

Retail Equity Research

Reliance Industries Limited

Oil, Gas & Consumable Fuels

BSE CODE: 500325

NSE CODE: RELIANCE

Bloomberg CODE: RIL:IN

SENSEX: 38,964

HOLD

12M Investment period

Rating as per Large Cap

CMP Rs. 1,414 **TARGET** Rs. 1,540 **RETURN** 9% 
(Closing: 22-10-19)

KEY CHANGES:

TARGET 

RATING 

EARNINGS 

Digital Services, Retail lead the way

Reliance Industries Ltd. is one of the largest private sector companies in India with businesses in telecommunication, petrochemicals, synthetic fibers, fiber intermediates, textiles, retail and energy.

- Revenue from operations grew 4.2% YoY in Q2FY20 marginally missing street estimates (-0.2%). Revenue growth was led by Retail (+27.0% YoY) and Digital Services segments (+42.7%), partially offset by weaker Petrochem operations (-11.9%).
- EBITDA margin was up 170bps YoY to 17.0% primarily on margin expansions in Retail and Digital Services businesses.
- Adj. PAT rose 18.3% YoY to Rs. 11,262cr, further benefitted from lower tax rates. Adj. PAT beat street expectations by 1.2%.
- Given oil pricing pressures and challenging business environment, we maintain our HOLD rating on the stock with a revised target price of Rs. 1,540 based on SOTP valuation.

Consumer businesses drive Q2

Q2FY20 topline grew 4.2% YoY to Rs. 152,149cr, primarily driven by growth in the Retail segment (+27.0% YoY; contributed ~20.3% of revenue) and Digital Services segment (+42.7% YoY; ~7.7% of revenue). This was partially offset by the lackluster performance from Petrochemicals (-11.9% YoY; ~19.0% of revenue) and Refining segment (-1.6% YoY; ~47.9% of revenue) due to unplanned outages, continued effect of trade tensions and raw material price volatility. Standalone exports fell 12.1% YoY to Rs. 53,161cr. Overall EBITDA margin was up 170 bps YoY to 17.0%, helped by margin expansions in Retail (+180 bps YoY) and Digital Services operations (+315 bps YoY). Adjusted PAT was further helped by lower tax rate under the new tax regime.

Key highlights

- Gross Refining Margin improved to \$9.4 per barrel vs \$8.1 per barrel in Q1FY20, but missing street estimates of \$9.5 per barrel
- Jio's subscriber base increased 40.8% YoY to 355.2mn; addition of 23.9 mn users in Q2 with a strong initial response to its Diwali plan
- ARPU declined to Rs. 120 from Rs. 122 in Q1, registering a fall for the seventh consecutive quarter which indicates that additional users are not contributing enough to company's revenue
- Retail store count at 10,901; 337 stores added in Q2 with focus on strengthening brand portfolio and expansion into Tier 3/Tier 4 markets
- Production in new gas field in KG-D6 block to start in mid-2020

Blockchain, Saudi Aramco, BP deals in pipeline

Saudi Aramco has agreed to invest in a 20% stake in the Refining and Petrochemical business, while RIL will purchase 500k barrels of crude oil per day as part of the deal. RIL also entered into a joint venture with BP for petroleum retailing with 51% stake. Both the deals will help the company benefit from the technology and international experience of the partners. The company also plans to integrate blockchain system for its transportation business which will lead to cost efficiencies.

Valuation

We expect earnings to grow at healthy 17.4% CAGR over FY19-21E. Given the pricing pressures and the challenging business environment, we maintain our HOLD rating with a target price of Rs. 1,540 based on Sum-of-the-Parts valuation.

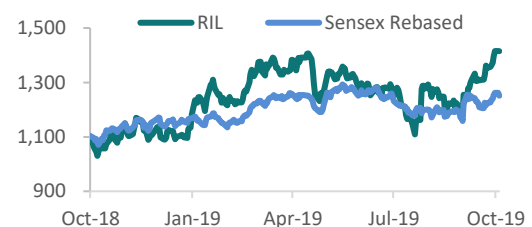
Company Data

Market Cap (cr)	Rs. 896,507
Enterprise Value (cr)	Rs. 1,163,041
Outstanding Shares (cr)	605.8
Free Float	53.0%
Dividend Yield	0.5%
52 week high	Rs. 1,438
52 week low	Rs. 1,017
6m average volume (cr.)	0.9
Beta	1.4
Face value	Rs. 10

