RESULT REVIEW

BUY

TP: Rs 2,800 | ⮝ 19%

RELIANCE INDUSTRIES | Oil & Gas | 24 April 2023

Capital discipline targets positive; maintain BUY

- **Q4 beat led by O2C business; investor concerns appeased by introduction of a capital discipline target of 1x net debt/EBITDA**
- **Delivery on growth milestones in Jio Digital and Retail key to watch, along with roadmap for savings from new energy and JFS**
- **Maintain BUY with slight change in TP to Rs 2,800 (vs. Rs 2,810)**

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Q4 beat led by O2C: RIL's Q4FY23 EBITDA was 4% ahead of consensus primarily due to O2C outperformance, reflecting the operational flexibility to maximise margins.

Capex blowout concerns appeased: Importantly, RIL confirmed disciplined capital allocation on growth projects in line with structural profit growth. While ~90% of FY23 capex was met by cash profit, a Rs 0.75tn rise in net debt was driven by Rs 0.15tn of excess capex, Rs 0.2tn of change in working capital, Rs 0.1tn of translation effects on overseas debt, and Rs 0.3tn of other impacts (we await the annual report for clarity).

Capital discipline targets introduced: RIL plans to maintain the net debt/EBITDA ratio below 1x, which implies a sub-2x ratio even upon accounting for additional deferred payment liabilities of Rs 1.1tn.

Jio 2.0 in the making: Jio Digital Services is gearing up for its second leg of growth with a nationwide 5G rollout this year, launch of an attractive post-paid plan to increase 5G adoption, traction on the entertainment bundle, upcoming launch of AirFibre and value-add services. While we see potential, we remain conservative on our net subscriber and ARPU growth estimates at this stage, pending signs of success.

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

Reiterate BUY, TP Rs 2,800: We tweak FY24-FY25 EBITDA by ~2% as we factor in the Q4 results, and revise our SOTP-based TP to Rs 2,800 (from Rs 2,810). We maintain target multiples across the refining (7x FY25E EV/EBITDA), petrochem (8x), telecom (Jio: 9x) and retail (30x) businesses, and includes Rs 164/sh (from Rs 149) for the upstream business, Rs 104 (unchanged) for digital services and Rs 182 (Rs 121) for the new energy division and Rs 133 for JFS.

Key changes

Target	Rating
▼	◀ ▶

Ticker/Price	RIL IN/Rs 2,358
Market cap	US$ 189.7bn
Free float	50%
3M ADV	US$ 205.4mn
52wk high/low	Rs 2,856/Rs 2,180
Promoter/FPI/DII	50%/22%/17%

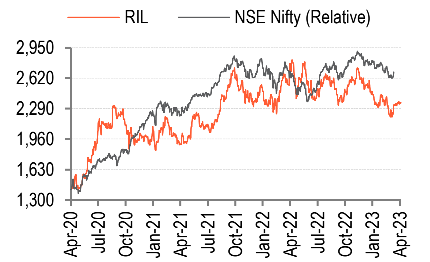
Source: NSE | Price as of 24 Apr 2023

Key financials

Y/E 31 Mar	FY23P	FY24E	FY25E
Total revenue (Rs mn)	87,94,680	86,05,246	96,31,189
EBITDA (Rs mn)	14,29,080	16,72,051	19,09,488
Adj. net profit (Rs mn)	6,67,020	7,79,652	8,78,878
Adj. EPS (Rs)	98.6	115.2	129.9
Consensus EPS (Rs)	98.6	117.2	131.1
Adj. ROAE (%)	8.3	9.1	9.4
Adj. P/E (x)	23.9	20.5	18.2
EV/EBITDA (x)	12.7	10.9	9.5
Adj. EPS growth (%)	14.2	16.9	12.7

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

Stock performance



Source: NSE

Result highlights

Q4 beats consensus

RIL's Q4FY23 EBITDA at Rs 384bn (excluding other income) was 4% ahead of consensus primarily due to a beat in the Oil-to-Chemicals (O2C) business, reflecting the operational flexibility to maximise margins. Net income at Rs 193bn was 17%/19% ahead of consensus/our forecasts primarily due to a one-off lower tax rate.

- Q4 revenue/EBITDA/net income at Rs 2,164bn/Rs 384bn/Rs 193bn was -4%/+4%/+17% relative to consensus and -2%/+4%/+19% relative to our Q4 forecasts.
- We attribute the beat at the EBITDA level to a US$ 1.3/bbl higher gross refining margin (GRM) than our estimate (RIL has stopped sharing GRM).
- The outperformance on net income was on account of a lower tax rate of 11.6% in Q4 compared to the annual rate of 21.9% in FY23, primarily due to availing of legacy tax credit ahead of transition to the new tax regime from FY24.
- EBITDA of the energy business rose 30% YoY in FY23, benefitting from a stronger refining environment and sharp improvement in natural gas realisation, partly offset by windfall taxes and weaker petrochemical margins.
- The consumer-facing telecom and retail businesses saw EBITDA increase cumulatively by 23% YoY in Q4 and 30% YoY in FY23, benefitting from a tariff increase taken in Dec'21, footprint expansion in retail and post-Covid recovery.

Fig 1 – Quarterly performance: EBITDA rises in Q4 with stronger O2C performance

(Rs bn)	Q4FY23	Q3FY23	QoQ (%)	Q4FY22	YoY (%)	FY23	FY22	YoY (%)
Consolidated P&L								
Revenue	2,164	2,206	(1.9)	2,119	2.1	8,929	7,216	23.7
EBITDA excl other income	**384**	**352**	**9.1**	**314**	**22.6**	**1,429**	**1,105**	**29.4**
Net income adjusted	213	178	19.8	180	18.3	741	650	14.0
Net income post minority share	193	158	22.2	162	19.1	667	579	15.3
EBITDA mix								
Oil to Chemicals (O2C)	163	139	17.0	142	14.4	621	527	17.7
Oil and Gas	38	39	(2.0)	16	144.3	136	55	149.0
Retail	49	48	2.9	37	32.7	180	124	44.7
Digital Services	134	129	3.8	112	19.4	503	403	24.9
Others	20	13	53.9	28	(29.0)	61	79	(22.1)
Segment EBITDA	**404**	**368**	**9.8**	**335**	**20.6**	**1,500**	**1,187**	**26.4**
Delta	10	16	-	3	-	47	67	-
Consolidated EBITDA (Reported)	**414**	**384**	**7.7**	**338**	**22.3**	**1,547**	**1,254**	**23.4**
Energy businesses	**201**	**178**	**12.8**	**158**	**27.2**	**757**	**582**	**30.1**
Consumer businesses	**183**	**177**	**3.5**	**149**	**22.7**	**683**	**527**	**29.5**

