

BUY
 TP: Rs 3,015 | ▲ 19%

RELIANCE INDUSTRIES | Oil & Gas

24 July 2023

Steady she goes

- Q1 results broadly in line as the energy business optimised operations and consumer business continued momentum
- Jio 2.0 building blocks shaping up and growth in retail gaining pace; roadmap for savings from new energy key to watch out
- Maintain BUY with a revised TP of Rs 3,015 (vs. Rs 3,075) as we adjust for demerger of Jio Financials

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Q1 broadly in line: RIL's Q1FY24 EBITDA at Rs 381bn was 3% ahead of our forecast (in line with consensus) with a 4% beat in the O2C business. Net income at Rs 160bn was 6% below our and consensus forecasts on higher depreciation in consumer businesses than we anticipated.

O2C reaped benefits of world-class configurations: Despite a sharp decline in fuel cracks, the O2C business managed to contain the EBITDA decline to 6% QoQ by optimising advantaged feedstocks (cheap Russian crude, ethane) as well as the product and energy mix.

Jio 2.0 building blocks taking shape: Jio demonstrated early signs of acceleration in net subscriber additions (9.2mn in Q1) and is working towards translating differentiated services to higher revenue. Growth triggers will include penetration into home broadband (targeting 100mn subscriptions over 3 years), the new JioBharat phone to move 2G consumers to 4G, and traction on digital platforms (JioCinema, JioThings).

Retail steadily increasing momentum: The retail business is currently on track to triple revenues by the tail end of RIL's targeted 3-5-year timeframe and is steadily gaining momentum, making up for ground lost during the pandemic.

Key growth catalysts: (a) Jio: Gains in market share and ARPU on nationwide launch of 5G and Jio AirFiber; (b) Retail: Acceleration towards 3x growth target over 3-5 years set at the FY21 AGM and demonstration of RIL's comfort in sharing performance details for major retail verticals; (c) O2C: Guidance on cost reduction with deployment of new energy; (d) E&P: Stabilisation of MJ field; (e) Listing of Jio and retail businesses.

Reiterate BUY: We tweak our FY24/FY25 EBITDA estimates and revise our SOTP-based TP to Rs 3,015 (from Rs 3,075) as we adjust for demerger of JFSL and raise our multiple for the retail business to 32x (from 30x), in line with that of peers. We maintain target multiples across refining (7x FY26E EV/EBITDA), petrochem (8x) and telecom (Jio: 9x), and include Rs 161/sh (Rs 157) for the upstream business, Rs 107 (unchanged) for digital services, and Rs 171 (unchanged) for new energy.

Key changes

Target	Rating
▼	◀ ▶

Ticker/Price	RIL IN/Rs 2,539
Market cap	US\$ 209.1bn
Free float	50%
3M ADV	US\$ 188.8mn
52wk high/low	Rs 2,856/Rs 2,180
Promoter/FPI/DII	50%/23%/17%

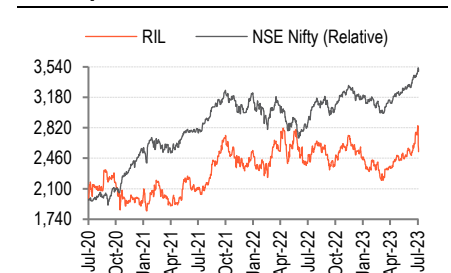
Source: NSE | Price as of 21 Jul 2023

Key financials

Y/E 31 Mar	FY23P	FY24E	FY25E
Total revenue (Rs mn)	87,94,680	80,22,533	91,28,638
EBITDA (Rs mn)	14,29,080	16,68,607	18,55,656
Adj. net profit (Rs mn)	6,67,020	7,76,169	8,38,294
Adj. EPS (Rs)	98.6	114.7	123.9
Consensus EPS (Rs)	98.6	116.4	129.3
Adj. ROAE (%)	8.3	9.1	9.0
Adj. P/E (x)	25.8	22.1	20.5
EV/EBITDA (x)	13.8	11.9	10.7
Adj. EPS growth (%)	14.2	16.4	8.0

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

Stock performance



Source: NSE



Result highlights

Q1 EBITDA broadly in line

While RIL's Q1FY24 EBITDA at Rs 381bn was 3% ahead of our forecast and in line with consensus, net income at Rs 160bn was 6% below our and consensus estimates.

- The EBITDA beat over our estimates was primarily driven by the O2C business (4% ahead), whereas the miss on net income was a result of higher depreciation in the consumer businesses.
- Net debt increased by Rs 124bn to Rs 1.2tn mainly due to the transfer of cash and liquid investments to Jio Financial Services (JFSL: Rs 155bn). Excluding this transfer, the increase in net debt was limited to Rs 9bn as acceleration of capex in consumer businesses was largely funded from operating cash flow and other short-term liabilities.
- The quarterly capex run-rate has accelerated to Rs 396bn (or US\$ 4.8bn), ahead of the annual run-rate of Rs 1.4tn for last year.
- Segmental EBITDA increased by Rs 7.3bn QoQ as a sharp decline in O2C (Rs 10.2bn) was offset by higher EBITDA from other businesses (Rs 9.8bn) and continued sequential increase in consumer businesses. Others benefitted from a rise in yields on the investment portfolio and an increase in contribution from other businesses such as REC Solar, METL (Haryana SEZ), Indiawin Sports and Media.
- Consumer businesses clocked 21% YoY growth in EBITDA with retail (including investment income) growing at 34% and digital services up 17%. Both businesses also posted modest sequential growth of 5% and 3% respectively.

