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BUY
TP: Rs 3,175 | ▲ 19%

RELIANCE INDUSTRIES | Oil & Gas | 23 January 2024

Jio 2.0 acceleration vital for next wave of growth

- **Q3 EBITDA broadly in line at segment level supported by sharp growth in retail, oil and gas, and resilience in oil-to-chemicals**
- **Jio 2.0 seeing initial signs of 5G and broadband potential; retail seeing sharp uptick in revenue and profit**
- **Maintain BUY with a higher TP of Rs 3,175 (from Rs 3,015); RIL's consumer businesses remain key beneficiaries of India's growth story**

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Q3 broadly in line: RIL's Q3FY24 EBITDA at Rs 407bn was broadly in line with our and Bloomberg consensus estimates as a slight beat in oil & gas (+7%) was offset by a miss in other operations (-10%).

Jio 2.0 highlights: (a) Jio is gaining market share (7.4% growth in customer base vs. 0.7% for industry). (b) Its 5G base is reaching ~20% of the customer base in beta trial mode. (c) Jio AirFiber is expanding the addressable market for broadband to tier-3/4 and rural towns and starting to monetise 5G. (d) One in three large enterprise customers is progressing to at least one more digital service beyond connectivity.

Retail business seeing signs of revenue acceleration: Retail gross revenue at Rs 3tn on TTM basis is now 1.9x FY21 levels and needs to log a 23% CAGR to deliver on RIL's target of 3x growth by FY26. Core revenue crossed Rs 0.5tn and increased 31% YoY in Q3 despite a festive high last year, backed by growth in all three verticals – grocery (41%), fashion and lifestyle (28%) and consumer electronics (19%). EBITDA margin expanded by 35bps YoY to 8.1%, demonstrating the benefits of scale.

Key stock catalysts: (a) Jio: Clear trend in 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) Media: Progress on scaling up the business; (e) Public offers: Listing of the Jio and retail businesses.

Reiterate BUY: We tweak our FY24-FY26 EBITDA estimates where we bake in a 14% CAGR over FY23-FY26 led by a 26% CAGR in consumer business profits. Our SOTP-based TP rises to Rs 3,175 (from Rs 3,015) upon discounting our fair value back to Jan'25 (from Oct'24) and adding in Rs 35/sh as the value for RIL's media business from nil earlier. We maintain target multiples across the refining (7x FY26E EV/EBITDA), petrochem (8x), telecom (Jio: 9x) and retail (32x) businesses and include values of Rs 187/sh (from Rs 161) for the upstream business, Rs 112 (Rs 107) for digital services, and Rs 181 (Rs 171) for new energy. BUY.

Key changes

Target	Rating
▲	◄ ►

Ticker/Price	RIL IN/Rs 2,657
Market cap	US$ 218.8bn
Free float	50%
3M ADV	US$ 170.2mn
52wk high/low	Rs 2,856/Rs 2,180
Promoter/FPI/DII	50%/22%/16%

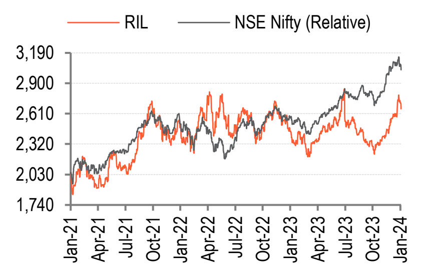
Source: NSE | Price as of 23 Jan 2024

Key financials

Y/E 31 Mar	FY23A	FY24E	FY25E
Total revenue (Rs mn)	87,78,350	88,63,138	96,98,388
EBITDA (Rs mn)	14,21,620	16,17,406	18,23,863
Adj. net profit (Rs mn)	6,62,840	7,16,525	7,99,868
Adj. EPS (Rs)	98.0	105.9	118.2
Consensus EPS (Rs)	98.0	106.8	122.6
Adj. ROAE (%)	8.9	9.6	9.8
Adj. P/E (x)	27.1	25.1	22.5
EV/EBITDA (x)	14.5	12.8	11.4
Adj. EPS growth (%)	16.8	8.1	11.6

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE

Q3 broadly in line

RIL's Q3FY24 EBITDA at Rs 407bn was in line with our forecast/consensus, whereas net income at Rs 173bn was 6% ahead of us but 5% below Bloomberg consensus.

- **Q3 segment-wise EBITDA was broadly in line.** EBITDA of the O2C (in line), retail (1% below) and digital services (2% below) businesses were broadly in line with our estimates. Higher EBITDA in oil & gas (7% above) was partially offset by underperformance in other businesses (10% below).

- **Momentum in consumer businesses slows but still healthy.** Though the digital services business is experiencing a temporary slowdown in the absence of tariff hikes amid a nationwide launch, it still delivered double-digit EBITDA growth of 11% YoY in Q3 and 14% YoY in 9MFY24. The retail business is seeing an acceleration this year with 31% EBITDA growth in Q3 and 32% in 9M. Collectively, EBITDA for the consumer businesses grew 16% in Q3 and 19% in 9M.

- **Consolidated operational momentum remains strong.** Propelled by the twin telecom and retail engines, RIL's consolidated business delivered YoY EBITDA growth of 16% in both Q3 and 9MFY24. A sharp slowdown in O2C (EBITDA growth of +1% YoY in Q3 and -0.4% in 9M) amid heavy maintenance and a weaker margin environment was partially offset by ramp-up of the MJ field in the oil & gas business (EBITDA growth of ~50% YoY in both Q3 and 9M).

- **Consumer businesses contributed more than 40% of consolidated net profit.** Jio Platforms (JPL) contributed 28% and RRVL (Reliance Retail) 16% in Q3. The share of standalone operations reduced to 50% of PAT.

