

BUY

TP: Rs 3,015 | ▲ 33%

RELIANCE INDUSTRIES

Oil & Gas

30 October 2023

Jio 2.0 key to growth momentum

- Q2 results broadly in line, with continuing structural growth in both consumer businesses and resilience in cyclical energy businesses
- Jio Digital preparing for acceleration with differentiated 5G services and concerted push into home broadband and enterprise segments
- Maintain BUY with a TP of Rs 3,015; RIL's consumer businesses remain key beneficiaries of India's growth story

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Q2 broadly in line: RIL's Q2FY24 EBITDA at Rs 410bn was 2% ahead of our estimate with a slight beat in O2C (+4%) and retail (+8%). Net income at Rs 174bn was in line.

Consumer businesses delivering structural growth: Consumer businesses delivered 20% YoY growth in H1FY24, with retail growing 33% and digital services up 16% even after a pause in tariff hikes. Consolidated EBITDA grew 16% YoY as the cyclical energy business delivered 7% growth, benefitting from a tight refining market and ramp-up of the MJ field.

Jio 2.0 key to accelerating growth: Though Jio is showing initial signs of pickup in net additions, an increase in ARPU will be the key to acceleration led by differential tariff for 5G services and growth in home broadband and enterprise suite solutions.

Heavy capex no burden on balance sheet: In H1FY24, operational cash flow covered 90% of RIL's capital outlay of Rs 785bn. Net debt reduced slightly by Rs 80bn to Rs 1.2tn with the receipt of Rs 105bn from a capital raise of Rs 153bn in RRVL.

Q3 outlook: Though the retail business will benefit from a festive quarter and the energy business will benefit from completion of MJ field ramp-up, we expect steady growth in digital services and a modest pullback in O2C with planned maintenance.

Key stock catalysts: (a) Jio: Early signs of market share gains and an increase in ARPU, leveraging 5G; (b) Retail: Acceleration towards the 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 the deployment of new energy; (d) Listing of the Jio and retail businesses.

Reiterate BUY: We lower our FY24/FY25/FY26 EBITDA estimates by -2% but maintain our SOTP-based TP at Rs 3,015 as we roll forward to Oct'24. We maintain target multiples across the refining (7x FY26E EV/EBITDA), petrochem (8x), telecom (Jio: 9x) and retail (32x) businesses and include unchanged values of Rs 161/sh for the upstream business, Rs 107 for digital services, and Rs 171 for new energy.

Key changes

Target	Rating
◀▶	◀▶

Ticker/Price	RIL IN/Rs 2,266
Market cap	US\$ 182.3bn
Free float	50%
3M ADV	US\$ 195.1mn
52wk high/low	Rs 2,856/Rs 2,180
Promoter/FPI/DII	50%/23%/17%

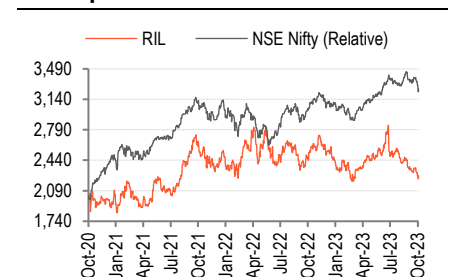
Source: NSE | Price as of 27 Oct 2023

Key financials

Y/E 31 Mar	FY23A	FY24E	FY25E
Total revenue (Rs mn)	87,78,350	88,98,265	97,05,057
EBITDA (Rs mn)	14,21,620	16,35,440	18,22,881
Adj. net profit (Rs mn)	6,62,840	6,80,189	7,51,094
Adj. EPS (Rs)	98.0	100.5	111.0
Consensus EPS (Rs)	98.0	110.9	127.4
Adj. ROAE (%)	8.9	9.1	9.3
Adj. P/E (x)	23.1	22.5	20.4
EV/EBITDA (x)	12.3	10.8	9.8
Adj. EPS growth (%)	16.8	2.6	10.4

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE



Result highlights

Q2 broadly in line

RIL's Q2FY24 EBITDA at Rs 410bn was 2% ahead of our forecast/consensus, whereas net income at Rs 174bn was 1% ahead of us but 3% below consensus.

- **Q2 EBITDA was broadly in line** (+2% vs. our estimate) as above-expected profits from oil-to-chemicals (O2C: +4%) and retail (+8%) were offset by underperformance in other businesses (-12%).
- **Consumer businesses maintained structural momentum** with 19% YoY growth in EBITDA. Retail EBITDA (including investment income) grew 32% whereas digital services also delivered 15% even after a pause in tariff hike. Retail also posted higher sequential growth of 13% whereas digital services grew at a modest 3%.
- **Consolidated EBITDA clocked higher momentum**, rising 29% YoY as the cyclical energy business grew 39% led by strong O2C profits (+36%), supported by a tighter refining market, and growth in oil and gas (+50%) from ramp-up of the MJ field.
- **Consumer businesses contributed more than 40% of consolidated net profit** in Q2, with Jio Platforms (JPL) contributing 27% and RRVL adding 14%. Standalone operations accounted for 56% of PAT.
- **Operational cash flow is adequate to cover accelerated capex** and we do not anticipate pressure on the balance sheet. During H1FY24, operational cash flow of Rs 708.4bn funded 90% of capital spend. We believe RIL will maintain capex at an annual run-rate of Rs 1.4tn this year and keep it range-bound in the medium term.
- **Net debt decreased marginally** by Rs 80bn to Rs 1.2tn mainly due to the receipt of Rs 105bn from the Rs 153bn capital raise in RRVL (Reliance Retail). RIL has received an additional Rs 50bn from ADIA in Oct'23 and may receive further cash of Rs 51.5bn as it monetises the warehousing InvIT.