Fig 1 – Quarterly performance: EBITDA sustained with optimisation of O2C

(Rs bn)	Q1FY24	Q4FY23	QoQ (%)	Q1FY23	YoY (%)
Consolidated P&L					
Revenue	2,108	2,164	(2.6)	2,231	(5.5)
EBITDA excl other income	381	384	(0.9)	380	0.3
Net income adjusted	183	213	(14.4)	194	(6.1)
Net income post minority share	160	193	(17.0)	180	(10.8)
EBITDA mix					
Oil to Chemicals (O2C)	153	163	(6.3)	199	(23.2)
Oil and Gas	40	38	5.6	27	46.7
Retail	52	49	4.6	38	33.8
Digital Services	137	134	2.5	117	17.2
Others	23	20	15.1	14	64.2
Segment EBITDA	404	404	0.1	396	2.2
Delta	15	10	-	7	-
Consolidated EBITDA (Reported)	419	414	1.3	402	4.1
Energy businesses	193	201	(4.0)	226	(14.8)
Consumer businesses	189	183	3.1	156	21.3

Source: Company, BOBCAPS Research

Fig 2 – Quarterly operational indicators

Parameter	Unit	Q1FY24	Q4FY23	QoQ (%)	Q1FY23	YoY (%)
Digital Services						
Customer base	mn	448.5	439.3	2.1	419.9	6.8
Net customer additions	mn	9.2	6.4	-	9.7	-
ARPU adj for IUC	Rs/month	180.5	178.8	1.0	175.7	2.7
Retail						
Revenue	Rs bn	622	616	1.0	516	20.5
Core revenue	Rs bn	417	417	(0.2)	328	26.9
EBITDA margin excl investment income	%	7.9	7.7	-	7.6	-
Total store count	Nos	18,446	18,040	2.3	15,866	16.3
Total store area	mn sqft	70.6	65.6	7.6	45.5	55.2
Oil to Chemicals						
Production meant for sale	mt	17.2	17.1	0.6	16.9	1.8
Transportation fuels	mt	11.1	11.4	(2.6)	10.5	5.7
Oil and Gas						
Production	BCFe	50.4	45.1	11.8	43.2	16.7
KG-D6 gas production	mmscmd	20.9	20.0	4.5	19.0	10.0
KG-D6 realisation	US\$/MMbtu	10.8	11.4	(5.1)	9.7	11.2

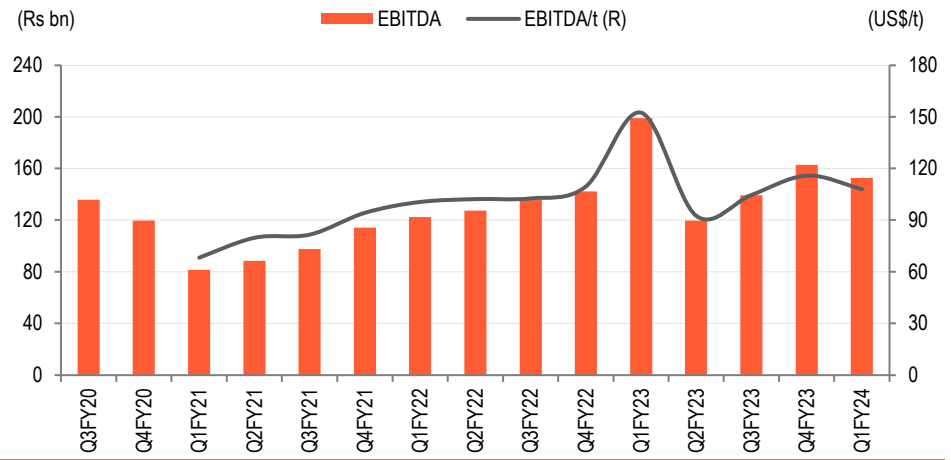
Source: Company, BOBCAPS Research

Oil-to-Chemicals (O2C)

O2C EBITDA at Rs 153bn was 4% ahead of our estimate in Q1FY24. Despite a sharp correction in fuel cracks and significant decline in PVC deltas, RIL was successful in arresting the EBITDA decline at 6% QoQ by optimising advantaged feedstocks (discounted Russian crude, ethane), improving the product mix (by lowering transportation fuels and maximising aromatics to capture higher spreads), and raising gasifier use to eliminate LNG usage. RIL also benefitted from higher fuel retail margins.

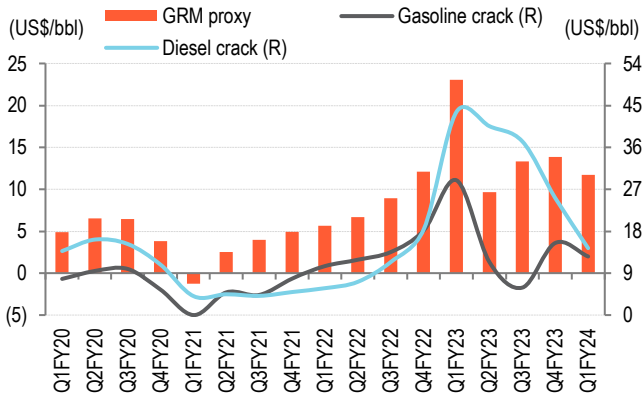
- In refining, we estimate that RIL managed to limit the decline to a GRM of US\$ 11.7/bbl from US\$ 13.8/bbl a quarter ago. While refining cracks have moderated, the impact was offset by higher usage of discounted Russian crude.
- In petrochemicals, we estimate that average EBITDA increased by ~US\$ 19/t to US\$ 272/t due to a 16% QoQ reduction in ethane prices as well as modest recovery in petrochemical spreads in PE, PP and polyester chains that absorbed the decline in PVC spreads.

