

BUY
 TP: Rs 3,585 | ▲ 18%

RELIANCE INDUSTRIES

Oil & Gas

29 August 2024

Key takeaways from the FY24 AGM

- Key positives include announcement of bonus issue, high-growth targets for consumer business, and comfort in working with deep-tech
- While announcement of initial milestones for New Energy imparts some visibility, listing of Jio Digital Services and Retail were not addressed
- Reiterate BUY with a TP of Rs 3,585. RIL’s consumer businesses remain key beneficiaries of India’s growth story

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Positive pointers from the AGM: a) Proposal for issuance of bonus shares in 1:1 ratio, b) confirmation on high growth expectations from consumer businesses for next 3-4 years, c) Improving visibility on initial milestones for New Energy business, d) broadening of Digital Service canvass with vision of AI for everyone, everywhere while continuing to focus on large market potential e) improving comfort with deep-technology and innovation across businesses visible in widening of canvass

Clarity still awaited: a) timeline for listing of Jio and Retail businesses, b) potential savings from use of new energy in existing business, c) plan for further scale-up of petrochemicals integration in O2C (Oil to Chemicals) business

Our forecasts are in line with aspirations: Doubling of business in Jio Digital Services and Retail ties in with our current EBITDA growth CAGR forecasts of 23% and 22% over FY24-27E. Similarly, its aspiration of doubling overall business by FY30 is also directionally in line with our EBITDA CAGR of 11% over FY24-FY27E.

New Energy: visibility improving slowly: a) First module of 10MWh integrated PV solar module factory in FY25, b) Start of 30GWh/year module of battery gigafactory initially with assembly of BESS and pack solutions and then gradual backward integration into battery chemistries, c) first electrolyser manufacturing facility in FY26, d) plan of development of renewable electricity on leased land in Kutch, having potential of 150bn units of electricity generation in a modular manner

M&E: Growing scale and ambitions: With the merger of Viacom18 and Disney ie of platform and content creation, Reliance has achieved a scale of \$1.2bn of revenue from Media and Entertainment business and positioned the business for scale-up in India and starts to also incubate global ambition starting with news.

Reiterate BUY: We have an SOTP-based TP of Rs 3,585 with target multiples for Refining (7.5x), Petrochemicals (8.5x), Jio Infocomm (11x) and Retail (34x). Refer to [Structural position to tide over near-term hiccups](#), published on 20 July, for details on our forecasts and valuation.

Key changes

Target	Rating
◀ ▶	◀ ▶

Ticker/Price	RIL IN/Rs 3,042
Market cap	US\$ 245.4bn
Free float	50%
3M ADV	US\$ 228.5mn
52wk high/low	Rs 3,218/Rs 2,220
Promoter/FPI/DII	50%/21%/17%

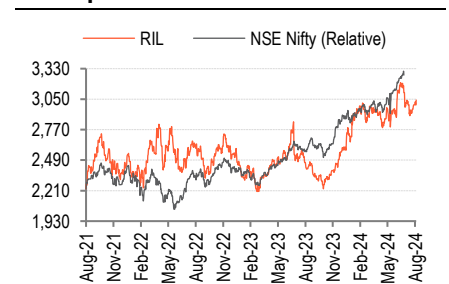
Source: NSE | Price as of 29 Aug 2024

Key financials

Y/E 31 Mar	FY24P	FY25E	FY26E
Total revenue (Rs)	90,10,640	93,49,965	1,03,34,266
EBITDA (Rs mn)	16,22,187	17,65,754	20,32,313
Adj. net profit (Rs)	6,96,067	7,79,541	9,28,386
Adj. EPS (Rs)	102.9	115.2	137.2
Consensus EPS	102.9	119.4	137.8
Adj. ROAE (%)	9.2	9.4	10.2
Adj. P/E (x)	29.6	26.4	22.2
EV/EBITDA (x)	14.3	13.2	11.4
Adj. EPS growth (%)	5.0	12.0	19.1

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

Stock performance



Source: NSE



Reaffirming high-growth period

Our consumer business growth forecasts are in line with aspirations

Reliance confirmed high growth of 19-25% CAGR at both of its consumer businesses as it targets doubling of revenue and EBITDA at Jio Digital Services and at Retail. Our forecasts currently assume 22-23% CAGR for both Digital Services and Retail as we are building in 1.85x and 1.8x growth in EBITDA over next 3 years.

