

BUY

TP: Rs 1,550 | ▲ 14%

RELIANCE INDUSTRIES

Oil & Gas

22 April 2020

RJio creates India profile for Facebook

Reliance Industries' (RIL) deleveraging plans appears back on track with a 9.99% stake sale in RJio to Facebook for US\$ 5.8bn (valuing RJio at ~US\$ 61bn). Key highlights: (a) the deal values RJio at 8.7x FY22E EBITDA (Rs 780/sh vs. our estimate of US\$ 42bn or Rs 562/sh), (b) it entails partnership between WhatsApp, JioMart and Retail for spearheading RIL's new initiative to connect small merchants and 'kirana' stores. We raise RIL's SOTP value to Rs 1,550 (vs. Rs 1,500) on higher value for RJio (partly neutralised by higher debt as Aramco deal could fall through).

Rohit Ahuja | Harleen Manglani

research@bobcaps.in

Facebook deal carries multiple synergies: (a) **RJio:** Access to ~400mn Jio subscribers and Jio platforms could enhance the reach of Facebook's various apps; (b) **Retail:** JV between the JioMart platform and WhatsApp for facilitating transactions with small merchants and grocery ('kirana') stores will bolster RIL's retail reach across the unorganised grocery space; (c) **WhatsApp Pay:** Facebook's attempt to launch WhatsApp Pay had faced regulatory hurdles. Its JV with Reliance Retail could provide the much-needed boost for potential transactions and help it grab market share from the likes of PayTM and Google Pay.

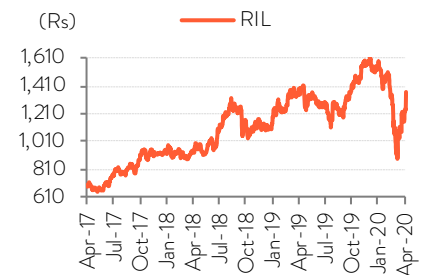
Enhanced valuation benchmark for RJio: RJio's rapid subscriber addition over the last 3.5 years has now yielded dividends. Deal valuation at 8.7x FY22E EBITDA optically appears well above our estimates as it clearly factors in strong earnings growth potential from parallel offerings as well (ecommerce, media and content, among others). We raise RJio's valuation to match this transaction.

Maintain BUY: RIL's deleveraging plans are back on track. But with the recent crash in oil prices jeopardising the Aramco deal, we lower our debt reduction estimates to US\$ 6bn (from US\$ 18bn), restricting the rise in our SOTP value.

Ticker/Price	RIL IN/Rs 1,364
Market cap	US\$ 113.0bn
Shares o/s	6,339mn
3M ADV	US\$ 235.2mn
52wk high/low	Rs 1,618/Rs 876
Promoter/FPI/DII	50%/24%/26%

Source: NSE

STOCK PERFORMANCE



Source: NSE

KEY FINANCIALS

Y/E 31 Mar	FY18A	FY19A	FY20E	FY21E	FY22E
Total revenue (Rs mn)	4,082,650	5,810,200	5,268,941	3,996,719	4,186,967
EBITDA (Rs mn)	641,760	839,180	894,646	1,092,380	1,358,263
Adj. net profit (Rs mn)	352,869	398,370	422,150	508,442	729,607
Adj. EPS (Rs)	59.6	67.2	66.6	80.2	115.1
Adj. EPS growth (%)	17.4	12.8	(0.9)	20.4	43.5
Adj. ROAE (%)	12.7	11.7	10.4	11.3	14.3
Adj. P/E (x)	22.9	20.3	20.5	17.0	11.8
EV/EBITDA (x)	16.4	12.6	12.1	10.5	8.2

Source: Company, BOBCAPS Research

BOB Capital Markets Ltd is a wholly owned subsidiary of Bank of Baroda

Important disclosures, including any required research certifications, are provided at the end of this report.



