

Reliance Industries

BSE SENSEX
38,194

S&P CNX
11,278

CMP: INR2,161 TP: INR2,250 (+4%)

Buy



Stock Info

Bloomberg	RIL IN
Equity Shares (m)	6,339
M.Cap.(INRb)/(USDb)	14236.9 / 188.6
52-Week Range (INR)	2199 / 867
1, 6, 12 Rel. Per (%)	0/89/76
12M Avg Val (INR M)	26427
Free float (%)	50.9

Financials Snapshot (INR b)

Y/E March	2020	2021E	2022E
Net Sales	5,959	4,882	6,115
EBITDA	881	885	1,269
Net Profit	431	427	706
Adj. EPS (INR)	67.9	67.4	111.4
EPS Gr. (%)	8.1	-0.8	65.3
BV/Sh. (INR)	715.1	782.5	884.7

Ratios

Net D:E	0.6	0.5	0.4
RoE (%)	10.2	9.0	13.4
RoCE (%)	8.5	8.3	11.1
Payout (%)	11.6	9.3	8.3

Valuations

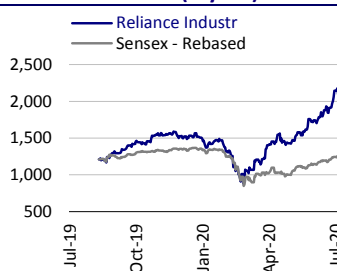
P/E (x)	31.8	31.2	19.4
P/BV (x)	3.0	2.8	2.4
EV/EBITDA(x)	18.5	18.5	12.4
EV/Sales (x)	2.7	3.4	2.6
Div. Yield (%)	0.3	0.3	0.4

Shareholding pattern (%)

As On	Jun-20	Mar-20	Jun-19
Promoter	49.2	48.9	46.2
DII	13.5	13.6	11.6
FII	26.6	25.9	26.2
Others	10.8	11.6	16.0

FII Includes depository receipts

Stock Performance (1-year)



First deal in Reliance Retail; More could follow

Silver Lake picks 1.75% stake for INR75b

Contours of the RIL-Silver Lake deal

- Reliance Industries (RIL) has announced that Silver Lake would invest INR75b in Reliance Retail Ventures Ltd (RRVL) at pre-money equity value of INR4.21t. At an estimated net debt of INR100b, the enterprise value stands at INR4.31t.
- This implies 1.75% stake at post-money equity value of INR4.29t. We understand this is fresh capital infusion in the company unlike the stake sale done in Jio Platforms.
- Media reports suggest that more investments could follow in RRVL. These reports are in line with the Chairman and Managing Director's comments in the RIL AGM about strategic stake sale in RRVL, which would aid in nurturing its new ventures like Jiomart.

Deal reaffirms RRVL's robust valuation

- Silver Lake has already invested INR101b in RIL (it has picked up 2.08% stake in Jio Platforms). The current deal strengthens our conviction in RIL's retail business valuations.
- With combined AUM of >USD60b focused on global tech-enabled opportunities, Silver Lake is a leader in large-scale technology investing. It boasts of other investments such as Airbnb, Alibaba, Alphabet's Verily and Waymo units, Dell Technologies and Twitter, etc.
- RRVL could leverage Silver Lake's digital experience to expand its JioMart business – its e-commerce venture.

RRVL's core business garnering steady scale and profitability

- RRVL is a subsidiary of RIL and holding company of its retail business. Its interests include consumer electronics, food and grocery, and fashion and lifestyle verticals. It is also present in petro retail and connectivity businesses, which services RJio's customers. Apart from Reliance Retail, RRVL has other subsidiaries and JVs like Reliance Brands and Marks & Spencer, which hold the rest of the apparel/other retail businesses.
- RRVL's revenue/EBITDA stood at INR1,629b/INR97b in FY20. We expect the company to deliver revenue/EBITDA CAGR of 21%/23% over FY20-22E to reach INR2,405b/INR145b by FY22E. Its core revenue/EBTDA including grocery, fashion and lifestyle as well as consumer electronics (excluding connectivity and petro retail) currently stands at INR928b/INR86.3b.
- Grocery business:** Reliance Retail runs its grocery business across three formats – Reliance Fresh, Reliance SMART, and Reliance Markets (cash-and-carry model). As of FY20, Reliance Retail's grocery segment had

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Investors are advised to refer through important disclosures made at the last page of the Research Report.