Our overall EBITDA growth in similar trajectory as well

We are currently building in an 11% CAGR in consolidated EBITDA over FY24-27E which is directionally in-line with company trajectory of growth. The company's target of doubling in size before FY30 implies a growth CAGR of 12% over next six years.

While initial growth is driven by both consumer businesses, the New Energy could start to contribute more meaningfully towards end of decade.

JIO Digital Services: Upward migration is key

We believe Digital Services can deliver on its high-growth target with migration to 5G services, penetration into home and small business broadband segment and regular tariff hikes towards 'tariff-repair' in the industry. We are currently working with the following assumptions:

- **Subscriber market share gains:** With transition of 2G/3G to 4G and RIL having 50% share of migration, we are building in 25mn/ 30mn/ 25mn net subscriber additions for mobile business for FY25E/FY26E/FY27E.
- **Home broadband penetration:** We factor in a gradual pickup in connections to ~52mn by end-FY27. This is conservative against the company's target of 100mn homes over next three years. With 52mn customers and Rs 400/month ARPU, home broadband segment could account for 17.5% of revenue at our estimates in FY27E.

Digital Services is significantly strengthening its Jio Set Top Box offering alongside Jio AirFibre to drive penetration into new home broadband segment. The company has started to gain momentum with Jio AirFibre with period for addition of 1mn premises shortening from 6 months to ~100 days and their latest target of 30 days.

- **Tariff upgrades:** we are factoring in on average 11% annual hikes in ARPU to an average of Rs 245 in FY27, broadly in line with requirements for 'tariff repair'. This could be driven by combination of both tariff revision and upward migration.

AI for every Indian, everywhere

Jio's network carries nearly 8% of global mobile traffic, surpassing several major global operators. This is driven by Jio's approach to affordability enabling access for masses to digital services.

On the back of global scale, Jio is now setting a new ambition- **AI for every Indian, everywhere:** The company is also envisioning affordable AI for everyone and have

started groundwork on necessary infrastructure. We are not yet building in this in our estimates.

- Jio is developing a comprehensive suite of tools and platforms under JioBrain to streamline AI adoption. Jio will start with its adoption in their other businesses and then subsequently roll it out to external markets.
- The company plans a GW scale AI ready data centre at Jamnagar, powered by green energy.
- As the first step towards wider use of AI, the company aims to make high data storage available to mass at affordable prices. The company aims to offer 100GB storage to its Jio Infocomm consumers as part of launch of Jio AI-Cloud Welcome offer from Diwali.

Retail: Leveraging of scale is the key

For our 1.8x growth in retail EBITDA over FY24-27X, we are currently assuming 63% growth in revenue and 120bps expansion in EBITDA margin.

Retail has developed a large-scale infrastructure evident in its top-5 position in terms of number of stores and top-20 position in terms of number of employees. The company has presence across more than 7,000 cities with a footprint of 18,836 stores with 79mn sqft store space and 4mn Kirana stores. Retail operations are supported by warehouse space of 32mn sqft. The company has enlarged its presence with acquisitions and partnerships and is working through the development of entire ecosystem.

Improving visibility on New Energy

In addition to the journey specified in the FY24 Annual Report as highlighted below, the company indicated the following at the AGM today

- **Solar PV gigafactory – FY25:** Reaffirmed that they are starting with the first 10GW integrated solar PV (Photo-voltaic) module plant in FY25.
- **Battery gigafactory- H2FY26:** The company plans to start with assembling Battery Energy Storage Systems (BESS) for utility-scale application and pack solutions for residential, commercial, industrial, telecom, and mobility markets by H2FY26. The first module will be of a 30GWh/year capacity and then the company will gradually integrate backwards. Reliance is working on battery chemistries through its subsidiaries- LithiumWerks and Faradion.
- **Green electrolyzer – FY26:** Targets multi-GW electrolyser manufacturing facility on the west coast of India by 2026. The company is developing this facility as a fully adaptable and capable of supporting various technologies such as Alkaline, PEM (Proton Exchange Membrane), and AEM (Anion Exchange Membrane).
- **Green electricity at Kutch- next decade:** The company aims to develop renewable power facility on leased land in Kutch with a modular development. The leased land has a potential to generate 150bn units of electricity annually over next 10 years.