Shareholding %	Q4FY19	Q1FY20	Q2FY20
Promoters	47.3	47.3	50.1
FII's	24.3	24.3	23.7
MFs/Insti	12.1	12.0	14.6
Public	9.0	9.0	8.9
Others	7.3	7.5	2.8
Total	100.0	100.0	100.0

Price Performance	3 Month	6 Month	1 Year
Absolute Return	10.4%	5.2%	33.1%
Absolute Sensex	2.5%	0.8%	14.1%
Relative Return*	8.0%	4.3%	19.0%

*over or under performance to benchmark index



Consolidated (cr)	FY19A	FY20E	FY21E
Sales	581,020	633,526	691,350
Growth (%)	42.3	9.0	9.1
EBITDA	92,656	96,171	117,709
EBITDA Margin (%)	15.9	15.2	17.0
Adj. PAT	39,588	44,556	54,577
Growth (%)	9.7	12.5	22.5
Adj. EPS	66.8	73.5	90.1
Growth (%)	9.7	10.1	22.5
P/E	20.4	19.2	15.7
P/B	2.1	2.0	1.8
EV/EBITDA	11.8	12.1	10.0
ROE (%)	10.2	10.4	11.4
D/E	0.7	0.7	0.6

Quarterly Financials (Consolidated)

Profit & Loss Account

	Q2FY20	Q2FY19	YoY Growth %	Q1FY20	QoQ Growth %	H1FY20	H1FY19	YoY Growth %
Revenue	152,149	146,018	4.2	161,349	(5.7)	313,498	279,087	12.3
EBITDA	25,820	22,359	15.5	24,486	5.4	50,227	44,797	12.1
EBITDA margins	17.0	15.3	170bps	15.2	180bps	16.0	16.1	(10bps)
Depreciation	5,315	5,229	1.6	5,011	6.1	10,326	10,402	(0.7)
EBIT	20,451	17,129	19.4	19,450	5.1	39,901	34,395	16.0
Interest	5,450	3,932	38.6	5,109	6.7	10,559	7,482	41.1
Share of profit from Associate	54	1	n.m.	25	116.0	79	11	n.m.
Exceptional Items	-	-	-	-	-	-	-	-
PBT	15,055	13,198	14.1	14,366	4.8	29,421	26,924	9.3
Tax	3,703	3,649	1.5	4,225	(12.4)	7,928	7,890	0.5
Minority Interest	90	33	172.7	37	143.2	127	59	115.3
Reported PAT	11,262	9,516	18.3	10,104	11.5	21,366	18,975	12.6
Adjustments	-	-	-	-	-	-	-	-
Adjusted PAT	11,262	9,516	18.3	10,104	11.5	21,366	18,975	12.6
No. of shares	605.8	592.5	2.2	592.6	2.2	605.8	592.5	2.2
EPS (Rs.)	18.6	16.1	15.8	17.1	9.0	35.3	32.0	10.1

Change in Estimates

Year / Rs. cr	Old estimates		New estimates		Change %	
	FY20E	FY21E	FY20E	FY21E	FY20E	FY21E
Revenue	634,277	693,048	633,526	691,350	(0.1)	(0.2)
EBITDA	98,437	118,351	96,171	117,709	(2.3)	(0.5)
Margins (%)	15.5	17.1	15.2	17.0	(30bps)	(10bps)
Adj. PAT	43,386	52,233	44,556	54,577	2.7	4.5
EPS	73.2	88.1	73.5	90.1	0.4	2.3

Sum of the parts (SOTP) valuation

Particulars	Basis	Multiple	Year	Value (Rs. Cr)	Value/share (Rs.)
Digital Services	EV/EBIT	18.5x	FY21E	309,730	489
Organized Retail	EV/EBIT	21.0x	FY21E	298,591	471
Oil and Gas	EV/EBITDA	7.0x	FY21E	12,672	20
Others	EV/EBIT	1.0x	FY21E	1,608	3
Petrochemicals	EV/EBIT	9.0x	FY21E	337,282	532
Refining	EV/EBIT	15.0x	FY21E	338,308	534
Enterprise Value				1,298,191	2,048
Net Debt				(312,555)	(493)
Minority Interest				(9,281)	(15)
Equity Value				976,355	1,540

