

Reliance Industries

HOLD

Recovery & Growth on track

Summary

In Q2FY22, RIL's net sales grew by 51% YoY and 20% QoQ to Rs1,676bn (15% above Bloomberg estimates). Consolidated EBITDA increased by 37% YoY and 11% QoQ to Rs260bn (6% above Bloomberg estimates). EBITDA growth was primarily supported by strong performance in O2C segment, robust recovery in retail and steady momentum in digital services. Net profit expanded by 46% YoY and 12% QoQ to Rs155bn (19% above Bloomberg estimates), mainly due to a sharp decline in finance cost. The company has reported net cash position of Rs36bn against Rs1.6tn net debt as on March 20. During the quarter, consumer segment (Jio + Retail) contributed ~45% of RIL's EBITDA. We are revising our PAT estimates downward by 6.6% and 8.4% for FY22 and FY23 respectively. The stock is currently quoting at PER of 21.8x FY24E and 11.4x FY24 EV/EBITDA. We resume the coverage on the Company with Hold rating and SOTP based target price of Rs2,825.

Key Highlights and Investment Rationale

- O2C segment: Domestic demand attains pre-Covid for Petrochem and Gasoline:** Net revenue grew by 58% YoY and 17% QoQ to Rs1,205bn, primarily due to an improved realization backed by increase in oil prices and higher volumes. Segmental EBITDA grew by 44% YoY and up 4% QoQ to Rs127bn supported by rebound in transportation fuel cracks and higher intermediates product. Management expects, demand outlook for transportation and aviation fuel remains constructive with a favorable demand scenario at the same time refining margin is expected to remain firm.
- Digital service (Jio): Robust performance Led Higher ARPU:** Net revenue grew by 4% QoQ and 16% YoY to Rs187bn in Q2FY22 on account of an improvement in ARPU to Rs144 (up 4% QoQ and up 7% YoY). ARPU improved on the back of subscriber mix. However, the net subscribers saw a decline of 11.1mn QoQ, primarily due to Covid related churn of low-end subscribers, who discontinued their services due to impact of Covid. Net profit grew by 24% YoY and 1% QoQ to Rs35.2bn. Going forward the Company is expected to focus on ramping up the customer acquisition across geographies in India.

TP	Rs2,825		
CMP	Rs2,623		
Potential upside / downside	+8%		
Previous Rating	BUY		

V/s Consensus

EPS (Rs)	FY22E	FY23E	FY24E
IDBI Capital	81.7	100.0	120.5
Consensus	87.0	112.0	125.8
% difference	(6.1)	(10.7)	(4.2)

Shareholding Pattern (%)

Promoters	50.6
FII	25.1
DII	10.8
Public	13.5

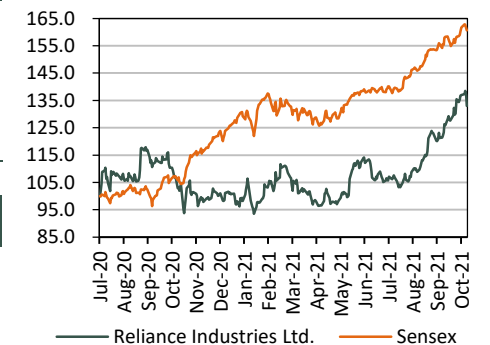
Price Performance (%)

	-1m	-3m	-12m
Absolute	5.6	24.6	24.2
Rel to Sensex	4.2	9.6	(25.6)

Key Stock Data

Bloomberg / Reuters	RIL IN / RELI.BO
Sector	Oil & Gas
Shares o/s (mn)	6,766
Market cap. (Rs mn)	17,747,139
Market cap. (US\$ mn)	235,537
3-m daily avg Trd value (Rs mn)	11,279.4
52-week high / low	Rs2,750 / 1,830
Sensex / Nifty	60,822 / 18,115

Relative to Sensex (%)



Financial snapshot

Year	FY20	FY21	FY22E	FY23E	FY24E
Revenue	59,67,430	46,69,240	64,62,541	74,52,681	80,78,492
EBITDA	8,82,170	8,07,370	10,37,469	12,23,396	13,77,074
EBITDA (%)	14.8	17.3	16.1	16.4	17.0
Adj. PAT	4,43,240	4,80,970	5,52,540	6,75,878	8,14,805
EPS (Rs)	69.9	74.6	81.7	100.0	120.5
EPS Growth (%)	6.8	6.7	9.5	22.3	20.6
PE (x)	37.6	35.2	32.1	26.3	21.8
Dividend Yield (%)	0.2	0.3	0.3	0.4	0.6
EV/EBITDA (x)	21.3	21.6	16.4	13.4	11.4
RoE (%)	10.5	8.3	7.6	8.6	9.5
RoCE (%)	9.5	8.3	7.8	8.6	9.4