- **Bio-energy:** Targeting 55 operating CBG (Compressed Biogas) plants by 2025. Started work on first-of-its kind integrated CBG plant with an energy plantation pilot on 1000 acres of arid wasteland to create a self-sustaining ecosystem.

Inputs from the FY24 Annual Report provided earlier:

- 2025: First train of module and cell of 20GW of solar PV manufacturing by end of 2024, and industrialize sodium ion cell production at a MW level.
- 2026: Scale up PV factory to 20GW in a phased manner, establish a battery giga factory starting with a 50MWh/year lithium battery cells pilot.
- 2027: Establish cell-to-pack manufacturing facility of 50GWh.
- 2030: Establish and enable 100GW of renewable energy.
- 2035: Net carbon zero.

O2C – Gradual expansion in select areas

Key expansions underway are:

- 1.5mtpa PVC and CPVC at Dahej and Nagothane
- 1mmt specialty polymer capacity by FY27 and its backward integration with 3mtpa PTA capacity by FY28
- Carbon Fibre plant, with capacity sized among top three units globally

Valuation methodology

Forecasts

We expect 11% annual growth in RIL's EBITDA over FY24-FY27, mainly driven by 22% CAGR for the Consumer business.

Fig 1 – RIL's EBITDA mix

	FY22	FY23	FY24P	FY25E	FY26E	FY27E	FY21/24 CAGR (%)	FY24/27E CAGR (%)
EBITDA (Rs bn)								
O2C	527	621	624	588	615	618	-	-
Oil & Gas	55	136	203	189	176	148	-	-
Cyclical subtotal	582	757	827	777	790	766	-	-
Digital Services	394	490	555	689	877	1,029	-	-
Retail	124	179	230	267	332	410	-	-
Consumer subtotal	518	669	786	956	1,209	1,439	-	-
Others	(16)	(4)	9	33	33	33	-	-
Consolidated business EBITDA	1,084	1,422	1,622	1,766	2,032	2,238	-	-
EBITDA YoY growth (%)								
O2C	na	17.7	0.5	(5.8)	4.6	0.5	11.9	(0.3)
Oil & Gas	NM	149.0	49.5	(7.0)	(7.1)	(15.8)	395.4	(10.1)
Cyclical subtotal	(26.9)	30.1	9.3	(6.1)	1.8	(3.1)	(0.8)	(2.5)
Digital Services	18.2	24.3	13.3	24.1	27.2	17.4	27.4	22.8
Retail	26.5	44.8	28.5	15.9	24.4	23.4	39.7	21.2
Consumer subtotal	20.1	29.2	17.4	21.7	26.4	19.1	30.4	22.4
Consolidated	34.3	31.1	14.1	8.9	15.1	10.1	29.8	11.3
EBITDA composition (% of total)								
O2C	48.6	43.7	38.5	33.3	30.3	27.6	-	-
Oil & Gas	5.0	9.6	12.5	10.7	8.6	6.6	-	-
Cyclical subtotal	53.6	53.2	51.0	44.0	38.9	34.2	-	-
Digital Services	36.4	34.5	34.2	39.0	43.1	46.0	-	-
Retail	11.4	12.6	14.2	15.1	16.4	18.3	-	-
Consumer subtotal	47.8	47.1	48.4	54.2	59.5	64.3	-	-

Source: Company, BOBCAPS Research

Fig 2 – Key assumptions

	Unit	FY23	FY24P	FY25E	FY26E	FY27E
Exchange rate	INR/USD	80.4	82.8	83.5	83.5	83.5
Energy						
Oil price	US\$/bbl	95.0	84.7	85.0	85.0	85.0
Refining margin	US\$/bbl	11.5	11.5	10.2	9.5	9.5
Petrochem EBITDA	US\$/ton	285	263	257	278	278
O2C throughput	mt	66.4	71.0	71.0	71.0	71.0
Gas realisation- KG D6	US\$/mmbtu	10.7	11.2	9.9	10.2	8.5
Gas production- KG D6	mmscmd	19.0	27.1	29.0	29.0	29.0
Jio Digital Services						
No of subscribers	mn	439	482	507	536	561
ARPU	Rs	177	181	198	226	245
Retail						
Revenue growth	% YoY	32.0	18.3	15.5	20.3	17.6
EBITDA margin	%	7.5	8.0	8.4	8.8	9.2