PROFIT & LOSS

Y.E March (Rs cr)	FY17A	FY18A	FY19A	FY20E	FY21E
Revenue	330,180	408,265	581,020	633,526	691,350
% change	19.4	23.6	42.3	9.0	9.1
EBITDA	55,529	74,184	92,656	96,171	117,709
% change	5.8	33.6	24.9	3.8	22.4
Depreciation	11,646	16,706	20,934	20,245	24,865
EBIT	43,991	56,332	71,619	75,801	92,688
Interest	3,849	8,052	16,495	15,918	19,340
Other Income	(108)	1,146	103	125	157
PBT	40,034	49,426	55,227	60,008	73,504
% change	11.9	23.5	11.7	8.7	22.5
Tax	10,201	13,346	15,390	15,002	18,376
Tax Rate (%)	25.5	27.0	27.9	25.0	25.0
Reported PAT	29,901	36,075	39,588	44,556	54,577
Adj*	-	-	-	-	-
Adj PAT	29,901	36,075	39,588	44,556	54,577
% change	8.2	20.6	9.7	12.5	22.5
No. of shares (cr)	295.6	592.5	592.6	605.8	605.8
Adj EPS (Rs)	101.1	60.9	66.8	73.5	90.1
% change	7.8	(39.8)	9.7	10.1	22.5
DPS (Rs)	11.0	6.0	6.5	6.5	6.5
CEPS (Rs)	140.5	89.1	102.1	107.0	131.1

CASH FLOW

Y.E March (Rs cr)	FY17A	FY18A	FY19A	FY20E	FY21E
Net inc. + Depn.	41,547	52,781	60,522	64,801	79,442
Non-cash adj.	(7,460)	140	10,363	16,416	19,939
Changes in W.C	15,463	18,538	(25,149)	(5,002)	(3,624)
C.F. Operation	49,550	71,459	45,736	76,215	95,757
Capital exp.	(76,627)	(72,954)	(92,777)	(76,023)	(79,505)
Change in inv.	8,880	2,333	(7,789)	(3,547)	(7,863)
Other invest.CF	1,455	2,331	1,560	649	737
C.F - Investment	(66,292)	(68,290)	(99,006)	(78,921)	(86,631)
Issue of equity	811	406	230	-	-
Issue/repay debt	20,781	19,870	86,456	19,370	14,350
Dividends paid	(53)	(3,916)	(4,282)	(4,120)	(4,120)
Other finance.CF	(12,922)	(18,361)	(26,498)	(16,268)	(20,015)
C.F - Finance	8,617	(2,001)	55,906	(1,019)	(9,786)
Chg. in cash	(8,125)	1,168	2,636	(3,725)	(660)
Closing cash	3,023	4,255	7,512	3,787	3,127

