

RESEARCH

BOB ECONOMICS RESEARCH | MONSOON UPDATE

Monsoon and Sowing progress

RELIANCE INDUSTRIES | TARGET: Rs 3,075 | +17% | BUY

Consumer and new energy businesses key catalysts

SUMMARY

INDIA ECONOMICS: MONSOON UPDATE

Advancement of South-West monsoon across the entire country has resulted in above normal rainfall at 2% (above LPA) till 9 Jul 2023. Due to excessive rainfall in some regions, IMD has even issued red alert to remain cautious of the rising water levels. There also have been warnings of flash floods in some regions. IMD expects post 13 July 2023, extremely heavy rainfall conditions will slowly start dissipating. Sown area of kharif crops has declined by 8.7% compared with last year with rice and pulses remaining in red. 15 subdivisions (out of 36) and 12 states have received deficient rainfall during this period. The storage levels remain robust with 96% of live storage capacity to corresponding period last year.

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RELIANCE INDUSTRIES

- Reliance Retail exit offer targeted at minority shareholders and does not reflect full retail business value
- RIL to no longer hold a direct stake in financial arm JFS post demerger; for now, we value it at Rs 161/sh (1x value of treasury shares)
- Maintain BUY with a revised TP of Rs 3,075 (vs. Rs 2,800) as we roll forward our valuation to FY26

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Daily macro indicators

Ticker	06-Jul	07-Jul	Chg (%)
US 10Y yield (%)	4.03	4.06	3bps
India 10Y yield (%)	7.15	7.16	1bps
USD/INR	82.51	82.74	(0.3)
Brent Crude (US\$/bbl)	76.5	78.5	2.5
Dow	33,922	33,735	(0.6)
Hang Seng	18,533	18,366	(0.9)
Sensex	65,786	65,280	(0.8)
India FII (US\$ mn)	05-Jul	06-Jul	Chg (\$ mn)
FII-D	42.6	87.8	45.2
FII-E	278.7	343.6	64.9

Source: Bank of Baroda Economics Research



MONSOON UPDATE

10 July 2023

Monsoon and Sowing progress

Advancement of South-West monsoon across the entire country has resulted in above normal rainfall at 2% (above LPA) till 9 Jul 2023. Due to excessive rainfall in some regions, IMD has even issued red alert to remain cautious of the rising water levels. There also have been warnings of flash floods in some regions. IMD expects post 13 July 2023, extremely heavy rainfall conditions will slowly start dissipating. Sown area of kharif crops has declined by 8.7% compared with last year with rice and pulses remaining in red. 15 subdivisions (out of 36) and 12 states have received deficient rainfall during this period. The storage levels remain robust with 96% of live storage capacity to corresponding period last year.

Jahnvi Prabhakar
Economist

Where does Kharif sowing stand?

Overall sown area of kharif crops have declined by 8.7% compared with last year as of 7th Jul 2023. Total sown area of rice (23.9%) and pulses (25.8%) have dropped significantly. Within pulses, lower acreage of Arhar and Urad was noted for the same period. Even the sown area of oilseeds (14.3%), cotton (10.9%) and Jute and Mesta (15.3%) have fallen sharply. However, higher acreage has been registered for sugarcane (4.7%) along with Jowar and Bajra crops.

Table 1: Kharif Sowing

	Area sown in 2023-24 (Lakh ha)	Area sown in 2022-23 (Lakh ha)	Change (YoY %)
Coarse Cereals	73.4	61.3	19.7
Jowar	6.1	4.2	44.8
Bajra	38.5	23.9	60.3
Rice	54.1	71.1	(23.9)
Pulses	32.6	43.9	(25.8)
Oilseeds	61.1	71.3	(14.3)
Cotton	70.5	79.1	(10.9)
Sugarcane	55.8	53.3	4.7
Jute and Mesta	5.8	6.8	(15.3)
All Crops	35.3	38.7	(8.7)

Source: CEIC, Bank of Baroda | Data as of 7 Jul 2023

Monsoon:

For the period 1 Jun 2023 to 9 Jul 2023, South West Monsoon is 2% above LPA compared with last year.