Fig 3 – O2C EBITDA declined in Q1 due to normalisation of fuel cracks and a weaker petrochem delta



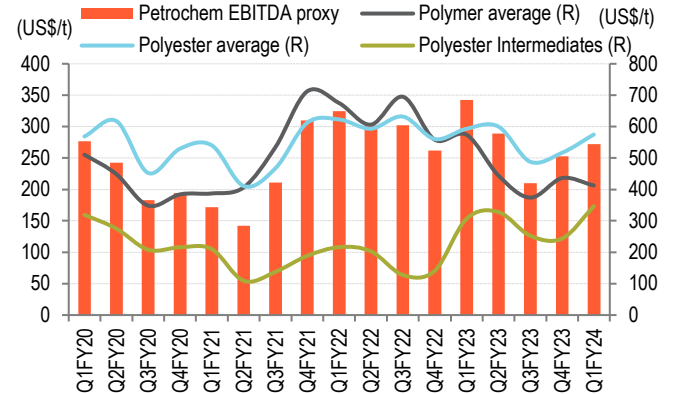
Source: Company, BOBCAPS Research

Fig 4 – Refining GRM (proxy)



Source: Company, BOBCAPS Research

Fig 5 – Petrochemicals EBITDA (proxy indicator)



Source: Company, BOBCAPS Research

O2C profits to remain resilient over FY24E-FY26E

We expect O2C EBITDA to come off its peak but still remain resilient over the next two years as highly complex refining and petrochemical assets allow RIL to efficiently align the feedstock mix as well as product and energy mix with market opportunities. Near-term, we expect limited exports from China to alleviate pressure from rising supplies by new refineries, supporting fuel cracks. For petrochemicals, we believe that higher supply from China could cap downstream margins until demand revives in key global markets.

Oil & Gas

Q1 EBITDA in the oil & gas business was up 5.6% QoQ as KGD6 production grew 4.5% (with the start of condensate production at MJ field), setting off the 5% dip in realisation. RIL also sold its first cargo of 0.5mb (mn barrels) of condensate during Q1.

- Ramp-up of KGD6 production has been faster than our expectations with the field at 27mmscmd and set to soon reach a peak of 30mmscmd. Against our estimate of the connection of four wells, RIL has connected seven of eight wells. We now raise our FY24 KGD6 production forecast to 26mmscmd from 24.5mmscmd.

- We factor in resilient natural gas realisation at US\$ 10.8/MMbtu/US\$10.0/MMbtu over FY24/FY25, supported by our assumption of resilient oil prices.

Digital Services

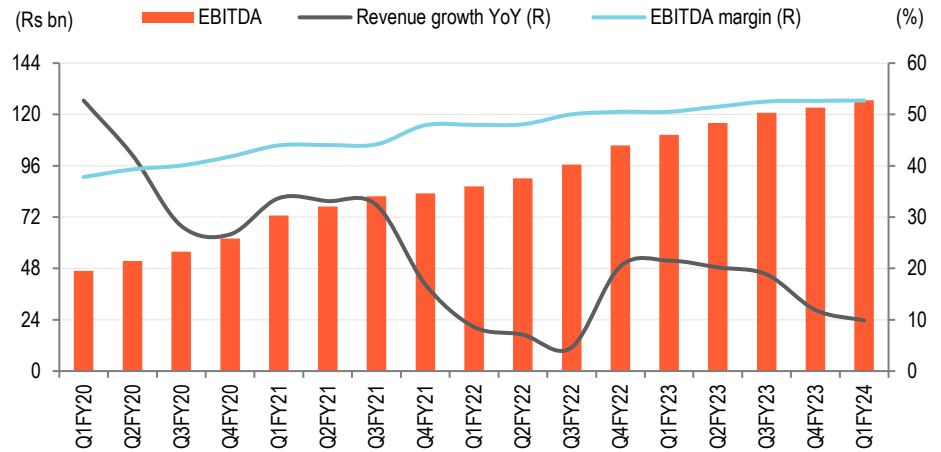
Digital services EBITDA grew 3% QoQ to Rs 137bn in Q1 on the back of ramp-up in net customer addition to 9.2mn and a 1% increase in average revenue per user (ARPU) to Rs 180.5. On a YoY basis, the benefits of a 7% increase in customer base and 3% rise in ARPU were visible in EBITDA growth of 17%.

Jio 2.0 building blocks taking shape

A key trigger for the digital services business is the translation of differentiated service offerings into increased subscriber traction and profitability.

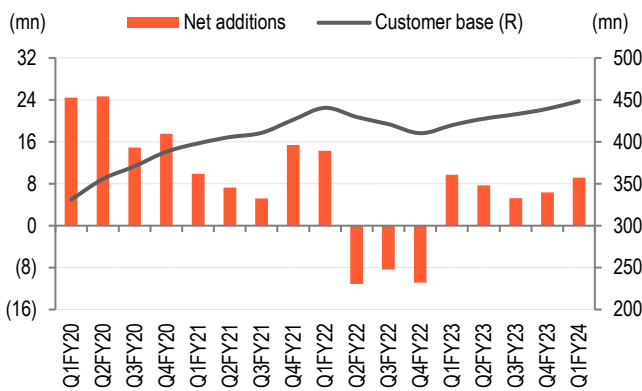
- **Early signs of acceleration in net subscriber additions:** Jio saw 9.2mn subscriber additions and 2.7 times the net port-ins of its nearest competitor in Q1. Based on available TRAI data for April, it has clocked 6.8% YoY growth in subscribers vs. a 3.7% decline for the industry. However, these are early days and trends over the next few months will paint a clearer picture.
- **Fastest 5G rollout globally:** Jio guides that it is on track to complete its national rollout by Dec'23 having already executed 65% of scope and covered more than 90% of census towns.
- **Penetration of home broadband to 100mn homes:** Jio Fiber has connected ~10mn homes, clocking 50% YoY growth in subscriber base in Q1, and has commanded 80% market share in recent months on the back of its bundled offerings. The launch of AirFiber and change in model to involve local partners (already operational in 1,000+ towns) could help Jio target 100mn-plus homes over medium-term.
- **Upgrade of lower-end subscribers to 4G:** The launch of the JioBharat 4G phone at a highly competitive price point of Rs 999 with features of online video streaming and united payment interface (UPI) could support transition of India's 250mn-strong 2G consumer base to 4G. Rollout is likely to be gradual though with Jio targeting 1mn phones in the first round to incorporate consumer feedback in subsequent launches. We believe development of the ecosystem will depend upon success of this first round.
- **Digital platforms to start gaining traction:** During the recent streaming of the cricket Indian Premier League (IPL), JioCinema was successful in booking higher advertising revenue than television with the platform attracting more than 13 times the number of advertisers. While advertising revenue has gone to its media business, the digital platform has started earning revenue for JioCinema. IoT platform, JioThings, offers several end-to-end vertical solutions and is currently targeting OEMs for asset management, utilities, OEMs of vehicles for mobility management, and agriculture consumers (cattle management, farmers).

