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RELIANCE INDUSTRIES | Oil & Gas | 29 July 2019

Diversification now bearing fruit

Reliance Industries' (RIL) FY19 Annual Report spells out its vision across its diversified businesses, viz.: (a) enhance oil-to-chemicals conversion ratio to >70% to hedge against potential EV-led oil demand transition; (b) to consequently enhance petrochemicals output; (c) maintain revenue growth traction in retail to augment market share (US$ 67bn organised retail market); and (d) RJio to target replicating wireless penetration in wireline (FTTH), enhancing ARPUs. We maintain ADD on near-term macro challenges.

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Refining – enhancing oil to chemicals: The complexity index of RIL's Jamnagar integrated refinery has been enhanced to 21.1 (from 12.7) after the commissioning of integrated projects such as ROGC, PX expansion and petcoke gasifiers. Over the long term, RIL intends to enhance oil to chemicals conversion at its refinery to over 70%, eventually nullifying the output of all road transportation fuels (gasoline, diesel) and converting them to petrochemicals.

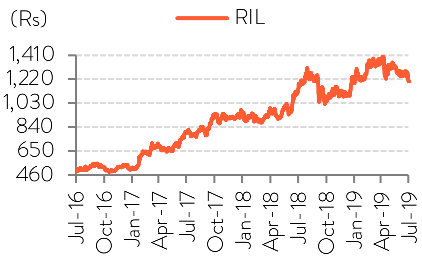
Petrochemicals – near-term headwinds, long-term capex driver: Record production in FY19 (37.7mmtpa) could be difficult to repeat in FY20 considering emerging macro headwinds. New capacities (ROGC/PX), ethane imports and a crash in LNG prices were primary margin drivers in FY19 (EBITDA at US$ 141/MT, +8% YoY). However, this segment seems to be the most insulated from the threat of EVs, considering polymers/polyesters are part of diverse building blocks of economic activity.

Our view: In our view, RIL's strategy to enhance the oil-to-chemicals ratio would entail setting up 40-45mmtpa of petchem capacities over 10 years (capex of ~US$ 30bn), forming the next large capex wave for the company after RJio. Assuming RIL's management continues with its asset-light strategy, we won't be surprised if it dilutes stakes in cyclical businesses (Saudi Aramco was at the centre of media speculation recently) to fund this outlay.

Ticker/Price	RIL IN/Rs 1,211
Market cap	US$ 104.3bn
Shares o/s	5,927mn
3M ADV	US$ 158.3mn
52wk high/low	Rs 1,418/Rs 1,016
Promoter/FPI/DII	47%/24%/28%

Source: NSE

STOCK PERFORMANCE



Source: NSE

KEY FINANCIALS

Y/E 31 Mar	FY18A	FY19A	FY20E	FY21E	FY22E
Adj. net profit (Rs mn)	352,869	398,370	455,232	586,847	758,312
Adj. EPS (Rs)	59.6	67.2	76.8	99.0	128.0
Adj. EPS growth (%)	17.4	12.8	14.3	28.9	29.2
Adj. ROAE (%)	12.7	11.7	11.2	12.9	14.7
Adj. P/E (x)	20.3	18.0	15.8	12.2	9.5
EV/EBITDA (x)	14.3	10.7	10.4	7.8	6.5

Source: Company, BOBCAPS Research

RJio – asset-light initiatives yet to play out; focus on FTTH

Reliance Jio (RJio) has played a transformational role in enhancing mobile broadband reach in India (500mn subscribers overall of which 334mn are currently with RJio). While ARPUs remain depressed at ~Rs 122 (as of Q1FY20), subscriber addition continues to be robust (~8mn/month currently). We expect economies of scale to come into play for RJio in FY20 as subscriber additions cross 400mn, enhancing the impact on earnings from any incremental ARPU improvement. Launch of Fibre-to-Home services (FTTH) could be an initiative towards that.

Retail business – striving to maintain growth

While it's not clear whether RIL will opt for an IPO for its retail business in FY20, we believe the time is ripe as the business has achieved massive scale (with >Rs 2tn in revenues expected in FY21) and has become a self-funding engine.

RIL has spelled out a four-step strategy for sustained growth in retail:

- **Continued expansion in physical stores** – implying that the store addition rates of ~3 per day for Q1FY20 could continue through FY20/FY21
- **Integrate online-offline channels** – a much needed strategy to counter global retail heavyweights such as Amazon and Walmart (owns Flipkart in India)
- **Strengthen brand portfolio** – will continue to add global brands not present in India to gain first-mover advantage
- **Improve customer experience**

Key financial metrics – concerns remain at consolidated level

RIL's consolidated net debt at Rs 1,544bn in FY19 remains elevated, despite hiving off the tower and fibre infrastructure subsidiaries into separate InVIT structures. The company is expected to realise ~Rs 118bn in cash (on repayment of NCDs) through the RJIPL deal. A similar deal for the fibre InVIT (JDFPL) is in the works that carries an additional valuation bump up of ~Rs 780bn for RIL (can be revised lower based on final negotiations).

Key macro commentary

Lacklustre India petroleum consumption trends

India's oil demand grew at ~3% YoY in FY19, led by gasoline (+8.1% YoY), Diesel (+3.0% YoY) and jet fuel (+9.1% YoY). Key drivers were robust growth in commercial vehicle sales and strong air traffic growth during the year. On the rural front, tractor sales and three-wheeler sales declined from the highs of FY18, but continued to grow in double digits. Offtake of petrochemical products was robust, with both polymer and polyester demand growing at ~7% YoY.

Global upstream capex improves

Global upstream investment is set to rise for the third consecutive year, by 4% in CY19 following above-expected spending last year. Key drivers were increased drilling activity, especially in North America, and a rise in new exploration, although this is yet to return to levels preceding the oil price collapse.

Asia GRMs under pressure

Singapore and North West European GRMs declined in FY19 due to lower light distillate cracks, negating the rise in middle distillates. Middle distillate cracks gained from firm economic growth and low inventories across trading hubs. Light distillate cracks were lower in FY19 due to moderation in gasoline demand growth across key markets as well as higher inventory, especially in the US. Global refinery utilisation edged up in CY18 to 82.9%, compared to the five-year average of 81.3%, as net refinery capacity addition lagged oil demand growth.

Polymer margins trend lower

Overcapacity in ethylene

- Global demand for ethylene increased by 3% YoY to 158mmt in CY18. Global ethylene operating rates have declined to ~88% from ~89.5% in the previous year. New capacities of 6mmta were added in CY18, resulting in capacity addition outpacing demand growth.
- The US started 3.5mmta of new ethane-based crackers in CY18. The other major capacity additions were in China, Iran and South Korea. In the US, another 4.3mmta of capacity is expected to come online in CY19. These additions are based on low-cost ethane from shale gas production, continuing to exert pressure on ethylene market fundamentals. In Asia, 2.3mmta of capacity is expected to come online in China in CY19 besides 1.3mmta in Malaysia.