Valuation methodology

RIL is trading at 17x/11.8x FY21E/FY22E EPS which looks undemanding considering its earnings growth traction and positive outlook on balance sheet deleveraging. Valuations could rerate to higher multiples as the contribution of cyclical businesses to overall EBITDA is expected to shrink to <50% by FY22.

We raise RIL's SOTP-based target price to Rs 1,550 (from Rs 1,500) on higher value for RJio, albeit partly neutralised by higher debt assumptions as the Aramco deal could fall through owing to the recent crash in oil prices (we thus lower our debt reduction estimates to US\$ 6bn from US\$ 18bn). Maintain BUY.

FIG 1 – REVISED ESTIMATES

Consolidated (Rs mn)	FY21E			FY22E		
	Old	New	Var (%)	Old	New	Var (%)
Revenue	3,996,719	3,996,719	-	4,186,967	4,186,967	-
EBITDA	1,092,380	1,092,380	-	1,358,263	1,358,263	-
EBITDA margin (%)	27.3	27.3	-	32.4	32.4	-
PAT	536,000	508,442	(5.1)	745,927	729,607	(2.2)
PAT margin (%)	13.4	12.7	-	17.8	17.4	-
EPS (Rs)	84.6	80.2	(5.1)	117.7	115.1	(2.2)

Source: BOBCAPS Research

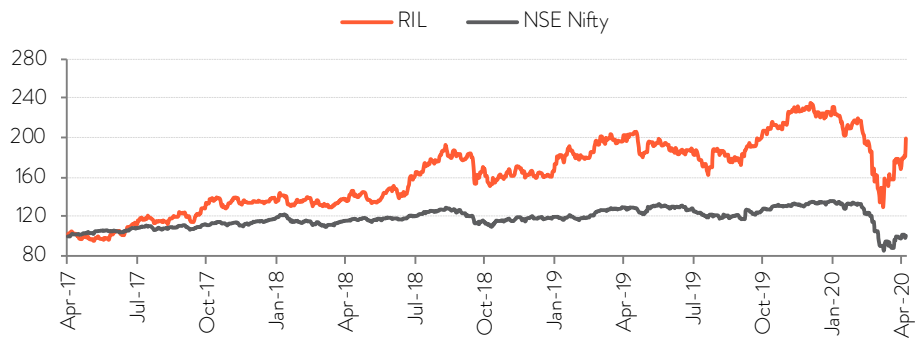
Our SOTP valuation is outlined below:

- **Cyclicals:** Refining (Rs 309/sh) and petrochemical (Rs 297/sh) businesses valued at 6x FY22E EBITDA respectively (at par with global peers)
- **RJio:** Valued at Rs 770/sh (from Rs 562) based on 8.5x FY22E EBITDA of Rs 541bn. We estimate FY21/FY22 ARPUs at Rs 148/Rs 160
- **Retail:** Valued at 20x FY22E EBITDA

FIG 2 – SOTP VALUATION SUMMARY

Business	Fair Value		Value/share (Rs)	Comments
	(US\$ bn)	(Rs bn)		
Refining	24	1,829	309	6x FY22E EBITDA
Petrochem	23	1,762	297	6x FY22E EBITDA
Cyclical business value	47	5,480	606	
E&P business	1	60	10	Includes KG-D6, shale and PMT
Jio	60	4,600	770	8.5x FY22E EBITDA
Reliance Retail	54	4,133	700	20x FY22E EBITDA
Enterprise value	162	12,338	2,085	
Net Debt	41	3,144	531	Consolidated net debt
Equity value	121	9,195	1,550	13.5x FY22E EPS