Fig 6 – Digital services EBITDA continued steady improvement



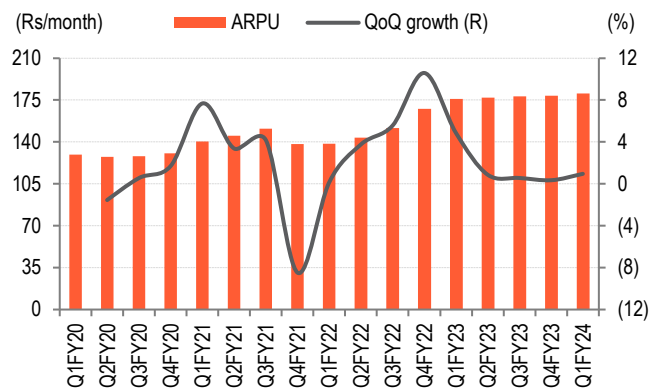
Source: Company, BOBCAPS Research

Fig 7 – Strong net subscriber addition at Jio Infocomm...



Source: Company, BOBCAPS Research

Fig 8 – ...with higher ARPU



Source: Company, BOBCAPS Research

We model for 28% annual growth in digital services EBITDA over FY23-FY26 on the back of increasing service penetration from 5G rollout across the country through FY24.

- During the rollout of 5G services (currently in beta trial mode), we remain conservative in our assumptions of net subscriber additions, baking in adds of 37mn/36mn/25mn over FY24/FY25/FY26. For home broadband services, we factor in a gradual pick-up in connections to ~47mn by end-FY26 post launch of pan-India 5G services and AirFiber.
- Given consolidation of the industry with only two out of three private players aggressively implementing 5G rollouts (Jio and Bharti Airtel), we are factoring in 9% annual hikes in ARPU to Rs 228 per user by FY26. Although Jio 2.0 is in the making, we remain conservative in our assumptions at this stage as ARPU acceleration will depend upon the successful ramp-up of 5G services, levels of user engagement and new use cases for the technology.

Retail

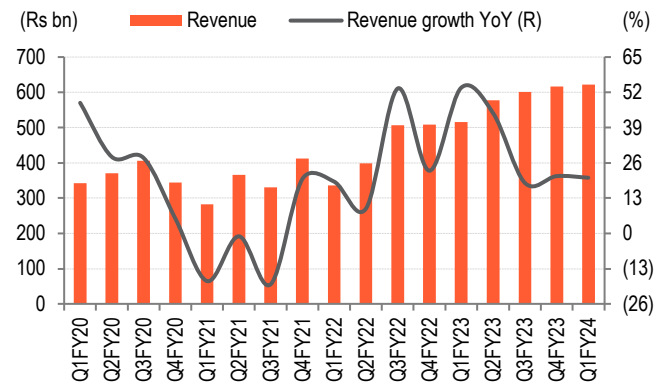
Retail Q1 EBITDA at Rs 49bn excluding investment income was up 26% YoY and 3% QoQ.

- Retail revenue growth was driven by grocery (59% YoY), consumer electronics excluding devices (14%), and fashion and lifestyle (15%).
- Retail EBITDA margin increased 20bps QoQ to 7.9% driven by efficiency improvements.
- Aggressive store-space expansion continued as 5mn sqft and 555 stores were added during the quarter. The latter is slower than the average of ~750 store additions during the past nine quarters, possibly as momentum during the last two years was due to integration of Future Retail stores and acceleration of stores roll-out on hold during Covid.

Retail growth below RIL’s vision

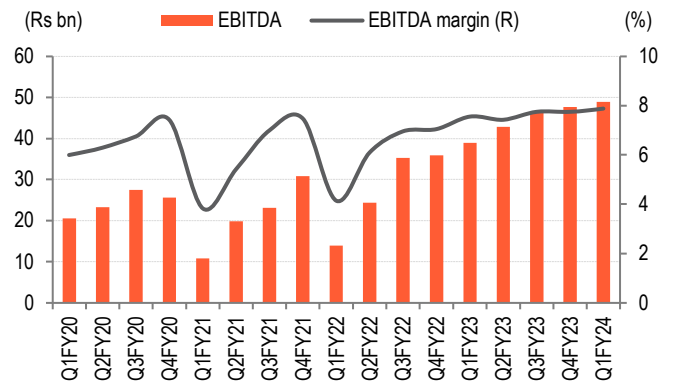
RIL’s retail business has grown 1.7x over the FY21 base, which is tracking towards the tail end of the company’s 3-5-year timeframe to triple revenues set at the FY21 AGM. Post Covid, retail business has improved momentum significantly in terms of footprint expansion which should help it to deliver on its target.

Fig 9 – Retail revenue growth driven by strong growth in grocery sales



Source: Company, BOBCAPS Research

Fig 10 – Retail EBITDA margin expansion led by improvement in efficiencies



Source: Company, BOBCAPS Research

We forecast 25% annual growth in retail EBITDA over FY23-FY26.

- We assume three-fold revenue growth over five years between FY22 and FY26 (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 improve from 7.5% in FY23 to 8.7% in FY26 as the retail business leverages its large scale and national presence, and also integrates premium brands and partnerships.

