

July 30, 2020

Q1FY21 Result Update

Change in Estimates | Target | Reco

Change in Estimates

	Current		Previous	
	FY22E	FY23E	FY22E	FY23E
Rating	BUY		BUY	
Target Price	2,170		1,828	
Sales (Rs. m)	34,56,629	39,46,345	34,56,629	39,46,345
% Chng.	-	-	-	-
EBITDA (Rs. m)	5,87,802	6,65,179	5,87,802	6,65,179
% Chng.	-	-	-	-
EPS (Rs.)	61.5	71.6	60.5	70.2
% Chng.	1.7	1.9	-	-

Key Financials - Standalone

Y/e Mar	FY20	FY21E	FY22E	FY23E
Sales (Rs. bn)	3,509	2,709	3,457	3,946
EBITDA (Rs. bn)	519	451	588	665
Margin (%)	14.8	16.6	17.0	16.9
PAT (Rs. bn)	351	313	416	484
EPS (Rs.)	55.4	46.4	61.5	71.6
Gr. (%)	0.0	(16.4)	32.7	16.3
DPS (Rs.)	6.5	6.5	9.7	11.8
Yield (%)	0.3	0.3	0.5	0.6
RoE (%)	8.5	7.0	8.3	8.6
RoCE (%)	6.9	5.5	7.5	8.0
EV/Sales (x)	4.2	5.1	3.8	3.3
EV/EBITDA (x)	28.6	30.8	22.3	19.3
PE (x)	37.9	45.3	34.2	29.4
P/BV (x)	3.1	3.1	2.6	2.4

Key Data

RELI.BO | RIL IN

52-W High / Low	Rs.2,199 / Rs.867
Sensex / Nifty	37,736 / 11,102
Market Cap	Rs.13,835bn/ \$ 1,84,838m
Shares Outstanding	6,339m
3M Avg. Daily Value	Rs.79554.77m

Shareholding Pattern (%)

Promoter's	50.37
Foreign	24.72
Domestic Institution	13.61
Public & Others	11.30
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	23.3	47.0	79.7
Relative	14.1	59.3	78.1

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Telecom only bright spot in challenging times

Quick Pointers:

- Demand destruction, weak spreads due to Covid pandemic impacts hydrocarbon profits. Retail EBIDTA also hit by lockdown restrictions.
- Jio the only bright spot due to higher ARPU and customer addition.
- Highly liquid BS to keep company in a good stead for challenging global economy.

We raise our PT on RIL to factor higher valuation in Jio and retail business on rollover to FY23E vs earlier Sept 22 to factor in higher multiple. We value the hydrocarbon business in Sept 22 valuation at EV/E of 8.5x vs 8x earlier. RIL with its stated intention to monetize and forge global partnership across businesses, is well positioned to incubate new business and pursue inorganic opportunities given its liquid BS. Despite sharp run-up in stock prices (+140% in last 4 months), we believe positive news flow on global partnerships or stake sale is likely to keep valuations at elevated level. Maintain BUY with a revised PT of 2,170 (Rs1,828 earlier).

Weak spreads, lower volumes dent profits: RIL reported Q1FY21 standalone results with EBITDA of Rs71.3bn (-48%YoY; PLe: Rs83bn) and PBT of Rs43.8bn (-64%YoY; PLe: Rs52.9bn) respectively. PAT was at Rs97.5bn (PLe 41.1bn) and includes profit on stake sale to BP for Rs44.2bn.

For Q1, refining profitability was hit by weak product spreads despite lower fuel cost due to lower spot LNG prices. For Q1, GRMs were at US\$6.3/bbl (Q4: US\$8.9; PLe: US\$6.0/bbl); and refining thruput was at 16.6MTPA (PLe 17.0MTPA). We expect refining profits to come down in FY21E as we factor GRMs of US\$7.5/bbl and lower volumes. However, we expect GRMs to improve to USD9.2/10.0bbl in FY22/23E.

Feedstock flexibility support petrochem profits: For Q1FY21, petrochemicals EBIDTA were at Rs43.2bn (Rs60.0bn in Q4) due to lower realization. Feedstock flexibility in terms of increased ethane usage and product optimization along with ROGC cushioned the profit downside.

RJIO –strong growth traction: RJIO EBIDTA for Q1 was at Rs70bn (Rs61.7bn in Q4) as net addition was at 10mn (overall 398mn subscribers) and average data usage was at to 12.1GB (11.3GB in Q4FY20). ARPU was at Rs140.3 (Rs130.6 in Q4) as tariff hikes initiated in December 19 passed through to prices. We expect sharp growth ahead for the digital services business as data demand accelerates and price hikes flow through.