Source: BOBCAPS Research

FIG 3 – RELATIVE STOCK PERFORMANCE

Source: NSE

Key risks

- Global slowdown:** RIL's valuations are highly sensitive to GRM and petrochemical crack movements. Covid19 pandemic has already led to Singapore GRMs being currently negative, while petrochemical cracks being lower. A longer than anticipated shutdown in global economies can hurt our valuation outlook.
- Lower operating margins in RJio:** We factor in aggressive ramp-up in RJio's subscriber numbers (>500mn) and ARPUs (~Rs 160/mth) by FY22. Operating margins could trend well below our estimates if the pricing war among telecom operators resumes. The telecom business also carries regulatory risks pertaining to tariffs and spectrum usage that could hamper RJio's earnings outlook.
- Lower growth in retail revenues:** RIL has been significantly outperforming estimates on retail business revenue growth. The 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	5,268,941	3,996,719	4,186,967
EBITDA	641,760	839,180	894,646	1,092,380	1,358,263
Depreciation	(167,060)	(209,340)	(260,018)	(307,057)	(342,365)
EBIT	474,700	629,840	634,628	785,324	1,015,898
Net interest income/(expenses)	(80,520)	(164,950)	(216,266)	(245,554)	(245,554)
Other income/(expenses)	88,620	86,350	138,365	136,283	190,548
Exceptional items	10,870	0	0	0	0
EBT	482,800	551,240	556,727	676,053	960,893
Income taxes	(133,460)	(153,900)	(134,577)	(167,611)	(231,286)
Min. int./Inc. from associates	590	1,030	0	0	0
Reported net profit	360,800	398,370	422,150	508,442	729,607
Adjusted net profit	352,869	398,370	422,150	508,442	729,607

Balance Sheet

Y/E 31 Mar (Rs mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Accounts payables	1,068,610	1,083,090	1,129,084	1,485,000	1,412,663
Other current liabilities	1,688,780	1,442,530	1,442,530	1,442,530	1,442,530
Provisions	41,380	41,820	46,659	41,912	47,723
Debt funds	1,816,040	2,719,420	3,069,420	3,069,420	3,069,420
Other liabilities	498,280	687,620	699,746	714,467	735,711
Equity capital	59,220	59,260	63,390	63,390	63,390
Reserves & surplus	2,871,300	3,813,090	4,191,686	4,673,468	5,381,164
Shareholders' fund	2,930,520	3,872,350	4,255,076	4,736,858	5,444,554
Total liabilities and equities	8,079,000	9,929,630	10,725,314	11,572,986	12,235,401
Cash and cash eq.	42,550	75,120	45,229	997,595	1,277,150
Accounts receivables	175,550	300,890	322,283	353,428	339,343
Inventories	608,370	675,610	698,619	876,672	840,484
Other current assets	514,840	744,760	854,207	935,475	898,354
Investments	828,620	2,354,880	2,354,880	2,354,880	2,054,880
Net fixed assets	3,980,720	3,863,770	4,969,456	4,549,896	5,306,548
CWIP	1,870,220	1,794,630	1,350,671	1,365,071	1,368,671
Intangible assets	58,130	119,970	129,970	139,970	149,970
Total assets	8,079,000	9,929,630	10,725,314	11,572,987	12,235,401

Source: Company, BOBCAPS Research

Cash Flows

Y/E 31 Mar (Rs mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Net income + Depreciation	507,120	605,860	682,168	815,498	1,071,972
Changes in working capital	598,380	(653,830)	(103,016)	60,702	20,868
Other operating cash flows	(70,660)	116,700	(126,239)	(121,561)	(169,304)
Cash flow from operations	1,034,840	68,730	452,913	754,640	923,536
Capital expenditures	(812,550)	(14,950)	(930,445)	98,103	(1,102,617)
Change in investments	13,010	(1,331,060)	10,000	10,000	10,000
Other investing cash flows	85,190	(47,010)	138,365	136,283	490,548
Cash flow from investing	(714,350)	(1,393,020)	(782,080)	244,386	(602,068)
Equities issued/Others	570	40	4,130	0	0
Debt raised/repaid	(240,930)	917,090	350,000	0	0
Dividends paid	(39,160)	(42,810)	(54,854)	(46,659)	(41,912)
Other financing cash flows	(28,650)	482,540	0	0	0
Cash flow from financing	(308,170)	1,356,860	299,276	(46,659)	(41,912)
Changes in cash and cash eq.	12,320	32,570	(29,891)	952,366	279,556
Closing cash and cash eq.	42,550	75,120	45,229	997,595	1,277,150