Fig 1 – Quarterly performance: EBITDA healthy with strong overall performance

(Rs bn)	Q2FY24	Q1FY24	QoQ (%)	Q2FY23	YoY (%)	H1FY24	H1FY23	YoY (%)
Consolidated P&L								
Revenue	2,350	2,108	11.4	2,329	0.9	4,458	4,560	(2.2)
EBITDA excl other income	410	381	7.5	312	31.2	791	692	14.2
Net income adjusted	199	183	8.9	155	28.1	381	350	9.1
Net income post minority share	174	160	8.6	137	27.4	334	316	5.7
EBITDA mix								
Oil to Chemicals (O2C)	163	153	6.6	120	36.0	316	319	(1.0)
Oil and Gas	48	40	18.7	32	50.3	88	59	48.6
Retail	58	52	13.2	44	32.1	110	83	32.9
Digital Services	141	137	2.6	123	14.5	278	240	15.8
Others	22	23	(3.0)	15	47.5	45	29	55.5
Segment EBITDA	431	404	6.7	333	29.4	836	729	14.6
Delta	17	15	-	14	-	31	21	-
Consolidated EBITDA (Reported)	448	419	6.9	347	29.0	867	750	15.6
Energy businesses	210	193	9.1	151	39.0	403	378	6.8
Consumer businesses	199	189	5.5	167	19.1	388	323	20.2

Source: Company, BOBCAPS Research

Fig 2 – Quarterly operational indicators

Parameter	Unit	Q2FY24	Q1FY24	QoQ (%)	Q2FY23	YoY (%)
Digital Services						
Customer base	mn	459.7	448.5	2.5	427.6	7.5
Net customer additions	mn	11.1	9.2		7.7	
ARPU adj for IUC	Rs/month	181.7	180.5	0.7	177.2	2.5
Retail						
Revenue	Rs bn	689	622	10.9	577	19.5
Core revenue	Rs bn	480	417	15.3	384	25.1
EBITDA margin excl investment income	%	8.4	7.9		7.4	
Total store count	Nos	18,650	18,446	1.1	16,617	12.2
Total store area	mn sqft	71.5	70.6	1.3	54.5	31.2
Oil to Chemicals						
Feedstock throughput	mt	20.0	19.7	1.5	18.6	7.5
Production meant for sale	mt	17.1	17.2	(0.6)	16.2	5.6
Transportation fuels	mt	11.1	11.1	0.0	9.9	12.1
Oil and Gas						
Production	BCFe	70.4	50.4	39.7	43.6	61.5
KG-D6 gas production	mmscmd	28.3	20.9	35.4	19.0	48.9
KG-D6 realisation	US\$/MMbtu	10.5	10.8	(3.2)	9.9	5.7

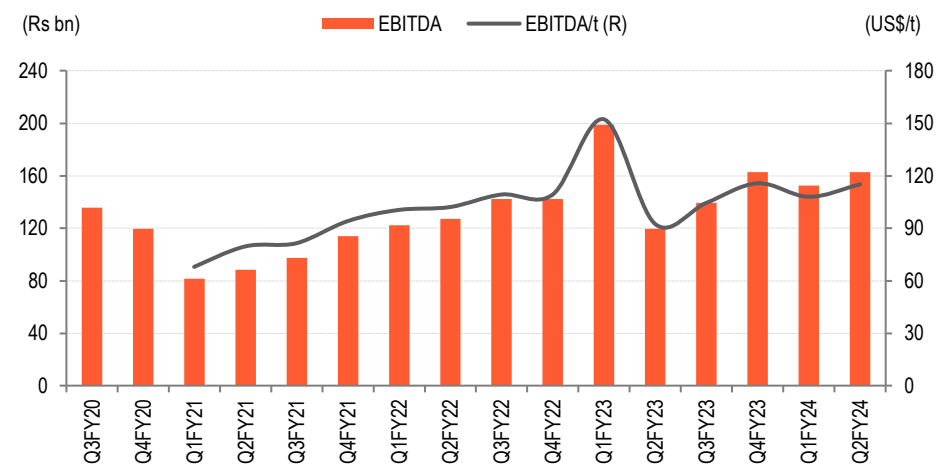
Source: Company, BOBCAPS Research

Oil-to-Chemicals (O2C)

O2C EBITDA at Rs 163bn was 4% ahead of our estimate in Q2FY24. O2C benefitted from an improved refining margin, optimisation of arbitrage feedstocks (discounted Russian crude, ethane), alignment of the product mix with tightness in product segments (maximising alkylate and high octane gasoline to capture higher spreads), and high gasifier use to eliminate LNG usage. Weakness in the global petrochemical margin was partially offset by the sale of 85% of petrochemical volumes in the domestic market and a higher spread on the use of ethane as feedstock.

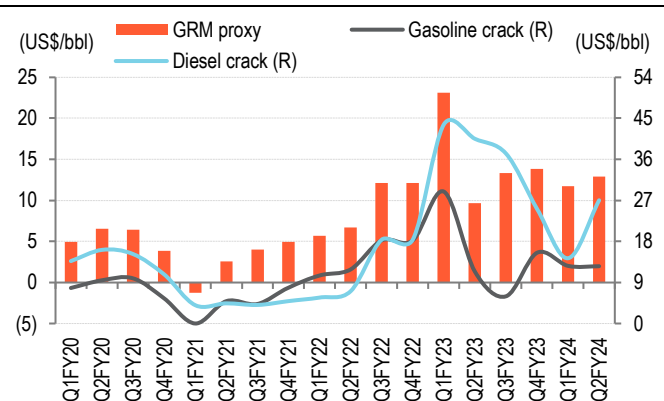
- In refining, we estimate that RIL's GRM has improved to US\$12.9/bbl from US\$ 11.7/bbl a quarter ago, benefitting from firm gasoline prices and increased use of discounted Russian crude.
- In petrochemicals, we estimate that average EBITDA may have marginally decreased by 2% QoQ to US\$ 266/t with the weakness in spreads partially offset by product optimisation to capture chain margins.

