

HOLD

TP: Rs 2,700 | ▲ 9%

RELIANCE INDUSTRIES

Oil & Gas

10 May 2022

Margin uptick in cyclicals; consumer business to drive growth

- Q4 results in line with consensus – O2C and digital services performed well; we raise FY23/FY24 EBITDA by 8%/4%
- Expect consumer business to deliver 28% EBITDA CAGR over FY22-FY25; transformation of O2C business the next trigger
- TP revised to Rs 2,700 (from Rs 2,520); maintain HOLD given 9% upside potential

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Q4 results broadly in line: RIL's Q4FY22 EBITDA excluding other income stood at Rs 313.7bn, in line with Bloomberg consensus, while net income was 3.7% short of expectations at Rs 162bn. At the EBITDA level, whereas digital services outperformed consensus, the retail and oil & gas businesses underperformed. Sequentially, the rise in O2C and digital services EBITDA offset the decline in oil & gas and retail.

Raise FY23/FY24 EBITDA forecasts: We raise our FY23/FY24 EBITDA forecasts by 8.3%/3.8% factoring in stronger refining margins, ARPU and gas price realisations. We now forecast 35% YoY growth in FY23 EBITDA backed by both cyclical and consumer engines. Cyclical business will benefit from a surge in refining margin (we conservatively assume +US\$ 4/bbl YoY), higher gas realisation (+117% YoY to US\$ 10.7/MMbtu) and ramp-up in natural gas production (+22% YoY). We expect the consumer business to benefit from a projected 19% YoY rise in telecom ARPU to Rs 179 and 38% YoY growth in retail revenue in FY23.

Consumer business driving medium-term growth: RIL has successfully transitioned into a consumer conglomerate, achieving leadership in both digital and retail ventures. We expect EBITDA from its consumer business to grow at a 28% CAGR over FY22-FY25. While RIL has unlocked value in these businesses by involving strategic investors, their upcoming listing provides an upside trigger.

Derisking of O2C business the next catalyst: RIL has embarked on a transformation journey for its O2C business to address climate risks. This will involve conversion of carbon feedstocks into chemicals and clean energy. The company aims to tie up with strategic partners and investors to derisk the use of new technologies. The approach also helps unlock value at an early stage.

Maintain HOLD: We have a revised TP of Rs 2,700 for RIL (up from Rs 2,520) with 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 110 for the value of its venture into digital services and Rs 47 for the new energy division. We maintain HOLD given 9% upside potential from the current market price.

Key changes

Target	Rating
▲	◀ ▶

Ticker/Price	RIL IN/Rs 2,475
Market cap	US\$ 216.5bn
Free float	49%
3M ADV	US\$ 227.5mn
52wk high/low	Rs 2,856/Rs 1,906
Promoter/FPI/DII	51%/24%/14%

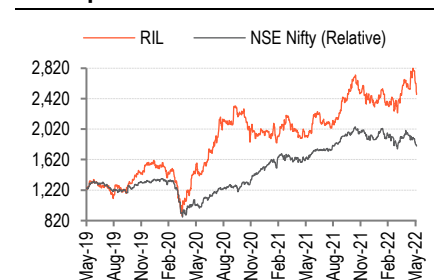
Source: NSE | Price as of 10 May 2022

Key financials

Y/E 31 Mar	FY22P	FY23E	FY24E
Total revenue (Rs mn)	69,99,620	91,94,527	97,16,071
EBITDA (Rs mn)	11,04,600	14,89,932	16,30,621
Adj. net profit (Rs mn)	5,84,201	8,12,135	9,26,915
Adj. EPS (Rs)	86.4	120.0	137.0
Consensus EPS (Rs)	92.7	119.5	135.0
Adj. ROAE (%)	7.9	10.0	10.4
Adj. P/E (x)	28.7	20.6	18.1
EV/EBITDA (x)	17.6	13.0	11.6
Adj. EPS growth (%)	33.8	39.0	14.1

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

Stock performance



Source: NSE



Q4 results broadly in line

RIL's Q4FY22 EBITDA excluding other income stood at Rs 313.7bn, in line with Bloomberg consensus, while net income was 3.7% short of expectations at Rs 162bn. At the EBITDA level, whereas digital services outperformed consensus, the retail and oil & gas businesses underperformed. Sequentially, the rise in O2C and digital services EBITDA offset the decline in oil & gas and retail.

Digital Services

- Q4 EBITDA was up 9.6% QoQ on the back of a 10.6% QoQ rise in ARPU to Rs 167.6, partially offset by a decline in net subscribers by 10.9mn.
- RIL expects Q1FY23 to benefit from an ARPU uplift and the end of subscriber rationalisation. The company guides that SIM consolidation behaviour is abating. During Q1, the business is likely to see a further 6-7% upside in ARPU from the ~20% tariff hike taken in Dec'21 given the completion of one recharge cycle.