- **Operational cash flow is likely to be adequate to cover capex.** With the completion of pan-India 5G rollout, RIL's capex moderated to Rs 301bn in Q3 from an average of ~Rs 400bn in the previous four quarters. This outlay is also well covered by operational cash flow, with RIL clocking only a 1% (or Rs 16bn) QoQ increase in net debt in Q3.

  Even over 9MFY24, capex of Rs 1,086bn was well covered by operational cash flow and a capital raise of Rs 154bn in RRVL, leading to only an 8% (or ~Rs 90bn) YTD increase in net debt. 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.

Fig 1 – Quarterly performance: Q3FY24 EBITDA in line

(Rs bn)	Q3FY24	Q2FY24	QoQ (%)	Q3FY23	YoY (%)	9MFY24	9MFY23	YoY (%)
Consolidated P&L								
Revenue	2,280	2,350	(3.0)	2,206	3.3	6,738	6,766	(0.4)
EBITDA excl other income	407	410	(0.8)	352	15.3	1,197	1,045	14.6
Net income adjusted	196	199	(1.2)	178	10.3	578	528	9.5
Net income post minority share	173	174	(0.7)	158	9.3	507	474	6.9
EBITDA mix								
Oil to Chemicals (O2C)	141	163	(13.6)	139	1.0	456	458	(0.4)
Oil and Gas	58	48	21.8	39	49.6	146	98	49.0
Retail	63	58	7.5	48	31.0	173	130	32.2
Digital Services	143	141	1.4	129	10.6	421	369	14.0
Others	20	22	(10.4)	13	54.1	64	42	55.1
Segment EBITDA	424	431	(1.8)	368	15.2	1,259	1,097	14.8
Delta	22	17		16		53	37	
Consolidated EBITDA (Reported)	**445**	**448**	**(0.6)**	**384**	**16.0**	**1,312**	**1,134**	**15.8**
Energy businesses	199	210	(5.6)	178	11.6	602	556	8.3
Consumer businesses	205	199	3.2	177	16.1	593	499	18.7

Source: Company, BOBCAPS Research

Fig 2 – Quarterly operational indicators

Parameter	Unit	Q3FY24	Q2FY24	QoQ (%)	Q3FY23	YoY (%)
Digital Services						
Customer base	mn	470.9	459.7	2.4	432.9	8.8
Net customer additions	mn	11.2	11.1		5.3	
ARPU	Rs/month	181.7	181.7	0.0	178.2	2.0
Retail						
Revenue	Rs bn	744	689	7.9	601	23.8
Core revenue	Rs bn	532	480	10.8	406	31.2
EBITDA margin excl investment income	%	8.1	8.4		7.7	
Total store count	Nos	18,774	18,650	0.7	17,225	9.0
Total store area	mn sqft	72.9	71.5	2.0	60.2	21.1
Oil to Chemicals						
Feedstock throughput	mt	18.7	20.0	-6.5	18.8	-0.5
Production meant for sale	mt	16.4	17.1	(4.1)	16.2	1.2
Transportation fuels	mt	10.2	11.1	-8.1	10.2	0.0
Oil and Gas						
Production	BCFe	74.3	70.4	5.5	44.2	68.1
KG-D6 gas production	mmscmd	29.6	28.3	4.6	19.0	55.8
KG-D6 realisation	US$/MMbtu	9.7	10.5	(7.6)	11.3	(14.5)

Source: Company, BOBCAPS Research

Oil-to-Chemicals (O2C)

O2C EBITDA at Rs 141bn was down 13.6% QoQ but in line with our estimates. The segment's performance was resilient considering a major planned maintenance shutdown and weak margin environment.

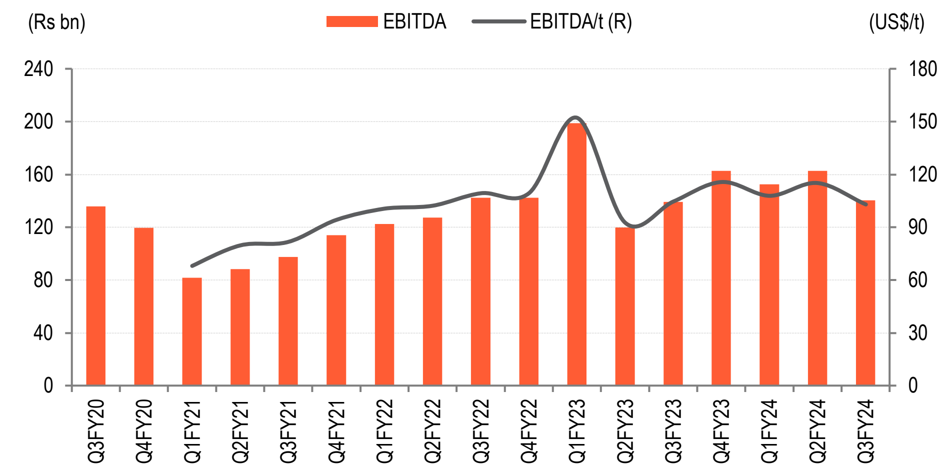
- **Flexible refining at play again.** RIL once again demonstrated the benefit of its flexible refining capabilities, with management highlighting that this enabled it to largely overcome the soft margin environment.

  In refining, we estimate that RIL's gross refining margin (GRM) has declined by US$ 0.9/bbl in Q3 to US$ 12/bbl. In petrochemicals, we estimate that average EBITDA/t may have decreased by 14% QoQ to ~US$ 230/t given the weakness in spreads.

