

ADD
TP: Rs 1,335 | ▲ 7%

RELIANCE INDUSTRIES | Oil & Gas

21 July 2019

Concerns on cyclicals

Reliance Industries' (RIL) Q1 FY20 EBITDA marginally beat estimates at Rs 213bn (+3% YoY, +2.3% QoQ). Key highlights: a) GRMs inline at US\$ 8.1/bbl; b) Petchem EBITDA at Rs88 bn (-4.4% YoY) beat estimates on higher polyester margins; c) in-line retail business EBITDA at Rs 20.5bn (+70% YoY); and d) RJio EBITDA at Rs49 bn (+9% QoQ). Outlook on cyclical businesses remains challenging, making us cut FY20E/FY21E earnings by 23.6%/18.4%, resulting in lower TP of Rs 1,335 (vs. Rs 1510).

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Investment in Tower Invt: RIL announced Rs250 bn investment by Brookfield in the Tower Invt (RJIPL). This would be in the form of quasi equity, against which RJIPL will raise another Rs110 bn debt to clear out the entire Rs370 bn liability associated with this asset. The deal for the Fibre assets is expected on similar lines in Q2 FY20 (Invt carrying Rs1,660 bn liabilities).

Cyclicals outlook remains cloudy: While refining margins were in-line at US\$8.1/bbl, guidance on impact from IMO regulations seems unclear. We cut GRM estimates to US\$10-11/bbl (from US\$12/bbl) for FY20/21, based on current trend of low GRMs. Petrochemicals earnings outperformed estimates on better margins. However, production declined (with utilisation at ~90% levels across product categories), as demand concerns outweigh. We trim both production and margin estimates for Petrochemicals by 10%/20% for FY20/21.

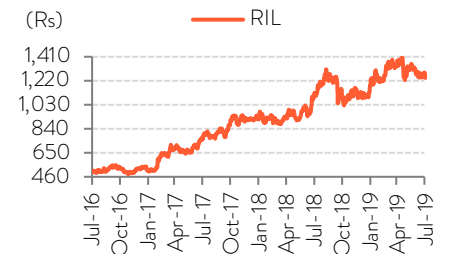
RJio gaining ground, retail surges: RJio touched 331 mn in gross subscribers, while ARPU's were below estimates at Rs122. EBITDA was still in-line at Rs49bn (+8.7% QoQ), on Rs3.7 bn gain from IND AS 116. Retail EBITDA surged to Rs 20.5bn (+70% YoY) led by core margins of 8.9% (+130bps YoY).

Maintain ADD: Uncertainty on cyclicals (~65% of EBITDA in Q1 FY20) raises concerns on RIL's earnings outlook, capping upside.

| | |
|------------------|-------------------|
| Ticker/Price | RIL IN/Rs 1,249 |
| Market cap | US\$ 107.4bn |
| Shares o/s | 5,927mn |
| 3M ADV | US\$ 159.5mn |
| 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 | FY19P | FY20E | FY21E | FY22E |
|-------------------------|---------|---------|---------|---------|---------|
| Adj. net profit (Rs mn) | 352,869 | 398,370 | 465,776 | 587,439 | 757,409 |
| Adj. EPS (Rs) | 59.6 | 67.2 | 78.6 | 99.1 | 127.8 |
| Adj. EPS growth (%) | 17.4 | 12.8 | 16.9 | 26.1 | 28.9 |
| Adj. ROAE (%) | 12.4 | 11.7 | 11.7 | 13.2 | 14.9 |
| Adj. P/E (x) | 21.0 | 18.6 | 15.9 | 12.6 | 9.8 |
| EV/EBITDA (x) | 14.7 | 10.9 | 10.6 | 8.3 | 6.9 |

Source: Company, BOBCAPS Research

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Value unlocking on Tower InvIT structures

RIL is expected to realise Rs118 bn cash (on repayment of NCDs) through the RJIPL deal. A similar deal for the fibre InvIT (JDFPL) is in the works, that carry an additional valuation bump up of ~Rs780 bn for RIL (can be revised lower based on final deal negotiations for JDFPL).

Concerns on long-term outlook for Petchem

Petchem business EBITDA at Rs 88.1bn (-4.4% YoY) in Q1FY20, outperforming estimates on better than expected polymer margins (on low ethane and LNG prices). However, volumes trend lower (8.7 mmt, -5.4% YoY), mostly in the polyester chain, as demand remains a concern from global macro headwinds. Polymer production remained stable QoQ, as demand remained robust. Outlook for polymer margins remains challenging, as ~4 mmt PE capacity addition in US and China in 2019 could impact prices.

Refining segment gearing up for IMO

RIL's Q1FY20 GRMs were in line at US\$ 8.1/bbl (-23% YoY). Refining EBITDA at Rs 51bn (-16% YoY) was marginally higher on below-expected operating costs (US\$ 2.2/bbl). Management again didn't provide any clarity on commercial start-up of gasifiers (US\$4 bn capex). In a run up to implementation of IMO (Jan'2020), RIL is enhancing the Coker capacity (by ~30%) at its DTA refinery in Jamnagar, that would help maximizing Diesel output.