FIG 1 – GLOBAL ETHYLENE SUPPLY/DEMAND CY18

Production by feedstock		Demand by end use	
Production: 158mmt		**Demand: 158mmt**	
Naphtha	40%	Polyethylene	62%
Ethane	39%	Ethylene Oxide	15%
Propane	9%	Ethylene Di-Chloride	9%
Butane	5%	Ethyl Benzene	6%
Others	7%	Others	8%

Source: IHS Markit, BOBCAPS Research

Robust polymer demand

- Demand for polymers has remained resilient amid uncertain global economic growth, rising a healthy 4.8% during FY19, above the five-year CAGR (4.6%). Global demand for polymers is expected to grow at a healthy pace in the near term, driven by India, China and other emerging economies.
- Trade conflicts between the US and China rerouted global trade flow. Incremental supplies from the US have been diverted to the South East Asian market, while China increased its imports from the Middle East. China's ban on import of recycled polymers w.e.f. 1 Jan 2018 resulted in higher demand for virgin resin in the region.

FIG 2 – GLOBAL POLYOLEFIN/PVC DEMAND

(mmt)	CY18	CY17	% growth
Polypropylene	74	70	5.7
Polyethylene	101	96	5.2
Poly Vinyl Chloride	45	43	4.7
Ethylene	158	154	2.6
Propylene	112	106	5.7

Source: IHS Markit, BOBCAPS Research

Lower polymer margins

- Polymer margins weakened in FY19 due to high feedstock prices. On a YoY basis, PP, PE and PVC margins corrected by 17%, 14% and 20% respectively. PE prices softened amid increased supplies as the first wave of new ethane-based capacities came online in the US.
- Global propylene demand increased by 6% YoY to 112mmta in CY18, outpacing the increase in supply (5% YoY), resulting in operating rates rising to 80% (from 78.5% in 2017). However, the addition of 2.8mmta of capacities in CY18 is expected to keep markets well supplied in the near term.

Polyester chain margins robust

Robust demand

- Globally, polyester demand growth was resilient at 3% during CY18, driven by demand in Asia's emerging economies which cover 85% of the global market. The Indian polyester market witnessed healthy demand growth of 7%.
- The polyester market remained volatile during FY19 and suffered overall weakness due to sluggish downstream demand. Polyester prices during the period were higher but margins declined due to firm feedstock prices.
- Global PET prices for CY18 surged 18% YoY as demand remained healthy amidst tight supplies, with delays in the restart of PET units in the US, Europe and China. PET margins jumped 32% YoY owing to firm demand from the beverage segment, tight supplies and curtailed output.
- During CY18, global PET demand was estimated at 24mmt, compared to global PET capacity of 31mmt. The Asia/Far East region accounted for 42% of global PET demand with China's offtake estimated at 5.5mmt (23%).

Margins healthy

- Polyester chain margins remained healthy in FY19 as operating rates across the chain remained robust, favouring integrated polyester producers.
- PX prices gained 25% YoY in FY19 driven by firm feedstock prices and healthy PTA demand. Global PX capacity grew 4% YoY in CY18, compared to 9% YoY demand growth. However, start-up issues in new PX units and subsequent planned turnarounds kept PX markets tight, supporting prices and margins.
- PTA margins improved 38% YoY in FY19 with sturdy demand from markets outside China. Global PTA capacity grew 7% YoY in CY18, compared to 8% YoY demand growth. China continues to be the largest consumer of PTA, accounting for 58% of global consumption. China demand is expected to grow at 3% CAGR till 2022. India demand is ~10% of the global consumption (68mmta).
- Monoethylene Glycol (MEG) markets were weak as margins declined 23% YoY in FY19. MEG markets had a strong start to the year but faltered due to rising port inventories and slower offtake from the polyester sector. Global capacity grew 6% YoY in CY18, compared to 8% YoY demand growth.
- Global natural rubber production was at 13.9mmt in CY18, up 2.5% YoY, while demand rose ~4.9% YoY to 13.87mmt. Slowdown in economic activities

driven by the US-China trade conflict weighed on downstream operations and rubber consumption.

- Global capacity of Butadiene remains stable at 15.2mmta at an average operating rate of ~78% in CY18. With more light feed crackers coming up, mainly in the US, the availability of Butadiene is expected to be limited. Global capacity of PBR is 4.5mmta in CY18 with an average utilisation rate of 78%, while global capacity of SBR is 6.7mmta with average utilisation of 68%. PBR and SBR demand are directly linked to growth in the automobile and tyre sectors.

India petrochemicals seeing strong demand

Polymer demand growth outperforms

- India is the world's fastest growing polymer market with demand rising at a five-year CAGR (2014-18) of 9.1%. It is the second largest demand hub for polymer in Asia after China.
- The Indian polymer market registered healthy growth of ~7% YoY in FY19. PE demand increased at 4% YoY (led by a 11% YoY uptick in LLDPE), driven by increasing disposable income and growth in the e-commerce sector.
- PP demand growth was at 7% YoY supported by a boost in the infrastructure and cement industries. PVC demand has been fuelled by pipe demand, both in the construction and agriculture sectors. Enhanced focus on R&D in the automobile and appliance sectors led to sustainable growth in India's PP co-polymer segment. Rising awareness and policies against single-use plastic resulted in lower demand momentum in the tubular quench (TQ) and thermoforming sectors of PP and PE.

Polyester demand growth resilient

- During FY19, the Indian polyester filaments market grew 10% YoY while the PET market grew 9%. PSF markets weakened due to a liquidity crunch, increased recycled PSF availability and a weak international price environment. PET demand firmed amidst improved downstream buying, supported by the government's decision to exclude PET from the ban on single-use plastics.
- India's elastomers sector witnessed a stable demand environment during the year, led by commercial vehicle demand (up 17.6%). Passenger vehicle demand grew at a muted 2.7%. Butadiene demand rose 15% YoY to 360ktpa during the year as against an installed capacity of 550ktpa. PBR and SBR

demand in India are estimated at 194ktpa and 330ktpa respectively in FY19 and are expected to grow at 5-7% annually in the medium term.