Retail Services

- Q4 EBITDA was up 2% QoQ excluding investment income (but down 3% QoQ including investment income), and was below consensus. In a positive, retail sales clocked a sequential increase over a festive Q3 despite a slowdown at the start of the quarter due to Covid-19 restrictions. Continuing its expansion momentum, the business added 793 stores and 1.6mn sqft in Q4, taking total additions to 2,500 stores and 8mn sqft in FY22.
- Management expects Q1 to benefit from the normalisation of operations and demand momentum seen in Mar'22 post-Covid.

Oil & Gas

- Q4 EBITDA was down 23% QoQ, largely driven by RIL's exit from its US shale gas business. The company guides that the MJ field is progressing well and is scheduled to start production by Q3FY23.
- Q1 will benefit from the increase in gas ceiling price from US\$ 6.1/MMbtu to US\$ 9.9/MMbtu.

O2C

- Q4 EBITDA increased 5% QoQ, benefitting from improved transportation fuel cracks which was partly offset by lower petrochemical cracks.
- Q1 should benefit from strength in transportation cracks whereas the naphtha cracker-based petchem margin is likely to remain muted.

Financials

- RIL reported net debt of Rs 348bn at end-FY22 (from net cash of Rs 36bn a quarter ago) due to refinancing of high-cost spectrum liabilities of Rs 308bn with market borrowings.
- The company reported cash and cash equivalents of Rs 2.3tn which seems to include Rs 0.9tn of unquoted non-current investments (vs. Rs 0.4tn in FY21).

Fig 1 – Quarterly performance

(Rs bn)	Q4FY22	Q3FY22	QoQ (%)	Q4FY21	YoY (%)	FY22	FY21	YoY (%)
Consolidated P&L								
Revenue	2,119	1,913	10.8	1,549	36.8	7,216	4,863	48.4
EBITDA excl other income	314	297	5.6	234	34.3	1,105	807	36.8
Net income adjusted	180	177	1.8	142	26.9	650	481	35.2
Net income share of minority	162	157	3.1	124	30.4	579	435	33.1
EBITDA mix								
Oil to Chemicals (O2C)	142	135	5.3	114	24.8	527	382	38.1
Oil and Gas	16	20	(23.5)	5	224.2	55	3	2015.1
Retail	37	38	(3.2)	36	2.5	124	98	26.2
Digital Services	112	102	9.6	89	25.3	403	340	18.3
Others	28	20	41.8	13	112.2	79	64	23.4
Segment EBITDA	335	316	6.0	258	30.0	1,187	887	33.9
Delta	3	22	-	8	-	67	84	-
Consolidated EBITDA (Reported)	338	338	0.2	266	27.2	1,254	971	29.2

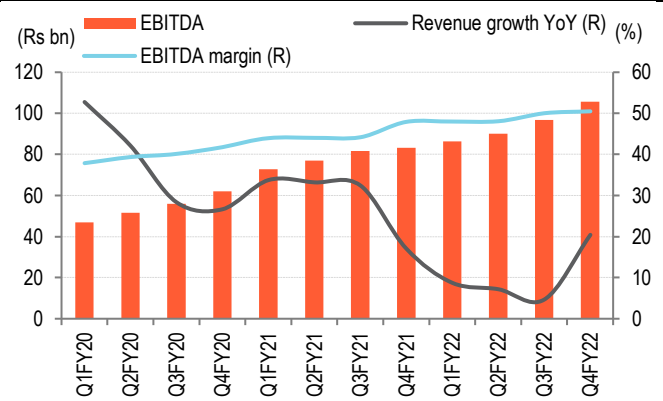
Source: Company, BOBCAPS Research

Fig 2 – Quarterly operational indicators

Parameter	Unit	Q4FY22	Q3FY22	QoQ (%)	Q4FY21	YoY (%)
Digital Services						
Customer base	mn	410.2	421.0	(2.6)	426.2	(3.8)
Net customer additions	mn	(10.9)	(8.4)		15.4	
ARPU adj for IUC	Rs/month	167.6	151.6	10.6	138.2	21.3
Retail						
Revenue	Rs bn	508	507	0.4	413	23.1
Core revenue	Rs bn	334	337	(0.9)	293	14.2
EBITDA margin excl investment income	%	7.1	7.0		7.5	
Total store count	Nos	15,196	14,412	5.4	12,711	19.5
Total store area	mn sqft	41.6	40.0	4.0	33.8	23.1
Oil to Chemicals						
Feedstock throughput	mt	19.3	19.7	(2.0)	18.7	3.2
Production meant for sale	mt	17.3	17.6	(1.7)	16.6	4.2
Transportation fuels	mt	10.7	10.9	(1.8)	9.9	8.1
Oil and Gas						
Production	BCFe	40.4	53.3	(24.2)	40.4	0.0
KG-D6 gas production	mmscmd	18.0	18.0	0.0	7.1	155.0
KG-D6 realisation	US\$/MMbtu	6.1	6.1	0.0	4.0	53.6

