

REDUCE

TP: Rs 2,090 | ▲ 2%

RELIANCE INDUSTRIES

Oil & Gas

23 January 2021

Oil-to-Chemicals outlook remains cloudy

Q3FY21 highlights: (a) RIL's EBITDA was in line with estimates at Rs 216bn (-5% YoY, +14% QoQ) as Oil-to-Chemicals (O2C) and RJio met expectations while retail outperformed. (b) RJio EBITDA was in line at Rs 89.4bn (+53% YoY) backed by good ARPU (Rs 151) and subscriber adds (5mn net). (c) O2C EBITDA was also on par with estimates at Rs 97bn. However, given the persistently weak GRMs and stronger INR, we downgrade FY22/FY23 EPS by ~10%. Maintain **REDUCE** as we roll over to a new Mar'22 TP of Rs 2,090 (vs. Rs 2,000).

Rohit Ahuja

research@bobcaps.in

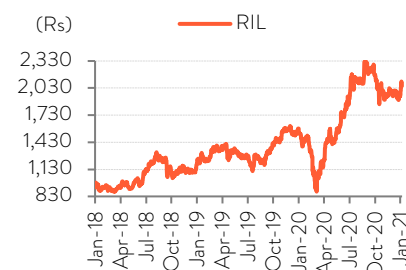
Cyclical earnings remain a drag: RIL's cyclicals business reporting has become even more opaque, with no disclosures on GRM data this time around – the only global oil major to do this. Considering that O2C EBITDA is in line with our estimates, we believe GRMs would have been ~US\$ 7/bbl and petchem EBITDA at Rs 67bn. Singapore benchmark GRMs remain muted at US\$ 1-2/bbl. Sharp recovery in the Chinese economy would imply a positive outlook for petrochemical margins. The recent surge in spot LNG prices augurs well for the economics of petcoke gasifiers, giving RIL a strong margin advantage. We remain cautious on cyclicals as margin recovery may be pushed back to FY22.

Ticker/Price	RIL IN/Rs 2,050
Market cap	US\$ 190.0bn
Shares o/s	6,762mn
3M ADV	US\$ 412.0mn
52wk high/low	Rs 2,369/Rs 876
Promoter/FPI/DII	50%/25%/24%

Source: NSE

RJio earnings surge sustains; retail recovers sharply: ARPU expansion to Rs 151 (+4% QoQ) and in-line subscriber additions (5mn net) aided EBITDA of Rs 89bn for RJio, meeting our estimate. Per capita data consumption improved 4% QoQ to 12.9GB/month. Retail business EBITDA at Rs 31bn was above estimates (+14% YoY) on improvement in margins, and one-time investment income of Rs7.75 bn from transfer of petroleum retail outlets.

STOCK PERFORMANCE



Source: NSE

Deleveraging well priced in: We need to see earnings traction to justify the recent surge in stock price as the rally factors in positives from debt reduction. O2C earnings growth remains elusive in the current pandemic led uncertainty.

KEY FINANCIALS

Y/E 31 Mar	FY19A	FY20A	FY21E	FY22E	FY23E
Total revenue (Rs mn)	5,830,940	6,116,450	4,113,535	5,821,650	6,217,523
EBITDA (Rs mn)	841,670	882,170	850,123	1,307,959	1,598,365
Adj. net profit (Rs mn)	400,860	443,240	444,114	759,988	968,550
Adj. EPS (Rs)	59.3	65.6	65.7	112.4	143.2
Adj. EPS growth (%)	13.6	10.6	0.2	71.1	27.4
Adj. ROAE (%)	11.7	11.1	8.7	11.7	13.2
Adj. P/E (x)	34.6	31.3	31.2	18.2	14.3
EV/EBITDA (x)	18.7	18.2	19.5	12.5	10.0

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 (CONSOLIDATED)