Source: Company, BOBCAPS Research

BUY with TP of Rs 3,585

We have an SOTP-based TP of Rs 3,585 for RIL, with unchanged target multiples. For our SOTP valuation, we first arrive at a Mar'25 fair value using one-year forward multiple on FY26 estimates and then roll forward the same to Jun'25 to arrive at our 12-month forward TP.

We maintain BUY on RIL given 22% upside potential. In our view, the company will deliver structural profit growth while balancing its capex outlay and risk profile.

Fig 3 – Valuation summary

Business (Rs bn)	Fair Value		Value/share (Rs)	Valuation basis
	(US\$ bn)	(Rs bn)		
Energy				
Refining	31	2,608	385	7.5x FY26E EBITDA
Petrochem	40	3,318	490	8.5x FY26E EBITDA
Upstream	18	1,468	217	Combination of DCF and reserve multiple
New energy	15	1,281	189	Option value
Energy total	105	8,674	1,282	-
Jio Infocomm	79	6,557	969	11x FY26E EBITDA, RIL share
Digital Services	11	883	131	6x FY26E Sales, RIL share
Reliance Retail	119	9,830	1,453	34x FY26E EBITDA, RIL share
Consumer business total	209	17,270	2,553	-
Media business	3	280	41	Combination of market value and book value
Enterprise value	317	26,224	3,876	-
Net Debt	24	1,968	291	-
Equity value	293	24,256	3,585	-
TP (rounded to nearest Rs 5)			3,585	26.1x FY26E EPS

Source: BOBCAPS Research

Key risks

We highlight key risks to our estimates below:

O2C and Oil & Gas businesses: Lower-than-assumed oil price, gas price, gross refining margin and petrochemical crack movements on easing of the demand-supply balance, or adverse regulatory moves (such as higher windfall taxes or caps on gas price) are key downside risks.

Digital Services: Downside risks in this business include lower growth in subscriber base, slower penetration in home broadband segment, 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 unorganised 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 would be a key downside risk.

Corporate risk: Succession planning with orderly transfer of management control to the next generation is the key to continuity. Chairman Mukesh Ambani has already announced his intent to stay at the helm for five more years and to mentor his children Akash, Isha and Anant for “collective leadership”, while inducting them into RIL’s board.

Sector recommendation snapshot

Company	Ticker	Market Cap (US\$ bn)	Price (Rs)	Target (Rs)	Rating
Bharat Petroleum Corp	BPCL IN	18.4	356	315	HOLD
Gujarat State Petronet	GUJS IN	2.8	419	370	HOLD
Hindustan Petroleum Corp	HPCL IN	10.6	416	460	BUY
Indian Oil Corp	IOCL IN	29.8	177	165	SELL
Indraprastha Gas	IGL IN	4.5	543	600	HOLD
Mahanagar Gas	MAHGL IN	2.1	1,778	1,875	HOLD
Petronet LNG	PLNG IN	6.5	366	325	SELL
Reliance Industries	RIL IN	245.4	3,042	3,585	BUY

Source: BOBCAPS Research, NSE | Price as of 29 Aug 2024

Financials

Income Statement

Y/E 31 Mar (Rs mn)	FY23A	FY24P	FY25E	FY26E	FY27E
Total revenue	87,78,350	90,10,640	93,49,965	1,03,34,266	1,12,05,479
EBITDA	14,21,620	16,22,187	17,65,754	20,32,313	22,38,112
Depreciation	(4,03,030)	(5,08,320)	(5,50,234)	(6,04,986)	(6,79,139)
EBIT	10,18,590	11,13,867	12,15,520	14,27,327	15,58,973
Net interest inc./(exp.)	(1,95,710)	(2,31,180)	(2,28,676)	(2,28,676)	(2,28,676)
Other inc./(exp.)	1,17,340	1,60,570	1,71,922	1,82,488	2,15,494
Exceptional items	0	0	0	0	0
EBT	9,40,220	10,43,257	11,58,766	13,81,139	15,45,791
Income taxes	(2,03,760)	(2,57,070)	(2,77,650)	(3,13,748)	(3,26,136)
Extraordinary items	0	0	0	0	0
Min. int./Inc. from assoc.	(73,620)	(90,120)	(1,01,575)	(1,39,005)	(1,66,640)
Reported net profit	6,62,840	6,96,067	7,79,541	9,28,386	10,53,015
Adjustments	0	0	0	0	0
Adjusted net profit	6,62,840	6,96,067	7,79,541	9,28,386	10,53,015