  To offset this weakness, RIL maximised arbitrage barrels (albeit lower in a tight oil market), increased fuel retailing volumes on recovery in margins, raised alkylate and high-octane gasoline exports, and optimised aromatics production in a subdued margin environment. In petrochemicals, the company benefitted from an improved spread on ethane cracking and a focus on higher domestic product placement.

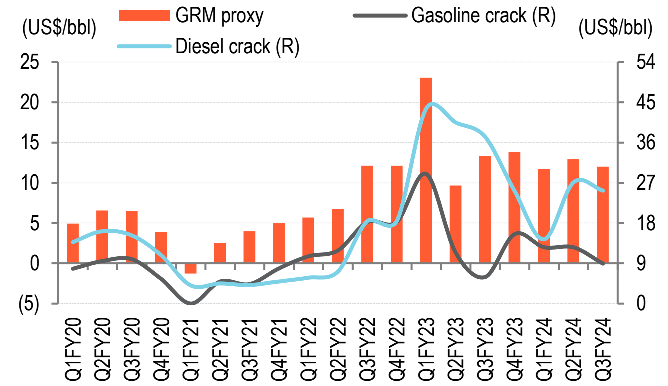
- **Maintenance-related decline guided to reverse next quarter.** Management commentary suggests that the decline was largely driven by planned maintenance of the CDU (crude distillation unit), FCCU (fluid catalytic cracking unit), delayed coking and ROGC (refinery off-gas cracker) complex, which impacted yields and profitability in Q3 due to reduced fuel production and lower light feed cracking. Management highlights that the system has returned to full operations.

Fig 3 – O2C EBITDA declines on major planned maintenance and weaker margin environment



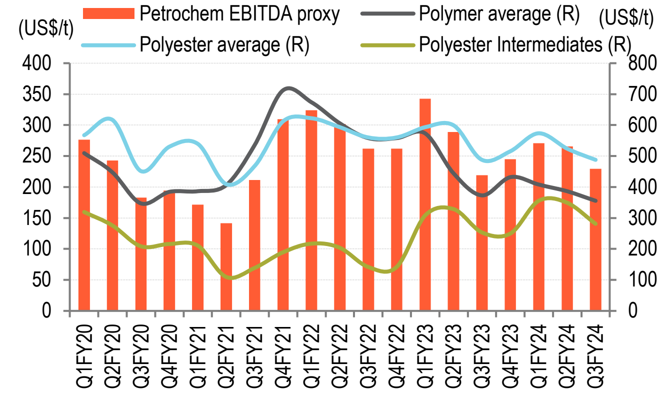
Source: Company, BOBCAPS Research

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 global oil demand to stay resilient with a continuing uptrend in transportation fuel demand and recovery in China. Margins, particularly for gasoil, are likely to remain firm due to strength in jet fuel demand and limited availability of heavy crude with production cuts by OPEC+ countries. For petrochemicals, global markets are likely to be well supplied. We believe RIL's petrochemical margin will remain below mid-cycle levels till we see moderation in new supply from China and a pickup in global demand to absorb this supply.

Oil & Gas

Q3 oil & gas EBITDA grew 22% QoQ supported by the ramp-up of KG-D6 gas (up 5% QoQ to 29.6mmscmd) and condensate production (averaging 21kbpd). This has also resulted in ~50% YoY growth in EBITDA for Q3 as well as 9MFY24.

With the ramp-up of KG-D6 production, we expect RIL's oil & gas EBITDA to increase 48% YoY in FY24. We currently expect FY25-FY26 EBITDA to remain within 90% of FY24 levels as natural gas realisation likely eases to ~US$ 10/MMbbtu (from US$11 in FY24) and gas and condensate production plateau over the medium term.

Digital Services

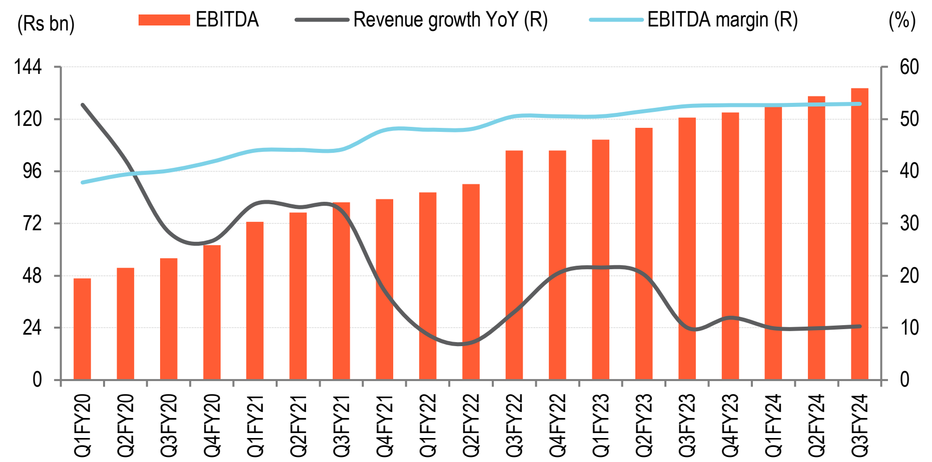
Digital services posted slower EBITDA growth of 10.6% YoY in Q3 as RIL and the industry are holding tariff levels steady while rolling out 5G on a national scale. Growth is currently being driven by increased momentum in customer addition, with an 8.8% YoY rise in Jio Infocomm's (connectivity platform) customer base, leading to 38mn YoY net additions, and only a 2% YoY rise in ARPU. Sequentially as well, EBITDA grew 1.4% QoQ on the back of a 2.4% rise in customer base with 11.2mn net additions whereas ARPU was flat at Rs 181.7.