Organised retail – India offers massive opportunity

US$ 700bn market size

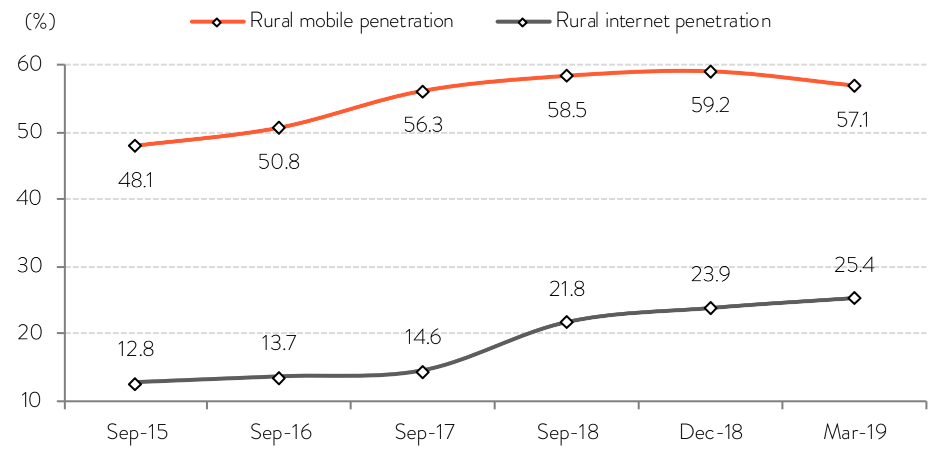
- India's retail market is estimated at ~US$ 700bn (CY17) and is expected to grow at ~12% CAGR over the next four years to ~US$ 1.1tn (by CY21). The penetration of organised retail (US$ 67bn currently) is estimated to grow from 9% to 13% over this period, a 21% CAGR to reach ~US$ 145bn.
- Food and grocery, apparel/accessories, jewellery and consumer electronics together contributed 88.8% of the organised retail market in CY17.
- The organised apparel, accessories and footwear market is estimated at ~US$ 16bn in CY17 and is expected to more than double to ~US$ 35bn by CY21. Organised retail penetration in the apparel and accessories category is ~24% and ~27% in footwear, expected to reach 37% and 31% respectively by CY21.
- The organised consumer electronics market, estimated at US$ 11bn in CY17, is projected to more than double to US$ 26bn by CY21. Organised retail penetration here is estimated at 27% and should grow to 35% by CY21.
- The market for organised food and grocery is estimated at US$ 16bn in CY17 and is expected to more than double to US$ 41bn by CY21. Organised retail penetration in this category is estimated at 3%, set to double to 6% by CY21.

Massive India potential for digital business as well

Second largest market globally

- India is the second largest smartphone market in the world after China, with ~400mn smartphone users (out of an 850mn unique user base). This provides a huge opportunity for growth.
- Nonetheless, smartphone penetration has been low, constrained by low affordability and adoption in rural areas. This should improve as device prices go down and per capita incomes increase.
- According to data from TRAI, rural mobile penetration stands at 57% while rural internet penetration is at 25% as of Mar'19, indicating that rural India remains primarily a voice market. Rural broadband penetration is even lower at 21%.

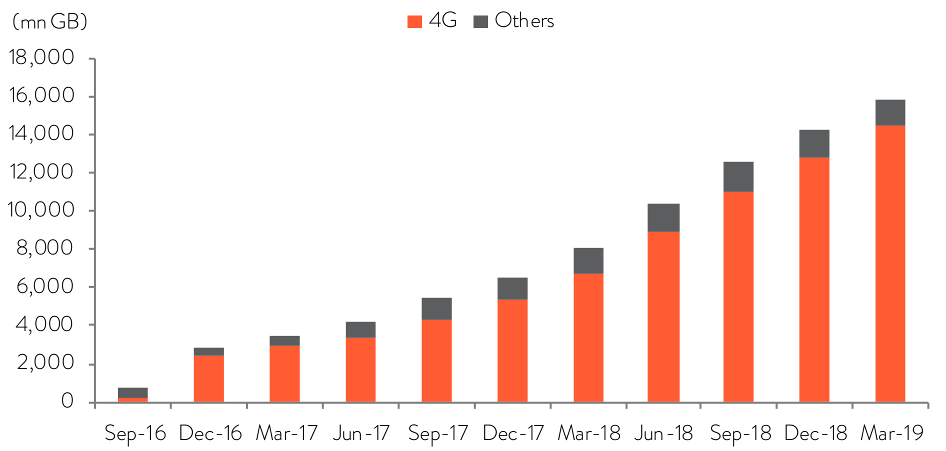
FIG 3 – RURAL PENETRATION



Source: Company, BOBCAPS Research

- India now has over 500mn mobile broadband data subscribers, buoyed by RJio's entry and subsequent adoption of its services.
- The device ecosystem too has seen a transition with 100% of the smartphones shipped into India now being 4G enabled. More than 90% of wireless data in the country is now carried on 4G networks. There has also been a surge in video usage with 70% of all data traffic on the Jio network being used for video.

FIG 4 – DOMESTIC DATA USAGE



Source: Company, BOBCAPS Research

Media and entertainment growing at robust pace

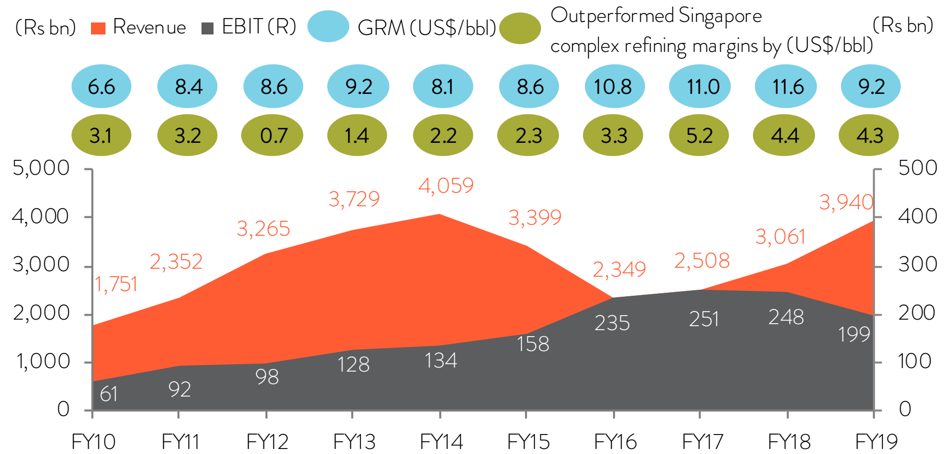
- India's media and entertainment sector grew at a robust pace in CY18 (13.4% YoY) to reach Rs 1.67tn, driven by a strong recovery following the temporary advertising revenue hiccups post implementation of GST in FY18. The industry is slated to grow at a 12% CAGR over CY18-CY21, reaching a size of Rs 2.35tn in CY21.

