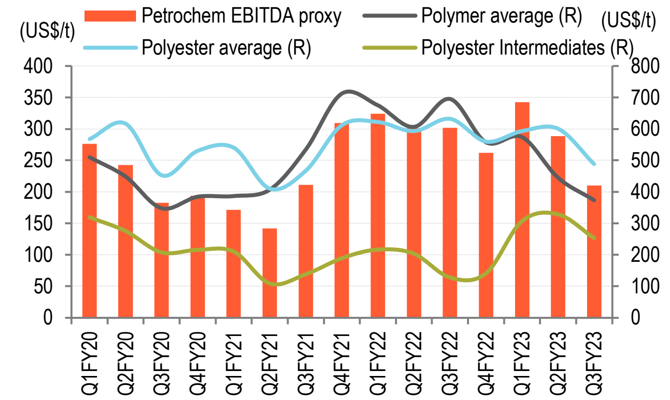
Source: Company, BOBCAPS Research

Fig 4 – Refining GRM (proxy indicator) expanded with strong middle distillate cracks and lower SAED



Source: Company, BOBCAPS Research

Fig 5 – Petrochemicals EBITDA (proxy indicator) further weakened amid the global slowdown



Source: Company, BOBCAPS Research

O2C profits to dip over FY24E-FY25E

We expect O2C EBITDA to decline 4% over FY24 and 1% over FY25 as both refining and petrochemical margins soften from the high levels anticipated in FY23.

- Global refining margins have remained strong given robust middle distillate cracks and despite weaker gasoline and fuel oil cracks. We expect middle distillate cracks to remain strong and provide support to the refining complex. The European ban on insurance for product tankers violating the price cap from 5 Feb 2023 has the potential to tighten the middle distillate market further, given limited availability of clean tankers for rerouting trade flow to Asian buyers.

  During the upcoming US summer driving season, we expect gasoline cracks to remain modest given a high level of supply coming through as refineries attempt to increase middle distillate supply. RIL expects net global refining capacity addition of less than 1mt over CY23, which can limit any material upside to refining margins.

- For petrochemicals, we believe margins are likely to improve from the weaker levels seen in Q3FY23 as demand revives from China, the EU and the US.

Oil & Gas

Oil & gas business EBITDA increased 22% QoQ to Rs 39bn in Q3 led by a 14% rise in KG-D6 gas realisation. We expect the business to log a 45% EBITDA CAGR over FY22-FY25 to Rs 165bn by FY25.

- RIL's 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 24mmscmd for FY24 assuming gradual ramp-up over H1FY24.
- We assume a gradual easing of average natural gas realisation from US$ 10.7/ MMbtu in FY23E to US$ 9.6/MMbtu by FY25E, factoring in a softening of oil prices as per our assumptions.

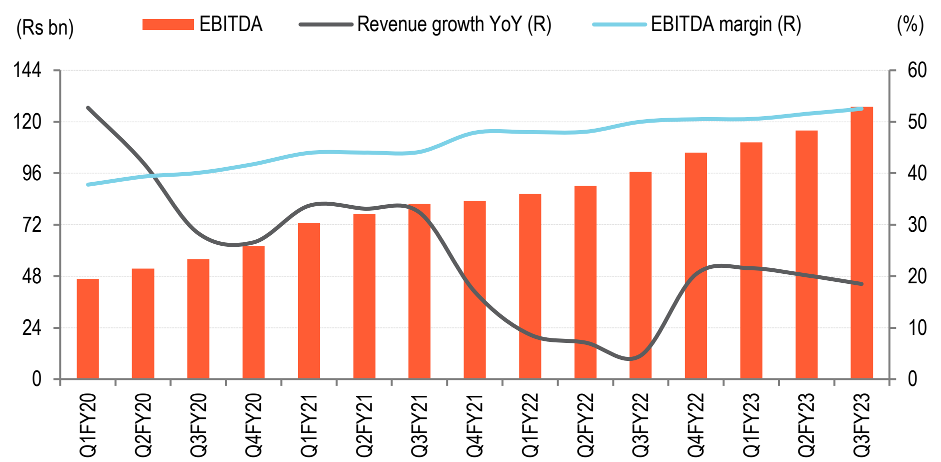
Digital Services

Digital services EBITDA grew 5% QoQ to Rs 129bn in Q3 on the back of a 1% increase in average revenue per user (ARPU) to Rs 178.2 and modest net customer addition of 5.3mn. On a YoY basis, benefits of an 18% rise in ARPU are visible in EBITDA growth of 26%.