Motilal Oswal research is available on www.motilaloswal.com/Institutional-Equities, Bloomberg, Thomson Reuters, Factset and S&P Capital.

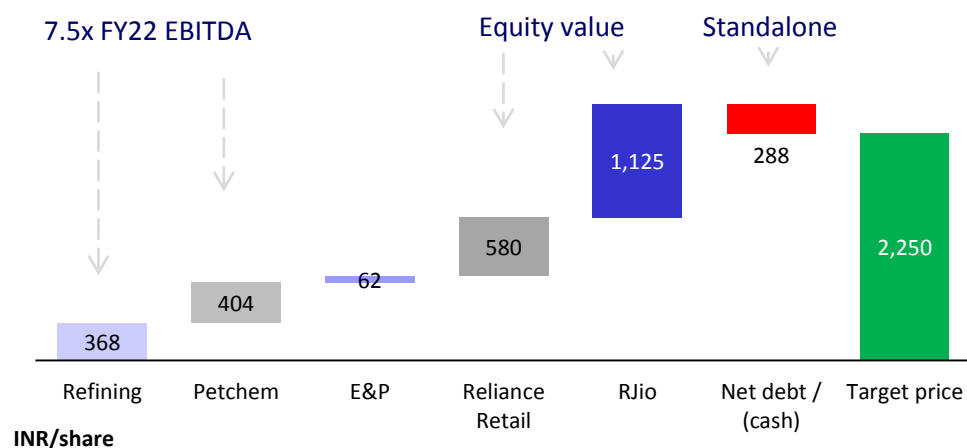
revenue/EBITDA of INR346b/INR23b, with EBITDA margin of 6.5%. Reliance Retail has 797 stores across grocery formats and Reliance Market has 52 stores. Thus, the company has an estimated ~745 grocery stores catering directly to the consumers (Reliance Fresh and Reliance SMART).

- **Fashion and Lifestyle business:** This business’ revenue/EBITDA stood at ~136b/INR32b in FY20. As at FY20, this format had a total of ~2,400 stores; of this, Reliance Trends had ~1,400 stores, while jewelry, footwear and stores with JVs had ~1,000 stores.
- **Consumer electronics:** Count of Reliance Digital stores reached 500 in FY20, while that of ‘Jio Digital’ stores stood at 8,100. Consumer Electronics’ revenue/EBITDA grew 14%/50% YoY in FY20 to INR446b/INR28b with margins expanding by 150bp to 6.2%.

Valuation and view

- We have ascribed INR3.68t equity value to RRVL. Thus, this deal values the company at 14% premium to our valuation. At this valuation, the implied share price of Reliance Retail would be INR664 v/s our TP of INR580 and would increase our current TP of RIL (INR2,250) by 4%.
- This deal values RIL’s retail business (excluding the Future Group’s retail business) at 45x/30x EV/EBITDA on FY20/22E against our estimate of 26x on FY22E. Including Future Group’s retail business, the deal values RRVL at EV/EBITDA of 42x/29x on FY20/FY22E.
- We estimate RRVL’s revenue/EBITDA CAGR at 21%/23% to INR2,405b/INR145b in FY22E. Of this, core revenue/EBITDA should contribute 53%/83% i.e. INR1,271b/INR121b.
- We maintain our TP by assigning 30x/5x EV/EBITDA multiple to core/petro and connectivity EBITDA on FY22E to reach a TP of INR580/share.