- Key growth drivers would be:
  - **Socioeconomic tailwinds** – increased TV penetration in rural areas
  - **Rise of digital medium** – increased mobile broadband penetration (especially in rural areas)
  - **OTT revolution** – rising popularity of video apps (such as Netflix)
  - **Telco partnerships** – digital content partnerships with telecom companies to offer discounted offerings (yielding scale advantage)
  - **Vernacular consumption** – increased popularity of local content in local languages
  - **Segmentation in content offerings**

Key business commentary

Refining & Marketing – on a steady growth path

FIG 5 – REFINING BUSINESS PERFORMANCE



Source: Company, BOBCAPS Research

Refining – long-term focus on raising oil-to-chemicals ratio

- The complexity index of RIL's Jamnagar supersite has increased 66.1% to 21.1, as per KBC (a global refinery consultant), with the start-up of Jamnagar expansion projects, including ROGC and downstream units, the paraxylene complex and petcoke gasification complex.
- Over the long term, RIL's oil-to-chemical programme would be implemented based on market outlook and price triggers for refinery fuel products, and is aimed at >70% conversion of crude refined to competitive chemical building blocks (olefins and aromatics).
- In the initial stage, the company aims to eliminate all refined products priced below crude for chemicals. Final fuel de-risking shall target elimination of gasoline, alkylate and diesel, synchronised to the global evolution of e-mobility and a transport fuel demand decline. The Jamnagar refinery product slate, at the culmination of oil-to-chemical transition, shall comprise only jet fuels and petrochemicals.

Petcoke gasification – awaiting startup

- RIL claims that all units of the gasification complex including air separation units, material handling systems, gasifier islands, syngas shift and processing facilities, sulfur recovery units, and associated utilities and offsites have been started safely. The complex is currently under stabilisation.

- There is no clarity on commercial commissioning of petcoke gasifiers (after over a year's delay beyond earlier guidance).

Market share gains in retail fuel sales

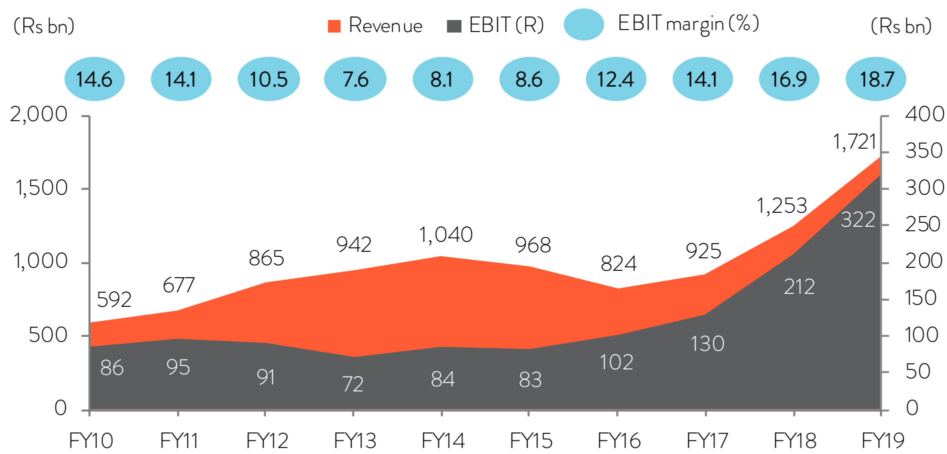
- RIL's 1,372 retail outlets cover all the key highways in the country. The company gained market share in diesel and gasoline in FY19 – registering 9.1% YoY growth in retail diesel sales and 21.8% in retail gasoline, compared to 2.6% and 8.1% for industry respectively.
- Bulk diesel volumes for the industry grew 5.1% YoY in FY19 in spite of the concerns around growing electrification (in railways). RIL, however, registered 21.7% YoY growth in bulk diesel, increasing market share to 8.5%. Non-railway business grew 34% YoY.
- RIL's ATF sales increase 9.3%; its aviation fuel station network has been expanded to 30 in FY19 and another 10 locations are planned near term.

FIG 6 – REFINERY PRODUCT SALES [MMT]

Source: BOBCAPS Research, Company

Petrochemicals – maintaining global leadership in volumes

FIG 7 – PETROCHEMICALS PERFORMANCE



Source: Company, BOBCAPS Research

- **Fifth largest PP producer globally:** RIL is the world's fifth largest producer of PP, recording its highest ever production at 2.9mmt in FY19, and maintaining 45% domestic market share. Post startup of the ROGC and downstream plants, the company became the world's 7th and 11th largest producer of LLDPE and LDPE respectively.
- **Domestic market share of 33%:** RIL maintained its leadership position in the Indian polymer market with domestic industry market share of 33%. It produced 2.1mmt of PE, which helped grow domestic PE market share to 28% and LDPE market share from 35% (before ROGC startup) to 62%. RIL's PVC production was at 0.7mmt with 23% domestic share.
- **Peak production:** Record production during the year was achieved via full utilisation of the ROGC and PX projects commissioned in FY18. RIL also completed the last leg of the ethane pipeline between Dahej and Nagothane in FY19. Ethane cracking at Dahej, Hazira and Nagothane has been streamlined and all the plants achieved their highest ever ethylene production.

FIG 8 – RIL PETROCHEMICAL PRODUCTION

Production (mmt)	FY19	FY18
PP	2.9	2.8
PE	2.1	1.4
PVC	0.7	0.7
Ethylene	3.7	2.6
POY	1.1	1.1
PSF	0.7	0.7
PET	1.2	1.1
PX	4.3	3.7
PTA	4.9	4.7
MEG	1.7	1.2
Butadiene	0.2	0.2
PBR	0.1	0.1
SBR	0.1	0.1

Source: Company, BOBCAPS Research

FIG 9 – PETROCHEMICALS PRODUCT PORTFOLIO

Name	Olefin	Polymers	Polyesters	Aromatics and Fibre Intermediates	Elastomers
Description	Unsaturated open chain hydrocarbon	Large molecule with repeating subunits	Synthetic fibres	Raw material for polyester and textile industries, industrial chemicals	Polymers with rubber-like elasticity
RIL portfolio	Ethylene, Propylene, Butadiene	Polyethylene (PE), Polypropylene (PP), Polyvinyl chloride (PVC)	Polyester Filament Yarns (PFY), Polyester Staple Fibres (PSF), Polyethylene Terephthalate (PET)	Purified Terephthalic Acid (PTA), Monoethylene Glycol (MEG), Paraxylene (PX), Benzene (BZ)	Poly-Butadiene Rubber (PBR), Styrene Butadiene Rubber (SBR), Butyl Rubber

Name	Olefin	Polymers	Polyesters	Aromatics and Fibre Intermediates	Elastomers
Applications/ Associated Industries	Industrial Chemicals, Polymers	Construction, Agriculture, Automobile, Consumer Goods	Textile/Apparel, Beverages	Polyester & Textiles, Industrial Chemicals	Tyres, Automobiles
Capacities/ Global Market Position	Feedstock for petrochemical products Ethlyene: 3.6mmta	PE: 2.3 mmta/11th PP: 2.9mmta/5th PVC: 0.7mmta/16th	PFY and PSF: 2.1mmta PET: 1.1mmta/8th	PTA: 4.9mmta/4th MEG: 1.5mmta/6th PX: 4.8mmta/1st	PBR: 120kta SBR: 150kta

Source: Company, BOBCAPS Research

Oil & Gas – pinning hopes on KG development projects

- **Existing fields in decline:** The declining trend in RIL's domestic production continues, with a fall of 25.4% YoY to 58.9bcfe in FY19. Its US shale volumes too continued to shrink, down 32.4% YoY to 94.5bcfe. Production from CBM fields in Sohagpur, however, remained steady (~0.9mmscmd). RIL's aggregate capital investments across shale JVs declined to US$ 159mn in CY18.