Fig 3 – O2C EBITDA improves in Q2 with higher refining margin and higher use of arbitrage feedstocks



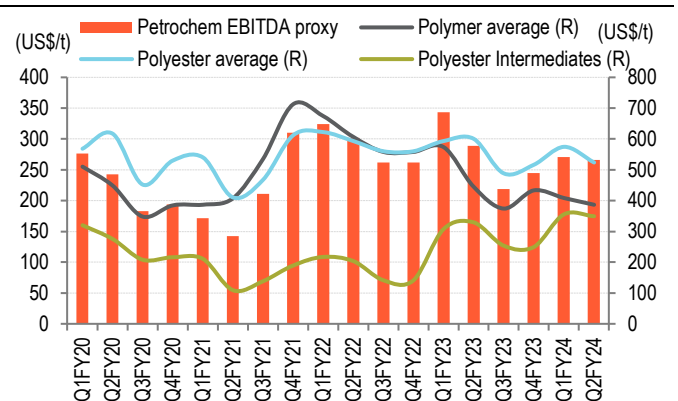
Source: Company, BOBCAPS Research

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 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, RIL expects margins to remain above mid-cycle levels given a tight refining market and potential for additional upside from planned and unplanned refinery shutdowns even in absence of material demand improvement. However, we believe the petrochemical margin is likely to remain below mid-cycle levels till we see moderation in new supply from China and a pickup in global demand to absorb this supply.

For Q3, we expect a marginal pullback in O2C EBITDA with planned shutdowns of a CDU (Crude Distillation Unit), catalytic cracker, coker and refinery off-gas cracker for around three weeks.

Oil & Gas

Q2 EBITDA in the oil & gas business was up 19% QoQ as KG-D6 gas production grew 35% to 28.3mmscmd equivalent (with the start of condensate production at MJ field), setting off a 3% dip in realisation.

With the ramp-up of KG-D6 production, we expect oil and gas EBITDA to increase 34% YoY in FY24. We currently expect FY25-FY26 EBITDA to remain within a 10% range owing to a plateauing of production over the medium term and steady natural gas realisation at US\$ 10.2/MMbtu over FY24-FY26, assuming resilient oil prices.

For Q3FY24, the oil & gas business will benefit from completion of MJ field ramp-up and decommissioning of Tapti fields, which will be partially set off by a decrease in gas ceiling price for HPHT (High Pressure High Temperature) fields.

Digital Services

Digital services posted slower EBITDA growth of 14.5% YoY in Q3 as RIL and the industry are holding average revenue per user (ARPU) flat while rolling out 5G on a national scale. Growth is being supported by increased momentum in customer addition, with a 7.5% rise in customer base and only a 2.5% rise in ARPU. Sequentially as well, EBITDA grew 2.6% QoQ on the back of a ramp-up in net customer addition to 11.1mn whereas ARPU grew just 1% to Rs 181.7.

Jio 2.0 key to regaining growth momentum

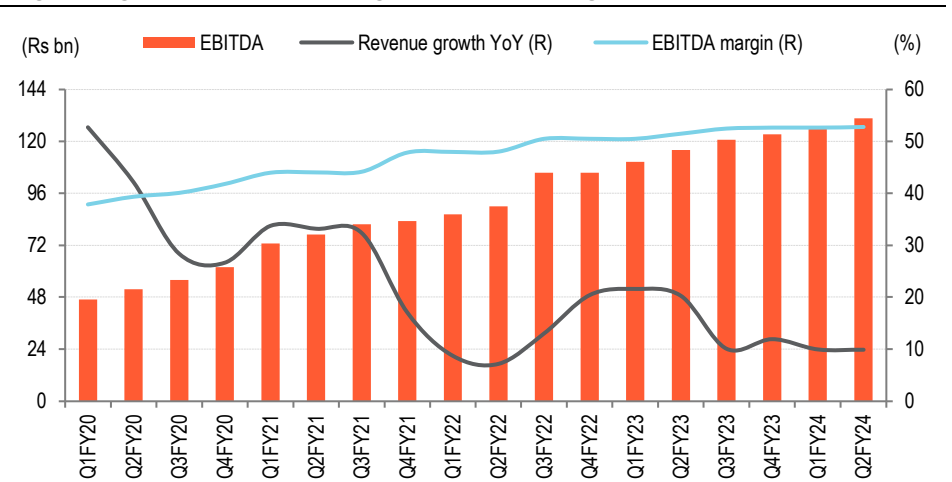
A key trigger for the digital services business is the translation of differentiated service offerings into increased subscriber traction and profitability.

- **Acceleration in net subscriber additions continued for fourth successive quarter:** Subscriber additions have increased from 5.3mn in Q3FY23 to 11.1mn in Q2FY24. Based on available TRAI data for April, Jio Platforms (Jio) 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.