Retail earnings- Lockdowns hit performance: The retail profitability was hit by lockdown measures initiated by Governments in light of pandemic. In Q1, 50% of stores were shut while 29% were partly operational. For Q1, 69 new stores were opened and retail EBIDTA was at Rs10.8bn (-47% YoY). Recent tie-up with Facebook will accelerate RIL's connectivity with local kiranas and small enterprises thereby drive the growth.

Maintain earnings, reiterate BUY: We maintain our estimates for FY21-23E. Fund raising plans of Rs2trn by way of right issue, stake sale in JPL and recent BP transactions will help RIL to tide over the tough post Covid pandemic situation, especially in the hydrocarbons business.

Exhibit 1: SOTP

	Rs m	Rs/share	Comments
FY18E Refining/Petrochemical EBITDA	6,26,490		
EV of Petrochem & Refining (Rs m)	53,25,169	840	@ EV/EBITDA of 8.5x Sept 22
Net Debt (Rs m)	-3,58,596	(57)	Estimated as on Sept 22, net of cash and liquid investments
Key investments			
- E&P Assets	80,636	13	@ 10% premium to NAV of known reserves (D6, NEC, CBM)
- Organised retail & other key investments	35,41,424	559	Based on 0.8x FY23 sales
- Infotel (BWA)	43,60,622	688	Based on RJIO's FY23 10x EV/E, adj for stake sale in JPL
- Shale Gas NPV (Marcellus + Eagle Ford)	92,661	15	NPV based on HH of \$3-3.5/mmbtu
Total value of investments & other assets	80,75,343	1,274	
Equity value (Rs m)	1,37,59,108	2,170	

Source: PL

Exhibit 2: Q1FY21 Result Overview (Rs mn)

Y/e March	Q1FY21	Q1FY20	YoY gr.	Q4FY20	FY21E	FY20	YoY gr.
Net sales	504,460	926,360	(45.5)	769,990	2,708,802	3,506,340	(22.7)
Inc/dec in stock	1,950	(15,450)	(112.6)	(12,470)	-	770	-
Raw materials - external purchases	334,800	666,400	(49.8)	556,480	2,064,006	2,515,400	(17.9)
Staff cost	11,870	13,380	(11.3)	15,060	61,883	60,670	2.0
Other expenditure	84,560	125,630	(32.7)	97,490	390,000	413,430	(5.7)
Total	433,180	789,960	(45.2)	656,560	2,633,490	2,990,270	(11.9)
Operating profit	71,280	136,400	(47.7)	113,430	450,950	516,070	(12.6)
Other income	42,110	33,450	25.9	39,460	154,920	147,870	4.8
Interest	47,800	27,010	77.0	41,610	70,012	121,050	(42.2)
Depreciation	21,740	21,750	(0.0)	26,850	117,574	97,280	20.9
PBT	43,850	121,090	(63.8)	84,430	418,283	445,610	(6.1)
Tax	(9,480)	30,730	(130.8)	16,180	104,784	94,130	11.3
Net profit	53,330	90,360	(41.0)	68,250	313,499	351,480	(10.8)
Extraordinary item	44,200	-	-	(42,450)	-	(42,450)	-
Reported PAT	97,530	90,360	7.9	25,800	313,499	309,030	(1.4)

Source: Company, PL

Exhibit 3: RIL quarterly details

US\$/bbl	Q4FY19	Q1FY20	Q2FY20	Q3FY20	Q4FY20	Q1FY21
Crude throughput (MTPA)	16.0	17.5	16.7	18.1	18.3	16.6
Reliance GRMs (\$/bbl)]	8.2	8.1	9.4	9.2	8.9	6.3
Singapore GRMs (\$/bbl)	3.2	3.5	6.5	1.7	1.2	(1.0)
Difference (\$/bbl)	5.0	4.6	2.9	7.5	7.7	7.3
KGD6 Gas- mmscmd	1.8	1.8	1.7	1.5	0.9	-
Segmental Revenues						
Petchem	4,13,950	3,61,790	3,74,080	3,59,060	3,14,030	241,890
Refining	6,88,140	7,65,870	7,64,940	7,81,890	6,78,090	398,420
Oil & Gas	5,200	4,900	4,470	5,420	1,600	800
Others	5,320	3,770	4,590	5,290	12,140	9,710
Total	11,12,610	11,36,330	11,48,080	11,51,660	10,05,860	650,820
Less intersegmental reve	2,06,130	1,72,490	2,03,620	2,14,250	2,02,880	128,190
Turnover	9,06,480	9,63,840	9,44,460	9,37,410	8,02,980	522,630
Less sales tax	40,760	37,480	36,860	35,890	32,990	18,170
Net sales	8,65,720	9,26,360	9,07,600	9,01,520	7,69,990	504,460
EBIDTA Breakup						
Petrochem	78,190	73,920	74,980	57,880	45,830	33,260
Refining	40,260	44,290	49,200	56,140	56,860	27,240
Oil & Gas	960	1,170	600	560	80	(370)
Others	190	490	220	30	3,320	6,380
Total	1,19,600	1,19,870	1,25,000	1,14,610	1,06,090	66,510