- **KG development picks up:** RIL's E&P business depends on three ultra-deep/deepwater, high pressure high temperature (HPHT) projects: R-Cluster, Satellite-Cluster and D55 (MJ) fields. First gas from R-Cluster is expected by mid-2020 followed by the Satellite-Cluster (2021) and MJ fields (2022) over the next two years. These projects are estimated to contribute up to ~18mmscmd to RIL's gas production

- **Shale JVs drag on:** Production continued to decline at both the Pioneer and Chevron JVs owing to limited drilling and fracking activities, affected by low gas prices. As prices picked up in H2CY18, some drilling activities commenced at both JVs. The two JVs drilled 28 wells and put 11 wells on production. Pioneer JV gross production was down 21% YoY at 93bcfe in CY18 (RIL's share at 38.7bcfe). The share of liquids declined slightly from 67.0% to 66.5% in CY18. Chevron JV production fell 17% YoY to 131bcfe (RIL's share at 45.2bcfe).

- **CBM – stable production:** CBM production from the Shahdol block remained steady at ~0.9mmscmd in FY19. Development activities at the SP (West)–CBM–2001/1 Phase II and SP (East)–CBM–2001/1 blocks are currently underway. Phase II development activities are in the advanced stage and are expected to come online in the second half of FY20 (will add ~0.4mmscmd of production).

FIG 10 – E&P PORTFOLIO

Block	Country	Partner	RIL stake (%)	JV Acreage (acres)	Status
Conventional					
Domestic					
KG-DWN-98/3	India	NIKO - 10% (see Note 1) BP - 30%	60	316216	One producing field Field Development Plan (FDP) approved for R-Cluster, Satellite-Cluster and MJ, field development activities underway
Panna Mukta	India	BG - 30% ONGC - 40%	30	298256	Producing fields. Production Sharing Contract (PSC) to expire in Dec'19
Mid and South Tapti	India	BG - 30% ONGC - 40%	30	363492	Decommissioning and site restoration activities underway
NEC-OSN-97/2	India	BP - 33.33%	66.67	205250	FDP submitted. Under review by Indian government
GS-OSN-2000/1	India	Hardy - 10%	90	148263	Declaration of Commerciality (DOC) reviewed
International					
Block 39	Peru	Perenco - 55% PetroVietnam - 35%	10	213746	RIL has withdrawn from the PSC. Assignment under approval with government of Peru
Unconventional					
Domestic					
CBM					
SP(East)-CBM-2001/1	India		100	122317	Development ongoing
SP(West)-CBM-2001/1	India		100	123552	Production started
International					
Shale					
Pioneer JV	USA	Pioneer - 46.4% Newpek - 8.6%	45	149128	Producing
Chevron JV	USA	Chevron - 60%	40	218104	Producing

Source: Company, BOBCAPS Research | Note: 1: Post default on the cash call, RIL-BP issued a default notice to NIKO on 16 Oct 2018. Since the dues were not cleared by NIKO, RIL-BP has issued notice to NIKO to withdraw from the Joint Operating Agreement (JOA) and PSC and assign their Participating Interest (PI) to RIL-BP. NIKO has served a notice of arbitration in response to the withdrawal notice. The arbitration tribunal has been constituted and proceedings are to commence.

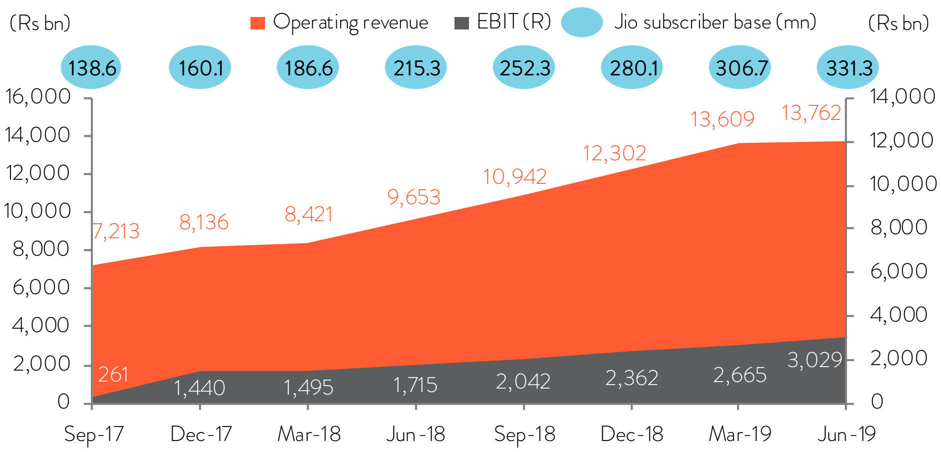
FIG 11 – E&P PRODUCTION

	Unit	FY19	FY18
Domestic production			
KG-D6			
Oil	mmbbl	0.26	0.75
Gas	bcf	36.4	67.9
Condensate	mmbbl	0.03	0.05
Panna-Mukta			
Oil	mmbbl	4.1	5.4
Gas	bcf	51.1	62.1
CBM			
Gas	bcf	12.6	7.1
Shale gas (North America)		**CY18**	**CY17**
Gas	bcf	73.8	111.8
Condensate	mmbbl	3.5	4.7

Source: Company, BOBCAPS Research

RJio – significant infrastructure advantage

FIG 12 – RJIO PERFORMANCE



Source: Company, BOBCAPS Research

Embarks on deeper infrastructure penetration

- RJio has built the country's largest all-IP data network on 4G-LTE technology. The future-ready (5G and beyond) network has been built as a mobile video network and provides VoLTE.
- The company's network infrastructure is on track to reach 99% population coverage in India. It is also augmenting capacity by adding new sites, fibre backhaul and small cells.
- RJio's wireless network now carries over 3 Exabytes of data and nearly 250 bn minutes of voice per month. Across the 335mn subscriber base, this translates to a per capita usage of ~11GB and 823 minutes per month.
- The company's network is designed to seamlessly work across 800MHz, 1800MHz and 2300MHz frequency bands. The combined spectrum footprint of 1,108MHz (uplink + downlink) across the three bands in 22 circles provides significant network capacity and deep in-building coverage. Average life of the spectrum portfolio is over 14 years with all spectrum liberalised, which can be used to roll out any future technology.