Jio 2.0 key to regaining growth momentum

A key trigger for RIL's digital services business is the translation of differentiated service offerings into increased subscriber traction and profitability, underpinned by 5G services that facilitate an upgraded mobile ecosystem dubbed as 'Jio 2.0' by the company.

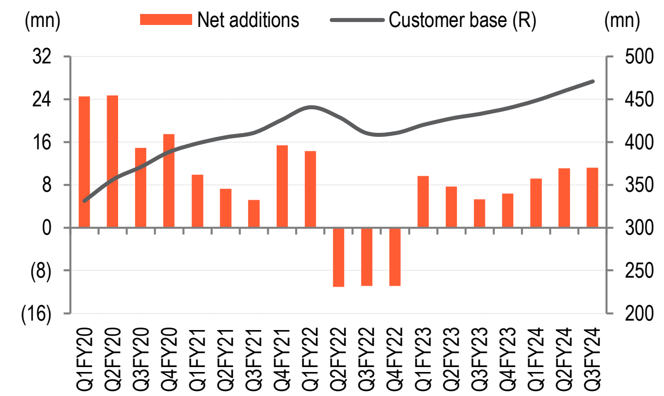
- **Market share gains:** Jio's net subscriber additions continued to rev up for the fifth successive quarter, increasing from 5.3mn in Q3FY23 to 11.2mn in Q3FY24. RIL indicated that it has gained market share following a 7.4% YoY rise in subscribers vs. a 3.1% decline for competition and a 0.7% increase for the industry. The company also indicated that Jio is benefitting from 2.5x higher mobile number ports than its nearest competitor. However, these are early days and trends over the next few months as well as on revenue market share will paint a clearer picture.
- **5G migration underway:** Amid a beta trial and completion of a nationwide launch, Jio has seen usage of 5G services by 90mn customers (vs. 70mn in Q2FY24), the equivalent of ~20% of its customer base. Data usage by 5G consumers is also showing initial signs of an uptick with the 5G network accounting for 25% of mobility data traffic.
- **Jio Airfiber opens up new addressable market:** From initial engagements, Jio's new wireless internet service, Jio AirFiber, is seeing demand from some of the country's underserved wireline markets (where it is difficult to lay wireline infrastructure), such as tier-3/4 towns and rural areas. It is also seeing ~30% higher usage per customer on Jio AirFiber as compared to its wireline JioFiber services, as it is offering the former with bundled content.
- **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. JioBharat has over 45% market share in total feature phone shipments in the below-Rs1,000 price segment. Since launch, Jio's wireless rural subscriber net additions have grown to 5.2x of the nearest competitor.
- **Gaining a foothold in enterprise services:** The company is seeing one in three of its large enterprise customers start to use at least one digital service beyond connectivity. Further, its digital services have started to account for ~20% of new deal wins.
- **Entry into mid-enterprise segment:** Jio is witnessing initial traction in the education, professional services and retail verticals in the small-and-medium enterprise (SMB) segment.

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



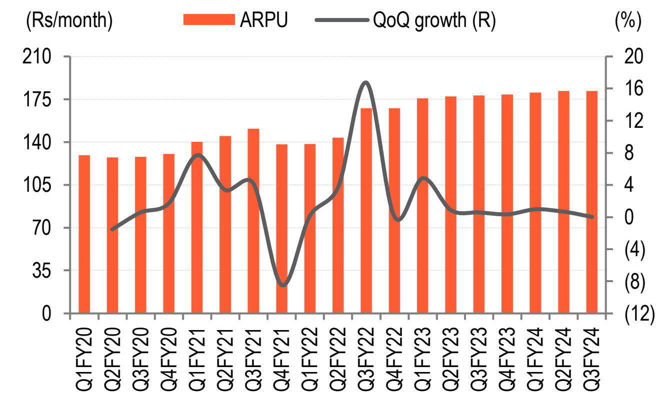
Source: Company, BOBCAPS Research

Fig 7 – Net subscriber additions gaining momentum



Source: Company, BOBCAPS Research

Fig 8 – ARPU stable, 5G is the next lever for uptick



Source: Company, BOBCAPS Research

Expect 26% CAGR to FY26E

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.

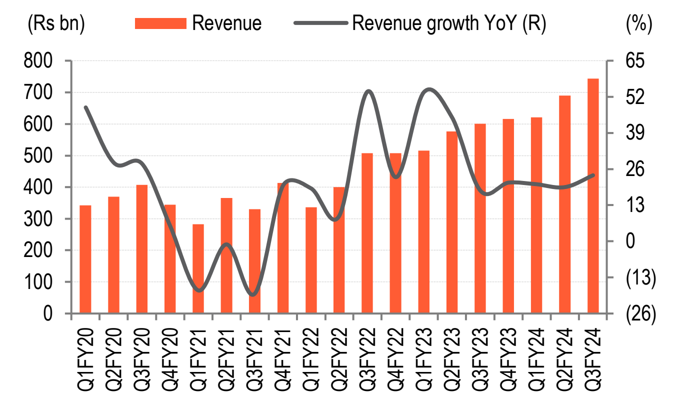
- During the rollout of 5G services (currently in beta trial mode), we remain conservative in our assumptions of net subscriber additions, baking in adds of 40mn/36mn/25mn over FY24/FY25/FY26. For home broadband services, we factor in a gradual pickup in connections to ~38mn by end-FY26 post launch of 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 average 7% annual hikes in ARPU to Rs 219 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 60.6bn (excluding investment income) grew 30.1% YoY and 8.1% QoQ in Q3, benefitting from a festive pickup.

