

**SELL**

TP: Rs 1,895 | ▼ 10%

**RELIANCE INDUSTRIES**

Oil & Gas

30 August 2020

## Expanding footprint in retail

**RIL's retail business subsidiary – RRVL - announced ~Rs247 bn investment in Future enterprises (FEL). FEL would be amalgamating its subsidiaries spanning retail, logistics, warehousing and wholesale businesses into itself. This would give RRVL a strong foothold into FEL's massive retail value chain, and control over >20 mn sq ft of retail space spanning groceries, fashion, lifestyle, etc. RRVL would be absorbing FEL's Rs129 bn troubled debt, but gets FEL at ~0.9x FY20 sales, which may augur well over the long-term.**

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**Taking control of a sinking retail empire:** RRVL would get control of FEL's entire retail value chain - spanning retail stores to logistics to sourcing - a mega retail empire built by Kishore Biyani over last two decades (starting from the first pantaloon store in 1997). FEL couldn't capitalize on its 10 years' head start over RIL's retail venture, hit by failed diversification into insurance, capital markets, and real estates ventures. This was aggravated by mounting debt in core retail businesses, as FEL struggled to catch up with competition from both offline and online retailers. Recent pandemic made it worse for the FEL and other group companies, probably forcing them into this deal.

**Strategic synergies:** RIL gets access to >20 mn retail space owned by FEL (vs ~16 mn for RRVL), and ~1800 retail stores of FEL. Overall consumer facing businesses of future group have a revenue footprint of ~Rs250 bn in FY20 (adding ~15% to Rs1.6 trn existing revenues for retail) Additionally, RIL gets access to critical logistics infrastructures (cold chain, warehousing, etc.), mall ownerships and rentals businesses.

**Priced in:** While we await more details on precise stake that RIL would own in FEL, and financial impact in FY21 (given the uncertainty on pandemic), we don't anticipate see a major change in valuations. We maintain our SELL rating.

Ticker/Price	RIL IN/Rs 2,116
Market cap	US\$ 195.3bn
Shares o/s	6,762mn
3M ADV	US\$ 548.1mn
52wk high/low	Rs 2,199/Rs 876
Promoter/FPI/DII	49%/24%/27%

Source: NSE

## STOCK PERFORMANCE



Source: NSE

## KEY FINANCIALS

Y/E 31 Mar	FY19A	FY20A	FY21E	FY22E	FY23E
Total revenue (Rs mn)	5,830,940	6,116,450	3,785,945	4,794,554	4,604,317
EBITDA (Rs mn)	841,670	882,170	938,561	1,412,455	1,729,258
Adj. net profit (Rs mn)	400,860	443,240	484,225	771,058	1,016,206
Adj. EPS (Rs)	59.3	65.6	71.6	114.0	150.3
Adj. EPS growth (%)	13.6	10.6	9.2	59.2	31.8
Adj. ROAE (%)	11.7	11.1	10.5	13.8	15.9
Adj. P/E (x)	35.7	32.3	29.5	18.6	14.1
EV/EBITDA (x)	19.3	18.7	18.1	11.9	9.5

Source: Company, BOBCAPS Research

**BOB Capital Markets Ltd is a wholly owned subsidiary of Bank of Baroda**

Important disclosures, including any required research certifications, are provided at the end of this report.



