

POSITIONAL CALL

RELIANCE INDUSTRIES LTD



BUY | CMP 1312 | TARGET 1560 | POTENTIAL UPSIDE 19%

29 MAY 2019

Stock Data

M.Cap (₹ in cr)	831919
Equity (₹ in cr)	6338.91
52 wk H/L ₹	1417/907.10
Face Value ₹	10
Div. Yield	0.45%
NSE Code	RELIANCE
BSE Code	500325

LEAD RATIONALE

RIL's overall turnover grew 44.6 % led by significant boost from consumer businesses & higher oil price realizations. We expect **Retail & Digital business to be the next leg of growth in RIL.** Talking of retail business, revenue growth was strong by 52 % and EBITDA surged 77 % **mainly attributable to store expansion covering under penetrated organized retail areas and consumer traction.** It added 510 retail stores for the quarter aggregating to 2,829 for FY19, thus crossed a milestone of 10K stores across India and registered over 500 million footfalls in FY19, growth of 44 % Y-o-Y.

Valuation Data

P/E	20.90
EV/EBITDA	13.34
P/BV	2.10
RONW(%)	10%

Moreover, consumer business contribution to EBITDA has surged 24.6 %, a twofold jump since 2015. Thus, **through expanding the retail segment space, having greater operating margins, RIL is increasing its shift in the overall pie.**

Index Detail

Sensex	39502.50
Nifty	11863.55
Index	S&P BSE SENSEX

Digital business revenue grew 10.6 % driven by strong subscriber base at 306.7 million. EBITDA margins stood at ₹43.3 Bn. Thus, **robust subscriber addition at 33 mn, increase penetration of Smartphone users (especially in rural areas) with attractive offerings would help gain market share across circles and increase ARPU going forward.**

We value RIL by SOTP basis at a price target of ₹ 1560.

Recovery in regional refining margin mingled with vigorous growth to continue for retail and telecom businesses

Outperformance over Singapore complex margin by \$ 5.0/bbl coupled with a gradual ramp-up of pet-coke gasification project would result into recovery in RIL's refining margins over next 1-2 years as compared to low level of \$8.2/bbl seen in Q4 FY19 & \$8.8/bbl in Q3 FY 19. Moreover, **likely improvement in the diesel crack spreads with implementation of IMO regulation from January 2020 would widen RIL's premium with Singapore complex GRM given higher contribution of diesel in RIL's refining product slate.**

Besides, Net refinery capacity additions is expected at 1.8 mb/d in 2019 and 0.8 mb/d in 2020; includes large Greenfield additions in Asia and Middle East accompanied middle distillate margins in near term which is expected to remain steady with higher seasonal maintenance in the region.

Furthermore, consumer centric businesses of company like digital services are expected to witness strong business traction as the company plans to launch an array of new services which would create long term value for RIL. In addition, the company's unique online-offline retailing strategy would aid growth and margin expansion for its retail business

Value unlocking from Fiber/Tower InvIT structures

RIL reckoned at ₹ 107000 crores reduction in liabilities associated with ₹ 127000 crore in book value of Fiber and Tower assets spread across India. The InvIT structure for Fiber (JFPL) is being valued at ₹ 165000 crore, representing gains of ₹ 78000 crore for RIL in the form of preference shares that can be monetized. RIL has committed to 50% utilization of Fiber and Tower assets over the long term to the two InvIT trusts, rentals for which will be booked as a cost line in RJio from Q1FY20 onwards, accompanied by a consequent reduction in interest and depreciation costs associated with these assets.

An eye on quarterly numbers- Segment wise

4Q FY19 revenue from the **Refining & Marketing segment** decreased by 6.1% Y-o-Y to ₹ 87844 crore, while Segment EBIT declined by 25.5% Y-o-Y to ₹4176 crore. **R&M segment performance was impacted by lower crude throughput due to planned maintenance. Also, weak light and middle distillate product cracks impacted GRM. GRM for 4Q FY19 stood at \$ 8.2/bbl, outperforming Singapore complex margins by \$ 5.0/bbl.**

