

Retail Equity Research

Reliance Industries Limited

Oil, Gas & Consumable Fuels

BSE CODE: 500325

NSE CODE: RELIANCE

Bloomberg CODE: RIL: IN

SENSEX: 37,688

BUY

12M Investment period Rating as per Large Cap
CMP Rs. 2,151 TARGET Rs. 2,464 RETURN 15%
(Closing: 04-08-20) 

KEY CHANGES:

TARGET 

RATING 

EARNINGS 

Q1 impacted by pandemic; Outlook promising

Reliance Industries Ltd. is one of the largest private sector companies in India with businesses in telecommunication, petrochemicals, synthetic fibers, fiber intermediates, textiles, retail and energy.

- Consolidated revenue for Q1FY21 fell 43.8% YoY due to decline in refining, petrochemical, and retail business due to COVID-19 lockdown.
- Q1FY21 EBITDA fell 21.9% YoY with weak demand in O2C segment and disruption in supply chain and Retail operations during lockdown.
- Jio Platforms raised Rs. 152,056cr from deals with investors i.e. Facebook, Google, etc. It also completed rights issue of Rs. 53,124 cr.
- Given the cost optimization plans, improvement in digital services business, and launch of JioMart, outlook looks promising. We upgrade our rating to BUY with target price of Rs. 2,464 based on SOTP.

Topline tumbles on lower throughput and pricing

RIL recorded total consolidated revenue of Rs. 91,238cr (-43.8% YoY), on account of decline in Refining, Petrochemicals, and Retail businesses. Refining fell 54.1% YoY to Rs. 46,642cr due to decline in Brent crude oil (-57.6% YoY) and refinery throughput (-5.1% YoY). Petrochemicals business declined 33.0% YoY on account of lower price realizations of feedstocks due to COVID-19 lockdown. The segment EBITDA declined 49.7% YoY due to weak demand and lower realization in export market, partially offset by cost reduction. Reliance Retail EBITDA fell 17.2% YoY due to disruption in store operations (29% stores partially operational, 50% stores fully closed). However, Digital services rose 34.1% YoY to Rs. 21,302cr, majorly driven by net subscriber addition (9.9mn) and improved ARPU (Rs. 140.3 in Q1FY21). Overall EBITDA fell 21.9% YoY due to reduced demand & margin in O2C businesses and disruption in retail operations, partially offset by integration benefits, cost reduction, and digital business. Net profit rose 31.0% YoY to Rs. 13,233cr driven by higher other income (+54.2% YoY), profit on divestment of stake in domestic fuel retailing business (Rs. 4,966cr), and lower income tax (-93.8% YoY) as per the new tax rules.

Key concall highlights

- GRM reduced to US\$6.3/barrel vs. US\$8.1/barrel in Q1FY20 due to lower product cracks and crude differential.
- The retail segment has 11,806 stores and presence in 7,000 towns.
- Reliance entered into a JV, Reliance BP Mobility Limited, with BP to gain India's fuels and mobility markets.
- The company completed Rights issue of Rs. 53,124cr during the quarter.

New deals

JioMart has entered into deals with Facebook (9.99% equity stake), Google (7.73%), Silver Lake (2.08%), Vista Equity Partners (2.32%), General Atlantic (1.34%), KKR (2.32%), Mubadala (1.85%), ADIA (1.16%), TPG (0.93%), L. Catterton (0.39%), PIF (2.32%), Intel Capital (0.39%), and Qualcomm Ventures (0.15%). It raised Rs. 152,056cr from these deals.

Valuation

Focus on cost optimization and integration to compensate the weak demand under O2C businesses, expansion of 4G network and upgrade to 5G technology, launch of JioMart, ramp up of Ajoio, and start of oil production from R cluster in H2FY21 will boost the company's performance in medium-term. Hence, we upgrade our rating on the stock to BUY with a revised target price of Rs. 2,464 based on Sum-of-the-Parts valuation.