More importantly, Reliance Jio (JIO) is focusing on launching smart-home applications such as cloud gaming, cloud PC work and study, smart homes with IoT connectivity and surveillance features, and Jio Glass for augmented and virtual realities. Success of these value-added services could help RIL raise ARPU. In the enterprise segment as well, JIO is focusing on offering value-added services on top of connectivity with the rollout of industry-specific applications.

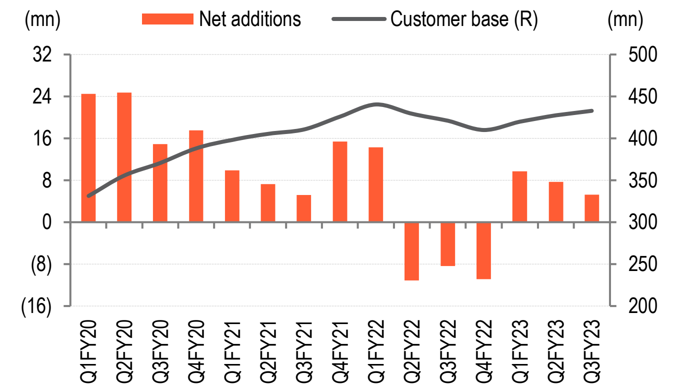
To accelerate penetration of its digital services in small-to-midsize towns, JIO aims to use partners such as local cable operators to expedite rollouts and keep costs under control. To decentralise data centres in order to support faster 5G rollout, the company has successfully developed an MEC (multi-access edge compute) rack without the need for a high-end IT environment. This can be installed using simple exhaust fan-based cooling and could avoid operation breakdown.

Fig 6 – Jio Infocomm shows steady EBITDA prior to expected 5G-driven pickup



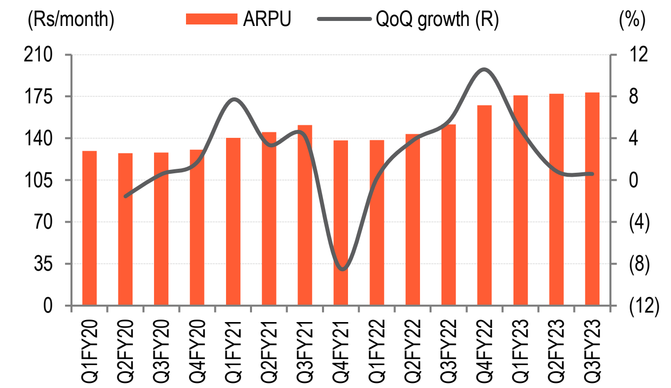
Source: Company, BOBCAPS Research

Fig 7 – Jio Infocomm's net subscriber addition does not reflect benefit of 5G launches in Q3



Source: Company, BOBCAPS Research

Fig 8 – Jio Infocomm's ARPU range-bound while JIO focuses on national rollout



Source: Company, BOBCAPS Research

We model for 26% annual growth in digital services EBITDA over FY22-FY25 on the back of increasing service penetration from 5G rollout across the country through FY24.

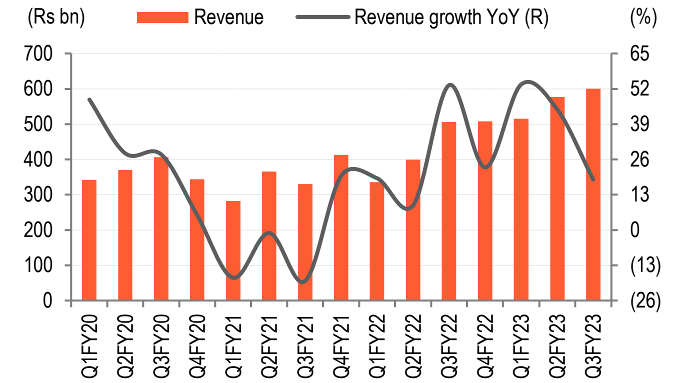
- Until we see smooth rollout of 5G services (currently in beta trial mode), we remain conservative in our assumptions of net subscriber additions at 31mn/40mn/24mn over FY23/FY24/ FY25.
- We also assume no material improvement in blended ARPU over the next nine months till 5G gains a foothold.
- Given consolidation of the industry and only two out of three private players aggressively implementing 5G rollouts (JIO and Bharti Airtel), we are factoring in 8% annual hikes in ARPU to a level of Rs 206 per user 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 8% QoQ to Rs 48bn in Q3 with modest revenue growth of 4% QoQ and 30bps improvement in EBITDA margin to 7.7%.