Source: Company, BOBCAPS Research

Fig 2 – Quarterly operational indicators

Parameter	Unit	Q4FY23	Q3FY23	QoQ (%)	Q4FY22	YoY (%)
Digital Services						
Customer base	mn	439.3	432.9	1.5	410.2	7.1
Net customer additions	mn	6.4	5.3	-	(10.9)	-
ARPU adj for IUC	Rs/month	178.8	178.2	0.3	167.6	6.7
Retail						
Revenue	Rs bn	616	601	2.4	508	21.1
Core revenue	Rs bn	417	406	2.9	334	24.9
EBITDA margin excl investment income	%	7.7	7.7	-	7.1	-
Total store count	Nos	18,040	17,225	4.7	15,196	18.7
Total store area	mn sqft	65.6	60.2	9.0	41.6	57.7
Oil to Chemicals						
Production meant for sale	mt	17.1	16.2	5.6	17.3	(1.2)
Transportation fuels	mt	11.4	10.2	11.8	10.7	6.5
Oil and Gas						
Production	BCFe	45.1	44.2	2.0	40.4	11.6
KG-D6 gas production	mmscmd	20.0	19.0	5.3	18.0	11.1
KG-D6 realisation	US$/MMbtu	11.4	11.3	0.8	6.1	85.8

Source: Company, BOBCAPS Research

Capex blowout concerns addressed

RIL addressed investor concerns of spiralling capex and net debt by sharing its capital discipline targets.

- Management highlighted that its growth in capex over FY22-FY23 has been in line with growth in structural profit, marked by cash profit equivalent at 98% of capex over past two years]
- RIL confirmed that it will maintain disciplined capital allocation with an aim to support growth initiatives via internal accruals. The company is looking to maintain net debt/EBITDA below 1x (excluding deferred payment liabilities) and to retain a superior investment grade rating.

While we also believe that capex ramp-up will remain in sync with structural growth (see **our report of 18 April**), we will await Annual Report for more clarify on change in net debt on following aspects:

- Looking through the components of the Rs 754bn increase in net debt for FY23, we attribute 60% or Rs 454bn to (i) capex in excess of cash profit , (ii) increase in working capital and iii) increase in debt due to translation effects estimate as the increase beyond components recognised in financing cash flow. Movement of Rs 300bn is caused by additional moving parts, and we await the FY23 annual report for more clarity.
- We also note that RIL seems to have liquidated a significant proportion of non-current investments considered liquid in FY23. Here too, we will look to the FY23 annual report for more details.

We expect the net debt/EBITDA ratio to remain under 2x after accounting for deferred payment liabilities and management target on net debt to EBITDA.

- Even after a sharp rise in net debt from zero two years ago to Rs 1.1tn in FY23, net debt/EBITDA remains healthy at 0.7x excluding deferred payment liabilities. Even after including the same and stripping other income from EBITDA, we assess the net debt/EBITDA ratio at 1.6x as at end-FY23

Fig 3 – Net debt estimate: RIL vs. BOBCAPS

(Rs bn)	FY21	FY22	FY23	FY22 less FY21	FY23 less FY22
RIL's estimate of net debt					
Gross debt considered by RIL	2,518	2,663	3,147	145	484
Cash and cash equivalents considered for net debt calculation by RIL	2,540	2,315	2,045	(225)	(270)
Net debt considered by RIL	**(22)**	**348**	**1,102**	**370**	**754**
BOBCAPS estimate of net debt					
Deferred payment liabilities considered as debt	372	372	1,128	0	757
Net debt including deferred payment liability	**350**	**720**	**2,231**	**370**	**1,511**
Break-up of gross debt considered by RIL					
Non-current debt	1,637	1,877	1,832	240	(45)
Current debt	881	786	1,315	(95)	529
Subtotal	2,518	2,663	3,147	145	484
Break-up of cash and cash equivalent considered by RIL					
Cash and cash equivalent reported under balance sheet	174	362	747	188	385
Current investments	1,524	1,081	1,287	(443)	206
Implied non-current investments which RIL considers as liquid and non-strategic	**842**	**872**	**11**	**30**	**(861)**
EBITDA incl other income	971	1,254	1,547	-	-
EBITDA excl other income	807	1,105	1,429	-	-
Net debt to EBITDA (RIL calculation)	**0.0**	**0.3**	**0.7**	**-**	**-**
Net debt to EBITDA (BOBCAPS assessment)	**0.4**	**0.7**	**1.6**	**-**	**-**
Drivers for net debt increase					
Capex over and above cash profit	-	(113)	154	-	-
Increase in working capital	-	(7)	196	-	-
Change in debt in balance sheet less financing cash flow as proxy for translation effect on debt	-	145	103	-	-
Balance	**-**	**346**	**300**	**-**	**-**

Source: Company, BOBCAPS Research

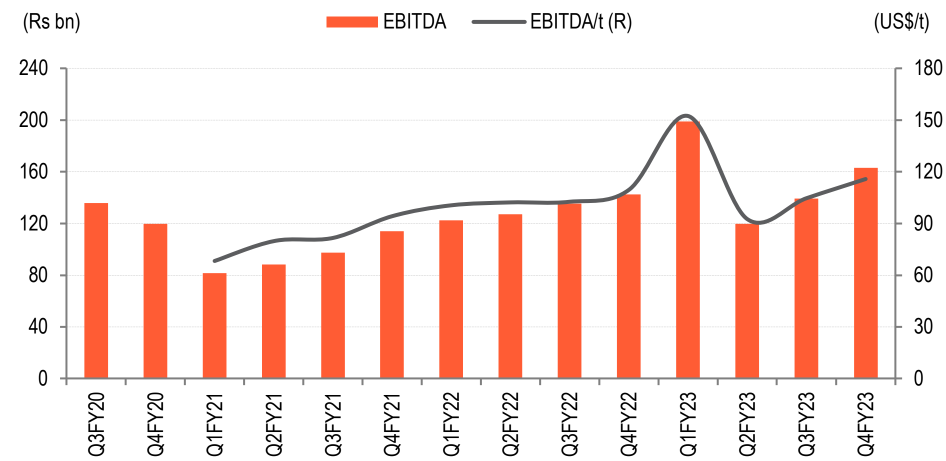
Oil-to-Chemicals (O2C)

O2C EBITDA at Rs 163bn in Q4FY23 was 11% ahead of our estimate and 36% above the recent low of Q2.