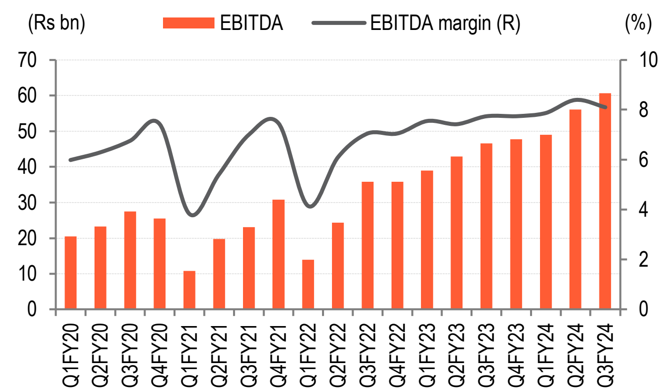
- Retail gross revenue is currently running at Rs 3tn on TTM basis or 1.9x FY21 revenue and must grow at an annualised rate of more than 23% over the next 2 years if it is to triple within five years, in line with RIL's target set at the FY21 AGM.
- Quarterly retail core revenue crossed Rs 500bn for the first time, clocking 31% YoY growth in Q3 despite a festive high last year. Growth was driven by grocery (41% YoY), fashion and lifestyle (28%) and consumer electronics excluding devices (19%).
- Retail EBITDA margin expanded 35bps YoY, benefitting from revenue pickup with high operating leverage, but dipped seasonally by 30bps QoQ owing to higher discounts in a festive quarter.
- The pace of store space expansion has moderated this year with 11% net additions over 9MFY24, taking total space to 72.9mn sqft, from 58% net additions a year ago.

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



Source: Company, BOBCAPS Research

Fig 10 – Retail EBITDA margin up 35bps YoY in a festive quarter



Source: Company, BOBCAPS Research

Expect 28% CAGR to FY26E

We forecast 28% 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 the 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 9% 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 tweak our FY24-FY26 EBITDA estimates to incorporate disclosures from RIL's Q3FY24 results. Our revised EBITDA forecasts are in line with Bloomberg consensus for FY24 and FY25 but 6% ahead for FY26, reflecting our view of continuing strong growth in both of RIL's consumer-facing businesses (digital services and retail). We raise our net income estimates by 5-6% over FY24-FY26 as we align the company's depreciation run-rate with the ongoing rate in 9MFY24.

Fig 11 – Revised estimates

(Rs bn)	Actual	New			Old			Change (%)		
	FY23	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E
Revenue	8,778	8,863	9,698	10,912	8,898	9,705	10,857	(0.4)	(0.1)	0.5
EBITDA	1,422	1,617	1,824	2,116	1,635	1,823	2,112	(1.1)	0.1	0.2
EBITDA margin (%)	16.2	18.2	18.8	19.4	18.4	18.8	19.4	-	-	-
Adj. PAT	663	717	800	982	680	751	923	5.3	6.5	6.4
EPS (Rs)	98.0	105.9	118.2	145.2	100.5	111.0	136.5	5.3	6.5	6.4

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	8,863	9,698	10,912	9,423	10,134	10,934	(5.9)	(4.3)	(0.2)
EBITDA	1,617	1,824	2,116	1,610	1,809	2,003	0.5	0.8	5.6
Adj. PAT	717	800	982	736	850	957	(2.6)	(5.8)	2.6
EPS (Rs)	105.9	118.2	145.2	106.8	122.6	136.5	(0.9)	(3.6)	6.4

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	27.5	(1.8)
Oil & Gas	2	55	136	202	196	177	835.0	9.3
Cyclical subtotal	**383**	**582**	**757**	**824**	**766**	**765**	**40.5**	**0.4**
Digital Services	334	394	490	549	759	968	21.2	25.5
Retail	98	124	179	236	291	375	35.3	27.9
Consumer subtotal	**432**	**518**	**669**	**786**	**1,051**	**1,343**	**24.5**	**26.1**
Others	(7)	(16)	(4)	7	7	7		
Consolidated business EBITDA	**807**	**1,084**	**1,422**	**1,617**	**1,824**	**2,116**	**20.8**	**14.2**
EBITDA YoY growth (%)								
O2C	na	38.1	17.7	0.3	(8.5)	3.3	-	-
Oil & Gas	(92.9)	3,410.6	149.0	48.4	(2.7)	(9.7)	-	-
Cyclical subtotal	**(70.2)**	**51.8**	**30.1**	**9.0**	**(7.1)**	**(0.1)**	**-**	**-**

Particulars	FY21	FY22	FY23	FY24E	FY25E	FY26E	FY21/23 CAGR (%)	FY23/26E CAGR (%)
Digital Services	117.5	18.2	24.3	12.1	38.2	27.5	-	-
Retail	57.8	26.5	44.8	31.8	23.3	28.7	-	-
Consumer subtotal	**100.3**	**20.1**	**29.2**	**17.4**	**33.7**	**27.8**	**-**	**-**
Consolidated	**(4.1)**	**34.3**	**31.1**	**13.8**	**12.8**	**16.0**	**-**	**-**
EBITDA composition (% of total)								
O2C	47.3	48.6	43.7	38.5	31.2	27.8	-	-
Oil & Gas	0.2	5.0	9.6	12.5	10.8	8.4	-	-
Cyclical subtotal	**47.5**	**53.6**	**53.2**	**51.0**	**42.0**	**36.2**	**-**	**-**
Digital Services	41.3	36.4	34.5	34.0	41.6	45.7	-	-
Retail	12.1	11.4	12.6	14.6	16.0	17.7	-	-
Consumer subtotal	**53.5**	**47.8**	**47.1**	**48.6**	**57.6**	**63.5**	**-**	**-**