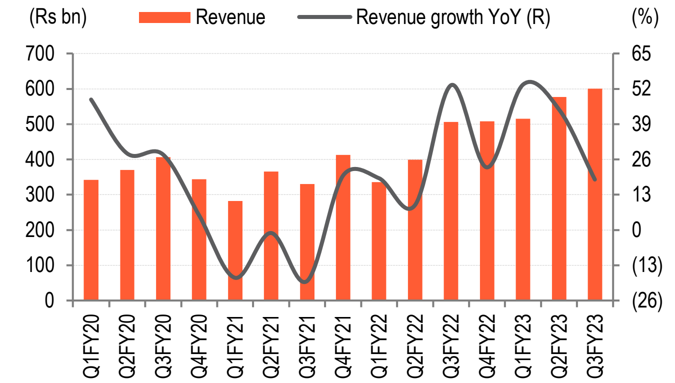
- Core revenue was up 20% YoY driven by 45% growth in consumer electronics excluding devices, 85% growth in grocery, and 13% growth in fashion and lifestyle. Digital and new commerce revenue grew 18% YoY and maintained its contribution at 18% of gross revenue.
- The company continues to expand its footprint in retail, adding 789 new stores in Q3 and 2,400 in 9MFY23. While total store space has increased to 60mn sqft, warehousing and fulfilment area has grown to 33.6mn sqft.
- Consumer brands, a new focus area, grew 2x YoY. The company is focusing on regional offerings to meet regional preferences as a key differentiator.

Fig 9 – Retail revenue growth has eased from levels seen during reopening after Covid



Source: Company, BOBCAPS Research

Fig 10 – Retail EBITDA margin continues to improve, leveraging infrastructure



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 FY22 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 EBITDA and adj. PAT estimates by 1.4% and 5.2% respectively, incorporating the Q3 results as well as higher depreciation and interest expenses driven by a significant increase in net debt and the rise in interest rates. While we have marginally tweaked estimates for FY24, our EBITDA/net income forecasts for FY25 increase by a modest 3.4%/2.5%, factoring in higher profitability in the digital services and oil & gas businesses.

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	8,615	8,580	9,483	8,644	8,828	9,837	(0.3)	(2.8)	(3.6)
EBITDA	**1,105**	**1,443**	**1,638**	**1,873**	**1,463**	**1,625**	**1,811**	**(1.4)**	**0.8**	**3.4**
EBITDA margin (%)	15.8	16.7	19.1	19.8	16.9	18.4	18.4	-	-	-
Adj. PAT	579	687	782	857	725	776	836	(5.2)	0.8	2.5
PAT margin (%)	8.3	8.0	9.1	9.0	8.4	8.8	8.5	-	-	-
EPS (Rs)	85.5	101.6	115.6	126.7	107.1	114.7	123.6	(5.2)	0.8	2.5

Source: Company, BOBCAPS Research

Our revised EBITDA forecasts are in line with consensus for FY23 and FY24 but 5.1% higher for FY25. Our net income forecasts are in line for FY23 but 3-4% 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	8,615	8,580	9,483	9,172	9,599	10,057	(6.1)	(10.6)	(5.7)
EBITDA	**1,443**	**1,638**	**1,873**	**1,412**	**1,629**	**1,783**	**2.2**	**0.6**	**5.1**
Adj. PAT	687	782	857	696	812	895	(1.3)	(3.7)	(4.2)