Source: Company, PL

Webinar Highlights

- RIL has raised Rs2.1trn by way of stake sale in JPL, rights issue and stake sale to BP.
- JPL to retain Rs229bn while the rest will be used to retire OCFS.
- 50% of retail stores were completely shut due to lockdown while only 29% stores were partly operational.
- Fashion and lifestyle businesses were a drag while grocery and connectivity supported retail business.
- For Q1, RIL processed over 200 grades of crude oil.
- The company diverted petrochem supplies to exports as domestic markets were shut.
- Naphtha chain economics improved due to sharp drop in prices.
- The R cluster development is likely to be on stream by H2FY21.

Financials

Income Statement (Rs m)

Y/e Mar	FY20	FY21E	FY22E	FY23E
Net Revenues	35,08,800	27,08,802	34,56,629	39,46,345
YoY gr. (%)	(5.6)	(22.8)	27.6	14.2
Cost of Goods Sold	25,96,130	20,64,006	26,61,065	30,58,860
Gross Profit	9,12,670	6,44,796	7,95,564	8,87,485
Margin (%)	26.0	23.8	23.0	22.5
Employee Cost	-	-	-	-
Other Expenses	-	-	-	-
EBITDA	5,18,530	4,50,626	5,87,802	6,65,179
YoY gr. (%)	(11.9)	(13.1)	30.4	13.2
Margin (%)	14.8	16.6	17.0	16.9
Depreciation and Amortization	97,280	1,17,574	1,40,063	1,43,239
EBIT	4,21,250	3,33,051	4,47,738	5,21,941
Margin (%)	12.0	12.3	13.0	13.2
Net Interest	1,21,050	70,012	52,263	52,812
Other Income	1,45,410	1,54,920	1,64,982	1,85,840
Profit Before Tax	4,45,610	4,17,958	5,60,456	6,54,969
Margin (%)	12.7	15.4	16.2	16.6
Total Tax	94,130	1,04,459	1,44,409	1,70,902
Effective tax rate (%)	21.1	25.0	25.8	26.1
Profit after tax	3,51,480	3,13,499	4,16,048	4,84,067
Minority interest	-	-	-	-
Share Profit from Associate	-	-	-	-
Adjusted PAT	3,51,480	3,13,499	4,16,048	4,84,067
YoY gr. (%)	0.0	(10.8)	32.7	16.3
Margin (%)	10.0	11.6	12.0	12.3
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	3,51,480	3,13,499	4,16,048	4,84,067
YoY gr. (%)	0.0	(10.8)	32.7	16.3
Margin (%)	10.0	11.6	12.0	12.3
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	3,51,480	3,13,499	4,16,048	4,84,067
Equity Shares O/s (m)	6,339	6,762	6,762	6,762
EPS (Rs)	55.4	46.4	61.5	71.6