**FIG 1 – DEAL VALUATIONS**

	CMP (Rs/sh)	Market capitalization (Rs mn, as on 28 <sup>th</sup> Aug'20)	Effective price after swap (Rs/sh)	Premium (%)	Valuation offered (Rs mn)	FEL proposal
Future consumer	11.5	1,530	18	56.8	2,398.95	Will issue 9 shares of Rs 2 (Rs 18) to every shareholder
Future Retail	135.0	73,200	202	49.6	109,528.89	Will issue 101 shares of Rs 2 (Rs 202) to every shareholder
Future Lifestyle	145.0	29,250	232	60.0	46,800.00	Will issue 116 shares of Rs 2 (Rs 232) to every shareholder
Future Supply	155.0	6,800	262	69.0	11,494.19	Will issue 131 shares of Rs 2 (Rs 232) to every shareholder
Future market network	26.7	1,530	36	35.1	2,066.79	Will issue 18 shares of Rs 2 (Rs 36) to every shareholder
<b>Total market cap</b>		<b>112,310</b>		<b>53.4</b>	<b>172,289</b>	
FEL Consolidate Debt and liabilities					130,000	
<b>Preferential allotment by FEL</b>						
Stage 1					12,000	6.09% stake in post merger entity FEL, valuing it at Rs 197 bn
Stage 2					4,000	Gives another 7.05% in FEL, upon conversion and payment of balance 75% of issue price, valuing at Rs 56 bn
<b>Total preferential allotment</b>					<b>16,000</b>	<b>13.14% stake valued at Rs 131.4 bn</b>
<b>Total FEL</b>					<b>188,289</b>	
<b>Others, including slump sale transfer</b>					<b>58,841</b>	
<b>Total valuation to be paid by RIL</b>					<b>247,130</b>	

Source: BOBCAPS Research, Company

**FIG 2 – FEL GROUP FINANCIALS**

Companies	Net worth (FY20, Rs mn)	Revenues (FY20, Rs mn)	Business Segment
Future Enterprises Ltd	39,685	37,196	Holding company
<b>Companies being amalgamated</b>			
Future consumers	9,736	30,261	FMCG
Future lifestyle	11,359	60,504	Fashion retail
Future Market Networks	1,681	1,706	Market network building
Future Retail	49,534	157,171	Fashion, household and consumer retail
Future Supply chain	7,432	11,406	Integrated and IT enabled supply chain and logistics
Future Bazaar	(15)	0.7	Online retailing
Acute retail infra	(96)	11	Mall ownership and rentals
Basuti Sales	(901.8)	2,052	Wholesales trading and rentals
Brattle Foods	92.2	243	Warehousing and cold storage facilities
Chirag operating lease	(1.5)	-	Investment in retail and property rental
Hare Krishna	(186.1)	-	Renting of instore retail infra
Nice Texcot	(784.6)	26	Renting of instore retail infra
Nishta Mall	(32.4)	84	Mall ownership and rentals
Ojas tradlease	(1,649.6)	45	Mall ownership and rentals
Precision realty	11.4	21	Warehousing and cold storage facilities
Rivaaz trade	(5.7)	254	IT, ITES and rentals
Syntex	646	51	Renting of instore retail infra, property investments
Taquito lease	(73.5)	-	Real estate solutions
Unique malls	(38.5)	5	Mall ownership and rentals
<b>Total Subs</b>	<b>76,706</b>	<b>263,840</b>	
<b>Total cash consideration to be paid by RIL</b>		<b>247,130</b>	
<b>Deal valuations (x)</b>	<b>P/BV</b>	<b>P/Sales</b>	
	<b>3.2</b>	<b>0.9</b>	

Source: Company, BOBCAPS Research

## Valuation methodology

Retail segment earnings growth is expected to take a hit in FY21, on impact from the pandemic. FEL acquisition seems like a good growth strategy from a long-term perspective for RIL's retail business, as this potentially adds ~265 bn (~26%) to comparable revenues of ~Rs1 trn from comparable retail segment revenues of RIL in FY20 (ex-connectivity and petroleum retail segments).