Source: Bloomberg, BOBCAPS Research

We expect 19% annual growth in EBITDA over FY22-FY25 driven by a 10% CAGR for the cyclical business and a 28% 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	FY22	FY23E	FY24E	FY25E	FY22-25E CAGR (%)
EBITDA (Rs bn)						
O2C	367	514	611	586	582	-
Oil & Gas	2	55	118	146	165	-
Cyclical subtotal	**368**	**568**	**729**	**732**	**747**	**-**
Digital Services	334	394	481	626	783	-
Retail	98	124	177	238	301	-
Consumer subtotal	**432**	**518**	**658**	**864**	**1,084**	**-**
Others	8	18	56	42	42	-
Consolidated business EBITDA	**807**	**1,105**	**1,443**	**1,638**	**1,873**	**-**
EBITDA YoY growth (%)						
O2C	(31.0)	40.2	18.9	(4.1)	(0.7)	4.3
Oil & Gas	(87.9)	3410.6	115.9	24.0	12.8	44.5
Cyclical subtotal	**(32.3)**	**54.4**	**28.3**	**0.5**	**2.0**	**9.5**
Digital Services	48.2	18.2	21.9	30.2	25.1	25.7
Retail	1.4	26.5	42.8	34.6	26.5	34.5
Consumer subtotal	**34.1**	**20.1**	**26.9**	**31.4**	**25.5**	**27.9**
Consolidated	**(9.3)**	**36.8**	**30.6**	**13.6**	**14.3**	**19.2**
EBITDA composition (% of total)						
O2C	45.4	46.5	42.4	35.8	31.1	-
Oil & Gas	0.2	4.9	8.2	8.9	8.8	-
Cyclical subtotal	**45.6**	**51.5**	**50.5**	**44.7**	**39.9**	**-**
Digital Services	41.3	35.7	33.3	38.2	41.8	-
Retail	12.1	11.2	12.3	14.5	16.1	-
Consumer subtotal	**53.5**	**46.9**	**45.6**	**52.7**	**57.9**	**-**

Source: Company, BOBCAPS Research

Fig 14 – Key assumptions

Parameter	Unit	FY21	FY22	FY23E	FY24E	FY25E
Exchange rate	INR/USD	74.2	74.5	80.2	81.8	83.4
Energy						
Oil price	US$/bbl	45.8	80.0	95.0	85.0	80.0
Refining margin	US$/bbl	6.0	8.0	10.5	9.5	9.0
Petrochem EBITDA	US$/t	203	272	273	251	251
O2C throughput	mt	63.6	68.2	71.0	71.0	71.0
Gas realisation- KG D6	US$/mmbtu	3.8	4.9	10.7	10.2	9.6
Gas production- KG D6	mmscmd	1.8	17.7	19.0	24.5	29.0
Jio Digital Services						
No of subscribers	mn	426	410	441	481	505
ARPU	Rs	144	150	178	187	206
Retail						
Revenue growth	% YoY	(3.8)	25.8	32.6	33.7	28.3
EBITDA margin	%	6.0	6.2	7.5	7.7	7.6

Source: Company, BOBCAPS Research

Upgrade to BUY from HOLD with revised TP of Rs 2,840

We increase our TP for RIL to Rs 2,840 from Rs 2,670 factoring in our revised estimates, rollover of our valuation to FY25 earnings, and adjustment of our target multiple based on current peer multiples. Our TP is based on an SOTP valuation for the refining (7.0x FY25E EBITDA from 7.5x FY24E EV/EBITDA), petrochemicals (8.0x vs. 8.5x), telecom (Jio Infocomm: 9x vs. 10x) and retail (30x vs. 32x) businesses. We also include Rs 158/sh (vs. Rs 157 earlier) for the upstream business, Rs 110/sh (unchanged) for the digital services venture, and Rs 129 (vs. Rs 117) for the new energy division.

The increase in TP is mainly driven by a Rs 322/sh rise in valuation of the consumer businesses following a roll-forward of valuation base to FY25 and is partially offset by a Rs 166/sh increase in net debt and a Rs 21/sh decrease in value of the energy business. We assume option value of the new energy business at US$ 10bn (unchanged).

Given that consumer-facing businesses form ~50% of RIL's EBITDA and have high growth potential, our valuation implies a target FY24E P/E of 24.6x and FY25E P/E of 22.4x. We upgrade our rating to BUY from HOLD with 17% upside potential.