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Mar	FY20	FY21E	FY22E	FY23E
Non-Current Assets				
Gross Block	42,52,110	44,57,112	46,62,115	48,87,119
Tangibles	42,52,110	44,57,112	46,62,115	48,87,119
Intangibles	-	-	-	-
Acc: Dep / Amortization	12,73,640	13,91,214	15,31,278	16,74,516
Tangibles	12,73,640	13,91,214	15,31,278	16,74,516
Intangibles	-	-	-	-
Net fixed assets	29,78,470	30,65,898	31,30,837	32,12,603
Tangibles	29,78,470	30,65,898	31,30,837	32,12,603
Intangibles	-	-	-	-
Capital Work In Progress	2,79,650	3,28,272	3,28,273	3,48,274
Goodwill	86,240	86,240	86,240	86,240
Non-Current Investments	46,34,210	31,35,214	31,58,497	31,82,944
Net Deferred tax assets	(5,05,560)	(5,15,196)	(5,27,347)	(5,40,297)
Other Non-Current Assets	44,580	53,496	57,241	61,248
Current Assets				
Investments	7,00,300	7,35,315	7,72,081	8,10,685
Inventories	3,88,020	2,82,012	3,40,928	3,89,229
Trade receivables	74,830	74,214	94,702	1,08,119
Cash & Bank Balance	84,430	5,93,238	12,01,332	15,84,957
Other Current Assets	1,07,110	1,12,466	1,20,338	1,28,762
Total Assets	96,89,120	88,08,772	96,56,845	1,03,05,081
Equity				
Equity Share Capital	63,390	67,616	67,616	67,616
Other Equity	41,82,450	45,83,750	53,29,473	57,33,575
Total Networth	42,45,840	46,51,366	53,97,090	58,01,191
Non-Current Liabilities				
Long Term borrowings	17,87,510	3,11,090	1,61,090	61,090
Provisions	14,100	16,920	20,304	24,365
Other non current liabilities	5,040	6,048	7,258	8,709
Current Liabilities				
ST Debt / Current of LT Debt	5,12,760	6,66,588	7,33,247	9,53,221
Trade payables	7,10,480	8,16,351	10,41,724	11,89,309
Other current liabilities	18,78,590	18,25,213	17,68,786	17,26,899
Total Equity & Liabilities	96,89,120	88,43,860	96,98,950	1,03,55,608

Source: Company Data, PL Research

Cash Flow (Rs m)

Y/e Mar	FY20	FY21E	FY22E	FY23E
PBT	4,45,610	4,17,958	5,60,456	6,54,969
Add. Depreciation	97,280	1,17,574	1,40,063	1,43,239
Add. Interest	1,21,050	70,012	52,263	52,812
Less Financial Other Income	1,45,410	1,54,920	1,64,982	1,85,840
Add. Other	-	-	-	-
Op. profit before WC changes	6,63,940	6,05,545	7,52,783	8,51,019
Net Changes-WC	7,93,020	40,754	10,652	(38,684)
Direct tax	(94,130)	(1,04,459)	(1,44,409)	(1,70,902)
Net cash from Op. activities	13,62,830	5,41,839	6,19,026	6,41,434
Capital expenditures	(2,94,190)	(2,53,624)	(2,05,004)	(2,45,005)
Interest / Dividend Income	-	-	-	-
Others	(14,70,300)	15,21,170	-	-
Net Cash from Inv. activities	(17,64,490)	12,67,546	(2,05,004)	(2,45,005)
Issue of share cap. / premium	(1,13,020)	1,35,978	3,95,255	-
Debt changes	7,28,320	(13,22,592)	(83,341)	1,19,974
Dividend paid	(45,840)	(43,951)	(65,580)	(79,966)
Interest paid	(1,21,050)	(70,012)	(52,263)	(52,812)
Others	-	-	-	-
Net cash from Fin. activities	4,48,410	(13,00,577)	1,94,071	(12,804)
Net change in cash	46,750	5,08,808	6,08,093	3,83,625
Free Cash Flow	10,68,640	2,88,215	4,14,022	3,96,429

Source: Company Data, PL Research

Quarterly Financials (Rs m)

Y/e Mar	Q2FY20	Q3FY20	Q4FY20	Q1FY21
Net Revenue	9,07,600	9,02,390	7,69,990	5,04,460
YoY gr. (%)	(8.2)	(13.2)	(11.1)	(45.5)
Raw Material Expenses	6,44,820	6,76,390	5,44,010	3,36,750
Gross Profit	2,62,780	2,26,000	2,25,980	1,67,710
Margin (%)	29.0	25.0	29.3	33.2
EBITDA	1,36,660	1,29,580	1,13,430	71,280
YoY gr. (%)	(8.2)	(10.7)	(17.2)	(47.7)
Margin (%)	15.1	14.4	14.7	14.1
Depreciation / Depletion	23,170	25,510	26,850	21,740
EBIT	1,13,490	1,04,070	86,580	49,540
Margin (%)	12.5	11.5	11.2	9.8
Net Interest	27,230	25,200	41,610	47,800
Other Income	36,290	38,670	39,460	42,110
Profit before Tax	1,22,550	1,17,540	41,980	88,050
Margin (%)	13.5	13.0	5.5	17.5
Total Tax	25,530	21,690	16,180	(9,480)
Effective tax rate (%)	20.8	18.5	38.5	(10.8)
Profit after Tax	97,020	95,850	25,800	97,530
Minority interest	-	-	-	-
Share Profit from Associates	-	-	-	-
Adjusted PAT	97,020	95,850	25,800	97,530
YoY gr. (%)	9.5	7.4	(69.8)	7.9
Margin (%)	10.7	10.6	3.4	19.3
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	97,020	95,850	25,800	97,530
YoY gr. (%)	9.5	7.4	(69.8)	7.9
Margin (%)	10.7	10.6	3.4	19.3
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	97,020	95,850	25,800	97,530
Avg. Shares O/s (m)	-	-	-	-
EPS (Rs)	-	-	-	-