**FIG 3 – RIL EBITDA COMPOSITION**

Consolidated business EBITDA (Rs bn)	FY18	FY19	FY20	FY21E	FY22E	FY23E
<b>Petrochemicals</b>	<b>259</b>	<b>376</b>	<b>309</b>	<b>263</b>	<b>301</b>	<b>303</b>
YoY growth (%)	50.9	45.6	(17.8)	(15.1)	14.6	0.6
% of total	39.3	44.9	35.1	28.0	21.3	17.5
<b>Refining</b>	<b>290</b>	<b>230</b>	<b>245</b>	<b>162</b>	<b>329</b>	<b>343</b>
YoY growth (%)	2.1	(20.5)	6.2	(33.8)	103.1	4.3
% of total	44.1	27.5	27.8	17.2	23.3	19.8
<b>E&amp;P</b>	<b>17</b>	<b>18.6</b>	<b>5.8</b>	<b>(38)</b>	<b>(44)</b>	<b>(9)</b>
YoY growth (%)	(223.1)	10.7	(68.8)	(757.5)	15.7	(79.5)
% of total	2.6	2.2	0.7	(4.1)	(3.1)	(0.5)
<b>RJIO</b>	<b>67.3</b>	<b>151.0</b>	<b>225.2</b>	<b>378.9</b>	<b>542.8</b>	<b>693.8</b>
YoY growth (%)		124.4	49.1	68.3	43.3	27.8
% of total	10.2	18.0	25.5	40.4	38.4	40.1
<b>Retail</b>	<b>25.3</b>	<b>62.0</b>	<b>96.5</b>	<b>123.0</b>	<b>233.7</b>	<b>348.4</b>
YoY growth (%)	110.2	145.2	55.7	27.4	90.0	49.0
% of total	3.8	7.4	11.0	13.1	16.5	20.1
<b>Consolidated business EBITDA</b>	<b>658</b>	<b>838</b>	<b>881</b>	<b>939</b>	<b>1,412</b>	<b>1,729</b>
YoY growth (%)	42.4	27.4	5.1	6.5	50.5	22.4
<b>Annual RoCE (%)</b>	<b>7.8</b>	<b>8.2</b>	<b>7.9</b>	<b>7.2</b>	<b>9.8</b>	<b>11.7</b>
<b>Annual RoE (%)</b>	<b>12.4</b>	<b>11.5</b>	<b>10.9</b>	<b>10.3</b>	<b>13.6</b>	<b>15.7</b>

Source: BOBCAPS Research

Even as RIL positions itself as an Oil-to-Tech behemoth, we believe valuations have run well ahead of fundamentals at 18.6x FY22E EPS. We need to see earnings traction from the company at a consolidated level. Our GRM assumption of US\$ 9/bbl for FY21 carries downside risks, looking at the Q1FY21 data. Benchmark Singapore complex GRMs remain negative and far from revival.

Our SOTP valuation is outlined below:

- **Cyclicals:** Refining (Rs 300/sh) and petrochemicals (Rs 268/sh) businesses each valued at 6x Sep'22E EBITDA (unchanged multiples, at par with global peers)
- **RJio:** Valued at Rs 612/sh based on an unchanged 10x Sep'22E EBITDA. We estimate FY21/FY22/FY23 ARPU at Rs 148/Rs 160/Rs 170
- **Retail:** Valued at Rs 861/sh based on unchanged 20x Sep'22E EBITDA

**FIG 4 – SOTP VALUATION SUMMARY**

Business	Fair Value		Value/share	Comments
	(US\$ bn)	(Rs bn)	(Rs)	
Refining	27	2,015	300	6x Sep'22E EBITDA
Petrochem	24	1,810	268	6x Sep'22E EBITDA
<b>Cyclical business value</b>	<b>51</b>	<b>3,826</b>	<b>566</b>	
E&P business	0.5	38	6	Includes KG-D6 and shale
<b>Jio</b>	<b>54</b>	<b>4,135</b>	<b>612</b>	10x Sep'22E EBITDA, adjusted for stake sale
<b>Reliance Retail</b>	<b>77</b>	<b>5,821</b>	<b>861</b>	20x Sep'22E EBITDA
<b>Enterprise value</b>	<b>182</b>	<b>13,821</b>	<b>2,044</b>	
Net Debt	13	1,020	151	Average of FY21/22 consolidated
<b>Equity value</b>	<b>168</b>	<b>12,800</b>	<b>1,895</b>	<b>~17x FY22E EPS</b>