Fig 15 – Valuation summary: RIL target price increased to Rs 2,840 from Rs 2,670

Business (Rs bn)	Fair Value		Value/share	Valuation basis
	(US$ bn)	(Rs bn)	(Rs)	
Energy				
Refining	30	2,209	348	7.0x FY25E EBITDA
Petrochem	38	2,844	448	8.0x FY25E EBITDA
Upstream	13	1,005	158	Combination of DCF and reserve multiple
New energy	10	818	129	Option value
Energy total	**91**	**6,876**	**1,082**	**-**
Jio Infocomm	63	4,671	735	9x FY25E EBITDA, RIL share
Digital Services	9	701	110	6x FY25E Sales, discounted to FY24; RIL share
Reliance Retail	103	7,689	1,210	30x FY25E EBITDA, RIL share
Consumer business total	**175**	**13,060**	**2,056**	**-**
Enterprise value	**267**	**19,936**	**3,138**	**-**
Net Debt	31	2,318	365	-
Marketable securities	6	416	66	At 85% of BV
Equity value	**241**	**18,034**	**2,839**	**22.4x FY25E EPS**
TP (rounded to nearest Rs 5)	**-**	**-**	**2,840**	**-**

Source: BOBCAPS Research

Oil-to-Chemicals

We value RIL's refining and chemicals businesses at one-year forward EV/EBITDA multiples of 7.0x (7.5x previously) and 8.0x (from 8.5x) respectively, reflecting a downward move in the valuation of global peers.

Our multiples are at a premium to global peers (5.4-6.1x on CY23/FY24 in refining and 7.1-8.1x 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	50.6	USD	107.0	5.6	7.2	1.7	1.5	4.1	5.5
Valero Energy	VLO US	55.0	USD	142.7	5.0	7.3	2.3	2.0	3.5	4.8
Marathon Petroleum	MPC US	58.9	USD	125.7	4.9	7.5	2.2	1.9	3.6	5.1
S-Oil	010950 KS	0.8	KRW	88,200	4.4	6.1	1.2	1.0	2.9	4.0
Sk Innovation	096770 KS	1.2	KRW	156,500	5.8	7.5	0.7	0.6	4.3	5.7
IRPC	IRPC TB	2.0	THB	3.14	34.9	13.2	0.7	0.7	6.5	7.2
Thai Oil	TOP TB	4.0	THB	58.5	3.6	9.5	0.8	0.8	5.1	9.1
Eneos Holdings	5020 JP	11.7	JPY	471.1	5.5	7.0	0.5	0.4	5.7	6.7
Idemitsu Kosan	5019 JP	7.5	JPY	3,275	3.2	5.7	0.6	0.5	4.3	6.5
Weighted Average	**-**	**191.6**	**-**	**-**	**5.4**	**7.4**	**1.9**	**1.6**	**3.9**	**5.4**
Simple Average	**-**	**-**	**-**	**-**	**8.1**	**7.9**	**1.2**	**1.1**	**4.4**	**6.0**
Median	**-**	**-**	**-**	**-**	**5.0**	**7.3**	**0.8**	**0.8**	**4.3**	**5.7**

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	3.6	KRW	625,000	19.7	16.2	1.5	1.4	7.8	6.6
Lotte Chemical	011170 KS	0.6	KRW	187,500	48.6	12.8	0.5	0.5	14.9	6.5
Sk Innovation	096770 KS	1.2	KRW	156,500	5.8	7.5	0.7	0.6	4.3	5.7
S-Oil	010950 KS	0.8	KRW	88,200	4.4	6.1	1.2	1.0	2.9	4.0
Wanhua Chemical	600309 CH	43.9	CNY	94.92	16.1	13.0	3.7	3.0	10.8	9.1
IRPC	IRPC TB	2.0	THB	3.14	34.9	13.2	0.7	0.7	6.5	7.2
Formosa Plastics	1301 TT	18.6	TWD	88.6	11.5	15.0	1.5	1.5	12.1	12.8
Petronas Chemicals	PCHEM MK	15.9	MYR	8.5	8.9	10.0	1.8	1.7	5.9	6.0
Indorama Ventures	IVL TB	7.2	THB	42	5.3	6.9	1.2	1.1	5.2	5.7
Lyondellbasell	LYB US	30.1	USD	92.3	7.5	9.7	2.5	2.4	6.1	7.2
Dow	DOW US	40.4	USD	57.44	9.0	13.8	2.3	2.3	5.4	7.1
Weighted Average	**-**	**164.1**	**-**	**-**	**11.4**	**12.3**	**2.4**	**2.2**	**7.9**	**8.1**
Simple Average	**-**	**-**	**-**	**-**	**15.2**	**10.8**	**1.6**	**1.5**	**7.4**	**7.1**
Median	**-**	**-**	**-**	**-**	**9.0**	**11.4**	**1.3**	**1.3**	**6.1**	**7.1**

