

SELL

TP: Rs 1,895 | ▼ 10%

RELIANCE INDUSTRIES

Oil & Gas

31 July 2020

Cyclicals and retail sink; RJio saves the day – downgrade to SELL

Key highlights from Reliance Industries' (RIL) Q1FY21 results: (a) EBITDA below estimates at Rs 169bn (-21% YoY), (b) cyclicals mixed – GRM at US\$ 6.3/bbl outperformed estimates while petchem EBITDA at Rs 44bn (-50% YoY) fell short, (c) retail EBITDA underperformed at Rs 10.8bn (-47% YoY) whereas RJio EBITDA was higher at Rs 78bn (+59% YoY) on better ARPU. RIL's valuation has run up to 18.5x FY22E EPS, pricing in the deleveraging. Downgrade from REDUCE to SELL, with a new Sep'21 TP of Rs 1,895 (vs. Rs 1,820) on rollover.

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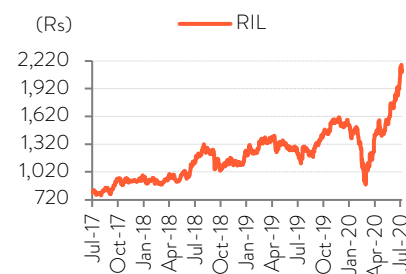
Cyclical earnings remain under pressure: Reported GRMs outperformed at US\$ 6.3/bbl as RIL maximised utilisation and raised light distillate output. Benchmark GRMs remain negative, implying another muted quarter in Q2 – this raises downside risk to our US\$ 9/bbl GRM estimate for FY21. Demand erosion due to the Covid-19 pandemic continues to pressurise cyclicals. Petchem EBITDA at Rs 44bn underperformed estimates due to lower polyester chain deltas. We remain cautious on cyclicals as margin recovery may be pushed back to FY22 (from earlier expectations of H2FY21).

Ticker/Price	RIL IN/Rs 2,109
Market cap	US\$ 190.5bn
Shares o/s	6,762mn
3M ADV	US\$ 526.8mn
52wk high/low	Rs 2,199/Rs 876
Promoter/FPI/DII	49%/24%/27%

Source: NSE

RJio earnings surge; retail slumps: ARPU expansion to Rs 140.3 (+7% QoQ) with in-line subscriber additions (9.9mn) led to higher EBITDA for RJio at Rs 78bn. A rise in average data consumption (~9% QoQ) during the lockdown was a primary factor in ARPU expansion. Retail business EBITDA at Rs 10.8bn (-47% YoY) was in line, slumping due to a decline in revenues for the fashion & lifestyle and consumer electronic segments.

STOCK PERFORMANCE



Deleveraging well priced in: We need to see earnings traction from RIL to justify the recent surge in stock price. While the company's Rs 2tn fund raise (of which Rs 1.5tn was from RJio) is extraordinary, delay in the oil-to-chemicals stake sale to Aramco is a dampener. The outlook can change significantly if RIL is able to execute RJio-style strategic stake sales for its retail business.

KEY FINANCIALS

Y/E 31 Mar	FY19A	FY20A	FY21E	FY22E	FY23E
Total revenue (Rs mn)	5,830,940	6,116,450	3,785,945	4,794,554	4,604,317
EBITDA (Rs mn)	841,670	882,170	938,561	1,412,455	1,729,258
Adj. net profit (Rs mn)	400,860	443,240	484,225	771,058	1,016,206
Adj. EPS (Rs)	59.3	65.6	71.6	114.0	150.3
Adj. EPS growth (%)	13.6	10.6	9.2	59.2	31.8
Adj. ROAE (%)	11.7	11.1	10.5	13.8	15.9
Adj. P/E (x)	35.6	32.2	29.4	18.5	14.0
EV/EBITDA (x)	19.2	18.6	18.1	11.9	9.5

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.