- In refining, we estimate that RIL earned a GRM of US$ 13.8/bbl, improving from US$ 13.3/bbl a quarter ago. While refining cracks have eased, the impact was offset by a reduction in windfall taxes on transportation fuels and use of cheaper Russian crude.
- In petrochemicals, we estimate that average EBITDA increased by ~US$ 33/t to US$ 253/t due to modest recovery in petrochemical spreads in both the polymer and polyester chains as well as a sharp 36% QoQ reduction in ethane prices.

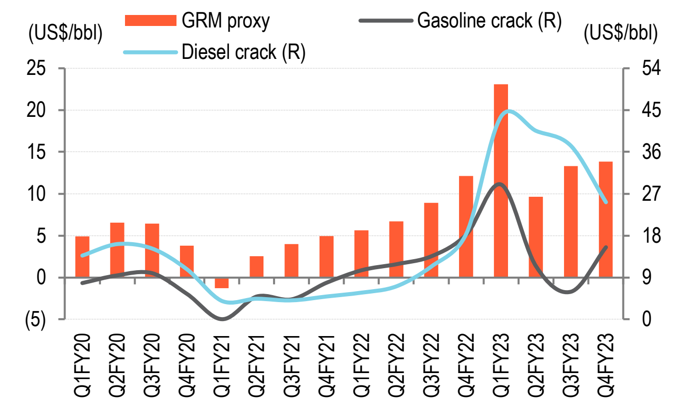
- O2C business also benefitted from the use of advantageous feedstocks, optimisation of aromatics production to produce more gasoline, improved availability and performance of the gasifier, and zero use of high-cost LNG fuel through substitution with domestic natural gas and internal fuels.

Fig 4 – O2C EBITDA improved on higher throughput and recovery in margin



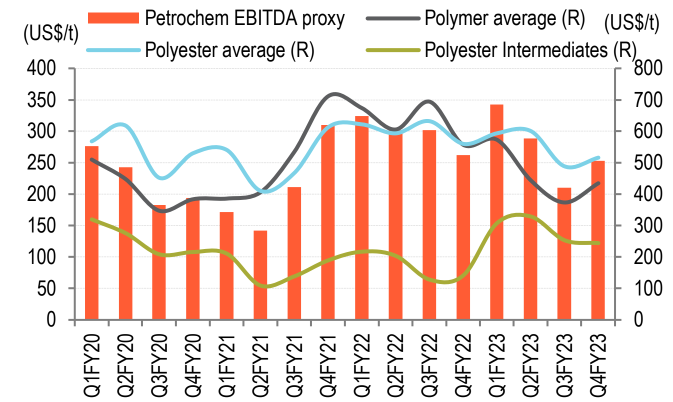
Source: Company, BOBCAPS Research

Fig 5 – Refining GRM (proxy) improved as cheaper Russian crude offset pullback in transport fuel cracks



Source: Company, BOBCAPS Research

Fig 6 – Petrochemicals EBITDA (proxy indicator) recovered with margin uptick



Source: Company, BOBCAPS Research

O2C profits to remain resilient over FY24E-FY25E

We expect O2C EBITDA to come off its peak but still remain resilient over the next two years as the easing of spreads will be partly offset by lower windfall tax, higher use of cheaper Russian and other arbitrage feedstocks, and improvement in petrochemical spreads.

- We expect global refining margins to remain healthy with gasoline support during the US summer and middle-distillate support during the European winter given the ban on Russian products. Further, lower windfall tax will cushion the fall in transportation fuel spread YoY. The European ban on insurance for product tankers violating the price cap from Feb'23 has the potential to tighten the middle-distillate market further, given limited availability of clean tankers for rerouting trade flow to Asian buyers. While global refining capacity additions are scheduled for

H2CY23, we believe the impact on global refining margin will likely be felt only in FY25 considering the delays typical to ramp-up of new refineries.

- For petrochemicals, we believe margins are likely to improve from the weaker levels seen in FY23 as demand revives from China, the US and other markets.

Oil & Gas

Oil & gas business EBITDA was flattish QoQ (-2%) at Rs 38bn in Q4 with steady production and realisations. We expect the business to log a 17% EBITDA CAGR over FY23-FY25 to Rs 187bn by FY25.

- This business will benefit from start-up of the MJ field in Q1FY24 which has the potential to further lift production by close to 60%; we forecast KG-D6 production at 24.5mmscmd for FY24 assuming gradual ramp-up over FY24.
- We factor in resilient natural gas realisation at US$ 10.8/MMbtu over FY24-FY25, supported by our assumption of resilient oil prices.

Digital Services

Digital services EBITDA grew 4% QoQ to Rs 134bn in Q4 on the back of modest net customer addition of 6.4mn and a marginal 0.3% increase in average revenue per user (ARPU) to Rs 178.8. On a YoY basis, the benefits of a 7% increase in customer base and 7% rise in ARPU were visible in EBITDA growth of 25%.