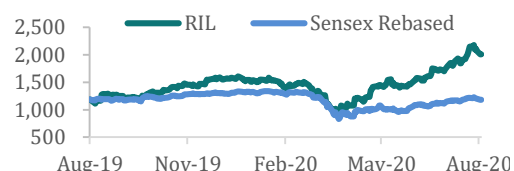
Company Data

Market Cap (cr)	Rs. 1,386,416
Enterprise Value (cr)	Rs. 1,662,217
Outstanding Shares (cr)	644.5
Free Float	53.0%
Dividend Yield	0.3%
52 week high	Rs. 2,199
52 week low	Rs. 868
6m average volume (cr)	0.3
Beta	1.0
Face value	Rs. 10

Shareholding %	Q3FY20	Q4FY20	Q1FY21
Promoters	48.9	48.9	48.9
FII's	24.0	23.5	24.3
MFs/Insti	16.0	16.1	15.8
Public	8.5	8.8	8.4
Others	2.7	2.8	2.5
Total	100.0	100.0	100.0
Promotor pledge	0.0	0.0	0.0

Price Performance	3 Month	6 Month	1 Year
Absolute Return	38.7%	44.9%	69.6%
Absolute Sensex	9.6%	-7.4%	-0.5%
Relative Return*	29.2%	52.3%	70.1%

*over or under performance to benchmark index



Consolidated (cr)	FY20A	FY21E	FY22E
Sales	611,645	527,831	659,429
Growth (%)	4.9	(13.7)	24.9
EBITDA	88,217	90,943	129,969
EBITDA Margin (%)	14.4	17.2	19.7
Adj. PAT	43,798	38,310	65,026
Growth (%)	10.6	(12.5)	69.7
Adj. EPS	78.6	59.4	100.9
Growth (%)	17.7	(24.4)	69.7
P/E	14.1	36.2	21.3
P/B	1.4	2.8	2.5
EV/EBITDA	10.3	18.3	12.5
ROE (%)	8.7	8.8	11.8
D/E	0.7	0.6	0.5

Quarterly Financials (Consolidated)

Profit & Loss Account

	Q1FY21	Q1FY20	YoY Growth %	Q4FY20	QoQ Growth %
Revenue	91,238	162,353	(43.8)	139,535	(34.6)
EBITDA	16,875	21,615	(21.9)	22,034	(23.4)
EBITDA margins	18.5	13.3	520bps	15.8	270bps
Depreciation	6,308	5,011	25.9	6,332	(0.4)
EBIT	10,567	16,604	(36.4)	15,702	(32.7)
Interest	6,735	5,109	31.8	6,064	11.1
Other Income	4,710	2,871	64.1	3,852	22.3
Exceptional Items	4,966	-	n.m.	(4,267)	n.m.
PBT and Exceptional Items	13,508	14,366	(6.0)	9,223	46.5
Tax	260	4,225	(93.8)	2,677	(90.3)
Share of profit from Associate	322	25	1,188.0	(29)	1,210.3
Minority Interest	15	37	(59.5)	198	(92.4)
Reported PAT	13,233	10,104	31.0	6,348	108.5
Adjustments	(4,966)	-	n.m.	4,267	n.m.
Adjusted PAT	8,267	10,104	(18.2)	10,615	(22.1)
No. of shares	644.5	592.6	-	633.9	-
EPS (Rs.)	12.8	17.1	(24.8)	16.7	(23.4)

Change in Estimates

Year / Rs. cr	Old estimates		New estimates		Change %	
	FY21E	FY22E	FY21E	FY22E	FY21E	FY22E
Revenue	567,297	648,939	527,831	659,429	(7.0)	1.6
EBITDA	89,919	106,606	90,943	129,969	1.1	21.9
Margins (%)	15.9	16.4	17.2	19.7	138bps	328bps
Adj. PAT	41,495	53,128	38,310	65,026	(7.7)	22.4
EPS (Rs.)	65.5	83.8	59.4	100.9	(9.2)	20.4

Sum of the parts (SOTP) valuation

Particulars	Basis	Multiple	Year	Value (Rs. cr)	Value/share (Rs)
Digital Services	EV/EBIT	28x	FY22E	7,74,036	1,201
Organized Retail	EV/EBIT	28x	FY22E	4,09,504	635
Oil and Gas	EV/EBITDA	10x	FY22E	2,151	3
Others	EV/EBIT	6x	FY22E	37,786	59
Petrochemicals	EV/EBIT	13x	FY22E	3,39,068	526
Refining	EV/EBIT	15x	FY22E	2,67,355	415
Enterprise Value				18,29,900	2,839
Net Debt				(2,32,442)	(361)
Minority Interest				(9,464)	(15)
Equity Value				15,87,995	2,464