(Rs mn)	Q3FY21	Q3FY20	YoY (%)	Q2FY21	QoQ (%)	9MFY21	9MFY20	YoY (%)
Gross revenue	1,378,290	1,690,980	(18.5)	1,283,850	7.4	3,671,430	5,059,080	(27.4)
Less: Excise duty	61,370	38,630	58.9	49,590	23.8	140,810	118,590	18.7
Less: GST recovered	138,320	120,560	14.7	121,900	13.5	357,130	353,680	-
Net sales	1,178,600	1,531,790	(23.1)	1,112,360	6.0	3,173,490	4,586,810	(30.8)
Raw material costs	535,180	683,730	(21.7)	442,200	21.0	1,330,240	2,029,380	(34.5)
% of sales	45.4	44.6	-	39.8	-	41.9	44.2	-
Other expenditure	427,760	621,800	(31.2)	480,710	(11.0)	1,269,390	1,896,500	(33.1)
% of sales	36.3	40.6	-	43.2	-	40.0	41.3	-
EBITDA	215,660	226,260	(4.7)	189,450	13.8	573,860	660,930	(13.2)
EBITDA margin (%)	18.3	14.8	-	17.0	-	18.1	14.4	-
Depreciation & amortization	66,650	55,450	20.2	66,260	0.6	195,990	158,710	23.5
Interest	43,260	54,040	(19.9)	60,840	(28.9)	171,450	159,630	7.4
Other income	44,530	34,050	30.8	42,490	4.8	130,900	101,650	28.8
PBT	150,280	150,820	(0.4)	104,840	43.3	337,320	444,240	(24.1)
Provision for tax*	(1,210)	(1,770)	-	-	-	-	-	-
Exceptional item	880	31,210	(97.2)	(130)	(776.9)	3,350	110,490	(97.0)
PAT	148,190	118,410	25.1	106,020	39.8	333,970	335,600	(0.5)
Adj. PAT	112,050	120,180	(6.8)	106,020	5.7	250,478	335,600	(25.4)
EPS (Rs)	18.9	19.0	(0.2)	16.4	15.0	42.3	56.7	(25.4)

Source: Company, BOBCAPS Research | *Tax rate is low on adjustments from creation of Oil-to-Chemicals subsidiary

FIG 2 – QUARTERLY PERFORMANCE SEGMENT-WISE (CONSOLIDATED)

(Rs mn)	Q3FY21	Q3FY20	YoY (%)	Q2FY21	QoQ (%)	9MFY21	9MFY20	YoY (%)
Refining revenues	838,380	1,406,270	(40.4)	918,190	(8.7)	2,374,906	4,157,260	(42.9)
% Sales	54	67	-	56	-	54	67	-
EBITDA	97,560	137,820	(29.2)	89,660	8.8	269,700	423,300	(36.3)
EBITDA margins (%)	11.6	9.8	-	9.8	-	11.4	10.2	-
% Total RIL EBITDA	45	61	-	47	-	47	64	-
EBIT	76,470	115,370	(33.7)	68,950	10.9	214,141	361,120	(40.7)
Oil & Gas	4,310	8,730	(50.6)	3,550	21.4	12,920	25,860	(50.0)
% Sales	0.3	0.4	-	0.2	-	0.6	0.8	-
EBITDA	40	640	(93.8)	(1,940)	(102.1)	(2,220)	3,990	(155.6)
EBITDA margins (%)	0.9	7.3	-	(54.6)	-	(17.2)	15.4	-
% Total RIL EBITDA	0	0	-	(1)	-	(1)	2	-
EBIT	(4,470)	(3,660)	(22.1)	(6,300)	(29.0)	(15,880)	(9,210)	(72.4)
Organized Retail	368,870	453,270	(18.6)	391,990	(5.9)	1,077,190	1,247,250	(13.6)
% Sales	23.6	21.7	-	24.0	-	47.4	41.1	-
EBITDA	31,020	27,270	13.8	20,090	54.4	61,940	70,980	(12.7)
EBITDA margins (%)	8.4	6.0	-	5.1	-	5.8	5.7	-
% Total RIL EBITDA	14	13	-	9	-	29	33	-
EBIT	26,090	23,890	9.2	15,220	71.4	48,530	62,010	(21.7)
Digital Service	236,780	175,550	34.9	226,790	4.4	676,590	480,840	40.7
% Sales	15.1	8.4	-	13.9	-	29.9	15.9	-
EBITDA	89,420	58,330	53.3	83,450	7.2	250,900	160,650	56.2
EBITDA margins (%)	37.8	33.2	-	36.8	-	37.1	33.4	-