Exhibit 1: RIL – DCF Valuation (INR b)



Source: MOFSL, Company

Exhibit 2: Post-money, RRVL’s equity value stands at INR4.29t (INR b)

RRVL	Pre-money	Silverlake amount infused in RRVL	Post-money
Equity value	4,210	75	4,285
Debt	100	0	100
Enterprise Value	4,310	75	4,385

Source: Company

Exhibit 3: RRVL – EV/EBITDA based valuation on FY22E

FY22 Valuation	EBITDA	Multiple	EV (INR b)
Core EBITDA	121	30	3,676
Petro and Connectivity	20	5	101.7
Total			3,778
Less Net Debt			100
Equity Value			3,678
No of Shares (in b)			6.3
TP			580

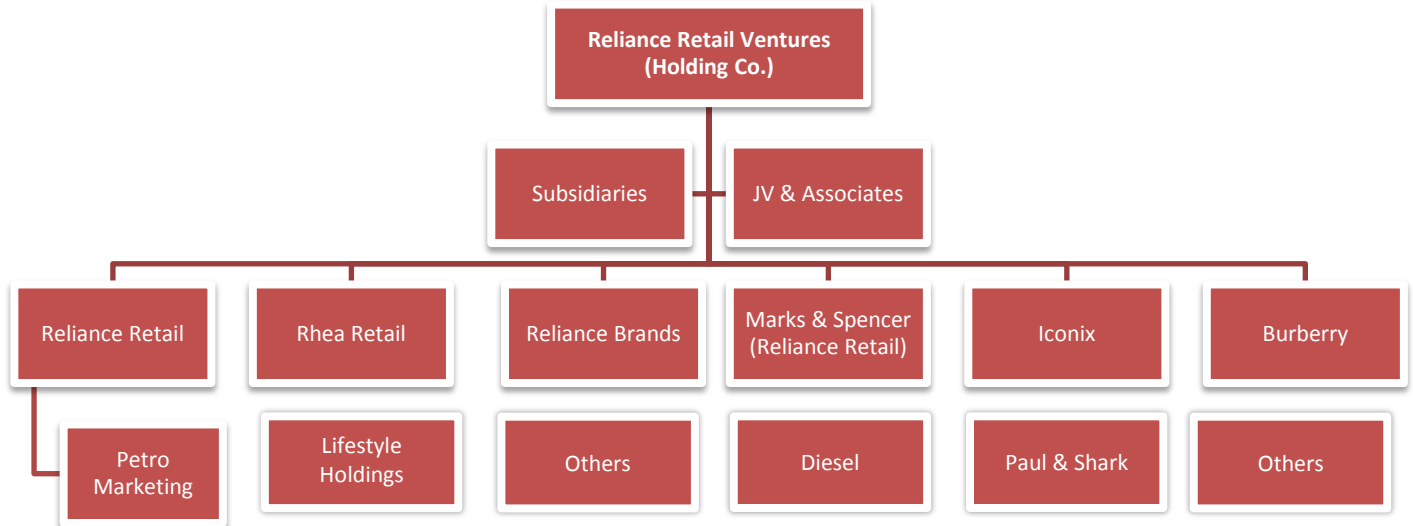
Source: MOFSL, Company

Exhibit 4: Deal valuation including and excluding Future group’s retail business

Amount in INR b	RRVL	Acquired business of Future group	RRVL + Future group
EV	4310	275	4585
EBITDA FY20	96.5	11.9	108
EV/EBITDA	45		42
EBITDA FY22	145.1	15.7	161
CAGR over FY20-22	23%	15%	22%
EV/EBITDA	30		29

Source: MOFSL, Company

Exhibit 5: Reliance Ventures (holding company structure)