FIG 1 – QUARTERLY PERFORMANCE (STANDALONE)

(Rs mn)	Q1FY21	Q1FY20	YoY (%)	Q4FY20	QoQ (%)
Gross revenue	522,630	963,840	(45.8)	805,260	(35.1)
Less: Excise duty	29,850	43,730	(31.7)	30,430	(1.9)
Less: GST recovered	18,170	37,480	(51.5)	32,990	(44.9)
Net sales	474,610	882,630	(46.2)	741,840	(36.0)
Raw material costs	291,280	650,090	(55.2)	504,470	(42.3)
% of sales	61.4	73.7	-	68.0	-
Other expenditure	112,050	96,140	16.5	121,660	(7.9)
% of sales	23.6	10.9	-	16.4	-
EBITDA	71,280	136,400	(47.7)	115,710	(38.4)
EBITDA margin (%)	15.0	15.5	-	15.6	-
Depreciation & amortization	21,740	21,750	(0.0)	26,850	(19.0)
Interest	47,800	27,010	77.0	41,610	14.9
Other income	42,110	33,450	25.9	37,180	13.3
PBT	43,850	121,090	(63.8)	84,430	(48.1)
Provision for tax	(9,480)	30,730	(130.8)	16,180	(158.6)
Exceptional item	44,200	-	-	(42,450)	-
PAT	97,530	90,360	7.9	25,800	278.0
Adj. PAT	53,330	90,360	(41.0)	68,250	(21.9)
Other comprehensive income	15,580	(1,290)	-	(47,910)	-
Total Income	113,110	89,070	27.0	(22,110)	(611.6)
Adj. EPS (Rs)	8.4	14.3	(41.0)	10.8	(21.9)
GRMs (US\$/bbl)	6.3	8.1	(22.2)	8.9	(29.2)
Refining throughput (mmt)	16.6	17.5	(5.1)	18.3	(9.3)
Petrochemical production (mmt)	8.9	8.7	2.3	9.9	(10.1)

Source: Company, BOBCAPS Research

FIG 2 – QUARTERLY PERFORMANCE (CONSOLIDATED)

(Rs mn)	Q1FY21	Q1FY20	YoY (%)	Q4FY20	QoQ (%)
Gross revenues	1,009,290	1,729,560	(41.6)	1,514,610	(33.4)
Less: Excise duty	29,850	43,730	(31.7)	30,430	(1.9)
Less: GST recovered	96,910	116,070	(16.5)	119,260	(18.7)
Net sales	882,530	1,569,760	(43.8)	1,364,920	(35.3)
EBITDA	168,750	213,150	(20.8)	220,340	(23.4)
EBITDA margin (%)	19.1	13.6	-	16.1	-
Depreciation & amortisation	63,080	50,110	25.9	63,320	(0.4)
Interest	67,350	51,090	31.8	60,640	11.1
Other income	43,880	31,460	39.5	38,810	13.1
PBT	82,200	143,410	(42.7)	135,190	(39.2)
Exceptional item	49,660	-	-	(42,670)	-
Provision for tax	2,600	42,250	(93.8)	26,770	(90.3)
PAT	132,480	101,410	30.6	65,460	102.4
Adj. PAT	82,820	101,410	(18.3)	108,130	(23.4)
Other comprehensive income	176,700	(810)	21,914.8	183,160	-
Share of P&L from associate	3,220	250	-	(290)	-
Total Income	309,180	100,600	207.3	248,620	24.4
Adj. EPS (Rs)	13.1	17.1	(23.7)	17.1	(23.4)

Source: Company, BOBCAPS Research

FIG 3 – QUARTERLY PERFORMANCE SEGMENT-WISE (CONSOLIDATED)