Valuation methodology

Forecast revisions

We marginally tweak our FY24/FY25/FY26 EBITDA estimates by incorporating the Q1 results. Our revised forecasts are 3%/3%/9% ahead of consensus for FY24/FY25/FY26, reflecting our view of continuing strong growth in both consumer-facing businesses (digital services and retail).

Fig 11 – Revised estimates

(Rs bn)	Actual	New			Old			Change (%)		
	FY23P	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E
Revenue	8,795	8,023	9,129	10,313	8,190	9,308	10,517	(2.0)	(1.9)	(1.9)
EBITDA	1,429	1,669	1,856	2,145	1,666	1,850	2,114	0.2	0.3	1.5
Adj. PAT	16.2	20.8	20.3	20.8	20.3	19.9	20.1	-	-	-
EPS (Rs)	667	776	838	1,016	775	838	995	0.1	0.1	2.1

Source: Company, BOBCAPS Research

Fig 12 – Estimates vs. Consensus

(Rs bn)	Forecasts			Consensus			Delta to Consensus (%)		
	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E
Revenue	8,023	9,129	10,313	9,463	10,126	10,009	(15.2)	(9.9)	3.0
EBITDA	1,669	1,856	2,145	1,624	1,808	1,964	2.8	2.6	9.2
Adj. PAT	776	838	1,016	789	887	1,052	(1.6)	(5.5)	(3.4)
EPS (Rs)	114.7	123.9	150.2	116.4	129.3	150.1	(1.5)	(4.2)	0.1

Source: Bloomberg, BOBCAPS Research

We expect 15% annual growth in RIL's EBITDA over FY23-FY26 driven by a -1% 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 and a ramp-up of gas production from the MJ field.

Fig 13 – RIL's EBITDA mix

Particulars	FY21	FY22	FY23P	FY24E	FY25E	FY26E	FY21/23 CAGR (%)	FY23/26E CAGR (%)
EBITDA (Rs bn)								
O2C	382	527	621	648	580	588	-	-
Oil & Gas	2	55	136	163	173	157	-	-
Cyclical subtotal	383	582	757	811	753	744	-	-
Digital Services	334	394	490	610	796	1,025	-	-
Retail	98	124	179	222	280	350	-	-
Consumer subtotal	432	518	669	831	1,076	1,375	-	-
Others	(7)	5	3	26	26	26	-	-
Consolidated business EBITDA	807	1,105	1,429	1,669	1,856	2,145	-	-
EBITDA YoY growth (%)								
O2C	na	38.1	17.7	4.4	(10.6)	1.4	27.5	(1.8)
Oil & Gas	(92.9)	3410.6	149.0	19.7	6.6	(9.6)	835.0	4.9
Cyclical subtotal	(70.2)	51.8	30.1	7.2	(7.1)	(1.2)	40.5	(0.5)
Digital Services	117.5	18.2	24.3	24.4	30.6	28.7	21.2	27.9
Retail	57.8	26.5	44.8	23.8	26.2	24.8	35.3	24.9
Consumer subtotal	100.3	20.1	29.2	24.2	29.4	27.7	24.5	27.1
Consolidated	(4.1)	36.8	29.4	16.8	11.2	15.6	21.0	14.5

Particulars	FY21	FY22	FY23P	FY24E	FY25E	FY26E	FY21/23 CAGR (%)	FY23/26E CAGR (%)
EBITDA composition (% of total)								
O2C	47.3	47.7	43.4	38.8	31.2	27.4	-	-
Oil & Gas	0.2	4.9	9.5	9.7	9.3	7.3	-	-
Cyclical subtotal	47.5	52.7	52.9	48.6	40.6	34.7	-	-
Digital Services	41.3	35.7	34.3	36.5	42.9	47.8	-	-
Retail	12.1	11.2	12.5	13.3	15.1	16.3	-	-
Consumer subtotal	53.5	46.9	46.8	49.8	58.0	64.1	-	-

Source: Company, BOBCAPS Research

Fig 14 – Key assumptions

Parameter	Unit	FY22	FY23P	FY24E	FY25E	FY26E
Exchange rate	INR/USD	74.5	80.4	82.2	82.5	84.2
Energy						
Oil price	US\$/bbl	80.0	95.0	80.7	85.0	85.0
Refining margin	US\$/bbl	8.0	11.5	10.0	9.0	9.0
Petrochem EBITDA	US\$/ton	272	269	278	254	248
O2C throughput	mt	68.2	71.0	71.0	71.0	71.0
Gas realisation- KG D6	US\$/mmbtu	4.9	10.7	10.5	10.2	10.2
Gas production- KG D6	mmscmd	17.7	19.0	26.5	29.0	29.0
Jio Digital Services						
No of subscribers	mn	410	439	476	512	537
ARPU	Rs	150	177	186	206	228
Retail						
Revenue growth	% YoY	25.8	32.0	19.0	23.4	19.0
EBITDA margin	%	6.2	7.5	8.0	8.3	8.7

Source: Company, BOBCAPS Research

BUY with TP of Rs 3,015

We lower our SOTP-based TP for RIL to Rs 3,015 from Rs 3,075 as we adjust for demerger of JFSL and factor in market optimism on India's growth trajectory. We believe RIL's consumer businesses will be key beneficiaries of this growth. We discount our SOTP value back to Jul'24 to arrive at a one-year forward target price.

We raise target multiple for retail business to 32x (from 30x) in line with increase in valuation of its peers. Our target FY26E EV/EBITDA multiples remain unchanged across other key businesses, viz. refining (7x), petrochemicals (8x) and telecom (Jio Infocomm: 9x). We tweak valuations of other businesses as follows: Rs61/sh (vs. Rs 157/sh earlier) for the upstream business, Rs 107 (unchanged) for the digital services venture, Rs 171 (unchanged) for the new energy division.

We maintain BUY on RIL given 19% upside potential. In our view, concerns over elevated capex are overdone and the ramp-up in outlay is likely to be in keeping with RIL's structural profit growth.