Jio 2.0 in the making

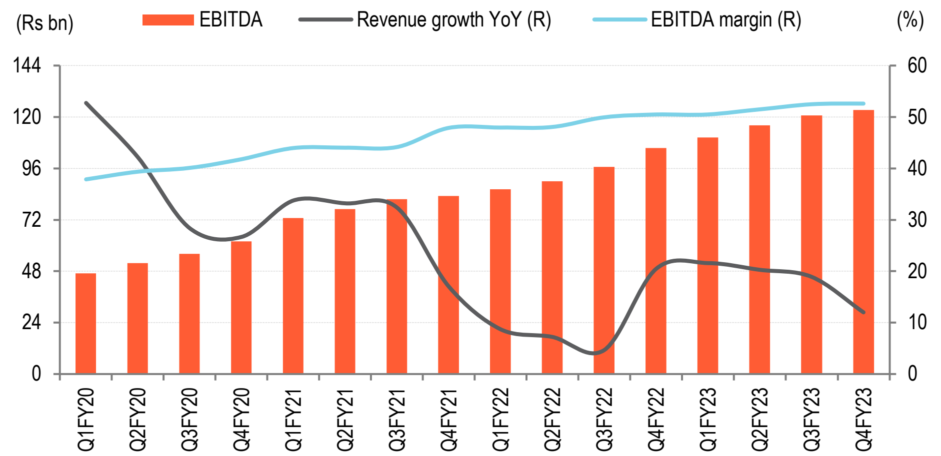
5G is driving the “Jio 2.0” opportunity where growth drivers will comprise monetisation of services in form of higher ARPU and market share gains post pan-India rollout of 5G coverage with differential offerings. Jio Digital Services is progressing on milestones towards the same.

- Jio has been aggressively rolling out 5G coverage, now spanning more than 2,600 cities, and aims to complete pan-India rollout by the year-end (Dec).
- To accelerate acceptance of 5G, the company has launched a new family plan priced at Rs 699/month which aims to build 5G adoption across family members and also encourage the move from the prepaid to postpaid segment with free 5G data and Netflix & Amazon Prime subscriptions as incentives.
- Jio has raised its target to connecting 100mn homes (from 50mn earlier and current coverage of above 9mn homes) over the next 3-4 years. With an advantage of access to 700MHz band (competition has not gone for it) and launch of AirFibre over the next few months, Jio aims to gain the first mover advantage. We estimate annual revenue potential of this segment at Rs 30bn-50bn, equivalent to 6-10% of FY23 revenue. To gain a foot in the door against incumbents, Jio has started with a Rs 198 backup plan along with a Rs 100/Rs 200 bundled entertainment plan.
- The company is focusing on launching smart-home applications such as cloud gaming, cloud PC work and study, smart homes with IoT connectivity and

surveillance features, and Jio Glass for augmented and virtual realities. Success of these value-added services could help RIL raise ARPU. To accelerate penetration of its digital services in small-to-midsize towns, Jio aims to use partners such as local cable operators to expedite rollouts and keep costs under control.

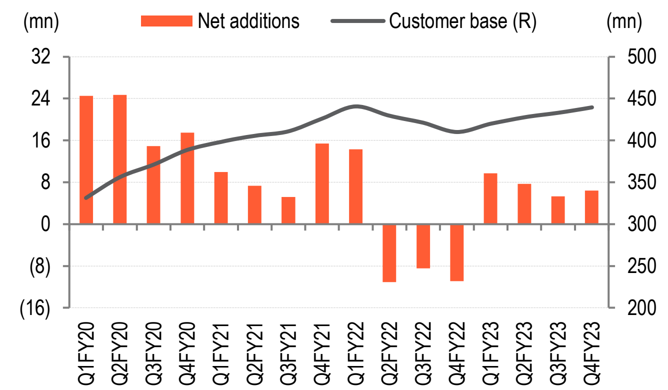
- In the small and midsize business (SMB) and enterprise segments as well, Jio is focused on offering value-added services on top of connectivity via the rollout of industry-specific applications. These are intended to help revenue growth, operational efficiency and profitability.

Fig 7 – Jio Infocomm EBITDA steady amid accelerating 5G launches



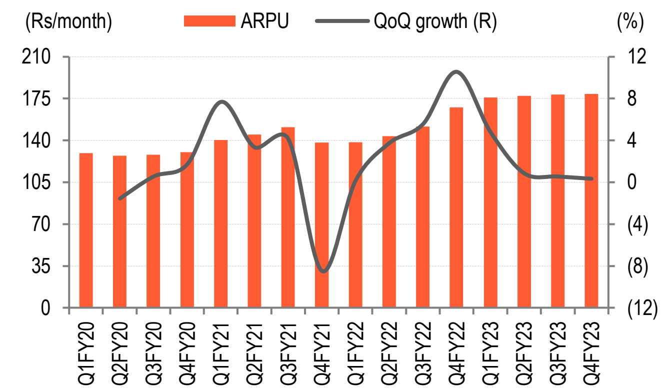
Source: Company, BOBCAPS Research

Fig 8 – Jio Infocomm's net subscriber addition positive but still soft



Source: Company, BOBCAPS Research

Fig 9 – Jio Infocomm's ARPU range-bound while it focuses on national rollout



Source: Company, BOBCAPS Research

We model for 25% annual growth in digital services EBITDA over FY23-FY25 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 35mn/30mn over FY24/FY25. For home broadband services, we factor in a gradual pick-up in connections to reach ~26.6mn by end-FY25 post launch of pan-India 5G services and AirFibre.

- We also assume no material improvement in blended ARPU over the next nine months till 5G gains a foothold.
- Given consolidation of the industry and only two out of three private players aggressively implementing 5G rollouts (Jio and Bharti Airtel), we are factoring in 8% annual hikes in ARPU to Rs 206 per user by FY25. While 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

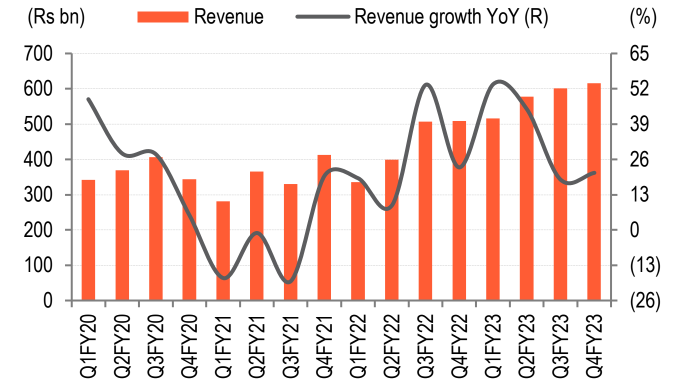
Retail EBITDA was able to cross levels seen during the festive Q3 period on the back of ramp-up in footprint. EBITDA margin was flat QoQ at 7.7%. On a YoY basis, retail EBITDA increased 33% YoY with 21% growth in revenue and a 60bps increase in EBITDA margin.