Reliance Jio maintains traction in subscriber additions, at cost of ARPUs

RJio touched 331 mn in gross subscribers, while ARPUs were below estimates at Rs122. RJio management commentary indicated that ARPU trends could sustain at current levels, leading us to revise down our ARPU estimates for FY20/21 to Rs122/Rs140 (from Rs134/Rs150). We expect ARPU to improve to Rs160 by FY22. Management maintained its guidance of adding 50mn fibre-to-the-home (FTTH) subscribers over 2-3 years, which albeit delayed, remains on track to be tapped.

Retail business earnings continue to surge

Retail segment EBITDA outperformed estimates at Rs 20.5bn (+70% YoY), led by +45% YoY growth in revenues (Rs382 bn), and improvement in EBITDA margins to 5.4% (+20bps QoQ). Core retail EBITDA margins (Rs17 bn, ~85% of retail EBITDA, excludes connectivity and petroleum retail) averaged at ~8.9%, rising 130bps YoY in Q1.

Management pegged overall same-store sales growth (SSG) at ~20%, of which 10% came from the fashion segment, 23% from consumer durables and 26% from grocery. Overall store count has touched 10,644 store count in Q1FY20 (with 23 mn sq feet), adding ~3 stores/day.

FIG 1 – QUARTERLY PERFORMANCE (STANDALONE)

| (Rs mn) | Q1FY20 | Q1FY19 | YoY (%) | Q4FY19 | QoQ (%) |
|---------------------------------------|-----------------|-----------------|---------------|-----------------|--------------|
| Net revenues* | 9,63,840 | 9,93,180 | (3.0) | 9,06,480 | 6.3 |
| Less: Excise duty | 43,730 | 43,130 | 1.4 | 29,750 | 47.0 |
| Less: GST recovered | 37,480 | 38,460 | (2.5) | 40,760 | (8.0) |
| Net sales | 8,82,630 | 9,11,590 | (3.2) | 8,35,970 | 5.6 |
| Raw material costs | 6,50,090 | 6,59,300 | (1.4) | 5,90,850 | 10.0 |
| % of sales | 73.7 | 72.3 | | 70.7 | |
| Other expenditure | 96,140 | 1,00,750 | (4.6) | 1,08,080 | (11.0) |
| % of sales | 10.9 | 11.1 | | 12.9 | |
| EBITDA | 1,36,400 | 1,51,540 | (10.0) | 1,37,040 | (0.5) |
| EBITDA margin (%) | 15.5 | 16.6 | | 16.4 | |
| Depreciation & amortisation | 21,750 | 27,620 | (21.3) | 24,650 | (11.8) |
| Interest | 27,010 | 21,380 | 26.3 | 27,910 | (3.2) |
| Other income | 33,450 | 20,680 | 61.8 | 28,830 | 16.0 |
| PBT | 1,21,090 | 1,23,220 | (1.7) | 1,13,310 | 6.9 |
| Provision for tax | 30,730 | 35,020 | (12.3) | 27,750 | 10.7 |
| Adj. PAT | 90,360 | 88,200 | 2.4 | 85,560 | 5.6 |
| Other comprehensive income | (1,290) | (14,990) | (91.4) | 6,10,400 | (100.2) |
| Total Income | 89,070 | 73,210 | 21.7 | 6,95,960 | (87.2) |
| Adj. EPS (Rs) | 14.3 | 13.9 | 2.4 | 13.5 | 5.5 |
| GRMs (US\$/bbl) | 8.1 | 10.5 | (22.9) | 8.2 | (1.2) |
| Refining throughput (mmt) | 17.5 | 16.6 | 5.4 | 16.0 | 9.4 |
| Petrochemical production (mmt) | 8.7 | 9.2 | (5.4) | 9.4 | (7.4) |

Source: Company, BOBCAPS Research | *Net of intersegment sales

FIG 2 – QUARTERLY PERFORMANCE (CONSOLIDATED)

| (Rs mn) | Q1FY20 | Q1FY19 | YoY (%) | Q4FY19 | QoQ (%) |
|-----------------------------|------------------|------------------|-------------|------------------|---------------|
| Gross revenues* | 17,29,560 | 14,16,990 | 22.1 | 15,41,100 | 12.2 |
| Less: Excise duty | 43,730 | 43,130 | 1.4 | 29,750 | 47.0 |
| Less: GST recovered | 1,16,070 | 86,300 | 34.5 | 1,24,760 | (7.0) |
| Net sales | 15,69,760 | 12,87,560 | 21.9 | 13,86,590 | 13.2 |
| EBITDA | 2,13,150 | 2,06,610 | 3.2 | 2,08,320 | 2.3 |
| EBITDA margin (%) | 13.6 | 16.0 | - | 15.0 | - |
| Depreciation & amortisation | 50,110 | 51,730 | (3.1) | 52,950 | (5.4) |
| Interest | 51,090 | 35,500 | 43.9 | 48,940 | 4.4 |
| Other income | 31,460 | 17,780 | 76.9 | 31,470 | (0.0) |
| PBT | 1,43,410 | 1,37,160 | 4.6 | 1,37,900 | 4.0 |
| Provision for tax | 42,250 | 42,410 | (0.4) | 34,310 | 23.1 |
| Adj. PAT | 1,01,410 | 94,850 | 6.9 | 1,04,270 | (2.7) |
| Other comprehensive income | (810) | (15,480) | 94.8 | 6,17,730 | 100.1 |
| Share of P&L from associate | 250 | 100 | 150.0 | 680 | (63.2) |
| Minority Interest | - | (260) | - | - | - |
| Total Income | 1,00,600 | 79,110 | 27.2 | 7,22,000 | (86.1) |
| Adj. EPS (Rs) | 16.0 | 16.0 | 0.0 | 17.6 | (9.1) |