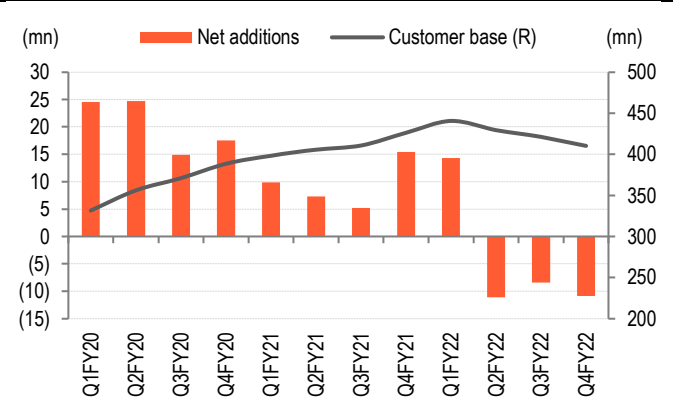
Source: Company, BOBCAPS Research

Fig 3 – Jio Infocomm: EBITDA drivers



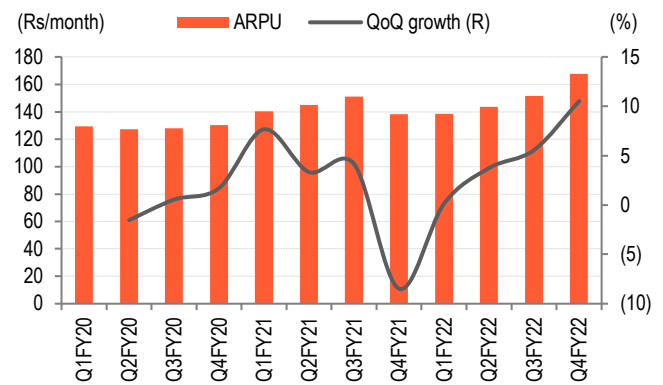
Source: Company, BOBCAPS Research

Fig 4 – Jio Infocomm: Subscriber additions



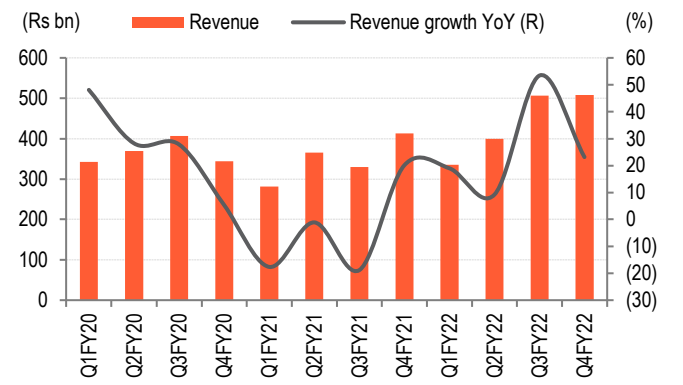
Source: Company, BOBCAPS Research

Fig 5 – JIO Infocomm: ARPU



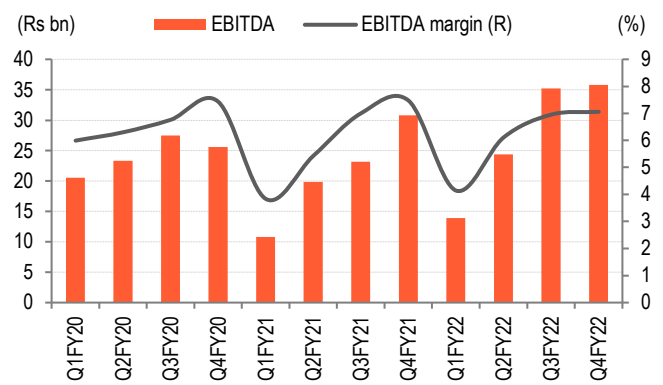
Source: Company, BOBCAPS Research

Fig 6 – Retail: Revenue



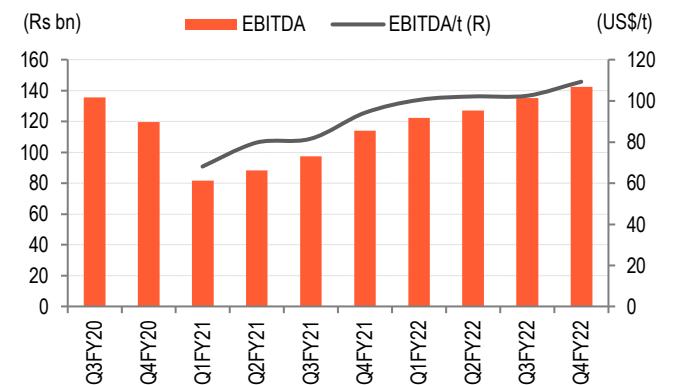
Source: Company, BOBCAPS Research

Fig 7 – Retail: EBITDA



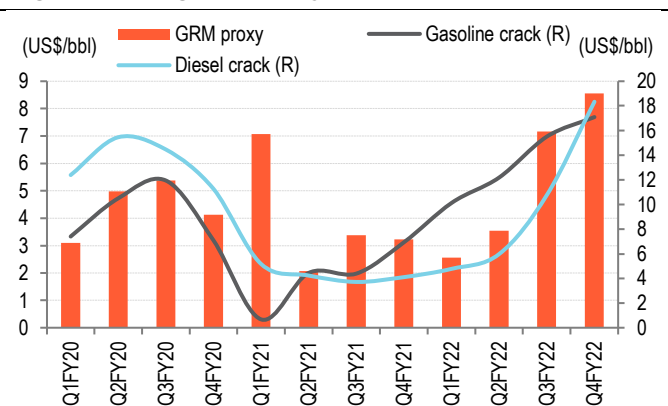
Source: Company, BOBCAPS Research

Fig 8 – Oil-to-Chemicals: EBITDA



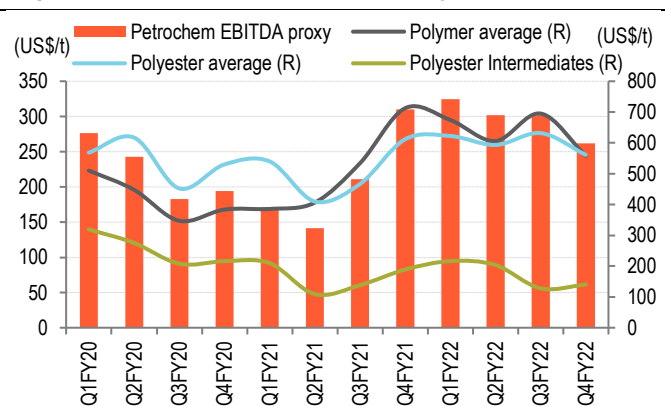
Source: Company, BOBCAPS Research

Fig 9 – Refining GRM proxy indicator



Source: Company, BOBCAPS Research

Fig 10 – Petrochemicals EBITDA proxy indicator



Source: Company, BOBCAPS Research

Forecast revisions

We raise our FY23/FY24 EBITDA forecasts by 8.3%/3.8% factoring in stronger refining margins, ARPU and gas price realisations. We also introduce FY25 forecasts. We now expect 18% annual growth in EBITDA over FY22-FY25 driven by a 5% 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. While we build in a surge in refining profit in FY23, we are currently assuming that margins will normalise to a healthy cyclical average by FY24.

Fig 11 – Revised estimates

(Rs bn)	Actual FY22P	New			Old		Change (%)	
		FY23E	FY24E	FY25E	FY23E	FY24E	FY23E	FY24E
Revenue	7,000	9,195	9,716	10,247	7,901	8,739	16.4	11.2
EBITDA	1,105	1,490	1,631	1,796	1,376	1,570	8.3	3.8
EBITDA margin (%)	15.8	16.2	16.8	17.5	17.4	18.0	-	-
Adj. PAT	579	812	927	1,025	741	879	9.7	5.4
PAT margin (%)	8.3	8.8	9.5	10.0	9.4	10.1	-	-