Revenue from the **Petrochemicals segment** increased by 11.3% Y-o-Y to ₹ 42414 crore mainly due to increase in price realizations and volumes in PTA, PP and Paraxylene. Petrochemicals segment EBIT was at ₹ 7975 crore, up 23.9% Y-o-Y. **Petrochemical segment recorded strong EBIT margin of 18.8%, aided by strength in PX margins.**

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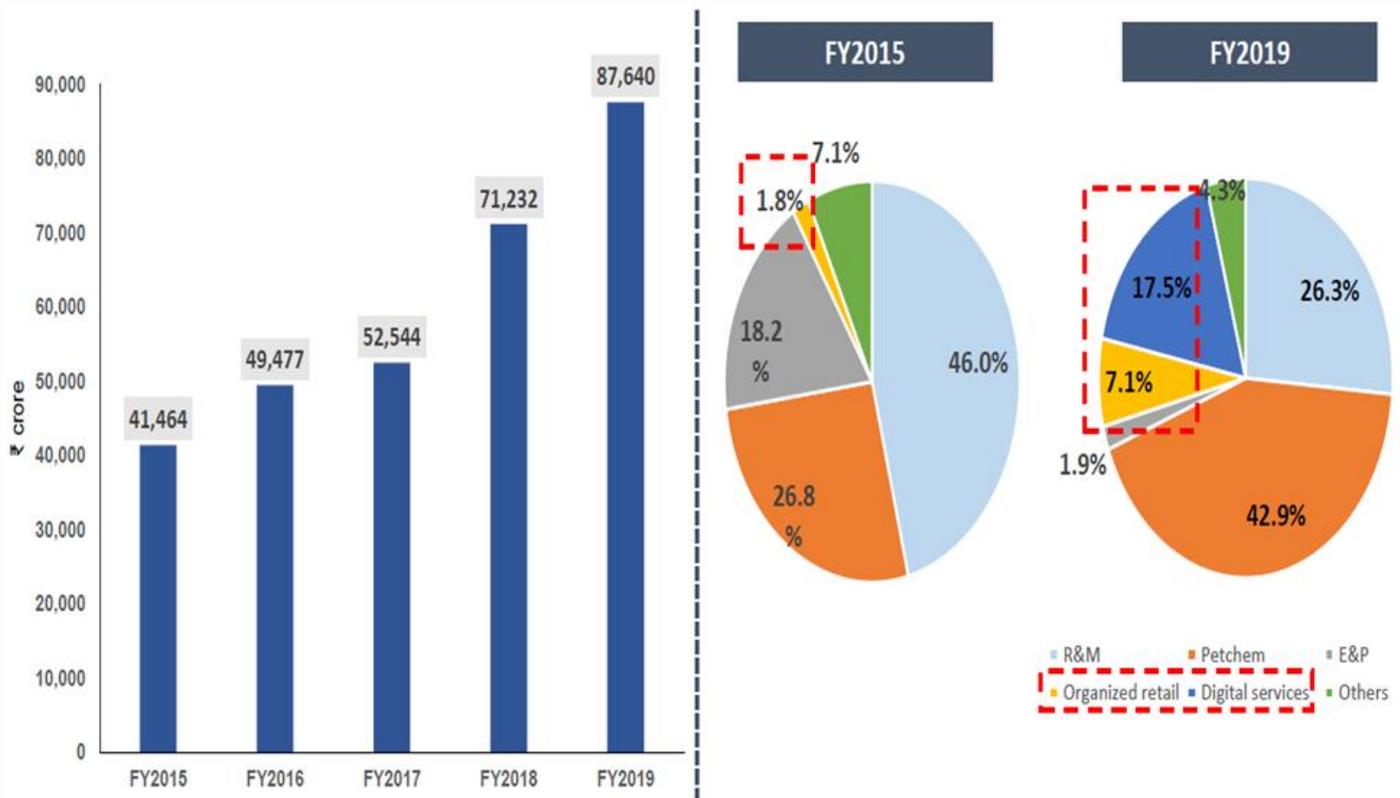
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Revenue for the **Oil & Gas segment** increased by 43.3% Y-o-Y to ₹ 1069 crore. Segment EBIT at ₹ (267) crore as against ₹ (600) crore in the corresponding period of the previous year. The **segment performance continued to be impacted by declining volume. Domestic production was lower at 12.5 BCFe, down 32% Y-o-Y whereas production in US Shale operations declined by 35% to 20.9 BCFe.**