Source: IDBI Capital Research;

- Retail Segment led by Strong Rebound in Fashion & Lifestyle and Consumer Electronics:** Net revenue during Q2FY22 increased by 9% YoY (up 19% QoQ) to Rs399bn. EBITDA grew by 45% YoY (up 50% QoQ) to Rs29bn. EBITDA growth was driven by higher revenue in Fashion & Lifestyle and Consumer Electronics segment. Its stores were operating at 89% of the normal working hours in Q2FY22 vs 61% in Q1FY22. Reliance Retail added 813 stores in Q2FY22, taking the total store numbers to 13,635 covering 37.3mn sq ft.
- Complete Deleveraging achieved with Net Cash Position:** RIL has achieved complete deleveraging of its balance sheet by attaining net cash position during the quarter. The Company had raised funds from stake sale in JIO Platforms (Rs1.52tn) and Retail (Rs472bn) and rights issue of Rs531.2bn. The company has reported net cash position of Rs36bn as on Sept 21 vs Rs1.6tn net debt on March 20.
- Valuations and recommendations:** The stock is currently quoting at PER of 21.8x FY24E and 11.4x FY24 EV/EBITDA. We resume the coverage on the Company with Hold rating and SOTP based target price of Rs2825. ~30% of SOTP value is derived by Oil and Gas related business while ~61% is contributed by Telecom and Retail business.

Exhibit 1: SOTP Valuation

Rs.bn (Mar'24E, Consol)	Method	EBITDA (Rs bn)	Multiple	EV (Rs bn)	EV (US\$ bn)	Rs/share
Refining	EV/EBITDA	285	8	2,139	29	316
Petrochemicals	EV/EBITDA	320	8	2,403	32	355
Upstream Oil & Gas	DCF-EV/EBITDA	99	10	988	13	146
Organized Retail	EV/EBITDA	181	30	5426	73	802
Others	EV/Sales	36	1	36	0	5
Telecom	EV/EBITDA	514	12	6164	83	912
Total		1,435	12	17,155	232	2,537
Adj. Net Debt (Mar'24 End)				-1,949	-26	-288
Equity Value				19,105	258	2,825

Source: Company; IDBI Capital Research

Exhibit 2: Quarterly performance: Consolidated

Year-end: March	Q2FY22	Q2FY21	% Chg YoY	Q1FY22	% Chg QoQ
Net sales	16,76,110	11,12,360	50.7	13,99,490	19.8
Expenditure	14,15,910	9,22,910	53.4	11,65,810	21.5
EBITDA	2,60,200	1,89,450	37.3	2,33,680	11.3
<i>EBITDA margin (%)</i>	<i>15.5</i>	<i>17.0</i>	<i>(151)</i>	<i>16.7</i>	<i>(117)</i>
Other income	42,240	42,490	(0.6)	42,190	0.1
Interest	38,190	60,840	(37.2)	33,970	12.4
Depreciation	72,300	66,260	9.1	68,830	5.0
Exceptional items	-	-	-	-	-
PBT	1,91,950	1,04,840	83.1	1,73,070	10.9
Tax	37,550	(130)	(28985)	34,640	8.4
Share of associates	390	1050	(62.9)	(370)	(205.4)
Reported PAT	1,54,790	1,06,020	46.0	1,38,060	12.1
Adjustments	-	-	-	-	-
Adjusted PAT	1,54,790	1,06,020	46.0	1,38,060	12.1
FDEPS (Rs)	26.1	17.9	46.0	23.3	12.1