Source: Company, BOBCAPS Research | *Net of intersegment sales

FIG 3 – QUARTERLY PERFORMANCE SEGMENT-WISE (CONSOLIDATED)

| (Rs mn) | Q1FY20 | Q1FY19 | YoY (%) | Q4FY19 | QoQ (%) |
|----------------------------------|------------------|------------------|---------------|------------------|---------------|
| Petrochemicals revenues | 3,76,110 | 4,02,870 | (6.6) | 4,24,140 | (11.3) |
| % Sales | 18.4 | 22.9 | - | 22.4 | - |
| EBITDA | 88,100 | 92,110 | (4.4) | 93,610 | (5.9) |
| EBITDA margins (%) | 23.4 | 22.9 | - | 22.1 | - |
| % Total RIL EBITDA | 41 | 45 | - | 45 | - |
| EBIT | 75,080 | 78,570 | (4.4) | 79,750 | (5.9) |
| Refining revenues | 10,17,210 | 9,56,460 | 6.4 | 8,78,440 | 15.8 |
| % Sales | 49.8 | 54.4 | - | 46.3 | - |
| EBITDA | 51,520 | 61,310 | (16.0) | 49,640 | 3.8 |
| EBITDA margins (%) | 5.1 | 6.4 | - | 5.7 | - |
| % Total RIL EBITDA | 24 | 30 | - | 24 | - |
| EBIT | 45,080 | 53,150 | (15.2) | 41,760 | 8.0 |
| Oil & Gas | 9,230 | 14,320 | (35.5) | 10,690 | (13.7) |
| % Sales | 0.5 | 0.8 | - | 0.6 | - |
| EBITDA | 2,070 | 6,153 | (66.4) | 2,580 | (19.8) |
| EBITDA margins (%) | 22.4 | 43.0 | - | 24.1 | - |
| % Total RIL EBITDA | 1 | 3 | - | 1 | - |
| EBIT | (2,490) | (4,470) | 44.3 | (2,670) | (6.7) |
| Organised Retail revenues | 3,81,960 | 2,58,900 | 47.5 | 3,66,630 | 4.2 |
| % Sales | 18.7 | 14.7 | - | 19.3 | - |
| EBITDA | 20,490 | 12,060 | 69.9 | 19,230 | 6.6 |
| EBITDA margins (%) | 5.4 | 4.7 | - | 5.2 | - |
| % Total RIL EBITDA | 10 | 6 | - | 9 | - |
| EBIT | 17,770 | 10,690 | 66.2 | 17,210 | 3.3 |
| Digital Service revenues | 1,49,100 | 96,530 | 54.5 | 1,36,090 | 9.6 |
| % Sales | 7.3 | 5.5 | - | 7.2 | - |
| EBITDA | 49,080 | 31,470 | 56.0 | 45,150 | 8.7 |
| EBITDA margins (%) | 32.9 | 32.6 | - | 33.2 | - |
| % Total RIL EBITDA | 23 | 15 | - | 22 | - |
| EBIT | 30,800 | 17,150 | 79.6 | 26,650 | 15.6 |
| Others revenues | 1,07,870 | 29,680 | 263.4 | 79,390 | 35.9 |
| % Sales | 5.3 | 1.7 | - | 4.2 | - |
| EBITDA | 1,890 | 3,507 | 46.1 | (1,890) | (200.0) |
| EBITDA margins (%) | 1.8 | 11.8 | - | (2.4) | - |
| Total Revenues | 20,41,480 | 17,58,760 | 16.1 | 18,95,380 | 7.7 |
| Less: Inter segment transfers | 3,11,920 | 3,41,770 | (8.7) | 3,54,280 | (12.0) |
| Reported Gross Sales | 17,29,560 | 14,16,990 | 22.1 | 15,41,100 | 12.2 |
| Less: GST recovered | 1,16,070 | 86,300 | 34.5 | 1,24,760 | (7.0) |
| Reported Net Sales | 16,13,490 | 13,30,690 | 21.3 | 14,16,340 | 13.9 |
| Total Reported EBITDA | 2,13,150 | 2,06,610 | 3.2 | 2,08,320 | 2.3 |

Source: Company, BOBCAPS Research

Analyst meet highlights

Capex

- Group capex stands at ~Rs 226bn in Q1FY20, of which Rs 85bn has been capitalised for RJio, Rs 60bn for RIL's core businesses (petchem and refining, among others), Rs 25bn for the retail business and Rs 56bn for others.
- E&P capex was at Rs 10bn (all the 3 projects, R-cluster, Satellite cluster and MJ field developments, are on track).