(Rs mn)	Q3FY21	Q3FY20	YoY (%)	Q2FY21	QoQ (%)	9MFY21	9MFY20	YoY (%)
% Total RIL EBITDA	41	26	-	44	-	44	24	-
EBIT	57,160	38,570	48.2	51,570	10.8	155,810	102,590	51.9
Others revenues	116,080	48,790	137.9	89,540	29.6	294,050	255,480	15.1
% Sales	7.4	2.3	-	5.5	-	13.4	7.4	-
EBITDA	(7,881)	2,200	458.2	(1,810)	335.4	(11,961)	2,010	(695.1)
EBITDA margins (%)	(6.8)	4.5	-	(2.0)	-	(4.1)	0.8	-
Total Revenues	1,564,420	2,092,610	(25.2)	1,630,060	(4.0)	4,435,656	6,166,690	(28.1)
Less: Inter segment transfers	186,130	401,630	(53.7)	346,210	(46.2)	864,230	1,107,610	(22.0)
Reported Gross Sales	1,378,290	1,690,980	(18.5)	1,283,850	7.4	3,571,426	5,059,080	(29.4)
Less: GST recovered	138,320	120,560	14.7	121,900	13.5	357,130	353,680	1.0
Reported Net Sales	1,239,970	1,570,420	(21.0)	1,161,950	6.7	3,214,296	4,705,400	(31.7)
Total Reported EBITDA	215,660	226,260	(4.7)	189,450	13.8	573,860	660,930	(13.2)

Source: Company, BOBCAPS Research

Earnings webinar takeaways

RJio thrives

- The 5G solutions segment carries strong potential and is awaiting 5G spectrum allocation from the government for trials.
- RJio added ~5mn wireless subscribers (net) in Q3FY21 vs. 7.3mn in Q2FY21 – lower than estimates, taking its total subscriber base to ~410mn. The subscriber churn rate was exceptionally high at ~2% in Q2 (vs. an average of ~1%) as competition in the telecom space heats up.
- Per capita wireless data usage improved 4% QoQ to 12.9GB/month. JioFiber usage has risen significantly and crossed 1.1mn subscribers in Q3. The recent reduction in price (Rs 399 introductory plan) coupled with removal of data caps across plans could help accelerate JioFiber subscriber additions.
- Management expects ARPU expansion to continue through FY22, from the current Rs 151 to Rs 165 by end-FY22, as most discount offers expire.

Retail EBITDA surges

- One-time investment income of Rs 7.75bn from transfer of petroleum retail ownership (~500 CoCo retail outlets) to RBML (RIL-BP JV) boosted retail business EBITDA. Excluding this, the segment's EBITDA at Rs 23bn (7% operating margin) was still in line with expectations.
- The extended Covid-led lockdown continues to affect retail earnings. About 96% of stores were operational over Q3FY21 (from 85% in Q2) but footfalls remained flat QoQ at 5% of pre-pandemic levels.

- Store additions improved in Q3 with ~327 outlets added – close to the pre-Covid run-rate of 350/quarter.
- Offline-online integration continues and most segments have become fully integrated with online ordering (or omni-channel).