- Northern and Western region of India including states such as Punjab, Haryana, Jammu & Kashmir and Himachal Pradesh have received excess rainfall. Furthermore in the Western region, states including Rajasthan and Gujarat states too have registered heavy rainfall. Rising water levels in the rivers have pushed states to remain on alert towards flood like situations. IMD has also issued red alert in some states given such conditions.



BUY

TP: Rs 3,075 | ▲ 17%

RELIANCE INDUSTRIES

Oil & Gas

10 July 2023

Consumer and new energy businesses key catalysts

- Reliance Retail exit offer targeted at minority shareholders and does not reflect full retail business value
- RIL to no longer hold a direct stake in financial arm JFS post demerger; for now, we value it at Rs 161/sh (1x value of treasury shares)
- Maintain BUY with a revised TP of Rs 3,075 (vs. Rs 2,800) as we roll forward our valuation to FY26

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Retail exit offer targeted at small minority shareholders: The Reliance Retail (RRL) exit offer of Rs 1,362/sh is targeted at only 0.07% of minority shareholders. If accepted, this could avoid the need for their approval, if so required by regulation, on some related party transactions, corporate restructuring, etc.

Exit offer not a reflection of whole business value: While the exit offer values RIL's effective stake in RRL at ~Rs 850 per share of RIL, this is not a reflection of the whole value of retail business. RRL accounts for only ~35% of net assets of the retail vehicle, Reliance Retail Ventures (RRVL). We value the retail business at Rs 1,273/sh, applying an FY26E EV/EBITDA multiple of 30x, and discounting back to Jul'24E.

JFS demerger approved: We value Jio Financial Services (JFS) at Rs 161/sh, which is 1x RIL's treasury stock valuation of Rs 1,087bn or US\$ 13bn. Post demerger, RIL will not have a direct stake in JFS, with shareholding of the latter mirroring that of RIL.

Modest decline in Q1 profits: We forecast a 3.6%/9.9% QoQ decline in RIL's Q1FY24 EBITDA/net income on pullback in O2C profits and normalisation of tax rate.

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 raised to Rs 3,075: We tweak our FY24/FY25 EBITDA estimates by +2%/-1%, and revise our SOTP-based TP to Rs 3,075 (from Rs 2,800), rolling forward our valuation base to FY26. We maintain target multiples across the refining (7x FY26E EV/EBITDA), petrochem (8x), telecom (Jio: 9x) and retail (30x) businesses, and include Rs 157/sh (from Rs 164) for the upstream business, Rs 107 (Rs 104) for digital services, Rs 171 (Rs 182) for the new energy division and Rs 161 (Rs 144) for JFS.

Key changes

Target	Rating
▲	◀ ▶

Ticker/Price	RIL IN/Rs 2,634
Market cap	US\$ 216.9bn
Free float	50%
3M ADV	US\$ 150.0mn
52wk high/low	Rs 2,755/Rs 2,180
Promoter/FPI/DII	50%/22%/17%

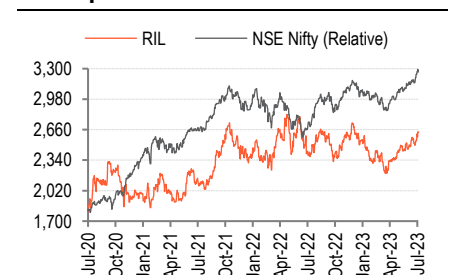
Source: NSE | Price as of 7 Jul 2023

Key financials

Y/E 31 Mar	FY23P	FY24E	FY25E
Total revenue (Rs mn)	87,94,680	81,89,995	93,07,519
EBITDA (Rs mn)	14,29,080	16,65,628	18,50,375
Adj. net profit (Rs mn)	6,67,020	7,75,262	8,37,517
Adj. EPS (Rs)	98.6	114.6	123.8
Consensus EPS (Rs)	98.6	116.6	129.3
Adj. ROAE (%)	8.3	9.1	9.0
Adj. P/E (x)	26.7	23.0	21.3
EV/EBITDA (x)	14.3	12.3	11.1
Adj. EPS growth (%)	14.2	16.2	8.0

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

Stock performance



Source: NSE



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