Outlook

Refining

- All gasifiers at the new petcoke gasification unit are under commissioning, but management gave no specific guidance on startup of commercial operations. RIL's GRMs would start reflecting the benefits mostly from H2FY20.
- Diesel output was maximized in view of better economics. However, gasoil cracks weakened on account of high Chinese exports in a low demand environment. Jet Kero cracks weakened as well but had some support due to supply outages in Europe and Asia.
- Naphtha cracks weakened due to high supplies from the US favouring LPG cracking, increased light crude availability and cracker shutdowns in China.
- Major coker revamps to be completed in H1FY20. However capacity to be available by Q4FY20.
- RIL plans to expand coker capacity by ~450kbpd in order to raise middle-distillate output and take advantage of the expected surge in diesel demand (by ~2.5mnbpd, net of impact from installation of scrubbers) by Q4 FY20. Management does not anticipate any delays in implementation of IMO regulations globally.
- RIL expects ~1.8mnbpd of refining capacity additions globally in CY19, most of which would be commissioned in H2CY19, and ~0.9mnbpd by 2020.

Petrochemicals

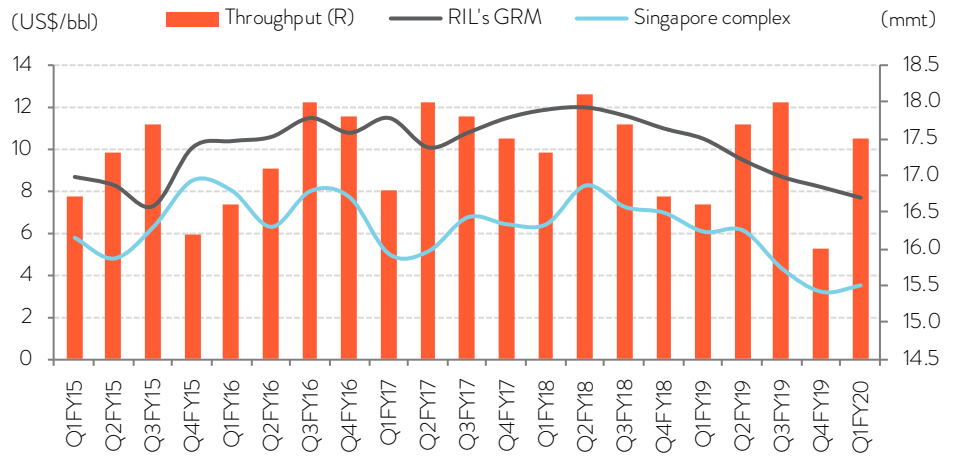
- Petchem EBITDA/mt stayed flat QoQ at US\$ 142/mt despite a fall in production from 9.4mmt in Q4FY19 to 8.7mmt in Q1FY20.
- The company is exploring a strategy to raise the oil-to-chemicals ratio at the integrated complex, which would be a primary factor in its capital allocation plan.

- Polymer margins, mainly HDPE, were impacted due to the US-China trade war causing diversion of US cargoes from China to other regions.

RJio

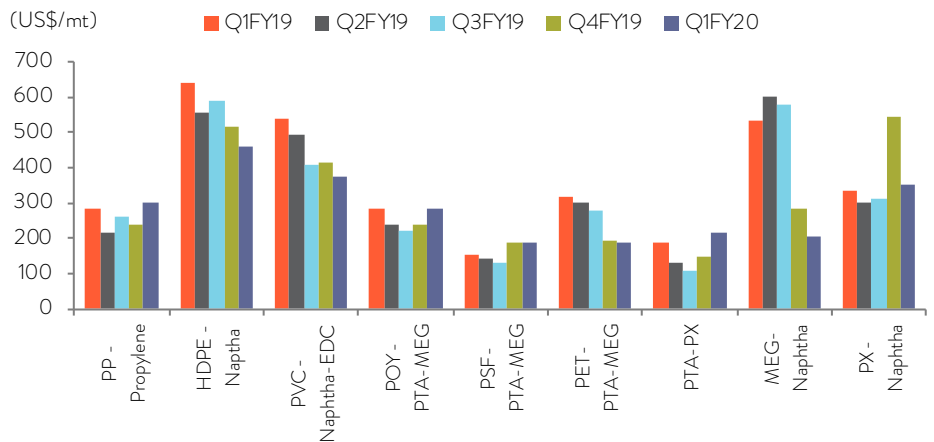
- ARPU at Rs 122 was lower than the Rs 126 posted in Q4FY19, due to increased subscription to long-term plans, and higher JioPhone users opting for the Rs 99 tariff plan. Most likely ARPUs would remain under pressure throughout FY20.
- RJio’s Q1FY20 financials carried Rs3.7 bn gains from Ind AS 6 accounting standards. These gains pertain only to some tower assets where there are long-term contracts with lockin agreements (mostly those under JFPL InvIT structure). Agreements for Fibre assets do not come under the Ind AS 6 accounting standards.

