

ADD

TP: Rs 1,515 | ▲ 1%

RELIANCE INDUSTRIES

Oil & Gas

08 May 2020

RJio spearheads deleveraging

Reliance Industries' (RIL) deleveraging initiatives have accelerated in the last three weeks, with ~Rs 610bn raised from a ~13.5% stake sale in RJio. Adding in the upcoming rights issue and BP deal, visibility on the total fund raise in Q1FY21 improves to Rs 1.2tn against net debt of ~Rs 3.5tn. We see potential for RIL to end the year with zero debt if the Rs 1.2tn Saudi Aramco deal and added fund raising from RJio (Rs 400bn) materialise. Valuations at 13.6x FY22E EPS factor deleveraging to a large extent. Earnings delivery holds the key to rerating.

Strategic stake sale in RJio: After Facebook, interest from marquee PE firms – Vista Equity Partners (for a 2.3% stake) and Silver Lake (for a 1.15% stake) – raises the potential value of RJio's integrated technology platform. These investors have AUMs of >US\$ 100bn invested primarily in technology-related opportunities. RIL's investments of >Rs 4tn in its telecom arm are likely to spearhead RJio's transformation into an integrated technology company.

Facebook synergies create valuation differential: At US\$ 65bn, the PE deals value RJio ~12.5% higher than the Facebook stake sale, given that these are purely strategic investments. Facebook through its WhatsApp platform brings in technology-related synergies for RIL's JioMart initiative. The synergies can expand into areas such as e-payments and social media transactions. Facebook gets one board seat in RJio as well.

Debt-free vision on track: RIL clearly has many more avenues open to it for deleveraging – the Rs 1.2tn Saudi Aramco deal appears to be on track, while the company can opt to sell another 7-8% in RJio to garner ~Rs 400bn in cash. IPOs of the retail or Jio businesses could offer another windfall of >Rs 250bn (at least).

Time for a bold inorganic move: With the aggressive fund raise, we believe RIL has enough ammunition to target a major inorganic move that taps into the massive valuation discounts on offer during the ongoing global economic freeze. This transaction could be in (a) cyclicals – globally several large integrated cyclical businesses are available at low valuations due to distressed GRMs/petrochemical cracks; (b) E&P – to tap fire sales of any large oil and gas producing company or asset amid low oil prices; (c) retail – many global retail majors could be under bankruptcy proceedings; or (d) telecom/technology.

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Ticker/Price	RIL IN/Rs 1,507
Market cap	US\$ 125.9bn
Shares o/s	6,339mn
3M ADV	US\$ 313.3mn
52wk high/low	Rs 1,618/Rs 876
Promoter/FPI/DII	50%/24%/26%

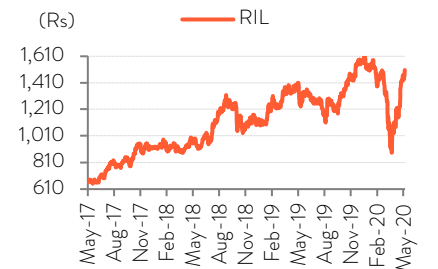
Source: NSE

KEY FINANCIALS

Y/E 31 Mar	FY20P	FY21E	FY22E
Total revenue (Rs bn)	6,116	3,697	4,508
EBITDA (Rs bn)	882	949	1,378
Adj. net profit (Rs bn)	443	421	749
Adj. EPS (Rs)	65.6	62.3	110.8
Adj. EPS growth (%)	10.6	(4.9)	77.8
Adj. ROAE (%)	11.1	9.2	13.6
Adj. P/E (x)	23.0	24.2	13.6
EV/EBITDA (x)	13.3	12.9	9.0

Source: Company, BOBCAPS Research

STOCK PERFORMANCE



Source: NSE

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Recommendations and Absolute returns (%) over 12 months

BUY – Expected return >+15%

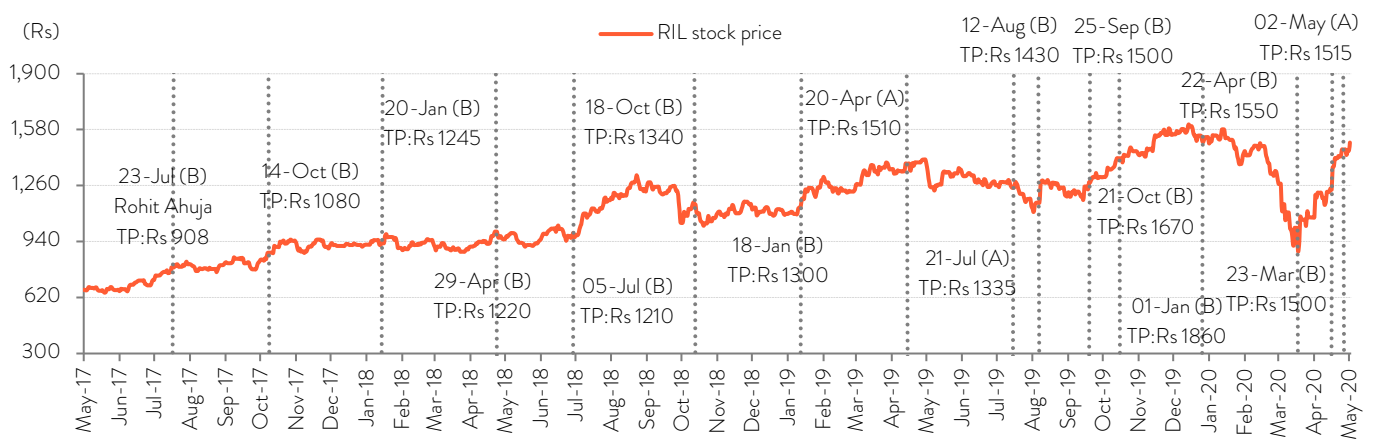
ADD – Expected return from >+5% to +15%

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)

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



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

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