PROFIT & LOSS

Y.E March (Rs. cr)	FY18A	FY19A	FY20A	FY21E	FY22E
Revenue	408,265	583,094	611,645	527,831	659,429
% change	23.6	42.8	4.9	(13.7)	24.9
EBITDA	64,176	84,167	88,217	90,943	129,969
% change	38.9	31.2	4.8	3.1	42.9
Depreciation	16,706	20,934	22,203	26,523	27,515
EBIT	47,470	63,233	66,014	64,420	102,454
Interest	8,052	16,495	22,027	22,344	21,377
Other Income	10,008	8,489	9,619	18,418	8,575
PBT	49,426	55,227	53,606	60,494	89,653
% change	23.5	11.7	(2.9)	12.8	48.2
Tax	13,346	15,390	13,726	16,640	23,758
Tax Rate (%)	27.0	27.9	25.6	27.5	26.5
Reported PAT	36,075	39,588	39,354	43,276	65,026
Adj*	(1,087)	-	4,444	(4,966)	-
Adj PAT	34,988	39,588	43,798	38,310	65,026
% change	17.0	13.1	10.6	(12.5)	69.7
No. of shares (cr)	592.5	592.6	556.9	644.5	644.5
Adj EPS (Rs.)	59.1	66.8	78.6	59.4	100.9
% change	(41.6)	13.1	17.7	(24.4)	69.7
DPS (Rs.)	6.0	6.5	6.5	7.0	7.5
CEPS (Rs.)	87.3	102.1	118.5	100.6	143.6

CASH FLOW

Y.E March (Rs. cr)	FY18A	FY19A	FY20A	FY21E	FY22E
Net inc. + Depn.	52,781	60,522	61,557	69,799	92,541
Non-cash adj.	140	10,606	14,613	20,988	20,398
Changes in W.C	18,538	(28,782)	21,904	(3,982)	(3,987)
C.F. Operation	71,459	42,346	98,074	86,805	108,952
Capital exp.	(72,954)	(92,777)	(91,992)	(50,144)	(50,117)
Change in inv.	2,333	(3,824)	14,710	211	149
Other invest.CF	2,331	1,473	1,565	2,077	1,990
C.F - Investment	(68,290)	(95,128)	(75,717)	(47,856)	(47,977)
Issue of equity	406	230	129	-	-
Issue/repay debt	19,870	86,456	34,519	(705)	(20,000)
Dividends paid	(3,916)	(4,282)	(4,592)	(4,512)	(4,834)
Other finance.CF	(18,361)	(26,498)	(32,597)	(22,343)	(21,376)
C.F - Finance	(2,001)	55,906	(2,541)	(27,560)	(46,209)
Chg. in cash	1,168	3,124	19,816	11,389	14,765
Closing cash	4,255	11,081	30,920	42,309	57,074