Per Share

Y/E 31 Mar (Rs)	FY18A	FY19A	FY20E	FY21E	FY22E
Reported EPS	60.9	67.2	66.6	80.2	115.1
Adjusted EPS	59.6	67.2	66.6	80.2	115.1
Dividend per share	6.0	7.7	6.1	5.5	6.3
Book value per share	494.9	653.5	671.3	747.3	858.9

Valuations Ratios

Y/E 31 Mar (x)	FY18A	FY19A	FY20E	FY21E	FY22E
EV/Sales	2.6	1.8	2.1	2.9	2.7
EV/EBITDA	16.4	12.6	12.1	10.5	8.2
Adjusted P/E	22.9	20.3	20.5	17.0	11.8
P/BV	2.8	2.1	2.0	1.8	1.6

DuPont Analysis

Y/E 31 Mar (%)	FY18A	FY19A	FY20E	FY21E	FY22E
Tax burden (Net profit/PBT)	71.5	72.3	75.8	75.2	75.9
Interest burden (PBT/EBIT)	104.0	87.5	87.7	86.1	94.6
EBIT margin (EBIT/Revenue)	11.6	10.8	12.0	19.6	24.3
Asset turnover (Revenue/Avg TA)	53.7	64.5	51.0	35.8	35.2
Leverage (Avg TA/Avg Equity)	2.7	2.6	2.5	2.5	2.3
Adjusted ROAE	12.7	11.7	10.4	11.3	14.3

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	(9.3)	(24.1)	4.8
EBITDA	38.9	30.8	6.6	22.1	24.3
Adjusted EPS	17.4	12.8	(0.9)	20.4	43.5
Profitability & Return ratios (%)					
EBITDA margin	15.7	14.4	17.0	27.3	32.4
EBIT margin	11.6	10.8	12.0	19.6	24.3
Adjusted profit margin	8.6	6.9	8.0	12.7	17.4
Adjusted ROAE	12.7	11.7	10.4	11.3	14.3
ROCE	7.3	7.9	6.8	7.7	9.4
Working capital days (days)					
Receivables	12	15	22	31	30
Inventory	73	58	59	55	62
Payables	97	79	92	164	187
Ratios (x)					
Gross asset turnover	0.9	1.0	0.8	0.6	0.5
Current ratio	0.4	0.6	0.6	0.9	0.9
Net interest coverage ratio	5.9	3.8	2.9	3.2	4.1
Adjusted debt/equity	0.6	0.7	0.7	0.4	0.3