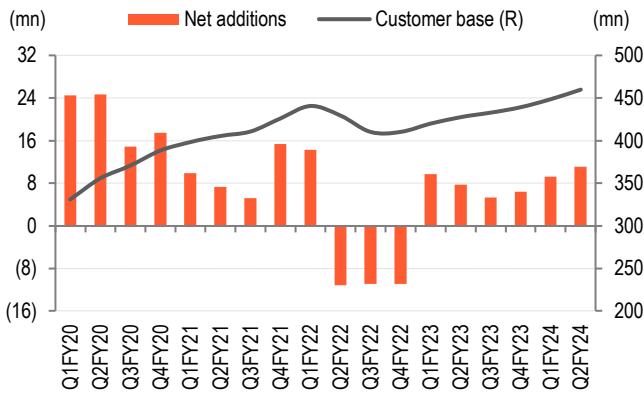
- **5G migration starts to become visible:** Jio has clocked migration of 70mn subscribers or ~15% of its customer base to 5G. Usage of 5G also shows initial signs of scale-up, clocking more than 20GB of data usage per month per user, based on 5G traffic of 1.5EB (exabyte). Jio confirmed that it is on track to complete its national rollout by Dec'23. With standalone architecture, the company accounts for 85% of the 5G capacity deployed in India, having installed more than 1mn 5G cells. With the competition implementing non-standalone architecture, their deployment of 5G cells is limited.
- **Penetration of home broadband to 100mn homes could lift ARPU by 60%:** After connecting 10mn homes with Jio Fiber, Jio has now expanded the addressable market with the launch of AirFiber in September, starting with eight cities. The company is seeing positive demand signals from non-fiber penetrated areas. At current tariff levels, ARPU could increase by 60% if Jio were to reach 100mn homes over the next 2-3 years.
- **Upgrade of lower-end subscribers to 4G gaining traction:** Jio indicated strong traction and substantial market share gains for its highly competitive JioBharat 4G phone. We understand that the initial lot of 1mn phones has sold out in the first round and Jio is adding further phones and models with more features. The company is targeting substantial market share from the transition of India's 250mn-strong 2G consumer base to 4G.
- **Gaining a foothold in enterprise services:** Jio has built a presence across 85% of India's large enterprises, providing connectivity to the top 20 banks and more than 400 BFSI accounts. It is also clocking a win rate of more than 80% in government bids.

Fig 6 – Digital services EBITDA growth rate slowing down ahead of Jio 2.0 pickup



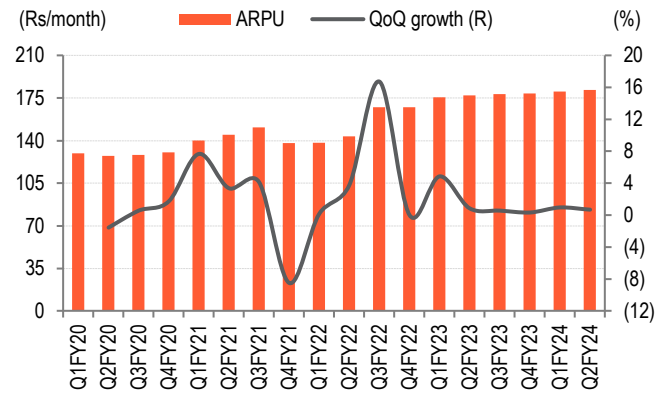
Source: Company, BOBCAPS Research

Fig 7 – Net subscriber additions gaining momentum



Source: Company, BOBCAPS Research

Fig 8 – ARPU stable, uptick from 5G yet to be reflected



Source: Company, BOBCAPS Research

We model for 26% annual growth in digital services EBITDA over FY23-FY26 on the back of increasing service penetration from 5G rollout across the country through FY24.

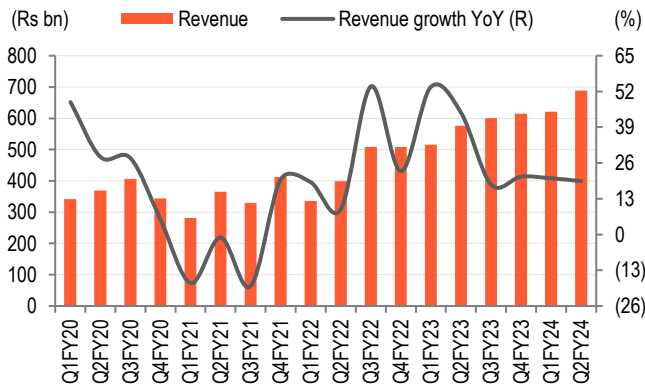
- During the rollout of 5G services (currently in beta trial mode), we remain conservative in our assumptions of net subscriber additions, baking in adds of 40mn/36mn/25mn over FY24/FY25/FY26. For home broadband services, we factor in a gradual pick-up in connections to ~47mn by end-FY26 post launch 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 7% annual hikes in ARPU to Rs 220 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 business EBITDA at Rs 56bn (excluding investment income) was up 31% YoY and 13% QoQ in Q2.

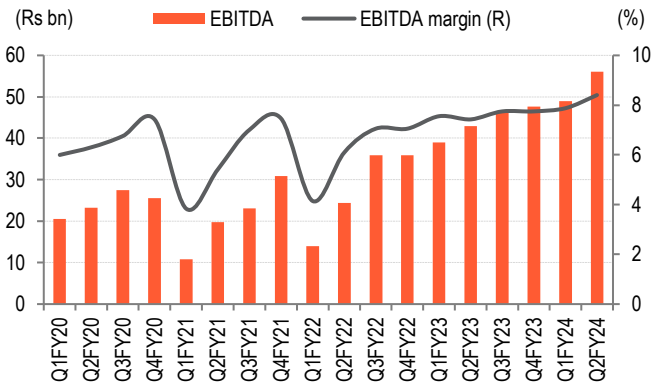
- Retail gross revenue is currently running at Rs 2.8tn on TTM basis or 1.8x FY21 revenue and must grow at an annualised rate of more than 20% over the next 2.5 years if it is to triple within five years, in line with RIL's target set at the FY21 AGM.
- Retail core revenue grew 25% YoY to Rs 480bn in Q2 driven by grocery (33% YoY), consumer electronics excluding devices (11%), and fashion and lifestyle (32%).
- Retail EBITDA margin further increased 50bps QoQ to 8.4%.
- Store-space expansion was slower this quarter with the addition of 0.9mn sqft and net addition of 204 stores (gross addition of 467 stores). Store expansion is likely to pick up in the festive quarter of Q3FY24.