EPS (Rs)	85.5	120.0	137.0	151.5	109.5	130.0	9.7	5.4

Source: Company, BOBCAPS Research

Our revised EBITDA and net income forecasts are broadly in line with consensus for FY23/FY24. Comparison with FY25 consensus figures is not meaningful at this juncture owing to the limited number of estimates available.

Fig 12 – Comparison with consensus

(Rs bn)	Forecasts			Consensus			Delta to Consensus (%)		
	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E
Revenue	9,195	9,716	10,247	8,801	9,204	9,502	4.5	5.6	7.8
EBITDA	1,490	1,631	1,796	1,465	1,619	1,675	1.7	0.7	7.2
Adj. PAT	812	927	1,025	821	914	1,005	(1.1)	1.4	2.0
EPS (Rs)	120.0	137.0	151.5	119.5	135.0	160.0	0.4	1.5	(5.3)

Source: Bloomberg, BOBCAPS Research

Oil-to-Chemicals

We forecast 22% YoY growth in O2C EBITDA in FY23 but assume this would ease to a mid-cycle average by FY24.

- Benchmark refining margins have increased sharply with a jump in diesel/ATF cracks and stronger gasoline cracks post the Russia-Ukraine war. Margins are currently supported by the reduced availability of Russian products as well as a decline in production of low-sulfur transportation fuels within Europe following the spike in natural gas prices. We assume a US\$ 4/bbl YoY increase in RIL's GRM to US\$ 12/bbl in FY23, before easing to mid-cycle levels of US\$ 9.5/bbl in FY24.
- Given higher crude & naphtha prices and a weakening of the global economic outlook, petrochemical margins for the naphtha cracker have come under pressure. We assume a 20% YoY decline in petrochemical margin to Rs 218/t in FY23. In our view, RIL will manage margins through its highly integrated operations and its ability to use cheaper feedstock, including ethane and offgas.