Reliance Retail Segment's Revenue for 4Q FY19 grew by 51.6% Y-o-Y to ₹ 36663 crore as against ₹ 24183 crore in the corresponding period of the previous year. Business PBDIT for 4Q FY19 grew by 77.1% Y-o-Y to ₹ 1923 crore as against ₹ 1086 crore in the corresponding period of the previous year. **Revenue and profits recorded are highest ever by any retailer in India and highlights the unprecedented leadership level Reliance Retail has achieved.**

CONSOLIDATED SEGMENT EBITDA - Doubled in Last 5 years



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KG-D6 Project update

R-Cluster development project is progressing as per plan. on track for first gas in 2H FY21. Drilling and lower completion completed for 4 wells out of 6 wells. **First campaign of installation facilities continued during the quarter and expected to complete in 1Q FY 20.**

Panna-Mukta and Tapti

Panna-Mukta fields produced 0.97 MMBBL of crude oil and 12.7 BCF of natural gas in 4Q FY19, a reduction of 25% in crude oil and 16% reduction in natural gas on Y-o-Y basis. This was primarily on account of natural decline in field, increasing water cut in the fields and shut-in of wells due to integrity/loading issues. **The PSC for Panna- Mukta Block is scheduled to expire in Dec'19.**

Consolidated Segment wise Revenue Breakup

₹ in crores

Particulars	Quarter Ended			Year Ended	
	31 Mar'19	31 Dec'18	31 Mar'18	31 Mar'19	31 Mar'18
Segment Value of Sales and Services (Revenue)					
- Petrochemicals	42,414	45,619	38,113	172,065	125,299
- Refining	87,844	111,738	93,519	393,988	306,095
- Oil and Gas	1,069	1,182	746	5,005	5,204
- Organized Retail	36,663	35,577	24,183	130,566	69,198
- Digital Services	13,609	12,302	8,421	46,506	23,916
- Others	7,939	5,707	3,367	22,151	12,617
Gross Value of Sales and Services	189,538	212,125	168,349	770,281	542,329
Less: Inter Segment Transfers	35,428	41,416	39,229	147,472	111,598
Value of Sales & Services	154,110	170,709	129,120	622,809	430,731
Less: GST Recovered	12,476	10,410	8,977	41,789	22,466
Revenue from Operations	141,634	160,299	120,143	581,020	408,265

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Key Highlights

- ⇒ Company will acquire **British toy retailer Hamleys for a cash consideration of £67.96 million (about ₹ 620 crore)** - At present, RIL has the master franchise in India for Hamleys and operates 88 stores across 29 cities. The worldwide acquisition of the iconic Hamleys brand places Reliance into the frontline of global retail
- ⇒ Company guides that against incremental demand of 1.4 mb/d in 2019, global incremental refining capacity is expected at 1.8 mb/d. Next year, incremental refining capacity addition is expected at 0.8 mb/d.
- ⇒ Gas production from R-cluster expected in 2H FY21 is 12 MMSCMD, which will be ramped-up to 32 MMSCMD by FY22.
- ⇒ Petcoke gasifier stabilization is in-progress and is expected to be completed by Jun-19
- ⇒ Management maintained its guidance of adding 50 mn fiber-to-the-home (FTTH) subscribers over 2-3 years, which albeit delayed, remains on track to be tapped.
- ⇒ RIL plans to expand Coker capacity by 450 kbpd in order to raise middle distillate output and take advantage of the expected surge in diesel demand by Q4 FY20.

Key Financial Data

EV	1236300.55
Net Worth	395392
BV	623.75
EPS(TTM)	62.80

₹ In crores except EPS

Key Financials (₹ in crores)

Particulars	Q4 FY 19	Q4 FY 18	Variation %
Revenue	138659	116915	18.60
EBITDA	24047	20672	16.33
PBT	13858	13254	4.56
PAT	10427	9467	10.14
EPS	17.49	15.94	9.72

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Share price chart has been taken for a period of past 1 year. There is a long term and short term support at the levels of ₹1168 and ₹1216 respectively. And resistance at level of ₹1409; afterwards it may reach to 52W/H of ₹ 1440 in short to medium term.

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