Wireline the next big future – targeting 50mn homes

- India currently has only 19mn households (6.3% penetration) with fixed broadband connections, including less than 2% fibre connected households. RJio has set out a target to connect 50mn homes across the country with its GigaFiber services.

- GigaFiber (FTTH) service offerings would include home broadband, entertainment and smart home IoT solutions. To help achieve its connectivity targets, RJio has made strategic investments in Hathway Cable and Datacom and DEN Networks.

Content partnerships to augment service offerings

RJio has entered into a series of content tie-ups in FY19; these include:

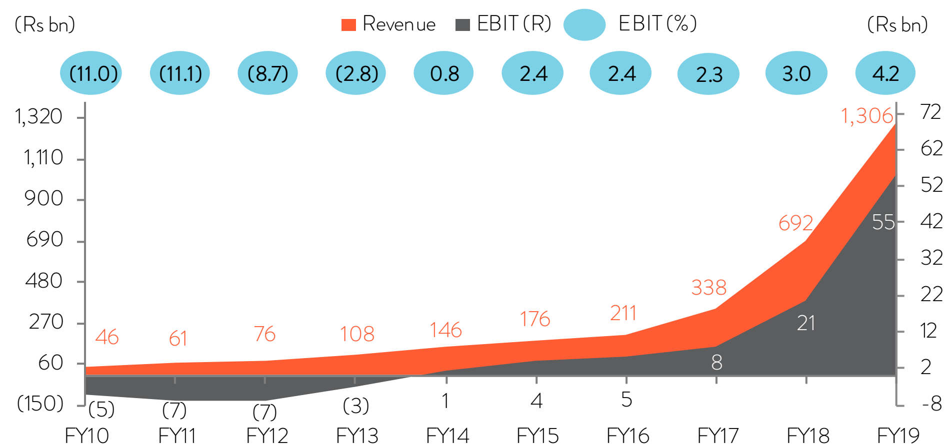
- Partnership with Disney to offer content from Disney, Pixar, Marvel and Lucas Films on the JioCinema app
- Agreement with Star India for a period of five years for the telecast of all BCCI Cricket matches (T20, One Day Internationals, International Test Matches, BCCI Domestic Tournaments) on the JioTV platform
- JioMusic and Saavn brought together into a single application during the year, with a library of over 45mn tracks in 16 languages

Retail – advantage of scale

First to cross Rs 1tn turnover

- Reliance Retail became the first retailer in India to cross the Rs 1tn turnover milestone (in FY19) and is now ranked 94th in Deloitte's Global Powers of Retailing 2019 list. The business has achieved a revenue CAGR of 55% and EBITDA CAGR of 76% over the last five years, scaling up its store network to ~10,600 over 23mn sq feet.

FIG 13 – RETAIL SEGMENT PERFORMANCE



Source: Company, BOBCAPS Research

India's largest in many categories

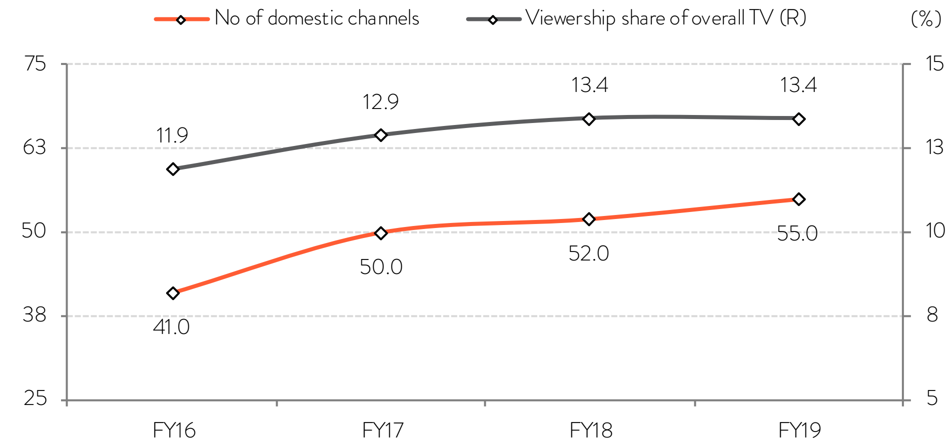
- Reliance Retail is the largest fashion retailer in India with 1,769 stores across 350 cities. 'Trends' stores, part of the fashion retail segment, source their own fabric and have designs manufactured through a wide network of vendor partners across India and international markets. In-store brands contribute >70% to Trends' revenues.
- Reliance Brands, with a portfolio of over 40 international brands, operates the largest portfolio of premium and luxury brands in India, through the largest network of over 400 stores.
- Reliance Digital is the largest consumer electronics specialty retail chain in India with 357 stores across 166 cities.
- Reliance Retail works as the master distributor for Jio connectivity services. The distribution network comprises over 7,600 Jio stores, which in turn work with over 1mn retailers across the country for new customer acquisition and recharges.
- Retail business grocery stores operate on an everyday low-price strategy and promise 365-day savings with a minimum 5% discount on the maximum retail price (MRP) of products.
- The business operates 516 owned Petro Retail outlets. These are spread across India with a focus on serving highway corridors between major cities.
- Reliance Retail has formed several long-term strategic partnerships which add significant value to its offerings across all consumption baskets.
- Reliance Jewels has opened over 80 stores during FY19 and now operates 143 stores or Store-in-Stores (SIS) pan India.

Other businesses

Media and entertainment

- Network18 is RIL's flagship investment in the media and entertainment sector, with footprints across television broadcasting, movie production and distribution, digital content and commerce, print magazines, mobile content and allied media services.

FIG 14 – MEDIA AND ENTERTAINMENT



Source: Company, BOBCAPS Research

Real estate

- RIL through its wholly-owned subsidiary has acquired a majority stake in Indian Film Combine, which is building a drive-in theatre, hotel, retail mall and clubhouse at Bandra Kurla Complex (BKC) in Mumbai.
- The company is also constructing a convention centre, performing arts theatre, retail mall, office space and clubhouse at BKC.
- Both these projects are aimed at making BKC the most attractive retail, entertainment and cultural destination in Mumbai along with a much-needed world-class convention centre.

Valuation methodology

RIL is trading at 12.4x FY21E EPS, rerating from 9-10x levels over the last one year. Considering the uncertainty around cyclical business earnings that still constitute ~64% of total EBITDA, there are limited gains to be made from earnings traction in the retail business.