Fig 15 – Valuation summary

Business (Rs bn)	Fair Value		Value/share (Rs)	Valuation basis
	(US\$ bn)	(Rs bn)		
Energy				
Refining	26	2,120	313	7x FY26E EBITDA
Petrochem	32	2,671	395	8x FY26E EBITDA
Upstream	13	1,088	161	Combination of DCF and reserve multiple
New energy	14	1,159	171	Option value
Energy total	86	7,039	1,040	-
Jio Infocomm	70	5,750	850	9x FY26E EBITDA, RIL share
Digital Services	9	725	107	6x FY26E Sales, RIL share
Reliance Retail	109	8,953	1,323	32x FY26E EBITDA, RIL share
Consumer business total	188	15,428	2,280	-
Enterprise value	273	22,467	3,321	-
Net Debt	25	2,076	307	-
Marketable securities	0	8	1	At 85% of BV
Equity value	248	20,399	3,015	20.9x FY25E EPS
TP (rounded to nearest Rs 5)	-	-	3015	-

Source: BOBCAPS Research

Oil-to-Chemicals

We value RIL's refining and chemicals businesses at unchanged one-year forward EV/EBITDA multiples of 7x and 8x respectively. Our multiples are at a premium to global peers in refining (5.1x-6.5x on CY23/FY24) but at a discount in petrochem (8.6-10x on CY23).

The premium for refining 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. The discount on petrochem reflects our conservative stand against the recent increase in multiples after moderation in earnings forecasts for peers. 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)	
					CY23E/ FY24E	CY24E/ FY25E	CY23E/ FY24E	CY24E/ FY25E	CY23E/ FY24E	CY24E/ FY25E
Phillips 66	PSX US	47.6	USD	103.4	7.4	8.9	1.4	1.3	5.7	6.7
Valero Energy	VLO US	43.2	USD	119.5	5.5	9.0	1.6	1.5	3.6	5.1
Marathon Petroleum	MPC US	52.2	USD	123.1	6.6	9.6	2.0	2.1	4.9	6.7
S-Oil	010950 KS	0.6	KRW	70,200.0	6.7	6.0	0.9	0.8	4.4	4.3
Sk Innovation	096770 KS	1.3	KRW	173,700.0	18.2	8.3	0.8	0.7	8.7	6.8
IRPC	IRPC TB	1.4	THB	2.3	16.3	10.4	0.6	0.6	8.6	6.8
Thai Oil	TOP TB	3.0	THB	46.5	7.7	7.7	0.6	0.6	9.2	9.3
Eneos Holdings	5020 JP	10.7	JPY	494.2	7.5	7.1	0.5	0.5	6.8	6.5
Idemitsu Kosan	5019 JP	6.2	JPY	2,934.5	6.5	6.0	0.5	0.5	6.5	6.7
Weighted Average	-	166.4	-	-	6.8	8.9	1.5	1.5	5.1	6.3
Simple Average	-	-	-	-	9.2	8.1	1.0	0.9	6.5	6.5
Median	-	-	-	-	7.4	8.3	0.8	0.7	6.5	6.7

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)	
					CY23E	CY24E	CY23E	CY24E	CY23E	CY24E
LG Chem	051910 KS	3.8	KRW	685,000.0	21.8	12.0	1.6	1.4	8.4	6.1
Lotte Chemical	011170 KS	0.5	KRW	148,900.0	19.7	9.2	0.4	0.4	8.9	6.3
Sk Innovation	096770 KS	1.3	KRW	173,700.0	18.2	8.3	0.8	0.7	8.7	6.8
S-Oil	010950 KS	0.6	KRW	70,200.0	6.7	6.0	0.9	0.8	4.4	4.3
Wanhua Chemical	600309 CH	40.4	CNY	92.3	14.5	11.4	3.1	2.6	9.4	7.7
IRPC	IRPC TB	1.4	THB	2.3	16.3	10.4	0.6	0.6	8.6	6.8
Formosa Plastics	1301 TT	17.0	TWD	83.2	29.7	18.3	1.5	1.4	23.7	16.6
Petronas Chemicals	PCHEM MK	11.4	MYR	6.5	15.4	12.8	1.3	1.2	7.9	6.6
Indorama Ventures	IVL TB	5.4	THB	32.8	11.4	8.4	0.9	0.9	7.4	6.5
Lyondellbasell	LYB US	30.0	USD	92.2	10.2	8.7	2.2	2.0	6.9	6.2
Dow	DOW US	37.7	USD	53.3	18.2	12.0	1.8	1.8	8.1	6.6
Weighted Average	-	149.5	-	-	16.5	11.8	2.1	1.9	10.0	7.9
Simple Average	-	-	-	-	16.0	10.5	1.4	1.2	9.3	7.3
Median	-	-	-	-	15.9	9.8	1.1	1.0	8.6	6.6

Source: Bloomberg, BOBCAPS Research

Digital Services

While we value Jio Infocomm’s wireless, wireline and enterprise business at 9x FY25E EBITDA, 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 ~10% 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)	
					FY24E	FY25E	FY24E	FY25E	FY24E	FY25E
Bharti Airtel	BHARTI IN	62.7	INR	884.9	35.1	23.2	5.2	4.4	8.5	7.2
Vodafone Idea	IDEA IN	4.5	INR	7.6	NA	NA	NA	NA	13.8	12.2