Source: BOBCAPS Research

**FIG 5 – RELATIVE STOCK PERFORMANCE**



Source: NSE

### Key risks

- **Additional investments:** We haven't factored in the Saudi Aramco deal and estimate that net debt will still average Rs 1.35tn by end-FY22. Execution of this deal and any further investments in RJio or the fibre InVIT could raise our valuations.
- **Better outlook on global economy:** RIL's valuations are highly sensitive to GRM and petrochemical crack movements. A better-than-expected recovery in global economies can raise these spreads and change our valuation outlook.
- **Higher operating margins in RJio:** We factor in ramp-up in RJio's subscriber numbers (>450mn) and ARPUs (~Rs 170/mth) by FY23. The industry has been talking about higher ARPUs by FY23 (>Rs 200), which could take operating margins well above our estimates.
- **Better growth in retail revenues:** RIL has been significantly outperforming estimates on retail business revenue growth. We model for deceleration in retail business EBITDA in FY21 given the economic slowdown. Better-than-expected growth would alter our estimates.

## FINANCIALS

### Income Statement

Y/E 31 Mar (Rs mn)	FY19A	FY20A	FY21E	FY22E	FY23E
<b>Total revenue</b>	<b>5,830,940</b>	<b>6,116,450</b>	<b>3,785,945</b>	<b>4,794,554</b>	<b>4,604,317</b>
EBITDA	841,670	882,170	938,561	1,412,455	1,729,258
Depreciation	(209,340)	(222,030)	(261,616)	(296,311)	(311,496)
EBIT	632,330	660,140	676,945	1,116,144	1,417,762
Net interest income/(expenses)	(164,950)	(220,270)	(135,111)	(100,224)	(76,088)
Other income/(expenses)	86,350	139,560	193,391	146,347	159,848
Exceptional items	0	(44,440)	0	0	0
EBT	553,730	579,430	735,225	1,162,266	1,501,522
Income taxes	(153,900)	(137,260)	(196,814)	(299,952)	(357,776)
Min. int./Inc. from associates	1,030	1,070	(54,186)	(91,257)	(127,540)
<b>Reported net profit</b>	<b>400,860</b>	<b>398,800</b>	<b>484,225</b>	<b>771,058</b>	<b>1,016,206</b>
<b>Adjusted net profit</b>	<b>400,860</b>	<b>443,240</b>	<b>484,225</b>	<b>771,058</b>	<b>1,016,206</b>

### Balance Sheet

Y/E 31 Mar (Rs mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Accounts payables	1,083,090	967,990	1,317,061	1,180,895	1,168,638
Other current liabilities	1,442,530	2,209,060	1,009,060	1,009,060	1,009,060
Provisions	41,820	36,800	90,069	70,482	77,598
Debt funds	2,719,420	3,102,210	2,302,210	2,152,210	1,652,210
Other liabilities	687,620	729,620	747,899	779,275	813,818
Equity capital	59,260	63,390	67,616	67,616	67,616
Reserves & surplus	3,850,250	3,978,260	5,152,916	5,853,905	6,819,628
Shareholders' fund	3,909,510	4,041,650	5,220,532	5,921,521	6,887,244
<b>Total liabilities and equities</b>	<b>9,966,790</b>	<b>11,167,490</b>	<b>10,766,990</b>	<b>11,193,603</b>	<b>11,688,728</b>
Cash and cash eq.	110,810	309,200	106,500	122,523	138,844
Accounts receivables	300,890	196,560	235,138	214,171	212,844
Inventories	675,610	739,030	951,678	855,306	848,612
Other current assets	744,760	737,390	737,390	737,390	737,390
Investments	2,356,350	2,767,670	2,217,670	2,417,670	2,617,670
Net fixed assets	3,863,770	5,223,990	5,835,222	5,995,552	6,266,777
CWIP	1,794,630	1,091,060	570,801	728,401	734,001
Intangible assets	119,970	102,590	112,590	122,590	132,590
<b>Total assets</b>	<b>9,966,790</b>	<b>11,167,490</b>	<b>10,766,990</b>	<b>11,193,603</b>	<b>11,688,727</b>