Cyclicals remain a drag

- RIL has categorised refining and petrochemicals into the O2C segment, taking into consideration the integration among the two businesses.
- Global oil demand recovery has seen disruptions from the reimposition of lockdowns in Europe and the UK.
- GRMs remained muted throughout Q3FY21. Trends are improving in Q4 as Asian economies have begun to normalise.
- Demand improved significantly across petrochemical categories QoQ as domestic consumers replaced imports with domestic suppliers, given concerns over global supply chains. With a higher proportion of domestic sales, RIL's petchem margins improved QoQ.

Valuation methodology

Given that consumer-facing businesses formed >50% of RIL's EBITDA in Q3FY21, we believe current valuations at 14x FY23E EPS look demanding as earnings growth and ROE expansion remain weak. We cut our GRM estimates for FY21/FY22/FY23 by US\$ 1/bbl each due to concerns over global oil demand growth. Benchmark Singapore complex GRMs have recovered marginally but still trend well below the five-year average of US\$ 4.5/bbl. The cut in margin assumptions leads to a ~10% reduction in FY22/FY23 EPS estimates. Maintain REDUCE as we roll over to a new Mar'22 target price of Rs 2,090 (vs. Rs 2,000).

FIG 3 – REVISED ESTIMATES (CONSOLIDATED)

(Rs mn)	FY21E			FY22E			FY23E		
	Old	New	Var (%)	Old	New	Var (%)	Old	New	Var (%)
Revenue	4,038,781	4,113,535	1.9	5,373,906	5,821,650	8.3	5,571,457	6,217,523	11.6
EBITDA	906,382	850,123	(6.2)	1,390,907	1,307,959	(6.0)	1,677,620	1,598,365	(4.7)
EBITDA margin (%)	22.4	20.7	-	25.9	22.5	-	30.1	25.7	-
PAT	457,572	444,114	(2.9)	847,408	759,988	(10.3)	1,082,088	968,550	(10.5)
PAT margin (%)	11.3	10.8	-	15.8	13.1	-	19.4	15.6	-
EPS (Rs)	67.7	65.7	(2.9)	125.3	112.4	(10.3)	160.0	143.2	(10.5)

Source: BOBCAPS Research

FIG 4 – RIL EBITDA COMPOSITION (CONSOLIDATED)

Business EBITDA (Rs bn)	FY18	FY19	FY20	FY21E	FY22E	FY23E
Petrochemicals	259	376	309	259	311	314
YoY growth (%)	50.9	45.6	(17.8)	(16.1)	19.7	1.2
% of total	39.3	44.9	35.1	30.5	23.8	19.7
Refining	290	230	245	130	259	299
YoY growth (%)	2.1	(20.5)	6.2	(46.9)	99.2	15.6
% of total	44.1	27.5	27.8	15.3	19.8	18.7
E&P	17	18.6	5.8	(26)	(31)	(9)
YoY growth (%)	(223.1)	10.7	(68.8)	(554.8)	17.4	(70.9)
% of total	2.6	2.2	0.7	(3.1)	(2.4)	(0.6)
RJio	67.3	151.0	225.2	344.7	510.7	631.5
YoY growth (%)		124.4	49.1	53.1	48.2	23.7
% of total	10.2	18.0	25.5	40.5	39.0	39.5
Retail	25.3	62.0	96.5	92.1	208.6	312.1
YoY growth (%)	110.2	145.2	55.7	(4.6)	126.5	49.6
% of total	3.8	7.4	11.0	10.8	15.9	19.5
Consolidated business EBITDA	658	838	881	850	1,308	1,598
YoY growth (%)	42.4	27.4	5.1	(3.6)	53.9	22.2
ROCE (%)	7.8	8.2	7.9	7.2	8.6	10.1
ROE (%)	12.4	11.5	10.9	8.2	10.8	12.4

Source: BOBCAPS Research

Our SOTP valuation is outlined below:

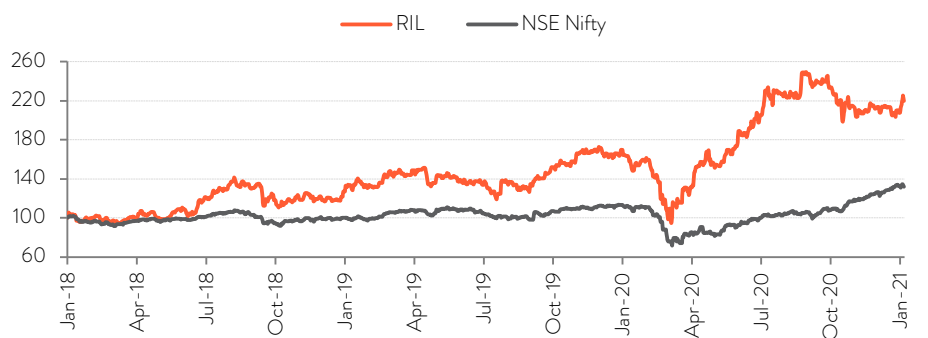
- **Cyclicals:** Refining valued at 6.5x (Rs 287/sh from Rs 323 earlier) and petrochemicals at 7x (Rs 326/sh from Rs 312/sh) on FY23E EBITDA (multiples unchanged)
- **RJio:** Valued at Rs 625/sh (vs. Rs 575 earlier, after adjusting for stake sale), based on an unchanged 10x FY23E EBITDA. We estimate FY21/FY22/FY23 ARPU at Rs 148/Rs 165/Rs 170
- **Retail:** Valued at Rs 845/sh (vs. Rs 784 earlier, after adjusting for stake sale), based on an unchanged 20x FY23E EBITDA multiple

FIG 5 – SOTP VALUATION SUMMARY

Business	Fair Value		Value/share (Rs)	Comments
	(US\$ bn)	(Rs bn)		
Refining	26	1,942	287	6.5x FY23E EBITDA
Petrochem	30	2,201	326	7.0x FY23E EBITDA
Cyclical business value	56	4,143	613	
E&P business	0.7	50	6	Includes KG-D6 and shale
Jio	57	4,224	625	10x FY23E EBITDA, adjusted for stake sale
Reliance Retail	77	5,711	845	20x FY23E EBITDA, adjusted for stake sale
Enterprise value	191	14,130	2,090	
Net Debt	0	0	0	Adjusted for recent fund-raising
Equity value	191	14,130	2,090	14x FY23E EPS

Source: BOBCAPS Research

FIG 6 – RELATIVE STOCK PERFORMANCE



Source: NSE

Key risks

- **Better outlook on global economy:** RIL's valuations are highly sensitive to GRM and petrochemical crack movements. Better-than-expected recovery in global economies can raise these spreads and alter 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. All telecom operators are eyeing much higher ARPU expansion by FY23 (Rs 200-300) – if this happens, it could take RJio's operating earnings well above 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. Above-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	4,113,535	5,821,650	6,217,523
EBITDA	841,670	882,170	850,123	1,307,959	1,598,365
Depreciation	(209,340)	(222,030)	(281,356)	(296,298)	(311,401)
EBIT	632,330	660,140	568,768	1,011,661	1,286,964
Net interest income/(expenses)	(164,950)	(220,270)	(216,177)	(133,633)	(123,644)
Other income/(expenses)	86,350	139,560	193,391	236,539	241,282
Exceptional items	0	(44,440)	0	0	0
EBT	553,730	579,430	545,981	1,114,567	1,404,603
Income taxes	(153,900)	(137,260)	(58,988)	(271,276)	(323,942)
Min. int./Inc. from associates	1,030	1,070	(42,879)	(83,303)	(112,111)
Reported net profit	400,860	398,800	444,114	759,988	968,550
Adjusted net profit	400,860	443,240	444,114	759,988	968,550