- Core revenue grew 25% YoY driven by consumer electronics excluding devices (+37%), grocery (+66%), and fashion and lifestyle (+19%). Digital and new commerce revenue maintained contribution at 17% of gross revenue.
- The company continues to expand its footprint in retail, adding 966 new stores in Q4 and more than 3,300 in FY23 to take total stores above 18,000, including connectivity stores. While total store space has increased to 65.6mn sqft, warehousing and fulfilment area has grown to 35.3mn sqft. The merchant base has also crossed the 3mn mark.
- Jio Retail has identified consumer brands as a focus area, having developed a large portfolio of private labels. It has begun expanding its portfolio of consumer products (FMCG arm) through partnerships and acquisitions, besides piloting regional launches. Jio Retail aims to scale up FMCG products using omnichannel distribution, including Reliance Retail stores, JioMart, and its partnerships with over 3mn merchants that it believes offer a significantly wider reach across pan-India.

Retail growth below RIL's vision

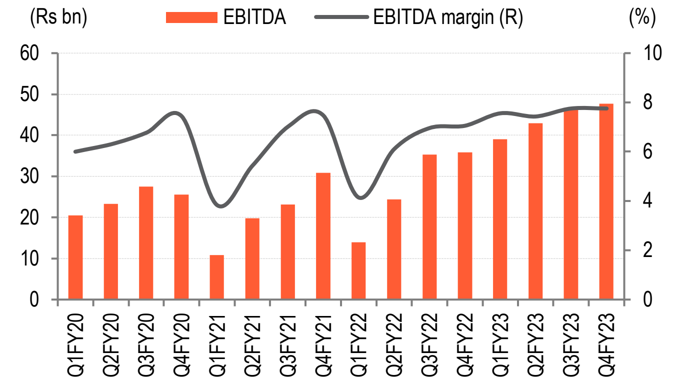
RIL's retail business has grown at 1.7x over the FY21 base, which is tracking towards higher end of timeframe of the target of 3x over 3-5 years set at the FY21 AGM. The slower growth is attributable to a slowdown in footprint expansion and recovery from Covid.

Fig 10 – Retail revenue growth supported by footprint expansion



Source: Company, BOBCAPS Research

Fig 11 – Retail EBITDA margin healthy on lower discounts outside festive season



Source: Company, BOBCAPS Research

We forecast 30% annual growth in retail EBITDA over FY23-FY25.

- 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 8.4% in FY25 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-FY25 EBITDA estimates by ~2% to incorporate the Q4FY23 results. Our revised forecasts are 2%/5% ahead of consensus, reflecting our view of continuing strong growth in both consumer facing businesses. Our net income forecasts are 3-4% below consensus for FY24 and FY25.

Fig 12 – Revised estimates

(Rs bn)	Actual	New		Old		Change (%)	
	FY23P	FY24E	FY25E	FY24E	FY25E	FY24E	FY25E
Revenue	8,795	8,605	9,631	8,580	9,483	0.3	1.6
EBITDA	**1,429**	**1,672**	**1,909**	**1,638**	**1,873**	**2.1**	**1.9**
EBITDA margin (%)	16.2	19.4	19.8	19.1	19.8	-	-
Adj. PAT	667	780	879	782	857	(0.3)	2.5
PAT margin (%)	7.6	9.1	9.1	9.1	9.0	-	-
EPS (Rs)	98.6	115.2	129.9	115.6	126.7	(0.3)	2.5

Source: Company, BOBCAPS Research

Fig 13 – Estimates vs. Consensus

(Rs bn)	BOBCAPS		Consensus		Delta to Consensus (%)	
	FY24E	FY25E	FY24E	FY25E	FY24E	FY25E
Revenue	8,605	9,631	9,550	10,089	(9.9)	(4.5)
EBITDA	**1,672**	**1,909**	**1,631**	**1,814**	**2.5**	**5.3**
Adj. PAT	780	879	813	904	(4.1)	(2.7)

Source: Company, BOBCAPS Research

We expect 16% annual growth in RIL's EBITDA over FY23-FY25 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 (telecom and retail) and a ramp-up of gas production from the MJ field.

Fig 14 – RIL's EBITDA mix

Particulars	FY21	FY22	FY23P	FY24E	FY25E	FY23P-25E CAGR (%)
EBITDA (Rs bn)						
O2C	382	527	621	610	586	-
Oil & Gas	2	55	136	156	187	-
Cyclical subtotal	**383**	**582**	**757**	**766**	**773**	**-**
Digital Services	334	394	490	606	770	-
Retail	98	124	179	234	301	-
Consumer subtotal	**432**	**518**	**669**	**840**	**1,071**	**-**
Others	(7)	5	3	66	66	-
Consolidated business EBITDA	**807**	**1,105**	**1,429**	**1,672**	**1,909**	**-**
EBITDA YoY growth (%)						
O2C	(29.1)	38.1	17.7	(1.7)	(4.0)	(2.9)
Oil & Gas	(87.9)	3410.6	149.0	14.6	20.1	17.3
Cyclical subtotal	**(30.4)**	**51.8**	**30.1**	**1.2**	**0.9**	**1.1**

Particulars	FY21	FY22	FY23P	FY24E	FY25E	FY23P-25E CAGR (%)
Digital Services	48.2	18.2	24.3	23.7	27.0	25.3
Retail	1.4	26.5	44.8	30.4	28.8	29.6
Consumer subtotal	**34.1**	**20.1**	**29.2**	**25.5**	**27.5**	**26.5**
Consolidated	**(9.3)**	**36.8**	**29.4**	**17.0**	**14.2**	**15.6**
EBITDA composition (% of total)						
O2C	47.3	47.7	43.4	36.5	30.7	-
Oil & Gas	0.2	4.9	9.5	9.3	9.8	-
Cyclical subtotal	**47.5**	**52.7**	**52.9**	**45.8**	**40.5**	**-**
Digital Services	41.3	35.7	34.3	36.3	40.3	-
Retail	12.1	11.2	12.5	14.0	15.8	-
Consumer subtotal	**53.5**	**46.9**	**46.8**	**50.2**	**56.1**	**-**