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	11.2	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	481	517	542
ARPU	Rs	150	177	182	199	219
Retail						
Revenue growth	% YoY	25.8	32.0	20.1	23.2	21.8
EBITDA margin	%	6.2	7.5	8.2	8.5	9.0

Source: Company, BOBCAPS Research

BUY with TP of Rs 3,175

We raise our SOTP-based TP for RIL to Rs 3,175 from Rs 3,015 as we incorporate the Q3FY24 results, add a separate valuation for the media business and discount our SOTP value back to Jan'25 (Oct'24 previously) to arrive at a one-year forward TP. Our target FY26E EV/EBITDA multiples remain unchanged across businesses, viz. refining (7x), petrochemicals (8x), telecom (Jio Infocomm: 9x), and retail (32x). We include valuations of other businesses as follows: Rs 187/sh (from Rs 161/sh) for the upstream business, Rs 112 (from Rs 107) for the digital services venture, Rs 181 (from Rs 171) for the new energy division and Rs 35 for media business.

We maintain BUY on RIL given 19% upside potential. In our view, the company will deliver structural profit growth while balancing its capex outlay and risk profile.

Fig 15 – Valuation summary

Business (Rs bn)	Fair Value (US$ bn)	Fair Value (Rs bn)	Value/share (Rs)	Valuation basis
Energy				
Refining	27	2,223	329	7x FY26E EBITDA
Petrochem	36	2,947	436	8x FY26E EBITDA
Upstream	15	1,267	187	Combination of DCF and reserve multiple
New energy	15	1,223	181	Option value
Energy total	**93**	**7,659**	**1,132**	**-**
Jio Infocomm	69	5,694	842	9x FY26E EBITDA, RIL share
Digital Services	9	760	112	6x FY26E Sales, RIL share
Reliance Retail	120	9,885	1,461	32x FY26E EBITDA, RIL share
Consumer business total	**198**	**16,338**	**2,415**	**-**
Media business	3	237	35	Combination of market value and book value multiple
Enterprise value	**280**	**23,161**	**3,423**	**-**
Net Debt	33	2,752	407	-
Equity value	**260**	**21,482**	**3,175**	**21.9x FY25E EPS**
TP (rounded to nearest Rs 5)	**-**	**-**	**3,175**	**-**

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 broadly in line with global peers in refining (6.8x-7.1x on CY24E/FY25E) and petrochem (7.3-8.6x on CY24E).

While RIL's refining and petrochem operations deserve a premium over peers, our stance reflects our conservative approach to valuing cyclical businesses. We note that RIL's refinery runs highly integrated operations and consistently delivers stronger margins than peers, has the flexibility to switch between transportation fuels and petrochemical output, and also to optimise crude feedstock and product slates. This apart, we expect the company 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) CY23E/FY24E	P/E (x) CY24E/FY25E	P/B (x) CY23E/FY24E	P/B (x) CY24E/FY25E	EV/EBITDA (x) CY23E/FY24E	EV/EBITDA (x) CY24E/FY25E
Phillips 66	PSX US	56.8	USD	129.1	8.5	9.9	1.9	1.7	6.4	7.6
Valero Energy	VLO US	43.6	USD	128.2	5.3	9.0	1.7	1.5	3.5	5.3
Marathon Petroleum	MPC US	58.1	USD	153.0	7.0	10.3	2.6	2.5	4.8	6.8
S-Oil	010950 KS	0.5	KRW	65,300	7.5	6.0	0.8	0.8	4.7	4.3
Sk Innovation	096770 KS	0.8	KRW	108,700	17.5	6.8	0.5	0.5	8.1	6.4
IRPC	IRPC TB	1.1	THB	1.93	NA	17.1	0.5	0.5	12.4	9.3
Thai Oil	TOP TB	3.3	THB	52.75	6.4	8.1	0.7	0.7	7.6	8.8
Eneos Holdings	5020 JP	12.5	JPY	608.8	7.4	8.0	0.6	0.6	7.1	7.1
Idemitsu Kosan	5019 JP	8.4	JPY	830	6.7	7.9	0.7	0.6	6.4	7.3
Weighted Average	**-**	**185.1**	**-**	**-**	**7.1**	**9.6**	**1.9**	**1.8**	**5.3**	**6.8**
Simple Average	**-**	**-**	**-**	**-**	**8.3**	**9.2**	**1.1**	**1.0**	**6.8**	**7.0**
Median	**-**	**-**	**-**	**-**	**7.2**	**8.1**	**0.7**	**0.7**	**6.4**	**7.1**

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	2.1	KRW	389,000	17.1	10.2	0.9	0.8	6.9	5.4
Lotte Chemical	011170 KS	0.4	KRW	116,700	191.1	13.8	0.3	0.3	11.7	7.3
Sk Innovation	096770 KS	0.8	KRW	108,700	17.5	6.8	0.5	0.5	8.1	6.4
S-Oil	010950 KS	0.5	KRW	65,300	7.5	6.0	0.8	0.8	4.7	4.3
Wanhua Chemical	600309 CH	30.7	CNY	70.33	12.7	9.8	2.5	2.0	8.4	6.7
IRPC	IRPC TB	1.1	THB	1.93	NA	17.1	0.5	0.5	12.4	9.3
Formosa Plastics	1301 TT	14.4	TWD	70.6	37.4	24.2	1.3	1.2	33.8	19.6
Petronas Chemicals	PCHEM MK	11.4	MYR	6.72	23.7	17.3	1.3	1.3	10.2	8.3
Indorama Ventures	IVL TB	3.7	THB	23.6	34.9	13.4	0.7	0.7	8.8	7.3
Lyondellbasell	LYB US	30.3	USD	93.39	10.7	10.1	2.4	2.2	7.3	7.0
Dow	DOW US	37.0	USD	52.81	24.4	16.4	1.9	1.9	9.1	7.8
Weighted Average	**-**	**132.4**	**-**	**-**	**20.4**	**14.1**	**1.9**	**1.8**	**11.3**	**8.6**
Simple Average	**-**	**-**	**-**	**-**	**40.0**	**13.5**	**1.2**	**1.1**	**11.0**	**8.1**
Median	**-**	**-**	**-**	**-**	**23.7**	**13.6**	**1.1**	**1.0**	**9.1**	**7.3**