Source: Bloomberg, BOBCAPS Research

Digital Services

While we value Jio Infocomm's wireless, wireline and enterprise business at 9x FY25E EBITDA (10x previously), we value its venture into digital services (part of Jio Platforms) at 6x FY25E Sales (unchanged), discounted back to Mar'24. Our target multiple for the Jio Infocomm telecom business is at ~20% 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	54.8	INR	772.7	44.6	28.0	5.4	4.4	8.9	7.5
Vodafone Idea	IDEA IN	2.8	INR	7.05	NA	NA	NA	NA	12.9	11.4

Source: Bloomberg, BOBCAPS Research

Given that RIL's 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 30x (from 32x) compares with the average/median FY24 multiple of 28.9x/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 below.

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	5.1	INR	1,177	99.4	72.9	15.1	12.7	37.0	29.3
Avenue Supermarkets	DMART IN	27.3	INR	3,434	92.2	71.4	13.8	11.6	59.0	46.3
Titan	TTAN IN	25.8	INR	2,365	63.6	52.9	17.8	14.3	42.4	35.7
Jubilant Foodworks	JUBI IN	4.1	INR	509	64.6	50.6	14.3	11.9	25.3	21.4
Aditya Birla Fashion and Retail	ABFRL IN	3.0	INR	261	71.2	46.5	7.0	5.7	18.9	15.7
V-Mart Retail	VMART IN	0.7	INR	2,770	96.8	56.8	6.4	5.7	39.1	24.9
Shoppers Stop	SHOP IN	0.9	INR	667	69.6	45.1	33.2	17.5	31.8	26.7
Bata India	BATA IN	2.5	INR	1,571	53.5	39.4	12.0	10.7	25.9	21.5
Relaxo Footwears	RLXF IN	2.5	INR	817	84.5	64.0	12.7	11.4	50.5	38.4
Weighted Average	**-**	**72.0**	**-**	**-**	**78.1**	**60.8**	**15.1**	**12.4**	**45.9**	**37.0**
Simple Average	**-**	**-**	**-**	**-**	**77.3**	**55.5**	**14.7**	**11.3**	**36.7**	**28.9**
Median	**-**	**-**	**-**	**-**	**71.2**	**52.9**	**13.8**	**11.6**	**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 option value reflects progress on (a) tie-up of technological partnerships to launch the solar cell giga factory and battery storage giga factory, and (b) the blueprint in place for conversion of carbon-intense feedstocks into chemicals and clean energy.

Key risks

We highlight key downside risks to our estimates below.

- **O2C and Oil & Gas businesses:** Lower-than-assumed oil price, gas price, GRM and petrochemical crack movements on easing of the demand-supply balance are key downside risks.
- **Digital Services:** Downside risks in this business are 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 evolution and integration of new energy businesses with existing businesses than our current expectations is 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 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	9.3	350	450	BUY
GAIL	GAIL IN	5.7	102	160	BUY
Hindustan Petroleum Corp	HPCL IN	4.4	250	410	BUY
Indian Oil Corp	IOCL IN	9.6	83	150	BUY
Indraprastha Gas	IGL IN	3.7	432	520	BUY
Mahanagar Gas	MAHGL IN	1.1	883	1,030	BUY
Petronet LNG	PLNG IN	4.2	227	330	BUY
Reliance Industries	RIL IN	202.0	2,430	2,840	BUY