Balance Sheet

Y/E 31 Mar (Rs mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Accounts payables	1,083,090	967,990	1,317,061	1,023,969	965,884
Other current liabilities	1,442,530	2,209,060	1,009,060	1,009,060	1,009,060
Provisions	41,820	36,800	99,218	63,477	71,425
Debt funds	2,719,420	3,102,210	2,302,210	2,152,210	1,652,210
Other liabilities	687,620	729,620	733,408	761,665	793,461
Equity capital	59,260	63,390	67,616	67,616	67,616
Reserves & surplus	3,850,250	3,978,260	6,112,804	6,793,574	7,718,647
Shareholders' fund	3,909,510	4,041,650	6,180,420	6,861,190	7,786,263
Total liabilities and equities	9,966,790	11,167,490	12,141,378	12,371,571	12,778,304
Cash and cash eq.	110,810	309,200	199,570	75,468	44,288
Accounts receivables	300,890	196,560	229,741	204,305	199,340
Inventories	675,610	739,030	909,733	769,602	737,880
Other current assets	744,760	737,390	737,390	737,390	737,390
Investments	2,356,350	2,767,670	3,567,670	3,767,670	3,967,670
Net fixed assets	3,863,770	5,223,990	5,815,482	5,974,545	6,239,145
CWIP	1,794,630	1,091,060	569,201	720,001	720,001
Intangible assets	119,970	102,590	112,590	122,590	132,590
Total assets	9,966,790	11,167,490	12,141,378	12,371,571	12,778,304

Source: Company, BOBCAPS Research

Cash Flows

Y/E 31 Mar (Rs mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Net income + Depreciation	608,350	620,830	725,470	1,056,286	1,279,951
Changes in working capital	(653,830)	694,690	(992,395)	(163,266)	(13,449)
Other operating cash flows	116,700	(53,120)	(189,602)	(208,282)	(209,487)
Cash flow from operations	71,220	1,262,400	(456,528)	684,738	1,057,015
Capital expenditures	(14,950)	(878,680)	(350,989)	(606,161)	(576,001)
Change in investments	(1,331,690)	(409,780)	(290,000)	10,000	10,000
Other investing cash flows	(47,850)	120,640	(306,610)	36,539	41,282
Cash flow from investing	(1,394,490)	(1,167,820)	(947,599)	(559,622)	(524,719)
Equities issued/Others	40	4,130	1,951,048	0	0
Debt raised/repaid	917,090	382,790	(800,000)	(150,000)	(500,000)
Dividends paid	(42,810)	(54,854)	(38,228)	(99,218)	(63,477)
Other financing cash flows	482,540	(44,440)	0	0	0
Cash flow from financing	1,356,860	287,626	1,112,821	(249,218)	(563,477)
Changes in cash and cash eq.	33,590	382,206	(291,305)	(124,102)	(31,180)
Closing cash and cash eq.	76,140	493,016	199,570	75,468	44,288

Per Share

Y/E 31 Mar (Rs)	FY19A	FY20A	FY21E	FY22E	FY23E
Reported EPS	67.6	62.9	65.7	112.4	143.2
Adjusted EPS	59.3	65.6	65.7	112.4	143.2
Dividend per share	6.8	4.7	12.2	7.8	8.8
Book value per share	659.7	637.6	914.0	1,014.7	1,151.5

Valuations Ratios

Y/E 31 Mar (x)	FY19A	FY20A	FY21E	FY22E	FY23E
EV/Sales	2.7	2.6	4.0	2.8	2.6
EV/EBITDA	18.7	18.2	19.5	12.5	10.0
Adjusted P/E	34.6	31.3	31.2	18.2	14.3
P/BV	3.1	3.2	2.2	2.0	1.8