Source: Bloomberg, BOBCAPS Research

Digital Services

While we value Jio Infocomm's wireless, wireline and enterprise business at 9x FY26E EBITDA, we value its venture into digital services (part of JPL) at 6x FY26E Sales (unchanged) discounted back to Jan'25. Our target multiple for the Jio Infocomm telecom business is now in line with the current FY25 trading multiple of its closest competitor, Bharti Airtel. We believe valuations of telecom players in India will improve as the benefits of industry consolidation reflect 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	79.5	INR	1123.75	54.7	32.3	6.8	5.7	10.9	9.1
Vodafone Idea	IDEA IN	8.8	INR	15	NA	NA	NA	NA	16.1	14.3

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 JPL 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 FY25 multiple of 32.8x/28.7x 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	13.7	INR	3,193	143.4	107.0	33.4	25.6	69.4	53.8
Avenue Supermarkets	DMART IN	28.8	INR	3,677	89.8	71.2	12.6	10.8	56.8	45.3
Titan	TTAN IN	40.5	INR	3,785	88.9	72.2	23.2	19.0	60.3	48.5
Jubilant Foodworks	JUBI IN	4.2	INR	523	91.7	64.3	14.9	12.8	28.5	22.7
Aditya Birla Fashion and Retail	ABFRL IN	2.6	INR	226	NA	NA	5.3	5.3	18.9	15.7
V-Mart Retail	VMART IN	0.5	INR	2,040	96.8	56.8	6.4	5.7	39.1	24.9
Shoppers Stop	SHOP IN	0.9	INR	712	70.1	49.4	22.8	15.5	31.8	26.7
Bata India	BATA IN	2.3	INR	1,507	53.1	43.2	11.5	9.8	22.3	19.6
Relaxo Footwears	RLXF IN	2.6	INR	869	84.5	64.0	12.7	11.4	50.5	38.4
Weighted Average	**-**	**96.0**	**-**	**-**	**96.1**	**75.3**	**20.0**	**16.3**	**56.5**	**45.0**
Simple Average	**-**	**-**	**-**	**-**	**89.8**	**66.0**	**15.9**	**12.9**	**42.0**	**32.8**
Median	**-**	**-**	**-**	**-**	**89.4**	**64.1**	**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 company's 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.

Media business

We now assign a value of Rs 35/sh for the media business, with RIL committing additional investments into Viacom 18 to enlarge its presence in media and conducting discussions with some industry players to further enhance its presence in the entertainment space. We factor in the 75% stake in Network 18 Media at market value and the US$ 1.35bn investment in Viacom 18 which has effectively resulted in a 60.36% stake (on fully diluted basis) for RIL.

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 has already 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.

Financials

Income Statement

Y/E 31 Mar (Rs mn)	FY22A	FY23A	FY24E	FY25E	FY26E
Total revenue	**69,59,630**	**87,78,350**	**88,63,138**	**96,98,388**	**1,09,12,013**
EBITDA	10,84,460	14,21,620	16,17,406	18,23,863	21,15,902
Depreciation	(2,97,820)	(4,03,030)	(5,02,726)	(5,39,110)	(5,76,837)
EBIT	7,86,640	10,18,590	11,14,680	12,84,752	15,39,065
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	1,49,119	1,39,418	1,63,358
Exceptional items	28,360	0	0	0	0
EBT	7,90,230	9,40,220	10,51,700	12,12,070	14,90,323
Income taxes	(1,59,700)	(2,03,760)	(2,56,765)	(2,94,176)	(3,46,659)
Extraordinary items	0	0	0	0	0
Min. int./Inc. from assoc.	(68,450)	(73,620)	(78,410)	(1,18,026)	(1,61,538)
Reported net profit	**5,90,440**	**6,62,840**	**7,16,525**	**7,99,868**	**9,82,126**
Adjustments	0	0	0	0	0
Adjusted net profit	**5,67,613**	**6,62,840**	**7,16,525**	**7,99,868**	**9,82,126**

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	17,57,777	17,98,312	18,40,897
Equity capital	67,650	67,660	67,660	67,660	67,660
Reserves & surplus	77,27,200	70,91,060	77,41,925	84,72,411	93,78,842
Shareholders' fund	77,94,850	71,58,720	78,09,585	85,40,071	94,46,502
Total liab. and equities	**1,49,86,220**	**1,60,58,820**	**1,66,39,947**	**1,75,42,547**	**1,87,07,757**
Cash and cash eq.	3,61,780	6,86,640	4,38,500	5,73,312	9,93,037
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	89,42,640	99,90,325	1,07,75,647
CWIP	17,25,060	29,37,520	19,83,494	17,02,699	16,47,860
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**	**1,66,39,947**	**1,75,42,547**	**1,87,07,757**