FIG 4 – REFINING BUSINESS OPERATIONAL TRENDS



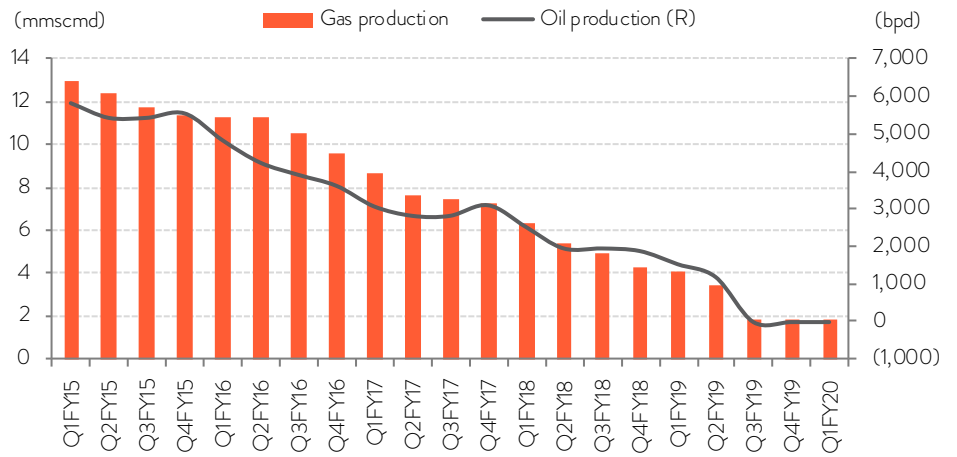
Source: Company, BOBCAPS Research

FIG 5 – PETCHEM DELTAS



Source: BOBCAPS Research, Company

FIG 6 – PRODUCTION TRENDS



Source: BOBCAPS Research, Company

Valuation methodology

RIL is trading at 12.7x FY21E EPS, re-rating from ~9-10x levels over the last one year. Considering the uncertainty around cyclical business earnings, that are still constituting ~64% of RIL's total EBITDA, there are limited gains to be made from earnings traction from the Retail business.

We cut FY20/21 earnings by 24%/19%, to factor in: a) lower GRMs at US\$10-11/bbl for FY20/21 (from US\$12/bbl); b) We trim both production and margin estimates for Petrochemicals by 10%/20% for FY20/21; c) Lower ARPU estimates for RJio over FY20/21 to Rs122/Rs140 (from Rs134/Rs150), leading to ~17.6%/13% cut in RJio EBITDA estimates. Consequently, our target price gets revised to Rs 1,335 (from Rs 1,510), as we roll over to Sept'20. We introduce FY22 estimates, projecting EPS of Rs127 (+29% YoY), with RJio and Retail constituting 50% of RIL's consolidated EBITDA.

Key upsides risks to our call are a potential IPO for the retail business and further deleveraging from a stake sale in the cyclicals business (as speculated in recent media reports).

FIG 7 – REVISED ESTIMATES

| Consolidated (Rs mn) | FY20E | | | FY21E | | | FY22 |
|-------------------------|-----------|-----------|---------|-----------|-----------|---------|-----------|
| | Old | New | Var (%) | Old | New | Var (%) | New |
| Gross Revenue | 86,47,386 | 69,07,988 | (20.11) | 74,46,930 | 79,81,155 | 7.2 | 87,61,827 |
| EBITDA | 11,38,088 | 9,46,015 | (16.88) | 14,03,672 | 12,30,494 | (12.34) | 15,16,083 |
| EBITDA margin (%) | 13.2 | 13.7 | - | 18.8 | 15.4 | - | 17.3 |
| PAT | 6,09,555 | 4,65,776 | (23.59) | 7,19,418 | 5,87,439 | (18.35) | 7,57,409 |
| EPS (Rs) | 102.9 | 78.6 | (23.59) | 121.4 | 99.1 | (18.35) | 127.8 |
| RJIO | | | | | | | |
| Revenue | 6,03,658 | 5,35,457 | (11.30) | 8,40,006 | 7,66,584 | (8.74) | 9,91,296 |
| EBITDA | 2,92,640 | 2,41,164 | (17.59) | 4,80,071 | 4,17,141 | (13.11) | 5,82,858 |
| EBITDA margin (%) | 48.5 | 45.0 | - | 57.2 | 54.4 | - | 58.8 |
| PAT | 95,796 | 56,320 | (41.21) | 2,04,611 | 1,41,247 | (30.97) | 2,37,410 |

Source: BOBCAPS Research, Company

Our SOTP valuation is outlined below:

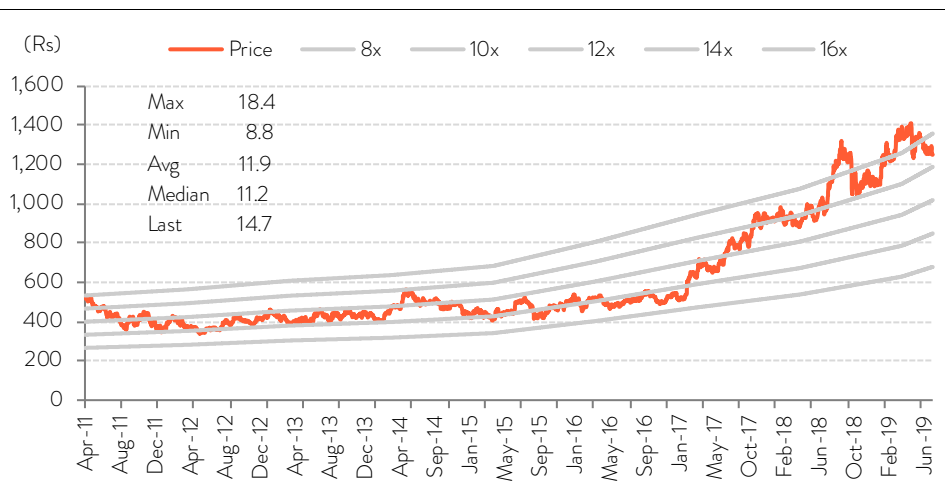
- **Cyclical businesses:** We value the refining (Rs352/sh, earlier Rs426/sh) and petrochemical (Rs513/sh, earlier Rs609/sh) businesses at 7x and 8x Sept’21E EBITDA respectively (at par with global peers)
- **RJio:** We value RJio at Rs 548/sh (from Rs 562/sh earlier on roll over to Mar’20), based on 7x Sept’20E EBITDA of Rs 500bn.
- **Retail:** The retail business is valued at 17.5x Sept’20E 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 Sept20E EV/ EBITDA and the shale business is assessed on residual reserves at US\$ 2/boe.

FIG 8 – SOTP VALUATION SUMMARY

| Business | Fair Value | | Value/share | Comments |
|--------------------------------|------------|---------------|--------------|--|
| | (US\$ bn) | (Rs bn) | (Rs) | |
| Refining | 32 | 2,087 | 352 | 7x Sept’20E EBITDA |
| Petrochem | 47 | 3,038 | 513 | 8x Sept’20E EBITDA |
| Cyclical business value | 80 | 5,125 | 865 | 7.6x Sept’20E EBITDA |
| E&P business | 2 | 120 | 20 | Includes KG-D6, shale and PMT |
| Jio | 50 | 3,249 | 548 | 6.5x Sept’20E EBITDA |
| Reliance Retail | 44 | 2,866 | 484 | 17.5x Sept’20E EBITDA |
| Enterprise value | 176 | 11,362 | 1,917 | |
| Net Debt | 54 | 3,453 | 583 | Consol. net debt incl. current liabilities |
| Equity value | 123 | 7,909 | 1,335 | ~13.5x FY21E EPS |

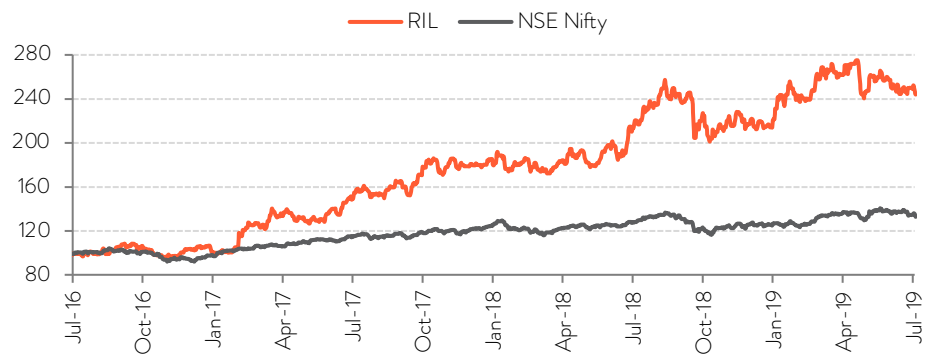
Source: BOBCAPS Research

FIG 9 – ROLLING ONE-YEAR FORWARD P/E BAND



Source: BOBCAPS Research, Company

FIG 10 – 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 | FY19P | FY20E | FY21E | FY22E |
|--------------------------------|------------------|------------------|------------------|------------------|------------------|
| Total revenue | 4,082,650 | 5,810,200 | 4,752,341 | 5,047,694 | 4,815,414 |
| EBITDA | 641,760 | 839,180 | 946,015 | 1,230,494 | 1,516,083 |
| EBIT | 474,700 | 629,840 | 645,489 | 875,059 | 1,115,290 |
| Net interest income/(expenses) | (80,520) | (164,950) | (163,001) | (208,897) | (217,297) |
| Other income/(expenses) | 88,620 | 86,350 | 138,365 | 136,895 | 141,067 |
| Exceptional items | 10,870 | 0 | 0 | 0 | 0 |
| EBT | 482,800 | 551,240 | 620,853 | 803,057 | 1,039,060 |
| Income taxes | (133,460) | (153,900) | (155,077) | (215,619) | (281,652) |
| Min. int./Inc. from associates | 590 | 1,030 | 0 | 0 | 0 |
| Reported net profit | 360,800 | 398,370 | 465,776 | 587,439 | 757,409 |
| Adjusted net profit | 352,869 | 398,370 | 465,776 | 587,439 | 757,409 |