(Rs mn)	Q1FY21	Q1FY20	YoY (%)	Q4FY20	QoQ (%)
Petrochemicals revenues	251,920	376,110	(33.0)	322,060	(21.8)
% Sales	18.8	18.4	-	16.7	-
EBITDA	44,300	88,100	(49.7)	59,380	(25.4)
EBITDA margins (%)	17.6	23.4	-	18.4	-
% Total RIL EBITDA	26	52	-	35	-
EBIT	33,920	75,080	(54.8)	45,530	(25.5)
Refining revenues	466,420	1,017,210	(54.1)	848,540	(45.0)
% Sales	34.8	49.8	-	44.1	-
EBITDA	38,180	51,520	(25.9)	66,140	(42.3)
EBITDA margins (%)	8.2	5.1	-	7.8	-
% Total RIL EBITDA	23	31	-	39	-
EBIT	28,920	45,080	(35.8)	57,060	(49.3)
Oil & Gas	5,060	9,230	(45.2)	6,250	(19.0)
% Sales	0.4	0.5	-	0.3	-
EBITDA	(320)	2,070	(115.5)	(460)	(30.4)
EBITDA margins (%)	(6.3)	22.4	-	(7.4)	-
% Total RIL EBITDA	0	1	-	0	-
EBIT	(5,110)	(2,490)	(105.2)	(4,850)	5.4
Organized Retail	316,330	381,960	(17.2)	382,420	(17.3)
% Sales	23.6	18.7	-	19.9	-
EBITDA	10,830	20,490	(47.1)	25,690	(57.8)
EBITDA margins (%)	3.4	5.4	-	6.7	-
% Total RIL EBITDA	6	12	-	15	-
EBIT	7,220	17,770	(59.4)	20,720	(65.2)
Digital Service	213,020	149,100	42.9	191,530	11.2
% Sales	15.9	7.3	-	10.0	-
EBITDA	78,030	49,080	59.0	68,330	14.2
EBITDA margins (%)	36.6	32.9	-	35.7	-
% Total RIL EBITDA	46	29	-	40	-
EBIT	47,080	30,800	52.9	42,510	10.8
Others revenues	88,430	107,870	(18.0)	173,970	(49.2)
% Sales	6.6	5.3	-	9.0	-
EBITDA	(2,270)	1,890	220.1	1,260	(280.2)
EBITDA margins (%)	(2.6)	1.8	-	0.7	-
Total Revenues	1,341,180	2,041,480	(34.3)	1,924,770	(30.3)
Less: Inter segment transfers	331,890	311,920	6.4	410,160	(19.1)
Reported Gross Sales	1,009,290	1,729,560	(41.6)	1,514,610	(33.4)
Less: GST recovered	96,910	116,070	(16.5)	119,260	(18.7)
Reported Net Sales	912,380	1,613,490	(43.5)	1,395,350	(34.6)
Total Reported EBITDA	168,750	213,150	(20.8)	220,340	(23.4)

Source: Company, BOBCAPS Research

Earnings webinar takeaways

Multiple fund-raising opportunities from consumer facing businesses

- The recent Rs 1.5tn fund raise opens up strong synergy advantages across the RJio and retail value chain.
- The 5G solutions segment carries strong potential and is awaiting 5G spectrum allocation from the government for trials.
- RJio added ~9.9mn subscribers (net) in Q1FY21 vs. 18mn in Q4FY20 – in line with estimates. This could slow down further in Q2 due to the extended economic lockdown.
- Per capita wireless data usage increased to 12.1GB/month (from 11GB in Q4FY20). Jio Fibre usage has risen significantly.
- Management expects ARPU expansion to continue through FY21, from the current Rs 140 to Rs 165 by end-FY22, as most discount offers have expired.
- The extended economic lockdown continues to affect retail earnings, with ~50% of stores being non-operational over Q1FY21. This has currently declined to ~20%, though footfalls remain down by ~30% YoY.

Cyclicals – Refining and Petrochemicals underperform

- GRMs remain muted throughout Q1FY21 and this trend may continue for another one or two quarters.
- Refining operating costs were much below estimates at ~US\$ 2.4/bbl due to low oil prices. Refinery utilisation levels have improved to >90% currently.
- Petrochemical EBITDA underperformed estimates despite improvement in integrated chain margins. Production volumes outperformed at 8.9mmt (flat YoY). Sales volumes (not disclosed) are likely to have been significantly affected in Q1.