Cash Flows

Y/E 31 Mar (Rs mn)	FY22A	FY23A	FY24E	FY25E	FY26E
Cash flow from operations	**11,66,910**	**12,02,980**	**9,85,981**	**12,52,750**	**14,77,845**
Capital expenditures	(15,15,680)	(25,33,630)	(13,95,990)	(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	1,49,119	1,39,418	1,63,358
Cash flow from investing	**(16,88,580)**	**(8,51,860)**	**(12,46,871)**	**(11,66,582)**	**(11,43,962)**
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)	(65,660)	(69,382)	(75,696)
Other financing cash flows	7,40,150	3,00,210	78,410	1,18,026	1,61,538
Cash flow from financing	**7,09,480**	**(26,260)**	**12,749**	**48,644**	**85,842**
Chg in cash & cash eq.	**1,87,810**	**3,24,860**	**(2,48,140)**	**1,34,813**	**4,19,725**
Closing cash & cash eq.	**3,61,780**	**6,86,640**	**4,38,500**	**5,73,312**	**9,93,037**

Per Share

Y/E 31 Mar (Rs)	FY22A	FY23A	FY24E	FY25E	FY26E
Reported EPS	87.3	98.0	105.9	118.2	145.2
Adjusted EPS	83.9	98.0	105.9	118.2	145.2
Dividend per share	6.7	7.5	9.7	10.3	11.2
Book value per share	1,152.2	1,058.0	1,154.2	1,262.2	1,396.2

Valuations Ratios

Y/E 31 Mar (x)	FY22A	FY23A	FY24E	FY25E	FY26E
EV/Sales	3.0	2.3	2.3	2.1	1.9
EV/EBITDA	19.1	14.5	12.8	11.4	9.9
Adjusted P/E	31.7	27.1	25.1	22.5	18.3
P/BV	2.3	2.5	2.3	2.1	1.9

DuPont Analysis

Y/E 31 Mar (%)	FY22A	FY23A	FY24E	FY25E	FY26E
Tax burden (Net profit/PBT)	69.3	70.5	68.1	66.0	65.9
Interest burden (PBT/EBIT)	104.1	92.3	94.3	94.3	96.8
EBIT margin (EBIT/Revenue)	11.3	11.6	12.6	13.2	14.1
Asset turnover (Rev./Avg TA)	49.4	56.6	54.2	56.7	60.2
Leverage (Avg TA/Avg Equity)	1.9	2.1	2.2	2.1	2.0
Adjusted ROAE	7.7	8.9	9.6	9.8	10.9

Ratio Analysis

Y/E 31 Mar	FY22A	FY23A	FY24E	FY25E	FY26E
YoY growth (%)					
Revenue	49.1	26.1	1.0	9.4	12.5
EBITDA	34.3	31.1	13.8	12.8	16.0
Adjusted EPS	30.0	16.8	8.1	11.6	22.8
Profitability & Return ratios (%)					
EBITDA margin	15.6	16.2	18.2	18.8	19.4
EBIT margin	11.3	11.6	12.6	13.2	14.1
Adjusted profit margin	8.2	7.6	8.1	8.2	9.0
Adjusted ROAE	7.7	8.9	9.6	9.8	10.9
ROCE	5.6	6.8	7.0	7.6	8.5
Working capital days (days)					
Receivables	11	11	12	10	9
Inventory	71	75	78	77	78
Payables	83	76	72	63	57
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	1.0
Net interest coverage ratio	5.4	5.2	5.3	6.1	7.3
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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Recommendation scale: Recommendations and Absolute returns (%) over 12 months

BUY – Expected return >+15%

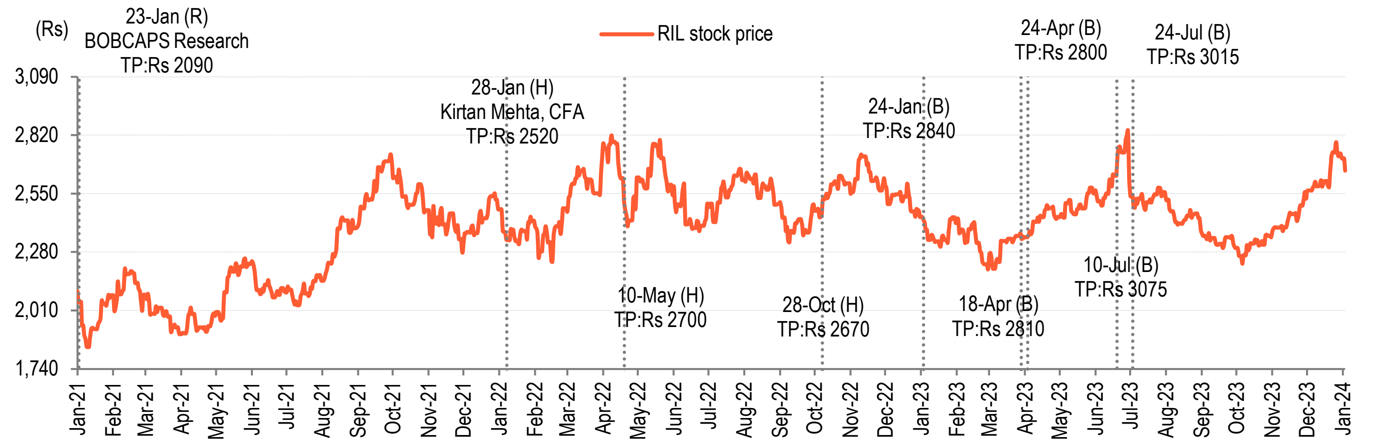
HOLD – Expected return from -6% to +15%

SELL – Expected return <-6%

Note: Recommendation structure changed with effect from 21 June 2021

Our recommendation scale does not factor in short-term stock price volatility related to market fluctuations. Thus, our recommendations may not always be strictly in line with the recommendation scale as shown above.

Ratings and Target Price (3-year history): RELIANCE INDUSTRIES (RIL IN)



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