Fig 9 – Retail revenue growth driven by grocery and fashion and lifestyle



Source: Company, BOBCAPS Research

Fig 10 – Retail EBITDA margin expands further



Source: Company, BOBCAPS Research

We forecast 27% 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 8.9% in FY26 as the retail business leverages its large scale and national presence, and also integrates premium brands and partnerships.
- Near-term in Q3FY23, Reliance Retail will likely benefit from a festive season sales pickup across business verticals.

Valuation methodology

Forecast revisions

We lower our FY24-26 EBITDA estimates by around -2% to incorporate disclosures from FY23 annual report and Q2FY24 results. Our revised EBITDA forecasts are 1%/0%/4% ahead of consensus for FY24/FY25/FY26, reflecting our view of continuing strong growth in both of RIL's consumer-facing businesses (digital services and retail). We also lower our FY24/FY25/FY26 net income estimates by -12%/-10%/-9% incorporating acceleration in depreciation and higher minority share in RRVL.

Fig 11 – Revised estimates

(Rs bn)	Actual	New			Old			Change (%)		
	FY23	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E
Revenue	8,778	8,898	9,705	10,857	8,023	9,129	10,313	10.9	6.3	5.3
EBITDA	1,422	1,635	1,823	2,112	1,669	1,856	2,145	(2.0)	(1.8)	(1.6)
EBITDA margin (%)	16.2	18.4	18.8	19.4	20.8	20.3	20.8	-	-	-
Adj. PAT	663	680	751	923	776	838	1,016	(12.3)	(10.3)	(9.1)
EPS (Rs)	98.0	100.5	111.0	136.5	114.6	123.8	147.1	(12.3)	(10.3)	(7.2)

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	8,898	9,705	10,857	9,365	10,153	10,909	(5.0)	(4.4)	(0.5)
EBITDA	1,635	1,823	2,112	1,620	1,827	2,034	0.9	(0.2)	3.8
Adj. PAT	680	751	923	751	869	956	(9.4)	(13.5)	(3.4)
EPS (Rs)	100.5	111.0	136.5	110.9	127.4	142.4	(9.4)	(12.9)	(4.2)

Source: Bloomberg, BOBCAPS Research

We expect 14% annual growth in RIL's EBITDA over FY23-FY26 mainly driven by a 26% CAGR for the consumer business.

Fig 13 – RIL's EBITDA mix

Particulars	FY21	FY22	FY23	FY24E	FY25E	FY26E	FY21/23 CAGR (%)	FY23/26E CAGR (%)
EBITDA (Rs bn)								
O2C	382	527	621	623	570	588	-	-
Oil & Gas	2	55	136	182	196	177	-	-
Cyclical subtotal	383	582	757	804	766	765	-	-
Digital Services	334	394	490	587	760	975	-	-
Retail	98	124	179	237	290	364	-	-
Consumer subtotal	432	518	669	824	1,050	1,339	-	-
Others	(7)	(16)	(4)	7	7	7	-	-
Consolidated business EBITDA	807	1,084	1,422	1,635	1,823	2,112	-	-
EBITDA YoY growth (%)								
O2C	na	38.1	17.7	0.3	(8.5)	3.3	27.5	(1.8)
Oil & Gas	(92.9)	3,410.6	149.0	33.6	8.1	(9.7)	835.0	9.3
Cyclical subtotal	(70.2)	51.8	30.1	6.3	(4.8)	(0.1)	40.5	0.4
Digital Services	117.5	18.2	24.3	19.7	29.5	28.3	21.2	25.8
Retail	57.8	26.5	44.8	32.4	22.2	25.6	35.3	26.6
Consumer subtotal	100.3	20.1	29.2	23.1	27.4	27.6	24.5	26.0
Consolidated	(4.1)	34.3	31.1	15.0	11.5	15.8	20.8	14.1

Particulars	FY21	FY22	FY23	FY24E	FY25E	FY26E	FY21/23 CAGR (%)	FY23/26E CAGR (%)
EBITDA composition (% of total)								
O2C	47.3	48.6	43.7	38.1	31.3	27.9	-	-
Oil & Gas	0.2	5.0	9.6	11.1	10.8	8.4	-	-
Cyclical subtotal	47.5	53.6	53.2	49.2	42.0	36.3	-	-
Digital Services	41.3	36.4	34.5	35.9	41.7	46.2	-	-
Retail	12.1	11.4	12.6	14.5	15.9	17.2	-	-
Consumer subtotal	53.5	47.8	47.1	50.4	57.6	63.4	-	-

Source: Company, BOBCAPS Research

Fig 14 – Key assumptions

Parameter	Unit	FY22	FY23	FY24E	FY25E	FY26E
Exchange rate	INR/USD	74.5	80.4	82.7	82.5	84.2
Energy						
Oil price	US\$/bbl	80.0	95.0	84.7	85.0	85.0
Refining margin	US\$/bbl	8.0	11.5	11.5	9.0	9.0
Petrochem EBITDA	US\$/ton	282	285	267	268	270
O2C throughput	mt	68.2	66.4	71.0	71.0	71.0
Gas realisation- KG D6	US\$/mmbtu	4.9	10.7	10.2	10.2	10.2
Gas production- KG D6	mmscmd	17.7	19.0	26.7	29.0	29.0
Jio Digital Services						
No of subscribers	mn	410	439	480	516	541
ARPU	Rs	150	177	183	199	220
Retail						
Revenue growth	% YoY	25.8	32.0	20.4	22.8	19.6
EBITDA margin	%	6.2	7.5	8.2	8.5	8.9

Source: Company, BOBCAPS Research

BUY with TP of Rs 3,015

We maintain our SOTP-based TP for RIL at Rs 3,015 as we incorporate the Q2 results and discount our SOTP value back to Oct'24 (Jul'24 previously) to arrive at a one-year forward target price. Our target FY26E EV/EBITDA multiples remain unchanged across businesses, viz. refining (7x), petrochemicals (8x), telecom (Jio Infocomm: 9x), and retail (32x). We maintain valuations of other businesses as follows: Rs 161/sh for the upstream business, Rs 107 for the digital services venture, Rs 171 for the new energy division.

