

RESEARCH

Reliance Industries | Target: Rs 1,860 | +23% | BUY

RJio and Retail neutralise uncertainty over cyclicals

SUMMARY

Reliance Industries

Key highlights of recent developments at Reliance Industries (RIL): (a) RJio's ARPU expansion from the recent ~25% tariff hikes is likely to be staggered over FY21 and FY22; (b) debt reduction plans for FY21 hinge on the Aramco deal, which management is confident of executing despite recent concerns; and (c) the outlook on cyclicals remains mixed with a bias towards higher GRMs in FY21. We raise earnings estimates for RJio and roll forward to a Mar'21 TP of Rs 1,860 (from Rs 1,670).

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TOP PICKS

LARGE-CAP IDEAS

Company	Rating	Target
Cipla	Buy	570
ONGC	Buy	210
Petronet LNG	Buy	400
Reliance Industries	Buy	1,860
TCS	Add	2,230

MID-CAP IDEAS

Company	Rating	Target
Alkem Labs	Buy	2,290
Future Supply	Buy	680
Greenply Industries	Buy	210
Laurus Labs	Buy	480
PNC Infratech	Buy	245

Source: BOBCAPS Research

DAILY MACRO INDICATORS

Indicator	Current	2D (%)	1M (%)	12M (%)
US 10Y yield (%)	1.92	4bps	14bps	(77bps)
India 10Y yield (%)	6.56	1bps	9bps	(86bps)
USD/INR	71.38	(0.1)	0.5	(2.8)
Brent Crude (US\$/bbl)	66.00	(3.6)	5.7	26.4
Dow	28,538	0.3	1.7	22.3
Shanghai	3,050	0.3	6.2	22.3
Sensex	41,254	(0.7)	1.1	13.8
India FII (US\$ mn)	30 Dec	MTD	CYTD	FYTD
FII-D	(156.9)	(679.8)	3,565.0	3,020.4
FII-E	39.1	1,138.7	14,511.1	7,665.9

Source: Bank of Baroda Economics Research

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BUY

TP: Rs 1,860 | ▲ 23%

RELIANCE INDUSTRIES

Oil & Gas

01 January 2020

RJio and Retail neutralise uncertainty over cyclicals

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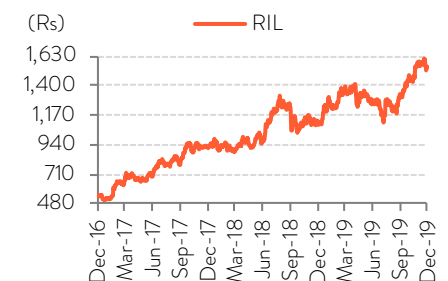
Deleveraging plans delayed: RIL's 20% stake sale in its Oil2Chemicals business to Saudi Aramco (at an EV of US\$ 75bn; US\$ 15bn inflow to RIL) appears hindered by a regulatory web. But RIL's strong legal standing will see the matter through. Also, IPO plans for the retail business in FY21/ FY22 (which we value at US\$ 56bn) can potentially fetch US\$ 14bn in cash – nearly as much as the Aramco deal and a hedge against stake sale uncertainties.

Ticker/Price	RIL IN/Rs 1,514
Market cap	US\$ 134.6bn
Shares o/s	6,339mn
3M ADV	US\$ 175.0mn
52wk high/low	Rs 1,618/Rs 1,081
Promoter/FPI/DII	47%/24%/28%

Source: NSE

RJio – lateral offerings to enhance value: ARPU expansion in RJio's conventional wireless business is likely to be staggered over FY21 and FY22. Despite a slow start, RIL could add a million subscribers every month for its new GigaFiber broadband product from Q1FY21. Other lateral offerings (advertisement/subscription revenues from Jio applications and cloud services) should scale up over FY22-FY23 – an IPO for RJio thus looks remote.

STOCK PERFORMANCE



Source: NSE

Retail momentum to continue: The company intends to continue with its strategy of store-count expansion and integration of online-offline channels – a much-needed counter to global retail heavyweights.

Refining – awaiting IMO-led GRM bump-up: RIL's GRMs remain muted at ~US\$ 10/bbl (vs. \$ 13-14 est.) as diesel cracks have not expanded. We expect diesel cracks to improve over FY21 as IMO compliance picks up globally.

KEY FINANCIALS

Y/E 31 Mar	FY18A	FY19A	FY20E	FY21E	FY22E
Total revenue (Rs mn)	4,082,650	5,810,200	5,425,940	6,045,442	5,927,036
EBITDA (Rs mn)	641,760	839,180	980,450	1,312,828	1,594,729
Adj. net profit (Rs mn)	352,869	398,370	467,750	677,329	903,259
Adj. EPS (Rs)	59.6	67.2	73.8	106.9	142.5
Adj. EPS growth (%)	17.4	12.8	9.8	44.8	33.4
Adj. ROAE (%)	12.7	11.7	11.4	14.7	16.8
Adj. P/E (x)	25.4	22.5	20.5	14.2	10.6
EV/EBITDA (x)	17.9	13.7	12.0	9.4	7.5

Source: Company, BOBCAPS Research



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Recommendations and Absolute returns (%) over 12 months

BUY – Expected return >+15%

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

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

SELL – Expected return <-5%

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

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