Balance Sheet

| Y/E 31 Mar (Rs mn) | FY18A | FY19P | FY20E | FY21E | FY22E |
|---------------------------------------|------------------|------------------|-------------------|-------------------|-------------------|
| Accounts payables | 1,068,610 | 1,083,090 | 1,242,359 | 1,361,825 | 1,358,295 |
| Other current liabilities | 1,311,710 | 1,299,320 | 1,299,320 | 1,299,320 | 1,299,320 |
| Provisions | 41,380 | 41,820 | 54,283 | 60,782 | 66,959 |
| Debt funds | 1,816,040 | 2,719,420 | 2,919,420 | 3,119,420 | 3,069,420 |
| Other liabilities | 498,280 | 687,620 | 696,899 | 707,289 | 718,735 |
| Equity capital | 59,220 | 59,260 | 59,260 | 59,260 | 59,260 |
| Reserves & surplus | 3,004,970 | 3,701,420 | 4,118,976 | 4,662,131 | 5,368,757 |
| Shareholders' fund | 3,064,190 | 3,760,680 | 4,178,236 | 4,721,391 | 5,428,017 |
| Total liabilities and equities | 7,835,600 | 9,674,750 | 10,483,317 | 11,372,828 | 12,053,546 |
| Cash and cash eq. | 42,550 | 75,120 | 55,984 | 96,812 | 70,926 |
| Accounts receivables | 175,550 | 300,890 | 298,084 | 310,278 | 311,851 |
| Inventories | 608,370 | 675,610 | 745,213 | 797,421 | 795,879 |
| Other current assets | 488,160 | 744,760 | 737,177 | 772,195 | 776,305 |
| Investments | 828,620 | 2,354,880 | 2,354,880 | 2,354,880 | 2,354,880 |
| Net fixed assets | 3,980,720 | 3,910,440 | 4,811,339 | 5,543,400 | 6,235,865 |
| CWIP | 1,653,500 | 1,493,080 | 1,350,671 | 1,357,871 | 1,357,871 |
| Intangible assets | 58,130 | 119,970 | 129,970 | 139,970 | 149,970 |
| Total assets | 7,835,600 | 9,674,750 | 10,483,317 | 11,372,827 | 12,053,547 |

Source: Company, BOBCAPS Research

Cash Flows

| Y/E 31 Mar (Rs mn) | FY18A | FY19P | FY20E | FY21E | FY22E |
|-------------------------------------|------------------|--------------------|------------------|------------------|------------------|
| Net income + Depreciation | 507,120 | 607,710 | 766,301 | 942,874 | 1,158,201 |
| Changes in working capital | 247,990 | (446,650) | 112,519 | 26,544 | (1,493) |
| Other operating cash flows | (70,660) | 116,700 | (129,086) | (126,505) | (129,621) |
| Cash flow from operations | 684,450 | 277,760 | 749,734 | 842,912 | 1,027,087 |
| Capital expenditures | (604,530) | 21,360 | (1,059,015) | (1,094,697) | (1,093,257) |
| Change in investments | 13,010 | (1,331,060) | 10,000 | 10,000 | 10,000 |
| Other investing cash flows | 85,190 | (47,010) | 138,365 | 136,895 | 141,067 |
| Cash flow from investing | (506,330) | (1,356,710) | (910,650) | (947,801) | (942,190) |
| Equities issued/Others | 570 | 40 | 0 | 0 | 0 |
| Debt raised/repaid | (240,930) | 917,090 | 200,000 | 200,000 | (50,000) |
| Dividends paid | (39,160) | (42,810) | (58,220) | (54,283) | (60,782) |
| Other financing cash flows | 113,720 | 237,200 | 0 | 0 | 0 |
| Cash flow from financing | (165,800) | 1,111,520 | 141,780 | 145,717 | (110,782) |
| Changes in cash and cash eq. | 12,320 | 32,570 | (19,136) | 40,828 | (25,885) |
| Closing cash and cash eq. | 42,550 | 75,120 | 55,984 | 96,812 | 70,926 |

Per Share

| Y/E 31 Mar (Rs) | FY18A | FY19P | FY20E | FY21E | FY22E |
|----------------------|-------|-------|-------|-------|-------|
| Reported EPS | 60.9 | 67.2 | 78.6 | 99.1 | 127.8 |
| Adjusted EPS | 59.6 | 67.2 | 78.6 | 99.1 | 127.8 |
| Dividend per share | 6.0 | 8.2 | 7.6 | 8.5 | 9.4 |
| Book value per share | 517.4 | 634.6 | 705.1 | 796.7 | 916.0 |

Valuations Ratios

| Y/E 31 Mar (x) | FY18A | FY19P | FY20E | FY21E | FY22E |
|----------------|-------|-------|-------|-------|-------|
| EV/Sales | 2.3 | 1.6 | 2.1 | 2.0 | 2.2 |
| EV/EBITDA | 14.7 | 10.9 | 10.6 | 8.3 | 6.9 |
| Adjusted P/E | 21.0 | 18.6 | 15.9 | 12.6 | 9.8 |
| P/BV | 2.4 | 2.0 | 1.8 | 1.6 | 1.4 |