Balance Sheet

Y/E 31 Mar (Rs mn)	FY23A	FY24P	FY25E	FY26E	FY27E
Accounts payables	14,71,720	17,83,770	15,97,784	15,37,653	14,79,493
Other current liabilities	11,23,260	11,52,800	11,92,400	11,98,636	12,05,528
Provisions	37,850	42,190	42,190	42,190	42,190
Debt funds	34,20,960	35,18,090	35,18,090	35,18,090	35,18,090
Other liabilities	17,16,220	17,95,750	19,31,237	19,52,944	19,96,491
Equity capital	67,660	67,660	67,660	67,660	67,660
Reserves & surplus	70,91,060	78,67,150	85,77,167	94,33,416	1,04,19,094
Shareholders' fund	71,58,720	79,34,810	86,44,827	95,01,076	1,04,86,754
Total liab. and equities	1,60,58,820	1,75,50,480	1,83,51,174	1,93,14,240	2,04,58,836
Cash and cash eq.	6,86,640	9,72,250	9,92,629	11,71,691	16,04,838
Accounts receivables	2,84,480	3,16,280	3,47,511	3,70,693	3,92,846
Inventories	14,00,080	15,27,700	15,80,226	16,39,235	17,00,871
Other current assets	11,46,450	12,89,130	12,89,130	12,89,130	12,89,130
Investments	23,55,600	22,56,720	22,56,720	22,56,720	22,56,720
Net fixed assets	70,95,350	76,49,960	98,10,566	1,07,09,180	1,13,76,201
CWIP	29,37,520	33,88,550	18,79,500	16,82,700	16,43,340
Intangible assets	1,52,700	1,49,890	1,49,890	1,49,890	1,49,890
Deferred tax assets, net	0	0	0	0	0
Other assets	0	0	0	0	0
Total assets	1,60,58,820	1,75,50,480	1,83,06,173	1,92,69,239	2,04,13,835

Cash Flows

Y/E 31 Mar (Rs mn)	FY23A	FY24P	FY25E	FY26E	FY27E
Cash flow from operations	12,02,980	12,12,927	10,63,197	13,86,506	15,75,150
Capital expenditures	(25,33,630)	(15,13,960)	(12,01,790)	(13,06,800)	(13,06,800)
Change in investments	16,67,980	(21,340)	0	0	0
Other investing cash flows	13,790	2,83,600	1,71,922	1,82,488	2,15,494
Cash flow from investing	(8,51,860)	(12,51,700)	(10,29,868)	(11,24,312)	(10,91,306)
Equities issued/Others	10	0	0	0	0
Debt raised/repaid	(2,75,650)	1,42,880	0	(1,50,000)	(1,50,000)
Interest expenses	0	0	0	0	0
Dividends paid	(50,830)	(56,478)	(69,524)	(72,137)	(67,337)
Other financing cash flows	3,00,210	1,92,980	1,01,575	1,39,005	1,66,640
Cash flow from financing	(26,260)	2,79,382	32,051	(83,132)	(50,697)
Chg in cash & cash eq.	3,24,860	2,40,609	65,380	1,79,062	4,33,147
Closing cash & cash eq.	6,86,640	9,27,249	9,92,629	11,71,691	16,04,838

Per Share

Y/E 31 Mar (Rs)	FY23A	FY24P	FY25E	FY26E	FY27E
Reported EPS	98.0	102.9	115.2	137.2	155.6
Adjusted EPS	98.0	102.9	115.2	137.2	155.6
Dividend per share	7.5	8.3	10.3	10.7	10.0
Book value per share	1,058.0	1,172.7	1,277.7	1,404.2	1,549.9

