

Reliance Industries (RELIND)

CMP: ₹ 2577

Target: ₹ 3050 (18%)

Target Period: 12 months

BUY

December 23, 2022

Retail: Marches on strongly with its acquisition spree...

About the stock: Reliance Industries (RIL) is one of India's biggest conglomerates with a presence in oil refining & marketing and petrochemicals, oil & gas exploration, retail, digital services, media, etc, making it a well-diversified business entity.

- At the EBITDA level in FY22, O2C and oil & gas contributed 49% while retail, digital and others contributed 10%, 34% and 7%, respectively

Update: Reliance Retail and Jio to be growth drivers in near to medium term.

- Reliance Retail has been one of the fastest, largest growing retailers in recent times. In FY18-22, it recorded a staggering 30% revenue CAGR with sales worth nearly ₹ 2 lakh crore in FY22. The company bolstered its offering and continued to fill white spaces through acquisitions and spent nearly ₹ 10000 crore in FY22. It's recent acquisition of Metro Wholesale business (B2B) for a consideration of ₹ 2850 crore (0.4x EV/sales) would further strengthen its backend supply chain with accelerated growth in JioMart Kirana orders (up 4x YoY) and on-boarding of new HoReCA clients
- The 5G launch has begun for Jio in the last couple of months and is likely to reach pan-India by December, 2023. Superior spectrum portfolio along with superior digital ecosystem offering lends Jio a competitive advantage even in 5G (as seen in 4G foray). We expect ARPU, EBITDA of Jio to grow at ~12%, ~22%, respectively, over FY22-25E
- Singapore GRMs, which had declined at the start of Q3, have started improving amid rise in product cracks and are at ~US\$9/bbl. This would likely improve Reliance's GRMs and its refining segment earnings. The company announced capex plans worth ₹ 75000 crore in petrochemicals

What should investors do? Long term prospects and dominant standing of RIL in each of its product & service portfolio provide comfort for long term value creation. RIL's consumer business will be the growth driver, going ahead.

- We revise our rating on the stock from HOLD to **BUY**

Target Price and Valuation: We value RIL at ₹ 3050 on an SoTP basis.

Key triggers for future price performance:

- Increment value accretion from 'digital ecosystem' that will be captured at the Jio Platforms (JPL) level
- Steady FCF generation in retail segment to enable it to maintain debt at lower levels & improve its ability to invest in future inorganic opportunities

Alternate Stock Idea: Apart from RIL, in our oil & gas coverage, we also like Gail.

- Gail is a beneficiary of increasing gas consumption. Stable volume growth along with higher profitability from gas trading, petchem and LPG segment due to higher oil prices will add value



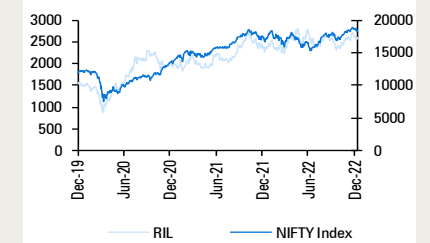
Particulars

Particular	Amount
Market Capitalization (₹ Crore)	17,43,340.5
Total Debt (FY22) (₹ Crore)	3,55,258.1
Cash (FY22) (₹ Crore)	36,178.0
EV (₹ Crore)	20,62,420.6
52 week H/L	2855/ 2181
Equity capital (FY22) (₹ Crore)	6,765.0
Face value (₹)	10.0

Shareholding pattern

	Dec-21	Mar-22	Jun-22	Sep-22
Promoter	50.6	50.7	50.6	50.6
FII	24.7	24.2	23.9	23.6
DII	13.6	14.3	14.7	14.9
Others	11.0	10.9	10.8	10.9

Price Chart



Recent event & key risks

- Key Risk:** (i) Lower discretionary spends owing to higher inflation can subdue sales (ii) Lower than expected refining margins