Source: Company, BOBCAPS Research

Disclaimer

Recommendations and Absolute returns (%) over 12 months

BUY – Expected return >+15%

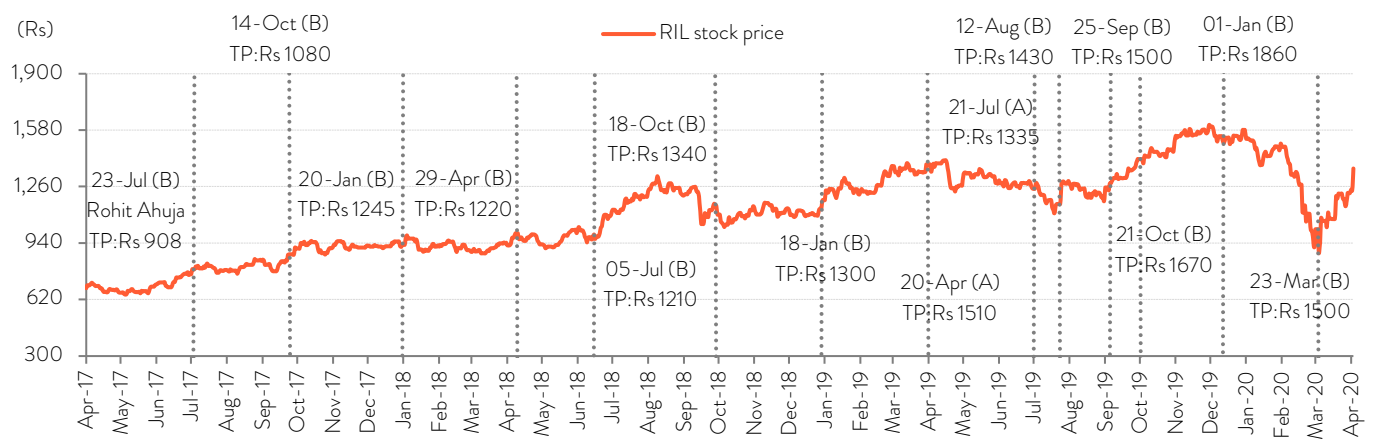
ADD – Expected return from >+5% to +15%

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

Rating distribution

As of 31 March 2020, out of 91 rated stocks in the BOB Capital Markets Limited (BOBCAPS) coverage universe, 54 have BUY ratings, 20 have ADD ratings, 7 are rated REDUCE, 9 are rated SELL and 1 is UNDER REVIEW. None of these companies have been investment banking clients in the last 12 months.

Analyst certification

The research analyst(s) authoring this report hereby certifies that (1) all of the views expressed in this research report accurately reflect his/her personal views about the subject company or companies and its or their securities, and (2) no part of his/her compensation was, is, or will be, directly or indirectly, related to the specific recommendation(s) or view(s) in this report. Analysts are not registered as research analysts by FINRA and are not associated persons of BOBCAPS.

General disclaimers

BOBCAPS is engaged in the business of Institutional Stock Broking and Investment Banking. BOBCAPS is a member of the National Stock Exchange of India Limited and BSE Limited and is also a SEBI-registered Category I Merchant Banker. BOBCAPS is a wholly owned subsidiary of Bank of Baroda which has its various subsidiaries engaged in the businesses of stock broking, lending, asset management, life insurance, health insurance and wealth management, among others.

BOBCAPS's activities have neither been suspended nor has it defaulted with any stock exchange authority with whom it has been registered in the last five years. BOBCAPS has not been debarred from doing business by any stock exchange or SEBI or any other authority. No disciplinary action has been taken by any regulatory authority against BOBCAPS affecting its equity research analysis activities.

BOBCAPS has obtained registration as a Research Entity under SEBI (Research Analysts) Regulations, 2014, having registration No.: INH000000040 valid till 03 February 2020. BOBCAPS is also a SEBI-registered intermediary for the broking business having SEBI Single Registration Certificate No.: INZ000159332 dated 20 November 2017.

BOBCAPS prohibits its analysts, persons reporting to analysts, and members of their households from maintaining a financial interest in the securities or derivatives of any companies that the analysts cover. Additionally, BOBCAPS prohibits its analysts and persons reporting to analysts from serving as an officer, director, or advisory board member of any companies that the analysts cover.

Our salespeople, traders, and other professionals may provide oral or written market commentary or trading strategies to our clients that reflect opinions contrary to the opinions expressed herein, and our proprietary trading and investing businesses may make investment decisions that are inconsistent with the recommendations

expressed herein. In reviewing these materials, you should be aware that any or all of the foregoing, among other things, may give rise to real or potential conflicts of interest. Additionally, other important information regarding our relationships with the company or companies that are the subject of this material is provided herein.

This material should not be construed as an offer to sell or the solicitation of an offer to buy any security in any jurisdiction where such an offer or solicitation would be illegal. We are not soliciting any action based on this material. It is for the general information of BOBCAPS's clients. It does not constitute a personal recommendation or take into account the particular investment objectives, financial situations, or needs of individual clients. Before acting on any advice or recommendation in this material, clients should consider whether it is suitable for their particular circumstances and, if necessary, seek professional advice.