Source: Company; IDBI Capital Research

Exhibit 3: Segmental performance - Consolidated

Year-end: March	Q2FY22	Q2FY21	% Chg YoY	Q1FY22	% Chg QoQ
Gross turnover	21,20,870	14,75,010	43.8	17,90,380	18.5
Oil To Chemicals	12,04,750	7,61,840	58.1	10,32,120	16.7
Oil & gas	16,440	3,550	363.1	12,810	28.3
Organized Retail	4,54,500	3,91,990	15.9	3,85,630	17.9
Digital Services	2,43,620	2,26,790	7.4	2,34,030	4.1
Others	2,01,560	90,840	121.9	1,25,790	60.2
EBITDA	2,60,200	1,89,450	37.3	2,33,680	11.3
Oil To Chemicals	1,27,200	67,500	88.4	1,22,310	4.0
Oil & gas	10,710	-6,300	(270.0)	7,970	34.4
Organised Retail	29,230	15,420	89.6	19,530	49.7
Digital Services	95,610	51,570	85.4	92,680	3.2
Others	16,010	12,810	25.0	15,450	3.6
EBITDA margin (%)	12.3	12.8	(58)	13.1	(78)
Oil To Chemicals	10.6	8.9	170	11.9	-129
Oil & gas	65.1	-177.5	24,261	62.2	293
Organised Retail	6.4	3.9	250	5.1	137
Digital Services	39.2	22.7	1,651	39.6	-36
Others	7.9	14.1	(616)	12.3	-434
EBITDA Contribution (%)					
Oil To Chemicals	45.6	47.9		47.4	
Oil & gas	3.8	-4.5		3.1	
Organised Retail	10.5	10.9		7.6	
Digital Services	34.3	36.6		35.9	
Others	5.7	9.1		6.0	

Source: Company; IDBI Capital Research

Exhibit 4: Change in estimates

Key parameters (Rs mn)	FY22E			FY23E		
	Old	New	% Chg	Old	New	% Chg
Revenue	57,72,759	64,62,541	11.9	65,51,428	74,52,681	13.8
EBITDA	11,18,323	10,37,469	-7.2	13,61,060	12,23,396	-10.1
<i>EBITDA margin (%)</i>	<i>19.4</i>	<i>16.1</i>	<i>-332</i>	<i>20.8</i>	<i>16.4</i>	<i>-436</i>
Net profit	5,91,424	5,52,540	-6.6	5,91,424	5,52,540	-8.4

Source: Company; IDBI Capital Research

Financial Summary

Profit & Loss Account

(Rs mn)

Year-end: March	FY21	FY22E	FY23E	FY24E
Net sales	46,69,240	64,62,541	74,52,681	80,78,492
<i>growth (%)</i>	-21.8	38.4	15.3	8.4
Operating expenses	(38,61,870)	(54,25,071)	(62,29,285)	(67,01,417)
EBITDA	8,07,370	10,37,469	12,23,396	13,77,074
<i>growth (%)</i>	-8.5	28.5	17.9	12.6
Depreciation	(2,65,720)	(2,77,108)	(2,93,460)	(3,05,164)
EBIT	5,41,650	7,60,362	9,29,936	10,71,911
Interest paid	(2,11,890)	(1,80,499)	(1,71,887)	(1,58,581)
Other income	1,63,270	2,28,925	2,55,367	2,93,141
Pre-tax profit	4,93,030	8,08,788	10,13,416	12,06,470
Tax	(17,220)	(2,03,815)	(2,55,381)	(3,04,030)
<i>Effective tax rate (%)</i>	3.5	25.2	25.2	25.2
Minority Interest	5,160.0	(52,433)	(82,157)	(87,635)
Net profit	4,80,970	5,52,540	6,75,878	8,14,805
Exceptional items	56,420	-	-	-
Adjusted net profit	5,37,390	5,52,540	6,75,878	8,14,805
<i>growth (%)</i>	34.8	2.8	22.3	20.6
<i>Shares o/s (mn nos)</i>	6,762	6,762	6,762	6,762

Cash Flow Statement

(Rs mn)