Valuation methodology

Even as RIL positions itself as an Oil-to-Tech behemoth, we believe valuations have run well ahead of fundamentals at 18.5x FY22E EPS. We need to see earnings traction from the company at a consolidated level. Our GRM assumption of US\$ 9/bbl for FY21 carries downside risks, looking at the Q1FY21 data. Benchmark Singapore complex GRMs remain negative and far from revival.

We roll forward to a Sep'21 SOTP-based target price of Rs 1,895 (from Rs 1,820) and downgrade the stock to SELL (from REDUCE) as pressure in the cyclical business (with downside risk to earnings) and retail business caps valuation upside potential.

FIG 4 – REVISED ESTIMATES (CONSOLIDATED)

Consolidated (Rs mn)	FY21E			FY22E			FY23E		
	Old	New	Var (%)	Old	New	Var (%)	Old	New	Var (%)
Revenue	3,785,945	3,785,945	-	4,775,147	4,794,554	26.6	4,584,413.1	4,604,317	(3.6)
EBITDA	938,561	938,561	-	1,393,498	1,412,455	1.4	1,709,814.8	1,729,258	1.1
EBITDA margin (%)	24.8	24.8	-	29.2	29.5	-	37.3	37.6	-
PAT	484,596	484,225	(0.1)	795,924	771,058	(3.1)	1,072,479.2	1,016,206	(5.2)
PAT margin (%)	12.8	12.8	-	16.7	16.1	-	23.4	22.1	-
EPS (Rs)	71.7	71.6	(0.1)	117.7	114.0	(3.1)	158.6	150.3	(5.2)

Source: BOBCAPS Research

FIG 5 – RIL EBITDA COMPOSITION

Consolidated business EBITDA (Rs bn)	FY18	FY19	FY20	FY21E	FY22E	FY23E
Petrochemicals	259	376	309	263	301	303
YoY growth (%)	50.9	45.6	(17.8)	(15.1)	14.6	0.6
% of total	39.3	44.9	35.1	28.0	21.3	17.5
Refining	290	230	245	162	329	343
YoY growth (%)	2.1	(20.5)	6.2	(33.8)	103.1	4.3
% of total	44.1	27.5	27.8	17.2	23.3	19.8
E&P	17	18.6	5.8	(38)	(44)	(9)
YoY growth (%)	(223.1)	10.7	(68.8)	(757.5)	15.7	(79.5)
% of total	2.6	2.2	0.7	(4.1)	(3.1)	(0.5)
RJIO	67.3	151.0	225.2	378.9	542.8	693.8
YoY growth (%)		124.4	49.1	68.3	43.3	27.8
% of total	10.2	18.0	25.5	40.4	38.4	40.1
Retail	25.3	62.0	96.5	123.0	233.7	348.4
YoY growth (%)	110.2	145.2	55.7	27.4	90.0	49.0
% of total	3.8	7.4	11.0	13.1	16.5	20.1
Consolidated business EBITDA	658	838	881	939	1,412	1,729
YoY growth (%)	42.4	27.4	5.1	6.5	50.5	22.4
RoCE (%)	7.8	8.2	7.9	7.2	9.8	11.7
RoE (%)	12.4	11.5	10.9	10.3	13.6	15.7

Source: BOBCAPS Research

Our SOTP valuation is outlined below:

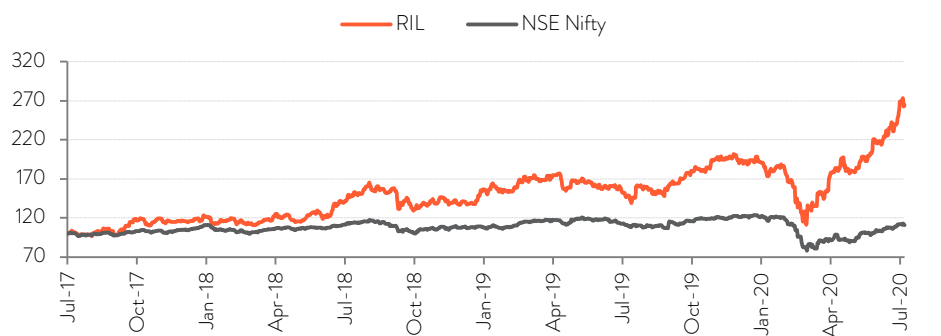
- **Cyclicals:** Refining (Rs 300/sh, from Rs 275) and petrochemicals (Rs 268/sh from Rs 267) businesses each valued at 6x Sep'22E EBITDA (unchanged, at par with global peers)
- **RJio:** Valued at Rs 612/sh based on 10x (9x earlier) Sep'22E EBITDA (Rs 722 earlier, after adjusting for stake sale). We estimate FY21/FY22/FY23 ARPU at Rs 148/Rs 160/Rs 170
- **Retail:** Valued at Rs 861/sh based on unchanged 20x Sep'22E EBITDA (from Rs 691 earlier)

FIG 6 – SOTP VALUATION SUMMARY

Business	Fair Value		Value/share	Comments
	(US\$ bn)	(Rs bn)	(Rs)	
Refining	27	2,015	300	6x Sep'22E EBITDA
Petrochem	24	1,810	268	6x Sep'22E EBITDA
Cyclical business value	51	3,826	566	
E&P business	0.5	38	6	Includes KG-D6 and shale
Jio	54	4,135	612	10x Sep'22E EBITDA, adjusted for stake sale
Reliance Retail	77	5,821	861	20x Sep'22E EBITDA
Enterprise value	182	13,821	2,044	
Net Debt	13	1,020	151	Average of FY21/22 consolidated
Equity value	168	12,800	1,895	~17x FY22E EPS

Source: BOBCAPS Research

FIG 7 – RELATIVE STOCK PERFORMANCE



Source: NSE

Key risks

- **Additional investments:** We haven't factored in the Saudi Aramco deal and estimate that net debt will still average Rs 1.35tn by end-FY22. Execution of this deal and any further investments in RJio or the fibre InVIT could raise our valuations.
- **Better outlook on global economy:** RIL's valuations are highly sensitive to GRM and petrochemical crack movements. A better-than-expected recovery in global economies can raise these spreads and change our valuation outlook.
- **Higher operating margins in RJio:** We factor in ramp-up in RJio's subscriber numbers (>450mn) and ARPUs (~Rs 170/mth) by FY23. The industry has been talking about higher ARPUs by FY23 (>Rs 200), which could take operating margins well above our estimates.
- **Better growth in retail revenues:** RIL has been significantly outperforming estimates on retail business revenue growth. We model for deceleration in retail business EBITDA in FY21 given the economic slowdown. Better-than-expected growth would alter our estimates.

FINANCIALS

Income Statement

Y/E 31 Mar (Rs mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Total revenue	5,830,940	6,116,450	3,785,945	4,794,554	4,604,317
EBITDA	841,670	882,170	938,561	1,412,455	1,729,258
Depreciation	(209,340)	(222,030)	(261,616)	(296,311)	(311,496)
EBIT	632,330	660,140	676,945	1,116,144	1,417,762
Net interest income/(expenses)	(164,950)	(220,270)	(135,111)	(100,224)	(76,088)
Other income/(expenses)	86,350	139,560	193,391	146,347	159,848
Exceptional items	0	(44,440)	0	0	0
EBT	553,730	579,430	735,225	1,162,266	1,501,522
Income taxes	(153,900)	(137,260)	(196,814)	(299,952)	(357,776)
Min. int./Inc. from associates	1,030	1,070	(54,186)	(91,257)	(127,540)
Reported net profit	400,860	398,800	484,225	771,058	1,016,206
Adjusted net profit	400,860	443,240	484,225	771,058	1,016,206