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Key Financial Summary

Key Financials	FY21	FY22	5 Yr CAGR (FY17-22)	FY23E	FY24E	FY25E	3 Yr CAGR (FY22-24E)
Revenue (₹ crore)	5,39,238.0	7,92,756.0	19.1	9,59,482.3	9,86,233.9	10,84,852.9	11.0
EBITDA (₹ crore)	80,737.0	1,10,460.0	19.1	1,35,818.9	1,57,940.2	1,78,732.0	17.4
PAT (₹ crore)	49,128.0	60,705.0	15.3	64,220.3	79,848.4	91,109.0	14.5
EPS (₹)	76.2	89.7		94.9	118.0	134.7	
P/E (x)	33.8	28.7		27.1	21.8	19.1	
P/BV (x)	2.4	2.2		2.1	1.9	1.7	
RoCE (%)	5.5	7.1		8.7	10.3	11.4	
RoE (%)	7.0	7.8		7.6	8.7	9.1	

Exhibit 1: Valuation

Business segments	Valuation Methodology	Value (₹ crore)	₹/share
Energy			
Oil to Chemicals	~7x FY24E EBITDA 	375126	555
Oil & Gas	6.5x FY24E EBITDA	103755	153
Value of Energy business		478881	708
Consumer Business			
Retail (RIL share)	36x FY24E EBITDA	852577	1260
Digital services (RIL share)	DCF	675182	998
Value of Consumer business		1527759	2258
Others		154200	228
Net debt		97220	144
Equity value		2063620	3050

Source: Company, ICICI Direct Research

Consolidated Financial Summary

Exhibit 2: Profit and loss statement ₹ crore

(Year-end March)	FY22	FY23E	FY24E	FY25E
Revenue	792756.0	959482.3	986233.9	1084852.9
Growth (%)	47.0	21.0	2.8	10.0
(Inc./Dec. in stock trade)	360784.0	445274.1	396082.5	437762.6
Raw material Costs	114128.0	136224.0	164667.2	181269.7
Employee Costs	18775.0	22889.0	24720.2	26697.8
Excise Duty	92794.0	105009.6	122843.8	134411.8
Other Expenditure	95815.0	114266.7	119980.0	125979.0
Op. Expenditure	6,82,296.0	8,23,663.4	8,28,293.7	9,06,120.9
EBITDA	110460.0	135818.9	157940.2	178732.0
Growth (%)	36.8	23.0	16.3	13.2
Depreciation	29797.0	37433.1	41556.8	46946.0
EBIT	80663.0	98385.8	116383.4	131786.0
Interest	14584.0	14851.0	13000.0	12400.0
Other Income	15227.0	13521.0	16600.0	17600.0
PBT	84142.0	97055.8	119983.4	136986.0
Growth (%)	51.7	15.3	23.6	14.2
Tax	16297.0	25119.1	30235.8	34520.5
Minority Interest	7140.0	7716.4	9899.3	11356.6
Reported PAT	60705.0	64220.3	79848.4	91109.0
Growth (%)	23.6	5.8	24.3	14.1
EPS	89.7	94.9	118.0	134.7