The price and value of the investments referred to in this material and the income from them may go down as well as up, and investors may realize losses on any investments. Past performance is not a guide for future performance, future returns are not guaranteed and a loss of original capital may occur. BOBCAPS does not provide tax advice to its clients, and all investors are strongly advised to consult with their tax advisers regarding any potential investment in certain transactions — including those involving futures, options, and other derivatives as well as non-investment-grade securities — that give rise to substantial risk and are not suitable for all investors. The material is based on information that we consider reliable, but we do not represent that it is accurate or complete, and it should not be relied on as such. Opinions expressed are our current opinions as of the date appearing on this material only. We endeavour to update on a reasonable basis the information discussed in this material, but regulatory, compliance, or other reasons may prevent us from doing so.

We and our affiliates, officers, directors, and employees, including persons involved in the preparation or issuance of this material, may from time to time have “long” or “short” positions in, act as principal in, and buy or sell the securities or derivatives thereof of companies mentioned herein and may from time to time add to or dispose of any such securities (or investment). We and our affiliates may act as market makers or assume an underwriting commitment in the securities of companies discussed in this document (or in related investments), may sell them to or buy them from customers on a principal basis, and may also perform or seek to perform investment banking or advisory services for or relating to these companies and may also be represented in the supervisory board or any other committee of these companies.

For the purpose of calculating whether BOBCAPS and its affiliates hold, beneficially own, or control, including the right to vote for directors, one per cent or more of the equity shares of the subject company, the holdings of the issuer of the research report is also included.

BOBCAPS and its non-US affiliates may, to the extent permissible under applicable laws, have acted on or used this research to the extent that it relates to non-US issuers, prior to or immediately following its publication. Foreign currency denominated securities are subject to fluctuations in exchange rates that could have an adverse effect on the value or price of or income derived from the investment. In addition, investors in securities such as ADRs, the value of which are influenced by foreign currencies, effectively assume currency risk. In addition, options involve risks and are not suitable for all investors. Please ensure that you have read and understood the Risk disclosure document before entering into any derivative transactions.

In the US, this material is only for Qualified Institutional Buyers as defined under rule 144(a) of the Securities Act, 1933. No part of this document may be distributed in Canada or used by private customers in the United Kingdom.

No part of this material may be (1) copied, photocopied, or duplicated in any form by any means or (2) redistributed without BOBCAPS's prior written consent.

Company-specific disclosures under SEBI (Research Analysts) Regulations, 2014

The research analyst(s) or his/her relatives do not have any material conflict of interest at the time of publication of this research report.

BOBCAPS or its research analyst(s) or his/her relatives do not have any financial interest in the subject company. BOBCAPS or its research analyst(s) or his/her relatives do not have actual/beneficial ownership of one per cent or more securities in the subject company at the end of the month immediately preceding the date of publication of this report.

The research analyst(s) has not received any compensation from the subject company in the past 12 months. Compensation of the research analyst(s) is not based on any specific merchant banking, investment banking or brokerage service transactions.

BOBCAPS or its research analyst(s) is not engaged in any market making activities for the subject company.

The research analyst(s) has not served as an officer, director or employee of the subject company.

BOBCAPS or its associates may have material conflict of interest at the time of publication of this research report.

BOBCAPS's associates may have financial interest in the subject company. BOBCAPS's associates may hold actual / beneficial ownership of one per cent or more securities in the subject company at the end of the month immediately preceding the date of publication of this report.

BOBCAPS or its associates may have managed or co-managed a public offering of securities for the subject company or may have been mandated by the subject company for any other assignment in the past 12 months.

BOBCAPS may have received compensation from the subject company in the past 12 months. BOBCAPS may from time to time solicit or perform investment banking services for the subject company. BOBCAPS or its associates may have received compensation from the subject company in the past 12 months for services in respect of managing or co-managing public offerings, corporate finance, investment banking or merchant banking, brokerage services or other advisory services in a merger or specific transaction. BOBCAPS or its associates may have received compensation for products or services other than investment banking or merchant banking or brokerage services from the subject company in the past 12 months.