Balance Sheet

Y/E 31 Mar (Rs mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Accounts payables	1,083,090	967,990	1,317,061	1,180,895	1,168,638
Other current liabilities	1,442,530	2,209,060	1,009,060	1,009,060	1,009,060
Provisions	41,820	36,800	90,069	70,482	77,598
Debt funds	2,719,420	3,102,210	2,302,210	2,152,210	1,652,210
Other liabilities	687,620	729,620	747,899	779,275	813,818
Equity capital	59,260	63,390	67,616	67,616	67,616
Reserves & surplus	3,850,250	3,978,260	5,152,916	5,853,905	6,819,628
Shareholders' fund	3,909,510	4,041,650	5,220,532	5,921,521	6,887,244
Total liabilities and equities	9,966,790	11,167,490	10,766,990	11,193,603	11,688,728
Cash and cash eq.	110,810	309,200	106,500	122,523	138,844
Accounts receivables	300,890	196,560	235,138	214,171	212,844
Inventories	675,610	739,030	951,678	855,306	848,612
Other current assets	744,760	737,390	737,390	737,390	737,390
Investments	2,356,350	2,767,670	2,217,670	2,417,670	2,617,670
Net fixed assets	3,863,770	5,223,990	5,835,222	5,995,552	6,266,777
CWIP	1,794,630	1,091,060	570,801	728,401	734,001
Intangible assets	119,970	102,590	112,590	122,590	132,590
Total assets	9,966,790	11,167,490	10,766,990	11,193,603	11,688,727

Source: Company, BOBCAPS Research

Cash Flows

Y/E 31 Mar (Rs mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Net income + Depreciation	608,350	620,830	745,841	1,067,369	1,327,701
Changes in working capital	(653,830)	694,690	(1,048,887)	(38,412)	2,880
Other operating cash flows	116,700	(53,120)	(175,112)	(114,971)	(125,305)
Cash flow from operations	71,220	1,262,400	(478,157)	913,986	1,205,276
Capital expenditures	(14,950)	(878,680)	(352,589)	(614,241)	(588,321)
Change in investments	(1,331,690)	(409,780)	560,000	10,000	10,000
Other investing cash flows	(47,850)	120,640	193,391	(53,653)	(40,152)
Cash flow from investing	(1,394,490)	(1,167,820)	400,802	(657,894)	(618,473)
Equities issued/Others	40	4,130	531,208	0	0
Debt raised/repaid	917,090	382,790	(800,000)	(150,000)	(500,000)
Dividends paid	(42,810)	(54,854)	(38,228)	(90,069)	(70,482)
Other financing cash flows	482,540	(44,440)	0	0	0
Cash flow from financing	1,356,860	287,626	(307,019)	(240,069)	(570,482)
Changes in cash and cash eq.	33,590	382,206	(384,375)	16,023	16,321
Closing cash and cash eq.	76,140	493,016	106,500	122,523	138,844

Per Share

Y/E 31 Mar (Rs)	FY19A	FY20A	FY21E	FY22E	FY23E
Reported EPS	67.6	62.9	71.6	114.0	0.0
Adjusted EPS	59.3	65.6	71.6	114.0	150.3
Dividend per share	6.8	4.7	11.1	8.7	9.6
Book value per share	659.7	637.6	772.1	875.8	1,018.6

Valuations Ratios

Y/E 31 Mar (x)	FY19A	FY20A	FY21E	FY22E	FY23E
EV/Sales	2.8	2.7	4.5	3.5	3.6
EV/EBITDA	19.2	18.6	18.1	11.9	9.5
Adjusted P/E	35.6	32.2	29.4	18.5	14.0
P/BV	3.2	3.3	2.7	2.4	2.1