Oil & Gas

We expect oil & gas EBITDA to grow 2.7x over FY22-FY24 with a sharp increase in natural gas realisation from US\$ 4.9/MMbtu in FY22 to US\$ 10.7/MMbtu/US\$ 9/MMbtu in FY23/FY24 and ramp-up in gas production from 18mmscmd in FY22 to 30mmscmd in FY24.

Digital Services

We model for 25.7% 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 40mn subscribers p.a.
- On the back of the 20-25% tariff hike taken by the industry in December, we estimate that ARPU will improve to Rs 179 in FY23. Given consolidation of the industry into three private players, we now factor in 7-8% annual hikes in ARPU to reach a level of Rs 208 in FY25.

Retail

We forecast 35.9% 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 three to five years). The 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.

Fig 13 – RIL: EBITDA mix

Particulars	FY21	FY22P	FY23E	FY24E	FY25E	FY22/25E CAGR
EBITDA (Rs bn)						
O2C	367	514	629	551	564	-
Oil & Gas	2	55	125	146	97	-
Cyclical subtotal	368	568	753	698	661	-
Digital Services	334	394	528	658	783	-
Retail	98	124	169	235	311	-
Consumer subtotal	432	518	697	893	1,094	-
Others	8	18	40	40	40	-
Consolidated business EBITDA	807	1,105	1,490	1,631	1,796	-
EBITDA YoY growth (%)						
O2C	(31.0)	40.2	22.3	(12.3)	2.4	3.2
Oil & Gas	(87.9)	3410.6	128.6	17.4	(33.7)	21.1
Cyclical subtotal	(32.3)	54.4	32.5	(7.4)	(5.2)	5.2
Digital Services	48.2	18.2	33.8	24.6	19.1	25.7
Retail	1.4	26.5	36.4	39.3	32.2	35.9
Consumer subtotal	34.1	20.1	34.4	28.2	22.5	28.3
Consolidated	(9.3)	36.8	34.9	9.4	10.1	17.6
EBITDA composition (% of total)						
O2C	45.4	46.5	42.2	33.8	31.4	-
Oil & Gas	0.2	4.9	8.4	9.0	5.4	-
Cyclical subtotal	97.6	102.0	95.3	79.0	70.5	-
Digital Services	41.3	35.7	35.4	40.3	43.6	-
Retail	12.1	11.2	11.3	14.4	17.3	-
Consumer subtotal	53.5	46.9	46.8	54.8	60.9	-

Source: Company, BOBCAPS Research

Fig 14 – Key assumptions

Parameter	Unit	FY21	FY22E	FY23E	FY24E	FY25E
Exchange rate	INR/USD	74.2	74.5	76.5	78.0	79.6
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
Petchem EBITDA	US\$/ton	203	272	218	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	21.5	30.0	30.0
Jio						
No of subscribers	mn	426	410	450	490	510
ARPU	Rs	144	150	179	193	208
Retail						
Revenue growth	% YoY	(5.3)	27.8	40.4	30.1	27.7
EBITDA margin	%	5.9	6.2	6.8	7.4	7.6

Source: Company, BOBCAPS Research

Valuation methodology

Maintain HOLD with a revised TP of Rs 2,700

We retain HOLD and have a revised TP of Rs 2,700 (Rs 2,520 previously) for RIL with 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 140 for upstream, Rs 110 for the value of its venture into digital services and Rs 47 for the new energy division. Our TP revision primarily reflects the change in earnings estimates even as 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 22.5x and FY24E P/E of 19.7x.

Fig 15 – Valuation summary

Business	Fair Value		Value/share (Rs)	Valuation basis
	(US\$ bn)	(Rs bn)		
Energy				
Refining	31	2,301	362	7.5x FY24E EBITDA
Petrochem	32	2,408	379	8.5x FY24E EBITDA
Upstream	12	892	140	Combination of DCF and reserve multiple
New energy	4	298	47	Option value
Energy total	79	5,899	929	-
Jio	59	4,360	686	10x FY24E EBITDA, RIL share
Digital services	9	701	110	6x FY25E Sales, discounted to FY23, RIL share
Reliance Retail	86	6,408	1,009	32x FY24E EBITDA, RIL share
Enterprise value	233	17,367	2,734	-
Net Debt	13	957	151	-
Marketable securities	10	741	117	At 85% of BV
Equity value	230	17,151	2,700	19.7x FY24E EPS