We maintain BUY on RIL given 33% upside potential. In our view, RIL will deliver structural profit growth while managing its capex outlay and risk profile.

Fig 15 – Valuation summary

Business (Rs bn)	Fair Value		Value/share (Rs)	Valuation basis
	(US\$ bn)	(Rs bn)		
Energy				
Refining	26	2,171	321	7x FY26E EBITDA
Petrochem	35	2,878	425	8x FY26E EBITDA
Upstream	15	1,208	179	Combination of DCF and reserve multiple
New energy	14	1,194	177	Option value
Energy total	90	7,451	1,101	-
Jio Infocomm	68	5,600	828	9x FY26E EBITDA, RIL share
Digital Services	9	742	110	6x FY26E Sales, RIL share
Reliance Retail	113	9,368	1,385	32x FY26E EBITDA, RIL share
Consumer business total	190	15,710	2,322	-
Enterprise value	280	23,161	3,423	-
Net Debt	33	2,761	408	-
Marketable securities	0	0	0	At 85% of BV
Equity value	247	20,399	3,015	22.1x 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 (4.9x-6.7x on CY23E/FY24E) but at a discount in petrochem (9.7-13.1x on CY23E).

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	49.0	USD	110.1	6.9	8.0	1.6	1.4	5.5	6.2
Valero Energy	VLO US	42.7	USD	125.4	5.0	8.4	1.6	1.4	3.3	4.8
Marathon Petroleum	MPC US	59.2	USD	148.1	6.4	9.6	2.5	2.3	4.6	6.5
S-Oil	010950 KS	0.6	KRW	68,400.0	6.8	5.8	0.9	0.8	4.6	4.4
Sk Innovation	096770 KS	0.9	KRW	124,300.0	17.8	6.7	0.6	0.5	9.0	6.6
IRPC	IRPC TB	1.1	THB	2.0	27.5	11.6	0.5	0.5	10.5	7.7
Thai Oil	TOP TB	3.0	THB	48.0	6.4	7.5	0.6	0.6	8.6	9.1
Eneos Holdings	5020 JP	11.3	JPY	556.8	7.4	7.8	0.5	0.5	6.7	6.7
Idemitsu Kosan	5019 JP	6.8	JPY	3,403.0	7.0	6.9	0.6	0.5	6.7	7.0
Weighted Average	-	174.5	-	-	6.5	8.6	1.8	1.6	4.9	6.1
Simple Average	-	-	-	-	10.1	8.0	1.0	1.0	6.6	6.5
Median	-	-	-	-	6.9	7.8	0.6	0.6	6.7	6.6

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	2.3	KRW	438,500.0	16.7	9.0	1.0	0.9	6.9	5.0
Lotte Chemical	011170 KS	0.4	KRW	136,600.0	39.3	11.4	0.4	0.4	11.0	6.7
Sk Innovation	096770 KS	0.9	KRW	124,300.0	17.8	6.7	0.6	0.5	9.0	6.6
S-Oil	010950 KS	0.6	KRW	68,400.0	6.8	5.8	0.9	0.8	4.6	4.4
Wanhua Chemical	600309 CH	37.7	CNY	87.9	15.2	11.7	3.0	2.5	9.7	7.7
IRPC	IRPC TB	1.1	THB	2.0	27.5	11.6	0.5	0.5	10.5	7.7
Formosa Plastics	1301 TT	15.1	TWD	77.2	40.5	24.8	1.4	1.4	48.1	23.4
Petronas Chemicals	PCHEM MK	12.2	MYR	7.3	22.6	15.9	1.4	1.4	10.6	8.4
Indorama Ventures	IVL TB	3.9	THB	25.0	16.2	8.7	0.7	0.7	8.7	7.1
Lyondellbasell	LYB US	29.1	USD	89.9	10.4	9.1	2.2	2.1	7.1	6.5
Dow	DOW US	33.8	USD	48.0	21.6	13.6	1.7	1.7	8.4	7.0
Weighted Average	-	137.14	-	-	19.4	13.3	2.1	1.9	13.1	9.0
Simple Average	-	-	-	-	21.8	11.9	1.3	1.2	12.2	8.2
Median	-	-	-	-	19.7	11.5	1.1	1.1	9.7	7.1

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 FY26E Sales (unchanged) discounted back to Oct’24. Our target multiple for the Jio Infocomm telecom business is at ~17% 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	64.2	INR	914.6	42.4	27.2	5.4	4.5	9.1	7.7
Vodafone Idea	IDEA IN	6.4	INR	10.9	NA	NA	NA	NA	15.0	13.3

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 FY26.