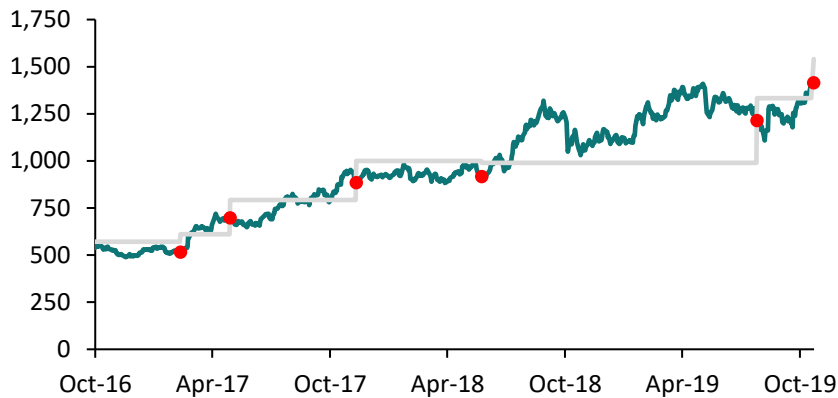
BALANCE SHEET

Y.E March (Rs cr)	FY17A	FY18A	FY19A	FY20E	FY21E
Cash	3,023	4,255	7,512	3,787	3,127
Accounts Receivable	8,177	17,555	30,089	38,012	44,938
Inventories	53,460	60,837	67,561	75,487	84,800
Other Cur. Assets	82,153	101,139	125,593	126,329	127,080
Investments	25,639	25,259	164,549	167,919	175,603
Gross Fixed Assets	331,589	493,430	586,207	662,230	741,735
Net Fixed Assets	168,822	316,031	302,115	360,604	417,892
CWIP	248,929	166,220	150,178	147,174	144,231
Intangible Assets	105,612	108,656	125,544	125,837	126,133
Def. Tax (Net)	-	5,075	4,776	4,728	4,681
Other Assets	10,987	11,321	24,489	24,666	24,844
Total Assets	706,802	816,348	1,002,406	1,074,543	1,153,329
Current Liabilities	203,789	276,423	252,886	264,469	277,835
Provisions	2,351	2,906	2,856	2,856	2,856
Debt Funds	192,701	190,146	281,962	301,332	315,682
Other Liabilities	41,335	49,828	69,310	68,960	68,285
Equity Capital	2,959	5,922	5,926	5,926	5,926
Reserves & Surplus	260,750	287,584	381,186	422,271	473,464
Shareholder's Fund	263,709	293,506	387,112	428,197	479,390
Minority Interest	2,917	3,539	8,280	8,730	9,281
Total Liabilities	706,802	816,348	1,002,406	1,074,543	1,153,329
BVPS (Rs)	892	495	653	707	791

RATIOS

Y.E March	FY17A	FY18A	FY19A	FY20E	FY21E
Profitab. & Return					
EBITDA margin (%)	16.8	18.2	15.9	15.2	17.0
EBIT margin (%)	13.3	13.8	12.3	12.0	13.4
Net profit margin (%)	9.1	8.8	6.8	7.0	7.9
ROE (%)	11.3	12.3	10.2	10.4	11.4
ROCE (%)	9.6	11.6	10.6	10.3	11.5
W.C & Liquidity					
Receivables (days)	9.0	15.7	18.9	21.9	23.7
Inventory (days)	82.3	78.2	60.4	62.1	63.9
Payables (days)	117.9	137.3	96.8	98.6	100.4
Current ratio (x)	0.6	0.6	0.7	0.7	0.8
Quick ratio (x)	0.3	0.3	0.3	0.3	0.3
Turnover & Leverage					
Gross asset T.O (x)	0.7	1.0	1.1	1.0	1.0
Total asset T.O (x)	0.5	0.5	0.6	0.6	0.6
Int. coverage ratio (x)	11.4	7.0	4.3	4.8	4.8
Adj. debt/equity (x)	0.7	0.6	0.7	0.7	0.6
Valuation					
EV/Sales (x)	1.2	1.8	1.9	1.8	1.7
EV/EBITDA (x)	6.9	9.7	11.8	12.1	10.0
P/E (x)	6.4	14.7	20.4	19.2	15.7
P/BV (x)	0.7	1.8	2.1	2.0	1.8

Recommendation Summary



Source: Bloomberg, Geojit Research.

Investment Rating Criteria

Large Cap Stocks;		Mid Cap and Small Cap;			
Buy	-	Upside is above 10%.	Buy	-	Upside is above 15%.
Hold	-	Upside is between 0%- 10%.	Accumulate	-	Upside is between 10% - 15%.
Reduce	-	Downside is more than 0%.	Hold	-	Upside is between 0% - 10%.
Neutral	-	Not Applicable	Reduce/Sell	-	Downside is more than 0%.
			Neutral	-	Not Applicable

To satisfy regulatory requirements, we attribute 'Accumulate' as Buy and 'Reduce' as Sell.

The recommendations are based on 12 month horizon, unless otherwise specified. The investment ratings are on absolute positive/negative return basis. It is possible that due to volatile price fluctuation in the near to medium term, there could be a temporary mismatch to rating.

For reasons of valuations/return/lack of clarity/event we may revisit rating at appropriate time. Please note that the stock always carries the risk of being upgraded to BUY or downgraded to a HOLD, REDUCE or SELL.

Neutral - The analyst has no investment opinion on the stock under review.

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Dates	Rating	Target
16-Jan-15	HOLD	456
17-Mar-15	BUY	490
6-Jul-15	BUY	561
21-Oct-15	BUY	524
13-Jan-16	BUY	571
10-Feb-17	BUY	610
28-Apr-17	BUY	792
10-Nov-17	BUY	1,000
24-May-18	HOLD	990
26-Jul-19	HOLD	1,332
23-Oct-19	HOLD	1,540

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