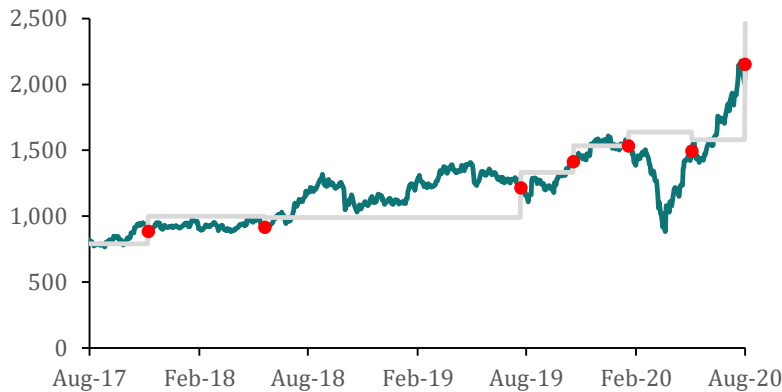
BALANCE SHEET

Y.E Mar. (Rs. cr)	FY18A	FY19A	FY20A	FY21E	FY22E
Cash	4,255	11,081	30,920	42,309	57,074
Accounts Receivable	17,555	30,089	19,656	19,602	27,786
Inventories	60,837	67,561	73,903	63,866	82,006
Other Cur. Assets	101,139	123,322	133,781	134,436	135,105
Investments	25,259	164,612	203,852	203,267	202,741
Gross Fixed Assets	493,430	586,207	678,199	728,343	778,460
Net Fixed Assets	316,031	302,115	435,920	460,223	483,477
CWIP	166,220	150,178	59,096	57,914	56,756
Intangible Assets	108,656	125,544	146,748	147,248	147,753
Def. Tax (Net)	5,075	4,776	2,900	2,871	2,842
Other Assets	11,321	23,128	59,139	59,513	59,891
Total Assets	816,348	1,002,406	1,165,915	1,191,249	1,255,430
Current Liabilities	276,423	252,886	319,130	305,731	328,755
Provisions	2,906	2,856	1,790	1,808	1,826
Debt Funds	190,146	281,962	310,221	309,516	289,516
Other Liabilities	49,828	69,310	73,427	73,428	73,429
Equity Capital	5,922	5,926	6,339	6,339	6,339
Reserves & Surplus	287,584	381,186	446,992	485,833	546,102
Shareholder's Fund	293,506	387,112	453,331	492,172	552,441
Minority Interest	3,539	8,280	8,016	8,594	9,464
Total Liabilities	816,348	1,002,406	1,165,915	1,191,249	1,255,430
BVPS (Rs.)	495	653	814	764	857

RATIOS

Y.E March	FY18A	FY19A	FY20A	FY21E	FY22E
Profitab. & Return					
EBITDA margin (%)	15.7	14.4	14.4	17.2	19.7
EBIT margin (%)	11.6	10.8	10.8	12.2	15.5
Net profit mgn.(%)	8.8	6.8	6.4	8.2	9.9
ROE (%)	12.3	10.2	8.7	8.8	11.8
ROCE (%)	9.7	9.3	8.6	8.0	12.0
W.C & Liquidity					
Receivables (days)	15.7	18.8	11.7	13.6	15.4
Inventory (days)	78.2	60.4	64.2	65.7	67.5
Payables (days)	137.3	96.8	84.1	85.8	87.6
Current ratio (x)	0.6	0.7	0.6	0.7	0.7
Quick ratio (x)	0.3	0.4	0.3	0.3	0.4
Turnover & Leverage					
Gross asset T.O (x)	1.0	1.1	1.0	0.8	0.9
Total asset T.O (x)	0.5	0.6	0.6	0.4	0.5
Int. coverage ratio (x)	5.9	3.8	3.0	2.9	4.8
Adj. debt/equity (x)	0.6	0.7	0.7	0.6	0.5
Valuation					
EV/Sales (x)	1.8	1.9	1.5	3.1	2.5
EV/EBITDA (x)	11.2	12.9	10.3	18.3	12.5
P/E (x)	15.1	20.4	14.1	36.2	21.3
P/BV (x)	1.8	2.1	1.4	2.8	2.5

Recommendation Summary



Dates	Rating	Target
10-Feb-17	BUY	610
28-Apr-17	BUY	792
10-Nov-17	BUY	1,000
24-May-18	HOLD	990
26-Jul-19	HOLD	1,332
22-Oct-19	HOLD	1,534
22-Jan-20	HOLD	1,638
7-May-20	HOLD	1,580
5-Aug-20	BUY	2,464

Investment Rating Criteria

Ratings	Large caps	Midcaps	Small Caps
Buy	Upside is above 10%	Upside is above 15%	Upside is above 20%
Accumulate	-	Upside is between 10%-15%	Upside is between 10%-20%
Hold	Upside is between 0% - 10%	Upside is between 0%-10%	Upside is between 0%-10%
Reduce/sell	Downside is more than 0%	Downside is more than 0%	Downside is more than 0%
Not rated			

Definition:

Buy: Acquire at Current Market Price (CMP), with the target mentioned in the research note.

Accumulate: Partial buying or to accumulate as CMP dips in the future.

Hold: Hold the stock with the expected target mentioned in the note.

Reduce: Reduce your exposure to the stock due to limited upside.

Sell: Exit from the stock.

Not rated: The analyst has no investment opinion on the stock.

To satisfy regulatory requirements, we attribute 'Accumulate' as Buy and 'Reduce' as Sell.

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