Source: MOFSL, Company

Reliance Retail - Financials and valuations

Standalone - Income Statement								(INR b)
Y/E March	FY15	FY16	FY17	FY18	FY19	FY20	FY21E	FY22E
Total Income from Operations	161	183	264	515	1019	1304	1402	2027
Change (%)	26.9	13.8	44.2	94.6	98.1	27.9	7.5	44.6
Total Expenditure	153	174	253	491	960	1212	1321	1891
% of Sales	95.1	95.0	95.6	95.4	94.2	93.0	94.2	93.3
EBITDA	8	9	12	24	59	91	81	136
Margin (%)	4.9	5.0	4.4	4.6	5.8	7.0	5.8	6.7
Depreciation	3	3	4	4	6	11	6	7
EBIT	5	6	8	19	53	80	74	128
Int. and Finance Charges	2	1	1	1	6	9	4	4
Other Income	1	0	0	0	1	3	2	2
PBT bef. EO Exp.	4	5	8	19	48	74	73	127
EO Items	0	0	0	0	0	0	0	0
PBT after EO Exp.	4	5	7	19	48	74	73	127
Total Tax	1	2	3	6	17	19	18	32
Tax Rate (%)	31.1	38.2	43.6	33.7	34.9	25.4	25.2	25.2
Reported PAT	3	3	4	12	31	55	54	95
Adjusted PAT	3	3	4	12	31	55	54	95
Change (%)	-9.4	9.9	40.4	192.8	NA	NA	NA	NA
Margin (%)	1.7	1.6	1.6	2.4	3.1	4.2	3.9	4.7

Standalone - Balance Sheet								
Y/E March	FY15	FY16	FY17	FY18	FY19	FY20	FY21E	FY22E
Equity Share Capital	50	50	50	50	50	50	50	50
Eq. Share Warrants & App. Money	0	0	0	0	0	0	0	0
Preference Capital	0	0	0	0	0	0	0	0
Total Reserves	2	11	18	41	76	131	186	280
Net Worth	52	61	68	91	126	181	236	330
Total Loans	17	11	0	34	128	47	44	44
Deferred Tax Liabilities	-6	-10	-9	-6	0	0	0	0
Capital Employed	63	62	60	119	254	228	280	375
Gross Block	33	35	40	53	98	114	76	88
Less: Accum. Deprn.	13	14	17	21	26	33	39	46
Net Fixed Assets	21	20	23	32	72	82	37	42
Capital WIP	4	5	7	41	25	88	88	88
Total Investments	5	5	8	5	36	6	5	5
Curr. Assets, Loans&Adv.	51	64	70	156	211	180	396	557
Inventory	39	52	51	105	113	93	199	255
Account Receivables	2	2	7	22	43	25	82	106
Cash and Bank Balance	2	0	3	2	3	3	29	85
Loans and Advances	8	9	9	28	52	58	86	111
Curr. Liability & Prov.	17	33	48	116	90	128	247	317
Account Payables	13	28	39	82	41	57	160	205
Other Current Liabilities	4	5	9	33	48	71	86	111
Provisions	0	0	0	0	0	0	1	1
Net Current Assets	34	32	22	41	121	52	149	239
Appl. of Funds	63	62	60	119	254	228	280	375

Reliance Retail – Financials and valuations

Ratios								
Y/E March	FY15	FY16	FY17	FY18	FY19	FY20	FY21E	FY22E
Basic (INR)								
EPS	0.6	0.6	0.9	2.5	6.3	11.1	10.7	18.8
Cash EPS	1.2	1.3	1.6	3.4	7.5	13.3	12.2	20.5
BV/Share	10.4	12.3	13.7	18.2	25.2	36.3	47.0	65.8
DPS	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Payout (%)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Return Ratios (%)								
RoE	5.3	5.3	6.6	15.7	29.0	36.1	25.7	33.3
RoCE	5.4	5.3	6.7	13.5	18.7	25.7	22.1	29.6
RoIC	6.7	7.0	9.6	22.8	26.6	37.5	36.5	50.6
Working Capital Ratios								
Fixed Asset Turnover (x)	4.8	5.3	6.6	9.7	10.4	11.4	15.6	20.0
Asset Turnover (x)	2.6	3.0	4.4	4.3	4.0	5.7	5.0	5.4
Inventory (Days)	88	105	70	74	40	26	52	46
Debtor (Days)	5	4	10	16	16	7	21	19
Creditor (Days)	29	55	54	58	15	16	42	37
Leverage Ratio (x)								
Current Ratio	3.0	2.0	1.5	1.4	2.3	1.4	1.6	1.7
Interest Cover Ratio	3.3	5.0	10.3	19.1	8.7	9.3	20.5	35.7
Net Debt/Equity	0.2	0.1	-0.2	0.3	0.7	0.2	0.1	-0.1