Reliance Retail

Our one-year forward EV/EBITDA multiple of 32x compares with the average/median FY24 multiple of 38.6x/49.2 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	9.1	INR	2,122.1	116.0	86.7	23.0	18.4	53.4	41.4
Avenue Supermarkets	DMART IN	28.7	INR	3,665.5	87.3	68.2	12.5	10.6	55.1	43.3
Titan	TTAN IN	33.3	INR	3,120.7	74.3	60.0	19.1	15.6	50.5	40.9
Jubilant Foodworks	JUBI IN	4.0	INR	505.0	83.0	59.3	14.4	12.3	26.1	20.8
Aditya Birla Fashion and Retail	ABFRL IN	2.5	INR	216.0	NA	NA	4.7	4.4	18.9	15.7
V-Mart Retail	VMART IN	0.4	INR	1,745.2	96.8	56.8	6.4	5.7	39.1	24.9
Shoppers Stop	SHOP IN	0.8	INR	639.4	54.6	32.5	18.7	13.2	31.8	26.7
Bata India	BATA IN	2.4	INR	1,553.0	52.2	42.4	11.8	10.1	22.1	19.0
Relaxo Footwears	RLXF IN	2.7	INR	896.3	84.5	64.0	12.7	11.4	50.5	38.4
Weighted Average	-	83.8	-	-	83.6	65.1	16.1	13.4	49.2	39.1
Simple Average	-	-	-	-	81.1	58.7	13.7	11.3	38.6	30.1
Median	-	-	-	-	83.3	59.7	12.7	11.4	39.1	26.7

Source: Company, BOBCAPS Research, NA Not Available

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) launch of 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 unorganised 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. Chairman Mukesh Ambani announced his intent to stay at the helm for five more years and to mentor his children Akash, Isha and Anant for "collective leadership", while also inducting them on the board of RIL.

Sector recommendation snapshot

Company	Ticker	Market Cap (US\$ bn)	Price (Rs)	Target (Rs)	Rating
Bharat Petroleum Corp	BPCL IN	8.8	335	450	BUY
GAIL	GAIL IN	6.5	118	160	BUY
Gujarat State Petronet	GUJS IN	1.9	275	370	BUY
Hindustan Petroleum Corp	HPCL IN	4.2	244	410	BUY
Indian Oil Corp	IOCL IN	10.0	87	150	BUY
Indraprastha Gas	IGL IN	3.3	382	550	BUY
Mahanagar Gas	MAHGL IN	1.2	988	1,210	HOLD
Petronet LNG	PLNG IN	4.0	220	275	HOLD
Reliance Industries	RIL IN	182.3	2,266	3,015	BUY

Source: BOBCAPS Research, NSE | Price as of 27 Oct 2023

Financials

Income Statement

Y/E 31 Mar (Rs mn)	FY22A	FY23A	FY24E	FY25E	FY26E
Total revenue	69,59,630	87,78,350	88,98,265	97,05,057	1,08,57,315
EBITDA	10,84,460	14,21,620	16,35,440	18,22,881	21,11,623
Depreciation	(2,97,820)	(4,03,030)	(4,84,638)	(5,13,311)	(5,50,547)
EBIT	7,86,640	10,18,590	11,50,802	13,09,570	15,61,076
Net interest inc./(exp.)	(1,45,840)	(1,95,710)	(2,12,100)	(2,12,100)	(2,12,100)
Other inc./(exp.)	1,49,430	1,17,340	1,46,939	1,35,106	1,55,079
Exceptional items	28,360	0	0	0	0
EBT	7,90,230	9,40,220	10,85,641	12,32,577	15,04,055
Income taxes	(1,59,700)	(2,03,760)	(3,13,322)	(3,51,538)	(4,07,432)
Extraordinary items	0	0	0	0	0
Min. int./Inc. from assoc.	(68,450)	(73,620)	(92,131)	(1,29,946)	(1,73,349)
Reported net profit	5,90,440	6,62,840	6,80,189	7,51,094	9,23,274
Adjustments	0	0	0	0	0
Adjusted net profit	5,67,613	6,62,840	6,80,189	7,51,094	9,23,274

Balance Sheet

Y/E 31 Mar (Rs mn)	FY22A	FY23A	FY24E	FY25E	FY26E
Accounts payables	15,93,300	14,71,720	13,67,505	13,69,236	13,91,926
Other current liabilities	6,67,360	11,23,260	10,37,771	10,49,593	10,81,559
Provisions	37,890	37,850	37,850	37,850	37,850
Debt funds	29,39,980	34,20,960	34,20,960	34,20,960	34,20,960
Other liabilities	8,57,850	17,16,220	17,79,761	18,42,678	19,08,913
Equity capital	67,650	67,660	67,660	67,660	67,660
Reserves & surplus	77,27,200	70,91,060	76,95,501	83,71,591	92,15,907
Shareholders' fund	77,94,850	71,58,720	77,63,161	84,39,251	92,83,567
Total liab. and equities	1,49,86,220	1,60,58,820	1,66,29,228	1,75,11,734	1,86,50,290
Cash and cash eq.	3,61,780	6,86,640	4,07,733	4,96,651	8,63,432
Accounts receivables	2,36,400	2,84,480	2,77,328	2,77,282	2,79,908
Inventories	10,77,780	14,00,080	13,43,236	13,44,180	13,56,556
Other current assets	13,64,580	11,46,450	11,46,450	11,46,450	11,46,450
Investments	39,42,640	23,55,600	23,55,600	23,55,600	23,55,600
Net fixed assets	61,47,890	70,95,350	89,60,728	1,00,35,781	1,08,47,706
CWIP	17,25,060	29,37,520	19,85,454	17,03,091	16,47,938
Intangible assets	1,30,090	1,52,700	1,52,700	1,52,700	1,52,700
Deferred tax assets, net	0	0	0	0	0
Other assets	0	0	0	0	0
Total assets	1,49,86,220	1,60,58,820	1,66,29,228	1,75,11,734	1,86,50,290