Valuations Ratios

Y/E 31 Mar (x)	FY23A	FY24P	FY25E	FY26E	FY27E
EV/Sales	2.6	2.6	2.5	2.2	2.1
EV/EBITDA	16.3	14.3	13.2	11.4	10.3
Adjusted P/E	31.0	29.6	26.4	22.2	19.5
P/BV	2.9	2.6	2.4	2.2	2.0

DuPont Analysis

Y/E 31 Mar (%)	FY23A	FY24P	FY25E	FY26E	FY27E
Tax burden (Net profit/PBT)	70.5	66.7	67.3	67.2	68.1
Interest burden (PBT/EBIT)	92.3	93.7	95.3	96.8	99.2
EBIT margin (EBIT/Revenue)	11.6	12.4	13.0	13.8	13.9
Asset turnover (Rev./Avg TA)	56.6	53.6	52.2	55.0	56.5
Leverage (Avg TA/Avg Equity)	2.1	2.2	2.2	2.1	2.0
Adjusted ROAE	8.9	9.2	9.4	10.2	10.5

Ratio Analysis

Y/E 31 Mar	FY23A	FY24P	FY25E	FY26E	FY27E
YoY growth (%)					
Revenue	26.1	2.6	3.8	10.5	8.4
EBITDA	31.1	14.1	8.9	15.1	10.1
Adjusted EPS	16.8	5.0	12.0	19.1	13.4
Profitability & Return ratios (%)					
EBITDA margin	16.2	18.0	18.9	19.7	20.0
EBIT margin	11.6	12.4	13.0	13.8	13.9
Adjusted profit margin	7.6	7.7	8.3	9.0	9.4
Adjusted ROAE	8.9	9.2	9.4	10.2	10.5
ROCE	6.8	6.9	7.0	7.8	8.1
Working capital days (days)					
Receivables	11	12	13	13	12
Inventory	75	86	89	92	95
Payables	76	80	81	69	61
Ratios (x)					
Gross asset turnover	0.9	0.9	0.8	0.7	0.7
Current ratio	0.9	1.0	1.1	1.2	1.3
Net interest coverage ratio	5.2	4.8	5.3	6.2	6.8
Adjusted debt/equity	0.4	0.3	0.3	0.2	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%

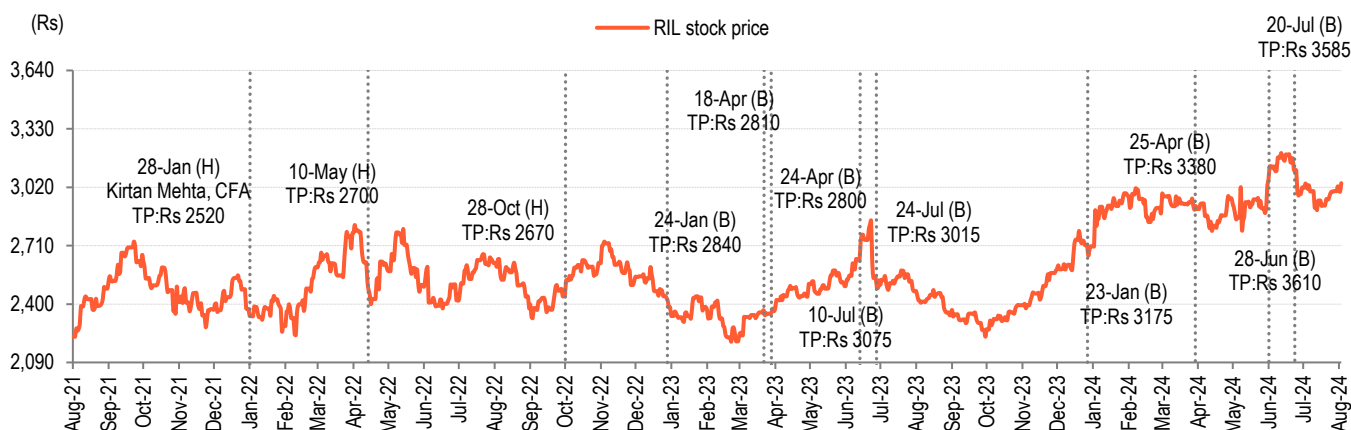
HOLD – Expected return from -6% to +15%

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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