DuPont Analysis

Y/E 31 Mar (%)	FY19A	FY20A	FY21E	FY22E	FY23E
Tax burden (Net profit/PBT)	72.4	82.9	65.9	66.3	67.7
Interest burden (PBT/EBIT)	87.6	81.0	108.6	104.1	105.9
EBIT margin (EBIT/Revenue)	10.8	10.8	17.9	23.3	30.8
Asset turnover (Revenue/Avg TA)	64.6	57.9	34.5	43.7	40.2
Leverage (Avg TA/Avg Equity)	2.6	2.7	2.4	2.0	1.8
Adjusted ROAE	11.7	11.1	10.5	13.8	15.9

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

Ratio Analysis

Y/E 31 Mar	FY19A	FY20A	FY21E	FY22E	FY23E
YoY growth (%)					
Revenue	42.8	4.9	(38.1)	26.6	(4.0)
EBITDA	31.2	4.8	6.4	50.5	22.4
Adjusted EPS	13.6	10.6	9.2	59.2	31.8
Profitability & Return ratios (%)					
EBITDA margin	14.4	14.4	24.8	29.5	37.6
EBIT margin	10.8	10.8	17.9	23.3	30.8
Adjusted profit margin	6.9	7.2	12.8	16.1	22.1
Adjusted ROAE	11.7	11.1	10.5	13.8	15.9
ROCE	7.9	7.0	6.7	10.5	12.9
Working capital days (days)					
Receivables	15	15	21	17	17
Inventory	58	63	57	68	65
Payables	79	72	146	135	149
Ratios (x)					
Gross asset turnover	1.0	0.9	0.5	0.6	0.5
Current ratio	0.6	0.5	0.6	0.6	0.5
Net interest coverage ratio	3.8	3.0	5.0	11.1	18.6
Adjusted debt/equity	0.7	0.7	0.4	0.3	0.2

Source: Company, BOBCAPS Research

Disclaimer

Recommendations and Absolute returns (%) over 12 months

BUY – Expected return >+15%

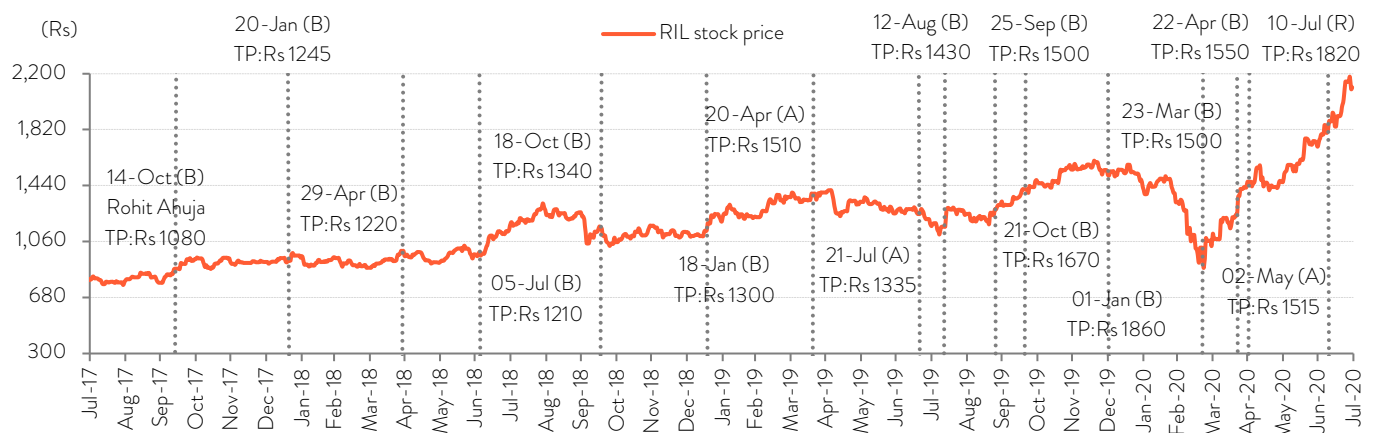
ADD – Expected return from >+5% to +15%

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)

RATINGS AND TARGET PRICE (3-YEAR HISTORY): RELIANCE INDUSTRIES (RIL IN)



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

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