Cash Flows

Y/E 31 Mar (Rs mn)	FY22A	FY23A	FY24E	FY25E	FY26E
Cash flow from operations	11,66,910	12,02,980	9,55,721	12,04,870	14,24,631
Capital expenditures	(15,15,680)	(25,33,630)	(13,97,950)	(13,06,000)	(13,07,320)
Change in investments	(7,65,610)	16,67,980	0	0	0
Other investing cash flows	5,92,710	13,790	1,46,939	1,35,106	1,55,079
Cash flow from investing	(16,88,580)	(8,51,860)	(12,51,011)	(11,70,894)	(11,52,241)
Equities issued/Others	3,200	10	0	0	0
Debt raised/repaid	9,100	(2,75,650)	0	0	0
Interest expenses	0	0	0	0	0
Dividends paid	(42,970)	(50,830)	(75,748)	(75,003)	(78,959)
Other financing cash flows	7,40,150	3,00,210	92,131	1,29,946	1,73,349
Cash flow from financing	7,09,480	(26,260)	16,383	54,942	94,390
Chg in cash & cash eq.	1,87,810	3,24,860	(2,78,907)	88,919	3,66,780
Closing cash & cash eq.	3,61,780	6,86,640	4,07,733	4,96,651	8,63,432

Per Share

Y/E 31 Mar (Rs)	FY22A	FY23A	FY24E	FY25E	FY26E
Reported EPS	87.3	98.0	100.5	111.0	136.5
Adjusted EPS	83.9	98.0	100.5	111.0	136.5
Dividend per share	6.7	7.5	11.2	11.1	11.7
Book value per share	1,152.2	1,058.0	1,147.4	1,247.3	1,372.1

Valuations Ratios

Y/E 31 Mar (x)	FY22A	FY23A	FY24E	FY25E	FY26E
EV/Sales	2.5	2.0	2.0	1.8	1.7
EV/EBITDA	16.3	12.3	10.8	9.8	8.5
Adjusted P/E	27.0	23.1	22.5	20.4	16.6
P/BV	2.0	2.1	2.0	1.8	1.7

DuPont Analysis

Y/E 31 Mar (%)	FY22A	FY23A	FY24E	FY25E	FY26E
Tax burden (Net profit/PBT)	69.3	70.5	62.7	60.9	61.4
Interest burden (PBT/EBIT)	104.1	92.3	94.3	94.1	96.3
EBIT margin (EBIT/Revenue)	11.3	11.6	12.9	13.5	14.4
Asset turnover (Rev./Avg TA)	49.4	56.6	54.4	56.9	60.0
Leverage (Avg TA/Avg Equity)	1.9	2.1	2.2	2.1	2.0
Adjusted ROAE	7.7	8.9	9.1	9.3	10.4

Ratio Analysis

Y/E 31 Mar	FY22A	FY23A	FY24E	FY25E	FY26E
YoY growth (%)					
Revenue	49.1	26.1	1.4	9.1	11.9
EBITDA	34.3	31.1	15.0	11.5	15.8
Adjusted EPS	30.0	16.8	2.6	10.4	22.9
Profitability & Return ratios (%)					
EBITDA margin	15.6	16.2	18.4	18.8	19.4
EBIT margin	11.3	11.6	12.9	13.5	14.4
Adjusted profit margin	8.2	7.6	7.6	7.7	8.5
Adjusted ROAE	7.7	8.9	9.1	9.3	10.4
ROCE	5.6	6.8	6.8	7.3	8.3
Working capital days (days)					
Receivables	11	11	12	10	9
Inventory	71	75	78	77	78
Payables	83	76	71	63	58
Ratios (x)					
Gross asset turnover	0.9	0.9	0.8	0.7	0.7
Current ratio	1.0	0.9	0.8	0.9	0.9
Net interest coverage ratio	5.4	5.2	5.4	6.2	7.4
Adjusted debt/equity	0.3	0.4	0.4	0.3	0.3

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

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BUY – Expected return >+15%

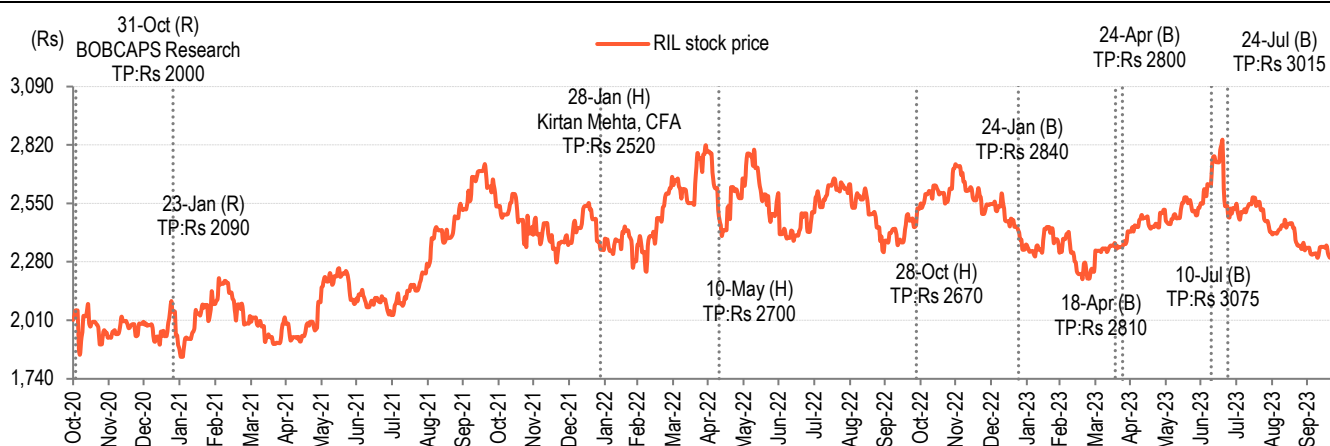
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Note: Recommendation structure changed with effect from 21 June 2021

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