Source: Company, BOBCAPS Research

### Cash Flows

Y/E 31 Mar (Rs mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Net income + Depreciation	608,350	620,830	745,841	1,067,369	1,327,701
Changes in working capital	(653,830)	694,690	(1,048,887)	(38,412)	2,880
Other operating cash flows	116,700	(53,120)	(175,112)	(114,971)	(125,305)
<b>Cash flow from operations</b>	<b>71,220</b>	<b>1,262,400</b>	<b>(478,157)</b>	<b>913,986</b>	<b>1,205,276</b>
Capital expenditures	(14,950)	(878,680)	(352,589)	(614,241)	(588,321)
Change in investments	(1,331,690)	(409,780)	560,000	10,000	10,000
Other investing cash flows	(47,850)	120,640	193,391	(53,653)	(40,152)
<b>Cash flow from investing</b>	<b>(1,394,490)</b>	<b>(1,167,820)</b>	<b>400,802</b>	<b>(657,894)</b>	<b>(618,473)</b>
Equities issued/Others	40	4,130	531,208	0	0
Debt raised/repaid	917,090	382,790	(800,000)	(150,000)	(500,000)
Dividends paid	(42,810)	(54,854)	(38,228)	(90,069)	(70,482)
Other financing cash flows	482,540	(44,440)	0	0	0
<b>Cash flow from financing</b>	<b>1,356,860</b>	<b>287,626</b>	<b>(307,019)</b>	<b>(240,069)</b>	<b>(570,482)</b>
<b>Changes in cash and cash eq.</b>	<b>33,590</b>	<b>382,206</b>	<b>(384,375)</b>	<b>16,023</b>	<b>16,321</b>
<b>Closing cash and cash eq.</b>	<b>76,140</b>	<b>493,016</b>	<b>106,500</b>	<b>122,523</b>	<b>138,844</b>

### Per Share

Y/E 31 Mar (Rs)	FY19A	FY20A	FY21E	FY22E	FY23E
Reported EPS	67.6	62.9	71.6	114.0	0.0
Adjusted EPS	59.3	65.6	71.6	114.0	150.3
Dividend per share	6.8	4.7	11.1	8.7	9.6
Book value per share	659.7	637.6	772.1	875.8	1,018.6

### Valuations Ratios

Y/E 31 Mar (x)	FY19A	FY20A	FY21E	FY22E	FY23E
EV/Sales	2.8	2.7	4.5	3.5	3.6
EV/EBITDA	19.3	18.7	18.1	11.9	9.5
Adjusted P/E	35.7	32.3	29.5	18.6	14.1
P/BV	3.2	3.3	2.7	2.4	2.1

### DuPont Analysis

Y/E 31 Mar (%)	FY19A	FY20A	FY21E	FY22E	FY23E
Tax burden (Net profit/PBT)	72.4	82.9	65.9	66.3	67.7
Interest burden (PBT/EBIT)	87.6	81.0	108.6	104.1	105.9
EBIT margin (EBIT/Revenue)	10.8	10.8	17.9	23.3	30.8
Asset turnover (Revenue/Avg TA)	64.6	57.9	34.5	43.7	40.2
Leverage (Avg TA/Avg Equity)	2.6	2.7	2.4	2.0	1.8
Adjusted ROAE	11.7	11.1	10.5	13.8	15.9