Source: Company, ICICI Direct Research

Exhibit 4: Balance Sheet ₹ crore

(Year-end March)	FY22	FY23E	FY24E	FY25E
Source of Funds				
Equity Capital	6,765.0	6,765.0	6,765.0	6,765.0
Preference Capital	0.0	0.0	0.0	0.0
Reserves & Surplus	7,72,720.0	8,34,252.8	9,08,012.7	9,93,033.1
Shareholder's Fund	7,79,485.0	8,41,017.8	9,14,777.7	9,99,798.1
Loan Funds	3,55,258.1	2,85,258.1	2,20,258.1	1,55,258.1
Deferred Tax Liability	49,644.0	54,919.0	60,194.0	65,469.0
Minority Interest and others	1,09,499.0	1,17,499.0	1,25,499.0	1,33,499.0
Source of Funds	12,93,886.1	12,98,693.9	13,20,728.8	13,54,024.2
Application of Funds				
Gross Block	8,92,149.0	9,61,389.0	10,34,389.0	11,07,389.0
Less: Acc. Depreciation	2,64,351.0	3,01,784.1	3,43,340.9	3,90,286.9
Net Block	6,27,798.0	6,59,604.9	6,91,048.1	7,17,102.1
Capital WIP	1,72,506.0	1,41,835.0	1,28,835.0	1,25,835.0
Total Fixed Assets	8,00,304.0	8,01,439.9	8,19,883.1	8,42,937.1
Investments	3,94,264.0	4,09,682.0	4,14,682.0	4,19,682.0
Inventories	1,07,778.0	1,23,549.8	1,26,994.5	1,39,693.4
Debtor	23,640.0	34,173.3	35,126.1	38,638.6
Cash	36,178.0	1,09,892.1	1,23,038.1	1,53,496.9
Loan & Advance, Other CA	1,37,501.0	1,28,501.0	1,19,001.0	1,09,501.0
Total Current assets	3,05,097.0	3,96,116.2	4,04,159.8	4,41,329.9
Current Liabilities	2,01,989.9	3,02,302.6	3,10,731.2	3,41,803.0
Provisions	3,789.0	6,241.5	7,264.9	8,121.8
Total CL and Provisions	2,05,778.9	3,08,544.1	3,17,996.1	3,49,924.8
Net Working Capital	99,318.1	87,572.0	86,163.7	91,405.1
Miscellaneous expense	0.0	0.0	0.0	0.0
Application of Funds	12,93,886.1	12,98,693.9	13,20,728.8	13,54,024.2

Source: Company, ICICI Direct Research

Exhibit 3: Cash flow statement ₹ crore

(Year-end March)	FY22	FY23E	FY24E	FY25E
Profit after Tax	67,845.0	71,936.7	89,747.6	1,02,465.5
Add: Depreciation	29,797.0	37,433.1	41,556.8	46,946.0
Add: Others	12,643.0	5,275.0	5,275.0	5,275.0
Cash Profit	1,10,285.0	1,14,644.8	1,36,579.4	1,54,686.5
Increase/(Decrease) in CL	13,713.9	1,02,765.3	9,451.9	31,928.7
(Increase)/Decrease in CA	2,857.0	-17,305.1	5,102.5	-6,711.3
CF from Operating Activi	1,26,855.9	2,00,104.9	1,51,133.8	1,79,903.8
Purchase of Fixed Assets	1,62,890.0	38,569.0	60,000.0	70,000.0
(Inc)/Dec in Investments	-29,436.0	-15,418.0	-5,000.0	-5,000.0
Others	10239	8000	8000	8000
CF from Investing Activi	-1,82,087.0	-45,987.0	-57,000.0	-67,000.0
Inc/(Dec) in Loan Funds	62,544.1	-70,000.0	-65,000.0	-65,000.0
Inc/(Dec) in Sh. Cap. & Res.	16,880.0	-4,315.4	-9,899.3	-11,356.6
Dividend Paid	5412	6088.5	6088.5	6088.5
CF from financing activit	74,012.1	-80,403.9	-80,987.8	-82,445.1
Change in cash Eq.	18,781.0	73,714.1	13,146.1	30,458.8
Op. Cash and cash Eq.	17,397.0	36,178.0	1,09,892.1	1,23,038.1
Cl. Cash and cash Eq.	36,178.0	1,09,892.1	1,23,038.1	1,53,496.9