Source: Bloomberg, BOBCAPS Research, NA Not Available

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 32x compares with the average/median FY24 multiple of 36.5x/39.1 for select players in the Indian retail industry that operate in different segments of the 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)	
					FY24E	FY25E	FY24E	FY25E	FY24E	FY25E
Trent	TRENT IN	7.4	INR	1,714.8	95.4	74.0	18.5	14.8	42.7	33.9
Avenue Supermarkets	DMART IN	29.2	INR	3,678.8	81.5	64.9	12.5	10.7	53.5	42.7
Titan	TTAN IN	32.4	INR	2,989.3	68.1	56.5	18.0	14.6	46.6	38.9
Jubilant Foodworks	JUBI IN	3.8	INR	473.1	63.4	49.6	11.9	10.0	22.4	18.6
Aditya Birla Fashion and Retail	ABFRL IN	2.5	INR	214.0	102.9	57.4	4.4	4.1	18.9	15.7
V-Mart Retail	VMART IN	0.5	INR	2,230.2	96.8	56.8	6.4	5.7	39.1	24.9
Shoppers Stop	SHOP IN	1.1	INR	788.7	50.7	39.2	22.2	16.6	31.8	26.7
Bata India	BATA IN	2.7	INR	1,698.0	51.3	42.3	12.3	10.3	23.2	20.2
Relaxo Footwears	RLXF IN	2.8	INR	929.7	84.5	64.0	12.7	11.4	50.5	38.4
Weighted Average	-	82.4	-	-	76.1	60.4	15.0	12.4	45.9	37.3
Simple Average	-	-	-	-	77.2	56.1	13.2	10.9	36.5	28.9
Median	-	-	-	-	76.1	56.8	12.5	10.7	39.1	26.7

Source: Company, BOBCAPS Research

New Energy

We assign an option value of US\$ 15bn, which is 1.5x of the US\$ 10bn investment committed by RIL for new energy. 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, gross refining margin (GRM) and petrochemical crack movements on easing of the demand-supply balance, or adverse regulatory moves (such as higher windfall taxes or caps on gas price) are key downside risks.
- **Digital Services:** Downside risks in this business include 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-than-expected evolution and integration of new energy businesses with existing businesses would be 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. Isha Ambani has been part of the executive leadership at Reliance Retail Ventures.

Sector recommendation snapshot

Company	Ticker	Market Cap (US\$ bn)	Price (Rs)	Target (Rs)	Rating
Bharat Petroleum Corp	BPCL IN	10.3	391	450	BUY
GAIL	GAIL IN	6.1	112	160	BUY
Gujarat State Petronet	GUJS IN	2.0	285	370	BUY
Hindustan Petroleum Corp	HPCL IN	5.2	302	410	BUY
Indian Oil Corp	IOCL IN	11.4	99	150	BUY
Mahanagar Gas	MAHGL IN	1.3	1,065	1,200	HOLD
Reliance Industries	RIL IN	209.1	2,539	3,015	BUY

Source: BOBCAPS Research, NSE | Price as of 21 Jul 2023

Financials

Income Statement

Y/E 31 Mar (Rs mn)	FY22A	FY23P	FY24E	FY25E	FY26E
Total revenue	69,99,620	87,94,680	80,22,533	91,28,638	1,03,13,161
EBITDA	11,04,600	14,29,080	16,68,607	18,55,656	21,45,288
Depreciation	(2,97,970)	(4,03,190)	(4,12,796)	(4,76,474)	(5,28,669)
EBIT	8,06,630	10,25,890	12,55,811	13,79,182	16,16,619
Net interest inc./(exp.)	(1,45,840)	(1,95,710)	(2,12,560)	(2,12,560)	(2,12,560)
Other inc./(exp.)	1,49,470	1,18,260	1,48,899	1,58,085	1,96,531
Exceptional items	28,360	0	0	0	0
EBT	8,10,260	9,48,440	11,92,151	13,24,707	16,00,590
Income taxes	(1,62,970)	(2,07,130)	(3,22,882)	(3,55,681)	(4,05,095)
Extraordinary items	0	0	0	0	0
Min. int./Inc. from assoc.	(68,600)	(74,290)	(93,100)	(1,30,732)	(1,79,330)
Reported net profit	6,07,050	6,67,020	7,76,169	8,38,294	10,16,166
Adjustments	0	0	0	0	0
Adjusted net profit	5,84,201	6,67,020	7,76,169	8,38,294	10,16,166

Balance Sheet

Y/E 31 Mar (Rs mn)	FY22A	FY23P	FY24E	FY25E	FY26E
Accounts payables	15,93,300	14,71,780	13,08,192	13,69,296	13,91,986
Other current liabilities	6,67,360	11,23,670	9,84,205	10,50,003	10,81,969
Provisions	37,890	37,870	37,870	37,870	37,870
Debt funds	29,39,980	34,28,380	34,28,380	34,28,380	34,28,380
Other liabilities	8,57,850	17,16,310	17,83,474	18,52,163	19,22,260
Equity capital	67,650	67,660	67,660	67,660	67,660
Reserves & surplus	77,27,200	81,43,870	88,39,973	96,02,708	1,05,41,768
Shareholders' fund	77,94,850	82,11,530	89,07,633	96,70,368	1,06,09,428
Total liab. and equities	1,49,86,220	1,71,19,630	1,76,72,943	1,87,62,001	2,00,05,144
Cash and cash eq.	3,61,780	7,47,080	7,09,213	10,62,242	16,42,027
Accounts receivables	2,36,400	2,84,510	2,74,434	2,77,608	2,79,938
Inventories	10,77,780	14,00,080	13,10,850	13,44,180	13,56,556
Other current assets	13,64,580	11,51,180	11,51,180	11,51,180	11,51,180
Investments	39,42,640	33,66,330	33,66,330	33,66,330	33,66,330
Net fixed assets	61,47,890	70,95,930	90,33,454	99,09,670	1,05,92,339
CWIP	17,25,060	29,37,900	16,90,862	15,14,172	14,80,154
Intangible assets	1,30,090	1,36,620	1,36,620	1,36,620	1,36,620
Deferred tax assets, net	0	0	0	0	0
Other assets	0	0	0	0	0
Total assets	1,49,86,220	1,71,19,630	1,76,72,943	1,87,62,001	2,00,05,144