Standalone - Cash Flow Statement

Y/E March	FY15	FY16	FY17	FY18	FY19	FY20	FY21E	FY22E
OP/(Loss) before Tax	4	5	8	19	48	74	71	125
Depreciation	3	3	4	4	6	11	8	9
Interest & Finance Charges	1	1	1	1	-1	-2	4	4
Direct Taxes Paid	-1	-1	-1	-5	-10	-11	-18	-32
(Inc)/Dec in WC	-4	2	11	-15	-33	84	-72	-34
CF from Operations	4	10	22	4	11	156	-7	72
Others	0	0	1	1	6	9	-2	-2
CF from Operating incl EO	4	11	22	5	17	165	-9	70
(Inc)/Dec in FA	-4	-4	-8	-48	-47	-67	25	-12
Free Cash Flow	0	6	14	-43	-30	98	17	58
(Pur)/Sale of Investments	1	0	-3	3	-7	18	0	0
Others	1	0	0	-4	0	2	2	2
CF from Investments	-1	-5	-11	-49	-54	-48	28	-10
Issue of Shares	0	0	0	10	4	0	0	0
Inc/(Dec) in Debt	23	-6	-8	34	94	-81	-2	0
Interest Paid	-2	-1	-1	-1	-6	-9	-4	-4
Dividend Paid	0	0	0	0	0	0	0	0
Others	-25	0	0	0	-23	-27	0	0
CF from Fin. Activity	-3	-7	-9	43	68	-117	-6	-4
Inc/Dec of Cash	-1	-1	2	-1	32	0	13	56
Opening Balance	2	2	0	3	2	33	33	46
Closing Balance	2	0	3	2	3	3	16	73

Reliance Consol.: Financials and valuations

Consolidated – Income statement

(INR b)

Y/E March	FY15	FY16	FY17	FY18	FY19	FY20	FY21E	FY22E
Total Income from Operations	3,754.4	2,740.0	3,053.8	3,916.8	5,692.1	5,959.5	4,881.6	6,115.5
Change (%)	-13.6	-27.0	11.5	28.3	45.3	4.7	-18.1	25.3
EBITDA	373.6	417.0	461.9	641.8	841.7	881.3	884.6	1,268.6
Margin (%)	10.0	15.2	15.1	16.4	14.8	14.8	18.1	20.7
Depreciation	115.5	115.7	116.5	167.1	209.3	222.0	262.0	256.6
EBIT	258.2	301.4	345.5	474.7	632.3	659.2	622.6	1,012.1
Int. and Finance Charges	33.2	36.9	38.5	80.5	165.0	220.3	258.8	256.8
Other Income	86.1	122.9	93.4	88.6	83.9	140.5	178.0	195.2
PBT bef. EO Exp.	311.1	387.4	400.3	482.8	551.2	579.4	541.7	950.5
EO Items	0.0	0.0	0.0	0.0	0.0	-44.4	44.2	0.0
PBT after EO Exp.	311.1	387.4	400.3	482.8	551.2	535.0	585.9	950.5
Total Tax	74.7	88.8	102.0	133.5	153.9	137.3	116.1	244.8
Tax Rate (%)	24.0	22.9	25.5	27.6	27.9	25.7	19.8	25.8
Minority Interest	0.7	1.2	-0.7	-11.5	-1.0	-1.1	-0.7	-0.7
Reported PAT	235.7	297.5	299.0	360.8	398.4	398.8	470.5	706.4
Adjusted PAT	235.7	297.5	299.0	360.8	398.4	430.5	427.2	706.4
Change (%)	4.8	26.2	0.5	20.7	10.4	8.1	-0.8	65.3
Margin (%)	6.3	10.9	9.8	9.2	7.0	7.2	8.8	11.6