DuPont Analysis

| Y/E 31 Mar (%) | FY18A | FY19P | FY20E | FY21E | FY22E |
|---------------------------------|-------|-------|-------|-------|-------|
| Tax burden (Net profit/PBT) | 71.5 | 72.3 | 75.0 | 73.2 | 72.9 |
| Interest burden (PBT/EBIT) | 104.0 | 87.5 | 96.2 | 91.8 | 93.2 |
| EBIT margin (EBIT/Revenue) | 11.6 | 10.8 | 13.6 | 17.3 | 23.2 |
| Asset turnover (Revenue/Avg TA) | 54.6 | 66.4 | 47.2 | 46.2 | 41.1 |
| Leverage (Avg TA/Avg Equity) | 2.6 | 2.6 | 2.5 | 2.5 | 2.3 |
| Adjusted ROAE | 12.4 | 11.7 | 11.7 | 13.2 | 14.9 |

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

Ratio Analysis

| Y/E 31 Mar | FY18A | FY19P | FY20E | FY21E | FY22E |
|--|-------|-------|--------|-------|-------|
| YoY growth (%) | | | | | |
| Revenue | 33.7 | 42.3 | (18.2) | 6.2 | (4.6) |
| EBITDA | 38.9 | 30.8 | 12.7 | 30.1 | 23.2 |
| Adjusted EPS | 17.4 | 12.8 | 16.9 | 26.1 | 28.9 |
| Profitability & Return ratios (%) | | | | | |
| EBITDA margin | 15.7 | 14.4 | 19.9 | 24.4 | 31.5 |
| EBIT margin | 11.6 | 10.8 | 13.6 | 17.3 | 23.2 |
| Adjusted profit margin | 8.6 | 6.9 | 9.8 | 11.6 | 15.7 |
| Adjusted ROAE | 12.4 | 11.7 | 11.7 | 13.2 | 14.9 |
| ROCE | 7.2 | 7.9 | 7.0 | 8.5 | 9.8 |
| Working capital days (days) | | | | | |
| Receivables | 12 | 15 | 23 | 22 | 24 |
| Inventory | 73 | 58 | 59 | 60 | 62 |
| Payables | 97 | 79 | 111 | 125 | 150 |
| Ratios (x) | | | | | |
| Gross asset turnover | 0.9 | 1.0 | 0.7 | 0.7 | 0.6 |
| Current ratio | 0.5 | 0.6 | 0.6 | 0.6 | 0.7 |
| Net interest coverage ratio | 5.9 | 3.8 | 4.0 | 4.2 | 5.1 |
| Adjusted debt/equity | 0.6 | 0.7 | 0.7 | 0.6 | 0.6 |

Source: Company, BOBCAPS Research

Disclaimer

Recommendations and Absolute returns (%) over 12 months

BUY – Expected return >+15%

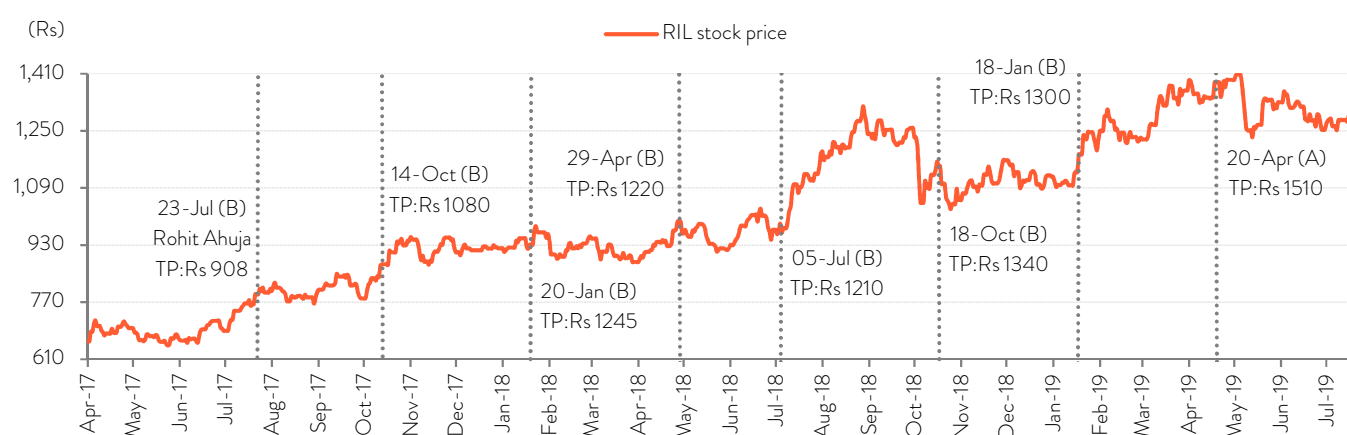
ADD – Expected return from >+5% to +15%

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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