Cash Flows

Y/E 31 Mar (Rs mn)	FY22A	FY23P	FY24E	FY25E	FY26E
Cash flow from operations	11,83,480	12,31,540	9,03,482	13,15,771	14,58,351
Capital expenditures	(15,15,680)	(25,64,070)	(11,03,282)	(11,76,000)	(11,77,320)
Change in investments	(7,65,610)	7,75,790	0	0	0
Other investing cash flows	5,92,750	(87,750)	1,48,899	1,58,085	1,96,531
Cash flow from investing	(16,88,540)	(18,76,030)	(9,54,383)	(10,17,915)	(9,80,789)
Equities issued/Others	3,200	10	0	0	0
Debt raised/repaid	9,100	(2,68,230)	0	0	0
Interest expenses	0	0	0	0	0
Dividends paid	(42,970)	(55,256)	(80,066)	(75,559)	(77,106)
Other financing cash flows	7,23,540	13,53,266	93,100	1,30,732	1,79,330
Cash flow from financing	6,92,870	10,29,790	13,034	55,173	1,02,223
Chg in cash & cash eq.	1,87,810	3,85,300	(37,867)	3,53,029	5,79,785
Closing cash & cash eq.	3,61,780	7,47,080	7,09,213	10,62,242	16,42,027

Per Share

Y/E 31 Mar (Rs)	FY22A	FY23P	FY24E	FY25E	FY26E
Reported EPS	89.7	98.6	114.7	123.9	150.2
Adjusted EPS	86.4	98.6	114.7	123.9	150.2
Dividend per share	6.7	8.2	11.8	11.2	11.4
Book value per share	1,152.2	1,213.6	1,316.5	1,429.3	1,568.1

Valuations Ratios

Y/E 31 Mar (x)	FY22A	FY23P	FY24E	FY25E	FY26E
EV/Sales	2.8	2.2	2.5	2.2	1.9
EV/EBITDA	18.0	13.8	11.9	10.7	9.2
Adjusted P/E	29.4	25.8	22.1	20.5	16.9
P/BV	2.2	2.1	1.9	1.8	1.6

DuPont Analysis

Y/E 31 Mar (%)	FY22A	FY23P	FY24E	FY25E	FY26E
Tax burden (Net profit/PBT)	69.7	70.3	65.1	63.3	63.5
Interest burden (PBT/EBIT)	104.0	92.5	94.9	96.1	99.0
EBIT margin (EBIT/Revenue)	11.5	11.7	15.7	15.1	15.7
Asset turnover (Rev./Avg TA)	49.7	54.8	46.1	50.1	53.2
Leverage (Avg TA/Avg Equity)	1.9	2.0	2.0	2.0	1.9
Adjusted ROAE	7.9	8.3	9.1	9.0	10.0

Ratio Analysis

Y/E 31 Mar	FY22A	FY23P	FY24E	FY25E	FY26E
YoY growth (%)					
Revenue	49.9	25.6	(8.8)	13.8	13.0
EBITDA	36.8	29.4	16.8	11.2	15.6
Adjusted EPS	33.8	14.2	16.4	8.0	21.2
Profitability & Return ratios (%)					
EBITDA margin	15.8	16.2	20.8	20.3	20.8
EBIT margin	11.5	11.7	15.7	15.1	15.7
Adjusted profit margin	8.3	7.6	9.7	9.2	9.9
Adjusted ROAE	7.9	8.3	9.1	9.0	10.0
ROCE	5.8	6.5	7.0	7.2	8.0
Working capital days (days)					
Receivables	11	11	13	11	10
Inventory	71	75	77	78	80
Payables	83	76	80	67	62
Ratios (x)					
Gross asset turnover	0.9	0.9	0.7	0.7	0.7
Current ratio	1.0	0.9	0.9	1.0	1.1
Net interest coverage ratio	5.5	5.2	5.9	6.5	7.6
Adjusted debt/equity	0.3	0.3	0.3	0.2	0.2

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

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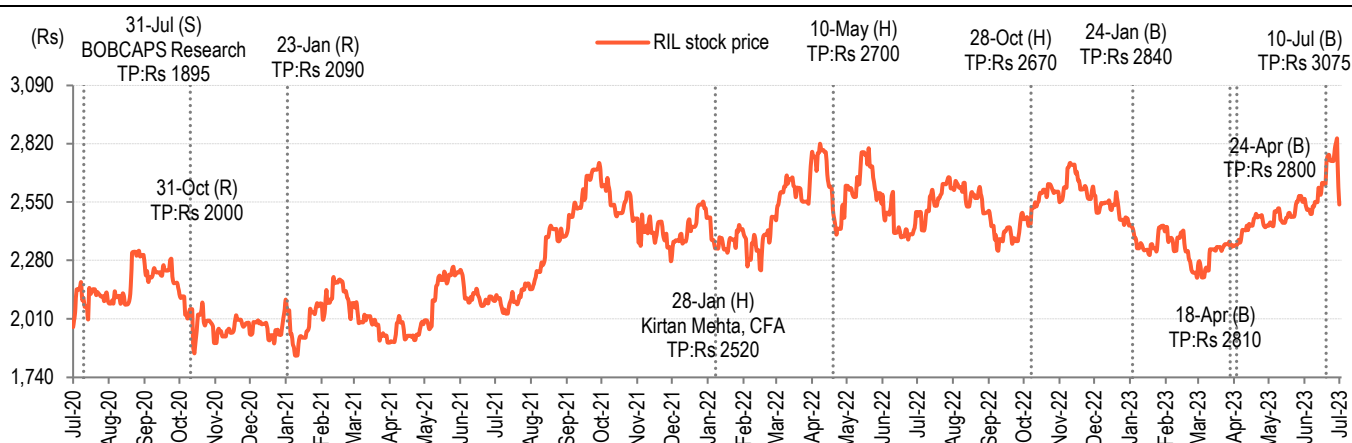
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