Source: Company, BOBCAPS Research

Fig 15 – Key assumptions

Parameter	Unit	FY21	FY22	FY23P	FY24E	FY25E
Exchange rate	INR/USD	74.2	74.5	80.4	82.3	83.9
Energy						
Oil price	US$/bbl	45.8	80.0	95.0	90.0	90.0
Refining margin	US$/bbl	6.0	8.0	11.5	10.0	9.0
Petrochem EBITDA	US$/t	203	272	269	251	251
O2C throughput	mt	63.6	68.2	71.0	71.0	71.0
Gas realisation- KG D6	US$/mmbtu	3.8	4.9	10.7	10.8	10.8
Gas production- KG D6	mmscmd	1.8	17.7	19.0	24.5	29.0
Jio Digital Services						
No of subscribers	mn	426	410	439	474	504
ARPU	Rs	144	150	177	186	206
Retail						
Revenue growth	% YoY	(3.8)	25.8	32.0	26.9	22.8
EBITDA margin	%	6.0	6.2	7.5	8.0	8.4

Source: Company, BOBCAPS Research

BUY with TP of Rs 2,800

We revise our SOTP-based TP for RIL slightly to Rs 2,800 from Rs 2,810 factoring in the Q4FY23 results. Our target multiples remain unchanged across businesses, including refining (7x FY25E EBITDA), petrochemicals (8x), telecom (Jio Infocomm: 9x), and retail (30x). We also include Rs 164/sh (vs. Rs 149 earlier) for the upstream business, Rs 104 (unchanged) for the digital services venture, Rs 182 (vs. Rs 121) for the new energy division, and Rs 144 (unchanged) for Jio Financial Services.

We maintain BUY as we believe the recent stock correction offers a good entry opportunity with 19% upside potential. In our view, concerns over elevated capex are overdone and we expect the ramp-up in outlay to be in keeping with RIL's structural profit growth.

Fig 16 – Valuation summary

Business (Rs bn)	Fair Value		Value/share	Valuation basis
	(US$ bn)	(Rs bn)	(Rs)	
Energy				
Refining	30	2,224	329	7x FY25E EBITDA
Petrochem	38	2,859	423	8x FY25E EBITDA
Upstream	15	1,112	164	Combination of DCF and reserve multiple
New energy	15	1,234	182	Option value
Energy total	**98**	**7,429**	**1,098**	**-**
Jio Infocomm	62	4,594	679	9x FY25E EBITDA, RIL share
Digital Services	9	701	104	6x FY25E Sales, discounted to FY24; RIL share
Reliance Retail	103	7,687	1,136	30x FY25E EBITDA, RIL share
Consumer business total	**174**	**12,981**	**1,919**	**-**
Jio Financial Services	**13**	**977**	**144**	**At 1x value of RIL Treasury shares**
Enterprise value	**285**	**21,387**	**3,161**	**-**
Net Debt	33	2,439	360	-
Marketable securities	0	9	1	At 85% of BV
Equity value	**253**	**18,958**	**2,802**	**21.6x FY25E EPS**
TP (rounded to nearest Rs 5)			**2,800**	**-**

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 (4.8-6.6x on CY23/FY24) but at a discount in petrochem (7.9-8.4x 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 17 – 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	46.7	USD	101.3	6.6	7.7	1.4	1.3	5.1	5.8
Valero Energy	VLO US	45.2	USD	123.0	5.2	7.9	1.6	1.5	3.5	4.8
Marathon Petroleum	MPC US	55.5	USD	125.7	6.1	9.5	1.9	1.9	4.4	6.1
S-Oil	010950 KS	0.7	KRW	78,200	5.7	6.2	0.9	0.9	3.8	4.1
Sk Innovation	096770 KS	1.3	KRW	1,82,000	13.3	9.4	0.8	0.7	8.1	7.0
IRPC	IRPC TB	1.4	THB	2.36	12.1	8.7	0.6	0.5	7.9	6.2
Thai Oil	TOP TB	3.2	THB	49.25	8.0	8.0	0.7	0.6	8.9	9.6
Eneos Holdings	5020 JP	10.7	JPY	472.3	7.1	6.5	0.5	0.5	7.1	6.6
Idemitsu Kosan	5019 JP	6.3	JPY	2,834	5.2	5.1	0.5	0.4	6.6	6.9
Weighted Average	**-**	**170.9**	**-**	**-**	**6.2**	**8.2**	**1.5**	**1.4**	**4.8**	**5.8**
Simple Average	**-**	**-**	**-**	**-**	**7.7**	**7.7**	**1.0**	**0.9**	**6.2**	**6.4**
Median	**-**	**-**	**-**	**-**	**6.6**	**7.9**	**0.8**	**0.7**	**6.6**	**6.2**

Source: Bloomberg, BOBCAPS Research

Fig 18 – 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	4.1	KRW	7,71,000	25.1	15.1	1.7	1.6	9.1	7.1
Lotte Chemical	011170 KS	0.6	KRW	1,74,200	21.6	8.5	0.5	0.4	9.0	6.0
Sk Innovation	096770 KS	1.3	KRW	1,82,000	13.3	9.4	0.8	0.7	8.1	7.0
S-Oil	010950 KS	0.7	KRW	78,200	5.7	6.2	0.9	0.9	3.8	4.1
Wanhua Chemical	600309 CH	42.2	CNY	92.48	14.3	11.4	3.1	2.5	9.3	7.6
IRPC	IRPC TB	1.4	THB	2.36	12.1	8.7	0.6	0.5	7.9	6.2
Formosa Plastics	1301 TT	19.2	TWD	92.5	18.9	14.6	1.6	1.5	19.3	15.5
Petronas Chemicals	PCHEM MK	13.0	MYR	7.2	11.0	10.8	1.4	1.3	6.8	5.9
Indorama Ventures	IVL TB	5.4	THB	33	6.9	6.4	0.9	0.8	5.6	5.2
Lyondellbasell	LYB US	30.9	USD	95.04	10.7	9.1	2.3	2.2	7.2	6.7
Dow	DOW US	39.4	USD	55.7	17.6	11.7	1.9	1.9	7.9	6.4
Weighted Average	**-**	**158.1**	**-**	**-**	**14.7**	**11.2**	**2.2**	**2.0**	**9.4**	**7.8**
Simple Average	**-**	**-**	**-**	**-**	**13.2**	**9.7**	**1.4**	**1.3**	**8.6**	**7.1**
Median	**-**	**-**	**-**	**-**	**12.7**	**9.2**	**1.2**	**1.1**	**7.9**	**6.4**