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

**Ratio Analysis**

Y/E 31 Mar	FY19A	FY20A	FY21E	FY22E	FY23E
<b>YoY growth (%)</b>					
Revenue	42.8	4.9	(38.1)	26.6	(4.0)
EBITDA	31.2	4.8	6.4	50.5	22.4
Adjusted EPS	13.6	10.6	9.2	59.2	31.8
<b>Profitability &amp; Return ratios (%)</b>					
EBITDA margin	14.4	14.4	24.8	29.5	37.6
EBIT margin	10.8	10.8	17.9	23.3	30.8
Adjusted profit margin	6.9	7.2	12.8	16.1	22.1
Adjusted ROAE	11.7	11.1	10.5	13.8	15.9
ROCE	7.9	7.0	6.7	10.5	12.9
<b>Working capital days (days)</b>					
Receivables	15	15	21	17	17
Inventory	58	63	57	68	65
Payables	79	72	146	135	149
<b>Ratios (x)</b>					
Gross asset turnover	1.0	0.9	0.5	0.6	0.5
Current ratio	0.6	0.5	0.6	0.6	0.5
Net interest coverage ratio	3.8	3.0	5.0	11.1	18.6
Adjusted debt/equity	0.7	0.7	0.4	0.3	0.2

Source: Company, BOBCAPS Research

## Disclaimer

### Recommendations and Absolute returns (%) over 12 months

**BUY** – Expected return >+15%

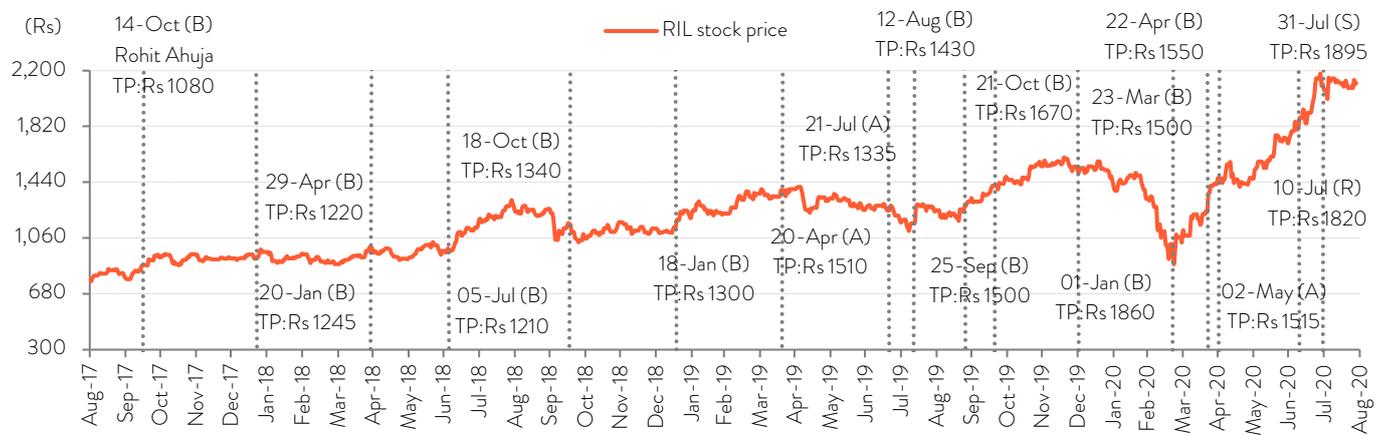
**ADD** – Expected return from >+5% to +15%

**REDUCE** – Expected return from -5% to +5%

**SELL** – Expected return <-5%

**Note:** Recommendation structure changed with effect from 1 January 2018 (Hold rating discontinued and replaced by Add / Reduce)

### RATINGS AND TARGET PRICE (3-YEAR HISTORY): RELIANCE INDUSTRIES (RIL IN)



B – Buy, A – Add, R – Reduce, S – Sell

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