Source: BOBCAPS Research, NSE | Price as of 23 Jan 2023

Financials

Income Statement

Y/E 31 Mar (Rs mn)	FY21A	FY22A	FY23E	FY24E	FY25E
Total revenue	**4,669,240**	**6,999,620**	**8,615,446**	**8,580,220**	**9,482,529**
EBITDA	807,370	1,104,600	1,442,861	1,638,439	1,873,061
Depreciation	(265,720)	(297,970)	(364,855)	(404,700)	(453,022)
EBIT	541,650	806,630	1,078,006	1,233,740	1,420,040
Net interest inc./(exp.)	(211,890)	(145,840)	(182,399)	(188,399)	(188,399)
Other inc./(exp.)	163,270	149,470	117,579	133,076	127,992
Exceptional items	56,420	28,360	0	0	0
EBT	493,030	810,260	1,013,187	1,178,417	1,359,633
Income taxes	(17,220)	(162,970)	(247,550)	(286,264)	(352,934)
Extraordinary items	0	0	0	0	0
Min. int./Inc. from assoc.	(40,950)	(68,600)	(78,498)	(109,882)	(149,413)
Reported net profit	**491,280**	**607,050**	**687,139**	**782,271**	**857,287**
Adjustments	0	0	0	0	0
Adjusted net profit	**436,628**	**584,201**	**687,139**	**782,271**	**857,287**

Balance Sheet

Y/E 31 Mar (Rs mn)	FY21A	FY22A	FY23E	FY24E	FY25E
Accounts payables	1,088,970	1,593,300	1,894,678	1,785,555	1,741,073
Other current liabilities	771,750	667,360	949,678	859,727	829,537
Provisions	51,290	37,890	37,890	37,890	37,890
Debt funds	2,747,410	2,939,980	3,139,980	3,139,980	3,139,980
Other liabilities	546,910	857,850	889,266	916,997	955,767
Equity capital	64,450	67,650	67,650	67,650	67,650
Reserves & surplus	6,937,270	7,727,200	8,354,647	9,057,885	9,831,519
Shareholders' fund	7,001,720	7,794,850	8,422,297	9,125,535	9,899,169
Total liab. and equities	**13,200,650**	**14,986,220**	**16,507,278**	**17,149,055**	**18,036,199**
Cash and cash eq.	173,970	361,780	159,175	112,579	300,908
Accounts receivables	190,140	236,400	246,850	239,001	238,349
Inventories	816,720	1,077,780	1,242,168	1,182,647	1,158,384
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	7,163,083	8,565,337	9,402,060
CWIP	1,259,530	1,725,060	2,258,692	1,612,182	1,499,188
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**	**16,507,278**	**17,149,055**	**18,036,199**

Cash Flows

Y/E 31 Mar (Rs mn)	FY21A	FY22A	FY23E	FY24E	FY25E
Cash flow from operations	**(1,520,350)**	**1,183,480**	**1,374,689**	**949,922**	**1,171,329**
Capital expenditures	(489,180)	(1,515,680)	(1,913,680)	(1,160,443)	(1,176,752)
Change in investments	(85,770)	(765,610)	0	0	0
Other investing cash flows	(632,040)	592,750	117,579	133,076	127,992
Cash flow from investing	**(1,206,990)**	**(1,688,540)**	**(1,796,101)**	**(1,027,367)**	**(1,048,760)**
Equities issued/Others	1,002,980	3,200	0	0	0
Debt raised/repaid	(354,780)	9,100	200,000	0	0
Interest expenses	0	0	0	0	0
Dividends paid	(45,840)	(42,970)	(59,691)	(79,034)	(83,653)
Other financing cash flows	1,989,750	723,540	78,498	109,882	149,413
Cash flow from financing	**2,592,110**	**692,870**	**218,807**	**30,849**	**65,760**
Chg in cash & cash eq.	**(135,230)**	**187,810**	**(202,605)**	**(46,596)**	**188,330**
Closing cash & cash eq.	**173,970**	**361,780**	**159,175**	**112,579**	**300,908**

Per Share

Y/E 31 Mar (Rs)	FY21A	FY22A	FY23E	FY24E	FY25E
Reported EPS	76.2	89.7	101.6	115.6	126.7
Adjusted EPS	64.5	86.4	101.6	115.6	126.7
Dividend per share	6.1	6.7	8.8	11.7	12.4
Book value per share	1,086.4	1,152.2	1,245.0	1,348.9	1,463.3