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 ~20% 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 19 – 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	53.8	INR	765.2	29.6	20.2	4.3	3.6	7.5	6.4
Vodafone Idea	IDEA IN	3.8	INR	6.45	NA	NA	NA	NA	12.2	11.0

Source: Bloomberg, BOBCAPS Research

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 30x compares with the average/median FY24 multiple of 33.6x/39.1x 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 20 – 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	6.0	INR	1,383	83.6	65.8	15.0	12.4	34.6	28.3
Avenue Supermarkets	DMART IN	27.3	INR	3,456	73.0	58.4	11.8	10.0	46.9	37.6
Titan	TTAN IN	27.8	INR	2,568	58.5	49.0	15.5	12.6	39.5	33.1
Jubilant Foodworks	JUBI IN	3.6	INR	443	53.2	42.6	10.9	9.5	20.2	16.7
Aditya Birla Fashion and Retail	ABFRL IN	2.5	INR	220	57.9	41.4	4.6	4.2	18.9	15.7
V-Mart Retail	VMART IN	0.5	INR	2,183	96.8	56.8	6.4	5.7	39.1	24.9
Shoppers Stop	SHOP IN	0.8	INR	615	39.5	31.2	16.2	14.2	31.8	26.7
Bata India	BATA IN	2.3	INR	1,481	43.2	35.4	10.3	8.6	20.5	17.4
Relaxo Footwears	RLXF IN	2.5	INR	826	84.5	64.0	12.7	11.4	50.5	38.4
Weighted Average	**-**	**73.3**	**-**	**-**	**66.1**	**53.2**	**13.1**	**11.0**	**39.9**	**32.5**
Simple Average	**-**	**-**	**-**	**-**	**65.6**	**49.4**	**11.5**	**9.8**	**33.6**	**26.5**
Median	**-**	**-**	**-**	**-**	**58.5**	**49.0**	**11.8**	**10.0**	**39.1**	**26.7**

Source: Company, BOBCAPS Research

New Energy

We assign an option value of US$ 15bn, which is 1.5x (up from 1.0x) 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.

Jio Financial Services (JFS)

At this juncture, we value JFS at 1x RIL's treasury stock valuation (~Rs 980bn or US$ 13bn) which translates to Rs 144/sh. Eventually, JFS's valuation will depend upon clarity on regulatory capital to be deployed for identified business and the holding company discount on the value of RIL's stake above regulatory capital requirements. While RIL's entire shareholding may not be considered as regulatory capital, we assume that JFS will able to leverage this stake to raise the mandated funds. Until the business model evolves, we prefer to value the company in line with RIL's marketable treasury stock.

Key risks

We highlight key downside risks to our estimates below.

- **O2C and Oil & Gas businesses:** Lower-than-assumed oil price, gas price, GRM and petrochemical crack movements on easing of the demand-supply balance, or adverse regulatory moves (such as higher windfall tax rate or cap on gas price) are key downside risks.
- **Digital Services:** Downside risks in this business are 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 is 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.

Financials

Income Statement

Y/E 31 Mar (Rs mn)	FY21A	FY22A	FY23P	FY24E	FY25E
Total revenue	**46,69,240**	**69,99,620**	**87,94,680**	**86,05,246**	**96,31,189**
EBITDA	8,07,370	11,04,600	14,29,080	16,72,051	19,09,488
Depreciation	(2,65,720)	(2,97,970)	(4,03,190)	(4,11,865)	(4,77,065)
EBIT	5,41,650	8,06,630	10,25,890	12,60,186	14,32,423
Net interest inc./(exp.)	(2,11,890)	(1,45,840)	(1,95,710)	(2,12,560)	(2,12,560)
Other inc./(exp.)	1,63,270	1,49,470	1,18,260	1,43,340	1,58,760
Exceptional items	56,420	28,360	0	0	0
EBT	4,93,030	8,10,260	9,48,440	11,90,966	13,78,623
Income taxes	(17,220)	(1,62,970)	(2,07,130)	(3,06,247)	(3,56,443)
Extraordinary items	0	0	0	0	0
Min. int./Inc. from assoc.	(40,950)	(68,600)	(74,290)	(1,05,067)	(1,43,302)
Reported net profit	**4,91,280**	**6,07,050**	**6,67,020**	**7,79,652**	**8,78,878**
Adjustments	0	0	0	0	0
Adjusted net profit	**4,36,628**	**5,84,201**	**6,67,020**	**7,79,652**	**8,78,878**

Balance Sheet

Y/E 31 Mar (Rs mn)	FY21A	FY22A	FY23P	FY24E	FY25E
Accounts payables	10,88,970	15,93,300	14,71,780	14,31,884	14,55,826
Other current liabilities	7,71,750	6,67,360	11,23,670	10,96,652	11,28,666
Provisions	51,290	37,890	37,870	37,870	37,870
Debt funds	27,47,410	29,39,980	34,28,380	34,28,380	34,28,380
Other liabilities	5,46,910	8,57,850	17,16,310	17,79,224	18,50,127
Equity capital	64,450	67,650	67,660	67,660	67,660
Reserves & surplus	69,37,270	77,27,200	81,43,870	88,48,522	96,49,406
Shareholders' fund	70,01,720	77,94,850	82,11,530	89,16,182	97,17,066
Total liab. and equities	**1,32,00,650**	**1,49,86,220**	**1,71,19,630**	**1,79,25,348**	**1,89,96,393**
Cash and cash eq.	1,73,970	3,61,780	7,47,080	8,31,099	11,87,657
Accounts receivables	1,90,140	2,36,400	2,84,510	2,79,035	2,80,414
Inventories	8,16,720	10,77,780	14,00,080	13,78,318	13,91,378
Other current assets	16,99,430	13,64,580	11,51,180	11,51,180	11,51,180
Investments	36,48,280	39,42,640	33,66,330	33,66,330	33,66,330
Net fixed assets	53,10,460	61,47,890	70,95,930	90,34,385	99,56,023
CWIP	12,59,530	17,25,060	29,37,900	17,48,380	15,26,792
Intangible assets	1,02,120	1,30,090	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	**1,32,00,650**	**1,49,86,220**	**1,71,19,630**	**1,79,25,348**	**1,89,96,393**