Consolidated – Balance sheet

(INR b)

Y/E March	FY15	FY16	FY17	FY18	FY19	FY20	FY21E	FY22E
Equity Share Capital	29.4	29.5	29.6	59.2	59.3	63.4	63.4	63.4
Total Reserves	2,155.4	2,286.0	2,607.5	2,875.8	3,811.9	4,469.9	4,896.8	5,544.5
Net Worth	2,185.0	2,315.6	2,637.1	2,935.1	3,871.1	4,533.3	4,960.2	5,607.9
Minority Interest	30.4	33.6	29.2	35.4	82.8	80.2	80.2	80.2
Total Loans	1,682.5	1,947.1	1,836.8	1,816.0	2,719.4	2,914.2	3,014.2	2,514.2
Deferred Tax Liabilities	129.7	204.9	212.0	245.4	499.2	541.2	541.2	541.2
Capital Employed	4,027.6	4,501.2	4,715.0	5,031.9	7,172.6	8,068.9	8,595.7	8,743.4
Gross Block	2,844.7	3,312.5	3,564.0	5,775.5	5,867.8	7,450.1	8,572.9	9,197.5
Less: Accum. Deprn.	1,324.1	1,505.9	1,627.7	1,794.7	2,004.1	2,226.1	2,488.1	2,744.7
Net Fixed Assets	1,520.6	1,806.6	1,936.3	3,980.7	3,863.8	5,224.0	6,084.8	6,452.8
Goodwill on Consolidation	44.0	42.5	48.9	58.1	120.0	102.6	102.6	102.6
Capital WIP	1,664.6	2,287.0	3,248.4	1,870.2	1,794.6	1,091.1	468.2	343.6
Total Investments	764.5	840.2	856.1	855.3	2,403.0	2,767.7	2,767.7	2,767.7
Curr. Assets, Loans&Adv.	1,051.2	1,013.8	978.3	1,348.4	1,842.7	2,473.8	2,109.4	2,756.0
Inventory	532.5	464.9	489.5	608.4	675.6	739.0	604.6	757.4
Account Receivables	53.2	44.7	81.8	175.6	300.9	196.6	160.8	201.4
Cash and Bank Balance	125.5	110.3	30.2	42.6	110.8	309.2	338.6	537.7
Loans and Advances	340.1	394.0	376.8	521.9	755.4	1,229.1	1,005.4	1,259.5
Curr. Liability & Prov.	1,017.2	1,488.8	2,353.0	3,080.8	2,851.5	3,590.3	2,937.0	3,679.4
Account Payables	594.1	603.0	766.0	1,068.6	1,083.1	968.0	791.9	992.0
Other Current Liabilities	353.7	855.8	1,545.9	1,970.8	1,721.1	2,580.8	2,111.2	2,644.9
Provisions	69.5	30.1	41.2	41.4	47.3	41.5	33.9	42.5
Net Current Assets	33.9	-475.0	-1,374.7	-1,732.5	-1,008.8	-1,116.4	-827.6	-923.3
Appl. of Funds	4,027.6	4,501.2	4,715.0	5,031.9	7,172.6	8,068.9	8,595.7	8,743.4