Valuations Ratios

Y/E 31 Mar (x)	FY21A	FY22A	FY23E	FY24E	FY25E
EV/Sales	4.1	2.7	2.2	2.2	2.1
EV/EBITDA	23.8	17.3	13.2	11.7	10.4
Adjusted P/E	37.7	28.1	23.9	21.0	19.2
P/BV	2.2	2.1	2.0	1.8	1.7

DuPont Analysis

Y/E 31 Mar (%)	FY21A	FY22A	FY23E	FY24E	FY25E
Tax burden (Net profit/PBT)	79.5	69.7	67.8	66.4	63.1
Interest burden (PBT/EBIT)	101.4	104.0	94.0	95.5	95.7
EBIT margin (EBIT/Revenue)	11.6	11.5	12.5	14.4	15.0
Asset turnover (Rev./Avg TA)	37.6	49.7	54.7	51.0	53.9
Leverage (Avg TA/Avg Equity)	2.2	1.9	1.9	1.9	1.8
Adjusted ROAE	7.6	7.9	8.5	8.9	9.0

Ratio Analysis

Y/E 31 Mar	FY21A	FY22A	FY23E	FY24E	FY25E
YoY growth (%)					
Revenue	(21.9)	49.9	23.1	(0.4)	10.5
EBITDA	(9.3)	36.8	30.6	13.6	14.3
Adjusted EPS	(0.3)	33.8	17.6	13.8	9.6
Profitability & Return ratios (%)					
EBITDA margin	17.3	15.8	16.7	19.1	19.8
EBIT margin	11.6	11.5	12.5	14.4	15.0
Adjusted profit margin	9.4	8.3	8.0	9.1	9.0
Adjusted ROAE	7.6	7.9	8.5	8.9	9.0
ROCE	5.7	5.8	6.6	7.1	7.5
Working capital days (days)					
Receivables	15	11	10	10	9
Inventory	95	72	107	102	95
Payables	97	83	89	97	85
Ratios (x)					
Gross asset turnover	0.6	0.9	0.9	0.8	0.8
Current ratio	1.0	1.0	0.8	0.8	0.9
Net interest coverage ratio	2.6	5.5	5.9	6.5	7.5
Adjusted debt/equity	0.4	0.3	0.4	0.3	0.3

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

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BUY – Expected return >+15%

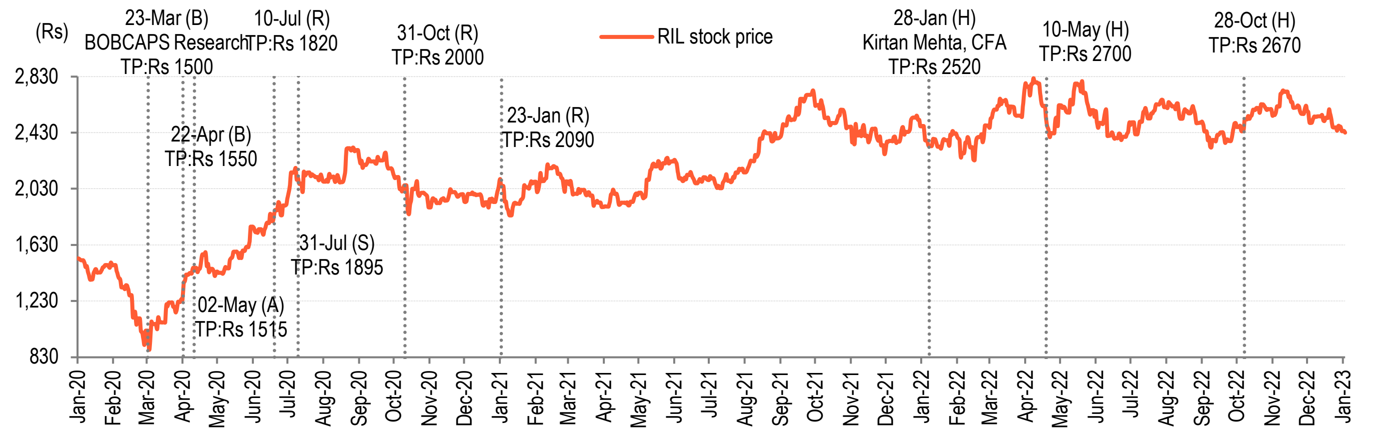
HOLD – Expected return from -6% to +15%

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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