Year-end: March	FY21	FY22E	FY23E	FY24E
Pre-tax profit	5,54,610	8,08,788	10,13,416	12,06,470
Depreciation	2,65,720	2,77,108	2,93,460	3,05,164
Tax paid	(32,130)	(1,68,815)	(2,20,381)	(2,69,030)
Chg in working capital	(5,07,310)	1,20,234	22,722	(3,684)
Other operating activities	(19,040)	1,80,499	1,71,887	1,58,581
Cash flow from operations (a)	2,61,850	12,17,814	12,81,104	13,97,500
Capital expenditure	(10,35,180)	(4,39,089)	(3,09,563)	(2,79,721)
Chg in investments	(4,65,420)	(6,498)	(6,563)	(6,628)
Other investing activities	84,260	-	-	-
Cash flow from investing (b)	(14,16,340)	(4,45,587)	(3,16,126)	(2,86,349)
Equity raised/(repaid)	21,35,970	3,97,966	-	-
Debt raised/(repaid)	(8,37,100)	(1,23,470)	(3,23,833)	(3,27,529)
Dividend (incl. tax)	(39,210)	(78,647)	(1,06,125)	(1,35,366)
Chg in minorities	-	-	-	-
Other financing activities	(2,40,400)	(1,80,499)	(1,71,887)	(1,58,581)
Cash flow from financing (c)	10,19,260	15,351	(6,01,845)	(6,21,476)
Net chg in cash (a+b+c)	(1,35,230)	7,87,578	3,63,133	4,89,675

Balance Sheet

(Rs mn)

Year-end: March	FY21	FY22E	FY23E	FY24E
Net fixed assets	66,72,110	68,34,091	68,50,195	68,24,752
Investments	21,23,820	21,23,820	21,23,820	21,23,820
Other non-curr assets	6,74,610	6,90,648	7,02,478	7,12,436
Current assets	37,29,930	48,26,563	56,62,163	64,64,011
Inventories	8,16,720	11,30,395	13,03,585	14,13,049
Sundry Debtors	1,90,140	2,63,166	3,03,487	3,28,971
Cash and Bank	1,73,970	4,90,371	8,95,180	14,24,748
Marketable Securities	15,24,460	15,24,460	15,24,460	15,24,460
Loans and advances	10,24,640	14,18,170	16,35,451	17,72,782
Total assets	1,32,00,470	1,44,75,122	1,53,38,656	1,61,25,018
Shareholders' funds	70,01,720	75,31,213	81,83,123	89,50,197
Share capital	64,450	67,616	67,616	67,616
Reserves & surplus	69,37,270	74,63,597	81,15,507	88,82,581
Total Debt	22,37,640	21,14,170	19,14,170	17,14,170
Secured loans	16,36,830	15,01,344	12,95,216	10,89,026
Unsecured loans	6,00,810	6,12,826	6,18,954	6,25,144
Other liabilities	17,86,240	17,74,529	17,33,248	16,86,648
Curr Liab & prov	21,74,870	30,55,210	35,08,115	37,74,004
Current liabilities	21,49,830	30,20,035	34,67,725	37,30,552
Provisions	25,040	35,176	40,390	43,451
Total liabilities	61,98,750	69,43,909	71,55,533	71,74,821
Total equity & liabilities	1,32,00,470	1,44,75,122	1,53,38,656	1,61,25,018
Book Value (Rs)	1,086	1,114	1,210	1,324

Source: Company; IDBI Capital Research

Financial Ratios

Year-end: March	FY21	FY22E	FY23E	FY24E
Adj. EPS (Rs)	74.6	81.7	100.0	120.5
Adj EPS growth (%)	6.7	9.5	22.3	20.6
EBITDA margin (%)	17.3	16.1	16.4	17.0
Pre-tax margin (%)	10.6	12.5	13.6	14.9
ROE (%)	8.3	7.6	8.6	9.5
ROCE (%)	8.3	7.8	8.6	9.4
Turnover & Leverage ratios (x)				
Asset turnover (x)	0.4	0.5	0.5	0.5
Leverage factor (x)	0.32	0.28	0.23	0.19
Net margin (%)	10.3	8.5	9.1	10.1
Net Debt/Equity (x)	0.1	0.0	(0.1)	(0.1)
Working Capital & Liquidity ratio				
Inventory days	61	64	64	64
Receivable days	15	15	15	15
Payable days	114	103	103	103

Valuation

Year-end: March	FY21	FY22E	FY23E	FY24E
PER (x)	35.2	32.1	26.3	21.8
Price / Book value (x)	2.4	2.4	2.2	2.0
PCE (x)	21.1	24.6	21.4	18.3
EV / Net sales (x)	3.7	3.5	2.8	2.3
EV / EBITDA (x)	21.6	16.4	13.4	11.4
Dividend Yield (%)	0.3	0.3	0.4	0.6



Notes

Dealing

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Key to Ratings Stocks:**BUY:** 15%+; **HOLD:** -5% to 15%; **SELL:** -5% and below.**IDBI Capital Markets & Securities Ltd.****Equity Research Desk**

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