DuPont Analysis

Y/E 31 Mar (%)	FY19A	FY20A	FY21E	FY22E	FY23E
Tax burden (Net profit/PBT)	72.4	82.9	81.3	68.2	69.0
Interest burden (PBT/EBIT)	87.6	81.0	96.0	110.2	109.1
EBIT margin (EBIT/Revenue)	10.8	10.8	13.8	17.4	20.7
Asset turnover (Revenue/Avg TA)	64.6	57.9	35.3	47.5	49.4
Leverage (Avg TA/Avg Equity)	2.6	2.7	2.3	1.9	1.7
Adjusted ROAE	11.7	11.1	8.7	11.7	13.2

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	(32.7)	41.5	6.8
EBITDA	31.2	4.8	(3.6)	53.9	22.2
Adjusted EPS	13.6	10.6	0.2	71.1	27.4
Profitability & Return ratios (%)					
EBITDA margin	14.4	14.4	20.7	22.5	25.7
EBIT margin	10.8	10.8	13.8	17.4	20.7
Adjusted profit margin	6.9	7.2	10.8	13.1	15.6
Adjusted ROAE	11.7	11.1	8.7	11.7	13.2
ROCE	7.9	7.0	6.3	8.3	10.2
Working capital days (days)					
Receivables	15	15	19	14	12
Inventory	58	63	58	71	66
Payables	79	72	128	95	79
Ratios (x)					
Gross asset turnover	1.0	0.9	0.5	0.7	0.7
Current ratio	0.6	0.5	0.6	0.6	0.5
Net interest coverage ratio	3.8	3.0	2.6	7.6	10.4
Adjusted debt/equity	0.7	0.7	0.3	0.3	0.2

Source: Company, BOBCAPS Research

Disclaimer

Recommendations and Absolute returns (%) over 12 months

BUY – Expected return >+15%

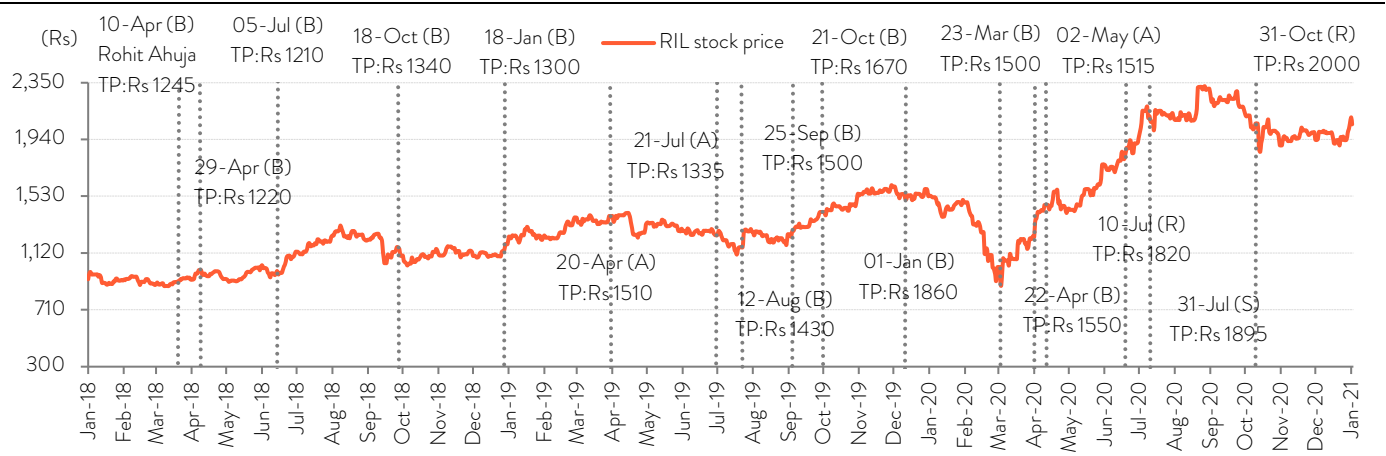
ADD – Expected return from >+5% to +15%

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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