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 (6.2-6.5x on CY22/FY23 in refining and 6.7-7.1x 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	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	43.0	USD	89.5	9.7	10.7	1.8	1.6	6.9	7.2
Valero Energy	VLO US	48.3	USD	118.5	9.8	12.9	2.3	2.1	6.1	6.9
Marathon Petroleum	MPC US	49.2	USD	90.9	10.0	13.7	2.2	2.2	6.2	7.4
S-Oil	010950 KS	0.9	KRW	1,07,000	5.8	8.1	1.4	1.3	4.2	5.3
Sk Innovation	096770 KS	1.5	KRW	2,01,000	9.3	11.1	0.9	0.9	6.0	6.8
IRPC	IRPC TB	2.0	THB	3.38	12.8	11.0	0.8	0.7	7.3	6.7
Thai Oil	TOP TB	3.4	THB	58	8.9	11.0	0.9	0.9	9.7	10.8
Eneos Holdings	5020 JP	11.7	JPY	469.9	7.4	6.5	0.5	0.5	6.0	5.5
Idemitsu Kosan	5019 JP	7.9	JPY	3,455	6.8	6.9	0.7	0.6	6.2	6.4
Weighted Average	-	167.9	-	-	9.5	11.7	1.9	1.7	6.4	7.1
Simple Average	-	-	-	-	8.9	10.2	1.3	1.2	6.5	7.0
Median	-	-	-	-	9.3	11.0	0.9	0.9	6.2	6.8

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	2.8	KRW	5,01,000	14.8	11.9	1.5	1.3	6.3	5.3
Lotte Chemical	011170 KS	0.5	KRW	1,89,500	8.4	6.1	0.4	0.4	4.4	3.6
Sk Innovation	096770 KS	1.5	KRW	2,01,000	9.3	11.1	0.9	0.9	6.0	6.8
S-Oil	010950 KS	0.9	KRW	1,07,000	5.8	8.1	1.4	1.3	4.2	5.3
Wanhua Chemical	600309 CH	36.4	CNY	77.96	10.2	8.9	2.8	2.2	7.7	6.7
IRPC	IRPC TB	2.0	THB	3.38	12.8	11.0	0.8	0.7	7.3	6.7
Formosa Plastics	1301 TT	22.2	TWD	103.5	11.2	11.5	1.6	1.6	13.0	13.3
Petronas Chemicals	PCHEM MK	18.1	MYR	9.89	11.3	12.5	2.1	2.0	7.2	7.4
Indorama Ventures	IVL TB	7.1	THB	43.75	8.7	8.1	1.4	1.2	7.2	6.6
Lyondellbasell	LYB US	34.9	USD	106.6	6.6	6.5	2.4	2.0	5.3	5.1
Dow	DOW US	48.5	USD	66.63	8.4	9.0	2.3	2.1	5.2	5.3
Weighted Average	-	174.9	-	-	9.2	9.2	2.2	2.0	7.1	6.9
Simple Average	-	-	-	-	9.3	9.3	1.6	1.5	6.7	6.6
Median	-	-	-	-	9.0	8.9	1.5	1.5	7.1	6.7

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 ~22% 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	56.4	INR	719.5	31.5	21.2	4.6	3.8	8.2	6.9
Vodafone Idea	IDEA IN	3.7	INR	8.8	NA	NA	NA	NA	10.5	9.8

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 34.3-45.3x 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)	
					FY22E	FY23E	FY22E	FY23E	FY22E	FY23E
Trent	TRENT IN	4.9	INR	1,060	98.2	66.9	13.5	11.3	40.0	30.9
Avenue Supermarkets	DMART IN	28.6	INR	3,415	86.8	66.2	13.5	11.2	56.4	43.4
Titan	TTAN IN	24.5	INR	2,131	63.3	51.5	16.3	13.2	43.2	35.5
Jubilant Foodworks	JUBI IN	4.1	INR	481	53.2	42.0	14.5	11.7	23.7	19.9
Aditya Birla Fashion and Retail	ABFRL IN	3.1	INR	258	84.6	50.5	8.2	7.1	15.9	12.6
V-Mart Retail	VMART IN	0.8	INR	3,055	NA	NA	NA	NA	NA	NA
Shoppers Stop	SHOP IN	0.7	INR	460	184.0	72.1	39.1	22.4	NA	NA
Bata India	BATA IN	2.9	INR	1,759	52.7	41.1	10.4	8.7	26.4	21.5
Relaxo Footwears	RLXF IN	3.4	INR	1,050	NA	NA	NA	NA	NA	NA
Weighted Average	-	72.9	-	-	76.6	57.8	14.4	11.8	45.4	35.9
Simple Average	-	-	-	-	89.0	55.7	16.5	12.2	34.3	27.3
Median	-	-	-	-	76.6	51.5	14.4	11.7	34.8	28.5

Source: Company, BOBCAPS Research

New Energy

We assign an option value of US\$ 4bn from the new energy business, which is 40% of the US\$ 10bn investment committed by RIL over FY22-FY24. Our option value is 3x of the US\$ 1.3bn investment already committed toward technology and capability acquisitions by RIL to develop this business.

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:** Faster 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 additional risks.
- **New energy business:** Faster evolution of new energy businesses and integration with existing businesses than our current expectations is a key upside risk.