We maintain ADD with a Sep'21 SOTP-based target price of Rs 1,335, arrived at as follows:

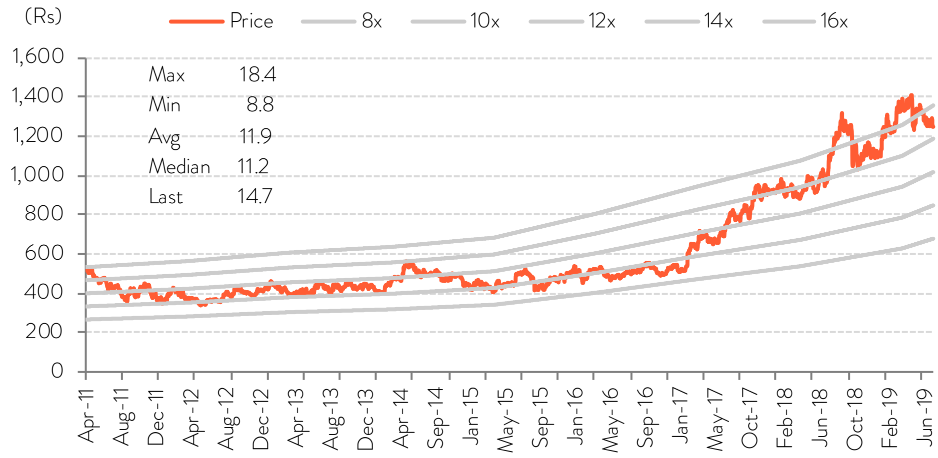
- **Cyclical businesses:** We value the refining (Rs 368/sh) and petrochemical (Rs 497/sh) businesses at 7x and 8x Sep'21E EBITDA respectively (at par with global peers).
- **RJio:** We value RJio at Rs 548/sh based on 6.5x Sep'21E EBITDA of Rs 500bn.;
- **Retail:** The retail business is valued at 17.5x Sep'21E EBITDA.
- **E&P:** We build in the DCF value of the KG-D6 block and development of oil & gas reserves in the R-series block. The PMT field is valued at 7x Sep'21E EV/EBITDA and the shale business is assessed on residual reserves at US$ 2/boe.

FIG 15 – SOTP VALUATION SUMMARY

Business	Fair Value		Value/share	Comments
	(US$ bn)	(Rs bn)	(Rs)	
Refining	34	2,178	368	7x Sep'21E EBITDA
Petrochem	46	2,948	497	8x Sep'21E EBITDA
Cyclical business value	**80**	**5,126**	**865**	7.6x Sep'21E EBITDA
E&P business	2	120	20	Includes KG-D6, shale and PMT
Jio	**50**	**3,249**	**548**	6.5x Sep'21E EBITDA
Reliance Retail	**44**	**2,810**	**474**	17.5x Sep'21E EBITDA
Enterprise value	**175**	**11,307**	**1,908**	
Net Debt	53	3,407	575	Consol. net debt incl. current liabilities
Equity value	**123**	**7,900**	**1,335**	**~13.3x FY21E EPS**

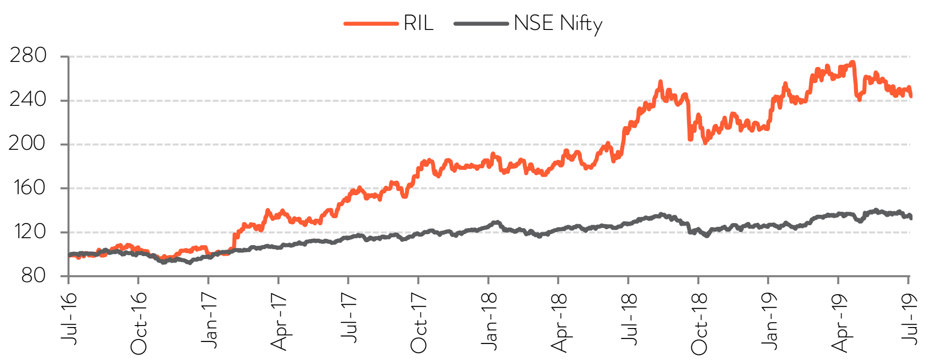
Source: BOBCAPS Research

FIG 16 – ROLLING ONE-YEAR FORWARD P/E BAND



Source: BOBCAPS Research, Company

FIG 17 – RELATIVE STOCK PERFORMANCE



Source: NSE

Key risks

- **Global slowdown:** RIL's valuations are highly sensitive to GRM and petrochemical crack movements. A slowdown in global economies can affect these spreads and hurt our valuation outlook.
- **Lower operating margins in RJio:** We factor in an aggressive ramp-up in RJio's subscriber numbers (>350mn) and ARPUs (~Rs 170/mth) by FY21. Operating margins could trend well below our estimates if a pricing war among telecom operators sustains beyond FY19. The telecom business also carries regulatory risks pertaining to tariffs and spectrum usage that could hamper RJio's earnings outlook.
- **Lower growth in retail business revenues:** RIL has been significantly outperforming estimates on retail business revenue growth. An economic slowdown could affect the outlook on retail revenues and hurt valuations.

FINANCIALS

Income Statement

Y/E 31 Mar (Rs mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Total revenue	**4,082,650**	**5,810,200**	**5,814,664**	**6,221,680**	**6,183,332**
EBITDA	641,760	839,180	943,323	1,266,977	1,555,768
EBIT	474,700	629,840	667,118	937,107	1,184,957
Net interest income/(expenses)	(80,520)	(164,950)	(195,252)	(247,195)	(255,595)
Other income/(expenses)	88,620	86,350	138,365	110,512	108,611
Exceptional items	10,870	0	0	0	0
EBT	482,800	551,240	610,231	800,424	1,037,973
Income taxes	(133,460)	(153,900)	(154,999)	(213,577)	(279,661)
Min. int./Inc. from associates	590	1,030	0	0	0
Reported net profit	**360,800**	**398,370**	**455,232**	**586,847**	**758,312**
Adjusted net profit	**352,869**	**398,370**	**455,232**	**586,847**	**758,312**

Balance Sheet

Y/E 31 Mar (Rs mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Accounts payables	1,068,610	1,083,090	968,357	875,544	878,275
Other current liabilities	1,688,780	1,442,530	1,442,530	1,442,530	1,442,530
Provisions	41,380	41,820	54,249	59,898	66,096
Debt funds	1,816,040	2,719,420	2,769,420	2,969,420	2,969,420
Other liabilities	498,280	687,620	696,893	707,132	718,431
Equity capital	59,220	59,260	59,260	59,260	59,260
Reserves & surplus	2,871,300	3,813,090	4,214,768	4,757,366	5,465,780
Shareholders' fund	2,930,520	3,872,350	4,274,028	4,816,626	5,525,040
Total liabilities and equities	**8,079,000**	**9,929,630**	**10,298,278**	**10,973,950**	**11,712,592**
Cash and cash eq.	42,550	75,120	95,502	95,785	105,705
Accounts receivables	175,550	300,890	308,094	293,385	291,856
Inventories	608,370	675,610	618,213	571,782	573,148
Other current assets	514,840	744,760	817,678	779,382	775,821
Investments	828,620	2,354,880	1,954,880	1,954,880	1,954,880
Net fixed assets	3,980,720	3,863,770	5,023,269	5,780,896	6,503,342
CWIP	1,870,220	1,794,630	1,350,671	1,357,871	1,357,871
Intangible assets	58,130	119,970	129,970	139,970	149,970
Total assets	**8,079,000**	**9,929,630**	**10,298,278**	**10,973,950**	**11,712,592**