Cash Flows

Y/E 31 Mar (Rs mn)	FY21A	FY22A	FY23P	FY24E	FY25E
Cash flow from operations	**(15,20,350)**	**11,83,480**	**12,31,540**	**10,71,413**	**13,09,605**
Capital expenditures	(4,89,180)	(15,15,680)	(25,64,070)	(11,60,800)	(11,77,116)
Change in investments	(85,770)	(7,65,610)	7,75,790	0	0
Other investing cash flows	(6,32,040)	5,92,750	(87,750)	1,43,340	1,58,760
Cash flow from investing	**(12,06,990)**	**(16,88,540)**	**(18,76,030)**	**(10,17,460)**	**(10,18,356)**
Equities issued/Others	10,02,980	3,200	10	0	0
Debt raised/repaid	(3,54,780)	9,100	(2,68,230)	0	0
Interest expenses	0	0	0	0	0
Dividends paid	(45,840)	(42,970)	(55,256)	(75,000)	(77,994)
Other financing cash flows	19,89,750	7,23,540	13,53,266	1,05,067	1,43,302
Cash flow from financing	**25,92,110**	**6,92,870**	**10,29,790**	**30,067**	**65,308**
Chg in cash & cash eq.	**(1,35,230)**	**1,87,810**	**3,85,300**	**84,019**	**3,56,557**
Closing cash & cash eq.	**1,73,970**	**3,61,780**	**7,47,080**	**8,31,099**	**11,87,657**

Per Share

Y/E 31 Mar (Rs)	FY21A	FY22A	FY23P	FY24E	FY25E
Reported EPS	76.2	89.7	98.6	115.2	129.9
Adjusted EPS	64.5	86.4	98.6	115.2	129.9
Dividend per share	6.1	6.7	8.2	11.1	11.5
Book value per share	1,086.4	1,152.2	1,213.6	1,317.8	1,436.2

Valuations Ratios

Y/E 31 Mar (x)	FY21A	FY22A	FY23P	FY24E	FY25E
EV/Sales	3.9	2.6	2.1	2.1	1.9
EV/EBITDA	22.7	16.5	12.7	10.9	9.5
Adjusted P/E	36.5	27.3	23.9	20.5	18.2
P/BV	2.2	2.0	1.9	1.8	1.6

DuPont Analysis

Y/E 31 Mar (%)	FY21A	FY22A	FY23P	FY24E	FY25E
Tax burden (Net profit/PBT)	79.5	69.7	70.3	65.5	63.8
Interest burden (PBT/EBIT)	101.4	104.0	92.5	94.5	96.2
EBIT margin (EBIT/Revenue)	11.6	11.5	11.7	14.6	14.9
Asset turnover (Rev./Avg TA)	37.6	49.7	54.8	49.1	52.2
Leverage (Avg TA/Avg Equity)	2.2	1.9	2.0	2.0	2.0
Adjusted ROAE	7.6	7.9	8.3	9.1	9.4

Ratio Analysis

Y/E 31 Mar	FY21A	FY22A	FY23P	FY24E	FY25E
YoY growth (%)					
Revenue	(21.9)	49.9	25.6	(2.2)	11.9
EBITDA	(9.3)	36.8	29.4	17.0	14.2
Adjusted EPS	(0.3)	33.8	14.2	16.9	12.7
Profitability & Return ratios (%)					
EBITDA margin	17.3	15.8	16.2	19.4	19.8
EBIT margin	11.6	11.5	11.7	14.6	14.9
Adjusted profit margin	9.4	8.3	7.6	9.1	9.1
Adjusted ROAE	7.6	7.9	8.3	9.1	9.4
ROCE	5.7	5.8	6.5	7.1	7.6
Working capital days (days)					
Receivables	15	11	11	12	11
Inventory	95	71	75	85	85
Payables	97	83	76	76	68
Ratios (x)					
Gross asset turnover	0.6	0.9	0.9	0.8	0.7
Current ratio	1.0	1.0	0.9	0.9	1.0
Net interest coverage ratio	2.6	5.5	5.2	5.9	6.7
Adjusted debt/equity	0.4	0.3	0.3	0.3	0.2

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%

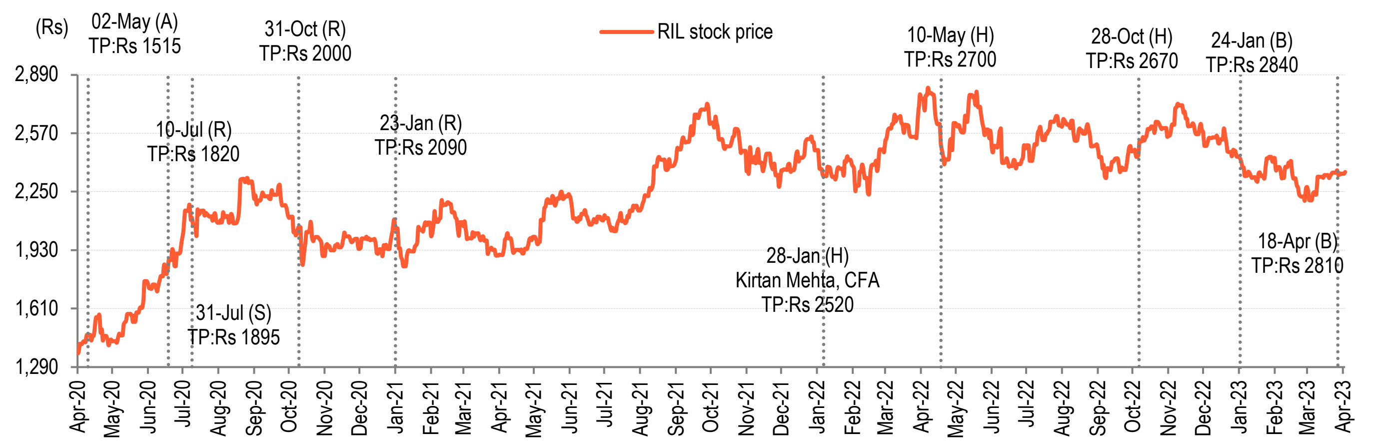
HOLD – Expected return from -6% to +15%

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)



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

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