E: MOFSL Estimates

Reliance Consol.: Financials and valuations

Ratios

Y/E March	FY15	FY16	FY17	FY18	FY19	FY20	FY21E	FY22E
EPS	37.2	46.9	47.2	56.9	62.8	67.9	67.4	111.4
Cash EPS	55.4	65.2	65.5	83.3	95.9	102.9	108.7	151.9
BV/Share	344.7	365.3	416.0	463.0	610.7	715.1	782.5	884.7
DPS	4.6	4.9	5.1	5.6	6.1	6.1	5.7	7.7
Payout (%)	15.1	12.4	13.1	11.9	11.6	11.6	9.3	8.3
Valuation (x)								
P/E	58.1	46.1	45.8	38.0	34.4	31.8	31.2	19.4
Cash P/E	39.0	33.2	33.0	26.0	22.5	21.0	19.3	14.2
P/BV	6.3	5.9	5.2	4.7	3.5	3.0	2.8	2.4
EV/Sales	4.1	5.7	5.1	4.0	2.9	2.7	3.4	2.6
EV/EBITDA	40.8	37.3	33.6	24.1	19.4	18.5	18.5	12.4
Dividend Yield (%)	0.2	0.2	0.2	0.3	0.3	0.3	0.3	0.4
Return Ratios (%)								
RoE	11.3	13.2	12.1	13.0	11.7	10.2	9.0	13.4
RoCE	7.2	8.0	7.5	8.8	9.1	8.5	8.3	11.1
RoIC	12.8	17.0	27.9	24.2	17.8	14.5	11.2	14.9
Working Capital Ratios								
Fixed Asset Turnover (x)	1.3	0.8	0.9	0.7	1.0	0.8	0.6	0.7
Asset Turnover (x)	0.9	0.6	0.6	0.8	0.8	0.7	0.6	0.7
Inventory (Days)	52	62	59	57	43	45	45	45
Debtor (Days)	5	6	10	16	19	12	12	12
Creditor (Days)	58	80	92	100	69	59	59	59
Leverage Ratio (x)								
Current Ratio	1.0	0.7	0.4	0.4	0.6	0.7	0.7	0.7
Interest Cover Ratio	7.8	8.2	9.0	5.9	3.8	3.0	2.4	3.9
Net Debt/Equity	0.7	0.8	0.7	0.6	0.7	0.6	0.5	0.4

Consol. – Cash flow statement

Y/E March	FY15	FY16	FY17	FY18	FY19	FY20	FY21E	FY22E
PBT	311.1	387.4	400.3	494.3	552.3	536.1	585.9	950.5
Depreciation	115.5	115.7	116.5	167.1	209.3	222.0	262.0	256.6
Tax paid	-64.4	-85.8	-100.8	-98.4	-121.9	-83.9	-116.1	-244.8
Change in deferred tax liability	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Change in net working capital	18.2	78.3	154.6	185.4	-287.8	219.0	-259.4	294.8
Operating cash flow	343.7	381.3	495.5	714.6	423.5	980.7	473.0	1,257.7
Capex	-629.6	-465.5	-766.3	-729.5	-927.8	-755.5	-500.0	-500.0
Change in investments	-118.6	58.5	92.3	35.2	-18.6	140.6	0.0	0.0
Investing cash flows	-649.0	-361.9	-662.9	-682.9	-951.3	-757.2	-500.0	-500.0
Change in borrowings	175.0	129.8	215.2	198.7	864.6	355.8	100.0	-500.0
Issuance of equity	3.6	2.9	8.1	4.5	2.3	1.3	0.0	0.0
Others	-57.9	-89.3	-128.5	-179.6	-262.7	-335.3	0.0	0.0
Dividend paid	-32.7	-72.6	-0.5	-39.2	-42.8	-45.9	-43.6	-58.7
Financing cash flow	84.4	-32.1	86.2	-20.0	559.1	-25.4	56.4	-558.7
Net change in cash	-220.8	-12.7	-81.3	11.7	31.2	198.2	29.4	199.1
Closing cash balance	125.5	110.3	30.2	42.6	110.8	309.2	338.6	537.7

E: MOFSL Estimates

NOTES

Explanation of Investment Rating	
Investment Rating	Expected return (over 12-month)
BUY	>=15%
SELL	< - 10%
NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

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