July 30, 2020

Key Financial Metrics

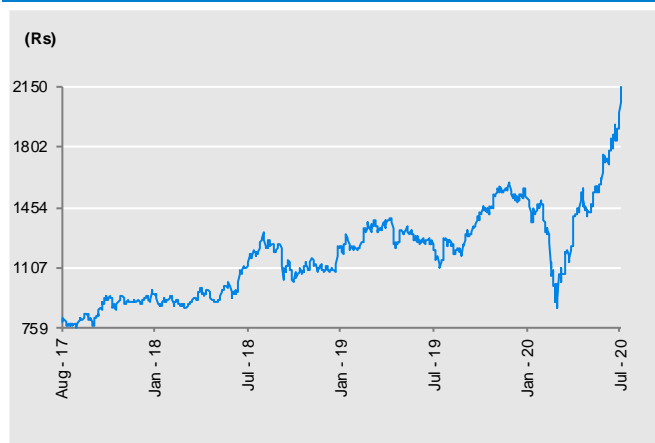
Y/e Mar	FY20	FY21E	FY22E	FY23E
Per Share(Rs)				
EPS	55.4	46.4	61.5	71.6
CEPS	70.8	63.8	82.2	92.8
BVPS	669.8	687.9	798.2	858.0
FCF	168.6	42.6	61.2	58.6
DPS	6.5	6.5	9.7	11.8
Return Ratio(%)				
RoCE	6.9	5.5	7.5	8.0
ROIC	4.7	4.5	5.8	6.6
RoE	8.5	7.0	8.3	8.6
Balance Sheet				
Net Debt : Equity (x)	0.4	(0.1)	(0.2)	(0.2)
Net Working Capital (Days)	(26)	(62)	(64)	(64)
Valuation(x)				
PER	37.9	45.3	34.2	29.4
P/B	3.1	3.1	2.6	2.4
P/CEPS	105.6	95.1	122.7	138.4
EV/EBITDA	28.6	30.8	22.3	19.3
EV/Sales	4.2	5.1	3.8	3.3
Dividend Yield (%)	0.3	0.3	0.5	0.6

Source: Company Data, PL Research

Key Operating Metrics

Y/e Mar	FY20	FY21E	FY22E	FY23E
Brent (US\$/bbl)	61	45	55	60
GRM(US\$/bbl)	9	8	9	10
Refining thput (MTPA)	61	45	55	60
US\$/Rs	71	74	77	79

Source: Company Data, PL Research

Price Chart
Recommendation History


No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	7-Jul-20	BUY	1,828	1,823
2	19-May-20	BUY	1,601	1,409
3	1-May-20	BUY	1,601	1,466
4	22-Apr-20	BUY	1,609	1,364
5	8-Apr-20	BUY	1,609	1,192
6	18-Jan-20	BUY	1,705	1,581
7	3-Jan-20	Accumulate	1,793	1,537
8	6-Dec-19	BUY	1,793	1,551
9	19-Oct-19	Accumulate	1,395	1,416
10	3-Oct-19	Accumulate	1,360	1,311

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Aarti Industries	Accumulate	1,024	930
2	Bharat Petroleum Corporation	BUY	515	380
3	GAIL (India)	Accumulate	108	103
4	Hindustan Petroleum Corporation	BUY	280	211
5	Indian Oil Corporation	BUY	114	86
6	Indraprastha Gas	BUY	597	412
7	Mahanagar Gas	BUY	1,279	1,029
8	Manappuram Finance	BUY	1,279	994
9	NOCIL	BUY	96	98
10	Oil & Natural Gas Corporation	BUY	96	82
11	Oil India	Accumulate	117	99
12	Petronet LNG	BUY	384	261
13	Reliance Industries	BUY	1,828	1,823

PL's Recommendation Nomenclature (Absolute Performance)

Buy	: > 15%
Accumulate	: 5% to 15%
Hold	: +5% to -5%
Reduce	: -5% to -15%
Sell	: < -15%
Not Rated (NR)	: No specific call on the stock
Under Review (UR)	: Rating likely to change shortly

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