Sector recommendation snapshot

Company	Ticker	Market Cap (US\$ bn)	Price (Rs)	Target (Rs)	Rating
Bharat Petroleum Corp	BPCL IN	9.9	353	450	BUY
GAIL	GAIL IN	8.7	149	160	BUY
Gujarat State Petronet	GUJS IN	1.9	254	270	BUY
Hindustan Petroleum Corp	HPCL IN	5.0	271	410	BUY
Indian Oil Corp	IOCL IN	14.9	122	150	BUY
Indraprastha Gas	IGL IN	3.1	347	565	BUY
Petronet LNG	PLNG IN	4.2	214	330	BUY
Reliance Industries	RIL IN	216.5	2,475	2,700	HOLD

Source: BOBCAPS Research, NSE | Price as of 10 May 2022

Financials

Income Statement

Y/E 31 Mar (Rs mn)	FY21A	FY22P	FY23E	FY24E	FY25E
Total revenue	46,69,240	69,99,620	91,94,527	97,16,071	1,02,47,044
EBITDA	8,07,370	11,04,600	14,89,932	16,30,621	17,95,593
Depreciation	(2,65,720)	(2,97,970)	(3,62,951)	(4,04,705)	(4,34,075)
EBIT	5,41,650	8,06,630	11,26,982	12,25,916	13,61,518
Net interest inc./(exp.)	(2,11,890)	(1,45,840)	(1,91,099)	(1,91,099)	(1,91,099)
Other inc./(exp.)	1,63,270	1,49,470	2,08,086	2,89,230	3,62,081
Exceptional items	56,420	28,360	0	0	0
EBT	4,93,030	8,10,260	11,43,969	13,24,047	15,32,500
Income taxes	(17,220)	(1,62,970)	(2,35,641)	(2,64,703)	(3,37,940)
Extraordinary items	0	0	0	0	0
Min. int./Inc. from assoc.	(40,950)	(68,600)	(96,192)	(1,32,430)	(1,69,713)
Reported net profit	4,91,280	6,07,050	8,12,135	9,26,915	10,24,847
Adjustments	0	0	0	0	0
Adjusted net profit	4,36,628	5,84,201	8,12,135	9,26,915	10,24,847

Balance Sheet

Y/E 31 Mar (Rs mn)	FY21A	FY22P	FY23E	FY24E	FY25E
Accounts payables	10,88,970	15,93,300	18,99,247	17,96,295	16,91,227
Other current liabilities	7,71,750	6,67,360	9,53,831	8,69,490	7,84,222
Provisions	51,290	37,890	37,890	37,890	37,890
Debt funds	27,47,410	29,39,980	29,39,980	29,39,980	29,39,980
Other liabilities	5,46,910	8,57,850	8,71,230	8,84,011	9,17,677
Equity capital	64,450	67,650	67,650	67,650	67,650
Reserves & surplus	69,37,270	77,27,200	84,60,059	93,12,204	1,02,64,410
Shareholders' fund	70,01,720	77,94,850	85,27,709	93,79,854	1,03,32,060
Total liab. and equities	1,32,00,650	1,49,86,220	1,64,21,069	1,72,31,132	1,81,96,381
Cash and cash eq.	1,73,970	3,61,780	12,73,784	18,37,135	25,98,349
Accounts receivables	1,90,140	2,36,400	2,49,116	2,44,263	2,41,011
Inventories	8,16,720	10,77,780	12,44,660	11,88,504	11,31,195
Other current assets	16,99,430	13,64,580	13,64,580	13,64,580	13,64,580
Investments	36,48,280	39,42,640	39,42,640	39,42,640	39,42,640
Net fixed assets	53,10,460	61,47,890	71,64,987	76,01,252	79,05,310
CWIP	12,59,530	17,25,060	10,51,212	9,22,666	8,83,206
Intangible assets	1,02,120	1,30,090	1,30,090	1,30,090	1,30,090
Deferred tax assets, net	0	0	0	0	0
Other assets	0	0	0	0	0
Total assets	1,32,00,650	1,49,86,220	1,64,21,069	1,72,31,132	1,81,96,381

Cash Flows

Y/E 31 Mar (Rs mn)	FY21A	FY22P	FY23E	FY24E	FY25E
Cash flow from operations	(15,20,350)	12,68,730	13,93,202	9,28,885	10,00,733
Capital expenditures	(4,89,180)	(16,00,930)	(7,06,200)	(7,12,424)	(6,98,672)
Change in investments	(85,770)	(7,65,610)	0	0	0
Other investing cash flows	(6,32,040)	5,92,750	2,08,086	2,89,230	3,62,081
Cash flow from investing	(12,06,990)	(17,73,790)	(4,98,114)	(4,23,194)	(3,36,591)
Equities issued/Others	10,02,980	3,200	0	0	0
Debt raised/repaid	(3,54,780)	9,100	0	0	0
Interest expenses	0	0	0	0	0
Dividends paid	(45,840)	(54,120)	(79,276)	(74,770)	(72,641)
Other financing cash flows	19,89,750	7,34,690	96,192	1,32,430	1,69,713
Cash flow from financing	25,92,110	6,92,870	16,916	57,660	97,072
Chg in cash & cash eq.	(1,35,230)	1,87,810	9,12,004	5,63,351	7,61,214
Closing cash & cash eq.	1,73,970	3,61,780	12,73,784	18,37,135	25,98,349