Source: Company, BOBCAPS Research

Cash Flows

Y/E 31 Mar (Rs mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Net income + Depreciation	507,120	605,860	731,437	916,717	1,129,122
Changes in working capital	598,380	(653,830)	(125,029)	12,272	12,653
Other operating cash flows	(70,660)	116,700	(129,092)	(100,273)	(97,313)
Cash flow from operations	**1,034,840**	**68,730**	**477,317**	**828,716**	**1,044,463**
Capital expenditures	(812,550)	(14,950)	(1,000,445)	(1,094,697)	(1,093,257)
Change in investments	13,010	(1,331,060)	410,000	10,000	10,000
Other investing cash flows	85,190	(47,010)	138,365	110,512	108,611
Cash flow from investing	**(714,350)**	**(1,393,020)**	**(452,080)**	**(974,185)**	**(974,645)**
Equities issued/Others	570	40	0	0	0
Debt raised/repaid	(240,930)	917,090	50,000	200,000	0
Dividends paid	(39,160)	(42,810)	(54,854)	(54,249)	(59,898)
Other financing cash flows	(28,650)	482,540	0	0	0
Cash flow from financing	**(308,170)**	**1,356,860**	**(4,854)**	**145,751**	**(59,898)**
Changes in cash and cash eq.	**12,320**	**32,570**	**20,382**	**282**	**9,920**
Closing cash and cash eq.	**42,550**	**75,120**	**95,502**	**95,785**	**105,705**

Per Share

Y/E 31 Mar (Rs)	FY18A	FY19A	FY20E	FY21E	FY22E
Reported EPS	60.9	67.2	76.8	99.0	128.0
Adjusted EPS	59.6	67.2	76.8	99.0	128.0
Dividend per share	6.0	7.7	7.6	8.4	9.3
Book value per share	494.9	653.5	721.2	812.8	932.3

Valuations Ratios

Y/E 31 Mar (x)	FY18A	FY19A	FY20E	FY21E	FY22E
EV/Sales	2.3	1.5	1.7	1.6	1.6
EV/EBITDA	14.3	10.7	10.4	7.8	6.5
Adjusted P/E	20.3	18.0	15.8	12.2	9.5
P/BV	2.4	1.9	1.7	1.5	1.3

DuPont Analysis

Y/E 31 Mar (%)	FY18A	FY19A	FY20E	FY21E	FY22E
Tax burden (Net profit/PBT)	71.5	72.3	74.6	73.3	73.1
Interest burden (PBT/EBIT)	104.0	87.5	91.5	85.4	87.6
EBIT margin (EBIT/Revenue)	11.6	10.8	11.5	15.1	19.2
Asset turnover (Revenue/Avg TA)	53.7	64.5	57.5	58.5	54.5
Leverage (Avg TA/Avg Equity)	2.7	2.6	2.5	2.3	2.2
Adjusted ROAE	12.7	11.7	11.2	12.9	14.7

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

Ratio Analysis

Y/E 31 Mar	FY18A	FY19A	FY20E	FY21E	FY22E
YoY growth (%)					
Revenue	33.7	42.3	0.1	7.0	(0.6)
EBITDA	38.9	30.8	12.4	34.3	22.8
Adjusted EPS	17.4	12.8	14.3	28.9	29.2
Profitability & Return ratios (%)					
EBITDA margin	15.7	14.4	16.2	20.4	25.2
EBIT margin	11.6	10.8	11.5	15.1	19.2
Adjusted profit margin	8.6	6.9	7.8	9.4	12.3
Adjusted ROAE	12.7	11.7	11.2	12.9	14.7
ROCE	7.3	7.9	7.2	9.1	10.5
Working capital days (days)					
Receivables	12	15	19	18	17
Inventory	73	58	62	63	61
Payables	97	79	77	68	69
Ratios (x)					
Gross asset turnover	0.9	1.0	0.9	0.8	0.7
Current ratio	0.4	0.6	0.6	0.6	0.7
Net interest coverage ratio	5.9	3.8	3.4	3.8	4.6
Adjusted debt/equity	0.6	0.7	0.6	0.6	0.5

Source: Company, BOBCAPS Research

Disclaimer

Recommendations and Absolute returns (%) over 12 months

BUY – Expected return >+15%

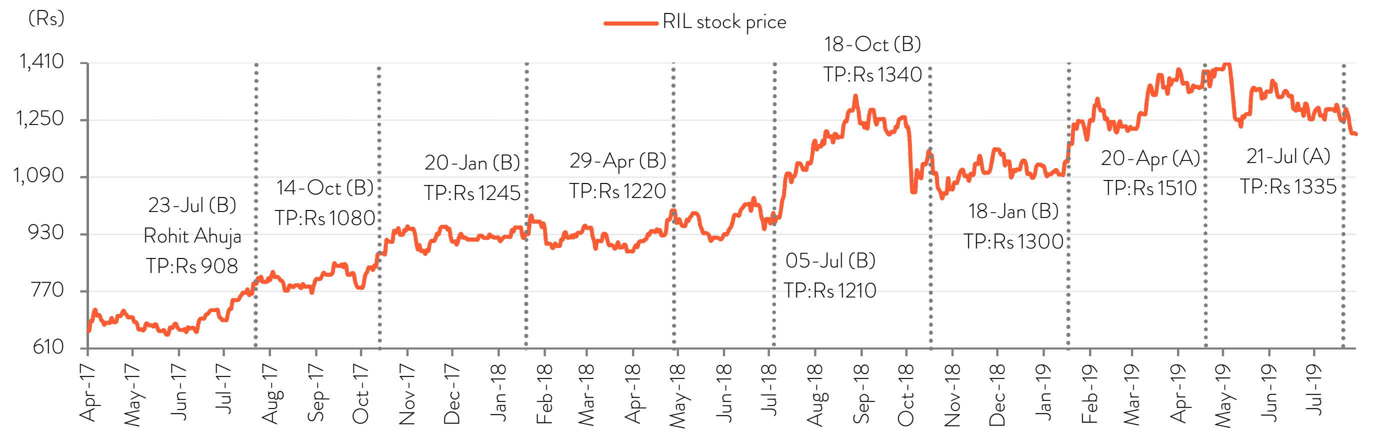
ADD – Expected return from >+5% to +15%

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)

HISTORICAL RATINGS AND TARGET PRICE: RELIANCE INDUSTRIES (RIL IN)



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

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