Source: Company, ICICI Direct Research

Exhibit 5: Key ratios

(Year-end March)	FY22	FY23E	FY24E	FY25E
Per share data (₹)				
Book Value	1,152.2	1,243.2	1,352.2	1,477.9
Cash per share	53.5	162.4	181.9	226.9
EPS	89.7	94.9	118.0	134.7
Cash EPS	133.8	150.3	179.5	204.1
DPS	8.0	9.0	9.0	9.0
Profitability & Operating Ratios				
EBITDA Margin (%)	13.9	14.2	16.0	16.5
PAT Margin (%)	8.6	7.5	9.1	9.4
Fixed Asset Turnover (x)	1.0	1.2	1.2	1.3
Inventory Turnover (Days)	49.6	47.0	47.0	47.0
Debtor (Days)	10.9	13.0	13.0	13.0
Current Liabilities (Days)	93.0	115.0	115.0	115.0
Return Ratios (%)				
RoE	7.8	7.6	8.7	9.1
RoCE	7.1	8.7	10.3	11.4
RoIC	7.3	9.7	11.5	13.2
Valuation Ratios (x)				
PE	28.7	27.1	21.8	19.1
Price to Book Value	2.2	2.1	1.9	1.7
EV/EBITDA	18.7	14.1	11.7	9.8
EV/Sales	2.6	2.0	1.9	1.6
Leverage & Solvency Ratios				
Debt to equity (x)	0.5	0.3	0.2	0.2
Interest Coverage (x)	5.5	6.6	9.0	10.6
Debt to EBITDA (x)	3.2	2.1	1.4	0.9
Current Ratio	1.5	1.3	1.3	1.3
Quick ratio	1.0	0.9	0.9	0.9

Source: Company, ICICI Direct Research

Exhibit 6: ICICI Direct coverage universe (Oil & Gas)

Sector / Company	CMP (₹)	TP (₹)	Rating	M Cap (₹ Cr)	EPS (₹)			P/E (x)			EV/EBITDA (x)			RoCE (%)			RoE (%)		
					FY22	FY23E	FY24E	FY22	FY23E	FY24E	FY22	FY23E	FY24E	FY22	FY23E	FY24E	FY22	FY23E	FY24E
BPCL (BHAPET)	335	350	Hold	71,337	42.0	-11.2	55.3	8.0	-29.9	6.1	6.5	30.6	5.0	13.2	-2.2	15.2	17.9	-5.0	21.4
GAIL (India) (GAIL)	93	100	Hold	61,148	23.3	9.9	8.9	4.0	9.4	10.4	3.3	7.4	8.1	18.8	10.3	8.7	18.6	11.1	9.5
Gujarat Gas (GUJGA)	484	545	Hold	33,319	18.9	14.3	27.8	25.6	33.8	17.4	16.3	20.0	11.0	27.3	17.3	28.3	23.3	15.6	24.2
HPCL (HINPET)	232	250	Hold	32,919	44.9	-39.6	47.8	5.2	-5.9	4.9	7.8	-18.2	6.6	7.3	-9.9	8.3	16.5	-17.0	18.3
Indian Oil Corp (INDOIL)	77	85	Hold	1,08,734	17.1	2.8	14.0	4.5	27.1	5.5	2.5	5.8	2.6	12.9	2.4	10.1	18.4	3.2	14.9
Indraprastha Gas (INDGAS)	381	430	Hold	26,670	18.8	21.7	20.9	20.3	17.6	18.3	13.5	11.5	10.8	22.3	22.5	20.2	19.0	18.8	16.1
Mahanagar Gas (MAHGAS)	897	1,000	Hold	8,860	60.4	50.4	79.6	14.8	17.8	11.3	9.2	10.6	6.9	19.8	15.1	22.2	16.6	13.1	18.4
ONGC (ONGC)	124	135	Hold	1,59,133	8.9	32.0	41.1	13.9	3.9	3.0	5.4	2.8	1.9	4.5	14.8	22.1	5.5	17.0	18.9
Petronet LNG (PETLNG)	212	215	Hold	31,800	22.3	18.2	19.4	9.5	11.6	11.0	5.8	6.9	6.2	27.0	20.5	20.9	25.0	19.4	19.5
Reliance Industries (RELIND)	2,577	3,050	Buy	17,43,341	89.7	89.7	94.9	33.8	28.7	27.1	24.0	18.7	14.1	5.5	7.1	8.7	7.0	7.8	7.6

Source: Bloomberg, ICICI Direct Research

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Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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