Per Share

Y/E 31 Mar (Rs)	FY21A	FY22P	FY23E	FY24E	FY25E
Reported EPS	76.2	89.7	120.0	137.0	151.5
Adjusted EPS	64.5	86.4	120.0	137.0	151.5
Dividend per share	6.1	8.4	11.7	11.1	10.7
Book value per share	1,086.4	1,152.2	1,260.6	1,386.5	1,527.3

Valuations Ratios

Y/E 31 Mar (x)	FY21A	FY22P	FY23E	FY24E	FY25E
EV/Sales	4.2	2.8	2.1	1.9	1.8
EV/EBITDA	24.1	17.6	13.0	11.6	10.1
Adjusted P/E	38.3	28.7	20.6	18.1	16.3
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	71.0	70.0	66.9
Interest burden (PBT/EBIT)	101.4	104.0	101.5	108.0	112.6
EBIT margin (EBIT/Revenue)	11.6	11.5	12.3	12.6	13.3
Asset turnover (Rev./Avg TA)	37.6	49.7	58.6	57.7	57.8
Leverage (Avg TA/Avg Equity)	2.2	1.9	1.9	1.9	1.8
Adjusted ROAE	7.6	7.9	10.0	10.4	10.4

Ratio Analysis

Y/E 31 Mar	FY21A	FY22P	FY23E	FY24E	FY25E
YoY growth (%)					
Revenue	(21.9)	49.9	31.4	5.7	5.5
EBITDA	(9.3)	36.8	34.9	9.4	10.1
Adjusted EPS	(0.3)	33.8	39.0	14.1	10.6
Profitability & Return ratios (%)					
EBITDA margin	17.3	15.8	16.2	16.8	17.5
EBIT margin	11.6	11.5	12.3	12.6	13.3
Adjusted profit margin	9.4	8.3	8.8	9.5	10.0
Adjusted ROAE	7.6	7.9	10.0	10.4	10.4
ROCE	5.7	5.8	7.3	7.5	7.5
Working capital days (days)					
Receivables	15	11	10	9	9
Inventory	95	72	107	103	91
Payables	97	83	83	83	75
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	5.9	6.4	7.1
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%

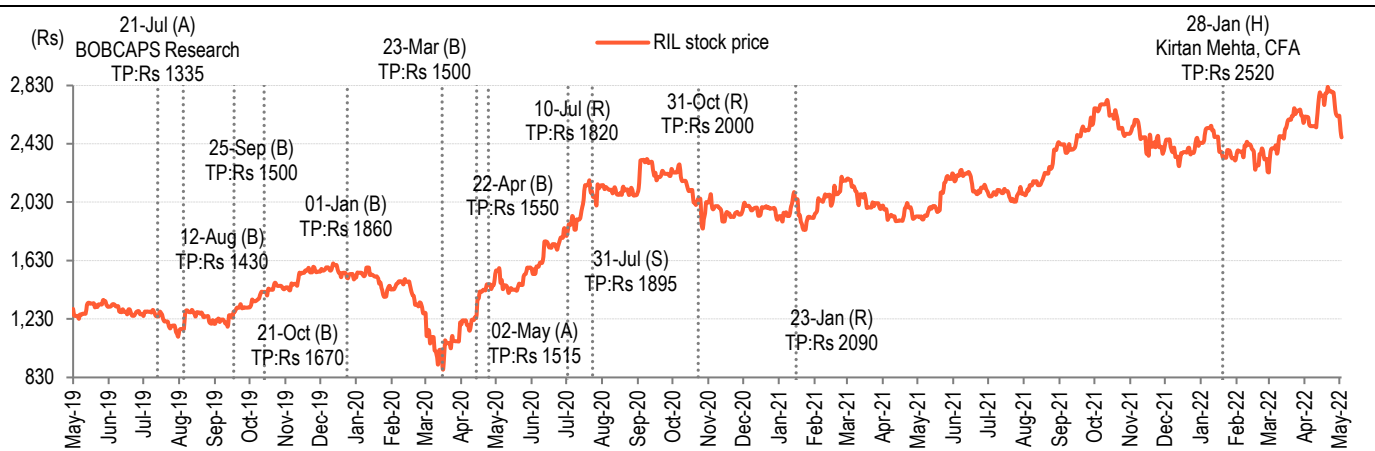
HOLD – Expected return from -6% to +15%

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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